

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 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, the Luxembourg Stock Exchange and the Irish 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 28.

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 Länsförsäkringar Bank 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 25.

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 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

The Nomination Committee has comprised Otto Ramel as Chairman (Länsförsäkringar Skåne), Per-Åke Holgersson (Länsförsäkring Kronoberg), Anna-Greta Lundh (Länsförsäkringar Södermanland), Kjell Lindfors (Länsförsäkringar Norrbotten) and Mats Åstrand (Länsförsäkringar Gävleborg) since the 2018 Annual General Meeting of Länsförsäkringar AB.

Prior to the 2018 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 requirements for knowledge and experience, and
- reviewed and discussed requirements for knowledge and experience with respect to the needs of the operations and regulatory requirements.

Prior to 2019 Annual General Meeting, the Nomination Committee will:

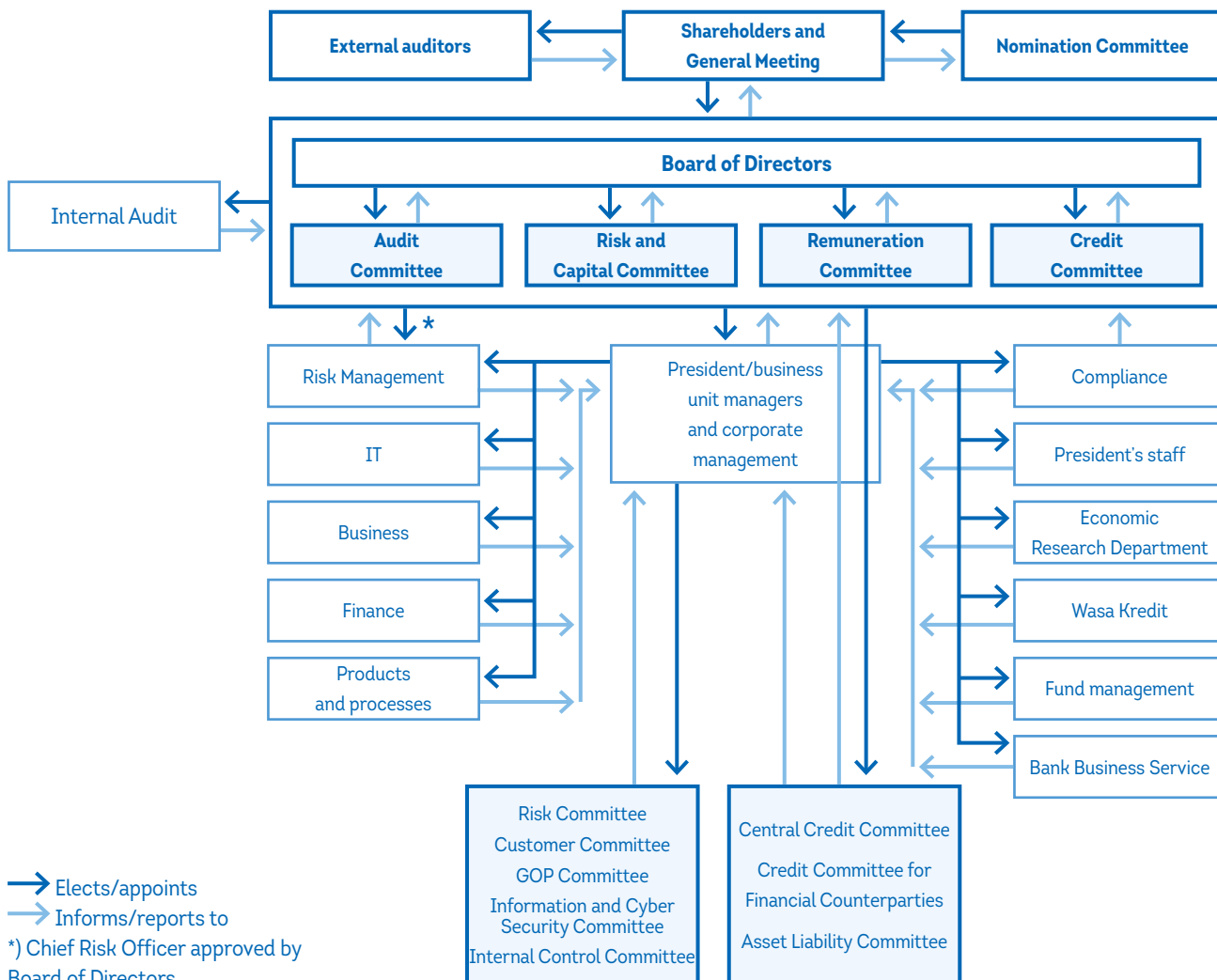
- evaluate the independence of candidates,
- nominate Board members, the Board Chairman and auditors,
- carry out fit and proper assessments of Board members, and
- propose fees and other remuneration of Board members and auditors.

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 years. At the Extraordinary General Meeting on 16 June 2016, Dan Beitner, KPMG AB, was appointed auditor and Anders Tagde, KPMG AB, deputy auditor. These auditors were appointed for the period up to the 2019 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 reviews Länsförsäkringar Bank's interim reports. The auditor

Länsförsäkringar Bank's governance structure



presented the audit results and observations to the Board once during 2018. The auditor also participates in the meetings of the Board's Audit Committee.

Board of Directors

Composition of Board of Directors

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 currently comprises ten regular members and one deputy. Eight of

the members were elected by the 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 pages 108–109.

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.

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.

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

Board meetings and attendance

The table below shows the number of meetings held in each body since 2018 and the attendance of each Board member.

	Board of Directors	Audit Committee	Remuneration Committee	Risk and Capital Committee	Credit Committee
Number of meetings	13	9	2	8	5
Fredrik Bergström from 10 Sep 2018 ¹⁾	4	1	1	3	1
Per-Ove Bäckström	13				5
Anders Grånäs	13			7	
Ingrid Jansson	12	9			
Beatrice Kämpé Nikolausson	13		2		
Bengt-Erik Lindgren	13	9	2		5
Peter Lindgren	13	7		8	
Anna-Greta Lundh ²⁾	13			4	5
Sören Westin until 9 Sep 2018	9	7	1	5	4
Mirek Swartz	13				
Ellinoora Hoppe	10				
Camilla Lahger, deputy from 14 May 2018	3				
Linda Petterson, deputy until 13 May 2018	3				

¹⁾ Member of all Committees from 10 September 2018

²⁾ Member of the Risk and Capital Committee from 29 May 2018.

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 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 2018, the Board followed its established plan and received training in and gained greater knowledge of areas including internal control, credit risk, funding and regulations. The Board devoted particular attention to such matters as IT, capital and liquidity issues, risks in the operations, the capital situation and major ongoing projects at the bank.

The number of Board meetings and members' attendance are presented in the table on page 26.

Evaluation of the Board's work

Every year, the Board Chairman initiates an evaluation of the Board's work. The 2018 evaluation was based on a survey 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, moni-

toring 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 2018 Annual General Meeting, Ingrid Jansson was appointed Chairman and Sören Westin, Bengt-Erik Lindgren and Susanne Petersson were appointed members of the Audit Committee. Fredrik Bergström replaced Sören Westin as Committee member on 10 September 2018.

The number of Audit Committee meetings and members' attendance are presented in the table on page 26.

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 2018 Annual General Meeting, Sören Westin was appointed Chairman, and Bengt-Erik Lindgren and Beatrice Kämpe Nikolausson were appointed members of the Remuneration Committee. Fredrik Bergström replaced Sören Westin as Chairman on 10 September 2018.

The number of Remuneration Committee meetings and members' attendance are presented in the table on page 26.

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 level of risk and capital

requirements. The Board subsequently makes decisions on these issues.

At the statutory Board meeting following the 2018 Annual General Meeting, Sören Westin was appointed Chairman, and Anders Grånäs, Peter Lindgren and Anna-Greta Lundh were appointed members of the Risk and Capital Committee. Fredrik Bergström replaced Sören Westin as Chairman on 10 September 2018.

The number of Risk and Capital Committee meetings and members' attendance are presented in the table on page 26.

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 2018 Annual General Meeting, Sören Westin was appointed Chairman, and Bengt-Erik Lindgren, Per-Ove Bäckström and Anna-Greta Lundh were appointed members of the Credit Committee. Fredrik Bergström replaced Sören Westin as Chairman on 10 September 2018.

The number of Credit Committee meetings and Board members' attendance are presented in the table on page 26.

President and corporate management

Anders Borgcrantz served as Acting President of Länsförsäkringar Bank until 2 April 2018 when Sven Eggefalk became the new President. 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, and also a Group staff function and an Economic Research Department. 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.

Corporate management comprises the President and the heads of the departments

and the Head of Risk Management.

Corporate management serves as a forum for consultation and exchange of information between the business unit's senior executives. Management discusses and decides on matters pertaining to the business unit.

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 to also provide support and advice to operations, to ensure that operations are informed about new and amended regulations and to take part in the implementation of training. Compliance risks 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, with organisational distribution into an independent support section and an independent control section. 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 and the 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 and experience (fit), good repute and integrity (proper).

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 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 fit and proper requirements. Information about their education, previous experience and other Board appointments is presented on pages 108-109.

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 stock-market company and has only one shareholder. For more information, refer also to the sections Shareholders and General Meeting and Nomination Committee on pages 24-25.

Composition of Board

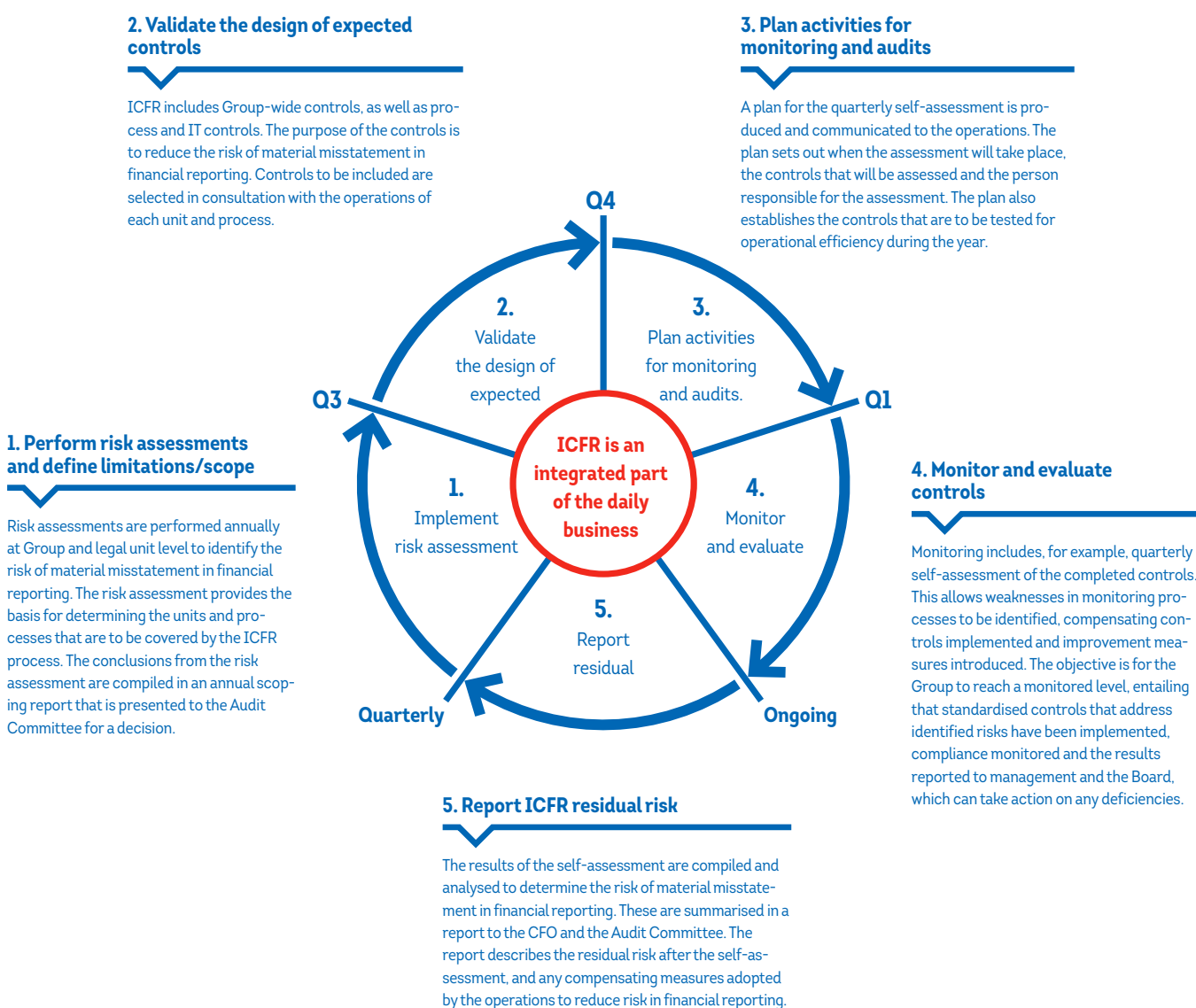
Deviation from the provisions of the Code occurs regarding independence of Board members and Committee members. According to the instruction for the Nomination Committee, the Board of Directors is to be appropriately composed with respect to Länsförsäkringar Bank's operations, stage of development and 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 process for providing reasonable assurance of the reliability of the financial reporting to management and Board. The process is performed in an annual cycle as shown in the diagram below.



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.