

Länsförsäkringar Bank

Credit Update September 2021



Länsförsäkringar Bank in short (30 June 2021)

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 –
7.1% market share
mortgages & 5.3% deposits

Strong local presence –
Distribution network of **128**
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 353bn *Growth YoY: 11%*

Deposits: SEK 142bn *Growth YoY: 8%*

Fund volume: SEK 298bn *Growth YoY: 35%*

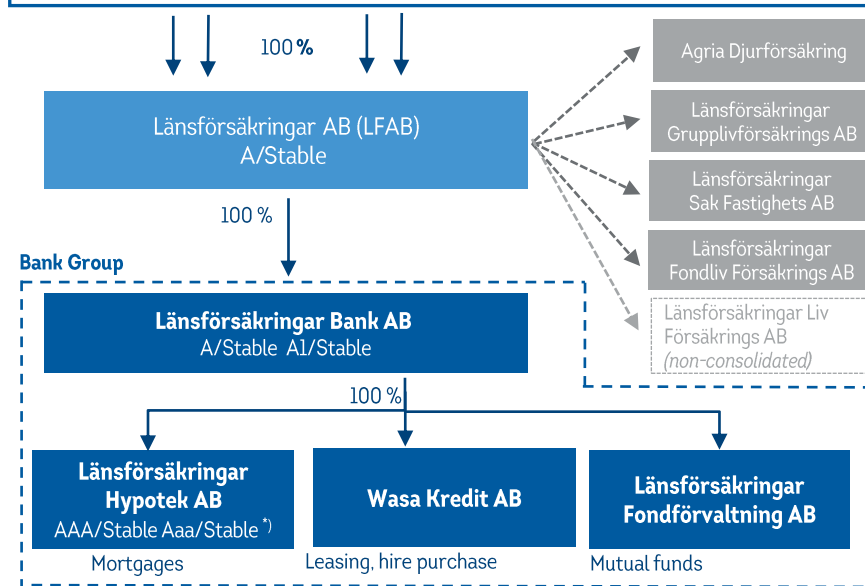
ROE: **10.7 %**

CET1 ratio: **14.8 %**

NSFR: **129 %**

Credit loss
level: **-0.04 %**

23 regional mutual insurance companies



*) Refers to the credit ratings of the covered bonds

Strategy

Positioned to capitalise on large insurance customer base

- Large insurance customer base:
 - 3.9 million customers of which
 - 3.2 million are retail customers, and
 - 2.4 million are home insurance customers
- The mortgage offering, an entry product and a strongly integrated component of the bank offering
- Add other retail products like cards, deposits, mutual funds etc. Continuous growth in products per customer
- A total of 91 percent of bank customers, with Länsförsäkringar as their primary bank, are also existing insurance customers to Länsförsäkringar
- Built on existing infrastructure, a strong brand, a large customer base, local market presence, the personal meeting and extensive digital banking services

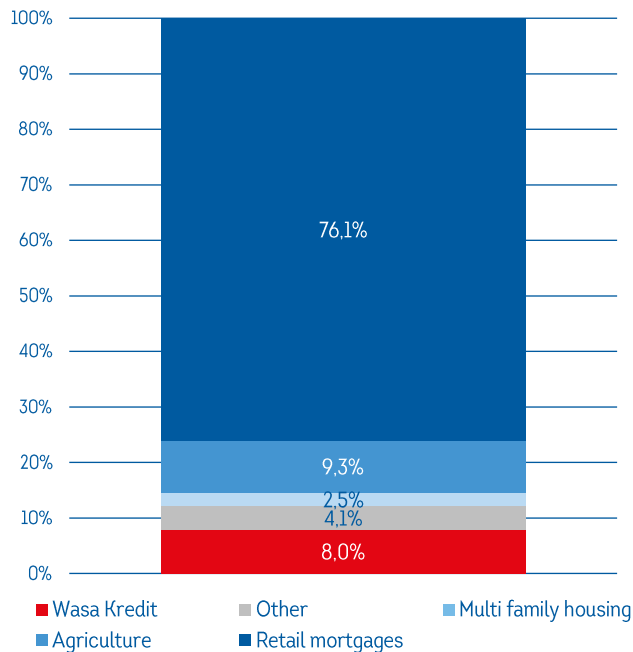
Business model

Local knowledge combined with central credit policy

- Loans are originated by the branches of the regional insurance companies
- Most of the credit decisions are taken locally
- The credit policy of LF Bank is applied
- LF Bank is paying commissions to the regional insurance companies for the business they originate
- Loan loss agreement with regional insurance companies where they cover 80% of credit losses related to business they have originated
- Strong incentive for high credit quality

Group loan portfolio, 30 June 2021

Loan portfolio composition



Covered by loan loss agreement with regional insurance companies

- The loan portfolio amounting to SEK 353bn (318)
 - Concentrated to low-risk segments with retail mortgage lending representing 76.1%
 - Only lending in Sweden and in SEK
 - Well diversified geographical distribution within Sweden
 - 97.3% of total lending is collateralized (87.9% real estate and 9.4% other collateral)
- Wasa Kredit:s lending consists of leasing, hire-purchase and consumer finance
 - 50% corporate and 50% consumer exposures

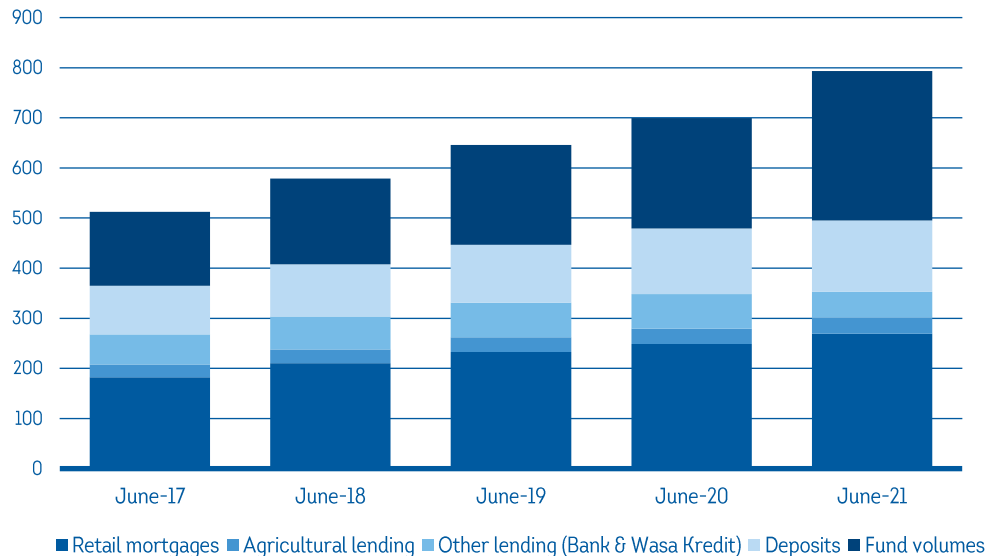
January - June 2021 in summary

- Länsförsäkringar Bank has signed the UN's Principles for Responsible Banking in the second quarter.
- Clarifying the ambition to meet global sustainability challenges and to work towards the goals of the Paris Agreement and the UN Sustainable Development Goals.
- Solid first six months of 2021 with strong operating profit
- Continued strong growth in business volumes – savings products main driver
- Costs continue to increase at lower pace compared to the same period in the previous year
- Positive macroeconomic development and sustained increase of house prices
- Measures implemented concerning COVID-19 remain – focus remains on supporting customers
- Länsförsäkringar's business model, with a strong local presence and modern digital services continues to be successful



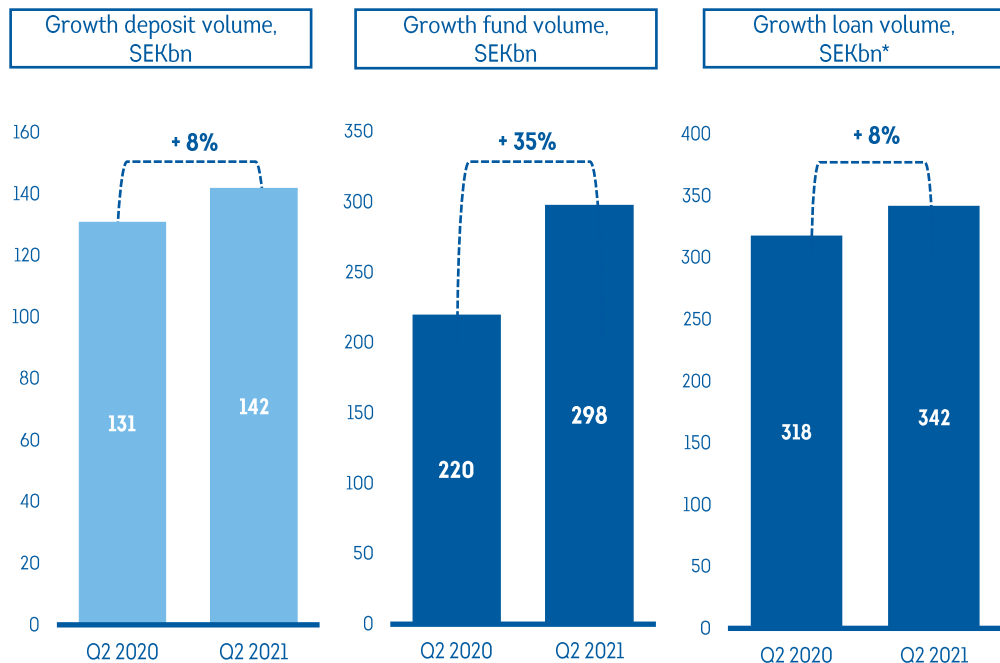
Strong growth in business volumes

Business volumes, SEKbn



- Solid growth in business volumes, amounts to SEK 793bn as per June 2021
- 19% y/y growth
- Saving products account for 56% of total business volume
- Business volumes have increased by 88% or SEK 371bn over the past five years

Break down of business volume development



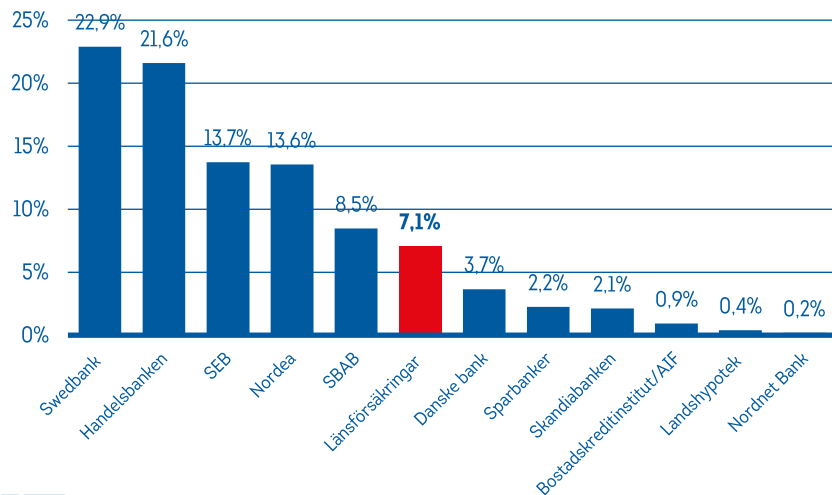
* Excluding deposits at the Swedish National Debt Office (SEK 11bn as of Q2)

- Continued solid development for deposits. Growth rate has normalised compared to H1 of 2020
- Very strong development of fund volumes
- Positive development of net inflows and increased monthly fund savings from clients
- As of May 2021, 73% of funds managed under Länsförsäkringar's brand had a better return compared to their respective category index (36 months)
- Loan volume increased with SEK 24bn or 8% (y/y)
- Retail mortgage lending accounts for the bulk of the increase and grew with SEK 21bn (y/y)
- Retail mortgage lending accounts for 79% of the total loan portfolio
- Agricultural loans increased with SEK 1.8bn or 6% (y/y)

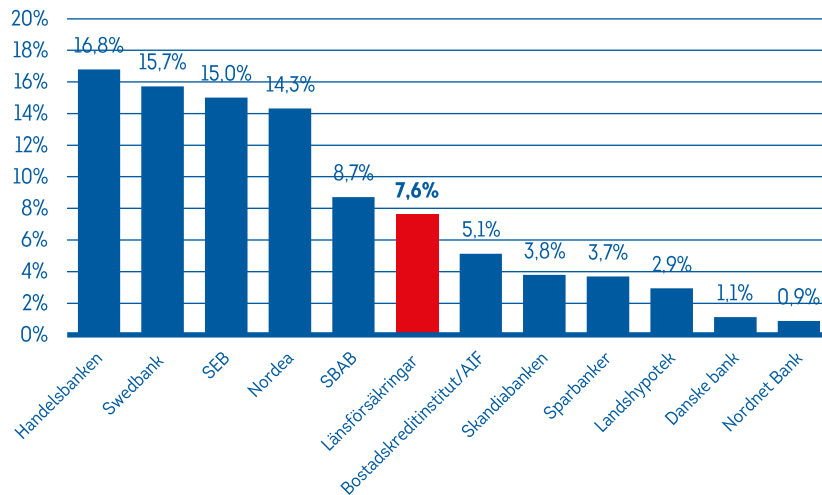
Continued growth on the retail mortgage market

- Länsförsäkringar continues to gain market share on the retail mortgage market
- Solid growth in large parts of Sweden, weaker trend for Stockholm
- Tendencies of changing competitive landscape - more even distribution of market shares, new players are capturing relatively more of new lending

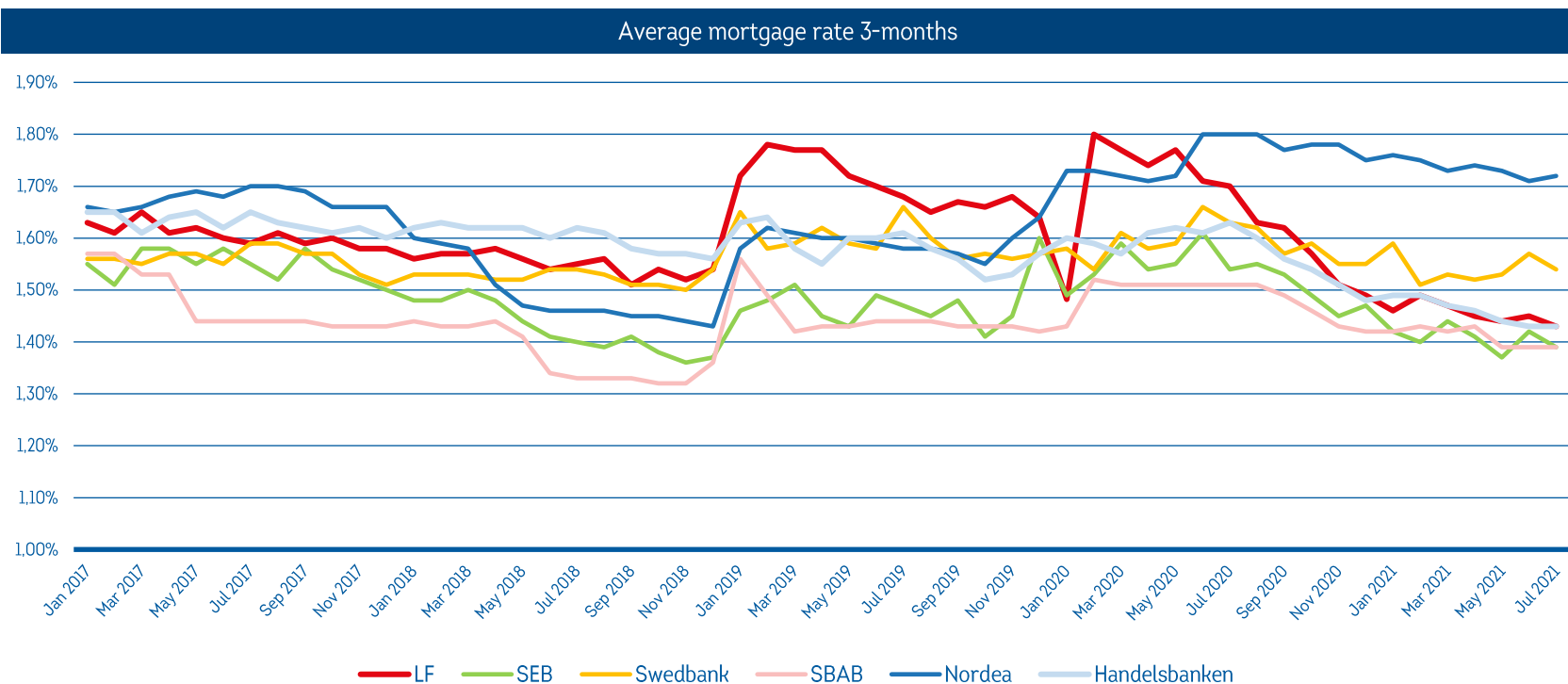
Market shares mortgage lending (July 2021)



Share of new lending YTD (July 2021)



Mortgage rate comparison



Source: Swedish FSA

Income statement

SEKm	Jan – Jun 2021	Jan – Jun 2020	Change
Net interest income	2,366	2,423	-2%
<i>Underlying net commissions</i>	625	491	27%
<i>Remuneration to regional insurance companies</i>	-798	-750	6%
Net commissions	-173	-258	-33%
Net gains/losses	27	-28	-
Other income	13	11	12%
Total operating income	2,233	2,148	4%
Staff costs	-369	-336	10%
Other expenses	-595	-599	-1%
Depreciation/amortisation	-122	-105	16%
Total operating expenses	-1,086	-1,040	4%
Profit before loan losses	1,148	1,109	4%
Loan losses	80	-232	-
Operating profit	1,228	876	40%

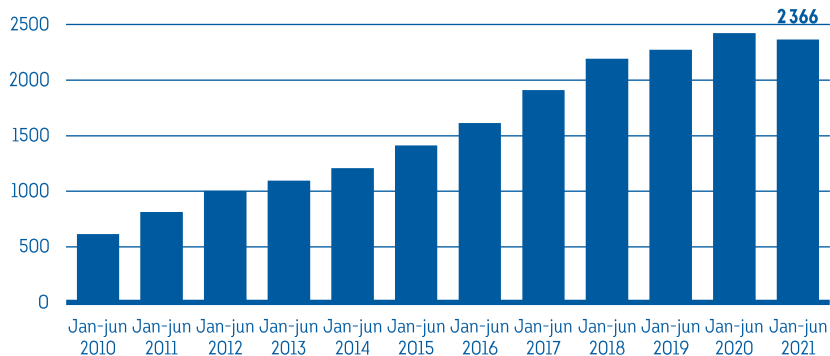
- Weaker NII development
- Strong trend in underlying net commissions
- Expenses are increasing at lower rate compared to the same period last year
- Improved macro-scenarios in the ECL-model leads to reversals
- Strong operating profit and strengthened profitability

Continued strong quarterly development

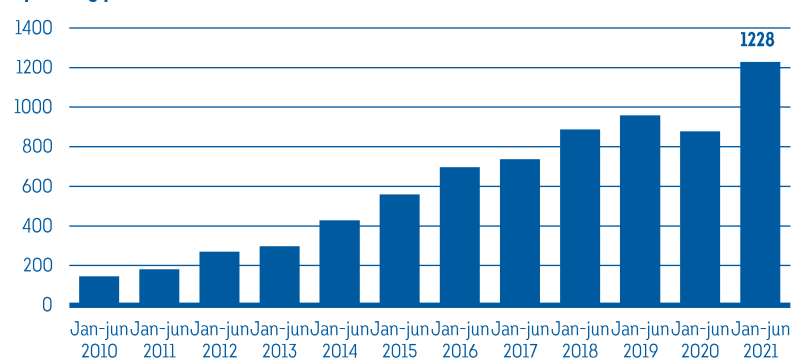
SEKm	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Net interest income	1,172	1,195	1,222	1,201	1,213
Net commissions	-73	-100	-127	-173	-141
Net gains/losses	4	22	-16	15	-15
Other income	8	5	4	5	5
Total operating income	1,111	1,122	1,083	1,047	1,061
Staff costs	-192	-177	-155	-146	-171
Other expenses	-304	-291	-364	-303	-297
Depreciation/amortisation	-62	-60	-50	-52	-52
Total operating expenses	-558	-527	-569	-501	-521
Profit before loan losses	553	594	514	547	541
Loan losses	12	69	-55	-38	-120
Operating profit	565	663	459	508	421

Net interest income development & profitability

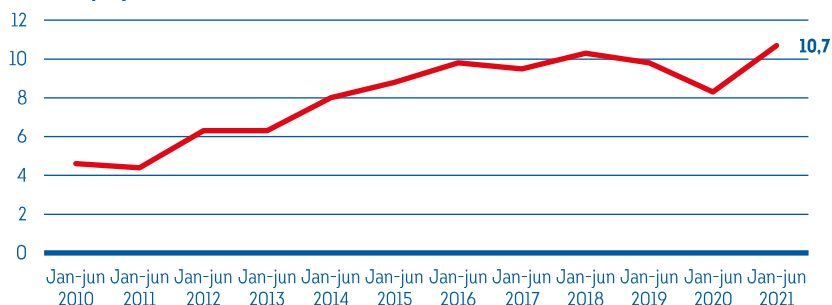
Net interest income, SEKm



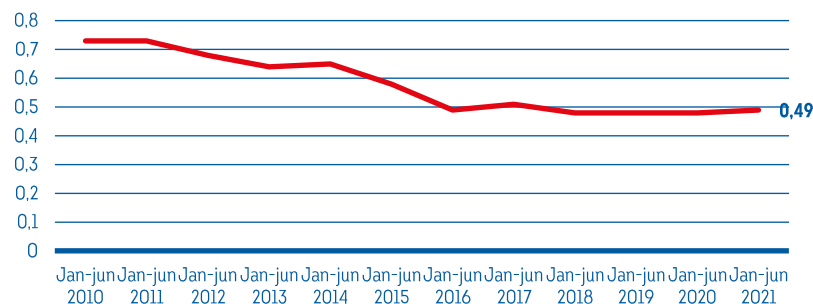
Operating profit, SEKm



Return in equity, %



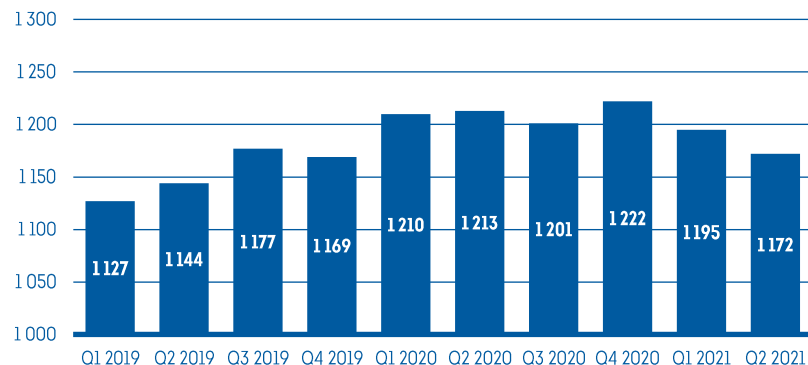
Cost/income ratio



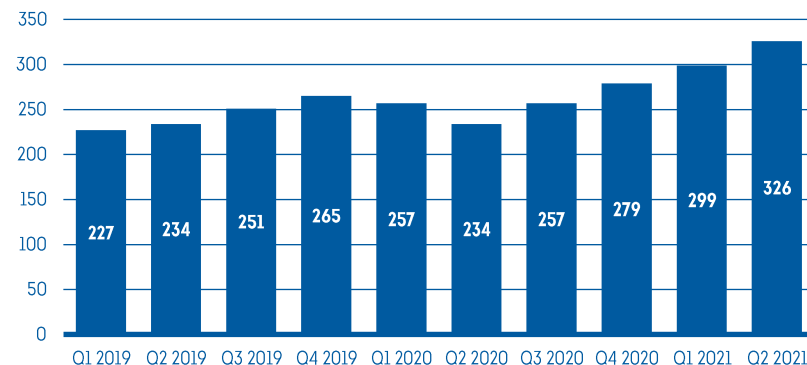
Development of operating income

- Weaker development of net interest income (-2% y/y)
- Increasing share of fixed rate mortgages in the loan portfolio
- Strong development of underlying net commissions (+27% y/y)
- Fund management business is the main driver

Quarterly development NII (SEKm)

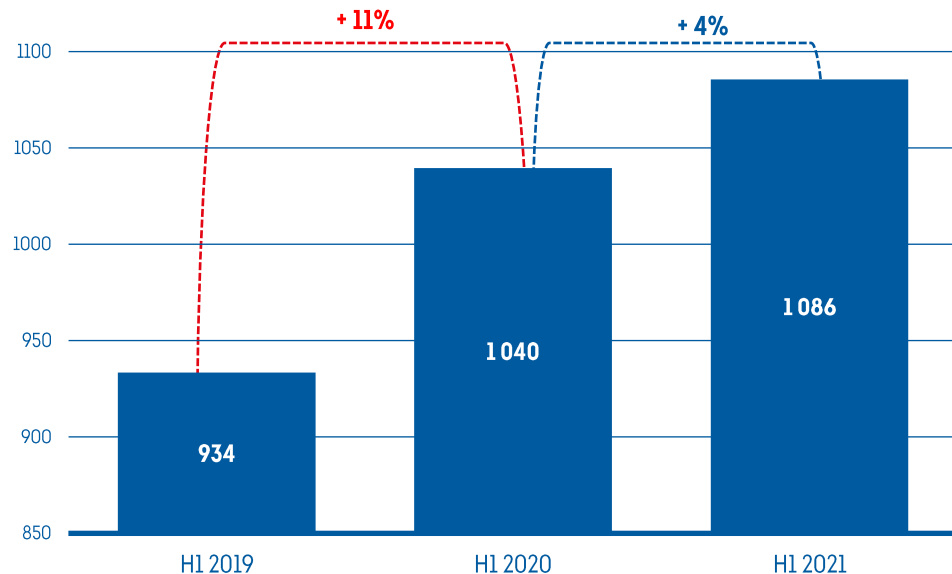


Quarterly development underlying net commissions (SEKm)



Operating expenses increasing at slower rate

Development operating expenses (SEKm)

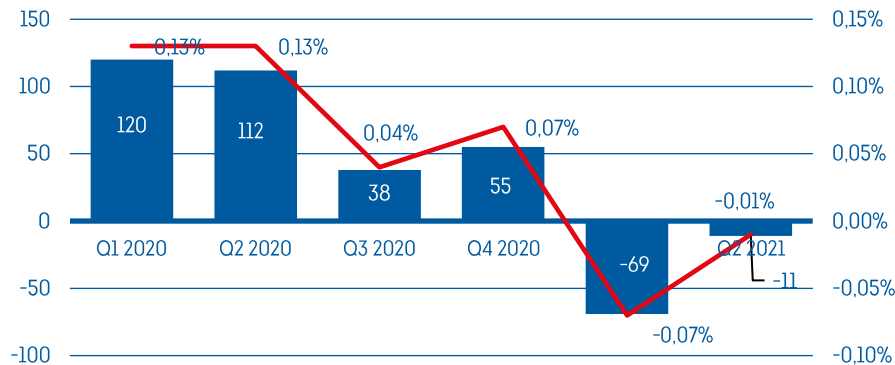


- Increased focus on costs and better cost efficiency
- Expenses are increasing at lower rate compared to the same period last year
- Main drivers of increase in operating expenses:
 - *IT development*
 - *AML*

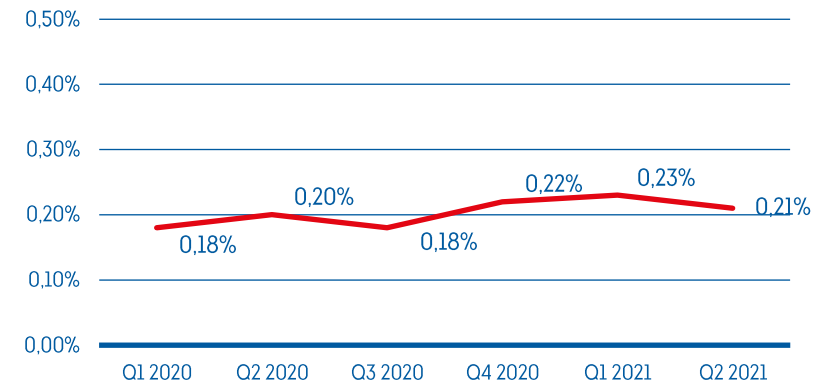
Credit quality Q2 2021

- Continued high credit quality
- Reversals have been made as a result of improved macroeconomic scenarios in the ECL-model
- No remaining manual adjustment of reserves
- Stable development of stage 3 exposures

Credit losses (SEKm) & loan loss level (%)



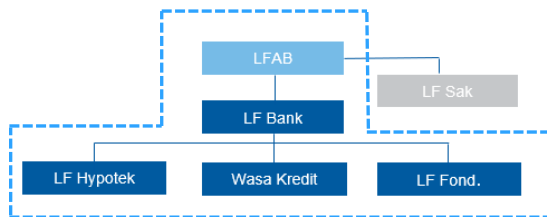
Share of credit impaired loan receivables (stage 3), %



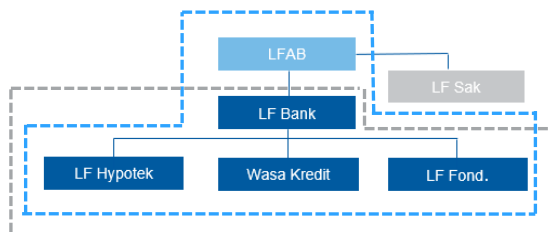
Capital adequacy Q2 2021

New consolidated situation post merger between LFAB and LF Sak

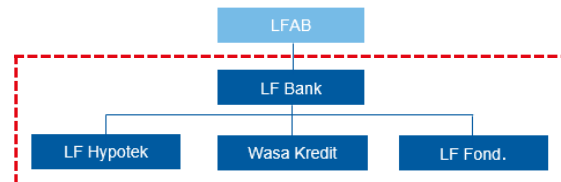
Consolidation from Jan 2014
(CRR)



Consolidation post SFSA
decision on sub-group
consolidation Q3 2020

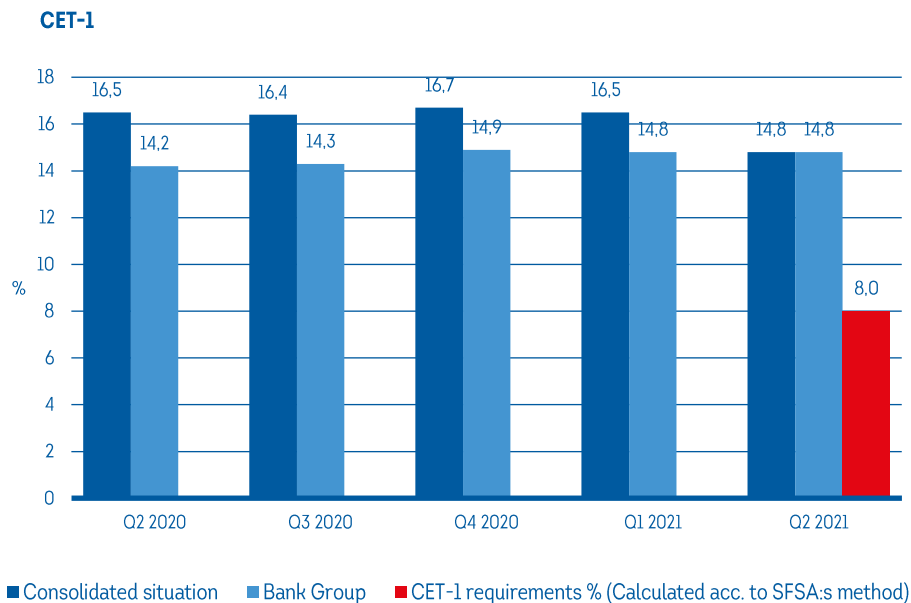


Consolidation post merger Q2
2021



- Consolidated situation
- Sub-group consolidation
- New consolidated situation

Capital ratios, Q2 2021

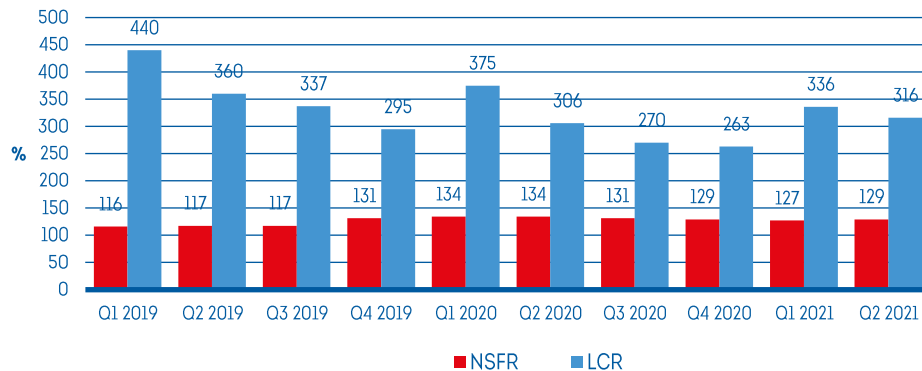
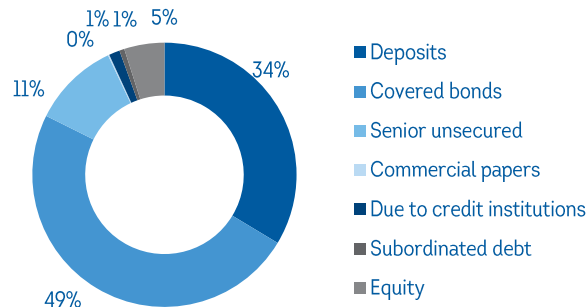


- Strong capital position
- Following the merger between LFAB and LF Sak, the consolidated situation comprises Länsförsäkringar Bank and its subsidiaries (the Bank Group).
- Stable development of capital ratios in the Bank Group
- Call exercised of T2 instrument (SEK 1.5bn) during April
- IRB models to be updated during 2021
- P2R and P2G to be implemented as part of the EU banking package. Länsförsäkringar Bank has no SREP during 2021. FI:s indicative P2G level will be used in capital planning
- Länsförsäkringar Bank is participating in the EBA stress tests for the first time during 2021

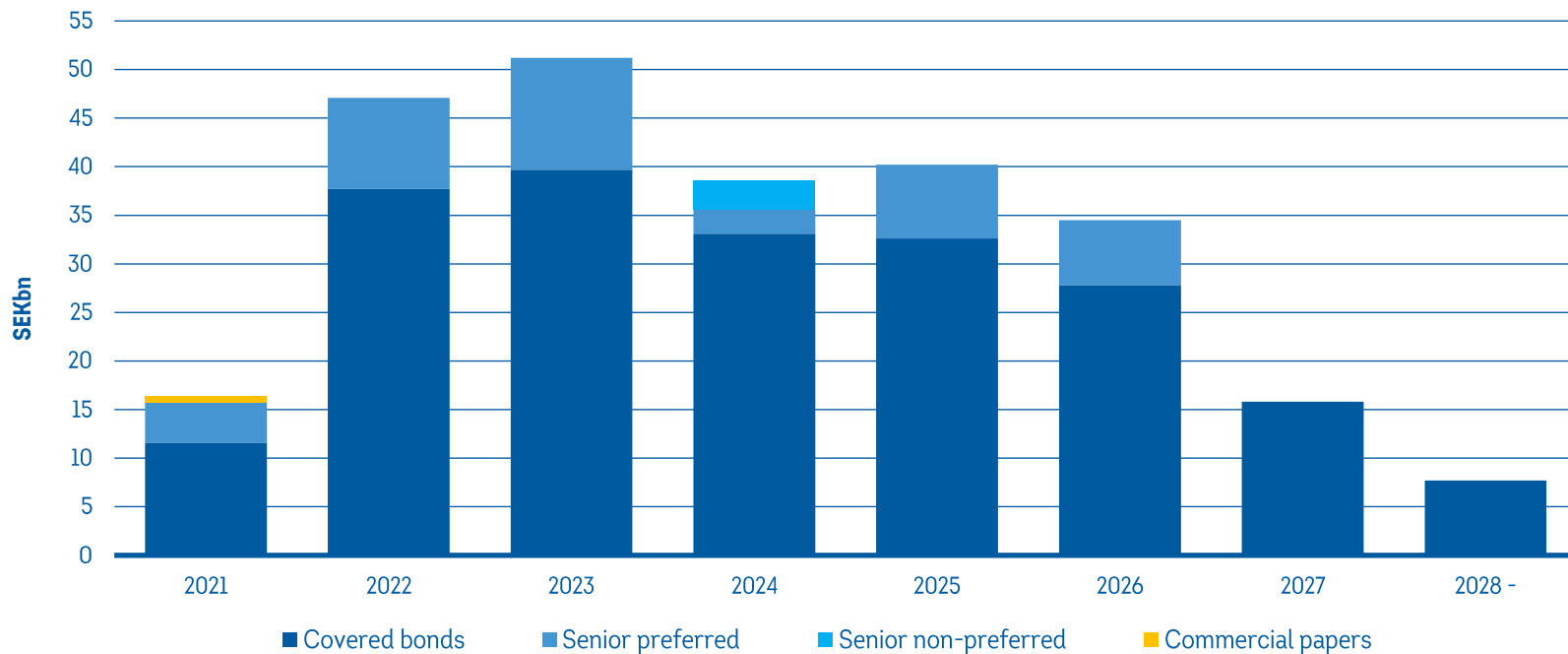
Funding and liquidity Q2 2021

- SEK 22.1bn of covered bonds and SEK 9.2bn of senior preferred issued during H1 2021
- Corresponds to approx. two thirds of full year long term funding needs
- Continued strong liquidity and liquidity ratios
- Liquidity reserve of SEK 78.6bn
- Moody's has raised the senior non-preferred credit rating of Länsförsäkringar Bank from Baa1 to A3.
- New MREL decision from the Sw. National Debt Office as a consequence of the new consolidated situation post the merger between LFAB and LF Sak
 - MREL-requirement amounting to 5.33% of TLOF
- The proposal of the SNDO regarding MREL under the EU banking package is expected to lead to a lower need for senior-non preferred.

Distribution of funding



Maturity profile, 30 June 2021



Outstanding international benchmark bonds

Regular issuer in the euro-market for both covered bonds and senior unsecured

 Covered Bond EUR 500 M 0.25% 7Y due Apr-22 April 2015	 Covered Bond EUR 500 M 0.25% 7Y due Apr-23 April 2016	 Covered Bond EUR 500 M 0.375% 7Y due Mar-24 March 2017	 Covered Bond EUR 500 M 0.625% 7Y due Mar-25 March 2018	 Covered Bond EUR 500 M 0.625% 7Y due Jan-26 January 2019	 Senior Unsecured EUR 500 M 0.5% 5Y due Sept-22 September 2017
 Senior Unsecured EUR 500 M 0.875% 5Y due Sept-23 September 2018	 Senior Unsecured EUR 500 M 0.125% 5Y due Feb-25 February 2020	 Senior Unsecured EUR 500 M 0.05% 5Y due April-26 April 2021	 Covered Bond CHF 150 M 1.125% 10Y due Apr-23 April 2013	 Covered Bond CHF 150 M 0.875% 10Y due Sept-24 September 2014	 Covered Bond CHF 200 M 0.2% 8Y due Mar-26 March 2018

Cover Pool, 30 June 2021

Cover Pool, Länsförsäkringar Hypotek			
Total volume, SEK billion	267,804	Number of loans	424,450
- of which Swedish mortgages, SEK billion	257,514	Number of borrowers	187,431
- of which substitute collateral, SEK billion ¹⁾	10,290	Number of properties	186,577
Share of substitute collateral in cover pool	3.8%	Average loan size, SEK	606,701
OC, nominal, current level	31.8%	Average loan size per property, SEKm	1.380
Committed OC	10%	Interest-rate type, floating	46%
Weighted average Max-LTV (indexed)	58.9%	Interest-rate type, fixed	54%
Collateral	Private Homes	Impaired loans	None
Seasoning, months	64.7	Dynamic pool	Yes

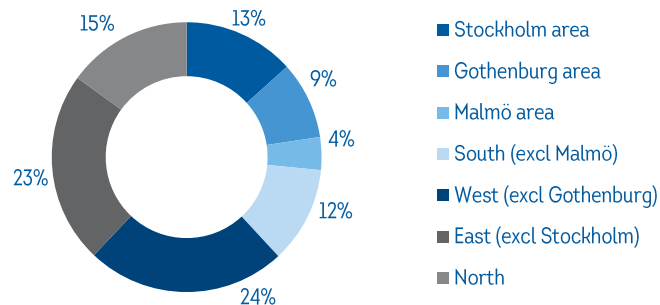
¹⁾ Liquidity reserve that consists of Swedish covered bonds with AAA/Aaa rating (100%)



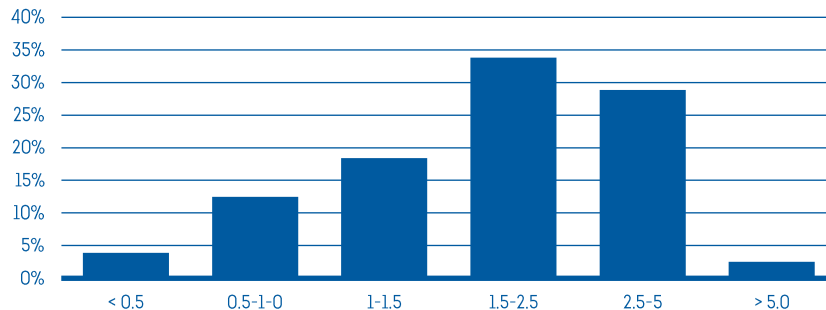
Cover pool, Q2 2021

Collateral Type	%	Weighted avg. Max-LTV
Single-family homes	72%	58%
Tenant-owned apartments	26%	63%
Vacation homes	2%	53%
Tenant-owner associations	0%	N/A
Multi-family housing	0%	N/A
Forest & agriculture	0%	N/A
Commercial	0%	N/A
Public sector	0%	N/A
Total	100%	

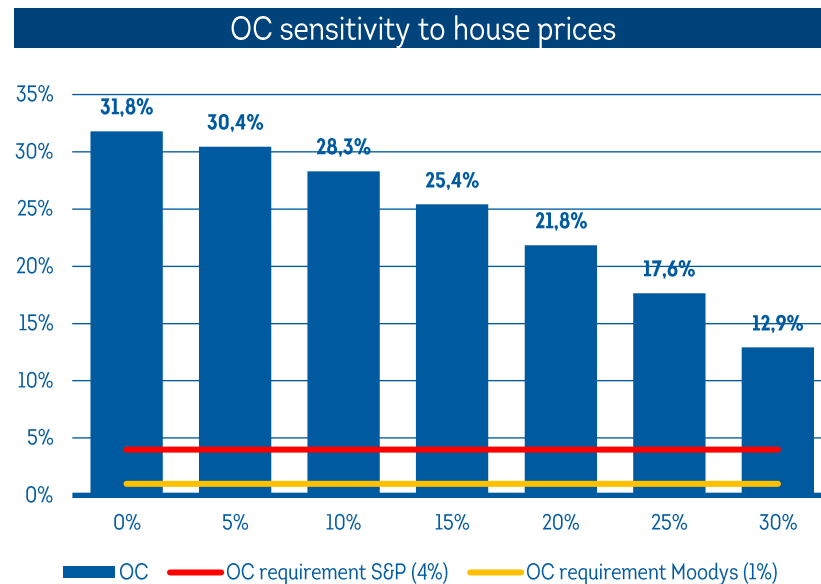
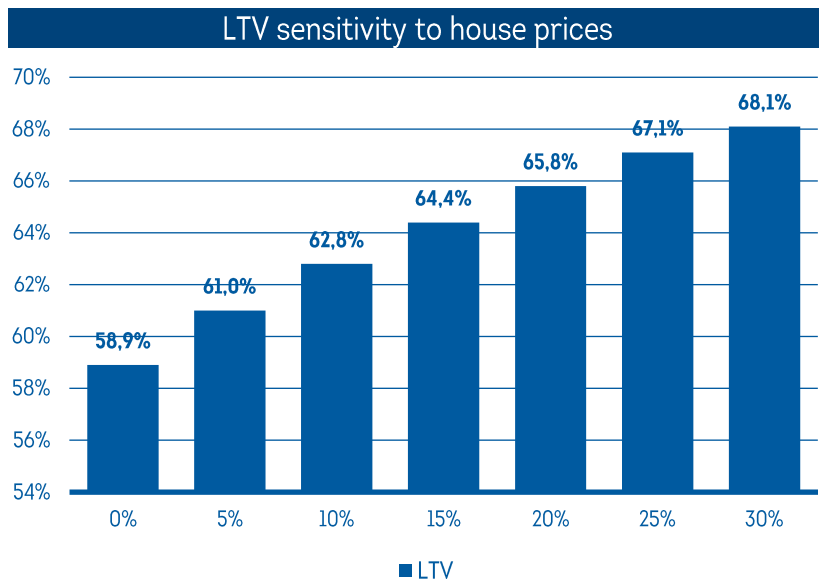
Geographical distribution



Loan size distribution - per property (SEKm)

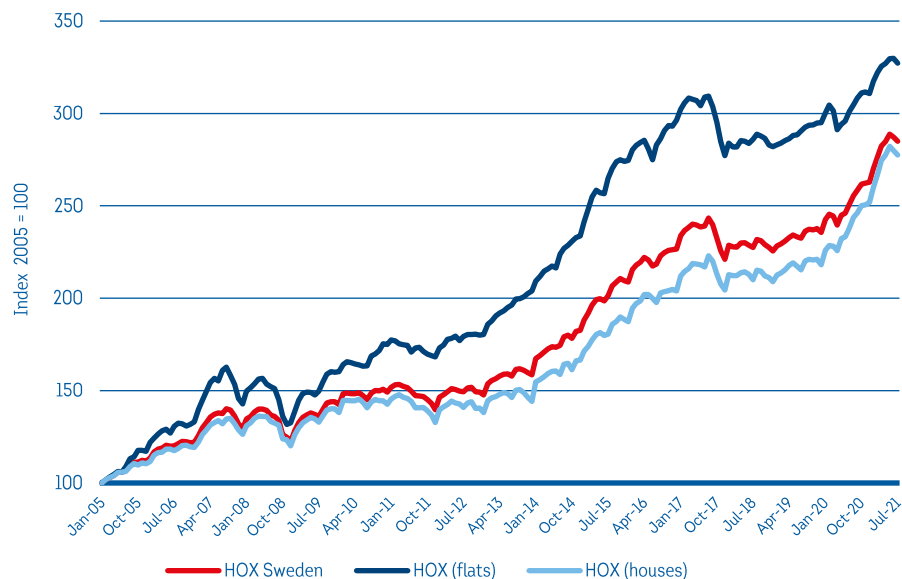


Stress test of cover pool, Q2 2021



House price development

Swedish house price development (HOX-index, July 2021)



	<i>Index</i>	<i>1 month</i>	<i>3 months</i>	<i>12 months</i>
HOX Sweden	285	-0.8%	0.0%	+13.6%
Sweden Flats	327	-0.8%	0.0%	+8.7%
Stockholm Flats	308	-1.2%	-0.4%	+8.4%
Gothenburg Flats	360	0.6%	0.0%	+6.2%
Malmö Flats	303	-0.5%	+0.3%	+14.4%
Sweden Houses	277	-0.9%	0.0%	+16.6%
Stockholm Houses	275	-1.2%	-0.8%	+16.0%
Gothenburg Houses	276	-1.9%	-1.2%	+17.5%
Malmö Houses	265	-1.1%	+0.1%	+19.7%

Source: Macrobond/Valueguard

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Financial calendar:

Q3 report

October 27, 2021



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