

**INVESTOR**

**PRESENTATION Q1 2019**

**SBAB Bank AB (publ)**

**31 March 2019**

**SBAB!**

# Executive summary

## A short introduction to SBAB

- 100% owned by the Kingdom of Sweden
- Swedish mortgage portfolio, predominantly residential mortgages. 5<sup>th</sup> largest residential mortgage provider in Sweden
- Savings accounts offered to retail customers, corporate clients and tenant-owners' associations
- Financial targets from owner covering profitability, capitalisation & dividend
- Total funding needs for 2019 expected to be around SEK 60 billion

### Lending

SEK **366** bn

### Deposits

SEK **126** bn

MOODY'S

A1

STANDARD & POOR'S  
RATINGS SERVICES  
McGRAW HILL FINANCIAL

A

## Key figures Q1 2019

### STABLE PROFITABILITY

RoE: **12.4%**

### HIGH COST EFFICIENCY

C/I ratio: **33%**

### STRONG ASSET QUALITY

Loan loss ratio: **0.01%**

### SOLID CAPITALISATION

CET1 ratio: **12.4%**

## THE SWEDISH RESIDENTIAL MORTGAGE MARKET 2018

MARKET SHARE DEC 2018

**8.4%**

SHARE OF NET GROWTH FY 2018

**17%**

SBAB!

# Table of contents

*All figures in this presentation are as of 31 March 2019 unless otherwise stated*



**Our business**

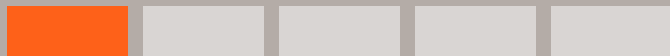
**Financial development**

**Funding, liquidity & capital**

**The Swedish economy & housing market**

**Appendix**

*OUR BUSINESS.*



# Business overview

## Overview

### Introducing SBAB

- Founded in 1985 & 100% owned by the Kingdom of Sweden
- 600 employees in five offices
- Cost efficient origination through internet (since 1998), call-centre and digital partnerships

### Two main product offerings

- **Lending:** Mortgages & housing financing offered to retail customers (76%), tenant-owners' associations (14%) and property companies (10%). **Total lending SEK 366 billion**
- **Deposits:** Savings accounts offered to retail customers (69%), corporate clients and tenant-owners' associations (31%). **Total deposits SEK 126 billion**

### Vision

To offer the best residential mortgages in Sweden

### Mission

To help improve housing quality and household finances

## TWO BUSINESS AREAS

### Retail

- Retail customers
- Residential mortgages (5<sup>th</sup> largest player in Sweden), savings accounts and consumer loans

76% of lending

### Corporates & ToA

- Property companies and tenant-owners' associations
- Financing of multi-family dwellings; existing buildings or new construction

24% of lending

# Retail

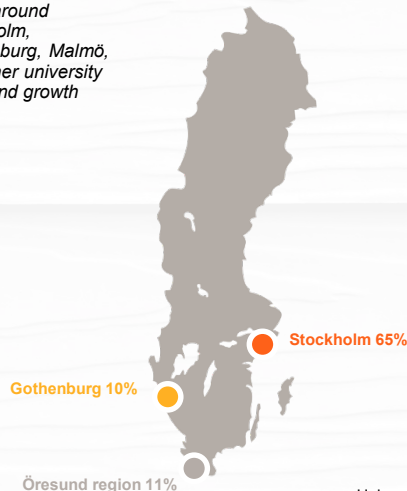
## Summary

- Core product residential mortgages (5<sup>th</sup> largest player in Sweden) supplemented with savings accounts and consumer loans
- No traditional bank branches, products and services offered online or by telephone
- Services within housing and household finances to add to customer value, e.g. insurance brokering, search engine for housing and real estate-agent services
- Customers primarily located in areas around Stockholm, Gothenburg, Malmö, and other university cities and growth regions

**SBAB!** **booli** HittaMäklare

## Geography

*Lending concentrated to areas around Stockholm, Gothenburg, Malmö, and other university cities and growth regions*



University and growth areas: 9%  
Other regions: 5%

## Key figures

Lending (SEK)

**279.5<sub>bn</sub>**

Mortgage market share

**8.35%**

Mortgage customers

**270,000**

Deposits (SEK)

**87.6<sub>bn</sub>**

# Retail

## Value proposition



### ACCESSIBILITY

Residential mortgages online and over the phone, seven days a week, covering all circumstances.



### TRANSPARENCY

Fair prices and appropriate terms and conditions from the start.



### CONSIDERATION

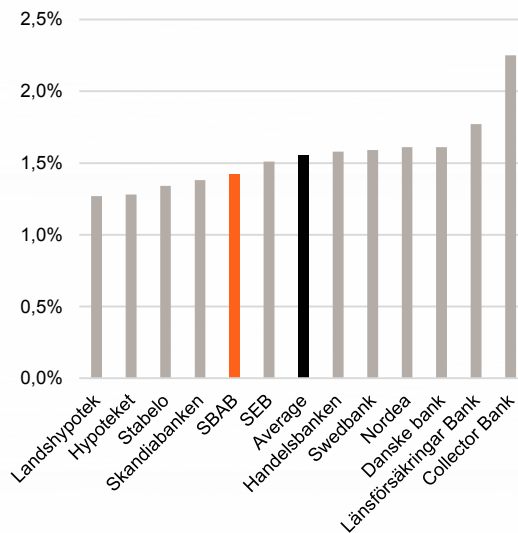
Housing specialists who care.

## Straightforward offering

- Pricing of residential mortgages is based on current list rates for each maturity, as published on [www.sbab.se](http://www.sbab.se)
- The customer's specific interest rate is presented as a deviation from the list rate based on LTV (proportion of loans in relation to the market value of the property), size of loan (if <SEK1mn) and the energy classification of the property
- Lower risk = better price
- No time limited discounts, no negotiation
- Transparent offering – small difference between SBAB's list rates and average rates

## Competitive pricing (March 19)

Average 3M variable interest rate (%)

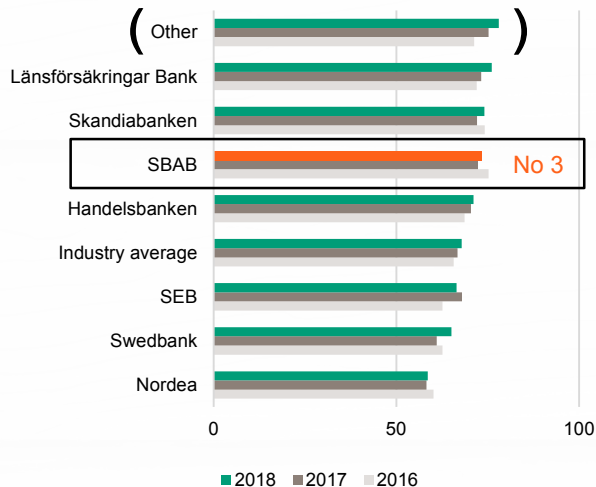


# Focus on improving customer experience

## Customer satisfaction

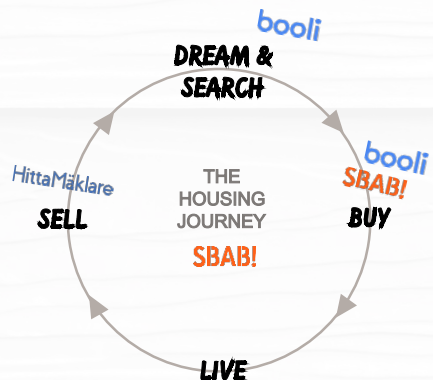
### Retail (SBAB no 3 in 2018)

Customer satisfaction 2018, 2017 & 2016



## SBAB's ecosystem

Value adding content & services relating to housing and household finances



## Digital customer experience

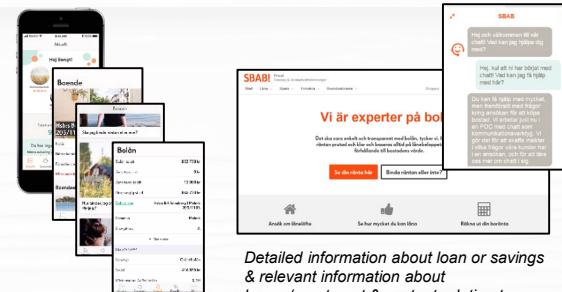
Improved (digital) customer experience

**booli**



Booli.se is the second largest Swedish search engine for housing

**SBAB!** App & Webb

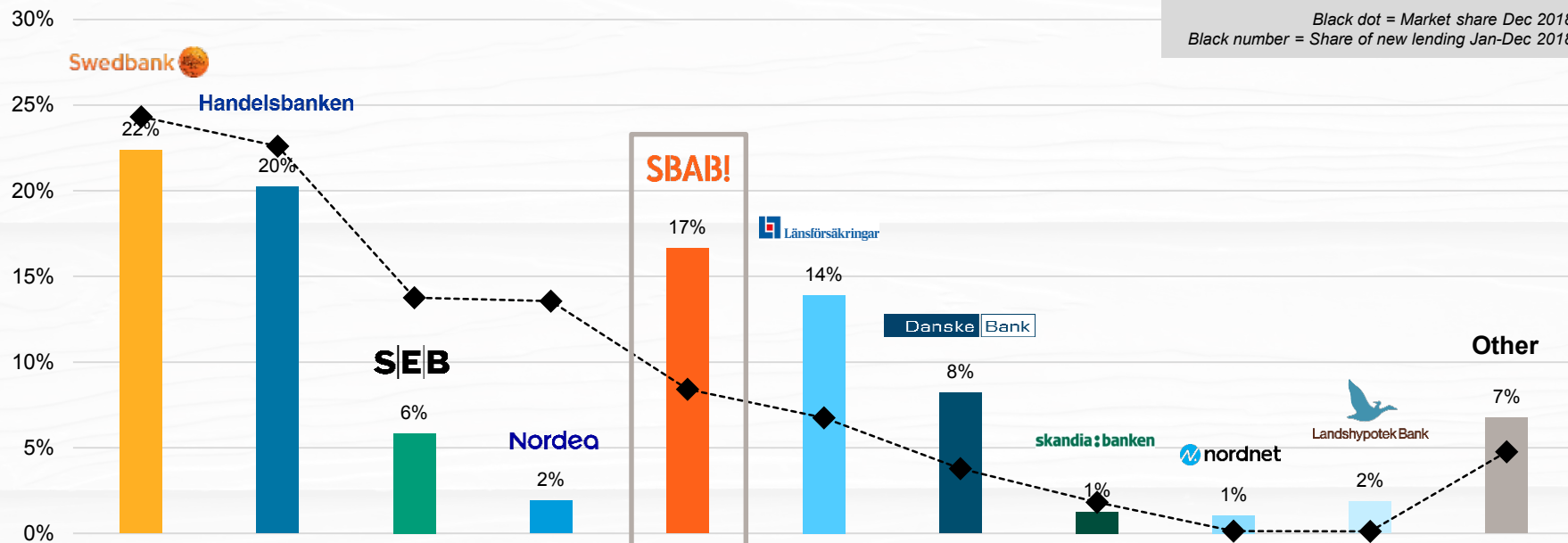


Detailed information about loan or savings & relevant information about house/apartment & content relating to housing and household finances.



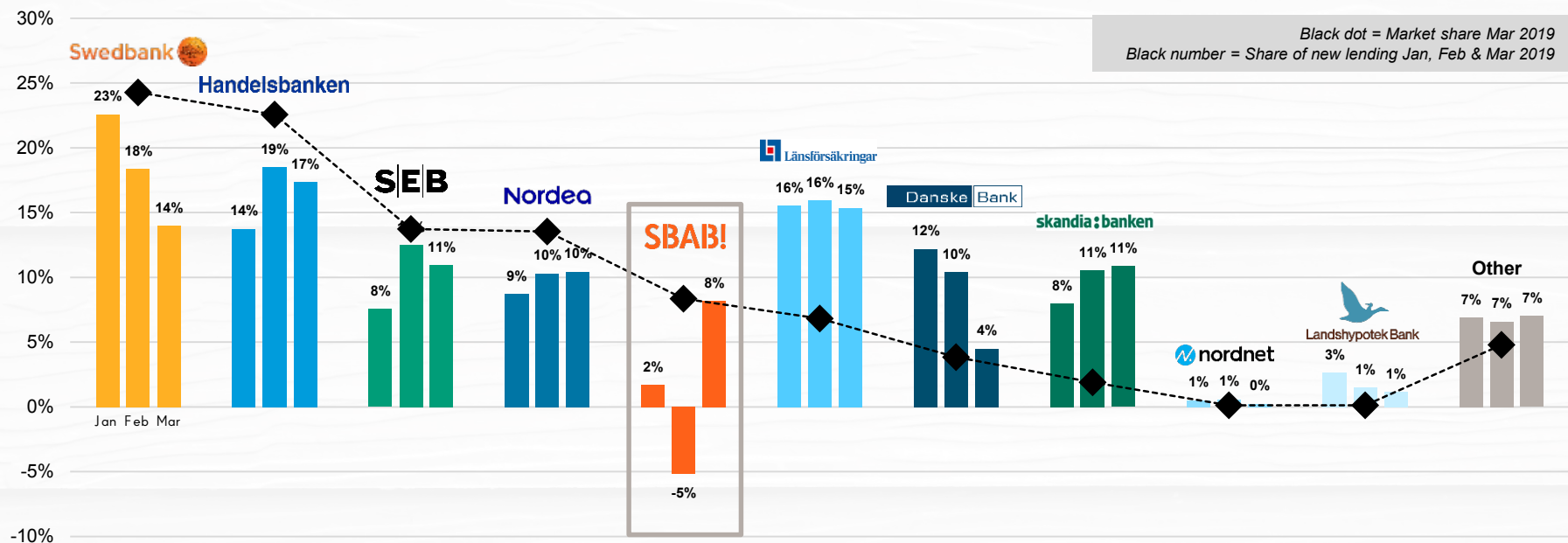
# Strong growth in 2018

Share of net growth in the Swedish residential mortgage market Jan-Dec 2018



# The residential mortgage market 2019

Share of net growth in the Swedish residential mortgage market Jan, Feb & Mar 2019 vs. Market share Mar 2019



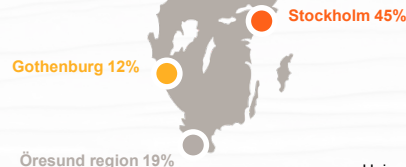
# Corporate Clients & Tenant-Own. Assoc.

## Summary

- Housing financing and savings products to **property companies** (“corporates”) and **tenant-owners’ associations**
- Multi-family dwellings, both privately owned and owned by tenant-owners’ associations
- Existing buildings or new construction
- Personal service. Three offices in Stockholm, Gothenburg and Malmö
- Primarily target major residential developers, property owners and tenant-owners’ associations
- Credit granting concentrated to growth regions surrounding our three offices in Stockholm, Gothenburg and Malmö

## Geography

*Credit granting concentrated to growth regions surrounding our three offices in Stockholm, Gothenburg and Malmö*



University and growth areas: 17%

Other regions: 7%

## Key figures

Lending (SEK)

86.8<sub>bn</sub>

Market share (Corporates)

11.3%

Market share (ToA)

9.4%

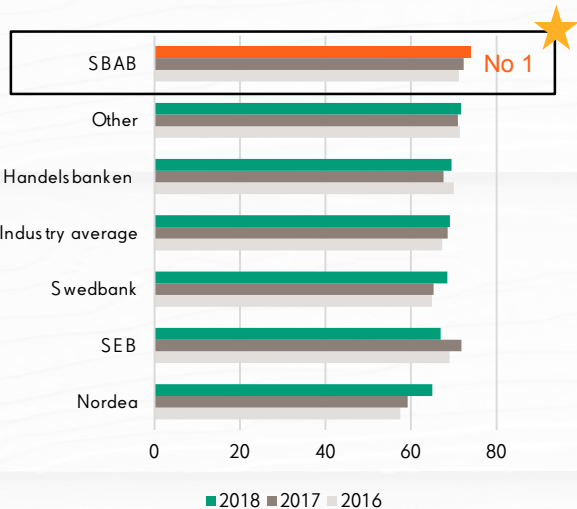
Deposits (SEK)

38.5<sub>bn</sub>

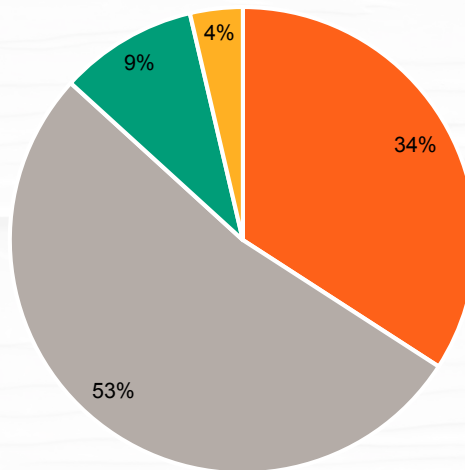
# Corporate Clients & Tenant-Own. Assoc.

## Customer satisfaction

**Corporate loans (SBAB no 1 in 2018)**  
Customer satisfaction 2016, 2017 & 2018



## Lending split



Total lending: SEK 86.8 billion

- Corporate lending (Multi-family dwellings)
- Tenant-Owners' Associations (Multi-family dwellings)
- Building credit exposures (Sv "Kreditiv")
- Commercial lending

# SBAB's sustainability focus

## A TRULY SUSTAINABLE STRATEGY

Three target areas that form the basis of a common approach of SBAB's contribution to sustainable global development

Responsibility  
and transparency

Attractive  
workplace

Sound  
finances



## EXAMPLES OF SBAB'S SUSTAINABILITY EFFORTS

### Rebated green mortgages

ENERGY CLASS **A: -10 bps**

ENERGY CLASS **B: -10 bps**

ENERGY CLASS **C: -5 bps**



### Homelessness in society

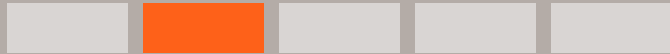
Undeclared labour and unacceptable working conditions in the housing construction market

### Respect, diversity & equality in the workplace



**IN Q1 2019, SBAB  
BECAME THE FIRST  
PLAYER IN SWEDEN  
TO ISSUE A GREEN  
COVERED BOND  
BACKED BY  
MORTGAGES**

# **BUSINESS & FINANCIAL DEVELOPMENT.**



# Strong financial performance

(SEK mn)	Q1 2019	Q4 2018		▲	2018	2017		▲
NII	883	848	↑	+4.1%	3,362	3,149	↑	+6.8%
Costs	-292	-297	↓	-1.7%	-1,049	-959	↑	+9.4%
Loan losses	-9	-7	↑	+2mn	11	24	↑	+13mn
Operating profit	590	576	↑	+2.4%	2,241	2,228	↑	+0.6%
Lending (SEK bn)	366.3	364.2	↑	+0.6%	364.2	335.1	↑	+8.7%
Deposits (SEK bn)	126.1	124.9	↑	+0.9%	124.9	111.9	↑	+11.6%
Deposit/lending, %	34.4%	34.3%	↑	+0.1 pp	34.3%	33.4%	↑	+0.9 pp
C/I ratio, %	32.8%	33.7%	↓	-0.9 pp	32.0%	30.3%	↑	+1.7 pp
RoE, %	12.5%	11.9%	↑	+0.6 pp	12.1%	12.5%	↓	-0.4 pp
Loan loss ratio, %	-0.01%	-0.01%	→	0.00 pp	0.00%	0.01%	↑	-0.01pp
CET1 capital ratio, %	12.4%	12.5%	↓	-0.1 pp	12.5%	32.2%	↓	-19.7 pp

# Financial targets from the Swedish state

	Target 2018	Result 2018	Result 2017
<b><u>Profitability:</u></b> Return on equity over a business cycle	≥ 10%	12.1%	12.5%
<b><u>Dividend:</u></b> Ordinary dividend based on profit for the year after tax, taking the Group's capital structure into account	>40%	40%	40%
<b><u>Capitalisation:</u></b> CET1 capital ratio and total capital ratio above regulatory requirement communicated by the Swedish FSA	CET1 capital ratio: >0.6%*	2.2%*	6.0%
	Total capital ratio: >0.6%*	3.7%*	10.7%

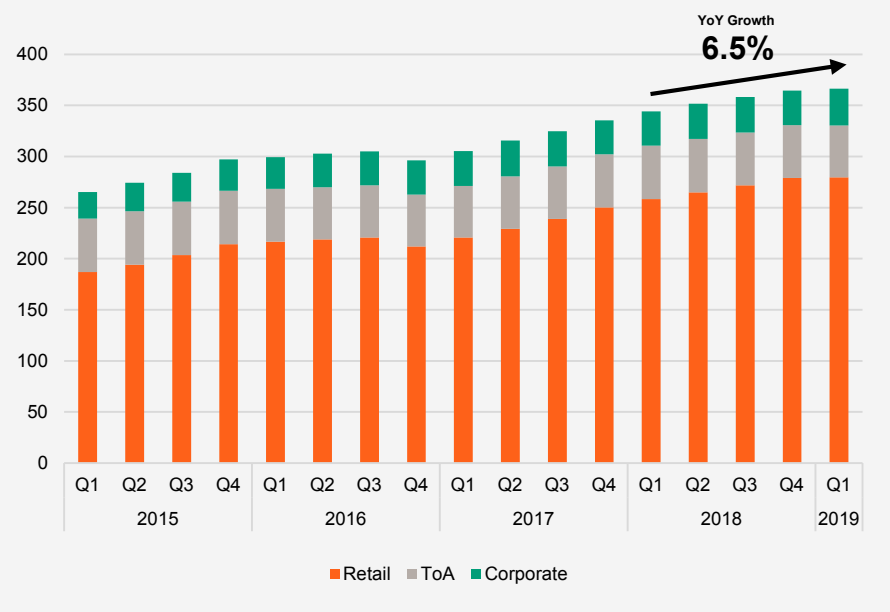
\* Adjusted for the Swedish FSA's new method for applying risk-weight floors for Swedish residential mortgages, which entered force 31 December 2018. Previous target = 1.5 percentage points.



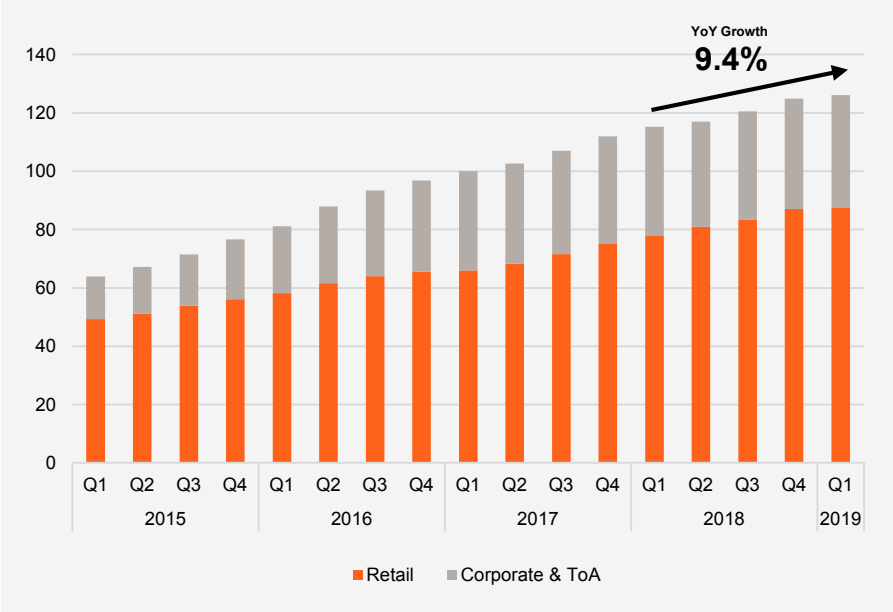
# Business volumes

– Solid growth during recent years for both lending and deposits

Lending (SEK bn)



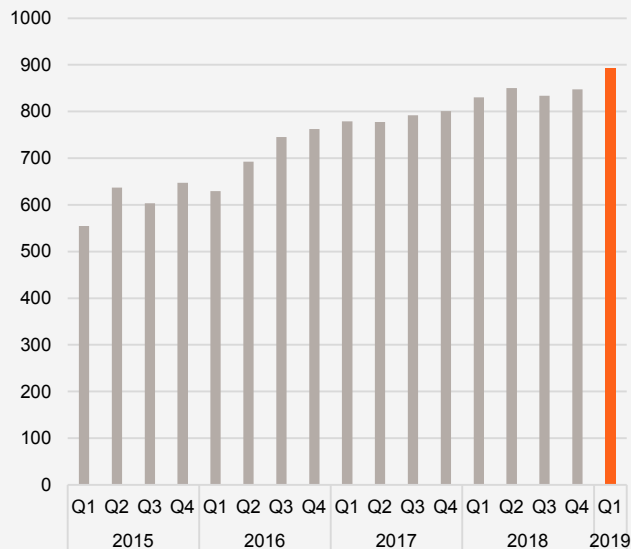
Deposits (SEK bn)



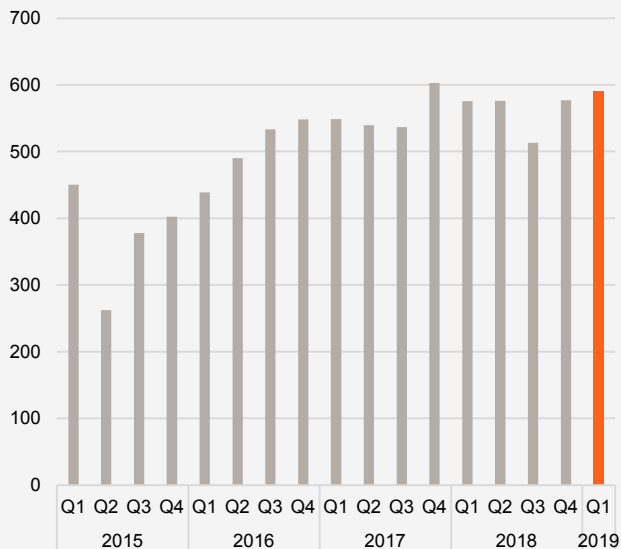
# Financial development

– Continued growth and stability. Recurring income dominates SBAB's revenue stream

## Net Interest Income (SEK mn)



## Operating profit (SEK mn)



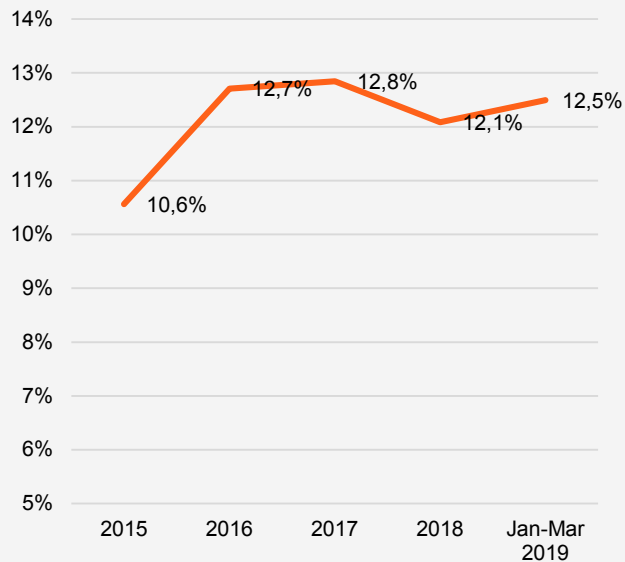
## Comments

- An efficient business model which delivers solid returns
- Strong growth metrics demonstrated for a sustained period of time
- SBAB's business model is in its nature of a strong recurring character

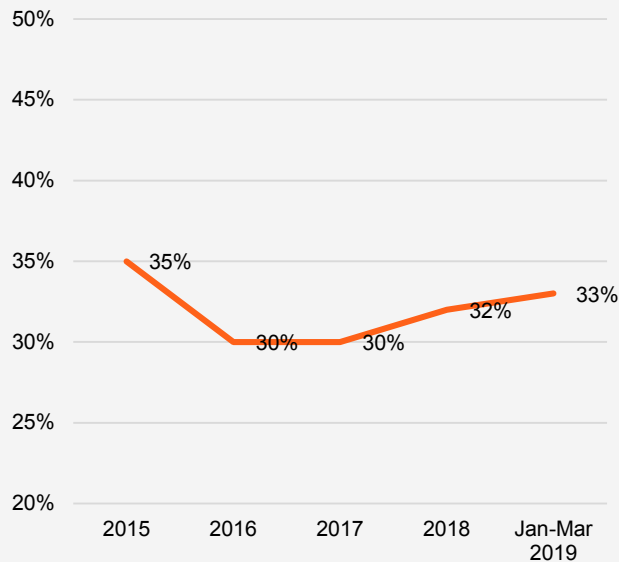
# Strong financial KPIs

– Competitive profitability given SBAB's low risk business & best in class cost efficiency

Return on equity, % \*



C/I-ratio, %



Comments

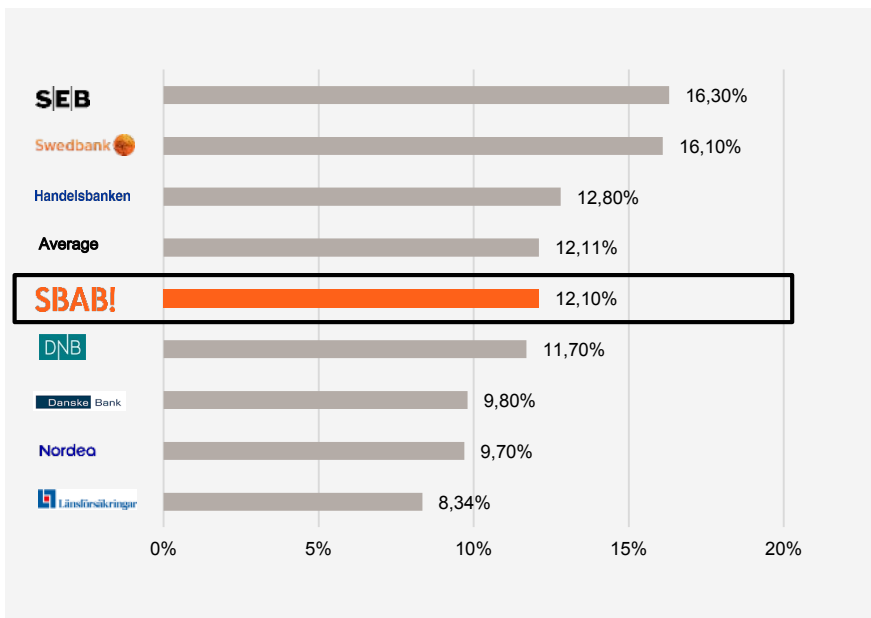
- Strong underlying profitability (above profitability target of RoE>10% last 5 years)
- Successful and cost efficient origination through call centre and internet platform (since 1998). No branch offices
- Risk/return trade off – competitive profitability and returns given SBAB's low risk business

\* Return on equity calculated as earnings after tax in relation to average equity, after adjustment for additional Tier 1 securities, value changes in financial assets recognised in equity & dividend (opening balance adjusted for dividend the year before)

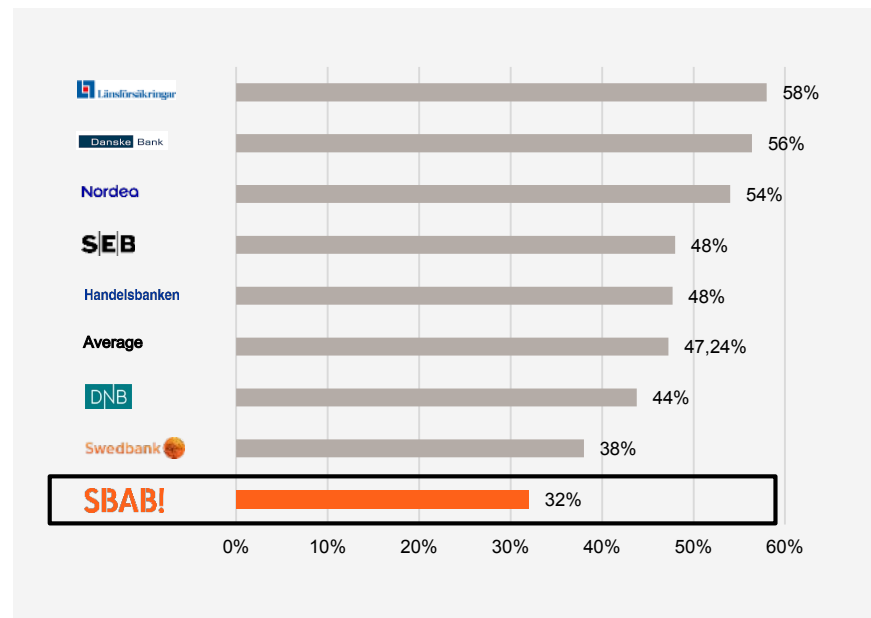
# SBAB vs. others banks (FY2018)

– Competitive profitability given SBAB's low risk business & best in class cost efficiency

Reported return on equity FY2018, %



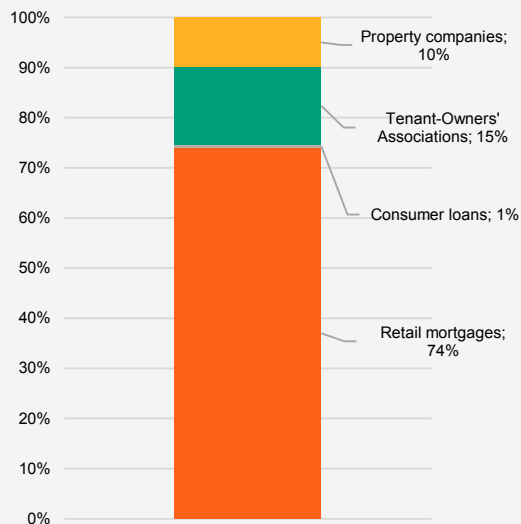
Reported C/I-ratio FY2018, %



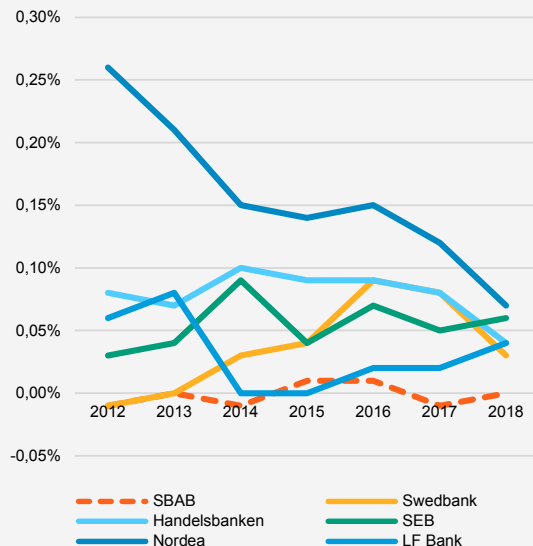
# Swedish mortgages – a low risk business

– Thorough credit evaluations and low risk assets consistently achieves low credit losses

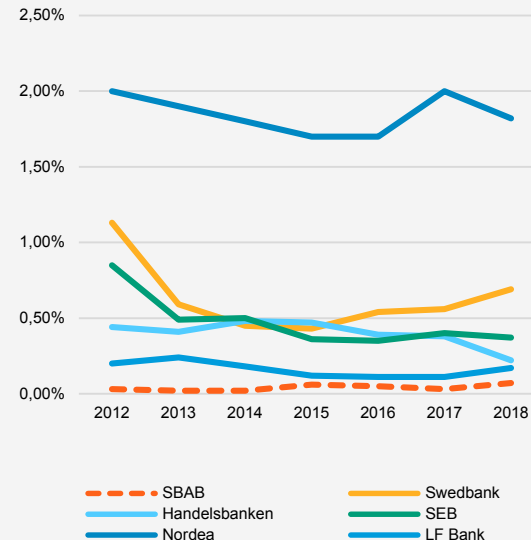
## SBAB lending 31 Dec 2018 >98% collateralized



## Net credit losses FY2018 vs. other banks



## Impaired loans FY2018 vs. other banks



# FUNDING, CAPITAL & LIQUIDITY.



# Overview of funding

– Total funding portfolio SEK 433 billion (as of 31st March 2019)

## FUNDING OVERVIEW

Deposits

Unsecured funding

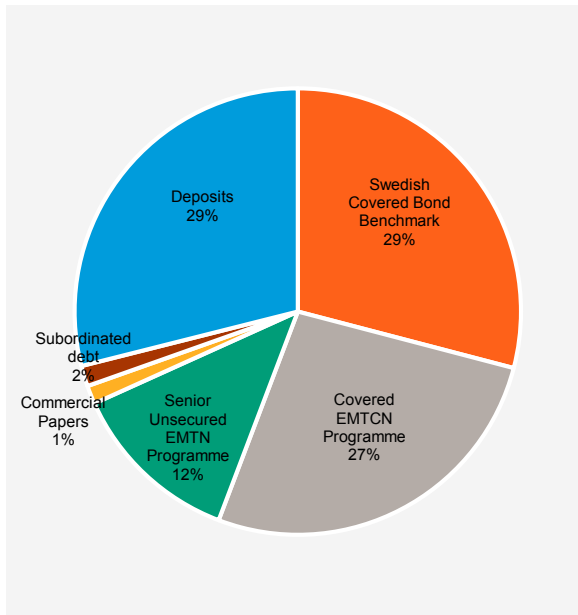
**SBAB!**

Covered bonds

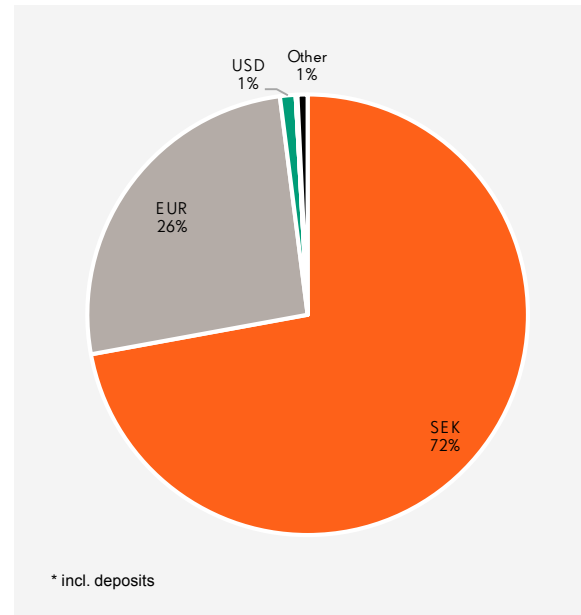
**SCBC**

— Covered Bonds of SBAB —

Funding sources



Currency split

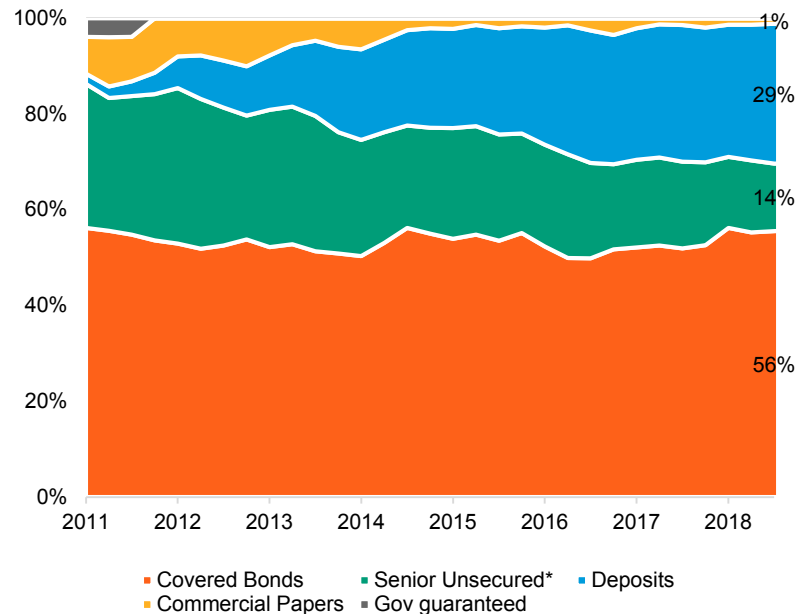


# Funding strategy & development

## Funding strategy

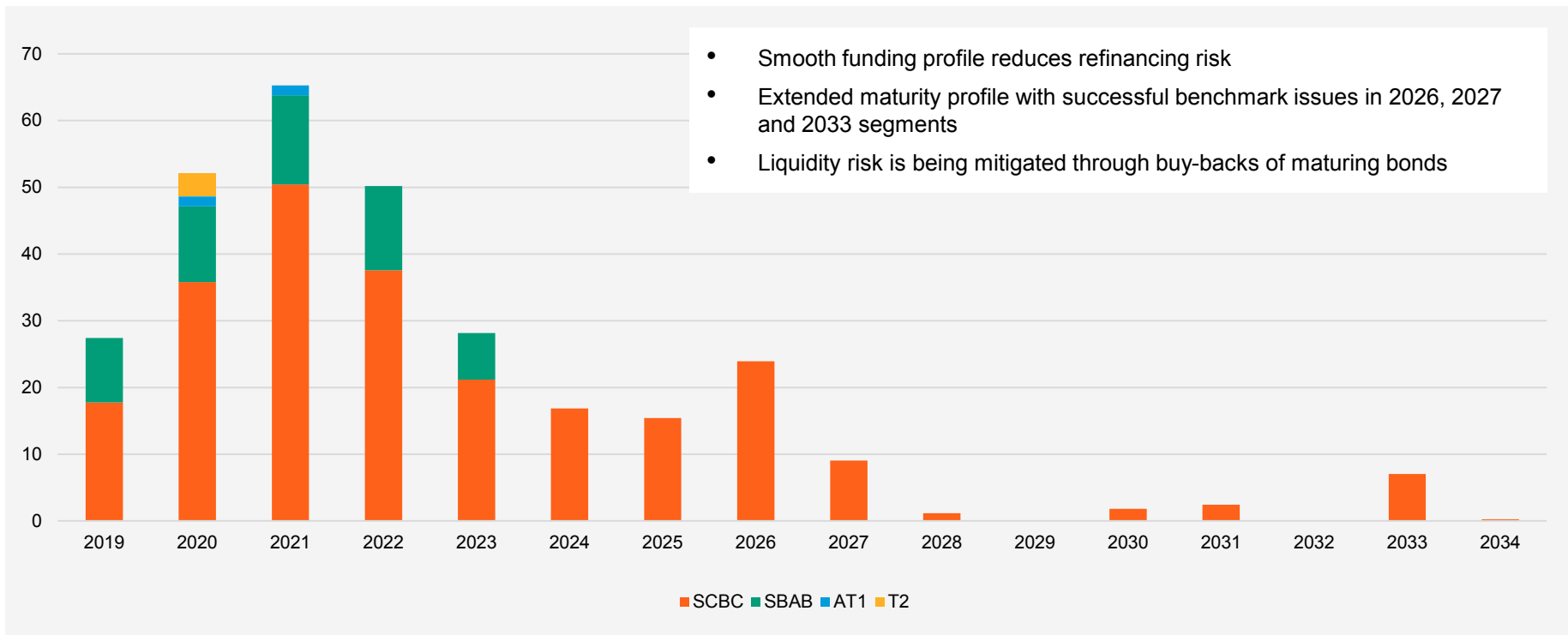
- Continuous and committed investor work in core markets and towards core investors to further increase name recognition and transparency
- Reduce wholesale funding reliance through growing deposit volumes. Maintain a low reliance on foreign currency funding
- Maintain access to core funding markets - SEK- and EUR-market
  - Regular benchmark issuance in Covered Bond format as well as in Senior Unsecured format
  - Private placements in niche currencies
- Efficient use of Covered Bond Funding ~ 50% of total funding. Utilising the depth and stability of the Swedish Covered Bond Market
- Limited use of short dated funding through CP-programs and of interbank funding.
- Intermediate (5y+) bond tenors to support funding duration

## Development of funding sources





# Maturity profile

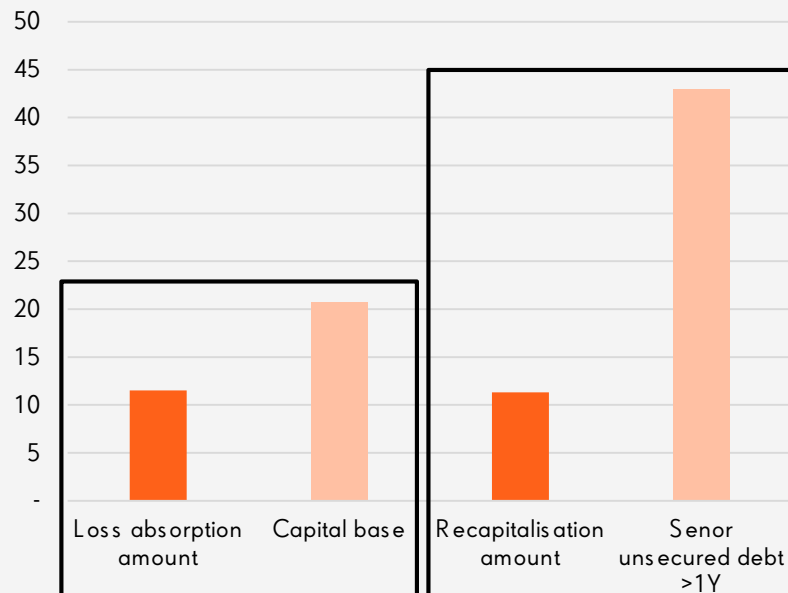


# MREL-requirement 2019

## Background

- In June 2018, SNDO (Riksgälden) made public that the principle of subordinated liabilities shall also apply to the six mid-sized institutions that are critical for the financial system. Phase in period until end 2021
- SBAB's total MREL-requirement is currently set at 5,1% of Total Liabilities and Own Funds (TLOF)\*
  - Total need for MREL debt around SEK 24 bn, where approximately SEK 11-12 bn is the recapitalisation amount (to be covered with senior non preferred debt)
  - Compliant with requirement with current outstanding senior unsecured debt
  - SBAB's estimated balance sheet growth and buffer will add to MREL requirement
- Senior non preferred need (requirement and buffer) of approximately SEK 17-20 bn by end of 2021
- Gradual build up of eligible liabilities (senior non preferred) over next three years (subject to regulatory developments) with start in 2019

## MREL requirement Q4 2018, SEK (bn)



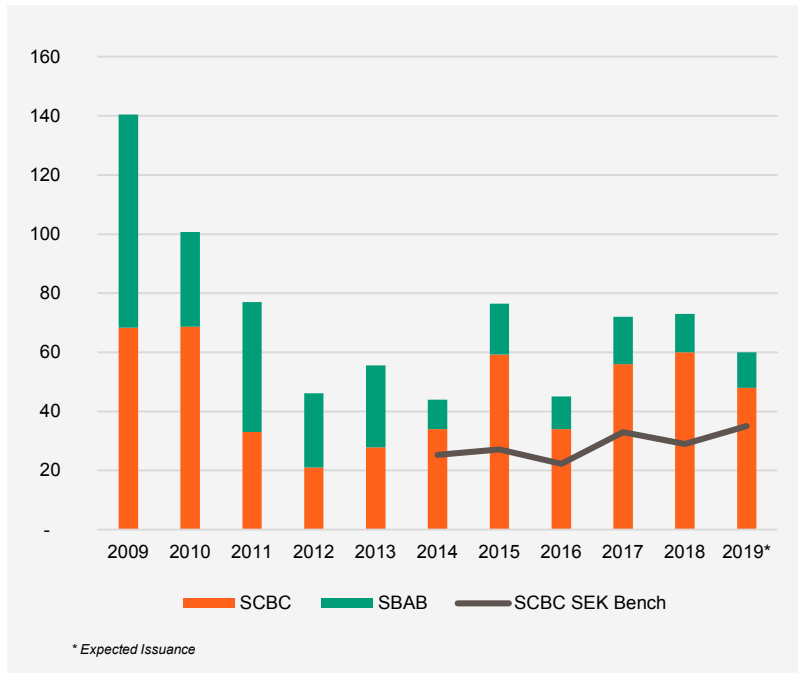
\* Source: <https://www.riksgalden.se/contentassets/d8e4e8a07bf24347808d47e70de2b030/mrel-tabell-dec-2018.pdf>

# Future issuance

## Future issuance

- Total long term funding for 2019 expected to approximately SEK 60 bn
- Overall strategy is to long term maintain presence and regularity in core funding markets (predominantly EUR and SEK)
- New SEK covered bond benchmark/benchmarks per year
  - One EUR covered transaction in international funding markets per year
  - One EUR public senior preferred in international funding markets per year
  - Private placements in SEK and international funding markets
  - Senior non preferred issuances – SEK issuance, EUR and other currencies as a complement
- Capital issuances (AT1 & T2) predominately in SEK
- SBAB's focus is to use intermediate (5y+) tenors to support duration
- Regular future issuance: Dedicated to SEK and expected to return to EUR senior and covered bond market once a year going forward

## Annual issuance, SEK (bn)



## SCBC overview

- 100% owned subsidiary of SBAB Bank AB (publ)
- Long-term loans to Swedish households, property companies and tenant-owners' associations
- Licensed by the S-FSA to issue covered bonds (Säkerställda Obligationer) according to the Swedish Covered Bond Act
- Covered bonds rated Aaa by Moody's
- Details about the covered pool ("National Template") published monthly on sbab.se

READ MORE: APPENDIX

## Eligible cover pool assets

- SCBC does not conduct any new lending itself. Lending is originated by SBAB and assets are transferred to SCBC via a true sale on a continuous basis
- Large buffer in Cover Pool to a significant fall in house prices. Eligible assets in SCBC can be moved to cover pool to increase OC

### Simulation of decline in house prices

Houseprice change	Eligible assets in cover pool (SEK bn)	WA LTV (%)	OC* (%)
0%	301,2	55,6	27,8
-5%	298,0	57,5	26,4
-10%	293,7	59,3	24,6
-15%	288,0	61,0	22,2
-20%	280,7	62,5	19,1
-25%	271,5	63,9	15,2
-30%	259,3	65,1	10,0

\* OC calculated in accordance with requirements from the Swedish FSA

## Cover pool

Cover Pool (SEK)

**302.1<sub>bn</sub>**

No. of loans

**408,083**

OC

**27.8%**

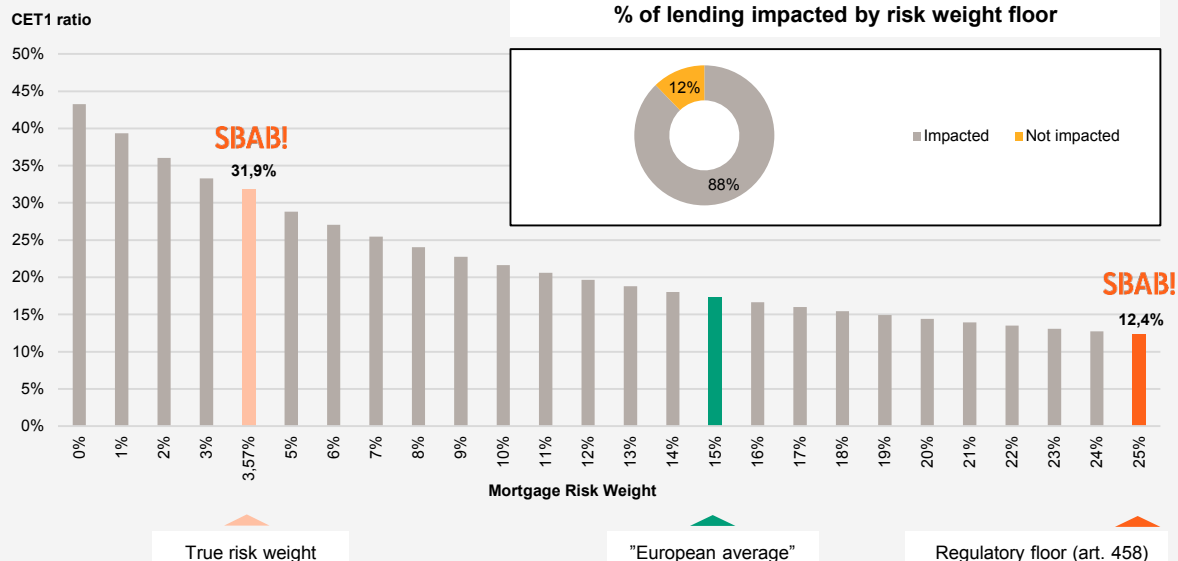
WA LTV

**55.6%**

# Capital position (Q1 2019)

– Continued strong capital buffers – SBAB well above requirements

## Move of RW-floor (art. 458) & impact on SBAB's CET1 ratio



## Comments

- Capital target: CET1 and total capital ratio at least 0.6% above the requirement communicated by the Swedish FSA \*
- SBAB well above external and internal requirements

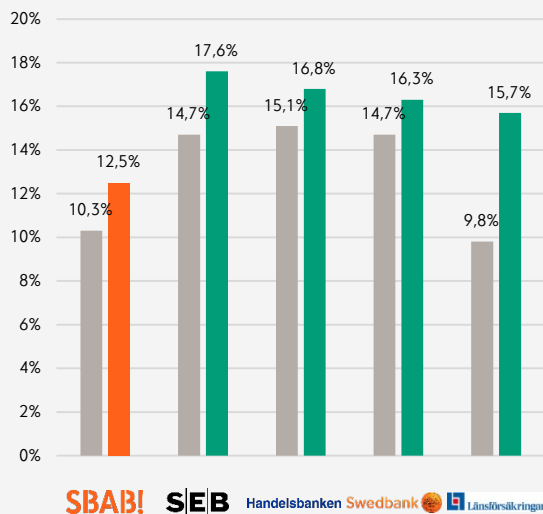
\* Adjusted from 1.5% as per 31 Dec 2018 as a result of decision from the Swedish FSA to change the method it uses to apply the 25% risk weight floor for Swedish mortgages previously captured through Pillar 2 by replacing it with a capital requirement within the framework of Article 458 of CRR. In nominal terms, a buffer level of 0.6% corresponds to 1.5% before moving the risk-weight floor.

READ MORE: APPENDIX

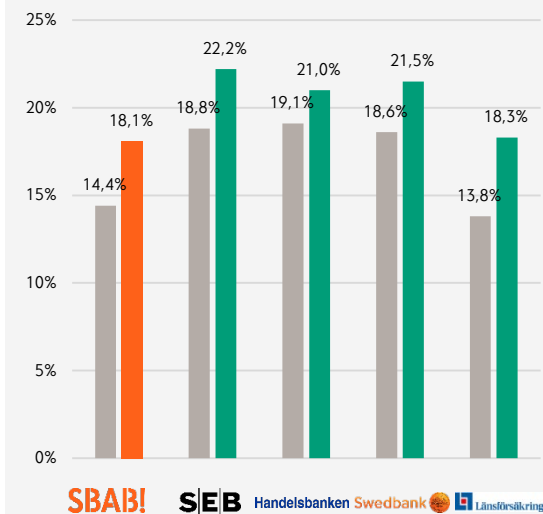
# Capital position (Q4 2018)

– Continued strong capital buffers – SBAB well above requirements

## CET 1 capital ratio, %



## Total capital ratio, %



## Comments

- Capital target: CET1 and total capital ratio at least 0.6% above the requirement communicated by the Swedish FSA \*
- SBAB well above external and internal requirements

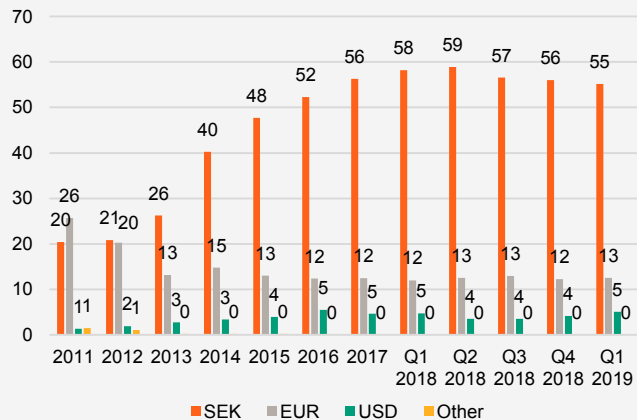
█ Available Q4 2018   
 █ Requirement Q4 2018

\* Adjusted from 1.5% as per 31 Dec 2018 as a result of decision from the Swedish FSA to change the method it uses to apply the 25% risk weight floor for Swedish mortgages previously captured through Pillar 2 by replacing it with a capital requirement within the framework of Article 458 of CRR. In nominal terms, a buffer level of 0.6% corresponds to 1.5% before moving the risk-weight floor.

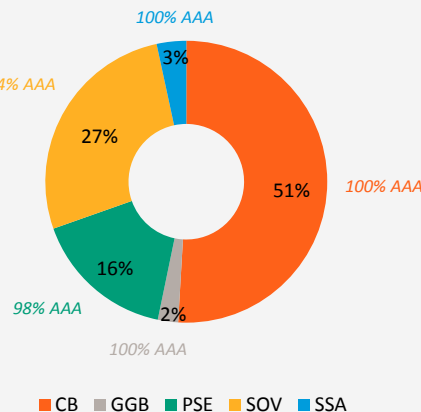
# Liquidity position

- LCR compliant since 1st January 2013
- 98% AAA and 2% AA+
- Maximum 10y maturity
- Increased portfolio to extend survival horizon

Liquidity portfolio (Currency distribution)



Liquidity portfolio (Securities type)



## KEY FIGURES

Liquidity portfolio

**73<sub>bn</sub>**

LCR

**303%**

NSFR

**117%**

Survival horizon

**443<sub>days</sub>**

# *THE SWEDISH ECONOMY & HOUSING MARKET.*





# Summary



Sweden

AAA / Aaa / AAA (stable)

READ MORE: APPENDIX

## Real economy

- Solid GDP growth of on average around 2% for the last 10 years. Slowdown expected in 2019-2020, mainly due to a decline in housing constructing
- Unemployment is expected to remain stable at a fairly low level
- Public finances are very strong in an international comparison

## Credit

- Debt-to-income ratio has risen for a number of years, but low debt service costs-to-income ratio and high net wealth
- High private debt mitigated by low and declining government debt
- Gradually declining lending growth is now at a level that could be considered sustainable

## Real estate

- Strong house price increase with turning point in 2017. Stable development during 2018
- The decline in housing constructing lately is expected to continue in 2019

## Demography

- Population grow due to strong birth excess and migration with a marked urbanization trend
- Demography supports demand for new dwellings

## Interest rates

- Highly expansionary monetary policy with a Repo rate at -0.25 percent, an increase is to be expected in the autumn
- Low mortgage lending rates in the near future

# Mortgage lending in Sweden

– Mortgage lending in Sweden a low risk business for a number of structural reasons

## Affordability Assessment

Mortgage lending in Sweden is based on household affordability in the long term, i.e. funds left to live on after interest payments (including stressed interest rate), housing expenses and other general living expenses

## Mortgage Deed System

A Mortgage Deed for every house is registered and controlled by the Swedish mapping, cadastral and land registration authority (Lantmäteriet)

## Credit Information Agency

National computerized data base with information regarding civil status, income and changes in income, assets, debt, payment complaints and recent inquiries at the agency. Used in every credit process regarding loans

## Enforcement Authority

Lender can initiate an enforcement order with this office to enforce his claim, this process normally takes up to 90 days

## “Originate and hold” model

No “originate to distribute” model, no subprime lending

## Restricted Buy-to-Let Market

Restricted buy-to-let market due to regulated rental market and tenant owner subletting restrictions

## Personal Liability

A borrower is personally liable even after a default and foreclosure procedure, i.e. full and personal recourse

## Social Security

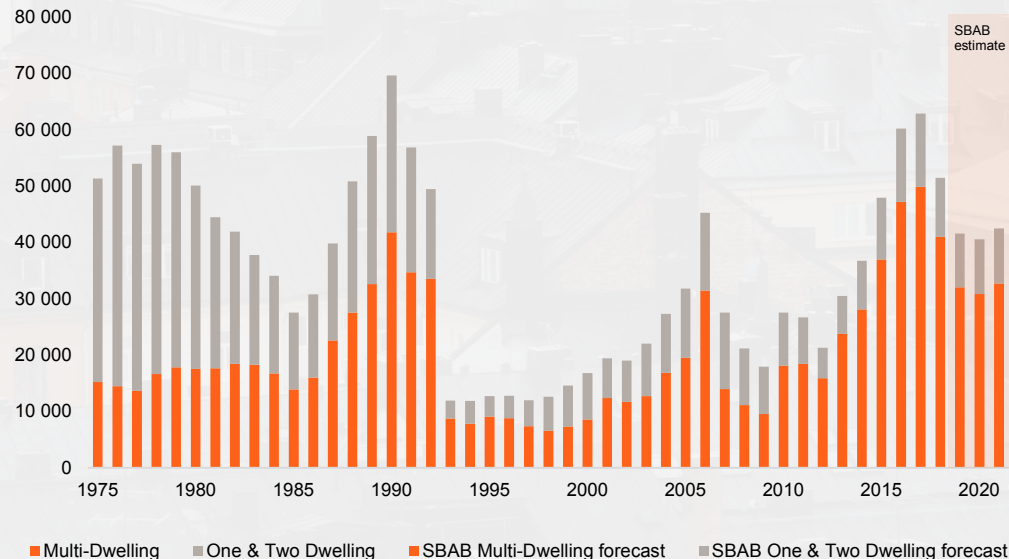
Well developed welfare system raising households' ability to service debt even during times of unemployment

# Housing construction

## Housing construction

- **Housing construction peaked in 2017**
  - Construction has been comparatively low since the 1900s crisis but increased rapidly a few years ago
  - Currently a potential shortfall of 150 000 homes, despite the high construction rate in recent years
- **Strong demographic growth, easy access to financing and low interest rates underpin high construction rate**
  - Concerns about affordable housing and ability to pay/willingness to buy
  - About 40 000 new dwellings per year are needed in the coming years just to keep the stock of dwellings growing at the same rate as the number of households

## Housing construction (number of dwellings)

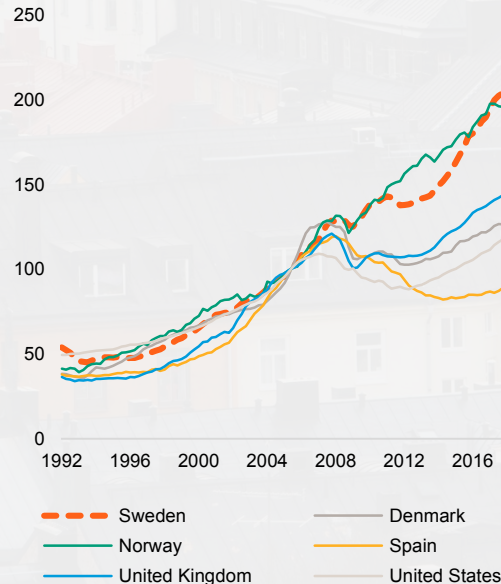


# House price development

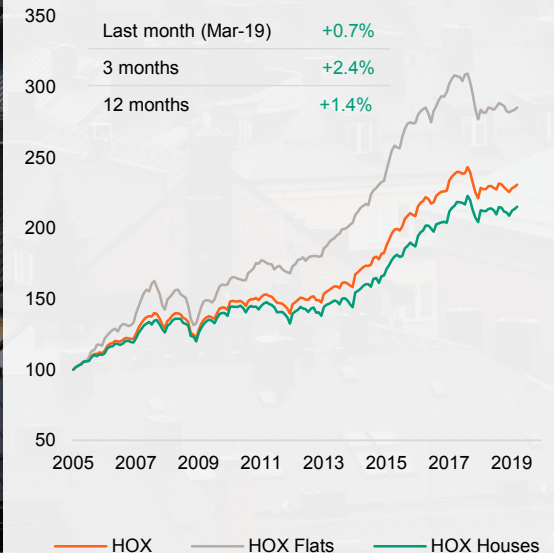
## House price development

- **House prices have increased by an average of 4.8% over the last 10 years, turning point in 2017**
  - Housing construction is clearly linked to house price development
- **With the exception of the regulated market for rental apartments, the Swedish housing market contrasts with textbook examples of bubble markets in a number of ways**
  - Strict regulations on buy-to-let
  - No subprime mortgage market
  - Limited speculative elements in housing construction

## House prices (index 2005=100)



## Prices on flats and houses (index 2005=100)

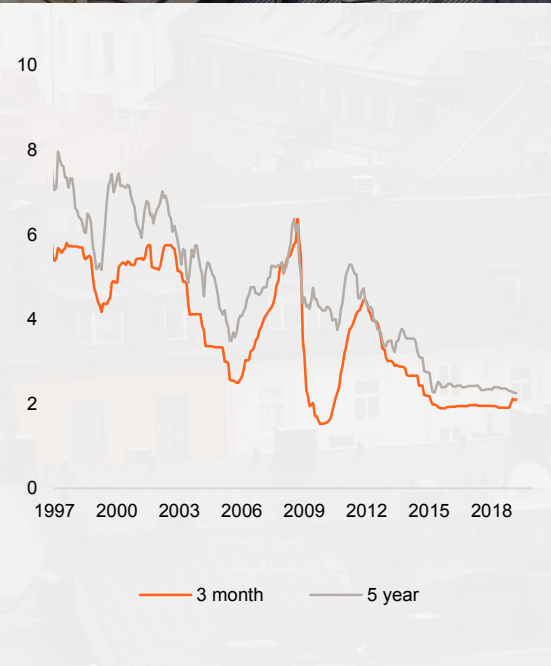


# Low costs of owning a dwelling

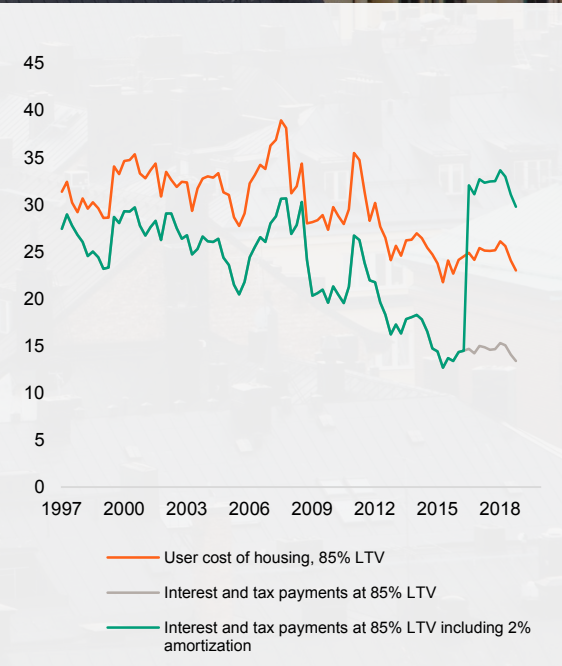
## Low costs of owning a dwelling

- **Mortgage lending rates have been on a downward trend for almost 25 years**
  - Mortgage rates and house prices have been highly correlated
  - Interest cost is deductible to 30% (20% on amounts above 100,000 SEK)
- **No increase in interest expenses and current tax payments**
  - Interest expenses and tax payments of buying an average house has historically been around 18% of an average salary after tax over the past ten years, and is currently at 13%
- **Relaxation of taxes connected to housing**
  - Inheritance & gift tax abolished in 2005, wealth tax abolished in 2007, residential real estate tax lowered in 2008
  - Capital gains taxation applies to dwellings (flat rate 22%) with the possibility to defer the tax at an interest cost

## Mortgage lending rates (average of five banks)



## Cost of buying a house (% of DI per capita)



# The Swedish mortgage market

– Measures introduced to slow down the market

**2010**

LTV cap 85%

**2013**

15% risk weight floor on Swedish mortgages implemented

**2014**

Amortization recommendation. All loans above 70% LTV, individual amortization plans (industry agreement)

**2016**

Implementation of the Swedish FSA's (S-FSA) requirements on amortization (2% above 70% LTV and 1% 50-70% LTV)

**2010**

Amortization on all loans above 75% LTV (industry agreement)

**2014**

Risk weight floor on mortgages increased to 25%

**2018**

Implementation of the S-FSA's requirements on amortization (new mortgagors with mortgages in excess of 4.5 times their gross income must amortize at least 1 per cent of the debt in addition to the 2016's amortization requirement)

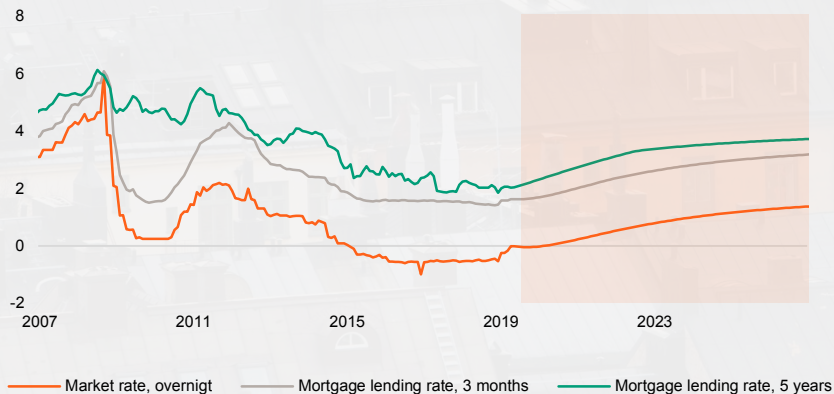
# SBAB's forecast

Robert Boije  
Chief Economist, SBAB



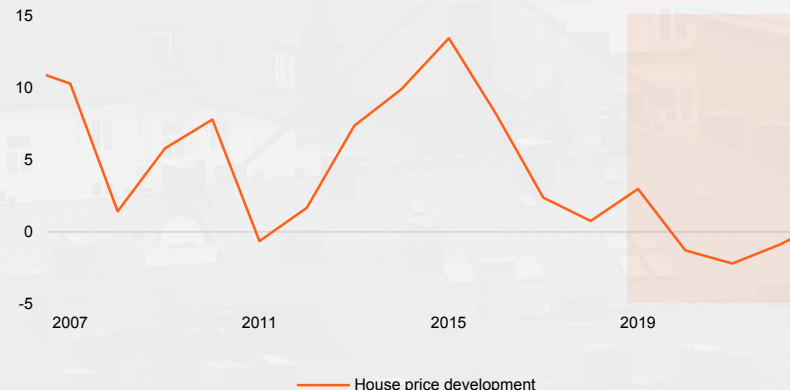
## Interest rate development (percent)

Given the Riksbank's forecast for the repo rate, the market's expectations of interest rate developments, and an assumption of continued historically low real interest rates, we have made a forecast for mortgage rates with interest periods from 3 months to 5 years. We expect a moderate and relatively slow rise in mortgage rates over the next few years for all periods. In January 2023, the 3-month interest rate is expected to be 2.7% and the 5-year interest rate 3.3%.



## House price development (percent)

According to our model estimate, where we take into account, among other things, the forecasted development of disposable income and mortgage rates, housing prices for the country as a whole are expected to rise by a few percentage points in 2019, then fall back approximately the same during 2021 and 2022. Thus, in three years' time housing prices are expected to remain largely unchanged.



**APPENDIX.**



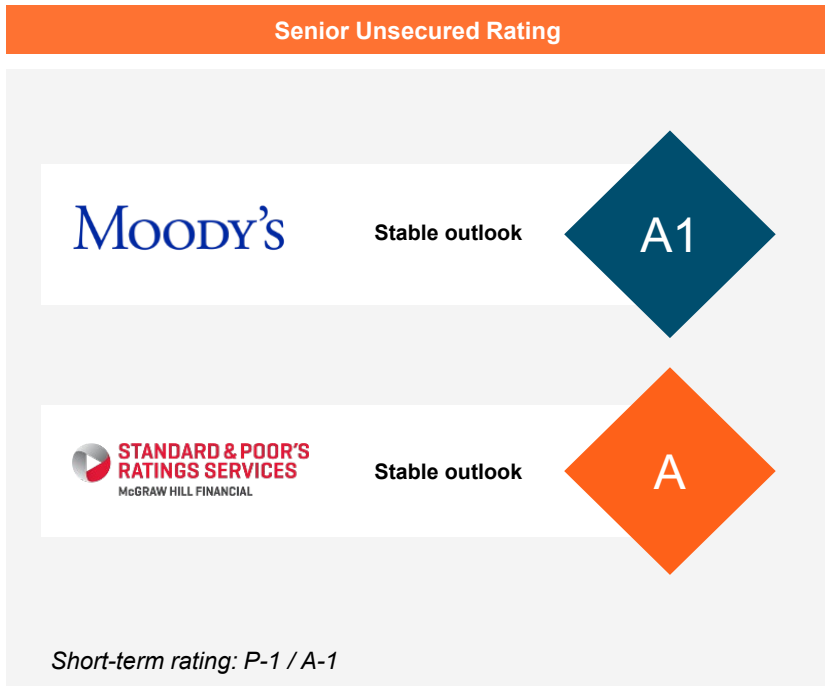




# Key highlights SBAB

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- **100%** owned by the Kingdom of Sweden
  - Extremely **low risk business** - purely Swedish mortgage portfolio, predominantly residential mortgages; **extremely low loan losses**
  - Sustainable **profitability**
  - **Competitive cost income ratio**
  - **Strong liquidity position**
  - **Solid capitalization**
  - **Deposit growth**
  - **Stable funding mix** with good access to both domestic and international capital markets
  - International funding **diversification** strategically important
  - **Regular** future issuance
-

# Rating overview



		
Investment Grade	Aaa <small>SCBC CB</small>	AAA
	Aa1	AA+
	Aa2	AA
	Aa3	AA-
	A1 <i>Senior Preferred</i>	A+
	A2	A <i>Senior Preferred</i>
	A3	A-
	Baa1	BBB+ <i>SNP (E*)</i>
	Baa2 <i>T2 / SNP (E*)</i>	BBB <i>T2</i>
	Baa3	BBB-
Non Investment Grade	Ba1 <i>AT1</i>	BB+ <i>AT1</i>
	Ba2	BB
	[...]	[...]

\*Expected rating

# SBAB's rating composition for senior debt

MOODY'S

Moody's		
Stand-alone rating	<b>Baseline Credit Assessment (BCA)</b>	<b>baa1</b>
	Macro profile	Strong+
	Financial profile	a3
	Qualitative	-1
	- <i>Opacity and complexity / Corporate Behavior</i>	0
	- <i>Diversification</i>	-1
Notching	Loss Given Failure (LGF)	+2
	Government Support	+1
	<b>Total notching</b>	<b>+3</b>
Rating	Rating	A1
	Outlook	STABLE

STANDARD & POOR'S  
RATINGS SERVICES  
McGraw Hill Financial

Standard & Poor's		
Stand-alone rating	<b>Stand-Alone Credit Profile (SACP)</b>	<b>a-</b>
	Anchor	a-
	Business Position	-1
	Capital and Earnings	+1
	Risk Position	0
	Funding & liquidity	0
	Notching	ALAC Support
GRE Support		+1
Group Support		0
Sovereign Support		0
	<b>Total notching</b>	<b>+1</b>
Rating	Rating	A
	Outlook	STABLE

# Contact information

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[www.sbab.com](http://www.sbab.com)  
[www.scbc.se](http://www.scbc.se)  
[www.ascb.se](http://www.ascb.se) - Association of Swedish Covered Bond issuers

**Bloomberg codes:**

**SBAB Corp** - joint code both for SBAB and SCBC

APPENDIX

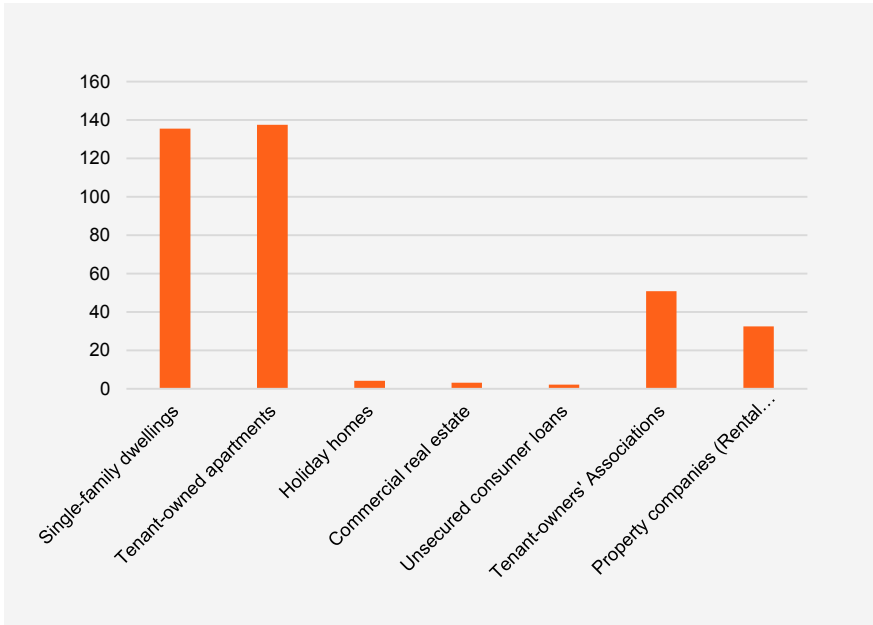
# ASSET QUALITY.



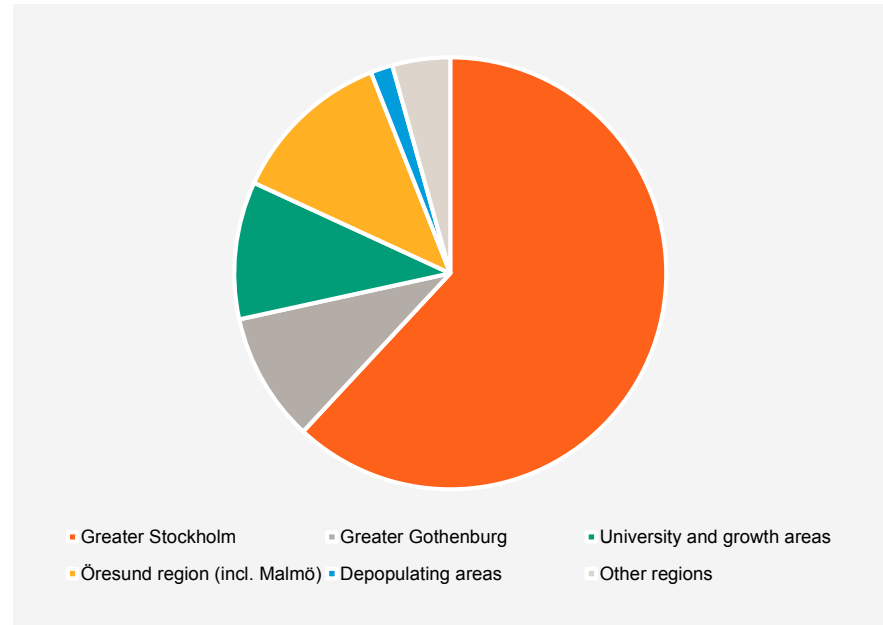
# Overview of SBAB collateral...

– A "simple" balance sheet with low risk

Lending (SEK bn) – divided by collateral type



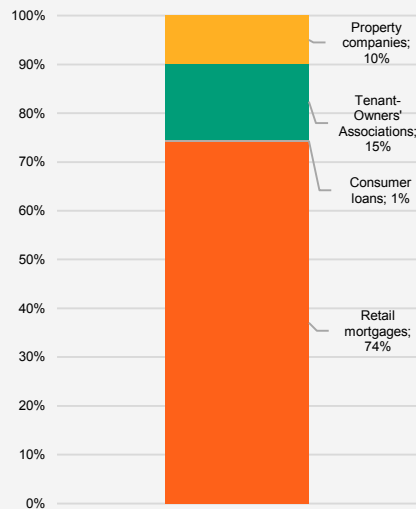
Geographic split of collateral



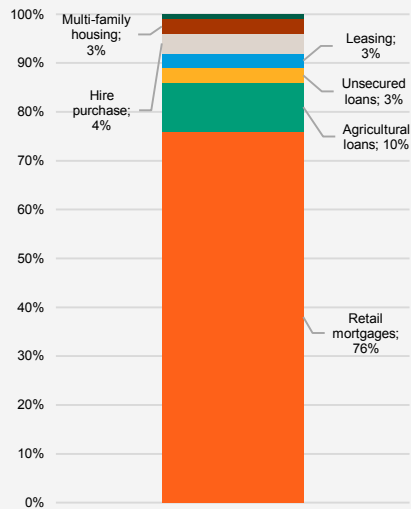
# ...in comparison to other banks

– A "simple" balance sheet with low risk

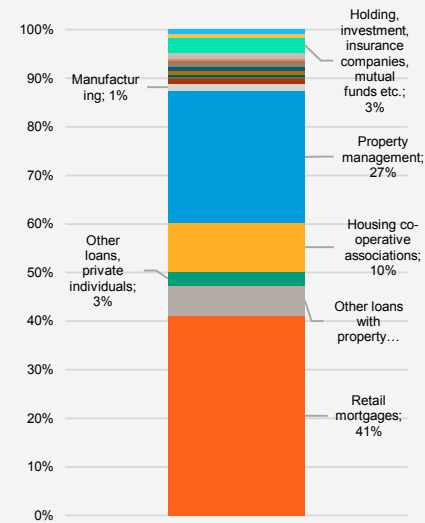
## Lending to the public (Q4 2018) – divided by collateral type



**SBAB!**



 **Länsförsäkringar**

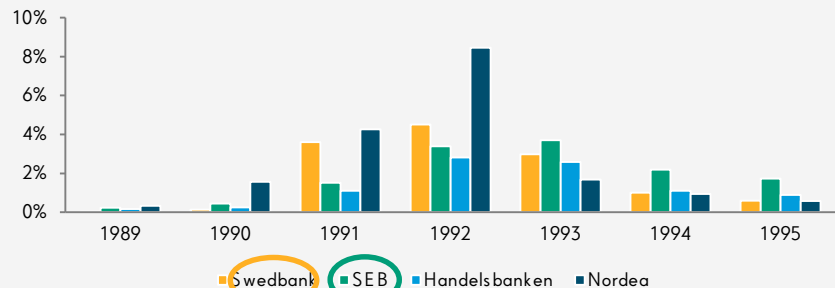


**Handelsbanken**

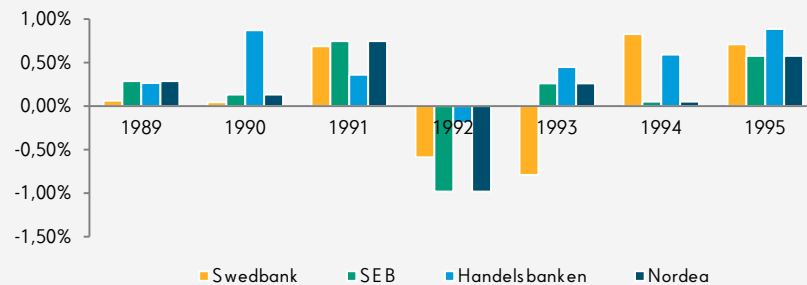
# Mortgages: a low risk business

– SBAB's business areas are focused on the market segment that has showed the most resilient performance, even in the most severe crisis seen in Sweden in modern times

## Loan Losses / Customer Loans



## Net Income / Total Assets



Swedbank

SEB

### Ranked by 1993 Loan Losses

	1992	1993
Construction operations	0.7 %	14.9 %
Real Estate Management	19.9 %	13.3 %
Wholesale & Retail	1.7 %	11.6 %
Transport	7.1 %	8.9 %
Manufacturing industry	3.3 %	7.5 %
Other	19.4 %	5.9 %
Multi-family homes in Spintab	0.9 %	0.7 %
Households	0.6 %	0.6 %

### Ranked by 1993 Loan Losses

	1992	1993
Other service sectors	39.0 %	21.1 %
Wholesale & Retail, hotels and restaurants	3.9 %	8.6 %
Transportation	(0.2) %	8.2 %
Finance & Insurance	15.4 %	6.3 %
Construction	6.8 %	5.6 %
Property Management	4.6 %	4.4 %
Manufacturing	1.2 %	1.8 %
Other sectors	0.4 %	1.4 %
Households	1.1 %	0.9 %



APPENDIX

# FUNDING.



# Regular presence in EUR market



**SBAB!**

Senior  
Unsecured  
**€500mn**

0.50%  
5y due May '21

April 2016

**SBAB!**

Senior  
Unsecured  
**€500mn**

0.25%  
5y due Sept '22

August 2017

**SBAB!**

Senior  
Unsecured  
**€500mn**

0.75%  
5y due June '23

June 2018

**SCBC**  
— Covered Bonds of SBAB —

Covered Bond  
**€750 mn**

0.50%  
7y due Jan '25

Jan 2018

**SCBC**  
— Covered Bonds of SBAB —

Covered Bond  
**€750 mn**

0.25%  
5y due April '23

April 2018

**SCBC**  
— Covered Bonds of SBAB —

Covered Bond  
**€675 mn**

1.25%  
15y April '33

Apr 2018  
(tap Oct 2018)

**SCBC**  
— Covered Bonds of SBAB —

Covered Bond  
**€650 mn**

0.625%  
7y due Oct '25

October 2018

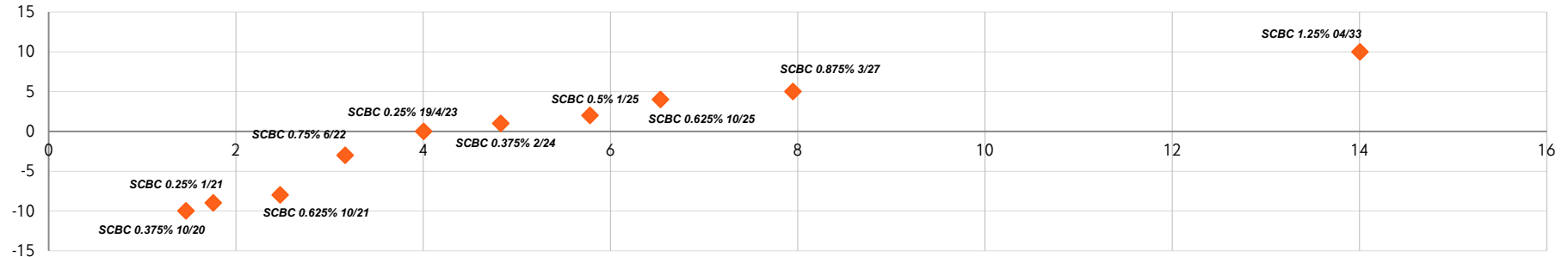
# Outstanding senior unsecured and CB (EUR)

– Spread vs MS

## Senior Unsecured (SP)

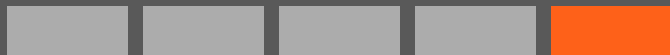


## Covered



APPENDIX

**CAPITAL.**



# Move of risk weight floor

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- Finansinspektionen (“FI”) has decided to change the method it uses to apply the 25% risk weight floor for Swedish mortgages currently captured through Pillar 2 by replacing it with a capital requirement within the framework of Article 458 of CRR. This moves the Swedish mortgage floor requirement currently captured in Pillar 2 to Pillar 1 through an increase in RWAs. The change entered force from 31 December 2018
- Banks with the largest exposure to the Swedish residential mortgage market are the most impacted by the change
- This increase in banks’ RWAs, will be concomitant with a decrease of Swedish banks capital requirements (in percentage term) leaving their overall capital requirements (in SEKbn) unchanged
- This means that while Swedish banks’ capital ratios will reduce, the buffers they demonstrate to their overall capital requirements in SEKbn will remain unchanged
- Given the above, SBAB’s Board has decided to translate the buffer levels, expressed in percentage points, in the previous capital targets. The revised target entered force from 31 December 2018
  - Under normal conditions, SBAB’s CET1 capital ratio and total capital ratio should be at least 0.6 percentage points above the requirement communicated by the Swedish FSA
  - In nominal terms, this corresponds to a buffer level of 1.5 percentage points before moving the risk-weight floor, in line with the previous capital targets

# Capital position (Q1 2019)

– Move of RW-floor → total capital requirement still the same in SEK

31 Mar 2019	Before move (REA = SEK 43,422 mn)				After move (REA = SEK 114,141 mn)			
	Total capital	%	CET1 capital	%	Total capital	%	CET1 capital	%
Pillar 1 minimum requirement	3,617	8.0	2,035	4.5	3,617	3.1	2,035	1.7
Pillar 1 risk-weight floor, Swedish mortgages	–	–	–	–	5,735	4.9	3,226	2.8
Pillar 2 core requirement	1,760	3.9	1,173	2.6	1,760	1.5	1,173	1.0
Pillar 2 risk-weight floor, Swedish mortgages	8,955	19.8	6,446	14.2	–	–	–	–
Capital conservation buffer	1,130	2.5	1,130	2.5	2,923	2.5	2,923	2.5
Countercyclical buffer	900	2.0	900	2.0	2,327	2.0	2,327	2.0
<b>Internally assessed capital requirement</b>	<b>16,362</b>	<b>36.2</b>	<b>11,684</b>	<b>25.8</b>	<b>16,362</b>	<b>14.0</b>	<b>11,684</b>	<b>10.0</b>
<b>SBAB's capital target</b>	<b>17,073</b>	<b>37.7</b>	<b>12,343</b>	<b>27.3</b>	<b>17,068</b>	<b>14.6</b>	<b>12,392</b>	<b>10.6</b>
<b>SBAB's actual capital</b>	<b>20,985</b>	<b>46.4</b>	<b>14,533</b>	<b>32.1</b>	<b>20,985</b>	<b>18.0</b>	<b>14,533</b>	<b>12.4</b>

# Capital position (Q1 2019)

– Move of RW-floor & impact on SBAB

31 Mar 2019	Floor in P2	Floor in P1
<b>REA</b>	<b><u>45,215</u></b>	<b><u>116,906</u></b>
<b>Capital policy – internal requirement</b>		
CET1 requirement	11,684	11,684
Total capital requirement	16,362	16,362
<b>Ratios</b>		
CET1	32.1%	12.4%
Total capital	46.4%	18.0%
<b>Ratios – internally estimated S-FSA requirement</b>		
CET1	25.8%	10.0%
Total capital	36.2%	14.0%
<b>Ratios – management buffer</b>		
CET1	27.3%	10.6%
Total capital	37.7%	14.6%
<b>Margin to estimated S-FSA requirement</b>		
CET1	6.3%	2.4%
Total capital	10.2%	4.0%

APPENDIX

SCBC.





## The Swedish covered bond market

- One of the best functioning bond markets in the world
- The bond market has been open and well functioning throughout the crisis, providing reliability and liquidity
- Key distinction of the market is the tap issuance format via contracted market makers. Tap issuances can be made on a daily basis in small to medium sizes
- Market is supported by market makers with separate market making agreements and repo functionality providing issuers with enhanced liability management options
- Typically issuers start reducing their outstanding debt about 6-9 months before maturity via successive buy-backs and switches

Source: ASCB, Association of Swedish Covered Bond Issuers

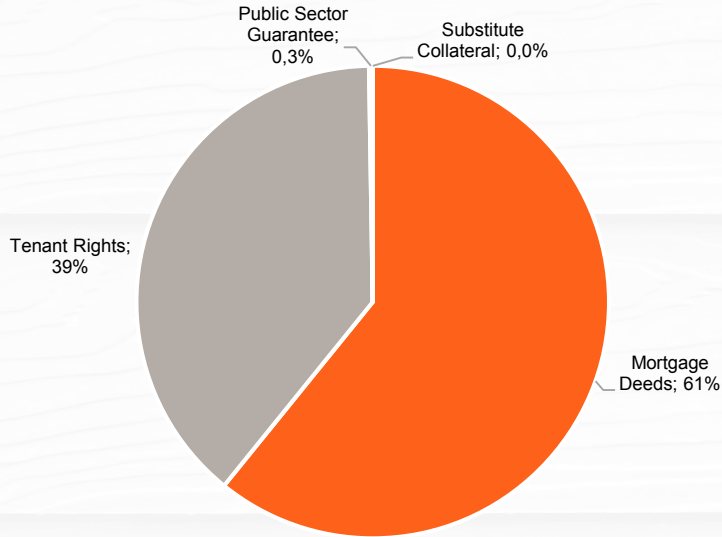
## SCBC Cover pool characteristics (from “National Template”)

Collateral	100% Swedish residential mortgages *
Over Collateralization	26.3%
Weighted average LTV	55.6%
Weighted average seasoning	4.9 years
Loans in arrears	0.00%. Arrears below 0.01% (loans in arrears > 30 days are excluded from the Cover Pool)
Number of loans	408,083
Average loan size	SEK 740,295
Geographical location	Spread throughout Sweden; concentrated to economic hubs
Pool type	Dynamic
Originator	SBAB Bank Group
Interest rate type	70.1% floating, 29.9% fixed / 52.3% amortising, 47.7% interest only

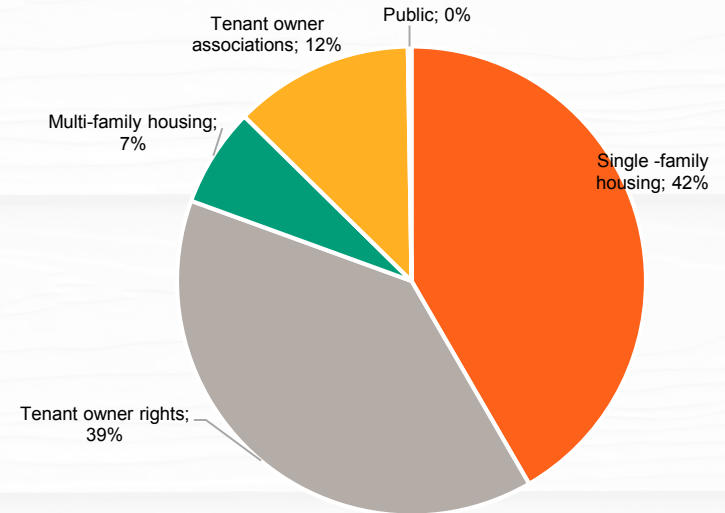
\* Occasionally, minor volumes of substitute collateral consisting of AAA rated securities, can be included in the cover pool

# Cover pool characteristics

Breakdown by collateral

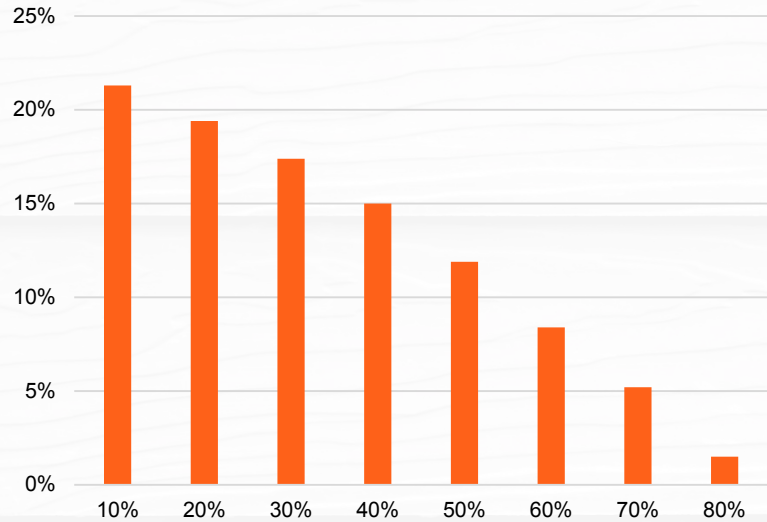


Breakdown by owner

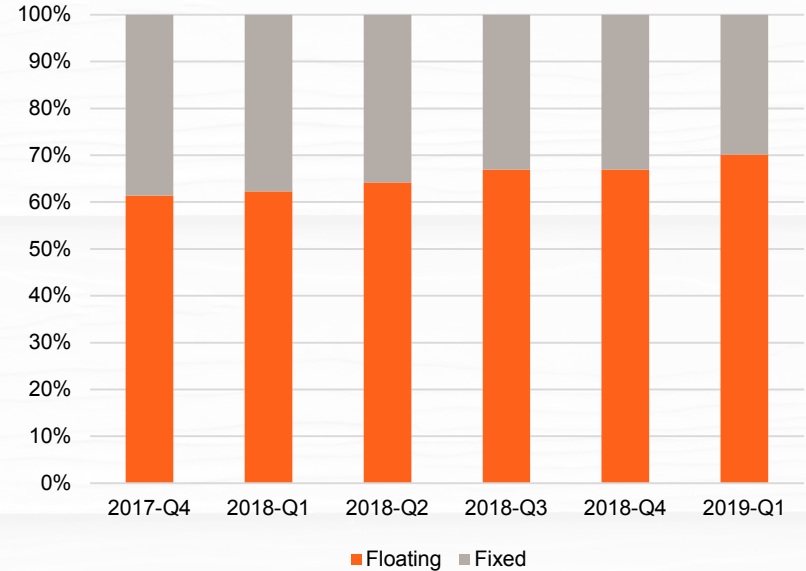


# Cover pool characteristics

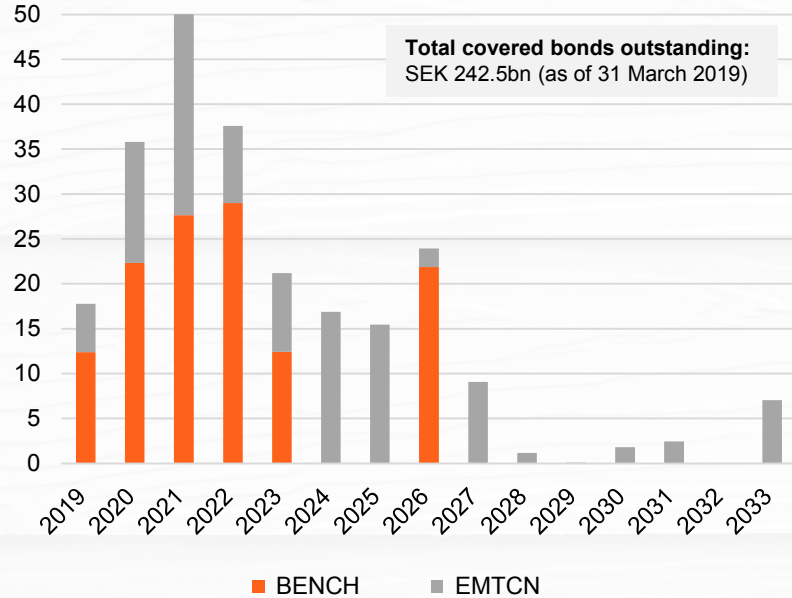
Loan to value (LTV) distribution (Q1 2019)



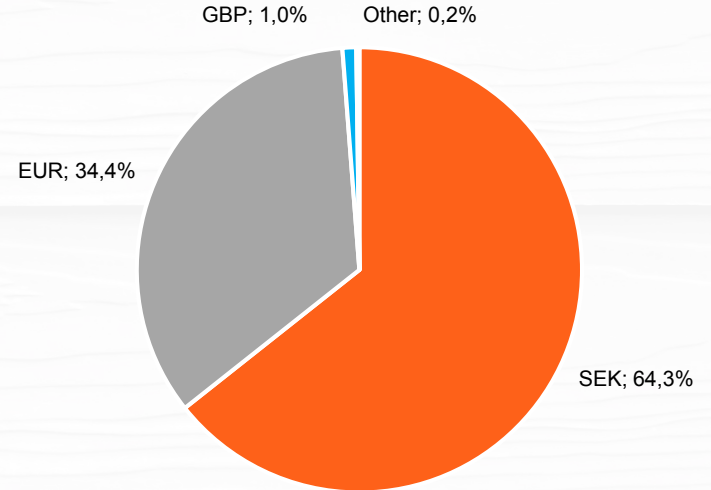
Rate type



## Maturity profile



## Currency profile



APPENDIX

# THE SWEDISH ECONOMY & HOUSING MARKET.



# Kingdom of Sweden

## Kingdom of Sweden

- Area: 450 295 sq km
- Population: 10 246 90001 (February 2019)
- Urban population: 85% of total population
- 21 Counties, 290 Municipalities
- Capital: Stockholm
- Constitutional monarchy
- Unicameral Parliament (Riksdag) with 349 seats
- General elections: last held on 9 September 201 (next to be held on 11 September 2022)
- Government: Social Democrats (S) and Green Party (MP) with the support from Centre Party (C) and Liberals (L)
- The Swedish economy rests on a capitalist system mixed with public-private partnership, centralized wage negotiations and substantial welfare elements
- Sweden has one of the world's highest per capita income (IMF



# The Swedish economy

## Comment

- **Slowdown in economic growth expected in 2019 followed by a slow economic upturn**
  - Over the past ten years the economy has been characterized by strong domestic demand, stable public finances, strong population growth, increasing employment, low inflation, low interest rates and rising house prices
  - The decline in GDP growth in 2019 can to a large extent be explained by an expected fall in housing production and thereby investment
  - Unemployment is low and is also expected to be quite low in the coming years

	2018	2019	2020	2021	2022
Real GDP, actual	2.3	1.3	1.5	1.6	1.7
Household consumption	1.2	1.8	2.0	1.8	1.9
Public consumption	0.9	0.4	1.4	1.5	1.4
Investments	4.7	-1.6	0.0	0.9	1.5
Net export, GDP-contribution (pp)	0.4	0.9	0.2	0.2	0.1
Employment	1.8	1.1	0.5	0.5	0.5
Unemployment rate (%)	6.3	6.3	6.4	6.5	6.7
Inflation, CPI-F growth	2.1	1.7	1.6	1.8	2.0
Policy rate, yearly average (%)	-0.50	-0.20	0.01	0.30	0.59
KIX-index (-)	117.6	120.6	119.6	118.2	115.9

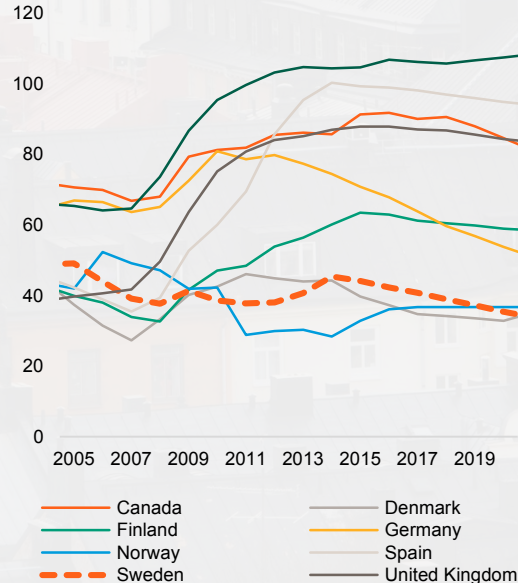
Note: Annual percentage growth unless indicated otherwise, light orange background indicates SBAB February forecast

# Public finances and fiscal policy

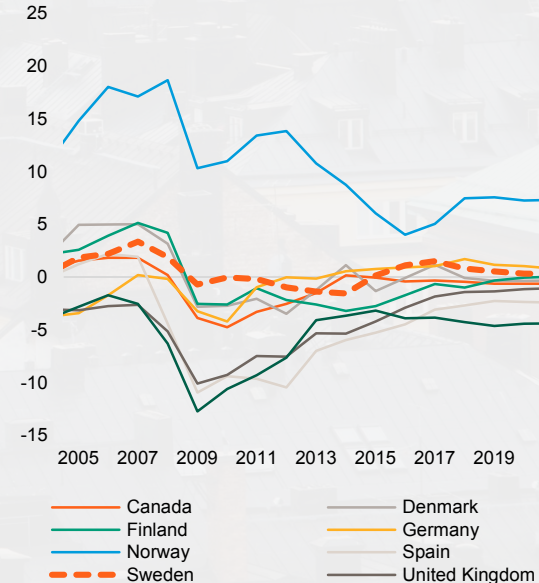
## Comment

- **Sweden: AAA / Aaa / AAA (stable)**
- **Public finances are very strong in an international comparison**
- **Government debt is low and declining**
  - Debt-to-GDP of 39.0% in 2018, 37.2% in 2019 and 35.5% 2020 (IMF, April 2019)
- **Budget currently close to balance**
  - Net lending/borrowing at 0.5% of GDP in 2019 (IMF, April 2019)
  - Average budget balance over the past 10 years has been -0.1% of GDP

## General government gross debt (% of GDP)



## General government net lending (% of GDP)



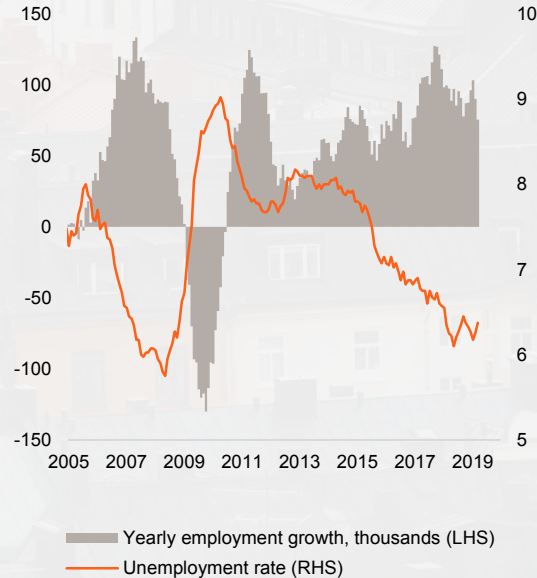


# Strong domestic economy

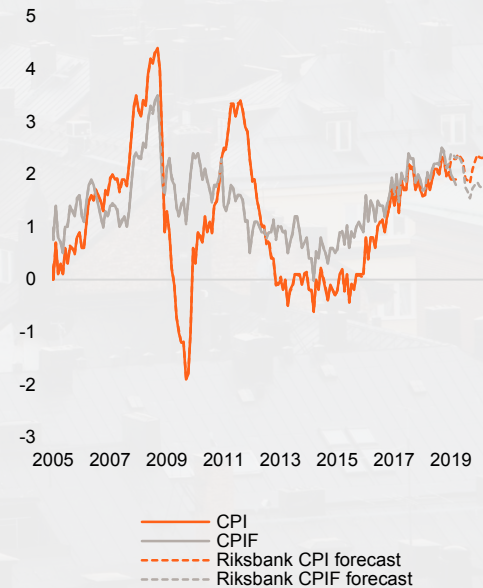
## Comment

- **The labor market is strong**
  - Employment has increased by on average 1.2% per year over the past ten years
  - The activity rate (16-64y) has increased from under 75% at the end of 2008 to over 79% at the end of 2018
- **Average inflation has been 0.9% over the last 10 years, well below the target of 2%**
  - The rising cost pressure in both Sweden and the rest of the world mean that there are good conditions for inflation to be close to the target in the coming years
  - CPI inflation of about 1.8% is expected in 2019 (SBAB, April 2019)

## Employment growth and unemployment rate



## Inflation (y/y)

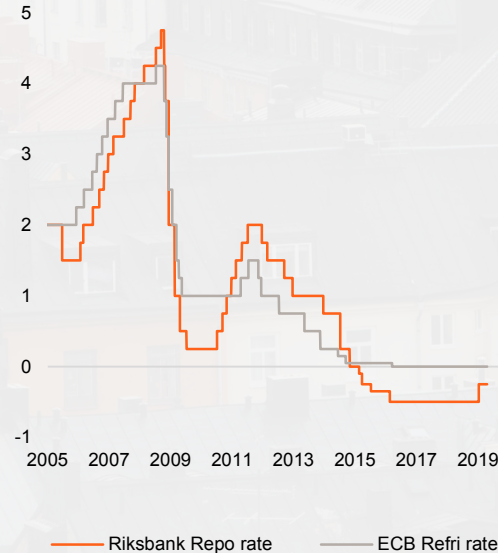


# Monetary policy and interest rates

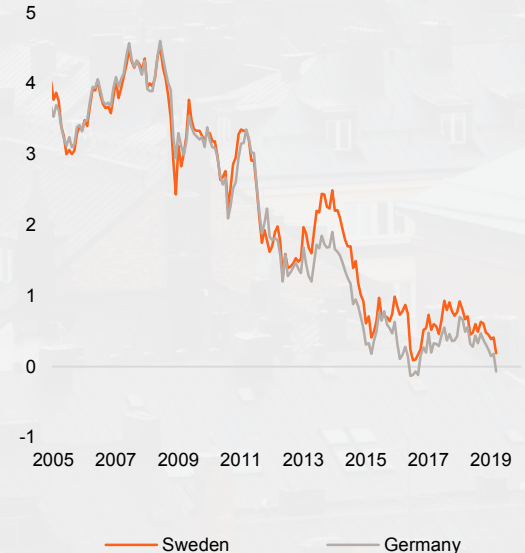
## Comment

- **Very expansionary monetary policy**
  - The Riksbank announced on February 13<sup>th</sup> to keep the policy rate at -0.25%
- **Long and short interest rates have a high correlation with i.e. German rates**
  - The spread against 10y German bond has on average been +22bp, over the last 10 years, correlation has been 0.98
- **Sweden has gained something of a safe haven status over the last 10-15 years**
  - Strong public finances and a stable financial system have been holding down long term interest rates
  - Exchange rate uncertainty may have had a negative impact

## Policy rates



## 10y government bond rates

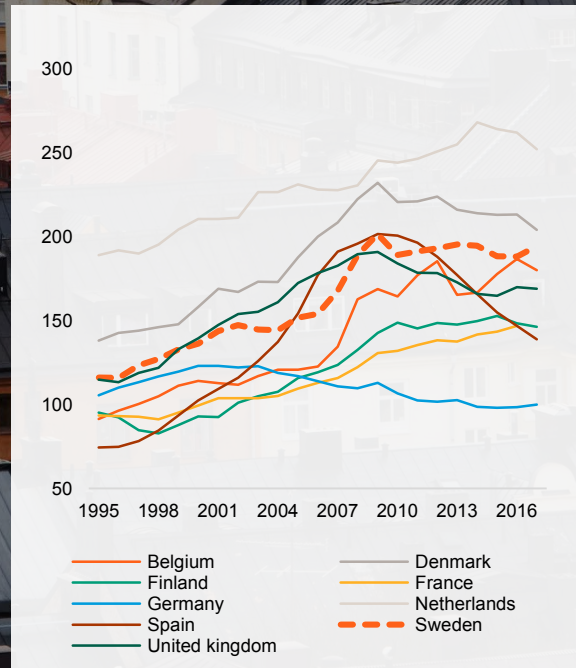


# Debt compared to other countries

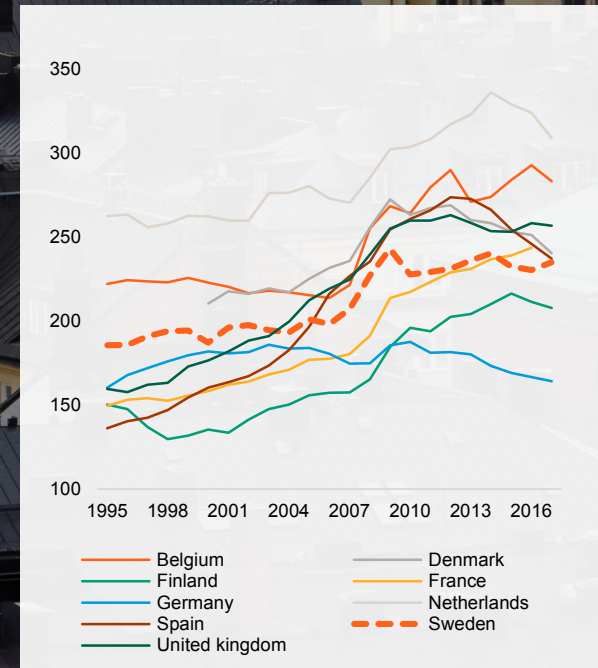
## Comment

- **Household debt to income is rather high compared to some other countries**
  - The general conclusion from Swedish authorities is that household debt is currently not a threat to financial stability but future growth should be contained
- **Total debt (household, company (non-financial and financial) and public) around average in an international comparison**
  - Strong public finances puts Sweden in a favorable position

## Private debt (% of GDP)



## Private and public debt (% of GDP)

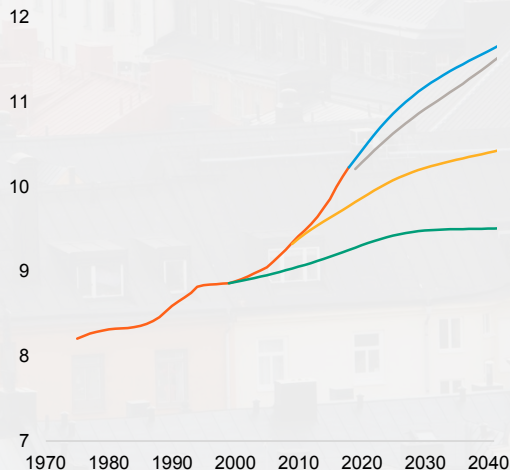


# Demographics

## Comment

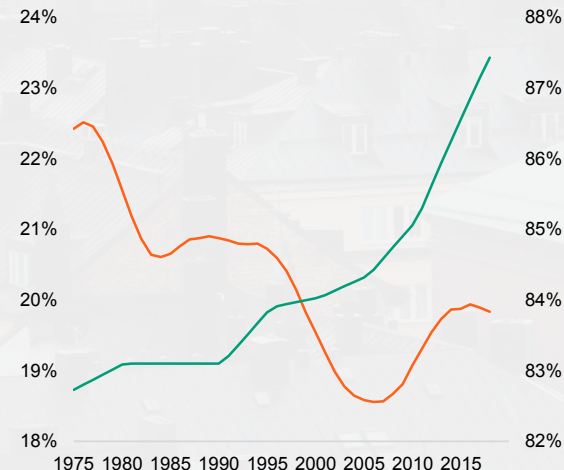
- **Population growth is difficult to predict and has been unexpectedly high**
  - Population growth in 2018 was 1.1%
  - Both migration and birth excess are strong
- **The urbanization trend is strong, and the share of potential first time buyers has been rising in recent years**
  - Puts a strong pressure on housing markets in larger cities and growth areas
  - Other important long term demographic factors such as ageing population adds to the pressure

## Total population (millions)



— SCB outcome  
— SCB projection 2000  
— SCB projection 2009  
— SCB projection 2018  
— World Bank projection 2018

## Population composition (% of population)



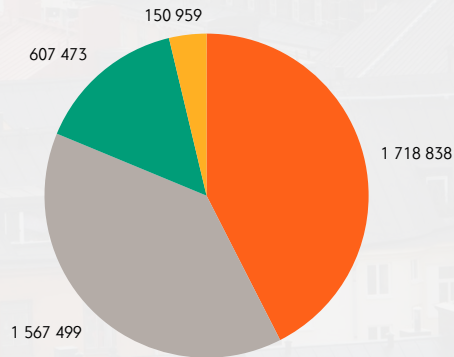
— First time buyers (aged 20-34 years) (LHS)  
— Living in urban areas (RHS)

# The Swedish housing market

## Comment

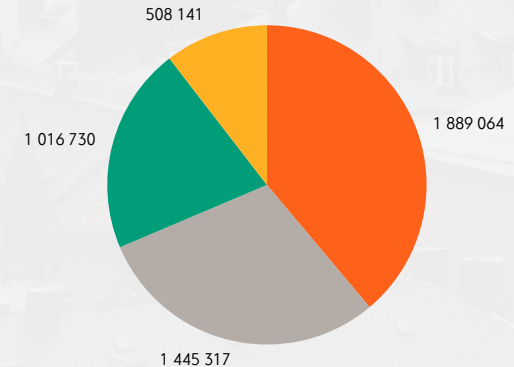
- **Most Swedes own their dwelling**
  - 67% of the dwelling stock (excluding other dwellings) is owner occupied and 33% is rented
- **The rental market is highly regulated**
  - Rent control is strong and a large part is owned by property companies controlled by municipalities
  - The share of rented apartments has been declining due to rent regulations making it unprofitable to build new units where demand is high (large cities)
- **The number of tenant owned apartments has risen**
  - Rent control in combination with increasing prices on tenant owned apartments have made it highly profitable for private (and public) landlords to sell their properties to tenant-owner associations

## Number of dwellings 1990



■ One & Two dwelling buildings    ■ Rented apartments  
■ Tennant owned apartments    ■ Other

## Number of dwellings 2017



■ One & Two dwelling buildings    ■ Rented apartments  
■ Tennant owned apartments    ■ Other

# Regional residential price development

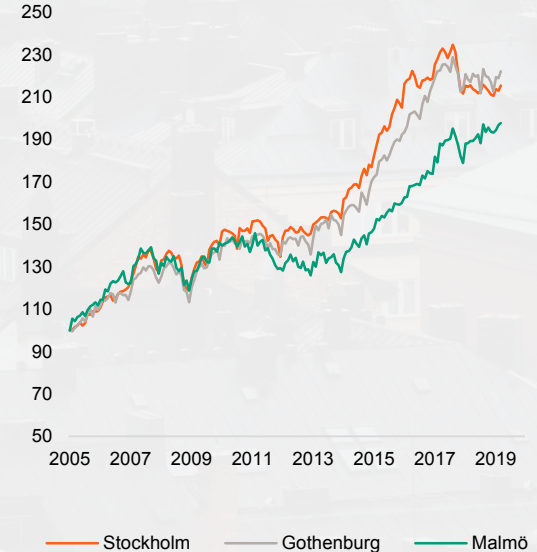
## Comment

- **Prices on flats have risen more than on houses**
  - The slightly different developments in Stockholm may be a sign of a limited supply of houses in comparison with flats
- **The residential prices are higher in metropolitan areas but have risen similarly in the country as a whole**
  - Prices on flats have increased most in Gothenburg, notably after 2016, but there has also been a rapid rise in Malmö in recent years

## Prices on flats (index 2005=100)



## Prices on houses (index 2005=100)

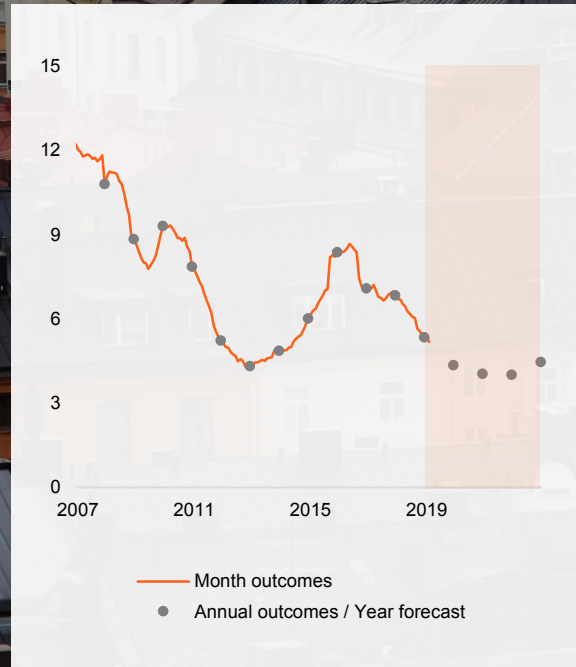


# Strong lending growth

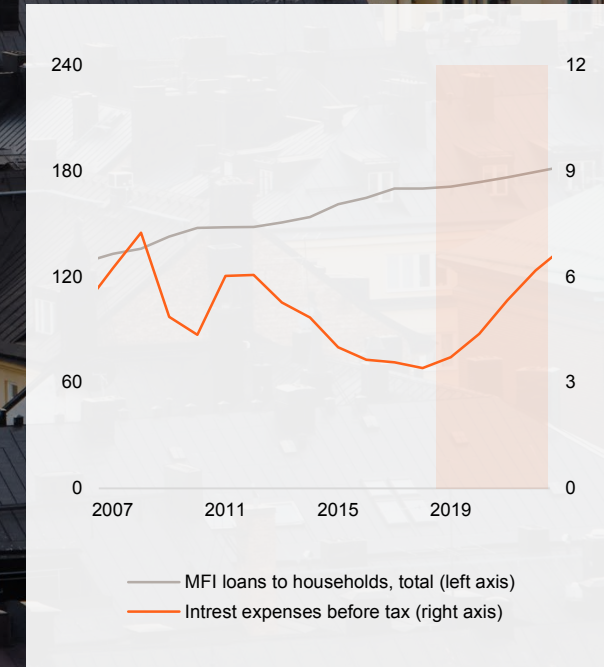
## Comment

- **Lending to households is currently increasing by an annual rate of 5.2%**
  - Lending increases faster than household income, which has been historically normal (49 out of 64 years)
  - Measures taken has probably not had any major effects on growth rate, but on the composition
- **Low debt service costs**
  - There are strong links between interest rates, house prices and lending to households
  - The interest expenses to disposable income ratio is at a historically low level

## Household lending growth (y/y)



## Interest expenditure (% of disposable income)

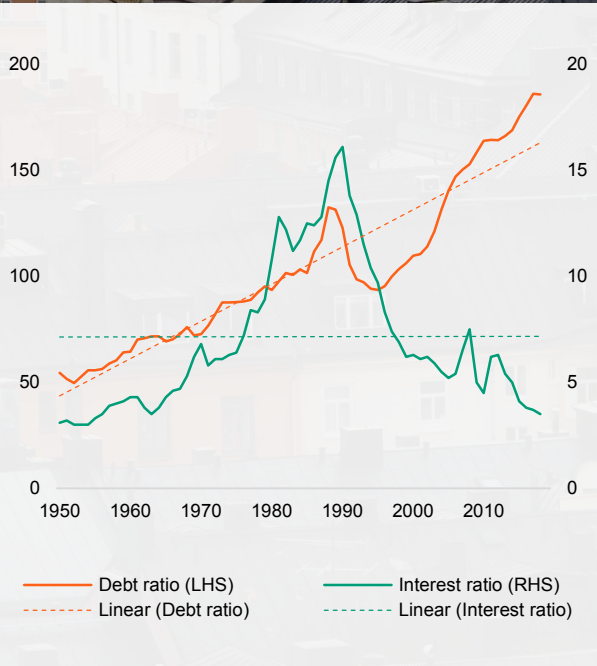


# Household debt has increased

## Comment

- **High debt to income ratio but low interest costs**
  - The household debt to income ratio has increased rapidly since the mid-1990s to currently 186%
  - The rise in the debt ratio is related to the development of the financial economy, but also to the decline in interest rates, rise in house prices, and rising share of homeownership
- **Households are exposed to interest rate risk**
  - Currently vary low interest ratio
  - Rising interest rates will eventually push up the interest ratio in the coming years, and the effect will be amplified in the short run by extensive use of floating rate mortgages

## Household debt and interest cost share of income



## Share of mortgage loans with floating interest rates





# High savings ratio, high net wealth

## Comment

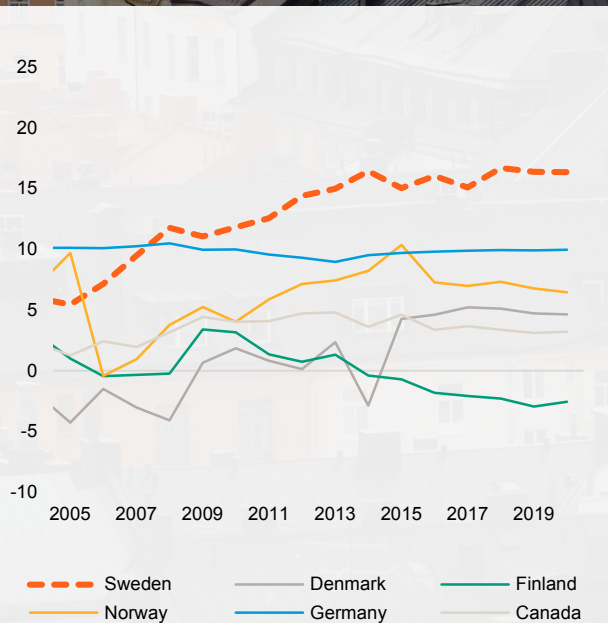
### • High savings ratio

- Swedish households have a savings ratio over 16%, which is very high in comparison to other countries
- Household deposits has risen from about 50% of yearly disposable income in the beginning of the 2000s to over 80%

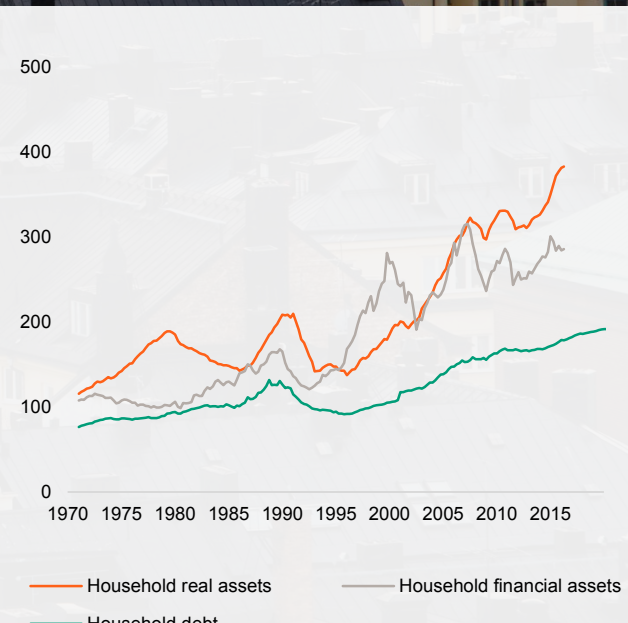
### • High net wealth

- Both financial assets and housing assets have been rising faster than debt
- Average net wealth stands at almost 5 times yearly disposable income

## Household net savings (% of disposable income)



## Household debt and assets (% of disposable income)



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