

A photograph of a dense forest with tall, thin trees. Sunlight is filtering through the canopy, creating a bright, hazy atmosphere. The ground is covered in moss and fallen branches.

# Landshypotek Bank Green Bonds

May 2018



# Agenda

1. This is Landshypotek Bank
2. Forestry - key to a green future
3. Green bond framework
4. Business overview
5. Appendix
  - Financial update, asset quality and funding
  - Cover pool
  - Agriculture market overview
  - Contacts and financial calendar



# 1. This is Landshypotek Bank

# Low risk bank in the agriculture and forestry sectors

## Key facts Landshypotek Bank

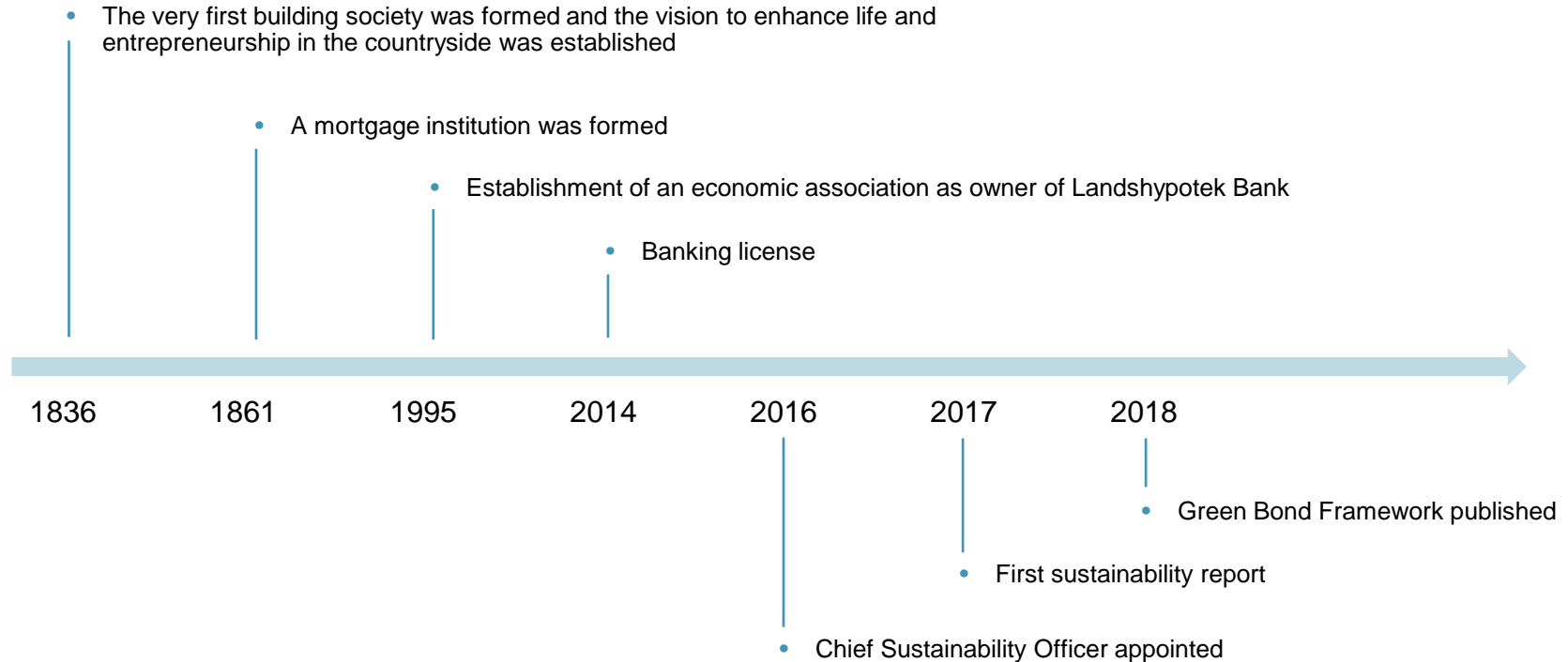
- Loans outstanding to the agriculture and forestry sectors of SEK 68bn and residential mortgages SEK 1.5bn
- Standard & Poor's bank rating (long) A-, Fitch bank rating (long) A
- 99.5% of the loan portfolio is first-lien mortgages, average LTV 48%
- 99% of our customers conduct business as sole proprietorship (Sw. *enskild näringsidkare*) – due to Swedish legislation on land ownership. Sole proprietorship is a private individual with personal liability
- Higher leverage ratio than peers (6.6%)
- Market leader approx. 26% of total lending to the sectors
- Owned by 40,000 loan customers, members of Landshypotek Ekonomisk Förening
- Profit reinvested or returned to the agriculture and forestry sectors
- Landshypotek Bank is considered a systemically important bank

## Key facts Cover Pool

- Standard & Poor's Covered Bond rating AAA
- Cover pool average LTV 42%
- Over collateralisation 38.34%
- Seasoning:
 

- Loan level	6.40 years
- Customer level	20.27 years
- Property level	27.30 years
- Amortising 98%
- Cover pool mortgage assets 64.2bn

# Landshypotek Bank's history and sustainability journey



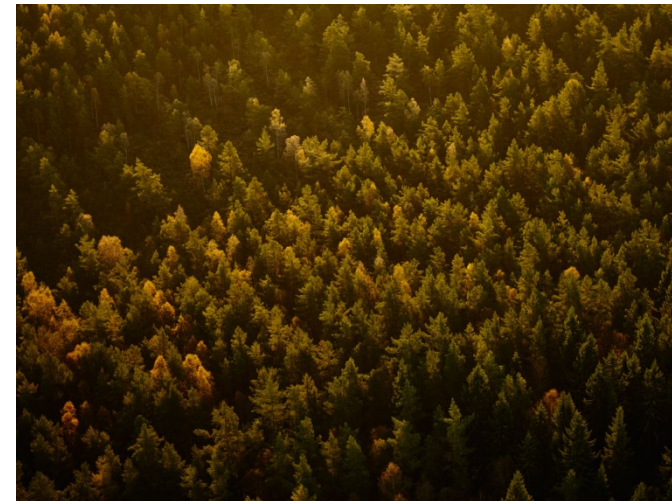
SEK 900m have been returned to farming and forestry loan customers over the last six years.

# Sustainability is part of our mission

## 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 Bankers' 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

## 2. Forestry - key to a green future



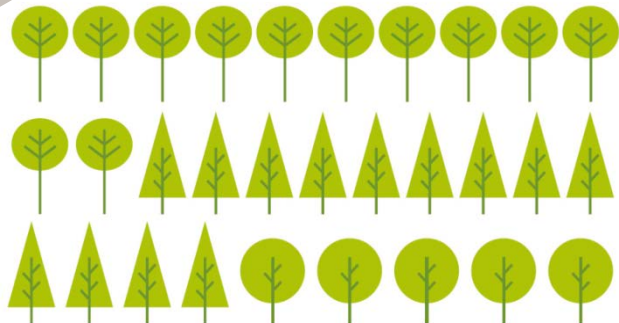
# Financing CO<sub>2</sub> reducing investments - Forest

**23 000 000**  
hectares productive forest  
**3 000 000 000**  
forest cubic meters

Global boreal forest: **1.5** billion  
hectares

A yearly growth of **120 000 000** forest  
cubic meters, only **75%** is harvested

**57 %**



Million tons CO<sub>2</sub>  
yearly  
**consumed** and  
**absorbed**



# Financing CO<sub>2</sub> reducing investments - Forest

## Optimized usage of forest would increase the adsorption of carbon dioxide further

- The forest absorbs carbon dioxide during photosynthesis, storing carbon and producing oxygen as a by-product
- Renewable materials replace fossil fuels and materials
- Higher effect when carbon is locked in products that are made from trees, such as buildings, clothes and paper etc.
- By-products, bioenergy production can replace fossil fuels
- Optimized usage of forest would increase the adsorption of carbon dioxide further





# Financing CO<sub>2</sub> reducing investments - Forest

## Swedish forests are significant carbon sinks

- The permanent timber stock has doubled since the beginning of the 20th century
- The Swedish Forestry Act states that forest is a renewable resource that is to be managed sustainably yielding a good revenue through:
  - Reforestation
  - Notification of felling over 0.5 hectares where trees need to have reached a certain age and harvesting potential is rationed
  - Natural conservations and cultural heritage – for example leave protective zones to water or wetlands, maintain elements of the species that grow naturally and leave solitary and dead trees when harvesting

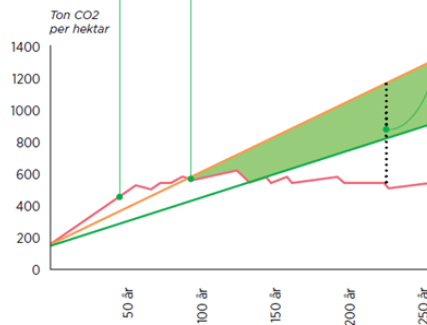
### DEN BRUKADE SKOGEN VINNER I LÄNGDEN

Lämnar man en dittills brukad skog orörd fortsätter den till en början att växa bra vilket ger en stor årlig lagerökning av kol. Eftersom det inte blir några utsläpp i samband med skötsel eller produktion av skogsprodukter blir klimatnyttan något högre än för alternativet där skogen skördas och används

Någonstans i 80-årsåldern går den brukade »framtidsskogen» förbi, eftersom den obrukade skogen börjar tappa tillväxt.

Skillnaden mellan den obrukade skogens kolförråd och den brukade skogens ackumulerade klimatnytta blir för varje år allt större eftersom den obrukade skogen fortsätter att tappa tillväxten medan den brukade skogens tillväxt är stabil och hög.

**Figur 1: Kolför-  
rådets förändring  
under 250 år i  
brukade respekti-  
ve obrukade sko-  
gar<sup>1)</sup>. Beräkning-  
arna förutsätter  
att alla produkter  
som skogen an-  
vänds till medför  
substitution av  
fossilbaserade  
produkter.**



**Brukad skog - framtid**  
Råvaran används på samma sätt som i dag men också till helt nya produkter som minskar behovet av fossila råvaror.

**Brukad skog - i dag**  
Råvaran används till trävaror, papper och som ersättning för fossila råvaror, främst som energi.

**Obrukad skog**  
Efter tillväxtfasen nås en mättnadsfas då upptag och avgång av koldioxid blir lika stora. Skogen blir ett statiskt kolförråd.

Den hypotetiska beräkningarna förutsätter att ett skogsbruk som upphör i ett land inte innebär ökad avverkning i ett annat land.

Source: Färdplan för fossilfri konkurrenskraft i Skogsnäringen (2018).



## Assets financed through inaugural Green Bond

**320 000** hectares – the size of Gotland

**1.4** % of total forest area in Sweden

**2 200 000** tons CO<sub>2</sub> yearly absorbed



### 3. Green bond framework

## Second opinion Cicero – Dark Green shading

- Second Opinion from Cicero to ensure a transparent and solid Green Bond Framework
- *"Based on the assessment of the project types, policies, goals and reporting standards, Landshypotek Bank's Green Bond Framework receives a Dark Green shading."*
  - Sustainability integrated in credit assessment
  - Sustainability requirements exceeds Swedish law
  - Sustainable forestry is part of a low carbon future economy
  - Reporting and transparency
- Second Opinion can be found on Landshypotek Bank's Green bond [website](#)



°CICERO  
Dark Green





# Selection criteria – Forest

## Landshypotek's selection criteria

- Forest needs to be **certified** by PEFC/FSC or alternatively a **green forest management plan**
- A green forest management plan requires **nature conservation action plans** for at least 5% of productive area. We also require target of **5% deciduous tree** (meeting PEFC-certification criteria)

### Green forest management plan

A green forest management plan provides a detailed inventory of the forest land holding and is an important tool for the forest owner to manage the forest in an active and sustainable way

### Deciduous trees

Deciduous trees are beneficial to many species and make the forest more resistant in the event of storms.

### *Landshypotek's credit policy*

All forest land holdings must be **insured**, ensuring asset value and adoption measures such as forest fire proliferation prevention, storms and extreme precipitation

### *What is excluded?*

Fossil energy generation, nuclear energy generation, research and/or development within weapons and defence, potentially environmentally negative resource extraction, gambling or tobacco

# Green Bond Committee

## Selection process

- Customer on-board through Landshypotek's general credit process
- Each account manager is responsible to apply the green asset criteria
- Following screening for eligible projects, a list with loan data recorded by account managers
- List of suggested loans is presented to the Green Bond Committee for final allocation decision

### Meeting invitation

Chairman of Green bond committee requests meeting – to include or exclude assets



### Presentation of projects

Account manager presents data for eligible loans



### Unanimous decision and notes

Decisions made on approved eligible loans are recorded and archived digitally together with loan data

## Green Bond Committee



Martin Kihlberg  
Chief Sustainability Officer  
(Chairman)



Per Lindblad  
Chief Executive Officer



Fredrik Sandberg  
Chief Financial Officer



Johan Asklund  
Head of Corporate Banking



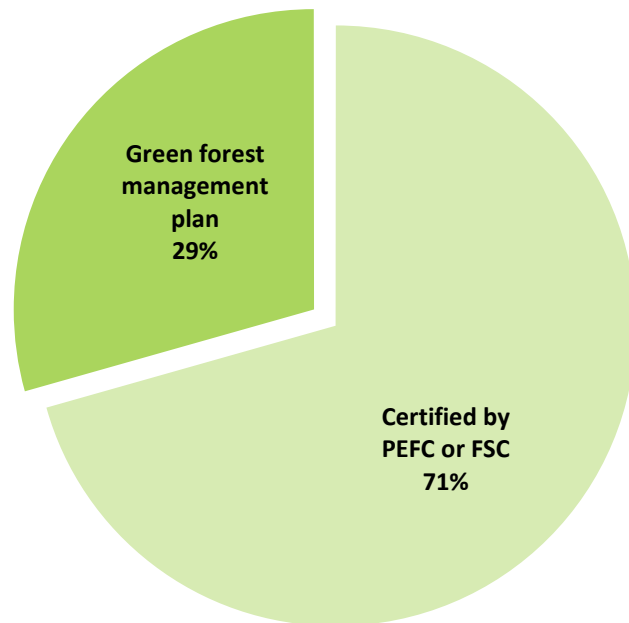
Carl-Johan Bengtsson  
Forest Expert

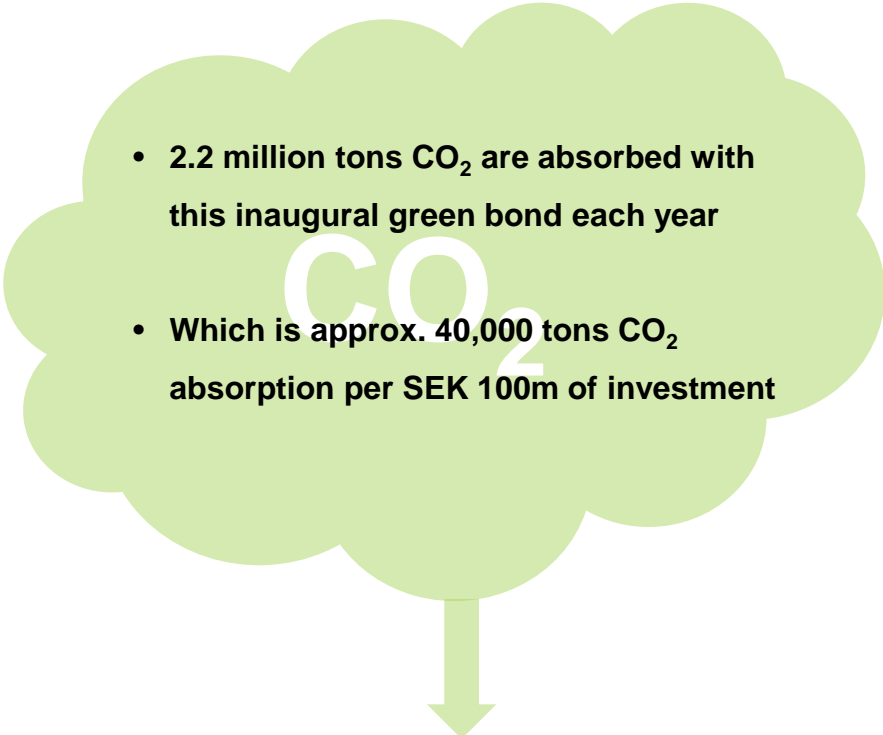


# Management of proceeds and reporting

	Green Bond Principles (GBP)	Green Bonds - Landshypotek	Second Opinion - Cicero
<b>Management of Proceeds</b>	<ul style="list-style-type: none"> <li>• Traceable management of proceeds within the issuing organization</li> </ul>	<ul style="list-style-type: none"> <li>• Clear guidelines for the management of the Green Bond proceeds</li> <li>• Monitoring and tracking of the proceeds</li> <li>• Defined temporary investments</li> </ul>	<p><i>"The company has clear guidelines for the management of the green bond proceeds."</i></p>
<b>Reporting</b>	<ul style="list-style-type: none"> <li>• At least annual reporting on the use of proceeds</li> <li>• Description of underlying assets, disbursements and expected impact</li> </ul>	<ul style="list-style-type: none"> <li>• Landshypotek will report annually use of proceeds and estimated CO<sub>2</sub> impact (more information can be found <a href="#">here</a>)</li> <li>• Reports will be available to both investors and the public</li> </ul>	<p><i>"Bank will report on various indicators of projects financed by the green bond proceeds. These reports will be available to both investors and the public."</i></p>

## Current distribution of eligible projects



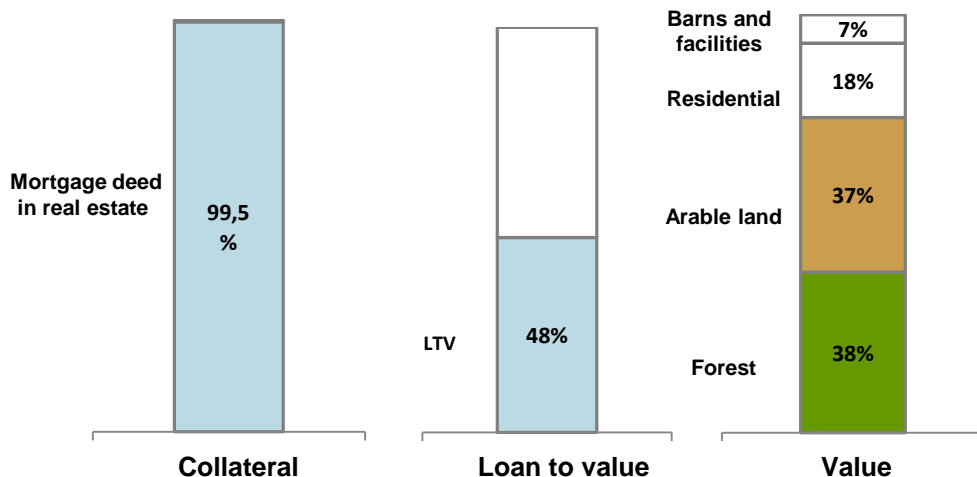
- 
- 2.2 million tons CO<sub>2</sub> are absorbed with this inaugural green bond each year
  - Which is approx. 40,000 tons CO<sub>2</sub> absorption per SEK 100m of investment

## 4. Business overview

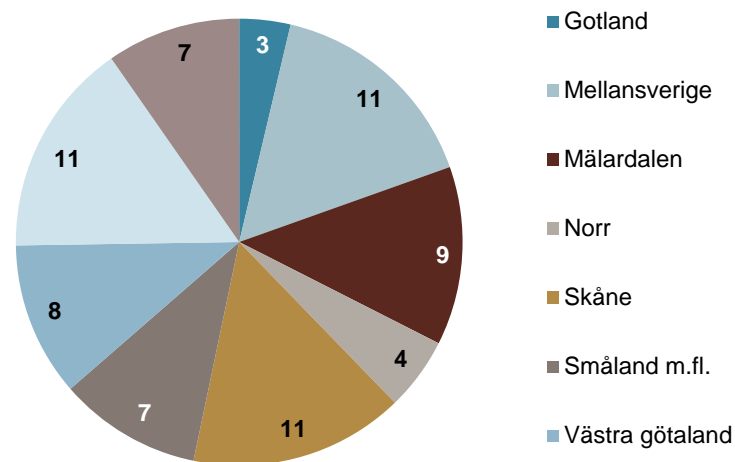


# Loan portfolio is collateralised with low LTV assets

Portfolio overview, %



Asset portfolio district distribution, SEKbn



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

# Cover pool – general

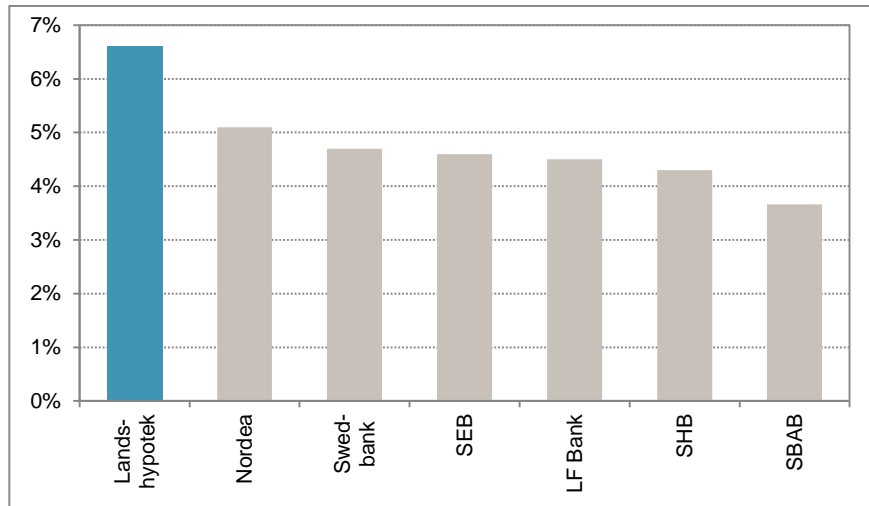
## Cover pool data

Rating S&P	AAA
Lending volume	SEK 64 150m
Substitute Assets	SEK 8 521m
Swedish Covered Bonds, AAA	SEK 4 850m
Municipalities	SEK 3 671m
Cover bonds	SEK -52 530m
Over Collateralisation	SEK 20 141m
Over Collateralisation	38.34%

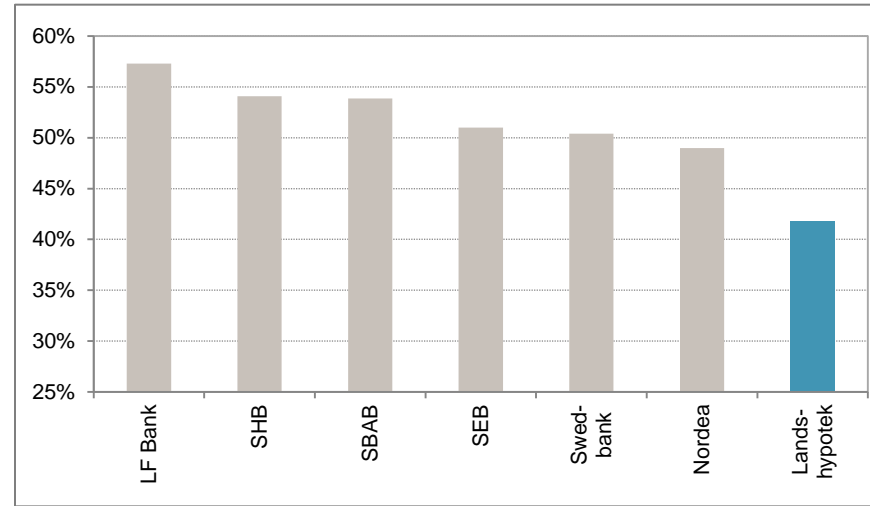
Amortisation	
Amortising	98%
Non amortising	2%
Average LTV	
Volume weighted	42%
Seasoning	
Years	
Loan level	6.40
Customer level	20.27
Property level	27.30

# Higher leverage ratio cf. peers and lower cover pool LTV

## Leverage ratio

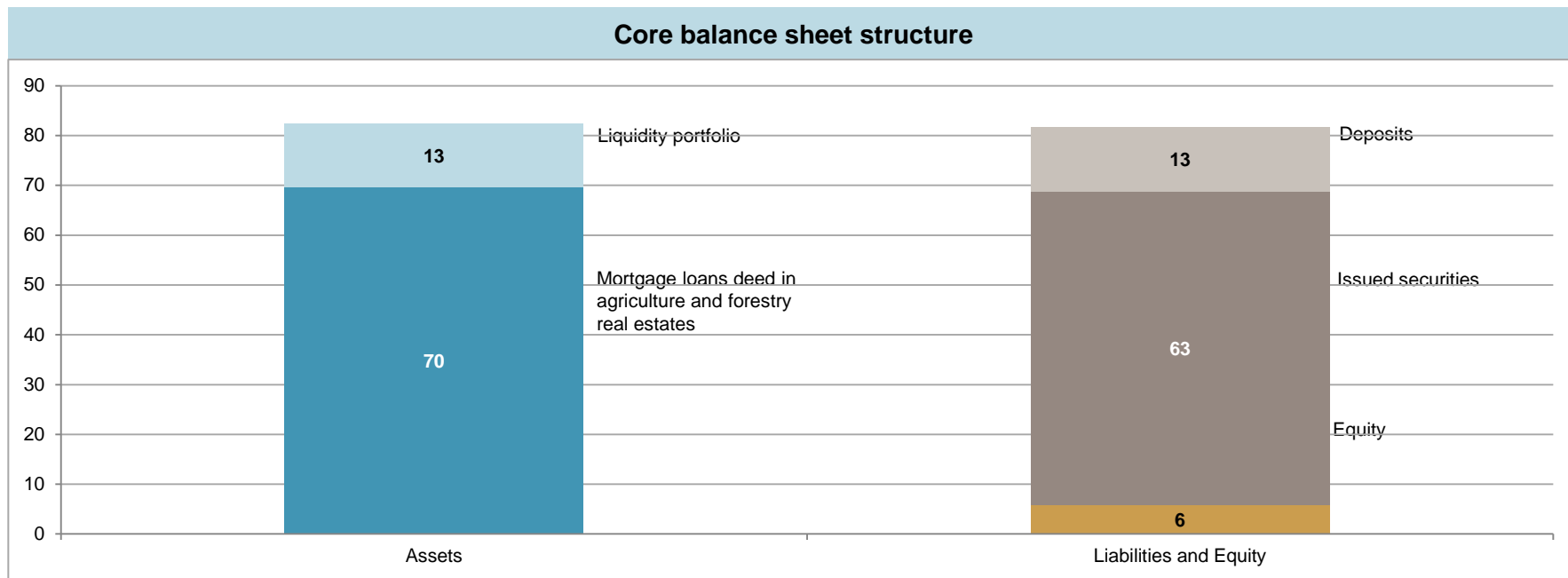


## Cover pool LTV





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



# Deposits reduce funding needs going forward

## Funding profile

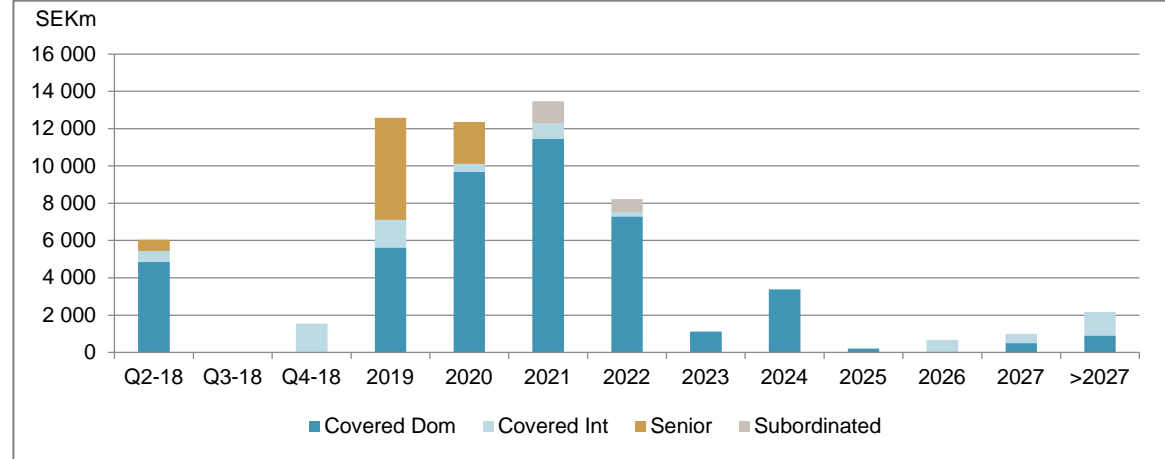
Average maturity 3.3 years

Covered bonds 69%

Senior + Subordinated 13%

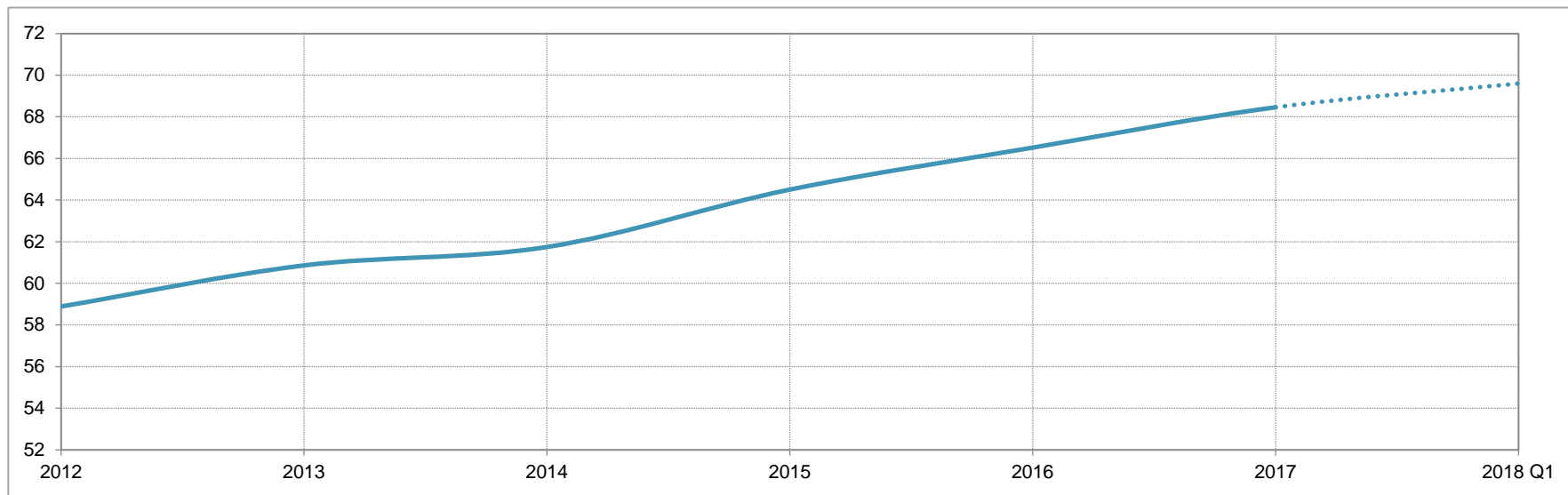
Deposits 17%

International funding 10%



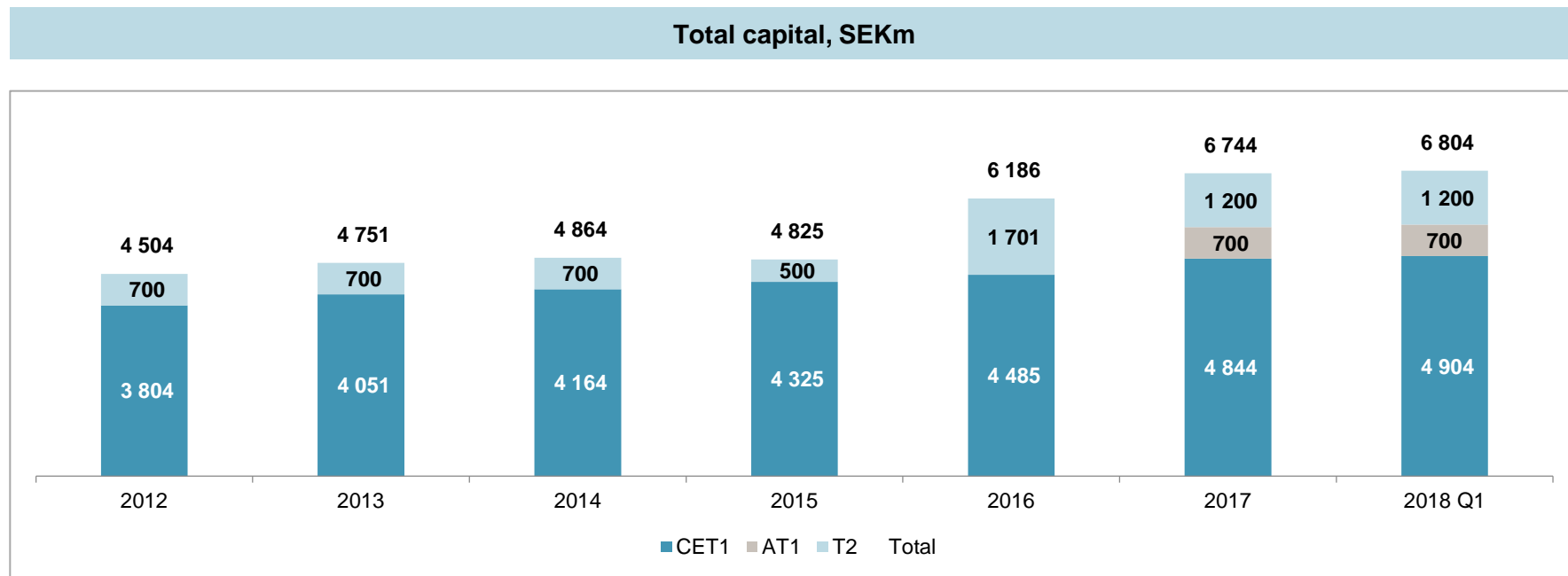
# Stable growth in loan portfolio

Loan portfolio SEKbn





# Solid equity development over the years



Note: Capital ratios 2012-2013 under Basel II, from 2014-2016 under Basel III

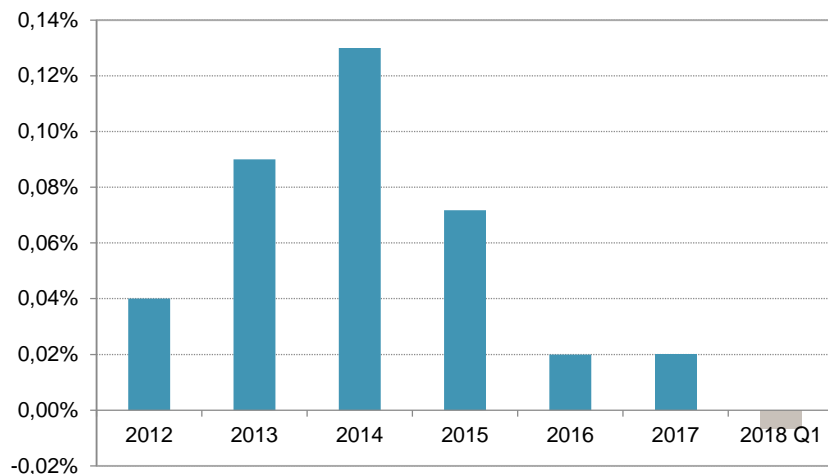
# Strong result in core business

SEKm	2018 Q1	2017 Q1	Δ QoQ	2017	2016	Δ YoY
Net interest income	187	184	3	800	737	63
Net gain financial items	15	-33	48	-48	26	-74
Other income	2	1	1	2	7	-5
<b>Total income</b>	<b>204</b>	<b>152</b>	<b>52</b>	<b>754</b>	<b>770</b>	<b>-16</b>
<b>Total expenses</b>	<b>-106</b>	<b>-90</b>	<b>-16</b>	<b>-402</b>	<b>-402</b>	<b>0</b>
<b>Profit before impairments</b>	<b>98</b>	<b>62</b>	<b>36</b>	<b>352</b>	<b>368</b>	<b>-16</b>
<b>Credit impairments</b>	<b>5</b>	<b>2</b>	<b>3</b>	<b>-12</b>	<b>-15</b>	<b>3</b>
<b>Operating profit</b>	<b>102</b>	<b>63</b>	<b>39</b>	<b>340</b>	<b>353</b>	<b>-13</b>

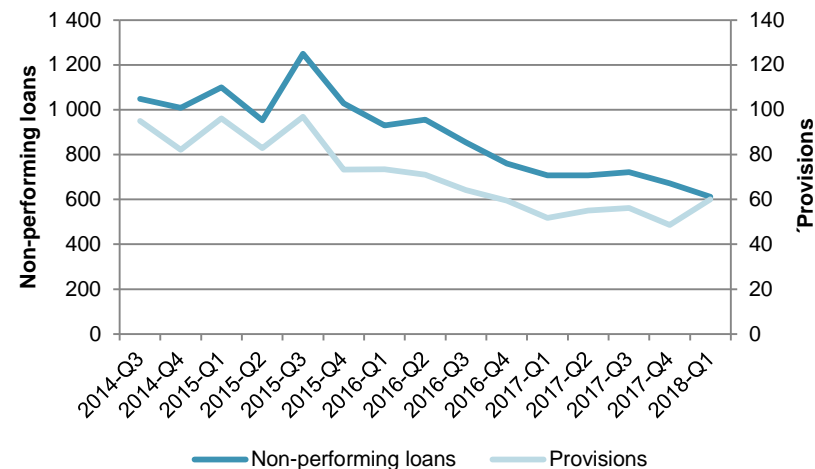
- Net interest income increased compared to 2016
- The new resolution fee has more than doubled to SEK 57m in 2017
- Cost in line with investment plan
- Credit losses are low

# Lower credit losses and non-performing loans

## Credit losses



## Non-performing loans and provisions SEKm



Total credit losses since 1985 amounts to SEK 375m which makes an average per year of 0.03%





## Executive summary

- Landshypotek Bank has established a green bond framework and received a Dark Green shading from Cicero
- Inaugural green bond proceeds financing sustainable forestry
- Approx. 2.2 million tons CO<sub>2</sub> each year being reduced with inaugural green bond
- ESG is integrated part of Landshypotek's business model
- Low risk business model, loan portfolio highly collateralised with low LTV
- Low levels of credit losses and stable growth in core business
- Conservative capital position and strong leverage ratio

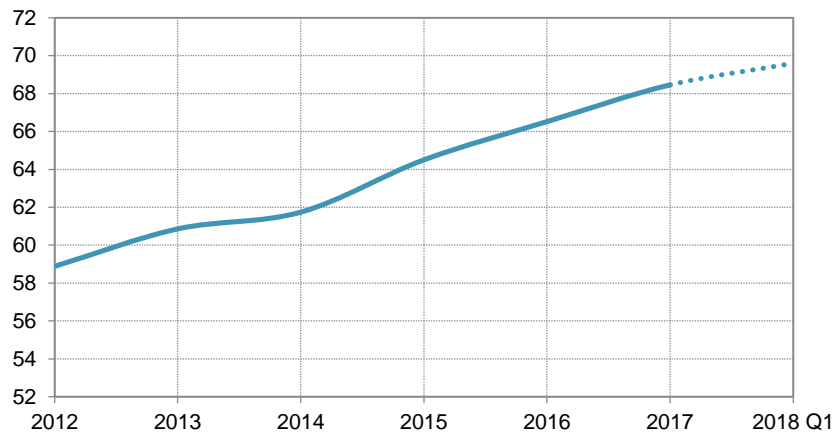
## 5. Appendix



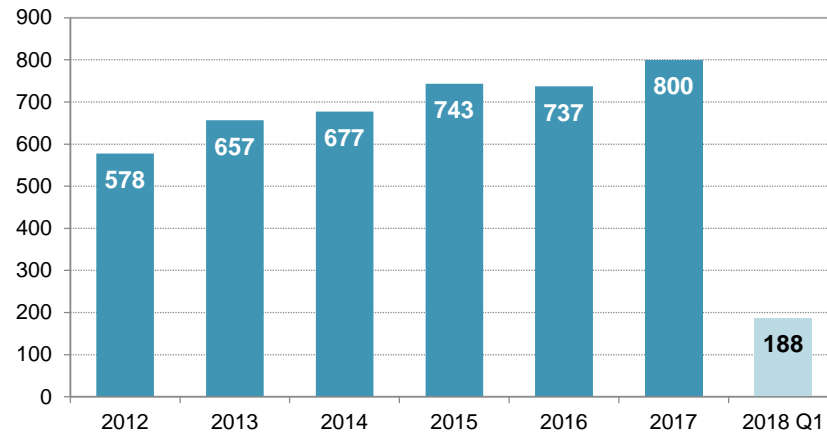
# Financial update, asset quality and funding

# Stable growth in loan portfolio, positive effect in NII

**Loan portfolio, SEKbn**



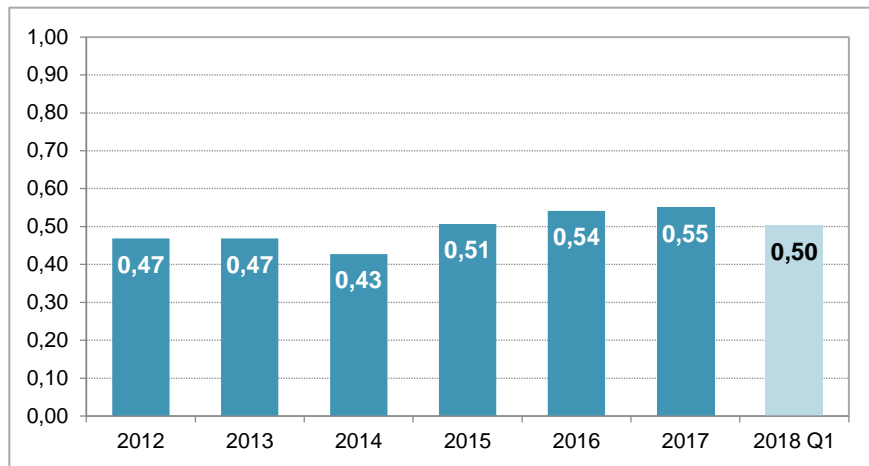
**Net interest income, SEKm**



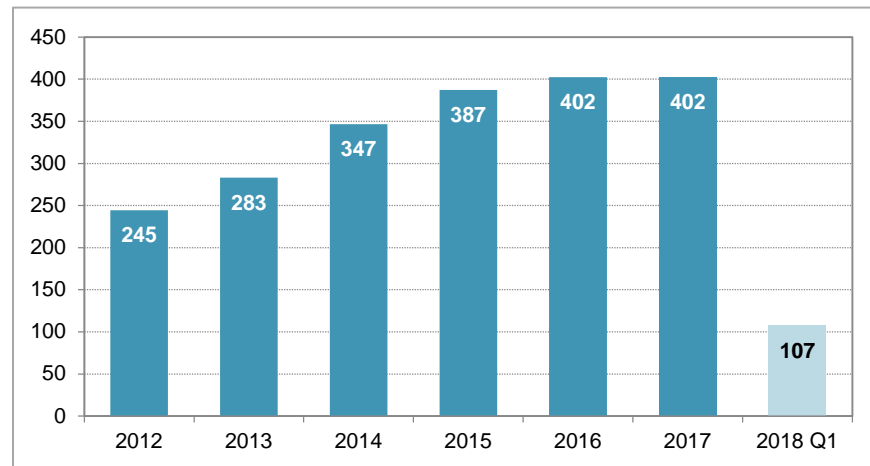


# Cost increase leveled out

## Cost income ratio excl loan losses



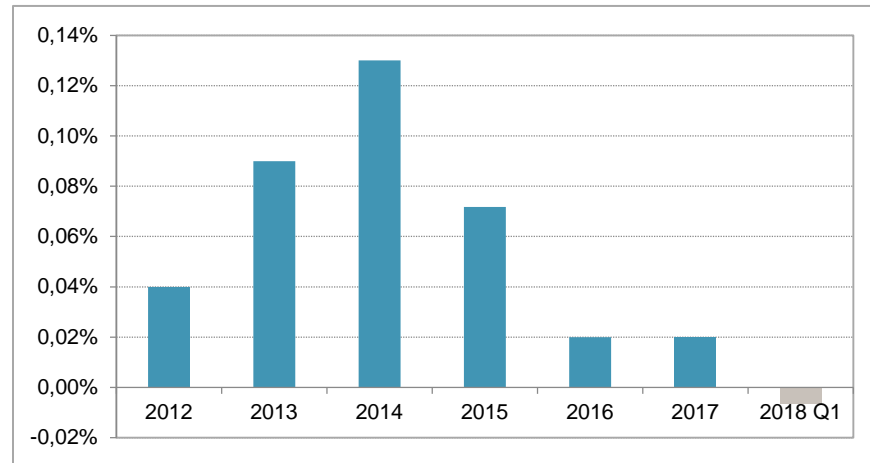
## Total expenses



# Our processes have lead to better performance in 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 375m 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



# Conservative funding position

- LCR 336%
- NSFR 111%
- Stressed liquidity coverage is 334 days
- Liquid assets SEK 13.4bn. Duration 2.25 years
- High quality assets AAA and AA+ rated Swedish Cover Bonds and Swedish Municipalities
- Eligible as collateral for transactions with the Swedish Central Bank



# Cover Pool



# Cover pool

## Cover pool data (1/2)

Rating S&P	AAA
Lending volume	SEK 64 150m
Geographic distribution	Sweden 100%
Average loan size	SEK 656 984
Number of loans	97 643
Number of properties	31 455
Substitute Assets	SEK 8 521m
Swedish Covered Bonds, AAA	SEK 4 850m
Municipalities	SEK 3 671m
Cover bonds	SEK -52 530m
Over Collateralisation	SEK 20 141m
Over Collateralisation	38.34%

Interest	
Floating	48%
Fixed	52%
Amortisation	
Amortising	98%
Non amortising	2%
Mortgage type	
Agriculture properties	97%
Residential properties	3%
Average LTV	
Volume weighted	42%

# Cover pool

## Cover pool data (2/2)

Seasoning	Years	Month	Concentration (borrowers)	Volume	% of volume
Loan level	6.40	77	Top 5	SEK 808m	1.25%
Customer level	20.27	243	Top 10	SEK 1 333m	2.08%
Property level	27.30	328	Top 20	SEK 2 181m	3.40%

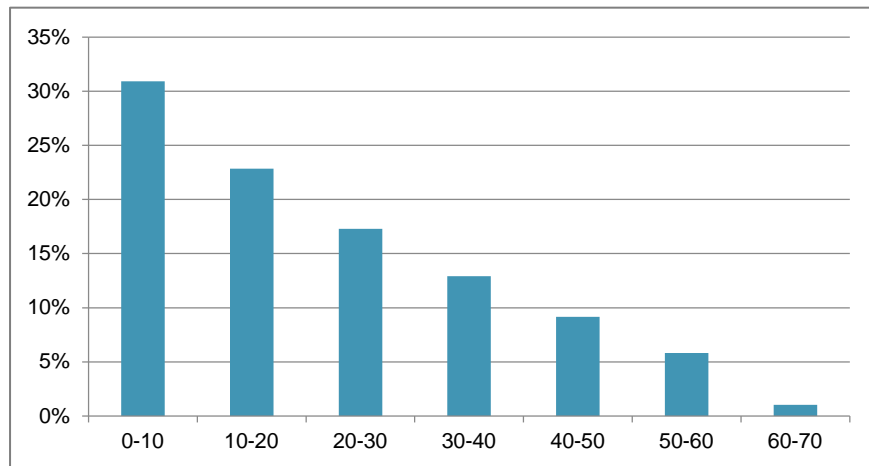
## Geographical distribution, county % of total volume

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

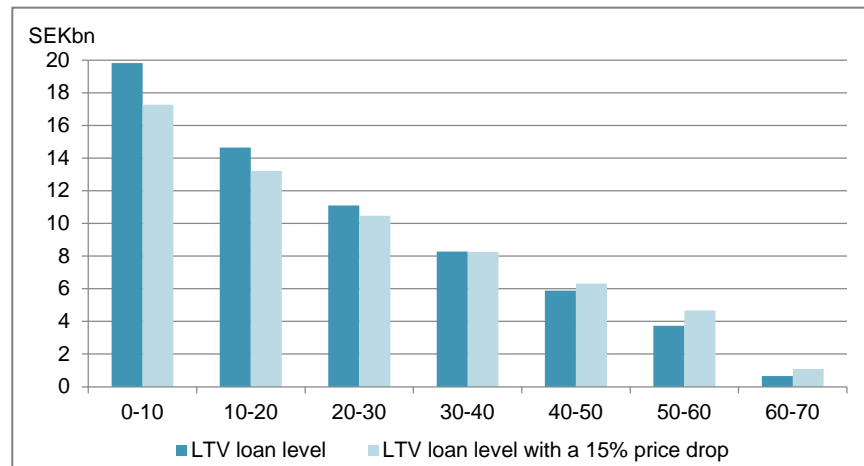


Halland	4%	◀
Västra Götaland	13%	◀
Värmland	6%	◀
Örebro	7%	◀
Västmanland	2%	◀
Dalarna	2%	◀
Gävleborg	2%	◀
Västernorrland	2%	◀
Jämtland	2%	◀
Västerbotten	1%	◀
Norrbotten	1%	◀

## Loan amount by LTV bucket



## Stress test LTV – 15% price drop



Total change in cover pool – 4.38%



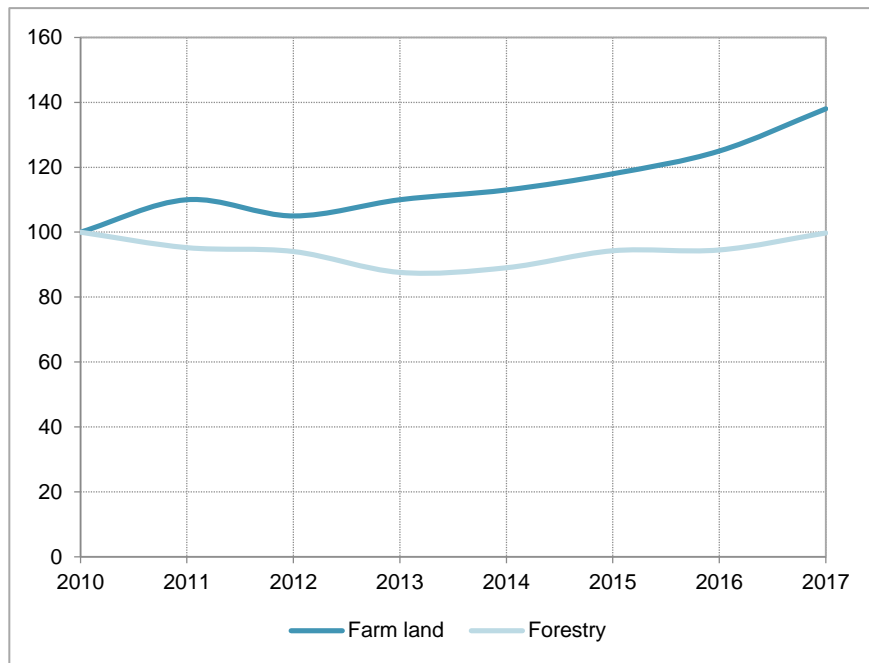
# Agriculture market overview

## Summary

- Positive outlook for Swedish agriculture in general, grains have some challenges though
- Increase in demand for domestic **cattle** has lead to a higher price levels compared with EU
- **Pork** is also supported by domestic demand and is the most consumed meat in Sweden
- There is also higher demand for **Poultry and egg**. The price for poultry is on same level as the rest of EU, however, the demand in domestic market is higher
- **Dairy** prices have increased in both domestic and global markets
- Falling prices on **grains** due to a global oversupply. Heavy rains have slowed down harvesting
- The **forestry** outlook is still positive with a market demand for both pulpwood and timber
- Long-term increased population and lack of farmland is supporting increased food prices and the value of arable land

# Agriculture market overview

## Property price development 2010-2017



	1Y	5Y
Farm land	+10%	+32%
Forestry	+5.6%	+3%

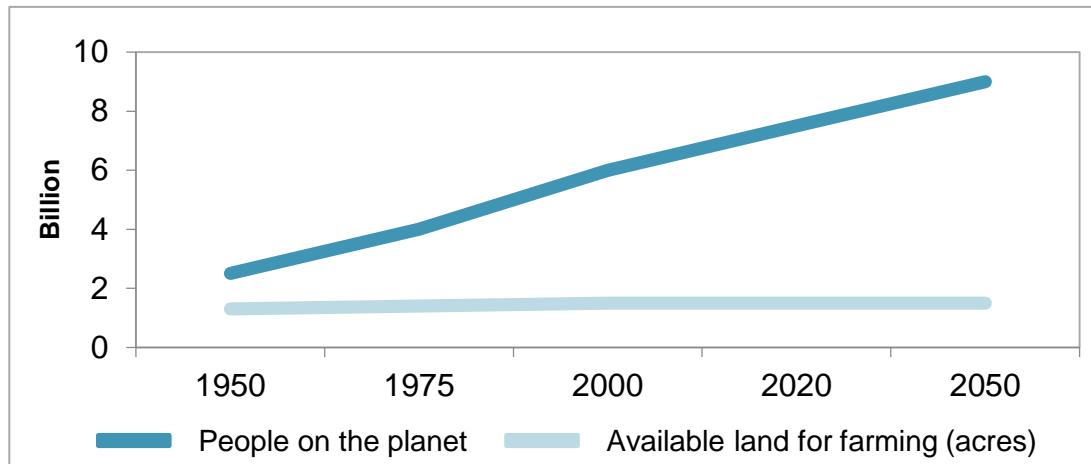
- Property prices for farmland has increased in almost all geographic areas – except for Skåne and Östergötland which have in previous years experienced large growth
- Average price for forestry properties has increased. There has been a price increase in northern Sweden. There are great price discrepancies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

# Agriculture market overview

Cattle	Pork	Poultry	Dairy	Grains	Forestry
<ul style="list-style-type: none"> <li>• Increase in domestic demand is continuing for Swedish meat, however the total meat consumption has decreased</li> <li>• Meat import is decreasing and meat export is increasing</li> <li>• Price level for Swedish meat is still higher than the rest of EU</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in domestic demand for pork</li> <li>• Pork butchering increased with 1.7% in 2017 compared with previous year</li> <li>• Pork is the most consumed meat in Sweden</li> <li>• Price for pork has increased in entire EU and Swedish pork is still on a high price level</li> </ul>	<ul style="list-style-type: none"> <li>• Demand for poultry meat increased in 2017</li> <li>• The price for poultry is on same level as the rest of EU, however, the demand in domestic market is higher</li> </ul>	<ul style="list-style-type: none"> <li>• Dairy prices have increased in both domestic and global markets. However the price development is expected to slow down in 2018</li> <li>• Average price for milk in Sweden has more than doubled since end of 2016</li> </ul>	<ul style="list-style-type: none"> <li>• Grains have had many challenges during 2017</li> <li>• Heavy rains have slowed down harvesting</li> <li>• Falling prices on grains due to a global oversupply</li> </ul>	<ul style="list-style-type: none"> <li>• The forestry outlook is still positive with a market demand for both pulpwood and timber</li> <li>• The weak currency is improving the industry's opportunities in the global market</li> <li>• Price for forestry property is increasing in Sweden</li> </ul>

# 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



# Landshypotek Bank— contacts and financial calendar

## For further information

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**General Counsel and Chief Sustainability Officer**

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## Financial calendar

**Q2 report**

**20<sup>th</sup> of July 2018**

**Q3 report**

**26<sup>th</sup> of October 2018**

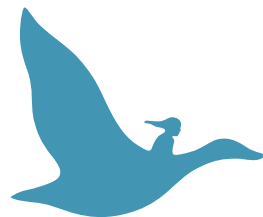
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