



Press release 17 July 2019

SBAB Interim Report January–June 2019

SBAB's Interim Report January–June 2019 is now available for download on www.sbab.se/IR.

Q2 2019 (Q1 2019)

- Lending totalled SEK 372.3 billion (366.3)
- Deposits totalled SEK 127.3 billion (126.1)
- Net interest income amounted to SEK 852 million (883)
- Expenses amounted to SEK 288 million (292)
- Loan losses amounted to SEK 7 million (9)
- Operating profit amounted to SEK 577 million (590)
- Return on equity was 11.9% (12.5)
- The C/I ratio was 33.0% (32.8)
- The CET1 capital ratio was 12.2% (12.4)

January–June 2019 (January–June 2018)

- Lending totalled SEK 372.3 billion (351.5)
- Deposits totalled SEK 127.3 billion (117.0)
- Net interest income amounted to SEK 1,735 million (1,681)
- Expenses amounted to SEK 580 million (506)
- Loan losses amounted to SEK 16 million (recoveries: 18)
- Operating profit amounted to SEK 1,167 million (1,151)
- Return on equity was 12.2% (12.8)
- The C/I ratio was 32.9% (30.8)
- The CET1 capital ratio was 12.2% (30.3)

CEO statement from Klas Danielsson:

Clear signs emerged in the first quarter that competition had changed in the residential mortgage market. Several of the major banks announced their intent to make defending residential mortgage market shares their top priority. The smaller mortgage banks strengthened their offerings with campaign interest rates and bundled offers, while new market participants started to elbow for space. As a consequence, we saw our growth declining. We strengthened our offering, thereby returning to healthy growth in the second quarter.

A changed market

Residential mortgages are no longer growing at the same pace. A few years ago, market growth was at around 10% and it is now down at about 5%. This roughly corresponds to an annual reduction in mortgage growth of SEK 150 billion. A volume change of that scope affects mortgage banks' behaviour. It is less painful to lose market shares in a vigorously growing market when total volumes continue to grow nicely, than losing market shares in a



market that is growing more slowly. The result of lower market growth has seen the mortgage banks polish their offerings to retain customer volumes and to grow. In other words — competition has intensified. In addition, we have the new mortgage funds that captured significant market shares in the first quarter but loss ground in the second quarter due to the intensified competition for mortgage customers. The mortgage rate naturally plays a pivotal role in the customer offering and in this regard, we always aim to be extremely competitive.

We have also noted that customers' awareness of the various options has increased. Just as with deposits, where many move their savings to the banks offering the best interest rate, we are now seeing "mortgage rate hunters" who are more prepared to change mortgage bank and to do so more frequently. Digitalisation, which has driven simplicity and increased transparency, also makes it significantly easier to have multiple bank relationships.

We are meeting the changed residential mortgage market with a simple, honest and transparent customer offering with highly competitive terms, and with a continued investment in the digitalisation of the customer interface and with services in our housing and household finances ecosystem. Our aim is to offer the best customer experience.

Our position in the residential mortgage market is strong. In Sweden's three largest cities, SBAB is the most or the second most recognised brand in residential mortgages. Our strengthening of the customer offering in February, with lowered rates and improved terms for lower loan-to-value ratios, in combination with a more vibrant housing market resulted in a record number of mortgage applications, which caused capacity problems with application administration. In May, we therefore temporarily paused the possibility of moving mortgagors to us before reopening this service just before midsummer.

In the first two quarters of the year, expectations in the fixed-income market have shifted from rising interest rates to unchanged or decreasing rates. This has resulted in lower funding costs for SBAB and rising mortgage margins, which have enabled us to strengthen our customer offering further in June by lowering mortgage rates for longer fixed-interest periods. At the end of 2018, our residential mortgage customers were increasingly choosing to fix mortgage rates, whereas in the second quarter, they have returned to primarily choosing the three-month interest rate. Our assessment is that the mortgage rate trend has played a decisive role in stabilising housing prices, which have even risen slightly in the first six months.

It is gratifying to report that we also recorded healthy growth in lending to property companies and tenant-owners' associations in the second quarter. Transaction intensity is high in the Swedish property market and we compare favourably in the competition for customers due to our high level of service and very good customer relationships. Sweden's property market is regional and the decline in new construction is most noticeable in the Stockholm area, whereas the Malmö region, for example, remains relatively strong with good



business opportunities. The Malmö region also demonstrates a relatively strong price trend for private homes.

Positive financial performance

In financial terms, the second quarter was a good quarter and operating profit for the first half of 2019 is our best ever. Expenses are rising as planned as a result of increased investment to maintain competitiveness moving forward. The increasing expenses pertain mainly to the change of core systems and digitalisation, customer service to strengthen service levels and capacity for growth as well as within organisational development and the strengthening of competence that is required to manage an increasingly complex regulatory and technology-driven operation. Our key financial metrics are robust, even if they have weakened slightly as a result of lower margins and lower growth in lending and deposits. The return on equity was 11.9% and the CET1 capital ratio was 12.2% for the quarter, which exceeded our financial targets by a comfortable margin. Credit losses remained low and totalled SEK 7 million for the quarter.

Better housing and household finances

Our mission is to contribute to better housing and household finances. By contributing to more sustainable housing and a better functioning housing market, we help improve the national economy, thereby creating a better market for us to operate in. Our efforts also contribute to reaching the Sustainable Development Goals (SDGs) in Agenda 2030. We finance a considerable share of new housing construction in Sweden, and thereby impact the development of the housing shortage and the national economy. In the second quarter, we continued efforts as part of our initiative to create an industry-wide agreement between construction companies and banks aimed at combating unreported employment and tax fraud at construction sites in Sweden. Our aim is for the banks, including ourselves, to set new financing requirements that will help reduce the problem. We are hopeful of reaching an agreement.

At the start of the year, we completed an extensive study of Swedish attitudes to homes and the housing market. The study resulted in a report, *Komma Hem-rapporten* (the Come Home Report), which was published in the second quarter at www.sbab.se. In the report, we investigate aspects such as how people feel about their homes — for example, what makes a home a home and fosters well-being. The report showcases today's challenges and identifies possibilities for creating a more sustainable housing market. The report provides solid decision data for driving debate and for creating collaboration around many issues involving housing and household finances. The work on the report has been an eye-opener and provided us with many insights for our work to contribute to better housing and household finances.

In the second quarter we issued our fourth green bond, this time under the new classification for eligible liabilities, namely, senior non-preferred, as the first bank in Sweden. The issuance is a step towards fulfilling the Swedish National Debt Office's MREL requirement until the end



of 2021 as well as being a recurring issuer in the market for green bonds. Our ambition is to shift the housing market and the capital market in a more sustainable direction. It is therefore gratifying that our green bonds enjoy such great interest and enable us to realise the green cycle of money through green funding and green lending. We look forward to investors paying a higher premium for green bonds in the future, thereby enabling us to transfer more value to our customers in the form of lower lending rates.

Inclusion and commitment

SBAB's working approach is based on our values. Inclusion with respect and equality is at the core of our values. Inclusion creates commitment and makes us an attractive employer, which makes us more efficient and stronger in our business. The #MeToo movement in autumn 2017 clearly showcased the lack of respect and equality at workplaces in Sweden. Together with the Make Equal foundation, in 2018 we created the Respekttrappan (Respect Ladder) tool, which is a practical tool with seven steps of exercises. Everyone at SBAB completes the exercises on work time together with their groups.

Our value-driven working approach with a focus on inclusion has made us Sweden's fourth best workplace according to Great Place to Work, and in June, we were also recognised as one of Europe's top 20 workplaces. We also recently accepted an award from the "Nyckeltalinstitutet" for the best equality index (JÄMIX) among finance and insurance companies in Sweden.

A few weeks ago, at the Almedalen week, we launched Respekttrappan externally at www.respekttrappan.se for companies and organisations to use, free of charge, as part of their efforts to promote increased respect and equality at work. By promoting increased respect and equality in workplaces in Sweden, we contribute to the world changing in order for us to reach the SDGs together.

Lastly, I would like to thank our former Chairman, Bo Magnusson, for the successes SBAB has had under his stewardship and the five exciting years we have had together. I would also like to take the opportunity to give Jan Sinclair a warm welcome as our new Chairman.

I wish everyone a great summer,

Klas Danielsson
CEO of SBAB

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