

# Länsförsäkringar Bank

Q4 and full-year 2023 presentation



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# Länsförsäkringar Bank in short (31 December 2023)

**Fifth largest retail bank in Sweden –**

part of the LF Alliance consisting of 23 regional mutual insurance companies (the first founded in 1801)

**Full-service retail bank –**  
7.4% market share  
mortgages, 5.0% deposits,  
4.8% retail funds

**Strong local presence –**  
Distribution network of **115**  
branches across Sweden

**100% domestic business –**  
All lending in Sweden  
and in SEK

**Market leading customer satisfaction –** Strong track record for retail customers

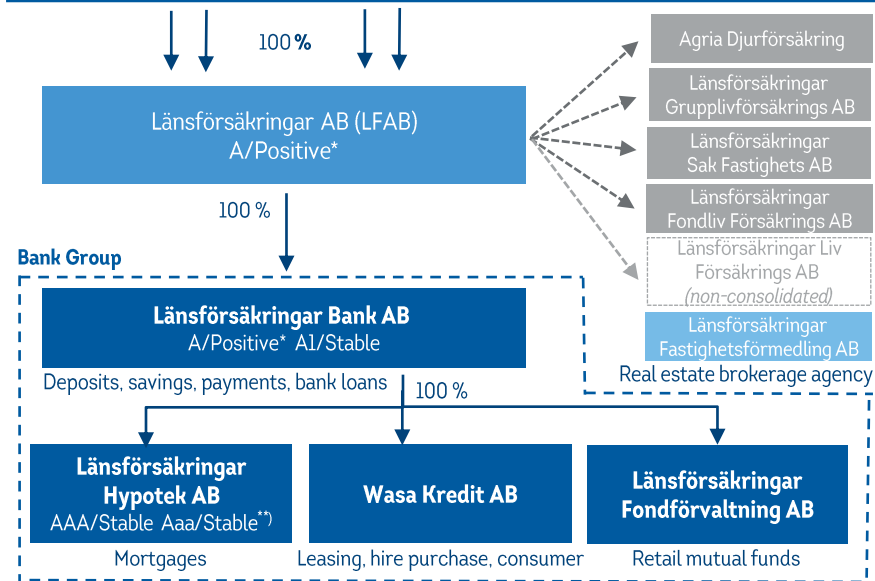
**Lending:** SEK 382 bn      *Growth YoY: 4%*

**Deposits:** SEK 151bn      *Growth YoY: -2%*

**Fund volume:** SEK 368bn      *Growth YoY: 23%*  
**Net inflow:** SEK 22.4bn      *Net inflow rate: 7%*

**ROE:** 8.1%  
**CET1 ratio:** 15.1%  
**LCR:** 337%  
**NSFR:** 128%  
**Credit loss level:** 0.03%

## 23 regional mutual insurance companies



*\*) Positive outlook from S&P from November 2023*

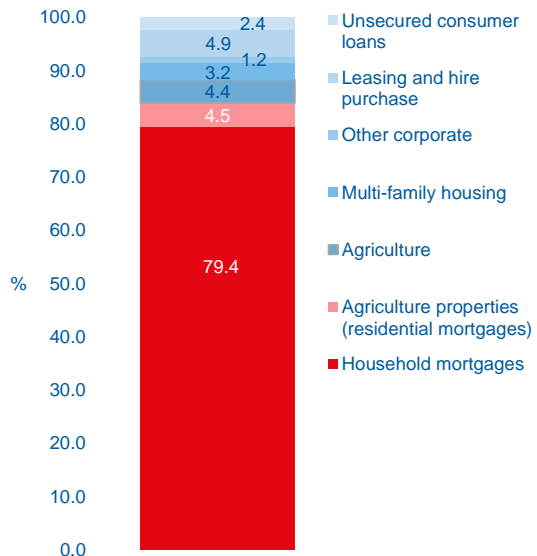
*\*\*) Refers to the credit ratings of the covered bonds*

# Solid and diversified business and risk model

- Strong brand, large customer base, local presence, personal meeting and extensive digital banking services
  - large insurance customer base
  - 3.9 million customers, of which 3.2 million are retail customers and 2.1 million are home insurance customers
- The bank customer contacts lie with the 23 regional insurance companies
  - they have the customer contact and originate business, loans and transactions for the bank's balance sheet and fund company
  - and receive a commission income from the bank, in relation to volumes and revenue level of the business contribution to the bank
- Loan loss agreement with regional insurance companies
  - they cover 80% of credit losses related to business they have originated
- Strong incentive for high credit quality
- The mortgage offering is an entry product and a strongly integrated component of the bank offering
  - other products added – cards, deposits, mutual funds etc – continuous growth in products per customer

# Household mortgage lending is at the core

80% of lending is household mortgage lending – very small parts are residential real estate companies or CRE



*Covered by 80% loan loss agreement with regional insurance companies (excludes Wasa Kredit)*

- Total lending amounts to SEK 382bn (367)
- Concentrated to low-risk segments with household mortgage lending representing 79% - SEK 304bn
- Only lending in Sweden and in SEK, well-diversified geographical distribution within Sweden
- 97% of total lending is collateralised (92% real estate and 5% other collateral)
- 0.8% of the portfolio is commercial real estate (CRE)

- Wasa Kredit (7.3% of Group portfolio)
- Lending consists of leasing, hire-purchase and consumer finance
- Around 70% collateralised exposures
- 50% corporate, 50% consumer exposures

# Q4 2023 – more positive in the financial markets – continued uncertain macroeconomy



Continued high geopolitical instability



Slight GDP decline and continued weaker labour market development



House prices stable over the full year 2023



International concerns regarding CRE sector continues



Inflation is now declining – the Riksbank seems to have reached the interest rate peak – and is signaling interest rate cuts



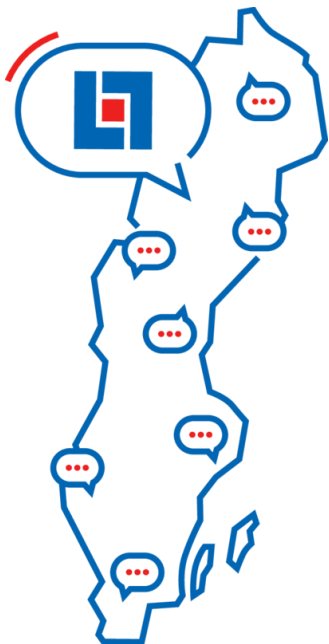
Resilient Swedish households



Still slow household lending growth

# Full-year 2023 – predictable and stable results

Strong financial position and local presence key to support customers and enable continued growth



- ➡ Benefitting from strong local presence and insurance roots
- ➡ 0.52 C/I ratio (0.49 excluding write-down of intangible assets)
- ➡ 8.1% return on equity
- ➡ Strong asset quality
- ➡ Strong capitalisation and liquidity position

*Continued focus on our customers' security*



# Q4 2023 – highlights



Very strong outcome in customer satisfaction surveys (SKI)



Number 1 in SKI's sustainability ranking 2023

Top rankings in SKI's customer satisfaction ranking 2023 among household customers



Solid business volume growth



Continued increased mortgage lending market shares

Very strong net inflow into retail funds



Stable results driven by NII



Leading to increased commissions to regional insurance companies – i.e. strength not fully reflected in net profit



Continued focus on digitalisation of lending processes



Mortgage lending process in focus in the next phase

First launch related to mortgages early this year



Positive outlook from S&P



LF Bank placed on positive outlook in November 2023 as LFAB received a positive outlook



# High customer satisfaction driven by local presence



Strong local presence



Full-range retail banking offering



Strong retail funds platform



Supporting customers in all phases of life



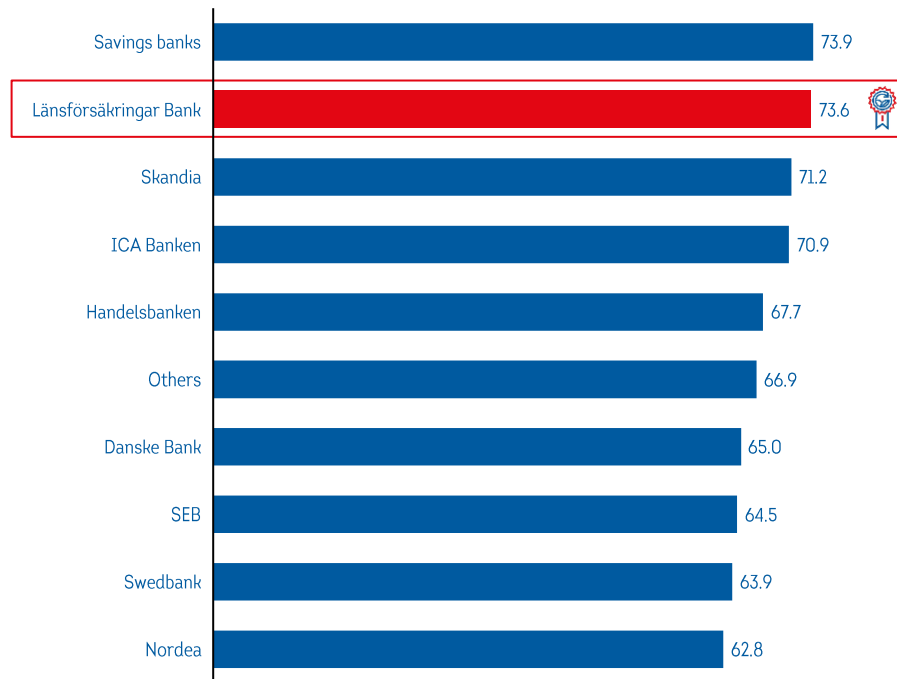
Further development of digital channels



Customer advisory that supports the customer in all phases of life

Customers' assessment of  
Länsförsäkringar Bank

Customer satisfaction ranking, household customers, SKI\* 2023



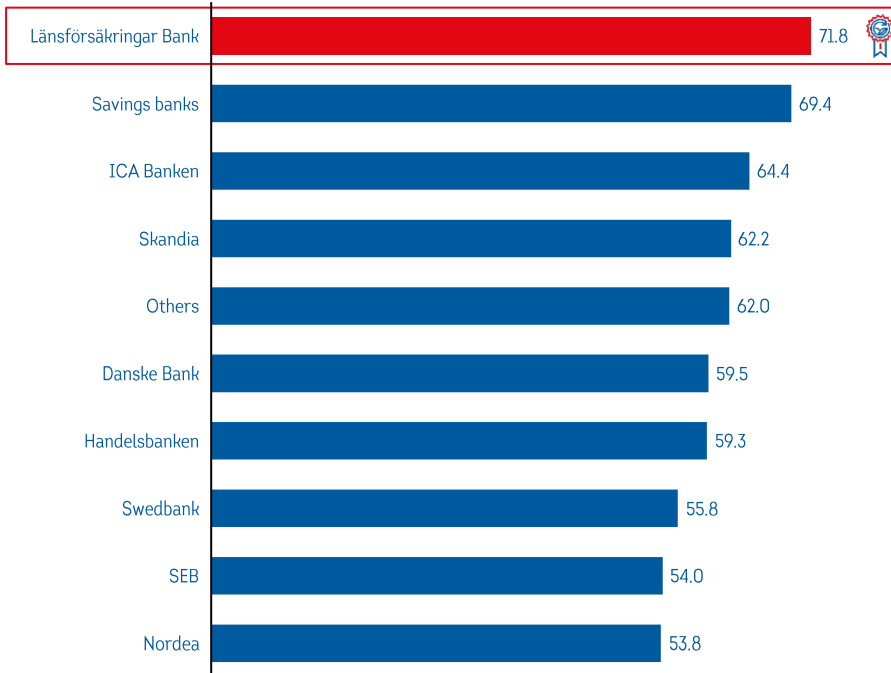
SKI, Swedish Quality Index – Customer satisfaction index from household customers

# Leading sustainability ranking (SKI)



Customers' assessment of  
Länsförsäkringar Bank

## Sustainability ranking, household customers, SKI 2023\*



SKI, Swedish Quality Index – Sustainability index from household customers

# Summary – strong development in Q4 and in 2023

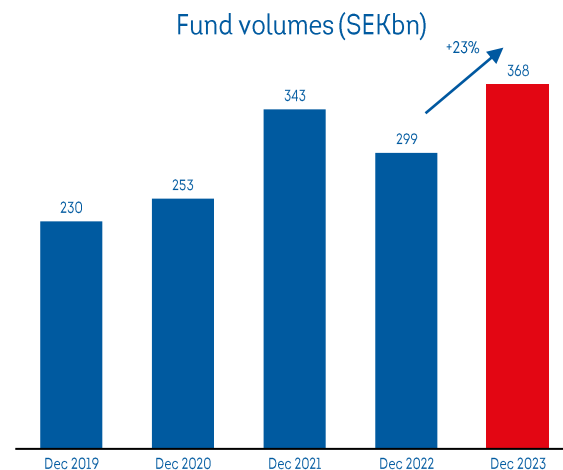
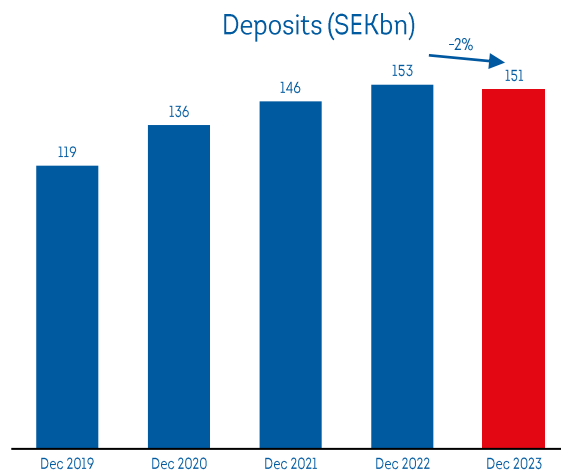
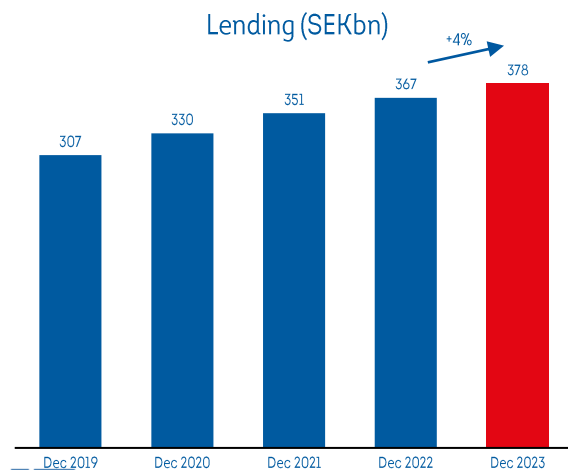
- Länsförsäkringar Bank is a customer-owned retail bank with strong local presence
- Strong Q4 2023 results, with higher net interest income and higher operating profit
- Lending volume growth of 4% y/y, mainly driven by household mortgage lending
- Low-risk profile: strong credit quality and strong capital and liquidity position
- Cover pool with only household mortgage assets, OC 30%, average maximum LTV 60%
- SEK 1.35bn AT1 instrument issued in January 2024
- Sustainability well integrated into the strategy and the business model
  - Länsförsäkringar Bank's climate roadmap:
    - *Signed the Principles for Responsible Banking in 2021*
    - *Target set to be net climate-positive at the latest by 2045*
- Strong and detailed green bond framework established in 2022
- Regular issuer of EUR senior preferred and EUR covered bonds – at least one EUR 500m issue per year in each

# Q4 2023 update



# Business volume development

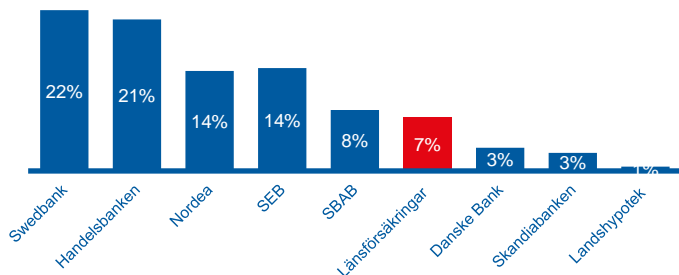
- Total business volumes increased 10% y/y to SEK 901bn, driven by fund volumes and mortgage lending growth
- Lending growth of 4% y/y mainly driven by household mortgage lending
- Fund volumes up 23% y/y – continued strong net inflow of SEK 22.4bn in the full-year 2023
- Deposit volumes slightly down mainly related to corporate deposits
  - Up SEK 0.5bn q/q and down SEK 3bn or 2% y/y
  - 80% of deposits are retail deposits and 80% of all deposits are covered by the deposit guarantee scheme



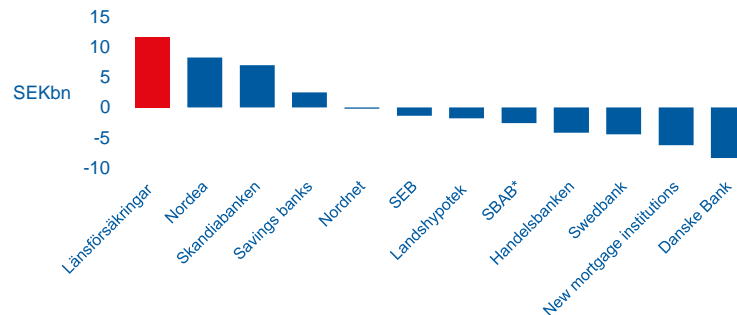
# Mortgage market position – 7.4% market share

Slowdown in mortgage market growth, continued intense competition – LF Bank has successfully gained market shares

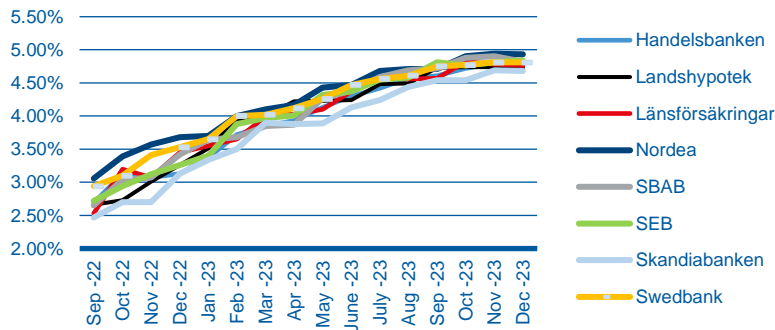
Market shares Swedish mortgage lending, stock



Mortgage volume growth, 2023



Development average mortgage rates new lending, 3-month floating rates



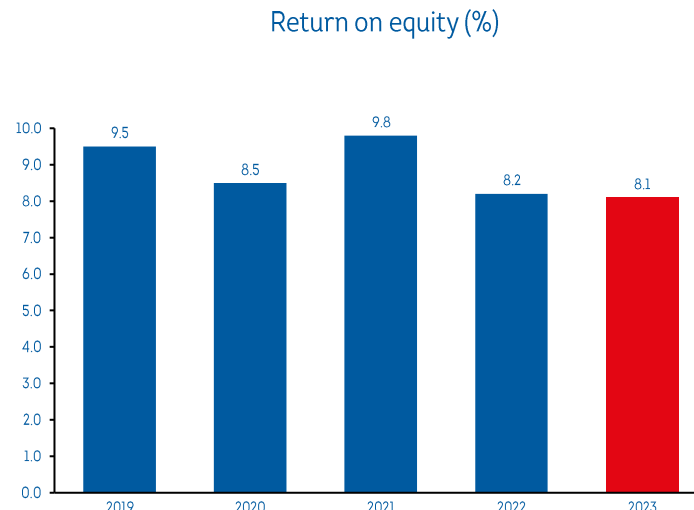
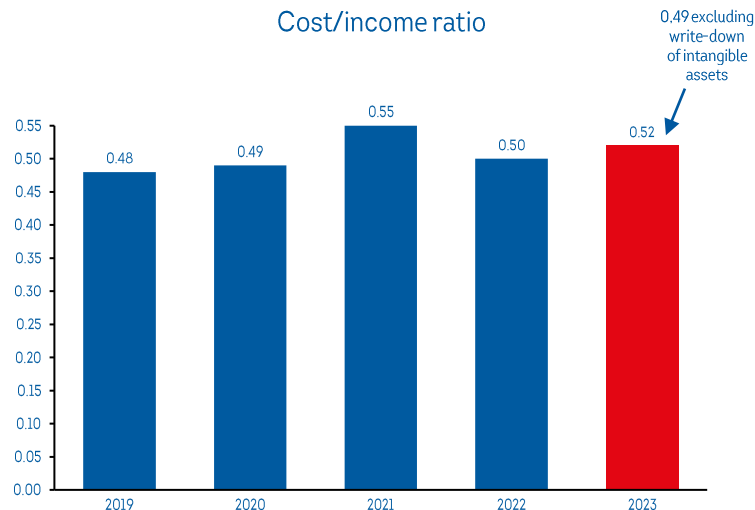
\*) The number for SBAB includes a divestment of volumes of around SEK 5bn

# Income statement

MSEK	Jan-Dec 2023	Jan-Dec 2022	Change
Net interest income	7,023	5,528	27%
Net commission income	-1,511	-508	-
<i>of which Underlying net commissions</i>	1,405	1,329	6%
<i>of which Remuneration to regional insurance companies</i>	-2,916	-1,837	-
Net gains/losses	1	0	-
Other income	28	12	-
<b>Total operating income</b>	<b>5,542</b>	<b>5,033</b>	<b>10%</b>
Staff costs	-888	-771	15%
Other expenses	-1,631	-1,513	8%
Depreciation/amortisation	-350	-227	54%
<b>Total operating expenses</b>	<b>-2,869</b>	<b>-2,510</b>	<b>14%</b>
<b>Profit before loan losses</b>	<b>2,673</b>	<b>2,523</b>	<b>6%</b>
Credit losses, net	-114	-123	-
Imposed levies (risk tax + resolution fee)	-391	-333	-
<b>Operating profit</b>	<b>2,168</b>	<b>2,067</b>	<b>5%</b>

- Strong NII development due to higher interest rates
- Stable underlying commission income
- NII development leading to increased commissions to regional insurance companies
- Costs increased by 14% y/y, however excluding a write-down, costs were up 8% compared to 2022
  - Write-down of intangible assets by MSEK 165, mainly related to the payments area (mainly P27)
  - Costs also driven by high IT development pace and inflation
  - General cost development in line with plan
- Credit losses remain at very low levels
  - Macroeconomic scenario update had small effects
- Operating profit impacted by imposed levies of MSEK 391, of which risk tax MSEK 254

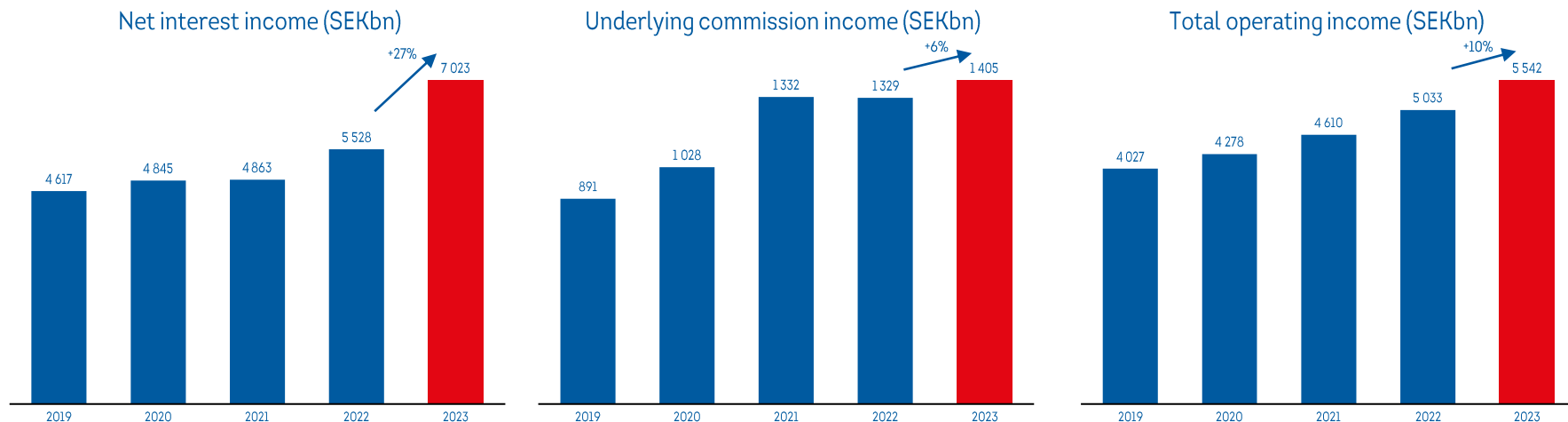
# Stable cost/income ratio and return on equity





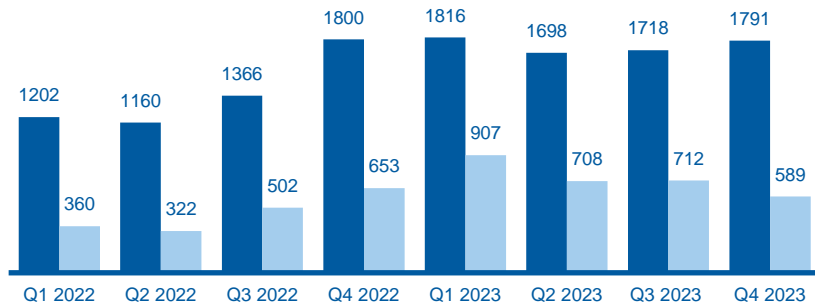
# Continued income growth driven by NII

- Total income up 10% y/y, driven by net interest income
- NII up 27% y/y due to higher deposit margins
- Stable NII development the last quarters and deposits are expected to continue to support net interest income
- Increasing underlying net commission income, supported by stronger cards business and positive impact from funds income
- Commissions to regional insurance companies up 59% y/y



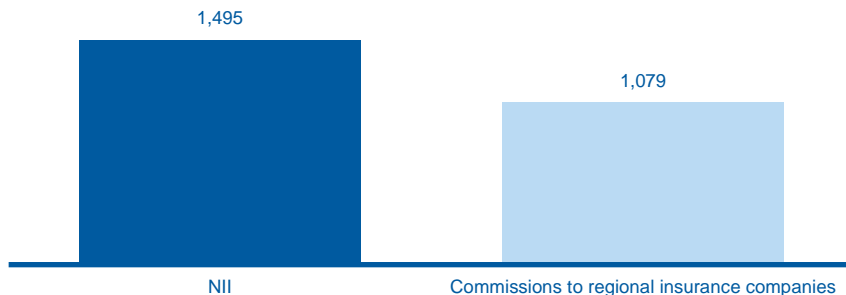
# Strong NII leads to higher distribution commissions

Quarterly development NII and distribution commissions



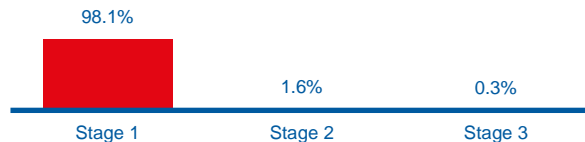
- Improved net interest income leads to increased commissions paid to the regional insurance companies, in line with business model

NII change and distribution commission change  
2023 vs 2022 (MSEK)

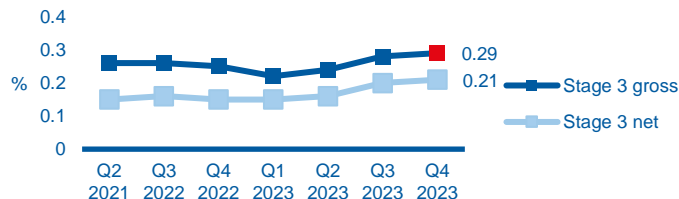


# Continued strong credit quality

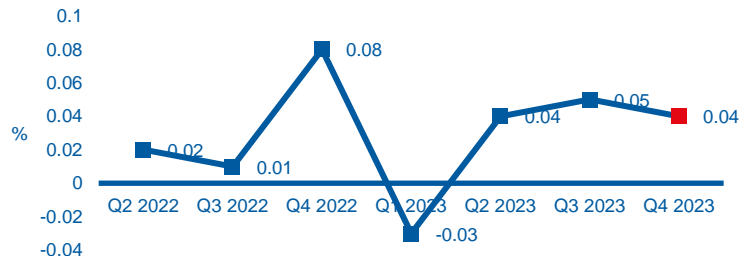
99.7% of exposures in stage 1 and 2



Stable development of share of exposures in stage 3



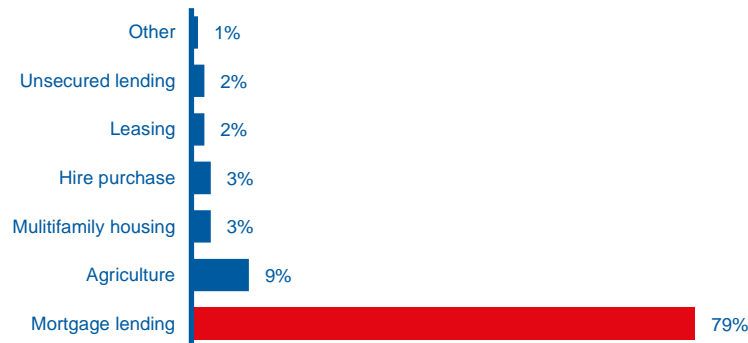
Credit loss level remains low



- Asset quality remains strong
- 99.7% of loan exposures in stage 1 and 2
- Household mortgage portfolio resilient towards increased interest rates
- Gross stage 2 exposures decreased y/y and a small increase in stage 3 exposures
- Stable development in share of stage 3 exposures
- Small effects from updated macroeconomic scenarios used for the ECL model
- Effects from model changes related to FSA PD model approval in Q1

# Loan portfolio characterised by low risk

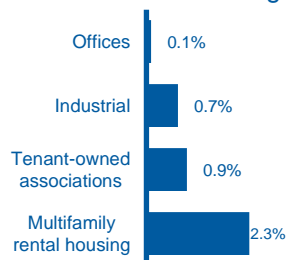
Loan portfolio distribution (%)



## Low risk loan portfolio

- Loan portfolio dominated by mortgage lending (79%)
- 100% of lending in Sweden and in SEK
- 97% of lending secured (92% collateralised by real estate)
- 93% of lending covered by loan loss agreement with regional insurance companies

Real estate sector lending (%)



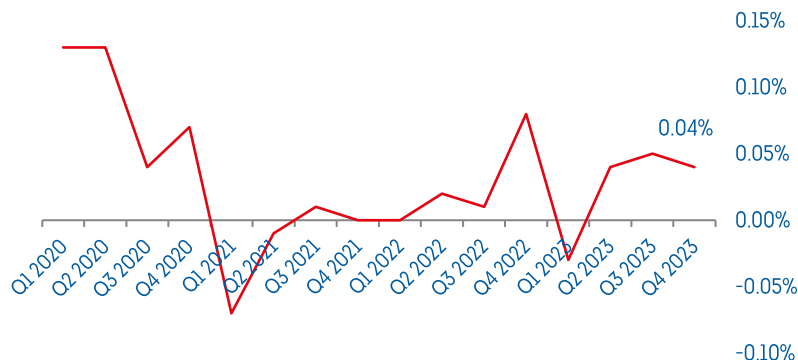
## Very limited exposure to commercial real estate

- Lending to real estate sector 4.0% of total lending (including residential real estate)
- Dominated by multifamily housing and tenant-owned associations
- Local companies with LF-insurance relations
- CRE, commercial real estate lending, 0.8% of total lending

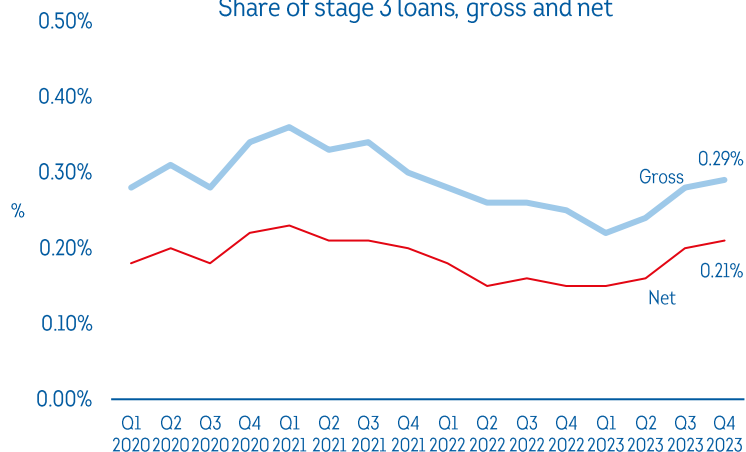
# Stable and strong credit quality, low loan losses

- Continued very strong credit quality
- Stable credit development in the household mortgage portfolio
- Credit loss level 0.03% in full-year 2023 and 0.04% in Q4 2023
- Low level of stage 3 loans, 0.29% gross – and stage 2 loans, 1.6% – 98.1% in stage 1

Credit loss provision level

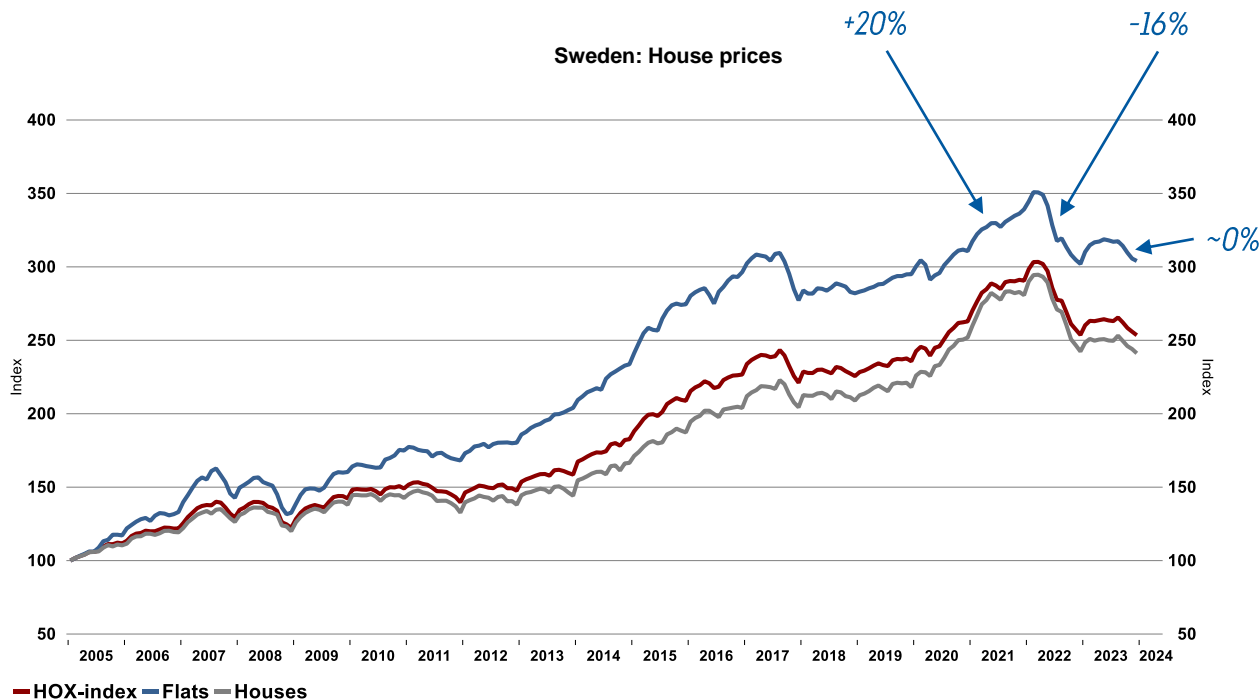


Share of stage 3 loans, gross and net



# Weaker development in house prices again after initial recovery

High volatility in and after the pandemic



Källa: Länsförsäkringar/Macrobond

High house price volatility

Sharp price increase during the pandemic, with a price correction last year

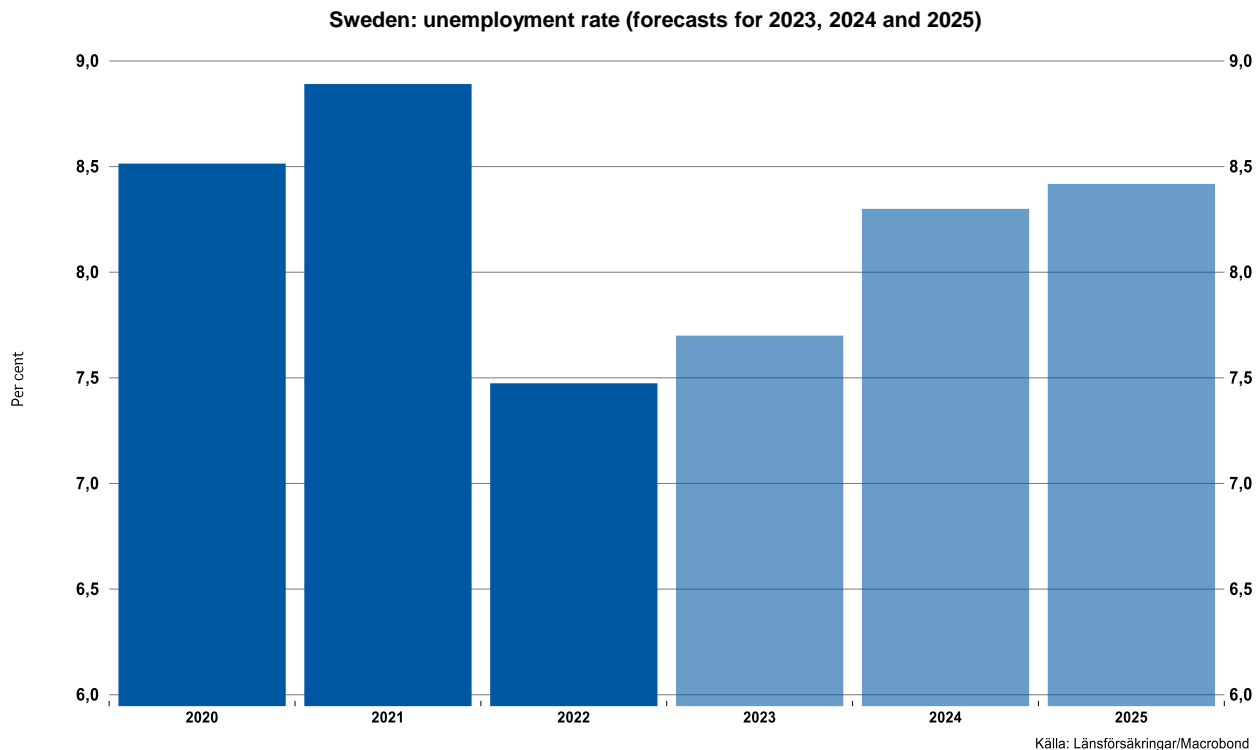
Prices back to pre-pandemic level

Recovery in the market followed by price decline in the end of the year

Stabilisation in January 2024

Still large uncertainty

# Extended period of high unemployment



Unemployment back to pre-pandemic levels

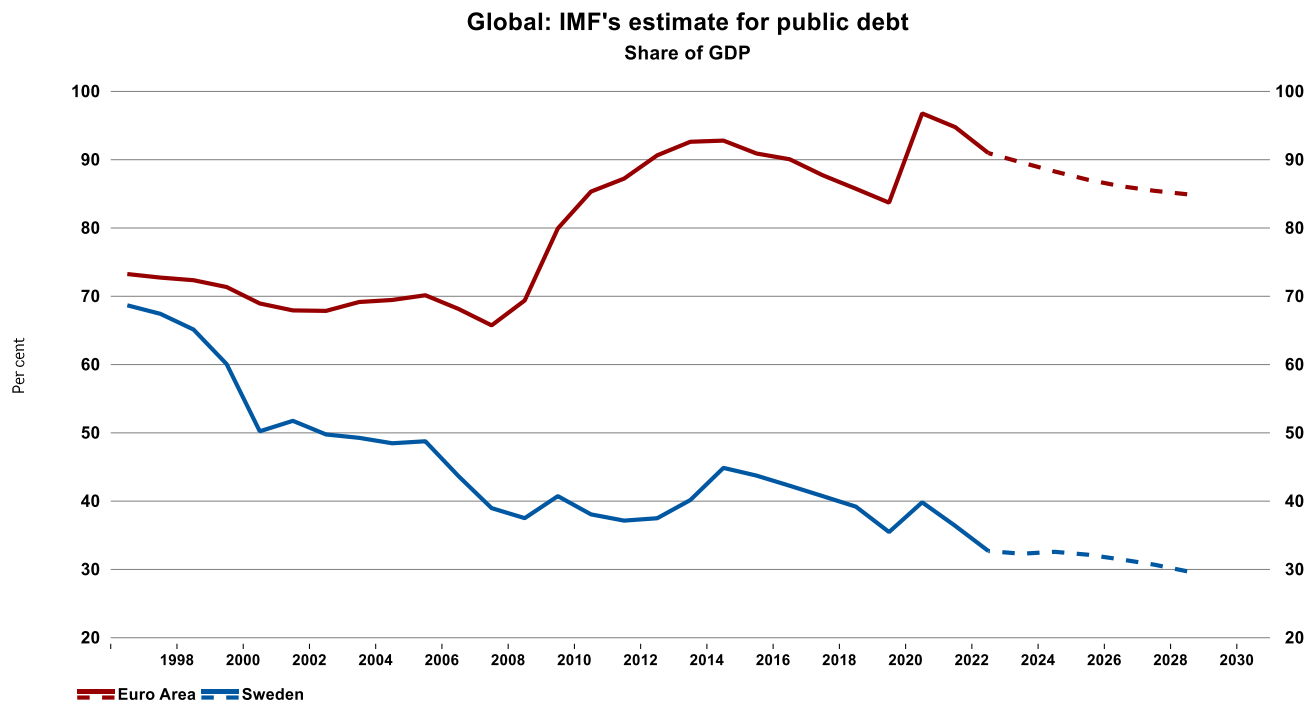
Resilience in the labour market in the first half of 2023 year, but unemployment has now started to rise

Unemployment currently 7.7%

GDP headwinds will continue to weigh on labour demand

# Strong fiscal position, room for fiscal support when inflation eases

*Government debt to GDP – low in Sweden compared to Euro area*



Exceptionally strong  
fiscal position

Fiscal policy expected to  
remain neutral despite  
slowing growth

Focus on not disturbing  
monetary policy

Källa: Länsförsäkringar/Macrobond

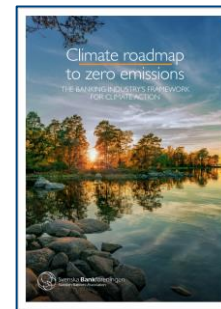


# ESG alignment to goals, regulations and standards

## SDGs with assigned priority



## Our journey towards sustainability



## Regulation guiding our transition



## Our key climate commitment

- EU – climate neutral in 2050
- Swedish government – climate neutral in 2045
- Swedish bankers' roadmap – climate neutral in 2045
- *Länsförsäkringar AB including Länsförsäkringar Bank – net climate positive in 2045*

## Sustainability ratings

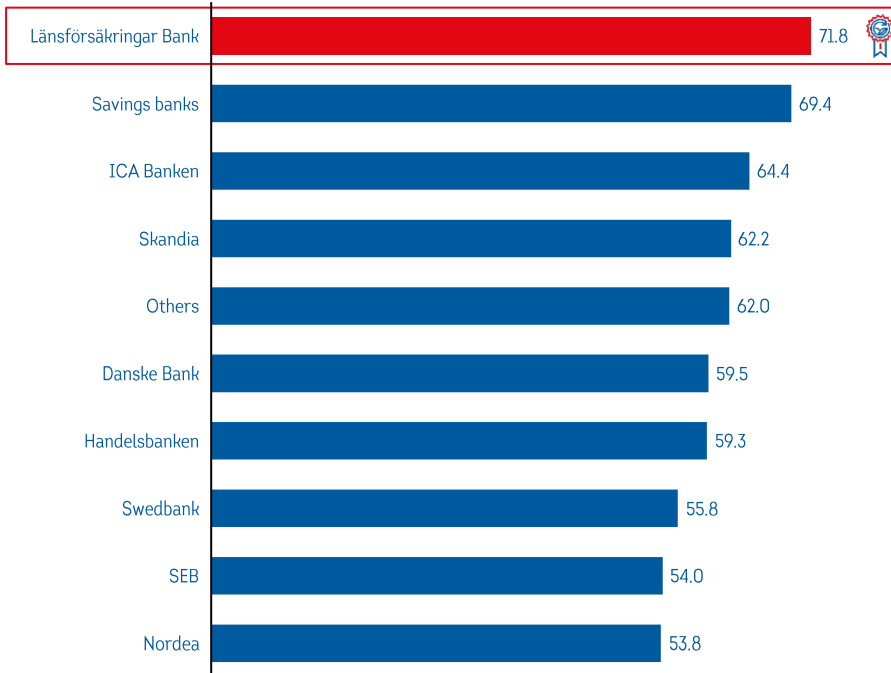


# Leading sustainability ranking (SKI)



Customers' assessment of  
Länsförsäkringar Bank

## Sustainability ranking, household customers, SKI 2023\*



SKI, Swedish Quality Index – Sustainability index from household customers

# High customer satisfaction driven by local presence



Strong local presence



Full-range retail banking offering



Strong retail funds platform



Supporting customers in all phases of life



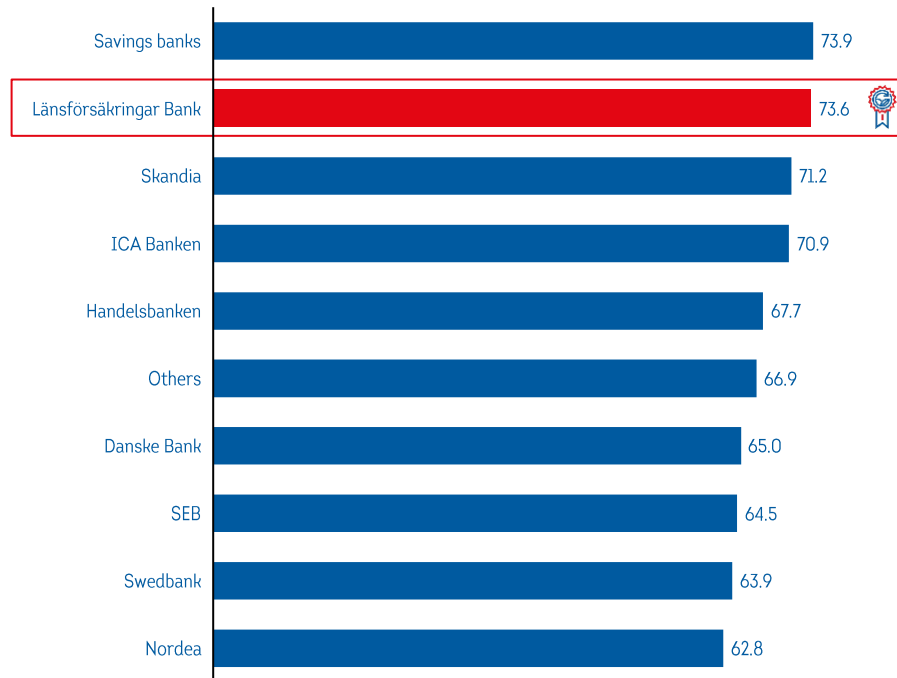
Further development of digital channels



Customer advisory that supports the customer in all phases of life

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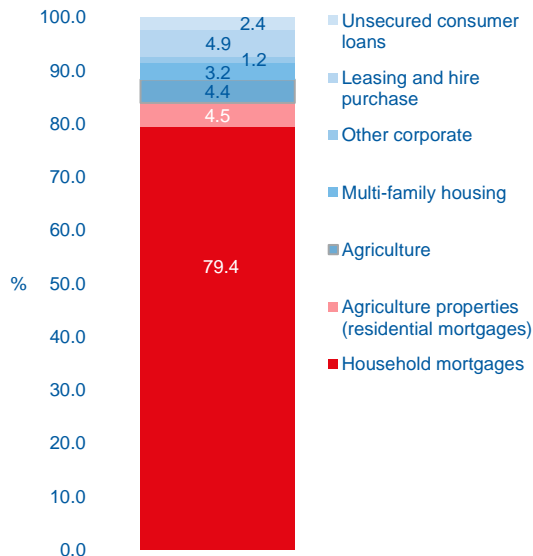
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# Loan portfolio and Cover pool



# Household mortgage lending is at the core

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Covered by 80% loan loss agreement with regional insurance companies (excludes Wasa Kredit)

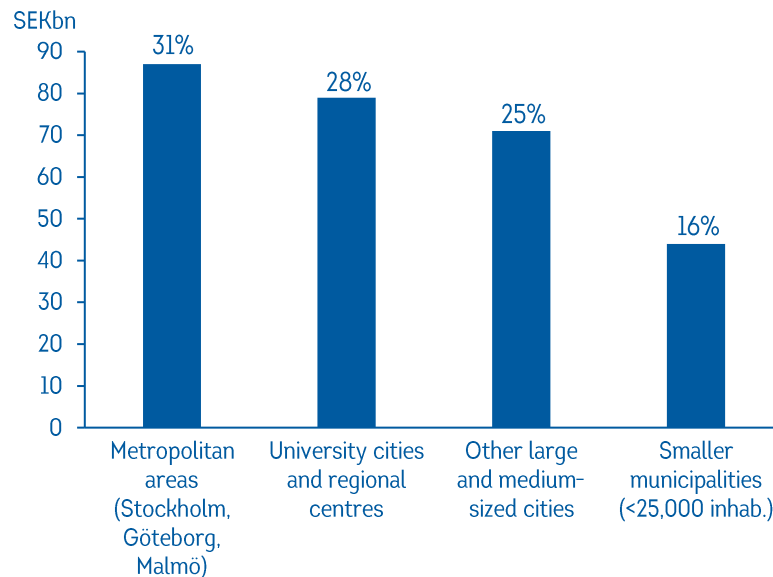
- Total lending amounts to SEK 382bn (367)
- Concentrated to low-risk segments with household mortgage lending representing 79% - SEK 304bn
- Only lending in Sweden and in SEK, well-diversified geographical distribution within Sweden
- 97% of total lending is collateralised (92% real estate and 5% other collateral)
- 0.8% of the portfolio is commercial real estate (CRE)

- Wasa Kredit (7.3% of Group portfolio)
- Lending consists of leasing, hire-purchase and consumer finance
- Around 70% collateralised exposures
- 50% corporate, 50% consumer exposures

# Well-balanced household mortgage loan portfolio

- Well-diversified household mortgage loan portfolio
- Close customer focus – loans originated by the branches of the regional insurance companies
- The largest volumes are in:
  - Metropolitan areas (Stockholm, Göteborg, Malmö)
  - University cities and regional centres
- The mortgage offering is an entry product and a strongly integrated component of the bank offering
- 90% of customers, with Länsförsäkringar Bank as primary bank, are also Länsförsäkringar insurance customers
- Loan loss coverage agreement with regional insurance companies (covers 80% of loan losses related to the loans and business they have originated)
- Strong incentive for high credit quality

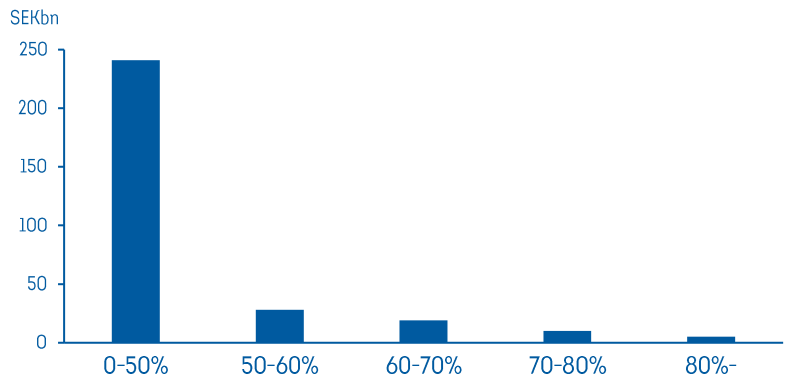
Household mortgage loan portfolio distribution



# Swedish household mortgage market – Länsförsäkringar Bank strong underwriting

- Origination and underwriting standards have been strong
  - Focus on customers' income (6.5-7% interest rate test) and amortisation capacity
  - Conservative debt/income multiple criteria
  - Conservative in terms of loan-to-values (LTV)
- Very solid scoring practise and quality of available customer data
  - Historically very low loss levels (also in the 1990's and 2008-09)
- Well-functioning house market
  - No buy-to-let market – hence no speculation in the market
  - People live in their own houses or apartments
  - Good demand in university cities and other larger cities where people move in
- House prices have declined around 15% from the peak
  - Following a sharp rise in house prices in 2021-2022
  - Prices are back to 2020 pre-pandemic level

Household mortgages, LTV distribution\*



\* Continuous distribution, each loan included in several buckets, in accordance with the Association of Swedish Covered Bond issuers (ASCB)

# Länsförsäkringar Hypotek cover pool

Cover pool, Länsförsäkringar Hypotek 31 December 2023			
Total volume, SEK billion	304.4	Number of loans	448,900
- of which Swedish mortgages, SEK billion	293.6	Number of borrowers	195,000
- of which liquidity, SEK billion <sup>1)</sup>	10.8	Number of properties	193,200
Share of liquidity in cover pool	3.5%	Average loan size, SEK	654,000
Over-collateralisation (OC), nominal, current level	30.4%	Average loan size per borrower, SEK/EUR	1.5m / 130k
Weighted average Max-LTV (indexed)	60.3%	Interest-rate type, fixed / floating	37% / 63%
Collateral	Private homes	Amortising / interest-only	69% / 31%
Seasoning, months	71.8	Impaired loans	None

<sup>1)</sup>Liquidity reserve, which consists of Swedish covered bonds with AAA/Aaa rating (100%)

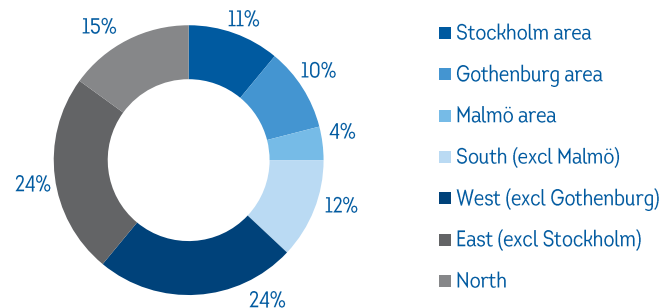




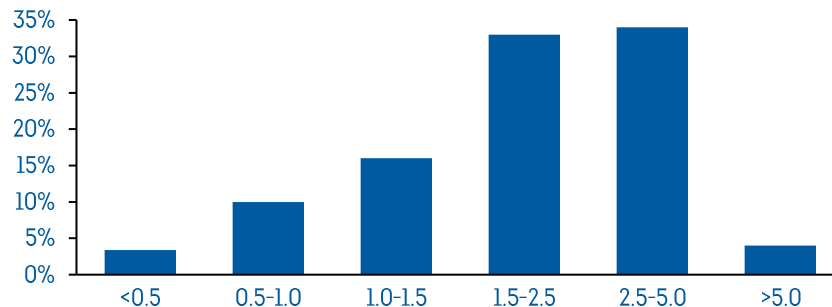
# Cover pool composition

Collateral type 31 December 2023	%	Weighted avg. max-LTV
Single-family homes	72%	59%
Tenant-owned apartments	26%	64%
Vacation homes	2%	50%
Tenant-owned associations	0%	N/A
Multi-family housing	0%	N/A
Forest and agriculture	0%	N/A
Commercial real estate	0%	N/A
Public sector	0%	N/A
<b>Total</b>	<b>100%</b>	

## Geographical distribution



## Loan size per property distribution - in terms of volume (loan size SEKm)

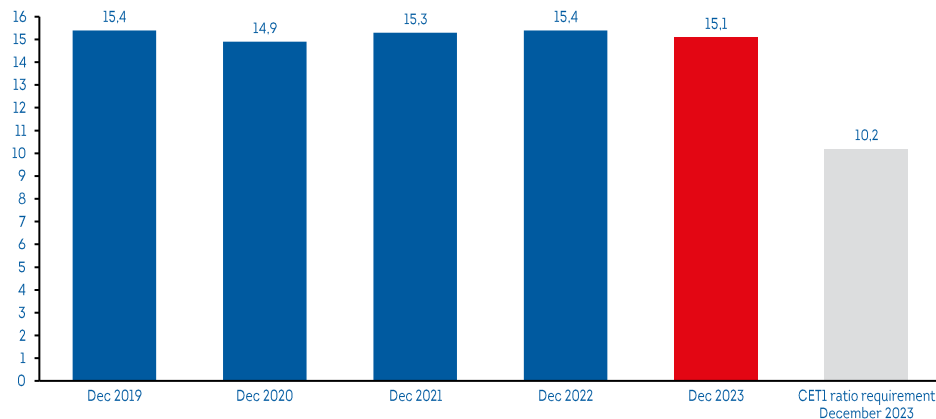


# Capital and Funding



# Continued strong capital ratios

CET1 capital ratio and requirement, %



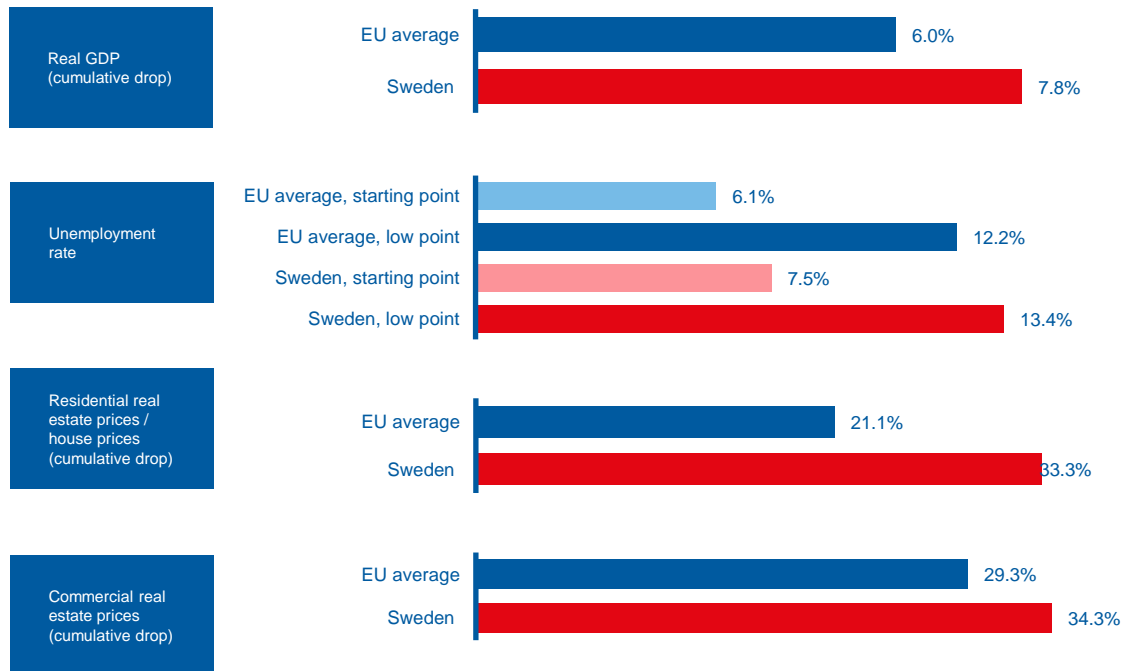
- Stable development in Q4 with a slight increase in REA and CET1 ratio impacted by retained earnings
- CET1 ratio increased in Q4 to 15.1%
- Total capital ratio of 19.2%
- Exceed with very good margin the SFSA requirements
  - CET1 requirement 10.2%
  - Total capital requirement 14.6%
- Approval of new PD models received in January 2023
  - new IRB model for corporates in Wasa Kredit
- Leverage ratio stable at 4.4%
- SEK 1.35bn AT1 instrument issued in January 2024

# Strong outcome in EBA's stress test

- EBA's stress test results published 28 July 2023
- Covering 70 banks across the EU
- LF Bank shows strong resilience in the adverse scenario...
- ...repeating the strong 2021 stress test outcome
- Main reasons behind the results:

- ➔ Low-risk loan portfolio dominated by household mortgages
- ➔ Strong capitalisation
- ➔ 25% risk-weight floor for mortgage lending
- ➔ 80% loan loss coverage from regional insurance companies

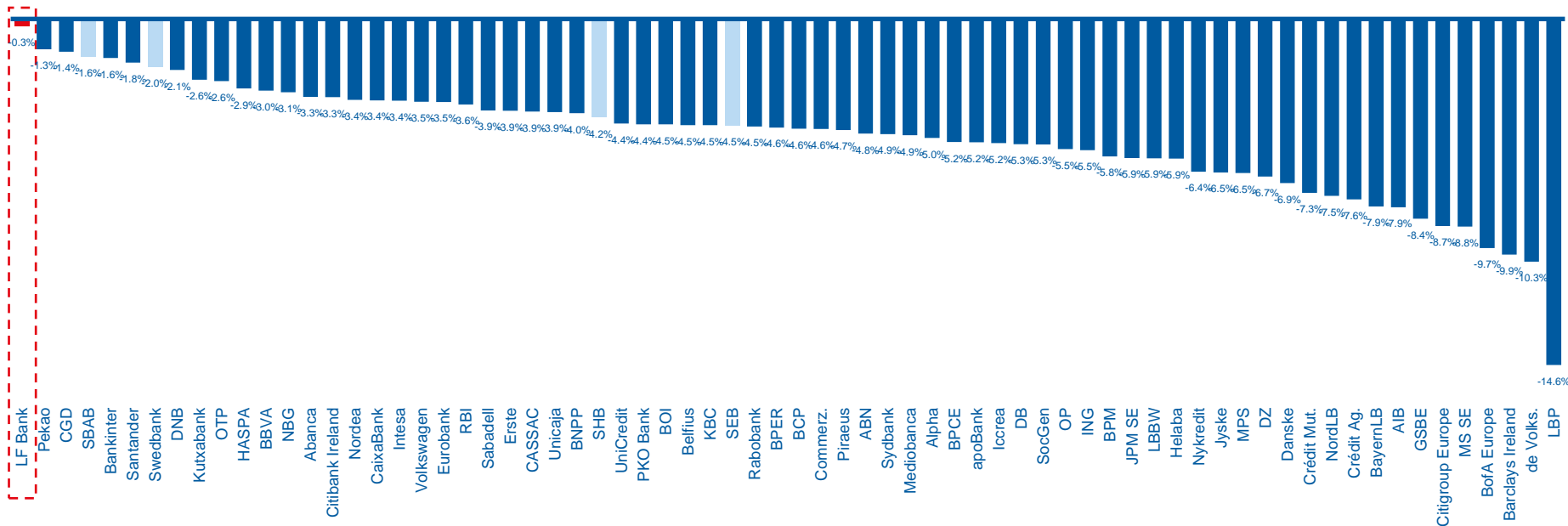
## Harsh adverse macro scenario applied for Sweden



# Strong resilience – CET1 ratio impact

*LF Bank shows the least negative CET1 ratio impact of all banks in the adverse scenario in the stress test*

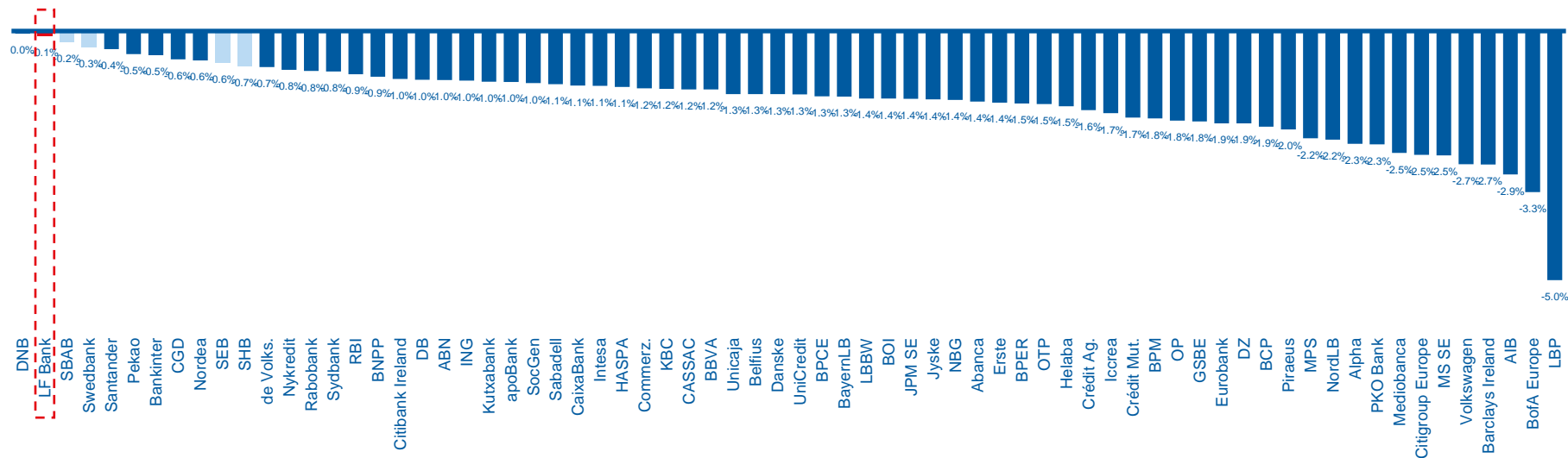
Maximum negative CET1 ratio impact in the adverse scenario (%-points)



# Strong resilience – leverage ratio impact

*LF Bank is amongst top performers regarding negative leverage ratio impact in the adverse scenario*

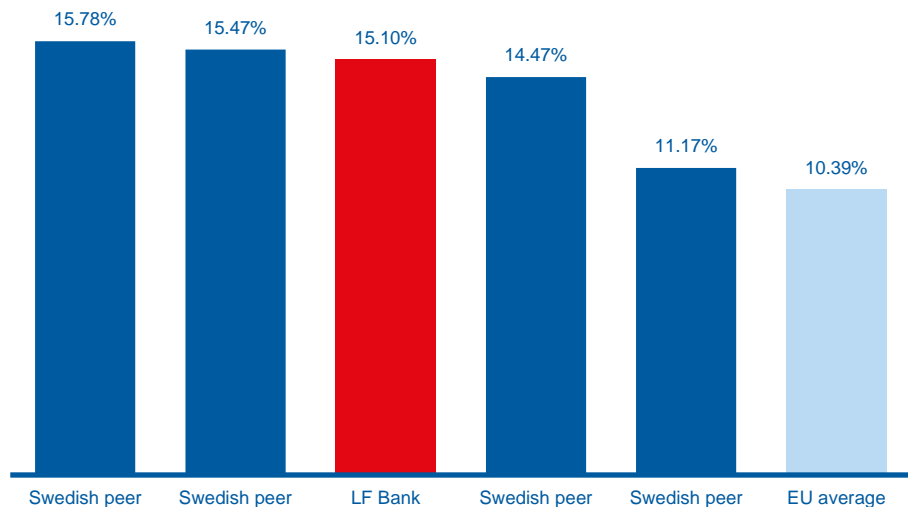
Maximum negative leverage ratio impact in adverse scenario (%-points)



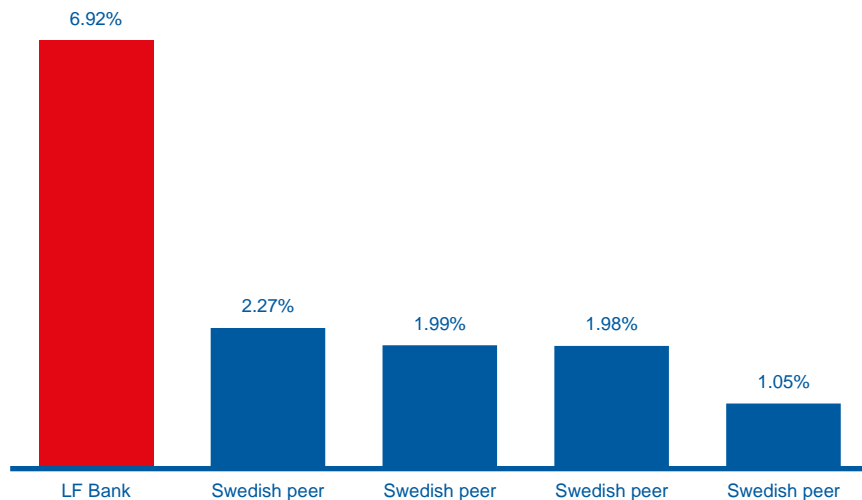
# Minimum CET1-ratio and CET1 buffer

*LF Bank has a much stronger minimum CET1 buffer than Swedish peers in the adverse scenario in the stress test*

Minimum CET1-ratio



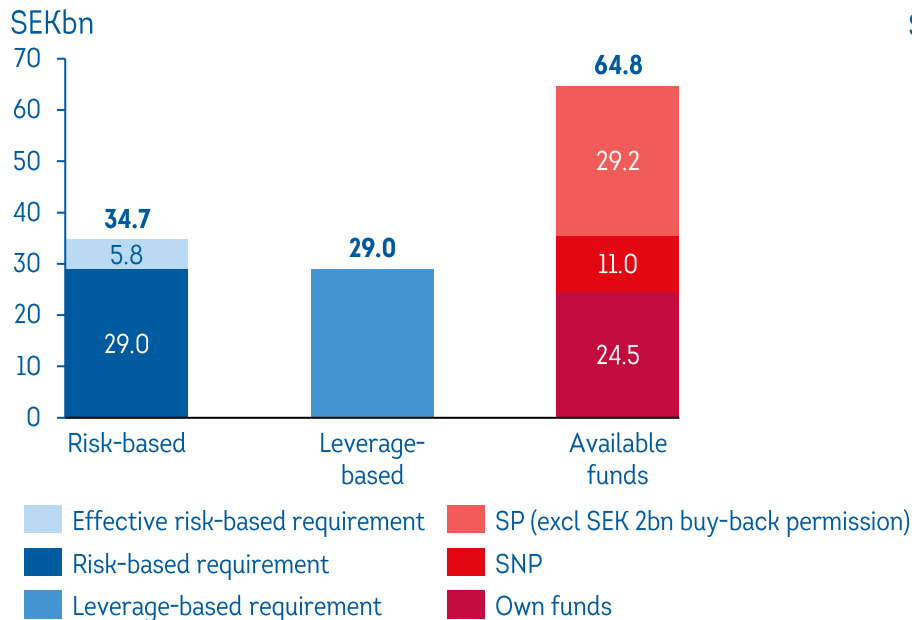
Minimum CET1 buffer (assuming CCyB 0%)



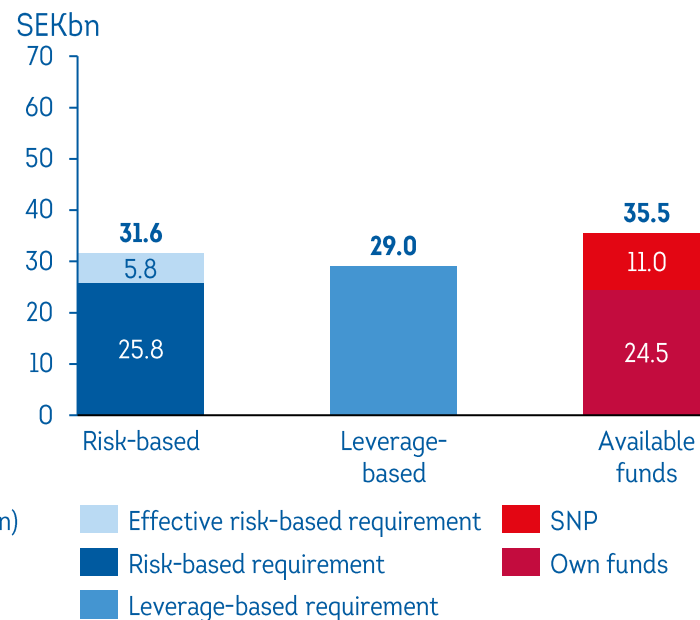
# MREL update – requirements 2024

Based on balance sheet Q4 2023 and assuming full requirements as of January 2024

MREL total requirements\*



MREL subordination requirements\*\*



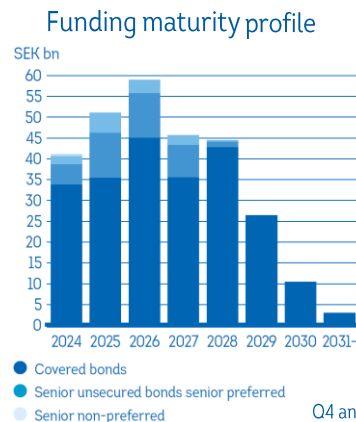
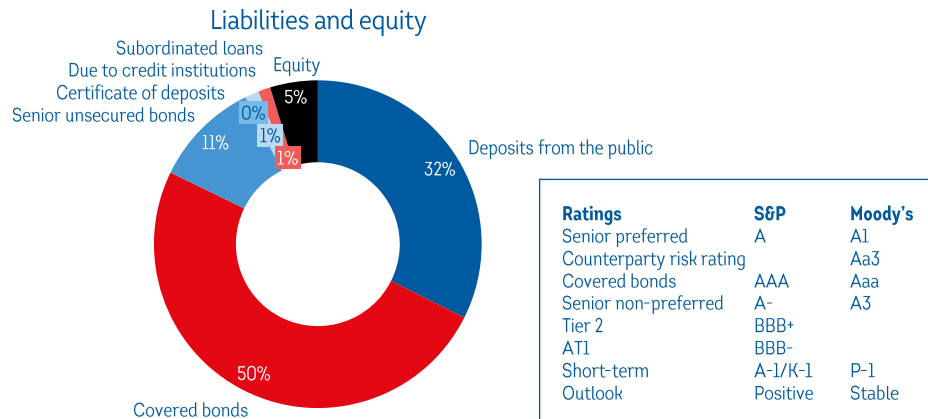
\* Corresponds to 27.2% of REA in effective risk-based MREL requirement and 6% (corresponding to 22.7% of REA) in leverage-based MREL requirement.

\*\* Corresponds to 24.7% of REA in effective risk-based MREL subordination requirement and 6% (corresponding to 22.7% of REA) leverage-based MREL subordination requirement.



# Well-diversified funding structure

- Planned total funding for 2024 around SEK 65bn (corresponds to around EUR 6bn)
  - of which around 70% in covered bonds
  - and around 30% in senior preferred and senior non-preferred bonds
  - of total planned funding for the year, around EUR 1.5bn is in EUR
- Continued strong liquidity and funding ratios – LCR 337%, NSFR 128%
- SEK 11.3bn covered bonds and SEK 3.3bn senior unsecured bonds issued in Q4 2023
- In total SEK 11.0bn of outstanding and eligible senior non-preferred (SNP) bonds
- SEK 1.35bn AT1, Perpetual NC 5.25 years, issued in January 2024
- Regular issuer of EUR senior preferred and EUR covered bonds
  - typically at least one EUR 500m issue per year in each format
  - potentially also senior non-preferred (SNP) issuance in EUR

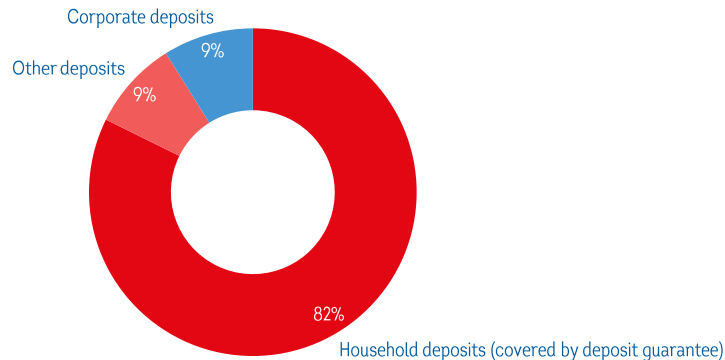


# Stable high-quality deposit base

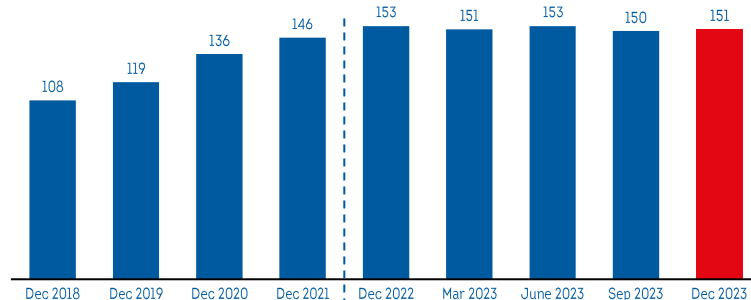
*High portion of retail deposits – 31 December 2023*

- Stable high-quality deposit base
- 80% of deposits covered by the government deposit insurance – mainly household deposits
- Deposits from the public SEK 151bn
  - of which household deposits SEK 124bn and other deposits SEK 13bn
  - corporate deposits SEK 13bn
- Deposit volumes have grown organically over many years, in line with the higher number of core customers and new mortgage customers
- Not actively seeking deposit volumes through pricing
- Deposit volumes have started to flatten out and decline somewhat
  - majority of decline has been in corporate deposits
  - somewhat lower savings ratios, and also strong inflow into our mutual funds

Deposits from the public

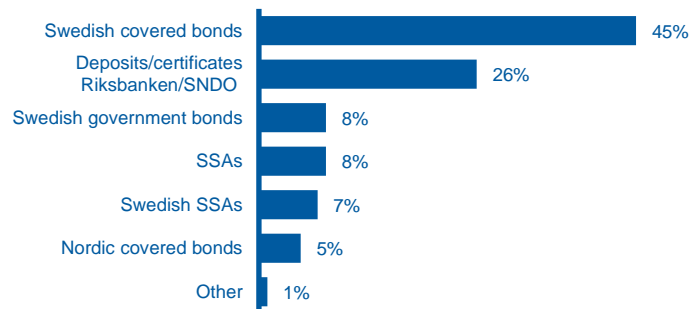


Deposit volumes (SEKbn)

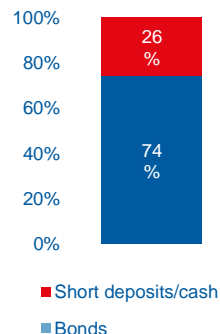


# Low-risk liquidity reserve

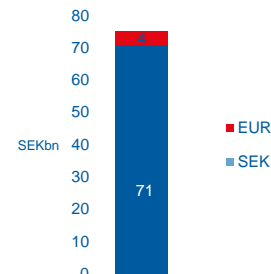
## Liquidity portfolio distribution



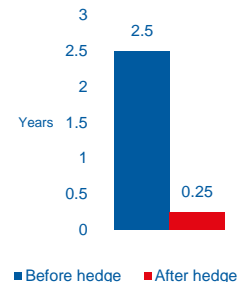
## Short deposits/cash vs bonds



## Currencies

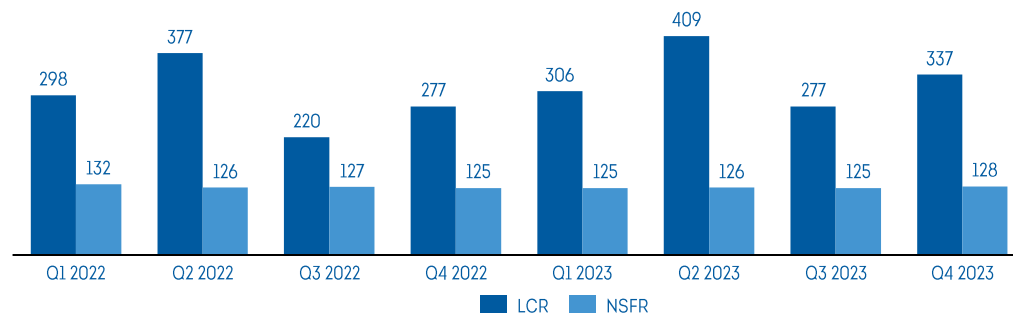


## Duration



- Liquidity reserve of SEK 75bn
- Fair value accounting treatment
- Marked-to-market over OCI - and into CET1
- No HTM portfolio
- Interest rate risk hedged - 3-month duration post hedges
- 100% AAA/Aaa rated

## LCR and NSFR, %



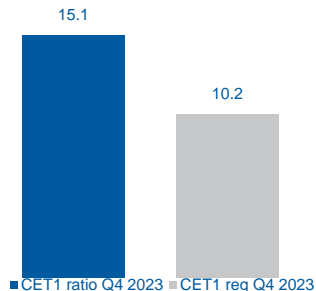
# Overall low-risk profile

## High-quality deposit base

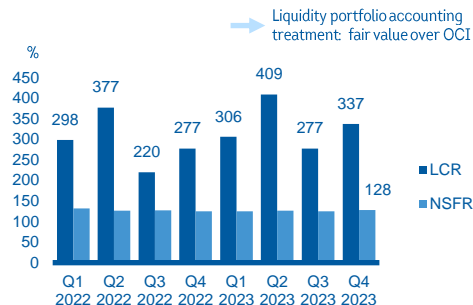
→ ≈ 80% retail deposits

→ ≈ 80% covered by deposit guarantee scheme

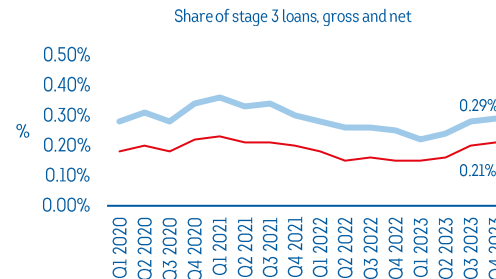
## Solid buffer to CET1 requirement



## Strong liquidity position



## Strong asset quality



## Stable credit ratings

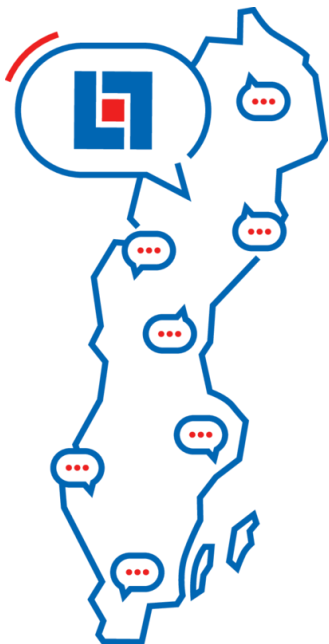
Moody's **A1**

S&P **A** (positive outlook)

*Strategic part of the large LF Alliance*

# Full-year 2023 – LF Bank well positioned

Strong financial position and local presence key to support customers and enable continued growth



- ➡ Benefitting from strong local presence and insurance roots
- ➡ 0.52 C/I ratio (0.49 excluding write-down of intangible assets)
- ➡ 8.1% return on equity
- ➡ Strong asset quality
- ➡ Strong capitalisation and liquidity position

*Continued focus on our customers' security*



# Contacts



# Contacts – Länsförsäkringar Bank

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## Financial calendar:

Q1 2024 report

24 April 2024

Q2 2024 report

19 July 2024

Q3 2024 report

22 October 2024



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[www.lansforsakringar.se/financial-hypotek](http://www.lansforsakringar.se/financial-hypotek)

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# Appendix: Sustainability and Green bond framework

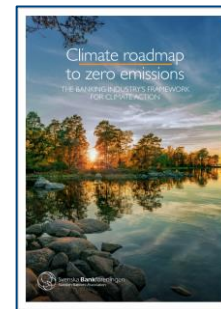


# ESG alignment to goals, regulations and standards

## SDGs with assigned priority



## Our journey towards sustainability



## Regulation guiding our transition



## Our key climate commitment

- EU – climate neutral in 2050
- Swedish government – climate neutral in 2045
- Swedish bankers' roadmap – climate neutral in 2045
- *Länsförsäkringar AB including Länsförsäkringar Bank – net climate positive in 2045*

## Sustainability ratings

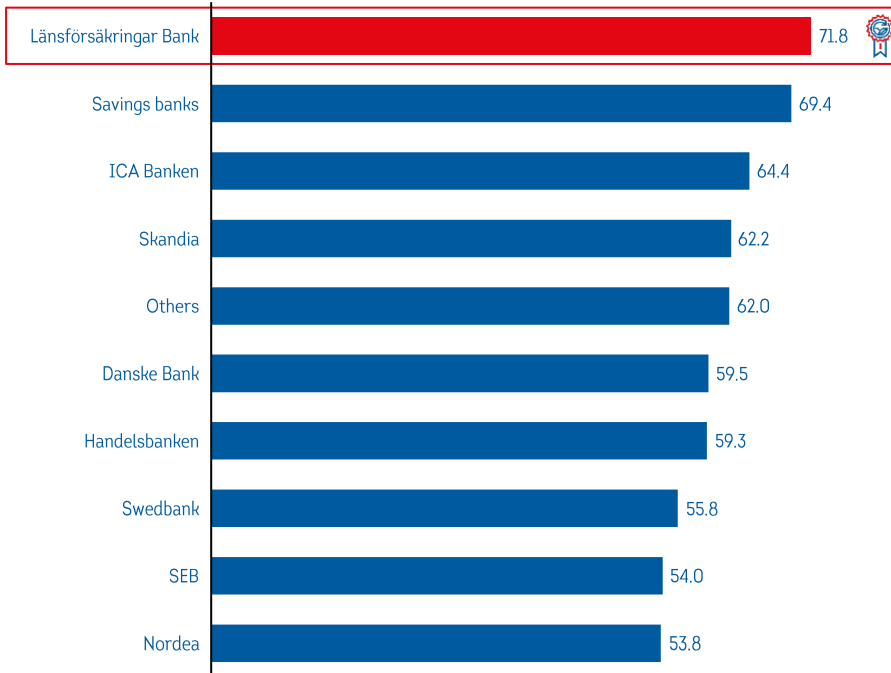


# Leading sustainability ranking (SKI)



Customers' assessment of  
Länsförsäkringar Bank

## Sustainability ranking, household customers, SKI 2023\*



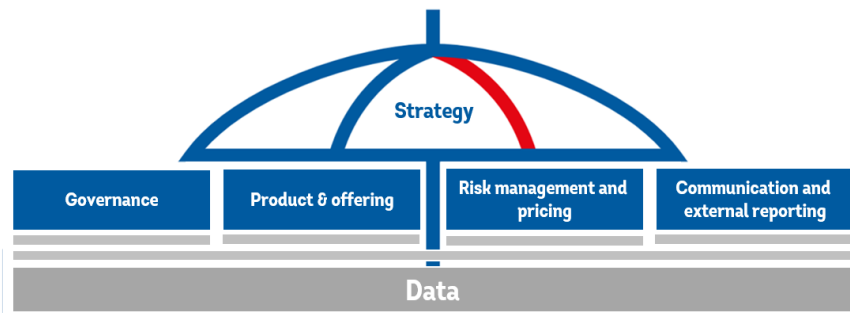
SKI, Swedish Quality Index – Sustainability index from household customers

# Customer-owned business model contributing financially and socially to local society

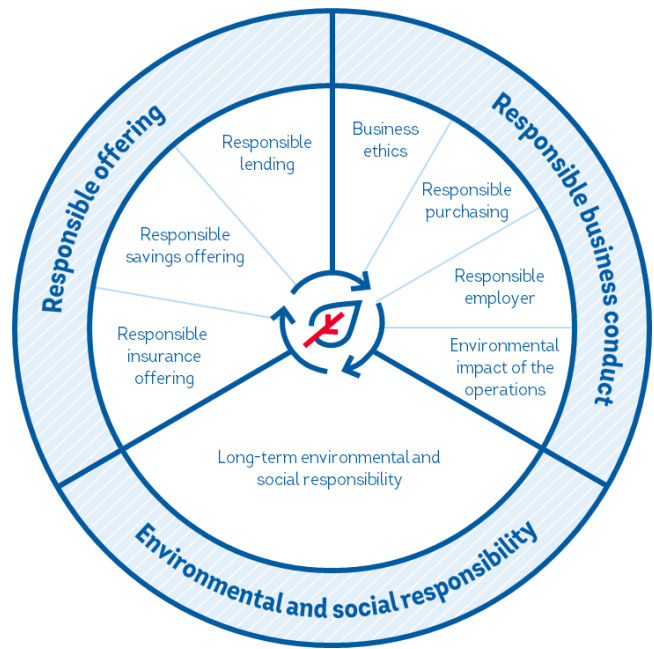
## ESG integrated in our operations



## ESG target operating model



## ESG eco system – aiming to support climate transition agenda and ensuring our customers financial stability



# Sustainability is part of our business model

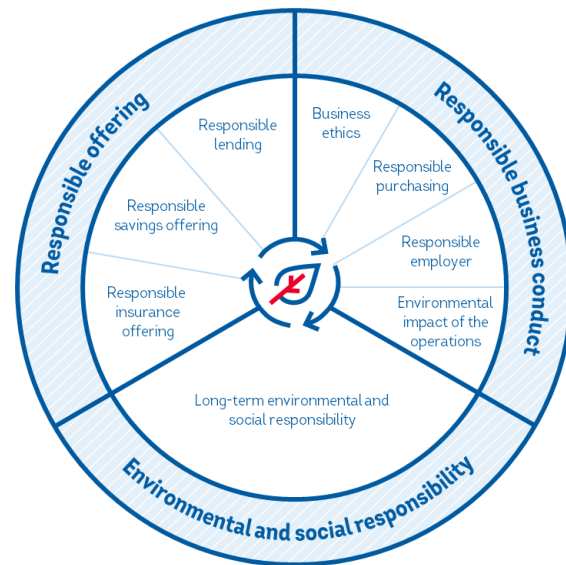
## Responsible offerings in Länsförsäkringar Bank

### Responsible savings offering

- Länsförsäkringar AB's target is to reduce climate footprint of its own funds so that by 2030 their emissions are aligned with the goal of the Paris agreement to limit global warming to 1.5 degrees
- Passively managed funds track Paris Aligned Benchmarks
- 100% of LF mutual funds in Länsförsäkringar Fondförvaltning are article 8 compliant and in one case an article 9 fund, which has been categorized as that this year
- Sustainability is integrated in the investment process – active corporate governance Enabling customers to have a sustainable economy and make sustainable selections

### Responsible lending

- Healthy lending is a key prerequisite for stable financial situation for customers, but ultimately leads to a stable and sustainable bank
- Green mortgage lending offer customers with energy efficient real estate a discount
- Green energy efficiency loans aim to encourage customers to strive for reducing energy consumption
- Länsförsäkringar has and is continuing to digitalise the credit process with the purpose to reduce use of paper and create efficiency in the customer experience.



# Green savings offering



- 100% of Länsförsäkringar Bank's mutual funds are article 8 compliant (light green)
- Climate target – all investments aligned with the Paris agreement by year 2030
- Passively managed funds track Paris aligned benchmarks
- ESG analysis integrated in the investments process
- Active ownership through engagement and voting
- Offering of multiple sustainability themed funds

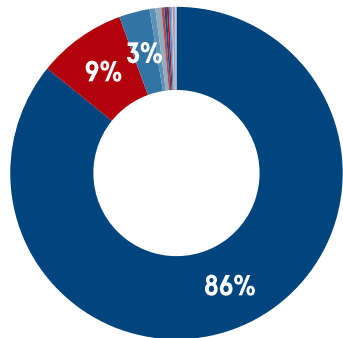
## The following activities are excluded from direct investments in Länsförsäkringar Bank's mutual funds:

- Extraction and exploration of fossil fuel
- Energy production from coal
- Production of tobacco products
- Gambling
- Controversial weapons
- Production of pornography



# Responsible lending

## Länsförsäkringar Banking Group's lending portfolio



**Länsförsäkringar Bank has a strong starting point in terms of the composition of the lending portfolio:**

Portfolio consisting of primarily retail/household mortgages and SME business with low environmental impact

Approximately 98% of the lending portfolio is towards household/retail customers, farming and agriculture as well as real estate and construction

**The following activities are excluded from lending in Länsförsäkringar Bank's exclusion criteria:**

- Production of fossil fuel
- Energy production from fossil fuel
- Farming of tobacco
- Production of tobacco products
- Gambling
- Production of arms and ammunition
- Production and distribution of pornography



# Green loan offering to build green asset financing

## Green loan offering

- Green loans in accordance with Green bond framework
- Covering different product categories that will be offered to customers with the purpose to support transition



## Issuance of green bonds

- Expand the Green asset register through the internal selection process
- Green bonds issuance with regular reporting showing impact of the green assets



# Green bond issuance – our strategy

Capacity



Capacity for continuous green bond issuance. Green asset pool expected to grow through new loan origination and addition of assets in other eligible categories

Format



Flexibility to issue in different formats, i.e. **Covered bonds**, **Senior preferred** and **Senior non-preferred bonds**. Länsförsäkringar Bank's and Länsförsäkringar Hypotek's EMTN programs updated to enable green bond issuance

Currency



Flexibility for issuance in different currencies, SEK, NOK and EUR most likely

Utilisation



Intention to maintain a balance where the green assets pool exceeds outstanding green bonds with a solid margin

# Green bond framework



# Strong and detailed green bond framework

- Aim to mobilise debt capital to support a low-carbon, climate change resilient and environmentally sustainable society
- Aligned with the Green Bond Principles (GBP) published in 2021 by the International Capital Market Association (ICMA)
- Green loans under this framework will target the EU Taxonomy's environmental objectives
- Sustainalytics has conducted a Second-party opinion on Länsförsäkringar Bank's Green bond framework
- Green bonds issued Nov 2022, Jan 2023 and Aug 2023:
  - 3NC2/4-year SEK 2.3bn senior non-preferred
  - 4-year EUR 0.5bn senior preferred
  - 5NC4/3NC2-year SEK 1.5bn senior non-preferred



# Länsförsäkringar Bank green bonds

- The Green Bond Framework consist of 4 project categories related to our responsible lending offer
- The green bond net proceeds may be used to finance and refinance both existing and new green loans granted by Länsförsäkringar Bank and subsidiaries
- The Green loan categories in this framework intend to reflect the Technical Screening Criteria for substantial contribution stipulated in the Climate Delegated Act to the extent possible:
  - *For instance; green and energy efficient buildings focus on the top 15% of the national or regional buildings stock*

## Green loans evaluation and selection process

Länsförsäkringar Bank's Asset Liability Committee (ALCO) is solely responsible for the decision to acknowledge the loans as green

## Management of proceeds

Länsförsäkringar Bank will use a Green Registry to track the Green Loans and the net proceeds from each Green bond issuance

## Reporting and transparency

Länsförsäkringar Bank will annually and until maturity of the Green bonds issued, provide to investors; reporting on allocation of proceeds and on the environmental impact of the Green loans

### Green and energy efficient buildings

- New buildings
- Existing buildings
- Major renovations
- Energy efficient measures



### Environmentally sustainable management of living natural resources and land use

- Agriculture
- Forests and forestry



### Renewable energy

- Solar energy
- Geothermal energy
- Wind power
- Storage facilities



### Clean transportation

- Low carbon vehicles and equipment
- Low carbon vehicle infrastructure



# Second-party opinion

Sustainalytics has performed a Second-party opinion evaluating that Länsförsäkringar Bank's Green bond framework is:


- Credible,
- Impactful and
- Align to the four core components of the Green bond principles 2021

Sustainalytics has concluded the following:

*"Sustainalytics is confident that Länsförsäkringar is well positioned to issue green bonds and that the Länsförsäkringar Bank Green bond framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2021."*

## Second-Party Opinion





### Länsförsäkringar Bank Green Bond Framework



**SECOND-PARTY OPINION**

#### Evaluation Summary

Sustainalytics is of the opinion that the Länsförsäkringar Bank Green Bond Framework is credible and impactful and aligns to the four core components of the Green Bond Principles 2021. This assessment is based on the following:

-  **USE OF PROCEEDS** The eligible categories for the use of proceeds Green & Energy Efficient Buildings, Environmentally Sustainable Management of Living Natural Resources and Land Use, Renewable Energy and Clean Transportation are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDG 7, 9, 11 and 15.
-  **PROJECT EVALUATION / SELECTION** Sustainability experts and representatives from the Bank's Treasury department are responsible for evaluating and selecting eligible projects that are in line with the eligibility criteria as defined under the Framework. Länsförsäkringar Bank has implemented internal policies and guidelines to address potential ESG risks associated with eligible projects. In addition, the Bank may request further information to assess eligible projects, including environmental impact assessments or life cycle analysis. Sustainalytics considers these to be in line with market practice.
-  **MANAGEMENT OF PROCEEDS** Länsförsäkringar Bank's Treasury and Finance departments (the "Departments") will be responsible for the management and allocation of proceeds. The Departments report to the Bank's Asset Liability Committee ("ALCO"), which provides the final consensus to allocate net proceeds. Länsförsäkringar Bank will track the proceeds using a green registry system. Unallocated, proceeds may be temporarily held in cash, cash equivalents or other liquid instruments. This is in line with market practice.
-  **REPORTING** Länsförsäkringar Bank intends to report on the allocation of proceeds and impact report, which will be published on its website on an annual basis. In addition, Länsförsäkringar Bank is committed to reporting on relevant impact reporting. Sustainalytics views Länsförsäkringar Bank's allocation and impact reporting as aligned with market practice.

<b>Evaluation Date</b>	June 9, 2022
<b>Issuer Location</b>	Stockholm, Sweden

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Sustainalytics' Opinion .....	3
Appendix .....	9

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# Green asset register



# Green asset register

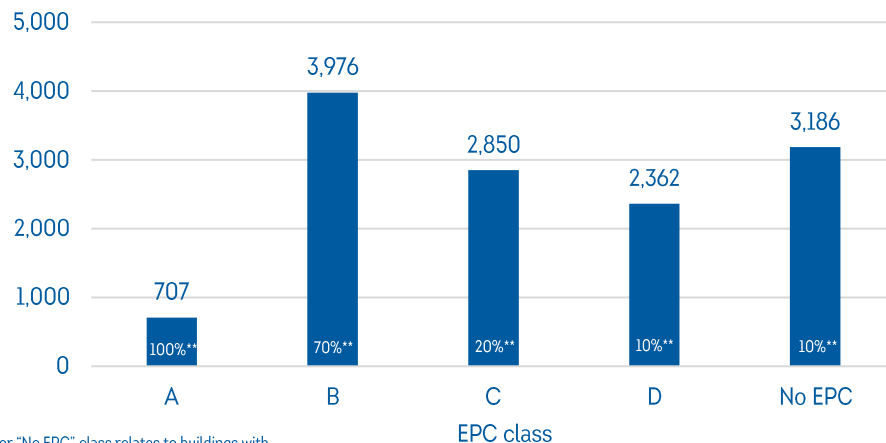


Projects	Total asset register	Green and energy-efficient buildings	Environmentally sustainable management of living natural resources and land use	Renewable energy	Clean transportation
Green asset register Q4 2023	SEK 15bn (=EUR 1.3bn)	SEK 15bn			
- of which mortgage portfolio	SEK 15bn	SEK 15bn			

- The top 15% of the national building stock in terms of energy efficiency has been calculated based on the most recent recommendation presented by Chalmers Industriteknik (CIT) to the Swedish Bankers
- To perform the calculation, data has been collected from Boverket and Energimyndigheten
- The calculations have taken into account the primary source of energy in the buildings and where relevant recalculated to BBR29 (Boverkets ByggRegler)
  - A conservative approach has been applied. 11.4% out of the total volume is deemed eligible
- The method for identifying the top 15% has been presented and evaluated by Sustainalytics as part of the Second opinion process of the Green bond framework.

SEKm

Single family houses included in asset register distributed by EPC class\*



\* EPC=Energy performance certificate. The bar for "No EPC" class relates to buildings with energy certificates from 2012 and 2013. These certificates did not include EPC class.

\*\* The percentage is the ratio of assets in each EPC class which are classified as green assets according to top 15% of the national building stock

# Calculating top 15% most energy-efficient buildings

*Top 15% of the national building stock, expressed as Primary energy demand*

CIT energy managements calculated thresholds<sup>2</sup> for different types of buildings constructed before 2021, expressed as primary energy demand (according to the Swedish building regulation "BBR 29")

Category	Top 15% threshold (kWh/m <sup>2</sup> ) <sup>1</sup>
Single-family houses	70
Multi-family houses	75
Hotels	98
Restaurants	94
Offices	89
Shops and warehouses, grocery trade	83
Shops and warehouses, miscellaneous	85
Malls	98
Health care	96
Health care, daytime	92
Schools	98

The energy carriers below are used to convert energy use to primary energy demand according to BBR 29

Energy carrier	Primary energy factor
Electricity	1.8
District heating	0.7
District cooling	0.6
Bio-fuel	0.6
Oil	1.8
Gas	1.8

Example: A single family house with an EPC established before 1 September 2020, i.e. before BBR 29 was taken into force:

- The buildings energy performance is recalculated and expressed as primary energy demand in accordance with BBR 29
- The recalculation is based on the buildings' energy use, energy carriers and related primary energy factor as shown in the table above
- Assume that a buildings energy use is 75 kWh/m<sup>2</sup>, where 75% origin from bio-fuel and 25% from electricity then the following recalculation will apply

$$75 \text{ kWh/m}^2 * 75\% * 0,6 + 75 \text{ kWh/m}^2 * 25\% * 1,8 = 67,5 \text{ kWh/m}^2$$

67,5 kWh/m<sup>2</sup> is lower than the threshold for single-family houses (70 kWh/m<sup>2</sup> as shown in the table to the left). Hence, it will qualify within the "top 15%"

This implies that a building with e.g. EPC D but with a high share of district heating and/or bio-fuel may qualify within the top 15% of the most energy efficient buildings, while a building with an e.g. EPC B but with a high share of electricity/gas/oil may be excluded from the top 15%



# Summary – key take aways

- Swedish retail bank with a strong sustainability profile – sustainability integrated in the operations
- Customer-owned with strong local presence
- Detailed green bond framework that has been confirmed by Sustainalytics (Second-party opinion)
- Green asset register currently consists of loans for the most energy-efficient single family houses (all included in top 15% of the national building stock)
- Green asset pool expected to grow through new loan origination and addition of assets in other eligible categories

# Appendix: Macroeconomy

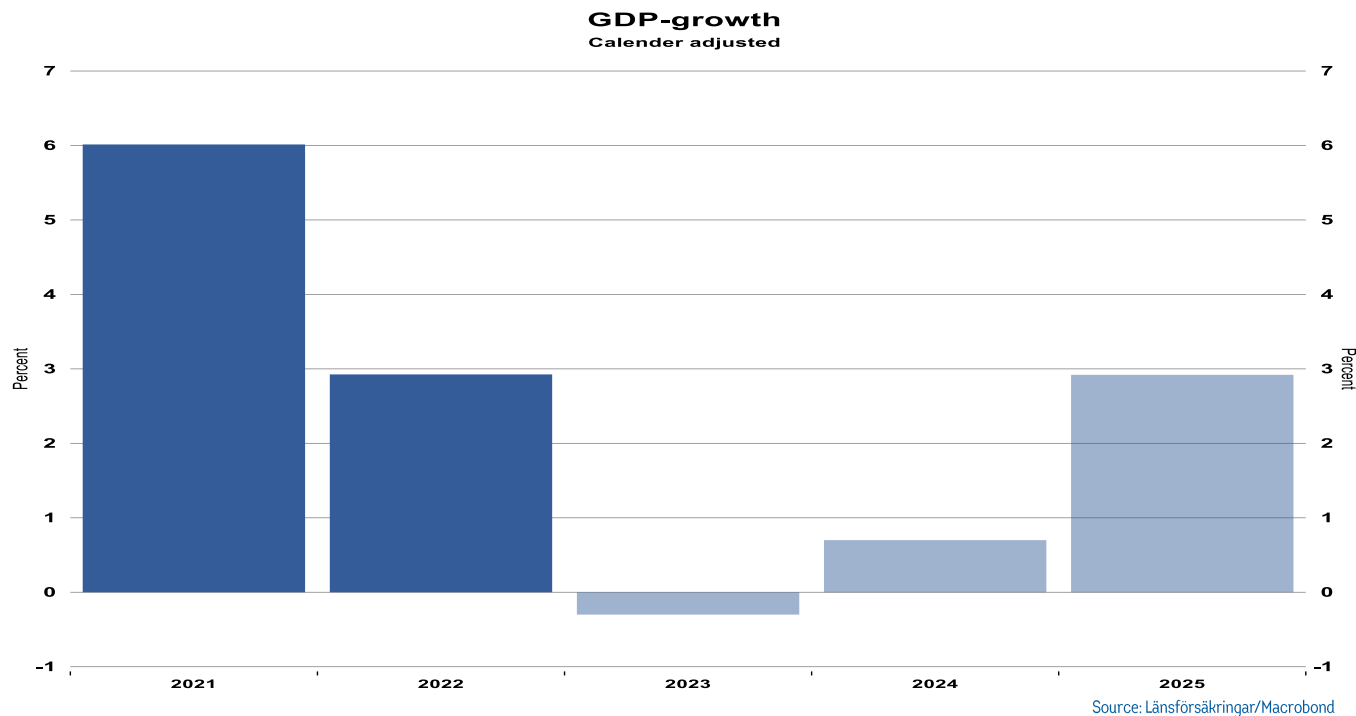


# Macroeconomic summary

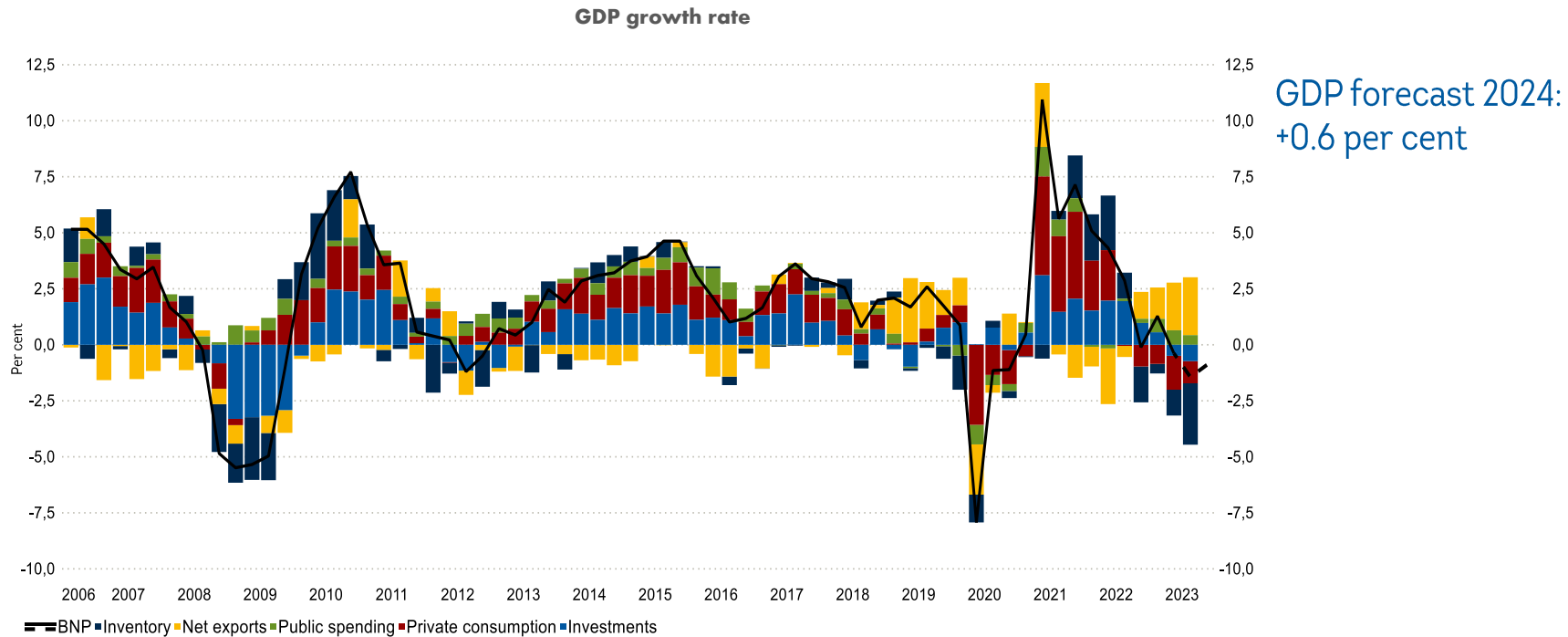
- The Swedish economy is expected to undergo two consecutive years of weak GDP growth
- Inflation expected to be on target 2024
- The Riksbank's rate cuts are expected to start in May
- Housing prices were almost unchanged throughout the entire year of 2023

Source: Länsförsäkringar

# Two consecutive years with weak GDP growth

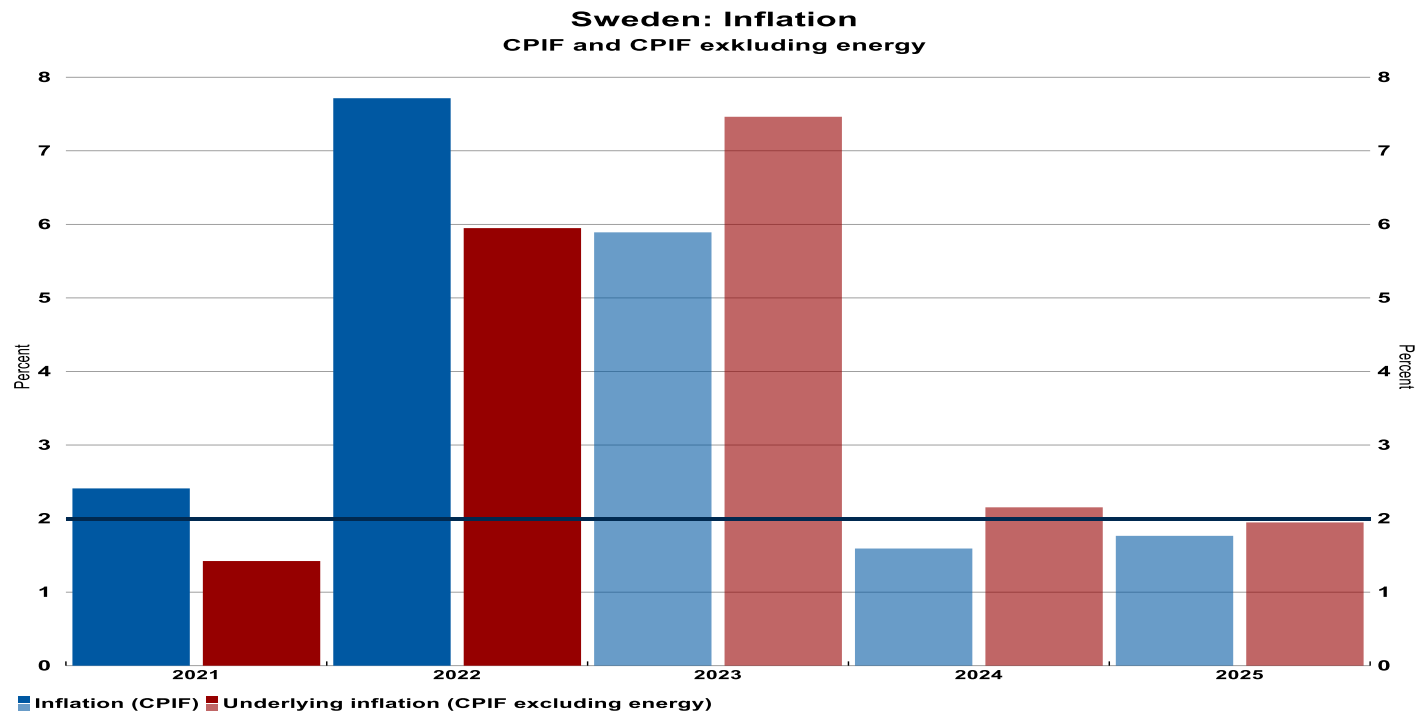


# Substantial drop in private consumption and inventories



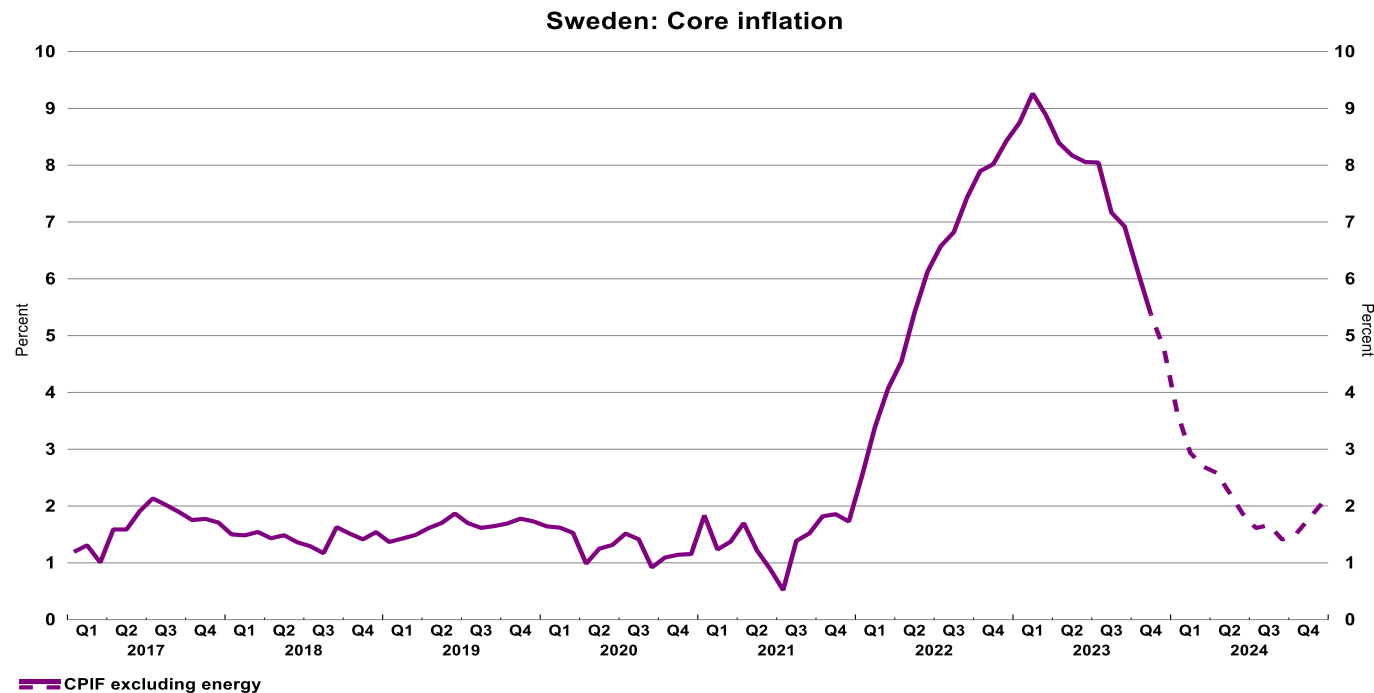
Source: Länsförsäkringar/Macrobond

# Inflation expected to be on target this year



Source: Länsförsäkringar/Macrobond

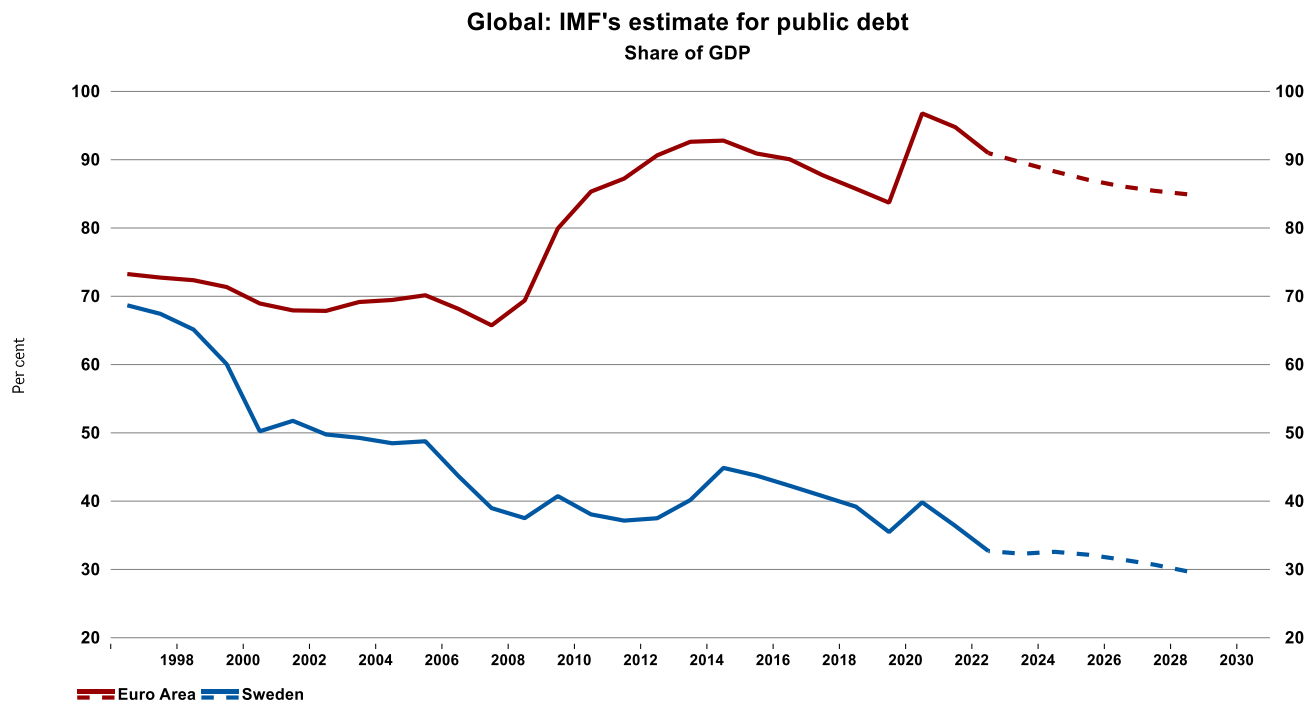
# Core inflation expected to be on target by Summer 2024



Source: Länsförsäkringar/Macrobond

# Strong fiscal position, room for fiscal support when inflation eases

*Government debt to GDP – low in Sweden compared to Euro area*



Exceptionally strong  
fiscal position

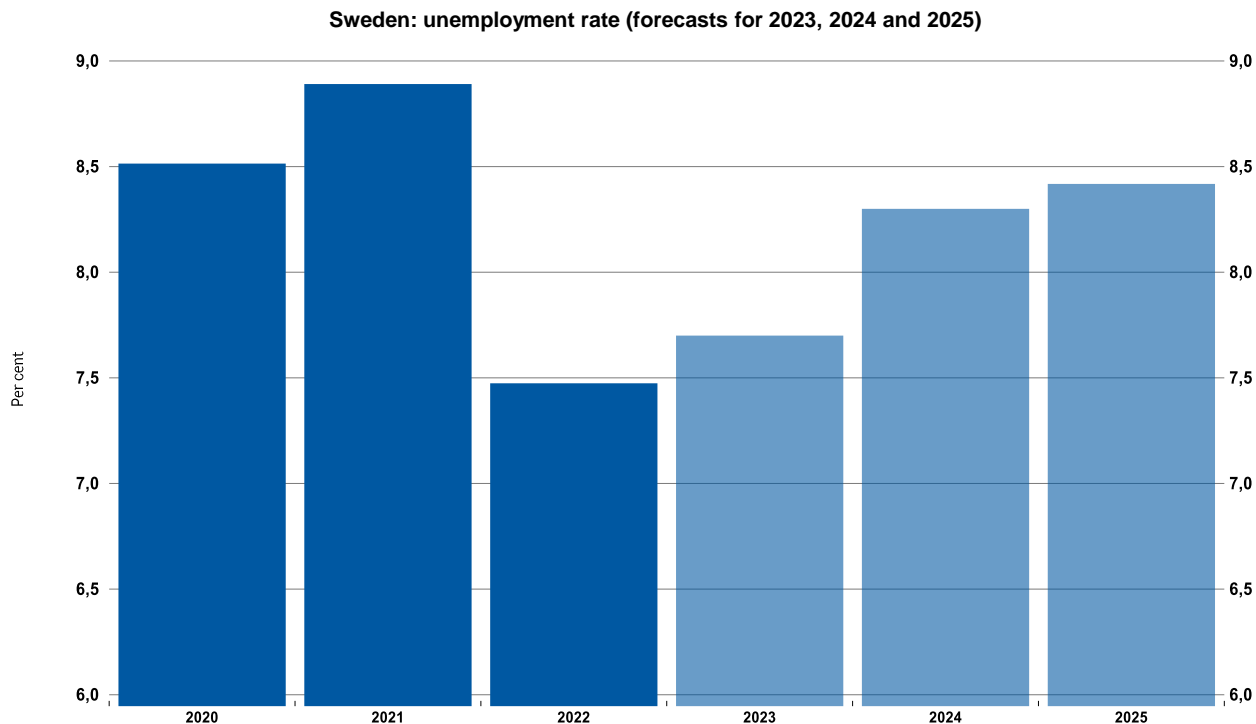
Fiscal policy expected to  
remain neutral despite  
slowing growth

Focus on not disturbing  
monetary policy

Source: Länsförsäkringar/Macrobond



# Extended period of high unemployment



Source: Länsförsäkringar/Macrobond

Unemployment back to pre-pandemic levels

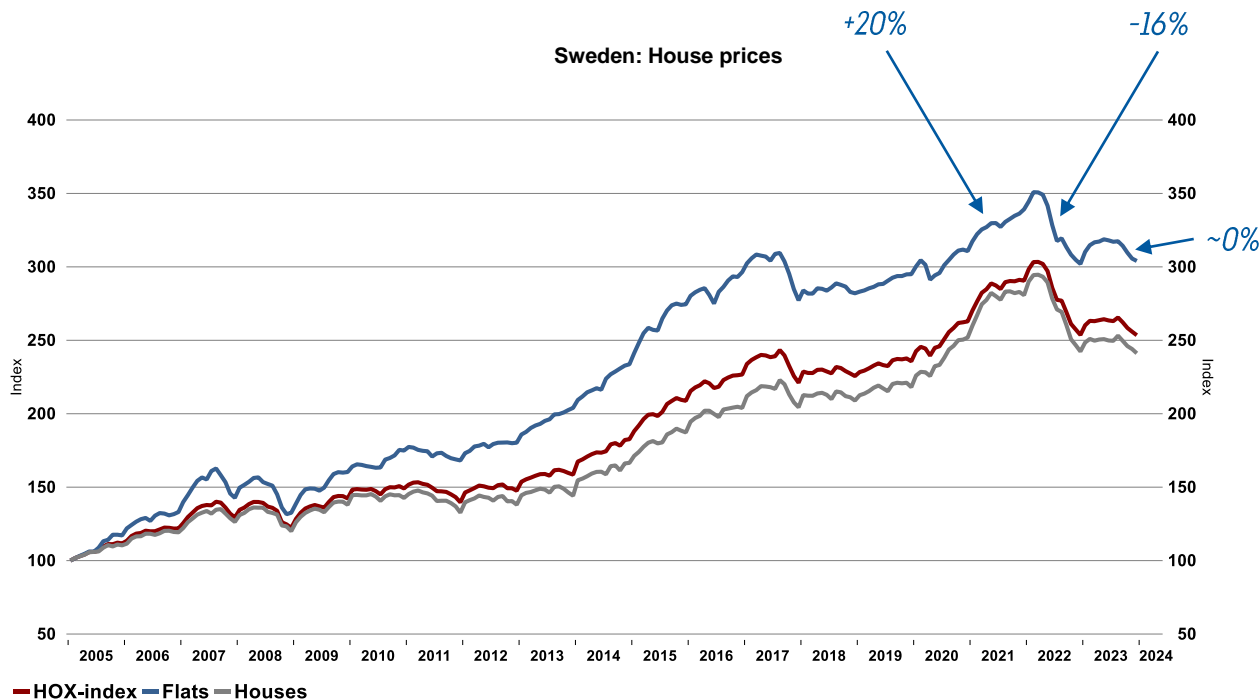
Resilience in the labour market in the first half of 2023 year, but unemployment has now started to rise

Unemployment currently 7.7%

GDP headwinds will continue to weigh on labour demand

# Weaker development in house prices again after initial recovery

High volatility in and after the pandemic



Source: Länsförsäkringar/Macrobond

High house price volatility

Sharp price increase during the pandemic, with a price correction last year

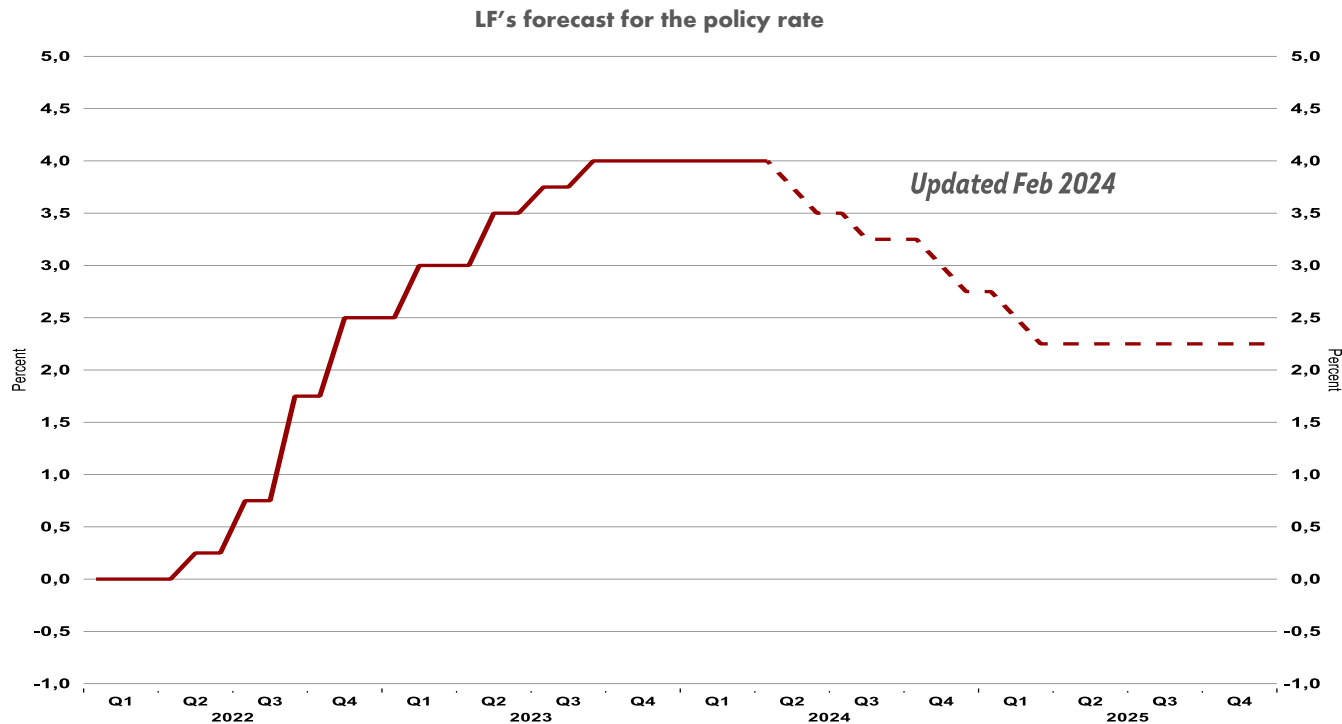
Prices back to pre-pandemic level

Recovery in the market followed by price decline in the end of the year

Stabilisation in January 2024

Still large uncertainty

# The Riksbank's rate cuts are expected to start in May



Source: Länsförsäkringar/Macrobond