

# Results Presentation

## Q1 2020

SBAB Bank AB (publ)  
Jan-Mar 2020

**SBAB!**

# Executive summary



- Market turbulence and increased uncertainty about economic development following the COVID-19 outbreak
- Underlying financial development and lending growth continued to be healthy in Q1 2020
- Limited Covid-19 effects on SBAB (increased IFRS9 provisions and lower net result of financial transactions (CVA/DVA))
- Strong balance sheet and high quality assets (>98% collateralized lending). Gross loans in Stage 3 amounted to 0.08% of total lending in Q1 2020
- 100% retained earnings in 2019 has further strengthened capitalisation and ability to grow lending
- SBAB's intends to continue to take responsibility for a well-functioning housing credit market in Sweden and stands ready to support customers

Total lending, SEK bn

389

Total deposits, SEK bn

129

**SBAB!**

**booli!**

En tjänst från SBAB

**hittamäklare!**

En tjänst från SBAB

9.2%

Return on equity

12.7%

CET1 capital ratio

0.03%

Credit loss level

37.7%

C/I ratio



# Vision



To offer the best residential mortgages in Sweden

# Mission



To contribute to better housing and household finances





## Sweden's most satisfied customers

**SBAB has Sweden's most satisfied** residential mortgage customers according to Swedish Quality Index (Svenskt Kvalitetsindex, SKI), which each year measures customer satisfaction in the banking and finance sector. With a customer satisfaction score of 76.3 out of 100, SBAB ranks well above the sector average of 69.3. For the second consecutive year, SBAB also has Sweden's most satisfied customers in terms of property loans to corporates and tenant-owners' associations.



# Table of contents

<b>Chapter 1</b>	Summary of Q1
<b>Chapter 2</b>	Regarding the COVID-19 outbreak
<i>Chapter 2.1</i>	<i>Impact on SBAB</i>
<i>Chapter 2.2</i>	<i>Swedish economy &amp; housing market</i>
<b>Chapter 3</b>	Appendix



# Summary of Q1

# Financial highlights

	Q1 2020	Q4 2019	QoQ ▲		Comment	
1	Net interest income	885	877	+0.9%	→	Primary source of income. Development driven by larger lending volumes. Some margin pressure expected ahead
2	Net result fin. transactions	-55	-6	-49 mn	→	Increased counterparty risks in SBAB's derivative exposures (CVA/DVA)
3	Costs	-311	-327	-4.6%	→	Continued investments for future competitiveness according to plan (mainly IT, digitalisation & customer offering/experience/service)
4	Credit losses	-27	-10	+17 mn	→	Very low credit losses over time as expected with SBAB's concentration on mortgages. Increased provisions in Q1 2020 (SEK 19 mn) as a result of the covid-19 outbreak
5	Operating profit	485	540	-10.2%	→	Decreased op. profit in Q1 due to increased provisions, lower net result from financial transactions & lower net commission. Underlying profit generation healthy
6	ROE	9.2%	10.5%	-1.3 pp	→	Risk/return trade off – competitive profitability and returns given SBAB's low risk business. Well above target (>10%) last 5 years. Some pressure in Q1 2020 due to lower operating profit
7	C/I ratio	37.7%	37.2%	+0.5 pp	→	Competitive cost efficiency. Continued investments according to plan
8	CET1 capital ratio	12.7%	13.1%	-0.4 pp	→	Comfortable margin to external and internal requirements. Retained earnings in 2019 has strengthened capitalisation. Increased REA in Q1 2020

# Overview of Q1 results

SEK million	Q1 2020	Q4 2019	▲	Q1 2020	Q1 2019	▲
Lending (SEK bn)	389,3	383,8	+1.4%	389,3	366,3	+6,3%
Deposits (SEK bn)	128,7	130,5	-1.4%	128,7	126,1	+2.0%
Net interest income	885	877	+0.9%	885	883	+0.2%
Net commission	-18	-2	-16 mn	-18	-12	-6 mn
Net result financial transact.	-55	-6	-49 mn	-55	13	-68 mn
Costs	-311	-327	-4.6%	-311	-292	+6.5%
Loan losses	-27	-10	+17 mn	-27	-9	+18 mn
Operating profit	485	540	-10.2%	485	590	-17.8%
C/I ratio, %	37.7%	37.2%	+0.5 pp	37.7%	32.8	+4.9 pp
C/L ratio, %	0.32%	0.34%	-0.02 pp	0.32%	0.32%	0.0 pp
RoE, %	9.2%	10.5%	-1.3 pp	9.2%	12.5	-3.3 pp
Loan loss ratio, %	0.03%	0.01%	+0.02 pp	0.03%	0.01%	+0.02 pp
CET1 capital ratio, %	12.7%	13.1%	-0.4 pp	12.7%	12.4%	+0.3 pp









# Customer experience & ecosystem

- Residential mortgages & housing financing main focus and primary source of income
- Strategy to strengthen customer relationship/loyalty by adding valuable services throughout the housing journey
- New brand profile launched in Q1 2020 in order to achieve a more unified and improved customer experience



## Ecosystem of services relating to housing and household finances

Housing phase	Service	Brand
Dream & search	<ul style="list-style-type: none"> <li>• Housing adds</li> <li>• Housing market information</li> <li>• Savings account</li> </ul>	 
Buy	<ul style="list-style-type: none"> <li>• Residential mortgages &amp; housing financing</li> <li>• Home insurance (through partner)</li> <li>• Life insurance (through partner)</li> <li>• Legal advice (through partner)</li> </ul>	
Live	<ul style="list-style-type: none"> <li>• Refinancing</li> <li>• Consumer loans</li> </ul>	
Sell	<ul style="list-style-type: none"> <li>• Real estate broker recommendations</li> <li>• Housing valuation</li> <li>• Housing adds</li> <li>• Tax declaration advice (through partner)</li> </ul>	 





# INSIGHT: Attractive workplace



- 4<sup>th</sup> place in Great Place to Work's list of Sweden's best workplaces both 2019 & 2020 (larger companies)
- 20<sup>th</sup> place in Great Place to Work's list of Europe's best workplaces 2019 (larger companies)

## One of Sweden's best workplaces

Percentage of employees who consider SBAB, all in all, a very good workplace:

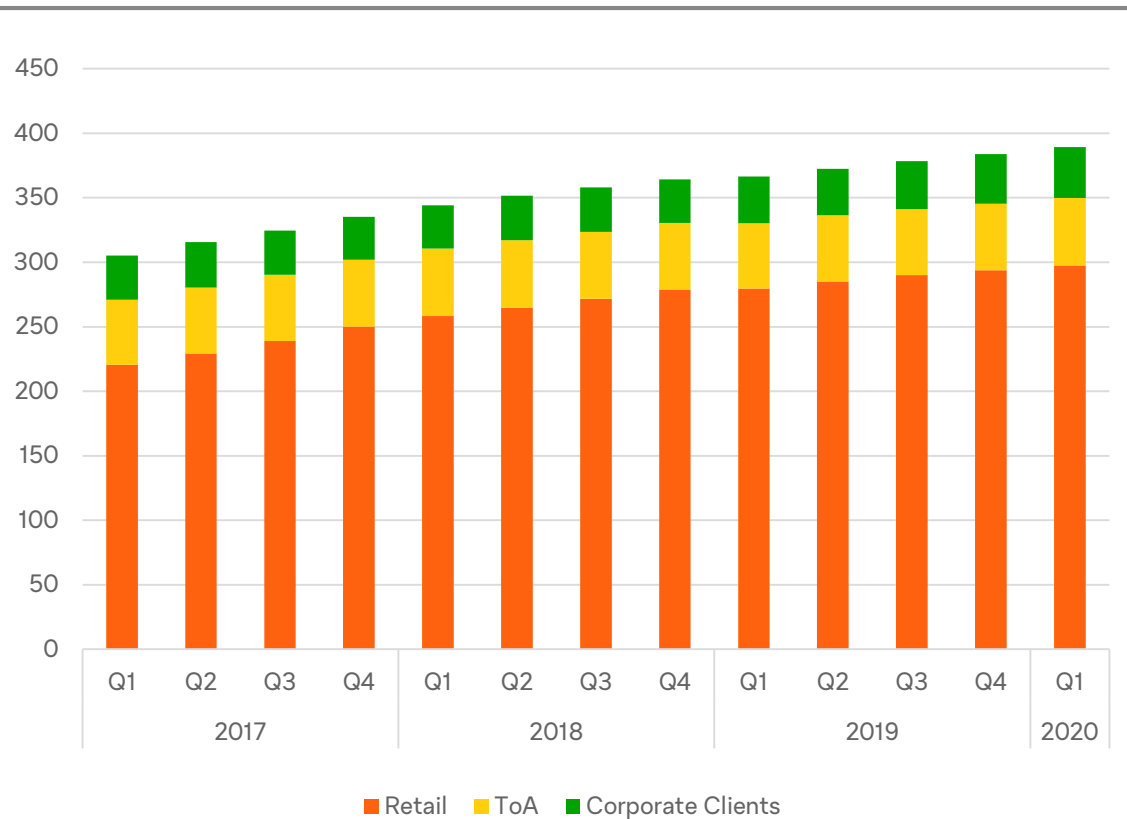
**93%**

SBAB rewarded for its work with respect and equality

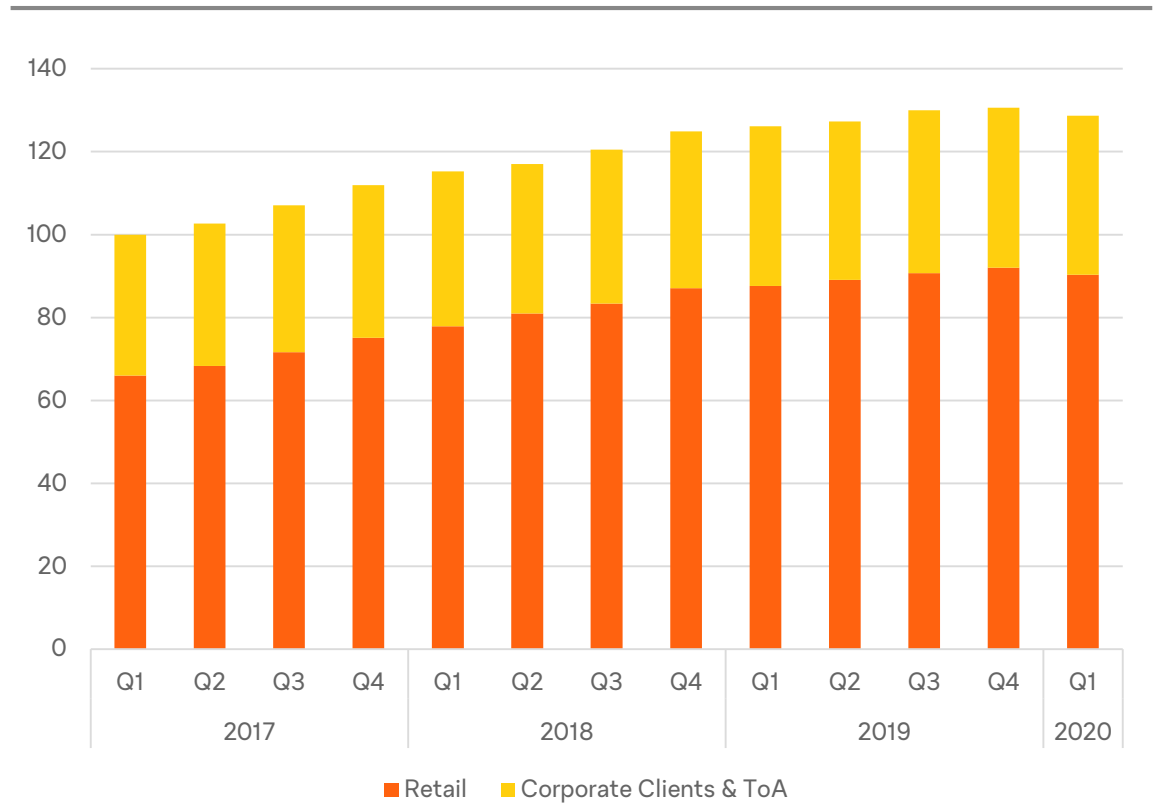


# Lending & deposits development

Lending (SEK bn)

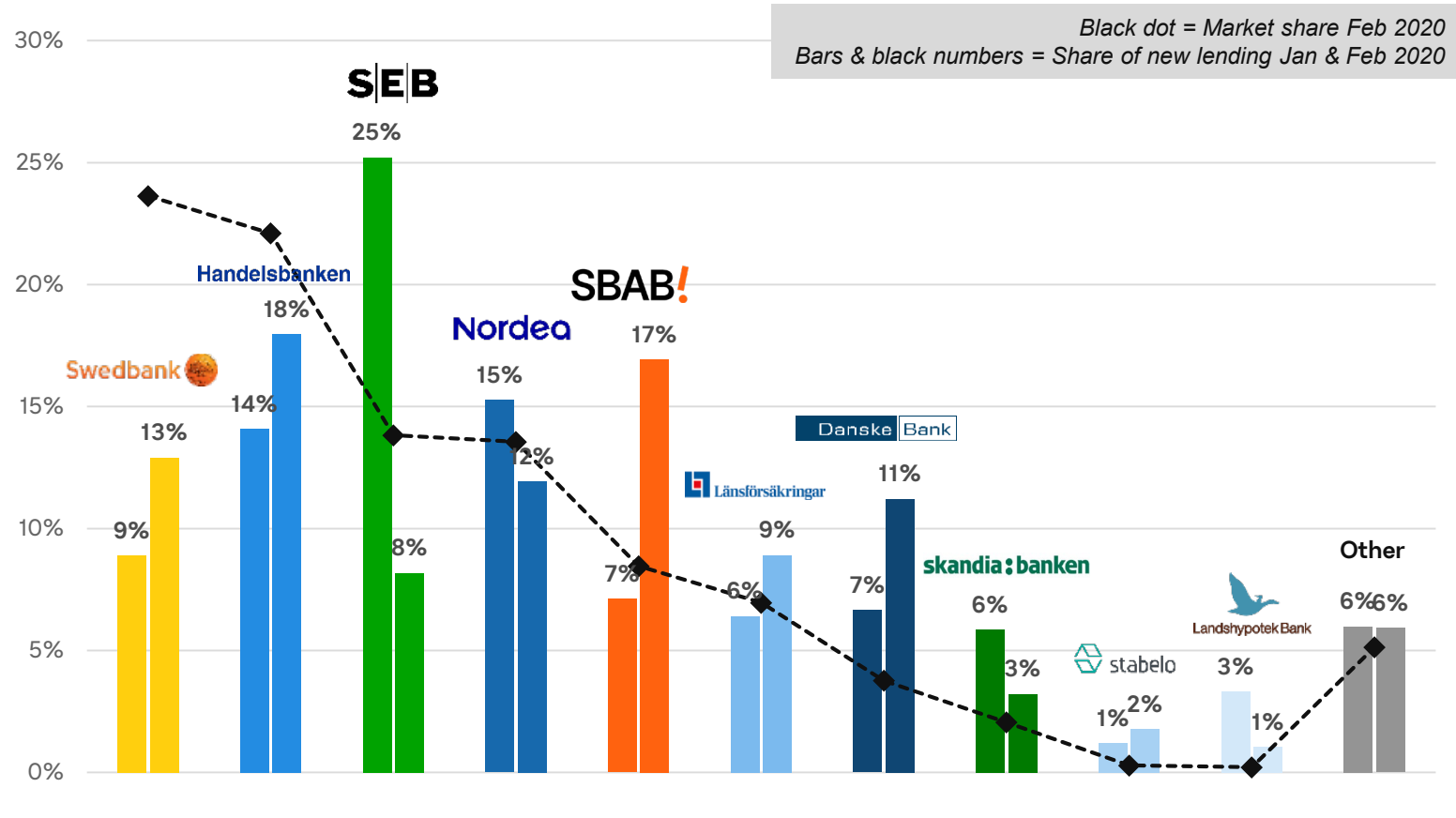


Deposits (SEK bn)



# Residential mortgage market 2020

## Shares of net growth in the Swedish residential mortgage market Jan-Feb 2020

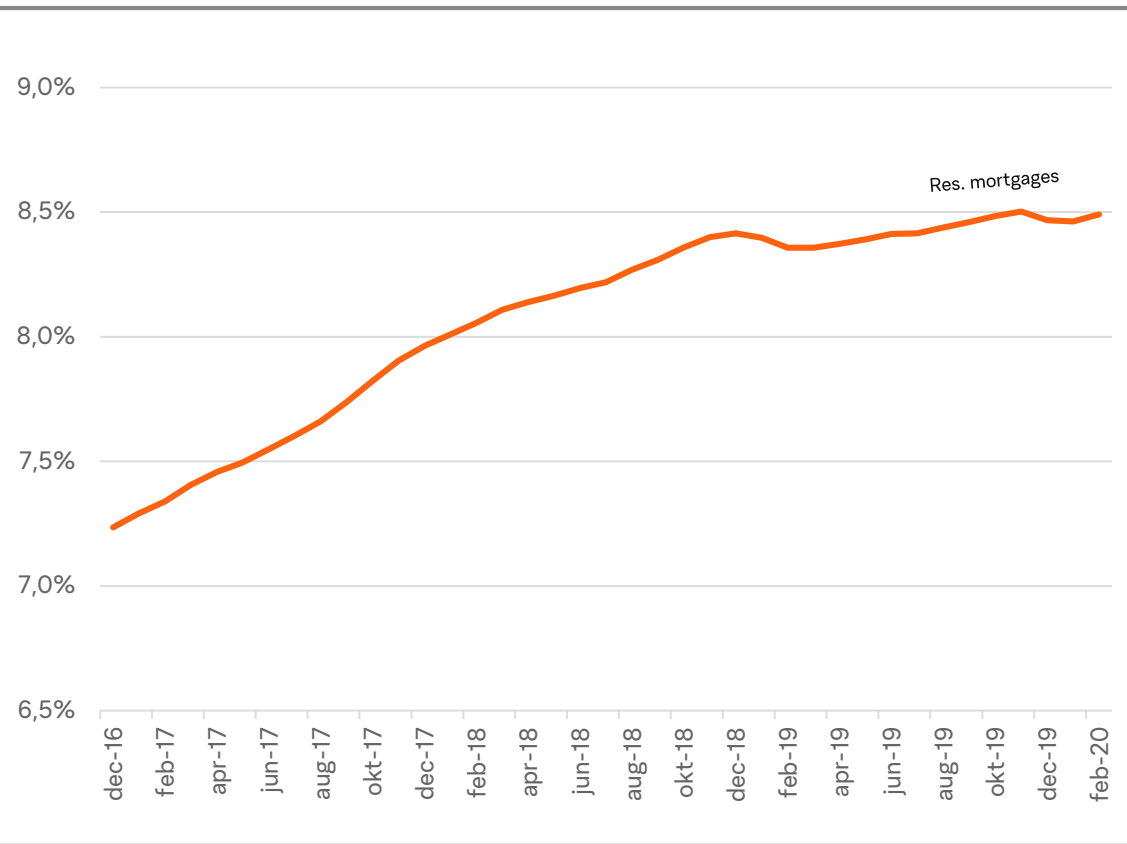


## Comments

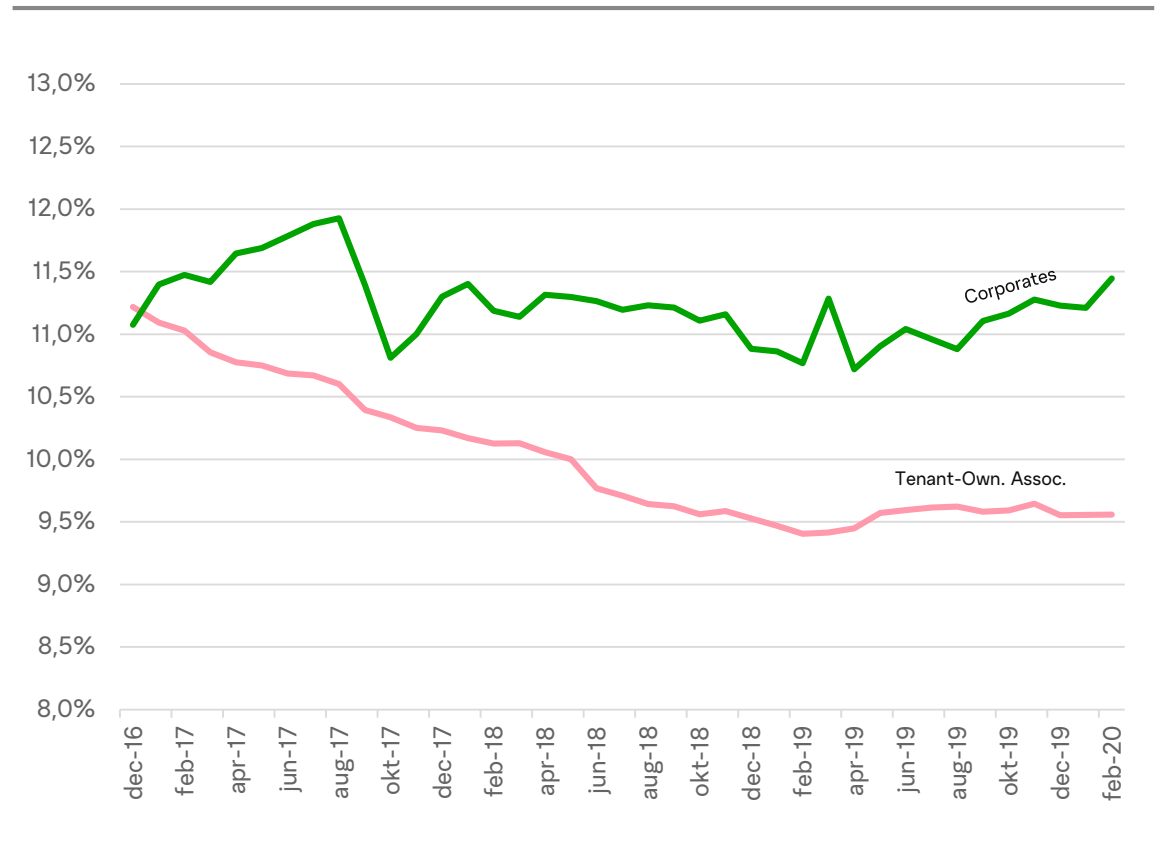
- Increased competition in the Swedish residential mortgage market
- Many established players are working intensively to retain and defend their positions, and several new competitors have emerged as serious contenders for the residential mortgage customers
- Market growth has slowed down. Currently at 5.1% YoY (Feb 2019). Expected to slow down to 4.7% for FY 2020 and remain at the same rate in 2021
- Price important, but not the whole story

# Market share development

Market share, Residential mortgages (Feb 2020)



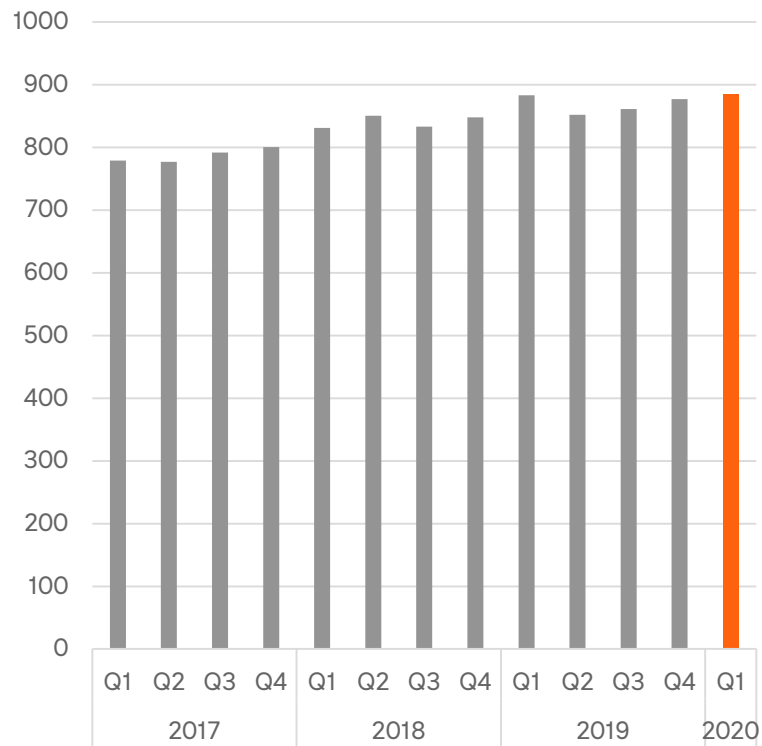
Market shares, Corporate clients & ToA (Feb 2020)



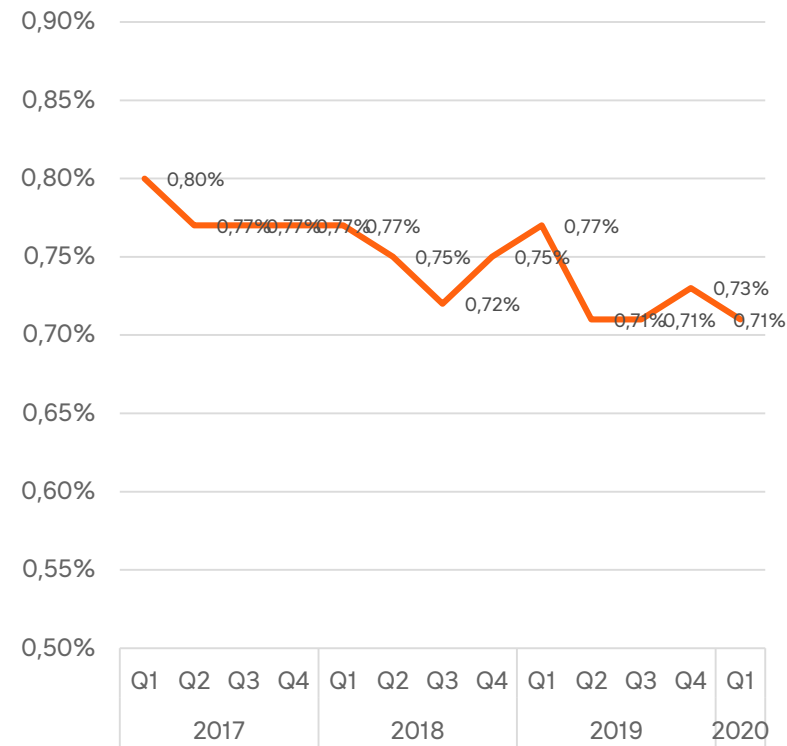
# NII development

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

Net interest income QoQ (%)



Net interest margin QoQ (%)



Comments

- Highest NII to date. NII increased 0.9% to SEK 885 million (877) over the quarter, mainly due to higher lending volumes, lower interest expense linked to deposits and lower guarantee fees
- Increased competition in the retail mortgage market. Lending margins expected to come down slightly during 2020
- Stable lending margins expected for corporate lending and lending to tenant-owners’ associations

NIM calculated as net interest income in relation to total assets



# Cost management

– Increased investments for future competitiveness

Cost development QoQ (SEK mn)



## Comments

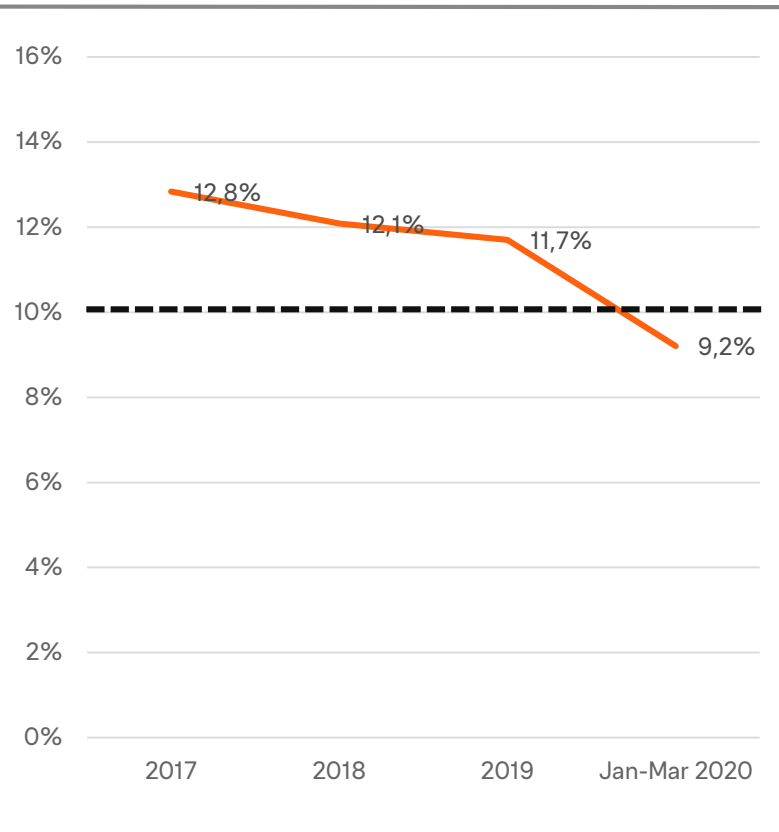
- Increased investments for future competitiveness:
  - Customer offering (incl. customer service & customer experience)
  - Digitalisation
  - Replacement of IT-infrastructure (core banking platform)
  - Increased compliance & regulatory requirements



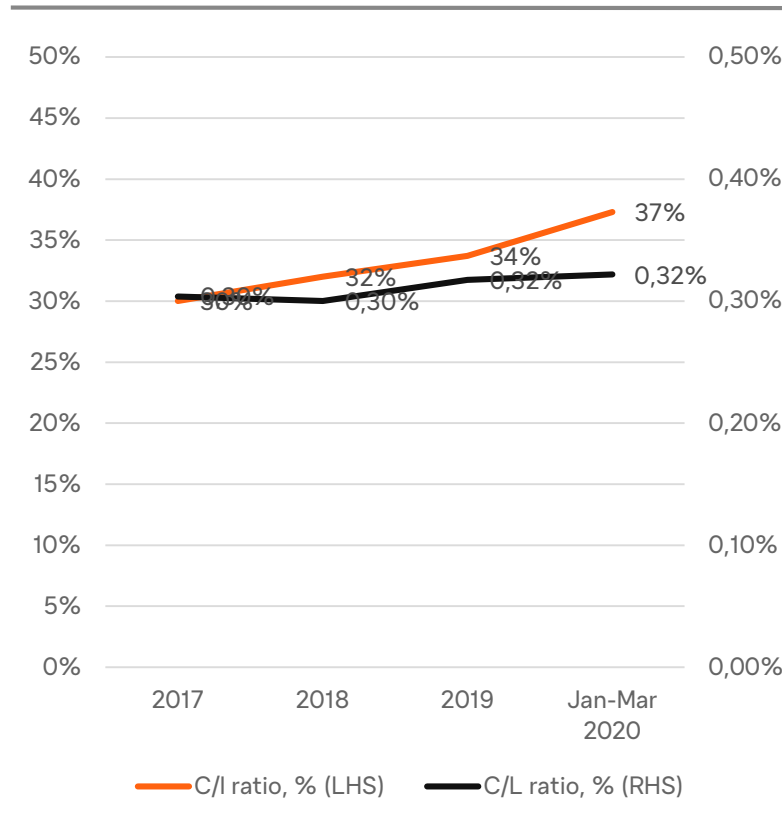
# Financial KPIs

- Continued high cost efficiency & competitive returns given SBAB's low risk business

Return on equity, %



C/I ratio & C/L ratio, %



Comments

- Pressure on ROE in Q1 2020 as a result of declining operating profit (due to CVA/DVA effects, increased loan loss provisions & lower net commission). Increased CET1 due to 100% retained earnings 2019 has also impacted RoE (-0.4% in Q1 2020)
- Highly competitive cost efficiency, although increased investments (according to plan) has impacted C/I ratio



# Decision on dividend for 2019

– SBAB's Board of Directors does not propose a dividend for 2019

- In the Year-end Report 2019, published on February 14, 2020, SBAB communicated that the Board of Directors proposed a dividend for 2019 of 40% of net profit, corresponding to SEK 715 million
- At an Extraordinary Board Meeting held on March 17, 2020, the Board of Directors resolved to not propose a dividend for the financial year 2019
- The ongoing development regarding the Corona virus has so far had a negative impact on the economic development. SBAB's intends to continue to take responsibility for a well-functioning housing credit market in Sweden. To achieve this and to ensure continued growth in credits provided to its customers, SBAB intends to strengthen its capitalisation by retaining the entirety of the 2019 earnings
- Effect on return on equity (-0.4% in Q1 2020) and on CET1 capital ratio (+0.6% in Q4 2019)





# Regarding the COVID-19 outbreak

Chapter 2.1

# Impact on SBAB



# Impact on SBAB

– SBAB in a strong position & ready to support customers

- SBAB is a mortgage bank that provides loans and savings services to private individuals, corporate clients (property companies & property developers) and tenant-owner associations in Sweden. As such, we have no exposure to affected sectors and very limited exposure to unsecured corporate lending
- SBAB has a very strong balance sheet and high quality assets (>98% collateralized lending)
- Underlying financial development and lending growth continued to be healthy in Q1 2020. No visible Covid-19 effects except for SEK 19 million in IFRS9 provisions and some negative effects on trading result
- 100% retained earnings in 2019 has further strengthened capitalisation and ability to grow lending
- SBAB's intends to continue to take responsibility for a well-functioning housing credit market in Sweden and stands ready to support our customers



## A truly sustainable strategy

**At SBAB, we do not distinguish between business objectives and sustainability objectives.** We have established three overall (commercial & sustainable) target areas for our operations: Responsibility & transparency, Attractive workplace & Sound finances. Together, they form the basis of a common approach to SBAB's contribution to sustainable societal development.

# Effects of COVID-19

1	Operations	→	<ul style="list-style-type: none"><li>• SBAB has strengthened technical preconditions for remote working</li><li>• Employees who can work from home are doing so</li><li>• Zone system at the office for staff/functions who are unable to work remotely</li><li>• Additional office in the Karlstad area staffed and operational</li></ul>
2	Growth	→	<ul style="list-style-type: none"><li>• SBAB's aim is still to gain market shares in the coming years. The prevailing situation, slowdown in credit growth &amp; continued high level of competition constitutes challenges</li><li>• Good prerequisites for continued growth in the corporate lending segment</li></ul>
3	Income & margins	→	<ul style="list-style-type: none"><li>• Strong net interest income in Q1 2020. Retail margins expected to come down slightly during the remainder of the year. Stable margins expected for corporate lending</li><li>• CVA/DVA effect of SEK -55 million in Q1 2020</li></ul>
4	Expenses	→	<ul style="list-style-type: none"><li>• Continued investments according to plan. Some initiatives delayed and/or postponed</li></ul>
5	Credit losses	→	<ul style="list-style-type: none"><li>• Revised forward-looking information applied in the impairment model resulting in an effect of SEK 19 million in increased loan loss provisions in Q1 2020. Additional provisions might arise during the coming quarters subject to economic development</li></ul>
6	Funding & liquidity	→	<ul style="list-style-type: none"><li>• High funding activity in Q1 – launch of new SEK benchmark 5Y &amp; 10Y</li><li>• Some deposit outflow during the quarter</li><li>• Strong liquidity position</li></ul>
7	Capital	→	<ul style="list-style-type: none"><li>• Well above capital targets. Reduced CCB requirement from 2.5% to 0% has increased SBAB's margins to capital requirements</li><li>• 100% retained earnings positive impact on CET1 ratio at year-end 2019 (+0.6%)</li></ul>

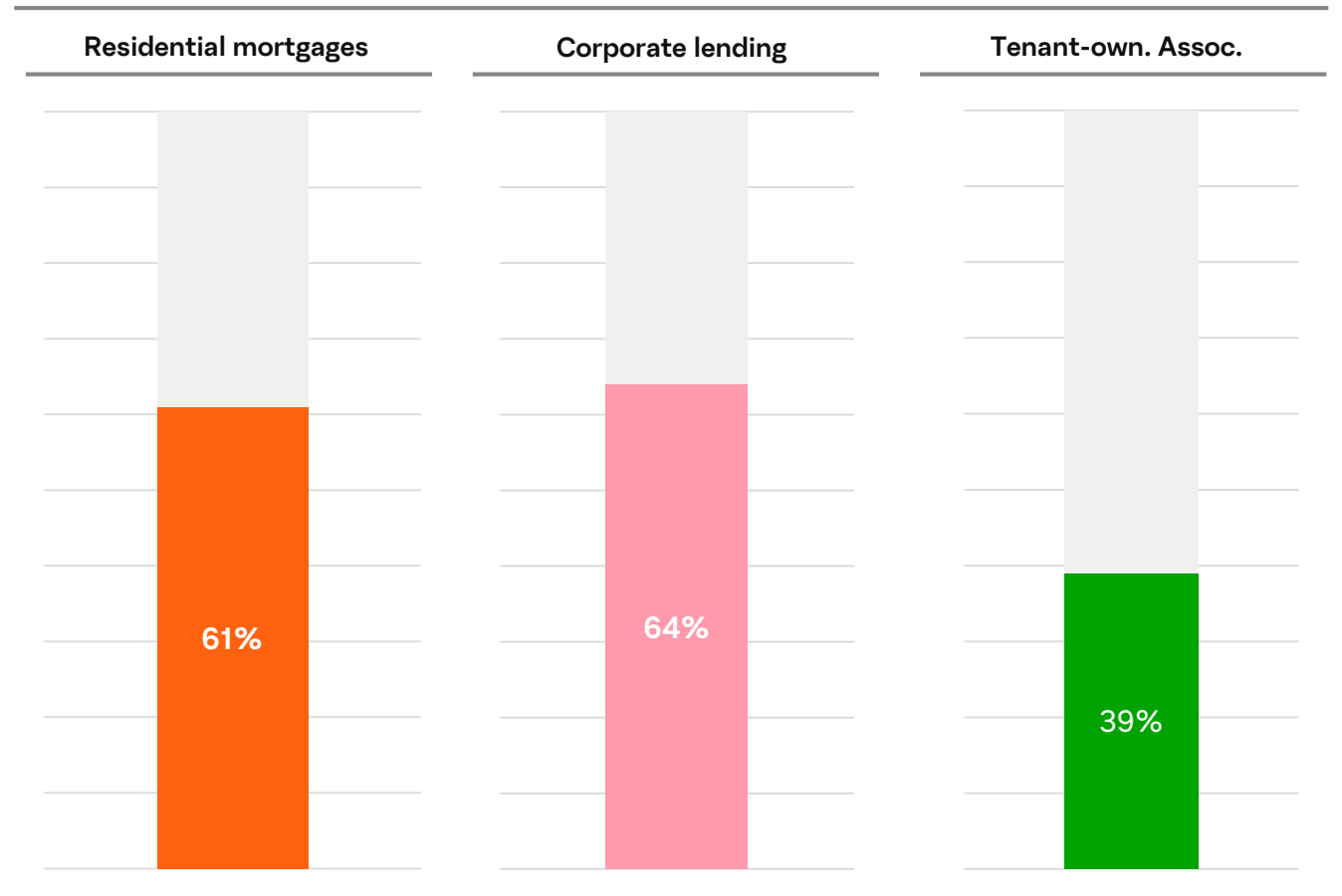


# Lending mix

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	SEK bn	%
Residential mortgages	295.3	75.9%
Consumer loans	2.3	0.6%
Corporate lending	39.5	10.1%
- Of which, commercial lending	2.5	0.7%
- Of which, disbursed construction loans	8.4	2.1%
Tenant-owners' associations	52.2	13.4%
<b>Total lending</b>	<b>389.3</b>	

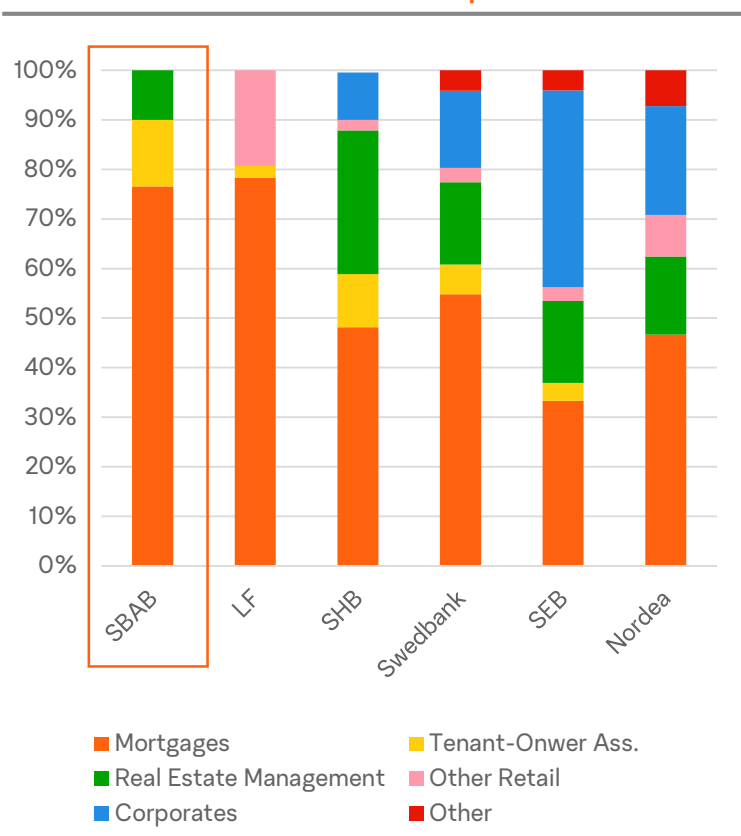
## LTV ratios in loan book



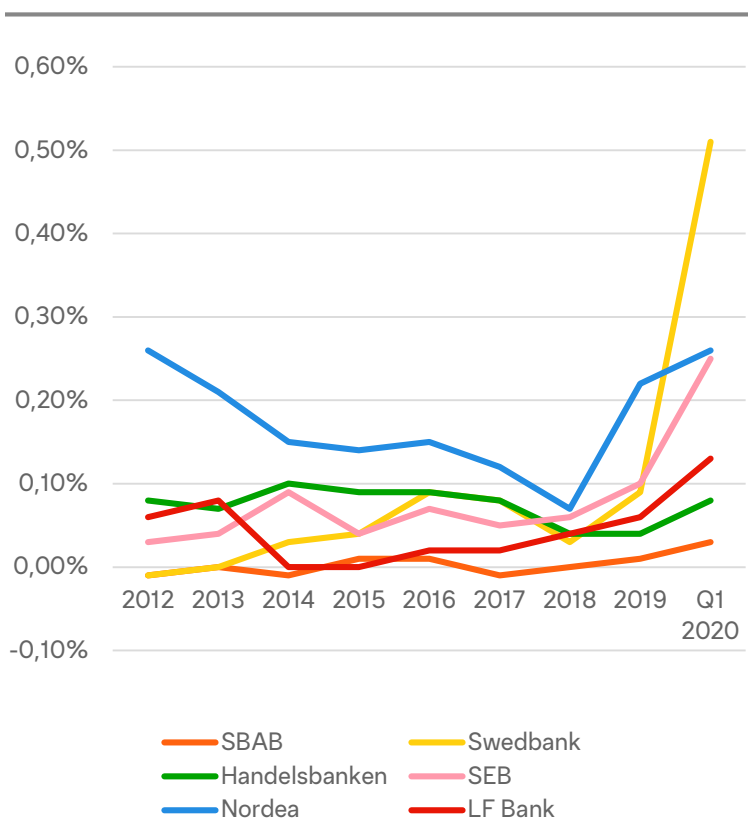
# Swedish mortgages – a low risk business

– High concentration on Swedish residential mortgages – very low loan losses/problem loans over time

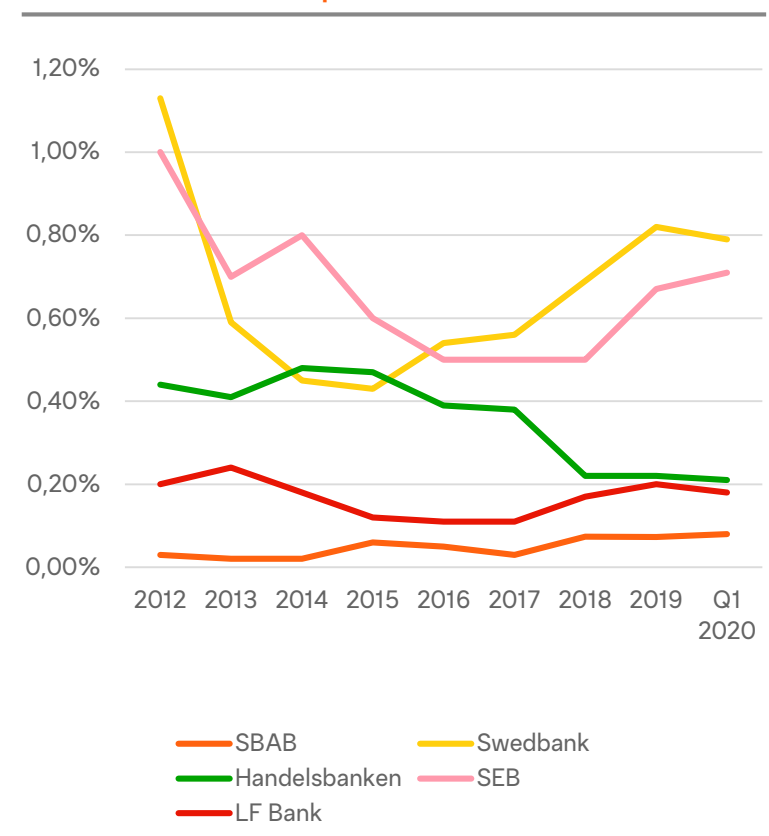
### Loan Portfolio Split



### Credit losses



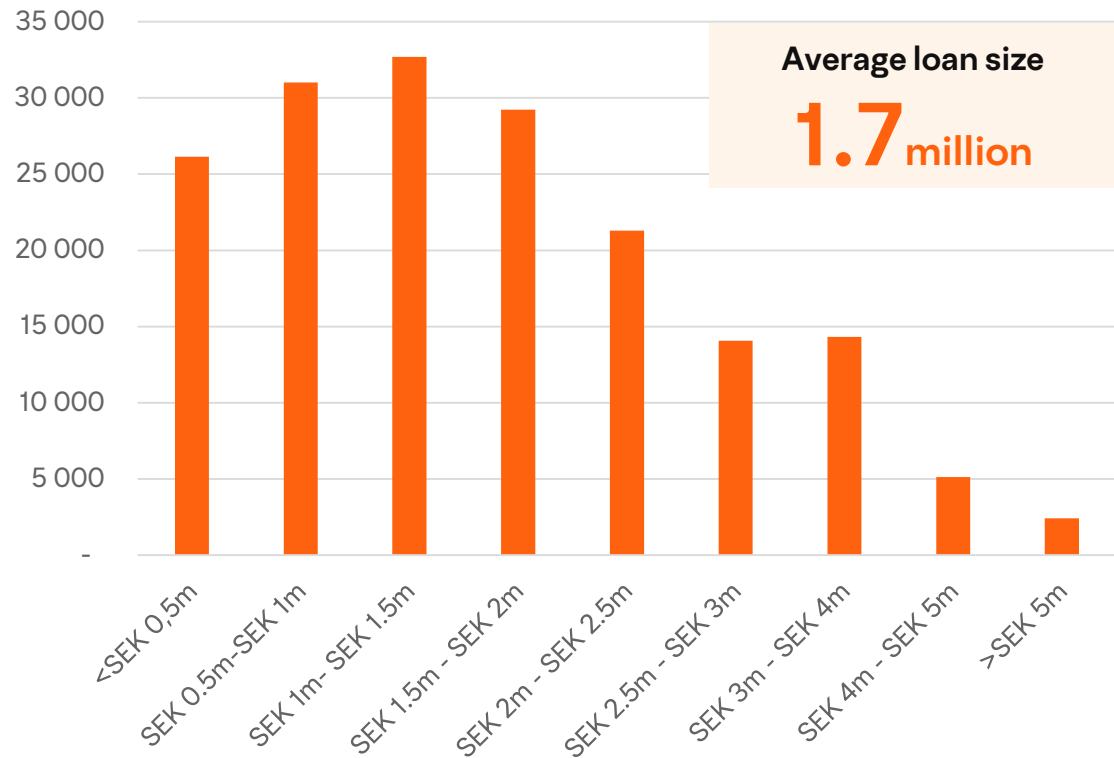
### Impaired loans



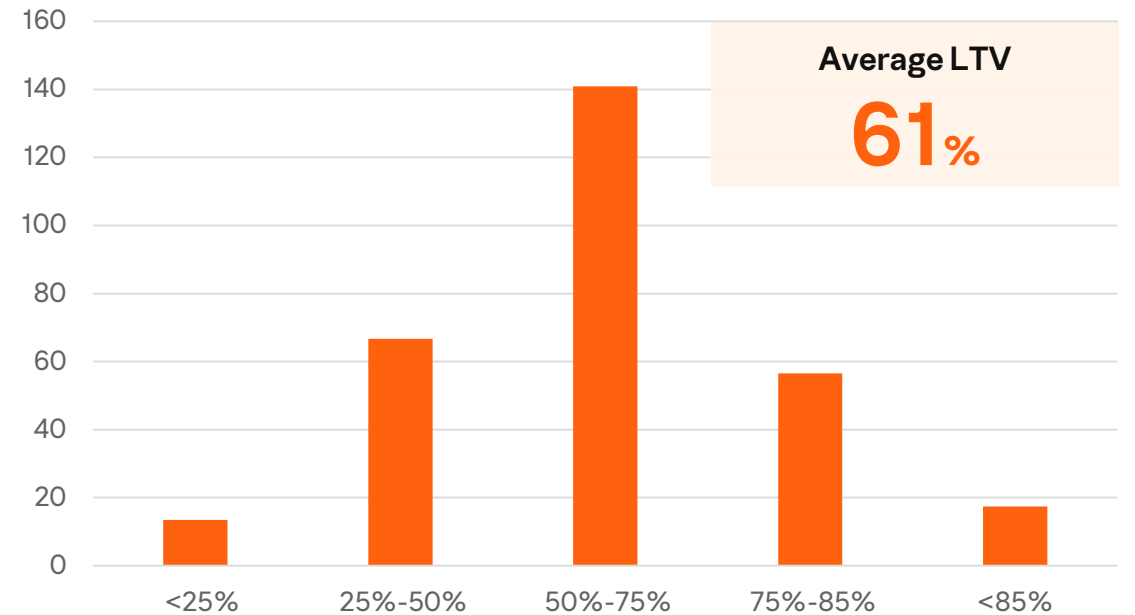
# Granular & diversified portfolio

- Lending book spread over a large number of customers with relatively small exposures

Loan size distribution in mortgage book, Q1 2020 (no. of households)



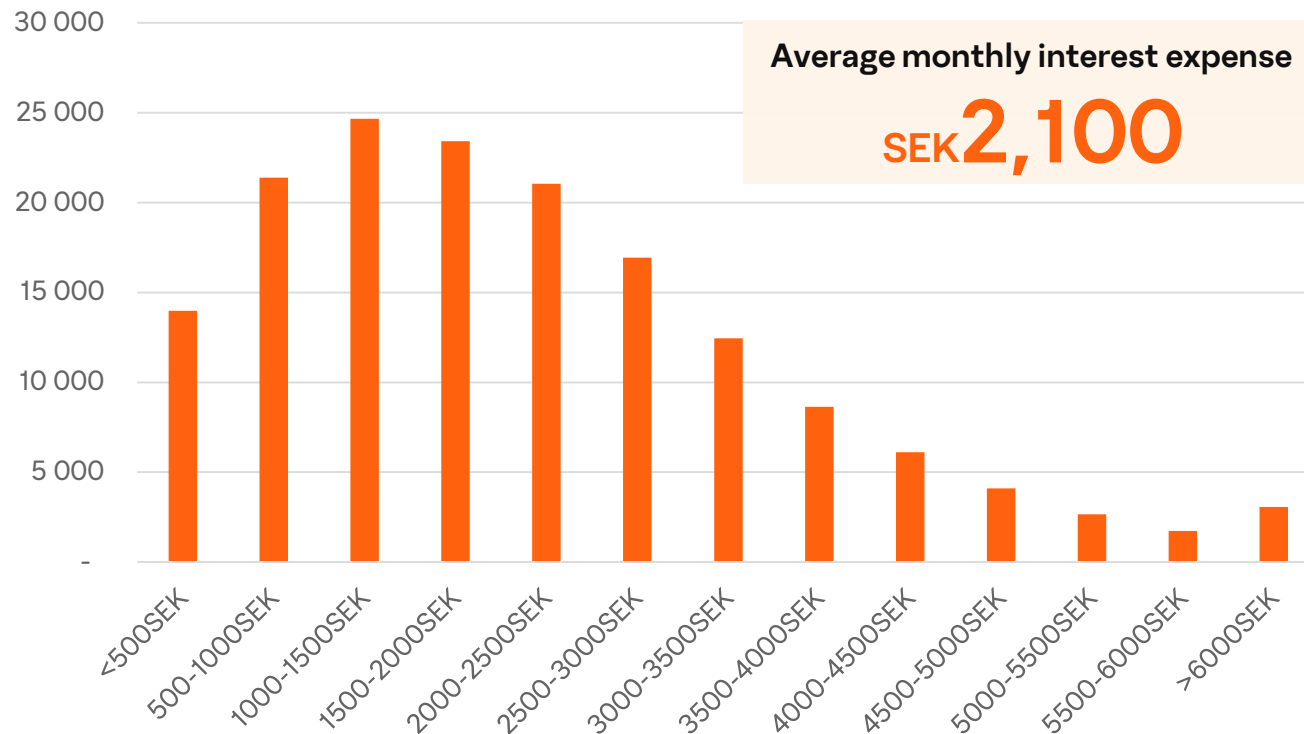
LTV split in mortgage book, Q1 2020 (SEK billion)



# Interest expenses at low levels (1/2)

– Households' interest expenses (in relation to income) at very low levels from a historical perspective

Monthly interest expenses, March 2020 (no. of households)



Comments

- SBAB's average residential mortgage customer has a mortgage of SEK 1.7 million and pays an average of SEK 2,100 per month in interest before tax (excluding amortisation)
- Households' interest expenses for mortgages have not been this low for more than half a century

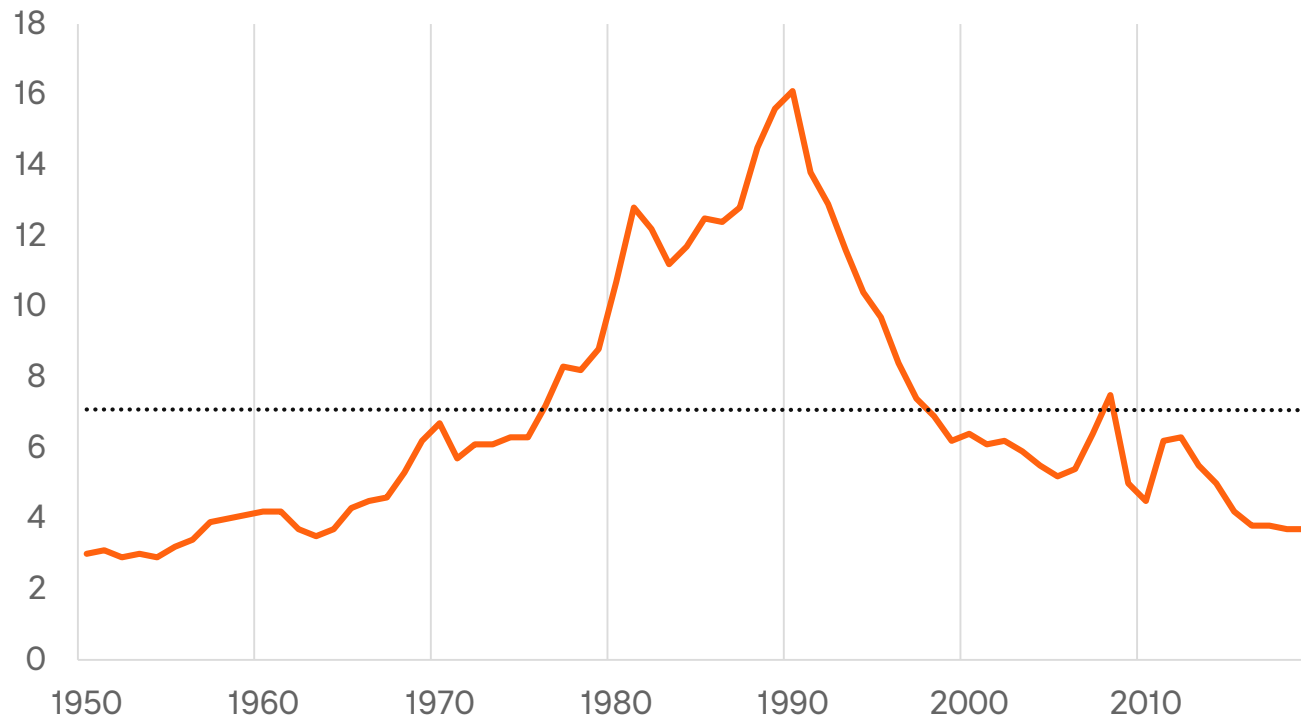




# Interest expenses at low levels (2/2)

– Households' interest expenses (in relation to income) at very low levels from a historical perspective

Interest expenditure (% of disposable income)



Comments

- High debt-to-income ratio but low interest costs
- Interest expenses in relation to disposable income (interest ratio) at a very low level from a historical perspective
- The interest ratio is expected to increase somewhat in coming years (the effect will be amplified in the short run by extensive use of floating rate mortgages)

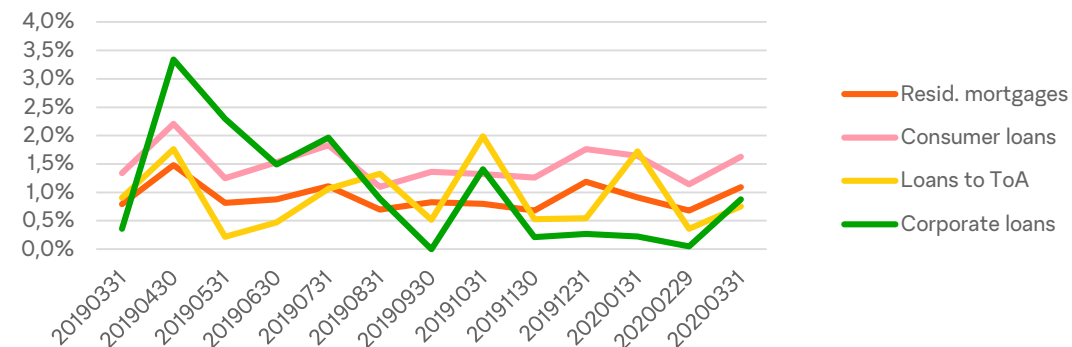


# No increased realised credit risk

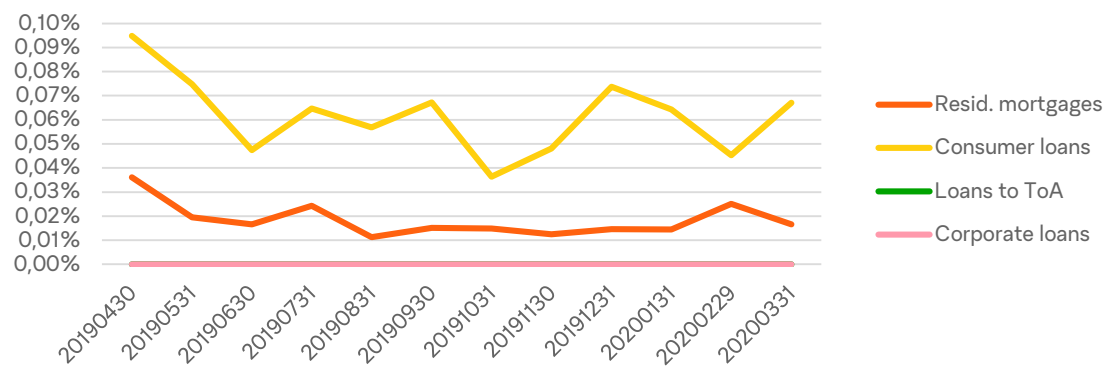
## Comments

- Residential mortgages and consumer loans both show stable levels for reminders and requests for payment. The statistics for loans to corporates and tenant-owners' associations (ToA) are, by their nature, more volatile over time, as individual customers often account for a much larger share of total lending in these segments
- The graph for defaults shows customers in default per month. For both residential mortgages and consumer loans, the proportion of defaulted loans is at a consistent and low level. No defaults has occurred for corporates or ToA during the period

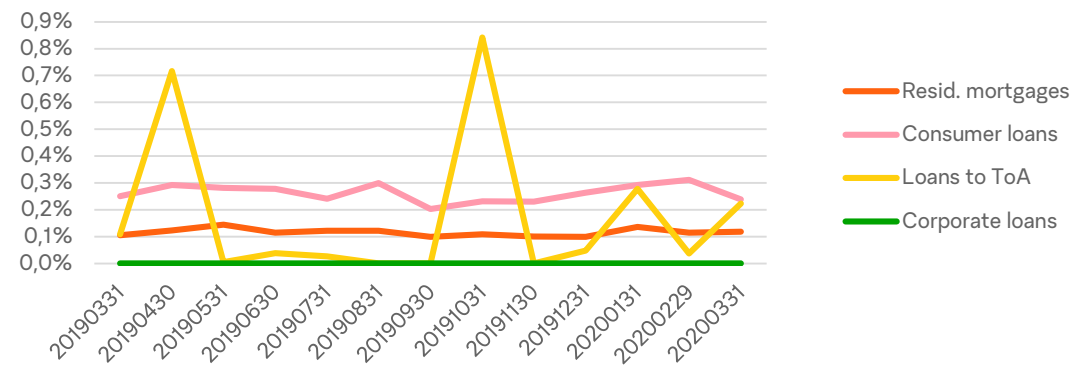
## Reminders



## Defaults

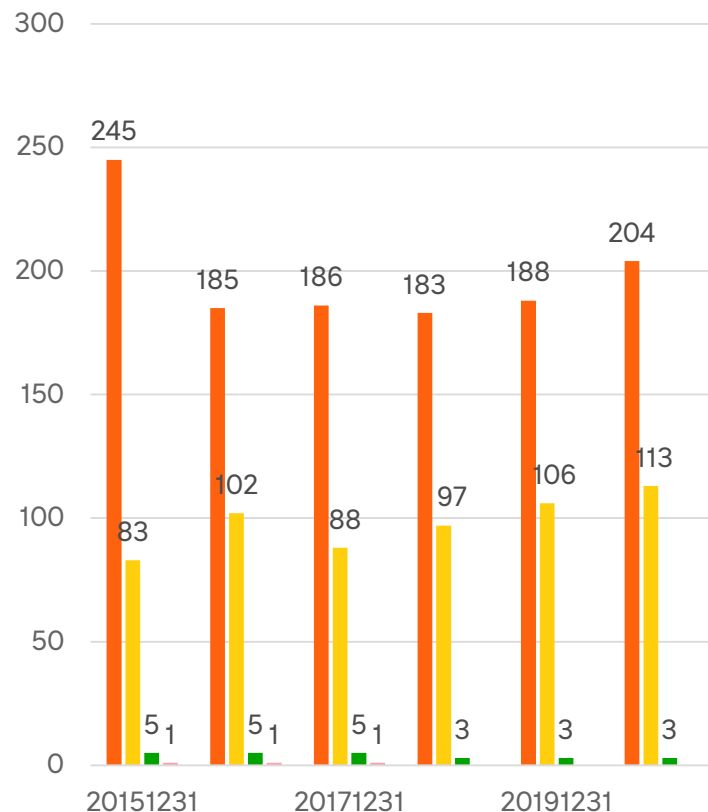


## Requests for payment

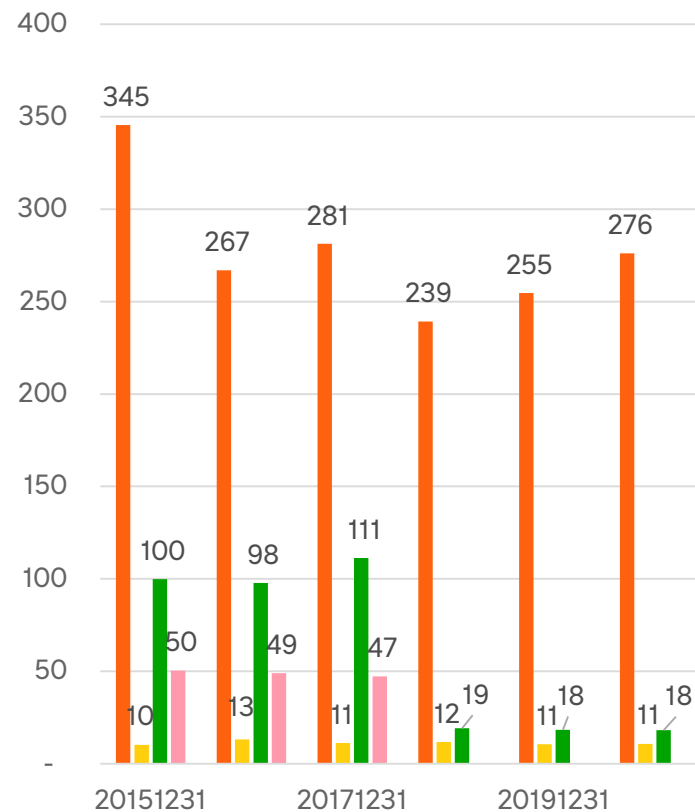


# Default levels

No. customers in default



Defaulted exposures (SEK million)



Comments

- The number of customers in default with regards to residential mortgages and consumer loans has remained relatively stable over time, despite an increasing lending portfolio. Only a handful of customers in the Corporate Clients & Tenant-Owners' Associations business area have defaulted since 2015
- Overall, lending classified as defaulted has declined over time, which is mainly driven by a smaller proportion of defaulted customers within the Corporate Clients & Tenant-Owners' Associations business area

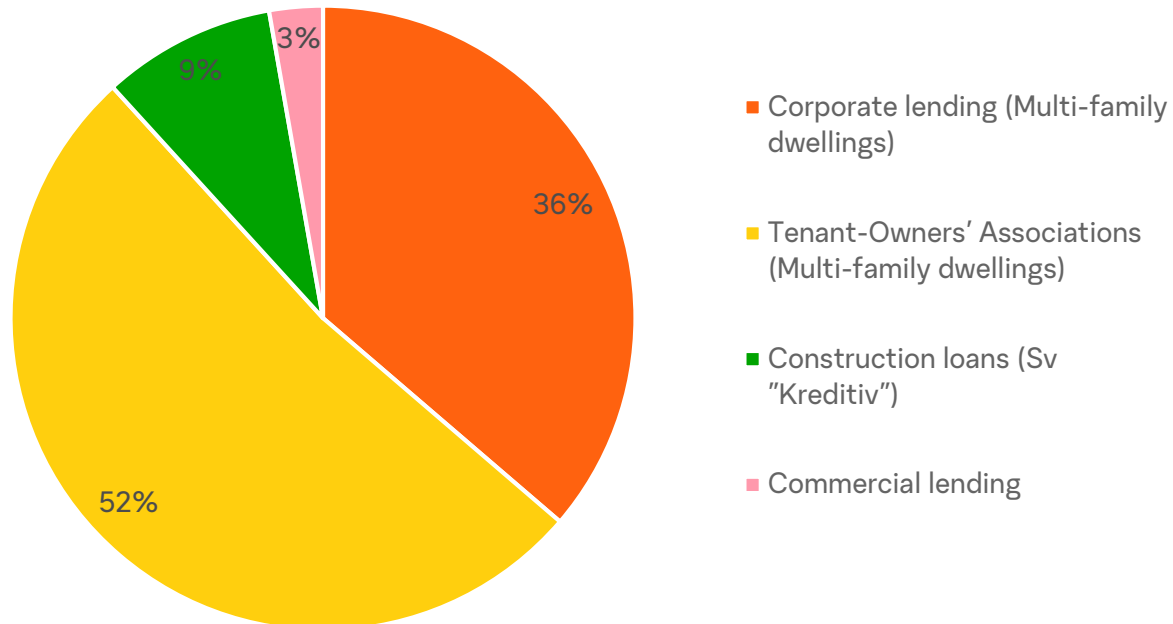
- Residential mortgages
- Consumer loans
- Loans to ToA
- Loans to corporates



# Overview of corporate lending

## Lending split Corporate Clients & Tenant-Owners' Associations

Total lending: SEK 91.7 billion



## Comments

- Focus on large and experienced property developers with strong balance sheet
- Construction loans (Sw "*kreditiv*") capped at 6% of total lending (see next page)
- SBAB's exposure to pure commercial properties is limited. Commercial lending capped at 3% of total lending (currently 0.7%). Our primary focus is on financing multi-family dwellings



# Construction loans

– Focus on major residential developers and existing relationships with solid track records

## Comments

- Focus on major residential developers and existing relationships with solid track records
- 80 outstanding construction loans (number of properties) totalling SEK 13.9 billion (of which 60% disbursed). Construction loans capped at 6% of total lending
- More prudent acceptance levels for smaller residential developers, e.g. higher levels of equity, number of sales agreements
- Most of the construction loans are to companies with diversified revenue streams (i.e. not only from real estate development, but from rental apartments, infrastructure projects and real estate management). Strong balance sheets and good levels of liquidity among SBAB:s customers with building credits

## Key metrics

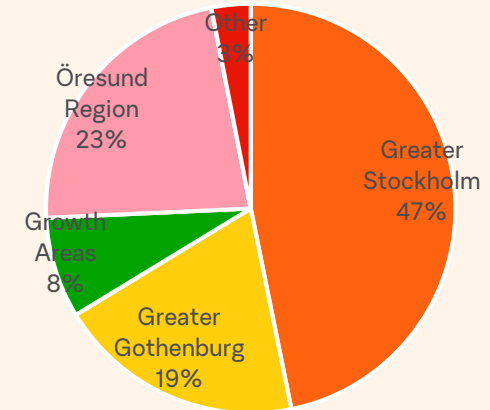
Granted credit amount

**13.9<sub>bn</sub>**

Disbursed share

**60%**

## Geographical distribution



# Provisions & impaired loans Q1 2020

## Lending to the public by credit stage

SEK million	31 Mar 2020	31 Dec 2019
<b>Credit stage 1</b>		
Gross lending	368,870	362,317
Provision	-41	-29
<b>Total</b>	<b>368,829</b>	<b>362,288</b>
<b>Credit stage 2</b>		
Gross lending	20,294	21,341
Provision	-77	-74
<b>Total</b>	<b>20,217</b>	<b>21,267</b>
<b>Credit stage 3</b>		
Gross lending	303	281
Provision	-30	-29
<b>Total</b>	<b>273</b>	<b>251</b>
<b>Total gross lending</b>	<b>389,467</b>	<b>383,939</b>
<b>Total provisions</b>	<b>-148</b>	<b>-132</b>
<b>Total</b>	<b>389,319</b>	<b>383,807</b>

## Net credit losses

SEK million	Q1 2020	Jan-Dec 2019
<b>Lending to the public</b>		
Confirmed credit losses	-2	-14
Recoveries of previously confirmed credit losses	0	3
Change in provision for the period – credit stage 1	-12	-3
Change in provision for the period – credit stage 2	-3	-1
Change in provision for the period – credit stage 3	-1	3
Guarantees	1	-8
<b>Net credit losses for the period – lending to the public</b>	<b>-17</b>	<b>-20</b>
<b>Loan commitments</b>		
Change in provision for the period – credit stage 1	-7	3
Change in provision for the period – credit stage 2	-3	-9
Change in provision for the period – credit stage 3	0	0
<b>Net credit losses for the period – loan commitment</b>	<b>-10</b>	<b>-6</b>
<b>Total</b>	<b>-27</b>	<b>-26</b>

Of which residential mortgages: SEK 1 million

Of which residential mortgages: SEK 5 million

Revision of the macroeconomic projections applied in the impairment model as a result of the COVID-19 outbreak (total increase in provisions of SEK 19 million)



# SBAB's responsibility

- SBAB has a responsibility towards customers and the society in general for a well-functioning housing credit market in Sweden
- SBAB's ambition is to assist, as far as possible, all customers who are somehow affected by the prevailing situation in the market linked to the corona virus
- SBAB offers customers (private individuals as well as tenant-owners' associations) the possibility to apply for reduced or suspended amortisation payments in line with decision from S-FSA



**STOCKHOLMS  
STADSMISSION**



## When society shuts down, the weakest are hit the hardest

**SBAB and Booli are currently providing extra support to organisations working for socially vulnerable groups.** The whole world is currently affected by the ongoing corona crisis. In addition to the immediate consequences of the spread of virus, we will see long-term economical effects that are difficult to overlook. When large sections of society are closed down, it affects everyone, but most affected are those who are already in vulnerable in the first place. Right now, many of the most vulnerable people in society are in dire need of help: people in homelessness, loneliness and poverty.



# Temporary amortisation relief

Easily accessible information on SBAB's platforms

Extensive Q&A relating to the COVID-19 outbreak available on SBAB's website. SBAB has also developed a service (available both on the web and in the app) that allow all customers to apply for amortisation relief.



Residential mortgage customers



Amortisation relief

12,000 objects

SEK 29.4 billion

Data as of 27 April 2020



Tenant-owners' associations



Amortisation relief

4 customers

SEK 182 million

Data as of 24 April 2020





# Funding (1/3)

– High funding activity & strong position

## Overview

- **High funding activity in first quarter with close to SEK 30 bn being raised**
  - Utilized the domestic SEK covered bond market with for example introduction of two new benchmarks
  - Participated in Riksbanks facility for corporate lending not primarily for liquidity but for its favourable terms and for operational and supportive reasons
- **Strong liquidity and funding position enables customer support**
  - Healthy liquidity measures (LCR, NSFR and survival horizon)
  - Flexibility to adjust funding plan given
    - Limited maturities in 2020 and skewed towards second half
    - Extended duration of funding in recent years
    - Deposit base growth has reduced general dependence on wholesale funding
    - Comfortable OC in cover pool
- **Total long term funding forecast for 2020 around SEK 60 bn**
  - Main focus on covered bonds with smaller need in senior
  - Plan for SNP issuance postponed due to fulfillment of MREL subordination requirement
  - AT1-transaction SEK 1.5 bn called in March
  - Upcoming call dates on T2 capital transaction in June (called) and November
  - Plan nimble to development in lending book and/or deposit base as well as changes in market conditions

## Riksbank

- The Riksbank has increased its bond purchases by SEK 300 billion in 2020, including government, corporate, covered and municipal bonds
- The Riksbank lends up to SEK 500 billion to corporates through banks
- Liquidity support: Reduce the lending rate for overnight loans to banks from 0.75 to 0.20 percentage points above the repo rate. A weekly, unlimited 3m repo transactions at 0,2% rate is introduced, and rules for collaterals are relaxed
- The Riksbank enables loans in US dollars against collateral. The framework amount is USD 60 billion for the period 19 March 2020 up to and including 18 September 2020
- The repo rate remains at 0%

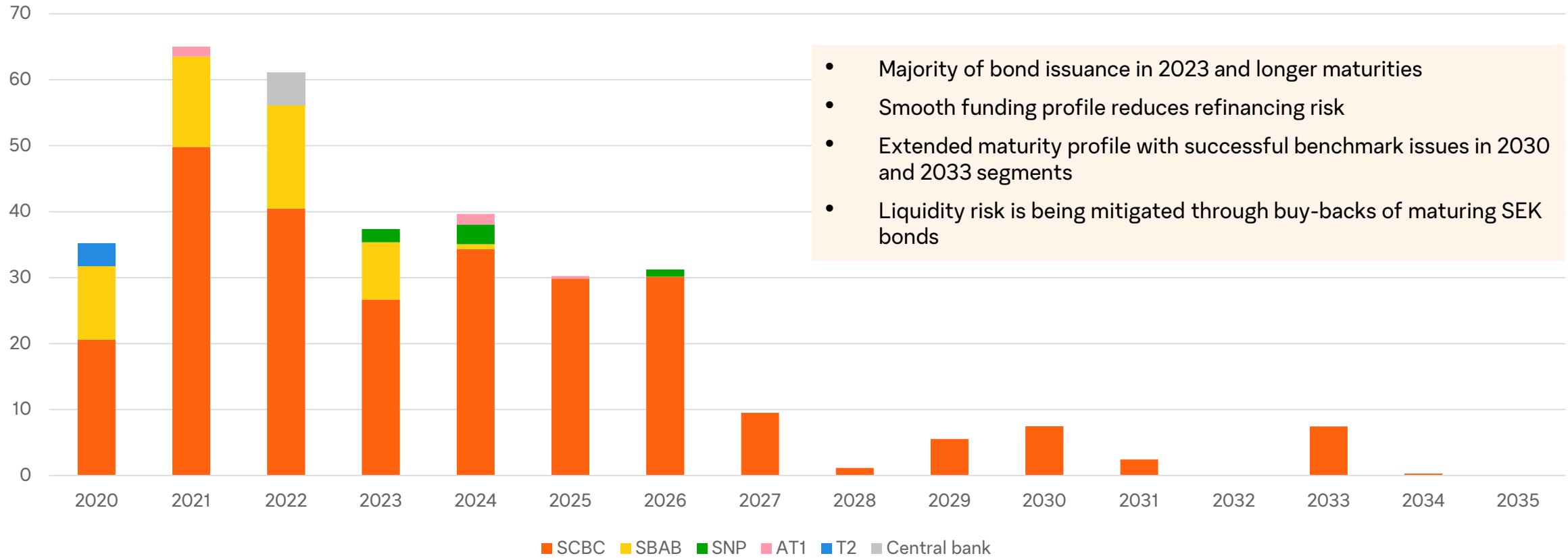
## Swedish FSA & SNDO

- Removal of Counter Cyclical buffer (from 2,5 to 0%)
- LCR is allowed to go below 100%
- Extended subordination requirement phase in period (from 2022 to 2024)



# Funding (2/3)

- Maturity profile



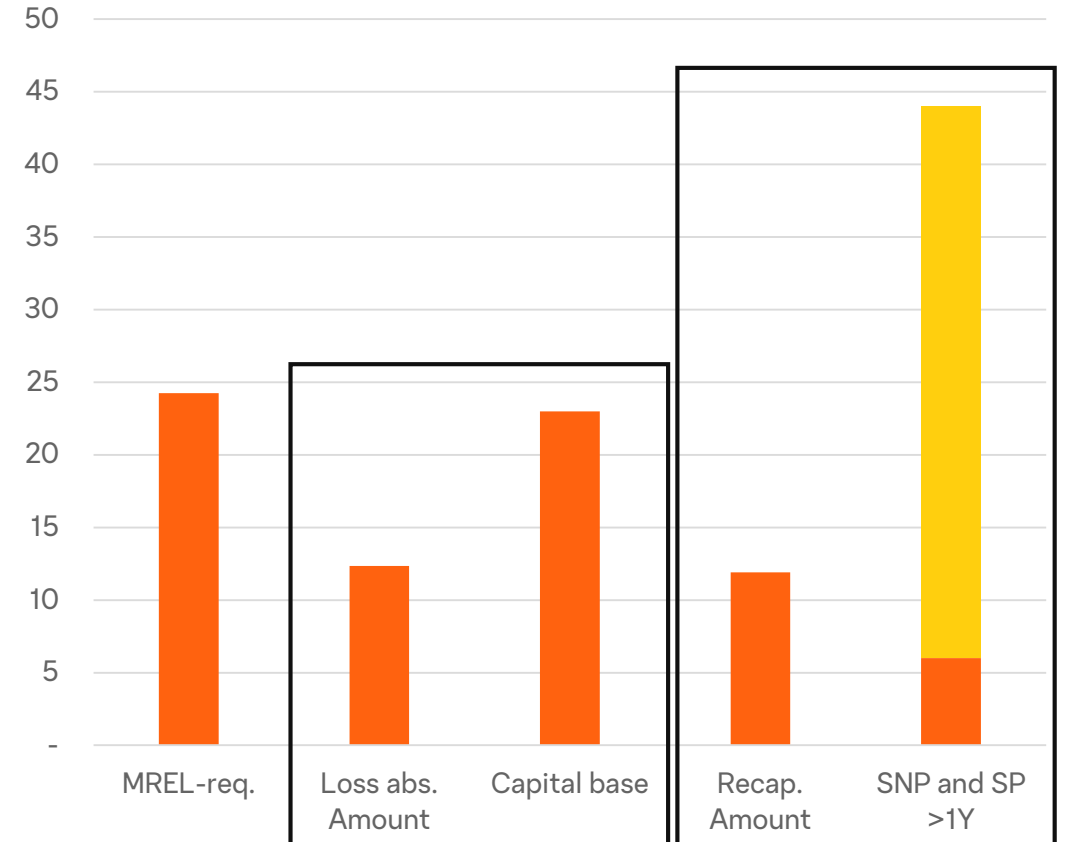
# Funding (3/3)

- MREL-requirement

## 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
  - **To support the banking system in current corona pandemic environment, phase in period has been extended until end 2023**
- SBAB's total MREL-requirement is currently set at 5,35% of Total Liabilities and Own Funds (TLOF)
  - Total need for MREL debt around SEK 25 bn, where approximately SEK 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 20 bn by end of 2023
- Gradual build up of eligible liabilities (senior non preferred) over coming years (subject to regulatory developments)

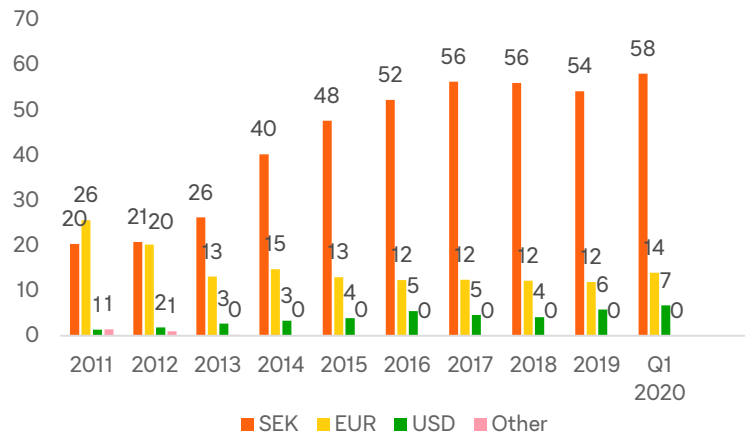
## MREL requirement Q4 2019, SEK (bn)



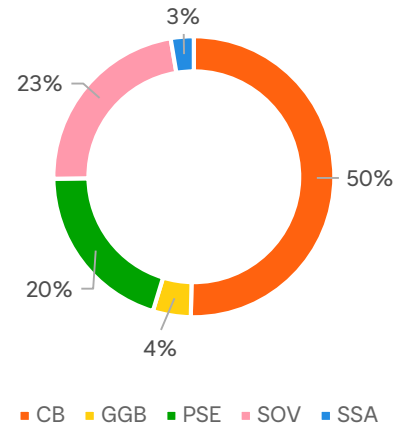
# Liquidity position

- Strong liquidity position with LCR and NSFR well above regulatory requirements
- Survival horizon implies liquidity need coverage for 350 days under stressed scenario (unchanged lending portfolio, severe deposit outflow and no new funding added)
- High quality and diversified liquidity reserve within relevant currencies with 96% AAA rated
- Liquidity reserve eligible at the Riksbank and/or ECB

## Liquidity portfolio (Currency distribution)



## Liquidity portfolio (Securities type)



## Key metrics

### Liquidity portfolio

**79<sub>bn</sub>**

### LCR

**300%**

### NSFR

**130%**

### Survival horizon

**350<sub>days</sub>**



# Capital position

– Retained earnings 2019 has strengthened capital position & SBAB's ability to grow lending

## Components of SBAB's capital target

SEK million	Total capital	%	CET1 capital	%
<b>Estimated capital requirements from the S-FSA</b>	<b>14,622</b>	<b>11.7</b>	<b>9,752</b>	<b>7.8</b>
– Of which, Pillar 1 minimum requirement	3,872	3.1	2,178	1.7
– Of which, Pillar 1 risk-weight floor, Swedish mortgages	6,134	4.9	3,450	2.8
– Of which, Pillar 2 core requirement	1,481	1.2	988	0.8
– Of which, Capital conservation buffer	3,127	2.5	3,127	2.5
– Of which, Countercyclical buffer	9	0.0	9	0.0
<b>SBAB's capital target</b>	<b>15,373</b>	<b>12.3</b>	<b>10,502</b>	<b>8.4</b>
<b>SBAB's actual capital</b>	<b>21,877</b>	<b>17.5</b>	<b>15,926</b>	<b>12.7</b>

## Comments

- Capital target: CET1 and total capital ratio at least 0.6% above the requirement communicated by the S-FSA – SBAB well above external and internal requirements in Q1 2020
- CCB lowered from 2.5% to 0% in March 2020 after decision from S-FSA following the COVID-19 outbreak
- Retained earnings in 2019 has strengthened capitalisation
- Leverage ratio of 3.69% at 31 March 2020
- Buy-back of AT1 (SEK 1.5 bn) during March 2020
- Planned T2-issuance during 2020



Chapter 2.2

# Swedish economy & housing market



# The Swedish economy & housing market



**booli!**  
En tjänst från SBAB

## Large quantities of data relating to the housing market

**Large quantities of data and knowledge** are accumulated in our operations, such as how the housing and residential mortgage markets work. We use this data transparently and responsibly to improve the customer experience by refining existing services and products as well as developing new ones. Booli.se is a popular platform for finding information about supply, demand and price trends for housing.

- We expect Sweden's GDP to develop negatively this year and that unemployment will rise in the coming quarters. Some parts of the economy will be subject to great pressure during 2020, and the recovery is not expected to be rapid
- Simultaneously, we believe there are many factors supporting the economy:
  - Households have for a long time had a high saving rate, and currently large financial assets in addition to housing assets
  - Export-dependent companies are supported by a weak currency in times of weak international demand
  - The central government has a low debt and sound finances
  - Swedish authorities have for a long time worked to secure financial stability
- The fall in housing prices in 2017 and the fall in housing construction in 2018 and 2019 have reduced the risk of declines in house prices in 2020

# The Swedish economy

## Forecast key figures Sweden

	2019	2020	2021	2022
Real GDP, actual	1.2	-5.0	3.0	1.6
Household consumption	1.2	-0.8	2.0	1.7
Public consumption	0.4	1.2	1.4	1.0
Investments	-2.1	-14.0	6.0	2.0
Net export, GDP-contribution (pp)	1.1	-1.3	0.3	0.0
Employment	0.7	-2.3	-0.8	2.1
Unemployment rate (%)	6.8	9.0	10.0	9.0
Inflation, CPIF growth	1.7	0.5	1.0	1.3
Policy rate, yearly average (%)	-0.25	0.00	0.00	0.00
KIX-index (-)	122.1	123.3	121.0	118.5

Note: Annual percentage growth unless indicated otherwise, light orange background indicates SBAB's April forecast

## Comments

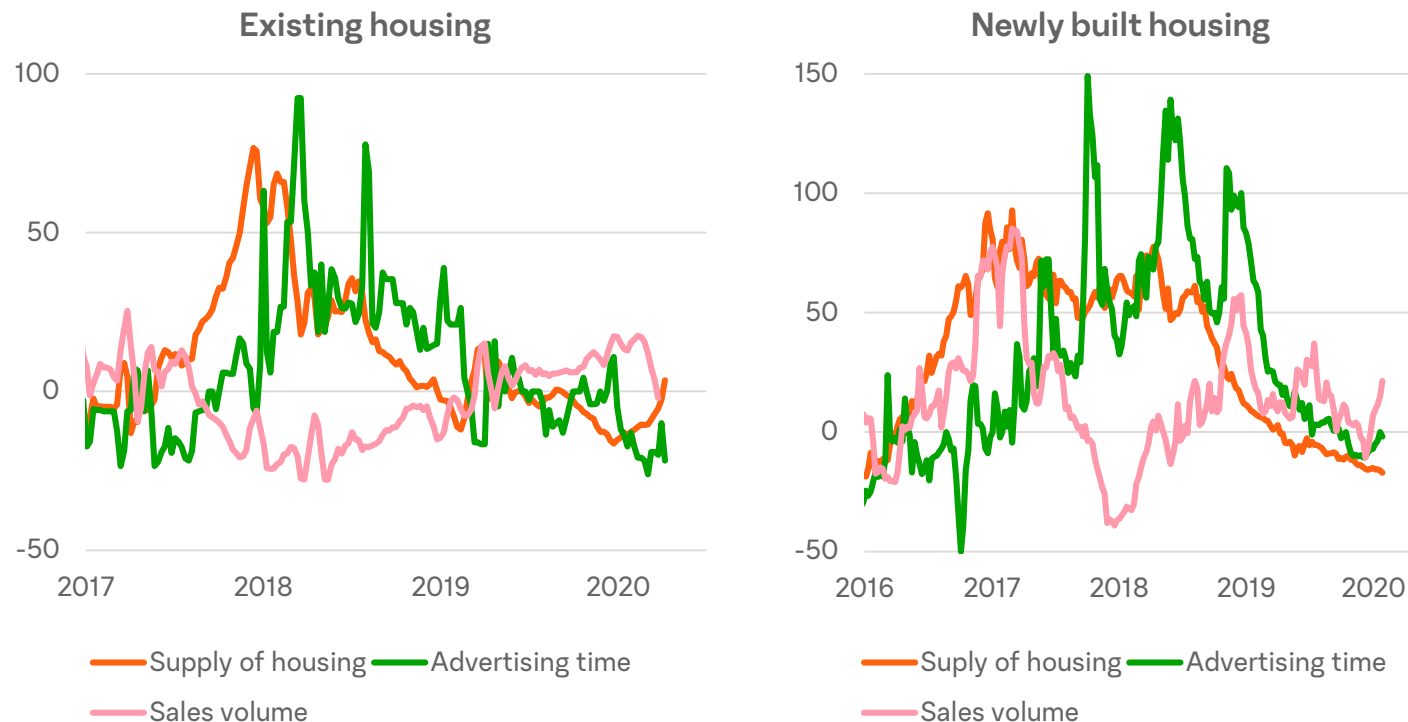
- A deep recession in 2020 followed by an upturn in 2021
  - Over the past years the economy has been characterised by strong population growth, increasing employment, low inflation, low interest rates and rising house prices
- Swedish economy is well-equipped to face the corona pandemic, but is strongly influenced by the outside world
- Good government finances make it possible to support vulnerable companies, maintain household disposable income and ensure financial stability





# Signs of a slowdown for existing housing

## Housing market developments, YoY (%)



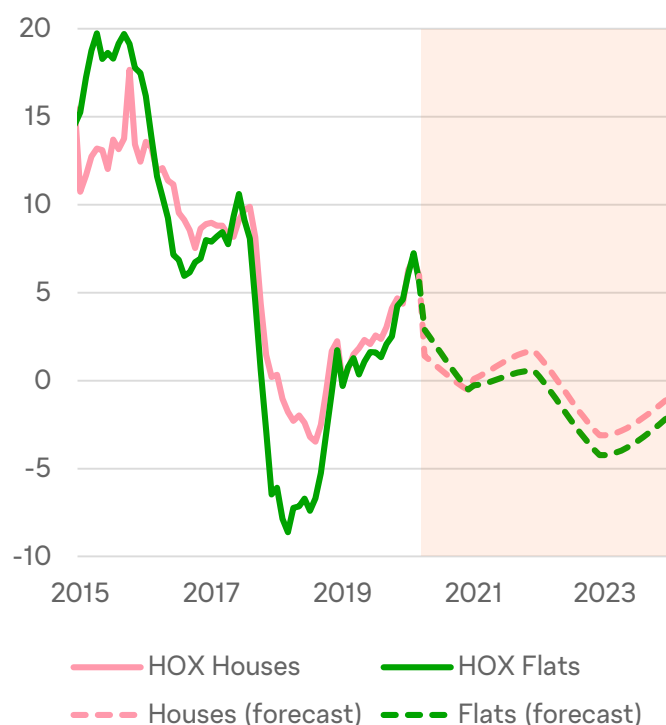
## Yet no clear change

- The housing markets in Sweden have been stable over the past year with a clear growing optimism since the summer of 2019
- In recent weeks, there have been signs of slightly lower sales volumes and somewhat lower bid premiums for existing housing, which could be partly explained by a higher supply but is also likely an effect of the corona pandemic
- The supply of newly built housing has decreased in line with rising sales volumes



# Stagnant housing prices - downside risk

Housing price index (January 2005=100)



	Index Mar-20	Change since		
		1m	3m	12m
<b>Sweden (HOX)</b>	<b>244</b>	<b>-0.5%</b>	<b>+3.7%</b>	<b>+5.8%</b>
<b>Flats</b>	<b>301</b>	<b>-1.0%</b>	<b>+2.2%</b>	<b>+5.6%</b>
Stockholm	287	-1.7%	+1.9%	+6.5%
Gothenburg	341	-0.8%	+1.6%	+4.1%
Malmö	264	-1.5%	+2.1%	+5.6%
<b>Houses</b>	<b>228</b>	<b>-0.1%</b>	<b>+4.7%</b>	<b>+6.0%</b>
Stockholm	229	+0.1%	+4.6%	+6.5%
Gothenburg	230	-1.4%	+2.0%	+3.6%
Malmö	212	+0.3%	+4.2%	+7.4%

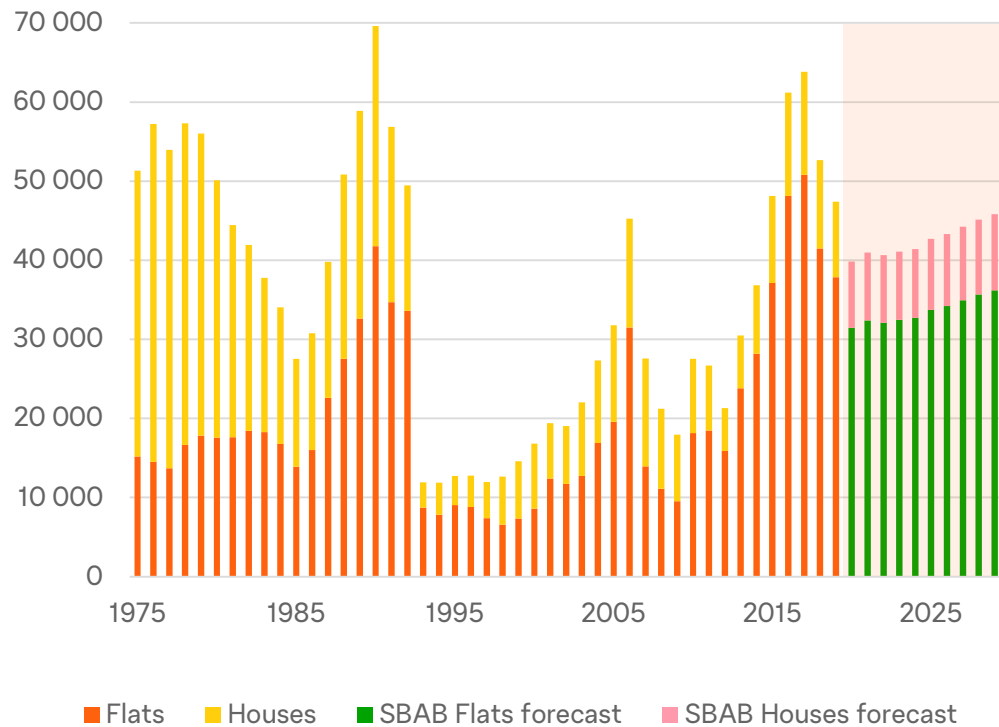
Stable prices in the coming years

- Housing prices have increased by an average of 4.7 percent over the past ten years, turning point in 2017
  - Construction of new housing is clearly influenced by housing prices
- SBAB's forecast is that housing prices for the country as a whole will decrease slightly during the remainder of 2020, basically stand still during 2021, and then fall a few percent as interest rates begin to rise
  - The forecast is based on a structural model, but if housing sales slow down sharply, prices are expected to fall by up to 10 percent



# Reduced housing constructing

Housing construction (number of homes)



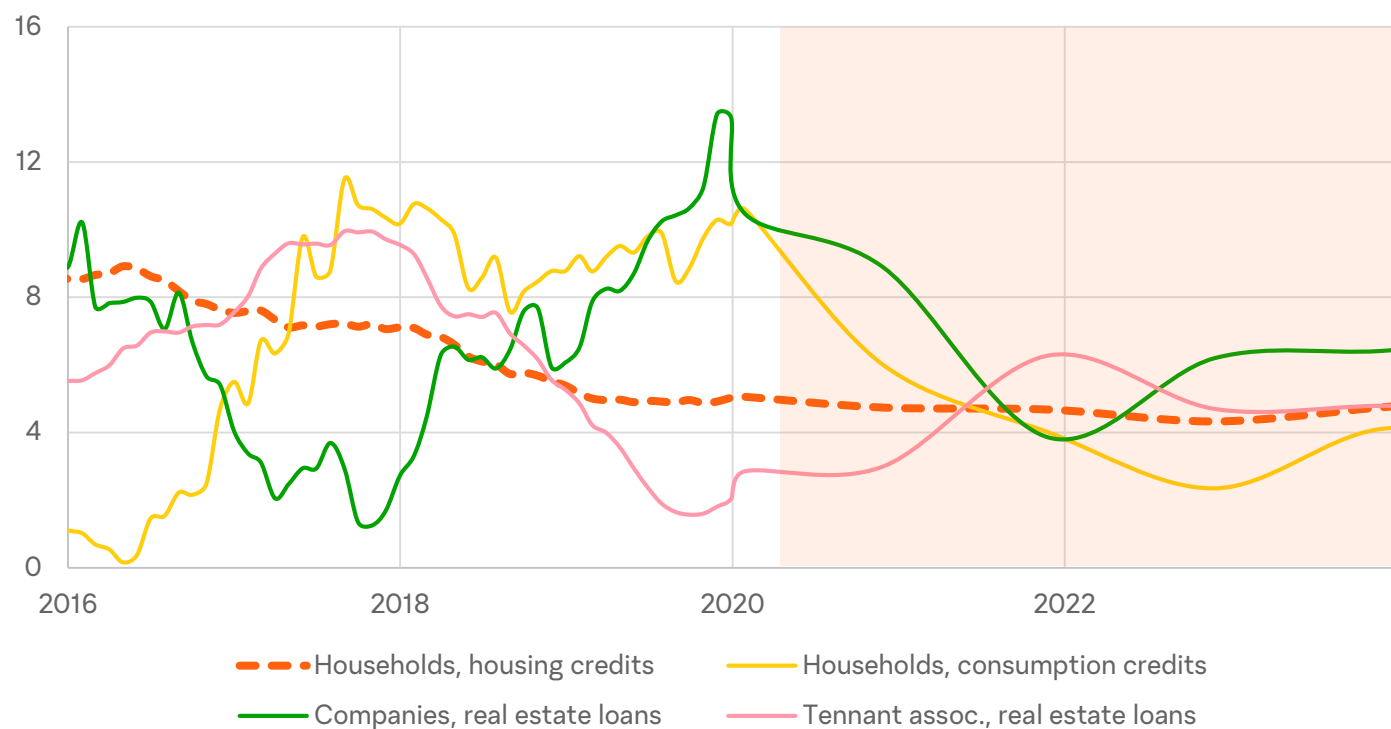
Remaining need for new housing

- Housing construction slows down to about 40 000 homes per year
  - Relatively low level of housing constructing since the crisis of the 1990s
  - Rapidly increasing construction from 2013, and almost as fast decreasing from 2018, but not to the same low level. Housing construction is expected to decrease by 38 percent by 2020 compared to 2017
- Strong demographic growth, good access to financing and low interest rates support the high rate of new construction
  - The housing shortage in Sweden is currently estimated to about 160 000 homes, despite the high rate of construction in recent years
  - Approximately 40 000 new homes are needed per year in order for the housing stock to grow at the same pace as the number of households
  - Some concern about the affordability of new housing and the ability to pay / willingness to buy



# Slowdown in credit growth

Credit growth, annual growth rates (%)



## Comments

- Credit growth in the mortgage market (red line) has slowed down since 2016
- The annual (YoY) percentage credit growth in the mortgage market in February 2020 was 5.1 percent
- According to SBAB's forecast, the growth rate is expected to fall to 4.7 percent for the full year 2020 and remain at the same rate in 2021
  - The forecast takes into account stagnant housing prices, low mortgage rates, a weak development of household income and a high savings ratio



# Thank you!



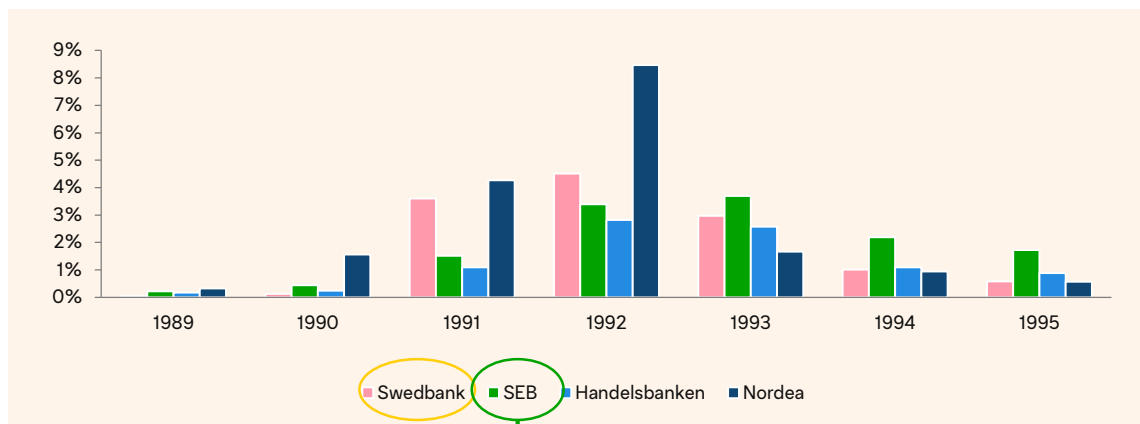
**SBAB!**

# Appendix

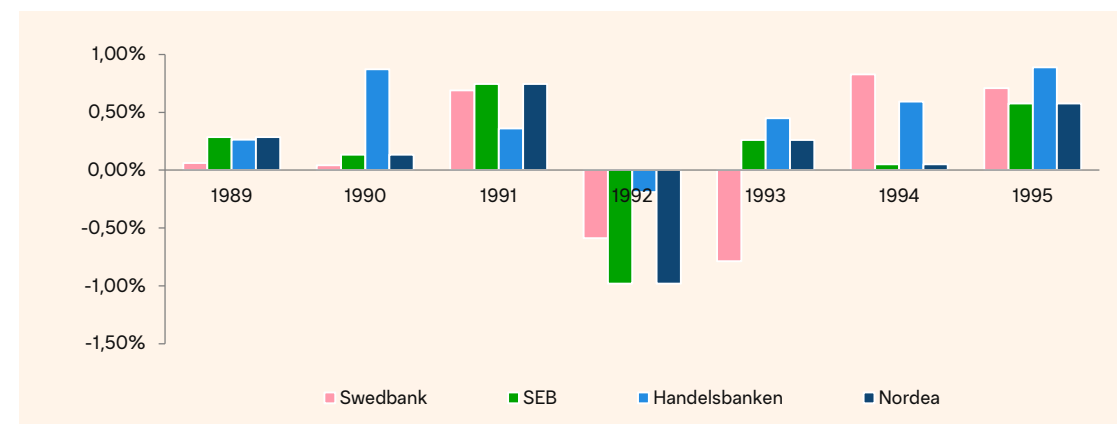
# Loan losses during 1990's crisis

- Losses during the 90's crisis in Sweden shows the resilience of mortgages contrary to other asset classes

## Loan Losses / Customer Loans



## Net Income / Total Assets



### 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

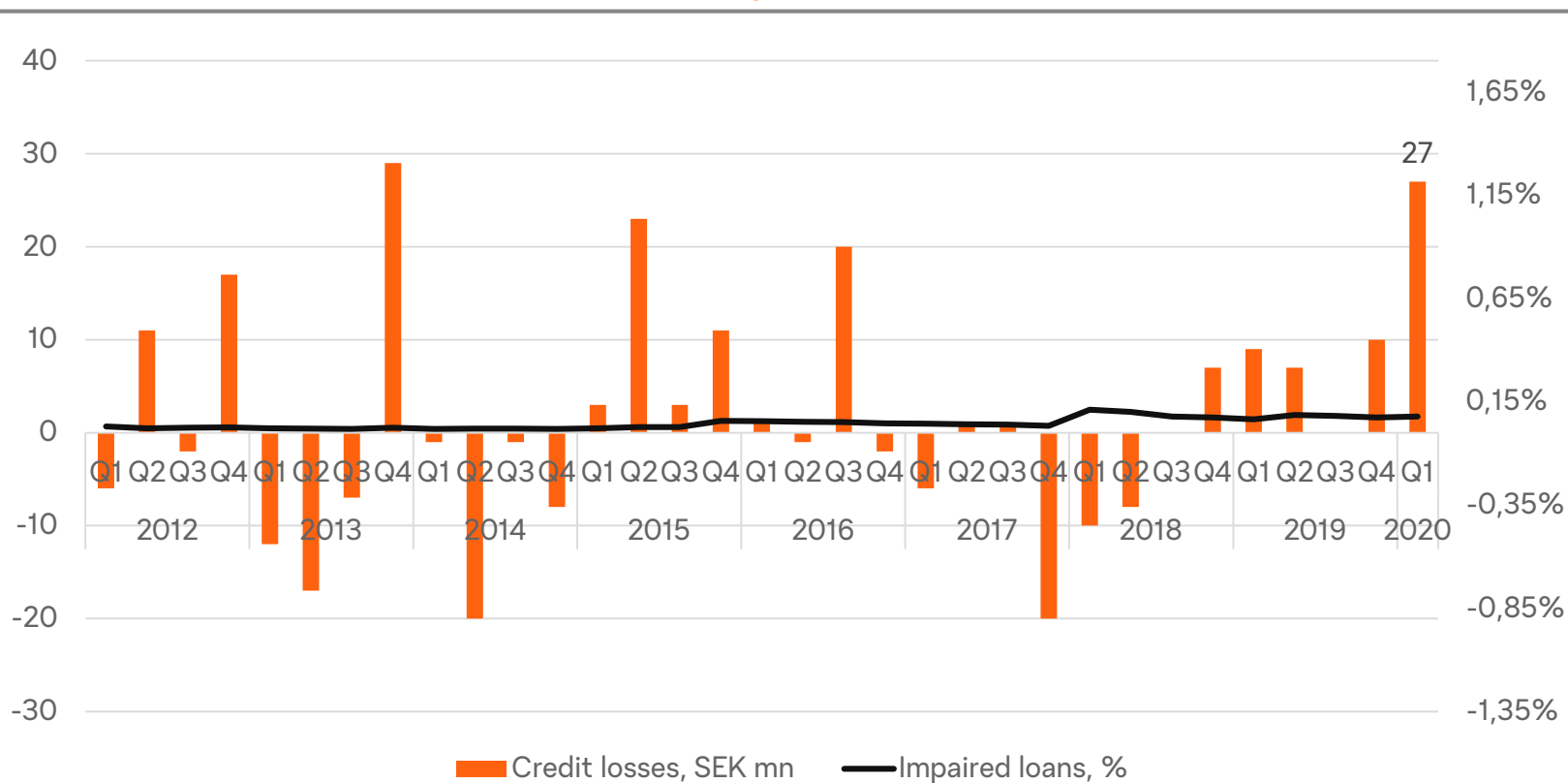
	1992	1993
Other service sectors	39.0 %	21.1 %
Wholesale & Retail, hotels and restaurants	3.9 %	8.6 %
Transportation	(0.2)%	8.2 %
Finance & Insurance	15.4 %	6.3 %
Construction	6.8 %	5.6 %
Property Management	4.6 %	4.4 %
Manufacturing	1.2 %	1.8 %
Other sectors	0.4 %	1.4 %
Households	1.1 %	0.9 %



# Swedish mortgages – a low risk business

– High concentration on Swedish residential mortgages – very low loan losses/problem loans over time

Credit losses (LHS) & Impaired loans (RHS) QoQ



Key metrics Q1 2020

**Credit losses**  
**-27 million**

**Credit losses / Total lending**  
**0.03%**

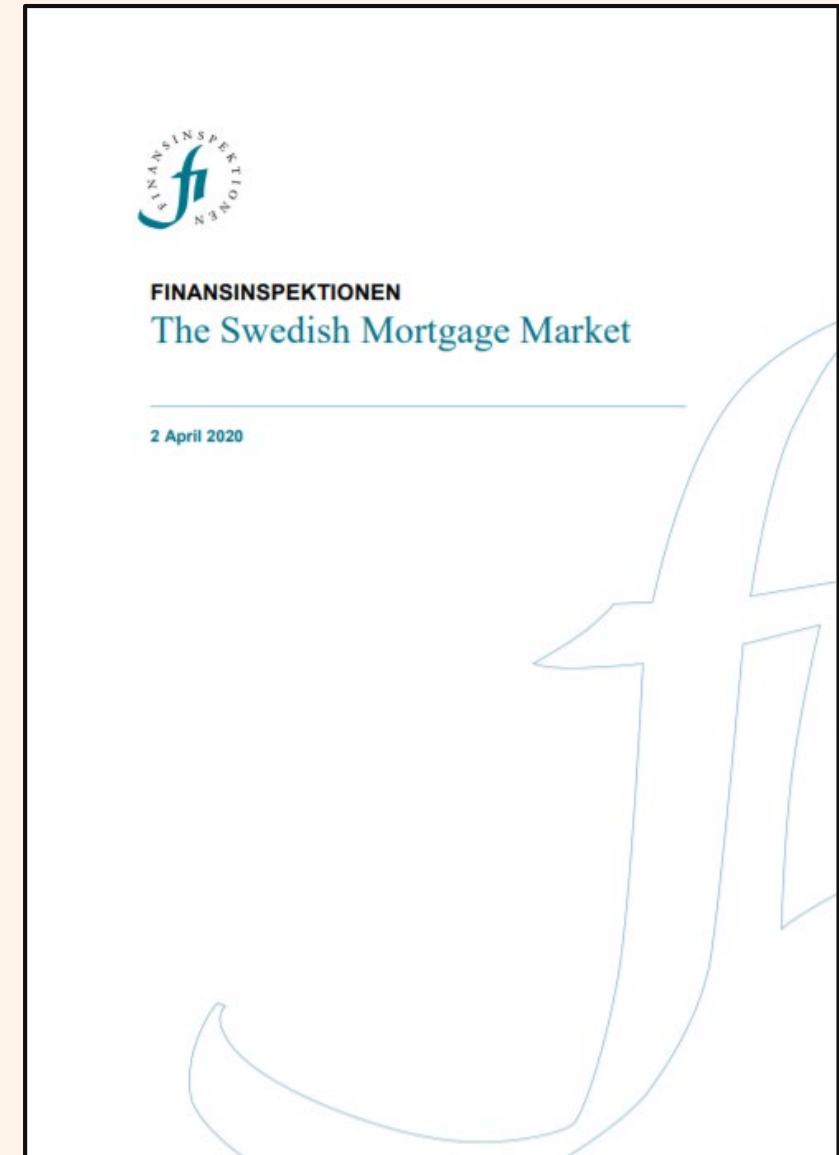
**Gross loans in Stage 3 / Total lending**  
**0.08%**





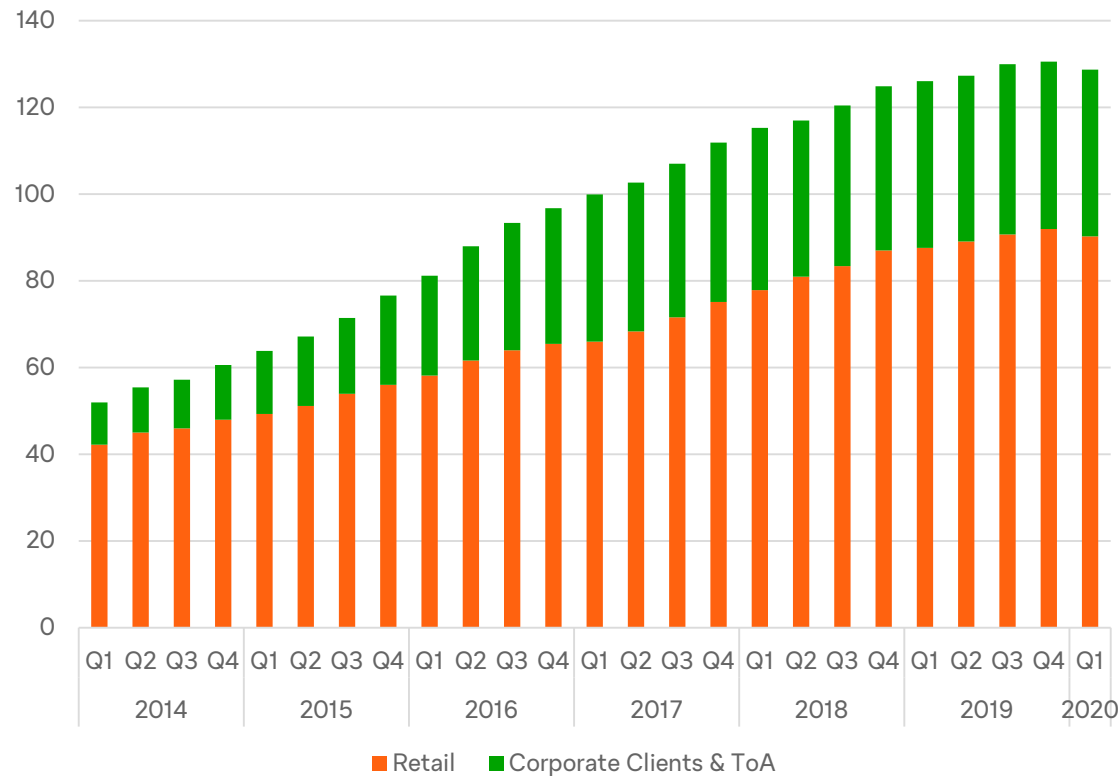
# S-FSA Mortgage Survey 2019

- The percentage of new mortgagors with a high level of debt in relation to either their income or the value of the home continues to be high. New mortgagors in 2019 increased their average loan-to-income ratio. The average loan-to-value ratio also increased in 2019 among new mortgagors, thus breaking the trend of falling loan-to-value ratios since 2013
- In general, new mortgagors still have good margins for servicing their loans under weaker economic conditions. More households than before could handle higher interest rates without experiencing a deficit in their cash flow. However, there was a slight increase in 2019 in households that experienced a monthly deficit following a loss of income compared to 2018. The increase refers primarily to single-person households
- Good resilience indicates that there is a **limited risk that mortgages would cause extensive credit losses for banks**. This should also mitigate the reduction in household consumption, for example, if the economy were to sharply decline as a result of the spread of the coronavirus and the measures being taken in response thereto



# Deposit development

Deposits (SEK bn)



Comments

## Retail

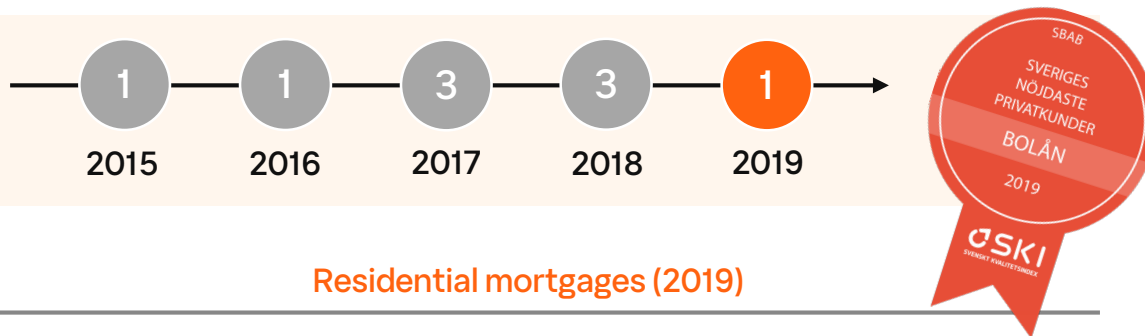
- Retail deposits decreased during the quarter to SEK 90.3 billion (92.0)
- Increased need for liquid funds for tax payments in February
- Competition for savings customers has increased somewhat, especially from smaller niche players
- Lowered the deposit rate by 0.10 percentage points in the end of 2019. Current savings rate of 0.50%

## Corporate Clients & Tenant-Owners' Associations

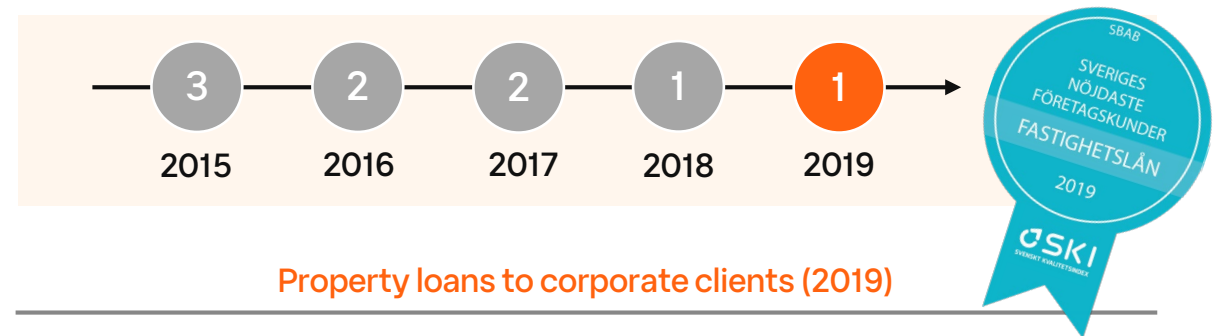
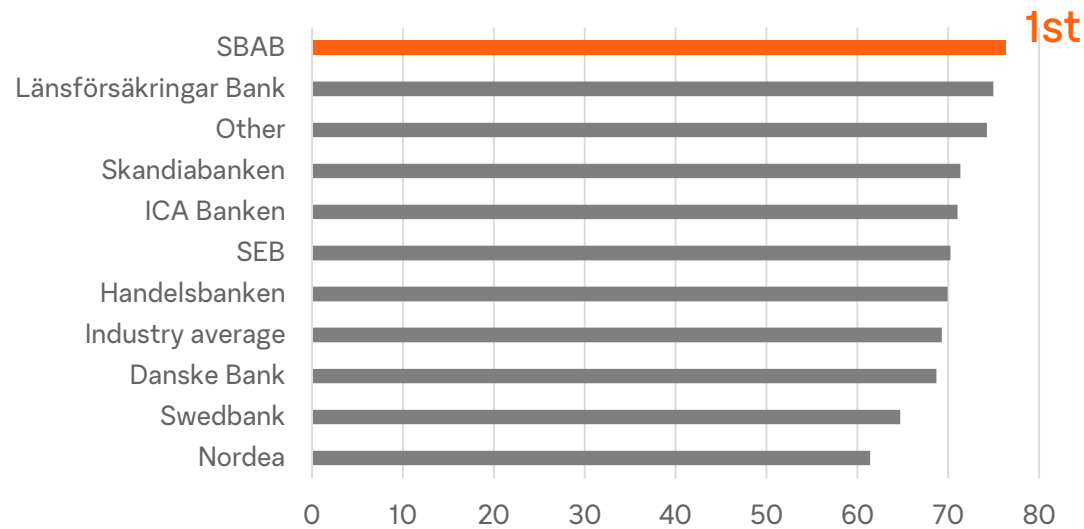
- Deposits from corporates and tenant-owner associations decreased marginally during the quarter to a total of SEK 38.4 billion (38.6)
- Increased outflow at the end of the quarter from corporate clients in need of liquidity due to the corona crisis



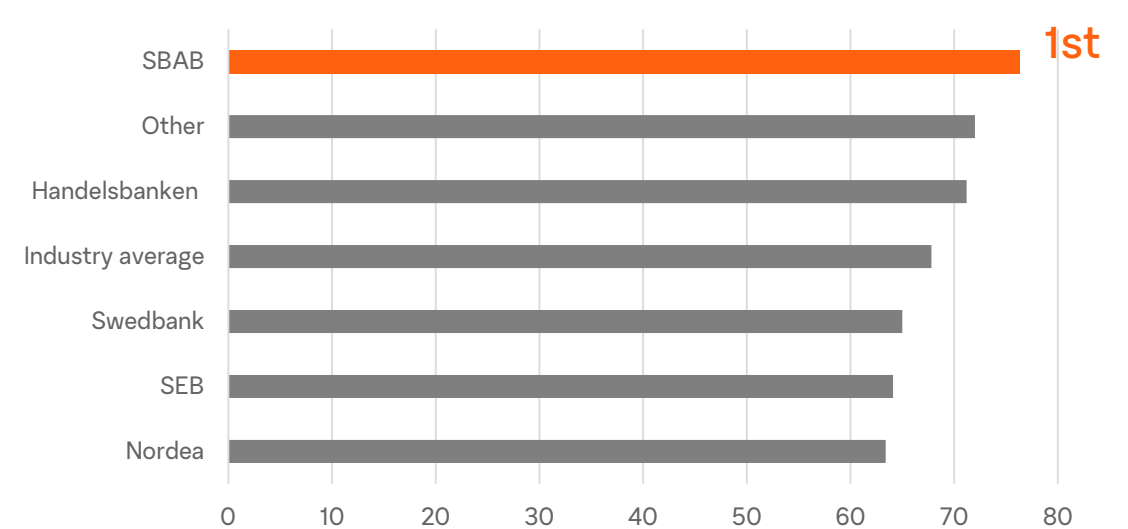
# Customer satisfaction



Residential mortgages (2019)



Property loans to corporate clients (2019)



# Financial targets from the owner

	Target	Result Q1 2020	Result 2019
<b>Profitability:</b> Return on equity over a business cycle	≥ 10%	9.2%	11.7%
<b>Dividend:</b> Ordinary dividend based on profit for the year after tax, taking the Group's capital structure into account	≥ 40%	40% (expected)	0% (revised)
<b>Capitalisation:</b> CET1 capital ratio and total capital ratio above regulatory requirement communicated by the Swedish FSA	CET1 capital ratio: ≥ 0.6%	4.5%*	2.4%
	Total capital ratio: ≥ 0.6%	5.2%*	5.2%

\* In relation to expected (internally estimated) capital requirement from the Swedish FSA as of 31 Mar 2020 (CET1 capital ratio requirement: 8.2% & Total capital ratio requirement: 12.3% vs. CET1 capital ratio: 12.7% & Total capital ratio: 17.5%)



# Revised supportive notch from S&P

MOODY'S

STANDARD & POOR'S  
RATINGS SERVICES  
McGRAW HILL FINANCIAL

Stand-alone rating

Macro profile	Strong+
Financial profile	a3
Qualitative	-1
- <i>Opacity and complexity / Corporate Beh.</i>	0
- <i>Diversification</i>	-1
<b>Baseline Credit Assessment (BCA)</b>	<b>baa1</b>

Stand-alone rating

Anchor	a-
Business Position	-1
Capital and Earnings	+1
Risk Position	0
Funding & liquidity	0
<b>Stand-Alone Credit Profile (SACP)</b>	<b>a-</b>

Notching

Loss Given Failure (LGF)	+2
Government Support	+1
<b>Total notching</b>	<b>+3</b>

Notching

ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0
<b>Total notching</b>	<b>+1</b>

Rating

<b>Rating</b>	<b>A1</b>
<b>Outlook</b>	<b>STABLE</b>

Rating

<b>Rating</b>	<b>A</b>
<b>Outlook</b>	<b>STABLE</b>

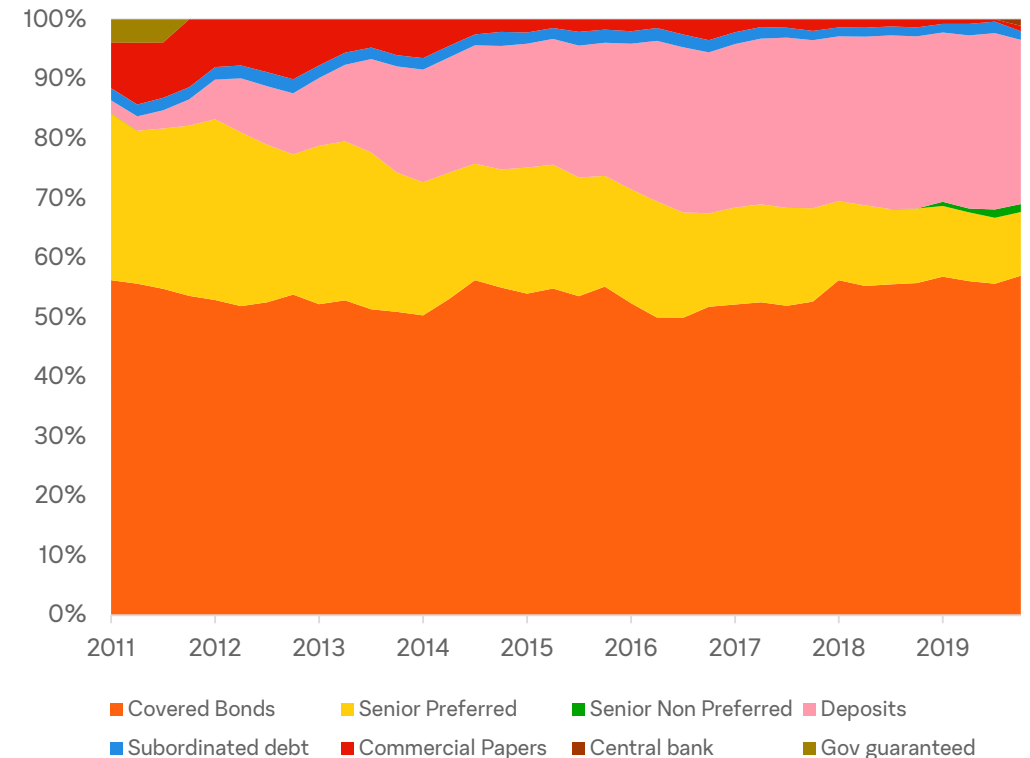


# Funding strategy

## Funding strategy

- Continuous and committed investor work in core markets and towards core investors to further increase name recognition and transparency
- Maintain access to core funding markets - SEK- and EUR-market
  - Regular benchmark issuance in Covered Bond format as and in Senior Unsecured format
  - Private placements as a complement
- Reduced wholesale funding reliance due to growing deposit volumes. Maintain a low reliance on foreign currency funding
- 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, interbank funding and central bank facilities
- Committed to increase green bond issuances subject to green lending volumes

## Development of funding sources over time



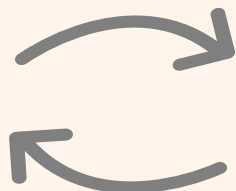
# INSIGHT: Green lending & funding



## Linking green lending to green funding

Green funding

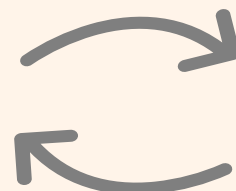
SEK **12.75** bn\*



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Green lending

SEK **24.5** bn\*



SBAB GROUP GREEN BOND FRAMEWORK 2019



\*CICERO Medium Green

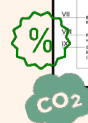
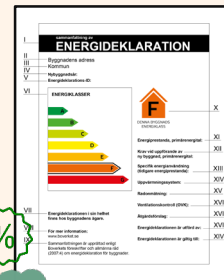
SBAB GREEN BOND FRAMEWORK 2016



\*CICERO Medium Green

GREEN LENDING

- Green Residential Mortgages
- Green Investment Loans
- Energy efficient buildings
- New construction



## Rationale behind green efforts

- **Green lending:** Stimulate demand for energy efficient housing as well as creating opportunities and incentives (e.g. by offering discounted loans) for customers to invest and implement energy improving measures in their homes and properties
- **Green funding:** Offer investors the opportunity to actively participate in the sustainable transition of the Swedish housing and real estate market

\*Data as of 31 Dec 2019



# INSIGHT: Impact reporting

Green Bonds Impact Report 2019

## GREENING THE FUTURE

Issuer	Issue date	Amount issued	Format	Maturity	Coupon	ISIN	Framework
SBAB	16 June, 2016	SEK 1.0bn	Senior unsecured	23 June, 2021	1.048%	XS1436518606	SBAB Green Bond Framework 2016
		SEK 1.0bn		23 June, 2021	3M Stibor +95 bps	XS1436728916	
SBAB	4 October, 2017	SEK 1.0bn	Senior unsecured	11 October, 2022	0.98%	XS1697577556	SBAB Green Bond Framework 2016
		SEK 750mn		11 October, 2022	3M Stibor +75 bps	XS1697766951	
SCBC	23 January, 2019	SEK 6.0bn	Covered bond	28 March, 2024	0.75%	XS1943443769	SBAB Group Green Bond Framework 2019
SBAB	13 June, 2019	SEK 2.25bn	Senior Non-Preferred	06 June, 2024	3M Stibor +90 bps	XS2015229516	SBAB Group Green Bond Framework 2019
		SEK 750mn		06 June, 2024	1.0%	XS2015229862	
<b>TOTAL</b>		<b>SEK 12.75bn</b>					



### SBAB Green Bond Framework 2016

SEK 4.7bn → 589 tCO<sub>2e</sub>

Eligible Green Loans  
& Estimated annual avoidance of GHG emissions

### SBAB Group Green Bond Framework 2019

SEK 19.8bn → 6,970 tCO<sub>2e</sub>

Eligible Green Loans  
& Estimated annual avoidance of GHG emissions



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