



Landshypotek Bank investerarpresentation

2020-06-02



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Executive summary

- Low risk business model with a loan portfolio that is collateralised with low LTV assets
- Low levels of credit losses and stable growth in lending business
- Stable performance despite the Covid-19 situation
- Landshypotek Bank is taking market share and increasing the customer base with mortgage loan for houses that was launched during autumn of 2017
- Enhanced customer focus with efficient customer segmentation to meet different needs and preferences
- The bank has a conservative capital position and outperforms peers in leverage ratio
- The Swedish National Debt Office (the Resolution Authority) decided that Landshypotek Bank is one of nine institutions to be subject to full resolution planning and MREL requirement

1. This is Landshypotek Bank

Summary

- Landshypotek Bank's vision is to enhance life in the countryside
- A leading low risk bank in the agriculture and forestry sectors
- Landshypotek Bank is using proactive strategies to cope with the ever changing environment
 - Enhance customer focus with efficient customer segmentation to meet different needs and preferences
 - Growth in mortgage loans to achieve greater economy of scale
 - First bank to offer digital on-boarding solution for agriculture customers
 - Continue with development of digital solutions in order to reduce cost of sales and meet customers' demand
 - Improve in-house development capabilities and work in cross-functional teams to share knowledge and experience.

Landshypotek Bank's vision

Vision

- Landshypotek Bank finances initiatives for a richer life in the countryside
- It started in 1836 with the very first building society. By that time, we were already contributing to the development of a living in the countryside
- The main task is to provide competitive financing and to offer financial services to Sweden's farmers and foresters
- Landshypotek Bank strives to be a sustainable bank by promoting and supporting the Swedish agriculture and forestry industry by offering solid and sustainable financial services
- It is also the bank for everyone who wants competitive terms for savings and who wants to contribute to a richer life in the countryside
- In 2017 Landshypotek Bank decided to increase the customer base by launching a new product, mortgage loan for houses



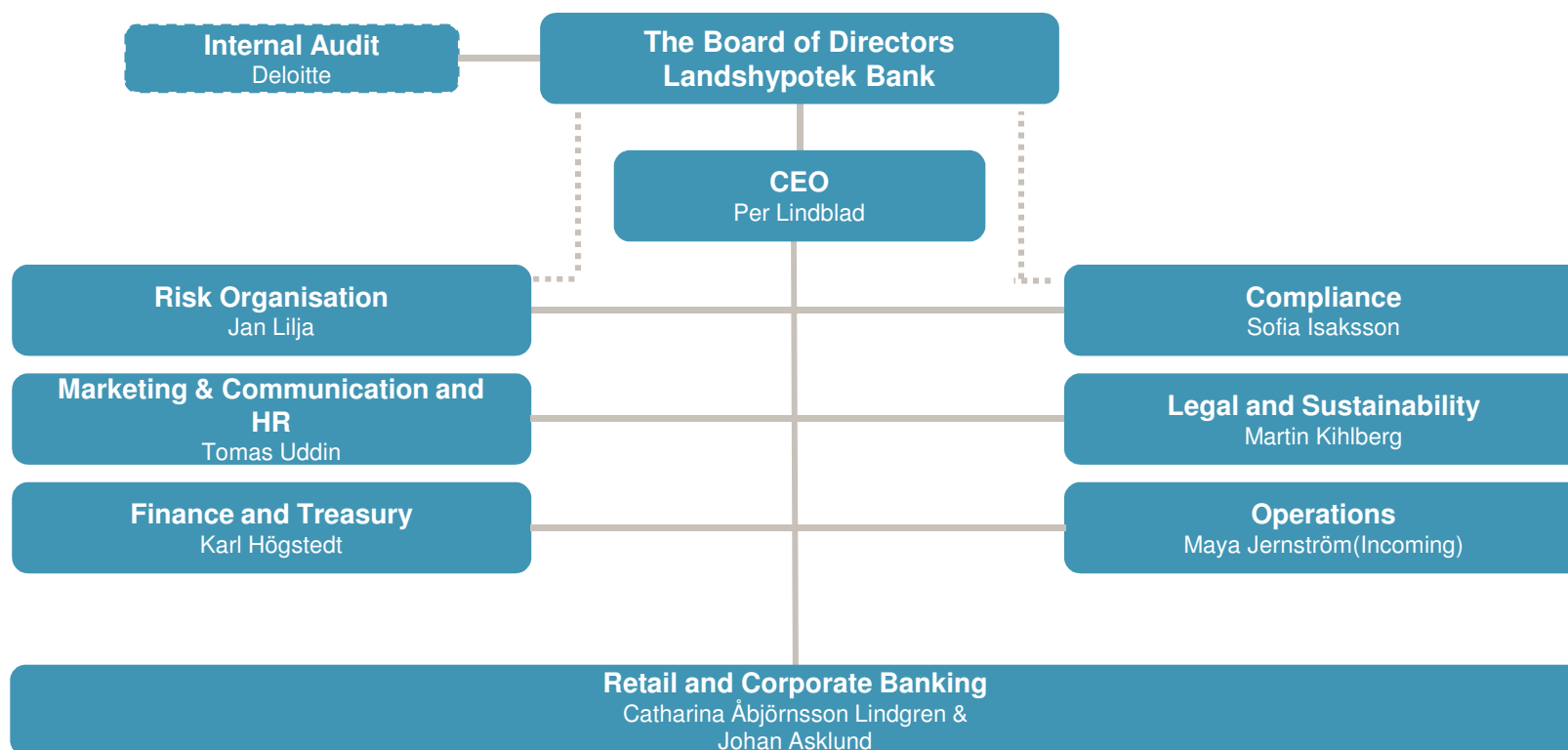
Low risk bank in the agriculture and forestry sectors

Key facts

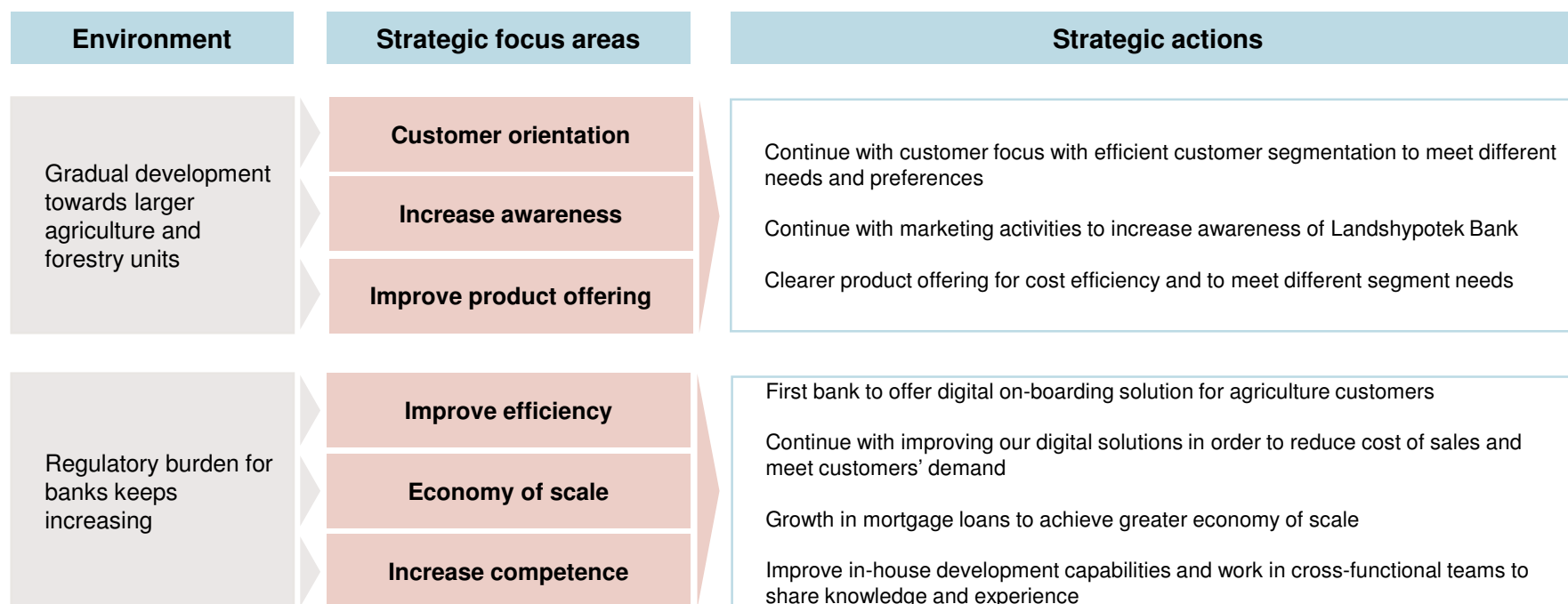
- Loans outstanding to the agriculture & forestry sectors of SEK 69.4bn and mortgage loans of SEK 7.7bn
- 99.5 % of the loan portfolio is first-lien mortgages
- Deposit is SEK 14.1bn
- Market leader with about 24 per cent of total lending to the sector
- Owned by our 38,000 loan customers, who are members of Landshypotek Ekonomisk Förening
- Profit is returned to the agriculture and forestry sectors, through reinvestment in operations and through payment of dividends to members
- 85,000 customers (deposits and borrowing)
- 200 employees, 70 account managers – all with a degree in or experience from farming and forestry
- Offices in 19 regional places
- Fitch rating A (negative outlook), S&P Covered Bonds rating AAA, S&P rating (ICR) A
- Landshypotek Bank is considered as a systemically important bank and subject to full resolution planning



Organisational chart



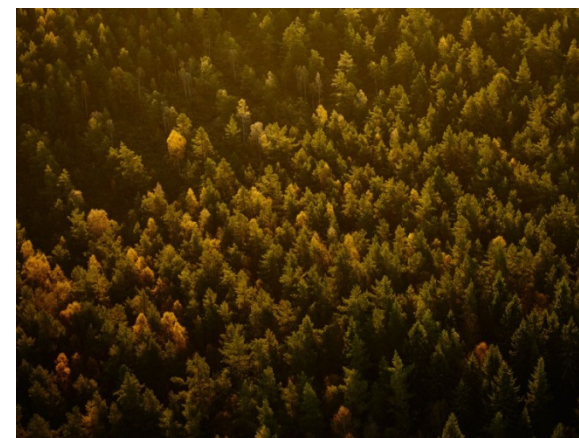
Landshypotek Bank is focusing on proactive strategies to cope with the ever changing environment



Landshypotek Bank focus on ESG

Embedded within the business – providing finance to the agriculture and forestry sectors

- Main purpose: Provide competitive financing to Swedish agriculture and forestry sectors – requires sustainability through economic, social and environmental responsibility
- Sustainability considerations are integrated parts of the credit assessment for relevant customers
- Increased transparency of internal governing policies on website
- By being member-owned, the bank's business model contributes to an economically and socially sustainable society
- Issued the first Swedish green covered bond in May 2018 financing sustainable forestry, SEK 5.25bn, followed by a second issue in November 2019 amounting to SEK 3bn
- Participating in sustainability discussions in the financial market through Swedish Banker's Association
- Increased focus on sustainable finance and climate change from EU and other external bodies and organisations – the bank needs to be updated and take actions
- Together with our customers, we make Sweden grow sustainably by financing the country's farmers and foresters as well as living outside the main cities



Sustainability for Landshypotek Bank

Sustainability integrated in the business model of Landshypotek



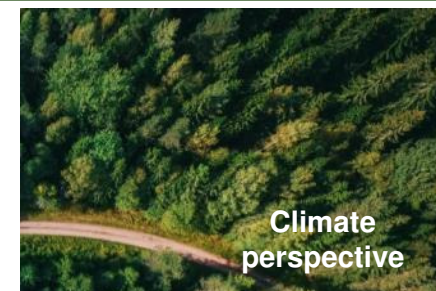
- Sound and responsible lending
- Simplicity and transparency in credit process – all customers
- High ethical standards e.g. conflict of interests, AML and low risk culture
- Sound profit generation
- Profit reinvested or paid as dividend to members and thus returned to agriculture and forestry sectors



- Long-term customer relationships
- Following customers through one generation to next
- Sustainable ownership structure – one member one vote
- Financing a flourishing and sustainable countryside – in open landscapes, well preserved forests and locally produced food
- Job opportunities and living outside the main cities in Sweden



- Swedish agriculture and forestry are important factors for a diverse landscape with biodiversity
- Swedish agriculture is known for high ethics regarding animal welfare and low use of antibiotics
- Environmental analysis is required key part of the customer analysis



- Forest is a key factor in the transition to a fossil-free society
- Agriculture can be part of the solution regarding climate change as it is a natural part of the carbon cycle
- Swedish agriculture is advanced and resource efficient

2. Covid-19 impact

Summary

- An estimate of 30% of the bank's employees worked from home due to Covid-19, no work-from-home difficulties have been identified
- Maintaining strong capital and liquidity position even when the crisis hit
- Conservative approach regarding GDP- and property price development in IFRS 9 model
- In-depth analysis of specific customers with income from the agro-tourism sector

Impact on the organisation and processes

- Business operations are relatively unaffected by the outbreak of Covid-19. Sick leave is stable and around 2-3% during the pandemic.
- In the middle of April, an estimate of 30% of the bank's employees worked from home. In Stockholm the number of employees working from home are slightly higher, around 40-50%. No work-from-home difficulties have been identified.
- No need to activate continuity or crisis plans.
- Initiatives have been taken to systematically assess and manage the situation, from both an operational and a strategic perspective. In particular, customers experiencing financial strains have been encouraged to contact the bank about, for example, temporary amortisation relief and other possible measures.
- Annual regional meetings were held by telephone and members who wished to participate were invited.
- The general meeting of the bank and the association's meeting will be held on 17th of June 2020.

Expected credit loss

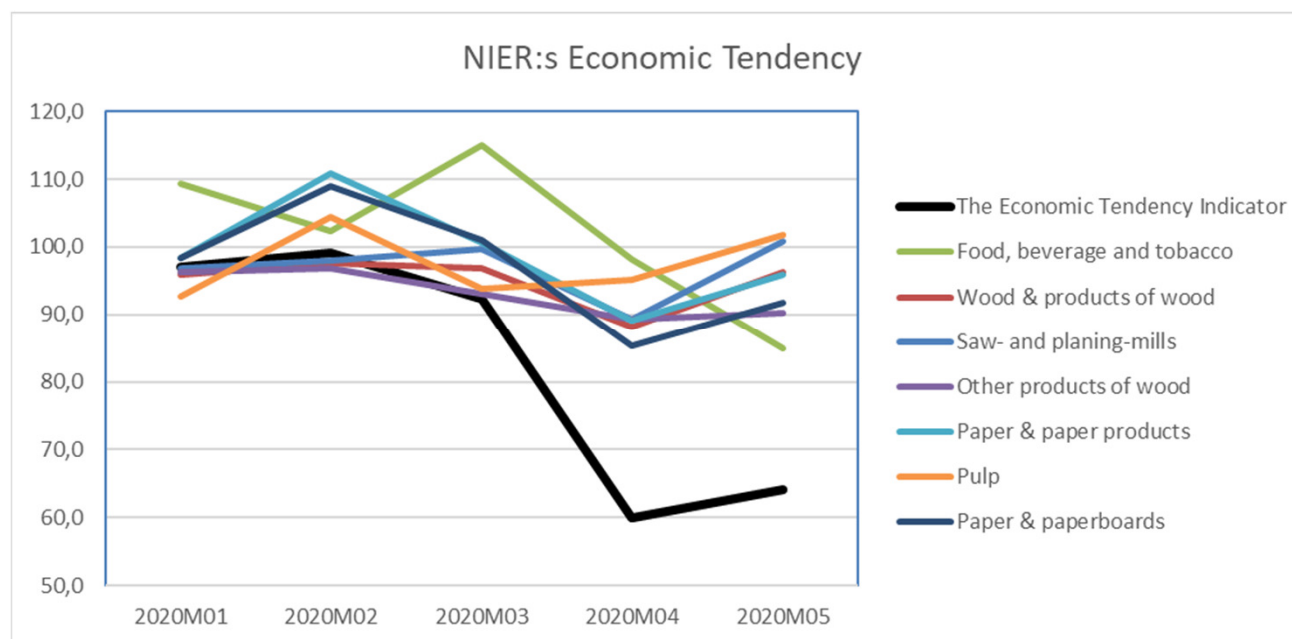
Impact on customers

- Food demand is generally inelastic and the overall effect on consumption will be likely limited
- Stable outlook for major staple crops and products
- Past due and non-performing loans remain at historical low levels during Q1 2020
- Low levels of Covid-19 related instalment reliefs
- The impact of Covid-19 is expected to be higher in forestry as demand is expected to decline
- Signs of increased market share due to lockdowns in USA and Canada
- Sweden has a strong social welfare system to protect individuals
- Majority of households in Sweden are dual-earners

Revised scenarios in the IFRS 9 model

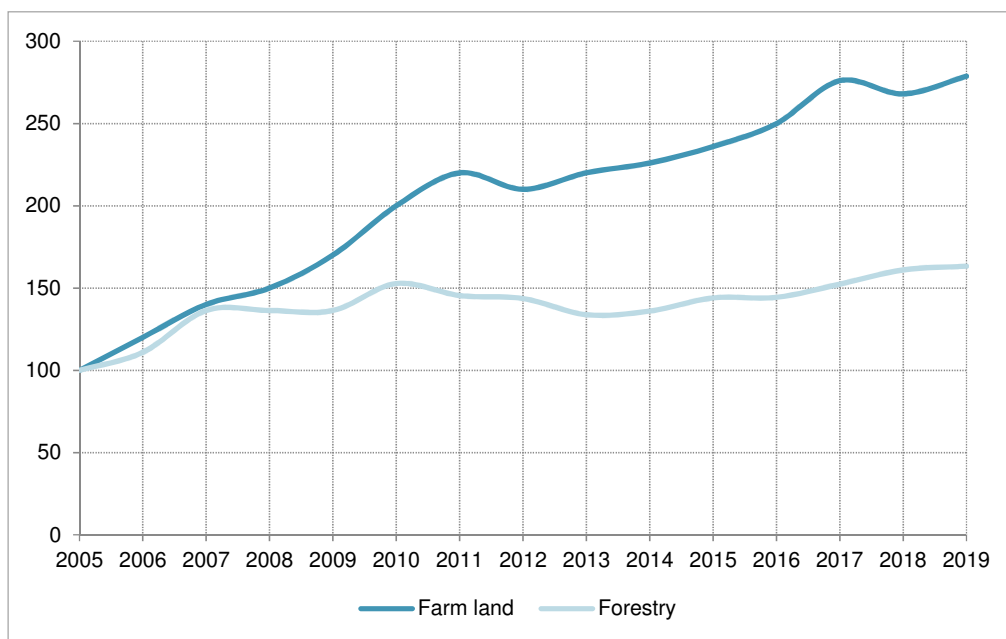
- Conservative approach regarding GDP and property price development
- In-depth analysis of specific customers with income from the agro-tourism sector

Impact on customers business



Agriculture market overview

Property price development 2005-2019



	1Y	5Y
Farm land	+4%	+23%
Forestry	+1.4%	+20%

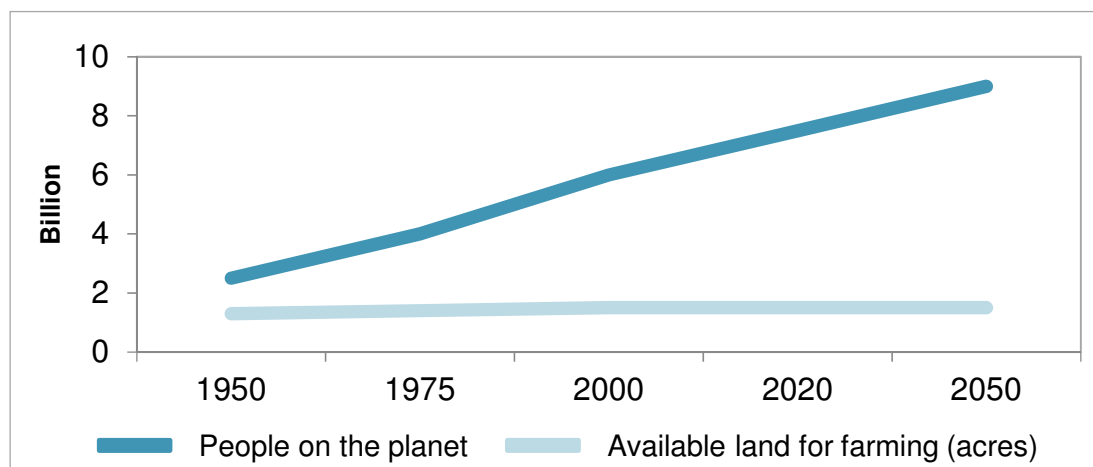
- Property prices for farmland had a slight decline in 2018, possibly as a result of the year's drought. The long-term trend is increased price levels.
- Average price for forestry properties increased in 2018. The exception was northern Sweden which experienced a slight decline in prices. The five year-trend is increased price levels for all areas in Sweden.

Agriculture market overview

Cattle	Pork	Poultry	Dairy	Cereals	Forestry
<ul style="list-style-type: none"> • The impact of Covid-19 is expected to be moderate. • In several EU countries prices have dropped in the past weeks. In Sweden prices have been more stable. This is an affect of exchange rate but also a result of a trend where consumer prefer beef from Sweden in larger extent. 	<ul style="list-style-type: none"> • The prices have been volatile in the EU during the start of the year, due to uncertainties regarding exports to China and logistic problems. • In Sweden prices have slowed down after prolonged price increase. Prices are +15% corresponding period 2019. • The market is still unstable due to the outbreak of African swine fever. The global production is in general reduced 	<ul style="list-style-type: none"> • Poultry consumption continues to increase as well as the demand for poultry produced in Sweden. • This trend can be strengthened in a situation where consumers' economy is weakened. Demand for poultry can increase since the price is lower than other types of meat. • Covid-19 is expected to have a limited effect on the market of eggs 	<ul style="list-style-type: none"> • Prices in Sweden have remained stable through the start of the year • When schools are closed and restaurant visits become fewer, consumption of dairy products within the EU might decrease. • Demand for Swedish dairy products will increase when a larger share of the food intake take place in the homes. 	<ul style="list-style-type: none"> • Global cereal markets are expected to remain balanced despite worries over the impacts of Covid-19. • Cereal prices have been relatively stable during the start of the year. • The start of the growing season 2020 is promising due to favorable weather conditions. 	<ul style="list-style-type: none"> • The impact of Covid-19 is expected to be higher as demand is expected to decline • Increased export market share due to lockdowns in USA and Canada • The sector has a long-term perspective and has recently had a longer period with high prices. • The sector has good cooperation and is well prepared to face a situation with swarms of bark beetle.

Agriculture market overview

Long-term trend for population and farm land



Source: UN

- The need for food the coming 20-25 years is double the amount that has been produced during the last 10,000 years
- Production improvements have compensated for growing population
- Restrictions on pesticides and plant breeding as well as shortage of water put pressure on further efficiency improvements

2. Financial update

Summary

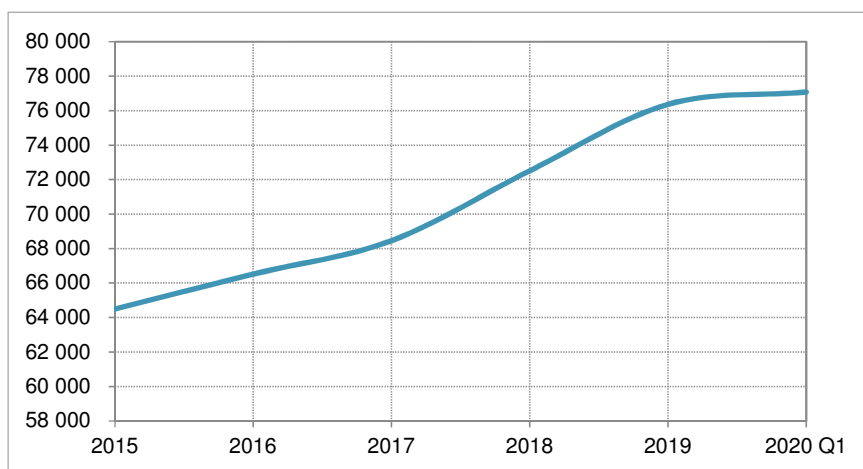
- Higher net interest income in 2020 Q1 compared with 2019 Q1
- Stable performance despite the Covid-19 situation
- Cost development is according to investment plan
- Credit losses still on historic low levels
- Positive contribution from mortgage loans

SEKm	2020 Q1	2019 Q1	Δ QoQ	2019	2018	Δ YoY
Net interest income	211	206	5	815	799	16
Net gain financial items	6	0	6	-1	17	-19
Other income	1	1	-1	62	5	57
Total income	217	207	10	876	822	54
Total expenses	-120	-112	-8	-461	-428	-33
Profit before impairments	97	95	2	415	394	21
Credit impairments	2	-8	11	3	-8	11
Operating profit	99	87	12	418	386	32

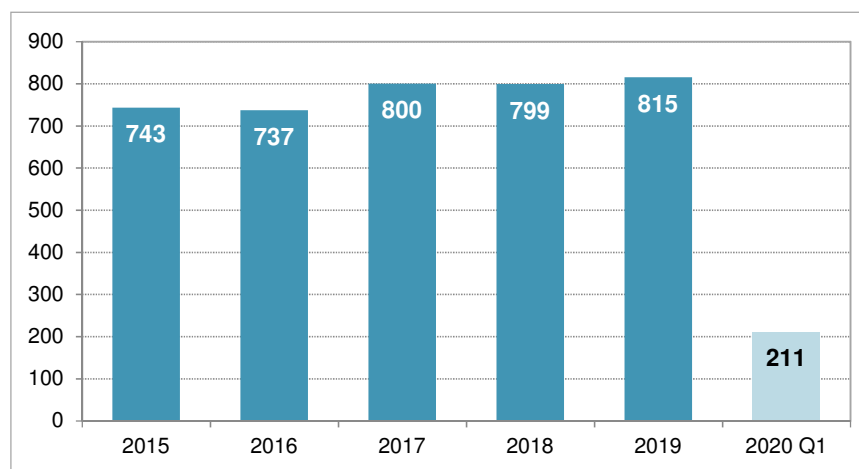
- Net interest income is higher in 2020 compared with 2019 despite instability in the financial market
- There is so far no negative impact on the result from the Covid-19 situation
- Investment costs are according to plan
- Lower credit loss due to reversal of prior provisions
- IFRS 9 model adjusted for Covid-19 effects, both the mechanical calculation as well as individual cases in stage 3

Stable growth in loan portfolio, positive effect in NII

Loan portfolio, SEKbn

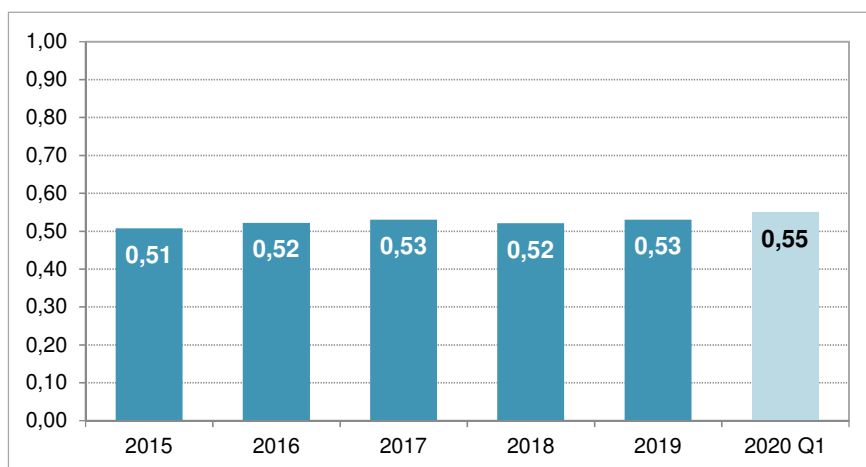


Net interest income, SEKm

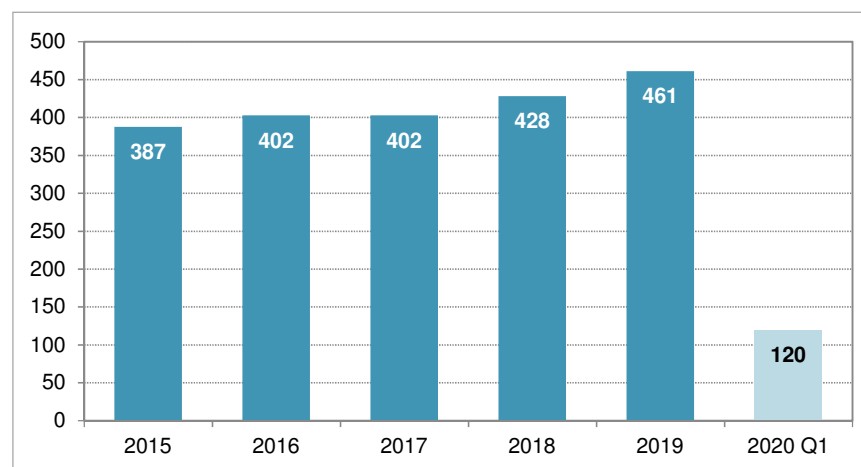


Stable cost levels

Cost income ratio excl loan losses



Total expenses



3. Asset quality

Summary

- Landshypotek Bank has 3 lines of defence that work together at different stages in order to mitigate risks. Risk organisation is the second line that is in charge of risk governance and control
- 99% of customers have personal liability and post collateral with mortgage deed in real estate
- Loan portfolio is collateralised with low LTV assets
- The value of arable land and forestry compose the vast majority of the collateral
- Well diversified portfolio in terms of geographical and business distribution
- Exposures are classified out of loan size, turnover and income
- Excellent performance of credit losses over the years

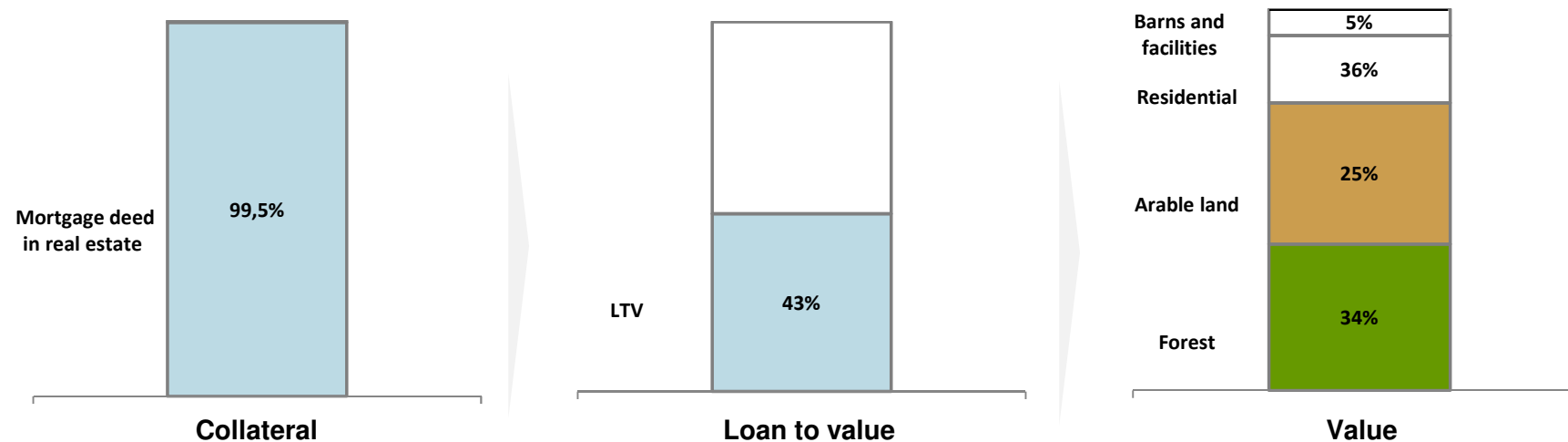
99% of customers have personal liability and post collateral with mortgage deed in real estate

Swedish agriculture and forestry

- Business is conducted as sole proprietorship (Sw. *enskild näringsidkare*) – due to Swedish legislation on land ownership
- Sole proprietorship is a private individual with personal liability
- 99% of Landshypotek Bank's customers are private individuals with personal liability
- Exposure weighted LTV 43 %
- Customers post collateral with mortgage deed in real estate
- Capital intense in relation to turnover and earnings
- Structural changes lead to larger units
- The structural changes have been gradual

Loan portfolio is collateralised with low LTV assets

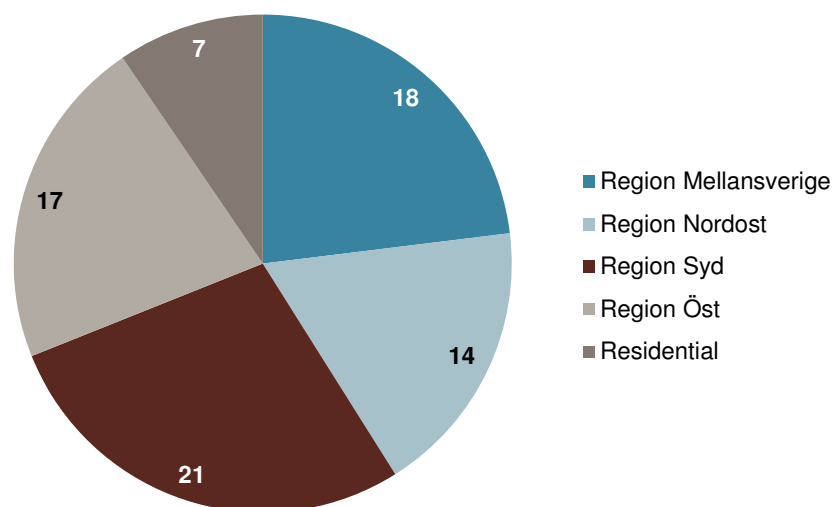
Portfolio overview



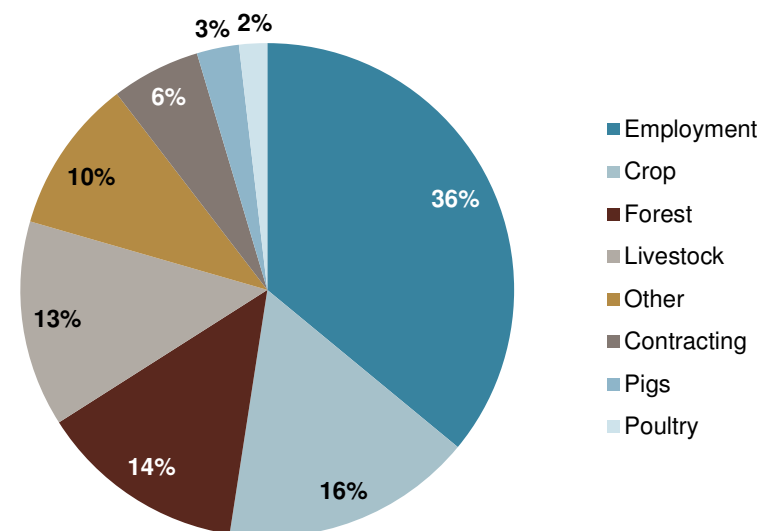
99.5 % of the loan portfolio is first-lien mortgages with LTV of 43 %

Well diversified portfolio in terms of geographical and business distribution

Asset portfolio per business region, SEKbn



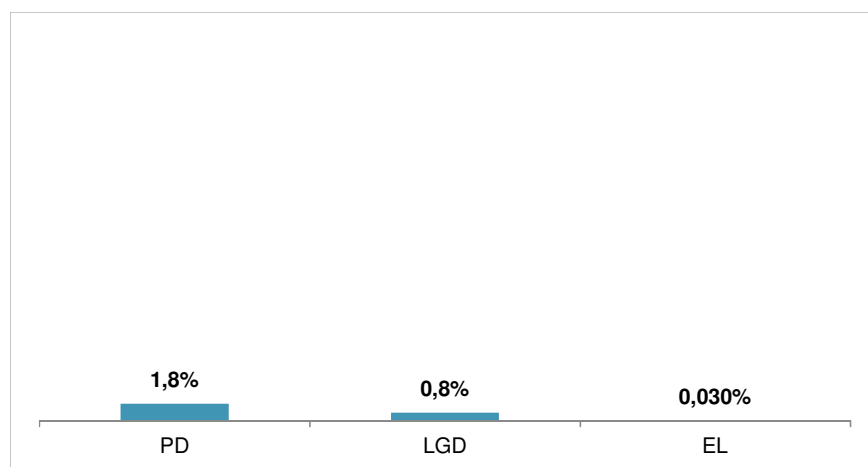
Asset portfolio, business distribution, %



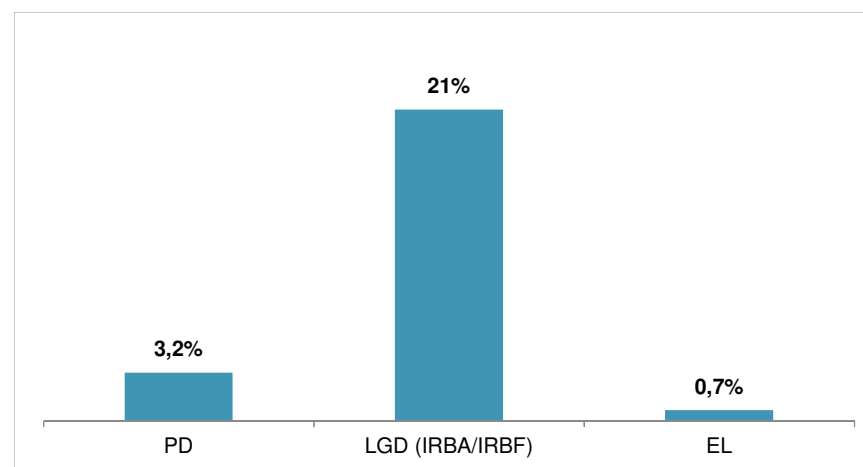
Average debt per customer is SEK 1.7m

Internally used estimates are significantly lower than estimates for capital adequacy

Exposure weighted estimates used internally



Exposure weighted estimates used for capital adequacy

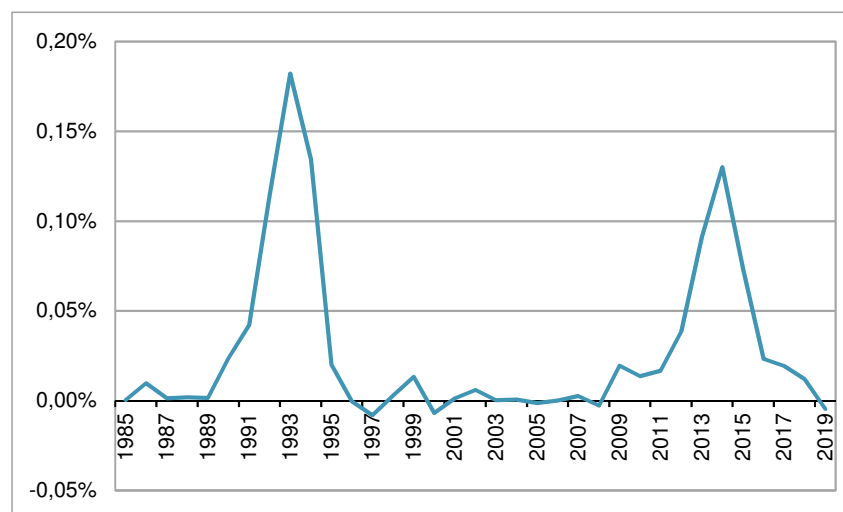


Internally used estimates are significantly lower for PD, LGD and consequently EL. Exposure weighted LTV ratio is 43%. Losses for the total IRB lending portfolio has been 0.048% in average 2013-2019*.

Great performance in credit losses due to high asset quality and improved processes

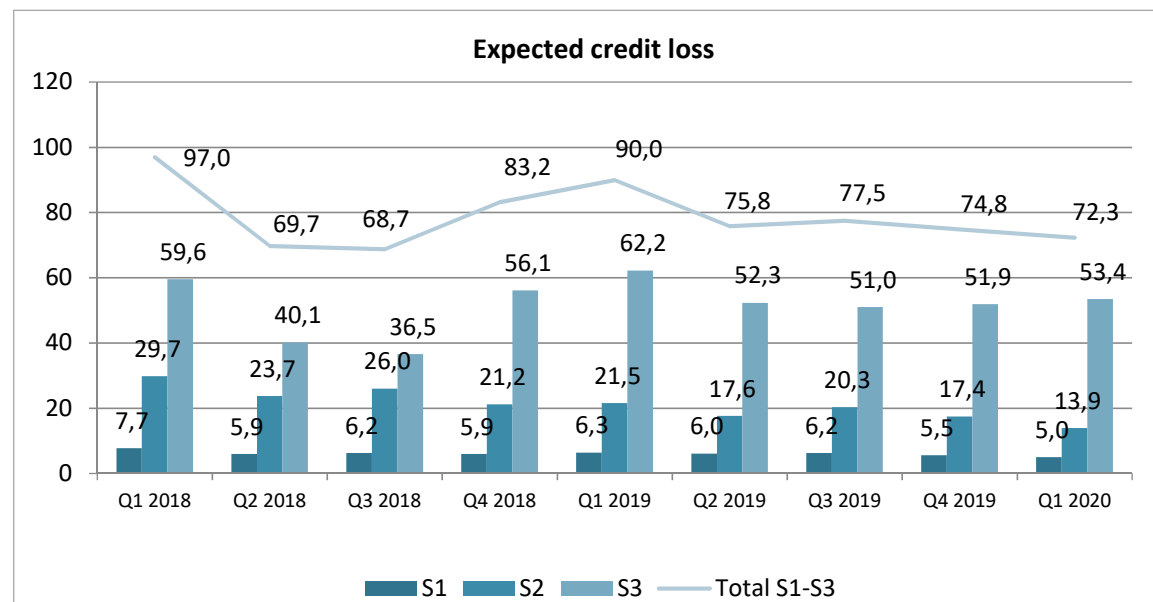
Credit losses

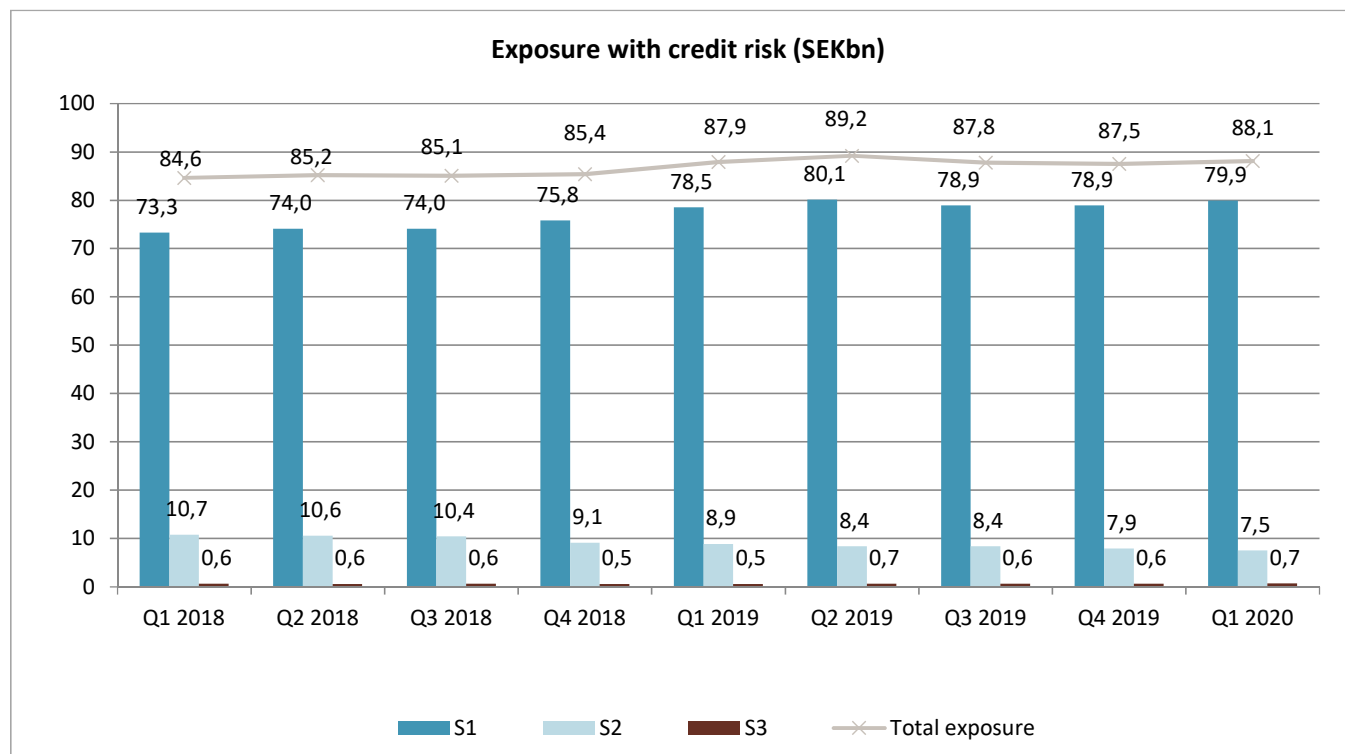
- Losses in 2019 amounted to SEK -3.1m (0.00%), compared with SEK 8.3m for 2018 (0.01%)
- Losses in Q1 2020 amounted to SEK -2,2m
- Total credit losses since 1985 amounts to SEK 376m which makes an average per year of 0.03%
- Continuous review of processes in identifying, monitoring and controlling credit risk in order to avoid potential credit loss
- The insolvency department and the workout unit are proactively handling customer insolvency



Drivers of ECL

- Portfolio at reporting date
 - Default frequency
 - Property market value (LTV)
 - PD risk class (stage classification)
- Macroeconomic scenarios
 - Property price development
 - Interest rate development
 - GDP development





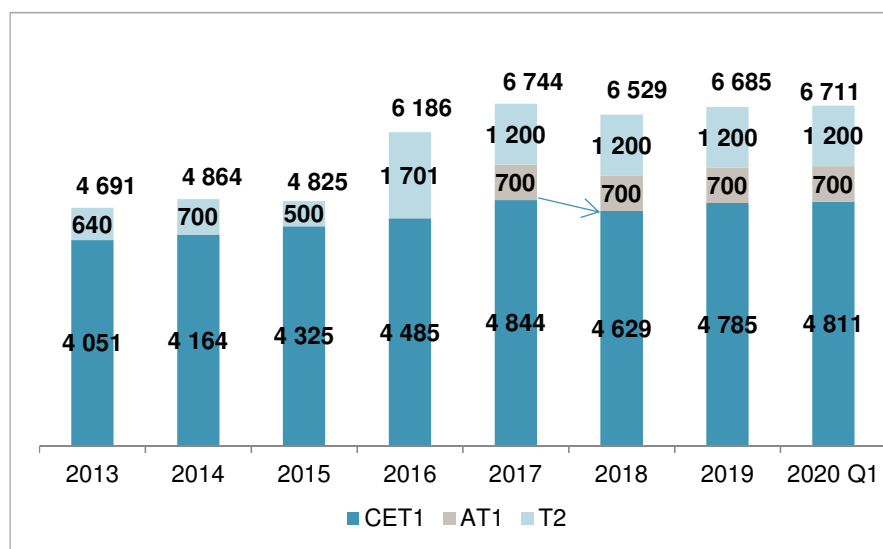
5. Capital adequacy

Summary

- CET1 capital ratio strong compared to requirements
- Landshypotek Bank outperforms peers in leverage ratio
- Cover pool has lower LTV than other banks

Capital development over the years

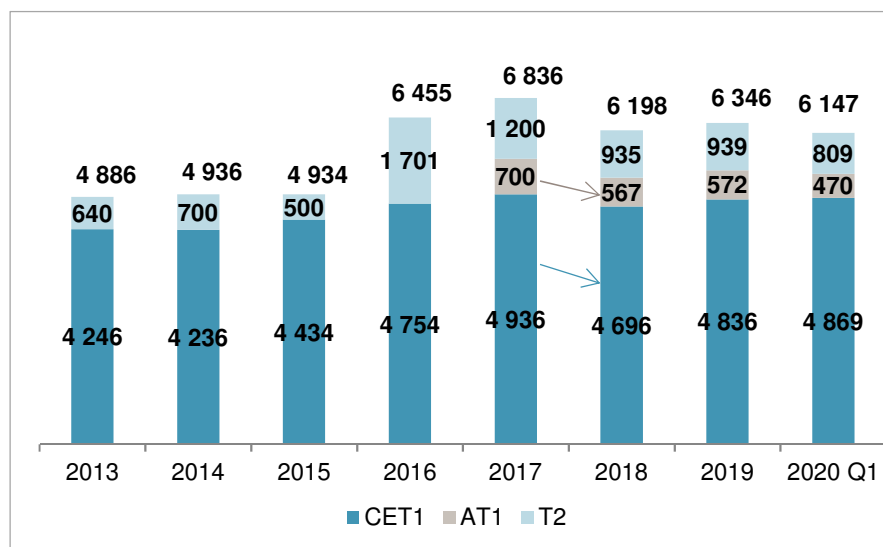
Total capital (SEKm) - Landshypotek Bank AB



- The reduction of CET1-capital between 2017 and 2018 is due to an increase in the EL deduction from CET1 as a consequence of using IRBF for corporate exposures. The EL calculation for corporate exposures is very conservative since it is calculated using IRBF regulatory prescribed LGD estimates as opposed to IRBA LGD estimates. Prior to the implementation of IRBF for corporates, the deduction was taken into account as an increase of Pillar 2, see previous slide.

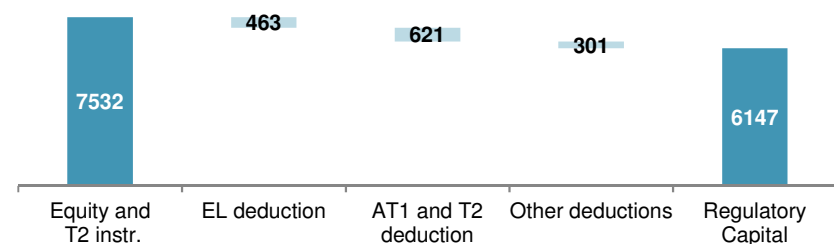
Capital development over the years

Total capital (SEKm) - Consolidated situation



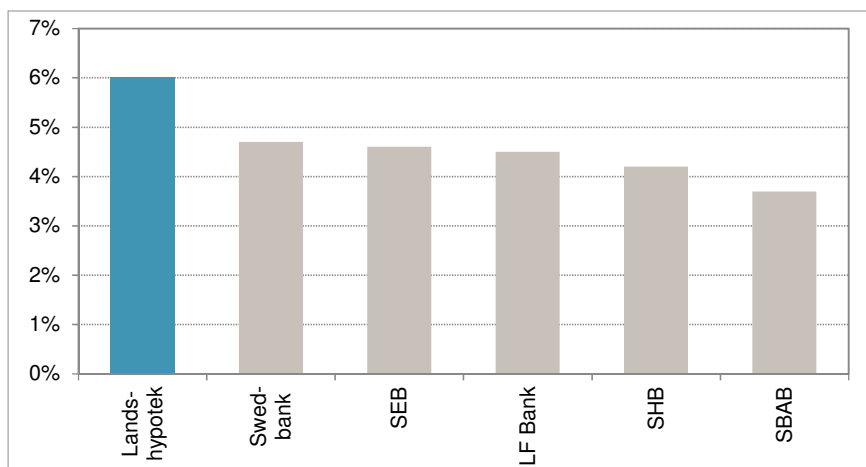
- The deduction regarding AT1 and T2 capital at the consolidated level between 2017 and 2018 are explained by the fact that subordinated loans issued by Landshypotek Bank AB, after a clarification from EBA regarding the scope of Articles 82, 85-88 of CRR, cannot be fully utilized in the calculation of capital at the consolidated level. However, as the utilization rate is calculated based on the surplus of capital compared to capital requirement (sum of pillar 1, pillar 2 and buffers), if the capital requirement were to be identical with the capital base, the subordinated loans would be fully included also at the consolidated level.

Deductions

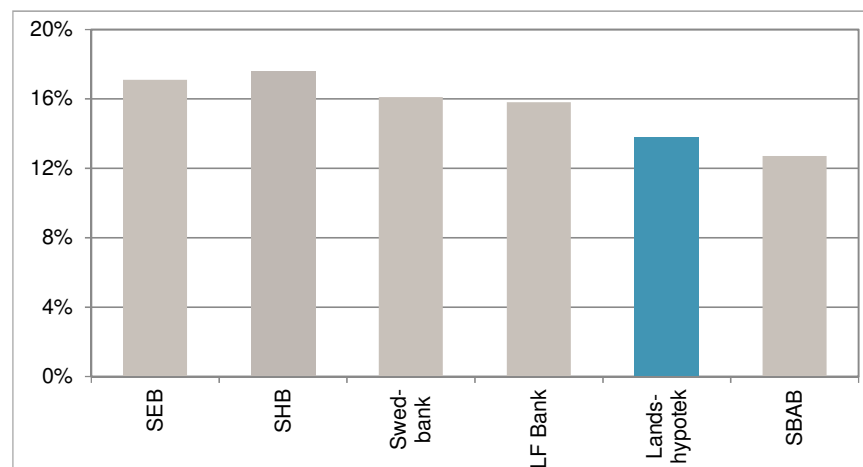


Higher leverage ratio compared to other banks but lower CET1

Leverage ratio

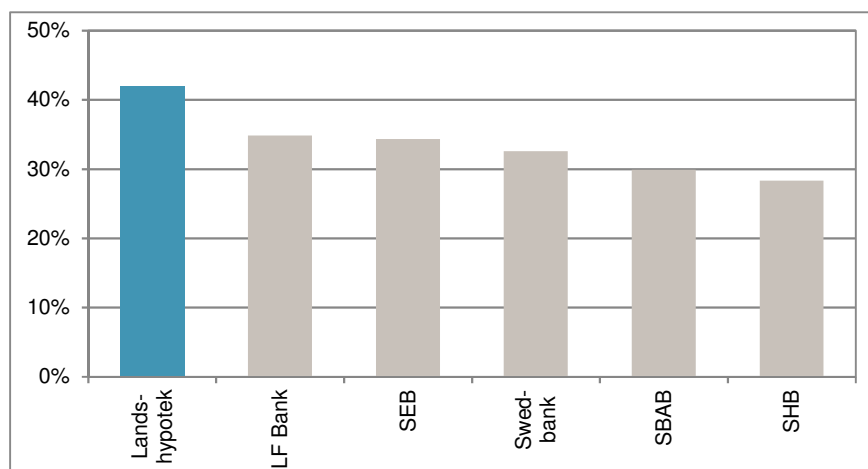


CET1

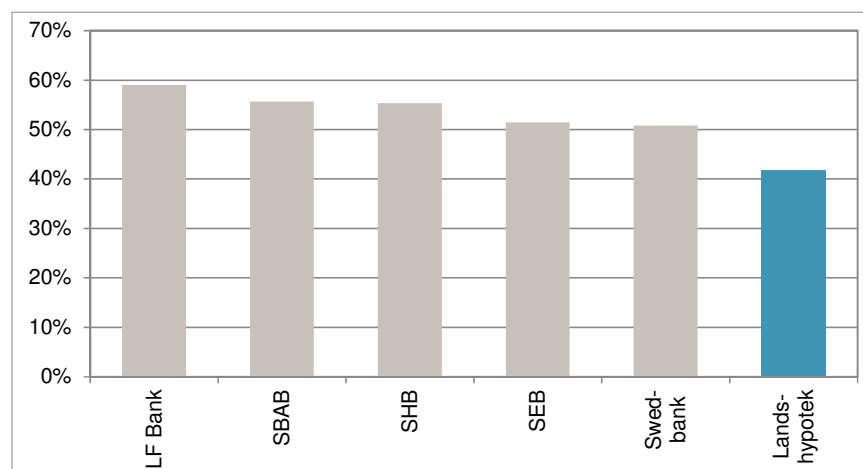


Higher riskweights despite lower LTV

Riskweights

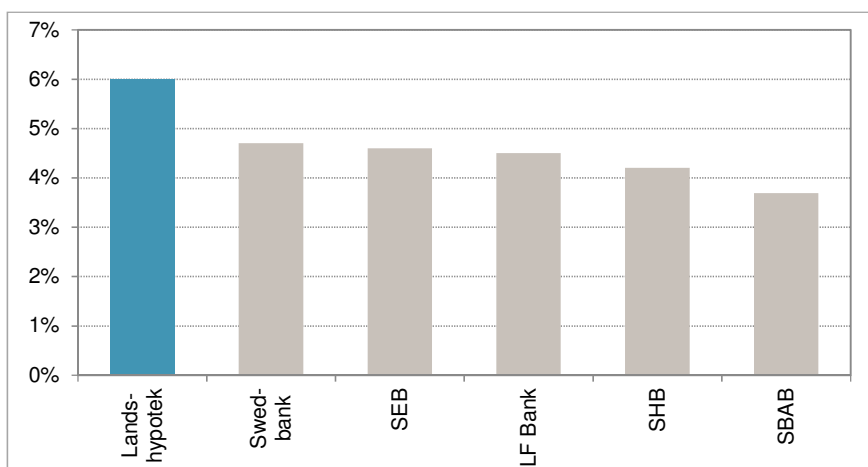


Cover pool LTV

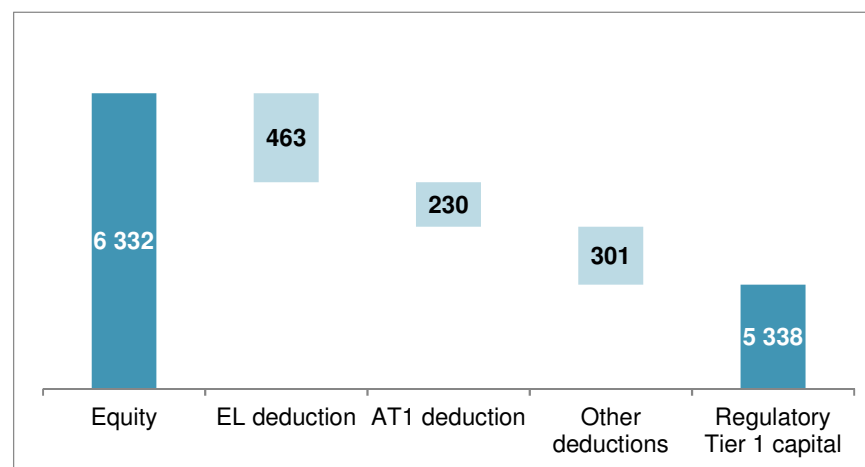


High leverage ratio compared to other banks despite large deductions

Leverage ratio



Deductions



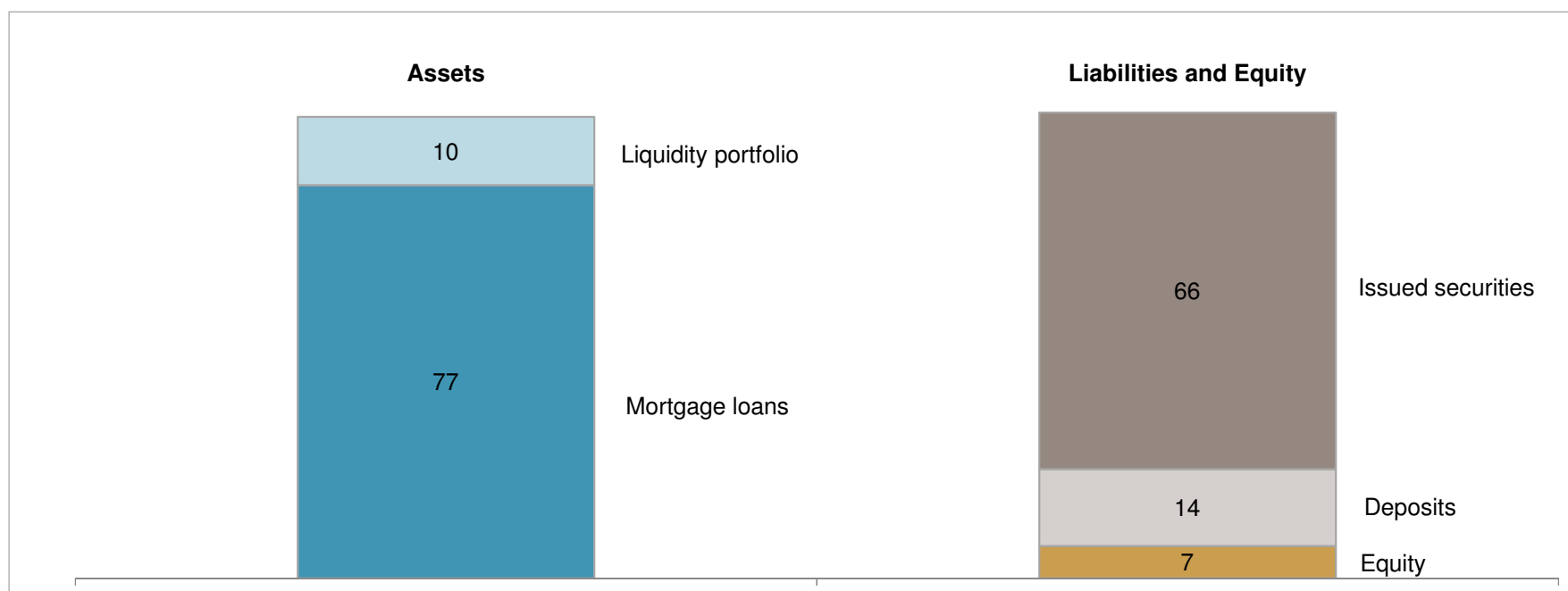
6. Funding, liquidity and cover pool

Summary

- Landshypotek Bank's low risk business model is reflected in the balance sheet structure
- Deposits reduce funding need going forward and deposit is now close to 20% of funding
- Landshypotek Bank takes a conservative funding position
- The cover pool has very low LTV and geographically well diversified

Landshypotek Bank's low risk business model also reflected in the balance sheet structure

Core balance sheet structure SEKbn



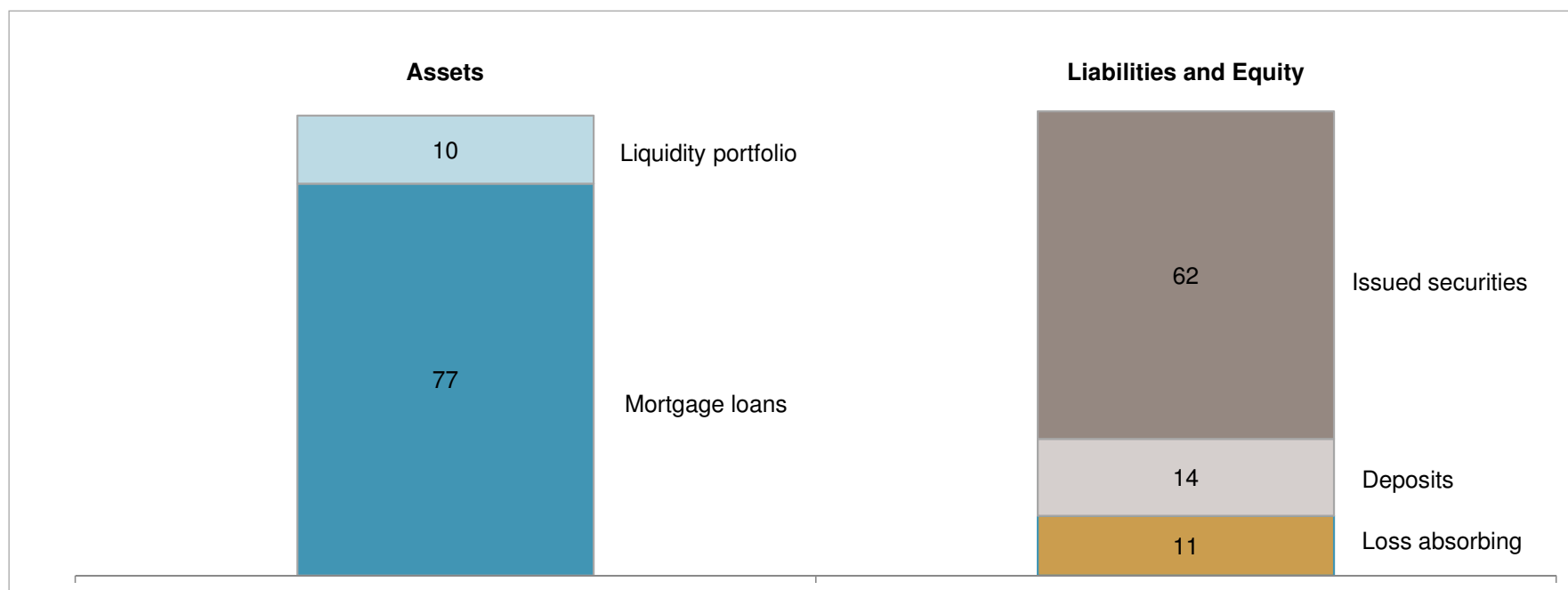
BRRD implementation

Resolution – Landshypotek critical to financial system

- On 20 December 2017 the Swedish National Debt Office (the Resolution Authority) decided that Landshypotek Bank is one of nine institutions to be subject to full resolution planning and MREL requirement
- SNDO preferred resolution strategy: (i) bail in combined with restructuring or (ii) bail in combined with bridge institution
- All liabilities used by the bank to meet the MREL requirements shall be subordinated
- The bank must gradually build up the volume of subordinated liabilities required to meet the minimum requirement by 1 Jan 2024, recently prolonged from 1 Jan 2022
- Still some uncertainty whether SNDO will follow BRRD2 regarding calculation of the requirement
- Landshypotek Group MREL as percentage of total liabilities and own funds 8,03%. Recapitalization amount is SEK 3 433m
- The bank plans to issue SEK 4 000m of SNP to have a conservative buffer to the requirement, if the calculation is not in lined with BRRD2
- So far the bank has issued SEK 1 000m of SNP, 29,1 % of the requirement
- ³⁸ Landshypotek fulfils the current requirement

Landshypotek Bank's balance sheet structure after BRRD implementation

13 % of liabilities will be loss absorbing



Solid level of deposits, currently SEK 14.1bn

Increased focus on stickiness

- Close to reaching the banks goal of 20 % of funding from deposits
- Less favorable terms for non-sticky deposits
- Lower interest rate
- Lower deposit limits

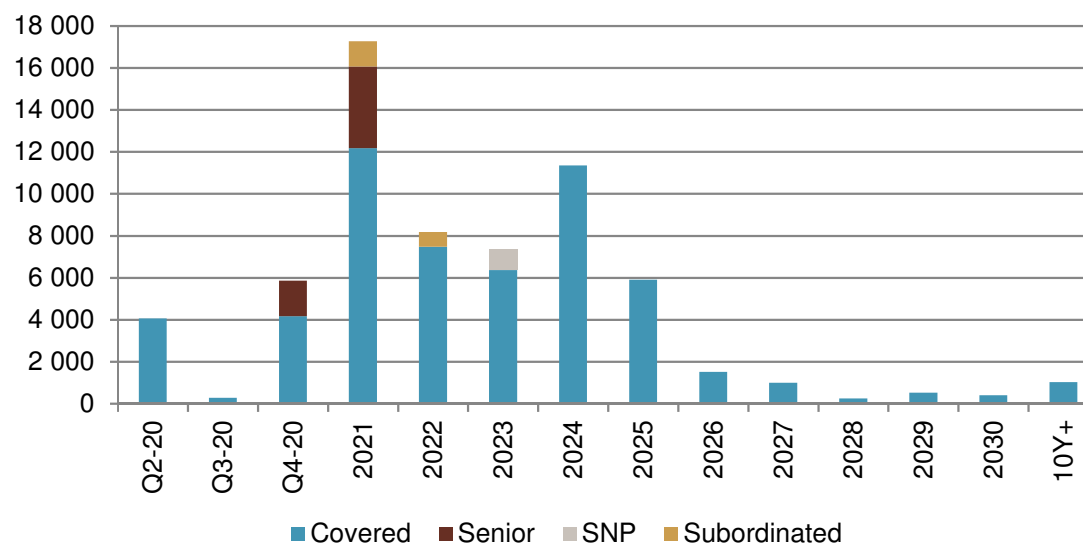
Deposit portfolio

	Member	Non member
Included in deposit insurance	19%	53%
Excluded from deposit insurance	9%	19%

Deposits reduce funding need going forward

Funding profile

Average maturity	3.1 years
Covered bonds	71%
Senior + Subordinated	11%
Deposits	18%
International funding	5%



Funding plan for 2020

Funding need SEKm	
Maturing covered	8 503
Maturing senior	1 700
Maturing subordinated	0
Increased liquidity portfolio	0
Credit growth	2 653
Total	12 856
Funding plan SEKm	
Covered	10 425
Senior	2 100
Subordinated	
Deposits	
Equity	331
Total	12 856

Conservative funding position

- LCR 452%
- NSFR 102%
- Stressed liquidity coverage is 199 days, internal limit 180 days
- Liquid assets SEK 9.9bn. Duration 2.40 years
- High quality assets AAA and AA+ rated Swedish Covered Bonds and Swedish Municipalities
- Eligible as collateral for transactions with the Swedish Central Bank
- The change in the Riksbanks collateral rules where the bank can use it's own covered bonds as collateral gives the bank practically unlimited liquidity



Cover pool data (1/2)

Rating S&P	AAA
Lending volume	SEK 73 037m
Geographic distribution	Sweden 100%
Average loan size	SEK 737 365
Number of loans	99 051
Number of properties	34 267
Substitute Assets	SEK 4 525m
Swedish Covered Bonds, AAA	SEK 3 450m
Municipalities	SEK 1 075m
Cover bonds	SEK -56 443m
Over Collateralisation	SEK 21 119m
Over Collateralisation	37.42%

Interest	
Floating	62%
Fixed	38%
Amortisation	
Amortising	98%
Non amortising	2%
Mortgage type	
Agriculture properties	88%
Residential properties	12%
Average LTV	
Volume weighted	43%

Cover pool data (2/2)

Seasoning	Years	Month	Concentration (borrowers)	Volume	% of volume
Loan level	6.24	75	Top 5	SEK 785m	1.07%
Customer level	17.57	211	Top 10	SEK 1 377m	1.89%
Property level	25.51	306	Top 20	SEK 2 359m	3.23%

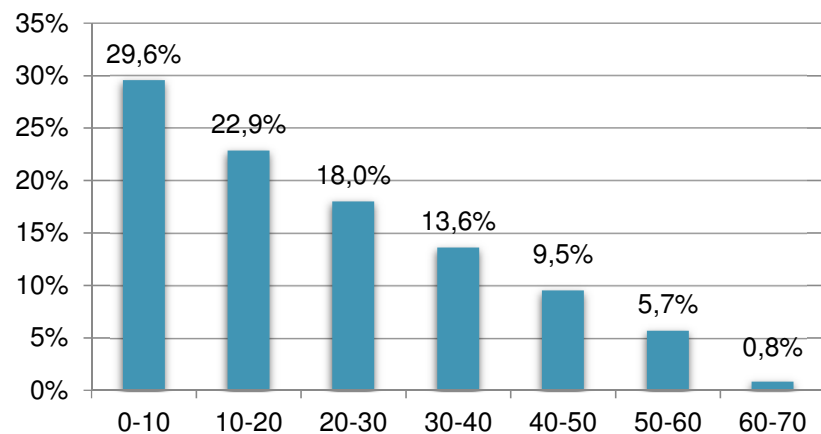
Geographical distribution, county % of total volume

Stockholm	6%	▶
Uppsala	4%	▶
Södermanland	4%	▶
Östergötland	11%	▶
Jönköping	4%	▶
Kronoberg	3%	▶
Kalmar	4%	▶
Gotland	3%	▶
Blekinge	2%	▶
Skåne	16%	▶



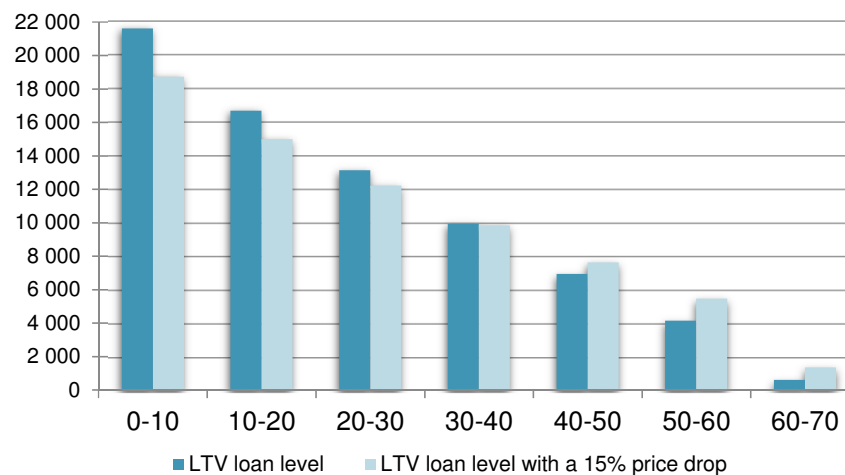
Halland	4%	◀
Västra Götaland	13%	◀
Värmland	6%	◀
Örebro	7%	◀
Västmanland	2%	◀
Dalarna	2%	◀
Gävleborg	2%	◀
Västernorrland	2%	◀
Jämtland	2%	◀
Västerbotten	2%	◀
Norrbotten	1%	◀

Loan amount by LTV bucket



Stress test LTV – 15% price drop

MSEK



Total change in cover pool – 3.78%

Executive summary

- Low risk business model with a loan portfolio that is collateralised with low LTV assets
- Low levels of credit losses and stable growth in lending business
- Stable performance despite the Covid-19 situation
- Landshypotek Bank is taking market share and increasing the customer base with mortgage loan for houses that was launched during autumn of 2017
- Enhanced customer focus with efficient customer segmentation to meet different needs and preferences
- The bank has a conservative capital position and outperforms peers in leverage ratio
- The Swedish National Debt Office (the Resolution Authority) decided that Landshypotek Bank is one of nine institutions to be subject to full resolution planning and MREL requirement

7. Landshypotek Bank— contacts and financial calendar

For further information

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Financial calendar

Q1 report

29th of April 2020

Q2 report

20th of July 2020

Q3 report

28th of October 2020

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Landshypotek Bank



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