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Presentation

Operator

Ladies and gentlemen, welcome to the Swedbank first quarter report 2016. Today I'm pleased to present our speakers: Birgitte Bonnesen, Acting CEO, Göran Bronner, CFO, and Anders Karlsson, CRO. For the first half of this call, all participants will be in listen-only mode and afterwards there'll be a question and answer session. Speakers, please begin.

Birgitte Bonnesen

Good morning and very welcome to this first quarter call. I am especially pleased to and proud to have been given the trust to lead Swedbank and present this first quarter to you. We have a very clear and well-anchored strategy and that strategy will remain. We will continue to be the full accessible, full service bank with low risk in four home markets: Sweden, Estonia, Latvia and Lithuania. I see my mission primarily as being about mobilising and organising the skills and competencies and also the positive energy that we have in Swedbank to consolidate and even strengthen the current market and financial position. The focus is, as I have said before: the customer and my colleagues. The customer behaviour has changed dramatically. Our customers expect us to be accessible and relevant where and when they like. This requires a different way of working for us and for the customer who's the guiding principle. This is needed at many different levels. Customer-focused efficient processes and good internal control. My focus will be on the execution of the activity plans and extra attention I will give to the IT agenda as this is completely key. We have ambitious goals in Swedbank. We strive for market-leading cost efficiency and a return on equity of 15%. These goals push us forward and support me and the rest of the management team to take on the challenges and to capture the opportunities that lie ahead of us. They force us to think out of the box and strive for even higher efficiency. That is important.

Now, coming to the first quarter, it has been characterised by volatility, increased macroeconomic uncertainty and further negative interest rates. Amidst this, I think our focus has remained with our customers. We have had more customer meetings than ever using our digital channels. Our customers like our digital offering. We have more customers using our mobile bank book in Sweden and in the Baltics. This trend and – this trend is, and the focus is, on digitalisation of daily banking services. And in this quarter we have digitalised mortgage loan renewals as well as commitment. In the Baltics, consumer loans have been made available in the mobile just to mention a couple of deliveries. We also deliver a very strong result despite the challenging environment. And I think that our ability to price risk correctly and grow our loan book in Sweden has offset the headwinds faced primarily from even lower interest rates. Our front book market shares and – in mortgages climbed back to around 20%. This is very good. This is where we should be. As a retail bank and the retail bank of Sweden, Estonia, Latvia and Lithuania, we should have healthy market shares in all daily banking services. And I think with the – when you look at the mortgages with the final decision coming up by parliament to implement mandatory amortisation in June this year, this is completely in line with what we have been applying since August last year. So we expect the front book market shares to be restored.

I am also very happy to see that Swedish banking corporate loan book have grown this year. However, the demand is still low. We continue to have outflows in our mutual funds business and this is not good. We've taken a number of measures this quarter and we have a plan for the year. We hire more sales staff, support. We adjusted our fund offering in terms of investment focus and also style. And we've lowered prices. These measures are being closely evaluated and will be complemented with additional ones if needed. The Baltic franchise continues to deliver. I think that this quarter they return – their returns are less – not less than world-class with a cost/income ratio of 37 and very high return on equity. We see increased digital sales and also long-term customer relationships that have led to loan volume growth. It's picking up slightly in Baltics now which is a very, very good sign. In this quarter we also got the final approval to take on Danske Bank's private customer portfolio in Latvia and Lithuania and we welcome 90,000 new customers. They will join our platform later this year. The large corporate and institutions business faced a difficult trading environment with poor liquidity. We saw less activity in the corporate finance area. However on the debt capital markets business we had some very – a very good quarter with several very good mandates. We'll come back and talk more about Norway. Good cost control was manifested in all areas and as you know this is a priority for Swedbank. Our asset quality remained strong and this was confirmed by a very low loan losses. We continue to stay very close to the few customers that we have in the oil sector and since the last quarter we have successfully completed a few restructurings. But, as I said, we'll come back to this.

The stable profitability, the solid asset quality and high cost efficiency that we demonstrated again this quarter give us the comfort and confidence to deliver on the ambitious plans that we have ahead of us for the remaining part of the year. And, as I said, my focus is on execution. It's on executing the strategies that we have and it's more specifically looking closer into the IT agenda and make sure that we are correctly equipped to meet up with the digitalisation trends and challenges too. So let me say just once again finally how proud I am to be able to present this quarter to you and for the trust that's been placed in me. And then with that I'll hand over to Göran.

Göran Bronner

Thank you, Birgitte. I will go through the three various business areas very briefly and then I will summarise that on the Group level and look a little bit on capital before I hand over to Anders. Starting with Swedish banking, the development in the quarter we have seen pressure – continued to see pressure on the deposit margins due to the rate decreases by the Central Bank. We have experienced a continuation of the widening of the mortgage margins during the quarter and we have also had good loan volume growth in business area, both on the mortgage market I think, but also on the corporate side. Provision income has been affected by the weaker stock market primarily, by Robur and asset management income being weaker in the quarter. Cost control continued to be very good, as always in this business areas. We have though experienced an increased compensations to our cooperation with the savings banks due to the effect that we – on the volumes that they place with us on the mortgages, we give them a kickback fee and that has increased with the widening of the spreads. Asset quality continued to be excellent. This quarter we even have a small reversal. Deposit growth has been weak or hasn't been any real deposit growth but that is also a seasonality of the first quarter being slightly more subdued on this deposit growth.

Turning to the Baltic banking business area, I think as Birgitte mentioned, it is a pleasure to look at the numbers, being a CFO. I think there are also more encouraging signs in the business area where we are actually all seeing comforting signs of a more rapid growth numbers, especially on the mortgage segment, I think we have seen a month and a couple of quarters with more steady build-up of volumes. And we are looking ahead at fees very encouraging. The income in this quarter is in small numbers slightly down compared to the Q4 number but that is mostly relating to seasonality effect in the fourth quarter actually. So the underlying income trend I feel is very solid. The business area continued to deliver a fantastic cost efficiency and capabilities to manage the operational efficiency in an excellent way. And asset quality continued to remain robust with slight recoveries in the quarter.

Lastly turning to large corporate and institutions, this business area has been more exposed to difficult environment and they have been more affected by the shrinking, the cost margins but also the lack of activity you could say in some part of the capital markets, especially in Norway. So the corporate finance fees are slightly lower compared to previous quarters. We have continued to see financial effects of the difficult situation in the offshore market – oil and offshore market through PD migration with increased REA. I will come back to that. But also the credit impairments that we have booked in this quarter are almost entirely due to Norwegian market. Nevertheless, I think with a return on equity on 15%, I think these rather difficult circumstances I think the result is quite good.

Then trying to summarise on Group level we have slightly weak NII. Much of that is due to the fact that deposit margin pressure comes immediately. But also we have one day less this quarter than the previous quarter. If I look at the NII going forward I think we have an increasing tailwind coming to us and I think there are three elements to that. One is that we continue to have good volume growth and I can't see that changing really. And the volumes will drive NII. I also think that the widening of the mortgage margin has come to such magnitude if you go back over a 12 to 18 months' period, that repricing of the fixed element of the mortgage book that is coming through, the 40% of the book, the incremental NII tailwind is quite good. And the third element, I would say, is that we feel that in light of the capital requirement changes in Sweden with counter-cyclical buffer and other measures, we can also feel that the pricing environment are pointing towards higher margin for the corporate market in Sweden. That will have a slower financial effect coming through but nevertheless it will be a good tailwind going forward.

In the quarter as I've stated we had slightly weaker provision income on asset management and also on corporate finance. Costs are – or before costs I just want to mention treasury. We have a strong treasury result, net gains and losses. That is primarily relating to that we have done fewer buybacks in this quarter and we have some positive valuation effects due to shrinking credit spreads. So normal volatility you could say that we have experienced in treasury. Then coming to cost, cost is well maintained in the Group. I think we are definitely set to reach our plan that we have previous. There is one changing element though and that is that we'd increase in mortgage margin. We are also paying more in compensation to our corporation with the independent savings banks for the volumes in the mortgage book. And that will drive some variable costs in the cost line so the cost target for the full-year 2016 will be SEK16.2 billion. So we have an increase of SEK200 million but it's very much revenue-related so we shouldn't see that as a negative. On the contrary, that's a positive going forward.

Asset quality for the Group is very good. Anders will come back to that. And then we have one-off tax effect of roughly SEK100 million in the quarter. Return on equity 13.8, cost/income number 0.43 and core tier-1 in the quarter is 23.7. The slightly lower capital ratio is relating almost entirely to an increase in REA and that you can say the volume are driving increased capital need, but also we have had, as I've stated earlier, a positive PD migration in the Norwegian book. And in this – on this picture you can see it's 5 billion. It's actually more than that. It's higher than that because in the Swedish book we continue to experience a positive PD migration while the negative one is in the Norwegian market. So it's an offsetting. And we see increased collateral values that actually drives release of capital in the LGD dimension. But all in all, this is a slight increase need for capital.

Looking at capital and the capital position the ratio has gone down 40 basis points and predominantly that has been the effect that the pension that the IAS 19 has taken out the sort of retained earnings element and therefore we have a small dip. Looking on the requirement we have seen an increased contra-cyclical buffer which we have added on, so the requirement is 20.4. On top of that we – the likely impact effect of the announced changes from the Swedish SFSA are around 90 basis points, so all in all the buffer, currently, with all known regulatory changes, are in the neighbourhood of 250 basis points which we feel very comfortable with, but do not think we have any excess capital in light of upcoming new regulatory initiatives from the Basel Committee. We need to review those first. Lastly, before I hand over to Anders, I just want to say the other sort of binding requirements NSFR at 107 is very strong and LCR as always quite good. So with that, I hand over to Anders.

Anders Karlsson

Thank you, Göran. Strong growth in the Swedish economy and stable economic development in the Baltic countries contributed to the positive trend for the credit portfolio. And as the trends seen in previous years with low credit losses and a decline in impaired loans continued in Q1 ending up with losses of SEK35 million or 1 basis point. With both the Swedish banking and Baltic banking showing reversals and the provisions, although limited, came from LC&I and were oil-related. We have guided that higher loan losses in the oil-related sector should be expected, given the persistent low oil prices, but even more important: decreased investments by oil companies globally. We have also said that many of our clients had a quite robust cash flow thanks to long contracts and strong backlogs. The continued subdued market is, however, increasingly affecting clients as contracts and funding mature. Consequently, the loan losses are quite low in the first part of the year, but challenges will arise with time if market circumstances are not improving. We acknowledge that the Brent oil price stabilised somewhat during the quarter and closed around $40/barrel. This is on the margin positive for the market but what really matters for recovery is that oil majors are increasing their investments.

Swedbank research estimates that oil companies globally decreased investments last year with 23% and that investments will decrease with another 25% in 2016. Only 2017 a certain increase of investments can be expected. We note that oil-related clients and marketplace in general are doing many things to cope with the situation and Swedbank has, during the quarter, actively participated in a number of restructuring negotiations. The increased risk has not yet materialised in individual impairments. However, we have, since last year, seen increases in number of exposures in our internal early warning indicators such as watch list, negative rating migrations and increased forborne exposures.

So, summing up, we remain with the expectation that loan loss provisions will increase, particularly in the second part of 2016 and possibly into 2017 in line with the continued bleak outlook on the oil-related market. Thank you.

Göran Bronner

With that I think we are finished and open up for questions.

Q&A

Operator

Thank you. Ladies and gentlemen, if you would like to ask a question, please dial 01 on your telephone keypad now and you'll enter a queue. Please stand by for the first question.

Our first question comes from Jan Wolter of Credit Suisse. Please go ahead, sir.

Jan Wolter

Yes, good morning, Jan Wolter, Credit Suisse. Thanks for taking the questions. A couple on the NII there. We can see that the treasury NII is actually coming up Q on Q, and I think we thought it would come down on the end and as Swedbank discussed the treasury NII fall gradually during 2016. Do you still that – still see that happening or not? It also looks like the NII sensitivity is down significantly vis-à-vis the fourth quarter in the fact book there from around SEK4.5 billion to SEK3 billion for 100 basis points fall in short rates. If you could comment on that if something has changed? So that's my first question.

And then the second one relates to the situation around costs and I think you highlighted on the call that the focus is on execution and the IT agenda. Is it fair to say that the bank has under-invested in the last couple of years? And now to improve customer satisfaction, the bank needs to invest more especially beyond 2016? So it could be difficult to maintain flat costs. So that's really my question here, will that be difficult post this year? Thank you.

Göran Bronner
Thank you, Jan. If I take the NII question and I'll leave to Birgitte to comment on the cost issue. I would say that in comparison between quarters you – we have – it's difficult to steer fund transfer pricing between treasury and the business areas in a negative rate environment. So in this quarter compared to previous quarter we have a slight sort of tilt towards NII coming in the treasury area compared to being sort of diminishing slightly in each individual business area. It's a minor effect but you can see that in order to reconcile your numbers. We do not guide NII – on the NII or the treasury result on NII. We guide the treasury result on the totality of that result and you could say that that guidance remains where we talked about SEK1 billion in total revenue for treasury in 2016. And that guidance remains. Even though we have a strong first quarter, you must remember there are valuation effects and buybacks effected which are volatile in nature. So I think, underlying, that guidance remains.

Birgitte Bonnesen
And on the cost question, let me open up by saying that there's absolutely no contradiction between customer satisfaction and low cost. Just look at our Baltic franchise and you'll see a very cost efficient operation combined with very high customer satisfaction. Although, having said that, you're correct in the fact that we have gradually increased the IT spend and that we'll continue to do. I think that will come. If you'll look at the coming couple of years we need to – we have some big projects, both on legacy, but we also on the digitalisation side. We have a good plan and we deliver according to our plan so far.

Jan Wolter
Thank you. And would you say then that given this increase in IT spend it would be difficult to maintain the ambition with flattish costs as we see, for example this year, 2016?

Göran Bronner
I think we said in the previous quarter, Jan, that we see the continuous – I think all banks are seeing continuously a transformation in the IT side. You see more and more areas requiring sort of transformation. So from that point of view, I think it's a common feature among banks. But at the same breath we are also having other initiatives that take out cost, procurement,nearshoring and also the sort of change distribution forms actually enables you to do other initiatives. And – and we – I don't think there is any different view on the cost level at this point in view here and now.

Jan Wolter
Okay. Many thanks for your help on that.

Operator
Thank you. Our next question comes from Adrian Cighi of RBC. Your line is open sir, please go ahead.

Adrian Cighi
Thank you very much. Thank you for taking my question. I have three questions please. One follow-up question on costs. One of your peers announced that they're taking a charge to deal with potentially closing or merging some of the branches. Is that one of the avenues you're exploring to further rationalise costs?

The second question on mortgages: you're mentioning you're targeting a mortgage market of 20%, below your back book of 25%. Why would you do that and what's the rationale? Is this driven by potentially a view on the frothiness of the real estate market? Or is it a view on the potential impact that the amortisation rules coming up later in the year?

And then maybe one last question on asset quality. As you mentioned, you had a very low level of loan losses of 1 basis point this quarter, but you also mentioned you were part of a few restructurings that happened despite no impact or visible impact on loan losses. Is there any more colour on what you can sort of see for later on in this year? Any particular sort of target you might provide us in terms of – or a cap on loan losses for the year? Thank you very much.

Göran Bronner

Okay. If I start with the mortgages and the market share there and Birgitte will comment on the development on branches and Anders on credit impairment there. I think Birgitte mentioned 20% market share. I think you need to remember that our back book is 25%, but that also entails the volumes put on there by the independent savings banks and they are putting a – historically they have given us higher volumes that what they are currently doing. So you need to distinguish between what is Swedbank's own market share and what we do through our cooperation agreement. And since the savings banks are very well-capitalised and have a good liquidity position they put more than they've done historically on their own balance sheet. So therefore you have the discrepancies in there.

Birgitte Bonnesen

On the branches, you related to Handelsbanken. My comment to this is I think that we are ahead of the curve, absolutely. We already closed branches. We already have made a good, deep analysis of the need we have for physical meeting places in Sweden. What we're in the midst now is that going through the branches and sort of restructuring it to better meet customer needs. And this means that in some small – you know, smaller towns you may need just a service centre with a couple of people. And in other bigger towns you need hubs and bigger branches with lots of more expertise. And this is what we are doing at the moment.

Anders Karlsson

Sorry about that. On asset quality, what I said is that the investment cycles are very long in this industry and now the investments are going down, that put pressure on this specific sector. We are doing things together with them. They are injecting equity. Some of the debt investors are taking their lot and the syndicates are discussing these issues. But if the market conditions prevails, we will definitely see clients running into problems. It's extremely difficult for me to give you a guidance on the exact numbers because it's few exposures, it's single-event driven. But, yes, you will see increased loan losses from the oil-related sector in this year if the market condition prevails.

Adrian Cighi

Thank you very much, very clear.

Operator

Thank you. Our next question comes from Daniel Do-Thoi of JP Morgan. Please go ahead sir.

Daniel Do-Thoi

Hi. Good morning, just three questions please. The first one was on the mortgage margins in Sweden. The comment that you made last quarter around the front book versus the back book spread being roughly 5 to 8 basis points, just wondering how that has developed since then? That's the first one.

Second, slightly related on amortisation, you've given the facts again of the proportion of new customers amortising, 94% for those above 70%, 82% for those between 50% and 70% LTV. Just wondering with the upcoming amortisation requirement will these both go to close to 100%? Or how should we think around – about this?

And then lastly, on the costs, I think you mentioned previously that you would expect to see IT costs increase something like SEK200/300 million year-on-year, yet the IT expenses that you booked this quarter were actually flat year-on-year, if I'm comparing the first quarter to the first quarter of last year. So just wondering whether your previous guidance here remains valid and whether we should, as a result, expect a bit of a ramp-up in IT expenses for the remaining nine quarters of the year? Thank you.

Birgitte Bonnesen

I'll just start on the question on the mortgages. As I said, we already introduced these new rules in August last year. No, I don't think that we'll come up to 100% because there will always be, you know, different circumstances for different customers and I think the most important thing is that we make sure that we maintain low risk on our balance sheet. And also that we give advice that is the right ones for customers. When you look at the amortisation set up and the rules, you know, it – it's not always so easy to put everybody in the same bracket. You may have income from different sources etc. So I think we will not reach 100% and I don't think we should either.

Göran Bronner

On the margins side, I think the front versus back book increase during the quarter was north of 10% so – and we ended the quarter on high notes. So I do think the market is continuing to reprice definitely.

On IT spend you can't really just look at the IT cost line for IT spend because there is very much also staff cost that is incorporated and consultants cost that incorporates in sort of the overall picture for IT spend. So it's difficult if you just look at the one line. I do think that we hope to do more on IT 2017 over 2016, but it will also be incorporated in the overall cost target so it's a natural process where IT-related spend, whether it's pure IT or staff relating to IT, will absolutely, over time, substitute a number of people in the physical distribution form and also in the production area. So IT will increase as a proportion of the overall cost base over time.

Daniel Do-Thoi

Okay. And can I just ask one thing on the amortisation? So that number will not go to 100%. You've also guided or you've also stated that in the previous 12 months you've seen about SEK11 billion amortisation, which is pretty much unchanged from – if I look back, say a year ago. Would you – would it be fair to expect that number to trend up in the coming quarters post the introduction of the requirement?

Göran Bronner

Mathematically that would go up, I think it's likely, of course with more people amortising.

Daniel Do-Thoi

Okay, thank you.

Operator

Thank you. Our next question comes from Riccardo of Mediobanca. Go ahead sir, your line is open.

Riccardo Rovere

Good morning to everybody, just a couple of questions from my side. First of all on asset quality, if we abandon one second oil and gas exposures. In any case we have seen very, very low provisions across the rest of the Group. Now, do you think this – do you see this as sustainable going forward? And if not, what do you think could change from the current conditions? This is the first question.

The second one I have is on capital. Before you made extremely clear that you have no excess capital with, if I'm not mistaken, a couple of – 250 basis points above – on your updated capital requirement because of incoming initiatives from the Basel Committee if I heard that correctly. Is there anything you expect in the short-term and what really makes you more concerned on your capital from any intervention at European level? Thank you.

Anders Karlsson

Okay. On the asset quality side, if I understood your question correctly, if I disregard the oil-related part of the exposure, you asked whether it would be sustainable to be at 1 basis point for Swedish banking and Baltic banking? Was that correct?

Riccardo Rovere

Yes, correct.

Anders Karlsson

And then I would argue that – I mean, if you look at Baltic banking, it's extremely strong from an asset quality point of view, so I would expect them to perform accordingly. On Swedish banking, it is extremely difficult to be on a 1 basis point level sustainable. If you look at the last quarter, we had one single credit loss which was bringing us up to 9 basis points or something. So, no, it's not sustainable. You shouldn't expect that to continue forever.

Riccardo Rovere

Okay, thanks, very clear.

Göran Bronner

On the capital I think nothing has changed, really. What is new in this quarter is that we got the high countercyclical buffer confirmed and that we also got measurements from the Swedish SFSA that we estimated to be 90 basis points. Other than that we continue to say that the buffer after that is 250 basis points. But we know that there are new regulatory initiative like everyone knows disgust in terms of Basel Committee and we don't have any visibility and as long as we don't have that visibility we are – we don't see us having any excess capita[?]. I think in the end it's very difficult to make any prediction for what the requirement will be, but I think it Swedbank is well-placed to meet that increased requirement.

Riccardo Rovere

If I may continue on this just one second? Given that the consultation document are out, if you run some internal calculation of what could be the impact maybe on operational risk on – or credit risk on the large corporate exposure, should those document remain as they are today?

Göran Bronner

Okay. I mean, we have received the consultation paper. We have modelled the input floors. You have input floors, output floors and leverage ratio in that consultation document. I can just say that, with regards to input floors, Swedbank has no problem to taking this new regulation.

Riccardo Rovere

Okay.

Anders Karlsson

When it comes to operational risk is this – our best estimate is that there will be basically no change from what you have seen so far in terms of REA.

Riccardo Rovere

Okay.

Göran Bronner

On output flows or new leverage ratio coming there is no visibility on what that would be. We are currently around 4.5% on leverage ratio. We can easily go to 5% and we think that we are well-placed really to meet that regulatory. So – but still we need to have more clarity before we can state anything on the capital.

Riccardo Rovere

Sure. Thank you very much. That's very clear, thanks.

Operator

Thank you. Our next question comes from Christoffer Rosquist of Barclays. Go ahead, your line is open sir.

Christoffer Rosquist

Thank you very much, it's Christoffer from Barclays. Just two questions. There's just – the first one on your asset management business, which I think we haven't covered off yet. You mentioned here, Birgitte, that you saw a problem or that the current trend was not good. What is the main challenge in your opinion right now? I mean, do you not have the right product offering, the right skill and staff in the organisation? Is it the problem with distribution in the branch network to promote the products you have in this yield environment? Do you have a reputational problem since the conflict with the shareholders savings association in Sweden? Or perhaps – I mean, if you could speak about what your plans are going forward to continue to address this? Because it looks as though there's a large opportunity for you given your significant market share in Swedish mutual funds for an example.

And then I had a question which is a follow-up on what you said on amortisation and competition. Just would be interesting to understand why you think the environment will change with certain challengers who currently are using the more lax sort of formal regulatory environment around amortisation and they will have to change their – the supply that they can provide or the demand that they can meet when this ideas become actual regulations? Or why you expect the trend change? Thank you.

Birgitte Bonnesen
On the asset management side, I think there are two reasons. One is – and you alluded to both of them. One, I think that actually was all the media attention actually did hurt the product. There's nothing wrong with the product; so the funds we've gone through it and we have 80-plus funds today. And we have, you know, a very good mix of actively managed index funds and, you know, and we have some that are actually coming down to a zero fee paid. So I think that we have a good mix today. I think that the – yes, the media hurt but I also think that there's another reason. And I think that we underestimated the customers' willingness or, how should I say, you know, the fact that they go to digital channels to buy a fund. What we still see is that lots of Swedes, you know, don't actively go in and buy funds. Funds are sold in physical meetings. So I think that we were – we had in a – we had sort of a gap between – in the restructuring of our delivery model. Now we're moving into a – we're bridging this with more people and more actively – proactively selling our fund as we move into a better and smarter setup on the digital – in the digital space. So we're – these two things I think are the reason.

And then you had –

Göran Bronner
You can also say that we haven't been successful in the transfer market on –

Birgitte Bonnesen
Exactly.

Göran Bronner
On this segment which we are putting an increased –

Birgitte Bonnesen
Yes. On – yes, okay. In the – on the pensions side and I think that that is – but that is part of the whole setup too. So what we're doing is that in the whole transfer market and occupational pension area, we are now initiating a new start on this. And we have market shares that are too low, given the fact that we are the home bank for many small businesses. And we're setting up a transfers or factory internally to make it so much easier for the front line to attract this kind of business. So we're looking and working on processes but we're also looking to be more proactive in our sales efforts.

Göran Bronner
Your second question was with regards to the competitive environment on the mortgage side. I didn't really understand the question. If you could repeat it?

Christoffer Rosquist
Absolutely. So I understood in your opening statement here on the call that when amortisation becomes mandatory that you'd expect a change in the competitive environment in Sweden, either leading to less supply from challenger banks, or that those will have to raise prices, which is a helpful thing to Swedbank as well. I just want or I was just asking you to clarify if I understood it correctly that it's both of those two? One of those? Or what it is that you expect to change once amortisation becomes mandatory?

Birgitte Bonnesen
Anders.

Anders Karlsson
I think what we saw in the last two quarters in 2015 was that we lost market share and we introduced, not only stricter amortisation rules, but also stricter origination standards from a risk perspective. What we've seen in this quarter is that it seems like some of the smaller players are getting into line and they will be further into line when you have mandatory amortisations. And therefore we expect our natural market share to come back and we also saw that in the quarter.

Christoffer Rosquist
Okay, I understand. Thank you, that's very clear. Can I just – just to be perfectly clear, did you say that you expected people to buy mutual funds online but that was not the case and now you're actually adjusting your operating model to be able to meet those customers, to sell those products face-to-face?

Birgitte Bonnesen

What I'm saying is that people didn't buy to the extent that we expected. So we're sort of bridging the – we think that this is absolutely where – you know, where we'll end up and we're working very much on our digital offering on savings products and selling funds digitally. But we need to bridge this. It didn't happen as quickly as we thought it would.

Christoffer Rosquist

Okay. Thank you very much.

Operator

Thank you. And our next question is from Chris Manners of Morgan Stanley. Your line is open, sir, please ask your question.

Chris Manners

Good morning everyone. So I had a question for you on the deposits. I saw that there was a – a big increase in corporate deposits in the quarter, looked like you've gone from about SEK350 billion to around SEK500 billion so about a 46% increase. Maybe we – I could just ask you, you know, what's driven the increase in the corporate deposit base? And also how you're doing there on pricing? I mean, are you able to pass on negative rates to bigger section of your corporate customer base? I know that some have been able to be price negative. Just thought I'd ask around that. Thank you.

Göran Bronner

The big increase in corporate deposit is very much related to short-term money in the US. So it has nothing to do with the Swedish client base or negative rates. It's the ability to manoeuvre your liquidity with, sort of, gathering short-term money and placing that with Fed and ECB really because you can make some short-term money in there. But you have volatility in that number so – I think we have – the underlying corporate deposit growth in the quarter has been around SEK15 billion which is a tenth of that number.

Chris Manners

Thank you. And how are you doing about being able to pass on negative deposit rates to your corporate customers?

Göran Bronner

I think we have more or less the same strategy. On the margin we have, sort of, with negative rates in the quarter coming down further. We have reviewed, sort of, on the financial institution and the really large clients, looked at a number of more clients that will be charged for deposit. But if you take an overall perspective on how we treat the strategy going forward for negative rates, it remains.

Chris Manners

Thank you.

Operator

Thank you. And our next question comes from Omar Keenan of Deutsche Bank. Please go ahead, sir.

Omar Keenan

Good morning. Thanks very much for taking the questions. I just have one question on capital and then a second question on NII. Thanks, Göran, I think the core comments on the input floors and the op floors – op risk proposals having little impact on Swedbank were helpful. But that the capital floors is the key unknown for now. I was just wondering if you could add some questions on the interest rate risk in the banking book. I know that the final standards were out last week only, so not that long ago. Thankfully there's no pillar one standard, but the conditions for working out what the pillar two will be look tougher. So just wondering if you've had a chance to think about what would happen to the pillar two add-on, what kind of magnitude we could potentially expect to have from the new standardised measure? So that was my first question.

My second question is for Birgitte. It's just on the net interest income. Could you just remind us where the front book on mortgage margin is versus the back book? And if the current interest rate environment continues, how would you expect the quarterly NII progression for the Group to go from here? Thank you.

Göran Bronner
Yes, yes. On the capital there, Omar, unfortunately I'm not able to give you an answer. I need to come back on that one. I don't have it on top of my head here. So I will – we have to take it when we meet up later this week.

Omar Keenan
That's okay. It was only Thursday it came out, so.

Göran Bronner
Yes.

Birgitte Bonnesen
Well my – 10 basis points between front and back.

Omar Keenan
10 basis points, that's great. And if the current rate environment continues, I guess, how would you expect Swedbank's Group NII progression to go from here?

Göran Bronner
I think we feel that it's becoming more tailwind than headwind on the NII. If you look at sort of how we are placed on capital and what we see in the marketplace for corporate margins that should play tailwind and then we also see that we are competitive on the volume side. That will be a tailwind. And then also you – the fixed proportion of the mortgage book that is coming in for repricing which is 40% of the overall book, that hasn't really been repriced. That of course with the now 18 month of expanding margin will give them more significant tailwind on the NII. So I think if I add these three elements up, it's looking increasingly positive. The negative is the Central Bank. If it would, for any reason, continue to lower deposit rates from here.

Omar Keenan
Perfect. That's very clear, thank you.

Operator
Thank you. Our – and our next question comes from the Peter Kessiakoff of Carnegie. Please go ahead, sir.

Peter Kessiakoff
Yes, hi, thank you very much for taking the questions. First of all, congratulations to the new job, Birgitte. Then just a question from my side in terms of corporate margins. You mentioned that we should expect corporate – or that we could see corporate margins expanding. The question is: have we seen any impact yet? Is there any type of lending? I mean, for instance, housing corporations where you see that – where we potentially could see repricing start off?

And then secondly, just in terms of interchange fees where it looked like the impact on your card income was largely unchanged. Well, the net was largely zero following that your large in-card acquiring. Is this the effect that you expect for the full-year as well or do you expect any price adjustments on the card-acquiring side that will change this dynamics? Thank you.

Birgitte Bonnesen
To start off what you are asking about the corporate book, we're seeing, but anecdotal, I think, evidence of a repricing in the corporate book. So I think it's – there is a trend and we also – it's becoming slightly, slightly easier in negotiation. So I think that we'll – hopefully we'll see this reinforced.

On the cards question I think when you – as you know well, as big as we are, we have, in both acquiring and issuing, we have 50% of the transactions are actually in-house, which means that we are not hit at all by changes in the regulations. So our expectations for the year is neutral.

Peter Kessiakoff
Okay. And then just a follow-up on the previous question that was asked, relating to the NII trend during the year. And you mentioned that you see a fairly good tailwinds coming through during the year. Does this mean that, despite a decline in NII of 2% quarter-on-quarter in Q1, that we could expect to see NII for 2016 being flat or actually up on a year-on-year basis?

Göran Bronner
I would think that it will be flat to positive; it's more likely to be positive and go for the full year actually, if I look what is on the table currently.

Peter Kessiakoff
Okay. Thank you very much.

Operator
Thank you. Our next question comes from Pawel Wyszynski of Danske Bank. Please go ahead sir.

Pawel Wyszynski
Yes. Hi, Pawel here. Just a couple of questions. First one: you're saying that the costs are going to be higher for 2016, so 16.2 billion versus 16 billion previously expected. What is the net effect of that, because you were saying that this on the back of a higher topline?

Göran Bronner
We really don't comment on the agreement we have with – if I were to comment on that, I would give you the margin split that we have with the independent savings banks in our commercial agreement, and I can't really do that.

Pawel Wyszynski
Okay. But – okay, fair enough. Then second question, Birgitte I think you said that you were looking at lowering fund fees in Robur. Was that correctly understood or did you refer that you had lowered them previously?

Birgitte Bonnesen
No, we're not lowering, we already did.

Pawel Wyszynski
Then just third question: REA going forward. We saw REA increasing this quarter on the back of negative credit migration. How much, or could we expect that to continue increasing on the back of continued increases, kind of, on the oil price or negative effects from the oil price?

Anders Karlsson
I don't think I can give you a specific number as we run through the different counterparties systemically and review this. So you can expect more to come, but I can't give you the magnitude.

Pawel Wyszynski
Okay. And then the last questions regarding regulation, the result, recently we had new MREL requirements coming out from the Swedish Debt Office today. Have you looking anything at that or have you been prepared on this topic; could we expect, kind of, any negative factors from more expensive funding coming through?

Göran Bronner
We – I mean, we know that there are news coming today. We have no pre-sneak of that, so we have to review that in good order. I – we will struggle to comment on it in this roadshow; we need to work it through actually, so you need to give us a little bit of time then.

Pawel Wyszynski
Fair enough. Okay, thanks.

Operator
Thank you. Our next question comes from Peter Wallin of Handelsbanken. Please go ahead sir.

Peter Wallin
Thank you and good morning. I would just like to come back to mortgages a bit. At least in the Swedish media there's been, like, anecdotal evidence that people are, kind of, rushing to the bank to take, especially, add-on mortgages before the new amortisation regulation are put in place. Is that something you have seen as well, which has boosted the volumes in Q1?

Birgitte Bonnesen
No, not really. I think that we have a good activity and, as I said before, we already introduced the amortisation rules in August last year, so yeah. I think our activity is in line with, you know, the housing market – the activity in the housing market.

Peter Wallin
Okay. So I guess that, since you and, at least some of the other banks have been applying or implementing these rules prematurely, you don't expect to see any slowdown in the volume in the overall market, starting from Q3?

Birgitte Bonnesen
No.

Peter Wallin
Okay, thank you. And then last question of mine, regarding asset quality. Now, obviously loan losses in this quarter is much lower than expected. How should we look at loan losses for this year, compared to what you were seeing in conjunction with the Q4 result, since you do expect loan losses to pick up second half of this year. Will – so, like, the levels we see in the second half of this year still land the total loan loss levels for the full year, in line with what you were expecting then? Or will – so, like, the lower loan losses you're, kind of, indicating now for the first half of this year mean that 2016, as such, will not see the kind of loan loss levels that you thought several months ago?

Anders Karlsson
It's extremely difficult to guide, as I said. And first of all, I think you should remember that these large customers, they are on the stock exchange, they are doing restructurings, so it will take time. Again, it's a small number of clients, fairly large exposure, so it's single-loss driven. I think we said that you could expect somewhere roughly between 10 and 15, and I still think that stays relevant.

Peter Wallin
Okay, great. Thank you.

Operator
Thank you. Our next question comes from Riccardo Rovere of Mediobanca. Go ahead sir, your line is open.

Riccardo Rovere
Thanks. Thanks again for taking my question. I just want to have your opinion on: negative rates are certainly hitting you on NII, but maybe – I mean, this is just what I want to understand from you, your customers are also – the cost of their borrowing is going down, so I just wonder whether – let's assume rates remain where they are, do you think that lower cost of borrowing for your clients could somehow offset the margin pressure that you're seeing on NII? Or, put in a straight way: do you think lower loan losses, in a negative rate environment, can somehow smooth or eventually balance the effect on NII, the impact on NII?

Göran Bronner
I think it's very – loan losses in Sweden cannot be lower; they are zero basically, so. So that – I don't think monetary policy can, sort of, help mitigate NII pressure on the deposit side. I think, though, banks in general have been very successful in, sort of, mitigating the, sort of, margin pressure on deposits, with actually capping lending rates on corporates and mortgages to some extent. So you can say that the banks are insulating the books from the effect of negative rates, and that is what you are witnessing; it's only some part of the balance sheet that actually only gets affected by negative rates. So that is – has been a good way of maintaining profitability in the banks so far, and I think we should be happy with that.

Riccardo Rovere
Okay, thanks.

Operator

Thank you. As a reminder, if you would like to ask a question, please dial 01 on your telephone keypad now.

And we already have one further question coming through. That's from Magnus Andersson of ABG. Go ahead, your line is open sir.

Magnus Andersson

Yes. Hi, good morning. Most questions have been answered, obviously, but just one on the treasury result. Do you still expect that – it to be fairly flat year-on-year, if I take the NII and net gains and losses items into account, around SEK800 million?

Göran Bronner

I think we're talking about – we talked about SEK1 billion roughly in revenue on treasury, and that remains.

Magnus Andersson

SEK1 billion in 2016?

Göran Bronner

Yes.

Magnus Andersson

Yeah. And then 2017/18, should it be less or less equal?

Göran Bronner

2017? 2017, we haven't talked about at all, Magnus, so…

Magnus Andersson

Okay, okay. Thank you.

Göran Bronner

Thank you.

Operator

Thank you. And our next question comes from Masih Yazdi of SEB. Go ahead, your line is open sir.

Masih Yazdi

Hi, good morning. Just following up on NII. I think it was the first question that you got this morning and I don't think you answered it. It's about the NII sensitivity that's come down from SEK4.9 billion to SEK3.2 billion, 400 basis points higher interest rates. Can you explain what that lower sensitivity is due to?

Göran Bronner

I wasn't aware of that sensitivity change, so it wasn't really – you shouldn't read anything too strongly into it. I need to go through why that has changed within the – ask my colleagues and I will come back on that.

Masih Yazdi

Okay. And another question on NII then. I can see, in your report, that you haven't introduced negative rates to your corporate clients, which obviously is hitting your LC&I NII. Do you expect to do that going forward, in the coming quarters?

Göran Bronner

I think we have introduced it, where we see it applicable to being introduced; it's not that we have not – we have introduced it on some specific clients. I don't think that changing going forward, unless repo rate changes; I think the current strategy is where it is.

Masih Yazdi
Okay. And then finally on NII again, obviously you're saying that the high-yield market in Norway isn't functioning and you're restructuring some oil exposure loans. Do you also see a repricing of those loans, so that you can see higher margins on corporate lending in Norway, and especially on your oil exposure there?

Göran Bronner
Yes, there is definitely higher margins in that kind of environment.

Masih Yazdi
Okay, thank you.

Operator
Thank you. Once again, if there are any final questions, please dial 01 on your telephone keypad now.

As there are no further questions on the line, I'll hand the call back to our speakers for the closing comments.

Birgitte Bonnesen
Thank you so much for attending this call and look forward to talking to you in the next quarter. Have a good day.

Operator
This now concludes the conference. Thank you all very much for attending, you may now disconnect your lines.