

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 the Länsförsäkringar AB Group. Länsförsäkringar Hypotek is a public limited liability company whose bonds are listed on Nasdaq OMX Stockholm, the Luxembourg Stock Exchange and SIX Swiss Exchange.

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 Bank AB owns 100% of the share capital and voting rights, and votes at the Meeting using the full number of shares owned.

Decisions are made at the Annual General Meeting regarding 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 and the Articles of Association.

The President of the Parent Company, Länsförsäkringar Bank AB, 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

The Board of Directors of Länsförsäkringar Hypotek is elected by the Annual General Meeting and, in accordance with the Articles of Association, is to 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 two years. The President

is not a member of the Board. 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 currently comprises a total of five members. The Chairman of the Board is the President of Länsförsäkringar Bank AB. A presentation of the Board members can be found on page 43.

Board responsibilities

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 organisation and the goals and strategies of the operations, and ensures that efficient systems are in place for internal control and risk management.

Annually, 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 from taking part in decisions.

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, the Board has established that financial reporting is to take place through regular Board meetings.

The Board must also regularly manage and evaluate the company'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.

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 environ-

ment, 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. 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 governance 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 governance documents are subject to review and reassessment at least once a year. All governance 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 and are in line with guidelines issued by the Board. Based on its reviews, the Internal Audit function is to 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 governance documents in their area of responsibility and that procedures for self-assessments are in place.