



SBAB Year-end Report 2022

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Q4 2022 (Q3 2022)

- In November, the Riksbank decided to raise the key interest rate further to 2.50%.
- Housing prices continued to fall on a broad front across the country during the quarter.
- Total lending increased 2.2% to SEK 509.5 billion (498.6) during the quarter. Total deposits increased 6.7% to SEK 182.4 billion (171.0).
- Operating profit decreased 7.2% to SEK 686 million (739), primarily due to increased costs and a more negative outcome for the net result of financial transactions.
- Net interest income rose to SEK 1,328 million (1,155), mainly due to higher deposit volumes and deposit margins. The margins on lending negatively impacted the item.
- Net credit losses totalled SEK 19 million (loss: 20).
- Imposed fees totalled SEK 112 million (111), of which the risk tax amounted to SEK 65 million (65) and the resolution fee to SEK 45 million (46).
- The return on equity amounted to 10.5% (11.7) and the C/I ratio was 34.8% (29.4).
- According to Swedish Quality Index (Svenskt Kvalitetsindex, SKI), SBAB continues to have the most satisfied customers in Sweden in terms of residential mortgages to private individuals and property loans to corporates and tenant-owners' associations.
- SBAB has received permission from the Swedish FSA to use new PD models for retail and corporate exposures in IRB approaches.

January-December 2022 (January-December 2021)

- Total lending increased 9.1% to SEK 509.5 billion (467.0). Total deposits increased 25.9% to SEK 182.4 billion (145.0).
- Operating profit declined marginally by 0.1% to SEK 2,639 million (2,641), primarily due to the risk tax implemented in 2022.
- Net interest income grew to SEK 4,655 million (4,114), mainly due to higher lending and deposit volumes.
- During the first quarter of 2022, a new line item was added in the income statement, imposed fees. Imposed fees include the new Swedish risk tax as well as the resolution fee that was previously reported in net interest income. Imposed fees totalled SEK 445 million (-) for the year, of which the risk tax amounted to SEK 261 million (-) and the resolution fee to SEK 184 million (172).
- Net credit losses totalled SEK 68 million (recoveries: 11), primarily due to increased credit loss allowances related to the changed operating environment.
- The return on equity amounted to 10.5% (11.1) and the C/I ratio was 32.7% (36.2). Return on equity, excluding the risk tax, amounted to 11.5%.
- The CET1 capital ratio was 12.8% (13.5) at the end of the 2022.
- The basis for the Board regarding appropriation of profits for 2022 is to propose a dividend of SEK 832 million, representing 40% of the Group's net profit for the year after tax, in accordance with SBAB's dividend policy.

Financial information

	2022	2022	2022	2021
	Q4	Q3	Jan-Dec	Jan-Dec
Total lending, SEK bn	509.5	498.6	509.5	467.0
Total deposits, SEK bn	182.4	171.0	182.4	145.0
Net interest income, SEK million ¹⁾	1,328	1,155	4,655	4,114
Net result of financial transactions, SEK million	-79	72	-35	-71

Expenses, SEK million	-437	-363	-1,529	-1,492
Net credit losses, SEK million	-19	-20	-68	11
Imposed fees: Risk tax and resolution fee ¹⁾	-112	-111	-445	-
Operating profit, SEK million	686	739	2,639	2,641
Return on equity, %	10.5	11.7	10.5	11.1
C/I ratio, %	34.8	29.4	32.7	36.2
CET1 capital ratio, %	12.8	12.8	12.8	13.5

1) During the first quarter of 2022, a new line item was added in the income statement, imposed fees, placed after the item net credit losses. Imposed fees includes Sweden's new risk tax as well as the resolution fee that was previously reported in net interest income. This impacts the comparability of net interest income with previous years.

CEO statement from Mikael Inglander:

High global inflation and forceful increases in interest rates from central banks continued to dominate in the fourth quarter. The Riksbank raised the key interest rate a total of 2.50 percentage points in 2022. Activity in the housing market decreased notably in 2022 and the price trend remained negative during the fourth quarter. SBAB's performance for the full-year 2022 was strong despite the challenging circumstances, with robust growth in volumes and - once again - Sweden's most satisfied customers.

This year was a different one, to say the least. The war in Ukraine continues in full force, causing an enormous amount of human suffering. The situation is deeply regrettable in every way. The war has been ongoing since February 2022, yet there is no sign of peace talks or de-escalation. Quite the opposite. Sanctions have not prompted Russia to change course. Instead, countermeasures have led to quickly rising and volatile prices, especially for energy and food. It is difficult, if not impossible, to safely say how long these factors will affect economic trends.

At home, employment increased during the year and unemployment remains at low levels. However, household purchasing power has declined due to high inflation, which in 2022 reached levels that had not been seen in several decades. This has led to several key interest rate hikes from the Riksbank, leading to significant effects in, for example, the housing market. Even though, from a historical perspective, a return to a more normal interest rate level has long been on the cards, the speed and size of the most recent interest rate increases surprised many. It is likely that 2023 will be a challenging year for households as well as businesses, but we believe and hope that we'll see inflation return to normal. There have already been some hopeful signs in the markets for various input goods and raw materials.

Changed circumstances for households

Prices for apartments and houses fell sharply during the year, especially for houses. The primary reason for the downturn was increased mortgage interest rates. According to SBAB's most recent forecast, the drop in housing prices is expected to total just over 20% from their peak. They are expected to stabilise thereafter on an annual basis starting in 2024. Of course, in the event of a more negative development in the labour market and persistently high energy prices, the drop in housing prices could be even greater. This trend should be viewed in relation to the substantial price increases of the last few years. Additionally, housing production is expected to decrease significantly going forward.

Despite the uncertainty and market developments, we have not noted any significant direct changes in the credit quality of our lending portfolio. This is a clear pointer of the strength of our balance sheet, where housing comprises the primary asset. Net credit losses totalled SEK 68 million for the full year, representing 0.01% of total lending, and essentially consisted of model-driven credit loss allowances. Credit quality is an especially important area for us and we continue to follow market trends carefully.

We have a long-term responsibility to ensure that our customers can make their interest and amortisation payments, a responsibility we take quite seriously. During the year, we regularly analysed the lending portfolio and made necessary adjustments in our terms when it comes to granting credit to retail customers as well as corporates and tenant-owners' associations to better reflect the prevailing market conditions. Household costs increased significantly as interest rates rose. In parallel, electricity and energy prices continued to climb while food, input goods and services became increasingly expensive. From a longer historical perspective, households have spent a significantly higher portion of their income on housing than they have in the last few years, including today. We expect this level to increase going forward, not least due to higher interest expenses.

Sweden's most satisfied customers - once again

We are growing and capturing market shares. We are humbled that so many customers are turning to SBAB to borrow money to finance their homes. This, if anything, is a clear signal that our customers appreciate our offering with favourable terms, simplicity, transparency and high availability. Our lending increased 9.1% in 2022 to a total of SEK 509.5 billion. In December, we learned that for the fourth consecutive year, SBAB had Sweden's most satisfied residential mortgage customers according to Swedish Quality Index (Svenskt Kvalitetsindex). At the same time, we learned that for the fifth consecutive year, SBAB had Sweden's most satisfied customers for property loans to tenant-owners' associations and property companies. I'm very proud that we have managed to be there for our customers in good times as well as bad. Maintaining our high level of customer satisfaction is of the highest priority.

Retail lending growing but competition has intensified

Retail lending increased approximately 4% during the year to SEK 351.1 billion. The trend in total market growth for housing loans slowed during the year in pace with the trend in the housing market. In terms of 12-month figures, it reached 4.5% in November, which was a clear decrease compared with 6.8% in January. The rate of growth for residential mortgages is expected to decline somewhat further, reaching close to 4% for the full-year 2023. Additionally, the number of market players has increased significantly during the last few years. All else being equal, the consequences of this should be increasing competition for the limited market growth, which will mean better terms for customers and weaker margins and profits for market players. The latter should be somewhat offset by higher deposit margins. Overall, the future looks somewhat more challenging.

Lending to property companies and tenant-owners' associations grew 22% during the year to SEK 158.4 billion. Growth was particularly strong for lending to property companies. It is gratifying to see that the strategic plan that we developed a number of years ago – to grow together with prioritised customer groups and at the right level of risk and profitability – is continuing to bear fruit. We are extremely pleased and proud of this development. Growing in these segments also helps further diversify our revenue. We have noted the growing market uncertainty, which has led to a significant downturn in the number of planned new build projects and a lower overall level of market activity. However, we know that there is a substantial need for many larger property companies to replace capital market financing with bank financing in the near future and we are ready to assist our customers as per our strategy for growth and risk appetite.

Deposits, which represent an increasingly important source of financing for SBAB, increased 25.9% in 2022 to a total of SEK 182.4 billion. The share of deposits in relation to lending amounted to approximately 36% at year end, compared with 31% at the beginning of the year. We are continuing to offer consumers, corporates and tenant-owners' associations an attractive savings interest rate compared with many other market players, especially the major banks. Additionally, we have made significant investments in marketing during the quarter to raise the visibility of our market offering. We are pleased that so many customers are choosing to save with us.

Strong underlying financial performance

We reported strong earnings for the full-year 2022. The new bank tax implemented during the first quarter of 2022 had a negative impact on SBAB and will continue to do so. However, we are growing with healthy profitability, in line with our owner's long-term goal of achieving a return on equity of at least 10%. Our ambitious development agenda and our strong growth means that our costs have increased significantly during the last few years. However, we are planning for somewhat smaller increases in costs going forward as we complete major change initiatives within the framework for our overall transformation work.

Thank you to all of our employees

I would like to take this opportunity extend my sincere thanks to all of our employees for your efforts in 2022. I'm extremely pleased to work with all of the skilled, professional and considerate people at SBAB. I see the potential to continue to grow and capture market shares through further developing our customer offering with a focus on innovation, digitalisation, simplicity and sustainability, even though the future now appears to be slightly more challenging.

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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