

# Swedbank year-end report 2017

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# Solid mortgage volume growth

SEKm	Q4 17	Q3 17	▲ QoQ
Net interest income	3 861	3 812	49
Net commission income	1 952	1 859	93
Other income	625	443	182
<b>Total income</b>	<b>6 438</b>	<b>6 114</b>	<b>324</b>
<b>Total expenses</b>	<b>2 309</b>	<b>2 204</b>	<b>105</b>
<b>Profit before impairments</b>	<b>4 129</b>	<b>3 910</b>	<b>219</b>
Credit impairments	264	66	198
<b>Ratios</b>	<b>Q4 17</b>	<b>Q3 17</b>	
ROE, %	21.2	21.6	
C/I ratio	0.36	0.36	
<b>Volumes, SEKbn</b>	<b>Q4 17</b>	<b>Q3 17</b>	<b>▲ QoQ</b>
Loans	1 150	1 138	12
Deposits	525	519	6

- Net interest income
  - Continued mortgage loan volume growth and stable back book margins
- Net commission income
  - Benign stock market development supported asset management and brokerage income
  - PayEx included for the full quarter
- Other income
  - Higher contribution from Entercard and life insurance
- Solid asset quality

# Record high profitability

SEKm	Q4 17	Q3 17	▲ QoQ
Net interest income	1 116	1 060	56
Net commission income	711	565	146
Other income	226	218	8
<b>Total income</b>	<b>2 053</b>	<b>1 843</b>	<b>210</b>
<b>Total expenses</b>	<b>737</b>	<b>647</b>	<b>90</b>
<b>Profit before impairments</b>	<b>1 316</b>	<b>1 196</b>	<b>120</b>
Credit impairments	-12	-26	14
<b>Ratios</b>	<b>Q4 17</b>	<b>Q3 17</b>	
ROE, %	20.8	18.2	
C/I ratio	0.36	0.35	
<b>Volumes, SEKbn</b>	<b>Q4 17</b>	<b>Q3 17</b>	<b>▲ QoQ</b>
Loans	149	146	3
Deposits	185	172	13

- Net interest income
  - Lending to households continues to grow
  - Stable margins
  - Firm deposit growth
- Net commission income
  - Benefited from annual performance fees
- Positive FX effects
- Stable asset quality

# Result reflected mixed market dynamics

SEKm	Q4 17	Q3 17	▲ QoQ
Net interest income	934	896	38
Net commission income	656	525	131
Net gains and losses	332	554	-222
Other income	42	32	10
<b>Total income</b>	<b>1 964</b>	<b>2 007</b>	<b>-43</b>
<b>Total expenses</b>	<b>867</b>	<b>841</b>	<b>26</b>
<b>Profit before impairments</b>	<b>1 097</b>	<b>1 166</b>	<b>-69</b>
Credit impairments	59	195	-136
<b>Ratios</b>	<b>Q4 17</b>	<b>Q3 17</b>	
ROE, %	14.2	13.0	
C/I ratio	0.44	0.42	
<b>Volumes, SEKbn</b>	<b>Q4 17</b>	<b>Q3 17</b>	<b>▲ QoQ</b>
Loans	203	204	-1
Deposits	128	129	-1

- Stable net interest income
- Net commission income
  - PayEx contributed positively
  - Positive stock market performance increased asset management and custody income
  - Annual covered bond market maker fees
- Net gains and losses
  - Low FX and fixed income trading activity
  - Negative valuation effects
- Lower credit impairments

## Group results

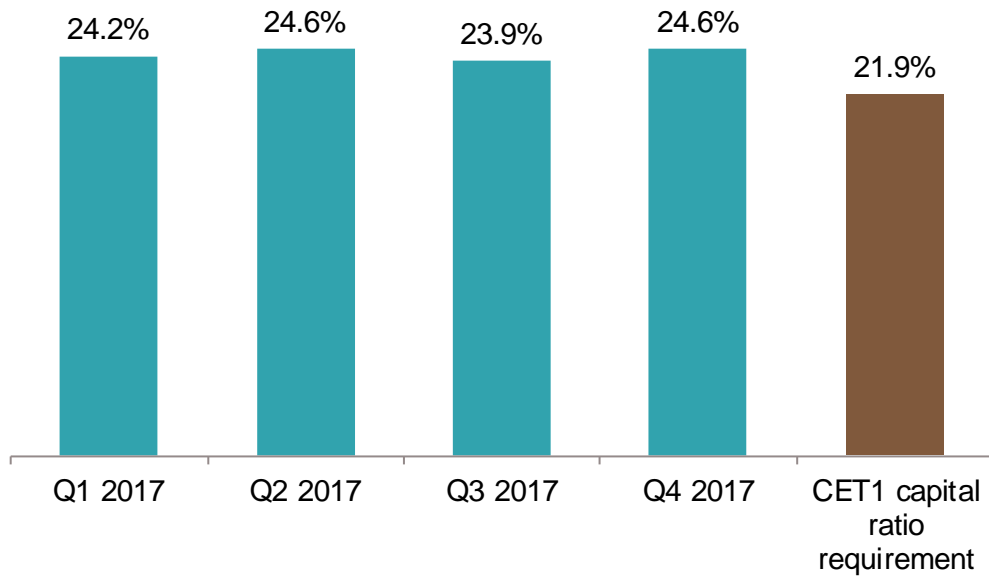
# Robust performance

SEKm	Q4 17	Q3 17	▲ QoQ
Net interest income	6 326	6 208	118
Net commission income	3 291	2 917	374
Net gains and losses	356	525	-169
Other income	1 003	768	235
<b>Total income</b>	<b>10 976</b>	<b>10 418</b>	<b>558</b>
<b>Total expenses</b>	<b>4 563</b>	<b>3 883</b>	<b>680</b>
<b>Profit before impairments</b>	<b>6 413</b>	<b>6 535</b>	<b>-122</b>
Credit impairments	311	235	76
Other impairments	86	107	-21
Tax	1 277	1 444	-167
<b>Net profit</b>	<b>4 737</b>	<b>4 743</b>	<b>-6</b>
<b>Ratios</b>	<b>Q4 17</b>	<b>Q3 17</b>	
ROE, %	14.4	15.0	
C/l ratio	0.42	0.37	
CET1 capital ratio, %	24.6	23.9	

- Mortgage volume growth strengthened net interest income
- Stock market performance and full quarter PayEx inclusion benefited net commission income
- FX effects and lower market activity impacted net gains and losses negatively
- Expenses
  - Restructuring charge of SEK 300m
  - PayEx included for the full quarter
- Solid asset quality

## Capital

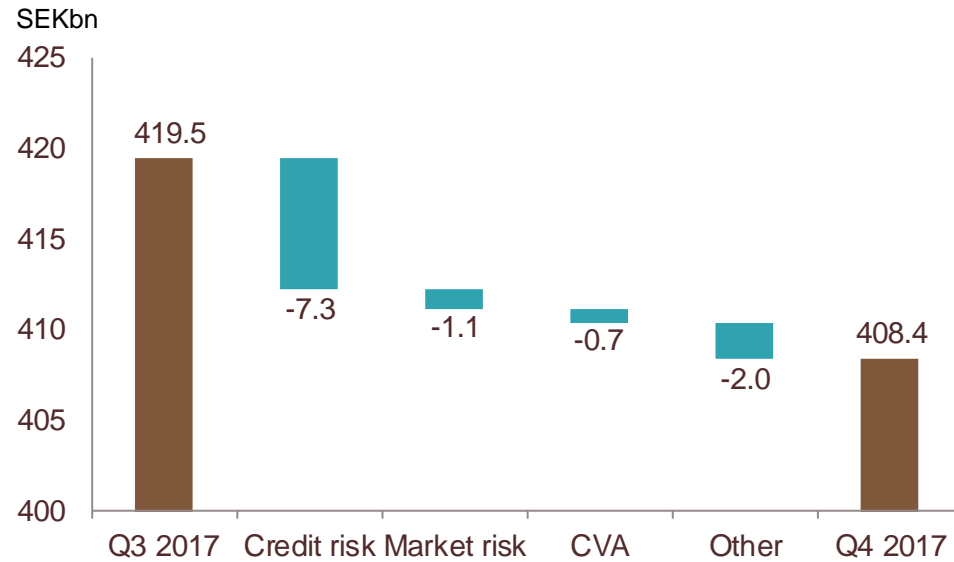
# Strong capitalisation – no excess capital



- CET1 capital increased by SEK 0.4bn
  - Positive effect from net profit of SEK 1.1bn excl. dividend
  - Negative effect from IAS19 of SEK 0.6bn
- REA decreased by SEK 11.1bn
- Buffer above minimum requirements of around 270bps

# Capital

## Lower REA



- REA decreased by SEK 11.1bn
  - Received VISA-related proceeds reduced REA
  - Year-end effects reduced REA

## Group results – FY 2017

# Strong result

SEKm	FY 2017	FY 2016	▲ YoY
Net interest income	24 595	22 850	1 745
Net commission income	12 030	11 333	697
Net gains and losses	1 934	2 231	-297
Other income	3 879	4 407	-528
<b>Total income</b>	<b>42 438</b>	<b>40 821</b>	<b>1 617</b>
<b>Total expenses</b>	<b>16 415</b>	<b>15 627</b>	<b>788</b>
<b>Profit before impairments</b>	<b>26 023</b>	<b>25 194</b>	<b>829</b>
Credit impairments	1 285	1 367	-82
Other impairments	196	66	130
Tax	5 178	4 209	969
<b>Net profit</b>	<b>19 350</b>	<b>19 539</b>	<b>-189</b>
Ratios	FY 2017	FY 2016	
ROE, %	15.1	15.8	
C/l ratio	0.39	0.38	
CET1 capital ratio, %	24.6	25.0	

- ROE of 15.1% - target achieved ✓
- Strong organic income generation
  - One-off tax-free gains:
    - SEK 2.1bn from VISA in 2016
    - SEK 0.7bn from Hemnet in 2017
- Underlying expenses in line with FY 2017 guidance of SEK 16.1bn ✓
- Strong asset quality
  - Lower-than-anticipated credit impairments ✓
- Higher tax expense - changed dividend policy in Estonia and tax on subord. liabilities
- CET1 capital ratio of 24.6%
- Board proposal – dividend of SEK 13.00 per share ✓
  - 75% pay-out ratio: Six consecutive years



Group

# Solid asset quality

Credit impairments, SEKm	Q4 17	Q3 17	▲ QoQ
Swedish Banking	264	66	198
Baltic Banking	-12	-26	14
Large Corporates & Institutions	59	195	-136
<b>Swedbank Group</b>	<b>311</b>	<b>235</b>	<b>76</b>

Ratios	Q4 17	Q3 17
Credit impairment ratio, %	0.08	0.06
Share of impaired loans, gross %	0.55	0.55
Total provision ratio for impaired loans, %	45	45

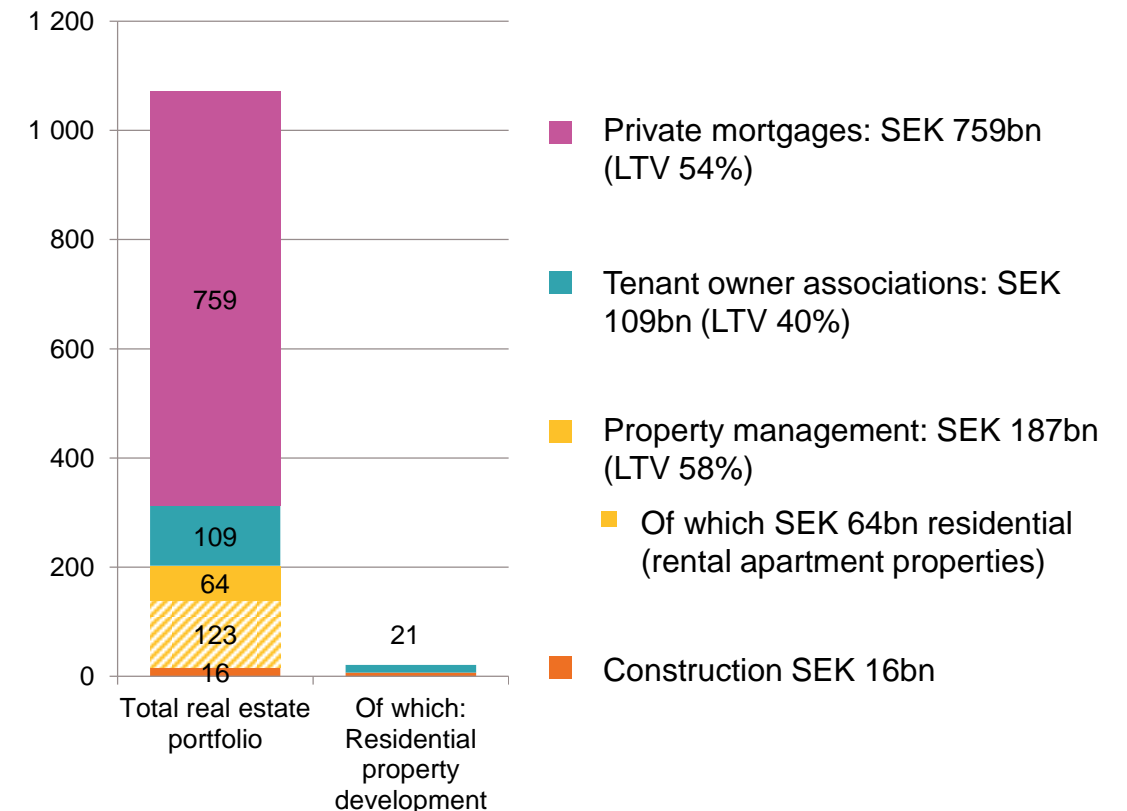
- Resilient asset quality in all business segments
- Lower-than-anticipated credit impairments for the full year (0.08%)

## Asset quality

# Swedbank has a low-risk real-estate lending portfolio

- Swedbank maintains a low risk profile and prioritises price and risk over volume growth
- Around 90% of the lending in lower risk residential housing segments
- Exposures towards residential property developers SEK 21bn

Real-estate lending, net loans in Sweden, SEKbn

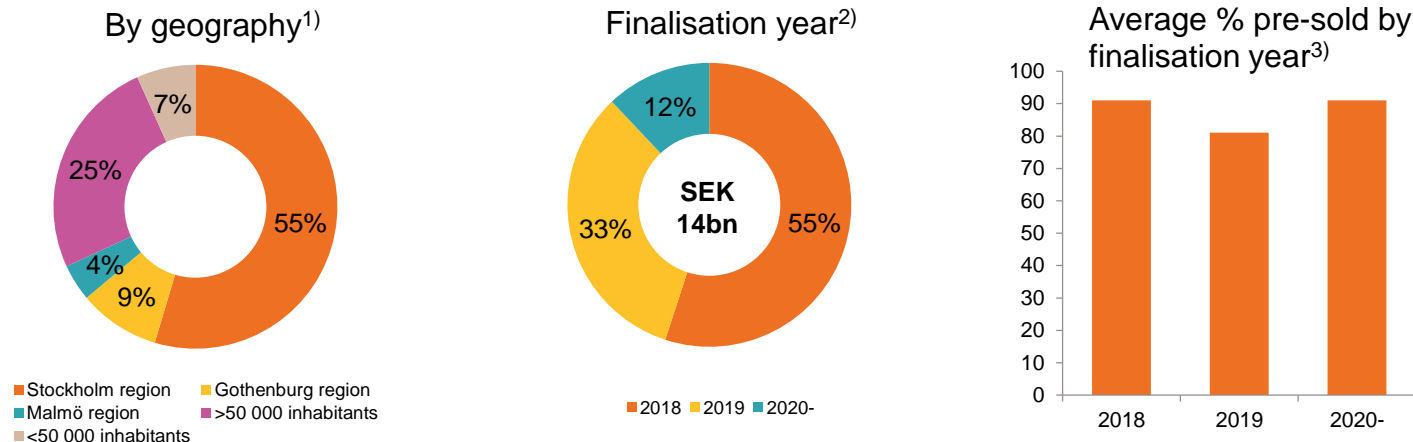


## Asset quality

# Residential property developers - low exposure

- Total exposures of SEK 21bn, mainly to the larger listed construction firms, with which Swedbank has long-term relations
  - SEK 14bn of the exposures are related to tenant-owner rights projects
    - 88% of these projects will be finalised in 2018 and 2019
  - SEK 7bn of the exposures are related to other construction activities
- On average 92% of the apartments are pre-sold

Tenant owner rights related construction loans<sup>1)</sup> – the risk is highly mitigated



# ROE target of 15% remains

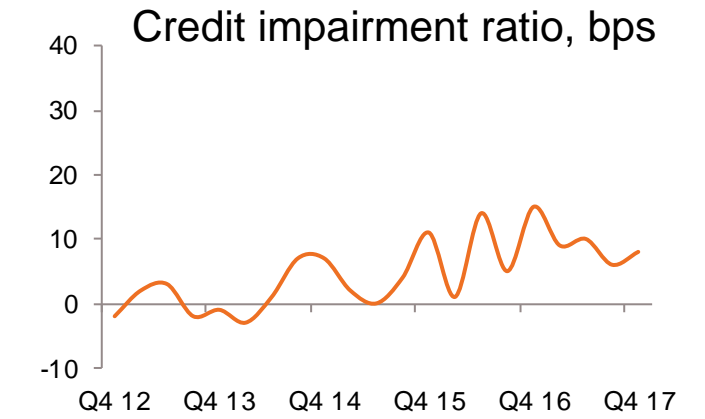
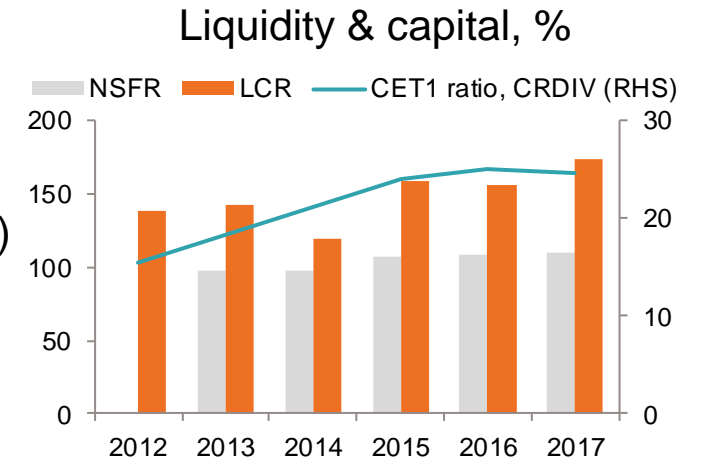
- Additional investments to further accelerate our digitisation and automation efforts
  - Channel transformation
  - Digital payment solutions and e-commerce
  - Customer offerings
  - Automation
- Investments will allow us to offset underlying cost inflation and over-time lead to net cost reductions
  - The re-organisation of our IT and business development processes – a key facilitator
- Total annual expenses for 2018 and 2019 will be below SEK 17bn
- ROE target of 15% remains
- No excess capital – dividend policy of 75% remains

# Appendix

# Swedbank – low-risk bank with strong capital base



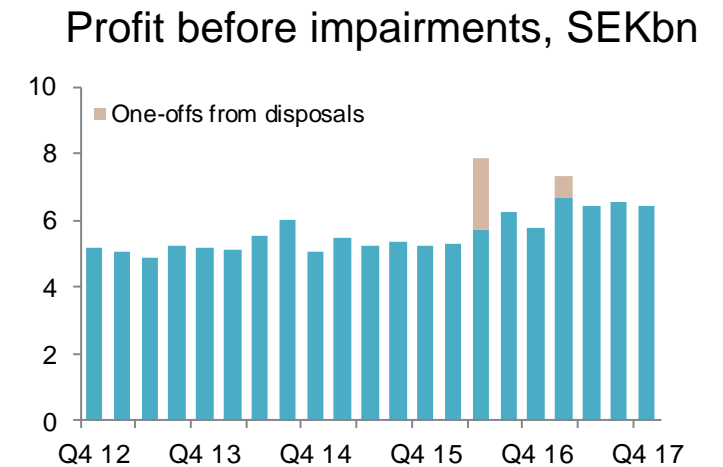
- Low risk – a Board of Directors’ strategic priority – ensures access to funding markets and low funding cost
- Retail profile and four home markets a key feature
  - 86% of total loans originated in Sweden - Swedish mortgages account for 50% of total loans
  - 91% of total loans are collateralised (78.5% real estate and 12.5% other collateral)
- Strong capital position – Board of Directors’ decision to maintain a buffer above prevailing SFSA capital requirements to have operational flexibility – current buffer around 270bp
- Conservative funding and liquidity position – survival horizon longer than 12 months assuming closed funding markets, NSFR 110% and LCR 173%
- Baltic operations self-funded – loan-to-deposit ratio < 100%



# Swedbank – strong and stable earnings capacity



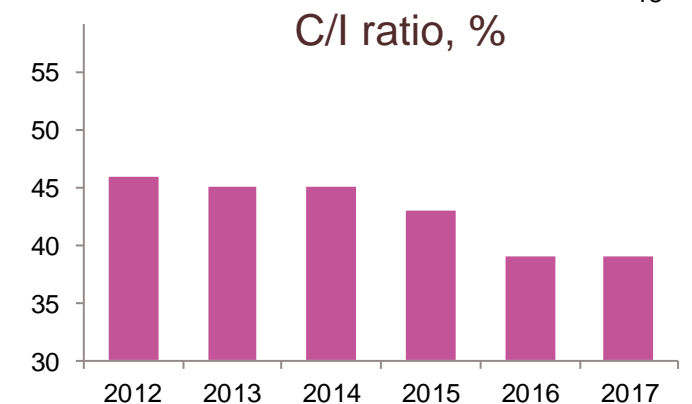
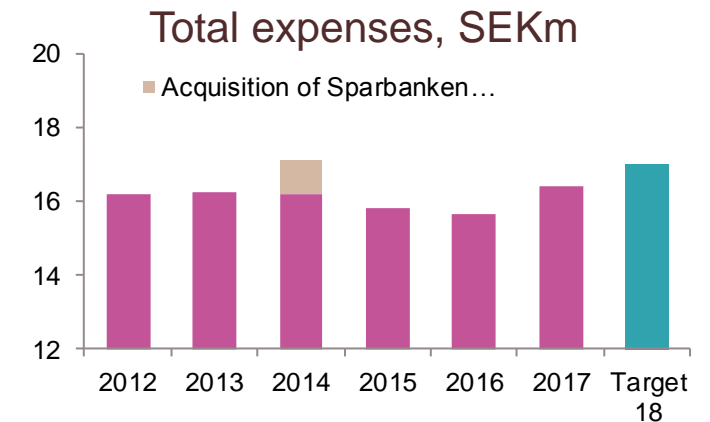
- Four home markets – Sweden, Estonia, Latvia and Lithuania
  - Strong and stable economies
  - Market-leading position in all home markets
  - Largest customer base in all home markets
- Retail profile ensures stable earnings with low volatility
- High cost efficiency – a strategic priority – ensures good profitability
- Stable earnings support a low risk profile and a strong capital position



# Swedbank – market leader in cost efficiency

This is  
Swedbank

- Best-in-class cost efficiency – an executive management strategic priority
- Executive management strongly focused on cost and change management
  - Integrated in corporate culture
  - Focus on straight-through-processing
  - Evolving household banking model – digitisation trend
- Retail profile a key feature
  - Four home markets – Sweden, Estonia, Latvia and Lithuania – reduce complexity
  - Largest private and SME customer base
  - High degree of digitisation in home markets

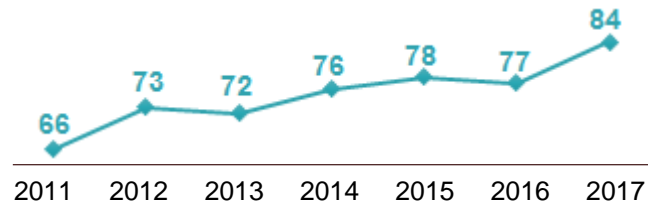




# Focus on sustainable business

## Improved sustainability scores

### Dow Jones Sustainability Index



## Swedbank Robur's sustainability funds

### Nordic Swan Ecolabel

Since October 2017, five of Swedbank Robur's active managed sustainability funds have the Nordic Swan Ecolabel. Sustainability work is also further progressing in the management of the Access Index-based funds.

## Stronger Environmental Management System (EMS)

### ISO

Swedbank's upgraded Environmental Management System was certified with the new and more rigorous standard **ISO14001:2015**.

## Swedbank is included in The Sustainability Yearbook 2018

### The Sustainability Yearbook

The Sustainability Yearbook lists the world's most sustainable companies in each industry as determined by their score in RobecoSAM's annual Corporate Sustainability Assessment.



## First green bond issued in October (5yr EUR 500m)

Swedbank issued its first Green Bond Proceeds will

- Finance sustainable real-estate
- Renewable energy
- Reduction of carbon emissions
- Contribute to several of the UN Sustainable Development Goals.

Approximately 72% of the amount was allocated to investors with dedicated green funds.

With our established Green Bond framework Swedbank intends to be a regular issuer in the green bond market.

Eligible green assets	Sustainable Development Goal
Renewable energy	SDG7 and SDG13
Energy efficiency	SDG7, SDG11 and SDG13
Sustainable management of living natural resources	SDG15
Pollution prevention and control	SDG6 and SDG11
Clean transportation	SDG9 and SDG11, SDG13

## Sustainability Indicators: towards the 2030 Agenda

Swedbank has developed a new methodology, Sustainability Indicators, to review the progress towards the UN 2030 Agenda for Sustainable Development. The aim is to support the business looking at ESG (environmental, social, governance) criteria and help to identify weaknesses and strengths in Sweden and the Baltic countries operations.

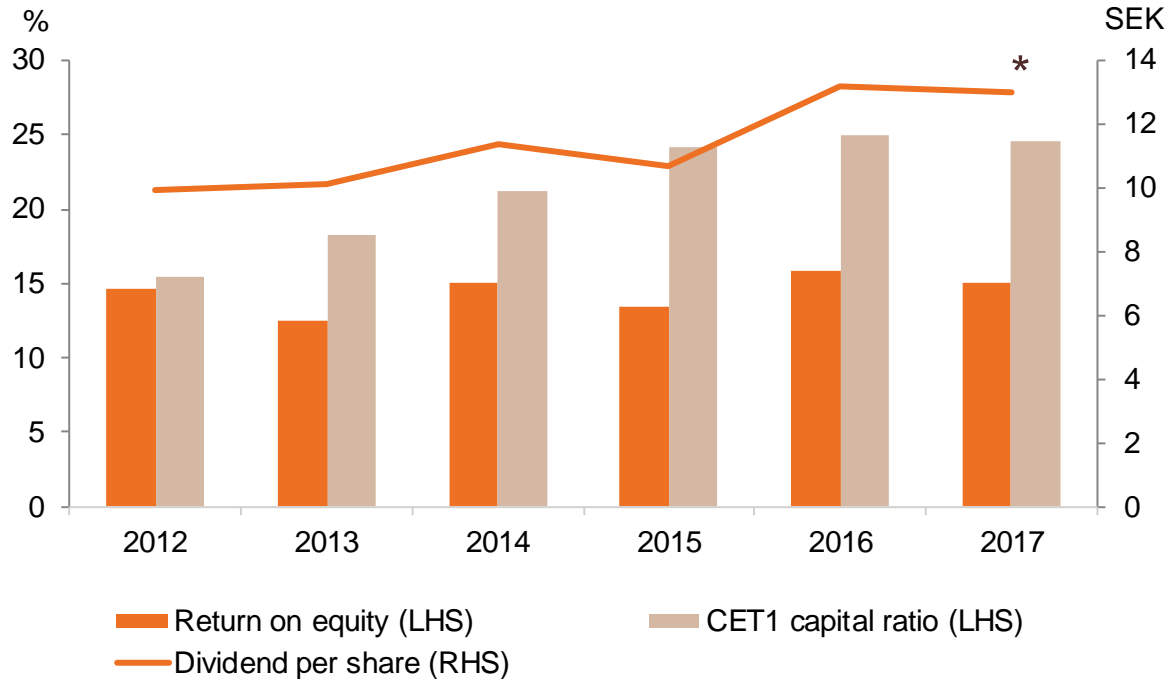
Progress towards UN SDGs, % of benchmark\*

	Estonia	Latvia	Lithuania	Sweden
Sustainable medium-term growth (SDGs #4, 8, 9)	71	61	64	90
Social inclusion (SDGs # 1, 3, 5, 10)	56	55	55	89
Environmental protection (SDGs # 6, 7, 11, 12, 13)	58	72	70	82
Governance and institutions (SDGs # 16, 17)	70	51	62	97

Dow nward/stable trend during last 5 years (4 years for governance) – ↓

\* Benchmark is 90 or 10th percentile of the EU 28 in 2015. In total 40 indicators covering 14 from 17 SDGs, aggregated to four pillars. Traffic lights - Sweden: >90% for green, 70-90% for yellow, 0-70% for red; Baltics: >80% for green, 60-80% for yellow, 0-60% for red.

# Swedbank creates value



## Return on equity

>15% target

**15.1%** FY 2017

## Common Equity Tier 1 ratio

One of the highest among European banks

**24.6%**

## Dividend per share

75% payout ratio for 6<sup>th</sup> year in a row

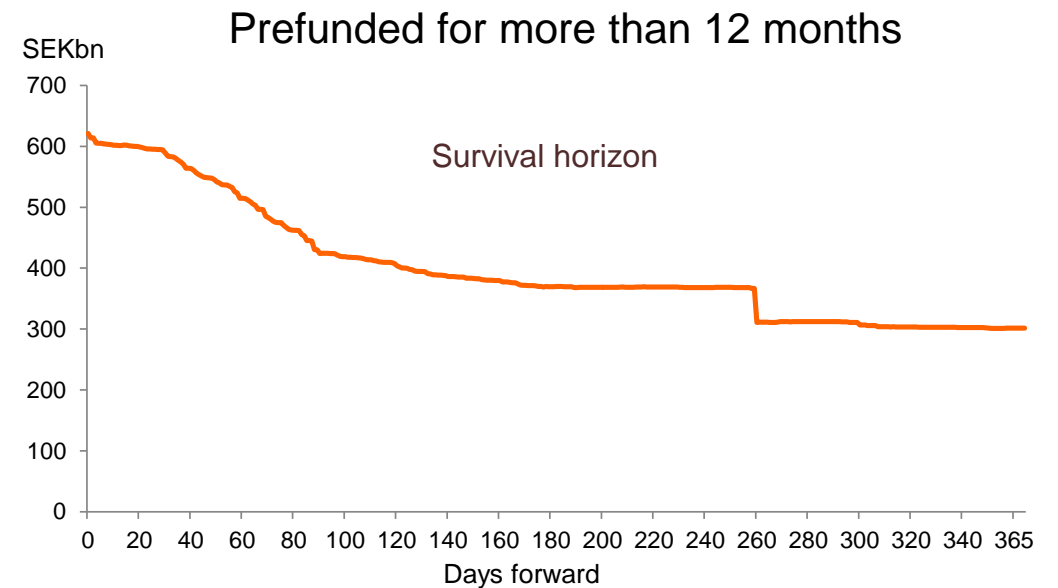
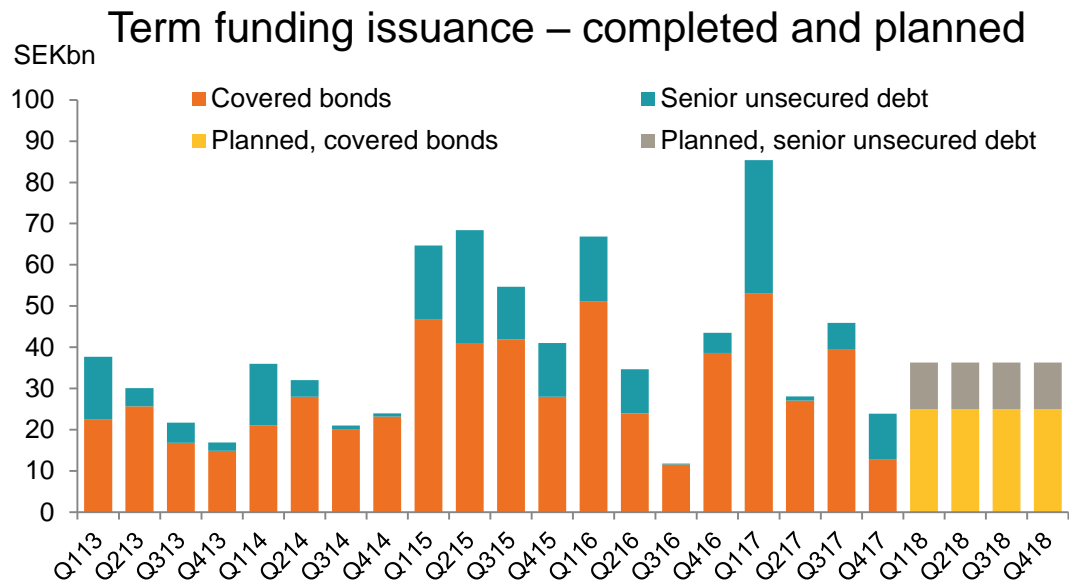
**SEK 13.00**

Dividend proposal from the Board (for the financial year of 2017) - to be decided by the Annual General Meeting in March 2018

# Conservative funding position



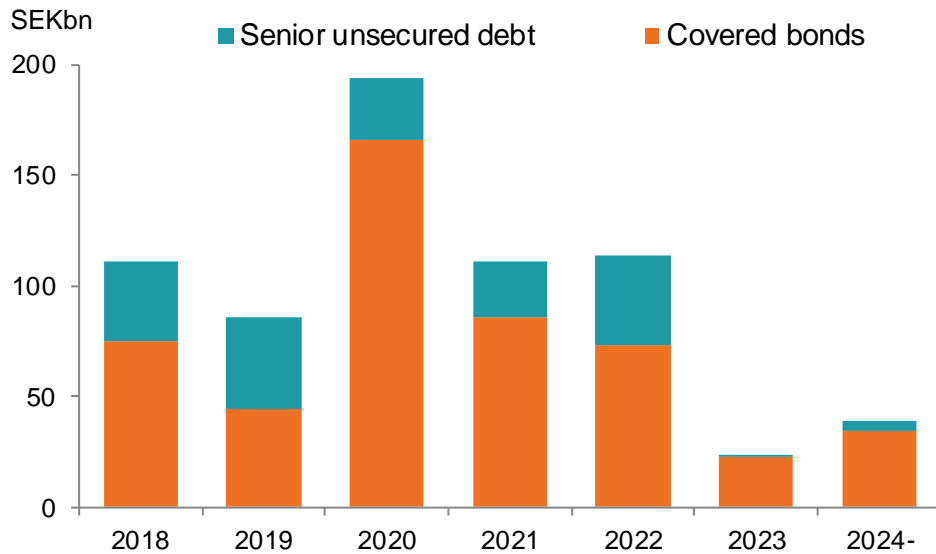
- LCR 173% (Swedish FSA definition FFFS 2012:6)
- NSFR 110% (Basel committee)
- Issued SEK 181bn of term funding FY 2017
- Plan to issue around SEK 145bn in 2018



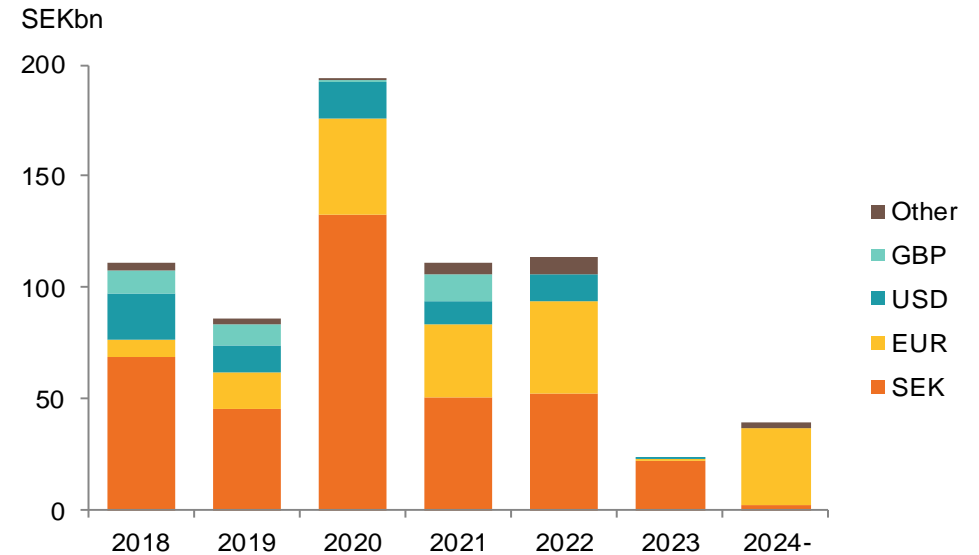
# Long-term funding maturity profile



Long-term funding maturity profile, by funding source



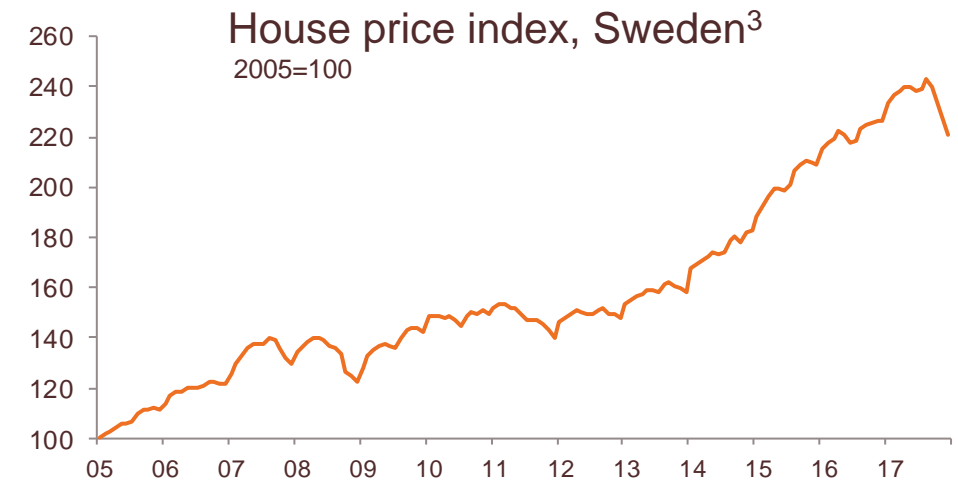
Long-term funding maturity profile, by currency



# Real-estate price performance – Sweden, 12 month



	Single-family homes <sup>1</sup>	Tenant-owner rights <sup>2</sup>	Combined <sup>3</sup>
	12M Δ	12M Δ	12M Δ
Jan 17	9%	8%	9%
Feb 17	9%	8%	9%
Mar 17	9%	8%	9%
Apr 17	8%	8%	8%
May 17	8%	9%	9%
Jun 17	9%	10%	10%
Jul 17	10%	9%	9%
Aug 17	10%	8%	9%
Sep 17	8%	4%	7%
Oct 17	4%	1%	3%
Nov 17	1%	-3%	0%
Dec 17	0%	-6%	-2%



Source: Valuegard [www.valuegard.se](http://www.valuegard.se) (Based on data from Mäklarstatistik), <sup>1</sup> HOXHOUSESWE, <sup>2</sup> HOXFLATSWE (apartments), <sup>3</sup> HOXSWE  
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