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SBAB Year-end Report 2018

SBAB's Year-end Report 2018 is now available for download on www.sbab.se/IR.

"2018 ended with a fourth quarter in which we continued to capture market shares in an increasingly competitive residential mortgage market. For the full-year 2018, SBAB's share of the net growth in the residential mortgage market amounted to a full 17%, which is more than double our total market share. An outstanding performance".

– Klas Danielsson, CEO SBAB

Q4 2018 (Q3 2018)

- Continued healthy growth. Lending to the public increased 1.7% in the quarter to SEK 364.2 billion (358.0). Total deposits from the public increased 3.7% in the quarter to SEK 124.9 billion (120.5)
- The CET1 capital ratio declined to 12.5% (31.5), as a result of the Swedish FSA's decision to amend the method for applying the risk-weight floor for Swedish residential mortgages from 31 December 2018. Read more on page 11 and under Note 10
- SBAB finished 2018 in first place for property loans to corporates and tenant-owners' associations and in fourth place with regard to residential mortgages to retail customers in Svenskt Kvalitetsindex's (SKI) annual survey of customer satisfaction in the banking and finance industry
- SBAB's Green mortgage launched for owners of tenant-owner rights in buildings with an energy rating of A, B or C, previously only available to house owners
- Launch of the final episode of SBAB's film series "Boendeekonomi är jättekul". At 15 February 2019, the episode had been viewed more than 6 million times on YouTube and Facebook

Jan–Dec 2018 (Jan–Dec 2017)

- Lending to the public increased 8.7% (13.2) during the year to SEK 364.2 billion (335.1). Data from Statistics Sweden show that SBAB's share of the net growth in the residential mortgage market totalled 17% in 2018
- Deposits from the public increased 11.6% (15.6) to SEK 124.9 billion (111.9)
- Net interest income rose to SEK 3,362 million (3,149)
- Expenses rose to SEK 1,049 million (959)
- Credit losses resulted in a recovery of SEK 11 million (recovery: 24)
- Operating profit rose to SEK 2,241 million (2,228)
- The return on equity was 12.1% (12.5)
- The C/I ratio increased to 32.0% (30.3)
- The CET1 capital ratio amounted to 12.5% (32.2). Read more on page 11 and under Note 10
- The Board proposes a dividend of 40% of net profit for the year, corresponding to SEK 690 million



CEO statement from Klas Danielsson:

2018 ended with a fourth quarter in which we continued to capture market shares in an increasingly competitive residential mortgage market. For the full-year 2018, SBAB's share of the net growth in the residential mortgage market amounted to a full 17%, which is more than double our total market share. An outstanding performance. Concurrently, the market was characterised by increasing concerns in terms of an economic downturn, a more uncertain housing market with a substantial reduction in new construction and of interest rate hikes by the Riksbank.

Despite 2018 ending with increased uncertainty regarding the market trend, our fourth quarter performance contributed to what can be summed up as an extremely strong and successful full year for SBAB. Accordingly, 2018 was another year where we succeeded in growing vigorously with good profitability while keeping credit losses extremely low. Our strong performance enables us to continue investing to enhance our customer offering and provide an even better customer experience. This means investments for future competitiveness in areas including IT, digitalisation, organisation and brand. These investments are designed to result in continued growth in terms of customers and users, and in rising market shares.

Credit and housing markets soften

The markets in which we operate are showing clear signs of slowing down. The combination of excessively rapid increases in overly expensive newly built housing with new complex, contractionary and mandatory credit rules from government agencies resulted in notable cooling of the housing market in 2018. In turn, this impacted the start of new-build projects, which could result in housing starts declining at least 30% in 2019 compared with 2017, despite the considerable need for new housing. Altogether, this impacts credit growth for residential mortgages and housing finance, which is expected to decline in 2019 compared with previous years. House prices for the country as a whole recovered slightly in the beginning of 2018 and have since, with some regional differences, remained relatively still during the year. We predict that house prices may decline further over the forthcoming years in pace with the Riksbank's expected repo rate increases.

The commercial consequences of a weakened credit and housing market will be increased competition between banks for growth in residential mortgages and housing finance, resulting in better terms for customers and weakened margins and lower profitability for the banks.

A sustainable and responsible business

In 2018, we launched Green mortgages. We offer Green mortgages to customers who live in energy-efficient housing, which we define as housing with an energy rating of A, B or C under the National Board of Housing, Building and Planning's energy rating system. We apply an interest rate discount of 0.10, 0.10 or 0.05 percentage points for the respective



energy rating. We continuously update our register with the Board's energy ratings for all properties. We then automatically match customers' homes with the register and change their residential mortgages to Green mortgages with the rate discount. In other words, our customers do not need to do anything themselves to obtain the Green mortgage. We consider this both transparent and responsible. We are the only bank in Sweden to act in this manner. At year end, our Green mortgages totalled slightly more than SEK 12 billion.

After the end of the fourth quarter, in January 2019, we issued Sweden's first green covered bond backed by residential mortgages. The issue amounted to SEK 6 billion, which made it Sweden's largest green bond issue to date. The issue was heavily oversubscribed and was priced with a "greenium", a green discount, of 3 basis point. Through our Green mortgages and our green bonds, we have achieved our goal of creating a green ecosystem of money. Accordingly, we thereby contribute toward achieving the Sustainable Development Goal (SDG) – No. 13: Climate Action – by 2030.

An attractive workplace is the key to success

Success in a competitive market requires a value-driven working approach. Our value-driven working approach is about inclusive leadership and self-driven employees, where everybody is able to make smart decisions in their daily work. The working approach is built on clarity, transparency and trust, which create strong commitment and make us an attractive employer.

In 2018, we finished in eighth place in "Great Place to Work's" list of Sweden's best workplaces, in the category larger companies. Being an attractive workplace is an absolute necessity to create, develop and strengthen commitment among those working at SBAB and if we are to be successful in attracting ambitious, highly committed individuals with high capacities. Over the year, our brand has strengthened in the labour market, which we have noticed in the high calibre of the many candidates applying for our open positions.

Our customer offering is an ecosystem of services

We distinguish ourselves through our focus on our customer offering with attendant services in the housing and household finances ecosystem. Our services in Booli, HittaMäklare and SBAB solve many of our customers' issues in life's housing journey. Financing is our most important service, but we also want to build long-term customer relationships by offering valuable services to our customers to help with each phase of the housing journey. Booli is Sweden's second-largest search engine for housing units for sale, has Sweden's largest housing valuation service and offers Sweden's most comprehensive service for newly produced housing. HittaMäklare is Sweden's largest service for finding and recommending real estate agents. Together, we will create Sweden's best customer experience within housing and household finances.

In Svenskt Kvalitetsindex's (SKI) annual survey of customer satisfaction, we finished in first place for property loans to corporates and in fourth place for residential mortgages to retail



customers. This is a strong performance, although our goal of also having the most satisfied residential mortgage customers in Sweden remains. In 2019, we will work hard to realise this goal.

"Boendeekonomi är jättekul!"

In December, we ended the quarter and the year with the release of our advertising commercial in the form of the music video "Komma hem," (Eng. *Coming home*) with comedian Björn Gustafsson rapping together with the singer Julia Frej. The music video "Komma hem" wound up our communication program for the year – "Boendeekonomi är jättekul" (Eng. *Household finances are really fun*) – which we have worked with since 2017. The program for 2017 concluded with a packed comedy show "Boendeekonomi är jättekul" at Globen in Stockholm. 2018's finale, the "Komma hem" music video, had a target of 10 million views on YouTube and Facebook. At the time of writing, the music video had been viewed 6 million times and, the other day, YouTube declared it the strongest commercial in 2018. Very exciting.

But "Komma hem" is more than a fun commercial and music video. "Komma hem" is also serious and responsible. It spreads the message that household finances are not fun for everyone. In Sweden, there are societal groups that have no home or who are unable to enter the housing market, and there are other major socio-economic problems in the housing market. We want to use the significant role we play in the housing market to take responsibility, influence and contribute to better housing and household finances for society as a whole. One example of societal responsibility is our work together with other industry participants to help the societally disadvantaged and the homeless to get a home. Another example is our efforts to reduce and counteract the major problem of undeclared labour under unacceptable working conditions on construction sites, which withholds tax revenue from the state and distorts competition in the construction industry. Together with industry participants, we are endeavouring to create a framework to enable banks to set requirements covering how the financing of new housing construction is used. The framework aims to help eliminate undeclared labour. This is part of our contribution toward the realisation of the SDGs – No. 8: Decent Work and Economic Growth and No. 11: Sustainable Cities and Communities – by 2030.

A really high commitment

I would like to thank my fantastic colleagues for another successful year. With our high level of commitment, we will drive SBAB forward to new successes. Of this, I am convinced.

Klas Danielsson
CEO of SBAB



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