



OP Mortgage Bank's Corporate Governance Statement 2018



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1 APPLICABLE REGULATIONS

This document is a description of the Corporate Governance Statement of OP Mortgage Bank (OP MB), as referred to in Chapter 7, Sections 1–5 and 7 and Chapter 8, Section 15 of the Act on Credit Institutions, and Chapter 7, Section 7 of the Securities Markets Act. The Statement has been issued separately from the Report by the Board of Directors.

At its meeting on 25 February 2019, 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 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 publications.

OP Mortgage Bank's up-to-date Corporate Governance Statement and Articles of Association are maintained on the OP debt investor relations 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.

OP MB belongs to the amalgamation of deposit banks, under applicable legislation, and is a subsidiary of OP Cooperative, the central cooperative of said amalgamation. The company acts as a mortgage bank issuing bonds with mortgage collateral and bonds with public sector collateral.

2 STRUCTURE OF OP FINANCIAL GROUP AND OP MORTGAGE BANK, AND ADMINISTRATIVE BODIES

2.1 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. In terms of operations and ownership, OP MB belongs to OP Financial Group. OP Financial Group consists of around 156 cooperative banks (as of 31 December 2018) and their central cooperative, OP Cooperative, with its subsidiaries. OP Financial Group is supervised as a single entity.

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 2018.

2.2 Administrative bodies

OP Cooperative, the only shareholder of the company, exercises decision-making powers at a General Meeting. The General Meeting elects the Board of Directors and auditors. The Board



of Directors is in charge of the company's strategic management. Instead of the General Meeting, a shareholder may make a written shareholder decision. Responsibility for operational management rests with the Managing Director appointed by the Board of Directors.

On 31 December 2018, OP MB had five employees. The bank purchases all the most important support services from OP Cooperative and its Group companies, reducing its need for its own personnel.

3 GENERAL MEETING

The only shareholder of OP MB exercises decision-making powers at a General Meeting. The Annual General Meeting 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.

In accordance with OP MB's Articles of Association, the AGM must

- be presented with the Financial Statements and the Auditors' Report;

decide on

- adopting the income statement and balance sheet;
- measures to be taken in respect of the profit or loss shown in the adopted balance sheet;
- the discharge from liability of the members of the Board of Directors and the Managing Director;
- the number of Board members;
- remuneration to the members of the Board of Directors and auditors

elect

- Board members and auditors;

and discuss

- any other business in the Notice of the Meeting.

In addition, Extraordinary General Meetings (EGM) can be held to discuss matters belonging to the general meeting in accordance with the Limited Liability Companies Act. Instead of the AGM or EGM, a shareholder may make a written shareholder decision.

3.1 Annual General Meeting 2018

OP MB's Annual General Meeting (AGM) of 19 March 2018 adopted the Financial Statements for 2017, discharged members of the Board of Directors and the Managing Director from liability and decided to distribute a dividend of EUR 202.01 per share.

On 29 October 2018, the company's only shareholder, OP Cooperative, decided through a written shareholder decision that Vesa Aho be appointed a Board member and the Board Chair for the remaining term of office to replace Harri Luhtala as of 1 November 2018.

4 BOARD OF DIRECTORS

4.1 Election of the Board of Directors

The company's Board of Directors has a minimum of three and a maximum of other eight members. The Annual General Meeting (AGM) elects members of the Board of Directors for a



term of office expiring upon the closing of the AGM following their election. The Board of Directors shall elect a Chair from among its members.

According to the OP MB's Articles of Association, a Board member must resign after he/she reaches the age of 65 at the latest. In accordance with the Articles of Association, OP MB has not limited the number of the members' terms of office or in any other manner restricted decision-making powers of a General Meeting in electing Board members.

The parent entity, OP Cooperative, prepares proposals for the election of Board members submitted to the AGM.

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.

4.2 Members of the Board of Directors

Section 4.7 describes the composition of the Board of Directors and member attendance in 2018. Personal and other details of the Board members can be found in section 12.1 below.

4.3 Independence of Board members

All of the members of the Board of Directors are executive members dependent on the company and its shareholder (OP Cooperative). Vesa Aho, Board Chair, is member of the Executive Board of the company's parent entity, OP Cooperative, and OP Cooperative's CFO and CEO. Board members comprise Elina Ronkanen-Minogue, Head of Group ALM and Group Treasury, and Hanno Hirvonen, Group Treasurer.

4.4 Diversity of the Board of Directors

OP Financial Group has a long-term approach to planning the composition of its administrative bodies. Effective work in administrative bodies requires that their members have sufficiently diverse expertise, skills and experience. Read more about the principles of the diversity of administrative bodies in section 2.2 of OP Financial Group's Corporate Governance Statement 2018.

4.5 Duties of the Board of Directors

The 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 from the perspective of the company's operations.

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.

The following principles shall apply to Board meetings:

- The Board of Directors meeting is summoned by the Chair.
- The Chair and the Managing Director assume primary responsibility for the preparation of the meeting.
- The Board of Directors has a quorum when more than half of its members are present.



- Those present at Board meetings comprise Board members, the Managing Director, and the secretary, but Board meetings may also be attended, if needed, by some other person whose presence is necessary due to the matter under discussion.
- Minutes of Board meetings shall be drawn up and be signed by all Board members and the secretary.

4.6 Responsibilities of the Chair of the Board of Directors

The Board Chair is responsible for ensuring that the Board of Directors works efficiently and performs all duties within its remit. As part of this responsibility, the Board Chair shall ensure that an individual Board member has the experience and skills required to perform his/her duties in an appropriate manner. He shall also ensure that sufficient time has been allowed for discussion and that each member present at meetings has the opportunity to express his/her opinion. The Chair is also responsible for the further development of Board work and ensures the company's good corporate governance.

4.7 Board work in 2018

The Board of Directors had 13 meetings in 2018. Harri Huhtala chaired the Board until 31 October 2018 and Vesa Aho has chaired the Board since 1 November 2018, and Elina Ronkanen-Minogue and Hanno Hirvinen were members. The average attendance rate of members stood at 100%.

Board meetings: frequency and attendance in 2018:

	Presence/number of meetings
Harri Luhtala	11/11
Vesa Aho	2/2
Elina Ronkanen-Minogue	13/13
Hanno Hirvinen	13/13

5 MANAGING DIRECTOR

5.1 Managing Director

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.

The Board of Directors appoints the Managing Director and decides on the terms and conditions of his executive contract. A written Managing Director executive contract and its appendix stipulate the terms and conditions of the contract.

In charge of OP Corporate Bank's long-term funding and investor relations, Lauri Iloniemi, BA, acts as the company's Managing Director. He has acted as the Managing Director since 2007.

Personal and other details of the Managing Director can be found in 13.2 below. Information on the Managing Director's remuneration can be found in section 9 below.



6 MANAGEMENT SYSTEM

OP MB's operations are managed in accordance with OP Financial Group central cooperative consolidated's management system. The description of this management system is part of the description of OP Financial Group's Corporate Governance Statement.

Read more about OP Financial Group's management system in section 6 of OP Financial Group's Corporate Governance Statement 2018.

6.1 OP MB as part of OP Cooperative Consolidated

OP Cooperative Consolidated comprises OP Cooperative, which acts as the central cooperative owned by the member cooperative banks of the amalgamation, and entities over which the parent institution or any of its subsidiaries exercises control. OP MB is part of OP Cooperative Consolidated. Credit institutions within OP Cooperative Consolidated are the member credit institutions of the amalgamation described in greater detail in the Act on the Amalgamation of Deposit Banks.

OP Cooperative is owned by OP Financial Group member cooperative banks. The Supervisory Board of the central cooperative represents the owners. The general role of the Supervisory Board is to oversee the corporate governance of OP Cooperative Consolidated as managed by the Executive Board and the President and Group Executive Chair, the supreme operational decision-making body of the central cooperative consolidated, and ensure that the central cooperative's and its consolidation group's operations are managed in an expert and prudent manner in accordance with the Co-operatives Act and in the best interests of the central cooperative and OP Financial Group. The Supervisory Board also oversees compliance with OP Financial Group level policy guidelines and principles, which it has confirmed, within OP Cooperative Consolidated. The special task of the Supervisory Board is to confirm the general principles referred to in the Act on the Amalgamation of Deposit Banks. It is also tasked with deciding on issuing key OP Financial Group level guidelines.

6.2 Decision-making

The board of directors of each central cooperative consolidated's subsidiary is responsible for due organisation of the company's administration 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 central cooperative's Executive Board makes proposals for 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. The central cooperative's Executive Board also discusses proposals for the managing directors of subsidiaries before their selection. The Group's guidelines on the management of conflicts of interest are taken into account in the selections.

The charters of the subsidiaries' boards of directors describe the duties of each board of directors. The boards of directors annually draw up an action plan showing a meeting schedule and the most important items on each meeting's agenda. The boards of directors annually assess their performance and working methods on a regular basis.

6.3 OP MB's performance monitoring and reporting

OP MB monitors the implementation of plans and the achievement of the set goals and targets on an ongoing basis in order to quickly identify any changes in the operating and competitive



environment and deviations from the plans and to be able to initiate any corrective measures. Performance reviews between superiors and their subordinates are also aimed at discussing the achievement of goals and targets based on past performance, according to the organisational structure. Reporting must provide a true and clear picture of the status of line operations vis-à-vis the objectives set, actual and expected performance and any risks threatening to prevent the achievement of the objectives. Providing updated and reliable information and highlighting relevant issues and conclusions as the basis of decision-making play a key role in performance monitoring. In addition to actual performance reporting, preparing forecasts and creating optional scenarios form an integral part of monitoring. Performance monitoring is part of internal control aimed at ensuring that OP MB

- implements its strategy and action plans and achieves its financial targets
- runs comprehensive and adequate risk management
- operates efficiently and reliably
- has reliable financial and other reporting in place
- abides by laws and complies with external and internal regulation.

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 an 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 protection of property is adequately arranged. Conformance to regulations and approved ethical principles, too, are ensured through internal control.

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

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

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

7.1.1 The Board of Directors' role

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.

Central cooperative consolidated-level risk management and financial reporting are performed in a coordinated way by a function independent of the business lines/divisions. Each Group company's board of directors is responsible for the top management tasks of the company in question related to internal control. Each Group company's executive management is responsible for the implementation of internal control and risk management according to the agreed



principles and guidelines, and shall regularly report on the company's business, risk capacity and risk status, in accordance with the Group's management system.

7.1.2 Internal control in 2018

The Board of Directors is responsible for considering issues related to the company's governance and is in charge of internal control effectiveness and ensuring regulatory compliance.

7.1.3 Compliance activities

Compliance activities are tasked with assisting senior management and executive management and business lines/divisions in the management of risks associated with regulatory non-compliance, supervising regulatory compliance and, for its part, developing internal control further. Risk Management, Compliance organisation, Finance and Treasury as well as HR Services are, for their part, in charge of regulatory compliance management.

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 General Counsel. Compliance activities and the related recommendations issued to the business lines/divisions are subject to regular reporting to OP MB's Board of Directors. Compliance activities must also be reported to the Executive Board of OP Cooperative Consolidated and the Audit Committee of the Supervisory Board as part of OP Financial Group level reporting.

OP Financial Group's 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 organisation 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 senior and executive 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 senior and executive management on recommendations and the results of control given to the business and other observations related to compliance risk exposure.

7.2 Risk Management

OP Financial Group's core values, strategic goals and financial targets form the basis for OP MB's risk management and capital adequacy management. The purpose of risk management is to identify threats and opportunities affecting strategy implementation. The objective is to help achieve the targets set in the strategy by controlling that risks taken are proportional to risk capacity. Risk capacity is made up of effective risk management that is proportionate to the extent and complexity of operations and of adequate capital resources and liquidity based on profitable business operations. OP MB has a moderate attitude towards risk-taking.

OP Financial Group's principles governing the risk-taking system and the Risk Appetite Framework, adopted by OP Cooperative's Supervisory Board, define how the Group's risk-taking is controlled, restricted and supervised and how the risk management and internal capital adequacy assessment process is organised.

In OP Financial Group's risk policy, the central cooperative's Executive Board confirms annually risk-management principles, actions, objectives, limits and control limits, to be applied by Group entities, that are used to guide business to implement the policies confirmed in the Group's strategy and the principles of the risk-taking system and the Risk Appetite Framework (RAF).

Risk and capital adequacy management falls under internal control. Its purpose is to ensure OP MB's risk capacity and liquidity and, thereby, ensure business continuity. The risk management and ICAAP process consists of the continuous identification and assessment of risks associated with business and the operating environment. Risk and capital adequacy management has been integrated as an integral part of the company's business and management.

OP MB's Board of Directors makes decisions on its risk and capital adequacy management in line with the principles adopted by the central cooperative Executive Board. In addition, the Board of Directors deals with, in terms of quality and extent, far-reaching and important matters in principle from the perspective of the company's operations, and any unusual matters. The Board of Directors decides on principles and procedures to ensure that the company operates in compliance with external regulation and OP Cooperative's guidelines.

The Managing Director is responsible for the implementation of risk and capital adequacy management according to the principles and guidelines that have been agreed on and reports regularly on the company's business to the Board of Directors.

The central cooperative is responsible for risk and capital adequacy management at OP Financial Group level and for ensuring that the Group's risk management system is adequate and up to date. OP Financial Group's Risk Management is a function independent of business that defines policy and steers and supervises the overall risk management of the Group and its entities and analyses their risk exposure. OP MB's risk and capital adequacy tasks are centralised within OP Financial Group's Risk Management.

OP MB's significant risks include credit risks, interest income risk (the effect of change in interest rates on net interest income arising from market risks) and market risks of investments, liquidity risks as well as strategic risks, reputational risk, operational risks and compliance risks associated with business.

A more detailed description of the company's risk management and capital adequacy management principles and risk exposure can be found in the company's most recent Report by the Board of Directors and Financial Statements (see www.op.fi > To the media > Reports > OP Mortgage Bank publications).

7.2.1 Risk management in 2018

In risk management of the central cooperative, 2018 included monitoring 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 until 2021.

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.

In addition, Risk Management updated risk management guidelines, risk reporting and risk limitation. Stress tests have continued to play an increasing role in risk analyses.

7.3 Internal audit

Internal Audit is tasked with assisting OP MB's Board of Directors and the company's management in controlling, supervising and assuring operations by carrying out operational audits.

Internal Audit of OP Cooperative, OP MB's parent entity, has been responsible for internal audit. Internal Audit is a function independent of business lines that audits the effectiveness and adequacy of the entire OP Financial Group's internal control system, risk management as well as management and governance processes.

The Supervisory Board of the central cooperative appoints and dismisses the Chief Audit Executive and decides his/her employment terms and conditions and compensation.

The Supervisory Board's Audit Committee confirms the Internal Audit action plan and OP MB's Board of Directors confirms the part of the action plan related to the company. Audits in respect of OP MB are reported to the Board of Directors and the management as well as to the central cooperative's Executive Board and Audit Committee.

In its auditing work, Internal Audit complies not only with the Internal Audit Charter confirmed in June 2018 by the Supervisory Board but also 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.

7.3.1 Internal audit in 2018

The Internal audit action plan for 2018, confirmed by the Board of Directors, contained no audit applying to OP Mortgage Bank. Internal audit has, however, been performed indirectly as part of audit applying to the centralised functions of OP Financial Group and OP cooperative banks. In its audits, Internal Audit assesses the effectiveness of OP Financial Group's centralised information systems and the controls of operating processes and internal control as well as the appropriateness of risk management and its procedures.

7.4 External control

7.4.1 Audit

In accordance with OP MB's Articles of Association, a General Meeting shall elect an audit firm certified by Finland Chamber of Commerce to act as the company's auditor. The auditors' term of office is the financial year during which they were elected, ending upon the closing of the Annual General Meeting following their election.

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.

The auditors give the Annual General Meeting an Auditor's Report every year. Every year, the auditors submit to the Supervisory Board's Audit Committee an additional report, based on the EU Audit Regulation, where they confirm their independence, among other things. Based on their observations, they shall also draw up audit memoranda delivered to OP MB's Board of Directors, Managing Director, Internal Audit and the Financial Supervisory Authority. Whenever necessary, auditors also issue oral reports to the aforementioned persons and bodies.

The Board of Directors consults the auditor when dealing with the 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 Chapter 3, Section 5 and Paragraph 4 of the Auditing Act.

The auditor's remuneration is payable based on the reasonable invoice amount presented.

7.4.1.1 Audit in 2018

KPMG Oy Ab, an audit firm, acted as the company's auditor in 2018, with Raija-Leena Hankonen, APA, acting as the Chief Auditor, appointed by KPMG Oy Ab. KPMG Oy Ab has acted the company's auditor since 2002 with APA Raija-Leena Hankonen as the Chief Auditor since 2016.

OP MB's audit plan for 2018 was prepared as part of OP Cooperative Consolidated's audit plan. Statutory audit involves auditing the company's accounting, financial statements and Report by the Board of Directors for the financial year as well as corporate governance. Interim reports and financial statements bulletins are based on unaudited figures.

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

7.4.1.2 Auditors' remuneration in OP Mortgage Bank in 2018

In 2018, audit fees for audit paid to auditors totalled EUR 12,133 million (7,757), 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 69,061 (61,337). Non-audit services rendered by KPMG Oy Ab totalled EUR 15,670.

7.4.2 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 operations, 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.

7.4.3 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 and insurance markets.

8 FINANCIAL REPORTING PROCESS

The different financial management units subordinate to OP Financial Group's CFO take charge of not only the preparation of interim and annual accounts for OP Financial Group and Group entities, as required by financial accounting, but also of the production of management accounting reports, such as monthly reports on business performance. The Controller function within OP Financial Group also produces earnings forecasts 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 MB's internal control and risk management work with a view to ensuring that the company's financial reports give substantially true information on the company's financial performance and position. 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 executive 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 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.

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.

8.1 Organisation of financial reporting

OP Cooperative's Executive Board is the highest decision-making body in matters associated with business control. The 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 Co-operatives Act that the company's accounting is in compliance with applicable laws and that 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 reports to regulators and other relevant authorities, and developing business control and risk management methods, indicators and the supporting systems.

Compiling financial statements information and interim reports 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 OP MB's and the results of its business's results 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.

8.2 Independent assessment of financial reporting

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 cashflows 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 executive management and the Board of Directors.

8.3 Financial reporting in 2018

OP MB's financial statements were prepared in accordance with IFRS, applying IASs, IFRSs and SIC and IFRIC interpretations effective on 31 December 2018.

In 2018, OP Financial Group and OP MB adopted the following standards and interpretations:

- IFRS 9 Financial Instruments. Adjustments made to carrying amounts were recognised in equity in the opening balance sheet on the adoption date of 1 January 2018. OP MB has not adjusted comparatives for prior years.
- IFRS 15 Revenue from Contracts with Customers. OP MB adopted IFRS 15 using the full retrospective transition method.



- Annual improvements to IFRS for cycles 2014–2016 (applicable mainly to accounting periods beginning on or after 1 January 2018). Minor amendments are annually made to standards through the Annual Improvements process. The effects of the amendments vary by standard, but they are not significant.
- Amendments to IFRS 2 and IFRIC 22 that took effect on 1 January 2018. The amendments did not have any significant effect on OP MB's financial statements.

9 REMUNERATION

9.1 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 2018.

9.2 Managing Director's salary and other benefits

The Board of Directors appoints the Managing Director and decides on his/her salary, benefits and the terms and conditions of his 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 short- and long-term remuneration schemes for the year of contract termination, provided that the schemes' performance criteria and the criteria for payment under the schemes' terms and conditions are fulfilled.

9.3 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 three components: 1) basic pay (salary and fringe benefits, based on the job grade and skills); 2) short-term incentives (performance-based bonuses, based on the achievement of targets under the annual plan); and 3) long-term incentives (OP Financial Group's long-term management incentive scheme, based on the achievement of the Group's shared strategic goals and targets).



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

9.4 Short-term management incentive scheme

The Board of Directors decides annually on the short-term management incentive 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 the Group's CET1 ratio on the payout date is over the CET1 buffer set by the ECB +3% on the payout date. The final amount of the bonus earned based on the metrics in the balanced scorecard is also determined by OP Financial Group's EBT, OP Financial Group's operating expenses and customer experience. A precondition for the bonus payout is that customer business in the Banking segment too shows a profit before tax.

For 2018, the Managing Director is entitled to a maximum bonus corresponding to his regular three-month salary subject to PAYE tax. Bonuses under the short-term incentive 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).

9.5 Long-term management incentive scheme

Based on the decision by the company's Board of Directors, OP MB adheres to OP Financial Group's long-term management remuneration scheme. OP Financial Group's shared management incentive scheme consists of consecutive three-year performance periods. The Managing Director confirmed by the Board of Directors is included in the scheme.

Performance period 2014–2016

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

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

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

Performance period 2017–2019

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

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

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

9.6 Long-term incentive scheme for other employees

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

Salaries paid to Managing Director Lauri Iloniemi in 2018, euros*

Regular pay	187,752
Fringe benefits	240
Short-term performance-based bonus for 2017	23,279
Total salaries, bonuses and fringe benefits paid in 2018	211,271
Bonus earned between 2014 and 2016 under long-term scheme and paid in 2018**	35,112
Total salaries, bonuses and fringe benefits, and bonus under management scheme paid in 2018	246,383

* The payer of salaries and bonuses paid to the Managing Director is the Managing Director's employer OP Corporate Bank plc.

** Capital adequacy according to the Act on Credit Institutions (610/2015)



10 INSIDER MANAGEMENT

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 Guidelines contain regulations governing inside information, prohibition against abuse and improper disclosure of inside information, disclosure of insider 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 Guidelines for Insiders and Insider Trading are based on laws governing securities markets, such as the Market Abuse Regulation, and regulations issued by the Finnish Financial Supervisory Authority and Guidelines for Insiders of Listed Companies issued by Nasdaq Helsinki.

These guidelines are aimed at fostering stock market players' trust in 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. In particular, training takes place as a result of changes in the insider-related guidelines.

10.1 Access to insider registers and lists of insiders and their display for public inspection

Anyone has the right to access the public register of insider holdings 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 Legal Unit for Private and SME Clients. Written requests for such information specifically describing the information should be submitted to:

OP Legal Services
Henkilö- ja pk-yrittäjäasiakkaiden varallisuudenhoidon juridiikka
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. The board of directors of both OP Corporate Bank and OP MB has approved the disclosure policy. 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.

OP Financial Group's corporate responsibility principles and corporate responsibility programme guide OP MB's CR activities. 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. OP Financial Group reports regularly on its corporate responsibility issues taking account of the Global Reporting Initiative (GRI) guidelines. Read more about OP Financial Group's corporate responsibility in section 12 of OP Financial Group's Corporate Governance Statement 2018.

13 PERSONAL AND OTHER DETAILS OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

13.1 Board of Directors 31 December 2018

Vesa Aho, b. 1974

- CFO, OP Financial Group; CEO, OP Cooperative
- M.Sc. (Econ. & Bus. Adm.)
- Board member since 1 November 2018
- Executive member dependent on the Company and its major shareholder (OP Co-operative)

Other relevant positions: -

Relevant previous experience:

- Garantia Insurance Company Ltd: CEO 2015–2018
- OP Cooperative: Group Controller 2014–2015
- Pohjola Bank plc: CFO, member of the Group's Executive Committee 2011–2014
- Pohjola Bank plc: Head of Department, Credit Risk Management 2006–2011
- Pohjola Bank plc: Credit Risk Manager 2004–2006, credit risk expert 2001–2004

Elina Ronkanen-Minogue, b. 1962

- Head of ALM and Group Treasury, OP Cooperative
- M.Sc. (Econ. & Bus. Adm.), MBA
- Board member since 2011
- Executive member dependent on the Company and its major shareholder (OP Co-operative)

Other relevant positions: -

Relevant previous experience:

- Nokia Corporation, various expert and managerial duties 1995–2010, e.g.
 - § Director, Business Planning and Analysis, Group Finance & Control
 - § Director, Business Control, Sales and Portfolio Management, Mobile Phones
 - § Director, Business Group Treasury, Mobile Phones
 - § Senior Manager, Corporate Treasury
- Wärtsilä Corporation: various expert and managerial duties 1988–1995, e.g.
 - § Treasury Manager, Oy Wärtsilä Finance Ab

**Hanno Hirvinen, b. 1963**

- Head of Group Treasury, OP Corporate Bank plc
- Student of Business Studies
- Board member since 2007
- Executive member dependent on the Company and its major shareholder (OP Co-operative)

Other relevant positions: -

Relevant previous experience:

- Pohjola Bank plc: Senior Vice President, Central Bank and Treasury, 2007–2015
- OKO Bank: Head of Treasury, Treasury 2000–2007
- Handelsbanken: Head of Bond Trading 1999–2000
- SEB: SEB: Managerial duties in fixed-income and FX 1994–1999
- OKO Bank: Chief Dealer, Money Market Unit 1989–1994

13.2 Managing Director

Lauri Iloniemi, b. 1957

- Managing Director, OP Mortgage Bank plc
- Head of Group Funding and IR, OP Corporate Bank plc
- Employed by OP Financial Group since 2007
- B.A.

Relevant previous experience:

- Various duties in Postipankki and its successors between 1985 and 2007, e.g.
 - § Sampo Bank plc: Head of Asset and Liability Management
 - § Sampo-Leonia: Director, Banking Book Management
 - § Leonia: Head of Department, ALM

Other relevant positions: -