

# Länsförsäkringar Bank

Credit Update **Q3 2021**



# Länsförsäkringar Bank in short (30 September 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 346bn      Growth YoY: 6%

**Deposits:** SEK 144bn      Growth YoY: 9%

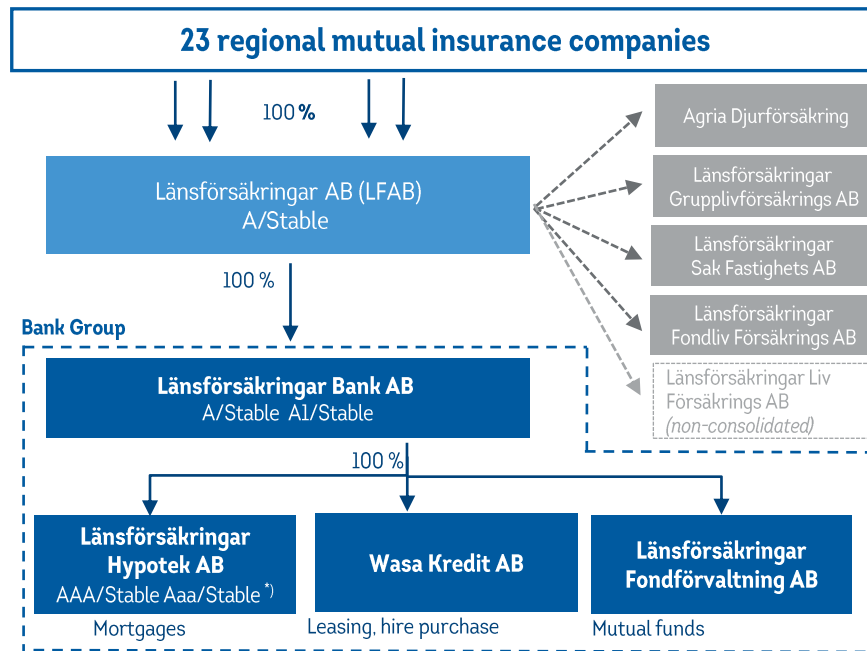
**Fund volume:** SEK 308bn      Growth YoY: 28%

ROE:      **10.4%**

CET1 ratio:      **15.0%**

NSFR:      **131%**

Credit loss  
level:      **-0.02%**



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

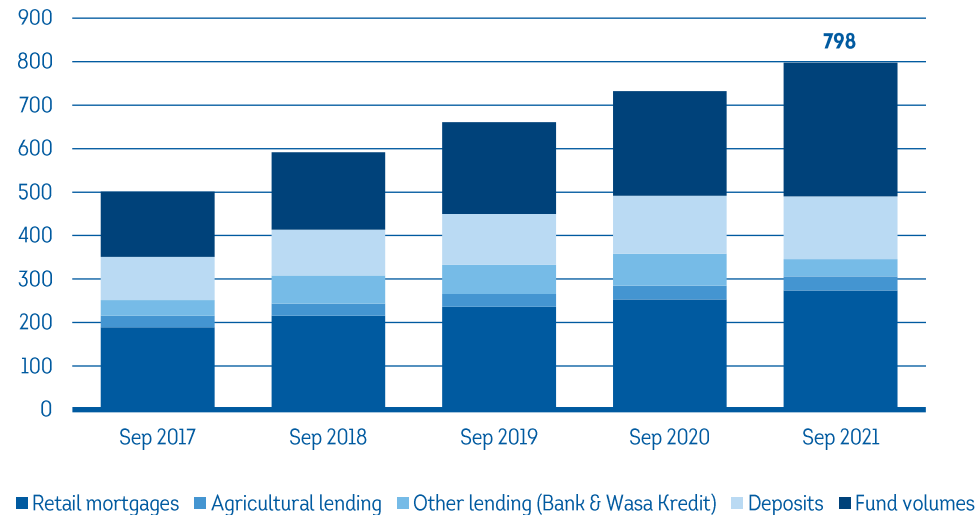
# January – September 2021 in summary

- Positive macroeconomic development and sustained increase of house prices
- Solid nine month period with strong operating profit. Q3 2021 was the best recorded quarter ever in terms of profit before credit losses.
- Continued market leading customer satisfaction among the large banks – way ahead of main peer group
- Strong growth in business volumes – savings products main driver
- Strong development of net commissions. Net interest income decreases y/y although increases q/q
- Costs in line with plan, rate of increase is lower compared to same period in 2020
- The outcome of the EBA stress tests published in July shows that LF Bank is one of the most resilient institutions in Europe in the stressed scenario
- Länsförsäkringar's business model, with a strong local presence and modern digital services continues to be successful



# Continued solid growth in business volumes

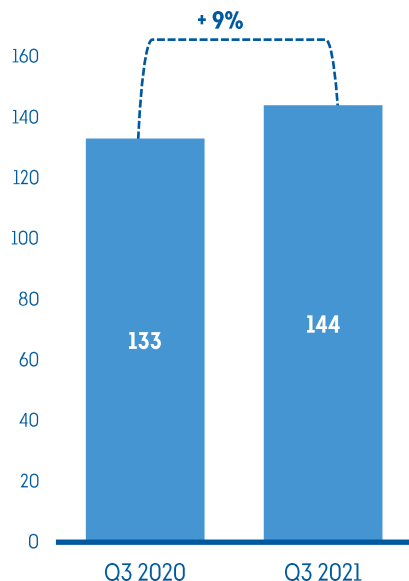
Business volumes, SEKbn



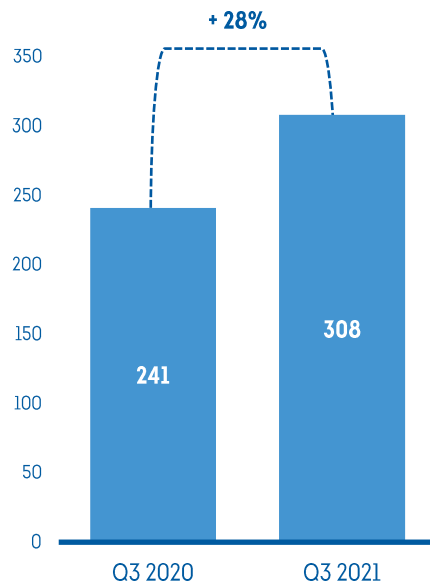
- Solid growth in business volumes, amounts to SEK 798bn as per Sept 2021
- 14% y/y growth
- Saving products account for 57% of total business volume
- Business volumes have increased by 81% or SEK 356bn over the past five years

# Development of savings volumes continues to be strong

Growth deposit volume, SEKbn

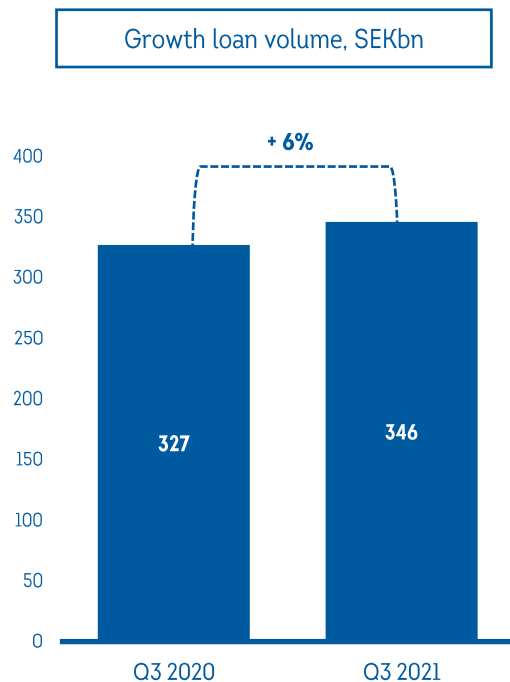


Growth fund volume, SEKbn



- Continued solid development for deposits. Growth rate has normalised compared to the same period in 2020
- Strong development of fund volumes despite market volatility in September
- Positive development of net inflows and increased monthly fund savings from clients
- As of August 2021, 76% of funds managed under Länsförsäkringar's brand had a better return compared to their respective category index (36 months)

# Solid growth of loan volume

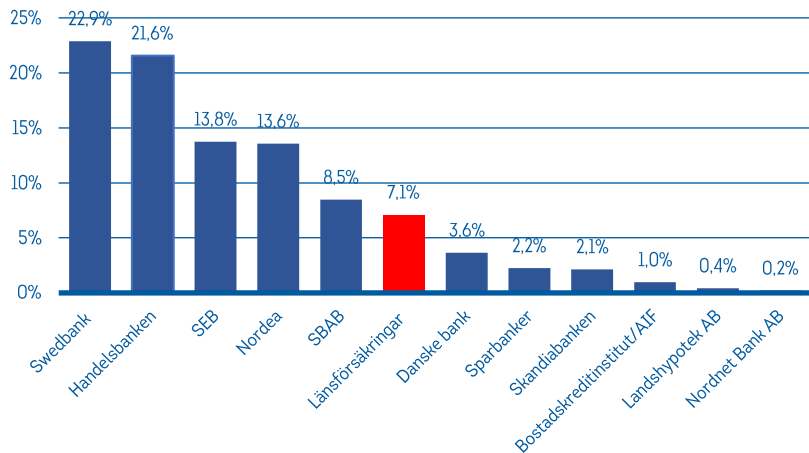


- Loan volume increased by 6% (y/y)
- Retail mortgage lending accounts for the bulk of the increase and grew with SEK 20bn (y/y)
- Retail mortgage lending accounts for 79% of the total loan portfolio
- Agricultural loans increased with SEK 1.6bn or 5% (y/y)

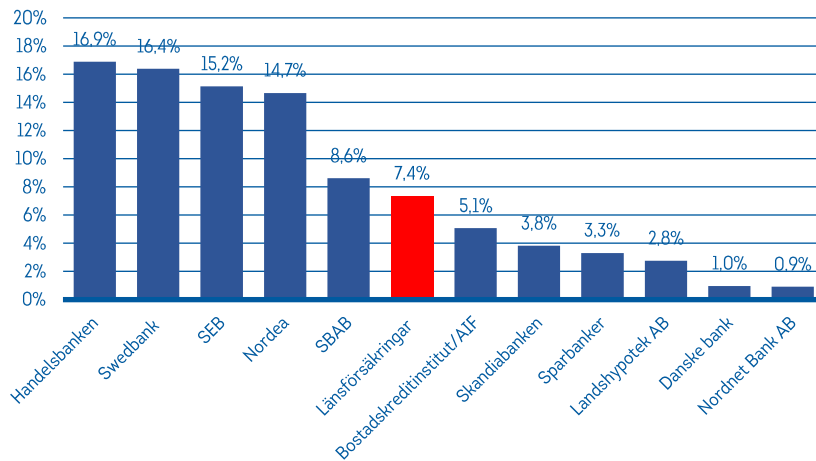
# Growth on the retail mortgage market continues

- Länsförsäkringar continues to gain market share on the retail mortgage market
- Solid growth in large parts of Sweden, weaker trend for Stockholm
- Market characterized by continued competition, the large players have advanced their positions

Market shares mortgage lending (August 2021)



Share of new lending YTD (August 2021)



# Income statement

SEKm	Jan – Sep 2021	Jan – Sep 2020	Change
Net interest income	3,547	3,624	-2%
<i>Underlying net commissions</i>	973	749	30%
<i>Remuneration to regional insurance companies</i>	-1,207	-1,180	2%
Net commissions	-234	-432	-46%
Net gains/losses	44	-13	-
Other income	18	16	12%
<b>Total operating income</b>	<b>3,375</b>	<b>3,195</b>	<b>6%</b>
Staff costs	-530	-481	10%
Other expenses	-914	-902	1%
Depreciation/amortisation	-185	-157	18%
<b>Total operating expenses</b>	<b>-1,629</b>	<b>-1,540</b>	<b>6%</b>
<b>Profit before loan losses</b>	<b>1,747</b>	<b>1,655</b>	<b>6%</b>
Loan losses	68	-271	-
<b>Operating profit</b>	<b>1,814</b>	<b>1,384</b>	<b>31%</b>

- 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
- Q3 2021 was the best recorded quarter ever in terms of profit before credit losses.
- Strengthened profitability

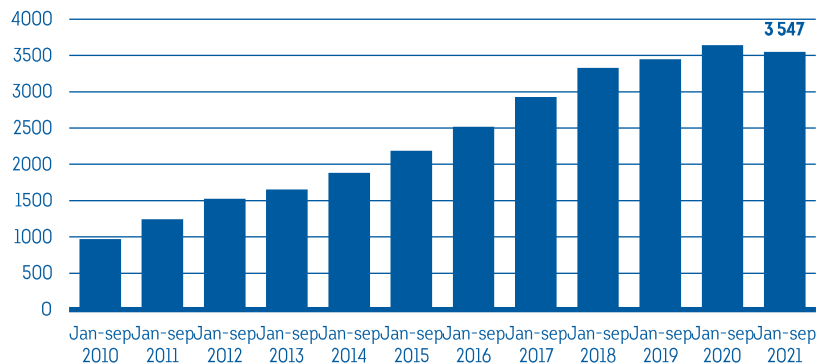


# Continued strong quarterly development

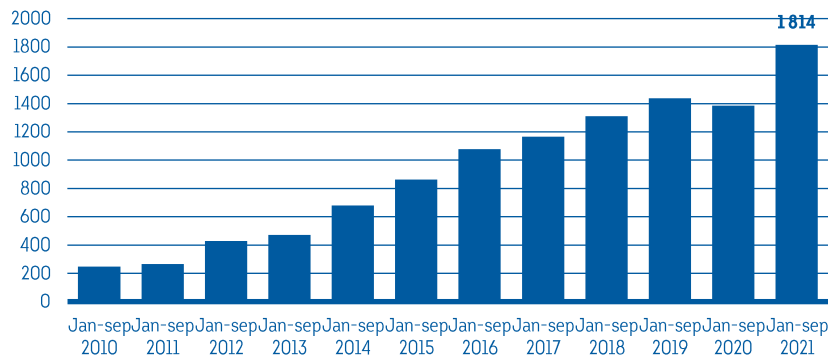
SEKm	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Net interest income	1,181	1,172	1,195	1,222	1,201
Net commissions	-61	-73	-100	-127	-173
Net gains/losses	17	4	22	-16	15
Other income	5	8	5	4	5
<b>Total operating income</b>	<b>1,142</b>	<b>1,111</b>	<b>1,122</b>	<b>1,083</b>	<b>1,047</b>
Staff costs	-161	-192	-177	-155	-146
Other expenses	-319	-304	-291	-364	-303
Depreciation/amortisation	-63	-62	-60	-50	-52
<b>Total operating expenses</b>	<b>-543</b>	<b>-558</b>	<b>-527</b>	<b>-569</b>	<b>-501</b>
<b>Profit before loan losses</b>	<b>599</b>	<b>553</b>	<b>594</b>	<b>514</b>	<b>547</b>
Loan losses	-12	12	69	-55	-38
<b>Operating profit</b>	<b>587</b>	<b>663</b>	<b>459</b>	<b>508</b>	<b>421</b>

# Net interest income development & profitability

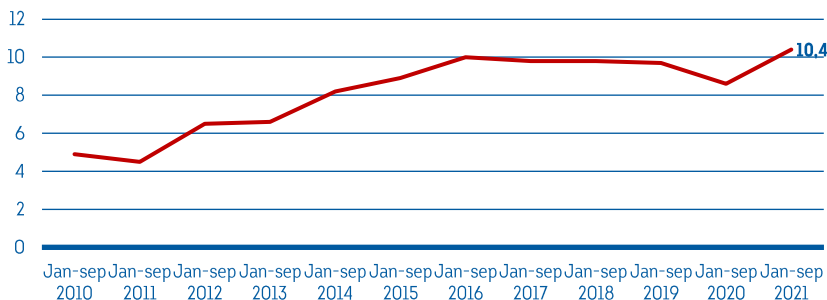
Net interest income, SEKm



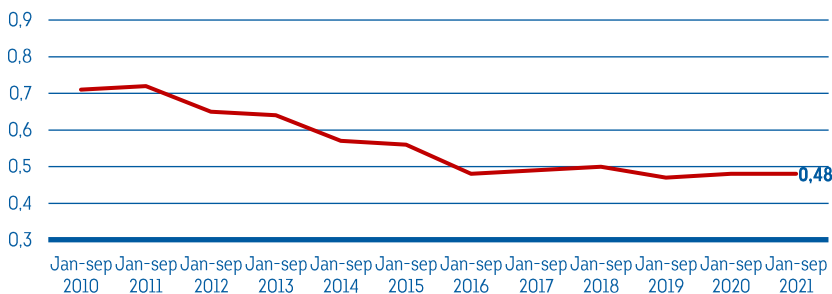
Operating profit, SEKm



Return on equity, %



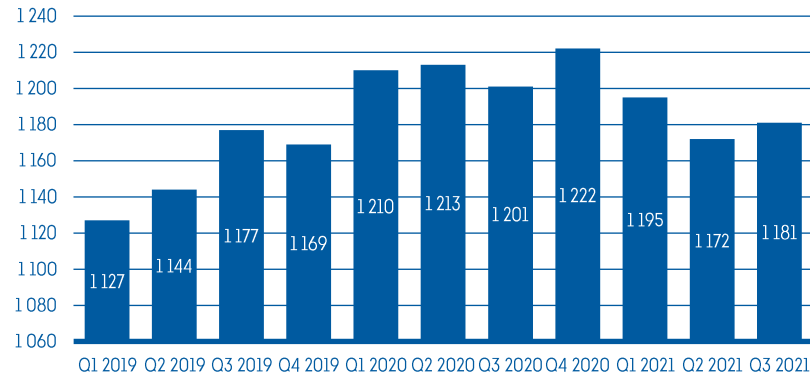
Cost/income-ratio



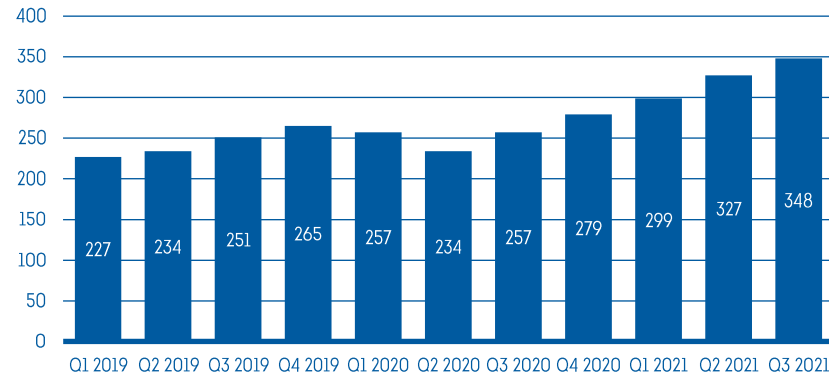
# Development of operating income

- Stable development of net interest income -2% y/y, but +1% q/q
- Gradually increasing share of longer fixed rate mortgages in the loan portfolio
- Strong development of underling net commissions (+30% y/y)
- Fund management business is the main driver

Quarterly development NII (SEKm)

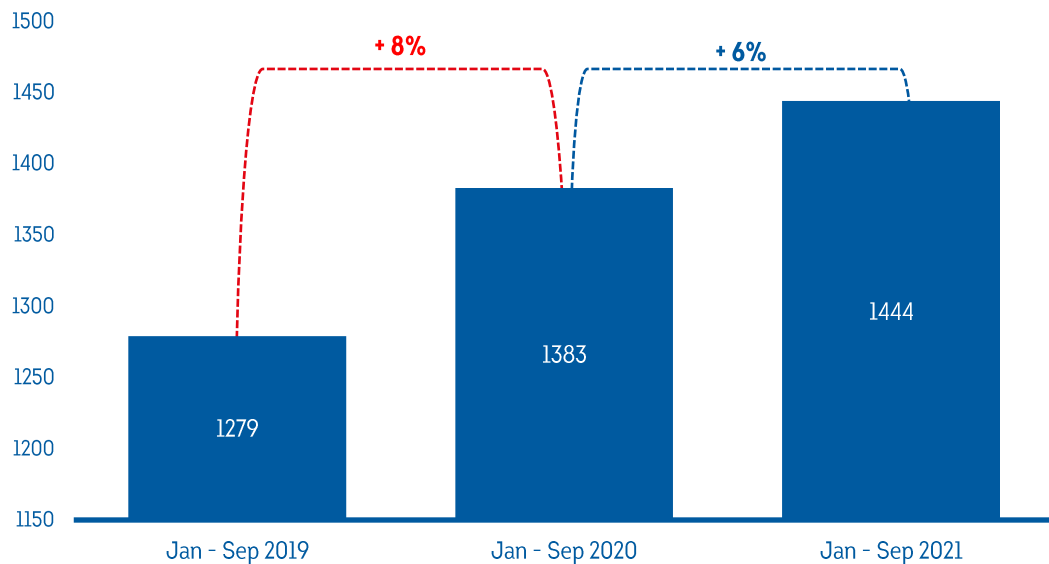


Quarterly development underlying net commissions (SEKm)



# Operating expenses increasing at slower rate

Development operating expenses (SEKm)

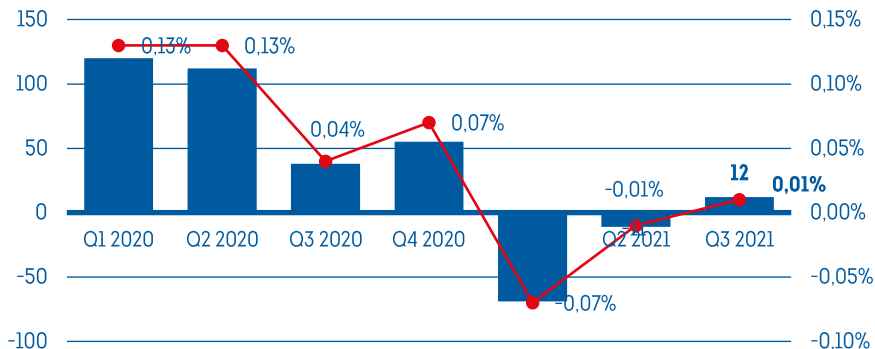


- Increased focus on costs and better cost efficiency
- Expenses are increasing at lower rate compared to the same period last year
- Main drivers of increase in operating expenses:
  - *IT development*
  - *AML*

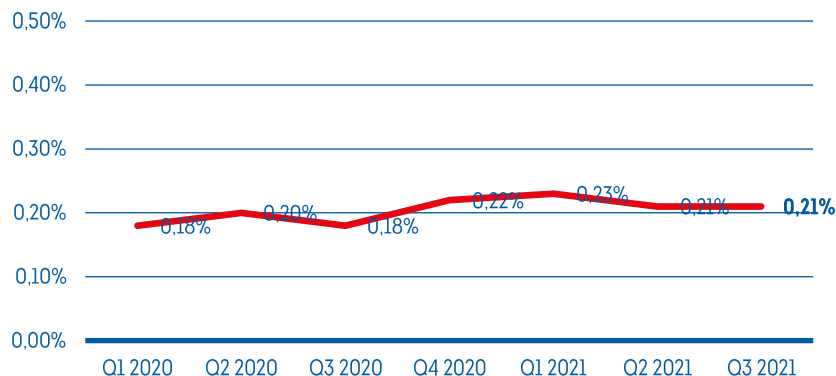
# Credit quality Q3 2021

- Continued high credit quality
- A large portion of the increase in loss allowances that arose in 2020 have been reversed due to the improved macroeconomic scenarios for calculating expected credit losses.
- No remaining manual adjustment of reserves
- Stable development of stage 3 exposures

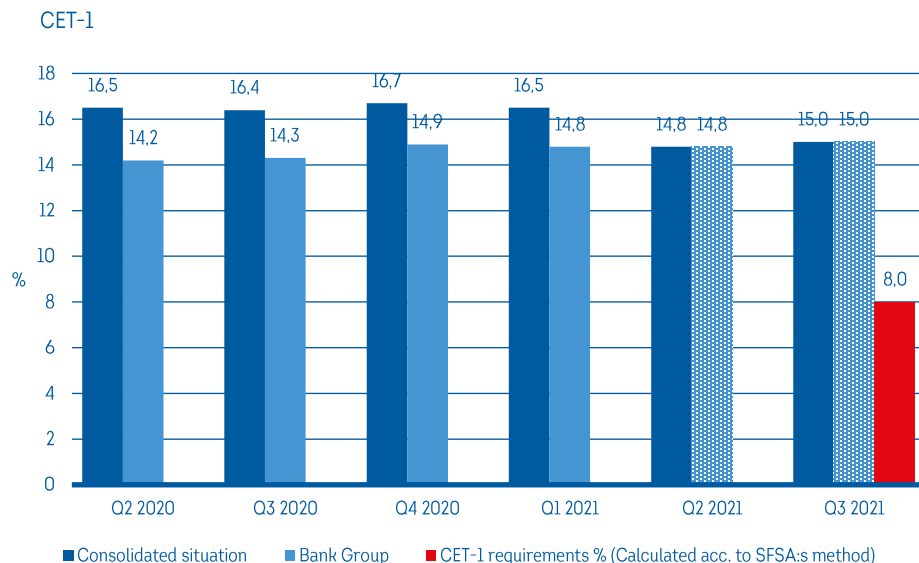
Credit losses (SEKm) & loan loss level (%)



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



# Capital ratios Q3 2021



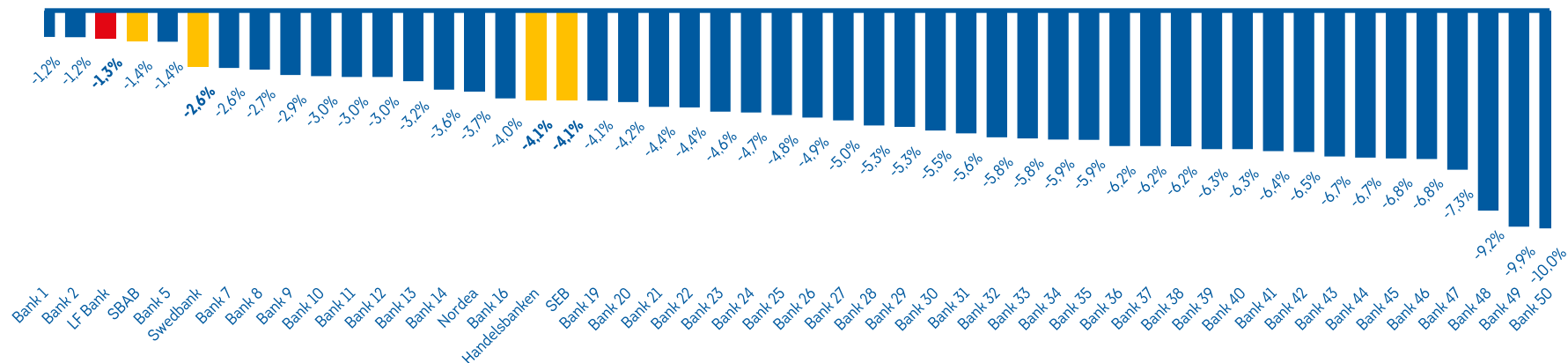
- Strong capital position
- CET1 strengthened by 0.2pp during the quarter due to earnings
- Stable REA due to that loan growth is compensated by improved credit quality
- Stable leverage ratio, unchanged at 4.3%
- Approval of updated IRB models not expected until 2022
- P2R and P2G to be implemented 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

\* As of 30 June 2021, the consolidated situation comprises Länsförsäkringar Bank and its subsidiaries (the Bank Group).

# Outcome of EBA stresstests 2021

- Länsförsäkringar Bank is participating in the EBA stress tests for the first time during 2021
- In the stressed scenario, the impact on LF Bank's CET1-ratio was limited and the outcome indicates that LF Bank is among the most resilient institutions in Europe

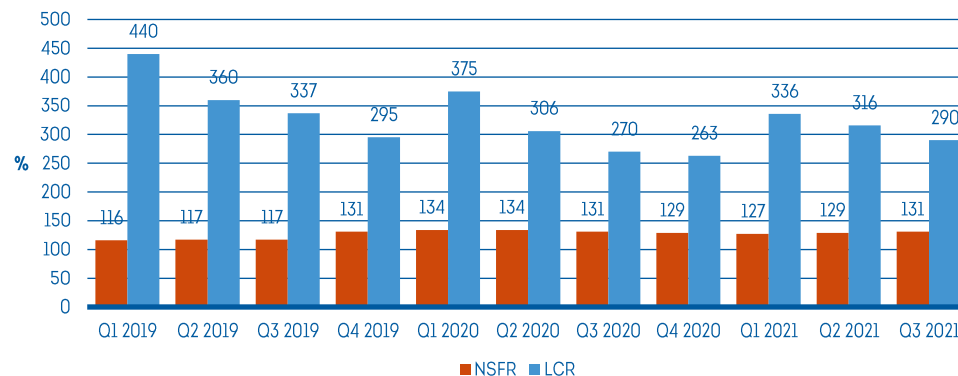
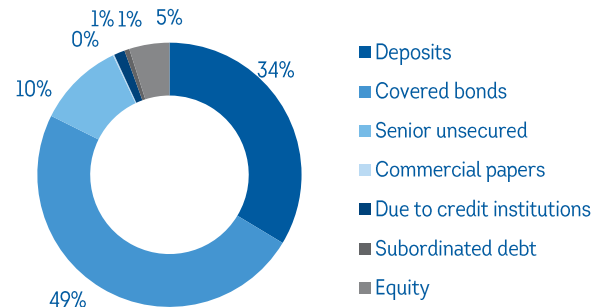
Maximum impact in CET1 in the stressed scenario



# Funding and liquidity Q3 2021

- SEK 35.8bn of covered bonds, SEK 10.7bn of senior preferred as well as 0.5bn senior non-preferred issued during the period
- Includes a EUR 500 M 7-year euro benchmark covered bond issued in September
- Full year long term funding needs have more or less been issued
- Continued strong liquidity and liquidity ratios
- Liquidity reserve of SEK 75.8bn
- The SNDO's new application regarding MREL leads to a lower need for senior-non preferred.

Distribution of funding





# 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**



Covered Bond  
**EUR 500 M**  
0.01%  
7Y due Sep-28  
**September 2021**



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**

# Contacts – Länsförsäkringar Bank

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## Martin Rydin

CFO

*[martin.rydin@lansforsakringar.se](mailto:martin.rydin@lansforsakringar.se)*

Direct: +46 (0)8 588 412 79

Mobile: +46 (0)739 64 28 23

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## Stefan Karkamanis

Head of Investor Relations

*[stefan.karkamanis@lansforsakringar.se](mailto:stefan.karkamanis@lansforsakringar.se)*

Direct: +46 (0)8 588 402 90

Mobile: +46 (0)723 10 00 80

## Financial calendar:

Year-End 2021 report

February 11, 2022



Länsförsäkringar Bank  
Länsförsäkringar AB  
SE-106 50 Stockholm

Visiting address:  
Tegeluddsvägen 11 -13

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