

NORDEA HYPOTEK AB (publ) (556091-5448)

Corporate governance report 2016

Strong corporate governance is about companies 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 is prepared in accordance with the requirements in 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 follows generally adopted principles of corporate governance. 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 Accounts Act of Credit Institutions and Investment Firms, EU regulations for the financial industry and rules issued by relevant financial supervisory authorities.

Division of powers and responsibilities

The management and control of the Company are divided among the shareholders (at General Meetings), the Board of Directors and the Chief Executive Officer (CEO), pursuant to the provisions of the external framework, the Articles of Association and the internal instructions set forth by the Board of Directors.

General Meeting

The General Meeting is the Company's highest decision-making body, at which shareholders exercise their voting rights. At the 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. General meetings are held in Stockholm.

Voting rights

All shares in the Company carry one vote each at General Meetings. At General Meetings, each shareholder is entitled to vote for the full number of shares that he or she owns or represents. 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 General Meeting pursuant to Swedish law and are subject to the approval of the Swedish Financial Supervisory Authority.

Board of Directors of the Company

Composition of the Board of Directors

According to the Articles of Association, the Board of Directors shall consist of at least five and no more than eight members elected by the shareholders at the General Meeting. The term of office for Board members is one year. Nordea has neither a specific retirement age

for Board members nor a time limit for how long a Board member may serve on the Board. There are no such requirements in the external framework.

The Board of Directors consists of seven members. They are Chairman Anna Storåkers (who replaced Torsten Allqvist in January 2017), Deputy Chairman Nicklas Ilebrand (as of January 2017), Peter Dalmalm (Deputy Chairman until January 2017), Maria Härdling (as of January 2017), Nils Lindberg, Elisabeth Olin (as of the AGM 2016) and Michael Skytt (CEO). Manuella Hansson and Ulla Hermann were board members until the AGM 2016. Cathrine Bognäs was board member from the AGM 2016 until January 2017.

The work of the Board of Directors

The Board has adopted written work procedures governing its work and its work carried out in the Board Audit Committee (the Charter). For example, the Charter sets forth the Board's and the Chairman's areas of responsibility, documentation and quorum as well as the frequency of meetings. It also contains rules regarding conflicts of interest and confidentiality. Furthermore, the Board of Directors has adopted instructions for the Chief Executive Officer ("CEO") specifying the CEO's responsibilities as well as other charters, policies and instructions for the operations of the Group. These, together with the Articles of Association, the Charter and Nordea's values, constitute the internal framework that regulates corporate governance at Nordea.

The Board is charged with the organisation of the Company and the management of the Company's operations in accordance with the external and internal framework. Furthermore, the Board shall ensure that the Company's organisation in respect of accounting, management of funds and the Company's financial position in general includes satisfactory controls. The Board is ultimately responsible for ensuring that an adequate and effective system of internal control is established and maintained.

In 2016, the Board held nine board meetings, two of which were held per capsulam.

Board Audit Committee

In accordance with the external framework and in order to increase the effectiveness of the board work, on 31 October 2016 the Board of Directors established a separate Board Audit Committee to assist the Board in preparing relevant matters belonging to the competence of the Board and to decide in matters delegated by the Board. The duties of the Board Audit Committee are defined in the Charter. Prior to 31 October 2016, the duties of the Board Audit Committee were fulfilled by the Board as a whole. The Committee regularly reports on its work to the Board.

The Board Audit Committee assists the Board in fulfilling its oversight responsibilities by *inter alia* (i) monitoring the Company's financial reporting process and submit recommendations or proposals to ensure its reliability, (ii) in relation to the financial reporting process monitoring the effectiveness of the internal control, internal audit and risk management systems, (iii) keeping itself informed as to the statutory audit of the annual accounts as well as of the conclusions from the quality assurance reviews of the external auditors carried out by the Swedish Supervisory Board of Public Accountants, (iv) informing the Board of Directors of the outcome of the statutory audit and explaining how the statutory audit contributed to the reliability of financial reporting and what the role of the Board Audit Committee was in that process, (v) reviewing and monitoring the impartiality and independence of the external auditors, and, in conjunction therewith, pay special attention to

whether the auditor provides the Company with services other than auditing services as well as (vi) assisting with the preparation of proposals for the General Meeting's election of external auditor.

Members of the Board Audit Committee are Nils Lindberg (Chairman), Peter Dalmalm and Maria Härdling (who replaced Cathrine Bognäs in January 2017). Normally, the CEO and one representative from Group Internal Audit and one representative from the Chief Financial Officer function should be present at meetings, and are then entitled to participate in discussions, but not in decisions.

None of the members of the Board Audit Committee may be employed by the Company. The chairman of the Board Audit Committee shall be appointed by its members and be independent of the Company, the Nordea Group and the major shareholders in Nordea Bank AB (publ). In addition, the Chairman shall have competence in accounting and/or auditing. The Company follows these legal requirements.

Internal control process

The Internal Control Process is carried out 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 Service Level Agreements and a Credit Delegation Agreement between the companies. The internal control process is designed to provide reasonable assurance regarding objective fulfilment in terms of effectiveness and 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 effectiveness and high quality of internal control through, for instance, clear definitions, assignments 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 Areas and Group Functions are risk owners and thus responsible for conducting their business within risk exposure limits and the risk appetite and in accordance with the decided internal control and risk management framework. As second line of defence, the centralised risk control functions are responsible for activities such as identifying, assessing, monitoring, controlling, and reporting of issues related to all key risks including compliance with internal and external frameworks. Group Internal Audit, which is the third line of defence, performs audits and provides the Board of Directors with an assessment of the overall effectiveness of the governance, and risk and control framework, together with an analysis of themes and trends emerging from internal audit work and their impact on the organisation's risk profile.

Internal audit

Group Internal Audit (GIA) is an independent audit function in the Group. The Board of Directors of Nordea Bank AB (publ) has issued a Group Directive known as the "Charter for the Group Internal Audit within the Nordea Group". The aforementioned Group Directive sets out the purpose of the internal audit, its scope, GIA's powers and reporting procedures. GIA works pursuant to a Service Level Agreement 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 of Nordea Bank AB (publ) gives it special assignments. The objective of GIA is, on the basis of its audits, to provide the Board of Directors with an assessment of the overall effectiveness of the governance, and risk and control framework, together with an analysis of themes and trends emerging from internal audit work and their impact on the organisation's risk profile.

All activities of the Company fall within the scope of GIA. GIA makes a risk based decision as to which areas within its scope should be included in the audit plan approved by the Board.

GIA shall operate free from interference in determining the scope of internal auditing, in performing its audit work, and in communicating its results. This means for example that GIA is authorised to inform the financial supervisory authorities on any matter without further approval. GIA is authorised to carry out all investigations and obtain all information required to discharge its duties. This includes the right to sufficient and timely access to the Company's records, systems, premises and staff.

External audit

According to the Articles of Association, one or two auditors must be elected by the General Meeting for a term of one year. At the AGM 2016, Öhrlings PricewaterhouseCoopers AB was re-elected auditor until the end of the AGM 2017. Catarina Ericsson is the auditor-in-charge.

Report on Internal control and risk management regarding financial reporting

The Company's and the Group's systems for internal control and risk management of financial reporting are designed to provide reasonable assurance about the reliability of financial reporting and the preparation of financial statements for external purposes 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'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 centres around the culture and values established by the Company's Board of Directors and management, and the organisational structure, with clear roles and responsibilities.

A clear and transparent organizational structure is of importance for the control environment. The Company's business structure aims to support the overall strategy, ensuring strong business momentum and meeting increased requirements on capital and liquidity. The business and the organisation are under constant development.

Clear roles and responsibilities are critical in the governance of Internal Control over Financial Reporting where the risk owners, in the Business Areas and the Group Finance & Business Control are responsible for the risk management activities. A risk management function supports the CFO function in maintaining a Group wide set of controls (in Nordea defined as Accounting Key Controls (AKC)), in line with the risk framework, which covers the controlling of risks and the risk identification process, that to a large extent is based on the actual business and financial closing processes in place. An independent risk control

function that is responsible for identifying, controlling and reporting on financial reporting risk has been established in Group Risk Management and Control (GRMC). In addition, the internal audit function provides the Board of Directors with an assessment of the overall effectiveness of the governance, risk management and control processes.

Risk assessment

The Board of Directors bears ultimate responsibility for limiting and monitoring the Company's risk exposure. Risk management is considered to be an integral part of running the business and the main responsibility for performing risk assessments regarding financial reporting lies with the Company management and within Nordea Bank AB (publ) in accordance with Service Level Agreements. When risk assessments are performed close to the business, it is easier to identify 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 the Quality and Risk Analysis for changes and Risk and Control Self-Assessments.

Risk assessment in relation to reliable financial reporting involves the identification and analysis of risks of material misstatements. Financial risk control work in Nordea focuses on risks and processes which could lead to material financial misstatements, i.e. if in light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgement of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item. Structured risk assessment procedures determine in which divisions, locations and/or processes risk for material financial misstatements exist and therefore need to be monitored under the AKC framework to ensure reasonable assurance of reliability of external financial reporting.

Control Activities

The heads of the respective units are primarily responsible for managing risks associated with the units' operations and financial reporting processes. The unit head can be a person employed by Nordea Bank AB acting in accordance with a Service Level 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 in the Group to ensure consistent use of the Company's and the Group's principles and coordinated financial reporting. Fundamental internal control principles are the segregation of duties and the four-eyes principle when approving, for instance, transactions and authorisations.

The AKC framework in each process is based on Transaction Level Controls (TLC) that are identified through analysing risks based on high level processes with an end-to-end product focus. After deciding on the TLCs an analysis is performed to determine what systems/applications are in scope for AKCs where specific IT General Controls are governed. The analysis aims at scoping in the major systems where there is risk that data, which is not detected in the TLC control structure, could become corrupt.

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

Information & Communication

Group Finance & Business Control is responsible for ensuring that the Group Accounting Manual and the Financial Control Principles are up-to-date and that changes are communicated to the responsible units. These governing documents are broken down into guidelines and standard operating procedures in the responsible units. Accounting specialists from Group Finance & Business Control continuously provide accountants and controllers with information on changes in order to inform of existing and updated rules and regulations with an impact on the Company and Group.

The AKC reporting procedures provide management at different levels of the organisation with information related to the performance and assessment of the identified AKCs in the form of Process Owner reports and Management Dashboard reports with a summarised assessment of the outcome and any high risk areas.

Monitoring

Nordea has established a process with the purpose of ensuring proper monitoring of the quality of the financial reporting and follow-up regarding possible deficiencies. This interactive process aims to cover all COSO components in the framework.

The Risk and Control Self-Assessment process includes monitoring the quality of internal control for financial reporting. The assessment is presented in the annual Group Operational and Compliance Risk Map, which is submitted to the CEO in Group Executive Management, the Board Risk Committee and the Board of Directors.

Group Finance & Business Control has also established a specific quarterly reporting regarding Internal Control over Financial Reporting to the Group CFO covering risk management and high risk areas. The independent risk control function within GRMC reports specifically on financial reporting risk to the Group Board's Board Audit Committee and the Group CEO in GEM on a quarterly basis.



REVISORS YTTRANDE OM BOLAGSSTYRNINGSRAPPORTEN

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

Det är styrelsen som har ansvaret för bolagsstyrningsrapporten för år 2016 och för att den är upprättad i enlighet med årsredovisningslagen.

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 24 februari 2017

Öhrlings PricewaterhouseCoopers AB

A handwritten signature in blue ink, appearing to read "Catarina Ericsson".

Catarina Ericsson

Auktoriserad revisor

Huvudansvarig revisor

A handwritten signature in blue ink, appearing to read "Helena Kaiser de Carolis".

Helena Kaiser de Carolis

Auktoriserad revisor