



SBAB Interim Report Jan-Mar 2023

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Q1 2023 (Q4 2022)

- Severe financial stress was noted in the global financial system during the quarter, in the wake a number of banks' financial problems in the USA and Switzerland. To date, the effects on Swedish banks, including SBAB, are assessed as limited.
- Market growth for mortgages has remained low due to the weaker housing market.
- Total lending increased 0.6% to SEK 512.5 billion (509.5) for the quarter. Total deposits increased 3.3% to SEK 188.5 billion (182.4).
- Operating profit grew 24.3% to SEK 853 million (686), primarily due to increased net interest income, lower costs and a more positive outcome for net income from financial transactions.
- Net interest income rose to SEK 1,413 million (1,328), mainly due to higher deposit volumes and deposit margins. The continued decline in lending margins for mortgages impacted the item negatively.
- Net credit losses increased to SEK 33 million (loss: 19) and mainly comprised increased credit loss allowances. Confirmed credit losses totalled SEK 2 million.
- Imposed fees totalled SEK 141 million (112), of which the risk tax amounted to SEK 89 million (65) and the resolution fee to SEK 52 million (45).
- The return on equity amounted to 13.3% (10.5) and the C/I ratio was 27.7% (34.8).
- Decisions taken on new target areas and new long-term strategic goals for operations extending to 2030, including an emissions reduction target for the lending portfolio. The financial targets as set by the owner for profitability, capitalisation and dividend remain unchanged.

Financial information

	2023	2022		2023	2022
	Q1	Q4		Jan-Mar	Jan-Mar
Total lending, SEK bn	512.5	509.5		512.5	478.7
Total deposits, SEK bn	188.5	182.4		188.5	147.0
Net interest income, SEK mn	1,413	1,328		1,413	1,084
Net result of financial transactions, SEK mn	2	-79		2	-49
Expenses, SEK mn	-394	-437		-394	-358
Net credit losses, SEK mn	-33	-19		-33	-17
Imposed fees: Risk tax and resolution fee, SEK mn	-141	-112		-141	-113
Operating profit, SEK mn	853	686		853	573
Return on equity, %	13.3	10.5		13.3	9.5
C/I ratio, %	27.7	34.8		27.7	33.7
CET1 capital ratio, %	12.4	12.8		12.4	13.1

CEO statement from Mikael Inglander:

Increased concerns about the global banking sector dominated the quarter following the bank runs in the USA and the crisis of confidence in the systemically important Swiss bank Credit Suisse. Inflation remains very

high and has triggered continued interest rate hikes by central banks around the world. In Sweden, residential mortgage market activity remains subdued. With mortgage margins under pressure, deposits comprise a key component of banks' profitability in the new interest rate environment. Despite these conditions, SBAB posted a positive trend for the first quarter.

The global financial system suffered severe financial stress during the quarter in the wake of the financial problems of several banks in the USA and Switzerland, which started with the collapse of the US niche bank Silicon Valley Bank (SVB). It didn't take long for events to spill over to other niche US banks in the form of steep declines. Shortly thereafter, Credit Suisse's problems arose and it was eventually sold to UBS. While the market was highly volatile immediately following these events, it has since recovered. We continue to monitor these events and developments closely. The above comprises an important reminder that banking is fundamentally based on trust, and this should never be forgotten. This is particularly relevant in today's digital age, where switching banking service providers has never been easier.

Housing market activity remains low

Activity in the residential mortgage market and the growth rate of mortgage lending in Sweden remain at historic lows. In fact, in recent decades they have never been as low as they are now. Moreover, house prices have fallen significantly since their peak in March 2022, by around 10% for apartments and 15% for houses. Factoring in high inflation and 20% increases in food prices, for example, clearly shows that households are facing a major change in costs. The faster decline in Sweden's housing prices compared with many other European countries indicates that Swedish households have adapted more rapidly to changed housing costs. Among experts, there is some disagreement as to when and how quickly inflation will start to decline and when the Riksbank may cut the policy rate, but hopefully, the worst is now behind us in terms of interest rate hikes. However, for mortgage holders with variable mortgage rates, conditions will most likely worsen in the form of more interest rate increases before improving. Nor have we yet seen the full effects of the interest rate increases already implemented by the Riksbank, neither on the economy nor the housing market. Credit quality is an extremely important area for us and we are aware that it might become challenging for households as well as businesses in the coming period. We continue to diligently analyse and monitor the lending portfolio and make continuous adjustments to the terms and calculations we apply when we grant credit so that they fairly and accurately reflect the prevailing market conditions.

As previously communicated, we expect the strong performance to continue in the corporate segment, albeit not as strong as the last few years, in part because many property company customers are having difficulties obtaining financing at favourable terms in the bond market. This means that many property companies will most likely have to refinance parts of maturing capital market debt with bank financing. We noted a general such market trend during the quarter.

SBAB's total lending increased marginally by 0.6% for the quarter to a total of SEK 512.5 billion. Mortgage volumes grew 0.3% to SEK 352.2 billion, significantly lower growth year-on-year, and a clear effect of lower credit growth in the market. In the latter part of the quarter in particular, we were successful in attracting customers from other banks. Lending to corporates and associations increased 1.2% to a total of SEK 160.3 billion, of which SEK 92.5 billion comprised lending to property companies and SEK 67.8 billion lending to tenant-owners' associations. During the quarter, our growth in this segment was slightly slower than previously. However, we remain ready to assist our customers as per our strategy for growth, profitability and risk appetite.

Strong financial performance and continued healthy growth in deposits

Generally, increases in mortgage rates have not been in line with those for the Riksbank's policy rate nor for the banks' borrowing costs via mortgage bonds. One of the underlying reasons is that the banks have instead kept deposit rates down. In other words, the banking community as a whole – not least the major banks – have not raised interest rates on savings accounts in parallel with the Riksbank's hikes in the policy rate. This means that most banks are earning considerably more money from deposits than previously. This phenomenon is not unusual from a historical perspective. Low interest rates see margins tending to shift from deposits to lending, which is linked to a list rate. The opposite relationship normally applies in an environment with rising interest rates. We have worked actively at SBAB to increase our deposits and our efforts were highly successful in the first quarter. One important element comprises offering transparent and attractive terms and conditions. Quite simply, offering a good price. Conducting efficient, highly cost-effective operations enables us to create opportunities to offer competitive prices to our customers both for deposits and for lending. During the quarter, our deposits increased 3.3% to a total of SEK 188.5 billion.

Profitability remains healthy and we are once again presenting strong earnings. Naturally, our strong growth in deposits plays a major role here since the deposit margins compensate for lower mortgage margins. Costs are growing largely as planned and credit losses are low. Net credit losses totalled SEK 33 million in the quarter and consist essentially of increased credit loss allowances. Confirmed credit losses remained low and totalled SEK 2 million.

In February, S&P decided to raise SBAB's credit rating from A to A+. The decision is based on the fact that we have been building up a large volume of outstanding impaired debt for some time, which entails an additional layer of protection for holders of existing senior bank bonds. Naturally, the overall credit rating also reflects the low risk in our business. Having a

competitive and fair credit rating is important from many perspectives, not least in terms of the long-term cost of capital market funding.

New target areas and long-term strategic goals

SBAB has been very successful in recent years. This positive trend is supported by a number of structural factors, such as underlying growth in the housing market and thus the market for residential mortgages, but also due to clear and focused work on strategy.

Our strategy since autumn 2014 has been to focus on our core business, residential mortgages and housing finance, complemented by savings accounts. In conjunction with the acquisition of Booli, we decided to broaden our offering to include services in housing and household finances. In 2022, we identified a need to clarify certain components of our overall strategy to factor in major trends and the overall development in the market, including a sustainability focus. The review included a rethink of our existing target structure and long-term strategic business goals. Through its ownership policy, SBAB's owner, the Swedish state, has also announced clear expectations of SBAB to set long-term, material sustainability targets for its operations.

At the end of 2022, we decided on five new target areas and seven new long-term strategic goals extending to 2030. Together, these are expected to help SBAB conduct sustainable operations that generate long-term stakeholder value and that respond to the changes and challenges we have identified in our operating environment. One of the new goals is to significantly reduce our total carbon emissions in accordance with the Paris Agreement's goal of limiting the global temperature increase to 1.5°C. This pertains both to the direct emissions from our own operations as well as to the indirect emissions related to our lending portfolio. The new long-term strategic goals are presented later in this interim report. Our overall financial targets from the owner regarding profitability, dividends and capitalisation remain unchanged.

These are and have been unique times and much has happened in a brief period of time. Success in such an environment requires that we as a company are both flexible and agile. I am very proud of all employees at SBAB and our collective ability to adapt to changing conditions. Many thanks for all your efforts.

Mikael Inglander

CEO of SBAB

For further information, please contact:

Mikael Inglander, CEO, SBAB

Telephone: +46 8-614 43 28

E-mail: mikael.inglander@sbab.se

Douglas Norström, Head of Press, SBAB

Telephone: +46 76-138 51 23

E-mail: douglas.norstrom@sbab.se

Contacts

- Douglas Norström, tf Presschef, SBAB, 076-138 51 23, douglas.norstrom@sbab.se

About SBAB Bank AB (publ)

SBAB's business idea is to be innovative and considerate in our offering of loans and savings products and other services for better housing and household finances to private individuals, tenant-owner associations and property companies in Sweden. SBAB was founded in 1985 and is owned by the Swedish state. Read more at sbab.se, twitter.com/sbabbank, facebook.com/sbabbank.

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