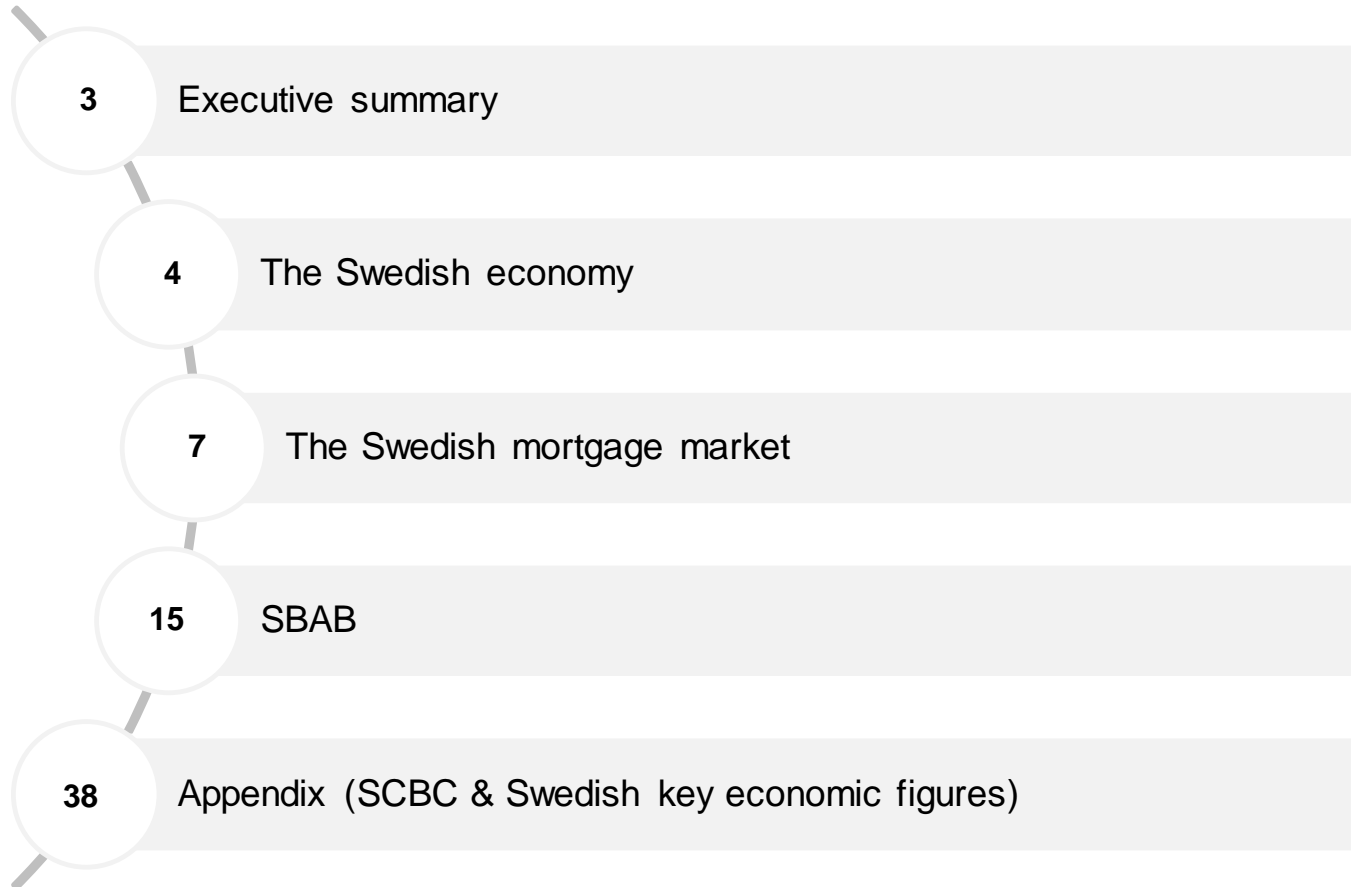


# Investor presentation

Second quarter 2016 | SBAB Bank AB (publ)

# SBAB

# Table of contents



3	Executive summary
4	The Swedish economy
7	The Swedish mortgage market
15	SBAB
38	Appendix (SCBC & Swedish key economic figures)

# Executive summary

- 100% owned by the Kingdom of Sweden
- Business targets:
  - Profitability: RoE > 10%
  - Capitalisation: CET1 Capital Ratio 1.5% above requirement from the Swedish FSA
- Swedish mortgage portfolio, predominantly residential mortgages
- SBAB senior unsecured investors benefit from government change of ownership clause
- Focus on core business, mortgages in the retail segment
- Total funding needs for full 2016, expected to be SEK 40/50 billion

	Jan-Jun 2016	Jan-Jun 2015
Net Interest Income, SEK mn	1,322	1,192
Loan losses, SEK mn	0	-26
Mortgage Portfolio, SEK bn	302.7	274.1
Cost/Income ratio, % <sup>1)</sup>	33	35
RoE, % <sup>1)</sup>	11.3	10.2
CET1 Capital Ratio (Basel III), %	28.4	27.4

<sup>1)</sup> Excl. net results from financial instruments and restructuring costs

Rating	Moody's	S&P's
<b>SBAB</b>		
- Short term funding	P-1	A-1
- Long term funding	A2	A <sup>1)</sup>
<b>SCBC</b>		
- Long term funding	Aaa	

<sup>1)</sup> Negative outlook

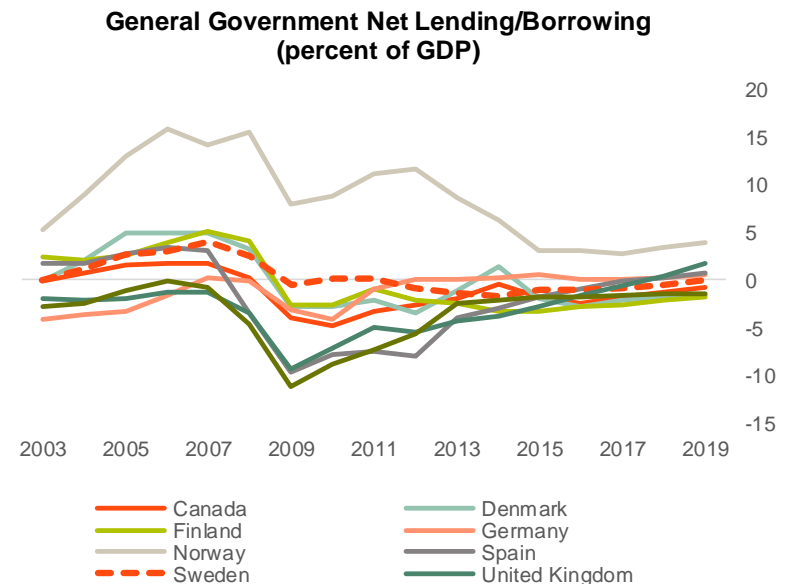
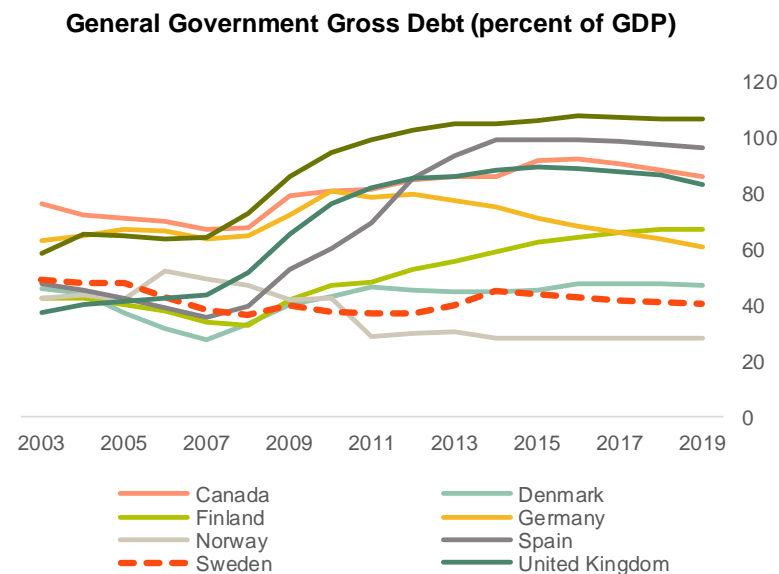


***THE SWEDISH  
ECONOMY***

# The Swedish economy

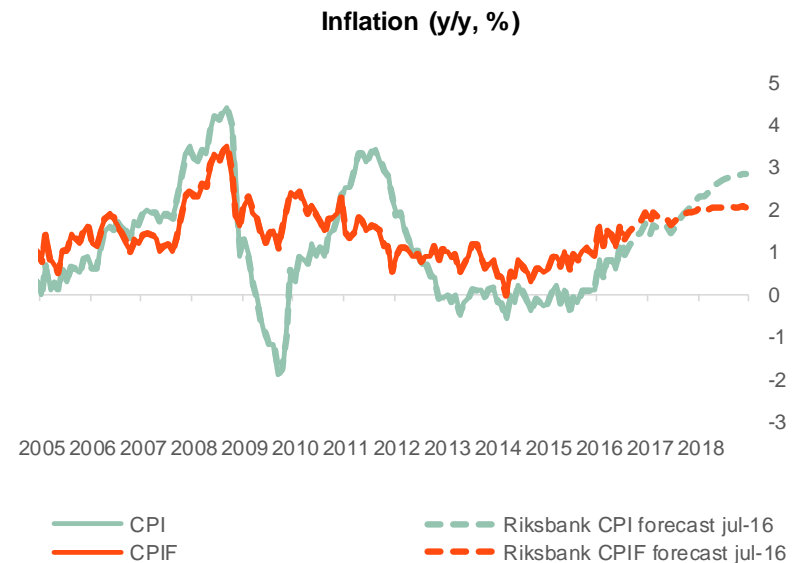
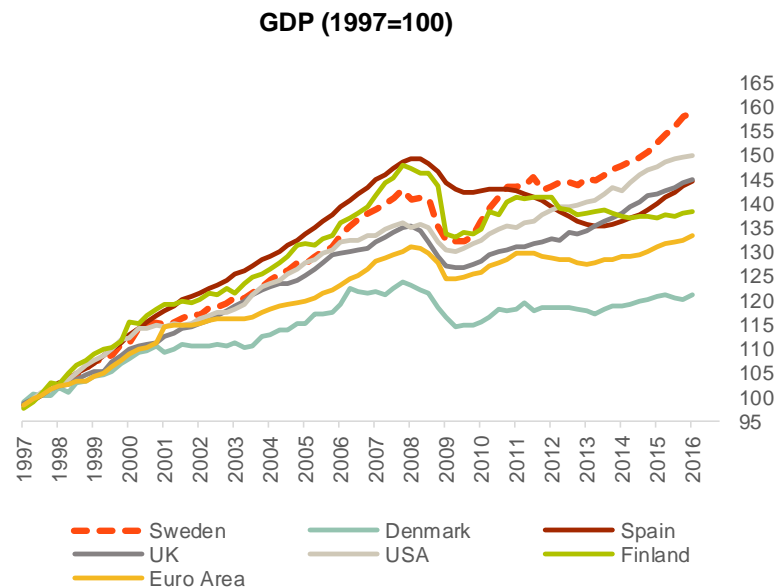
AAA / Aaa / AAA (stable)

- **Government debt is low and declining**
  - Public debt-to-GDP of 43% in 2016, 42% in 2017, 41% in 2018 (IMF)
- **Budget currently very close to balance**
  - Average budget balance has been +0.8% of GDP over the past 15 years
- **Domestic demand has been stimulated by stable public finances, increasing employment, low inflation, sinking interest rates and rising house prices over the past years**



# Growth and inflation

- **Average annual GDP-growth has been 2.2% over the last 15 years vs 1.0% in the Euro area**
  - GDP growth is expected to slow down from 4.2% in 2015 to 3.5% in 2016 and 2.3% in 2017 (Consensus Forecast, July 2016)
- **Average inflation has been 1.0% over the last 15 years, well below the target of 2%**
  - Inflation has been 0.0% in 2015, 1.0% is expected in 2016 and 1.5% in 2017 (Consensus, July 2016)



# ***THE SWEDISH MORTGAGE MARKET***



# Mortgage lending in Sweden

- A low risk business

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

Mortgage Deed System

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

Enforcement Authority

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



# Mortgage lending in Sweden

- A low risk business

“Originate and hold” model

No “originate to distribute” model, no subprime lending

No Buy-to-Let Market

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

Personal Liability

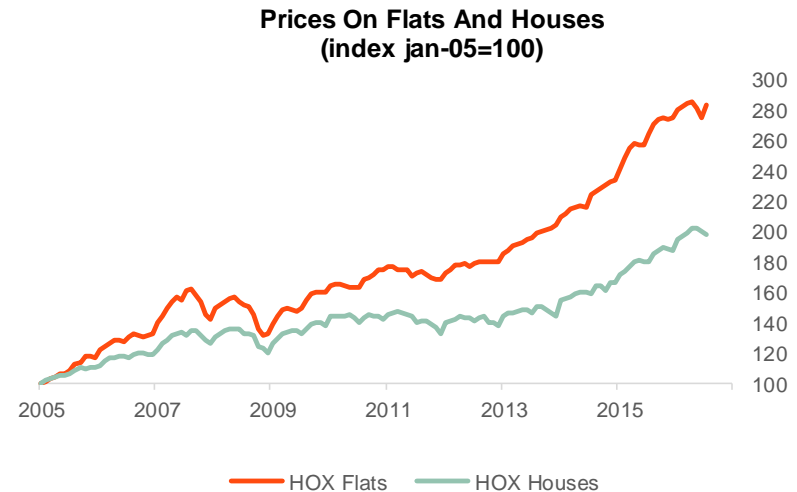
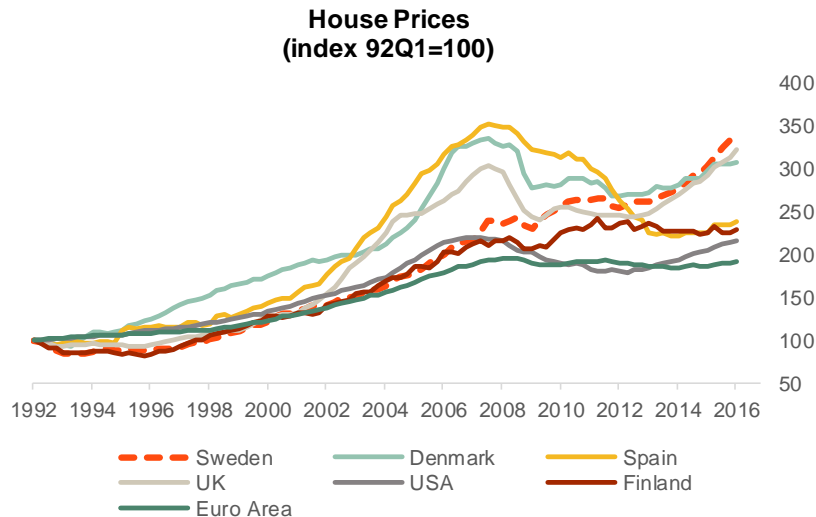
A borrower is personally liable even after a default and foreclosure procedure, i.e. full and personal recourse

Social Security

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

# House price performance

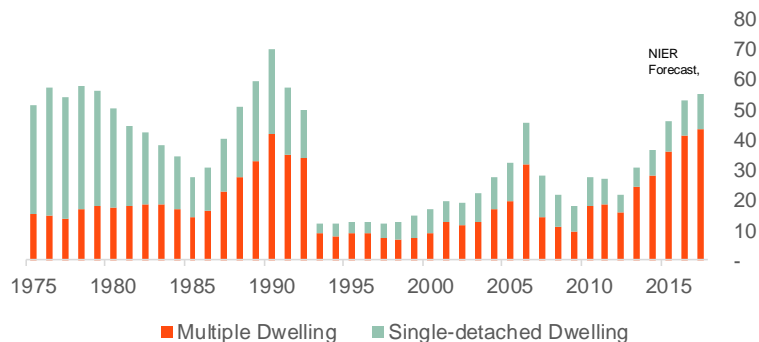
- **House prices have increased by an average of 6.4% over the last 15 years**
  - Increases have been higher in cities and growth regions than in the countryside. Prices on flats have risen more than prices on houses
  - On average prices on flats and houses increased by 14% during 2015, but price increases has slowed down in 2016
- **The Swedish housing market contrasts with the “bubble markets” in a number of ways**
  - Strict regulations on buy-to-let
  - No subprime mortgage market
  - There has not been any speculative building activity



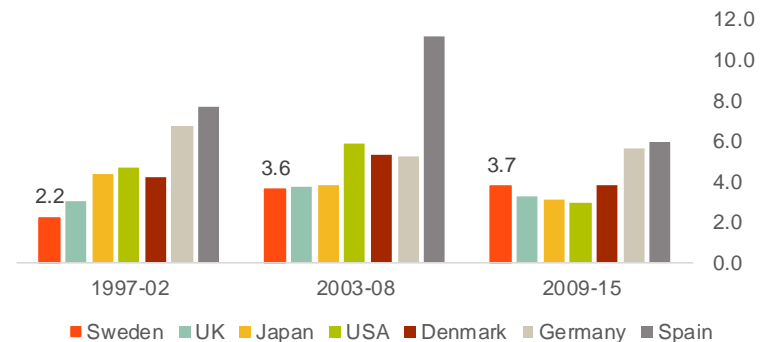
# Housing construction

- **Low level of housing construction**
  - After the real estate crisis in the early 1990s, construction has been low in comparison to both history and to other countries
- **Building activity has not kept up with demography**
  - Population is expected to increase from close to 10 million to above 11 million people in less than ten years. Immigration and the number of people aged 20-35, the "first time buyers", has increased
- **Strong demand, easy access to financing and low interest rates are stimulating housebuilders and the number of new dwellings are increasing**
  - Apr. 60 000 new dwellings per year are needed to keep the stock of dwellings growing at the same pace as the population in the coming ten years

Housing Construction (number of dwellings, thousands)



Residential Investment During Different Periods (percent share of GDP)



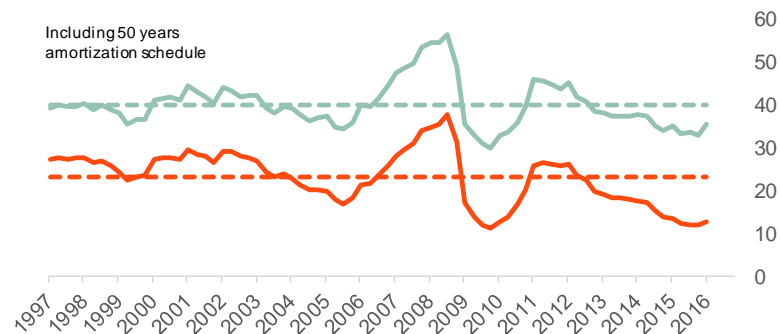
# Lower costs of owning a dwelling

- **Mortgage rates have been on a downward trend for almost 25 years**
  - Mortgage rates and house prices have been highly correlated
  - Interest costs are deductible to 30% (20% on amounts above 100,000 SEK)
- **No increase in debt service costs**
  - Interest rate cost of acquiring an average house have been hovering around 25% of average disposable per capita income over the past 15 years. Now it's 13%
- **Relaxation of taxes connected to housing**
  - Inheritance & gift tax abolished in 2005, wealth tax abolished in 2007
  - Residential real estate tax lowered 2008

**Mortgage Lending Rates (%)**  
Average of Nordea, SEB, Stadshypotek,  
Swedbank and SBAB



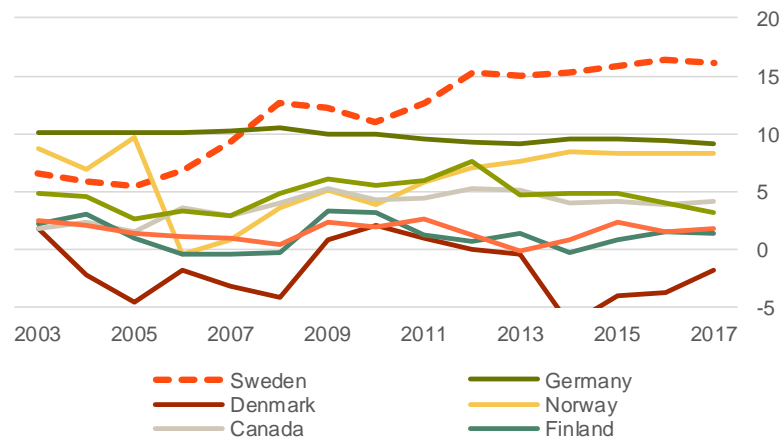
**After tax yearly interest rate cost of acquiring an average house with 15 percent downpayment (share of average disposable income)**



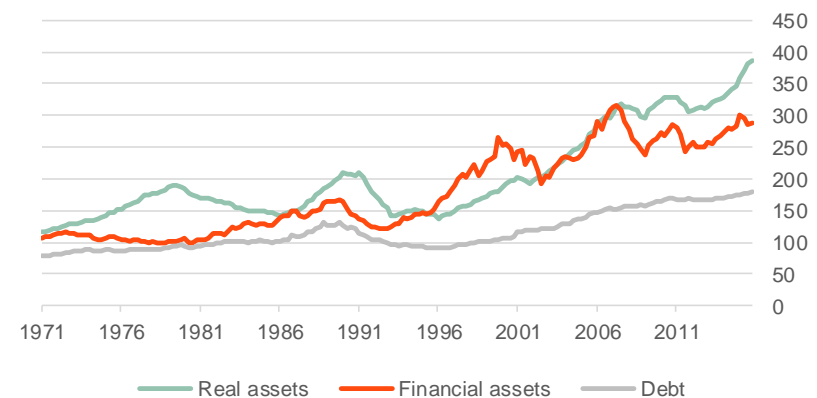
# High savings ratio, high net wealth

- **High savings ratio**
  - Swedish households have a savings ratio above 15%, which is very high in comparison to other countries
- **High net wealth**
  - Both financial assets and housing assets have been rising faster than debt. Average net wealth stands at almost 5 times disposable income

**Household Savings**  
(net savings as a share of household income)

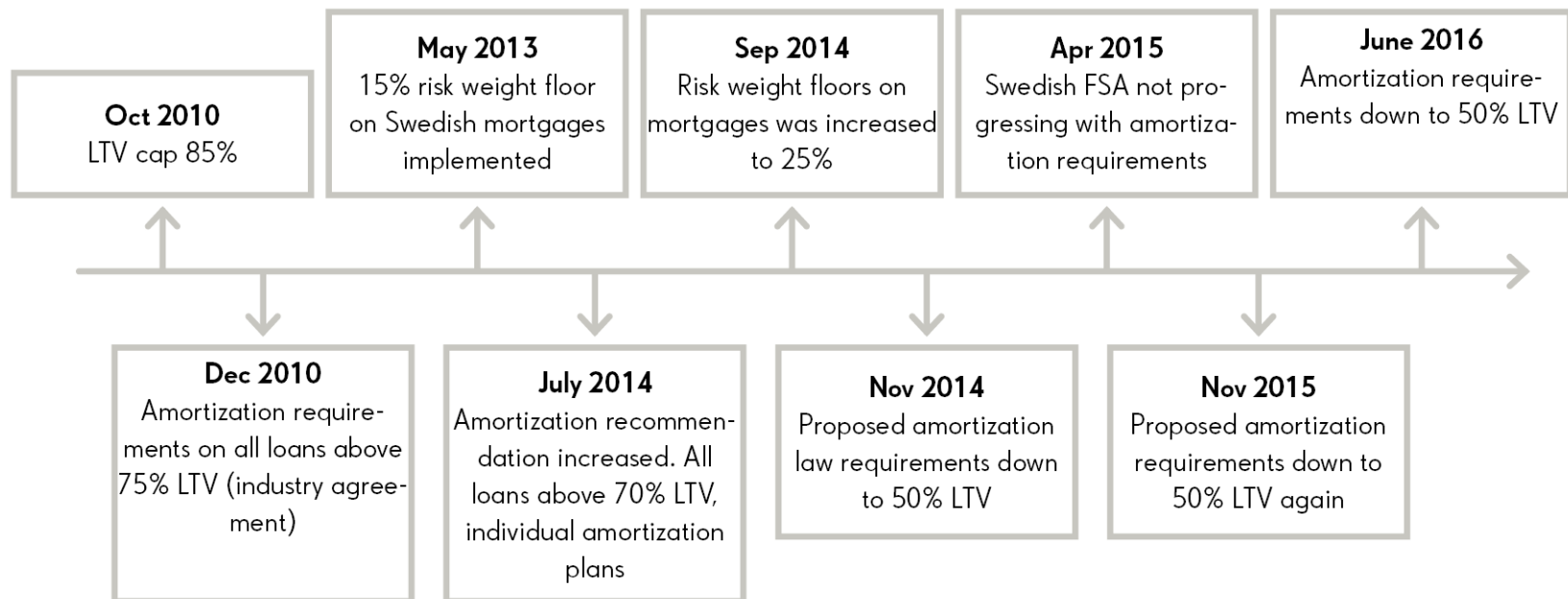


**Household Debt And Assets (percentage share of disposable income)**



# The Swedish mortgage market

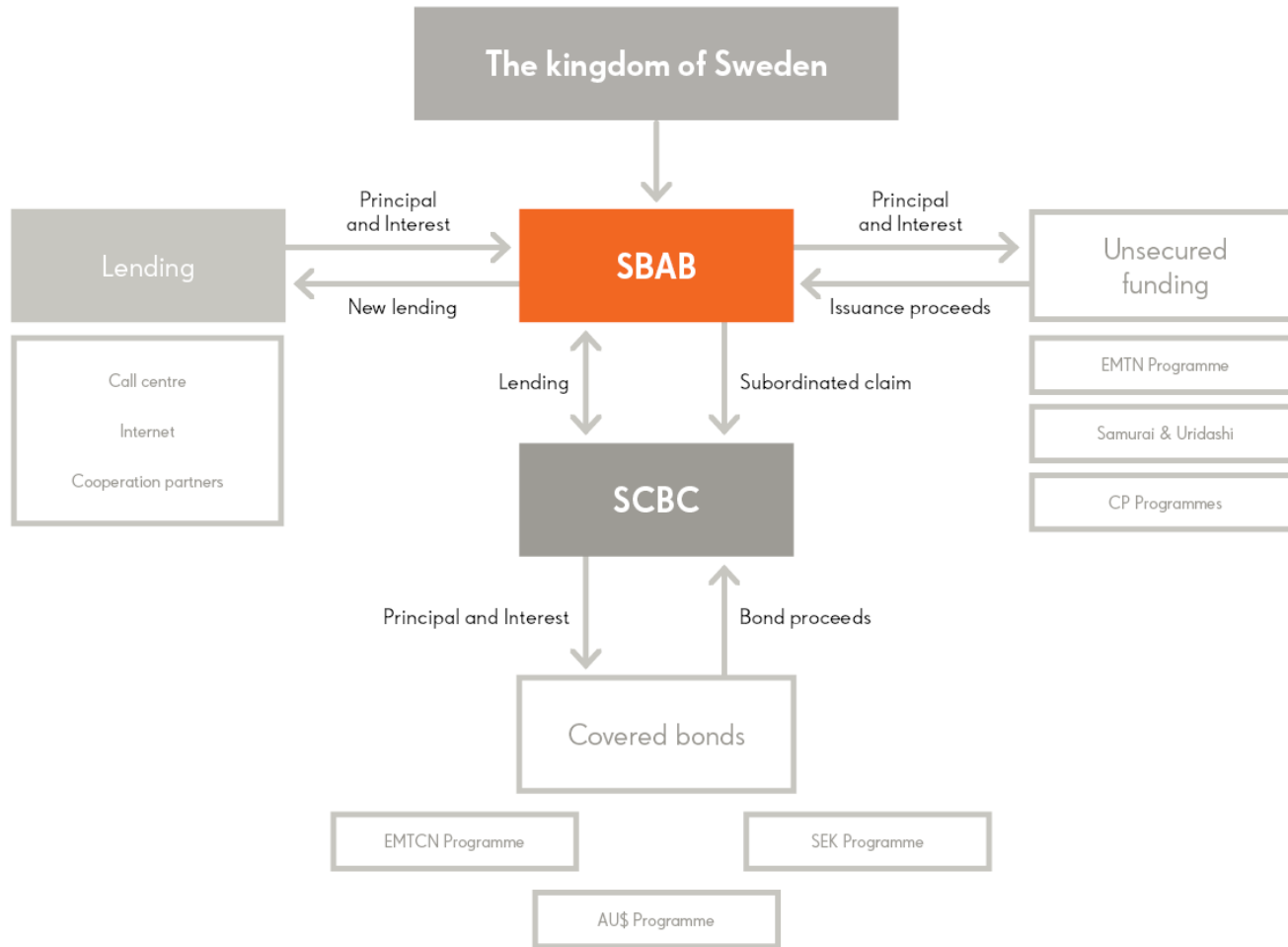
## - Measures introduced to slow down the market



**SBAB**



# SBAB Group





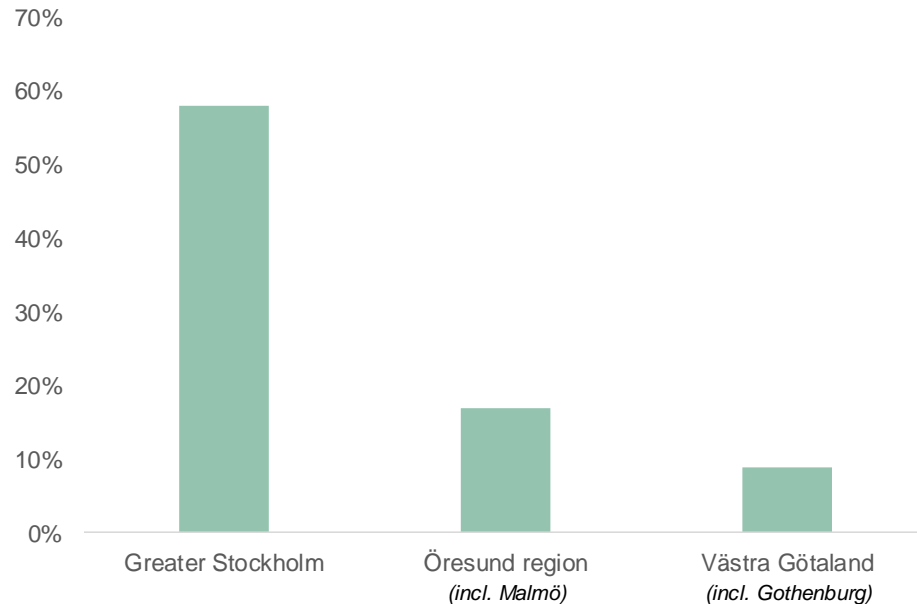
# SBAB Bank

- Set up in 1985 by the Kingdom of Sweden
- 100% owned by the Kingdom of Sweden
- Business operations purely in Sweden
- 443 employees (FTE) as of 31<sup>st</sup> May
- Successful and cost efficient origination through:
  - Call centre
  - Internet platform (since 1998)
  - Co-operation partners
- Two main product offerings:
  - **Lending:** Mortgages are offered to retail, tenant owner associations and property companies. Total lending SEK 303bn
  - **Savings:** Savings accounts are offered to retail, corporate clients and tenant-owner association. Total deposits SEK 88bn



# Distribution of lending

- Lending is only offered in Sweden in Swedish Kronor
- SBAB's lending is concentrated to the economic hubs
- Lending operations are **purely Swedish**. Cost efficient origination through internet (since 1998), call-centre and cooperation partners



# Our value proposition

---

## AVAILABILITY

Residential mortgages online and over the phone, every day and in all situations.

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## TRANSPARENCY

Competitive pricing and appropriate terms and conditions from the outset.

---

## CONSIDERATION

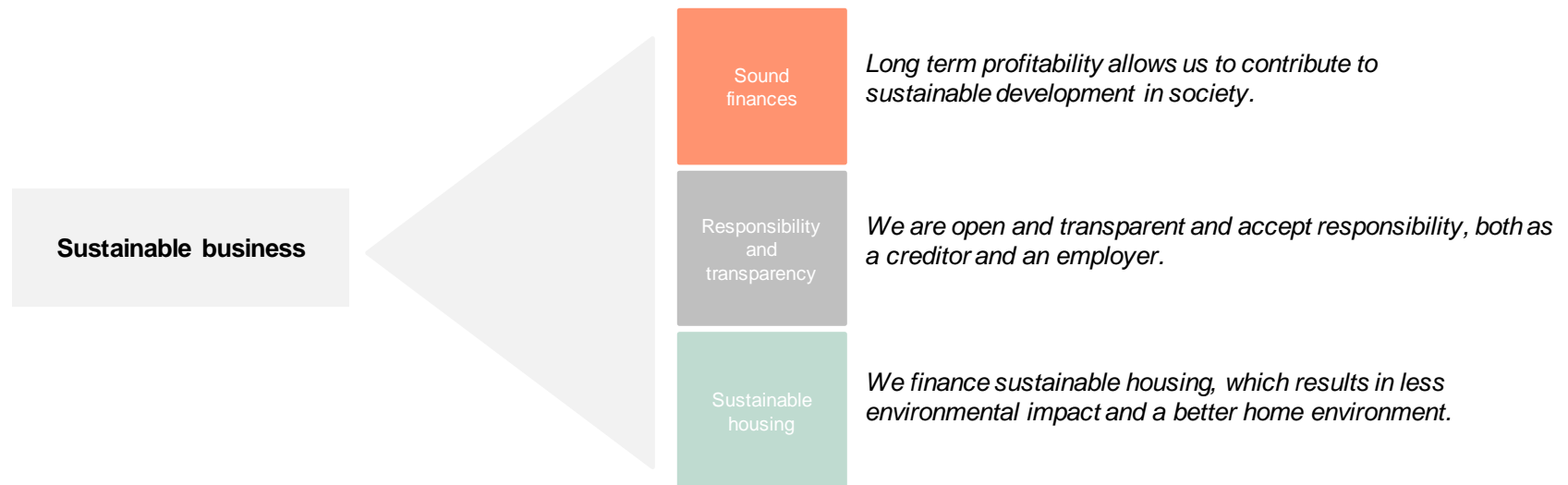
Housing specialists who care.

**SBAB!**

# Sustainable business at SBAB

**Our mission: To contribute to better housing and improved housing finances**

- Sustainable lending (Green loans)
- Sustainable funding (Green bonds)
- Sustainable services (Energy efficiency app)
- Social responsibility (Cooperation with NGOs such as Stockholms Stadsmission)



# Way forward

Our vision: To provide the best mortgages in Sweden



## What to achieve

- Grow market share in coming years
- Continued deposit growth
- Keep strong loan quality with low loan losses
- Sustain underlying profitability (RoE > 10%)

## How to achieve

- Develop our customer offering
  - Strategic transition towards housing- and housing-related services
  - Focus on new lending in SBAB's own brand
  - Improve and strengthen brand recognition
  - Unique customer-oriented and efficient lending origination
  - Increase digitalisation further
  - Transparent product terms & competitive offerings

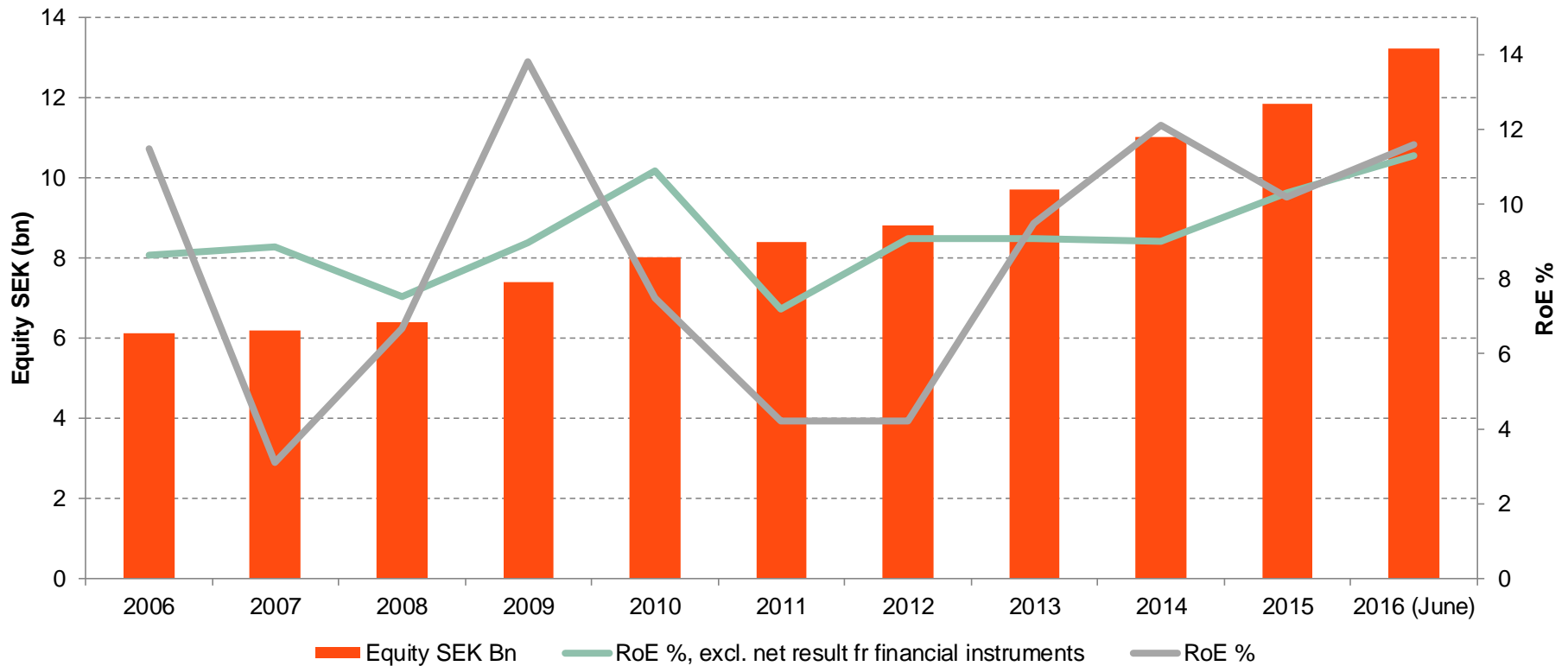
# Highlighted numbers

(SEK mn)	Q2 2016	Q1 2016	▲ QoQ
Net Interest Income	692	630	+9.8%
Total Expense	224	212	+5.7%
Net credit "losses"	1	-1	+2
Operating profit *	486	420	+15.7%
Deposits (bn)	88.0	81.2	+8.4%
Loan volume (bn)	302.7	299.4	+1.1%
Deposit/Loan ratio	29.0%	27.1%	+7.0%
Cost/Income ratio *	32%	33%	3.1%
RoE *	11.7%	10.7%	+9.3%
CET1 Ratio	28.4%	27.6%	+2.9%

Jan-Jun 2016	Jan-Jun 2015	▲ YoY
1,322	1,192	+10.9%
436	398	+9.5%
0	-26	+26
906	720	+25.8%
88.0	67.2	+31.0%
302.7	274.1	+10.4%
29.0%	24.5%	+18.4%
33%	35%	6.1%
11.3%	10.2%	+10.8%
28.4%	27.4%	+3.6%

Note: \* Excl. net results from financial instruments and restructuring costs

# SBAB's equity\* and RoE\*\*

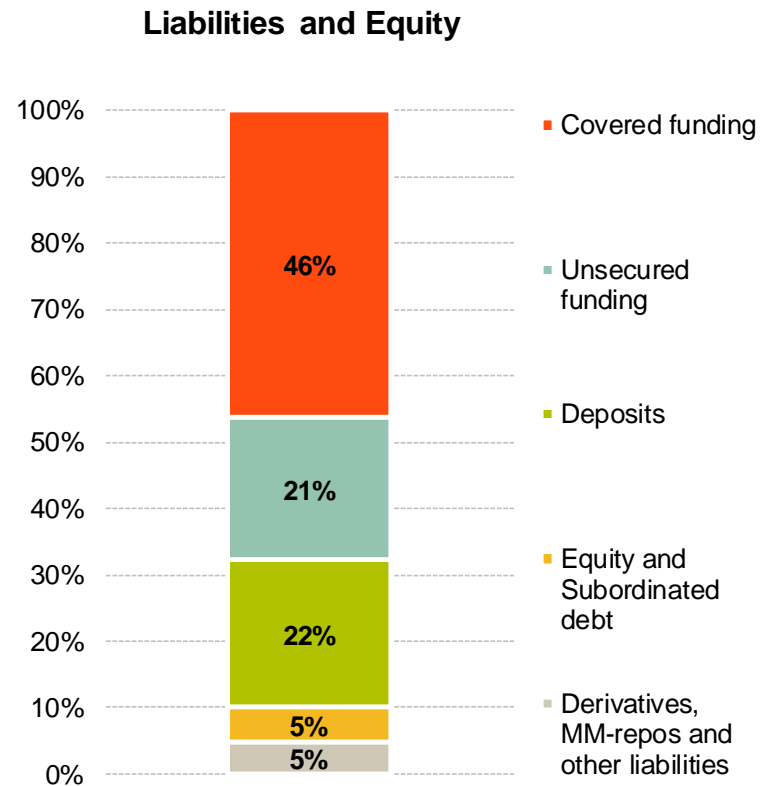
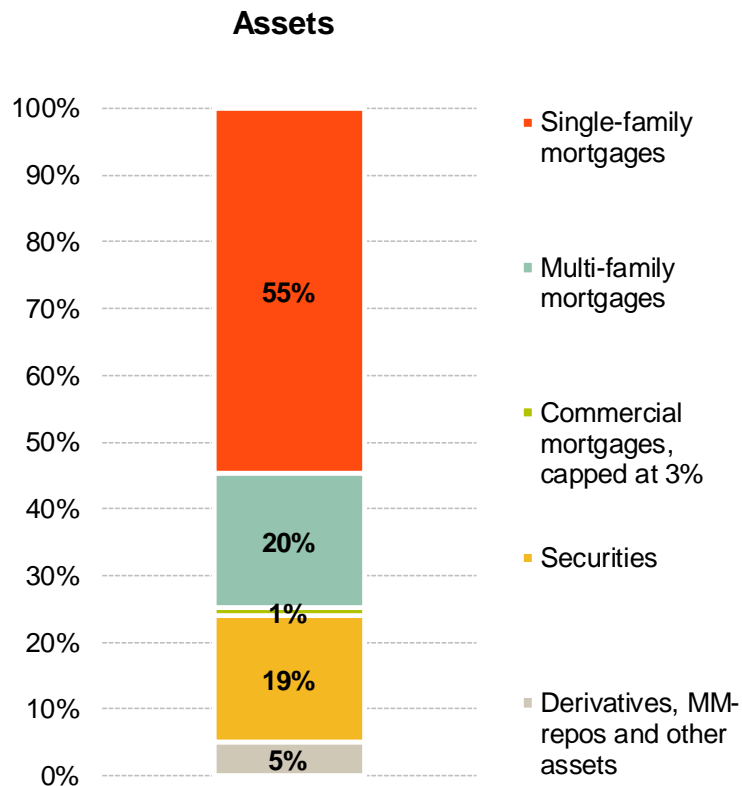


23 \* Return on equity, RoE, is expressed as operating result after tax in relation to average equity, adjusted for additional Tier 1 securities

\*\* Equity adjusted for additional Tier 1 securities

# SBAB Group balance sheet

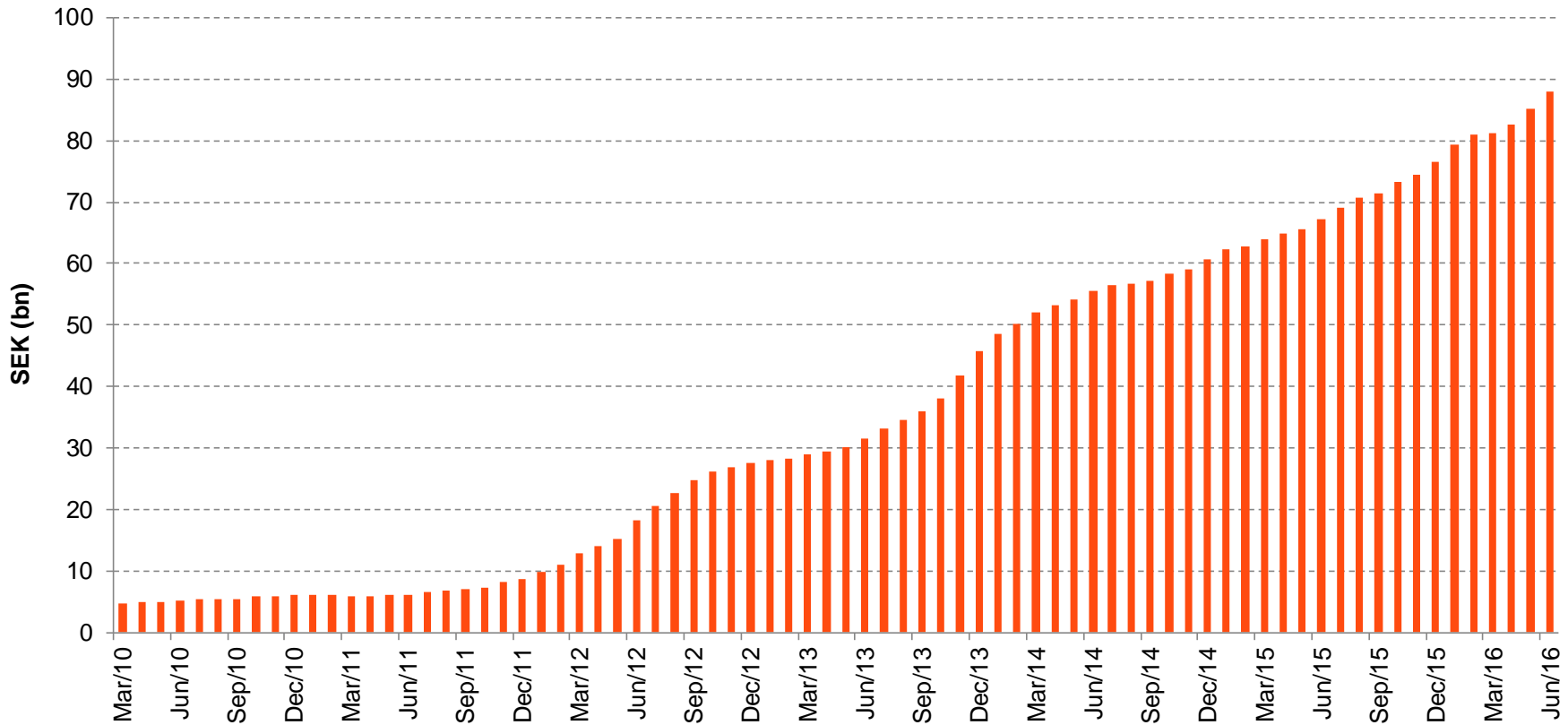
- Total balance sheet SEK 396bn, as of 30<sup>th</sup> June 2016





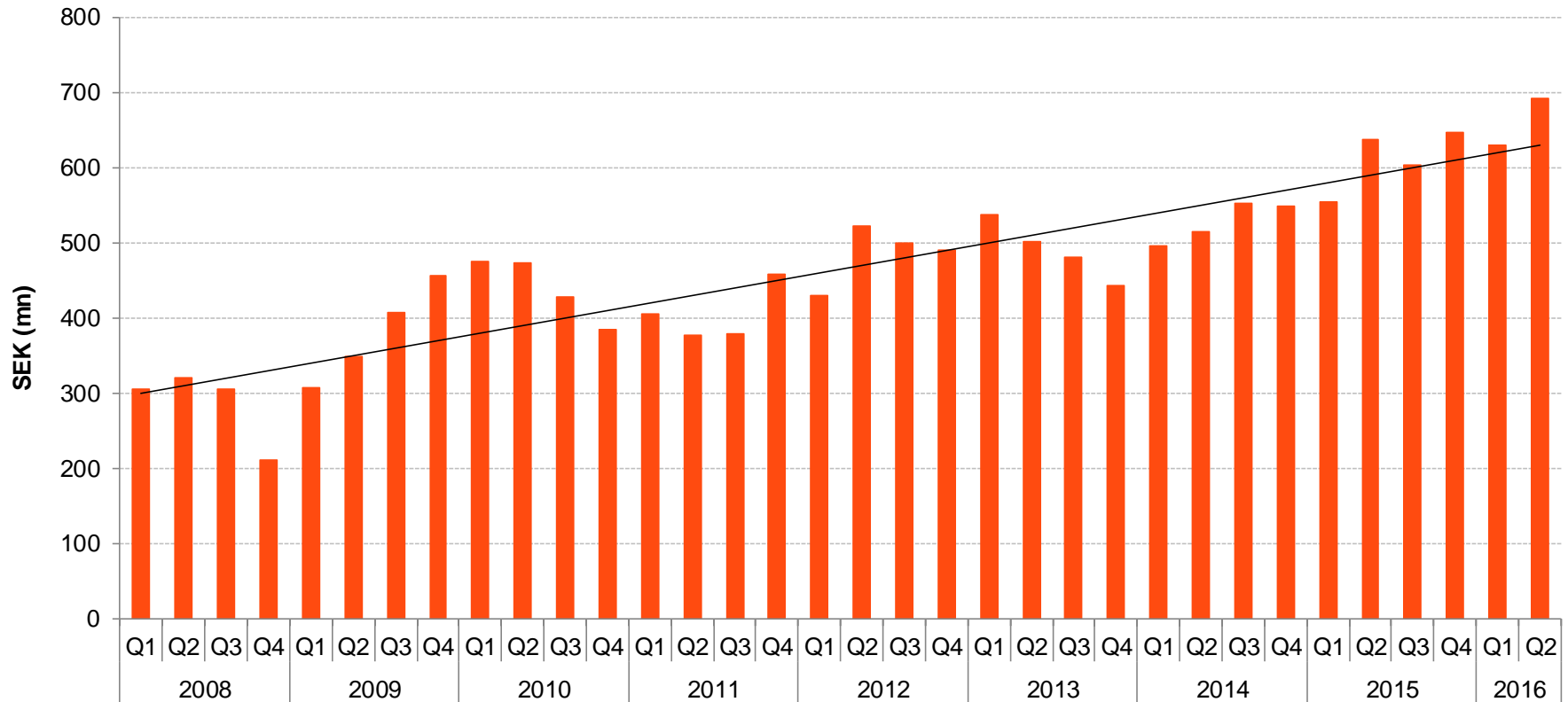
# SBAB's deposits

- Historic strong growth, expected to increase further but at slower pace



# SBAB's net interest income

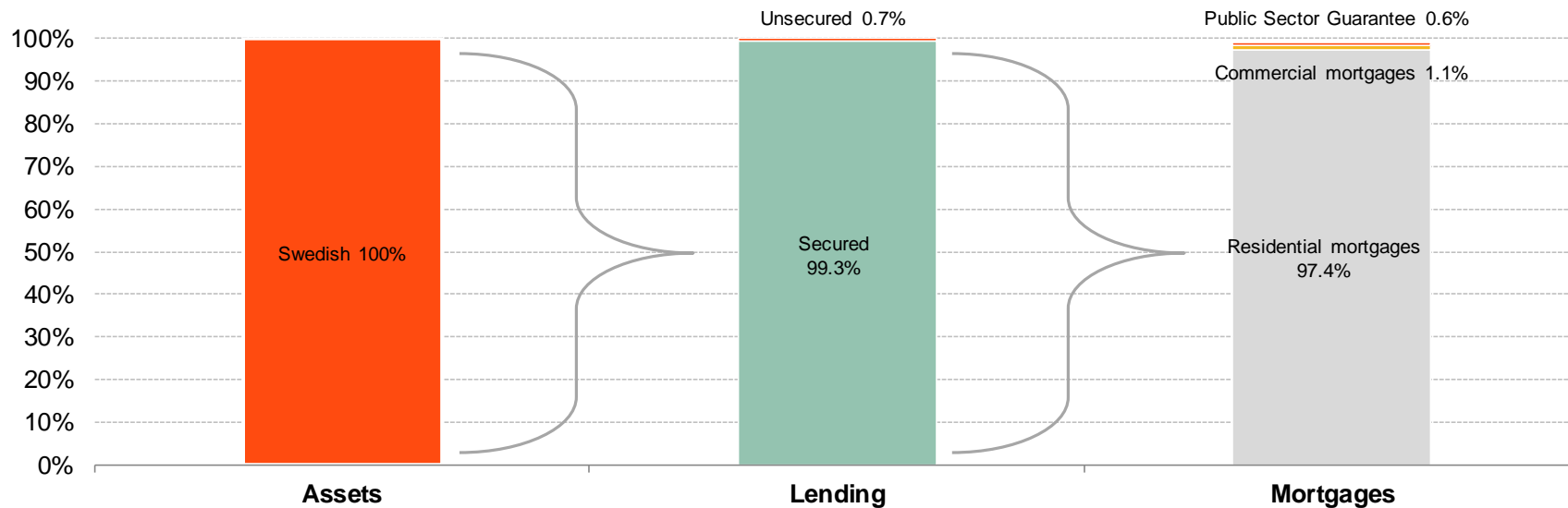
- Continued stability and growth



# Asset quality

"We believe that asset quality, particularly for residential retail mortgage portfolios, should continue to be supported by the central bank's low interest rate policy"

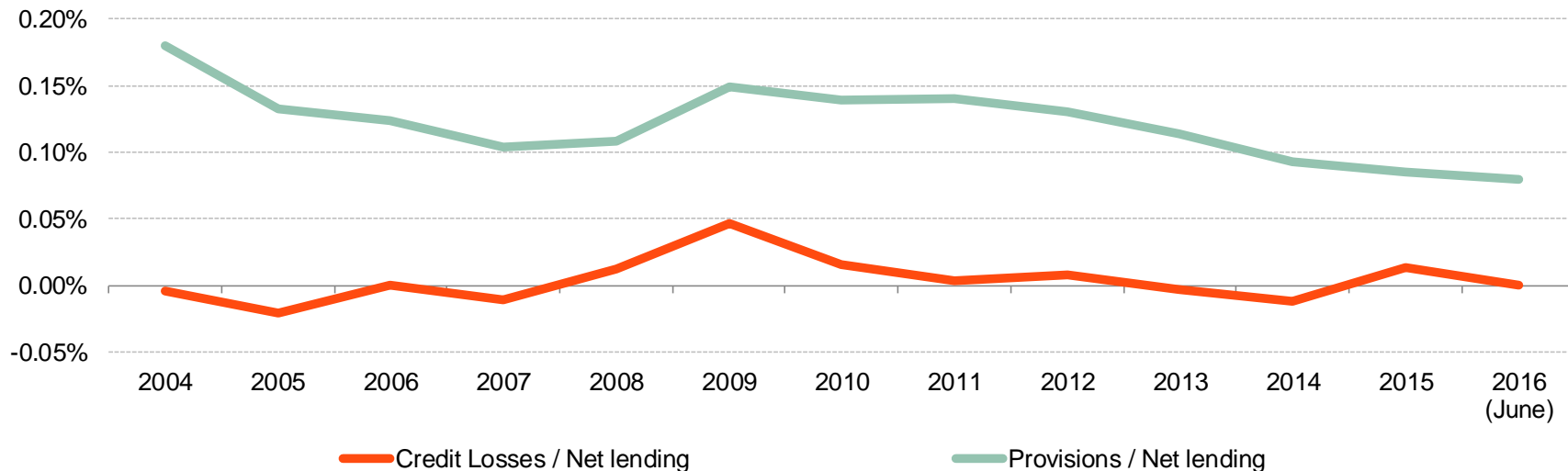
- S&Ps RatingDirect issued Dec 14<sup>th</sup> 2015



# SBAB's loan losses

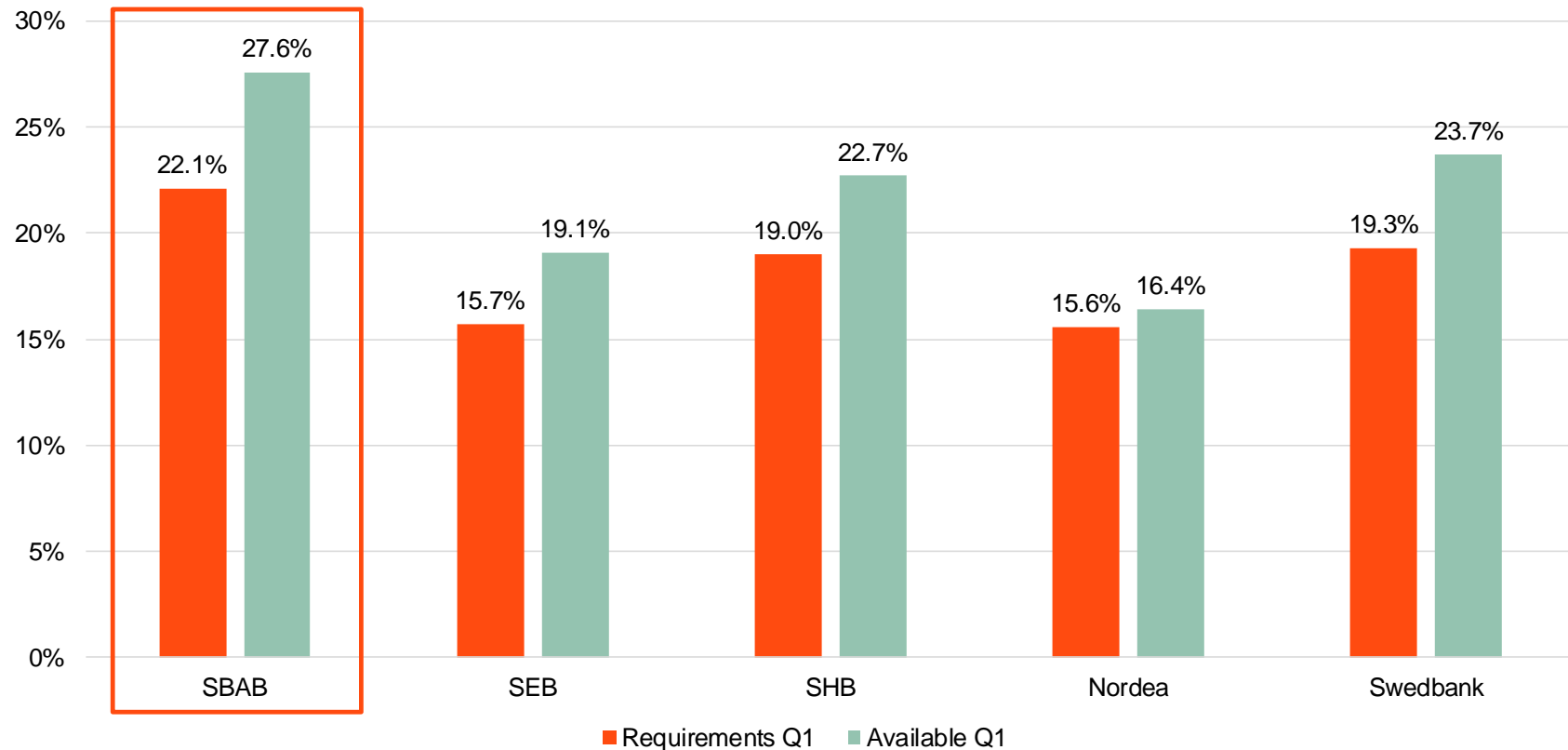
- In Sweden, there is a strong culture of timely payment of debt, especially, payment of mortgages
- Yearly average credit loss of less than 1 bp for the past 10 years is the lowest of the Swedish banks

Net credit losses vs. provisions (total portfolio SEK 302.7bn, 30<sup>st</sup> June 2016)



# Strong capital buffer

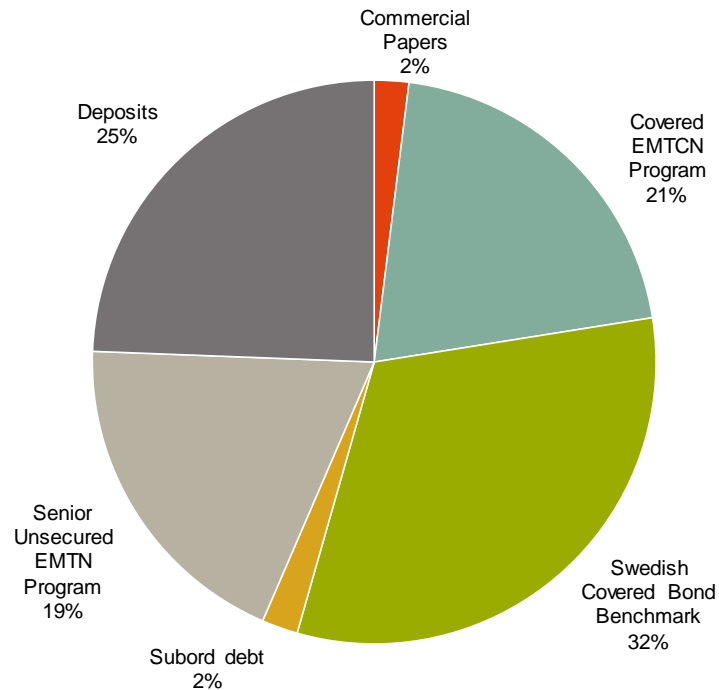
- SBAB's total CET1 available is well above requirements (fully loaded Basel III)



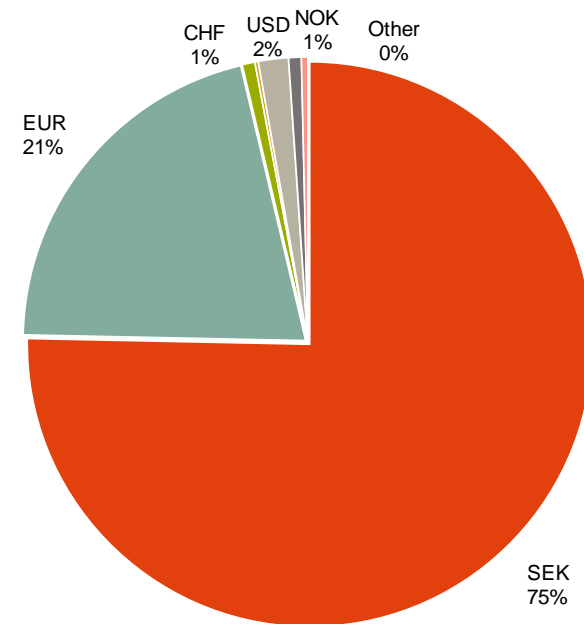
# Funding sources

- Total funding portfolio SEK 360bn, as of 30<sup>th</sup> June 2016

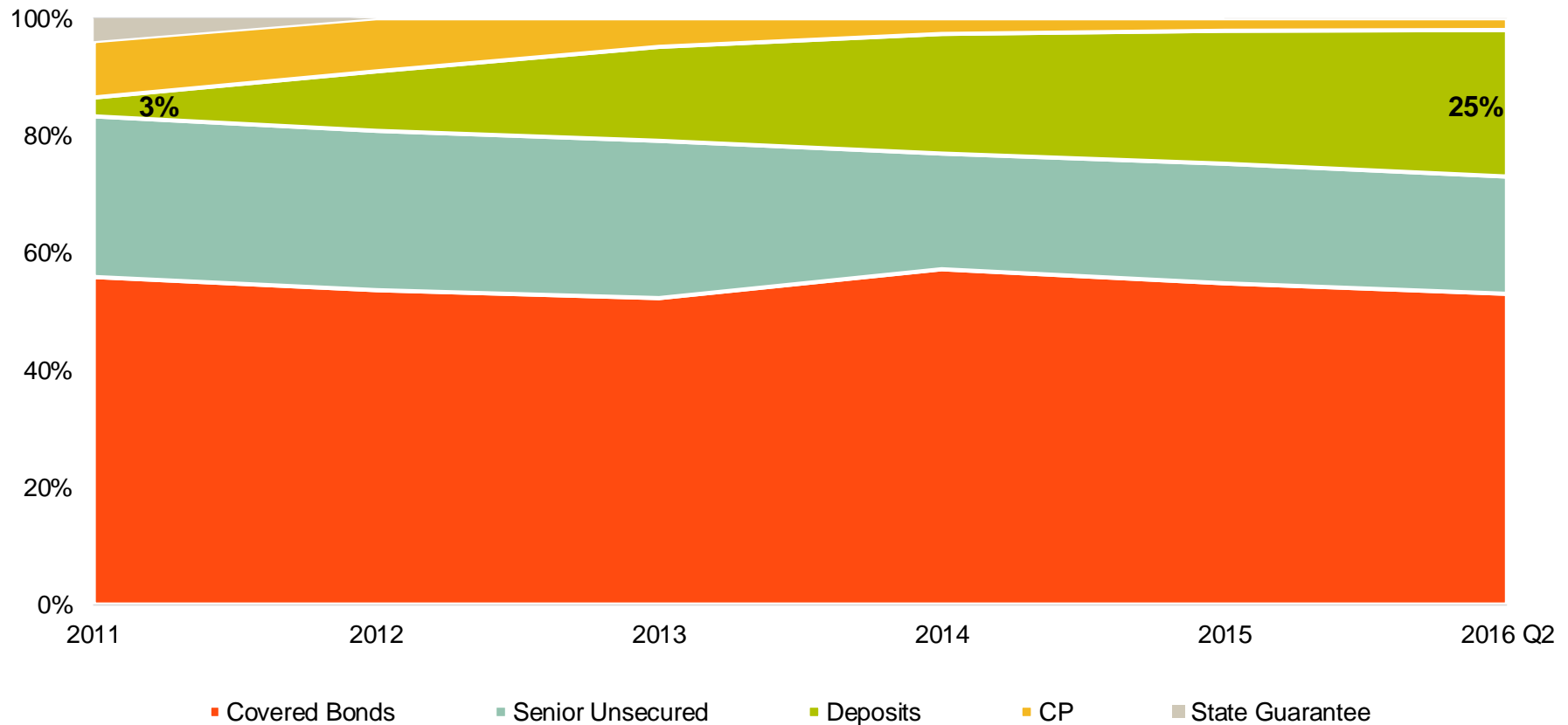
## Funding sources



## Currency profile



# Development of funding sources



# SBAB EMTN Programme

## - Government Ownership Clause

### (d) *Redemption at the Option of the Noteholders – Unsubordinated Notes*

- (i) If, at any time, the beneficial ownership of the share capital of the Issuer changes so that the Kingdom of Sweden ceases to be entitled to exercise at least 51 per cent. of the votes conferred thereby, then the holder of each Note specified in the applicable Final Terms as unsubordinated will have the option to require the Issuer to redeem such Note (in whole only in the case of a Bearer Note in definitive form) on the Redemption Date (as defined below) at the Early Redemption Amount referred to in paragraph (e) below together with interest accrued, if any, to but excluding the Redemption Date (in accordance with the provisions set out below). Provided that no such option to require the Issuer to redeem Notes will arise if prior to the date of such change the Kingdom of Sweden shall have made arrangements for it to guarantee the obligations of the Issuer under the Notes and the relative Receipts and Coupons (if any) or as otherwise approved by an Extraordinary Resolution of the holders of the Notes.

(i) OPTIONAL:  
Investors keep notes

(ii) OPTIONAL:  
Investors put back notes to issuer, i.e. SBAB

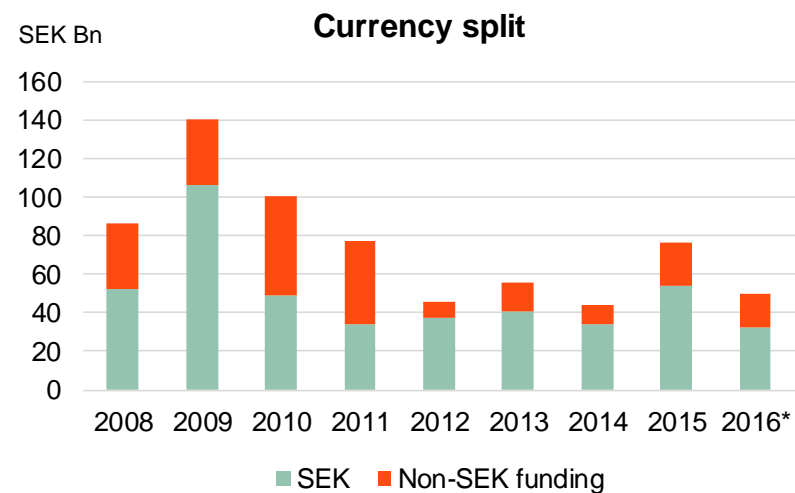
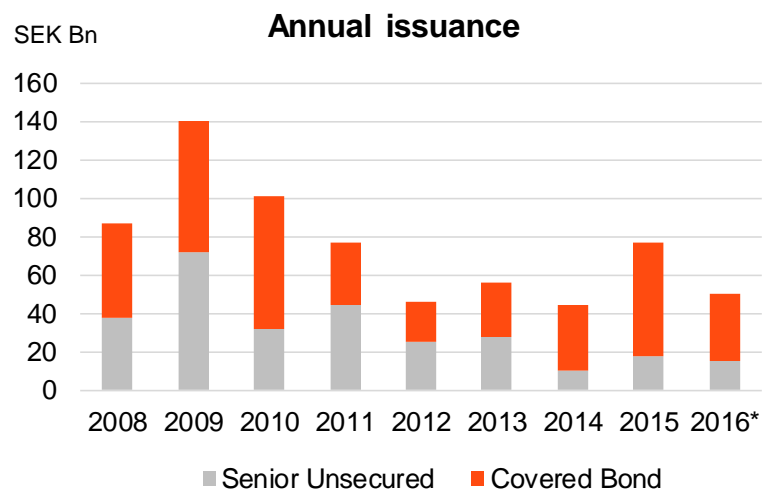
(iii) MANDATORY:  
Kingdom of Sweden Guarantee



# SBAB Group funding

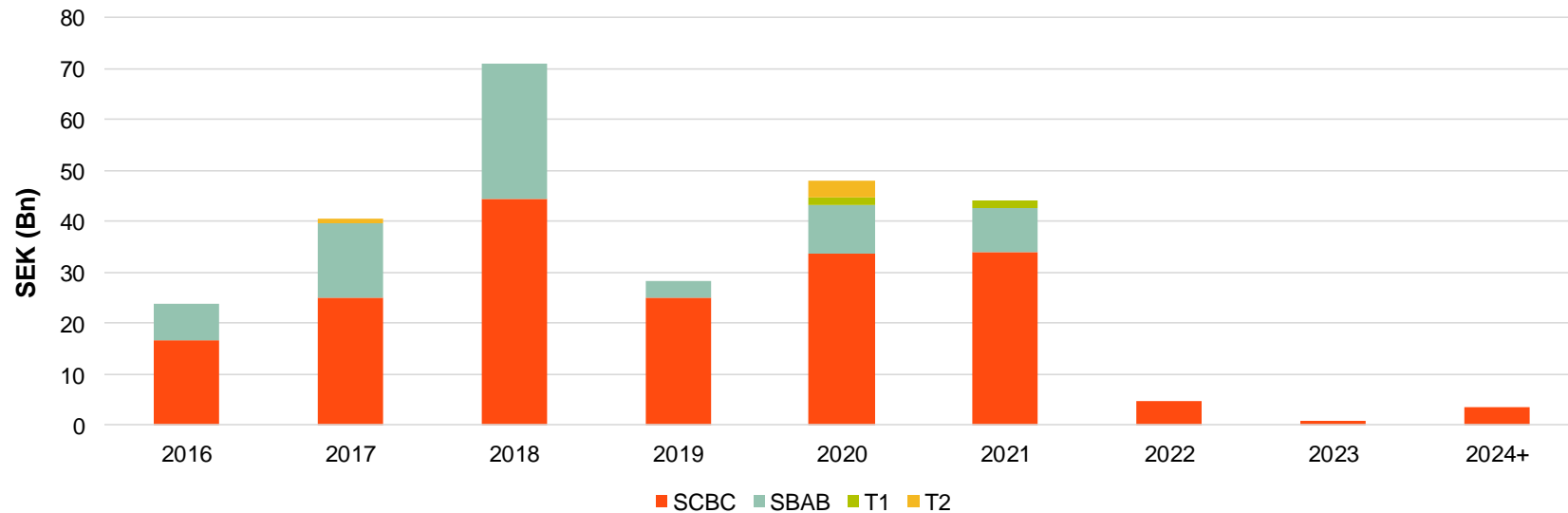
## - Moderate funding needs ahead

- SBAB Group operates in a number of funding markets. A broad and efficiently diversified investor base is an important part of the Group's funding strategy
- Long term funding estimate for 2016 around SEK 40/50bn of which majority in SEK



# Maturity profile

- Smooth funding profile reduces refinancing risk
- Liquidity risk is being mitigated through buy-backs of maturing bonds



# Funding programme

- Total long term funding 2016 SEK 40/50bn
  - **2-3 public transactions in international funding markets**
  - **1-2 new SEK covered bond benchmarks** per year
  - Private placements in SEK
  - Private placements in international funding markets
- Overall funding strategy is to maintain presence and regularity in core funding markets (predominantly EUR and SEK)
- SBAB's focus is to further extend its maturity profile
- **Regular future issuance:** Expected to return to EUR covered bond market at least once a year going forward



# Regular presence in EUR market

**SBAB!**

Senior Unsecured  
**€500mn**

0.5%  
5y due May '21

April 2016

**SBAB!**

Senior Unsecured  
**€750 mn**

FRN  
3y due Jun '18

May 2015

**SBAB!**

Senior Unsecured  
**€750mn**

2.375%  
7y due Sep '20

Aug 2013

**SBAB!**

Senior Unsecured  
**€750mn**

1.375%  
5y due May '18

Apr 2013

**SCBC**

— Covered Bonds of SBAB —

Covered Bond  
**€1bn**

0.25%  
5y due Jan '21

Jan 2016

**SCBC**

— Covered Bonds of SBAB —

Covered Bond  
**€750 mn**

0.375%  
5y due Sep '20

Sep 2015

**SCBC**

— Covered Bonds of SBAB —

Covered Bond  
**€500 mn**

0.25%  
7y due Jun '22

Jun 2015

**SCBC**

— Covered Bonds of SBAB —

Covered Bond  
**€1bn**

0.625%  
7y due Oct '21

Sep 2014

**SBAB!**

# Key highlights

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



# APPENDIX I

SCBC

# The SCBC product

## - The limited activities of SCBC provide additional benefits to investors

### Robust structure

- Strength of a regulated entity combined with a restricted activity vehicle reduces number of other potential creditors
- As a result, in addition to the eligible assets, investors also benefit from over-collateralisation provided by:
  - Non-eligible assets
  - Regulatory capital held by SCBC (maintain 8% capital adequacy ratio)

### Subordination of SBAB Interests

- Fees for services provided by SBAB are subordinated to SCBC's senior creditors
- Where a mortgage certificate serves as collateral for 2 different mortgage loans, SBAB has subordinated its interest to SCBC
- Loans 30 days in arrears are normally repurchased by SBAB

### Loans in Arrears

- Loans 30 days in arrears are normally repurchased by SBAB

### Other Features

- Loans 30 days in arrears are normally repurchased by SBAB
- Dynamic O C in compliance with Aaa requirements
- UCITS Compliant
- Swedish covered bonds are eligible for repo at Riksbank
- Following the ECBC's labelling initiative

# SCBC Cover Pool

- Key characteristics as of 31<sup>st</sup> July 2016

Collateral	100% Swedish residential mortgages *
Over Collateralization	30.9%
Weighted average LTV	55.8%
Weighted average seasoning	6.9 years
Loans in arrears	Arrears below 0.01% (SBAB buys back loans in arrears > 30 days)
Number of loans	349 926
Average loan size	SEK 686 481
Geographical location	Spread throughout Sweden; concentrated in economic hubs
Pool type	Dynamic
Originator	SBAB Bank Group
Interest rate type	64% floating, 36% fixed / 48% amortising, 52% interest only



# National Template

Details published monthly on: [www.sbab.com](http://www.sbab.com) (both in PDF and Excel-format)

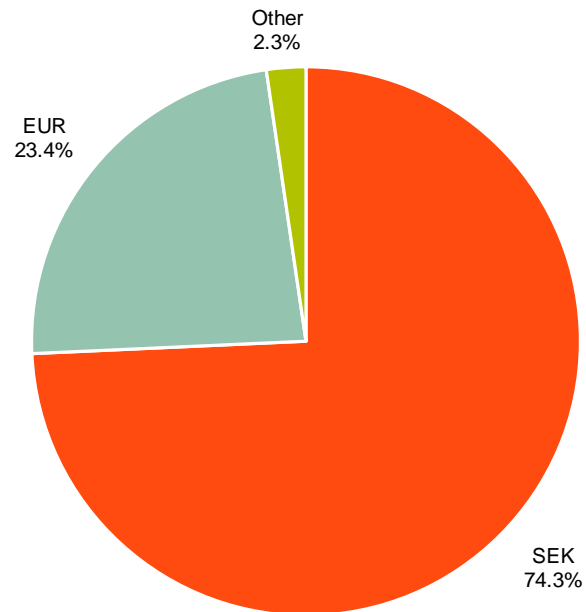
SCBC		SBAB BANK	
Issuer			
Issuer:	SCBC	Complies with CR, art. 129.7	Yes
Owner:	SBA8		
Controlling authority:	SFA		
Report date: 31/01/2016			
Long Rating:	S&P	Moody's	Fitch
Covered bond:	-	Aaa	-
Issuer:			
Owner:	A	A2	-
Cover pool			
Included assets		Cover pool terms	
Loans	240 205	Number of loans	367 190
Supplemental assets	0	Number of clients	155 896
Other	-	Number of properties	153 963
Total	240 205	Average loan size	654 172
loan		loan	
volume, MSEK	loan volume, SEK	volume, MSEK	loan volume, SEK
Type of collateral	%	Regional distribution	%
Single-family housing	98.25%	Greater Stockholm	127 800
Tenant owner rights	3.9%	Greater Gothenburg	19 296
Multi-family housing	17.50%	Greater Malmo	18 330
Tenant owner associations	41.80%	South Sweden	30 915
Hotels & agricultural	-	West Sweden	19 804
Public	-	Northern Sweden	4 860
Commercial	1.60%	East Sweden	20 030
Sum	240 205	Outside Sweden	-
	100%	Sum	240 205
loan		loan	
interest rate type	volume, MSEK	volume, MSEK	%
Floating	188 180	Repayments	114 541
Fixed	92 065	Arrears	125 665
Sum	240 205	Sum	240 205
	100%		100%
Average life, years 7.3			
LTV Level			
-10%	10-20%	20-30%	30-40%
40-50%	50-60%	60-70%	70-75%
75%	Sum		
Loan volume, MSEK	50 364	46 047	40 729
Loan volume, %	21%	19%	17%
	15%	12%	9%
	3%	1%	0%
	237 897		
	240 205		
Maturity			
2016	2017	2018	2019
2020	2021	2022	2023
2024	Sum		
Notional amount	175 815	232 923	141 768
Interest rate	1.69%	2.64%	2.55%
	2.15%	2.34%	3.04%
	2.64%	3.56%	2.90%
	1.90%		
Maturity is the time remaining to the next change of interest rate in the contractual terms			
Sectoring			
0-12 M	13-24 M	25-36 M	36-48 M
48 M	Sum		
Loan volume, MSEK	57 342	33 779	19 106
Loan volume, %	24%	14%	8%
	14%	8%	8%
	39%		
	240 205		
Credit quality			
Pass due	1-30 d	31-60 d	61-90 d
>90 d	Sum		
Loan volume, MSEK	26	-	-
Share of loan volume, %	0%	-	-
	0%	-	0%
Impaired loans, % 0%			
Key ratios			
OC, annual	24.9%		
LTV, as defined by ASCB	55.3%		

Bonds										
Domestic benchmark Bond										
ISIN	Amount, MSEK	Opening date	Coupon	Interest rate type	Maturity type	Scheduled maturity	Legal maturity			
S0001172519	14 270	23/02/2011	4.00%	Fixed	Hard bullet	21/09/2016	21/09/2016			
S0001172517	15 250	30/03/2012	4.00%	Fixed	Hard bullet	21/06/2017	21/06/2017			
S0001172525	16 650	07/02/2013	4.00%	Fixed	Hard bullet	21/03/2018	21/03/2018			
S0001340612	13 915	19/12/2012	4.00%	Fixed	Hard bullet	19/12/2018	19/12/2018			
S0001340610	17 341	18/09/2013	4.00%	Fixed	Hard bullet	18/09/2019	18/09/2019			
S0006452900	20 512	24/11/2014	2.00%	Fixed	Hard bullet	17/06/2020	17/06/2020			
S0006758561	7 800	01/04/2015	1.00%	Fixed	Hard bullet	17/03/2021	17/03/2021			
Other benchmark										
ISIN	Amount, MSEK	Currency	Issue date	Coupon	Interest rate type	Maturity type	Scheduled maturity	Legal maturity		
XS135493362	9 209	EUR	02/02/2016	0.25%	Fixed	Soft bullet	20/03/2021	20/03/2022		
XS117542412	9 209	EUR	07/10/2014	0.43%	Fixed	Soft bullet	07/10/2021	07/10/2022		
XS019624628	9 209	EUR	20/06/2011	3.38%	Fixed	Hard bullet	30/04/2016	30/04/2016		
XS049636255	9 209	EUR	20/03/2010	3.25%	Fixed	Hard bullet	30/03/2017	30/03/2017		
XS0901529638	7 000	SEK	10/09/2013	0.40%	Floating	Hard bullet	30/09/2018	30/09/2018		
XS1008122077	6 997	EUR	03/10/2015	0.38%	Fixed	Soft bullet	05/10/2020	05/10/2021		
XS1038385913	5 500	SEK	02/07/2014	0.36%	Floating	Hard bullet	02/07/2019	02/07/2019		
XS1248328721	4 664	EUR	17/06/2015	0.75%	Fixed	Soft bullet	17/06/2022	17/06/2023		
Amount, M SEK										
Domestic benchmarks in SEK										
Other benchmarks										
Other bonds										
Total of outstanding bonds of which euros										
Maturity, expressed in SEK										
Total	31 031	26 944	42 214	23 341	32 203	34 316	1 100	1 308	192 257	
Total, %	36%	14%	22%	12%	17%	18%	1%	1%	100%	
Interest rate type										
Fixed	167 137	97%								
Floating	15 110	13%								
Sum	192 257	100%								
Hedging and risk										
Currency risk, MSEK	Pool assets	Covered assets								
SEK	240 205	133 188								
EUR		51 999								
USD		348								
Other		6 735								
Sum	240 205	192 127								
All currency risk is hedged at the time of the issue and remains the foreign currency liability in terms of coupon payments and initial and final exchange. All foreign currency liabilities are converted into Swedish krona (SEK) since all assets in the cover pool are in Swedish krona. All currency risk is shared over all nine sub-										
Interest rate risk, MSEK										
Pool assets	Covered assets									
Fixed	92 065	167 137								
Capital floating	148 140	25 130								
Sum	240 205	192 257								
All interest rate risk from the liabilities are to be matched with the assets in the cover pool. Fixed rate liabilities are matched with fixed rate liabilities to the extent possible, otherwise interest rate swaps are used to transfer fixed rate payments to floating rate payments.										

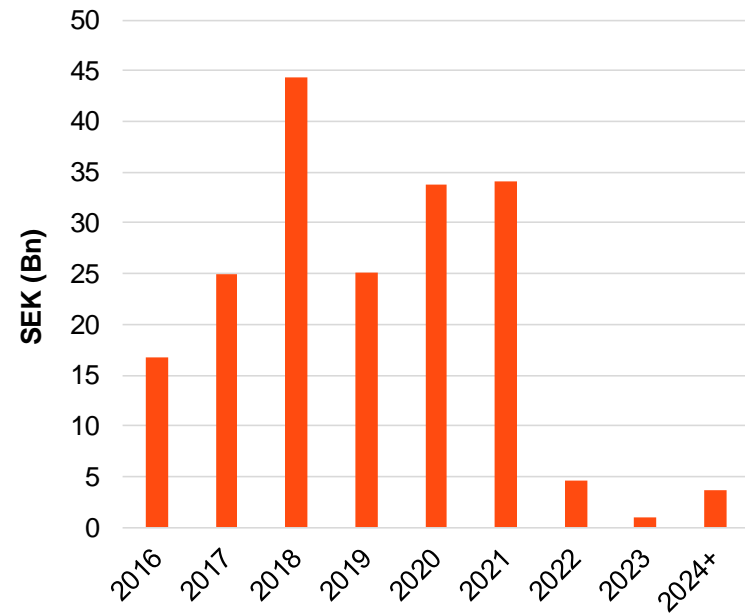
# SCBC funding

- Total covered bonds outstanding: SEK 183bn as of 31<sup>st</sup> July 2016

### Currency profile



### Maturity profile

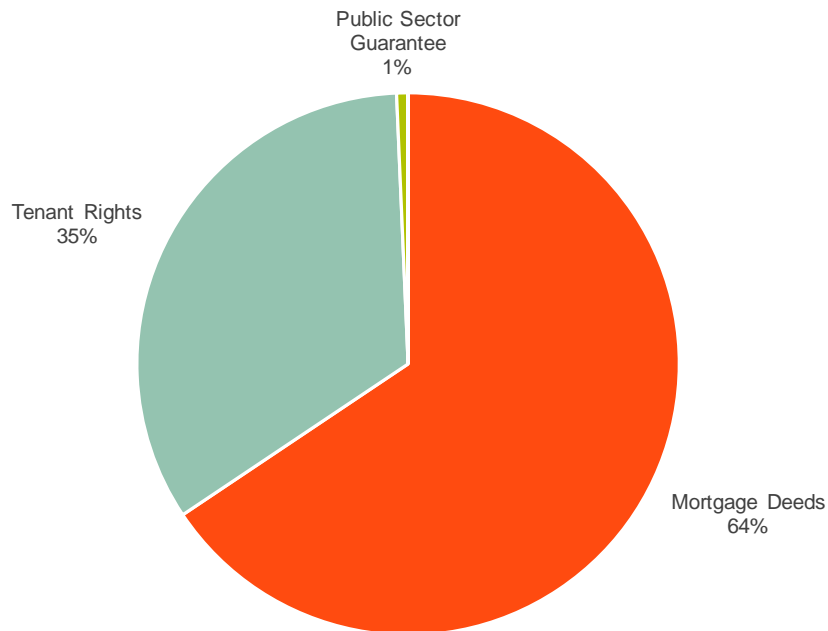


# SCBC Cover Pool

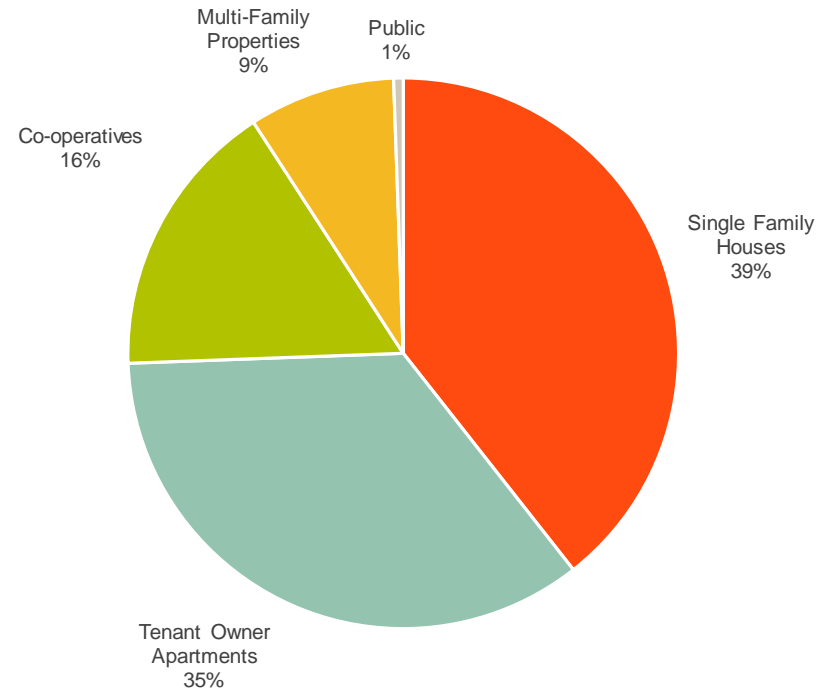
- Distribution by Collateral and Owner as of 31<sup>st</sup> July 2016

## Breakdown by collateral

- Predominantly residential mortgages

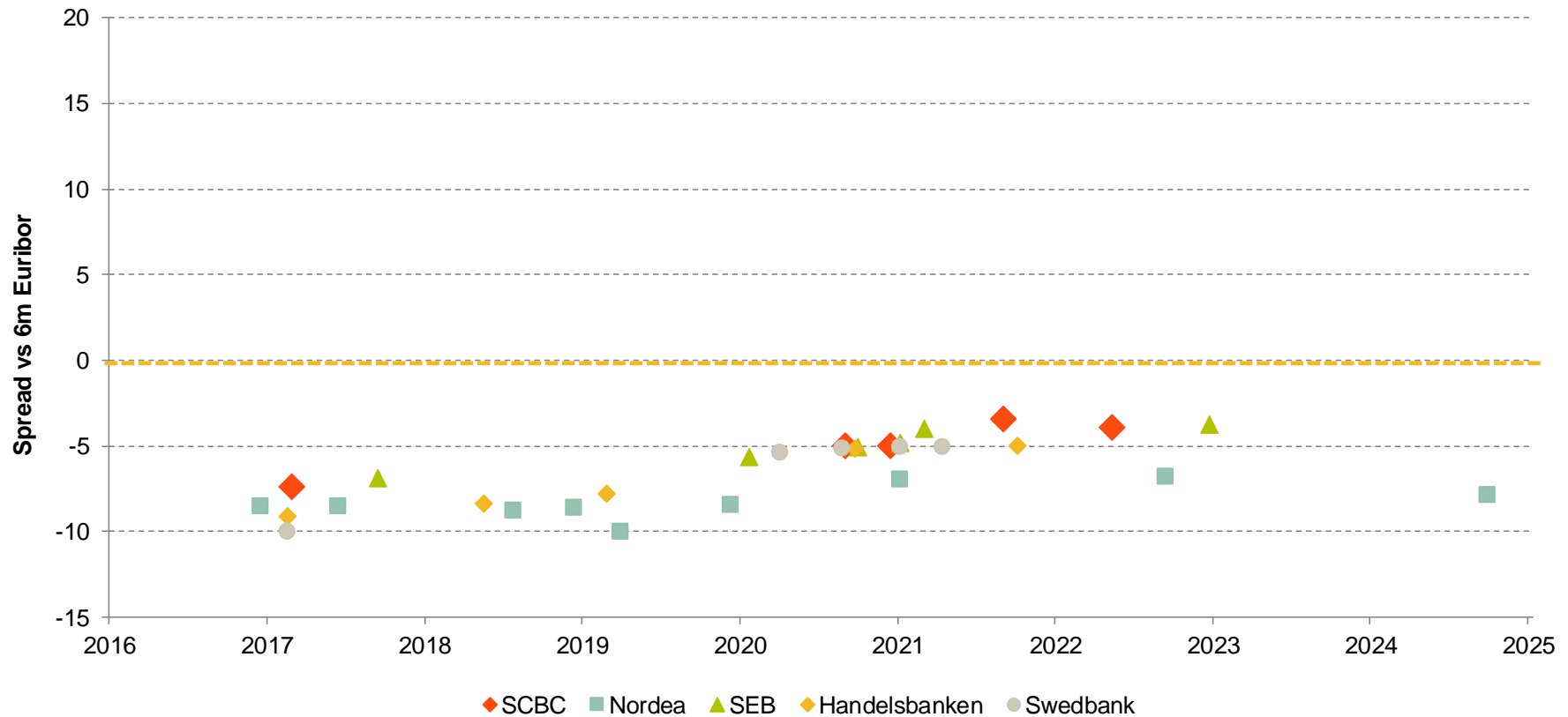


## Breakdown by owner



# Trading levels of outstanding bonds

- EUR Covered Bonds



# Swedish legislation in comparison

- A secure framework

	Sweden	Germany	France	Ireland	Finland
<b>Market structure</b>	On balance sheet issuance	On balance sheet issuance	Special bank	Special bank	Special bank
<b>Max LTV *</b>	75%	60%	80%	75%	60%
<b>Min. overcollateralisation</b>	Not defined	2%	Not defined	Not defined	Not defined
<b>Max. substitute collateral</b>	20%	20%	20%	20%	20%
<b>Cover register</b>	Yes	Yes	No	Yes	Yes
<b>Independent monitor</b>	Yes	Yes	Yes	Yes	No
<b>BIS Risk weighting</b>	10%	10%	10%	10%	10%
<b>Derivatives as collateral</b>	Yes	Yes	Yes	Yes	Yes
<b>Matching requirements</b>	NPV, nominal value, currency, interest	NPV, nominal value, currency, interest	Nominal value	Nominal value, currency, interest, duration	Nominal value, currency, interest, duration

# The Swedish covered bond market

- One of the best functioning bond markets in the world

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The bond market has been open and well functioning throughout the crisis, providing reliability and liquidity.

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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

---

The total value of the Swedish covered bond market was EUR 222 billion as of Q4 2015

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A woman with long brown hair is sitting on a gravel path, wrapped in a thick green and white plaid blanket. She is holding a white mug and looking out over a misty, green landscape with tall evergreen trees in the background. The scene is serene and atmospheric.

# **APPENDIX II**

## **SWEDISH KEY ECONOMIC FIGURES**

# Kingdom of Sweden



- Area : 450 295 sq km
- Population : 9 906 331 (aug 2016)
- Urban population: 85% of total population
- 21 Counties, 290 Municipalities
- Capital : Stockholm
- Constitutional monarchy
- Unicameral Parliament (Riksdag) with 349 seats
- Elections: last held on 14 September 2014 (next to be held on 9 September 2018)
- Government : Coalition of Social Democrats and Greens
- 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)



# Kingdom of Sweden

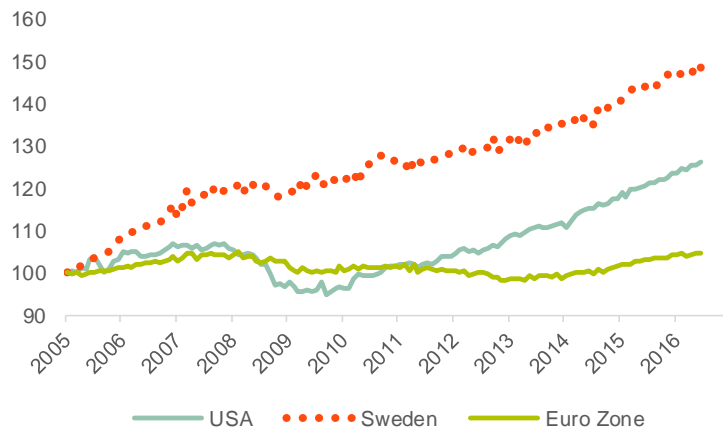


- Approx. 45% of GDP is exported. Largest goods trading partners are the Scandinavian countries, Germany and UK
- Sweden joined the EU in 1995, but the euro was rejected in a public referendum 2003
- The currency, the krona, has been floating since 1992 when the fixed exchange rate regime was abandoned
- The Centralbank, Sveriges Riksbank, operates monetary policy under an inflation target of 2%, +/- 1%
- Sweden ranks third in The Economist's Democracy Index 2015, fourteenth in the United Nations' Human Development Index 2015, ninth in the World Economic Forum Global Competitiveness Index 2015-16 and second in the Global Innovation Index 2016

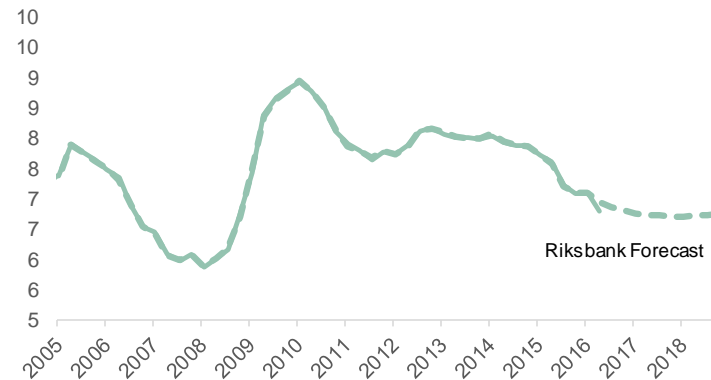
# Strong domestic economy

- **Domestic demand has been stimulated by stable public finances, increasing employment, low inflation, sinking interest rates and rising house prices over the past years**
  - Retail sales has risen by almost 50% over the past ten years
- **The labour market has strengthened**
  - Employment has increased by 1.1% on average and hours worked by 1.2% per year over the past ten years. The activity rate (16-64y) has gone from below 80% in 2009 to above 83% in early 2016

Retail Sales, constant prices (index jan2005=100)

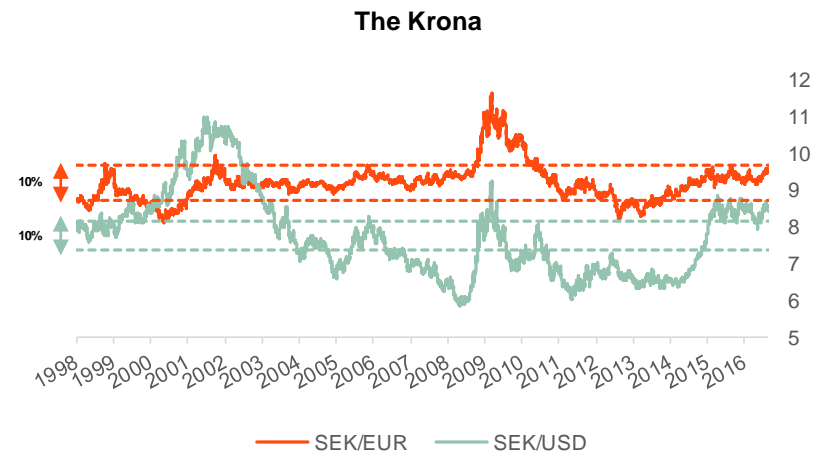
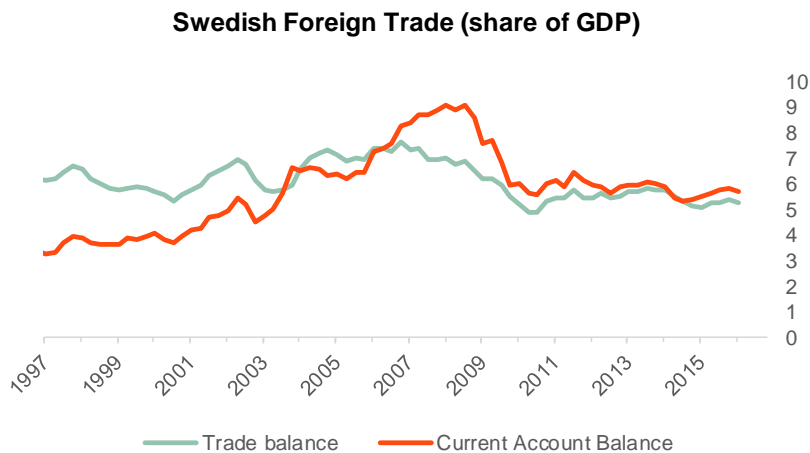


Unemployment Rate



# Foreign trade and the Krona

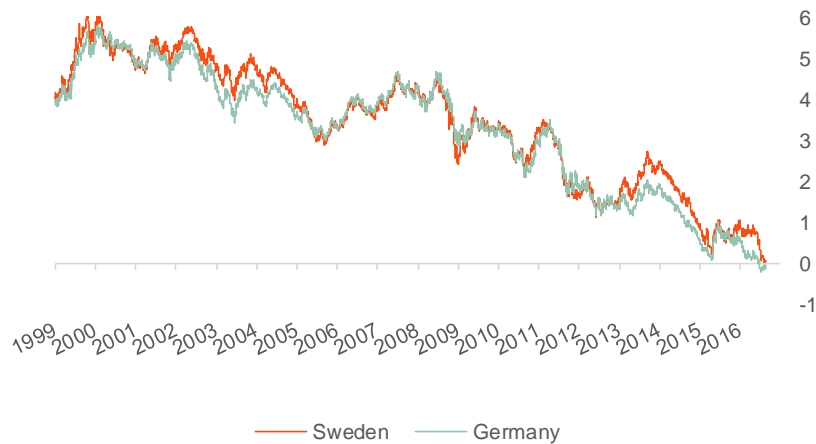
- **Very strong current account**
  - Exports make up about 45% of GDP. Foreign trade has shown a surplus since the mid-1990s
- **The Krona has been floating since 1992**
  - As a fairly small currency it is rather sensitive to changes in international risk appetite and business flows. It has however historically been highly correlated with the Euro
- **The Krona is weaker than its historical average...**
  - ..if compared to a trade weighted basket. Factors contributing to a strong krona are a strong current account, high relative growth, solid public finances while low interest rates and weak export flows are dampening



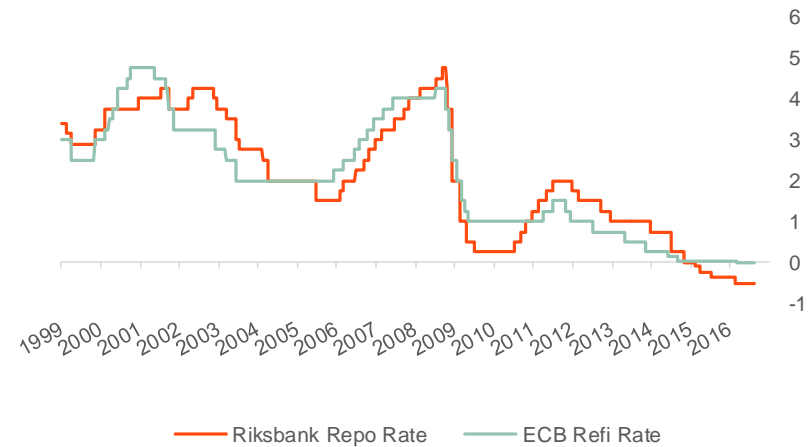
# Interest rates

- **Long and short interest rates have a high correlation with European (i.e. German) rates**
  - The ten year spread against Germany has on average been +19bp, over the last 15 years, correlation has been 0.79
- **Sweden has gained something of a safe haven status over the last 10-15 years**
  - Strong public finances, a stable financial system, low inflation and international flight to quality have been holding down long term interest rates

Ten Year Government Bond Rates



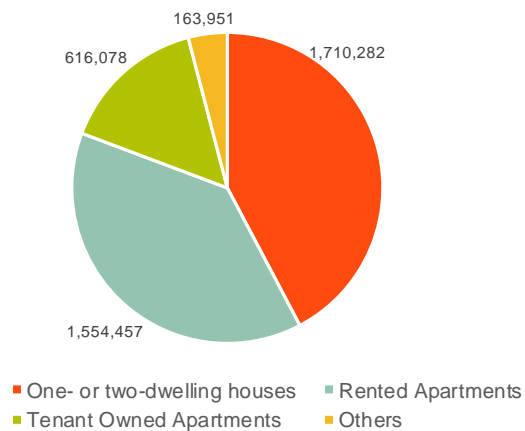
Policy Rates



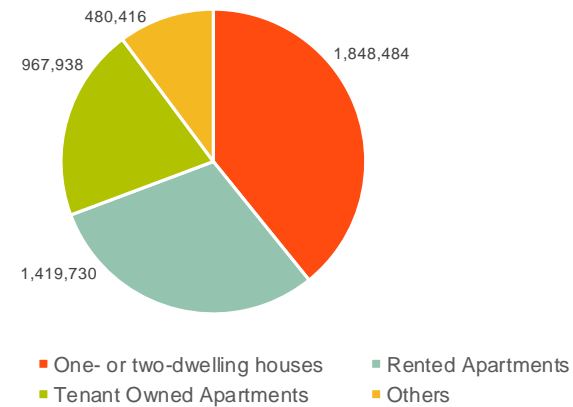
# The Swedish housing market

- **Most Swedes own their dwelling**
  - 65 % of the dwelling stock is owner occupied and 35 % is rented
- **The rental market is highly regulated**
  - Rent controls are 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**
  - Price increases have made it highly profitable for private (and public) landlords to sell their properties to tenant-owner associations

Number of Dwellings (1990)



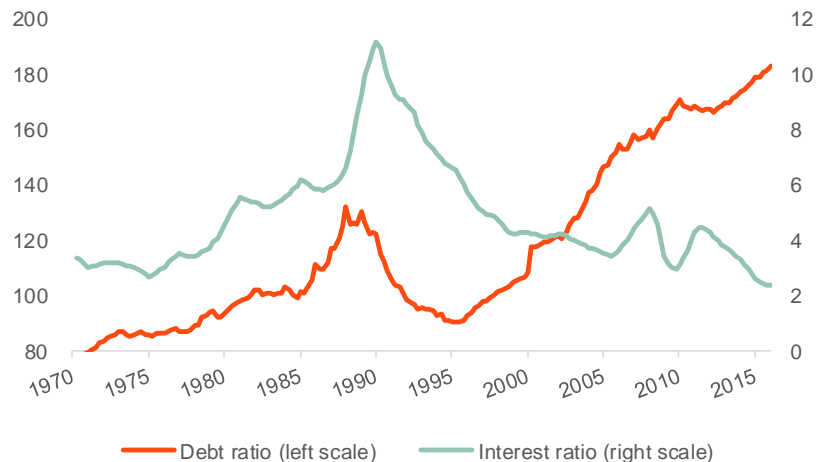
Number of Dwellings (2015)



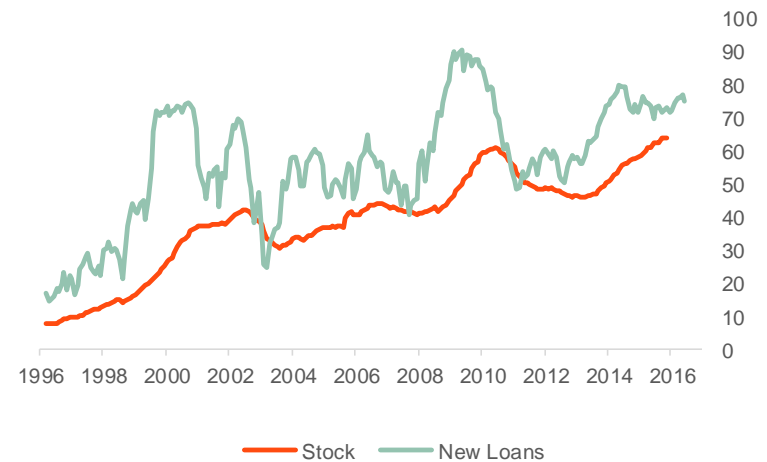
# Household debt has increased

- **High debt to income ratio but low interest costs**
  - The household debt to income ratio has increased from around 90% in 1995 to above 170%. The rise in the debt ratio is strongly connected to the decline in interest rates and rising homeownership
- **Average household exposed to interest rate risk**
  - The interest ratio is below 3%. Rising interest rate levels will eventually push up the interest ratio in the coming years. This effect will be reinforced by the increased use of floating interest rates

Household Debt and Interest Cost Share of Income



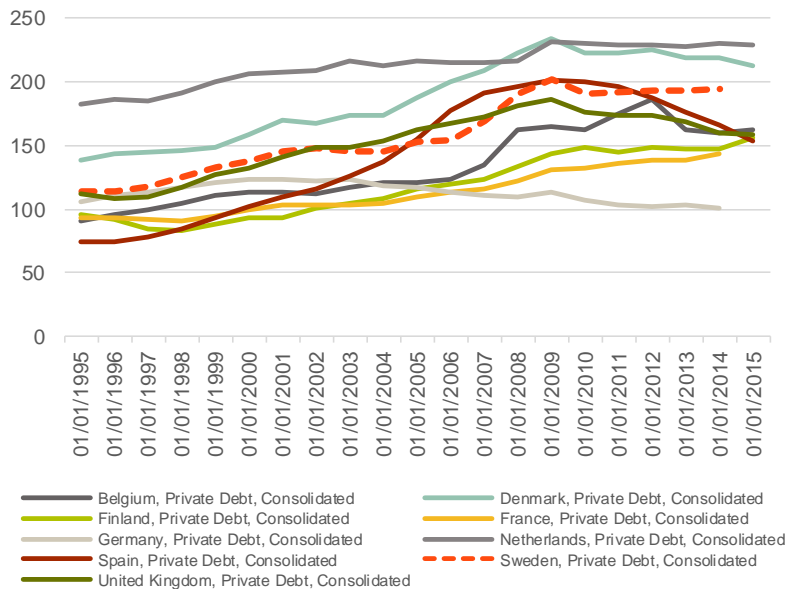
Share of Mortgage Loans with Floating Interest Rates



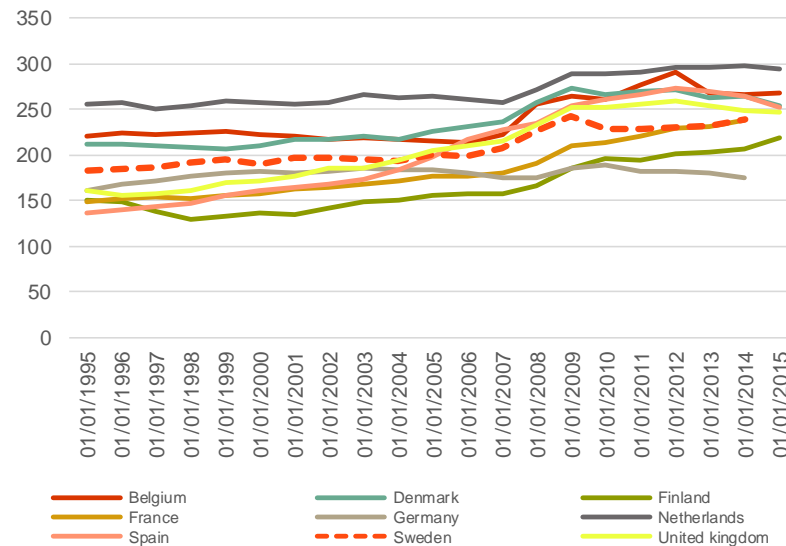
# Debt compared to other countries

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

Private Debt (share of GDP)



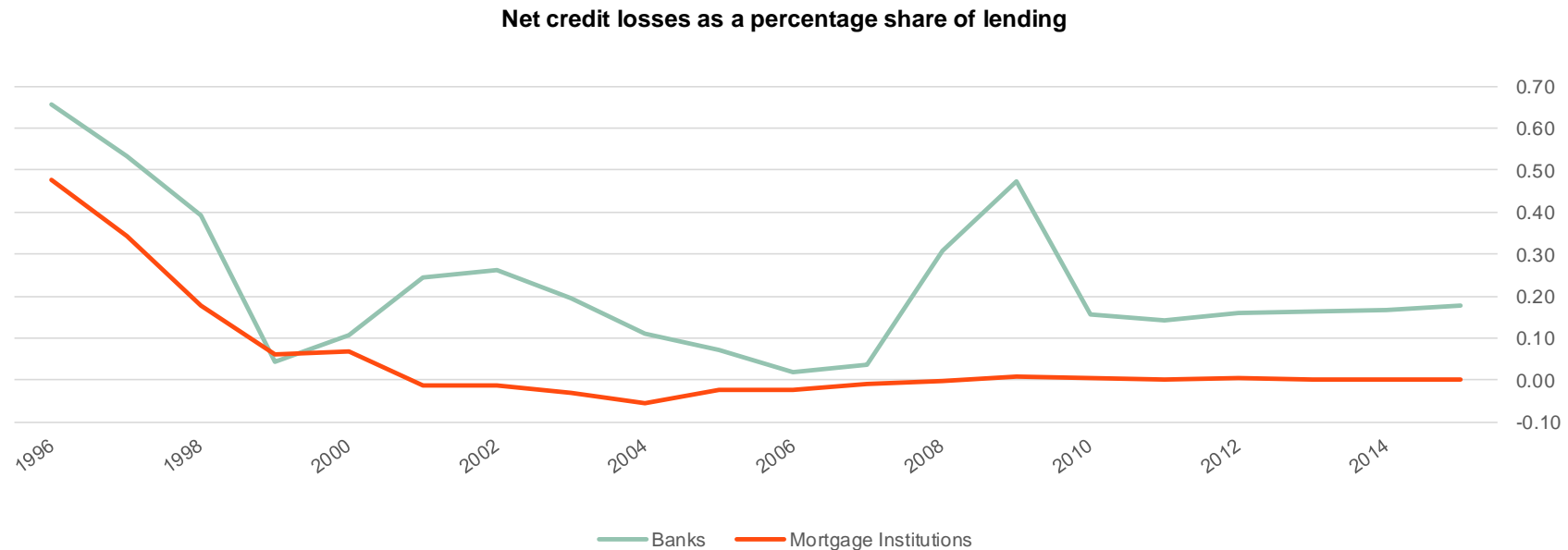
Private and Public Debt (share of GDP)



# Low credit losses

- **A history of low credit losses**

- At the height of the 1990s crises, yearly credit losses in Swedish banks were more than 6% of their lending. Mortgage institutions lost 0.7% during the worst years
- Over the past 10 years, mortgage losses have been insignificant

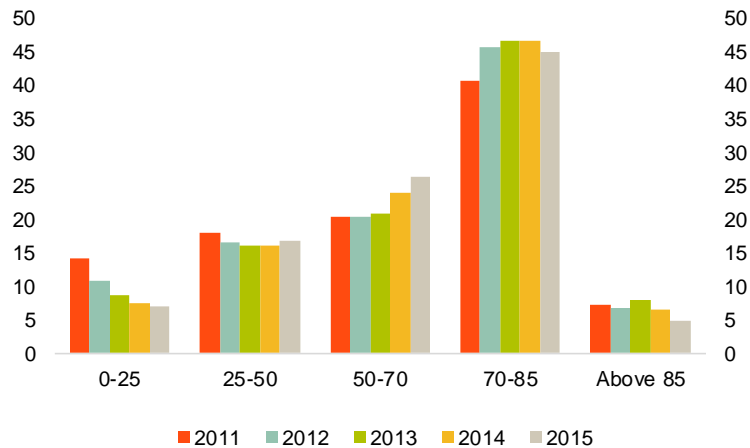




# Measures are working

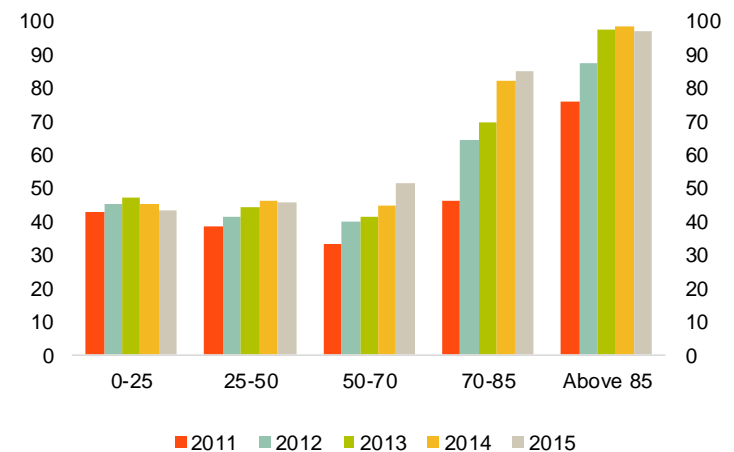
- **Mortgage LTV cap and amortization requirements have had effects**
  - The share of high LTVs has decreased
  - The share of amortising households has gone from 44% to 67%

Share of Households with Different Loan-to-value Ratios, New Loans



Note. Shows the share of households for different loan-to value ratios.

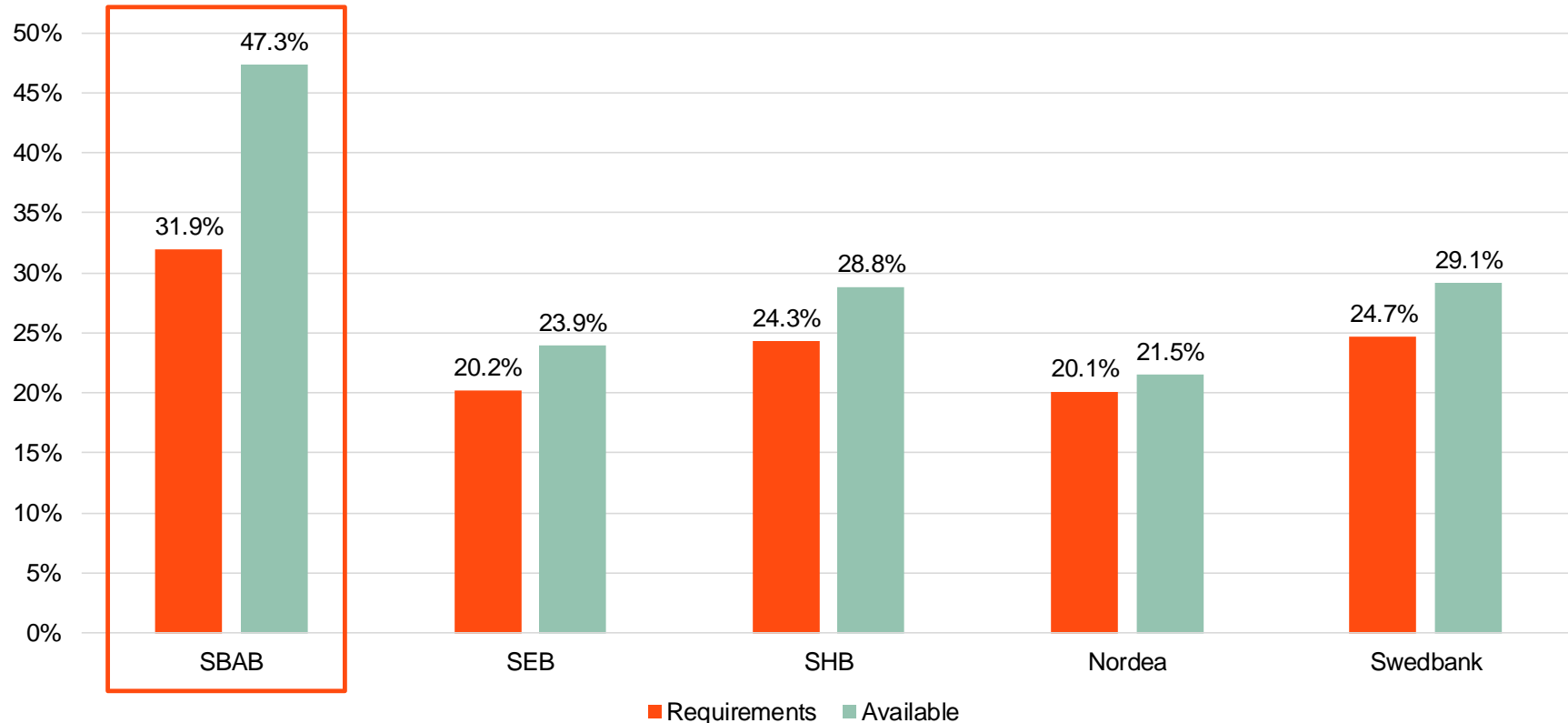
Share of Households Amortising for Different Loan-to-value Ratios, New Loans



Note. Amortisation according to loan agreement.

# Total capital required and available

- SBAB meets the new Swedish requirements with a margin

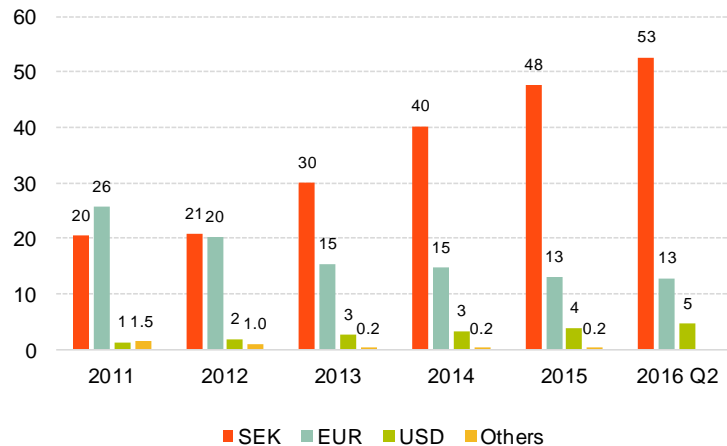


# Securities portfolio

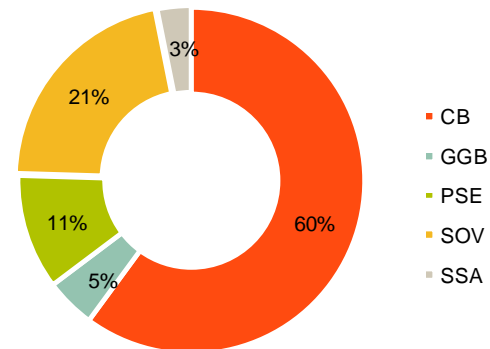
- SEK 70.1bn, 100% AAA (from at least one agency)

- LCR compliant since 1<sup>st</sup> January 2013
  - at the end of Q2 2016, LCR stood at 256% for all currencies combined
- New investment only AAA
- Maximum 10y maturity
- We have increased our portfolio to extend survival horizon

Currency distribution

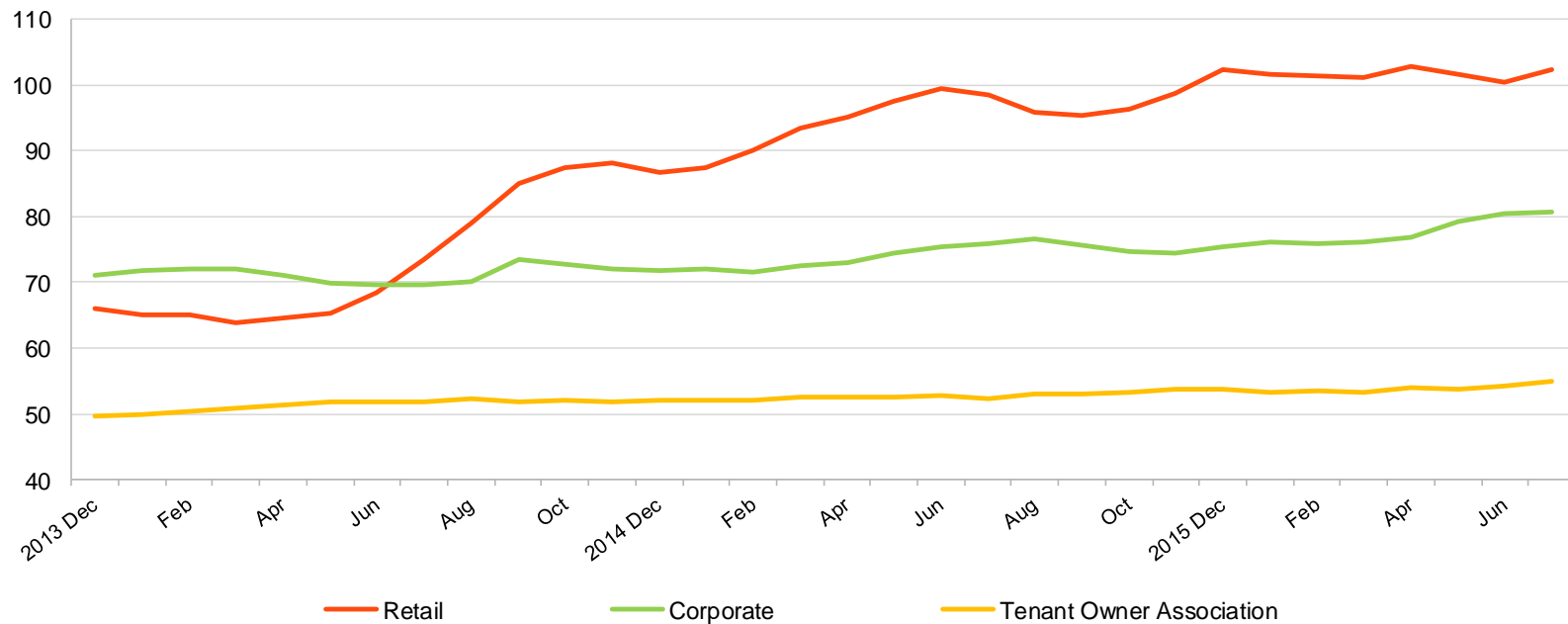


Securities type



# Lending margins

- Improved margins in mortgage lending
- Increased mortgage portfolio
- Decreased funding costs
- New higher capitalisation requirements- competition
- Profit targets increased



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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

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