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Presentation

Gregori Karamouzis

Good morning, everyone and thank you for joining us on this call presenting Swedbank's Q4 financial results. With me, I have our CEO Jens Henriksson and our CFO, Anders Karlsson. Following their initial remarks, we will open up for questions. Jens, please begin.

Jens Henriksson

Thank you, Gregori. And good morning, everyone, and welcome to a grey Stockholm. I have now been the CEO since October first, and the past year has been one of the toughest in the history of Swedbank. The money laundering crisis has significantly decreased trust and we've also seen an increase in competition, especially in mortgages. Under these circumstances, the result for 2019 is a stable result. I call it a stable result during a turbulent year. We see increased revenue and a net profit of 19.6 billion Swedish kronor and a Return on Equity of 14.7%, which is pretty high compared to our competitors.

Now let me guide you through the slide package. In many ways, it's a new bank that is emerging. If you compare to what it looked like six months ago, we have a new chairman of the bank; we have a new vice chairman of the bank; we have a new CEO. For the three business areas, we have a new head of Swedish banking. We are recruiting a head of Baltic banking and if you look at the support functions, we have a new chief compliance officer; we are recruiting a chief risk officer; we have just recruited a head of communications and sustainability that will start later during the year; and we have a new board, a strengthened board secretariat and a new board secretary, and the head of the CEO office unit, the unit has been dissolved. So in many ways it is a new bank.

When I had been here for 70 days, I took the step forward and presented a new organisation and the idea was to live up to the values in Swedbank. Simple, open, and caring. So I wanted to do the same thing with the new organisation and I wanted to make the group leading the bank; the group executive committee (GEC), more efficient and more competent to act.

Therefore, I reduced the number of members from 17 to 14 and those who are members of this committee should be the heads of business areas and the control and support function. GEC meet once a week and that is the place where we take the important decisions. I also want an organisation that has full focus on the customers and I want to give you two examples of this. We merged group IT and digital banking and thus bringing together the expertise within the digital areas in a clear channel function because the digital meeting is both about stable systems and about developing user-friendly services and interfaces with that playfulness and creativity, which I think has been the trademark of Swedbank.

The second change is concerning data. In many ways, I think data will be one of the most important things for a bank in the future and now is the time to bring capacity to collect and to analyse data closer to the customer and therefore I moved it into Swedish banking and they also support Baltic Banking.

A third goal of the reorganisation was to strengthen governance and internal control. One example is the anti-financial crime unit, which is responsible for the bank's work to prevent crime, including the action programme – I will talk about it sooner – has today the equivalent of 300 full-time employees and we expect them to be 400 people by year end. Swedish banking has also established a so-called customer regulatory management team to ensure full compliance with the AML and the team will have an equivalent of almost 200 full-time employees by year end. It is important to always know that you're doing the right things and that you are doing things right.

I've also chosen to make a number of evaluations using external expertise. So first, we are making an evaluation of our work against money laundering because we made quite a lot of improvements in this area in a short time, and what I would like to do is to have a professional evaluation, both from the US and a European perspective. We're also doing a review of the compliance function because we need to be sure that those who look at that we follow the rules within the bank also follow the rules themselves and we're looking at peers, so we make sure that this is sort of top standards.

And finally, I've said that let's have a look and assess the corporate culture because I ask myself, Swedbank has been involved in so many problems during the years, that I ask, 'Is there a problem with the corporate culture?' I don't know, but let's find out.

The fundamental purpose of the reorganisation is to be more effective in implementing our strategy so that Swedbank becomes the modern digital bank with the physical meeting points we want it to be.

Now, let me spend a few words about the money laundering crisis. Before that, I just want to say one thing and that is that the board wants to make the point to all senior managers that they share the responsibility for full compliance and has therefore decided to scrap variable remuneration under the profit-sharing programmes for the 170 most senior executives during 2019.

Now, the last time we saw each other, I showed a timeline with important events going forward. I will do the same today and I know that after a while you will be tired of this, but I intend to continue with this only so you always know where you are. And let me start with the Clifford Chance investigation.

Now, the basis for this investigation are the 30 billion transactions that's been made between 2007 and March 2019. What they're doing is they're going through this, scrutinising the whole bank. They are looking through board protocols; they are looking through KYC documents and processes and also the transaction monitoring system. And the Q4, also, if you look in the report, it lists the areas that the Clifford Chance report will cover. We expect that Clifford Chance will present their conclusions close to when the supervisor report presents their conclusions. I have promised that the conclusions of this investigation will be fully communicated, and we will be as open and transparent as we can be.

Both the Swedish FSA and the Estonian FSA are now nearing the end of the investigation they initiated in February last year, and on December 20th we replied to a request for comment on their so-called notification letter. And we stated in that answer that we share many of the preliminary conclusions and observations made by the Swedish and Estonian FSA and we expect to receive the conclusions of the Swedish and Estonian authorities' investigation in March and then we'll see whether we get any fines and if we get any fines we will, of course, then know what size of the fines.

We are also being investigated, as you know, by a number of US authorities and these are processes that we had a much harder time understanding and which, honestly, we have a limited insight into and let me come back to this when we know more about these processes and how they are progressing.

This year's Annual General Meeting will take place on March 26 and it's my hope and belief that from then on the AML issue will subdue and we can have full focus on our business at the same time as we are combating money laundering.

The next slide shows an update of the 132-point programme I came to you during Q3. As you notice, it's not now 132-point programme, it's 152. And the reason for that is that we've added some initiatives, and in the slide you can see on what kind of areas we are seeing the increase of the number. Now, how is this progressing?

Well, as you've seen of the 152 we've concluded 67 of these, and out of the ongoing we have 51 green, six yellow, and 11 red ones. Now, red ones mean that they did not deliver on time. But we are, of course, delivering on them as well and we expect them then to come into total completion. I'm not going to go through any details about this. You can read that in the report, but also in the annual report for 2019 we will be clear on how these 152 points, how they are dispersed.

Now, at the turn of the year 2020 and 2021, we would have come a lot closer to reaching our goal that Swedbank should be an industry leader in the work to prevent money laundering. But I also want to say another thing that comes up as the debate on this and that is that the increasing regulatory requirements to make Swedbank and all other banks will make it in some parts more difficult for customers to deal with. Legislation and regulation have been tightened up and become tougher in recent years and anyone who, for any reason or another, is unable to provide the information required by law may have their account frozen and, in some cases, terminated. And we see a growing criticism of what many customers perceive as unreasonable requirements when it comes to disclosing information, that this is a debate that's ongoing very much now in Estonia. I met the Prime Minister a few days ago and he brought up that, and I think that's an issue that will come in Sweden as well. We will devote a lot of energy and creativity to develop processes, system support, and routines so that ordinary customers can avoid unnecessary hassle.

Now, let me focus on the important stuff because in the end, we exist for two purposes. One, to deliver customer value and deliver good returns to our shareholders. And as I said in the beginning, we, today, present a stable result in turbulent times. We have a net profit this year of 19.7 billion kronor and that's down a bit from 21.1 billion in 2018. Both net interest income and net commission income grew year-on-year but the expenses and credit impairments were also higher. We deliver a Return on Equity of 14.7% and despite tough competition and all the AML-related costs impacting result, our return to equity during the year was close to our financial target of 15%.

When you look on the core equity tier one capital, the ratio buffer is around 190 basis points. And that means that we have a robust capital position. What we, the board, will propose a dividend proposal of 8 kronor and 80 öre (cents) per share to the Annual General Meeting and that on background on the solid capital position and the strong underlying capital generation. And this corresponds to our 50% dividend payout target, which I think is the right thing to do.

Now, looking ahead. Well, first let's talk about the investigation cost. We have spent around 1.1 billion SEK during '19 on investigation costs and costs for 2020 will continue to be on a high level and we put out, we expect it to be 800 million kronor, but that's a lot of uncertainty on that, but then we expect them to go down.

Regarding possible fines. It's uncertain, we don't know whether we will be fined, and if we get fined, we do not know how large the fine should be. And, as I just mentioned, that the Swedish FSA will communicate any possible fines in March and in Estonia the situation is similar, but the difference is they have not communicated any time schedule, but they have said that they will

come in conjunction with the Swedish FSA. And thanks to our solid capitalisation and high capital build-up pace, we will be able to handle any fine the authorities can apply.
Then, we see increased competition. And looking at our main products, the competition continues to be fierce. And this is true for several products on market but, as you know, this is particularly noticeable in the Swedish mortgage market and recently the competition has been particularly fierce from incumbent peers chasing market shares using price. If you looked on the compliance cost. Well, the compliance costs for running a bank continues to increase and this is a cross-industry characteristic that is here to stay.
At the same time, we are increasing our investment because, despite the competitive pressure and cost inflation, we continue to invest more than ever in our customer offerings, and we invest to remain the leading bank for the many household and small and medium-sized companies in all our four home markets.
Finally, on the financial targets. Our financial targets remain unchanged. While reaching a Return on Equity of 15%, it is a challenging task, but I firmly believe it's reachable with hard and dedicated work and I, and we, at Swedbank will continue to focus on cost discipline and to drive income growth by allocating resources to develop our customer offerings.
With that, I hand over to the CFO, Anders Karlsson.

Anders Karlsson
Thank you, Jens. I would like to first also take a moment to summarise the year from a financial perspective. We ended the year with a Return on Equity of 14.7%, which is just below our target. The financial result was heavily impacted by the extraordinary actions the bank has had to undertake to get to the bottom with the historical AML shortcomings. All in all, we had extraordinary expenses of more than 1.7 billion Swedish kronor. Despite these financial headwinds and the turbulence we experienced during the year, we managed to maintain our strong income generation capacity.
Total income increased year-over-year, driven primarily by benign market developments and higher short-term interest rates. Asset quality remains strong. And finally, before I go through the details of the fourth quarter, on the back of the changed dividend policy, we have been able to strengthen our capital buffer despite higher capital requirements in 2019.
Now, let us look at the latest quarter, starting off with net interest income – which is lower quarter-on-quarter. Swedish private mortgages continue to grow, around 4 billion in the quarter, but at a slower pace as we captured lower market shares in new lending compared to our back book. Mortgage margins were lower on the back of increased competition and higher market rates. Corporate lending in Swedish banking and LC&I declined by 7 billion, mainly due to higher amortisations in the quarter and FX.
Corporate margins did also decline due to higher funding costs in the quarter. Lending grew in all three Baltic countries in euro terms, but due to FX effects declined in Swedish krona terms. Having said that, we see continued solid lending growth development in all three countries. And lending margin increased in the quarter, both in the private and corporate segments while deposit margins decreased slightly.
Group Treasury's NII was impacted by a repricing mismatch. The internal pricing mechanism repriced deposits immediately while the asset repricing is phased in. So, in a quarter with increasing deposit margins and decreasing lending margins, one should, as we have said before, look at group Treasury and business margins combined. You should therefore expect group Treasury's NII to recover in the next couple of quarters, everything else being equal.
Over to Net Commission Income – which was stronger this quarter. We saw the usual season effects in cards, as usage is typically lower than in the third quarter. The asset management business benefited from the overall positive market development in the quarter and a positive contribution also came from higher corporate finance activity with several M&A and equity financing deals. In addition, we received the annual covered bond market maker fees while income from lending and guarantees was lower due to decline in lending volumes.

Turning to net gains and losses and other income. Higher interest rates in the quarter led to large positive valuation fix in derivatives both in LC&I and Treasury. In addition, share price development in the visa and Asiakastieto Holdings resulted in 240 million of positive effect. Underlying FX and credit rating activity was solid in the quarter. And lastly, looking at some of the other core products of the bank: insurance and income from partly owned saving banks were stable in the quarter, while EnterCard saw somewhat slower sales and higher claims. On the other hand, EnterCard sold a credit portfolio, which generated roughly 165 million in a one-off capital gain.

Let me also say a few words about asset quality, which remains strong in all our core segments. Credit impairments in the quarter were, however, higher at around 1 billion. That is mainly due to impairments in oil-related exposures. Another round of restructurings took place leading to additional provisions. The overall exposure for Swedbank towards this sector is small and the portfolio is, in large parts, in run-off mode.

Turning to capital. The CET1 capital ratio increased to 17% and the buffer to the Swedish FSA's minimum requirements stands at around 190 basis points. Net profit, excluding dividends impacted the CET1 capital base positively. So did the pension liability valuation, following higher long dated interest rates and therefore higher discount rate, which more than offset the higher inflation expectations.

The risk exposure amount decreased by 7.3 billion in the quarter. The main drivers were a stronger Swedish krona and a net decrease of the Article 3 add-on, due to lower exposures in the corporate portfolio in question.

Please let me now look ahead and provide you with our initial thoughts on 2020. As Jens already mentioned, we see many challenges going into 2020 but also plenty of opportunities. All our home markets demonstrate solid and still growing economies, albeit at a slower pace than previous years. Corporate and private customer activity is therefore expected to continue being at a good level with the caveat of externally driven factors such as geopolitical tensions. Lending margins are under pressure as market rates have increased and asset repricing is lagging. On the other hand, deposit margins have risen, offsetting the pressure. We expect these margin movements to more or less have cancelled each other out with regards to NII impact for 2020, assuming stable market rates. As communicated before, we expect the resolution fund fee to be 400 million lower in 2020 compared to 2019. In this environment, we believe it's imperative to continue prioritising origination discipline and pricing. We do not see any broad-based worrying signs in terms of asset quality. There are, however, oil-related segments still with overcapacity that might require additional restructurings.

As Jens also mentioned, there are several headwinds in terms of expenses for this year. We expect total expenses in 2020 to be around the same level as in 2019 – I will shortly provide you with more details. But before doing that, though, a few words about capital.

Our underlying capital generation capacity is intact and solid. At our current profitability level, we are creating roughly 300 basis points of CET1 capital ratio per year. Our dividend policy allows for around 150 basis points to grow our lending and further strengthen our capital buffer. As you know, there is some uncertainty with regards to future capital regulations, but also the decisions authorities will take soon relating to the bank's AML processes. Having said that, we feel comfortable with our capital position amidst this uncertainty.

Now let's walk you through the expenses estimate for this year. We expect to need to spend around 800 million kronor further in AML-related investigations. Clifford Chance will complete their investigation in Q1. Additional investigation costs thereafter depends on authorities' requests. We have also chosen to further strengthen our legal advisory team in relation to the US. As I'm sure you understand, there is high uncertainty linked to this type of expenses. I have provided you with our best guess at this moment.

Jens talked about our 152-point programme, which includes several initiatives to further strengthen our AML processes and systems. We are hiring to establish middle office functions within Swedish banking and Baltic Banking, which will unburden customer-facing functions in everything from KYC, EDD to off-boarding. In addition, the AFC unit will continue to ramp up and implement additional IT capabilities.

Since the long-dated interest rates decreased year-over-year, compared to 2018, our pension costs will be slightly higher for 2020.

Last but not least, we will continue investing heavily in developing the bank. Focus areas for 2020 will be savings, our corporate offering and further digitalisation of core processes in order to be competitive in the future. All in all, we expect total expenses for 2020 to be around the same level as in 2019.

I believe we are now ready to take any questions you might have. Operator, please.

Q&A

Operator

Thank you. If you would like to ask a question, please press 01 on your telephone keypad now.
Our first question comes from the line of Peter Kessiakoff from SEB. Please go ahead. Your line is now open.

Peter Kessiakoff

Yes, good morning. Hi. Thank you. So a few questions from my side. First of all to, I guess, Anders on the cost numbers that you went through at the end there, if I understand it correctly, the 800 million in AML investigation costs are quite variable, or it is very dependent on questions from the regulator and so on, which could then fade during 21 and onwards, if everything settles. But when we look at the 850 million in AML-related development costs, and I think also, Jens, you mentioned, that you're staffing up on various areas mentioning increases in FTEs, should we assume that that part of the costs is sticky and that that will be a higher run rate going forward? That's my first question.

Anders Karlsson

Thank you, Peter. Yes, you're right. The 800 is the best guess. It's virtually impossible to forecast that. The 850 on the other hand, yes. As we have said before, we are ramping up so it's creeping into run rate. Part of it is IT investments, part of it is flesh and blood, which we need at this point. The question is whether you will need that long term, but at this point we are ramping up, definitely so.

Peter Kessiakoff

OK. Then a question on the lending side. I think you mentioned that given where we are in the cycle and so on, there's a need to be a bit more prudent on credit standards and so on. And I think you, Anders, mentioned that you have some exposures towards the oil segment, which could be considered in run off, that's where you could see additional losses. Is it possible to quantify, first of all how large that book is and then secondly, on the comment on being more prudent, should we assume that perhaps corporate lending growth remains slower going forward than we've seen before?

Anders Karlsson

Thank you, Peter. The portfolio in oil-related exposure is around 15 billion and it is in run off, as we have said previously, but it's definitely so that they are struggling with overcapacity in that area, especially in Norway, so I would expect another round of restructuring coming this year if nothing special happens to the oil price or to the demand. When it comes to origination standards – we have talked about that before – but one simple example of what I mean, is if we believe that we are low for long in the interest rate, you see yields being pushed down consistently in the commercial real estate sector and if you are viewing that as an LPV game you are in deep trouble potentially, so you need to look at the debt service more from an operating income perspective and stress that from that perspective, but also from a vacancy perspective. So you need to be a bit more cautious in specific sectors and that is an example of what I mean with origination standards.

Peter Kessiakoff

OK. And on the oil portfolio where you said you expect more restructuring, is that something that could perhaps impact your loan losses during 2020 or have you provisioned for that already now?

Anders Karlsson

We have a certain provision level. But as you saw in this quarter, we have made additional provision and I wouldn't rule that out to be coming in 2020, but I will not give you guidance on credit losses that you asked for.

Peter Kessiakoff

Okay, then just a final question. The AGM is on the 26th of March and, as you also mentioned, the FSA will come with the conclusions from its investigation during March and I guess we don't know when. And in connection with that, it's likely that the bank gets a fine. How will you manage a potential fine given the dividend and the decisions during the AGM for the dividend? Could you potentially, perhaps, take an active decision to front load the effect of a fine. So, in essence, adjust the dividend for

2019 lower with the equivalent amount of the fine and could you potentially take an AML provision ahead of the AGM when you have a bit more certainty in terms of the fine, in terms of the magnitude?

Anders Karlsson

Thank you, Peter. I think it is virtually impossible to answer the question before we have the facts on the table. Having said that, again, I think the bank has flexibility in doing either or, coming back to our capital position. But it’s a normal regular procedure as far as I'm concerned, but it's impossible to answer at this point.

Peter Kessiakoff

Okay. Thanks for that.

Operator

Thank you. Our next question comes from the line of Mats Liljedahl from Handelsbanken. Please go ahead. Your line is now open.

Mats Liljedahl

Yes, good morning. Thank you. I think Peter covered most of it there, all my list. But just to clarify, you had made no reservations whatsoever for any possible fines that could come out on the investigations? And then if you can elaborate on, we see that you don't take really the back book market sharing on mortgages, for instance, and there has been price pressure, etc., but what do you hear from clients? Have they forgotten about the AML now or is that an issue you need to address in the client meetings? Thanks.

Jens Henriksson

Hi this is Jens. First, we haven't made no provisions for any fines. But we have a good and stable capital position; we will be able to handle any possible fines. Now, when it comes to the mortgage market, in many ways, I think Swedbank last year faced a perfect storm because, on the one hand, we saw sort of the trust in the bank going down and the confidence in the bank, and the second thing is, we saw an increased market pressure on this, both from new incomers and from the big incumbent peers. Our response to that has been to emphasise what we are good upon. We have a full customer offering when people come to us. We've been around for 200 years. We lend in the whole country and we do not want to be a leader nor – we don't want to have the highest rates or the lowest rates. So when it comes to the development right now, we see that it's dissipating in terms of the questions about confidence and we will continue to follow this market very carefully on a daily basis.

Anders Karlsson

And just to add to what Jens said. We saw in the beginning of the year, or the spring, when we talked to customers who were prone to leave us that there was a division between price and, to a certain extent, the AML-related issues. The AML-related issues disappeared during the year, but what you have seen during 2019 is especially established players running extremely aggressive campaigns, so it's been enormous price pressure coming from them. Not necessarily consistent but in a campaigning fashion and there you can see that price has been one of the reasons for customers leaving us and going to another bank.

Mats Liljedahl

OK, thanks. And if you just see going forward, do you think prioritising the volume or margins here and do you really want to regain the volume growth or will you stay disciplined?

Jens Henriksson

Well, for us, it's about quality and not quantity. We have a very strong focus on profitability there.

Mats Liljedahl

OK, thank you.

Operator

Thank you. Our next question comes from the line of Chris Hartley from Redburn. Please go ahead. Your line is now open.

Chris Hartley

Hi there guys, thanks for taking my questions. Can I just firstly ask about NII, following the Riksbank rate hike. Could you perhaps talk us through what you've done on pricing and from what I've seen you've done a little bit less than some of your peers and perhaps give us a sense of whether you might consider further actions going forward and maybe why you've taken that approach?

And then secondly, just thinking about what the regulator might do to you come March time, do you think you'll just get a fine from them or is there a chance they'll require more, other remediation actions that might hit your cost line a little more? Thanks.

Jens Henriksson

Well, I think, on the last question first I mean, we do not know what the regulators will come out with. We've been very clear that we've had shortcomings. I've said that we have not had good enough internal controls and we need to strengthen governance and we will see both from the Swedish FSA and from the Estonian FSA what they come out for and I'm not going to comment on that until I see that.

When it comes to the questions on the mortgage market, we will continue to underline that we are a full service supplier and we do not intend to go into a price war here. Anders, do you want to add anything?

Anders Karlsson

I think that's partly what the 152-point program is about remedying some of the shortcomings. So we are sort of doing whatever we can to close some of those issues for obvious reasons. Secondly, on pricing, we choose four basis points at this point. We are following the market, as Jens said. We prioritise profitability but being at the low market share we are at this point, it is not what we are striving for. And an additional interesting topic for you to look at is the inverted list price curve that you can see in the Swedish market. So it's kind of a balancing act to certain extent. If you make that slope too negative, you might expect customers to move from three months to three years, essentially meaning that the margin pressure would be even higher. We saw that when we hiked prices last time a year ago. During the first quarter, there were flows of around 6-7 billion from three months to three years. So it is a delicate balance. We follow the market and we will take action if we see that we can take action.

Chris Hartley

OK, that's great, thanks very much.

Operator

Thank you. Our next question comes from the line of Andreas Håkansson from Danske Bank. Please go ahead. Your line is now open.

Andreas Håkansson

Thanks and good morning, everyone. We've gone through a lot of things, but just a quick follow up. Anders, could you just confirm – did you say that with the rate hike we saw and the margin pressures on the fourth quarter, going into 2020 if there's no changes in interest rates, you would expect total net interest income margins to be stable?

Anders Karlsson

Yes. Essentially flattish and then you have the resolution fund fee.

Andreas Håkansson

Yeah. That's helping you. And then in terms of volume growth, could you give us – this year was a weak year for you for various reasons, but what do you expect in terms of volume growth for 2020?

Jens Henriksson

This is Jens, and the answer is no, we're not going to give guidance on that. We have followed this on a daily basis and we are ready to act if we need to.

Andreas Håkansson

But would you expect to continue to lose market share on the mortgage book or do you feel that you have now turned around so you can capture closer to your back book?

Jens Henriksson

Well, I'm not going to go in there, but I think one thing to keep in mind is also that we've seen – we sell through different channel. One, is our own banks and one is also through the savings and loans banks and they have seen sort of lower volumes coming in from them and we have seen lower volumes coming in from them during the last few months and that happens now and then.

Andreas Håkansson

Okay, fair enough. Thanks.

Operator

Thank you. Our next question comes from the line of Nicolas McBeath from DNB Markets. Please go ahead. Your line is now open.

Nicolas McBeath

Thank you. Good morning. So just to get back on the NII question once again, please. If we look on the Treasury on business areas combined, as you mentioned, and think about the whole NII for Swedbank in Q4 – how should we think about the dip in Q4 versus Q3? How much do you see it was driven by underlying pressure on margins, and how much explained by timing effects as the asset repricing, as you mentioned, lags the rate hike? If you could elaborate on that?

Anders Karlsson

There are two effects: it's the FX effect, but it's also the repricing mismatches you are eluding to. And when I say margin pressure, it comes from the fact that market rates are moving up, we are repricing our liability side faster than our assets side, which is phased in gradually. So the margin pressure I talked about is actually from increased market rates in the quarter.

Nicolas McBeath

OK, and just to be clear, we should not expect any of these timing effects to reverse in Q1 and Q2 in 2020 as you indicate stable net interest margins in total? Is that correctly understood?

Anders Karlsson

But that's my point. It will stabilise in the coming quarters when asset repricing are coming in. But there is a repricing mismatch and you see it clearly in Q4. It will, given market rates being stable, come back gradually. What I said is sort of a flat NII development with the exception of the resolution fund fee release of 400 million.

Nicolas McBeath

OK, thank you. And then just a question on cost as well. If you could say anything about how we should think about cost beyond 2020, given that you have all these investigation costs and one-offs in 2019, and then you have some underlying cost pressure as well from the investments, but should we expect at any stage nominal cost to come down eventually or do you expect the underlying cost pressure and investments into the bank to compensate for maybe the investigation costs falling off at some point?

Jens Henriksson

Well, I'm not going to give a guidance more than is already given, but I think the key point is that if you look on 2020, we look sort of at the cost of 800 million kronor for the investigation, the Clifford Chance investigation, and I hope this investigation will not keep on going forever. My key focus here is that both – we have, as I said in my presentation, is that we have a Return on Equity goal of 15%. That is tough to reach. This year showed that we only had 14.7, but we will stick to that and we'll stick to having a high cost discipline going forward. And, as we speak, it's going on as well. Thank you.

Nicolas McBeath
Okay, thanks.

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

Robin Rane
Yes, hi. Good morning, and thank you for the presentation. So two questions, please. On loan losses in the quarter, how much discretion do you have with regards to timing of these impairments? Is it mechanically due to restructurings and so on, or do you have some discretion with regards to the timing?
And then secondly on capital, looking forward, can you give us any estimate of the RWA inflation, that we expect from Basel 4, given what we know about Basel 4 at this stage?

Anders Karlsson
To answer your first question, we typically act early on when it comes to impairments. It's a combination of PD migrations, i.e. stage two, but it's also individual provisions in stage three.

On your second question, as I said, there are regulatory uncertainties out there. The EBA overhaul of the internal ratings-based approach is the first thing that will hit us. It will definitely be risk exposure amount inflation from that exercise. The big question outstanding is whether the Swedish FSA will do anything on the other side of the equation, i.e. take away some of the buffer requirements that they put in place for Swedish banks; that we don't know. In a situation where, as we are now, I think, as we have stated, our ambition is to have a capital buffer between 100 and 300 basis points to cater for uncertainties like this.

Robin Rane
Alright. Thank you very much.

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

Magnus Andersson
Yes, good morning. Just on, getting back a bit to your volumes. Jens, you mentioned the independent savings banks and that the contribution in terms of mortgage loans are lower, or you indicated that the contribution is lower than it has been in the past and that it varies, do you think that there could possibly be a structural shift here where they have chosen, and will continue to choose, to keep more of the mortgage loans on their own balance sheets, considering that the larger ones are issuing their own cover bonds, etc. and they are quite rich on capital, or do you see them coming back when we look into 2020-21?

Jens Henriksson
Well, first, I mean that's a difficult question to answer. We talk with them on an ongoing basis, but you have to remember we talk about 58 – I think it's 58 different savings and loan banks. Some are really, really big and they can go out in the markets; others can take on their balance sheet. And so I'm not going to give any forecast about how it will look in the future. But if you look on the history, there are periods when they do like this, and there are periods when you see the opposite happening.

Magnus Andersson
When I look at the November statistics, you had 24% market share of the back book and 6% of new lending. If you would exclude the independent savings banks, how would those figures look?

Jens Henriksson
I think those numbers are like 19%. We have a back book that's 19% in our old distribution channels, and this in November during the quarter was around 12%, so that explains quite a lot.

Magnus Andersson

OK. Thank you. And then just shortly coming back to your corporate lending book that – now, back to the level of the first quarter. Without giving any explicit forecast, do you think the corporate lending book will continue to shrink or to grow into 2020 or just stay flat?

Anders Karlsson

Thank you, Magnus. We expect the corporate lending portfolio to grow in 2020.

Magnus Andersson

OK, thank you. And then finally, on income – a topic we haven't touched upon. If you look at Asset Management, I know that your average assets are up by 8%, I think in mutual funds, and 9% in discretionary, while your fees are up 4% or potentially 5, if I exclude performance-related fees. So there's obviously margin pressure here. Is it purely mix effects or have you done anything to your product pricing during the year?

Anders Karlsson

No, it's not any change in pricing; it's a mix change to index and mixed funds.

Magnus Andersson

OK, thank you very much.

Operator

Thank you. Our next question comes from the line of Sofie Peterzéns from JPMorgan. Please go ahead. Your line is now open.

Sofie Peterzéns

JPMorgan. So I just wanted to have a follow-up question from the previous conference call. Last time you mentioned you had no sanctions breaches. Now we are thee months later. Have you found any new sanctions breaches or is the answer still the same?

Jens Henriksson

The answer is still the same. It works like this, that Clifford Chance is doing their investigation. And that they have what I call a lever. So if they would find a sanction breach, they would pull that lever and call me immediately and let me know. And so far they have not called. Does that mean that I can rule out that we never had any sanction breaches? No, of course not. I'm just telling you that so far we haven't found anything.

Sofie Peterzéns

OK, and in terms of the Clifford Chance report, are they only looking at Estonia or are they also looking at Latvia, Lithuania? And the reason I'm asking is because there were some press reports last year that you have had some transactions going through to FBME, which is on Syrian chemical weapons. So is the Clifford Chance report only looking at Estonia or also Latvia and Lithuania?

Jens Henriksson

Well, actually they're looking even further, they are looking at Sweden as well. They're looking through 30 billion transactions. 15 billion transactions come from Swedish banking and 15 billion from Estonia, Latvia, Lithuania and they are looking for everything. They're looking for possible money laundering. They are looking for weaknesses in governance. They are looking for responsibility. They are looking for possible sanctions breach. So it's a very broad scope and if you look in the quarterly report we have that list, because what we have got is the skeleton of how the report will be, sort of different chapters, and that we've communicated in the report. And as I promised, we will be very open and transparent. As open and transparent as we can be about the conclusions of this report.

Sofie Peterzéns

So the Clifford Chance report will be similar to the Danske Bank report. So you're going to come out with a hundred page summary of their key findings? Or how should we think about the Clifford Chance report that will be published?

Jens Henriksson

I'm not going to go in there and compare it to the other banks. I'm just going to tell you they're doing a thorough investigation. The cost, as we talked about, was 1.1 billion last year and we expect it to be 800 million this year. They will come out with a report. That report will come probably close after the Swedish and Estonian FSA. How that report – how many pages, I don't know. We have seen a skeleton and I will be as open and transparent as I can be given the different rules and regs that surrounds us.

Sofie Peterzéns

But just to clarify. So you will publish the Clifford Chance report to the market?

Jens Henriksson

No, I have not said that I will publish it. I have said that what we will do, is we will be as open and as transparent as we can be and we will sort of convey the conclusions. But does that mean that the report will be public? I do not know yet because there are different rules and regs around this and I do not want to get into a situation where I break any laws. But we will get back on that and thanks for asking about this.

Sofie Peterzéns

OK, and then just regarding the 20 billion cost that you are guiding for in 2020, or this year. Just a follow up – should we see the 20 billion as a floor or is it a cap? So should we expect that you're not going to be above 20 billion, or 20 billion is where you think you're going to be, but there is a risk that costs actually are higher than 20 billion?

Jens Henriksson

Well, that is a guidance. That's our best guidance and best, sort of, how we see it right now. But these sort of investigation costs are difficult to know how big they will be because it depends on what kind of questions we get from different authorities. But, Anders, you want to follow up on that? I can say one thing before I give the floor and that is we continue to have this tight control on expenditures. We've sort of given – on the investigation we've left out more, but we continue to have a very tight cost control.

Anders Karlsson

Yeah, and to answer your question slightly different. When it comes to the cost that we can affect, we talk about caps. We have a cost frame that is allocated and we steer upon that. The volatility that you might see come from FX, it comes from pension and it comes from these external investigations. So we are not talking about a floor, but there is uncertainty in parts of the cost guidance.

Sofie Peterzéns

OK, that's clear. And then just a follow-up question. So in the report you mentioned that there is uncertainty relating to the Swedish banking package. Could you just give a little bit more details? What do you expect? Which Pillar 2 requirements do you potentially think will disappear and what do you think might go into Pillar 1?

Jens Henriksson

At this point, no. We stick to the assumptions that we have communicated before when it comes to the volume of senior non-preferred that we need to issue up until 2022. But we will come back when we know more about this. But there's uncertainty when it comes to the national debt office and it is regulatory uncertainty when it comes to capital calculations.

Sofie Peterzéns

Do you think the Swedish banking package might mean that your capital requirements go up?

Jens Henriksson

I don't want to speculate in what the Swedish FSA can and cannot do at this point. But if you look into the capital requirements stack that they have, there are certain elements of pillar two add-ons that might be reasonable to take away if you hike the risk weights and make them more through the cycle.

Sofie Peterzéns

OK, thank you very much.

Operator

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

Riccardo Rovere

Good morning to everybody. Just three clarifications if I may. The first one is on NII. All the commentaries you gave us today, my understanding is that you think that the benefit of the 25 basis point higher repo rate will be eaten, eroded by competition. Is that a fair way of interpreting what you have stated on NII? This is my first question.

The second question I have is on AML and capital, if I may. Bloomberg is reporting that you stated you are financially strong enough to withstand any fine coming out of Sweden, Estonia and Bloomberg is mentioning the US too. But right at the beginning of the call when Peter asked about a potential upfronting of fines eventually affecting the dividend that you are proposing today – if I got his question right – you answered that it is impossible to answer this question at this stage and the two statements, let's say, look a bit contradicting one each other to me. So am I getting something wrong or how should I read your statements?

And the very final question I have, on the strength of the franchise, my understanding is that the market share you're losing is a) your deliberate decision and b) or eventually 'b' is a matter of aggressive pricing campaign from other players that you deliberately do not want to follow. So in a theoretical world, what I understand from your statement is that the strength of the franchise remains intact and it's just your deliberate decision not to follow certain aggressive campaigns. Is that right to say?

Jens Henriksson

Well, thank you for your good questions. As I said before that our focus is profitability. So I think you're pretty close to the truth, is that we follow this market and we act if we need to. The second point, when it comes to possible fines, I don't know if I misspoke or this Bloomberg that you mentioned – I haven't seen that – but the key point is that we have a robust capital situation and we looked on every possible fines that could come – we do not know – from the Swedish and the Estonian FSA and we say that we could handle any possible fines by the Swedish and Estonian FSA during this year.

Anders Karlsson

Yes. And just to be clear, Riccardo. We do not know when the Swedish FSA will come back to us. It will most likely be in March. The AGM is set for the 26th of March, so even though we have theoretically had the possibility to restate 2019 and write the new annual report, then we need to move the AGM. There is a lot of processes around that. So our point is that with the capital situation and with the profitability level that we expect for 2020 we can cater for any fine, any possible fine, coming from the Swedish or Estonian FSA. That is what we are trying to convey.

On your first question the answer is yes.

Riccardo Rovere

Just to get back on the second question. Basically, when you decided to change the dividend policy and when you decided to set the buffer between 100 and 300 basis points, that amount of capital that you are retaining on top of last year, in a theoretical world, that should be enough to withstand the fines in Sweden and pay the 8.8, right?

Anders Karlsson

But to reiterate what we said in conjunction with Q2 when we changed the dividend policy. We did that for a number of reasons. One was the fact that we were running at a fairly low buffer level at that point, and we saw the countercyclical buffer increase coming in September and you don't want to micromanage your loan business in a situation like that. You want to give the flexibility and freedom to the business to actually do the business. AML was of course a consideration because it will be, if there is a fine, a sort of decrease in the capital generation capacity when that hits. That was also part of the decision, but it was not the main reason behind the decision of changing the dividend policy.

Riccardo Rovere

OK, it's very clear. Thank you very much.

Operator

Thank you. The next question comes from the line of Jens Hallén from Carnegie. Please go ahead. Your line is open.

Jens Hallén

Morning. I have two clarifications. One has to do with the oil portfolio. Can you give us an idea of your current coverage levels there? And then secondly, to do with the 152-point programme. Should we expect new initiatives to be added after March or have you already incorporated initial findings from the FSA and Clifford Chance on the increased number of points? Those are my two questions.

Jens Henriksson

So I'll answer the question about the 152-point programme. As you see we've gone up from 132 to 152. Will that continue to increase? Most likely, because mainly I would say from the Clifford Chance investigation because they are looking at if we have weaknesses. We have a big database where we collect all these things that people tell us you need to do and we've looked very much on this sort of proposals or ideas that come from the Swedish FSA. Will there come any new ones in their decision in March? I do not know. Let's look at that then.

Anders Karlsson

And sorry, on the first question, we need to come back on that. I don't have it on the top of my head, but we will get the answer to you.

Jens Hallén

OK, thank you very much.

Operator

Thank you. The next question comes from the line of Martin Leitgeb from Goldman Sachs. Please go ahead. Your line is open.

Martin Leitgeb

Yes, good morning, just a brief follow up on NII and your earlier comments there. I was just wondering to what extent you can give us a bit more steering in terms of what kind of legacy rates are going to come off just in a way of thinking about maturity transformation or, in other countries is called structural hedge, or some bond portfolio. If you just look at some negative impacts, are they essentially rolling off in 2020 NII. I'm just trying to understand the moving part within NII for 2020. And the second question, I was just wondering if you could give us a steer on risk cost going forward. So risk cost obviously picked up considerably in the fourth quarter, given the oil exposure. I was just wondering whether you could give us a steer on what you see as normalised risk cost for Swedbank from here or the other way around if you think where consensus is at the moment, if it's kind of an appropriate level. Thank you.

Anders Karlsson

Thank you. On your second question, we are not giving you a guidance on the risk cost. What I said is that our ambition to continue to be a low-risk bank is imperative and that is why I talked about keeping strict origination standards. On the moving parts, it's not that we are running huge yield curve risks, but there are mismatches in the shorter space of the yield curve. I can give you two examples: Deposits are repriced immediately while mortgages are phased in during a three to six month period. On the corporate side, you might run with three months' funding and you might have fixing periods up to six months. So it's gradually coming in, and there is no structural hedge to talk about and there is no big bond portfolios into the calculation; it's normal repricing mismatch.

Martin Leitgeb

Okay, thank you. Maybe as a follow up: in terms of the Swedish mortgage book, could you give us a steer about how the risk parameters they are changed, direction on the values and how you see the risk there evolving? Thank you.

Anders Karlsson

When it comes to the mortgage portfolio, that's not the risk I was talking about. We have been conservative when it comes to mortgages for quite some time. As you know, we have the LPV caps. We have the debt to income amortisation rules. We also have stress on the affordability that is quite substantial. So as far as the mortgage, private mortgage, portfolio comes that's the least of an issue from an asset quality perspective. I talked about the yields coming down in the commercial real estate where you need to be carefully looking for their operating income and their debt service ratios. That's what I was talking about.

Martin Leitgeb

Perfect. Thank you very much.

Operator

Thank you. And the next question comes from the line of Jacob Kruse from Autonomous. Your line is now open.

Jens Henriksson

Before that, sorry I have to leave. I have to give another talk but Anders will stay a few more minutes. Sorry. Thank you, everybody for calling in.

Jacob Kruse

Thank you. So I guess I just had one question. On the cost side, you're talking about the temporary spending uplift on AML and the investigations, but if you look out to 21-22, do you sense that you are holding back on other investment spending in other areas with the focus being very much on this AML? So what I'm asking is, once these things fall off should we assume that there is a bit of a step up in more ordinary business expenses or development of product, etc.? Thank you.

Anders Karlsson

Thank you, Jacob. What I've said during Q1, Q2 and Q3 is – it's a very relevant question – but what I said is that it would be easy to put things on the back burner, just to focus on AML. But what we have done is that we have actually increased our investments in developing the underlying sort of business-related issues for the bank so that is partly why you see that we are growing our cost base at this point, so we are not holding back. I think that would be devastating from a strategic perspective. So we are pushing through on all the things we have talked about and, in addition, we are pushing through on the AML-related investments.

Jacob Kruse

OK, thank you.

Operator

Thank you. And as we have no more questions registered, I'll now hand back to our speaker for any closing comments.

Gregori Karamouzis

Thank you, operator, and thanks everyone again for joining us on this call. We will speak and meet most of you on the road over the next couple of days. Thank you and have a good day.