NORDEA HYPOTEK AB (publ) (556091-5448)

Corporate governance report 2014

Sound corporate governance is about having clear and systematic decision-making processes, thus providing clarity about responsibilities, avoiding conflicts of interest and ensuring satisfactory internal control, risk management and transparency.

This corporate governance report was prepared in accordance with the requirements of the Swedish Annual Accounts Act.

Corporate governance at Nordea Hypotek AB (publ)
Nordea Hypotek AB (publ) ("the Company") is a Swedish public limited liability company whose debt instruments are admitted to trading on NASDAQ OMX Stockholm, LSE London Stock Exchange and SIX Swiss Exchange. The company's corporate governance complies with generally accepted standards. The external framework that regulates corporate governance work includes the Swedish Companies Act, the Banking and Financing Business Act, the Annual Accounts Act, the Annual Reports at Credit Institutions and Investment Firms Act, EU regulations for the financial market and regulations issued by relevant supervisory authorities.

Division of powers and responsibilities
The management and control of the Company is divided among the shareholders (at the General Meeting), the Board of Directors and CEO, pursuant to the provisions of the external framework, the Articles of Association and the internal instructions set forth by the Board of Directors.

Annual General Meeting
The Annual General Meeting is the Company's highest decision-making body, at which shareholders exercise their voting rights. At the Annual General Meeting, decisions are made regarding matters such as the annual accounts, dividend, election of the Board of Directors and auditors as well as Board and auditor remuneration.

Voting rights
All shares in the Company carry one vote each at the AGM. At the AGM, each shareholder is entitled to vote his/her full number of shares owned or represented. All shares in the Company are held by Nordea Bank AB (publ).

Articles of Association
Amendments to the Articles of Association are resolved by the Annual General Meeting pursuant to Swedish law and are subject to the approval of the Swedish Financial Supervisory Authority.

Board of Directors of the Company
According to the Articles of Association, the Board of Directors shall consist of a minimum of five and a maximum of eight members elected by the shareholders at the Annual General Meeting. The term of office for Board members is one year.

Internal control process
The internal control process is conducted partly by the Company's Board of Directors and management, and partly by the staff of Nordea Bank AB (publ) who act in accordance with delegation agreements between the companies. The internal control process is designed to provide reasonable assurance regarding objective fulfilment in terms of external and internal efficiency of operations, reliability of financial and non-financial reporting, compliance with external and internal regulations, safeguarding of assets as well as sufficient management of risks in the operations. The internal control process is based on five main components: control environment, risk assessment, control activities, information & communication and monitoring.

The framework for the internal control process aims to create the necessary fundamentals for the entire organisation to contribute to the effectiveness and high quality of internal control through, for instance, clear definitions, division of roles and responsibilities and common tools and procedures.

Roles and responsibilities with respect to internal control and risk management are divided into three lines of defence. In the first line of defence, the business organisation and Group functions are responsible for conducting their business within established risk exposure limits and in accordance with the rules decided in the area. As second line of defence, the centralised Group risk functions are responsible for preparing the internal control and risk management rules. Group Internal Audit, which is the third line of defence, conducts audits and provides assurance to stakeholders on governance, risk management and internal controls.

Internal audit
Group Internal Audit (GIA) is an independent audit function in the bank. The Board of Directors of Nordea Bank AB (publ) has issued a Group directive known as the "Charter for the Group Audit within the Nordea Group", last updated on 28 April 2014. The aforementioned Group directive sets out the purpose of the internal audit, its scope, as well as GIA's powers and reporting procedures. GIA works pursuant to delegation agreements between the Company and Nordea Bank AB (publ) by assignment of the Company's Board of Directors.

GIA does not engage in consulting activities unless the Board Audit Committee commissions special assignments. The purpose of GIA's audit activity is to add value to the organisation by assuring the quality of the governance, risk management and control processes, and by promoting continuous improvement.

All activities, including outsourced activities, and entities of the Nordea Group, fall within the scope of GIA.

GIA operates without interference in determining the scope of internal auditing, performing its audit work and communicating its results. GIA is authorised to conduct all types of investigation and obtain all information required to execute its duties. The work of GIA shall comply with the Standards for the International Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and the Standards for Information Systems Auditing issued by ISACA. The annual audit plans are based on a comprehensive risk assessment.

External audit
According to the Articles of Association, one or two auditors must be elected by the Annual General Meeting for a term of one year. At the AGM 2014, KPMG AB was re-elected auditor until the end of the AGM 2015. Hans Åkervall is the chief auditor.

Internal control and risk management regarding financial reporting
The Company's systems for internal control and risk management of financial reporting are designed to provide reasonable assurance about the reliability of external financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles, applicable laws and regulations, and other requirements. The internal control and risk management activities are included in Nordea Bank AB (publ)'s planning and resource allocation processes. Internal control and risk management of financial reporting can be described in accordance with the COSO framework as set out below.

Control environment
The control environment constitutes the basis for the Company's internal control and contains the culture and values established by the Company's Board of Directors and executive management.

The control environment relies on a clear and transparent organisational structure. The Company's business structure aims to support the overall strategy, with strong business momentum and increased requirements on capital and liquidity. The business and the organisation are under constant development.

The key principle of risk management at the Company consists of the three lines of defence, with the first being the business organisation and Group functions, the second being the centralised group risk functions, which define a common set of standards, and the third being the internal audit function. The Accounting Key Control (AKC) function, implements a Group-wide system of key controls. This is done to ensure that controls essential to the financial reporting are continuously identified, monitored and assessed in the Group.

Risk assessment
The Board of Directors bears ultimate responsibility for limiting and monitoring the Company's risk exposure, and risk management is an integral part of business activities. Primary responsibility for conducting risks assessments regarding financial reporting rests with Company management and within Nordea Bank AB (publ) in accordance with delegation agreements. Performing risk assessments close to the business increases the possibility of identifying the most relevant risks. In order to govern the quality, central functions stipulate in governing documents when and how such assessments are to be performed. Examples of risk assessments, performed at least annually, are Quality and Risk Analysis for changes and Risk and Control Self-Assessments conducted at divisional level in Nordea Bank AB (publ).

Control activities
The heads of each unit are primarily responsible for managing the risks associated with the units' operations and financial reporting processes. The unit head can be a person employed by Nordea Bank AB (publ) acting in accordance with a delegation agreement between the companies. Support is provided by the Group Accounting Manual (GAM), the Financial Control Principles and various governing bodies, such as the Group Valuation Committee. The GAM includes a standard reporting package used by all entities to ensure consistent use

of the Company's and Group's principles and coordinated financial reporting. Fundamental internal control principles are the division of duties and the four-eyes principle when approving, for instance, transactions and authorisations.

The quality assurance vested in the management reporting process, whereby a detailed analysis of the financial outcome is performed, constitutes one of the most important control mechanisms associated with the reporting process. Reconciliations are another set of important controls in which the Company and Group work continuously to further improve the quality.

Information & communication
Group functions are responsible for ensuring that the Group Accounting Manual and the Financial Control Principles are up-to-date and that changes are communicated with the responsible units. These governing documents are broken down into instructions and standard operating procedures in the responsible units. On an annual basis, accounting specialists from Group Finance provide sessions for accountants and controllers in order to inform of applicable and updated rules and regulations with an impact on the Company and Group.

Monitoring
The risk and control self-assessment process includes monitoring the quality of internal control for financial reporting. Such monitoring occurs at Group level (Nordea Bank AB (publ)).

Revisorsyttrande om bolagsstyrningsrapporten

Till årsstämman i Nordea Hypotek AB (publ.), Org nr 556091-5448

Uppdrag och ansvarsfördelning

Vi har granskat bolagsstyrningsrapporten för år 2014. Det är styrelsen som har ansvaret för bolagsstyrningsrapporten och för att den är upprättad i enlighet med årsredovisningslagen. Vårt ansvar är att uttala oss om bolagsstyrningsrapporten på grundval av vår revision.

Vi har läst bolagsstyrningsrapporten och baserat på denna läsning och vår kunskap om bolaget anser vi att vi har tillräcklig grund för våra uttalanden. Detta innebär att vår lagstadgade genomgång av bolagsstyrningsrapporten har en annan inriktning och en väsentligt mindre omfattning jämfört med den inriktning och omfattning som en revision enligt International Standards on Auditing och god revisionssed i Sverige har.

Vi anser att en bolagsstyrningsrapport har upprättats, och att dess lagstadgade information är förenlig med årsredovisningen.

Stockholm den 9 mars 2015

KPMG AB

Hans Åkervall
Auktoriserad revisor