POP Bank Group

HALF-YEAR FINANCIAL REPORT

1 January–30 June 2017

POP Pankki

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POP Bank Group's half-year financial report for 1 January – 30 June 2017 is a translation of the original Finnish version "POP Pankki -ryhmän puolivuosikatsaus 1.1.-30.6.2017". In case of discrepancies, the Finnish version shall prevail."

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We will systematically continue our renewal work and the creation of an even better group of banks in accordance with our customers' needs and wishes.

Strong result in a challenging economic environment

The POP Bank Group improved its result in comparison with the corresponding period of the previous year. The number of our customers increased in a controlled manner, and our capital adequacy remained very strong. We served around 250,000 banking customers and 105,000 insurance customers online, via mobile and at our 81 branches.

During the first half of the year, we continued to strengthen our competitive ability and improve our profitability systematically, in accordance with the Group's strategy. We succeeded in recording a strong performance and maintaining a high level of customer satisfaction.

The balance sheet total was EUR 4,310.2 million. The loan portfolio increased by 2.1% and deposits by 1.8% during the review period. The common equity Tier 1 capital ratio (CET1) remained strong at 21.3%.

The profit before taxes improved by 21% in comparison with the corresponding period of the previous year, increasing to EUR 11.4 million. Despite the challenging market situation, the net interest income remained unchanged at EUR 30.6 million. The results of this hard work are also visible in our digital non-life insurance company, with its net income increasing strongly, by 49.4% to EUR 4.8 million. During the first half of the year, the insurance company reached the milestone of 100,000 customers and was the fastest-growing company in its field.

The insurance company is aiming for a profitable result in 2017, its fifth year of operation. Its result during the first half of 2017 was burdened by the new price and bonus competition in motor liability insurance, resulting from the motor liability insurance reform, and it affected premium revenues during the first half of the year.

Bonum Bank Plc, the central credit institution of the POP Bank Group, has a rating of 'BBB' for long-term investment grade and a rating of 'A-2' for short-term investment grade. These ratings are based on the POP Bank Group's strong capital adequacy, business strength and expectations of improved efficiency following the amalgamation. The international capital markets enable us to offer our customers loans at even more competitive terms than before.

During the first half of 2017, we started several projects related to business digitalisation, automation and analytics. The first robots intended to replace manual work phases were taken into production during the spring.

Preparing for the core banking renewal was the key project of the first half of the year. The purpose of the reform is to replace the existing banking systems with modern, cost-effective solutions. This will enable the POP Bank Group to develop digital services even more rapidly than before, provide a better customer experience and adapt more flexibly to changes in the regulation of banking operations.

The POP Bank Group will systematically continue its renewal work and the creation of an even better group of banks in accordance with our customers' needs and wishes. We will continue to invest in our strong local presence, top-class digital services and a competitive range of products enabled by the international capital markets.

I would like to take this opportunity to thank our customers, staff, administration and partners for a successful first half of 2017.

Pekka Lemettinen
CEO, POP Bank Alliance Coop

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, 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 POP Bank Group emphasise the development of the customer experience. The POP Bank Group refers to the new legal entity created on 31 December 2015, comprised of POP Banks and POP Bank Alliance Coop, and the entities under their control. The POP Bank Group prepares its financial statements in accordance with the International Financial Reporting Standards (IFRS). 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 Plc, 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.

POP Banks and Bonum Bank Plc are member credit institutions of POP Bank Alliance Coop, which is the central institution of the amalgamation of POP Banks. In addition to the organisations that belong to the amalgamation of POP Banks, the POP Bank Group comprises POP Holding Ltd and its wholly owned company Finnish P&C Insurance Ltd. Neither of these are included in the scope of joint liability.

No changes took place in the structure of the POP Bank Group during the review period.

Operating environment

Recently, the global economy has showed signs of positive development. The growth rate has picked up in the eurozone, which is particularly important for Finland. The favourable development of the global economy and eurozone is also reflected in the economic outlook for Finland, which rapidly became more positive in the first half of 2017.

The good momentum in the export markets, in particular, has supported exports from Finland, which remained weak for a long time. The Competitiveness Pact is keeping salary development moderate in Finland, which supports the competitiveness of exports.

Low interest levels and increased construction activity, in particular, are supporting the favourable development of employment. The positive economic development and employment have also improved consumer confidence: according to the results of Statistics Finland's survey, consumer views of the economy are exceptionally positive.

However, consumers' purchasing power is not expected to increase, as the deflationary price development is reaching the point of inflation, and salary development is moderate. The housing market has remained stable, and consumers' positive sentiment has enabled prices to keep increasing in growth centres, particularly in the Helsinki metropolitan area. The moderate development of consumers' purchasing power, combined with the positive sentiment and expectations, is reflected in the fact that consumers continue to become more indebted, even though a new record-high level has already been reached.

The continuation of European Central Bank's stimulus policy is keeping the interest rate levels low. Furthermore the economy is improving in Eurozone and recovering in Finland, so the expected credit losses stay at low level. However, the growing indebtness of private households is gradually increasing the risk of payment defaults, which is also suggested by the increasing level of new payment default entries in the public credit information registries.

Key events during the first half of the year

Oy Samlink Ab provides the POP Bank Group's Banking segment with basic banking systems. The POP Bank Group, together with the other owners of Oy Samlink Ab, is negotiating the sale of the shares in Oy Samlink Ab to the Norwegian EVRY A/S. The parties signed a letter of intent on the transaction in March 2017. The letter of intent does not concern Paikallispankkien PP-Laskenta Oy or Project-IT Oy, which are subsidiaries of Oy Samlink Ab. The negotiations are expected to be completed during the autumn of 2017. The possible financial effects of the transaction cannot be estimated while the negotiations are in progress.

Bonum Bank Plc, which serves as the central credit institution of the POP Bank Group, has a certificate of deposit programme of EUR 150 million. In June 2017, two certificates of deposit were issued under the programme, both with a nominal value of EUR 5 million. In addition, Bonum Bank has a bond programme of EUR 750 million. A three-year unsecured senior bond of EUR 100 million was issued previously under the programme. The bond is listed on the Nasdaq Helsinki.

The business operations of Finnish P&C Insurance, which is part of the POP Bank Group, continued to grow strongly, and its number of customers exceeded 100,000 in April. As an agile operator, this digital company made use of the changes in the Finnish insurance markets by being one of the first companies to introduce a new motor liability insurance product, which offers the highest bonuses in Finland. The legislative amendments that came into effect at the beginning of the year have affected premium revenues and the market situation with regard to motor liability insurance.

The cooperation between POP Banks and Aktia Real Estate Mortgage Bank Plc on the intermediation of loans has ended. As part of the discontinuation of the cooperation, POP Banks sold their shares in Aktia Real Estate Mortgage Bank to Aktia Bank Plc in September 2016. Aktia Real Estate Mortgage Bank merged with Aktia Bank in February 2017. The last mortgage intermediated by POP Banks was transferred from Aktia Bank to POP Banks' balance sheet in May 2017.

On 30 January 2017, the Financial Supervisory Authority granted POP Bank Alliance Coop permission to decide on exemptions for its member credit institutions in accordance with sections 21, 21a, 21b and 23 of the Amalgamation Act. On 21 February 2017, the Board of Directors of POP Bank Alliance Coop exempted the member credit institutions from the limitations of major counterparty risks with regard to liabilities based on the centralised management of the member credit institutions' liquidity. In addition, the Board exempted the amalgamation's member credit institutions from the own funds requirement with regard to intra-Group items. This exemption from the own funds requirement has no effect on the capital adequacy ratios of the amalgamation of POP Banks.

POP Bank Group's earnings and balance sheet

The amalgamation of POP Banks started its operations on 31 December 2015. The financial year in progress is the amalgamation's second year of operation.

POP BANK GROUP'S KEY RATIOS*

(EUR 1,000)	1 Jan-30 Jun 2017	1 Jan-30 Jun 2016	1 Jan-31 Dec 2016
Net sales	71,748	69,395	137,449
Net interes income	30,575	30,625	62,417
% of net sales	42.6 %	44.1 %	45.4 %
Profit before tax	11,412	9,430	16,958
% of net sales	15.9 %	13.6 %	12.3 %
Total operating income	61,815	57,500	114,851
Total operating expenses	-43,761	-42,820	-85,733
Cost-to-income ratio	70.8 %	74.5 %	74.6 %
Balance sheet total	4,310,582	4,183,457	4,229,417
Equity capital	477,063	441,054	463,021
Return on assets, ROA %	0.4 %	0.2 %	0.2 %
Return on equity, ROE %	4.0 %	2.1 %	2.3 %
Equity ratio, %	11.7 %	10.5 %	10.9 %
Common equity Tier 1 capital ratio, (CET1) %	21,3 %	20.9 %	20.9 %
Capital adequacy ratio, (TC) %	21.7 %	21.5 %	21.3 %
Impairment losses on loans and other receivables	-2,743	-2,420	-6,731

The change in the presentation of commission expenses and other operating costs has been taken into account in the operating income and expenses and in the cost-to-income ratio for 1 January to 30 June 2016. In accordance with the previous presentation method, the cost-to-income ratio was 75.2%.

POP Bank Group's earnings development (comparison period 1 January – 30 June 2016)

The POP Bank Group's profit before taxes improved by 21% in comparison with the corresponding period of the previous year, increasing to EUR 11.4 (9.4) million. The profit for the review period was EUR 9.3 (4.4) million.

Due to the continued decrease in interest rate levels, the POP Bank Group's interest income declined slightly, even though its loan portfolio grew by 2.1%. The internal and external funding opportunities arising from the amalgamation structure facilitated a significant decrease (-16.3%) in interest expenses from the comparison period. Net interest income remained at the previous year's level and was EUR 30.6 (30.6) million. Net commission income and expenses increased by 1.8% to EUR 14.5 (14.2) million.

Net investment income increased by 28.1%, from EUR 6.4 million to EUR 8.2 million. Dividend income increased by EUR 0.5 million. In addition, impairment on investments decreased significantly, which also had a positive effect on net investment income. In the comparison period, EUR -1.5 million was recognised as impairment on investments. Net investment income in the comparison period included also EUR 2.5 million recognised as extraordinary sales gains on the Visa transaction.

Net income from non-life insurance operations increased strongly, by 49.4% to EUR 4.8 (3.2) million. Other operating income increased by 27.9% to EUR 3.6 (2.8) million.

Total operating income increased by EUR 4.4 million, to EUR 61.9 (57.5) million (+7.5%).

*The formulas for key figures are presented on page 20 of the POP Bank Group Board of Directors' Report and consolidated IFRS Financial Statements for 2016.

Personnel expenses remained at the previous year's level, at EUR 19.5 (19.6) million. Other operating expenses increased by 4.3% to EUR 24.2 (23.2) million. Operating expenses totalled EUR 47.7 (45.7) million.

During the review period, EUR 2.7 (2.4) million was recognised as impairment on loan receivables.

POP Bank Group's balance sheet (comparison information 31 December 2016)

The POP Bank Group's balance sheet total was EUR 4,310.2 (4,229.4) million. The Group's loan portfolio increased by 2.1% in the review period, to EUR 3,256.8 (3,118.7) million.

Deposits increased by 1.8% to EUR 3,569.8 (3,505.1) million. Bonum Bank Plc, the Group's central credit institution, issued two certificates of deposit of EUR 5 million during the review period.

The POP Bank Group's equity capital was EUR 477.1 (463.0) million at the end of the review period. POP Banks paid EUR 0.7 (0.1) million in interest on cooperative capital for 2016. In addition to cooperative contributions, POP Banks have issued POP Shares. A POP Share is an investment in the cooperative's equity capital pursuant to the Co-Operatives Act. In total, POP Banks have issued EUR 49.5 (43.5) million in POP Shares. In POP Banks' national financial statements, the supplementary cooperative contributions, which total EUR 34.0 (37.5) million and are included in equity, are recognised as liabilities in accordance with IFRS, and interest paid on them is recognised in interest expenses. POP Banks's cooperative capital totalled EUR 58.5 (52.6) million.

Development of the operating segments

The POP Bank Group monitors its business operations based on two business segments: Banking and Insurance.

BANKING

The POP Bank Group's Banking segment includes the POP Banks engaged in retail banking and the amalgamation's central credit institution, Bonum Bank Plc. At the end of the review period, POP Banks had a total of 249.0 thousand customers (249.9 thousand at the beginning of the review period). POP Banks had 86.6 thousand members (86.1 thousand at the beginning of the review period).

Banking earnings (comparison period 1 January – 30 June 2016)

Banking profit before taxes decreased by 42.4% to EUR 11.5 (19.9) million.

Net interest income from Banking operations remained at the previous year's level and was EUR 30.7 million. Net commission income expenses from Banking operations remained at the previous year's level, at EUR 14.5 (14.5) million.

Net investment income increased by 86% to EUR 8.5 (4.6) million. The net income did not include any major impairment losses. In the comparison period, EUR 1.5 million was recognised as impairment on investments, and EUR 2.5 million was recognised as extraordinary gains on the Visa transaction. Other operating income totalled EUR 2.9 (12.7) million. The POP Banks's guarantee fund was dissolved in the comparison period, and EUR 10.0 million was recognised as other operating income with regard to the distribution of the fund's assets. Operating income totalled EUR 56.8 (62.7) million.

The Banking segment's personnel expenses decreased by 1.1% to EUR 14.7 (14.8) million. Other operating expenses increased by 8.7% to EUR 25.5 (23.5) million. Operating expenses (including depreciation) totalled EUR 42.6 (40.4) million.

Impairment on loans and receivables totalled EUR 2.7 (2.4) million.

Banking segment's assets and liabilities (comparison information 31 December 2016)

The Banking segment's assets amounted to EUR 4,343.0 (4,271.2) million at the end of June, representing an increase of 1.7% from the end of the previous year. Deposits totalled EUR 3,578.9 (3,511.0) million, representing an increase of 1.9%. The Banking segment's loan portfolio increased by 2.0% in the review period, to EUR 3,280.9 (3,216.2) million.

INSURANCE

The Insurance segment of the POP Bank Group includes Finnish P&C Insurance Ltd, which continued its strong business growth. The new Motor Liability Insurance Act came into effect in Finland at the beginning of 2017. Finnish P&C Insurance and other insurance companies adjusted their motor liability insurance products accordingly, which led to price competition on vehicle insurance policies between the companies. During the first half of the year, Finnish P&C Insurance succeeded in increasing its business volumes and improving the loss ratio at the same time. The company secured an average of 4,600 new customers per month. During the first half of the year, the number of Finnish P&C Insurance Ltd's customers increased from 92 thousand to 105 thousand.

Insurance earnings (comparison period 1 January – 30 June 2016)

The Insurance segment's loss ratio improved by 5 percentage points, and its operating expense ratio improved by 2 percentage points. Its loss ratio was 74.9% (80.4), and its operating expense ratio was 32.6% (34.8).

Net insurance income increased by 49.8% from the comparison period, to EUR 4.8 (3.2) million. Premiums (gross) increased by 14.9% from the comparison period, to EUR 20.8 (18.1) million. Year-to-date return on investments was 1.8% (1.0) at fair values. The loss for the period decreased from the comparison period as a result of the improved loss ratio and operating expense ratio, and was EUR -0.7 (-2.3) million. However, the market situation became more challenging than expected during the first half of the year, due to the price competition arising from the motor liability insurance reform. The company continues to aim for a positive result for 2017.

Insurance segment's assets and liabilities (comparison information 31 December 2016)

The Insurance segments assets increased by 9.7% to EUR 65.2 (59.5) million. Non-life insurance operations' assets totalled EUR 47.5 (42.9) million. Non-life insurance operations' liabilities totalled EUR 36.8 (32.4) million.

Credit ratings

During the spring 2016, POP Bank Group's central credit institution Bonum Bank Plc, owned by POP Bank Alliance Coop, obtained a credit rating from S&P Global (S&P). S&P granted Bonum Bank Plc the long-term investment grade credit rating "BBB" and short-term credit rating "A-2". The ratings were confirmed in June again with the stable outlook.

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 reflects the POP Bank Group's strong capital adequacy, stability and predictability of business operations, and increasing efficiency resulting from the amalgamation.

POP Bank Group's risk and capital adequacy management and risk exposure

The objectives, principles and organisation of POP Banks' risk management and capital adequacy management are described in Note 4 to the POP Bank Group's financial statements for 2016. No material changes were made in the review period to the objectives, principles or organisation described in the 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 a moderate level. The proportion of loans granted to private customers in the loan portfolio remained at the same level as it was at the end of the previous year, while the proportion of loans granted to corporate customers increased slightly. The amount of collectively assessed impairment losses was close to the level at the end of the previous year, whereas individually assessed impairment losses increased slightly.

The loan portfolio increased by 2.0% since the end of the previous year to EUR 3,280.9 (3,216.2) million. The majority of the lending is associated with low-risk lending to private customers. Loans granted to private customers accounted for 66.0% (65.9) of the loan portfolio, companies for 16.3% (16.1) and agricultural entrepreneurs for 17.7% (18.0). Loans secured by residential real estate collateral accounted for 64.9% (64.8%) of the loan portfolio. The last mortgage loans intermediated for Aktia Real Estate Mortgage Bank Plc were transferred to POP Banks' balance sheets during the review period.

Receivables in the amalgamation of POP Banks more than 90 days past due accounted for 0.90% (0.75) of the loan portfolio. The amalgamation's receivables 30–90 days past due accounted for 1.33% (1.53) of the loan portfolio at the end of the second quarter.

Impairment losses on loans and receivables totalled EUR 23.7 (21.5) million at the end of the second quarter. Of these, individually assessed impairment losses totalled EUR 20.9 (18.8) million, and collectively assessed impairment losses stood at EUR 2.8 (2.7) million.

The industry and customer risks of the amalgamation of POP Banks are well-diversified. At the end of the second quarter, 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 a 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 liquidity position remained strong throughout the review period. The regulatory requirement for the liquidity of the member credit institutions, LCR (Liquidity Coverage Ratio), has been 80% since the beginning of 2017 and will increase to 100% on 1 January 2018. On 30 June 2017, the amalgamation's LCR-eligible assets before haircuts totalled EUR 426.7 (471.7) million, of which 13.0% (35.6) were cash and receivables from the central bank, 75.8% (58.4) were highly liquid Level 1 securities, and 11.2% (6.0) were other liquid, Level 2 assets. The amalgamation's LCR was 173% (226) on 30 June 2017.

The POP Bank Group's funding position remained strong throughout the financial period. The proportion of deposits of the loan portfolio remained high, and the availability of funding continued to expand, as Bonum Bank Plc successfully issued two certificates under its certificate of deposit programme in June 2017. The programme was established in May 2016, simultaneously with the bond programme, under which a three-year unsecured senior bond of EUR 100 million was issued previously. Successfully gaining access to wholesale funding channels has made the Group's acquisition of funding more diverse and supports its profitable growth.

Market risk

The POP Bank Group's market risk position remained moderate throughout the review 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. Interest rate risks arise from the banking books of member credit institutions, consisting of lending and deposits and wholesale funding, as well as investment and liquidity portfolios. The amalgamation's interest risk position is moderate in relation to the limits set.

The market risk arising from investment activities is managed through the allocation of asset categories and by using risk limits set for each counterparty. The amalgamation's investment risks are at a moderate level in relation to the limits set. As a rule, the member credit institutions' business operations do not include trading on their own account or trading on customers account. A member credit institution may only use direct foreign currency-denominated investments, investments in structured products or derivative contracts 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 of the banking book.

Operational risks
Any materialisation of operational risks is minimised by the 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. In addition, 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 through 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 the 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 approves the company's risk management plan annually.

CAPITAL ADEQUACY MANAGEMENT

The purpose of capital adequacy management is to ensure the sufficient amount, type 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 that is integrally linked to the amalgamation's and member credit institutions' strategy process, business planning and management.

The member credit institutions conduct an extensive identification and evaluation of risks related to their operations to dimension 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. During the review period, member credit institutions have been exempted from the own funds requirements for intragroup items and large exposures limits for exposures between the central credit institution and the member credit institutions. The exemption is based on permission granted by the Financial Supervisory Authority.

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, meaning that supplementary cooperative contributions are no longer items recognised in own funds of the member credit institutions according to the new regulations. The Capital Requirements Regulation has been applied as of 1 January 2014, but the application of the transitional regulations concerning supplementary cooperative contributions will be gradually phased in. Since 2015, some of the member credit institutions of the amalgamation have issued POP

Shares, new equity instruments included in own funds. A total of EUR 49.5 (43.5) million of POP Shares had been issued by the end of the review period.

At the end of the second quarter, the capital adequacy of the amalgamation of POP Banks was at a solid level. The amalgamation's capital adequacy ratio was 21.7% (21.3) and the CET1 Capital ratio 21.3% (20.9). The amalgamation does not include 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)	30 Jun 2017	31 Dec 2016
Own funds		
Common Equity Tier 1 capital before deductions	509,993	486,655
Deductions from Common Equity Tier 1 capital	-4,621	-5,245
Total Common Equity Tier 1 capital (CET 1)	**505,372**	**455,542**
Additional Tier 1 capital before deductions	6,142	6,897
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**6,142**	**6,897**
Tier 1 capital (T1=CET1+AT1)	**511,514**	**488,307**
Tier 2 capital before deductions	3,071	2,759
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**3,071**	**2,759**
Total capital (TC=T1+T2)	**514,585**	**491,065**
Total Risk Weighted Assets	**2,371,723**	**2,308,526**
Of which credit risk	2,153,847	2,084,072
Of which credit valuation adjustment risk (CVA)	622	1,321
Of which market risk (exchange rate risk)	19,718	25,597
Of which operational risk	197,536	197,536
Fixed capital conservation buffer according to the Act on Credit Institutions (2.5%)	**59,293**	**57,713**
Countercyclical capital buffer	**340**	**222**
CET1 Capital ratio (%)	21.3%	20.9%
T1 Capital ratio (%)	21.6%	21.2%
Total capital ratio (%)	21.7%	21.3%
Leverage ratio		
Tier 1 capital (T1)	511,514	488,307
Leverage ratio exposure	4,379,988	4,291,563
Leverage ratio, %	11.7%	11.4%

Outlook for the second half of the year

The POP Bank Group has been forced to adjust to an operating environment of low interest rates and stricter regulation of the banking sector. The low market interest rate levels are making it more difficult to increase net interest income and are also decreasing the return on the Group's fixed-income investments. The most significant risks in the financial sector are related to rapid changes in customers' behaviour and to the traditional companies' ability to respond to digitalisation quickly enough.

The POP Bank Group's result for the 2017 financial year is expected to be at the previous year's level. With regard to forecasting, the most significant uncertainty factors are related to changes in interest rate levels, the development of impairment provisions, the growth rate of the Group's business operations, and a higher than expected number of major incidents for the insurance company.

Events after the review period

The POP Bank Group has not had any significant business events after the review period that would have material effects on the financial information disclosed for the review period.

HALF-YEAR FINANCIAL REPORT 1 January – 30 June 2017

POP Bank Group's Income Statement

(EUR 1,000)	Note	1 Jan–30 Jun 2017	1 Jan–30 Jun 2016	Change %
Interest income		38,621	40,233	-4.0%
Interest expenses		-8,045	-9,608	-16.3%
Net interest income	4	**30,575**	**30,625**	**-0.2%**
Net commissions and fees	5	14,503	14,245	1.8%
Net trading income		176	236	-25.4%
Net investment income	6	8,167	6,375	28.1%
Net income from non-life insurance	7	4,829	3,233	49.4%
Other operating income		3,565	2,787	27.9%
Total operating income		**61,815**	**57,500**	**7.5%**
Personnel expenses		-19,542	-19,598	-0.3%
Other operating expenses		-24,219	-23,222	4.3%
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		-3,898	-2,829	37.8%
Total operating expenses		**-47,659**	**-45,650**	**4.4%**
Impairment losses on loans and receivables		-2,743	-2,420	13.4%
Profit before tax		**11,412**	**9,430**	**21.0%**
Income tax expense		-2,111	-4,992	-57.7%
Profit for the period		**9,302**	**4,438**	**109.6%**
Attributable to				
Equity owners of the POP Bank Group		9,290	4,126	125.2%
Non-controlling interests		11	312	-96.4%
Total		**9,302**	**4,438**	**109.6%**

The presentation of commissions expenses and other operating expenses in comparative period has been changed to correspond the presentation of financial year 2017. The change increased commissions expenses in comparative period EUR 1.7 million and decreased other operating expenses EUR 1.7 million. The change did not affect the profit for the financial year.

POP Bank Group's Statement of Other Comprehensive Income

(EUR 1,000)	1 Jan–30 Jun 2017	1 Jan–30 Jun 2016	Change %
Profit for the period	9,302	4,438	109.6%
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans	-	-4	
Items that may be reclassified to profit or loss			
Changes in fair value reserve			
Available-for-sale financial assets	-422	3,217	-113.1%
Other comprehensive income for the financial period	**8,879**	**7,652**	**16.0%**
Other comprehensive income for the financial period attributable to			
Other comprehensive income for the financial period attributable to owners of the POP Bank Group	8,868	7,240	22.5%
Other comprehensive income for the financial period attributable to non-controlling interests	11	412	-97.3%
Total other comprehensive income for the financial period	**8,879**	**7,652**	**16.0%**

POP Bank Group's Balance Sheet

(EUR 1,000)	Note	30 Jun 2017	31 Dec 2016	Change, %
Assets				
Liquid assets		87,060	99,174	-12.2%
Financial assets at fair value through profit or loss	8	1,562	1,681	-7.1%
Loans and receivables from credit institutions	8,9	66,588	73,515	-9.4%
Loans and receivables from customers	8,9	3,256,837	3,188,681	2.1%
Derivative contracts	8	1,412	2,541	-44.4%
Investment assets	8,10	776,408	754,362	2.9%
Non-life insurance assets	8,11	47,530	42,915	10.8%
Intangible assets		12,442	13,566	-8.3%
Property, plant and equipment		34,432	35,604	-3.3%
Other assets		23,806	15,459	54.0%
Tax assets		2,505	1,920	30.5%
Total assets		**4,310,582**	**4,229,417**	**1.9%**
Liabilities				
Liabilities to credit institutions	12	7,182	11,385	-36.9%
Liabilities to customers	12	3,569,796	3,505,090	1.8%
Non-life insurance liabilities	13	36,786	32,420	13.5%
Debt securities issued to the public	14	109,609	100,220	9.4%
Supplementary cooperative capital		33,974	37,512	-9.4%
Other liabilities		49,892	52,764	-5.4%
Tax liabilities		26,279	27,006	-2.7%
Total liabilities		**3,833,518**	**3,766,396**	**1.8%**
Equity capital				
Cooperative capital				
Cooperative contributions		9,036	9,051	-0.2%
POP Shares		49,456	43,508	13.7%
Total cooperative capital		**58,492**	**52,559**	**11.3%**
Reserves		159,225	155,086	2.7%
Retained earnings		258,872	254,913	1.6%
Total equity attributable to the owners of the POP Bank Group		**476,589**	**462,558**	**3.0%**
Non-controlling interests		474	463	2.4%
		477,063	**463,021**	**3.0%**
Total liabilities and equity capital		**4,310,582**	**4,229,417**	**1.9%**

Statement of Changes in 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 1 Jan 2017	**52,559**	**10,717**	**144,369**	**254,913**	**462,558**	**463**	**463,021**
Comprehensive income for the period							
Profit for the period	-	-	-	9,290	9,290	11	9,302
Other comprehensive income	-	-422	-	-	-422	-	-422
Total comprehensive income for the period	**-**	**-422**	**-**	**9,290**	**8,868**	**11**	**8,879**
Transactions with shareholders							
Increase in cooperative capital	5,881	-	-	-	5,881	-	5,881
Profit distribution	-	-	-	-718	-718	-	-718
Transfer of reserves	52	-	4,562	-4,614	-	-	-
Transactions with shareholders total	**5,933**	**-**	**4,562**	**-5,332**	**5,163**	**-**	**5,163**
Balance at 30 Jun 2017	**58,492**	**10,295**	**148,930**	**258,872**	**476,589**	**474**	**477,063**

(EUR 1,000)	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
Reported balance at 1 Jan 2017	**26,809**	**4,283**	**151,798**	**237,566**	**420,455**	**3,261**	**423,716**
Comprehensive income for the period							
Profit for the period	-	-	-	4,126	4,126	312	4,438
Other comprehensive income	-	3,118	-	-4	3 114	99	3,213
Total comprehensive income for the period	**-**	**3,118**	**-**	**4,122**	**7,240**	**412**	**7,652**
Transactions with shareholders							
Increase in cooperative capital	12,725	-	-	-	12,725	-	12,725
Profit distribution	-	-	-	-65	-65	-	-65
Transfer of reserves	-	-	3,135	-3,135	-	-	-
Liiketoimet omistajien kanssa yhteensä	**12,725**	**-**	**3,135**	**-3,200**	**12,660**	**-**	**12,660**
Other changes							
Changes in holdings in subsidiaries	-	99	-10,564	10,423	-42	-2,932	-2,974
Other changes total	**-**	**99**	**-10,564**	**10,423**	**-42**	**-2,932**	**-2,974**
Balance at 30 Jun 2016	**39,534**	**7,500**	**144,369**	**248,910**	**440,312**	**741**	**441,053**

The non-controlling interests decreased significantly during the comparative period due to the dissolution of POP Banks' guarantee fund in June 2016.

POP Bank Group's Cash Flow Statement

(EUR 1,000)	1 Jan–30 Jun 2017	1 Jan–30 Jun 2016
Cash flow from operations		
Profit for the period	9,302	4,438
Adjustments to profit for the period	13,407	17,435
Increase (-) or decrease (+) in operating assets	**-104,702**	**-88,435**
Assets measured at fair value through profit or loss	-22,793	-48,790
Receivables from credit institutions	5,896	11,979
Receivables from customers	-70,871	-55,721
Investment assets	671	17,980
Non-life insurance assets	-4,820	-4,717
Other assets	-12,787	-9,165
Increase (+) or decrease (-) in operating liabilities	**66,212**	**86,204**
Liabilities to credit institutions	-4,203	-61,447
Liabilities to customers	65,858	51,248
Debt securities issued to the public	9,389	99,437
Non-life insurance liabilities	211	-5
Provisions and other liablilities	-1,903	-791
Income tax paid	-3,141	-2,237
Total cash flow from operations	**-15,781**	**19,642**
Cash flow from investing activities		
Gains from sale of subsidiaries	-	-340
Decreases in other investments	-	2,386
Purchase of PPE and intangible assets	-3,076	-2,734
Proceeds from sale of PPE and intangible assets	549	1,245
Net cash used in investing activities	**-2,526**	**557**
Cash flow from financing activities		
Increase in cooperative capital	5,880	13,196
Decrease in cooperative capital	-	-478
Interests paid on cooperative capital and other profit distribution	-718	-10
Changes in other equity capital items	-	-2,688
Net cash used in financing activities	**5,163**	**10,021**
Change in cash and cash equivalents		
Cash and cash equivalents at period-start	146,338	236,314
Cash and cash equivalents at the end of the period	133,193	266,534
Net change in cash and cash equivalents	**-13,145**	**30,220**

(EUR 1,000)	1 Jan–30 Jun 2017	1 Jan–30 Jun 2016
Interest received	39,511	41,128
Interest paid	6,157	8,311
Dividends received	2,223	1,765
Adjustments to profit for the period	13,407	17,435
Non-cash items and other adjustments		
Impairment losses on receivables	2,743	2,747
Fair value change in trading income	-5	-2
Depreciations	4,603	3,479
Technical provision	4,154	4,406
Other	1,911	6,805
Adjustments to profit for the period	**13,407**	**17,435**
Cash and cash equivalents		
Liquid assets	87,060	204,488
Receivables from credit institutions payable on demand	46,133	62,046
Total	**133,193**	**266,534**

NOTES

NOTE 1 POP Bank Group

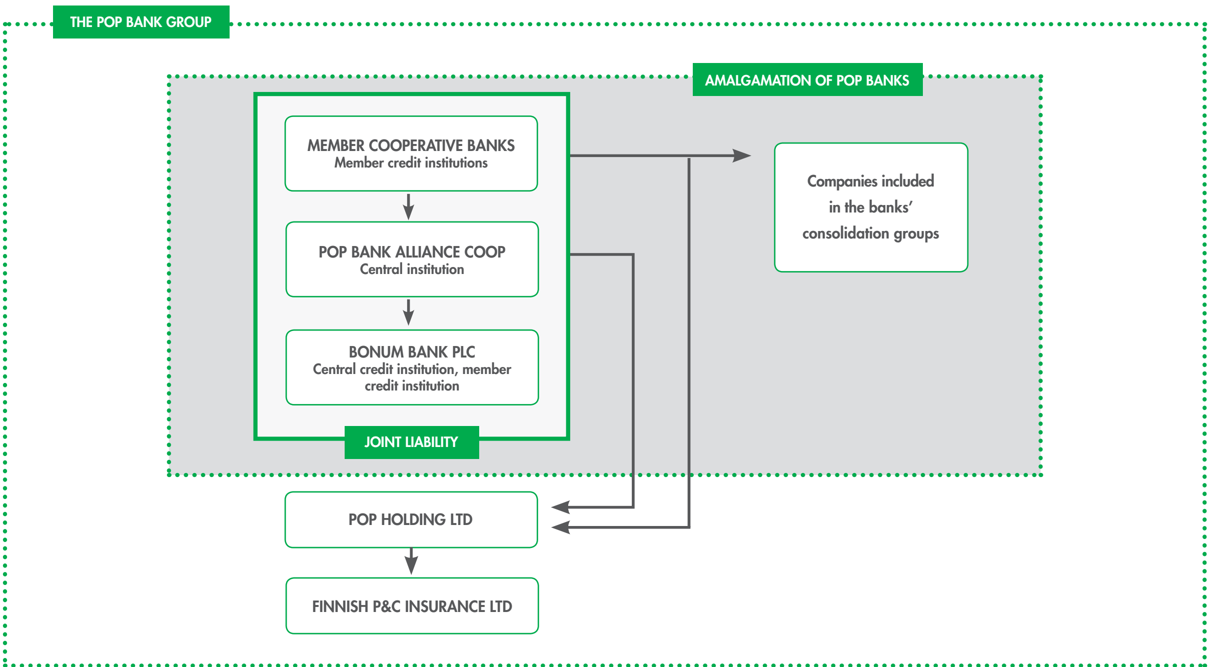
The POP Bank Group (hereinafter also referred to as the "Group") is a financial group comprising POP Banks and POP Bank Alliance Coop and their subsidiaries and jointly controlled entities that operates in Finland. POP Banks are independent, regionally and locally operating cooperative banks. POP Bank 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 as well as 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 over 50% 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 and its wholly-owned subsidiary Finnish P&C Insurance Ltd, 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 2016.

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

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



There were no changes in POP Bank Group's structure during the reporting period.

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 half-year financial report for 1 January – 30 June 2017 has been prepared in accordance with IAS 34 Interim Financial reporting and the accounting policies presented in the POP Bank Group's consolidated IFRS financial statements 31 December 2016.

The figures disclosed in the half-year financial report are unaudited. The figures in the half-year financial report are 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.

Copies of the financial statements and half-year financial report of the POP Bank Group are available from the office of the central institution, address Hevosenkenkä 3, FI-02600 Espoo, Finland, and online at www.poppankki.fi. The POP Bank Group only publishes one interim financial report.

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

ADOPTION OF IFRS 9

The new IFRS 9 Financial Instruments standard (to be applied in financial periods starting on or after 1 January 2018) will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 changes the recognition and measurement of financial assets and includes a new model for evaluating impairment on financial assets based on expected credit losses. The classification and measurement of financial liabilities largely correspond to the current requirements set out in IAS 39. There remains three hedge accounting types. More risk positions can be included in hedge accounting, and the principles of hedge accounting have been standardised together with risk management.

POP Bank Group will apply the standard for the first time once it becomes mandatory on 1 January 2018. Comparison figures will not be adjusted. The effects of the application of the standard on POP Bank Group's financial statement items cannot yet be reliably assessed, as the effects depend on the number of various financial instruments at the time of transition, the calculation principles applied to valuation and the financial operating environment. The determination and testing of the calculation processes related to the determination of expected credit losses in accordance with the standard are still partly in progress.

Classification and measurement

According to IFRS 9, financial assets are recognised and measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss in accordance with the business model applied to their management.

POP Bank Group's loans and receivables will continue to be measured at amortised cost, with the exception of any minor changes. The Group does not currently have financial instruments held to maturity. In the future, however, the Group may classify instruments whose cash flows consist solely of payments of principle and interest to be measured at amortised cost in accordance with the business model applied to their management. Reclassifications are not expected to have any significant effects on equity at the time of transition.

Most of POP Bank Group's debt securities are measured at fair value, and changes in their value can be recognised in other comprehensive income in accordance with IFRS 9. In accordance with IAS 39, these debt securities are classified as available-for-sale financial assets and are measured at fair value through other comprehensive income.

According to IFRS 9, investments in shares and participations are measured at fair value, and changes in their value are recognised mainly through profit and loss, instead of being recognised in other comprehensive income. In the future, changes in the value of investments in shares and funds will be recognised in the income statement before realisation, while they are currently recognised through profit and loss at the time they are sold. Furthermore, changes in the value of such debt securities where cash flows do not solely consist of payments of principle and interest are also recognised through profit and loss.

The adoption of classification and measurement principles in accordance with IFRS 9 will generally not affect the amount of equity, but it will have effects on POP Bank Group's fair value reserves and retained earnings at the time of transition and on the Group's net income on investment activities and its other comprehensive income. The changes in the classification of investments in shares and funds will not affect the amount of POP Bank Group's equity at the time of transition, but they will have effects on the Group's fair value reserves and retained earnings at the time of transition. In future financial periods, the changes in classification may have an effect on capital adequacy ratio of the amalgamation of POP Banks, unless the amalgamation includes the year-end profit in its own funds.

The quantitative impact of the changes in recognition and measurement depends on the structure of POP Bank Group's investment portfolio on and after the standard adoption date.

Impairment

IFRS 9 requires impairment to be recognised on the basis of expected credit losses on all debt instruments which are recognised at amortised cost or fair value through other comprehensive income and on off-balance sheet exposures. In the measurement of expected credit losses, a transition will be made from the recognition of expected credit losses over 12 months to the recognition of expected credit losses throughout the lifetime of the contract as the credit risk increases significantly after the initial recognition.

The determination of an expected credit loss at POP Bank Group will be based the following main segments:

- Private customers (excl. agricultural entrepreneurs)
- Corporate customers (excl. agricultural entrepreneurs)
- Agricultural entrepreneurs
- Investment portfolio

In all of these segments, the calculation of expected credit losses will be based on the probability of default (PD), loss given default (LGD) and exposure at default (EAD). In addition, quantitative and qualitative criteria have been determined for significantly increased credit risk. If these criteria are met, the expected credit losses of a contract will be calculated over its expected lifetime instead of just 12 months.

The probability of default will be based on POP Banks' historical default statistics (private customers), POP Banks' expert judgement model (Agricultural entrepreneurs) and data available from the financial markets (investment portfolio). Loss given default will be based on an expert model in which the type of collateral determines the LGD percentage to be applied in the calculation of expected credit losses. Exposure at default will be determined based on expected cash flows of each contract and on the product type of an off-balance sheet exposure. In addition, low credit risk exception will be applied for the investment portfolio.

IFRS 9 requires reasonably available financial information to be used when estimating the amount of expected credit losses. For the calculation of expected credit losses, a model based on three macroeconomic scenarios and the related probabilities has been developed. The model is used to adjust the parameters used in the calculation when determining expected credit losses.

The adoption of the principles for impairment losses in IFRS 9 will reduce the own funds of POP Bank Group and affect its capital adequacy ratio, as the amount of expected credit losses is expected to increase compared to current with current impairment provisions. Preliminary calculations have been made on the amount of expected credit losses, but their amount is sensitive to the parameters used in the calculation of expected credit losses, and the creation of the models is still in progress at the POP Bank Group in this respect.

With the transition to IFRS 9, the difference between impairment provisions and expected credit losses will be deducted from retained earnings, which will reduce the CET1 capital used in the calculation of capital adequacy. It is currently unclear what type of transition rules will be used for changes in CET1 capital in the European Union. For this reason, it is not yet possible to reliably estimate the impact of IFRS 9 on the amalgamation's capital adequacy ratio. In addition, after the adoption of IFRS 9, changes in expected credit losses will affect the profit, comprehensive other income and fair value reserves of the member credit institutions and POP Bank Group.

Hedge accounting

IFRS 9 also enables the application of the current IAS 39 standard to hedge accounting. The POP Bank Group has not yet made a decision on the adoption of IFRS 9 to hedge accounting. The POP Bank Group may postpone the adoption of hedge accounting in accordance with IFRS 9 until a later financial period, as the Group's member credit institutions currently have only a small number of hedge instruments.

NOTE 3 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 comparative period.

POP BANK GROUP'S OPERATING SEGMENTS 2017

Income statement 1 January–30 June 2017

(EUR 1,000)	Banking	Insurance	Segments total
Net interest income	30,706	-	30,706
Net commissions and fees	14,504	-	14,504
Net trading income	176	-	176
Net investment income	8,531	-	8,531
Net income from non-life insurance	-	4,829	4,829
Other operating income	2,906	-	2,906
Total operating income*	**56,823**	**4,829**	**61,652**
Personnel expenses	-14,688	-3,070	-17,758
Other operating expenses	-25,507	-1,791	-27,298
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-2,431	-678	-3,109
Total operating expenses	**-42,626**	**-5,539**	**-48,165**
Impairment losses on loans and receivables	-2,743	-	-2,743
Profit before tax	**11,454**	**-710**	**10,744**
Income tax expense	-1,958	6	-1,952
Profit for the period	**9,496**	**-704**	**8,791**
*of which external	56,822	4,829	61,651
of which internal	1	-	-

Balance Sheet 30 June 2017

(EUR 1,000)	Banking	Insurance	Segments total
Assets			
Liquid assets	87,060	-	87,060
Financial assets at fair value through profit or loss	1,562	-	1,562
Loans and receivables from credit institutions	60,160	10,179	70,339
Loans and receivables from customers	3,280,898	-	3 280,898
Derivative contracts	1,412	-	1,412
Investment assets	852,642	-	852,642
Non-life insurance assets	-	47,530	47,530
Intangible assets	4,396	7,314	11,710
Property, plant and equipment	32,132	38	32,170
Other assets	21,334	137	21,471
Tax assets	1,432	6	1,439
Total assets	**4,343,029**	**65,205**	**4 408,234**
Liabilities			
Liabilities to credit institutions	6,997	-	6,997
Liabilities to customers	3,578,926	-	3 578,926
Non-life insurance liabilities	-	36,815	36,815
Debt securities issued to the public	109,609	-	109,609
Supplementary cooperative capital	33,974	-	33,974
Other liabilities	54,924	1,643	56,567
Tax liabilities	25,703	305	26,008
Total liabilities	**3,810,133**	**38,763**	**3,848,896**

POP BANK GROUP'S OPERATING SEGMENTS 2016

Income statement 1 January–30 June 2016

(EUR 1,000)	Banking	Insurance	Segments total
Net interest income	30,719	-	30,719
Net commissions and fees	14,524	-	14,524
Net trading income	236	-	236
Net investment income	4,586	-	4,586
Net income from non-life insurance	-	3,225	3,225
Other operating income	12,661	-	12,661
Total operating income*	**62,727**	**3,225**	**65,951**
Personnel expenses	-14,849	-3,189	-18,038
Other operating expenses	-23,461	-1,629	-25,090
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-2,118	-662	-2,779
Total operating expenses	**-40,427**	**-5,480**	**-45,907**
Impairment losses on loans and receivables	-2,420	-	-2,420
Profit before tax	**19,880**	**-2,256**	**17,624**
Income tax expense	-4,528	1	-4,527
Profit for the period	**15,351**	**-2,255**	**13,097**
*of which external	62,727	3,225	65,951
of which internal	-	-	-

Balance Sheet 31 December 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**

RECONCILIATIONS

Income

(EUR 1,000)	1 Jan–30 Jun 2017	1 Jan–30 Jun 2016
Segments' total income	61,652	65,951
Eliminations of internal items between segments	-1	-
Unallocated income, other functions	-5,087	3,458
Eliminations of internal items between segments and other functions	5,250	-11,909
Group's total income	**61,815**	**57,500**

Result

(EUR 1,000)	1 Jan–30 Jun 2017	1 Jan–30 Jun 2016
Segments' total result	8,791	13,097
Unallocated items	510	-8,658
Group's total result	**9,302**	**4,438**

Assets

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Total assets of the segments	4,408,234	4,330,711
Eliminations of internal items between segments	-4,250	-4,135
Unallocated assets, other functions	-190,267	99,091
Eliminations of internal items between segments and other functions	96,865	-196,249
Group's total assets	**4,310,582**	**4,229,417**

Liabilities

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Segments' total liabilities	3 848,896	3 785,342
Eliminations of internal items between segments	-4,250	-4,135
Unallocated liabilities, other functions	-40,166	-46,523
Eliminations of internal items between segments and other functions	29,038	31,712
Group's total liabilities	**3,833,518**	**3,766,396**

NOTE 4 Net Interest Income

(EUR 1,000)	1 Jan–30 Jun 2017	1 Jan–30 Jun 2016
Interest Income		
Loans and receivables from credit institutions	411	486
Loans and receivables from customers*	34,709	35,672
Debt securities	2,031	2,095
Hedging derivatives	1,161	1,687
Other interest income	310	292
Total interest income	**38,621**	**40,233**
Interest expenses		
Liabilities to credit institutions	-162	-200
Liabilities to customers	-7,374	-9,133
Debt securities issued to the public	-491	-235
Hedging derivatives	-	-1
Other interest expenses	-18	-39
Total interest expenses	**-8,045**	**-9,608**
Net interest income	**30,575**	**30,625**

*Impaired loans	-412	-483

Negative interest rates did not have a significant effect on the interest income. Interest expenses iclude negative interest income EUR 501 thousand.

NOTE 5 Net Commissions and Fees

(EUR 1,000)	1 Jan–30 Jun 2017	1 Jan–30 Jun 2016
Commissions and fees		
Lending	4,070	3,928
Card business	1,883	2,355
Deposits	243	221
Payment transfers	5,637	5,453
Legal services	1,080	948
Intermediated services	1,555	1,909
Issuing guarantees	303	305
Funds	1,114	943
Other commission income	507	469
Total commissions and fees	**16,391**	**16,532**
Commissions expenses		
Card business	-498	-722
Payment transfers	-1,136	-1,244
Other commission expenses	-254	-321
Total commission expenses	**-1,888**	**-2,287**
Net commissions and fees	**14,503**	**14,245**

The grouping of net commissions and fees has been changed to better represent the business activities. Grouping changes have also affected the presentation of comparative period. Net commissions expenses in comparative period include costs of EUR 1.7 million which were earlier presented in other operating expenses.

NOTE 6 Net Investment Income

(EUR 1,000)	1 Jan–30 Jun 2017	1 Jan–30 Jun 2016
Net income from available-for-sale financial assets		
Debt securities		
Capital gains and losses	-19	32
Impairment losses	-	1
Transferred from fair value reserve	846	400
Debt securities	**827**	**432**
Shares and participations		
Dividend income	2,223	1,765
Capital gains and losses	637	274
Impairment losses	-39	-1,513
Transferred from fair value reserve	4,490	5,267
Total shares and participations	**7,310**	**5,794**
Total net income from available-for-sale financial assets	**8,137**	**6,226**
Net income from investment property		
Rental income	1,679	2,094
Capital gains and losses	211	25
Other income from investment property	79	42
Maintenance charges and expenses	-1,230	-1,350
Depreciations and amortisation of investment property	-705	-650
Other expenses from investment property	-4	-13
Total net income from investment property	**29**	**149**
Total net investment income	**8,167**	**6,375**

NOTE 7 Net Income from Non-life Insurance

(EUR 1,000)	1 Jan–30 Jun 2017	1 Jan–30 Jun 2016
Insurance premium revenue		
Premiums written	20,815	18,115
Change in the provision for unearned premiums	-3,337	-2,186
Gross insurance premium revenue	**17,479**	**15,929**
Ceded to reinsurers	-482	-185
Total insurance premium revenue	**16,997**	**15,744**
Claims incurred		
Claims paid	-11,417	-9,942
Change in provision for unpaid claims	-1,729	-3,551
Total claims incurred, gross	**-13,147**	**-13,493**
Ceded to reinsurers	423	850
Total claims incurred	**-12,724**	**-12,643**
Net investment income	556	132
Total net income from non-life insurance	**4,829**	**3,233**

Net investment income from non-life insurance

(EUR 1,000)	1 Jan–30 Jun 2017	1 Jan–30 Jun 2016
Net income from available-for-sale financial assets		
Debt securities		
Interest income	125	66
Capital gains and losses	-	30
Transfers from fair value reserve	100	-
Total debt securities	**225**	**96**
Shares and participations		
Dividend icome	40	7
Capital gains and losses	-	30
Transfers from fair value reserve	104	-
Total shares and participations	**144**	**37**
Total net income from available-for-sale financial assets	**369**	**133**
Other investment income and expenses		
Interest income	28	27
Interest expenses	-1	-1
Other investment income	207	14
Investment income management expenses	-47	-41
Other investment income and expenses total	**187**	**-1**
Total net investment income from non-life insurance	**556**	**132**

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

NOTE 8 Classification of Financial Assets and Financial Liabilities

Financial assets 30 June 2017

(EUR 1,000)	Loans and receivables	Measured at fair value through profit or loss	Hedging derivatives	Available-for-sale	Total carrying amount
Liquid assets	87,060	-	-	-	87,060
Assets at fair value through profit or loss	-	1,562	-	-	1,562
Loans and receivables from credit institutions	66,588	-	-	-	66,588
Loans and receivables from customers	3 256,837	-	-	-	3 256,837
Derivative contracts	-	-	1,412	-	1,412
Investment assets					
Debt securities	-	-	-	434,427	434,427
Shares and participations	-	-	-	305,077	305,077
Non-life insurance assets	-	-	-	30,925	30,925
Total financial assets	**3 410,485**	**1,562**	**1,412**	**770,430**	**4 183,889**

Investment assets include EUR 36 903 thousand other than financial assets (real estate). Non-life insurance assets include EUR 16 604 thousand other than financial assets, mainly insurance receivables from customers.

Financial liabilities 30 June 2017

(EUR 1,000)	Other financial liabilities	Total carrying amount
Liabilities to credit institutions	7,182	7,182
Liabilities to customers	3 569,796	3 569,796
Debt securities issued to the public	109,609	109,609
Supplementary cooperative capital	33,974	33,974
Total financial liabilities	**3 720,561**	**3 720,561**

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 financial assets	**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	3,505,090	3,505,090
Debt securities issued to the public	100,220	100,220
Supplementary cooperative capital	37,512	37,512
Total financial liabilities	**3,654,206**	**3,654,206**

NOTE 9 Loans and Receivables

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Loans and receivables from credit institutions		
Deposits		
Repayable on demand	46,133	47,164
Other	20,455	26,351
Total loans and receivables from credit institutions	**66,588**	**73,515**
Loans and receivables from customers		
Loans	3,174,301	3,107,229
Loans granted from government funds	6,541	7,311
Guarantees	22	49
Used overdrafts	42,009	41 927
Credit card receivables	32,496	31 296
Other receivables	1,468	868
Total loans and receivables from customers	**3,256,837**	**3 188 681**
Total loans and receivables	**3,323,425**	**3,262,196**

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 on 31 December 2016. The cooperation has ended, and all remaining loans have be transferred to the POP Banks' balance sheets.

Impairment losses recorded on loans and receivables

(EUR 1,000)	1 Jan-30 Jun 2017	1 Jan-30 Jun 2016
Increases in impairment losses	-3,088	-2,747
Reversals of impairment losses	427	401
Change in collectively assessed impairment losses	-44	-67
Reversals of impairment losses from final credit losses	571	706
Final credit losses	-610	-714
Impairment losses on loans and receivables	**-2,743**	**-2,420**

Accrued impairment losses on loans and receivables in the balance sheet

(EUR 1,000)	1 Jan-30 Jun 2017	1 Jan-31 Dec 2016
Impairment losses at the beginning of period	21,667	16,933
+ Increases in impairment losses	3,088	7,336
- Reversals of impairment losses	-427	-777
+/- Change in collectively assessed impairment losses	44	101
- Reversals of impairment losses from final credit losses	-571	-1,927
Impairment losses at the end of period	**23,799**	**21,667**

NOTE 10 Investment Assets

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Available-for-sale financial assets		
Debt securities	434,427	411,948
Shares and participations	305,077	305,816
Investment properties	36,903	36,598
Total investment assets	**776,408**	**754,362**

Investments of non-life insurance are included in non-life insurance assets. Non-life insurance assets are presented in note 11.

Impairment losses on available-for-sale financial assets

(EUR 1,000)	Debt securities	Shares and participations	Total
Impairment losses 1 January 2017	375	3,705	4,081
+ Increases in impairment losses	-	39	39
- Reversals of impairment losses	-375	-1,257	-1,632
Impairment losses 30 June 2017	**-**	**2,488**	**2,488**

(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**

NOTE 11 Non-life Insurance Assets

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Investments		
Shares and participations	6,353	5,806
Bonds	24,573	22,824
Other assets		
Other receivables		
Direct insurance operations	16,260	13,749
Other receivables	344	537
Non-life insurance assets total	**47,530**	**42,915**

NOTE 12 Liabilities to Credit Institutions and Customers

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Liabilities to credit institutions		
Repayable on demand	5,997	5,893
Not repayable on demand	1,185	5,492
Total liabilities to credit institutions	**7,182**	**11,385**
Liabilities to customers		
Deposits		
Repayable on demand	2,690,030	2,559,514
Not repayable on demand	871,899	935,748
Other financial liabilities		
Not repayable on demand	7,867	9 829
Total liabilities to customers	**3,569,796**	**3,505,090**
Total liabilities to credit institutions and customers	**3,576,979**	**3,516,475**

NOTE 13 Non-life Insurance Liabilities

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Insurance contract liabilities	30,740	26,586
Liabilities from direct insurance operations	218	235
Liabilities from reinsurance operations	585	189
Other	5,243	5,411
Total non-life insurance liabilities	**36,786**	**32,420**

Insurance contract liabilities

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Provision for unearned premiums	16,235	12,899
Ceded to reinsurers	-489	-
Provisions for unpaid claims	16,480	14,751
Ceded to reinsurers	-1,487	-1,064
Total insurance contract liabilities	**30,740**	**26,586**

Insurance contract liabilities consist provisions for unearned premiums and 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 14 Debt Securities Issued to the Public

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Debt securities issued to the public	99,618	99,521
Other		
Certificate of deposits	9,991	699
Total debt securities issued to the public	**109,609**	**100,220**

In financial year 2016, 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. During the reporting period was issued two certificates of deposits of EUR 5 million nominal value.

NOTE 15 Collateral Given

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Given on behalf of own liabilities and commitments		
Pledges	2,546	2,164
Mortgages	400	400
Collateral given to the Bank of Finland	26,487	36,403
Total collateral given	**29,433**	**38,967**

NOTE 16 Off-balance-sheet Commitments

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Guarantees	23 332	23 727
Loan commitments	198 750	193 807
Total off-balance sheet commitments	**222 082**	**217 534**

NOTE 17 Fair Values by Valuation Technique

Items recurrently measured at fair value 30 June 2017

(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	-	-	1,562	1,562	1,562
Derivative contracts					
Banking	-	1,412	-	1,412	1,412
Available-for-sale financial assets					
Banking	517,246	203,432	18,826	739,504	739,504
Insurance	30,925	-	-	30,925	30,925
Total financial assets	**548,171**	**204,845**	**20,388**	**773,404**	**773,404**

Items measured at amortised cost 30 June 2017

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets					
Loans and receivables					
Banking	-	3,344,907	-	3,344,907	3,323,425
Total assets measured at amortised cost	**-**	**3,344,907**	**-**	**3,344,907**	**3,323,425**
Financial liabilities					
Other financial liabilities					
Banking	-	3,715,270	-	3,715,270	3,720,561
Total financial liabilities measured at amortised cost	**-**	**3,715,270**	**-**	**3,715,270**	**3,720,561**

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	-	3,655,585	-	3,655,585	3,654,206
Total financial liabilities measured at amortised cost	**-**	**3,655,585**	**-**	**3,655,585**	**3,654,206**

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.

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.

During the period, EUR 400 thousand of instruments have been transferred from hierarchy level 1 to hierarchy level 3. A regular public quote could not be obtained for the instruments, which is why they were classified to hierarchy level 3.

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–30 Jun 2017 Banking	1 Jan–31 Dec 2016 Banking
Carrying amount at the beginning of period	**1,681**	**3,383**
+ Purchases	200	196
- Sales	-320	-368
- Matured during the financial year	-	-1,600
+/- Realised changes in value recognised in income statment	-5	34
+/- Unrealised changes in value recognised in the income statement	6	36
Carrying amount at the end of period	**1,562**	**1,681**

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

(EUR 1,000)	1 Jan–30 Jun 2017 Banking	1 Jan–31 Dec 2016 Banking
Carrying amount at the beginning of period	**16,035**	**30,959**
+ Purchases	2,136	4,052
- Sales	-353	-12,435
- Matured during the period	-101	-1,105
+/- Realised changes in value recognised in income statement	-2	-668
+/- Unrealised changes in value recognised in income statement	-38	-50
+/- Changes in value recognised in other comprehensive income	751	228
+ Transfers to level 3	400	-
- Transfers to level 1 and 2	-	-4,947
Carrying amount at the end of period	**18,826**	**16,035**

SENSITIVITY ANALYSIS OF FINANCIAL INSTRUMENTS AT LEVEL 3

Available-for-sale financial assets 30 June 2017

(EUR 1,000)	Carrying amount	Possible effect on equity capital Positive	Negative
Banking	18,381	1,653	-1,653
Total available-for-sale financial assets	**18,381**	**1,653**	**-1,653**

Available-for-sale financial assets 31 December 2016

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

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 18 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.

There are no material changes in related party transactions since 31 December 2016.

NOTE 19 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 the financial statements' Note 4 on risk and capital adequacy management and Note 3 on governance and management systems. The disclosure requirements concerning remuneration are presented in Note 3 on governance and management systems and Note 13 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)	30 Jun 2017	31 Dec 2016
Own funds		
Common Equity Tier 1 capital before deductions	509,993	486,655
Deductions from Common Equity Tier 1 capital	-4,621	-5,245
Total Common Equity Tier 1 capital (CET 1)	**505,372**	**455,542**
Additional Tier 1 capital before deductions	6,142	6,897
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**6,142**	**6,897**
Tier 1 capital (T1=CET1+AT1)	**511,514**	**488,307**
Tier 2 capital before deductions	3,071	2,759
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**3,071**	**2,759**
Total capital (TC=T1+T2)	**514,585**	**491,065**
Total Risk Weighted Assets	**2,371,723**	**2,308,526**
Of which credit risk	2,153,847	2,084,072
Of which credit valuation adjustment risk (CVA)	622	1,321
Of which market risk (exchange rate risk)	19,718	25,597
Of which operational risk	197,536	197,536
Fixed capital conservation buffer according to the Act on Credit Institutions (2.5%)	**59,293**	**57,713**
Countercyclical capital buffer	**340**	**222**
CET1 Capital ratio (%)	21.3%	20.9%
T1 Capital ratio (%)	21.6%	21.2%
Total capital ratio (%)	21.7%	21.3%
Leverage ratio		
Tier 1 capital (T1)	511,514	488,307
Leverage ratio exposure	4 379,988	4 291,563
Leverage ratio, %	11.7 %	11.4%

FURTHER INFORMATION

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The figures disclosed in the h alf-year financial report are unaudited.

Espoo 22 August 2017
Board of Directors of POP Bank Alliance Coop

POP Pankki