



Press release 18 July 2018

SBAB Interim Report January–June 2018

SBAB's Interim Report January–June 2018 is now available for download on www.sbab.se/IR.

Q2 2018 (Q1 2018)

- Lending totalled SEK 351.5 billion (344.0)
- Deposits totalled SEK 117.0 billion (115.3)
- Net interest income rose to SEK 850 million (831)
- Expenses increased to SEK 264 million (242)
- Loan losses amounted to recoveries of SEK 8 million (recoveries: 10)
- Operating profit amounted to SEK 575 million (576)
- Return on equity was 12.6% (13.0)
- The C/I ratio was 31.6% (30.0)
- The CET1 capital ratio was 30.3% (31.1)

January–June 2018 (January–June 2017)

- Lending totalled SEK 351.5 billion (315.6)
- Deposits totalled SEK 117.0 billion (102.7)
- Net interest income rose to SEK 1,681 million (1,556)
- Expenses amounted to SEK 506 million (476)
- Loan losses amounted to recoveries of SEK 18 million (recoveries: 5)
- Operating profit amounted to SEK 1,151 million (1,088)
- Return on equity was 12.8% (12.7)
- The C/I ratio was 30.8% (30.6)
- The CET1 capital ratio was 30.3% (31.4)

CEO statement from Klas Danielsson:

We are pleased and proud to have launched Green Mortgages during the quarter. Our Green Mortgages provide our customers with an incentive for investing in more sustainable and energy-efficient housing. In our operations, we take responsibility and contribute to collectively reaching the Sustainable Development Goals in Agenda 2030.

Our customer offering continues to attract many new customers, which means business is going well for SBAB. Our total lending increased 2.2% to SEK 351.5 billion during the quarter. Our total deposits rose 1.5% to SEK 117.0 billion. The underlying earnings trend remained healthy. The operating profit totalled SEK 575 million (576) and the return on equity amounted to 12.6% (13.0). The Common Equity Tier 1 (CET1) capital ratio was 30.3% (31.1). Sound finances together with growth, profitability and capital strength are prerequisites for being able to complete the investments necessary for an even stronger customer offering aimed at strengthening SBAB's long-term competitiveness.



Competition and conditions

The digitalisation of the banking and financial sector is increasingly clear and accelerating. Digitalisation enables new services and changes customers' behaviour and expectations. Established players are working intensively to retain, defend and strengthen their positions. Many banks and new players have entered the competition for residential mortgage customers. Some new players only offer mortgages to certain categories of customers and with the help of new types of financing solutions.

I would like to highlight the importance of responsibility. The long-term responsibility toward customers and for the confidence of the general public. Offering a mortgage is offering the opportunity to realize the dream of a home. Taking a mortgage of perhaps several million kronor is one of life's biggest decisions. This means that mortgage providers are subject to stringent requirements in terms of transparency, consideration and availability, which are the same as SBAB's value proposition to customers, and which forms the foundation of the high level of confidence we have built over many years. The advent of new providers and new financing solutions also highlight how important it is that the Swedish FSA ensures that the market sets the same requirements for banks and other providers, thus enabling competition on equal terms.

Essentially, increased competition is very positive — it leads to more customers obtaining better and fairer terms. Statistics from SBAB's interest-rate comparison service "Räntematchen," which allows consumers to compare their existing mortgages with the interest terms that SBAB can offer, indicate that many customers of major banks are still paying excessively high mortgage interest rates, sometimes by as much as half a percentage point.

SBAB's share of net growth in the residential mortgage market totalled a full 17% for the first five months, compared with our total market share of slightly more than 8%. This indicates strong growth and that we are capturing market shares. Increased price competition and lower funding costs resulted in us lowering mortgage rates in the quarter, first in May for the most popular maturities (3M, 1Y and 2Y), and then in June for the longer maturities. Transparency and attractive terms and conditions comprise central components of our customer offering.

Our lending growth means that lending responsibly is particularly important, moreover, our lending growth must be long-term sustainable. We believe this was confirmed by the Swedish FSA's latest annual mortgage survey. The survey showed that SBAB performed well in terms of several key performance indicators such as average loan-to-value ratio, level of indebtedness, amortisation rate and compliance with the amortisation requirement.

During the quarter, we have successfully adapted operations to new regulations that entered force during the quarter, such as the Revised Payment Service Directive (PSD2), which is



driving the exciting open banking developments, and the General Data Protection Regulation (GDPR), which is creating equal and uniform protection of personal data within the EU.

Continued uncertainty in the new build market

In Sweden's regional housing markets, signals indicate that the supply of housing has been greater than the real demand, both for existing and new builds. Examples of such signals include longer advertisement times, fewer bidders per object, falling bid premiums and a larger proportion of housing with lowered prices. The substantial increase in housing supply from new builds, together with the new repayment terms and tighter credit terms from the banks led to falling house prices in the second half of 2017. After a minor upward correction in early 2018, housing prices have essentially been still.

The number of homes for sale is at record levels and sales statistics show many housing developers are struggling to sell their newly built apartments, despite the continued strength of underlying demand for housing. As a consequence of the difficulty in selling newly built apartments at current price levels, the number of newly built apartments is expected to decline relatively rapidly over the coming years. Going forward, the overall pace of construction of new homes is expected to be far below the actual need for housing. Given the uncertain market conditions, we have for some time been more cautious in our lending to residential developers by focusing on established relationships and more experienced construction contractors. We still aim to increase our financing of new builds, since we want to help solve Sweden's housing shortage. However, an increasing number of new, cheaper homes are needed that people actually want and for which they can obtain a mortgage to be able to buy.

Sustainable customer offering

Housing accounts for a major share of Sweden's energy consumption. As a bank, our credit granting enables us to influence the market through requirements, stimuli and dialogue with the aim of reducing energy consumption. We are therefore pleased and proud to have launched our Green Mortgages during Q2 — a mortgage with a discounted interest rate for customers with houses with an energy rating of A, B or C. In Q3, we intend to launch Green Mortgages for customers who live in tenant-owner apartments. We already offer the Energy Loan, a consumer loan with a 0.50 percentage point discount on the interest rate for investing in energy saving measures in the home, and Green Loans to tenant-owners' associations on similar terms.

Green Mortgages are offered to those customers who have energy performance certified buildings with an energy rating of A, B or C. C is the lowest energy performance rating permitted for new builds under the applicable building regulations. The National Board of Housing, Building and Planning's statistics show that as much as 80% of Swedish houses and multi-family dwellings do not meet that level and, accordingly, consume more energy than what is permitted in new builds. Customers with a mortgage object with an energy rating



of A or B receive a 0.10 percentage point interest rate deduction on their mortgage, and those with an energy rating of C receive a 0.05 percentage point interest rate deduction.

A sustainable customer offering means we can influence and contribute to changing the world, and toward together achieving the Sustainable Development Goals (SDGs) under Agenda 2030. We have selected the SDGs 8, 11, 12 and 13 as the goals where SBAB's operations can make the clearest contribution.

I wish you all a wonderful, sustainable summer.

Solna in July 2018

Klas Danielsson
CEO SBAB

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