

# 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, Oslo Børs, 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 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 Länsförsäkringar Hypotek guarantees the governance and internal control within the company within the framework of the corporate governance system.

The Board establishes the operational organisation for Länsförsäkringar Hypotek, which should be appropriate and transparent, with a clear distribution of responsibility and information 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 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 and contingency plans, 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 Länsförsäkringar Hypotek. 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 proper 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 the company 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 Internal Audit in the third line.

The purpose of the risk-management system, which is a part of internal control, is to ensure that Länsförsäkringar Hypo-

tek is continuously able to identify, measure, monitor, manage and report risks. Internal control also includes the compliance system which ensures that laws, regulations and other rules are complied with, and guarantees that new and amended regulations are monitored and implemented effectively, that the Board and employees are trained and that risks linked to compliance with external and internal rules can continuously be identified, measured, controlled, managed and reported.

Governance and reporting are outlined in the diagram below on page 15.

## 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 2016 Annual General Meeting, the diversity policy established by Länsförsäkringar AB 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 more detailed presentation of the members can be found on page 47.

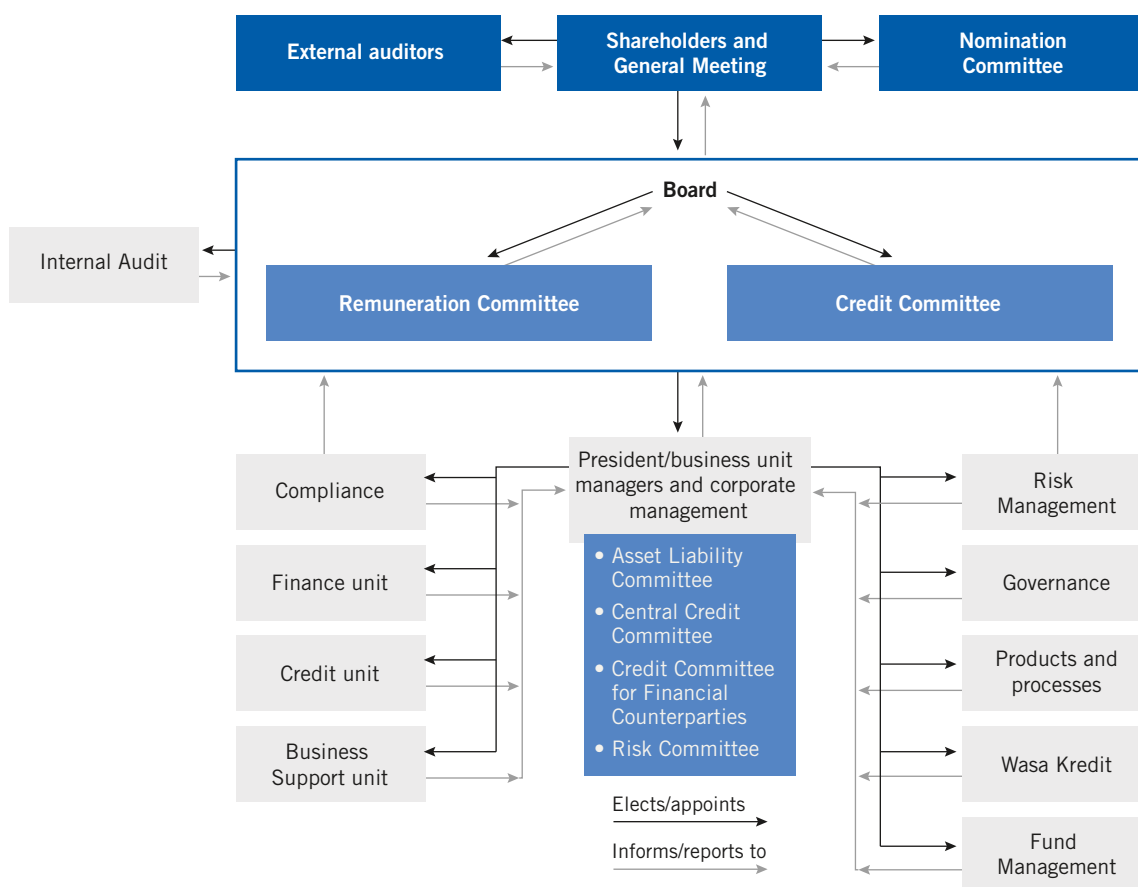
### Board responsibilities

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 governance, governance 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, 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.

### Länsförsäkringar Hypotek's governance structure



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 Management 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 2015 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**

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 compliance with regulatory requirements, as well as to identify and report on risks that may arise as a result of shortcomings in regulatory compliance. 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 and recommendations of actions are to be reported to personnel, the President and the Board of Länsförsäkringar Hypotek. Compliance is also to have a review role in the approval process, and could thereby contribute to the prevention of shortcomings in regulatory compliance.

#### **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 function is divided up into three groups, Credit Risk Management, Operational Risk Management and Risk Control as well as a staff function, Regulatory, all of which are responsible for identifying, measuring, controlling, analysing and reporting risks within the risk areas of credit risk, operational risk, market risk and liquidity risk. Risk Management is also responsible for the production of the internal capital adequacy assessment pro-

cess in terms of capital and liquidity requirements, in order to guarantee capital and liquidity adequacy at Länsförsäkringar Bank in the consolidated situation, the ongoing internal and external capital adequacy reporting and the monitoring of transactions in the area of money laundering. Risks and actions taken are reported continuously to the President and the Board of Directors.

### **Suitability assessment of Board and 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 opera-

tions 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.

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.

### 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 is 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 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.

