

Corporate Governance Report

Extract from Stadshypotek's Annual Report

2014

Corporate governance report

Stadshypotek AB, corporate identity number 556459-6715, is a public credit market company authorised to conduct operations under the Swedish Banking and Financing Business Act. Since 1997, the company has been a wholly owned subsidiary of Svenska Handelsbanken AB (publ), corporate identity number 502007-7862.

This Corporate Governance Report is an extract from Stadshypotek's statutory annual report. The Corporate Governance Report has been examined by the company's external auditors and their examination is reported in the Auditor's report.

CONTENTS

CORPORATE GOVERNANCE REPORT	7
Board and Chief Executive	7
Auditors	7
Framework for control	7
Remuneration principles	8
Internal control regarding financial reporting	8
Shareholders and shareholders' meeting	9
AUDITOR'S REPORT	57

Corporate governance report

The shareholders ultimately make the decisions about Stadshypotek's governance. At the annual general meeting, the shareholders appoint the Board and the auditors. The Board is responsible to the owners for the company's organisation and management of the company's affairs, and it appoints a Chief Executive to run the company's operating activities. The auditors examine the financial reporting, among other matters, and submit an audit report.

BOARD AND CHIEF EXECUTIVE

The Board is to continuously assess the company's financial situation and ensure that Stadshypotek is organised such that the accounting records, management of funds and other aspects of the company's financial circumstances are satisfactorily controlled. The Board establishes policies and instructions on how this should be executed, and establishes rules of procedure for the Board and also instructions for the Chief Executive.

The fundamental rules regarding the distribution of competence among the Board, the Chairman and the Chief Executive are manifested in the Board's rules of procedure, as well as in its instructions to the Chief Executive.

Chairman of the Board

The Board's rules of procedure state that the Chairman shall ensure that the Board carries out its work efficiently and that it fulfils its duties. This involves organising and managing the Board's work and creating the best possible conditions for this work. The Chairman must also ensure that the Board members continually update and expand their knowledge of Stadshypotek, and that new members receive an appropriate introduction and training. The Chairman must be available to the Chief Executive as an advisor and discussion partner, but must also prepare the Board's evaluation of the Chief Executive's work. In addition, the Chairman is responsible for ensuring that the Board's work is evaluated annually. The Chairman is also responsible for contacts with the owner on ownership matters and for conveying points of view from the owner to the Board.

Board members

The members of the Board have broad and extensive experience of banking and finance, and several members have worked on Stadshypotek's Board for a long time and are very familiar with the company's operations.

During the year, the Board convened 12 times, of which 6 times by correspondence.

At the annual general meeting on 25 March 2014, Håkan Sandberg, Per Beckman, Yonnie Bergqvist, Olle Lindstrand and Michael Bertorp were re-elected as members until the annual general meeting has been held in 2015. At an

extraordinary shareholders' meeting on 25 April 2014, Ulrica Stolt Kirkegaard was elected as a new Board member and Per Beckman was discharged from his duties as Board member as of 1 May 2014. At an extraordinary shareholders' meeting on 20 August 2014, Anders Ohlner was elected as a Board member.

Following his appointment as Head of Handelsbanken's Central Credit Department, Per Beckman left his position as Chief Executive of Stadshypotek on 30 April 2014. Ulrica Stolt Kirkegaard, formerly Regional Area Manager for Regional Bank Stockholm at Handelsbanken, was appointed new Chief Executive.

For information on certain terms of employment for executive officers and on loans to Board members and executive officers, see note 6 on page 36.

AUDITORS

At the annual general meeting in 2014, KPMG AB were appointed auditors of Stadshypotek AB until the annual general meeting in 2015. The chief auditor with effect from October 2014 is Anders Bäckström, authorised public accountant, Stockholm. He replaced Stefan Holmström, authorised public accountant, who has been auditor of the company since the 2008 annual general meeting.

FRAMEWORK FOR CONTROL

Internal control for operations

Responsibility for internal control has been delegated from the Chief Executive to department managers and branch managers who are responsible for internal control within their respective units. This responsibility means that the appropriate instructions and procedures for the operation must be in place, and compliance with these procedures must be monitored regularly. The responsibility for internal control is thus an integral part of managerial responsibility at Stadshypotek.

Internal Audit

Internal audit operations at Stadshypotek are managed by the Central Audit Department at Handelsbanken in accordance with the collaboration agreement and outsourcing agreements between Stadshypotek and Handelsbanken. Internal Audit's assignments are based on an

internal auditing policy established by the Board. Each year, the Board determines a plan for the work of the Internal Audit function. Internal Audit must independently examine Stadshypotek's operations and reporting and also evaluate and examine the business operation's processes for risk management, internal governance and control to establish how satisfactory they are. The conclusions of internal audits, the actions to be taken and their status are reported to the Board.

Compliance

The Compliance function must ensure that laws, regulations and internal rules, as well as accepted business practices and standards, are complied with in the operations conducted by Stadshypotek. The function must also assist in drawing up internal rules and provide information about new and amended rules for operations. The Head of Compliance submits regular reports regarding material observations to the Chief Executive. In addition, the Chief Executive receives a quarterly compliance report and twice a year, a compliance report is submitted to the Board.

Risk Control

Risk Control is responsible for identifying, measuring, analysing and reporting all material risks in the business. Risk Control is also responsible for ensuring that the application of measuring methods used for calculating risk utilisation, in accordance with the applicable internal and external regulations, are fit-for-purpose and accurate. Moreover, Risk Control is responsible for ensuring that the models applied are regularly evaluated and that the results of the evaluation are documented.

The Head of Risk Control informs the Chief Executive and the Head of Central Risk Control at Handelsbanken of any material observations that could be deemed to involve risk or of any comments from public authorities.

The Head of Risk Control submits a monthly risk report to the Chief Executive and the Head of Central Risk Control at Handelsbanken. These reports are presented to the Board on a quarterly basis by the Head of Risk Control.

REMUNERATION PRINCIPLES

The principles for Stadshypotek's system of remuneration are established in a remuneration policy decided by the Board.

Stadshypotek has a long-term view of its staff's employment. Remuneration varies over an employee's period of employment with Stadshypotek and good efforts must always be rewarded. The total level of remuneration should help improve Stadshypotek's competitive position and profitability so that the company is able to attract, retain and develop skilled employees and establish a healthy management succession structure.

Stadshypotek has a low risk tolerance in general. This approach is reflected in the company's view of remuneration. Stadshypotek considers that fixed remuneration contributes to healthy operations and all employees of Stadshypotek therefore only receive a fixed remuneration. There are no exceptions to this principle of a fixed salary.

Remuneration for work performed is set individually for each employee. Remuneration is

paid in the form of a fixed salary, customary salary benefits and a pension provision. Salaries are established locally in accordance with Stadshypotek's decentralised method of working and are based on factors known in advance, namely the nature and level of difficulty of the work, skills, performance and results achieved, leadership (for managers who are responsible for the career development of employees), and supply and demand on the market, as well as performance as an ambassador for Stadshypotek's business culture.

Stadshypotek's view is that fixed remuneration does not lead to behaviour that gives rise to an increased risk level.

INTERNAL CONTROL REGARDING FINANCIAL REPORTING

The control environment described above in this corporate governance report is fundamental to Stadshypotek's internal control of financial reporting.

Risk assessment is another part of the internal control process and comprises identification

and management of the risks that may affect financial reporting, as well as the control activities aimed at preventing, detecting and correcting deviations.

Risk assessment

The annual self-evaluations carried out at all departments are an essential part of Stadshypotek's risk assessment. Risks related to financial reporting are part of this total analysis.

In a self-evaluation, the employee defines the events that constitute potential risks to the operation and then estimates the probability and consequences of each risk.

Control activities

Various control activities are incorporated into the entire financial reporting process. Reported amounts and analyses of income statements and balance sheets are reconciled and checked regularly within the finance and accounting department.

Heads of finance and accounting at branches are responsible for ensuring that the control activ-

Name	Håkan Sandberg, Chairman of the Board	Ulrica Stolt Kirkegaard, Board member	Yonnie Bergqvist, Board member	Michael Bertorp, Board member
Position	Executive Vice President Handelsbanken	Chief Executive Stadshypotek	Executive Vice President Handelsbanken	Board and consultancy activities
Education	Business administration graduate	B.A. Business administration M.A. Economics	Business college RMI-Berghs	Law graduate
Year of birth	1948	1968	1961	1949
Other assignments	Chairman <ul style="list-style-type: none"> Handelsbanken Regional Bank The Netherlands Board member <ul style="list-style-type: none"> Handelsbanken Regional Bank Northern Great Britain Handelsbanken Regional Bank Southern Great Britain Handelsbanken Regional Bank Central Great Britain Handelsbanken Regional Bank South West Great Britain Handelsbanken's Staff Foundation Pensionskassan SHB Försäkringsför. (pension fund) Handelsbanken's Pension Foundation Scandinavian Resort i Båstad AB S Resort Holding AB 		Chairman <ul style="list-style-type: none"> Handelsbanken Finans AB Board member <ul style="list-style-type: none"> UC AB 	Chairman <ul style="list-style-type: none"> Setra Group AB Board member <ul style="list-style-type: none"> Handelsbanken Fonder AB Xact Kapitalförvaltning AB Maderna Corporate Services AB
Background	<ul style="list-style-type: none"> 2006 - Handelsbanken Central Head Office 1993 - 2006 Handelsbanken Regional Bank Southern Norrland 1990 - 1993 Handelsbanken Regional Bank Western Sweden 1986 - 1989 Handelsbanken Luxembourg 1973 - 1986 Handelsbanken Regional Bank Eastern Sweden <p>Employed at Handelsbanken since 1969</p>	<ul style="list-style-type: none"> 2014 - Stadshypotek 2006 - 2014 Handelsbanken Regional Bank Stockholm 1998 - 2006 Handelsbanken Markets 1994 - 1998 Handelsbanken Regional Bank Central Sweden <p>Employed at Handelsbanken since 1994</p>	<ul style="list-style-type: none"> 2014 - Handelsbanken Central Head Office 2011 - 2014 Handelsbanken Direkt 2004 - 2011 Handelsbanken Finans 1997 - 2004 Stadshypotek Bank 1997 Stadshypotek 1991 - 1997 Handelsbanken Finans 1979 - 1991 Svenska Finans <p>Employed at Handelsbanken since 1979</p>	<ul style="list-style-type: none"> 2006 - Legal Board and consultancy activities 1986 - 2006 SCA 1985 - 1986 Sunds Defibrator AB 1984 - 1985 SCA 1982 - 1984 Ministry of Justice 1972 - 1982 The Swedish courts
Board meeting attendance	12/12	9/9	11/12	11/12

ities in the financial reporting for their respective units are fit-for-purpose, in other words, that they are designed to prevent, detect and correct errors and deviations, and are in compliance with internal guidelines and instructions. At each quarterly closing of accounts, the branches certify that the prescribed periodic checks and reconciliation of accounts have been carried out.

Monitoring

Internal Audit, Compliance, Risk Control and the finance and accounting department monitor compliance with internal policies, instructions and other policy documents. The policy established by the Board for internal audit states that it must examine internal governance and control.

SHAREHOLDERS AND SHAREHOLDERS' MEETING

Rights of shareholders

Stadshypotek AB is a wholly owned subsidiary of Svenska Handelsbanken AB (publ).

Stadshypotek's Articles of Association contain no limitations with regard to the number of

votes each shareholder may represent at a shareholders' meeting.

Every year a shareholders' meeting is held which is an annual general meeting where Stadshypotek's shareholders decide on matters that include the following:

- Which individuals should be appointed as members of the Board of the company and who should be appointed as the company's auditors
- Determining fees for Board members and auditors
- Adopting the income statement and balance sheet
- Appropriation of profits
- The Board and Chief Executive need to be discharged from liability for the past financial year.

The shareholders at a shareholders' meeting also make decisions regarding possible amendments to the company's Articles of Association.

Name	Olle Lindstrand, Board member	Anders Ohlner, Board member	Camilla Persson, Employee representative
Position	Senior Vice President Handelsbanken	Executive Vice President Handelsbanken	Bank employee
Education	Law graduate	University education	Upper secondary school education
Year of birth	1949	1955	1975
Other assignments	Chairman <ul style="list-style-type: none"> • Handelsbanken Fonder AB • Xact Kapitalförvaltning AB • Stockholm Fersen Fastighets AB • Solna One AB Board member <ul style="list-style-type: none"> • AB Handel och Industri • Handelsbanken Regional Bank Northern Great Britain • Handelsbanken Regional Bank Southern Great Britain • Handelsbanken Regional Bank Central Great Britain • Handelsbanken Regional Bank South West Great Britain • Handelsbanken Regional Bank Great Britain - Yorkshire and North East • Handelsbanken Regional Bank The Netherlands • Merchant Banking International 	Chairman <ul style="list-style-type: none"> • Business area Handelsbanken Forestry & Farming Board member <ul style="list-style-type: none"> • Handelsbanken Liv 	
Background	<ul style="list-style-type: none"> • 2011 - Handelsbanken Central Head Office • 2005 - 2011 Handelsbanken Central Credits • 2002 - 2005 Handelsbanken Capital Markets • 2000 - 2002 Handelsbanken Markets • 1996 - 2000 Handelsbanken Central Development • 1992 - 1996 Handelsbanken Central Credits • 1985 - 1992 Handelsbanken Regional Bank Stockholm City • 1977 - 1985 Swartlings law firm • 1974 - 1977 The Swedish courts <p>Employed at Handelsbanken since 1985</p>	<ul style="list-style-type: none"> • 2014 - Handelsbanken Central Head Office • 2008 - 2014 Handelsbanken Regional Bank Southern Sweden • 2003 - 2008 Handelsbanken Regional Bank Eastern Sweden • 1996 - 2003 Handelsbanken Regional Bank Southern Sweden • 1989 - 1996 Handelsbanken Regional Bank Central Sweden • 1985 - 1989 Handelsbanken Central Money Market • 1978 - 1985 Skandia <p>Employed at Handelsbanken since 1985</p>	<ul style="list-style-type: none"> • 2010 - Stadshypotek • 2003 - 2010 Handelsbanken • 2000 - 2003 SPP <p>Employed at Handelsbanken since 2000</p>
Board meeting attendance	12/12	6/6	12/12

Auditor's report

To the annual general meeting of the shareholders of Stadshypotek AB (publ)
Corporate identity no. 556459-6715

REPORT ON THE ANNUAL ACCOUNTS AND THE CONSOLIDATED ACCOUNTS

We have performed an audit of the annual accounts and the consolidated accounts of Stadshypotek AB (publ) for the year 2014.

Responsibilities of the Board of Directors and the Chief Executive for the annual accounts and the consolidated accounts

The Board of Directors and the Chief Executive are responsible for the preparation and fair presentation of the annual accounts in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and for the fair presentation of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies, and for such internal control as the Board of Directors and the Chief Executive deem necessary to be able to prepare annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

The responsibility of the auditors

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the annual accounts and the consolidated accounts are free from material misstatements. During the year, the internal auditing department of Handelsbanken has continuously examined the internal controls and accounts. We have received the reports that have been prepared. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and the consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and the consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Chief Executive, as well as evaluating the overall presentation of the annual accounts and the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the parent company as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. A Corporate Governance Report has been prepared. The Administration Report and the Corporate Governance Report are consistent with the other parts of the annual accounts and the consolidated accounts.

We therefore recommend that the annual general meeting of shareholders adopt the income statement and balance sheet of the parent company and the Group.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and the consolidated accounts, we have performed an audit of the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Chief Executive of Stadshypotek AB (publ) for the year 2014.

Responsibilities of the Board of Directors and the Chief Executive

The Board of Directors is responsible for the proposal for appropriations of the company's

profit or loss, and the Board of Directors and the Chief Executive are responsible for administration under the Companies Act and the Banking and Financing Business Act.

The responsibility of the auditors

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and the consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Chief Executive has any financial liabilities towards the company. We also examined whether any member of the Board of Directors or the Chief Executive has, in any other way, acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

We recommend to the annual general meeting of shareholders that the profit be appropriated in accordance with the proposal in the Administration Report and that the members of the Board of Directors and the Chief Executive be discharged from liability for the financial year.

Stockholm, 12 February 2015

KPMG AB

Anders Bäckström
Authorised Public Accountant

