

# 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 15 local insurance companies. Länsförsäkringar AB and its subsidiaries and owners jointly comprise the Länsförsäkringar Alliance.

Länsförsäkringar Bank is a public limited liability company, and the company's bonds are listed on Nasdaq Stockholm and the Luxembourg Stock Exchange. Länsförsäkringar Bank complies with the applicable parts of the Swedish Corporate Governance Code (the Code). Deviations are primarily due to Länsförsäkringar Bank not being a listed company. Deviations from the provisions of the Code and explanations for such deviations are presented below in the Deviations from the Code section on page 34.

## Corporate governance

Länsförsäkringar Bank, and its subsidiaries Länsförsäkringar Fondförvaltning AB (publ), Länsförsäkringar Hypotek AB (publ) and Wasa Kredit AB (Wasa Kredit), comprises the 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 the Bank business unit guarantees the governance and internal control within the business unit within the framework of the corporate governance system.

The Board establishes the operational organisation for the Länsförsäkringar Bank Group, 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 regulatory 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, 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 the Bank business unit. 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 Bank business unit 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 an internal audit function in the third line.

The purpose of the risk-management system, which is a part of internal control, is to ensure that the legal entities in the Bank business unit are 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 Boards and employees are trained and that risks linked to compliance with external and internal rules can continuously be identified, measured, controlled, managed and reported.

An outline of the governance and reporting structure is provided in the diagram on page 31.

## 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 a year, known as the Annual General Meeting. Länsförsäkringar AB owns 100% of the share capital and voting rights.

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. The proposal for remuneration of Board members is specified for the Chairman and other Board members.

## Nomination Committee

### 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 Directors and auditors of Länsförsäkringar AB, and, in consultation with the CEO of Länsförsäkringar AB, proposals regarding, for example, the Board of Directors and auditors of Länsförsäkringar Bank, and fees and other remuneration to these members and auditors.

The Nomination Committee follows an instruction adopted by the Annual General Meeting of Länsförsäkringar AB and new Board members are recruited in accordance with the instructions and established procedures and processes. 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, the Nomination Committee assesses 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 Fit and proper assessment of the Board of Directors and President below.

**Nomination Committee prior to Annual General Meeting**

Since Länsförsäkringar AB's 2020 Annual General Meeting, the Nomination Committee has comprised Otto Ramel as Chairman (Länsförsäkringar Skåne), Mikael Bergström (Länsförsäkringar Västernorrland), Ulrica Hedman (Länsförsäkringar Uppsala), Karin Starrin (Länsförsäkringar Halland) and Göran Trobro (Länsförsäkringar Göttinge Kristianstad)

Prior to the 2020 Annual General Meeting, the Nomination Committee has:

- studied the Board's evaluation of its work,
- studied the Board Chairman's view of the operations, the Board's work and skills requirements, and
- reviewed and discussed requirements for skills with respect to the needs of the operations and regulatory requirements

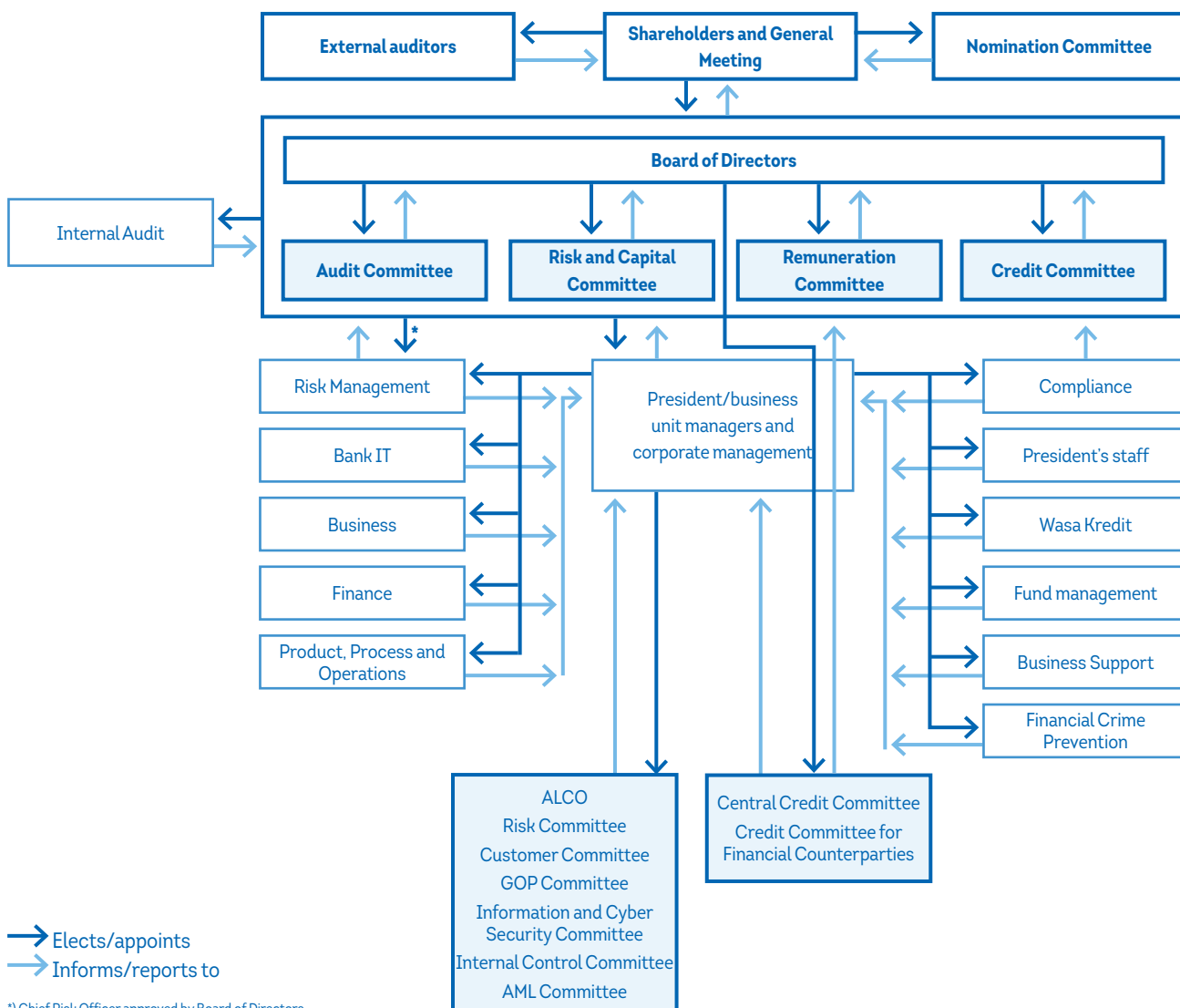
Prior to 2021 Annual General Meeting, the Nomination Committee will:

- evaluate the independence of candidates,
- nominate Board members and a Board Chairman,
- carry out fit and proper assessments of Board members, and
- propose fees and other remuneration of Board members and auditors.

**External auditors**

The Annual General Meeting appoints the external auditors. Nominations are made to the Nomination Committee. In accordance with the Articles of Association, Länsförsäkringar Bank is to have between one and three auditors and between zero and three deputy auditors. Auditors are appointed for a period in office of a maximum of four

**Länsförsäkringar Bank's governance structure**



years. KPMG AB was elected the auditor at the 2019 Annual General Meeting, with Dan Beitner as auditor in charge. The auditor was appointed for the period up to the 2022 Annual General Meeting.

The auditor examines Länsförsäkringar Bank Annual Report, including the corporate governance report, as well as the administration of the Board and the President. The auditor reviews Länsförsäkringar Bank's interim reports. The auditor presented the audit results and observations to the Board once in 2020. The auditor also participates in the meetings of the Board's Audit Committee.

## Board of Directors

### Composition of Board

The Board of Directors of Länsförsäkringar Bank is elected by the General Meeting and, in accordance with the Articles of Association, is to comprise between six and nine regular Board members elected by the General Meeting, with no more than six deputies. Board members are elected for a mandate period of two years. In addition, members appointed by trade-union organisations are also members of the Board. The President is not a member 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 of the Board is appointed by the Annual General Meeting. The President, Executive Vice President and Board Secretary participate in Board meetings except for matters in which there may be a conflict of interest or when it would otherwise be inappropriate for them to attend. Employees reporting on particular issues attend meetings when they make their presentations.

The Board comprised ten regular members and two deputies in 2020. Eight of the members were elected by the General Meeting. Two regular members and two deputies were appointed by the trade-union organisations. A presentation of the Board members can be found on pages 110–111.

## Board responsibilities and allocation 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. Under the capital adequacy rules, Länsförsäkringar Bank is responsible, from a supervisory and reporting perspective, for the consolidated situation, which besides the Länsförsäkringar Bank Group also includes the Parent Company Länsförsäkringar AB. At the same time, Länsförsäkringar Bank and its subsidiaries are consolidated at the sub-group level.

Every year, the Board adopts a formal work plan. The formal work plan includes regulations on the duties and responsibilities of the Board, its Chairman and its members, the 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 presentations of materials, as well as disqualification and conflicts of interest.

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 also regularly manages and evaluates the company's and the Group'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, for example, the business plan and forecasts. The Board receives regular reports from Compliance, Risk Management and Internal Audit and continuously monitors current matters with authorities.

## Board meetings and attendance

The table below shows the number of meetings held in each body since 2020 and the attendance of each Board member.

	Board of Directors	Audit Committee	Remuneration Committee	Risk and Capital Committee	Credit Committee
<b>Number of meetings</b>	<b>13</b>	<b>8</b>	<b>3</b>	<b>7</b>	<b>16</b>
Fredrik Bergström	13	8	3	7	15
Anna Blom*	6			3	9
Per-Ove Bäckström	13				15
Ola Evensson*	6				9
Anders Grånäs	12		2	7	
Ingrid Jansson	13	8			
Beatrice Kämpe***** Nikolausson	6		1		
Lennart Käll*	7	4			
Bengt-Erik Lindgren***		1			1
Peter Lindgren	13	8		6	
Anna-Greta Lundh*****	5			2	6
Mirek Swartz	12				
Mattias Karlsson**	4				
Ellinoora Hoppe*****	3				
Camilla Lahger, deputy	10				
Peter Fredby**, deputy	3				

\*Member from 4 May 2020 \*\*Member from 27 Aug 2020 \*\*\*Member until 5 Feb 2020 \*\*\*\*Member until 15 Apr 2020 \*\*\*\*\*Member until 5 Apr 2020

### **Chairman**

According to the formal work plan, the Chairman is to lead the Board's work and ensure that the Board fulfils its duties. The Chairman is also to 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 apply an appropriate working methodology. On the basis of ongoing contact with the President and in addition to Board meetings, the Chairman is also to keep himself informed of significant events and developments in Länsförsäkringar Bank, and support the President in his work.

### **Work of the Board**

In its formal work plan, the Board has established annually recurring items of business and a standard for its agenda and information and decision-making material. In a company directive, the Board established the company's and the Group's operational structure, clarified the allocation of responsibilities between the various units and executives in the company and Group, and stated how the operations are to be governed and controlled.

In addition to the Board's formal work plan and the company directive, at least once a year the Board establishes its directive for the President as well as a large number of governance documents for the operations.

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 separate formal work plans. 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.

The Board conducts annual strategic seminars and evaluations of the President's work and terms of employment. The Board meets the company's auditor at least once per year. See also the Audit Committee section below.

The dates of Board meetings are generally established at the first scheduled meeting following the Annual General Meeting for the next calendar year. A notice of each meeting, including a preliminary agenda, is sent out about 14 days prior to the meeting. Documentation for the meeting is normally distributed about one week prior to the meeting. All documents and materials presented at the meeting are saved electronically.

In 2020, the Board followed its established plan and gained greater knowledge of areas including sustainability, anti-money laundering (AML) and terror financing, open banking and new regulations on risk and capital adequacy. The Board also devoted particular attention to such matters as capital and liquidity issues, the credit operations, risks in the operations and major ongoing projects at the bank.

The number of Board meetings and members' attendance are presented in the table on page 32.

### **Evaluation of the Board's work**

Every year, the Board Chairman initiates an evaluation of the Board's work. The 2020 evaluation was based on an electronic survey completed by the Board members. The results were compiled, reported to and discussed by the Board. The results were submitted to the Nomination Committee.

### **Audit Committee**

The Audit Committee's responsibilities include preparing the Board's work in the following areas:

- Monitoring the company's financial reporting
- Regarding the financial reporting, monitoring the effectiveness of the company's internal control, internal audit and risk management.
- Remaining informed of the audit of the Annual Report and consolidated financial statements.
- Examining and monitoring auditors' impartiality and independence and, in this respect, particularly noting whether the auditors provide the company with any other services than auditing services.
- Monitoring the efficiency of the company's and Group's corporate governance system and internal control of the operational risks.

At the statutory Board meeting following the 2020 Annual General Meeting, Ingrid Jansson was appointed Chairman and Fredrik Bergström, Lennart Käll and Peter Lindgren were appointed members of the Audit Committee.

The number of Audit Committee meetings and members' attendance are presented in the table on page 32.

### **Remuneration Committee**

The Remuneration Committee is to prepare issues on remuneration of the President and other members of corporate management and employees with overall responsibility for any of the company's control functions, as well as prepare decisions for measures to monitor application of the remuneration policy.

At the statutory Board meeting following the 2020 Annual General Meeting, Fredrik Bergström was appointed Chairman, and Anders Grånäs Larsson was appointed member of the Remuneration Committee.

The number of Remuneration Committee meetings and members' attendance are presented in the table on page 32.

### **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 Länsförsäkringar Bank Group's and the consolidated situation's risk-taking and capital requirements ahead of Board decisions.

At the statutory Board meeting following the 2020 Annual General Meeting, Fredrik Bergström was appointed Chairman, and Anna Blom, Anders Grånäs, Peter Lindgren and Anna-Greta Lundh were appointed members of the Risk and Capital Committee. The number of Risk and Capital Committee meetings and members' attendance are presented in the table on page 32.

### **Credit Committee**

The Credit Committee is to prepare credit issues for amounts within the framework of the Committee's mandate according to an instruction adopted by the Board.

In connection with the Annual General Meeting, Fredrik Bergström was appointed Chairman, and Anna Blom, Per-Ove Bäckström and Ola Evensson were appointed members of the Credit Committee.

The number of Credit Committee meetings and Board members' attendance are presented in the table on page 32.

### **President and corporate management**

Sven Eggefalk has been the President since April 2018. Sven Eggefalk was born in 1969 and has worked in the banking and finance sector since 1996. The organisational structure of the Bank Group is divided into departments. In addition, there are the three control functions of Risk Management, Compliance and Internal Audit. To ensure that the operations of each subsidiary comply with the overall objectives

for the Länsförsäkringar Bank Group, the President is the head of the Bank business unit of the Länsförsäkringar AB Group and also the Chairman of the Board of Länsförsäkringar Bank's subsidiaries, except for Länsförsäkringar Fondförvaltning AB.

Group management and a management team have been established for senior executives to consult with each other and exchange information. Group management, which includes the Presidents of each company in the Group, discusses and decides on matters pertaining to the business unit. The management team, which includes the President and other departmental heads in Länsförsäkringar Bank, discusses and decides on matters relating to Länsförsäkringar Bank. In addition, a number of committees have been established to prepare and make decisions on certain issues. The committees are governed by separate instructions.

## **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. Internal Audit reports to the Board of the companies included in the business unit and to Länsförsäkringar Bank's Audit Committee.

### **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 also to 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 are reported and recommendations for actions submitted to the President and the Boards of the companies included in the business unit and to Länsförsäkringar Bank's Audit Committee.

### **Risk Management**

The task of Risk Management is to provide support to the Board, the President and management, to fulfil its responsibility of ensuring that proper risk management and risk control have been carried out for all operations and to ensure that risks are managed in line with the risk framework established by the Board. Risk Management is to carry out its activities independently from the business activities. The Head of Risk Management is also the Chief Risk Officer for Länsförsäkringar Bank, who is responsible for ensuring that the Group's risks are managed in accordance with the established risk framework. Risks and action taken are to be continuously reported to the President and Board of the companies included in the business unit. Risks are also continuously reported to the Risk and Capital Committee and operational risks are also reported to Länsförsäkringar Bank's Audit Committee.

## **Fit and proper 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 repute, honesty and integrity (proper), any conflicts of interest, independence and the ability to commit sufficient time for the assignment.

Board members are assessed on the basis of material collected by the Board Chairman, available registers and received from the person to whom the fit and proper assessment pertains. Based on the company's operations and other circumstances, the assessment also considers relevant training and experience, as well as professional experience in senior positions. As regards the Board, in addition to the performance and skills of individual members, the Board's performance as a whole is assessed and whether the Board possesses the skills required for leading and managing the company.

A person considered unsuitable according to an 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, the company 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 Executive Vice President fully satisfy the fit and proper criteria. Information about their education, previous experience and other Board appointments is presented on pages 110-111.

## **Deviations from the Code**

The major deviations from the provisions of the Code and explanations for such deviations are presented below.

### ***Nomination Committee, notice, publication of information prior to, and holding an Annual General Meeting.***

Deviation from the provisions of the Code occurs with respect to the fact that Länsförsäkringar Bank is not a listed company and has only one shareholder. For more information, refer also to the sections Shareholders and General Meeting and Nomination Committee on pages 30-31.

### ***Composition of Board***

Deviation from the provisions of the Code occurs regarding independence of Board members and Committee members. According to the instruction for the Nomination Committee, the Board of Directors is to be appropriately composed with respect to Länsförsäkringar Bank's operations, stage of development and other circumstances, that ensures the overall competencies necessary are in place, characterised by diversity so as to promote independent opinion and critical questioning. It has been decided that these requirements can be fulfilled within the framework of the Länsförsäkringar Alliance.

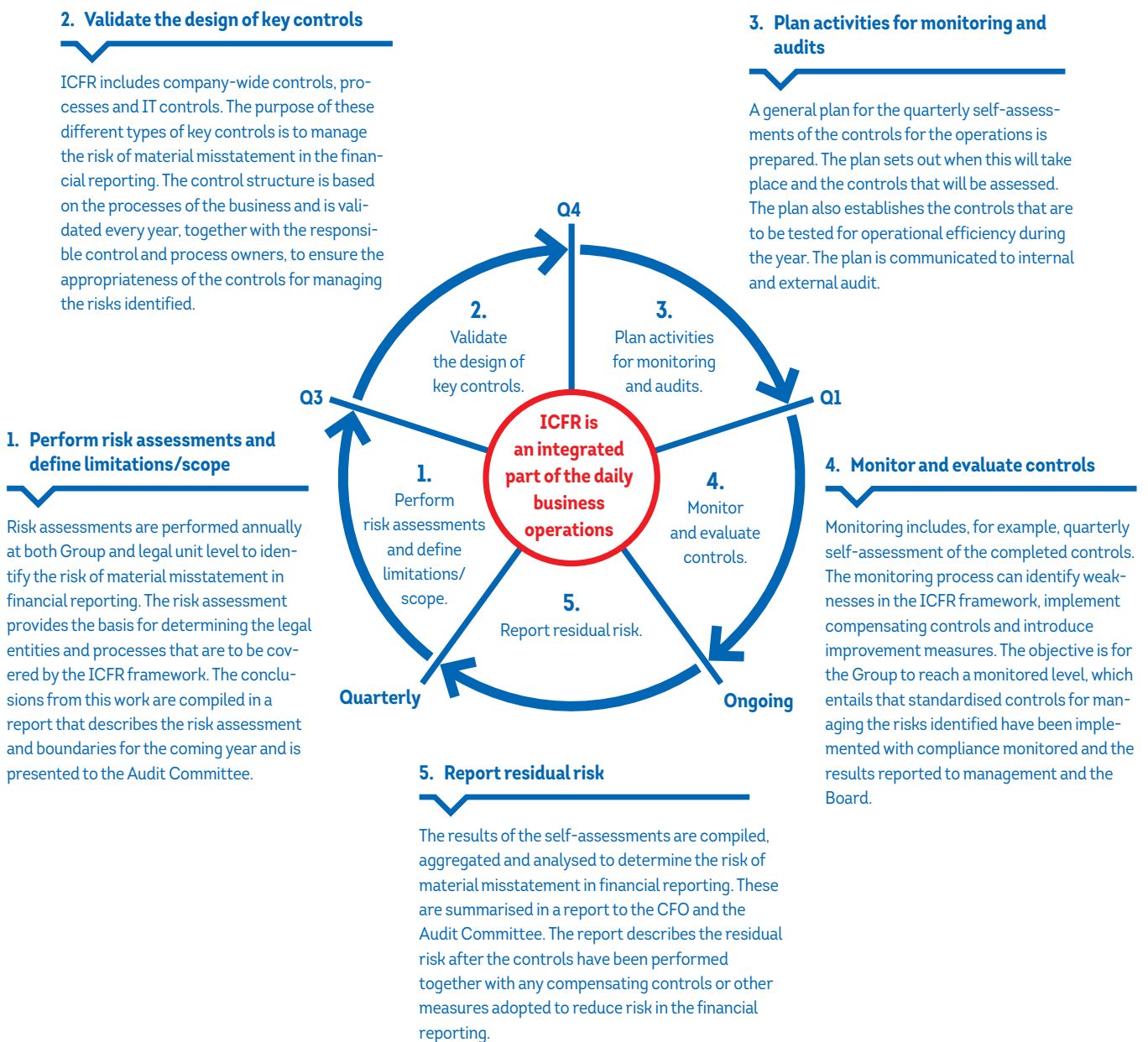
### ***Period of office for Board members***

Deviation from the provision of the Code occurs in respect of a maximum period of office of one year. The period of office for Board members is, as a general rule, two years. A longer period of office contributes to ensuring continuity and establishing competence within the Board.



# 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.