

Corporate Governance Report

Introduction

Länsförsäkringar Bank AB ("Länsförsäkringar Bank") is a wholly owned subsidiary of Länsförsäkringar AB, which in turn is owned by 23 customer-owned regional insurance companies and 14 local insurance companies. Länsförsäkringar AB, with its subsidiaries and owners, jointly comprise Länsförsäkringar Alliance.

Länsförsäkringar Bank complies with the Swedish Code of Corporate Governance ("the Code"), where appropriate, taking into consideration that the bank is not a listed company. The major deviations from the provisions of the Code and explanations for such deviations are presented below.

- *Nomination Committee and holding of Annual General Meeting*
Deviation from the provisions of the Code with respect to the fact that Länsförsäkringar Bank is not a listed company and has only one shareholder. For more information, refer to "Nomination process."
- *Composition of Board of Directors*
Deviations are made from the provisions of the Code regarding independence of Board members and Committee members. According to the instruction for the Nomination Committee, the Board of Directors shall be appropriately composed, with respect to Länsförsäkringar Bank's operations, stage of development and other circumstances, and characterised by diversity and breadth in terms of the members' competencies, experience and background. It has been decided that these requirements can be fulfilled within the framework of the Länsförsäkringar Alliance.
- *Mandate period for Board members*
Deviation from the provision of the Code stipulating a maximum mandate period of one year. The mandate period for Board members is, as a general rule, two years. A longer mandate period contributes to ensuring continuity and establishing competence within the Board and the Annual General Meeting is supreme in dismissing and appointing a Board member irrespective of mandate period.

General Meeting

Shareholders exercise their voting rights at the Annual General Meeting. Decisions are made at the Annual General Meeting pertaining to the Annual Report, the election of members of the Board and auditors, remuneration to the Board members and auditors and other important matters to be addressed in accordance with laws or the Articles of Association. The proposal for remuneration to Board members presented at the Annual General Meeting is specified for the Chairman, Deputy Chairman and other Board members, and includes remuneration for extra Board meetings and committee work, unless remuneration for such meetings and work is determined separately.

Nomination process

The Annual General Meeting of Länsförsäkringar AB appoints a Nomination Committee. The Nomination Committee is charged with the task of presenting proposals regarding the Board of Direc-

tors and auditors of Länsförsäkringar AB, and, in consultation with the CEO of Länsförsäkringar AB, proposals regarding the Board of Directors and auditors of Länsförsäkringar Bank and other subsidiaries, and fees to these members and auditors. The Nomination Committee follows an instruction adopted by the Annual General Meeting of Länsförsäkringar AB. The Nomination Committee comprises Karin Starrin (Chairman) (Länsförsäkringar Halland), Göran Trobro (Deputy Chairman) (Länsförsäkringar Kristianstad), Ulf W Eriksson Larsson (Länsförsäkringar Värmland), Anna-Greta Lundh (Länsförsäkringar Södermanland) and Björn Sundell (Länsförsäkringar Uppsala).

External auditors

In accordance with the Articles of Association, Länsförsäkringar Bank shall have between one and three auditors and between zero and three deputy auditors. Auditors are appointed for a mandate period of a maximum of four years. At the 2008 Annual General Meeting, Johan Bäckström, KPMG AB, was appointed auditor and Stefan Holmström, KPMG AB, as deputy auditor for the period until the 2012 Annual General Meeting.

Composition of the Board of Directors

In accordance with the Articles of Association, the Board of Directors of Länsförsäkringar Bank shall comprise between six and nine Board members elected by the Annual General Meeting, with no more than six deputies. Board members are elected for a mandate period of a maximum of two years. In addition, members appointed by trade-union organisations are also members of the Board. Länsförsäkringar Bank 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 and Deputy Chairman of the Board are appointed by the Annual General Meeting.

The 2011 Annual General Meeting resolved that the Board of Directors for the period up to and including the next Annual General Meeting would comprise seven members elected by the Annual General Meeting. The Board comprises a total of nine members and one deputy member, of whom two members and one deputy member are appointed by the trade-union organisations. The Chairman of the Board is the President of Länsförsäkringar AB. The President of Länsförsäkringar Bank is not a member of the Board. Six members are Board members or President of a regional insurance company. A presentation of the Board members can be found on page 90.

Board responsibilities

The Board is responsible for the organisation and administration of the company and shall handle and make all decisions concerning issues of material significance and an overall nature relating to the company's operations. This includes determining an appropriate organisation, the goals and strategies of the operation and guidelines for control and governance.

Every year, the Board adopts a formal work plan. The formal work plan includes regulations on the duties and responsibilities of the Board and its Chairman, delegation of duties within the Board, the lowest number of Board meetings, procedures for reporting on the operations and financial reports, as well as procedures for Board meetings in terms of notices of meetings and presentation of materials, as well as disqualification.

The Board has adopted a directive for the President. The Board has also adopted a number of policies, guidelines and instructions (guidance documents) for the operations.

The Board shall remain informed about the performance of the company to continuously assess the company's financial situation and position. Through its formal work plan and reporting instructions, the Board has established how and when financial reporting to the Board shall occur.

During the year, the Board regularly reviews the company's earnings and sales trends, financial position and risk trends in relation to the business plan and forecasts. The Board conducts annual strategic seminars and evaluations of its own work. The Board also annually assesses the work of the President and his terms of employment. The Board meets Länsförsäkringar Bank's auditor at least once per year. See also "Audit Committee" below.

Chairman

According to the formal work plan, the Chairman shall lead the Board's work and ensure that the Board fulfils its duties. The Chairman shall also ensure that the Board meets as required, that Board members are provided with the opportunity to participate in meetings and receive satisfactory information and documentation for decision-making, and that the Board applies an appropriate working methodology. On the basis of ongoing contact with the President and in addition to Board meetings, the Chairman shall also keep himself informed of significant events and developments in Länsförsäkringar Bank, and support the President in his work.

Distribution of Board duties

The Board has established an Audit Committee, a Remuneration Committee, a Risk and Capital Committee and a Credit Committee. The duties of the Committees are determined by the Board in its formal work plan or in separate instructions. None of the Committees has any general decision-making mandate, except for the Credit Committee. Each Committee must regularly report on its activities to the Board, which takes place by the minutes of the Committee meetings being sent to the Board or in another manner.

Audit Committee

The Audit Committee is responsible for preparing the work of the Board of Directors pertaining to quality assurance of the internal control of financial reporting, regulatory compliance, risk management, risk control and other internal control matters. Länsförsäkringar Bank's internal and external auditors generally participate in the Committee's meetings. At the statutory Board meeting following the 2011 Annual General Meeting, Sten Dunér (Chairman), Ingemar Larsson and Leif Johanson were appointed members of the Audit Committee. Ingemar Larsson replaced Sten Dunér as the Committee Chairman on August 24, 2011.

Remuneration Committee

The Remuneration Committee shall prepare issues on, for example, remuneration for the President and other members of company management, and remuneration for employees who assume the overall responsibility for one of the company's control functions. The Board subsequently makes decisions on these issues. At the statutory Board meeting following the 2011 Annual General Meeting, Sten Dunér (Chairman) and Ingemar Larsson were appointed members of the Remuneration Committee.

Risk and Capital Committee

The Risk and Capital Committee is to support the Board in risk and capital adequacy issues and serve as a forum for analysing and holding in-depth discussions on the Bank Group's level of risk and capital requirements. The Board subsequently makes decisions on these issues. When the Committee was established on August 24, 2011, Sten Dunér (Chairman), Ingemar Larsson, Christian Bille and Christer Villard were appointed members of the Risk and Capital Committee.

Credit Committee

The Credit Committee has a mandate to decide on certain loans in accordance with a specific instruction adopted by the Board. At the statutory Board meeting following the 2011 Annual General Meeting, Sten Dunér (Chairman), Ingemar Larsson, Leif Johansson, Christian Bille and Rikard Josefson were appointed members of the Credit Committee.

Internal audit

The Board appointed an internal audit function independent from the operating activities, with the primary task of ensuring that the scope and direction of the operations agree with the guidelines issued by the Board and that the operations are being conducted toward the targets established by the Board. The internal audit function is also responsible for examining and assessing the organisation of Länsförsäkringar Bank, its procedures, governance and control of the operations. The Board has adopted a separate instruction for the internal audit function.

Meetings and attendance

The table below shows the number of meetings held in each body since the 2011 Annual General Meeting until February 2012, and the attendance by each Board member:

	Board of Directors	Audit Committee	Remuneration Committee	Risk and Capital Committee
Total number of meetings	10¹⁾	2²⁾	2	3
Sten Dunér	8	2	2	3
Christian Bille	10			3
Ingrid Ericson	8			
Per-Åke Holgersson	10			
Leif Johanson	9	2		
Ingemar Larsson	9	2	2	2
Max Rooth ³⁾	5			
Katarina Säter ⁴⁾	3			
Örian Söderberg	9			
Christer Villard	9			2
Torleif Carlsson, deputy	5			

¹⁾ Of which two per capsulam

²⁾ From June 14, 2011

³⁾ Member from October 2011

⁴⁾ Member from September 2011

Internal control and risk management relating to financial reporting

The Board of Directors is responsible for the control and governance of the operations. This responsibility includes the preparation of an efficient system for risk management and internal control. The risk-management system is to ensure that, for example, risks can be continuously identified, managed and reported. Internal control is a process designed to provide reasonable assurance that the objectives of the operations are achieved in terms of appropriate and efficient business operations, reliable financial reporting and information about the operations and compliance with applicable internal and external regulations. The internal-control system encompasses all parts of the organisation and is an integral part of the operations.

Internal control is based on a system comprising three lines of defence. The first line of defence is the operations, the second the Compliance and Riskcontrol functions and the third the Internal Audit function. The second and third lines of defence are independent in relation to the first line.

The purpose of the internal control of the financial reporting is to manage risks in the processes pertaining to the preparation of the financial reporting and to ensure a high level of reliability in such reporting.

Control environment

The foundation of internal control relating to financial reporting is the control environment, consisting of the organisation, decision-making procedures and allocation of authorities and responsibilities among the various bodies that the Board of Directors and the President have established for the bank. The control environment also includes the values and corporate culture that the Board, the President and management communicate and work from to create appropriate and efficient operations.

The task of the Audit Committee is to assume responsibility for preparing the Board's quality assurance of the financial reporting and to monitor the efficiency of the internal governance and control. The Committee is also to prepare the direction, scope and coordination of the work of the Internal Audit and study the observations and recommendations from the external auditors.

The process for internal control and risk management involves four main activities: risk assessment, control activities, information and communications, and follow-up.

Risk assessment

Risk assessment includes identifying and analysing material risks affecting internal control relating to financial reporting. These risks are analysed at company and Group level. Länsförsäkringar Bank is governed through common processes, in which risk management is built into every process and various methods are used to value and restrict risks and to ensure that identified risks are managed in accordance with established guidance documents.

The processes and control activities associated with key risks are assessed based on the risk analysis to identify material errors in the financial reporting. The risks associated with the operations conducted in Länsförsäkringar Bank are managed in the part of the operations in which they arise.

Control activities

Risks in financial reporting are controlled through carefully prepared financial statements, standardised work routines with built-in control functions and the evaluation of ongoing improvements. The financial information is analysed and reviewed at various organisational levels before being presented publicly.

Efforts are ongoing to eliminate and reduce identified significant risks affecting internal control relating to financial reporting. This includes the development and improvement of control activities, and efforts to ensure that employees have the appropriate expertise.

Information and communications

Internal guidance documents are subject to review and reassessment at least once a year. All guidance documents are published on Länsförsäkringar Bank's internal website. Every manager must ensure that the regulations are communicated to affected subordinate staff.

Follow-up

Activities to ensure compliance with external and internal regulations take place in each part of the operations. The Internal Audit function was established to assist the Board in following up and ensuring that the scope and direction of the operations complies with the guidelines issued by the Board and that the operations are conducted in accordance with the targets established by the Board. Based on its reviews, the Internal Audit function shall form an opinion as to whether the operations are conducted in an efficient manner, whether reporting to the Board provides a true and fair view of the operations, and whether the operations are conducted in accordance with applicable internal and external regulations. The Internal Audit function reports to the Board of Directors. In addition, each manager is to ensure compliance with guidance documents in their area of responsibility and that procedures for self-assessments are in place.

The Compliance function's task is to identify, assess, monitor and report on compliance risks, meaning the risk that inadequate compliance could tarnish the reputation of the company or result in financial losses or sanctions in accordance with legislation or regulations. The Compliance function reports to the President and Board.