

Corporate Governance Report 2019

Application by Nordea Mortgage Bank Plc

Nordea Mortgage Bank Plc (NMB) is a Finnish public limited company and a wholly owned subsidiary of Nordea Bank Abp, the listed parent company of the whole Nordea Group. In this report the Nordea Group is referred to as “Nordea”. A description of corporate governance in Nordea is included in the 2019 Annual Report of Nordea Bank Abp.

All the operations of Nordea Mortgage Bank Plc are integrated into the operations of Nordea. 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 Finnish Act on Credit Institutions. The description is 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 purpose and values 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 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 where applicable. This report is submitted as a separate report from the Annual Report 2019 and it is available on www.nordea.com.

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

On Internal Governance in Nordea Mortgage Bank Plc

Division of powers and responsibilities

Subject to the principles set out in the Governance Requirements, the Group Board has the overall responsibility for adequate Internal Governance across the Group and for ensuring that there is a governance framework appropriate to its structure, business and risks. The Group Board shall consider the interests of all Group Subsidiaries including Nordea Mortgage Bank Plc, and the way strategies and policies contribute to the interest of each of them as well as the whole Group over the long term.

The management and control of Nordea Mortgage Bank Plc is divided among the shareholder (at the General Meeting), 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

NMB is the wholly owned subsidiary of Nordea Bank Abp. The Annual General Meeting is the highest decision-making body at which the shareholder exercises its voting rights. At the Annual General Meeting, decisions are taken regarding matters such as the annual accounts, dividend, election of the Board of Directors and auditors and remuneration for Board members and auditors.

The Board of Directors

The Board of Directors of NMB shall be responsible for managing the company and organising its activities in a proper manner and for representing NMB. The Board of Directors of NMB consists of seven members, three 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 NMB until 7 March 2019 were Petri Nikkilä (Chairman), Hanna-Maria Heikkinen, Nicklas Ilebrand (Deputy Chairman), Ola Littorin and Sara Mella.

As from 7 March 2019 the members of the Board were Sara Mella (Chairman), Kaj Blomster, Hanna-Maria Heikkinen, Nicklas Ilebrand (Deputy Chairman), Erja Ketko, Ola Littorin and Timo Nyman.

As from 5 April 2019 the members of the Board were Sara Mella (Chairman), Kaj Blomster, Hanna-Maria Heikkinen, Erja Ketko, Marte Kopperstad (Deputy Chairman), Ola Littorin and Timo Nyman.

Further information on the members of the Board of Directors can be found in the section “Nordea Mortgage Bank’s administrative and management bodies” in the Board of Director’s report of Nordea Mortgage Bank Plc and on www.nordea.com.

The term of office of the members of the Board of Directors is not limited. The retirement age for members of the Board of Directors shall be 70.

Of the members of the Board of Directors Kaj Blomster, Hanna-Maria Heikkinen and Erja Ketko are independent of NMB and its shareholder. Sara Mella (Chairman), Marte Kopperstad (Deputy Chairman), Ola Littorin and Timo Nyman are all employees in the Nordea Group. None of the members of the Board of Directors take part in the day-to-day management of NMB.

The Board of Directors shall, in the Local Governance Rules for the Board of Directors of Nordea Mortgage Bank Plc approved by it, confirm the authorisation to act for and on behalf of NMB and the distribution of duties between the members of the Board of Directors and the CEO.

The Board of Directors is responsible for the organisation and administration of NMB and its business. The Board shall manage NMB’s affairs with due expertise and care in accordance with legislation, the Articles of Association, existing Group Internal Rules issued by the Group Board and the Group CEO as well as internal guidelines issued by NMB’s Board.

It is particularly incumbent upon the Board of Directors to:

- a) set up the governance structure of NMB,
- b) ensure that NMB’s organisation with respect to accounting and NMB’s financial circumstances generally includes satisfactory controls,
- c) approve the risk strategy and other strategic goals as well as ensure that the surveillance of the goals and strategy is reliable,
- d) acknowledgement and adjustment and adoption of Group Internal Remuneration Rules as amended from time to time to ensure that NMB have remuneration policies that are in line with the remuneration principles set out in external regulation,
- e) appoint and discharge the CEO and the Deputy CEO and exercise supervision to ensure that the CEO fulfils his or her obligations,
- f) determine matters relating to the funding operations,
- g) resolve on and submit annual reports and interim reports for NMB,
- h) regularly monitor and assess NMB’s financial situation and risks,
- i) convene and prepare items for the Annual General Meeting.

The Board has approved a policy for NMB to advance diversity in the composition of the Board. When the selection process of board members is carried out by NMB’s Board of Directors the following shall be considered:

All Board member nominations should be based on merit with the prime consideration being to maintain and enhance the Board’s overall effectiveness. Within this, a broad set of qualities and competences is sought for and it is recognised that diversity, including age, gender, geographical provenance and educational and professional background, is an important factor to take into consideration. NMB’s objective is to have a fair, equal and balanced representation of different genders and other diversifying factors in the Board collectively. The composition of the Board of Directors is in line with the diversity policy.

Work of the Board of Directors

In 2019, the Board of Directors held 15 meetings. Four meetings were held in Helsinki while three meetings were phone meetings and eight meetings were held per capsulam.

Meeting attendance in 2019:

As from 1 January 2019 until 7 March 2019

Petri Nikkilä, Chairman	4/5
Hanna-Maria Heikkinen	5/5
Nicklas Ilebrand, Deputy Chairman	4/5
Ola Littorin	3/5
Sara Mella	5/5

As from 7 March 2019 until 5 April 2019

Sara Mella, Chairman	1/1
Kaj Blomster	1/1
Hanna-Maria Heikkinen	0/1
Nicklas Ilebrand, Deputy Chairman,	1/1
Erja Ketko	1/1
Ola Littorin	1/1
Timo Nyman	1/1

As from 5 April 2019 until 31 December 2019

Sara Mella, Chairman	9/9
Kaj Blomster	9/9
Hanna-Maria Heikkinen	7/9
Erja Ketko	9/9
Marte Kopperstad, Deputy Chairman	9/9
Ola Littorin	9/9
Timo Nyman	8/9

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 2019, the Board discussed issues related to the risk strategy and risk appetite framework, AML, internal control and compliance, recovery planning details, housing loan and covered bond market etc.

The Secretary of the Board of Directors is Tarja Ikonen, Chief Operating Officer of Nordea Mortgage Bank Plc. In November and December Jouni Mikkonen and Teemu Aikasalo have been responsible for the secretarial tasks of the Board of Directors.

Board committees

The Board of Directors of Nordea Mortgage Bank Plc has two Board committees: The Audit Committee (AC) and the Risk Committee (BRIC or Committee).

The Audit Committee

The Audit Committee has tasks set out to it in the Finnish Act on Credit Institutions and in the Company Directive for on the Audit Committee approved by the Board of Directors of NMB.

The members of the Audit Committee were Hanna-Maria Heikkinen (Chairman) and Nicklas Ilebrand until 7 March 2019. As from 7 March until 5 April 2019 the composition of the Audit Committee was Hanna-Maria Heikkinen (Chairman), Nicklas Ilebrand and Kaj Blomster. As from 5 April 2019 the composition of the Audit Committee was Hanna-Maria Heikkinen (Chairman), Kaj Blomster and Marte Kopperstad.

Generally, the Chief Internal Auditor (CIA) and the Chief Financial Officer (CFO) as well as the external auditor of NMB are present at meetings with the right to participate in discussions but not in decisions.

The majority of the members of the AC are to be independent of NMB and its shareholder. The AC assists the Board in ensuring the quality of NMB's financial reporting process and in that connection reviews and monitors NMB's quarterly financial reporting and the external auditors' reports on key matters arising from their audit of NMB's financial statements and reviews NMB's annual and interim reports. The AC shall review the external audit plan. Further the Committee shall assess in discussions with the external auditor the threats to their independence and the safeguards applied to mitigate those threats as documented by them, to monitor on the provision of other services in addition to audit that the external auditor is allowed to provide to NMB, and annually review the external auditor's 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 AC shall review Group Internal Audit's (GIA) audit plan as well as GIA's periodic reports, including the audit log. The AC shall prepare the election of the external auditor prior to the Annual General Meeting and shall annually review the Company Directive for Audit Committee. In 2019, the AC held five meetings.

The Risk Committee

The Risk Committee (BRIC) has tasks set out to it in the Finnish Act on Credit Institutions and in the Local Governance Rules for the Board Risk Committee approved by the Board of Directors of NMB.

The members of the Committee were Kaj Blomster (Chairman), Erja Ketko and Timo Nyman.

The majority of the members of the BRIC are to be independent of NMB and its shareholder. BRIC assists the Board in fulfilling its oversight responsibilities concerning management and control of the risks, risk frameworks, controls and processes associated with NMB's operations, including credit, market, liquidity, business, operational risk, conduct and compliance, as well as related frameworks and processes. BRIC shall take appropriate actions in response to Group Risk & Compliance (GRC) and Group Internal Audit (GIA) reports on significant deficiencies and risks presented to BRIC. In 2019, the BRIC held five meetings.

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 was Thomas Miller until 13 November 2019 when he resigned from the company. As from 13 November 2019 Tarja Ikonen has acted as a deputy CEO.

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 NMB. The Management Group consists of the CEO, the Chief Financial Officer (CFO), Head of Mortgage Products, the Chief Operating Officer (COO), Collateral Manager and the Chief Risk Officer (CRO) of NMB. The CRO is a member of the Management Group but does not take part in business decisions. While it is CRO's task to ensure that risks are considered in business decisions, the accountability remains with the business.

Internal Control Process

The Board of Directors is responsible for setting and overseeing an adequate and effective Internal Control 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, the Nordea Group Internal Rules and the company specific internal guidelines.

The internal control process is carried out by NMB's Board of Directors, senior management, risk management functions and other staff. 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, assignment 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, NMB and Group Functions are risk owners, and thus responsible for conducting the business within the risk exposure limits and risk appetite and in accordance with the Internal Control Framework.

Risk management

As the 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.

Chief Risk Officer

NMB has a Chief Risk Officer (CRO). The CRO is an independent second line of defence risk management function within NMB. The CRO shall provide a complete view of the whole range of risks in NMB to the Board of Directors and ensure the coordination of risk management activities and adequate risk management set-up in the legal entity. The CRO also reports to Group Risk & Compliance (GRC) which is responsible for identifying, measuring, monitoring and reporting on all risks on the Nordea Group level.

Compliance

Group Compliance 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. It is responsible for providing the framework for the internal control of non-financial risks, by designing relevant processes as well as issuing relevant internal rules. The second line of defence is responsible for activities such as identifying, assessing, monitoring, controlling and reporting of issues related to risks, including compliance with internal rules and regulations.

NMB has outsourced its compliance activities to Nordea Bank Abp, Personal Banking FI Compliance. The Compliance function has the overall responsibility for co-ordinating the control of NMB's compliance risk, and for producing and following up on appropriate compliance risk assessments, for planning compliance activities and for compliance risk reporting in respect of NMB. The Compliance Officer regularly reports to the CEO of NMB and reports on significant compliance observations are also provided to the Board of Directors of NMB.

Internal audit

GIA is an independent function commissioned by the Board of Directors. The Audit Committee is responsible for guidance on and evaluation of GIA within NMB. The Chief Internal Auditor reports on a functional basis to the Board of Directors and the Audit Committee and on an administrative basis to the CEO.

The purpose of GIA is to support the Board of Directors in protecting the assets, reputation and sustainability of NMB. GIA does this by assessing whether all significant risks are identified and appropriately reported by management and the risk functions to the Board, Audit Committee and the senior management; by assessing whether all significant risks are adequately controlled; and by challenging the senior management to improve the effectiveness of governance, risk management and internal controls.

GIA does not engage in consulting activities unless otherwise instructed by the AC.

All activities and entities of the Group 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 Group Board. After the approval of the Nordea Group audit plan, the audit plan of NMB is composed by GIA and approved by the Board of Directors of NMB.

GIA shall operate free from interference in determining the scope of internal auditing, in performing its audit work and in communicating its results. For example, this means that GIA is authorised to inform the financial supervisory authorities of any matter without further approval. The Chief Internal Auditor has unrestricted access to the CEO and Chairman of the AC and should meet with the Chairman of the AC informally and formally throughout the year, even without the presence of the executive management. 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 organisation's records, systems, premises and staff. GIA has the right to attend and observe e.g. Board Committee and senior management meetings when relevant and necessary.

Insider Administration

The Nordea Group and Nordea Mortgage Bank Plc have in accordance with laws and regulations adopted internal guidelines governing handling of insider information and trading in Nordea securities.

Leading officials

Members of the Board of Directors, the CEO and the Deputy CEO of NMB are considered to hold positions in which they discharge managerial responsibilities in NMB and are thus classified as Leading Officials.

Other persons in such leading positions that they are to be considered as Leading Officials, are members of NMB's Management Group following decision and notification by the Group Compliance Officer. The same will apply to other persons in such leading positions in NMB, or with other qualified duties of a permanent nature, that would normally involve access to undisclosed information regarding circumstances that may affect the price of covered bonds issued by NMB who have the power to take managerial decisions affecting the future developments and business prospects of the company.

Insider lists

The Group Compliance identifies and notifies the persons who due to their position or employment have access either regularly or on an occasional basis to Inside Information regarding NMB and who thereby are to be included on the specific insider lists. Such persons are required to separately acknowledge in writing the duties related to their position as insiders and are aware of the sanctions applicable to insider dealing and unlawful disclosure of Inside Information.

Employees who receive Inside Information relating to NMB in connection with a project, a transaction or the support of their legitimate role must be entered on a case-based insider list. The person heading the project or unit where the Inside Information is at hand shall always assess the need to establish a case-based insider list and report the case to the unit's Compliance Officer.

Trading in Securities issued by Nordea Mortgage Bank Plc

Leading Officials are restricted from trading in Financial Instruments issued by NMB during a period of 30 calendar days before (and including) the date of the publication of an interim financial report or a year-end report by NMB (the “Closed Period”). For avoidance of doubt, the Closed Period ends on the day after the publication of the report, i.e. the trading restriction continues to apply on the day of publishing.

Any time a Leading Official has Inside Information about NMB, he/she must abstain from trading.

Leading Officials employed by the Nordea Group are subject to the one-month-rule. This means that the time between the acquisition and disposal of a financial instrument and correspondingly between the disposal and acquisition of a financial instrument cannot be less than one month. Nordea employees are not permitted to carry out any short-term trading in Financial Instruments in such a way that the investment, or a combination of investments results in the stay out/holding period being circumvented.

Report on the key aspects of the systems for internal control and risk management regarding financial reports for the financial year 2019

Nordea Mortgage Bank Plc is part of the Nordea Group. The internal control and risk management systems in relation to the financial reporting process are organised at Nordea level but the risk management is performed at an entity 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 Internal Rules and supporting instructions to the extent applicable.

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. 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 at Nordea can be described in accordance with the COSO Framework as follows below.

Control Environment

The control environment constitutes the basis for Nordea’s internal control and centres around the culture and values established by the Board of Directors and Group Leadership Team of Nordea Bank Abp, and the organisational structure, with clear roles and responsibilities.

A clear and transparent organisational structure is of importance for the control environment. Nordea’s business structure aims to support the overall strategy, ensuring 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 the internal control of financial reporting where the risk owners in the business areas and Group Finance are responsible for the risk management activities. A risk management function supports the Group CFO 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 control 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 & Compliance (GRC). In addition, the internal audit function provides the Group Board with an assessment of the overall effectiveness of the governance, risk management and control processes.

The control environment is implemented in NMB where the CFO of NMB is responsible for maintaining the set of controls covering the control of risks and the risk identification process in accordance with the AKC. The CRO of NMB is the independent second line of defence risk management function within NMB responsible for identifying, controlling and reporting on financial reporting risk. GIA as the third line of defence function provides the Board of NMB with an assessment of the overall effectiveness of the governance, risk management and control processes.

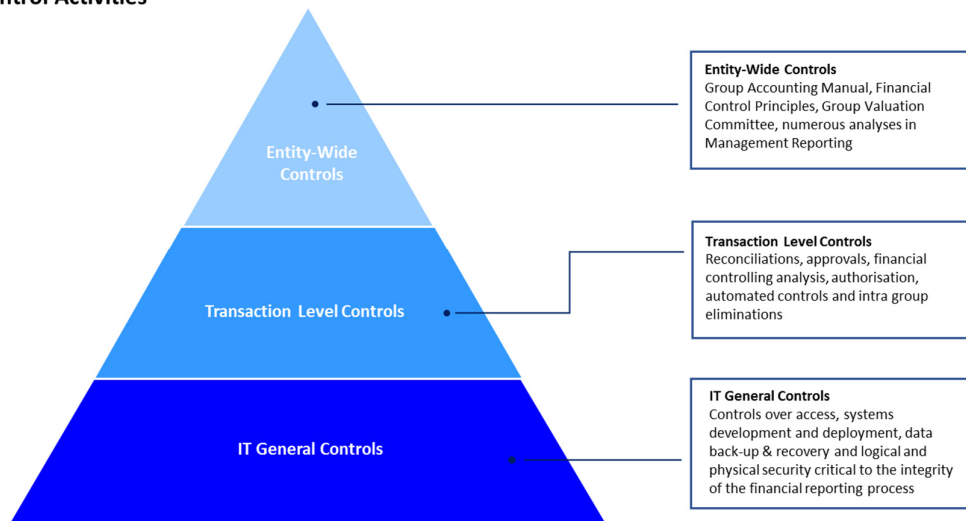
Risk Assessment

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 and 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 are the recurring 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 Nordea focuses on risks and processes which could lead to material financial misstatements, i.e. misstatements that if they occurred would significantly and adversely affect Nordea. 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 of correction of the misstated item. Structured 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 AKC 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-eyes principle when approving, for instance, transactions and authorisations.

AKC control structure is based on that Transaction Level Controls (TLC) 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 where specific IT General Controls are governed. The analysis aims at scoping in the major systems where there is a 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 with which Nordea works continuously to further strengthen the quality.

Information & Communication

Group Finance 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 guidelines and standard operating procedures in the responsible units. Accounting specialists from Group Finance continuously provide accountants and controllers with information on changes in order to inform of existing and updated rules and regulations with an impact on Nordea.

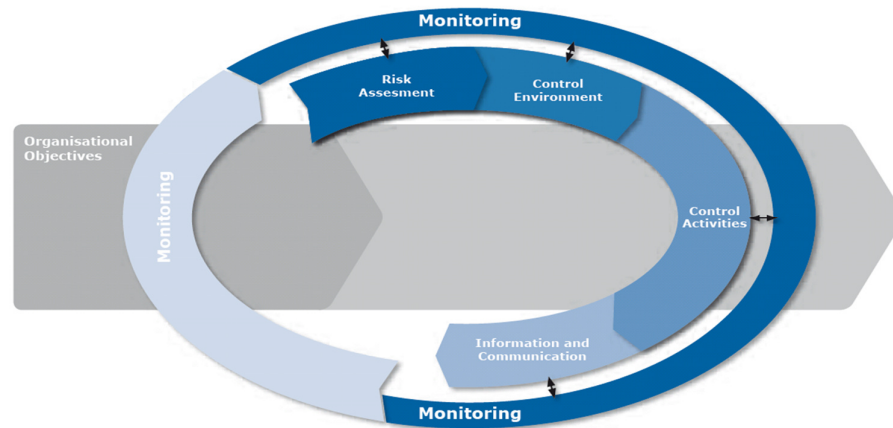
The key criteria applied when communicating financial information to the market are “correct, relevant, consistent, reliable and timely”. The information is to be disclosed in such a way that the information is made available to the public in a fast and non-discriminatory manner.

Nordea interacts with relevant subject-matter experts to ensure fulfilment of financial reporting objectives. Nordea actively participates in relevant national forums, such as forums established by the financial supervisory authorities, central banks and associations for financial institutions.

AKC reporting procedures provide the management at different levels in 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 outcome and high-risk areas. As all the operations of NMB are integrated into the operations of the Nordea Group, also the AKC reporting procedures are applicable to it. The CFO and CRO receive AKC reporting quarterly.

Monitoring

Nordea has established a process with the purpose of ensuring the proper monitoring of the quality of 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 covers identification and assessment of risks and controls, which also includes risks and controls related to financial reporting.

The Board of Directors, the Board Audit Committee and the Board Risk Committee of Nordea Bank Abp, as well as Group Internal Audit (GIA), have important roles in respect of overseeing and monitoring the internal control of financial reporting in the whole Nordea Group. Similarly, the Board of Directors and the Board Audit Committee of Nordea Mortgage Bank Plc have an important role with regards to monitoring the internal control of financial reporting in Nordea Mortgage Bank Plc.

Group Finance has also established specific quarterly reporting regarding the internal control of financial reporting to the Group CFO covering risk management and high-risk areas. The independent risk control function within GRC reports specifically on financial reporting risk to the Board Audit Committee and the CEO in Group Leadership Team on a quarterly basis.

Auditors

According to the Articles of Association, the auditor must be elected by the General Meeting for a term of one year. NMB's auditors were elected by the Annual General Meeting of Nordea Mortgage Bank Plc on 7 March 2019. 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.