

# RESULTS PRESENTATION

SBAB Bank AB (publ)  
Q1 2019

# SBAB!

# Summary Q1 2019

## Q1 2019 in brief

**“Slowdown in residential mortgage growth, but overall a solid quarter financially”**

- Total lending increased 0.6% and total deposits increased 0.9%
- Strong financial development. NII rose 4.1% and operating profit rose 2.1%. NII of SEK 883 million strongest ever
- Continued strength for metrics such as profitability, credit losses, cost-efficiency and capitalization
- Mortgage price reduction in Q1 expected to put some pressure on margins and earnings in Q2 and forward
- First bank in Sweden to issue a green covered bond backed by residential mortgages

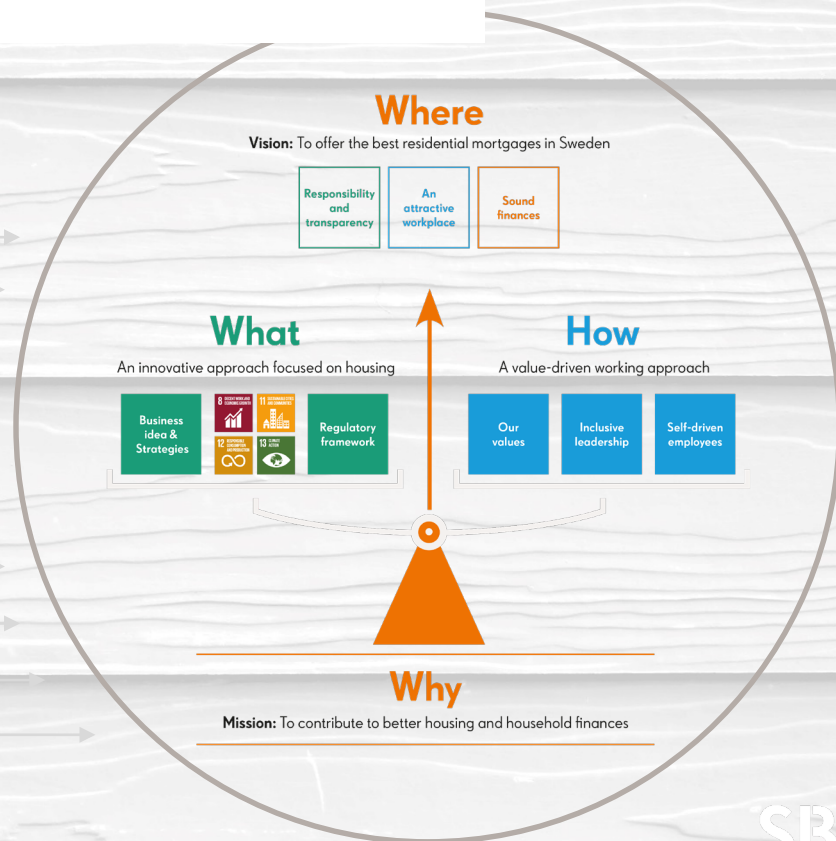
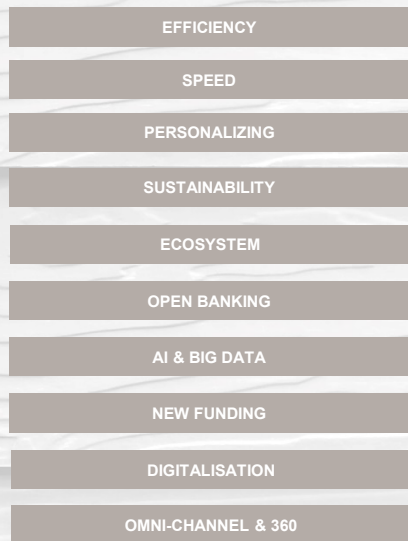
	Q1 2019	Q4 2018	▲	Q1 2019	Q1 2018	▲
Total lending, SEK bn	366.3	364.2	+0.6%	366.3	344.0	+6.5%
Total deposits, SEK bn	126.1	124.9	+0.9%	126.1	115.3	+9.4%
Net Interest Income, SEK mn	883	848	+4.1%	883	831	+6.3%
Expenses, SEK mn	-292	-297	-1.7%	-292	-242	+20.7%
Loan losses, SEK mn	-9	-7	+2mn	-9	10	+19mn
Operating profit, SEK mn	590	576	+2.4%	590	576	+2.4%
RoE, %	12.5%	11.9%	+0.6 pp	12.5%	13.0%	-0.5 pp
C/I ratio, %	32.8%	33.7%	-0.9 pp	32.8%	30.0%	+2.8 pp
CET1 Capital Ratio, %	12.4%	12.5%	-0.1 pp	12.4%	31.1%	-18.7 pp

# STRATEGY & MARKET POSITION.



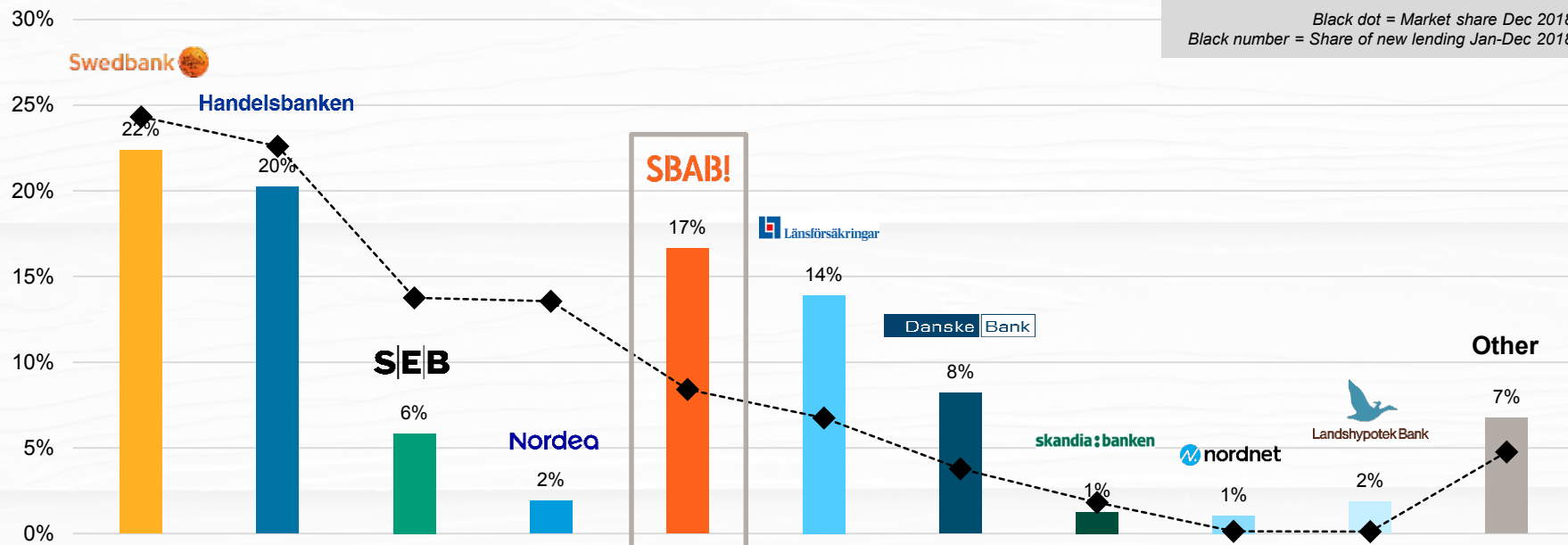
# Our sustainable governance model

– How to navigate in an ever changing environment



# Strong growth in 2018

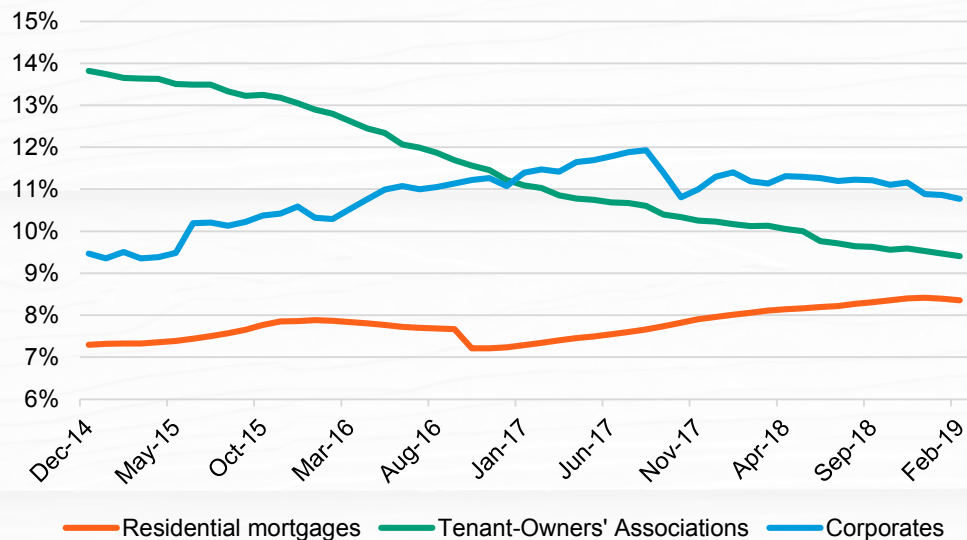
Share of net growth in the Swedish residential mortgage market Jan-Dec 2018



# Business development

– Strong growth for residential mortgages during recent years. Slowdown in Q1 2019

Market share development (Feb 2019)



Residential mortgages (lending & market share)

SEK **277.3** bn

**8.35%**

Corporate Clients (lending & market share)

SEK **36.1** bn

**10.77%**

Tenant-Owners' Assoc. (lending & market share)

SEK **50.7** bn

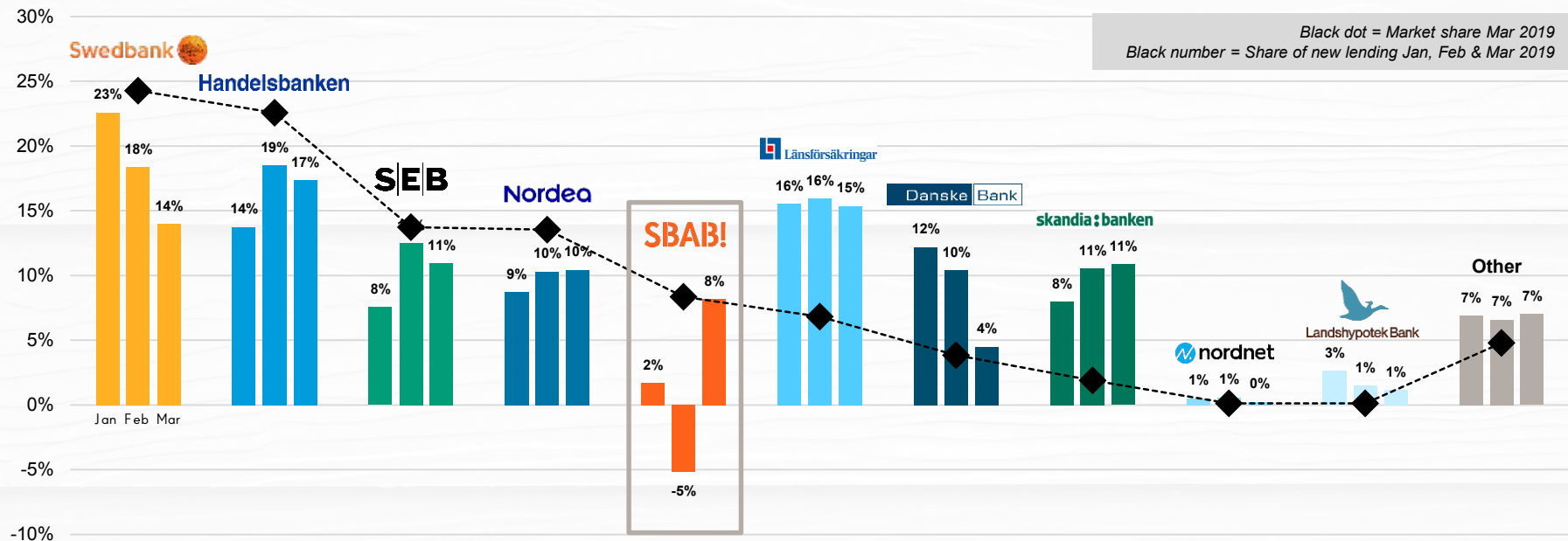
**9.41%**

\*Volume as of 31<sup>st</sup> March 2019 & market share as of 28<sup>th</sup> February 2019



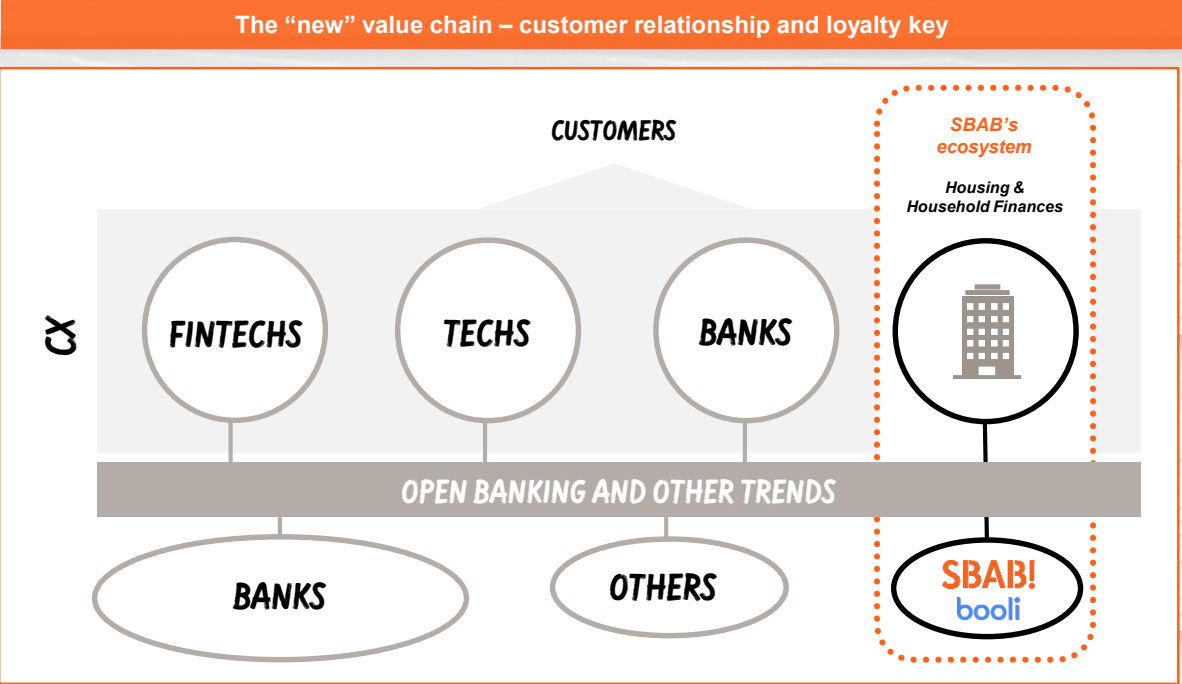
# The residential mortgage market 2019

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



# Retail banking is being transformed

- New competition
- The full-service bank is disappearing
- New regulations (e.g. PSD2)
- Digitalisation – marginal cost and price towards zero





# ... & competition intensifies

– New entrants and established banks are working to establish, retain and defend their positions

## Various campaigns from peers



Gör som Sveriges mest nöjda bolånekunder. Flytta ditt bolån till oss. Just nu erbjuder vi **1.29%\* i böränta i 3 år** när du flyttar ditt bolån till oss. Det ger trygghet i osäkra tider. Fyll i formuläret så hör vi av oss och hjälper dig med allt det praktiska.

skandia:banken

Bundet bolån 3 år från 1,18 %

Effektiv ränta från 1,13%. Fästlönesfordran från räntan för dig med tjänstespärr hos oss. Hitta din bästa bolåret.



Just nu bolåret

Danske Bank



Swedbank

LIST RATES

3 mån	2,25 %
1 år	2,25 %
2 år	2,20 %
3 år	1,95 %
4 år	2,20 %
5 år	2,30 %

List rates (4 <sup>th</sup> Apr 19)	3M	1Y	2Y	3Y	4Y	5Y	7Y	8Y	10Y
<b>SBAB</b>	1.64%	1.64%	1.69%	1.79%	1.89%	2.09%	2.39%		2.89%
SEB	2.25%	2.20%	1.94%	1.95%		1.79%	2.87%		3.40%
Nordea	2.09%	2.19%	2.14%	1.89%	1.99%	2.29%		2.99%	
Swedbank	2.25%	2.25%	2.20%	1.95%	2.20%	2.30%	2.87%	3.11%	3.33%
Handelsbanken	2.25%	2.25%	2.20%	1.95%		2.30%		3.06%	3.30%
Danske Bank	2.24%	1.85%	1.59%	1.90%		1.76%			2.95%
Skandiabanken	2.00%	2.00%	2.05%	2.09%		2.49%			
Länsförsäkringar	2.23%	2.19%	2.16%	1.29%	2.23%	2.30%	2.98%		3.40%
Landshypotek	1.66%	1.69%	1.79%	1.94%	2.04%	2.19%		2.89%	3.14%
Stabelo	1.34%	1.34%	1.37%	1.38%		1.75%			2.77%
Hypoteket	1.28%	1.35%		1.40%		1.76%			
Collector Bank	2.49%								
<b>SBAB rank</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>1</b>	<b>5</b>	<b>1</b>		<b>2</b>

Source: Compricer.se

# Our 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.



### Transparent & competitive offering

- Revised pricing matrix – increased rebates for low LTV and less focus on size of loan
- More competitive mortgage rates for all maturities

# A transparent offering...

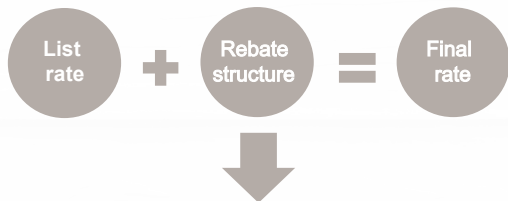
– Risk based pricing based on LTV & energy class of property (to lesser extent size of loan)

## Straightforward offering

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

## Adjusted pricing matrix

Increased rebates for low LTV's & less focus on size of loan



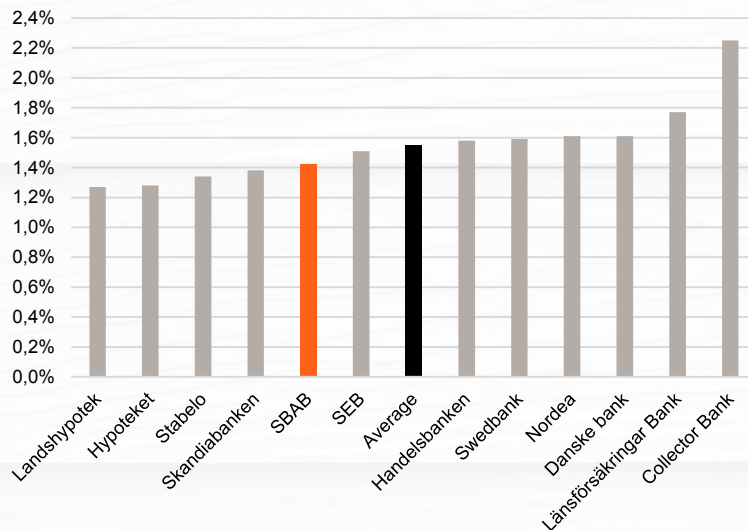
## Price reduction in Feb 2019

Maturity	Change (%)	List rate (%)
3M	-0.10	1.64
1Y	-0.10	1.64
2Y	-0.15	1.69
3Y	-0.10	1.79
4Y	-0.10	1.89
5Y	-0.10	2.09
7Y	-0.10	2.39
10Y	-0.10	2.89



# ... & competitive pricing

## Competitive pricing

Average 3M variable interest rate (%), March 2019



## SBAB example rates vs. new competition

	<b>SBAB!</b> 0-60% LTV	<b>SBAB!</b> 70% LTV	<b>SBAB!</b> 80% LTV	 stabelo (Max 60% LTV)	 HYPOTEKET (Max 65% LTV)
<b>3M</b>	<b>1.29 (1.19*)</b>	<b>1.39 (1.29)</b>	<b>1.59 (1.49)</b>	<b>1.34%</b>	<b>1.28%</b>
1Y	1.29 (1.19)	1.39 (1.29)	1.59 (1.49)	1.34%	1.35%
2Y	1.34 (1.24)	1.44 (1.34)	1.64 (1.54)	1.37%	-
3Y	1.44 (1.34)	1.54 (1.44)	1.74 (1.64)	1.38%	1.40%
4Y	1.54 (1.44)	1.64 (1.54)	1.84 (1.74)	-	-
5Y	1.74 (1.64)	1.84 (1.74)	2.04 (1.94)	1.75%	1.76%
7Y	2.04 (1.94)	2.14 (2.04)	2.34 (2.24)	-	-
10Y	2.54 (2.44)	2.64 (2.54)	2.84 (2.74)	2.77%	-

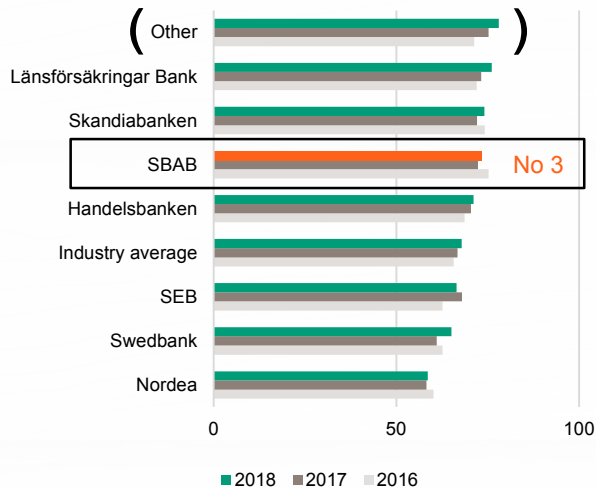
(\*Green Mortgage Discount)

# Focus on improving customer experience

## Customer satisfaction

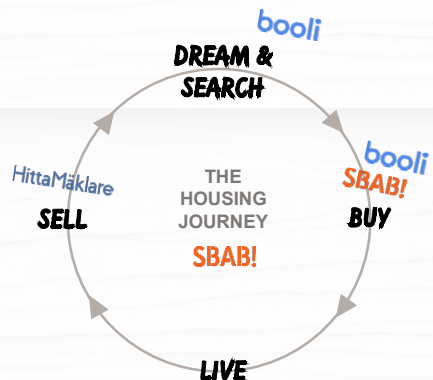
### Retail (SBAB no 3 in 2018)

Customer satisfaction 2018, 2017 & 2016



## SBAB's ecosystem

Value adding content & services relating to housing and household finances



## Digital customer experience

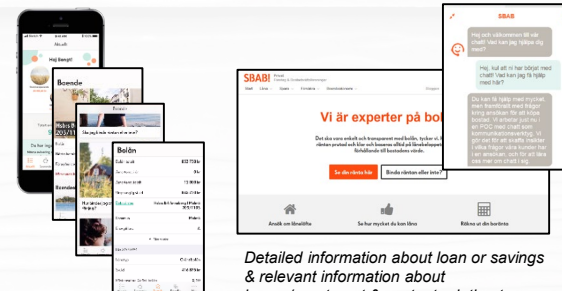
Improved (digital) customer experience

**booli**



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

**SBAB!** App & Webb



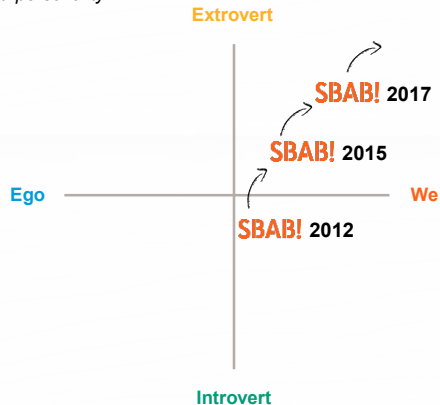
Detailed information about loan or savings & relevant information about house/apartment & content relating to housing and household finances.



# Successful communication

## Brand position

SBAB aims to be perceived as a "social" brand with a clear extrovert brand personality



## Marketing campaign in 2018

"Boendekonomi är jättekul!"



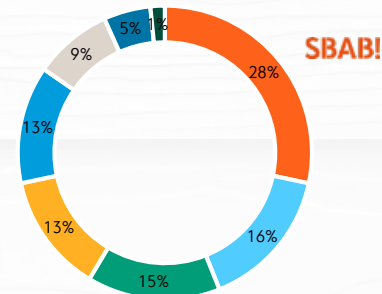
>6.5 million views



## Strong media presence

Share of voice (Q4 2018)

"Bolån & boendekonomi"



Source: Retriever, Q4 2018



# Corporate Clients & Tenant-Own. Assoc.



## Our business

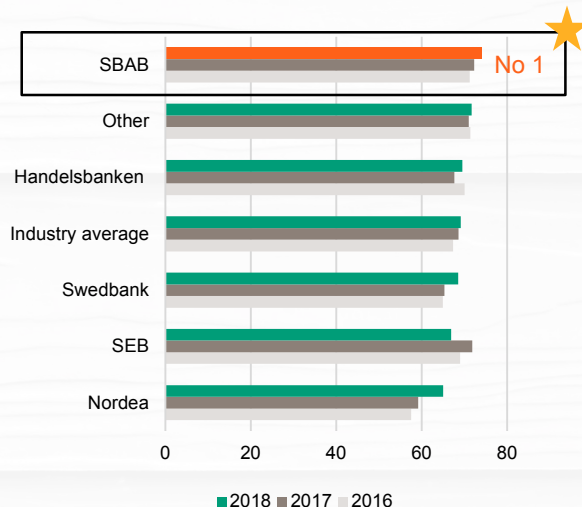
- Housing financing and savings products to **property companies** (“corporates”) and **tenant-owners’ associations**
- Multi-family dwellings, both privately owned and owned by tenant-owners’ associations. Existing buildings or new construction
- Credit granting concentrated to growth regions surrounding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

## Building credit exposures

- Building credit exposures capped at 6% of total lending
- Focus on major residential developers and existing relationships with solid track records
- Stricter requirements for smaller residential developers, e.g. higher levels of equity and number of sales agreements with residents
- Most of the building credit exposure is to companies with diversified revenue streams (i.e. not only from real estate development)

## Customer satisfaction

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



# 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  
BANK IN SWEDEN TO  
ISSUE A GREEN  
COVERED BOND  
BACKED BY  
MORTGAGES**

**Great  
Place  
To  
Work®**

**Sweden's Best  
Workplaces**

**SWEDEN**

**2019**

**SBAB IN 4TH PLACE IN GREAT PLACE TO WORK'S LIST OF SWEDEN'S BEST  
WORKPLACES 2019 (LARGER COMPANIES)**

# **BUSINESS & FINANCIAL DEVELOPMENT.**



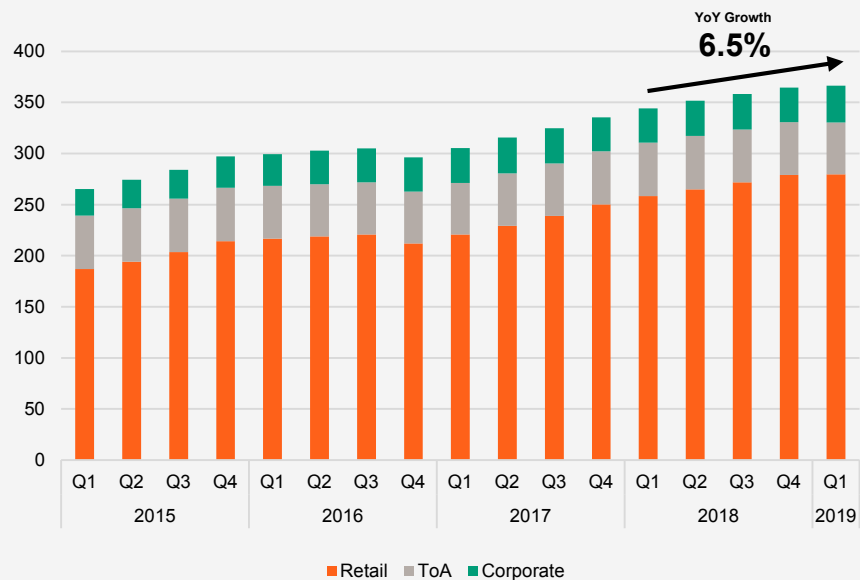
# Strong financial performance

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

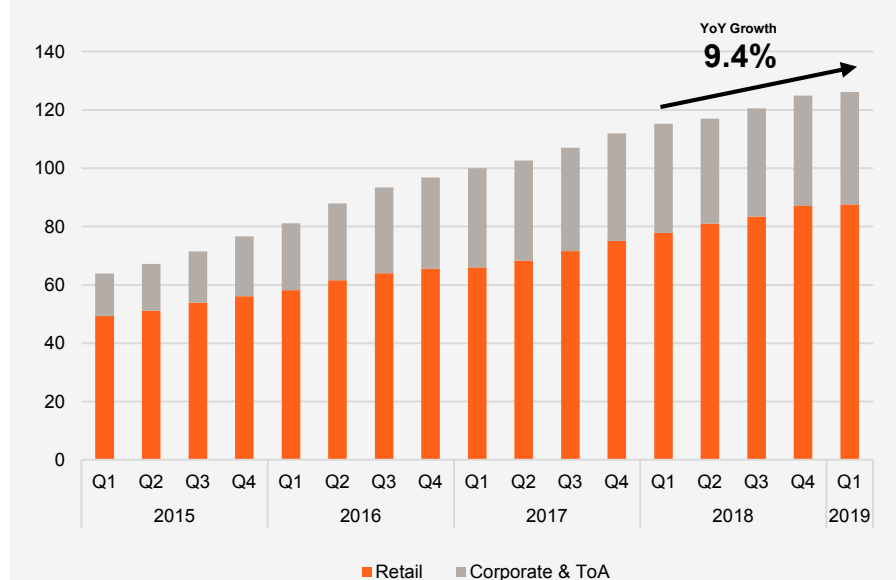
# Business volumes

– Solid growth for both lending and deposits

## Lending (SEK bn)



## Deposits (SEK bn)

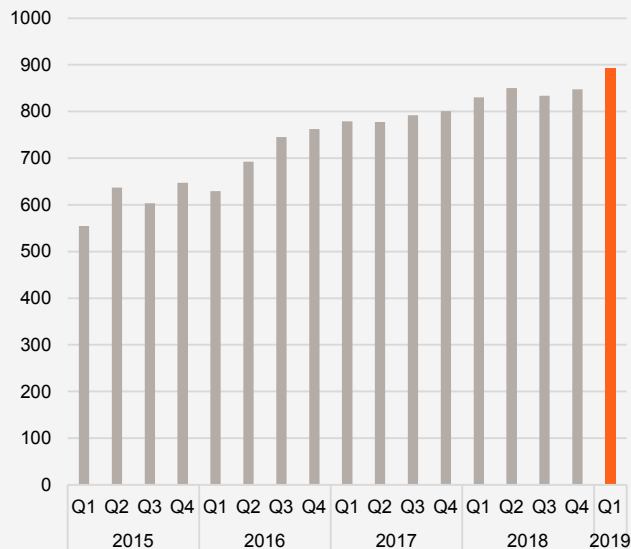




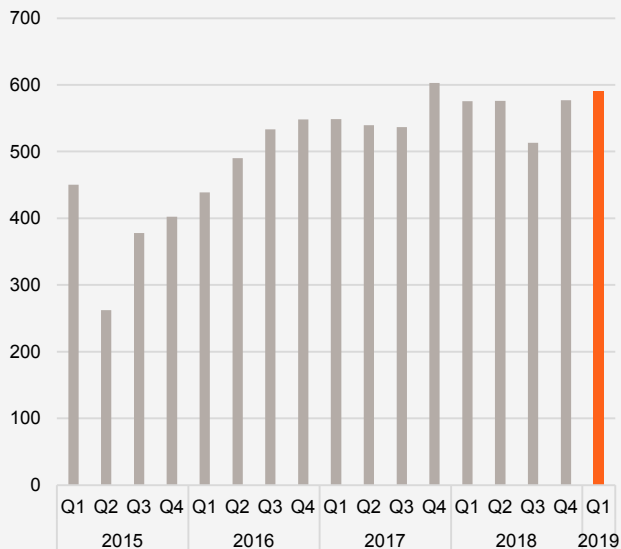
# Financial development

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

Net Interest Income (SEK mn)



Operating profit (SEK mn)



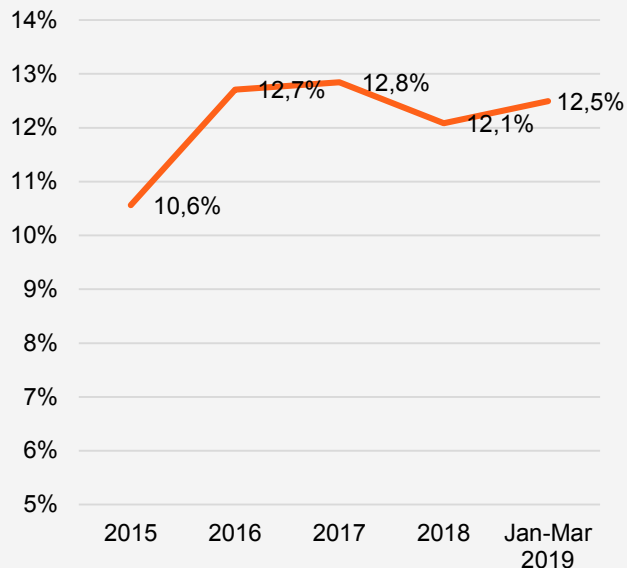
Comments

- An efficient business model which delivers solid returns
- Strong growth metrics demonstrated for a sustained period of time
- Mortgage price reduction in Q1 expected to put some pressure on margins and earnings in Q2 and forward

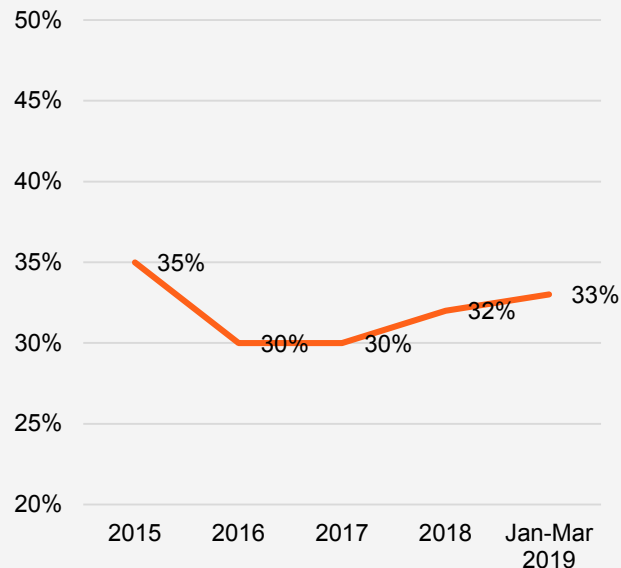
# Strong financial KPIs

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

Return on equity, %



C/I-ratio, %



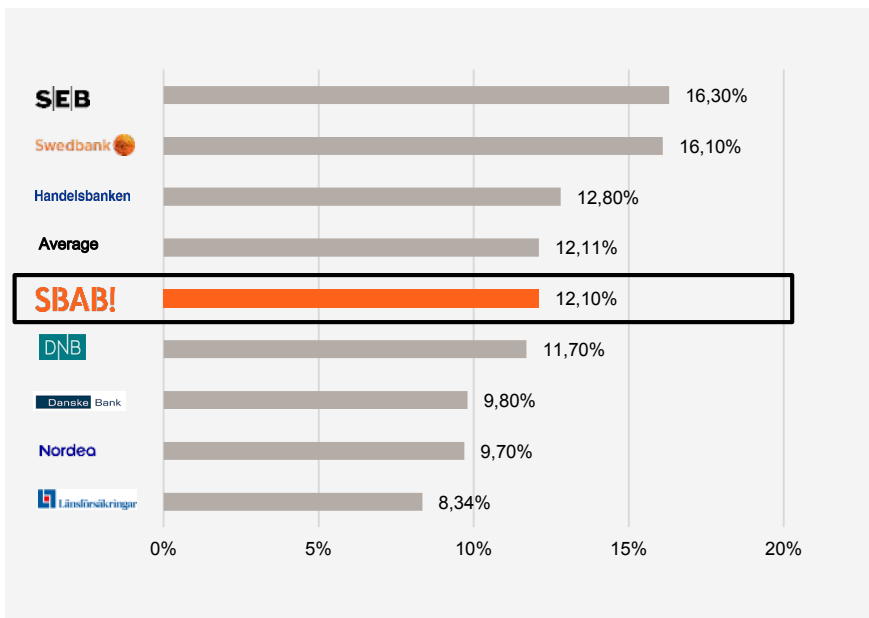
Comments

- 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

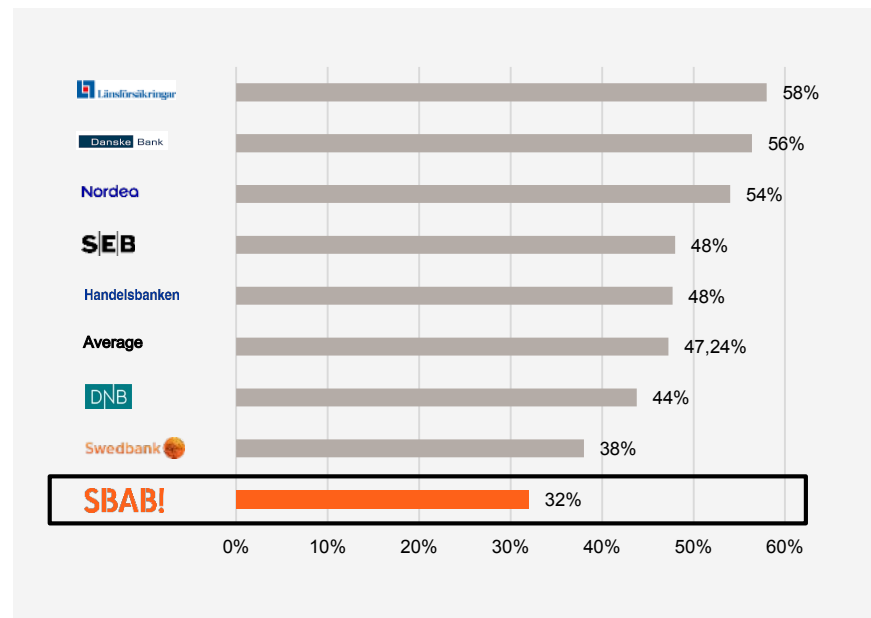
# SBAB vs. others banks (FY2018)

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

Reported return on equity, %



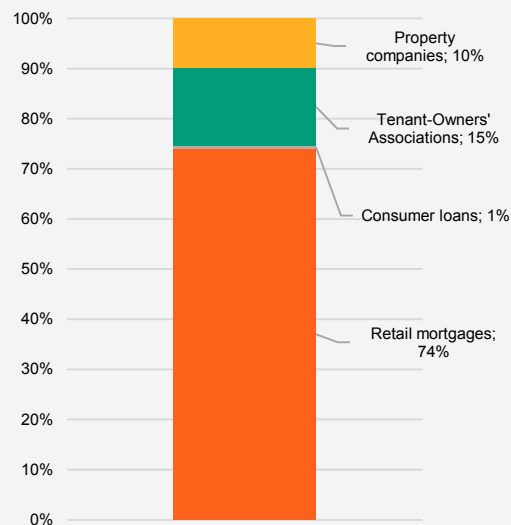
Reported C/I-ratio, %



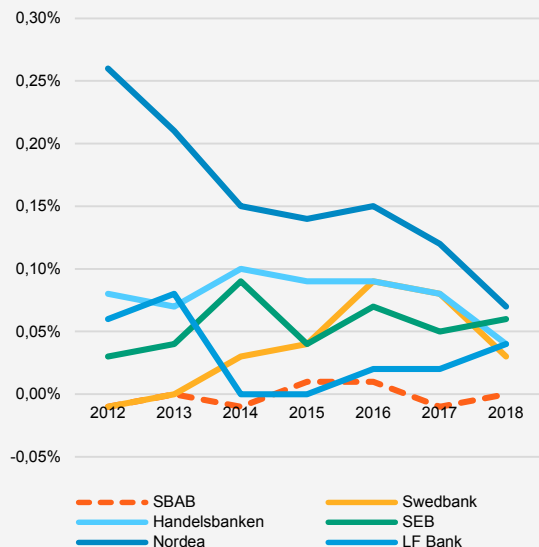
# Swedish mortgages – a low risk business

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

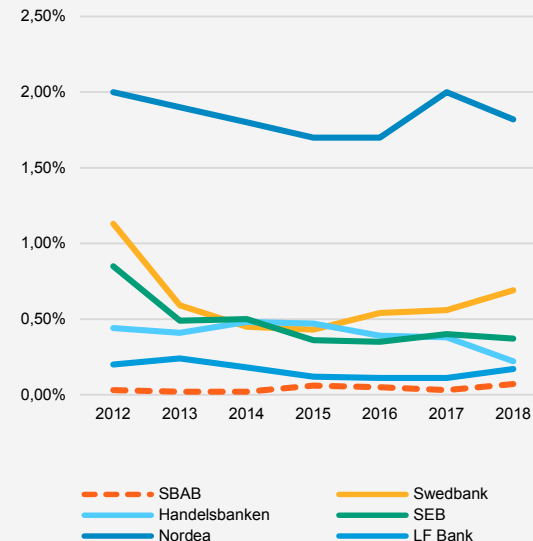
## SBAB lending 31 Dec 2018 >98% collateralized



## Net credit losses FY2018 vs. other banks



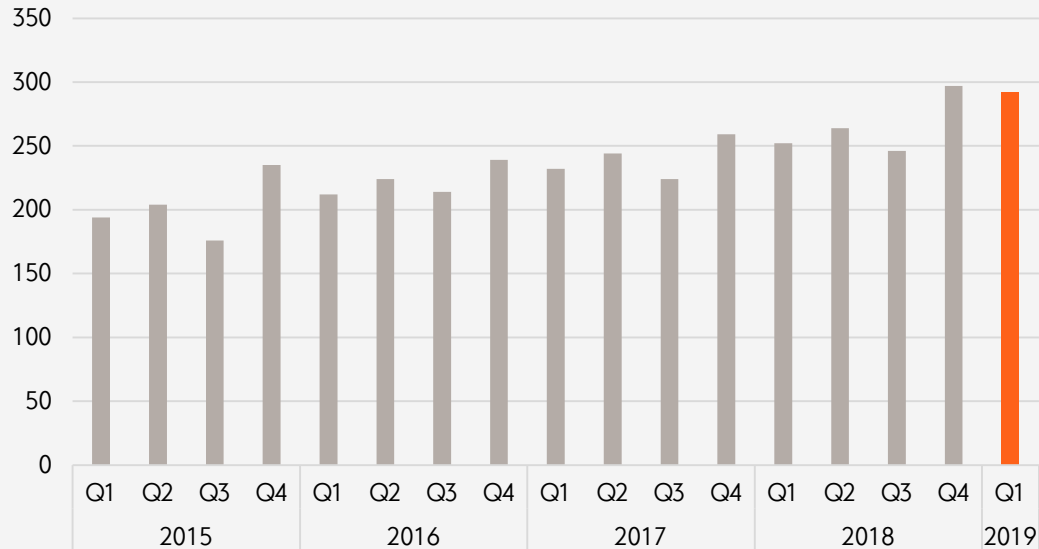
## Impaired loans FY2018 vs. other banks



# Cost development

– Increased investments to secure future competitiveness

## Cost development



## Comments

- In order to secure SBAB's future competitiveness, additional investments are needed. Not only to improve the customer offering, but also to make operations more efficient
- Increased investments in areas including:
  - Technological / digital expertise
  - IT infrastructure
  - Own distribution power & maintaining high service levels
  - Customer offering & business development
  - Regulatory compliance
  - Marketing & communications
- The cost trend is progressing according to plan and tracks the operations' development and investment strategy for long-term competitiveness

# FUNDING, CAPITAL & LIQUIDITY.



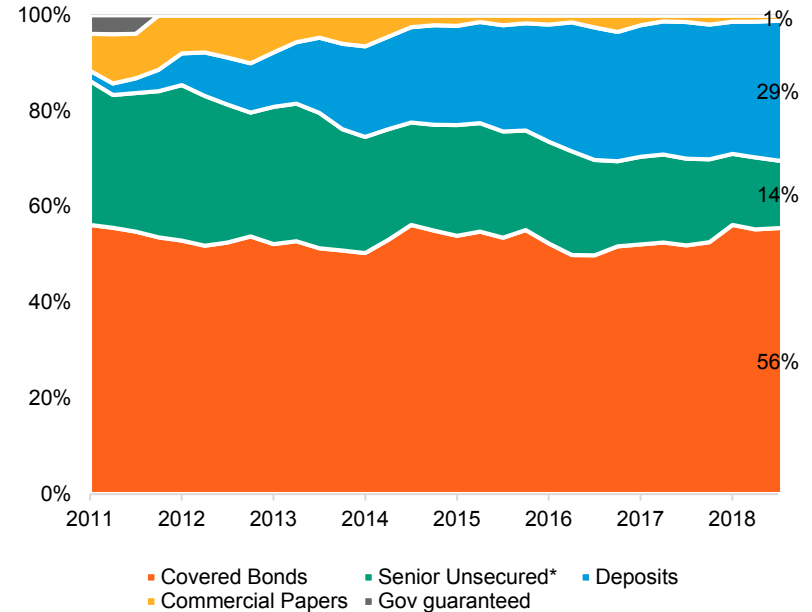


# Funding strategy & development

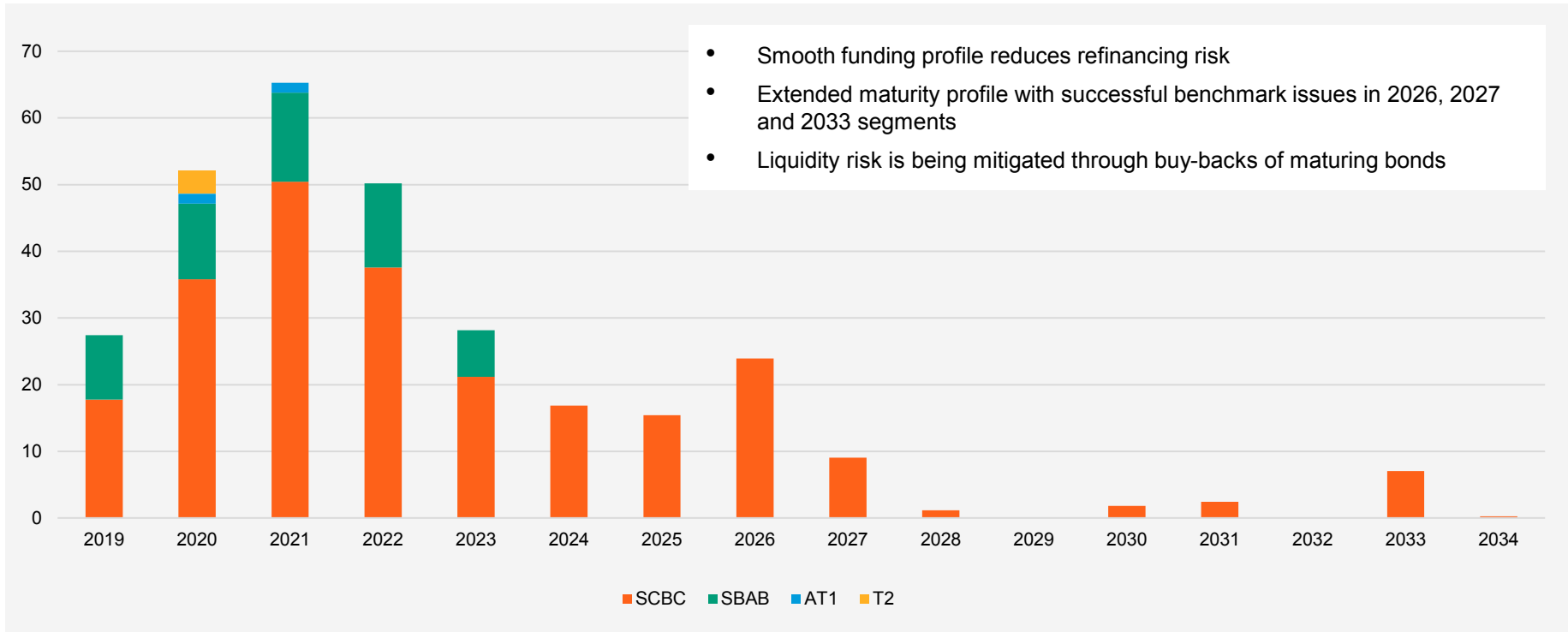
## Funding strategy

- 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
- Reduce wholesale funding reliance through 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

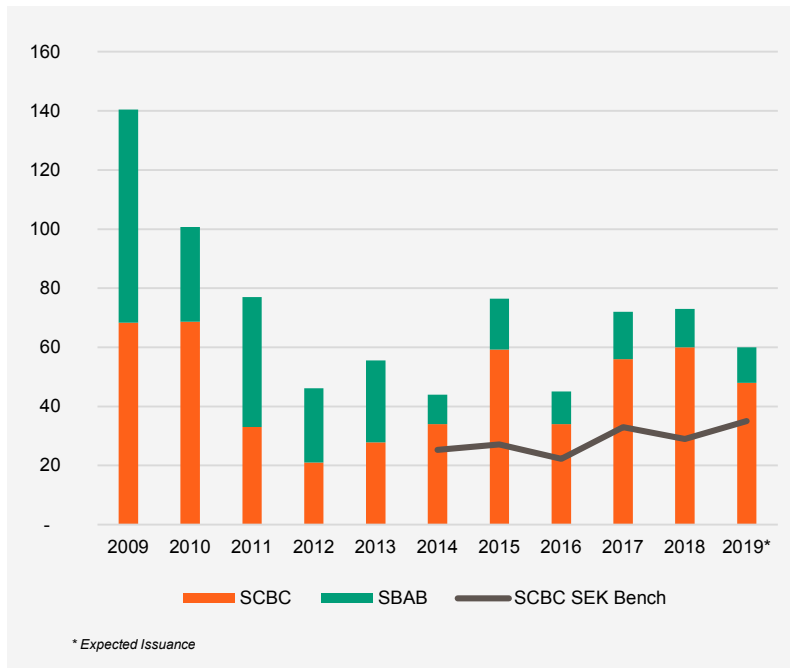


# Future issuance

## Future issuance

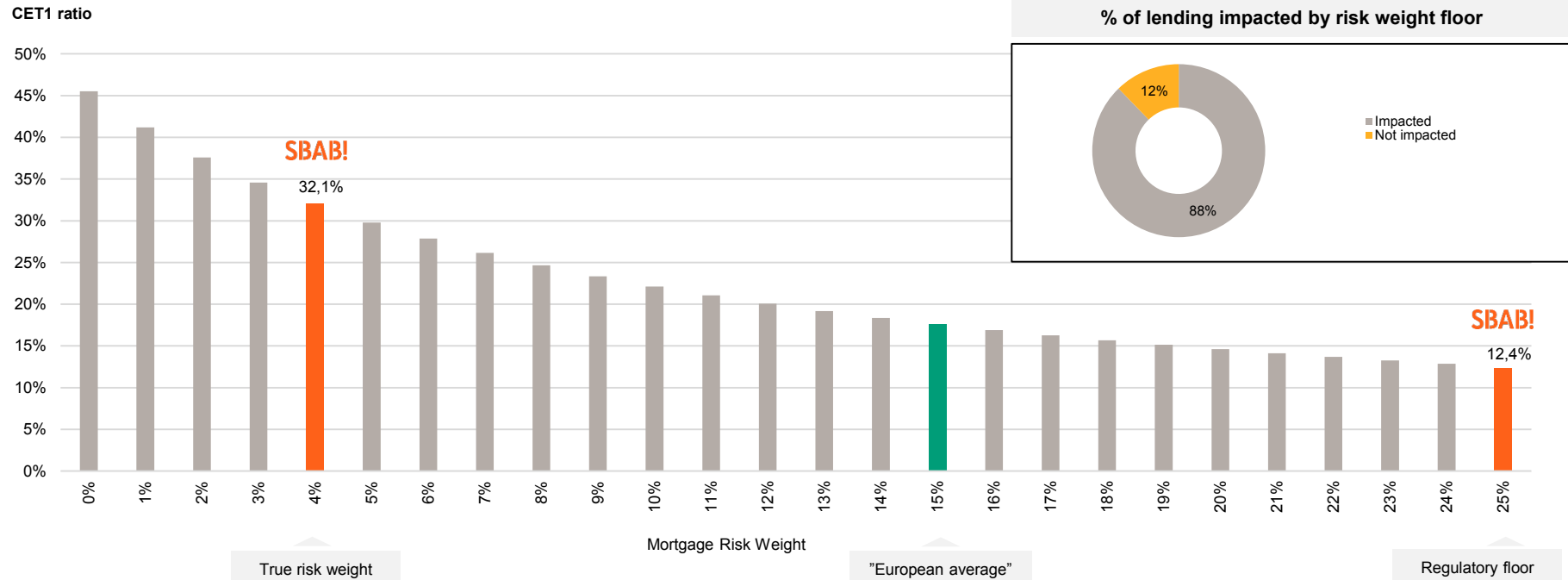
- Total long term funding for 2019 expected to approximately SEK 60 bn
- Overall strategy is to long term maintain presence and regularity in core funding markets (predominantly EUR and SEK)
- New SEK covered bond benchmark/benchmarks per year
  - One EUR covered transaction in international funding 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

## Annual issuance, SEK (bn)



# Capital position (Q1 2019)

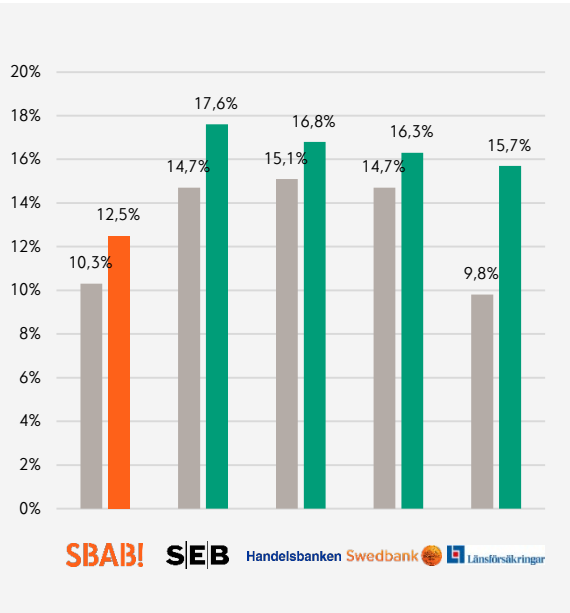
– Move of RW-floor & impact on SBAB's CET1 ratio



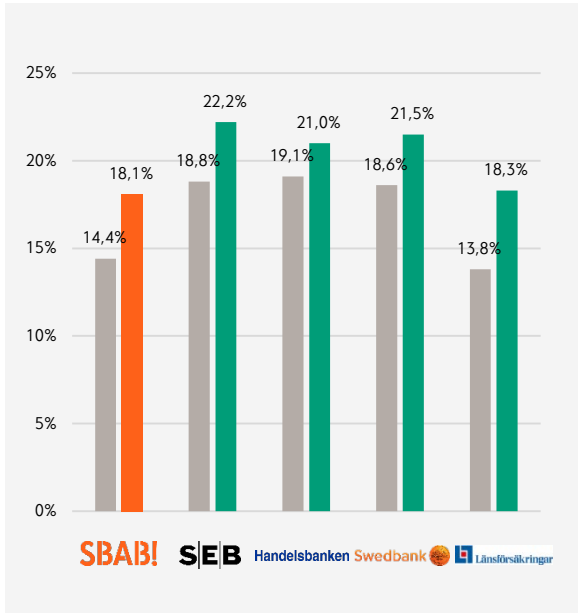
# Capital position (Q4 2018)

– 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 requirements

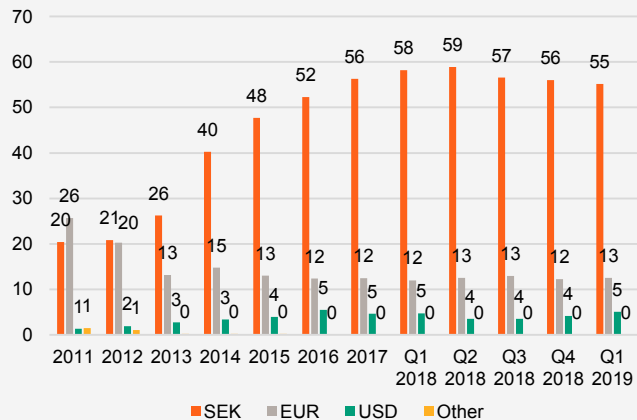
█ Available Q4 2018   
 █ Requirement Q4 2018

\* 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.

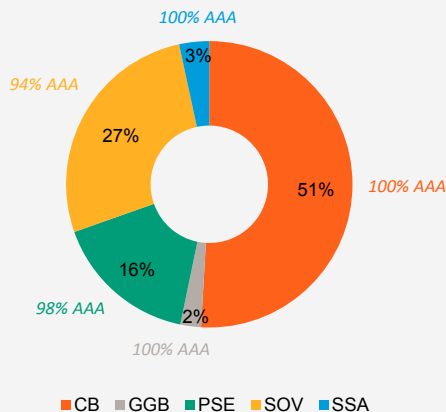
# Liquidity position

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

## Currency distribution



## Securities type



## Key figures

### Liquidity portfolio

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

### LCR

**303%**

### NSFR

**117%**

### Survival horizon

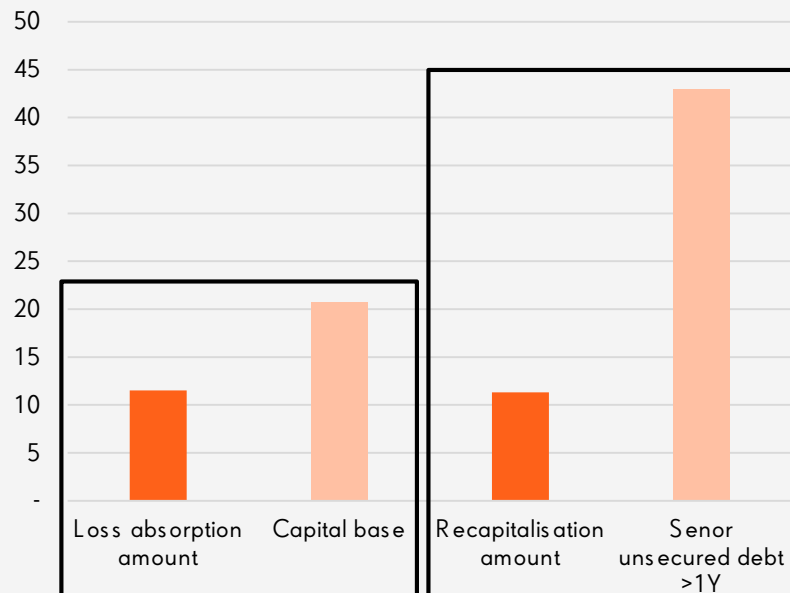
**443<sub>days</sub>**

# MREL-requirement 2019

## Background

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

## MREL requirement Q4 2018, SEK (bn)



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

# *THE SWEDISH ECONOMY & HOUSING MARKET.*





# SBAB's macroeconomic forecast

Robert Boije  
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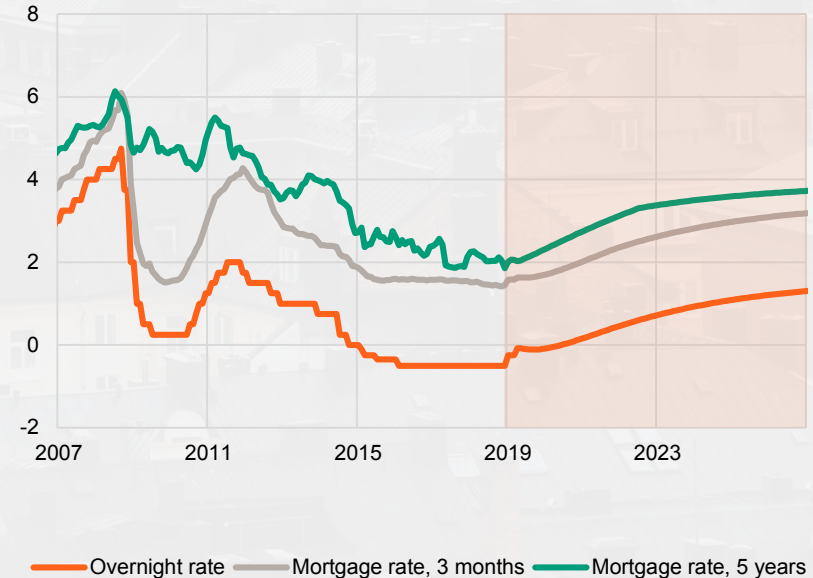


## Macroeconomic forecast

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

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

## Interest rate levels (per cent)

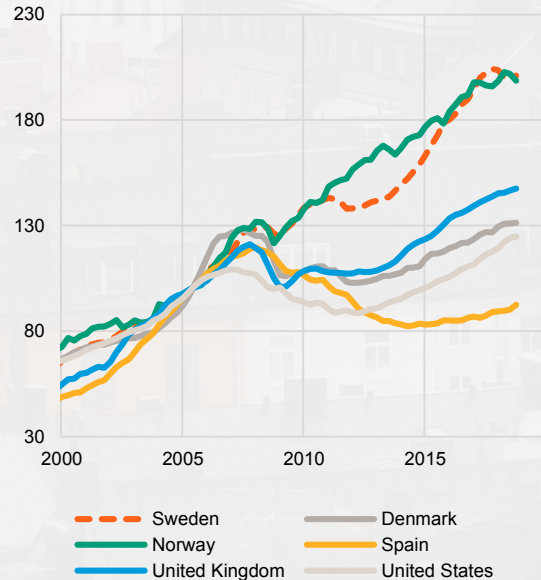


# House price development

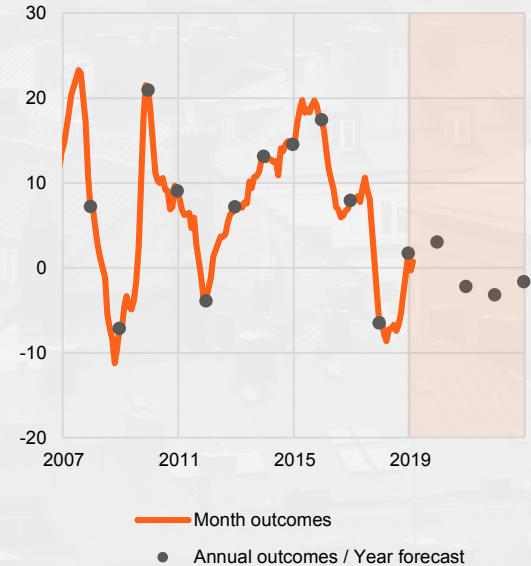
## House price development

- **Housing prices have increased by an average of 4.8% over the last ten years, turning point in 2017**
  - Price development is clearly linked to user cost of housing, such as mortgage rates and taxes
  - Housing prices is also dependent on credit regulations
  - Housing construction respond to house price development
- **Housing prices are expected to remain virtually constant for the next three years**
  - Slowly increasing mortgage rates are holding back the price driving factors, such as income growth

## House prices (index 2005=100)



## Prices on apartments (y/y)



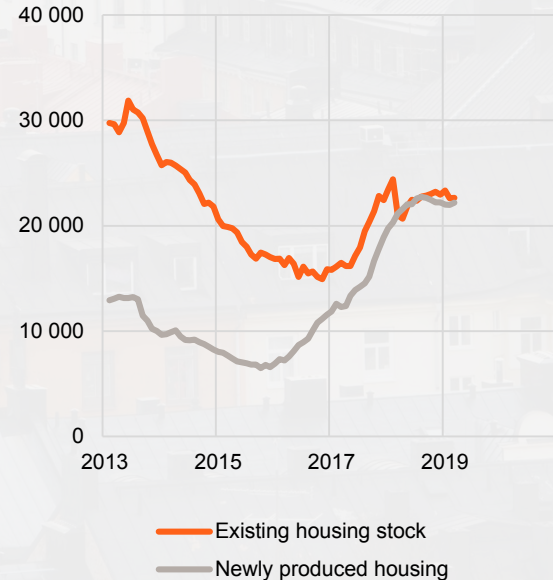


# Housing market

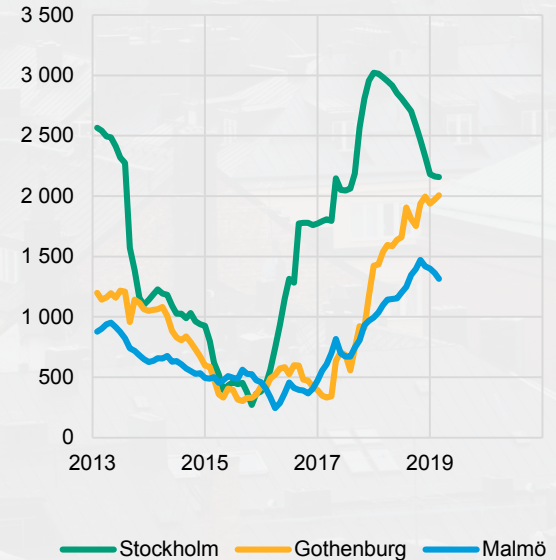
## Trends in the housing supply

- **Record high supply of housing, mainly due to many newly built housing in metropolitan areas**
  - The rising supply of new homes stopped at the end of 2018, at the time of the price fall
  - The rising supply of existing housing can be explained by new housing and by the approaching tightening of the amortization requirement
- **Same trends in housing production regionally, but time-shifted**
  - Increase in Stockholm in 2016, one year before Gothenburg and Malmö
  - Fall in Stockholm in 2018

## Supply of housing in Sweden



## Regional supply of new housing

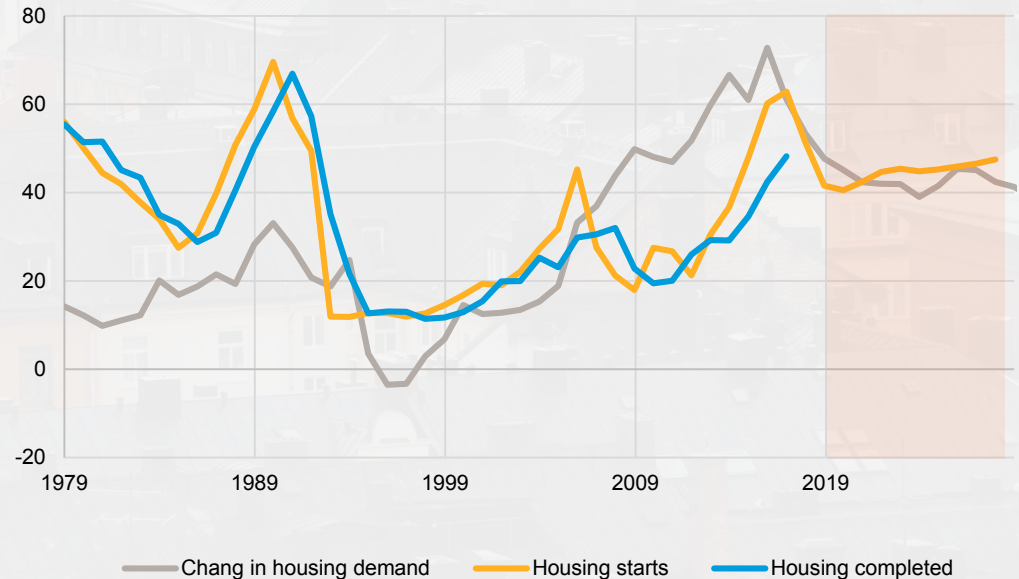


# Housing construction

## Housing construction

- **Low level of housing construction for a long time peaked in 2017**
  - Housing construction has since the mid 1980s responded well to changes in housing demand, until the financial crises when it fell sharply while demand accelerated
  - Currently a potential shortfall of 150 000 homes, despite a 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 demand and supply of new homes (thousands of homes per year)



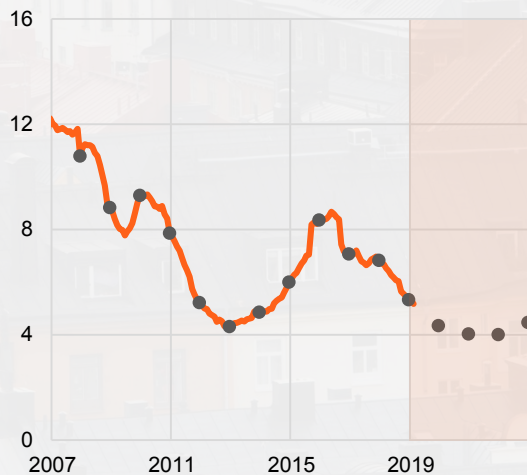


# Lending growth

## Comment

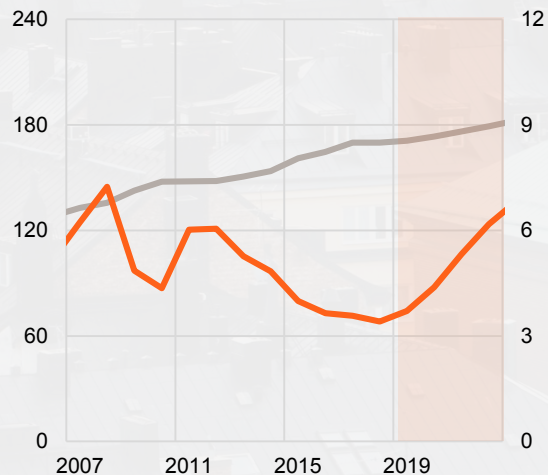
- **Lending to households is currently increasing by an annual rate of 5,2%**
  - Lending increases faster than household income, which has been historically normal (49 out of 64 years)
  - Measures taken has probably not had any major effects on growth rate, but on the composition
- **Low debt service costs**
  - There are strong links between interest rates, house prices and lending to households
  - The interest expenses to disposable income ratio is at a historically low level

## Household lending growth (y/y)



— Month outcomes  
● Annual outcomes / Year forecast

## Interest expenditure (% of disposable income)



— MFI loans to households, total (left axis)  
— Intrest expenses before tax (right axis)

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