

Corporate Governance Report

Introduction

Länsförsäkringar Hypotek AB (publ) (Länsförsäkringar Hypotek) is a wholly owned subsidiary of Länsförsäkringar Bank AB (publ), which in turn is a wholly owned subsidiary of Länsförsäkringar AB (publ). Länsförsäkringar AB and its subsidiaries and owners, jointly comprise the Länsförsäkringar Alliance.

Länsförsäkringar Hypotek is a public limited liability company whose bonds are listed on Nasdaq Stockholm, Luxembourg Stock Exchange and SIX Swiss Exchange.

Corporate governance

Länsförsäkringar Hypotek, with its Parent Company Länsförsäkringar Bank AB (publ), and sister companies Länsförsäkringar Fondförvaltning AB (publ) and Wasa Kredit AB, comprise the operative Bank business unit of the Länsförsäkringar AB Group.

The Länsförsäkringar AB Group has a corporate governance system based on the Länsförsäkringar Alliance's strategies, Länsförsäkringar AB's assignment from its owners, Länsförsäkringar AB's long-term direction and on principles for managing the Länsförsäkringar AB Group decided upon by the Board of Länsförsäkringar AB. The risk-based performance management represents the basis of the corporate governance system.

Based on the aforementioned starting points, the corporate governance system consists of the organisation, the internal regulations and internal-control system, while Länsförsäkringar Hypotek guarantees the governance and internal control within the company within the framework of the corporate governance system.

The Board establishes the operational organisation for Länsförsäkringar Hypotek, which should be appropriate and transparent, with a clear distribution of responsibilities and duties between the various company bodies and between the so-called lines of defence, and a clear decision and reporting procedure. An internal-control system is integrated into the operational organisation, including a compliance system and a risk-management system. Economies of scale are guaranteed within the framework of the organisation via Group-wide functions and outsourced operations, continuity management and contingency plans, efficient systems for reporting and transferring information, information security, management of conflicts of interest and ensuring that Board members and employees are suited to their tasks.

The internal regulations, which comprise governance documents such as policies, guidelines and instructions, represent an important tool for managing the operations. The organisation and distribution of responsibility are determined by the internal regulations, as are the procedures for governance and internal control. The internal regulations are reviewed and decided upon regularly.

Internal control is part of the governance and management of Länsförsäkringar Hypotek. Internal control aims to ensure that the organisation is efficient and fit for its purpose, that operations are conducted in accordance with decided strategies in order to achieve established targets, that financial statements and reporting are reliable, that information systems are managed and operated

efficiently and that there is a strong ability to identify, measure, monitor and manage risks and full regulatory compliance. Risk and capital control and capital planning are a part of the internal control.

The internal-control process encompasses all parts of the organisation, including outsourced activities, and is an integral part of the organisational structure and decision-making processes. Internal control in the company is based on a system comprising three lines of defence, which comprise operations in the first line, functions for compliance and risk control in the second line and internal audit in the third line.

The purpose of the risk-management system, which is a part of internal control, is to ensure that Länsförsäkringar Hypotek is continuously able to identify, measure, monitor, manage and report risks. Internal control also includes the compliance system that ensures compliance with laws, regulations and other rules, and guarantees that new and amended regulations are monitored and implemented effectively, that the Board and employees are trained and that risks linked to compliance with external and internal rules can continuously be identified, measured, controlled, managed and reported.

Shareholders and General Meeting

Shareholders exercise their voting rights at the Annual General Meeting, which is the highest decision-making body. A general meeting is normally held once per year, the Annual General Meeting. Länsförsäkringar Bank AB (publ) owns 100% of the share capital and voting rights, and votes at the Meeting using the full number of shares owned. Decisions are made at the Annual General Meeting regarding the Annual Report, the election of members of the Board and auditors, fees and other remuneration to Board members and auditors, and other important matters to be addressed in accordance with laws or the Articles of Association.

Nomination process

The President of the Parent Company, Länsförsäkringar Bank AB, in consultation with the CEO of Länsförsäkringar AB, submits proposals regarding the Board of Directors and auditors of Länsförsäkringar Hypotek, and fees to these members and auditors. A suitability ("fit and proper") assessment of the proposed Board members is conducted according to the applicable guidelines for assessing the suitability of Board members of Länsförsäkringar AB's subsidiaries is applied, as well as specific process and procedure descriptions.

The Board is to have a sufficient number of Board members based on the size and degree of complexity of the company, and the nature and scope of the operations. With this as the starting point, an assessment can be made as to whether the Board has a suitable composition, with respect to the operations, stage of development and other conditions of the company, that ensures that the overall competencies necessary for the company are in place, characterised by diversity in terms of, for example, age, gender and ethnic origin. See also the section on Suitability assessment of the Board of Directors and the President below.

External auditors

The Annual General Meeting appoints the external auditors. In accordance with the Articles of Association, Länsförsäkringar Hypotek is to have between one and three auditors and between zero and three deputy auditors. The registered audit firm KPMG AB was elected the auditor of the company at the 2019 Annual General Meeting, with Dan Beitner as auditor in charge. The auditor examines Länsförsäkringar Hypotek's Annual Report, including the corporate governance report, as well as the administration of the Board and the President. The auditor reviews Länsförsäkringar Hypotek's interim reports.

Board of Directors

The Board of Directors of Länsförsäkringar Hypotek is elected by the General Meeting and, in accordance with the Articles of Association, is to comprise between five and ten Board regular members elected by the General Meeting, with no more than three deputies. Board members are elected for a mandate period of two years. The

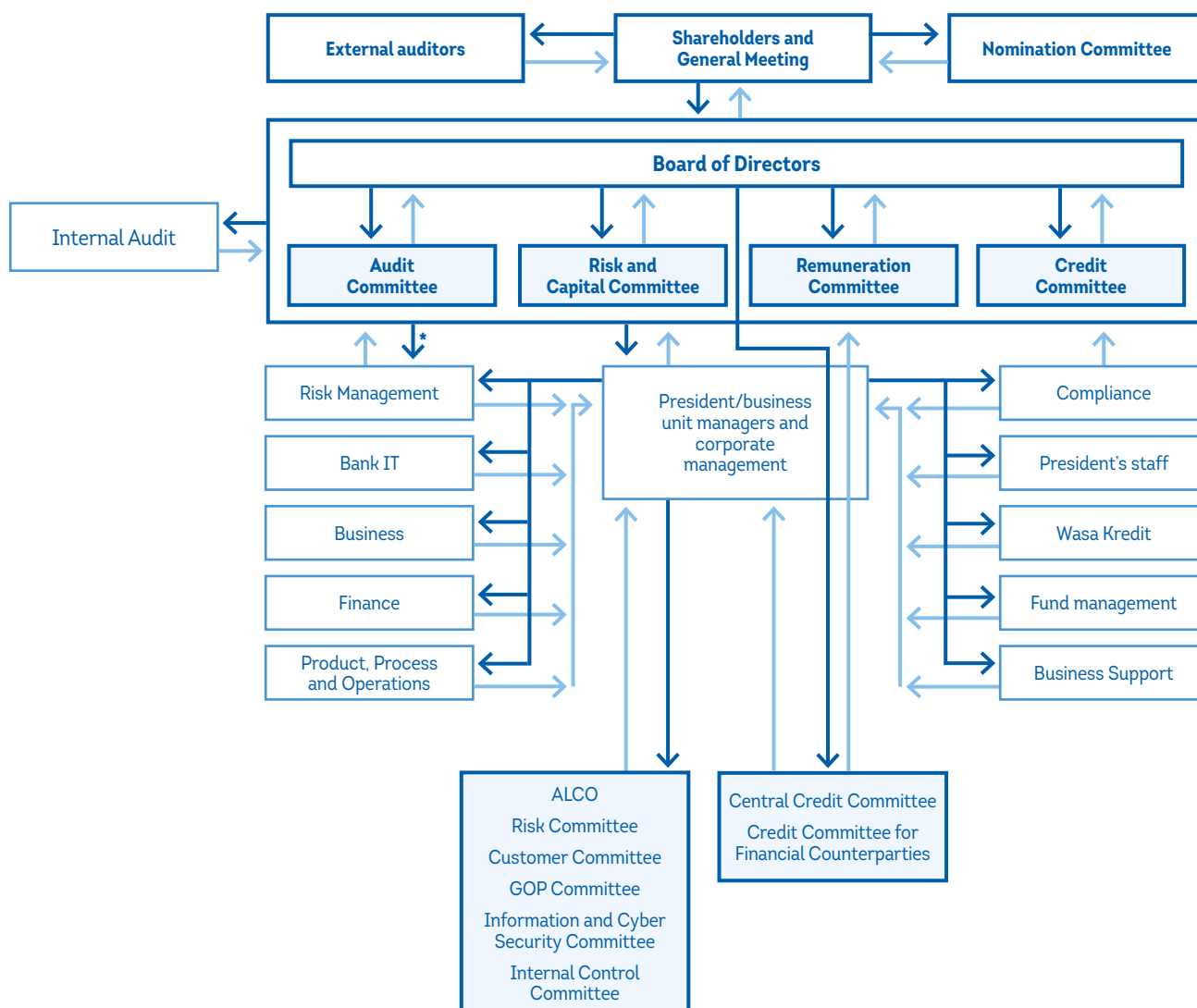
President is not a member of the Board. Länsförsäkringar Hypotek has no time limit for the length of time a member may sit on the Board and no upper age limit for Board members. The Chairman of the Board is appointed by the Annual General Meeting.

The Board comprised five regular members in 2019. The Chairman of the Board is the President of Länsförsäkringar Bank AB. A presentation of the Board members can be found on page 60.

Board responsibilities and delegation of duties

The Board is responsible for the organisation and administration of the company and for handling and making all decisions concerning issues of material significance and of an overall nature relating to the company's operations. The Board appoints, evaluates and dismisses the President, adopts an appropriate executive organisation and the goals and strategies of the operations, and ensures that efficient systems are in place for internal governance and control, as well as risk management. Every year, the Board adopts a formal work plan.

Länsförsäkringar Bank's governance structure



- Elects/appoints
- Informs/reports to

*) Chief Risk Officer approved by Board of Directors

The Board is to continuously remain informed about the performance of the company to be able to continuously assess the company's financial situation and position. Through its formal work plan and a reporting manual, the Board has established that financial reporting is to take place regularly at Board meetings. The Board must also regularly manage and evaluate the company's risk development and risk management. During the year, the Board regularly monitors the earnings, business volumes, financial position and risk trends in relation to the business plan and forecasts. The Board receives regular reports from Compliance, Risk Control and Internal Audit and continuously monitors current matters with authorities.

The Board has decided not to establish an audit committee. Instead, the Board as a whole addresses the issues that otherwise are the responsibility of an audit committee, including monitoring and evaluating the audit process, quality assurance of the company's financial reporting, assessing reports from the external auditor and examining the independence of the auditor in relation to the company including the scope of any non-audit related assignments that the auditor performs for the company.

The Board has established a Remuneration Committee to prepare matters regarding remuneration of the President and other members of corporate management and employees with overall responsibility for any of the company's control functions, and to prepare decisions on measures to monitor application of the remuneration policy.

President and corporate management

Anders Borgcrantz has been the President of the company since 2005. Anders Borgcrantz was born in 1961 and has worked in the banking and finance sector since 1985. A more detailed presentation of Anders Borgcrantz can be found on page 60. The President, CFO and Executive Vice President, and the Head of Staff form corporate management.

Länsförsäkringar Hypotek's own organisation conducts operations in front office, which is responsible for the company's funding, liquidity management and managing financial risks. The company also has employees who are responsible for its lending and IT operations. Other parts of Länsförsäkringar Hypotek's operations are outsourced to the Länsförsäkringar AB Group under a special outsourcing agreement.

Control functions

Internal Audit

Internal Audit is an independent review function that supports the Board in the evaluation of the corporate governance system, including the organisation's risk management, governance and controls. Based on its reviews, Internal Audit is to evaluate and assure that the operations' overall internal governance and control systems are conducted in an efficient manner and that the overall reporting to the Board provides a true and fair view of the operations, that the operations are conducted in accordance with applicable internal and external regulations, and in compliance with the Board's decisions. The Board has adopted a separate instruction for the Internal Audit function. The Internal Audit function reports to the Board of Directors.

Compliance

Compliance is an independent control function responsible for monitoring and controlling that operations are conducted in full regulatory compliance. The task of the function is to monitor and control regulatory compliance in the licensable operations, and identify and report on risks that may arise as a result of non-compliance with regulatory requirements. Compliance is to also provide support and advice to operations, to ensure that operations are informed about new and amended regulations and to take part in the implementation of training. Compliance risks and recommendations of actions are to be reported to the President and the Board.

Risk Control

Risk Control provides support to the Board, President, management and the rest of the operations for fulfilling their responsibility of ensuring that proper risk management and risk control have been carried out for all operations and for ensuring that risks are managed in line with the risk framework established by the Board. Risk Control is to carry out its activities independently from the business activities, with organisational distribution into an independent support section and an independent control section. Risks and actions taken are reported continuously to the President and the Board of Directors of Länsförsäkringar Hypotek.

Suitability assessment of Board and President

A suitability ("fit and proper") assessment is conducted in conjunction with the appointment of Board members, the President and the Executive Vice President. An assessment is also conducted annually, and when necessary, to ensure that the individuals in the above-mentioned positions are, at any given time, suitable for their assignments. The suitability assessment is conducted following established guidelines and takes into consideration the person's knowledge, skills and experience (fit), good reputation, honesty and integrity (proper), as well as any conflicts of interest and the ability to commit sufficient time for the assignment.

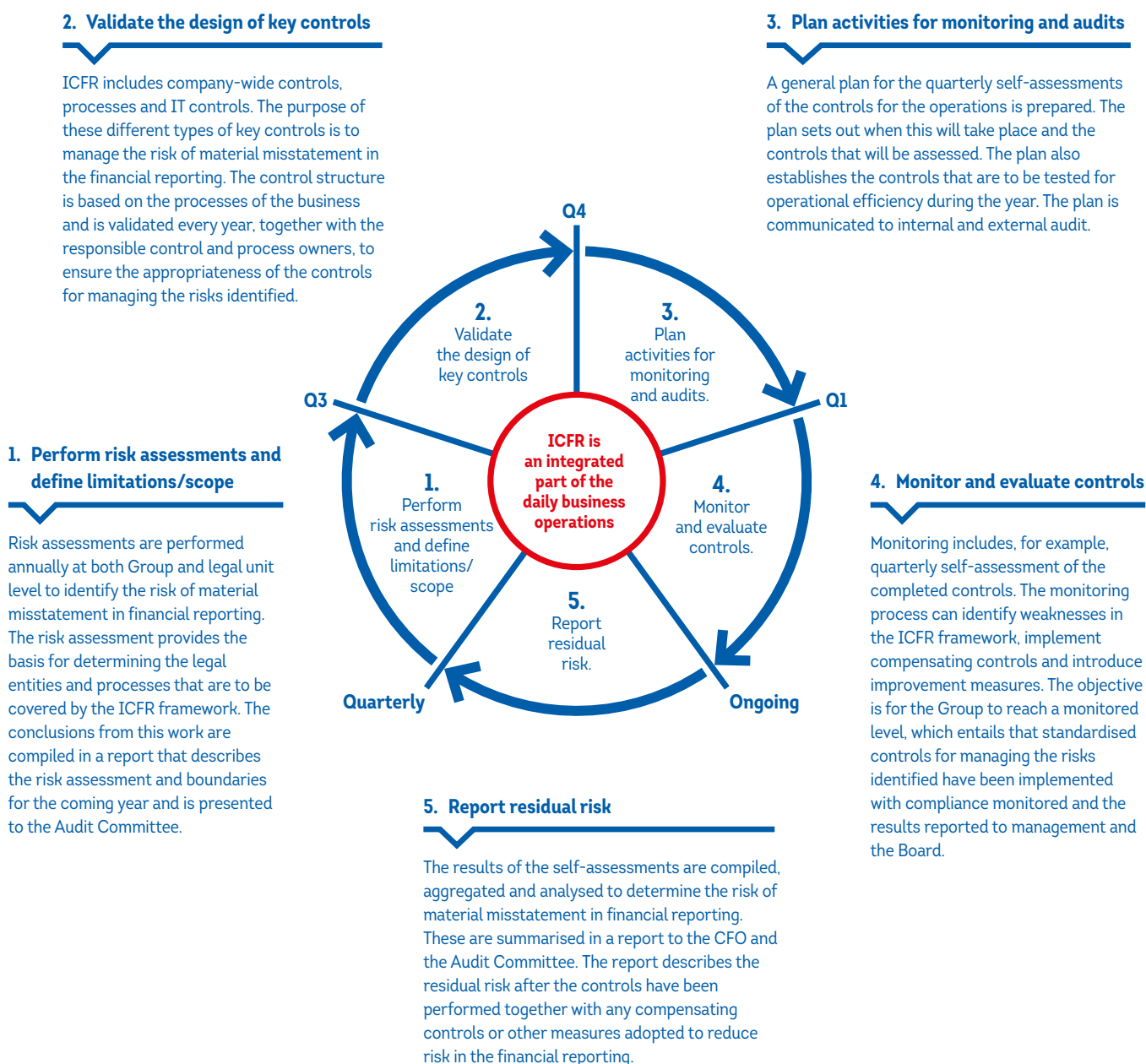
Board members are assessed on the basis of material collected by the Board Chairman and received from the person to whom the fit and proper assessment pertains. The suitability assessment of the President and Executive Vice President is performed by the Board. Based on Länsförsäkringar Hypotek's operations, stage of development and other circumstances, the assessment also considers relevant training and experience, as well as professional experience in senior positions. In addition to the performance and skills of individual Board members, the Board's performance as a whole is assessed, based on, for example, the Board's evaluation of its work and whether the Board possesses the skills required for leading and managing the company.

A person not considered suitable according to this assessment will not be appointed or employed. If an already appointed person is considered no longer suitable for his or her duties according to a suitability assessment, Länsförsäkringar Hypotek is to adopt measures to ensure that the person in question either meets the suitability requirements or is replaced.

The assessment is that all Board members, the President and the Executive Vice President fully satisfy the fit and proper requirements. Information about their education, previous experience and other Board appointments is presented on pages 60.

Internal control over financial reporting

The Board's responsibility is to ensure that efficient systems are in place to monitor and control the company's operations and financial position. Internal control over financial reporting (ICFR) is a framework for providing reasonable assurance of the reliability of the financial reporting to management and Board. The ICFR is performed in an annual cycle as shown in the diagram below.



In addition to the above, Internal Audit also performs an independent review of selected ICFR risks and controls, in accordance with the plan adopted by the Audit Committee. The results of Internal Audit's review, and recommendations, are reported regularly to the Audit Committee.