Transcription

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Presentation

Operator

Ladies and gentlemen, welcome to the Swedbank First Quarter Report 2018. For the first part of the call, all participants will be in listen-only mode and afterwards, there'll be a question and answer session. I'll now hand to our first speaker, Gregori Karamouzis, Head of IR. Please begin.

Gregori Karamouzis

Good morning everyone. Thanks for joining the call for our full year results. With me in the room I have our CEO, Birgitte Bonnesen; our CFO, Anders Karlsson; and our CRO, Helo Meigas. They will each make an instruction, make a few comments on the results for the quarter and the full year and then we'll open up for questions.

Birgitte, please.

Birgitte Bonnesen

Thank you so much, Gregori. And good morning and welcome to this first quarter call. We're off to a very good start as I hope that you've already seen of '18. We have a quality quarter I would say with high activity in all areas. We continue with customer focus with more products and services that makes life easier for our customers and generate value.

In Sweden, the mortgage commitment and consumer loan processes are now fully automated. It has given an improved customer experience and a higher degree of efficiency. 60% of all commitments and about half of all consumer loans are handled digitally. It's a great improvement but there's a lot more potential.

The Smart ID, the authentication tool that we developed in the Baltic countries have now reached more than 500,000 customers. And we have obtained approval for the tool to be used in the branches in Latvia and Lithuania. This is used for faster on boarding of customers. But it's also used for signing of new agreements in the digital channels.

We build infrastructure. We make it easier for customers and we increase efficiency at the same time. This is an important enabler for increased digital sales. Today, 56% of sales in terms of contracts are done digitally in the Baltic countries. And in Sweden, it's slightly above 50.

We continue our efforts and focus on sustainability. We came out of the quarter as the number one arranger of green bonds for Nordic issuers. The asset management company earned another distinction with dedicated effort to improve the sustainability focus in the companies in which Robur invest. In addition, Robur also had a quarter with increased inflows. In fact, we took the highest market share in the quarter.

Swedbank is constantly moving towards becoming a more digital bank. However, the physical meeting stays important to Swedbank. And efficient development process is crucial and Swedbank has continuously improved our modular infrastructure. But now in order to ensure increasing quality and speed, we've finalised a major reorganisation in this quarter.

We merged the development resources within IT with those of the product areas and digital banking. This is a natural next step to take where the entire development process moves to an agile way of working. It's a method that we have deployed throughout the different areas of the bank for the past five years. So, we were confident that we could take this step now.

The Swedish mortgage market continues to be in focus. We have a strong quarter and we continue to take our market share. We have seen house price stabilisation in most segments all over Sweden. And the lending growth in the quarter was solid. The amortisation and debt-to-income requirement that was introduced in 1st March had an impact in the quarter with high activity in the first two months.

The underlying growth is supported by natural turnover, finalisation of housing projects and financially strong households in Sweden. Fundamentals continue to be good and the mismatch between housing supply and demand has not been solved. So, we still see a high demand but for more affordable housing.

The recent development in the housing market may support a healthy change in the focus towards solving that. And in this backdrop, we are willing to lend. As the market calibrates to the new environment, we expect a slightly slower volume growth in Q2 based on what we've seen at the end of Q1. However, fundamental support, a solid growth throughout the year. So, our focus on origination discipline and profitability remains.

We had a strong quarter financially with increased volumes in all customer segments and good activity in all daily banking products although the net commission income was impacted by seasonality. Cost under control and credit quality is good. Cost consciousness and being a low-risk bank are both important to us as you all know.

We have a plan and we execute on it and this is what you see in this quarter. We are off to a really good start and I'm very confident about the coming year. And with this, I will leave over to Anders.

Anders Karlsson

Thank you, Birgitte. I usually start off giving you the highlights of each business segment before I sum it all up on group level and say a few words about our capitalisation. Helo will then go through asset quality and give you some information around IFRS 9 before we open up for questions.

Starting with Swedish banking that delivers strong result considering the known headwinds going into the quarter. NII was positively impacted by continued mortgage loan volume growth and back book margins were slightly up. Corporate lending did also grow and contributed positively.

The resolution fund fee increased as expected from nine basis points to 12.5 basis points impacting negatively in the quarter by 67 million and two days fewer in the quarter impacted negatively with around 20 million. The final fee level for the full year including possible risk adjustments will be communicated to us by the authorities during the second quarter.

Net commission income was impacted by lower income in brokerage due to retail structure products and equity sales being weaker following the stock market volatility. In asset management, we saw strong mutual funding inflows while research expenses from now on being carried by the funds impacted negatively.

Other income was lower due to one-offs in the fourth quarter related to EnterCard and insurance. We did, however, see good underlying activity in the life insurance business. Asset quality continued to be solid.

Turning to Baltic banking which delivered another quarter of solid result considering similar seasonal headwinds as Swedish banking. NII was positively impacted by loan volume growth which was broad based both in terms of private and corporate segments but also between sectors and countries. Margins were more or less stable but fewer days and higher resolution fund fee weighed negatively.

Net commission income decreased on the back of the seasonally lower asset management and cards income. On the positive side, we saw continued growth, good inflows in the mutual fund business. As the Swedish krona continued to weaken against the euro, the net FX effect in Baltic banking's result was positive by 19 million. Asset quality continued to be stable.

Let's look at LC&I that delivered a stable result. NII was stable with somewhat higher loan volumes and stable margins. Net commission income was impacted negatively by seasonally lower income in asset management and brokerage. Net gains and losses were stronger compared to last quarter mainly due to positive FX and CBA effects. At the same time, as we saw, customer activity picking up primarily in hedging interest rate risks.

Credit impairments improved and showed reversals of provisions. This was partly related to positive PD migrations and model calibrations since the transition to IFRS 9. Helo will talk a little bit more this later on.

To summarise at group level, higher customer activity primarily in terms of new lending more than offset the seasonal headwinds and increased resolution fund fee. Total expenses were in line with our full year guidance.

Turning to capital. Capitalisation remains strong with a CET1 capital ratio of 24.8% implying a buffer to the Swedish FSA's minimum requirement of around 280 basis points. We will not set our capital management buffer until there is more clarity of the final revised Basel 3 rules to be implemented in Sweden.

The Swedish FSA has presented a proposal to move the risk weight floor for mortgages from Pillar 2 to Pillar 1. If the proposal is implemented as suggested, there will not be any significant impact on Swedbank as both the capital position of the bank and consequently the capital requirements expressed in Swedish krona remains roughly the same. We are confident with our current capital buffer and find great comfort in our capital generation capacity.

The introduction of IFRS 9 as of 1st January 2018 did as previously communicated only have a minor impact on our CET1 capital ratio reducing it by six basis points. Risk exposure amount increased by 2.4 billion. The increase is mainly attributed to increased market risk as a result of higher market exposures in the form of larger bond holdings. Larger credit exposures increased REA but were offset by primarily model adjustments in Baltic banking related to classification of corporate versus private exposures. With this, I hand over to Helo.

Helo Meigas

Thank you, Anders. I will give now a short overview of credit in Q4. Again, it was a strong quarter with stable credit quality. We recorded volume growth in all our home markets. Total lending growth in Q1 was 27 billion of which 10 billion was FX effect. The main growth driver was again mortgage lending while growth in corporate lending was also affected by short-term facilities in large corporates and lending outside Sweden.

Our exposure to the housing development in Sweden which I talked about in the last quarter has decreased as expected as projects are being finalised. Exposures as of end of March in this sector in Sweden was SEK17 billion.

Now moving to credit impairments. Total credit impairments in Q1 were SEK127 billion and as this is the first quarter where we report under IFRS 9, I shall now explain the underlying drivers in a bit more detail. Effectively, the credit impairments in Q1 consist of three main elements. Firstly, we have an increase in individually assessed provisions which was in the total amount of SEK213 million and come from an increase in provisions in a small number of cases. These are more or less equally divided between large corporates and Swedish banking.

Secondly, we have the effects which come from the new methodology under IFRS 9 and these can be divided into two. The larger part of the effective rate related to the changes in the portfolio composition, i.e., new versus matured credits and their underlying risk primarily changes in collateral values and ratings including stage transfers. The net effect is a release of provisions in the amount of SEK109 million.

In Swedish banking, we see an increase of provision from a stage transfer of a few cases while in large corporates and Baltic banking, there is a release of provisions due to improvement in rating also in a few clients.

The second part of the effect stems from revised forward-looking macro assumptions. The net effect is an increase of credit impairments of SEK80 million affecting all business areas.

And finally, the third effect in Q1 provisioning comes from the calibration and fine-tuning of our expected credit loss calculation model with an effect of a reduction of credit impairments by SEK87 million primarily impacting large corporates as Anders mentioned earlier.

If I then summarise these effects, increased individual provisions from a few cases being impaired, some PD migrations in selective cases with a net positive effect, adjustment of macro scenarios to a more conservative baseline plus some recalibration of the model − the resulting credit impairment as I mentioned for the quarter is SEK127 million which is about one basis point to the total credit portfolio. With that, I hand back to Gregori.

Q&A

Gregori Karamouzis
Thank you, Helo. Operator, please open up for questions.

Operator
Thank you. Ladies and gentlemen, if you wish to ask a question, please dial zero one on your telephone keypad now to enter the queue. Our first question comes from Magnus Anderson of ABG. Please go ahead. Your line is open.

Magnus Anderson
Yes, good morning. First, I have a couple of questions on NII. As you said, your corporate lending is up and we can see that is up 2% quarter-on-quarter and 3% year-on-year. And it looks like it's primarily coming from property management and professional services. Could you say whether you think corporate lending should increase from here or is this just a few larger transactions we're seeing in this quarter?

Birgitte Bonnesen
Thank you, Magnus. Yes, it's − I think that we've seen in the quarter is we've seen actually increase in activities, significant increase in activity in lending to the smaller corporates. The thing is that it's small tickets but there is an ancillary element to that that is important. And we need to continue that kind of lending and this is in all markets. What you see in this quarter is also, yeah, you see a couple of − in property management, some of it is actually relatively short term − sales of bridges when you go to capital markets, etc., and you will see that disappear in this quarter.

However, I want to add that the activity that's out there in the country, it's not like we have withdrawn from the market. But as you know, we lend selectively as we've done in the past couple of years and we continue to do that.

Magnus Anderson
Okay, thank you. And in the presentation, you also mentioned the stable NII quarter-on-quarter in large corporates and the institutions. And it stayed at the high Q4 level also in Q1 after having been quite volatile in the past. Do you see the level we are at right now as sustainable going forward?

Gregori Karamouzis
Magnus, it's Gregori here. If I understood your question correctly, of course, we don't guide NII going forward but there are no one-offs of any sort in the quarter neither on the negative or the positive side in LC&I. So, yes, it's representative for the rest of the year.

Magnus Anderson
Okay, thank you. And then on loan losses, there were a lot of moving parts back and forth. Just if I also on Swedish banking, reported loan losses stayed at the Q4 level which was quite high from a historic perspective at nine basis points. Was that a fundamental level? How would you compare that quarter-on-quarter or is part of it related to IFRS 9 adjustments?

Helo Meigas
Yes, we are in the new world of IFRS 9 so loan losses behave slightly differently compared to the earlier periods. As I mentioned, there were a couple of impairments in Swedish banking, but these were kind of again just a few cases, not really any significant deterioration of the credit quality. But also, what is now happening is that you would get increase of provisioning from this − the rating migrations, i.e., stage transfers and that's what you see in Swedish banking again in a few cases. So, that's why you have a slightly higher provisioning in Swedish banking than we have seen in previous years. But no underlying change in credit quality.

Magnus Anderson
Okay. Thank you very much.

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

Willis Palermo

Hi, good morning. Thanks for the presentation. The first question I have is on the competition in the Swedish market. If you could comment on what we saw during the quarter as there were some challengers and bigger player lowering their prices, also some new entrants becoming more vocal. How do you see this impacting the market going forward and any reaction you would have related to that?

Birgitte Bonnesen

Thank you for that question. I think you should divide as you did in two. One is that we've seen new initiatives that have an ambition of entering the market. And then we've seen some of the more established players that have come out at a different price level on certain maturities.

I think the important thing to remember is that Swedbank is a very large retail and mortgage bank in Sweden. We are the bank for the many. We don't do campaigns on mortgages. We consider mortgage not to be any other product. It's a product that people come in and take probably the most important investment of their lives. We follow our customers through their life cycle. We offer not only different maturities but also commitments. You can borrow more on your mortgage, etc. We have the whole range. We do it through life and mortgage advisers within the regulatory framework of the Swedish FSA.

We also take, I think, a responsibility that we have towards the stability of the system in Sweden. When you're a big mortgage lender, you need to think in terms of your responsibility to the system overall.

So, commenting on the pricing, we follow the structure all the time of course but we don't fluctuate. And this is − you haven't seen us change prices more or less over the past year. So, we're very sort of steady. You should be able to trust us that you'd get the right price in relation to the risk that is expressed by each individual.

On the new initiatives, I think that this is something about − the fascinating thing about the Swedish market that you see new entrants all the time, new ideas coming on to the market. I think that is basically a good thing. The thing is that for the initiatives that we've seen now are initiatives that are outside the regulatory framework under which we operate. They take only − they have sort of requirements that you need to be a customer of a bank before they can even accept you and just that differentiates and there are lots of other things.

If you have a different environment, if you don't have liquidity requirements or capital or resolution fees, then you don't have to work in the same way as we do. I think that is a − let's see what happens. We follow it very closely. I think that − and we see what are the discussions that that has generated with our customers out in our branches very much in the physical meeting. I know that this is a lengthy answer but I think that is an important one because what we see is that the conversation that this has given what we have customers out there contain other elements that it has had before which is namely how do you react if something happens in your life.

Willis Palermo

Thank you very much for the answer. The second question I have is on the housing market and volume growth. Going forward, as you pointed that there were some signs of stabilisation, is that your expectation that it will continue? And how much would you say that the higher amortisation requirement contributed to the strong volume growth in the quarter? I heard the first two months were very strong. What was the difference between the first two months and March and how do you expect this to continue?

Birgitte Bonnesen

Yes, it's right that the first two months were definitely stronger than March. There was sort of a build up of stock, you may say, through November and December and all of that was sold off in the first two months. January is always a strong month but this year was even stronger.

So, I think that what we'll see is we'll see an impact going forward. However, it's really important to bear in mind that the fundamentals are very strong in Sweden. And also, there is an underlying need. We just got the figures from sort of the official figures, statistics for the need for housing in Sweden and it's around 80,000 new apartments or small houses in the coming − per year in the coming two years and we're nowhere near that.

So, there is an underlying need that needs to be fulfilled. So, I think that we'll see the effect of the − or the new debt-to-income and amortisation rule that came in in March will have a dampening effect maybe in this quarter. But let's see. We haven't even − we haven't really changed how we view the year as a whole.

Willis Palermo
All right. Thank you very much and have a good day.

Operator
Thank you. Our next question comes from Andreas Håkansson of Exane BNP Paribas. Please go ahead. Your line is open.

Andreas Håkansson
Thank you. Good morning everyone. Can you just follow up a bit on the mortgage market? One would be after the new amortisation rules, could you tell us now when you see in a month at least, how many of your clients are actually impacted by those new rules? And also related to mortgages, me and Anders, we've been discussing many calls in a row the outlook for mortgage margins. Could you tell us what's the latest yield and mortgage margins from here? Thank you.

Birgitte Bonnesen
1% of everybody who took a mortgage in March was impacted by the new rules, 1%. So, it is very limited. Over to you, Anders.

Anders Karlsson
Thank you, Andreas. Yes, as I stated, the back book margins were slightly up in the quarter. But before I even go into that, I would like to remind you that three-month STIBOR is an indication of where the margins are heading. We are not pricing mortgages off STIBOR.

But turning into sort of the quarter, you remember that STIBOR went down quite dramatically especially at the end of December last year. That change in market rate is − if you do not change your price towards the customer, that translates into higher margins automatically. If you look in this quarter, STIBOR turned the other way around which essentially then means that if you are not changing prices, margins on mortgages will come down in the next quarter. But then I also would like to remind you that on the other side of the balance sheet, we have deposits of equal size as the floating rate part of the mortgages where the same logic applies.

Andreas Håkansson
That's interesting. And following up on that, I see that you yet again increased the sensitivity you have to 100 bps higher rates and I think you're now up to 5.8 billion which is a big increase even in the quarter. Could you tell us how linear is that over the 100 bps?

Anders Karlsson
Yeah, thank you, Andreas. I think primarily, it's driven by exactly that question. Since the STIBOR rate had moved up in the quarter, we are closing into the zero level. And as you know, part of our corporate book is floored on the lending side. So, the closer to zero you get, the more linear this calculation gets. But you need to read through the assumptions as well.

Andreas Håkansson
Sure. Okay, and maybe just one quick question. On your market share of new lending in asset management, you had was it 60% market share. Is it something special you had done since you turned around this tough trend you had for a long time or was it just a one-off event or could you tell us a bit about this move?

Birgitte Bonnesen
It was a mix. I think that − as you know, we spoke a lot about it last year too that we've setup sales, resources to support the physical meeting. We have had campaigns, pension campaigns. We'll continue to have that here. So, you'll see it in life insurance too. You'll see it coming in. So, a lot of it is generated by activities that we have in Swedish banking but some of it is institutional too. And we work actively on the institutional leg as well more than we've done before.

Andreas Håkansson
Okay, thank you very much.

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

Peter Kessiakoff
Yes. Hi, good morning. So, a few questions from my side. The first one is relating to the large corporate division where you mentioned in Q4 that there is an ongoing say repricing or trying to improve the ROE within that operation. Could you just tell us or elaborate a bit on how that has been trending in the first quarter and whether that is partly an explanation behind the very solid NII within LC&I? That's my first question.

Birgitte Bonnesen
I think there's nothing new to add really. This is a continuous work of making sure that the portfolio reaches the return hurdle that we have.

Peter Kessiakoff
Okay. Then just a very detailed question on treasury where NII was down in the quarter. I think your most recent guidance says that treasury NII could potentially be flat year-on-year for '18 versus '17. Could you just elaborate on what your outlook is now for the rest of the year on treasury results?

Anders Karlsson
Thank you, Peter. We seldomly talk about NII on treasury. We talk about the combined effect of NII and NGL. If you remember what we said in Q4, we said all things being equal, we forecast the result to be basically in line with 2017. But what you have seen in Q1 is that swap levels and spreads have moved. So, if I assume that quarter one is an indication for the rest of the year, i.e., assuming everything held constant in Q1, I will downgrade the result from treasury with a couple of hundred millions for 2018.

Peter Kessiakoff
Okay. And if that is then evenly divided between NII and net gains and losses, sorry, can you give any indication on terms of split between those rows or am I pushing it?

Anders Karlsson
You're pushing it, Peter. That's okay. I will not answer that. We are looking at NII and NGL combined.

Peter Kessiakoff
Okay, fair enough. Fair enough. I tried. Then the last question, I'm not sure whether you already answered this or not but in terms of the mortgage margins, I hear what you're saying on the new lending. But how are front book margins compared to the back book given that the back book turned it up in this quarter? And I know that in the past, you discussed a repricing potential that was remaining on the fixed part of the mortgage book. So, if you could just elaborate a bit on front book versus back book margins and where the increase in back book came from during this quarter.

Anders Karlsson
The short answer, Peter, is that they are basically in line with each other, so the gap has disappeared in the quarter.

Peter Kessiakoff
And the back book increase, did that come from the fixed part of the book or was that evenly spread?

Anders Karlsson
It's mainly from the floating part of the back book.

Peter Kessiakoff
Okay. I think I'll stop there. Thank you very much.

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

Jan Wolter

Hi, Jan Wolter here, Credit Suisse. A couple of things to continue on the mortgage side first of all. I think, Birgitte, you highlighted earlier in the call that you could see lower mortgage growth from the second quarter compared to where the bank has been in the last few quarters. Is that the way to see it? And what signals in the market do you see that leads to this view of lower growth going forward?

And secondly, and related to that, the activity levels in the housing market in March and April, what signals have you gotten there from the business?

And my final question would be on the funding cost benefit from a lower NSFR. So, I think you previously, Anders, helped us with that. So, two questions. If the NSFR now at 110%, is that likely to come down any time soon or will it be closer that level going forward? And then what would be the impact on the NII for one percentage point up or down on that metric? Many thanks.

Birgitte Bonnesen

Thank you, Jan. What I said is that we've seen the first two months were really strong. You know, last year, we saw a growth of 7.4%. We were up at 7.23 in the first two months, very, very strong. Of course, we saw that the market became more hesitant in March as a result of the new rules that came in. But I didn't say that we saw sort of a significant drop for the rest of the year.

I think that you need to remember constantly fundamentals in Sweden are very strong. You see unemployment coming down. We have a very solid labour market. We have a strong balance sheet among households. We have increased disposable income. It's actually a growth of almost 5% in '18. And it's historically cheap to get a mortgage.

So, we have lots of these things. You see that the urbanisation trends continue. What the problem is, is that we need to refocus new construction to whats more affordable housing. This is the challenge for Sweden and we are there to lend both to construction of more affordable housing but also to the individual households.

And I just want to mention that the new construction that we've seen in the past years in the very high end more expensive, we have been very restrictive on that as you all know. So today, we're in a very comfortable position to continue to lend to those who will take themselves into this better area.

I also just want to mention that what we saw in the month or in the quarter was we saw this stabilisation of the house prices. So, as we go into these months, we continue to see that. And then that will have also an effect on demand when it becomes easier to predict what will happen.

Anders Karlsson

Yes, and Jan, I think you've taken over my favourite question from Magnus but that's okay. To start off with maybe the most important part of it, the effect of one percentage unit change in NSFR is at current conditions around SEK20 million so it's a fairly limited amount compared to what I talked about a couple of years ago.

There is no reason to hold up NSFR at a very high level. We have said that we will eventually come down. The reasons for it being on a high level the last couple of quarters are two basically. One is the fact that deposit has been growing, more than anticipated and we have had a very benign funding environment in Q4 that we actually took advantage of. But the long-term ambition is not to go down. But it needs to go down. I'm not sort of stressed by the fact that the economic impact is fairly limited at this point.

Jan Wolter

Thank you. And just related to that, in the quarter on the funding side that is, one can say that the funding mix here in the quarter just in principle CPs are up 30 billion plus or something. Covered bonds up 30 billion and then the more expensive funding senior are down at 10 or so. So, basically, the funding mix went to the cheaper papers in the quarter. Did that have any effect in the quarter on the NII, any meaningful effect there, please?

Anders Karlsson

Not really, Jan. When you look at this, I think you should disregard commercial paper, short-term funding and that is something that we usually issue in the quarters on a fairly high level. As far as the other part comes, it's − our prime market is covered bonds so it's no − no drama in that one.

Jan Wolter
Okay, many thanks for that.

Operator
Thank you. Our next question comes from Johan Ekblom of UBS. Please go ahead. Your line is open.

Johan Ekblom
Thank you. Just one quick follow-up no mortgages. I mean, when you talk about an expected slowdown, is that entirely driven by your view of the market slowing down or is there some kind of assumption that these either new entrants or some of the other banks cutting pricing will take a bigger share of new production?

Birgitte Bonnesen
What we see is more like a calibration sort of in response to the new amortisation and debt-to-income regulations that was introduced in March.

Johan Ekblom
So, it's not an assumption that you will lose market share in new lending?

Birgitte Bonnesen
No.

Johan Ekblom
Perfect. Thank you.

Operator
Thank you. And our next question comes from Kim Bergoe of Deutsche Bank. Please go ahead. Your line is open.

Kim Bergoe
Good morning. Sorry to come back to the mortgage margins. I guess this sort of illustrates the importance of it. But just first, Birgitte, you're talking about digitalisation and how much that means and I'm sure there are some savings with that. I mean, some of these savings, are they going to be passed on at some point to customers? It seems that mortgages are quite profitable at the moment when I look at the legal subsidiary doing that.

And also, when you talk about margins going forward, sort of under the assumptions that you're not going to change your sort of headline prices and you talked about that there are other things than just price but that determines where people go for their mortgage. But is there a limit to how big sort of the price differential in terms of the least prices can be before you need to move or do you think your value is stable in that and don't really need to move? Thanks.

Birgitte Bonnesen
The digitalisation of the tools, it's sort of – it's a way of meeting the needs of customers. This is developing in line with customer behaviour. So, I think that this is just a natural and a given. And as I've spoken about before, the automation of the mortgage process is very important in bank hours as it is the biggest process. And that will be finalised sometime next year. When you look at the prices, we follow the prices closely of course. But as I've also said, we don't do campaigns. We stay at sort of steady level that is dependable over time.

Kim Bergoe
Okay, thank you.

Operator
Thank you. Our next question comes from Robin Rane of Kepler Cheuvreux. Please go ahead. Your line is open.

Robin Rane
Hi, good morning and thank you for taking the question. So, two quick questions. The risk exposure for mortgages increased due to larger bond holding. Is this a new level or can we expect to see reversals here? And the second question on the Baltic, so are we seeing signs of increasing competition as a result of the merger between two competitors last year?

Anders Karlsson

Thank you. On your first question, I think you should think about it as a year-end effect really. And on the competition, I hand over to Birgitte.

Birgitte Bonnesen

Yes. No, I can't say that we see more competition. I think Baltics, there is a good competition in the market. I actually think it's great that this merger happened. It shows confidence in the market, confidence in the potential of the market and also that there is one more big player to work on the stability of the market. So, I think that this is very good and it hasn't affected the business of Swedbank so far.

Robin Rane

Okay, thank you very much.

Operator

Thank you. Our next question comes from Brajesh Kumar of Soc Gen. Please go ahead. Your line is open.

Brajesh Kumar

Hi, good morning all. Brajesh from Soc Gen Credit Research. Just a quick one on your funding plans. I see on slide 17 now you mention plan senior unsecured addition of around 30 billion for rest of '18. Can we get some more clarity around your sub-debt issuance planned especially on Tier 2 given you have a large call coming in early 2019? And on NPS or non-preferred, any update on the timeline, please? Thank you.

Gregori Karamouzis

So, funding plans, hi, it's Gregori here. In terms of funding plans for the year, we have communicated that we will be issuing slightly less volumes in '18 versus '17 purely because we have less maturities. The mix will stay the same so we'll be about two-thirds covered bonds and one-third senior unsecured.

Your second question about capital, we are currently of course meeting the requirements. And if we have upcoming maturities or potential calls, of course, we will see how that develops. But we would be looking at the markets on a continuous basis to pre-fund if that is appropriate to do based on the funding levels. And that goes both for Tier 2 and AT1 instruments.

And in terms of non-preferred issuance, as you might know, there is a plan by the lawmakers to adjust and amend the insolvency law in Sweden by the end of 2018. So, we will wait for that to evolve before we enter the market.

Brajesh Kumar

Okay. Fair enough. Thank you.

Operator

Thank you. Our next question comes from Paulina Sokolova of Barclays. Please go ahead. Your line is open.

Paulina Sokolova

Hi. Thank you for taking my question. I just have one question left on costs. So, you have very good cost control and you're running about 2% below the maximum cap of 17 billion for this year. How should we think about this? Do you expect to ramp up spending later on in the year? Or maybe could you please give us some details on the projects that you're running now and whether you expect to launch more initiatives later? Thank you.

Birgitte Bonnesen

You know, frankly, not really. We have the 17 that we've guided for over two years and we'll stick to that.

Paulina Sokolova

Okay, thank you.

Operator

Thank you. Our next question comes from Riccardo Rovere of Mediobanca. Please go ahead. Your line is open.

Riccardo Rovere

Good morning. Good morning to everybody. Three questions if I may. The first one is again on funding. I've seen, I mean, the loan book grows nicely but grows by roughly 40 billion, just less than 40 billion while deposits grow up about − you're almost 100 and debt securities in issue go up by almost 60 billion. So, the funding has gone up by three times more than the growth in the book. So, I was just asking whether there is anything, a one-off in the deposits growth first. Second, if not, how these deposits will be redeployed? And third, if you have done any pre-funding in this quarter in debt securities given maybe in light of possible rate rise. This is my first question.

The second question I have is on capital. Once again, you reiterate there is no surplus capital. Fine. May you please tell us exactly what you need to remove that sentence from your outlook of the next few quarters?

And the third question I have is on housing, the loan book grows nicely except for one sub-segment which is housing cooperatives which is more or less stable or slightly down in the quarter. I was just wondering whether this is − we should read anything into that or not. Thank you.

Birgitte Bonnesen

Riccardo, I will start with your last question. Yes, it's a conscious stand from Swedbank. We initiated the strict originations standards already by the end of 2016. And you've seen that during '17 and you continue to see that. We are sort of a low-risk bank and this is important to us.

Anders Karlsson

And if we come back to capital, what I have said and I will continue to do that until there is clarity in how the Basel 3 revised rules will be implemented in Sweden. So, you will most likely hear me saying the same thing for the next coming quarters, Riccardo.

Gregori Karamouzis

And then on the funding side, Riccardo, we do pre-fund and that was the communication for last year as well where we saw favourable market conditions and therefore pre-funded. We do have a number of liquid curves outstanding when it comes to public benchmark transactions. So, it might be that we do a transaction in a particular market if it's favourable from a funding cost perspective earlier than we actually need the money.

Then the deposit is a little bit − as Anders mentioned before − has been coming in or flooring in higher than we have anticipated. And that is of course something taken into consideration in the funding plan. We have the possibility to do less issuance in each one of the funding formats for example, covered bonds domestically. And so it is an ongoing calibration of the funding plan that goes on throughout the year. And so there is nothing else in the mix that you described that lies behind the funding activities.

Anders Karlsson

And then to add to what Gregori is saying, Riccardo, there are − as you can see, there are yearend effects where short-term money are disappearing from the market then they come back in Q1. So, part of the deposit inflows and part of the increased short-term funding is more related to that fact and anything structural from a balance sheet perspective.

Riccardo Rovere

Yeah, no, thanks. So, that is clear. I just wonder whether let's say the amount − now, I've seen that the amount of cash in the balance sheet is almost 400 billion. Generally, it happens over the course of the year that that amount goes down quarter-after-quarter. Any reason why this time that should not happen? No.

Anders Karlsson

No. You answered it yourself.

Riccardo Rovere

Thanks.

Operator

Thank you. Our next question comes from Vivek Gautam of JP Morgan. Please go ahead. Your line is open.

Vivek Gautam

Hi, good morning. I have two questions. Firstly, you disclosed the average interest rate that you offer every month on three-month mortgages that was 153 basis points. Can you tell us what is the average rate that you have offered to less than 60% LTV borrowers or even less than 50% LTV borrowers?

The second one, with the full year results, it was indicated that the regulatory costs are likely to be roughly 450 million higher in 2018 versus 2017. That is based on your own estimates. But now, it appears that in Q1, the regulatory costs are lower than the guided run rate. Can you explain what has changed since then in your assumptions which has resulted in a lower number? Thank you.

Gregori Karamouzis

Hi, Vivek. It's Gregori here. On your second question regarding the resolution fund fee, when we guided the market of a delta of 400 to 450 million, we did that on the back of the information that we had before we received the risk adjustments from the National Debt Office mid of last year. So, the resolution fund fee that we booked in the first quarter takes into account the most recent information which is the risk adjustment we received from the National Debt Office mid of last year.

As Anders, I think, mentioned in the call, we will get the final fee level in a month's time from today. So, we don't change the guidance that we have given to you but if the risk adjustment is about the same level as it was mid of last year, the delta will be somewhat smaller.

Birgitte Bonnesen

The first question, I can just say very sort of overall when you have sort of a risk-adjusted pricing and what you see is the average of all the pricing irrespective of LTV.

Vivek Gautam

Any comment on how the sensitivity is from higher end to the lower end in terms of as you move down the LTV ladder. I'm just trying to get to − I'm just trying to understand how competitive are you in the lower LTV segment. I'm just trying my luck here.

Birgitte Bonnesen

We have individual pricing so we don't talk in terms like that.

Vivek Gautam

Thank you.

Operator

Thank you. Our next question comes from the line of Bruce Hamilton of Morgan Stanley. Please go ahead. Your line is open.

Bruce Hamilton

Hi, thanks. Good morning. A quick question. Obviously, there've been plenty questions on sort of the outlook for sort of housing volumes which you've been pretty clear on. When I look at the sort of asset management business, obviously, you've taken strong market share in Q1. But I wonder if you could comment at all on any change in sort of client behaviour either in the retail or institutional side as we work through the quarter? Did you see an increase in volatility in markets driving a change, slightly more caution from investors? As we think out from here, we should expect that perhaps momentum is a bit slower or has it been pretty solid throughout?

Birgitte Bonnesen

It's been pretty okay throughout. I think the most important thing to remember about the asset management part is that in Sweden, the change in the pension scheme, there will be more people who will need to save individually for their pensions. And this is something that will drive an increase in the asset management. And this is what we work on with the branches.

Gregori Karamouzis

And to your specific question, Bruce, about the mix, we have referenced before that there is − the savings are sentiment driven and since a lot of Swedes do have savings in the stock market and in mutual funds, when there is an increased volatility, you see it slightly change. People might not put as much money as they did in equity funds. So, you have a small part of that but it's not a trend. It is not a significant impact this particular quarter.

Bruce Hamilton

Got it. That's helpful. Thank you.

Operator

Thank you. Once again, if there are any further questions, please dial zero one on your telephone keypad now. And we have two further questions coming through. The first is from Jacob Kruse of Autonomous. Please go ahead. Your line is open.

Jacob Kruse

Hi, thank you. Just a quick question on the process improvements that you talked about on the mortgage side. So, you say almost everything is now fully automated. I just wanted to ask how much other processes remain. What percentage of − if this is 100% of the mortgage process, what percentage of the retail banking process are you now automating, or have you now automated? Thank you.

Birgitte Bonnesen

I'll say there's work ongoing on all processes. We have a goal of being sort of 100% on all daily banking services. On the mortgage process, the long commitment is now fully automated. But we also have one product that is you can borrow more on the mortgage that you already have. That will be the next thing that we will launch. And the entire process will not be ready until '19 and that is an important one.

Jacob Kruse

And how many staff are involved in the mortgage process at the moment?

Birgitte Bonnesen

Yeah. We don't talk about that, to you at least.

Jacob Kruse

Okay. Thank you.

Operator

Thank you. And our next question comes from Nick Davey at Redburn. Please go ahead. Your line is open.

Nick Davey

Yeah, good morning everyone. Two questions please, the first one on fees. I don't think we've talked too much about so can you just comment a bit about the strength in fees this quarter? Looking through the detail, it looks like you had multiyear highs in payments and service concept fee levels. So, could you just talk a bit about the drivers?

The second question, sorry, I know we've talked a lot about the wholesale funding change in mix. But it is notable this continued decline in the wholesale funding cost in the fact book slide 11. So, my one question really, can you comment on the entire stock of your wholesale funding? What proportion has been swapped back to STIBOR and what proportion remains fixed rate? Thanks.

Birgitte Bonnesen

You're right that what we see is that we see an increase in payments. We saw that in the fourth quarter too even though the first quarter is always less because of the Christmas shopping spree in December. But we see healthy growth. We see we're taking new customers in the ecommerce space, etc. We see it on cards too. We continue to issue more cards contrary to what many think that there are actually many young people that come in and ask for cards. And we see this in all four countries.

Then you asked about the fees in the asset management side.

Anders Karlsson

Yeah. And to add to what Birgitte just said, if you look at the service concept, that is a function of the fact that we acquired PayEx last year and that is what you see on that row. And to add on the asset management, that has been a strong performance in the quarter.

Gregori Karamouzis

Nick, you had a question about the funding as well and you point to the development in the quarter. Of course, that is derived from how the swapping of some parts of the funding is developing. And you know, it is the covered bond funding primarily that we are swapping to match the three-month fixings for example in the mortgage market.

We have about 550 billion of covered bonds outstanding. About 300, I believe, of that is issued domestically and a proportion of that or a portion of that is then swapped down to meet the three-month fixings that we have on the mortgages.

On the international funding side, the swapping is done – it's not necessarily done for the full maturity of the funding. So, if we issue a five-year bond, we might choose to swap it done year-by-year. So, it varies. I cannot give you an exact answer as to how much we have swapped at any particular point in time. It varies depending on how markets develop.

Nick Davey

Thank you. And the senior?

Gregori Karamouzis

The senior is not swapped or it is – typically, we're issuing a five-year note on the senior side and it is fixed. But we've done some floating rate notes depending on how favourable the markets have been.

Nick Davey

Very helpful. Thank you.

Operator

Thank you. And the final question is a follow-up from Riccardo Rovere of Mediobanca. Please go ahead. Your line is open.

Riccardo Rovere

Yes, thanks again for taking my follow-up questions. The first one is on the Baltics. You again have rebuilt yourselves. So, this has been the leitmotif of the past seven years. Any reason why that should change or any idea for how long this could go ahead? This is my first follow-up.

The second is on – we have seen the LIBOR OIS spread widening over the past few weeks. Is it something that we should worry about for Swedbank?

Helo Meigas

If I start with the Baltics, two comments on that. First, there definitely is a reason why reversals should disappear that is that we are almost ten years from the crisis where we actually booked a lot of credit impairments. So, there is not that much left anymore to restructure.

But secondly, again, I want to remind that we are in a slightly different world of IFRS 9 where you don't only see impact on credit impairments from reversals, but you also see impact to credit impairments from different stage transfers, i.e., you get PD migrations to a positive. You might have a reversal. And when you get the PD migration to negative, you might have an increase of provisions even if there is no impairment involved. So, the dynamics are going to be slightly different so I don't think you should read into the previous years' numbers and use that only to forecast the credit impairments going forward.

Anders Karlsson

And on your question on LIBOR, Riccardo, it temporarily impacted our US dollar funding in the quarter both short- and long-term. But it seems to be more normal as we speak.

Riccardo Rovere
So from your word, then I would imagine it's something that you sleep well at night, right?

Anders Karlsson
Yes.

Riccardo Rovere
Okay.

Operator
Thank you. And with that, I'll hand back to our speakers for the closing comments.

Gregori Karamouzis
Thank you. And thanks everyone for participating so actively. We will see most of you on the road over the next couple of days.

Thank you. Bye-bye.