

# Corporate Governance Report

Strong corporate governance is all about companies having clear and systematic decision-making processes, thus giving clarity concerning responsibilities, avoiding conflict of interests, and ensuring satisfactory transparency. Business' commitment to Nordea's mission and vision requires the integration of good corporate governance practices into regular business activities, to ascertain – to the extent possible – that the corporation is both well governed and well managed.

Corporate governance deals with the relationship between the shareholders and the company's board and CEO/executive management as well as the corporate goals. This Corporate governance report is based on a shareholder perspective as it is prepared in accordance with the requirements in the Swedish Annual Accounts Act as well as in the Swedish Code of Corporate Governance (the Code). The main emphasis is on the Board of Directors in its role as the main decision-making body in Nordea's corporate governance structure and the interaction with the other bodies to ensure good corporate governance. Nordea's system for Internal control and risk management regarding financial reporting is also covered.

## Corporate governance in Nordea

Nordea Bank AB (publ) is a Swedish public limited company, listed on the NASDAQ OMX Nordic, the stock exchanges in Stockholm, Helsinki and Copenhagen. Corporate governance in Nordea follows generally adopted principles of corporate governance. The external framework which regulates the corporate governance work

includes the Swedish Companies Act, Banking and Financing Business Act, Annual Accounts Act, the NASDAQ OMX Nordic rules and the rules and principles of the Code. Nordea complies with the Code and has no deviations to report.

The Company has had neither any infringement of the applicable stock exchange rules nor any breach of good practice in the securities market reported by the relevant exchange's disciplinary committee or the Swedish Securities Council.

This Corporate Governance Report has been examined by the auditors. The Code can be found at [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

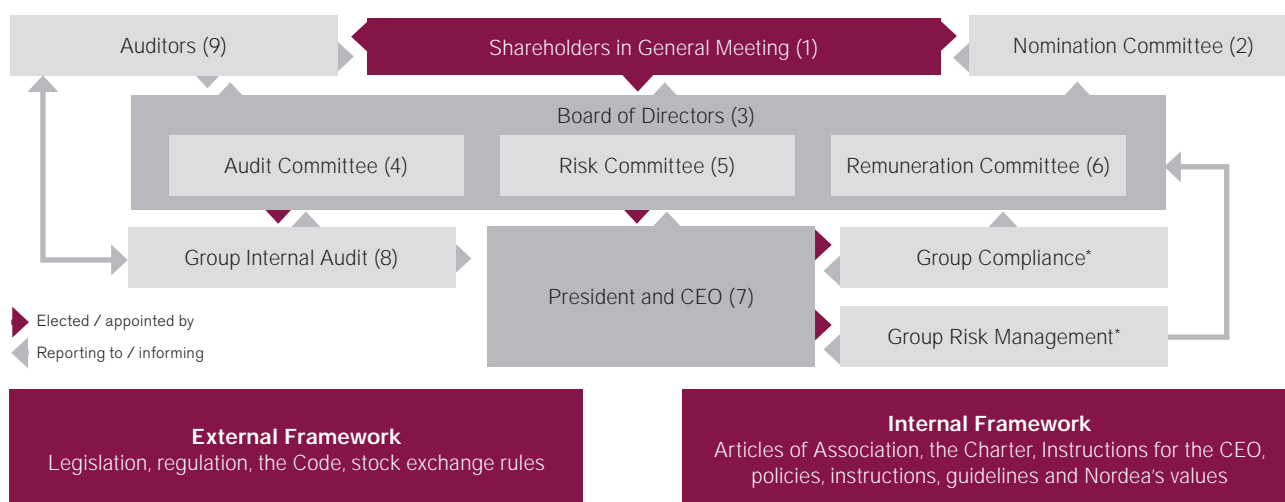
## Division of powers and responsibilities

The management and control of Nordea is divided among the shareholders (in the General Meeting), the Board of Directors and the President and CEO, pursuant to the provisions of the external framework, the Articles of Association and the internal instructions laid down by the Board of Directors.

## General Meetings (1)

The General Meeting is the Company's highest decision-making body, where the shareholders exercise their voting rights. At the General Meeting decisions are taken regarding among other things the annual accounts, dividend, election of the Board of Directors and auditors, remuneration to the Board members and auditors, and guidelines for remuneration to the executive officers.

## Corporate Governance Structure



The numbers in the brackets refer to text paragraphs.

\* Group Risk Management as well as Group Compliance are described in separate sections and information is presented on page 59 to 64.

General Meetings are held in Stockholm. For the minutes of the Annual General Meeting (AGM) 2011, see [www.nordea.com](http://www.nordea.com).

### Voting rights

According to the Articles of Association, shares may be issued in two classes, ordinary shares and C-shares. All shares in Nordea carry voting rights, with each ordinary share entitled to one vote and each C-share entitled to one tenth of one vote 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. Nordea is not entitled to vote for its own shares at General Meetings. C-shares are not entitled to any dividend. More information about the Nordea share is presented in the section "The Nordea share and shareholders" on page 46 and in the Board of Directors' Report on page 51.

The Articles of Association can be found at [www.nordea.com](http://www.nordea.com). Amendments to the Articles of Association are resolved at General Meetings in accordance with Swedish law and are subject to approval by the Swedish Financial Supervisory Authority.

### Mandate to repurchase and convey of own shares

Information on mandate to repurchase and convey of own shares is presented in the Financial Review on page 52.

### Nomination process (2)

The AGM 2011 decided to set up a Nomination Committee whose task in reference to the AGM 2012 is to propose Board members, Chairman of the Board and auditor as well as remuneration to the Board members and auditor.

The Nomination Committee comprises Björn Wahlroos (Chairman of the Board) and the four largest shareholders in terms of voting rights as of 31 August 2011, who wished to participate in the Committee. The appointment of the members of the Nomination Committee was made public on 16 September 2011. At the date of constitution, the Nomination Committee represented approximately 41% of the shareholders votes. Sampo plc appointed Torbjörn Magnusson, the Swedish government appointed Kristina Ekengren, Nordea-fonden appointed Mogens Hugo and AMF appointed Peder Hasslev. Torbjörn Magnusson was appointed chairman of the Committee.

The proposals of the Nomination Committee will be presented in the notice of the AGM 2012 and at [www.nordea.com](http://www.nordea.com).

### Nordea Board of Directors (3)

#### Composition of the Board of Directors

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

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

Further, according to the Articles of Association the aim shall be that the Board, as a whole, for its operations possesses the requisite knowledge and experience of the social, business and cultural conditions prevailing in the regions and market areas in which the Group's principal operations are conducted.

The Board currently consists of eight members elected by the General Meeting after Björn Savén having informed the Board of Directors on 22 December 2011 that he would resign with immediate effect from the Board of his own accord. This was made public the same day.

In addition three members and one deputy member are appointed by the employees. Employees are entitled under Swedish legislation to be represented in the Board. The CEO of Nordea is not a member of the Board. The composition of the Board of Directors appears from the table on page 73 and further information regarding the Board members elected at the AGM 2011 is presented in the section "Board of Directors" page 200.

### Independence of the Board of Directors

Nordea complies with applicable rules regarding the independence of the Board. The Nomination Committee considers all of the members elected by the shareholders independent of the Company and its executive management, with the exception of Lars G Nordström, who was employed as President and CEO of the Group until 13 April 2007. Thus the majority of the Board members are independent in relation to the Company and its executive management.

All Board members elected by the shareholders, apart from Björn Wahlroos and Kari Stadigh, are independent in relation to the Company's major shareholders. Björn Wahlroos is board chairman of Sampo plc and Kari Stadigh is managing director and CEO of Sampo plc, which owns more than ten per cent of all shares and votes in Nordea.

Thus, the number of Board members who are independent in relation to the Company and its executive management as well as independent in relation to the Company's major shareholders well exceeds the minimum requirement.

No Board member elected by the General Meeting is employed by or works in an operative capacity in the Company. All Board members and deputy Board members appointed by the employees are employed by the Group and therefore not independent of the Company.

The independence of the Board of Directors also appears in the table on page 73.

### The work of the Board of Directors

The Board of Directors annually establishes its working plan, in which the management and risk reporting to the Board also is established. The statutory meeting following

the AGM 2011 elected the vice Chairman and appointed the Board Committee members. The Board has adopted rules of procedures for its work (the Charter), containing among other things rules pertaining to the areas of responsibility of the Board and the Chairman, the number of meetings, documentation of meetings and rules regarding conflicts of interest. Furthermore, the Board of Directors has adopted Instructions for the CEO specifying the CEO's responsibilities as well as other policies, instructions and guidelines for the operations of the Group. These together with the Articles of Association, the Charter and Nordea's values constitute the internal framework, which regulate corporate governance in Nordea. Further information regarding Nordea's values is presented in the section "Nordea New Normal – a focused relationship strategy", page 11.

The Board is charged with the organisation of Nordea and the management of the Company's operations and the overall management of the Nordea Group's affairs in accordance with applicable rules and regulations, the Code, the Articles of Association and the Charter. Further, 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. Group Internal Audit (GIA) issues yearly to the Board an overall Assurance Statement on Nordea's governance, risk management and control processes. The assurance statement for 2011 concludes that the internal control system is adequate and effective. Further information regarding internal control within Nordea is given below under heading "Internal control process". At least once a year the Board meets the external auditor without the CEO or any other Company executive being present. In addition the auditor in charge meets separately with the Chairman of the Board and the Chairman of the Board Audit Committee.

During 2011, the Board held 15 meetings. 11 meetings were held in Stockholm, one in Copenhagen and 3 meetings were held per capsulam. For more information see table on page 73. The Board regularly follows up on the strategy, financial position and development and risks. The financial targets and the strategy are reviewed on an annual basis. During 2011, the Board also dealt with for example reports on and issues related to financial market and macro economic development, new regulatory initiatives, capital and liquidity, Internal Capital Adequacy Assessment Process (ICAAP), revised overall Group organisation, the work of the Board Committees, remuneration issues and transactions of significance.

Secretary of the Board of Directors is Lena Eriksson, Head of Group Legal.

### **The Chairman**

The Chairman of the Board is elected by the shareholders at the General Meeting. According to the Charter, the Chairman shall ensure that the Board work is conducted efficiently and that the Board fulfils its duties. The Chairman shall among other things organise and lead the Board's work, maintain regular contact with the CEO, ensure that the Board receives sufficient information and documentation and ensure that the work of the Board is evaluated annually and that the Nomination Committee is informed of the result of the evaluation.

### **Evaluation of the Board**

The Board of Directors annually carries out a self-evaluation process, through which the performance and the work of the Board is thoroughly evaluated and discussed by the Board. The evaluation is based on a methodology which includes questionnaires evaluating the Board as a whole and individual Board members.

### **Board Committees**

In accordance with the external framework and in order to increase the effectiveness of the board work, the Board of Directors has established separate working committees. The duties of the Board Committees, as well as working procedures, are defined in specific instructions adopted by the Board annually. Each Committee regularly reports on its work to the Board. The minutes are communicated to the Board.

#### **The Board Audit Committee (4)**

The Board Audit Committee (BAC) assists the Board of Directors in fulfilling its supervisory responsibilities by among other things monitoring the Nordea Group's financial reporting process, and in relation to this the effectiveness of the internal control and risk management systems, established by the Board of Directors, the CEO and Group Executive Management (GEM), as well as the effectiveness of Group Internal Audit. The BAC is further accountable for keeping itself informed as to the statutory audit of the annual and consolidated accounts and reviewing and monitoring the impartiality and independence of the external auditors and in particular the provision of additional services to the Nordea Group. In addition, the BAC is accountable for the guidance and evaluation of the Group Internal Audit.

Members of the BAC are Svein Jacobsen (chairman), Stine Bosse and Sarah Russell, as from AGM 2011. Generally, the Group Chief Audit Executive (CAE) and the Chief Financial Officer (CFO) are present at meetings with the right to participate in discussions, but not in decisions.

According to the Code, the majority of the members of BAC are to be independent of the Company and the executive management of the Company. At least one of the committee members who are independent of the Company and its executive management is also to be independent of the Company's major shareholders. Nordea complies with this rule.

For more information see table on page 73.

#### **The Board Risk Committee (5)**

At the statutory meeting following the AGM 2011 the Board decided to transform the former Board Credit Committee into the Board Risk Committee (BRIC) for a comprehensive risk oversight.

The BRIC assists the Board of Directors in fulfilling its oversight responsibilities concerning management and control of the risks, risk frameworks, controls and processes associated with the Group's operations, including credit, market, liquidity, business, life and operational risk.

The duties of the BRIC include reviewing the development of the Group's overall risk management and control framework, as well as the Group's risk profile and key risk issues. In addition, the BRIC reviews and make recommendations regarding the Group's risk appetite and limits for market and liquidity risks. Further the BRIC reviews

resolutions made by lending entities concerning credit or limit above certain amounts as well as strategic credit policy matters and the development of the credit portfolio. Members of the BRIC are Kari Stadigh (chairman), Lars G Nordström and Tom Knutzen, as from AGM 2011. Generally the Head of Group Risk Management and, when deemed important and to the extent possible, the CEO are present at meetings with the right to participate in discussions, but not in decisions. Further information regarding the credit decision-making structure for main operations and risk management within Nordea is presented in the section "Risk management", page 59.

There are no rules on independence of members of the BRIC in the external framework.

For more information see table on page 73.

### The Board Remuneration Committee (6)

The Board Remuneration Committee (BRC) is responsible for preparing and presenting proposals to the Board of Directors on remuneration issues.

This duty includes proposals regarding the Nordea Remuneration Policy and underlying instructions and guidelines for remuneration to the executive officers to be decided by the AGM. Furthermore, proposals regarding the remuneration for the CEO, other members of GEM as well as the CAE and, on proposal by the CEO, for the Group Compliance Officer and the Head of Group Credit Control.

At least annually, the BRC follows-up on the application of the Nordea Remuneration Policy and underlying instructions through an independent review by Group

Internal Audit as well as exercises an assessment of the Nordea Remuneration Policy and remuneration system with the participation of appropriate Control Functions. The BRC also has the duty to annually monitor, evaluate and report to the Board on the programmes for variable remuneration to GEM, as well as the application of the guidelines for remuneration to executive officers. At the request of the Board the BRC also prepares other issues of principle for the consideration of the Board.

Members of the BRC are Marie Ehrling (chairman), Björn Savén (until 22 December 2011) and Björn Wahlroos, as from AGM 2011. Generally, the CEO and the Head of Group Human Resources participate in the meetings, with the right to participate in discussions, but not in decisions. The CEO does not participate in considerations regarding his own employment terms and conditions.

According to the Code the members of the BRC are to be independent of the Company and the executive management of the Company. Nordea complies with this rule.

Further information regarding remuneration within Nordea is presented in the separate section "Remuneration", page 77 and in Note G7, page 114.

### Meetings, attendance and independence

The table shows the number of meetings held by the Board of Directors and its committees as well as the attendance of the individual Board members. It also shows the independence of the individual Board members in relation to the Company as well as to the major shareholders.

	Board of Directors	Board Audit Committee	Board Risk Committee <sup>1</sup>	Board Remuneration Committee	Independence in relation to the Company <sup>2</sup>	Independence in relation to the major shareholders <sup>2</sup>
Number of meetings	15	8	7	8		
(of which per capsulam)	3					
Meetings attended:						
<b>Elected by AGM</b>						
Hans Dalborg <sup>3</sup>	5		1	3		
Björn Wahlroos <sup>4</sup>	15		1	5	Yes	No
Marie Ehrling <sup>5</sup>	15	3		5	Yes	Yes
Stine Bosse	14	4	1		Yes	Yes
Svein Jacobsen	14	8			Yes	Yes
Tom Knutzen	15		6	3	Yes	Yes
Lars G Nordström	15		7		No	Yes
Sarah Russell	15	5		3	Yes	Yes
Björn Savén <sup>6</sup>	15			7	Yes	Yes
Kari Stadigh	15	3	6		Yes	No
Christian Clausen, CEO <sup>7</sup>			1			
<b>Appointed by employees</b>						
Kari Ahola (deputy 1 Nov 2010–30 Apr 2011)	13	—	—	—	No	Yes
Ole Lund Jensen	14				No	Yes
Lars Oddestad (deputy 1 Nov 2011–30 Apr 2012)	15				No	Yes
Steinar Nickelsen (deputy 1 May 2011–30 Oct 2011)	15				No	Yes

1) At the statutory meeting following the AGM 2011 the Board Credit Committee was transformed into the Board Risk Committee.

2) For additional information, see Independence on page 71.

3) Chairman of Nordea from 2002 until AGM 2011 at which he was not up for re-election. Board member and member of the Credit Committee and Remuneration Committee until AGM 2011. By the Board appointed as Honorary Chairman of Nordea with effect from 25 March 2011.

4) Vice Chairman until AGM 2011 and Chairman from AGM 2011.

5) Vice Chairman from AGM 2011.

6) Boardmember and member of the Remuneration Committee until 22 December 2011, when he resigned at his own accord.

7) Until the AGM 2011 the CEO was a member of the Board Credit Committee. The CEO is not a Board member.

### The CEO and Group Executive Management (7)

Nordea's President and CEO is charged with the day-to-day management of Nordea Bank and the Nordea Group's affairs in accordance with laws and regulations, the Code, as well as instructions provided by the Board of Directors. The instructions regulate the division of responsibilities and the interaction between the CEO and the Board. The CEO works closely with the Chairman of the Board, for instance with planning of Board meetings.

The CEO is accountable to the Board for the management of the Nordea Group's operations and he is also responsible for developing and maintaining effective systems for internal control within the Group. Further information regarding the control environment for risk exposures is presented in the section "Risk, Liquidity and Capital management", page 57. The CEO works together with senior officers within the Group in GEM. Presently GEM consists of seven members and the CEO. GEM has recorded weekly meetings. These meetings are chaired by the CEO, who reaches decisions after consulting with the other members of GEM. Further information regarding the CEO and GEM is presented in the section "Group Executive Management", page 202.

### Internal control process

The Internal control process is a process, carried out by the Board of Directors, management and other personnel within Nordea, designed to provide reasonable assurance regarding the achievement of objectives in terms of effectiveness and efficiency of operations, reliability of operational and financial reporting, compliance with external and internal regulations, and safeguarding of assets, including sufficient management of risks in operations. The Internal Control process is based on the Control Environment, Risk Assessment, Control Activities, Information & Communication and Monitoring.

The framework for the Internal control process aims at creating the necessary preconditions for the whole organi-

sation to contribute to the effectiveness and the high quality of internal control, through eg clear definitions, assignments of roles and responsibilities as well as common tools and procedures.

Roles and responsibilities in respect of internal control and risk management are divided in three lines of defence. In the first line of defence, the business organisation is responsible for operating its business within limits for risk exposure and in accordance with decided framework for internal control and risk management. As second line of defence, the centralised risk group functions are responsible for providing the framework of internal control and risk management. Group Internal Audit performs audits and provides assurance to stakeholders on internal controls and risk management processes, which is the third line of defence.

### Internal audit (8)

Group Internal Audit (GIA) is an independent function commissioned by the Board of Directors. The Board Audit Committee is responsible for guidance on and evaluation of GIA within the Nordea Group. The Group Chief Audit Executive (CAE) has the overall responsibility for GIA. The CAE reports functionally to the Board of Directors and the Board Audit Committee and reports administratively to the CEO. The Board of Directors approves the appointment and dismissal of the CAE.

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

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

GIA operates free from interference in determining the scope of internal auditing, in performing its audit work, and in communicating its results. GIA is author-

### Internal control process





ised to carry out all investigations and obtain all information required to discharge 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 (9)

According to the Articles of Association one or two auditors shall be elected by the General Meeting for a term of one year. At the AGM 2011, KPMG AB was re-elected auditor for the time period up to the end of the AGM 2012. Carl Lindgren is the auditor-in-charge.

#### Report on internal control and risk management regarding financial reporting

The systems for Internal control and risk management over financial reporting are designed to give reasonable assurance concerning 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. The internal control and risk management activities are included in Nordea's planning and resource allocation processes. Internal control and risk management over financial reporting in Nordea can be described in accordance with the COSO framework (Internal Control - Integrated framework, by the Committee of Sponsoring Organizations of the Treadway commission) as follows.

#### 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 Executive Management. Further information regarding Nordea's values is

presented in the section "Nordea New Normal – focused relationship strategy", page 11.

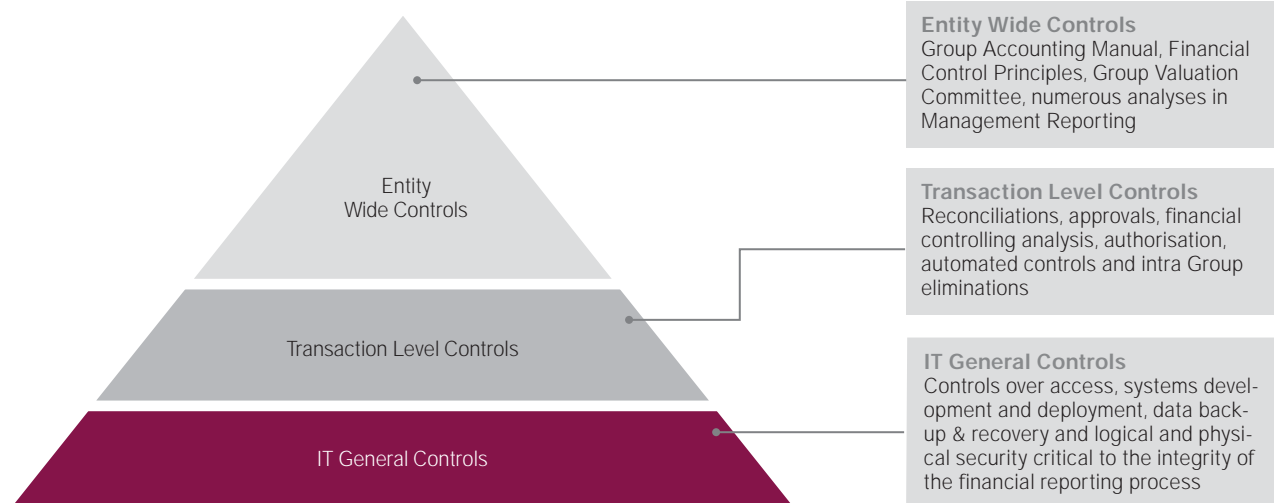
A clear and transparent organisational structure is of importance for the control environment. Nordea's business structure aims to support the overall strategy, with a strong business momentum and increased requirements on capital and liquidity. The business as well as the organisation is under continuous development. Further information on the Focused relationship strategy is presented on page 11.

The key principle of risk management in Nordea is the three lines of defence, with the first line of defence being the business organisation, the second line of defence the centralised risk group functions which defines a common set of standards and the third line of defence being the internal audit function, see illustration "Internal Control Process" (under the heading "Internal Control Process"). The second line of defence function, Accounting Key Controls (AKC), is established and the initiative aims at implementing a Nordea Group-wide system of accounting key controls to ensure that controls essential for the financial reporting are continuously identified, monitored and assessed.

#### Risk Assessment

The Board of Directors has the ultimate responsibility for limiting and monitoring the Nordea Group's risk exposure and risk management is considered as an integral part of running the business. The main responsibility for performing risk assessments regarding financial reporting risks, lies with the business organisation. To have the Risk Assessments performed close to the business, increases the chance 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 Self Risk Assessments on divisional levels.

#### Control activities



### 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, as for example 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 in Nordea are segregation of duties and the four-eye principle when approving eg transactions and authorisations.

The quality assurance vested in the management reporting process, where 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 where Nordea works continuously to further strengthening 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 to 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 within Group Finance provide ses-

sions for accountants and controllers in order to inform about existing and updated rules and regulations with an impact on Nordea.

Matters affecting the achievement of financial reporting objectives are communicated with outside parties, where Nordea actively participates in relevant national fora, for example fora established by the Financial Supervisory Authorities, Central Banks and associations for financial institutions.

### Monitoring

Nordea has established a process with the purpose of ensuring a 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 and can be illustrated with the figure below.

The CEO annually issues a report to the Board of Directors on the quality of internal control in Nordea. This report is based on an internal control-process checklist and a hierarchical reporting covering the whole organisation. Internal control and risk assessment regarding financial reporting is included as one of several focus categories in this process.

The Board of Directors, the Board Audit Committee, the Board Risk Committee and Group Internal Audit have an important role with regards to monitoring the internal control over financial reporting in Nordea Group. Further information is presented under the headings "The work of the Board of Directors (3)", "Board Audit Committee (4)", "Board Risk Committee (5)" and "Group Internal Audit (8)" above.

