POP Bank Group

FINANCIAL STATEMENTS RELEASE

1 January – 31 December 2016

POP Pankki

CONTENT

POP Bank Group's Financial Statements Release 1 January - 31 December 2016 is a translation of the original Finnish version "POP Pankki -ryhmän tilinpäätöstiedote 1.1.-31.12.2016". In case of discrepancies, the Finnish version shall prevail.

CEO'S REVIEW

THE BEST CUSTOMER EXPERIENCE DURING THE FIRST OPERATING YEAR OF THE AMALGAMATION

The first operating year 2016 of the amalgamated POP Banks was a success in terms of business. Deposits, loans and equity increased in accordance with the strategy. Similarly, the Group's operating profit grew from the year before. According to the survey conducted by EPSI Rating, we maintained our first position having the highest customer satisfaction in the Nordic countries. Despite the fast paced changes, the POP Bank Group continued to invest in a strong local presence and a high level of availability.

Through the amalgamation, Bonum Bank Ltd, the central credit institution of the Group, obtained an investment grade credit rating and issued its first bond loan. Helped by the international capital market, we were able to more effectively cover the financing needs of our customers.

POP Insurance, established four years ago, has evolved into the most rapidly growing non-life insurance company in the market. The digital operating model has proven to be a right one – the young company is the market leader in motor liability insurance taken out online, and its customer volume exceeded 90,000 customers.

POP BANK GROUP IS GROWING AND ENTERING THE DIGITAL ERA

In 2016, our Group-level strategy process proceeded as planned. The objective of the strategy was to identify any changes in the operating environment and to brighten the outlook for 2017–2020. Our new strategy is particularly aimed at improving the customer experience, introducing new operating models and developing our expertise. Changes in the financial industry and rapidly developing technologies set demands for a more agile corporate culture.

We are reshaping the basic structures of our banking group, and intensifying cooperation between group companies to strengthen the POP Bank brand.
Our customers are setting even higher expectations for online and mobile services. Therefore, we will simplify our customer service processes and internal operating methods. We will implement what we have learned from our subsidiaries in banking operations: digital customer service, agile product development and a high level of automation. The objective of these changes is to build an effective bank that is available in all channels for consumers and corporate customers – a combination of a comprehensive branch network and developing digital services.

I wish to thank our customers, staff, administration and partners for a great year of 2016!

Pekka Lemettinen
CEO

POP BANK GROUP'S FINANCIAL STATEMENTS RELEASE 1 JANUARY – 31 DECEMBER 2016

Year 2016 in brief

STEADY GROWTH, IMPROVED EARNINGS AND THE BEST CUSTOMER EXPERIENCE

- Earnings before taxes EUR 17.0 (12.0) million (+41.0%)
- The balance sheet EUR 4,229.4 (4.017.6) million (+3.9%)
- CET1 Capital ratio 20.9 (20.2%)
- The equity ratio 10.9 (10.5%)
- POP Bank has the highest customer satisfaction in Nordic countries (EPSI Rating 2016).
- The number of insurance customers increased by 25.4%

KEY EVENTS

- The year 2016 was the first operating year of the amalgamation of POP Banks which started operating on 31 December 2015.
- Strategic development programmes of the POP Bank Group were launched.
- Bonum Bank Plc, the central credit institution of the POP Bank Group, obtained an investment grade credit rating from S&P Global Ratings (credit rating BBB and short-term credit rating A-2).
- Bonum Bank issued its first multi-year bond loan of EUR 100 million.
- The internal control and supervisory practices confirmed for the amalgamation were entered into use and developed further.
- POP Banks and Bonum Bank Ltd received earnings of EUR 4.0 million from the sale of Visa Europe to Visa Inc.
- The guarantee fund of POP Banks was dissolved.
- The new online service poppankki.fi was opened.
- Finnish P&C Insurance launched POP Kilsa, the first casco and motor third party liability insurance product in Finland priced according to mileage.

POP Bank Group and amalgamation of POP Banks

The POP Bank Group is a Finnish financial group that offers retail banking services to private customers, small companies and agricultural and forestry companies, as well as non-life insurance services to private customers. In addition to healthy and profitable business, the objectives of the cooperative-based POP Bank Group emphasise the development of the customer experience.

POP Banks are cooperative banks established at the beginning of the 1990s which, in 1997–1998, organised to form a banking group consisting of member banks of POP Bank Alliance Coop and the guarantee fund of POP Banks. The Group expanded as Finnish P&C Insurance, a provider of digital insurance services, started operating in 2012. Bonum Bank Ltd, the central credit institution of POP Banks, was established in 2013–2014, and it started operating in its new role in February 2015, replacing Aktia Bank Plc, the former central credit institution.

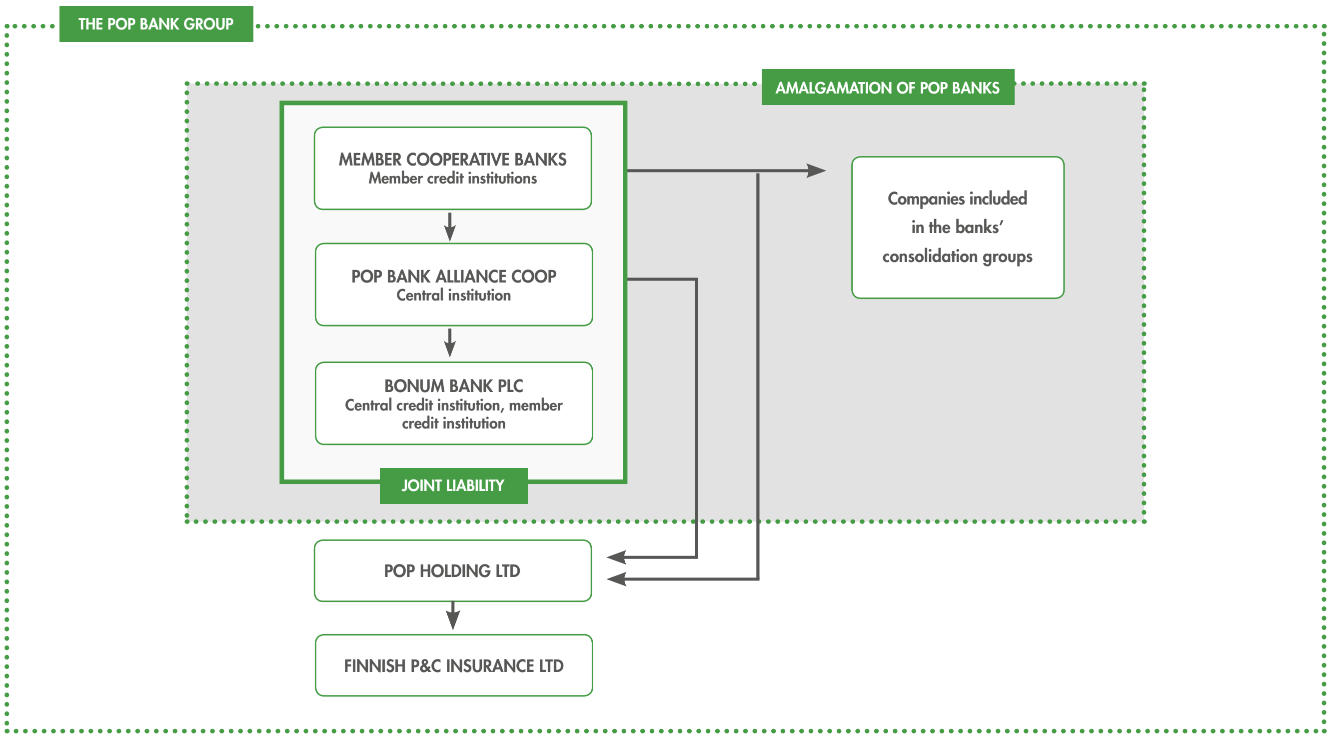
At the end of 2015, POP Bank Alliance Coop and its member institutions formed the amalgamation of POP Banks. In December 2015, POP Bank Alliance Coop was authorised by the Finnish Financial Supervisory Authority to function as the central institution of the amalgamation of deposit banks, and the amalgamation of POP Banks started operating on 31 December 2015.

POP Bank Group refers to the legal entity created in 2015, comprised of POP Banks and POP Bank Alliance Coop, and the entities under their control. The most significant companies in the POP Bank Group engaged in customer business are:

- 26 member cooperative banks of POP Bank Alliance Coop that use the marketing name POP Bank
- Bonum Bank Ltd, which is the central credit institution of POP Banks and a subsidiary of POP Bank Alliance Coop
- Finnish P&C Insurance Ltd, which uses the auxiliary business name POP Insurance

The chart below presents the structure of the POP Bank Group and the entities included in the amalgamation and scope of joint liability. POP Bank Alliance Coop, the central institution, is responsible for the group steering and supervision in accordance with the Act on the Amalgamation of Deposit Banks (24 June 2010/599) (hereinafter referred to as the "Amalgamation Act").

The POP Bank Group, amalgamation of POP Banks and joint liability



CHANGES IN THE STRUCTURE OF THE POP BANK GROUP

In February, POP Banks sold shares in their jointly held subsidiary Optium Oy to UB Asset Management Ltd. The guarantee fund of POP Banks was dissolved as planned in June, and its assets were distributed to member banks. The guarantee fund was no longer needed once the amalgamation of POP Banks started its operation.

POP BANK GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the Amalgamation Act, the central institution shall prepare financial statements as a combination of the financial statements or the consolidated financial statements of the central institution and its member credit institutions in accordance with the International Financial Reporting Standards (IFRS).

The POP Bank Group's obligation to prepare consolidated financial statements started on the date the amalgamation of POP Banks started operating. The 2015 financial statements covered the financial period, including notes valid on the closing date of 31 December 2015. In addition, additional financial information covering information for the financial period 1 January – 31 December 2015 and reference period 1 January – 31 December 2014 calculated in accordance with IFRS was given in notes to the official IFRS financial statements. Furthermore, the 2016 financial statements include additional financial information from the reference period of 1 January – 31 December 2015 preceding the start of operations. The purpose of additional financial information is to give useful market information about the results and the formation of earnings of the POP Bank Group.

The POP Bank Group's business segments are banking and insurance.

Operating environment

In its banking operations, the POP Bank Group focuses particularly on private customers, agriculture and forestry companies, as well as small companies. Banking operations are centralised in the locations main branches, i.e. smaller towns and municipalities. However, banking operations are geographically decentralised on a group level, with growth centres and new branches representing key growth areas in recent years. Non-life insurance operations are highly decentralised geographically.

Key factors for the POP Bank Group include the general development of the national economy, changes in regulation on the sector and general market interest rates. If interest rates remain low, there will be challenges in terms of the profitability of banking operations and changes in regulation will bind development resources. Competition in the sector is becoming more diverse, for example, in areas of payments, investments and loans. Conventional banks are also developing their competitiveness.

There was a slight turn for the better in the Finnish economy during 2016. During the year, the unemployment rate started to decrease and, in particular, investments in the construction industry increased heavily. Industries and exports continued their modest development but the outlook improved significantly when the Finnish Government completed the extensive competitiveness pact to support the improvement of productivity. It is expected to support the competitiveness of industries and exports, in particular. The solution aimed to compensate for the purchasing power of consumers and, for example, the poor outlook on domestic trade and services by lightening income taxes. The business sector also benefited from low energy prices and interest rates. In agriculture, profitability increased, while remaining low compared with long-term levels.

Low interest and inflation rates helped the situations of indebted households. The housing market was characterised by the continuous increase in rents and the regional differentiation in apartment prices. Apartment prices continued to increase high, in particular, in the Helsinki region and in certain other growth centres compared with the income available to households. In other regions, apartment prices have developed more slowly and even decreased in some areas. There are also increasing differences in sales periods between different regions and apartment types.

POP Bank Group's business operations

CUSTOMER ACCOUNTS

Cooperative activities form the basic value of the POP Bank Group. This means that the wellbeing of customers and the operating environment, equality and sustainable long-term operations are supported actively. We offer services that genuinely meet the customers' needs, situations and wishes, with locally made decisions. According to surveys conducted in 2016, POP Banks have the most satisfied customers of Nordic banks (EPSI Rating customer satisfaction survey) and the best banking services in Finland (national customer feedback survey of Taloustutkimus).

At the end of the 2016 financial period, POP Banks had 249.9 (241.3) thousand customers and Finnish P&C Insurance had 91.7 (73.1) thousand customers.

POP Banks have invested in a personal customer service, which is under constant development. During the 2016 financial period, POP Banks continued to develop customer value, providing their customers with services customised according to each customer. In the POP Taloushetki service, the bank's specialist reviews the customer's situation and the financial solutions required. The service has received positive feedback from customers. At the end of the year, POP Banks had 85 branches.

A significant strategic development area in banking operations is the improvement of the customer experience in digital services. During the financial period, the online banking service poppankki.fi was updated.

The development of digital services is strongly supported by Finnish P&C Insurance, part of the POP Bank Group, which, with its POP Insurance online shop, is one of the pioneers in the financial sector, also on an international scale. The digital services of POP Insurance have been designed from the very beginning to be understandable and easy to use from the customers' point of view. It is also important that the online shop is continuously analysed and developed.

Finnish P&C Insurance has no traditional customer service branches. Its sales and customer service are in digital channels: the Internet, mobile networks and telephones. As an indication of its excellent digital services, the customer volume of Finnish P&C Insurance increased by 25.4% during the period. Motor liability insurance is also sold by dealerships and inspection stations acting as intermediaries. Insurance policies of Finnish P&C Insurance are sold under two different brands: POP Insurance and Savings Banks Insurance. POP Insurance is the auxiliary business name of Finnish P&C Insurance.

KEY EVENTS DURING THE 2016 FINANCIAL PERIOD

The year 2016 was the first operating year of the amalgamation of POP Banks. During the period, the internal control and supervisory practices confirmed for the amalgamation were entered into use and developed further. Projects to implement the strategy confirmed in 2015 proceeded as planned.

Bonum Bank Ltd, the central credit institution of the POP Bank Group, issued a EUR 150 million certificate of deposit programme in March and a EUR 750 million bond programme in May. In June, Bonum Bank issued its first multi-year bond loan of EUR 100 million within the scope of its bond programme. The loan is quoted at the Helsinki stock exchange.

Cooperation of POP Banks as an intermediary of loans of Aktia Real Estate Mortgage Bank Plc is about to end, and most of the housing loans intermediated by POP Banks were transferred to the banks' balance sheets during the second half of the year. These transfers increased the Group's loan portfolio about 3 %. All loans will be transferred to the banks' balance sheets by summer 2017. POP Banks sold their shares in Aktia Real Estate Mortgage Bank to Aktia Plc in September.

The sale of Visa Europe announced in November 2015 to the US-based Visa Inc. was completed in June. Sales gains from the transaction were specified at the end of the year when POP Banks received their proportions of the purchase price. The POP Bank Group received non-recurring earnings of EUR 4.0 million from the transaction.

The guarantee fund of POP Banks was dissolved as planned in June, and its assets were returned to member banks. The guarantee fund was no longer needed once the amalgamation started its operation. The dissolution of the guarantee fund had no impact on the POP Bank Group's results but produced tax expenses which reduced profit for the period.

Finnish P&C Insurance Ltd launched the POP Auto Kilsa motor liability insurance product, which is the first mileage-based product in the market covering both motor third party liability and casco insurances. The launch of the product received wide visibility in principal media and received positive feedback from customers.

CREDIT RATING

Bonum Bank Ltd, the central credit institution of the POP Bank Group, obtained an international credit rating from S&P Global Ratings (S&P) in May. S&P granted Bonum Bank Ltd the long-term investment grade credit rating "BBB" and the short-term credit rating "A-2." The rating reflects the assessment performed in accordance with the criteria used by S&P, assessing, among other things, the POP Bank Group's business position, financial performance, capital and liquidity buffers, risk profile and funding. The stable outlook rating by S&P is proof of the POP Bank Group's strong capital adequacy, stability and predictability of business operations, and expectations for increasing efficiency resulting from the amalgamation. The credit rating remained unchanged with a stable outlook after the S&P assessment in November.

BUSINESS DEVELOPMENT (REFERENCE PERIOD 1 JANUARY – 31 DECEMBER 2015*)

Results of the POP Bank Group improved significantly from the year before. Profit before taxes stood at EUR 17.0 (12.0) million, showing a growth of 41.0% from the previous year. The POP Bank Group's balance sheet total was EUR 4,119.4 (4,071.6) million.

Total operating income increased by 11.2% to EUR 114.9 (103.3) million. The positive development of the deposit and loan portfolios increased the net interest income to EUR 62.4 (61.2) million, regardless of negative market rates. Net commission income increased to EUR 33.1 (32.5) million, but net commission income and expenses fell to EUR 28.4 (30.2) million due to an increase in other commission expenses. Net trading income remained at the previous year's level at EUR 0.5 (0.5) million.

Net investment income increased notably to EUR 8.9 (2.7) million. Investment income was increased by the sales gains of EUR 1.5 million attributable to the sale of shares in Visa Europe by Bonum Bank and the impairment of shares and participations which was lower than in the reference period. In addition, net insurance income improved clearly to EUR 8.1 (5.2) million. Other operating income was also increased by the earnings of EUR 2.5 million recognised from the Visa transaction of POP Banks. Other operating income totalled EUR 6.5 (3.4) million.

Operating expenses increased by 5.6% to EUR 91.2 (86.3) million. Personnel expenses amounted to EUR 40.1 (37.1) million. Personnel expenses were increased by the strong growth of insurance activities and the resources required for the development of the amalgamation and central credit institution activities. Other operating expenses increased to EUR 45.7 (43.4) million due to the system expenses caused by the expanded operations of Bonum Bank Ltd and the development investments in other ICT systems. Depreciation and impairment losses on tangible and intangible assets were EUR 5.4 (5.8) million.

Impairment losses on loans and other receivables were EUR 6.7 (5.0) million. Profit before taxes stood at EUR 17.0 (12.0) million. Tax expenses of EUR 2.0 million caused by the dissolution of the guarantee fund of POP Banks strained the profit for the period. The assets returned to member banks through the dissolution increased the taxable income of the member banks, but the return is not included in the results of the POP Bank Group because it was an intra-group arrangement. Income taxes totalled EUR 6.6 (3.6) million, and profit for the period stood at EUR 10.3 (8.4) million.

* Additional financial information for the period preceding the start of the operations of the amalgamation of POP Banks on 31 December 2015.

KEY INDICATORS OF THE POP BANK GROUP

(EUR 1000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Net sales	137,449	126,963
Net interes income	62,417	61,237
% of net sales	45.4 %	48.2 %
Profit before tax	16,958	12,023
% of net sales	12.3 %	9.5 %
Total operating income	114,851	103,292
Total operating expenses without depreciations	-85,733	-80,474
Cost to income ratio	74.6 %	77.9 %
Balance sheet total	4,229,417	4,071,635
Equity capital	463,021	423,716
Return on assets, ROA %	0.2 %	0.2 %
Return on equity, ROE %	2.3 %	2.1 %
Equity ratio, %	10.9 %	10.4 %
Common equity Tier 1 capital ratio, (CET1) %	20.9 %	20.2 %
Capital adequacy ratio, (TC) %	21.3 %	20.8 %
Impairment losses on loans and other receivables	-6,731	-4,961

* The figures are based on additional financial information disclosed for the period preceding the commencement of the operations of the amalgamation of POP Banks on 31 December 2015. The key indicators for 2015 have been adjusted due to an adjustment to real estate entities' depreciation.

Development of business segments

BANKING BUSINESS

The banking segment of the POP Bank Group includes POP Banks engaged in retail banking and Bonum Bank Ltd, their central credit institution.

Customer accounts

At the end of 2016, POP Banks had 249,900 (241,300) customers. Of these, 84.4% (84.0%) were private customers, 7.9% (7.9%) corporate customers and 4.3% (4.6%) agriculture and forestry customers.

At the end of the year, 86,100 (84,500) customers were also members of POP Banks. A total of 15 POP Banks have issued equity-based investment instruments activated in 2015. Most of the POP Shares have been carried out so that supplementary contributions removed from the solvency capital have been converted into POP Shares. Members of POP Banks had subscribed to POP Shares at a total of EUR 43.5 (17.9) million on the closing date. During the financial period, the amount of supplementary contributions decreased by EUR 58,2 million to EUR 37,5 million. The amount of supplementary contributions converted into POP Shares was EUR 25.6 (11.3) million.

Offering and developing the best customer experience are key factors for POP Banks. Throughout the 2000s, POP Banks have ranked at the top of independent customer satisfaction and service surveys. According to surveys conducted in 2016, POP Banks have the most satisfied customers of Nordic banks (EPSI Rating customer satisfaction surveys in Nordic countries in autumn 2016) and the best banking services in Finland (national customer feedback survey of Taloustutkimus).

Business development
(reference period 1 January – 31 December 2015*)

Banking assets totalled EUR 4,271.2 (4,081.8) million. Deposits increased by 4.9%, totalling EUR 3,511.0

* Additional financial information for the period preceding the start of the operations of the amalgamation of POP Banks on 31 December 2015.

(3,347.2) million at the end of the financial period. The loan portfolio increased by 6.2% to EUR 3,216.2 (3,029.0) million. About 3% of the increase in the loan portfolio was due to the transfer of loans intermediated by banks from the balance sheet of Aktia Real Estate Mortgage Bank Plc to the balance sheets of the banks.

Banking earnings before taxes increased by 39.0% to EUR 29.8 (21.5) million. Profit for the period was EUR 23.1 (17.6) million, showing a growth of 30.7%. The cost/income ratio was 0.63% (0.69%).

Earnings were increased by the positive development of net interest income and the increase in other operating income. Operating income increased to EUR 109 (98.5) million. The good growth of the loan and deposit portfolios compensated the negative impact of decreasing market rates on net interest income, which increased by 1.7% from the reference period to EUR 62.7 (61.6) million. The amount of net commission income and expenses decreased to EUR 22.5 (27.5) million, and net trading income remained at the previous year's level at EUR 0.5 (0.5) million. Net investment income stood at EUR 7.1 (3.8) million, including the sales gains of EUR 1.5 million from the sale of shares in Visa Europe.

Other operating income increased to EUR 16.3 (5.1) million, with the assets of EUR 10.0 million returned from the guarantee fund of POP Banks and the sales gains of EUR 2.5 million from the Visa transaction being the most significant items. The guarantee fund of POP Banks was dissolved in June, and its assets were returned to member banks. The intra-group distribution of assets is not included in the POP Bank Group's earnings, but the related tax expenses of EUR 2.0 million strain the Group's profit for the period. The return of assets is reflected in the consolidated equity as a transfer from equity funds to retained earnings.

Operating expenses totalled EUR 72.6 (72.1) million. Personnel expenses increased to EUR 30.1 (29.0) million. Other operating expenses of EUR 38.9 (38.8) million remained at the reference period's level. Depreciation and impairment losses on tangible and intangible assets were EUR 3.5 (4.2) million.

Impairment losses on loans and other receivables increased. Banks paid attention to the timely recognition of individually assessed impairment losses according to the instructions of the amalgamation. Impairment losses on loans and other receivables were EUR 6.7 (5.0) million of which final credit losses accounted for EUR 2.0 (4.3) million. Impairment losses comprised 0.21 (0.16) per cent of the loan portfolio. Receivables more than 90 days overdue from the loan and guarantee portfolio remained at the previous year's level and accounted for 0.75 (0.76) per cent of the loan portfolio.

INSURANCE BUSINESS

The insurance segment includes Finnish P&C Insurance Ltd, which offers non-life insurance policies to private customers. The insurance company offers typical non-life insurance products to private customers. They are mostly sold via electronic channels.

Customer accounts

Finnish P&C Insurance Ltd started customer operations at the end of 2012. In four years, the company has grown strongly. At the end of the financial period, the company had 91,700 (73,100) customers. In 2016, the company acquired 3,400 (2,900) new customers per month. In customer surveys, nine out of ten customers would recommend POP Insurance. The company, which operates in electronic channels, has customers throughout Finland.

Its key distribution partners are the POP Bank Group and the Savings Banks Group. Banks guide their customers towards the online shop and forward contact requests to the service centre of Finnish P&C Insurance. The company also invested in the car dealership and vehicle inspection channel by signing partnership agreements with several parties.

Business development (reference period 1 January – 31 December 2015*)

Net insurance income increased by 47.8% from EUR 5.2 million to EUR 7.7 million. Results for the period stood at EUR -3.3 (-5.2) million.

The key objective set for the operating year was to improve the company's loss ratio by specifying prices and selected risks and by developing claims processes. The loss ratio improved from 81.0% to 77.0%. The company will continue to invest in automated operating processes and digital service processes. The operating expense

* Additional financial information for the period preceding the start of the operations of the amalgamation of POP Banks on 31 December 2015.

ratio improved from 37.0% to 34.0%. Operations are expected to produce profit during the next year.

In 2016, Finnish P&C Insurance Ltd sold 103,100 (80,800) new insurance agreements, and its premiums written totalled EUR 34.6 (30.4) million. The insurance categories motor liability insurance and land vehicles account for approximately 90% of the premiums written. Accident and health, fire and other property and other direct insurance policies generate a total of 10% of premiums written. Insurance premium revenue totalled EUR 33.0 (28.1) million at the end of the financial period, representing growth of 17.4% from the year before. Claims incurred totalled EUR 25.3 (22.9) million, showing a growth of 10.5%. Claims incurred comprised claims paid (EUR 21.5 (20.3) million), a change in provisions for unpaid claims (EUR 4.8 (2.5) million), and an increase in the change in provisions for unpaid claims ceded to reinsurers (EUR -1.1 (0.1) million). During the financial period, there were three losses exceeding the retention limits of reinsurance for which reinsurance provisions were made to technical provisions.

Personnel expenses increased to EUR 6.5 (5.3) million. Other operating expenses decreased to EUR 3.5 (3.7) million, and depreciation stood at EUR 1.3 (1.3) million. Operating expenses totalled EUR 11.3 (10.4) million.

OTHER FUNCTIONS

Other functions include the guarantee fund of POP Banks dissolved in June, POP Holding Ltd, POP Bank Alliance Coop and other entities consolidated in the POP Bank Group and not included in the banking and insurance business segments. Other functions is not a reporting segment in the POP Bank Group's IFRS financial statements.

Since the establishment of the amalgamation of POP Banks, POP Bank Alliance Coop has also carried out the tasks that previously belonged to the guarantee fund. As a result, the guarantee fund of POP Banks was dissolved in June, and its assets were returned to member banks. POP Banks recognised returns of EUR 10.0 million in other operating income. This amount is included in banking earnings. The intra-group arrangement is not included in the Group's results, but the related tax expenses of EUR 2.0 million strain the Group's profit for the period.

Other entities included in other functions are mainly real estate companies.

The POP Bank Group's risk and capital adequacy management and risk position

PRINCIPLES AND ORGANISATION OF RISK MANAGEMENT

The purpose of the POP Bank Group's risk management is to ensure that all significant risks resulting from business activities are identified, assessed, measured and monitored on a regular basis and that they are proportionate to the risk-bearing capacity of the amalgamation and the individual member credit institution or company. The purpose of risk management is to ensure that an individual member credit institution does not take such high risk in its operations that it would result in material threat to the capital adequacy or solvency of the member credit institution, central institution or the entire amalgamation. The guidelines and decision-making concerning risks comply with sound and prudent business practices. Violations of the risk management principles are addressed in accordance with the agreed operating models.

The most significant risks associated with the operations of the POP Bank Group are credit risk, liquidity risk and interest rate risk in the banking book and, in the insurance business, underwriting risk. The POP Bank Group's strategy outlines the Group's risk appetite. Business activities are carried out at a moderate risk level so that the risks can be managed in full. The companies included in the POP Bank Group independently carry the risks associated with their business.

As the central institution, POP Bank Alliance Coop supervises the sufficiency and functioning of the risk management systems at the level of the member credit institutions and the amalgamation and is liable for the Group's risk and capital adequacy management in accordance with section 17 of the Amalgamation Act. The central institution issues binding instructions concerning risk and capital adequacy management, corporate governance and internal control to the member credit institutions to secure their solvency and capital adequacy. Furthermore, controlling thresholds and common business risk thresholds have been established for the member institutions to ensure that the risks taken by an individual member institution are within acceptable limits.

The central institution supervises that the member credit institutions comply with laws, decrees, instructions and regulations issued by the authorities, their own rules and the Group's internal binding guidelines in their activities. The central institution has a risk management function independent of the business functions that performs the risk control duties and a compliance function that supervises compliance with the regulations and internal audit.

Risk management is an essential part of internal control. The purpose of internal control is to provide reasonable certainty of e.g. the achievement of objectives and goals, profitability and reliability of operations, appropriateness and efficiency of operations, compliance with laws and decrees and management of risks associated with operations. Internal control is carried out at all organisational levels within the POP Bank Group.

Risk and capital adequacy management is described in more detail in Note 4 to the financial statements. Furthermore, information concerning risks specified in the EU capital requirements regulation (EU 575/2013) (CRR) is presented in the Pillar III disclosures of the consolidated IFRS financial statements.

BANKING RISKS

Credit risk

Banking credit risk exposure remained stable and its risk level moderate. Key indicators of receivables past due remained at the previous year's level. The proportion of loans granted to private customers in the loan portfolio increased slightly. The amount of collectively assessed impairment losses was close to the previous year's level, whereas individually assessed impairment losses increased. During the financial period, POP Banks focused especially on the impairment recognition principles and compliance with common principles.

The loan portfolio increased by 6.2 per cent since the year-end to EUR 3,216.2 million (EUR 3,029.0 million on 31 December 2015). The amount of intermediated Aktia Real Estate Mortgage Bank's mortgage loans was EUR 33.3 million (203.1) at the end of the second quarter. Majority of the lending is associated with low-risk lending to private customers. Loans granted to private customers accounted for 65.9 per cent (64.1) of the loan portfolio, companies for 16.1 per cent (16.8) and agriculture entrepreneurs for 18.0 per cent (19.1). Loans secured by residential real estate collateral accounted for 64.8 per cent (63.0) of the loan portfolio.

The amalgamation of POP Banks' receivables more than 90 days past due accounted for 0.75 per cent (0.76) of the loan portfolio. The amalgamation's receivables 30–90 days past due accounted for 1.53 per cent (1.53) of the loan portfolio at the end of the financial year.

Impairment losses on loans and receivables totaled EUR 21.7 million (16.9) at the end of the financial year. Of these, individually assessed impairment losses totaled EUR 18.8 million (14.2) and collectively assessed impairment losses totaled EUR 2.9 million (2.8).

The industry and customer risks of POP Banks' Amalgamation are well-diversified. At the end of the financial year the amalgamation had one customer group whose total exposures exceeded 10 per cent of the amalgamation's own funds and which therefore is classified as large exposure in accordance with Article 392 of the EU Capital Requirements Regulation. The customer group belongs to POP Bank Group.

Liquidity risk

The POP Bank Group's liquid position remained strong during the financial period. The regulatory requirement for the liquidity of the member credit institutions, LCR (Liquidity Coverage Ratio), was 70% at the beginning of 2016, from which it rose to 80% on 1 January 2017 and it will continue to increase to 100% by 1 January 2018. The LCR of the amalgamation of POP Banks was 220% (202%) on 31 December 2016. On 31 December 2016, the amalgamation's LCR-eligible assets before value decreases totalled EUR 450.3 (434.3) million, of which 15.2% (39.8%) were cash and balance at a central bank, 73.7% (48.7%) were highly liquid tier 1 securities, and 11.1% (11.5%) were other liquid assets.

The POP Bank Group's financing position also remained strong during the financial period. The proportion of deposits from the loan portfolio remained high and the availability of financing expanded through wholesale funding opened by the central credit institution of the amalgamation. During the first operating year of the amalgamation, Bonum Bank Ltd obtained the long-term investment grade credit rating "BBB" from

S&P Global Ratings and issued its first bond loan (a three-year unsecured senior loan of EUR 100 million) as part of the EUR 750 million bond loan programme established in May 2016. In addition, Bonum Bank Ltd has a EUR 150 million certificate of deposit programme, under which the bank can issue bonds of at most 12 months. The opened wholesale funding channel diversifies the amalgamation's funding activities and supports the growth of the Group. The long-term financing position is expected to develop positively as the availability of financing becomes more diversified and the transmission of intra-group financing improves.

Market risk

Market risks in banking are caused by the banking books of member credit institutions, consisting of lending and deposits, wholesale market funding and investment and liquidity portfolios. The market risk exposure remained moderate during the financial period. The key market risk in banking is the interest rate risk in the banking book, which is monitored and limited using both the present value and income risk models. The market risk is also caused by the investment activities of member credit institutions, the primary purposes of which are to invest the liquidity surplus and maintain liquidity reserves. Principally, the business activities of member credit institutions do not include actual trading.

The market risk arising from investment activities is controlled through the allocation of asset categories and by using risk limits set for each asset category and counterparty. No currency risks are taken in lending. A member credit institution may use direct foreign currency-denominated investments, investments in structured products or derivative contracts only with the consent of the risk control function of the amalgamation. The use of derivatives is limited to the hedging of the interest rate risk in banking books.

Operational risks

Any materialisation of operational risks is minimised by continuous development of personnel and comprehensive operating instructions, as well as internal control measures, such as by segregating preparation, decision-making, implementation and control from each other as far as possible.

The operational risks associated with the key products, services, functions, processes and systems are identified in the assessment process concerning a new product or service carried out by the business function and reviewed by the risk control function. Moreover, the member credit institutions carry out an annual self-assessment of operational risks. Part of the losses caused by operational risks are hedged through insurance. Risks caused by malfunctions of information systems are prepared for by continuity planning.

INSURANCE RISKS

During the period under review, the most significant insurance risks were associated with business profitability development and, in particular, with the development of pricing and customer selections, and the sufficient increase in business volumes, taking the profitability aspect into account.

Key operational risks were still connected to the building of ICT systems and controlled scaling and development of insurance business processes as the sales, customer and claim volumes have increased.

Information security risks are significant for an online company and, therefore, the company is strongly investing in their management. Investment activities have been protective and have not been associated with any significant risks.

The Board of Directors of Finnish P&C Insurance annually approves the company's risk management plan.

CAPITAL ADEQUACY MANAGEMENT

The purpose of capital adequacy management is to ensure the sufficient amount, quality and efficient use of the capital of the amalgamation of POP Banks. Capital is held to cover the material risks arising from the amalgamation's business strategy and plan and to secure the uninterrupted operation of the amalgamation in case of unexpected losses. The goal is pursued through a documented and systematic capital adequacy management process which is integrally linked to the amalgamation's and member credit institutions' strategy process and business planning and management.

The member credit institutions conduct an extensive identification and evaluation of risks related to their operations and set their risk-bearing capacity to match the total amount of the risks. In order to secure its capital adequacy, the bank sets risk-based capital objectives and prepares a capital plan to achieve these objectives. The member institutions of the amalgamation use common measurement methodologies defined by the risk control function of the central institution for their capital plan.

The own funds of the amalgamation of POP Banks consist of cooperative contributions, supplementary cooperative contributions, POP Shares, retained earnings and other non-restricted reserves. The EU's Capital Requirements Regulation No. 575/2013 does not acknowledge the supplementary cooperative contributions previously used by the member credit institution as an equity instrument, ergo supplementary cooperative contributions are no longer items recognized in own funds of the member credit institutions according to the new regulations. The Capital Requirements Regulation is applied as of 1 January 2014, but the application of the transitional rules concerning supplementary cooperative contributions will be gradually phased in. Some of the member credit institutions of the amalgamation have since 2015 issued new equity instruments, POP Shares, which are included in own funds. A total of EUR 43.5 million of POP Shares had been issued at the end of 2016 (17.9 million). In addition to new issuances, some former supplementary cooperative contributions have been converted to POP Shares.

At the end of 2016, the capital adequacy of the amalgamation of POP Banks was on a solid level. The amalgamation's capital adequacy ratio was 21.3 per cent (20.8) and CET1 Capital ratio 20.9 per cent (20.2). The amalgamation does not include the profit for the financial year in own funds.

The statutory minimum level of the capital adequacy ratio is 8 per cent and of Tier 1 capital it is 4.5 per cent. In addition to the 8 per cent capital adequacy requirement, a fixed 2.5 per cent capital conservation buffer requirement became applicable on 1 January 2015, as well as a variable additional capital requirement which the authorities can upon need set at 0–2.5 per cent. For the time being, the Financial Supervisory Authority has not set a variable additional capital requirement for Finnish exposures, which almost exclusively comprise the credit and counterparty risk of the amalgamation's member credit institutions.

SUMMARY OF CAPITAL ADEQUACY

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Own funds		
Common Equity Tier 1 capital before deductions	486,655	461,632
Deductions from Common Equity Tier 1 capital	-5,245	-6,089
Total Common Equity Tier 1 capital (CET1)	**481,410**	**455,542**
Additional Tier 1 capital before deductions	6,897	10,545
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**6,897**	**10,545**
Tier 1 capital (T1 = CET1 + AT1)	**488,307**	**466,087**
Tier 2 capital before deductions	2,759	3,164
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**2,759**	**3,164**
Total capital (TC = T1 + T2)	**491,065**	**469,251**
Total risk weighted assets	**2,308,526**	**2,252,853**
of which credit risk	2,084,072	2,038,332
of which credit valutaion adjustment risk (CVA)	1,321	3,599
of which market risk (foreign exchange risk)	25,597	24,892
of which operational risk	197,536	186,031
Fixed capital conservation buffer according to Act on Credit institutions (2.5%)	**57,713**	**56,321**
Countercyclical capital buffer	**222**	**253**
CET1 Capital ratio (%)	20.9 %	20.2 %
T1 Capital ratio (%)	21.2 %	20.7 %
Total capital ratio (%)	21.3 %	20.8 %
Leverage ratio		
Tier 1 capital (T1)	488,307	466,087
Leverage ratio exposure	4,291,563	4,283,948
Leverage ratio, %	11.4 %	10.9 %

Depositor and investor protection

Provisions on deposit insurance are laid down in the Act on the Financial Stability Authority, according to which the Financial Stability Authority is responsible for offering deposit protection. Its financial stability fund consists of a crisis resolution fund and deposit guarantee fund. The deposit guarantee fund covers the eligible deposits of a depositor in a single deposit bank up to a maximum of EUR 100,000. Fees of the deposit guarantee fund were covered by the assets of the former national deposit guarantee fund during the financial period.

The deposit banks that are members of the amalgamation of deposit banks are considered to be a single deposit bank in terms of deposit guarantee. Therefore, the deposit guarantee concerning a depositor's deposits in all member credit institutions of the

amalgamation of POP Banks (POP Banks and Bonum Bank Ltd) totals EUR 100,000.

Furthermore, in accordance with the legislation on the investors' compensation fund, the member credit

institutions of the amalgamation of POP Banks are considered to be a single bank in terms of investor protection. A maximum amount of EUR 20,000 is compensated from the compensation fund.

Governance of POP Bank Alliance Coop

The 26 member cooperative banks (POP Banks) and Bonum Bank Ltd are members of POP Bank Alliance Coop. The member cooperative banks exercise their statutory voting rights in the meeting of POP Bank Alliance Coop cooperative, which elects the Supervisory Board. In accordance with the rules, Bonum Bank Ltd has no voting rights in the cooperative meetings as the subsidiary of the Alliance.

In accordance with the rules, the Supervisory Board of POP Bank Alliance Coop consists of a minimum of three (3) and a maximum of thirty-four (34) members elected by the general meeting of the cooperative so that one (1) member shall be elected from each member credit institution; however, not from a subsidiary of the central institution that acts as a member credit institution.

In 2016, the Supervisory Board consisted the total of

twenty-six (26) members so that one (1) member represented each member credit institution. Only the Chairman of the Board of Directors or Supervisory Board of a member credit institution can be elected

as the Chairman or Vice Chairman of the Supervisory Board. The Chairman of the Supervisory Board was Hannu Saarimäki (Chairman of the Board of Keuruun Osuuspankki) and the Vice Chairman was Harri Takala (Chairman of the Board of Pohjanmaan Osuuspankki).

The Board of Directors of POP Bank Alliance Coop consists of a minimum of five (5) and a maximum of seven (7) members elected by the Supervisory Board so that at least one member is elected from each cooperative region pursuant to the rules. The majority of the Board members shall be employed by a member credit institution. The term of office of the Board members is three (3) years from the conclusion of the meeting that decided on the election of the Supervisory Board until the conclusion of the next Supervisory Board meeting that decides on the election. Of these members, annually the number closest to one-third resign based on the term of office.

During the financial period, the number of Board members was increased from six (6) to seven (7), and a new member independent of the POP Bank Group was selected.

The Board of Directors elects the Chairman and Vice Chairman from among its members.

The following persons acted as members of the Board of Directors of POP Bank Alliance Coop:

- **Petri Jaakkola** (Lapuan Osuuspankki)
  Chairman starting from and
  Vice Chairman until 16 March 2016
- **Juha Niemelä** (Liedon Osuuspankki)
  Ordinary member, Vice Chairman starting
  from 16 March 2016
- **Ari Heikkilä** (Konneveden Osuuspankki)
  Ordinary member
- **Marja Pajulahti** (independent of the POP Bank Group)
  Ordinary member starting from 29 September 2016
- **Soile Pusa** (Siilinjärven Osuuspankki)
  Ordinary member, Chair until 16 March 2016
- **Teemu Teljosuo** (Kurikan Osuuspankki)
  Ordinary member
- **Hannu Tuominiemi** (Suupohjan Osuuspankki)
  Ordinary member

The managing director of POP Bank Alliance Coop was Heikki Suutala until 31 December 2016, and his deputy was Timo Hulkko. In August 2016, the Supervisory Board of POP Bank Alliance Coop started an application process to appoint a new managing director at the request of Heikki Suutala, the long-term managing director of POP Bank Alliance Coop. In November 2016, Pekka Lemettinen was appointed the new managing director starting from 1 January 2017. Before his appointment, Lemettinen worked as the managing director of Finnish P&C Insurance Ltd. The Board of Directors of Finnish P&C Insurance Ltd started an application process to appoint a new managing director in December 2016.

The auditor of POP Bank Alliance Coop is KPMG Oy Ab, authorised public accountants, with Johanna Gråsten, authorised public accountant, as the main auditor.

Personnel and remuneration

PERSONNEL

At the end of 2016, the POP Bank Group had 741 (695) employees, of whom 565 (555) in banking, 116 (96) in non-life insurance and 60 (44) in other functions.

REMUNERATION

Remuneration scheme refers to the decisions, contracts, policies and procedures followed in rewarding the management and personnel.

Remuneration is divided into fixed and variable remuneration. Fixed remuneration refers to salaries tied to a specific period of time and variable remuneration refers to remuneration tied to the beneficiary's performance or financial factors. The variable remuneration includes both short- and long-term remuneration. In short-term remuneration, the earning period is the calendar year and the reward is paid in cash.

In the POP Bank Group, variable remuneration is company-specific. The POP Bank Group does not have a uniform remuneration scheme. The remuneration schemes are based on the business strategy, objectives and values of each member credit institution or company, and they are aligned with the company's long-term interests. The remuneration schemes are in harmony with the bank's proper and effective risk management and risk-bearing capacity. Remuneration does not encourage risk-taking that would exceed the risk level defined on the basis of the risk-bearing capacity of the member credit institutions or the company or otherwise sustainable risk level.

The member credit institution- and company-specific remuneration schemes are based on EU legislation, national legislation and the regulations and guidelines issued by the Financial Supervisory Authority.

Social responsibility

Social responsibility is an integral part of the operations of the POP Bank Group of cooperative companies. The value of the POP Bank Group is to promote the wellbeing of its customers and the operating environment. The POP Bank Group implements this in all of its activities in the form of small everyday actions. Taking care of the healthy business and profitability of the Group's companies and their long-term development are also part of social responsibility.

The POP Bank Group paid EUR 6.6 million (3.6) in taxes on its earnings in 2016. The domiciles of the main companies of the POP Bank Group cover 28 different locations, and taxes are allocated to the areas where its customers are. The POP Bank Group paid EUR 32.1 (30.2) million in salaries.

Events after the closing date

Financial Supervisory Authority has granted POP Bank Alliance Coop on 30 January 2017 a permission to grant member credit institutions exemptions as defined in Amalgamation Act sections 21, 21a, 21b and 23. Exemptions according to the permission will be decided by the board of POP Bank Alliance Coop.

The Board of Directors of POP Bank Alliance Coop is not aware of any other events after the closing date that would have material impact on the information presented in the financial statements of the POP Bank Group.

Outlook for 2017

The POP Bank Group 2017 emphasis is on the advancement of development projects related to the implementation of the new strategy. The most important initiatives are the digitalization and mobile services development projects, bank's operational streamlining, better utilization of synergies between group companies and maintaining the growth of the insurance company.

The key objective is to improve the POP Banks' growth potential and profitability by enhancing liquidity management and optimization of balance sheet of the amalgamation of POP Banks. These development undertakings will be the key to the POP Bank Group's in improving its cost efficiency and reaching its growth targets.

POP Bank Group's result is affected by several factors, the most important of which are the general economic situation, interest rate and fluctuations in share prices, as well as regional competition. There are many uncertainties over economic development in Finland and Europe. Interest rates are expected to remain low, which makes it difficult to increase net interest income, but makes it easier to manage customer loans.

Digitalization will increase efficiency and make competition fiercer due to increased consumers' comparison opportunities.

The shadow banking system will slowly gain ground from conventional banks in terms of financial growth. In addition, a significant proportion of development inputs of financial companies holding a license will need to be allocated to the implementation of continuously increasing regulations.

In this challenging environment, the POP Bank Group aims, in 2017, at least to meet, if not exceed the POP Bank Group 2016 result, and maintain its capital adequacy and customer satisfaction at an excellent level. Its operational objective is to set ground for long term business growth, profitability and pricing competitiveness.

FURTHER INFORMATION:

Pekka Lemettinen, CEO, tel. +358 40 5035411, and
Timo Hulkko, director, tel. +358 500 894008

Formulas for key figures

Net sales

Interest income, commission income, net trading income, net income from non-life insurance, other operating income, net income from hedge accounting

Total operating income

Net interest income, net commissions and fees, net trading income, net investment income, net income from non-life insurance, other operating income, net income from hedge accounting

Total operating expenses

Personnel expenses, other operating expenses (excluding amortisation)

Cost-income ratio, %

$$\frac{\text{Total operating expenses}}{\text{Total operating income}} \times 100$$

Return on equity (ROE), %

$$\frac{\text{Profit for the period}}{\text{Equity capital and non-controlling interest}} \times 100$$

Return on assets (ROA), %

$$\frac{\text{Profit for the perios}}{\text{Balance sheet total (average of the beginning and end of year)}} \times 100$$

Equity ratio, %

$$\frac{\text{Equity capital and non-controlling interest}}{\text{Balance sheet total}} \times 100$$

Common Equity Tier 1 capital ratio (CET1), %

$$\frac{\text{Common Equity Tier 1 capital (CET1}}{\text{Risk weighted assets}} \times 100$$

Tier 1 capital ratio (T1), %

$$\frac{\text{Tier 1 capital (T1)}}{\text{Risk weighted assets}} \times 100$$

Capital adequacy ratio, (TC) %

$$\frac{\text{Total capital (TC)}}{\text{Risk weighted assets}} \times 100$$

Leverage ratio, %

$$\frac{\text{Tier 1 capital (T1)}}{\text{Leverage ratio exposure}} \times 100$$

Liquidity coverage ratio (LCR), %

$$\frac{\text{Liquid assets}}{\text{Liquidity outflows - liquidity inflows under stressed conditions}} \times 100$$

NON-LIFE INSURANCE KEY FIGURES

Operating expenses

Personnel expenses, other operating expenses and depreciation, amortisation and impairment of property, plant and equipment and intangible assets

Loss ratio, %

$$\frac{\text{Claims incurred (after share ceded to reinsurers)}}{\text{Insurance premium revenue (after share ceded to reinsurers)}} \times 100$$

Operating expense ratio, %

$$\frac{\text{Operating expenses}}{\text{Insurance premium revenue (after share ceded to reinsurers)}} \times 100$$

FINANCIAL STATEMENTS RELEASE

THE POP BANK GROUP'S INCOME STATEMENT

(EUR 1,000)	Note	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*	Change, %
Interest income		80,324	82,674	-2.8 %
Interest expenses		-17,907	-21,437	-16.5 %
Net interest income	**5**	**62,417**	**61,237**	**1.9 %**
Net commissions and fees	6	28,369	30,233	-6.2 %
Net trading income		542	539	0.4 %
Net investment income	7	8,945	2,684	233.3 %
Net incom from non-life insurance	8	8,078	5,232	54.4 %
Other operating income		6,501	3,366	93.1 %
Total operating income		**114,851**	**103,292**	**11.2 %**
Personnel expenses		-40,062	-37,121	7.9 %
Other operating expenses		-45,672	-43,353	5.3 %
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		-5,429	-5,834	-6.9 %
Total operating expenses		**-91,162**	**-86,308**	**5.6 %**
Impairment losses on loans and receivables		-6,731	-4,961	35.7 %
Profit before tax		**16,958**	**12,023**	**41.0 %**
Income tax expense		-6,618	-3,613	83.2 %
Profit for the financial year		**10,340**	**8,411**	**22.9 %**
Attributable to				
Equity owners of the POP Bank Group		10,260	8,538	20.2 %
Non-controlling interests		80	-127	-163.0 %
Total		**10,340**	**8,411**	**22.9 %**

*Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

THE POP BANK GROUP'S STATEMENT OF OTHER COMPREHENSIVE INCOME

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*	Change, %
Profit for the financial year	10,340	8,411	22.9 %
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans	-135	-894	-84.9 %
Items that may be reclassified to profit or loss			
Changes in fair value reserve			
Available-for-sale financial assets	6,434	1,312	390.4 %
Other comprehensive income for the financial period	**16,639**	**8,829**	**88.5 %**
Other comprehensive income for the financial period attributable to			
Other comprehensive income for the financial period attributable to owners of the POP Bank Group	16,559	8,984	84.4 %
Other comprehensive income for the financial period attributable to non-controlling interests	80	-155	-151.7 %
Total other comprehensive income for the financial year	**16,639**	**8,829**	**88.5 %**

*Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

THE POP BANK GROUP'S BALANCE SHEET

(EUR 1,000)	Note	31 Dec 2016	31 Dec 2015	Change, %
Assets				
Liquid assets		99,174	172,899	-42.6 %
Financial assets at fair value through profit or loss	9	1,681	3,383	-50.3 %
Loans and receivables from credit institutions	9,10	73,515	129,327	-43.2 %
Loans and receivables from customers	9,10	3,188,681	3,013,972	5.8 %
Derivative contracts	9	2,541	5,356	-52.6 %
Investment assets	9,11	754,362	635,904	18.6 %
Non-life insurance assets	9,12	42,915	37,610	14.1 %
Intangible assets		13,566	15,839	-14.4 %
Property, plant and equipment		35,604	39,796	-10.5 %
Other assets		15,459	13,582	13.8 %
Tax assets		1,920	3,967	-51.6 %
Total assets		**4,229,417**	**4,071,635**	**3.9 %**
Liabilities				
Liabilities to credit institutions	13	11,385	112,783	-89.9 %
Liabilities to customers	13	3,505,090	3,342,813	4.9 %
Non-life insurance liabilities	14	32,420	27,567	17.6 %
Debt securities issued to the public	15	100,220	24,188	314.3 %
Supplementary cooperative capital		37,512	58,231	-35.6 %
Other liabilities		52,764	57,056	-7.5 %
Tax liabilities		27,006	25,281	6.8 %
Total liabilities		**3,766,396**	**3,647,918**	**3.2 %**
Equity capital				
Cooperative capital				
Cooperative contributions		9,051	8,904	1.6 %
POP Shares		43,508	17,904	143.0 %
Total cooperative capital		**52,559**	**26,809**	**96.1 %**
Reserves		155,086	156,081	-0.6 %
Retained earnings		254,913	237,566	7.3 %
Total equity attributable to the owners of the POP Bank Group		**462,558**	**420,455**	**10.0 %**
Non-controlling interests		463	3,261	-85.8 %
Total equity capital		**463,021**	**423,716**	**9.3 %**
Total liabilities and equity capital		**4,229,417**	**4,071,635**	**3.9 %**

*Adjusted see note 3

STATEMENT OF CHANGES IN THE POP BANK GROUP'S EQUITY CAPITAL

(EUR 1,000)	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
Reported balance at 31 Dec 2015	26,809	4,283	151,798	239,831	422,721	3,261	425,982
Error in real estate depreciations**	-	-	-	-2,265	-2,265	-	-2,265
Restated balance at 1 Jan 2016	26,809	4,283	151,798	237,566	420,455	3,261	423,716
Comprehensive income for the financial year							
Profit for the financial year	-	-	-	10,260	10,260	80	10,340
Other comprehensive income	-	6,434	-	-135	6,299	-	6,299
Total comprehensive income for the financial year	**-**	**6,434**	**-**	**10,125**	**16,559**	**80**	**16,639**
Transactions with shareholders							
Increase in cooperative capital	25,750	-	-	-	25,750	-	25,750
Profit distribution	-	-	-	-74	-74	-	-74
Transfer of reserves	-	-	3,135	-3,135	-	-	-
Transactions with shareholders total	**25,750**	**-**	**3,135**	**-3,209**	**25,677**	**-**	**25,677**
Other changes							
Changes in holdings in subsidiaries	-	-	-10,564	10,431	-133	-2,878	-3,011
Other changes total	**-**	**-**	**-10,564**	**10,431**	**-133**	**-2,878**	**-3,011**
Balance at 31 Dec 2016	**52,559**	**10,717**	**144,369**	**254,913**	**462,558**	**463**	**463,021**

The non-controlling interests decreased significantly due to the dissolution of POP Banks' guarantee fund in June 2016 and the refund of cooperative capital to the cooperative banks that remained outside the amalgamation of POP Banks. As a result of dissolution of the guarantee fund, refunded contribution of EUR 8 253 thousand was transferred from funds to retained earnings.

(EUR 1,000)	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
Reported balance at 31 Dec 2014*	-	2,971	147,410	235,558	385,939	8,604	394,543
Error in real estate depreciations**	-	-	-	-1,583	-1,583	-	-1,583
Restated balance at 1 Jan 2015	-	2,971	147,410	233,976	384,357	8,604	392,961
Comprehensive income for financial year							
Profit for the financial year	-	-	-	8,538	8,538	-127	8,411
Other comprehensive income	-	1,312	-	-894	418	-28	390
Total comprehensive income for the financial year	**-**	**1,312**	**-**	**7,644**	**8,956**	**-155**	**8,801**
Transactions with shareholders							
Increase in cooperative capital	17,904	-	-	-	17,904	-	17,904
Transfer of reserves	-	-	2,236	-2,236	-	-	-
Transactions with shareholders total	**17,904**	**-**	**2,236**	**-2,236**	**17,904**	**-**	**17,904**
Other changes							
Changes in holdings in subsidiaries	-	-	1,816	-1,792	24	-1,383	-1,359
Refund of cooperative capital classified as a liability	-	-	-	-	-	-2,702	-2,702
Other	8,904	-	336	-26	9,215	-1,103	8,111
Other changes total	**8,904**	**-**	**2,152**	**-1,818**	**9,239**	**-5,188**	**4,050**
Balance at 31 Dec 2016	**26,809**	**4,283**	**151,798**	**237,566**	**420,455**	**3,261**	**423,716**

* Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

** Adjusted see note 3

Refund of cooperative capital has been reclassified from non-controlling interests to other liabilities.

Other changes in cooperative capital consist of cooperative contributions classified as equity.

POP BANK GROUP'S CASH FLOW STATEMENT

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Cash flow from operations		
Profit for the financial year	10,340	8,411
Adjustments to profit for the financial year	26,305	19,314
Increase (-) or decrease (+) in operating assets	**-256,264**	**-233,273**
Receivables from credit institutions	39,360	112,561
Receivables from customers	-181,043	-90,118
Investment assets	-121,519	-251,975
Non-life insurance assets	-5,305	-5,849
Other assets	12,243	2,108
Increase (+) or decrease (-) in operating liabilities	**108,417**	**197,728**
Liabilities to credit institutions	-101,398	107,845
Liabilities to customers	165,248	97,868
Increases in debt securities issued to the public	76,032	-
Other liabilities	-27,257	-1,664
Income tax paid	-4,208	-6,322
Total cash flow from operations	**-111,202**	**-7,821**
Cash flow from investing activities		
Increases in held-to-maturity financail assets	-	-313
Decreases in held-to-maturity financail assets	-	3,568
Increases in other investments	15,060	-1,525
Purchase of PPE and intangible assets	-7,848	-10,693
Proceeds from sale of PPE and intangible assets	3,953	2,881
Net cash used in investing activities	**11,164**	**-6,082**
Cash flow from financing activities		
Decreases in subordinated liabilities	-	-2,223
Increase in cooperative capital	12,958	6,652
Interests paid on cooperative capital and other profit distribution	-74	-
Changes in other equity capital items	-2,822	-150
Net cash used in financing activities	**10,062**	**4,278**
Change in cash and cash equivalents		
Cash and cash equivalents at period-start	236,314	245,939
Cash and cash equivalents at the end of the period	146,338	236,314
Net change in cash and cash equivalents	**-89,976**	**-9,625**

* Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Interest received	**90,334**	**84,736**
Interest paid	**23,388**	**22,250**
Dividends received	**1,929**	**1,326**
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on receivables	6,731	4,961
Depreciations	7,040	7,491
Technical provision	5,880	4,861
Other	6,653	2,002
Adjustments to profit for the financial year	**26,305**	**19,314**
Cash and cash equivalents		
Liquid assets	99,173	172,899
Receivables from credit institutions payable on demand	47,164	63,415
Total	**146,337**	**236,314**

* Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

NOTES

NOTE 1 POP BANK GROUP AND ADDITIONAL FINANCIAL INFORMATION DISCLOSED AS COMPARISON INFORMATION

The POP Bank Group (hereinafter also referred to as the "Group") is a financial group comprising POP Banks and POP Bank Alliance Coop and their subsidiaries and jointly controlled entities that operates in Finland. POP Banks are independent, regionally and locally operating cooperative banks. POP Bank Alliance Coop functions as the central institution of the Group. The services of the POP Bank Group cover payment, card, saving, investing and financing services for private customers, small companies and agricultural and forestry companies. In addition to retail banking services, the Group offers non-life insurance services to private customers.

The member credit institutions of POP Bank Alliance Coop are the 26 cooperative banks and the central credit institution of the member cooperative banks, Bonum Bank Plc. The amalgamation of POP Banks is a legal entity referred to in the Act on the Amalgamation of Deposit Banks (599/2010, hereinafter "the Amalgamation Act") in which the member credit institutions and the central institution are jointly liable for each other's debts and commitments. The amalgamation of POP Banks is formed by the central institution POP Bank Alliance Coop, its member credit institutions, the companies included in their consolidation groups and those credit institutions, financial institutions and service companies in which entities included in the amalgamation jointly hold majority of the votes. The companies included in the consolidation groups of the member credit institutions are primarily real estate companies.

The POP Bank Group also includes other entities besides the entities included in the amalgamation of POP Banks. The most significant entities that do not belong to the POP Bank Group are POP Holding Ltd, its wholly-owned subsidiary Finnish P&C Insurance Ltd and POP Banks' guarantee fund (dissolved in June 2016), which are not in the scope of joint liability. The POP Bank Group does not form a group of companies referred to in the Accounting Act (1336/1997) or a consolidation group referred to in the Act on Credit Institutions (610/2014). POP Bank Alliance Coop or its member cooperative banks do not exercise control pursuant to IFRS accounting standards on each other, and therefore no parent company can be determined for the Group. In accordance with the Amalgamation Act, the Board of Directors has specified the Group's accounting policies suitable for this structure to the extent that the IFRS accounting standards do not acknowledge the Group's structure. The accounting policies that include a description of the technical parent company consisting of the member cooperative banks are presented in Note 2 to the POP Bank Group consolidated financial statements.

The chart on next page illustrates the structure of the POP Bank Group and the entities included in the amalgamation as well as the scope of joint liability.

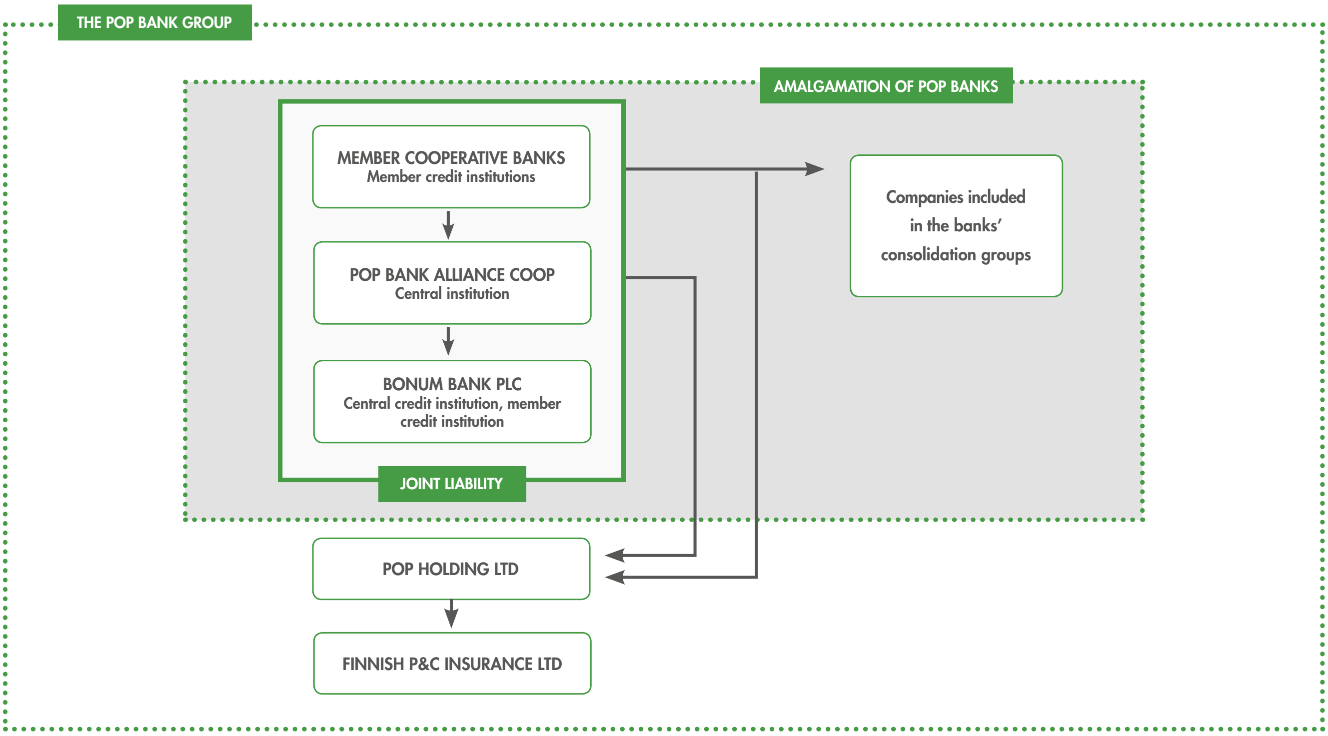
During the financial year POP Banks sold all their shares in Optium Ltd. The transaction did not have a material effect on the profit for the financial year. Bonum Bank Ltd changed its company form into public limited liability company (Plc) and a decision to dissolve the POP Banks' guarantee fund was made. The final settlement of the guarantee fund and distribution of the assets to the members of the guarantee fund were approved in June. The dissolution of the guarantee fund is an intra-Group arrangement, and therefore has no effects on the Group's earnings. The dissolution of the guarantee fund is visible the Group's equity structure as a transfer from funds to retained earnings.

POP Bank Alliance Coop acts as the central institution responsible for group steering and supervision of the POP Bank Group in accordance with the Amalgamation Act. POP Bank Alliance Coop's registered office is Helsinki and its address is Hevosenkenkä 3, FI-02600 Espoo, Finland.

POP Bank Alliance Coop has prepared the POP Bank Group's consolidated IFRS financial statements in accordance with the Act on the Amalgamation of Deposit Banks. The Board of Directors of POP Bank Alliance Coop accepted the report and consolidated financial statements on 21 February 2017. The financial statements will be presented to the general meeting of POP Bank Alliance Coop cooperative on 6 April 2017.

Copies of the financial statements and financial statements bulletin of the POP Bank Group are avail-

The POP Bank Group, amalgamation of POP Banks and joint liability



able from the office of the central institution, address Hevosenkenkä 3, FI-02600 Espoo, Finland, and online at www.poppankki.fi.

Additional financial information presented as comparative information

The amalgamation of POP Banks started operations on 31 December 2015. In accordance with the Amalgamation Act, the central institution shall prepare the financial statements as a combination of the financial statements of the central institution and its member credit institutions or the group financial statements in accordance with the International Financial Reporting Standards (IFRS). The first consolidated financial statements of the POP Bank Group was prepared as of the start date of the operations of the amalgamation, and it included the closing date 31 December 2015. The financial statements included the POP Bank Group's balance sheet and the disclosures presented as notes to the balance sheet, accounting policies and other notes. Additional financial information was also presented in note 48 of the official IFRS financial statements, covering IFRS data for the financial period 1 January–31 December 2015 and comparison period 1 January–31 December 2014. The additional financial information was presented for the period preceding the formation of the amalgamation of POP Banks, at which time POP Banks acted as a single bank group but were not legally liable for each other's commitments. The purpose of the additional financial information was to provide the market with useful information of the profitability of the operations of the POP Bank Group, formation of earnings and the financial position of the Group.

The additional financial information has been prepared by consolidating the audited separate financial statements of the companies and entities included in the POP Bank Group. The information presented as additional financial information has been prepared under the "combined financial statement" principle, in which the historical additional financial information of the companies and entities have been combined into a single entity, the inter-company items have been eliminated and the balance sheet and income statement items have been adjusted to correspond to IFRS. The preparation of the consolidated financial statements as a single entity is based on the "common management" concept as the POP Bank Group has operated under joint management, applying joint financial statement processes even though the Group was not under joint control. The balance sheet of the official financial statements at 31 December 2015 corresponds to the balance sheet at 31 December 2015 presented in the additional financial information.

The additional financial information has been marked with footers and grey color in the financial statements bulletin.

NOTE 2 POP BANK GROUP'S ACCOUNTING POLICIES

The consolidated financial statements of the POP Bank Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the related interpretations (IFRIC).

The financial statements bulletin for 1 January - 31 December 2016 has been prepared in accordance with IAS 34 Interim Financial reporting. There are no material changes in accounting policies of the POP Bank Group's consolidated IFRS financial statement, with the exception of the changes to the accounting policies requiring the management's discretion and uncertainties associated with estimates described below. New and improved standards adopted during the financial year did not have a material effect on the POP Bank Group's financial statements.

The figures of the financial bulletin are unaudited.

The figures in the half-year financial report are presented in thousand euros, unless otherwise stated. The figures in the calculations and tables are rounded, whereby the sum total of individual figures may deviate from the sum total presented. The operating currency of all of the companies belonging to the POP Bank Group is euro.

Accounting policies requiring the management's discretion and uncertainties associated with estimates

The application of IFRS requires the management to make assessments and assumptions that effects on the items disclosed in the financial statements and information presented as notes to them. The management's key estimates concern the future and key uncertainties associated with values on the closing date, and they are particularly associated with the assessment of fair value, impairment of financial assets and intangible assets, as well as the assumptions used in actuarial calculations.

In May 2016, the Board of Directors of POP Bank Alliance Coop defined that impairment of an investment in an equity instrument to be significant when the fair value is more than 30 per cent lower than the cost of the instrument. Previously, in the financial statements 31 December 2015 the criterion for significance was 40 per cent. The change resulted in a slight increase in impairment of equity instruments during the first half of the year.

No significant changes have taken place in other accounting policies requiring the management's discretion and uncertainties included in estimates compared to the financial statements for 2015.

Essential errors concerning previous financial periods are adjusted retrospectively in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting, Estimates and Errors. An error concerning the depreciation of real property was observed in the financial statements for 2015. Its effect on the balance sheet of 31 December 2015 and opening balance sheet of 1 January 2015 presented as additional financial information and the earnings for the financial period 1 January – 31 December 2015 is presented in Note 3.

NOTE 3 ERROR IN DEPRECIATIONS ON REAL ESTATE ASSETS, WHICH AFFECTS PREVIOUS PERIODS

Due to an accounting error in consolidating real estate entities, the depreciations on real estate assets were understated in Financial Statements 31 December 2015. The reported equity capital of the POP Bank Group 31 December was EUR 2 265 thousands overstated. The effect on the profit for the period 1 January - 31 December 2015 presented as additional financial information was EUR 683 thousand.

The error has been corrected retrospectively in accordance with the requirements of Standard IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors by adjusting the financial statements as follows:

31 December 2015

(EUR 1,000)	Reported	Adjustment	Adjusted
Investment assets	637,308	-1,403	635,904
Property, plant and equipment	41,224	-1,428	39,796
Tax assets	3,401	566	3,967
Retained earnings	239,831	-2,265	237,566
Total equity capital			
Total equity attributable to the owners of the POP Bank Group	422,721	-2,265	420,455
Non-controlling interests	3,261	-	3,261

1 January-31 December 2015*

(EUR 1,000)	Reported	Adjustment	Adjusted
1 January 2015			
Investment assets	388,668	-861	387,807
Property, plant and equipment	42,400	-1,118	41,282
Tax assets	2,574	396	2,969
Retained earnings	235,558	-1,583	233,976
Total equity capital			
Total equity attributable to the owners of the POP Bank Group	385,939	-1,583	384,356
Non-controlling interests	8,604	-	8,604
Impact on the income statement 1 Jan-31 Dec 2015			
Net investment income	3,226	-543	2,684
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-5,523	-311	-5,834
Income tax expense	-3,783	171	-3,613
Profit for the period	9,093	-683	8,411

*Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

The adjustment had no material effect on capital adequacy ratios of the amalgamation of POP Banks 31 December 2015.

NOTE 4 THE POP BANK GROUP'S OPERATING SEGMENTS

The operating segments of POP Bank Group are banking and insurance. The operating segments are reported in a way that is consistent with the internal reporting to the management. The reporting of operating segments complies with the accounting policies applied to the Group's IFRS financial statements. The policies are presented in note 2 for the Financial statements. The chief operating decision maker of the POP Bank Group is the Board of Directors of the Group's central institution POP Bank Alliance Coop. The central institution is responsible for the allocation of resources and assessing the profitability of operations.

The Banking segment includes the member cooperative banks and Bonum Bank Plc. Cooperative banks engage in retail banking and Bonum Bank Plc acts as their central credit institution. The most significant income items of Banking are net interest income, fee and commission income as well as investment income. The most significant expense items consist of personnel expenses and other operating expenses.

The Insurance segment comprises Finnish P&C Insurance Ltd, a provider of vehicle, property and personal insurance policies to private customers. The most significant income items of Insurance are insurance premium revenue and net investment income. The most significant expense items of Insurance consist of personnel expenses and other operating expenses.

Internal transactions between banks included in the Banking segment are eliminated in segment reporting. Pricing between segments is based on market prices. Transactions between the Banking segment and the Insurance segment are included in eliminations presented with reconciliations. Unallocated items include income statement and balance sheet items related to other operations. Other operations include POP Holding Ltd, POP Bank Alliance Coop and POP Banks' guarantee fund, which was dissolved during the financial year.

POP BANK GROUP'S OPERATING SEGMENTS 2016

INCOME STATEMENT 1 JANUARY–31 DECEMBER 2016

(EUR 1,000)	Banking	Insurance	Segments total
Net interest income	62,688	-	62,688
Net commissions and fees	22,491	-	22,491
Net trading income	542	-	542
Net investment income	7,080	-	7,080
Net income from non-life insurance	-	8,069	8,069
Other operating income	16,325	-	16,325
Total operating income*	**109,125**	**8,069**	**117,194**
Personnel expenses	-30,097	-6,514	-36,611
Other operating expenses	-38,940	-3,480	-42,420
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-3,515	-1,328	-4,843
Total operating expenses	**-72,552**	**-11,322**	**-83,874**
Impairment losses on loans and receivables	-6,731	-	-6,731
Profit before tax	**29,842**	**-3,253**	**26,590**
Income tax expense	-6,778	-1	-6,779
Profit for the period	**23,064**	**-3,254**	**19,810**
* of which external	109,125	8,069	117,194
of which internal	-	-	-

Profit of the banking segment includes the funds of EUR 10.0 million refunded to member banks when the POP Banks guarantee fund was dissolved. Dissolving is an internal arrangement, so it is not included in the Group's profit. The tax effect of EUR -2 million is included in Group's profit.

BALANCE SHEET 31 DECEMBER 31 2016

(EUR 1,000)	Banking	Insurance	Segments total
Assets			
Liquid assets	99,174	-	99,174
Financial assets at fair value through profit or loss	1,681	-	1,681
Loans and receivables from credit institutions	68,611	8,676	77,287
Loans and receivables from customers	3,216,152	-	3,216,152
Derivative contracts	2,541	-	2,541
Investment assets	829,085	-	829,085
Non-life insurance assets	-	42,915	42,915
Intangible assets	4,947	7,726	12,674
Property, plant and equipment	32,781	43	32,824
Other assets	15,311	103	15,414
Tax assets	966	-	966
Total assets	**4,271,248**	**59,462**	**4,330,711**
Liabilities			
Liabilities to credit institutions	11,385	-	11,385
Liabilities to customers	3,510,967	-	3,510,967
Non-life insurance liabilities	-	32,420	32,420
Debt securities issued to the public	100,220	-	100,220
Supplementary cooperative capital	37,512	-	37,512
Other liabilities	64,018	1,815	65,832
Tax liabilities	26,746	260	27,006
Total liabilities	**3,750,847**	**34,495**	**3,785,342**

THE POP BANK GROUP'S OPERATING SEGMENTS 2015

INCOME STATEMENT 1 JANUARY–31 DECEMBER 2015**			
(EUR 1,000)	Banking	Insurance	Segments total
Net interest income	61,618	-	61,618
Net commissions and fees	27,523	-	27,523
Net trading income	539	-	539
Net investment income	3,774	-	3,774
Net income from non-life insurance	-	5,155	5,155
Other operating income	5,065	-	5,065
Total operating income*	**98,519**	**5,155**	**103,674**
Personnel expenses	-29,040	-5,347	-34,388
Other operating expenses	-38,831	-3,740	-42,571
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-4,222	-1,294	-5,516
Total operating expenses	**-72,094**	**-10,381**	**-82,475**
Impairment losses on loans and receivables	-4,961	-	-4,961
Profit before tax	**21,464**	**-5,226**	**16,238**
Income tax expense	-3,823	-3	-3,826
Profit (loss)	**17,641**	**-5,229**	**12,412**
* of which external	98,519	5,155	103,674
of which internal	-	-	-

** Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

BALANCE SHEET 31 DECEMBER 2015

(EUR 1,000)	Banking	Insurance	Segments total
Assets			
Liquid assets	172,899	-	172,899
Financial assets at fair value through profit or loss	3,383	-	3,383
Loans and receivables from credit institutions	128,780	3,483	132,263
Loans and receivables from customers	3,029,032	-	3,029,032
Derivative contracts	5,356	-	5,356
Investment assets	686,487	-	686,487
Non-life insurance assets	-	37,610	37,610
Intangible assets	6,547	8,885	15,432
Property, plant and equipment	32,766	57	32,824
Other assets	13,293	162	13,455
Tax assets	3,266	56	3,322
Total assets	**4,081,809**	**50,252**	**4,132,062**
Liabilities			
Liabilities to credit institutions	112,658	-	112,658
Liabilities to customers	3,347,181	-	3,347,181
Non-life insurance liabilities	-	27,567	27,567
Debt securities issued to the public	24,188	-	24,188
Supplementary cooperative capital	58,231	-	58,231
Other liabilities	54,151	1,752	55,903
Tax liabilities	24,995	153	25,149
Total liabilities	**3,621,404**	**29,473**	**3,650,876**

RECONCILIATIONS

INCOME

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Eliminations of internal items between segments	117,194	103,674
Unallocated income, other functions	6,804	4,085
Eliminations of internal items between segments and other functions	-9,148	-4,467
Group's total income	**114,851**	**103,292**

RESULT

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Segments' total result	19,810	12,412
Unallocated items	-9,470	-4,002
Group's total result	**10,340**	**8,411**

* Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Assets		
Total assets of the segments	4,330,711	4,132,062
Eliminations of internal items between segments	-4,135	-3,321
Unallocated assets, other functions	99,091	127,489
Eliminations of internal items between segments and other functions	-196,249	-184,595
Group's total assets	**4,229,417**	**4,071,635**
Liabilities		
Segments' total liabilities	3,785,342	3,650,876
Eliminations of internal items between segments	-4,135	-3,321
Unallocated liabilities, other functions	-46,523	19,445
Eliminations of internal items between segments and other functions	31,712	-19,082
Group's total liabilities	**3,766,396**	**3,647,918**

NOTE 5 NET INTEREST INCOME

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015**
Interest Income		
Loans and advances to credit institutions	745	2,123
Loans and advances to customers*	71,280	72,060
Debt securities	4,142	4,211
Hedging derivatives	3,224	3,387
Other interest income	932	894
Total interest income	**80,324**	**82,674**
Interest expenses		
Liabilities to credit institutions	-408	-734
Liabilities to customers	-16,569	-20,110
Debt securities issued to the public	-835	-401
Hedging derivatives	-1	-97
Subordinated liabilities	-	-12
Other interest expenses	-93	-82
Total interest expenses	**-17,907**	**-21,437**
Net interest income	**62,417**	**61,237**
*Impaired loans	847	453

Negative interest rates did not have a significant effect on the interest income or expenses.

** Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

NOTE 6 NET COMMISSIONS AND FEES

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Commissions and fees		
Lending	7,774	7,559
Card business	4,523	2,634
Deposits	459	365
Payment transfers	11,060	10,650
Legal services	1,958	1,839
Intermediated services	3,672	2,714
Issuing guarantees	437	545
Funds	1,914	1,966
Other commission income	1,263	4,194
Total commissions and fees	**33,060**	**32,467**
Commissions expenses		
Card business	-1,575	-1,135
Payment transfers	-1,209	-840
Other commission expenses	-1,907	-259
Total commission expenses	**-4,691**	**-2,234**
Net commissions and fees	**28,369**	**30,233**

* Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

NOTE 7 NET INVESTMENT INCOME

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Net income from available-for-sale financial assets		
Debt securities		
Capital gains and losses	-7	-19
Impairment losses	1	-47
Transferred from fair value reserve	1,281	670
Debt securities	**1,275**	**603**
Shares and participations		
Dividend income	1,914	1,326
Capital gains and losses	-1,203	821
Impairment losses	-1,453	-5,233
Transferred from fair value reserve	8,339	6,321
Total shares and participations	**7,598**	**3,235**
Total net income from available-for-sale financial assets	**8,873**	**3,838**
Net income from investment property		
Rental income	4,279	4,396
Capital gains and losses	-3	-292
Other income from investment property	94	103
Maintenance charges and expenses	-2,674	-3,500
Depreciations and amortisation of investment property	-1,611	-1,855
Other expenses from investment property	-12	-7
Total net income from investment property	**72**	**-1,155**
Total net investment income	**8,945**	**2,684**

* Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

Net income from shares and participations includes EUR 1 479 from Visa transaction transferred from fair value reserve.

NOTE 8 NET INCOME FROM NON-LIFE INSURANCE

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Insurance premium revenue		
Premiums written	34,585	30,429
Change in the provision for unearned premiums	-939	-949
Gross insurance premium revenue	33,646	29,480
Ceded to reinsurers	-667	-1,386
Total insurance premium revenue	**32,980**	**28,094**
Claims incurred		
Claims paid	-21,505	-20,345
Change in provision for unpaid claims	-3,758	-2,476
Total claims incurred, gross	-25,263	-22,821
Ceded to reinsurers	-	-50
Total claims incurred	**-25,263**	**-22,871**
Net investment income	361	9
Total net income from non-life insurance	**8,078**	**5,232**

NET INVESTMENT INCOME FROM NON-LIFE INSURANCE

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Net income from available-for-sale financial assets		
Debt securities		
Interest income	150	46
Capital gains and losses	34	32
Transfers from fair value reserve	**2**	**-**
Total debt securities	**186**	**78**
Shares and participations		
Dividend icome	7	-
Capital gains and losses	164	-69
Transfers from fair value reserve	13	-
Total shares and participations	**183**	**-69**
Total net income from available-for-sale financial assets	**369**	**9**
Other investment income and expenses		
Interest income	54	50
Interest expenses	-1	-2
Other investment income	21	21
Investment income management expenses	-83	-68
Other investment income and expenses total	**-8**	**1**
Total net investment income from non-life insurance	**361**	**9**

The net investment income of the investment activities of the non-life insurance company includes all income and expenses from investments.

* Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

NOTE 9 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

FINANCIAL ASSETS 31 DECEMBER 2016

(EUR 1,000)	Loans and receivables	Measured at fair value through profit or loss	Hedging derivatives	Available-for-sale	Total carrying amount
Liquid assets	99,174	-	-	-	99,174
Assets at fair value through profit or loss	-	1,681	-	-	1,681
Loans and receivables from credit institutions	73,515	-	-	-	73,515
Loans and receivables from customers	3,188,681	-	-	-	3,188,681
Derivative contracts	-	-	2,541	-	2,541
Investment assets					
Debt securities	-	-	-	411,948	411,948
Shares and participations	-	-	-	305,816	305,816
Non-life insurance assets	-	-	-	28,629	28,629
Total	**3,361,370**	**1,681**	**2,541**	**746,393**	**4,111,985**

Investment assets include EUR 36 598 thousand other than financial assets (real estate). Non-life insurance assets include EUR 14 285 thousand other than financial assets, mainly insurance receivables from customers.

FINANCIAL LIABILITIES 31 DECEMBER 2016

(EUR 1,000)	Other financial liabilities	Total carrying amount
Liabilities to credit institutions	11,385	11,385
Liabilities to customers	3,502,418	3,502,418
Debt securities issued to the public	100,220	100,220
Supplementary cooperative capital	37,512	37,512
Total	**3,651,534**	**3,651,534**

Liabilities to customers include EUR 2 672 thousand other than financial liabilities.

FINANCIAL ASSETS 31 DECEMBER 2015

(EUR 1,000)	Loans and receivables	Measured at fair value through profit or loss	Hedging derivatives	Available-for-sale	Total carrying amount
Liquid assets	172,899	-	-	-	172,899
Assets at fair value through profit or loss	-	3,383	-	-	3,383
Loans and receivables from credit institutions	129,327	-	-	-	129,327
Loans and receivables from customers	3,013,972	-	-	-	3,013,972
Derivative contracts	-	-	5,356	-	5,356
Investment assets					
Debt securities	-	-	-	311,983	311,983
Shares and participations	-	-	-	289,823	289,823
Non-life insurance assets	-	-	-	24,412	24,412
Total	**3,316,198**	**3,383**	**5,356**	**626,218**	**3,951,155**

Investment assets include EUR 34 098 thousand other than financial assets (real estate). Non-life insurance assets include EUR 13 198 thousand other than financial assets, mainly insurance receivables from customers.

In November 2015, the Board of Directors of Bonum Bank Ltd decided on an amendment to the investment policy, as the result of which Bonum Bonum Bank Ltd's held-to-maturity investments of EUR 63 744 thousand were reclassified as available-for-sale investments. As the result of the reclassification, the investments classified as held to maturity in the IFRS financial statements of the POP Bank Group, EUR 67 367, had to be reclassified as available-for-sale investments. In accordance with IAS 39, the POP Bank Group cannot classify investments into investments held to maturity in the next two financial years.

FINANCIAL LIABILITIES 31 DECEMBER 2015

(EUR 1,000)	Other financial liabilities	Total carrying amount
Liabilities to credit institutions	112,783	112,783
Liabilities to customers	3,337,170	3,337,170
Debt securities issued to the public	24,188	24,188
Supplementary cooperative capital	58,231	58,231
Total	**3,532,372**	**3,532,372**

Liabilities to customers include EUR 5 643 thousand other than financial liabilities.

NOTE 10 LOANS AND RECEIVABLES

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Loans and receivables from credit institutions		
Deposits		
Repayable on demand	47,164	63,415
Other	26,351	65,912
Total loans and advances to credit institutions	**73,515**	**129,327**
Loans and advances to customers		
Loans	3,107,229	2,919,646
Loans granted from government funds	7,311	9,026
Guarantees	49	184
Used overdrafts	41,927	44,002
Credit card receivables	31,296	39,395
Other receivables	868	1,720
Total loans and advances to customers	**3,188,681**	**3,013,972**
Total loans and receivables	**3,262,196**	**3,143,299**

POP Banks belonging to the POP Bank Group have additionally intermediated Aktia Real Estate Mortgage Bank's loans. The loans intermediated by POP Banks amounted to EUR 33 311 thousand (203 105) on 31 December 2016. The cooperation is about to end, and all loans will be transferred to the banks' balance sheets by summer 2017.

IMPAIRMENT LOSSES RECORDED ON LOANS AND RECEIVABLES

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Increases in impairment losses	-7,336	-5,768
Reversals of impairment losses	777	827
Change in collectively assessed impairment losses	-101	-357
Reversals of impairment losses from final credit losses	1,919	4,652
Final credit losses	-1,997	-4,314
Impairment losses on loans and receivables	**-6,731**	**-4,961**

ACCRUED IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES IN THE BALANCE SHEET

	1.1.-31.12.2016	1.1.-31.12.2015*
Impairment losses 1 January	16,933	16,286
+ Increases in impairment losses	7,336	5,768
- Reversals of impairment losses	-777	-827
+/- Change in collectively assessed impairment losses	101	357
- Reversals of impairment losses from final credit losses	-1,927	-4,652
Impairment losses at the end of period	**21,667**	**16,933**

* Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

NOTE 11 INVESTMENT ASSETS

(EUR 1,000)	31 Dec 2016	31 Dec 2015*
Available-for-sale financial assets		
Debt securities	411,948	311,983
Shares and participations	305,816	289,823
Investment properties	36,598	34,098
Total investment assets	**754,362**	**635,904**

*Adjusted see note 3

IMPAIRMENT LOSSES ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

(EUR 1,000)	Debt securities	Shares and participations	Total
Impairment losses 1 January 2016	376	5,829	6,205
+ Increases in impairment losses	7	1,446	1,452
- Reversals of impairment losses	-8	-3,569	-3,577
Impairment losses 31 December 2016	375	3,705	4,081

(1,000 euroa)	Debt securities	Shares and participations	Total
Impairment losses 1 January 2015	329	805	1,134
+ Increases in impairment losses	47	6,456	6,504
- Reversals of impairment losses	-	-1,433	-1,433
Impairment losses 31 December 2015	376	5,829	6,205

* Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

NOTE 12 NON-LIFE INSURANCE ASSETS

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Investments		
Shares and participations	5,806	7,900
Bonds	22,824	16,512
Other assets		
Other receivables		
Direct insurance operations	13,749	13,034
Other receivables	537	164
Non-life insurance assets total	**42,915**	**37,610**

NOTE 13 LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Liabilities to credit institutions		
Repayable on demand	5,893	84,175
Not repayable on demand	5,492	28,607
Total liabilities to credit institutions	**11,385**	**112,783**
Liabilities to customers		
Deposits		
Repayable on demand	2,559,514	2,424,924
Not repayable on demand	935,748	903,469
Other financial liabilities		
Not repayable on demand	9,829	14,421
Total liabilities to customers	**3,505,090**	**3,342,813**
Total liabilities to credit institutions and customers	**3,516,475**	**3,455,596**

NOTE 14 NON-LIFE INSURANCE LIABILITIES

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Insurance contract liabilities	26,586	21,889
Liabilities from direct insurance operations	235	692
Liabilities from reinsurance operations	189	369
Other	5,411	4,617
Total non-life insurance liabilities	**32,420**	**27,567**

INSURANCE CONTRACT LIABILITIES

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Provision for unearned premiums	12,899	11,960
Ceded to reinsurers	-	-
Provisions for unpaid claims	14,751	9,929
Ceded to reinsurers	-1,064	-
Total insurance contract liabilities	**26,586**	**21,889**

Insurance contract liabilities consist of insurance liability and provisions for unpaid claims. Premiums written include insurance premiums for the contract periods that have begun during the financial year. The portion of premiums written for the post-balance sheet date is recorded as provision for unearned premiums in the balance sheet. Unpaid claims are based on a collective provision proportioned both case-specifically and to previous insurance premium revenue and include indemnities for losses that have already occurred on the closing date but have not been paid yet and losses that have not yet been reported.

NOTE 15 DEBT SECURITIES ISSUED TO THE PUBLIC

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Debt securities issued to the public	99,521	23,356
Other		
Certificate of deposits	699	832
Total debt securities issued to the public	**100,220**	**24,188**

During the reporting period, Bonum Bank Plc, the central credit institution of POP Banks, issued a three-year unsecured bond of EUR 100 million with floating interest rate. The bond is listed on the Helsinki stock exchange.

NOTE 16 COLLATERAL GIVEN

COLLATERAL GIVEN

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Given on behalf of own liabilities and commitments		
Pledges	2,164	3,442
Mortgages	400	536
Collateral given to the Bank of Finland	36,403	27,553
Total collateral given	**38,967**	**31,531**

NOTE 17 OFF-BALANCE-SHEET COMMITMENTS

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Guarantees	23,727	24,508
Loan commitments	193,807	186,773
Total off-balance sheet commitments	**217,534**	**211,281**

NOTE 18 FAIR VALUES BY VALUATION TECHNIQUE

ITEMS RECURRENTLY MEASURED AT FAIR VALUE 31 DECEMBER 2016

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets					
Measured at fair value through profit or loss					
Banking	-	-	1,681	1,681	1,681
Derivative contracts					
Banking	-	2,541	-	2,541	2,541
Available-for-sale financial assets					
Banking	506,889	194,841	16,035	717,764	717,764
Insurance	28,629	-	-	28,629	28,629
Total financial assets	**535,518**	**197,381**	**17,715**	**750,615**	**750,615**

ITEMS MEASURED AT AMORTISED COST 31 DECEMBER 2016

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets					
Loans and receivables					
Banking	-	3,290,469	-	3,290,469	3,262,196
Total assets measured at amortised cost	**-**	**3,290,469**	**-**	**3,290,469**	**3,262,196**
Financial liabilities					
Other financial liabilities					
Banking	-	3,652,913	-	3,652,913	3,651,534
Total financial liabilities measured at amortised cost	**-**	**3,652,913**	**-**	**3,652,913**	**3,651,534**

ITEMS RECURRENTLY MEASURED AT FAIR VALUE 31 DECEMBER 2015

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets					
Measured at fair value through profit or loss					
Banking	-	-	3,383	3,383	3,383
Derivative contracts					
Banking	-	5,356	-	5,356	5,356
Available-for-sale financial assets					
Banking	463,754	94,675	30,959	589,388	589,388
Insurance	24,412	-	-	24,412	24,412
Other	12,418	-	-	12,418	12,418
Total financial assets	**500,583**	**100,032**	**34,342**	**634,957**	**634,957**

ITEMS MEASURED AT AMORTISED COST 31 DECEMBER 2015

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets					
Loans and receivables					
Banking	-	3,123,949	-	3,123,949	3,143,299
Total assets measured at amortised cost	**-**	**3,123,949**	**-**	**3,123,949**	**3,143,299**
Financial liabilities					
Other financial liabilities					
Banking	-	3,519,270	-	3,519,270	3,532,372
Total financial liabilities measured at amortised cost	**-**	**3,519,270**	**-**	**3,519,270**	**3,532,372**

Fair value determination of financial assets and financial liabilities

Financial assets are recorded in the balance sheet either at fair value or at amortised cost. The classification and measurement of financial instruments is described in more detail in Note 2 to the POP Bank Group's consolidated financial statements.

Fair value hierarchies

Level 1 includes financial instruments that are measured on the basis of quotations obtained from liquid markets. A market is considered as liquid quotations are regularly available. This group includes all securities with publicly quoted prices.

Level 2 includes financial instruments measured using generally approved measurement techniques or models which are based on assumptions made on the basis of observable market prices. For example, the fair value of a financial instrument allocated to Level 2 may be based on the value derived from the market quotation of components of an instrument. This group includes interest derivatives and other instruments that are not traded in liquid markets.

Level 3 includes financial instruments and other assets that are not measured using market quotations or values determined on the basis of observable market prices using measurement techniques or models. The assumptions applied in the measurement techniques often involve insecurity. The fair value of assets allocated to Level 3 is often based on price information obtained from a third party. This group includes unlisted shares and funds and investment properties.

Transfers between fair value hierarchies

Transfers between hierarchy levels are considered to have taken place on the date of the occurrence of the event that caused the transfer or the date when the circumstances changed.

In 2016 EUR 4 947 (10 099*) thousand of securites have been transferred from hierarchy level 3 to hierarchy level 1. A regular public quote could not be previously obtained for the debt securities, which is why they were classified to hierarchy level 3 in the comparison period.

CHANGES IN FINANCIAL ASSETS RECURRENTLY MEASURED AT FAIR VALUE CLASSIFIED INTO LEVEL 3

Changes in financial assets measured at fair value through profit or loss classified into level 3

(EUR 1,000)	1 Jan-31 Dec 2016 Banking	1 Jan-31 Dec 2015* Banking
Carrying amount 1 Jan	**3,383**	**3,477**
+ Purchases	196	-
- Sales	-368	-50
- Matured during the financial year	-1,600	-
+/- Realised changes in value recognised in income statment	34	-
+/- Unrealised changes in value recognised in the income statement	36	-44
Carrying amount at the end of period	**1,681**	**3,383**

Changes in available-for-sale financial assets classified into level 3

(EUR 1,000)	1 Jan-31 Dec 2016 Banking	1 Jan-31 Dec 2015* Banking
Carrying amount 1 Jan	**30,959**	**44,166**
+ Purchases	4,052	5,081
- Sales	-12,435	-3,653
- Matured during the period	-1,105	-5,183
+/- Realised changes in value recognised in income statement	-668	118
+/- Unrealised changes in value recognised in income statement	-50	30
+/- Changes in value recognised in other comprehensive income	228	499
- Transfers to level 1 and 2	-4,947	-10,099
Carrying amount at the end of period	**16,035**	**30,959**

* Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

SENSITIVITY ANALYSIS OF FINANCIAL INSTRUMENTS AT LEVEL 3

Available-for-sale financial assets 31 December 2016

		Possible effect on equity capital	
(EUR 1,000)	Carrying amount	Positive	Negative
Banking	15,925	1,481	-1,481
Total available-for-sale financial assets	15,925	1,481	-1,481

Available-for-sale financial assets 31 December 2015

		Possible effect on equity capital	
(EUR 1,000)	Carrying amount	Positive	Negative
Banking	31,446	3,258	-3,258
Total available-for-sale financial assets	31,446	3,258	-3,258

The sensitivity of financial assets recurrently measured at fair value at level 3 has been calculated for interest rate linked investments by assuming a 1 percentage points change in interest rates and for other investments by assuming the market price of the security to change by 15%.

The POP Bank Group does not have assets measured non-recurrently at fair value.

NOTE 19 RELATED PARTY DISCLOSURES

The related parties of the POP Bank Group include the members of the Supervisory Board and Board of Directors of POP Bank Alliance Coop and their close relatives. Related parties also include the managing director and deputy managing director of POP Bank Alliance Coop. Related parties also include companies over which the above-mentioned persons exercise control.

Transactions with key persons in management and other related parties are presented below. Key persons in management include members of the Supervisory Board and the Board of Directors and the managing director and deputy managing director of POP Bank Alliance Coop.

RELATED-PARTY TRANSACTIONS

	Key persons in management		Other	
(EUR 1,000)	2016	2015	2016	2015
Assets				
Loans	2,813	2,622	3,743	924
Liabilities				
Deposits	1,527	1,620	1,999	352
Off-balance-sheet commitments				
Loan commitments	76	47	5	1
Guarantees	630	504	902	342
Investments to other than cooperative contributions	241	220	106	96
Cooperative contributions owned by related parties (pcs)	31	31	22	22

	Key persons in management		Other	
(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Income and expenses				
Interest income	26	28	56	12
Interest expenses	12	17	15	2
Insurance premium revenue	16	17	9	3

COMPENSATIONS TO KEY PERSONS IN MANAGEMENT

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Short-term employee benefits	2,284	2,441
Post-employment benefits	36	44
Total Compensation to key persons in management	**2,319**	**2,486**

* Additional financial information presented for the time preceding the start of operation of the amalgamation of POP Banks on 31 December 2015. See note 1.

NOTE 20 CAPITAL ADEQUACY

The amalgamation of POP Banks is formed by the central institution (POP Bank Alliance Coop), the member credit institutions of the central institution, the companies included in the consolidation groups of the member credit institutions and those credit institutions, financial institutions and service companies in which entities included in the amalgamation jointly hold over 50% of the votes. More detailed information about the entities included in the consolidation group is presented in Note 1.

Pillar III disclosure requirements are presented in Note 4 of the POP Bank Group consolidated financial statements on risk and capital adequacy management and Note 3 on corporate governance. The disclosure requirements concerning remuneration are presented in Note 3 on corporate governance and Notes 13 and 59.15 on employee expenses.

The capital requirement for credit risk of the amalgamation of POP Banks is calculated using the standardised approach and capital requirement for operational risk using the basic indicator approach. The capital requirement for market risk is calculated for the foreign exchange exposure using the standardized approach.

SUMMARY OF CAPITAL ADEQUACY

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Own funds		
Common Equity Tier 1 capital before deductions	486,655	461,632
Deductions from Common Equity Tier 1 capital	-5,245	-6,089
Total Common Equity Tier 1 capital (CET1)	**481,410**	**455,542**
Additional Tier 1 capital before deductions	6,897	10,545
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**6,897**	**10,545**
Tier 1 capital (T1 = CET1 + AT1)	**488,307**	**466,087**
Tier 2 capital before deductions	2,759	3,164
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**2,759**	**3,164**
Total capital (TC = T1 + T2)	**491,065**	**469,251**
Total risk weighted assets	**2,308,526**	**2,252,853**
of which credit risk	2,084,072	2,038,332
of which credit valuation adjustment risk (CVA)	1,321	3,599
of which market risk (exchange rate risk)	25,597	24,892
of which operational risk	197,536	186,031
Fixed capital conservaction buffer according to Act on Credit institutions (2.5%)	**57,713**	**56,321**
Countercyclical capital buffer	**222**	**253**
CET1 Capital ratio (%)	20.9 %	20.2 %
T1 Capital ratio (%)	21.2 %	20.7 %
Total capital ratio (%)	21.3 %	20.8 %
Leverage ratio		
Tier 1 capital (T1)	488,307	466,087
Leverage ratio exposure	4,291,563	4,283,948
Leverage ratio, %	11.4 %	10.9 %

POP Pankki