Corporate Governance Report
Extract from Handelsbanken's Annual Report
2016

Handelsbanken


SVENSKA
HANDELSBANKEN

Corporate Governance Report

Handelsbanken is a Swedish public limited company, whose shares are listed on Nasdaq Stockholm. Here the Board submits its Corporate Governance Report for 2016. 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.

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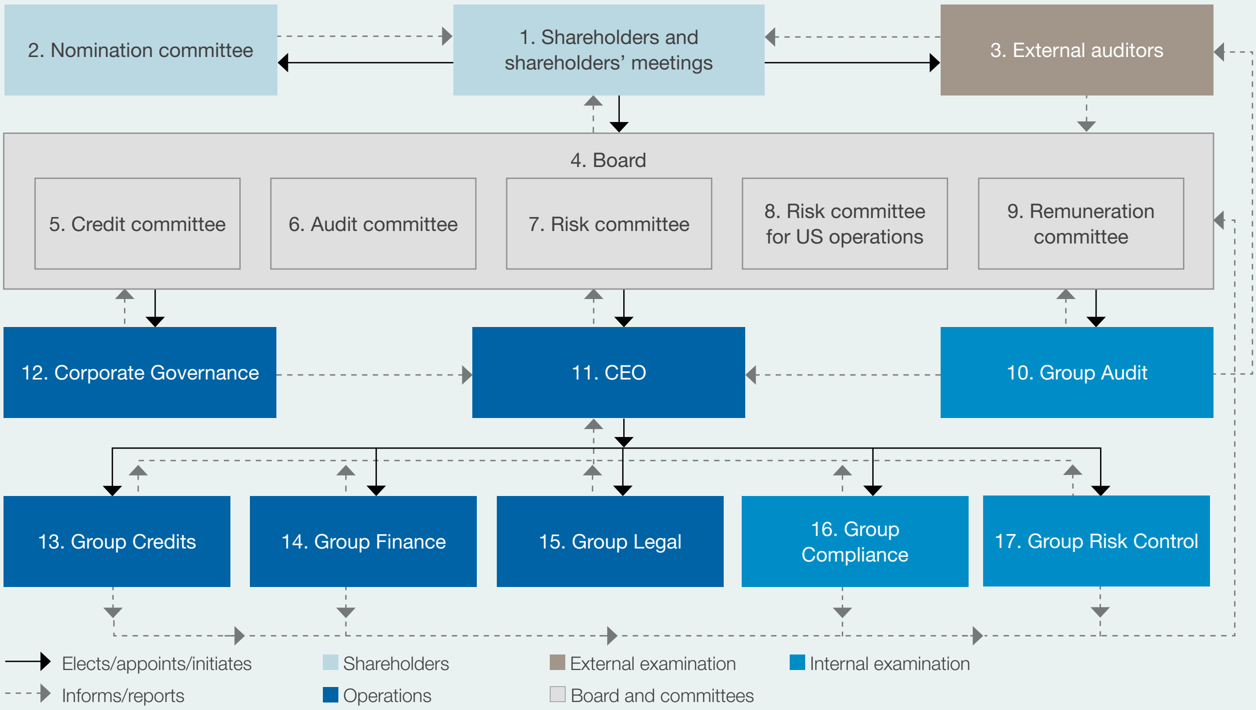
This report is also available in Swedish. Every care has been taken in this translation into English. In the event of discrepancies, the Swedish original will supersede the English version.

Corporate Governance structure

Corporate Governance at Handelsbanken – an overview



The diagram provides an overview 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 operating activities. The Board organises itself into various committees and has a corporate governance unit at its disposal. To support the work of governing the Bank, the CEO has Group Finance, Group Credits and Group Legal. There are also a number of control functions at the Bank. In addition to this, the shareholders exercise control through auditors appointed by the AGM.

1. SHAREHOLDERS AND SHAREHOLDERS' MEETINGS
Shareholders exercise their right to decide on matters concerning Handelsbanken at shareholders' meetings, which are the Bank's highest decision-making body. Every year, an annual general meeting is held, which among other things appoints the Board, the Chairman of the Board and auditors. It can also decide how the nomination committee is to be appointed. See also page 50.

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 controlled. The Board establishes policies and instructions on how this is to be executed, and establishes a work procedure for the Board and also instructions for the CEO.

These central policy documents state how responsibility and authority are allocated among the Board as a whole and the committees, and also between the Chairman of the Board and the CEO. The Board appoints the CEO, Executive Vice Presidents and the Head of Group Audit and stipulates the employment terms for these persons. The Board also decides the employment terms for the Heads of Group Compliance and Group Risk Control. The Chairman is responsible for evaluating the Board's work and informs the nomination committee of the results of the evaluation.

5. CREDIT COMMITTEE
The Board'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 on by the Board as a whole. A representative from the unit within the Bank to which the credit case applies presents the case to the credit committee.

6. AUDIT COMMITTEE
The Board's audit committee monitors the Bank's financial reporting by examining important accounting matters and other factors that may affect the qualitative content of the financial reports. The committee also monitors the

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

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

8. RISK COMMITTEE FOR US OPERATIONS
The Board's risk committee for the US operations deals with the risks in Handelsbanken's total 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 about loan losses and risks in the credit portfolio.

14. GROUP FINANCE
Group Finance is responsible for control systems, reporting, book-keeping, accounting and taxes. It is also responsible for the Group's liquidity, funding and capital, and for the Group's overall risk management for all risks except credit risk, insurance risk, compliance risk and operational risk outside the department. For a detailed description of this risk management, see note G2 on pages 80–107. The Head of Group Finance, Handelsbanken's CFO, reports to the CEO and also regularly reports on behalf of the CEO to the Board's audit committee and risk committee and, regarding market risks, liquidity, funding and capital, to the Board as a whole.

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 as regards regulations, laws, standards and guidelines on Handelsbanken's home markets, and organises a unit that manages Handelsbanken's contacts with public authorities. Group Legal is also responsible for operational governance, meaning that the department works to ensure that decisions taken by the CEO, as well as changes in legislation, public authority 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.

More information
More information about Handelsbanken's corporate governance is available at handelsbanken.se/ireng. The site includes the following information:
- previous corporate governance reports from 2006 onwards
- Articles of Association
- information about the nomination committee
- minutes of shareholders' meetings from 2008 onwards.

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 conducted by the Handelsbanken Group. The function must give support to the business operations and assist in developing the internal rules and implementation of regulations. The compliance function must also identify and report risks regarding compliance and check compliance with internal rules. A further key task is 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, the remuneration committee and the Board in matters regarding compliance.

17. GROUP RISK CONTROL
The centrally placed Group Risk Control function 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 CRO, also provides regular information to the CFO. Group Risk Control reports directly to the CEO and acts independently and is separate from the controlled operations. Group Risk Control has functional responsibility for all risk control at Handelsbanken.

CORPORATE GOVERNANCE AT HANDELSBANKEN

Corporate governance concerns how rights and obligations are allocated among the Bank's entities, in accordance with prevailing laws and regulations. Corporate governance also encompasses the systems for decision-making, and the structure through which shareholders control the Bank, directly and indirectly. Handelsbanken's shareholders exercise corporate governance principally by electing the Board, and the Board appoints 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 80–107, 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 is a full-service bank with a decentralised working method, a strong local presence due to 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. However, no provisions for an allocation were made during 2016, due to the uncertainty surrounding capital regulations that prevailed for much of the year.

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 organisation, decision-making structure and internal control.

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

SHAREHOLDERS AND SHAREHOLDERS' MEETINGS

Rights of shareholders

At the end of 2016, Handelsbanken had over 110,000 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 2016. 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 on the Bank's Articles of Association. The Articles of Association constitute the fundamental governing document for the Bank. They specify which operations the Bank is to conduct, the limits on the amount of share capital, the right of shareholders to participate at shareholders' meetings and the items to be presented at the AGM. The Articles of Association state that the number of board members must be at least eight and at most 15. They are elected for one year at a time. Handelsbanken's Articles of Association contain no stipulation regarding the appointment and discharging of board members nor concerning amendments to the Articles of Association.

Information in preparation for meetings is published at handelsbanken.se/ireng.

Minutes of previous meetings are also available there in English.

Major shareholders
At the end of 2016, two shareholders had more than 10 per cent of the votes: the Oktogonen Foundation, with 10.2 per cent, and AB Industrivärden, with 10.2 per cent. Detailed information on the Bank's largest Swedish shareholders can be found on page 43.

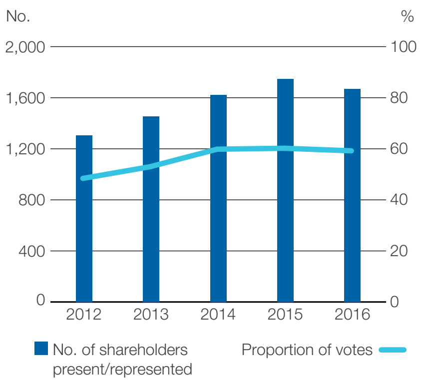
Annual general meeting 2016
The annual general meeting took place on 16 March 2016.

A total of 1,667 shareholders were represented at the meeting. They represented 58 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 chairman of the meeting was Sven Unger, a lawyer.

The decisions made by the shareholders at the meeting included:

- A dividend of SEK 6.00 per share, of which SEK 4.50 comprised the ordinary dividend.
- Authorisation for the Board to resolve on acquisition of not more than 120 million shares in the Bank, as well as divestment of shares.
- Authorisation for the Board to resolve on issuance of convertibles with conditions for tier 1 capital instruments. The convertibles entail mandatory conversion in certain cases, but no right of conversion for the holders. Conversion may result in a maximum of 365 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, Karin Apelman and Kerstin Hessius, 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 Chairman of the Board, 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 committee: SEK 335,000 for the credit committee. SEK 130,000 for the remuneration committee, SEK 335,000 for the risk committee, SEK 250,000 for the risk committee for the US operations and SEK 285,000 for the audit committee. It was decided that the fee to the chairperson of the audit committee would be SEK 335,000. Board members who are employees of Handelsbanken shall not receive a fee. It was noted that the fees can be paid as salary or invoiced by a company on condition that this is neutral in terms of costs for the Bank.

Attendance at AGMs 2012–2016



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

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

Auditors
Anders Bäckström is principal auditor for KPMG AB at Handelsbanken and is chairman of Handelsbanken's auditing team. Mr Bäckström has been an authorised public accountant since 1996. He is also auditor for Brummer & Partners, Folksam, Hoist Finance and Investment AB Öresund. Mr Bäckström was born in 1966.

Jesper Nilsson has been an authorised public accountant since 2007 and is principal auditor for Ernst & Young AB at Handelsbanken. In addition, Mr Nilsson is an auditor for Creades and Alecta, and is also CEO of Ernst & Young AB. Mr Nilsson was born in 1964.

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

However, the nomination committee must not include representatives of companies which are significant competitors of the Bank in any of its main areas of operations. It is the Chairman of the Board's task to contact the largest owners, so that they appoint one representative each to sit on the nomination committee together with the Chairman. The 2017 nomination committee comprises:

Representative	Shareholders	Voting power in % as at 31 Aug 2016
Helena Stjernholm, Chair	Industrivärden	10.2
Christian Dahl	Oktogonen Foundation	10.3
Mats Guldbrand	Lundberg ownership group	2.9
Bo Selling	Alecta	2.3
Pär Boman, Board Chairman		

Information on the composition of the nomination committee has been available on the Bank's website since 14 September 2016.

The nomination committee's task in preparation for the AGM on 29 March 2017 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, on the Board. Handelsbanken's Board has adopted a policy to promote diversity on the Board. The policy states that to promote independent opinions and critical questioning, it is desirable that the Board should 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 50 per cent and the proportion of members of another nationality than where Handelsbanken is domiciled is 40 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 2016 AGM had appointed Pär Boman to be Chairman of the Board, Fredrik Lundberg was appointed as Vice Chairman at the first Board meeting immediately after the AGM. At the same time, the Board appointed members of the credit committee, audit committee, risk committee and remuneration committee. In 2016, the Board also appointed members of 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 10 members after Frank Vang-Jensen left the Board on 16 August 2016. When the Board is elected, the nomination committee proposes members. The nomination committee includes the Oktogonen Foundation, which also proposes two of the members in the nomination committee's proposal.

The Board members have broad and extensive experience from the business community. Several are, or have been, chief executives of major companies, and most of them are also board members of major companies. See also pages 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 reasons, 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 fulfils the Code's requirements for independence. See also page 50.

Regulations governing the Board's work

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

Chairman of the Board

The Board's rules of procedure state that the Chairman shall ensure that the Board carries out its work efficiently and that it fulfils its duties. This involves organising and managing the Board's work and creating the best possible conditions for this work. The Chairman must also ensure that the Board members continually update and expand their knowledge of the Bank's operations, and that new members receive appropriate introduction and training. The Chairman must be available to the CEO as an advisor and discussion partner, but must also prepare the Board's evaluation of the CEO's work.

The Chairman's duties include being chairman of the credit, 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 2016 Board evaluation was performed by means of a survey and through discussions between the Chairman and each member. The Chairman informed the Board of the outcome of the evaluation and led a Board discussion on this. He also informed the nomination committee about the Board evaluation.

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

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

The Board's work in 2016

During the year, the Board had 15 meetings, including a lengthy strategy meeting.

The figure on page 53 gives an overview of the Board's work in 2016 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 is also chairman of the committee), the Vice Chairman (Fredrik Lundberg), the chair of the audit committee (Bente Rathe), the CEO (Anders Bouvin and previously Frank Vang-Jensen), the Chief Credit Officer (Per Beckman), and three Board members appointed by the Board (Tommy Bylund, Ole Johansson and Lise Kaae).

The credit committee normally holds one meeting every month to take decisions on credit cases that exceed a set limit and that are not decided on by the whole Board due to the importance of these cases or legal requirements. The heads of the regional banks and Handelsbanken International presented cases to the credit committee from their own units in 2016 and participated when other cases were presented, with the objective of providing them with a good picture of the Board's approach to risk. Credit cases that are decided upon by the whole Board are presented by the Chief Credit Officer. If a delay in the credit decision would cause inconvenience to 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 2016, the credit committee had 12 meetings.

Audit committee

The audit committee comprised the Chairman of the Board (Pär Boman) and three Board members appointed by the Board (Jon Fredrik Baksaas, Ole Johansson and Bente Rathe). 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.
- Establishing an audit plan for the work of 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.
- Considering reports from Group Audit.
- 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 2016, the audit committee had eight meetings.

Risk committee

The risk committee comprised the Chairman of the Board (Pär Boman, who is also chairman of the committee) and three Board members appointed by the Board (Jon Fredrik Baksaas, 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 CRO and the Chief Compliance Officer.
- Preparing the Board's decisions regarding the establishment of the internal capital adequacy assessment.
- Receiving the validation and evaluation of the internal risk classification system.
- Preparing the Board's decisions regarding risk tolerance and risk strategy.

- 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 Chief Compliance Officer present their reports to the risk committee in person. The Bank's CEO, CFO and Chief Credit Officer also attend meetings of the risk committee. In 2016, the Board's risk committee had six meetings.

Risk committee for US operations

The risk committee for Handelsbanken's US operations comprised the Chairman of the Board (Pär Boman, who is also chairman of the committee) and Board member Jon-Fredrik Baksaas, who was 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 the risk committee. In 2016, the risk committee for the US operations had one meeting.

Remuneration committee

The remuneration committee comprised the Chairman of the Board (Pär Boman, who is also the committee chairman) 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. The remuneration committee annually 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 2016, the remuneration committee had 14 meetings.

THE BANK'S MANAGEMENT

Group Chief Executive

Anders Bouvin has been President and Group Chief Executive since August 2016. Mr 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 board member in the Swedish Bankers' Association, Anders Bouvin has no assignments of importance outside Handelsbanken. His shareholdings in the Bank and those of close relatives are 5,000 shares, as well as 42,862 shares held indirectly via the Oktogonen profit-sharing scheme. In addition, Anders Bouvin has a holding of staff convertible notes in Handelsbanken, issued on market terms to the Bank's employees in 2014. His holding in the 2014 convertible

Board work 2016[1] – regularly occurring major items at normal board meetings[2]

Q1

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

- Internal capital and liquidity adequacy assessment process (ICAAP/ILAAP)
- External audit report
- Internal audit report
- Provision to Oktogonen
- Pension foundation and pension fund – financial position

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

Q2

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

- Strategy meeting
- CEO's instructions and guidelines

Q3

- Interim report (Q2)

- Follow-up of remuneration and remuneration policy
- Information about the nomination committee
- Loan losses and credit risks
- Capital evaluation
- Process for evaluating the Board and the CEO

Q4

- 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 Board and Chairman

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

[1] The committees' meetings are not presented in the chart.

[2] Utilisation of market risk limits, liquidity and funding, as well as the business situation are dealt with at all meetings.

totals SEK 5,869,254 which, at a conversion price of SEK 114.40, corresponds to 51,304 shares.

According to the Swedish Corporate Governance Code, information must be submitted regarding material shareholdings of the CEO and his close relatives, or other holdings in companies with which the Bank has significant business relations. No such shareholdings exist.

Senior Management and management structure

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

Branch operations

Branch operations are geographically organised into regional banks: five in Sweden, five in the UK, and one each in Denmark, Finland, Norway and the Netherlands. 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 heads of the regional banks are also general managers. These heads, as well as the Head of UK operations and the general managers for the international operations outside the home markets, are responsible to the public authorities in their respective countries for all operations that the Bank and its subsidiaries pursue in those countries.

Business areas

There are five business areas within Handelsbanken. Three of these business areas are part of the Handelsbanken Capital Markets segment: Pension & Life, Markets & Asset Management and Handelsbanken International. The joint functions of these three business areas, such as back-office operations, IT development, finance, HR, communications, risk control and compliance, are co-ordinated under a joint head. The remaining two business areas are Stadshypotek and Retail & E-services. Each business area has Groupwide responsibility for its products and services.

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

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

Risk Forum and Senior Management

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.

Members of the Risk Forum, heads of business areas, heads of regional banks and heads of Handelsbanken's home markets are members of the Senior Management group. Senior Management also includes the heads of the Bank's central departments and administrative functions. Senior Management is a consultative body, not a decision-making body. To a large extent, responsibilities and powers of authority at Handelsbanken have been assigned to individual members of staff, rather than groups or committees. However, there are collective decisions regarding credit decisions made in credit committees and the boards of regional banks. It is also required that the members are unanimous regarding these decisions. Further information about Senior Management and the Risk Forum can be found on pages 62–63.

FRAMEWORK FOR CONTROL

Internal control for operations

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

Group Audit

Long before external requirements on 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 Board's controlling body. The selected organisation and long tradition give Group Audit the authority and integrity required to enable the auditors elected by the AGM to rely on measures and data from Group Audit.

Group Audit is tasked with performing an independent, impartial audit of the operations and financial reporting of the Handelsbanken Group. This includes assessing and verifying processes for risk management, internal control and corporate governance. Their assignment is based on a policy established by the Board and is performed on the basis of a risk-based methodology in accordance with internationally accepted standards issued by the Institute of Internal Auditors. The planned auditing tasks are documented every year in an audit plan which is established by the Board's audit committee on behalf of 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.

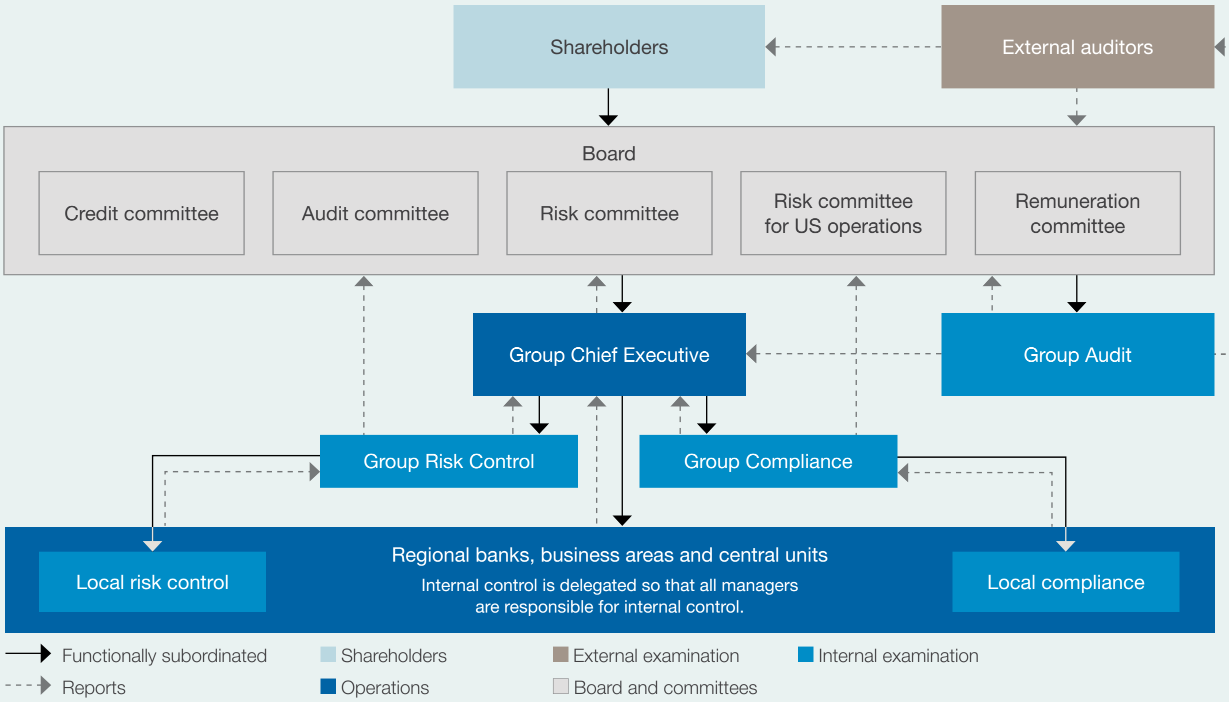
Group Audit is regularly subject to independent external quality reviews. In addition, the Bank's external auditors perform an annual quality review of the work of Group Audit.

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 conducted 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. The Chief Compliance Officer reports on compliance in the Group twice a year directly to the Board's risk committee and once a year to the Board as a whole. In addition, material observations are reported regularly to the CEO.

Control at Handelsbanken



Group Risk Control
The Bank is characterised by a clear division of responsibility, whereby 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. Local risk control carries out 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 also to the management of the operations.

Group Risk Control identifies, measures, analyses and reports all the Group's material risks. This includes monitoring and checking the Group's risk management and assessing that Handelsbanken's risk management framework is fit-for-purpose and efficient. Group Risk Control also monitors that the risks and risk management comply with the Bank's risk strategy and risk tolerance. Together with local risk control functions, Group Risk Control is also responsible for correct valuation of financial instruments. This responsibility includes ensuring that management has reliable information regarding risks to use in critical situations. Group Risk Control has functional responsibility for risk control at Handelsbanken.

The CRO reports directly to the CEO. Information is also provided to the CFO on a regular basis. The CRO reports regularly to the Board's risk committee and remuneration committee, and once a year to the Board as a whole. The Board is kept continuously informed of 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 80–107, 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 decided on 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 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.

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 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 Group Chief Executive.

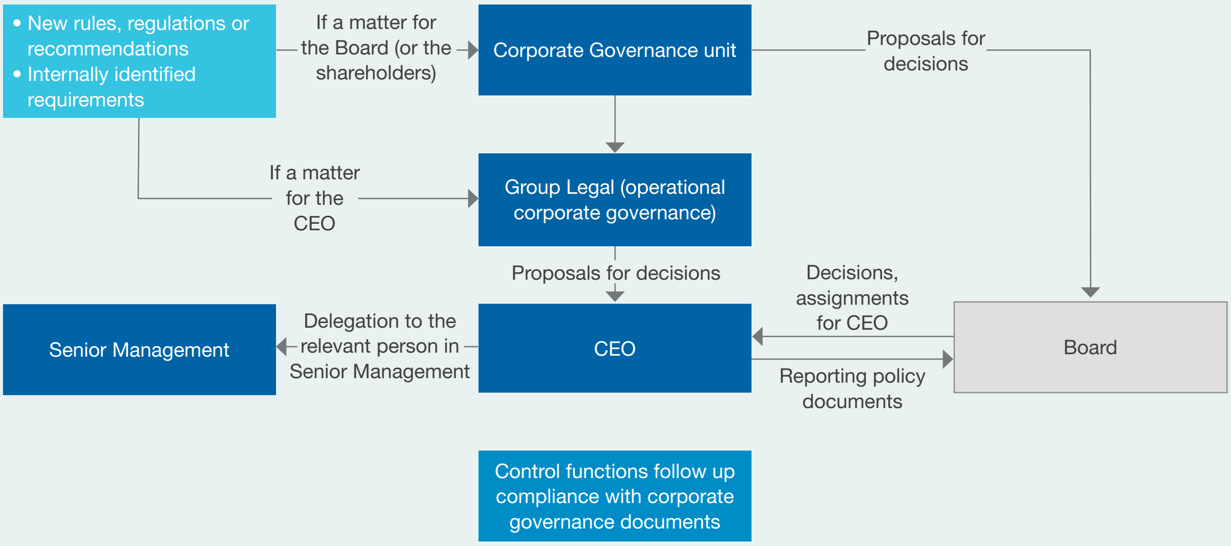
Policy for operational risk
Handelsbanken's tolerance of operational risk is very low. "Operational risk" refers to errors in internal processes, faulty systems or external events. Operational risk must be managed so that operational losses remain small, both in comparison with previous losses incurred and with other banks' losses. The responsibility for operational risk is an integral part of managerial responsibility throughout the Group.

Capital policy
The purpose of the capital policy is to ensure that the Group's supply of capital is satisfactory. The Group must at all times be well capitalised in relation to risk, and fulfil the goals established by the Board and the capital adequacy requirements established by supervisory authorities, even in situations of financial stress (see the section on risk in note G2 on pages 80–107). 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. During 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" here refers to market risks and liquidity risks. Market risks are in turn divided

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



The chart shows an overview of the process of producing and following up corporate governance documents. External factors – such as new regulations – or internal requirements may mean that a policy or guidelines needs to be drawn up or amended. The Corporate Governance unit formulates proposals for policies from the Board, which are then adopted by the Board. Group Legal is responsible for formulating proposals for guidelines from the CEO, which are then submitted to the CEO for a decision. The CEO ensures that the policies and guidelines are implemented, and can delegate this task to a member of Senior Management. The Bank's control functions have the task of monitoring compliance with these documents within the organisation.

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

Sustainability policy

The 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 within the Bank to continuously identify potential conflicts of interest. If a conflict of interest is identified, the head of the unit responsible must first 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

The 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 legislation 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 about remuneration are shown in note G8 on pages 110–113.

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

Policy for managing and reporting events of material importance

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

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

If the auditors that have been elected at the AGM are engaged for assignments other than auditing, special instructions from the CEO must be complied with. Furthermore, this must be reported to the 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, in a dialogue with the customer, taking into consideration the current regulations in the area to which the complaint relates.

Policy for employees' private securities and currency transactions

This policy applies to all Handelsbanken Group employees – temporary as well as permanent – closely-related persons and service providers. Its purpose is to prevent any person who is covered by 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 financing of terrorism and the observance of international sanctions

This policy is based on the Swedish law on measures against money laundering and financing of terrorism and the Swedish Act on Certain International Sanctions. Handelsbanken shall not participate in transactions which may be suspected of being linked to criminal activities, or transactions of which the employees do not understand the implications. Handelsbanken's work method is based on knowledge of customers, and an understanding of customers' operations. 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. Variable remuneration is to be applied with caution, and is only paid to a very limited extent. Variable remuneration is not paid to the Bank's management, nor to any employee who makes decisions on credits or limits. Pursuant to Handelsbanken's remuneration policy, risk-takers (persons who can affect the Bank's risk profile to a material extent) will not receive variable remuneration.

Handelsbanken complies with the Swedish Financial Supervisory Authority's regulations governing remuneration policies in credit institutions, investment firms and fund management companies, which include special rules for employees who receive variable remuneration and who are deemed to have a significant bearing on Handelsbanken's risk profile. The regulations also contain provisions on deferred compensation. The heads of the areas concerned, as well as the CRO and Chief Compliance Officer, take part in the remuneration committee's preparation and assessment of the Board's remuneration policy and the Bank's remuneration system.

Below is an overall presentation of the Bank's fundamental principles for fixed and variable remuneration. Other information concerning remuneration paid by the Bank in accordance with the current regulations is presented in note G8 on pages 110–113. This note also provides information about amounts for salaries, pensions and other benefits, and loans to Executive Directors.

Fundamental remuneration principles

In Sweden and certain other countries, the Bank is party to collective agreements on general terms and conditions of employment during the employment period and on terms and conditions of pensions after employees have reached retirement age.

The aim of the Bank's policy on salaries is to increase the Bank's competitiveness and profitability, to enable the Bank to attract, retain and develop skilled staff, and to ensure good management succession planning. Good profitability and productivity performance at the Bank create the necessary conditions for salary growth for the Bank's employees.

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

Salaries are based on factors known in advance: the nature and level of difficulty of the work, skills, performance and results achieved, leadership (for managers who are responsible for the career development of employees), the market, and performance as an ambassador for the Bank's corporate culture.

The principle of only having a fixed salary applies to 98 per cent of the Group's employees, and is applied without exception to executive officers, all staff who decide on the Bank's granting of credits, and employees in the Bank's control functions.

Principles for remuneration to executive officers

The shareholders at the AGM decide on guidelines for remuneration to 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 AGM guidelines from 2016, see the "Annual general meeting 2016" 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 16 individuals (as at 31 December 2016). 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. Following a special decision by the Board, Handelsbanken can provide housing as part of the remuneration. 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 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 110–113 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 2017 AGM, guidelines will be proposed for remuneration and other terms of employment for executive officers as follows. The guidelines shall 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 bonus and percentage of profits are not paid.
- The executive officers 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, 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 final amount.

Variable remuneration occurs to a very limited extent, and only within Handelsbanken Capital Markets, in certain subsidiaries with mutual fund operations and in the UK subsidiary, Heartwood. Nor is variable remuneration paid to the Bank's management or to any employee who makes decisions on credits or limits.

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 charged with the actual cost of the capital and liquidity required by the operations. It must also be adjusted for risk.

Only employees within 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 are entitled to receive variable remuneration. The main rule is that variable remuneration is only paid in cash, with the exception of certain deferred variable remuneration in Heartwood, as specified belowed. The disbursement of at least 40 per cent of variable remuneration of SEK 100,000 or more is deferred by at least three years. For particularly large amounts of variable remuneration, 60 per cent is deferred for four years. 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. At Heartwood, half of deferred variable remuneration is invested in Heartwood funds. 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. No employee may receive variable remuneration of more than 100 per cent of his/her fixed remuneration. Variable remuneration for 2016 was equivalent to around one per cent of the total sum of salaries and fees in the Group. The total variable remuneration paid out during one year must not exceed 0.4 per cent of the common equity tier 1 capital.

The Board's report on internal control regarding financial reporting

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

Control environment

The control environment described above in this corporate governance report is fundamental to Handelsbanken's internal control of financial reporting: organisational structure, division of responsibilities, guidelines and policy documents.

Risk assessment is another part of the internal control process and comprises identification and management of the risks that may affect financial reporting, as well as the control activities aimed at preventing, detecting and correcting errors and deviations.

Risk assessment

The annual self-evaluations carried out at regional banks, subsidiaries and central departments 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 80–107 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 Groupwide 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 of 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. See the section under the Committee work heading on page 52 for more details.

Information and communication

The Bank has information and communication paths designed to achieve 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 and Group Risk Control, and also 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 instructions established by the Board for internal audit state that it must examine internal governance and control, and 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, Chairman	Fredrik Lundberg, Vice Chairman	Karin Apelman, Board Member	Jon Fredrik Baksaas, Board Member	Tommy Bylund, Board Member
Year elected	2006	2002	2016	2003	2000
Year of birth	1961	1951	1961	1954	1959
Nationality	Swedish	Swedish	Swedish	Norwegian	Swedish
Position and assignments	Chairman of Svenska Cellulosa AB SCA • Vice Chairman AB Industrivärden • Board member Skanska AB.	President and CEO of L E Lundbergföretagen AB • Chairman of Holmen AB, Hufvudstaden AB, AB Industrivärden, Indutrade AB • Board member L E Lundbergföretagen AB, Skanska AB.	Board member, Bliwa Livförsäkring, ömsesidigt, STINT (the Swedish Foundation for International Co-operation in Research and Higher Education), Swedavia AB.	No other assignments.	Head of Compliance at Handelsbanken Central Sweden.
Background	2006–2015 President and CEO of Handelsbanken • 2002–2005 EVP, Head of Handelsbanken Markets • 1998–2002 EVP, Head of Regional Bank Denmark, Handelsbanken.	Active in Lundbergs since 1977 • President and CEO, L E Lundbergföretagen AB since 1981.	2007–2016 Swedish Export Credits Guarantee Board (EKN), Director General • 2001–2007 LFV Air Navigation Services of Sweden, CFO • 1994–2001 SAAB Aircraft Leasing, Deputy CEO • 1990–1994 SAS, Leasing & Project Finance and Corporate Finance & Assistant Treasurer • 1987–1990 SAAB Aircraft Credit, Vice President • 1986–1987 Sven Hagströmer AB, Corporate Finance • 1981–1985 Swedish Export Credits Guarantee Board (EKN).	2008–2016 Board member GSM Association, Chairman 2013–2016 • 2002–2015 Telenor Group, President and CEO • 1989–2002 Telenor Group, various positions in finance, financial control and general management • Employee of Aker AS (1988–1989), Stolt Nielsen Seaway AS (1985–1988) and Det Norske Veritas, Norway and Japan (1979–1985).	1990–2016 Board member Oktogonen Foundation, Chairman 2000–2016 • 1992–2016 Branch manager at Handelsbanken • Employed by Handelsbanken since 1980.
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	Upper Secondary School
Remuneration 2016[1]	SEK 4,388,750	SEK 1,235,000	SEK 480,000	SEK 1,413,750	SEK 0
Credit committee Participation	Chair 12/12	12/12	–	Deputy member –	12/12
Audit committee Participation	8/8	–	–	8/8	–
Remuneration committee Participation	Chair 14/14	–	–	–	–
Risk committee Participation	Chair 6/6	–	–	6/6	–
Risk committee for US operations Participation	Chair 1/1	–	–	1/1	–
Board meetings Participation	Chair 15/15	15/15	12/15[2]	15/15	15/15
Own shareholdings and those of immediate family	44,383, of which 21,883 in indirect holdings[3].	50,775,000	0	0	67,026, of which 67,026 in indirect holdings[3]. 2014 convertible at nominal amount: SEK 1,188,742
Dependent/ independent	Not independent of the Bank and its management (former CEO). Not independent of major shareholders (Vice Chairman of AB Industrivärden).	Independent of the Bank and its management. Not independent of major shareholders (Chairman of AB Industrivärden).	Independent of the Bank, its management and major shareholders.	Independent of the Bank, its management and major shareholders.	Not independent of the Bank and its management (employee). Independent of major shareholders.

[1] Remuneration decided by the AGM. Total remuneration to the Board in 2016 was SEK 12,321,250.
[2] Member of the Board/committee from March 2016.
[3] Indirect holding of shares in Handelsbanken via the Oktogonen profit-sharing foundation.





Name	Kerstin Hessius, Board Member	Ole Johansson, Board Member	Lise Kaae, Board Member	Bente Rathe, Board Member	Charlotte Skog, Board Member
Year elected	2016	2012	2015	2004	2012
Year of birth	1958	1951	1969	1954	1964
Nationality	Swedish	Finnish	Danish	Norwegian	Swedish
Position and assignments	CEO Third National Swedish Pension Fund • Board member Vasakronan AB, Hemsö Fastighets AB, Trenum AB, Svensk-Danska Broförbindelsen SVEDAB AB and Øresundsbro Konsortiet.	Chairman of Aker Arctic Technology Inc, Hartwall Capital Oy Ab • Board member Konecranes Oyj Apb.	CFO Bestseller A/S • Board member Normal A/S, Whiteway A/S and various companies in the Bestseller Group.	Chair of Ecohz AS and Cenium AS (both companies are subsidiaries of Home Invest AS) • Board member Polaris Media ASA, SalMar ASA, Home Invest AS and its subsidiary Nordic Choice Hospitality Group AS.	Bank officer at Handelsbanken • Chair, Finansliv Sverige AB • Board member Financial Sector Union of Sweden, Oktogonen Foundation.
Background	2001–2004 Stockholm stock exchange, CEO • 1999–2000 Sveriges Riksbank, Deputy Governor of the central bank • 1998 Danske Bank, Chief Executive, Asset Management • 1990–1997 ABN Amro Bank/Alfred Berg • 1989–1990 Finanstidningen • 1986–1989 Swedish National Debt Office • 1985–1986 Sveriges Riksbank (central bank) • 1984–1985 Swedish Agency for Public Management.	1975–2011 various positions within Wärtsilä (Metra) Group, except for a period at Valmet 1979–1981 • CEO 2000–2011.	1992–2008 Pricewaterhouse-Coopers.	1999–2002 Deputy CEO Gjensidige NOR (CEO of life insurance company, Chair of Mutual Fund and Asset Management Company) • 1996–1999 CEO Gjensidige Bank AS • 1993–1996 CEO Elcon Finans AS • 1991–1993 Deputy CEO Forenede Forsikring • 1989–1991 CFO Forenede Forsikring • 1977–1989 Head of credits and CFO E.A. Smith AS.	Has held various positions at Handelsbanken. Employed since 1989.
Education	Graduate in Business Administration	Diploma in Economics and Business Administration	Authorised Public Accountant	Graduate in Business Administration and MBA	Economics Programme Upper Secondary School
Remuneration 2016[1]	SEK 480,000	SEK 1,691,250	SEK 891,250	SEK 1,741,250	SEK 0
Credit committee Participation	–	10/12	9/12[2]	11/12	Deputy member –
Audit committee Participation	–	8/8	–	Chair 8/8	–
Remuneration committee Participation	–	14/14	–	14/14	–
Risk committee Participation	–	6/6	–	6/6	–
Risk committee for US operations Participation	–	–	–	–	–
Board meetings Participation	11/15[2]	15/15	15/15	15/15	15/15
Own shareholdings and those of immediate family	8,700	59,750	2,560	0	24,620, of which 23,904 in indirect holdings[3]. 2014 convertible at nominal amount: SEK 251,744
Dependent/independent	Independent of the Bank, its management and major shareholders.	Independent of the Bank, its management and major shareholders.	Independent of the Bank, its management and major shareholders.	Independent of the Bank, its management and major shareholders.	Not independent of the Bank and its management (employee). Not independent of major shareholders (Board Member of Oktogonen Foundation).

Secretary of the Board and Corporate Governance

Klas Tollstadius
Secretary of the Board and Corporate Governance • Year of birth 1954 • Employed at Handelsbanken since 1991 • Shareholdings* 34,778, of which 22,497 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 holding of shares in Handelsbanken via the Oktogonen profit-sharing foundation.

Senior Management

and Audit and Whistleblowing Function

Group Functions Executives

Per Beckman [1,2]
Chief Credit Officer, Group Credits • Year of birth 1962 • Employed 1993 • Shareholdings* 11,974, of which 11,974 in indirect holdings** • 2014 convertible[3]: SEK 5,617,510

Pål Bergström [2]
Chief Compliance Officer, Group Compliance • Year of birth 1967 • Employed 2015 • Shareholdings* 5,857, of which 5,857 in indirect holdings** • 2014 convertible[3]: –

Klas Bornälv
Head, Group Infrastructure • Year of birth 1971 • Employed 1997 • Shareholdings* 11,732, of which 11,732 in indirect holdings** • 2014 convertible[3]: SEK 1,188,742

Anders Bouvin [1,2]
President and Group Chief Executive • Year of birth 1958 • Employed 1985 • Shareholdings* 47,862, of which 42,862 in indirect holdings** • 2014 convertible[3]: SEK 5,869,254

Michael Green
Chairman of subsidiary • Year of birth 1966 • Employed 1994 • Shareholdings* 87,672, of which 15,797 in indirect holdings** • 2014 convertible[3]: SEK 5,617,510

Maria Hedin [1,2]
CRO, Group Risk Control • Year of birth 1964 • Employed 2010 • Shareholdings* 3,741, of which 3,495 in indirect holdings** • 2014 convertible[3]: SEK 5,176,431

Elisabet Jamal Bergström
Chief Sustainability Officer, Group Sustainability • Year of birth 1968 • Employed 1994 • Shareholdings* 14,011, of which 10,399 in indirect holdings** • 2014 convertible[3]: SEK 251,744

Joakim Jansson [1]
Head, Business Support Capital Markets • Year of birth 1976 • Employed 2006 • Shareholdings* 5,813, of which 5,813 in indirect holdings** • 2014 convertible[3]: SEK 1,188,742

Johan Lagerström [1]
Chief Communications Officer, Group Communications • Year of birth 1961 • Employed 2002 • Shareholdings* 9,449, of which 8,261 in indirect holdings** • 2014 convertible[3]: SEK 5,617,510

Agneta Lilja [1,2]
CIO, Group IT • Year of birth 1961 • Employed 1985 • Shareholdings* 42,038, of which 42,038 in indirect holdings** • 2014 convertible[3]: SEK 5,617,510

Rolf Marquardt [1,2]
CFO, Group Finance • Year of birth 1964 • Employed 2002 • Shareholdings* 8,491, of which 8,491 in indirect holdings** • 2014 convertible[3]: SEK 1,188,742

Stefan Nilsson [1]
Chairman of subsidiary • Year of birth 1957 • Employed 1980 • Shareholdings* 66,896, of which 66,896 in indirect holdings** • 2014 convertible[3]: SEK 5,617,510

Stina Petersson [1]
Chief Human Resources Officer, Group HR • Year of birth 1965 • Employed 1985 • Shareholdings* 35,109, of which 35,109 in indirect holdings** • 2014 convertible[3]: SEK 1,188,742

Juha Rantamaa
Head, Group IT Operations & Development • Year of birth 1964 • Employed 2011 • Shareholdings* 9,854, of which 9,854 in indirect holdings** • 2014 convertible[3]: SEK 1,188,742

Martin Wasteson [2]
Chief Legal Officer, Group Legal • Year of birth 1971 • Employed 2012 • Shareholdings* 1,624, of which 1,624 in indirect holdings** • 2014 convertible[3]: –

Independent of Senior Management – Audit and Whistleblowing Function

Tord Jonerot
Chief Audit Executive, Group Audit • Year of birth 1958 • Employed 1990 • Shareholdings* 23,507, of which 23,507 in indirect holdings** • 2014 convertible[3]: SEK 5,617,510

Group Business Executives

Nina Arkilahti[1]
CEO, Handelsbanken Finland • Year of birth 1967 • Employed 1995 • Shareholdings* 19,183, of which 11,986 in indirect holdings** • 2014 convertible[3]: SEK 5,617,510

Per Elcar[1]
Head, Markets & Asset Management • Year of birth 1962 • Employed 2002 • Shareholdings* 24,568, of which 7,858 in indirect holdings** • 2014 convertible[3]: SEK 1,188,742

Magnus Ericson
Head, Handelsbanken Northern Sweden • Year of birth 1968 • Employed 1988 • Shareholdings* 21,830, of which 20,830 in indirect holdings** • 2014 convertible[3]: SEK 1,188,742

John Hodson
Head, Handelsbanken Southern UK • Year of birth 1961 • Employed 2007 • Shareholdings* 1,673, of which 1,673 in indirect holdings** • 2014 convertible[3]: SEK 1,340,957

Katarina Ljungqvist
Head, Handelsbanken Western Sweden • Year of birth 1965 • Employed 1989 • Shareholdings* 24,486, of which 24,486 in indirect holdings** • 2014 convertible[3]: SEK 5,617,510

Simon Lodge
Head, Handelsbanken Yorkshire and North East UK • Year of birth 1958 • Employed 2004 • Shareholdings* 3,204, of which 3,204 in indirect holdings** • 2014 convertible[3]: SEK 5,769,602

Nick Lowe
Head, Handelsbanken Central UK • Year of birth 1958 • Employed 2007 • Shareholdings* 1,611, of which 1,611 in indirect holdings** • 2014 convertible[3]: SEK 5,152,092

Lars Moesgaard[1]
CEO, Handelsbanken Denmark • Year of birth 1968 • Employed 1988 • Shareholdings* 7,532, of which 6,089 in indirect holdings** • 2014 convertible[3]: SEK 1,188,742

John Parker
Head, Handelsbanken Northern UK • Year of birth 1955 • Employed 2006 • Shareholdings* 2,064, of which 2,064 in indirect holdings** • 2014 convertible[3]: SEK 5,769,607

Louise Sander
CEO, Handelsbanken Liv Pension & Life • Year of birth 1969 • Employed 2013 • Shareholdings* 1,259, of which 1,109 in indirect holdings** • 2014 convertible[3]: SEK 1,188,742

Göran Stille
Head, Handelsbanken South East Sweden • Year of birth 1966 • Employed 1987 • Shareholdings* 21,874, of which 11,974 in indirect holdings** • 2014 convertible[3]: SEK 5,617,510

Ulrica Stolt Kirkegaard
CEO, Stadshypotek • Year of birth 1968 • Employed 1994 • Shareholdings* 14,969, of which 14,446 in indirect holdings** • 2014 convertible[3]: SEK 5,251,744

Mikael Sørensen[1]
CEO, Handelsbanken UK • Year of birth 1966 • Employed 1994 • Shareholdings* 5,703, of which 5,703 in indirect holdings** • 2014 convertible[3]: SEK 5,617,510

Chris Teasdale
Head, Handelsbanken South West UK • Year of birth 1970 • Employed 2007 • Shareholdings* 1,729, of which 1,729 in indirect holdings** • 2014 convertible[3]: SEK 820,000

Dag Tjernsmo[1]
CEO, Handelsbanken Norway • Year of birth 1962 • Employed 1988 • Shareholdings* 14,577, of which 14,577 in indirect holdings** • 2014 convertible[3]: SEK 5,436,030

Jens Wiklund[1]
CEO, Handelsbanken The Netherlands • Year of birth 1975 • Employed 1997 • Shareholdings* 5,541, of which 5,541 in indirect holdings** • 2014 convertible[3]: SEK 835,878

Pontus Åhlund
Head, Handelsbanken Central Sweden • Year of birth 1963 • Employed 1983 • Shareholdings* 44,215, of which 35,648 in indirect holdings** • 2014 convertible[3]: SEK 5,617,510

Carina Åkerström[1]
Deputy Group Chief Executive • Head, Handelsbanken Stockholm • Year of birth 1962 • Employed 1986 • Shareholdings* 24,753, of which 24,753 in indirect holdings** • 2014 convertible[3]: SEK 5,617,510

Business Support Home Markets

Katarina Berner Frösdal
Chief Operating Officer, Handelsbanken Sweden • Year of birth 1956 • Employed 1979 • Shareholdings* 2,467, of which 2,467 in indirect holdings** • 2014 convertible[3]: SEK 5,617,410

[1] ***Executive Directors:*** *Covered by the remuneration guidelines in accordance with the Swedish Companies Act.*
[2] ***Risk Forum:*** *This is a 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.*

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

Auditor's report

To the general meeting of the shareholders of Svenska Handelsbanken AB (publ), corp. id 502007-7862

Report on the annual accounts and consolidated accounts

Opinions
We have audited the annual accounts and consolidated accounts of Svenska Handelsbanken AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 7–201 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies.

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

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

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

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

KEY AUDIT MATTERS
Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Credit risk and loan impairment provisions
Detailed information and description of the key audit matter is provided in the annual accounts and consolidated accounts. Credit risk exposures and credit risk management are described in note G2 from page 82. Reported losses are specified in note G10. Information regarding the parent company is presented in note P2 and note P10. Relevant accounting principles for the group are described in note G1 section 9 on page 74. Note P1 shows that the parent company's accounting principles regarding loan impairment provisions are consistent with the group's accounting principles.

Description of key audit matter
Handelsbanken's business model focuses on taking credit risks in the retail business. The model implies that the group only takes credit risks that are in line with the group's restrictive approach to risk. All other risks, such as market risks and liquidity risks, the group strives to mitigate as far as possible limit.

The parent company's credit portfolio amounted to SEK 1,710,601 million as of 31 December 2016, representing 90 per cent of the company's total assets. The parent company's overall credit risk exposure, including off-balance sheet, amounts to SEK 2,383,944 million, equivalent to 126 per cent of the company's total assets. The parent company's allowance for loan losses amounted to SEK –1,730 million.

The group's credit portfolio amounted to SEK 2,380,972 million as of 31 December 2016, representing 91 per cent of total consolidated assets. The group's total credit risk exposure, including off-balance sheet, amounts to SEK 2,967,402 million and equivalent to 113 per cent of the group's total assets. The group's allowance for loan losses amounted to SEK –1,724 million.

Provisions for loan losses in the parent company and the group corresponds to management's best estimate of potential losses incurred in the loan portfolios at the balance sheet date. The provision is calculated either on an individual basis for overdue loans or on a collective basis for groups of similar loans. 95 per cent and 94 per cent of reported loan losses consists of specific provisions for individually assessed receivables in the parent company and the group.

As a result of the bulk of the operations consists of credit and credit risk exposure represents the parent company's and the group's dominant risk and due to the inherent uncertainty in the recognition of provisions for credit losses as they are based on assessments of the management of a large number internal and external observations, including estimates of future cash flows and the uncertainty linked to the assessment of these cash flows, this area has been considered to be the most important audit matter in the audit of Handelsbanken.

Response in the audit
We have tested the design and effectiveness of the parent company's and the group's key controls in the credit process, including credit approval, credit review, rating classification, identification and determination of credits that should be reserved for. Tested controls consist of manual controls as well as automatic controls in application systems. We also tested IT general controls, including access management of these systems.

We have challenged the assessment of the recoverable value of future cash flows for specific provisions made for individually assessed loans made by branch managers, regional banks management, central credit department and company management.

For loans that are valued by collective provision models, we have challenged the assumptions in the models. We also checked on a sample basis input data in the models and the accuracy of the calculations.

We have assessed the facts presented in the disclosures in the financial statements and the adequacy of the information as a description of management's assumptions.

We also reviewed the audit work performed by Handelsbanken's internal audit.

Valuation of financial instruments where market prices are not available

Detailed information and description of the key audit matter is provided in the annual accounts and consolidated accounts. Financial instruments measured at fair value are described in note G40 for the group and note P34 for the parent company. Relevant accounting principles for the group are described in note G1 section 9 on page 75. Note P1 shows that the parent company's accounting principles for financial instruments measured at fair value is consistent with the group's accounting principles.

Description of key audit matter

Handelsbanken has financial instruments measured at fair value through profit or loss, where the current market prices are not available why fair value is determined using valuation models based on market data. These financial instruments categorized in Level 2 under IFRS valuation hierarchy. Handelsbanken has limited financial instruments whose fair value is determined using valuation models for which the value is affected by the input data that cannot be verified by external market data. These financial instruments categorized in Level 3 of the IFRS fair value hierarchy.

The parent company has financial assets and financial liabilities in Level 2 amounting to 95,957 million and SEK 60,286 million respectively. Financial assets and liabilities in Level 3 amounts to SEK 2,354 million and SEK 762 million respectively. Financial assets and liabilities in Level 2 corresponds to a total of 8 per cent of the company's total assets, while financial assets and liabilities in Level 3 corresponds to 0.2 per cent of total assets.

In the group, financial assets and financial liabilities in Level 2 amounts to SEK 94,270 million and SEK 37,533 millions respectively and financial assets and financial liabilities in Level 3 amounts to SEK 2,616 million and SEK 762 million respectively. Thus, financial assets and financial liabilities in Level 2 corresponds to a total of 5 per cent of total assets, while financial assets and liabilities in Level 3 corresponds to 0.1 per cent of total assets.

The majority of the group's derivatives, including interest rate swaps and other types of linear currency derivatives and corporate bonds are financial instruments in Level 2. Corporate bonds and derivatives in Level 2 are valued using valuation models based on market interest rates and other market prices.

Financial instruments in Level 3, which amounts to relatively low amounts primarily consist of unlisted shares in joint venture activities related to Handelsbanken's operations and investments in the insurance business included in the calculating of yield split in the insurance operations and are therefore not directly reported in the income statement.

The valuation of financial instruments in Level 2 include estimates of management, since they are valued using models. Therefore, these financial instruments are deemed to be a key audit matter.

Response in the audit

We have tested the key controls in the valuation process, including management's assumptions and methods used in model-based calculations, verification of data quality and change management for internal valuation models. Tested controls consist of manual controls as well as automatic controls in application systems. We also tested IT general controls, including access management of these systems.

We have utilised our internal valuation specialists in order to challenge the methods and assumptions used in the valuation of financial instruments where market prices are not available.

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

We have compared management assumptions with appropriate benchmarks and price sources and investigated significant deviations. We also checked the accuracy of the calculations by conducted sample tests and performed our own independent valuations.

We have assessed the facts presented in the disclosures in the financial statements and the adequacy of the information as a description of management's assumptions.

We also reviewed the audit work performed by Handelsbanken's internal audit.

Other information than the annual accounts and consolidated accounts

The printed Annual Report also contains information other than the formal annual accounts and consolidated accounts and is found on pages 1–5 and 218–219. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

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

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

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

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

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Svenska Handelsbanken AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

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

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

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

Stockholm 16 February 2017

KPMG AB

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Authorised Public Accountant

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Authorised Public Accountant

ECOLABELLED Printed matter 341 298

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