

Corporate Governance Report 2016

Application by Nordea Mortgage Bank Plc

Nordea Mortgage Bank Plc was registered as a Finnish public limited liability company following the completion of the demerger of the allocated balance sheet from Nordea Bank Finland 1 October 2016 and it commenced its mortgage bank operations on the same day. Nordea Mortgage Bank Plc is a wholly-owned subsidiary of Nordea Bank AB (publ), the listed parent company of the whole Nordea Group. The Nordea Group is referred to as “Nordea. All the operations of Nordea Mortgage Bank Plc are integrated into the operations of the Nordea Group. Nordea has established the corporate governance framework at group level and the framework is reviewed on a continuous basis. Information on corporate governance in Nordea and this report are available on www.nordea.com. Nordea Mortgage Bank Plc has given a description of governance arrangements in accordance with the Act on Credit Institutions available on www.nordea.com.

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. Commitment to Nordea’s mission and vision requires the integration of sound corporate governance practices into regular business activities to attain – as far as possible – a company that is both well governed and well managed.

Nordea follows generally adopted principles of corporate governance including the rules and principles set forth in the Swedish Code of Corporate Governance. Although the codes differ in details between the countries, they are all based on the general international development and common Nordic approach within this field and thus show a fundamental resemblance to one another.

Nordea Mortgage Bank Plc submits this Corporate Governance report as an issuer of bonds. This report has been prepared following the guideline on Corporate Governance Statement in the Finnish Corporate Governance Code 2015. This report is submitted as a separate report from the Annual Report 2016 and it is available on www.nordea.com.

The Board of Directors and the Board Audit Committee of Nordea Mortgage Bank Plc have reviewed this Corporate Governance Report.

On Internal Governance in Nordea Mortgage Bank Plc

General Meeting

Nordea Mortgage Bank Plc (“Bank”) is the wholly-owned subsidiary of Nordea Bank AB (publ). The General Meeting is the highest decision-making body.

The Board of Directors

The Board of Directors of Nordea Mortgage Bank Plc shall be responsible for the administration of the Bank and the appropriate organisation of its operations, and for representing the Bank. The Board of Directors of Nordea Mortgage Bank Plc consists of seven members, two of which are external board members. According to the Articles of Association, the Board of Directors shall consist of not less than three and not more than seven members. The Board of Directors shall appoint the Chairman and the Deputy Chairman of the Board.

Members of the Board of Directors of Nordea Mortgage Bank Plc until 31 September 2016 were Topi Manner (Chairman), Riikka Laine-Tolonen, Ola Littorin, Nina Luomanen and Jussi Mekkonen.

As from 1 October 2016 until 31 October 2016 the members of the Board were Topi Manner (Chairman), Hanna-Maria Heikkinen, Riikka Laine-Tolonen, Ola Littorin, Nina Luomanen and Jussi Mekkonen.

As from 1 November 2016 the members of the Board are Topi Manner (Chairman), Hanna-Maria Heikkinen, Riikka Laine-Tolonen, Ola Littorin, Nina Luomanen, Jussi Mekkonen and Markku Pehkonen.

Further information on the members of the Board of Directors can be found in the section of “Management and auditors” in the Annual Report 2016 of Nordea Mortgage Bank Plc and on www.nordea.com.

The term of office of the members of the Board of Directors employed by the Nordea Group shall expire at the end of the ordinary general meeting which next follows the election as stated in the demerger plan. The term of office of the external members of the Board of Directors shall continue until further notice. The retirement age for members of the Board of Directors shall be 70.

Of the members of the Board of Directors Hanna-Maria Heikkinen and Markku Pehkonen are independent of Nordea Mortgage Bank Plc and its shareholders. Topi Manner (Chairman), Riikka Laine-Tolonen, Ola Littorin, Nina Luomanen and Jussi Mekkonen are all employees in the Nordea Group. Topi Manner is as from 1 July 2016 a member of Nordea Group Executive Management. None of the members of the Board of Directors take part in the day-to-day management of Nordea Mortgage Bank Plc.

The Board of Directors shall, in the Charter for the Board of Directors of Nordea Mortgage Bank Plc approved by it, confirm the authorisation to act for and on behalf of the Bank and the distribution between the members of the Board of Directors and the Chief Executive Officer (“CEO”).

According to the Charter for the Board of Directors of Nordea Mortgage Bank Plc, the Board of Directors is responsible for the organisation and administration of the Bank and its business.

The Board shall manage the Bank’s affairs with due expertise and care in accordance with legislation, the Articles of Association, the present Charter and observing Group management’s decisions and instructions.

The Board shall ensure that it has requisite knowledge of the Bank’s affairs in accordance with legislation and the Articles of Association.

The Board shall ensure that it has requisite knowledge of the Bank’s position, business development and risks as well as other circumstances of material significance to the Bank’s operations.

The Bank’s operations are fully integrated into the Nordea Group.

It is particularly incumbent upon the Board of Directors to:

- a. establish the Bank’s overall organisation,
- b. ensure that the Bank’s organisation with respect to accounting, management of funds and the Bank’s financial circumstances generally includes satisfactory controls,
- c. approve the risk strategy and other strategic goals as well as see to it that the surveillance of the goals and strategy is reliable
- d. appoint and discharge the Bank’s Chief Executive Officer and Deputy Chief Executive Officer and exercise supervision to ensure that the Bank’s CEO fulfils his or her obligations,
- e. determine matters relating to the funding operations,
- f. resolve on and submit annual reports and interim reports for the Bank,
- g. regularly monitor and assess the Bank’s and the bank group’s financial situation and risks,
- h. convene and prepare items for the Annual General Meeting.

The Board has approved a policy for the Bank in order to advance diversity in the composition of the Board. The gender balance shall be promoted when appointing members of the Board of Directors. The Bank shall strive for equal gender distribution between the genders and shall actively scout for suitable board member candidates of both genders in order to ensure that the equal representation of the genders in the board will be achieved and maintained.

The work of the Board of Directors

In 2016, the Board held 6 meetings. One meeting was held in Helsinki while 5 meetings were held per capsulam. All board members except Ola Littorin were present in the physical board meeting. The Board regularly follows up on the strategy, financial position and development as well as risks. The financial targets and the strategy will be reviewed on an annual basis. In 2016, the Board dealt with for example issues related to commencement of its activities, AML, internal control and compliance, recovery planning details and housing loan and covered bond market.

The Secretary of the Board of Directors is Tarja Ikonen, Chief Operating Officer of Nordea Mortgage Bank Plc.

Board committees

The Board of Directors of Nordea Mortgage Bank Plc has one Board committee: the Audit Committee. The Audit Committee has tasks set out to it in the Act on Credit Institutions and in the Charter for the Audit Committee approved by the Board of Directors of Nordea Mortgage Bank Plc.

The composition of the Audit Committee is:

Hanna-Maria Heikkinen (Chairman)
Markku Pehkonen
Satu Vartiainen

The Audit Committee assists the Board in ensuring the quality of NMB's financial reporting process and in that connection review and monitor NMB's quarterly financial reporting and the external auditors' reports on key matters arising from their audit of NMB's financial statements and to review of NMB's annual and interim reports. The Audit Committee assesses that the management takes necessary corrective actions in a timely manner to address control weaknesses in relation to the financial reporting, non-compliance with laws, regulations and policies, and other problems identified by the internal and external auditors. The Audit Committee shall receive update on NMB's risk management issues. The Audit Committee shall review the external audit plan. Further the Audit Committee shall assess in discussions with the external auditors the threats to their independence and the safeguards applied to mitigate those threats as documented by them, to monitor and establish guidelines on the provision of other services in addition to audit that the external auditors are allowed to provide to NMB, and annually review the external auditors' disclosure of such other services and shall assess and ensure that the internal and external auditors annually confirm in writing their impartiality and independence. The Audit Committee shall review GIA's annual risk assessment and audit plan as well as GIA's periodic reports, including the audit log. The Audit Committee shall prepare election of the external auditor prior to the Annual General Meeting and shall annually review the Audit Committee Charter.

Chief Executive Officer (CEO), Deputy CEO and Management Group

Nordea Mortgage Bank Plc has a Chief Executive Officer (CEO) and a Deputy CEO.

The CEO of Nordea Mortgage Bank is Thomas Miller and Tomi Ylöstalo acts as his deputy.

The CEO of Nordea Mortgage Bank Plc has established a Management Group to assist and support him in the management of the daily operations of the Bank. The Management Group consists of the CEO, the Chief Financial Officer ("CFO") of the Company, the Chief Risk Officer ("CRO") of the Company, the Chief Operating Officer ("COO") of the Company and the Compliance Officer.

Chief Risk Officer

Nordea Mortgage Bank has a Chief Risk Officer (CRO). The CRO is an independent 2nd line of defence risk management function within the Nordea Mortgage Bank. The CRO shall provide a complete view of whole range of risks in the Nordea Mortgage Bank to the Board of Directors, ensure coordination of risk management activities and adequate risk management set-up in the legal entity.

Compliance

According to the Nordea Operational Risk Policy and the Charter for Group Compliance, Group Compliance is a unit organisationally placed under the CEO in Nordea Bank AB (publ) and is responsible for developing and maintaining the framework for managing compliance risks. The network of Compliance Officers (COs) with reporting lines within the Compliance function is independently managing compliance risk and reporting and therefore providing the Group Compliance Officer with independent reports. These reports provide input to the Group Compliance Officer's quarterly compliance report to the Chief Executive Officer, the Board of Directors of Nordea Bank AB (publ) and its subsidiaries including the Board of Directors of Nordea Mortgage Bank Plc.

Insider Administration

The Nordea Group and Nordea Mortgage Bank Plc have in accordance with laws and regulations in the role of issuer and broker established insider registers and adopted insider guidelines applicable to the whole bank. According to the guidelines, members of the Board of Directors, the CEO and the Deputy CEO, external auditors and deputy external auditors as well as management group members and other relevant persons following separate decision and notification procedures are restricted from trading in Nordea shares and related instruments during other period than two weeks following publication of the Group's interim reports. Regarding other financial instruments the above mentioned leading officials and other relevant persons may not engage in short time trading where the time between acquisition of ownership of certain securities, and the intended or actual disposal or execution of the securities is shorter than one month ("the one-month rule"). Nordea Mortgage Bank Plc reports on governance and follow-up of rules regarding insider registers and trading in financial instruments to the Finnish FSA on an annual basis.

Report on the key aspects of the systems for internal control and risk management regarding financial reports for the Financial Year 2016

Nordea Mortgage Bank Plc belongs to the Nordea Group and the internal control and risk management systems in relation to the financial reporting process are organised at Nordea level. Financial reporting processes are fully integrated within Nordea. The Board of Directors of Nordea Mortgage Bank Plc monitors financial and risk reporting at Nordea Mortgage Bank Plc level and has dealt with the risk reports at Nordea Mortgage Bank Plc level. Nordea Mortgage Bank Plc complies with the Group directives and supporting instructions to the extent applicable.

Internal Control Process

The Internal Control Framework is established by the Group Board of Directors, carried out by management and other staff at Nordea and 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 Framework 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, 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 1st line of defence, the business organisation 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 the 2nd 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 (GIA), which is the 3rd line of defence, performs audits and provides assurance to stakeholders regarding governance, risk management, and control processes.

The 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 for listed companies and issuers of bonds. 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 in Nordea can be described in accordance with the original COSO framework as follows below.

Control Environment

The control environment constitutes the basis for Nordea's internal control and contains the culture and values established by the Board of Directors and Group Executive Management of Nordea Bank AB (publ).

A clear and transparent organisational structure is of importance for the control environment. Nordea'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 continuous development.

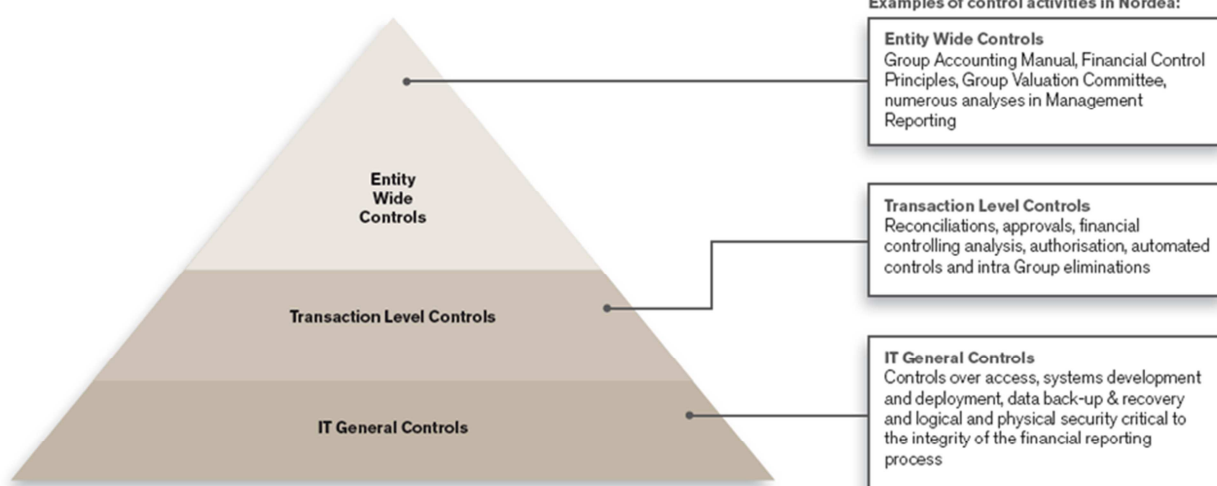
Clear roles and responsibilities are critical in the governance of Internal Control over Financial reporting where the risk owners in the business areas and the Group Finance & Business Control are responsible for the risk management activities. A risk management function supports the Group CFO in maintaining a Group wide set of controls (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 (GRM). GIA is assessing whether all significant risks are identified and appropriately reported by management and the risk functions to the Board and its committees and whether all significant risks are adequately controlled. GIA is also challenging management to improve the effectiveness of governance, risk management and internal controls.

Risk Assessment

The Group Board of Directors bears the ultimate responsibility for limiting and monitoring Nordea's risk exposure. Risk management is considered to be an integral part of running the business. The main responsibility for performing risk assessments regarding financial reporting risks lies with the business organisation. 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 these 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.

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 the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item. Risk assessment procedures determine in which divisions, locations and/ or processes risks for material financial misstatements exist and therefore will need to be monitored under the Accounting Key Control framework to ensure reasonable assurance of the reliability of Nordea's external financial reporting.

Control Activities



The heads of the respective units are primarily responsible for managing the risks, associated with the units' operations and financial reporting processes. This responsibility is primarily supported 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 Nordea's principles and coordinated financial reporting. Fundamental internal control principles at Nordea are the segregation of duties and the four-eye principle when approving, for instance, transactions and authorisations.

AKC control structure is based on that Transaction Level Controls (TLC's) 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 decide what systems/applications are in scope for AKC. The analysis aims at scoping in the major systems where there is a risk that data becomes corrupt without being detected in the TLC control structure.

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 Nordea works continuously to further strengthen the quality.

Information & Communication

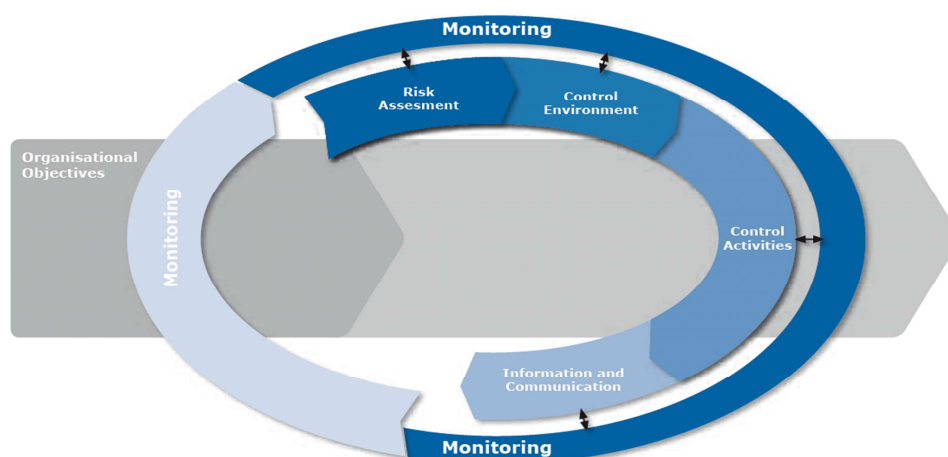
Group Finance & Business Control is responsible for ensuring that the Group Accounting Manual and the Financial Control Principles are up-to-date and that changes are communicated with the responsible units. These governing documents are broken down into instructions and standard operating procedures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

Matters having an impact on the fulfilment of financial reporting objectives are communicated with external parties, with Nordea actively participating in relevant national forums, for example, forums established by the Financial Supervisory Authorities, central banks and associations for financial institutions.

The Accounting Key Control reporting procedures provide management with information related to the performance and assessment of the identified AKCs in the form of Process Owner reports and Management Dashboard reports with summary of assessment outcome and high risk areas.

Monitoring

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



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 of and the Board of Directors of Nordea Bank AB (publ).

The Board of Directors, the Board Audit Committee and the Board Risk Committee of Nordea Bank AB (publ), as well as Group Internal Audit have important roles with respect to monitoring the internal control of financial reporting in the whole Nordea Group. The Board of Directors of NMB is ultimately responsible for ensuring that an adequate and effective system of internal control is established and maintained. The Board Audit Committee (BAC) has the responsibility to assist the Board of Directors in fulfilling its oversight responsibilities by *inter alia* monitoring NMB's financial reporting process.

Group Finance & Business Control has also established 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 GRM reports specifically on financial reporting risk to the Board Audit Committee and the CEO in Group Executive Management on a quarterly basis.

GIA is an independent function commissioned by the Board of Directors of Nordea Bank AB (publ). The Board Audit Committee of Nordea Bank AB (publ) is responsible for guidance on and evaluation of GIA within the Nordea Group and the Board Audit Committee of Nordea Mortgage Bank Plc within Nordea Mortgage Bank. 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 and continuous monitoring, to provide the Board of Directors with an assessment of the effectiveness of the governance, risk management and control processes.

The Board Audit Committee of Nordea Mortgage Bank Plc handles and the Board of Directors of Nordea Mortgage Bank Plc approves GIA's Internal Audit Annual Plan for Nordea Mortgage Bank Plc and reviews GIA's semi-annual Internal Audit Report on Nordea Mortgage Bank Plc. The same material is also presented to the Management Group of Nordea Mortgage Bank Plc, before it is submitted to the Board Audit Committee and the Board of Directors of Nordea Mortgage Bank Plc.

The Board Audit Committee of Nordea Mortgage Bank Plc also assists the Board of Directors of Nordea Mortgage Bank Plc in fulfilling its oversight responsibilities by, for instance, monitoring the financial reporting process, and in relation thereto, the effectiveness of the internal control and risk management systems established by the Group Board of Directors, the CEO of Nordea Bank AB (publ) and Group Executive Management (GEM), as well as the Board of Directors of Nordea Mortgage Bank Plc, including the effectiveness of GIA. The Board Audit Committee of Nordea Mortgage Bank Plc is further accountable for keeping itself informed as to the statutory audit of the annual accounts and reviewing and monitoring the impartiality and independence of the external auditors, and in particular the provision of additional services to Nordea Mortgage Bank .

Auditors

The company's auditors were elected by the shareholder's meeting of Nordea Bank Finland Plc by the approval of the demerger plan on 4 February 2016. The Annual General Meeting of Nordea Mortgage Bank Plc elects the company's auditors going forward for a period of one year at a time. The auditor must be an audit firm authorised by the Finnish Chamber of Commerce.

The current auditor:

PricewaterhouseCoopers Oy
Authorised Public Accountants

Auditor with main responsibility
Juha Wahlroos
Authorised Public Accountant

This Corporate Governance Report has not been reviewed by the external auditors and the report is not part of the formal financial statements.