

# OP Financial Group's Corporate Governance Statement 2014





## OP Financial Group's Corporate Governance Statement

This is a description of OP Financial Group's Corporate Governance Statement. By law, a credit institution and a securities issuer shall present its corporate governance system. OP Financial Group's issuer (Pohjola Bank plc) draws up its own corporate governance statement and that statement materially complies with that of OP Financial Group. This OP Financial Group statement applies to other credit institutions within OP Financial Group Central Cooperative Consolidated than the abovementioned issuer. OP Financial Group member cooperative banks will later publish their own corporate governance statements.

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## OP Financial Group's Corporate Governance Statement

### 1 Management

This Corporate Governance Statement of OP Financial Group has been prepared in accordance with the Act on Credit Institutions (CRD IV/CRR) and Recommendation 54 of the Finnish Corporate Governance Code (2010) and Chapter 7, Section 7 of the Finnish Securities Markets Act, and issued separately from the Report by the Executive Board.

This Statement also covers some other key governance issues and the related, up-to-date information is available on OP's website at [www.op.fi](http://www.op.fi) > OP > Corporate Governance.

OP Financial Group's Executive Board discussed this Corporate Governance Statement on 10 February 2015 and the Audit Committee of OP Financial Group's Supervisory Board on 11 February 2015. 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 Corporate Governance Statement is available on OP's website at [www.op.fi](http://www.op.fi) > OP Financial Group > Corporate Governance > Corporate Governance Statement > Year 2014. This Statement plus OP Financial Group's financial statements, Report by the Executive Board, Auditor's Report and Annual Review are available on OP's website at [www.op.fi](http://www.op.fi) > Media > Material service.

In their decision-making and corporate governance, OP Financial Group and its central cooperative, OP Cooperative, Financial Group, comply with the laws of Finland and standards issued by virtue of them. OP Financial Group's operations are specifically governed by the Act on the Amalgamation of Deposit Banks (*Laki talletuspankien yhteenliittymästä*), the Act on Cooperative Banks and Other Cooperative Institutions, the Act on Credit Institutions, the Insurance Companies Act and the Cooperatives Act.

Taking into account the specific characteristics of the cooperative system, this Corporate Governance conforms, whenever applicable, with the Finnish Corporate Governance Code approved by the Securities Market Association in June 2010.

In addition, OP Financial Group follows the Code of Business Ethics in its operations.

### 2 Structure of OP Financial Group and the Group, and administrative bodies

#### Structure of OP Financial Group

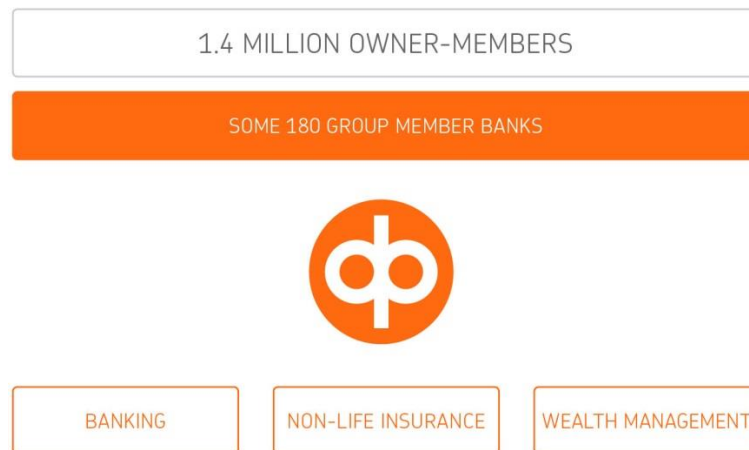
##### OP Financial Group

Established in 1902, OP Financial Group is a cooperative financial services group formed by independent cooperative banks and the Group's central cooperative with its subsidiaries operating under the principle of joint and several liability. The Group's success lies in a strong foundation of promoting the prosperity, well-being and security of its owner-members, customers and business partners. Being a Finnish Group is an important part of its identity.

OP Financial Group consists of 181 independent member cooperative banks as of 31 December 2014 and the central cooperative they own, OP Cooperative, with its subsidiaries and affiliates. The Group's operations are based on the cooperative principle – cooperation and sharing the fruits of success with everyone. OP's mission is to promote the prosperity, well-being and security of its owner-members, customers and

operating regions through our local presence. Its long-term customer-driven approach also enables continuous renewal. The Group develops its services and products to meet customer needs.

The Group has three business segments: Banking, Non-life Insurance, and Wealth Management.



OP Financial Group consists of the following two parts:

1. Amalgamation of OP Financial Group cooperative banks
2. Other entities and organisations of OP Financial Group.

Legal structure of OP Financial Group:



The amalgamation of OP Financial Group member cooperative banks is formed by OP Cooperative (central cooperative), companies belonging to its consolidation group, the central cooperative's member credit institutions and companies belonging to their consolidation groups, and credit institutions, financial institutions and service companies in which the abovementioned institutions jointly hold more than half of the voting rights form the amalgamation.

OP Financial Group is comprised of the amalgamation of member cooperative banks and those companies outside the amalgamation of which entities belonging to the amalgamation hold more than half of the total votes. The extent of OP Financial Group differs from that of the amalgamation of the member cooperative banks in that OP Financial Group subsumes companies other than credit and financial institutions or service companies. The most important of these are the insurance companies with which the amalgamation forms a financial and insurance conglomerate. In addition, the Omasairaala Oy hospital belongs to the Group.

More detailed information on the legal structure of OP Financial Group and the amalgamation of the member cooperative banks can be found in the financial statements of OP Financial Group. The amalgamation of the member cooperative banks does not form a corporate group, as referred to in the Accounting Act, or a consolidation group, as referred to in the Act on Credit Institutions. The central cooperative of the amal-

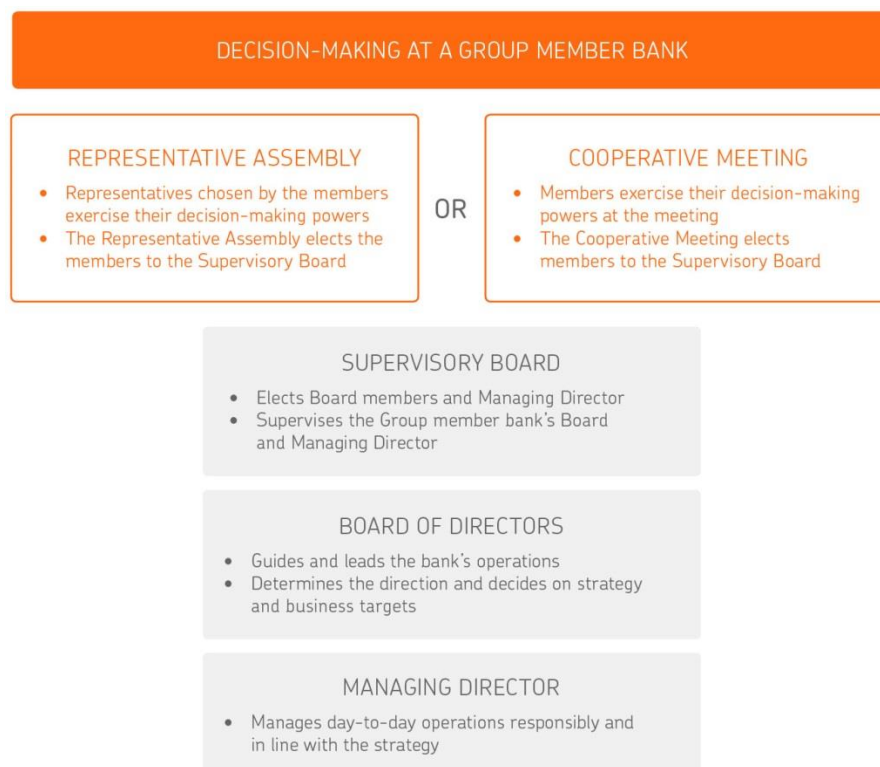
gamation prepares consolidated financial statements as referred to in Section 9 of the Act on the Amalgamation of Deposit Banks.

### OP Financial Group member cooperative banks

Group member cooperative banks are independent, local deposit banks engaged in retail banking. They provide modern and competitive banking services to households, SMEs, agricultural and forestry customers and public-sector entities. Helsinki OP Bank Plc, the central cooperative's wholly owned subsidiary, is responsible for providing corresponding retail banking services in the Helsinki Metropolitan Area.

In terms of the type of their business organisation, the member cooperative banks are cooperatives whose basic values underlying decision-making include the one member, one vote principle. Within the member cooperative banks, the highest decision-making body is the cooperative meeting or assembly comprising owner-members, which elects a Supervisory Board for the bank. The Supervisory Board in turn elects an Executive Board for the bank.

The central cooperative's Supervisory Board has approved recommendations for good corporate governance for the member banks, covering eg a bank's administrative bodies and executive management, internal control and remuneration.



### Cooperative bank federations

The cooperative bank federations are regional cooperation bodies for the member cooperative banks. Finland is divided into 16 federations of cooperative banks and the boundaries of the federations essentially follow those of provinces.

The federations nominate candidates in their region for the OP Cooperative Supervisory Board. In addition, the cooperative bank federations cooperate eg in projects related to marketing, corporate social responsibility and internal training.

The meeting of a cooperative bank federation comprising member cooperative banks shall elect the Executive Board to represent the federation and attend to its affairs.

According to corporate governance recommendations, the Executive Board consists of a minimum of three (3) and a maximum of nine (9) members elected annually.

### **OP Cooperative and its responsibilities**

The central cooperative of OP Financial Group is OP Cooperative and OP Andelslag in Swedish and is domiciled in Helsinki.

Within the central cooperative, the highest decision-making powers rest with the Cooperative Meeting and the Supervisory Board elected by it and operational decision-making powers are exercised by the Executive Board elected by the Supervisory Board and being made up of management executives. The central cooperative's member banks own OP Cooperative.

The central cooperative's members may include credit institutions, as referred to in the Act on the Amalgamation of Deposit Banks, whose Bylaws or Articles of Association have been approved by the central cooperative. The Supervisory Board takes decisions on admitting new members.

The purpose of the central cooperative as the central cooperative of the amalgamation and as the company heading the financial and insurance conglomerate formed by OP Financial Group is to equitably contribute to and support the development of, and cooperation between, its member credit institutions, other OP Financial Group companies and entities and the entire OP Group. To that end, the central cooperative controls the Group's centralised services, develops the Group's business, manages the Group's strategic control and lobbying and manages control and supervision duties belonging to the central cooperative of the amalgamation and the company heading the financial and insurance conglomerate. Furthermore, the central cooperative acts as OP Financial Group's strategic owner institution.

### **Changes in OP Financial Group's structure in 2014**

In 2014, the number of OP Financial Group member cooperative banks decreased from 183 to 181 as a result of mergers with one another.

OP-Pohjola renewed its brand and became simply OP. In the future, the banking, non-life insurance and wealth management businesses will all operate under the OP brand. The new name of OP-Pohjola Group, OP Financial Group, was adopted on 1 January 2015. On the same date, the central cooperative, OP-Pohjola Group Central Cooperative, was renamed OP Cooperative.

OP has also decided to open four new private hospitals in Finland. Its hospital business will also branch out into new fields of specialised medicine and occupational healthcare. The nationwide hospital network is being built under the Pohjola brand. Omasairaala will change its name to Pohjola Health Ltd in the autumn of 2015.

OP Financial Group has bought all Checkout Finland Oy shares, a company providing payment transaction services for Finnish online shops.

Koillis-Savon Seudun Osuuspankki merged into Pohjois-Savon Osuuspankki on 28 February 2014. Juuan Osuuspankki merged into Joensuu Seudun Osuuspankki on 31 March 2014, changing its name to Pohjois-Karjalan Osuuspankki.

Itä-Uudenmaan Osuuspankki and Porvoon Osuuspankki accepted a merger plan on 9 December 2014, according to which Itä-Uudenmaan Osuuspankki will be merged into Porvoon Osuuspankki, taking the name Itä-Uudenmaan Osuuspankki. The planned date for the merger is 31 July 2015.

Osuuspankki Poppia, Laihian Osuuspankki and Multian Osuuspankki, which are part of POP Group, have decided to join OP Financial Group as independent cooperative

banks. Osuuspankki Poppia's Cooperative Meeting decided on the matter on 18 November 2014, Laihia Osuuspankki's Cooperative Meeting on 15 January 2015 and Multia Osuuspankki's Extraordinary Cooperative Meeting on 29 January 2015.

Keitele Osuuspankki, which is part of POP Group, and Pielaveden Osuuspankki of OP Financial Group accepted on 15 October 2014 a merger plan, according to which Keitele Osuuspankki will merge into Pielaveden Osuuspankki, changing its name of Nilakan Seudun Osuuspankki. The planned date for the merger is 31 May 2015.

The process of planning and examination of different options regarding the restructuring of OP Financial Group Central Cooperative and the implementation of legal structures of the organisation is still underway. In the context of further planning of the restructuring, the separation of OP Financial Group's central banking operations, being presently part of Pohjola Bank plc, as a detached subsidiary wholly owned by OP Cooperative, is also under consideration. OP Financial Group's banking operations in their entirety will continue to fall within the scope of joint liability as laid down in the applicable law. The specific manner to implement these changes or schedule have not yet been decided.

Pohjola Group is planning to carry out structural changes in accordance with the tender offer made by OP Financial Group's central cooperative, in practice, for example, by transferring the Non-life Insurance and Asset Management segments from Pohjola Group to direct ownership of the central cooperative. The transfer of Asset Management is scheduled during 2015. In addition, the businesses of Helsinki OP Bank Plc and Pohjola Bank plc will be combined under the shared management.

### 3 Central cooperative's Annual Cooperative Meeting

The Cooperative Meeting is OP Cooperative's highest decision-making body.

#### **Meeting duties and items on the agenda**

The Annual Cooperative Meeting deals with issues mentioned in Section 7 of the central cooperative's Bylaws, such as the adoption of the parent and consolidated income statement and balance sheet for the previous financial year, and the election of members of the Supervisory Board and an auditor.

#### **Notice of Meeting and attendants**

Held in OP Cooperative's registered office in Helsinki before the end of May (in practice in March), the Annual Cooperative Meeting shall be convened by the Supervisory Board. An Extraordinary Cooperative Meeting shall be held whenever the Supervisory Board deems it appropriate or whenever it must be held by law.

Those attending the Meeting include the representatives of the central cooperative's member banks

Notice of the Cooperative Meeting shall be brought to the attention of members in writing or using an electronic communication channel no earlier than two months and no later than one week prior to the final registration date.

#### **Decision-making at the Meeting**

In calculating the votes cast at the Meeting, members exercise their voting rights, based on cooperative contributions, equalling their shares in the central cooperative.

Member cooperative banks with a good financial standing have additional votes as stipulated in greater detail in the central cooperative's Bylaws. However, no single member may cast more than two per cent of the votes represented at the Meeting. At the Annual Cooperative Meeting, a member has only one vote if, due to its own financial difficulties, it has received financial support based on a resolution passed by OP Cooperative, which fulfils the characteristics specified in Section 8 of the central cooperative's Bylaws.



### **Annual Cooperative Meeting in 2014**

OP Cooperative held its Annual Cooperative Meeting in Helsinki on 30 March 2014. The Meeting adopted the financial statements for 2013, discharged those accountable from liability and elected persons as required.

The Extraordinary Cooperative Meeting held on 20 November 2014 discussed changing the names of OP-Pohjola Group and OP-Pohjola Group Central Cooperative to OP Financial Group and OP Cooperative, respectively, as of 1 January 2015. The Meeting unanimously approved the proposal.

### **OP Financial Group's Nomination Committee**

The Nomination Committee is tasked with preparing, discussing and submitting proposals to the Cooperative Meeting for eg member candidates for the Supervisory Board, the auditor and remuneration and emoluments payable to the Chairman, Vice Chairmen and members of the Supervisory Board, and to the auditor.

The Committee has 16–32 members and each Federation of Cooperative Banks is represented by one or two members in the Committee.

In the composition of the Supervisory Board and its members' competence requirements, OP ensures that the members have adequate experience and professional skills to perform their duties professionally and carefully. Supervisory Board members must have adequate general knowledge of the financial sector business as deemed necessary in view of the quality and extent of OP Cooperative's operations. In the competence requirements, OP also ensures that the Supervisory Board is diverse and has adequate corporate social responsibility knowledge.

### **OP Cooperative's Supervisory Board**

#### **Election, members and term of the Supervisory Board**

In accordance with the Bylaws, the central cooperative's Supervisory Board has a minimum of 32 and a maximum of 36 members elected by the Cooperative Meeting. A minimum of 16 and a maximum of 20 members shall be elected to the Supervisory Board in such a way that the Supervisory Board has at least one member from each of the 16 cooperative bank federation regions. These members' term of office is three years, and of these members the number closest to one third resigns each year. Another 16 members come from areas covered by the Federation of Cooperative Banks with the number of members from the member banks involved determined on the basis of their capital adequacy. The term of office of these members is three years unless the term of office ends prior to this date due to a change in the allotment of the seats among the federations. The Supervisory Board comprised 32 members on 31 December 2014.

An administrative officer or salaried employee may not be elected to the Supervisory Board from a member bank which, pursuant to Section 8 of OP Cooperative's Bylaws, has only one vote at Cooperative Meetings, i.e. which has received financial support referred to in said section. A person who is 68 years of age or older is not eligible for Supervisory Board membership. However, a member who turns 65 years of age during his membership may sit on the Supervisory Board until the closing of the next Cooperative Meeting.

#### **Responsibilities of the Supervisory Board**

Under OP Cooperative's bylaws, the Supervisory Board shall supervise the central cooperative's corporate governance, managed by the Executive Board and the CEO, and ensure that the central cooperative's operations are managed in a professional and prudent manner in accordance with the Co-operatives Act and in the best interests of the central cooperative and OP Financial Group.





In addition, the Supervisory Board shall, for example, confirm OP Financial Group's strategy and other shared goals and policies, the central cooperative's operational and financial targets, appoint and discharge the Executive Chairman and CEO acting as the CEO of the central cooperative and other Executive Board members and deputy members and the Chief Audit Executive.

According to the rules of procedures confirmed by the Supervisory Board, its responsibilities also include as follows:

- Confirm the general policies as specified in the Act on the Amalgamation of Deposit Banks;
- Confirm the principles of OP Financial Group's capital plan;
- Confirm risk limits regarding risk-bearing capacity and risk types for OP Financial Group and the risk categorisation principles for member banks and regularly follow the progress of the business, risk-bearing capacity and risk exposure of OP Financial Group and the central cooperative consolidated;
- Confirm OP Financial Group's annual plan;
- Monitor the progress of the implementation of OP Financial Group's strategy valid from time to time;
- Name OP Financial Group's regional banks;
- Adopt the principles and policies concerning OP Financial Group's remuneration development and decide on the Group's long-term incentive schemes; and
- Discuss and decide on the appointment of the Group-level working groups of strategic significance.

### **Supervisory Board Chairman and Vice Chairmen (presiding officers)**

At its first meeting after the Annual Cooperative Meeting, the Supervisory Board shall elect from among its members a Chairman and two Vice Chairmen until the closing of the next Annual Cooperative Meeting.

The presiding officers of the Supervisory Board comprise the Chairman and Vice Chairmen of the Supervisory Board. Holding their meeting whenever necessary, the presiding officers prepare proposals to the Supervisory Board of the central cooperative on, for instance, the structural changes in the central cooperative's senior management or the central cooperative's organisation as well as on the appointment of the central cooperative's Executive Board members, deputy members and the Chief Audit Executive, the check of their job descriptions and the cancellation of their tasks. The presiding officers make decision on annual review of salaries and benefits for the central cooperative's Executive Board members, deputy members and the Chief Audit Officer as well as incentives. It informs the Supervisory Board of the decisions it has made. In addition, the presiding officers, for example, assess the fitness and propriety of the central cooperative's Executive Board members, deputy members and the Chief Audit Executive.

### **Supervisory Board's meeting and decision-making procedures**

Convened by the Chairman or, whenever his is prevented, the Vice Chairman, the Supervisory Board meeting is primarily held 6–7 times a year. The Supervisory Board meeting has a quorum when more than half of its members are present. Items on the meeting agenda are primarily prepared by OP Cooperative's Executive Board and primarily presented by the Chairman or Vice Chairman of the Executive Board. Items on the Supervisory Board meeting agenda are also in the first place discussed in advance by the Supervisory Board Working Committee or by other Supervisory Board committees.

Members and deputy members of OP Cooperative's Executive Board, the Chief Audit Executive and four separately appointed employee representatives and their deputies, if any, have also the right to be present and speak at Supervisory Board meetings.

The Supervisory Board has adopted, for example, the following rules of procedures and instructions:

- The rules of procedure for the Supervisory Board
- The rules of procedure for the Supervisory Board presiding officers
- The rules of procedure for OP Financial Group's Nomination Committee
- The rules of procedure for OP Financial Group's Remuneration Committee
- The rules of procedure for the Supervisory Board's Working Committee
- The rules of procedure for the Supervisory Board's Audit Committee
- The rules of procedure for the Supervisory Board's Remuneration Committee
- The rules of procedure for the Supervisory Board's Risk Management Committee
- The rules of procedure for the Executive Board
- OP Cooperative Consolidated's management system

In addition, the Supervisory Board confirms operating principles regarding OP Financial Group.

**OP Financial Group Supervisory Board members by the federation of cooperative banks on 20 March 2014:**

(members elected on the basis of capital adequacy and whose term is marked with\*)

Name, year of birth and place of residence	Federation and member's term of office	Position on OP Cooperative's Supervisory Board	Full-time position, job title	Position of the person with an administrative staff background at a cooperative bank
Aronen Ilmo, 1958, Eura	Satakunta, 2012–(2015)*	Member	R&D Director, Raisioagro Ltd	Chairman of the Board of Directors, Euran Osuuspankki
Eklund Ola, 1952, Raasepori	Sydskusten, 2013–2016	Member	Product Group Director, Kuusakoski Group Ltd	Chairman of the Board of Directors, Andelsbanken Raseborg
Enberg Leif, 1954, Korsnäs	Österbotten, 2013–2016	Member	Entrepreneur, Oy Mapromec Ab	Chairman of the Board of Directors, Korsnäs Andelsbank
Eskola Tapani, 1953, Kotka	Kaakkois-Suomi, 2012–(2015)*	Member	Managing Director, Kymen Vesi Oy	Chairman of the Board of Directors, Kymenlaakson Osuuspankki
Heinonen Jarna, 1965, Kaarina	Varsinais-Suomi, 2012–(2015)*	Member	Professor in Entrepreneurship, Turku School of Economics, University of Turku	Chairman of the Board of Directors, Turun Seudun Osuuspankki
(Himanen Jari	Kaakkois-Suomi, 2012–2015	Resigned from Supervisory Board membership after appointed OP Cooperative's Executive Board member as of 1 October 2014)		
Joutsensaari Raita, 1963, Rääkkylä	Pohjois-Karjala, 2014–(2015)*	Member	Development Secretary, Municipality of Rääkkylä	Chairman of the Board of Directors, Rääkkylän Osuuspankki
Järvi Ulla, 1952, Kokkola	Keski-Pohjanmaa, 2013–(2015)*	Member	Senior lecturer, Centria University of Applied Sciences	Supervisory Board Chairman, Kokkolan Osuuspankki
Kakkori Ari, 1955, Virrat	Pirkanmaa, 2014–2017	Member	Managing Director, Virtain Osuuspankki	
Kauppi Simo,	Satakunta,	Member	Managing Director, Län-	

1954, Pori	2012–(2015)*		si-Suomen Osuuspankki	
Kiiskinen Juha, 1956, Sulkava	Suur-Savo, 2012–2015)*	Member	Headmaster, Sulkava comprehensive school	Chairman of the Board of Directors, Sulkavan Osuuspankki
Korhonen Kalevi, 1958, Salla	Lappi, 2013–2016	Member		Chairman of the Board of Directors, Sallan Osuus- pankki
Kupsala Tuomas, 1967, Korpilahti	Keski-Suomi, 2012–(2015)*	Member	Managing Director, Korpilahden Osuus- pankki	
Kääriäinen Jukka, 1953, Iisalmi	Pohjois-Savo, 2012–2015	Member	Assistant Director, Social Insurance Institution of Finland	Supervisory Board Chairman, Pohjois-Savon Osuuspankki
Laaninen Seppo, 1950, Nurmes	Pohjois-Karjala, 2014–2017	Member	Principal, North Karelia College Nurmes (retired on 1 Jan. 2015)	Supervisory Board Chairman, Pielisen Osuuspankki
Lehikoinen Vesa, 1954, Janakkala	Etelä-Suomi, 2014–2017	Second Vice Chairman of the Supervisory Board	Managing Director, Janakkalan Osuuspank- ki	
Levo Timo, 1956, Oulu	Pohjois- Pohjanmaa, 2012–(2015)*	Member	Managing Director, kauppaneuvos (Finnish honorary title), Oulun Osuuspankki	
Manninen Kari, 1956, Mikkeli	Suur-Savo, 2012–2015	Member	Managing Director, kauppaneuvos (Finnish honorary title), Suur- Savon Osuuspankki	
Marttila Marita, 1954, Vampula	Satakunta, 2014–2017	Member (requested res- ignation as Su- pervisory Board member)	Senior Nursing Officer, City of Loimaa/Social and Healthcare Service Centre	Chairman of the Board of Directors, Vampulan Osuuspankki (resigned on 17 Dec. 2014)
Mikkola Ari, 1955, Tammela	Varsinais-Suomi, 2012 – (2015)*	Member	Director, Häme Universi- ty of Applied Sciences	Vice Chairman of the Board of Directors, Loun- aismaan Osuuspankki
Nikola Annukka, 1960, Kirkko- nummi	Etelä-Suomi, 2012–(2015)*	Member	Director, Administration, Descom Group Oy	Chairman of the Supervi- sory Board, Länsi-Uudenmaan Osuuspankki
Parmasuo Timo, 1950, Espoo	Other member (elected without not following the regional principle) 2014–2017	Member	Teollisuusneuvos (Finn- ish honorary title), Board Chairman, Meconet Oy	
Pehkonen Jaakko, 1960, Jyväskylä	Keski-Suomi, 2014–2017	Chairman of the Supervisory Board	Professor of Economics, University of Jyväskylä	Chairman of the Board of Directors, Keski-Suomen Osuuspankki
Pitkälä Jorma, 1952, Hämeenko- ski	Etelä-Suomi, 2012–(2015)*	Member	Maakuntaneuvos (Finn- ish honorary title)	Chairman of the Board of Directors, Päijät-Hämeen Osuuspankki
Pullinen Juha, 1963, Pöytyä	Varsinais-Suomi, 2012–2015	Member	Managing Director, Loi- maan Seudun Osuus- pankki	
Ruuhela Jussi, 1959, Alavus	Etelä-Pohjanmaa, 2012–(2015)*	Member	Managing Director, Alavuden Seudun Osuuspankki	
Salomaa Markku, 1952, Rovaniemi	Lappi, 2012–(2015)*	Member	Managing Director, Pohjolan Osuuspankki	

Simi Hannu, 1960, Alavieska	Keski-Pohjanmaa, 2013–2016	Member	Planner, Federation of Education in Jokilaaksot	Supervisory Board Chairman, Alavieskan Osuuspankki
Tölli Kaija, 1956, Tyrnävä	Pohjois-Pohjanmaa, 2013–2016	Member	Export Coordinator, Ouman Ltd	Supervisory Board Chairman, Tyrnävän Osuuspankki
Vierula Jorma, 1953, Seinäjoki	Etelä-Pohjanmaa, 2012–2015	Member	Regional Director of Finnish Forestry Centre, Regional unit for South and Central Ostrobothnia	Chairman of the Board of Directors, Etelä-Pohjanmaan Osuuspankki
Viitanen Timo, 1951, Pälkäne	Pirkanmaa, 2012–(2015)*	Member		Supervisory Board Chairman, Kangasalan Seudun Osuuspankki
Väisänen Mervi, 1963, Sotkamo	Kainuu, 2013–2016	First Vice Chairman of the Supervisory Board	Senior lecturer in marketing, Kajaani University of Applied Sciences	Chairman of the Board of Directors, Sotkamon Osuuspankki
Väänänen Ari, 1973, Maaninka	Pohjois-Savo, 2014–(2015*)	Member	Managing Director, Maaningan Osuuspankki	

### Supervisory Board work in 2014

The Supervisory Board had seven meetings in 2014. Jaakko Pehkonen acted as its Chairman and Mervi Väisänen and Vesa Lehtikainen as its Vice Chairmen. Information on other Supervisory Board members can be found on page 9-11. The average attendance rate of members stood at 93%.

In 2014, the Supervisory Board concentrated not only on issues based on its rules of procedure but also on the arrangements for and implementation of the delisting process of Pohjola shares in particular and its monitoring as well as on reinforcing a new corporate structure. In 2014, the Supervisory Board also prepared and approved a new management system for the central cooperative consolidated and the appointments of Executive Board members and of key employees according to the reorganisation of the central cooperative consolidated. The basis of the new management system lies in the following three business segments: Banking, Non-life Insurance, and Wealth Management.

The Supervisory Board also decided that the Group begin to prepare new strategic development programmes to steer and further develop OP Financial Group operations and to meet future challenges and increase Group competitiveness.

### Supervisory Board committees

At its spring regrouping meeting, the Supervisory Board shall, from among its members, elect members for a one-year term to the following four committees: Working Committee, Audit Committee, Remuneration Committee and Risk Management Committee. In addition, the presiding officer has a status comparable with a committee. Acting as bodies supporting the Supervisory Board, as a rule the committees have no independent decision-making powers.

The Supervisory Board also appoints, from among its members, members of the committees reporting to it and the Chairmen and Vice Chairmen of the Audit Committee and the Risk Management Committee, and confirms the rules of procedures for the committees.

### Working Committee

The Working Committee comprises the Supervisory Board's Chairman and Vice Chairmen and six other Supervisory Board members annually appointed from

among Supervisory Board members. Chaired by the Supervisory Board's Chairman,

The Working Committee is tasked with assisting the Supervisory Board in the preparation of OP Financial Group's strategy and in the monitoring of its implementation, participating in the preparation of significant projects and initiatives in the pipeline within the Group and taking charge of their monitoring. The Working Committee also considers major issues related to cooperation within the Group and the implementation of the Group's operating principles. In addition, the Working Committee is tasked with, for instance,

- preparing significant issues coming out at a Supervisory Board meeting and monitoring the execution of Supervisory Board decisions;
- acting as a discussion forum for OP Financial Group management in the strategic and other major issues of the Group;
- acting as a link between the Supervisory Board and the Executive Board to, for example, ensure information flow;
- discussing organisational changes related to the central cooperative's senior management;
- issuing recommendations and statements to the Executive Board in matters between Group member cooperative banks and central cooperative consolidated companies related to pricing, if desired;
- issuing recommendations to the Executive Board in strategic matters relating to OP Financial Group, if desired.

Convened by its Chairman, the Working Committee meets 8–11 times a year. The central cooperative's Executive Board prepares the meeting agenda.

Working Committee members:

Name and year of birth	Role	Degree	Full-time position, job title
Jaakko Pehkonen, 1960	Chairman	D.Sc. (Econ. & Bus. Adm.)	Professor of Economics, University of Jyväskylä
Mervi Väisänen, 1963	Vice Chairman	M.Sc. (Econ. & Bus. Adm.)	Senior lecturer in marketing, Kajaani University of Applied Sciences
Vesa Lehtikoinen, 1954	Member	M.Sc. (Econ.), eMBA	Managing Director, Janakkalan Osuuspankki
Ola Eklund, 1952	Member	Engineer	Product Group Director, Kuusakoski Group Ltd
Tapani Eskola, 1953	Member	M.Sc. (Tech.)	Managing Director, Kymen Vesi Oy
Timo Levo, 1956	Member	M.Sc. (Tech.), M.Sc. (Econ. & Bus. Adm.), eMBA	Managing Director, kauppaneuvos (Finnish honorary title), Oulun Osuuspankki
Kari Manninen, 1956	Member	M.Sc. (Tech.)	Managing Director, kauppaneuvos (Finnish honorary title), Suur-Savon Osuuspankki
Jussi Ruuhela, 1959	Member	M.Sc. (Econ. & Bus. Adm.), eMBA	Managing Director, Alavuden Seudun Osuuspankki
Timo Viitanen, 1951	Member	M.A.	

#### Working Committee work in 2014

The Working Committee had ten meetings in 2014. In addition to the Committee members, the Working Committee meetings were attended by the Chairman and Vice Chairman of the Executive Board and the secretary of the Supervisory Board acted as the meeting secretary. The average attendance rate of its members stood at 97%.

The meetings prepared matters to be discussed at Supervisory Board meetings and examined other important preparatory issues applying to the Group.

## Audit Committee

The Audit Committee appointed annually by the Supervisory Board has five members who must have solid knowledge of accounting and accounting standards, the regulatory framework in the sector and the principles of internal control. The Chairman of the Committee must have expertise in the application of accounting policies and internal control processes. The majority of the Committee members and the Committee Chairman and Vice Chairman must be administrative staff of member cooperative banks.

The Audit Committee is tasked with assisting the Supervisory Board to ensure firstly that the central cooperative and OP Financial Group have in place an adequate and well-functioning control system to cover all operations and secondly that the central cooperative's and OP Financial Group's accounting and financial management control is organised appropriately.

The Committee is also responsible for ensuring that the central cooperative's and OP Financial Group's operations and internal control are organised in a manner as required by laws, regulations and the principles of good corporate governance, and for supervising the performance of internal control.

The Audit Committee also helps the Supervisory Board in ensuring that the central cooperative consolidated is managed in a professional and prudent manner that promotes the competitiveness and success of OP Financial Group. In addition, the Audit Committee is tasked with, for example:

- discussing the Group's accounting policies and capital adequacy assessment principles to be submitted to the Supervisory Board for adoption;
- supervising for its part financial reporting;
- supervising for its part compliance with laws, regulations and other provisions;
- supervising compliance with the Code of Business Ethics;
- supervising internal auditing;
- evaluating the adequacy and effectiveness of internal control;
- dealing for its part with issues related to regulatory supervision;
- dealing with and assess matters related to auditing and auditors.

The Audit Committee has mainly four meetings a year.

Audit Committee members:

Name and year of birth	Role	Degree	Full-time position, job title
Jorma Pitkälä, 1952	Chairman	Secondary school graduate, farm school	Maakuntaneuvos (Finnish honorary title)
Jarna Heinonen, 1965	Vice Chairman	D.Sc. (Econ. & Bus. Adm.)	Professor in Entrepreneurship, Turku School of Economics, University of Turku
Ari Kakkori, 1955	Member	Bachelor of Agriculture	Managing Director, Virtain Osuuspankki
Seppo Laaninen, 1950	Member	M.A.	Principal, North Karelia College Nurmes, (retired on 1 Jan. 2015)
Juha Pullinen, 1963	Member	M.Sc. (Agriculture and Forestry)	Managing Director, Loimaan Seudun Osuuspankki

## Audit Committee work in 2014

The Audit Committee had six meetings in 2014. In addition to the Committee members, the Chairman and Vice Chairmen of the Supervisory Board, the Chairman of the Executive Board, CFO, Chief Audit Executive and auditor representative participated in the Audit Committee meetings. The average attendance rate of its members stood at 95%.



The key tasks in 2014 involved assessing the content of the Financial Statements and interim reports from the perspective that they give a true and fair view of the central cooperative's and the Group's financial performance and financial position. The Audit Committee in particular monitored the progress and effects of the central cooperative consolidated's efficiency-enhancement programme, the management of outsourcing and management reorganisation.

Issues related to internal control and regulatory compliance were in the forefront at each Committee meeting with the help of reports issued by Internal Audit, auditors, regulators and Compliance.

The Audit Committee supervised and assessed the Group's involvement in the ECB's comprehensive assessment and the preparation for a new regulatory framework.

One of the most important priorities in Audit Committee work will be the assessment of the performance of the central cooperative's management system and internal control, the performance of OP Financial Group steering, regulatory changes and the effects of the Single Supervisory Mechanism (SSM) on operations.

### **Remuneration Committee**

The Remuneration Committee comprises the Supervisory Board Chairman, Vice Chairman as his first deputy and a maximum of other three members annually appointed by the Supervisory Board. A Supervisory Board member, who has no employment or executive contract with an OP Financial Group company, may be a Committee member.

The Remuneration Committee is tasked with, for example, controlling and supervising the development of management and employee remuneration within OP Financial Group, assessing the performance of remuneration schemes in order to ensure that remuneration is in line with the Group's core values, strategy, objectives, risk policies and control system, and assessing incentives under the remuneration schemes and other effects on the management of risks, capital and liquidity. In addition, the Committee confirms, for instance, the performance metrics for the Group's personnel fund and their outcome, and confirms those included in the long-term management incentive scheme and the amount of earned bonuses. Furthermore, the Remuneration Committee, for example:

- provides an overall, OP Financial Group level assessment of the fulfilment of conditions for remuneration in terms of the consolidation group's earnings and earnings performance, capital adequacy, credit rating and financial and other factors before the payout of bonuses for each year and of deferred amounts;
- confirms structural and other changes related to the development of remuneration;
- confirms the general terms and conditions of OP Financial Group's remuneration schemes in terms of, for instance, updates caused by changes in regulation, law and agreements;
- confirms annually the bases for the pay scale and for the assessment of job grades within OP Financial Group;
- confirms risk-taker jobs whose holders may have an impact on the risk profile of the Group, company or Group cooperative bank;
- exercises oversight to ensure that the rules and regulations governing remuneration and incentive schemes are followed throughout OP Financial Group;
- supervises the overall remuneration for people in charge of OP Financial Group's risk management and business-independent control functions;
- prepares proposals to the central cooperative's Supervisory Board on, for example, the general remuneration principles applied by OP Financial Group;



- also issues recommendations on principles related to the management remuneration and incentives for Group member cooperative banks and OP-Kiinteistökeskus real estate agencies.

#### Remuneration Committee members:

Name and year of birth	Role	Degree	Full-time position, job title
Jaakko Pehkonen, 1960	Chairman	D.Sc. (Econ. & Bus. Adm.)	Professor of Economics, University of Jyväskylä
Mervi Väisänen, 1963	Vice Chairman	M.Sc. (Econ. & Bus. Adm.)	Senior lecturer in marketing, Kajaani University of Applied Sciences
Marita Marttila, 1954	Member	Master of Health Science, MBA	Senior Nursing Officer, City of Loimaa/Social and Healthcare Service Centre
Annukka Nikola, 1960	Member	M.Sc. (Econ. & Bus. Adm.), Bachelor of Economic Sciences	Director, Administration, Descom Group Oy
Timo Parmasuo, 1950	Member	Engineer	Teollisuusneuvos (Finnish honorary title), Board Chairman, Meconet Oy

#### Remuneration Committee work in 2014

On 24 April 2014, the central cooperative's Supervisory Board decided on a change in the structure of OP Financial Group's remuneration committees as part of the management system reorganisation. OP Financial Group previously had the following two Group-level remuneration committees that prepared, steered and supervised remuneration issues: OP-Pohjola Group's Remuneration Committee and the Supervisory Board's Remuneration Committee. Based on a decision made on 24 April 2014, the two Remuneration Committees were combined to form one OP-Pohjola Group's Remuneration Committee, currently called OP Financial Group's Remuneration Committee.

The Supervisory Board's Remuneration Committee had two meetings in 2014 before the structural change of the committees. Committee members included the Supervisory Board Chairman, Vice Chairman as his first deputy and three other members appointed by the Supervisory Board from among its members who in 2014 were Marita Marttila, Tapani Eskola and Timo Parmasuo. In addition to Committee members, the Chairman and Vice Chairman of the central cooperative's Executive Board and OP Financial Group's Executive Vice President, Human Resources participated in Remuneration Committee meetings.

OP-Pohjola Group's Remuneration Committee had five meetings in 2014 before the structural change of the previous two committees. The Committee comprised the Chairman of the Supervisory Board and the Vice Chairman as his first deputy. In addition to Committee members, the Chairman and Vice Chairman of the central cooperative's Executive Board and OP Financial Group's Executive Vice President, Human Resources participated in Remuneration Committee meetings.

The new OP Financial Group's Remuneration Committee based on the Supervisory Board's decision on 24 April 2014 had three meetings in 2014. In addition to Committee members, the Vice Chairman of the central cooperative's Executive Board and OP Financial Group's Executive Vice President, Human Resources participated in Remuneration Committee meetings. The average attendance rate of its members stood at 93%.

During 2014, the work of OP Financial Group's and its predecessors, OP-Pohjola Group Remuneration Committee and the Supervisory Board's Remuneration Committee, focused on controlling and assessing the development of remuneration schemes in view of EU-level remuneration regulation and of changes occurred in the Group structure. The Remuneration Committee's key aim was to ensure that remuneration policies and practices are in line with the Group's long-term interests

and that they are consistent with good and effective risk management and promote it. In 2014, the Committee prepared for changes caused by the delisting of Pohjola shares in the long-term management incentive schemes and specified procedures for identifying jobs involving a risk position to take account of legislative amendments.

### **Risk Management Committee**

The Supervisory Board elects from among its members four Risk Management Committee members for a one-year term, who have adequate risk management competence in the financial sector, and appoints from among the Committee members a Chairman and Vice Chairman. The Chairman and Vice Chairman and one member are managing directors of Group member cooperative banks and one member must represent Group cooperative bank's administrative staff.

The Risk Management Committee assists the Supervisory Board in matters related to the central cooperative's and Group's risk-taking and risk management and risk-based supervision to ensure that the executive management conforms to the risk-taking policy laid out in the Group strategy and the risk limits determined by the Supervisory Board.

The Risk Management Committee assists the Supervisory Board to ensure that a sufficient risk management system is in place and that no exposure is so large that it can jeopardise the continuation of operations, capital adequacy, liquidity and strategy implementation. The Risk Management Committee, for example:

- considers the principles of the Group's risk management and capital adequacy management principles to be submitted to the Supervisory Board for approval, the principles of the control system required by mutual liability and the Group's risk limits;
- supervises compliance of the risk policy with the Group strategy and risk limits, the amount and quality of capital held by the Group and its entities, profit performance, risk exposure and compliance with the risk policy, risk limits and control limits;
- assesses the adequacy of the Group's risk limit system, the Group's risk exposure on the basis of risk analyses and the quality and sufficiency of the Group's risk management and capital adequacy management on the basis of various reports;
- monitors Group member cooperative banks' risk categories, the performance of the Executive Board's ALM and Risk Management Committee, risk assessments issued by the regulator, the development of the regulatory framework related to the Group in respect of risk management.

#### Risk Management Committee members:

Name and year of birth	Role	Degree	Full-time position, job title
Simo Kauppi, 1954	Chairman	M.Sc. (Econ. & Bus. Adm.), eMBA	Managing Director, Länsi-Suomen Osuuspankki
Markku Salomaa, 1952	Vice Chairman	M.Sc. (Adm.), LL.B., Senior Lawyer, eMBA	Managing Director, Pohjolan Osuuspankki
Tuomas Kupsala, 1967	Member	M.Sc. (Econ. & Bus. Adm.), eMBA	Managing Director, Korpilahden Osuuspankki
Jukka Kääriäinen, 1953	Member	M.Soc.Sc.	Assistant Director, Social Insurance Institution of Finland

#### Risk Management Committee work in 2014

On 24 April 2014, the central cooperative's Supervisory Board decided to set up a risk management committee. The Risk Management Committee had four meetings in 2014. In addition to Committee members, the Chairman of the central cooperative's Executive Board, OP Financial Group's CRO and CFO participated in Committee meetings. The average attendance rate of its members stood at 94%.

In 2014, the Risk Management Committee paid particular attention to the ECB's comprehensive assessment preceding the ECB's status as single supervisor since 4 November 2014, in which comprehensive balance sheet assessment was in focus. At its meetings, the Committee also considered the development of OP Financial Group's risk exposure and Group member cooperative banks' risk categorisation.

5

OP Financial Group's President, Executive Chairman, and OP Cooperative's CEO and Executive Board

#### OP Financial Group's President, Executive Chairman

The Chairman (President) of the central cooperative's Executive Board is responsible for managing OP Financial Group, the central cooperative and the central cooperative consolidated and is in charge of their strategic control in accordance with the strategic intent confirmed by the Supervisory Board. He is also tasked with presiding over Executive Board meetings and ensuring that the Executive Board works effectively and sees to it that it performs all duties in its remit.

The President also acts as the Chairman of Pohjola Bank plc's Board of Directors in accordance with laws and the Articles of Association.

As the central cooperative's CEO, he has statutory responsibility for the central cooperative's management at operational level according to the instructions and regulations issued by the Supervisory Board and the Executive Board.

The Supervisory Board appoints the President, Group Executive Chairman, acting as the central cooperative's CEO and decides on the terms and conditions of his executive contract.

Specifically approved by the Supervisory Board, the job description of the President, Executive Chairman defines his main responsibilities.

Reijo Karhinen, M.Sc. (Econ. & Bus. Adm.) and vuorineuvos (Finnish honorary title) acts as the President and Executive Chairman of OP Financial Group. He

has held that position since 2007. Information on the President's remuneration can be found in the section covering remuneration below.

### **Executive Board of OP Cooperative**

#### **Appointment, composition and term of the Executive Board**

The central cooperative's Executive Board acting as the board of directors comprises a Chairman acting as CEO and known as President, Executive Chairman; his deputy who acts as Vice Chairman of the Executive Board; and a minimum of four and a maximum of eight other members and a maximum of four deputy members, depending on the Supervisory Board's decision.

An Executive Board member and deputy member must have adequate knowledge of the financial sector, financial matters and general knowledge of the business of the central cooperative and its Group and OP Financial Group and other qualifications required for the position.

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#### **Executive Board members:**

##### **Reijo Karhinen, b. 1955**

President, Group Executive Chairman

Member of the Executive Board since 1994, Chairman since 2007

Vuorineuvos (Finnish honorary title), M.Sc. (Econ. & Bus. Adm.), Honorary Doctor of Turku School of Economics and University of Eastern Finland

##### **Relevant previous experience:**

OP Bank Group Central Cooperative: President 1997–2006, Executive Vice President 1994–96

Kuopion Osuuspankki: Managing Director 1990–94

Savonlinnan Osuuspankki: Managing Director 1988–1990

Varkauden Osuuspankki: Managing Director 1985–88

Juvan Osuuspankki: Assistant Director 1979–1984

##### **Other relevant positions:**

Federation of Finnish Financial Services: Chairman of the Board

Finland Chamber of Commerce: Vice Chairman of the Board

International Chamber of Commerce Finland: Vice Chairman of the Board

Confederation of Finnish Industries (EK): Member of the Board of Directors and the Committee for Skilled Work Force

Savonlinna Opera Festival Patrons' Association: Chairman of the Board of Trustees

HelsinkiMissio: Chairman of the Delegation

New Children's Hospital Foundation: Vice Chairman of the Board

The Mannerheim Foundation: Member of the Board

Maanpuolustuksen tuki ry: Chairman of the Board

Unico Banking Group: Member of the Board

##### **Tony Vepsäläinen, b. 1959**

Chief of Group Services and Deputy to President and Executive Chairman

Vice Chairman

Member of the Executive Board since 2006

LL.M, eMBA

##### **Relevant previous experience:**

OP-Pohjola Group Central Cooperative: CEO 2007–10

Tampereen Seudun Osuuspankki: Managing Director 1998–2006

Turun Seudun Osuuspankki: Deputy Managing Director 1996–98

Kuopion Osuuspankki: Bank Manager 1993–96

Suomen Säästöpankki SSP Oy: Deputy to Area Manager 1992–93

Pohjois-Savon Säästöpankki: managerial duties 1985–1992

##### **Other relevant positions:**

Housing Fair Finland Co-op: Chairman of the Supervisory Board since 2013

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**Carina Geber-Teir, b. 1972**

Executive Vice President of Corporate Communications

Member of the Executive Board since 2009

M.Soc.Sc.

**Relevant previous experience:**

Varma Mutual Pension Insurance Company: Communications Director 2002–09

**Other relevant positions:**

Federation of Finnish Financial Services: Member of the Communications Committee

Yle, Finnish Broadcasting Company: Member of the Board

Unico Banking Group: Member of the Communications Committee

**Olli Lehtilä, b. 1962 (Executive Board member since 1 October 2014)**

Executive Vice President, Non-Life insurance

Member of the Executive Board since 2014

M.Sc (Agr. For.), eMBA

**Relevant previous experience:**

Helsinki OP Bank Plc: Managing Director 2011–14

Tampereen Seudun Osuuspankki: Managing Director 2006–10, Deputy Managing Director 1999–2006

Päijät-Hämeen Osuuspankki: Bank Manager, Corporate Banking 1997–98

Postipankki Oy: various managerial and expert duties 1993–97

Suomen Säästöpankki SSP Oy: various managerial duties 1992–93

Sp-Palvelu Oy: Management Trainee 1990–92

**Other relevant positions:**

Federation of Finnish Financial Services: Member of Non-life Insurance Executive Committee

Helsinki Region Chamber of Commerce: Member of the Delegation

Ilmarinen Mutual Pension Insurance Company: Member of the Board

Insurance Europe Strategic Board: Member

Federation of Accident Insurance Institutions: Member of the Board

Unico Banking Group, Bancassurance Committee: Member

**Harri Luhtala, b. 1965**

Chief Financial Officer

Member of the Executive Board since 2007

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

**Relevant previous experience:**

OP-Pohjola Group: various expert and managerial duties 1989–2007

**Other relevant positions:**

Deposit Guarantee Fund: Chairman of the Board

Confederation of Finnish Industries (EK): Member of the Finance and Tax Commission

**Jari Himanen, b. 1962 (Executive Board member since 1 October 2014)**

Executive Vice President, Group Steering

Member of the Executive Board since 2014

Diploma in Business and Administration, eMBA

**Relevant previous experience:**

Etelä-Karjalan Osuuspankki: Managing Director 2009–14

OP Bank Group Central Cooperative: Bank Manager, Sales channels and sales support 2007–09

OP Bank Group Central Cooperative: Bank Manager, Member bank control 2002–06

Kuusamon Osuuspankki: Managing Director 1997–2001

Pohjolan Osuuspankki: Bank Manager 1994–97

Iisalmen Osuuspankki: Bank Manager 1989–1994

Etelä-Savon Osuuspankki: Bank Manager 1986–89

Koillis-Savon Osuuspankki: Credit Manager 1985–86

**Other relevant positions: -**

**Harri Nummela, b. 1968 (Executive Board member since 1 October 2014)**

Executive Vice President, Wealth Management

Member of the Executive Board since 2014, and previously from 2007 until 2010

LL.M, eMBA

**Relevant previous experience:**

OP-Services Ltd: Managing Director 2011–14

OP-Pohjola Group Central Cooperative: Member of the Executive Board; Executive Vice President, Banking and Investment Business 2007–10; Department Manager 1998–2006

OP Fund Management Company Ltd: Managing Director 1997–2006

Tampereen Seudun Osuuspankki: Department Manager 1992–97

**Other relevant positions:**

Federation of Finnish Financial Services: Chairman of the Executive Board for investment funds

Automatia Pankkiautomaatit Oy: Member of the Board

**Erik Palmén, b. 1959**

Chief Risk Officer

Member of the Executive Board since 2010

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

**Relevant previous experience:**

Nordea Bank Finland Plc: various expert and managerial duties 1987–2009

**Other relevant positions:**

Deposit Guarantee Fund: Chairman of the Delegation

Unico Banking Group: Member of the Country Risk Managers Committee

**Jouko Pölönen, b. 1970 (Executive Board member since 1 October 2014)**

Executive Vice President, Banking

Member of the Executive Board since 2014

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

**Relevant previous experience:**

Pohjola Bank plc: President and CEO since 2013, Pohjola Insurance Ltd's President 2010–14

Pohjola Bank plc: CFO 2009–10 and CRO 2001–08

PricewaterhouseCoopers: Authorised Public Accountant 1999–2001 and auditor 1993–99

**Other relevant positions:**

Federation of Finnish Financial Services: Chairman of the Banking Executive Committee

Unico Banking Group: Member of the Board

OP-Pohjola Group Research Foundation: Member of the Board

Kyösti Haataja Foundation: Member of the Board

**Teija Sarajärvi, b. 1969**

Executive Vice President, Human Resources

Member of the Executive Board since 2012

M.A.

**Relevant previous experience:**

Metso Corporation: SVP, Human Resources, Energy and Environmental Technology, from 2009; and SVP Human Resources, Paper and Fiber Technology, from 2011

Nokia Corporation: HR director in various duties in both Finland and China 1998–2009

ABB: various expert and managerial duties 1994–98

**Other relevant positions:**

Federation of Finnish Financial Services: Chairman of the Labour Market Committee

Confederation of Finnish Industries (EK): Member of the Labour Market Committee

Unico Banking Group: Member of the HR Committee

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**Markku Koponen, b. 1957**

Chief Legal Officer

Deputy member

Secretary of the Executive Board and the Supervisory Board since 1996

Member of the Executive Board since 2009

Master of Laws trained on the bench, eMBA

**Relevant previous experience:**

OP Bank Group Central Cooperative: Senior Vice President in charge of Corporate Communications 1998–2009;  
OP-Pohjola Group Central Cooperative (and its predecessor), Secretary of the Executive Board and Supervisory Board since 1996

OKO Bank plc: Secretary of the Executive Committee 1996–2006

Pohjola Bank plc (OKO Bank plc): Secretary of the Board of Directors 2006–14

OKO Bank and Opstock Ltd: Issue Financing Chief and Issue Chief 1989–1996

OP-Pohjola Group: various expert and managerial duties 1985–89

**Other relevant positions:**

European Association of Cooperative Banks (EACB): Executive Committee

Confederation of Finnish Industries: Member of the Assembly of Delegates since 2015

Finland Chamber of Commerce: Member of the Legislation Committee

HSO-säätiö: Chairman of the Board

Helia Foundation: Vice Chairman of the Board

**Leena Kallasvuori, b. 1956**

Chief Audit Executive

Attending Executive Board meetings since 2010

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

**Relevant previous experience:**

Financial Supervisory Authority (Finnish Financial Supervision Authority): various expert and managerial duties 2005–10

Trema Finland Oy 2000–05

Aktia Savings Bank 1997–2000

Säästöpankkien Keskus-Osake-Pankki 1983–1996

**Other relevant positions:**

The Institute of Internal Auditors Finland: Member of the Board of Directors since 2011

**Tom Dahlström b. 1970 (Executive Board member until 1 October 2014)**

Chief Strategy Officer

Member of the Executive Board from 2010

D.Soc.Sc.

**Relevant previous experience:**

OP-Pohjola Group: various expert and managerial duties 2000–10

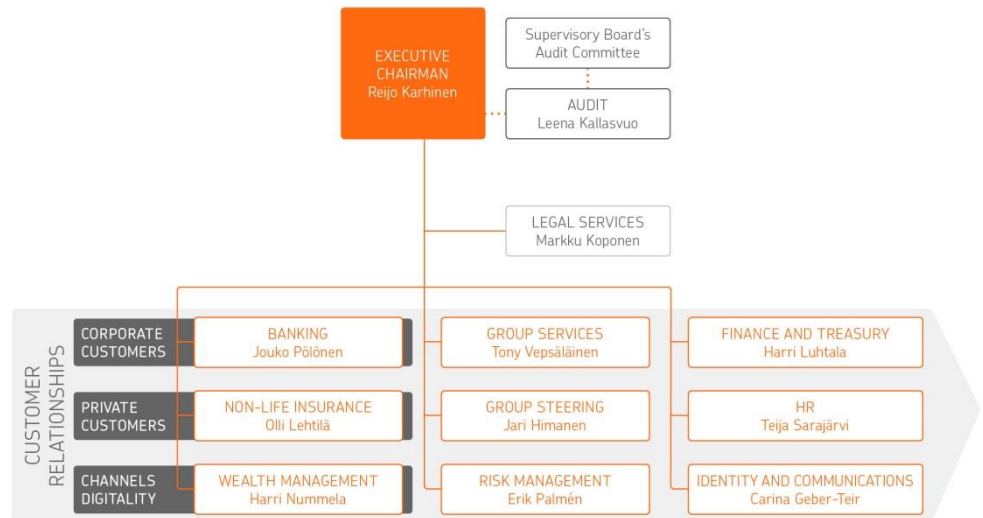
**Other relevant positions:**

Confederation of Finnish Industries (EK): Member of the General Assembly

The President and Executive Chairman and other Executive Board members and deputy members as well as the Chief Audit Executive shall be appointed and discharged by the Supervisory Board, which shall also decide on the division of responsibilities between the members.

The term of office of an Executive Board member or deputy member and the Chief Audit Executive is for the time being, but for a maximum period up to the member's retirement age in accordance with OP Financial Group's pension scheme. The term of office may end prior to this date if the member or deputy member requests to resign or is dismissed from membership.





## Responsibilities of the Executive Board

The Executive Board is responsible for managing the central cooperative's and its consolidation group's operations in accordance with the Co-operatives Act, other laws, official regulations and the central cooperative Bylaws. The Executive Board must be careful in promoting the interests of OP Financial Group, its central cooperative and its consolidation group.

In particular, the Executive Board is tasked, for example, with:

- controlling the amalgamation's operations and issuing instructions to the member credit institutions within the amalgamation on risk management, good corporate governance and internal control to secure their liquidity and capital adequacy, as well as on compliance with standardised accounting policies in the preparation of the amalgamation's consolidated financial statements;
- supervising the companies within the amalgamation so that they operate in accordance with the laws and decrees governing their financial position, regulations issued by the relevant authorities, their own bylaws or articles of association, and instructions issued by the central cooperative;
- giving approvals, stated in the Act on the Amalgamation of Deposit Banks, that it is possible not to apply to a member credit institution the regulations stated in greater detail in the Act on Credit Institutions governing capital adequacy management, customer risk management, the minimum capital base, the minimum consolidated capital base, the management of consolidated capital adequacy and the management of consolidated customer risk;
- steering OP Financial Group and implementing the Group strategy in line with the principles issued by the Supervisory Board;
- preparing the agenda of a Supervisory Board meeting and items on the agenda unless preparing the matters, due to their nature, belong to another central cooperative party, and providing the Supervisory Board with information and reports that it deems necessary to request;
- submitting a proposal to the Supervisory Board on, for example:
  - OP Financial Group's strategy and operational and financial targets;
  - the central cooperative's operational and financial targets;
  - the central cooperative consolidated's operational and financial targets;
  - convening the Cooperative Meeting of the central cooperative and on items to be discussed at the Meeting; and
  - important issues of wide scope related to the central cooperative and its consolidation group and pertaining to OP Financial Group's interests, right and development.

- preparing the central cooperative's financial statements and Report by the Executive Board and submitting them to the Supervisory Board;
- preparing the consolidated financial statements as referred to in the Act on the Amalgamation of Deposit Banks;
- confirming the central cooperative's organisation, hiring and firing employees necessary for the central cooperative's operations, determine their remuneration and confirming the division of responsibilities between such employees to the extent necessary unless the Executive Board has, within the limits it has determined, delegated these activities to employees it has assigned;
- deciding on the basic principles of the remuneration schemes of the central cooperative and its consolidation group to the extent that deciding on them is not within the Supervisory Board remit;
- deciding on major investments unless the Executive Board has, within the limits it has determined, delegated these decisions to be made by employees or bodies it has assigned;
- deciding on the central cooperative's company acquisitions and disposals or corporate transactions unless such matters should, due to their strategic significance to OP Financial Group, be submitted to the Supervisory Board for decision;
- deciding on financing for the central cooperative and on its terms and conditions;
- ensuring that decisions by the Cooperative Meeting and the Supervisory Board are executed and that their implementation is supervised;
- ensuring that the central cooperative management and operations are duly organised and that the supervision of the central cooperative's accounting and treasury are duly organised;
- being responsible to the Executive Board for other tasks as specified in the Co-operatives Act or prescribed or legislated elsewhere.

With respect to the central cooperative consolidated, the Executive Board is responsible for dealing with, for example, the following matters at central cooperative consolidated level:

- Risk policy and capital adequacy, risk management and ALM policies and related key guidelines;
- Group policies relating to funding, amount of capital and investments;
- Principles of the dividend policy of subsidiaries;
- Principles of member banks' list of service charges and fees;
- Implementation of strategically and financially important individual investments or company acquisitions, disposals or corporate transactions with an effect on the Group's operations;
- HR policy, including the principles of remuneration and incentives and other employee benefits in line with the policy decisions made in greater detail by the Supervisory Board or its committees;
- Basics of the strategies and annual plans of the Group's subsidiaries and the related key principles;
- The Group's communications and brand management policy and the related key principles;
- The Group's outsourcing policy and outsourcing principles;
- The Group's ICT architecture policy and ICT policy.

The Executive Board is also responsible for annually discussing and confirming the shared operating principles. They define the key policies and Group-level binding principles that each subsidiary must follow in its operations as the intra-Group principles.

In addition, the Executive Board must assess and supervise the appropriateness, scope and reliability of the Group's capital adequacy management, decide on reporting with which the Executive Board monitors the business, risk-bearing capacity, risk status and internal control of the Group and its subsidiaries.

### **Executive Board meeting procedures, decision-making and self-assessment**

At its meeting, the Executive Board decides on the matters within its remit. The Executive Board may hold a meeting on a teleconference basis or using other media if the matter in question is urgent or there exists some other similar reason to do so. Executive Board members must be given the opportunity to communicate with each other during decision-making.

Convened by the Chairman or, whenever his is prevented, the Vice Chairman, an Executive Board meeting is mainly held once a week. The Executive Board's ordinary members and deputy members participate in the meetings. OP Financial Group's Chief Audit Executive has the right to be present and speak at Executive Board meetings. Board meetings may also be attended by some other person whose presence is necessary due to the matter under discussion.

The meeting's agenda and the basic meeting material must be distributed to the Executive Board's members for review well in advance prior to the meeting.

Each Executive Board member and deputy member present items on the meeting agenda within his/her remit. In this context, (s)he may be assisted by an expert staff member or another expert. Proposals must be given in writing. Each Executive Board member and deputy member is responsible for the implementation of the execution of Executive Board decisions within his/her remit and supervises their implementation. Minutes shall be kept of all Executive Board meetings, containing those present, decisions made and any dissenting opinions, by the secretary appointed by the Executive Board. The next Executive Board meeting adopts the minutes of the previous meeting and the minutes are signed by the secretary and the Executive Board members and deputy members present at the meeting. All minutes documents are numbered consecutively by calendar year.

The Executive Board is collectively responsible for the matters upon which it decides jointly at its meetings. In addition, Executive Board members and deputy members bear operational responsibility for the areas of responsibility and organisational entities individually designated to them.

Executive Board members must also give the company sufficient information to assess his/her fitness and propriety and independence, and inform of any changes in such information.

The Executive Board shall prepare an annual action plan, containing a meeting schedule and the most important issues discussed at the meetings. The Executive Board shall review its performance and procedures on an annual self-assessment basis.

### **Executive Board work in 2014**

OP Cooperative's Executive Board had 58 meetings in 2014. The average attendance rate of its members stood at 94%.

The Executive Board continued the arrangements for Pohjola Bank plc's delisting that it began in 2013: tender offer and the delisting of Pohjola shares. This process continued with the execution of the tender offer announced on 6 February 2014 until the delisting. Based on a decision by the Arbitral Tribunal, the central cooperative obtained ownership of all Pohjola Bank plc Series A shares at the end of September 2014. As a result, Pohjola Bank plc's listing on NASDAQ OMX Helsinki

terminated on 30 September 2014. After this, the squeeze-out procedure was instituted by the Arbitration Court. According to the Redemption Committee, the squeeze-out procedure will last an average of approximately six months. The overall squeeze-out procedure pertaining to Pohjola's minority shares are expected to last until the first half of 2015. As a result of the delisting of Pohjola Bank shares, the key tasks have included putting the new management system into practice and implementing the new Group structure further. As part of this process, the central cooperative made extensive reforms in the management and organisational structures within the central cooperative consolidated. The following four new members were appointed to the central cooperative's Executive Board: Jouko Pölönen, Executive Vice President, Banking; Olli Lehtilä, Executive Vice President, Non-life Insurance; Harri Nummela, Executive Vice President, Wealth Management; and Jari Himanen, Executive Vice President, Member Bank Steering. This change was aimed at streamlining OP Financial Group's operations, ensuring sufficient customer understanding and involving customers more and more in the Group's operations and product and service development. As part of this operational transformation and rationalisation, autumn 2014 saw the implementation of the Information and Consultation of Employees process applying to the Group's management. The new organisation of OP-Pohjola Group Central Cooperative Consolidated entered into force on 1 October 2014.

Both customer and in-house experiences of Omasairaala as part of Non-life Insurance have been very good. Based on the Supervisory Board policy line, the Executive Board began to prepare for expanding the Omasairaala operations to university hospital cities. It will also branch out into specialised medicine and occupational healthcare. The nationwide hospital network is being built under the Pohjola brand.

As confirmed by the Supervisory Board, the Executive Board also began to prepare new strategic development programmes to steer and further develop OP Financial Group operations and to meet future challenges and increase Group competitiveness.

The Executive Board has been active in controlling the Vallila 2015 project on the basis of which the new Vallila hub will be completed for the entire Group in May 2015.

The year-end saw a decision to update the Group's brand in visual terms and in terms of corporate name change. The entire Group was renamed OP. The new brand differentiates the Group and builds on the history and values of the Group's various elements. At the same time, it gives the Group's bearings as it makes a new start.

At its meetings, the Executive Board also discussed, for instance, the annual plan, risk management and capital adequacy management principles and risk policies, and regularly analysed the financial performance of capital adequacy and risk exposure of the Group and its business segments. It also monitored the financial performance of the central cooperative consolidated and the implementation of key measures. In addition, it discussed key issues related to markets, the competitive and regulatory environment and evaluated the effect of related changes on the Group's operations.

As part of its normal activities, the Executive Committee also discussed all audit reports prepared in 2014 and other key issues pertaining to internal and external control. In 2014, it analysed regularly major purchases and projects. At its meetings in 2014, the Executive Board regularly discussed and reviewed issues on an extensive basis related to competence development and remuneration.

## **Executive Board committees**

The Executive Board has set up four committees whose rules of procedure it has confirmed. The committees have no independent decision-making powers but the Executive Board makes decisions based on preparations by the committees.

### **HR Committee**

The central cooperative's Executive Board confirms the composition of the HR Committee and appoints its members. The Committee is chaired by the Chairman of the Executive Board. Other members acting as Executive Board members comprise OP Financial Group's Executive Vice President of Human Resources, Executive Vice President of Operations and one Executive Vice President of each business segment on a one-year rotation basis. Committee members must have adequate knowledge of the Group's and the central cooperative consolidated operations as well as of HR issues.

The HR Committee is responsible for supporting the Executive Board in controlling the HR management of the central cooperative consolidated in accordance with the adopted principles and decisions. The Committee is tasked with assisting the Executive Board in ensuring that HR management supports the achievement of the business targets of the central cooperative consolidated by means of HR management methods, processes and their supporting systems.

The Committee is also responsible for supervising the central cooperative consolidated that it complies in its operation with the agreed and decided HR policy guidelines.

### **HR Committee work in 2014**

The HR Committee began its work in autumn 2014.

### **Development Committee**

The central cooperative's Executive Board confirms the composition of the Development Committee and appoints its members. The Committee is chaired by the Vice Chairman of the Executive Board. Other members comprise the Executive Vice President, Banking; Executive Vice President, Wealth Management; Executive Vice President, Non-life Insurance; and Executive Vice President, Group Steering. The Committee members must have adequate knowledge of the development activities within OP Financial Group and the central cooperative.

The central cooperative's Executive Board confirms annual development needs and the main policy lines for allocating development investments. On the basis of the policy lines issued by the Executive Board, the Development Committee defines development priorities and allocates development investments to various development plans. The Committee controls the prioritisation between the development plans and the resulting development portfolios for the purpose of implementing the Group strategy and achieving the targets deriving from the strategy.

### **Development Committee work in 2014**

The Development Committee began its work in autumn 2014.

### **Cooperative Bank Steering Committee**

The central cooperative's Executive Board confirms the composition of the Cooperative Bank Committee and appoints its members. The Committee is chaired by the Chairman of the Executive Board. Other members comprise the Executive Board member in charge of Group Steering and the Executive Board member in charge of Group risk management. The Committee members must have adequate knowledge of OP Financial Group and the central cooperative.



The Committee's primary duty is to support the Executive Board in the central institution's implementation of control over cooperative banks under the guidelines of the central cooperative's Supervisory Board. The Committee is engaged in general control on all member cooperative banks and in bank-specific control in the manner specified in greater detail in its rules of procedure.

#### **Cooperative Bank Steering Committee work in 2014**

The Cooperative Bank Steering Committee began its work in autumn 2014.

#### **ALM and Risk Management Committee**

The central cooperative's Executive Board confirms the composition of the ALM and Risk Management Committee and appoints its members. The Committee is chaired by the Chairman of the Executive Board. Other members acting as Executive Board members comprise, OP Financial Group's CFO, CRO, Executive Vice President of Banking and Executive Vice President of Group Steering. The Committee members must demonstrate adequate knowledge of the operations, capital adequacy management and ALM and risk management of the Group and the central cooperative consolidated.

The ALM and Risk Management Committee supports the Executive Board in steering and managing the Group's risk-bearing capacity and risk appetite according to the operating principles and decisions issued by the Supervisory Board. The Committee is also tasked with assisting the Executive Board in ensuring that the central cooperative and its consolidated group have adequate capital adequacy management and risk management systems in place covering all operations. The Committee is also responsible for supervising the central cooperative and its consolidated group and the entire Group so that they do not take excessive risks in their operations which would materially jeopardise the capital adequacy, liquidity and profitability of the central cooperative, its consolidated group and the entire Group.

#### **ALM and Risk Management Committee work in 2014**

The ALM and Risk Management Committee had 13 meetings in 2014.

#### **Management team of central cooperative consolidated**

The central cooperative consolidated has no separate Group management team but the central cooperative's Executive Board attends to its tasks.





**Core values and the role of the Code of Ethics**

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 Approach, Responsibility, and Prospering together. In its operations, OP Financial Group also 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. In addition, ethics is guided by the general principles and guidelines governing the management of conflict-of-interest cases updated every year. These principles contain more detailed regulations and guidelines governing, for example, the identification and management of conflict-of-interest situations, compliance with good practice, acceptance of gratuities related to business, commitments and extramural activities of management and personnel, personal and related-party transactions and decisions, and measures required in a conflict-of-interest situation.

OP Financial Group's core values are presented in greater detail on OP Financial Group's website at [www.op.fi](http://www.op.fi) > Group > Strategy and Values > Values.

**OP Cooperative's structure and management system**

The Supervisory Board confirms the division of responsibilities between the Executive Board's members while the Executive Board confirms the operational organisation of the central cooperative. Operational decision-making combines with legal decision-making through the Executive Board, whose control and supervisory responsibility covers the entire Group.

Management system of the central cooperative consolidated and central cooperative subsidiaries

In the entire central cooperative consolidated, decisions are made as extensively as possible at Group level by the central cooperative's Executive Board. The board of directors of each subsidiary discusses issues related to them primarily on the basis of the policy guidelines issued by the central cooperative's Executive Board or after hearing the Executive Board. In subsidiaries, board work is more technical in nature and the boards discuss issues required by laws.

The central cooperative's Executive Board decides on candidates for the subsidiaries' boards of directors, after which the board of directors is elected in a manner specified in the Articles of Association and laws in force from time to time. Basically, the subsidiaries' boards of directors comprise members of the central cooperative's Executive Board. Board members must demonstrate adequate knowledge of financial issues and the company's business or other qualifications required in the position as well as to have the opportunity to allow sufficient time to perform his duties.

The rules of procedures of the subsidiaries' boards of directors describe the tasks that each board carries out. They also describe the key decision-making levels. The boards of directors also annually draw up an action plan showing a meeting schedule and the most important items on each meeting's agenda. The boards of directors assess their performance and working methods on a regular basis.

The operations manager of the subsidiary's Managing Director chairs the subsidiary's board of directors.





## Central cooperative subsidiaries:

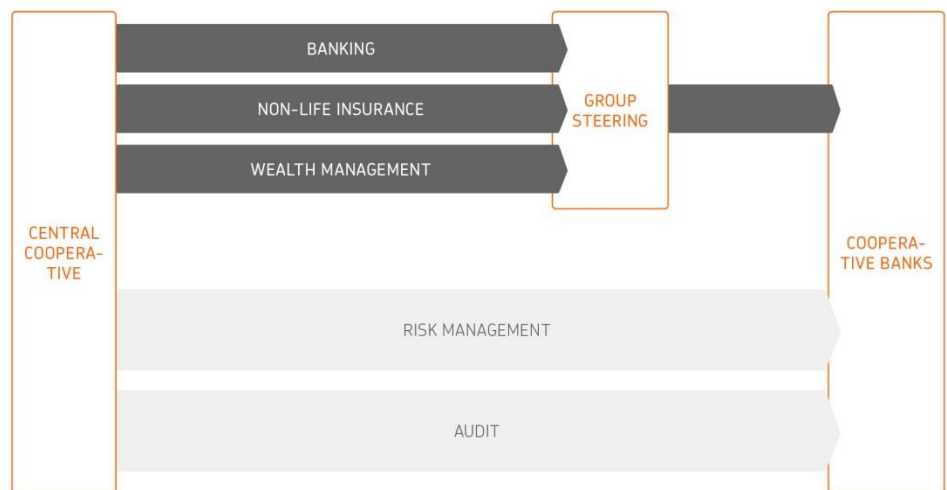
**Administration, Managing Directors and Board of Directors of subsidiaries in 2014**

The board of directors and President/Managing Director of major subsidiaries as of 31 December 2014

Subsidiary	Board of Directors	President/Managing Director
Pohjola Bank plc	Reijo Karhinen, Chairman Luhtala Harri Palmén Erik Tony Vepsäläinen	Pölönen Jouko
Helsinki OP Bank Plc	Reijo Karhinen, Chairman Luhtala Harri Palmén Erik Vepsäläinen Tony	Pölönen Jouko
OP Mortgage Bank	Luhtala Harri, Chairman Hirvinen Hanno Ronkanen-Minogue Elina	Iloniemi Lauri
OP Card Company Plc	Huttunen Jussi, Chairman Jaatinen Hannu Pölönen Jouko	Patovirta Kai
Pohjola Insurance Ltd	Reijo Karhinen, Chairman Luhtala Harri Palmén Erik Vepsäläinen Tony	Lehtilä Olli
Pohjola Asset Management Ltd	Reijo Karhinen, Chairman Luhtala Harri Palmén Erik Vepsäläinen Tony	Nummela Harri
OP Life Assurance Company Ltd	Nummela Harri, Chairman Luhtala Harri Palmén Erik	Kuisma Jarmo
Aurum Investment Insurance Ltd	Nummela Harri, Chairman Luhtala Harri Palmén Erik	Kuisma Jarmo

OP Fund Management Company Ltd	Nummela Harri, Chairman Huttunen Jussi Jormalainen Sami Kalajainen Kai Molander Mauri Tarkkanen Olli Vanha-Honko Vesa-Matti Wederhorn-Liiri Ulla	Master of Laws trained on the bench Takala Juha
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#### OP Financial Group's operational organisation:



## 7 Internal and external control

### 7.1 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 the organisation to ensure that the organisation achieves the targets set in the strategy, uses resources economically and the information in support of management decisions is reliable. Internal control also ensures that risk management, custody of client assets and asset protection are adequately organised. Internal controls also ensure compliance with regulations and approved ethical principles.

OP Financial Group's internal control principles shall be approved by the central cooperative's Supervisory Board.

Internal controls cover all operations, involving all Group entities and sites. 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, characterised by continuous processes and forming part of daily routines.

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.

### **Internal control responsibilities and organisation**

The board of directors of each OP Financial Group entity is tasked with ensuring that internal control is duly organised, taking account of the Group-wide internal control principles and the supplementary central cooperative guidelines. Each entity's managing director and executive management are responsible for ensuring internal control in practice and that duties are duly segregated among employees.

The centralised Compliance, Risk Management and Finance and Treasury functions assist Group entities in ensuring internal control effectiveness. In addition, Internal Audit assists in ensuring internal control effectiveness. Moreover, external auditors in particular ensure that financial information is correct in this respect.

### **Internal control in 2014**

The executive management assessed the effectiveness of good corporate governance and internal control and identified areas in need of improvement. Internal guidelines are used to support operational management and compliance with these guidelines is subject to continuous supervision. In particular, the Audit Committee plays a major role in ensuring regulatory compliance with respect to the effectiveness and performance of internal control.

Autumn 2014 saw the introduction of a new corporate governance system. The OP Cooperative's Supervisory Board confirmed Group-level documents that are used to steer the Group's good corporate governance and internal control. In respect of the central cooperative consolidated, the current year has seen measures to harmonise and streamline the Fit & Proper process.

### **Internal audit**

Internal Audit is responsible for Group-level internal auditing within OP Financial Group. Internal audit is aimed at assisting senior and operations management by performing audits to assess the achievement of the strategic and operational goals, the quality of risk management, the reliability of reporting, compliance with laws and instructions and the efficiency and appropriateness of operations. Internal audit is conducted in compliance with good internal auditing practice. The International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors, and professional standards, issued by the Information Systems Audit and Control Association, and the code of ethics, among other things, provide the conceptual framework for good internal auditing practice. Audit planning, implementation and reporting form independent activities.

The Supervisory Board of OP Cooperative shall confirm the operating principles of OP Financial Group's Internal Audit. The Supervisory Board's Audit Committee shall confirm the Internal Audit action plan. The Chief Audit Executive shall regularly report his/her audits and any resulting observations to the Supervisory Board's Audit Committee and the central cooperative's Executive Board.

### **Internal audit in 2014**

Approved by the central cooperative's Supervisory Board, the internal audit action plan for 2014 covered audits performed in both the central cooperative consolidated and Group member cooperative banks. The audits focused on the identification of risk factors and the assessment of the performance of internal control processes. In its reports, Internal Audit issues recommendations for remedying any defects discovered. Internal Audit performed audits according to the action plan and re-

ported the audits to the Audit Committee of the Supervisory Board, the management of the central cooperative consolidated and, with respect to Group member cooperative bank audits, to the banks' management.

Internal Audit regularly monitored the progress of the implementation of the recommendations issued on a half-yearly basis and regularly reported its monitoring observations to the Supervisory Board's Audit Committee and the management of the central cooperative consolidated.

### **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 controls within OP Financial Group entities rests with the senior and line management and all supervisors and managers. In addition, everyone employed by OP Financial Group is responsible for his own part for regulatory compliance.

The Compliance function assists senior management and executive management and business lines/divisions in the management of risks associated with regulatory non-compliance, supervises regulatory compliance and, for its part, develops internal control further. Guidelines, advice and support concerning compliance activities within OP Financial Group is the responsibility of operational risk management and the Compliance department within a risk management function independent of the central cooperative. Group member cooperative banks have their own designated compliance officers. Control, support and supervision of compliance activities for member cooperative banks are performed through the network of contact persons formed by the designated compliance officers.

Any observations made within compliance are reported regularly to the business line/division, OP Cooperative's Executive Board and the Supervisory Board's Risk Management and Audit Committees.

### **Risk management and capital adequacy management**

OP Financial Group's core values, strategic goals and financial targets form the basis for risk management and capital adequacy management. The strategy outlines the Group's risk appetite and risk management priorities that help to ensure strategy implementation. Risk management is aimed at helping to achieve the targets set in the strategy by ensuring that risks are proportional to risk-bearing capacity.

Risk and capital adequacy management falls under internal control. Its purpose is to ensure the risk-bearing capacity and liquidity of OP Financial Group and its entities and thereby ensure continued operations. OP Financial Group's risk and capital adequacy management has been integrated as an integral part of the Group's business and its management.

Risk-bearing capacity involves a sufficient capital base and liquidity based on profitable business, and risk management quality and sufficiency in proportion to the nature and extent of business.

The most significant risks of OP Financial Group include credit risks, market risks, liquidity risks, insurance risks, concentration risks and strategic and operational risks, including compliance risks, associated with all business operations, and reputational risk. OP Financial Group adopts a policy of moderate risk-taking.

OP Cooperative's Supervisory Board confirms OP Financial Group's principles of risk and capital adequacy management. These principles define how the Group-level risk and capital adequacy management process is organised.

Risk management and internal capital adequacy assessment process (ICAAP) involves:

- identifying, measuring, assessing and mitigating risks;
- determining reliably and independently how much capital is required for various risks and business operations;
- allocating capital systematically by business segment in line with current and planned risk-taking; and
- managing the Group's liquidity.

In OP Financial Group's risk policy, the central cooperative's Executive Board confirms annually risk-management principles, actions, objectives and restrictions that the Group's business segments and entities must follow to implement the principles agreed on in the strategy.

Confirmed annually by the central cooperative's Supervisory Board, risk limits ensure that the Group does not take excessive risks to jeopardise its capital adequacy, profitability, liquidity and the continuation of operations. The Supervisory Board confirms annually limits for the central cooperative consolidated's entities and control limits for Group member cooperative banks derived from the Group's limits.

### Risk and capital adequacy management's three lines of defence

The organisation and responsibilities of the Group's risk management and capital adequacy management are founded on three lines of defence shown below.

#### THREE DEFENCE LINES OF RISK MANAGEMENT



The first line consists of risk management applied within business and other operations. It supervises risk decisions and ensures that risk exposure and risk-bearing capacity are under sufficient Group-level control. Risk management is included in business models and processes.

The second line of defence consists of risk management independent of operational business organisations that is run from the central cooperative. It is in charge of the Group's risk management framework, controls the risk- decision process and is responsible for the Group's consolidated risk exposure management and risk-bearing capacity monitoring.

The third line of defence is centralised internal audit. It audits and evaluates both the Group's risk management framework and its application in the central cooperative and other Group entities.

### **Risk management in 2014**

In risk management, 2014 included monitoring external regulatory changes and continuing to prepare for regulatory changes. Accordingly, significant changes include the liquidity requirement based on the EU's capital requirements regulation (CRR) that will enter into force in 2015 and the pan-European Solvency II regulation applying to insurance companies that will enter into force as of the beginning of 2016.

The ECB and national regulators conducted a comprehensive assessment in the largest banks within the EU that has been subject to direct supervision by the ECB since November 2014. The ECB's comprehensive assessment involved a review of the quality of receivables and a stress test. Implementing the review within OP Financial Group was one of the most important risk management tasks in 2014. The ECB's comprehensive assessment estimated that OP Financial Group's risk-bearing capacity is strong.

The Group prepared a regional support organisation for its small and mid-size member cooperative banks that will support these banks in the management and control of their credit risks and operational and compliance risks. The related activities came into operation in early 2015. In addition, the Group updated its risk management guidelines, risk reporting and risk limitation. The Group adopted new models for measuring economic capital related to credit risk and insurance market risks. The Group continued to further develop its risk management assessment processes and operational processes in order to ensure that risk management has been integrated as part of all business.

During 2014, extended financial sanctions increased the need for advice on KYC and sanctions. Practices related to the monitoring of compliance with sanctions were further developed in cooperation with business lines/divisions.

## **7.2**

### **External control**

#### **Audit**

OP Cooperative has one auditor, which must be a firm of authorised public accountants certified by the Finland Chamber of Commerce. The auditor shall also audit the consolidated financial statements as referred to in Section 9 of the Act on the Amalgamation of Deposit Banks.

The Cooperative Meeting shall elect the auditor, whose term of office expires upon the closing of the Annual Cooperative Meeting following its election. The Audit Committee of OP Cooperative's Supervisory Board puts audit services out to tender at some five years' interval (last time at the end of 2011), on the basis of which it proposes eligible auditors to the Annual Cooperative Meeting.

The auditor's remuneration is based on the invoiced amount.

The auditors are tasked with auditing the accounting, financial statements and governance of the Group and its entities and sub-groups in order to obtain assurance that the Group and its entities and administrative bodies act in compliance with applicable laws and that the financial statements have been prepared in compliance with the rules and regulations in force and give OP Cooperative's shareholders and other stakeholders a true and fair view of the financial position, financial performance and cash flows of the Group. In addition, the auditors regularly issue other statements on the basis of specific regulation applicable to the sector. The Supervisory Board's Audit Committee annually assesses the performance of

the auditor and the quality of advisory services. The auditors annually issue the Auditor's Report to the members of OP Cooperative in which they express their opinion on the financial statements and the Report by the Executive Board. Based on their observations, they also draw up audit memoranda delivered to the OP Cooperative's Executive Board, the President and Executive Chairman, the Supervisory Board's Audit Committee, the CRO, Internal Audit and the Finnish Financial Supervisory Authority, according to the subject matter concerned. Whenever necessary, auditors also issue oral reports to the aforementioned persons and bodies.

The Supervisory Board's Audit Committee consults the auditor when dealing with the Group's annual accounts and interim accounts, as well as the accounting policies. The auditors have a statutory obligation to notify the Financial Supervisory Authority of any matters or decisions that put operations and the existence of licence requirements at risk, or that result in an opinion in the Auditor's Report other than the unqualified opinion, as referred to in the Auditing Act, or result in an auditors' remark as referred to in Section 15, Paragraph 4 of the Auditing Act.

#### **Audit in 2014**

KPMG Oy Ab, a firm of authorised public accountants, has acted the central cooperative's auditor since 2002 with authorised public accountant Raija-Leena Hankonen as the Chief Auditor since 2014. KPMG Oy Ab, a firm of authorised public accountants, acts as the auditor of OP Cooperative Consolidated, i.e. the central cooperative consolidated, with auditors appointed by KPMG Oy Ab acting as chief auditors. Auditors acting as OP Financial Group member cooperative banks also include other firms of authorised public accountants and authorised public accountants, in addition to KPMG Oy Ab.

Audit is based on audit plans. Statutory audit of separate companies and their groups involves the audit of the entity's accounting, financial statements, report by the board and governance for the financial year. Capital adequacy measurement, derivatives business, property investment and insurance liability interest rate hedging included the priorities in statutory audit. In addition, all published interim reports and financial statements bulletins have been audited.

OP Cooperative Consolidated has used KPMG Oy Ab's advisory services related mainly to the comfort letters of bond programmed, ISAE 3042 verifications from centralised services, assignments related to structural changes in the central cooperative as well as tax counselling.

Audit fees for statutory audit are based an annual plan.

Audit fees for audit paid to auditors totalled EUR 2.2 million (1.8), whereas fees for assignments as referred to in Section 1, Sub-paragraph 1(2) of the Auditing Act were EUR 0.2 million (0.3), those for legal counselling EUR 0.1 million (0.2) and those for other services EUR 1.1 million (1.2).

#### **Control within the amalgamation of OP Financial Group cooperative banks**

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 for risk management, good corporate governance and internal control with the aim of safeguarding their liquidity and capital adequacy. 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 the operations of its member credit institutions in the manner as referred to in "*Laki talletuspankkien yhteenliittymästä*" (Act on the Amalgamation of Deposit Banks).



**Regulatory supervision**

The Finnish Financial Supervisory Authority oversees OP Financial Group and its investment firms and insurance companies in Finland as prescribed in legislation governing financial and insurance markets. The Group's operations in Estonia, Latvia and Lithuania are supervised to an applicable extent by the national regulators.

OP Financial Group's credit institution was transferred to the direct supervision by the ECB in November 2014.

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 Control function within OP Financial Group also produces earnings forecasts and analyses the actual outcome in comparison with the forecasts and reports on any deviations.

This chapter, *Financial reporting process*, describes the main features of how OP Financial Group's internal control and risk management work with a view to ensuring that the Group's financial reports give substantially true information on the company's and its consolidation group's financial performance and position. Group-level financial information correctly consolidated using sub-ledger accounting and OP Financial Group companies' information forms the basis of reliable financial reporting.

OP Financial Group 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 executive management and 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 very same principles apply to the monthly financial performance and risk report prepared by the management. 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.

The Group's 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 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 Central Cooperative, OP Financial Group's central cooperative. Whenever necessary, OP Cooperative turns to auditors who give a statement of the selected principles and interpretations.

**Organisation of financial reporting**

OP Cooperative's Executive Board is the highest decision-making body in matters associated with business control. The Executive Board must ensure that supervision of accounting and treasury is duly organised. It decides on reporting, procedures and qualitative and quantitative indicators used to assess operational efficiency and performance discusses and approves the consolidated financial statements and interim reports.

The Supervisory Board's Audit Committee is tasked with assisting the Supervisory Board to ensure firstly that the central cooperative and OP Financial Group have in place an adequate and well-functioning control system to cover all operations and secondly that the OP Cooperative's accounting and treasury control is organised appropriately. To perform its tasks, the Committee discusses the Group's accounting policies and capital adequacy assessment principles to be submitted to the Supervisory Board for adoption. It also supervises for its part financial reporting by

- assessing the Group's financial statements and interim reports and the financial statements of central cooperative consolidated;
- assessing the Corporate Governance Statement issued annually;
- assessing major or exceptional transactions and the related management judgement and estimates.

The President, Executive Chairman must ensure in accordance with the Cooperatives Act that the company's accounting is in compliance with applicable laws and treasury has been organised in a reliable manner. Responsibility for OP Financial Group's financial reporting rests with OP Cooperative's Finance and Treasury and Risk Management.

The Group has centralised the preparation of financial statements and interim reports independent of business lines/divisions. OP Financial Group's shared systems are primarily used in reporting. Operational duties related to financial and management accounting have also been centralised at central cooperative consolidated level.

#### **Independent assessment of financial reporting**

As provided by law, auditors shall assess the accuracy of 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 company and its administrative bodies act in compliance with applicable laws and that the financial statements 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 performance and the financial position of the company and its consolidation group.

In its audits or processes, Internal Audit also assesses, when applicable, the effectiveness and adequacy of financial reporting, and reports these audits to the executive management and the Supervisory Board's Audit Committee. During its inspections, the Financial Supervisory Authority also oversees the financial reporting process and its effectiveness.

As part of the independent financial reporting assessment, auditors supplement the actual audit by inspecting the planning and effectiveness of controls within centralised functions according to ISAE 3402. Auditors report separately on this specific audit in accordance with this standard.

#### **Financial reporting in 2014**

OP Financial Group's financial statements were prepared in accordance with IFRS, applying IASs, IFRSs and SIC and IFRIC interpretations effective on 31 December 2014.

In 2014, OP Financial Group adopted the following standards and interpretations:

- As a result of entry into force of IFRS 10 – Consolidated Financial Statements, the number of companies to be consolidated into OP Financial Group's financial statements increased as OP-Kiinteistökeskus real estate agencies owned

by the member cooperative banks and various mutual funds were also included.

- Entry into force of IFRS 11 – Joint Arrangements had a minor effect on the balance sheet and the statement of comprehensive income on OP Financial Group.
- IFRS 12 – Disclosure of Interests in Other Entities expanded disclosures in the Notes to the Financial Statements.
- IAS 32 – Financial Instruments: Presentation did not have a significant effect on OP Financial Group's financial statements.
- Amendment to IAS 36 – Impairment of Assets specified disclosure requirements in the Notes to the Financial Statements.
- Amendment to IAS 39 – Financial Instruments: Recognition and Measurement concerned hedge accounting application requirements when a derivative contract is novated to a central counterparty.
- IFRIC 21 – Levies applied in OP Financial Group, for example, to the recognition of bank levy liability and of liability arising from contributions to the Deposit Guarantee Fund.

## 9

### Remuneration

#### Remuneration within OP Financial Group

Within OP Financial Group, financial remuneration consists of fixed and variable remuneration. Variable remuneration involves both short-term and long-term performance-based bonuses.

A sufficiently large amount of the total remuneration must remain fixed. The proportion of variable remuneration may not exceed 100% of the total amount of each beneficiary's fixed remuneration. OP Cooperative's Supervisory Board defines this appropriate, reasonable balance between the fixed and variable pay.



Variable remuneration comprises a long-term management incentive scheme common to OP Financial Group member cooperative banks and the central cooperative consolidated and the personnel fund for all personnel as well as short-term schemes for each target group.

In its remuneration, the Group complies with provisions based on EU and national laws and guidelines issued by the European Central Bank, the Finnish Financial Supervisory Authority and other regulators. Remuneration policies governing OP Finan-

cial Group's employees and management are based on laws, provisions and recommendations applicable to the financial sector and on the Finnish Corporate Governance Code.

OP Financial Group's remuneration policy is consistent with sound and effective risk management and does not encourage excessive risk-taking. The incentive schemes are in line with the core values, goals and targets, and the business strategy, and agree with the Group's long-term interests. Remuneration may not lead to a situation that could jeopardise the general reliability of the incentive scheme, an owner-member's or customer's interests or the reputation of OP Financial Group or a Group company.

### **Decision-making related to remuneration**

OP Cooperative's Supervisory Board and, depending on the matter concerned, OP Financial Group's Remuneration Committee or the Supervisory Board's presiding officers and boards of directors as well as the relevant Remuneration or HR Committee, which reviews the application of the schemes and assesses their effectiveness, deals with remuneration principles and policy lines within OP Financial Group.

For schemes applying to the entire Group, the decisions are made by the Supervisory Board or OP Financial Group's Remuneration Committee. A Supervisory Board member, who has no employment or executive contract with an OP Financial Group company, may be a Remuneration Committee member. Within the member cooperative banks, remuneration-related decisions are ultimately made by each bank's board of directors.

The Supervisory Board of OP Cooperative shall approve the Group's remuneration principles, decide on the long-term incentive scheme, confirm the general terms and conditions of the Group's remuneration schemes and issue recommendations for short-term incentive schemes. The Supervisory Board owns the long-term management incentive scheme and decides on its metrics, target levels and maximum bonuses. The presiding officers of the Supervisory Board decide on issues related to OP Cooperative Executive Board remuneration.

By order of the Supervisory Board, OP Financial Group's Remuneration Committee set up by the Supervisory Board shall monitor and supervise the effectiveness and competitiveness of the incentive schemes and the ability of the incentive structures to support the Group's long-term goals and targets. The Remuneration Committee shall annually approve and revise the Group's remuneration policies.

The HR Committee of OP Cooperative's Executive Board and the presiding officers of OP Cooperative's Supervisory Board act as bodies in charge of preparing remuneration issues. The Remuneration Committee of OP Financial Group acts as a body in charge of preparing remuneration issues for Group member cooperative banks' management.

Internal Audit shall annually review compliance with the remuneration and incentive scheme approved by the Supervisory Board.

### **Remuneration of management and administration**

OP Financial Group's Remuneration Committee annually issues a recommendation to member cooperative banks on management remuneration. Such statement involves a recommendation on monthly emoluments and meeting attendance allowances of chairmen and members of member cooperative banks' supervisory boards and boards.

The Cooperative Meeting decides on emoluments and other benefits payable to the members of OP Cooperative's Supervisory Board,

Monthly emoluments for 2014 confirmed by the Cooperative Meeting and payable to the Chairman of the Supervisory Board Chairman and Vice Chairmen and members are as follows: Chairman 6,000 euros, Vice Chairman 3,000 euros and other members 350 euros. Chairmen other than those of committees acting under the Supervisory Board Chairman receive 1,500 euros in monthly emoluments. In addition, all Supervisory Board members receive an attendance allowance of 550 euros for each meeting. Management and administration emoluments are paid in cash.

The Chairman, Vice Chairmen and members of the Supervisory Board are covered by voluntary pension insurance, as referred to in the Employees' Pensions Act (395/2006), through OP Bank Group Pension Fund.

### **Principles governing the remuneration and other benefits to President and Executive Chairman**

The presiding officers of OP Cooperative's Supervisory Board determine the remuneration and other benefits to OP Financial Group's President and Executive Chairman, and other Executive Board members, deputy members and the Chief Audit Executive. A written executive contract, approved by the Supervisory Board, stipulates the terms governing the President and Executive Chairman's employment.

His remuneration consists of the following three parts: 1) Basic pay (salary and fringe benefits, based on the job grade, skills and performance); 2) short-term remuneration based on short-term performance (performance-based bonuses, based on the achievement of targets under the annual plan); and 3) long-term remuneration (OP Financial Group's common management incentive scheme, based on the achievement of the Group's shared strategic goals and targets). The President and Executive Chairman's retirement age is 63. Pension benefits are determined in accordance with pension laws and OP Financial Group's own pension plans. The President and Executive Chairman is covered by OP Bank Group Pension Foundation's supplementary pension scheme. Pension accrued under the supplementary pension scheme may begin to be paid out as a paid-up pension before the old-age pension if employment with OP Financial Group terminates.

The period of notice applicable under the President and Executive Chairman's executive contract is six months. Upon termination of employment in cases specifically stipulated in the executive contract, the executive is entitled to a severance pay and a sum equivalent to his 12 months' pay.

### **Principles governing OP Cooperative's Supervisory Board remuneration**

The presiding officers of OP Cooperative's Supervisory Board determine the remuneration and other benefits to OP Cooperative's Executive Board members, deputy members and the Chief Audit Executive. A written executive contract, approved by the Supervisory Board, stipulates the terms governing each of the above-mentioned person's employment.

Remuneration payable to the members and deputy members of OP Cooperative's Executive Board and the Chief Audit Executive consists of the following three parts: 1) Basic pay (salary and fringe benefits, based on the job grade, skills and performance); 2) short-term remuneration based on short-term performance (performance-based bonuses, based on the achievement of targets under the annual plan); and 3) long-term remuneration (OP Financial Group's common management incentive scheme, based on the achievement of the Group's shared strategic goals and targets).

The Board members, deputy member and the Chief Audit Executive retire at 63. Pension benefits are determined in accordance with pension laws and OP Financial Group's own pension plans.

Supplementary pension for Executive Board members, deputy member and the Chief Audit Executive have been arranged through OP Life Assurance Company Ltd. In addition, three Executive Board members are covered by OP Bank Group Pension Foundation's supplementary pension scheme.

The period of notice followed by the employer for Executive Board members, deputy member and the Chief Audit Executive is 6 months. Upon termination of their employment in cases specifically stipulated in their executive contracts, Executive Board members are entitled to a severance pay and a sum equivalent to a maximum of 6 months' pay.

### **OP Financial Group's short-term incentive schemes**

Short-term remuneration is aimed at guiding, engaging and encouraging employees to achieve annual goals and targets and perform successfully, ensuring the achievement of the goals and targets deriving from the strategy, and rewarding them for achieving and exceeding challenging targets.

Every OP Financial Group member cooperative bank and the central cooperative consolidated entity decides for its part the objectives and metrics of short-term remuneration on the basis of the recommendations issued by OP Cooperative's Supervisory Board. The board of directors of each central cooperative consolidated entity confirm the inclusion of the entity in the remuneration scheme of the central cooperative consolidated.

Short-term bonuses are mainly paid in cash. With respect to its identified staff, OP Financial Group complies with the legal requirements for the deferment of bonuses and their payment using an instrument other than cash in case variable remuneration exceeds a defined level.

Within each organisation, the decision-making body in charge of the incentive scheme may change their terms and conditions of the short-term incentive scheme, cancel it during the year or defer the payment of bonuses if there has been a change in circumstances which would place the company in an unreasonable situation were the scheme implemented. A Group member cooperative bank or the central cooperative consolidated may withhold payment of bonuses partly or fully citing its financial position. It may also recover all or some of the bonuses paid out if their beneficiary has been found guilty of malpractice, has intentionally jeopardised the future of the business or violated the law.

### **OP Financial Group's long-term management incentive scheme**

OP Financial Group's shared long-term management incentive scheme consists of three performance periods. The first period covered 2011–13 and the current performance period 2014–16.

The long-term management incentive scheme has Group-level targets. The primary performance metrics for the performance period of 2014–16 include growth in the number of customers using OP as their main bank and insurer, OP-Financial Group's EBT and the Group's 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 if capital adequacy under said Act is less than the minimum 1.3 on the date of payout.

Some 350 OP Financial Group employees are included in the long-term management incentive scheme for the performance period that started in 2014.

Those included in the long-term management incentive scheme 2014–2016 may receive a specified quantity (staggered according to the job position) of debentures issued by Helsinki OP Bank Plc if the strategic targets set for OP Financial Group are



met during the performance period in question. The bonus based on the scheme will be paid out to the beneficiary in terms of debentures and cash and in three instalments in 2018, 2019 and 2020 after the performance period, provided that OP Financial Group's capital adequacy is higher than the minimum requirement on the payout date. Taxes and tax-like charges incurred by the beneficiary will form the portion paid in cash. Bonus payout includes conditions relating to the duration of employment or executive contracts and stipulations governing the hedging prohibition and the retention period. The hedging prohibition refers to a prohibition against use of financial instruments or insurance under the incentive scheme for hedging personal risks. The retention period means that the beneficiary must hold the debentures that he has received under the scheme for one year from the payout date.

### **OP Financial Group's long-term incentive scheme for other employees**

The long-term incentive scheme for other employees is based on OP Financial Group Personnel Fund. Membership of the Fund is based on an employment contract. All those who have concluded an employment contract for an indefinite or fixed term with an OP Financial Group company belonging to the Fund are members of the Fund (excl. those included in the long-term management incentive scheme).

This long-term incentive scheme is grounded on the achievement of the Group's shared strategic goals and targets. The Group-level targets and performance metrics under the scheme based on the Personnel Fund are congruent with the targets under the long-term management incentive scheme. The board of directors of the company belonging to OP Financial Group's Personnel Fund shall annually decide on the amount of profit-based bonuses transferred to the Fund.

### **Remuneration to OP Financial Group's identified staff**

Information required by the EU capital requirements regulation and directive concerning the remuneration of OP Financial Group's identified staff are published annually on OP's website.

### **Remuneration and fringe benefits of the Executive Board in 2014**

In 2014, OP's President and Executive Chairman received EUR 754,392 in salary, EUR 18,134 in fringe benefits and EUR 209,028 in both short-term and long-term bonuses, totalling EUR 981,554. The remuneration of the other Board members, deputy members and the Chief Audit Officer were EUR 2,297,047 and the fringe benefits EUR 101,767, and the short-term and long-term bonuses EUR 477,673, totalling EUR 2,876,488.

Salaries and bonuses include the amount of the performance-based bonuses for 2011 and 2012 and paid in 2014. A total of EUR 199,589 of the performance-based bonuses earned by the President and Executive Chairman and Executive Board members in 2013 has been deferred to be paid in three instalments in 2015–17. The deferment is based on a procedure prescribed in the Act on Credit Institutions (610/2014), which is described in Note 57 of OP Financial Group's IFRS Financial Statements on variable remuneration.

The President and Executive Chairman, the other Board members, deputy member and the Chief Audit Executive retire at 63. Pension benefits are determined in accordance with pension laws and OP Financial Group's own pension plans.

The President and Executive Chairman is covered by OP Bank Group Pension Foundation's supplementary pension scheme. Pension accrued under the supplementary pension scheme may begin to be disbursed as a paid-up pension before the old-age pension if employment with OP Financial Group terminates. Three Executive Board members are covered by OP Bank Group Pension Foundation's supplementary pension scheme. Supplementary pension for the other Execu-

tive Board members, deputy member and the Chief Audit Executive have been arranged through OP Life Assurance Company Ltd.

In 2014, no costs were recognised under the OP Bank Group Pension Foundation supplementary pension scheme. The costs of OP Life Insurance Company Ltd's supplementary pension insurance totalled EUR 460,310.

Supplementary pension costs have been published in the credit institutions' remuneration data collected annually by the European Banking Authority (EBA) in accordance with the capital requirements regulation (EU 575/2013) and directive of the (2013/36/EU, CRD IV) of the European Parliament and of the Council.

The period of notice for the President and Executive Chairman, other Executive Board members, deputy member and the Chief Audit Executive is 6 months. Upon termination of employment in cases specifically stipulated in their executive contracts, the President and Executive Chairman is entitled to a severance pay and a sum equivalent to a maximum of 12 months' pay, while other Executive Board members, deputy member and the Chief Audit Executive are entitled to a sum equivalent to a maximum of 6 months' pay.

	<b>President, Executive Chairman</b>	<b>Other Executive Board members, deputy member and Chief Audit Executive</b>	<b>Total</b>
Regular pay	754 392	2 297 047	3 051 439
Fringe benefits	18 134	101 767	119 901
Amount of performance-based bonuses earned for prior years and paid in 2014 (*)	77 725	97 312	175 037
Earned performance-based bonus for 2013	218 838	492 414	711 252
Amount paid in 2014	131 303	380 361	511 664
Cash-settled	65 651	296 322	361 973
Instrument-settled	65 651	84 040	149 691
Deferred amount (**)	87 536	112 053	199 589
Total salaries, bonuses and fringe benefits paid in 2014	981 554	2 876 488	3 858 042
Total salaries, bonuses and fringe benefits, and deferred performance-based bonuses paid in 2014	1 069 089	2 988 541	4 057 630

\*) Includes the amount of performance-based bonuses earned in 2011 and 2012 and paid in 2014. The remaining portion of the 2011 and 2012 bonuses has been deferred for payment between 2015 and 2016. Payment of deferred amounts requires a separate decision.

\*\*) Capital adequacy according to the Act on Credit Institutions (610/2014)

Entities providing OP Financial Group's investment service, such as member credit institutions, have their own Guidelines for Insiders and Insider Trading. The guidelines contain regulations on insider information, prohibition against abuse of insider information, insider registers, trading restrictions applying to insiders and insider management. The guidelines also cover restrictions imposed on relevant persons and the

organisation of supervision of compliance with the restrictions.

In addition, Pohjola Bank plc and OP Mortgage Bank, both acting as securities issuers within OP Financial Group, have their own Insider and Insider Trading Guidelines. Those with regular access to insider information on securities issued by Pohjola Bank plc and OP Mortgage Bank are included in the non-public company-specific insider registers of these companies.

The Insider and Insider Trading Guidelines are based, for example, on laws governing securities markets, regulations issued by the Finnish Financial Supervisory Authority and the Securities Trading Instructions for Member Organisations of the Federation of Finnish Financial Services (*Finanssialan Keskusliiton sijoituspalveluja tarjoavien jäsenyhteisöjen kaupankäyntiohje*).

The purpose of the Guidelines is to promote confidence those operating in the securities market in OP Financial Group, Pohjola Bank plc and OP Mortgage Bank.

OP-Services Ltd's Legal Affairs shall maintain the public insider registers and permanent company-specific insider registers of OP Financial Group's entities through the SIRE system maintained by Euroclear Finland Ltd (formerly Finnish Central Securities Depository Ltd, or APK).

Whenever necessary, OP Financial Group companies shall keep project-specific insider registers.

As credit institutions, OP Financial Group's member cooperative bank 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 the bank's other ordinary operations, member cooperative banks and their executives and salaried employees may also receive insider information on client companies. For the abovementioned reasons, among other things, member cooperative banks and their executives and salaried employees are subject to insider regulation as referred to in the applicable law.

Insider issues are subject to regular training. In particular, training takes place as a result of changes in the insider guidelines.

#### **Access to insider registers and display for public inspection**

Anyone has the right to access the public insider register and receive extracts from and copies of it 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 permanent company-specific insider register or project-specific registers is not publicly available. Extracts from and copies of the public register of insider holdings can be ordered from OP-Services Ltd's Legal Affairs. Written requests for such information specifically describing the information sought should be submitted to:

OP-Palvelut Oy  
Lakipalvelut-ryhmä  
PL 909  
00101 Helsinki

OP Cooperative's subsidiaries Pohjola and OP Mortgage Bank are in charge of OP Financial Group's funding from money and capital markets. Securities issued by OP Financial Group entities are traded on the London Stock Exchange, SIX Swiss Exchange or other stock exchanges, in addition to or in place of NASDAQ OMX Helsinki. Pohjola has also issued an unlisted Samurai bond in the Japanese market.

In its disclosure policy, OP Financial Group, Pohjola and OP Mortgage Bank comply with Finnish laws, the rules of NASDAQ OMX Helsinki and, when applicable, other stock exchanges, and the regulations and instructions issued by the Finnish Financial Supervisory Authority. OP Financial Group's communications takes into account not only the above but also Corporate Governance Recommendations and the Code of Business Ethics.

This disclosure policy approved by OP Cooperative's Executive Board on 16 December 2014 applies to the disclosure principles and practices of bond issuers (Pohjola Bank plc and OP Mortgage Bank) and OP Financial Group. This disclosure policy was approved Pohjola Bank plc's Board of Directors on 16 December 2014 and OP Mortgage Bank's Board of Directors on 18 December 2014. OP Cooperative's Executive Board set a guideline on 16 December 2014 – taking into account the central cooperative consolidated's management system, new organisation structures and the joint responsibility of the amalgamation – that OP Cooperative's task is to ensure, also in terms of Pohjola Bank and OP Mortgage Bank, that information subject to periodic and continuous disclosure obligation is published, distributed and made available. The subsidiaries will 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. Disclosure of information with regard to securities issued by Pohjola and OP Mortgage Bank is decided upon on a case-by-case basis with the issuer. Responsibility for the issuer's disclosure obligation is held by 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 periodic and ongoing disclosure obligation. OP Financial Group assesses the disclosure policy's consistency, suitability and sufficiency on a regular basis, at least once a year.

OP Financial Group's corporate communications are tasked with promoting the Group's business by providing all stakeholder groups 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.

Disclosure policy is available on the website at [www.op.fi](http://www.op.fi) > OP Financial Group > Corporate Governance > Disclosure Policy. OP Financial Group's web address is [www.op.fi](http://www.op.fi).

Corporate social responsibility (CSR) forms an integral part of OP Financial Group's business and part of the Group's strategy. The Executive Board of OP Cooperative decides on the CSR guidelines and approves the Group's CSR programme. On the Executive Board, CSR falls within the area of responsibility of the Executive Vice President, Corporate Communications. In appointing Executive Board members, the Supervisory Board pays attention to the fact that the Executive Board has sufficient CSR expertise. Performance assessment is based on the achievement CSR KPIs reviewed regularly according to the Executive Board's meeting cycle.

CSR activities are guided by the CRS policies confirmed by the Executive Board. Responsibility for practical CSR activities rests with the boards of directors and executive boards of OP Financial Group companies, which implement corporate social responsibility in accordance with their own decision-making processes. Identity and Communications supports Group entities and functions in the implementation of the



CSR programme and in the dialogue with stakeholders and, whenever necessary, may communicate their concerns to the Executive Board.

OP Financial Group complies with the Code of Business Ethics approved by the Supervisory Board. OP Financial Group respects and conforms to international economic, social and environmental responsibility principles. The Group is committed to promoting the principles of the United Nations Global Compact initiative. Moreover, Pohjola Asset Management Ltd and OP Fund Management Company Ltd have signed the UN Principles for Responsible Investment (UN PRI). OP Financial Group reports regularly on its corporate social responsibility issues according to the Global Reporting Initiative (GRI) guidelines.

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#### Updating Corporate Governance

OP Financial Group's Corporate Governance section, updated regularly, is available at [op.fi](http://op.fi).