



OP Corporate Bank plc's Corporate  
Governance Statement 2019

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## 1 APPLICABLE REGULATIONS

OP Corporate Bank plc's (hereinafter OP Corporate Bank) corporate governance is comprehensive and proportionate with respect to the nature, scope and diversity of its operations to ensure the efficient management of the credit institution in accordance with prudential business principles, and so that the Board of Directors can effectively supervise its management.

This OP Corporate Bank Corporate Governance Statement has been prepared in accordance with chapter 7 of the Act on Credit Institutions (hereinafter the Credit Institutions Act) and chapter 7 of the Finnish Securities Markets Act, and the Finnish Corporate Governance Code (2020) where applicable. Furthermore, this Statement provides a report on company remuneration based on chapter 8 of the Credit Institutions Act and the Corporate Governance Code.

At its meeting on 4 February 2020, the Board of Directors discussed this Corporate Governance Statement. KPMG Oy Ab, the company's auditor, has verified that the Statement has been issued and that the description it contains covering the main features of internal control and risk management systems related to the financial reporting process is consistent with the financial statements. This Statement has been issued separately from the Report by the Board of Directors.

This Statement together with the Financial Statements, Report by the Board of Directors and Auditor's Report are available at [www.op.fi](http://www.op.fi) > OP Financial Group > To the media > Reports > [OP Corporate Bank publications](#).

Key updated governance information on areas related to the Statement is available on the website of the debt investors website at [www.op.fi](http://www.op.fi) > OP Financial Group > Debt investors > [Corporate Governance \(OP Corporate Bank plc\)](#).

In its operations, OP Corporate Bank complies with Finnish legislation. In addition to the Finnish Limited Liability Companies Act, OP Corporate Bank complies with regulations governing securities issuers, financial services companies and insurance companies, its Articles of Association and the guidelines issued by OP Cooperative. In its international operations, OP Corporate Bank also complies with local laws when applicable.

The Finnish Corporate Governance Code 2020 for listed companies, issued by the Securities Market Association, is available on the Association's website at [www.cgfinland.fi](http://www.cgfinland.fi).

## 2 OP FINANCIAL GROUP' STRUCTURE AND OP CORPORATE BANK GROUP'S STRUCTURE

In terms of operations and ownership, OP Corporate Bank belongs to OP Financial Group. Established in 1902, OP Financial Group is a financial services group based on a cooperative foundation. OP Financial Group is made up of 147 OP cooperative banks (as at 31 December 2019) and their central cooperative (OP Cooperative) as well as a number of subsidiaries and affiliates.

Member cooperative banks and OP Cooperative Consolidated credit institutions form the amalgamation of deposit banks. Its central cooperative is OP Cooperative.

OP Cooperative Consolidated comprises OP Cooperative, which acts as the parent entity, and entities majority-owned or wholly-owned by the parent institution or any of its subsidiaries. OP Corporate Bank plc with its subsidiaries is part of OP Cooperative Consolidated and is a subsidiary wholly owned by OP Cooperative and a member credit institution that belongs to the amalgamation.

OP Corporate Bank acts as the central financial institution for OP Financial Group OP cooperative banks.

The central cooperative is obliged to support its member credit institutions and is liable for their debts. The member credit institutions are obliged to participate in any necessary support measures aimed at preventing another member credit institution from going into liquidation. In addition, they are jointly and severally liable for debts of a member credit institution failing to meet its obligations.

Read more about OP Financial Group's structure in section 2 of OP Financial Group's Corporate Governance Statement 2019.

OP Corporate Bank Group comprises OP Corporate Bank plc, the parent company, and its subsidiaries. The most significant subsidiaries include Pohjola Insurance Ltd and A-Insurance Ltd engaged in non-life insurance business, Pohjola Hospital Ltd engaged in special healthcare services and OP Custody Ltd engaged in securities custody and clearing services. In addition, OP Corporate Bank plc has branches in Estonia, Latvia and Lithuania and subsidiaries engaged in asset and sales finance operations. Of the structured entities, real estate funds Real Estate Fund II ja Real Estate Fund III have been consolidated into the Group.

Pohjola Insurance Ltd and Eurooppalainen Insurance Company Ltd accepted a merger plan on 15 March 2019, according to which the latter merged into the former in 31 October 2019.

Pohjola Insurance Ltd and A-Insurance Ltd accepted a merger plan on 29 May 2019, according to which the latter will merge into the former. The planned date for registration of the merger is 30 April 2020.

### 3 OP FINANCIAL GROUP'S RESPONSIBLE OPERATIONS AND GOOD CORPORATE GOVERNANCE

OP Financial Group's core values and principles governing corporate responsibility and good corporate governance also guide the operations of OP Corporate Bank.

OP Financial Group has defined core values guiding its operations, which, for their part, also serve as the Group's code of ethics. The Group's core values are as follows: People First, Responsibility, and Succeeding Together. In its operations, OP Financial Group applies its Code of Business Ethics. The Code of Business Ethics provides an ethical framework for the conduct of all employees and members of governing bodies of OP Financial Group. OP Financial Group adheres to international economic, social and environmental responsibility principles. The Group is committed to promoting the principles of the United Nations Global Compact initiative. In 2019, OP Financial Group became a Founding Signatory of the Principles for Responsible Banking under the United Nations Environment Programme Finance Initiative (UNEP FI).

Corporate responsibility is an integral part of OP Financial Group's business and strategy. OP Financial Group reports regularly on its corporate responsibility issues according to the Global Reporting Initiative (GRI) guidelines.

OP Cooperative's Supervisory Board has confirmed the Principles of Good Corporate Governance for OP Financial Group. These Principles cover all OP Financial Group entities as applicable. The Group entities may, if necessary, also draw up their own guidelines expanding on the Group-wide guidelines.

Read more about OP Financial Group's corporate responsibility and good corporate governance in section 3 of OP Financial Group's Corporate Governance Statement 2019.

### 4 OP CORPORATE BANK'S GOVERNANCE STRUCTURE

The only shareholder of OP Corporate Bank, OP Cooperative, exercises the decision-making power of shareholders at the General Meeting. The General Meeting elects the Board of Directors and auditors, for example. Instead of the General Meeting, a shareholder may make a written shareholder decision on a matter within the powers of the General Meeting. The Board

of Directors is in charge of the company's strategic management. Responsibility for operational management rests with the President and CEO appointed by the Board of Directors.

## 5 GENERAL MEETING

The Annual General Meeting (AGM) must be held within six months of the termination of the financial year on a date specified by the Board of Directors. The AGM shall discuss matters assigned to it in accordance with the Articles of Association and any other business referred to in the notice of the meeting.

Based on the shareholder's written decision, OP Corporate Bank plc's only shareholder, OP Cooperative, discussed the matters within the remit of the AGM on 19 March 2019, as specified in the Articles of Association: it adopted the Financial Statements for 2018, discharged members of the Board of Directors and the President and CEO from liability, decided to distribute a dividend of EUR 0.54 per share and elected members to the company's Board of Directors and the auditor.

The company's only shareholder OP Cooperative also made the following shareholder decisions on 11 June 2019 on matters within the remit of the General Meeting: a regulation in the Articles of Association governing the Board of Directors was altered with respect to the composition of the Board of Directors, a decision was made on Board emoluments and Board members were elected (see section 6 for more details).

## 6 BOARD OF DIRECTORS

### 6.1 Election and composition of the Board of Directors

The General Meeting of OP Corporate Bank elects members to the Board of Directors, and the parent OP Cooperative prepares proposals to the General Meeting related to the election. The Board of Directors has a minimum of four and a maximum of seven members. A Board member's term begins upon closing of the General Meeting electing the member and terminates upon closing of the Annual General Meeting following the election.

Credit institutions' board members are required to demonstrate the kind of reliability and professionalism and to fulfil the fit and proper criteria specified in the Act on Credit Institutions and official regulations. Board members are subject to a regular Fit & Proper assessment.

OP Financial Group has a long-term approach to planning the composition of its management bodies. Effective work in management bodies requires that their members have sufficiently diverse expertise, skills and experience. Read more about the principles of the diversity of management bodies in section 3.3 of OP Financial Group's Corporate Governance Statement 2019.

### **Members of the Board of Directors and Board meetings in 2019**

**Timo Ritakallio**, b. 9 May 1962

Chair of the Board of Directors

OP Financial Group's President and Group Executive Chair

LL.M, MBA, D.Sc. (Tech.)

**Vesa Aho**, b. 7 November 1974

CFO, OP Financial Group; CEO, OP Cooperative

M.Sc. (Econ. & Bus. Adm.)

**Olli-Pekka Saario**, b. 2 December 1957 (Board member as of 1 July 2019)  
Managing Director, Turun Seudun Osuuspankki  
LL.M, eMBA

**Pasi Sorri**, b. 13 February 1972 (Board member as of 1 July 2019)  
Managing Director, Keski-Suomen Osuuspankki  
M.Sc. (Econ. & Bus. Adm.)

**Tiia Tuovinen**, b. 12 July 1964 (Board member until 30 June 2019)  
Chief Legal Officer (CLO) and Group General Counsel, OP Financial Group  
LL.M EUR

**Tony Vepsäläinen**, b. 5 July 1959 (Board member until 30 June 2019)  
Executive Vice President, Operations, deputy to President and Group Executive Chair, OP Financial Group  
LL.M, eMBA

**Jarmo Viitanen**, b. 15 May 1960  
Managing Director, Helsinki Area Cooperative Bank  
M.Sc. (Agr. & For.), eMBA

Personal data, key work experience and the most significant other relevant positions of the Board members can be found on OP Financial Group's debt investors pages at [www.op.fi](http://www.op.fi) > OP Financial Group > Debt investors > Corporate Governance (OP Corporate Bank) > Board members.

The Board of Directors had 21 meetings in 2019. In 2019, Board members attended all Board meetings held during their membership.

All of the members of the Board of Directors are executive members dependent on the company and/or its shareholder (OP Cooperative).

## 6.2 Duties of the Board of Directors

In each subsidiary of OP Cooperative Consolidated, the board of directors is responsible for due organisation of the subsidiary's governance and operations. When performing its duties, the board of directors must take account of OP Financial Group's strategic statements and other policy lines, confirmed principles and guidelines issued by the Supervisory Board of the central cooperative and the Executive Board concerning matters where the central cooperative is obliged or has the right to issue policy lines and guidelines regarding the entire Group. The charters of the subsidiaries' boards of directors describe the duties of each board of directors.

The Board of Directors of OP Corporate Bank is responsible for the company's management and appropriate organisation of operations. The Board of Directors must ensure that supervision of the company's accounting and financial management is duly organised. In addition, the Board of Directors deals with, in terms of quality and extent, far-reaching and fundamentally important matters from the perspective of the company's operations, and any unusual matters unless it has not authorised the President and CEO or another party to deal with them.

The Board of Directors and the President and CEO shall manage the company and its consolidation group professionally following sound and prudent business practices.

The Board of Directors has confirmed a written charter defining the duties and meeting procedures applying to the Board of Directors. In this respect, the Board of Directors shall, among other things:

- decide on the company's business strategy and its implementation
- confirm values to be adhered to with respect to the company's operations

- approve annually a business plan, targets and annual plan and supervise their implementation
- approve the principles and practices to ensure the fitness and propriety of the company's management
- decide on the remuneration schemes and principles applied to the company's management and personnel
- appoint and dismiss the President and CEO and his deputy after hearing the Executive Board of the central cooperative
- record guidelines under section 17 of the Act on the Amalgamation of Deposit Banks and approve or deal with other guidelines according to the instructions issued by the central cooperative
- approve the principles of internal audit and an action plan in line with principles adopted by the central cooperative Supervisory Board
- approve the company's compliance policy and the key principles of compliance, and annually decide on the compliance assessment
- decide on the organisational structure and management system for the company and its functions
- discuss and adopt the company's Report by the Board of Directors and financial statements
- make a proposal for dividend distribution
- decide on the approval process for the company's costs
- approve the principles used to promote the diversity of the Board of Directors
- confirm annually the bank's capital plan which includes capital adequacy targets and a contingency plan
- confirm annually OP Financial Group's funding plan
- confirm annually a liquidity investment plan
- ensure that the company has business continuity planning in place in accordance with OP Financial Group's practices, the business continuity plans are up to date and are tested on an annual basis
- decide on outsourcing functions in accordance with OP Financial Group's principles
- consult the Internal Audit Manager and Auditor at least once a year, and
- be responsible for any other duties of the Board of Directors as prescribed by legislation or in regulations issued by the relevant authority.

## 7 PRESIDENT AND CEO

The Board of Directors appoints the President and CEO. The central cooperative's Executive Board may exercise the parent entity's shareholder engagement in the appointment of the President and CEO.

Katja Keitaanniemi (b. 1973), Lic.Sc. (Tech.), Executive Vice President of OP Financial Group's Banking Corporate and Institutional Customers, has acted as the company's President and CEO since 6 August 2018. Hannu Jaatinen (b. 1957), M.Sc. (Econ. & Bus. Adm.), eMBA, Executive Vice President of OP Corporate Bank, has acted as deputy to the President and CEO since 6 August 2018.

The President and CEO is in charge of the company's daily management in accordance with the instructions and orders issued by the Board of Directors, while ensuring that accounting practices comply with laws and regulations and that financial management is organised in a reliable manner. The President and CEO's duties include the management and supervision of the company's business, and responsibility for the development and coordination of the company's operations.

Personal data, key work experience and the most significant other relevant positions of the President and CEO can be found on OP Financial Group's debt investors pages at [www.op.fi](http://www.op.fi) > OP Financial Group > Debt investors > Corporate Governance (OP Corporate Bank) > President

and CEO. Information on the President and CEO's remuneration can be found in section 11 below.

## 8 THE BOARDS OF DIRECTORS AND MANAGING DIRECTORS OF OP CORPORATE BANK'S MOST SIGNIFICANT SUBSIDIARIES

The board of directors of each OP Corporate Bank's subsidiary shall ensure that all OP Corporate Bank Group companies are managed in compliance with applicable laws, rules and regulations, and OP Financial Group's principles.

### Boards of directors and Managing Director of major subsidiaries in 2019

	Board of Directors	Managing Director
A-Insurance Ltd	Vepsäläinen Tony, Chair Aho Vesa Keitaanniemi Katja	Lehtilä Olli
OP Custody Ltd	Jaatinen Hannu, Chair (as of 19 March 2019) Jaulimo Jari, Chair (until 18 March 2019) Arle Fred (until 18 March 2019) Lauha Janne Timonen Mikko (as of 19 March 2019)	Sakki Kirsi
Pohjola Hospital Ltd	Lehtilä Olli, Chair Länsisalmi Hannakaisa Puustinen Pekka	Torkki Markus
Pohjola Insurance Ltd	Ritakallio Timo, Chair Aho Vesa Keitaanniemi Katja (until 30 June 2019) Reimasto-Heiskanen Jaana (as of 1 July 2019) Vepsäläinen Tony Vilpponen Jani (as of 1 July 2019)	Lehtilä Olli

## 9 INTERNAL AND EXTERNAL CONTROL

### 9.1 Internal control

Effective and reliable internal control forms the basis for compliance with sound and prudent business practices.

Internal control refers to procedures or practices within an organisation to ensure that the organisation achieves the targets set in the strategy, uses resources economically and that the information in support of management decisions is reliable. Internal control also ensures that risk management, custody of client assets and protection of property is adequately arranged.



Conformance to regulations and approved ethical principles, too, are ensured through internal control.

The central cooperative's Supervisory Board confirms the Group-level principles of internal control that all OP Financial Group entities follow. OP Corporate Bank complies with the principles of internal control adopted by the central cooperative's Supervisory Board.

The Board of Directors of OP Corporate Bank is responsible for organising and maintaining adequate and effective internal control. It deals with the guidelines governing OP Financial Group's internal control, ensures that OP Corporate Bank has an adequate set of guidelines specifying Group-level guidelines, and supervises internal control effectiveness and sufficiency.

Internal controls apply to all operations. The nature and extent of operations and, whenever necessary, special characteristics related to international operations are taken into consideration in specifying internal controls. Internal control covers all organisational levels. Internal control in its most extensive form primarily takes place at the operational level, where internal control is continuous and forms part of daily activities. Internal control is complemented by the opportunity of anyone employed by OP Financial Group to report through an independent channel if they suspect that rules or regulations have been violated (whistle blowing).

OP Financial Group has separate and independent Compliance, Risk Management and Internal Audit functions that support OP Corporate Bank's business by providing independent supervision and ensuring effective supervision in accordance with risk management's three lines of defence.

The first line of defence comprises business lines, the second line of defence comprises the risk management function independent of the business lines/divisions and the compliance function and the third line of defence comprises Internal Audit. Each line of defence has its own role in performing risk management duties efficiently.

## 9.2 Compliance

Managing compliance risks forms part of internal control and good corporate governance practices and, as such, an integral part of business management duties and the corporate culture. Responsibility for regulatory compliance and its monitoring rests with the OP Corporate Bank's executive and senior management and all supervisors and managers. Each employee is also responsible for compliance with regulation in their own duties.

Almost all activities involve compliance risk and responsibility for the management of the compliance risks rests with the business lines/divisions. The company's President and CEO is in charge of the company's compliance activities. OP Financial Group's Compliance organisation supports the President and CEO. The Group Compliance Officer in charge of the organisation reports to the Supervisory Board (or Supervisory Board committees) and the Chief Legal Officer (CLO) and Group General Counsel. The company has designated compliance officers who together with the central cooperative's compliance officers assist the Group Executive Management and senior management and the business lines/divisions in the management of risks associated with regulatory non-compliance, supervise regulatory compliance and, for their part, develop internal control. Compliance ensures that regulations are complied with and implemented mainly by means of controls and risk assessments of new procedures. Compliance activities, compliance observations and the related recommendations issued to the business lines/divisions are subject to regular reporting to OP Corporate Bank plc's Board of Directors and OP Financial Group's Compliance organisation. Compliance activities must also be reported to the Executive Board of the central cooperative consolidated and the Audit Committee of the Supervisory Board as part of OP Financial Group level reporting.

OP Financial Group's Compliance function was reorganised as of the beginning of 2019, and its resources were strengthened substantially. During the year, compliance reporting to management was revised, control methods were developed, for example, in order to better use data

as the basis for control, and operating models were systematised. Compliance was actively engaged in improving and ensuring processes related to anti-money laundering in OP Financial Group. Ensuring compliance with KYC regulation and legislation and official instructions related to the provision of investment services, and with related Group-level guidelines and the performance of processes remained as key focus areas.

The Compliance organisation annually draws up a compliance action plan which is discussed and confirmed by OP Corporate Bank plc's Board of Directors with respect to the company. The Board of Directors also deals with the principles and instructions governing compliance. OP Financial Group's Compliance organisation is responsible for advice on and support of Group-level compliance risk management and also controls OP Corporate Bank's compliance.

Compliance is aimed at preventing the materialisation of compliance risks. For this purpose, the Compliance organisation shall, for example,

- prepare and maintain guidelines on key matters related to practices
- advise employees on, and train them in, matters related practices
- support the business lines/divisions in the planning of development measures promoting internal control and the management of compliance risks
- keep Group Executive Management and senior management and the business informed of upcoming regulatory changes and monitor the business's preparation for regulatory changes
- supervise compliance within OP Corporate Bank Group with the current regulatory framework, ethical practices and internal guidelines related to practices and
- regularly report to both Group Executive Management and senior management on recommendations and the results of control given to the business and other observations related to compliance risk exposure.

### 9.3 Risk management

OP Financial Group's core values and strategic and financial targets form the basis for OP Corporate Bank's risk management.

The Supervisory Board of OP Cooperative, the central cooperative, confirms OP Financial Group's Risk Appetite Statement and Risk Management Principles which all OP Financial Group companies follow. Together with the strategy, the Risk Appetite Statement provides the bases for the goal-setting of the businesses. The risk policy and other risk management guidelines specify the Statement.

OP Financial Group's risk appetite determines what risks and risks related to what operations OP Corporate Bank Group is ready to take when carrying out its mission within the framework of the strategic targets. In order for OP Corporate Bank Group companies to be able to operate in accordance with the risk appetite, they must have sufficient risk-bearing capacity, which comprises risk capacity and risk-taking capacity. OP Corporate Bank Group adopts a policy of moderate risk-taking. Business is based on a well thought-out risk/return approach.

OP Corporate Bank Group's significant risks include credit risks, market risks, liquidity risks, non-life insurance risks, counterparty risks, concentration risks, risks associated with future business, and reputational risk and operational risk associated with all business operations, including model risks and compliance risks and risks associated with strategic choices and the implementation of the strategy.

The objective of the risk management process is to secure sufficient risk-bearing capacity and to ensure that any business risks taken do not threaten profitability, capital adequacy, liquidity or the achievement of strategic targets and thereby to secure business continuity. Risk management has been integrated as part of the business and its management of OP Corporate Bank and its Group companies.

OP Financial Group's risk management process contains the following:

- The steering framework prepared and maintained by independent Risk Management
  - The Risk Appetite Statement and the Risk Management Principles that guide risk-taking, and the risk policies that specify them and other risk management guidelines
  - Determination of the need of risk-taking capacity and allocation to the business lines/divisions based on the strategy
  - Creation of methods to identify, assess, measure and limit risks
- Risk management of operational business
  - Risk selection and pricing
  - Management of risk exposures and the asset-liability position
- Internal control performed by Risk Management
  - Supervision of compliance with risk-taking, risk policies and pricing
  - Risk exposure analysis and reporting to the management

OP Corporate Bank's Board of Directors takes charge of risk management and the adequacy and reliability of the company's internal control, deals with OP Financial Group's risk management guidelines and supervises their compliance.

The business lines/divisions fulfil OP Financial Group's strategy, are responsible for planning their own operations and for their internal control. They make risk decisions within the framework of the restrictions governing risk-taking and risk policy and of other guidelines, apply the risk management framework, supervise their risk exposure and that it remains within the confirmed limits and control limits, as well as bear responsibility for the risks they have taken and for the extensiveness and accuracy of data in the systems.

OP Financial Group's Risk Management is a function independent of business that provides guidelines for, controls and supervises the overall risk management of the Group and its companies, and is responsible for the fact that the risk management system is adequate and up to date. OP Corporate Bank's and its Group companies' risk management duties have been centralised in the central cooperative Risk Management.

A more detailed description of OP Corporate Bank Group's risk management principles can be found in the note to OP Corporate Bank Group's financial statements called Risk management principles.

In 2019, OP Financial Group's risk management included monitoring of external regulatory changes and continuing to prepare for regulatory changes.

Major risk management development projects included, for example, preparing for changes in the financing process caused by a new more detailed definition of default, model risk management and preparation for updating IRB risk models within the schedule set by new regulation.

Risk Management continued to further develop its risk management assessment processes and operational processes in order to ensure that controls related to risk management are automated so as to be part of all business and that risks are assessed proactively and sufficiently when developing new business. Risk Management has strengthened the development and validation process and extended the comprehensiveness of independent model validations. Risk Management has further developed the assessment practices of the sufficiency of capital and liquidity and the management methods of interest rate risk associated with the banking book.

Risk management guidelines, risk reporting and risk limitation have been revised in such a manner that they are based on revenue logic-specific assessments. Stress tests have continued to play an increasing role in risk analyses.

## 9.4 Internal audit

Internal Audit of OP Cooperative (OP Corporate Bank's parent entity), or OP Financial Group's Internal Audit, is responsible for internal audit. Internal audit constitutes independent and objective assessment, verification and consulting activities with a view to generating added value to OP Financial Group and improving its operations. Internal Audit is headed by the Chief Audit Executive appointed by the central cooperative's Supervisory Board.

The Supervisory Board's Audit Committee confirms the Internal Audit action plan and OP Corporate Bank's Board of Directors confirms the part of the action plan related to the company. Internal Audit reports its observations and recommendations as well as the implementation of the recommendations to the OP Corporate Bank's Board of Directors, the management of the auditable entity, the central cooperative's Executive Board and the Supervisory Board's Audit Committee.

In its auditing work, Internal Audit complies with the Internal Audit Charter confirmed by the Supervisory Board in June 2019, and the International Standards for the Professional Practice of Internal Auditing confirmed by the Institute of Internal Auditors (IIA). Internal audit performance is subject to external quality assessment about every five years.

In addition to the Internal Audit action plan confirmed by the Board of Directors in 2019, internal audit has been performed indirectly as part of audit applying to the centralised functions of OP Financial Group. Internal Audit has conducted specific audits on a risk-based basis with a view of identifying risk factors and assessing the performance of internal control.

## 9.5 External control

### 9.5.1 Audit

The General Meeting of OP Corporate Bank elects an audit firm chartered by the Finland Chamber of Commerce to act as the auditor. The auditors' term of office is the financial year during which they were elected, ending upon the closing of the next Annual General Meeting after their election.

The Audit Committee of the Supervisory Board of OP Cooperative, OP Corporate Bank plc's parent entity, puts audit services out to tender at some five years' interval (last time in 2018) on the basis of which it proposes eligible auditors to OP Cooperative's Annual Cooperative Meeting to act as auditors for the entire OP Cooperative Consolidated. The Supervisory Board's Audit Committee annually assesses the quality of the auditor's performance and ancillary services and the independence of auditors and the statement of the ancillary services.

The auditors are tasked with auditing the accounting, internal control, accounting policies, management accounting judgements, presentation and structure of the financial statements of the company and its entities in order to obtain assurance that the financial statements of the Group and its entities have been prepared in compliance with the rules and regulations in force governing the preparation of financial statements and give the company's shareholders and other stakeholders a true and fair view of the financial position, financial performance and cash flows of the Group.

KPMG Oy Ab, a firm of authorised public accountants, acted as the company's auditor in 2019 with Juha-Pekka Mylén, APA, acting as the chief auditor, appointed by KPMG Oy Ab. KPMG Oy Ab has acted as the company's auditor since 2002 and Juha-Pekka Mylén as chief auditor since 2019. The audit firm KPMG Oy Ab and chief auditors appointed by KPMG Oy Ab acted as auditor of OP Corporate Bank Group's subsidiaries.

OP Corporate Bank Group has used KPMG Oy Ab's advisory services related mainly to the comfort letters of bond programmes and tax counselling.

In 2019, audit fees in OP Corporate Bank Group for audit paid to auditors totalled EUR 337,000 (250,000), whereas fees for assignments as referred to in chapter 1, section 1, subsection 1, paragraph 2 of the Auditing Act were EUR 11,000 (17,000), those for tax counselling EUR 158,000 (10,000) and for other services EUR 178,000 (104,000). The corresponding figures for 2018 are shown in brackets. Non-audit services rendered by KPMG Oy Ab totalled EUR 154,000 (excl. VAT).

#### 9.5.2 Supervision by the central cooperative

OP Corporate Bank belongs to the amalgamation of deposit banks, under applicable laws. The amalgamation comprises OP Cooperative as the central cooperative together with its member credit institutions and financial institutions and service companies over which they exercise control. OP Cooperative controls the amalgamation's operations and provides the companies within the amalgamation with guidelines on the qualitative requirements for safeguarding their liquidity and capital adequacy, as well as guidelines for their risk management, good corporate governance and internal control. The central cooperative may also confirm general principles to be followed by the member credit institutions in operations relevant to the amalgamation.

In addition, the central cooperative supervises its member credit institutions in the manner as referred to in the Act on the Amalgamation of Deposit Banks. In its operations, the Group takes account of OP Financial Group's strategy, confirmed by OP Cooperative's Supervisory Board, and regulations and guidelines on risk management and other operations issued by OP Cooperative to the member banks. The Group reports to OP Cooperative in a separately agreed manner.

#### 9.5.3 Regulatory supervision

The Group is supervised by the Financial Supervisory Authority and the European Central Bank as prescribed in the laws governing financial and insurance markets. The company's operations in Estonia, Latvia and Lithuania are supervised when applicable by the respective national regulators.

### 10 FINANCIAL REPORTING PROCESS

The different financial management units subordinate to OP Financial Group's CFO take charge of not only the preparation of interim and annual accounts for OP Financial Group and Group entities, as required by financial accounting, but also of the production of management accounting reports, such as monthly reports on business performance. The Controller function within OP Financial Group also produces earnings forecasts, analyses the actual outcome in comparison with the forecasts, and reports on any deviations.

Correctly consolidated information using sub-ledger accounting and OP Corporate Bank Group companies' information forms the basis of reliable financial reporting.

OP Corporate Bank uses Group-wide financial reporting and risk reporting to monitor the achievement of its business goals and financial targets, and these reports are regularly reviewed at senior management and Board of Directors as well as OP Cooperative's Executive Board meetings. Financial information in financial reports is compared with related plans and any differences are analysed and the report also describes earnings outlook for the current year and for a longer period of time. The monthly financial performance and risk reports for the management are prepared according to the same principles. When preparing and examining the report, the management ascertains the accuracy and correctness of the financial results and reporting by analysing the performance and risk exposure and any deviations from targets.

External reporting is based, for example, on the International Financial Reporting Standards, the Finnish Limited Liability Companies Act, the Act on Credit Institutions, the Insurance Companies Act, the Accounting Act, and the standards and regulations issued by the Financial Supervisory

Authority. OP Financial Group's shared principles are applied in the accounting, financial statements and consolidated financial statements of all OP Financial Group companies. Responsibility for the interpretation of, guidelines on and advice on standards, other laws governing the preparation of financial statements and official accounting requirements as well as the preparation of and compliance with common accounting policies rests with OP Cooperative, OP Financial Group's central cooperative. Whenever necessary, the company turns to auditors who give a statement of the selected principles and interpretations.

The Board of Directors must ensure that supervision of the company's accounting and financial management is duly organised. It decides on reporting, procedures and qualitative and quantitative indicators used to assess operational efficiency and performance in line with principles adopted by OP Cooperative. The Board of Directors discusses and approves the consolidated financial statements and interim reports.

The Board of Directors is tasked with ensuring that the company has a sufficient internal control system covering all of its operations and that the supervision of accounting and financial management is duly organised. It must also evaluate how the company complies with laws, regulations, official instructions and internal instructions. The Board also discusses the most significant changes made to the accounting policies during the financial year, principles governing impairment testing for goodwill and intangible assets and the outcome of this testing, and critical accounting estimates and judgements, as well as control reports and reports prepared by regulators, auditors, Internal Audit and the Compliance organisation.

Under the Limited Liability Companies Act, the President and CEO shall ensure that the Company's and its consolidation group's accounting practices comply with the law and that financial management is organised in a reliable manner. OP Cooperative's Finance and Treasury, independent of business lines/divisions, is responsible for the Group's financial reporting. This function produces reliable, relevant and up-to-date information on the Group's performance and finances, and keeps the Board of Directors and the President and CEO and other decision-makers informed of the Group's financial performance and near-term outlook. The President and CEO is also tasked with controlling the quality of outsourced accounting services and services for reports to regulators and other relevant authorities, and developing business control and risk management methods, indicators and the supporting systems.

Compiling financial statements information and interim reports for publication is coordinated at the central cooperative consolidated level. The needs of the management and business lines/divisions as well as applicable legislation guide reporting. Reporting systems and communications are defined so as to enable appropriate monitoring and supervision of objectives, performance, operations and risk at all organisational levels. When reporting OP Corporate Bank Group's and its business lines' results and other confidential company information, the Group ensures that information confidentiality has been mentioned in the reports and that confidentiality remains when distributing the reports.

Business control primarily uses OP Financial Group's shared systems. Operational duties related to financial and management accounting are coordinated at OP Cooperative Consolidated level.

As provided by law, auditors shall assess the accuracy of external financial reporting. The auditors are tasked with auditing the accounting, financial statements and governance of the company and its consolidation group in order to obtain assurance that the financial statements of the company have been prepared in compliance with the rules and regulations in force and give owners and other stakeholders a true and fair view of the financial position of the company and its consolidation group and its financial performance and cash flows.

In its audits, Internal Audit assesses the effectiveness and adequacy of the company's and its consolidation group's financial reporting, and reports these audits to the senior management and the Board of Directors.

OP Corporate Bank Group's financial statements were prepared in accordance with IFRS, applying IASs, IFRSs and SIC and IFRIC interpretations effective on 31 December 2019.

In 2019, OP Financial Group and OP Corporate Bank Group adopted the following standards and interpretations:

- IFRS 16 Leases as of 1 January 2019. OP Corporate Bank Group applied a retrospective approach in the transition to a limited extent, in which case comparatives were not restated and any accrued transition effect was recognised in adjustments to retained earnings in equity.
- In 2019, the IASB published a document entitled Interest Rate Benchmark Reform that amended IFRS9, IAS 39 and IFRS 7. OP Corporate Bank Group already applied amendments to IAS 39 during the financial year 2019.
- Annual improvements to IFRS for cycles 2015–2017 (applicable mainly to accounting periods beginning on or after 1 January 2019). Minor amendments are annually made to standards through the Annual Improvements process. The effects of the amendments vary by standard but they are not significant.
- A new IFRIC 23 interpretation that took effect on 1 January 2019.

## 11 REMUNERATION

### 11.1 Board emoluments and other benefits

The Annual General Meeting (AGM) decides on Board emoluments and other benefits, proposed by the parent entity, OP Cooperative, to the AGM.

No separate meeting allowances were paid in 2019 to the members of the Board of Directors employed by OP Cooperative or its subsidiaries. The meeting allowance paid to the board members employed by OP Financial Group's cooperative banks amounts to 600 euros per meeting.

### 11.2 President and CEO's salary and other benefits

The Board of Directors appoints the President and CEO and decides on their salary, benefits and the terms and conditions of his executive contract. A written executive contract with the Executive Vice President of Banking, Corporate and Institutional Customers within OP Financial Group and its appendix specifies the terms and conditions of the executive contract with the President and CEO.

The President and CEO as OP Financial Group's Executive Vice President, Banking Corporate and Institutional Customers, is a member of OP Cooperative's Executive Board. The President and CEO's retirement age is determined as specified in applicable pension laws. Pension benefits are determined in accordance with pension laws and OP Financial Group's own pension plans. The President and CEO is covered by TyEL (the Finnish Employees Pensions Act) which provides pension benefits based on the years of employment and earnings as prescribed in the Act. Furthermore, the President and CEO belongs to the supplementary pension plan for the Executive Board of OP Cooperative.

The period of notice applicable under the President and CEO's executive contract is six months. According to the executive contract with the Executive Vice President of OP Financial Group's Banking, Corporate and Institutional Customers, the company must pay the President and CEO a severance pay equalling his/her 6-month total salary, in addition to compensation for loss of office, if the company dismisses him/her or he/she has to resign or terminate the contract due to a reason attributable to the company. In case the executive contract terminates due to reasons

attributable to the company, the President and CEO will be entitled to bonuses under the short- and long-term remuneration schemes for the year of contract termination, provided that the schemes' performance criteria and the criteria for payment under the schemes' terms and conditions are fulfilled.

### 11.3 Principles governing remuneration to the President and CEO and other management

The remuneration schemes approved by OP Cooperative Consolidated are aimed at encouraging and engaging key human resources in the development of business and ensuring that the company attracts new key employees. The Remuneration Committee of OP Cooperative's Supervisory Board and, if necessary, the central cooperative's Executive Board assess and monitor regularly the effectiveness of the company's remuneration schemes with the aim of ensuring that remuneration policies and practices with respect to all personnel groups are in line with core values, strategy, targets and goals, risk policies and control systems. The regulations regarding the financial sector's incentive schemes have been taken into account in establishing the incentive schemes.

In 2019, remuneration of the President and CEO and other management consisted of the following three components: 1) Basic pay (salary and fringe benefits, based on the job grade and skills); 2) performance-based bonus (based on the achievement of targets under the annual plan); and 3) long-term remuneration (OP Financial Group's long-term management remuneration scheme, based on the achievement of the Group's shared strategic goals and targets).

In June 2019, the Supervisory Board of OP Cooperative decided not to initiate a new performance period for the long-term management remuneration scheme in 2020. OP Financial Group's variable remuneration comprises performance-based bonuses and the personnel fund. Group-level strategic goals and targets will be taken into account in the metrics of performance-based bonuses and the personnel fund. Bonuses under the long-term management remuneration scheme for 2014–2016 and 2017–2019 will be paid normally.

The Board of Directors is responsible for deciding on remuneration to the President and CEO and other management.

### 11.4 Performance-based bonus scheme

The Board of Directors annually decides on the performance-based bonus scheme. Remuneration is based on metrics deriving from annual targets. Such metrics may be determined at Group-, function-, department- and employee level. In addition to personal performance, bonus payout requires the fulfilment of the conditions set for Group- and/or company-level remuneration.

The Group-level precondition for remuneration is that OP Financial Group's LCR (Liquidity Coverage Ratio) is over 110% and the CET1 ratio is over the buffer set by the ECB plus 3% on the bonus payout date (over 14.5% in 2020). The final amount of the bonus earned based on the metrics in the balanced scorecard is also determined by OP Financial Group's EBT. A precondition for the bonus payout is that customer business in the Banking segment too shows a profit before tax.

For 2019, the President and CEO is entitled to bonus corresponding to his/her regular four-month salary (a maximum of ten for 2020) subject to PAYE tax at a maximum. Bonuses under the short-term incentive scheme are paid in cash, considering OP Financial Group's payment guidelines with respect to persons affecting the company's risk profile (Identified Staff).

### 11.5 Long-term management incentive scheme

Based on the decision by the company's Board of Directors, OP Corporate Bank adheres to OP Financial Group's long-term management remuneration scheme. OP Financial Group's shared



management incentive scheme consists of consecutive three-year performance periods. The President and CEO and other persons confirmed by the Board of Directors are included in the scheme.

#### **Performance period 2014–2016**

The primary performance metrics for the performance period of 2014–2016 included growth in the number of customers using OP as their main bank and insurer, OP Financial Group's EBT and Common Equity Tier 1 (CET1) ratio. In addition, the scheme takes account of profitability (return on economic capital) and capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates. No bonus will be paid out if capital adequacy under said Act is less than the minimum 130% on the date of payout.

During the performance period of 2014–2016, it was possible to annually earn bonuses equaling a person's regular 4–6-month salary subject to PAYE tax. The bonus will be paid to the beneficiary in cash in three instalments between 2018 and 2020. If the person is a member of identified staff and the total amount of variable remuneration exceeds the regulatory level, the bonus will be paid in four instalments between 2018 and 2021 (in six instalments to Executive Board members and the Chief Audit Executive between 2018 and 2023) partially tied to the value of the debenture loan issued by OP Corporate Bank.

Bonus payout includes conditions relating to the duration of employment or executive contracts and stipulations governing the hedging prohibition and the retention period.

#### **Performance period 2017–2019**

The targets for the performance period 2017–2019 are according to the strategy in force and they are based on OP Financial Group's EBT, customer experience and use of digital services. No bonuses will be paid out if the Group's CET1 ratio is less than the CET1 capital buffer set by the ECB +3%.

During the performance period of 2017–2019, it is possible to annually earn bonuses equalling a person's regular 4–6-month salary subject to PAYE tax. The bonus will be paid to the beneficiary in cash in four instalments between 2020 and 2023. If the person is a member of identified staff and the total amount of variable remuneration exceeds the regulatory level, the bonus will be paid in four instalments between 2020 and 2023 (in six instalments to the President and CEO between 2020 and 2025) partially tied to the value of the debenture loan issued by OP Corporate Bank.

Bonus payout includes conditions relating to the duration of employment or executive contracts and stipulations governing the hedging prohibition and the retention period.

### **11.6 Long-term incentive scheme for other employees**

Personnel (excl. management) is included in the long-term incentive scheme based on OP Financial Group Personnel Fund. This long-term scheme is grounded on the achievement of OP Financial Group's shared strategic goals and targets. The scheme uses the same target performance metrics as the long-term management incentive scheme. The Board of Directors annually determines the amount of profit-based bonuses transferred to the personnel fund.

## 11.7 President and CEO's earnings in 2019

The salaries paid in 2019 to the President and CEO Katja Keitaanniemi (the salary is based on the role of the President and CEO as member of OP Cooperative's Executive Board):

Regular pay	€412,920
Fringe benefits	€240
Total salaries and fringe benefits paid in 2019	€413,160

No performance-based bonuses or bonuses under the management remuneration scheme were paid to the President and CEO in 2019.

## 12 INSIDER MANAGEMENT AND PUBLIC ACCESS TO INSIDER REGISTERS AND LISTS

As provider of investment services and securities issuer, OP Corporate Bank has its own Insider Guidelines and Guidelines for Insider Trading as part of OP Financial Group's Guidelines for Insiders and Insider Trading. The Guidelines contain regulations governing inside information, prohibition against abuse and improper disclosure of inside information, disclosure of insider information, public insider registers, non-public lists of insiders, list of executives as well as reporting and disclosure of transactions, trading restrictions applicable to insiders as well as insider management. The Guidelines also cover restrictions imposed on relevant persons and the organisation of supervision of compliance with the restrictions. Those who are considered to have ongoing access to all inside information on securities issued by OP Corporate Bank are included in the permanent non-public insider list of OP Corporate Bank.

The Insider Guidelines and Guidelines for Insider Trading are based on laws governing securities markets, such as the Market Abuse Regulation, regulations issued by the Finnish Financial Supervisory Authority, Guidelines for Insiders of Listed Companies issued by Nasdaq Helsinki, and Trading Instructions for FFI Member Organisations.

The guidelines are aimed at fostering stock market players' trust in OP Financial Group and OP Corporate Bank.

OP Legal Services maintains public insider registers of OP Financial Group entities, registers of relevant persons and lists of company-specific permanent insiders and lists of executives. Such maintenance is organised through the SIRE system maintained by Euroclear Finland Ltd and through OP Financial Group's SIPI system.

When necessary, OP Corporate Bank plc maintains lists of project-specific insiders.

As a credit institution, OP Corporate Bank's operations include participation in securities trades performed by clients or in other transactions related to securities. In connection with financing arrangements or as part of OP Corporate Bank's other ordinary operations, OP Corporate Bank and its executives and salaried employees may receive inside information on client companies. For the abovementioned reasons, among other things, OP Corporate Bank and its executives and salaried employees are subject to insider regulation as referred to in the applicable law.

Training in insider issues is available on a regular basis. Such training will particularly take place at times following changes in insider guidelines.

Anyone has the right to access the public insider register and receive extracts and copies of the information in the register against a charge. However, a natural person's personal ID code and

address and the name of a natural person other than the insider are not publicly available. Information included in the register of the relevant persons, the list of permanent insiders or the list of project-specific insiders is not publicly available, unlike that included in public insider registers. Extracts from and copies of the public insider register can be ordered from OP Legal Services, Legal Services for Wealth Management Private and SME Customers. Written requests for such information specifically describing the information should be submitted to:

OP Legal Services  
Legal Services for Wealth Management Private and SME Customers  
P.O. Box 1068  
00013 OP

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## DISCLOSURE POLICY

OP Corporate Bank pursues OP Financial Group's communications and disclosure policy.

OP Cooperative's subsidiaries OP Corporate Bank plc and OP Mortgage Bank (OP MB) are in charge of OP Financial Group's funding from money and capital markets. Securities issued by OP Financial Group entities are traded on Euronext Dublin, London Stock Exchange, SIX Swiss Exchange or other stock exchanges, in addition to or in place of Nasdaq Helsinki. OP Corporate Bank has also issued unlisted bonds and/or certificates of deposit on the Finnish, UK and Japanese markets.

In their disclosure policy, OP Financial Group, OP Corporate Bank and OP MB comply with legislation, decrees and other binding regulations and the rules of Nasdaq Helsinki and, to the appropriate extent, those of other stock exchanges and the regulations and guidelines issued by the Finnish Financial Supervisory Authority and the European Securities and Markets Authority (ESMA). OP Financial Group's Communications takes into account not only the above but also the Corporate Governance Recommendations and the Code of Business Ethics.

This disclosure policy approved by OP Cooperative's Executive Board on 11 February 2019 applies to the disclosure principles and practices of bond issuers (OP Corporate Bank and OP MB) and OP Financial Group. OP Corporate Bank's Board of Directors approved the disclosure policy on 12 February 2019. It is the duty of OP Cooperative to ensure that OP Corporate Bank and OP MB too disclose, distribute and make information available on matters covered by the disclosure obligation as prescribed by law. The subsidiaries report and publish their own interim reports, Financial Statements and Reports by the Board of Directors. OP Cooperative discloses information for and on behalf of its subsidiaries that falls under its disclosure obligation. In practice, the central cooperative issues bulletins and releases in the name of OP Financial Group or the issuer. Communication with regard to securities issued by OP Corporate Bank and OP MB is decided upon on a case-by-case basis with the issuer. Responsibility for the issuer's disclosure obligation rests with each issuer.

The disclosure policy describes the key principles and policies followed by OP Financial Group and issuers in their communication with capital market participants and other stakeholders. In addition, the policy describes the disclosure, dissemination and storage of the information within the scope of the disclosure obligation as prescribed by law. OP Financial Group assesses its disclosure policy's consistency, suitability and sufficiency on a regular basis, at least once a year.

OP Financial Group's communications are tasked with promoting the Group's business by providing all stakeholders with accurate information on the Group's goals, targets and operations. External and internal communications aim to support the Group's strategic and business goals and enhance and maintain the Group's strong corporate image while fostering cooperation within the Group. Both external and internal communications are based on facts and provide a true picture of the state of affairs.

OP Financial Group's Communications and Disclosure Policy followed by OP Corporate Bank can be found on OP's website at [www.op.fi](http://www.op.fi) > OP Financial Group > To the media > Communications and disclosure policy.