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Presentation

Operator

Ladies and gentlemen welcome to the Swedbank Third Quarter Report 2016. Today I'm pleased to present Gregori Karamouzis, Head of Investor Relations. For the first part of this call, all participants will be in listen-only mode. And afterwards there will be a question and answer session. Gregori Karamouzis, please begin.

Gregori Karamouzis

Thank you. Good morning everyone and thank you for dialling into Swedbank's presentation of the Q3 results. With me in the room, I have our CEO Birgitte Bonnesen, our CFO Anders Karlsson, and our Chief Risk Officer Helo Meigas. They will in a moment run you through the highlights of the quarter and thereafter open up for questions. Birgitte?

Birgitte Bonnesen

Thank you very much and thank you for joining us. I'm of course extremely happy to report another very strong quarter with an ROE of 15.8. The activity in Swedbank both internally and externally has been very high despite the summer period. We worked intensively in the executive management team to narrow down our strategic priorities and to make them more concrete. As you may remember from the last quarter and when we published second quarter, we talked about the fact that we have now a wanted position document, a position that we all share and that is what has been narrowed down in this quarter.

As a result of this we have decided to accelerate certain initiatives within savings, lending and digital banking. Our ambition is to increase the pace and becoming the modern bank we want to be. Our customers will be able to carry out all their daily banking business through our digital channels and to get access to top notch advice whenever they need it. During the next 12 to 15 months we will focus on developing our capabilities in managing customer data. We will accelerate the digitalisation of the lending process and we will also add more resources to the important savings area. I am absolutely convinced that the timing is right both from a business perspective, but also because we now have the financial strength to execute on these initiatives. In a few minutes Anders will go through some key considerations around this too.

If you look at the customer and market trends during the quarter, we saw increased uncertainty, a higher volatility in the wake of Brexit. However, we also saw a relatively quick return to the positive sentiment as the European economy in general is improving and stabilising. Our four home markets have also shown a relatively high activity. Financially, we delivered another strong result despite the unusually somewhat slower summer period. Lending volumes continued to grow primarily in Swedish mortgages, but we also saw another quarter with loan volume growth in the Baltics; the fourth out of the last five. This confirms the slowly improving consumer confidence in the countries.

The situation in the Swedish housing market hasn't fundamentally changed since the introduction of the mandatory amortisation requirements. House prices are increasing again, although, at a somewhat slower pace after few months of standstill. The mortgage volume growth rate is more or less the same. The amortisation rates have increased slightly, but went in an upward kind in trend already before the requirements. As you know we introduced these already a year ago. It's also too early to draw any long term conclusions regarding future mortgage, loan volume and house price development. But I argue that it is a fact that these types of measures won't deal with the underlying issue in the housing market which is the shortage of housing.

More housing construction and infrastructure investment are needed to support the Swedish economy long term. The volume growth combined with margin expansion strengthened net interest income in the quarter. We have a very good momentum in this income line as we expected. The positive stock market development supported our net commission income and while we saw higher hedging activity amongst our corporate customers, and that includes the trading income. Asset quality continues to be solid in Sweden and in the Baltics as the small provisions and positive recoveries show. Helo will come back and talk more about this. Restructurings are ongoing in the oil-related portfolio and we have made some additional provisions smaller than the previous quarter though.

This portfolio represents less than 1.5% of our total loan book, but it is a near term, a key focus area for our risk department. We aim to have concluded all client reviews by the beginning of next year. As you also have seen the capitalisation strengthened further in the quarter, this puts us in a comfortable position with ample buffer to the minimum requirement. Low risk, strong capitalisation and stable profitability that we demonstrate for another quarter. That gives me great confidence to move ahead with the initiatives that I mentioned before. So with this, I will hand over to Anders to take you through the figures.

Anders Karlsson

Thank you Birgitte. I would start off my walking you through the financials in our three business areas before summing it all up at group level. Lastly, I will talk about the key factors impacting our capital position in the quarter. Swedish banking delivers another quarter with strong result. NII is strengthened by further back book mortgage margin expansion and volume growth both in the private and the corporate loans. Deposit volumes continued to grow as household savings increased, but margins are under pressure as a result of falling market rates. The benign stock market development improved asset management income as asset under management increased in the quarter.

Income from cards was seasonally stronger and was further supported by a one-off income of SEK 50 million related to MasterCard. Expenses were slightly higher in the quarter due to increased compensations to the savings banks and higher variables staff costs as Swedbank share price increased. Asset quality continue to be strong. Turning to Baltic banking; we are seeing an increase customer activity in all three Baltic countries. It is primarily demonstrated in loan volume growth which is well distributed across the countries and segments. NII was also supported by the full income effect of the acquired retail portfolio from Danske in Latvia and Lithuania and by FX effects. Margins were flat in the quarter. Expenses were slightly up, mainly due to FX effects and asset quality continued to be solid.

Over to LC&I. Large Corporates and Institutions showed a stable set of results. Margins were flat. Net commission income was as expected lower mainly due to lower corporate finance activity in the quarter. On the other hand, the hedging activities increased primarily within FX and interest rates which impacted NGL positively. The credit impairments came from provisions in the oil-related segment.

Summarising the quarter on the Group level, we delivered another strong set of results. Loan volumes and lending margins expansion supported NII and mitigated a negative pressure from deposit margins. We expect the back book repricing of the mortgage book to continue. Higher income from asset management and cards led to slightly improved net commission income in the quarter.

The continuation of the mortgage margin expansion in our Swedish business supporting NII also led to higher than anticipated compensations to the savings banks. This, in combination with the slightly higher pension costs and FX effects, will take total expenses for the full-year of 2016 to around 16.4 billion.

Turning to expenses for next year; market leading cost efficiency is as you know one of the key financial goals to Swedbank. We have, throughout the years, delivered and brought ourselves into the position we want to be in. We have created a cost culture in the bank that I am very proud of. I believe that staying focused on costs will be decisive for any bank success going forward. We have several efficiency initiatives such as near-shoring in procurement that have and will allow us to manage underlying cost pressure. These efforts will continue and are today part of our cost culture.

We continue to invest in our business, but have identified areas where we want to accelerate our investments further. With a good momentum in income, we have decided to move ahead with them already next year. This acceleration and combination with the continued increase in the compensation to the savings banks will lead to a total expense target of around SEK 16.7 billion for the full-year of 2017. The increase is compared to 2016 will mainly be in three areas. It's developing our customer data management capabilities in the group. It's about digitalisation in the lending area, and it's about strengthening pension sales and other direct sales within the savings area. All these initiatives are supported by – underlined with our profitability ambitions. Our return on equity target of 15% remains.

Lastly, turning to capital; strong income combined with lower risk exposure amount brought our CET 1 capital ratio to 23.8% in the quarter. The CET 1 capital base was adversely impacted by IAS 19 effect as the discount rate was lowered again this quarter. Risk exposure amount decreased mainly due to positive ratings migrations and increased collateral values. We also – excuse me – saw positive contributions stemming from the acquired Sparbanken Öresund mortgage loan portfolio as the collateral is now taken into account when assigning the risk weights. In addition, positive CVA effects from the derivatives portfolio as well as migrations of a few clients into performing status decreased risk exposure amount further.

The increased capital requirements relating to corporate exposures that the Swedish FSA implemented in the past quarter brought our CET 1 capital ratio requirements to 21.6%. We include the countercyclical buffer increase to 2% in this number, and we use the current risk exposure amount level as a base. We feel comfortable with our buffer to the minimum requirements of around 200 basis points and have, as earlier communicated, no excess capital. Let me now hand over to Helo to walk you through the asset quality.

Helo Meigas
Thank you, Anders. I shall give now a short overview of credit quality in Q3. As was the case in the last quarter, we continued to have a good and balanced portfolio growth in all business areas and strong underlying asset quality. Total credit impairments in Q3 were SEK 201 million. Swedish banking showed a small impairment of SEK 41 million on a few small client engagement while Baltic banking shows recoveries of 29 million. The provisioning of one client exposure in the oil portfolio in Norway in the amount of SEK 205 million is what accounts for the majority of credit impairments in Q3. As in previous quarter, this is the result of credit impairments we have taken in cases where we make an assessment that define our restructuring has been weak.

Overall, the work with restructuring is going according to plan and we only have a few cases left. As Birgitte mentioned we expect to be finalised with this phase of restructurings by year-end with probably one case left for 2017.

If I then sum it up as what it means for the total year, for the first nine months of the year, we have done credit impairments in the amount of SEK 774 million, for which SEK 830 million is in LC&I oil-related portfolio. This takes us to the year-to-date credit impairment ratio of 7 basis points. Referring back to the guidance we gave in the last quarter about the credit impairments, which was 10 to 15 basis points to the total credit portfolio, as we see today it is more likely that we end the year 2016 with the credit losses at the lower end of this guidance. I think I end it there.

Gregori Karamouzis
Great and then I hand it back over to the operator to take any questions you might have.

Q&A

Operator
Ladies and gentlemen, if you have a question for the speakers please press 01 on your telephone keypad and you'll enter a queue. After you announced please ask your question and please hold until we have the first question. Our first question comes from the line of Peter Wallin from Handelsbanken. Please go ahead. Your line is open.

Peter Wallin
Thank you and good morning. I would like to start off with a question regarding mortgage margins, which are obviously improving quite substantially in the quarter. I mean, if we look forward from here, do you think it's realistic to think that that mortgage margins can continue to improve further compared to select the front book 10 bps we see in this quarter?

Anders Karlsson
Yes, thank you Peter. I think it is. The difference between front and back book is around 10 to 15 basis points. So when the fixed rates come in, I can see that there are room for improvements in terms of that.

Peter Wallin
Okay great. Thank you. And then turning to corporate margins, now obviously all the Swedish banks have their higher capital requirements on that kind of lending, but what are you seeing in the market right now? Have you seen any for like new lending agreements being signed on where these kind of tighter capital acquirements are priced into the deal or is it more still on the negotiation level?

Birgitte Bonnesen
Birgitte here; on corporate margins we haven't really seen it kick in fully yet. There are discussions, we also see that there are corporates that come to us that have had discussions with other banks. So I think that we see that the business as a whole is preparing itself, but we haven't really seen it in the actual deals that we made.

Peter Wallin
But your general impression is that this will, like, the general ambition among most of the banks or all of the banks is to select roll this capital, hiking capital requirements forward?

Birgitte Bonnesen
It's definitely our ambition.

Peter Wallin
Okay and then if I can just come to a capital-related question. And so like the kind of buffer that you have right now, do you think that it will be possible to, for the Board to come up with the capital targets in conjunction with the Q4 results, and how dependent is that on how the final Basel IV proposal will look?

Anders Karlsson
Yeah, I think it's a good question. I do think we have to take wait and see for, especially, the Basel IV before we revert back to you on that one.

Peter Wallin
Okay great, thank you.

Operator
Our next question comes from the line of Omar Keenan from Deutsche Bank. Please go ahead. Your line is open.

Omar Keenan
Good morning. Thank you very much for taking the questions. I've got two questions. Firstly on net interest income, we understand that the mortgage margin shared a good improvement. But I was wondering if you could help just give a bit more colour on the specific strength of the results. That seems to be have been some extra kick at this quarter that I wasn't expecting. We had something around liabilities and negative swap rates. Could you just give us a bit more colour around that?

And then my second question was on Swedish bank taxes and resolution fees. Could you give us a bit of guidance on how much you expect the resolution fee to be a headwind from 1st January? Would you expect the net of the resolution fee and the better margin and volume trend to all net out positively? And lastly on the payroll tax which we're expecting a decision on 1st November. How should we think about that being handled within the cost target? I understand that the 16.7 billion is the 2017 target and then the impact from the payroll tax will be a 2018 event. Thank you.

Anders Karlsson
Okay, let me start off with the NII. It's – if you look at Swedish banking, it's driven by, as I said, margin expansion and it's also driven by volume. If you look at the Baltic banking, it's driven by volume and especially the fact that the acquired portfolio that came in at the end of the previous quarter has now a full effect. But on top of that you have a positive FX effect of around 30 million explaining that.

When it comes to the resolution fee, what we have said is that, as we always do, we take costs into consideration in our internal steering where we are requiring a certain return on the capital and so I – that will be priced in as far as I'm concerned. When it comes to the payroll tax, I think it's not going to be decided in November, but there will be a proposal in November. It's extremely difficult to say much about that at this point. The only conclusion we can draw, and we do that together with the other banks, is that it will have a negative impact on the employees' situation in the Swedish bank financial system. So I have to revert back to that. But in the 16.7 that is not taken into account.

Omar Keenan
Okay great, thanks. As so I guess just going back to the NII, there was no kind of additional help from type weird movements in liability costs this quarter? And also what the impact of the resolution fee is for 1st January?

Gregori Karamouzis
Omar, if I may come in on the resolution fee, we expect it to double. So we – the level has been around 650 million or so during 2016 and that should double as the full fee will be applied as of 1st January 2017. And then on your first question that was if there had been any one-offs in NII right? Was that the question?

Omar Keenan
Yeah I mean, was there any additional help from liability costs this quarter as I sort of kind of understand the positive trends in mortgage margin?

Anders Karlsson
Not any of those weird things you were referring to, no.

Omar Keenan
Okay all right. Thank you very much. Okay that's clear.

Operator
Our next question comes from the line of Magnus Andersson from ABG. Please go ahead. Your line is open.

Magnus Andersson
Yes, good morning. Like the rest of us, I'm trying to get my head around the NII in Swedish banking, of course that's up 6% quarter-on-quarter while your average lending is up by 1% and is twice as much as in the previous quarter. So just continuing on Omar's question there, if I look at page 64 in the Fact book, I see that your net stable funding ratio is down from the 108-107% to 104 in this quarter. And you were talking about after Q2 that you had a target level of 103 to 105 rather than the 108 and that it would do roughly, I know it was a very rough calculation, but around a 100 million per percentage point you lowered it. So my question is obviously, if there is some impact from your reduced available stable funding in NII in Swedish banking, just trying to understand the sustainability of this level and also linked to that is there any fund transfer pricing movements between the business areas we should be aware of. [inaudible] Thanks.

Anders Karlsson
Thank you, Magnus for all these questions. If you look at NII, it's primarily driven by back book rolling in on higher levels. So when it comes to the – and then you have an extra day in the quarter and then you had some FX effects as I mentioned in the Baltics. If you look at the NSFR, I wish that would have been an explanatory factor. The reason that it drops in this quarter is technical. There are two things happening at the same time. The first thing that happens is that the assets are increasing in the quarter, which requires more long term funding. At the same time there are two mature, two outstanding issuance that moves into, first, one into the one year window, which can decrease the value of it, and, secondly, one going into the six months window, which is also making basically worthless from an NSFR perspective. So, long, you have to take the – that rough calculation. It is correct. It will gradually come in. It depends on what type of funding source we are talking about. In the example you referred to it was senior unsecured. So you will – it is not an explanatory factor for the quarter. It's coming in gradually as things change.

Magnus Andersson
Okay so no specific funding cost impact in this quarter?

Anders Karlsson
Not from the NSFR change. And then lastly on the FTP, there is no abnormal changes.

Magnus Andersson
Okay and then just on costs, Birgitte, you mentioned that you take these investments now and it sounded like it's – one reason is because the results are very good. So my question is would you have taken these investments if the income side wouldn't have been as buoyant as it is currently? And secondly on costs here, how do you think about, now this is a 2017 guidance, cost will obviously be up all as equal year-on-year. How do you think about 2018 then if its – if this flat cost you've been working with, is that the history or is that how you think after 2017 still? And finally, if you could share some details with us about the agreement you have with the independent savings banks, how it looks? Thanks.

Birgitte Bonnesen

Okay, I think Magnus that the most important thing in, or the reason why we decided to accelerate - yes, it is a very good quarter, but it's also the fact that we have a plan. We have sort of a wanted position that we have developed together in executive management and that we have rolled out to the entire organisation and that has now been articulated into very concrete activities that we can actually measure. And I think this is the most important reason why we now choose to accelerate the investment.

Anders Karlsson

And if you look at 2018 and 2019, I think it is a little bit too early to talk about that. My best guess at this point is – I can't see any large deltas going forward into those two years, but it's too early to say, really. As far as the agreement with the savings banks comes, it's a commercial agreement. When there is a margin expansion, our NII increases so does the cost or the compensation to the savings banks.

Magnus Andersson

Okay. And finally just on loan losses since you still guide for 10 – you don't changed your guidance really for 2017. Is this primarily the one larger exposure we all know about you're waiting for an outcome on?

Helo Meigas

Yes, you are very correct. We don't want to give a new guidance at this point in time because we haven't finalised the restructurings. And yeah, we have one larger exposure that we're working on, which will have an impact on the outcome.

Magnus Andersson

And you don't really know the timing about that, right?

Helo Meigas

How the process looks now, we hope to have some more visibility by the year-end, but we are – it's very unlikely that we will have a sealed deal by the year-end. So we'll see. If we feel more comfortable we might give you a little bit more colour with the Q4 results. If not, then we'll have to wait for the signatures on the paper.

Magnus Andersson

Okay, thank you.

Operator

Our next question comes from the line of Willis Palermo from Goldman Sachs. Please go ahead. Your line is open.

Willis Palermo

Hi, good morning. Thanks for taking my question. I just wanted to come back on the NII side as well of the revenue. If – I was wondering if you could help me to understand how you articulate the higher investment so higher compensation of savings banks and how it will impact positively the revenue going forward. And also related to the cost side, I was hoping to get a bit more clarity on how the investment will be break down between digitalisation and increase in the compensation and savings as well? And also if you could expand a little bit on what IT initiatives will come through and how this will impact either cost and revenues in the later years?

Then the second question I had is on the fee side, which had a very strong development as well. And I can see the flows in the asset management are coming back in the positive territories and also that you had new appointment in Robur. And I was wondering if there was some new initiatives taking place there as well and how we should – what we should expect going forward in term of flows and asset management development?

Anders Karlsson

Thank you. There were numbers of questions. Let's see if we can remember them all. Otherwise, you have to repeat them to us. If we start up through the NII, as I said it's driven by back book coming in for repricing. It's driven by volumes. As far as the compensation to the savings banks comes, it is a lot of volumes that they have put with us that comes in for repricing, which means that NII is increasing at the same time the compensation to the savings banks are increasing. What we – the best estimate for next year that is that the compensations to the savings banks will increase with another 100 million roughly. So that's hopefully the answer to your first question.

Birgitte Bonnesen

Okay to talk about the initiatives, so if I go through just briefly the three areas. One was the digital banking and you can break that down into three areas. One is on customer satisfaction. And customer satisfaction, the initiatives that we've chosen to accelerate apart from the nearshore activity plan that we have is the ability for our customers to speak to us via the mobile phone. It's also we're speeding up the methods of identification. And in Sweden, we have a shared mobile bank ID and we want to be able – our customers to be able to use that in every contact they have to the bank – with the bank as a method of identification. The other one is on digital sales. And here we are speeding up the CRM platform, the platform that also sort of where we have campaign management and we have proactive interaction with the specified offers for different client groups. And then we are speeding up a concept for contactless payments. It's a wallet that we are now rolling out, the first delivery in the Baltics, and we also want to be able to do that in Sweden.

The third one in digital banking it's about being a financial aggregator. I think that many talk about this. Maybe I don't have to say so much about it, but it's about being prepared and here its two things. One is actually IT investment, but it's also about taking in new competence into the bank, new kinds of people with different competences and different backgrounds that are more in this area. On savings, so yes you've noticed that we actually seem to move into positive territory on the fund sales. It's about – here it's about performance reporting, robot advice we're speeding up. But it's also about actually taking in more people that can be helping out in the physical meetings with our customers, and it's specifically on pensions – sale of pensions where we have a market share that this is actually too low for the number of customers that we have and we plan to take that, you know, to take more market share there.

In lending, it's about consumer loans and mortgages. The mortgage, the automatisation of the processes in there for efficiency and then it's cash management, we need to close the gap there. So these are the three areas.

About – you asked also about the cost, what we will see is that the difficult question is so when do we see the effects of this? What do we see the effects on the revenue side? Yeah, I think we see effects when we see customers changed their behaviour. The thing is we need to be ready. We need to be there and customers start to change their behaviour big time like doing all the mortgages in the mobile phone or in the internet bank, we need to be ready. So it's sort of a moving target one will see this come out. I hope that answers just your all question.

Willis Palermo

My multiple question, yeah that's very, very clear. Thank you very much. I just had a quick follow up maybe on the pension side. What kind of market share do you currently have and what do you hope to achieve?

Birgitte Bonnesen

We have around 10% and I think we should have – we have about a quarter of the Swedish population as clients of ours. And I think that we should be far higher than we are on pensions.

Willis Palermo

All right, thank you very much.

Operator

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

Peter Kessiakoff

Yes, hi. Just a few questions from my side. First of all on the cost initiatives, and as you comment you want to focus more on the digitalisation but also customer satisfaction. Just in terms of the cost – or sorry, the customer satisfaction that we've seen generally lower for most of the banks, what are the actual initiatives that you will be doing in that area and if you look at the cost increases that we'll see now for 2017, how much of that relates to improving the customer satisfaction if that's possible to quantify?

Birgitte Bonnesen

Everything we do focuses on increasing customer satisfaction and you're completely right, it came out that in the measurement that was done of the Swedish banks that it's actually lower and I think that's a big concern. It's something that we're really focused on. And it's also like it's not that we are – it's not that we are focusing I would say more on digitalisation. What we're doing is we have a digitalisation plan. We're just accelerating some of it moving it towards us. This is what we're doing.

Peter Kessiakoff

Okay and then on the investments in terms of products you mentioned within the savings area lending and the financial aggregator and so on, but looking at the overall platform that is the one that you have in Sweden. My impression is that the cost increases that you're taking now is more related to developing new products rather than perhaps modernising your backbone or your core bank. Is that the way we should see it? And how are you looking at the mix of costs between these two different areas?

Birgitte Bonnesen

You know what, we have been running an update of our backbone in the past two years and we have plans going forward. As you know we're not a big bang bank. We take it in increments and this is the way that we're working with the backbone. So let's say that we're just following. We're not accelerating anything as such on the modernisation of the, sort of the backbone, because we're quite, we're very pleased with the way that this is developing at the moment.

Peter Kessiakoff

Okay, then just in terms of the cost increases. I think we're well, we've discussed before in terms of how much you think that you will capitalise of IT investments and so on. Do you have any expectations of increasing the capitalised IT investments going forward in line with your overall increase in cost guidance as well? Do you have any numbers there maybe?

Anders Karlsson

Yes Peter, as you know the strategy we have is to take as much as possible upfront. But then we have to follow the accounting rules.

Peter Kessiakoff

Okay. Then just one last question in terms of PSD2, I think in the Q2 report was, I think the first quarter that you mentioned that PSD2 could be a potential risk and especially on the payments there which you're writing about this time again. Could you just talk a bit about what kind of risks you're seeing in that area and what your own initiatives are to mitigate these risks? I know you're large within the card acquiring area for instance with Swedbank [inaudible] and so on?

Birgitte Bonnesen

What I mean on the PSD2 is that the PSD2, the part of it that was already enforced on what is coming, will change the way that we work with payment and it will change the way that we work with data. And as we are so big I think this is a really important area for us to focus on. We have plans in all different areas, we also have an overall commerce plan, and this is what we're working on. And what I would say is that what I said before, that what we're doing is that we're not so naive that we think that we can do everything ourselves anymore. So we're looking to the outside. We're looking to sourcing. We're looking to different kinds of solutions that is and the purposes to secure the position that we have today going forward.

Peter Kessiakoff

Okay thank you very much.

Operator

Our next question comes from the line of Matti Ahokas from Danske Bank. Please go ahead. Your line is open.

Matti Ahokas

Yes, good morning. Two questions please. Firstly on the oil-related exposures, it obviously seems that you had one large individual loss, but could you actually say that – do you believe that the oil-related business has actually improved underlying or is this just a function of you cleaning the portfolio overall?

And the second question is regarding the savings back compensation for next year. Is it based on the current margin outlook or does it assume that the margins on the mortgages would also increase in 2017? Thanks.

Helo Meigas

Starting with your question regarding the oil-related portfolio, first of all, it is not a loss. It is a credit impairment which we do as a provisioning for potential future losses. So this is not the realised loss.

Secondly, what we see, the sector in general, yes, there has been an improvement in the cost base for the exploration and production part of it, but really for the rest of it, i.e., for the offshore services part, there the important concern is the investments. And the investments in the sector have been going down by 25% for the last two quarters and we expect a further decrease also next year. So we are still quite pessimistic or cautious about the sector overall. And it's not really cleaning up the portfolio. It's about stabilising the situation by doing the restructurings which are needed and then we need to see how the market develops going forward.

Anders Karlsson

And coming to your question on the savings banks it's – we assume that the back book grows in on current margin. If that would expand further, compensations will go up, but so will NII. So it's a pleasurable problem in that sense.

Matti Ahokas

Very clear, thanks.

Operator

Our next question comes from the line of Daniel Do-Thoi from JPMorgan. Please go ahead. Your line is open.

Daniel Do-Thoi

Hi. Good morning. I only have one question left. Just on the composition of fee income, if I look at page 13 on your fact book, card commissions were particularly strong this quarter, just over 780 million. Now even if I adjust for the 50 million one-off that you have, that's still quite a high number compared to the run rate of previous years – previous quarters, sorry, which was closer to 650 I believe. Was there anything else unusual this quarter or is this also a sustainable run rate going forward? Thank you.

Anders Karlsson

Nothing else, it's the seasonal effect. Other than the 50 you see it's nothing else.

Daniel Do-Thoi

Okay, purely seasonal. Got it; okay thank you.

Operator

Our next question comes from my line of Jan Wolter from Credit Suisse. Please go ahead. Your line is open.

Jan Wolter

Yes, good morning. Jan Wolter from Credit Suisse. Thanks for taking the question. So just going back very briefly to the NII discussion you had today, could you indicate what the deposit margin impact was in the quarter? It was a headwind, I assume, should have been around 100 million quarter-on-quarter. And then how much was the effect from Danske Bank portfolio coming in to Baltics there? So that's my first question. And the second one is if you would still expect the Treasury NII to come down from the 400 million a quarter level and then to what level if we assume unchanged rates from here? Thank you.

Anders Karlsson

Hey Jan, let me try to capture all your questions. So Danske Bank retail portfolio amounted to SEK 4.4 billion and as I said margins in the Baltics were flat. When it comes to treasury, we typically look at that income – you know that we look at NGL, NII in combination. We said that we will end up around the same level as 2015. That is our best estimate currently and we will come back in Q4 guiding further for next year on that specific issue. But then you had another question that I missed I think.

Jan Wolter

Yeah, I was wondering around the deposit margin impact in the quarter. How much was that just assuming it is a clear headwind to the NII?

Anders Karlsson

Okay it's definitely under pressures, you know. We don't give you exact guidance on that. But there is – you have an interest rate sensitivity table in the fact book that gives you some sense for that.

Jan Wolter

Okay, and just clarification around Danske portfolio was 4.4 billion, but how – what was the impact on the on the NII quarter-on-quarter from that portfolio coming in?

Anders Karlsson

I don't have the exact number, but if you look at the Baltic banking, the volume effect on NII was 60 million.

Jan Wolter

Thanks and then just a question on the capital side. When do you expect models to be done to capture the new higher corporate risk weight levels? And do you expect any change in the 70 bps Pillar 2 add-on then when the models are approved, i.e., I mean, if the total goes down that's it's clear that some of it will be RWA inflation and some of it will remain as a Pillar 2 add-on. But I mean, if your model changes, also could imply that the total add-on falls? Thank you.

Helo Meigas

As to the model which would integrate a new requirement from SFSA we're ready to submit the updated models to the regulator. It's basically very much on its way. When it will be actually be approved by the regulator, we have no control over it. But on a net basis it will not have an impact on the capital requirements because how it has worked now is that we have been asked to keep capital for the changes through Pillar 2, so it will just move from Pillar 2 to Pillar 1.

Jan Wolter

Thank you, very clear.

Operator

Our next question comes from the line of Anton Kryachok from UBS. Please go ahead. Your line is open.

Anton Kryachok

Good morning, thank you for taking my questions. Just one question please from my side on net interest income outlook for 2017. If I just annualise the Q3 run rate of NII, we would be looking at 24.2 billion NII roughly. And then going into the next year as far as I can see there are three key moving parts. One is the increase in the resolution fund fees which you've just guided to be around 600 million and then there is repricing on the mortgage side, which I think you've alluded to 10 basis points. That's what you assume in your cost guidance at least. And finally there is a volume growth we can take [inaudible], but at the system level we're looking at 5 to 6% maybe. Is there anything in that NII bridge for next year that I'm missing? Thank you.

Anders Karlsson

Not really, it's volumes and it's margins and that are driving it. So I don't think you missed anything.

Anton Kryachok

Thank you. That's very helpful.

Operator

Our next question comes from the line of Yafei Tian from Citi. Please go ahead. Your line is open.

Yafei Tian

Thank you very much for taking the question. I have one question on the cost side. I was wondering to what extent are you able to keep the 2018 cost around 16.7 billion if there is a change to the payroll tax in Sweden given all the efficiency measures you could undertake? And then secondly it's around net interest income. I see there is improvements in the group centre in the treasury over the past two quarters or so. So I was just wondering if you could give us an updated guidance on 2017 treasury net interest income and/or other moving parts going forward in light of the new funding cost structure etc.? Thank you.

Anders Karlsson

Okay let me start off with treasury first then, we will come back to that in the next quarter. As far as the payroll tax comes, I think it is a bit too early to really speculate in exactly what it means, and how it will affect us rather than it will be definitely negative. We usually, as you know, tend to reprice our products and services if costs go up. But I think we need to come back on that when we know more about these things. It's a bit too early to say.

Yafei Tian

Okay, is it possible to estimate what is the magnitude of increased – the growth level without any offsetting effect? That – 200 to 300 million or 400 to 450-500 million?

Anders Karlsson

Sorry, are you talking about the payroll tax or?

Yafei Tian

Yes, payroll tax.

Anders Karlsson

I think it is extremely difficult to make an assessment of that. The Swedish Bankers Association have done a study on that and the magnitude is much larger than what you just said.

Yafei Tian

Okay thank you.

Operator

Our next question comes from the line of Johan Ekblom from Bank of America Merrill Lynch. Please go ahead. Your line is open.

Johan Ekblom

Thank you. I think all of my questions have been answered. Thanks.

Operator

The next person in the queue is the line of Andreas Håkansson from Exane. Please go ahead. Your line is open.

Andreas Håkansson

Yeah, so hi, thanks. Just a quick follow up. When we talked about the different drivers of NII for next year, could we just also ask you, if STIBOR, which has been a drag all of this year – if STIBOR will start to move up let's say 25 basis points, could you tell us what's the impact on NII at the moment from that?

Anders Karlsson

Thank you Andreas. I think I have to refer you to the interest rate sensitivity table in the fact book for that.

Andreas Håkansson

So STIBOR that's almost – it's almost 1 billion then, 25 bps STIBOR. So it’s the same impact as the Central Bank rate?

Anders Karlsson

Yeah.

Birgitte Bonnesen

More or less.

Andreas Håkansson

Yeah, more or less. Okay thanks.

Operator

Our next question comes from the line of Jacob Kruse from Autonomous. Please go ahead. Your line is open.

Jacob Kruse

Hi thank you. Just two quick questions. Firstly, your initiative to gain market share in consumer finance in Sweden that you talked about earlier this year. Has that stalled or are you're still waiting to launch it, in terms of your systems etc., to drive that growth?

And secondly, just on the PSD2 and payments. Are you looking to negotiate with Danske Bank on mobile pay with Swish and could you say anything about how much of your card revenues comes from acquiring and how much comes from interchange? Thank you.

Birgitte Bonnesen

Okay, if I start with the consumer loan. Actually it has been a digitalised solution for more than a quarter. But the actual truth is that it's been manual behind the front. And what we're doing now is that we are making it entirely automated thing all the way through. Your second question was about Swish and Danske - not that I'm aware of. And your third was about acquiring and issuing. I'm looking at Gregori here.

Gregori Karamouzis

Yes, we don't split that –

Birgitte Bonnesen

I don't think we split, no.

Gregori Karamouzis

– specifically, Jacob.

Birgitte Bonnesen

The churn.

Gregori Karamouzis

[Inaudible], yeah.

Jacob Kruse

Would it be fair to say most of it is now acquiring?

Birgitte Bonnesen

No.

Gregori Karamouzis

No, not really. I think it's – I cannot give you any more details and we haven't disclosed it. So it's – as you know we are – we have 50% market shares in the new market, in particular in Sweden in card acquiring card business but we're also quite large in the debit and credit cards in the Baltics, and through our joint ventures with EnterCard. So it's a good mix, I would say, in that book.

Jacob Kruse

Okay, thank you very much.

Operator

Our next question comes from the line of [inaudible] from Société Générale. Please go ahead. Your line is open.

Speaker

Hi, good morning all of them. Thanks for the presentation. I just have one quick one. Do you guys have any updates from the Swedish Resolution Authority on MREL requirement? And in relation to that, can I get some colour on sub-debt issuance plan for the rest of 2016 and possibly 2017? Thank you.

Helo Meigas

As to the MREL we have no updates from the resolution authority. I think as it looks now they seem to be back to the drawing board.

Anders Karlsson

What – did you have another question? I just – or what that your question?

Speaker

Yeah I mean I was hoping to get some colour on your sub-debt issuance plan for 2017. Will that be somewhat similar to what you have done in 2016?

Gregori Karamouzis

It's Gregori here. When we issued our AT1 instrument, the latest one, we covered our needs up until into 2017. So we don't have any imminent plans to issuing an AT1 in Tier 2 capital, but we are always looking at the markets. There might be opportunities to optimise the capital structure further, but no imminent plans or needs.

Speaker

Okay fair enough, thank you.

Operator

And as there are no further questions registered I'll return the conference back to you guys.

Birgitte Bonnesen

Thank you very much for all your questions. I think in summary, I would just say that we delivered another strong set of results and the economic activity is relatively high. We see pricing, repricing momentum in lending continuing. And this, as I also mentioned before and we've talked about, this is what allows us to accelerate the number of key initiatives while we keep the cost efficiency and our ROE target of 15% as our key priority. Thank you so much for participating.

Operator

This now concludes our conference call. Thank you all for attending. You may now disconnect your lines.