

Corporate Governance Report

Introduction

Länsförsäkringar Hypotek AB (referred to below as “Länsförsäkringar Hypotek”) is a wholly owned subsidiary of Länsförsäkringar Bank AB. Länsförsäkringar Bank AB and its subsidiaries are included in Länsförsäkringar AB Group. Länsförsäkringar Hypotek does not comply with the Swedish Code of Corporate Governance (referred to below as the Code) in light of the assessment that there is not a sufficiently high level of public interest in the company that would justify compliance with the rules of the Code. However, Länsförsäkringar Hypotek’s Parent Company, Länsförsäkringar Bank, complies with the Code.

General Meeting

Shareholders exercise their voting rights at the Annual General Meeting. Shareholders vote at Meetings using the full number of shares owned. Decisions are made at the Annual General Meeting pertaining to the Annual Report, the election of members of the Board and auditors, remuneration to Board members and auditors and other important matters to be addressed in accordance with laws or the Articles of Association.

The President of the Parent Company, Länsförsäkringar Bank, in consultation with the CEO of Länsförsäkringar AB, submits proposals regarding the Board of Directors and auditors of Länsförsäkringar Hypotek, and fees to these members and auditors.

Composition of Board of Directors

In accordance with the Articles of Association, the Board of Directors of Länsförsäkringar Hypotek shall comprise between five and ten Board members elected by the Annual General Meeting, with no more than three deputies. Board members are elected at the Annual General Meeting for a mandate period of one year. Länsförsäkringar Hypotek 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 Board comprises a total of five members. The Chairman of the Board is the President of Länsförsäkringar Bank AB. The President of Länsförsäkringar Hypotek is not a member of the Board. A presentation of the Board members can be found on page 51.

Board responsibilities

The Board is responsible for the organisation and administration of the company and shall handle and make all decisions concerning issues of material significance and an overall nature relating to the company’s operations. This includes determining an appropriate organisation, the goals and strategies of the operation and guidelines for control and governance. The Board has also adopted a number of policies, guidelines and instructions (guidance documents) for the operations.

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

During the year, the Board regularly reviews the company’s earnings and sales trends, financial position and risk trends in relation to the business plan and forecasts.

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 effective 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 Länsförsäkringar Hypotek. 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 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 the source of risks affecting internal control relating to financial reporting. These risks are analysed at company level. Länsförsäkringar Hypotek is governed through common processes, in which risk management is built into every process and various methods are used to value and restrict risks and to ensure that identified risks are managed in accordance with established guidance documents.

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

Control activities

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

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

Information and communications

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

Follow-up

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

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