

NORDEA HYPOTEK AB (publ) (556091-5448)

Corporate governance report 2018

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 the debt instruments of which 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, Covered Bond Issuance Act, 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 (the “Board”) and the Chief Executive Officer (the “CEO”), pursuant to the provisions of the external framework, the Articles of Association and the internal rules set forth by the Board.

General Meeting

The General Meeting is the Company’s highest decision-making body, at which shareholders exercise their voting rights. The General Meeting decides on matters such as the annual accounts, dividend, election of the Board 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 Abp.

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

According to the Articles of Association, the Board 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. The Company 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 currently consists of six members. They are Nicklas Hebrand (Chairman), Peter Dalmalm (Deputy Chairman), Maria Härdling, Nils Lindberg, Elisabeth Olin and Michael Skytt (CEO). Anna Storåkers resigned as board member and chairman in the beginning of September 2018.

The work of the Board

The Board has adopted written work procedures governing the work of the Board (the “Company Directive on Rules of Procedures for the Board of Directors of Nordea Hypotek AB (publ)”) as well as separate written work procedures for the Company’s Audit Committee (the “Company Directive for the Audit Committee of Nordea Hypotek AB (publ)”). For example, the above-mentioned directives set forth the Board’s, the Audit Committee’s and their Chairmen’s areas of responsibility, documentation and quorum as well as the frequency of meetings. The directive regarding the Board also contains rules regarding conflicts of interest and confidentiality. Furthermore, the Board has adopted instructions for the Company’s CEO (the “Company Directive for the CEO of Nordea Hypotek AB (publ)”) specifying the CEO’s responsibilities as well as other directives, instructions and internal rules for the operations of the Company. These, together with the Articles of Association and Nordea’s values, constitute the internal framework that regulates corporate governance at the Company.

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 2018, the Board held twelve board meetings, two of which were held via Skype/telephone and four were held per capsulam.

Board Audit Committee

In accordance with the external framework and in order to increase the effectiveness of the board work, the Board has established an 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 Audit Committee are defined in the above mentioned directive for the audit committee. The Committee regularly reports on its work to the Board.

The Audit Committee assists the Board in fulfilling its oversight responsibilities by *inter alia* monitoring the Company’s financial reporting process and providing recommendations or proposals to ensure its reliability, monitoring the effectiveness of the internal audit function, keeping itself informed as to the statutory audit of the annual accounts and by reviewing and monitoring the impartiality and independence of the external auditors.

Members of the Audit Committee are Nils Lindberg (Chairman), Peter Dalmalm and Maria Härdling. Generally, the Company’s Chief Internal Auditor (CIA), CEO and Chief Financial Officer (CFO) are present at the Audit Committee meetings, with the right to participate in discussions but not in decisions.

The chairman of the Audit Committee shall be appointed by its members, and may not be the chairman of the Board or of any other Board Committee. None of the members of the Audit Committee may be employed by the Company or any of its subsidiaries, if any. The majority of the members of the committee are to be independent of the Company and its subsidiaries, if any, as well as of the Company's executive management. At least one of the members of the Audit Committee who is independent of the Company and its executive management shall also be independent of the Company's major shareholders and have competence in accounting and/or auditing. The Company follows these legal requirements.

Internal control framework

The Board is responsible for setting and overseeing an adequate and effective Internal Control Framework. The Internal Control Framework includes the control functions and the Risk Management Framework.

The Internal Control Framework is designed to ensure effective and efficient operations, adequate identification, measurement and mitigation of risks, prudent conduct of business, sound administrative and accounting procedures, reliability of financial and non-financial information reported or disclosed (both internally and externally) and compliance with laws, regulations, supervisory requirements and the Nordea Group Internal Rules.

The Internal Control Process is carried out partly by the Company's Board and management, and partly by the staff of Nordea Bank Abp who act in accordance with Intra Group Agreements and a Credit Delegation Agreement between the companies. The Internal Control Process is based on five main components: control environment, risk assessment, control activities, information and communication as well as monitoring. 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, 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 risk owners consist of all employees – including employees in Nordea Bank Abp acting in accordance with Intra Group Agreements between the Company and Nordea Bank Abp – who are not in the second or third lines of defence. It is thus those that are responsible for conducting the business within risk limits and risk appetite, and in accordance with the Internal Control Framework.

As *second line of defence*, the control functions are responsible for maintaining the Internal Control Framework and for monitoring the implementation of the policies and procedures within this Framework. The Company's Risk Control Function – including employees in Group Risk Management and Control (GRMC) in Nordea Bank Abp acting in accordance with Intra Group Agreements – is responsible for identifying, measuring, monitoring and reporting on all risks, except compliance risks. Group Compliance – i.e., employees in Nordea Bank Abp acting in accordance with Intra Group Agreements – is responsible for ensuring and monitoring compliance with internal and external rules and for establishing policies and processes to manage compliance risks and to ensure compliance.

Group Internal Audit – i.e., employees in Nordea Bank Abp acting in accordance with a Intra Group Agreement – which is the *third line of defence*, performs audits and provides the Board 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 Nordea Group. The Board of Directors of Nordea Bank Abp has issued "Group Board Directive for Group Internal Audit". This Group Directive sets out the purpose of the internal audit, its scope, GIA's powers and reporting procedures. The Company has issued a corresponding directive ("Company Directive for Group Internal Audit") setting out the purpose, scope, powers and reporting procedures of its internal audit function.

As explained above, the Company's internal audit function is performed by GIA in accordance with a Intra Group Agreement between the Company and Nordea Bank Abp. One person in GIA is appointed to be the Company's CIA. The CIA reports functionally to the Company's Board and Audit Committee but reports administratively to the Group Chief Audit Executive ("CAE"). The Company's Board approves the appointment and dismissal of the CIA in consultation with the CAE.

In relation to the Company, the purpose of GIA is to support the Company's Board and executive management in protecting the Company's assets, reputation and sustainability. GIA does this by assessing whether all significant risks are identified and appropriately reported by management and the risk functions to the Board, its Audit Committee and executive management; by assessing whether all significant risks are adequately controlled; and by challenging the executive management to improve the effectiveness of governance, risk management and internal controls.

GIA does not engage in consulting activities unless otherwise instructed by both the Board Audit Committee of Nordea Bank Abp and the Audit Committee of the Company.

All activities of the Company— including any outsourced activities, for example to Nordea Bank Abp— 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. The CIA has unrestricted access to the Company's CEO, the Chairman of the Company's Audit Committee and the Chairman of Company's Board. 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 2018, Öhrlings PricewaterhouseCoopers AB was re-elected auditor until the end of the AGM 2019. Catarina Ericsson is the auditor-in-charge.

Report on Internal control and risk management regarding financial reporting

The Company's and the Nordea 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 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.

As indicated also under the section "Internal control framework" above, the primary governance principle is the adherence to the three Lines of Defence ("3LoD") model, which forms the basis for a clear division of roles and responsibilities in the organisation. A proper 3LoD governance is in place ensuring that the segregation of duties is defined and established between risk management and risk control. According to the Company Directive on Internal Governance, the 1st LoD refers to all units and employees that are neither in the 2nd nor in the 3rd LoD. The 1st LoD is responsible for the daily risk management and for compliance with applicable rules. 2nd LoD consists of GRMC and Group Compliance being independent control functions. 3rd LoD consists of GIA being an independent internal audit function.

Clear roles and responsibilities are critical in the governance of Internal Control over Financial Reporting where the risk owners, in the 1st LoD, are responsible for the risk management activities. A risk management function supports the CFO in maintaining a Nordea 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 GRMC assisting the Company's Risk Control Function in accordance with a Intra Group Agreement between the Company and Nordea Bank Abp. In addition, the internal audit function provides the Board with an assessment of the overall effectiveness of the governance, risk management and control processes.

Risk assessment

The Board 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 Abp in accordance with Intra Group 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, control functions stipulate in

governing documents when and how such assessments are to be performed. Examples of risk assessments are the recurring Risk and Control Self-Assessments and the event driven Change Risk Management and Approval process.

Risk assessment in relation to reliable financial reporting involves the identification and analysis of risks of material misstatements. Financial reporting risk control work in the Nordea Group focuses on risks and processes which could lead to material financial misstatements, i.e. misstatements that if they occurred would significantly and adversely affect the Company and/or the Nordea Group. The scope of the AKC is therefore areas where risks of material financial misstatements exist, i.e. where the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the misstated 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 Abp acting in accordance with a Intra Group 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 Nordea Group to ensure consistent use of the Company's and the Nordea 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 control structure 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 Nordea Group work continuously to further strengthen the quality.

Information & Communication

Group Finance & Treasury 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 & Treasury 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 Nordea Group.

Key criteria applied when communicating financial information to the market is “correct, relevant, consistent, reliable and timely”. The information is to be disclosed in such a way that the information is made available to the public in a fast and on a non-discriminatory manner.

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 covers identification and assessment of risks and controls, which also includes risks and controls related to financial reporting.

Group Finance & Treasury 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 Nordea Bank Abp’s Board Audit Committee and the Group CEO in Group Executive Management on a quarterly basis.



Revisors yttrande om bolagsstyrningsrapporten

Till bolagstämman i Nordea Hypotek AB (publ), org.nr 5560915448

Uppdrag och ansvarsfördelning

Det är styrelsen som har ansvaret för bolagsstyrningsrapporten för år 2018 och för att den är upprättad i enlighet med lagen om årsredovisning i kreditinstitut och värdepappersbolag.

Granskningens inriktning och omfattning

Vår granskning har skett enligt FARs uttalande RevU 16 *Revisorns granskning av bolagsstyrningsrapporten*. Detta innebär att vår granskning 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 denna granskning ger oss tillräcklig grund för våra uttalanden.

Uttalande

En bolagsstyrningsrapport har upprättats. Upplysningar i enlighet med 6 kap. 6§ andra stycket punkterna 2–6 årsredovisningslagen samt 7 kap. 31 § andra stycket samma lag är förenliga med årsredovisningen samt är i överensstämmelse med lagen om årsredovisning i kreditinstitut och värdepappersbolag.

Stockholm den 26 februari 2019

Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson

Auktoriserad revisor

Huvudansvarig revisor

Helena Kaiser de Carolis

Auktoriserad revisor