

Länsförsäkringar Bank

Credit Update – Q2 2017



Länsförsäkringar Alliance

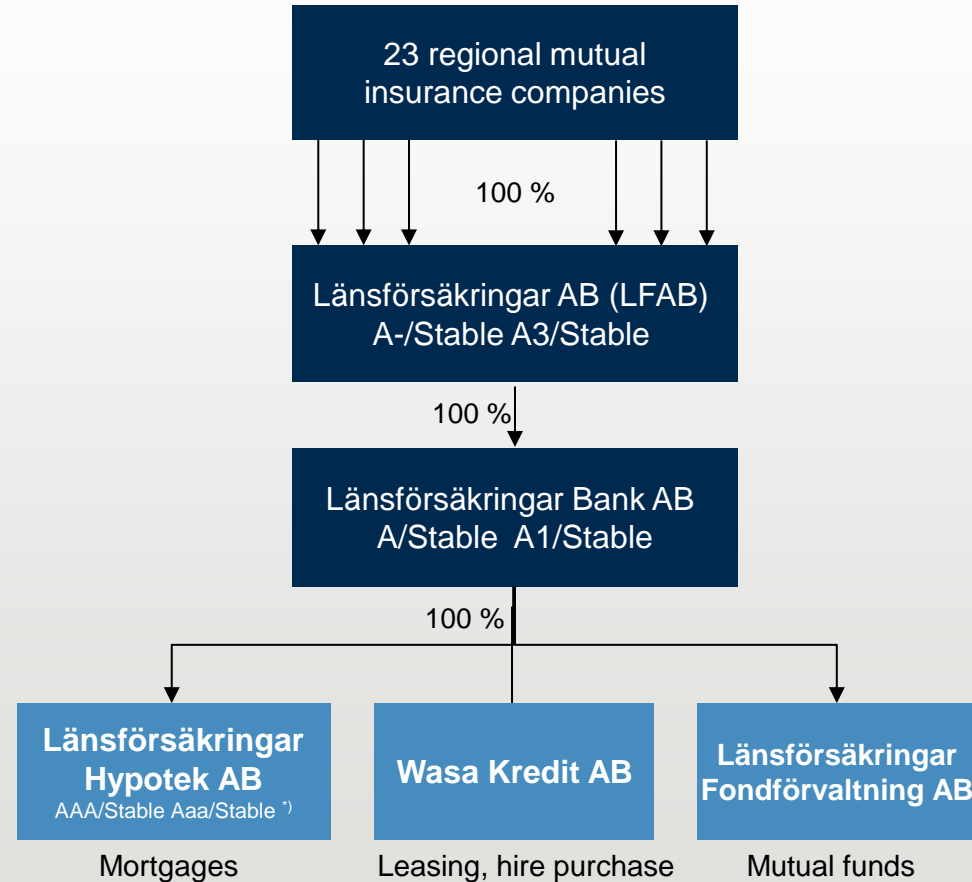
Länsförsäkringar Alliance

- 1801, the first regional mutual insurance company was formed
- Länsförsäkringar is one of the strongest financial brands on the Swedish market
- Länsförsäkringar Alliance has more than 3.7 million customers in 23 regional insurance companies with just over 6,000 employees
- Market leader with 30 percent of the Swedish non-life insurance market...
 - ... and almost a third of the Swedish population are customers...



Länsförsäkringar Alliance (cont'd)

- Major part of the Group's financial operations are managed by LFAB
- The joint brand of the Alliance is managed and owned by LFAB
- All principal IT-system are developed, serviced and owned by LFAB
- Structure for efficient decision-making
- Commissions paid out of LFAB to the regional companies for bank, non-life and life insurance
- LFAB is the sole service provider to the regional companies



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

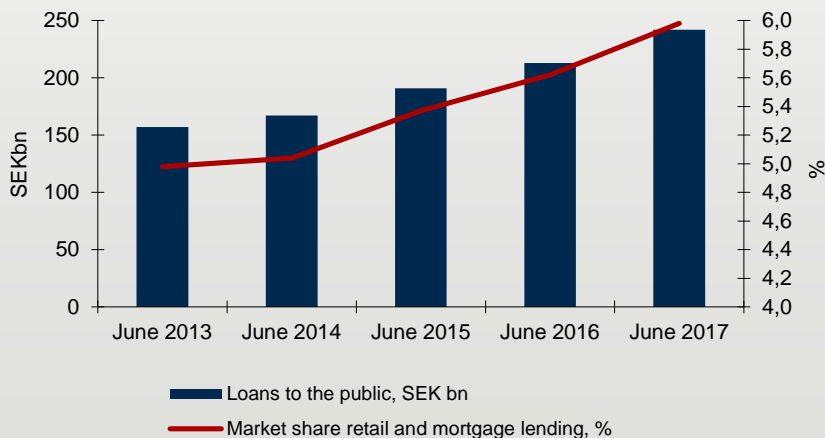


LF Bank Group

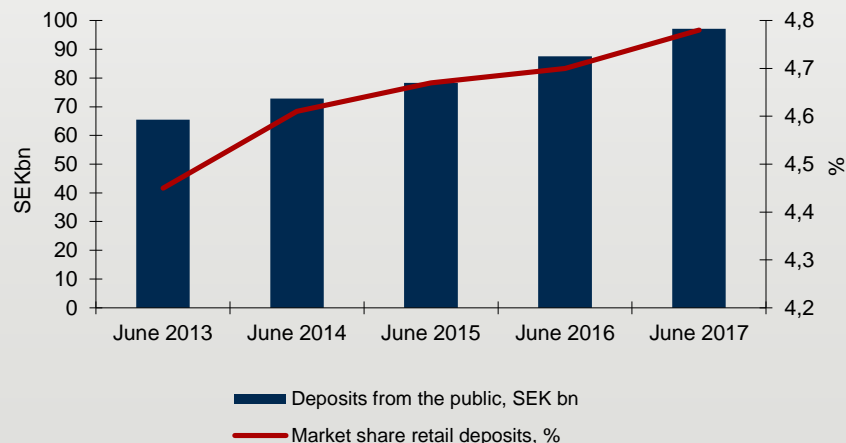
The fifth largest retail bank in Sweden

- Full-service retail bank
- Good market coverage with distribution network of 128 branches throughout Sweden
- Low risk profile, loan portfolio consists mainly of retail mortgages, 75 percent
- The number of products per customer are 5
- Market shares increasing in all areas
- A/Stable from S&P and A1/Stable from Moody's

LF Bank market share household lending



LF Bank market share deposits



Source: Länsförsäkringar and Statistics Sweden

Strategy

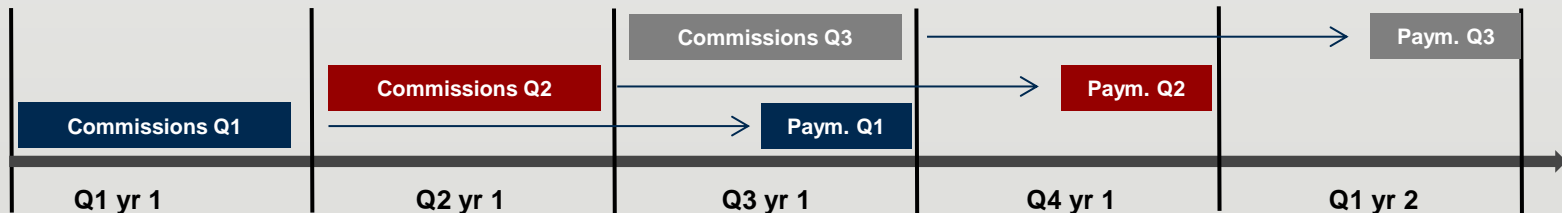
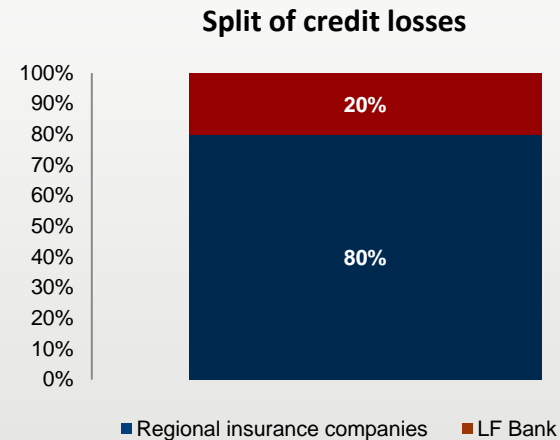
- Large insurance customer base:
 - 3.7 m customers of which
 - 3.0 m are retail customers, and
 - 2.2 m are home insurance customers
- The mortgage offering, an entry product and a strongly integrated component of the bank offering
- Add other retail products like cards, deposits and long term savings, e.g. pension products. Continuous growth in products per customer
- A total of 92 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

- 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

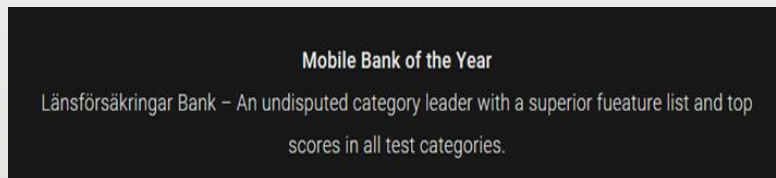
Loan loss agreement

- The regional insurance companies covers 80% of credit losses related to business they have originated
- Strong incentive for high credit quality
- The loss is covered on the date an impairment is identified
- Set-off against accrued commissions
- To create a buffer commissions to regional insurance companies will be paid with a 6 month delay



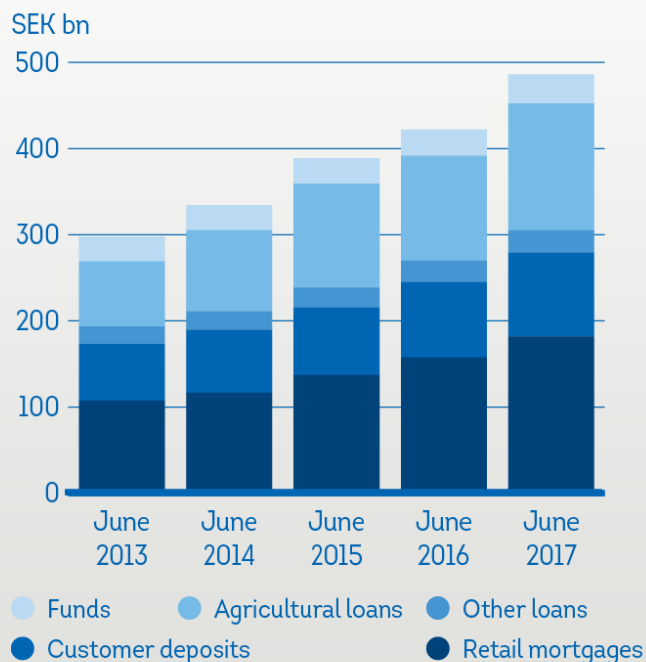
Strong customer satisfaction & leading digital banking services

- According to SKI (2016), Länsförsäkringar has Sweden's most satisfied retail bank customers, and has been ranked no 1 ten of the last thirteen years
- In January 2016 LF Banks app was awarded best mobile bank at the Swedish Mobile Awards
- LF Bank was awarded the prize for Sweden's best bank app and mobile site for the second consecutive year at Web Service Awards in January 2017.



Strengthened market position

Business volumes



SEKbn	30 June, 2017	30 June, 2016	Change
Business volumes	486	422	15%
Retail mortgage lending, LF Hypotek	182	158	15%
Agricultural lending	26.0	24.7	5%
Other lending	33.8	30.5	11%
Market share household lending % ¹⁾	6.0	5.6%	0.4pp
Deposits	97	88	11%
Market share deposits, % ¹⁾	4.8	4.7	0.1pp
Fund volume	147	122	21%

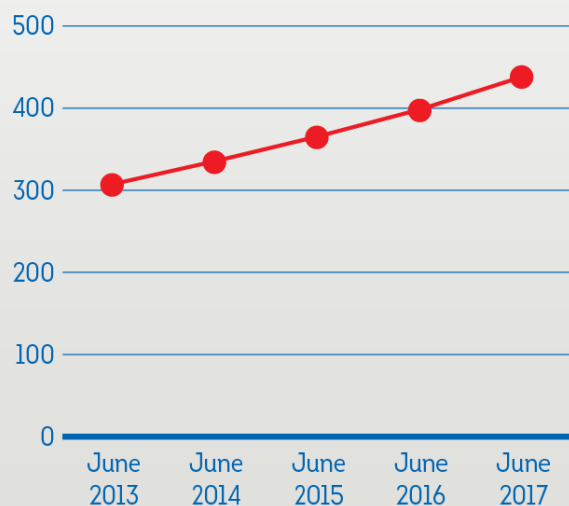
1) According to data from Statistics Sweden

Number of customers and cards

	30 June, 2017	30 June, 2016	Change
Primary bank customers	438,000	398,000	10%
Bank cards	607,000	549,000	11%

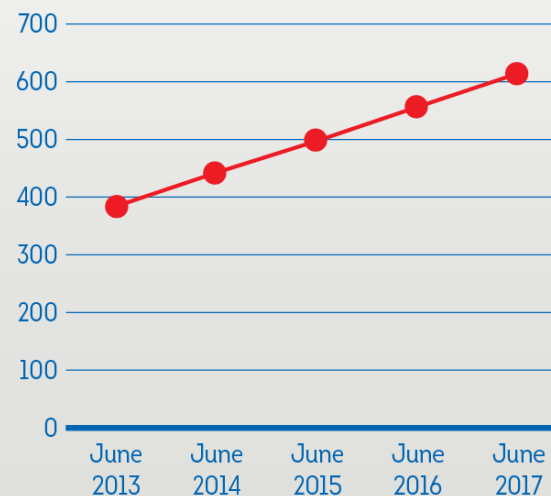
Customer trend

Number of primary bank customers, 000s



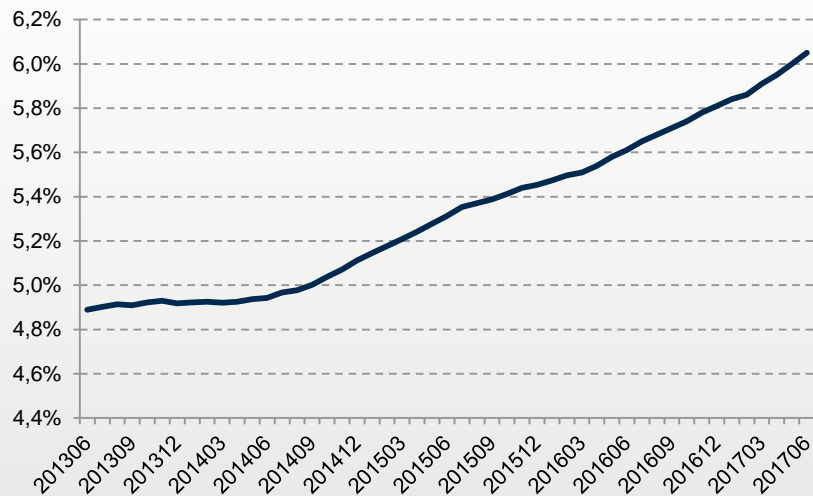
Card trend

Card trend, 000s

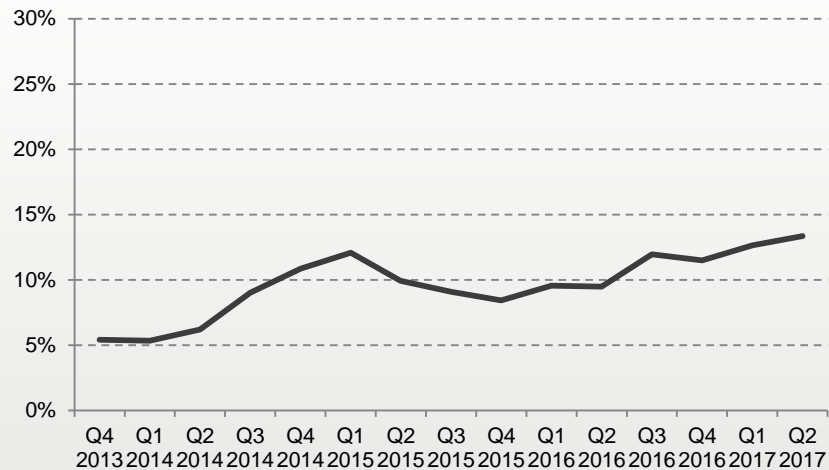


Stable mortgage market strategy

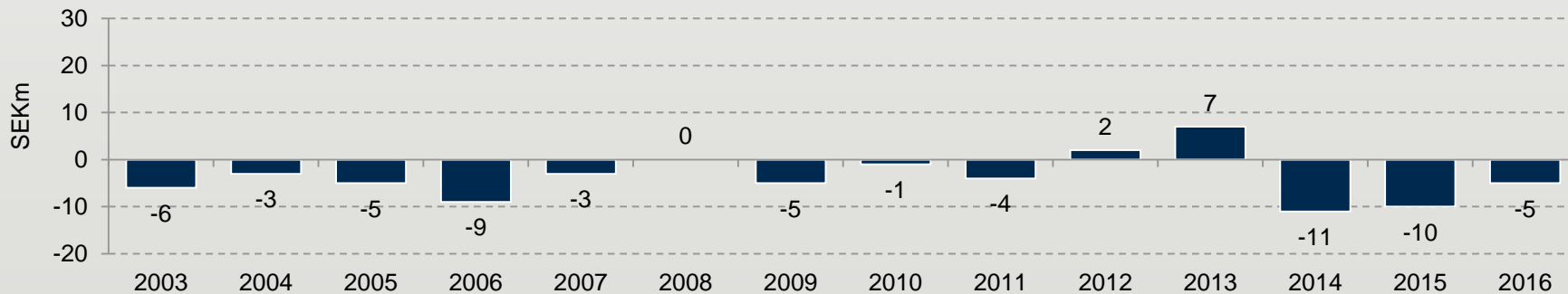
LF:s market share mortgage lending



LF:s market share new mortgage lending

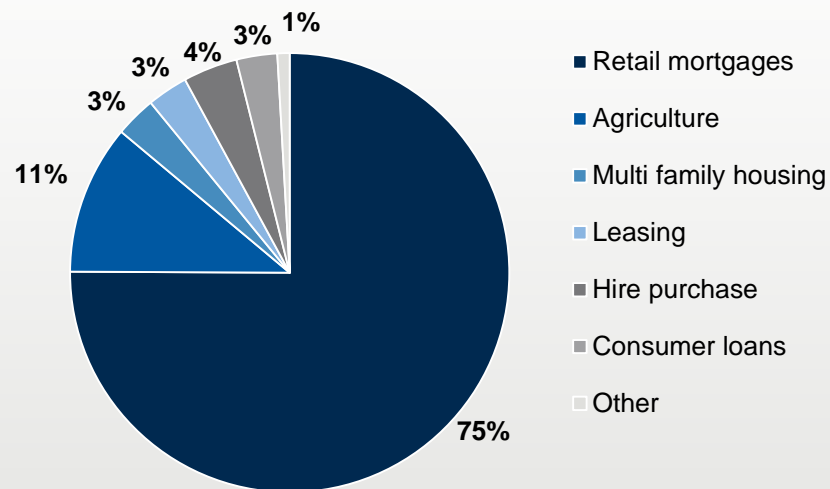


Negligible loan losses in LF Hypoteks mortgage lending since 2003



Group loan portfolio, 30 June 2017

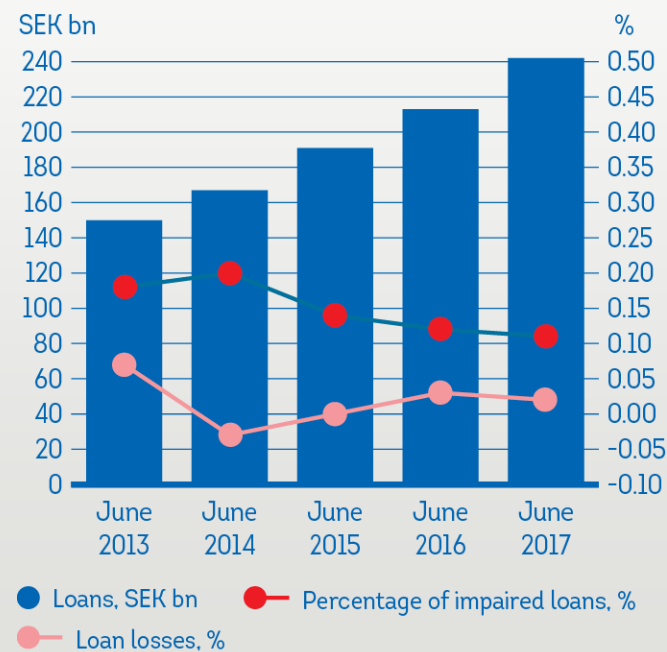
- The loan portfolio amounting to SEK 242 Bn (213) has an excellent credit quality.
- Only lending in Sweden and in SEK.
- Well diversified geographical distribution within Sweden.
- The loan portfolio consists to 75 (74) percent of retail mortgage lending.



Excellent Credit Quality

SEKm	30 June, 2017	30 June, 2016
Total lending	242,249	213,029
Impaired loans	261	264
Percentage of impaired loans, %	0.11%	0.12%
Reserves	261	269
Provision ratio in relation to loans, %	0.11%	0.12%
Reserves, incl. withheld remuneration to regional insurance companies	361	370
Provision ratio in relation to loans, incl. withheld remuneration to regional insurance companies %	0.15%	0.17%
Loan losses	21	32
Net loan loss level in relation to lending, %	0.02%	0.03%

Loans to the public





Q2 2017 Results

Highlights January – June, 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 FTEs).
- Operating profit increased 6% to SEK 737.3 M (697.2) and the return on equity amounted to 9.5% (9.8).
- Net interest income increased 18% to SEK 1,911 M (1,618).
- Operating income increased 10% to SEK 1,557 M (1,422).
- Operating expenses rose 15% to SEK 798.8 M (692.3). Increase of 8.0% excluding organisational changes.
- Loan losses amounted to SEK 21.0 M (32.5), net, corresponding to a loan loss level of 0.02% (0.03).
- Business volumes increased 15% to SEK 486.4 billion (422.4).
- Deposits increased 11% to SEK 97.1 billion (87.6). Lending increased 14% to SEK 242.2 billion (213.0).
- The Common Equity Tier 1 capital ratio for the consolidated situation amounted to 22.8% (20.6%*) on 30 June 2017.
- The number of customers with Länsförsäkringar as their primary bank rose 10% and the number of bank cards increased 11%.
- On June 30, Moody's upgraded the standalone credit profile of LF Bank, BCA (Baseline Credit Assessment), to **a3** from baa1.

Figures in parentheses pertain to the same period in 2016.

* Pertains to 31 March 2017.

Significant 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 36m for the period January – June 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 5m during the period January – June 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 6m during the period January – June 2017 and entails four employees.

Adjusted for the three organisational changes above, the underlying cost increase for Länsförsäkringar Bank totals 8.0%.

Reclassifications in the accounts (neutral effect on earnings)

4. Administration costs for LF Fondförvaltning have been reclassified between *Other administration expenses* and *Commission expense*.
5. Income for Wasa Kredit has been reclassified between the items *Other operating income* and *Commission income*.

Income statement

SEKm	30 June 2017	30 June 2016	Change
Net interest income	1,911	1,618	18%
Net commissions	-328	-291	13%
Net gains/losses	-35	81	-
Other income	10	13	-23%
Total operating income	1,557	1,421	10%
Staff costs	-296	-249	19%
Other expenses	-460	-406	13%
Depreciation/amortisation	-43	-38	13%
Total operating expenses	-799	-692	15%
Profit before loan losses	758	729	4%
Loan losses	-21	-32	-34%
Operating profit	737	697	6%

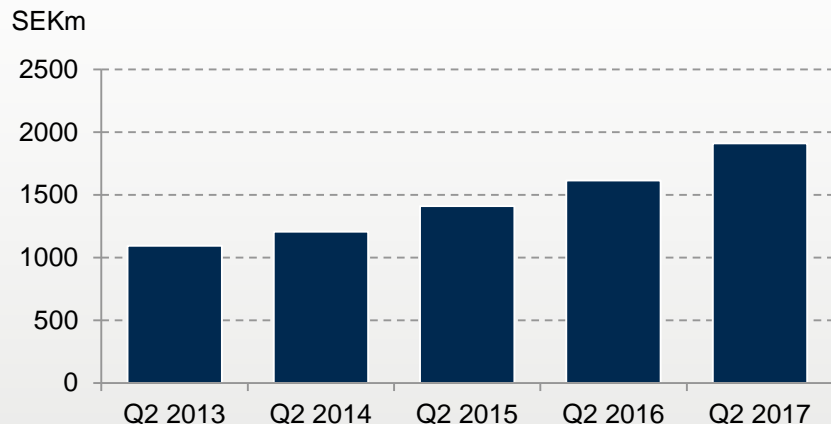
Positive quarterly development

SEKm	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Net interest income	970	940	945	900	828
Net commissions	-168	-160	-187	-184	-154
Net gains/losses	-5	-30	-15	2	41
Other income	6	4	16	4	5
Total operating income	803	754	759	722	720
Staff costs	-153	-143	-114	-107	-126
Other expenses	-238	-222	-234	-211	-206
Depreciation/amortisation	-22	-21	-18	-21	-20
Total operating expenses	-413	-386	-366	-340	-353
Profit before loan losses	391	368	393	382	369
Loan losses	-6	-15	-2*	-3	-12
Operating profit	385	353	391	380	356

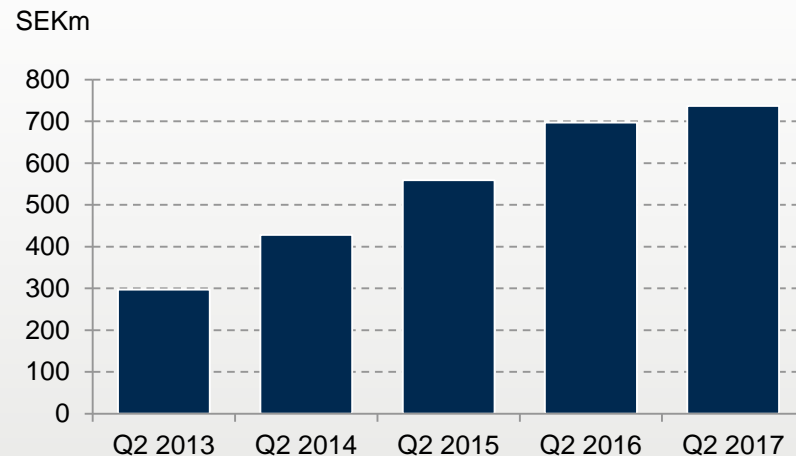
* Contains dissolution of reserves amounting to SEK 23m

Net interest income development & profitability

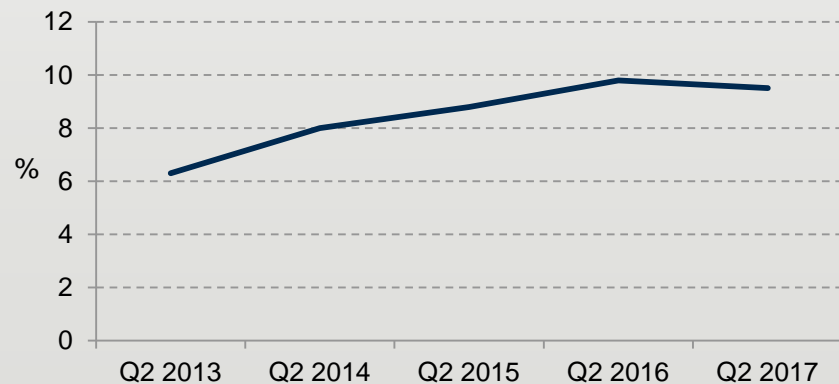
Net Interest Income



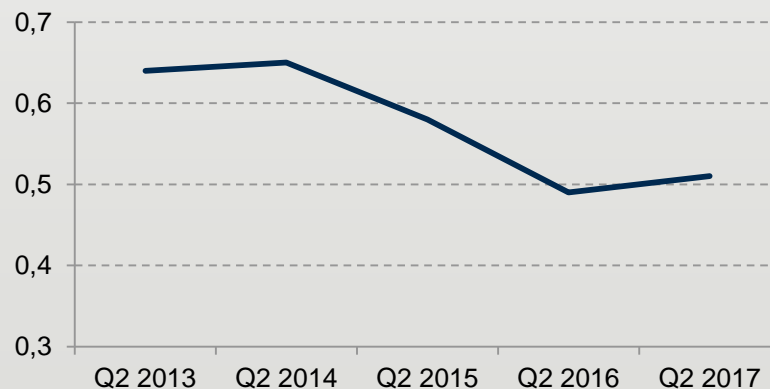
Operating Profit



Return on Equity



Cost Income Ratio



Balance sheet

SEKm	30 June, 2017	30 June, 2016	Change
Treasury bills	13,718	7,730	77%
Loans to credit institutions	3,328	3,452	-4%
Loans to the public	242,249	213,029	14%
Bonds and other interest bearing securities	33,774	37,106	-9%
Derivatives	5,002	6,921	-28%
Other asset items	2,020	2,321	-13%
Total assets	300,091	270,559	11%
Due to credit institutions	9,196	7,535	22%
Deposits from the public	97,144	87,602	11%
Debt securities in issues	169,161	149,054	13%
Derivatives	1,679	2,655	-37%
Other liabilities	6,628	8,481	-22%
Subordinated liabilities	2,596	2,595	0%
Equity	13,687	12,637	8%
Total liabilities & Equity	300,091	270,559	11%

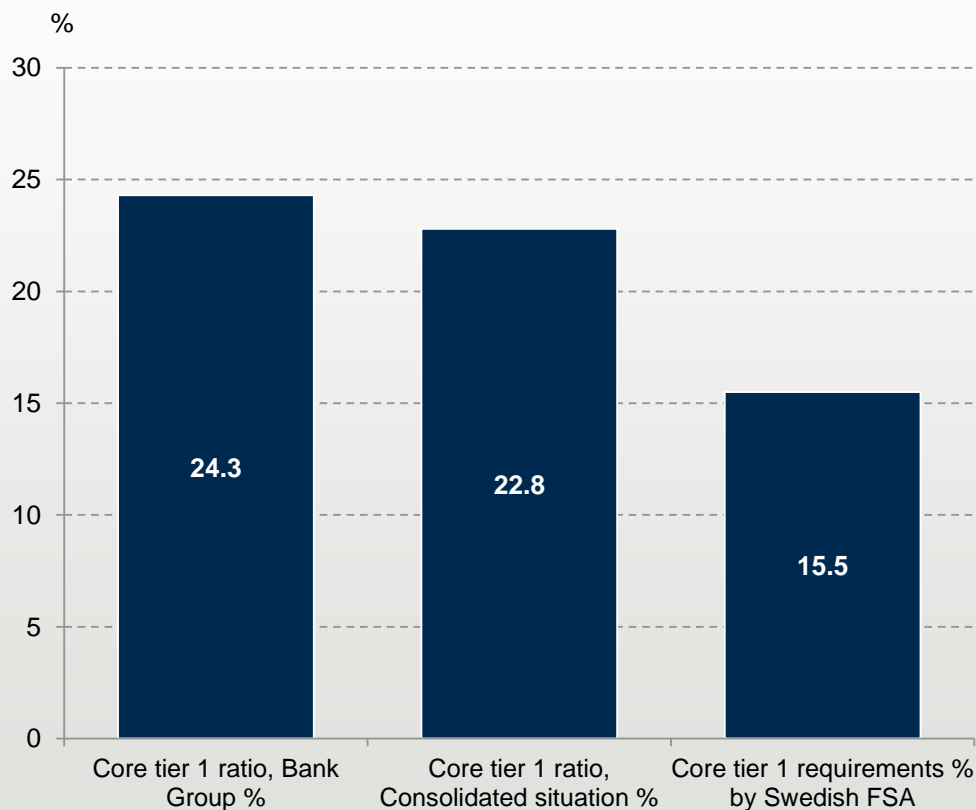


Capital adequacy & Rating

Capital adequacy, Q2 2017

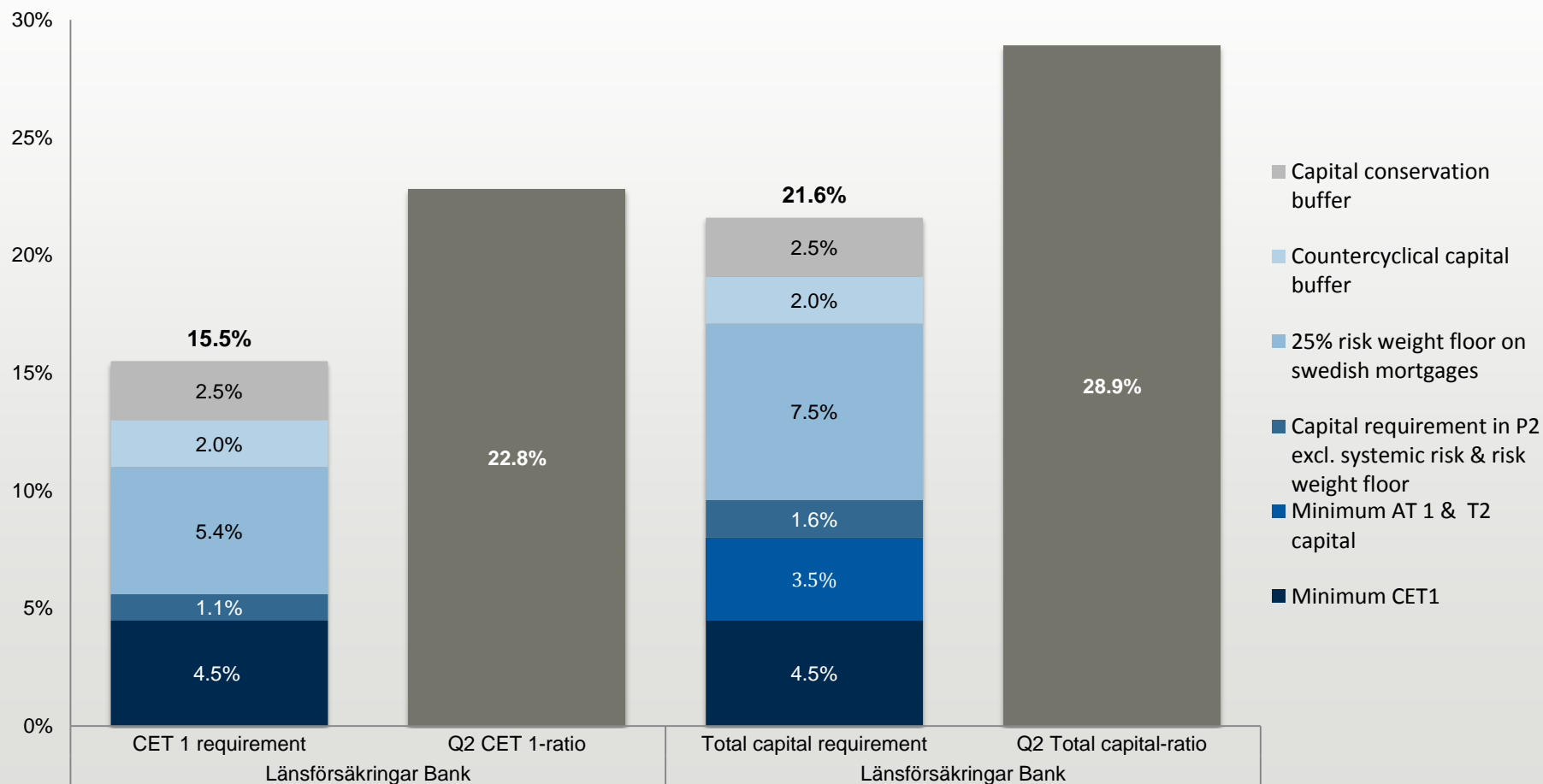
- LF Banks consolidated situation includes the parent mixed financial holding company LFAB
- The CET1-ratio for the consolidated situation amounted to 22.8 % and 24.3% for the Bank group respectively
- Credit growth continues to have a good credit quality, REA for exposures treated according to the IRB-approach increased by SEK 1,098m during Q2 2017
- CET1 deductions of intangible assets increased due to continued IT-investments

Capital position, Q2 2017



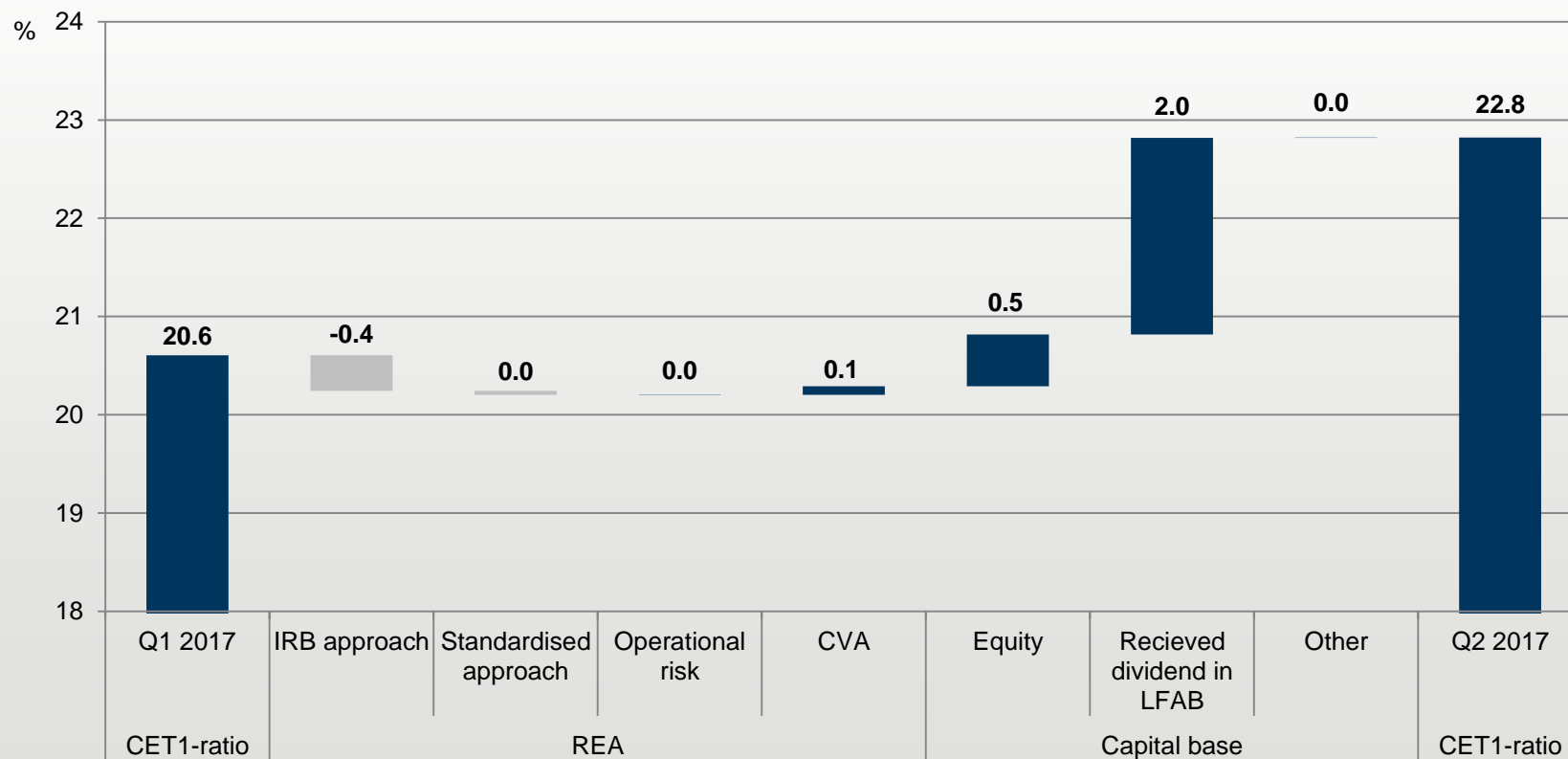
Capital adequacy	30 June 2017	31 March 2017
Bank group		
Core tier 1 ratio, %	24.3	24.2
Tier 1 ratio, %	26.8	26.8
Total capital ratio, %	32.4	32.4
Consolidated situation		
Core tier 1 ratio, %	22.8	20.6
Tier 1 ratio, %	24.7	22.6
Total capital ratio, %	28.9	26.8
Leverage ratio, %	4.9	4.5

Composition of Länsförsäkringar Bank's CET1 and total capital ratio requirements

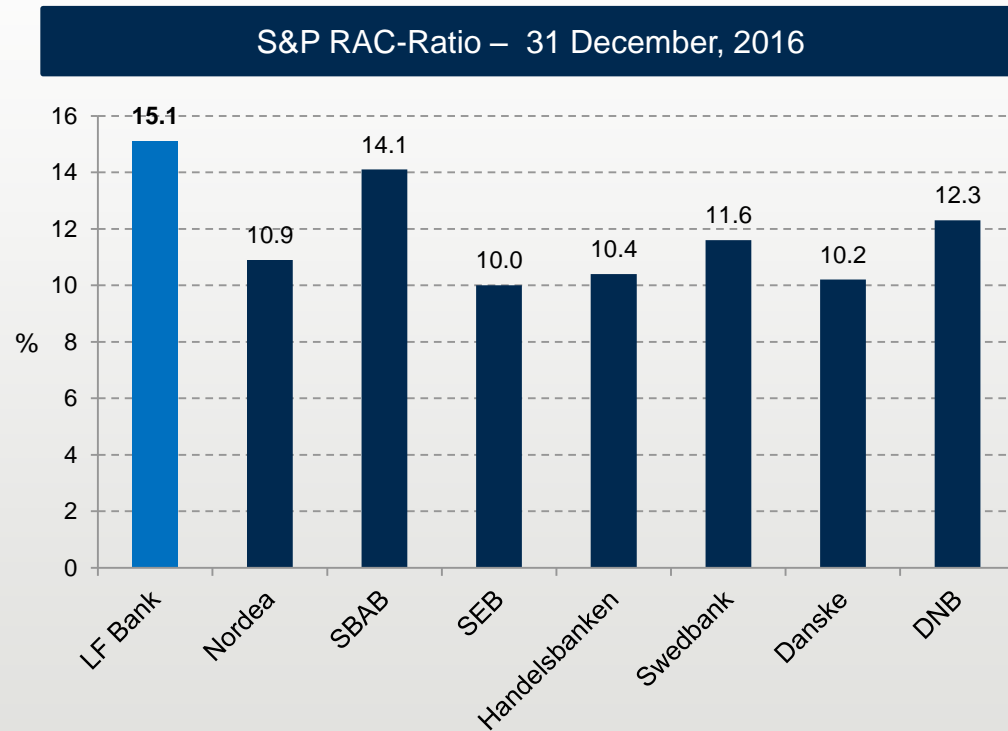


CET1-ratio development

CET1 contribution by component – consolidated situation



Strong capitalization in relation to peers



Credit ratings

Company	Agency	Long-term rating	Short-term rating
Länsförsäkringar Bank	Standard & Poor's	A/Stable	A-1(K-1)
Länsförsäkringar Bank	Moody's	A1/Stable	P-1
Company	Agency	Long-term rating	Short-term rating
Länsförsäkringar Hypotek*	Standard & Poor's	AAA/Stable	–
Länsförsäkringar Hypotek*	Moody's	Aaa	–

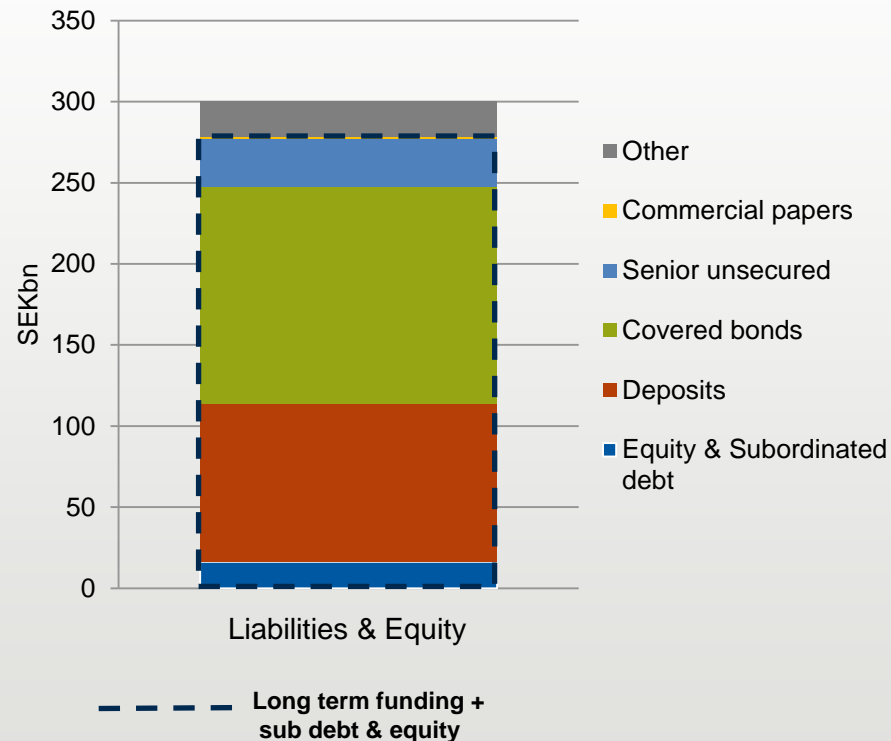
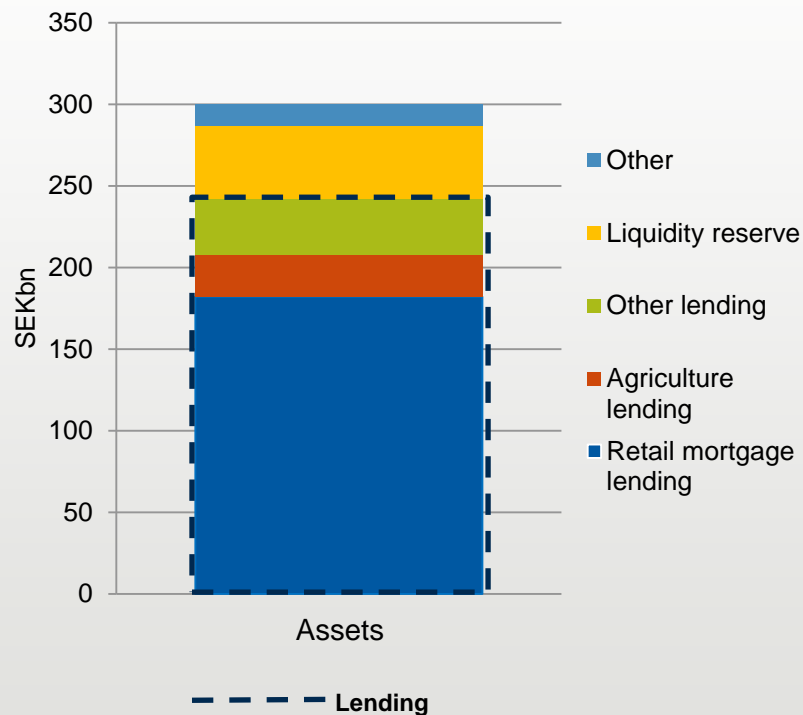
- On June 30 2017, Moody's upgraded the standalone credit profile of LF Bank, BCA (Baseline Credit Assessment), to a3 from baa1.

* Refers to the covered bonds of Länsförsäkringar Hypotek



Funding & Liquidity

Balance sheet structure 30 June, 2017

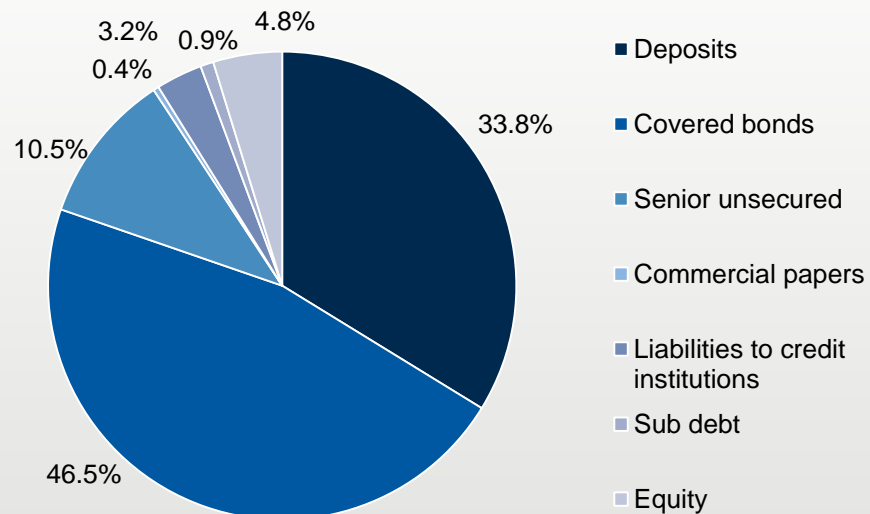


Funding strategy

- Funding and liquidity managed from a survival horizon perspective
- Low internal risk tolerance
- Deposits and covered bonds main funding sources given business mix
- Senior unsecured debt important tool to maintain sufficient cover pool OC and to finance liquidity reserve
- Sound mix of instruments (Senior/Covered)
- No structural need for funding in foreign currency
- Diversification of funding markets
 - Regular issuer in the Euro benchmark covered bond market
 - Active in CHF, NOK, USD & GBP markets
- Liquid domestic covered bond curve
 - ➡ Tap issuance
 - ➡ Ensures market access

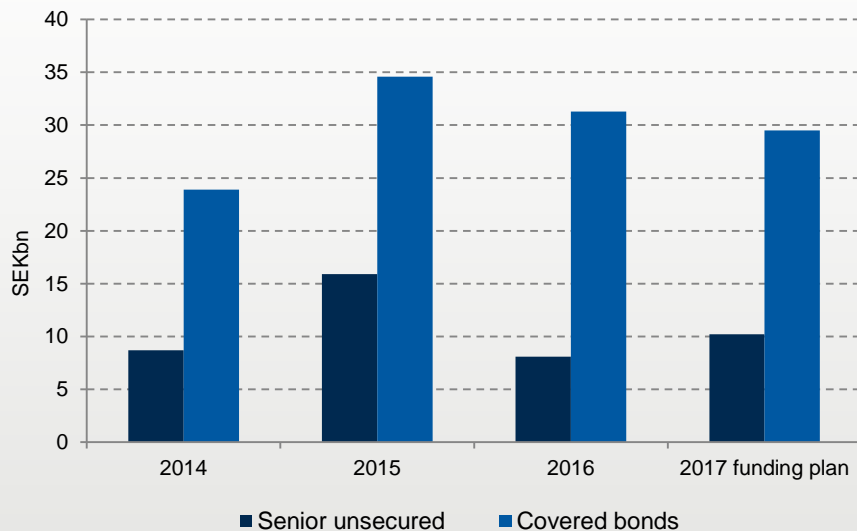
Funding, Q2 2017

SEKbn	30 June 2017	30 June 2016
Deposits	97.1	87.6
Covered bonds	133.8	115.1
Senior unsecured	30.1	28.6
Commercial papers	1.1	2.0
Liabilities to credit institutions	9.2	7.5
Sub debt	2.6	2.6
Equity	13.7	12.6
Total	287.6	256.0

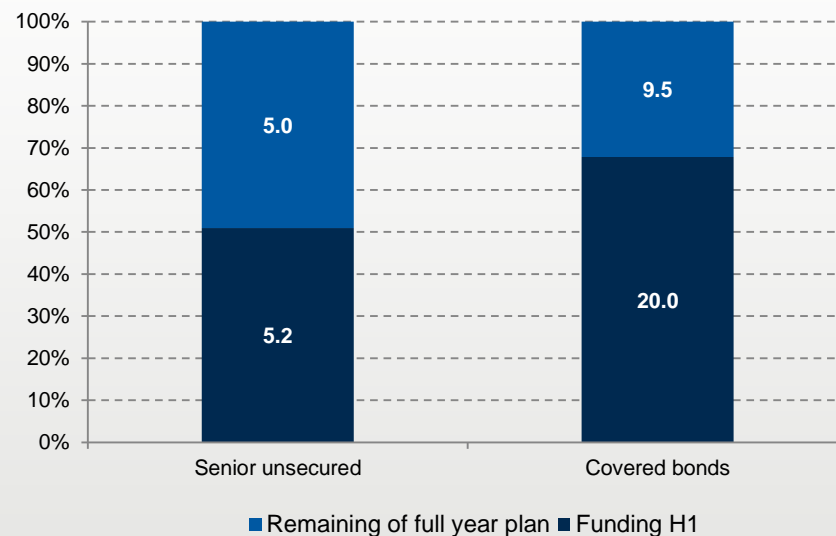


Funding plan update

Funding, executed and planned volumes

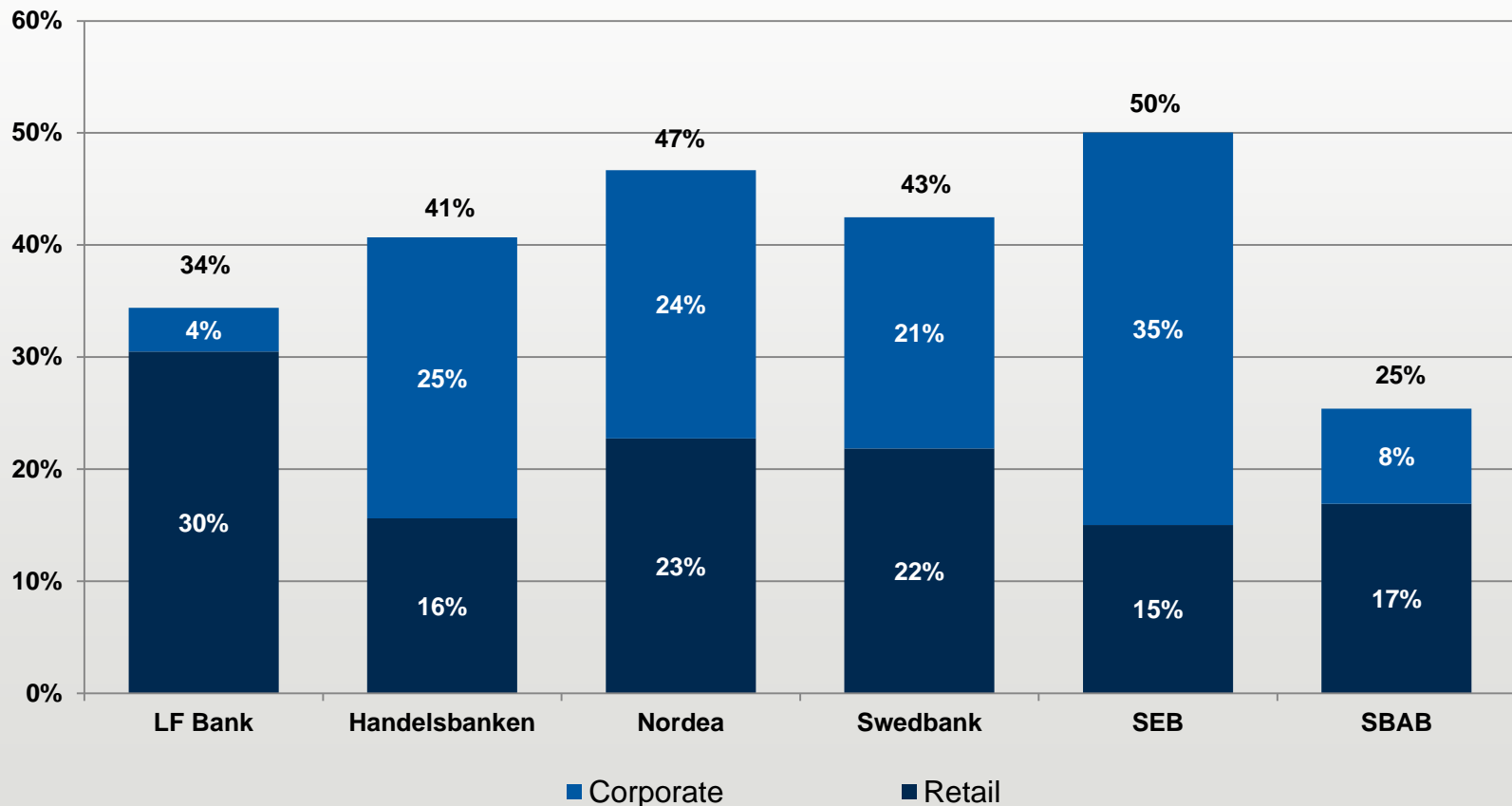


Funding volumes H1 vs full year funding plan



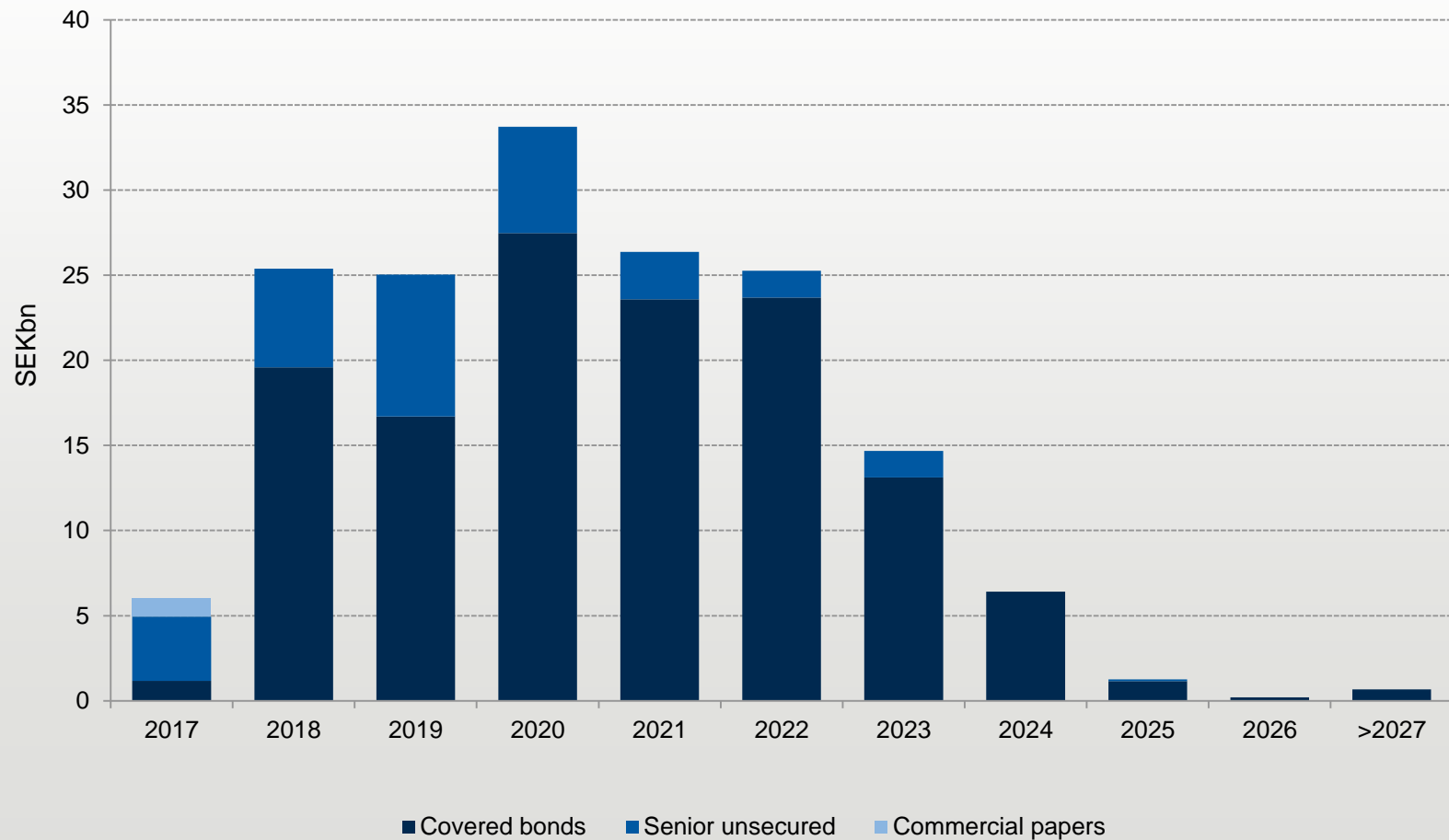
- Funding plan for 2017 indicates unchanged volumes compared to 2016
- 68% of the covered bond volumes and 50% of the senior unsecured volumes executed during H1
- Included successfully executed issue of 7yr EUR 500m benchmark covered bond and issue of new SEK benchmark covered bond maturing September 2023 (LFH516)

Deposit share of funding sources by segment, Q2 2017



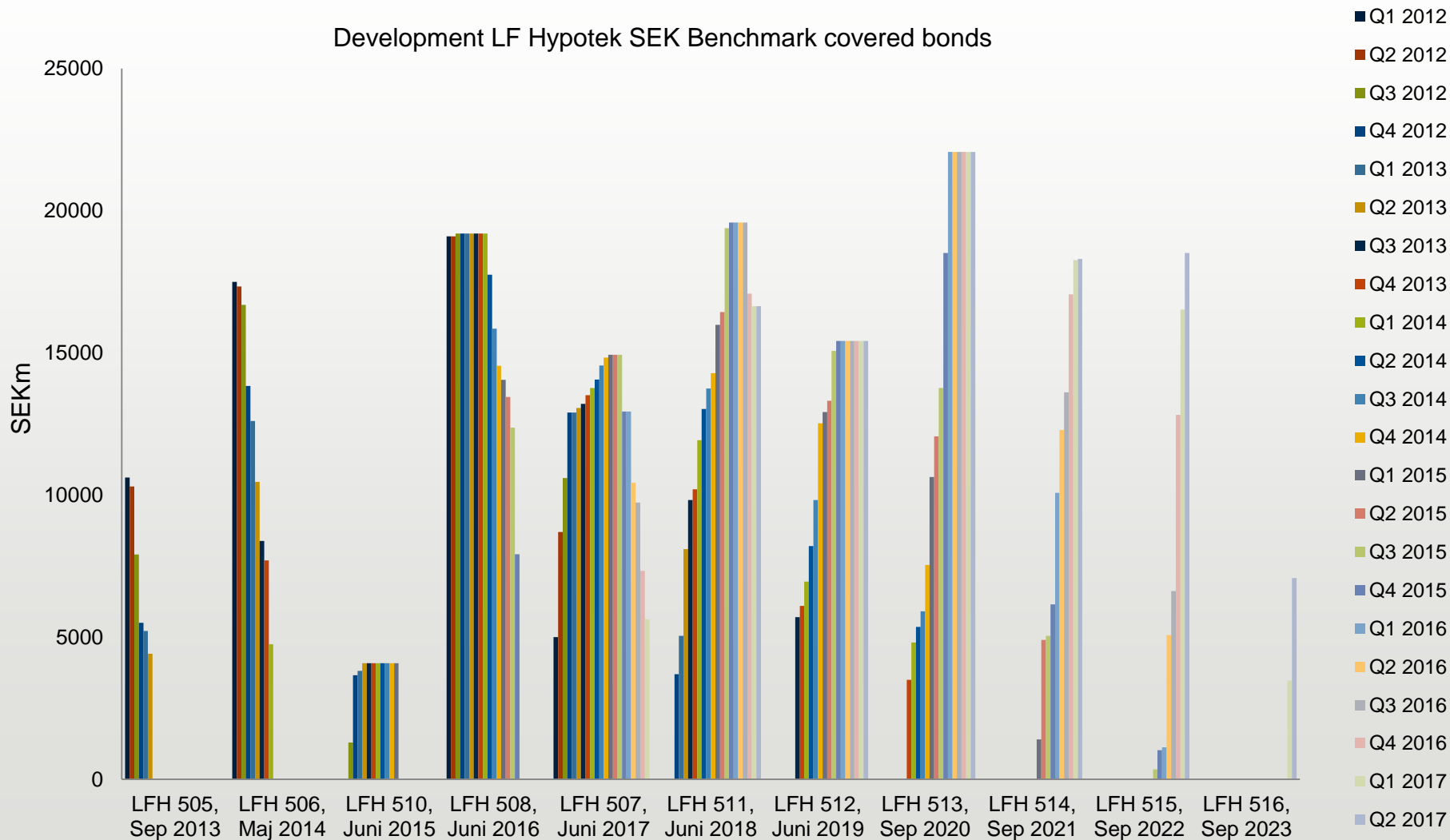
Source: Länsförsäkringar and interim reports, Q2 2017

Maturity profile LF Bank Group, Q2 2017



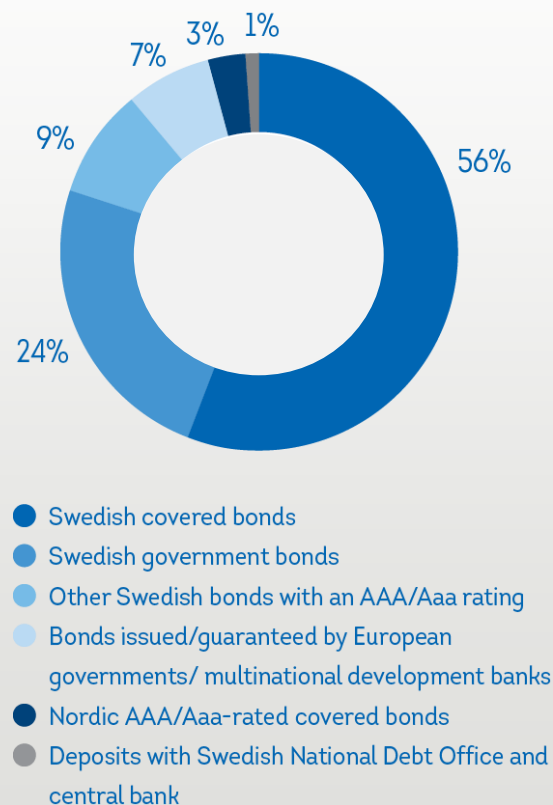
Active management of SEK covered bonds

Development LF Hypotek SEK Benchmark covered bonds

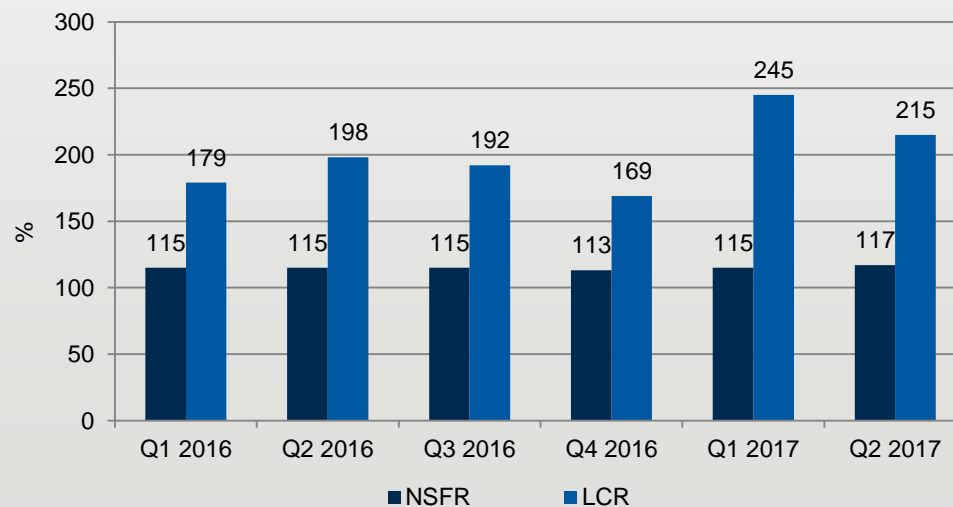


Liquidity Reserve, Q2 2017

Liquidity reserve



- Total SEK 45.0 bn
- Comprises 99% AAA-rated bonds
- Riksbank and/or ECB eligible
- 96% SEK
- Survival horizon approximately 2 years
- LCR total 215%
- Net Stable Funding Ratio (NSFR) 117%





Cover pool

Cover pool

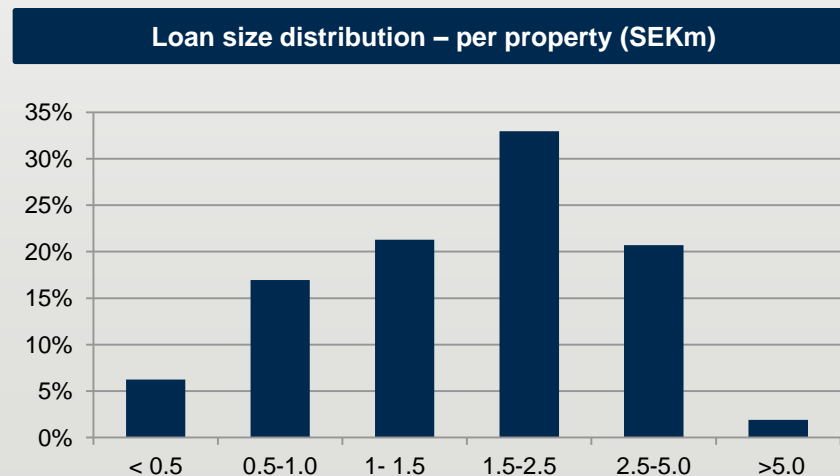
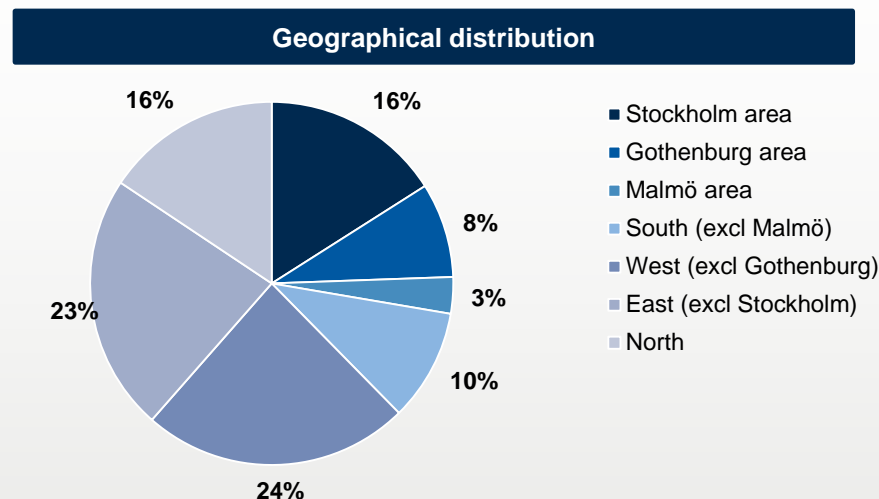
Cover pool, LF Hypotek	30 June, 2017
Total volume, SEK billion	180,341
– of which Swedish mortgages, SEK billion	172,566
– of which substitute collateral, SEK billion 1)	7,775
Share of substitute collateral in cover pool	4.3%
OC, nominal, current level	33.98%
Committed OC	10%
Weighted average Max-LTV (indexed)	58.5%
Collateral	Private homes
Seasoning, months	58.1
Number of loans	337,971
Number of borrowers	150,107
Number of properties	149,895
Average loan size, SEK	510,595
Average loan size per property, SEK	1,151,000
Interest-rate type, floating	68%
Interest-rate type, fixed	32%
Impaired loans	None
Dynamic pool	Yes

Substitute collateral consists of Swedish covered bonds with AAA/Aaa rating (100%)



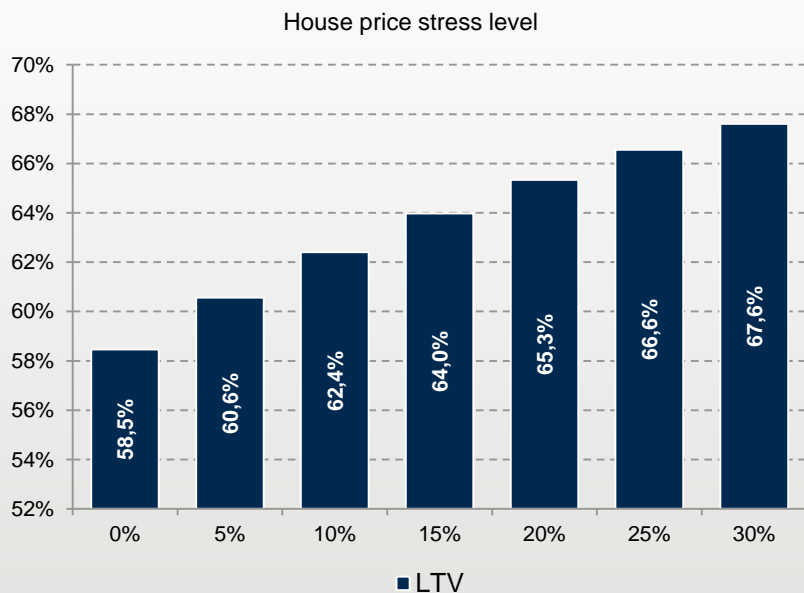
Cover pool, Q2 2017

Collateral Type	%	Weighted av. Max-LTV
Single-family homes	73%	58%
Tenant-owned apartments	25%	59%
Vacation homes	2%	56%
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%	

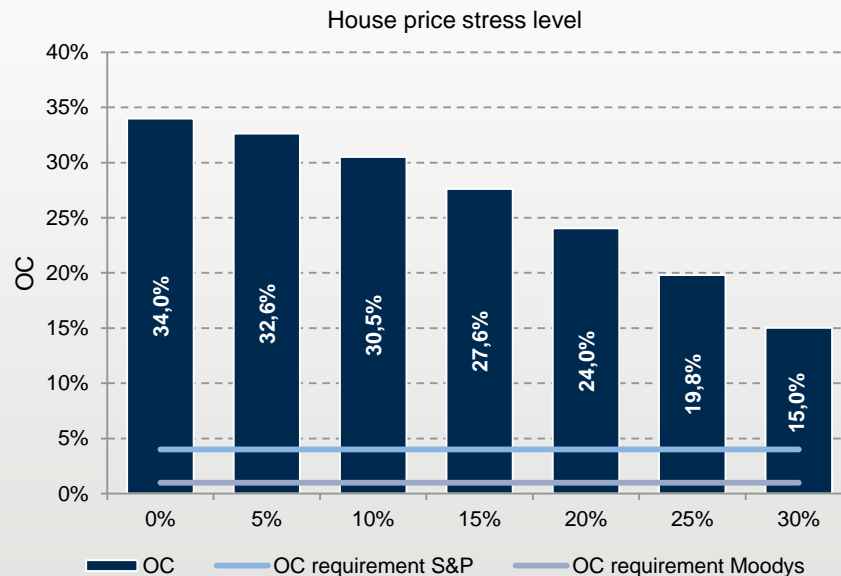


Stress test of cover pool, Q2 2017

LTV sensitivity to house prices



OC sensitivity to house prices



Summary

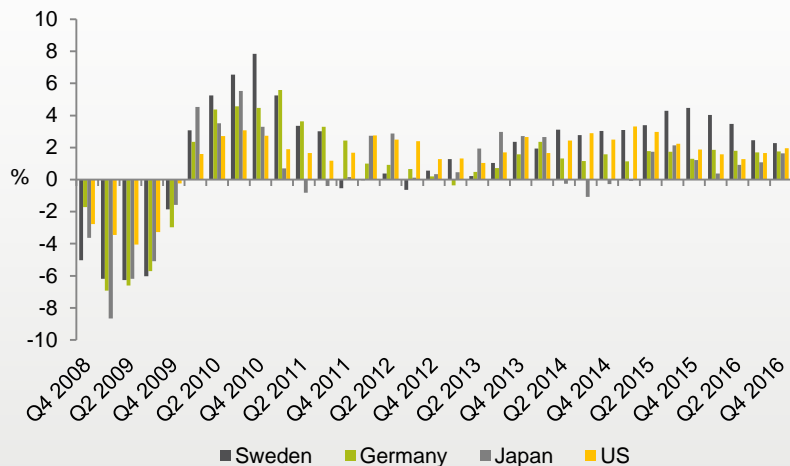
- Retail bank with all lending in Sweden and in SEK
- Strategic entity in the large Swedish Länsförsäkringar Alliance
- Solid financial position of Länsförsäkringar Alliance
- Continued growth potential through existing insurance customer base
- Strong deposit growth and improved NII
- Strong funding position with deposits and domestic covered bonds as base
- Covered bonds rated AAA/Stable by S&P and Aaa/Stable by Moody's
- Cover pool consisting of 100 percent prime Swedish residential assets
- Strong credit quality which is confirmed by Moody's key figure collateral score, indicating that Länsförsäkringar Hypotek has the highest credit quality of all major Swedish covered bond issuers and is among the top issuers in Europe



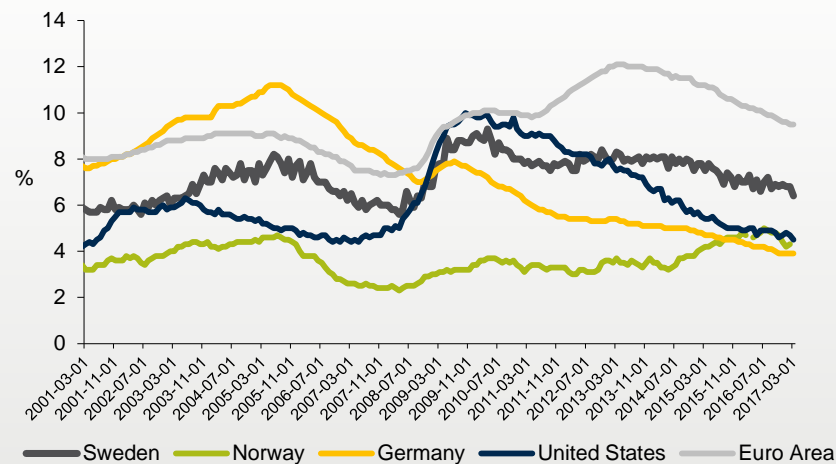
Appendix

Swedish economy - strong fundamentals

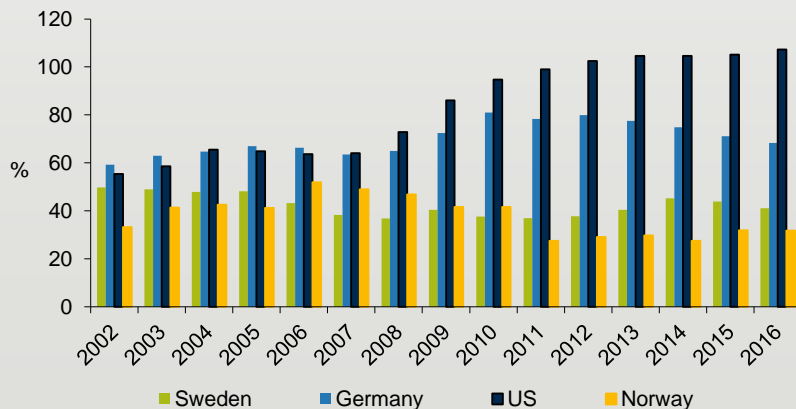
GDP growth



Unemployment rate



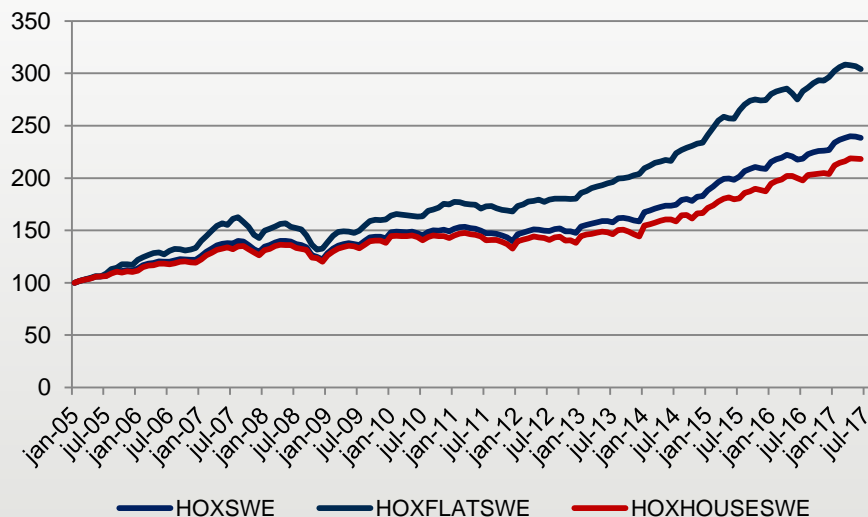
Debt-to-GDP



Source: Macrobond, National bureaus of Statistics

Swedish house price development

Swedish house price development (HOX-index)



Main factors driving house prices

- Structural lack of supply, particularly in major cities with strong urbanisation trends
- Political inability to stimulate increased level of residential investments
- Regulated rental market
- Strong population growth
- Low interest rates
- Strong development of households disposable income
- Affordability at high level (Interest rate payments to disposable income)

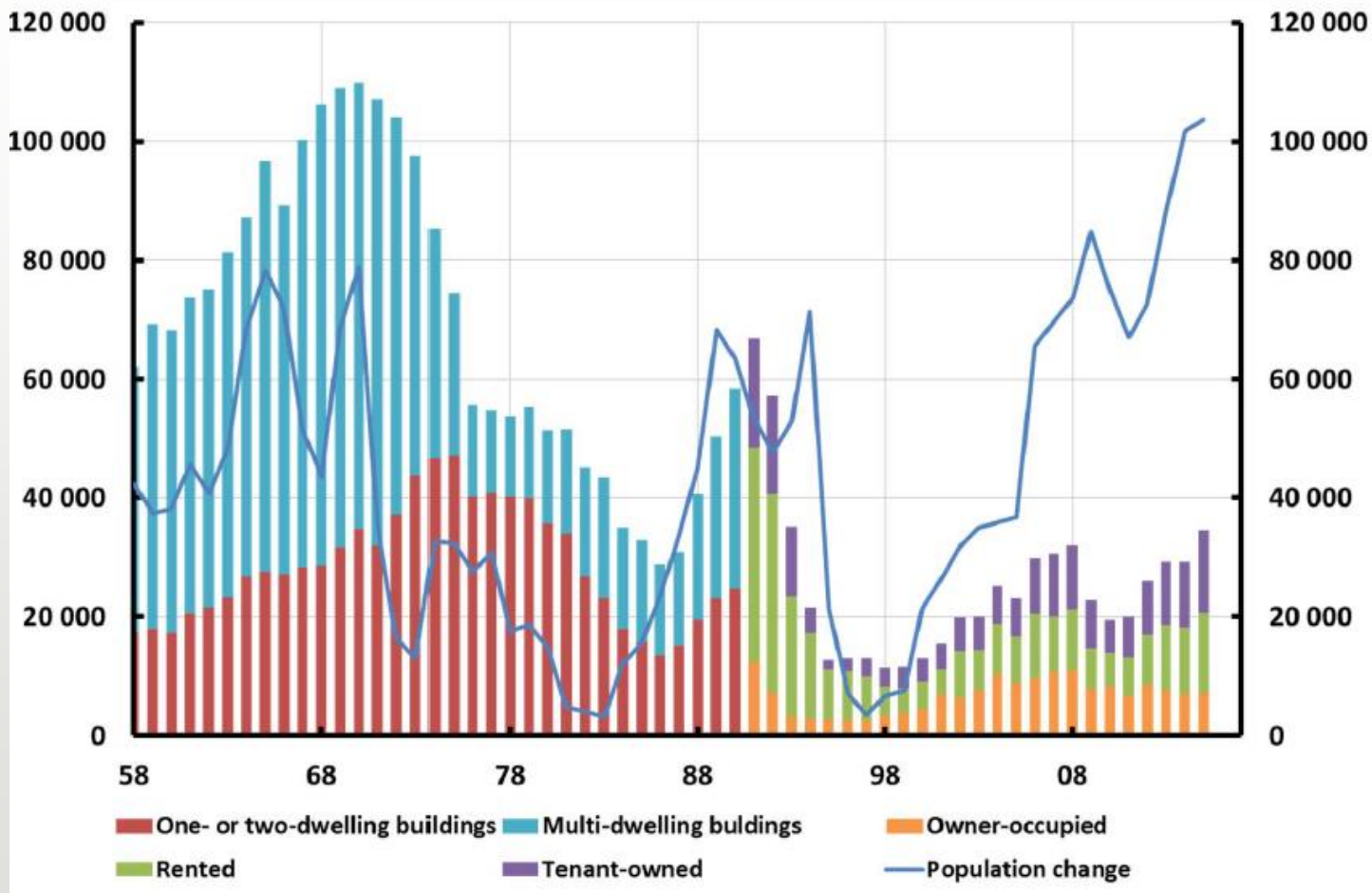
Source: Valueguard

House price development (cont.)

Swedish house price development (June 2017)				
		Change since		
	Index	1 month	3 months	12 months
HOX Sweden	239	-0.5%	0.0%	+9.7%
Flats				
Sweden Flats	304	--0.9%	-1.4%	+10.6%
Stockholm Flats	292	-1.1%	-1.6%	+8.6%
Göteborg Flats	344	-1.1%	-0.5%	+15.6%
Malmö Flats	251	-0.1%	-1.1%	+20.5%
Houses				
Sweden Houses	218	-0.2%	+0.9%	+9.1%
Stockholm Houses	228	-1.2%	-1.2%	+6.1%
Göteborg Houses	224	-0.6%	+0.8%	+11.3%
Malmö Houses	190	+0.2%	+0.9%	+12.2%

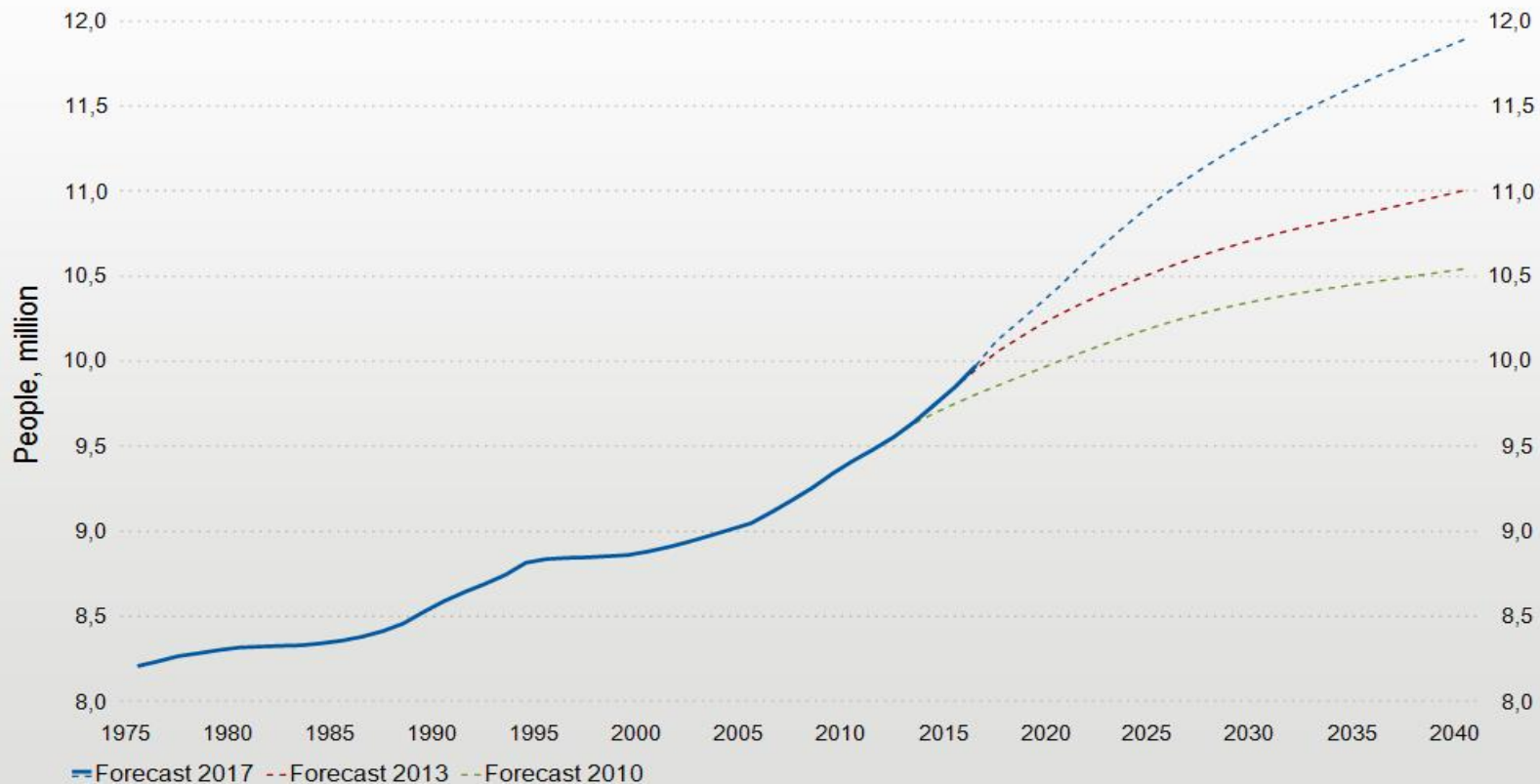
Source: Valueguard

Construction and population growth



Source: Riksbanken, Stability Report 2016:1

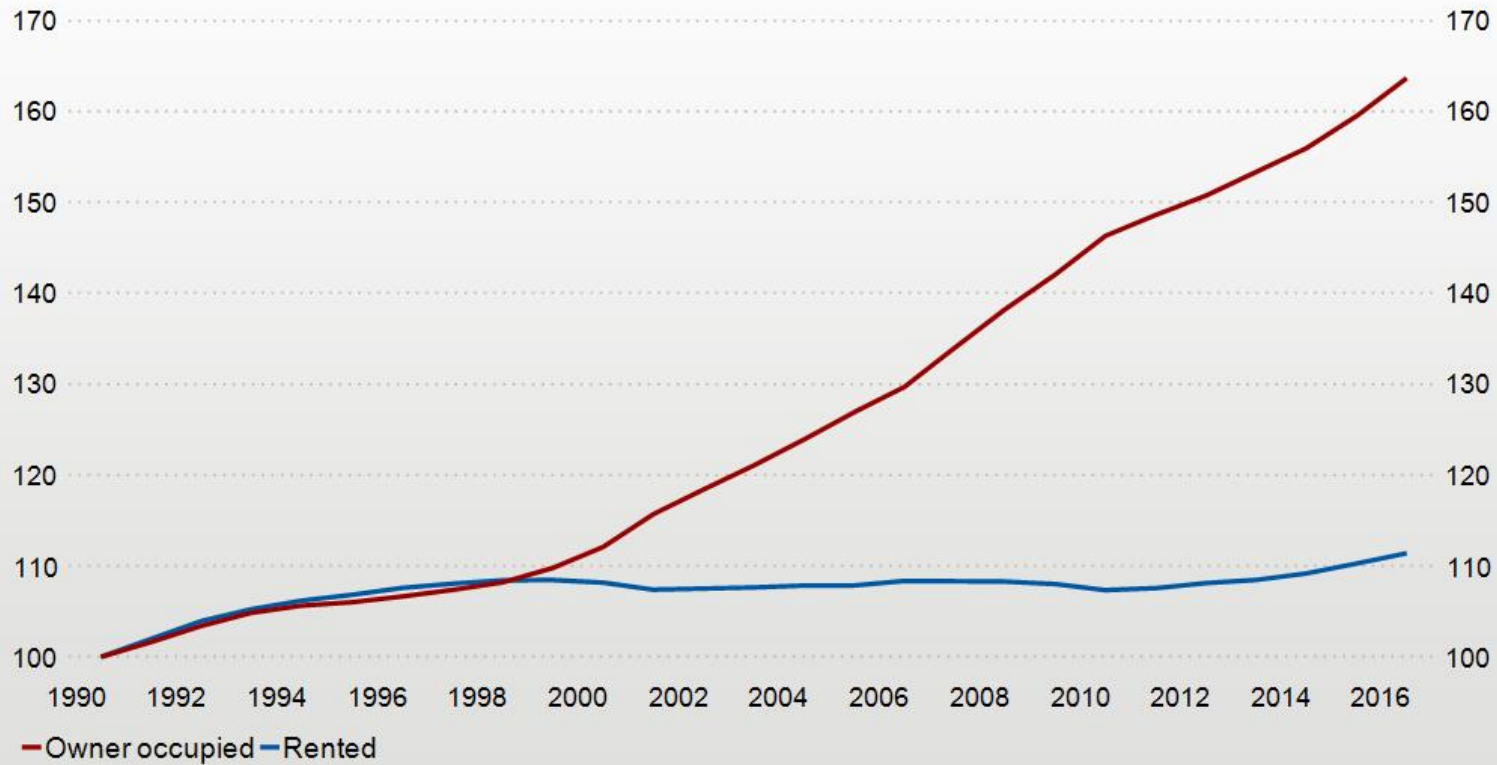
Development of total population - Sweden



Source: Länsförsäkringar/Macrobond

Owner occupied flats vs rented flats

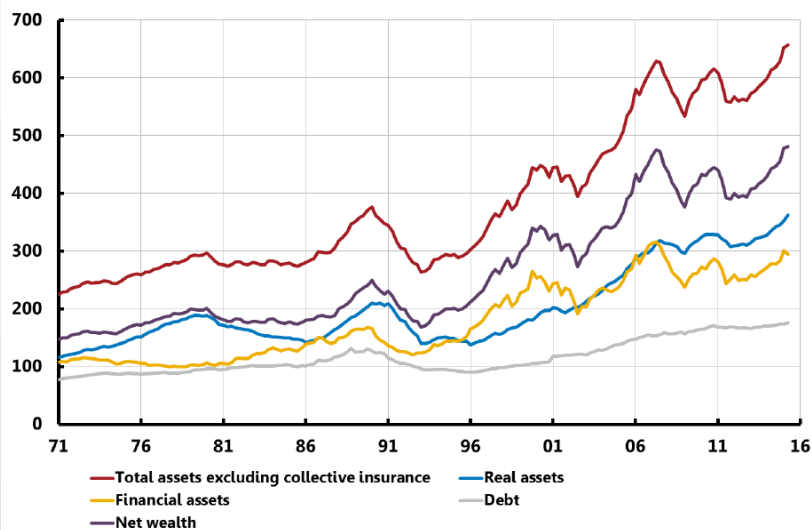
Index: 1990 = 100



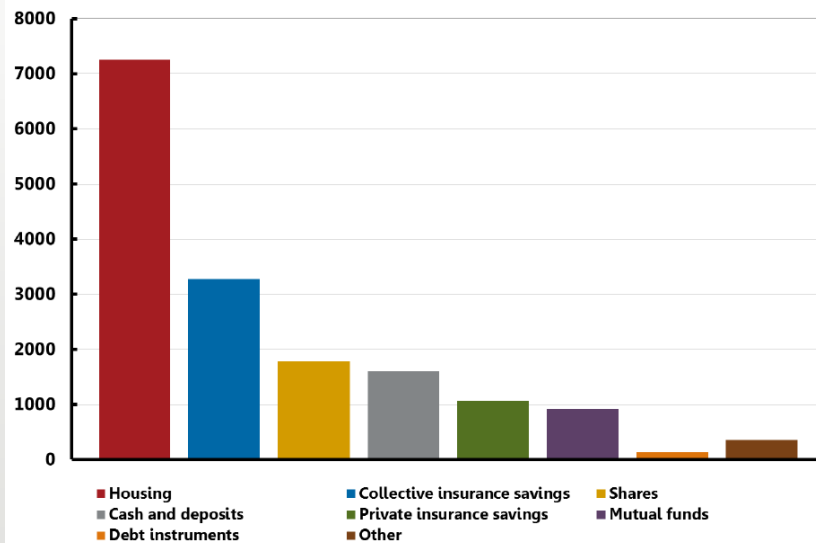
Source: Länsförsäkringar/Macrobond

Strong household balance sheets

Household assets & debt % of disposable income



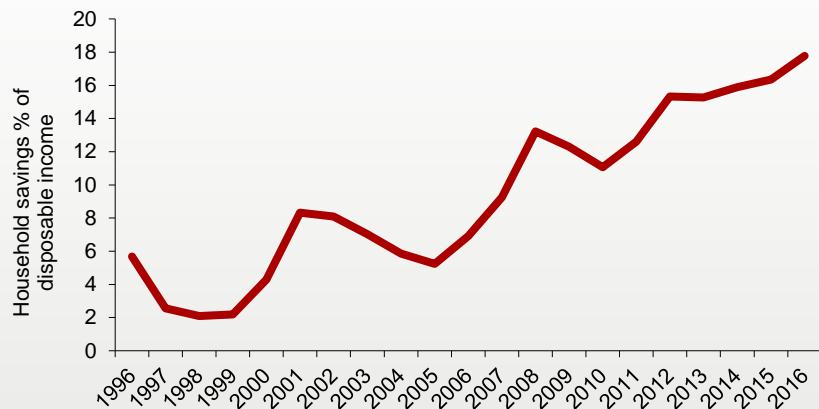
Household assets



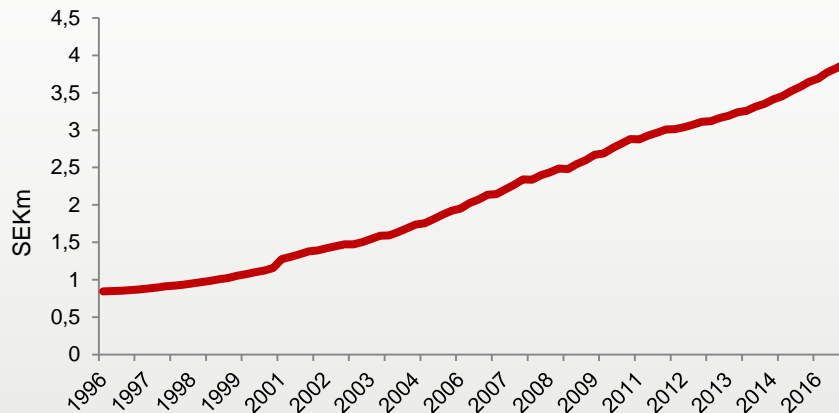
Source: Riksbanken, Stability Report 2015:2

Household savings and debt

Total household savings, Sweden



Total household debt, Sweden



Source: Macrobond

Actions to address house price growth and household indebtedness

Lack of measures to stimulate supply of housing

Policy actions taken to address house price and household debt growth

- ✓ LTV cap of 85% introduced by the SFSA
- ✓ Mortgage risk weight floor 25% under Pillar 2
- ✓ Swedish capital and liquidity requirements stricter than Basel III and CRR/CRDIV
- ✓ Higher counter cyclical buffer – increase from 1% to 1.5% from June 2016 and to 2% from March 2017
- ✓ Strict amortization requirements introduced by SFSA for new loans from June 2016.

Further measures currently being considered by authorities

- ✓ Proposed stricter amortization requirement by SFSA for new mortgage holders who take large loans in relation to their income (exceeding 4.5x gross income) of an additional 1% on top of the current requirement.
- ✓ Gradual decrease and eventual abolishment of households ability to deduct interest rate costs for tax purposes
- ✓ Household debt to disposable income cap
- ✓ Lowering of the regulatory LTV cap from 85%
- ✓ Abolishment of the regulation on the rental market?

Characteristics of the Swedish mortgage market

Important factors behind the strong asset quality

Credit Information Agency (UC)

Bank owned credit information agency that provides granular information regarding costumers: Age, marital status, income, debt, payment track record , property ownership, number of credit applications etc

No debt forgiveness

A borrower is personally liable for life, even after a default and a foreclosure procedure

Strong household income

Household income is to a high degree based on two persons income and a mortgage is typically a joint liability

Direct debit

Customers payments are automatically made via authorized direct debit from their account

No buy-to-let market

Regulated rental market and tenant owner subletting restrictions

No intermediaries

Banks and bank owned mortgage institutions originate the loans themselves and the loans remain on their balance sheets

State owned enforcement office

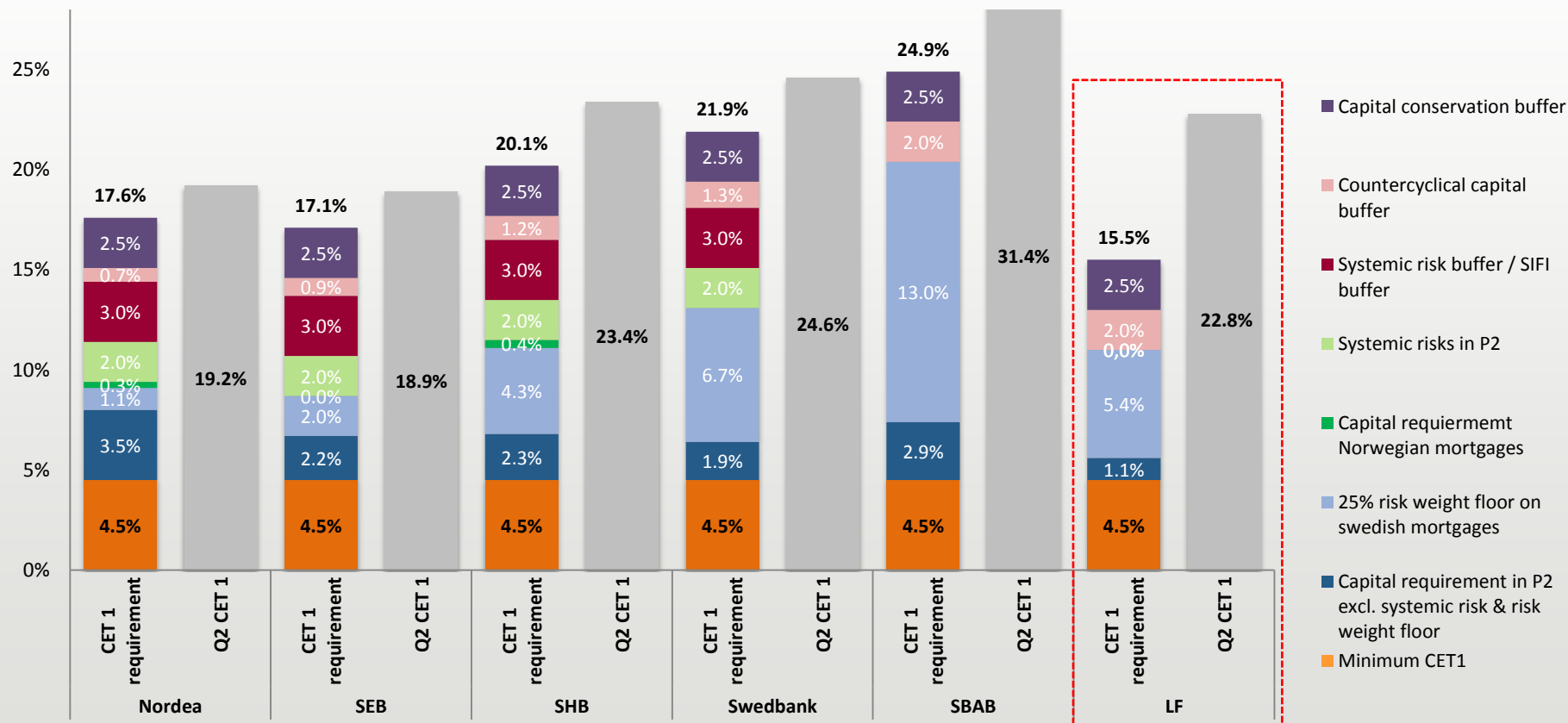
Efficient and reliable enforcement process

Welfare system

A generous social security and unemployment benefit system supports the debt service ability even during times of unemployment

CET1 requirement Swedish Banks

LF Bank has a larger buffer to the CET1 requirement than its main peers

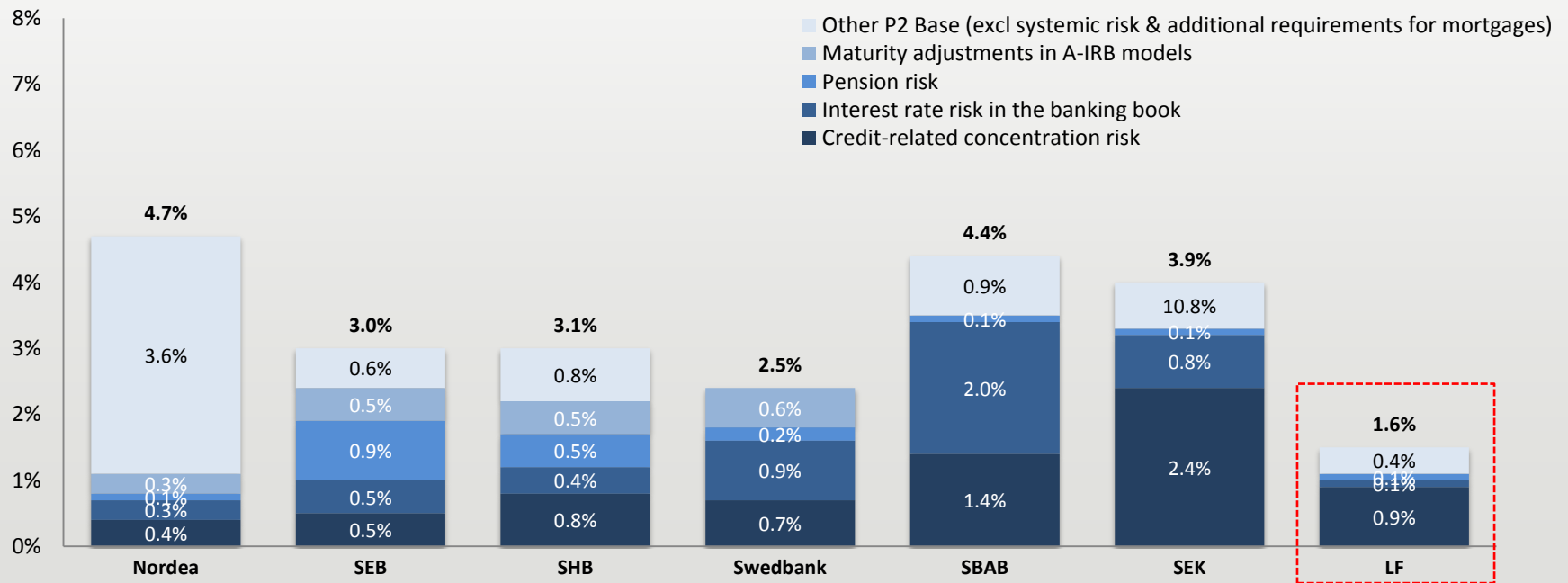


Source: Swedish FSA, Capital requirements for the Swedish banks, Q2 2017

Low risk profile confirmed by pillar 2 requirements

- SFSA has published the capital requirements for Swedish banks for Q2 2017
- Includes disclosure of the individual Pillar 2 requirements of the respective banks

- The Pillar 2 requirement is split in 5 components: 1) Credit related concentration risk 2) interest rate risk in the banking book 3) pension risk 4) Maturity adjustments in A-IRB models 5) Other Pillar 2 risks
- LF Bank has low Pillar 2 requirements in relation to peers



Source: Swedish FSA, Capital requirements for the Swedish banks, Q2 2017

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