

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 16 local insurance companies. Länsförsäkringar AB, with 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 stock-market 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 27.

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.

The Länsförsäkringar AB Group has a corporate-governance system based on Länsförsäkringar AB's assignment from its owners. The Bank business unit aims to ensure satisfactory control and management of the unit within the framework of the corporate-governance system.

The corporate-governance system encompasses a number of components, such as organisational structure, decision-making procedures, division of authorities and responsibilities, risk-management systems and internal-control systems. The purpose of the risk-management system is to ensure that business unit's legal entities are continuously able to identify, measure, monitor, 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 and reporting 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 normally held once per year, 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 to 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 is also responsible for ensuring that a suitability assessment of proposed Board members is performed. The Nomination Committee follows an instruction adopted by the Annual General Meeting of Länsförsäkringar AB. New Board members are recruited in accordance with the Nomination Committee's instructions and established procedures and processes. When recruiting new Board members prior to the 2015 Annual General Meeting, the diversity policy established in 2014 will also be applied, according to which as a minimum age, gender, geographic origin, educational and professional background are to be considered in order to promote independent views and a critical and questioning attitude in the Boardroom. See also the section on Suitability assessment of the Board of Directors and the President on page 27.

Nomination Committee prior to 2015 Annual General Meeting

The Nomination Committee has comprised Otto Ramel as Chairman (Länsförsäkringar Skåne), Ulf W Eriksson (Länsförsäkringar Värmland), Per-Åke Holgersson (Länsförsäkring Kronoberg), Conny Sandström (Länsförsäkringar Västerbotten) and Örian Söderberg (Länsförsäkringar Jönköping) since the 2014 Annual General Meeting of Länsförsäkringar AB.

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

- studied the Board's evaluation of its own work,
- studied the Board Chairman's view of 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 the Annual General Meeting, the Nomination Committee will:

- make a decision regarding the independence of candidates,
- nominate Board members, the Board Chairman and auditors,
- carry out suitability assessments of Board members, and
- propose fees and other remuneration 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.

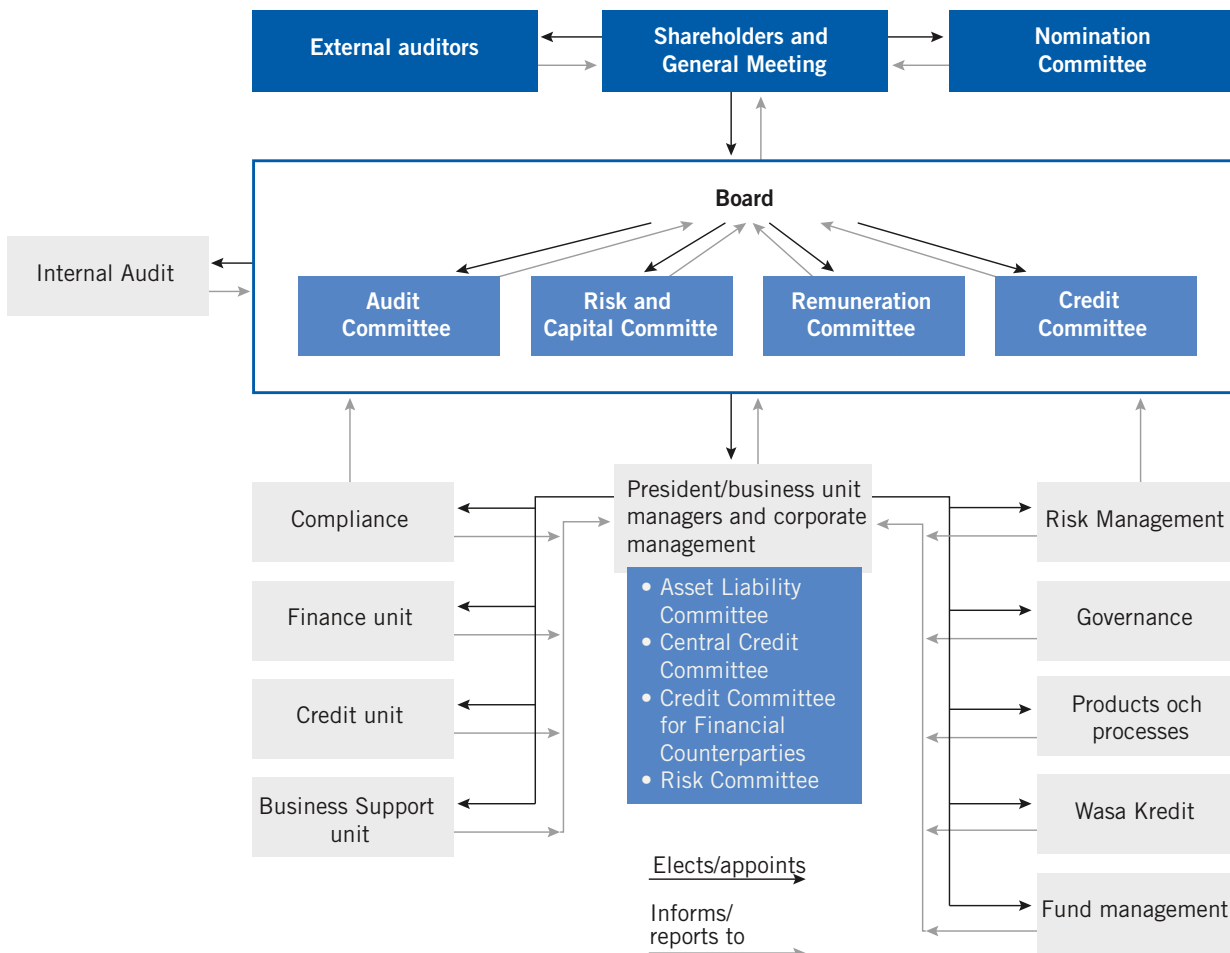
The auditor examines Länsförsäkringar Bank's Annual Report and Corporate Governance Report, as well as the administration of the Board and the President. The auditor presented his audit results and observations to the Board once during

2014. The auditor also participates in the meetings of the Board's Audit Committee. The auditor reviewed Länsförsäkringar Bank's Interim Report for the first six-month, for the ninemonth period, and the year-end report.

Board of Directors

Composition of 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

Länsförsäkringar Bank's Governance Structure



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 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 nine members and one deputy. Seven of the members were elected by the Annual General Meeting. Two regular members and one deputy were appointed by the trade-union organisations. A presentation of the Board members can be found on page 89.

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 control and risk management. Under the new capital adequacy rules, the Board of Directors of 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.

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.

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 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 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. The Board continuously monitors current matters with authorities.

Board meetings and attendance

The table below shows the number of meetings held in each body since the 2015 Annual General Meeting until December 2015, and the attendance by each Board member:

	Board of Directors	Audit Committee	Remuneration Committee	Risk and Capital Committee	Credit Committee
Totalt antal sammanträden	6	5		4	2
Sten Dunér	6	5		4	2
Christian Bille	6			4	2
Marianne Björkman ¹⁾	5				
Per-Ove Bäckström	4				
Ingrid Ericson	6				
Ingrid Jansson	5	4			
Bengt-Erik Lindgren	6	5			2
Susanne Petersson	6	5			2
Mirek Swarz ²⁾	1				
Caesar Åfors	4			2	
Linda Pettersson, suppl.	5				

¹⁾ Under räkenskapsåret 2015 har ett sammanträde hållits i Ersättningsutskottet, varvid båda ledamöterna närvarade.

²⁾ Mirek Swarz ersatte Marianne Björkman från och med 2015-11-16.

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 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 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 its separate formal work plan or directives. 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 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 distributed about one week prior to the meeting. All documents and materials presented at the meeting are saved electronically.

During 2014, the Board devoted particular attention to such issues as the new capital adequacy rules and their impact on the operations and the banking operations' future strategy.

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

Evaluation of the Board's work

Every year, the Board Chairman initiates an evaluation of the Board's work. The 2014 evaluation was based on an electro-

nic 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.
- In terms of the financial reporting, monitoring the efficiency 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, devoting particular attention to any services other than auditing services that the auditor provides to the company.
- 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 2014 Annual General Meeting, Ingrid Jansson was appointed Chairman and Sten Dunér, Bengt-Erik Lindgren and Susanne Petersson were appointed members of the Audit Committee.

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

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 deci-

sions for measures to monitor application of the remuneration policy.

At the statutory Board meeting following the 2014 Annual General Meeting, Sten Dunér was appointed Chairman, and Örian Söderberg 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 2014 Annual General Meeting, Sten Dunér was appointed Chairman, and Christian Bille and Örian Söderberg 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 2014 Annual General Meeting, Sten Dunér was elected Chairman, and Bengt-Erik Lindgren, Christian Bille, Örian Söderberg, Susanne Petersson and Rikard Josefson were appointed members of the Credit Committee.

The number of Credit Committee meetings and Board 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 the three control functions of Risk Control, Compliance and Internal Audit, and also a Governance function. 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 also, as a general rule, the Chairman of the Board of each subsidiary.

Corporate management comprises the President and the heads of the departments and the Head of Risk Control. Management discusses and decides on matters pertaining to the business unit.

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

Internal Audit is an independent review function that comprises the Board's support 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 and intentions. 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

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 non-compliance with regulations, assist in the formulation of internal rules, monitor regulatory compliance and ensure that the operations are informed about new and amended regulations. Compliance risks and actions taken are reported regularly to the President and the Board of Directors of the companies included in the business unit. Compliance also has a function for countering 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. The function is led by a risk manager. Risks and action taken are to be continuously reported to the President and Board of the companies included in the business unit. Operational risk is also continuously reported to the Audit Committee and other risks to the Risk and Capital Committee of Länsförsäkringar Bank.

Suitability assessment of the Board of Directors and the President

A suitability assessment is conducted in conjunction with the appointment of Board members and the President. An assessment is also conducted annually, and when necessary, to ensure that the individuals in the above-mentioned posi-

tions are, at any given time, suitable for their assignments. The suitability assessment is conducted in accordance with established guidelines for suitability assessments. The suitability assessment is conducted with regard to the person's qualifications, knowledge and experience as well as reputation and integrity.

Board members are assessed on the basis of material received from the person to whom the suitability assessment pertains. Based on the company'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 qualifications, knowledge and experience of individual Board members, the Board is assessed in its entirety to ensure that it possesses the competence 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 and the President fully satisfy the requirements for qualifications, knowledge and experience, as well as reputation and integrity.

Deviations from the code

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

Nomination Committee, notice 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 sections entitled “Shareholders and General Meeting” and “Nomination Committee” 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.

Board's report on internal control over financial reporting

Internal control over financial reporting (ICFR) is a process for evaluating the reliability of financial reporting. Work with this process began in 2013 and the Group

works continuously to develop the methodology. The ICFR process is performed in an annual cycle as shown in the diagram below.

2 Validate the design of expected controls

Internal control over financial reporting includes Group-wide controls, as well as process and IT controls. The purpose of the controls is to reduce the risk of misstatement in financial reporting.

The control structure is regularly communicated to the relevant individuals in the organisation to clarify the division of responsibilities.

1 Perform risk assessments and define limitations/scope

Risk assessments are performed annually at Group and legal unit level to identify the risk of material misstatement in financial reporting. The risk assessment provides the basis for determining the units, processes and systems that are to be covered by the ICFR process. The conclusions from the risk assessments are compiled in an annual scoping report in which the scope and goal scenario for the coming year is described and presented to the Audit Committee.



3 Plan activities for monitoring and audits

A plan for the quarterly self-assessment is produced and communicated with the operations. The plan sets out when the assessment will take place, the controls that will be assessed and the person responsible for the assessment. ICFR are subject to review by an internal audit.

4 Monitor and evaluate controls

Monitoring includes, for example, quarterly self-assessment of the completed controls. The monitoring process can identify weaknesses in the ICFR process, implement compensating controls and introduce improvement measures. The process also includes evaluating the controls and their effectiveness. The objective is for the Group to reach a monitored level.

5 Report ICFR residual risk

The results of the self-assessment are compiled and analysed to determine the risk of misstatement in financial reporting. These are summarised in a report to the Group's CFO and the Audit Committee. The report describes the residual risk after the self-assessment, and the compensating controls adopted by the operations to reduce risk in financial reporting.

In addition to the process described 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.