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Presentation

Annie Ho

Thank you, Naz. Good morning, everyone, and a very warm welcome to the presentation of Swedbank's 2020 year-end result. In the room with me today is Jens Henriksson, our CEO; Anders Karlsson, our CFO and also Rolf Marquardt, our CRO. We will, as usual, begin with the presentation and opening comments, followed by a Q&A. For this time, we would like to limit the number of questions to two per person at a time in order to allow everyone a chance to ask the questions. So, without further ado, I'll hand over to Jens.

Jens Henriksson

Well, thank you, Annie, and good morning, everyone, and welcome. I am proud to today present a stable quarter in difficult times. It was a quarter once again dominated by COVID-19. Overall income was stable, the housing market and private mortgage demand is strong. Companies though, have held back on new loans. We see a continued inflow of deposits, while central banks are adding liquidity in the capital markets and pushing credit spreads down. The economic uncertainty remains, and it's still bleak in society and the economy due to the pandemic. Life is still held back by restrictions, but thanks to the vaccine, there is a light at the end of the tunnel.

A few days ago, IMF forecasted world economic growth this year at 5.5%. If that were to materialize, it would be the highest world growth rate since 1973. Continued government support through fiscal and monetary policy is critical. Our economies at Swedbank also see a recovery. This year, GDP in Sweden is expected to rise 3%, and we are closely monitoring developments and are prepared for the possibility of setbacks. The rollout of the vaccine is the biggest risk provided that fiscal support is sustained.

Well, you all know that 2020 was a year filled with challenges. A tough year. During spring, the Swedish FSA gave us a hefty fine, and we received a precept from the Estonian FSA. A few days later, Clifford Chance presented their report on our historical shortcomings combating financial crime, and then the pandemic hit the world, and the bank once again adapted in a way at least I had not thought was possible. Within a few days and weeks, we were working from home, taking care of our customers through customer centers while taking precautions to make our local branches safe. Our most important accomplishments in 2020 are tied to the challenges we faced. Let me start by AML.

During 2020, we addressed our history and strengthened our efforts to prevent financial crime while being transparent about it. At the end of 2020, we closed our 244-point action plan to remedy the historical deficiencies which we had reported on since I came in. Further actions are now a part of the bank's continuing development work. And last quarter, we responded to the Estonian FSA precept, and last week they informed us that we have met their requirements.

We have introduced new enterprise risk management, reworking our whole risk appetite framework, and today we are presenting a new corporate structure for clearer governance of our Baltic subsidiary banks in Estonia, Latvia and Lithuania. And we have hired people. During 2021, we will be nearly 1,500 people working full time against financial crime, or almost every tenth person in the bank. On top of that, all employees in the bank have a personal responsibility to combat financial crime in their daily work. Let's then move to sustainability.

In 2020, we saw once again green financing grow, and Swedbank was in the top three of ranges of green social and sustainability bonds in the Nordic region. We've also developed a framework for green equity, and during the fourth quarter, we, as the only Nordic bank, qualified for the Dow Jones Sustainability Index. It's a mark of quality. We want to be a part in the transition from oil and coal to renewables. Our fund company, Robur, is showing the way with their decision that all its assets under management will align with the Paris Agreement by 2025 and be carbon neutral by 2040. In this context, and in line with our revised strategic direction, the bank has taken the strategic decision to stop financing unconventional fossil fuel production, such as shale oil and gas, arctic oil and gas, or oil sand, nor will we finance exploration of new oil or gas fields with the exception of clients whose business strategy is aligned with the Paris Agreement.

And then, move to, I think, the most important part, namely, meeting customer needs in COVID-19 times. During the pandemic, Swedbank has continued to adapt. We are a digital bank with physical presence. Our digital tools, including a calculator for government support, have been visited millions of times. Events held through our digital channels have had hundreds of thousands of views, and we now have virtual solutions where customers can receive advice face-to-face, and we have a way for young people to get the BankID without having to visit the branch to schedule COVID tests, for example, and we will continue to invest in stability and resilience so that we are available 24 hours, seven days a week, 365 - and sometimes 366 - days a year without interruptions. Our customers need to be able to trust Swedbank. I am proud that Swedbank now is the most popular brand in the Baltic region, and our efforts to strengthen trust in Sweden are moving forward.

In the end of 2020, we decided on a new strategic direction. It's not a revolution, but an evolution based on our 200-year history. It is fully anchored with all our 16,000 employees through our culture work. Our purpose, Swedbank's purpose, is to empower the many people and businesses to create the better future, and our vision of the better future is a financially sound and sustainable society. And based on our long-lasting and strong commitment to sustainability, we have defined our customer promise: Together, we make your financial life easier. And this will guide how we develop our customer offering. Our values - open, simple, caring - are still valid.

We have also defined the foundation we base our business upon. First, Swedbank should be an attractive workplace with a culture based on inclusion and accountability. We will continue our work with employee engagement and have launched a programme to strengthen leadership within the bank. Our infrastructure should be standardised, scalable and stable. Customers should be able to trust that they can access Swedbank when they need, through the channels they prefer, and we should be an efficient, profitable and compliant bank and financial services platform.

We maintain our target of return on equity of 15%, and we should have the leading cost-income ratio. We continue to invest in compliance and our capability to effectively and efficiently fight financial crime. With this strategic direction, all employees in Swedbank will work to create long-term value for our shareholders, customers, and society. And during the year, I will come back in a structured way on how this strategy will be realised.

Now, let me say a few words on our results for the fourth quarter. Swedbank's fourth quarter delivered a stable result in difficult times. Total income increased, primarily due to strong development of net commissions and net gains and losses. Net interest income was slightly down due to higher deposit guarantee fees for the full year. Expenses are higher due to seasonal effects and the hiring of more people in the anti-financial crime area. Credit impairments for the quarter ends at half a billion and is mainly explained by provisions related to our exit portfolio in the oil and offshore sector. And due to continued uncertainty on the economic outlook, we had the management overlay on 600 million to neutralise the release due to the projected upswing. Return on equity was thus negatively impacted by seasonally higher expenses, credit impairments and further accumulation of net profit, and ended at 11.8%. The capital situation improved, and we ended the quarter with a buffer of around 500 basis points above the requirement.

So, where does this lead us on 2020? Well, first, 2020 was a year like no other. For the global economy, for our customers in their daily life, and for the bank’s business. Over the course of the year, earnings were stable, even under these extreme circumstance stances, but profit as a whole was weaker than usual, weighed down by the fine from the FSA and provisions for credit impairments in accordance with IFRS 9. Expenses have increased due to AML-related work and continued IT investments. Our liquidity and capital position remain strong, and the board has suggested a dividend of 25% for 2019, corresponding to 4.35 krona per share. That will be discussed at an extra general meeting February 15. For 2020, the Board of Directors is proposing a third dividend of 2.90 per share, and this will be discussed at the annual General Meeting.

And with that, I give the floor to our CFO, Anders Karlsson who will, in more detail, present the result. Now, it's your turn, Anders.

Anders Karlsson

Thank you, Jens. Let us turn to the quarterly result in more detail. I will first talk you through the volume development and the P&L in more detail, and then, ask Rolf to speak about asset quality and creative provisioning before I sum up with a few remarks on capital and some forward-looking comments, then handing back to Jens to conclude.

Compared to last quarter, we had underlying lending roles, but due to a significantly strengthened Swedish krona, the total loan portfolio decreased by 6 billion. Mortgage-lending in both Sweden and the Baltics continued to grow steadily in local currencies. But corporate lending continued to be muted. Corporates remain prudent on refinancing risk, which is reflected in the growth that we see in committed facilities, although the propensity to utilize these facilities has continued to gradually decrease since the second quarter. Instead, corporates have been turning to the debt and equity capital markets for funding, and capital at attractive levels. Customer deposit inflows continued, this quarter increasing by 55 billion, mostly from corporates.

Now, let us look at the quarter over quarter result, starting off with net interest income, where the underlying NII is stable, but FX and a higher deposit guarantee fee for the full year impacted negatively. The trend that we saw over the third quarter continued into the fourth quarter, where deposit volumes increased, and average lending volumes decreased slightly. Market rates continue to fall, impacting lending margins positively, but deposit margins negatively, reminding you that assets reprice gradually whilst deposits are impacted immediately.

Over to net commission income, which was strong. Card commissions were lower as a result of the second wave of the pandemic impacting card activity, but the asset management business continues to perform and are well-reflecting the development in the equity markets. Income was also positively impacted by annual performance and market- making fees in Sweden. And we had a positive development within ECM.

Turning to net gains and losses that were higher in the fourth quarter. There were good levels of client activity in LC&I, particularly in FX Trading, and the CVA, DVA, and bond valuations also impacted NGL positively.

Other income was stable. While the income from insurance and partly owned savings banks was stable, the share of profit from Entercard was low, however.

Let us look at expenses before I hand over to Rolf. Full year 2020 underlying expenses ended spot on our 19.7 billion guidance. Total cost ended on 24.56 billion, of which 4 billion were related to the fine from the Swedish FSA and 850 million to costs related to the AML investigations.

As previously discussed, the number of FTEs has increased markedly over the year as a consequence of us hiring new competencies and a low attrition rate due to COVID-19. Out of the increase of almost 1,000 FTEs during 2020, around 500 was in AML and compliance, and around 350 were in IT. In the fourth quarter, higher headcount and the usual seasonal increase of costs led to higher expenses.

I will now hand over to Rolf to talk about asset quality and the credit provisions that were made in the quarter. Please, Rolf.

Rolf Marquardt

Thank you, Anders. Now, when we summarise 2020, we can conclude that the credit quality remains solid, and a very large part of our portfolio has not been impacted by the pandemic. When we look at the internal late payment statistics, development of customer credit quality and the different early warning signals, we see that credit quality in general has been stable during 2020 and remain at the same level as a year ago. The exception to this is the oil sector and also, to some extent, some other sectors that have been more directly impacted by COVID-19. This is also the explanation behind the credit impairment ratio of 12 basis points in the quarter.

Out of total credit impairments in 2020 of 4.3 billion, oil-related losses accounts for 2.9 billion within our large corporate institution's division. The remainder of impairments are related to other sectors, and mainly explained by stage two migrations in COVID-impacted sectors, where expected credit losses have increased, but with a limited number of actual defaults and bankruptcies so far.

The total credit impairment for the fourth quarter was 523 million. The IFRS 9 calculation of expected credit losses based on updated macro scenarios pointed to a release of impairments of 639 million. At the same time, an additional post-model expert portfolio adjustment of 672 million was made in the fourth quarter, which was allocated to the sectors significantly impacted by COVID-19.

The reason for this is twofold. First, the deterioration in economic activity in some sectors have not yet resulted in an increase in actual defaults, which may have been postponed by the governmental support. The second reason is the significant continued uncertainty related to COVID-19. The individual assessment resulted in a further provisioning of 394 million, which was explained by a single individual oil-related exposure. Rating migrations during the quarter were limited.

The final note on our oil-related exposure within shipping and offshore. Our oil-related offshore exposures remain limited and are, to a significant degree, in run-off. The exposure was 12.6 billion, as per Q4. We have 6.2 billion at Stage 3, and 63% of that has been provisioned for.

So, with that, I hand over to you again, Anders.

Anders Karlsson

Thank you, Rolf. Let me now turn to capital.

The risk exposure amount was stable quarter over quarter. Credit risk exposure amount decreased slightly due to a stronger Swedish krona. The CET1 capital ratio increased to 17.5% with the profit in the quarter and the pension liability valuation having impacted positively. The accrued dividend from profits generated in 2019 and 2020 is still deducted in accordance with our dividend policy of 50% from CET1 Capital. The buffer to the Swedish FSA's minimum requirements stand at around 510 basis points. Over the coming quarters, changes to our requirements will occur as new regulations are implemented. In this context, we are confident that we will remain well-capitalized and are reiterating our capital target range of 100 to 300 basis points.

Let me now move to some forward-looking comments before I hand back to Jens to conclude.

Considering the current situation, income is expected to be stable year over year. NII will be supported by growing Swedish mortgage loan volumes, while continued muted corporate loan demand and higher price competition in retail mortgages will weigh negatively. We expect deposit volumes to remain at high levels and foresee continued deposit inflow while market rates will likely remain low or negative, which will put pressure on deposit margins.

Also, considering fees paid to central banks for placing excess liquidity with them. Replacing maturing bonds with primarily retail deposits and issuing cheap recovered bonds will help to largely mitigate the mentioned headwinds. We expect the resolution fund fee and deposit guarantee fee to each be around 50 million more for 2021 than 2020.

Underlying expenses of 19.7 billion in 2020 will reach 20.5 billion in 2021, mainly due to the higher number of FTEs reflecting an increased ambition to improve AML compliance and IT resilience, as well as to strengthen governance in the Baltics. We intend to maintain underlying expenses at 20.5 billion for 2021 and 2022. Regarding AML investigation costs, we can only make a best estimate at this time, which is around 500 million for 2021 and 2022, respectively.

Let me end on a positive note. Swedbank, with its large customer base, broad and deep offering, and strong financial position is well-equipped to capture the opportunities when the situation normalises, and the economies are recovering.

Now over to you, Jens.

Jens Henriksson

Thank you, Anders, and thank you, Rolf.

2020 has been a challenging year, but our core business is strong and stable. We've made major investments and added significant resources in the fight against financial crime. As a result, we have a lower operational risk profile, but with increased costs. We expect underlying costs during 2021 to level off, and we do not expect further increases in costs for coming years.

We have delivered on governance, AML, and the price risk management, cultural assessment, customer solutions, and the new strategic direction, all while in the midst of a pandemic. Our capital position and capital generation capacity are strong, and we are proud to distribute dividends to our shareholders. During this spring, we will pay out 7.25 per share, if the general meetings so decide. We want to give out more dividends in accordance with our dividend policy and on monitoring the economic development and communication from supervisor authorities.

Our revised strategic review gives Swedbank a clear direction. A direction with focus on sustainability. I am confident about the future. We are a bank that empowers the many people and businesses to create a better future for another 200 years.

Thank you. With that I give the floor back.

Q&A

Operator

Thank you. Ladies and gentlemen, if you do wish to ask a question, please press 01 on your telephone keypad. And if you wish to withdraw your question, you may do so by pressing 02 to cancel.

Our first question comes from the line of Magnus Andersson from ABG. Please go ahead.

Magnus Andersson

Yes, good morning. My first question would be on capital and dividends. Just to try to make this clear, should I read your comments in the report around dividends that you would like to suggest even more dividends? That, if we assume that the restriction is lifted on the 30th of September, we could very well get the second instalment in the second half of the year? And if that is the case, would you consider share buybacks as a tool to repatriate capital shareholders in addition to dividend? That's the first one.

Anders Karlsson

Thank you, Magnus. What we have expressed is our ambition to keep to the dividend policy of 50%. So, yes. If we will be able to distribute dividends after September 30, we will do that in accordance with the dividend policy. I think it is too early to talk about share buybacks. We have that in our toolbox, and we ask for that mandate on every AGM. But as I said, I think it's too early to talk about that. But we stick to the dividend policy, with the obvious comment that we are following the authorities closely in their language.

Magnus Andersson

OK. Thank you. That's clear. And my second one is on NII. You mentioned a couple of factors there in your outlook statement, primarily mortgages than deposits and the lower funding costs, as well as fees. I was just wondering if you could say something about the corporate lending project, which has been quite weak also relative to the market now for a while. And related to that, if I add up the factors you mention, is it fair to assume a flattish NII year on year in 2021?

Anders Karlsson

If I start with the question on corporate volumes, I'm not sure that we, Magnus, are sticking out immensely compared to competitors. What we have seen during the year is, if you take Swedish banking, for example, we have lost volumes on tenant owner associations, which is a price and margin issue for us.

When it comes to the larger corporates, primarily, I would say within the real estate sector, they have had the possibility to issue in the corporate bond space at much lower rates, and that's why you see that committed facilities are increasing rather than lending. So, I'm not sure if we stand out more than anyone else. I think it is a similar pattern, and the remaining part of the corporate sectors are a bit hesitant to take on new aggressive investment loans.

To answer your second question on NII, that is the best estimate I can give you at this point, that it is a flattish development.

Magnus Andersson

OK. Thank you very much.

Operator

And the next question comes from the line of Andreas Håkansson from Danske Bank. Please go ahead.

Andreas, if your line is on mute, can you please unmute yourself?

Andreas Håkansson

Sorry for that. So, on the revenue guidance you just gave, Anders, we hear that you talked about a flattish NII, but did you say that you expect a flattish total revenue for 2021? Or did I misunderstand that?

Anders Karlsson

No, that is our best estimate as we speak. But as you know, we are well-positioned, especially when it comes to the commission income, but we have seen a muted card activity, which is very dependent upon the development of the pandemic situation, and the asset management is, as you are aware of, exogenously-determined very much by the stock exchanges, so that is the best estimate as we speak.

Andreas Håkansson

We don't know where equity markets are going to go, but we know where it is today. And of course, it is significantly higher today than the average over 2020. So, you must have very significant tailwind on that line. And also, card payments. Would you say that it's hard to imagine that we're going to have, for example, a Q3 equally bad as in 2020? So, shouldn't be a tailwind into 2021?

Anders Karlsson

As I finished my speech, Andreas, we are well-positioned for an economic recovery and a normalisation. That is for sure. But at this point, I think it is a bit aggressive to take that into consideration. That is why I said flattish, but you are perfectly correct that we are well-positioned, especially on the commission row.

Andreas Håkansson

OK. That's it for me. Thank you.

Anders Karlsson

Thank you, Andreas.

Operator

And the next question comes from the line of Adrian Cighi from Credit Suisse. Please go ahead.

Adrian Cighi

Hi, there. Thank you very much. Adrian Cighi from Credit Suisse. Two follow-up questions, please, on capital, and actually, one on impairments. So, on capital, how do you expect credit risk migration to impact you in 2021, and do you have any estimates for the potential impact of the model review that could impact capital again this year? And then, on impairments, would you be able to offer us any insights? How do you expect impairments to develop in 2021, given the vast range of uncertainties still remaining? Thank you.

Anders Karlsson

Thank you. I think we will divide the answer between myself and Rolf. On the rating migrations, we have seen rating migrations, negatively rating migrations during 2020. I can't give you an estimate of a continuation, but if I put it this way, if the economies are recovering, you will see rating migrations, but to the other direction. But I leave the floor to Rolf.

Rolf Marquardt

Yes, and if you look at the credit migrations we've seen during the last quarter, they have been more or less neutral. So, the migrations we saw in the second quarter, in particular. And then, going into 2021, we don't make any forecasts about that, but what you should also keep in mind is that we will gradually move into using new models as a part of IRB overhaul, and that means that the impact from credit migrations will be much less severe than it had been in the past when it comes to capital adequacy.

And then, when it comes to the question of impairments and the potential impact on IFRS 9 calculations and so on, we don't make any forecasts about that. We can conclude that uncertainty is still big when it comes to development of COVID-19, and we have provision what we think is the right thing at this point. So, the best assessment is one you have at the table at this point.

Adrian Cighi

Thank you, Rolf. Can I follow up with a question just for clarification? You mentioned the new models. Can you give us an estimate on the impact of those new models to the capital ratio?

Rolf Marquardt

No, we haven't communicated the impact, and that is an ongoing exercise where the Swedish FSA will go through those models and approve them during the year. So, it's a bit too early also to make a very precise estimate of that. But we haven't communicated potential impact from that, but it will increase capital requirements to a certain degree.

Adrian Cighi

Thank you.

Operator

And the next question comes from the line of Johan Ekblom from UBS. Please go ahead.

Johan Ekblom

Thank you. Can I just follow up on your cost guidance, please? I'm trying to understand where your 800 million increase in underlying costs is coming from. You say that there is an increased headcount component to that, but I guess that's been a gradual increase through the year. It still looks like quite a chunky year-on-year rise in underlying expenses. So, if you can give some more colour on what's driving that, that would be very helpful.

Related to that, you say expenses will peak in 2021 and 2022. So, does this mean that some of these AML investments -and not the investigation expense - are expected to remain for the next two years and then taper off, or how should we think about the longer-term cost trajectory?

Jens Henriksson

Thank you. It's Jens here. Let me first say, when you look on the quarterly results, you will see that costs for wages have gone up a little bit more than I think was expected from the market. So, there has been a build-up of the number of people, and that will then come into 2021. But we've also been very clear that we want to continue to invest in stability and resilience and different customer solutions. So, actually this is a year where I think we have the highest development budget ever. So, we are not giving up on our business ambitions. On the contrary, we are taking strong measures to strengthen that.

When it comes to the coming years, we have not given any guidance. We now give guidance on 2021 and 2022, as we promised during the year, but of course, I hope that in order for us to reach our long-term goal, that is to strive for an industry-leading practice in the fight against financial crime, I believe we can do a lot more when it comes to digitisation. But right now, we're handling three different things at the same time: dealing with the backlog, working with the present, and investing for the future.

Johan Ekblom

Just on the same topic, the AML investments that you outlined, I think it was a year ago, were expected to come down gradually. What's replacing that? What are the new areas of investment as those AML investment expenses come down?

Jens Henriksson

I think we need to do more investment in a lot of areas. And AML investment, we have not said that this much would be AML investment, and this will be other investment. But of course, in the steady state, looking forward, we think that you could see lower costs on this area, but we need to work with investments in order to get there.

Anders Karlsson

I think what I have said also, Johan – Anders here - is that we have been building FTEs gradually over 2020. They are now giving us the full year run rate. So, that is the first one.

Secondly, even though we have been putting a lot of effort in the so-called 244-point programme, there is a continuation. We need to use flesh and blood going forward. We have not been able yet to automate or use machine learning or artificial intelligence or whatever to increase efficiencies. So, we are still working with AML and financial crime-related issues and IT-related issues.

And then, we also will have a certain degree of cost increase due to the change of the Baltic banking governance where we are clarifying the legal structure. And with that comes, as far as we understand, an increase in VAT expenses. So, there is a combination of different things. But I think you need to have in the back of your head that we have had 1,000 more new people coming in that will have a full year run rate effect in this year.

Johan Ekblom

All right. Thank you.

Operator

And the next question comes from the line of Sofie Peterzéns from JPMorgan. Please go ahead.

Sofie Peterzéns

Morning. Here is Sofie from JPMorgan. I was wondering if you could just talk a little bit about the 2019 and 2020 dividends. Is it correct to assume that you never fully reversed the 2019 dividend, what is the of the 4.35 that you now are proposing? And similarly, the that you reserved in the four quarters of 2020. That hasn't been reversed.

And then, my second question would be on the Swedish banking tax. Do you still expect it to come, and do you have any update on what the potential impact is? And how should we think about any potential offsets for the banking tax that is scheduled to come? And are there any other regulatory impacts that we should expect in the coming years? Thank you.

Jens Henriksson

Well, as you know, we have the dividend policy that we want to give out 50% of our profit. And we have accrued that for 2019 and 2020. What we now do is that we first have an Extra General Meeting where we propose a dividend of 25% of the profit for 2019, and then we have the Annual General Meeting where we propose a dividend of 25% of the profit for 2020. That altogether sums up to 7 krona and 25 öre.

When it comes to the banking tax, we've kept a low profile from Swedbank. And mostly, it’s been the Swedish Bankers Association being out arguing about that. We think it's a tax that hits the big banks more than the small banks. And we think that people putting deposits in a bank that that would mean higher taxes for us. We think that's unfair and not good in the present economy. But the politics of this I think you have to ask somebody else than us because that's decided by Parliament.

Annie Ho

Yes. In terms of timing for that, Sofie, the consultation period for the bank tax ended in November 2020, and that's very much in the government's hands now. But potentially, what I hear is that they may propose a law in June this year, and then there will be a Parliament decision thereafter over the summer.

Sofie Peterzéns

Very clear. Thank you very much.

Operator

And the next question comes from the line of Jens Hallén from Carnegie. Please go ahead.

Jens Hallén

Perfect. Thank you. Two questions from me. I wonder if I could follow up on the provisions, and it's just to understand your thinking here. If we assume that the economy develops as what you've put into the models, and given the significant provisions you've already taken, are there particular reasons why provisions should be elevated during 2021?

Rolf Marquardt

We haven't made a forecast that they will be elevated. What we have done is to not release those reserves for the reasons I mentioned. And that's very much tied to the uncertainty related to the future development of COVID-19 and obviously, also some of the sectors that have been severely impacted by COVID-19, but where we haven't seen a default yet, but deterioration in credit quality. So, that's the foundation for it. So, that's where we are.

Jens Hallén

Okay. I was also drawing on comments from one of your friendly competitors that they think it's going to be elevated, whereas I think I take from your comment that the uncertainty is captured into your portfolio assessments.

Can I also ask a question on capital? Of course, you reiterated your dividend policy. You still hold a 50% accrued dividend deducted from capital for '19 and '20. Does that mean you believe you don't hold any significant amounts of excess capital, taking into account long-term capital requirements?

Anders Karlsson

Yes, that's exactly what I tried to communicate, that although we are running at the 500 roughly basis points buffer, we know that there will be a number of changes during the year. One is, as you saw at the year end when the banking package came into play, the systemic risk buffer was decreased by the Swedish FSA. During autumn they will come back with what is called the Pillar 2 guidance, which is a Pillar 2 add-on that will come. And then, as Rolf alluded to, we have the IRB overhaul where we need to rebuild our credit models, which is most likely increasing requirements, and that is why I reiterated that the capital target range of 100 to 300 basis point will continue to be relevant.

Jens Hallén

Perfect. Thank you.

Operator

And the next question comes from the line of Namita Samtani from Barclays. Please go ahead.

Namita Samtani

Morning. I've got two questions, please. The first one on corporate loan activity. I understand it's weak, but what about the other revenue streams from corporates? Is that still strong, as a competitor of yours alluded to last week? And secondly, given the continuous inflow of retail deposits which you expect to continue, do you foresee customers switching their deposits into other products such as mutual funds, which are perhaps more profitable to you, or are they sticking to the deposits? Thanks.

Anders Karlsson

Thank you. If we take the first one. What we have seen - and I tried to allude to that - is that our advisory income has increased in the quarter. We have been participating in debt capital market transactions for the corporates, but also equity capital markets transactions. So, in that sense, we see positive momentum on other income lines than on NII from corporate lending, or the muted corporate lending.

When it comes to deposits, I think that what you see is people being cautious. They are putting their money into savings accounts to buffer up for unexpected happenings in their lives. So, they have been hesitant to put them into mutual funds, and I think it is a delicate balance from an advisory point of view as a bank to. Even though we would earn more on mutual funds, it is a balancing act of delicacy. So, I foresee continued inflow on deposit accounts going forward.

Namita Samtani

Thanks very much.

Operator

The next question comes from the line of Jacob Cruz from Autonomous. Please go ahead.

Jacob Kruse

Hi. Thank you. Just two quick questions. Firstly, the AML investigation expenses in 2021. Can I read anything into that with respect to the timeline for the regulatory investigations in ’21 and 2022 that you are still looking forward to two years of investigations?

And then, secondly, just on the capital, what I take from your comments is that you're not really seeing a right-sizing of the capital base in terms of distributions this year. It's more potentially topping up to the 50% total pay-out with Q4, assuming regulatory and other conditions are in place. Thank you.

Jens Henriksson

Thank you, and good morning. First, no, you can't read anything into that. We have an ongoing investigation. We've seen a pick-up a little bit on the activities during the fourth quarter, but it's very hard for us to give any predictions and forecasts on how long this will last, and what efforts it will bring. We answered the questions and are engaged with the US authorities, and we tried to give the best guess, and our best guess was 500 million for 2021, and 500 million for 2022. You should not read anything else into that.

Anders Karlsson

And you’re right on the capital side. We reiterate our 50% dividend policy. And as I said, we have in our toolbox share buybacks, if that would be relevant, but it's far too early to talk about that.

Jacob Kruse

Thank you.

Operator

And the next question comes from the line of Martin Leitgeb from Goldman Sachs. Please go ahead.

Martin Leitgeb

Yes. Good morning. Good morning from my side. One clarification on capital, and then, a broader question on the mortgage market and the impact. On capital, I was just wondering if you could call out what the expected impact of Pillar 2 guidance would be in terms of your requirement. By how much would your requirement increase, and if it's expected for the third quarter this year?

And more broadly, on the mortgage market in Sweden, I was just wondering if you could comment on how you see the competitive landscape and competition evolving, just given your comment that you expect a continued amount of deposit inflow and funding to the market. And related to that, I know that the flow share of Swedbank has gradually decreased in the last few months. Should we expect that trend to continue or stabilise from here? Or would your ambition for flow share be closer to your stock share, which is obviously higher? Thank you.

Jens Henriksson

Thank you. If you look on our back book share, it's 23%, 24%. And if you look at the front, it's not as strong. And there are many reasons for that. One reason is that we are a bank that is all around Sweden, but we are a little bit weaker in the large cities than in the whole of Sweden. And if you look on where the money has come from, it's mainly been the Stockholm region, and I think almost half during 2019 in the increase of loans came from the Stockholm area.

Another reason is also that we have the local savings banks where they can put their mortgages into Swedbank, and they've also seen an increase of deposits, meaning that they do not need us the same way they did before. But of course, we can do more, and we have a focus on this. If you look, for 2020, we've grown our mortgage with more than 50% than we've grown in 2019. So, it is a focus area, and we will do everything we can in order to be competitive in this area.

Anders Karlsson

And on your Pillar 2 guidance question, the best guess is one percentage unit. And again, coming back to Jens's answer on the mortgage side, all participants experience more or less the same development, with a muted corporate loan demand and a lot of liquidity and strong capital positions. And if there is one single sector growing when it comes to loan demands, you would expect the competition to be elevated in a situation like this. But it's also as Jens said. We have come from a tough year in 2019 with the AML issues. We move into 2020. The pandemic hits. We are regaining slowly, but not to the extent that our ambition is. But we will continue to work on it. That's for sure.

Martin Leitgeb

Very clear. Thank you very much.

Operator

And we have one more question from the line of Rickard Strand from Nordea. Please go ahead.

Rickard Strand

Yes. Good morning. Two questions on the cost side. In terms of the FT increase, could you say anything about the trajectory you expect into '21 in the coming quarters? And also, on the cost guidance, what assumptions you make in terms of depreciations and the amortisations in the coming years, given your high capitalisation of your IT spending?

Anders Karlsson

Thank you. I think that what happened during 2020 were two things when it comes to FTE increases. One was that we needed to get more people in to work with the AML issues, and they will continue to do that in 2021. What we did not foresee, and we need to be honest about that, was the low attrition rate. Normally the attrition rate is around 10% in the bank, and now it went down to virtually single digit numbers close to zero. So, as far as FTEs comes, looking forward, flattish is my best estimate.

On the depreciation, and I take this from the top of my head, I would assume or expect 100 million more.

Rickard Strand

100 million per year in run rate.

Anders Karlsson

Yes.

Rickard Strand

OK. Thanks.

Operator

And we just have one final question from the line of Maria Semikhatova from Citibank. Please go ahead.

Maria Semikhatova

Yes, hello. Thank you for the presentation. A couple of questions. First, you previously mentioned that you're reviewing your merchant payment business. I don't know if you can provide any update on that. And on cost, just to clarify that your underlying cost guidance does not include AML investigation costs of 500 million. Thank you.

Jens Henriksson

We are still doing the review. And the second, yes. The cost for the investigation is not in the underlying cost of 20.5. On top], we've estimated 500 million for 2021, and 500 million for 2022. But that's only our best estimate.

Maria Semikhatova

OK. Thank you.

Jens Henriksson

Thank you.

Thank you, everybody, for asking questions. Always looking forward to keep on talking with you and thank you for following us.

Annie Ho

Thanks very much. Speak to you soon. Take care.