



Landshypotek Bank

# Welcome to Landshypotek Bank

20 November 2018

# Table of contents

1. This is Landshypotek Bank
2. Agriculture market overview
3. ESG
4. Financial update
5. Asset quality
6. Capital Adequacy
7. Cover Pool
8. Summary

# 1. This is Landshypotek Bank

## Executive Summary

- Landshypotek Bank's vision is to enhance life in the countryside
- A leading low risk bank in the agriculture and forestry sectors
- From 2017 expanding business by introducing mortgage loan to private residential houses
- 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
  - Continue with development of digital solutions in order to reduce cost of sales and meet customers' demand

*Owner directives:*

*"Landshypotek Ekonomisk Förening aim to promote member's financial interests by ensuring that owners and landlords to agricultural and forestry properties receive competitive funding for their business trough the wholly-owned bank"*

# Landshypotek Bank's history



**1836** – the first mortgage association is founded in Scania, *Skånska hypoteksföreningen*



**1861** – *Sveriges Allmänna Hypoteksbank* is founded in order to ease funding



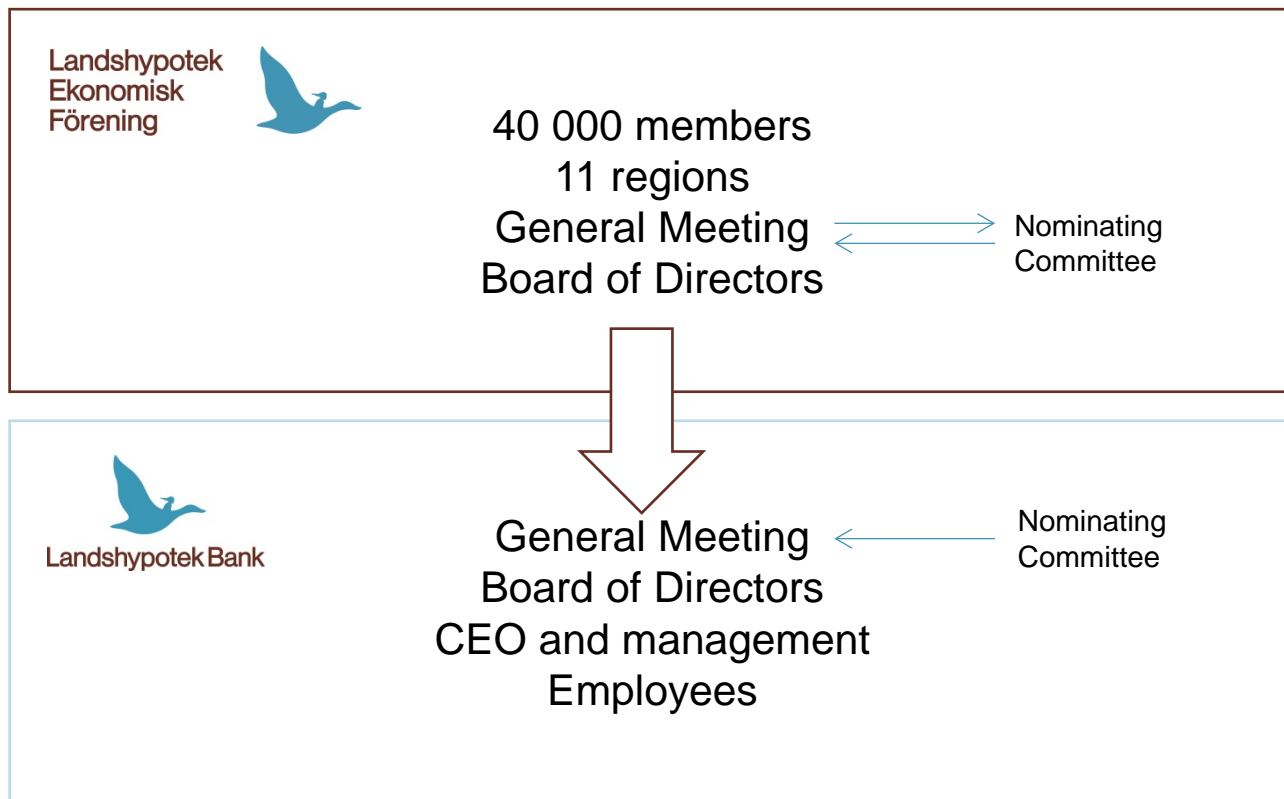
**1995** – *Landshypotek AB* is founded and regional associations are merging into one. Parting “ownership” and “operation”

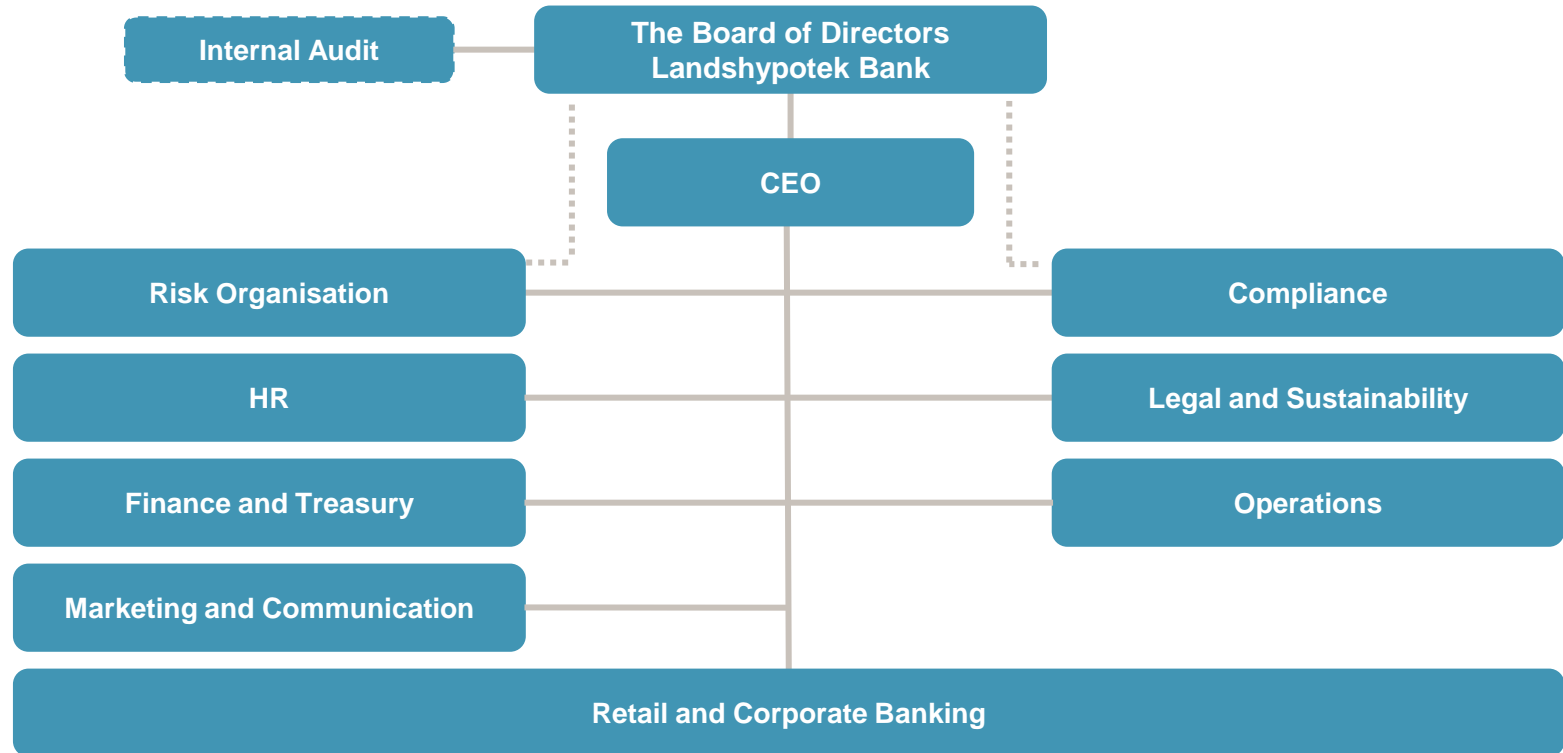


Landshypotek Bank

**2014** – a new brand is launched and *Landshypotek* becomes *Landshypotek Bank*

# Landshypotek structure

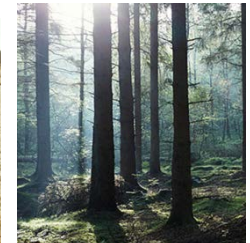




# Landshypotek Bank's vision

## 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 private residential houses



# Low risk bank in the agriculture and forestry sectors

**1 SEK ≈ 125 KRW**

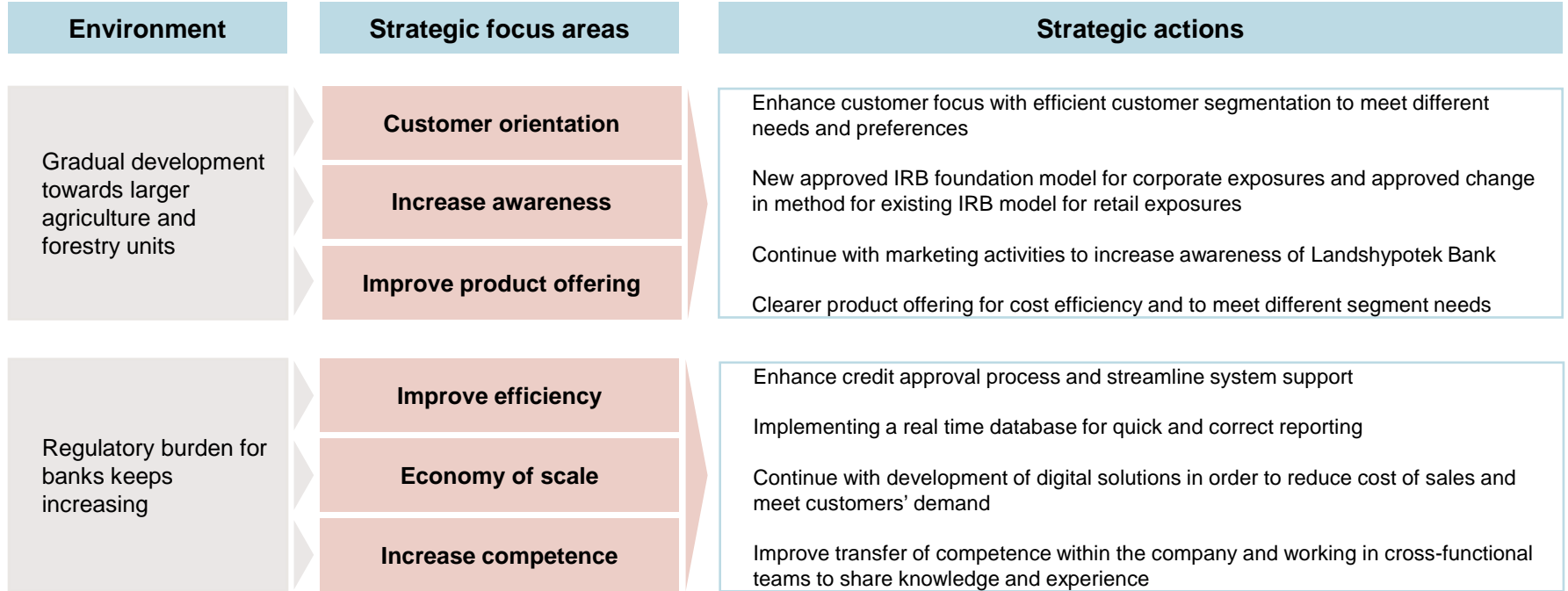
## Key facts

- Loans outstanding to the agriculture and forestry sectors of SEK 69bn and SEK 3bn in mortgage loans
- 99.5 % of the loan portfolio is first-lien mortgages
- Deposits are SEK 14bn
- Market leader with about 25 per cent of total lending to the sector
- Owned by our 40,000 loan customers, who are members of Landshypotek Ekonomisk Förening
- Profit is returned to the agriculture and forestry sectors, through reinvestment in bank operations and through payment of dividends to members (900 million)
- 75,000 customers (deposits and borrowing)
- 185 employees, 70 account managers – all with a degree in or experience from farming and forestry
- Offices in 19 regional places
- S&P Covered Bonds rating AAA, S&P rating (long) A-, Fitch rating (long) A
- Landshypotek Bank is considered as a systemically important bank and as such covered by the Resolutions Act. The bail-in-able ratio criteria is currently met as well





# Landshypotek Bank's proactive strategies



## 2. Agriculture market overview

# Agriculture market overview

## Swedish agriculture (0,5 % of GDP) and forestry (3 % of GDP)

- 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
- Customers post collateral with mortgage deed in real estate
- Capital intense in relation to turnover and earnings
- Structural changes lead to larger units and fewer clients
- The structural changes have been gradual and continuing

# Agriculture market overview

## Land use:

7 % arable and 70 % forest land

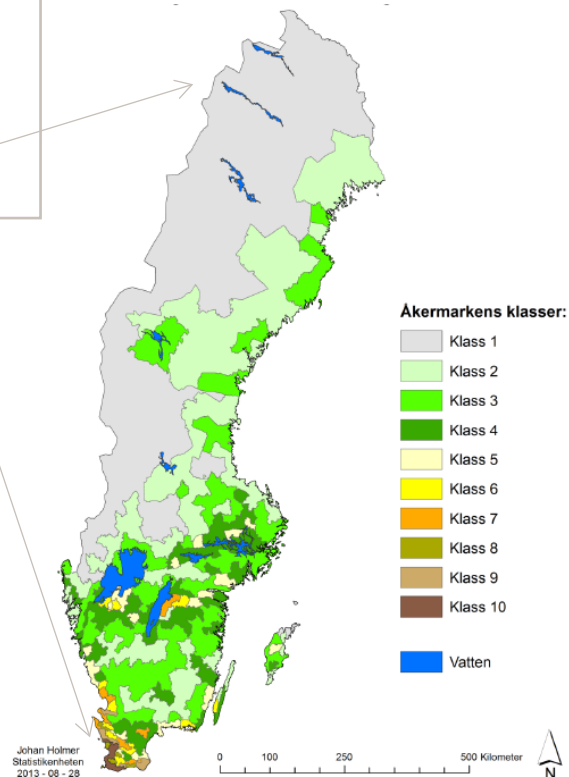
50 % of the forest is privately owned

## Fewer but larger farms:

- 63 000 agricultural holding (97 500 in 1990), 15 500 full time enterprises
- average farm 48 hectares and 85 dairy cows (22 in 1990), large geographical differences
- less than 2 % of the economically active population are engaged in farming
- 3/4 of farmers are older than 50 years

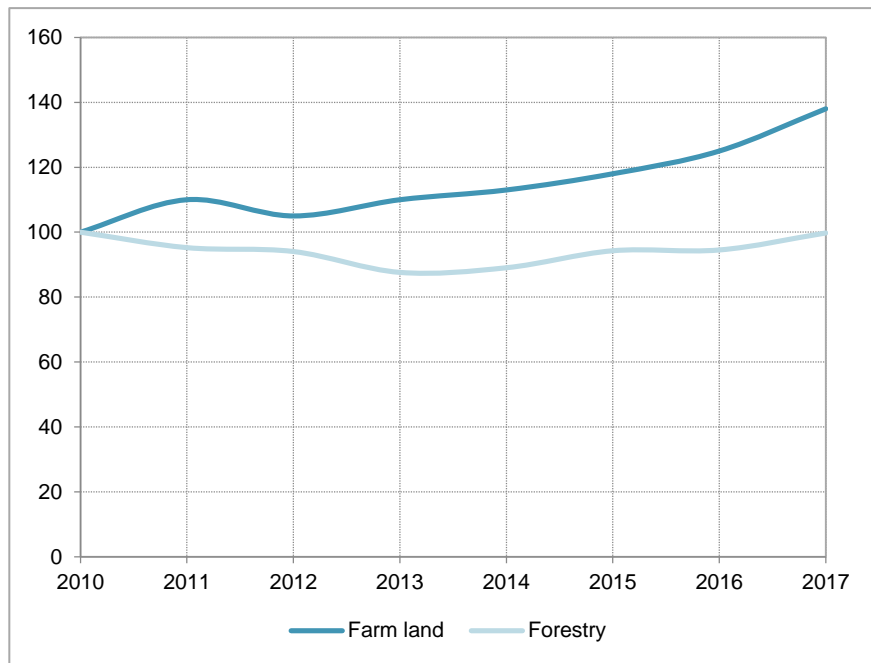
## Geographical differences

100 more hours of sunshine here than here



# Agriculture market overview

## Property price development 2010-2017



	1Y	5Y
Farm land	+10%	+32%
Forestry	+6%	+3%

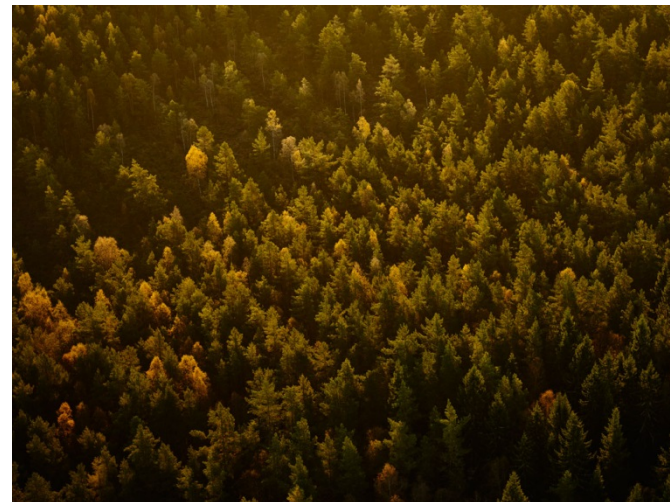
- Property prices for farmland has increased in almost all geographic areas –Skåne and Östergötland have in previous years experienced larger growth
- Average price for forestry properties has increased. There has been a price increase in northern Sweden. There are great price discrepancies in middle Sweden while the southern area is experiencing price levelling

# 3. ESG

# 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
- Increased focus on ESG with new role in senior management since 2016
- Sustainability considerations are integrated part of the credit assessment
- 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
- Participating in sustainability discussions in the financial market through Swedish' Banker's Association
- 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

## Economic sustainability

- 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
- Ethics are included in employee training
- Sound profit generation
- Profit reinvested or paid as dividend to members and thus returned to agriculture and forestry sectors

## Social sustainability

- Long-term customer relationships – hundred years for a forest to be ready for harvest
- 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 in all of Sweden

## Environmental sustainability

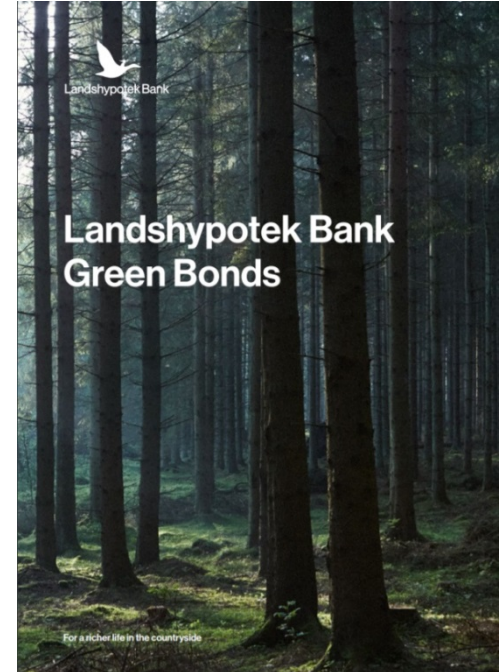
- Swedish agriculture and forestry are important factors in Sweden's climate challenges and goals
- Environmental analysis is required in new commitments
- Sustainability risks are key part of the customer analysis
- Digital solutions, e.g. new house lending and deposits
- Forest is a key factor in the transition to a fossil-free society



# SEK 5.25 billion green covered bond

## Green Covered Bond

- In May 2018 Landshypotek issued a SEK 5.25 billion green covered bond
- It is the first green covered bond in Sweden and the largest ever green bond in Swedish krona
- The bond has been issued under a framework for green bonds that has been prepared pursuant to the Green Bond Principles and is based on sustainable forestry practices, renewable energy and energy-efficient buildings
- The framework received a second opinion from CICERO and was given a Dark Green shading
- Inaugural Green Bond:
  - financed assets of 320 000 hectares
  - 1.4 % of total forest area in Sweden
  - 2 000 000 tons CO<sub>2</sub> yearly absorbed



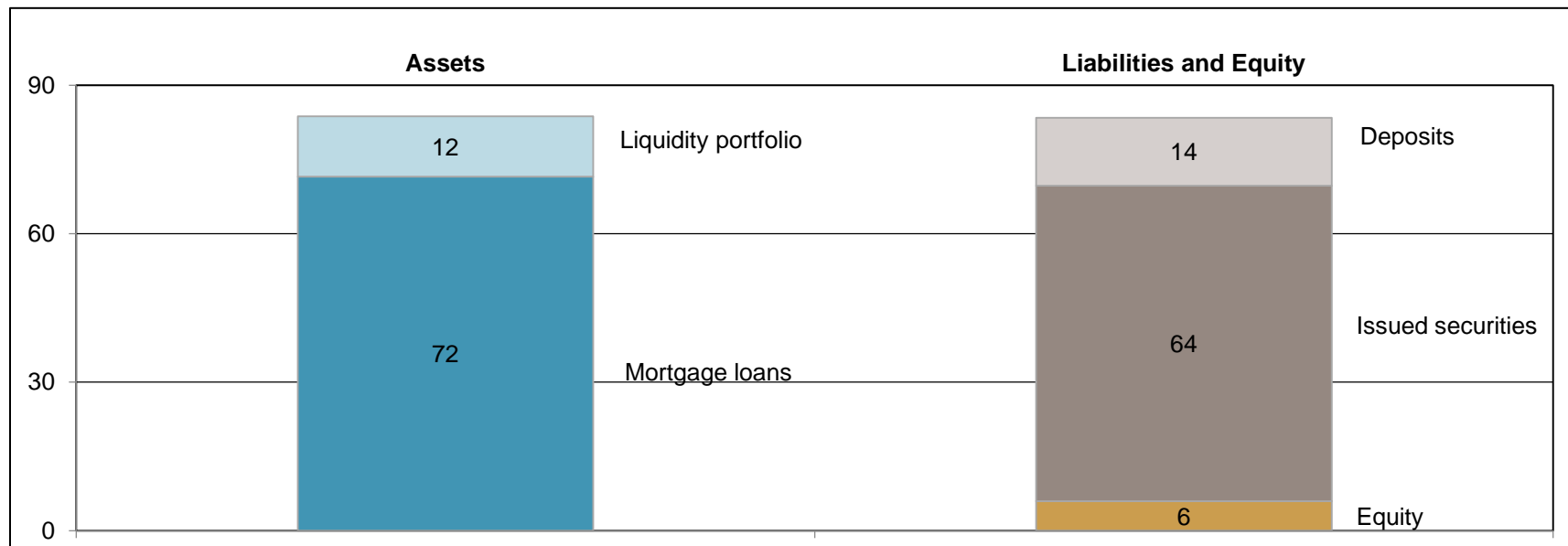
## 4. Financial update

### Summary

- Stable growth in core business
- Stable Net interest income
- Cost increase according to plan
- Credit losses has positive impact from IFRS9 impairments
- Positive contribution from mortgage loans going forward

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

## Core balance sheet structure



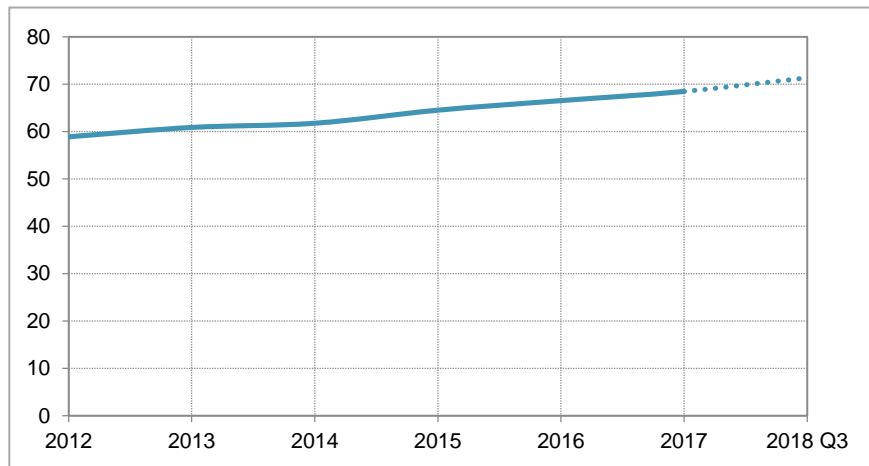
# Strong result

SEKm	2018 Q3	2017 Q3	Δ QoQ	2018	2017	Δ YoY
Net interest income	204	198	7	591	592	-1
Net gain financial items	-2	0	-2	17	-43	60
Other income	1	0	1	4	1	3
<b>Total income</b>	<b>204</b>	<b>198</b>	<b>6</b>	<b>612</b>	<b>550</b>	<b>62</b>
<b>Total expenses</b>	<b>-102</b>	<b>-100</b>	<b>-1</b>	<b>-320</b>	<b>-294</b>	<b>-27</b>
<b>Profit before impairments</b>	<b>102</b>	<b>97</b>	<b>5</b>	<b>291</b>	<b>256</b>	<b>35</b>
<b>Credit impairments</b>	<b>-1</b>	<b>-4</b>	<b>3</b>	<b>7</b>	<b>-8</b>	<b>15</b>
<b>Operating profit</b>	<b>101</b>	<b>93</b>	<b>8</b>	<b>299</b>	<b>248</b>	<b>51</b>

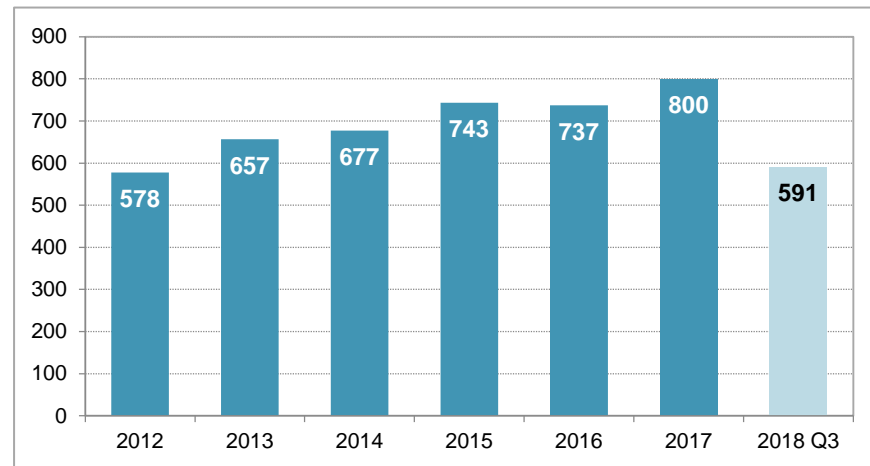
- Lower net interest income due to higher resolution fee in 2018
- Higher net interest income in 2017 because of one-off effect from change in accounting treatment of doubtful interest payments
- Investment costs are according to plan

# Stable growth in core business

## Loan portfolio, SEKbn



## Net interest income, SEKm

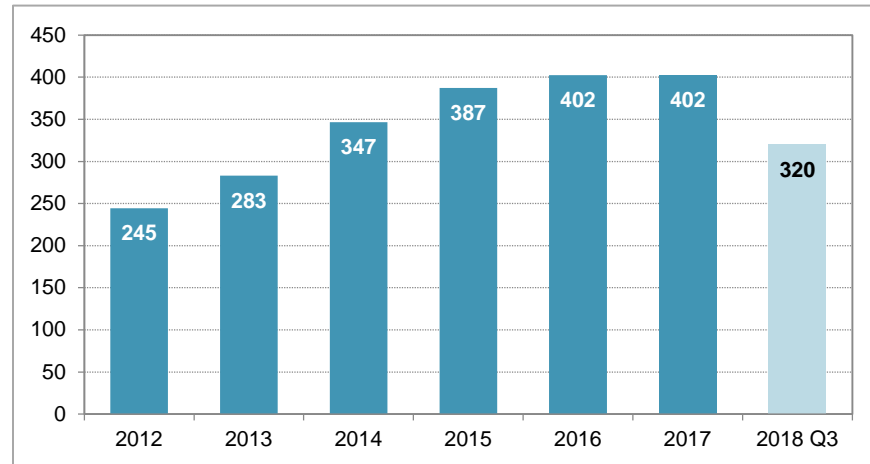


# C/I ratio stable through investment period

## Cost income ratio excl loan losses



## Total expenses



## 5. Asset quality

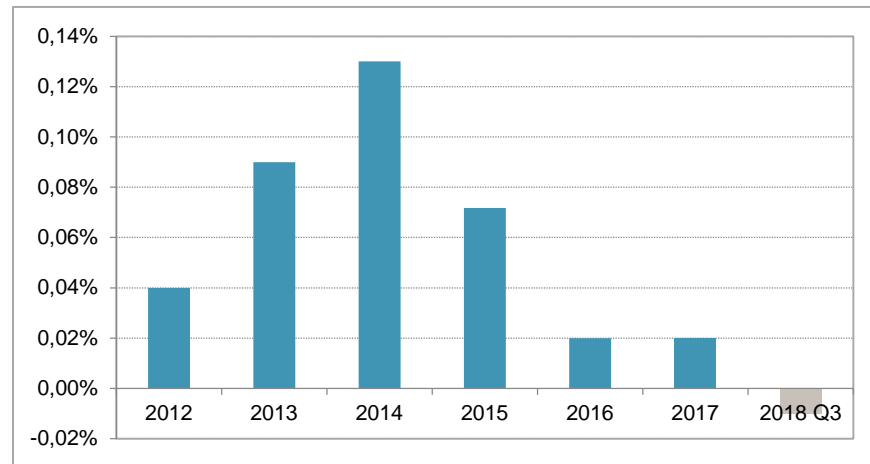
### Summary

- Historically very low loan losses
- 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
- Almost 2/3 of the portfolio are mortgages to customers with less than SEK 15m in loans

# Better performance of credit losses over past few years

## Credit losses

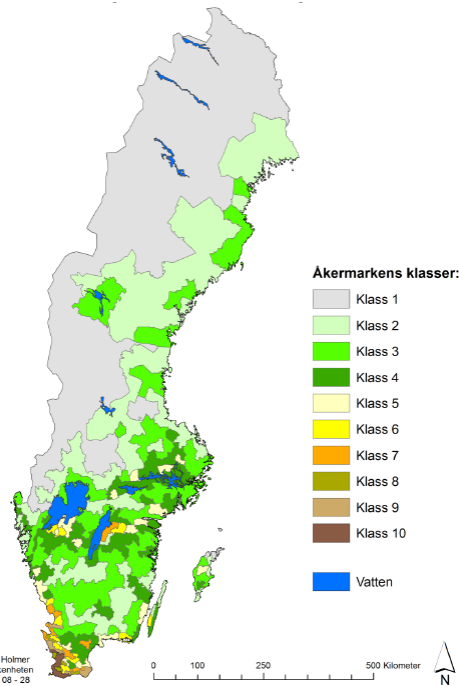
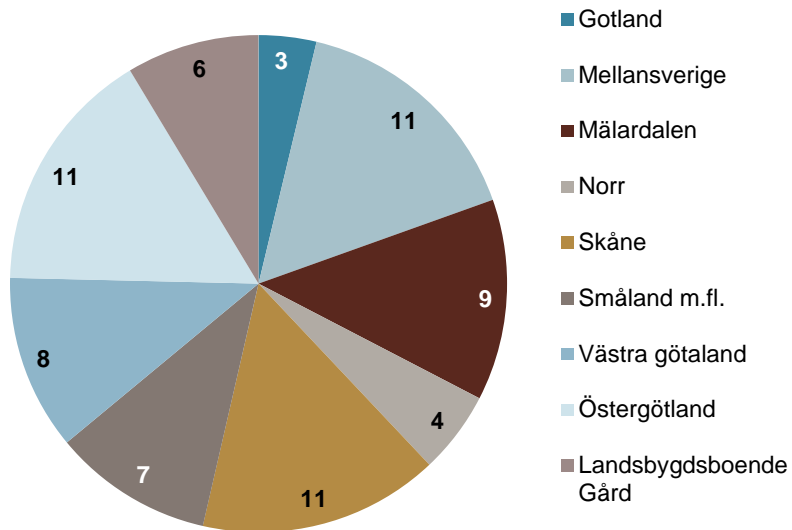
- Losses in 2017 amounted to SEK 12.5m (0.02%), compared with SEK 14.8m for 2016 (0.02%)
- Previous years had higher losses but we are now seeing signs of better performance
- Total credit losses since 1985 amounts to SEK 368m which makes an average per year of 0.03%
- Continuous review of processes 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





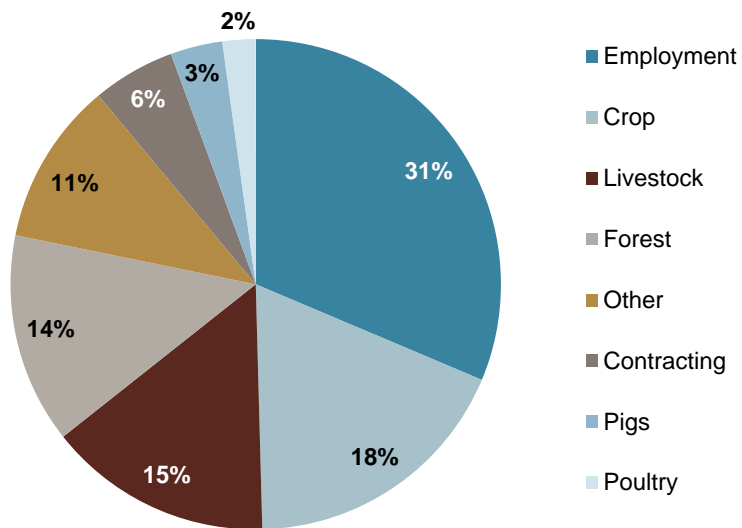
# Larger lending in regions where the farmland is better

Asset portfolio district distribution, SEKbn



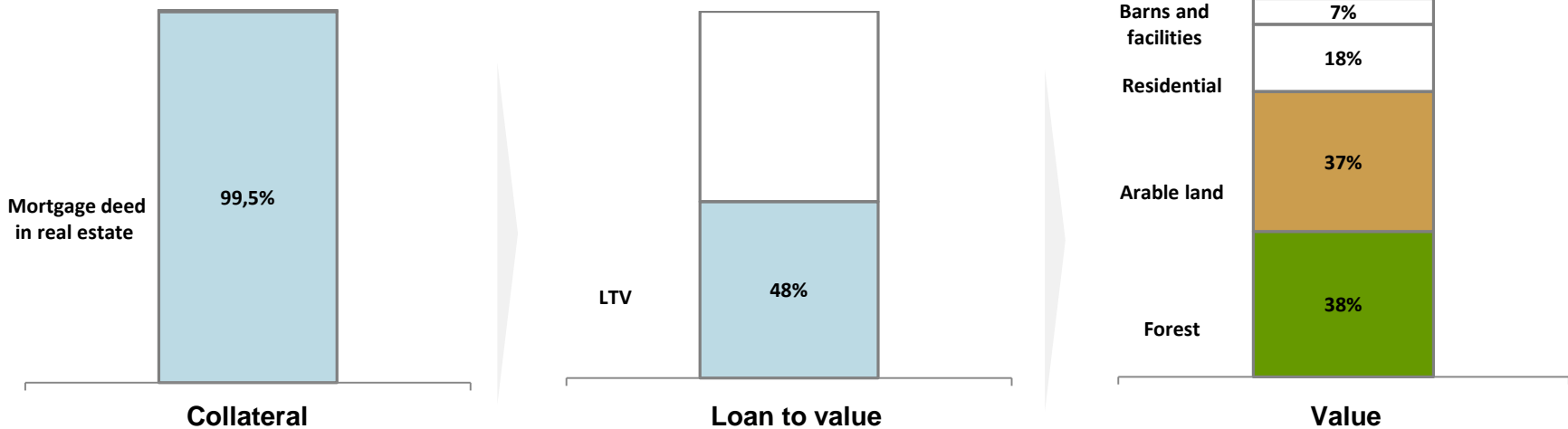
# Well diversified portfolio in terms of business distribution

Asset portfolio, business distribution, %



# Loan portfolio is collateralised with low LTV assets

## Portfolio overview

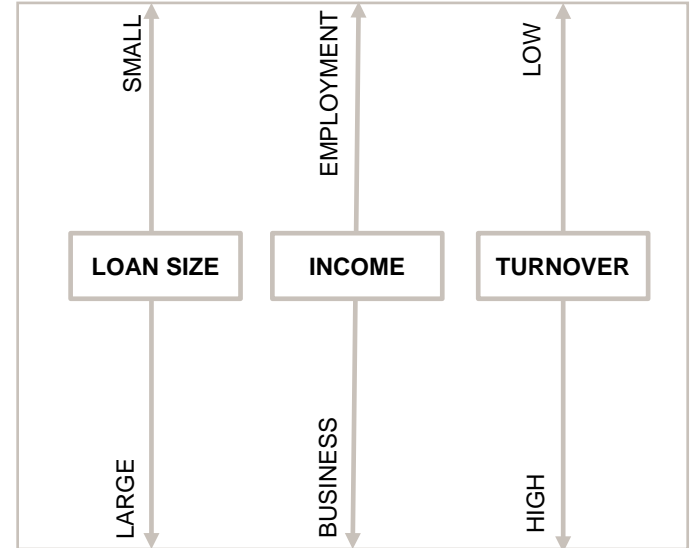


99.5 % of the loan portfolio is first-lien mortgages with LTV of 48 %

# Exposures are in general classified out of loan size, turnover and income from employment

## Schematic overview of asset exposure

<b>Retail</b>	Customers mainly with income from employment, limited turnover from hobbies/business operations	Customers 46%	Volume 18%
<b>Retail SME</b>	Customers with double income from employment and business operations closely associated with the individual	Customers 49%	Volume 41%
<b>Corporate</b>	Customers with significant turnover in their business operations and larger loans	Customers 5%	Volume 41%

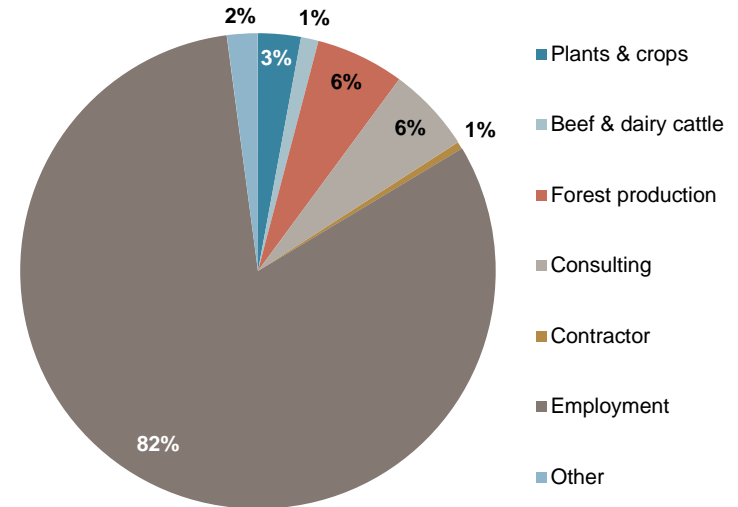


# Customers primary source of income is from employment, forestry etc is more of investment or a hobby

## Characteristics of Retail & statistics

- The Retail exposure consists of private individuals with income from employment > SEK 250t and turnover less than SEK 300t
- These customers are in general characterised by
  - Customers that have income from employment as their primary source of income
  - Some of the customers have additional side income generated from investment or hobbies (i.e. forestry)
- Majority of customers have more than SEK 300t in income from employment
- Lending require less capital
- Customers in retail exposures have low LTV and small loans, SEK 1m in average
- Landshypotek Bank has successfully increased Retail exposures since the launch of mortgage loans

## Retail customers' loan portfolio

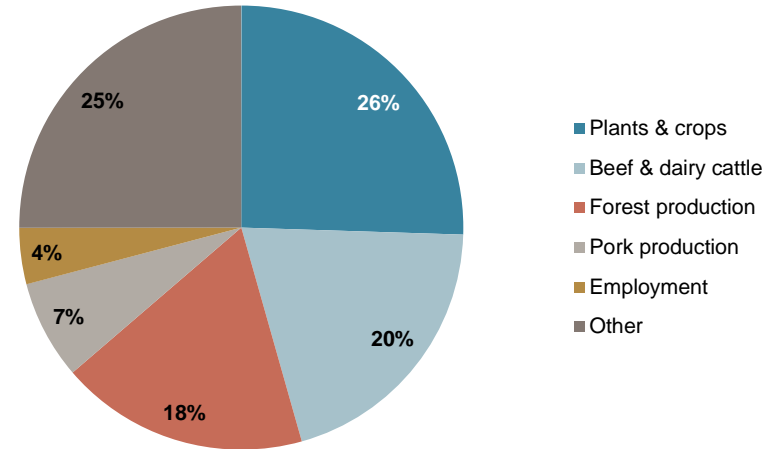


# The structural change of agriculture has turned farmers into larger business owners

## Characteristics of corporate exposure

- The corporate exposure is in general a group with economic affiliations (customers) with a turnover above SEK 9m or a credit exposure of > SEK 9m *excluding* exposure for housing
- These customers are in general characterised by
  - Limited income from own employment
  - To some extent employed on the farm
  - Larger units, i.e. large area of farmland or forest
  - Lending require more capital
  - The top three markets in this segment are plants & crops, beef & dairy cattle and forest production

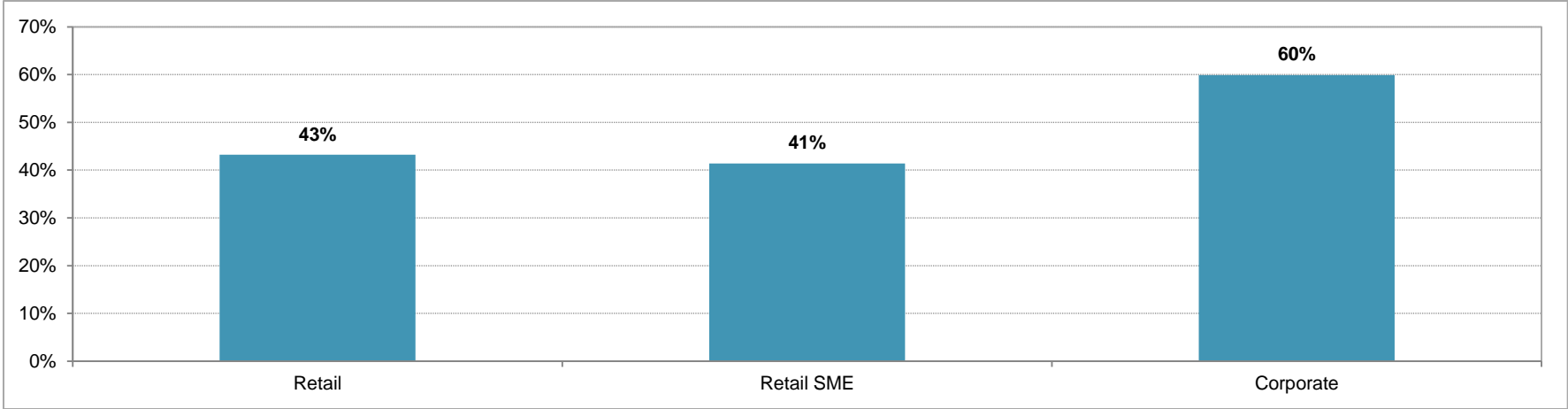
## Corporate customers' loan portfolio





# Creating economy of scale and being part of the structural change lead to higher LTV

LTV per exposure category



Since customers post collateral with mortgage deed in real estate, loss given default is fairly equal between categories

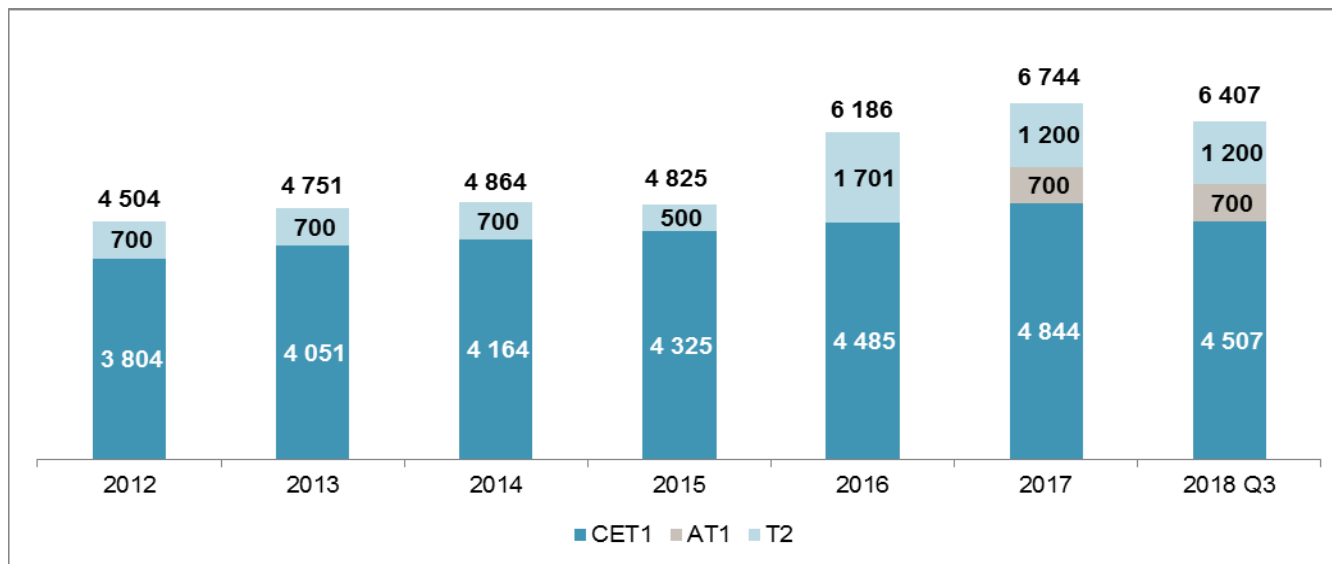
## 6. Capital Adequacy





# Strong capital building

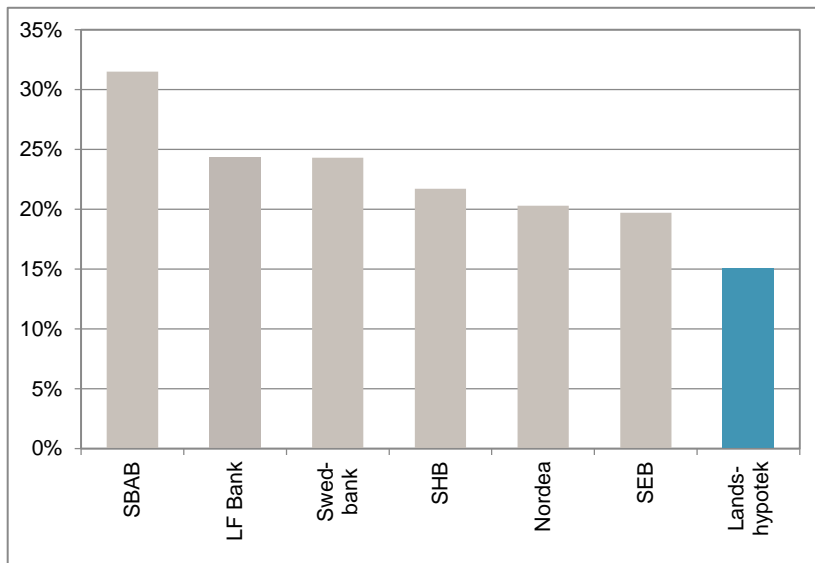
## Capital, mnkr



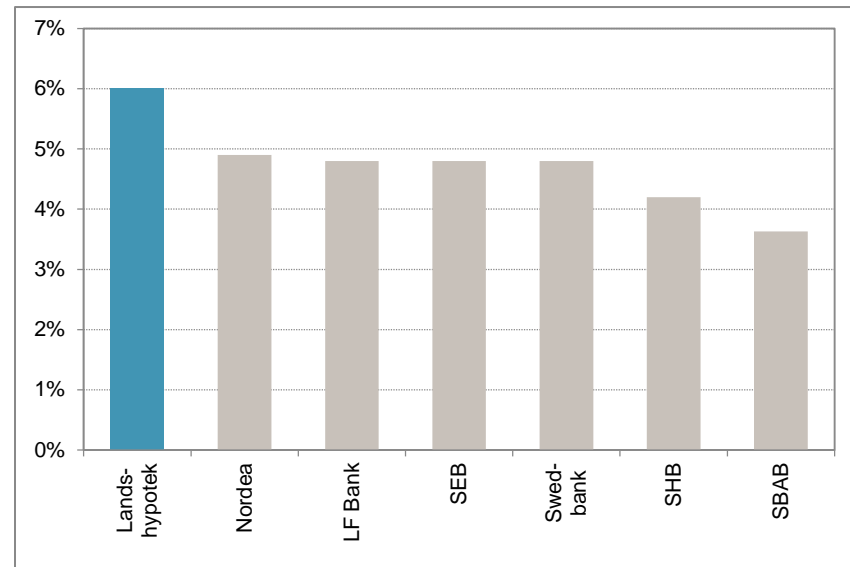
2018 CET1 negatively affected by increased EL-deduction of 492 mnkr due to new IRB model for corporate exposures

# Low CET1 but high Leverage ratio

## CET 1

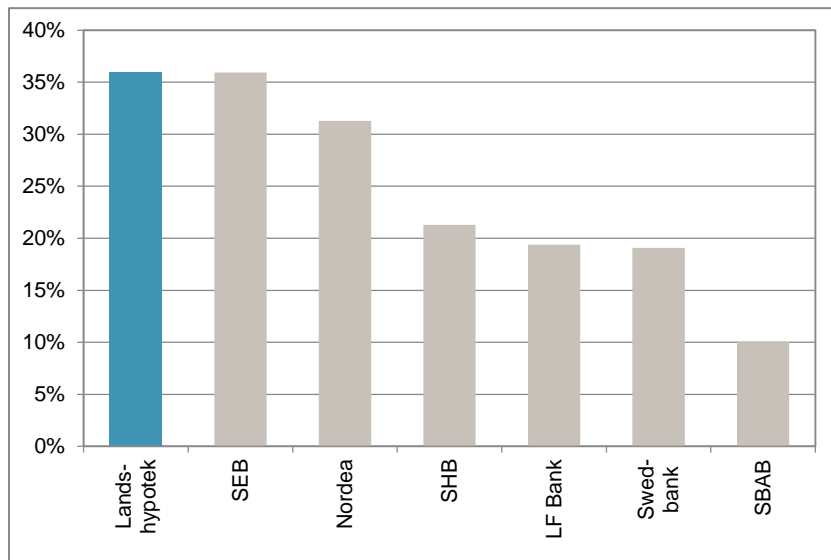


## Leverage ratio

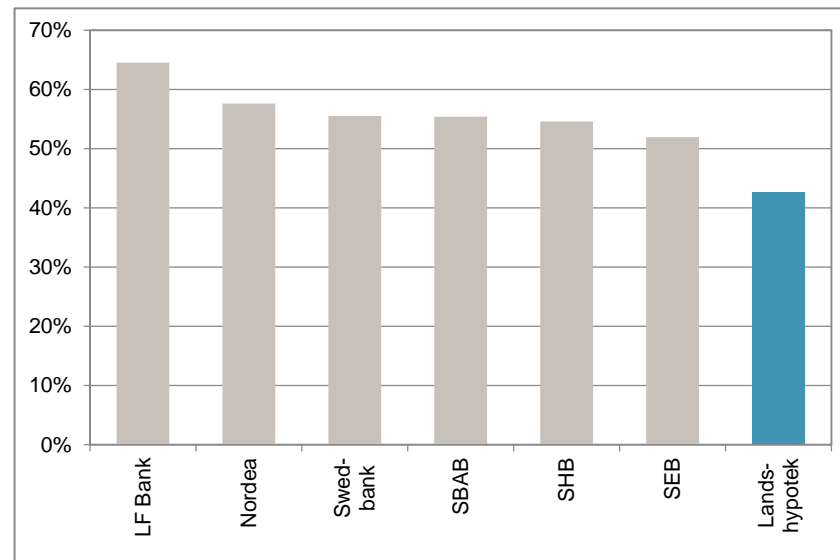


# Higher Risk weights despite lower LTVs

## Risk weights



## Cover Pool LTV



# 7. Cover Pool



# Cover pool

## Cover pool data (1/2)

Rating S&P	AAA
Lending volume	SEK 67 651m
Geographic distribution	Sweden 100%
Average loan size	SEK 686 837
Number of loans	98 496
Number of properties	32 524
Substitute Assets	SEK 5 036m
Swedish Covered Bonds, AAA	SEK 1 850m
Municipalities	SEK 3 186m
Cover bonds	SEK -52 229m
Over Collateralisation	SEK 20 458m
Over Collateralisation	39,17%

Interest	
Floating	53%
Fixed	47%
Amortisation	
Amortising	98%
Non amortising	2%
Mortgage type	
Agriculture properties	94%
Residential properties	6%
Average LTV	
Volume weighted	43%

# Cover pool

## Cover pool data (2/2)

Seasoning	Years	Months	Concentration	Volume	% of volume
Loan level	6.26	75	Top 5	SEK 817m	1.21%
Customer	19,12	229	Top 10	SEK 1 413m	2.09%
Property	27.81	334	Top 20	SEK 2 369m	3.50%

# Cover pool

## Geografic distribution, County % of total volume

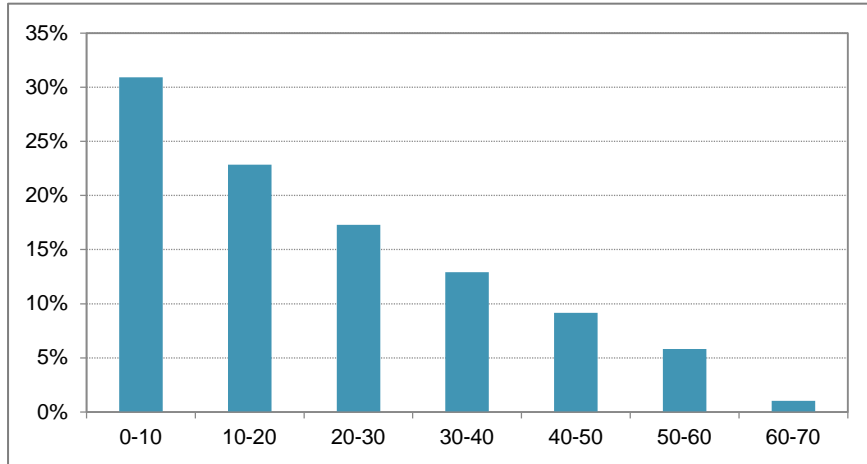
Stockholm	5%	▶
Uppsala	4%	▶
Södermanland	4%	▶
Östergötland	12%	▶
Jönköping	4%	▶
Kronoberg	3%	▶
Kalmar	5%	▶
Gotland	4%	▶
Blekinge	1%	▶
Skåne	16%	▶



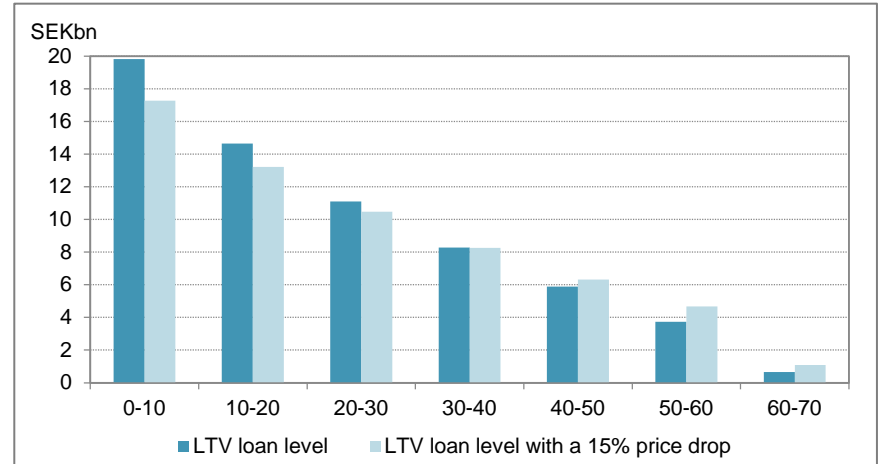
Halland	4%	◀
Västra Götaland	13%	◀
Värmland	6%	◀
Örebro	7%	◀
Västmanland	2%	◀
Dalarna	1%	◀
Gävleborg	2%	◀
Västernorrland	2%	◀
Jämtland	2%	◀
Västerbotten	2%	◀
Norrbottn	1%	◀

# Cover pool

## Loan volume per LTV bucket



## Stress test LTV – 15% decrease in property value



Total change in cover pool – 4.18%



## 8. Summary

- Landshypotek Bank's vision is to enhance life in the countryside
- A leading low risk bank in the agriculture and forestry sectors
- From 2017 expanding business by introducing mortgage loan to private residential houses
- 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
  - Continue with development of digital solutions in order to reduce cost of sales and meet customers' demand

# Landshypotek Bank – contacts

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