

Länsförsäkringar Bank

Credit Update Q4 2017



Highlights January – December, 2017

- A number of organisational changes were made on 1 January 2017 whereby operations were transferred from the Parent Company, Länsförsäkringar AB, to the Bank Group (116 FTE:s)
- Operating profit increased 9% to SEK 1,599 M (1,467) and the return on equity amounted to 10.0% (10.1).
- Net interest income increased 15% to SEK 3,996 M (3,464).
- Operating income increased 12% to SEK 3,258 M (2,904). Operating expenses amounted to SEK 1,601 M (1,399).
- Loan losses amounted to SEK 57.7 M (37.6*), net, corresponding to a loan loss level of 0.02% (0.02).
- Business volumes increased 14% to SEK 519.5 billion (456.1).
- Deposits rose 9% to SEK 99.4 billion (91.2). Lending increased 15% to SEK 261.4 billion (226.7).
- The Common Equity Tier 1 capital ratio for the consolidated situation amounted to 23.3% (23.4**) on 31 December 2017.
- The number of customers with Länsförsäkringar as their primary bank rose 11% and the number of cards increased 13%.
- According to the 2017 Swedish Quality Index customer satisfaction survey, Länsförsäkringar Bank is the single player on the bank market with the most satisfied retail and corporate customers. Länsförsäkringar Bank also has the most satisfied mortgage customers and corporate customers for property loans according to the 2017 Swedish Quality Index.

*Figures in parentheses pertain to the same period in 2016. * Includes dissolution of reserves of SEK 23.3 M. ** Pertains to 30 September 2017.*

Organisational changes as of January 1st 2017

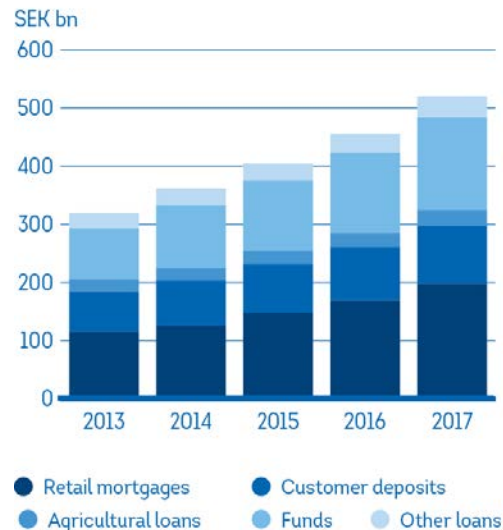
Organisational changes

1. **The Bank Business Service unit (back-office) has been transferred from the Parent Company LFAB, into LF Bank.**
 - Increases the number employees in the Bank Group by 109 individuals.
 - Staff costs increased with **SEK 70m** during 2017, but were simultaneously invoiced to the regional insurance companies.
 - The action has a neutral effect on earnings.
2. **Three new fund managers have been employed at LF Fondförvaltning**
 - Staff costs increased with **SEK 8m** during 2017. Net commissions will improve accordingly as the service was previously bought from an external provider.
 - The action has a continuously positive effect on earnings.
3. **The Economic Research Department has been transferred from the Parent Company LFAB, into LF Bank.**
 - Staff costs increased with **SEK 13m** during 2017 and entails four employees.

Adjusted for the three organisational changes above, the underlying cost increase for Länsförsäkringar Bank totals 6.9%.

Strengthened market position

Business volumes



SEKbn	31 Dec 2017	31 Dec 2016	Change
Business volumes	520	455	14%
Retail mortgage lending, LF Hypotek	198	169	17%
Agricultural lending	26.8	25.3	6%
Other lending	37	32	16%
Market share household lending % ¹⁾	6.3%	5.8%	0.5
Deposits	99	91	9%
Market share deposits, % ¹⁾	4.83%	4.75%	-
Fund volume	159	138	15%

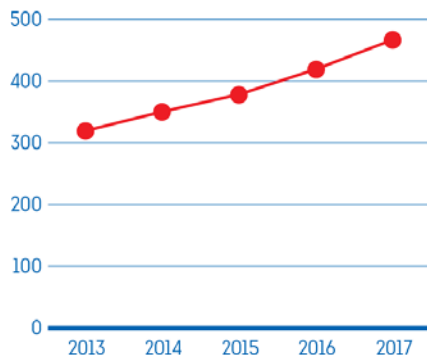
¹⁾ According to data from Statistics Sweden

Number of customers and cards

	31 Dec 2017	31 Dec 2016	Change
Primary bank customers	467,000	419,000	11%
Bank cards	655,000	580,000	13%

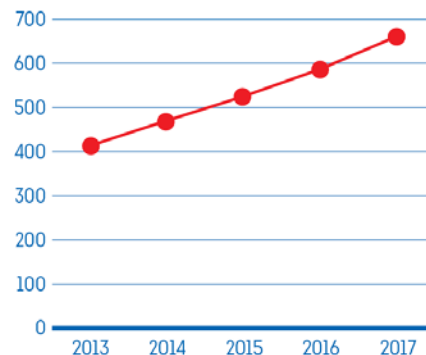
Customer trend

Number of primary bank customers, 000s



Card trend

Number of cards, 000s



Income statement

SEKm	2017	2016	Change
Net interest income	3,996	3,464	15%
Net commissions	-750	-662	13%
Net gains/losses	-49	68	-
Other income	61	34	79%
Total operating income	3,258	2,904	12%
Staff costs	-549	-470	17%
Other expenses	-960	-853	13%
Depreciation/amortisation	-92	-76	20%
Total operating expenses	-1,601	-1,399	14%
Profit before loan losses	1,657	1,505	10%
Loan losses	-58	-38*	53%
Operating profit	1,599	1,467	9%

* Includes dissolution of reserves of SEK 23.3 M

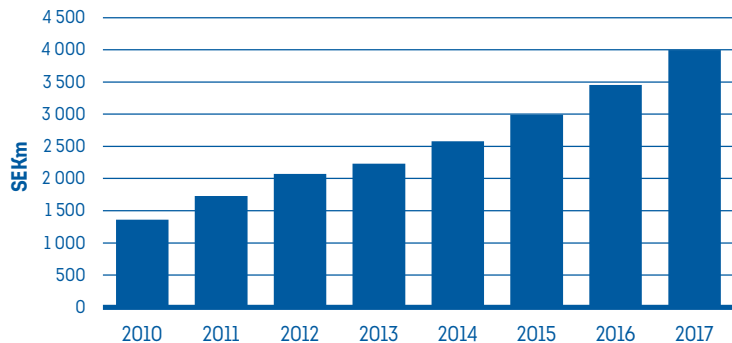
Strongest quarter so far

SEKm	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Net interest income	1,070	1,015	971	940	945
Net commissions	-228	-195	-168	-160	-187
Net gains/losses	-6	-8	-5	-30	-15
Other income	48	4	6	4	16
Total operating income	883	817	803	754	759
Staff costs	-124	-128	-153	-143	-114
Other expenses	-276	-225	-238	-222	-234
Depreciation/amortisation	-27	-21	-22	-21	-18
Total operating expenses	-428	-374	-413	-386	-366
Profit before loan losses	455	443	391	368	393
Loan losses	-23	-14	-6	-15	-2*
Operating profit	432	429	385	353	391

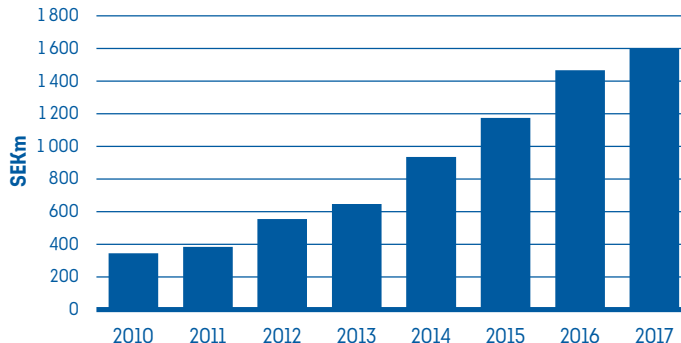
* Contains dissolution of reserves amounting to SEK 23m

Net interest income development & profitability

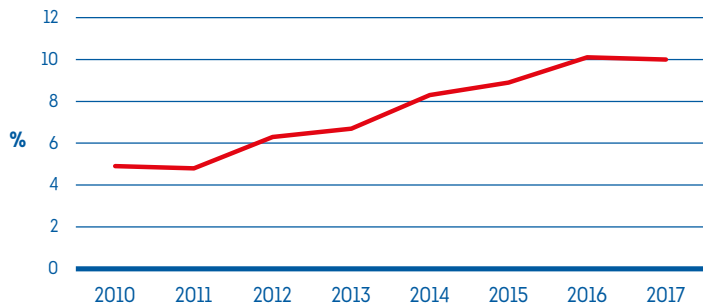
Net Interest Income



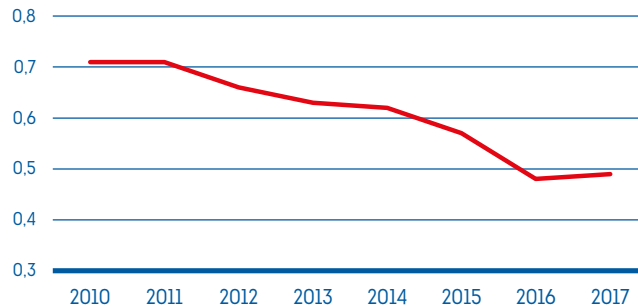
Operating Profit



Return on Equity



Cost/Income-ratio



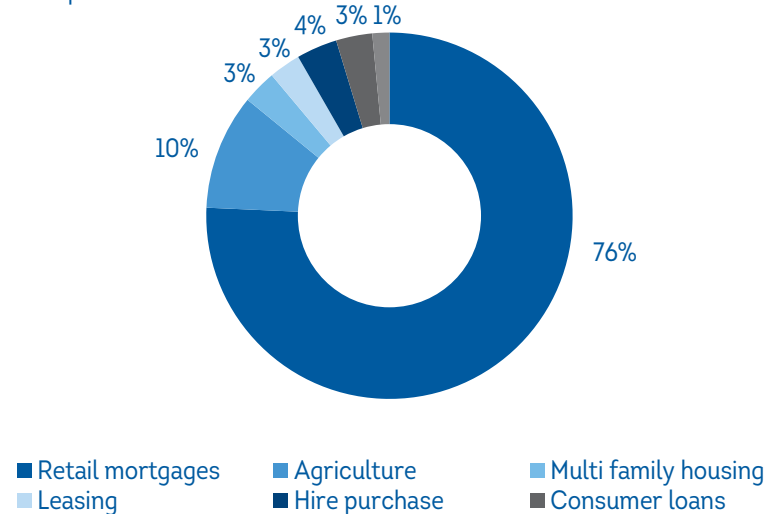
Balance sheet

SEKm	31 Dec 2017	31 Dec 2016	Change
Treasury bills	10,549	7,889	34%
Loans to credit institutions	265	280	-5%
Loans to the public	261,444	226,705	15%
Bonds and other interest bearing securities	35,718	32,421	10%
Derivatives	5,126	6,217	-18%
Other asset items	2,264	2,439	-7%
Total assets	315,366	275,951	14%
Due to credit institutions	3,996	3,873	3%
Deposits from the public	99,403	91,207	9%
Debt securities in issues	188,407	156,000	21%
Derivatives	1,166	1,894	-38%
Other liabilities	5,470	7,200	-24%
Subordinated liabilities	2,596	2,595	0%
Equity	14,328	13,182	9%
Total Liabilities & Equity	315,366	275,951	14%

Group loan portfolio, 31 December 2017

- The loan portfolio amounting to SEK 261 Bn (227) has an excellent credit quality.
- Only lending in Sweden and in SEK.
- Well diversified geographical distribution within Sweden.
- The loan portfolio consists to 76 (74) percent of retail mortgage lending.

Loan portfolio

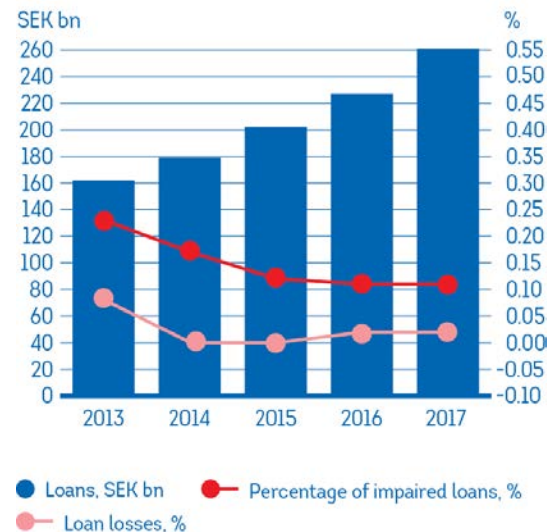


Excellent credit quality

SEKm	31 Dec 2017	31 Dec 2016
Total lending	261,444	226,705
Impaired loans	278	240
Percentage of impaired loans, %	0.11%	0.11%
Reserves	268	250
Provision ratio in relation to loans, %	0.10%	0.11%
Reserves, incl. withheld remuneration to regional insurance companies	356	380
Provision ratio in relation to loans, incl. withheld remuneration to regional insurance companies %	0.14%	0.17%
Loan losses	58	38*
Net loan loss level in relation to lending, %	0.02%	0.02%

* Contains dissolution of reserves amounting to SEK 23m

Loans to the public

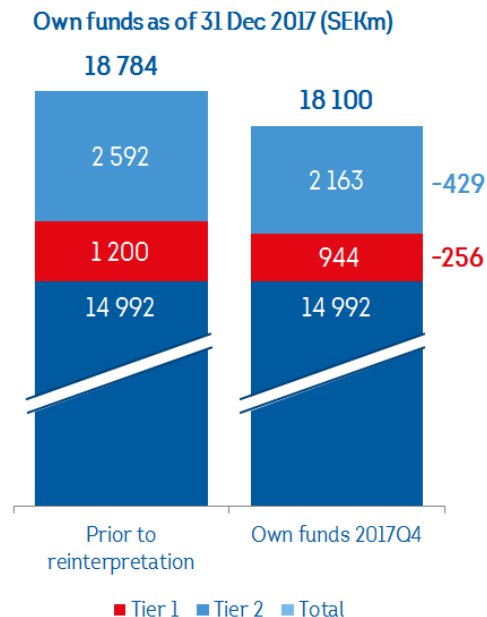


Capital adequacy, Q4 2017

- LF Banks consolidated situation includes, beyond the banking group, the parent mixed financial holding company LFAB.
- Credit growth continues to have a good credit quality, REA increased by 915 MSEK during the quarter, of which credit risk according to the IRB-approach contributed by 426 MSEK, and SA-exposures by 557 MSEK.
- CET1 has grown with earnings and group contributions from the insurance business. However LFAB is expected to propose a dividend of 300 MSEK, reducing CET1-capital.
- The CET1-ratio for the consolidated situation decreased by 0.1 % to 23.3%, mainly due to the aforementioned dividend, while the Bank group is stable at 24.3 (24.2)%.
- AT1 and T2-instruments recognised in the consolidated situation decreased in Q4 due to a reinterpretation of the rules regarding qualifying capital, owing to a recently answered EBA Q&A (further clarified on the next slide).

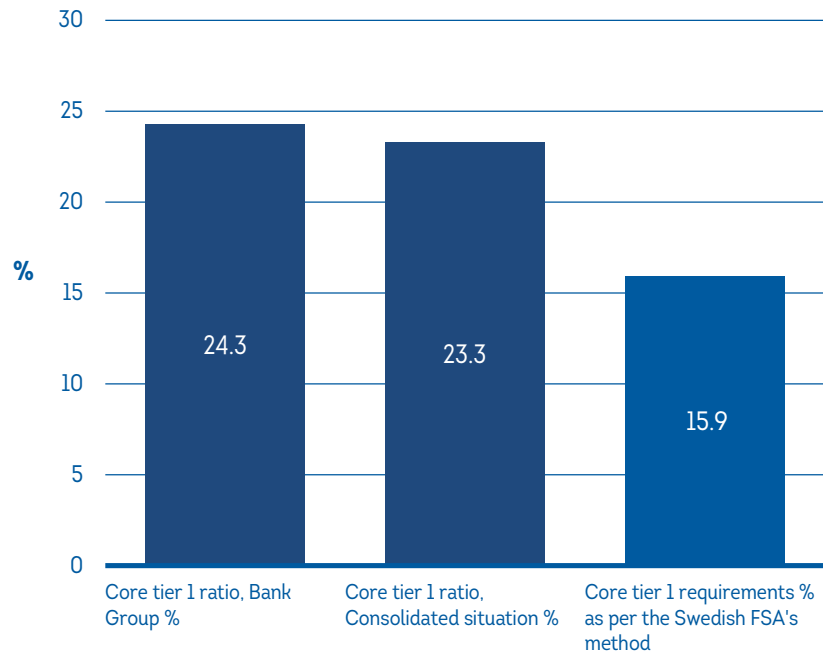
Re-interpretation of inclusion of qualifying own funds on consolidated level

- AT1- and T2-instruments issued by LF Bank have previously been fully included in the capital base of the consolidated situation.
- On November 3, the European Banking Authority published a Q&A (2017 3329) on inclusion of qualifying own funds on consolidated level.
- The Q&A clarified the application of the restriction rules in CRR article 81-88 regarding inclusion of externally issued AT1 and T2 instruments in the capital base of the consolidated situation.
- The new interpretation leads to a haircut on the AT1 and T2 instruments when included in the capital base of the consolidated situation. The instruments are only included to the extent they are needed to cover the capital requirements of Länsförsäkringar Bank and its subsidiaries.



Capital position, Q4 2017

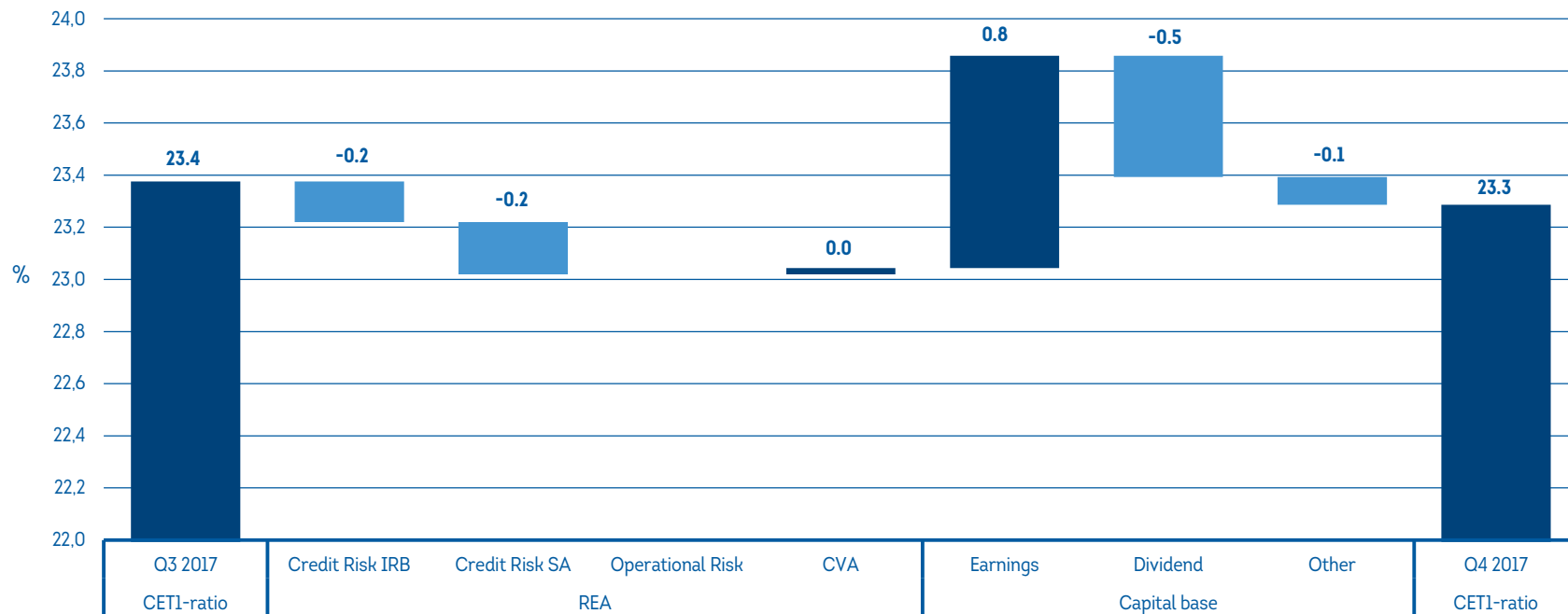
CET-1



Capital adequacy	31 Dec 2017	30 Sep 2017
Bank group		
Core tier 1 ratio, %	24.3	24.2
Tier 1 ratio, %	26.8	26.7
Capital adequacy, %	32.1	32.1
Consolidated situation		
Core tier 1 ratio, %	23.3	23.4
Tier 1 ratio, %	24.8	25.3
Capital adequacy, %	28.1	29.4
Leverage ratio %	4.8	4.9

CET1-ratio development

CET1 contribution by component - consolidated situation



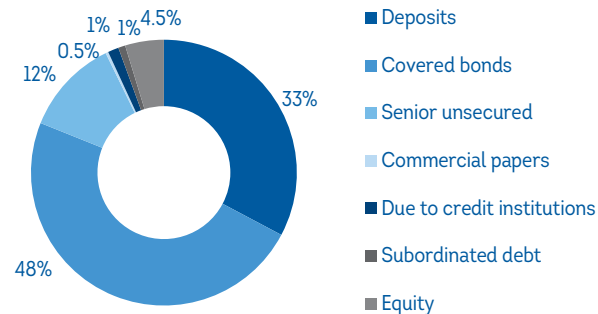
MREL

- In December 2017, the Swedish National Debt Office announced its decision on resolution plans and minimum requirements for own funds and eligible liabilities for the ten institutions that have business activities that are deemed to be critical to the Swedish financial system.
- MREL for LF Bank in the consolidated situation amounts to 6.2% of total liabilities and own funds.
- The MREL level of 6.2% is divided into a loss absorption amount of 2.6% that (to be covered by own funds instruments) and a re-capitalisation amount of 3.6% (to be covered by bail-inable liabilities).
- The bail-inable liabilities have to be issued by LF Bank.
- The National Debt Office will announce in 2018 whether LF Bank will be subject to the subordination requirement.
- On 31 December 2017, Länsförsäkringar Bank had outstanding senior unsecured funding with a remaining term of more than one year of SEK 28.7 billion, which exceeds the MREL-requirement by a very high margin.

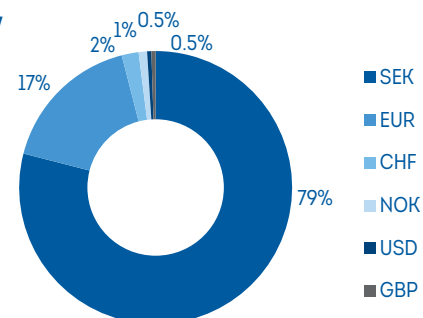
Funding Q4, 2017

SEKbn	31 Dec 2017	31 Dec 2016
Deposits	99.4	91.2
Covered bonds	146.6	121.6
Senior unsecured	35.5	28.9
Commercial papers	1.0	1.1
Liabilities to credit institutions	4.0	3.9
Sub debt	2.6	2.6
Equity	14.3	13.2
Total	303.4	262.5

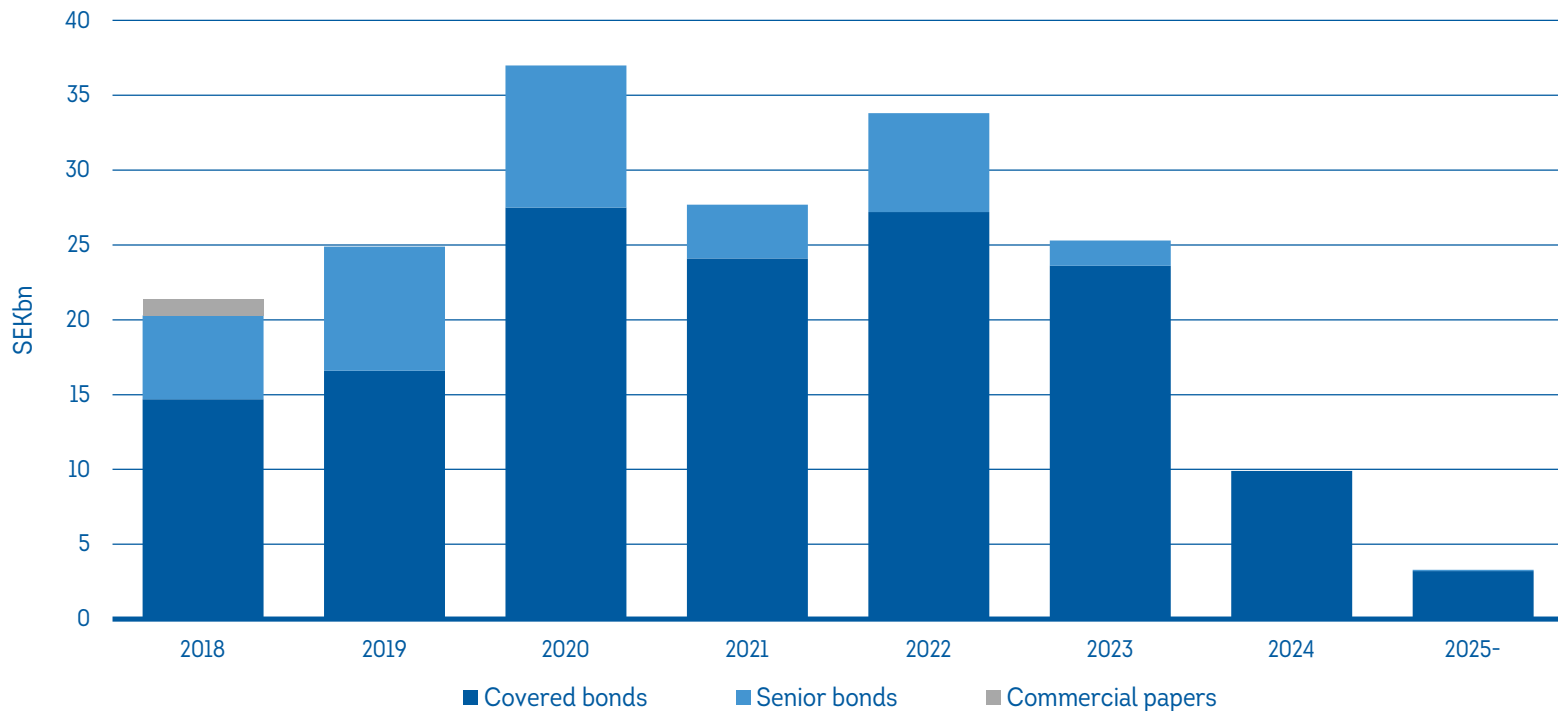
Funding portfolio



Funding sources by currency

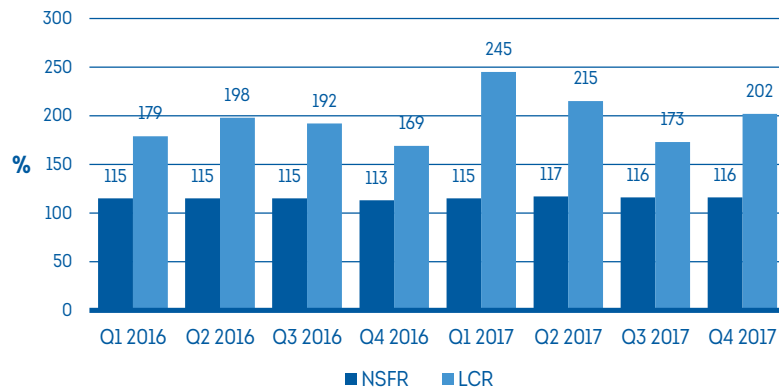


Maturity profile, 31 December 2017

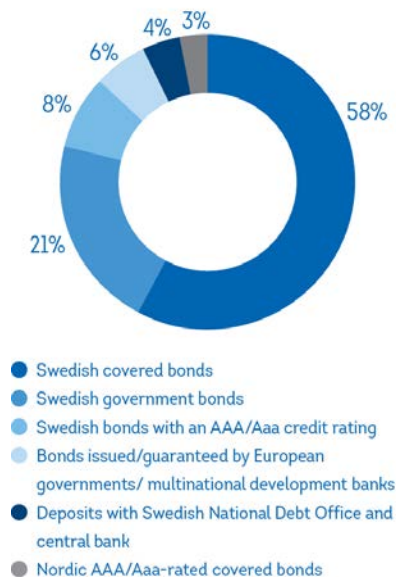


Liquidity Reserve

- Total SEK 48bn
- Comprises 99% AAA-rated bonds
- Riksbank and/or ECB eligible
- 95% SEK
- Survival horizon over 2 years
- LCR total 202% (LCR-DA 339%)
- NSFR 116%



Liquidity reserve



Summary

Länsförsäkringar Bank – Sweden's fifth largest retail bank

- Low risk full service retail bank with all lending in Sweden and in SEK.
- Strategic entity within the market leading Länsförsäkringar Alliance.
- Continued growth potential through existing insurance customer base.
- Distribution through 128 branches and leading digital channels.
- Stable long term strategy:
 - Increased market shares in all areas
 - Strong development in NII and operating profit
 - Solid asset quality and low credit losses
- Strong funding and capital position.

Strong financial position (FY 2017)

- | | |
|--------------------------------------|--|
| ▪ NII – SEK 3,996m | ▪ LCR (SFSA) – 202% (LCR-DA 339%) |
| ▪ Loan losses – SEK 58m | ▪ NSFR – 116% |
| ▪ ROE – 10.0% | ▪ Credit rating |
| ▪ CET1 – 23.3% (consolidated) | A/Stable (S&P) |
| ▪ Leverage ratio – 4.8% | A1/Stable (Moody's) |

Q1 2018

25 April

