



SBAB Interim Report Jan-Jun 2023

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SBAB's Interim Report January-June 2023 is now available for download on www.sbab.se/IR.

Q2 2023 (Q1 2023)

- Total lending increased 0.3% to SEK 514.1 billion (512.5) for the quarter. Total deposits increased 2.4% to SEK 193.0 billion (188.5).
- The previously announced sale of residential mortgages was completed in the quarter. Said mortgages related to the former partnership with Sparbanken Syd and corresponded to a volume of SEK 5.2 billion.
- Operating profit grew 1.1% to SEK 862 million (853), primarily due to a more positive outcome for net income from financial transactions.
- Net interest income declined to SEK 1,386 million (1,413), mainly due to the continued contraction of mortgage lending margins. Higher deposit volumes and deposit margins had a positive impact on the item.
- Net credit losses amounted to SEK 23 million (loss: 33) and mainly comprised increased credit loss allowances. Confirmed credit losses totalled SEK 3 million.
- Imposed fees totalled SEK 127 million (141) for the quarter, of which the risk tax amounted to SEK 88 million (89) and the resolution fee to SEK 39 million (52).
- The return on equity amounted to 13.1% (13.3) and the C/I ratio was 29.5% (27.7).
- The CET1 capital ratio was 11.9% (12.4)
- During the quarter, a new vision and mission were decided for SBAB that connect to the strategic review completed at the end of last year. Read more on pages 3-5.

Financial information

	2023	2023	2023	2022
	Q2	Q1	Jan-Jun	Jan-Jun
Total lending, SEK bn	514.1	512.5	514.1	491.3
Total deposits, SEK bn	193.0	188.5	193.0	154.4
Net interest income, SEK mn	1,386	1,413	2,856	2,172
Net result of financial transactions, SEK mn	45	2	47	-28
Expenses, SEK mn	-423	-394	-817	-729
Net credit losses, SEK mn	-23	-33	-56	-29
Imposed fees: Risk tax and resolution fee, SEK mn	-127	-141	-268	-222
Operating profit, SEK mn	862	853	1,715	1,214
Return on equity, %	13.1	13.3	13.2	9.9
C/I ratio, %	29.5	27.7	28.6	33.2
CET1 capital ratio, %	11.9	12.4	11.9	12.7

CEO statement from Mikael Inglander:

Rising interest rates and high inflation continue to put pressure on Swedish households and the Swedish economy. Despite a challenging operating environment, SBAB once again delivered a strong interim performance.

Uncertainty still prevails regarding future developments in the housing market. Housing prices have stabilised and have trended slightly upwards since the beginning of the year. However, number of sales remain low and the supply remains high, indicating a certain level of caution in the market. Since peaking in March 2022, housing prices according to our price index (SBAB Booli HPI, available here) dropped a total of 13% for the country as a whole and we expect that they will continue to decline during the autumn.

Despite a more challenging market, during the last few months we managed to capture a large portion of net growth in the market, driven in part by the fact that many customers decided to transfer their mortgages to us in the beginning of the quarter. At the same time, the number of customers choosing to leave SBAB remains at low levels. This indicates that we have a strong and attractive offering and that we enjoy a great deal of trust in the market. The previously announced sale of residential mortgages was completed in the quarter. Said mortgages related to our former partnership with Sparbanken Syd and corresponded to a volume of SEK 5.2 billion. This means that our total lending to private individuals during the quarter decreased SEK 351.5 billion compared with SEK 352.2 billion at the end of the first quarter.

The annual growth rate for mortgages to private individuals was 2.0% in May, compared with 2.4% in April and 6.8% in the year-earlier period. This trend is largely due to rising interest rates and the weaker housing market. There is a trend towards increased willingness to make loan repayments among households, which could also explain the lower growth in the market. At the same time, competition in the residential mortgage market remains tough and margins on residential mortgages once again declined during the quarter. As defined by Finansinspektionen (the Swedish FSA), at the end of the first year they amounted to 0.56 percentage points, compared with 1.35 percentage points for the year-earlier period.

The coming time might be challenging for many of our customers. The Riksbank's forecast after its most recent meeting in the end of June is that the interest rate will be raised at least once more. Future hikes have not been ruled out, either. Contributing factors to the Riksbank's forecast include continued high inflation and a better economic performance than originally forecast. At the same time, the labour market remains strong with relatively low unemployment. This means that outlooks for residential mortgage interest rates, particularly those with short fixed-interest periods, include additional increases from today's levels. As a result, we can expect residential mortgage interest rates in excess of 5%. Households need to gradually adapt their consumption to conditions with higher mortgage interest rates and general increases in costs. However, our assessment is that, overall, the majority of residential mortgage customers will continue to have healthy margins to cover repayment of their mortgages even in a deteriorated economic climate. Despite the most recent economic trends, we have not yet noted any significant changes in credit quality in lending to retail customers.

Property sector under continued pressure and significant slowdowns in construction

The situation in the property market remains cautious, with few transactions and relatively low growth. Credit growth in bank lending is held up in part because many property company customers are having difficulties obtaining financing at favourable terms in the bond market. This means that they need to refinance maturing bond loans with bank loans, which is supporting credit growth in the market. Going forward, decreased demand for housing from households and more expensive production costs are expected to lead to decreased housing production. SBAB's economists have not ruled out figures as low as between 15,000 and 20,000 for housing construction starts for the current year. Construction volumes this low have not been seen since the crisis of the 1990s. The current booking situation is also lower than when it was its worst during the pandemic in 2020.

The indebtedness has increased rapidly for many property companies during the last few years, not least due to the interest rate conditions. Now that interest rates have risen rapidly in a short period of time, financing costs for some of these companies have increased drastically. This means that some companies could be forced to conduct measures to reduce their liabilities and strengthen their balance sheets. We therefore expect some market consolidation and increased sales of property portfolios going forward. SBAB's lending to property companies and tenant-owners' associations increased a moderate 1.5% during the second quarter to SEK 162.6 billion. Despite more challenging conditions, we assess the credit quality of our lending to property companies as remaining stable with good collateral and an average loan-to-value ratio of 61% at the end of the quarter. The increased uncertainty means that we have reason to be somewhat more selective in our new lending. We continuously analyse our lending portfolio based on differing perspectives, including dependency on capital markets, need for refinancing and interest rate resilience. In the most recent quarters, we have noted something of a decline in financial strength based on select performance measures in some companies, including the interest coverage ratio, which has led to increased credit loss allowances and some risk class migrations in the models that we apply for calculating credit losses and capital adequacy. There is still uncertainty regarding future valuations and yield requirements in the property market and we cannot rule out additional effects later in the credit cycle. However, it is important to remember that, despite everything, the majority of property companies are generating good cash flows and to date we have not experienced any late payments or defaults.

A strong financial performance where deposits continue to play an important role

For the first half of the year as a whole, and for the second quarter in isolation, we delivered a strong financial performance. The trend was primarily due to higher net interest income, where deposits have come to play an increasingly important role. Net interest income for the quarter amounted to SEK 1,386 million, up 27.4% year-on-year. The total market for deposits remained largely unchanged during the quarter. Despite this, SBAB managed to grow deposits 2.4% to a total of SEK 193

billion during the quarter, a trend that we are very satisfied with. An important explanation for the good development is that we continue to offer our customers transparent and attractive terms compared with many other market players. However, competition for deposits has begun to increase. Larger banks as well as niche actors have recently improved their offerings. We are working continuously with product and business development to ensure our total deposit offering is more competitive. Costs developed largely as planned during the quarter and for some months we have been working in our new core banking platform. Credit losses for the quarter amounted to SEK 23 million due to continued provisions for future credit losses. Confirmed credit losses remained low and totalled SEK 3 million for the quarter.

New vision and mission

In connection with the review of our overall strategy and goal follow-up last autumn, which I touched on in our last interim report, we have now decided on a new vision and mission for SBAB. Over the years we have helped many people improve their housing and household finances. We have taken the initiative to create a more equitable banking industry through transparency and the ambition to be a bank for all kinds of people. At the same time, we know that society and conditions are changing. Today, and in the future, we want to improve things for people, society and businesses with the vision to enable tomorrow's homes and housing. Our mission is to be the considerate bank with the best offering in housing and household finances.

My sincere thanks to all of our employees for your efforts in the first half of the year – together we are taking responsibility and making a difference. Have a wonderful summer.

Mikael Inglander

CEO of SBAB

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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.

Attachments

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- [Press release SBAB Q2-2023.pdf](#)