

RESULTS PRESENTATION

SBAB Bank AB (publ)
January-September 2018

SBAB!

Summary Jan-Sep 2018

- Continued healthy trend for volume growth during the quarter
 - Total lending increased 10.4% YoY
 - Total deposits increased 12.6% YoY
- Net interest income rose 7.1% and operating profit rose 2.5% YoY. Operating profit for Q3 affected by a (non-recurring) commission expense attributable to the termination of a mortgage brokering partnership
- Continued strength for metrics such as profitability, credit losses, cost-efficiency and capitalisation
- The Swedish FSA has decided to change the method for applying the existing risk-weight floor for Swedish mortgages, which is currently applied in Pillar 2, by replacing it with a requirement within the framework of Article 458 of CRR. Given the above, SBAB's Board has decided to translate the buffer levels, expressed in percentage points, in the existing capital targets. The adjustments enter force in conjunction with the change on 31 December 2018.

	Jan-Sep 2018	Jan-Sep 2017
Total lending, SEK bn	358.0	324.4
Total deposits, SEK bn	120.5	107.0
Net Interest Income, SEK mn	2,514	2,348
Net commissions, SEK mn	-67	-7
Loan losses, SEK mn	+18	+4
RoE, %	12.1	12.4
C/I ratio, %	31.4	30.2
CET1 Capital Ratio, %	31,5	31.4

Rating	Moody's	S&P's
SBAB		
- Short term funding	P-1	A-1
- Long term funding	A1	A
SCBC		
- Long term funding	Aaa	

STRATEGY & MARKET POSITION.

Short recap of SBAB's strategy

Vision

To offer the best residential mortgages in Sweden

Mission

To help improve housing quality and household finances

SBAB's ecosystem
Housing quality and household finances

Revised strategy:
"FOCUS"

Aquisition of

booli

2014

2015

2016

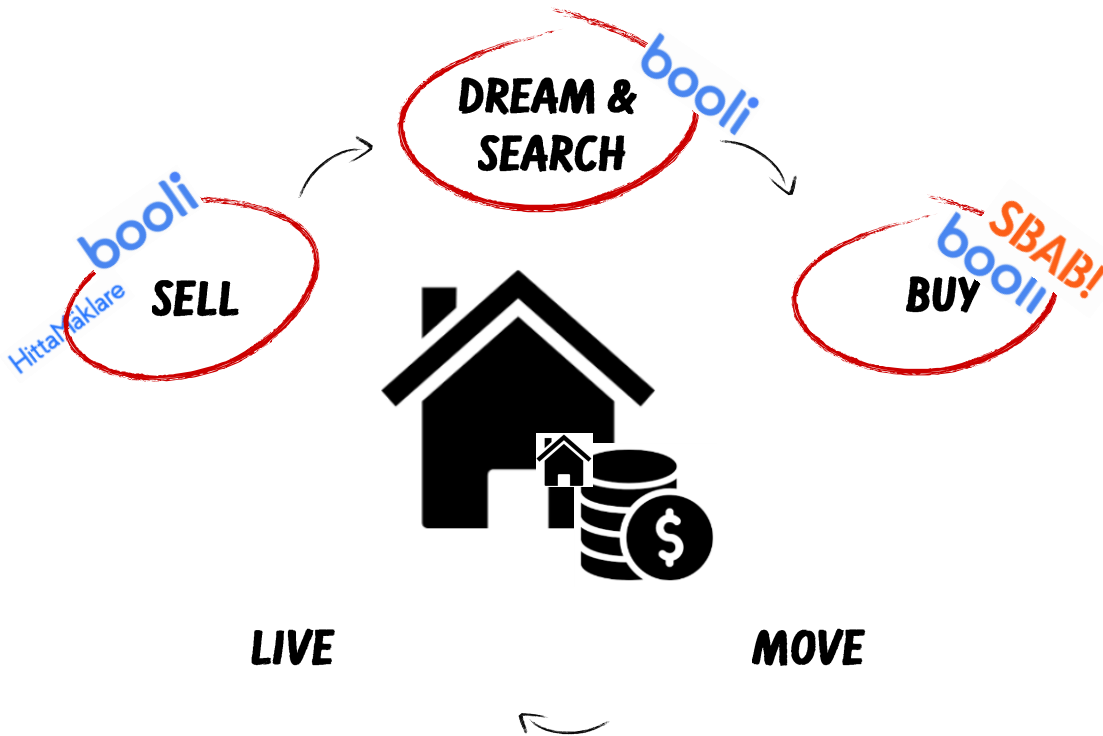
2017

Today

Changing market & changing customer behaviour & digitalisation & new regulations

SBAB's ecosystem

– Adding content, products & services relating to **housing quality** and **household finances**



Customer needs



DREAM & SEARCH

- Rent or buy?
- What's available in the market?
- Housing waiting lists?
- What can I afford?
- What about cash contribution?
- Where can I find the best residential mortgage?
- How do I evaluate a tenant-owners' association?
- How much is reasonable to pay in monthly fee?
- Inspiration

BUY

- When should I buy?
- How / how much should I bid?
- What does the buying process look like?
- How should the loans to be distributed?
- Do I need insurance?
- What happens if my family situation changes?
- Are there other legal agreements that are important?
- What do I need to think about before moving?
- Can someone help me move?
- Do I need temporary accommodation?

LIVE

- Is renovation needed?
- Waiting lists for schools, sports clubs?
- Furnishing?
- Living expenses?
- What happens if interest rates go up / down?
- Rent out?
- What about the tenant-owners' association? AGM?

SELL

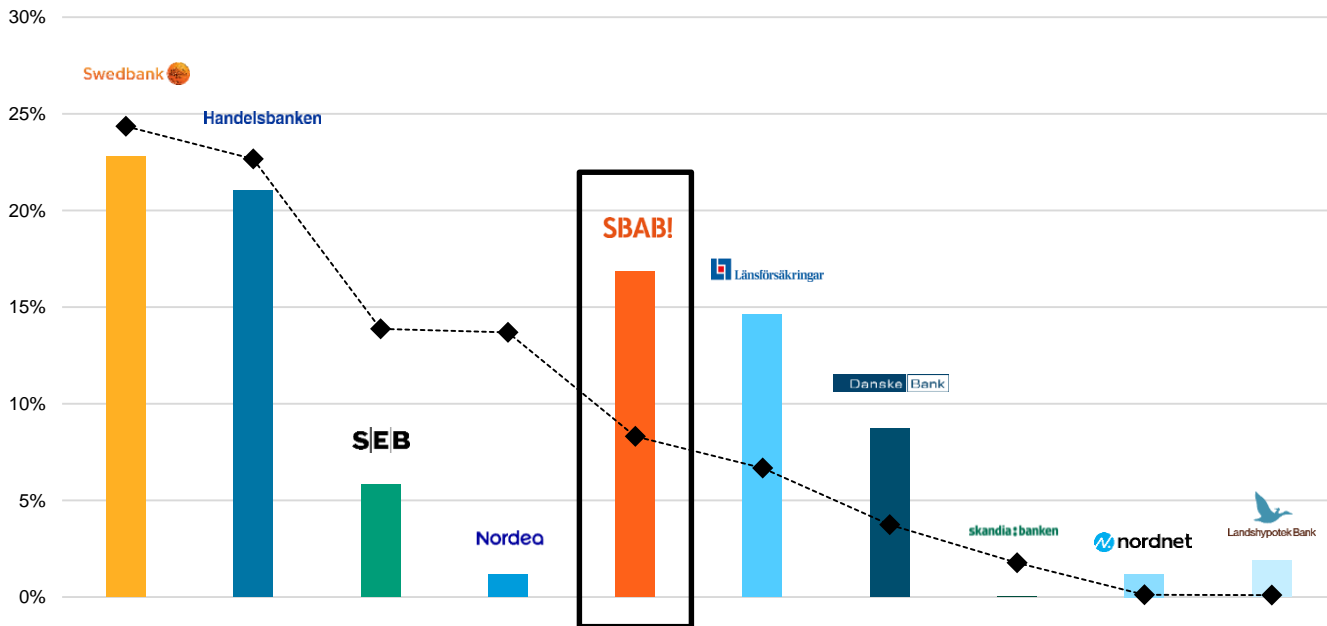
- When should I sell?
- What does the sales process look like?
- Valuation?
- Real estate agent?
- Taxes?

Swedish residential mortgage market 2018

– The larger players are losing market shares

Share of net growth in the Swedish residential mortgage market for the period Jan-Sep 2018 vs. market share (Sep 2018)

(black dot = market share)



Our offering

– 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

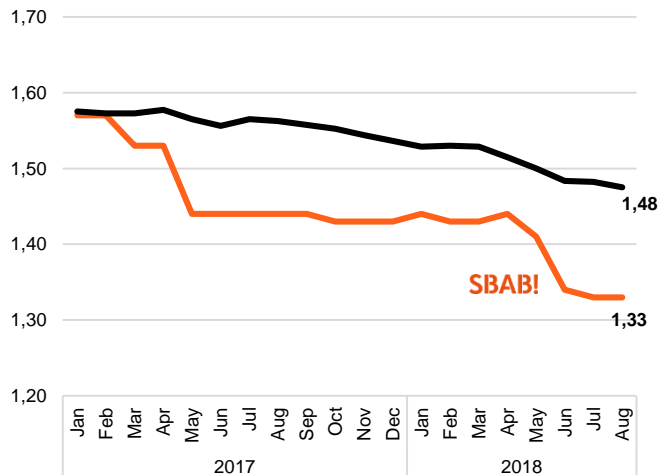
Housing specialists who care.

Competitive terms and conditions (Aug 18)

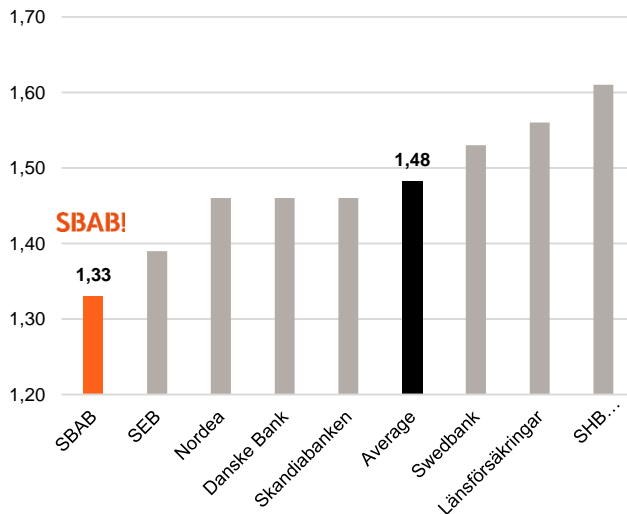
The share of residential mortgage lending with a 3M variable mortgage rate amounted to 70.7% at the end of Q3 2018

Average residential mortgage rates (3M variable rate)

SBAB vs. industry average

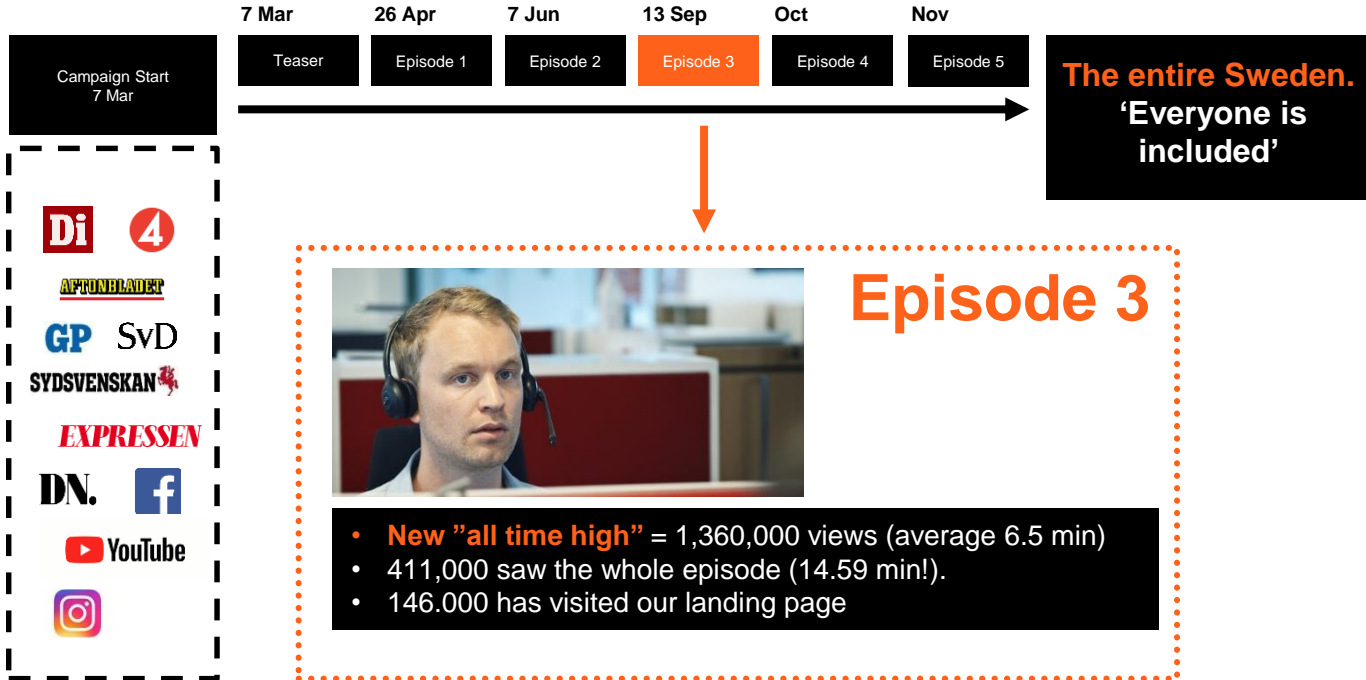


SBAB vs. peers (August 2018)



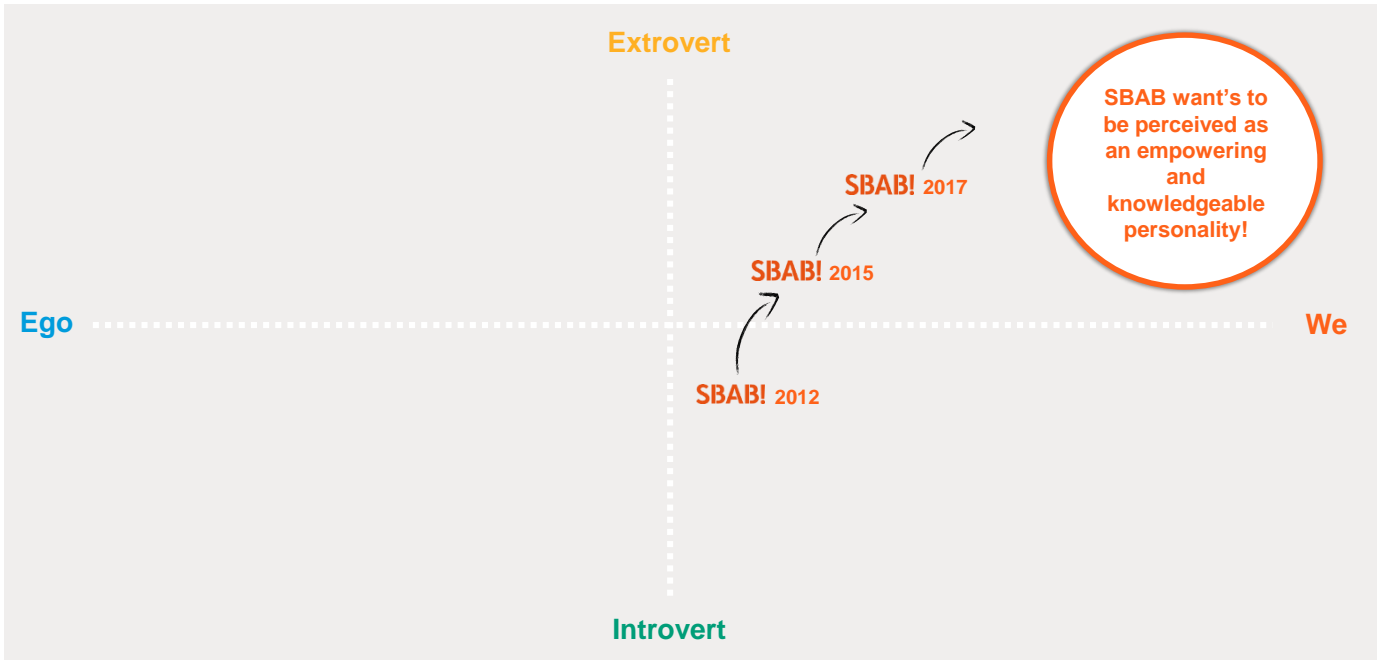
Marketing 2018: "The show must go on"

– Our goal: 10 million (!) views of the last episode



The SBAB brand

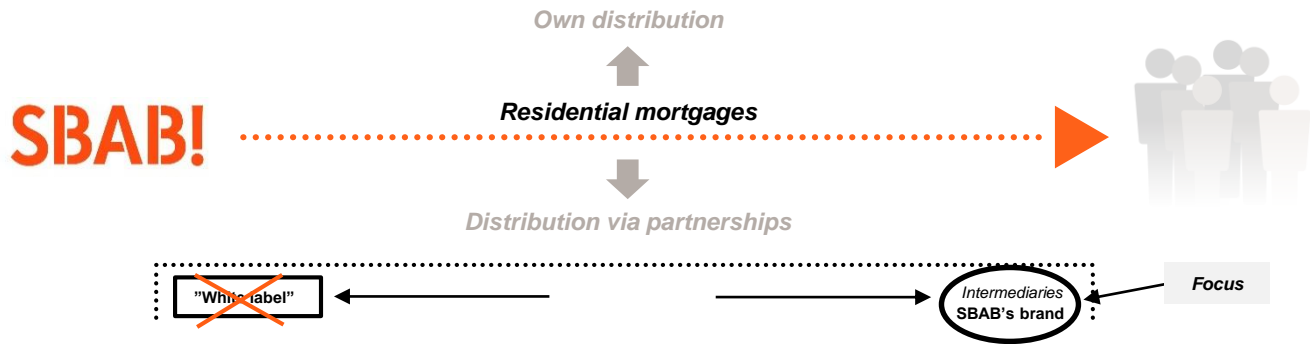
– SBAB aims to be perceived as a “social” brand with a clear extrovert brand personality



Short recap of distribution strategy

– Strengthening our own distribution capacity

- Since 2015, we have prioritised new lending under SBAB's brand, where we believe we can deliver the greatest customer benefit and build the strongest customer relationships. As a result, we have terminated the majority of our white label partnerships
- In the fourth quarter of 2017, we chose to terminate the last three remaining white label partnerships. The mortgages remain on SBAB's balance sheet, and customer relations will transfer to SBAB after the agreed notice periods, with the exception of one of the partnerships, where the partner has the right to take over the mortgages and step in as the lender
- One of the remaining three white label partnerships discontinued during Q3 2018. Operating profit for the third quarter affected by a (non-recurring) commission expense
- Future focus on partnerships with players (intermediaries) using digital business models



Digitalisation on SBAB's agenda

– A prerequisite for meeting customers' changing behaviors and expectations



A sustainable strategy

Three overall (commercial and sustainable) target areas

Together, our target areas form the basis of a common approach to SBAB's contribution to sustainable societal development

Responsibility and
transparency

Attractive
workplace

Sound
finances



Some examples of SBAB's sustainability work

Green Mortgages
Q2 & Q4 2018



Respect, diversity &
equality

Green Bonds



”Green Mortgage” launched in Q2 & Q4

- The residential and service sector (which includes households and non-residential premises) account for almost 40% of the total energy use in Sweden
- SBAB’s Green Mortgage is a discounted residential mortgage available for all customers living in properties (single family houses & tenant-owners’ rights) with an energy classification equivalent to or better than the national building standards, i.e. energy class A, B or C
 - Incentive for customers to invest and implement energy improving measures in their homes
 - A majority of Swedish houses and multi-family buildings do not meet current building standards
 - A large proportion of single family houses in Sweden do not hold an energy performance certificate
 - Foundation for issuing additional Green Bonds

Total volume Green Mortgages*

SEK **11.8** bn

* As of 24th Oct 2018

Rebate structure

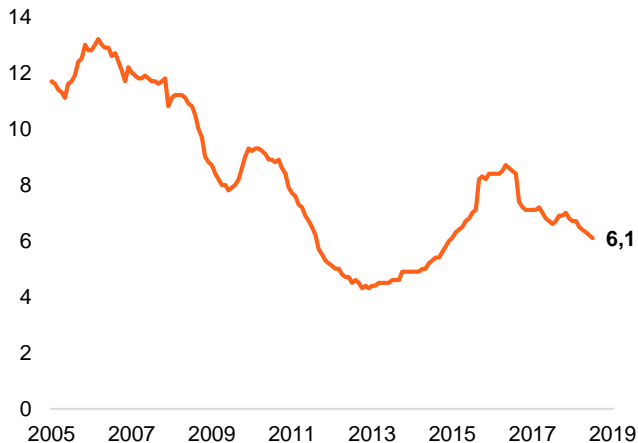
ENERGY CLASS **A: 10 bps**
ENERGY CLASS **B: 10 bps**
ENERGY CLASS **C: 5 bps**



Market development

August 2018

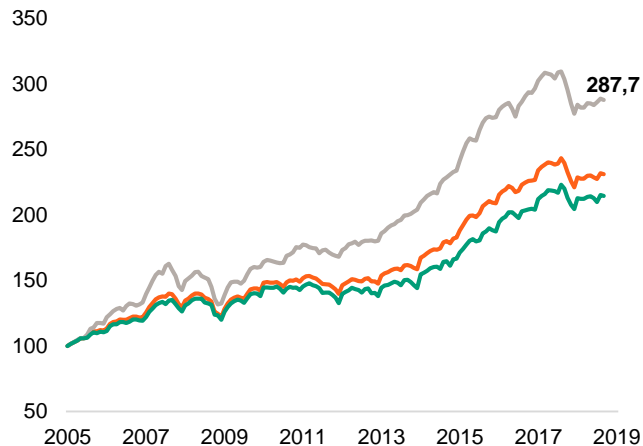
Household lending growth (y/y)



— Total, changes in stock

September 2018

Prices on flats and houses (Index 2005=100)



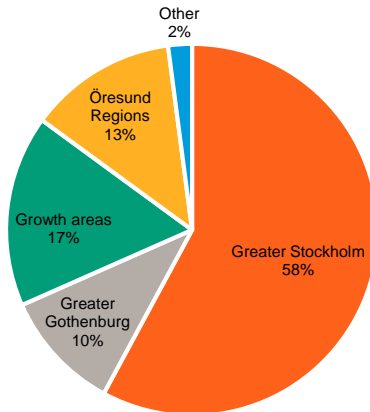
— HOX — HOX Flats — HOX Houses

Last month (Sep)	-0.3%
3 months	+1.0%
12 months	-3.6%

Building credit exposures

	30 Sep 2018
Granted credit amount, SEK mn	13,323
Disbursed share	66%
Number of building credit exposures	71

Geographic exposure



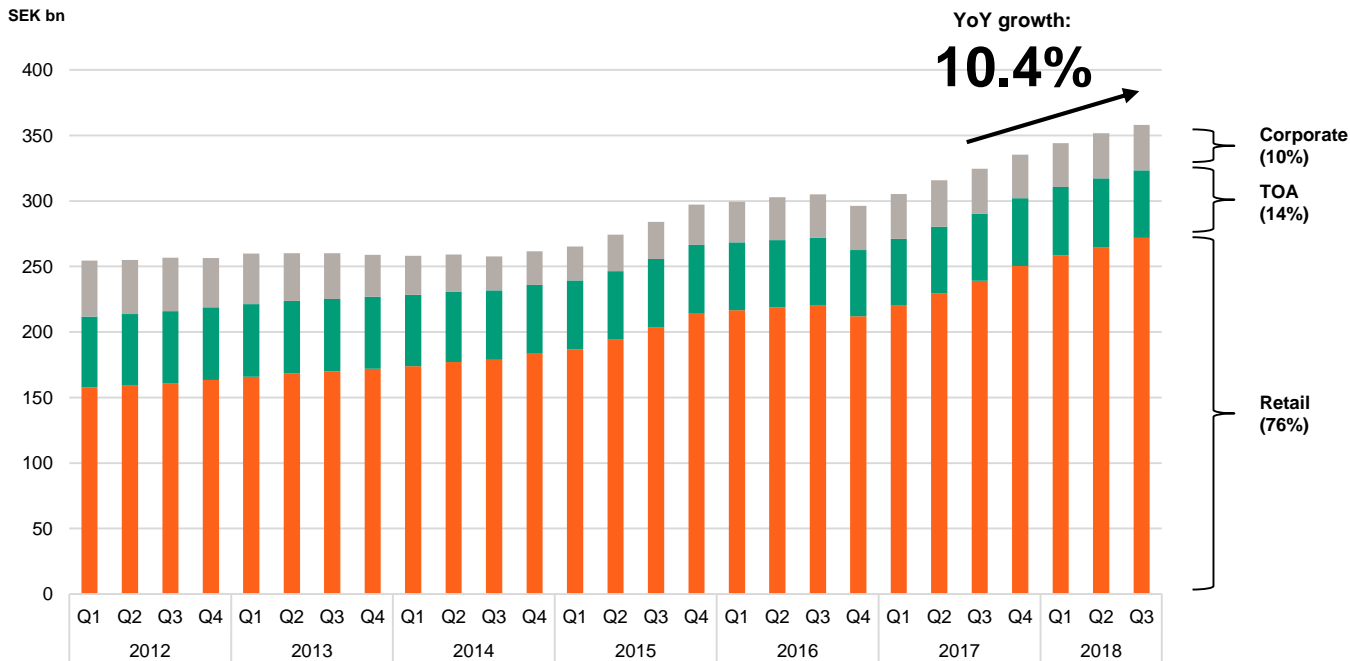
- Building credit exposures capped at 6% of total lending (currently 3.7%)
- Focus on major residential developers and existing relationships with solid track records
- Stricter requirements for smaller residential developers, e.g. higher levels of equity and number of sales agreements with residents
- Most of the building credit exposure is to companies with diversified revenue streams (i.e. not only from real estate development, but from rental apartments, infrastructure projects and real estate management)

FINANCIAL & BUSINESS DEVELOPMENT.

Continued strong development

(SEK mn)	Q3 2018	Q2 2018		▲	Jan-Sep 2018	Jan-Sep 2017		▲
NII	833	850	↓	-2.0%	2,514	2,348	↑	+7.1%
Costs	-246	-264	↓	-6.8%	-752	-700	↑	+7.4%
Loan losses	0	8	↓	-8mn	18	4	↓	+14mn
Net commission	-63	1	↓	-64mn	-67	-7	↓	-60mn
Operating profit	514	574	↓	-10.6%	1,665	1,625	↑	+2.5%
Lending (SEK bn)	358,0	351.5	↑	+1.8%	358.0	324.4	↑	+10.4%
Deposits (SEK bn)	120.5	117.0	↑	+3.0%	120.5	107.0	↑	+12.6%
Deposit/lending, %	33.7%	33.3%	↑	+40 bps	33.7%	33.0%	↑	+70 bps
C/I ratio, %	32.5%	31.6%	↑	+90 bps	31.4%	30.2%	↑	+120 bps
RoE, %	10.9%	12.6%	↓	-170 bps	12.1%	12.4%	↓	-30 bps
CET1 capital ratio, %	31.5%	30.3%	↑	+120 bps	31.5%	31.4%	↑	+10 bps

Lending growth

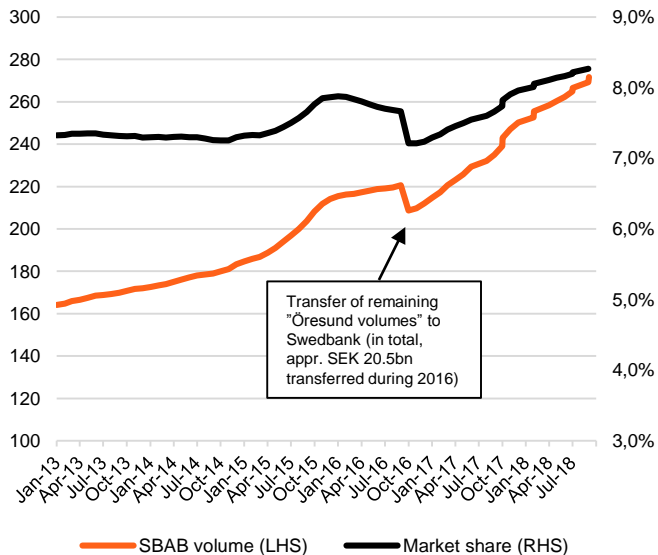


Approximately SEK 20.5bn of assets transferred from SBAB during 2016 due to option exercised by former partner Sparbanken Öresund (acquired by Swedbank)

Retail lending

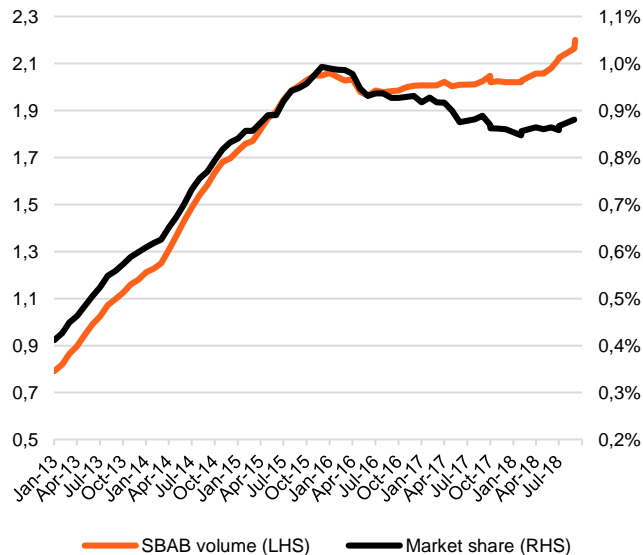
SEK **269.4**bn

Residential mortgages (lending & market share)



SEK **2.2**bn

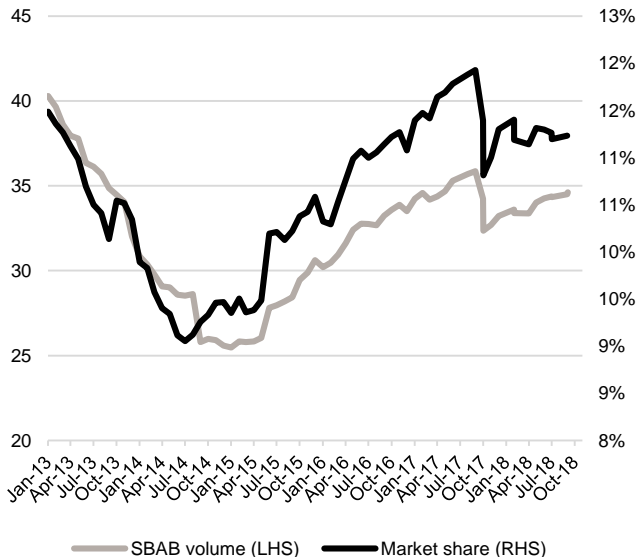
Consumer loans (lending & market share)



Lending to corporates & tenant-own. ass.

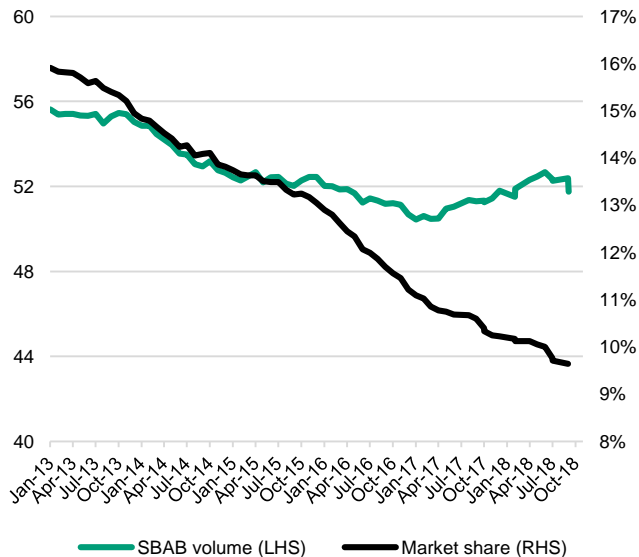
SEK **34.6**bn

Corporates (lending & market share)



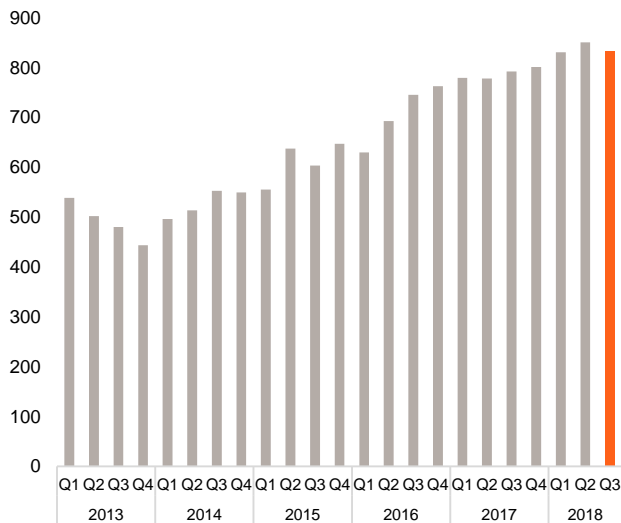
SEK **51.8**bn

Tenant-Owners' Associations (lending & market share)

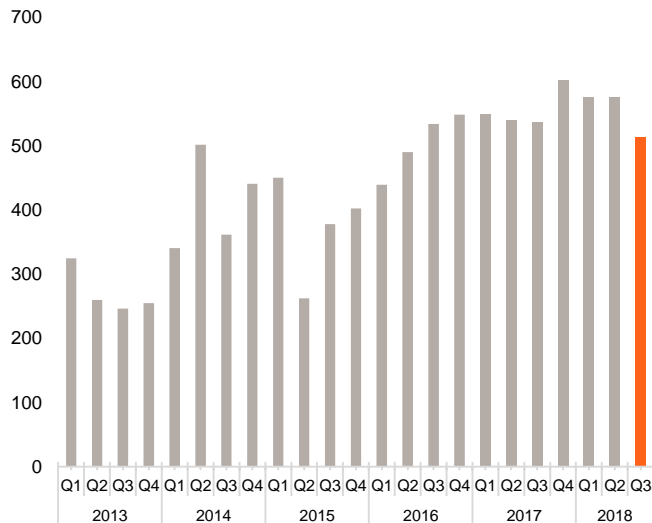


NII & Operation profit QoQ

Net interest income (SEK mn)



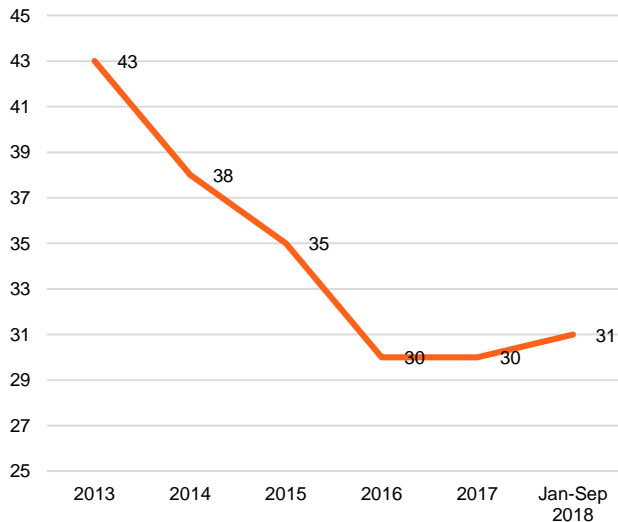
Operating profit (SEK mn)



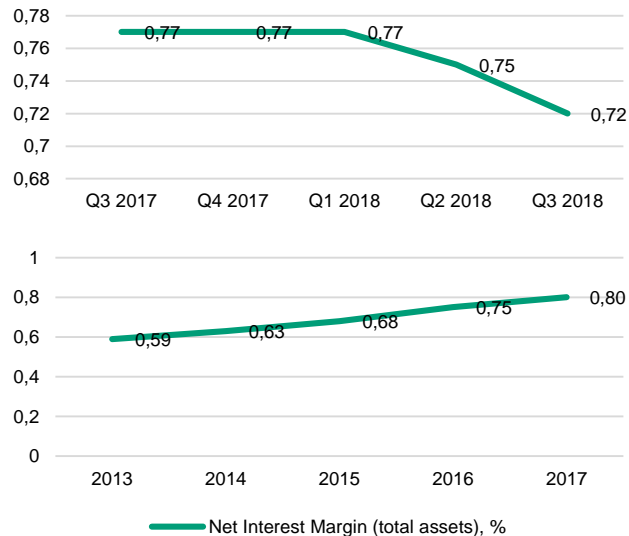
Operating profit for the third quarter affected by a (non-recurring) commission expense attributable to discontinuance of partnership

Competitive C/I ratio & lower margins

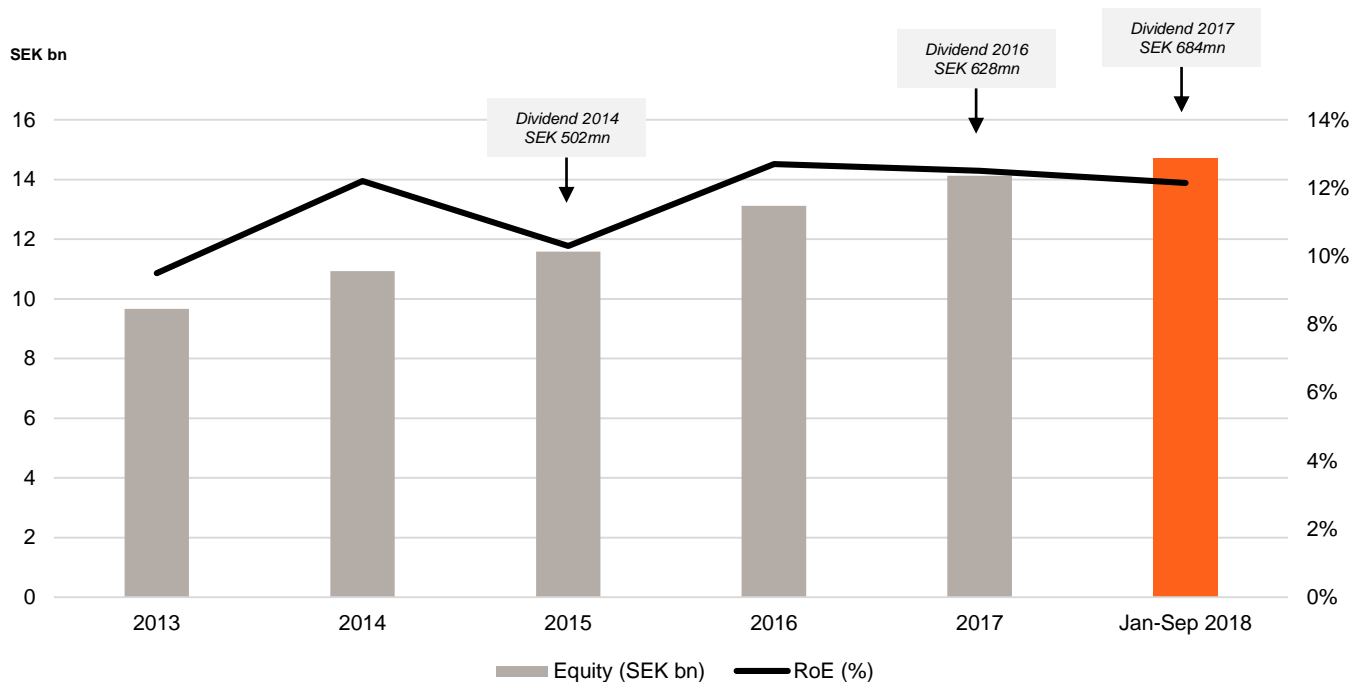
C/I ratio, %



Net Interest Margin (NIM), %



Equity and RoE



- *Equity adjusted for additional Tier 1 securities and value changes in financial assets recognised in equity*
- *Return on equity calculated as earnings after tax in relation to average equity, after adjustment for additional Tier 1 securities and value changes in financial assets recognised in equity*
- *When calculating the return on equity for Jan–Sep 2018, average equity has been adjusted for dividend of SEK 684 million for 2017*

FUNDING & CAPITAL.

Funding programme

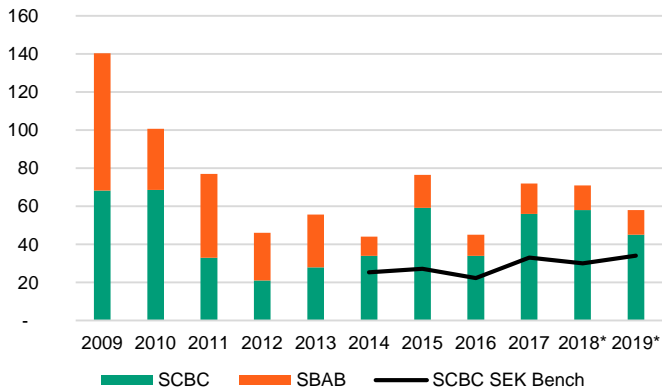
- Total long term funding for 2018 expected to approximately SEK 70 bn and around SEK 60 bn in 2019
 - Overall strategy is to long term maintain presence and regularity in core funding markets (predominantly EUR and SEK)
 - **New SEK covered bond benchmark/benchmarks per year**
 - **One EUR covered transaction 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
-

SBAB Group funding

– Moderate funding needs ahead

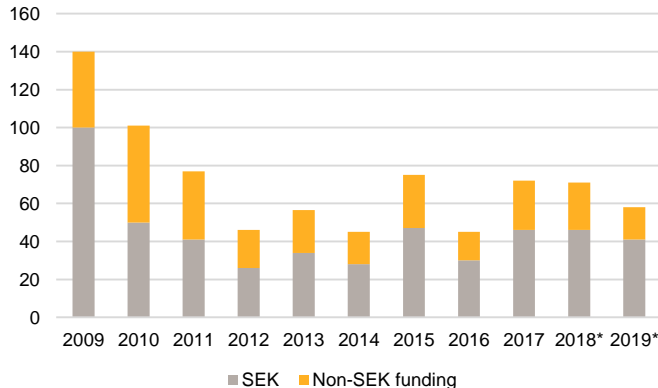
- SBAB Group operates in a number of funding markets. A broad and efficiently diversified investor base is an important part of the Group's funding strategy
- Long term funding volume for 2018 SEK 70bn and for 2019 around SEK 60bn of which a majority in SEK
- Intermediate tenors to support duration

Annual issuance, SEK (bn)

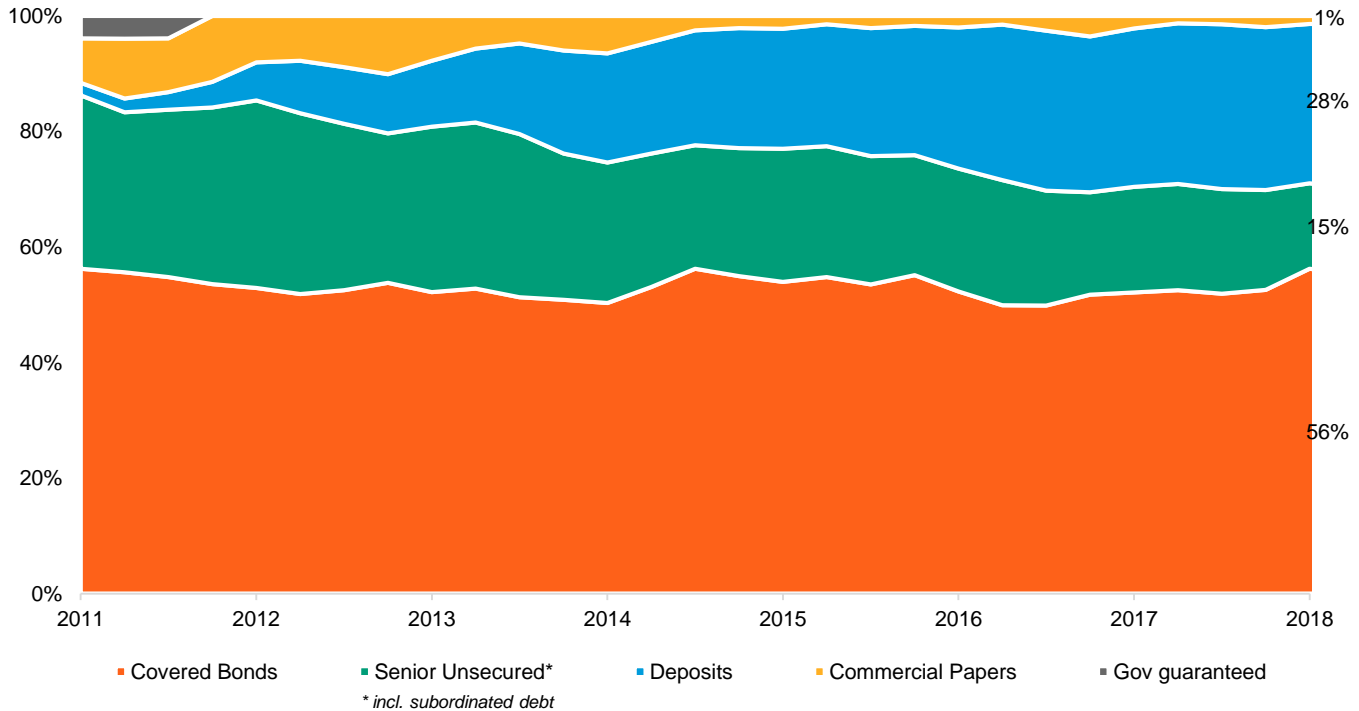


* Expected Issuance

Currency split, SEK (bn)



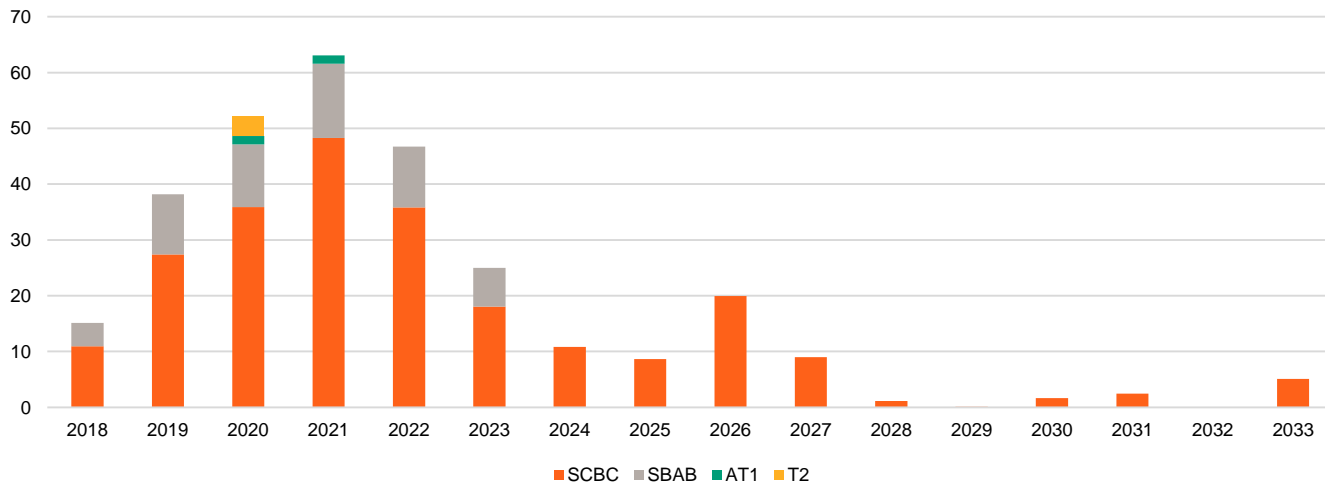
Development of funding sources



Maturity profile – long term debt

- Smooth funding profile reduces refinancing risk
- Extended maturity profile with successful benchmark issues in 2026, 2027 and 2033 segments
- Liquidity risk is being mitigated through buy-backs of maturing bonds

Maturity profile (SEK bn)



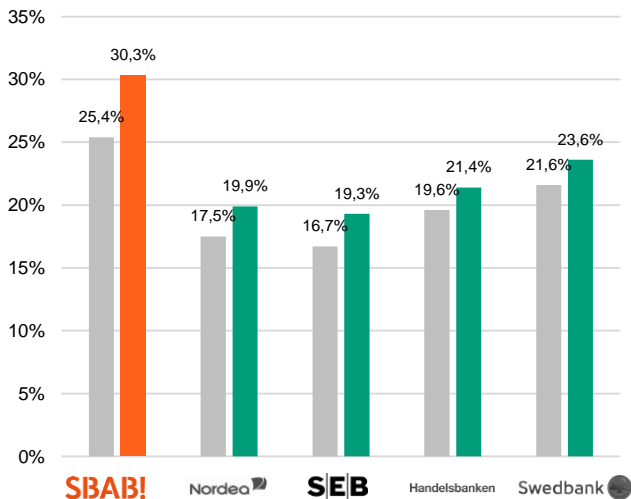
Update on MREL

- In December 2017, the SNDO (Riksgälden) decided on plans for how banks and other institutions should be managed in a financial crisis. The SNDO's judgement was that ten of the Swedish institutions have business activities that are critical to the financial system (systemically important) and therefore they should be managed via resolution. These institutions are the four major banks and the mid-sized institutions Landshypotek, Länsförsäkringar, **SBAB**, Skandiabanken, Sparbanken Skåne and The Swedish Export Credit Corporation
 - In June 2018, SNDO 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 for 2018 is set around SEK 25 bn, where approximately SEK 14 bn is the recapitalisation amount
 - SFSA's proposal to move the risk weight floor pillar 2 to pillar 1 might slightly lower the recapitalisation amount (appr. SEK 11-12 bn based on current balance sheet)
 - SBAB's estimated balance sheet growth and buffer will add to MREL requirement
 - Senior non preferred need (requirement and buffer) of approximately SEK 20 bn by end 2021
 - Swedish legislation that enable Senior-non-preferred issuance is expected to pass in December 2018 with issuance starting during first half of 2019
 - Gradual build up of subordinated liabilities (senior non preferred) over the next three years
-

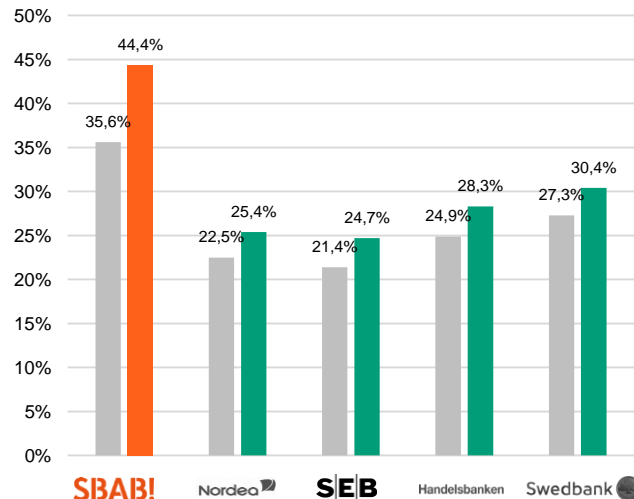
Adequate capital buffers (Q2 2018)

– SBAB well above requirements

CET1 capital ratio



Total capital ratio



Available Q2 2018 Requirement Q2 2018

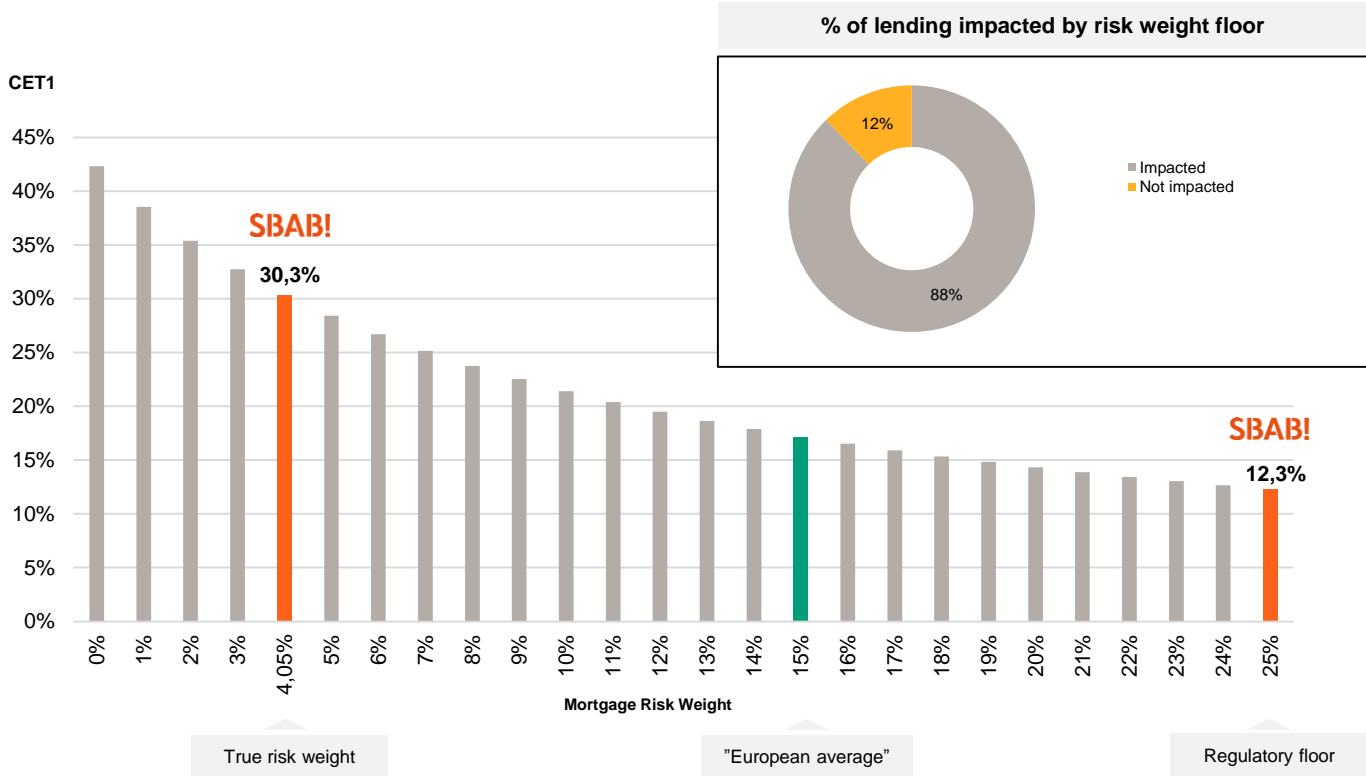
Decision by the Swedish FSA

– SBAB has decided to translate buffer levels in existing capital targets

- 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
 - 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 their 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 existing capital targets:
 - “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 existing capital targets
-

Move of RW-floor & impact on SBAB

– As of 30 June 2018



Pro forma calculation vs. peers

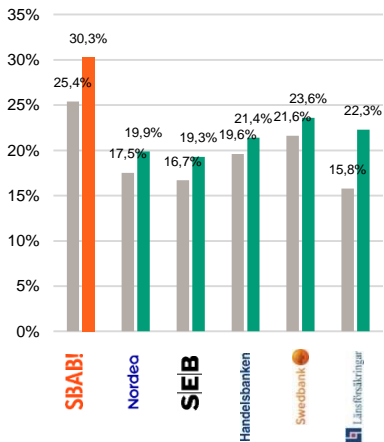
– As of 30 June 2018

Impact on CET1 ratios

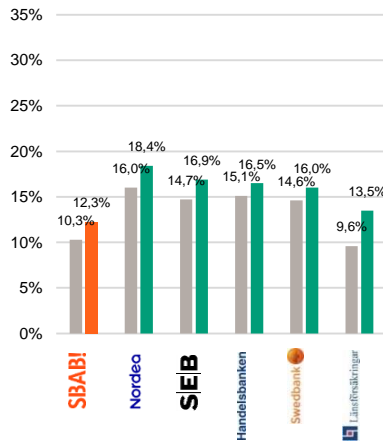
- Banks with the largest exposure to the Swedish mortgage market are the most impacted (although CET1 position in SEKbn stays unchanged)

Available Q2 2018 Requirement Q2 2018

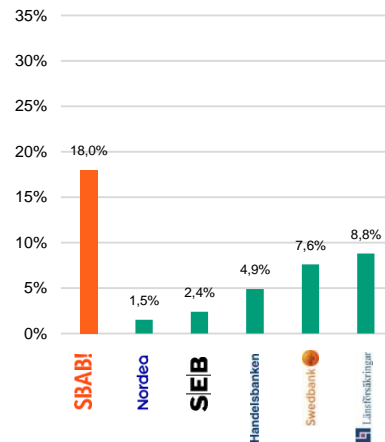
CET1 position 30 Jun 2018



Pro forma CET1 position following the increase in RWAs

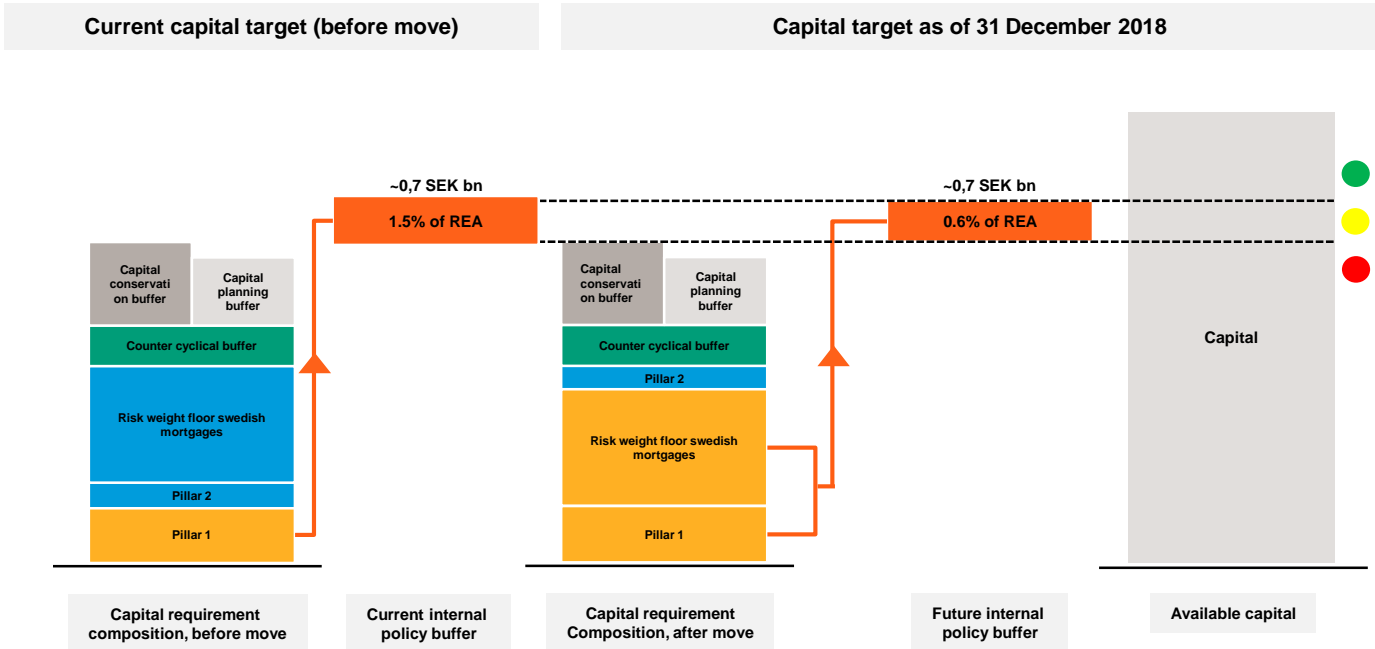


Implied reduction in the CET1 ratio



Translation of capital targets

– Unchanged nominal CET1 buffer with regards to regulatory changes



Translation of capital targets

– Unchanged nominal CET1 buffer with regards to regulatory changes

→ **Unchanged nominal CET1 buffer with regards to regulatory changes, i.e. translation of buffer levels in current capital targets: from 1.5% to 0.6% of REA** (the adjustments enter force in conjunction with the change on 31 December 2018)

- The purpose of the buffer is not to act against fundamental changes in capital requirements. Instead, it will protect against increased risk levels as well as temporary unplanned and rapid growth (i.e. at a higher rate than planned organic growth)
- **The buffer rate of 0.6% of risk exposure amounts (REA) can be justified as follows:**
 - 1. Buffer to increase risk or rapid growth:**
 - 0.6% of REA will amount to approximately SEK 0.7 billion.
 - With the current requirement level, SEK 0.7 billion amounts to:
 - » 6% of internally assessed capital requirement, incl. floor and buffer requirements
 - » 21% of the capital requirement from risks in Pillar 1 and 2 excluding floor add-on and buffer requirements.
 - Therefore, if volumes would increase with rapid growth above the planned volumes, the buffer corresponds to growth of approximately SEK 20bn in mortgages
 - 2. Previous level still applies:**
 - 1.5% of REA (excluding floor) corresponds to approximately 0.6% of REA (including floor) if the buffer size is to be kept constant in nominal terms
 - Risk migration will not affect the buffer in the future (highly unlikely, as the entire portfolio needs to migrate 4 steps or more in risk)
 - The buffer can instead be affected by changes in other exposures and risk levels as well as volume changes
 - 3. Forward looking business planning:**
 - Strategic business planning has been performed based on previous 1.5% of REA (excluding RW floor)
 - The risks have not risen, nor have the capital requirements (which are limiting factors). Therefore, raising the internal buffer in nominal terms should instead be based only on increased risk, which is not the case

Q&A

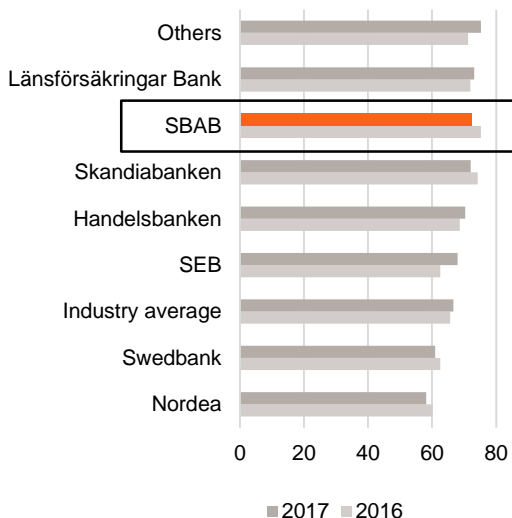
APPENDIX.

High customer satisfaction

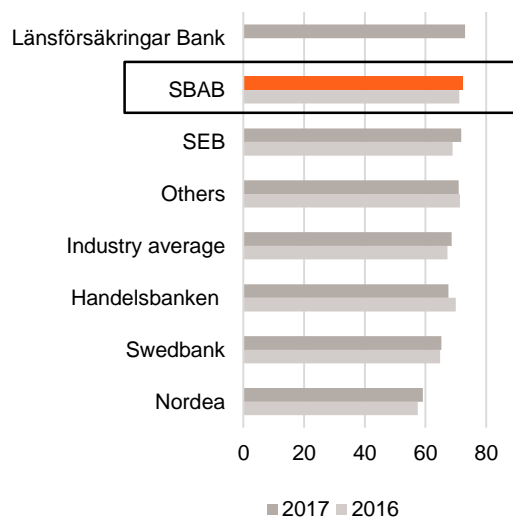
”Sweden’s most satisfied residential mortgage customers”



Retail (SBAB no 3 in 2017)
Customer satisfaction 2016 & 2017

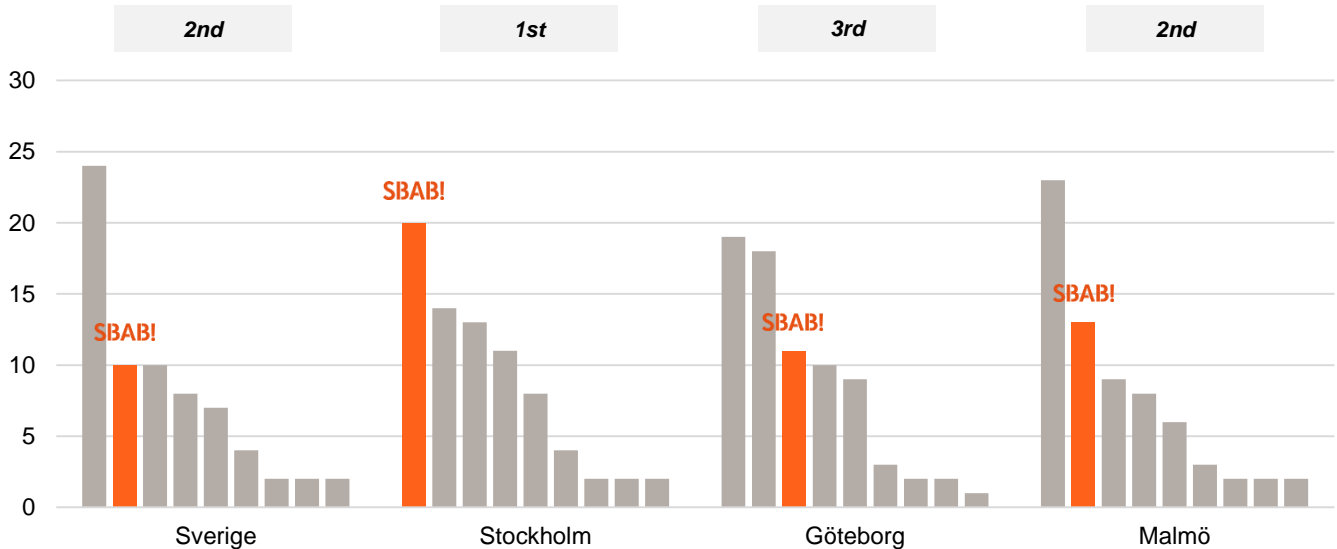


Corporate (SBAB no 2 in 2017)
Customer satisfaction 2016 & 2017



Strong position & awareness

”Which companies offering mortgages do you know of?” (first mentioned)



SBAB is the 5th largest mortgage provider in Sweden, but the 2nd most recognised nationally and 1st - 3rd most recognised in the largest cities, supporting further growth

The market is changing (1/2)



HYPOTEKET

New competition



Mortgages?



AISPs
(Account Information
Service Providers)

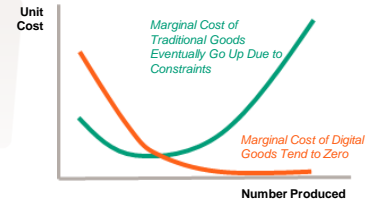
New regulations (PSD2)



Open
Banking

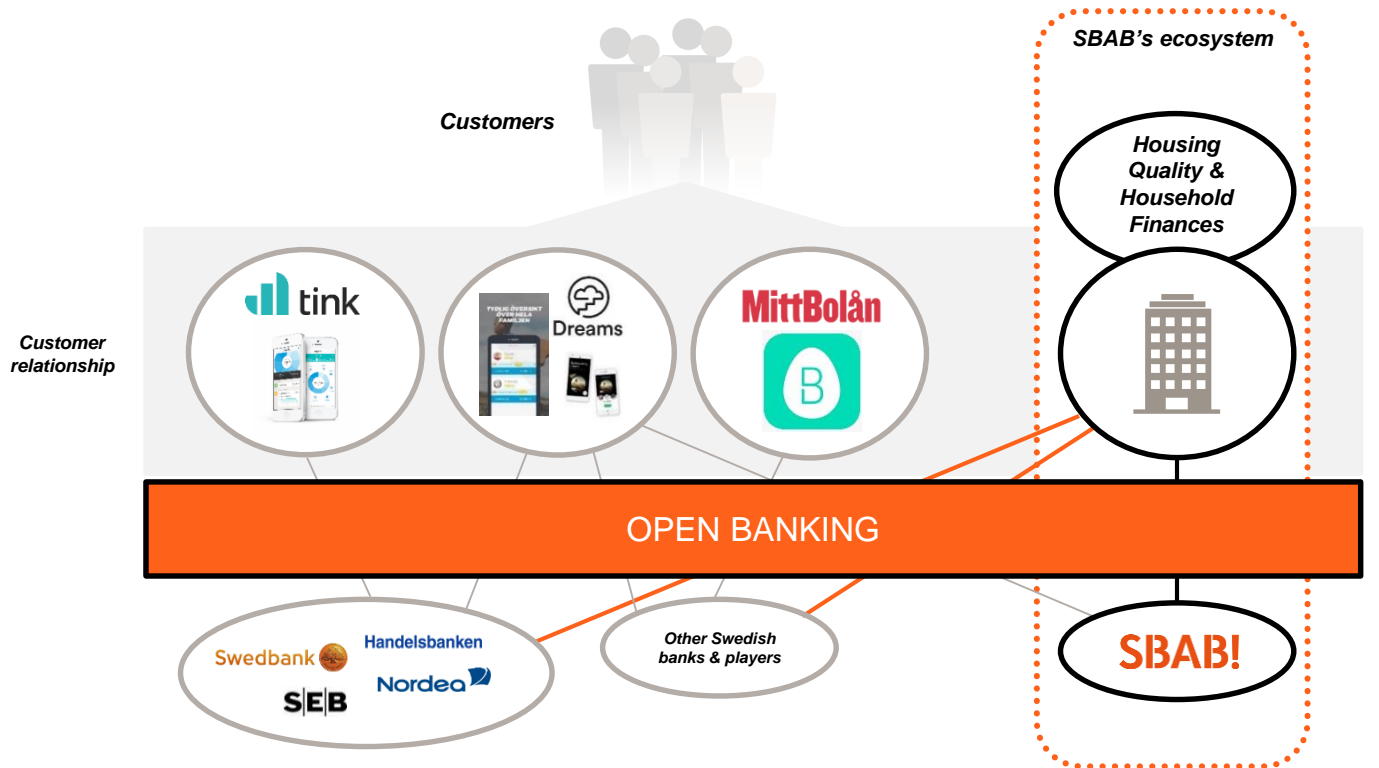
The full-service bank is
disappearing

*More than 60% of retail customers
have more than one banking
relationship according to SKI*



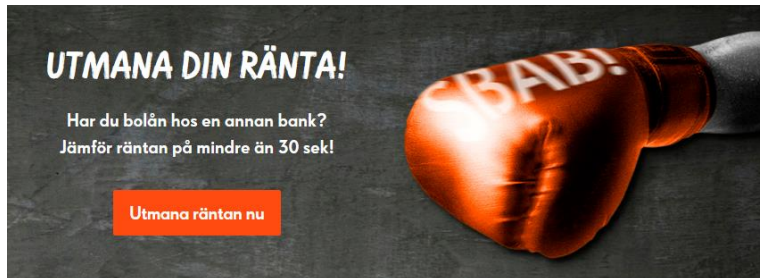
Digitalization – marginal cost
and price towards zero

The market is changing (2/2)



"Räntematchen"

– SBAB's comparison service based on Open Banking



37,991

No. of matches...

87%

...no. of matches won

SEK 5,695 per year

...what customers on average
save on moving to SBAB

House price performance (2/2)

	Index (September 2018)	Change since		
		1m	3m	12m
Sweden (HOX)	231	-0.3%	+1.0%	-3.6%
Flats, Sweden	288	-0.4%	+1.4%	-5.2%
<i>Stockholm</i>	274	-0.1%	+1.7%	-5.4%
<i>Gothenburg</i>	332	+0.3%	+1.4%	-4.4%
<i>Malmö</i>	244	-0.3%	+0.6%	-3.6%
Houses, Sweden	215	-0.3%	+0.8%	-2.5%
<i>Stockholm</i>	214	-0.7%	+1.2%	-7.3%
<i>Gothenburg</i>	220	-1.5%	-0.2%	-2.1%
<i>Malmö</i>	193	-1.8%	+0.5%	+1.0%

Capital requirements

– Move of RW-floor & impact on SBAB

30 Sep 2018	Floor in P2	Floor in P1
REA	<u>44,194</u>	<u>112,986</u>
Capital policy – internal requirement		
CET1 requirement	11.4	11.4
Total capital requirement	16.0	16.0
Ratios		
CET1	31.5%	12.3%
Total capital	46.1%	18.0%
Ratios – internally estimated S-FSA requirement		
CET1	25.8%	10.1%
Total capital	36.2%	14.2%
Ratios – management buffer		
CET1	27.3%	TBD
Total capital	37.7%	TBD
Margin to estimated S-FSA requirement		
CET1	5.7%	2.2%
Total capital	9.9%	3.8%

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