

# Corporate Governance Report

## Introduction

Länsförsäkringar Hypotek AB (publ) (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 AB (publ), 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 responsibilities and duties 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 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 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 Hypotek is 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 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.

## 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 (publ) 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.

## Nomination process

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.

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, an assessment is to be made 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, in accordance with the Länsförsäkringar AB Group's diversity policy applicable at any time.

## Board of Directors

The Board of Directors of Länsförsäkringar Hypotek is elected by the General Meeting and, in accordance with the Articles of Association, is to comprise between five and ten Board regular members elected by the 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 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 a total of five regular members. The Chairman of the Board is the President of Länsförsäkringar Bank AB. A presentation of the Board members can be found on page 50.

### **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 and control, as well as 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 conflicts of interest and 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. 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 decided not to establish a separate audit committee. Instead, the Board as a whole addresses the issues that otherwise are the responsibility of an audit committee, including monitoring and evaluating the audit process, quality assurance of the company's financial reporting, assess-

ing reports from the external auditor and examining the independence of the auditor in relation to the company including the scope of any non-audit related assignments that the auditor performs for the company.

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 2017 Annual General Meeting, Rikard Josefson was appointed Chairman, and Göran Zakrisson was appointed a member of the Remuneration Committee. When Rikard Josefson stepped down as President of Länsförsäkringar Bank AB, he also relinquished his assignments as Chairman of the Board and the Remuneration Committee. Anders Borgcrantz was appointed to replace Rikard Josefson on 29 June 2017.

### **President and corporate management**

Anders Borgcrantz was the President of Länsförsäkringar Hypotek between 1 January 2017 and 29 June 2017. Anders Borgcrantz was born in 1961 and has worked in the banking and finance sector since 1985. Martin Rydin became Acting President of Länsförsäkringar Hypotek on 29 June 2017. Martin Rydin was the former Executive Vice President of the company and has worked in the banking and finance sector since 1996. He was born in 1968.

The President and CFO of Länsförsäkringar Hypotek as well as the people responsible for issuing covered bonds 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 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 compli-

ance with the Board's decisions. 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 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 and recommendations of actions are to be reported to the President and the Board of Länsförsäkringar Hypotek.

### **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 Risk Manager for Länsförsäkringar Bank AB, who is responsible for ensuring that the Bank Group's risks are managed in accordance with the established risk framework. Risks and actions taken are reported continuously to the President and the Board of Directors of Länsförsäkringar Hypotek.

### **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 following established guidelines and takes into consideration the person's expertise 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 expertise 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 suitability requirements.

# 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 the Group's highest management and Board. The process is performed in an annual cycle as shown in the diagram below.

