

INVESTOR PRESENTATION

SBAB Bank AB (publ)
Jan-Jun 2019

SBAB!

Executive summary

A short introduction to SBAB

- 100% owned by the Kingdom of Sweden
- Swedish mortgage portfolio, predominantly residential mortgages. 5th 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 **372** bn

Deposits

SEK **127** bn

MOODY'S

A1

STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

A

Key figures Q2 2019

STABLE PROFITABILITY

RoE: **11.9%**

HIGH COST EFFICIENCY

C/I ratio: **33%**

STRONG ASSET QUALITY

Loan loss ratio: **0.01%**

SOLID CAPITALISATION

CET1 ratio: **12.2%**

THE SWEDISH RESIDENTIAL MORTGAGE MARKET 2018

MARKET SHARE DEC 2018

8.4%

SHARE OF NET GROWTH FY 2018

17%

Table of contents

All figures in this presentation are as of 30 June 2019 unless otherwise stated

A vertical diagram on the left side of the page consists of five white circles connected by a dark grey line. Each circle is positioned to the left of a horizontal white bar that contains a text item. The bars are stacked vertically, with the top bar being the longest and the bottom bar being the shortest. The text items are: 'Our business', 'Financial development', 'Funding, liquidity & capital', 'The Swedish economy & housing market', and 'Appendix'.

Our business

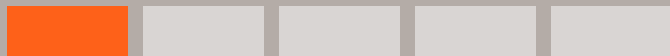
Financial development

Funding, liquidity & capital

The Swedish economy & housing market

Appendix

OUR BUSINESS.



Business overview

Business overview

- Founded in 1985 & 100% owned by the Kingdom of Sweden
- Mortgage bank with >98% collateralized lending
- Straightforward business model (mortgage lending & savings) & customer operations only in Sweden
- >600 employees in five offices
- Two business areas; Retail business area and Corporate Clients & Tenant-owners' Associations business area

Retail business area

- Retail customers
- Residential mortgages (5th largest player in Sweden), savings accounts and consumer loans
- Cost efficient origination through internet (since 1998), call-centre and digital partnerships

77% of lending

Corporate Clients & Tenant-owners' Associations business area

- Property companies and tenant-owners' associations
- Financing of multi-family dwellings; existing buildings or new construction
- Personal service. Three offices in Stockholm, Gothenburg and Malmö

23% of lending

Geographical distribution of lending

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



Retail

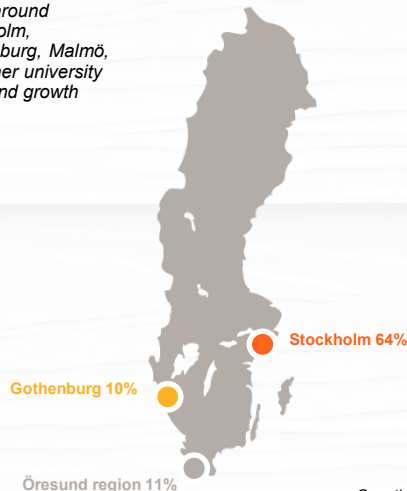
Summary

- Core product residential mortgages (5th 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



Key figures

Lending (SEK)

285.1 bn

Mortgage market share

8.41 %

Mortgage customers

274,000

Deposits (SEK)

89.1 bn

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

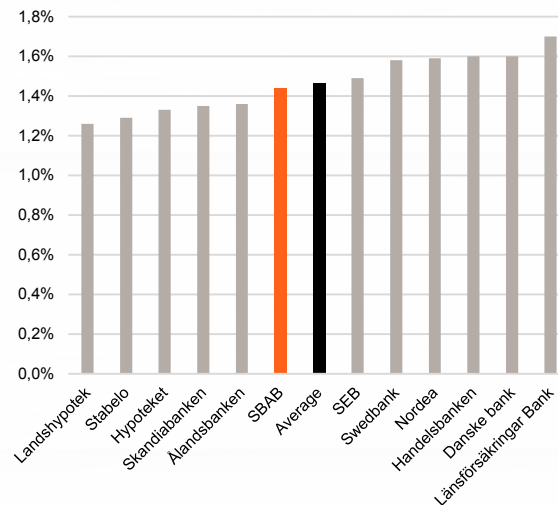
Housing specialists who care.

Straightforward offering

- Pricing of residential mortgages is based on current list rates for each maturity, as published on www.sbab.se
- 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 (June 2019)

Average 3M variable interest rate (%)

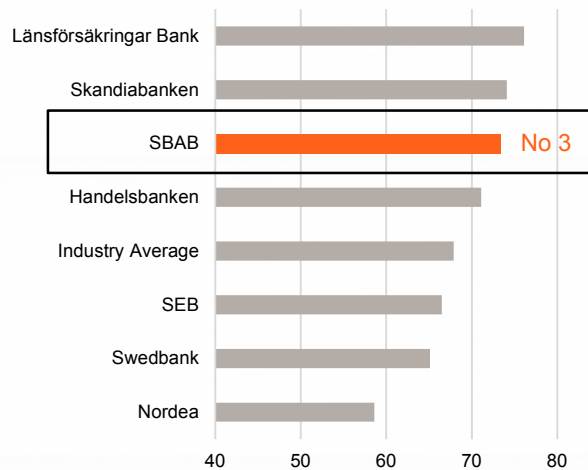


Source: Konsumenternas.se. Data as of 30 June 2019

Retail

Customer satisfaction

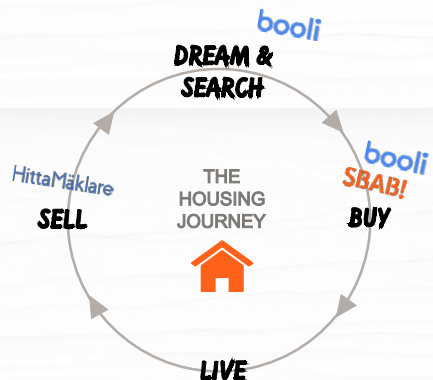
Retail (SBAB no 3 in 2018) Customer satisfaction



Source: Swedish Quality Index (SKI)

SBAB's ecosystem

Value adding content & services relating to housing and household finances



Digital customer experience

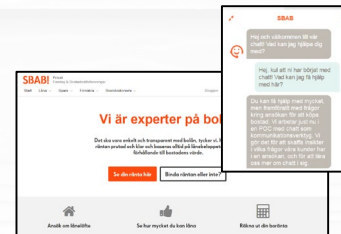
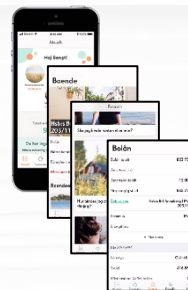
Data based services – key in ecosystem

booli



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

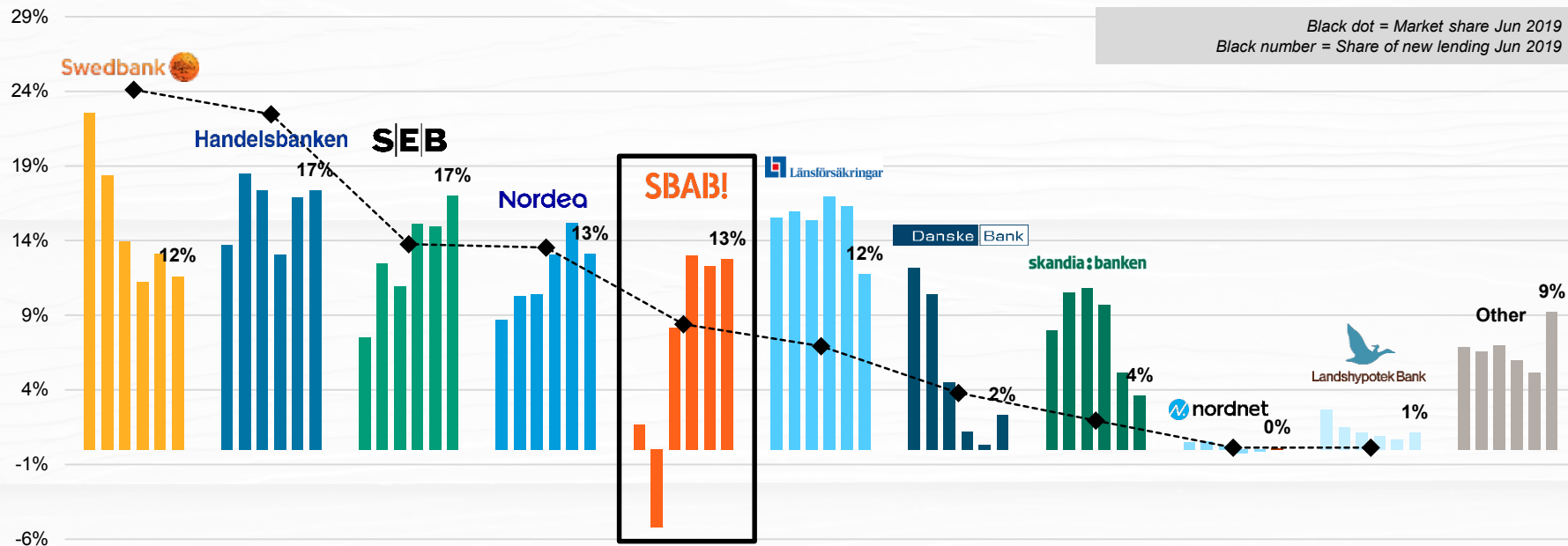
SBAB! App & Webb



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

The residential mortgage market 2019

Monthly share of net growth in the Swedish residential mortgage market Jan-Jun 2019 vs. market share Jun 2019



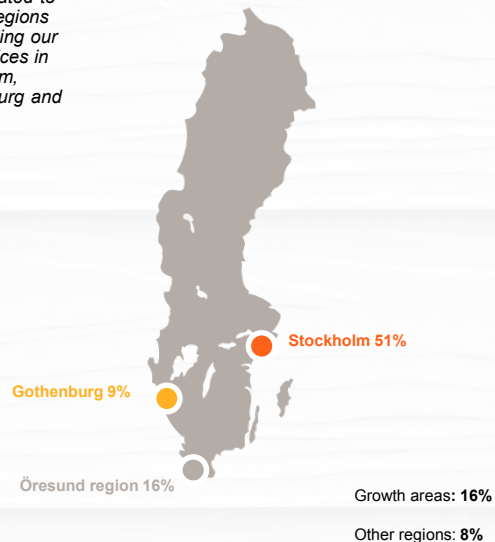
Corporate Clients & Tenant-Own. Assoc.

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



Key figures

Lending (SEK)

87.2_{bn}

Market share (Corporates)

11.0%

Market share (ToA)

9.6%

Deposits (SEK)

38.3_{bn}

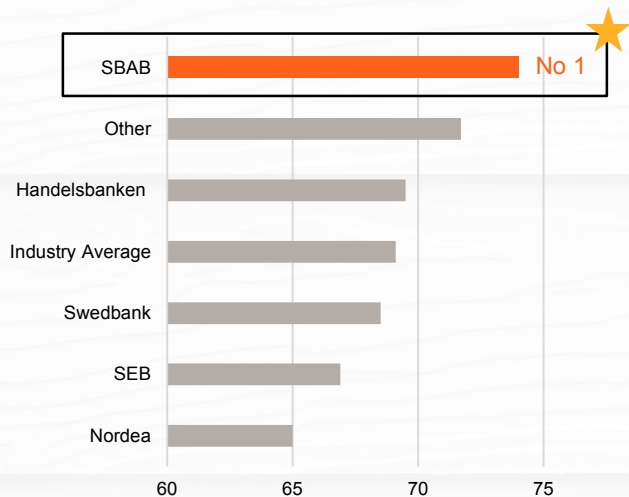
Corporate Clients & Tenant-Own. Assoc.

Customer satisfaction



Corporate loans (SBAB no 1 in 2018)

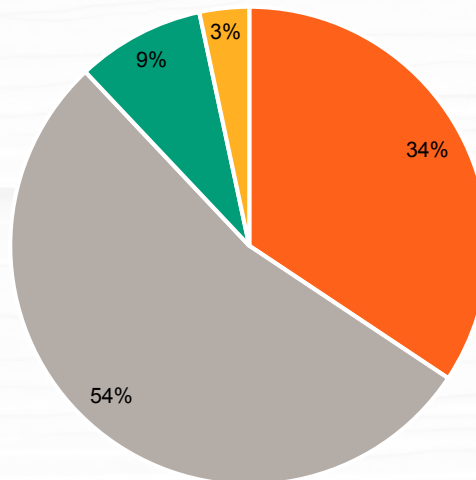
Customer satisfaction



Source: Swedish Quality Index (SKI)

Lending split

Total lending: SEK 87.2 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

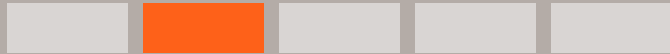
Undeclared labour and unacceptable working conditions in the housing construction market

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)	Jan-Jun 2019	Jan-Jun 2018		▲	2018	2017		▲
NII	1,735	1,681	↑	+3.2%	3,362	3,149	↑	+6.8%
Costs	-580	-506	↑	+14.6%	-1,049	-959	↑	+9.4%
Loan losses	-16	18	↑	+34mn	11	24	↑	+13mn
Operating profit	1,167	1,151	↑	+1.4%	2,241	2,228	↑	+0.6%
Lending (SEK bn)	372.3	351.5	↑	+5.9%	364.2	335.1	↑	+8.7%
Deposits (SEK bn)	127.3	117.0	↑	+8.8%	124.9	111.9	↑	+11.6%
Deposit/lending, %	34.2%	33.3%	↑	+0.9 pp	34.3%	33.4%	↑	+0.9 pp
C/I ratio, %	32.9%	30.8%	↑	+2.1 pp	32.0%	30.3%	↑	+1.7 pp
RoE, %	12.2%	12.8%	↓	-0.6 pp	12.1%	12.5%	↓	-0.4 pp
Loan loss ratio, %	-0.01%	0.01%	↑	+0.02 pp	0.00%	0.01%	↑	+0.01 pp
CET1 capital ratio, %	12.2%	30.3%	↓	-18.1 pp	12.5%	32.2%	↓	-19.7 pp

Financial targets from the Swedish state

	Target 2018	Result Jan-Jun 2019	Result 2018	Result 2017
<u>Profitability:</u> Return on equity over a business cycle	≥ 10%	12.2%	12.1%	12.5%
<u>Dividend:</u> Ordinary dividend based on profit for the year after tax, taking the Group's capital structure into account	≥ 40%	40% (expected)	40%	40%
<u>Capitalisation:</u> CET1 capital ratio and total capital ratio above regulatory requirement communicated by the Swedish FSA	CET1 capital ratio: ≥ 0.6%*	2.0%**	2.2%*	6.0%
	Total capital ratio: ≥ 0.6%*	3.3%**	3.7%*	10.7%

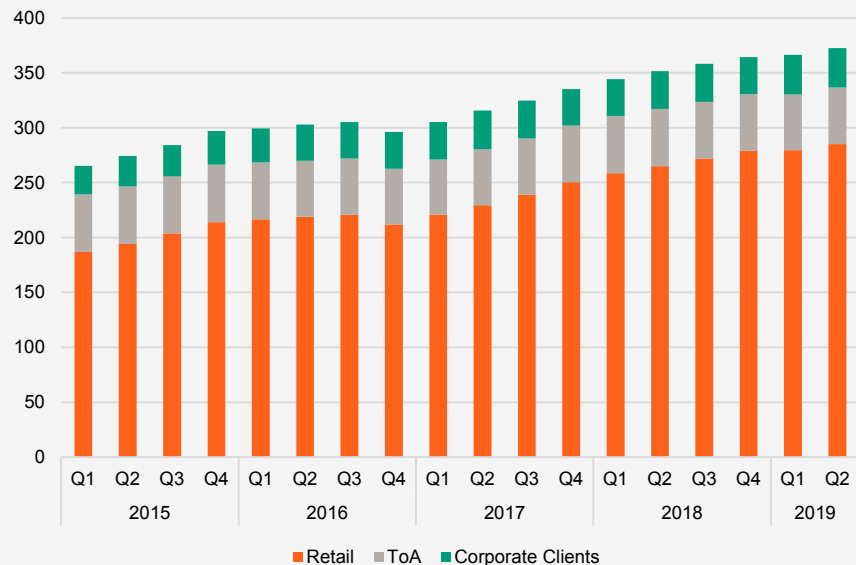
* Adjusted for the Swedish FSA's new method for applying risk-weight floors for Swedish residential mortgages, which entered force 31 December 2018. Previous target = 1.5%

** In relation to requirement communicated by the Swedish FSA in memorandum 23 Aug 2019 ("Capital requirements for the Swedish banks, second quarter 2019) (CET1 capital ratio requirement 10.2% & Total capital ratio requirement: 14.3%)

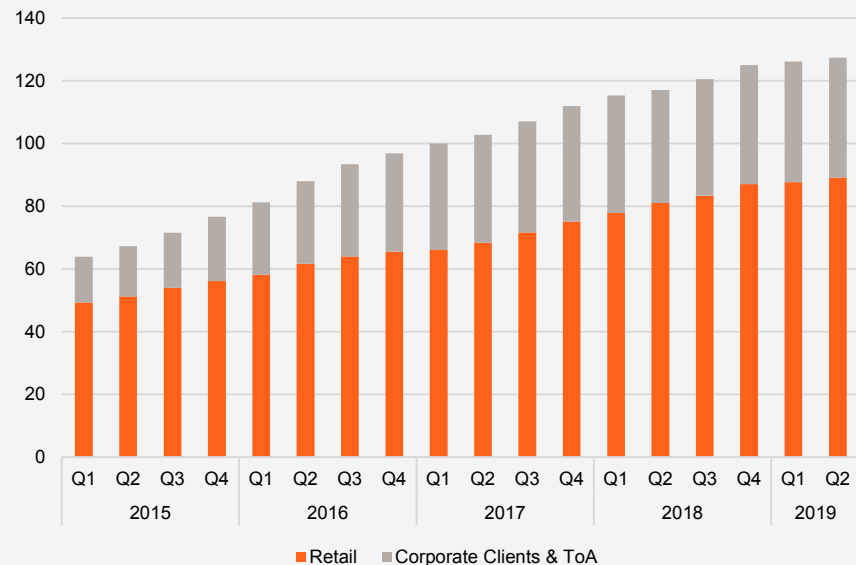
Business volumes

– Solid growth during recent years for both lending and deposits

Lending (SEK bn)



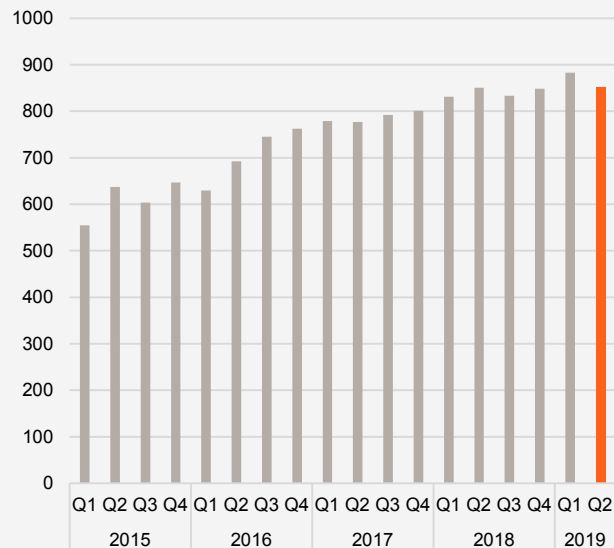
Deposits (SEK bn)



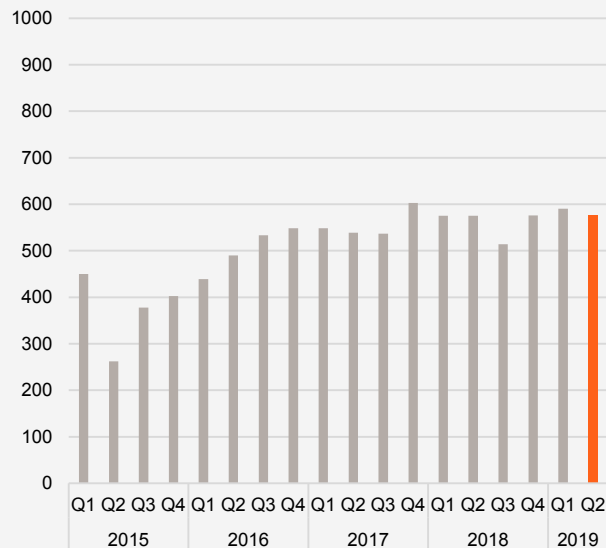
Financial development QoQ

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

Net Interest Income (SEK mn)



Operating profit (SEK mn)



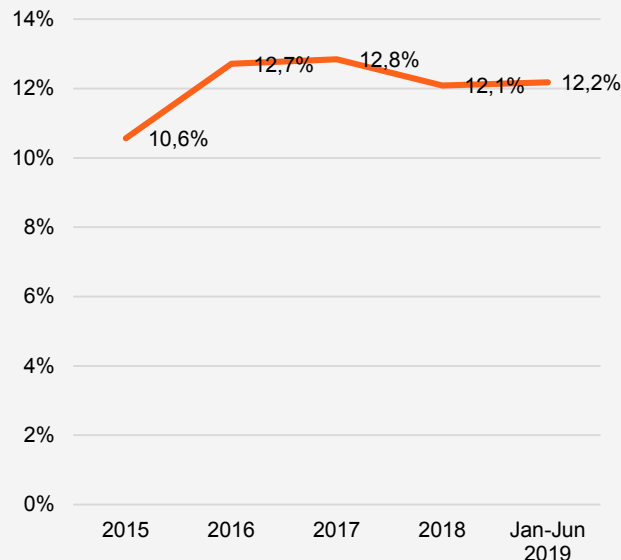
Comments

- 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

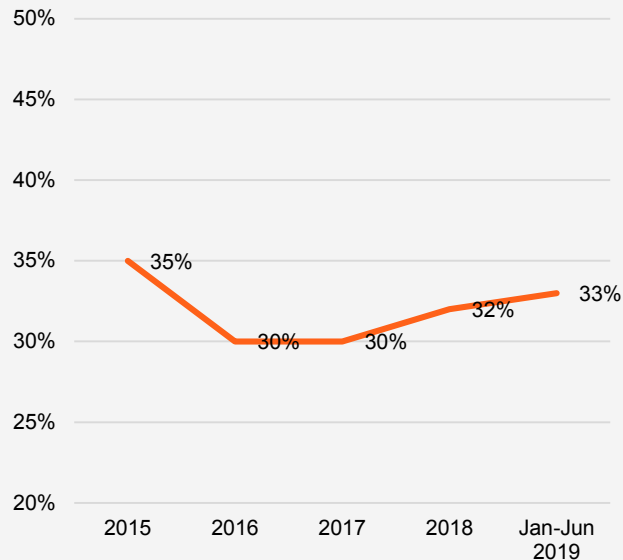
Strong financial KPIs

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

Return on equity, % *



C/I-ratio, %



Comments

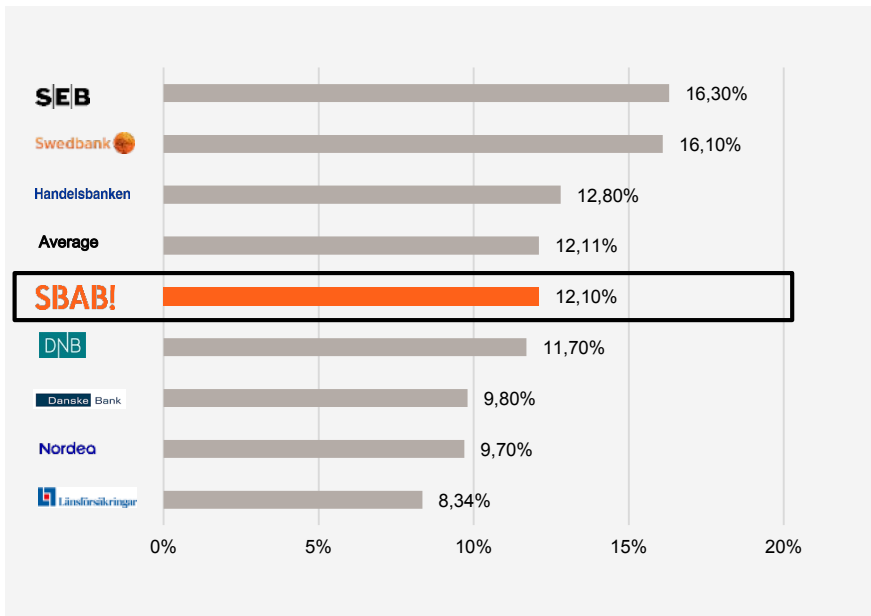
- Strong underlying profitability (above profitability target of RoE>10% last 5 years)
- Successful and cost efficient origination through call centre and internet platform (since 1998). No branch offices
- Risk/return trade off – competitive profitability and returns given SBAB's low risk business

* 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)

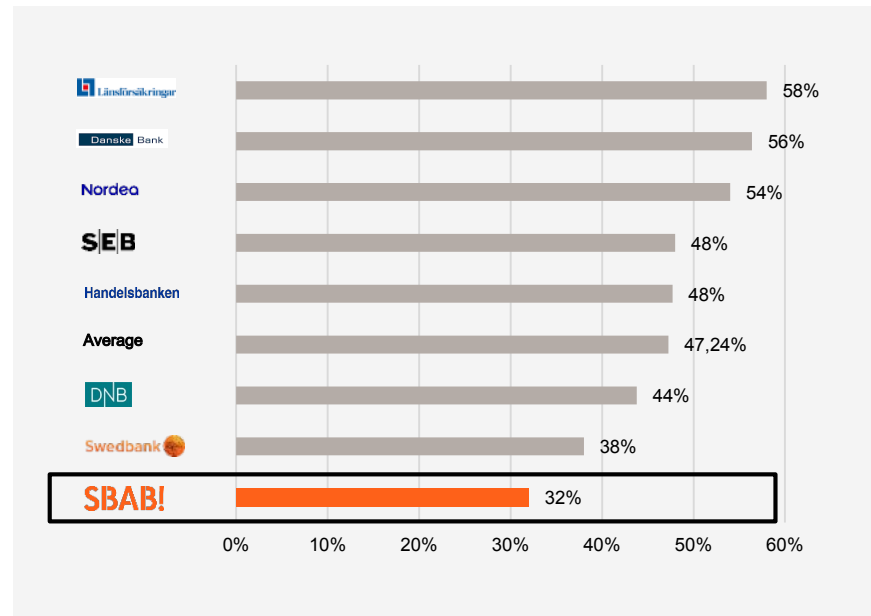
SBAB vs. others banks (FY2018)

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

Reported return on equity FY2018, %



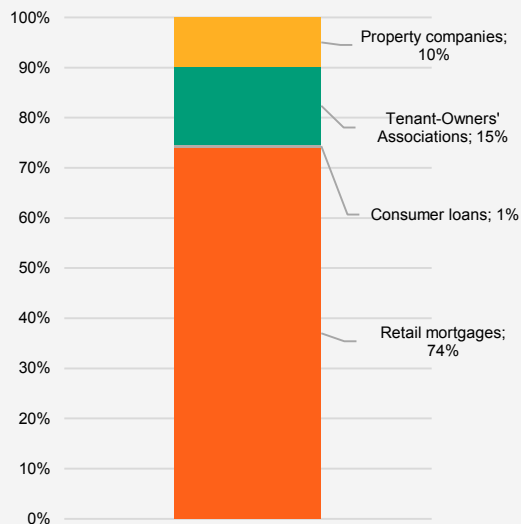
Reported C/I-ratio FY2018, %



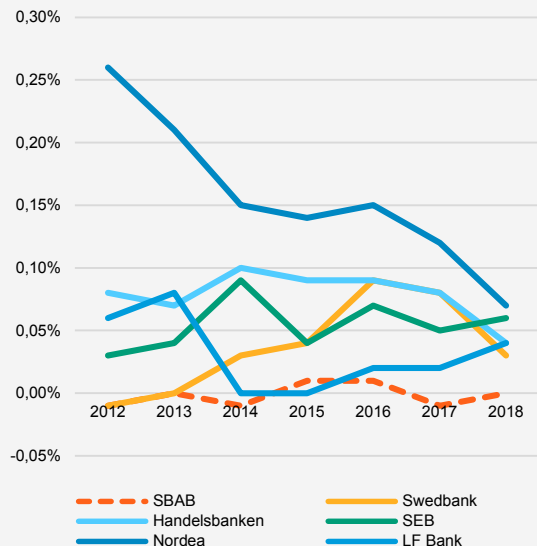
Swedish mortgages – a low risk business

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

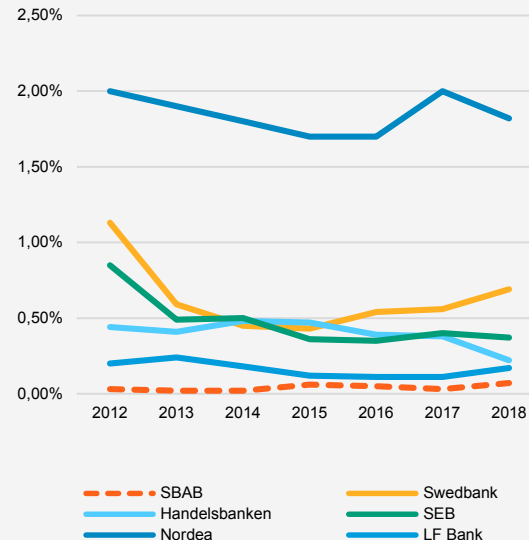
SBAB lending 31 Dec 2018 >98% collateralized



Net credit losses FY2018 vs. other banks



Impaired loans FY2018 vs. other banks



FUNDING, CAPITAL & LIQUIDITY.



Overview of funding

– Total funding portfolio SEK 448 billion (as of 30 June 2019)

FUNDING OVERVIEW

Deposits

Unsecured funding

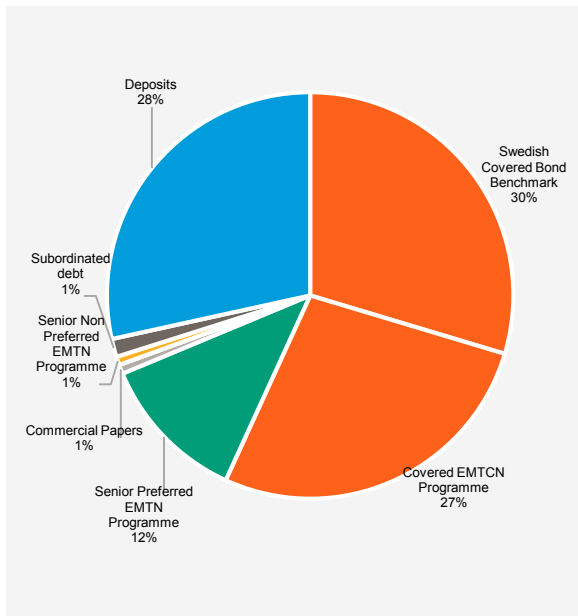
SBAB!

Covered bonds

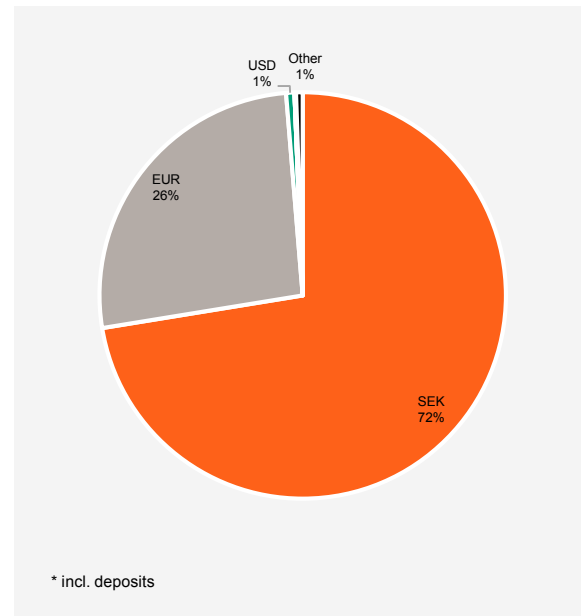
SCBC

— Covered Bonds of SBAB —

Funding sources



Currency split

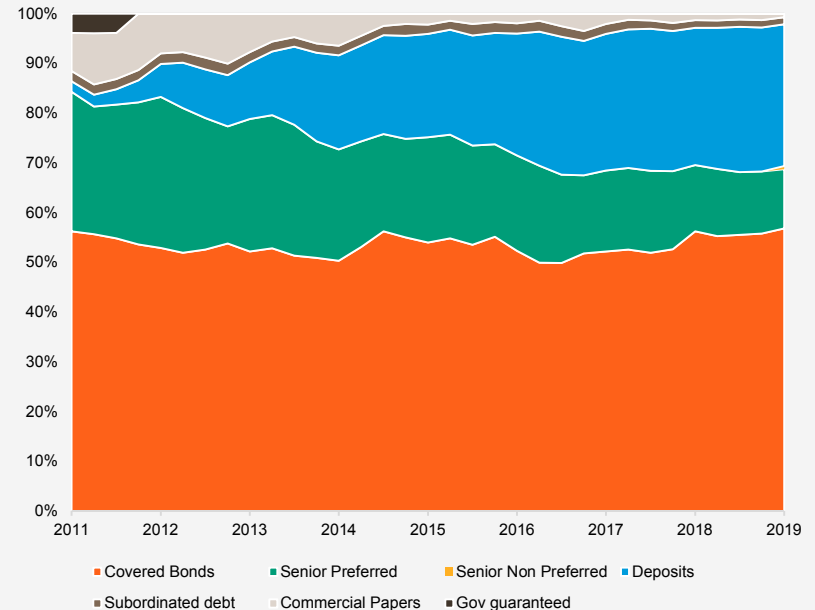


Funding strategy & development

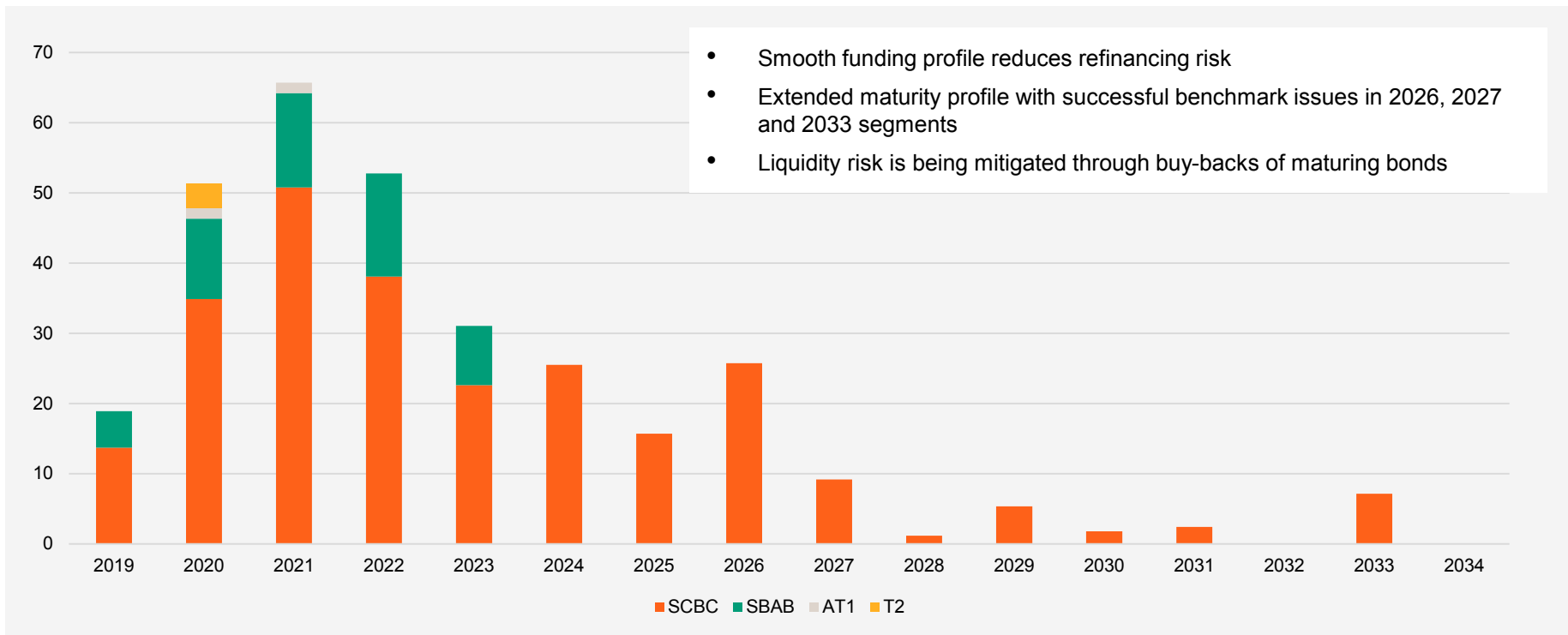
Funding strategy

- 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
- Reduced wholesale funding reliance due to growing deposit volumes. Maintain a low reliance on foreign currency funding
- Continuous and committed investor work in core markets and towards core investors to further increase name recognition and transparency
- 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
- Committed to increase green bond issuances subject to green lending volumes

Development of funding sources



Maturity profile



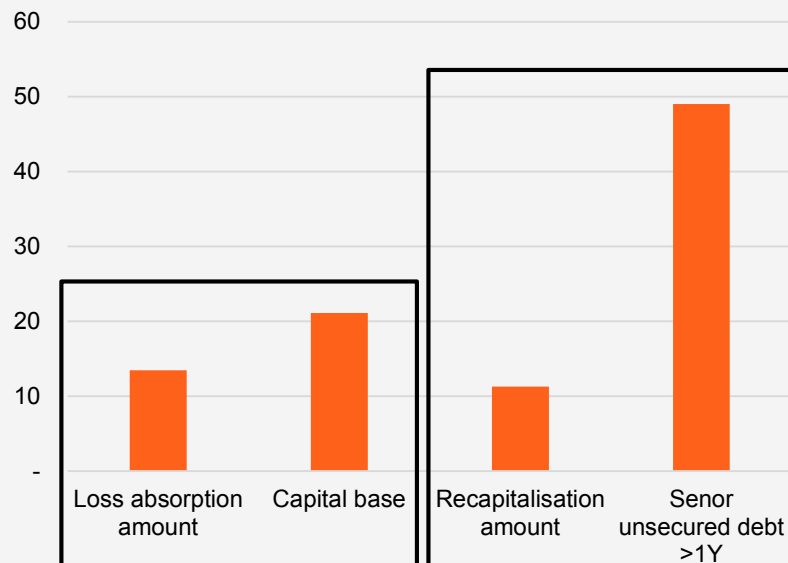
MREL-requirement 2019

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 25 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

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

MREL requirement Q2 2019, SEK (bn)

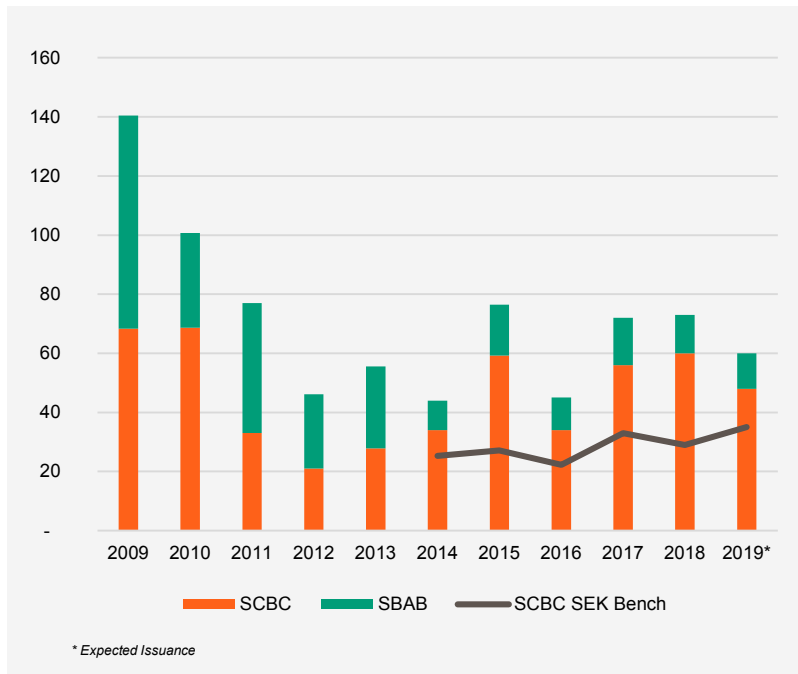


Future issuance

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%	312.4	55.9	26.2
-5%	308.8	57.8	24.8
-10%	304.1	59.5	22.9
-15%	298.1	61.2	20.4
-20%	290.3	62.6	17.3
-25%	280.6	64.0	13.4
-30%	268.1	65.2	8.4

* OC calculated in accordance with requirements from the Swedish FSA

Cover pool

Cover Pool (SEK)

312.4_{bn}

No. of loans

412,572

OC

26.2%

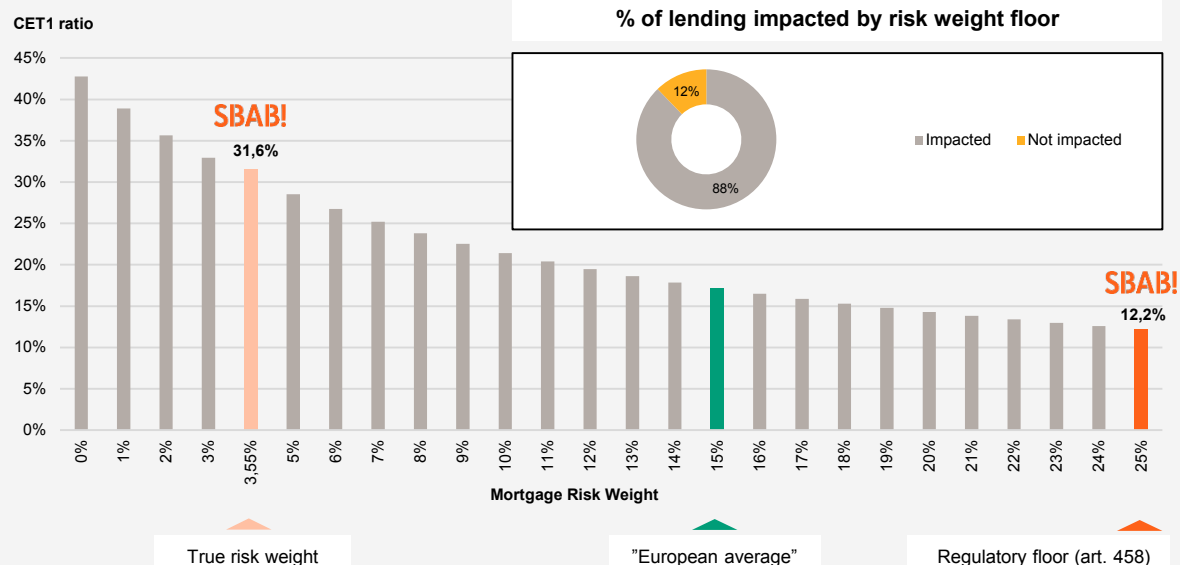
WA LTV

55.9%

Capital position

– Solid capitalisation, SBAB well above external and internal requirements

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



Comments

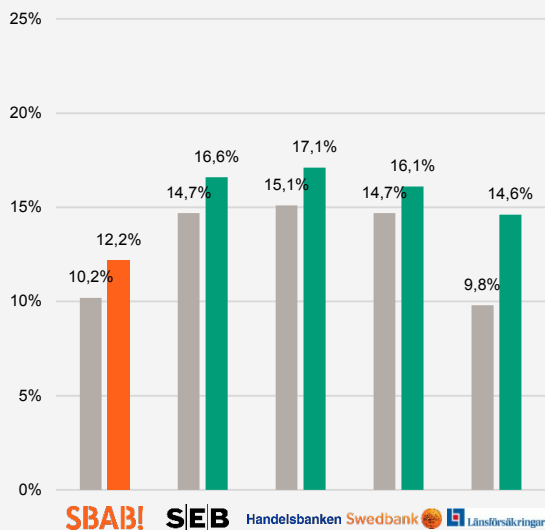
- Capital target: CET1 and total capital ratio at least 0.6% above the requirement communicated by the Swedish FSA *
- CET1 capital ratio of 12.2% well above external requirement (10.2%) and internal target (10.5%)

* 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.

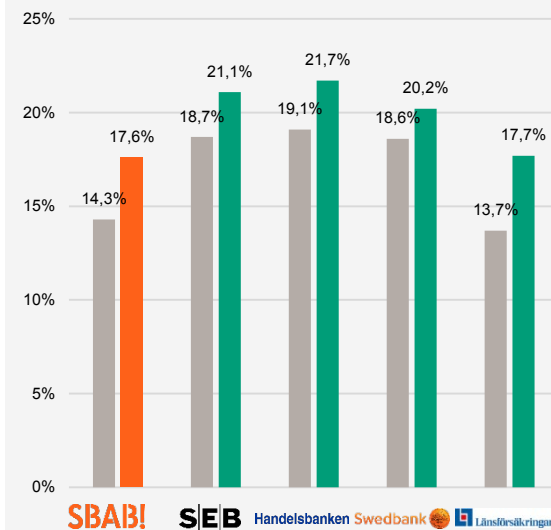
Capital position

– Continued strong capital buffers – SBAB well above external 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

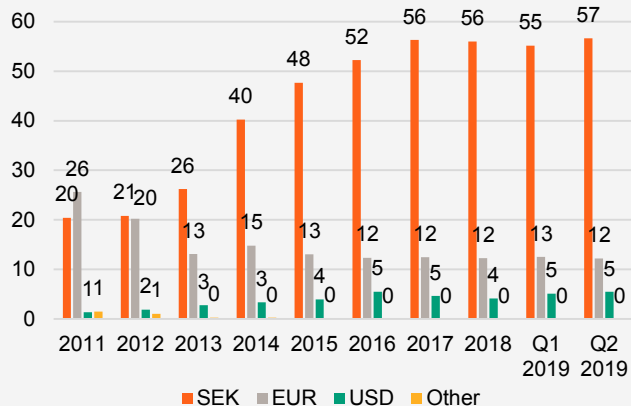
█ Available Q2 2019
 █ Requirement Q2 2019

* Revised 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.

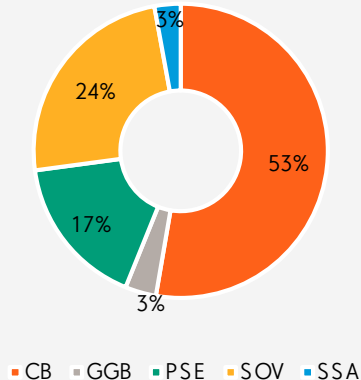
Liquidity position

- 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

74bn

LCR

274%

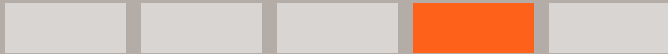
NSFR

123%

Survival horizon

421 days

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 and into 2019
- 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 upturn is not expected until 2022
- 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

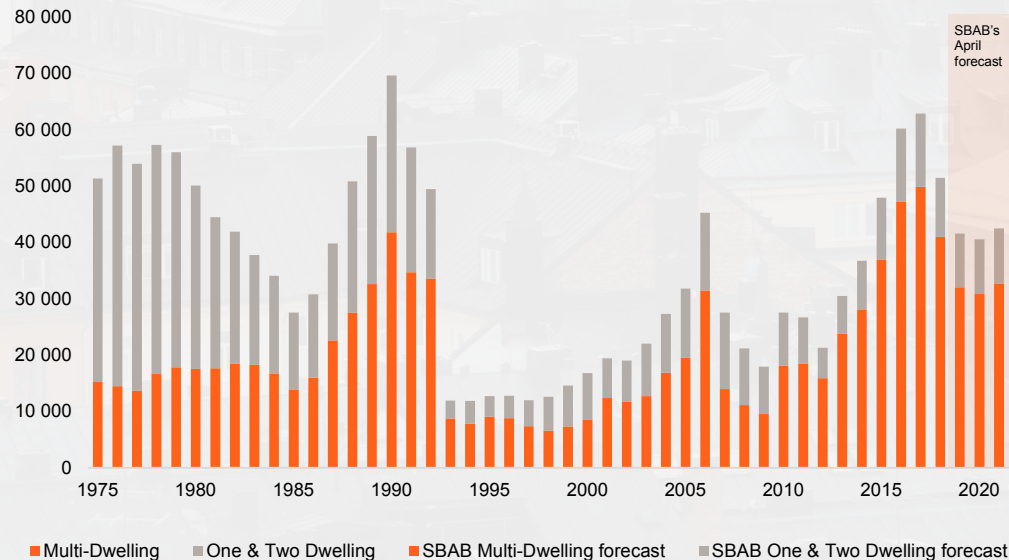
Well developed welfare system raising households' ability to service debt even during times of unemployment

Housing construction

Housing construction

- **Housing construction peaked in 2017**
 - Construction has been comparatively low since the 1990s crisis but increased rapidly a few years ago
 - Currently a potential shortfall of 160 000 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)

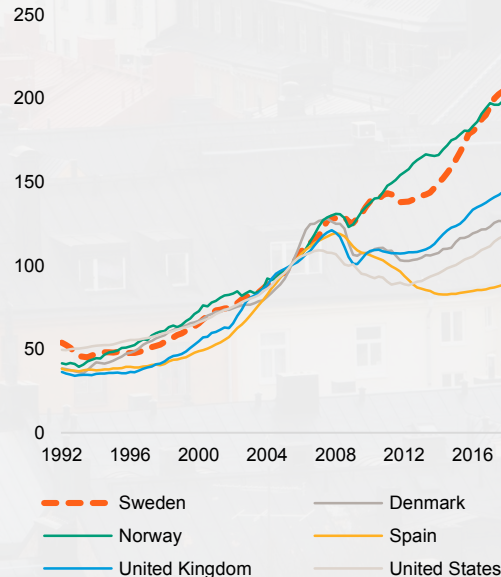


House price development

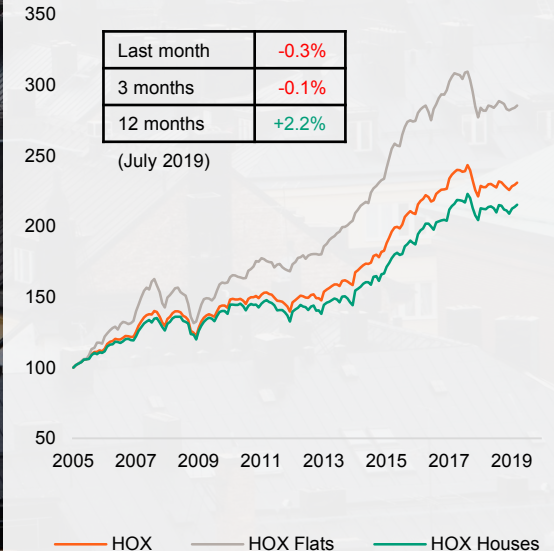
House price development

- **House prices have increased by an average of 5.0% 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)

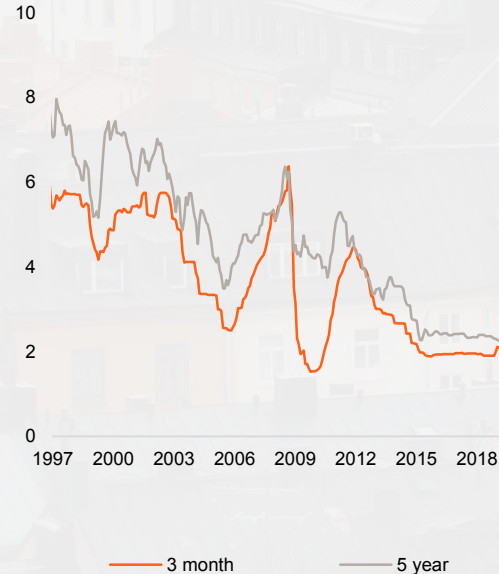


Low costs of owning a dwelling

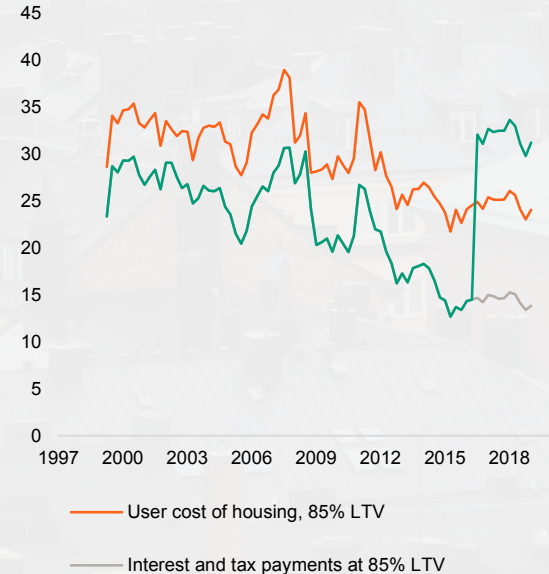
Low costs of owning a dwelling

- **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 14%
- **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)

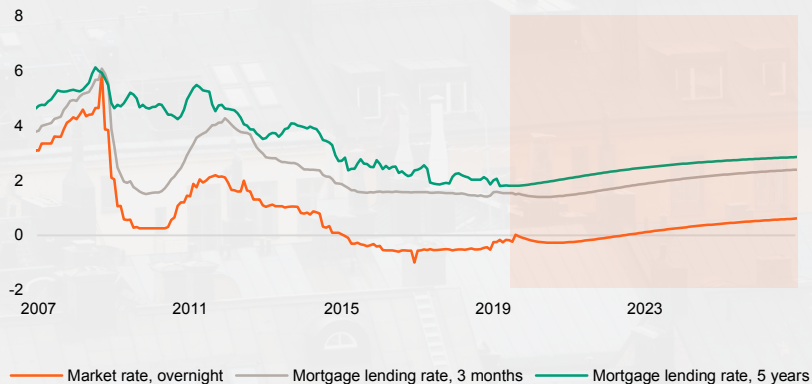
SBAB's forecast

Robert Boije
Chief Economist, SBAB



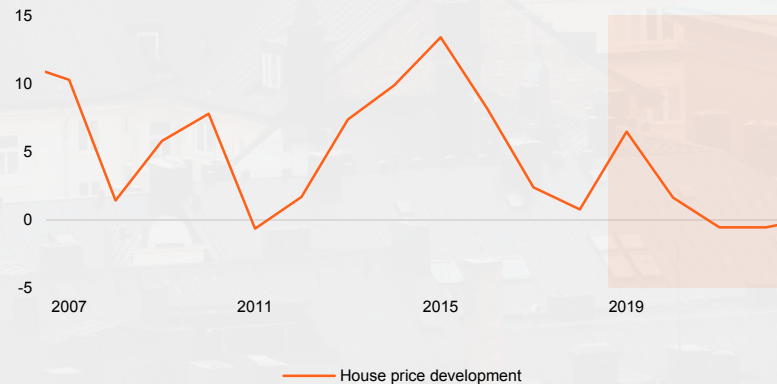
Interest rate development (percent)

Given the market's expectations of interest rate developments, and an assumption of continued historically low real interest rates, we have made a forecast for mortgage lending rates with interest periods from 3 months to 5 years. We expect a moderate and slow rise in mortgage rates over the next years for all periods. In January 2023, the 3-month interest rate is expected to be 1.9% and the 5-year interest rate 2.3%.



House price development (percent)

According to our house price model, 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 about 6% 2019, and then remain fairly stable in the coming years. Overall, in three years' time housing prices are expected to rise by on average 8%.



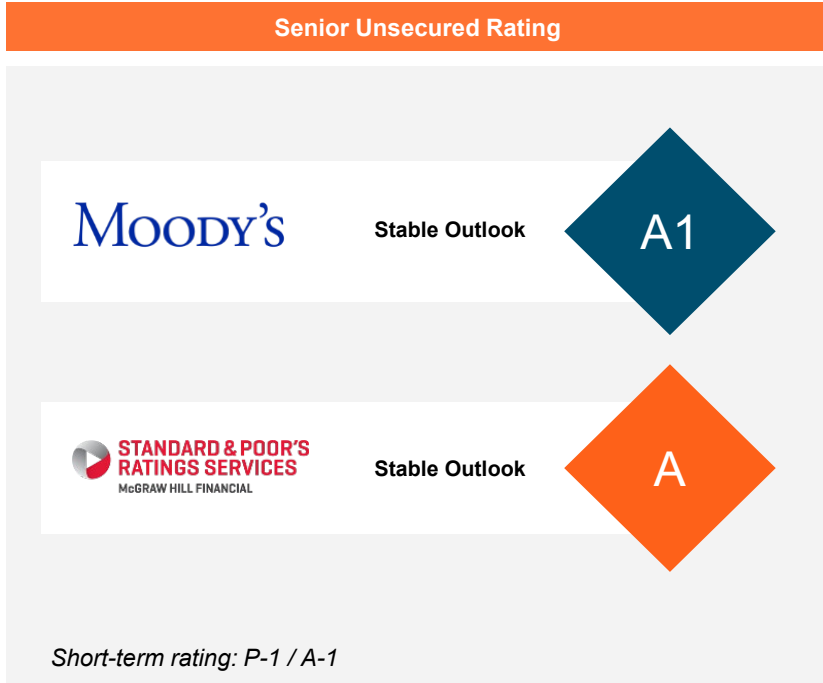
APPENDIX.



Key highlights SBAB

- **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



Moody's

STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

Investment Grade	Moody's	Standard & Poor's
	Aaa <i>Sov. rating</i>	AAA <i>Sov. rating</i>
	Aa1	AA+
	Aa2	AA
	Aa3	AA-
	A1 <i>Senior Preferred</i>	A+
	A2	A <i>Senior Preferred</i>
	A3	A- <i>SACP</i>
	Baa1 <i>BCA</i>	BBB+ <i>SNP</i>
	Baa2 <i>T2 / SNP</i>	BBB <i>T2</i>
	Baa3	BBB-
Non Investment Grade	Ba1 <i>AT1</i>	BB+
	Ba2	BB <i>AT1*</i>
	[...]	[...]

* Revised 2019/22/05 from BB+

SBAB's rating composition for senior debt

MOODY'S

Moody's

Stand-alone rating	Baseline Credit Assessment (BCA)	baa1
	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
	Total notching	+3

Rating	Rating	A1
	Outlook	STABLE

STANDARD & POOR'S
RATINGS SERVICES
McGraw Hill Financial

Standard & Poor's

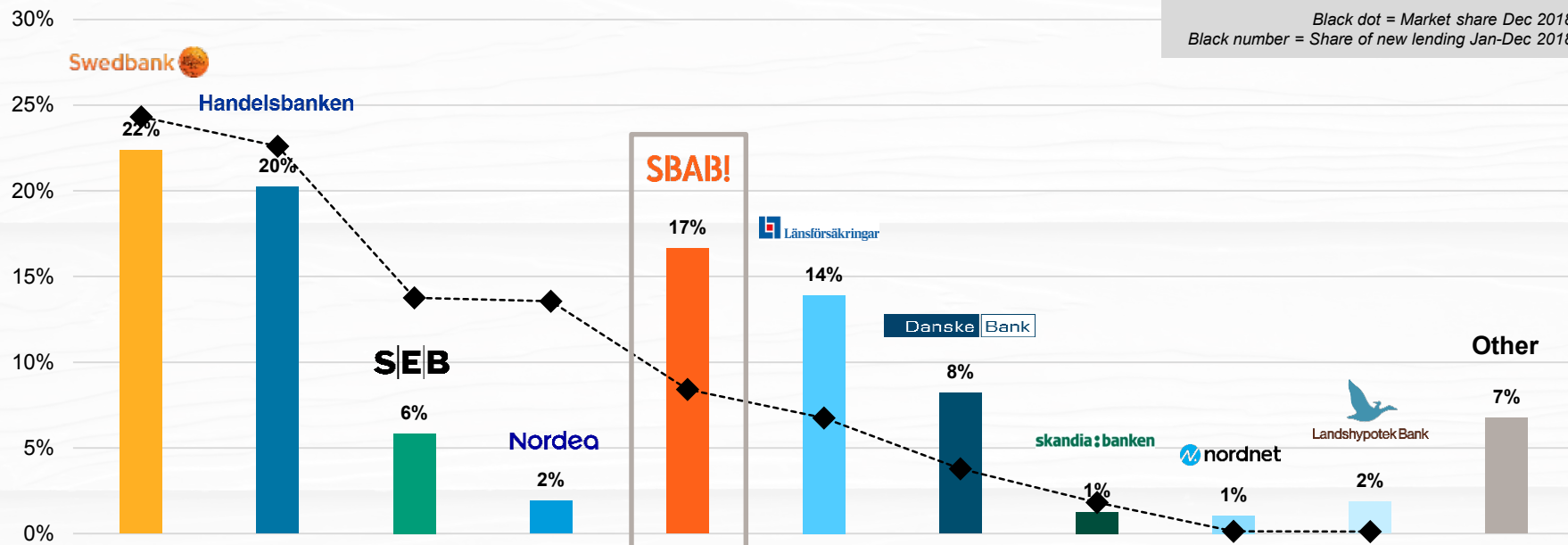
Stand-alone rating	Stand-Alone Credit Profile (SACP)	a-
	Anchor	a-
	Business Position	-1
	Capital and Earnings	+1
	Risk Position	0
	Funding & liquidity	0

Notching	ALAC Support	0
	GRE Support	+1
	Group Support	0
	Sovereign Support	0
	Total notching	+1

Rating	Rating	A
	Outlook	STABLE

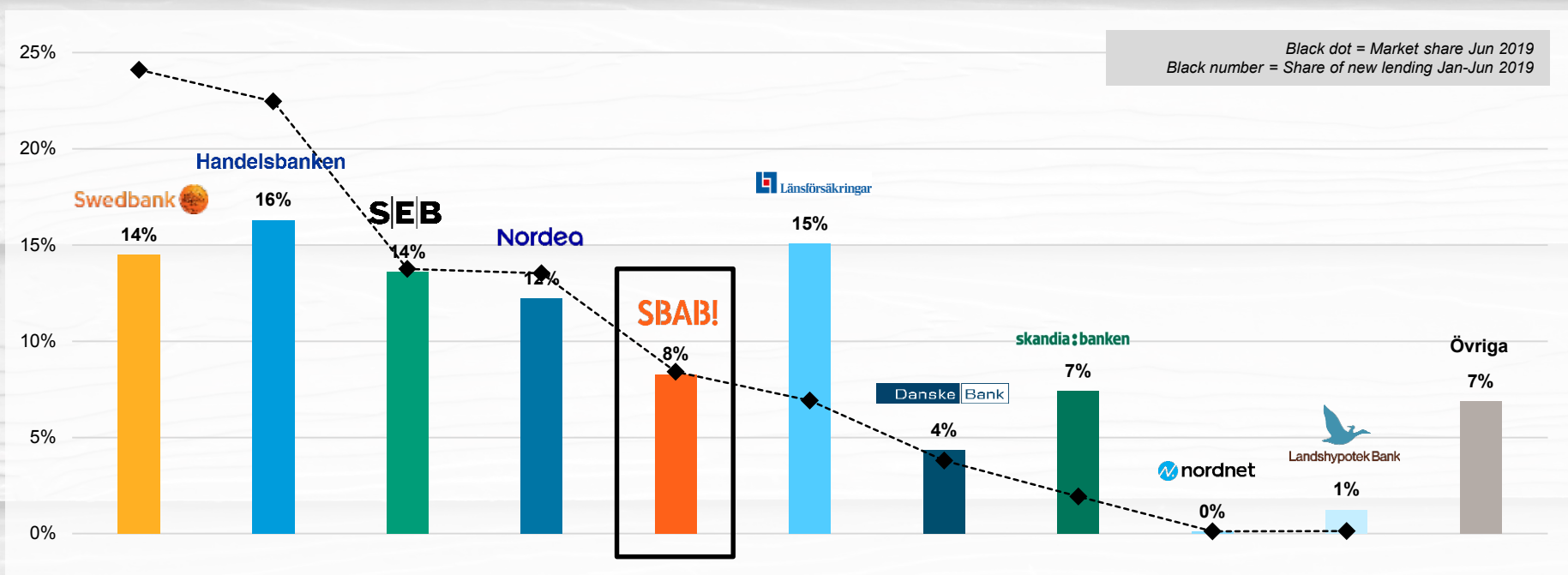
The residential mortgage market 2018

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



The residential mortgage market 2019

Share of net growth in the Swedish residential mortgage market Jan-Jun 2019 vs. market share Jun 2019



Contact information

For further information, please contact:

Fredrik Jönsson, Head of Treasury
fredrik.jonsson@sbab.se

+46 8 614 3822

Anders Hult, Head of Funding
anders.hult@sbab.se

+46 8 614 3864

Emma Holmberg, Head of Investor Relations
Emma.holmberg@sbab.se

+46 702 556 266

Pontus Nilehn, Manager Financial Communications
pontus.nilehn@sbab.se

+46 706 912 444

Information on the Internet:

www.sbab.com
www.scbc.se
www.ascb.se - Association of Swedish Covered Bond issuers

Bloomberg codes:

SBAB Corp - joint code both for SBAB and SCBC

APPENDIX

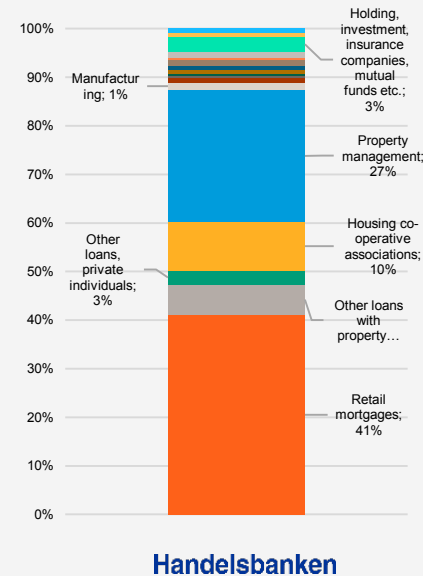
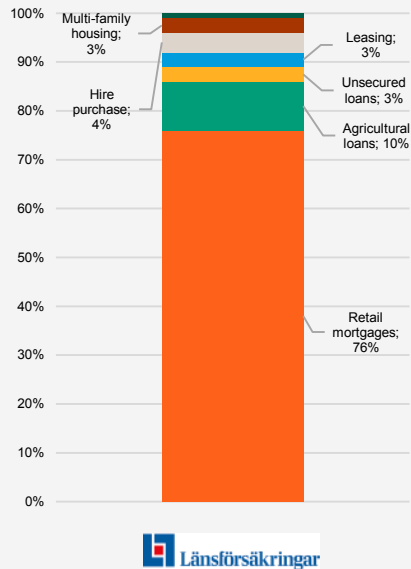
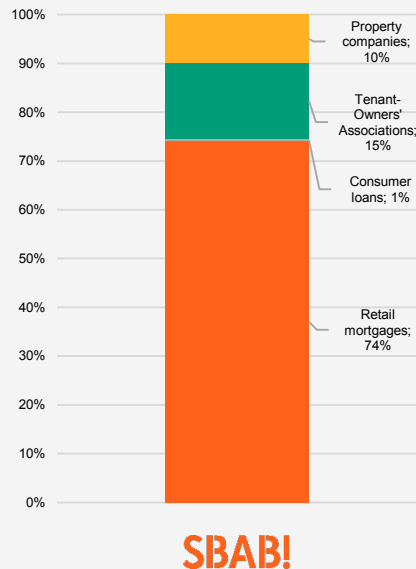
ASSET QUALITY.



Overview of SBAB collateral (Q4 2018)

– A "simple" balance sheet with low risk

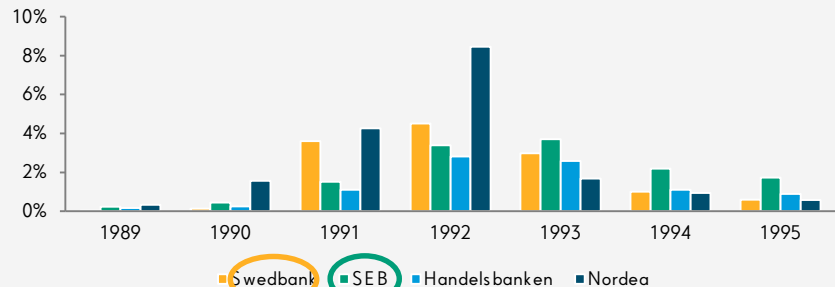
Lending to the public (Q4 2018) – divided by collateral type



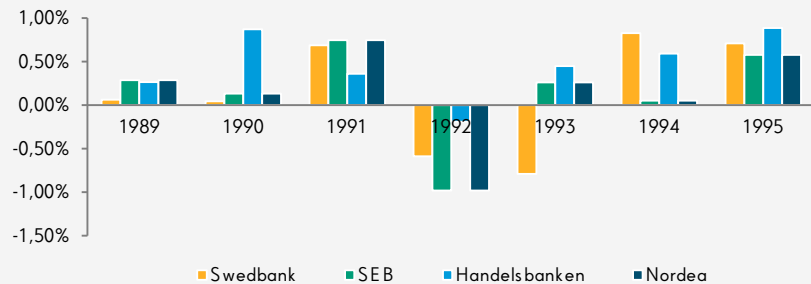
Mortgages: a low risk business

– 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

0.25%
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

SCBC
— Covered Bonds of SBAB —

Covered Bond
€500 mn

0.375%
10y due Jun '29

June 2019

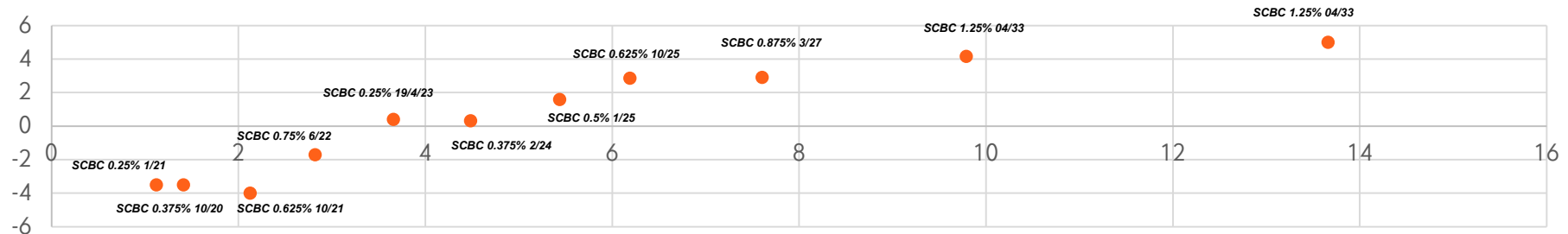
Outstanding senior unsecured and CB (EUR)

– Spread vs MS

Senior Unsecured (SP)



Covered



APPENDIX

CAPITAL.



Move of risk weight floor (1/3)

- 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

Move of risk weight floor (2/3)

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

30 Jun 2019, SEK mn	Before move (REA = SEK 46,415 mn)				After move (REA = SEK 119,728 mn)			
	Total capital	%	CET1 capital	%	Total capital	%	CET1 capital	%
Pillar 1 minimum requirement	3,713	8.0	2,089	4.5	3,713	3.1	2,089	1.7
Pillar 1 risk-weight floor, Swedish mortgages	–	–	–	–	5,865	4.9	3,299	2.8
Pillar 2 core requirement	1,704	3.7	1,136	2.4	1,704	1.4	1,136	0.9
Pillar 2 risk-weight floor, Swedish mortgages	9,153	19.7	6,587	14.2	–	–	–	–
Capital conservation buffer	1,160	2.5	1,160	2.5	2,993	2.5	2,993	2.5
Countercyclical buffer	928	2.0	928	2.0	2,383	2.0	2,383	2.0
Internally estimated capital requirement*	16,658	35.9	11,900	25.6	16,658	13.9	11,900	9.9
SBAB's actual capital	21,112	45.5	14,661	31.6	21,112	17.6	14,661	12.2

* Internally estimated capital requirement as per 17 Jul 2019. Actual requirement from the Swedish FSA published on 23 Aug 2019

Move of risk weight floor (3/3)

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

30 Jun 2019, SEK mn	Floor in P2	Floor in P1
REA	<u>46,415</u>	<u>119,728</u>
Capital policy – internally estimated requirement*		
CET1 requirement	11,900	11,900
Total capital requirement	16,658	16,658
Ratios		
CET1	31.6%	12.2%
Total capital	45.5%	17.6%
Ratios – internally estimated requirement*		
CET1	25.6%	9.9%
Total capital	35.9%	13.9%
Ratios – management buffer		
CET1	27.1%	10.5%
Total capital	37.4%	14.5%
Margin to internally estimated requirement*		
CET1	6.0%	2.3%
Total capital	9.6%	3.7%

* Internally estimated capital requirement as per 17 Jul 2019. Actual requirement from the Swedish FSA published on 23 Aug 2019

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	23.9%
Weighted average LTV	55.9%
Weighted average seasoning	4.8 years
Loans in arrears	0.01%. Arrears below 0.01% (loans in arrears > 30 days are excluded from the Cover Pool)
Number of loans	412,572
Average loan size	SEK 758,848
Geographical location	Spread throughout Sweden; concentrated to economic hubs
Pool type	Dynamic
Originator	SBAB Bank Group
Interest rate type	67.4% floating, 32.6% fixed / 53.4% amortising, 46.6% interest only

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

The SCBC product

— Covered Bonds of SBAB —

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

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 in arrears

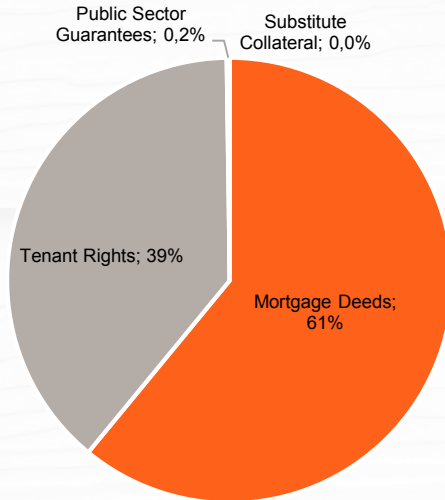
- Loans 30 days in arrears are normally removed from the cover pool in SCBC

Other features

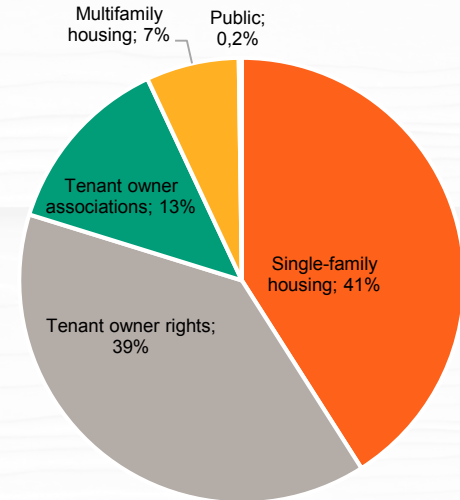
- Dynamic OC in compliance with Aaa requirements
- UCITS Compliant
- Swedish covered bonds are eligible for repo at Riksbank
- ECBC Harmonised Transparency Template, HTT
- National Template, NTT

Cover pool characteristics

Breakdown by collateral

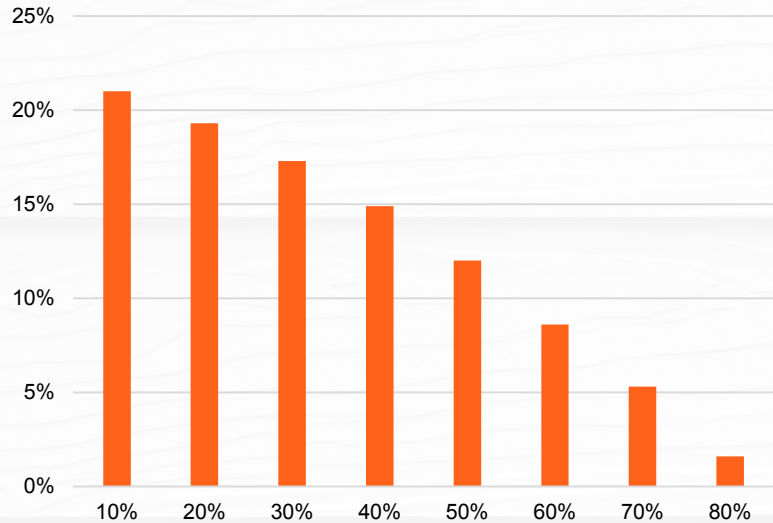


Breakdown by owner

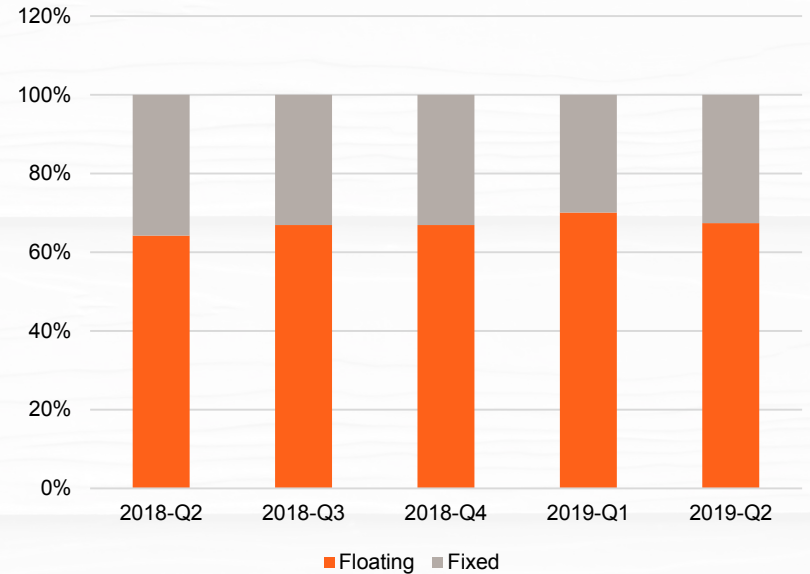


Cover pool characteristics

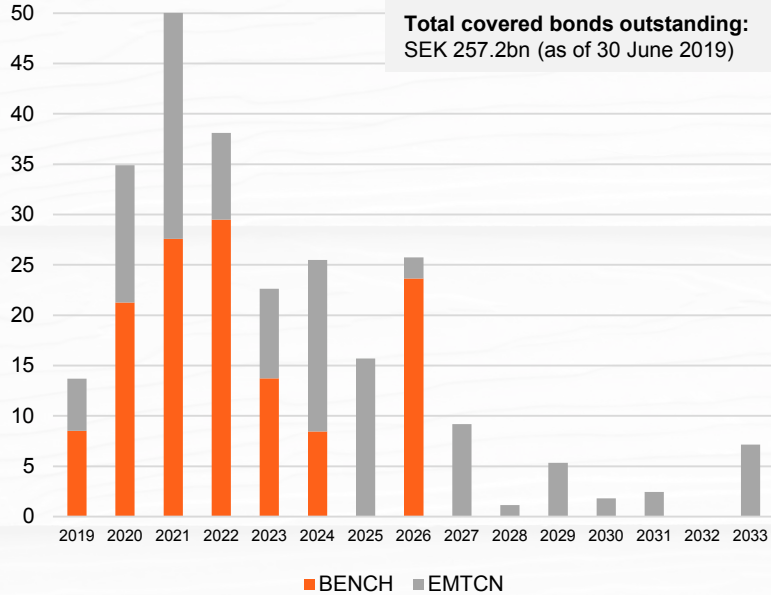
Loan to value (LTV) distribution (Q1 2019)



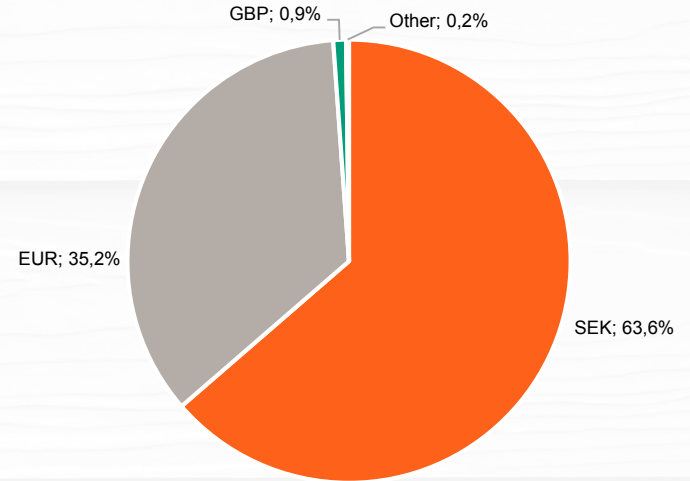
Rate type



Maturity profile



Currency profile



APPENDIX

THE SWEDISH ECONOMY & HOUSING MARKET.



Kingdom of Sweden

Kingdom of Sweden

- Area: 450 295 sq km
- Population: 10 272 518 (May 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 2018 (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	-0.25	-0.25	-0.25	-0.06
KIX-index (-)	117.6	120.6	119.6	118.2	115.9

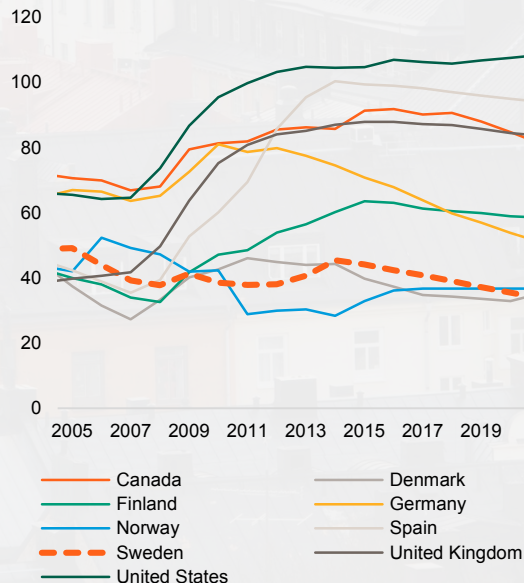
Note: Annual percentage growth unless indicated otherwise, light orange background indicates SBAB April forecast with the exception of the Policy rate which is a partial SBAB August forecast

Public finances and fiscal policy

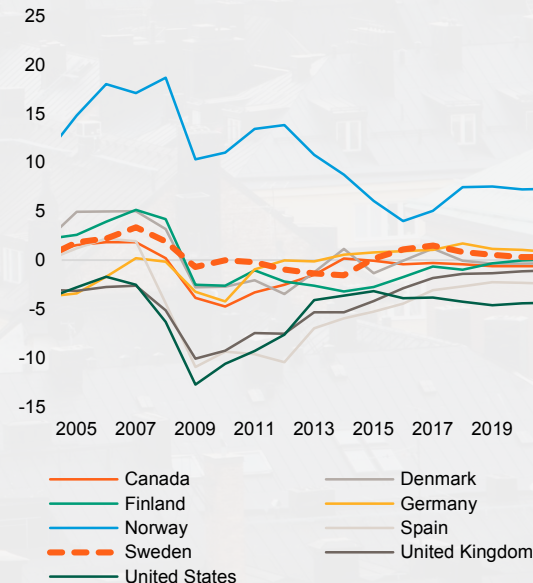
Comment

- **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, August 2019)
- **Budget currently close to balance**
 - Net lending/borrowing at 0.5% of GDP in 2019 (IMF, August 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)

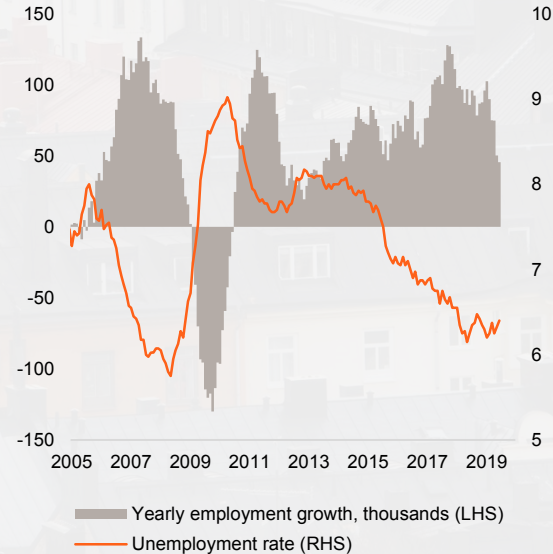


Strong domestic economy

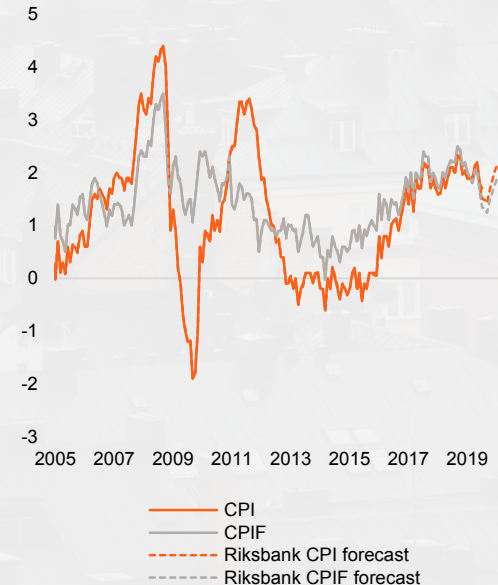
Comment

- **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)

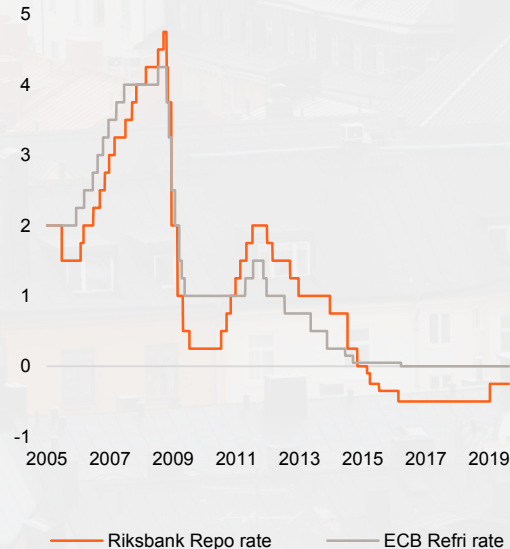


Monetary policy and interest rates

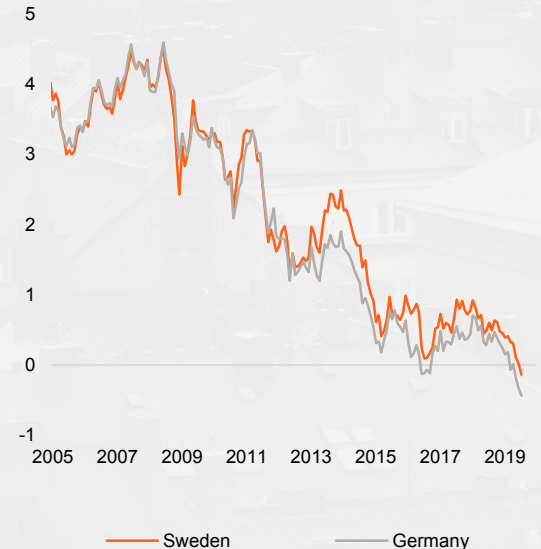
Comment

- **Very expansionary monetary policy**
 - The Riksbank announced on July 3rd 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

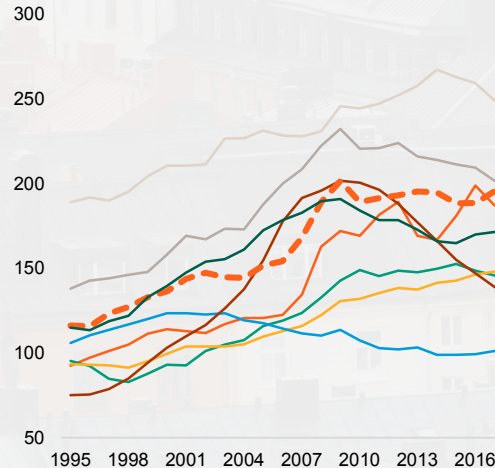


Debt compared to other countries

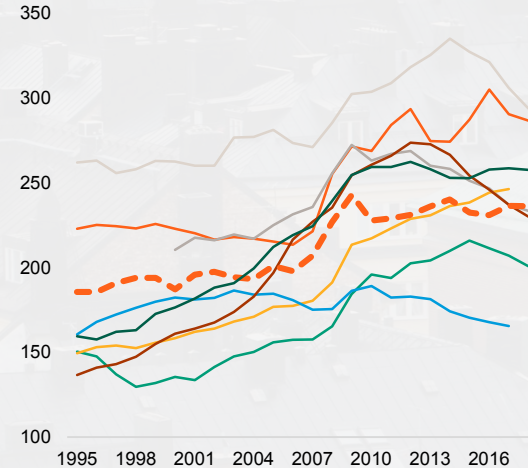
Comment

- **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)

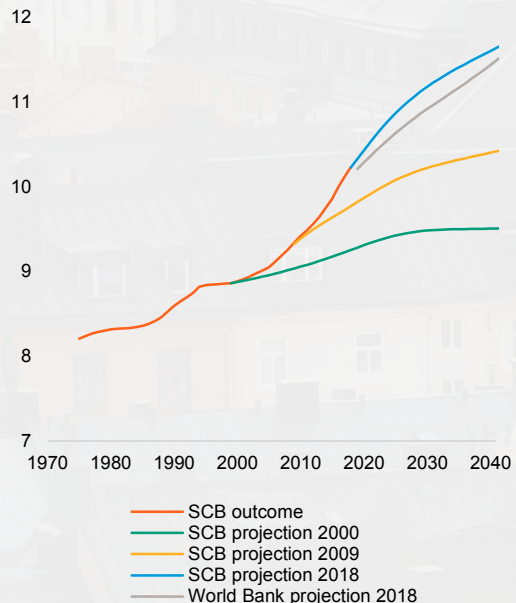


Demographics

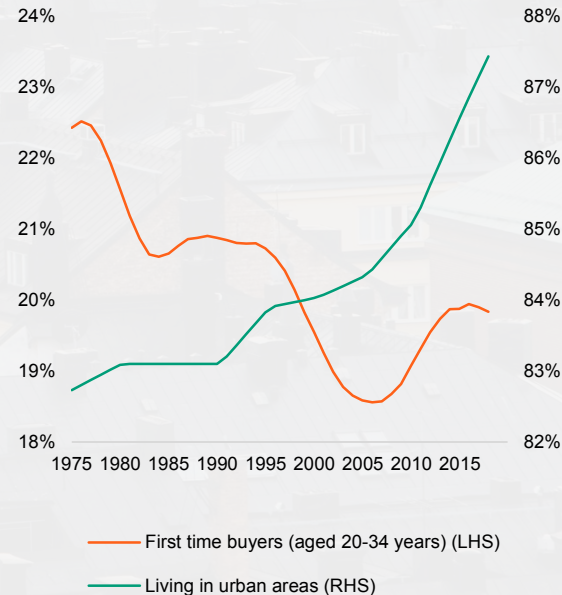
Comment

- **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)



Population composition (% of population)

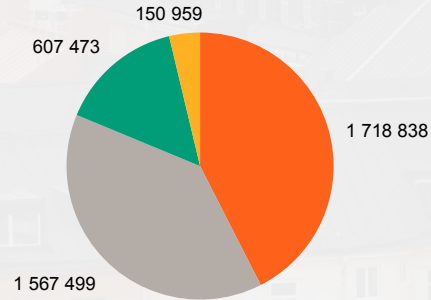


The Swedish housing market

Comment

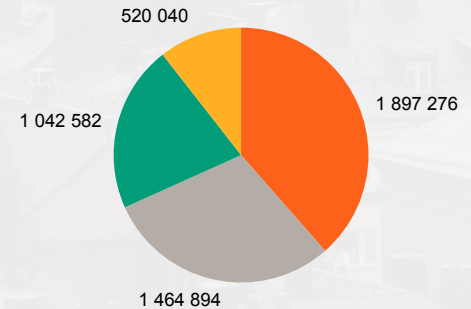
- **Most Swedes own their dwelling**
 - 67% of the dwelling stock (excluding other dwellings) is owner occupied and 33% is rented
- **The rental market is highly regulated**
 - Rent control is strong and a large part is owned by property companies controlled by municipalities
 - The share of rented apartments 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 2018



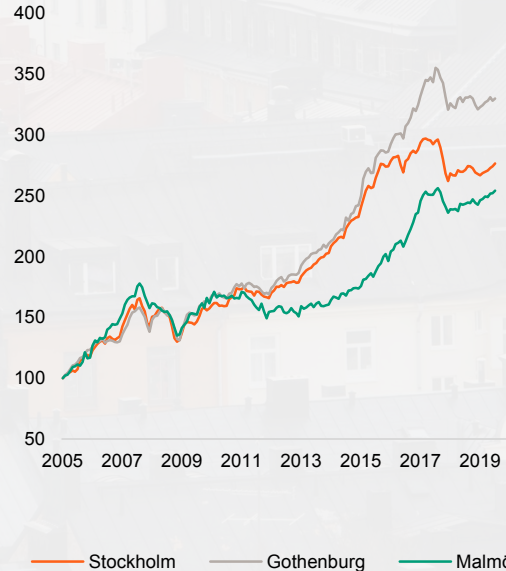
■ One & Two dwelling buildings ■ Rented apartments
■ Tennant owned apartments ■ Other

Regional residential price development

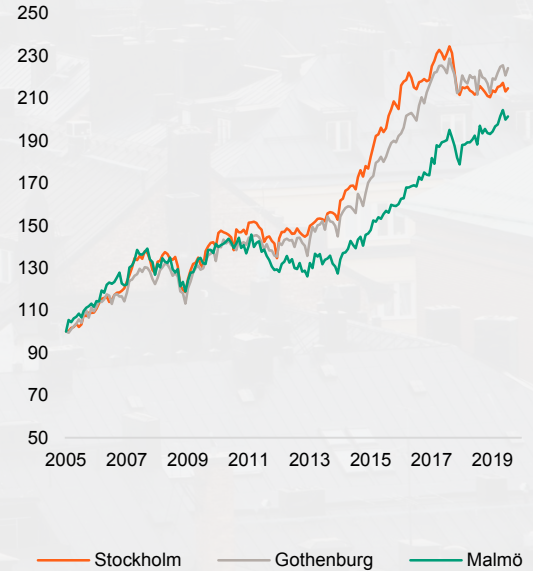
Comment

- **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)

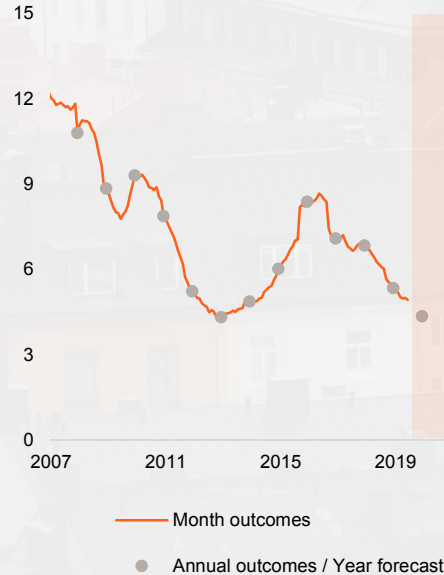


Strong lending growth

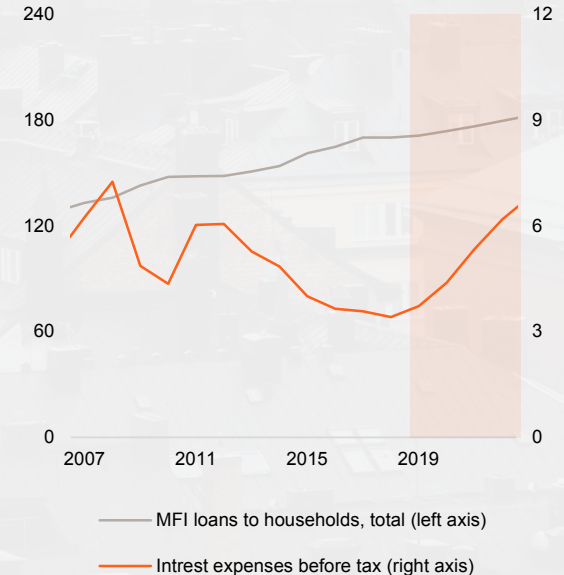
Comment

- **Lending to households is currently increasing by an annual rate of 4.9%**
 - 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)

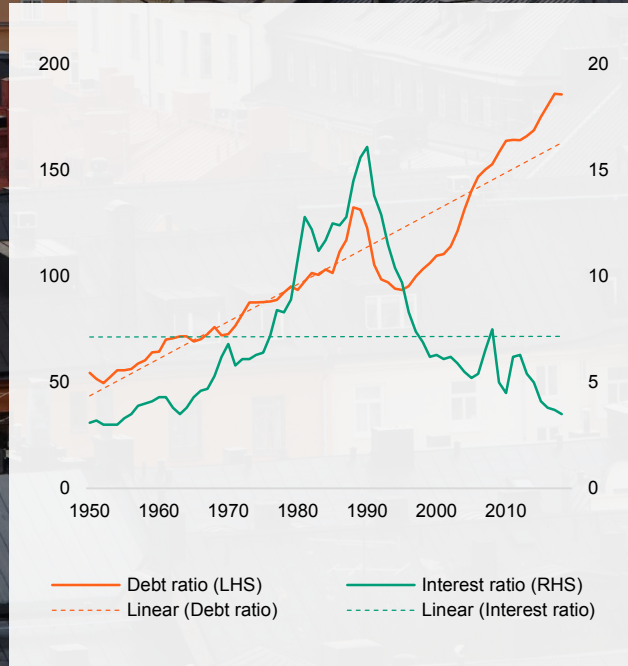


Household debt has increased

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 187%
 - 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 very 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

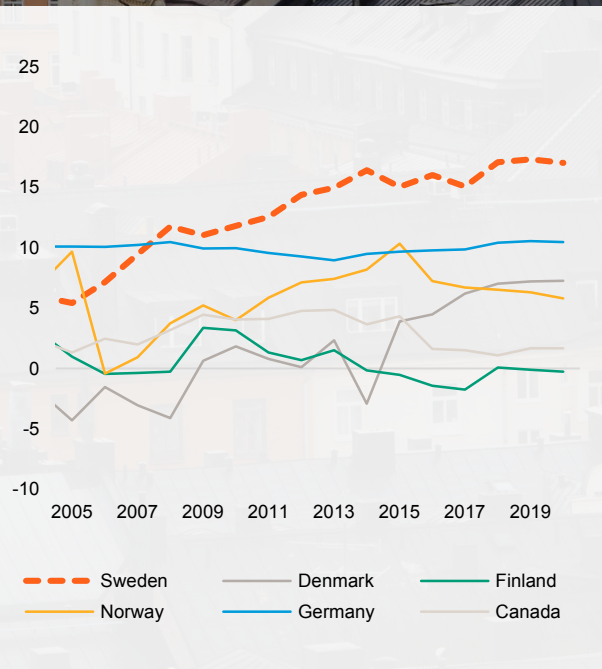
• High savings ratio

- Swedish households have a savings ratio at about 17%, 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%

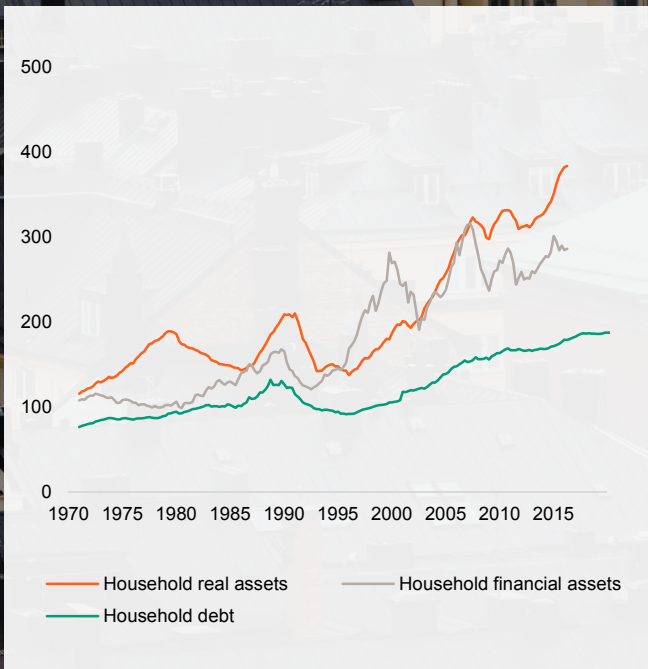
• High net wealth

- 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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