

CORPORATE GOVERNANCE REPORT

Introduction

Länsförsäkringar Hypotek AB (Länsförsäkringar Hypotek) is a wholly owned subsidiary of Länsförsäkringar Bank AB (publ), which in turn is a wholly owned subsidiary of Länsförsäkringar AB (publ). Länsförsäkringar AB, with its subsidiaries and owners, jointly comprise the Länsförsäkringar Alliance.

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

Corporate governance

Länsförsäkringar Hypotek, with its Parent Company Länsförsäkringar Bank, and subsidiaries Länsförsäkringar Fondförvaltning AB (publ) and Wasa Kredit AB, comprise the operative 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. Länsförsäkringar Hypotek aims to ensure satisfactory control and management of the company within the framework of the corporate-governance system.

The corporate-governance system comprises a number of components such as organisational structure with decision-making procedures and allocation of responsibilities and assignments, the risk-management system and internal-control systems. The purpose of the risk-management system is to ensure that Länsförsäkringar Hypotek is 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.

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 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, 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 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.

A suitability assessment of the proposed Board members is conducted, whereby the applicable guidelines for assessing the suitability of Board members of Länsförsäkringar AB's subsidiaries is applied, as well as specific process and procedure descriptions. When recruiting new Board members prior to the 2015 Annual General Meeting, the diversity policy established by Länsförsäkringar AB 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.

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 ordinary members elected by the Annual General Meeting, with no more than three deputies.

Board members are elected 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 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 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 45.

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 executive 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, 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 must also regularly manage and evaluate the company'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.

The Board has established a Remuneration Committee to prepare matters regarding remuneration of the President and other members of corporate management and employees with overall responsibility for any of the company's control functions, and to prepare decisions on measures to monitor application of the remuneration policy. At the statutory Board meeting following the 2014 Annual General Meeting, Rikard Josefson was appointed Chairman, and Christer Malm was appointed member of the Remuneration Committee.

President and corporate management

Anders Borgcrantz has been the President of Länsförsäkringar Hypotek since 2005. Anders Borgcrantz was born in 1961 and has worked in the banking and finance sector since 1985.

Länsförsäkringar Hypotek is part of the finance department in the Bank business unit's operational organisation.

The President and CFO of Länsförsäkringar Hypotek, as well as the people responsible for issuing covered bonds and the person responsible for registering in the covered-bond operations are employees of Länsförsäkringar Hypotek.

Other parts of Länsförsäkringar Hypotek's operations are outsourced to the Länsförsäkringar AB Group under a special outsourcing agreement.

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 Directors of Länsförsäkringar Hypotek.

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. Compliance also has a function for counteracting money laundering.

Risk Control

Risk Control is a function for the control and analysis of all of Länsförsäkringar Hypotek'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 actions taken are reported continuously to the President and the Board of Directors.

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 positions 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 Länsförsäkringar Hypotek'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, Länsförsäkringar Hypotek 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.

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

operations work 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 assessment are compiled in an annual scoping report, in which the scope and goal scenario for the coming year are described.



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 will be subject to review by both an internal and external audit. The first annual meeting to coordinate the reviews of both internal and external auditors was held in 2014.

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 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. The report describes the residual risk after the self-assessment, and the compensating controls adopted by the operations to reduce risk in financial reporting. The report contributes to transparency in the organisation and shows how the implementation of ICFR is progressing. The report also provides an important basis for prioritisation in the continuing process.

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 Board.