

# Corporate Governance Report

Extract from Handelsbanken's Annual Report

# 2018

Handelsbanken



# Corporate Governance Report

Handelsbanken is a Swedish public limited company, whose shares are listed on Nasdaq Stockholm. Here the Board submits its Corporate Governance Report for 2018. Handelsbanken applies the Swedish Corporate Governance Code with no deviations.

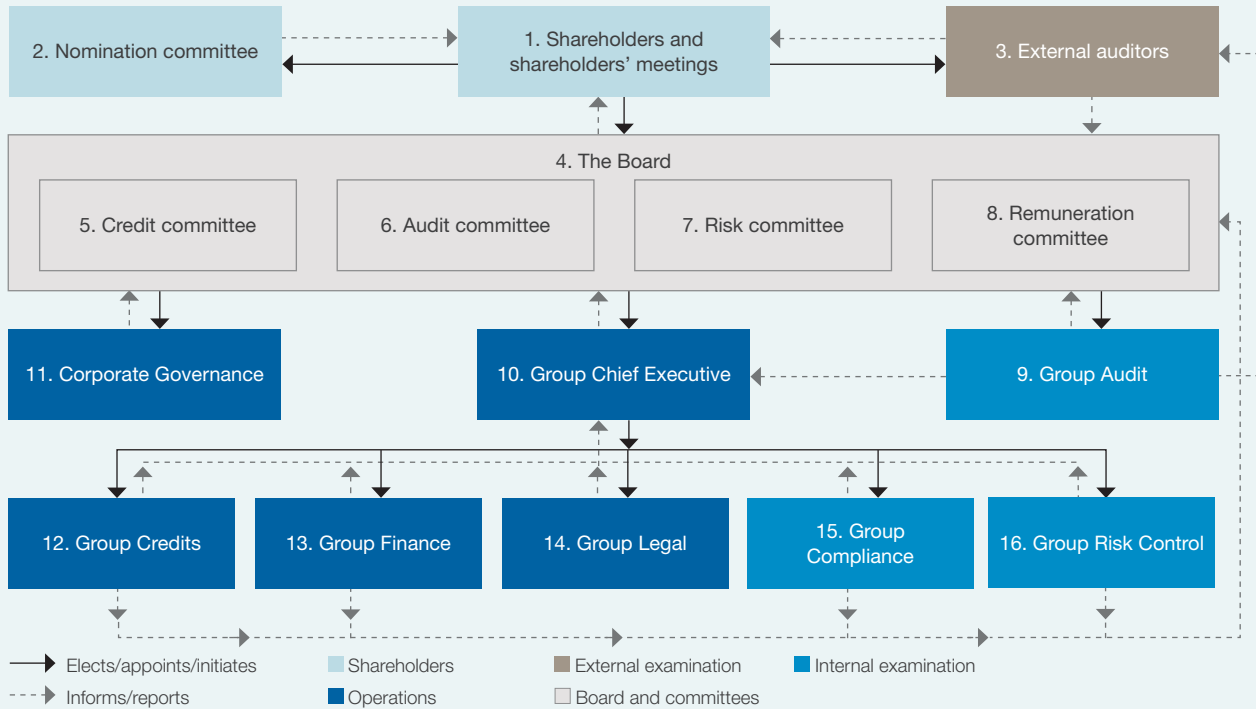
This Corporate Governance report is an extract from Handelsbanken's statutory annual report. The report has been audited by the Bank's external auditors and this audit is reported in the Auditor's Report.

## CONTENTS

<b>CORPORATE GOVERNANCE STRUCTURE</b>	46	<b>FRAMEWORK FOR CONTROL</b>	52
<b>CORPORATE GOVERNANCE AT HANDELSBANKEN</b>	48	Internal control for operations	52
The Bank's culture and long-term goal	48	Group Compliance	52
Application of the Swedish Corporate Governance Code	48	Group Risk Control	52
General information on regulation and supervision of banks	48	Group Audit	52
<b>SHAREHOLDERS AND SHAREHOLDERS' MEETINGS</b>	48	<b>POLICY DOCUMENTS</b>	53
Rights of shareholders	48	<b>PRINCIPLES FOR REMUNERATION AT HANDELSBANKEN</b>	55
Major shareholders	49	Fixed remuneration	56
Annual General Meeting 2018	49	Principles for remuneration to executive officers	56
Auditors	49	Variable remuneration	56
<b>NOMINATION COMMITTEE</b>	49	<b>THE BOARD'S REPORT ON INTERNAL CONTROL REGARDING FINANCIAL REPORTING</b>	57
Recruitment and diversity-related work	49	Control environment	57
<b>THE BOARD</b>	50	Risk assessment	57
Composition of the Board	50	Control activities	57
Independence of Board members	50	Information and communication	57
Regulations governing the Board's work	50	Follow-up	57
Chairman of the Board	50	<b>THE BOARD</b>	58
The Board's work in 2018	50	<b>SENIOR MANAGEMENT AND AUDIT AND WHISTLEBLOWING FUNCTION</b>	60
Committee work	50		
<b>THE BANK'S MANAGEMENT</b>	51		
Group Chief Executive	51		
Decision-making process	51		
Risk Forum	52		
Operational structure	52		
Branch operations	52		
Business areas	52		

# Corporate Governance structure

Corporate governance at Handelsbanken – an overview



The diagram provides a summary of corporate governance at Handelsbanken. The shareholders take decisions at the AGM. For certain questions, the shareholders' decisions are prepared by the nomination committee. The shareholders appoint a Board, which in turn appoints a CEO to manage the day-to-day operations. The Board (referred to at Handelsbanken as the Central Board) organises itself into various committees and has a corporate governance unit at its disposal. To support the work of governing the Bank, the CEO has Group Finance, Group Credits and Group Legal. There are also a number of control functions at the Bank. In addition, the shareholders exercise control through auditors appointed by the AGM.

## 1. SHAREHOLDERS AND SHAREHOLDERS' MEETINGS

Shareholders exercise their right to decide on matters concerning Handelsbanken at shareholders' meetings, which are the Bank's highest decision-making body. Every year, an annual general meeting is held, which among other things appoints the Board, the Chairman of the Board and auditors. It can also decide how the nomination committee is to be appointed. See also page 49.

## 2. NOMINATION COMMITTEE

The nomination committee's task is to prepare and submit proposals to the AGM regarding the appointment of the Chairman and other members of the Board and fees to the Chairman and other members of the Board. The committee also proposes the appointment of the auditors, and their fees. The AGM decides how the nomination committee will be appointed.

## 3. EXTERNAL AUDITORS

The auditors are appointed by the AGM for the period until the end of the following year's AGM. The auditors are accountable to the shareholders. They carry out an audit and submit an audit report covering matters such as the Annual

Report, including this Corporate Governance Report and the administration of the Board and the CEO. In addition, the auditors report orally and in writing to the Board's audit committee concerning how their audit was conducted and their assessment of the Bank's administrative order and internal control. The auditors also submit a summary report of their audit to the Board as a whole.

## 4. THE BOARD

The Board is responsible for the Bank's organisation and manages the Bank's affairs on behalf of its shareholders. The Board is to continuously assess the Bank's financial situation and ensure that the Bank is organised in such a way that the accounting records, management of funds and other aspects of the Bank's financial circumstances are satisfactorily controlled. The Board establishes policies and instructions on how this is to be executed, and establishes a work procedure for the Board and also instructions for the CEO.

These central policy documents state how responsibility and authority are allocated among the Board as a whole and the committees, and also between the Chairman of the Board and the CEO. The Board appoints the CEO, Deputy

CEOs and the Head of Group Audit and stipulates the employment terms for these persons and for the Heads of Group Compliance and Group Risk Control. The Chairman is responsible for evaluating the Board's work and informs the nomination committee of the results of the evaluation.

## 5. CREDIT COMMITTEE

The Board has set up a credit committee which decides on credit cases where the amount exceeds the decision limit that the Central Board has delegated to another unit. However, cases of special importance and credits to Board members and certain persons in managerial positions are decided upon by the Board as a whole. A representative from the unit within the Bank to which the credit case applies presents the case to the credit committee.

## 6. AUDIT COMMITTEE

The Board's audit committee monitors the Bank's financial reporting by examining important accounting matters and other factors that may affect the qualitative content of the financial reports. The committee also monitors the effectiveness of the Bank's and Group's internal control, internal audit and risk management

with regard to financial reporting, as well as the external auditors' impartiality and independence. It evaluates the audit work and assists the nomination committee in appointing auditors. The committee also receives reports from the Bank's internal and external auditors.

## 7. RISK COMMITTEE

The Board's risk committee monitors risk control and risk management in the Handelsbanken Group. The committee prepares decisions regarding the Bank's risk strategy, risk tolerance, etc., and examines reports from Group compliance and Group Risk Control.

## 8. REMUNERATION COMMITTEE

The Board's remuneration committee evaluates the employment conditions for the Bank's executive officers in the light of prevailing market terms. The committee's tasks include preparing the Board's proposals to the AGM concerning guidelines for remuneration to executive officers, monitoring and evaluating the application of these guidelines, and preparing the Board's decisions on remuneration and other terms of employment for executive officers, as well as for the Heads of Group Compliance, Group Audit and Group Risk Control. The committee also makes an independent assessment of Handelsbanken's remuneration policy and remuneration system.

## 9. GROUP AUDIT

Group Audit (internal audit) performs an independent, impartial audit of the operations and financial reporting of the Handelsbanken Group. A key task for Group Audit is to assess and verify processes for risk management, internal control and corporate governance. The Chief Audit Officer is appointed by the Board and reports regularly to the audit committee, orally and in writing, and also submits an annual summary report to the whole Board.

## 10. GROUP CHIEF EXECUTIVE (CEO)

The CEO is appointed by the Board to lead Handelsbanken's day-to-day operations. In addition to instructions from the Board, the CEO is obliged to comply with the provisions of the Swedish Companies Act and a number of other statutes concerning the Bank's accounting, management of funds and operational control.

## 11. CORPORATE GOVERNANCE

The Corporate Governance unit ensures that decisions made at shareholders' meetings and by the Board, as well as changes in legislation, regulations and the Corporate Governance Code, are implemented in policy documents from the Board, with the aim of stipulating

general responsibilities and powers of authority. These are then passed on within the organisation, chiefly through guidelines and instructions from the CEO.

## 12. GROUP CREDITS

Group Credits is responsible for formulating and maintaining the Bank's credit process and for preparing every major credit case that the Board's credit committee or the Board as a whole decides on. The head of the department, Handelsbanken's Chief Credit Officer, reports to the CEO and is a member of the Board's credit committee. The Chief Credit Officer also reports to the Board about losses and risks in the credit portfolio.

## 13. GROUP FINANCE

Group Finance is responsible for control systems, reporting, bookkeeping, accounting and taxes. It is also responsible for the Group's liquidity, funding, and capital and for the Group's overall risk management regarding financial risk, liquidity risk, and insurance risk. For a detailed description of this risk management, please refer to note G2 on pages 85–119. The Head of Group Finance, Handelsbanken's CFO, reports to the CEO and also regularly reports on behalf of the CEO to the Board's audit committee and risk committee and, regarding market risks, liquidity, funding and capital, to the Board as a whole.

## 14. GROUP LEGAL

Group Legal is responsible for legal matters within the Group and provides other units with legal advisory services. The department monitors developments as regards regulations, laws, standards and guidelines in Handelsbanken's home markets. Group Legal is responsible for operational governance, so it works to ensure decisions taken by the CEO – as well as changes in legislation, public authorities' regulations and guidelines relating to internal governance, risk management and control – are implemented in internal guidelines and instructions, with the aim of establishing responsibilities and powers of authority within the Bank.

## 15. GROUP COMPLIANCE

The primary responsibilities of the compliance function are to work actively to ensure a high level of compliance within the Handelsbanken Group and to ensure that Handelsbanken's low tolerance of risks linked to non-compliance is fulfilled. The Compliance function also manages public authority contacts related to supervisory cases. The function provides advice and support about compliance to the employees, CEO and Board of the Handelsbanken Group, and



### More information

More information about Handelsbanken's corporate governance is available at [handelsbanken.se/ireng](http://handelsbanken.se/ireng). The site includes the following information:

- previous corporate governance reports from 2008 onwards
- Articles of Association
- information about the nomination committee
- minutes from shareholders' meetings from 2008 on.

continually informs the units concerned about the risks which may arise in the operations due to inadequate compliance. The function also informs and trains employees affected by new or changed rules. The Compliance function also identifies the risks that the Handelsbanken Group will not meet its obligations under regulations, laws and other rules for operations that are subject to a licence, and checks and monitors that these risks are being managed by the units concerned. It also submits reports in accordance with established procedures. The Handelsbanken Group has a compliance manager who reports directly to the CEO and who leads the compliance function in the Group, and is also ultimately responsible for reporting on regulatory compliance. The Compliance function must be independent and organisationally separated from the functions and areas to be monitored and controlled. The Head of Group Compliance reports regularly to the CEO, the risk committee and the Board on matters regarding compliance.

## 16. GROUP RISK CONTROL

Group Risk Control is responsible for monitoring and reporting all the Group's material risks at an aggregate level. This responsibility comprises credit and market risks (interest rate, exchange rate, equity price and commodity price risk), operational risk, liquidity risks and insurance risks, as well as risks associated with the Group's remuneration system. Group Risk Control reports continually to the CEO and on a regular basis to the risk committee, the remuneration committee and the Board. The Head of Group Risk Control, Handelsbanken's Chief Risk Officer, also provides information to the CFO on an ongoing basis. Group Risk Control reports directly to the CEO, acts independently, and is separate from the operations under review. Group Risk Control has function responsibility for all risk control in the Handelsbanken Group.

## CORPORATE GOVERNANCE AT HANDELSBANKEN

Corporate governance concerns how rights and obligations are allocated among the Bank's entities, in accordance with prevailing laws and regulations. Corporate governance also encompasses the systems for decision-making, and the structure through which shareholders control the Bank, directly and indirectly. Handelsbanken's shareholders exercise corporate governance principally by electing the Board. The Board appoints and gives instructions to the CEO.

The following are fundamental to corporate governance at Handelsbanken: on the one hand the Articles of Association and documents adopted by the Board, for example the Board's rules of procedure, instructions to the CEO and the Chief Audit Officer, credit instructions and policy documents regarding the Bank's operations (see also pages 53–55), and, on the other hand, the instructions and guidelines issued by the CEO. These documents are revised every year, and whenever deemed necessary.

However, the foundation of functioning corporate governance is not only formal documents but also the Bank's corporate culture, corporate goal, working methods and remuneration system.

A central part of governance of Handelsbanken comprises managing the risks that arise in operations. Risk management is described in detail in a separate risk section in the Annual Report, note G2 on pages 85–119, in the Bank's Pillar 3 report, and also briefly in this Corporate Governance Report.

### The Bank's culture and long-term goal

Handelsbanken's corporate goal is to have higher profitability than the average of peer banks in its home markets. This is mainly to be achieved by having more satisfied customers and lower costs than those of competitors. One of the purposes of this goal is to offer shareholders long-term high growth in value.

Handelsbanken has a decentralised work method and a strong local presence due to its nationwide branch networks and a long-term approach to customer relations. The Bank's decentralised working model involves profound trust in employees' willingness and ability to take responsibility. This working model has been consistently applied for decades and has resulted in the Bank's very strong corporate culture.

The Oktogonen profit-sharing scheme sharpens the employees' focus on profitability, and is thus a method of reinforcing a corporate culture that is characterised by cost-awareness and prudence. Allocations to the Oktogonen scheme are made if Handelsbanken's profitability is higher than the average of peer banks on Handelsbanken's home markets.

Handelsbanken takes a long-term view of both its employees and its customers. The Bank

wishes to recruit young employees for long-term employment at the Bank by offering development opportunities that make the Bank self-sufficient in terms of skilled employees and managers.

This long-term approach also applies to the way in which the Bank relates to its customers. It is manifested in, for example, the ambition of always giving the customer the best possible advice – without looking at what is most profitable for the Bank in the short term. This enables the Bank to build long-term relationships with both customers and employees.

### Application of the Swedish Corporate Governance Code

Handelsbanken applies the Swedish Corporate Governance Code with no deviations. The code is available on the Swedish Corporate Governance Board's website.

### General information on the regulation and supervision of banks

The operations of Swedish banks are regulated by law, and banking operations may only be run with a licence from the Swedish Financial Supervisory Authority.

The regulations for banking operations are very extensive, and are not described in detail in this report. A list of the key regulations is available on the Swedish Financial Supervisory Authority's website. Handelsbanken's main principle is that operations outside Sweden are subject both to Swedish regulations and to the host country's regulations, if these are stricter or require deviations from Swedish rules.

The Swedish Financial Supervisory Authority extensively supervises the Bank's operations in Sweden and in all countries where the Bank runs branches, in other words, when the foreign operation is part of the Swedish legal entity Svenska Handelsbanken AB. Equivalent authorities in other countries exercise limited supervision over the branches' operations, but have full supervision over the Bank's subsidiaries outside Sweden. The supervisory work is co-ordinated in a supervisory group for Handelsbanken, led by the Swedish Financial Supervisory Authority.

In addition to laws and ordinances, the Swedish supervision is also based on regulations and general guidelines from the Swedish Financial Supervisory Authority. The Supervisory Authority requires extensive reporting on various matters such as the Bank's organisation, decision-making structure and internal control.

The Supervisory Authority's work also includes systematically visiting various parts of the Bank. The purpose of this is to follow up the Bank's actual compliance with the terms and conditions of granted licences and other detailed regulations.

## SHAREHOLDERS AND SHAREHOLDERS' MEETINGS

### Rights of shareholders

At the end of 2018, Handelsbanken had over 120,000 shareholders. They have the right to decide on matters related to the company at the AGM or extraordinary meetings of shareholders. Handelsbanken has two classes of shares: class A and class B. Class A shares are by far the most common and represented more than 98 per cent of all outstanding shares at the end of 2018. Each class A share entitles the holder to one vote, while each class B share entitles the holder to one-tenth of a vote. Handelsbanken's Articles of Association state that at shareholders' meetings, no shareholder is allowed to exercise voting rights representing more than 10 per cent of the total number of votes in the Bank. Class A shares and class B shares entitle holders to the same proportion of the profit.

Shareholders who wish to have a matter considered by the AGM must submit a written request to the Board sufficiently far in advance so that the matter can be included in the notice of the meeting. The Bank's website contains information as to when this request must have reached the Board.

At the AGM, the Bank's shareholders make various decisions of major importance to the Bank's governance. Shareholders' decisions include:

- adopting the income statement and balance sheet
- appropriation of profits
- discharge from liability for the Board and the CEO for the past financial year
- how many members should be on the Board of the Bank, who these members should be, and who should be the Bank's auditors
- determining fees to Board members and auditors
- principles for remuneration to executive officers.

The shareholders at a shareholders' meeting can also make decisions on the Bank's Articles of Association. The Articles of Association constitute the fundamental governing document for the Bank. They specify which operations the Bank is to conduct, the limits on the amount of share capital, the right of shareholders to participate at shareholders' meetings and the items to be presented at the AGM. The Articles of Association state that the number of board members must be at least eight and at most 15. They are elected for one year at a time. Handelsbanken's Articles of Association contain no stipulation regarding the appointment and discharging of board members nor concerning amendments to the Articles of Association.

Information in preparation for meetings is published at [handelsbanken.se/ireng](https://handelsbanken.se/ireng). Minutes of previous meetings are also available there in English at [handelsbanken.se/ireng](https://handelsbanken.se/ireng).

### Major shareholders

At the end of 2018, the holdings of two shareholders represented more than 10 per cent of the votes: the Oktogonen Foundation, with 10.5 per cent, and AB Industrivärden, with 10.6 per cent. Detailed information on the Bank's largest Swedish shareholders can be found on page 43.

### Annual general meeting 2018 (AGM)

The AGM took place on 21 March 2018.

A total of 1,580 shareholders were represented at the meeting. They represented almost 54.6 per cent of all votes in the Bank. All board members were present at the meeting. Also participating were Helena Stjernholm, nomination committee chair, as well as Jesper Nilsson of Ernst & Young AB and Johan Rippe of PricewaterhouseCoopers AB, the auditors-in-charge from the auditing companies elected by the AGM. The chairman of the meeting was Sven Unger, a lawyer.

The decisions made by the shareholders at the meeting included:

- An ordinary dividend of SEK 5.50 per share and an extra dividend of SEK 2.00 per share.
- Authorisation for the Board to decide on acquisition of not more than 120 million shares in the Bank, as well as divestment of shares.
- Authorisation for the Board to decide on issuance of convertibles with conditions for tier 1 capital instruments. The convertibles entail mandatory conversion in certain cases, but no right of conversion for the holders or the Bank. Conversion may result in a maximum of 180 million shares.
- The Board is to consist of 11 members.
- The re-election of 10 Board members and the election of one new Board member, Hans Biörck, for the period until the next AGM.
- The election of Pär Boman as Chairman of the Board.
- Fees to be paid to the Board members: SEK 3,300,000 to the Chairman of the Board, SEK 940,000 to the Vice Chairman, and SEK 670,000 to the other Board members. Fees for committee work for each member of the

respective committee: SEK 390,000 for the credit committee, SEK 135,000 for the remuneration committee, SEK 390,000 for the risk committee and SEK 390,000 for the audit committee. It was decided that the fee to the chairperson of the audit committee would be SEK 470,000. Board members who are employees of Handelsbanken shall not receive a fee.

- The AGM appointed Ernst & Young AB (re-election) and PricewaterhouseCoopers AB (re-election) to serve as auditors until the end of the AGM to be held in 2019.

The shareholders at the meeting also adopted the following guidelines for remuneration and other terms of employment for executive officers, as proposed by the Board:

- The total remuneration is to be on market terms.
- Remuneration is only paid in the form of a fixed salary, pension provision and customary benefits.
- By special decision of the Board, the Bank can provide housing.
- Variable remuneration benefits, such as bonuses or commission on profits, are not paid.
- The executive officers in question are included in the Oktogonen profit-sharing scheme on the same terms as all employees of the Bank.
- The retirement age is normally 65. The pension benefits are defined contribution and may be payable in addition to pension plans under collective agreements.
- The period of notice on the part of an executive officer is six months, and on the part of Handelsbanken a maximum of 12 months. If the Bank terminates the contract later than five years after the person's appointment as one of the Bank's executive officers, the maximum period of notice is 24 months. No other termination benefits are paid. Other time periods may apply due to collective agreements and labour legislation.
- The Board shall have the right to deviate from the established guidelines if there are special reasons in an individual case.

The guidelines do not affect remuneration previously decided for executive officers. The guidelines are applied to the CEO, other Executive Directors, and any members of Handelsbanken's Central Board who are also employees of the Bank.

### Auditors

Jesper Nilsson has been an authorised public accountant since 2007. He is principal auditor for Ernst & Young AB at Handelsbanken and chairs Handelsbanken's auditing team. Mr Nilsson is also an auditor for Intrum, Creades, and Alecta. Jesper Nilsson was born in 1964.

Johan Rippe has been an authorised public accountant since 1999 and is principal auditor for PricewaterhouseCoopers AB at Handelsbanken. Mr Rippe is also an auditor for Stena, Getinge, and Lundin Petroleum, Deputy CEO of PricewaterhouseCoopers AB, and the Chairman of the Board of the Swedish Institute of Authorised Public Accounts (FAR). Mr Rippe was born in 1968.

### NOMINATION COMMITTEE

The shareholders at the 2010 AGM resolved to establish instructions for how the nomination committee is to be appointed. According to the decision, the instructions will apply until they are amended by a future AGM. The instructions state that the nomination committee shall comprise five members: the Chairman of the Board and one representative from each of the Bank's four largest shareholders as at 31 August the year before the AGM is held.

However, the nomination committee must not include representatives of companies which are significant competitors of the Bank in any of its main areas of operations. It is the Chairman of the Board's task to contact the largest owners so that they will appoint one representative each to sit on the nomination committee, together with the Chairman. The 2019 nomination committee comprises:

Representative	Shareholders	Voting power in % as at 31 Aug 2018
Christian Dahl	Oktogonen Foundation	10.5
Helena Stjernholm, Chair	Industrivärden	10.4
Mats Guldbbrand	Lundberg ownership group	3.4
Bo Selling	Alecta	2.7
Pär Boman, Chairman of the Board		

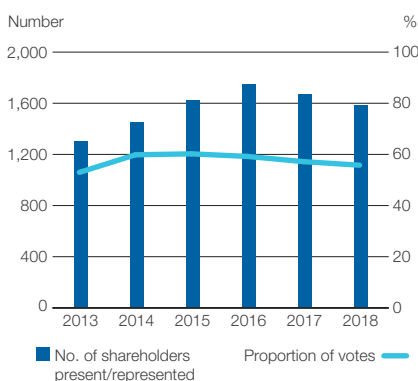
Information on the composition of the nomination committee has been available on the Bank's website since 21 September 2018.

The nomination committee's task in preparation for the AGM on 27 March 2019 is to submit proposals for the election of a chairman of the AGM, the Chairman of the Board and other members of the Board, the fees to the Chairman and other members of the Board, and remuneration for committee work. In addition, the Handelsbanken Board has decided that proposals regarding the election of and fees to auditors be made by the nomination committee.

### Recruitment and diversity-related work

In its work, the nomination committee takes into account matters relating to diversity, including gender distribution, on the Board. Handelsbanken's Board has adopted a policy to promote diversity on the Board. The policy states that to promote independent opinions and critical questioning, it is desirable that the Board should

### Attendance at AGMs 2013–2018



be characterised by sufficient diversity in terms of age, gender, geographical origin, and educational and professional background. The proportion of women on the Board of the Bank is 36 per cent, and the proportion of members of a nationality other than the country where Handelsbanken is domiciled is 36 per cent. In compiling its proposal for the AGM, the nomination committee will also consider the evaluation of the Board carried out by the Chairman of the Board.

### THE BOARD

After the shareholders at the 2018 AGM had appointed Pär Boman to be Chairman of the Board, Fredrik Lundberg was appointed as Vice Chairman at the first Board meeting immediately after the AGM. At the same time, the Board appointed members of the credit committee, audit committee, risk committee and remuneration committee. Information about the Board is shown on pages 58–59.

#### Composition of the Board

The Board consists of 11 members. When the Board is to be elected, the nomination committee proposes members. The nomination committee includes the Oktogonen Foundation, which also proposes two of the members in the nomination committee's proposal.

The Board members have broad and extensive experience from the business community. Several are, or have been, chief executives of major companies, and most of them are also board members of major companies. See also pages 58–59. Several members have worked on the Bank's Board for a long time and are very familiar with the Bank's operations. The nomination committee's proposals at previous AGMs, including their reasons, are available at [handelsbanken.se/ireng](http://handelsbanken.se/ireng).

#### Independence of Board members

The Swedish Corporate Governance Code stipulates that the majority of Board members elected by the AGM must be independent of the Bank and the Bank's management, and that at least two of the independent Board members must also be independent of those of the company's shareholders that control 10 per cent or more of the shares and votes in the Bank. The composition of the Board fulfils the Code's requirements for independence.

#### Regulations governing the Board's work

The fundamental rules regarding the distribution of tasks among the Board, the Board committees, the Chairman, the CEO and Group Audit are expressed in the Board's rules of procedure, as well as in its instructions to the CEO and to the Chief Audit Officer.

#### 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 the Bank's operations, and that new members receive appropriate introduction and training. The Chairman must be available to the CEO as an advisor and discussion partner, but must also prepare the Board's evaluation of the CEO's work.

The Chairman's duties include being chairman of the credit and remuneration committees, as well as being a member of the audit and risk committees. The Chairman is responsible for ensuring that the Board's work is evaluated annually. The 2018 Board evaluation was performed by means of a survey and through discussions between the Chairman and each member. The Chairman informed the Board of the outcome of the evaluation and led a Board discussion on this. He also informed the nomination committee about the Board evaluation.

The Chairman is responsible for maintaining contact with the major shareholders concerning ownership matters. As chairman of the Bank's pension foundation, pension fund and staff foundation, he has overall responsibility for ownership issues associated with shareholdings of these three entities.

There is no other regular division of work for the Board except as concerns the committees.

#### The Board's work in 2018

During the year, the Board had 11 meetings, including a lengthy strategy meeting.

The figure on page 51 gives an overview of the Board's work in 2018 relating to regularly occurring major items at ordinary Board meetings. In addition, matters discussed at each committee meeting are reported at the next Board meeting.

#### Committee work

##### Credit committee

The credit committee consisted of eight members: the Chairman of the Board (Pär Boman), who also chairs the credit committee, the Vice Chairman (Fredrik Lundberg), the chair of the audit committee (Bente Rathe), the CEO (Anders Bouvin), the Chief Credit Officer (Per Beckman), and three Board members appointed by the Board (Jon Fredrik Baksaas, Ole Johansson and Hans Biörck).

The credit committee normally holds one meeting every month to take decisions on credit cases that exceed a set limit and that are not decided on by the whole Board due to the importance of these cases or legal requirements. The heads of the regional banks and Handelsbanken International presented cases to the credit committee from their own units in 2018 and participated when other cases were presented, with the objective of providing them with a good picture of

the Board's approach to risk. Credit cases that are decided upon by the whole Board are presented by the Chief Credit Officer. If a delay in the credit decision would inconvenience the Bank or the borrower, the credit instructions allow the CEO and the Chief Credit Officer to decide on credit cases during the interval between credit committee meetings.

In 2018, the credit committee had 11 meetings.

##### Audit committee

The audit committee comprised the Chairman of the Board (Pär Boman) and four Board members appointed by the Board (Jon Fredrik Baksaas, Ole Johansson, Lise Kaae and Bente Rathe). The latter members are independent of the Bank, its management, and major shareholders. Bente Rathe has been appointed as Chair of the committee.

The work of the audit committee includes the following:

- monitoring the financial reporting, as well as the effectiveness of the Bank's internal control, internal audit and risk management systems in relation to financial reporting
- providing recommendations and proposals concerning the financial reporting
- preparing the Board's decision regarding an audit plan for the work of Group Audit and taking into account reports from Group Audit
- regular contact with the external auditors. These auditors report to the committee on significant matters that have emerged from the statutory audit, especially regarding shortcomings in the internal control of the financial reporting
- keeping up to date with the audit of the annual report and consolidated accounts and the Swedish Supervisory Board of Public Accountants' quality control
- assisting the nomination committee in the matter of proposing auditors and thereafter submitting a recommendation regarding the election of auditors
- informing the Board of the results of the audit and of the manner in which the audit has contributed to the reliability of the financial reports
- monitoring and verifying the external auditors' impartiality and independence, with a particular focus on whether the auditors provide any services other than auditing to the company.

All interim reports and annual highlights reports are reviewed by the audit committee. Items are presented by the CEO, the CFO, the Chief Audit Officer and the persons with main responsibility from the audit companies appointed by the AGM.

In 2018, the audit committee had five meetings.

##### Risk committee

The risk committee comprised the Chairman of the Board (Pär Boman) and five Board members appointed by the Board (Jon Fredrik Baksaas, Ole Johansson, Kerstin Hessius, Lise Kaae and



Bente Rathe). The latter members are independent of the Bank, its management, and major shareholders. Kerstin Hessius has been appointed as Chair of the committee.

The work of the risk committee includes the following:

- processing reports from the Heads of Group Risk Control and Group Compliance
- preparing the Board's decisions regarding the establishment of the internal capital adequacy assessment
- processing the validation and evaluation of the internal risk classification system.
- preparing the Board's decisions regarding risk tolerance and risk strategy
- processing the evaluation of the risk calculation methods used for limiting financial risks, calculating capital requirements and calculating economic capital
- preparing the Board's decisions regarding the establishment of Handelsbanken's recovery plan.

The Head of Group Risk Control, who is also the Bank's CRO, and the Chief Compliance Officer present their reports to the risk committee in person. The members of the committee can also ask questions of the CRO and Head of Group Compliance when members of Bank management are not present. The Bank's CEO, CFO and Chief Credit Officer also attend meetings of the risk committee.

In 2018, the Board's risk committee had five meetings.

### Remuneration committee

The remuneration committee comprised the Chairman of the Board (Pär Boman, who also chairs the committee) and two Board members appointed by the Board (Ole Johansson and Bente Rathe), who are independent of the Bank, its management, and major shareholders.

The tasks of the remuneration committee include making an independent assessment of Handelsbanken's remuneration policy and remuneration system. In addition, the remuneration committee prepares matters regarding remuneration to be decided on by the Board and the AGM. After the shareholders at the AGM have decided on guidelines for the terms and conditions of remuneration to executive officers, the Board decides on remuneration to these officers and the heads of the control functions: Group Audit, Group Risk Control and Group Compliance. Each year, the remuneration committee evaluates Handelsbanken's guidelines as well as its remuneration structures and levels in accordance with the Swedish Corporate Governance Code. A statement from the committee in this regard is published on handelsbanken.se/ireng prior to the AGM.

In 2018, the remuneration committee had seven meetings.

### THE BANK'S MANAGEMENT Group Chief Executive (CEO)

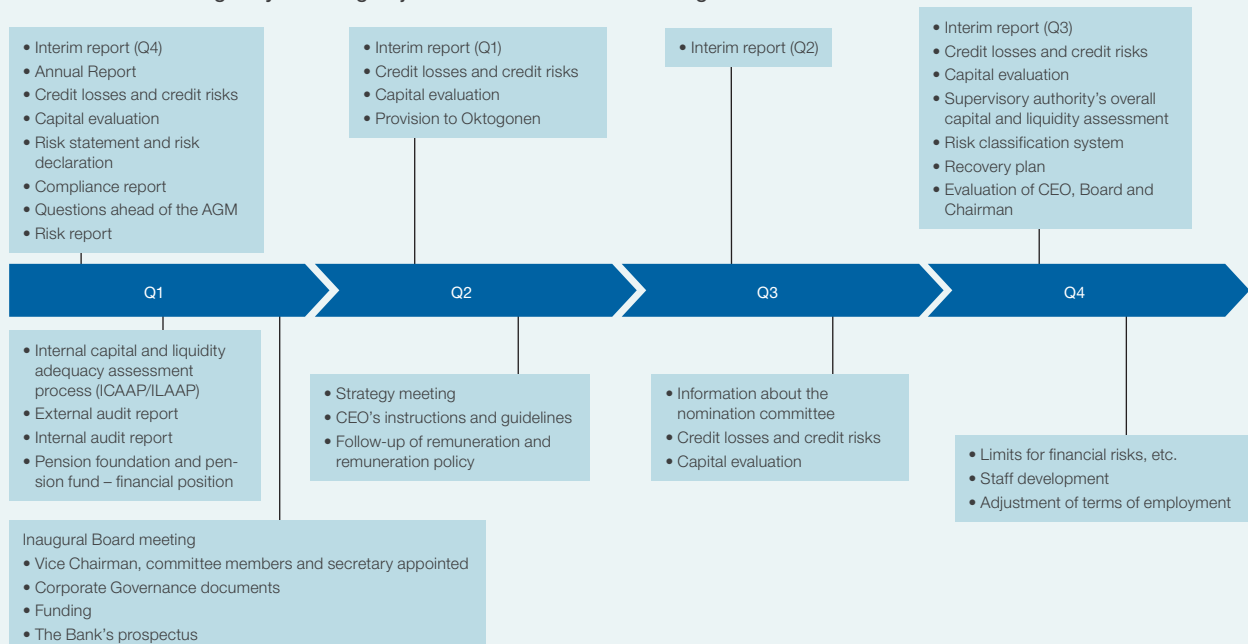
The CEO, Anders Bouvin, was born in 1958, has a BA degree (filosofie kandidat) in Business and Economics, and also an honorary doctorate from

the London Institute of Banking & Finance. He has worked at Handelsbanken since 1985. In 2002, Anders Bouvin became a member of what was then called the Group management as Executive Vice President and Head of Handelsbanken Denmark. Since then, Anders Bouvin has been Head of Regional Bank Northern Great Britain and Head of Handelsbanken UK. With the exception of his position as Vice Chair of the Swedish Bankers' Association, Anders Bouvin has no significant assignments outside Handelsbanken. His shareholdings in the Bank and those of close relatives are 15,000 shares, as well as 49,571 shares held indirectly via the Oktogonen profit-sharing scheme. In addition, Anders Bouvin has a holding of staff convertible notes in Handelsbanken, issued on market terms to the Bank's employees in 2014. His holding in the 2014 convertible totals SEK 5,869,254 which, at a conversion price of SEK 102.19, corresponds to 57,434 shares. Neither the CEO nor his close relatives have any material shareholdings or other ownership interests in companies with which the Bank has significant business relations.

### Decision-making process

To a large extent, responsibilities and powers of authority at Handelsbanken have been assigned to individual members of staff, rather than groups or committees. However, there are collective decisions regarding credit decisions made in credit committees and the boards of regional banks. It is also required that the members are unanimous regarding these decisions.

### Board work 2018<sup>1</sup> – Regularly occurring major items at normal board meetings<sup>2</sup>



<sup>1</sup> The committees' meetings are not presented in the chart.

<sup>2</sup> Utilisation of market risk limits, liquidity, funding and the business situation are dealt with at all meetings.

Officers with responsibility for certain business areas or functions, and general managers outside Sweden are designated Executive Directors in Handelsbanken. These persons comprise the group of executive officers according to the definition in the Swedish Companies Act. The group is also covered by the concept of senior management used by the Swedish Financial Supervisory Authority in its regulations FFFS 2011:1. These persons are subject to the remuneration guidelines applied by the annual general meeting. For more information about Executive Directors, see page 60.

The CEO regularly meets representatives of the business-operating units, staff functions and control functions for the purpose of consultation and information. This group is referred to as Senior Management. See also pages 60–61.

#### Risk Forum

Handelsbanken has a Risk Forum, the purpose of which is to address the Bank's overall risk situation ahead of Board meetings, and to ensure that sufficient risk assessments are carried out prior to all decisions of a material nature. In addition to the CEO, the Risk Forum includes the CFO and the Heads of Group Risk Control, Group Compliance and Group Legal, as well as others.

#### Operational structure

Handelsbanken has long had a decentralised working method, where almost all major business decisions are taken at the local branches, close to customers. Operations are pursued to a large extent within the parent company, but also in subsidiaries.

#### Branch operations

Branch operations are geographically organised into regional banks: five in Sweden, five in the UK, and one each in Denmark, Finland, Norway and the Netherlands. These countries comprise the Bank's home markets. Each regional bank is led by a head. The regional banks in the UK are co-ordinated under the Head of Handelsbanken UK. In Sweden, business support functions have been pooled centrally under a Chief Operating Officer.

In Denmark, Finland, Norway and the Netherlands, the head of the regional bank is also the general manager. These heads, as well as the Head of UK operations and the general managers for the international operations outside the home markets, are responsible to the public authorities in their respective countries for all operations that the Bank and its subsidiaries pursue in those countries.

#### Business areas

There are five business areas within Handelsbanken. Three of these business areas are part of the Handelsbanken Capital Markets segment: Pension & Life, Markets & Asset Management

and Handelsbanken International. The joint functions of these three business areas, such as back-office operations, IT development, finance, HR, communications, risk control and compliance, are co-ordinated under a joint head. The remaining two business areas are Stadshypotek and Retail & E-services. Each business area has Group-wide responsibility for its products and services.

The Pension & Life business area includes the Bank's entire pensions-related offering, as well as the Handelsbanken Liv subsidiary. The Markets & Asset Management business area includes trading in financial instruments, corporate finance and asset management, with the Handelsbanken Fonder and Xact Kapitalförvaltning subsidiaries. The Handelsbanken International business area includes all the Bank's international operations outside its home markets. For every country outside the home markets in which Handelsbanken pursues operations there is a general manager who reports to the Head of Handelsbanken International.

The Stadshypotek business area comprises the Stadshypotek AB subsidiary, which pursues mortgage loan operations and other property financing. The Retail & E-services business area develops services for e-commerce and traditional retailing under its own brand. This business area includes the wholly owned subsidiary Ecster AB.

#### FRAMEWORK FOR CONTROL

##### Internal control for operations

Responsibility for internal control has been delegated from the CEO to managers who report directly to the CEO and who are in charge of internal control within their respective units. In turn, these managers have delegated responsibility for internal control to managers who report to them. This responsibility means that fit-for-purpose instructions and procedures for the operation must be in place, and compliance with these procedures must be monitored regularly. Thus, the responsibility for internal control and compliance is an integral part of managers' responsibility at all levels in the Bank.

##### Group Compliance

Compliance is the responsibility of all employees in the Group. Establishing compliance functions at central or local level does not release any employee from the responsibility of complying with the external and internal regulations applying to the operations. The Compliance function monitors and verifies regulatory compliance in the Handelsbanken Group. The regulations are often complex, and in some cases the individual employee may have limited experience. For this reason, support and advice from the compliance function is important, especially in conjunction with the introduction of new or changed regulations, or changes to the Group's products, services, processes and organisation.

Group Compliance is an independent unit with the functional responsibility for compliance matters in the Group. The CEO appoints the Chief Compliance Officer. The Chief Compliance Officer reports quarterly to the CEO on compliance in the Group. The Chief Compliance Officer reports on compliance in the Group twice a year directly to the Board's risk committee and once a year to the Board as a whole. In addition, material observations are reported regularly to the CEO.

##### Group Risk Control

The Bank is characterised by a clear division of responsibility where each part of the business operations bears full responsibility for risk management. There are local risk control functions in all countries where the Bank has operations, as well as at some central units and subsidiaries. Local risk control functions work with identifying, measuring, analysing and reporting risks in the operations. Local risk control reports to Group Risk Control and to the management of the operations.

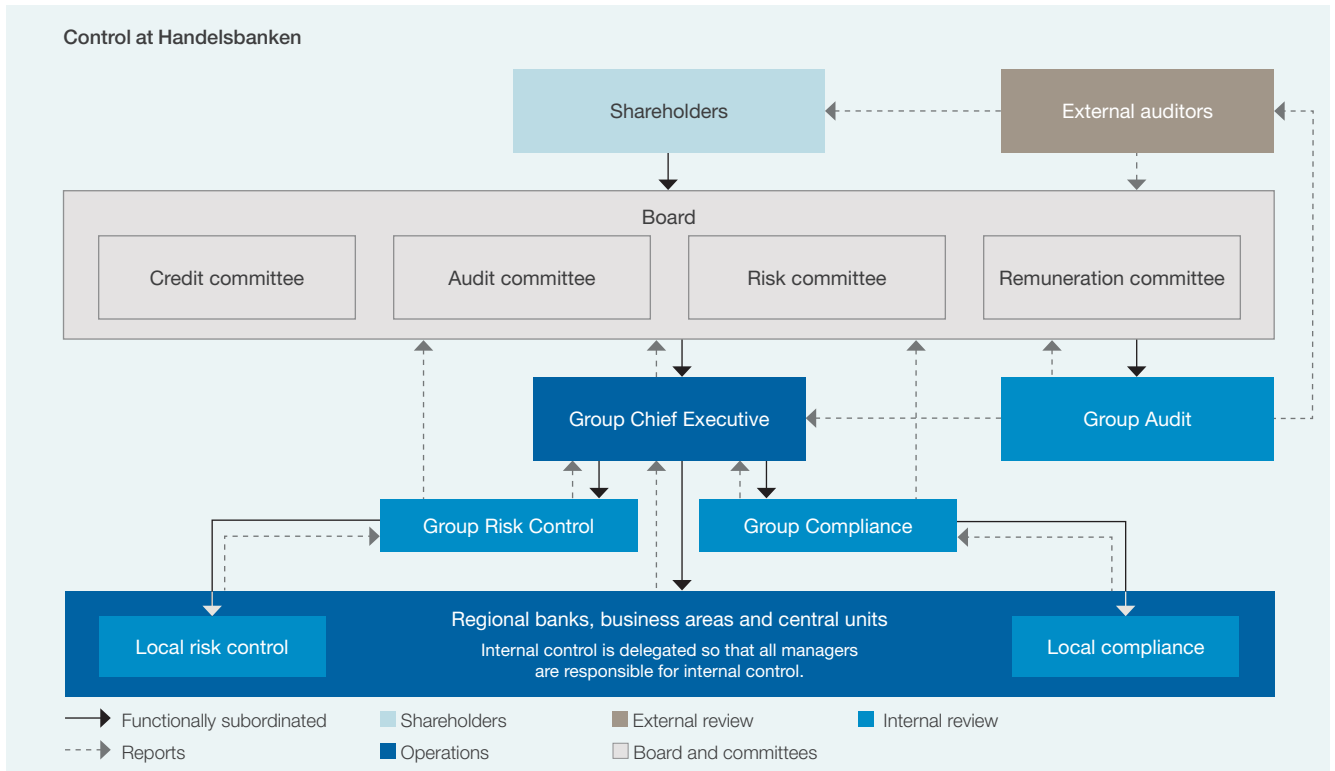
Group Risk Control identifies, measures, analyses and reports all the Group's material risks. This includes monitoring and checking the Group's risk management and assessing that Handelsbanken's risk management framework is fit-for-purpose and efficient. Group Risk Control also checks that the risks and risk management comply with the Bank's risk strategy, and fall within the risk tolerance thresholds established by the Board. Together with local risk control units, Group Risk Control is also responsible for checking that financial instruments are correctly valued. This responsibility includes ensuring that Senior Management has reliable information about risks to use in critical situations. Group Risk Control has functional responsibility for risk control at Handelsbanken.

The Head of Group Risk Control reports directly to the CEO. Information is also provided to the CFO on a regular basis. The Head of Group Risk Control reports regularly to the Board's risk committee and remuneration committee, and once a year to the Board as a whole. Group Risk Control is also in charge of the Bank's extensive risk reporting to the supervisory authorities.

A more detailed description of the Bank's risk management and control is contained in note G2 on pages 85–119, and also in the Bank's Pillar 3 Report.

##### Group Audit

Long before external requirements for internal auditing were introduced, the Bank had an internal audit function that was independent of the line organisation. The organisation has centrally and regionally placed internal auditors. The regional internal audit departments are part of Group Audit, which constitutes an integrated internal audit function. Group Audit comprises some 110 employees. Group Audit is the Board's controlling



body. The Chief Audit Officer is appointed by and reports to the Board. The selected organisation and long tradition give Group Audit the authority and integrity required to enable the auditors elected by the AGM to rely on measures and data from Group Audit.

Group Audit is tasked with performing an independent, impartial audit of the operations and financial reporting of the Handelsbanken Group. This includes assessing and verifying processes for risk management, internal control and corporate governance. Their assignment is based on a policy established by the Board and is performed on the basis of a risk-based methodology in accordance with internationally accepted standards issued by the Institute of Internal Auditors. The planned auditing tasks are documented every year in an audit plan which is established by the Board. Group Audit's conclusions, the actions to be taken and their status, are reported regularly to the audit committee and every year to the Board as a whole. The Chief Audit Officer is also the contact person for Handelsbanken's separate system for whistleblowing.

Group Audit is regularly subject to independent external quality reviews. In addition, the Bank's external auditors perform an annual quality review of the work of Group Audit.

#### POLICY DOCUMENTS

The following is a brief summary of the policy documents which the Board of Handelsbanken has established and which apply at the time this Annual Report is published.

#### Credit policy

Credits may only be granted if there are good grounds for expecting the borrower to meet

their commitments. Credits must normally have satisfactory collateral. Handelsbanken strives to maintain its historically low level of credit losses compared to other banks, thus contributing to the Bank's profitability target and retaining its sound position.

#### Risk control policy

Handelsbanken must have a risk control function that is independent of the functions that are to be monitored. Risk control must be enforced regarding all material risks in Handelsbanken, with the exception of compliance risks, which are within the purview of Group Compliance. The risk control function must verify that all material risks to which the Group is exposed, or may be exposed in the future, are identified and managed by the relevant functions, and must also supervise and monitor the Group's risk management. In addition, the function must identify risks arising as a result of deficiencies in the Group's risk management. The risk control function must also verify that every business unit monitors all its material risks in an efficient manner. Risk control is organised into both central and local risk control. Central risk control, called Group Risk Control, reports to the CEO.

#### Policy for operational risk

Handelsbanken's tolerance of operational risk is very low. Operational risk refers to the risk of loss due to inadequate or failed internal processes, human error, erroneous systems or external events. Operational risks must be managed so that losses remain small in comparison with previous losses incurred. The responsibility for operational risk is an integral part of managerial responsibility throughout the Group.

#### Capital policy

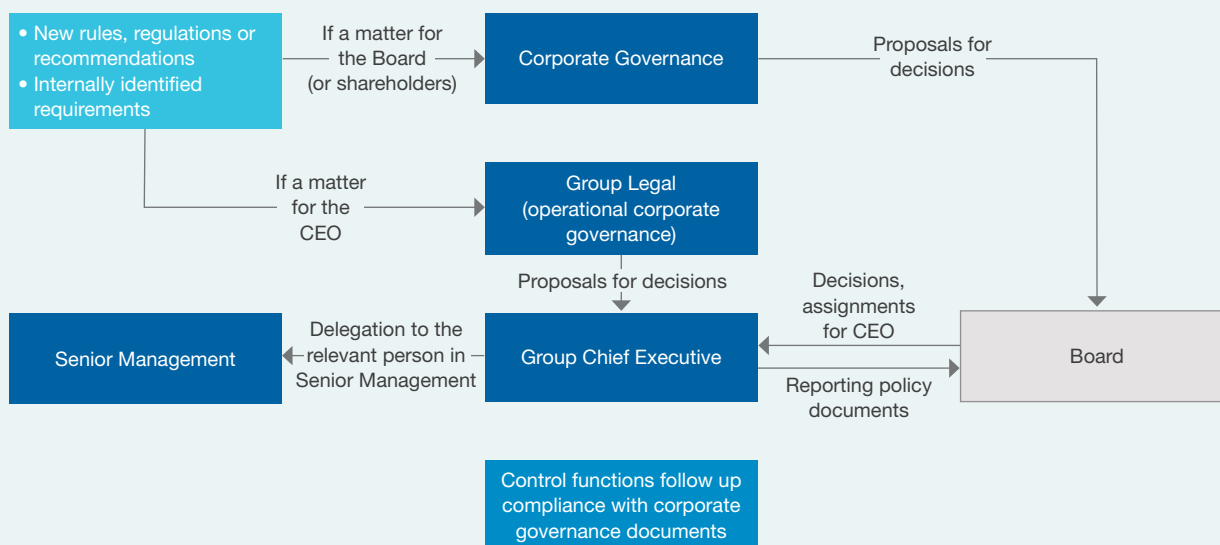
The purpose of the capital policy is to ensure that the Group's supply of capital is satisfactory. The Group must at all times be well capitalised in relation to risk, and fulfil the goals established by the Board and the capital adequacy requirements established by supervisory authorities, even in situations of financial stress (see the section on risk in note G2 on pages 85–119). Handelsbanken's capital situation must also justify a continued high rating from the most important rating agencies.

#### Financial policy

Through this policy, the Board establishes the framework for financial operations in Handelsbanken. This includes the general establishment of measurement methods for financial risks. 'Financial risks' here refers to market risks and liquidity risks. Market risks are in turn divided into interest rate risks, equity price risks, currency risks and commodity price risks.

Financial risks shall only occur as a natural step in customer business, in connection with Handelsbanken's funding and liquidity management, and in its role as a market maker. The purpose of the Group's funding and liquidity management is to ensure that Handelsbanken is able to meet its payment commitments in the short and long term. The Group's funding must be well diversified in terms of markets, currencies and maturities. Handelsbanken must have an adequate liquidity reserve to be able to continue its operations for predetermined periods of time, without new funding in the financial markets. This requirement must also be fulfilled in times of financial strain.

## Production and follow-up of corporate governance documents – an overview



This chart shows an overview of the process for producing and following up corporate governance documents. A policy or guideline may need to be drawn up or amended as a result of external factors, such as a new regulations or internal requirements. For policies from the Board, the Corporate Governance unit draws up a proposal which is then presented to the Board for adoption. Group Legal is responsible for formulating proposals for guidelines from the CEO, which are then submitted to the CEO for a decision. The CEO is responsible for ensuring that policies and guidelines are implemented, although this task may be delegated to the relevant members of Senior Management. The Bank's control functions are tasked with monitoring whether these documents are complied with in the organisation.

### Information policy

Handelsbanken's information must be correct, objective, and easy to understand. It must respect the recipient of the information and be provided at the right time and in the right manner. The information will contribute to strengthening Handelsbanken's brand and the trust of its customers, the capital markets and society in general. Information provided to the capital market must be correct, relevant, clear, reliable and in compliance with stock market regulations in all other respects. Information is to be made public as soon as possible and simultaneously to the stock market, investors, analysts, news services and other media. At press conferences and the like, the media and analysts should normally participate at the same time.

### Policy for sustainability

This policy sets the direction for Handelsbanken's sustainability activities, in terms of Handelsbanken's approach to material topics relating to customers, the Group's actions as an employer and business in society, and also the relationship with owners and investors. Handelsbanken aims to integrate financial, social and environmental sustainability into all its business operations.

Handelsbanken's success is dependent on the confidence of customers, employees, owners, public authorities and other stakeholders that the Group is acting in a responsible manner. In order for this confidence to be maintained, there must be transparency in the Group's sustainability activities.

The policy is available at [handelsbanken.se/csreng](https://handelsbanken.se/csreng).

### Policy on ethical standards

Employees of Handelsbanken must conduct themselves in a manner that upholds confidence in Handelsbanken. All operations in the Group must be characterised by high ethical standards. Financial advice must be based on the customer's requirements. In case of doubt as to what is ethically acceptable, the matter must be discussed with the employee's immediate superior. There must be no discrimination on grounds such as gender or religion. The policy on ethical standards also describes how employees who suspect internal fraud or other irregularities should act, for example with the aid of Handelsbanken's whistleblowing system.

The policy is available at [handelsbanken.se/csreng](https://handelsbanken.se/csreng).

### Policy for managing conflicts of interest

Conflicts of interest are a natural part of a business operation, which means that these types of conflicts may arise within the Group's operations. It is the responsibility of all heads of units to continuously identify potential conflicts of interest in their operations. If a conflict of interest is identified, the first priority is to ensure that the customer's interests are not adversely affected. If this is not possible, the customer must be informed of the conflict of interest.

The policy is available at [handelsbanken.se/csreng](https://handelsbanken.se/csreng).

### Policy against corruption

This policy establishes the importance of preventing and never accepting corruption, and of always taking action where there is suspicion of corruption.

Employees of the Group must carry out their responsibilities in all their activities at the Group and their external assignments in a manner that upholds confidence in Handelsbanken, and must therefore not participate in actions that may involve bribery or any other improper influence.

The policy is available at [handelsbanken.se/csreng](https://handelsbanken.se/csreng).

### Remuneration policy

Handelsbanken takes a long-term view of its staff's employment. Remuneration must be on market terms, enabling Handelsbanken to attract, retain and develop skilled staff, and ensuring good management succession, thus contributing to the achievement of the Handelsbanken Group's corporate goal.

Handelsbanken has a low risk tolerance in general. This is reflected in the company's view of remuneration. Handelsbanken considers that fixed remuneration contributes to healthy operations. This is therefore the main principle. Fixed remuneration is comprised primarily of a basic salary, customary employee benefits and pension.

Variable remuneration must be applied with great caution and is not offered to employees who, in their professional roles, can have a material impact on the Bank's risk profile.

Remuneration at Handelsbanken is generally established locally in accordance with the Bank's decentralised method of operating and is based on salary-setting factors that are established in advance.

In certain countries, Handelsbanken is party to collective agreements on general terms and

conditions of employment and conditions for pensions. This policy does not affect rights and obligations under collective agreements; nor does it affect obligations under applicable contract law or labour law.

Group HR is responsible for verifying that remuneration in Handelsbanken is compliant with internal and external rules. The independent control functions monitor and analyse the remuneration system, and report material risks and flaws to the Board's remuneration and risk committees.

A more detailed description of Handelsbanken's remuneration principles is shown on this page and details about remuneration are shown in note G8 on pages 122–125.

#### **Suitability assessment policy**

Suitability assessments in conjunction with the election of board members at the Bank's subsidiaries, and ahead of decisions on appointment of members to the Senior Management and the Head of Group Audit, are performed by Group HR.

#### **Policy for internal audit operations**

Group Audit is to evaluate the efficiency and appropriateness of the Group's processes for risk management, internal steering and control. The audit function must impartially and independently examine the Group's operations, accounts and governance process, ensure that material risks are identified and managed in a satisfactory manner, and ensure that material financial information is reliable, correct and delivered on time. Group Audit reports directly to the Board; it provides reports for the Board and its audit committee, as well as for the CEO.

#### **Policy for managing and reporting events of material importance**

Incidents of material importance must be reported to the Swedish Financial Supervisory Authority. This refers to incidents that may jeopardise the stability of the parent company or a subsidiary, or the protection of customers' assets.

#### **Policy for the Bank's use of the external auditors' services**

Engaging the Bank's elected auditors for services other than auditing is to be avoided when this can be done without inconvenience. A decision on this must be made by the Chief Audit Officer or, in the case of more extensive assignments, by the Board's audit committee. This policy is adopted by the Board's audit committee on behalf of the Board.

#### **Compliance policy**

Compliance refers to the observance of regulations, laws, directives and recommendations from public authorities, internal rules as well as generally accepted business practices or standards

relating to operations that are subject to a licence conducted by the Handelsbanken Group.

Handelsbanken has a low tolerance of the risks linked to inadequate compliance and, as far as possible, must prevent these risks. Using a risk-based approach, the compliance function is to support and verify compliance. It also analyses shortcomings and risks relating to compliance. Group Compliance reports directly to the CEO; it provides reports for the CEO, as well as for the Board and its risk committee. The compliance function must be independent and organisationally separated from the functions and areas to be monitored and controlled.

#### **Policy for handling customer complaints**

The branch responsible for the customer is responsible for receiving and handling a customer complaint. Complaints must be dealt with promptly and professionally, in a dialogue with the customer, taking into consideration the current regulations in the area to which the complaint relates.

#### **Policy for employees' private securities and currency transactions**

This policy applies to all Handelsbanken Group employees – temporary as well as permanent – related persons and service providers. Its purpose is to prevent any person who is subject to the policy from carrying out his/her own securities transactions that involve market abuse, misuse or improper disclosure of confidential information under the regulations that apply to Handelsbanken and its employees, in accordance with prevailing legislation, directives from public authorities and voluntary agreements.

#### **Accounting policy**

This policy applies to Handelsbanken's accounting function. The consolidated accounts are prepared in accordance with IFRS, as adopted by the EU, plus additional standards in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, and the regulations and general guidelines issued by the Swedish Financial Supervisory Authority. The parent company's annual report is prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, and the regulations and general guidelines issued by the Swedish Financial Supervisory Authority. International units must prepare accounts in accordance not only with the Group's rules, but also with the regulations that apply in the country where they are required to maintain accounting records.

#### **Policy for products and services**

Handelsbanken's low risk tolerance must permeate all products and services offered to customers of the Bank and its subsidiaries. The Handelsbanken Group's product range must maintain a

high level of quality and meet customers' needs, characteristics and goals, as well as being presented in such a way that customers are able to make well-founded decisions. Handelsbanken's policy for products and services stipulates a common, uniform process for the management of products and services within the Group, in compliance with applicable laws and regulations, with regard to manufacture and distribution as well as follow-up that the products and services are sold to the correct target group.

#### **Policy on measures against financial crime**

This policy is based on i.a. the Swedish Act on Money Laundering and Terrorist Financing (Prevention) and the Swedish Act on Certain International Sanctions. Handelsbanken shall not participate in transactions which may be suspected of being linked to criminal activities, or transactions of which the employees do not understand the implications. Handelsbanken's work method is based on knowledge of customers and an understanding of customers' operations. Customer due diligence must be performed and maintained for as long as the customer relationship exists. Handelsbanken shall monitor and comply with decisions and sanctions pursuant to the Swedish Act on Certain International Sanctions.

#### **PRINCIPLES FOR REMUNERATION AT HANDELSBANKEN**

The Bank's principles for remuneration to employees are long established. In general, Handelsbanken has low tolerance of risk and holds the opinion that fixed remuneration contributes to healthy operations. This is, therefore, the main principle. Only fixed remuneration is paid to the Bank's executive officers and to employees who make decisions on credits or limits, or who work at the Bank's control functions. This also applies to employees who are assessed as having a material impact on the Bank's risk profile, called 'risk-takers' in the Bank.

Variable remuneration is applied with great caution and to a very limited extent. It is only offered to employees in the Capital Markets business areas, in certain subsidiaries with mutual fund operations and in the UK subsidiary Heartwood. In these operations, variable remuneration may only be paid to employees at units whose profits derive from commissions or intermediary transactions that take place without the Bank being subject to credit risk, market risk or liquidity risk. Fewer than 2 per cent of the Group's employees are eligible to receive variable remuneration. The total amount allocated during one year for variable remuneration paid to the Handelsbanken Group's employees must not exceed 0.4 per cent of the Bank's common equity tier 1 capital. For 2018, a total of SEK 46 million was allocated for variable remuneration, corresponding to approximately 0.5 per cent of total

salaries and approximately 0.04 per cent of the Bank's common equity tier 1 capital. Handelsbanken complies with the Swedish Financial Supervisory Authority's regulations governing remuneration policies in credit institutions, investment firms and fund management companies, which include provisions for formulating and adopting remuneration policies. The heads of the areas concerned, as well as the CRO and Chief Compliance Officer, take part in the remuneration committee's preparation and assessment of the Board's remuneration policy and the Bank's remuneration system.

A detailed description of fixed and variable remuneration at Handelsbanken is given here. Other information concerning remuneration paid by the Bank in accordance with the current regulations is presented in note G8 on pages 122–125. This note also provides information about amounts for salaries, pensions and other benefits, and loans to Executive Directors.

#### Fixed remuneration

In Sweden and certain other countries, the Bank is party to collective agreements on general terms and conditions of employment during the employment period and on terms and conditions of pensions after employees have reached retirement age. The aim of the Bank's policy on salaries is to increase the Bank's competitiveness and profitability, to enable the Bank to attract, retain and develop skilled staff, and to ensure good management succession planning. Good profitability and productivity performance at the Bank create the necessary conditions for salary growth for the Bank's employees.

The Bank takes a long-term view of its staff's employment. Remuneration for work performed is set individually for each employee, and is paid in the form of a fixed salary, customary salary benefits and pension. At Handelsbanken, salary-setting takes place at local level. The main principle is that salaries are set locally in salary reviews between the employee and his/her line manager. These principles have been applied for many years with great success. They mean that managers at all levels participate regularly in the salary process, and take responsibility for the Bank's salary policy and the growth in their own unit's staff costs.

Salaries are based on factors known in advance: the nature and level of difficulty of the work, competency and skills, work performance and results achieved, leadership, the market, and being a cultural ambassador for the Bank.

#### Principles for remuneration to executive officers

The shareholders at the AGM decide on guidelines for remuneration to the CEO and other executive officers. The guidelines are applied to the CEO, other Executive Directors, and any members of the Handelsbanken Board who are

also employees of the Bank. For the AGM guidelines from 2018, see the "Annual general meeting 2018" section on page 49.

The Board decides on remuneration to the officers who are subject to the AGM's remuneration guidelines (with the exception of the two Board members who are Handelsbanken employees), a total of 16 individuals (as at 31 December 2018). The Board also determines remuneration for heads of control functions and deputy chief executives who are not executive officers.

In accordance with guidelines from the AGM, remuneration is paid only in the form of fixed salary and pension provisions, and also customary benefits such as a company car. Handelsbanken may provide housing as part of the remuneration if approved by a special decision of the Board. No variable remuneration is paid, nor are there any agreements on severance pay. The period of notice on the part of the officer is a maximum of six months, and on the part of Handelsbanken a maximum of 12 months or, if the Bank terminates the contract later than five years after the person becomes a member of the group of executive officers, the period of notice is a maximum of 24 months.

According to the AGM guidelines, the retirement age for new officers is normally 65 years of age. For officers who remain in their positions after reaching the standard retirement age, a mutual period of notice of no more than six months applies.

These officers receive an allocation in Handelsbanken's profit-sharing scheme Oktogonen on the same conditions as all other employees of the Bank and are also entitled to convert salary to pension on the same conditions as other employees. Note G8 on pages 122–125 provides further information about remuneration to executive officers. Fees for serving on the boards of other companies on behalf of the Bank are to be paid to the Bank.

Ahead of the 2019 AGM, the Board is proposing guidelines for remuneration and other terms of employment for executive officers as follows. The guidelines must not affect the remuneration previously decided for executive officers.

- The total remuneration is to be on market terms.
- Remuneration is only paid in the form of a fixed salary, pension provision and customary benefits. By special decision of the Board, the Bank can provide housing. Variable remuneration benefits such as bonus and percentage of profits are not paid.
- The executive officers in question are included in the Oktogonen profit-sharing scheme on the same terms as all employees of the Bank.
- The retirement age is normally 65. Pension benefits are defined contribution and may be payable in addition to pension plans under collective agreements.

- The period of notice on the part of an executive officer is six months, and on the part of Handelsbanken a maximum of 12 months. If the Bank terminates the employment contract later than five years after the person becomes one of the Bank's executive officers, the period of notice is a maximum of 24 months. No other termination benefits are paid. Other time periods may apply due to collective agreements and labour legislation.
- The Board shall have the right to deviate from the established guidelines if there are special reasons in an individual case.

These guidelines apply to the CEO, other Executive Directors and Board Members of the parent company who are also employees of the Bank.

#### Variable remuneration

At Handelsbanken, the Board decides on the remuneration policy. The main principle of the policy is that remuneration is paid in the form of fixed remuneration. However, the policy allows for variable remuneration. The Board decides on the total amount.

Variable remuneration is based on Handelsbanken's factors for setting salaries, and it must be designed so that it does not encourage unhealthy risk-taking. The financial result on which the variable remuneration is based is adjusted for risk and charged with the actual cost of the capital and liquidity required by the operations. Normally, variable remuneration is only paid in cash. In subsidiaries which run mutual fund operations and in Heartwood, the variable remuneration is entirely or partially paid out as mutual fund units.

The main rule for variable remuneration is that at least 40 per cent is to be deferred for at least three years. For particularly large amounts of variable remuneration, 60 per cent is deferred for four years. Payment and the right of ownership to the variable remuneration do not accrue to the person with the entitlement until after the end of the deferment period. Deferred variable remuneration can be removed or reduced if losses, increased risks or increased expenses arise during the deferment period, or if payment is deemed to be unjustifiable in view of the Bank's financial situation. No employee may receive variable remuneration of more than 100 per cent of his/her fixed remuneration.

# The Board's report on internal control regarding financial reporting

The presentation of Handelsbanken's internal control process for financial reporting is based on the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The process was designed to ensure compliance with the Bank's principles for financial reporting and internal control, and to ensure that the financial reporting has been prepared pursuant to the law, applicable accounting standards, and other requirements related to listed companies.

## Control environment

The control environment described above in this Corporate Governance Report is fundamental to Handelsbanken's internal control regarding financial reporting: organisational structure, division of responsibilities, guidelines and steering documents.

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 errors and deviations.

## Risk assessment

The annual self-evaluations carried out at regional banks, subsidiaries, central departments and international units are an essential part of the Bank's risk assessment. Risks related to financial reporting are part of this total analysis.

In a self-evaluation, the events that constitute potential risks to the operation are evaluated, and then the probability and consequences of each risk are estimated. Particular focus is placed on the risk of fraud and the risk of loss or embezzlement of assets. A plan of action is then drawn up, based on the self-evaluation. Other aspects of Handelsbanken's risk management are detailed in note G2 on pages 85–119 and in the Bank's Pillar 3 report.

## Control activities

Various control activities are incorporated in the entire financial reporting process.

Group Finance is responsible for consolidated accounts, for consolidated financial reports and for financial and administrative control systems. The unit's responsibilities also include the Group's liquidity, the internal bank, own funds, tax analysis and Group-wide reporting to public authorities. The capital requirement is, however, calculated by Group Risk Control. Group Finance must also ensure that the staff concerned are aware of and have access to instructions of significance to the financial reporting. Risk Control identifies, checks and reports risks of errors in the Bank's assumptions and assessments that form the basis of the Bank's financial reporting.

Reported amounts and analyses of income statements and balance sheets are reconciled

and checked regularly within the accounting and control organisation.

Heads of accounting and control at regional banks, subsidiaries, central departments and international units are responsible for ensuring that the control activities in the financial reporting for their respective units are fit-for-purpose – i.e. 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, each unit certifies that the key controls have been carried out, with no discrepancies evident, and that its balance sheet and income statement are correct. The Head of Group Finance (CFO) reports the status regarding the internal control of financial reporting to the audit committee at each quarterly closing of accounts.

The CRO is responsible for setting up and maintaining a valuation committee. The committee's role is to support risk control, Group Finance and the local risk and treasury functions in the decision-making processes for valuation and reporting matters. The committee deals with the valuation of financial assets and liabilities, including derivatives at fair value and also financial guarantees. The valuations refer to both own holdings and holdings on behalf of others. The committee must ensure that the valuation complies with external regulations, internal guidelines and current market practices.

High information security is a precondition for good internal control of financial reporting. Thus there are regulations and guidelines to ensure availability, accuracy, confidentiality and traceability of information in the business systems.

As part of the quality control work for financial reporting, the Board has set up an audit committee consisting of the Chairman of the Board and three Board members. The committee processes crucial accounting matters and the financial reports produced by the Bank. The committee also supervises the effectiveness of the internal control, internal audit and risk management systems for financial reporting. See the section under the Committee work heading on page 50 for more details.

## Information and communication

The Bank has information and communication paths with the aim of achieving completeness and correctness in its financial reports. The Group's general accounting instructions and special procedures for producing financial reports are communicated to the staff concerned via the Group's intranet. The system used for financial reporting encompasses the entire Group.

## Follow-up

Group Audit, Group Compliance, Group Risk Control and the accounting/control units monitor compliance with internal policies, instructions and other policy documents. Monitoring takes place

at the central level, but also locally in regional banks, subsidiaries, central departments, and international units. The policy established by the Board for internal audit states that it must examine internal governance and control, and must evaluate the reliability of the Group's financial reporting. Group Audit is described in more detail on page 53. The Group's information and communication paths are monitored continually to ensure that they are fit-for-purpose for the financial reporting.

# The Board



Name	Pär Boman Chairman	Fredrik Lundberg Vice Chairman	Jon Fredrik Baksaas Board Member	Hans Biörck Board Member	Anders Bouvin Board Member
Year elected	2006	2002	2003	2018	2017
Year of birth	1961	1951	1954	1951	1958
Nationality	Swedish	Swedish	Norwegian	Swedish	Swedish
Position and significant board assignments	Chairman of Svenska Cellulosa AB SCA and Essity AB • Vice Chairman of AB Industrivärden • Board Member Skanska AB.	President and CEO of L E Lundbergföretagen AB • Chairman of Holmen AB, Hufvudstaden AB, AB Industrivärden • Board Member L E Lundbergföretagen AB, Skanska AB.	Board Member Telefonaktiebolaget LM Ericsson and Statnett SF.	Chairman of Skanska AB and Trelleborg AB.	President and Group Chief Executive of Handelsbanken • Vice Chairman Swedish Bankers' Association.
Background	2006–2015 President and CEO of Handelsbanken.	CEO L E Lundbergföretagen AB since 1981 • Active in Lundbergs since 1977.	2008–2016 Board member GSM Association, Chairman 2013–2016 • 2002–2015 Telenor Group, President and CEO • 1989–2002 Telenor Group, various positions in finance, financial control and general management • 1988–1989 Employee of Aker AS • 1985–1988 Stolt Nielsen Seaway AS • 1979–1985 Det Norske Veritas, Norway and Japan.	2001–2011 Skanska, Vice President and CFO • 1998–2001 Autoliv, CFO • 1997–1998 Self-employed • 1977–1997 Various positions in Esselte.	2010–2016 EVP, Head of Handelsbanken UK • 2007–2010 EVP, Head of Regional Bank Northern Great Britain • 2002–2007 EVP, Head of Handelsbanken Denmark • 1999–2002 Head of Handelsbanken's branch in New York • Employed by Handelsbanken since 1985.
Education	Engineer and Business/Economics degree.	Graduate in Business Administration and Master of Engineering, PhD (Econ) h.c. and PhD (Tech) h.c.	Graduate in Business Administration and PED from IMD.	Graduate in Business Administration.	B.A. degree (filosofie kandidat) in Business and Economics Hon DSc from The London Institute of Banking & Finance.
Remuneration 2018 <sup>1</sup>	SEK 4,617,500	SEK 1,316,250	SEK 1,883,750	SEK 795,000	SEK 0
Credit committee Participation	Chairman 11/11	10/11	9/11	8/11 <sup>2</sup>	11/11
Audit committee Participation	5/5	-	5/5	-	-
Remuneration committee Participation	Chairman 7/7	-	-	-	-
Risk committee Participation	5/5	-	5/5	-	-
Board meetings Participation	Chairman 11/11	10/11	11/11	9/11 <sup>2</sup>	11/11
Own shareholdings and those of immediate family	125,077, of which 25,077 in indirect holdings <sup>3</sup> .	61,775,000	3,800	5,000	64,571, of which 49,571 in indirect holdings <sup>3</sup> . 2014 convertible at nominal amount: SEK 5,869,254.
Dependent/independent	Not independent of the Bank and its management (former CEO). Not independent of major shareholders (Vice Chairman of AB Industrivärden).	Independent of the Bank and its management. Not independent of major shareholders (Chairman of AB Industrivärden).	Independent of the Bank, its management and major shareholders.	Independent of the Bank, its management and major shareholders.	Not independent of the Bank and its management (CEO). Independent of major shareholders.
Number of assignments <sup>4</sup> Actual number of assignments <sup>5</sup>	5 <sup>6</sup> 14	4 <sup>6</sup> 9	4 5	3 5	1 4

<sup>1</sup> Remuneration decided by the AGM. Total remuneration to the Board in 2018 was SEK 15,057,500.

<sup>2</sup> Member of the Board/committee from March 2018.

<sup>3</sup> Indirect holdings of shares in Handelsbanken via the Oktogonen profit-sharing foundation.

<sup>4</sup> Number of assignments based on the Swedish Banking and Financing Business Act (2004:297), Chapter 10, Section 8 b, by which assignments in the same group or in companies in which the Bank has a qualifying holding may be counted as a single assignment. Assignments in organisations that are primarily non-commercial, including certain foundations and not-for-profit associations, are not included.

<sup>5</sup> Number of assignments disregarding the basis of calculation stated in footnote 4.

<sup>6</sup> Has permission from the Swedish Financial Supervisory Authority to hold an additional assignment as board member under the Swedish Banking and Financing Business Act (2004:297) Chapter 10, Section 8 b, paragraph 3.





Kerstin Hessius Board Member	Jan-Erik Höög Board Member	Ole Johansson Board Member	Lise Kaae Board Member	Bente Rathe Board Member	Charlotte Skog Board Member
2016	2017	2012	2015	2004	2012
1958	1969	1951	1969	1954	1964
Swedish	Swedish	Finnish	Danish	Norwegian	Swedish
CEO Third National Swedish Pension Fund • Board member Vasakronan AB, Hemsö Fastighets AB, Trenum AB, Svensk-Danska Broförbindelsen SVEDAB AB and Øresundsbro Konsortiet.	Head of Private Banking and Deputy Head of Business Support, Handelsbanken South East Sweden • Chairman of the Oktogonen Foundation.	Chairman of Hartwall Capital Oy Ab • Board member Konecranes Oyj Apb.	CEO HeartLand A/S • Board member Whiteway A/S and various companies in the Heartland Group.	Chair of Ecohz AS and Cenium AS (both companies are subsidiaries of Strawberry Invest AS).	Bank officer at Handelsbanken • Board member Financial Sector Union of Sweden, Oktogonen Foundation.
2001–2004 Stockholm Stock Exchange, CEO • 1999–2000 Sveriges Riksbank, Deputy Governor of the central bank • 1998 Danske Bank, Chief Executive, Asset Management • 1990–1997 ABN Amro Bank/ Alfred Berg • 1989–1990 Finanstidningen • 1986–1989 Swedish National Debt Office • 1985–1986 Sveriges Riksbank (central bank) • 1984–1985 Swedish Agency for Public Management.	Has held various positions at Handelsbanken • Employee since 1991.	1975–2011 various positions within Wärtsilä (Metra) Group, except for a period at Valmet 1979–1981 • CEO 2000–2011.	1992–2008 PricewaterhouseCoopers.	1999–2002 Deputy CEO Gjensidige NOR (CEO of life insurance company, Chair of Mutual Fund and Asset Management Company) • 1996–1999 CEO Gjensidige Bank AS • 1993–1996 CEO Elcon Finans AS • 1991–1993 Deputy CEO Forenede Forsikring • 1989–1991 CFO Forenede Forsikring • 1977–1989 Head of Credits and CFO E.A. Smith AS.	Has held various positions at Handelsbanken • Employee since 1989.
Graduate in Business Administration.	Economics Programme Upper Secondary School, DIHM Diploma in Business Administration (IHM Business School).	Diploma in Economics and Business Administration.	Authorised Public Accountant.	Graduate in Business Administration and MBA.	Economics Programme Upper Secondary School.
SEK 955,000	SEK 0	SEK 1,955,000	SEK 1,341,250	SEK 2,033,750	SEK 0
-	Deputy member -	9/11	-	11/11	Deputy member 1
-	-	5/5	3/5 <sup>2</sup>	Chairman 5/5	-
-	-	7/7	-	7/7	-
Chairman 3/5 <sup>2</sup>	-	5/5	3/5 <sup>2</sup>	5/5	-
11/11	11/11	11/11	11/11	11/11	11/11
8,700	28,855, of which 28,855 in indirect holdings <sup>3</sup> . 2014 convertible at nominal amount: SEK 1,188,742.	93,545	2,560	0	28,563, of which 27,847 in indirect holdings <sup>3</sup> . 2014 convertible at nominal amount: SEK 251,744.
Independent of the Bank, its management and major shareholders.	Not independent of the Bank and its management (employee). Not independent of major shareholders (Chairman of Oktogonen Foundation).	Independent of the Bank, its management and major shareholders.	Independent of the Bank, its management and major shareholders.	Independent of the Bank, its management and major shareholders.	Not independent of the Bank and its management (employee). Not independent of major shareholders (Board Member of Oktogonen Foundation).
4	2	2	3	2	3
10	3	4	53	3	7

## Company Secretary and Head of Corporate Governance

### Klas Tollstadius

Company Secretary and Head of Corporate Governance • Year of birth 1954 • Employed at Handelsbanken since 1991 • Shareholdings\* 39,541, of which 26,235 in indirect holdings\*\* • 2014 convertible: SEK 5,617,510

\* Direct holdings of shares or convertibles refer to own holdings or those of closely related persons.

\*\* Indirect holdings of shares in Handelsbanken via the Oktogonen profit-sharing foundation.

# Senior Management

## and Audit and Whistleblowing Function

### Executive Directors<sup>1</sup> in Senior Management

Name	Position	Year of birth	Employed	Shareholdings	Convertible 2014 <sup>2</sup>
<b>Nina Arkilahti</b>	CEO, Handelsbanken Finland	1967	1995	Shareholdings* 21,387, of which 14,190 in indirect holdings**	SEK 5,617,510
<b>Per Beckman</b>	Chief Credit Officer, Group Credits	1962	1993	Shareholdings* 14,175, of which 14,175 in indirect holdings**	SEK 5,617,510
<b>Pål Bergström</b>	Chief Compliance Officer, Group Compliance	1967	2015	Shareholdings* 7,166, of which 7,166 in indirect holdings**	–
<b>Anders Bouvin</b>	President and Group Chief Executive	1958	1985	Shareholdings* 64,571, of which 49,571 in indirect holdings**	SEK 5,869,254
<b>Maria Hedin</b>	CRO, Group Risk Control	1964	2010	Shareholdings* 4,706, of which 4,460 in indirect holdings**	SEK 5,176,431
<b>Joakim Jansson</b>	Head, Business Support Capital Markets	1976	2006	Shareholdings* 7,116, of which 7,116 in indirect holdings**	SEK 1,188,742
<b>Agneta Lilja</b>	CIO, Group IT	1961	1985	Shareholdings* 48,627, of which 48,627 in indirect holdings**	SEK 5,617,510
<b>Rolf Marquardt</b>	CFO, Group Finance	1964	2002	Shareholdings* 10,184, of which 10,184 in indirect holdings**	SEK 1,188,742
<b>Lars Moesgaard</b>	CEO, Handelsbanken Denmark	1968	1988	Shareholdings* 9,137, of which 7,694 in indirect holdings**	SEK 1,188,742
<b>Stina Petersson</b>	Chief Human Resources Officer, Group HR	1965	1985	Shareholdings* 40,687, of which 40,687 in indirect holdings**	SEK 1,188,742
<b>Mikael Sørensen</b>	CEO, Handelsbanken UK	1966	1994	Shareholdings* 8,653, of which 8,653 in indirect holdings**	SEK 5,617,510
<b>Dag Tjernsmo</b>	CEO, Handelsbanken Norway	1962	1988	Shareholdings* 17,158, of which 17,158 in indirect holdings**	SEK 5,436,030
<b>Jens Wiklund</b>	CEO, Handelsbanken the Netherlands	1975	1997	Shareholdings* 12,752, of which 12,752 in indirect holdings**	SEK 835,878
<b>Carina Åkerström</b>	Deputy Group Chief Executive. Head, Handelsbanken Stockholm	1962	1986	Shareholdings* 28,820, of which 28,820 in indirect holdings**	SEK 5,617,510

<sup>1</sup> Executive Directors are members of Senior Management and are the Bank's executive officers according to the definition in the Swedish Companies Act and also senior management as defined by the Swedish Financial Supervisory Authority.

## Other members of Senior Management

Name	Position	Year of birth	Employed	Shareholdings	Convertible 2014 <sup>2</sup>
<b>Katarina Berner Frösdal</b>	Chief Operating Officer, Handelsbanken Sweden	1956	1979	Shareholdings* 1,484, of which 1,484 in indirect holdings**	SEK 5,617,510
<b>Klas Bornälv</b>	Head, Group Infrastructure	1971	1997	Shareholdings* 13,898, of which 13,898 in indirect holdings**	SEK 1,188,742
<b>Magnus Ericson</b>	Head, Handelsbanken Northern Sweden	1968	1988	Shareholdings* 25,324, of which 24,324 in indirect holdings**	SEK 1,188,742
<b>Anders Fagerdahl</b>	Head, Handelsbanken South East Sweden	1969	1988	Shareholdings* 28,287, of which 28,287 in indirect holdings**	SEK 1,188,742
<b>Ingela Forsberg</b>	Head, Handelsbanken Northern UK	1977	2000	Shareholdings* 11,541, of which 11,541 in indirect holdings**	–
<b>Mikael Hallåker</b>	Chairman of subsidiary	1959	2001	Shareholdings* 10,752, of which 10,752 in indirect holdings**	SEK 1,188,742
<b>John Hodson</b>	Head, Handelsbanken Southern UK	1961	2007	Shareholdings* 2,159, of which 2,159 in indirect holdings**	SEK 1,340,957
<b>Elisabet Jamal Bergström</b>	Chief Communications and Sustainability Officer, Group Communications & Sustainability	1968	1994	Shareholdings* 15,984, of which 12,372 in indirect holdings**	SEK 251,744
<b>Maria Lidström Andersson</b>	CEO, Stadshypotek	1971	1995	Shareholdings* 16,741, of which 16,441 in indirect holdings**	SEK 835,878
<b>Dan Lindwall</b>	Acting Head, Markets & Asset Management	1965	2000	Shareholdings* 12,904, of which 12,904 in indirect holdings**	SEK 1,188,742
<b>Katarina Ljungqvist</b>	Head, Handelsbanken Western Sweden	1965	1989	Shareholdings* 28,514, of which 28,514 in indirect holdings**	SEK 5,617,510
<b>Nick Lowe</b>	Head, Handelsbanken Central UK	1958	2007	Shareholdings* 2,088, of which 2,088 in indirect holdings**	SEK 5,152,092
<b>Suzanne Minifie</b>	Head, Handelsbanken Yorkshire and North East UK	1972	2006	Shareholdings* 1,797, of which 1,797 in indirect holdings**	SEK 1,355,187
<b>Juha Rantamaa</b>	Head, Group IT Operations & Development	1964	2011	Shareholdings* 11,747, of which 11,747 in indirect holdings**	SEK 1,188,742
<b>Hannu Saari</b>	Chief Financial Crime Prevention Officer, Group Financial Crime Prevention	1963	1997	Shareholdings* 14,850, of which 14,850 in indirect holdings**	SEK 1,188,742
<b>Louise Sander</b>	CEO, Handelsbanken Liv Pension & Life	1969	2013	Shareholdings* 1,726, of which 1,726 in indirect holdings**	SEK 1,188,742
<b>Göran Stille</b>	Chairman of subsidiary	1966	1987	Shareholdings* 24,075, of which 14,175 in indirect holdings**	SEK 5,617,510
<b>Chris Teasdale</b>	Head, Handelsbanken South West UK	1970	2007	Shareholdings* 2,223, of which 2,223 in indirect holdings**	SEK 972,092
<b>Martin Wasteson</b>	Chief Legal Officer, Group Legal	1971	2012	Shareholdings* 2,315, of which 2,315 in indirect holdings**	–
<b>Pontus Åhlund</b>	Head, Handelsbanken Central Sweden	1963	1983	Shareholdings* 49,872, of which 41,305 in indirect holdings**	SEK 5,617,510

## Audit and Whistleblowing Function, independent of Senior Management

<b>Tord Jonerot</b>	Chief Audit Executive, Group Audit	1958	1990	Shareholdings* 27,392, of which 27,392 in indirect holdings**	SEK 5,617,510
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\* Direct holdings of shares or convertibles refer to own holdings or those of closely related persons.

\*\* Indirect holdings of shares in Handelsbanken via the Oktogonen profit-sharing foundation.

<sup>2</sup> See note G38.

# Auditor's report

To the general meeting of the shareholders of Svenska Handelsbanken AB (publ),  
corporate identity number 502007-7862

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of Svenska Handelsbanken AB (publ) for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 6–233 in this document.

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 of December 31, 2018 and its financial performance and cash flow 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 of December 31, 2018 and their financial performance and cash flow for the

year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

### KEY AUDIT MATTERS

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

#### Provision for expected credit losses

Detailed information and description of the area is presented in the annual accounts and consolidated accounts. Credit risk exposure and how it is handled is described in note G2 on page 87. The Group's reported expected credit losses are specified in note G10. Information concerning the parent company is presented in note P2 and P10. Regarding the area relevant accounting policies for the group, these can be found in note G1, section 10 on page 76. Note P1 shows that the accounting principles of the parent company concerning credit granting and provision for expected credit loss corresponds with the accounting principles of the group.

#### Description of audit matter

As of 31 December, 2018 lending to the public amounts to 2 189 092 (611 699) SEK m for the group (parent). The total credit risk exposure, including off-balance commitments, amounts to 3 344 744 (2 520 142) SEK m. Provision for expected credit losses on lending to the public amounts to 3 801 (2 952) SEK m for which 864 (480) SEK m is based on model based calculations (Stages 1 and 2) and 2 937 (2 472) SEK m

is based on individual assessments (Stage 3). The Bank performs adjustments on the model based calculations in Stages 1 and 2 to take into consideration factors which is not accounted for in the model.

Expected credit losses shall be measured in a way that reflects an unbiased and probably weighted amount that is determined by evaluating a range of possible outcomes and is based on past events, current conditions and fore-

casts of economic conditions. To make the provision the Bank is required to make estimates and assumptions regarding for example criteria to identify a significant increase in credit risk and methods to calculate expected credit losses. Due to the complexity of the calculation and that it requires the Bank to make estimates and assumptions provisioning for expected credit losses is considered a key audit matter.

### How this matter has been considered in the audit

We have assessed whether the Bank's assessment of probability of default, loss given default, exposure at default and expected credit loss as well as significant increase in credit risk is in accordance with IFRS 9.

We have tested the design and efficiency of key controls in both the credit process and credit decisions, credit review, rating classification as well as identifying and determining credits to be in default. We have also tested controls

relating to input to model data and the general IT-controls including the handling of authorization regarding these systems. Our assessment is that these key controls are designed, implemented and operative effective and hence we have determined that we can rely on these key controls in our audit.

Furthermore, we have on a sample basis challenged the Bank's initial and current credit rating. We have tested that data used from supporting systems used in the model is complete and accurate. We have reviewed and assessed

the model including the assumptions and parameters as well as assessed the outcome of the model validations which has been performed and reviewed the reasonableness of the macro-economic data used. We have reviewed the reasonableness in the manual adjustments performed by the Bank. In our audit we have used our internal model specialists to support us when performing the audit procedures.

We have also assessed the disclosures in the financial statements regarding credit risk are appropriate.

### Fair value measurement of financial instrument with no market prices available

Detailed information and description of the key audit matter is provided in the annual accounts and consolidated accounts. Financial instruments measured at fair value are described in note G40 for the group and P34 for the parent company. Relevant accounting principles for the group are described in note G1, section 9 on page 76. Note P1 shows that the parent company's accounting principles for financial instruments measured at fair value is consistent with the group's accounting principles.

### Description of audit matter

The Bank has financial instruments where market price is missing, thus fair value is determined using valuation models based on market data. These financial instruments are categorized as level 2 under IFRS fair value valuation hierarchy. Also, Svenska Handelsbanken has, to some extent, financial instruments whose valuation to fair value is determined using valuation models for which the value is affected by the input data that cannot be verified by external market data. These financial instruments are categorized as level 3 under IFRS fair value valuation hierarchy.

The group (parent company) has financial assets and financial liabilities in level 2 of 64 926 (83 273) SEK m and 20 476 (38 524) SEK m respectively. Financial assets and liabilities in level 3 amounts to 1 443 (1 365) SEK m and 308 (308) SEK m respectively.

The main part of the financial instruments in level 2 is made out of derivative contracts, among them interest rate swaps and various types of linear currency derivatives, and business bonds. Corporate bonds and derivative contracts in level 2 are valued by valuation models based on market rates and other market prices. Financial instruments in level 3 primarily consist of unlisted shares in joint ventures, investments in the insurance business as well as certain derivative contracts valued by non-observable data. Due to the complexity when

calculating and as it requires the Bank to make assessments valuation of financial instruments with no market prices are deemed to be a key audit matter.

### How this matter has been considered in the audit

We have assessed whether the Banks method for valuating financial instruments with no market prices available including the classification in the valuation hierarchy is in accordance with IFRS 13.

We have tested the key controls in the valuation process, including the bank's assessment and approving of assumptions and methods used in model-based calculation, control of data quality as well as handling of change regarding internal valuation models. We have also tested the general IT-controls including the handling of authorization regarding these systems. Our assessment is that these key controls are designed, implemented and operative effective and hence we have determined that we can rely on these key controls in our audit.

Further, we have evaluated the methods and assumptions made when valuating financial instruments with no market prices available. We have compared the valuation models with valuation guidelines and appropriate industry practice. We have compared assumptions and price sources and examined any significant deviations. We have also checked the accuracy of

the estimations by conducted sample tests and performed our own independent valuations. We have engaged our internal valuation specialists to support us when performing our audit procedures.

We have also assessed the disclosures in the financial statements regarding valuation of financial instruments to fair value are appropriate.

### Other information than annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 4–5 and 239–252. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

#### Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can

arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Svenska Handelsbanken AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated (loss be dealt with) in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

### Responsibilities of the Board of Directors and Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration

of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has 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.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can

give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. 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.

Ernst & Young AB, Jakobsbergsgatan 24, 111 24 Stockholm, was appointed auditor of Svenska Handelsbanken AB by the general meeting of the shareholders on the March 21, 2018 and has been the company's auditor since April 28, 1998.

PricewaterhouseCoopers AB, Torsgatan 21, 113 97 Stockholm, was appointed auditor of Svenska Handelsbanken AB by the general meeting of the shareholders on March 21, 2018 and has been the company's auditor since March, 29 2017.

Stockholm February 15, 2019

Ernst & Young AB

Jesper Nilsson  
Authorised Public Accountant

PricewaterhouseCoopers AB

Johan Rippe  
Authorised Public Accountant

