

The Board of Directors' report on internal control over financial reporting for the financial year 2017.

Introduction

According to the Maltese Companies Act (Cap 386) and the Swedish Code of Corporate Governance, the Board is responsible for internal control. This report has been prepared according to the Swedish Code of Corporate Governance Provisions 7.4 and is accordingly limited to internal control over financial reporting. This report, which has not been reviewed by the auditors, is not part of the formal financial statements.

Description

a. Control environment

The Directors have ultimate responsibility for the system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate the risk of failure to achieve business objectives. In pursuing these objectives, internal control can only provide reasonable, and not absolute, assurance against material misstatement or loss.

b. Risk assessment

The Executive Committee is responsible for reviewing risks, and for identifying, evaluating and managing the significant risks applicable to their respective areas of business. Risks are reviewed and assessed on a regular basis by the CEO, the CFO, the General Counsel, the Group Head of Risk, the Head of Internal Audit, the Audit Committee and the Board. The effectiveness of controls is considered in conjunction with the range of risks and their significance to the operating circumstances of individual areas of the business.

c. Control activities

The Board is responsible for all aspects of the Group's control activities.

The Audit Committee assists the Board in its review of the effectiveness of internal controls and is responsible for setting the strategy for the internal control review. In doing so, it takes account of the organisational framework and reporting mechanisms embedded within the Group, and the work of the General Counsel, the Group Head of Risk and the Head of Internal Audit.

Working throughout the Group, the role of the General Counsel, the Group Head of Risk and the Head of Internal Audit is to identify, monitor, and report to the Board on the significant financial and operating risks faced by the Group to provide assurance that it meets the highest standards of corporate governance expected by its stakeholders.

d. Information and communication

The Board receives regular formal reports from the Executive Committee concerning the performance of the business, including explanations for material variations from expected performance and assessments of changes in the risk profile of the business that have implications for the system of internal control. In particular, the Board receives direct periodic reports from the General Counsel, the Group Head of Risk and the Head of Internal Audit.

The Board also takes account of the advice of the Audit Committee, reports received from the external auditors, and any other related factors that come to its attention.

e. Monitoring

Further information concerning the activities of the Audit Committee in relation to the monitoring of the Kindred Group's internal controls, including the review of the financial reports published quarterly and reports from the internal audit function, is contained in the Audit Committee report on this page.

On behalf of the Board

Malta, 9 March 2018

Anders Ström
Chairman and Director

Nigel Cooper
Director