

Remuneration Policy for Governing Bodies at OP Financial Group





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1 INTRODUCTION

OP Financial Group's Remuneration Policy for Governing Bodies supports the implementation of OP Financial Group's mission, values as well as the strategy and the annual business targets derived from the strategy. The following Group-level principles, which guide all remuneration at OP Financial Group, lie behind the Remuneration Policy:

- Remuneration attracts, encourages and motivates
- Remuneration is in line with OP Financial Group's core values, mission and strategy, and it contributes to their implementation
- Rewarding for excellent performance
- Remuneration is competitive as a whole
- Remuneration schemes comply with regulation, take account of responsibility issues and sustainability risks, and do not encourage excessive risk-taking
- Remuneration is simple, transparent and understandable.

In addition to the abovementioned remuneration principles, a uniform pay policy guiding the entire OP Financial Group's remuneration and the remuneration scheme apply to all those with an employment or executive contract with OP Financial Group.

2 DESCRIPTION OF DECISION-MAKING PROCESS

Upon proposal by the Remuneration Committee, OP Cooperative's Board of Directors decides on the Remuneration Policy for Governing Bodies at OP Financial Group. OP Cooperative's Supervisory Council confirms the remuneration principles that lie behind the Remuneration Policy.

Descriptions of the decision-making process for governing bodies are presented as part of each governing body.

3 STRUCTURE AND DECISION-MAKING PROCESS OF MANAGEMENT REMUNERATION

3.1 OP Cooperative's Supervisory Council

The Cooperative Meeting is responsible for deciding on compensation payable to OP Cooperative's Supervisory Council and the OP Financial Group Nomination Committee is



responsible for related preparation. Supervisory Council compensation comprises attendance fees and monthly fees.

The Chair, Vice Chairs and members of the Supervisory Council are covered by voluntary pension insurance, as referred to in the Employees Pensions Act (TyEL), through Ilmarinen Mutual Pension Insurance Company (only monthly fees accumulate TyEL pension).

3.2 OP Cooperative's Board of Directors

OP Cooperative's Supervisory Council is responsible for deciding on compensation payable to OP Cooperative's Board of Directors and the Supervisory Council's Nomination Committee is responsible for related preparation. Board Compensation comprises attendance fees and monthly fees.

Neither a separate monthly fee for being a Board member nor any attendance fee is paid to the President and Group Chief Executive Officer.

The Chair, Vice Chairs and members of the Board of Directors are covered by voluntary pension insurance, as referred to in the Employees Pensions Act (TyEL), through Ilmarinen Mutual Pension Insurance Company (only monthly fees accumulate TyEL pension).

4 STRUCTURE AND DECISION-MAKING PROCESS FOR REMUNERATION TO THE PRESIDENT AND GROUP CHIEF EXECUTIVE OFFICER AND THEIR DEPUTY

OP Cooperative's Supervisory Council is responsible for appointing the President and Group Chief Executive Officer acting as OP Cooperative's CEO, and the Supervisory Council's Nomination Committee is responsible for related preparation. A written executive contract, approved by the Supervisory Council, stipulates the terms governing the employment of the President and Group Chief Executive Officer and their deputy.

OP Cooperative's Board of Directors decides on the annual review of the fringe benefits for the President and Group Chief Executive Officer and their deputy and responsibility for related preparation rests with the Nomination and Remuneration Committee of the Board of Directors.

The remuneration paid to the President and Group Chief Executive Officer and their deputy consists of the following three components:

- 1) Fixed salary
- 2) Performance-based bonus and
- 3) Supplementary pension.

1. Fixed salary

Fixed salary is total salary that contains pay in cash and fringe benefits, with the job grade, responsibility, personal performance and the market situation constituting its basis. A pay review can be performed on an annual basis according to the decision-making procedure described above. Fringe benefits include an employer-provided mobile phone, company car and a housing fringe benefit, if any. In addition, the President and Group Chief Executive Officer and their deputy are entitled to the same employer-provided employee benefits as with other personnel.

2. Performance-based bonus

The performance-based bonus is aimed at guiding, engaging and incentivising the President and Group Chief Executive Officer and their deputy to implement OP Financial Group's strategy. The performance-based bonus metrics are tied to OP Financial Group's strategy and the annual business or personal targets derived from it. The metrics may be



quantitative and/or qualitative. Their minimum, target and maximum levels are annually decided as described in the decision-making procedure above. The performance-based bonus also involves an earnings factor of 0.5–1.25 based on the result recorded by the central cooperative consolidated. The performance period for the performance-based bonus is one calendar year. The maximum performance-based bonus payable to the President and Group Chief Executive Officer and their deputy equals their 12-month and 10-month fixed salary, respectively. The performance-based bonus may exceed the maximum because of the earnings factor. However, the performance-based bonus may not exceed the fixed total 12-month salary.

Bonus payouts must be justifiable based on the company's business success, compliance with internal guidelines and external regulations, and operation in accordance with the Risk Appetite Statement and Risk Appetite Framework.

The Group-level precondition for remuneration is that OP Financial Group's LCR (Liquidity Coverage Ratio) exceeds 110 per cent and the CET1 ratio exceeds the CET1 MDA + 2 percentage points on the bonus payout date (CET1 MDA = CET1 minimum level. If this level is not met, profit distribution will be restricted).

The board of directors of the employer company decides on any reduction of bonuses earned if the financial statements for the performance year show that

- OP Financial Group's LCR is 100–110 per cent or
- OP Financial Group's CET1 ratio is the CET1 MDA – CET1 MDA +2 per cent.

Earned bonus will not be paid if the financial statements for the performance year show that

- OP Financial Group's Liquidity Coverage Ratio (LCR) is less than 100 per cent or
- OP Financial Group's CET1 ratio is less than CET1 MDA.

Another precondition for bonus payout is that the EBT of the employer company or customer business shows a profit before tax.

Furthermore, bonuses earned will be reduced or completely refused if binding internal guidelines within the Group or task or regulatory requirements have been ignored and separately specified qualitative or risk management elements have materialised. Earned bonuses may also be reduced, left unpaid or clawed back in situations where OP Financial Group or an employer company has been sanctioned because of breach of regulation or law. Paid bonuses may also be fully or partly clawed back if the President and Group Chief Executive Officer or their deputy is found guilty of misdemeanours, or intentionally endangered the future of business, or violated the law.

A regulatory deferral procedure applies to the payment of performance-based bonuses and the payment of half of the bonus in other than cash, if the variable remuneration of the President and Group Chief Executive Officer and their deputy for a 12-month performance period exceeds 50,000 euros or constitutes at least a third of the combined annual bonuses. The portion of a non-cash performance-based bonus includes a one-year retention period before the first bonus payout.

If the euro maximum for the payment deferral is exceeded, 60 per cent of the bonus in cash will be paid in the year following the performance year and 40 per cent of the amount in cash will be deferred until the next five years. 40 per cent of the non-cash portion of the bonus (the so-called portion paid in instruments) is paid in the second year following the performance year and 60 per cent of the portion paid in instruments is deferred until the next five years.



If the amount of variable remuneration exceeds an 8-month salary, totalling at least 200,000 euros, 40 per cent of the bonus in cash will be paid immediately and 60 per cent will be deferred until the next five years. The first amount of the bonus tied to the reference instrument is paid after the retention period of one year and the rest is paid during the next five years. The value of the reference instrument decided by OP Cooperative's Board of Directors is used as the non-cash payment.

3. Supplementary pension

OP Financial Group's retirement benefits are determined in accordance with pension legislation and the Group's own supplementary pension plans. If the executive contract of the President and Group CEO or the Deputy President and Group CEO with OP Financial Group begins or has begun in June 2018 or thereafter, the retirement age is equivalent to the lowest pensionable age under the Employees Pensions Act (TyEL) and the supplementary pension is based on a defined contribution plan. The contribution to the supplementary pension based on a defined contribution plan amounts to 20 per cent of the fixed annual earnings. If the executive contract of the President and Group CEO or the Deputy President and Group CEO with OP Financial Group has begun prior to June 2018, the retirement age is 63 or 65 years and the supplementary pension is based on a defined benefit plan. The target pension of supplementary pension based on a defined benefit plan is at the maximum 60 per cent of the annual earnings.

The supplementary pension of the President and Group Chief Executive Officer is based on a defined benefit plan and their retirement age is 65 years. The President and Group Chief Executive Officer is covered by OP-Eläkesäätiö's (pension foundation) supplementary pension scheme. Pension accrued under the supplementary pension scheme may begin to be disbursed as a paid-up pension before the old-age pension if employment with OP Financial Group terminates. The supplementary pension of the Deputy President and Group Chief Executive Officer is based on a defined benefit plan and their retirement age is 63 years. The deputy to the President and Group CEO is included within the scope of OP-Eläkesäätiö and OP Life Assurance Company Ltd's group pension insurance. The OP Life Assurance Company group pension insurance takes account of the supplementary pension received from OP-Eläkesäätiö and the amount of the benefit does not exceed 60 per cent of the annual earnings.

Termination of executive contract

The period of notice applicable under the executive contract of the President and Group Chief Executive Officer and their deputy is six months. Upon termination of employment in cases specifically stipulated in the executive contract, the President and Group Chief Executive Officer and their deputy are entitled to a severance pay and a sum equivalent to 12 months' pay and 6 months' pay, respectively.