

2008

Corporate governance report

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Corporate governance report for 2008

Handelsbanken is a Swedish public limited company, listed on the Nasdaq OMX Nordic Exchange in Stockholm and it applies the Swedish Code of Corporate Governance. Corporate governance is the term used to describe a set of regulations for management and control of companies.

INTRODUCTION

Corporate governance is the term used to describe a set of regulations for the management and control of companies. Handelsbanken strictly applies and complies with the Swedish Code of Corporate Governance. In this text, the “Bank” covers the whole of the Handelsbanken Group’s operations unless the context demands that a difference is drawn between the parent company and the subsidiaries. This corporate governance report, which is not part of the formal annual report documents, has not been examined by the Bank’s auditors.

The report mainly describes matters not already covered by the regulations to which the Bank’s operations are subject, such as the Companies Act, the Banking and Financing Business Act, the Act on Capital Adequacy and Large Exposures, and also legislation on securities and insurance operations.

Banking operations are subject to a license, and the Swedish Financial Supervisory Authority has granted this license to Handelsbanken. The supervisory authority has also granted Handelsbanken a license to conduct securities operations. The Bank includes companies with a license to pursue insurance and fund management operations. In addition, the supervisory authority examines a series of issues, such as the suitability of board members and Bank management and the ability of the Bank to calculate its own capital requirements.

The supervisory authority supervises Handelsbanken in Sweden and in the countries where the Bank or its subsidiaries operate branches. This supervision is very extensive and is based on, in addition to laws and regulations, a number of directives and general guidelines issued by the supervisory authority. These often provide detailed descriptions of how the Bank must apply the laws and regulations. This includes the supervisory authority’s general guidelines on governance and control of financial companies. Unlike the supervisory authority’s directives, the guidelines are not binding. Nonetheless, the Bank complies with the guidelines as if they were rules.

The supervisory authority requires extensive reporting regarding the Bank’s organisation, decision structure, reporting channels, internal control, developments in the various business areas, the Bank’s terms and conditions, and information, mainly to private customers. The supervisory authority also regularly makes site visits to follow up compliance with the terms and conditions of granted licenses and the Bank’s reporting. It subsequently reports its observations to the Bank’s management.

In many countries, the host country’s supervisory authority also supervises the Bank’s operations there. Due to legal requirements in a few countries, the Bank or one of its subsidiaries carries out some or all of its operations through a subsidiary. In these cases, supervision is exercised by the supervisory authority in the host country. This applies in Denmark, Finland, Norway as well as in Ireland, Luxembourg, Russia and the US.

The Bank’s risk management is described in detail in note G2 under Risk and capital management on pages 50–63. Hence,

risk management is treated only in general terms in the corporate governance report.

SHAREHOLDERS AND SHAREHOLDERS’ MEETINGS

Rights of shareholders

The shareholders exercise their right to decide on matters relating to the company at annual general meetings. The ordinary general meeting (annual general meeting) appoints a board and auditors and also decides on their fees. The annual general meeting (AGM) adopts the income statement and balance sheet and decides on the matter of releasing the board and chief executive from liability. Information in preparation for meetings, as well as minutes of past meetings, can be viewed on the Bank’s website at www.handelsbanken.se/ireng. All notices to attend the meeting and proposals for the meeting are translated into English and are available on the Bank’s website.

The annual general meeting decides on the Articles of Association, which is the fundamental governing document at the Bank. The articles state what operations the Bank shall conduct, the amount of the share capital, the right of shareholders to attend shareholders’ meetings, and what is to be presented at the annual general meetings.

Handelsbanken has two classes of shares: class A and class B. Class A shares are by far the most important and represent 98.1% of all outstanding shares. Class A shares each carry one vote and class B shares 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% of the total number of votes in the Bank.

Shareholders, who wish to have a matter considered by the AGM, must submit a written request to the board sufficiently far in advance that the matter can be included in the notice of the meeting.

Major shareholders

The Bank has over 100,000 shareholders. Two shareholders have more than 10% of the voting rights in the Bank – the Oktogonen Foundation with 10.8% and Industrivärden with 10.6%. Information on the Bank’s largest shareholders can be found on page 22.

ANNUAL GENERAL MEETING 2008

The annual general meeting took place on 23 April 2008, and was attended by more than 900 shareholders and representatives. Those present represented 52.5% of all the votes in the Bank. All board members were present with the exception of the chairman of the board, Lars O Grönstedt. The auditors elected by the AGM also participated. The chairman of the meeting was Mr Sven Unger of the law firm Mannheimer Swartling Advokatbyrå.

The AGM approved a dividend payment of SEK 8.50 per share and an extra dividend of SEK 5.00 per share. In addition, the Board was authorised to purchase a total of no more than

20 million class A and/or B shares during the period until the next AGM in 2009. At the same time, the AGM decided to cancel all previously repurchased shares. The AGM also decided that the Bank may facilitate its securities operations by acquiring up to 2% of its own ordinary class A and/or B shares for the Bank's trading book.

The AGM also approved a convertible subordinated loan (staff convertible loan) of not more than SEK 2,300m. Employees of the Bank were eligible to subscribe. This is described in more detail on page 22.

The AGM decided that the board shall consist of twelve members. All members of the board were re-elected for the period until the end of the next annual general meeting, except for Mr Grönstedt, who had declined re-election. Hans Larsson was elected new chairman of the board.

KPMG AB and Ernst & Young AB were re-elected as auditors for the period until the end of the AGM to be held in 2012.

The AGM minutes are available on the Bank's website.

NOMINATION COMMITTEE

The 2008 AGM resolved that the nomination committee shall comprise five members: the chairman of the board and one representative from each of the four largest shareholders as at 31 August 2008. The meeting gave the chairman of the board the assignment of contacting the largest owners asking them to appoint a representative to sit on the nomination committee together with the chairman of the board. This has taken place and the 2009 nomination committee consists of:

All board members are independent of the Bank, its management, and the largest shareholder in terms of votes, with the exception of Henrik Forssén who is a Bank employee and a board

Composition of nomination committee and voting power		
Representative	Owner	Voting power %
Henrik Forssén	Stiftelsen Oktogonen	10.8
Carl-Olof By, chairman	Industrivärden	10.6
Bo Selling	Alecta	4.1
Lars Öhrstedt	AFA Försäkring	2.5
Hans Larsson, board chairman	Handelsbanken	

member of the Oktogonen Foundation. Information on the composition of the nomination committee has been available on the Bank's website since 22 October 2008.

In advance of the AGM on 29 April 2009, the nomination committee has the task of evaluating the work of the board. It submits proposals for chairman of the AGM, the chairman and other board members as well as for fees for the chairman and the other board members, remuneration for committee work, and fees to the auditors.

AUDITORS

Stefan Holmström is principal auditor for KPMG AB, and since 2008 he has been chairman of the auditing team at Handelsbanken. He has been an authorised public accountant since 1975. He is also an auditor for Länsförsäkringar AB, Swedish Space Corporation, Active Biotech AB, Proffice AB and the Federation of Swedish Farmers. Mr Holmström was born in 1949.

Erik Åström has been an authorised public accountant since 1989; and since 2008 he has been principal auditor from Ernst & Young at Handelsbanken. He is also an auditor for Apoteket AB, Hakon Invest, Hennes & Mauritz AB, Investment AB Kinnevik, Modern Times Group MTG AB, and Saab AB. Mr Åström was born in 1957.

BOARD OF DIRECTORS

After the AGM had appointed Hans Larsson as board chairman, Anders Nyrén and Fredrik Lundberg were appointed as vice chairmen at the subsequent first board meeting. At the same time, the board appointed representatives to the credit committee, audit committee and remuneration committee. Information about the board can be found on pages 138–139.

The board's size and independence

The board consists of twelve members. Two of these members elected by the AGM represent the Oktogonen Foundation, the Bank's profit-sharing foundation in which the employees are part-owners (beneficiaries). Apart from these members, the employees have no representatives on the board. The proportion of women on the board is 33%.

The listing requirements for Nasdaq OMX Nordic Exchange in Stockholm make certain stipulations concerning the composition of the board. The Swedish Code of Corporate Governance has adopted these rules since 1 July 2008. For example, the majority of the members elected by the AGM must be independent of the Bank and its management. At least two of the board members must also be independent of the Bank's major shareholders. No more than one board member is allowed to work in the Bank's management or in the management of its subsidiaries. Handelsbanken fulfils these requirements.

The nomination committee makes an overall assessment of each board member's independence in relation to the Bank and its management as well as to the Bank's major owners. The assessment of independence in relation to the Bank and its management takes into consideration the extent of direct or indirect business relations or other large financial dealings with the Bank. A member who has loans with the Bank, either directly or indirectly, is not considered to be dependent in relation to the Bank and its management solely on this basis. Major owners refers to shareholders who directly or indirectly control ten percent or more of the shares or votes of the Bank.

The only board member who works in the Bank management is group chief executive Pär Boman. Taking into consideration the code changes, the nomination committee had found that

the following are independent in relation to the Bank and its management: chairman Hans Larsson, vice chairmen Anders Nyrén and Fredrik Lundberg, and board members Pirkko Alitalo, Göran Ennerfelt, Sigrun Hjelmquist, Sverker Martin-Löf, Jon Fredrik Baksaa, and Bente Rathe. The changes also mean that Mr Larsson and Mr Ennerfelt are no longer considered dependent due to their length of service as board members. In addition, Hans Larsson, Pirkko Alitalo, Göran Ennerfelt, Sigrun Hjelmquist, Jon Fredrik Baksaa and Bente Rathe are independent of the Bank's major owners. Pär Boman, Ulrika Boëthius and Tommy Bylund are employees; hence, they are dependent in relation to the Bank.

Independent of the Bank and its management	Independent of the Bank, its management and major shareholders	Not independent of the Bank
Hans Larsson	Hans Larsson	Pär Boman
Pirkko Alitalo	Pirkko Alitalo	Ulrika Boëthius
Göran Ennerfelt	Göran Ennerfelt	Tommy Bylund
Sigrun Hjelmquist	Sigrun Hjelmquist	
Jon Fredrik Baksaa	Jon Fredrik Baksaa	
Bente Rathe	Bente Rathe	
Sverker Martin-Löf		
Anders Nyrén		
Fredrik Lundberg		

Regulations governing the board's work

According to the Swedish Companies Act, the board's overall task is to be responsible for the Bank's organisation and management of its business on behalf of its owners.

A bank's operations must be organised and conducted so that its structure, links with other companies and financial position are clearly visible. The board has overall responsibility for this.

The fundamental issues regarding the distribution of expertise among the board, the board committees, the chairman, the group chief executive and the internal auditing function are manifested in the board's work regulations and its instructions to the group chief executive and to the head of internal auditing.

Chairman of the board

The board's working instructions 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 to create the best possible working conditions and ensuring that the board is regularly updated and expands its knowledge about the Bank. It also involves ensuring that new board members receive a suitable introduction and training. The chairman must also be available to the group chief executive as an advisor and discussion partner; however, he also evaluates the latter's work and reports his assessment to the board. The chairman's duties also include being chairman and leading the meetings of the credit and remuneration committees as well as being a member of the audit committee. The chairman is also responsible for ensuring that the board's work is evaluated annually

and for informing the nomination committee of his evaluation. Finally, he is responsible for maintaining contacts among the major owners concerning ownership issues. As chairman, he also has the overall responsibility for ownership issues associated with the shareholdings of the Bank's pension foundation, pension fund and staff foundation. In other respects, there is no other division of work for the board than that involving the committees.

Committee work

Credit committee

The credit committee consists of nine members: the chairman (Hans Larsson), the vice chairmen (Anders Nyrén and Fredrik Lundberg), the chairman of the audit committee (Sverker Martin-Löf), the group chief executive (Pär Boman), the head of the credit department (Olle Lindstrand), and three board members appointed by the board (Pirkko Alitalo, Tommy Bylund and Sigrun Hjelmquist) to circulate on the committee with two-year mandates. The credit committee normally holds one meeting every month to decide on credit cases that are above a set limit level and that do not require a decision by the whole board due to the major importance of the case. If a delay in the credit decision would cause inconvenience to the Bank or the borrower, the instructions allow the group chief executive and the head of the credit department to decide on credit cases during the interval between meetings. The heads of the regional banks and the head of Handelsbanken International present cases from their own units and listen to other cases, which provides them with a good picture of the board's risk approach. Credit cases that are decided upon by the whole board are presented by the head of credits.

Audit committee

The audit committee consists of the board chairman (Hans Larsson) and two board members appointed by the board (Sverker Martin-Löf and Bente Rathe). The latter two members are independent in relation to the Bank and its management and Bente Rathe is also independent in relation to major owners. Both have auditing expertise. Sverker Martin-Löf is the committee chairman. The audit committee monitors the Bank's financial reporting and the effectiveness of the Bank's and group's internal control, internal auditing and risk management systems. The committee must maintain regular contact with the external auditors, who report to the committee on significant matters that have emerged from the audit required by law especially regarding shortcomings in the internal control of financial reporting. The committee must also examine reports from the heads of the compliance and risk control functions. The committee generally meets five times a year, normally in connection with quarterly and annual reports. Issues are presented to the committee by the group chief executive, the head of the Control and Accounting Department, the head of the Internal Auditing department, the head of Compliance, and the head auditors for the auditors appointed by the AGM.

Remuneration committee

The remuneration committee consists of the board chairman (Hans Larsson) and two board members appointed by the board (Pirkko Alitalo and Sigrun Hjelmquist). All members are independent in relation to the Bank and its management. The AGM decides on guidelines for remuneration terms to senior management. The board decides on remuneration for the group chief executive and the head of the internal auditing department, as well as setting limits on remuneration to senior management. The remuneration committee prepares the business to be decided on by the board and the AGM.

Internal auditing

The head of the internal auditing department is appointed by the board. The function has over 80 employees, a large number of whom have expertise corresponding to public authorised accountants. The Bank's external auditors evaluate and check the quality of the internal auditing department's work. The internal auditing department's assignments are based on a policy for internal auditing operations established by the board. The audit work is to focus on examining operations and procedures which are of material importance and/or involve risks. The planned auditing functions are documented annually in an audit plan which is established by the board's audit committee on behalf of the board. The result of internal audits, the actions to be taken, and the status of these are continually reported to the audit committee.

The board's work in 2008

During the year, the board held fourteen meetings, including a two-day strategy meeting. In 2008, the credit committee met twelve times, the audit committee five times and the remuneration committee six times. The board regularly discussed the economic situation, the Bank's strategy and its financial position in relation to other banks. Limits for market and liquidity risks, etc. were also examined and reviewed. The board was regularly informed about operational risks and took decisions on matters of funding, major credit-related matters, large investments and strategic issues.

In 2008, the board resolved to acquire Lokalbanken in Denmark.

The board's work was evaluated during the year in individual discussions between the chairman and individual members. The results were discussed at the November board meeting. The chairman reported the results of the evaluation and the board's discussion to the nomination committee. The board also met on one occasion to evaluate the work of the group chief executive without him being present.

PRINCIPLES FOR CORPORATE GOVERNANCE AT HANDELSBANKEN**Our Way**

For a long time, the Bank has created a clear corporate culture which is manifested in an internal document called Our Way. This document describes the Bank's goals, ideas and way of working and is read and discussed by all employees of the Bank. Our Way has been translated into all the Nordic languages, English and Polish.

In parallel with informal discussions, the board has established principles and strategies and also limits and target figures by means of several policy documents. These policy are briefly described here to give an idea of their contents.

Policy documents**Goals and strategy**

The Bank's overall goal is to have a higher return on equity than a weighted average of comparable listed Nordic and British banks. This is to be achieved by having the most satisfied customers and by being more cost-effective than comparable banks. The Bank's working methods are based on overall customer responsibility as close to the customer as possible.

Credit policy

Credits may only be granted if there are good grounds for expecting the borrower to meet his commitments. Credits must normally have security. If the cash flow is sufficiently strong, the credit may be unsecured. The Bank 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 financial position.

Operational risks

The responsibility for operational risks is part of managerial responsibility throughout the Bank. Operational risks must be managed so that the Bank's operational losses remain small, both in comparison with previous losses incurred, and with other banks' losses. Particular attention is given to risks that may lead to the most serious consequences and determine the probability of loss that can be accepted.

Capital policy

The Bank must have economic capital corresponding to all the risks that may lead to unexpected losses and which guarantees that the Tier 1 capital covers the minimum legal requirements. This is subject to a safety margin determined by the board. The Bank's capital situation must also justify a continued high rating from the most important rating agencies.

Financial policy

The CFO is responsible for the Bank's liquidity and funding within the limit for liquidity risk set by the board. Short-term funding must be well-diversified as regards markets, currencies

and maturities. The board sets limits for the long-term funding. A contingency plan must exist for crisis management in the case of disturbances on the financial market.

Financial risk policy

Financial risks here imply market risks and liquidity risks. Market risks are in turn divided into interest rate risks, equity price risks, currency risks and commodity price risks. The board stipulates the measurement methods and limits for financial risks and instructs the group chief executive to organise an independent risk control function with adequate resources for appropriate follow-up of market risks and liquidity risks.

Information policy

Information provided to the stock market must be correct, relevant and reliable and in compliance with stock market regulations. Information is to be made public as soon as possible and simultaneously to the stock market, investors, analysts, news services and other media. Normally, analysts and the media are simultaneously invited to attend press conferences and capital market seminars.

Ethical guidelines

The board and the Bank's employees must conduct themselves in a manner that upholds confidence in the Bank. All operations at the Bank must be characterised by high ethical standards. Customers must be treated with respect and the financial advice given must be based on the customer's requirements. Conflicts of interest are handled according to internal and external regulations. In case of doubt as to what is ethically acceptable, the question must be discussed with the employee's line manager.

Policy for internal auditing

Internal auditing assesses the efficiency and appropriateness of the Bank's processes for risk management, internal governance and control. The audit function must impartially and independently examine the Bank's accounts, ensure that material risks are identified and managed in a satisfactory manner and that essential financial management and operations information is reliable, correct and delivered on time.

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 Bank's stability or protection of customer assets, if there is a risk of such large loss that the Bank will not be able to meet its commitments to its customers or if errors arise in technical systems that affect the protection of customers' deposits.

Policy for the Bank's use of external auditing services

In addition to the audit, the Bank engages the auditors elected by the AGM for all other tasks which must be performed by auditors according to legislation or other external requirements.

Apart from this, a special review is required before an auditor is engaged for other assignments on behalf of the Bank. This type of assignment must be reported to the audit committee.

Policy for compliance

Compliance refers to the observance of laws, regulations and internal rules as well as accepted business practices or accepted standards related to the operations that are subject to a license. This means that the Bank must comply with the Swedish Financial Supervisory Authority's guidelines and industry codes such as the Swedish Code of Corporate Governance which is considered to represent sound practices. The compliance function must inform the board and group chief executive on the Bank's compliance.

Policy for agreements relating to the engagement of third parties

This policy refers to when the Bank outsources operations which are subject to a license to a third party, such as operating IT systems, acquisition of card transactions or other operations with a natural link to the Bank's operations. The Bank or its subsidiaries are always responsible for the outsourced operations being run in accordance with the permits linked to the operations.

Policy on money laundering and financing of particularly serious crime

The policy is based on the crime prevention laws in the financial area such as the Act on Measures against Money Laundering and the Act on Punishment for Financing of Particularly Serious Crime (terrorism). The Bank must not participate in transactions which may be suspected of being linked to criminal activities, or of which the employee does not understand the implication.

Principles for remuneration to senior management

As proposed by the board, the 2008 AGM established the following remuneration principles for the senior management.

- The total remuneration shall be on market terms.
- Remuneration is paid only in the form of a fixed salary and customary benefits.
- Variable compensation benefits such as bonus and percentage of profits are not paid.
- The senior managers in question are included in the Oktogonen profit-sharing scheme on the same terms as all employees of the Bank
- The minimum retirement age is 60. However, the retirement age for the CEO may be lower than this.
- The period of notice on the part of the employee is six months and on the part of the Bank, twelve months. If the Bank terminates the contract later than five years after the person's appointment to the Bank's management, the period of notice is 24 months. In exceptional cases, periods of notice may be shorter.
- No severance pay is paid.

The principle of a fixed salary without variable components or bonus is based on the idea that long-term confidence is difficult to combine with short-term rewards. This principle applies to all employees of the Bank who have the right to make decisions on credit risk, market risk, liquidity risk and matters which may entail operational risk. It also applies to employees at risk control, compliance and internal auditing.

Fixed fees also apply to the board members for serving on the board with a fixed supplement for serving on committees.

All employees of the Bank have defined benefit pension terms where a certain percentage of the final salary is paid out during the rest of their life. If the group chief executive Pär Boman remains in this position until the agreed retirement age of 58, the pension paid is 65% of his salary immediately before retirement. For executive vice presidents, a pension of 65% is paid between the ages of 60 and 64, and from the age of 65, their pension is 10% of the annual salary up to 7.5 price base amounts. They also receive a pension under the general national insurance scheme. A retirement pension of 65% is paid on the portion of the salary in excess of 7.5 price base amounts.

The pension terms for the group chief executive, the head of the credit department and the other executive vice presidents as a group are presented in more detail in note 8. Remuneration to the board members is reported under The board on pages 138–139.

THE BANK'S MANAGEMENT

Chief executive

Pär Boman has been the president and group chief executive since April 2006. He is 47 years old and has worked at Handelsbanken since 1991. Before joining the Bank's senior management in 1998, Mr Boman was a controller and credit specialist at the regional head office in Linköping and branch manager in Norrköping, before becoming executive vice president and head of Regional Bank Denmark, and then head of Handelsbanken Markets. Pär Boman has both engineering and business degrees. He is chairman of the Swedish Bankers' Association but has no other assignments outside the Bank. His shareholdings in the Bank and those of close relatives are 5,171, with 3,671 of these indirectly via the Oktogonen profit-sharing foundation. In addition, in 2008, Mr Boman subscribed for staff convertible notes for SEK 5m at a conversion price of SEK 188.63 per share, corresponding to 26,507 shares.

Senior management

Handelsbanken has a strictly decentralised working model, whereby most business decisions are taken at the branches, close to the customer. This also means that the Bank has a very flat organisational structure; between branch manager and chief executive there is only one level – head of regional bank. This leads to short, efficient and clear decision paths.

Risk control

The risk control function is briefly described in the overview of the Bank's governance structure on pages 136–137. As stated in the introduction to this report, a more detailed description is provided in note G2 on pages 50–63.

Handelsbanken's group management structure

The strong expansion of the past few years – particularly outside Sweden – has increased the demands on these decision paths.

In order to maintain and strengthen the decentralised working model, during 2008, Handelsbanken's senior management was organised into four distinct groupings, as follows:



Details about the senior management are stated on page 140.

Compliance

Compliance is the responsibility of all employees in the Bank. Setting up compliance functions centrally, within regional banks and in each business area and country where the Bank has operations does not release any employee from the responsibility of following the external and internal rules applying to the operations. However the regulations are often complex or the individual employee may have limited experience. It is thus vital that guidance is available so mistakes are avoided.

The head of the compliance function is also head of the Bank's legal department and reports directly to the group chief executive. This person must also report on compliance in the Bank to the audit committee at least twice a year. The legal department is often involved in the daily business operations. To make even clearer the independence of the compliance function, a separate compliance function has been created under the head of the central legal department, alongside the legal function.

The most important tasks for the compliance function are to inform and assist in identifying and assessing the risks that may arise due to inadequate compliance, and also to assist in formulating internal regulations and to inform about new or changed rules for the operations.

Contravention of listing agreement

In presenting its results for the first nine months of the year, the Bank presented volume performance for the first half of October, without this being included in the interim report. Nasdaq OMX Nordic Exchange in Stockholm stated that the Bank could not escape criticism for the incident, and the case was then closed.

THE BOARD'S REPORT ON INTERNAL CONTROL REGARDING THE 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 principles established for financial reporting and internal control, and that the financial reporting has been prepared pursuant to the law, applicable accounting standards, and other requirements relating to listed companies. This governance report, which is not part of the formal annual report documents, has not been examined by the Bank's auditors.

Control environment

Fundamental to Handelsbanken's internal control process for financial reporting is the control environment – i.e. the organisational structure and division of responsibility, as well as the guidelines and steering documents – described earlier in the corporate governance report. Risk assessment – i.e. the identification and management of the risks that may affect the financial reporting – is also part of the process, as are the control activities aimed at preventing, discovering and correcting errors and deviations.

Risk assessment

An important part of risk assessment are the annual self-evaluations carried out at regional banks, subsidiaries and central departments. In a self-evaluation, the employee defines events that represent potential risks to operations, and estimates the likelihood and consequences of these events occurring. Internal control of financial reporting is part of the overall analysis of a unit's operational risks that is included in the self-evaluation. Particular focus is placed on the risk of irregularities and the risk of loss or embezzlement of assets. A plan of action is then drawn up, based on the self-evaluations.

Other aspects of Handelsbanken's risk management are described in detail in note G2 – Risk and capital management – on pages 50–63.

Control activities

Control activities are embedded in the entire financial reporting process. The Central Control and Accounting department is responsible for consolidated accounts and reports, financial and administrative control systems, the Group's capital base, tax analysis, and Group reporting to public authorities. The Central Control and Accounting department also has the responsibility for ensuring that instructions of significance to financial reporting are disseminated and made available to the staff concerned.

Within the accounting and control operations there are regular reconciliations and checks of reported amounts, as well as analyses of income statements and balance sheets.

Heads of accounting and control at regional banks, subsidiaries and central departments are responsible for ensuring that the

control activities in the financial reporting for their respective units are appropriate – i.e. that they are designed to prevent, discover and correct errors and deviations – and are in compliance with internal guidelines and instructions. At each quarterly closing of accounts, the units certify that the prescribed reconciliations and checks of accounts have been carried out.

The task of the Group's valuation committee is to create a basis for correct valuation of the assets and liabilities that are recognised at fair value. The valuation committee has the corresponding responsibility for valuing securities that are classified as loan receivables, available-for-sale and held-to-maturity, as well as financial guarantees. This is achieved through the valuation committee being responsible for ensuring that internal guidelines, instructions and applied models for valuing the aforementioned assets and liabilities are appropriate and in compliance with external regulations.

High IT security is a precondition for good internal control of financial reporting. The Group's information security policy includes rules and guidelines to ensure availability, accuracy, confidentiality and traceability of information in 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 two board members. The committee processes crucial accounting matters and the financial reports produced by the Bank. The committee also supervises the efficiency of internal control, internal auditing and risk management of the financial reporting – see also under the 'Committee work' heading on page 131.

Information and communication

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

Monitoring

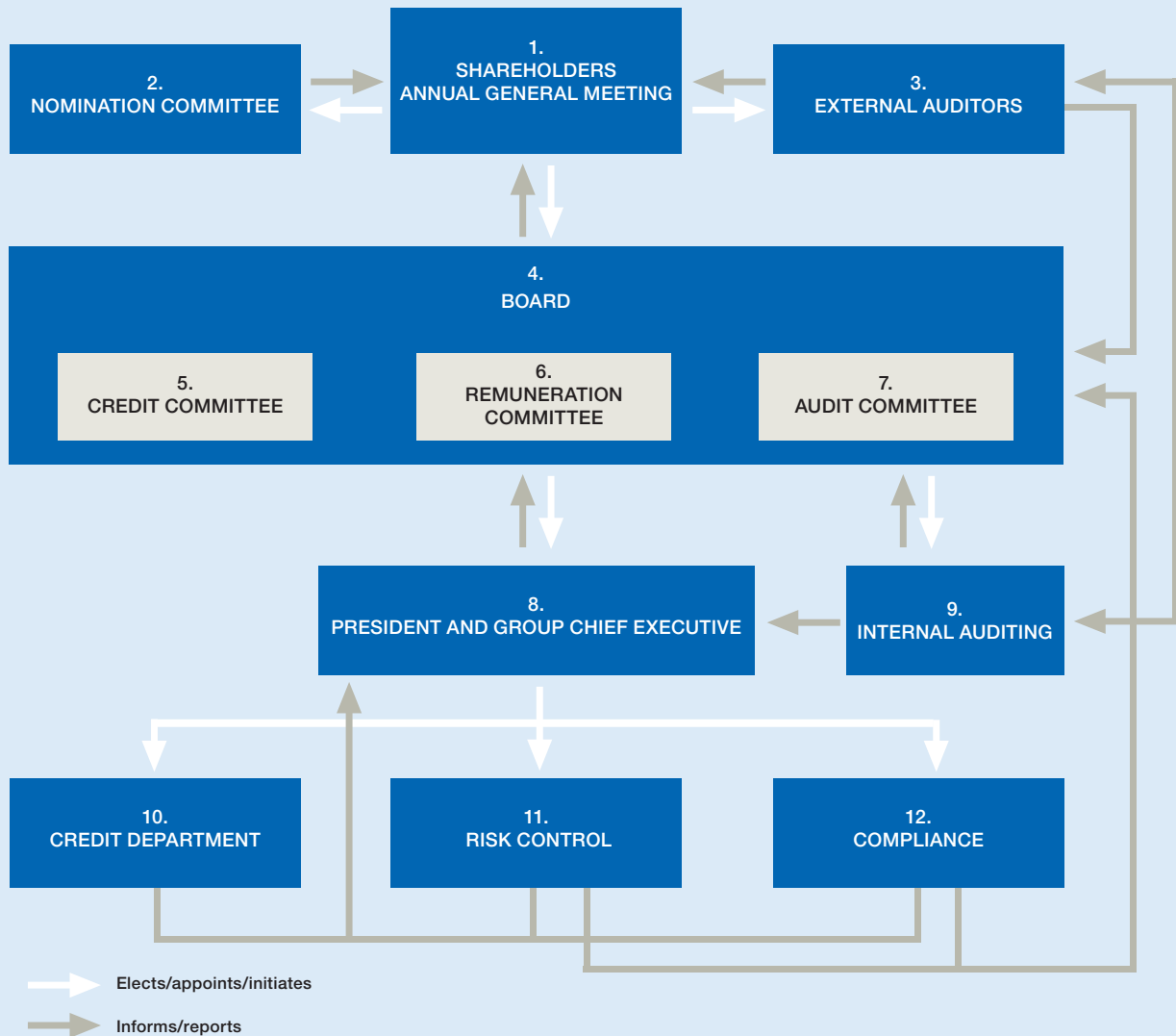
Internal Auditing, Central Risk Control, and the accounting and control departments carry out monitoring of compliance with internal policies, instructions and other steering documents. This takes place at the central level, but also at the level of local operations – in regional banks, subsidiaries and other business areas.

The internal auditing instructions established by the board state that the internal audit function must particularly audit internal control of financial reporting. The internal audit function is described in more detail on page 132 of the corporate governance report.

The Group's information and communication channels are monitored with the intention of ensuring that they are appropriate for their purpose in relation to the financial reporting.

Corporate governance structure

Handelsbanken's shareholders are ultimately responsible for making decisions about the Bank's governance. The annual general meeting appoints the board and auditors. The board is responsible to the owners for the Bank's organisation and management of its business. The auditors report on their findings to the AGM. The model describes how corporate governance is organised at Handelsbanken.



1. SHAREHOLDERS

Shareholders exercise their right to participate in decisions about Handelsbanken at the annual general meeting of shareholders (AGM), which is Handelsbanken's highest decision-making body. The AGM decides on the articles of association, adoption of the income statements and balance sheets, discharge from liability for the board of directors, a new board of directors, new auditors, and remuneration for the chairman and other members of the board as well as for the auditors. The AGM also decides on guidelines for remuneration paid to senior management.

2. NOMINATION COMMITTEE

The AGM decides how the nomination committee should be appointed. The committee's task is to prepare and submit proposals to the next AGM regarding the appointment of, and fees to, the chairman and other members of the board. The nomination committee's task also includes evaluating the work of the board, primarily based on the report that the chairman of the board submits to the committee. Additionally, the committee proposes appointment of, and fees to, the auditors.

3. EXTERNAL AUDITORS

As stated by law, the AGM appoints auditors for four years, which guarantees continuity and depth in their auditing. The auditors are accountable to the shareholders at the AGM. They submit their audit report of the annual accounts and an oral presentation at the AGM about how they conducted the audit as well as their assessment of the Bank's orderliness and control. The auditors also submit data and opinions to the audit committee, the whole board, the head of internal auditing and the group chief executive.

4. THE BOARD

The board is responsible for the Bank's organisation and manages the Bank's affairs for its owners. 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 respects of the Bank's financial circumstances are satisfactorily controlled. The board prepares instructions for this, a work procedure for the board and instructions for the group chief executive. These central policy documents state how responsibility and authority are distributed among the board as a whole, the committees, and between the board and the group chief executive. In addition to appointing the group chief executive, the board appoints the Bank's executive vice presidents and the head of internal auditing. The chairman is responsible for evaluating the board's work and informs the nomination committee of his judgements. The chairman is Hans Larsson.

5. CREDIT COMMITTEE

The credit committee decides on credit cases above the decision limit applying to the boards of the Swedish, Nordic and British regional banks, to the credit committee in Handelsbanken International's branches in 15 countries and in the subsidiary Handelsbanken Finans AB. Cases of major importance are referred to the full board for a decision. The credit committee comprises the board chairman, the vice chairmen, the group chief executive, the audit committee chairman, the head of the Central Credit Department, and three board members appointed by the board to circulate on the committee with two-year mandates. The heads of the regional banks and Handelsbanken International are responsible for reporting to the credit committee.

6. REMUNERATION COMMITTEE

The remuneration committee monitors the development of employment conditions for senior management at other financial companies and continually evaluates the need to adapt the conditions for the Bank's senior management to the market. The committee prepares the board's proposals – for presentation to the AGM – about guidelines for senior management remuneration and the board's decisions on remuneration for the group chief executive and the head of internal auditing. The remuneration committee consists of the board chairman and two members appointed by the board.

7. AUDIT COMMITTEE

The audit committee monitors the Bank's financial reporting by examining all crucial 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 auditing and risk management systems as well as the external auditors' impartiality and independence. It also assists the nomination committee in appointing auditors. The audit committee comprises the board chairman and two members selected by the board. One of these two is the committee's chairman.

8. PRESIDENT AND GROUP CHIEF EXECUTIVE

The group chief executive is appointed by the board to lead the operation of the Handelsbanken Group. In addition to board instructions, the group chief executive must comply with the provisions of the Swedish Companies Act and several other statutes concerning what is required to perform the Bank's accounting, management of funds and operational control. The Bank's highly decentralised organisation means that the group chief executive works very close to the line organisation through a relatively large senior management group. Pär Boman has been president and group chief executive since 2006.

9. INTERNAL AUDITING

The internal auditing department is to independently and impartially audit the operations and financial reporting of the Handelsbanken Group. Due to the large volume of transactions in a bank, it is natural that the audit strategy has focuses strongly on assessing and verifying internal control. The internal auditing department has over 80 employees, of whom 35 work in the Central Auditing Department, and around 50 in the Bank's business operating units. Tord Jonerot is head of the Central Auditing Department.

10. CREDIT DEPARTMENT

The Bank's Central Credit Department is responsible for maintaining the Bank's credit policy – primarily by preparing every major credit case that the board's credit committee or the whole board decides on. The head of credits presents all cases to the group chief executive before they are submitted for a decision. The head of credits reports to the group chief executive and is a member of the board's credit committee. Olle Lindstrand is head of the Central Credit Department, which has nine employees.

11. RISK CONTROL

The risk control unit is responsible for overall internal reporting of all the Group's material risks at an aggregate level. This responsibility comprises credit, counterparty and market risks (interest rate, exchange rate, equity price and commodity price risk), operational, liquidity and insurance risks. The task of the risk control unit is to identify, measure and monitor the Group's risks and provide the board and Bank's management with data on these risks to give a full and objective picture of the Group's risks and an analysis of their development. The management of the individual risks is, however, the task of the operating unit that is responsible for the customer or counterparty (account manager) or responsible for conducting a certain transaction (business manager). In the Bank's organisation, the risk control unit reports to the head of the Control and Accounting Department, but the head of the risk control unit must also report his observations and conclusions to the group chief executive and the board's audit committee. Rolf Marquardt is head of the risk control unit, which employs 40 people.

12. COMPLIANCE

The compliance function is responsible for informing about risks that may arise due to breaches in compliance. Its function is to help identify and assess such risks, assist in drawing up internal rules, and inform the Bank's management and board about compliance issues. The Bank's chief lawyer, Ulf Köping-Höggård, is responsible for the group compliance function. Compliance managers have been appointed in all business areas and all countries where the Bank operates. Some 40 employees work fully or partly with compliance.

The board



Name	Hans Larsson, chairman of the board	Anders Nyrén, vice chairman	Fredrik Lundberg, vice chairman	Pirkko Alitalo, board member	Jon Fredrik Baksaaas, board member	Ulrika Boëthius, board member
Position	Director	President and CEO of AB Industrivärden	President and CEO of L E Lundbergföretagen	–	President and CEO of Telenor ASA	Bank employee
Education	BA	Graduate in Business Administration and MBA	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 MBA	Sciences Upper Secondary School
Year elected	1990	2001	2002	2000	2003	2004
Year of birth	1942	1954	1951	1949	1954	1961
Nationality	Swedish	Swedish	Swedish	Finnish	Norwegian	Swedish
Other assignments	Chairman of Nobia AB, Attendo Holding AB, Valedo Partners Fund 1 AB. Board member Holmen AB.	Vice chairman of Sandvik AB. Board member Telefonaktiebolaget L M Ericsson, Ernströmgruppen AB, AB Industrivärden, Svenska Cellulosa AB SCA, SSAB Svenskt Stål AB. Chairman of Swedish Association of Listed Companies, Association for Sound Practices in the Securities Market.	Chairman of Holmen AB, Cardo AB, Hufvudstaden AB. Vice chairman of NCC AB. Board member L E Lundbergföretagen AB, AB Industrivärden, Sandvik AB.	Board member Lagercrantz Group AB.	Board member Aker ASA, Det norske Veritas (council), Doorstep AS, GSMA.	Vice chair Swedish Union of Financial Sector Employees.
Background	1992-1999 President Nordstjernan AB. 1989-1991 President Esselte AB. 1985-1989 President Swedish Match AB and Chairman of the boards of, among others, NCC AB, Linjebuss AB, Bilspedition/BTL AB, Althin Medical AB, Carema AB, Sydsvenska Kemi AB.	1997-2001 Deputy president, CFO Skanska. 1996-1997 Dir. Markets and Corporate Finance Nordbanken. 1992-1996 Deputy president, CFO Securum. 1987-1992 President OM International AB. 1986-1987 President STC Venture AB. 1982-1987 Deputy president, CFO STC. 1979-1982 Director AB Wilhelm Becker.	Active in Lundbergs since 1977. President and CEO L E Lundbergföretagen AB since 1981.	1997-2000 Deputy president Pohjola Group Abp. 1988-1989 Various management positions in the Pohjola Group. 1986-1988 Director of Midland Montagu Aktiebank. 1977-1986 Various management positions in the Pohjola Group. 1975-1976 Analyst at Postipankki.	1994-2002 CFO, Executive VP/Senior Executive VP Telenor ASA. 1997-1998 Managing Director Telenor Bedrift AS. 1989-1994 CFO/CEO TBK AS. 1988-1989 Chief Finance Director Aker AS. 1985-1988 Chief Finance Director. Stolt Nielsen Seaway AS. 1979-1985 System consultant/Controller/Contract Co-ordinator Det Norske Veritas.	Employed by Handelsbanken since 1981. Chair of union club at Handelsbanken, 1997-2004.
Remuneration	SEK 2,825,000	SEK 925,000	SEK 925,000	SEK 800,000	SEK 450,000	–
Credit committee Attendance	Chairman 12/12	Member 12/12	Member 12/12	Member 12/12	–	–
Audit committee Attendance	Member 1/2	–	–	–	–	–
Remuneration committee Attendance	Chairman 6/6	–	–	Member 6/6	–	–
Board meetings Attendance	14/14	14/14	14/14	14/14	11/14	13/14
Own shareholdings and those of immediate family	18,600	2,000	2,425,000	2,500	0	3,635, of which 3,635 indirectly via the Oktogonen profit-sharing foundation.
Dependent/independent	Independent of the Bank, its management and major shareholders.	Independent of bank management. Not independent of major shareholders (President and CEO of AB Industrivärden).	Independent of bank management. Not independent of major shareholders (Board member AB Industrivärden).	Independent of the Bank, its management and major shareholders.	Independent of the Bank, its management and major shareholders.	Not independent (employee).



Name	Pär Boman, member	Tommy Bylund, member	Göran Ennerfelt, member	Sigrun Hjelmqvist, member	Sverker Martin-Löf, member	Bente Rathe, member
Position	President and group chief executive of Handelsbanken	Bank Vice President	President of Axel Johnson Gruppen AB	Partner and chair of Sight Executive Group AB	Director	–
Education	Engineering and Business/Economics degree	Upper Secondary School	BA and Graduate in Business Administration	Graduate engineer and Lic. Tech.	Doctor of Engineering in Technology in Paper and Chemical Pulping, PhD (h.c.)	Graduate in Business Administration and MBA
Year elected	2006	2000	1985	2003	2002	2004
Year of birth	1961	1959	1940	1956	1943	1954
Nationality	Swedish	Swedish	Swedish	Swedish	Swedish	Norwegian
Other assignments	Chairman Swedish Bankers' Association.	Chairman of the Oktogonen Foundation. Member of Ljusdal Municipality's business policy foundation, Näråjus.	Chairman of Axfood AB.	Board member E.ON Sverige AB, RAE Systems Inc, Audiodev AB, Micronic Laser Systems AB, Symsoft AB, Seamless Distribution AB, Silix AB, Atea ASA.	Chairman of Svenska Cellulosa AB SCA, Skanska AB, SSAB Svenska Stål AB. Vice chairman of Telefonaktiebolaget LM Ericsson, AB Industrivärden and Confederation of Swedish Enterprise.	Chairperson of Ecohz ASA and Powel ASA. Board member Kongsberg Automotive ASA, Norsk Hydro ASA, Choice Hotels Scandinavia AS.
Background	2002-2005 EVP, Head of Handelsbanken Markets. 1998-2002 EVP, Head of Regional Bank Denmark, Handelsbanken. Employed by Handelsbanken since 1991.	Employed by Handelsbanken since 1980. Branch manager at Handelsbanken since 1992.	Since 1966, various assignments and positions at the Axel Johnson Group except for a period at Wells Fargo, San Francisco, USA 1971-1972.	2000-2005 Partner & Investment Mgr Brainheart Capital KB. 1998-2000 President Ericsson Components AB. 1979-2000 Various positions within the Ericsson Group.	1977-2002 Active at Svenska Cellulosa AB SCA in various management positions.	1999-2002 Deputy CEO Gjensidige NOR (CEO of life insurance company, chair of Mutual Fund and Asset Mgmt company). 1996-1999 President Gjensidige Bank AS. 1993-1996 President Elcon Finans AS. 1991-1993 Deputy president Forenede Forsikring. 1989-1991 CFO Forenede Forsikring. 1977-1989 Head of credits and CFO E.A. Smith AS.
Remuneration	–	–	SEK 450,000	SEK 800,000	SEK 875,000	SEK 575,000
Credit committee Attendance	Member 12/12	Member 12/12	–	Member 8/8	Member 10/12	–
Audit committee Attendance	–	–	–	–	Chairman 5/5	Member 4/5
Remuneration committee Attendance	–	–	–	Member 6/6	–	–
Board meetings Attendance	14/14	14/14	13/14	13/14	14/14	11/14
Own shareholdings and those of immediate family	5,171, of which 3,671 indirectly via the Oktogonen profit-sharing foundation.	14,340, of which 13,396 indirectly via the Oktogonen profit-sharing foundation.	65,000	1,000	4,000	1,330
Dependent/independent	Not independent (employee).	Not independent (employee).	Independent of the Bank, its management and major shareholders.	Independent of the Bank, its management and major shareholders.	Independent of the Bank and its management. Not independent of major shareholders (Board member AB Industrivärden).	Independent of the Bank, its management and major shareholders.