

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 the Länsförsäkringar Alliance.

Länsförsäkringar Bank is a public limited liability company whose bonds are listed on Nasdaq OMX Stockholm and the Luxembourg Stock Exchange.

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 under Deviations from the Code on page 26.

CORPORATE GOVERNANCE

Länsförsäkringar Bank, with 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.

Länsförsäkringar AB has a corporate-governance system that is based on Länsförsäkringar AB's mission from its owners. The Bank business unit has a corporate governance system that ensures satisfactory control and management of the legal entities in the business unit.

The corporate-governance system encompasses a number of components, such as organisational structure, decision-making procedures and division of authorities and responsibilities, risk-management systems and internal-control systems. The risk management system is also to ensure

that the legal entities in the business unit are continuously able to identify, manage and report risks. 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 Risk Control functions and the third the Internal Audit function. The second line of defence is independent in relation to the first line and the third line is independent in relation to the first and second lines.

Other components in the corporate-governance system include the structure for internal rules and regulations, subcontracting policies, suitability requirements pertaining to employees and Board members, as well as continuity plans.

An outline of the governance structure is provided in the diagram on page 24.

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 usually held once a year, the Annual General Meeting. Länsförsäkringar AB owns 100% of the share capital and voting rights.

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 and 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 committee work.

Nomination Committee

Nomination process

The Annual General Meeting of Länsförsäk-

ringar 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 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 is responsible for ensuring that the suitability assessment of proposed Board members is performed. The Nomination Committee is to apply established processes and procedures for the suitability assessment and ensure that the suitability assessment of the Board members takes place during the current mandate period.

Nomination Committee prior to 2013 Annual General Meeting

The Nomination Committee has comprised Göran Trobro as Chairman, Länsförsäkringar Göinge Kristianstad; Ulf W Eriksson, Länsförsäkringar Värmland; Otto Ramel, Länsförsäkringar Skåne; Conny Sandström, Länsförsäkringar Västerbotten and Örian Söderberg, Länsförsäkringar Jönköping, since the 2012 Annual General Meeting of Länsförsäkringar AB.

Prior to Annual General Meeting, the Nomination Committee

- studied the Board's evaluation of its work,
- studied the Board Chairman's and Board members' views on the operations, the Board's work and requirements for expertise and experience, and
- reviewed and discussed requirements for

expertise and experience with respect to the needs of the operations and regulatory requirements.

Prior to 2013 Annual General Meeting, the Nomination Committee will

- make a decision regarding the independence of candidates,
- nominate Board members, the Board Chairman, Deputy Chairman and auditors,
- carry out suitability assessments of Board members in accordance with established processes and procedures, and
- propose fees to 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

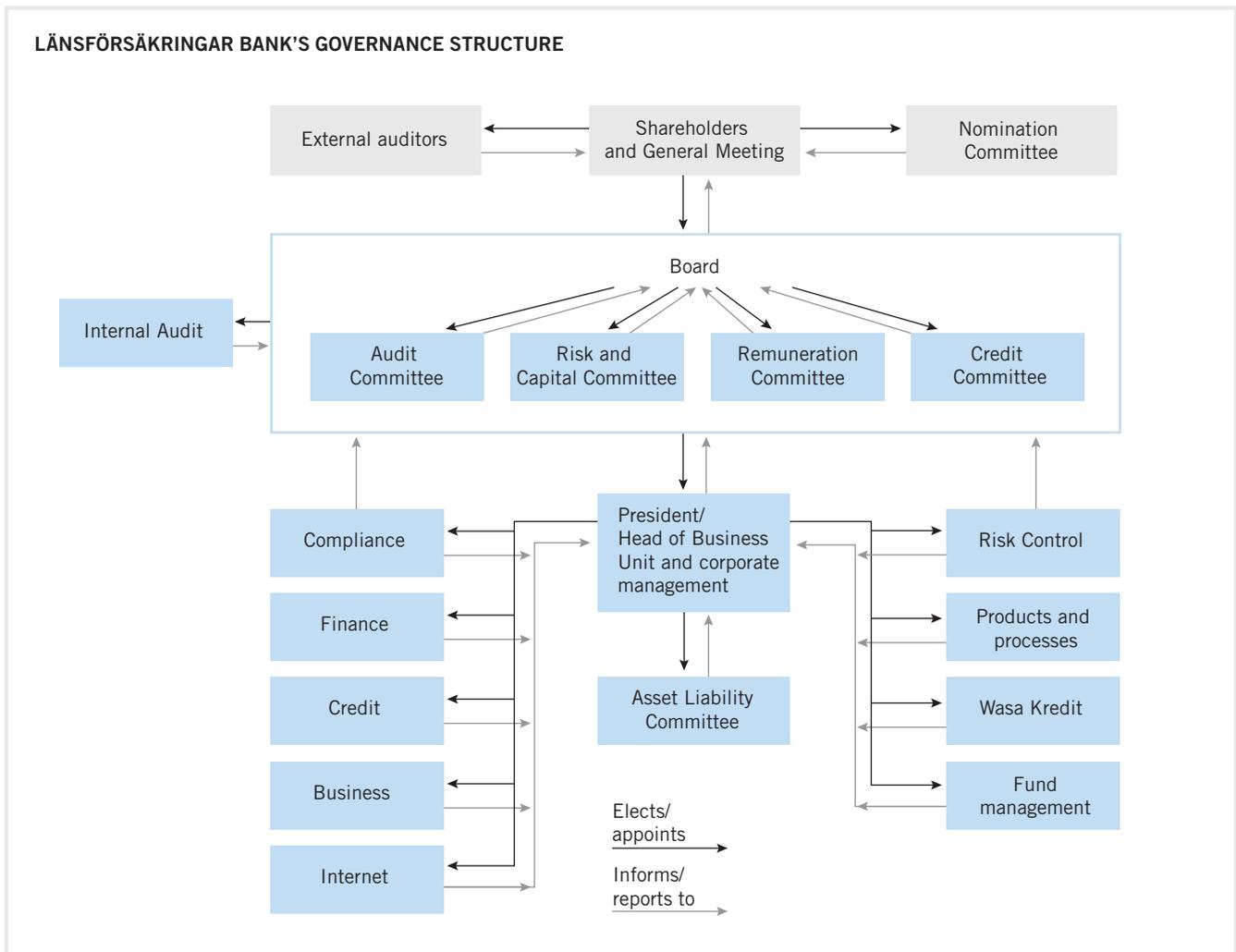
three deputy auditors. Auditors are appointed for a period in office of a maximum of four years. At the 2012 Annual General Meeting, Stefan Holmström, KPMG AB, was appointed auditor and Dan Beitner, KPMG AB, deputy auditor for the period until the 2015 Annual General Meeting. Stefan Holmström previously served as the company's deputy auditor. Alongside Länsförsäkringar Bank, his major audit assignments include Länsförsäkringar AB and Svenska Handelsbanken. Stefan Holmström has no other assignments in any other company that affects his independence in relation to Länsförsäkringar Bank.

The auditor examines Länsförsäkringar Bank's Annual Report and Corporate Governance Report, as well as the administration of the Board and the President. The auditor presented his audit results and observations to the Board once during 2012. The auditor also participates in the meetings of the Board's Audit Committee. Furthermore, the auditor normally meets with representatives of the Swedish

Financial Supervisory Authority during the fiscal year. The auditor reviews Länsförsäkringar Bank's six-month accounts and year-end reports.

Board of Directors

Composition of the Board of Directors
The Board of Directors of Länsförsäkringar Bank is elected by the Annual General Meeting and, in accordance with the Articles of Association, is to 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 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 and Deputy Chairman of the Board are 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 currently comprises a total of nine members and two deputy members. Seven members are appointed by the Annual General Meeting. Two members and two deputy members are appointed by the trade-union organisations. A presentation of the Board members can be found on page 90.

Board responsibilities and delegation of duties

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. The Board appoints, evaluates and dismisses the President, adopts an appropriate organisation and the goals and strategies of the operations, and ensures that efficient systems are in place for internal control and risk management.

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, 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 is to remain informed about the performance of the company to continuously assess the company's financial situation and position. Through its formal work plan, the Board has established that financial reporting shall take place through regular Board meetings.

The Board is also to regularly manage and evaluate the company's and the Group's risk development and risk management. 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 receives regular reports from Compliance, Risk Control and Internal

Audit. The Board continuously monitors current matters with authorities.

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 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 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 has established the company's and the Group's operational structure and clarified the distribution of work duties between the various units and executives in the company and the Group.

In addition to the formal work plan and 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 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.

The Board conducts annual strategic seminars and evaluations of the President's work and terms of employment. The Board meets the company's auditors at least once per year; see also section Audit Committee on page 26.

The dates of Board meetings are established at the first scheduled meeting following the Annual General Meeting for the next 18-month period. 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 discussed about a week prior to the meeting. All documents and materials presented at the meeting are saved electronically.

During 2012, the Board devoted particular attention to such issues as the new capital adequacy rules, the financial situation in the economic environment, effects on the operations and the banking operation's future strategy.

The number of Board meetings and members' attendance at these meetings are presented in the table below.

Evaluation of the Board's work

Every year, the Board Chairman initiates an evaluation of the Board's work. The 2012 evaluation was based on an electronic ques-

Meetings and attendance

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

	Board of Directors	Audit Committee	Remuneration Committee	Risk and Capital Committee	Credit Committee
Total number of meetings	9	4	0	4	9
Sten Dunér	9	4	0	4	8
Christian Bille	9			3	9
Ingrid Ericson	9				
Per-Åke Holgersson	7				
Ingemar Larsson	9	4	0	3	6
Bengt-Erik Lindgren	9	4			6
Max Rooth	9				
Örian Söderberg	9				
Christer Villard	6			1	4
Torleif Carlsson, deputy	7				
Maria Eriksson, deputy	0				

tionnaire completed by the Board members. The results were compiled, reported to and discussed by the Board.

Audit Committee

The Audit Committee is responsible for preparing the Board's work in the following areas:

- Monitoring and quality assuring the company's and Group's financial reporting.
- Monitoring the efficiency of the company's and Group's internal governance and control.
- The direction, scope and coordination of the Internal Audit function's work.
- Studying the external auditors' observations and evaluating the work, impartiality and independence of the external auditor.
- Outsourced operations.

At the statutory Board meeting following the 2012 Annual General Meeting, Ingemar Larsson was appointed Chairman, Sten Dunér and Bengt-Erik Lindgren were appointed members of the Audit Committee.

The number of Audit Committee meetings and members' attendance at these meetings are presented in the table on page 25.

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 2012 Annual General Meeting, Sten Dunér was appointed Chairman and Ingemar Larsson was appointed member of the Remuneration Committee.

The number of Remuneration Committee meetings and members' attendance at these meetings are presented in the table on page 25.

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.

At the statutory Board meeting following the 2012 Annual General Meeting, Sten Dunér was appointed Chairman, Ingemar Larsson, Christian Bille and Christer Villard were appointed members of the Risk and Capital Committee.

The number of Risk and Capital Committee meetings and members' attendance at these meetings are presented in the table on page 25.

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.

At the statutory Board meeting following the 2012 Annual General Meeting, Sten Dunér was appointed Chairman, Ingemar Larsson, Bengt-Erik Lindgren, Christian Bille and Rikard Josefson were appointed members of the Credit Committee.

The number of Credit Committee meetings and members' attendance at these meetings are presented in the table on page 25.

President and corporate management

Rikard Josefson has served as the President of Länsförsäkringar Bank AB since June 2011. Rikard Josefson was born in 1965 and has worked in the banking sector since 1986.

The organisational structure of the Bank Group is divided into departments. In addition, there are three control functions: Risk Control, Compliance and Internal Audit. To ensure that the operations of each subsidiary comply with the overall objectives for the Bank Group, the President is the head of the Bank business unit of the Länsförsäkringar AB Group and, as a general rule, also the Chairman of the Board of each subsidiary.

Corporate management comprises the President and the heads of the departments. Management discusses and decides on matters pertaining to the business unit. The influence of trade-union organisations at Group level is also ensured through management.

The President has established a committee called the Asset Liability Committee (ALCO) to address capital and finance issues. The members of this Committee are appointed by the President. The Committee is governed by a separate instruction.

Control functions

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 towards 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. The function reports to the Board of Länsförsäkringar Bank.

Compliance

The role of compliance is to provide support and control for ensuring that the operations comply with regulatory requirements. The function is to identify and provide information about such issues as risks that may arise due to lack of regulatory compliance, assist in the production of internal rules, monitor regulatory compliance and ensure that the operations are informed about new and amended regulations. Compliance risks and action taken are to be regularly reported to the President and Board of Länsförsäkringar Bank and its subsidiaries. Compliance also has a function for counteracting money laundering.

Risk Control

Risk Control is a function for the control and analysis of all of the Bank Group's risks. Risk Control has an independent position in relation to the corporate operations that it controls. Risks and action taken are to be continuously reported to the President and Board of the companies included in the business unit.

Deviations from the Code

Länsförsäkringar Bank complies with the applicable sections of the Swedish Code of Corporate Governance taking into consideration that Länsförsäkringar Bank is not a stock-market 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 occurs with respect to the fact that Länsförsäkringar Bank is not a stock-market company and has only one shareholder. For more information, see the section entitled Shareholders and General Meeting on page 23.

Composition of Board of Directors

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, and be 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.

Period in 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 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 Risk Control 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.

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 and that procedures for self-assessments are in place.