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 2017. Handelsbanken applies the Swedish Corporate Governance Code.

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
CORPORATE GOVERNANCE STRUCTURE 48
CORPORATE GOVERNANCE AT HANDELSBANKEN 50
The Bank’s culture and long-term goal 50
Application of the Swedish Corporate Governance Code 50
General information on regulation and supervision of banks 50
SHAREHOLDERS AND SHAREHOLDERS’ MEETINGS 50
Rights of shareholders 50
Major shareholders 51
Annual general meeting 2017 51
Auditors 51
NOMINATION COMMITTEE 51
Recruitment and diversity-related work 51
THE BOARD 52
Composition of the Board 52
Independence of Board members 52
Regulations governing the Board’s work 52
Chairman of the Board 52
The Board’s work in 2017 52
Committee work 52
THE BANK’S MANAGEMENT 53
Group Chief Executive 53
Operational structure 54
FRAMEWORK FOR CONTROL 54
Risk Forum 54
Internal control for operations 54
Group Audit 54
Group Compliance 54
Group Risk Control 55
POLICY DOCUMENTS 55
PRINCIPLES FOR REMUNERATION AT HANDELSBANKEN 57
Fixed remuneration 58
Principles for remuneration to executive officers 58
Variable remuneration 58
THE BOARD’S REPORT ON INTERNAL CONTROL REGARDING FINANCIAL REPORTING 59
Control environment 59
Risk assessment 59
Control activities 59
Information and communication 59
Follow-up 59
THE BOARD 60
SENIOR MANAGEMENT AND AUDIT AND WHISTLEBLOWING FUNCTION 62
AUDITOR’S REPORT 206

This report is also available in Swedish. Every care has been taken in this translation into English. In the event of discrepancies, the Swedish original will supersede the English version.
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 as the Central Board, at Handelsbanken) 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 at which the Board, the Chairman of the Board and auditors are appointed. It can also decide how the nomination committee is to be appointed. See also page 51.

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 at the AGM. 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 monitored. The Board establishes policies and instructions for how this should be executed, and establishes a work procedure for the Board, and also instructions for the CEO.

5. CREDIT COMMITTEE
The Board’s credit committee 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 by the Board as a whole. A representative from the unit in 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 and tolerance, for example, and examines reports from Group Compliance and Group Risk Control.

8. RISK COMMITTEE FOR US OPERATIONS
The Board’s risk committee for the US operations deals with the risks in Handelsbanken’s overall US operations in accordance with US regulations.

9. 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.

10. 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.

11. PRESIDENT AND 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.

12. 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.

13. 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 regarding loan losses and risks in the credit portfolio.

14. 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. (See note G2 on pages 84–113.) 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 to the Board as a whole regarding market risks, liquidity, funding and capital.

15. GROUP LEGAL
Group Legal is responsible for legal matters within the Group and provides other units with legal advisory services. The department monitors developments in 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.

16. GROUP COMPLIANCE
The Compliance function is responsible for ensuring that laws, regulations and internal rules, as well as accepted business practices and norms, are complied with in the operations pursued by the Handelsbanken Group. The Compliance function also manages public authority contacts related to supervisory cases. The function supports the operations and helps them develop internal rules and implement regulations. The Compliance function must also identify and report risks regarding compliance and check compliance with internal rules. A key task is also to inform the units concerned about the regulations and the risks that may arise in the operations due to inadequate compliance. Compliance officers have been appointed for all business areas and regional banks and most central units, as well as for all countries where the Bank operates. Group Compliance has the functional responsibility for compliance. The Head of Group Compliance reports regularly to the CEO, the risk committee and the Board.

17. 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 various bodies of the Bank, 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 documents adopted by the Board, for example the Board’s rules of procedure, instructions to the CEO and the Chief Audit Officer, and credit instructions and policy documents regarding the Bank’s operations (see also pages 55–57), and on the other hand the instructions and guidelines issued by the CEO. These documents are revised every year but can be adjusted more often when 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 84–113, 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 better 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 many 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 better 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 publicly available on the Swedish Corporate Governance Board’s website.

General information on 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 organisational structure, 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 2017, Handelsbanken had more than 115,000 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 2017. Class A shares each carry one vote, while class B shares carry one-tenth of a vote each. 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 regarding 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. Minutes of previous meetings are also available in English at handelsbanken.se/ireng.
**Major shareholders**

At the end of 2017, two shareholders had more than 10 per cent of the votes: AB Industrivärden, with 10.27 per cent, and the Oktogonen Foundation, with 10.24 per cent. Detailed information on the Bank’s largest Swedish shareholders can be found on page 43.

**Annual general meeting 2017**

The annual general meeting took place on 29 March 2017.

A total of 1,533 shareholders were represented at the meeting. They represented almost 56 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 Anders Bäckström of KPMG AB and Jesper Nilsson of Ernst & Young AB – the principal auditors from the auditing companies elected by the AGM. The meeting was chaired by Sven Unger, a lawyer.

The decisions made by the shareholders at the meeting included the following:

- A dividend of SEK 5.00 per share.
- Authorisation for the Board to resolve on acquisition of more than 120 million shares in the Bank, as well as divestment of shares.
- Authorisation for the Board to resolve on issuance of convertible bonds with conditions for tier 1 capital instruments. The convertibles entail mandatory conversion in certain cases, but no right of conversion for the holders. Conversion may result in a maximum of 180 million shares.
- The Board is to consist of 11 members.
- The re-election of nine Board members and the election of two new Board members, CEOs Anders Bouvin and Jan-Erik Höög, 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 as follows: SEK 3,150,000 to the Chair, SEK 900,000 to the Vice Chairman, and SEK 640,000 to the other Board members. Fees for committee work are as follows for each member of the respective committees: SEK 375,000 for the credit committee, SEK 130,000 for the remuneration committee, SEK 375,000 for the risk committee, SEK 250,000 for the risk committee for the US operations and SEK 375,000 for the audit committee. It was decided that the fee to the chairperson of the audit committee would be SEK 450,000. Board members who are employees of Handelsbanken shall not receive a fee.
- The AGM re-elected Ernst & Young AB and elected PricewaterhouseCoopers AB to serve as auditors until the end of the AGM to be held in 2018.

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 contributions and may be payable in addition to pension plans under collective agreements.
- The period of notice on the part of a senior manager 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 Group Chief Executive, 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 a member of the board of FAR, the institute for the accountancy profession in Sweden. 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 changed by a future AGM. The instructions state that the nomination committee shall comprise five members: the Chairman of the Board and four representatives 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 2018 nomination committee comprises:

<table>
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<tr>
<th>Representative Owners</th>
<th>Voting power as of 31 Aug 2017</th>
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<tr>
<td>Helena Stjernholm, Chair</td>
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<tr>
<td>Industrivärden</td>
<td>10.2</td>
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<td>Christian Dahl</td>
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<td>Christian Dahl</td>
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<td>Mats Gullbrand</td>
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<td>Lundin ownership group</td>
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<td>Bo Stelling</td>
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<td>Alecta</td>
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<tr>
<td>Pär Boman, Board Chairman</td>
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</tbody>
</table>

Information on the composition of the nomination committee has been available on the Bank’s website since 14 September 2017. The nomination committee’s task in preparation for the AGM on 21 March 2018 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 Board Chairman and other Board members, 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, in the Board. Handelsbanken’s Board has adopted a policy to promote diversity in the Board. The policy stipulates that, to promote independent opinions and critical questioning, it is desirable that the Board should 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 45 per cent, and the proportion of members of...
nationally 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 2017 AGM appointed Pär Boman to be Chairman of the Board, Fredrik Lundberg was appointed Vice Chairman at the first Board meeting immediately after the AGM. At the same time, the Board appointed the members of the credit committee, audit committee, risk committee, remuneration committee and the risk committee for the US operations. Information about the Board is shown on pages 60–61.

**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, 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 pages 60–61). 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 reasoning, are available at 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 fulfills 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 fulfills its duties. This involves organizing 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 chairing the credit, remuneration and risk committees, and the risk committee for the US operations, as well as being a member of the audit committee. The Chairman is responsible for ensuring that the Board’s work is evaluated annually. The 2017 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 issues. As chairman of the Bank’s pension foundation, pension fund and staff foundation, he has overall responsibility for ownership issues associated with the holdings of these three entities.

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

**The Board’s work in 2017**

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

The figure on page 53 gives an overview of the Board’s work in 2017 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 Baksaa, Ole Johansson, and Lise Kaae).

The credit committee normally meets once a month to take decisions on credit cases that exceed a set limit but need not be decided on by the whole Board, due to the importance of the case or legal requirements. The heads of the regional banks and Handelsbanken Interna- tional presented cases to the credit committee from their own units in 2017 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 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 2017, the credit committee had 13 meetings.

**Audit committee**

The audit committee comprised the Chairman of the Board (Pär Boman) and three Board members appointed by the Board (Jon Fredrik Baksaa, Ole Johansson, and Bente Rathe). The latter members are independent of the Bank, its management, and major shareholders. The committee appointed Bente Rathe as its Chair. 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 Swedish Supervisory Board of Public Accountants’ quality control
- submitting a recommendation regarding the election of auditors.

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 2017, the audit committee had five meetings.

**Risk committee**

The risk committee comprised the Chairman of the Board (Pär Boman, who also chairs the committee) and three Board members appointed by the Board (Jon Fredrik Baksaa, Ole Johansson, and Bente Rathe). The latter members are independent of the Bank, its management, and major shareholders. The work of the risk committee includes the following:

- receiving 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
- studying the validation and evaluation of the internal risk classification system
- preparing the Board’s decisions regarding risk tolerance and risk strategy
operations include the following:

- receiving 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
- receiving the presentation of Group Risk Control’s quarterly reports
- receiving the presentation of Group Compliance’s six-month and full-year reports.

The Head of Group Risk Control, who is also the Bank’s CRO, and the Head of Group Compliance 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 representatives of Bank management are not present. The Bank’s CEO, CFO, and Chief Credit Officer also attend meetings of the risk committee.

In 2017, the Board’s risk committee had five meetings.

Risk committee for US operations

The risk committee for Handelsbanken’s US operations comprised the Chairman of the Board (Pär Boman, who also chairs the committee) and two Board members appointed by the Board. At least one member of the committee must have experience of identifying, assessing and managing risk exposure in large, complex companies.

The duties of the risk committee for the US operations include the following:

- receiving information from the US risk and compliance committee regarding the risk profile and all material risks for the US operations as a whole
- receiving information from the US risk and compliance committee regarding the risk management framework for the US operations as a whole, including whether this is being complied with.

The Head of Group Risk Control, who is also the Bank’s CRO, presents reports to the risk committee for the US operations. The Bank’s CEO (or the person to whom the task is delegated) and the Head of Handelsbanken’s branch in the United States also attend meetings of this risk committee.

In 2017, the risk committee for the US operations had two 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 2017, the remuneration committee had nine meetings.

THE BANK’S MANAGEMENT

Group Chief Executive

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, Mr 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 5,000 shares, as well as 45,808 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.

Board work 2017

Regularly occurring major items at normal board meetings

- Interim report (Q4)
- Annual Report
- Loan losses and credit risks
- Capital evaluation
- Risk statement and risk declaration
- Compliance report
- Questions ahead of the AGM

- Interim report (Q1)
- Loan losses and credit risks
- Capital evaluation
- Risk report
- Provision to Oktogonen

- Interim report (Q2)
- Loan losses and credit risks
- Capital evaluation
- Risk report
- Provision to Oktogonen

- Interim report (Q3)
- Loan losses and credit risks
- Capital evaluation
- Supervisory authority’s overall capital and liquidity assessment
- Risk classification system
- Recovery plan
- Evaluation of the Board and Chairman

- Limits for financial risks, etc.
- Staff development
- Adjustment of terms of employment
- Evaluation of CEO

Inaugural Board meeting
- Vice Chairman, committee members and secretary appointed
- Corporate Governance documents
- Funding
- The Bank’s prospectus

1 The committee’s meetings are not presented in the chart.
2 Utilisation of market risk limits, liquidity, funding and the business situation are dealt with at all meetings.
His holding in the 2014 convertible totals SEK 5,869,254 which, at a conversion price of SEK 109.92, corresponds to 53,995 shares. Neither the CEO nor his close relatives has any material shareholdings or other ownership interests in companies with which the Bank has significant business relations.

Operational structure
Handelsbanken has long had a decentralised working method, where almost all major business decisions are taken at the local bank 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. Together, 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 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 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 62.

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 pages 62–63).

FRAMEWORK FOR CONTROL

Risk Forum
Handelsbanken has a Risk Forum, the purpose of which is to discuss 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.

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 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 100 employees. The Chief Audit Officer is appointed by and reports to the Board. Thus, Group Audit is the Bank’s controlling body. The selected organisation and long tradition give Group Audit the authority and integrity required to ensure the independence of 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.

Group Compliance
Compliance is the responsibility of all employees in the Group. Establishing compliance functions centrally – for regional banks, business areas, and central departments, as well as for each country where the Bank has operations – does not release any employee from the responsibility of complying with the external and internal regulations applying to the operations. The compliance function must follow up and check that laws, regulations and internal rules, as well as accepted business practices and standards, are complied with in the operations pursued by the Handelsbanken Group. The regulations are often complex, and in some cases the individual employee may have limited experience. It is therefore important that Compliance is able to provide support and guidance. In its supporting role, Compliance must provide advice and support to business operations, assist in drawing up internal rules and implementing regulations, and also provide information about new and amended rules for operations.
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 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 allocation of responsibilities by which each part of the business operations bears full responsibility for risk management. There is local risk control at each regional bank and within the various business areas, which check, for example, that risks are within the limits and are correctly valued. The local risk control performs risk analyses and verifies that transactions are conducted in a manner that does not entail undesirable risks. 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 evaluating whether Handelsbanken’s risk management framework is fit-for-purpose and effective. Group Risk Control also checks that the risks and risk management comply with the Bank’s risk strategy and risk tolerance. Together with local risk control units, Group Risk Control is also responsible for checking that financial instruments are correctly valued. This responsibility also 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. The Board is regularly informed about material risks at the Bank. 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 84–113, and also in the Bank’s Pillar 3 report.

**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 his/her/its commitments. Credits must normally have satisfactory collateral. Handelsbanken strives to maintain its historically low level of loan losses compared to other banks, thus contributing to the Bank’s profitability target and retaining its sound position. ‘Operational risk’ refers to processing errors, errors in internal processes, faulty systems, or external events, for example. Operational risk must be managed so that operational losses remain small in comparison with previous losses incurred. The responsibility for operational risk is an integral part of managerial responsibility throughout the Group.

**Policy for independent risk control**

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 at Handelsbanken. The risk control function must verify that all major risks to which the Group is exposed, or may be exposed in the future, are identified and managed by the relevant functions, and also must supervise and monitor 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.

**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 84–113). Handelsbanken’s capital situation must also justify a continued high rating from the most important rating agencies.
Financial policy
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. In stressed market conditions, 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.

Policy for financial risks
‘Financial risks’ 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. Through this policy, the Board establishes overall measurement methods for financial risks.

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 must contribute to strengthening Handelsbanken’s brand and the trust of its customers, the capital markets, and society in general. Information provided to the capital markets 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.

Sustainability policy
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 institution 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.

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. Conflicts of interest must be identified and handled in a manner that is fair to all parties involved. 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.

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.

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.

Policy for remuneration, pensions and suitability assessment
The total remuneration is intended to contribute to the achievement of the Handelsbanken Group’s corporate goal, by attracting, retaining and developing skilled staff, and ensuring good management succession. Handelsbanken considers that fixed remuneration contributes to healthy operations. This is therefore the main principle, and variable remuneration is to be applied with great caution. The total variable remuneration paid out during one year must not exceed 0.4 per cent of the common equity tier 1 capital.

Remuneration for work performed is set individually. Salaries are set locally in accordance with Handelsbanken’s decentralised work method and are based on salary-setting factors which are determined in advance. This policy does not affect the rights and obligations agreed upon by employers’ and employees’ organisations through collective agreements.

The Head of Group HR is responsible for applying the Group’s remuneration system. The control functions and their local units must identify, monitor, analyse and report material risks or deficiencies in the remuneration system.

Pensions are part of the total remuneration to the Group’s employees. The total remuneration is to be on market terms. The pension terms in the countries where the Group pursues its operations must be competitive and adapted to legislations and regulations, in accordance with the conditions prevailing in each country.

A more detailed description of Handelsbanken’s remuneration principles is shown on this page and details of remuneration are shown in note G8 on pages 116–119.

The responsible HR function performs suitability assessments when Board members are elected for the Bank’s subsidiaries. Group HR performs suitability assessments ahead of decisions to appoint members of Senior Management, or of the Chief Audit Officer.

Policy for internal audit operations
Group Audit is to evaluate the efficiency and appropriateness of the Group’s processes for risk management, internal governance 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.

Policy for compliance
Compliance means the observance of laws, regulations, directives from public authorities and internal rules, as well as accepted business practices or accepted standards. Handelsbanken has a low tolerance of compliance risk. 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 him, as well as for the Board and its risk committee. The compliance function must be independent of the functions that are monitored.

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, while maintaining 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 – closely-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 with the regulations that apply in the country where they are required to maintain accounting records.

Policy on measures against money laundering and terrorist financing and the observance of international sanctions
This policy is based on 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 their operations. Knowledge of the customer must be achieved 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 is of 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 applied 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 2017, a total of SEK 60 million was allocated for variable remuneration, corresponding to approximately 0.7 per cent of total salaries. 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 ORO 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 more 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 116–119. 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 competitive- ness 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 for the Group Chief Executive and other executive officers. The guidelines are applied to the Group Chief Executive, other Executive Directors, and any members of the Handelsbanken Board who are also employees of the Bank. For the guidelines from the 2017 AGM, see the Annual general meeting 2017 section on page 51.

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 14 individuals (as at 31 December 2017). The Board also determines remuneration for heads of control functions and Executive Vice Presidents 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.

Executive 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 116–119 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 2018 AGM, the Board will propose guidelines for remuneration and other terms of employment for executive officers as follows. The guidelines must not affect any 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 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. 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 the 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 Group Chief Executive and 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 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
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 84–113 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, 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 (i.e. the 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, 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 efficiency of the internal control, internal audit and risk management systems for financial reporting. For more details, see the section under the Committee work heading on page 52.

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 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. Internal audit is described in more detail on page 54. 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 | Fredrik Lundberg | Karin Apelman | Jon Fredrik Baksas | Anders Bouvin
--- | --- | --- | --- | --- | ---
Year elected | 2006 | 2002 | 2016 | 2003 | 2017
Nationality | Swedish | Swedish | Swedish | Norwegian | Swedish
Position and significant board assignments | Chairman of Svenska Cellulosa AB SCA and Essity AB • Vice Chairman AB Industrivärdet • Board member Skanska AB. | President and CEO of L E Lundbergföretagen AB • Chairman of Holmen AB • Hufvudstaden AB, AB Industrivärdet, Indutrade AB • Board member L E Lundbergföretagen AB, Skanska AB. | Vice Chair Svenska Kraftnät • Board member: Bliva Länsförsäkring, Otmsesigt, STINT (the Swedish Foundation for International Co-operation in Research and Higher Education). | Board member Telefonaktiebolaget LM Ericsson. | President and Group Chief Executive of Handelsbanken • Vice Chairman Swedish Bankers’ Association.


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. | Graduate in Business Administration and PED from IMD. | B.A. degree (Kandidatexamen) in Business and Economics from the London Institute of Banking & Finance.

Remuneration 2017* | SEK 4,612,500 | SEK 1,265,000 | SEK 640,000 | SEK 1,888,750 | SEK 0
Credit committee Participation | Chairman | 13/13 | 13/13 | 9/13 | 13/13
Audit committee Participation | 5/5 | - | - | 5/5 | 
Remuneration committee Participation | Chairman | 9/9 | - | - | 
Risk committee Participation | Chairman | 5/5 | - | - | 5/5
Risk committee for US operations Participation | Chairman | 2/2 | - | - | 2/2
Board meetings Participation | Chairman | 9/9 | 8/9 | 9/9 | 7/9
Own shareholdings and those of immediate family | 53,388, of which 23,388 in indirect holdings1. | 55,775,000 | 0 | 3,800 | 30,808, of which 45,808 in indirect holdings2. 2014 convertible at nominal amount: SEK 5,899,254.
Number of assignments | 51 | 41 | 2 | 3 | 2
Actual number of assignments* | 12 | 10 | 5 | 4 | 2

1 Remuneration decided by the AGM. Total remuneration to the Board in 2017 was SEK 13,825,000.
2 Member of the Board committee from March 2017.
3 Indirect holdings of shares in Handelsbanken via the Oktogonen profit-sharing foundation.
4 Number of assignments based on the Swedish Banking and Financing Business Act (2004:297), Chapter 10, Section 8b, 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.
5 Number of assignments disregarding the basis of calculation stated in footnote 4.
6 Received 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 8b, paragraph 3.
CEO Third National Swedish Pension Fund • Board member Vasakronan AB, Hemsö Fastighets AB, Trifon AB, Sveriges-Danska Broföretagens SVEFAB AB and Öresundskronan.

Kerstin Hessius
Board Member

Has held various positions at Handelsbanken • Employee since 1991.


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* 36,664, of which 24,043 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 in Senior Management

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Year of birth</th>
<th>Year of employment</th>
<th>Shareholdings*</th>
<th>Shareholdings**</th>
<th>Convertible 2014*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nina Arkilahti</td>
<td>CEO, Handelsbanken Finland</td>
<td>1967</td>
<td>1995</td>
<td>Shareholdings 20,007, of which 12,810 in indirect holdings**</td>
<td>SEK 5,617,510</td>
<td></td>
</tr>
<tr>
<td>Per Beckman</td>
<td>Chief Credit Officer, Group Credits</td>
<td>1962</td>
<td>1993</td>
<td>Shareholdings 12,797, of which 12,797 in indirect holdings**</td>
<td>SEK 5,617,510</td>
<td></td>
</tr>
<tr>
<td>Anders Bouvin</td>
<td>President and Group Chief Executive</td>
<td>1958</td>
<td>1985</td>
<td>Shareholdings 50,808, of which 45,808 in indirect holdings**</td>
<td>SEK 5,869,254</td>
<td></td>
</tr>
<tr>
<td>Per Elcar</td>
<td>Head, Markets &amp; Asset Management</td>
<td>1962</td>
<td>2002</td>
<td>Shareholdings 25,109, of which 8,399 in indirect holdings**</td>
<td>SEK 1,188,742</td>
<td></td>
</tr>
<tr>
<td>Maria Hedlin</td>
<td>Chief Risk Officer, Group Risk Control</td>
<td>1964</td>
<td>2010</td>
<td>Shareholdings 3,982, of which 3,736 in indirect holdings**</td>
<td>SEK 5,176,431</td>
<td></td>
</tr>
<tr>
<td>Joakim Jansson</td>
<td>Head, Business Support Capital Markets</td>
<td>1976</td>
<td>2006</td>
<td>Shareholdings 6,213, of which 6,213 in indirect holdings**</td>
<td>SEK 1,188,742</td>
<td></td>
</tr>
<tr>
<td>Agneta Lilja</td>
<td>Chief Information Officer, Group IT</td>
<td>1961</td>
<td>1985</td>
<td>Shareholdings 44,927, of which 44,927 in indirect holdings**</td>
<td>SEK 5,617,510</td>
<td></td>
</tr>
<tr>
<td>Rolf Marquardt</td>
<td>Chief Financial Officer, Group Finance</td>
<td>1964</td>
<td>2002</td>
<td>Shareholdings 9,074, of which 9,074 in indirect holdings**</td>
<td>SEK 1,188,742</td>
<td></td>
</tr>
<tr>
<td>Lars Moesgaard</td>
<td>CEO, Handelsbanken Denmark</td>
<td>1968</td>
<td>1988</td>
<td>Shareholdings 8,022, of which 6,579 in indirect holdings**</td>
<td>SEK 1,188,742</td>
<td></td>
</tr>
<tr>
<td>Stina Petersson</td>
<td>Chief Human Resources Officer, Group HR</td>
<td>1965</td>
<td>1985</td>
<td>Shareholdings 37,522, of which 37,522 in indirect holdings**</td>
<td>SEK 1,188,742</td>
<td></td>
</tr>
<tr>
<td>Mikael Sørensen</td>
<td>CEO, Handelsbanken UK</td>
<td>1966</td>
<td>1994</td>
<td>Shareholdings 6,387, of which 6,387 in indirect holdings**</td>
<td>SEK 5,617,510</td>
<td></td>
</tr>
<tr>
<td>Dag Tjernsmo</td>
<td>CEO, Handelsbanken Norway</td>
<td>1962</td>
<td>1988</td>
<td>Shareholdings 15,579, of which 15,579 in indirect holdings**</td>
<td>SEK 5,436,030</td>
<td></td>
</tr>
<tr>
<td>Jens Wiklund</td>
<td>CEO, Handelsbanken the Netherlands</td>
<td>1975</td>
<td>1997</td>
<td>Shareholdings 5,921, of which 5,921 in indirect holdings**</td>
<td>SEK 835,878</td>
<td></td>
</tr>
<tr>
<td>Carina Åkerström</td>
<td>Deputy Group Chief Executive, Head, Handelsbanken Stockholm</td>
<td>1962</td>
<td>1986</td>
<td>Shareholdings 26,454, of which 26,454 in indirect holdings**</td>
<td>SEK 5,617,510</td>
<td></td>
</tr>
</tbody>
</table>

*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.

1 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

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Year of birth</th>
<th>Employed</th>
<th>Shareholdings*</th>
<th>Convertible 2014[^2]</th>
</tr>
</thead>
<tbody>
<tr>
<td><a href="#">Pål Bergström</a></td>
<td>Chief Compliance Officer, Group Compliance</td>
<td>1967</td>
<td>2015</td>
<td>Shareholdings: 6,259, of which 6,259 in indirect holdings**</td>
<td>–</td>
</tr>
<tr>
<td><a href="#">Katarina Berner Frösdal</a></td>
<td>CDO, Handelsbanken Sweden</td>
<td>1966</td>
<td>1979</td>
<td>Shareholdings: 1,735, of which 1,735 in indirect holdings**</td>
<td>SEK 5,617,510</td>
</tr>
<tr>
<td><a href="#">Klas Bornälv</a></td>
<td>Head, Group Infrastructure</td>
<td>1971</td>
<td>1997</td>
<td>Shareholdings: 12,538, of which 12,538 in indirect holdings**</td>
<td>SEK 1,188,742</td>
</tr>
<tr>
<td><a href="#">Magnus Ericson</a></td>
<td>Head, Handelsbanken Northern Sweden</td>
<td>1968</td>
<td>1988</td>
<td>Shareholdings: 23,262, of which 22,262 in indirect holdings**</td>
<td>SEK 1,188,742</td>
</tr>
<tr>
<td><a href="#">Anders Fagerfahl</a></td>
<td>Head, Handelsbanken South East Sweden</td>
<td>1969</td>
<td>1988</td>
<td>Shareholdings: 25,958, of which 25,958 in indirect holdings**</td>
<td>SEK 1,188,742</td>
</tr>
<tr>
<td><a href="#">Miikael Hallikker</a></td>
<td>Chairman of subsidiary, Acting Chief Communications Officer, Group Communications</td>
<td>1959</td>
<td>2001</td>
<td>Shareholdings: 9,604, of which 9,604 in indirect holdings**</td>
<td>SEK 1,188,742</td>
</tr>
<tr>
<td><a href="#">John Hodson</a></td>
<td>Head, Handelsbanken Southern UK</td>
<td>1961</td>
<td>2007</td>
<td>Shareholdings: 1,788, of which 1,788 in indirect holdings**</td>
<td>SEK 1,240,957</td>
</tr>
<tr>
<td><a href="#">Elisabet Jamal Bergström</a></td>
<td>Chief Sustainability Officer, Group Sustainability</td>
<td>1968</td>
<td>1994</td>
<td>Shareholdings: 14,726, of which 11,114 in indirect holdings**</td>
<td>SEK 251,744</td>
</tr>
<tr>
<td><a href="#">Katarina Ljungqvist</a></td>
<td>Head, Handelsbanken Western Sweden</td>
<td>1965</td>
<td>1989</td>
<td>Shareholdings: 26,175, of which 26,175 in indirect holdings**</td>
<td>SEK 5,617,510</td>
</tr>
<tr>
<td><a href="#">Nick Lowe</a></td>
<td>Head, Handelsbanken Central UK</td>
<td>1958</td>
<td>2007</td>
<td>Shareholdings: 1,504, of which 1,504 in indirect holdings**</td>
<td>SEK 5,152,092</td>
</tr>
<tr>
<td><a href="#">Suzanne Minifie</a></td>
<td>Head, Handelsbanken Yorkshire and North East UK</td>
<td>1972</td>
<td>2006</td>
<td>Shareholdings: 1,450, of which 1,450 in indirect holdings**</td>
<td>SEK 1,188,742</td>
</tr>
<tr>
<td><a href="#">John Parker</a></td>
<td>Head, Handelsbanken Northern UK</td>
<td>1955</td>
<td>2006</td>
<td>Shareholdings: 2,206, of which 2,206 in indirect holdings**</td>
<td>SEK 5,769,607</td>
</tr>
<tr>
<td><a href="#">Juha Rantamaa</a></td>
<td>Head, Group IT Operations &amp; Development</td>
<td>1964</td>
<td>2011</td>
<td>Shareholdings: 10,531, of which 10,531 in indirect holdings**</td>
<td>SEK 1,188,742</td>
</tr>
<tr>
<td><a href="#">Hansu Saari</a></td>
<td>Chief Financial Crime Prevention Officer, Group Financial Crime Prevention</td>
<td>1963</td>
<td>1997</td>
<td>Shareholdings: 6,551, of which 6,551 in indirect holdings**</td>
<td>SEK 1,188,742</td>
</tr>
<tr>
<td><a href="#">Louise Sander</a></td>
<td>CEO, Handelsbanken Liv Pension &amp; Life</td>
<td>1969</td>
<td>2013</td>
<td>Shareholdings: 1,186, of which 1,186 in indirect holdings**</td>
<td>SEK 1,188,742</td>
</tr>
<tr>
<td><a href="#">Göran Stille</a></td>
<td>Chairman of subsidiary</td>
<td>1966</td>
<td>1987</td>
<td>Shareholdings: 22,697, of which 12,797 in indirect holdings**</td>
<td>SEK 5,617,510</td>
</tr>
<tr>
<td><a href="#">Ulrica Stolt Kirkegaard</a></td>
<td>CEO, Stadshypotek</td>
<td>1968</td>
<td>1994</td>
<td>Shareholdings: 15,962, of which 15,439 in indirect holdings**</td>
<td>SEK 5,251,744</td>
</tr>
<tr>
<td><a href="#">Chris Teasdale</a></td>
<td>Head, Handelsbanken South West UK</td>
<td>1970</td>
<td>2007</td>
<td>Shareholdings: 1,848, of which 1,848 in indirect holdings**</td>
<td>SEK 820,000</td>
</tr>
<tr>
<td><a href="#">Martin Waslensson</a></td>
<td>Chief Legal Officer, Group Legal</td>
<td>1971</td>
<td>2012</td>
<td>Shareholdings: 1,735, of which 1,735 in indirect holdings**</td>
<td>–</td>
</tr>
<tr>
<td><a href="#">Pontus Åhund</a></td>
<td>Head, Handelsbanken Central Sweden</td>
<td>1963</td>
<td>1983</td>
<td>Shareholdings: 46,685, of which 38,098 in indirect holdings**</td>
<td>SEK 5,617,510</td>
</tr>
</tbody>
</table>

[^1]: Direct holdings of shares or convertibles refer to own holdings or those of closely related persons.
[^2]: Indirect holdings of shares in Handelsbanken via the Oktogonen profit-sharing foundation.
[^2]: See note G38.

### Audit and Whistleblowing Function, independent of Senior Management

| Tord Jonerot                  | Chief Audit Executive, Group Audit            | 1958          | 1990     | Shareholdings: 25,123, of which 25,123 in indirect holdings** | SEK 5,617,510       |
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 2017. The annual accounts and consolidated accounts of the company are included on pages 7-205 of this document.

In our opinion, the annual accounts have been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the parent company at 31 December 2017 and its financial performance and cash flow for the year then ended, in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the Group at 31 December 2017 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 Swedish Annual Accounts Act for Credit Institutions and Securities Companies.

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

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

Our opinions expressed 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 Article 11 of the Audit Regulation (537/2014).

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 Responsibility section. We are independent of the parent company and the Group in accordance with professional ethics for auditors in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. Based on the best of our knowledge and belief, no prohibited services referred to in Article 5.1 of the Audit Regulation (537/2014) have been provided to the audited company or, where applicable, its parent company or companies under its control 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 which, in our professional judgement, were of most significance in our audit of the annual accounts and consolidated accounts for the current period. These matters were addressed in the context of our audit of, and in forming our opinion on, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. Our description of how our audit addressed each matter is provided in that context.

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

Granting of credit and provisions for loan losses
Detailed information and descriptions of these matters are presented in the annual accounts and consolidated accounts. Credit risk exposure and the manner in which it is handled have been described in note G2 on page 86. The loan losses reported in the accounts for 2016 were performed as a joint audit between KPMG AB and Ernst & Young AB, who together submitted an auditor’s report dated 16 February 2017, with unmodified opinions in the report on the annual accounts.

Description of audit matter
The Bank’s business model focuses on taking credit risks in its branch operations. The Bank’s (parent company’s) loan portfolio amounted to SEK 2,351,245 million (1,686,023) at 31 December 2017, corresponding to 85 (84) per cent of total assets. The total credit risk exposure, including off-balance sheet commitments, amounted to SEK 3,104,971 million (2,519,148), corresponding to 112 (125) per cent of total assets. The total provision for probable loan losses amounted to SEK -5,159 million (-2,519,148). The provision for loan losses represents the Bank’s best estimate of probable loan losses on the balance sheet date. The provision for overdue credits is estimated either on an individual basis or collectively for groups with similar credits. Specific provisions for individually assessed loans accounted for 91 (91) per cent of total loan losses.

The bulk of the operations consists of credit and exposure to credit risk represents the greatest risk for the Bank. Moreover, there is an inher-
ent uncertainty in the recognition of a provision for loan losses. The accounting is based on an assumption made by the Bank regarding a large number of internal and external observations, including estimates of future cash flows. As a result of the uncertainty linked to this assumption, this subject is deemed to be a key audit matter in the audit of Svenska Handelsbanken.

How this matter has been considered in the audit
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 for which provisions should be made. The types of controls tested include both manual controls and automatic controls in the application system. We have also tested the general IT controls, including the handling of authorisation and user access regarding these systems.

We have challenged the assessments made by the Bank regarding the recoverable amount of future cash flows for specific provisions made for individually assessed loans. We have assessed the assumptions in the models concerning loans measured using a model involving collective provisions. Furthermore, we have checked samples of the input data processed in the models as well as the reasonability of the estimates.

We have assessed the facts presented in the disclosures in the annual accounts and consolidated accounts and the adequacy of the information as a description of the Bank’s assumptions.

Furthermore, we have evaluated the audit work performed by the internal audit function of Svenska Handelsbanken.

Fair value measurement of financial instruments where no market prices are available
Detailed information and descriptions of key audit matters are provided in the annual accounts and consolidated accounts. Financial instruments measured at fair value are described in note G40 for the Group and note P34 for the parent company. The relevant accounting policies for the Group are described in note G1, section 9 on page 76. Note P1 shows that the parent company’s accounting policies for financial instruments measured at fair value are consistent with the Group’s accounting policies.

Description of audit matter
Svenska Handelsbanken has financial instruments that have been measured at fair value. The Bank has financial instruments where no market price has been available, and in these cases, fair value is determined using valuation models based on market data. These financial instruments are categorised as level 2 in the IFRS fair value valuation hierarchy. Svenska Handelsbanken also has some financial instruments for which the fair value measurement has been determined using valuation models where the value is affected by input data that cannot be verified by external market data. These financial instruments are categorised as level 3 in the IFRS fair value valuation hierarchy.

The Group (parent company) has financial assets and financial liabilities categorised as level 2 totalling SEK 64,491 million (65,129) and SEK 29,095 million (48,990) respectively. Financial assets and liabilities categorised as level 3 totalled SEK 1,810 million (1,685) and SEK 552 million (552) respectively.

Most of the derivative contracts held by the Group, among them interest rate swaps and various types of linear currency derivatives and corporate bonds, are financial instruments categorised as level 2. Corporate bonds and derivative contracts categorised as level 2 are measured using valuation models based on market rates and other market prices. Financial instruments categorised as level 3 consist primarily of unlisted shares in joint ventures, investments in the insurance business as well as certain derivative contracts valued using non-verifiable data. The measurement of financial instruments categorised as level 2 and level 3 includes assessments made by the Bank, since valuation models are used. The valuation of these financial instruments is therefore deemed to be a key audit matter.

How this matter has been considered in the audit
We have tested the key controls in the valuation process, including the Bank’s assessment and approval of assumptions and the methods used in model-based calculations, as well as the control of data quality and the handling of change regarding internal valuation models. The types of controls tested include both manual controls and automatic controls in the application system. We have also tested the general IT controls, including the handling of authorisation and user access regarding these systems.

We have engaged our internal valuation specialists in order to challenge the methods and assumptions used for measuring the value of financial instruments where no market value is available.

We have assessed the methods in the valuation models against valuation guidelines and standard industry practice.

We have compared the assumptions made with appropriate benchmarks and price sources and examined any significant deviations. We have also checked the accuracy of the estimates by conducting sample tests and performed our own independent valuations.

We have assessed the facts presented in the disclosures in the annual accounts and consolidated accounts and the adequacy of the information as a description of the Bank’s assumptions.

Furthermore, we have evaluated the audit work performed by the internal audit function of Svenska Handelsbanken.

Other information
This document also contains other information than the annual accounts and consolidated accounts and this is found on pages 4–6 and 211–224. 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 or 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. During this process, we also take into account our knowledge otherwise obtained in the audit and assess whether the information includes any material misstatements.

If, based on the work performed concerning this information, we conclude that this other information includes a material misstatement, 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 for ensuring that they give a fair and accurate presentation in accordance with the Swedish 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 controls as they deem 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 a going concern and apply 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 intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Directors’ 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 overall, they could reasonably be expected to influence the financial 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 judgement 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 controls.
- Obtain an understanding of the company’s internal controls 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 controls.
- 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 relating 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 consider whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that is fair and accurate.
- 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 controls 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 considered to bear on our independence, and, where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine which matters were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks of material misstatement, and accordingly, which of these are therefore key audit matters. We describe these matters in the auditor’s report unless legal or regulatory provisions preclude 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.
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 2017 and the proposed appropriations of the company’s profit or loss.

We recommend to the annual 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 Responsibility section. We are independent of the parent company and the Group in accordance with professional ethics for auditors 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 organisation 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 organisation 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 prepare the company’s accounts in accordance with legal requirements 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 regarding a 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 taken any action or been guilty of any omission which could give rise to liability towards the company, or
- has in any other way acted in contravention of the Swedish Companies Act, the Swedish Banking and Financing Business Act, the Swedish Annual Accounts Act for Credit Institutions and Securities Companies or the Bank’s 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 a reasonable degree of assurance whether the proposal is in accordance with the Swedish 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 could give rise to liability towards the company, or that the proposed appropriations of the company’s profit or loss are not in accordance with the Swedish Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgement 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 judgement, considering first and foremost matters such as 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 contraventions would have particular importance for the company’s situation. We examine and test decisions taken, supporting documentation used for making decisions, actions taken and other circumstances that are relevant to our opinion concerning a discharge from liability. As the 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 was in accordance with the Swedish Companies Act.

Ernst & Young AB, Jakobsbergs gatan 24, 111 24 Stockholm, was appointed auditor of Svenska Handelsbanken AB by the annual general meeting of shareholders held on 29 March 2017 and has been the company’s auditor since 28 April 1998.

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