

# INVESTOR PRESENTATION

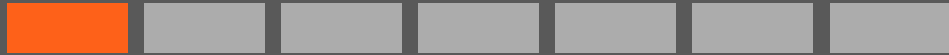
SEK Additional Tier 1 Issue  
SBAB Bank AB (publ)  
Aug 2019

# SBAB!

# Table of contents

|                          |   |   |   |   |   |   |   |
|--------------------------|---|---|---|---|---|---|---|
| Executive summary        | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| Business update          | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| Asset quality            | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| Funding and liquidity    | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| Capital adequacy         | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| Proposed AT1 transaction | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| Appendix                 | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

# *EXECUTIVE SUMMARY.*



# Executive summary

## A short introduction to SBAB

- 100% owned by the Kingdom of Sweden
- Swedish mortgage portfolio, predominantly residential mortgages. 5<sup>th</sup> largest residential mortgage provider in Sweden
- Savings accounts offered to retail customers, corporate clients and tenant-owners' associations
- Financial targets from owner covering profitability, capitalisation & dividend
- Total funding needs for 2019 expected to be around SEK 50-60 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%**

# Proposed transaction and rationale

**SBAB!**

SEK Benchmark  
Perpetual NC5y FRN  
and/or Perpetual  
NC5.5y FXD Additional  
Tier 1



## Transaction rationale

- Refinance upcoming call of outstanding AT1 bond
- Optimize and strengthen capital position
- Support leverage ratio
- Equity credit from rating agencies
- Enable future growth

## Expected rating of notes

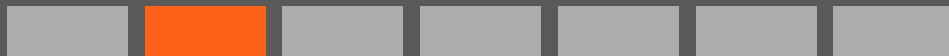
MOODY'S

**Ba1**

STANDARD & POOR'S  
RATINGS SERVICES  
MODERN HILL FINANCIAL

**BB**

***BUSINESS UPDATE.***



# Business overview

## Business overview

- Founded in 1985 & 100% owned by the Kingdom of Sweden
- Mortgage bank with >98% collateralized lending
- Straightforward business model (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*



# SBAB's 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

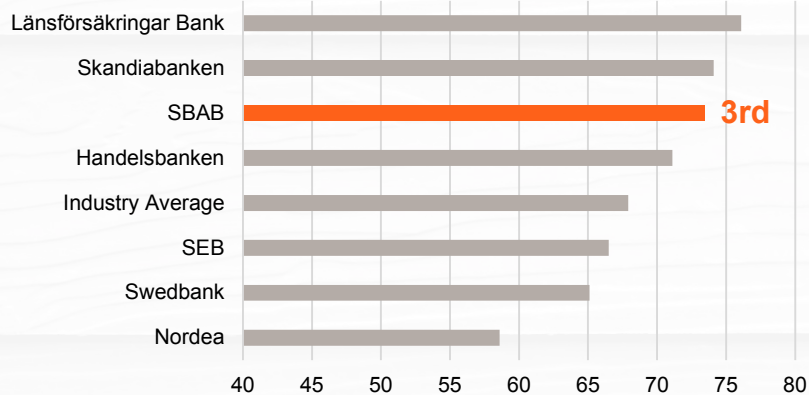
Housing specialists who care.



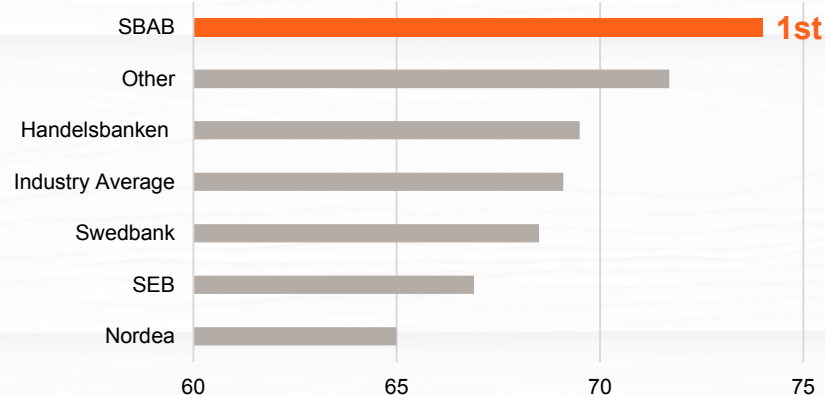
# Customer satisfaction



Residential mortgages (2018)



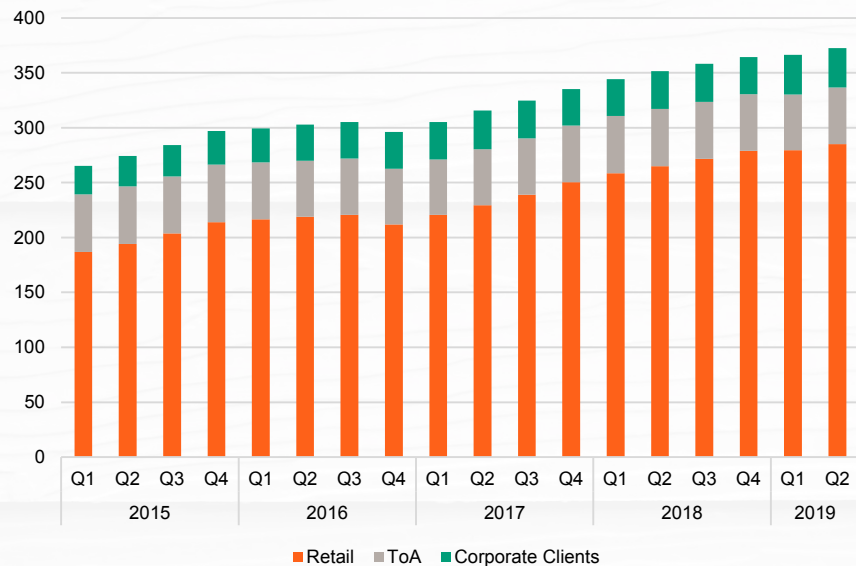
Property loans to corporates (2018)



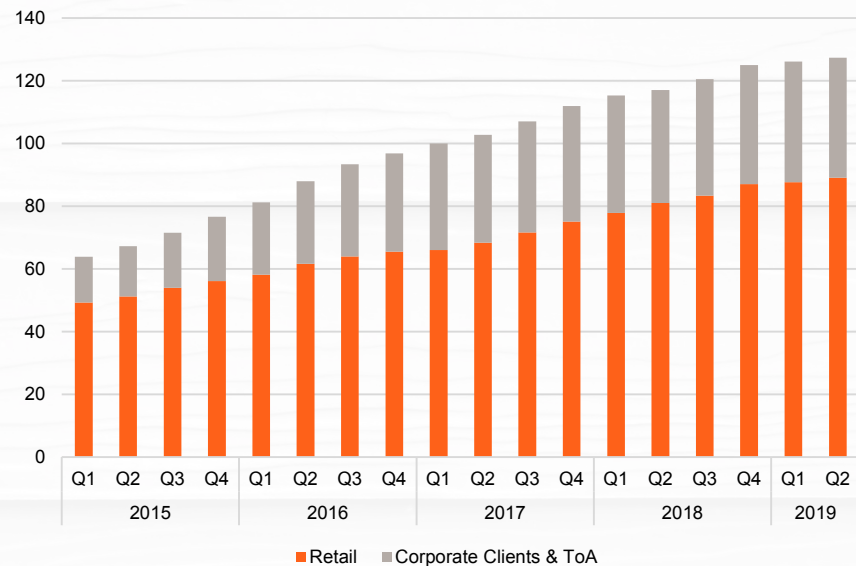
# Business volumes

– Solid growth during recent years for both lending and deposits

## Lending (SEK bn)

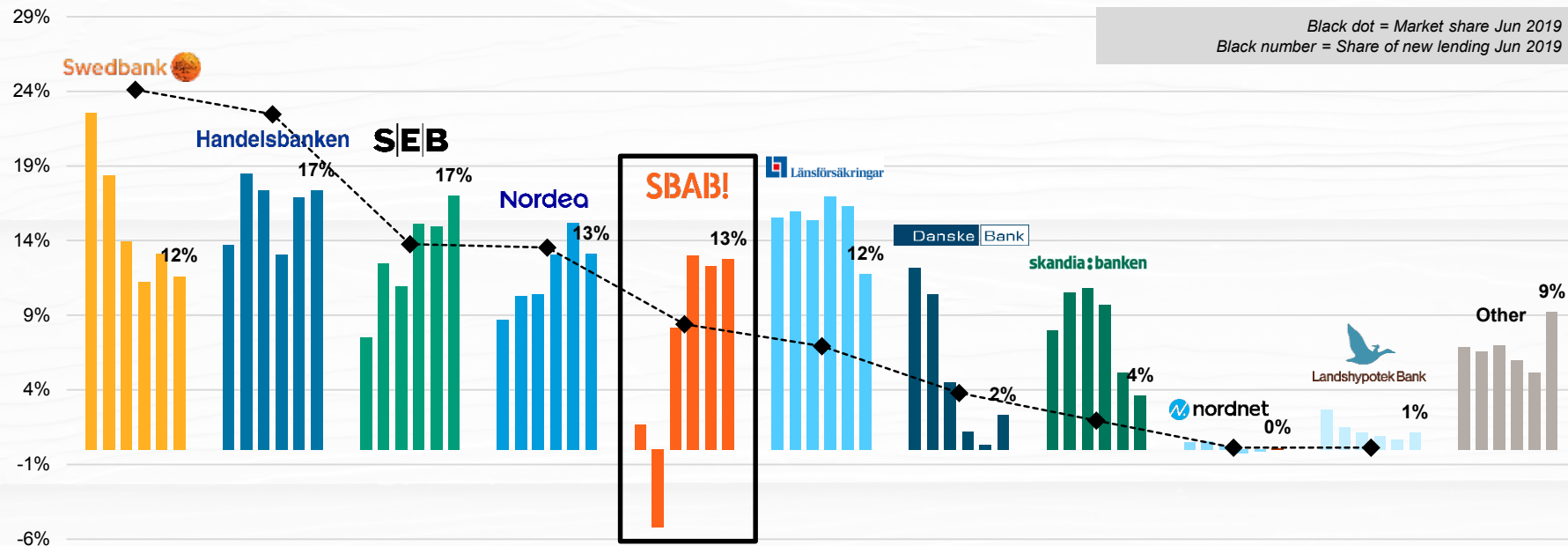


## Deposits (SEK bn)



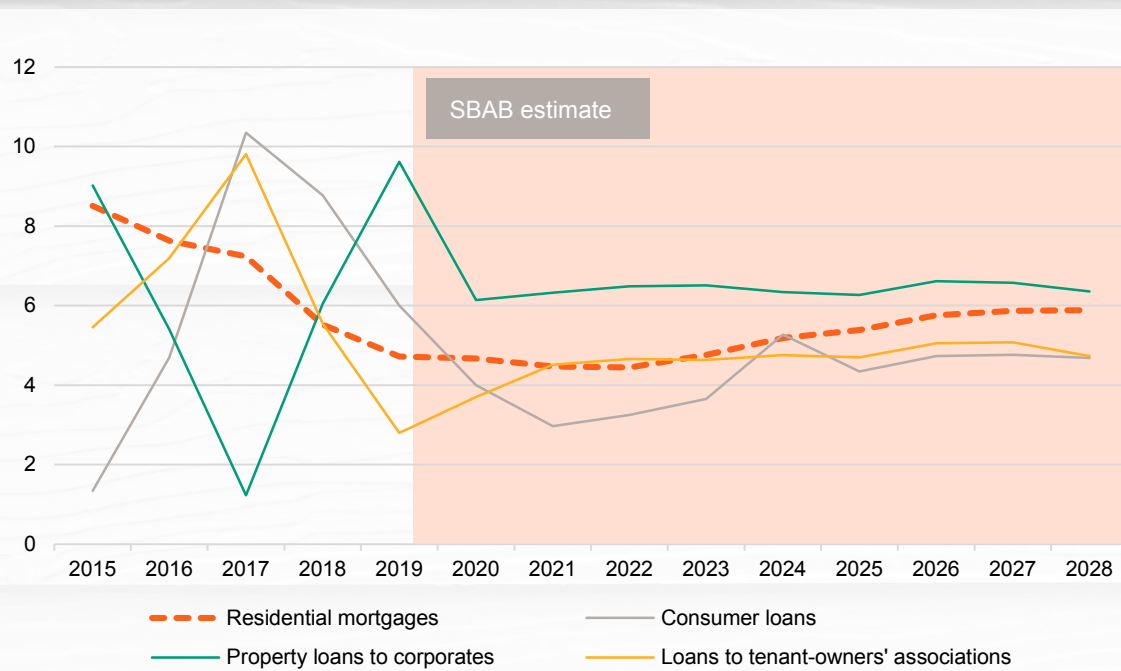
# The residential mortgage market 2019

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



# Outlook: Swedish mortgage market

Market growth, YoY development (%)



- The credit growth on the Swedish mortgage market (red line) has slowed down since 2015
- The yearly (YoY, %) credit growth on the Swedish residential mortgage market was 4.9% at the end of June 2019. Expected to decline further (SBAB's estimate as of Aug 2019) to 4.7% for FY2019 and 4.7% and 4.5% for 2020 and 2021 respectively, mainly as a result of stable housing prices and decreased market activity in the housing market

# Financial targets from the owner

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

# Financial performance

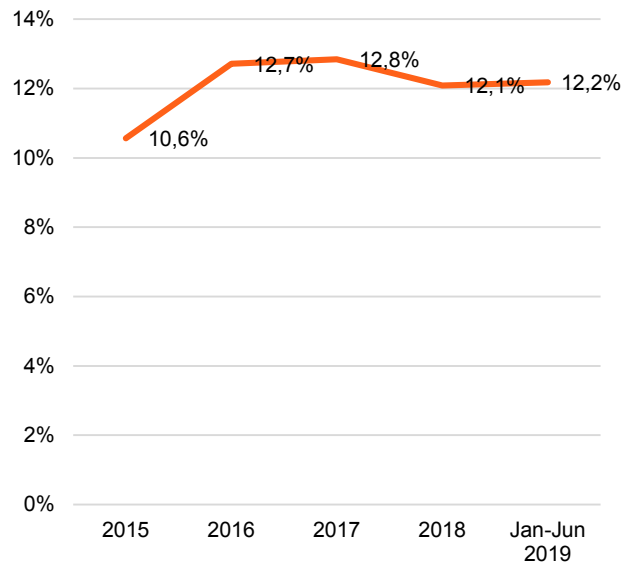
| SEK million           | Jan-Jun 2019 | Jan-Jun 2018 | ▲        | 2018   | 2017  | ▲        |
|-----------------------|--------------|--------------|----------|--------|-------|----------|
| NII                   | 1,735        | 1,681        | +3.2%    | 3,362  | 3,149 | +6.8%    |
| Costs                 | -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 |

\* From 31 December 2018, the method for applying the risk-weight floor for Swedish mortgages has been amended.

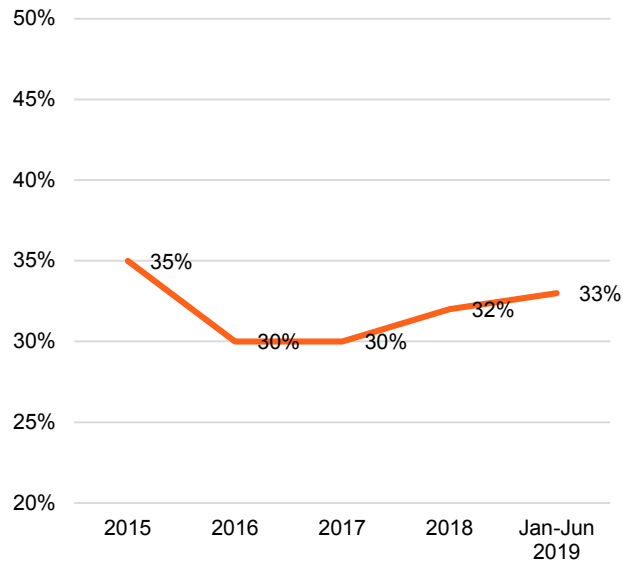
# Strong financial KPIs

– 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 retail 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)

# ASSET QUALITY

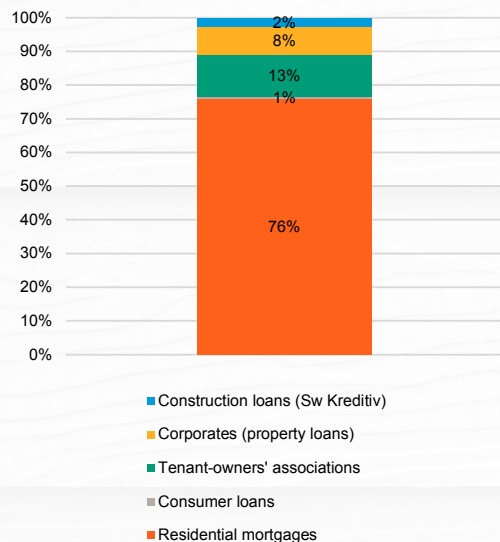




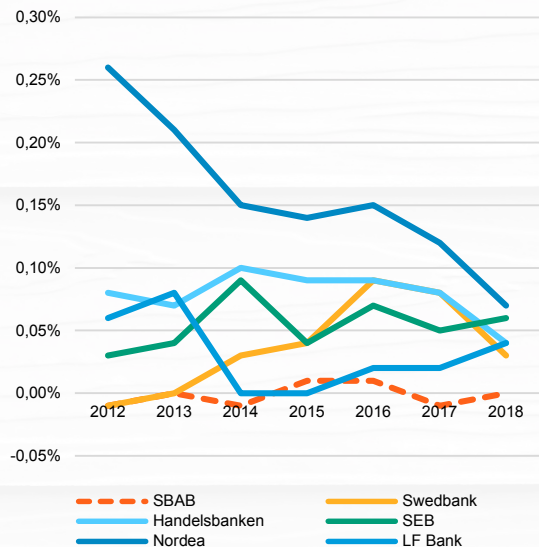
# Asset quality

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

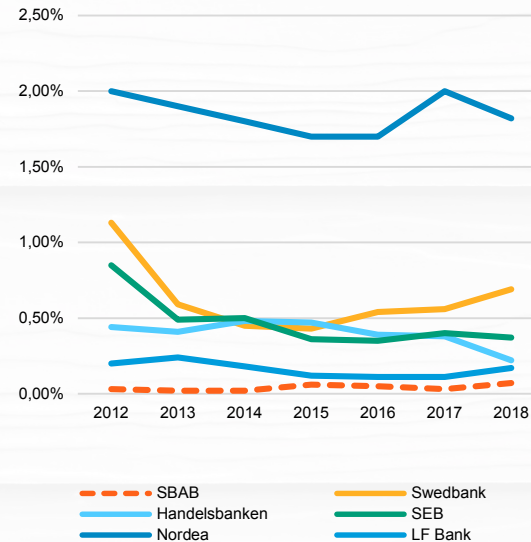
## SBAB lending Dec 2018: >98% collateralized



## Net credit losses 2012–2018 vs. other banks



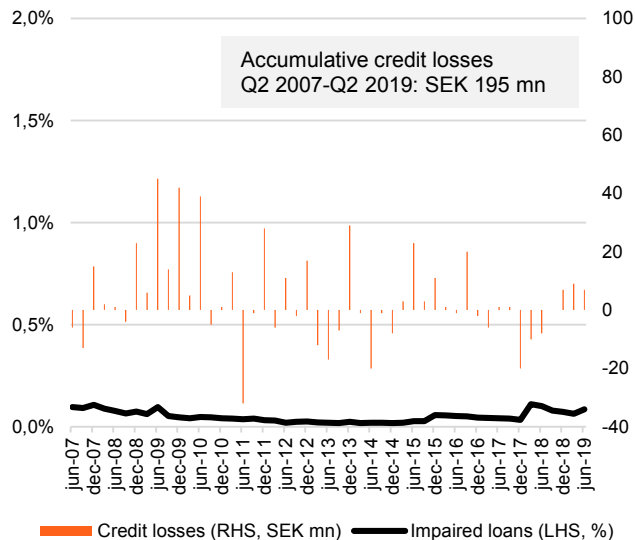
## Impaired loans 2012–2018 vs. other banks



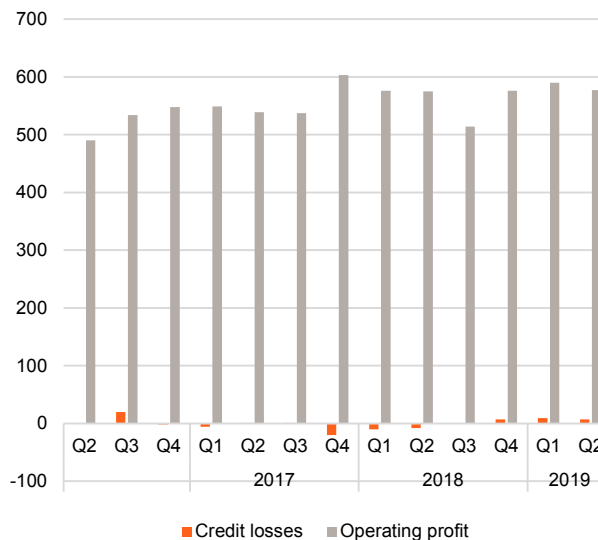
# Asset quality

– Exposure only to the lowest risk lending segment → superior asset quality over time

Imp. loans (%) & credit losses (SEK mn) 2007–2019



Op. profit & credit losses (SEK mn) Q1 2016–Q2 2019



Comments

- SBAB's Swedish lending portfolio demonstrates very low loan losses over time
- During Q2 2016 – Q2 2019, accumulative net credit losses amounted to reversals of SEK 2 mn. During the same period, accumulative operating profit amounted to SEK 7,208 mn

# FUNDING AND LIQUIDITY

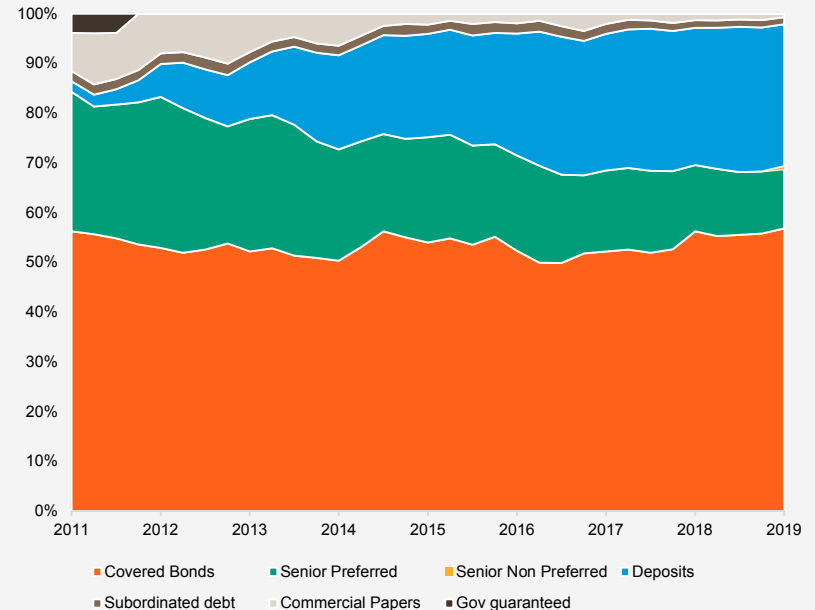


# Funding strategy & development

## Funding & capital issuance

- 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
- Capital issuances (AT1 & T2) predominately in SEK
- 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
- Intermediate (5y+) bond tenors to support funding duration
- Committed to increase green bond issuances subject to green lending volumes

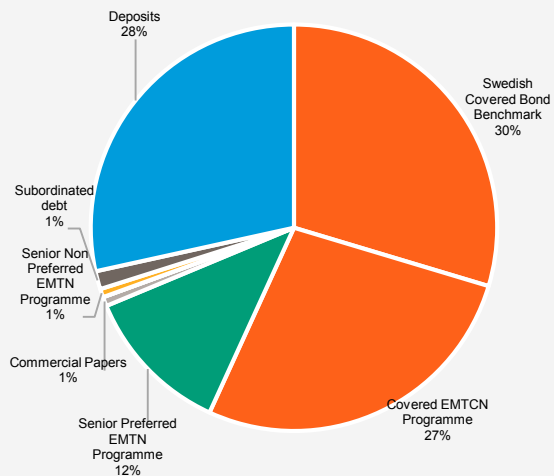
## Development of funding sources



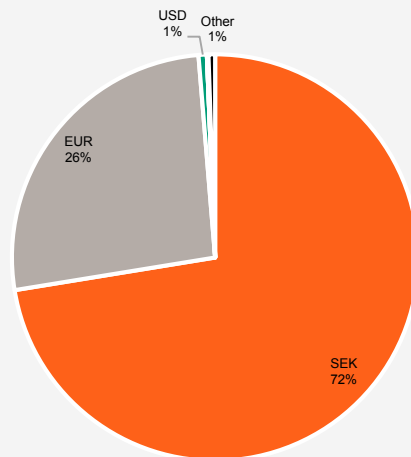
# Funding & liquidity

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

## Funding sources



## Currency split\*



\* incl. deposits

## Key figures - liquidity

Liquidity portfolio

**74<sub>bn</sub>**

LCR

**274%**

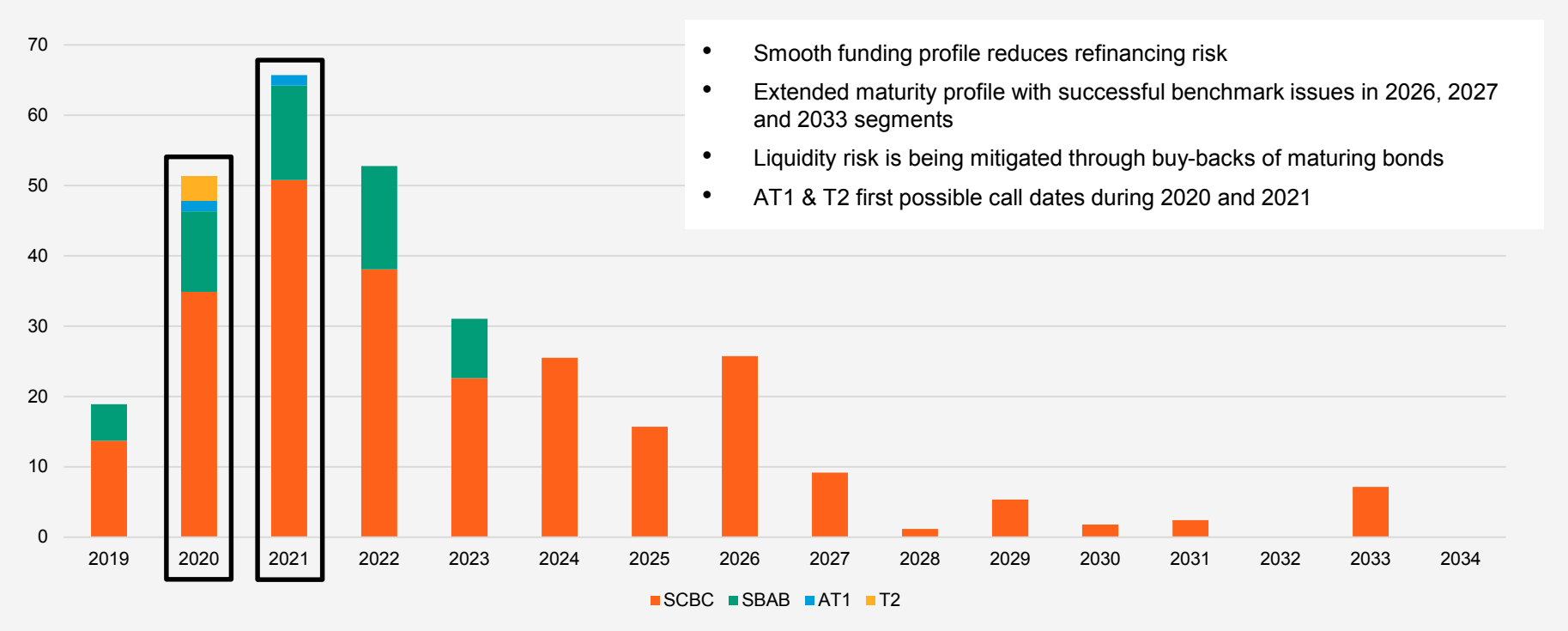
NSFR

**123%**

Survival horizon

**421<sub>days</sub>**

# Maturity profile



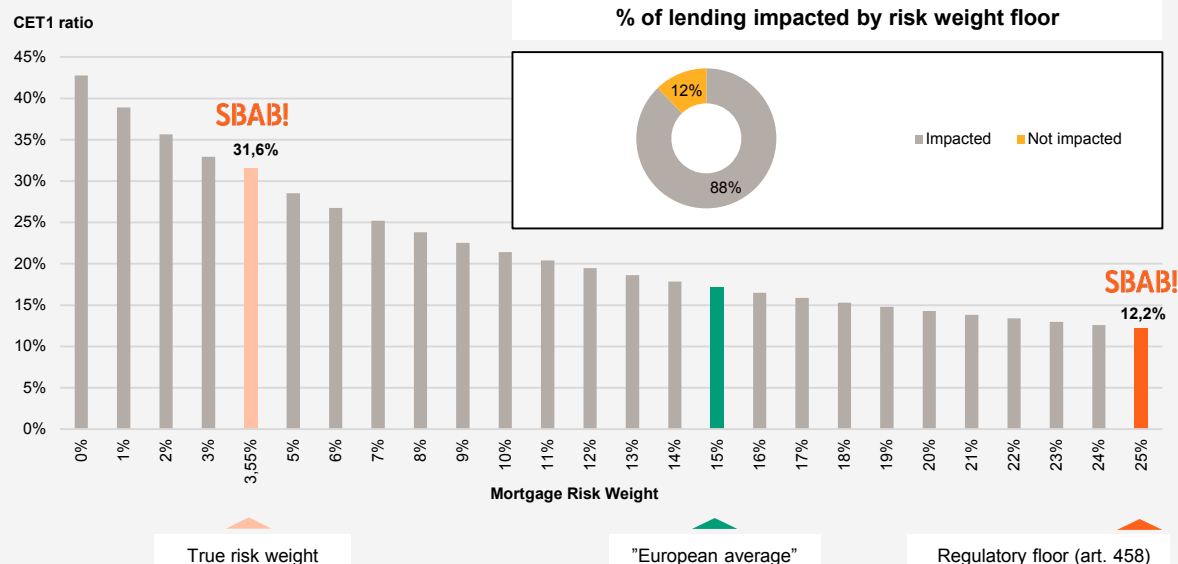
# *CAPITAL ADEQUACY*



# Capital position (1/2)

– Solid capitalisation, SBAB well above external and internal requirements

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



## Comments

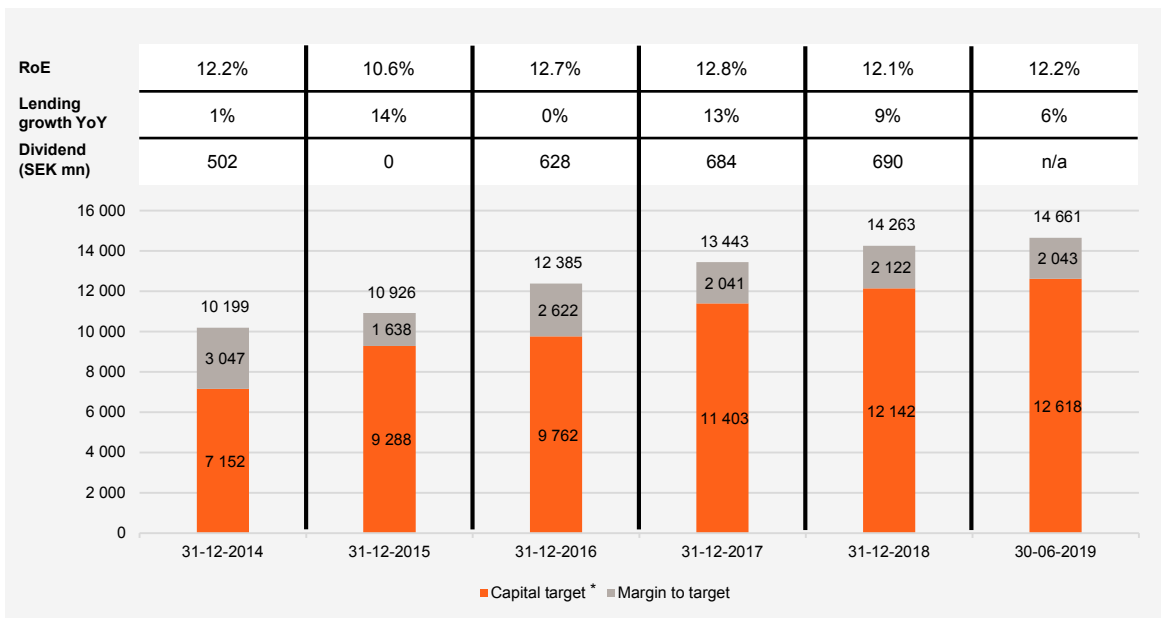
- Capital target: CET1 and total capital ratio at least 0.6% above the requirement communicated by the Swedish FSA \*
- CET1 capital ratio of 12.2% well above external requirement and internal target

\* 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.



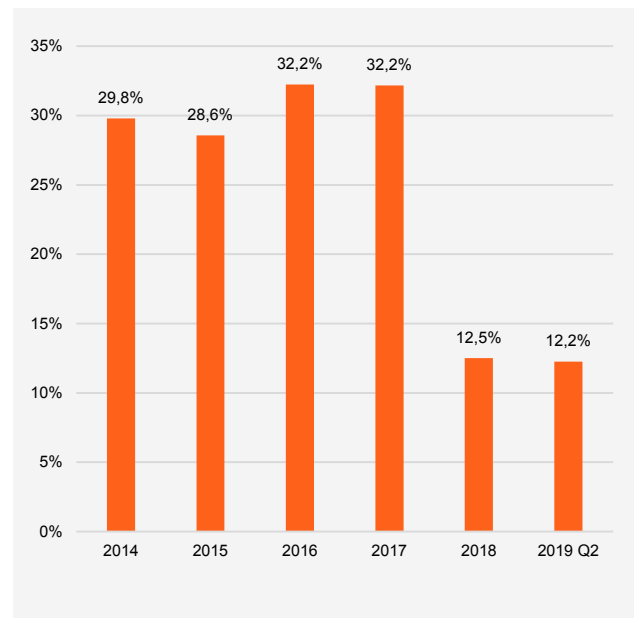
# Capital position (2/2)

CET1 capital development (SEK mn)



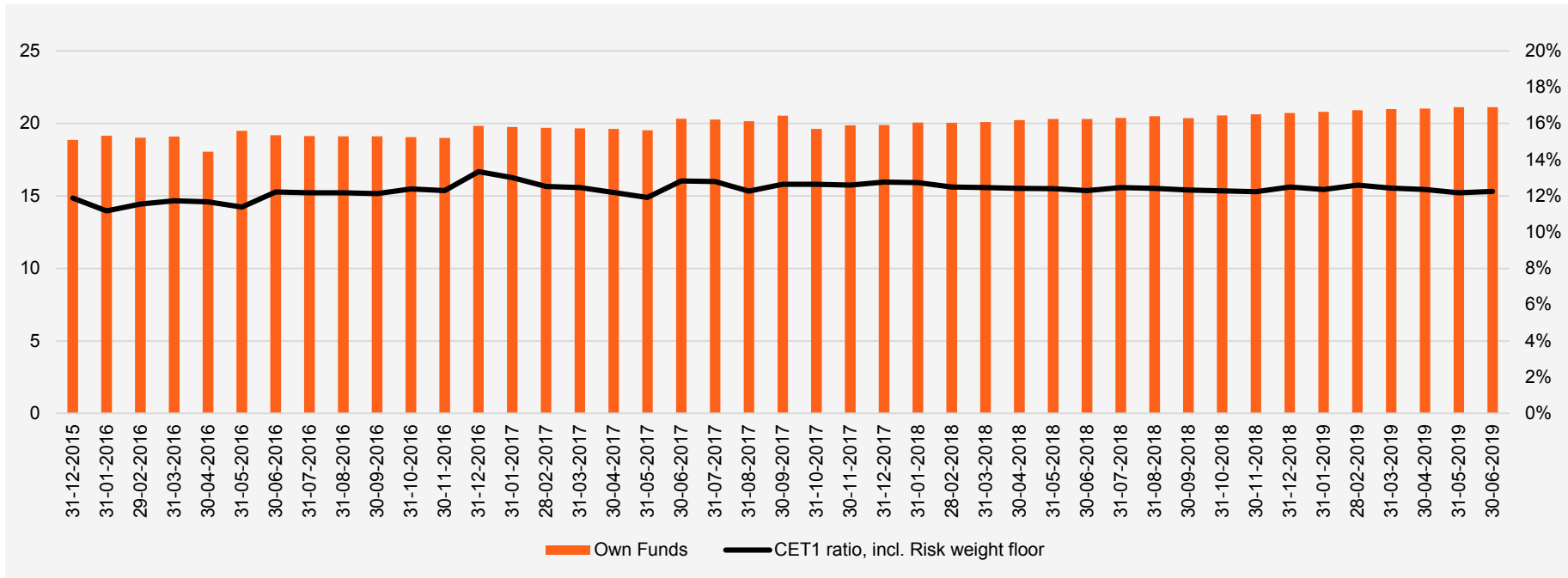
\* Internally estimated

CET1 capital ratio development (%)



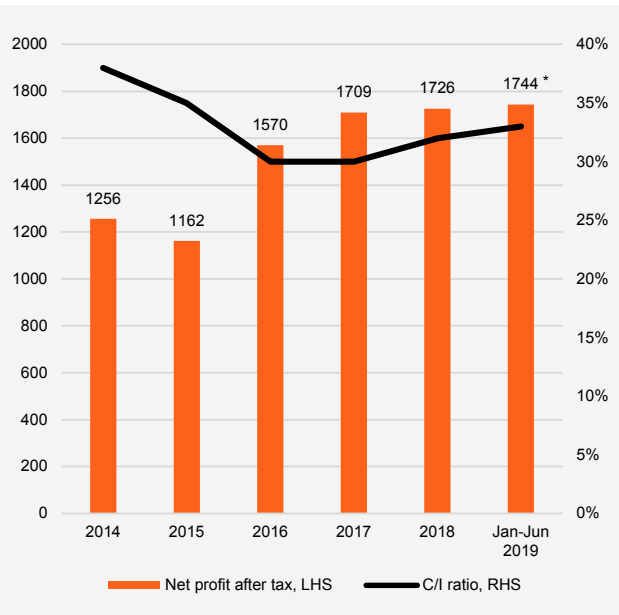
# Stable capital development

Development of own funds (SEK bn) & CET 1 capital ratio (%) incl. move of RW-floor (art. 458)

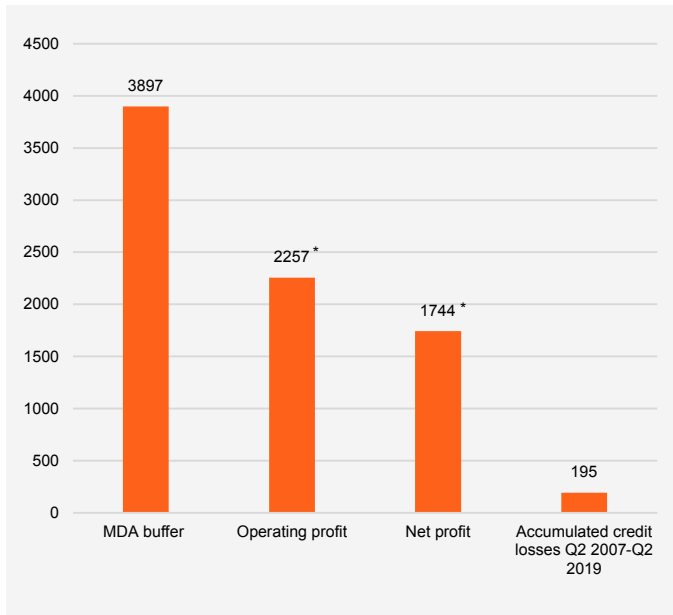


# Stable earnings generation

Stable earnings (SEK mn) & competitive C/I ratio



MDA buffer vs accumulated credit losses (SEK mn)

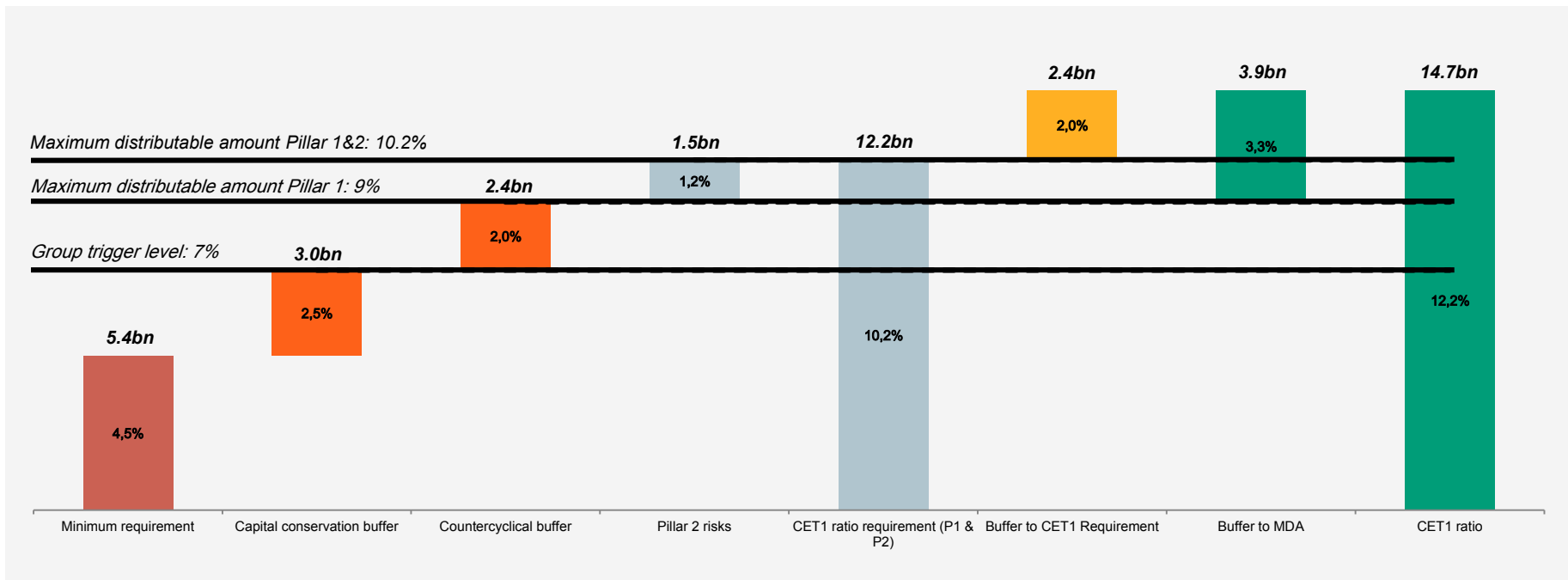


Comments

- Continuously generating stable profit with high cost efficiency and low credit losses organically creating a stable capital position
- 12 years of accumulated credit losses (Q2 2007-Q2 2019): SEK 195 mn, is 5% of MDA buffer

# Solid CET1 capital buffers

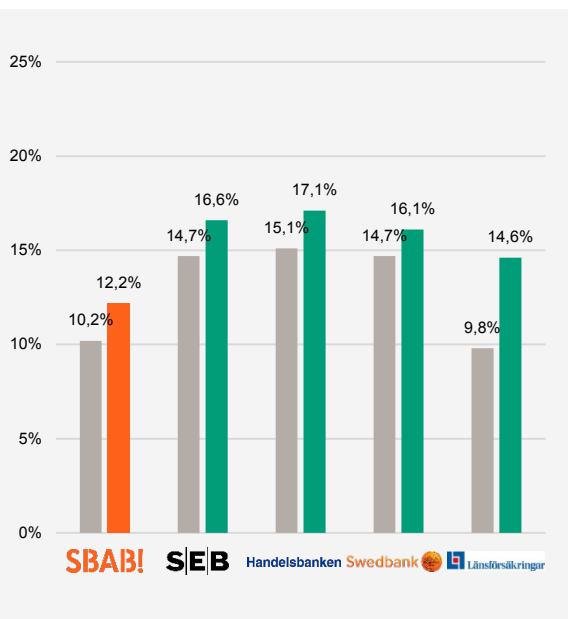
CET1 requirements and availability at Q2 2019



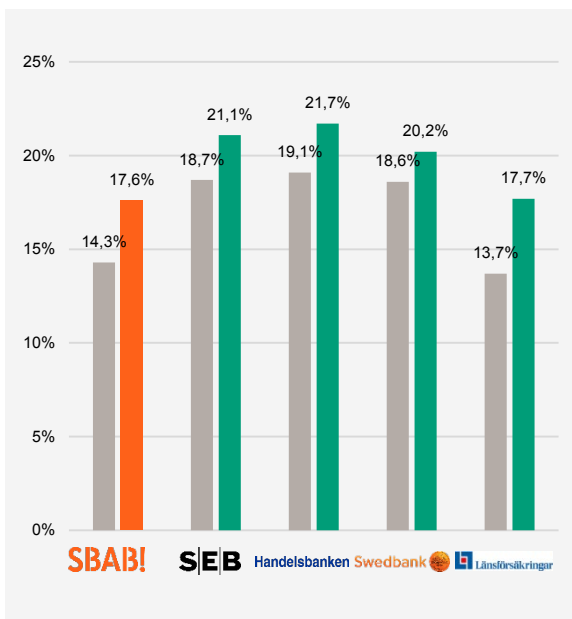
# Capital position vs peers

– Continued strong capital buffers: SBAB well above external requirements

CET 1 capital ratio, %



Total capital ratio, %



Comments

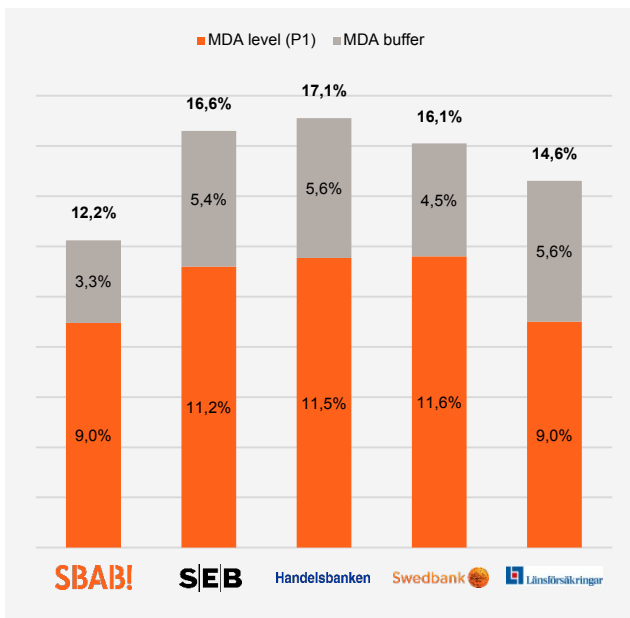
- Capital target: CET1 and total capital ratio at least 0.6% above the requirement communicated by the Swedish FSA \*
- SBAB well above external and internal requirements

Available Q2 2019 Requirement Q2 2019

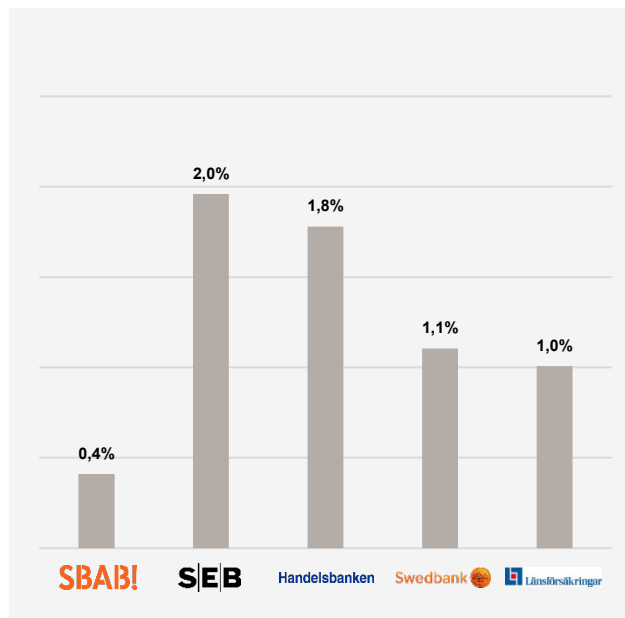
\* Revised from 1.5% as per 31 Dec 2018 as a result of decision from the Swedish FSA to change the method it uses to apply the 25% risk weight floor for Swedish mortgages previously captured through Pillar 2 by replacing it with a capital requirement within the framework of Article 458 of CRR. In nominal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

# Peer comparison of MDA buffers

CET1 ratio vs MDA level



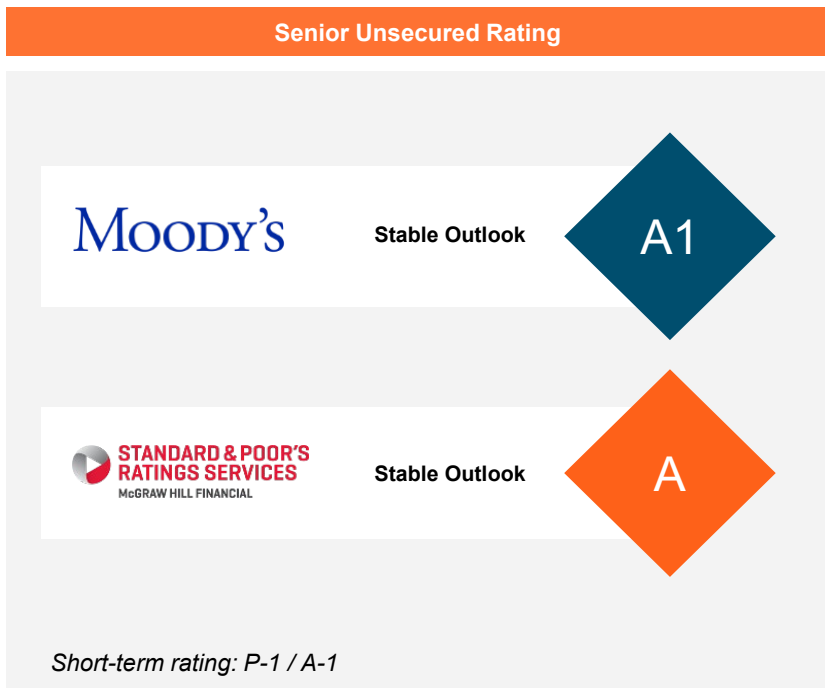
Net credit losses in relation to MDA buffer \*



Comments

- The CET1 ratio is well above the MDA level with a buffer of 3.3% which corresponds to SEK 3.9bn
- Compared with peers the net credit losses in relation to MDA buffers is low, highlighting the high asset quality and ability to pay coupon payments

# Rating overview



Moody's

**STANDARD & POOR'S**  
RATINGS SERVICES  
McGRAW HILL FINANCIAL

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

\* Revised 2019/22/05 from BB+

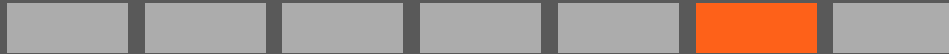
# Expected AT1 rating vs. peers

| MOODY'S                 | Adjusted Financial Profile | Qualitative Adjustments          | Resulting BCA range | Assigned BCA | Affiliate Support | Adjusted BCA | AT1 Adjustments | AT1 Rating |
|-------------------------|----------------------------|----------------------------------|---------------------|--------------|-------------------|--------------|-----------------|------------|
| <b>SEB</b>              | a3                         | -                                | a2-baa1             | a3           | -                 | a3           | -4              | Ba1        |
| <b>Handelsbanken</b>    | a3                         | +1<br>(corporate behaviour)      | a1-a3               | a2           | -                 | a2           | -4              | Baa3       |
| <b>Swedbank</b>         | a3                         | -                                | a2-baa1             | a3           | -                 | a3           | -4              | Ba1        |
| <b>Länsförsäkringar</b> | a3                         | -                                | a2-baa1             | a3           | -                 | a3           | n/a             | n/a        |
| <b>SBAB!</b>            | a3                         | -1<br>(business diversification) | a3-baa2             | baa1         | -                 | baa1         | -3              | Ba1        |

| STANDARD & POOR'S RATINGS SERVICES | Anchor | Business Position | Capital & Earnings | Risk Position | Funding & Liquidity  | SACP | AT1 Adjustments | AT1 Rating |
|------------------------------------|--------|-------------------|--------------------|---------------|----------------------|------|-----------------|------------|
| <b>SEB</b>                         | a-     | Adequate (0)      | Strong (+1)        | Adequate (0)  | Average/Adequate (0) | a    | n/a             | n/a        |
| <b>Handelsbanken</b>               | a-     | Strong (+1)       | Adequate (0)       | Strong (+1)   | Average/Adequate (0) | a+   | -4              | BBB        |
| <b>Swedbank</b>                    | a-     | Strong (+1)       | Strong (+1)        | Adequate (0)  | Average/Adequate (0) | a+   | -4              | BBB        |
| <b>Länsförsäkringar</b>            | a-     | Moderate (-1)     | Strong (+1)        | Adequate (0)  | Average/Adequate (0) | a-   | -3              | BBB-       |
| <b>SBAB!</b>                       | a-     | Moderate (-1)     | Strong (+1)        | Adequate (0)  | Average/Adequate (0) | a-   | -5              | BB         |



# PROPOSED AT1 TRANSACTION



# Proposed transaction and rationale

**SBAB!**

SEK Benchmark  
Perpetual NC5y FRN  
and/or Perpetual  
NC5.5y FXD Additional  
Tier 1



## Transaction rationale

- Refinance upcoming call of outstanding AT1 bond
- Optimize and strengthen capital position
- Support leverage ratio
- Equity credit from rating agencies
- Enable future growth

## Expected rating of notes

MOODY'S

**Ba1**



**BB**

# Summary of indicative Terms & Conditions

|                                               |                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Issuer</b>                                 | <ul style="list-style-type: none"> <li>• SBAB Bank AB (publ)</li> </ul>                                                                                                                                                                                                                                                                   |
| <b>Expected issue rating</b>                  | <ul style="list-style-type: none"> <li>• [BB] and [Ba1] (hyb) by S&amp;P/Moody's</li> </ul>                                                                                                                                                                                                                                               |
| <b>Currency &amp; Principal Amount</b>        | <ul style="list-style-type: none"> <li>• SEK [Benchmark]</li> </ul>                                                                                                                                                                                                                                                                       |
| <b>Maturity</b>                               | <ul style="list-style-type: none"> <li>• Perpetual</li> </ul>                                                                                                                                                                                                                                                                             |
| <b>First Call Date</b>                        | <ul style="list-style-type: none"> <li>• [ ] 2024 ([5] years) for the Floating Rate Notes and ([5] years and [6] months) after the Issue Date for the Fixed-to-Floating Rate Notes</li> </ul>                                                                                                                                             |
| <b>Status</b>                                 | <ul style="list-style-type: none"> <li>• Deeply subordinated,</li> <li>• Senior only to share capital and other obligations of the Issuer ranking, or expressed to rank junior to the Notes</li> </ul>                                                                                                                                    |
| <b>Loss Absorption Mechanism – Write-down</b> | <ul style="list-style-type: none"> <li>• Temporary write-down upon breach of 7% CET1 at the SBAB Consolidated Situation or 5.125% at the Issuer level</li> <li>• Discretionary reinstatement and write-up to a maximum of the initial principal amount of the Notes</li> <li>• Subject to Statutory PONV</li> </ul>                       |
| <b>Coupon Structure / Interest</b>            | <ul style="list-style-type: none"> <li>• Fixed-to-Floating Rate Notes : Fixed (annually, long first coupon) until the First Call Date, floating (quarterly) thereafter</li> <li>• Floating Rate Notes : Floating (quarterly)</li> <li>• Fully discretionary, non-cumulative, subject to sufficient distributable items and MDA</li> </ul> |
| <b>Optional Early Redemption</b>              | <ul style="list-style-type: none"> <li>• On the First Call Date and on every interest payment date thereafter at the Prevailing Principal Amount</li> <li>• Upon a Capital Event or a Tax Event at the Prevailing Principal Amount</li> </ul>                                                                                             |
| <b>Substitution and Variation</b>             | <ul style="list-style-type: none"> <li>• Upon the occurrence of a Tax Event or a Capital Event, the Issuer may, without any requirement for the consent or approval of the Noteholders, either substitute all or vary the terms of the Notes so that they remain qualifying Additional Tier 1 securities</li> </ul>                       |
| <b>Listing</b>                                | <ul style="list-style-type: none"> <li>• Stockholm</li> </ul>                                                                                                                                                                                                                                                                             |
| <b>Governing Law</b>                          | <ul style="list-style-type: none"> <li>• Swedish law</li> </ul>                                                                                                                                                                                                                                                                           |
| <b>Target Market</b>                          | <ul style="list-style-type: none"> <li>• Eligible counterparties and professional clients only</li> </ul>                                                                                                                                                                                                                                 |
| <b>Denomination</b>                           | <ul style="list-style-type: none"> <li>• SEK 2,000,000 and integral multiples of SEK 2,000,000 in excess thereof</li> </ul>                                                                                                                                                                                                               |
| <b>Documentation</b>                          | <ul style="list-style-type: none"> <li>• Standalone – Investors should read the Preliminary Prospectus dated [ ] for full details</li> </ul>                                                                                                                                                                                              |

# Why buy SBAB's AT1 transaction?

## Strong business model

- Strong brand and high customer satisfaction
- 100% Swedish lending assets
- >98% of lending secured by collateral
- Exceptional asset quality and hence extremely low credit losses. Accumulative credit losses from before the financial crisis, Q2 2007-Q2 2019, is only SEK 195 mn and the yearly average net credit loss less level has been -0.04bp over the past five years
- Sound underlying profitability - above profitability target of RoE>10% last 5 years

## Solid capitalisation

- CET1 ratio of 12.2% and total capital ratio of 17.6%. The move of the risk weight-floor means that the Basel 4 adjustments will be very limited for SBAB
- Strong capital generation. Net profit in relation to risk exposure amount of 1.5%\* and a return on equity of 12.2% Jan-Jun 2019

## Low risk coupon risk

- Strong track record of honouring terms of outstanding hybrid capital instruments
- CET1 buffer to MDA of 3.3% / SEK 3.9bn, which is 20 times the last 12 years accumulated credit losses
- Coupon payments small in relation to net profit generated and dividend policy

## Other considerations

- Limited expected AT1 supply in SEK
- Closest instrument to equity available for investors

**APPENDIX.**



# Contacts

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For further  
information,  
please  
contact:

|                                                                                                                     |                 |
|---------------------------------------------------------------------------------------------------------------------|-----------------|
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# Retail

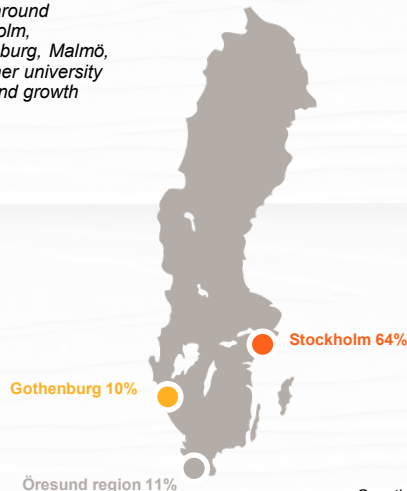
## Summary

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

**SBAB!** **booli** HittaMäklare

## Geography

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



Growth areas: 9%

Other regions: 6%

## Key figures

Lending (SEK)

**285.1** <sub>bn</sub>

Mortgage market share

**8.41** %

Mortgage customers

**274,000**

Deposits (SEK)

**89.1** <sub>bn</sub>

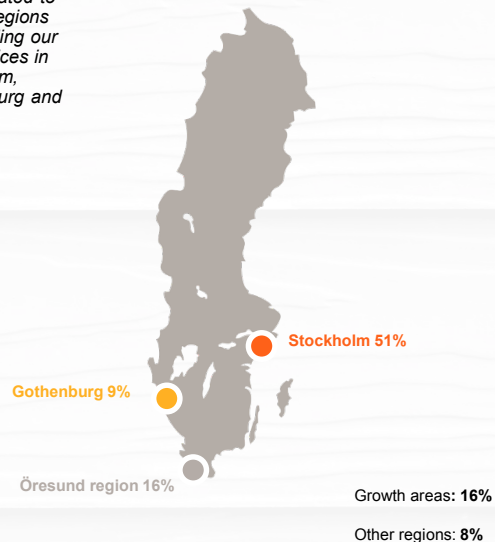
# Corporate Clients & Tenant-Own. Assoc.

## 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<sub>bn</sub>

Market share (Corporates)

11.0%

Market share (ToA)

9.6%

Deposits (SEK)

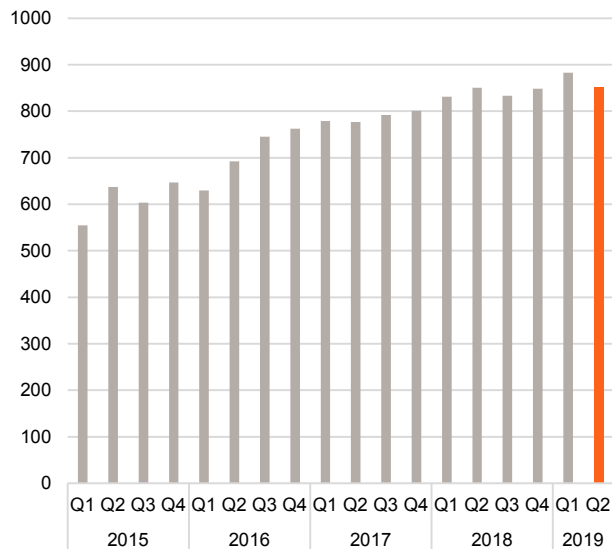
38.3<sub>bn</sub>



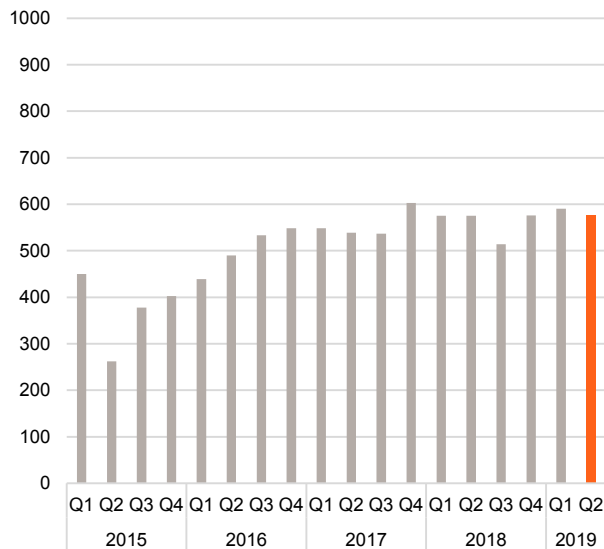
# Financial development

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

Net interest income (SEK mn)



Operating profit (SEK mn)

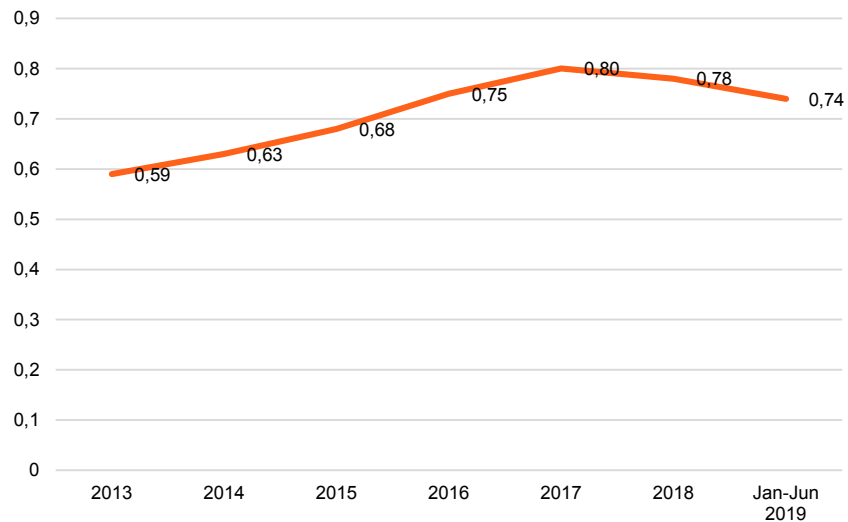


Comments

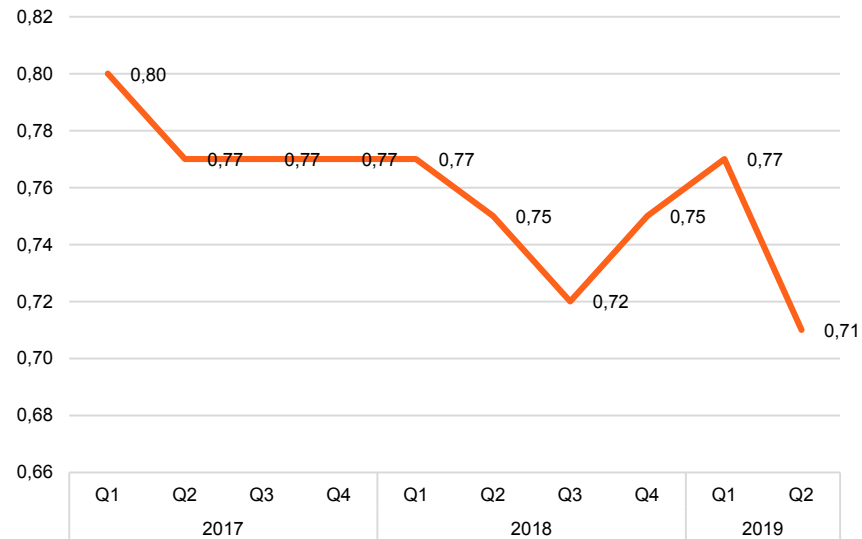
- An efficient business model which delivers solid returns
- Strong growth metrics demonstrated for a sustained period of time
- SBAB's business model is in its nature of a strong recurring character

# NIM development

Net interest margin (%), YoY



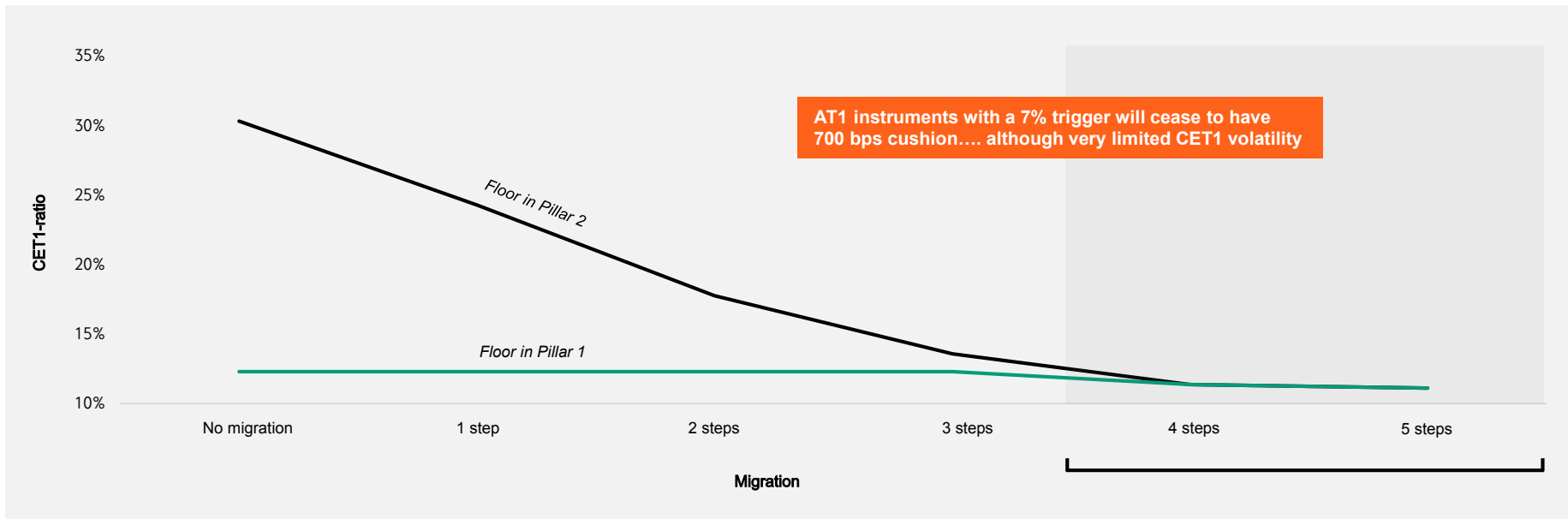
Net interest margin (%), QoQ



# Limited CET1 volatility

– Move of RW-floor: CET1 almost no sensitivity to risk migrations

## Sensitivity to risk migrations



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