SBAB!

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Interim Report January – September 2016

SBAB's Interim Report for January – September 2016 is now available for download on www.sbab.se/IR.

Klas Danielsson, CEO of SBAB, comments:

Once again, we are reporting strong quarterly figures in terms of high net interest income, strong earnings, low loan losses, a low C/I ratio and a healthy return on equity. Margins on residential mortgages remain high driven by a combination of factors, including raised capital requirements, expectations of forthcoming additional capital requirements, a strong market for covered bonds, high rates of saving with strong deposit inflows, a robust housing market with high demand for residential mortgages and rising property market risks with increasing restraint in credit granting by residential mortgage providers.

Our lending increased SEK 2.3 billion in Q3 and totalled SEK 305.0 billion. However, our total lending and market share for residential mortgages will decrease in the fourth quarter, attributable to partnerships currently being discontinued. The main contributory factor is the transfer of slightly more than SEK 12 billion in residential mortgages to Swedbank in October following the already discontinued partnerships with Sparbanken Skåne and Sparbanken Öresund. Excluding the partnerships under discontinuation, the volume trend for residential mortgages remains healthy.

Our strong volume growth in deposits continues. Deposits increased SEK 5.4 billion in Q3 and totalled SEK 93.4 billion. We offer a savings rate that is one of the highest offered by Swedish banks. In a market where the major banks are not paying any interest on savings and where consumer savings are at record highs, we are winning many new savings customers.

A modern IT structure

During Q3, we signed an agreement to replace our base system over a three-year period. This project also includes changing much of our existing IT structure. Consequently, our investment and development costs will increase in the coming years, though in the long-term, the project aims to increase efficiency and reduce marginal costs in a number of areas.

We are committed to creating the market's most efficient, digital mortgage process, in parallel with our work developing tomorrow's homes and household financial services. If we are to achieve our vision — to offer the best residential mortgages in Sweden — by developing customer relations and not losing ground to new players in a rapidly changing environment, we need to be quick-footed and innovative in our work and in our processes. A modern and flexible IT infrastructure is a prerequisite for this.

A mortgage licence — it stands to reason

Under the EU Mortgage Credit Directive mortgage directive, an EU directive from 2014, the personnel at organisations that offer credit, credit brokering or advisory services in the field of consumer mortgage credits to consumers are required to possess certain knowledge and skills. As part of the work with the Mortgage Credit Directive and together with Swedish industry body SwedSec Licensing AB, the Swedish Bankers' Association has developed a separate competence test for personnel who work with mortgages, which leads to a license to be able to work with mortgages. Improved consumer protection in the mortgage market is welcome, and we believe an industry-wide standard comprising a competence test and a licence for mortgage loans to be extremely positive. The vast majority of SBAB's employees will be licensed for mortgage loans and licencing started in Q3.

The housing market's fundamental problems are still there
On 1 June this year, a new repayment requirement was introduced with the aim of counteracting rising household debt and indirectly tempering the house price trend through lower demand for mortgages. Thus far, the repayment requirement has had limited market impact, even if it is too early to draw any conclusions. The limited impact is partly due to many banks having already implemented various types of repayment requirements, but perhaps mostly due to the continued housing shortage in Sweden. It remains my opinion that we need to adapt the tax system to increase housing-market mobility and to use the existing housing stock more efficiently, and take the requisite political decisions to facilitate, accelerate and increase construction.

Financial highlights:

Q3 2016 (Q2 2016)

- Lending increased and totalled SEK 305.0 billion (302.7).
- Deposits rose to a total of SEK 93.4 billion (88.0).
- Operating profit increased to SEK 534 million (490), and to SEK 517 million (486) excluding the net result of financial items.
- Net interest income grew to SEK 745 million (692).
- Expenses amounted to SEK 214 million (224).
- The C/I ratio was 28% (31).
- Net loan losses totalled SEK 20 million (recovery: 1).
- Return on equity was 12.3% (11.8), and 12.0% (11.7) excluding the net result of financial items.
- The Common Equity Tier 1 (CET1) capital ratio was 28.5% (28.4).

January – September 2016 (January – September 2015)

- Lending increased and totalled SEK 305.0 billion (284.0).
- Deposits rose to a total of SEK 93.4 billion (71.5).
- Operating profit increased to SEK 1,463 million (1,090), and to SEK 1,423 million (1,116) excluding the net result of financial items and restructuring costs.
- Net interest income grew to SEK 2,067 million (1,795).
- Expenses amounted to SEK 650 million (574).
- The C/I ratio was 30% (34).
- Net loan losses totalled SEK 20 million (29).
- Return on equity was 11.9% (10.1), and 11.6% (10.4) excluding the net result of financial items and restructuring costs.
- The CET1 capital ratio was 28.5% (25.6).

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