



OP Mortgage Bank's Corporate
Governance Statement 2019

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1 APPLICABLE REGULATIONS

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

This OP Mortgage Bank (hereinafter OP MB) Governance Statement for 2019 has been prepared in accordance with chapter 7 of the Act on Credit Institutions and chapter 7 of the Finnish Securities Markets Act, and the Finnish Corporate Governance Code (2020) where applicable. Furthermore, this Statement provides a report on company remuneration in 2019 based on chapter 8 of the Act on Credit Institutions.

At its meeting on 5 February 2020, the Board of Directors discussed this Corporate Governance Statement. KPMG Oy Ab, the company's auditor, has verified that the Statement has been issued and that the description it contains covering the main features of internal control and risk management systems related to the financial reporting process is consistent with the financial statements. This Statement has been issued separately from the Report by the Board of Directors.

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

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

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

The Finnish Corporate Governance Code 2020 for listed companies, issued by the Securities Market Association, is available on the Association's website at www.cgfinland.fi.

2 OP FINANCIAL GROUP' STRUCTURE AND GROUP STRUCTURE

OP MB is a subsidiary wholly owned by OP Cooperative acting as OP Financial Group's central cooperative, and a member credit institution. OP MB acts as a mortgage bank issuing bonds with mortgage collateral and bonds with public sector collateral. OP MB is part of OP Cooperative Consolidated.

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

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

OP Cooperative Consolidated comprises OP Cooperative, which acts as the parent entity, and entities majority-owned by the parent institution or any of its subsidiaries and entities wholly owned by the parent entity or its subsidiaries.

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

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

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

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

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

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

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

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

4 OP MB'S GOVERNANCE STRUCTURE

OP Cooperative, the only shareholder of OP MB, exercises decision-making powers at a General Meeting. The General Meeting elects the Board of Directors and auditors, for example. Instead of the General Meeting, the shareholder may make a written shareholder decision. The Board of Directors is in charge of the OP MB's strategic management. Responsibility for operational management rests with the Managing Director appointed by the Board of Directors.

On 31 December 2019, OP MB had six employees. OP MB purchases all the most important support services from OP Cooperative and its Group companies, reducing its need for its own personnel.

5 GENERAL MEETING

The Annual General Meeting (AGM) must be held by the end of May on a date determined by the Board of Directors. The AGM shall discuss matters assigned to it in accordance with the Articles of Association and any other business referred to in the notice of the meeting.

Based on the shareholder's written decision, OP MB's only shareholder, OP Cooperative, discussed the matters within the remit of the AGM on 19 March 2019, as specified in the Articles of Association: adopted the Financial Statements for 2018, discharged members of the Board of Directors and the Managing Director from liability and decided to distribute a dividend of EUR 169.71 per share as well as elected members to the company's Board of Directors and the auditor.

As the company's only shareholder, OP Cooperative decided to change the composition of the Board of Directors on 31 May 2019, based on the shareholder's written decision (read more in section 6).

6 BOARD OF DIRECTORS

6.1 Election and composition of the Board of Directors

The General Meeting of OP MB elects members to the Board of Directors, and the parent OP Cooperative prepares proposals to the General Meeting related to the election.

The company's Board of Directors has a minimum of three and a maximum of eight members. A Board member's term begins upon closing of the General Meeting electing the member and terminates upon closing of the Annual General Meeting following the election. The Board of Directors elects a Chair from among its members.

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

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

Composition of the Board of Directors in 2019

Vesa Aho, b. 1974

Chair of the Board of Directors
CFO, OP Financial Group; CEO, OP Cooperative
M.Sc. (Econ. & Bus. Adm.)

Lauri Iloniemi, b. 1957 (as of 1 June 2019)

Head of Treasury and Asset and Liability Management, OP Financial Group
BA

Kaisu Christie, b. 1972 (as of 19 March 2019)

Director, Mortgages and Housing-related Services, OP Financial Group
BA

Hanno Hirvinen, b. 1963 (until 31 May 2019)

Head of Group Treasury, OP Corporate Bank plc
Student of Business Studies

Elina Ronkanen-Minogue, b. 1962 (until 28 February 2019)
Head of Treasury and Asset and Liability Management, OP Financial Group
M.Sc. (Econ. & Bus. Adm.), MBA

Up-to-date personal data, key work experience and the most significant other relevant positions of the Board members can be found on OP Financial Group's debt investors pages at www.op.fi > OP Financial Group > Debt investors > Corporate Governance (OP Mortgage Bank) > [Board members](#).

The Board of Directors had 15 meetings in 2019. The Board member meeting attendance rate was 100%.

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

6.2 Duties of the Board of Directors

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

OP MB's Board of Directors is responsible for the company's administration and appropriate organisation of operations and for the duly organisation of the supervision of accounting and financial management. The Board of Directors deals with far-reaching and fundamentally important matters relevant to the company from the perspective of the company's operations, and any unusual matters unless it has not authorised the Managing Director or another party to deal with them.

The Board of Directors and the Managing Director shall manage the company professionally following sound and prudent business practices.

The Board of Directors has confirmed a written charter defining the duties and meeting procedures applying to the Board of Directors.

7 MANAGING DIRECTOR AND MANAGEMENT TEAM

The Board of Directors appoints the Managing Director. The central cooperative Executive Board may exercise the parent entity's shareholder engagement in the appointment of CEOs.

Sanna Eriksson (b. 1976), M.Sc. (Econ. & Bus. Adm.), has acted as OP MB's Managing Director since 1 June 2019 and deputy to the Managing Director until 31 May 2019. OP MB's Managing Director was Lauri Iloniemi, BA, until 31 May 2019. Pekka Moisio (b. 1966), M.Sc. (Econ. & Bus. Adm.), has acted as deputy to the Managing Director since 1 June 2019.

The Managing Director is in charge of the company's daily management in accordance with the instructions and orders issued by the Board of Directors, while ensuring that accounting practices comply with the laws and that financial management is organised in a reliable manner.

The Managing Director's duties include the management and supervision of the company's business, and responsibility for the development and coordination of the company's operations.

Personal data, key work experience and the most significant other relevant positions of the Managing Director can be found on OP Financial Group's debt investors pages at www.op.fi > OP Financial Group > Debt investors > Corporate Governance (OP Mortgage Bank) > [Managing Director](#). Information on the Managing Director remuneration can be found in 10.

The company has no management team.

8 INTERNAL AND EXTERNAL CONTROL

8.1 Internal control

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

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

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

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

Internal controls apply to all operations. The nature and extent of operations and, whenever necessary, special characteristics related to international operations are taken into consideration in specifying internal controls. Internal control covers all organisational levels. Internal control in its most extensive form primarily takes place at the operational level, where internal control is continuous and forms a part of daily activities.

Internal control is complemented by the opportunity of anyone employed by OP Financial Group to report through an independent channel if they suspect that rules or regulations have been violated (whistle blowing).

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

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

8.2 Compliance

Almost all activities involve compliance risk, and responsibility for the management of risks rests with the business lines/divisions. The Managing Director is in charge of the company's compliance activities. OP Financial Group's Compliance organisation supports the Managing Director. The Group Compliance Officer in charge of the organisation reports to the Supervisory Board (or Supervisory Board committees) and the Chief Legal Officer and Group General Counsel. The Compliance organisation assists Executive Management and senior management as well as business lines/divisions in the management of risks associated with regulatory non-compliance, supervises regulatory compliance and, for its part, develops internal control further. Compliance ensures that regulations are complied with and implemented mainly by means of control and risk assessments of new procedures. Compliance activities, compliance observations and the related recommendations issued to the business lines/divisions are reported regularly to OP Mortgage Bank's Board of Directors and OP Financial Group's Compliance organisation. Compliance activities must also be reported to the Executive Board of the central cooperative consolidated and the Audit Committee of the Supervisory Board as part of OP Financial Group level reporting.

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

The Compliance organisation shall annually draw up a compliance action plan which will be discussed and confirmed by OP MB's Board of Directors with respect to the company. Principles and instructions governing compliance shall also be confirmed in the same manner. OP Financial Group's Compliance function is responsible for advice on and support of Group-level compliance risk management and also controls OP MB's compliance.

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

- prepare and maintain guidelines on key matters related to practices;
- advise employees on, and train them in, matters related practices;
- support OP MB's business in the planning of development measures promoting the management of compliance risks;
- keep Executive Management and senior management and the business informed of upcoming regulatory changes and monitor the business's preparation for regulatory changes;
- supervise compliance within the company with the current regulatory framework, ethical practices and internal guidelines related to practices; and

- regularly report to both Executive Management and senior management on recommendations and the results of control given to the business and other observations related to compliance risk exposure.

8.3 Risk management

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

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

OP Financial Group's risk appetite determines what risks and risks related to what operations OP MB is ready to take when carrying out its mission within the framework of the strategic targets. In order for OP MB to be able to operate in accordance with our risk appetite, it must have sufficient risk-bearing capacity, which comprises risk capacity and risk-taking capacity. OP MB has a moderate attitude towards risk-taking. Its business is based on a well thought-out risk/return approach.

OP MB's significant risks include credit risks, market risks, liquidity risks, risks associated with future business, and reputational risk and operational risk associated with all business operations, including model risks and compliance risks and risks associated with strategic choices and the implementation of the strategy.

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

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

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

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

OP MB fulfils OP Financial Group's strategy, is responsible for planning their own operations and for their internal control. It makes risk decisions within the framework of the restrictions governing risk-taking and risk policy and of other guidelines, applies the risk management framework, supervises its risk exposure and that it remains within the confirmed limits, as well as bears responsibility for the risks it has taken and for the extensiveness and accuracy of data in the systems.

A more detailed description of OP MB's risk management principles can be found in the note to the financial statements entitled Risk management principles.

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

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

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

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

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

8.4 Internal audit

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

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

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

The internal audit action plan for 2019 contained one audit applying to OP Mortgage Bank. The audit has been executed. Internal audit has also been performed indirectly as part of audits applying to the centralised functions of OP Financial Group and OP cooperative banks. In its audits, Internal Audit has assessed, for example, the effectiveness of OP Financial Group's centralised information systems and the controls of operating processes and other internal control, in accordance with its plan prepared on a risk basis.

8.5 External control

8.5.1 Audit

The General Meeting elects an audit firm chartered by the Finnish Patent and Registration Office to act as the auditor.

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

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

KPMG Oy Ab, an audit firm, acted as the company's auditor in 2019, with Tiia Kataja, APA, acting as the chief auditor, appointed by KPMG Oy Ab. KPMG Oy Ab has acted as the company's auditor since 2002 and Tiia Kataja, APA, as chief auditor since 2019.

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

In 2019, audit fees for audit paid to auditors totalled EUR 20,460 (12,133), whereas fees for assignments as referred to in chapter 1, section 1, sub-section 1, paragraph 2 of the Auditing Act were EUR 0 (0), those for tax counselling EUR 0 (0) and for other services EUR 82,584 (69,061). The corresponding figures for 2018 are shown in brackets. Non-audit services rendered by KPMG Oy Ab totalled EUR 62,500 (excl. VAT).

8.5.2 Supervision by the central cooperative

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

In addition, OP Cooperative supervises the operations of its member credit institutions in the manner as referred to in the Act on the Amalgamation of Deposit Banks. In its opera-

tions, the company takes account of OP Financial Group's strategy, confirmed by OP Cooperative's Supervisory Board, and regulations and guidelines on risk management and other operations issued by OP Cooperative to the member banks. The company reports to OP Cooperative in a separately agreed manner.

8.5.3 Regulatory supervision

As part of OP Financial Group, the company is supervised by the Financial Supervisory Authority and the European Central Bank as prescribed in the laws governing financial markets.

9 FINANCIAL REPORTING PROCESS

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

Financial information correctly consolidated using sub-ledger accounting forms the basis of reliable financial reporting.

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

External reporting is based, for example, on the International Financial Reporting Standards, the Finnish Limited Liability Companies Act, the Act on Credit Institutions, the Accounting Act, and the standards and regulations issued by the Financial Supervisory Authority. OP Financial Group's shared principles are applied in the accounting and financial statements of all OP Financial Group companies. Responsibility for the interpretation of, guidelines on and advice on standards, other laws governing the preparation of financial statements and official accounting requirements as well as the preparation of and compliance with common accounting policies rests with OP Cooperative, OP Financial Group's central cooperative. Whenever necessary, the company turns to auditors who give a statement of the selected principles and interpretations.

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

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

The Managing Director must ensure in accordance with the Limited Liability Companies Act that the company's accounting is in compliance with applicable laws and treasury has been organised in a reliable manner. OP Cooperative's Finance and Treasury, independent of business lines/divisions, is responsible for the company's financial reporting. This function produces reliable, relevant and up-to-date information on the company's performance and finances, and keeps the Board of Directors and the Managing Director and other decision-makers informed of the company's financial performance and near-term outlook. The Managing Director is also tasked with controlling the quality of outsourced accounting services and services for reporting to regulators and other relevant authorities, and developing business control and risk management methods, indicators and the supporting systems.

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

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

As provided by law, auditors shall assess the accuracy of external financial reporting. The auditors are tasked with auditing the accounting, financial statements and governance of the company 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 position, the financial performance and cash flows of the company.

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

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

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

- IFRS 16 Leases as of 1 January 2019. OP Financial Group applied a retrospective approach in the transition to a limited extent, in which case comparatives were not restated and any accrued transition effect was recognised in adjustments to retained earnings in equity on 1 January 2019.
- In 2019, the IASB published a document entitled Interest Rate Benchmark Reform that amended IFRS 9, IAS 39 and IFRS 7. OP MB already applied amendments to IAS 39 during the financial year 2019.
- Annual improvements to IFRS for cycles 2015–2017 (applicable mainly to accounting periods beginning on or after 1 January 2019). Minor amendments are annually made to standards through the Annual Improvements process.
- A new IFRIC interpretation 23 that became effective on 1 January 2019.

10 REMUNERATION IN 2019

10.1 Board emoluments and other benefits

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

The Board members did not receive any separate attendance fees or monthly emoluments in 2019.

10.2 Managing Director's salary and other benefits

The Board of Directors appoints the Managing Director and decides on their salary, benefits and the terms and conditions of their executive contract. A written Managing Director executive contract stipulates the terms and conditions of the contract.

Pension benefits are determined in accordance with pension laws and OP Financial Group's own pension plans. The Managing Director is covered by TyEL (the Finnish Employees Pensions Act) which provides pension benefits based on the years of employment and earnings as prescribed in the Act. The Managing Director is not included in any supplementary pension plan.

The period of notice applicable under the Managing Director's executive contract is six months in case the company terminates the contract. In case the executive contract terminates due to reasons attributable to the company, the Managing Director will be entitled to bonuses under the performance-based bonus scheme for the year of contract termination, provided that the schemes' performance criteria and the criteria for payment under the schemes' terms and conditions are fulfilled.

10.3 Principles governing remuneration paid to the Managing Director and other management

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

Remuneration of the Managing Director and other management consists of the following two components: 1) basic pay (salary and fringe benefits, the job grade and the person's competencies as the basis) and 2) performance-based bonuses (achievement of targets in the annual plan as the basis). The Board of Directors is responsible for deciding on remuneration to the Managing Director and other management.

10.4 Performance-based bonus scheme

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

The Group-level precondition for remuneration is that on the bonus payout date OP Financial Group's LCR (Liquidity Coverage Ratio) is over 110% and the Group's CET1 ratio is more than the buffer set by the ECB plus 3% (over 14.5% in 2020). The final amount of the bonus earned based on the metrics in the balanced scorecard is also determined by OP Financial Group's EBT.

For 2019, the Managing Director is entitled to a bonus corresponding to their regular three-month salary subject to PAYE tax at a maximum. Bonuses under the performance-based bonus scheme are paid in cash, in view of OP Financial Group's payment guidelines with respect to persons affecting the company's risk profile (Identified Staff).

10.5 Long-term incentive scheme for other employees

Personnel is included in OP Financial Group's common personnel fund (OP Financial Group Personnel Fund). The personnel fund is grounded on the achievement of the Group's shared strategic goals and targets. The target performance metrics in the scheme in 2019 were based on OP Financial Group's EBT, customer experience and use of digital services. The Board of Directors annually determines the amount of profit-based bonuses transferred to the personnel fund. The maximum amount of the performance-based bonus in 2019 accounted for 5% of the total wages and salaries of the employees included in the personnel fund.

10.6 Managing Director's earnings in 2019

Managing Director Sanna Eriksson's remuneration in 2019, euros
(The Managing Director does not receive a separate salary in her capacity as OP Mortgage Bank's Managing Director but the salary is based on the role in OP Financial Group.)

Regular pay	106,954
Fringe benefits	260
Short-term performance-based bonus for 2018	4,966
Total salaries, bonuses and fringe benefits paid in 2019	112,180

As securities issuer, OP MB has its own Insider Guidelines and Guidelines for Insider Trading as part of OP Financial Group's Guidelines for Insiders and Insider Trading. The Insider Guidelines and Guidelines for Insider Trading for securities issuers contain regulations governing inside information, prohibition against abuse and improper disclosure of inside information, disclosure of inside information, public insider registers, list of executives as well as reporting and disclosure of transactions, trading restrictions applicable to insiders as well as insider management. Furthermore, the Guidelines deal with the arrangement of supervision of compliance with the restrictions.

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

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

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

When necessary, OP MB maintains a project-specific insider lists.

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

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

Anyone has the right to access the public insider register and receive extracts and copies of the information in the register against a charge. However, a natural person's personal ID code and address and the name of a natural person other than the insider are not publicly available. Information included in the list of executives or the list of project-specific insiders is not publicly available, unlike that included in public insider registers. Extracts from and copies of the public insider register can be ordered from OP Legal Services, Wealth Management Private and SME Customers. Written requests for such information specifically describing the information should be submitted to:

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

OP MB pursues OP Financial Group's communications and disclosure policy.

OP Cooperative's subsidiaries OP Corporate Bank and OP MB are in charge of OP Financial Group's funding from money and capital markets. Securities issued by OP Financial Group entities are traded on Euronext Dublin, London Stock Exchange, SIX Swiss Exchange or

other stock exchanges, in addition to or in place of Nasdaq Helsinki. OP Corporate Bank has also issued unlisted bonds and/or certificates of deposit on the Finnish, UK and Japanese markets.

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

This disclosure policy approved by OP Cooperative's Executive Board applies to the disclosure principles and practices of bond issuers (OP Corporate Bank and OP MB) and OP Financial Group. OP MB's Board of Directors approved the disclosure policy on 13 February 2019. It is the duty of OP Cooperative to ensure that OP Corporate Bank and OP MB too disclose, distribute and make information available on matters covered by the disclosure obligation as prescribed by law. The subsidiaries report and publish their own interim reports, Financial Statements and Reports by the Board of Directors. OP Cooperative discloses information for and on behalf of its subsidiaries that falls under its disclosure obligation. In practice, the central cooperative issues bulletins and releases in the name of OP Financial Group or the issuer. Communication with regard to securities issued by OP Corporate Bank and OP MB is decided upon on a case-by-case basis with the issuer. Responsibility for the issuer's disclosure obligation rests with each issuer.

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

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

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