Transcription

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Speakers: Gregori Karamouzis, Birgitte Bonnesen, Anders Karlsson and Helo Meigas

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Presentation

Operator
Ladies and gentlemen, welcome to the Swedbank Year-End Results 2018. Today, I am pleased to present Gregori Karamouzis, Head of Investor Relations. For the first part of the call, all participants will be in listen-only mode and afterwards there'll be a question and answer session. Speaker, please begin your meeting.

Gregori Karamouzis
Thank you. Good morning, everyone and thank you for joining us on our Q4 and full-year results. With me, I have our CEO, Birgitte Bonnesen, our CFO, Anders Karlsson, and our CRO, Helo Meigas. We will start off by making a short presentation of the results before we open up for questions. I hand over to Birgitte. Birgitte, please.

Birgitte Bonnesen
Good morning and warmly welcome to this fourth-quarter result and year-end result call. We had a very strong result for '18 and we did deliver on all our strategic priorities, everything according to plan.

One of the highlights of the year was the delivery of capabilities that are required to personalise the physical and digital customer interaction – the data leg, the analytics, the CRM upgrade in Sweden and other offering distribution tools. Customers continue to choose us as mortgage provider in all four countries and we delivered as planned the automated digital mortgage commitment and more digital guiding in Sweden. In the Baltics, we came out with a large number of tools too, to improve convenience and satisfaction. Two examples are instant payments that came last year and digital on-boarding of corporate customers in Estonia. And let me remind you, 58% of all sales in the Baltics are done in digital channels.

Financially, we ended up at an ROE of 16.1.

Sustainability is one of our core values, as you know, and it's also in our core business. We continue to provide customers with products and services that support the development of a more sustainable society and in '18, we took a number of initiatives and got a lot of external attention for our work.

We were the first Nordic bank to join the initiative Science Based Targets and the goal is to be both an active part in developing scientific methods for companies in the financial industry while ensuring that the bank's future climate goals are in line with the Paris Agreement.

One of our biggest achievements in '18 was the launch of a unique SDG equity fund, Global Impact, which invest in companies that through their products, services and activities contribute to reaching the UN's SDG goals. The fund was among the ten most popular funds in the quarter, which shows that we are right on in this area.

Also, I would like to mention a very important recognition in the Bloomberg Gender Equality Index. We were included for the second consecutive year.

The fourth quarter was somewhat weaker than the first three, given the volatility of the market, and Anders will come back and talk more about the technical issues that also affected this quarter.

2018 focused on taking several steps in future-proofing Swedbank. This goes for both business development and new ways of working, but let me come back to that. In '19, we will take steps according to our plan. We will focus on proactivity and personalisation and we will continue to invest. The financial service sector is going through a huge transformation, as you know. It's driven by rapidly changing customer expectations, innovation in technology, new regulations, but also a new competition.

But let me take a minute and just take you back three years in time. We started off by anchoring ourselves in our identity. We at the bank have a clear vision of sustainable economic situation for the many households, businesses and society. Next, we work through a target, our wanted position: a financial services platform for our customers, a digital bank with strong physical meeting places – all of this in order to stay relevant, to keep up and stay ahead. We have a plan to future-proof the bank. We have an operating model that guides our way of organising the bank through new entities, Digital Banking and CVM, just to mention a few. Another part of this is new ways of working. This is crucial. It's crucial for talent and it's crucial for speed and agility. And the reorganisation that I announced last week in Swedish Banking is a natural next step. Last year, we merged the bank's IT and business development. It was an organisational change based on customer needs, a huge step in increasing speed. And now, we're making a similar change in Swedish Banking, and move from a more geographically divided to customer-oriented organisation.

For three years, we've laid a strong foundation in the creation of the bank of the future. Swedish Banking is our largest business area and during this transformation, in the implementation of new ways of working and in a time with more digital launches than ever before, I've chosen to be even closer to this business area.

In '19, we will stick to the plan we have. We will continue to invest in the strategic priorities that we focused on in '18: digital mortgage lending process and multi-bank aggregation platform, proactive offers, supported by AI and analytical models and a new corporate internet and mobile interface. So, with this, I will hand over to Anders, to take you through the figures.

Anders Karlsson

Thank you, Birgitte. As Birgitte already mentioned, summing 2018 up, we delivered another strong result, meeting our financial targets with a return on equity of 16.1%, expenses in line with guidance and the board's proposal to distribute 75% of the annual net profit for the seventh consecutive year. The fourth quarter of the year was not as strong as the previous ones, mainly due to the weak and volatile markets. Cost discipline and resilient asset quality remained.

Let me now walk you through the P&L lines for the quarter in more detail. Net interest income is stable, quarter-over-quarter, but the underlying NII increased by approximately 50 million. Swedish private mortgages continued to grow in line with our back book market shares. In addition, we are pleased to see loan growth in the Baltics, both in the private and corporate segments, in all three countries. Corporate lending in Sweden and LC&I did however decrease, mainly due to expected repayments. Margins were stable in the quarter.

Furthermore, we made a change this quarter in how we account for pre-paid interest income under certain financing contracts. This led to one-off impact in NII of 46 million. This one-off effect was neutral for NII over time as the interest income will be booked in NII over a longer period of time. And group treasury's NII was stable in the quarter.

Over to net commission income, which was lower this quarter. We see the usual seasonal effects in Cards in Q4, with somewhat lower income. In addition, payments expenses were somewhat higher in the quarter, mainly due to introduction of new digital authentication tools in the Baltics and Swish, leading to lower total net income.

The asset management business was negatively impacted by the weak market performance, both in terms of declining assets under management and flows away from equity funds. Annual performance fees in the Swedish business mitigated somewhat.

Turning to net gains and losses and other income, widening credit spreads and negative derivatives valuation weighed on the trading line, while high fixed-income trading impacted positively. In group treasury, lower covered bond buy-back volumes and positive valuation on basis swaps supported the NGL. Holdings of Visa and Asiakastieto shares, which are held at market value in group treasury, led to a negative impact this quarter of 136 million. When looking at other income and excluding last quarter's positive Visa shares valuation of around 180 million, the underlying business had an overall mixed development. And the EnterCard contributed positively, following a portfolio sale and lower impairments. Insurance showed stability while weaker net profits from the partly owned savings banks led to lower income.

Turning to capital, our capital position remains strong. As you all know, we are from the fourth quarter on reporting our CET1 capital ratio according to the change by the Swedish FSA to move the Risk Weight Floor for Swedish mortgages to Pillar 1. Our CET1 capital ratio ended the year at 16.3%, implying a buffer to the Swedish FSA's minimum requirements of around 170 basis points. The buffer is in nominal terms at about the same level as in the old capital regime and we feel comfortable with the level. The net profit excluding dividend impacted the CET1 capital base positively, while the pension liability valuation was negatively impacted, primarily due to weak asset performance. In April, for my comparison, the risk exposure amount increased by 3.8 billion in the quarter. The main reasons for the net increase were the continued mortgage loan volume growth and the PD model calibration in the Baltics. In conjunction with our regular model reviews, we decided to recalibrate our Baltic PD models in order to better reflect the long-term default frequencies. As there are a number of model-related regulatory initiatives by EBA, instead of doing a simple recalibration, we have decided to rebuild the models. And meanwhile, while doing the update and waiting for the approval, increased risk exposure amount already now through Article 3.

Let me now comment on a few forward-looking drivers for income and expenses. Starting off with income, on NII I would like to remind you that the resolution fund fee will in 2019 be reduced to nine basis points and lead to a decrease for Swedbank of around 400 million. Also, as you all know, the Riksbank hiked the repo rate in late December and subsequently we adjusted prices on a number of lending products, while keeping deposit rates unchanged. The positive NII effect from these adjustments will be phased in gradually during Q1, with a full effect in Q2.

Looking in more detail at group treasury's 2019 underlying income, i.e. excluding shares that are marked to market, it will be impacted by a number of factors. The current interest rate environment will make it more difficult for treasury to generate NII.

On the other hand, however, as mentioned earlier, the business NII will benefit from asset repricing. In addition, the current short-term US dollar funding market conditions won't offer any opportunity to create positive results. This has historically amounted to an annual NII contribution of roughly 500 million, which started fading off during 2018. NGL in group treasuriy is primarily impacted by the covered bond buyback activity, which is expected to be at the same level as in 2018. And market movements in basis swaps and credit spreads. Also, as mentioned before, we have a couple of shareholdings – Visa and Asiakastieto – that as of Q4 2018 and onwards will predominantly impact group treasury's NGL result, positively or negatively depending on share-price development and FX.

Looking at expenses, which underlying are developing in line with our plan. We finished the year as guided, having executed on all strategic priorities, as mentioned by Birgitte earlier in the call. As discussed last quarter already, we managed within our cost frame for '18 to absorb unexpected FX- and pension- related costs of roughly 450 million. Looking into 2019, we will proceed with planned activities and investments as they are important for securing increased customer value, our long-term competitiveness and continued cost-efficiency. Birgitte mentioned some of the key priorities, for example creating a multi-bank aggregation platform, continuing the digitalisation of the lending process, further improving our data and AI utilisation and developing our corporate offering. The Swedish krona has remained weak since we set our original cost frame, having depreciated with around 10% against most major currencies, but as you know, it is beneficial for the bottom line. Inflation expectations, long-dated interest rates and salary expectations impacting pension costs have moved unfavourably. Assuming unchanged market rates and expectations, we will face a headwind of approximately 700 million for the full year of 2019. Underlying expenses however are developing according to plan, which means that they will be below 17 billion for the full year of 2019. Where we will end the year in total expenses will depend on how the FX rates and pension costs develops from here on. Last but not least, cost discipline and our return on equity target of at least 15% both remain key priorities ahead.

And with that, I hand over to Helo, who will walk you through the developments in asset quality.

Helo Meigas

Thank you, Anders. I shall give now an overview of asset quality and would like to start with summarising the total year before going into Q4. When looking back at 2018, asset quality in all our home markets stayed strong. We ended the year at a credit impairment ratio of three basis points, which we believe reflects well the strong economies in our home markets and our low risk profile.

In housing development and in agriculture, which have been focus areas lately in Sweden, we have seen rating migrations but no significant credit impairments of Swedbank in 2018 and we feel confident about the portfolio also going forward. As regards our oil and offshore portfolio in Norway, our exposure has been coming down gradually during the year. FX-adjusted decrease is about SEK2 billion during 2018. And for the remainder of the portfolio, we believe we are adequately provisioned.

Now moving to the quarter. Credit impairment in Q4 was 412 million. Credit impairments in Swedish Banking were SEK390 million and in LC&I SEK202 million. These are related to the increase of provisioning for a few cases and some effects from rating migrations. In Baltic Banking, we have recoveries in the amount of 103 million, primarily in Estonia.

And to conclude, a few words about 2019. Geopolitical risks, which can affect global outlook significantly, make forecasting very difficult this year, but there is a clear slowdown on the global level and this will also negatively affect our home markets. So, without guiding specifically for a credit-impairment ratio level, even if we see a somewhat more challenging macro environment in 2019 than we had in 2018, our base case for 2019 is solid asset quality. And with this, I hand back to Gregori.

Gregori Karamouzis

Thank you, Helo. Operator, we're ready to take any questions there are queued up.

Q&A

Operator

Thank you. Ladies and gentlemen, if you do have a question for the speakers, first please press 01 on your telephone keypad now and you will enter a queue. After you are announced, please ask your question. So, the first question is from the line of Magnus Andersson from ABG. Please go ahead. Your line is now open.

Magnus Andersson

Yes. Good morning. If I start with NII, just a question on your sensitivity there on Q1. And if I look at your sensitivity analysis, you now say that 100 basis points should have a positive impact of 6.5 – no, 6.6 billion, but that includes all currencies. Can you tell us roughly how much – how we should look at the impact now quarter-on-quarter Q1 versus Q4, i.e. how much of the 6.6 billion is

Swedish rate sensitivity and how does this asymmetry look? Is it like 1 billion – 2 billion for the first 50 and the rest about zero or…? Any colour there would be useful. Thanks.

Anders Karlsson
Okay. Thank you, Magnus. It's a very simple question to answer, but let me at least try to help you out a bit with some of the important building blocks in this. As you rightly point out, we are structurally geared towards higher interest rates and as we have been discussing many times, the magnitude of the effect depends primarily on the administratively priced products, which are Swedish mortgages, some other lending products, primarily consumer loans and some corporate loans and the deposits. When we – following the repo rate hike with the Riksbank, we had a pass through of higher mortgage rates in mortgages of around 60%, 65% and in other lending products of around 80% and in deposits zero. The volumes to be applied should, reminding you again, Swedish mortgages with three months fixing amounting to around 595 billion, other lending products around 65 billion and SEK-denominated deposits of around 650 billion. There are a couple of headwinds though that we also have talked about. We have floored SEK-denominated corporate loans of around 140 billion and we have deposits where we have charged financial institutions of around 50 billion. So, when you look at the NII sensitivity in the fact book, it captures all of the mentioned effects. But I would like to remind you that the sensitivity in the fact book includes the whole group, so it's including other currencies, as you rightly pointed out, and it assumes an immediate repricing of assets and liabilities and what you are looking at is a phase in according to the maturities. So, to summarise this, Magnus, I would say that in Q1 you will see limited effect of the – in pricing, because the phase-in comes in Q1 while the deposit charge headwind materialises immediately. So, you will see the net positive full effect coming through in Q2. A very long answer to your question, but I think it is a difficult topic.

Magnus Andersson
Yeah, okay. And if I continue on NII, 50% of your Swedish corporate lending is in property management and now you show an 11% year-on-year growth. That's the highest growth rate you've had since Q3 '15. Can you tell us something about the outlook there? Because now it's been a quite clear pick-up there since during the last year?

Anders Karlsson
Yeah. If you look at the portfolio in more detail, Magnus, it's actually increased in Finland and Norway as well. This is included in the numbers. If you look at the Swedish portfolio in particular, I think the growth rate is around 7%, which is close to where the market is. The reason for the – you could say that you have to divide the year into parts. In the beginning of the year, we saw a more diversified lending growth. At the end of the year – the last half of the year – we had repayments from some of the sectors and we had some of the larger real estate companies using their back-up facilities, awaiting a more benign capital market. So, that is why you see the change in the different parts.

Magnus Andersson
Okay. Okay. And if I continue then with net commission income, as you mentioned, you had higher costs in this quarter, high expenses in payments, and when I look at your total net commission income, commission costs relative to commission income is 34%. That's the highest level since Q1 '09, which was a quite particular quarter. Is this – should we see this cost – commission cost level as kind of a one-off for Q4 and that we should go back to more normal – a more normal level, cost level, relative to commission income in '19?

Anders Karlsson
I think it is a mix of a couple of things, Magnus. The one I mentioned, with the Baltic change from one to another type of authentication is a one-off, but there are a mix of other things coming in as well. So, it's difficult to say exactly how it will pan out, but some of it is one-off and some of it is built in to the commission income.

Magnus Andersson
Okay. But at least this level shouldn't be – steady. So the Q4 shouldn't be sustainable to full-year '19, I guess?

Anders Karlsson
No, I agree with you.

Magnus Andersson
Okay. And finally, just on asset quality, could you give us somewhat more colour on why losses are up in Sweden, in both areas? Is there a specific couple of exposures or is it on a broader base you do due provisions?

Helo Meigas
We do not see a broader-based deterioration in the asset quality in Sweden at all. What you were absolutely right in pointing out that it is related to a couple of individual cases which didn't work out as well as we had hoped them to do. They are related to a

change in consumer behaviour and a little bit also decrease – perhaps decrease in consumption, so we don't think it as a trend, but it's rather that some of the cases had to be provisioned.

Magnus Andersson
Okay. So, it's in Swedish retail then?

Helo Meigas
Yes.

Magnus Andersson
Yeah, okay. Thank you very much.

Operator
The next question is from the line of Peter Kessiakoff from SEB. Please go ahead. Your line is open.

Peter Kessiakoff
Yes. Good morning. First of all, a follow-up question on NII. Anders, you mentioned, within when you commented on treasury that the moving short-term US funding, it doesn't – or it won't give a positive result going forward and that it has been roughly 500 million annually in a positive effect, but faded during 2018. Is it possible to get a number of roughly how much this contributed for '18 to understand kind of how much would fade away during '19, on a year-on-year basis?

Anders Karlsson
Yeah. As it faded off in '18, I would give you a rough number, about two-thirds.

Peter Kessiakoff
Okay. Then a question to Helo. When you mentioned the loan losses and the weakening economy and that might have an impact on that, although you of course say that asset quality remains solid, is there any particular segments where you see increased risks on the back of a slowing economy?

Helo Meigas
No, not necessarily. I was kind of hedging myself for the next year. But no, because I think what we are trying to say is that 2018 was a very strong year, at three basis points with a slowdown in economy, which I think everybody is now expecting, one cannot expect to have the same low level of credit impairments. But there is nothing very clearly on the horizon where we could guide you to say 'This is where we are expecting increased credit impairments.'

Peter Kessiakoff
Okay. Okay. Then just on the Baltics, where it's been quite a favourable situation, positive competitive environment, you're saying that you're growing in all the countries and so on. What's your expectations in terms of outlook for '19 on margins there?

Anders Karlsson
Yeah. If you look at mortgages or private, I think that we have managed actually to take market share and increase margins during '18. Whether we will be able to increase margins further is difficult to say. On the corporate side, if you look at it, it's more of a flattish development and I expected to continue.

Peter Kessiakoff
Okay. Then just a kind of a final question. On 2020 costs, you mentioned at some point that you could potentially see net cost reductions. Not expecting an answer from you today, but when could we see – when will you come back with the guidance on 2020 costs?

Anders Karlsson
Later this year.

Peter Kessiakoff
Okay. That will be Q3 then, given that Q4 '19 is next year.

Anders Karlsson
Yeah, that's your conclusion.

Peter Kessiakoff

Thank you.

Operator

Question is from the line of Ronit Ghose from Citi. Please go ahead. Your line is open.

Ronit Ghose

Great, thanks. It's Ronit from Citi. Can I just – I have a couple of follow-ups to questions that have been asked already. So first of all, on credit quality, the jump we saw Q-on-Q in Swedish Banking and LC&I, is this like one exposure in each of the divisions or there's multiple exposures, and particularly thinking of the Swedish Banking division and your comments around the consumer or retail. Is there any more colour you can add on that? That would be very helpful. Related to that, on the revenue side, on the cards, I mean you call out the seasonal slowdown in card income. Is there any – in terms of looking ahead to 2019, given your comments about the slowing economy, should we be assuming a slower run rate for card fee income in 2019, year-on-year? And finally, on Swedish Banking reorganisation, I wondered if Birgitte could give us some more colour and update on the thinking behind what's been done and sort of the kind of candidates you're looking at. Because I guess you don't have a head of Swedish Banking right now, so if there's any more colour you could add on that, that would be great. Thank you.

Helo Meigas

We start quickly with the credit quality question. If we want to be as specific as you ask, yes, it's not one, it's two cases that we are talking about. And they are in retail and it has been our focus area also for the last couple of years already, because we do expect, as in every other market, when customers change their behaviour, not everybody has been able to adjust their business models as rapidly. So, some of them are not doing as well as the others and this is what we see as a result. So, we continue to have limited appetite to this sector and we continue following our clients, but nothing more to say at this point.

Anders Karlsson

Yeah, and if you look at the card fees, it's – I think if you look at it over the past five years, it has had a steady increase, partly due to the fact that we are getting cash less in Sweden, so cards is the primary payment device. Whether it will slow down due to slower consumption is too early to say.

Birgitte Bonnesen

On the reorganisation in Sweden, what I've done is that I've opened up Swedish Banking, so to speak, in two distinct areas. One is segment management. That's responsible for the customer offering, for the service models, for the pricing, etc. And the other one is sales and service, which is all the different channels. And the purpose is to, as I said before, the, you know, customers expect to have exactly the same experience in whichever channel they approach the bank and they expect to have a personal conversation, even though it might be digital. And in order to be, both to keep up but preferably to be a bit ahead, we need to have an organisation that is fast in capturing expectations and then also to come in and work with group-wide – the group-wide organisation, like Digital Banking, like CVM, which is responsible for data, but also the product areas. So, we need to have a better communication between them and that is why I've chosen to open up Swedish Banking the way I've done it. And the – yes, there's no head of Swedish Banking per se at the moment, so what is happening now is that these four people are reporting in to me.

Ronit Ghose

Thank you for that. Can I have a quick follow-up? Just maybe for Anders, a point of detail on the NII and LC&I, which was down 4% Q-on-Q. How much of this is FX or other factors versus margin pressure?

Anders Karlsson

No. We briefly touched upon it in the previous quarters, Ronit. It's actually, if you remember, we had a fairly substantial growth in Q2, which we explained were bridge financing and short-term acquisition financing at a fairly high margin. What you see in the quarter is that they are maturing and are repaid together with some of the oil and offshore maturing. So, it's a mix rather than anything else.

Ronit Ghose

Okay. So, there's a bit more to go here on this NII decline?

Anders Karlsson

Yeah, it's – in that sense, we have sort of switched from higher risk, higher margin to lower risk, lower margin.

Ronit Ghose
Okay, thanks.

Operator
Next question is from the line of Adrian Cighi from RBC. Please go ahead. Your line is open.

Adrian Cighi
Hi there. Two questions from me, please. Well, one follow-up on NII and one on capital. Just a clarification on the US money market contribution – that two-third figure you mentioned – just maybe asked differently. Is the 125 million per quarter headwind fully visible in Q4, or is this incremental from Q4 results? And then on capital, the REA add-on, the PD you mentioned earlier, is this trim related or is there a different driver in this development? And how do you see the outlook for this add-on evolving into 2019 and potentially beyond? Thank you.

Anders Karlsson
Okay, thank you. To start off with your first question, it's fully from Q4.

Birgitte Bonnesen
And then to answer on the model question, no, this is not trim related. This is the results of our normal annual review about how the models are functioning. And of course, the final impact will only be known after we have rebuilt the model and also get we've got an approval from SFSA, but it is our current best estimate in terms of the order of magnitude.

Adrian Cighi
Thank you.

Operator.
Your line is open. And Johan Ekblom, please go ahead. Your line is open.

Johan Ekblom
Thank you. Thank you. Just coming back on NII, I mean can you talk a little bit about what you're seeing in terms of sort of underlying margin development in the Swedish business on the mortgage side in particular? I guess we've seen most competitors – most of the large banks move their list prices by a similar amount and some of the smaller players more. So, just if you can give us some outlook there. And then also maybe what you see in terms of volume progression from here. I mean we're seeing sort of a gradual slowdown in volume numbers. Do you expect that to be sustained? And if we look back historically, I think mortgage credit growth hasn't really been sub-4% even with weaker housing markets. Is that reasonable to assume going forward?

Anders Karlsson
Yeah. Yeah, I tried to point out the – you're right on the margin, you see a compression in the quarter due to the fact that we have not been passing through 100% of the STIBOR movement. Nevertheless, we – I again want to remind you of the the deposit base that we are running. As far as the growth prospect, I think you are fully aware of the fact that there are a couple of dynamics into it. It's not only a new production coming to market. You have an inherent dynamic in the fact that older people are selling off at low LTVs and younger people are buying at higher LTVs and then you have what we call mortgage more, which is about renovating and fixing your house. So, there is an underlying growth in the mortgage market, even if you can see a slowdown in new production. The exact number is very difficult to forecast, but it will probably come down a little bit from last year.

Johan Ekblom
Thank you. And then just on the fee side, I mean the asset management business was one of the sort of I guess expected weaker drivers of the Q4 print. What have you seen sort of in the beginning of this year? I mean are you still seeing outflows of equity funds or, you know, the bounce in the market, is that too soon to see any change in behaviour there?

Anders Karlsson
I think it is a bit too soon, but we haven't seen further outflows from the equity funds in this year.

Johan Ekblom
Thank you.

Operator
Next question is from the line of Paulina Sokolova from Barclays. Please go ahead. Your line is open.

Paulina Sokolova
Hi. Thank you for taking my questions. Just one more clarification on the treasury NII – apologies, I didn't catch it. So, should we be expecting treasury NII to remain at a level that's similar to 4Q in 2019, or should we expect it to move lower from the levels we're seeing today? And the second question is could you please comment on the competitive outlook in Swedish retail? So, has competition picked up versus previous quarters and what are you seeing following the increase in list prices in particular? Thank you.

Anders Karlsson
On the first question, my best guidance to you is that yes, Q4 is a good proxy, but you should always remember that there is traffic between NII and NGL, so you should see them combined. As far as the competitive landscape in Swedish retail, I assume you mean mortgages when you ask that. We haven't seen any particular change so far.

Paulina Sokolova
Okay. Thank you.

Operator
Next question is from the line of Riccardo Rovere from Mediobanca. Please go ahead. Your line is open.

Riccardo Rovere
Thanks for taking my question. A couple, if I may. The first one, you mentioned before the add-on on REA has nothing – not related to trim. It's just a normal revision of the models. Do you expect – when trim is going to come to an end, do you expect any significant impact on your risk-weighted assets? And did you have an idea if IFRS16 is going to have an impact on your risk-weighted assets too? And then just a follow-up from a previous question, from Adrian if I remember well, the dollar funding headwinds that you were mentioning, 125 million per quarter, I just wanted to be 100% sure that that was already visible in Q4. Is that correct – did I get it right?

Anders Karlsson
Yeah, we start with the trim.

Helo Meigas
If we start with the trim, I do not have any information that would enable me to give you any guidance in terms of the impact on REA from trim.

Riccardo Rovere
Right.

Anders Karlsson
As far as IFRS16, Riccardo, our best estimate at this point is a REA increase of around 4 billion to 5 billion, which is impacting the ratio of around 10 basis points. So, it's a limited impact. And the answer to your last question is yes, it was visible in Q4.

Riccardo Rovere
Yeah. Alright. Perfect, thanks a lot.

Operator
Next question is from the line of Jacob Kruse from Autonomous. Please go ahead. Your line is open.

Jacob Kruse
Hi. Thank you very much for taking my questions. I just wanted to ask first on the mortgage side, you hiked your prices, most of the banks followed. Have your front-book market share, as far as you can see in January, been relatively consistent with your back book, as it has been previously in 2018, or did clients react at all? And also on that, are you seeing any shifts in people picking fixed-rate mortgages over floating-rate mortgages to a greater degree, with this new central bank movement? The other question I had was just on MREL. Are you having or do you have any idea of how much and when you expect to issue non-preferred senior? And then lastly, just looking at the corporate lending numbers you produced, pretty much all the corporate growth was in property management and if I look at your non-property management corporate growth, the annualised growth there was minus 14% quarter-on-quarter. Could you just say is that – was that just – am I just looking at two quarters and that's too short of a time frame to really draw any conclusions, or are you seeing any kind of problems in your Swedish franchise when it comes to corporates that are outside of the property management sector? Thank you.

Anders Karlsson

Oh. Let me try to remember the four different questions. The first one, how the mortgage book had developed in January, it's too early to say anything about. As far as choosing longer fixing periods versus three-month floating, we have seen a tendency of people moving or customers moving further out on the curve in November and December and we expect it maybe it will continue into this year. When it comes to your question about issuing senior non-preferred, I hand over to Gregori.

Gregori Karamouzis

Yeah. We are ready to issue. We have needs of a little bit more than 70 billion. We haven't yet. We are waiting some further clarification from the National Debt Office in terms of the date when they expect us to be compliant with the new regulations. As you know, things are moving in Europe at the European level, and they're not fully aligned with what the National Debt Office has communicated to us. So, it might be so that we issue this year and soon or we could also wait for this clarification from the National Debt Office.

Anders Karlsson

On your last question, which were about the development of the corporate lending portfolio, as I said earlier, in the beginning of the year, we had a – we saw a larger diversification between the sectors, especially in large corporates. That's where you see the big volumes. In the latter part of the year, some of those were repaid and at the same time we saw that some real estate companies were using their revolving credit facilities, awaiting a more benign capital market. So, I reiterate what I've been saying before. We put price and risk first and we have been strong in real estate and we will continue to be strong in real estate. And to remind you again, a large part of the growth in real estate is actually related to our Finnish and Norwegian operation. The Swedish one is growing more or less in line with the market during last year. But I think it's too early to say anything specifically about that element this year.

Gregori Karamouzis

May I clarify one aspect of the question that was asked a little bit earlier on group treasury NI? I think it was Paulina that asked the question. If it's – if the last quarter of 2018 was or is a good level to look into 2019. To Anders, as Anders has answered, it's a good starting point, but you should remember what we said earlier in the call, that the business is creating more NII and treasury has more difficulties to create NI, you will see some transfer from treasury into the business as well. So, it's a good starting point, but there would be a transfer from treasury to business throughout the year. I remind you by repeating that you're looking at NI and net gains and losses combined, and that comes back to Anders' guidance earlier on the call. We're ready to take the next question, please.

Operator

Next question is from Richard Smith from KBW. Please go ahead. Your line is open.

Richard Smith

Yeah, morning. Two quick questions from me, please. Firstly, just in terms of costs, just to make sure, the 700 million headwind that you mentioned in terms of FX, that's your 17 billion is effectively suggesting that you see enough road to fully offset that with efficiency gains, i.e. you wish to be thinking less than 17 billion as a headline number, it's not FX dependent. And then secondly, just to make sure, I think you've mentioned uptick in terms of model changes and also the effect of IFRS16, but are there any other RWA changes that we need to be thinking about coming through in 2019 please? Thanks.

Anders Karlsson

Thank you. I'm not sure I understood your question fully. I will try to answer it and if I do not succeed, you can help me. What I said is that the underlying cost for '19 will be below 17 billion. If the Swedish krona FX rate remains at this level and the underlying assumptions around long-term interest rates, inflation expectations and salary expectations remains, we will have a combined headwinds starting off the year of 700 million for FX and pension. And to remind you again, FX is beneficial for the bottom line. So, the underlying cost will be below 17. That is sort of the answer to your first question. The answer to your second question is that no, we do not see anything unforeseen on the regulatory sky but yeah, you know…

Richard Smith

Things can change. Yeah. Okay. Thank you.

Gregori Karamouzis

I think we have a couple more questions at least registered. Operator, can you make sure the people can dial in?

Operator

Of course. We do have a question from Connor Middleton from JP Morgan. Your line is open. Please go ahead.

Connor Middleton
Hi there. Yeah. Good morning. Two questions from me, please. Firstly, I think in the report you highlighted weaker net gains and losses in LC&I and I was just wondering if you could give us a bit more colour on kind of the drivers here and whether we should expect to continue to see this trend in Q1. And then the second question, just on the Baltics, what you're seeing there in terms of asset quality, I saw that you had reversals again in Q4. Should we expect this to continue moving forward?

Anders Karlsson
If we start off with LC&I, I think that the main drivers in the quarter were two things. One was that credit spreads widened. And as you know, we are a fairly large bank in debt capital markets, so we are running a portfolio of bonds that then you had negative impact on the market value of. And the second one was for derivatives. So, but I think it is extremely difficult for me to forecast the trading environment going into '19. But that was the specific drivers in this quarter.

Helo Meigas
And as to the credit quality in Baltic Banking, we – in this – in 2018, we had about 200 million of recoveries in Baltic Banking and that of course is a number which we actually were not forecasting for this year, so the strong economy has been helping us to restructure some of the old cases we have had still in our portfolio. We have said it before, but I would still say it again: we don't expect more recoveries in Baltic Banking, so you would start to see – you should start to see normal credit impairment levels there. However, portfolio is currently doing well, so we don't see any signs of concerns when we talk about 2019 in the Baltics.

Connor Middleton
Great, thank you.

Operator
Next question is a follow-up from Riccardo Rovere from Mediobanca. Please go ahead. Your line is now open.

Riccardo Rovere
Thanks. So, thanks for taking this follow-up. Just to be, in terms of one-offs in this quarter, did you agree with the statement that we have let's say 45 million, 46 million in NII-related leasing, maybe something on the payment fees, on the payment expenses fees? Is that all or do you – would you consider anything else as a one-off in this set of numbers on the P&L?

Anders Karlsson
The 46 is a one-off NII and the convergence into other authentication tools in the Baltics, I think it amounted to around 30 million, is also one-off. Then, you have a couple of – I went into that briefly, the shareholdings in Visa and Asiakastieto, where you see, primarily in Visa, quarter-over-quarter you see that there are delta in other income and then it's moving from other income into NGL going forward. So, there were a couple of technicalities there as well. But you're right on your remarks, Riccardo.

Riccardo Rovere
Okay. Alright. Thanks a lot.

Operator
Next question is from the line of Bruce Hamilton from Morgan Stanley. Please go ahead. Your line is open.

Bruce Hamilton
Thanks. Thanks for taking my questions. Just a follow-up on the asset quality messages you've given, so I mean obviously it sounds like there's a couple of cases within retail that caused some pain in Q4, but are there any other sort of sectors where you see some structural vulnerabilities from, you know, some of the changes being seen in the market? And then secondly, in an IFRS9 world, is there any way you can help us think about any impacts from, you know, the at least modestly deteriorating macro and therefore how it will impact, you know, the pick-up in the sort of cost of risk from the very, very low levels seen in 2018? Thank you.

Helo Meigas
To start with, if there are any other concerns in our portfolio in terms of trends? No, not really. And then linking it a little bit to the second part of your question, I mean of course if the economy deteriorates and we have some more vulnerabilities, for example, in the property management housing development area, then you would – what you would see in IFRS9 world is an impact from rating migrations to the credit impairments. But these are numbers which are coming in, rather in let's say tens of millions, not in hundreds of millions. So, usually you would see large chunks of impairments from individual assessments when certain cases go bad. So, going forward, yes, if economy deteriorates, you should be re-rating your portfolios. This will have some impact on the credit-impairment level as well through IFRS9.

Bruce Hamilton
Thank you.

Operator
And next question is from Paulina Sokolova from Barclays. Please go ahead. Your line is open.

Paulina Sokolova
Thank you for taking my follow-up question. Just a clarification on the cost guidance. So, 17 billion for 2019 is the underlying number and 700 million in FX and pension expense headwinds is on top of the underlying. So, the question is if the outlook for rates and FX is the same, you will be aiming to come in below 17.7 billion on costs in 2019, or will you try and offset this headwind and come in below 17 billion? Thank you.

Anders Karlsson
Thank you. To be very clear on this, the underlying cost is expected to be below 17. I will not adjust the activities or the investment plan on the back of FX rate movements or changes in pension costs.

Paulina Sokolova
Okay. But as it stands right now, the 700 million is an additional on top of the underlying expenses. Is that the correct interpretation?

Anders Karlsson
Yes.

Paulina Sokolova
Thank you.

Operator
And that was the final question we had registered for today, so I will hand the call back to the speakers for any closing comments. Please go ahead.

Gregori Karamouzis
Thank you and thanks everyone for participating so actively, for all the good questions. We will speak to you and meet you on the road over the next few days. Thank you and have a good day.