



# SEB's Swedish Residential Mortgage Lending and Covered Bonds

Stockholm  
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*More information: [www.sebgroup.com/investor-relations](http://www.sebgroup.com/investor-relations)*

SEB

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**Status of Swedish Residential Mortgage Market  
Household Mortgage Lending in focus**

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**Risk Management**

**Cover Pool, Covered Bonds and Funding Strategy**

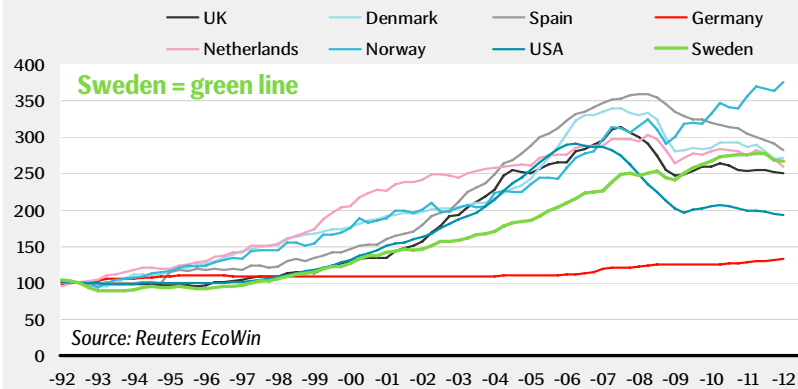
**Status of Swedish Residential Mortgage Market:  
Household Mortgage Lending in focus**

Johan Andersson

# Price development and Household indebtedness

## A steady and sustained increase in Swedish house prices

### House prices (index 1992=100)

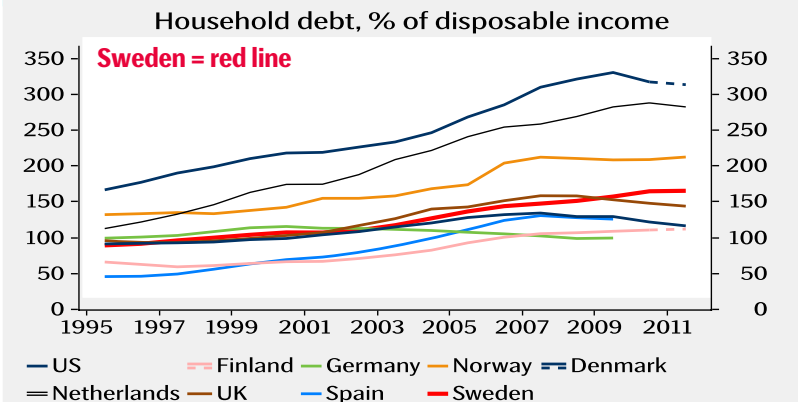


### Important factors for Swedish market

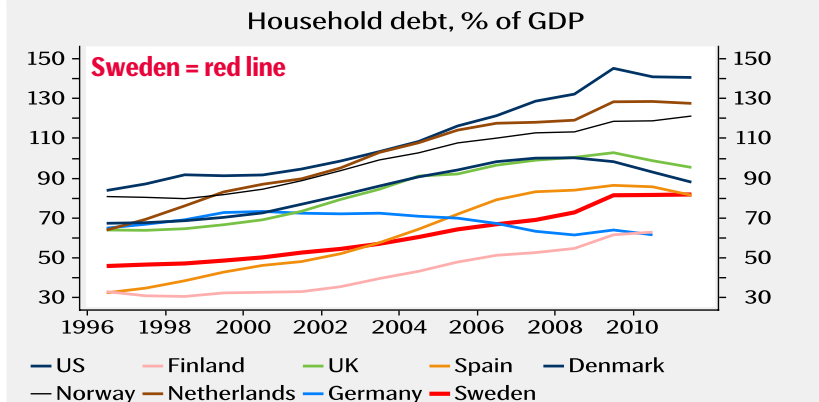
- Reduced subsidies at the beginning of the 1990s caused a decline in residential construction which eventually led to an upward pressure on equilibrium price levels
- Structural lack of supply in particular in the larger cities
- Abolition of residential real estate and wealth tax in the mid-2000s
- Low debt servicing costs
- Interest costs deductible to 30% (20% on amount above SEK 100th)

## Swedish household indebtedness lower than in many other countries

### Household debt as % of disposable income



### Household debt as % of GDP



## Current market development

# Dampened price development and a downward sloping trend of lending growth to households

### Swedish house price update, 30 Oct 2012

| Total                      | Price change |       |       |
|----------------------------|--------------|-------|-------|
|                            | 1m           | 3m    | 12m   |
| Sweden                     | -1.7%        | 0.0%  | 2.9%  |
| <b>Tenant rights</b>       |              |       |       |
| Sweden                     | 0.1%         | 0.6%  | 6.3%  |
| Stockholm                  | 0.4%         | 0.8%  | 7.6%  |
| Göteborg                   | -0.1%        | 2.3%  | 9.5%  |
| Malmö                      | -1.8%        | 0.9%  | 0.1%  |
| Middle-size cities         | -0.1%        | -0.3% | 4.8%  |
| <b>Single-family homes</b> |              |       |       |
| Sweden                     | -2.5%        | -0.3% | 0.9%  |
| Stockholm                  | -0.8%        | -0.4% | 2.0%  |
| Göteborg                   | -1.7%        | 1.4%  | 2.6%  |
| Malmö                      | -3.1%        | -1.3% | -1.9% |
| Middle-size cities         | -3.9%        | -0.7% | 0.0%  |

Source: Valueguard-KTH

### Lending growth to Swedish Households



Source: Sweden statistics

# General risk mitigating factors in the Swedish market

## Key factors

- Affordability remains strong as a result of higher salaries, low inflation, tax cuts and low interest rates
- Household total wealth is almost three times larger than household debt
- Low new construction activity in relation to demand
- Socio-economic factors such as:
  - the credit information agency “UC “ (provides unique financial information on Swedish private persons, companies and institutions),
  - no buy-to-let market,
  - personal liability for life,
  - two bread-winners – a mortgage loan is typically a joint liability

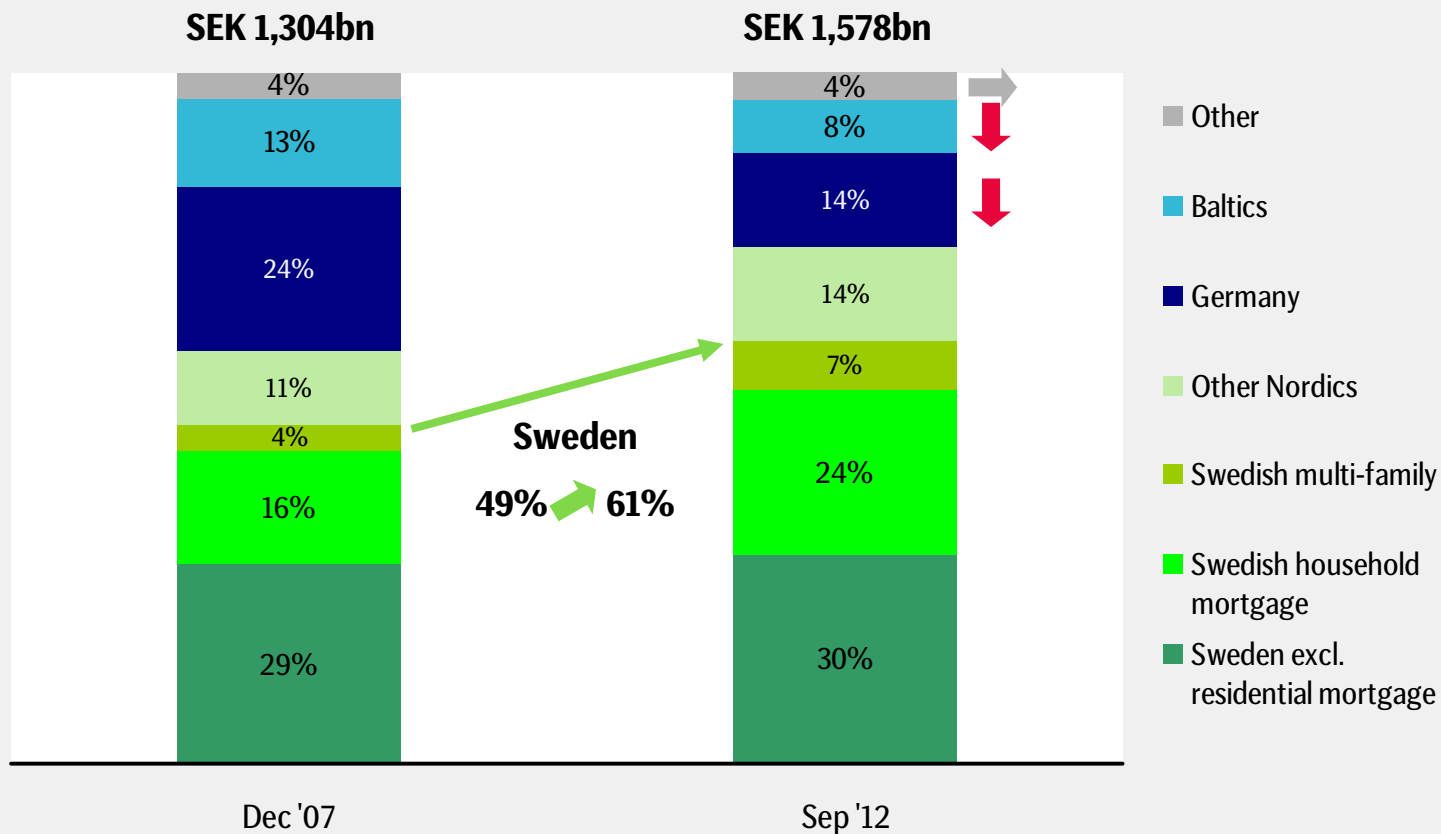
## Development of SEB's Credit Portfolio

Johan Andersson

# Development of SEB's total Credit Portfolio

## Strong growth in Sweden

Non-bank credit portfolio composition (Dec '07 and Sep '12)





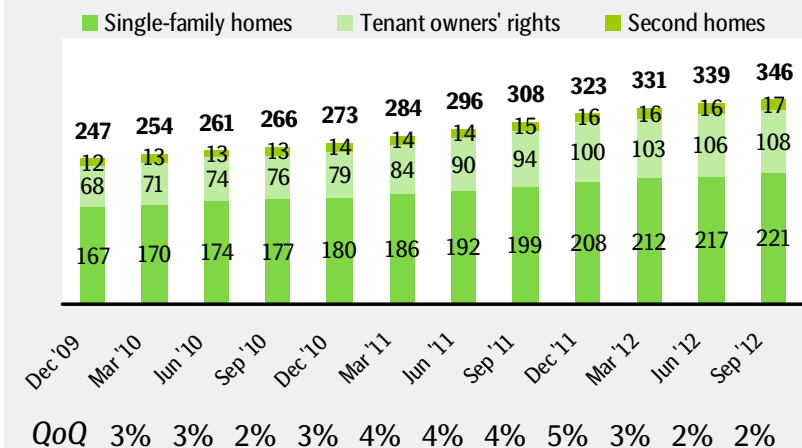
**SEB's Swedish Residential Mortgage Lending  
and Strategy going forward**

Mats Torstendahl

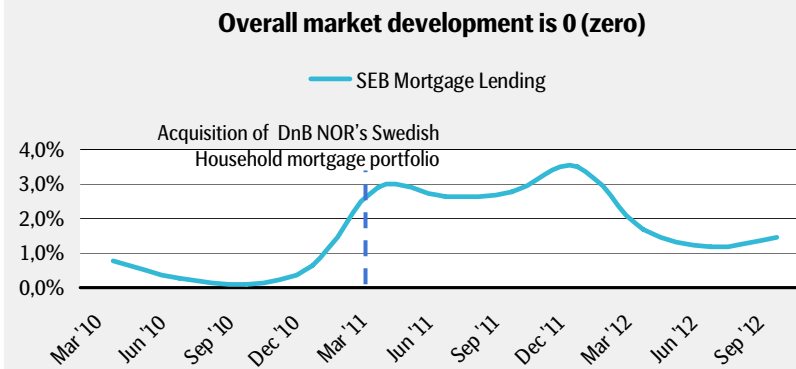
# SEB's Swedish Household Mortgage Lending

## Substantial growth has been achieved

### Mortgage lending by property type (SEK bn)



### SEB quarterly development relative total market

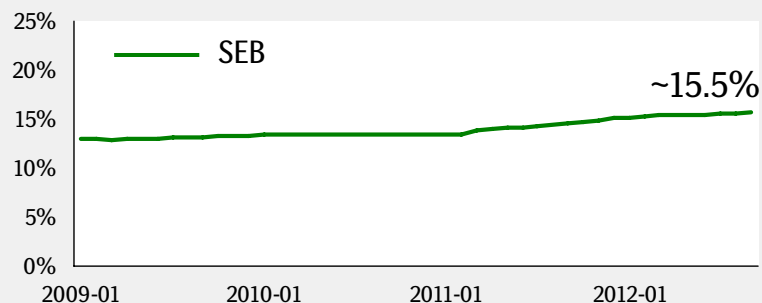


Total Market = SCB.SE 1. Monetära finansinstitut (MFI) 1B30151A Utlåning Sv, Säkerhet bostad, Hushåll,

### Why SEB has taken market shares?

- SEB's Household strategy remained the same
- Growth case for Retail
- Mortgage product is key for long term loyalty
- Efficient mortgage process

### Household mortgage lending market shares



Source: Sweden Statistics Sep 2012

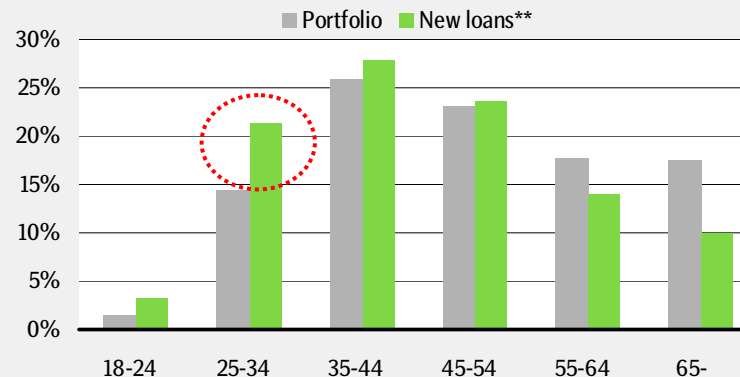
# SEB's Swedish Household Mortgage Lending

## Strong economic profile of new customers

### SEB's typical mortgage customer

- Urban single-family homes
- Main age span 25-44 years old
- High income households
- Dual income with kids
- Personal savings above average
- Stronger credit rating vs. market average of mortgage customers

### Age distribution of customers



\*\* New loans paid out during Q3 2012

### SEB's mortgage customers have a relatively stronger credit quality than market average

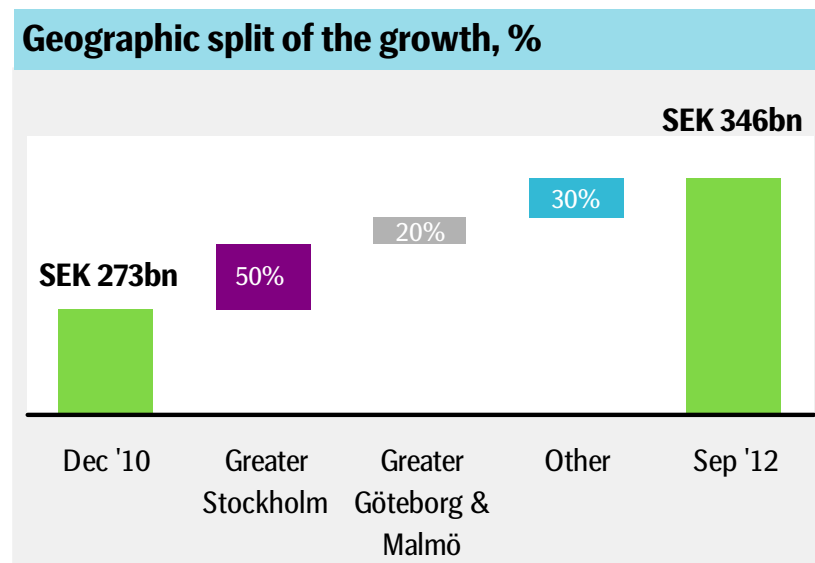
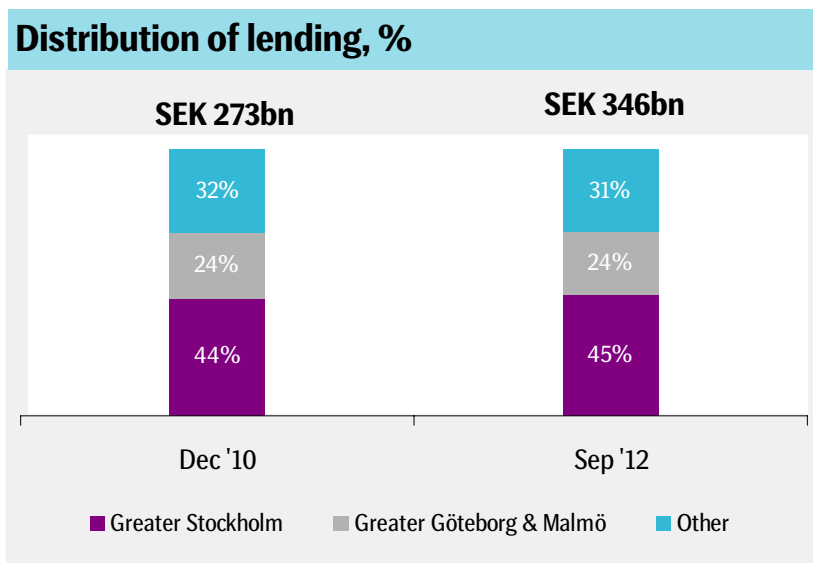


Source: Upplysningscentralen ("UC")

\* UC scoring is defined as the probability of getting a payment remark within one year

# SEB's Swedish Household Mortgage Lending

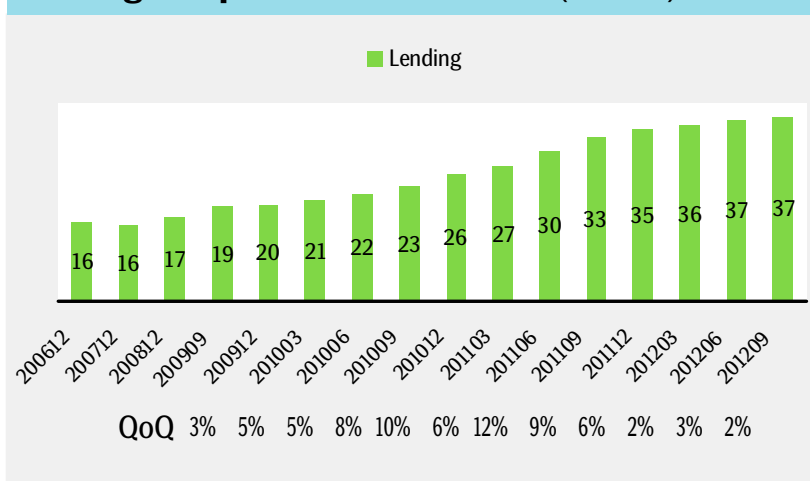
## Strongest growth in greater urban regions where there is a lack of supply



## SEB's Lending to Swedish Multi-family

# Growth also in the Multi-family housing segment

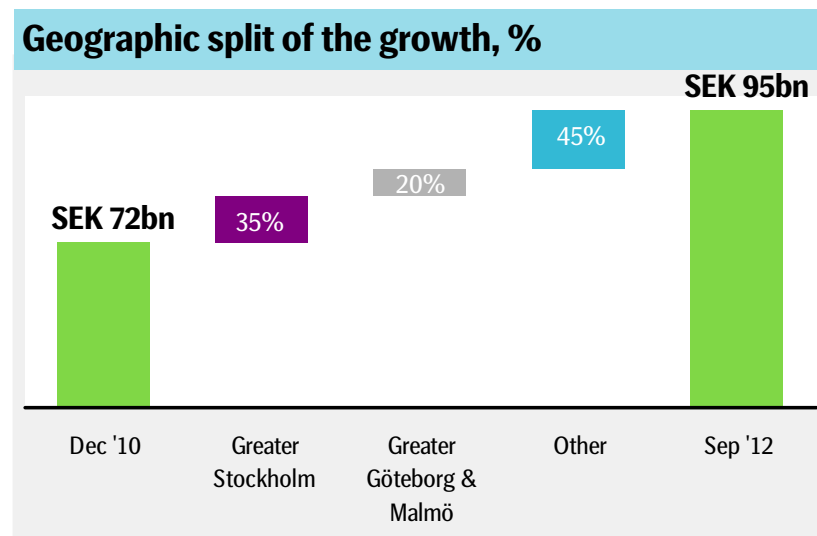
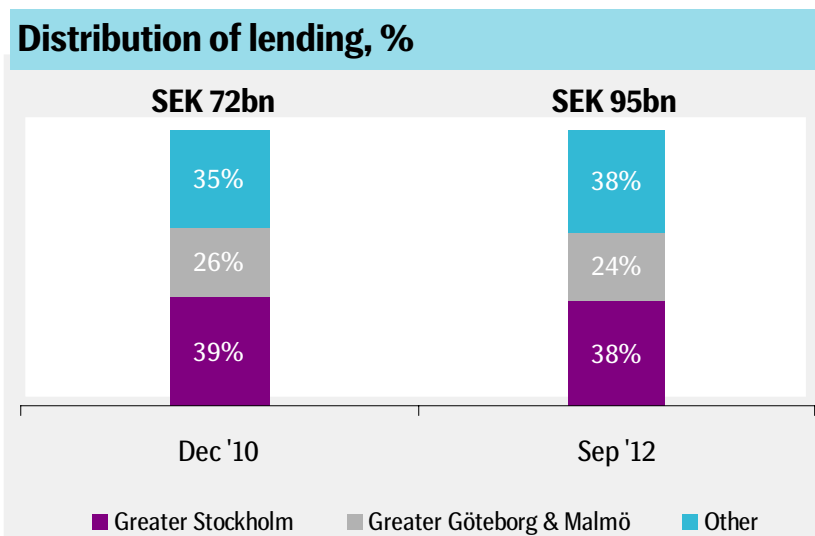
### Housing co-operative associations (SEK bn)



### Residential real estate management (SEK bn)



# Lending growth in greater urban areas



# Pricing Models

## Swedish Household mortgage lending

Individual pricing based on risk;

- Repayment capacity (PD)
- Loss given default (LGD)
  - Loan-to-value (LTV)
  - Collateral type
- List price only an indication

## Swedish Housing co-operative associations and Residential real estate management

Individual pricing based on risk;

- Repayment capacity (PD)
- Internal RoBE requirements
- LTV
- Location
- Level of relationship
- Size of loan

Strategy going forward

# Swedish Households and Multi-family housing

## Swedish Household Mortgage lending is a natural consequence of SEB's long-term strategy

- Mortgage lending a main driver within Household market
  - creates cross selling opportunities
- Drives customer relationships
  - loyalty and long term revenue
- Continue growing market shares
  - supported by deposit growth
- Strong counterparties with relatively low risk

## Lending to Swedish Multi-family housing part of SEB's long-term SME strategy

- Real estate owners important customer segment in our local geographical markets
- Low risk segment
- Rewarding relationships with construction companies
  - New housing co-operative associations give opportunity to acquire new private customers (tenants)



**Risk Management**

Johan Andersson

# Underwriting Principles and Stress Testing

## **Swedish Household Mortgage portfolio credit assessment process supports continued robust asset quality**

### Mortgage lending based on affordability and LTV

#### *Credit assessment criteria*

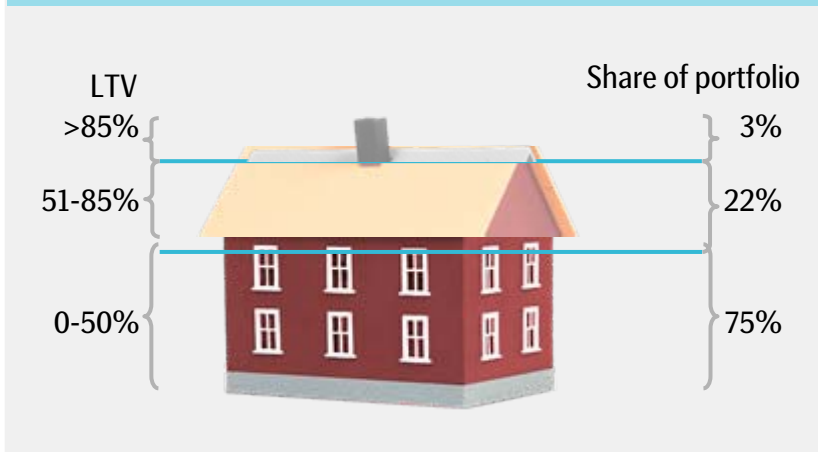
- Customer should afford 7% interest rate and a straight amortisation over a period of 60 years
- Max loan amount 5x total gross household income irrespective of LTV and no more than one payment remark
- "Kvar att leva på" amount adjusted in June 2012
- Loan >75% of market value to be amortized over maximum 10 years
- 85% LTV regulatory cap
- 'Sell first and buy later'

#### *Stress Testing*

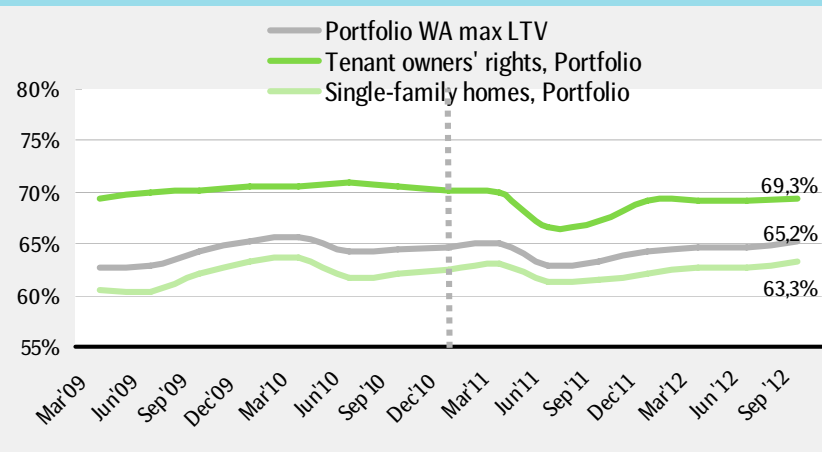
- In-house stress tests show that even under circumstances with both unemployment rates and interest rates substantially above current levels, in combination with falling market values, net credit loss levels will be moderate
- The recorded credit loss level during the early 90s crisis peaked at around 0.30%

# Swedish Household Mortgage LTV development stable

## Loan-to-value distribution ("bucket method")



## Weighted average max LTV by property type



### Peer review:

### Weighted average max LTV (for total Swedish household mortgage portfolio – single-family and tenant rights)

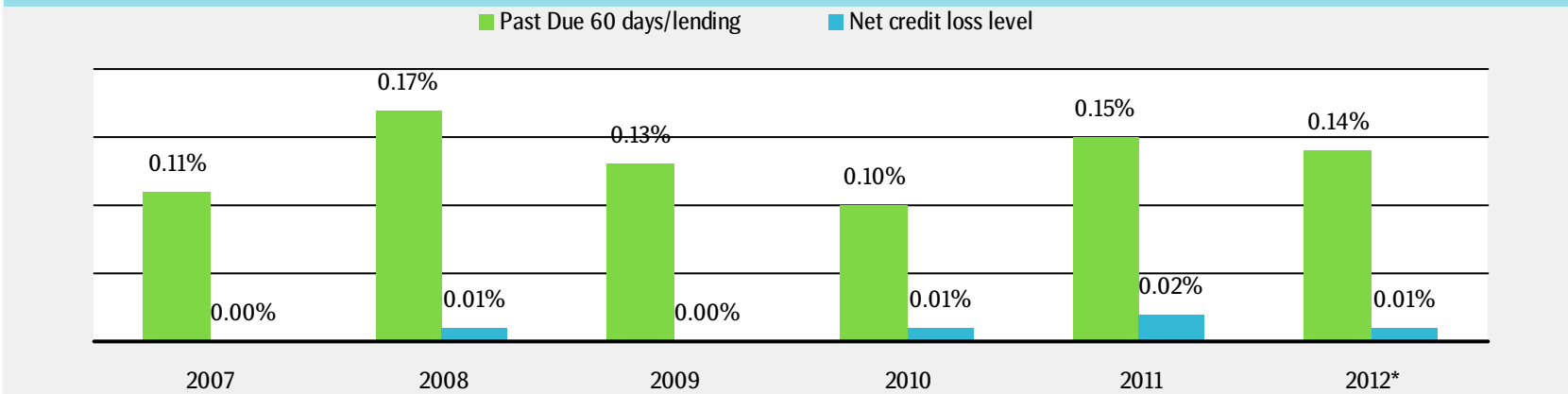
**SEB: 64.3%** (Dec '11), **65.2%** (Sep '12) **Swedbank: 62.2%** (Dec '11), **63.8%** (Sep '12) **SHB: 63.1%** (Dec '11) **Nordea: n/a**

Source: Interim reports and fact books

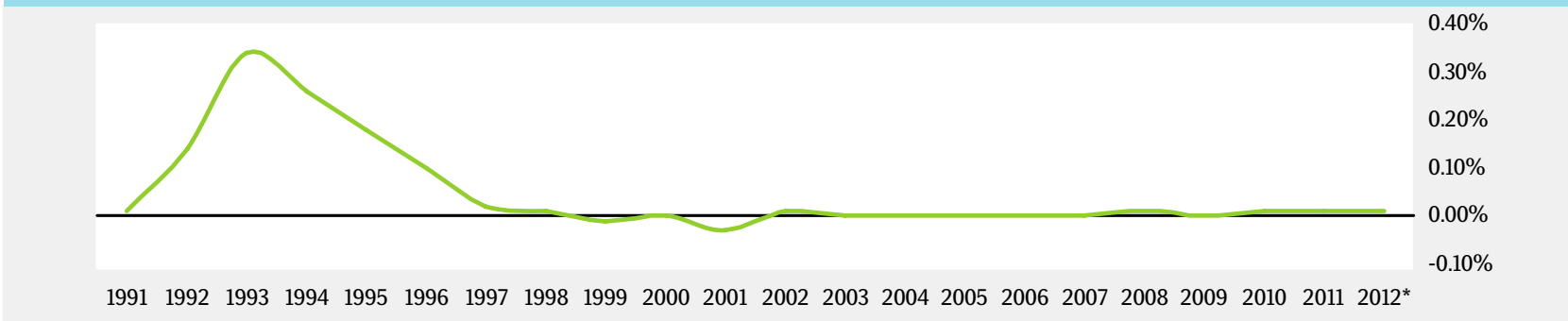
## Asset Quality

# Swedish Household Mortgage: Negligible losses in the portfolio after the 90s crisis

### Past due 60 days and net credit loss level



### Net credit loss level for SEB's Swedish Household mortgage portfolio



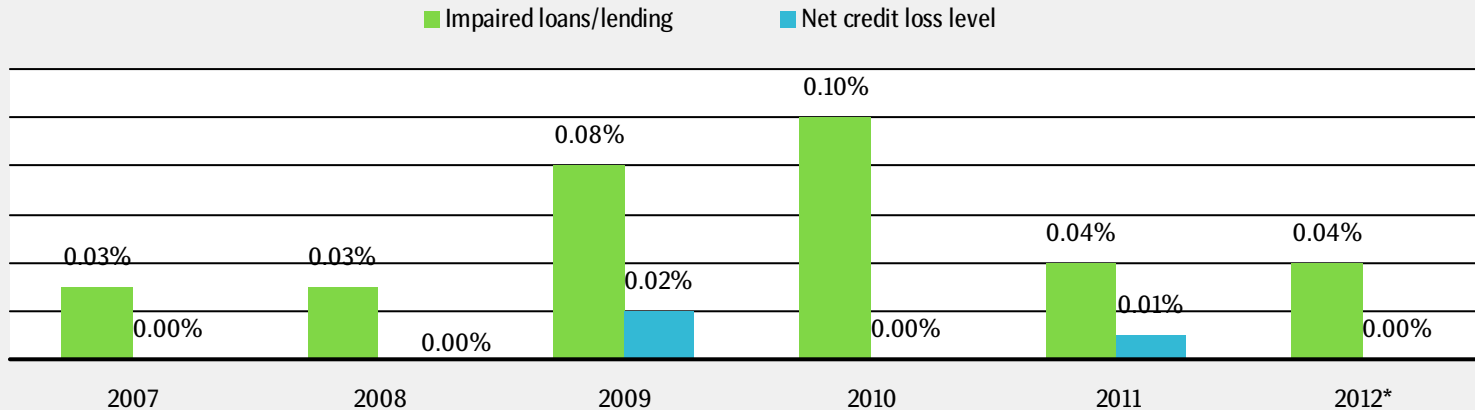
Net credit losses = the aggregated net of write-offs, recoveries and provisions

\* Annualised YTD

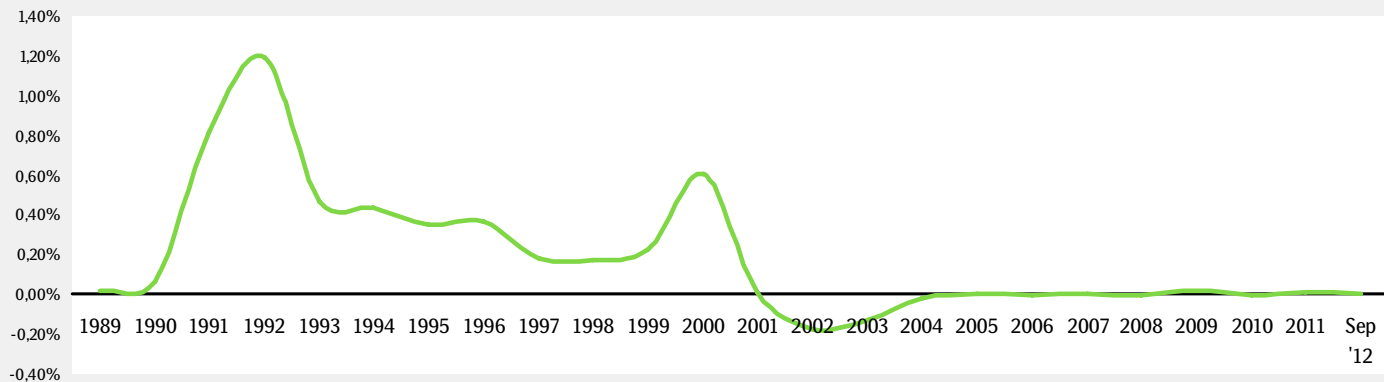
## Asset Quality

# Swedish Multi-family: Very low levels of impaired loans and negligible credit losses

### Level of impaired loans and net credit loss level



### Net credit loss level for SEB's Multi-family portfolio



\* Net credit losses = the aggregated net of write-offs, recoveries and provisions

Sep '12 annualised YTD

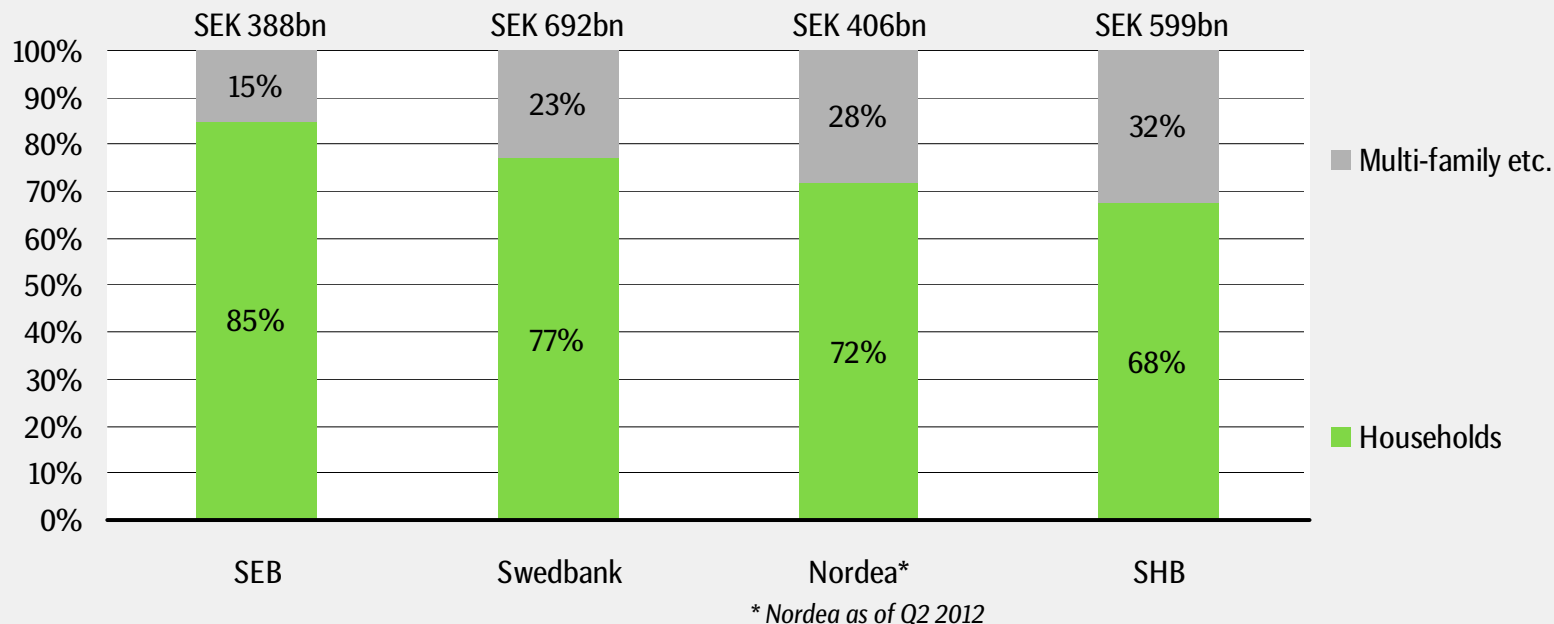
**Cover Pool, Covered Bonds  
and Funding Strategy**

John Arne Wang

# Benchmarking the large Swedish banks' Swedish Cover Pools

## SEB – more Households than Multi-family housing

Large Swedish banks' cover pool Sep '12



### Weighted average max LTV for the Swedish cover pool

|     |          |         |     |
|-----|----------|---------|-----|
| SEB | Swedbank | Nordea* | SHB |
| 59% | 58%      | 55%     | 47% |

### Over collateralisation\*\*

|     |          |         |     |
|-----|----------|---------|-----|
| SEB | Swedbank | Nordea* | SHB |
| 56% | 32%      | 38%     | 15% |

\*\* Nominal based OC

Source: Association of Swedish Covered Bond issuers ("ASCB")

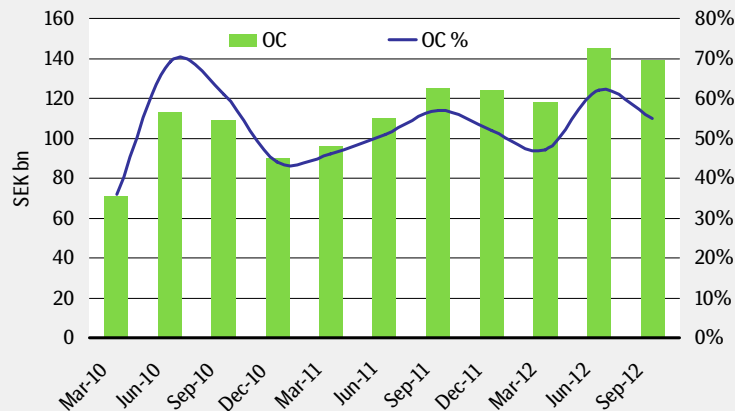
## Cover Pool

# Only Swedish Residential Mortgages in SEB's Cover Pool

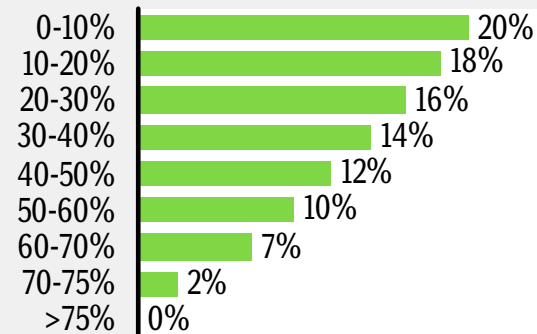
### Highlights

- SEB has by far the highest OC of all the Swedish peers, currently 56%
- Only Swedish Residential mortgages in the Cover Pool, which historically have had very low credit losses
- SEB's Cover Pool has slightly higher LTV than peer average level
  - SEB's Cover Pool is more concentrated towards Single Family and Tenant rights, which generally have somewhat higher LTVs
  - All eligible Swedish residential mortgages are in the Cover Pool, i.e. no cherry picking of mortgages from balance sheet to Cover Pool

### Over collateralization



### LTV distribution\*



\* Distribution in different LTV buckets based on exact order of priority for the individual mortgage deeds according to the Association of Swedish Covered Bond issuers



# SEB wholesale funding mix

## Wholesale funding SEK 692bn as of Sep '12

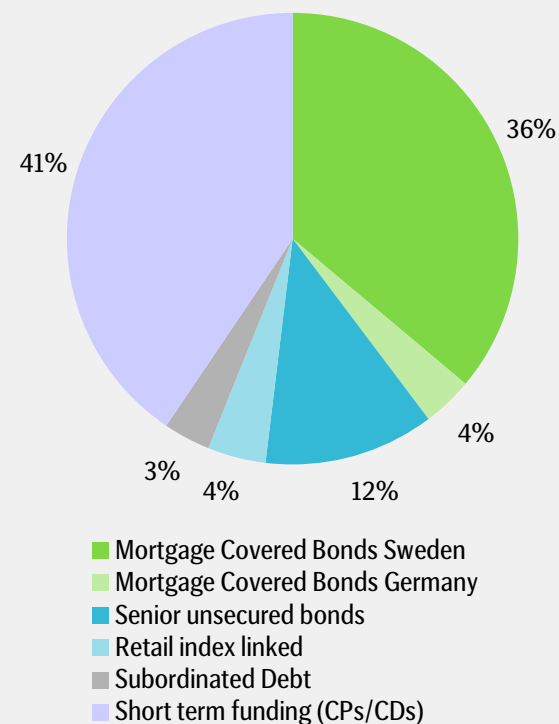
### Short-term funding programs

- Commercial paper (CP) programs
  - Swedish
  - French
  - Global
    - European
    - US
- US Extendible notes
- Commercial deposit (CD) programs
  - Yankee CDs
  - Sterling CDs

### Long-term funding programs

- SEB AB
  - Domestic MTN program
  - Global MTN programs
  - Structured Notes Program
  - 144a/3(a)2 Covered and senior unsecured
- SEB AG
  - Covered bond and senior unsecured programs
- SEB Vilnius senior unsecured bonds

## Wholesale funding distribution



SEB strives to keep a high level of funding diversification in terms of products, markets, currencies and duration

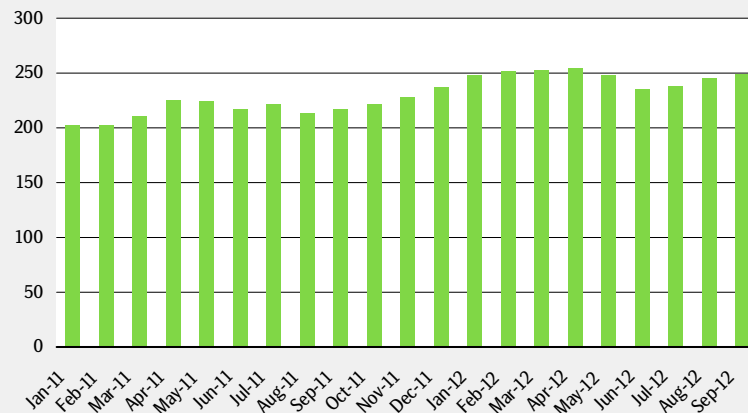
## Covered Bonds

# Profile of outstanding Covered Bonds

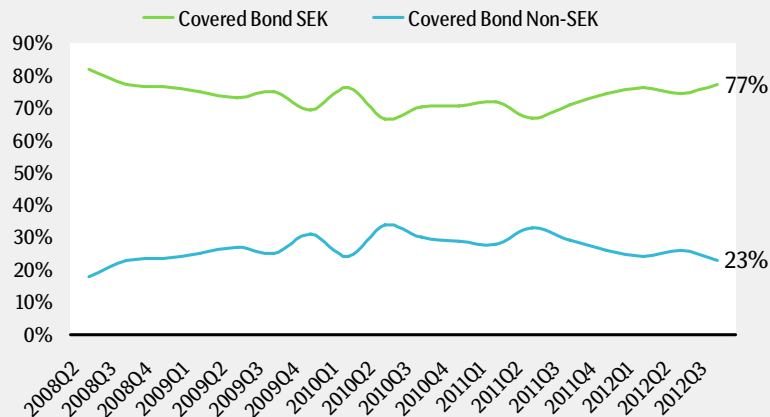
### SEB AB Mortgage Covered Bonds

|                            |   |
|----------------------------|---|
| <b>Loans originated by</b> | Skandinaviska Enskilda Banken AB (publ) |
| <b>Pool type</b>           | Dynamic                                 |
| <b>Moodys Rating</b>       | Aaa                                     |
| <b>Total outstanding</b>   | SEK 249bn                               |
| <b>FX distribution</b>     | SEK 77%<br>non-SEK 23%                  |
| <b>Benchmark</b>           | Benchmark 92.6%<br>Non Benchmark 7.4%   |

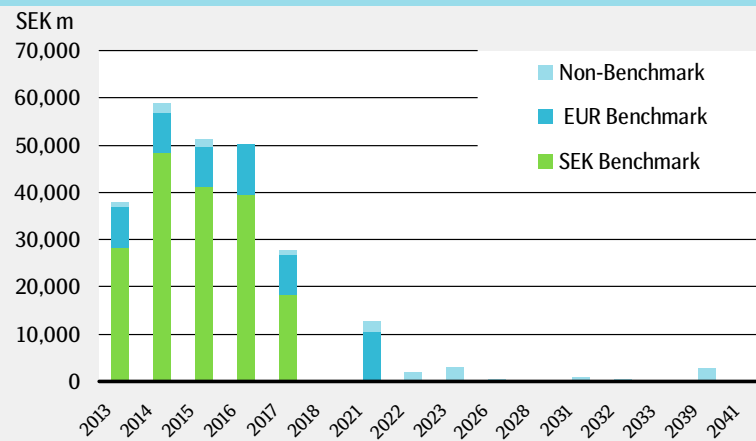
### Outstanding Covered Bonds (SEK bn)



### Currency mix, %

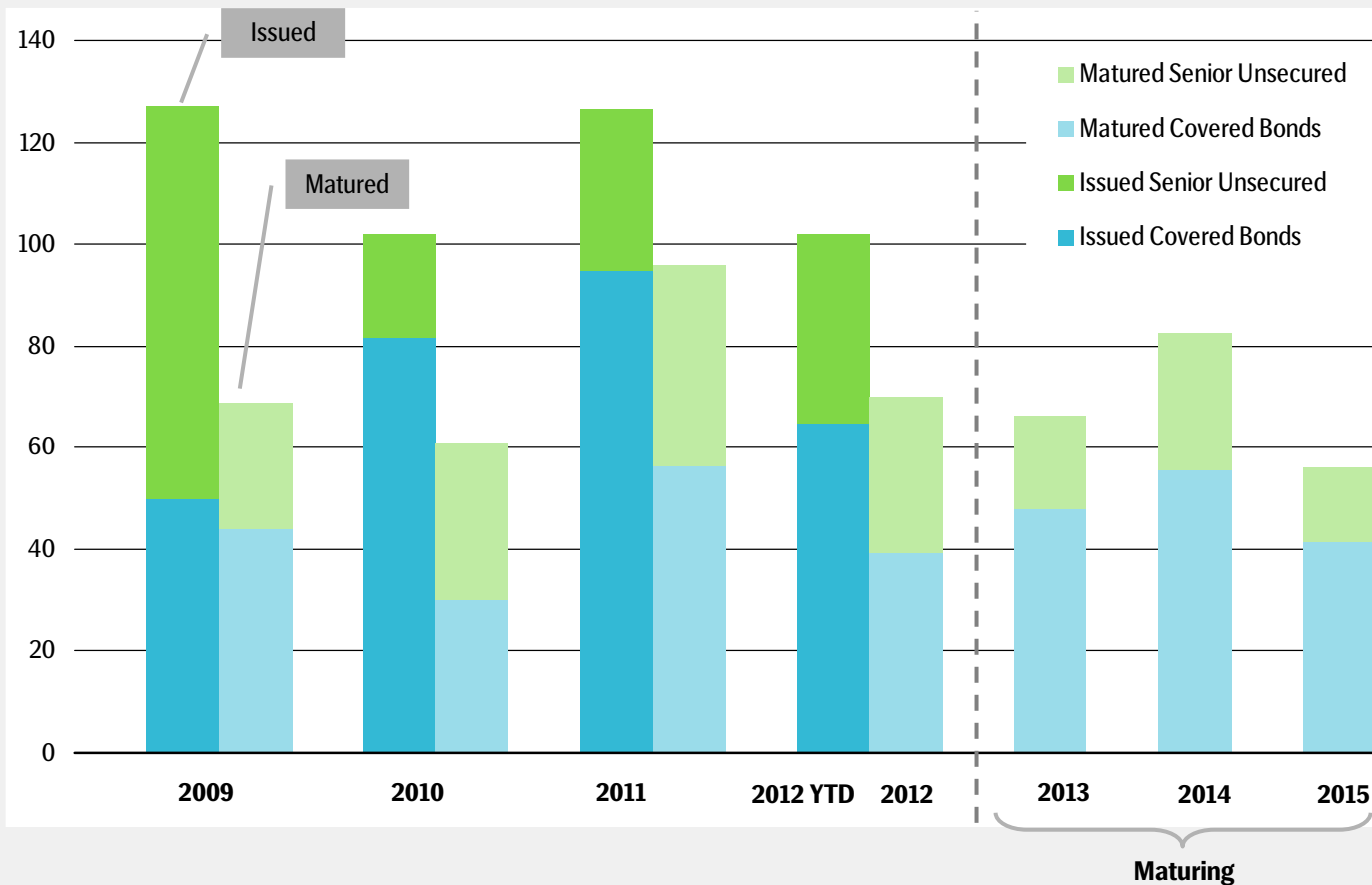


### Issued Benchmark and Non-Benchmark all ccy



# Issuance and Maturity profile

## Upcoming refinancing needs 2013-2015



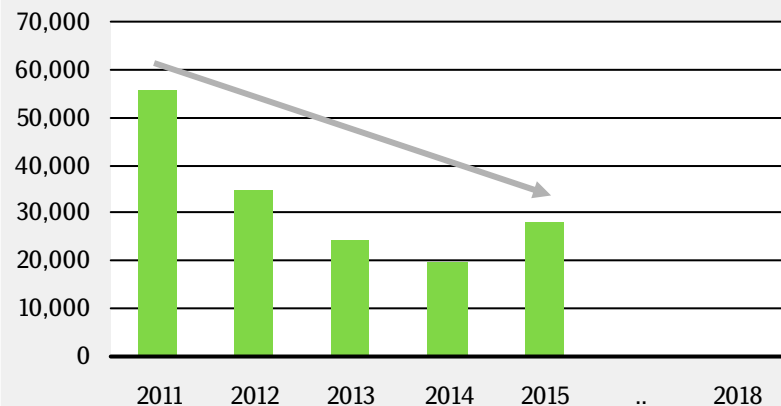
# Funding Strategy

## Covered Bonds

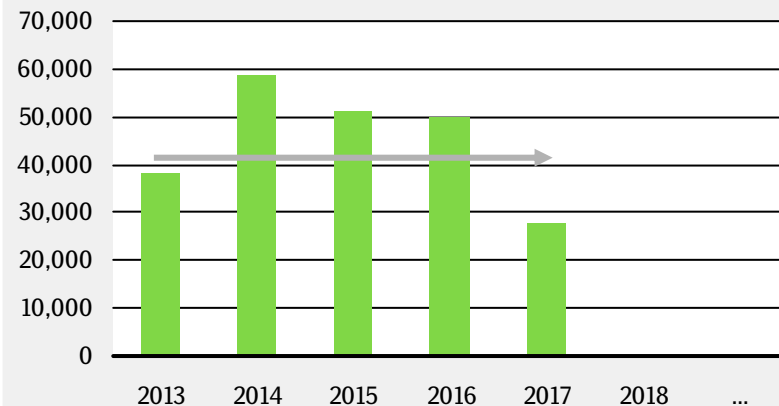
### Key factors

- After Deposits, Covered Bonds is our most important funding source
- Primary wholesale funding source is **SEK Covered Bonds**
- Issuance of **non-SEK Covered Bonds** for diversification and duration management
- SEB's duration target is on average around 4 years
- SEB seeks to keep as flat maturity profile as possible

### Maturity profile Q3 2010 (SEK m)



### Maturity profile Q3 2012 (SEK m)



Affordability of Swedish Households remains strong

High asset quality of SEB's credit portfolio

Strong economic profile of SEB's mortgage loan borrowers

Strict underwriting and credit assessment based on affordability

SEK Covered Bonds most important wholesale funding source