POP Bank Group

BOARD OF DIRECTORS' REPORT AND CONSOLIDATED IFRS FINANCIAL STATEMENTS

31 DECEMBER 2018

POP Pankki

TABLE OF CONTENTS

POP Bank Group's Financial Statements Release 1 January - 31 December 2018 is a translation of the original Finnish version "POP Pankki -ryhmän tilinpäätös 1.1.-31.12.2018". In case of discrepancies, the Finnish version shall prevail.

CEO'S REVIEW

New products and improved operating efficiency

2018 was the third year of operations of the amalgamation of POP Banks, and it was a successful one in terms of business operations. Operating income, excluding net investment income, was EUR 110.5 million, representing growth of 6.1 per cent. The loan portfolio grew to EUR 3,473.3 million, an increase of 4.4 per cent.

The capital structure and capital adequancy of the amalgamation of POP Banks remained strong. Its own funds amounted to EUR 507 million, and the CET 1 capital ratio was 20.5 per cent.

Despite favourable growth in basic business operations, the result for the period was lower than the previous year, due to a considerable fall in net investment income. The result before taxes was EUR 11.6 million (EUR 19.5 million the previous year). Net investment income totalled EUR 1.1 million, compared to EUR 14.6 million in the previous financial period. Investment income was affected by the new accounting regulations that took effect at the beginning of the year and the negative development of the investment market at the end of the year.

Banking and insurance operations developed as planned. Despite low interest rates, net interest income strengthened by 4.1 per cent, to EUR 65.4 million. The increase in net interest income was due to higher lending volumes and more efficient funding. Net commission income grew by 6.0 per cent, to EUR 29.8 million. The improved loss ratio helped to boost net insurance income to EUR 10.4 million, a rise of 23.4 per cent.

There were 251,000 banking customers and 125,000 insurance customers at the end of the year. Customer volumes in the insurance company reached a new record, growing by 19.8 per cent. We served customers at 81 branch offices and service points, as well as via the POP Bank Group's online services and mobile channel.

There were considerable changes in the banks' operating environment. The change programme launched two years ago to strengthen analytics, streamline operations and implement digitalisation began to show results in new working methods and improved efficiency.

In the autumn, we released a new mobile banking app allowing customers to manage their finances with a smartphone in the same way as they do in the online bank. Customers immediately showed great interest in the mobile app, which has received excellent feedback from users. The app also makes insurance products easily available to banking customers.

Towards the end of the year, we introduced the Group's first completely digital loan product: POP Pikalaina consumer credit. The product launch was strategically significant, since new digital products will diversify POP Bank Group's customer base and create new opportunities to increase net interest income.

We strengthened customer service at branch offices with new tools and by more widely implementing online meetings and electronic signatures.

After the financial period, in January 2019, POP Bank Group completed negotiations related to overhauling its core banking system with a modern and more cost-effective solution. The new core banking system is Temenos T24 Transact, supplied by the US-based company Cognizant. The agreement covers borrowing and lending, as well as payment services. The purpose of the change is to improve the Group's competitiveness and to ensure effective development of digital services.

The Board of Directors of the POP Bank Group launched a strategy process to secure the continuity of local banking operations and streamline business operations. It is scheduled to be completed early in 2019. The strategy is based on the digital transformation underway in the financial sector, as well as changes in customer behaviour and expectations.

POP Bank Group is continuing to determinedly develop customer relationships by keeping its product selection, pricing and operations competitive and attractive to customers.

The Group's goal is to offer the best personal service in the market in banking and insurance through its extensive network of branch offices and its digital channels. The operations highlight the continuous development of well-functioning services and customer experience.

POP Bank has the highest customer satisfaction ratings in the Nordic countries (EPSI Rating 2018). Our customers are satisfied because of the high availability of our personnel and the quick decision-making made possible by our local presence.

I would like to thank our personnel for their extremely strong input at work and their willingness to adapt to changes. At the same time, I would like to extend my thanks to our customers and partners for the trust they have demonstrated towards POP Bank Group.

Pekka Lemettinen
CEO
POP Bank Alliance Coop

POP Bank Group's Board of Directors' report 1 January - 31 December 2018

POP BANK GROUP'S YEAR 2018 IN BRIEF

- Net interest income 65.4 (62.8) million (+4.1%)
- Total operating income excluding net investment income EUR 110.5 (104.5) million (+5.8%)
- Profit before tax EUR 11.6 (19.5) million (-40.6%)
- Loan portfolio EUR 3,473.3 (3,325.4) million (+4.4%)
- Balance sheet EUR 4,409.5 (4,275.8) million (+3.1%)
- CET 1 Capital ratio of the amalgamation 20.5 (20.9) per cent
- POP Bank has the highest customer satisfaction in Nordic countries (EPSI Rating 2018)
- Insurance operations' loss ratio 70.7 (75.1) per cent
- The increase in number of insurance customers 19.8 (13.8) per cent

KEY EVENTS

- New cooperation began in the field of investment and insurance products with the Savings Bank Group and UB Asset Management Ltd.
- Powerful digital inputs continued: we introduced our first fully digital banking product to the market.
- Customer volumes continued to grow, and the loss ratio improved in the insurance segment.
- The POP Bank Group prepared to upgrade its core banking system to a more modern and cost-effective solution.

POP Bank Group and amalgamation of POP Banks

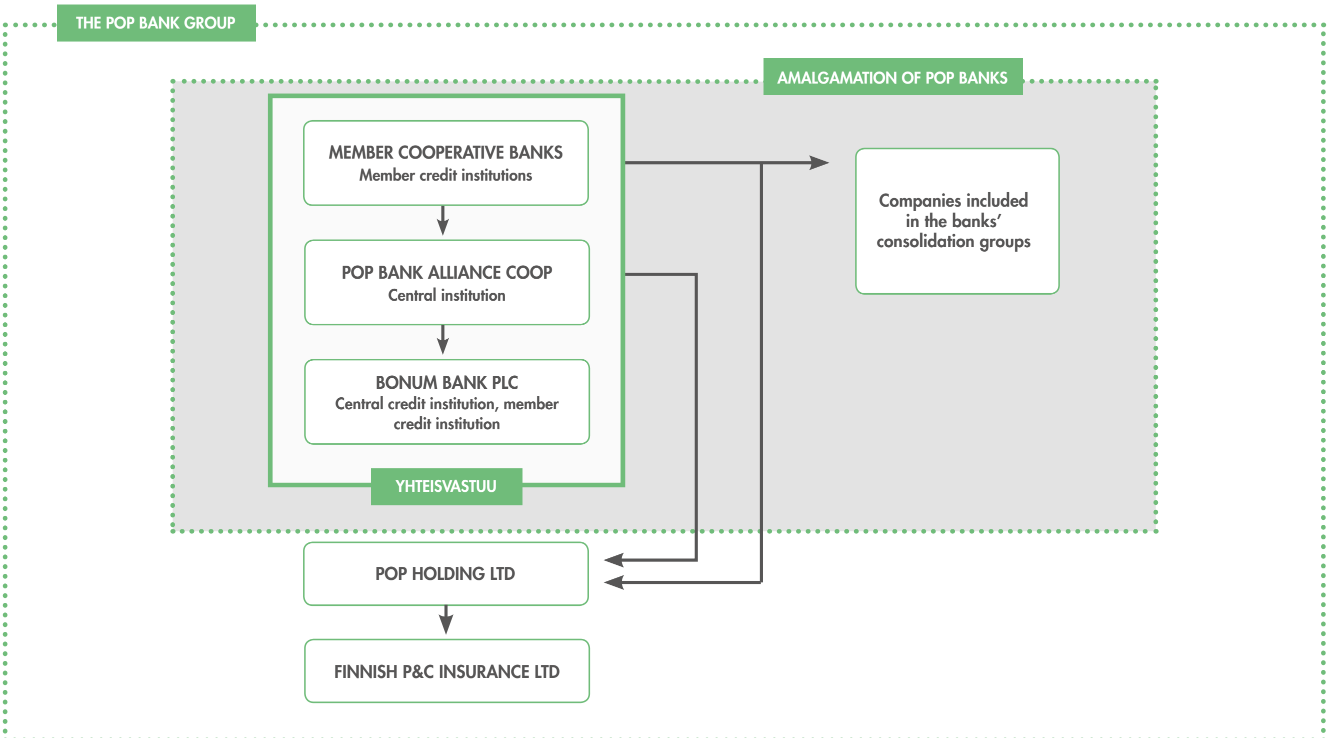
The POP Bank Group is a Finnish financial group that offers retail banking services to private customers, small companies, agricultural and forestry companies, as well as non-life insurance services to private customers. In addition to healthy and profitable business, the objectives of the POP Bank Group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

The POP Bank Group refers to the new legal entity created 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 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.

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



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.

On 31 August 2018, the POP Bank Alliance acquired 25 per cent of Paikallispankkien PP-Laskenta Oy from Samlink Ltd. Paikallispankkien PP-Laskenta provides accounting and official reporting services for the financial sector. The other owners of the company are also the company's customers. The change has no impact on the operations of the POP Bank Group.

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).

Operating environment

Good growth in Finland's economy continued in 2018. However, compared to the record-strong economic growth of 2017, the growth slowed down. Although the growth rate of the global economy was also at a good level, the uncertainty about whether the growth would continue increased.

The Competitiveness Pact signed for the labour market in 2016 improved the price competitiveness of Finnish exports. The wage agreements signed thereafter are also moderate compared to the competitor countries.

The positive economic development in Finland's most important export countries was also reflected in the strong export demand. The construction rate continued to brisk, but the decline in the number of construction permits issued anticipated the slowing down of construction. The economic boost supported the employment rate, which at the end of the year reached the target level of 72 per cent set by the Government. At the same time, unemployment decreased to close to seven per cent.

A long-awaited turn was experienced in the development of indebtedness of Finland, as the strong economic growth helped decrease gearing. However, the total amount of debt continued to grow. Private households' indebtedness also continued and their savings rate was negative. Housing prices in growth centres continued to rise due to migration to the Helsinki metropolitan area, in particular, and demand by investors. Outside the growth centres, however, the demand for housing was clearly more moderate, and the price level either decreased or remained unchanged.

The Financial Supervisory Authority grew concerned about the increased indebtedness of households and tightened the cap on housing loans starting from 1 July 2018. The preparation of additional regulation of consumer credits was also initiated at the end of the year.

In the euro region, the interest rate level and outlook continued to be moderate and the short-term market rates remained negative. The European Central Bank's extensive stimulus policy involving interest rates and monetary amounts has maintained a low interest rate level in the euro region for a long time. However, the first indications of a change in direction were seen during the year. The growth in the purchasing programme came to an end, and there was an upward turn in the 12-month euribor rates. However, ECB did not yet make any changes to the key interest rates.

The regulatory changes affecting the banking sector continued in 2018. At the beginning of the year, the liquidity coverage (LCR) regulation took effect in full after the transition period, as did the Payment Services Directive (PSD2) and the IFRS 9 Financial Instruments standard. In May, the EU's General Data Protection Regulation (GDPR) and Data Protection Directive became effective. Preparations for the small investor account to facilitate direct saving in shares by households were initiated. The intention of the small investor account is to increase the popularity of saving in shares and share investment among households.

Key events in the POP Bank Group

New cooperation began in investment and insurance products

At the end of 2017, the POP Bank Group and the Savings Bank Group agreed on extensive product cooperation, aimed at adding products from Sb Life Insurance Ltd and Sp-Fund Management Company Ltd (both part of the Savings Bank Group) to the product range of POP Banks, as well as introducing non-life insurance products from Finnish P&C Insurance Ltd to customers of Savings Banks at branch offices and via digital channels. The first of these products went on sale at POP Banks in June.

In addition, the POP Bank Group and UB Asset Management Ltd signed a cooperation agreement in November 2017 concerning the distribution of select funds in POP Banks. The funds covered by the agreement focus on real asset investments, in which UB is a pioneer on the Nordic scale. The funds complement the range of funds offered by POP Banks with an entirely new investment grade. The funds went live at POP Banks in February.

Strong inputs in digitalisation continue

The POP Bank Group is making powerful inputs in digital services and digital customer encounters. We developed collaboration tools e.g. by piloting online meetings and implementing electronic signatures more widely. In addition, we launched the completely revamped POP Mobiili mobile banking app and the fully digital POP Pikalaina consumer credit in the autumn. The development of digital services is continuing on the basis of these successful product launches.

Customer volumes continued to grow and the loss ratio improved in the insurance segment

The business operations of Finnish P&C Insurance, which is part of the POP Bank Group, continued to grow powerfully, with its number of customers reaching 124,600. The company gained an average of 3,900 new customers each month. Price competition in vehicle insurance policies launched in the previous year led to decreases in the average prices of the company's motor insurance offerings. Despite the decreased prices, Finnish P&C Insurance managed to both increase its business volumes and improve the loss ratio during the financial period.

POP Bank prepared for update to its basic banking system

The POP Bank Group conducted negotiations with the other main owners of Samlink Ltd on upgrading the basic banking systems to a modern and cost-effective solution. The negotiations were completed after the end of the financial period. The purpose of the reform is to improve the Group's competitiveness and to ensure effective development of digital services. The negotiations also included reorganisations involving Samlink.

Credit ratings

S&P Global Ratings affirmed Bonum Bank's rating of BBB for long-term investment grade and A-2 for short-term investment grade in May. Bonum Bank serves as the central credit institution of the amalgamation of POP Banks. The outlook remains stable. The stable outlook rating by S&P Global reflects the POP Bank Group's strong capital adequacy, stability and predictability of business operations, and expectations for increasing efficiency resulting from the amalgamation.

POP Bank Group's earnings and balance sheet

The amalgamation of POP Banks started operations on 31 December 2015. The past financial year was the amalgamation's third year of operations.

POP BANK GROUP'S KEY FIGURES AND RATIOS

(EUR 1,000)	1 Jan-31 Dec 2018	1 Jan-31 Dec 2017	1 Jan-31 Dec 2016
Net sales	126,689	137,529	137,449
Net interes income	65,391	62,817	62,417
% of net sales	51.6 %	45.7 %	45.4 %
Profit before tax	11,569	19,488	16,958
% of net sales	9.1 %	14.2 %	12.3 %
Total operating income	111,643	118,718	114,851
Total operating expenses	96,871	94,238	91,162
Cost to income ratio	86.8 %	79.4 %	79.4 %
Balance sheet total	4,409,518	4,275,838	4,229,417
Equity capital	483,788	485,649	463,021
Return on assets, ROA %	0.2 %	0.4 %	0.2 %
Return on equity, ROE %	1.8 %	3.3 %	2.3 %
Equity ratio, %	11.0 %	11.4 %	10.9 %
Common equity Tier 1 capital ratio, (CET1) %	20.5 %	20.9 %	20.9 %
Capital adequacy ratio, (TC) %	20.8 %	21.2 %	21.3 %
Impairment losses on loans and other receivables	-3,195	-4,991	-6,731

POP Bank Group's earnings development (comparison period 1 January - 31 December 2017)

POP Bank Group's income, excluding net investment income, grew by 5.8 per cent, from EUR 104.5 million to EUR 110.5 million. However, the result was burdened by the significant decrease in net investment income and expenses, which increased from the previous year. POP Bank Group's result before taxes was EUR 11.6 (19.5) million, and the profit for the financial period was EUR 8.9 (15.7) million.

Net interest income strengthened by 4.1 per cent during the financial period, to EUR 65.4 million. The positive development was due to decreased interest expenses resulting from more effective funding. Interest expenses were EUR 10.3 million, whereas they were EUR 14.7 million during the previous year (-30.1 per cent). Interest income totalled EUR 75.7 (77.6) million.

Net commission income grew by a total of EUR 1.7 million to EUR 29.8 (28.1) million. The improved loss ratio helped to strengthen net insurance income by 23.4 per cent, to EUR 10.4 (8.5) million.

Net investment income decreased considerably, to EUR 1.1 (14.6) million (-92.4 per cent). Net investment income was affected by the new accounting regulations that took effect at the beginning of the financial period and the negative development of the investment market at the end of the year. Other operating income totalled EUR 4.9 (4.8) million. Total operating income decreased by 6.0 per cent, to EUR 111.6 (119.0) million.

Operating expenses increased by 2.8 per cent, to EUR 96.9 (94.2) million. Personnel expenses were EUR 41.8 (39.7) million, an increase of 5.2 per cent from the previous year. They were affected by increased resources in the central institution and the insurance company. Other operating expenses increased by 2.7 per cent, to 48.3 (47.0) million. Depreciation and impairment losses on tangible and intangible assets were EUR 6.8 (7.5) million.

EUR 3.2 million of the impairment of financial assets was recognised as expenses. The impairment losses include deductions of expected credit losses of EUR 1.6 million in accordance with IFRS 9, which took effect at the beginning of the year, and the incurred credit losses of EUR 4.7 million. A total of EUR 5.0 million was recognised in impairment losses during the comparison period. Of this amount, impairments specific to receivables and groups of receivables accounted for EUR 1.6 million, and the credit losses incurred totalled EUR 3.3 million.

Accounting provisions on impairment losses changed on 1 January 2018, with the entry into force of IFRS 9 Financial Instruments. The effect of the transition was recognised as an equity adjustment, and the historical information was not adjusted. Expected credit losses are recognised on loan receivables, off-balance sheet receivables and debt securities recognised through items of comprehensive income.

POP Bank Group's balance sheet (comparison information 31 December 2017)

At the end of the financial period, POP Bank Group's balance sheet grew by 3.1 per cent, standing at EUR 4,409.5 (4,275.8) million. The Group's loan portfolio increased by 4.4 per cent in the financial period, to EUR 3,473.3 (3,325.4) million. The deposit portfolio grew by 3.2 per cent to be EUR 3,666.5 (3,554.4) million at the end of the financial period.

The amount of debt instruments issued by the Group's central credit institution Bonum Bank Plc totalled EUR 142.4 (109.7) million at the end of the financial year. The Group's investments in securities and properties stood at EUR 707.9 (749.3) million at the end of the financial period.

The POP Bank Group's equity was EUR 483.8 (485.6) million at the end of the financial period. IFRS 9 Financial Instruments, which took effect on 1 January 2018, reduced the Group's equity by EUR 7.5 million. With the standard in effect, financial assets were revalued in accordance with the IFRS 9 classification. The impacts of the standard were recognised directly in equity. POP Banks paid a total of EUR 1.2 (0.7) million in interest on cooperative capital for 2017. In addition to cooperative contributions, POP Banks have also issued POP Shares. A POP Share is an investment in the cooperative's equity pursuant to the Co-Operatives Act. In total, POP Banks have issued EUR 55.3 (53.6) million in POP Shares. In POP Banks' national financial statements, the supplementary cooperative contributions, which total EUR 21.4 (26.2) million and are included in the equity, are recognised as debt capital in accordance with IFRS, and the interest paid on them is recognised as an accrued interest expense. POP Banks' cooperative capital totalled EUR 64.7 (62.8) million.

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 2018, POP Banks had 251,000 (250,000) customers. Of these, 85.0 per cent (84.8) are private customers, 8.3 per cent (8.0) are corporate customers, and 3.4 per cent (3.8) are in the agriculture and forestry sectors. At the end of the year, 88,500 (87,200) customers were also members of POP Banks.

Offering and developing the best customer experience are key factors for POP Banks. Throughout the 2000s, POP Banks have ranked at the top in independent customer satisfaction and customer service surveys. According to surveys conducted in 2018, POP Banks still have the highest customer satisfaction rates among Nordic banks (according to EPSI Rating customer satisfaction surveys in the Nordic countries in autumn 2018) and the best banking services in Finland (based on a national customer feedback survey by Taloustutkimus in 2018). At the end of the year, POP Banks had 81 branch offices and service points.

Banking operations focused on developing the digital business during the financial period. At the end of the financial period, Bonum Bank introduced to the mar ket a completely digital form of unsecured consumer credit: POP Pikalaina.

Banking earnings (comparison period 1 January - 31 December 2017)

Banking earnings before taxes decreased by 42.0 per cent, to EUR 12.3 (21.2) million. The cost-to-income ratio was 0.84 per cent (0.75). The decrease in earnings was due to the considerable decline in net investment income. By contrast, other income items increased.

Operating income was EUR 101.5 (108.9) million. Despite the challenging interest rate environment, net interest income strengthened, totalling EUR 65.1 (62.8) million. The amount of net income and expenses also increased from the previous year to EUR 30.4 (28.7) million. Net investment income decreased by 85.2 per cent, to EUR 2.1 (14.0) million. Net investment income was affected by the new accounting regulations that took effect at the beginning of the financial period, as well as by the negative development of the investment market at the end of the year. Other operating income totalled EUR 3.9 (3.4) million.

Operating expenses amounted to EUR 86.0 (82.7) million, an increase of 4.0 per cent. Personnel expenses stood at EUR 30.6 (29.8) million. Other operating expenses increased by 5.9 per cent, to EUR 50.9 (48.0) million. Depreciation and impairment losses on tangible and intangible assets were EUR 4.5 (4.9) million.

EUR 3.2 million of the impairment of financial assets was recognised as expenses. The impairment losses include the deductions of the expected credit losses of EUR 1.6 million in accordance with IFRS 9, which took effect at the beginning of the year and the incurred credit losses of EUR 4.7 million. A total of EUR 5.0 million was recognised in impairment losses during the comparison period. Of this amount, impairments specific to receivables and groups of receivables accounted for EUR 1.6 million, and the incurred credit losses totalled EUR 3.3 million.

Impairment losses comprised 0.09 (0.15) per cent of the loan portfolio. Receivables more than 90 days overdue from the loan and guarantee portfolio grew slightly from the previous year's levels, accounting for 0.89 (0.89) per cent of the loan portfolio.

Banking segment's assets and liabilities (comparison information 31 December 2017)

The assets of the banking segment totalled EUR 4,444.2 (4,309.7) million at the end of the financial period. The loan portfolio increased by 4.4 per cent, to EUR 3,475.8 (3,327.9) million. Loans granted to private customers accounted for 67.0 (66.7) per cent of the loan portfolio, loans granted to companies for 17.0 (16.4) per cent, and loans granted to agricultural entrepreneurs for 16.0 (16.9) per cent. The majority of the increase in the loan portfolio was generated by loans granted to private customers, and the amount of corporate loans also increased. Deposits increased by 3.1 per cent, totalling EUR 3,672.3 (3,560.2) million at the end of the financial period.

INSURANCE

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. The insurances are mostly sold via electronic channels.

Finnish P&C Insurance Ltd started customer operations at the end of 2012. In six years, the company has grown strongly. In 2018, it gained an average of 3,900 (3,700) new customers per month, and at the end of the financial period, the company had 124,600 (104,400) customers. In customer surveys, nine out of ten customers would recommend POP Insurance. The company, which operates via electronic channels, has customers throughout Finland.

The majority of the company's insurance policies are granted through its own sales channels. Key distribution partners include POP Bank Group and the Savings Banks Group, as well as car dealerships and vehicle inspection stations. Banks both direct their customers to the online store and forward contact requests to the service centre of Finnish P&C Insurance Ltd. Dealerships and vehicle inspection stations grant vehicle insurance policies in the capacity of an intermediary.

The vehicle insurance price competition that began last year was reflected in the average prices of motor insurance, which burdened the result of the insurance segment. Despite lower prices, the insurance segment managed to simultaneously increase its business volumes and improve the loss ratio. The insurance segment is a central part of the digital operations of the POP Bank Group. Home insurance products were updated and online trade was developed during the financial period.

Insurance earnings (comparison period 1 January - 31 December 2017)

The result of the insurance segment before taxes improved slightly, standing at EUR -0.6 (-0.7) million. Net insurance income improved by 23.4 per cent during the financial period, from EUR 8.5 million to EUR 10.4 million, and the loss ratio decreased by 4.4 percentage points, from 75.1 per cent to 70.7 per cent. The operating expense ratio improved from 31.8 per cent to 31.4 per cent, and the consolidated cost ratio was 102.1 (106.8) per cent. Operations are expected to become profitable in 2019.

In 2018, Finnish P&C Insurance sold 129,000 (127,000) new insurance agreements, and its premiums written totalled EUR 38.9 (35.2) million. The insurance categories of motor liability insurance and land vehicles account for 82 (86) per cent of the premiums written. Accident and health, fire and other property, as well as other direct insurance policies generate a total of 18 (14) per cent of the premiums written. Insurance premium revenue was EUR 35.6 (33.9) million at the end of the financial period, representing growth of 5.2 per cent from the year before.

Claims totalled EUR 25.2 (25.4) million. Claims decreased by 0.9 per cent from the previous year. The claims incurred comprised claims paid (EUR 24.4 (23.1) million) and a change in provisions for unpaid claims (EUR 2.5 (3.8) million), less an increase in the change in provisions for unpaid claims ceded to reinsurers (EUR -1.7 (-1.5) million). During the financial period, the company did not become aware of any new losses exceeding the retention limits of reinsurance. Reinsurance provisions for a total of six losses were made to technical provisions at the end of the year.

Personnel expenses increased to EUR 7.1 (6.1) million. Other operating expenses decreased and were EUR 2.4 (2.9) million, and depreciation and impairment were EUR 1.4 (1.5) million. Operating expenses totalled EUR 10.9 (10.5) million.

The POP Bank Group has applied IFRS 9 *Financial Instruments* to the classification and valuation of the investment assets of its insurance company since 1 January 2018.

Insurance segment's assets and liabilities (comparison information 31 December 2017)

The assets of the insurance segment totalled EUR 61.6 (62.1) million at the end of the financial period. The liabilities of the insurance segment totalled EUR 36.4 (34.8) million. Insurance liabilities grew by 11.0 per cent during the financial period, amounting to EUR 32.5 (29.3) million. The liabilities of the insurance segment totalled EUR 36.3 (36.2) million.

OTHER FUNCTIONS

Other functions include 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.

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

Principles and organization 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 liquidity 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 within confirmed business risk thresholds.

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 control 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. Material information regarding capital adequacy as specified in Part Eight of the Capital Requirements Regulation (EU 575/2013) is presented in a separate Pillar III report.

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. Expected credit losses (ECL) decreased during the financial period.

The loan portfolio increased by 4.4 per cent since the year-end to EUR 3,473.3 million (EUR 3,325.4 million on 31 December 2017). Majority of the lending is associated with low risk lending to private customers. Loans granted to private customers accounted for 67.0 (66.7) per cent of the loan portfolio, companies for 17.0 (16.4) per cent and agriculture entrepreneurs for 16.0 (16.9) per cent. Loans secured by residential real estate collateral accounted for 65.6 (65.2) per cent of the loan portfolio.

At the end of the financial year, the amalgamation of POP Banks' receivables more than 90 days past due accounted for 0.89 (0.89) per cent of the loan portfolio. The amalgamation's receivables 30–90 days past due accounted for 0.83 (0.60) per cent of the loan portfolio at the end of the financial year.

Expected credit losses decreased 0.7 per cent to EUR 30.6 million (EUR 30.8 million) during the financial period. Impairment losses on loans and receivables totalled EUR 23.3 million at the end of the previous financial year. Impairment losses have been measured according to IFRS 9 from 1 January 2018. Historical information on impairment losses have not been adjusted.

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 is part of the POP Bank Group.

Credit risk monitoring is based on the continuous tracking of the past due receivables and late payments, as well as monitoring the quality of the credit portfolio. Monitoring expected credit losses is an essential part of the credit risk management. Predicted difficulties in loan payments are addressed and managed as early as possible.

Liquidity risk

POP Bank Alliance Coop, the central institution of POP Banks' Amalgamation, applies a permission by the Finnish Financial Supervisory Authority to decide that the requirements laid down in the sixth part of the European Union's Credit Requirements Regulation (EU 575/2013) are not applied to its member credit institutions. The central credit institution Bonum Bank Plc manages the liquidity coverage requirement (LCR) of the amalgamation.

The POP Bank Group's liquidity position remained strong during the financial period. The regulatory requirement for the liquidity of credit institutions, LCR (Liquidity Coverage Ratio), was 100 per cent by 1 January 2018. The LCR of the amalgamation of POP Banks was 151 (143) per cent on 31 December 2018. On 31 December 2018, the amalgamation's LCR-eligible assets before haircuts totalled EUR 364,1 (315,2) million, of which 22,3 (12,1) per cent were cash and balance at the central bank and 77,7 (87,9) per cent were highly liquid tier 1 securities.

The POP Bank Group's funding position also remained strong during the financial period. The proportion of deposits from the loan portfolio remained high and the availability of financing stayed good. During the financial period, Bonum Bank Plc actively issued certificates of deposit as part of the EUR 150 million certificate of deposit programme. At the end of the financial period, the amount of certificates of deposit issued was EUR 42.5 million. Bonum Bank Plc has previously issued EUR 100 million unsecured senior loan as part of the EUR 750 million bond loan programme established in May 2016. Entering the wholesale funding market has diversified the amalgamation's funding activities, enhanced the transmission of intra-group funding and supported the growth of the Group. The long-term financing position is therefore expected to further continue its positive development.

The liquidity risk of the amalgamation is controlled through the loan/deposit –ratio and the cash flow gap analysis based on the maturity differences of assets and liabilities. A sufficient liquidity buffer is maintained to cover the short-term liquidity needs and the funding gaps in different maturity buckets.

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 of the POP Bank Group is the interest rate risk in the banking book, which is monitored and limited using both the present value and income risk models. The income risk of the amalgamation measured by the effect of one percentage point decrease in interest rates to 12 months net interest income was EUR 7.4 (4.4) million in 31.12.2018. 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, risk type 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 minimized 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.

The processes and functions required by the General Data Protection Regulation have been implemented during the financial period and are monitored regularly.

INSURANCE RISKS

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

Key operational risks are still related to the building of IT systems and the controlled scaling and development of insurance business processes as the sales, customer and claim volumes increase. Information security risks are significant for an online company and, therefore, the company is strongly investing in their management. The personnel risk is significant due to the relatively small size of the organization, however the organization and partnerships are constantly developed to minimize risks. The investment risk of the insurance company is moderate and the main risks are equity, credit and interest rate risk.

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

BANK RESOLUTION PLAN

The bank resolution planning of the POP Bank Group initiated during 2017 and was continued during the financial period. The resolution authority of the POP Bank Group is the Financial Stability Authority. As the outcome of the process, the Financial Stability Authority will determine the minimum requirement for own funds and eligible liabilities for the Amalgamation of POP Banks, as required in the Act on resolution of financial institutions and investment firms (1194/2014) chapter 8 section 7.

CAPITAL ADEQUACY MANAGEMENT

At the end of 2018, the capital adequacy of the amalgamation of POP Banks was on a solid level. The amalgamation's capital adequacy ratio was 20.8 (21.2) per cent and CET1 Capital ratio 20.5 (20.9) per cent. The amalgamation does not include the profit for the financial year in own funds.

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 in their capital plan. 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 comprise 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 55.3 (53.6) million of POP Shares had been issued at the end of 2018. In addition to new issuances, some former supplementary cooperative contributions have been converted to POP Shares.

The statutory minimum level of capital adequacy ratio is 8 per cent, 4.5 percentage points of which must comprise of Common Equity Tier 1 (CET1) capital. 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 between 0–2.5 per cent. Thus, the cumulative capital requirement for POP Banks is currently 10.5 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. During the financial period, the Financial Supervisory Authority imposed an additional systemic risk buffer of 1.0 per cent, which becomes applicable as of 1 July 2019. After the end of the financial period, on 18 January 2019 the Financial Supervisory Authority set an additional capital requirement (Pillar 2) of 1.25 per cent on the amalgamation of POP Banks based on the Act on Credit Institutions (610/2014) chapter 11 section 6 (3). The requirement must be fulfilled with Common Equity Tier 1 (CET1) capital and comes into force on 30 September 2019.

The amalgamation of POP Banks has decided not to apply the IFRS 9 related transitional arrangements laid down in Article 473a of the Capital Requirements Regulation. Consequently, the reported own funds, capital and leverage ratio all reflect the full, phased-in impact of IFRS 9.

SUMMARY OF CAPITAL ADEQUACY

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Own funds		
Common Equity Tier 1 capital before deductions	512,130	509,965
Deductions from Common Equity Tier 1 capital	-11,358	-10,271
Total Common Equity Tier 1 capital (CET1)	**500,772**	**499,694**
Additional Tier 1 capital before deductions	3,952	4,980
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**3,952**	**4,980**
Tier 1 capital (T1 = CET1 + AT1)	**504,724**	**504,674**
Tier 2 capital before deductions	2,371	2,490
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**2,371**	**2,490**
Total capital (TC = T1 + T2)	**507,096**	**507,164**
Total risk weighted assets	**2,443,632**	**2,395,591**
of which credit risk	2,213,845	2,165,067
of which credit valuation adjustment risk (CVA)	1	270
of which market risk (exchange rate risk)	24,470	25,571
of which operational risk	205,315	204,682
Fixed capital conservation buffer according to Act on Credit institutions (2.5%)	**61,091**	**59,890**
Countercyclical capital buffer	**379**	**285**
CET1 Capital ratio (%)	**20.5 %**	**20.9 %**
T1 Capital ratio (%)	**20.7 %**	**21.1 %**
Total capital ratio (%)	**20.8 %**	**21.2 %**
Capital requirement		
Total capital	507,096	507,164
Capital requirement *	256,960	251,822
Capital buffer	250,136	255,342
Leverage ratio		
Tier 1 capital (T1)	504,724	504,674
Leverage ratio exposure	4,471,092	4,327,162
Leverage ratio, %	11.3 %	11.7 %

* The capital requirement comprises the minimum requirement of 8 %, the capital conservation buffer of 2.5 % and the country-specific countercyclical capital requirements of foreign exposures.

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 Plc) 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 Plc 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 Plc 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.

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:

Juha Niemelä
Managing Director, Liedon Osuuspankki
Ordinary member
Chairman starting from 23 November 2018
Vice Chairman until 22 November 2018

Soile Pusa
Managing Director, Siilinjärven Osuuspankki
Ordinary member
Vice Chairman starting from 23 November 2018

Teemu Teljosuo
Managing Director, Kurikan Osuuspankki until 9 November 2018
Ordinary member until 13 November 2018
Chairman until 13 November 2018

Petri Jaakkola
Managing Director, Lapuan Osuuspankki
Ordinary member

Ari Heikkilä
Managing Director, Konneveden Osuuspankki
Ordinary member

Marja Pajulahti
Managing Director, SOS Lapsikyläsäätiö
Ordinary member

Hannu Tuominiemi
Managing Director, Suupohjan Osuuspankki
Ordinary member

The CEO of POP Bank Alliance Coop is **Pekka Lemettinen**. CEO's deputy was **Jaakko Pulli**.

The auditor of POP Bank Alliance Coop is KPMG Oy Ab, an accounting firm, with **Tiia Kataja**, APA, as the auditor-in-charge.

Personnel and remuneration

Personnel

At the end of 2018, the POP Bank Group had 726 (718) employees, of whom 538 (539) in banking, 128 (116) in non-life insurance and 60 (63) 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

The value of the POP Bank Group is to promote the well-being 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 3.1 (4.5) million in taxes on its earnings in 2018. 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 33.9 (32.3) million in salaries.

Events after the closing date

POP Bank Group renews its core banking platform, which will enable more efficient development of digital services in the future. The investment is among the largest in the history of the POP Bank Group. The POP Bank Group will renew its basic banking system in cooperation with the Savings Bank Group and Oma Savings Bank Plc. The project will be launched in the spring of 2019 and is expected to continue until 2021.

POP Bank Group has selected T24 from Temenos was selected as the new core banking system. It will be supplied by the US-based company Cognizant, one of the world's leading providers of digital services. The agreement signed on 23 January 2019 covers borrowing and lending, as well as payment services. As a part of the agreement, Cognizant will acquire 100 per cent of the shares of Samlink Ltd. The divestment still requires approval from the Ministry of Economic Affairs and Employment and an inspection by the Finnish Financial Supervisory Authority.

The divestment will not impact POP Bank Group's result for 2019, since the shares have been categorised as shares to be recognised at fair value through items of comprehensive income. The divestment will have a minor negative impact on POP Bank Group's equity, but it will not have a material impact on the amalgamation's capital adequacy.

On 18 January 2019 the Financial Supervisory Authority set an additional capital requirement (Pillar 2) of 1.25 per cent on the amalgamation of POP Banks based on the Act on Credit Institutions (610/2014) chapter 11 section 6 (3). The requirement must be fulfilled with Common Equity Tier 1 (CET1) capital and comes into force on 30 September 2019.

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

Outlook for 2019

The economic outlook for 2019 is weaker than it was in 2018. Although global and Finnish economies are still expected to grow, it is estimated that the growth rate will slow down from the previous rate. Uncertainties threatening economic development have increased, both in Europe and globally. However, the purchasing power of wage earners is expected to develop favourably in Finland. Although interest rates have already bottomed out, it is estimated that ECB will not raise interest rates until the end of 2019, at the earliest.

The development of the POP Bank Group is focusing on the transfer to the new core banking system and the impact on competition and on business volumes of new regulations concerning payment services, financial instrument markets and privacy protection. The 2019 result of POP Bank Group is expected to be at the same level as during 2018 due to the continued low interest rates, the investments required by the Group's strategic development measures and uncertainties related to developments in the investment market. It is believed that the situation in the investment market will continue to be challenging, which is expected to makes results more volatile. The major uncertainties concern the valuation of financial assets and impairments.

Further information:

Pekka Lemettinen, CEO, tel. +358 40 5035411 and Jaakko Pulli, CCO, tel. +358 50 4200925.

Formulas for key figures

Net sales

Interest income, commissions and fees, net investment income, insurance income, other operating income

Total operating income

Net interest income, net commissions and fees, net investment income, insurance income, other operating income

Total operating expenses

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

Cost-income ratio, % =

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

Return on equity (ROE), % =

$$\frac{\text{Profit for the financial year}}{\text{Equity capital and non-controlling interest (average of the beginning and end of period)}} \times 100$$

Return on assets (ROA), % =

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

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), % =

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

$$\textbf{Leverage ratio, \% =} \quad \frac{\text{Tier 1 capital (T1)}}{\text{Leverage ratio exposure}} \times 100$$

$$\textbf{Liquidity coverage ratio (LCR), \% =} \quad \frac{\text{Liquid assets}}{\text{Liquidity outflows - liquidity inflows under stressed conditions}} \times 100$$

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

$$\textbf{Loss ratio, \% =} \quad \frac{\text{Claims incurred (after share ceded to reinsurers)}}{\text{Insurance premium revenue (after share ceded to reinsurers)}} \times 100$$

$$\textbf{Operating expense ratio, \% =} \quad \frac{\text{Operating expenses}}{\text{Insurance premium revenue (after share ceded to reinsurers)}} \times 100$$

POP BANK GROUP FINANCIAL STATEMENTS 31 DECEMBER 2018

POP Bank Group's income statement

(EUR 1,000)	Note	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017	Change, %
Interest income		75,695	77,565	-2.4 %
Interest expenses		-10,304	-14,748	-30.1 %
Net interest income	6	**65,391**	**62,817**	**4.1 %**
Net commissions and fees	7	29,790	28,115	6.0 %
Net investment income	8	1,111	14,559	-92.4 %
Insurance income	9	10,433	8,453	23.4 %
Other operating income	10	4,918	4,773	3.0 %
Total operating income		**111,643**	**118,718**	**-6.0 %**
Personnel expenses	11	-41,769	-39,720	5.2 %
Other operating expenses	12	-48,257	-47,003	2.7 %
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	13	-6,845	-7,516	-8.9 %
Total operating expenses		**-96,871**	**-94,238**	**2.8 %**
Impairment losses on financial assets	18	-3,195	-4,991	-36.0 %
Share of the income of associates	23	-9	-	...
Profit before tax		**11,569**	**19,488**	**-40.6 %**
Income tax expense	14	-2,640	-3,745	-29.5 %
Profit for the financial period		**8,928**	**15,744**	**-43.3 %**
Attributable to				
Equity owners of the POP Bank Group		8,949	15,759	-43.2 %
Non-controlling interests		-20	-15	35.5 %
Total		**8,928**	**15,744**	**-43.3 %**

Presentation of income from non-life insurance has been changed on the financial year that began 1 January 2018. Comparison information has been changed accordingly. The changes in presentation have been described in more detail in note 2.

POP Bank Group's statement of other comprehensive income

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017	Change, %
Profit for the financial period	8,928	15,744	-43.3 %
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans	-280	-709	-60.5 %
Changes in fair value reserve			
Equity instruments	-891	-	...
Items that may be reclassified to profit or loss			
Changes in fair value reserve			
Liability instruments	-2,985	-	...
Available-for-sale financial assets	-	-1,868	...
Other comprehensive income for the financial period	**4,772**	**13,167**	**-63.8 %**

Other comprehensive income for the financial period attributable to			
Owners of the POP Bank Group	4,793	13,182	-63.6 %
Non-controlling interests	-20	-15	35.5 %
Total other comprehensive income for the financial period	**4,772**	**13,167**	**-63.8 %**

POP Bank Group's balance sheet

(EUR 1,000)	Note	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017	Change, %
Assets				
Liquid assets	19	81,117	50,945	59.2 %
Loans and receivables from credit institutions	20	74,625	71,156	4.9 %
Loans and receivables from customers	20	3,473,310	3,325,363	4.4 %
Derivative contracts	21	4	647	-99.4 %
Investment assets	22	707,897	749,252	-5.5 %
Investments in associates and joint ventures	23	166	-	...
Intangible assets	24	11,217	11,003	1.9 %
Property, plant and equipment	25	30,025	33,028	-9.1 %
Other assets	26	26,680	31,429	-15.1 %
Tax assets	27	4,478	3,015	48.5 %
Total assets		**4,409,518**	**4,275,838**	**3.1 %**
Liabilities				
Liabilities to credit institutions	28	3,030	6,964	-56.5 %
Liabilities to customers	28	3,666,543	3,554,357	3.2 %
Non-life insurance liabilities	29	32,488	29,250	11.1 %
Debt securities issued to the public	30	142,399	109,713	29.8 %
Supplementary cooperative capital	31	21,416	26,219	-18.3 %
Other liabilities	32	38,157	38,124	0.1 %
Tax liabilities	27	21,698	25,562	-15.1 %
Total liabilities		**3,925,730**	**3,790,189**	**3.6 %**
Equity capital				
Cooperative capital				
Cooperative contributions		9,344	9,217	1.4 %
POP Shares		55,326	53,574	3.3 %
Total cooperative capital	**33**	**64,670**	**62,791**	**3.0 %**
Reserves	33	152,105	157,779	-3.6 %
Retained earnings	33	266,586	264,631	0.7 %
Total equity attributable to the owners of the POP Bank Group		**483,361**	**485,201**	**-0.4 %**
Non-controlling interests		428	448	-4.5 %
Total equity capital		**483,788**	**485,649**	**-0.4 %**
Total liabilities and equity capital		**4,409,518**	**4,275,838**	**3.1 %**

Investment assets include financial assets recognized at fair value through profit and loss.

The presentation of balance sheet items of non-life insurance has been changed on the financial year that began on the 1 January 2018. Comparison information has been changed accordingly. The changes in presentation have been described in more detail in note 2.

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
Balance at 31 Dec 2017	**62,791**	**8,849**	**148,930**	**264,631**	**485,201**	**448**	**485,649**
IFRS 9 transition	-	-5,532	-	-1,991	-7,523	-	-7,523
Balance at 1st of Jan 2018	**62,791**	**3,318**	**148,930**	**262,640**	**477,679**	**448**	**478,127**
Comprehensive income for the financial year							
Profit for the financial year	-	-	-	8,949	8,949	-20	8,928
Other comprehensive income	-	-3,876	-	-280	-4,156	-	-4,156
Total comprehensive income for the financial year	**-**	**-3,876**	**-**	**8,669**	**4,793**	**-20**	**4,772**
Transactions with shareholders							
Increase in cooperative capital	1,880	-	-	-	1,880	-	1,880
Profit distribution	-	-	-98	-1,120	-1,218	-	-1,218
Transfer of reserves	-	-	3 831	-3 831	-	-	-
Balance at 31 Dec 2017	**64,670**	**-558**	**152,663**	**266,586**	**483,361**	**428**	**483,788**

(EUR 1,000)	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
Balance at 1 Jan 2017	**52,559**	**10,717**	**144,369**	**254,913**	**462,558**	**463**	**463,021**
Comprehensive income for the financial year							
Profit for the financial year	-	-	-	15,759	15,759	-15	15,744
Other comprehensive income	-	-1,868	-	-709	-2,577	-	-2,577
Total comprehensive income for the financial year	**-**	**-1,868**	**-**	**15,050**	**13,182**	**-15**	**13,167**
Transactions with shareholders							
Increase in cooperative capital	10,231	-	-52	-	10,179	-	10,179
Profit distribution	-	-	-	-718	-718	-	-718
Transfer of reserves	-	-	4,614	-4,614	-	-	-
Transactions with shareholders total	**10,231**	**-**	**4,562**	**-5,332**	**9,461**	**-**	**9,461**
Balance at 31 Dec 2017	**62,791**	**8,849**	**148,930**	**264,631**	**485,201**	**448**	**485,649**

POP Bank Group's cash flow statement

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Cash flow from operations		
Profit for the financial year	8,928	15,744
Adjustments to profit for the financial year	18,280	20,016
Increase (-) or decrease (+) in operating assets	**-122,095**	**-145,735**
Receivables from credit institutions	-3,241	-21,301
Receivables from customers	-160,252	-141,611
Investment assets	1,722	39,842
Other assets	39,676	-22,665
Increase (+) or decrease (-) in operating liabilities	**129,482**	**30,031**
Liabilities to credit institutions	-3,934	-4,421
Liabilities to customers	112,866	51,254
Increases in debt securities issued to the public	32,685	9,494
Other liablilities	-6,850	-20,692
Income tax paid	-5,285	-5,604
Total cash flow from operations	**34,596**	**-79,944**
Cash flow from investing activities		
Changes in other investments	-240	-
Purchase of PPE and intangible assets	-5,875	-3,886
Proceeds from sales of PPE and intangible assets	1,262	2,428
Net cash used in investing activities	**-4,853**	**-1,458**
Cash flow from financing activities		
Change in cooperative capital, net	1,880	10,231
Interests paid on cooperative capital and other profit distribution	-1,218	-718
Net cash used in financing activities	**661**	**9,513**
Change in cash and cash equivalents		
Cash and cash equivalents at period-start	74,449	146,338
Cash and cash equivalents at the end of the period	104,854	74,449
Net change in cash and cash equivalents	**30,405**	**-71,889**

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Interest received	**80,256**	**77,654**
Interest paid	**13,148**	**16,103**
Dividends received	**3,625**	**2,312**
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on receivables	3,195	5,016
Depreciations	8,083	9,468
Technical provision	3,635	2,687
Other	3,462	2,845
Adjustments to profit for the financial year	**18,375**	**20,016**
Cash and cash equivalents		
Liquid assets	81,117	50,945
Receivables from credit institutions payable on demand	23,737	23,504
Total	**104,854**	**74,449**

NOTES

NOTES CONCERNING THE PREPARATION OF THE FINANCIAL STATEMENTS

NOTE 1 The POP Bank Group and the scope of IFRS Financial Statements

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 an economic entity referred to in the Act on the Amalgamation of Deposit Banks (hereinafter referred to as the "Amalgamation Act") the members of which 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.

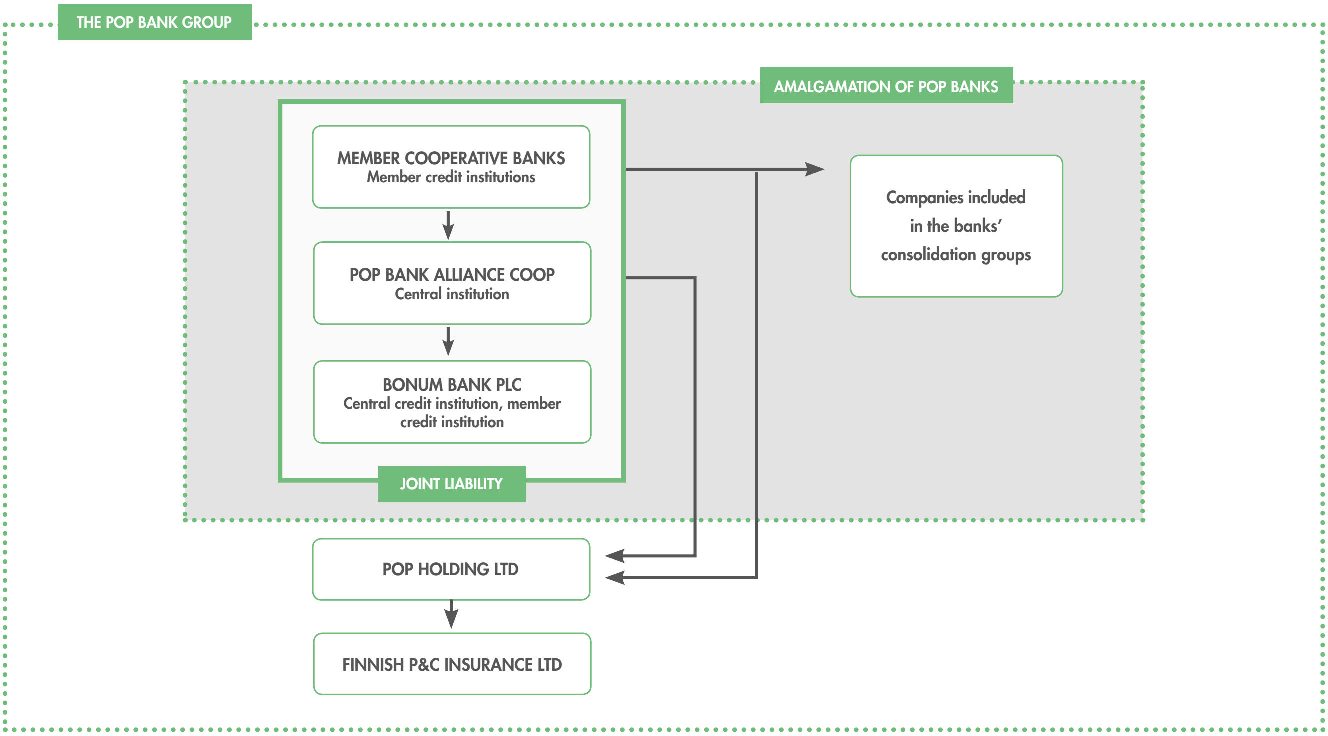
The POP Bank Group also includes other entities besides the entities included in the amalgamation of POP Banks. The most significant entities that do not belong to the POP Bank Group are POP Holding Ltd and its wholly-owned subsidiary Finnish P&C Insurance Ltd, which are not in the scope of joint liability.

The amalgamation of POP Banks began 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 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. The member cooperative banks and other Group companies consolidated in the IFRS financial statements included in the technical parent company are listed in Note 39.

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

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



On 31 August 2018, the POP Bank Alliance acquired 25 per cent of Paikallispankkien PP-Laskenta Oy from Samlink Ltd. Paikallispankkien PP-Laskenta provides accounting and official reporting services for the financial sector. The other owners of the company are also the company's customers. The change has no impact on the operations of the POP Bank Group.

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 has adopted the report and consolidated financial statements on 14 February 2019. The financial statements will be distributed to the general meeting of POP Bank Alliance Coop cooperative on 4 April 2019.

Copies of the financial statements and the financial statements release of the POP Bank Group are available in the office of the central institution, address Hevosenkenkä 3, FI-02600 Espoo, Finland, and online at www.poppankki.fi.

NOTE 2 POP Bank Group's accounting policies under IFRS

1. GENERAL

The consolidated financial statements of the POP Bank Group (hereinafter also referred to as the "Group") have been prepared in accordance with International Financial Reporting Standards (IFRS) approved in the EU and the related interpretations (IFRIC). The applicable Finnish accounting and corporate legislation and regulatory requirements have also been taken into account when preparing the notes to the financial statements. The obligation of the POP Bank Group to prepare financial statements in accordance with IFRS is based on the Act on the Amalgamation of Deposit Banks (599/2010; hereinafter referred to as the "Amalgamation Act").

The figures in the POP Bank Group's consolidated financial statements are in thousand euros unless otherwise indicated. The figures in the notes are rounded, whereby the sum total of individual figures may deviate from the sum total presented in a table or calculation. Assets and liabilities denominated in currencies other than euro have been translated into euro at the exchange rate of the balance sheet date except the financial instruments measured at fair value through other comprehensive income. Exchange rate differences resulting from measurement have been recognised in net investment income in the income statement. The operating currency of all of the companies belonging to the POP Bank Group is euro.

The consolidated financial statements of the POP Bank Group are based on original cost, with the exception of financial assets and financial liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and the hedged items of fair value hedges (with regard to hedged risk) and hedge instruments hedging fair value, which are measured at fair value. The POP Bank Group presents the Pillar III capital adequacy information in accordance with Part Eight of the Capital Requirements Regulation (EU 575/2013) in a separate report, which will be published on the POP Bank Group's website in February 2019.

2. CONSOLIDATION PRINCIPLES

2.1 Technical parent company

In accordance with the Amalgamation Act, the consolidated financial statements of the POP Bank Group shall be prepared as a combination of the financial statements or consolidated financial statements of the central institution POP Bank Alliance Coop and its member credit institutions. The consolidated financial statements also include entities in which the entities referred to above have joint control.

POP Bank Alliance Coop and its member cooperative banks do not exercise control over each other, and therefore no parent company can be determined for the POP Bank Group. In the IFRS financial statements, a "technical parent" company has been formed for the POP Bank Group from the member cooperative banks. The member cooperative banks and the central institution have individually or jointly control over the other entities combined in the Group's IFRS financial statements. Within the technical parent company, intra-group holdings, transactions, receivables and liabilities, distribution of profit and margins are eliminated. Cooperative capital comprises such cooperative contributions paid by members of cooperative banks which the member banks have an unconditional right to refuse the redemption.

2.2 Subsidiaries, associates and joint arrangements

The POP Bank Group's financial statements include the financial statements of the technical parent company, its subsidiaries and associates. Companies over which the Group exercises control are considered to be subsidiaries. The POP Bank Group has control over an entity if it has control over the company and is exposed, or has rights to, the variable returns of the company and the ability to affect those returns through its power over the company. The Group's control is based on voting rights.

POP Bank Group's intra-group holdings have been eliminated using the acquisition method. All intra-group transactions, receivables and liabilities, unrealised earnings and distribution of profit are eliminated in the Group's consolidated financial statements.

Associated companies are companies over which the Group exercises significant influence on business management and financing. Significant influence is based on voting rights. Associates are consolidated using the equity method.

A joint operation is a joint arrangement over which two or more parties exercise joint control and have rights concerning assets related to the arrangement and obligations related to liabilities. Mutual real estate companies are consolidated in the Group's financial statements as joint operations. Their income statement items, assets and liabilities are combined in accordance with the Group's holding.

2.3 Non-controlling interests

POP Bank Group's equity capital, earnings and other items of comprehensive income attributable to non-controlling interests are presented as separate items in the Group's income statement, statement of comprehensive income and balance sheet. The share of earnings and comprehensive income is attributed to non-controlling interests even if it would lead to the non-controlling interests' share becoming negative. The share of non-controlling interests is presented as part of equity capital on the balance sheet.

3. CHANGES IN PRESENTATION

Insurance premium revenue and total claims from non-life insurance as well as net investment income have been presented earlier in Net income from non-life insurance in the income statement. In future, insurance premium revenue and total claims are presented in Insurance income in the income statement and costs of the investment function are presented in other operating expenses. Commissions presented earlier in other operating income and other operating expenses are presented in Net commissions and fees, which corresponds to the nature of the costs. Investment assets presented earlier in Non-life insurance assets are presented in Investment assets correspondingly to the investments of the other members of the Group. Receivables from direct insurance operations and other receivables are presented in Other assets. Insurance contract liabilities presented earlier in Non-life insurance liabilities are presented separately and other items in Other liabilities.

Net trading income in the income statement is presented in Net investment income. Correspondingly, Financial assets at fair value through profit or loss are presented in Investment assets on the balance sheet. Minimum reserves are presented in receivables from credit institutions.

4. FINANCIAL INSTRUMENTS

4.1 Classification and recognition of financial assets

Classification

In accordance with the IFRS 9 Financial instruments, financial assets are classified on initial recognition into following measurement categories based on the business model followed in their management and the debt instruments' cash flow characteristics:

– Financial assets at amortised cost
– Financial assets at value through other comprehensive income
– Financial assets at fair value through profit and loss

In accordance with the IFRS 9 Financial instruments, Financial liabilities are classified on initial recognition into following measurement categories:

– Financial liabilities at amortised cost
– Financial liabilities at fair value through profit and loss

Recognition

On initial recognition, all financial assets and financial liabilities are recognised at fair value. Transaction costs related to financial instruments are included in the acquisition cost.

Purchases and sales of financial instruments are recognised on the transaction date. Loans granted are recognised in the balance sheet on the date when the customer draws down the loan. Instruments issued are recognised in the balance sheet at the latest on the date when the customer makes the subscription

Financial assets and financial liabilities are offset in the balance sheet if POP Bank Group currently has a legally enforceable right of set-off in the normal course of business and in the event of default, insolvency or bankruptcy, and it has the intention and ability to settle the asset and liability on a net basis. POP Bank Group has not offset the financial assets and financial liabilities on the balance sheet.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the rights have been transferred to another party so that substantially all the risks and rewards of ownership of the financial asset are transferred. If a consideration is received, but all the risks and rewards of ownership of the transferred asset are substantially retained, the transferred asset is recognised in its entirety and a financial liability is recognised for the consideration received.

Impaired financial assets are derecognised when no further payments are expected and the actual final loss can be determined. In connection to derecognition, the previously recognised expected credit loss is cancelled and the final credit loss is recognised. Payments on derecognised receivables received later are recognised in the income statement as an adjustment of impairment losses.

Financial liabilities are derecognised when the related obligations have been fulfilled and they have been extinguished. An exchange of a debt instrument with substantially different terms or substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

4.2 Business models for managing financial assets and measurement

According to IFRS 9, an entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, entity's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The business model is determined at a level that reflects how financial asset groups are managed together to achieve a particular business objective.

In POP Bank Group, financial assets are managed according to three business models:

1. Financial assets held (objective to collect cash flows)
2. Combination of financial assets held and sold (objective to collect cash flows and sale)
3. Other long-term investments

Financial assets held -business model includes loans and receivables and debt instruments held to maturity, which pass the SPPI-test (Solely Payments of Principal and Interest) for their cash flow characteristics. In the SPPI-test, it is determined whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

Combination-business model includes debt instruments with contractual cash flows being solely payments of principal and interest, held to maturity or close to maturity or sold for example to reach the targets of the investment strategy.

Other long-term investments -business model includes shares and other instruments, whose cash flows do not consist solely on payments of principal and interest.

POP Bank Group does not actively trade financial assets. The purpose of POP Bank Group's investment activities is to invest liquidity surplus with long-term objective and to maintain investment portfolio for liquidity purposes.

Financial assets measured at amortised cost

Financial assets measured at amortised cost includes loans and receivables and the debt instruments, which are, according to the investment policy, intended to be held to maturity with terms of regular payments of interest and principal either in part or entirety (SPPI-test). In addition, liquid assets, in which the liquidity does not have to be tested by regular sales, may be classified to this measurement class.

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income includes debt instruments, which are, according to the investment policy, intended to be held in order to collect contractual cash flows or sold, if necessary, for reaching the objectives of the business model (combination-business model). Classification requires, that the contractual terms of the instrument include regular payments of interest and principal either in part or in entirety (SPPI-test). Among other things, investments which can be sold to cover liquidity needs, for example, and liquid assets which have to be tested on regular sales in order to demonstrate the liquidity of those assets are classified to this measurement class.

Changes in financial instrument's fair value is recognised in items of other comprehensive income. The increase and decrease of expected credit losses are recognised in the income statement and in items of other comprehensive income. Profit and loss from foreign currencies are also recognised in other comprehensive income. When sold, the chance in fair value as well as the profit and loss from foreign currencies are recognised from other comprehensive income to net investment income in the income statement and expected credit loss in impairment losses on financial assets in the income statement.

Financial assets measured at fair value through profit or loss

Financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. Financial assets measured at fair value through profit or loss include shares and participations and debt instruments, which do not meet the SPPI-test with the exception of shares measured at fair value through other comprehensive income.

POP Bank Group does not have financial assets held for trading purposes. Changes in fair value are recognised in the net investment income.

Equity instrument assets measured at fair value through other comprehensive income

POP Bank Group has adopted the exception in IFRS 9, according to which changes in the fair value of investments in shares may be recognised in other comprehensive income. The exception is adopted to investments in shares regarded strategic to POP Bank Group's business operations. The most significant strategic ownership of the Group is the investment in shares of Samlink Ltd.

Changes in fair value are recognised in other comprehensive income. In case such an investment is subsequently sold, the result of the sale is recognised in equity. The election can be made only at initial recognition and it is irrevocable.

Financial liabilities measured at amortised cost

POP Bank Group's financial liabilities are measured at amortised cost according to the effective interest rate method. Financial liabilities measured at amortised cost includes deposits and debt securities issued to the public as well as other financial liabilities.

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss may include derivative liabilities. POP Bank Group does not have these items on reporting day. POP Bank Group has not applied the possibility to designate liabilities at fair value through profit or loss.

4.3 Determining fair value

Fair value is the price that would be attained if the asset was sold or would be paid to transfer the liability from one market party to another in a standard business transaction taking place on a valuation day.

A financial instrument's fair value is based on price quotations obtained from active markets or, if active markets do not exist, via company's own valuation methods. A market is considered active if price quotations are readily and regularly available and if they reflect real and regularly occurring arm's-length market transactions. Current bid price is used as the quoted market price of financial assets.

If the market has a well-established valuation technique for a financial instrument for which there is no direct market price available, the fair value is based on the commonly used valuation model and on the market quotations of the input data used in the model.

If there is no well-established valuation technique in the market, fair value is determined based on a specific valuation model created for the product in question.

The valuation models are based on widely used measuring techniques, incorporating all the factors that market participants would consider when setting a price. The valuation prices used include market transaction prices, the discounted cash flow method, as well as the fair value of another substantially similar instrument at the reporting date. The valuation methods take into account an estimate of the credit risk, applicable discount rates, early repayment options, and other such factors that may impact reliable determination of the fair value of the financial instrument.

The fair values of financial instruments are divided into three hierarchical levels depending on how the fair value is defined:

– Fair values quoted in the active markets for identical assets or liabilities (Level 1)
– Fair values that are determined using other input data than the quoted prices at Level 1, which are observable for the assets or liabilities either directly (e.g. prices) or indirectly (e.g. derived from prices) (Level 2)
– Fair values determined by the input data, which is essentially not based on the observable market data (Level 3).

The fair value hierarchy level into which an item measured at fair value is fully classified is determined by the input data, which is at the lowest level and is significant in respect to the whole item. The significance of the input data is evaluated considering the whole item, which is valued at fair value.

4.4 Derivative contracts and hedge accounting

POP Bank Group applies the IAS 39 Financial instruments -standard to hedge accounting.

POP Bank Group can hedge interest rate risks by applying fair value or cash flow hedging. Derivative contracts are not made for trading purposes. The POP Bank Group did not use cash flow hedging on the financial periods presented.

The connection between hedging derivative contracts and hedged instruments (hedging relationship) and the effectiveness of hedging is documented. The Group applies the EU-approved "carve-out" model of IAS 39 hedge accounting to fixed rate borrowings, which makes it possible for assets and liabilities with a similar risk profile to be combined for hedging ("macro hedging"), making it possible to include deposits in the scope of hedging. The aim is to stabilise net interest income and to neutralise any changes in the fair value of assets and liabilities.

Derivative contracts are measured at fair value, and value changes are recognised through profit or loss.

Fair value hedges hedge against the fair value changes of fixed rate lending. When hedging fair value, the hedged item is also measured at fair value during hedging even if it would otherwise be measured at amortised cost. A change in the hedged item's fair value is recognised in the balance sheet as an adjustment to the balance sheet item and in the income statement under "Net trading income". Interest on hedging derivatives is recorded as an adjustment to interest expense and measurement gains under "Net trading income".

4.5 Impairment of financial assets

A loss allowance on financial assets measured at amortized cost or fair value through other comprehensive income and off-balance sheet credit commitments is recognized on the basis of expected credit losses. The expected credit loss of a financial instrument is determined as the difference between the contractual cash flows that the entity is entitled to receive under the contract and the cash flows expected to be received by the entity at the original effective interest rate at the time of reporting.

To determine expected credit losses, financial instruments are classified in stages from 1 to 3. Stage 1 represents financial instruments whose credit risk has not increased significantly since the initial recognition. Expected credit losses are determined for such financial instruments based on expected loan losses for 12 months. Stage 2 represents financial instruments whose credit risk has increased significantly after the initial recognition on the basis of qualitative or quantitative criteria and, for stage 3, financial instruments whose counterparty has been declared as default. Expected credit losses are determined for financial instruments classified in Stage 2 and 3 based on the expected credit losses over the entire life of the instrument.

Calculating expected credit losses in the POP Bank Group is based on four main segments:

– Private customers (excluding agricultural customers)
– Corporate customers (excluding agricultural customers)
– Agricultural customers
– Investment portfolio

The calculation of expected credit losses is based on the probability of default (PD), the loss ratio (LGD, loss given default) and the exposure at default (EAD) for each segment. The probability of default (PD) is measured by the historical credit rating model estimated by historical data. The credit rating models are defined for the four main segments described above, of which the rating model for agricultural customers is based on expert valuation-based PD values. Loss given default (LGD) refers to the expected portion of the loan loss on the remaining capital if the counterparty is classified as default. The parameters for calculating loss shares in the POP Bank Group are determined on the basis of expert estimates. The exposure at default (EAD) is calculated for each loan and off-balance sheet item separately on the basis of repayments under the terms of the contract, with the exception of contracts without maturity whose life cycle is determined on the basis of expert judgment. In the EAD calculation of off-balance sheet items, CCF coefficients shall be applied in accordance with the standardised credit risk standard for the credit risk calculation, with the exception of card credits for which a CCF value has been determined on the basis of expert judgment.

Expected credit losses are calculated over 12 months in the stage 1. As the credit risk increases significantly after the initial origination, the contract is transferred from stage 1 to stage 2 and the expected credit losses are calculated throughout the lifetime of the contract. The credit risk is considered to have increased significantly, when forbearance measures to the contract have been made less than 12 months ago, contract has been overdue for more than 30 days, or another qualitative risk factor has been identified in the customer's situation. In addition, the credit risk is considered significantly increased if the counterparty credit rating has deteriorated significantly. The threshold value determined by expert estimation of significant impairment is based on the change in PD value between the time of reporting and the time of the contract origination.

The obligor and all contracts of the obligor are treated as in default if any of the following criteria is fulfilled:

- The obligor has exposures more than 90 days past due, and the amount overdue exceeds 100 euros
- The bank has initiated recollection on the obligor's contracts
- A corporate client is in bankruptcy proceedings or in reorganization process

Liabilities classified as default are classified in stage 3 of IFRS 9. POP Banks do not have contracts that are originated as impaired.

If the customer has not fulfilled the criteria for default for at least 3 months, the customer's liability will return to either stage 2 or stage 1, depending on whether the exposures meet a significant increase in the credit risk criteria at the time of return. The contract will return from stage 2 to stage 1 without a separate trial period if the contract no longer meets the criteria for significant credit risk growth.

Predictable credit losses are estimated using future information available with reasonable ease. For the purpose of calculating expected credit losses, the POP Bank Group has developed a model based on three macroeconomic scenarios and related implementation probabilities to correct the parameters used in the calculation when estimating expected credit losses. The macroeconomic scenarios are based on the projected growth rate of Finland's Gross Domestic Product over the next three years.

POP Bank Group applies an exception to financial assets at fair value through profit or loss other than IFRS 9, in which all instruments with a low credit risk are classified in stage 1 and instruments with higher credit risk are classified in stage 2. Only investment grade instruments can be classified in stage 1.

A loss allowance on financial assets recognised at amortised cost and fair value through other comprehensive income and for off-balance sheet items is recognised in the income statement. Loss allowance in the income statement consists of the expected credit loss calculated for the financial asset, where the expected credit losses previously recognized have been deducted. A loss allowance is cancelled if a final credit loss is recognized for the financial asset. The loss allowance on financial assets recognized at amortized cost reduces the carrying amount of the financial assets. The loss allowance for financial assets at fair value through other comprehensive income is recognised in the statement of comprehensive income. The loss allowance on off-balance sheet commitments is recognised as a provision in other provisions and liabilities.

The expected credit loss calculation model will be assessed and, if necessary, adjusted during the 2019 financial year. The definition of stage 3 will be reassessed and, if necessary, refined during the financial year 2019, in particular with regard to the default rules.

4.6 Accounting policies for financial instruments under the comparison period

Classification and recognition

Financial assets and financial liabilities are classified on initial recognition in accordance with the IAS 39 Financial Instruments: Recognition and Measurement into the following measurement categories:

- Financial assets at fair value through profit or loss
- Available-for-sale financial assets
- Investments held to maturity
- Loans and receivables
- Financial liabilities at fair value through profit or loss
- Other financial liabilities

The recognition of financial instruments in the POP Bank Group's balance sheet is not dependent on the categorisation presented in the notes for measurement. The division into measurement categories of financial assets and financial liabilities recognised in the balance sheet is presented in notes. Purchases and sales of financial instruments are recognised on the transaction date. Loans granted are recognised in the balance sheet on the date when the customer draws down the loan. Instruments issued are recognised in the balance sheet at the latest on the date when the customer makes the subscription.

On initial recognition, all financial assets and financial liabilities are recognised at fair value. Transaction costs related to financial assets and financial liabilities at fair value through profit or loss are recognised on the date of acquisition. The transaction costs of other financial instruments are included in the acquisition cost.

Financial assets and financial liabilities are offset in the balance sheet if the POP Bank Group currently has a legally enforceable right of set-off in the normal course of business and in the event of default, insolvency or bankruptcy, and it has the intention and ability to settle the asset and liability on a net basis. The POP Bank Group has not offset the financial assets and financial liabilities on the balance sheet.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the rights have been transferred to another party so that substantially all the risks and rewards of ownership of the financial asset are transferred. Financial liabilities are derecognised when the related obligations have been fulfilled and they have been extinguished.

Financial assets at fair value through profit or loss

Financial instruments at fair value through profit or loss include structured bonds and investments that include embedded derivative contracts. The value change is recognised directly in the income statement. Derivatives are also recognised at fair value through profit and loss.

Available-for-sale financial assets

Debt securities, shares and participations which are not recognised at fair value through profit or loss and that may be sold before their maturity are recognised in available-for-sale financial assets. Insurance investments are classified as available-for-sale financial assets. Available-for-sale financial assets are measured at fair value, and unrealised value changes are recognised in other comprehensive income. However, unlisted equity financial assets are valued at acquisition cost or at acquisition cost less impairment because their fair value cannot be reliably determined. Change in value is reclassified from other comprehensive income to the income statement into net investment income upon transfer or impairment. The value change of insurance investments is recognised in net investment income.

Held-to-maturity investments

In the financial year 2015, the POP Bank Group has reclassified investments held to maturity into available-for-sale financial assets. Because of the reclassification, POP Bank Group cannot classify investments into investments held to maturity in financial year 2016 or 2017. The reclassification was a result of the change in Bonum Bank Plc's investment policy that is associated with the bank's capital adequacy management and the adjustment of its investment position to match the expected changes in the business volume.

Loans and receivables

Receivables from credit institutions as well as loans and advances to the public and central government are recognised as loans and receivables. Loans and receivables are recognised at amortised cost.

Other financial liabilities

Liabilities to credit institutions, liabilities to the public and general government and debt securities to the public are recognised as other financial liabilities. Other financial liabilities are included in the balance sheet at amortised cost with the exception of derivative contracts.

Impairment losses on financial assets

Impairment losses on financial assets other than assets measured at fair value through profit or loss are recognised in the income statement if there is objective evidence of impairment. Evaluation of objective evidence takes place at the end of each reporting period.

Available-for-sale financial assets

Objective evidence of an impairment loss on available-for-sale financial assets includes significant financial difficulties of the issuer or debtor, breach of contract terms, issuer's or debtor's bankruptcy or other reorganisation becoming probable, negative changes in the operating environment of the issuer or debtor or the disappearance of an active market for a financial asset. If there is objective evidence of impairment loss of a financial asset at the end of the reporting period, impairment testing is performed on the asset.

Also, a significant or prolonged decline of the fair value of an investment in an equity instrument below its acquisition cost is objective evidence of impairment and results in the recognition of impairment losses. A decline in the fair value of an investment in an equity instrument is significant when it is more than 30% below the instrument's acquisition cost. Impairment is considered long-term when the impairment has continuously lasted for more than 12 months. Impairment loss is recognised as the difference between the acquisition cost of the equity instrument and its fair value at the reporting date less any earlier impairment losses on that item, which have been recognised in the income statement. Impairment loss is recognised in the income statement under "Net investment income". Impairment losses on an investment in an equity instrument, which is classified as available-for-sale, are not reversed through profit or loss; instead, the subsequent change in value is recognised in other comprehensive income.

The impairment of an available-for-sale debt instrument is determined mainly as the difference between its acquisition cost and the present value of future cash flows from the instrument. A decrease in fair value resulting from an increase in a risk-free market interest rate does not lead to recognition of impairment loss. Impairment loss is recognised in the income statement under "Net investment income". A decrease in impairment loss related to an event occurring after the recognition of impairment loss is recognised through profit and loss.

Loans and receivables

Impairment losses on loans and receivables are assessed on an individual basis if the debtor's total exposure is significant. In other respects, impairment on receivables is assessed on a collective basis for groups of similar receivables.

Individual impairment is recognised when there is objective evidence that the loan or receivable cannot be collected in accordance with the contract. Objective evidence of impairment on a receivable includes breach of contract, such as delayed payment or payment default of interest or instalments or the debtor's bankruptcy or other reorganisation. A change made to loan terms due to client's weakened financial situation is also objective evidence of impairment. The assessment is performed by discounting all future cash flows using the receivable's original effective interest rate. In determining future cash flows, the amount that the collateral it is likely to yield on realisation is assessed, taken into account the realisation costs. The amount of the individual impairment is the difference between the book value of the receivable and its recoverable future cash flows.

When assessing impairment on a collective basis, the entire the POP Bank Group's receivables are classified into groups of similar credit risk properties based on customer groups. Impairment losses that have materialised according to the assessment but cannot be allocated to an individual receivable are recognised collectively. Receivables whose impairment have been assessed on an individual basis and for which an impairment loss has been recognised are not taken into account in assessing collective impairment. When determining collective impairment loss, the previous loss development of groups with similar credit risk characteristics is taken into account. Collective loss development is adjusted based on the management's estimate to correspond to the conditions at the time of assessment. When impairment can be allocated to be due to an individual receivable, the receivable is omitted from the collective impairment assessment and individual impairment is recognised.

Impairment losses on loans and receivables are recognised in the balance sheet using an allowance account, which adjusts the book amount of the receivable. In the income statement, impairment losses are recognised in the impairment losses on loans and other receivables. If the amount of impairment loss later decreases, the impairment loss is reversed accordingly.

Loans and receivables are derecognised when no further payments are expected and the actual final loss can be determined. In connection with derecognition, the previously recognised impairment is reversed and the final credit loss is recognised. Payments on derecognised receivables received later are recognised in the income statement as an adjustment of impairment losses.

5. INTANGIBLE ASSETS

The most significant intangible assets of the POP Bank Group are comprised of banking and insurance information systems. Banking's intangible assets are mainly information systems implemented by the POP Bank Group's partner Samlink Ltd over which the POP Bank Group has control as referred to in IAS 38 Intangible Assets and which yield economic benefit to the Group. Finnish P&C Insurance Ltd has obtained its information system from an external provider. POP Bank Group has capitalised also internally produced intangible assets.

All of the Group's intangible assets have a limited useful life. The acquisition cost of intangible assets is amortised in the income statement on the basis of the estimated useful lives of assets. The estimated useful life is 3–5 years for information systems and 3–4 years for other intangible assets. The estimated useful life of the basic banking and insurance systems may be longer, but not more than 10 years.

The amortisation of the acquisition cost of intangible assets begins when the asset is ready to be taken into use. Indications of impairment of intangible assets are examined annually and intangible assets are tested for impairment when necessary. Research costs are recorded as expenses as they occur.

6. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

All of the properties owned by the POP Bank Group are divided into owner-occupied properties and investment properties. Owner-occupied properties are recognised under property, plant and equipment and investment properties under investment assets on the balance sheet.

The purpose of investment properties is to yield rental revenue or increase in value on capital. If a property is used both by the Group and for investment purposes, the parts are presented separately only if they can be divested separately. In this case, the division is based on the floor area of the properties. If the parts cannot be divested separately, the property is considered to be an investment property only when only a small part of it is used by the owner.

Both owner-occupied properties and investment properties are measured at acquisition cost less depreciation and impairment. Machinery and equipment as well as other property, plant and equipment are similarly also measured at acquisition cost less depreciation and impairment. Depreciation is based on the useful life of the assets. The average useful life for buildings is 30–40 years. The useful life for technical equipment, renovations and machinery and equipment is 3–10 years. Land is not subject to depreciation.

Depreciation and impairment on property, plant and equipment are included in depreciation, amortisation and impairment loss on intangible assets and property, plant and equipment. Depreciation on investment properties is recognised in the income statement under net investment income. Capital gains and losses are determined as the difference between the income received and balance sheet values. Proceeds from the sale of owner-occupied properties are recognised under other operating income and losses under other operating expenses. Proceeds and losses from the sale of investment properties are recognised in net investment income.

7. LEASES

The Group leases properties it owns or parts thereof by way of operating leases pursuant to IAS 17 Leases. In the leases, the essential risks and benefits of ownership remain with the lessor. Rental revenue from investment properties is recognised in net investment income and from other properties in other operating income.

The Group is leasing mainly office equipment and premises it uses for business. Leases have been classified as operating leases in accordance with IAS 17. Rental expenses are recognised in other operating income over the period of lease.

8. INSURANCE ASSETS AND LIABILITIES

8.1 Financial assets of non-life insurance

Financial assets of non-life insurance are classified according to the business model applied to their management in accordance with IFRS 9. The policies have been presented in chapter 4 Financial instruments.

8.2 Contracts issued by the insurance company

Insurance products are classified as insurance contracts or investment contracts. Insurance contracts include those with which a significant insurance risk is transferred from the policyholder to the insurer or entitle the policyholder to a discretionary share of the company's surplus. Other contracts are classified as investment contracts.

All of the insurance products issued by the POP Bank Group are treated in the Group's consolidated financial statements in accordance with IFRS 4 Insurance Contracts.

8.3 Liabilities for insurance contracts

Insurance contract liabilities are calculated in accordance with the national accounting policies for technical provisions.

The insurance contracts issued by the company are primarily annual policies. Premiums written include insurance premiums for the contract periods that have begun during the financial year. After this, the expected expiries are deducted from the premiums written. The portion of premiums written for the post-balance sheet date is recorded as provision for unearned premiums. The amount of the provision for unearned premiums is calculated of the contractual amendments on the contract level.

The provision for unearned premiums ceded to reinsurers is calculated similarly to the direct insurer's share.

The provisions for unpaid claims ceded to reinsurers is reserved on a case-by-case basis.

Claims paid out to policyholders and claim settlement expenses are charged to claims incurred when the company makes the decision to pay out the claim. Claims unsettled on the balance sheet date for losses already occurred and their settlement expenses – including claims incurred but not yet reported – are reserved in the provision for unpaid claims. Provisions for unpaid claims consist of both claims reserved for individual cases and a collective reservation proportioned to previous Insurance premium revenue. The claims paid out and change in the provisions for unpaid claims make up the claims incurred.

Provisions for unpaid claims for annuities are discounted based on a constant discount rate. The company had one confirmed pension liabilities on the closing date. As part of the provisions for unpaid claims, the company reserves equalisation provisions. Equalisation provisions are an item calculated in case of claim-intensive years based on theoretical risk. In IFRS Financial statements the equalisation provision is not recognised in insurance contract liabilities, but the amount is recognised in equity without the amount of deferred tax.

The sufficiency of the provision for unearned premiums in non-life insurance and provision for unearned premiums is assessed separately. Provisions for unpaid claims are based on estimates of future claim cash flows. The estimates are made using well-established actuarial methods. Any insufficiency of provision for unearned premiums identified is corrected by adjusting the calculation bases.

9. PROVISIONS

A provision is recognised when a legal or factual obligation has emerged due to a previous event and the fulfilment of the obligation is likely. A provision is recognised when the Group can reliably assess the amount of the obligation. Any remuneration paid by a third party is recognised as a separate item when receiving the remuneration is considered practically certain. The provision is measured at the present value of the amounts paid to fulfill the obligation. POP Bank Group has recognised expected credit losses on off balance sheet items as provisions. Determination of the amount of provision is presented in detail in chapter 4.5 Impairment of financial assets.

10. EMPLOYEE BENEFITS

The Group's employee benefits in accordance with IAS 19 Employee Benefits consist mainly of short-term employee benefits, such as holiday pay and bonus payments, which are expected to be paid in connection with the work performance they are related to or within the following 12 months.

Benefits related to the termination of employment consist of severance payments.

Post-employment benefits consist of pensions and other benefits paid out after the termination of employment. Statutory pension cover is arranged through external pension insurance companies. Most of the Group's pension arrangements are defined contribution plans. Defined benefit plans are contracts that include additional pension cover.

Expenses from defined contribution plans are recognised in personnel expenses in the period during which they are charged by the insurance company.

The asset or liability recognised in respect of a defined benefit plan is the present value of the obligation on the closing date less the fair value of plan assets. The present value of the pension obligation has been calculated by discounting the estimated cash flows using the discount rate based on the market yield of high-quality bonds issued by companies.

The amount of the pension liability is calculated annually by independent actuaries. The obligation is calculated using the projected unit credit method.

Pension costs are charged to expenses over the employees' working lives and recognised in personnel expenses. Items resulting from remeasurements of the net defined benefit liability are recognised in other comprehensive income in the period they occur. These items will not be reclassified to the income statement in later financial periods.

11. PRINCIPLES FOR RECOGNISING INCOME AND EXPENSES

11.1Interest income and expenses

Interest income and expenses are amortised over the maturity of the contract using the effective interest rate method, in proportion to the remaining carrying amount in the balance sheet. Interest income and expenses are recognised in net interest income. Interest income and expenses related to insurance assets are recognised in net insurance income in the income statement. Interest income on impaired receivables (receivables registered on stage 3) is calculated for net amount where expected credit loss is deducted.

Negative interest rates did not have a significant effect on the interest income or expenses of the POP Bank Group.

Negative interest income on financial assets is recognised in interest expenses and positive interest costs on financial liabilities in interest income.

11.2 Commission income and expenses

Commission income and expenses are generally recognised on an accrual basis when the related services are performed. Commissions and fees relating to services performed over several years are amortised over the service period. Commissions and fees that are considered as an integral part of the effective interest of a financial instrument are accounted for as an adjustment to the effective interest. However, commissions and fees relating to financial instruments measured at fair value through profit or loss are recognised in the income statement on initial recognition.

11.3 Dividends

Dividends are primarily recognised when the General Meeting of Shareholders of the distributing entity has made a decision on dividend payout and the right to receive dividends has emerged. Dividend income is recognised in net investment income.

11.4 Premiums

Premiums written from non-life insurance operations are recognised in net insurance income in the income statement. Premiums are recognised in premiums written in accordance with the charging principle.

11.5 Presentation of income statement items

Income statement items are presented in the financial statements using the principles below.

Net interest income
Interest income and expenses on financial assets and liabilities, the amount of amortisation on the difference between the nominal and acquisition values, interest on interest-rate derivatives and fees that are accounted as part of the financial asset's effective interest.

Commission income and expenses
Commission income from lending, deposits and legal tasks, products transmitted, such as funds and insurances, commission income and expenses from payments, commission income from securities

Net trading income
Capital gains and losses and fair value changes and dividends from financial instruments at fair value through profit or loss, net gains on foreign exchange operations, net gains on fair value hedges

Net investment income
Net income from available-for-sale financial assets (realised capital gains and losses, impairment losses, dividends), net income from investment property (rental and dividend income, capital gains and losses and maintenance charges and expenses related to investment property, depreciation and impairment losses)

Net income from non-life insurance
Premiums written, change in insurance liability, claims paid and net investment income (interest, realised capital gains and losses and impairment of investments)

Other operating income
Rental and dividend income and capital gains from owner-occupied properties, other operating income.

Personnel expenses
Wages and salaries, social expenses and pension expenses

Other operating expenses
Other administrative expenses, rental expenses and capital losses from owner-occupied properties, other business operations-related expenses

Impairment losses on financial assets
Impairment losses on financial assets, expected credit losses and realised credit losses and cancellations of credit losses

12. INCOME TAX

Income tax expense shown in the income statement includes current tax, based on the taxable income of the POP Bank Group companies for the financial year, adjustments for income tax for prior financial years and change in deferred taxes. Tax expenses are recognised in the income statement except when they are directly linked to items entered into equity capital or other items in the statement of comprehensive income, in which case the tax effect is also included in these items.

Deferred tax liabilities and assets are calculated on taxable and deductible temporary differences between the carrying amount and the tax basis. Deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilised.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply at the time when the temporary difference is reversed.

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that future taxable profit will be probable and unused tax credits can be utilised.

13. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The application of IFRS requires the management's assessments and assumptions concerning the future. These affect the reported amounts in the financial statements and the information included in the notes. The management's main estimates concern the future and the key uncertainties related to the amounts at the balance sheet date. In particular, they are related to fair value assessment and impairment of financial assets and intangible assets, as well as the assumptions used in actuarial analyses.

13.1 Impairment losses on financial assets

Calculation of the expected credit losses includes parameters requiring management's consideration. Management has to determine the method of taking macroeconomic information into consideration in the calculations, the principles of evaluating significant increases in the credit risk, the assessment of loss in default and the credit conversion factors applied to credit cards.

The policies on impairment of financial assets have been presented in detail in chapter 4.5 Impairment of financial assets.

13.2 Determining fair value

Determining the fair value of unquoted investments requires the management's judgement and estimates of several factors used in the estimates, which can differ from the actual outcomes, thereby leading to a significant change in the value of the available-for-sale investment and equity capital.

The management must assess whether the markets for financial instruments are active or not. Furthermore, the management must assess whether an individual financial instrument is subject to active trading and whether the price information obtained from the market is a reliable indication of the instrument's fair value. When the fair value of financial instruments is determined using a valuation technique, the management's judgement is needed in the choice of the valuation technique to be applied. Insofar as there is no market input available for the techniques, the management must evaluate how other data can be used for the valuation. Compound instruments, such as index-linked bonds, usually have no active aftermarket. In this case, fair value is based on imputed value determined by an external partner of the Group. More detailed information on the measurement of such instruments is presented in Note 37.

The fair value of OTC derivatives is measured based on price components available in the market, such as interest rates, in accordance with commonly used valuation models. More detailed information on the measurement of derivative contracts is presented in Note 37.

13.3 Impairment of intangible assets

In addition, the management must assess at the end of each reporting period whether there are indications of impairment of non-financial assets. The impairment of intangible assets must be assessed when there are indications of the impairment of an asset. The amount recoverable from intangible assets is determined in the impairment assessment on the basis of the use value or fair value of the asset. Impairment testing requires management's judgement and assessment of the recoverable amount of the asset in question, as well as the interest rate used for discounting.

13.4 Assumptions used in actuarial calculations

Liabilities arising from insurance contracts involve several discretionary factors and estimates. Besides actuarial analyses of Group's own claims statistics, the assessments are based on statistical data and assumptions related to the operating environment. Provisions for unpaid claims related to major losses are made on a case-by-case basis. The management's discretion is particularly required when assessing the claims incurred arising from major losses. The assumptions concerning the provision for unearned premiums and unpaid claims are evaluated annually.

14. NEW IFRS STANDARDS AND INTERPRETATIONS

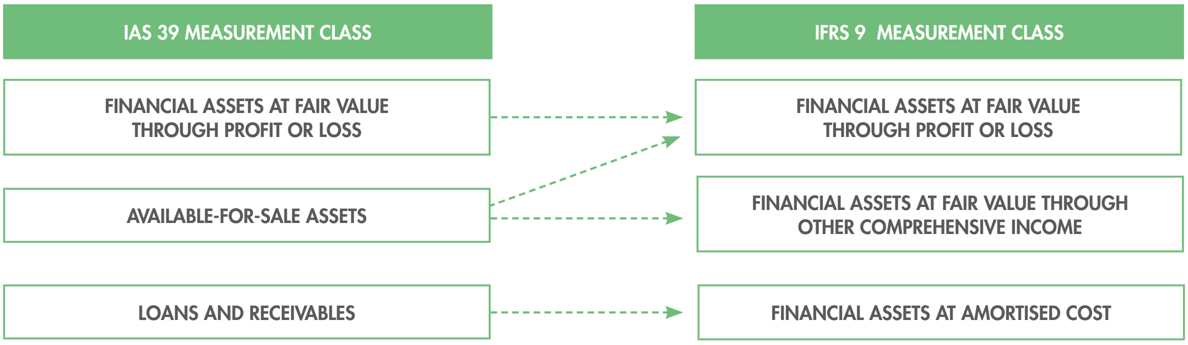
14.1 Adoption of new standards

Adoption of IFRS 9 Financial instruments on 1 January 2018

POP Bank Group has applied the standard IFRS 9 Financial Instruments on 1 January 2018. The standard has not been applied retrospectively, so comparative figures have not been restated and are mainly presented according to IAS 39.

Classification and measurement

When adopting IFRS 9, financial assets were reclassified from IAS 39 measurement classes as presented below:



POP Bank Group's loans and receivables from customers and deposits from other credit institutions continue to be measured at amortised cost. POP Bank Group did not have investments held to maturity at the date of adoption and did not reclassify IAS 39 available-for-sale assets to assets at amortised cost.

POP Bank Group's debt instruments have been mainly reclassified from IAS 39 available-for-sale assets to financial assets at fair value through other comprehensive income. All equity instruments are measured at fair value and changes in fair value are recognised mainly in profit or loss. Also fair value changes from debt instruments, whose cash flows are not solely payments of principal and interest on the principal amount outstanding are recognised in income statement. POP Bank Group has adopted the exception in IFRS 9, according to which changes in fair value of investments in shares may be recognised in other comprehensive income, to investments in shares regarded strategic. In case such an investment is subsequently sold, the result of the sale is recognised in equity.

Implementation of IFRS 9 did not have an effect in the classification and valuation of financial liabilities.

Impairment

IFRS 9 requires impairment to be recognised on the basis of expected credit losses on all debt instruments which are recognized at amortised cost or fair value through other comprehensive income and on off-balance sheet exposures.

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 in POP Bank Group. The model is used to adjust the parameters used in estimating expected credit losses.

Hedge accounting

POP Bank Group only has few hedging derivative contracts. The Group applies IAS 39 Financial instruments -standard to hedge accounting.

Effects of implementation

On reclassification of assets, the financial assets were revalued according to IFRS 9. Revaluation did not have an effect on carrying amounts of assets measured at fair value. Main changes due to implementation of IFRS 9 concern the reclassification of investments and the impairment of financial assets. Expected credit losses at 1 January 2018 amounted to EUR 33,588 thousand. At the end of the reporting period, 31 December 2018, expected credit losses amounted to EUR 32,738 thousand.

The classification and carrying amount of financial assets according to both IAS 39 and IFRS 9 are presented in the table below. IFRS 9 implementation did not have an effect on the classification and measurement of financial liabilities.

Reclassification and carrying amounts of financial assets and liabilities 1 January 2018

(EUR 1,000)	Classification IAS 39	Classification IFRS 9	Balance IAS 39	Reclassification	Revaluation	Balance IFRS 9
Liquid assets	Loans and receivables	Amortised cost	50,945	-	-	50,945
Loans and receivables from credit institutions	Loans and receivables	Amortised cost	71,156	-	-4	71,152
Loans and receivables from customers	Loans and receivables	Amortised cost	3,325,363	-	-8,412	3,316,951
Derivatives	Fair value through profit or loss	Fair value through profit or loss	647	-	-	647
Investment assets	Fair value through profit or loss	Fair value through profit or loss	1,262	237,075	-	238,337
Investment assets	Availble-for-sale	Fair value through other comprehensive income	713,088	-237,075	0	476,013
Total financial assets			**4,162,461**	**-**	**-8,416**	**4,154,045**

*The amount of revaluation is the change in expected credit loss allowance of assets valued at amortised cost.

The reclassification had an impact on POP Bank Group's equity. The fair value changes recognised in fair value reserve decreased and retained earnings increased correspondingly due to reclassification of assets available-for-sale to assets recognised in fair value through profit or loss. The expected credit losses on financial assets at amortised cost reduced the retained earnings. Also the expected credit losses on financial assets at fair value through other comprehensive income reduced the retained earnings. As the amount recognised in fair value reserve was amended accordingly, the expected credit losses on financial assets at fair value through other comprehensive income had no effect on the total amount of equity.

The effect of implementation on POP Bank Group's equity is presented on the table below.

The effect of reclassification of financial assets on equity 1 January 2018

(EUR 1,000)	31 Dec 2017	Reclassification	Revaluation	1 Jan 2018
Share capital	62,791	-	-	62,791
Reserves				
Fair value reserve	8,849	-6,631	1,099	3,318
Other	148,930	-	-	148,930
Retained earnings	264,631	6,631	-8,622	262,640
Equity owners of the POP Bank Group	**485,201**	**-**	**-7,523**	**477,678**
Non-controlling interests	448	-	-	448
Total equity capital	**485,649**	**-**	**-7,523**	**478,126**

Adoption of IFRS 15 Revenue from Contracts with Customers on 1 January 2018

Implementation of the standard IFRS 15 Revenue from Contracts with Customers did not have any impact on the recognition of revenues in POP Bank Group. POP Bank Group used a retrospective approach in application.

Amendments and improvements to standards

Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective on financial periods beginning on or after 1 January 2018)

The amendments respond to industry concerns about the impact of differing effective dates by allowing two optional solutions to alleviate temporary accounting mismatches and volatility. The amendments have no impact on POP Bank Group's financial statements.

Amendments to IAS 40 - Transfers of Investment Property (effective on financial periods beginning on or after 1 January 2018)

The amendments clarify that when transferring an investment property, a sole change in management's intentions is no evidence of a change in the use of the property. Examples of a change in the use have been amended so that they refer to a property under construction or development as well as to a completed property. These amendments have no impact on POP Bank Group's financial statements.

Annual Improvements to IFRSs* 2014-2016 cycle (effective on financial periods beginning on or after 1 January 2018)

The annual improvements process provides a mechanism for minor and non-urgent amendments to the IFRS to be grouped together and issued in one package annually. The amendments relate to IFRS 1 and IAS 28. The amendments have no impact on POP Bank Group's financial statements.

14.2 Amended standards, new standards and interpretations to be applied in future financial periods

Standards and amendments applied on financial period beginning 1 January 2019

In financial periods starting on 1 January 2019, POP Bank Group will adopt the following new standards of IASB starting from their entry into force or from the beginning of the financial period following their entry into force, if they have been approved to be applied in the EU before the closing date.

IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019)

The new standard replaces the current IAS 17 –standard and related interpretations. The new standard requires the lessees to recognise the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short-term contacts in which the lease term is 12 months or less, or to low value items. The lessor accounting remains mostly similar to current IAS 17 accounting.

POP Bank Group has acquired mainly business premises, office equipment and company cars to personnel with contracts classified as leases. POP Bank Group will adopt the exceptions of the standard after implementation to fixed-term lease contracts of less than 12 months and to contracts for items of low value. The financial operating period of the leased asset has been considered when determining the lease term. Managements' assumptions are material especially in determining lease term for open-ended contracts.

Implementation of the standard will increase POP Bank Group's assets and liabilities with approximately EUR 5.8 million. The implementation has no material impact on POP Bank Group's equity. The standard has no material impact on capital adequacy of the amalgamation of POP Banks.

IFRIC 23 Uncertainty over Income Tax Treatments (effective for financial years beginning on or after 1 January 2019)

The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company's chosen tax treatment. In relation to the before mentioned, it is assumed that tax authorities have full knowledge of all the information relevant to assessing the proposed tax treatment. The amendments have no impact on POP Bank Group's financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for financial years beginning on or after 1 January 2019)

The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation. The amendments have no impact on POP Bank Group's financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures* (effective for financial years beginning on or after 1 January 2019)

The amendments clarify that the IFRS 9 Financial Instrument is applied to long-term interests in associate or joint ventures that form part of the net investments in the associate or joint venture. The amendments have no impact on POP Bank Group's financial statements.

Annual Improvements to IFRSs, 2015-2017 cycle* (effective for financial years beginning on or after 1 January 2019)

The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 3, IFRS 11, IAS 12 and IAS 23. The amendments have no impact on POP Bank Group's financial statements.

<u>New standards and amendments to be adopted on later financial periods</u>

In financial periods starting later than 1 January 2019, POP Bank Group will adopt the following new standards of IASB starting from their entry into force or from the beginning of the financial period following their entry into force, if they have been approved to be applied in the EU before the closing date.

IFRS 17 Insurance Contracts* (IASB's tentative proposal: effective for financial years beginning on or after 1 January 2022)

The new standard for insurance contracts will help investors and other parties better understand insurers' risk exposure, profitability and financial position. This standard replaces the IFRS 4-standard. POP Bank Group has started to evaluate the effects of adopting the standard.

Amendments to References to Conceptual Framework in IFRS Standards* (effective for financial years beginning on or after 1 January 2020)

The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs.

Definition of a Business (Amendments to IFRS 3)* (effective for financial years beginning on or after 1 January 2020)

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

Definition of Material (Amendments to IAS 1 and IAS 8)* (effective for financial years beginning on or after 1 January 2020)

The amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS Standards. In addition, the explanations accompanying the definition have been improved.

Other amendments to standards to be applied later have no impact on POP Bank Group's financial statements.

* = The standard has not been endorsed for use in the EU as of 31 December 2018.

NOTE 3 Governance and management

The structure of the POP Bank Group and amalgamation of POP Banks is presented in Note 1.

The operations of the amalgamation of POP Banks are regulated by the European Union's regulations, national legislation and regulations issued by the authorities. The key national acts are the Act on Credit Institutions (610/2014; hereinafter referred to as the "Credit Institutions Act), Act on the Amalgamation of Deposit Banks (599/2010; hereinafter referred to as the "Amalgamation Act"), Co-operatives Act (421/2013), Act on Co-operative Banks and Other Credit Institutions in the Form of a Cooperative (423/2013), Limited Liability Companies Act (624/2006) and Act on Insurance Companies (521/2008). In addition, the amalgamation complies with good banking practice and policies concerning the processing of personal data in its operations.

The scope of consolidation of the POP Bank Group differs from the scope of consolidation of the amalgamation of POP Banks. The POP Bank Group consists of the amalgamation of POP Banks and entities over which the entities included in the amalgamation exercise control as referred to in the Accounting Act (1336/1997).

The POP Bank Group entities not included in the amalgamation are entities other than credit and financial institutions or service companies. Most significant of them are POP Holding Ltd, and its wholly-owned subsidiary Finnish P&C Insurance Ltd.

1. ENTITIES INCLUDED IN THE AMALGAMATION OF POP BANKS

1.1 Central institution POP Bank Alliance Coop

POP Bank Alliance Coop is the central institution of the amalgamation of POP Banks, and it is licensed as the central institution of an amalgamation of deposit banks. POP Bank Alliance Coop is owned by its member cooperative banks; they use their voting rights in a cooperative meeting of POP Bank Alliance Coop.

1.2 POP Banks

POP Banks are member credit institutions of POP Bank Alliance Coop with deposit bank licenses. POP Banks are co-operatives (cooperative banks) in terms of company form. The cooperative meeting of the members of the bank or an elected representatives' meeting is the supreme decision-making body of POP Banks. The cooperative meeting or representatives' meeting elects a Supervisory Board for the bank, which elects the Board of Directors. The Managing Director is appointed by the Supervisory Board or the Board of Directors, depending on the bank's rules.

1.3 Central credit institution Bonum Bank Plc

Bonum Bank Ltd is a member credit institution and subsidiary of POP Bank Alliance Coop. Bonum Bank Plc is licensed as a deposit bank. As a member credit institution and subsidiary of POP Bank Alliance Coop, Bonum Bank Plc is included in the scope of both the member credit institutions of the central institution and group management. Bonum Bank Plc operates as the central credit institution of POP Banks, and it can also engage in other banking operations besides central credit institution operations.

1.4 Other entities in the amalgamation

Other entities belonging to the amalgamation include the companies included in the consolidation groups of the member co-operative banks, and they are primarily real estate companies. In addition, the amalgamation includes those credit institutions, financial institutions and service companies in which entities included in the amalgamation jointly hold over 50% of the votes.

2. ADMINISTRATIVE ORGANS OF THE CENTRAL INSTITUTION OF THE AMALGAMATION OF POP BANKS

2.1 Cooperative meeting of POP Bank Alliance Coop

The cooperative meeting is the supreme decision-making body of POP Bank Alliance Coop. The cooperative meeting confirms the rules and adopts the financial statements and balance sheet of the central institution and elects the members of the Supervisory Board and the auditor. One member shall be elected to the Supervisory Board from each member credit institution; however, not from a subsidiary of the central institution acting as a member credit institution.

2.2 Supervisory Board of POP Bank Alliance Coop

It is a key task of the Supervisory Board of POP Bank Alliance Coop to supervise that the operations of the central institution are managed with expertise and care in compliance with the legislation, guidelines and the members' interests and that the ratified guidelines and decisions by the cooperative meeting are followed.

It is the duty of the Supervisory Board to issue a statement on POP Bank Group's financial statements prepared by the Board of Directors of the central institution to the cooperative meeting, according to the new rules of the central institution confirmed on 28.11.2018 to decide on the POP Bank Group's strategy and to annually confirm the principles of capital adequacy management of the amalgamation of POP Banks. The Supervisory Board also ratifies the general operating principles of the amalgamation of POP Bank's and the principles of bank-specific management, which define the principles of classifying the risk category of a member credit institution, and the methods of guidance for different risk categories, and sets the business risk thresholds followed in the amalgamation, with the purpose of limiting the risk taking of an individual member credit institution. In addition to the before mentioned, the Supervisory Board ratifies other general principles of guidance and internal audit operating principles, and ratifies the operational and financial objectives of the central institution and the group.

The Supervisory Board elects and discharges the members of the Board of Directors, the Managing Director and head of audit and elects Managing Director's deputy. The Supervisory Board decides on the fees of Board of Directors and the emolument of the head of audit.

The Supervisory Board elects an executive and nomination committee from among its number to prepare matters related to the appointment and salaries and remuneration of the Supervisory Board and Board members, the Managing Director and his deputy and the head of audit. The Supervisory Board elects an audit committee from among its number to take care of the supervisory duties for which the Supervisory Board is responsible.

2.3 Board of Directors of POP Bank Alliance Coop

The Board of Directors of the central institution manages the central institution professionally in accordance with sound and prudent business practice. The Board of Directors is responsible for the appropriate and reliable organisation of the governance and operations of the central institution.

The Board of Directors of the central institution confirms the amalgamation's risk level and risk appetite based on the strategy and business plans and approves the plan concerning the maintenance of capital adequacy proportioned to the risk level. The Board of Directors sets the target level for capital adequacy and confirms the level and structure of capital required by the risk profile. The Board of Directors is also responsible for proactive capital planning and adapting the capital adequacy management planning and proactive capital planning into reliable governance and guidance. The Board of Directors annually estimates the suitability, comprehensiveness and credibility of the capital adequacy management, and confirms the capital adequacy management plan of the amalgamation.

The Board of Directors is responsible for the sufficiency of the risk management system at the amalgamation level. It is the task of the Board of Directors to guide the operation of the amalgamation and issue binding guidelines based on the Amalgamation Act 17 § to its member credit institutions concerning their risk management, reliable governance and internal control to secure their solvency and capital adequacy. The Board of Directors supervises that the companies belonging to the amalgamation operate in compliance with the laws, decrees, regulations and instructions issued by the authorities, their own rules and the binding guidelines of the amalgamation. Moreover, it is the duty of the Board of Directors to oversee the functioning and sufficiency of internal control and risk management, approve the principles and guidelines of risk management and the risk category-specific strategies.

The Board has a risk committee whose task it is to monitor and prepare the Board's duties related to risk management. The tasks of the risk committee include assisting the Board of Directors in matters related to the amalgamation's risk strategy and risk-taking ability, preparing risk category-specific strategies and overseeing and coordinating the member credit institutions' risk management and capital adequacy. In addition, the committee monitors the preparation and implementation of the capital adequacy management plan.

The Board has an audit committee whose task it is to monitor and prepare the Board's duties related to internal audit. The tasks of the audit committee include reviewing the reports submitted by the internal audit function and present them to the Board of Directors, monitor and oversee the statutory audit of the amalgamation and supervise compliance with laws, regulations and decrees.

The assessment of the competence of Board member candidates is carried out following pre-defined and neutral selection grounds. A diverse composition of the Board of Directors aims at the optimum ability to develop and manage the efficiency, competitiveness and risk management of the central institution and amalgamation. In planning the composition of the Board of Directors, it is ensured that the required competence is represented at each time. Regional representation is also part of the assessment of diversity. Equal representation of both genders in the Board of Directors is an important aspect of diversity. The Board of Directors approves the objective of equal representation of genders and prepares the operating principles with which the objective is achieved and maintained. The Board of Directors annually reviews its work and the knowledge and skills, experience and diverse necessary for its work and the job description of new members.

The members of the Board of Directors shall have the preconditions for successfully taking care of their duties and sufficient time for it. A Board member and member of the executive management must have sufficient expertise in the amalgamation's business, related key risks and managerial work. A majority of the Board members shall be employed by a member credit institution of the amalgamation. Board members must be reliable persons with a good reputation. The reliability, suitability and professional skills of persons elected as Board members are assessed in connection with their election and at regular intervals thereafter.

The Board of Directors of the central institution has specified a maximum number of board memberships of a Board member. A member of the Board of Directors may be a member of a maximum of four other boards of directors. When calculating the number of board memberships, memberships of the boards of directors within the POP Bank Group or those related to the Group's cooperative relationships or membership in the administrative organs of entities with no commercial purposes, such as non-profit or charity organisations and housing associations can be excluded.

The members of the Board of Directors during the financial year 2018 were Juha Niemelä (ordinary member, Chairman starting from 23 November 2018, Vice Chairman until 22 November 2018), Soile Pusa (ordinary member, Vice Chairman starting from 23 November 2018), Teemu Teljosuo (ordinary member until 13 November 2018, Chairman until 13 November 2018), Petri Jaakkola, Ari Heikkilä, Marja Pajulahti and Hannu Tuominiemi.

2.4 Managing Director of POP Bank Alliance Coop

The central institution is led by a Managing Director responsible for the day-to-day management and administration of the central institution in accordance with the instructions and orders issued by the Board of Directors.

The Managing Director prepares the matters presented to the Board of Directors and assists the Board of Directors in the preparation of matters presented to the Supervisory Board and the cooperative meeting. The Managing Director of POP Bank Alliance Coop is Pekka Lemettinen. Managing Director's deputy is Chief Commercial Officer Jaakko Pulli. The Managing Director is required to seek the approval of the Board of Directors for any secondary jobs.

3. CONTROL AND RISK AND CAPITAL ADEQUACY MANAGEMENT OF THE AMALGAMATION OF POP BANKS

In accordance with the Amalgamation Act, POP Bank Alliance Coop, the central institution of the amalgamation of POP Banks, is responsible for supervising the operations of the member credit institutions and issuing them binding guidelines concerning risk management, reliable governance and internal control to secure their liquidity coverage ratio and capital adequacy and for issuing instructions concerning the preparation of the consolidated financial statements of the amalgamation for the purpose of compliance of harmonised accounting policies. Moreover, the central institution can confirm general operating principles for its member credit institutions to follow in their operations significant from the point of view of the amalgamation as specified in its rules.

The central institution supervises that the entities included in the amalgamation 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 issues instructions to member credit institutions and, if necessary, interferes in the operations of the member credit institution in accordance with separately agreed principles and procedures. The Board of Directors of the central institution decides on the use of the necessary control methods.

The member credit institutions, within limits set by confirmed business risk thresholds, carry their business risks independently and are liable for their capital adequacy. A member credit institution of the amalgamation may not take such high risk in its operations that it causes essential risks to the combined liquidity coverage ratio or capital adequacy of the entities included in the amalgamation.

The capital adequacy, liquidity coverage ratio and customer risks of the entities included in the amalgamation of POP Banks are supervised at the consolidated amalgamation level in accordance with the Amalgamation Act. The entities included in the amalgamation must have the minimum combined own funds sufficient for covering the consolidated risks of companies included in the amalgamation specified in more detail in the Act on Credit Institutions. In addition, the combined own funds of the entities included in the amalgamation must be sufficient in relation to the combined customer risks and combined significant holdings of the entities included in the amalgamation.

The central institution has reliable governance that enables the effective risk management of the amalgamation and sufficient internal control and risk management systems considering the operations of the amalgamation.

In accordance with the Amalgamation Act, the Financial Supervisory Authority may grant the central institution a permit to decide on granting certain exceptions related to capital adequacy and liquidity to its member credit institutions. On the reporting date, the central institution has exempted the member credit institutions from own funds requirement for intra-group exposures, large exposure limitation for exposures between the central credit institution and member credit institutions and liquidity coverage ratio, which is managed in the amalgamation by Bonum Bank Plc.

The principles followed in the risk management of the amalgamation of POP Banks are described in more detail in Note 4 on risk management and capital adequacy management.

4. JOINING AND RESIGNING FROM THE AMALGAMATION OF POP BANKS

Credit institutions whose rules or Articles of Association are compliant with the provisions of the Amalgamation Act and whose rules or Articles of Association the central institution has approved can be members of the central institution of the amalgamation of POP Banks. The central institution's Supervisory Board decides on acceptance as a member based on a written application.

A member credit institution has the right to resign from the central institution in accordance with the rules of the central institution and the provisions of the Co-operatives Act and Amalgamation Act when the conditions laid down by them are met. The combined amount of the own funds of the companies included in the amalgamation must remain at the level required by the Amalgamation Act in spite of the resignation of a member credit institution.

A member credit institution can be dismissed from the central institution in accordance with the rules of the central institution and the Co-operatives Act if the member credit institution has neglected its duties arising from its membership. Furthermore, a member credit institution can be dismissed from the central institution if it has, in spite of a warning issued by the Supervisory Board, neglected compliance with the instructions issued by the central institution under section 17 of the Amalgamation Act in a way that significantly threatens the joint liquidity coverage or the application of principles concerning the capital adequacy management or the preparation of financial statements or the supervision of compliance with them in the amalgamation. A member credit institution can also be dismissed if the member credit institution has otherwise acted essentially in violation of the general operating principles of the amalgamation ratified by the central institution or the interests of the central institution or the POP Bank Group. The decision on dismissing a member credit institution is made by a cooperative meeting of the central institution at the proposal of the Supervisory Board.

The provisions of the Amalgamation Act on the liability to pay of a member credit institution are also applied to a credit institution that has resigned or has been dismissed from the central institution if less than five years have passed since the end of the calendar year in which the member credit institution resigned or was dismissed when the demand concerning liability to pay is made to the member credit institution.

5. CENTRAL INSTITUTION'S LIABILITY FOR DEBT AND JOINT LIABILITY OF MEMBER CREDIT INSTITUTIONS

The central institution of the amalgamation of POP Banks is liable for the debt and commitments of its member credit institutions in accordance with the Amalgamation Act. As a support measure referred to in the Amalgamation Act, the central institution is liable to pay any of its member credit institutions an amount that is necessary to prevent the credit institution from being placed in liquidation. The central institution is liable for the debts of a member credit institution, which cannot be paid using the member credit institution's capital.

Each member credit institution is liable to pay a proportion of the amount, which the central institution has paid either to another member credit institution as part of support action or to a creditor of such member credit institution in payment of an amount overdue which the creditor has not received from the member credit institution. Furthermore, in the case of the central institution's default, a member credit institution has unlimited refinancing liability for the central cooperative's debts as referred to in the Co-operatives Act.

Each member credit institution's liability for the amount the central institution has paid to the creditor on behalf of a member credit institution is divided between the member credit institutions in proportion to their last adopted balance sheets. The combined annual amount collected from each member credit institution in order to prevent liquidation of one of the member credit institutions may in each financial year account for a maximum of 0.5% of the last confirmed balance sheet of each member credit institution.

6. SUPERVISION OF THE AMALGAMATION OF POP BANKS

The Financial Supervisory Authority supervises the central institution in accordance with the Amalgamation Act. The member credit institutions are supervised by the Financial Supervisory Authority and the central institution.

The Financial Supervisory Authority supervises that the central institution controls and supervises the operations of the member credit institutions in accordance with the provisions of the Amalgamation Act and that the entities included in the amalgamation meet their statutory requirements.

The central institution supervises that the companies belonging to the amalgamation operate in compliance with the legislation and decrees on the financial market, regulations issued by the authorities, their own rules and Articles of Association and the instructions issued by the central institution in accordance with section 17 of the Amalgamation Act. Furthermore, the central institution supervises the financial position of the companies belonging to the amalgamation.

The internal audit unit of the amalgamation's central institution is responsible for organising the internal audit in the central institution and member credit institutions, and it controls organising the internal audit in other companies belonging to the amalgamation.

7. PROTECTION AFFORDED BY THE DEPOSIT GUARANTEE FUND AND THE INVESTORS' COMPENSATION FUND

According to the legislation concerning the Deposit Guarantee Fund, the deposit banks belonging to the amalgamation of POP Banks are considered to constitute a single bank in respect of deposit insurance. The Deposit Guarantee Fund reimburses a maximum total of EUR 100,000 to an individual account holder who has receivables from deposit banks belonging to the amalgamation of POP Banks. The Financial Stability Board administers the Deposit Guarantee Fund and carries out duties related to deposit protection.

Furthermore, in accordance with the legislation on the investors' compensation fund, the amalgamation of POP Banks is considered to constitute a single bank in terms of deposit insurance. The Investors' Compensation Fund reimburses a maximum total of EUR 20,000 to an investor who has receivables from entities belonging to the amalgamation of POP Banks.

8. FINANCIAL STATEMENTS AND AUDIT OF THE POP BANK GROUP

In accordance with the Amalgamation Act, the financial statements of the POP Bank Group shall be prepared in compliance with the International Financial Reporting Standards (IFRS) referred to in the Accounting Act. In accordance with IFRS; other significant entities included in the POP Bank Group must also be consolidated in the financial statements. The accounting policies are described in Note 2 POP Bank Group's accounting policies under IFRS.

In accordance with the Amalgamation Act, the central institution is liable to issue instructions to the member credit institutions for the purpose of harmonising the accounting policies applied in preparing the financial statements of the POP Bank Group. The member credit institutions are liable to provide the central institution of the POP Bank Group the information required for consolidating the financial statements.

The central institution has one auditor that must be a firm of Authorised Public Accountants. The auditor is elected by the cooperative meeting. The auditor's term of office is a calendar year. POP Bank Alliance Coop's auditor is KPMG Oy Ab, Authorised Public Accountants, with Tiia Kataja, Authorised Public Accountant, as the main auditor. The auditor also audits the consolidated financial statements referred to in the Amalgamation Act. The central institution and its auditors have the right to receive a copy of the documents concerning the audit of a member credit institution for the purpose of auditing the consolidated financial statements of the POP Bank Group.

A member credit institution is not obliged to publish interim reports pursuant to Chapter 12, section 12 of the Act on Credit Institutions, or the capital adequacy information pursuant to the EU's Capital Requirements Regulation ("Pillar III disclosures"). The information required by the EU's Capital Requirements Regulation is presented in a report separate to the amalgamation of POP Banks.

9. 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. 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.

At 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, guidelines and opinions issued by the Financial Supervisory Authority.

The amalgamation of POP Banks follows the Act on Credit Institutions, with the exceptions mentioned below, when deciding on the remuneration scheme of the executive management and employees of the member credit institutions.

The remuneration principles at the member credit institutions are confirmed by each member credit institution's Board of Directors, which also monitors and supervises compliance with the remuneration schemes and regularly assesses their functionality. The executive management is responsible for the implementation of remuneration in accordance with the confirmed remuneration principles. The amalgamation of POP Banks bank does not have a joint remuneration committee for the management of the remuneration scheme. It has not been deemed necessary as each entity belonging to the amalgamation makes decisions on remuneration independently.

The internal audit function of the amalgamation verifies at least once a year whether the remuneration scheme, as approved by the member credit institution's Board of Directors, has been complied with. The internal audit unit reports annually a summary of the remuneration schemes of the member credit institution and compliance with them to the Board of Directors of the central institution.

The remuneration of control functions independent from business operations is not dependent on the earnings of the supervised business unit at the amalgamation of POP Banks.

Not all member credit institutions have variable remuneration in use. The member credit institutions in which variable remuneration is in use have different remuneration schemes. The systems differ with regard to, inter alia, the personnel included in their scope, the amount of remuneration and the remuneration criteria.

The member credit institution may decide not to pay any variable remuneration either partially or at all by way of a decision of the Board of Directors, for example in the event the member credit institution's capital adequacy is below the level specified for it.

The payment criteria for severance pay or other comparable remuneration that is paid to a beneficiary if employment terminates prematurely are laid down so that compensation is not paid for failed performance. Provisions on the payment of variable remuneration are laid down in the Act on Credit Institutions. The amalgamation of POP Banks does not apply the provisions of Chapter 8, sections 9, 11 and 12 of the Act on Credit Institutions to beneficiaries whose variable remuneration during an earning period of one year does not exceed EUR 50,000. The EUR 50,000 limit is based on the opinion of the Financial Supervisory Authority. This means that the payment of variable remuneration paid to the beneficiary need not be deferred but it can be paid as a lump sum.

If a person who, based on his/her job description, is assigned to a group whose professional duties may cause significant risk to a member credit institution or the company ("person affecting risk profile"), is proposed to be paid more than EUR 50,000 annually, the provisions of the Act on Credit Institutions on deferring the payment of variable remuneration are applied. A significant proportion – at least 40% of the defined variable remuneration total – is deferred and paid in 3–5 years, at the earliest. When determining the length of deferral, the person's risk profile and the nature of the business are taken into consideration. If the amount of variable compensation exceeds EUR 50,000, it is taken into account that at least half of the compensation must be affected in non-cash form.

The amalgamation of POP Banks has identified significant risk-takers who can impact the risk profile of the amalgamation or a member credit institution or through their actions cause considerable financial risk to the amalgamation or member credit institution. The persons affecting the risk profile of the Amalgamation include the Managing Directors and other people participating in the management and decision-making in the member credit institutions, central institution or other companies along with other people with a major impact on the company's risk exposure and people associated with functions independent of business operations. POP Bank Alliance Coop collects up-to-date information about significant risk-takers. Each group member is responsible for keeping its own information accurate and up to date.

The member credit institutions publish a report on compliance with the provisions of the Act on Credit Institutions regarding remuneration on their websites. Salaries and bonuses for the financial year are presented in Note 12 to the POP Bank Group's financial statements. The information required by the EU's Capital Requirements Regulation No 575/2013 article 450 on the remuneration of people who influence the POP Bank Group's risk exposure is presented in a Pillar III report separate to the financial statements and board of directors' report.

NOTE 4 Risk and capital adequacy management at the POP Bank Group

1. OBJECTIVES AND PRINCIPLES OF RISK AND CAPITAL ADEQUACY MANAGEMENT IN BANKING

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. 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 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 that is integrally linked to the amalgamation's and member credit institutions' strategy process and business planning and management.

The member credit institutions of the amalgamation, within limits set by confirmed business risk thresholds, carry their business risks independently and are liable for their capital adequacy. In addition, each member credit institution takes into account the effects of its operations on the liquidity coverage and capital requirements of the other member credit institutions of the amalgamation. The purpose of risk and capital adequacy management is to ensure that an individual member credit institution does not take such risks in its operations that would result in a material threat to the capital adequacy or solvency of the member credit institution, central institution or the entire amalgamation. The capital adequacy, liquidity coverage ratio and customer risks of the entities included in the amalgamation of POP Banks are supervised both at the level of individual member institution and at the consolidated amalgamation level.

Risk and capital adequacy management is regulated by EU legislation, Act on Credit Institutions (610/2014), Act on the Amalgamation of Deposit Banks (24.6.2010/599; hereinafter referred to as the "Amalgamation Act") and the standards, regulations and guidelines issued by the Financial Supervisory Authority. Risk management covers all the essential risks associated with business operations. Risk management manages external and internal risks as well as quantitative and qualitative risks. The amalgamation also monitors dependencies between different risks. The most significant risks affecting the amalgamation are credit risk, liquidity risk and market risk as well as operational risk.

Credit risk is mitigated with the use of diversification and collateral. Liquidity risk is mitigated by the use of diversification of funding with regard to timing and counterparty. In addition, a sufficient liquidity reserve is maintained to prepare for unexpected liquidity crises. The most significant subtypes of market risk are the interest rate risk in the banking book and risks stemming from investment activities. Interest rate risk is mitigated with balance sheet management. The risks stemming from investment activities is mitigated through diversification. Operational risk is managed through clear processes and training of personnel, guidelines and control mechanisms.

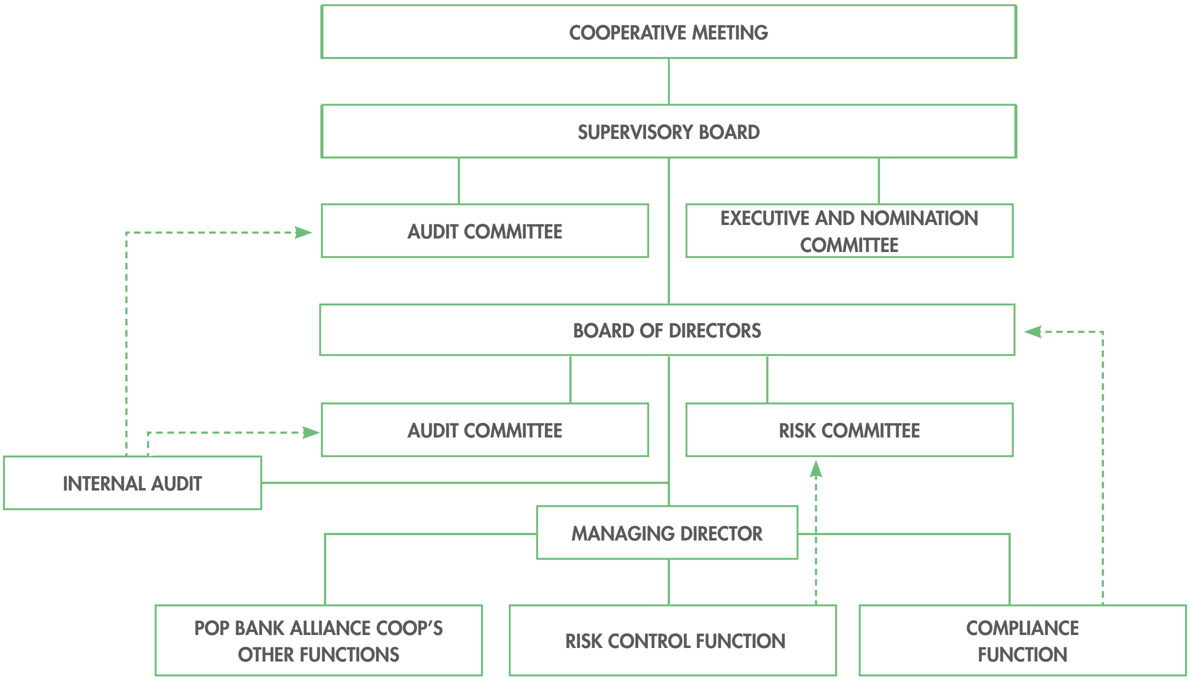
The business of the amalgamation of POP Banks is focused on the low-risk part of retail banking in accordance with its strategy. The amalgamation does not have excessively large customer or investment risk concentrations with regard to its financial risk-taking ability.

The risk control function reports regularly on the level of risks of the amalgamation and member credit institution to the Board of Directors of the central institution. Systems and practices intended for reporting on risks and monitoring them meet the requirements set for risk management, taking the nature and scope of the amalgamation's operations into account. The amalgamation's corporate governance, internal control and risk control comply with the requirements of legislation and the requirements of the authorities.

Risk and capital adequacy management are an essential part of the internal control of the amalgamation. The purpose of internal control is to ensure that the organisation complies with regulations, carries out comprehensive risk management and operates efficiently and reliably. Moreover, internal control serves to ensure that the objectives and goals set for different levels of the amalgamation are achieved according to the specified guidelines.

2. ORGANISATION OF RISK AND CAPITAL ADEQUACY MANAGEMENT

The chart below describes the position of the administrative organs and the different functions of the central institution in the amalgamation's risk management.



The role of the Supervisory Board and the Board of Directors in amalgamation's risk management has been described in the NOTE 3 Governance and management.

2.1 Risk control function

The amalgamation's executive management is responsible for the practical implementation, continuous monitoring, supervision and reporting of capital adequacy and risk management to the Board of Directors of the amalgamation. The executive management also ensures that the responsibilities, authorizations, processes and reporting relationships related to capital adequacy management have been clearly defined and sufficiently described and that the employees are familiar with capital adequacy management and the related processes and methods to the extent required by their duties.

2.2 Risk control function

The task of the central institution's independent risk control function is to supervise the risks and capital adequacy of the member credit institutions. Its task is to form a comprehensive view of the risks associated with the business operations of the amalgamation and member credit institutions, develop risk management methodologies and operating models for identifying, measuring and controlling risks and coordinate and develop the capital adequacy management process, risk control and reporting.

The risk control function prepares instructions for the Board of Directors of the central institution to decide on. It also supports, advises and educates the member credit institutions in the organization and development of risk and capital adequacy management. The risk control function monitors the development of the risk exposures of the member credit institutions and gives feedback to the member credit institutions on them and the adequacy of the own funds in proportion to the risk exposures. The control function's duty is also to ensure that the risk measurement methods are appropriately and sufficiently accurate and reliable and to monitor that the risk management guidelines, business risk thresholds and risk strategies approved by the Board of Directors are followed.

The risk control function regularly reports a summary of the activities of the risk control function and the observations made by it and risk situation to the Board of Directors. Chief Risk Officer is responsible for the operation of the risk control function of the amalgamation's central institution. The risk control function ensures that the combined effect of the significant risks taken by all member credit institutions in their business operations on earnings and the own funds is reported to the Board of Directors in connection with the assessment of capital adequacy.

2.3 Compliance function

The Compliance function of the central institution oversees that the amalgamation and member credit institutions comply with the legislation concerning their operations, instructions and regulations issued by the authorities, self-regulation of markets and internal guidelines of the amalgamation. It is also the Compliance function´s duty to keep Senior and Executive management of the central institution and member credit institutions aware of significant changes taking place in key regulations and their effects. The Compliance function prepares operating guidelines on the application of the regulations.

In the largest member credit institutions of the amalgamation of POP Banks Compliance function is operated by Compliance officer who is independent from business operations. In other member credit institutions Compliance function is operated centered by the Compliance function of the amalgamation.

The Compliance function reports of its activity and observations regularly to the Executive management and to the Board of Directors of the amalgamation and also to the Audit Committee of the Supervisory Board of the amalgamation. In addition, the Compliance Function of the amalgamation reports to Board of Directors of those member credit institutions whose Compliance function is operated by amalgamation.

Compliance risk is managed by monitoring the development of legislation, preparing guidelines, educating and advising business operations to comply operating models that are consistent with the regulation and supervising that procedures are compliant.

2.4 Internal audit

Internal audit is an independent and objective assessment and securing activity. The purpose of the activity is to support the Supervisory Board, Board of Directors and executive management of the central institution in reaching the objectives by offering a systematic approach to the assessment and development of the organisation's control, management and governance processes and the effectiveness of risk management.

The internal audit unit of the amalgamation's central institution is responsible for the organisation of internal audit in the central institution and member credit institution, and it controls the organisation of internal audit in the other companies belonging to the amalgamation. The head of audit is responsible for the operation of the internal audit unit. Internal audit acts functionally under the Board of Directors and Audit Committee of the central institution and administratively under the Managing Director. The Supervisory Board of the central institution confirms the operating principles of internal audit.

Internal audit assesses the coverage and reliability of the amalgamation's capital adequacy management process and the sufficiency and effectiveness of the control procedures. Internal audit reports its key audit observations and the recommendations related to the capital adequacy management process it has issued to the Board of Directors of the central institution, Audit Committee of the Board of Directors and the Audit Committee of the Supervisory Board at least annually. Significant deviations with regard to the capital adequacy management observed in the audit are reported immediately to the Audit Committees of the central institution's Board of Directors and Supervisory Board.

2.5 Member credit institution

The amalgamation's member credit institutions, member cooperative banks and Bonum Bank Plc, comply with the risk and capital adequacy management principles specified by the central institution.

Except for the central credit institution, the member credit institutions of the amalgamation are engaged in retail banking in line with their strategy. By operating only in this business area, the member credit institutions are able to keep the risks inherent in their operations at a manageable level, which is low considering the type of operations.

At POP Banks, the highest administrative organ is the cooperative meeting or representatives' meeting, which elects the members of the Supervisory Board. The Supervisory Board elects the members of the Board of Directors. At Bonum Bank Plc, the Annual General Meeting elects the members of the Board of Directors. The Supervisory Board elects an Audit Committee from among its number, which assists the Supervisory Board in implementing its control obligation.

The Board of Directors of the member credit institution confirms, inter alia, internal guidelines concerning internal control and risk management, business objectives, risk limits concerning different risk categories and capital adequacy management plan. Furthermore, the Board of Directors is responsible for the adequacy of risk management and supervises the business operations, risk exposure and adequacy of risk-bearing capacity of the bank. In the capital adequacy management process, the member credit institution prepares, among other things, result, growth and capital adequacy estimates. Based on the forecasts, the member credit institution maps the necessary measures by means of which the capital adequacy objective in accordance with the business strategy can be achieved.

The executive management of the member credit institution is responsible for the implementation of internal control and risk management and reports regularly to the Board of Directors on the business operations, risk-bearing capacity and risk exposure of the member credit institution.

The central institution's independent risk control function and Compliance function guide the supervision of the amalgamation's risks. In addition to this, the largest member credit institutions have their own independent persons in charge of risk control and compliance function, who is responsible for the implementation of risk control and compliance at the member credit institution as instructed by the central institution. The other member credit institutions have a contact person responsible for the function.

Primary responsibility, control responsibility and assessment responsibility have been specified for the duties of risk management and distribution of responsibilities. The member credit institution responsible for business operations has the primary responsibility for the implementation of internal control and practical risk management measures, and it is also responsible for compliance with the risk management guidelines and procedures.

Organisation of risk management and internal control

I LINE OF DEFENCE

MEMBER CREDIT INSTITUTIONS

- Day-to-day risk management
- Supervisor control
- The executive management and Board of Directors of the member credit institution have the primary responsibility for control

II LINE OF DEFENCE

INDEPENDENT RISK CONTROL AND COMPLIANCE OF THE CENTRAL INSTITUTION

- Control
- Instruction
- Support, processes, tools

III LINE OF DEFENCE

CENTRAL INSTITUTION'S INTERNAL AUDIT

- Independent assessment of control based on risk-based audit activity

The central institution's risk control function supervises risk management in the amalgamation, and the compliance function supervises the compliance of the operations. Internal Audit, which operates within the central institution, conducts independent audit and assurance tasks to ensure the adequacy and efficiency of the control procedures.

3. CAPITAL ADEQUACY MANAGEMENT

The amalgamation has a capital adequacy management process in use that aims to secure the sufficiency of the amalgamation's and its member credit institutions' risk-bearing capacity in relation to all the material risks involved in the operations. To achieve this objective, 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 their capital adequacy, the member credit institutions set risk-based capital objectives and prepare a capital plan to achieve these objectives. The capital adequacy management process also aims at maintaining and developing high-quality risk management.

The amalgamation's capital adequacy management process and liquidity coverage assessment process determine the risk-taking capacity and risk appetite of the amalgamation in proportion to the business objectives. The purpose of capital adequacy management and liquidity coverage assessment is to secure the risk-bearing capacity of the member credit institutions and amalgamation through sufficient capital and liquidity provisions.

In addition to the 8 per cent capital adequacy requirement, a fixed 2.5 per cent capital conservation buffer requirement has become applicable on 1 January 2015, as well as a variable additional capital requirement which the authorities can upon need set at between 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. During the financial period, the Financial Supervisory Authority imposed an additional systemic risk buffer of 1.0 %, which becomes applicable as of 1 July 2019. After the end of the financial period, on 18 January 2019 the Financial Supervisory Authority set an additional capital requirement (Pillar 2) of 1.25 % on the amalgamation of POP Banks based on the Act on Credit Institutions (610/2014) chapter 11 section 6 (3). The requirement must be fulfilled with Common Equity Tier 1 (CET1) capital and comes into force on 30 September 2019. 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 based on a permission granted by the Financial Supervisory Authority. The amalgamation of POP Banks publishes material information regarding capital adequacy under Part Eight of the Capital Requirements Regulation (Pillar III) annually in a separate report. The semi-annual interim report includes the most relevant capital adequacy information.

3.1 Capital plan

Capital planning is part of the capital adequacy management process and business strategy process of the Board of Directors and executive management of POP Bank Alliance Coop, which ensures that the amalgamation's growth, profitability and risk-bearing capacity objectives are appropriate and consistent.

The purpose of the capital plan is to secure capital adequacy of the amalgamation of POP Banks even in exceptional conditions by proactively determining the capital management methods available to the amalgamation of POP Banks and the principles of their implementation and, if necessary, implement them in accordance with pre-agreed principles. The capital plan is updated at least annually. The capital plan covers the current year and the two following years at a minimum.

The capital plan is also used to define the appropriate capital structure from the point of view of the effective use of capital of the amalgamation. This is influenced, among other things, by constraints due to regulations on which capital items are considered eligible capital or for which risks the capital items in question can be used.

Every member credit institution and entity belonging to the amalgamation of POP Banks is primarily responsible for its own capital adequacy and sets target levels and reaction limits for its capital adequacy in accordance with the guidelines issued by the central institution of the amalgamation. Secondarily, the central institution of the amalgamation of POP Banks is responsible for the amalgamation's capital adequacy in accordance with the valid legislation and regulations.

3.2 Assessment of capital provisions

The amalgamation uses scenario analyses and stress tests for the assessment of capital provisions. Stress tests are deployed to assess how different exceptionally severe, yet possible situations can affect the liquidity coverage, profitability or capital adequacy of the amalgamation or its member credit institutions. The stress factors are used to assess the effect of both individual risk factors and effects of simultaneous changes of several variables.

Scenario analyses are used as part of the assessment of total risk position. Scenario analyses involve creating risk scenarios with which capital adequacy is assessed in different changes in the operating environment when several risk areas stress the need for capital simultaneously.

3.3 Pillar I capital adequacy ratio

The most significant Pillar I capital requirements of the amalgamation of POP Banks are composed of exposures secured by real estate and both corporate and retail receivables. The amalgamation applies the standardised approach for the calculation of the capital requirement for credit risk, and the basic indicator approach for calculating the capital requirement to the operational risk. The member credit institutions of the amalgamation do not engage in trading activities, so the capital requirement for market risk is only calculated for the foreign exchange risk. In the standardised approach for credit risk, the exposures are divided into exposure classes with limits having been set for the minimum diversification of lending in the retail exposure class.

The own funds of the amalgamation of POP Banks consist of cooperative contributions, supplementary cooperative contributions, POP Shares, retained earnings and reserves less the deductions pursuant to the EU's Capital Requirements Regulation No. 575/2013. The amalgamation of POP Banks does not include the profit for the financial year in the own funds.

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 55 326 thousand of POP Shares had been issued at the end of 2018 (53 574 thousand).

Summary of the amalgamation's capital adequacy is presented in a separate Pillar III report.

4. BANKING RISKS

4.1 Credit risk

The most significant risk of the amalgamation is the credit and counterparty risk, the Pillar I capital requirements of which account for approximately 90.6 per cent of all Pillar I capital requirements. Credit risk refers to a situation in which a counterparty cannot fulfil its contractual obligations. The most significant source of credit risk is loans, but credit risk can also arise from other kinds of receivables, such as bonds, short-term debt securities and off-balance-sheet commitments, such as unused credit facilities and overdraft limits and guarantees. The amalgamation of POP Banks is exposed to credit risk of a total of EUR 3,473,310 thousand through loans recognized on the balance sheet.

4.1.1 Management of credit risk

Credit risk management aims at limiting the effects of credit risks resulting from lending activities on profit and balance sheet to an acceptable level.

The Board of Directors of the central institution controls the credit risk management of the member credit institutions, the methods used in it and the control and reporting of credit risk. The Board of Directors of the central institution prepares the credit risk strategy specifying the target risk level and the principles concerning guidelines on risk-taking, customer selection and collateral. The credit risk strategy is supplemented by credit risk and collateral management guidelines issued by the Board of Directors of the central institution, which lay the foundation for the management of credit risk by the member credit institutions. The central institution's risk control function is responsible for the preparation and maintenance of the credit risk strategy. The credit risk strategy is updated at least annually or whenever there are essential changes in the operating environment or business model of the amalgamation, legislation or requirements of the authorities.

The Boards of Directors of the member credit institutions confirm their credit risk strategies in accordance with the credit risk strategy of the central institution's Board of Directors. The business strategy and credit risk and collateral management guidelines specify the maximum limits for risk concentrations and act as guidelines for the targeting of lending by customer sector, industry and credit grade.

Credit decisions are based on the customer's creditworthiness and ability to pay and the fulfilment of the other credit criteria, such as requirements for collateral. The main principle is decision making by two persons having lending authorization. The lending decisions are made within the decision-making authorizations confirmed by the Board of Directors of each member credit institution. Member credit institutions primarily grant loans and guarantees in their own operating areas. This ensures local and sufficiently thorough knowledge of the customer.

To ensure the repayment of exposures, exposures should primarily be secured by collateral. Collaterals are valued prudently at fair value, and the development of values is monitored regularly utilizing both statistics and good knowledge of the operating area. The collateral valuation coefficients used for valuating collaterals are harmonized in the member credit institutions of the amalgamation.

The monitoring of credit risk is based on the continuous monitoring of non-performing receivables and past-due payments and the quality of the loan portfolio. Problems that can be foreseen are addressed as early as possible.

At the end of the financial year, the amalgamation of POP Banks' receivables more than 90 days past due accounted for 0.89 (0.89) per cent of the loan portfolio. The amalgamation's receivables 30–90 days past due accounted for 0.83 (0.60) per cent of the loan portfolio at the end of the financial year.

Past due exposures

	31 Dec 2018		31 Dec 2017	
(EUR 1,000, net value)	Balance sheet value	% of loan portfolio	Balance sheet value	% of loan portfolio
Exposures 30-90 days past due	28,663	0.83 %	20,093	0.60 %
Exposures over 90 days past due	30,848	0.89 %	29,568	0.89 %
Exposures 90-180 days past due	8,955	0.26 %	7,275	0.22 %
Exposures 180 days - 1 year past due	6,853	0.20 %	11,941	0.36 %
Exposures over 1 year past due	15,040	0.43 %	10,352	0.31 %

Monitoring expected credit losses is an essential part of the credit risk management. Principles of impairment and calculation of expected credit losses are described in NOTE 2 POP Bank Group's accounting policies under IFRS. Impairment losses on loans and receivables, off-balance sheet items and changes during the financial year are presented in NOTE 18 Impairment of financial assets.

Exposures of customers and non-performing receivables are regularly reported to the Boards of Directors of the member credit institutions. The reports include, amongst other things, the amount and development of credit risk by customer group, industry sector and credit grade category. The risk control function reports to the Board of Directors of the central institution on the development of credit risks, risk position, non-performing receivables and expected credit losses on a quarterly basis.

LOAN BOOK BY COLLATERAL TYPE AND BY COLLATERAL TYPE

Loan book by collateral type and by ECL stage (IFRS 9) 31 Dec 2018

(EUR 1,000, gross value)	Stage 1	Stage 2	Stage 3	Total
Residential real estate	2,086,072	147,206	55,908	2,289,186
Other real estate	796,935	143,333	60,661	1,000,929
Financial collateral	9,344	1,636	480	11,461
Guarantee	47,033	6,565	5,030	58,628
Other collateral	25,798	4,682	4,515	34,995
Non-collateralized	104,197	2,725	3,795	110,717
Total	**3,069,380**	**306,147**	**130,389**	**3,505,916**

Loan book by collateral type and by ECL stage (IFRS 9) 1 Jan 2018

(EUR 1,000, gross value)	Stage 1	Stage 2	Stage 3	Total
Residential real estate	1,896,910	208,070	64,792	2,169,772
Other real estate	721,382	170,075	73,235	964,692
Financial collateral	12,530	1,383	564	14,477
Guarantee	44,532	8,692	3,717	56,941
Other collateral	22,518	5,748	2,448	30,714
Non-collateralized	87,488	2,331	2,494	92,314
Total	**2,785,361**	**396,299**	**147,249**	**3,328,910**

4.1.2 Breakdown of loans by customer groups

The amalgamation's key customer groups are private customers, agriculture entrepreneurs and small companies. A majority of the amalgamation's funding has been granted as loans to the customers of the member credit institutions. The amalgamation's loan portfolio totaled EUR 3,473,310 thousand at the end of 2018 (3,325,363) thousand at the end of 2017).

Lending to private customers is mainly granted against residential real estate collateral. If necessary, other collateral is also used. A majority, 66.6% (65.2%) of the amalgamation's loans has been granted against residential collateral. The loans to private customers are booked in the balance sheets of POP Banks, whereas Visa credit cards are booked in the balance sheet of the central credit institution.

Lending to private customers is primarily based on the customer's sufficient debt servicing capacity. The assessment of the creditworthiness of a private customer is based on POP Bank's good customer knowledge, the customer's occupation and income data, ability to pay and surplus calculation and statistical behavior or application scoring model. Customers with exposures are scored with the behavior scoring model based on payment behavior. Customers with no exposures who are applying for a loan are scored with application scoring. The purpose of the scoring is to classify the customers according to their risk.

The primary target groups of the member credit institutions' corporate lending are micro companies and small companies, self-employed persons and agriculture and forestry customers operating in the operating area of the member credit institution. In lending to corporate customers, the basis for granting a loan are the customer's financial position, debt servicing capacity, analysis of financial statements, coverage of the collateral offered and the customer's credit rating.

Breakdown of loans by customer groups

Customer group (EUR 1,000, net value)	31 Dec 2018	31 Dec 2017	Change, %	Main collateral type
Private customers	2,327	2,218	4.9 %	Residential real estate
Agricultural customers	556	562	-1.1 %	Other real estate
Corporate customers	590	545	8.3 %	Other real estate
Total	**3,473**	**3,325**	**4.4 %**	

Corporate lending by industry

	31 Dec 2018		31 Dec 2017	
(EUR 1,000, net value)	Balance sheet value	%	Balance sheet value	%
Real estate	169,314	31.1 %	147,629	28.5 %
Construction	93,240	17.1 %	83,836	16.2 %
Industry	80,637	14.8 %	74,824	14.4 %
Wholesale and retail trade	73,113	13.4 %	71,461	13.8 %
Transport and storage	45,235	8.3 %	42,399	8.2 %
Other industries	128,437	23.6 %	124,512	24.0 %
Total	**589,976**	**108.3 %**	**544,660**	**100.0 %**

4.1.3. Concentration risk

Credit risk concentration arises when the counterparties are financially dependent on each other and operate in a similar operating environment, in which case individual events can have effects on a significant number of counterparties at the same time. Similar concentration risk may also arise when similar collateral is held for credit facilities.

The total amount of loans granted by the amalgamation or an individual member credit institution to a single customer and/or customer group must not exceed the maximum amounts confirmed in the EU's Capital Requirements Regulation, other statutory orders or the regulations and guidelines provided by the Finnish Financial Supervisory Authority or other supervisory authorities. A euro-denominated limit has been specified at the amalgamation level with customer groups exceeding the limit within the amalgamation requiring the central institution's permit for granting additional credit.

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.

Loans and receivables are categorised in rating categories 1-8 by probability of default (PD) of the receivable. Rating category 1 represents the receivables of the lowest risk and risk category 8 represents the receivables of the highest risk. Both the customer and the receivable are categorised as defaulted (rating category 8), if a default criteria described in accounting policies is met. Receivables categorised as defaulted are classified in stage 3. Loans and receivables and off-balance sheet items in high-risk rating categories 7 and 8 totalled 228,677 (298,119) thousand at the end of 2018.

RECEIVABLES BY RATING CATEGORY

Loans and receivables from customers by rating category and by ECL stage (IFRS 9) 31 Dec 2018

(EUR 1,000, gross value)	PD value					
Rating category	Lower	Upper	Stage 1	Stage 2	Stage 3	Total
1	0	0,15	334,836	476	-	335,312
2	0,15	0,30	1,291,494	1,224	-	1,292,718
3	0,30	0,80	554,970	6,746	-	561,716
4	0,80	1,50	586,802	10,721	-	597,522
5	1,50	5,00	515,769	56,072	-	571,840
6	5,00	25,00	100,680	139,055	-	239,735
7	25,00	100,00	314	91,785	-	92,099
8	100,00	100,00	-	194	130,389	130,583
Total			**3,384,864**	**306,272**	**130,389**	**3,821,525**

Loans and receivables from customers by rating category and by ECL stage (IFRS 9) 1 Jan 2018

(EUR 1,000, gross value)	PD value					
Rating category	Lower	Upper	Stage 1	Stage 2	Stage 3	Total
1	0	0,15	240,385	1,223	-	241,608
2	0,15	0,30	1,246,088	1,463	-	1,247,552
3	0,30	0,80	501,966	7,655	-	509,621
4	0,80	1,50	511,252	15,517	-	526,769
5	1,50	5,00	501,747	82,144	-	583,891
6	5,00	25,00	83,363	167,119	-	250,482
7	25,00	100,00	552	124,381	-	124,934
8	100,00	100,00	-	-	163,264	163,264
Total			**3,085,353**	**399,503**	**163,264**	**3,648,121**

Off balance-sheet commitments by rating category and by ECL stage (IFRS 9) 31 Dec 2018

(EUR 1,000, gross value)	PD value					
Rating category	Lower	Upper	Stage 1	Stage 2	Stage 3	Total
1	0	0,15	113,765	4,648	-	118,413
2	0,15	0,30	55,882	1,033	-	56,915
3	0,30	0,80	32,466	1,021	-	33,487
4	0,80	1,50	23,538	1,174	-	24,712
5	1,50	5,00	15,923	2,144	-	18,068
6	5,00	25,00	3,474	1,762	-	5,236
7	25,00	100,00	-	374	-	374
8	100,00	100,00	-	-	2,022	2,022
Total			**245,049**	**12,157**	**2,022**	**259,227**

Off balance-sheet commitments by rating category and by ECL stage (IFRS 9) 1 Jan 2018

(EUR 1,000, gross value)	PD value					
Rating category	Lower	Upper	Stage 1	Stage 2	Stage 3	Total
1	0	0,15	84,203	23,286	-	107,490
2	0,15	0,30	50,457	4,038	-	54,495
3	0,30	0,80	33,157	1,712	-	34,869
4	0,80	1,50	21,045	1,200	-	22,245
5	1,50	5,00	12,800	3,464	-	16,264
6	5,00	25,00	1,920	2,546	-	4,466
7	25,00	100,00	4	1,255	-	1,259
8	100,00	100,00	-	-	3,295	3,295
Total			**203,587**	**37,501**	**3,295**	**244,383**

Debt securities by rating category and by ECL stage (IFRS 9) 31 Dec 2018

(EUR 1,000, gross value)	PD value					
Rating category	Lower	Upper	Stage 1	Stage 2	Stage 3	Total
1	0	0,15	316,393	3,500	-	319,893
2	0,15	0,30	41,050	4,150	-	45,200
3	0,30	0,80	2,174	5,120	-	7,294
4	0,80	1,50	-	6,923	-	6,923
5	1,50	5,00	-	23,100	-	23,100
6	5,00	25,00	-	5,360	-	5,360
7	25,00	100,00	-	3,600	-	3,600
8	100,00	100,00	-	-	-	-
Total			**359,617**	**51,753**	**-**	**411,370**

Debt securities by rating category and by ECL stage (IFRS 9) 1 Jan 2018

(EUR 1,000, gross value)	PD value					
Rating category	Lower	Upper	Stage 1	Stage 2	Stage 3	Total
1	0	0,15	357,701	1,500	-	359,201
2	0,15	0,30	40,750	600	-	41,350
3	0,30	0,80	4,741	2,150	-	6,891
4	0,80	1,50	-	8,770	-	8,770
5	1,50	5,00	-	12,358	-	12,358
6	5,00	25,00	-	3,500	-	3,500
7	25,00	100,00	-	5,368	-	5,368
8	100,00	100,00	-	-	-	-
Total			**403,192**	**34,246**	**-**	**437,438**

4.1.4. Doubtful receivables and impairment losses

Non-performing and forborne exposures are categorized as doubtful receivables. Receivables that are less than 90 days past due but are in stage 3 by NOTE 2 accounting policies are included in unlikely to pay (UTP). Adoption of IFRS 9 resulted in change in the definition of doubtful receivables, which had a significant effect on UTP receivables. Forbearance is a temporary concession to contract terms due to customer's financial difficulties. Purpose of forbearance measures is to secure the customer's ability to pay and limit the credit risk of the receivables.

Doubtful receivables

(1 000 euroa, brutto)	31 Dec 2018 Loans and advances from credit institutions and customers	31 Dec 2018 Expected credit losses (IFRS 9)	1 Jan 2018 Loans and advances from credit institutions and customers	1 Jan 2018 Impairment losses (IAS 39)
Non-performing assets	134,084	22,862	67,956	20,437
Receivables over 90 days past due	41,648	9,815	44,285	13,240
Unlikely to pay	92,436	13,047	23,671	7,197
Forbearance	222,049	8,885	302,401	8,497

Receivables in stage 3 are covered mainly by residential real estate or other real estate. Loans categorised in stage 3 decreased 11.5 %.

Loan book in stage 3 by collateral type

(EUR 1,000, gross value)	31 Dec 2018 Credit balance	31 Dec 2018 Expected credit losses (IFRS 9)	1 Jan 2018 Credit balance	1 Jan 2018 Expected credit losses (IFRS 9)
Residential real estate	64,792	7,577	55,908	6,865
Other real estate	73,235	9,746	60,661	10,809
Financial collateral	564	293	480	72
Guarantee	3,717	1,842	5,030	1,647
Other collateral	2,448	1,432	4,515	2,096
Non-collateralized	2,494	1,464	3,787	1,377
Total	**147,249**	**22,354**	**130,382**	**22,866**

Expected credit losses decreased 0.7 per cent to EUR 30.6 million (EUR 30.8 million) during the financial period. Impairment losses on loans and receivables totaled EUR 23.3 million at the end of the previous financial year. Impairment losses have been measured according to IFRS 9 from 1 January 2018. Historical information on impairment losses have not been adjusted. More information on expected credit losses on loans and other receivables is provided in note 18 Impairment of financial assets.

4.2 Market risk

Market risk refers to the possibility of losses caused by changes in interest rates and market prices. The market risk types are interest rate, currency, equity and commodity risk. Interest rate risk of the banking book is the most significant market risk in the POP Bank Group's banking business. Interest rate risks arise from the banking book of member credit institutions, consisting of lending and deposits, wholesale market funding and investment and liquidity portfolios. In investment activities, a change in interest rates results in market risk through a change in the market prices of the securities. Currency risk refers to the effect of changes in foreign exchange rates on earnings or own funds. Equity risk refers to effects on earnings due to changes in the market prices of, for example, public equities and fund units. Commodity risk refers to the risk of losses due to changes in commodity prices.

4.2.1 Management of market risk

The objective of market risk management is to identify and assess market risks related to the business operations, mitigate the risks to an acceptable level and report regularly on them. The Board of Directors of the POP Bank Amalgamation's central institution confirms the market risk strategy and market risk management guidelines, which create the foundation for market risk management at the member credit institutions.

The Boards of Directors of the member credit institutions confirm their market risk strategy and market risk management guidelines in accordance with the market risk strategy of the central institution. Together with the market risk management guidelines, the strategy defines the member credit institution's risk appetite with regard to market risk and sets the maximum amounts for risk concentrations.

The capital adequacy management process is a central process for the measurement and monitoring of the market risk included in the banking book, involving the establishment of Pillar I and Pillar II capital provisions for market risk. Because the amalgamation does not engage in trading activities, Pillar I capital provision for investments is only held for credit and currency risk.

The taking of market risk has been limited within the amalgamation with regard to trading, interest rate risk, equity risk, currency risk, derivative contracts, structured products and commodity risk. The member credit institutions of the amalgamation do not engage in trading for own or customers' account, and the member credit institutions do not, as a rule, have a separate trading book. However, due to a specific need and with the permission of the central institution, an individual member credit institution may have a small trading book as referred to in article 94 of the EU's Capital Requirements Regulation.

Currency risk is not taken at all in lending; all loans are granted in euros. The banking operations of the amalgamation do not involve significant currency risks. Currency risk may arise to a small extent mainly from mutual fund holdings in the investment portfolio and covering transactions related to the central credit institution's international payments. The member credit institutions may only make investments in other currencies with a permission from the central institution's risk management function. Permission is also required for making new derivative contracts and investments in structured products. The use of derivatives is limited to hedging purposes only. Taking commodity risk is not allowed.

4.2.2 Interest rate risk in the banking book

Interest rate risk in the banking book refers to the negative effect of changes in interest rates on the market value of the amalgamation's balance sheet items and off-balance sheet items or net interest income. Interest rate risk arises from differences in the interest terms of receivables and liabilities and mismatches in interest rate repricing and maturity dates.

Interest rate risk in the amalgamation and its member credit institutions is monitored using the net present value method and the net interest income model. The net present value method measures how changes in interest rates change the calculated market value of balance sheet items. In the net present value method, the market values of each balance sheet item are expected to be formed as the present value of the cash flows generated by the instrument in question. The net interest income model predicts the future net interest income as market interest rates change.

The net interest income forecast is calculated at the reporting date using forward interest rates available in the market for the following five years. The amount of interest rate risk taken is assessed with the effect of diverse interest rate shocks on the net interest income and net present value. The effect of early loan prepayments and the behaviour of non-maturity deposits have been considered in the analysis.

Interest rate risk is managed primarily by planning the balance sheet structure, such as the interest rate fixing or maturity of assets and liabilities or by using hedging interest rate derivatives. There are only small amounts of derivative contracts left in the amalgamation and any new contracts have not been made during the year.

The risk-taking in the amalgamation's member credit institutions is limited with regard to interest rate risk with interest rate risk limits set by the Board of Directors for both the net interest income and the net present value of the balance sheet. In addition, the central institution's Board of Directors have set a common limit for the net interest income. The objective of interest rate management is to stabilise the interest rate risk involved in the amalgamation's balance sheet at a level where business is profitable but the income or capital adequacy of the amalgamation is not compromised even in the event of strong changes in the interest rate environment.

The interest rate sensitivity analysis of the banking book 31 December 2018

		Effect on earnings			
(Eur 1,000)	Change	1-12 months	13-24 months	25-36 months	Effect on equity
Interes rate risk	+1% point	12,041	23,042	26,105	65,642
Interes rate risk	-1% point	-7,367	-9,626	-11,878	-19,416

The interest rate sensitivity analysis of the banking book 31 December 2017

		Effect on earnings			
(Eur 1,000)	Change	1-12 months	13-24 months	25-36 months	Effect on equity
Interest rate risk	+1% point	7,579	17,915	21,374	63,399
Interest rate risk	-1% point	-4,355	-6,647	-10,156	-19,979

The effect on earnings has been calculated from the change in the net interest income.
The effect on equity has been calculated from the change in the present value of the balance sheet.

4.2.3 Investment and liquidity portfolio

The primary purpose of the investment activities of the member credit institutions is to invest their liquidity surplus and to maintain a liquidity portfolio. Market risk emerges in these investment activities. The market risk in the investment and liquidity portfolio consists of the counterparty risk of the investment and the general market price, interest rate and currency risks. Changes in share prices, interest rates and exchange rates affect the value and, therefore, yield of the investment portfolio.

The member credit institutions' objective in investing in securities is to obtain a competitive return on investment in terms of yield/risk ratio on a long term perspective. The member credit institutions invest in securities only in a way where the effect of changes in interest rates or share prices on profit will not threaten the capital adequacy or profitability of the member credit institution or the entire amalgamation.

The diversification of investments decreases the concentration risk arising from individual investments. The risks of the investment and liquidity portfolio are managed by diversifying investments in terms of timing, asset category, risk type and counterparty. The investment risks are also monitored through sensitivity analysis. The credit risk arising from investment activities is managed with counterparty limits. The Boards of Directors of the amalgamation's member credit institutions set risk limits for the composition of the investment and liquidity portfolio with regard to asset category and counterparty. Common limits for the same aspects have also been set by the Board of Directors of the central institution.

The development of the position of the investment portfolio and biggest counterparties at the amalgamation level are regularly reported to the Board of Directors of the central institution. The amalgamation has one counterparty within the POP Bank Group, POP Holding LLC, in which the amount of investments and other receivables exceed the large exposures limit of 10% of the capital of the amalgamation in accordance with the EU's Capital Requirements Regulation. The risk of the investment portfolio is assessed in relation to the earnings and own funds of the amalgamation.

Investment and liquidity portfolio

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Cash	12,980	12,664
Receivables from the central bank	68,137	70,179
Receivables from credit institutions payable on demand	18,017	19,525
Other receivables from credit institutions	50,893	15,739
Debt securities	425,481	454,128
from which financial assets at fair value through other comprehensive income	414,187	452,866
from which financial assets at fair value through profit or loss	11,294	1,262
Fund units	201,452	214,532
Public equity	3,872	3,926
Strategic shares	60,457	56,913
Other equity and shares	2,495	3,293
Investment and liquidity portfolio total	**843,784**	**850,900**

4.3 Liquidity risk

Liquidity risk refers to the capability of the POP Banks' amalgamation and its individual member credit institution to meet their commitments. Liquidity risk can be divided into short-term liquidity risk and long-term structural funding risk. Short-term liquidity risk refers to a situation in which an entity cannot without difficulty fulfill its liabilities to pay. Structural funding risk is a risk related to the availability and price of refinancing which arises when the maturities of receivables and liabilities differ from each other. Funding risk also arises if receivables and liabilities are concentrated on individual counterparties to too high a degree.

4.3.1 Management of liquidity risk

The liquidity needs of the member credit institutions communicated to the Board of Directors of the central institution and the executive management of the central credit institution Bonum Bank Plc are the starting point of the amalgamation's liquidity management.

The executive management of the central institution prepares the amalgamation's strategy and principles of liquidity management, which are determined based on the member credit institutions' liquidity needs and amalgamation-level risk appetite. The central institution's Board of Directors approves the liquidity strategy and the principles of liquidity management. In addition, the Board of Directors approves the funding plan and the liquidity contingency plan made by the central credit institution. The risk control function plans, develops and tests methods used in liquidity risk management. The central credit institution and its executive management assist the risk control function in this process. The central institution's executive management approves the liquidity strategy and the methods used in implementing the principles of liquidity management.

The executive management of the central credit institution is responsible for coordinating the implementation of the liquidity strategy at the amalgamation level, and it monitors and supervises the liquidity strategy implemented by the member credit institutions. The central credit institution coordinates the payment transactions of the member credit institutions and the acquisition and balancing of liquidity in the amalgamation. The task of the amalgamation's independent risk control function is to supervise and monitor the liquidity risk. The member credit institutions are responsible for implementing the liquidity strategy.

The central credit institution reports on the liquidity situation to the Board of Directors of the central credit institution. The Board of Directors of the central credit institution is responsible for monitoring the implementation of the liquidity strategy at the central credit institution and plan the liquidity coverage of the central credit institution in accordance with the amalgamation's liquidity strategy. The independent risk management function of the central institution reports on the liquidity position regularly to the Board of Directors of the central institution. The Board of Directors of the central institution takes the required measures based on the reporting it receives.

4.3.2 Short-term liquidity risk

Intra-day liquidity, liquidity reserve and liquidity coverage ratio are the central ways to limit and measure the liquidity risk of the amalgamation.

The amalgamation's central credit institution Bonum Bank Plc supervises the intraday liquidity coverage by monitoring the balances of the payment accounts of the member credit institutions. The member credit institutions follow continuously their intraday liquidity position. The key ratio for measuring short-term liquidity risk is the liquidity coverage ratio (LCR), specified in the EU's Capital Requirements Regulation. The minimum LCR requirement set in the Regulation was 100 per cent from 1 January 2018.

POP Bank Alliance Coop, the central institution of POP Banks' Amalgamation, applies a permission by the Finnish Financial Supervisory Authority to decide that the requirements laid down in the sixth part of the European Union's Credit Requirements Regulation (EU 575/2013) are not applied to its member credit institutions. The central credit institution Bonum Bank Plc manages the liquidity coverage requirement (LCR) of the amalgamation.

The Board of Directors of the amalgamation's central institution specifies the required LCR level for the amalgamation in order to ensure a moderate liquidity risk position. The central institution monitors the LCR indicator of the amalgamation. The amalgamation's LCR-eligible assets before value haircuts totaled EUR 364 088 (315 193) thousand on 31 December 2018, of which 22.3 (12.1) per cent were cash and balance at a central bank and 77.7 (87.9) per cent liquid level 1 assets of extremely high liquidity. The amalgamation's LCR indicator was 151 (143) per cent on 31 December 2018.

4.3.3 Structural funding risk

The funding risk arising through the maturity transformation of lending and borrowing is an essential part of the amalgamation's business operations. The business operations are based on deposits received by the member credit institutions from their customers, which are used to finance the member credit institutions' lending to customers.

Funding risk is measured by the lending-borrowing ratio and analysis by maturity class, which assesses the difference between the cash flows of the receivables and liabilities of each maturity class. Funding risk is managed by timing the cash flows of the balance sheet assets and liabilities to be equal by time category and by maintaining a sufficient liquidity buffer to cover time category-specific differences. The lending-borrowing ratio is also restricted through a limit set by the Board of Directors of the central institution.

During the financial period, the funding position of the Amalgamation remained strong. The level of loan-deposit ratio was still moderate and the availability of funding remained good. The amalgamation's funding is diversified into several small counterparties as the amalgamation obtains the refinancing it needs primarily as deposits from the public. The funding structure of the amalgamation has been diversified as the central credit institution entered the wholesale capital markets in 2016. In 2018, the central credit institution Bonum Bank Plc actively issued certificate of deposits as part of its 150 Million Euro domestic CD-program. At the end of the financial period, the amount of CD's issued was 42.5 Million Euros. Bonum Bank Plc has earlier issued a senior bond of 100 Million Euros as part of its 750 Million Euro domestic EMTN -program started in May 2016. Entering the wholesale capital markets diversifies the funding of the amalgamation and supports its growth. Long-term funding position is expected to continue its positive development, as the availability of funding continues to increase and providing liquidity to member credit institutions gets more efficient.

LCR disclosure template EU LIQ1

Consolidated EUR		Total weighted adjusted value (average)			
Quarter ending on		31 March 2018	30 June 2018	30 September 2018	31 December 2018
Number of data points used in the calculation of averages		12	12	12	12
21	LIQUIDITY BUFFER	346,400,001	322,916,684	302,087,127	301,045,970
22	TOTAL NET CASH OUTFLOWS	225,581,396	231,585,653	235,403,658	237,442,090
23	LIQUIDITY COVERAGE RATIO (%)	153.66 %	139.58 %	128.78 %	127.08 %

Maturity of financial assets 31.12.2018

(EUR 1,000)	less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash	81,117	-	-	-	81,117
Loans and receivables from credit institutions	55,107	12,803	1,000	-	68,910
Loans and receivables from customers	320,298	46,999	342,075	2,794,643	3,504,014
Derivatives	4	-	-	-	4
Investments	395,153	92,242	145,677	61,020	694,093
Total	**851,679**	**152,044**	**488,752**	**2,855,663**	**4,348,137**

Maturity of financial assets 31.12.2017

(EUR 1,000)	less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash	82,843	-	-	-	82,843
Loans and receivables from credit institutions	29,008	7,750	2,500	-	39,258
Loans and receivables from customers	96,721	271,194	1,164,680	1,792,768	3,325,363
Derivatives	3	217	449	-	669
Investments	338,767	124,181	180,719	35,921	679,587
Total	**547,342**	**403,341**	**1,348,348**	**1,828,689**	**4,127,720**

Maturity of financial liabilities 31.12.2018

(EUR 1,000)	less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to credit institutions	2,959	12	59	-	3,030
Liabilities to customers	3,280,449	307,371	79,196	4,017	3,671,034
Debt securities issued	19,998	122,400	-	-	142,399
Total	**3,303,407**	**429,783**	**79,255**	**4,017**	**3,816,462**

Maturity of financial liabilities 31.12.2017

(EUR 1,000)	less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to credit institutions	6,882	12	59	12	6,964
Liabilities to customers	2,972,599	419,638	162,110	10	3,554,357
Debt securities issued	-	9,996	99,717	-	109,713
Total	**2,979,481**	**429,646**	**261,886**	**22**	**3,671,034**

4.4 Real estate risk

Real estate risk refers to impairment, income or loss risk related to real estate property. Real estate investments are not included in the core business of the amalgamation's banking operations. The properties owned by the amalgamation of POP Banks are divided into owner-occupied properties and the investment properties.

Owner-occupied properties are recognized under property, plant and equipment and investment properties under investment assets on the balance sheet. Both properties used by member credit institutions of the amalgamation and investment properties are measured at acquisition cost less depreciation and impairment in the financial statements. The value of real estate assets is moderate compared to the balance sheet and own funds of the amalgamation. The balance sheet value of investment properties accounted for 0.8% of the balance sheet (0.8%).

4.5 Operational risks

Operational risks refer to the risk of financial loss or other negative effects caused by insufficient or failed internal processes, lacking or incorrect operating methods, personnel, systems or external factors. All business processes, including credit and investment processes, involve operational risks. The amalgamation also has operational risk through outsourced IT functions and financial administration function.

The Board of Directors of the central institution approves the principles of operational risk management and the key guidelines concerning operational risk. The target level for risks are limited. Certain operational risks are covered with insurance coverage. Risks caused by malfunctions of information systems are prepared for by continuity planning.

The identification and assessment of risks and assessment of the functionality and adequacy of control and management methods are key aspects in operational risk management. The member credit institutions included in the amalgamation assess the likelihood of the realisation of operational risks and their effects in operational risk self-assessments, which have been prepared based on the most significant business processes.

The member credit institutions report on the operational risks, interruptions and losses concerning their operations annually to the central institution's risk control function. Furthermore, the member credit institution report the results of their self-assessments of operational risks to the risk control function. The risk control function regularly assesses the nature of the operational risks it has observed and the likelihood of the realisation of the risks in the entire amalgamation. 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.

The risk control function annually reports the losses incurred due to the realisation of operational risks and a summary of the self-assessments of operational risks to the Board of Directors of the amalgamation's central institution and the executive management of the central institution.

4.6 Strategic risk

Strategic risk arises from choosing a wrong strategy, unsuccessful implementation of strategy, changes in the competitive environment or responding too slowly to changes.

Strategic risks are minimized by means of regular updates of strategic and annual plans. Analyses of the condition and development of the POP Bank Group, as well as other analyses and estimates concerning the development of the sector, competition and financial operating environment are utilized in the planning.

5. INSURANCE RISKS

5.1 General principles of risk management

Finnish P&C Insurance Ltd carries out insurance operations within the POP Bank Group. At Finnish P&C Insurance Ltd, risk management refers to a process that aims to identify possible risks, assess and limit the likelihood and effects of the identified risks, enable reacting to changes in the market situation and generally to ensure the reliability, safety and efficiency of operations.

The company's Board of Directors is responsible for the organisation of risk management. The Board of Directors annually approves a risk management plan that contains the main outlines on the company's risk management and a description of the company's risk profile. The Own Risk and Solvency Assessment (ORSA) is an essential part of risk management, and the company uses it to maintain a view of its capital needs in the long and medium term. When organizing risk management, particular attention is paid to the company's strategic choices, objectives of insurance and investment activities and capital adequacy.

The appropriate organization of risk management is supported e.g. by internal control as a whole, investment plan, continuity plan related to data security, the company's internal monitoring and reporting mechanisms and internal audit.

5.2 Organisation, responsibility and supervision of risk management

The responsibilities related to the implementation of risk management and the distribution of work are documented in the risk management plan. The Managing Director of Finnish P&C Insurance Ltd is responsible for the performance of all risk management and internal audit measures. The Board of Directors supervises the operational implementation of the measures.

5.3 Risk management processes and risks

Finnish P&C Insurance Ltd's risk management is a continuous activity and it covers all of the company's operations. Risk management is embedded in the planning and conduct of the company's business through internal guidelines and operating models, among other things. These include customer and risk selection guidelines, reporting practices and approval limits and procedures.

The regular risk survey process is a process that supports comprehensive risk management and is tied to the company's annual operations; in it, the risks are identified and assessed, decisions are made on the methods of preparing for the risk, and a person responsible for risk is appointed. Risks and preparations for them are monitored and assessed as part of the regular risk management process.

The company maintains solvency capital that is sufficient in terms of quantity and quality in case of financial losses caused by risks. Solvency is monitored continuously in the short and long term. In connection with annual planning, a comprehensive view of the company's long and medium-term capital requirements based on the company's action plans, risk profile and solvency requirements in the Own Risk and Solvency Assessment (ORSA). The report on the assessment is approved by the Board of Directors of the Company.

5.4 Risk management reporting

Risks are reported to the Board of Directors in accordance with the practices recorded in the risk management plan. An extensive survey of risks is reviewed annually by a meeting of the Board of Directors in connection with the review of the risk management plan. The Board of Directors approves the company's Own Risk and Solvency Assessment (ORSA).

The Board of Directors regularly receives reports on the company's finances, business operations, solvency and investment activities.

5.5 Insurance risks

5.5.1 Specification of risks and risk management strategy

The policyholder transfers the insured risk to the insurer with the insurance contract. The claims incurred of Finnish P&C Insurance Ltd is composed of the number and extent of losses indemnified from the insured risks and their random variation. The claims incurred are further divided into losses arising from property risk and personnel risk.

The most significant insurance risks are associated with the pricing of insurance policies, subscription of insurance policies (customer and risk selection) and sufficiency of the technical provisions.

In particular, the pricing risk of insurance policies is linked to the accurate basic pricing of motor vehicle insurance. The risk is prepared for by monitoring the profitability of operations, risk-based pricing and by enabling a technically and process-wise flexible pricing system.

The functioning of customer and risk selection is continuously monitored and changes are made to the guidelines as necessary. The risk level is kept moderate, and customer selection is also guided with targeted pricing changes.

The sufficiency risk of technical provisions is particularly associated with the development of the loss ratio of motor vehicle insurance and personal injuries with significant costs indemnified based on traffic insurance. The bases of determination of the technical provisions is specified in the technical provision calculation bases. The technical provision calculation bases have been determined in a securing way. The calculation bases are assessed annually and amended, if necessary. In addition, the effect of individual losses has been restricted through Excess-of-Loss reinsurance contracts covering the company's entire product portfolio.

5.5.2 Risk management processes

The claim situation, claims incurred and major losses are monitored at the weekly level and claim proportions at the monthly level. The development of sales, the customer base and acquisition of new customers are monitored at the weekly level. Technical provisions, solvency capital and its minimum limits are monitored at the monthly level. Technical provision and capital adequacy calculations are made by the actuary function. Risks are reported to the company's Executive Board and the Board of Directors and, as agreed, to the Finnish Financial Supervisory Authority.

5.5.3 Actuarial assumptions

The bases of calculation used by Finnish P&C Insurance Ltd with justifications are submitted to the Financial Supervisory Authority by the end of the financial year.

The portion of premiums written for the post-balance sheet date is recorded as provision for unearned premiums. The amount of the provision for unearned premiums is calculated of the contractual amendments on the contract level. Corresponding recognition and reservation practices are also used for reinsurance premiums.

Claims unsettled on the balance sheet date for losses already occurred and their settlement expenses – including claims incurred but not yet reported – are reserved in the provision for unpaid claims. Provisions for unpaid claims consist of both claims reserved for individual cases and a collective reservation proportioned to previous Insurance premium revenue.

During the financial year, two annuity losses were confirmed for the company.

5.5.4 Quantitative information about insurance risks.

Technical provisions totaled EUR 32,488 (29,273) thousand at the end of the reporting period.

Premiums earned for the financial year, claims incurred and technical provisions 31 December 2018

(EUR 1,000)	Gross	Ceded to reinsurers	Retained
Premiums earned	36,460	810	35,650
Claims incurred	26,883	1,666	25,217
Provision for unearned premiums	15,704	-	15,704
Provision for claims outstanding	21,055	4,272	16,783

Premiums earned for the financial year, claims incurred and technical provisions 31 December 2017

(EUR 1,000)	Gross	Ceded to reinsurers	Retained
Premiums earned	34,862	971	33,891
Claims incurred	26,979	1,541	25,438
Provision for unearned premiums	13,281	-	13,281
Provision for claims outstanding	18,597	2,605	15,992

5.6 Investment risks

5.6.1 Specification of risks and risk management strategy

The purpose of the investment activities of Finnish P&C Insurance Ltd is to secure the company's capital and to obtain a reasonable return on the defined investment horizon. Investment activities should not risk company profitability, solvency and liquidity.

Market risk associated with investment assets refers to loss risk or unfavorable change in the economic situation, which is directly or indirectly due to the fluctuation of the market prices of the financial instrument. Market risks include share risk, real estate value change risk and currency risk. Credit loss risk refers to the counterparty risk of investment assets and liquid assets and the resulting fluctuation of value.

5.6.2 Risk management processes

The Board of Directors of Finnish P&C Insurance Ltd annually confirms the investment plan specifying the investment categories, return objectives, currency restrictions, liquidity objectives, maintenance of investment assets and authorities.

Investment activities are the responsibility of the person responsible for investments within the organisation, who is a subordinate of the Managing Director. The management of the investment portfolio has been outsourced. Investment decisions are made by the Board of Directors, Managing Director, manager responsible for investments and treasurer within their mandate. The mandate of the portfolio manager is specified in a written agreement. The portfolio manager regularly reports to the company.

5.6.3 Quantitative information about the risk structure of the investment portfolio

At the end of 2017, investment assets including cash at bank totaled EUR 44.1 million (37.7) at fair value. Only liquid euro-denominated direct and indirect interest rate instruments, indirect equity investments and deposits were used in the investments. Fixed income investments were allocated to money market funds, bonds issued by credit institutions and companies and bank deposits. At the end of the year, the average maturity of fixed income investments was 1.8 years (1.7).

5.7 Liquidity risk

Liquidity risk refers to the risk of the company not having liquid assets to meet its future liability to pay within due time. With regard to Finnish P&C Insurance Ltd, liquidity risk refers to claims paid and the company's other liabilities to pay. The company's liabilities are primarily comprised of technical provisions covered by liquid financial instruments. With regard to other liabilities, the company monitors the liquidity position through cash flow analysis. With regard to major losses, liquidity is secured by way of reinsurance.

5.8 Operational risks

5.8.1 Specification of risks and risk management strategy

Operational risk refers to exposure to risk of loss caused by own operations and related choices. Operational risks can be related to internal processes, IT systems or personnel, for example. With regard to external factors, operational risk can arise from events causing a partner company's inability to perform, for example.

The governance and management system of Finnish P&C Insurance Ltd and internal control as a whole play a key role in the management of operational risks.

5.8.2 Risk management processes

Operational risks are surveyed as part of Finnish P&C Insurance Ltd's risk management process described above. The management of operational risks is supported through internal control and occupational health and safety measures. The reporting and monitoring models make it possible to observe an increase in the probability or effect of risks.

Risks related to the company's IT systems and technical solutions have been prepared, for example, by documenting the IT practices and preparing a continuity plan. A 24-hour oncall and alarm practice ensures swift reaction in emergencies.

5.8.3 Key operational risks

Due to the nature of the company's operations and business mode, the key operational risks concern the company's IT system structure and activities supporting or developing it. The performance and operational stability of the IT system as a whole has been monitored closely.

Personnel risk has been mitigated by decreasing dependence on partners and their employees. In spite of the development of the in-house organisation, the organisation is still relatively small and competence is concentrated. Because of this, the company's personnel risk is significant.

5.9 5.9 Key other risks

Other risks herein refer to all identified risks that have not been specifically mentioned above. Other risks are included in the scope of the company's risk management process and other key risks include strategic risks, legal risks and data security risks.

Examples of previous risks include possible denial of service attacks or other attempts to prevent or interfere with the company's online business. The other instance is that the business environment quickly change to other way than the company's strategy is prepared.

NOTE 5 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 POP Bank Group's accounting policies under IFRS. 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.

Presentation of Insurance income statement has been changed in financial period starting 1 January 2018. Comparative information has been amended accordingly. Further information on changes in presentation is introduced in Note 2.

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. The most significant institutions included in other operations are POP Holding Ltd and POP Bank Alliance Coop.

POP BANK GROUP'S OPERATING SEGMENTS 2018

Income statement 1 January–31 December 2018

(EUR 1,000)	Banking	Insurance	Segments total
Net interest income	65,101	306	65,407
Net commissions and fees	30,380	-505	29,875
Net investment income	2,066	-380	1,686
Net income from non-life insurance	-	10,433	10,433
Other operating income	3,927	372	4,299
Total operating income*	**101,473**	**10,227**	**111,700**
Personnel expenses	-30,588	-7,107	-37,695
Other operating expenses	-50,852	-2,375	-53,227
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-4,534	-1,413	-5,947
Total operating expenses	**-85,974**	**-10,895**	**-96,869**
Impairment losses on loans and receivables	-3,217	21	-3,195
Profit before tax	**12,283**	**-647**	**11,635**
Income tax expense	-2,587	-49	-2,637
Profit for the period	**9,695**	**-696**	**8,999**
*of which external	101,404	10,227	111,631
of which internal	69	-	69

Balance Sheet December 31, 2018

(EUR 1,000)	Banking	Insurance	Segments total
Assets			
Liquid assets	81,117	-	81,117
Loans and receivables from credit institutions	68,826	10,174	79,000
Loans and receivables from customers	3,475,795	-	3,475,795
Derivative contracts	4	-	4
Investment assets	766,678	36,418	803,096
Intangible assets	4,101	5,980	10,081
Property, plant and equipment	28,654	31	28,685
Other assets	15,665	8,965	24,629
Tax assets	3,340	15	3,355
Total assets	**4,444,179**	**61,582**	**4,505,762**
Liabilities			
Liabilities to credit institutions	2,959	-	2,959
Liabilities to customers	3,672,303	-	3,672,303
Non-life insurance liabilities	-	32,488	32,488
Debt securities issued to the public	142,399	-	142,399
Supplementary cooperative capital	21,416	-	21,416
Other liabilities	31,131	3,600	34,731
Tax liabilities	21,506	192	21,698
Total liabilities	**3,891,713**	**36,279**	**3,927,993**

THE POP BANK GROUP'S OPERATING SEGMENTS 2017

Income statement 1 January–31 December 2017

(EUR 1,000)	Banking	Insurance	Segments total
Net interest income	62,796	349	63,144
Net commissions and fees	28,676	-458	28,219
Net investment income	13,960	1,047	15,007
Net income from non-life insurance	-	8,453	8,453
Other operating income	3,424	415	3,840
Total operating income*	**108,856**	**9,807**	**118,663**
Personnel expenses	-29,830	-6,089	-35,919
Other operating expenses	-48,023	-2,922	-50,946
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-4,852	-1,465	-6,317
Total operating expenses	**-82,705**	**-10,477**	**-93,182**
Impairment losses on loans and receivables	-4,991	-	-4,991
Profit before tax	**21,160**	**-670**	**20,489**
Income tax expense	-3,866	-24	-3,889
Profit for the period	**17,294**	**-694**	**16,600**
*of which external	108,729	9,807	118,536
of which internal	127	-	127

Balance Sheet 31 Dec 2017

(EUR 1,000)	Banking	Insurance	Segments total
Assets			
Liquid assets	50,945	-	50,945
Loans and receivables from customers	67,062	8,945	76,007
Derivative contracts	3,327,879	-	3,327,879
Investment assets	647	-	647
Non-life insurance assets	809,091	34,763	843,854
Intangible assets	3,538	6,763	10,301
Property, plant and equipment	30,994	31	31,025
Other assets	17,688	11,548	29,235
Tax assets	1,905	8	1,913
Total assets	**4,309,749**	**62,058**	**4,371,806**
Liabilities			
Liabilities to credit institutions	6,882	-	6,882
Liabilities to customers	3,560,233	-	3,560,233
Non-life insurance liabilities	-	29,250	29,250
Debt securities issued to the public	109,713	-	109,713
Supplementary cooperative capital	26,219	-	26,219
Other liabilities	27,905	6,737	34,642
Tax liabilities	25,369	193	25,562
Total liabilities	**3,756,321**	**36,180**	**3,792,501**

RECONCILIATIONS

Income

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Segments' total income	111,700	118,663
Eliminations of internal items between segments	69	127
Unallocated income, other functions	9,214	8,269
Eliminations of internal items between segments and other functions	-9,340	-8,341
Group's total income	**111,643**	**118,718**

Result

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Segments' total result	8,999	16,600
Unallocated items	-71	-856
Group's total result	**8,928**	**15,744**

Assets

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Total assets of the segments	4,505,762	4,371,806
Eliminations of internal items between segments	-4,485	-4,973
Unallocated assets, other functions	73,408	73,560
Eliminations of internal items between segments and other functions	-165,167	-164,555
Group's total assets	**4,409,518**	**4,275,838**

Liabilities

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Segments' total liabilities	3,927,993	3,792,501
Eliminations of internal items between segments	-4,485	-4,973
Unallocated liabilities, other functions	7,075	7,333
Eliminations of internal items between segments and other functions	-4,853	-4,672
Group's total liabilities	**3,925,730**	**3,790,189**

NOTE 6 Net interest income

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Interest Income		
Loans and advances to credit institutions	28	43
Loans and advances to customers	70,037	70,038
Debt securities		
Measured at fair value through profit or loss	378	77
Measured at fair value through other comprehensive income	3,635	-
Available-for-sale (IAS 39)	-	4,769
Hedging derivatives	678	2,031
Other interest income	938	606
Total interest income	**75,695**	**77,565**
Of which positive interest expense	2	0
Interest expenses		
Liabilities to credit institutions	-191	-389
Liabilities to customers	-9,143	-13,356
Debt securities issued to the public	-958	-976
Other interest expenses	-12	-27
Total interest expenses	**-10,304**	**-14,748**
Of which negative interest income	-892	-705
Net interest income	**65,391**	**62,817**
Interest income from financial assets impaired due to credit risk (IFRS 9)	4,028	-
Interest income from impaired loans (IAS 39)	-	419

NOTE 7 Net commissions and fees

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Commissions and fees		
Lending	8,038	7,987
Deposits	253	431
Payment transfers	17,049	15,266
Legal services	2,168	2,083
Intermediated services	3,127	2,787
Issuing guarantees	538	609
Funds	2,358	2,291
Other commission income	1,002	890
Total commissions and fees	**34,532**	**32,343**
Commissions expenses		
Payment transfers	-3,751	-3,376
Other commission expenses	-990	-852
Total commission expenses	**-4,742**	**-4,228**
Net commissions and fees	**29,790**	**28,115**

NOTE 8 Net investment income

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Financial assets measured at fair value through profit or loss		
Debt securities		
Capital gains and losses	-12	-4
Impairment gains and losses	-588	137
Shares and participations		
Dividend income	3,282	-
Capital gains and losses	-227	-
Impairment gains and losses	-2,831	-
Total	**-378**	**133**
Financial assets measured at fair value through other comprehensive income		
Debt securities		
Capital gains and losses	20	-
Transferred from fair value reserve	972	-
Shares and participations		
Dividend income*	343	-
Total	**1,336**	**-**
Available-for-sale financial assets (IAS 39)		
Debt securities		
Capital gains and losses	-	140
Transferred from fair value reserve	-	2,200
Debt securities total	**-**	**2,339**
Shares and participations		
Dividend income	-	2,312
Capital gains and losses	-	506
Impairment losses	-	-211
Transferred from fair value reserve	-	9,961
Shares and participations total	**-**	**12,567**
Total	**-**	**14,907**
Net income from hedge accounting	**15**	**3**
Net income from foreign exchange trading	**315**	**168**
Net income from investment property		
Rental income	3,089	3,224
Capital gains and losses	372	539
Other income from investment property	189	128
Maintenance charges and expenses	-2,577	-2,491
Depreciations and amortisation of investment property	-1,239	-2,042
Other expenses from investment property	-12	-10
Total	**-177**	**-651**
Net income investments total	**1,111**	**14,559**

Net investment income includes net income from financial instruments except interest income from bonds recognised in net interest income. Previously net income from financial assets measured at fair value through profit or loss was reported as a separate item and net investment income from non-life insurance was reported in the item net income from non-life insurance.

*) Dividend income from equity shares measured at fair value through other comprehensive income held in the end of the financial period.

NOTE 9 Net insurance income

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Insurance premium revenue		
Premiums written	38,884	35,244
Change in the provision for unearned premiums	-2,424	-382
Gross insurance premium revenue	**36,460**	**34,862**
Ceded to reinsurers	-810	-971
Total insurance premium revenue	**35,650**	**33,891**
Claims incurred		
Claims paid	-24,426	-23,133
Change in provision for unpaid claims	-2,457	-3,846
Total claims incurred, gross	**-26,883**	**-26,979**
Ceded to reinsurers	1,666	1,541
Total claims incurred	**-25,217**	**-25,438**
Net insurance Income	**10,433**	**8,453**

Insurance category-specific information

(EUR 1,000)		Premiums written before share ceded to reinsurers	Insurance premium revenue before share ceded to reinsurers	Claims incurred before share ceded to reinsurers	Operating expenses before reinsurers' commissions and shares of profit	Ceded to reinsurers	Balance on technical account before change in equalisation provisions
Other accident and health	2018	1,717	1,569	-987	-482	-29	71
	2017	1,201	1,081	-195	-367	-19	500
	2016	973	899	-613	-318	-14	-46
Motor vehicle	2018	19,674	18,908	-12,804	-5,807	916	1,212
	2017	19,259	19,619	-14,104	-5,886	616	245
	2016	20,358	20,177	-14,458	-6,663	411	-533
Land vehicles	2018	12,343	11,488	-9,609	-3,529	-22	-1,671
	2017	11,155	10,923	-9,435	-3,409	-20	-1,942
	2016	10,320	9,891	-8,890	-3,378	-7	-2,384
Vessels, aircraft, rail stock and transport	2018	598	599	-532	-184	-1	-119
	2017	540	505	-388	-165	-1	-50
	2016	484	450	-436	-158	-4	-149
Fire and other property loss	2018	3,716	3,090	-2,484	-949	-6	-349
	2017	2,384	2,105	-2,600	-729	-4	-1,228
	2016	1,876	1,699	-1,656	-614	8	-564
Third party	2018	232	224	-95	-69	0	59
	2017	202	181	-17	-62	0	102
	2016	168	155	-63	-55	1	38
Legal expenses	2018	388	360	-268	-111	-1	-19
	2017	309	274	-194	-94	0	-14
	2016	250	230	-150	-82	2	0
Other	2018	215	223	-103	-68	0	51
	2017	194	174	-46	-59	0	68
	2016	156	145	-60	-51	1	34
Direct insurance total	2018	**38,884**	**36,460**	**-26,883**	**-11,199**	**856**	**-765**
	2017	**35,244**	**34,862**	**-26,979**	**-10,771**	**570**	**-2,318**
	2016	**34,585**	**33,646**	**-26,327**	**-11,319**	**397**	**-3,603**
Total	2018	**38,884**	**36,460**	**-26,883**	**-11,199**	**856**	**-765**
	2017	**35,244**	**34,862**	**-26,979**	**-10,771**	**570**	**-2,318**
	2016	**34,585**	**33,646**	**-26,327**	**-11,319**	**397**	**-3,603**
Balance on technical account	2018						**-765**
	2017						**-2,318**
	2016						**-3,603**

NOTE 10 Other Operating Income

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Rental income from owner-occupied properties	638	673
Capital gains on owner-occupied properties	48	55
Recognition of Deposit Guarantee Fund contribution	3,092	2,532
Other income	1,141	1,513
Total other operating income	**4,918**	**4,773**

The fee collected by the Financial Stability Board for deposit guarantee purposes will be covered with payments made to the old Deposit Guarantee Fund pursuant to the Credit Institutions Act. Contributions paid to the old fund are recognised as income when the old fund makes a payment to the new fund and the same amount of contribution is recognised in other operating expenses.

NOTE 11 Personnel Expenses

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Wages and salaries	-33,942	-32,291
Indirect personnel expenses	-765	-905
Pension expenses		
Defined contribution plans	-6,385	-7,230
Defined benefit plans	-677	706
Total personnel expenses	**-41,769**	**-39,720**

Remuneration to related parties is presented in Note 41. Other information about remuneration is presented in Note 3 Governance and management.

NOTE 12 Other Operating Expenses

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Other administrative expenses		
Other personnel expenses	-3,209	-3,057
Office expenses	-4,881	-4,722
ICT expenses	-20,264	-19,244
Telecommunications	-3,153	-3,152
Entertainment and marketing expenses	-4,390	-4,644
Other administrative expenses total	**-35,897**	**-34,819**
Other operating expenses		
Rental expenses	-2,414	-2,106
Expenses arising from owner-occupied properties	-3,639	-3,819
Capital losses on owner-occupied properties	-21	-27
Insurance and security expenses	-3,814	-3,222
Audit fees	-409	-292
Other services	-1,075	-1,184
Other operating expenses	-987	-1,533
Other operating expenses total	**-12,359**	**-12,183**
Total other operating expenses	**-48,257**	**-47,003**

Audit fees		
Statutory audit	-272	-249
Audit-related services	-2	-6
Tax advisory	-	-11
Other expert services	-135	-26
Total audit fees	**-409**	**-292**

Insurance and security expenses include EUR 3 092 (2,532) thousand of contribution collected by the Financial Stability Board for the deposit guarantee fund. Contributions from the old Deposit Guarantee Fund recognised as income are presented in other operating income.

Other than audit services from KPMG Oy Ab to companies in POP Bank Group totalled to EUR 135 thousand during the finacial year 2018.

NOTE 13 Depreciation, Amortisation and Impairment of Property, Plant and Equipment and Intangible Assets

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Depreciation and amortisation on property, plant and equipment and intangible assets		
Plant	-8	-6
Buildings	-1,855	-2,328
Machinery and equipment	-975	-949
Intangible assets	-3,996	-4,015
Other	-11	-16
Total depreciation and amortisation of property, plant and equipment and intangible assets	**-6,845**	**-7,314**
Impairment losses on property, plant and equipment		
Owner-occupied properties	-	-202
Impairment losses on property, plant and equipment total	**-**	**-202**
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets total	**-6,845**	**-7,516**

NOTE 14 Income Tax

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Current tax	-3,146	-4,544
Tax for prior financial years	-41	224
Other direct taxes	-16	-12
Change in deferred taxes	562	588
Total income tax expense	**-2,640**	**-3,745**

Reconciliation between tax expense in the income statement and tax expense calculated using the applicable tax rate

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Profit before tax	11,569	19,488
Income tax rate	20 %	20 %
Tax calculated at the tax rate	-2,314	-3,898
+ Tax-exempt income	100	61
- Non-deductible expenses	-61	-244
+ Deductible expenses not included in the profit	22	43
+ Use of tax losses carried forward from previous years	6	4
- Deferred tax assets not recognised on losses	-199	-213
+/- Difference due to the differing tax rate of foreign companies	-7	12
+/- Other	-146	266
+/- Tax for prior financial years	-41	224
Tax expense in the income statement	**-2,640**	**-3,745**

NOTE 15 Net Income and Expenses for Financial Assets and Financial Liabilities by Measurement Category

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Financial assets		
Financial assets at fair value through profit or loss		
Interest income and expenses	378	77
Fair value gains and losses	-3,441	53
Dividend income	3,282	-
Capital gains and losses	-240	-4
Total	**-21**	**126**
Financial assets measured at fair value through other comprehensive income		
Interest income and expenses	3,635	-
Transferred from fair value reserve	972	-
Dividend income held in the end of the financial period	343	-
Capital gains and losses	20	-
Expected credit loss	118	-
Total	**5,088**	**-**
Measured at amortised cost (IFRS 9)/Loans and receivables (IAS 39)		
Interest income and expenses	70,066	70,081
Other income	8,291	9,553
Impairment of loans and receivables (IAS 39)	-	-1,643
Expected credit loss (IFRS 9)	1,434	-
Final credit losses	-4,748	-3,349
Total	**75,043**	**74,643**
Available-for-sale financial assets (IAS 39)		
Interest income and expenses	-	4,695
Transferred from fair value reserve	-	12,161
Dividend income	-	2,312
Capital gains and losses	-	646
Impairment losses	-	-211
Total	**-**	**19,601**
Financial liabilities		
Measured at amortised cost		
Interest income and expenses	-10,292	-14,746
Total	**-10,292**	-14,746
Derivative contracts		
Interest income and expenses from fair value hedges	678	2,031
Net income from fair value hedging	15	3
Other income and expenses	-	84
Total	**693**	**2,118**
Net income from foreign exchange operation	**315**	**168**
Other operating income and expenses (net)	-59,257	-62,423
Profit before tax	**11,569**	**19,488**

NOTES TO ASSETS

NOTE 16 Classification of financial assets and financial liabilities

Financial assets 31 December 2018

(EUR 1,000)	Measured at amortised cost	Measured at fair value through profit or loss	Hedging deriva-tives	Measured at fair value through other compre-hensive income	Expected credit loss	Total carrying amount
Liquid assets	81,117	-	-	-	-	81,117
Loans and receivables from credit institutions	74,630	-	-	-	-5	74,625
Loans and receivables from customers	3,504,014	-	-	-	-30,704	3,473,310
Derivative contracts	-	-	4	-	-	4
Debt securities	-	11,294	-	442,502	*)	453,796
Shares and participations	-	215,922	-	3,751	-	219,673
Financial assets total	**3,659,761**	**227,215**	**4**	**446,253**	**-30,709**	**4,302,523**
Other assets						106,995
Total assets at 31 Dec 2018						**4,409,518**

*) Expected credit loss of EUR 1,303 thousand from debt securities have been recorded in the fair value reserve.

The most significant equity instruments measured at fair value through other comprehensive income are investment in shares of Samlink Ltd.

Financial assets 31 December 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	50,945	-	-	-	50,945
Loans and receivables from credit institutions	71,156	-	-	-	71,156
Loans and receivables from customers	3,325,363	-	-	-	3,325,363
Derivative contracts	-	-	647	-	647
Debt securities	-	1,262	-	480,675	481,937
Shares and participations	-	-	-	232,413	232,413
Total	**3,447,464**	**1,262**	**647**	**713,088**	**4,162,461**
Other assets					113,376
Total assets at 31 Dec 2017					**4,275,838**

Financial liabilities 31 December 2018

(EUR 1,000)	Other financial liabilities	Total carrying amount
Liabilities to credit institutions	3,030	3,030
Liabilities to customers	3,666,543	3,666,543
Debt securities issued to the public	142,399	142,399
Supplementary cooperative capital	21,416	21,416
Financial liabilities total	**3,833,387**	**3,833,387**
Other than financial liabilities		92,342
Total liabilities at 31 Dec 2018		**3,925,730**

Financial liabilities 31 December 2017

(EUR 1,000)	Other financial liabilities	Total carrying amount
Liabilities to credit institutions	6,964	6,964
Liabilities to customers	3,554,357	3,554,357
Debt securities issued to the public	109,713	109,713
Supplementary cooperative capital	26,219	26,219
Total	**3,697,252**	**3,697,252**
Other liabilities		92,936
Total liabilities at 31 Dec 2017		**3,790,189**

NOTE 17 Fair values by valuation technique

FAIR VALUE HIERARCHY LEVELS OF ITEMS RECURRENTLY RECOGNISED AT FAIR VALUE

Items recurrently measured at fair value 31 December 2018

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value
Ar fair value through profit or loss				
Shares and participations	208,786	-	7,136	215,922
Debt securities	5,494	-	5,800	11,294
Derivative contracts	-	4	-	4
At fair value through other comprehensive income				
Shares and participations	-	-	3,751	3,751
Debt securities	244,669	196,027	1,806	442,502
Total	**458,949**	**196,031**	**18,493**	**673,472**

Items recurrently measured at fair value 31 December 2017

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value
Measured at fair value through profit or loss				
Debt securities	-	-	1,262	1,262
Derivative contracts	-	647	-	647,298
Available-for-sale financial assets				
Shares and participations	221,931	-	10,383	232,314
Debt securities	222,323	251,961	6,490	480,774
Total	**444,253**	**252,609**	**18,135**	**714,997**

FAIR VALUE HIERARCHY LEVELS OF ITEMS RECOGNIZED AT AMORTISED COST

Assets measured at amortised cost 31 December 2018

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Measured at amortised cost					
Loans and receivables	-	3,567,550	-	3,567,550	3,547,935
Investment property	-	-	49,357	49,357	34,428
Total	**-**	**3,567,550**	**49,357**	**3,616,907**	**3,582,363**

Liabilities measured at amortised cost 31 December 2018

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Measured at amortised cost					
Liabilities to credit institutions and customers	-	3,633,527	-	3,633,527	3,669,572
Other financial liabilities	142,925	21,416	-	164,341	163,815
Total	**142,925**	**3,654,943**	**-**	**3,797,868**	**3,833,387**

Items measured at amortised cost 31 December 2017

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets					
Loans and receivables	-	3,426,049	-	3,426,049	3,396,519
Other than financial assets					
Real estates	-	-	41,619	41,619	34,902
Total financial assets measured at amortised cost	**-**	**3,426,049**	**41,619**	**3,467,668**	**3,431,421**
Financial liabilities					
Other financial liabilities	111,382	3,573,765	-	3,685,147	3,697,252
Total liabilities measured at amortised cost	**111,382**	**3,573,765**	**-**	**3,685,147**	**3,697,252**

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. POP Bank Group has applied IFRS 9 Financial Instruments standard from 1 January 2018. The classification and measurement of financial instruments is described in more detail in Note 2 POP Bank Group's accounting policies.

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 if quotations are regularly available. This group included all securities with publicly quoted prices.

Level 2 includes financial instruments measures 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 instument 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 teghniques 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.

During the reporting period, securities of EUR 370 thousand have been transferred from hierarchy level 3 to hierarchy level 1.

Changes in financial assets recurrently measured at fair value classified into level 3

(EUR 1,000)	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total
Carrying amount 31 Dec 2017	1,262	16,873	18,135
Restatement due to implementation of IFRS 9	8,711	-8,711	-
Carrying amount 1 Jan 2018	**9,973**	**8,162**	**18,135**
+ Purchases	5,533	782	6,315
- Sales	-2,435	-417	-2,852
- Matured during the financial year	-448	-1,748	-2,196
+/- Realised changes in value recognised in income statment	35	-4	31
+/- Unrealised changes in value recognised in the income statement	278	-	278
+/- Changes in value recogmised in other comprehensive income	-	-848	-
	-	-	-
- Transfers to levels 1 and 2	-	-370	-370
Carrying amount at the end of period	**12,936**	**5,557**	**18,493**

SENSITIVITY ANALYSIS OF FINANCIAL ASSETS AT LEVEL 3

31 December 2018

(EUR 1,000)	Carrying amount	Possible effect on equity capital Positive	Negative
Financial assets at fair value through profit or loss	12,936	1,128	-1,128
Financial assets at fair value through other comprehensive income	5,557	663	-663
Total	**18,493**	**1,792**	**-1,792**

31 December 2017

(EUR 1,000)	Carrying amount	Possible effect on equity capital Positive	Negative
Available-for-sale financial assets	18,585	1,624	-1,624
Total	**18,585**	**1,624**	**-1,624**

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 Impairment losses on financial assets

Changes in expected credit loss (ECL) during the financial period are presented in the tables below.

Receivables from customers and off-balance sheet commitments

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2018	**3,461**	**5,745**	**23,517**	**32,723**
Transfers to stage 1	299	-2,557	-3,933	**-6,192**
Transfers to stage 2	-125	1,306	-2,971	**-1,790**
Transfers to stage 3	-114	-452	5,719	**5,153**
Increases due to origination	1,700	1,102	1,355	**4,157**
Decreases due to derecognition	-544	-708	-4,473	**-5,725**
Changes due to change in credit risk (net)	-636	-236	5,480	**4,608**
Decreases due to write-offs	-	-	-1,646	**-1,646**
Total	580	-1,545	-469	-1,434
ECL 31 Dec 2018	**4,042**	**4,200**	**23,048**	**31,289**

Debt securities

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2018	**130**	**1,291**	**-**	**1,421**
Transfers to stage 1	5	-51	-	-46
Transfers to stage 2	-6	106	-	100
Increases due to origination	86	360	-	446
Decreases due to derecognition	-66	-152	-	-218
Changes due to change in credit risk (net)	-14	-385	-	-398
Total	4	-122	-	-118
ECL 31 Dec 2018	**134**	**1,170**	**-**	**1,303**

Impairment losses recorded during the reporting period

(EUR 1,000)	1 Jan-31 Dec 2018	1 Jan-31 Dec 2017
Change of ECL due to write-offs	1,646	-
Change of ECL, receivables from customers and off-balance sheet items	-211	-
Change of ECL, debt securities	117	-
Increases in impairment losses	-	-6,236
Reversals of impairment losses	-	1,416
Change in collectively assessed impairment losses	-	-102
Reversals of impairment losses from final credit losses	-	3,280
Final credit losses	-4,747	-3,349
Impairment losses on the financial period total	**-3,195**	**-4,991**

Accrued impairment losses on loans and receivables in the balance sheet (IAS 39)

(EUR 1,000)	Individual impairment	Collective impairment	Total
Impairment losses 1 January 2017	18,782	2,884	21,667
+ Increases in impairment losses	6,236	-	6,236
- Reversals of impairment losses	-1,416	-	-1,416
+/- Change in collectively assessed impairment losses	-	101	102
- Reversals of impairment losses from final credit losses	-3,280	-	-3,280
Impairment losses 31 December 2017	**20,323**	**2,986**	**23,309**

Accrued impairment losses on available-for-sale financial assets in the balance sheet (IAS 39)

(EUR 1,000)	Debt securities	Shares and participations	Total
Impairment losses 1 January 2017	375	3,705	4,081
+ Increases in impairment losses	-	211	211
- Reversals of impairment losses	-	-320	-320
Impairment losses 31 December 2017	**375**	**3,596**	**3,972**

NOTE 19 Liquid assets

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Cash	12,980	12,664
Receivables from central banks repayable on demand	68,137	38,281
Total cash and cash equivalents	**81,117**	**50,945**

Cash and cash equivalents comprise cash assets and cheque account with the Bank of Finland.

NOTE 20 Loans and receivables

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Loans and receivables from credit institutions		
Deposits		
Repayable on demand	23,737	23,504
Other	50,888	47,652
Total loans and advances to credit institutions	**74,625**	**71,156**
Loans and advances to customers		
Loans	3,390,444	3,245,635
Loans granted from government funds	4,812	5,960
Guarantees	466	594
Used overdrafts	42,195	38,980
Credit card receivables	35,393	32,373
Other receivables	-	1,822
Total loans and advances to customers	**3,473,310**	**3,325,363**
Total loans and receivables	**3,547,935**	**3,396,519**

NOTE 21 Derivative Contracts and Hedge Accounting

Nominal values of the underlying instruments of derivative contracts held for hedging purposes and fair values of derivative contracts 31 December 2018

	Nominal values/residual maturity				Fair values
(EUR 1,000)	< 1 year	1-5 years	> 5 years	Total	Assets
Fair value hedging					
Interest rate derivatives					
Interest rate swaps	15,000	-	-	15,000	4
Hedging derivatives total	**15,000**	**-**	**-**	**15,000**	**4**

(EUR 1,000)	1 Jan - 31 Dec 2018
Change in the fair value of the hedged item	-4

31 December 2017

	Nominal values/residual maturity				Fair values
(EUR 1,000)	< 1 year	1-5 years	> 5 years	Total	Assets
Fair value hedging					
Interest rate derivatives					
Interest rate swaps	30,000	15,000	-	45,000	647
Hedging derivatives total	**30,000**	**15,000**	**-**	**45,000**	**647**

(EUR 1,000)	1 Jan - 31 Dec 2017
Change in the fair value of the hedged item	-684

POP Bank Group has hedged the interest rate risk of borrowings from changes in fair value through interest rate derivatives and applies hedge accounting to all hedging relationships.

NOTE 22 Investment assets

(EUR 1,000)	31 Dec 2018	31 Dec 2017
At fair value through profit or loss		
Debt securities	11,294	1,262
Shares and participations	215,922	-
At fair value through other comprehensive income		
Debt securities	442,502	-
Shares and participations	3,751	-
Available-for-sale financial assets (IAS 39)		
Debt securities	-	480,675
Shares and participations	-	232,413
Investment properties	34,428	34,902
Investment assets total	**707,897**	**749,252**

Investments on 31 December 2018

	At fair value through profit or loss		At fair value through other comprehensive income		
(EUR 1,000)	Debt securities	Shares and participations	Debt securities	Shares and participations	Total
Quoted					
Public sector entities	-	-	257,453	-	257,453
Other	11,294	208,786	185,050	-	405,129
Other					
Other	-	7,136	-	3,751	10,887
Investments total	**11,294**	**215,922**	**442,502**	**3,751**	**673,469**

Investments on 31 December 2017

	Debt securities measured at fair value through profit or loss	Available-for-sale debt securities	Available-for-sale financial assets			
(EUR 1,000)		At fair value	At fair value	At cost	Total	Total
Quoted						
Public sector entities	-	56,284	-	-	-	56,284
Other	222	165,249	222,086	-	222,086	387,557
Other						
Public sector entities	-	234,968	-	-	-	234,968
Other	1,040	24,174	-	10,326	10,326	35,541
Investments total	**1,262**	**480,675**	**222,086**	**10,326**	**232,413**	**714,350**

Changes in investment property

(EUR 1,000)	2018	2017
Acquisition cost 1 January	48,307	48,062
+ Increases	982	1,128
- Decreases	-903	-1,430
+/- Transfers	429	548
Acquisition cost 31 December	**48,816**	**48,307**
Accumulated depreciation and impairment 1 January	-13,406	-11,464
+/- Accumulated depreciation on decreases and transfers	257	100
- Depreciation	-1,208	-1,185
- Impairment losses	-30	-857
Accumulated depreciation and impairment 31 December	**-14,388**	**-13,406**
Carrying amount 1 January	34,902	36,598
Carrying amount 31 December	34,428	34,902

NOTE 23 Investments in Associates and Joint Ventures

	Industry	Holding % 31 Dec 2018	Holding % 31 Dec 2017	% of votes 31 Dec 2018	% of votes 31 Dec 2017
PP Laskenta Ltd	Services	25 %	-	25 %	-

	31 Dec 2018	31 Dec 2017
Acquisition cost 1 Jan	-	-
+ additional acquistions	175	-
+/- share of profit for the financial year	-9	-
Acquisition cost	**166**	**-**

On 31 August 2018, POP Bank Alliance Coop acquired 25 per cent of PPLaskenta Ltd, company providing accounting and regulatory reporting services to customers in financial sector. All the owners of the company, including POP Bank Alliance Coop, are also customers of the company.

NOTE 24 Intangible Assets

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Information systems	6,500	8,070
Other intangible assets	2,801	1,993
Incomplete intangible assets	1,916	940
Total intangible assets	**11,217**	**11,003**

The most significant intangible assets of the POP Bank Group are comprised of expenses resulting from the acquisition of non-life insurance and banking information systems. At the end of the financial year 2018, the carrying amount of the non-life insurance information system totalled EUR 5,252 (6,301) thousand.

Impairment testing of the non-life insurance system has been carried out in accordance with IAS 36. As the result of the testing, the recoverable amount exceeds the carrying amount of the intangible asset.

Changes in intangible assets 2018

(EUR 1,000)	Information systems	Other intangible assets	Incomplete intangible assets	Total
Acquisition cost 1 January	16,680	7,166	940	24,787
+ Increases	212	2,081	1,916	4,210
- Decreases	-150	-	-	-150
+/- Transfers	36	903	-940	-
Acquisition cost 31 December	**16,779**	**10,151**	**1,916**	**28,847**
Accumulated depreciation and impairment 1 January	-8,610	-5,174	-	-13,784
+/- Accumulated depreciation on decreases and transfers	150	-	-	150
- Depreciation	-1,819	-2,177	-	-3,996
Accumulated depreciation and impairment 31 December	**-10,279**	**-7,350**	**-**	**-17,630**
Carrying amount 1 January	8,070	1,993	940	11,003
Carrying amount 31 December	6,500	2,801	1,916	11,217

Changes in intangible assets 2017

(EUR 1,000)	Information systems	Other intangible assets	Incomplete intangible assets	Total
Acquisition cost 1 January	16,499	6,520	315	23,334
+ Increases	181	294	1,053	1,529
- Decreases	-	-76	-	-76
+/- Transfers	-	428	-428	-
Acquisition cost 31 December	**16,680**	**7,166**	**940**	**24,787**
Accumulated depreciation and impairment 1 January	-6,814	-2,954	-	-9,768
- Depreciation	-1,796	-2,219	-	-4,015
Accumulated depreciation and impairment 31 December	**-8,610**	**-5,174**	**-**	**-13,784**
Carrying amount 1 January	9,685	3,566	315	13,566
Carrying amount 31 December	8,070	1,993	940	11,003

NOTE 25 Property, Plant and Equipment

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Owner-occupied properties		
Land and water	2,802	2,797
Buildings	24,463	26,508
Machinery and equipment	2,012	2,714
Other tangible assets	748	769
Construction in progress	-	240
Total property, plant and equipment total	**30,025**	**33,028**

Changes in property, plant and equipment 2018

(EUR 1,000)	Owner-occupied properties	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost 1 January	55,081	19,180	975	240	75,476
+ Increases	234	343	4	-	581
- Decreases	-1,047	-4,750	-15	-2	-5,813
+/- Transfers	-196	5	-	-238	-429
Acquisition cost 31 December	**54,072**	**14,778**	**965**	**-**	**69,815**
Accumulated depreciation and impairment 1 January	-25,776	-16,466	-206	-	-42,448
+/- Accumulated depreciation on decreases and transfers	832	4,675	-	-	5,507
- Depreciation	-1,863	-975	-11	-	-2,849
Accumulated depreciation and impairment 31 December	**-26,807**	**-12,766**	**-217**	**-**	**-39,790**
Carrying amount 1 January	29,304	2,714	769	240	33,028
Carrying amount 31 December	27,265	2,012	748	-	30,025

Changes in property, plant and equipment 2017

(EUR 1,000)	Owner-occupied properties	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost 1 January	56,694	18,659	962	-	76,315
+ Increases	676	814	13	240	1,743
- Decreases	-1,742	-292	-	-	-2,034
+/- Transfers	-547	-1	-	-	-548
Acquisition cost 31 December	**55,081**	**19,180**	**975**	**240**	**75,476**
Accumulated depreciation and impairment 1 January	-24,834	-15,703	-174	-	-40,711
+/- Accumulated depreciation on decreases and transfers	1,488	186	-	-	1,674
- Depreciation	-2,334	-949	-16	-	-3,299
- Impairment losses	-96	-	-15	-	-112
Accumulated depreciation and impairment 31 December	**-25,776**	**-16,466**	**-206**	**-**	**-42,448**
Carrying amount 1 January	31,860	2,956	788	-	35,604
Carrying amount 31 December	29,304	2,714	769	240	33,028

NOTE 26 Other Assets

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Payment transfer receivables	157	83
Accrued income and prepaid expenses		
Interest	9,117	11,100
Other accrued income and prepaid expenses	5,043	5,105
Insurance operations	8,368	10,876
Other	3,995	4,264
Other assets total	**26,680**	**31,429**

NOTE 27 Deferred Taxes

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Tax assets		
Deferred tax assets	2,309	2,202
Income tax receivables	2,169	813
Total tax assets	**4,478**	**3,015**
Tax liabilities		
Deferred tax liabilities	21,560	24,698
Income tax liability	138	864
Total tax liabilities	**21,698**	**25,562**

Deferred tax assets

(EUR 1,000)	31 Dec 2017	IFRS 9 transition 1 Jan 2018	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2018
At fair value (IFRS 9)	-	3,236	-3,142	445	540
Available-for-sale financial assets (IAS 39)	209	-204	-4	-	-
Collective impairment (IAS 39)	596	-596	-	-	-
Real estate depreciation adjustments	947	-	170	-	1,117
Defined benefit pension plans	101	-	135	70	307
Tax losses	149	-	-84	-	64
Other	-	-	140	-	140
Consolidation	201	-42	-17	-	142
Total deferred tax assets	**2,202**	**2,394**	**-2,802**	**515**	**2,309**

(EUR 1,000)	1 Jan 2017	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2017
Available-for-sale financial assets	338	-57	-73	209
Collective impairment	577	19	-	596
Real estate depreciation adjustments	738	208	-	947
Defined benefit pension plans	65	-141	177	101
Tax losses	208	-60	-	149
Consolidation	-193	394	-	201
Total deferred tax assets	**1,734**	**364**	**104**	**2,202**

The companies belonging to the POP Bank Group have EUR 34,445 (33,520) thousand of losses for which no deferred tax assets have been recognised. The losses will expire in 2021–2028.

Deferred tax liabilities

(EUR 1,000)	31 Dec 2017	IFRS 9 transition 1 Jan 2018	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2018
Appropriations	21,858	-	-1,177	-	20,681
At fair value (IFRS 9)	-	2,831	-2,032	-247	552
Available-for-sale financial assets	2,371	-2,371	-	-	-
Intangible assets	469	-	-188	13	295
Consolidation	-	-	33	-	33
Total deferred tax liabilities	**24,698**	**460**	**-3,364**	**-234**	**21,560**

(EUR 1,000)	1 Jan 2017	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2017
Appropriations	21,886	-28	-	21,858
Available-for-sale financial assets	2,946	-	-575	2,371
Intangible assets	665	-196	-	469
Total deferred tax liabilities	**25,497**	**-224**	**-575**	**24,698**

Amounts recognised in other comprehensive income and related deferred taxes 2018

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	-4,555	679	-3,876
Defined benefit plans	-350	70	-280
Amounts recognised in other comprehensive income, total	**-4,905**	**749**	**-4,156**

Amounts recognised in other comprehensive income and related deferred taxes 2017

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	-2,370	502	-1,868
Defined benefit plans	-886	177	-709
Amounts recognised in other comprehensive income, total	**-3,256**	**679**	**-2,577**

NOTES TO LIABILITIES AND EQUITY CAPITAL

NOTE 28 Liabilities to credit institutions and customers

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Liabilities to credit institutions		
Repayable on demand	1,553	6,896
Not repayable on demand	1,477	67
Total liabilities to credit institutions	**3,030**	**6,964**
Liabilities to customers		
Deposits		
Repayable on demand	3,053,293	2,787,538
Not repayable on demand	608,594	760,415
Other financial liabilities		
Not repayable on demand	4,655	6,405
Total liabilities to customers	**3,666,543**	**3,554,357**
Total liabilities to credit institutions and customers	**3,669,572**	**3,561,321**

NOTE 29 Insurance contract liabilities

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Provision for unearned premiums	15,704	13,281
Ceded to reinsurers	-	-
Provisions for unpaid claims	21,055	18,597
Ceded to reinsurers	-4,272	-2,605
Total insurance contract liabilities	**32,488**	**29,273**

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 30 Debt securities issued to the public

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Debt securities issued to the public	99,913	99,717
Other		
Certificates of deposits	42,485	9,996
Total debt securities issued to the public	**142,399**	**109,713**

Bonum Bank Plc, the central credit institution of POP Banks, issued a three-year unsecured bond of EUR 100 million with floating interest rate on the financial period 2016. The bond is listed on the Helsinki stock exchange. In addition, certificates of deposits with nominal value of EUR 42,5 million were out on 31 Dec 2018.

NOTE 31 Supplementary Cooperative Capital

(EUR 1,000)	2018	2017
Supplementary cooperative capital 1 January	26,219	37,512
Refunds of supplementary cooperative capital	-4,403	-8,323
Converted into POP Shares	-399	-2,970
Supplementary cooperative capital 31 December	**21,416**	**26,219**
of which cancelled supplementary cooperative contributions	2,671	4,304

In accordance with national corporate legislation, the cooperative capital of the member cooperative bank includes cooperative contributions, supplementary cooperative contributions and POP Shares. In the IFRS statements, the contributions are classified as assets or liabilities in accordance with IAS 32 Financial Instruments: Presentation.

The supplementary contribution is refunded within six months of the end of the financial year based on which the refund can be made for the first time. If the refund cannot be made in full based on the provisions of the Co-Operatives Act or the Co-Operative Bank Act, the refund may take place subsequently if it is possible based on the next three financial statements.

The supplementary cooperative contributions can be converted into POP Shares, which are classified as equity capital in IFRS financial statements. During the financial year 2018, a total of EUR 399 (2,970) thousand of supplementary cooperative capital was converted into POP Shares. More detailed information about POP Shares is provided in Note 33.

NOTE 32 Reservations and Other Liabilities

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Expected credit loss reservation	580	-
Other liabilities		
Pension liabilities	1,533	506
Direct and reinsurance liabilities	-3,339	469
Payment transfer liabilities	13,392	13,910
Accrued expenses		
Interest payable	3,076	3,916
Advances received	2,275	2,332
Liabilities on card transactions	3,334	1,367
Other accrued expenses	17,305	15,624
Total other liabilities	**38,157**	**38,124**

Defined benefit pension plans and related liabilities are presented in Note 37.

NOTE 33 Equity Capital

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Total equity attributable to the owners of the POP Bank Group		
Cooperative capital, cooperative contributions	9,344	9,217
of which cancelled cooperative contributions	499	497
Cooperative capital, POP Shares	55,326	53,574
of which cancelled POP Shares	4,715	3,956
Restricted reserves		
Reserve fund	52,494	52,494
Reserves based on the Articles of Association/rules	3,341	2,143
Fair value reserve		
Shares and participations	-720	-
Debt securities	162	-
Available-for-sale financial assets (IAS 39)	-	8,849
Non-restricted reserves		
Other non-restricted reserves	96,829	94,294
Retained earnings		
Profit (loss) for previous financial years	257,637	248,873
Profit (loss) for the financial year	8,949	15,759
Total equity attributable to the owners of the POP Bank Group	**483,361**	**485,201**
Non-controlling interests	428	448
Total equity capital	**483,788**	**485,649**

Cooperative capital and classification of contributions as capital equity

The POP Bank Group's cooperative capital is composed of cooperative contributions and POP Shares.

Cooperative contributions

The capital equity of the POP Bank Group includes the cooperative contributions paid by the members of the member cooperative banks to the member cooperative banks, the payment of interest and refund of capital of which the bank has an unconditional right to refuse. The contribution conveys the member the right to participate in the governance and decision-making of the member cooperative bank. On 31 December 2018, POP Banks had a total of 89 (87) thousand members.

POP Shares

The POP Bank Group's equity capital also includes investments made by the members of the member cooperative banks in POP Shares issued by the member cooperative banks. In accordance with its' rules, the cooperative bank has an unconditional right to refuse from the payment of interest on POP Shares and refund of capital.

The member banks of the POP Bank Group issued a total of EUR 5,708 (12,582) thousand of POP Shares during the financial year 2018. Of this, the share new sales amounted to EUR 5,309 (9,612) thousand and converted supplementary cooperative contributions amounted to EUR 399 (2,970) thousand. POP Shares totalled to EUR 55,326 (53,574) thousand in 31 December 2018.

The targeted interest rate on POP Shares is 2.0% - 2.5%. The interest to be paid is confirmed after the end of the financial year at the cooperative meeting according to the proposal of the Board of Directors. The interest rate objective can change annually. POP Shares do not convey voting rights or other rights to the member.

A cooperative contribution and POP Share may be refunded within 12 months after the end of the financial year when membership terminated or POP Share was cancelled. If the refund of the cooperative contribution or POP Share cannot be made in full based on the provisions of the Co-Operatives Act or the Co-Operative Bank Act, the refund may take place subsequently if it is possible based on the next three financial statements.

Supplementary cooperative contributions

The supplementary cooperative contributions included in equity capital in the cooperative banks' national financial statements are classified as a liability in the IFRS financial statements. The supplementary cooperative contributions can be converted into POP Shares, which are classified as equity capital in IFRS financial statements. More details on the supplementary cooperative contributions are provided in Note 31.

Restricted reserves

Restricted reserves include the reserve fund, fair value reserve and other restricted reserves. The reserve fund consists of profits transferred to it during previous periods and of the portion transferred to it from member cooperative banks' revaluation reserves and loan loss provisions. The reserve fund can be used to cover losses for which non-restricted equity is not sufficient.

Non-restricted reserves

Other non-restricted reserves consist of retained earnings based on the Articles of Association or other rules, or decisions taken by the general meeting or cooperative meeting.

Retained earnings

Retained earnings are earnings of Group entities accrued in previous financial years that have not been transferred to equity reserves or distributed to shareholders. Retained earnings also contain voluntary provisions and depreciation difference included in the separate financial statements of Group entities less deferred tax.

Specification of changes in fair value reserve: debt securities

(EUR 1,000)	2018	2017
Fair value reserve 31 Dec 2017	11,061	-
Deferred taxes 31 Dec 2017	-2,212	-
Fair value reserve 31 Dec 2017	**8,849**	**-**
Restatement due to implementation of IFRS 9	-7,043	-
Deferred taxes restatement due to implementation of IFRS 9	1,340	-
Fair value reserve 1 Jan	**3,146**	**10,717**
Fair value change, increases	4,226	8,648
Fair value change, decreases	-6,082	1,147
Transferred to the income statement	-972	-12,161
Other changes	-	-4
Expected credit loss	-118	-
Deferred taxes	-39	502
Fair value reserve 31 Dec	**162**	**8,849**

Specification of changes in fair value reserve: Shares and participations

(EUR 1,000)	2018	2017
Restatement due to implementation of IFRS 9	214	-
Deferred taxes restatement due to implementation of IFRS 9	-43	-
Fair value reserve 1 Jan	**171**	**-**
Fair value change, increases	384	-
Fair value change, decreases	-1,249	-
Deferred taxes	-26	-
Fair value reserve 31 Dec	**-720**	**-**

NOTE 34 Collateral given

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Given on behalf of own liabilities and commitments		
Pledges	2,546	2,665
Mortgages	400	400
Collateral given to the Bank of Finland	16,805	16,389
Total collateral given	**19,751**	**19,454**

NOTE 35 Off-balance-sheet commitments

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Guarantees	20,332	21,251
Loan commitments	218,609	206,217
Total off-balance sheet commitments	**238,941**	**227,468**

NOTE 36 Offsetting of Financial Assets and Financial Liabilities

Financial assets subject to netting agreements which are not offset on the balance sheet 2018

(EUR 1,000)	Financial instruments	Security held as collateral	Cash held as collateral	Net amount
Derivative contracts	4	-	-	4
Total financial assets	**4**	**-**	**-**	**4**

Financial assets subject to netting agreements which are not offset on the balance sheet 2017

	Financial instruments	Security held as collateral	Cash held as collateral	Net amount
Derivative contracts	647	-	-	647
Total financial assets	**647**	**-**	**-**	**647**

NOTE 37 Pension Liabilities

In addition to statutory cover (TyEL), the POP Bank Group has defined benefit pension schemes for the management and persons who have been members of the OP Bank Group Pension Fund. The retirement age of those covered by these insurance policies varies from 60 to 65 years.

In the pension scheme, the amount of assets describes the part of the obligation for which the insurance company is liable, and it is calculated using the same discount rate as the liability. The assets included in the scheme include 100% acceptable insurance policies. Because the liabilities have been insured, the company is not liable for significant risks. The company remains primarily liable for increases in pensions tied to the employment pension index and the effect of changes in the discount rate and pay increases on the net liabilities.

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Current service cost	238	181
Past service cost	579	-
Net interest	3	3
Costs recognised in income statement	**819**	**184**
Remeasurements	350	886
Comprehensive income before tax	**1,169**	**1,070**
Present value of obligation 1 January	19,049	19,665
Current service cost	238	181
Past service cost	579	-
Interest expense	298	288
Actuarial gains (-)/losses (+) arising from experiential adjustments	1,615	-408
Actuarial gains (-)/losses (+) arising from changes in economic expectations	-599	177
Benefits paid	-1,213	-854
Present value of obligation 31 December	**19,966**	**19,049**
Fair value of plan assets 1 January	18,543	19,339
Interest income	295	285
Return on plan assets excl. items in interest expense/income	666	-1,117
Benefits paid	-1,213	-854
Contributions paid	142	890
Fair value of plan assets 31 December	**18,433**	**18,543**
Present value of obligation	19,966	19,049
Fair value of plan assets	18,433	18,543
Net liability in balance sheet 31 December	**1,533**	**506**
Net liability in balance sheet 1 January	506	326
Costs recognised in income statement	819	184
Contributions paid	-142	-890
Remeasurements in comprehensive income statement	350	886
Net liability in balance sheet 31 December	**1,533**	**506**
Actuarial assumptions		
Discount rate, %	1.80 %	1.60 %
Pay development, %	2.00 %	2.00 %
Pension increase, %	1.76%/0.00%	1.8 %/0.0 %
Inflation rate, %	1.52 %	1.56 %

Sensitivity analysis - net liabilities

The table below presents the effects of the assumed changes on net liabilities. In calculating the sensitivities, the other assumptions are assumed to remain unchanged.

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Change of +0.5% in discount rate	-90	-31
Change of -0.5% in discount rate	100	34
Pay development +0.5%	126	119
Pay development -0.5%	-125	-119
Change of +0.5% in pension increase	1,173	1,141
Change of -0.5% in pension increase	-1,107	-1,076

Compensating the early retirement reduction of statutory pension insurance (TYEL) increases the pension liability. The effect is shown on the row: “Past service cost”.

Duration based on the weighted average of the obligation is 13.1 years.

The POP Bank Group expects to contribute approximately EUR 290 thousand to defined benefit plans in 2018.

NOTE 38 Operating Leases

Group as lessee, future minimum lease payments

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Less than one year	1,121	1,444
Within 1–5 years	849	2,094
More than five years	734	941
Future minimum lease payments total	**2,704**	**4,478**

Group as lessor, future minimum lease payments receivable

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Less than one year	530	451
Within 1–5 years	237	115
More than five years	1,764	1,312
Future minimum lease payments receivable total	**2,531**	**1,878**

The POP Bank Group has leased out e.g. residential and business premises it owns.

The minimum rents payable include the minimum rents payable based on irrevocable rental agreements. The non-cancellable portion of leases in effect until further notice is the lease in accordance with the term of notice.

NOTE 39 Entities Included in The POP Bank Group's Financial Statements

The structure of the POP Bank Group is described in Note 1 the POP Bank Group and the scope of the IFRS Financial Statements.

Technical parent company

The table below presents the member banks comprising the technical parent company of the POP Bank Group and their balance sheet total (FAS).

(EUR 1,000) Name of the bank	Domicile	Balance sheet 31 Dec 2018	Balance sheet 31 Dec 2017
Hannulan Osuuspankki	Hankasalmi	31,067	29,607
Honkajoen Osuuspankki	Honkajoki	55,188	53,576
Isojoen Osuuspankki	Isojoki	67,366	63,121
Jämijärven Osuuspankki	Jämijärvi	59,506	59,114
Kannonkosken Osuuspankki	Kannonkoski	55,408	53,199
Keuruun Osuuspankki	Keuruu	190,917	187,274
Konneveden Osuuspankki	Konnevesi	129,458	124,496
Kosken Osuuspankki	Koski Tl	172,793	173,331
Kurikan Osuuspankki	Kurikka	285,108	287,088
Kyrön Seudun Osuuspankki	Pöytyä	102,641	93,755
Kyrönmaan Osuuspankki	Isokyrö	261,186	254,679
Kyyjärven Osuuspankki	Kyyjärvi	76,910	73,186
Lammin Osuuspankki	Hämeenlinna	177,635	173,775
Lanneveden Osuuspankki	Saarijärvi	53,335	46,029
Lappajärven Osuuspankki	Lappajärvi	105,981	106,749
Lapuan Osuuspankki	Lapua	244,238	240,113
Lavian Osuuspankki	Pori	74,660	73,717
Liedon Osuuspankki	Lieto	123,703	122,164
Nivalan Järvikylän Osuuspankki	Nivala	89,950	86,205
Piikkiön Osuuspankki	Kaarina	137,980	110,329
Pohjanmaan Osuuspankki	Kauhava	465,913	446,678
Reisjärven Osuuspankki	Reisjärvi	161,188	148,062
Sievin Osuuspankki	Sievi	158,287	145,410
Siilinjärven Osuuspankki	Siilinjärvi	321,069	313,285
Suupohjan Osuuspankki	Kauhajoki	814,444	803,766
Tiistenjoen Osuuspankki	Lapua	40,588	37,914

Subsidiaries and associates consolidated in the POP Bank Group

		Group's holding	
	Domicile	31 Dec 2018	31 Dec 2017
POP Bank Alliance Coop (central institution of the Group)	Helsinki	100.0 %	100.0 %
Bonum Bank Ltd (wholly-owned subsidiary of POP Bank Alliance Coop)	Espoo	100.0 %	100.0 %
POP Holding Ltd	Helsinki	100.0 %	100.0 %
Finnish P&C Insurance Ltd (wholly-owned subsidiary of POP Holding Ltd)	Espoo	100.0 %	100.0 %
Pajker AS	Audru, Viro	67.5 %	67.5 %
White Beach Development AS (subsidiary of Pajker AS)	Audru, Viro	72.5 %	72.5 %
PP-Laskenta Ltd	Espoo	25.0 %	-

Joint arrangements

The Group's holdings of less than 100% in mutual real estate companies and housing companies are treated as joint operations in the POP Bank Group's financial statements. Both owner-occupied properties and investment properties are managed via the companies.

Joint arrangements consolidated in the POP Bank Group (key real estate companies)

	Group's holding	
	31 Dec 2018	31 Dec 2017
Asunto Oy Keuruun Tarhiansuu	36.9 %	36.9 %
Asunto Oy Tampereen Kauppakatu 14	23.9 %	23.9 %
Asunto Oy Tampereen Koskilehmus	21.9 %	21.9 %
Kiinteistö Oy Kosken Pankkitalo	53.6 %	53.6 %
Kiinteistö Oy Lehto-Center	38.6 %	38.6 %
Kiinteistö Oy Liedon Torinkulma	62.5 %	62.5 %
Kiinteistö Oy Riihikuiva	82.7 %	82.7 %
Kiinteistö Oy Siilinjärven Pankkikeskus	66.5 %	66.5 %

Changes in holdings in subsidiaries

During the financial year 2018 no acquisitions or sales of subsidiaries were done.

Non-controlling interests in subsidiaries

There are no significant non-controlling interests in the subsidiaries owned by POP Bank Group at the time of the financial statements.

NOTE 40 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)	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Assets				
Loans	3,693	3,053	3,597	2,911
Liabilities				
Deposits	1,765	1,542	1,577	1,064
Off-balance-sheet commitments				
Loan commitments	99	156	-	-
Guarantees	4,696	370	4,767	657
Investments to other than cooperative contributions	230	224	98	98

	Key persons in management		Other	
(EUR 1,000)	2018	2017	2018	2017
Income and expenses				
Interest income	40	29	64	58
Interest expenses	8	8	3	2
Insurance premium revenue	12	12	4	2

Compensation to key persons in management

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Short-term employee benefits	2,260	2,369
Post-employment benefits	47	49
Total compensation to key persons in management	**2,307**	**2,418**

NOTE 41 Events After the Closing Date

The POP Bank Group will renew its basic banking system in cooperation with the Savings Bank Group and Oma Savings Bank Plc. The project will be launched in the spring of 2019 and is expected to continue until 2021.

POP Bank Group has selected T24 from Temenos as the new core banking system. It will be supplied by the US-based company Cognizant, one of the world's leading providers of digital services. The agreement signed on 23 January 2019 covers borrowing and lending, as well as payment services. As a part of the agreement, Cognizant will acquire 100 per cent of the shares of Samlink Ltd. The divestment still requires approval from the Ministry of Economic Affairs and Employment and an inspection by the Finnish Financial Supervisory Authority. The divestment will not impact POP Bank Group's result for 2019, since the shares have been categorised as shares to be recognised at fair value through items of comprehensive income. The divestment will have a minor negative impact on POP Bank Group's equity, but it will not have a material impact on the amalgamation's capital adequacy.

On 18 January 2019 the Financial Supervisory Authority set an additional capital requirement (Pillar 2) of 1.25 per cent on the amalgamation of POP Banks based on the Act on Credit Institutions (610/2014) chapter 11 section 6 (3). The requirement must be fulfilled with Common Equity Tier 1 (CET1) capital and comes into force on 30 September 2019.

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

Signatures

We have adopted the Report of Board of Directors and the Consolidated Financial Statements of the POP Bank Group, referred to in the Act on the Amalgamation of Deposit Banks, for the financial year ended 31 December 2018. The Board of Directors' Report and the Financial Statements will be presented to the general meeting of POP Bank Alliance Coop on 4 April 2019.

Espoo, 14 February 2019

Board of Directors of POP Bank Alliance Coop

Juha Niemelä
Chairman of the Board

Soile Pusa
Vice Chairman of the Board

Ari Heikkilä
Member of the Board

Petri Jaakkola
Member of the Board

Marja Pajulahti
Member of the Board

Hannu Tuominiemi
Member of the Board

AUDITOR'S NOTE

A report on the audit performed has been issued today.

Helsinki, 16 February 2019

KPMG Oy Ab

Tiia Kataja
Authorised Public Accountant

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

AUDITOR'S REPORT

To the members of POP Bank Alliance Coop

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of amalgamation POP Bank Group pursuant to the Act on the Amalgamation of Deposit Banks for the year ended 31 December, 2018. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity capital, cash flow statement and notes, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of POP Bank Group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Our opinion is consistent with the additional report submitted to the Board of Directors of POP Bank Alliance Coop.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of member institutions within POP Bank Group in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to member institutions within POP Bank Group are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 12 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Receivables from customers (notes 2, 4, and 18 to the financial statements)

- Receivables from customers, totaling € 3,5 billion, are the most significant item on the POP Bank Group's consolidated balance sheet representing 79 percent of the total assets.
- POP Bank Group has applied IFRS 9 Financial Instruments to recognition of impairment losses on receivables as from 1 January 2018. The adoption resulted in shift from the calculation of impairment on an individual and collective basis to that of the expected credit loss calculated using models under IFRS 9.
- Calculation of expected credit losses involves assumptions, estimates and management judgment for example in respect of the probability and amount of the expected credit losses as well as determining the significant increases in credit risk.
- Due to the significance of the carrying amount involved, adoption of IFRS 9, complexity of the accounting methods and management judgement involved, receivables from customers are addressed as a key audit matter.
- We assessed principles and controls over recognition and monitoring of loan receivables.
- As regards adoption of the IFRS 9 -standard, we assessed the models and key assumptions for calculating expected credit losses as well as tested the controls related to calculation process and credit risk models for the expected credit losses. KPMG IFRS- and financial instruments -specialists have been involved in the audit.
- We also requested other auditors of POP Bank Group institutions to issue an opinion that the institutions within POP Bank Group have complied with the instructions provided by OP Cooperative in respect of valuation of receivables.
- Furthermore, we considered the appropriateness of the notes provided by POP Bank Group in respect of receivables and expected credit losses, including the notes related to IFRS 9 transition.

Investment assets (notes 2, 4, 16 and 17 to the financial statements)

- The carrying value of investment assets totals € 0,7 billion mainly consisting of investments measured at fair value.
- The fair value of financial instruments is determined using either prices quoted in an active market or POP Bank Group's own valuation techniques where no active market exists. Determining fair values for investments and derivatives involves management judgements, especially in respect of those instruments for which market-based data is not available.
- Adoption of the IFRS 9 Financial Instruments as at 1 January 2019 resulted in changes to the classification and measurement of financial assets.
- Due to the significant carrying values of investment assets, valuation of these assets is addressed as a key audit matter.
- We evaluated the appropriateness of the accounting principles applied and the valuation techniques used by POP Bank Group.
- Our audit procedures included testing of controls around risk management and the valuation process of financial assets measured at fair value, among others.
- As regards the adoption of IFRS 9, we assessed classification principles for the financial instruments.
- As part of our year-end audit procedures we compared the fair values used in valuation of investment assets to market quotations and other external price references.
- Furthermore, we considered the appropriateness of the notes on investment assets, including the notes related to IFRS 9 transition.

Control environment relating to financial reporting process and IT systems

- In respect of the accuracy of the financial statements of POP Bank Group, the key reporting processes are dependent on information systems. Therefore, information technology plays an essential role for business continuity, incident management and the accuracy of financial reporting.

- The most significant risks relate to integrity of data, confidentiality and disruption of services.
- As the consolidated financial statements of POP Bank Group are based on a large number of data flows from many systems, the financial reporting IT environment is addressed as a key audit matter.
- We obtained an understanding of the IT systems related to financial reporting and the associated control environment, and tested the effectiveness of the related internal controls with the help of assurance reports received from external service providers, among others.
- Our audit procedures included substantive procedures and data analyses relating to various aspects in financial reporting process.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU in a manner explained in more detail in the notes to the financial statements and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing POP Bank Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate POP Bank Group, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of POP Bank Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on POP Bank Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause POP Bank Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within POP Bank Group to express an opinion on the consolidated financial statements. We remain solely responsible for our audit opinion.
- Audit of the consolidated financial statements of amalgamation POP Bank Group is based on the financial statements of POP Bank Alliance Coop and member institutions, as well as the auditors' reports submitted for the audit of POP Bank Group's consolidated financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS

Information on our audit engagement

We were first appointed as auditors by the Cooperative Meeting of POP Bank Alliance Coop in 2012 and our appointment represents a total period of uninterrupted engagement of 7 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the board of directors. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the board of directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the board of directors is consistent with the information in the financial statements and the report of the board of directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the board of directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki February 15, 2019

KPMG OY AB

Tiia Kataja

Authorised Public Accountant, KHT

POP Pankki

Lähellä ihmistä