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Press release 29 April 2016

Interim report January - March 2016

SBAB's CEO, Klas Danielsson, comments:

Our strong earnings trend continues and our operations are still performing well despite a lower pace of new lending compared with recent quarters, albeit with continued favourable growth in deposits. Our deposit offering, which provides favourable savings rates for both private individuals and businesses, is growing stronger in a market where the major banks are offering zero interest at best. In January, we completed the acquisition of booli.se, a provider of housing services and a search engine for housing. Booli is performing well and we are continuing our efforts to develop the Group's future housing services. Although demand for residential mortgages and housing financing remains high, our new lending has slowed because, as a consequence of soaring housing prices and rising household debt, we have introduced more stringent credit rules and more strictly enforced amortisation rules, which, at high loan-to-value ratios, meet the new amortisation requirements detailed below. In the preceding quarter, we also terminated two mortgage brokering partnerships, resulting in a reduction in new lending during a phase-out period in 2016.

Intensive regulatory development

On 20 April 2016, Finansinspektionen (the Swedish Financial Supervisory Authority) published the amortisation regulations that are to take effect from 1 June 2016. These include an amortisation rate of 2 percent per year for residential mortgages with a loan-to-value ratio of more than 70 percent and 1 percent per year down to a loan-to-value ratio of 50 percent. The regulations will also affect a number of other factors. What is of concern is that they include rules that complicate the market, weakening competition in the residential mortgage market, since it is likely that customers will find it harder to switch banks, and causing lock-in effects that reduce mobility in the housing market. For example, the five-year amortisation-free period for newly built homes may cause temporary differences in prices for similar homes during that five-year period. Complicated rules and a lack of clarity when re-mortgaging for the purpose of renovating a home or building an extension can, if this affects the value of the property, cause different assessments between banks, thus distorting competition. Customers with the old, interest-only mortgages will avoid moving and having to sign a new mortgage requiring amortisation, leading to lock-in effects and a housing market that works even worse than before. Such official regulation should not be needed to curb rising debt and housing prices, if the housing market and tax system were reformed instead.

We expect extensive regulatory development to continue over the coming years. This will probably make it more expensive to finance residential mortgages, with increased capital requirements helping push mortgage rates up in the long term. New capital rules will also affect our lending volume, which, everything else being equal, will need to show lower growth in the coming years compared with 2015.

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The combination of more and stricter lending rules, new amortisation rules, increased capital requirements affecting credit volume growth and mortgage rates probably having bottomed out, could decrease housing prices, despite a continued strong need for additional housing in the foreseeable future.

We take responsibility – all the way

The fact that we take responsibility – all the way, is one of four values constituting the core of our value-driven corporate culture. As a bank, we fulfil an important function in society. We are part of a financial infrastructure that makes it possible for private individuals to purchase their own homes and for companies to finance residential properties. Turning dreams into homes – that is what our brand represents. In our deposit operations, we manage funds entrusted to SBAB by the public.

Our role requires that we take responsibility and adopt a long-term approach, and that we build trusting relationships, based on good business ethics, with our customers and the world around us. We also strive to assume greater social responsibility within the framework of our mission – we contribute to better housing and improved housing finances. As an example, I would like to mention our commitment to homeless people combating homelessness through our partnerships with Stockholms Stadsmission (Stockholm City Mission) and Situation Stockholm.

We want to make our offering sustainable for our stakeholders. In our sustainability strategy, we are working towards a green cycle of money, where we borrow green and lend green. As a part of these efforts, we launched a green loan in 2015, targeting tenant-owner associations, and have recently also launched a green retail loan, Energilånet (the Energy Loan). Most recently, in April of this year, we launched a beta version of our energy app, Energiguiden (the Energy Guide), aimed at helping our customers' reduce their household electricity consumption. Within the near future, we also intend to start environmentally sustainable funding by issuing our first green bond.

First quarter 2016 (fourth quarter 2015)

- Lending increased to a total of SEK 299.4 billion (297.0).
- Deposits increased to a total of SEK 81.2 billion (76.6).
- Operating profit rose to SEK 439 million (402), and SEK 420 million (395) excluding net income/expense from financial instruments and restructuring costs.
- Net interest income amounted to SEK 630 million (647).
- Expenses totalled SEK 212 million (235), of which restructuring costs accounted for SEK 0 million (17).
- Net loan losses amounted to SEK 1 million (11).
- Return on equity was 11.2% (10.7), and 10.7% (10.5) excluding net income/expense from financial instruments and restructuring costs.
- The Common Equity Tier 1 capital ratio amounted to 27.6% (28.6).

January–March 2016 (January–March 2015)

- Operating profit totalled SEK 439 million (450), and 420 (336) excluding net income/expense from financial instruments and restructuring costs.
- Net interest income increased to SEK 630 million (555).
- Expenses totalled SEK 212 million (194), of which restructuring costs accounted for SEK 0 million (1).
- Net loan losses amounted to SEK 1 million (3).
- Return on equity was 11.2% (12.5), and 10.7% (9.4) excluding net income/expense from financial instruments and restructuring costs.
- The Common Equity Tier 1 capital ratio amounted to 27.6% (27.5).

Download the full report: www.sbab.se/investor

For further information, please contact:

Klas Danielsson, CEO
Telephone: +46 8-614 43 01, klas.danielsson@sbab.se

Mikael Inglander, CFO SBAB
Telephone: +46 8-614 43 28, mikael.inglander@sbab.se