POP Bank Group

BOARD OF DIRECTORS' REPORT AND CONSOLIDATED IFRS FINANCIAL STATEMENTS 2019

31 DECEMBER 2019

POP Bank

CONTENTS

POP Bank Group's Financial Statements Release 1 January - 31 December 2019 is a translation of the original Finnish version "POP Pankki -ryhmän tilinpäätös 1.1.-31.12.2019". In case of discrepancies, the Finnish version shall prevail.

A record result and a new strategy

The POP Bank Group's result was the best in the history of the amalgamation. The results of the extensive renewal programme that we launched in 2017 began to be reflected positively in the Group's key figures and performance. We were able to increase our customer business revenue while also reaching the number one spot in customer satisfaction.

The POP Bank Group's operating income was EUR 131.4 million. Profit before taxes increased by as much as EUR 14.6 million and was EUR 26.2 million. The amalgamation's capital structure and capital adequacy remained strong. Its own funds amounted to EUR 504.6 million, and its CET 1 capital ratio was 19.8 %. Its loan portfolio increased by 4.7 % and exceeded EUR 3.5 billion in early 2019. The balance sheet total stood at EUR 4.5 billion at the end of the financial year.

Banking and insurance operations developed in line with our targets. Despite the low interest rate level, net interest income increased by 6.0 % on the previous year to EUR 69.3 million. The increase in net interest income was due to higher lending volumes, new digital products and more efficient funding. Net commission income remained at the previous year's level, at EUR 30.0 million. In terms of investing activities, our Group had an excellent year. Net investment income totalled EUR 15.6 million, including EUR 11.4 million in valuations.

Operating expenses grew moderately during the financial year, increasing by just 1.8 %. This was affected by extensive ongoing development projects that will generate costs over the coming years.

We served customers at 76 branches and service points and via the POP Bank Group's online services and mobile channel. The number of banking customers stood at 252,000 at the end of the year. The digital POP Pikalaina consumer credit in particular attracted customers, even from outside the Pop Banks' network of branch offices. The strong demand was reflected in sales that exceeded expectations.

The POP Bank Group's digital insurance company, Finnish P&C Insurance, recorded a EUR 1.5 million result and achieved a record number of customers: 143,000. The company leads the way in digital online advertising, and in analysing customer behaviour and using the data for product development and pricing. We have made use of this expertise in the renewal of our banking operations.

In spring 2019, we launched the largest investment project in our history, the purpose of which is to modernise our core banking system. The project is expected to take three years to complete. Its goal is to build a seamless multichannel bank for the POP Bank Group, reduce IT system maintenance costs and meet future regulatory and information security requirements.

Towards the end of the year, we finalised the POP Bank Group's strategy for 2020–2022, which was duly approved by the Supervisory Board in early January 2020. In cooperation with the Board of Directors, the management and employees, we carefully created a common situational awareness in which we evaluated the operating environment, technology and competitors in relation to our customers' expectations. At the same time, we are adopting a new way of working in which we review and implement strategy continuously.

Our strategy process is based on ensuring the continuity of local operations, improving business profitability and maintaining the pace of renewal. Due to the new strategy, the central institution's control will increase: we will combine control practices and clarify guidelines within the amalgamation. The purpose is to ensure proactively that the banks' quality and business development is in line with the Group's target.

The POP Bank Group's vision is to be the bank that best combines personal and digital service, the highest level of customer satisfaction and rapid decision-making. Our goal is to outpace market growth, and we are also seeking to systematically remove obstacles to growth. The POP Bank Group continues to focus strongly on promoting excellent customer experience by keeping its expertise, product offering, pricing and operating activities competitive and attractive to customers.

Banks within the Group began to plan mergers. These will enable the formation of stronger banks in various operating areas that are better positioned to increase lending, manage the balance sheet more efficiently and renew the banks' daily operations.

Currently, the banking business is being affected by several simultaneous trends that are driving change: low interest rates, weak and unpredictable economic growth in Finland, the growing pace of internal migration and urbanisation, and rapid changes in consumer behaviour in relation to digital services. We are working to actively defend our local role in business and industry and in strengthening the labour and housing markets. We intend to completely digitalize housing loans and sales, and we want to be in the vanguard of development in this field.

POP Bank has the highest customer satisfaction in Nordic countries (EPSI Rating 2019) In Finland, POP Bank has been ranked eight times as Finland's best bank in terms of customer satisfaction. This achievement is based on our consistent work with customers over the long term and on our customer service professionals' availability, expert advice and rapid decision-making.

I would like to take this opportunity to warmly thank our employees for their commitment and high pace of renewal. I would like to thank our customers and partners for the trust they have shown in the POP Bank Group.

Pekka Lemettinen
CEO
POP Bank Alliance

POP Bank Group's Board of Directors' report 1 January - 31 December 2019

POP BANK GROUP'S YEAR 2019 IN BRIEF

- Net interest income 69.3 (65.4) million (+6.0 %)
- Operating income EUR 131.4 (111.6) million (+17.7 %)
- Profit before tax EUR 26,2 (11.6) million (+126.0 %)
- Loan portfolio EUR 3,635.5 (3,473.3) million (+4.7 %)
- Balance sheet EUR 4,535.5 (4,409.5) million (+2.9 %)
- CET 1 Capital ratio of the amalgamation 19.8 (20.5) per cent
- POP Bank has the highest customer satisfaction in Nordic countries (EPSI Rating 2019)
- Insurance operations' loss ratio 74.3 (70.7) %
- The increase in number of insurance customers 14.8 (19.8) %

KEY EVENTS

- The specification phase for the POP Bank Group's new core banking system has begun
- The development of digital services continues
- The POP Banks' product offering has been expanded
- Insurance operations achieved profitability
- New strategy for the POP Bank Group is ready

POP Bank group and amalgamation of POP Banks

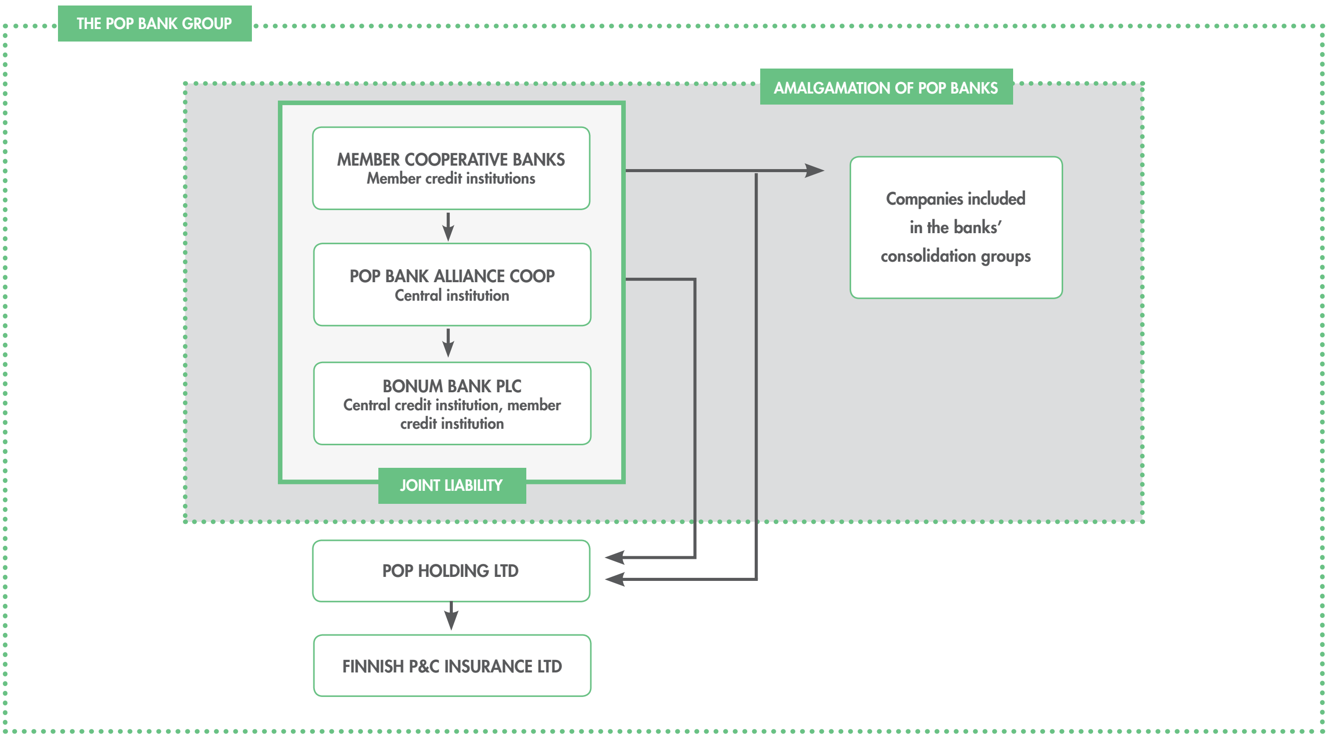
The POP Bank Group is a Finnish financial group that offers retail banking services to private customers, small companies, agricultural and forestry companies, as well as non-life insurance services to private customers. In addition to healthy and profitable business, the objectives of the POP Bank Group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

The POP Bank Group refers to the new legal entity created on 2015, comprised of POP Banks and POP Bank Alliance Coop, and the entities under their control. The most significant companies with customer operations in the POP Bank Group 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.

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

Economic growth slowed in 2019. The trade war between the United States and China increased tensions and slowed the volume of world trade, with exports from the EU to the US also decreasing. This, combined with the expectation of Brexit, depressed the growth of the EU economy.

The European Central Bank continued to support the markets through its bond purchase programme and by cutting its interest rate for deposits to -0.5 %. Expectations of interest rate hikes were thereby postponed much further into the future. As a result, both short-term and long-term interest rates were at a record-low level in the summer. The low interest rates and good availability of finance supported the stock and real estate markets.

The export outlook for Finland was weakened by slow economic growth in Germany and Sweden, its main export markets – which was also reflected in weaker outlooks among Finnish companies and low investment. Construction activity has also begun to decrease after having peaked at record-high levels. Tensions increased in the labour market, and some industrial action took place towards the end of the year. The employment rate improved and unemployment decreased, but this trend slowed during the second half of the year.

The overall situation in agriculture remained challenging, but the increased focus on environmental aspects supported an increase in investments in the forest industry and the bioeconomy.

Moderate inflation and low interest rate levels have increased consumers' purchasing power. Strong construction activity in growth centres and an increase in the availability of rental housing have kept the increase in housing costs in check. Although housing price increases have stabilised at the national level, regional price increases have varied greatly.

The high level of household indebtedness became a key concern during the year. The Ministry of Finance established a working group to look into the issue. In October 2019, the working group proposed that the maximum amount of household loans be linked to annual income, in addition to suggesting limitations to housing company loans.

Key events in the POP Bank group

The specification phase for the POP Bank Group's new core banking system has begun

The POP Bank Group is focusing strongly on renewing its core banking system in cooperation with the Savings Bank Group and Oma Savings Bank Plc. The system reform project of the three banking groups was launched in spring 2019 and is expected to continue until 2022. The project aims to upgrade the banks' current banking systems, which will enable digital services to be developed more efficiently in the future.

The system will be delivered by Cognizant, a US company with extensive experience in the implementation of banking systems in various countries. As part of the core banking system overhaul, the POP Bank Group sold its shares in the IT service provider Samlink to Cognizant. The sale will not impact the POP Bank Group's result for 2019, since the shares were classified as assets recognised at fair value through other comprehensive income.

The development of digital services continues

The POP Bank Group continued to develop its digital services. New features were added to Pop Mobiili, such as online payslips, e-invoice management and fund subscriptions. Mobile services lower the threshold for saving in mutual funds. Other online service concepts were also expanded. Customers can now sign some of their credit documents electronically. The new Verkkohetki concept enables customers to consult their designated expert remotely. The fully digital POP Pikalaina consumer credit was introduced in late 2018, and its first-year sales significantly exceeded expectations.

In the autumn, the POP Bank Group released a third-party developer portal that complies with the Payment Services Directive (PSD2) and enables service providers to test their own applications using the PSD2 test interface provided by the bank.

The POP Banks' product offering has been expanded

In March, the POP Banks added 11 new POP Funds to their range of funds. The new funds are suitable for both experienced investors and beginners interested in monthly investment plans. The POP Banks are able to offer a comprehensive range of mutual funds in both traditional and emerging markets. As part of product portfolio development, the management of the POP Funds was transferred from Aktia Fund Management Company to Sp-Fund Management Company in November 2019.

To facilitate lending to homebuyers, the POP Takaus guarantee was turned into a directly enforceable guarantee. This was based on restrictions set by the authorities concerning the maximum loan-to-value ratio.

Insurance operations achieved profitability

Finnish P&C Insurance Ltd, which is part of the POP Bank Group, continued to rapidly increase its customer count. At the close of the period under review, company already had 143 thousand customers . The insurance company, set up in late 2012, reported a positive annual result for the first time. Price competition in car insurance policies slackened off, resulting in stronger demand and higher customer retention for the company. The company's operating expense ratio improved significantly because of the strong growth in business volumes and the reorganisation of sales channels.

New strategy for the POP Bank Group is ready

Towards the end of the year, POP Bank Group's strategy for 2020–2022 was finalised, and duly approved by the Supervisory Board in early January 2020. The new strategy strengthens the role of the central institution. This will unify the supervisory procedures and clarify amalgamation's internal control. At the same time, the Group has decided to adopt a new way of working in which the strategy is reviewed, amended and adapted continuously. This will help the Group to proactively and effectively respond to changes in the operating environment and regulatory requirements.

Credit ratings

S&P Global Ratings (S&P) affirmed Bonum Bank's rating of BBB for long-term investment grade and A-2 for short-term investment grade in May. The outlook remains stable. The stable outlook rating from S&P reflects the POP Bank Group's strong capital adequacy and expectations of enhanced efficiency through the amalgamation.

POP Bank group's earnings and balance sheet

POP BANK GROUP KEY FIGURES AND RATIOS

Key income figures (EUR 1,000)	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018	1 Jan-31 Dec 2017
Net interest income	69,318	65,391	62,817
Net commissions and fees	30,013	29,790	28,115
Insurance income	10,913	10,433	8,453
Net investment income	15,588	1,111	14,559
Personnel expenses	-42,843	-41,769	-39,720
Other operating expenses	-47,927	-48,257	-47,003
Impairment losses on financial assets	-6,528	-3,195	-4,991
Profit before tax	26,150	11,569	19,488

Key balance sheet figures (EUR 1,000)	31 Dec 2019	31 Dec 2018	31 Dec 2017
Loan portfolio	3,635,488	3,473,310	3,325,363
Deposit portfolio	3,746,305	3,666,543	3,554,357
Insurance contract liabilities	38,606	32,488	29,250
Equity capital	508,435	483,788	485,649
Balance sheet total	4,535,557	4,409,518	4,275,838

Key ratios	31 Dec 2019	31 Dec 2018	31 Dec 2017
Cost to income ratio	75.1 %	86.8 %	79.4 %
Return on assets, ROA %	0.5 %	0.2 %	0.4 %
Return on equity, ROE %	4.3 %	1.8 %	3.3 %
Equity ratio, %	11.2 %	11.0 %	11.4 %
Common equity Tier 1 capital ratio, (CET1) %	19.8 %	20.5 %	20.9 %
Capital adequacy ratio, (TC) %	19.9 %	20.8 %	21.2 %

POP Bank Group's earnings development (comparison period 1 January - 31 December 2018)

The POP Bank Group's profit before taxes improved by EUR 14.6 million compared with the previous financial year. Profit before taxes was EUR 26.2 (11.6) million, and profit for the period was EUR 21.4 (8.9) million. All income items increased, while expenses grew moderately.

Net interest income strengthened by 6.0 per cent during the financial period, from EUR 65.4 to 69.3 million. Interest income for the financial year amounted to EUR 77.3 (75.7) million, and interest expenses were EUR 8.0 (10.3) million. Net commission income remained at the previous year's level, totalling EUR 30.0 (29.8) million. Net insurance income improved by 4.6 per cent and was EUR 10.9 (10.4) million.

Net investment income improved significantly from the previous year and was EUR 15.6 (1.1) million. Other operating income totalled EUR 5.5 (4.9) million. Operating income increased by 17.7 per cent to EUR 131.4 (111.6) million.

Operating expenses increased moderately, by 1.8 per cent. Expenses totalled EUR 98.6 (96.9) million, including EUR 42.8 (41.8) million in personnel expenses. Other operating expenses were slightly lower than in the previous year, totalling EUR 47.9 (48.3) million. Depreciation and impairment on tangible and intangible assets amounted to EUR 7.9 (6.8) million.

EUR 6.5 (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 3.5 (-1.6) million and the incurred credit losses of EUR 3.0 (4.7) million

POP Bank Group's balance sheet (comparison information 31 December 2018)

During the financial period, POP Bank Group's balance sheet grew by 2.9 per cent, standing at EUR 4,535.5 (4,409.5) million at the end of the period. The POP Bank Group's loan portfolio grew by 4.7 per cent to EUR 3,635 (3,473.3) million. The deposit portfolio grew by 2.2 per cent to be EUR 3,746 (3,666.5) 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 114.8 (142.4) million at the end of the financial year. The Group's investments in securities and properties stood at EUR 573.1 (707.9) million at the end of the financial period.

The POP Bank Group's equity totalled EUR 508.4 (483.8) million at the end of the financial year. The POP Banks' cooperative capital totalled EUR 66.7 (64.7) million at the close of the financial year. The POP Banks paid EUR 1.2 (1.2) million in interest on cooperative capital for 2018. In addition the cooperative contributions, the POP Banks have issued POP Shares. A POP Share is an investment in the cooperative's equity pursuant to the Cooperatives Act. In total, the POP Banks have issued a total of EUR 57.3 (55.3) million in POP Shares. In the POP Banks' national financial statements, the equity also includes EUR 18.0 (21.4) million in supplementary cooperative contributions. In accordance with the IFRS, these are recognised as debt capital, and the interest paid on them is recognised as an accrued interest expense.

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 consists of the POP Banks engaged in retail banking and Bonum Bank Plc, which is the amalgamation's central credit institution. At the end of 2019, POP Banks had 252,000 (251,000) customers. Of these, 85.4 (85.0) per cent are private customers, 8.4 (8.3) per cent are corporate customers, and 2.9 (3.4) per cent are in the agriculture and forestry sectors At the end of the year, 89,300 (88,500) customers were also members of POP Banks.

Providing excellent customer service and constantly improving the customer experience plays a central role at the 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 2019, 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 2019). At the end of the year, POP Banks had 76 branch offices and service points. In addition, customers have access to mobile and online banking services and online appointments.

Banking earnings (comparison period 1 January - 31 December 2018)

Banking earnings before taxes grew EUR11.5 million, to EUR 23.8 (12.3) million. The cost-to-income ratio was 73.1 per cent (84.0). The increase in investment income had a significant impact on the improved result.

Operating income amounted to EUR 117.4 (101.5) million, an increase of 15.7 per cent. Net interest income strengthened, totalling EUR 68.9 (65.1) million. The amount of net income and expenses were EUR 30.5 (30.4) million remaining on level with the previous year. Net investment income grew by EUR 11.1 million, to EUR 13.2 (2.1) million. Other operating income totalled EUR 4.8 (3.9) million.

Operating expenses amounted to EUR 87.1 (86.0) million, an increase of 1.4 per cent. Personnel expenses were EUR 31.3 (30.6) million, and other operating expenses were EUR 51.1 (50.9) million. Depreciation and impairment on tangible and intangible assets amounted to EUR 4.8 (4.5) million.

EUR 6.5 (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 3.5 (-1.6) million and the incurred credit losses of EUR 3.0 (4.7) million

The final credit losses recognised for the financial year and the increase in expected credit losses represented 0.18 (0.09) per cent of the loan portfolio. Receivables more than 90 days overdue from the loan and guarantee portfolio accounted for 0.80 (0.89) per cent of the loan portfolio.

Banking segment's assets and liabilities (comparison information 31 December 2018)

The assets of the banking segment totalled EUR 4,558.9 (4,444.2) million at the end of the financial period. The loan portfolio increased by 4.7 per cent, to EUR 3,637.6 (3,475.8) million. Loan portfolio grew in both private customer and corporate client segments. At the end of the financial year, loans granted to private customers accounted for 67.1 (67.0) per cent of the loan portfolio, loans granted to companies for 17.5 (17.0) per cent, and loans granted to agricultural entrepreneurs for 15.4 (16.0) per cent. Deposits increased by 2.2 per cent, totalling EUR 3,751.7 (3,672.3) 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.

Insurance operations continued to grow strongly. In 2019, Finnish P&C Insurance Ltd. gained an average of 3,800 (3,900) new customers per month, and at the end of the financial period, the company had 143,000 (124,600) customers. According to the results of an NPS survey, which measured customers' willingness to recommend, the company is a leader in its field. 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 in the capacity of an intermediary. Finnish P&C Insurance Ltd. is responsible for marketing its own products. Bank partners mainly direct their own customers to the online store. The company focuses on online marketing in particular and directs customers to its online store. Dealerships and vehicle inspection stations grant vehicle insurance policies in the capacity of an intermediary.

The insurance segment is a central part of the digital operations of the POP Bank Group.

Insurance earnings (comparison period 1 January - 31 December 2018)

Insurance operations regained profitability, recording a positive result of EUR 1.5 (-0.6) million. Price competition in car insurance policies slackened off, resulting in stronger demand and higher customer retention for the company.

Net insurance income was EUR 10.9 (10.4) million, representing an increase of 4.6 per cent. The loss ratio increased by 3.6 percentage points from 70.7 to 74.3 per cent. The operating expense ratio was 26.4 (31.4) per cent, and the consolidated cost ratio was 100.7 (102.1) per cent.

In 2019, Finnish P&C Insurance sold 130,500 (129,000) new insurance agreements, Premiums written totalled EUR 45.8 (38.9) million, of which 82.0 (82.0) per cent accrued from the motor vehicle liability and land vehicles insurance categories. Accident and health, fire and other property, as well as other direct insurance policies generate a total of 18.0 (18.0) per cent of the premiums written. Insurance premium revenue increased by 19.1 per cent to EUR 42.5 (35.6) million.

Claims incurred totalled EUR 31.6 (25.2) million, up 25.1 per cent from the previous year. These consisted of EUR 27.8 (24.4) million in claims paid, EUR 7.7 (2.5) million in changes in provisions for unpaid claims, less EUR -3.9 (-1.7) million in increases in provisions for unpaid claims ceded to reinsurers. During the financial period, three losses exceeded the retention limits of reinsurance. Reinsurance provisions for a total of eight losses were made to technical provisions at the end of the year.

Personnel expenses decreased 2.5 per cent to EUR 6.9 (7.1) million. Other operating expenses also decreased and were EUR 2.2 (2.4) million. Depreciation, amortisation and impairment amounted to EUR 1.5 (1.4) million. Operating expenses totalled at EUR 11.0 (10.9) million.

Insurance segment's assets and liabilities (comparison information 31 December 2018)

The assets of the insurance segment totalled EUR 70.9 (61.6) million at the end of the financial period. The liabilities of the insurance segment totalled EUR 45.9 (36.4) million. Insurance liabilities grew by 18.8 per cent to EUR 38.6 (32.5) million. The liabilities of the insurance segment totalled EUR 43.9 (36.3) 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 reportable 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 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 purpose of the risk management is to ensure that all significant risks are identified, assessed, measured and monitored, and that they are proportionate to the risk-bearing capacity of the amalgamation and the individual member credit institution.

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, common business controlling 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 internal binding instructions of the amalgamation in its activities. Independent risk control and compliance functions within the central institution tasked with controlling the amalgamation's risk level and the supervision and compliance with the regulations and internal auditing.

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.

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 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 also remained on a moderate level. The proportion of loans granted to private customers in the loan portfolio increased slightly. The amount of Expected Credit Loss (ECL) increased during the financial year.

During the financial year POP Bank Group's loan portfolio grew by 4.7 per cent to EUR 3,635.5 (3,473.3) million. Majority of the lending is associated with low risk lending to private customers. Loans granted to private customers accounted for 67.1 (67.0) per cent of the loan portfolio, loans granted to companies for 17.5 (17.0) per cent, and loans granted to agricultural entrepreneurs for 15.4 (16.0) per cent. Loans secured by residential real estate collateral accounted for 65,0 (65,6) 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 0.80 (0.89) per cent of the loan portfolio. The amalgamation's receivables 30–90 days past due accounted for 0.42 (0.83) per cent of the loan portfolio at the end of the financial year.

Expected credit losses (ECL) increased 10.5 per cent to EUR 33.8 (30.6) million during the financial year.

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.

The monitoring of credit risk is based on the continuous monitoring of non-performing receivables and past-due payments, forbearance and the quality of the loan portfolio. Monitoring expected credit losses (ECL) is an essential part of the credit risk management process. Problems that can be foreseen are addressed as early as possible.

Liquidity risks

The POP Bank Group's liquidity position remained strong during the financial period. The amalgamation's liquidity coverage ratio (LCR) was 114.7 (151) per cent on 31 December 2019. The minimum LCR requirement set in the Regulation has been 100 per cent from 1 January 2018. On 31 December 2019, the amalgamation's LCR-eligible assets before haircuts totalled EUR 305.4 (364.1) million, of which 54.8 (22.3) per cent were cash and balance at the central bank and 40.2 (77.7) per cent were highly liquid tier 1 securities. The central credit institution Bonum Bank Plc manages the liquidity coverage requirement (LCR) of the amalgamation.

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 Capital Requirements Regulation (EU 575/2013) and EU's statutory orders set in the Regulation are not applied to its member credit institutions.

The POP Bank Group's funding position remained strong during the financial year. The proportion of deposits from the funding portfolio remained high and the availability of financing stayed good. The Net Stable Funding Ratio (NSFR) was 121.28 (119.5) at the end of the period, with the future requirement being 100 per cent in accordance with Regulation (EU) 2019/876, which was confirmed in summer 2019. End of reporting period Bonum Bank Plc has EUR 95 million (100) outstanding unsecured senior notes from EUR 750 million bond programme.

Market risk

Market risks from banking arise from the banking book of member credit institutions, consisting of lending and deposits, wholesale market funding and investment and liquidity portfolios. Market risk exposure remained at a moderate level during the financial period. The most significant market risk the POP Bank Group is exposed to is the interest rate risk in the banking book, which is monitored and limited via both the net present value and income risk models. The impact of +/- one percentage point change in interest rates for the following 12 months' net interest income stood at EUR -7.0 (-7.4) / +11.8 (+12.0) million on 31 December 2019. 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. The member credit institutions do not have any trading activities.

Market risks arising from investing activities are limited through asset allocation and by diversification into different asset classes and counterparties. Risk limits are in place for different counterparties and asset classes. No currency risk is taken in lending activities. A member credit institution may only engage in direct foreign currency-denominated investments, after approval the risk control function of the amalgamation. The use of derivatives is limited to hedging the interest rate risk in the banking book.

Operational risks

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

The compliance function of the central institution monitors significant and critical outsourcings, maintains a register of outsourced operations and functions and participates in evaluating risks involved in outsourcing operations. 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 and compliance function. Furthermore, the member credit institutions regularly perform self-assessment of their operational risks. Some of the losses caused by operational risks are hedged through insurance. Risks caused by malfunctions of information systems are prepared for by continuity planning.

Processes and functions of EU's General Data Protection Regulation have been adapted and their effectiveness 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.

RECOVERY AND RESOLUTION PLAN

The Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms was implemented nationally as of 1.1.2015 (Act on the Resolution of Credit Institutions and Investment Firms 1194/2014). In order to implement the Act in Finland, a Financial Stability Authority was established (Act on the Financial Stability Authority 1194/2014). The Financial Stability Authority acts as a National Resolution Authority in Finland, as part of the European Union Single Resolution Mechanism (SRM).

On 26.3.2019 the Financial Stability Authority decided to set a minimum requirement of own funds and liabilities (MREL) for the amalgamation of POP Banks. The decision was based on the resolution plan for the amalgamation of POP Banks and the Act on the Resolution of Credit Institutions and Investment Firms 1194/2014. The requirement became effective on 31.12.2019.

In accordance with this decision, the MREL requirement is 19.8% of the total risk exposure. The POP Bank Group has met the requirement through its own funds. The requirement concerns only the amalgamation level, but the Financial Stability Authority will assess the need for setting a requirement at the member credit institution level separately in 2020.

CAPITAL ADEQUACY MANAGEMENT

At the end of the financial year, the capital adequacy of the amalgamation of POP Banks remained at a solid level. The amalgamation's capital adequacy ratio was 19.9 (20.8) per cent and CET1 capital ratio 19.8 (20.5) per cent. The amalgamation does not include the profit for the financial year in own funds. The amalgamation's own funds of EUR 504.6 (507.1) million are comprised of cooperative contributions, supplementary cooperative contributions, POP Shares, retained earnings and other non-restricted reserves. Issuance of POP Shares is the member credit institutions' primary means for raising capital. The amount of POP Shares outstanding at the end of the financial year was EUR 57.3 (55.3) million.

The amalgamation's Additional Tier 1 Capital and Tier 2 Capital are comprised of supplementary cooperative contributions, which are not acknowledged as an equity instrument according to the Capital Requirements Regulation (CRR) and are thus gradually phased out.

The amalgamation's own funds requirement is comprised of the following:

- Capital Requirements Regulation minimum of 8 %
- Additional Pillar 2 capital requirement of 1.25 %
- Capital conservation buffer of 2.5 %
- Systemic risk buffer requirement of 1 %
- Country-specific capital requirements for foreign exposures

The systemic risk buffer of capital requirement became applicable on 1 July 2019 and the additional Pillar 2 capital requirement became applicable on 30 September 2019. All additional capital requirements must be covered by CET1 capital.

Member credit institutions of the amalgamation 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.

SUMMARY OF CAPITAL ADEQUACY

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Own funds		
Common Equity Tier 1 capital before deductions	520,317	512,130
Deductions from Common Equity Tier 1 capital	-19,363	-11,358
Total Common Equity Tier 1 capital (CET1)	**500,954**	**500,772**
Additional Tier 1 capital before deductions	2,163	3,952
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**2,163**	**3,952**
Tier 1 capital (T1 = CET1 + AT1)	**503,117**	**504,724**
Tier 2 capital before deductions	1,514	2,371
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**1,514**	**2,371**
Total capital (TC = T1 + T2)	**504,632**	**507,096**
Total risk weighted assets	**2,531,685**	**2,443,632**
of which credit risk	2,300,929	2,213,845
of which credit valutaion adjustment risk (CVA)	-	1
of which market risk (foreign exchange risk)	24,633	24,470
of which operational risk	206,123	205,315
CET1 Capital ratio (CET1-%)	**19.8 %**	**20.5 %**
T1 Capital ratio (T1-%)	**19.9 %**	**20.7 %**
Total capital ratio (TC-%)	**19.9 %**	**20.8 %**
Capital Requirement		
Total capital	504,632	507,096
Capital requirement *	323,558	256,960
Capital buffer	181,074	250,136
Leverage ratio		
Tier 1 capital (T1)	503,117	504,724
Leverage ratio exposure	4,588,442	4,471,092
Leverage ratio, %	11.0 %	11.3 %

* The capital requirement is comprised of the minimum requirement of 8.0 %, the additional Pillar 2 requirement of 1.25 %, the capital conservation buffer of 2.5 %, the systemic risk buffer requirement of 1.0 % and country-specific countercyclical capital requirements for foreign exposures.

Depositor and investor protection

Provisions on deposit insurance are laid down in the Act on the Financial Stability Authority. According to the act 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. During the financial year, payments to the Deposit Guarantee Fund were made using funds from the VTS Fund (Old Deposit Guarantee Fund).

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.

Board of directors 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 a 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 2019, the Supervisory Board consisted the total of twenty-six (26) members so that one (1) member represented each member credit institution, with the exception of Bonum Bank. Only the Chairman of the Board of Directors or the 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 (1) member is elected from each cooperative region pursuant to the rules. The majority of the Board members must 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

Soile Pusa
Managing Director, Siilinjärven Osuuspankki
Ordinary member
Vice Chairman

Petri Jaakkola
Managing Director, Lapuan Osuuspankki
Ordinary member

Ari Heikkilä
Managing Director, Konneveden Osuuspankki
Ordinary member

Marja Pajulahti
Managing Director, Invalidisäätiö
Ordinary member

Hannu Tuominiemi
Managing Director, Suupohjan Osuuspankki
Ordinary member

The CEO of POP Bank Alliance Coop is **Pekka Lemettinen**. CEO's deputy is **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 2019, the POP Bank Group had 735 (726) employees, of whom 538 (538) in banking, 114 (128) in non-life insurance and 83 (60) 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. POP Bank Group does not have a uniform remuneration scheme Remuneration schemes are based on the business strategy, objectives and values of each member credit institution or company, and they are aligned with the company's long-term interests. The remuneration schemes are in harmony with the bank's proper and effective risk management and risk-bearing capacity. Remuneration does not encourage risk-taking that would exceed the risk level defined on the basis of the risk-bearing capacity of the member credit institutions or the company or otherwise sustainable risk level.

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

Social responsibility

Social responsibility in the POP Bank Group is based on cooperative values, local operations and long-term business operations. Responsibility is an integral part of the Group's strategy, customer promise and vision. Responsibility means compliance with the principles of sustainable development in all of the Group's operations, and it concerns every employee's day-to-day work and decisions.

The POP Bank Group is a fully Finnish banking group, and its values comprise responsibility, customer orientation, profitability and bold renewal. The POP Bank Group paid EUR 4.3 (3.1) million in taxes on its earnings in 2019. The domiciles of the main companies of the POP Bank Group cover 28 different locations, and taxes are allocated extensively to the areas where its customers are. The POP Bank Group employs more than 700 professionals directly or indirectly across Finland.

The POP Banks play an active role in local business and industry, and in strengthening the labour and housing markets. This is reflected in the Group's approach to lending, investing operations and the environment. At the local level, the POP Banks support sports and association activities and cultural events. In addition, the Group cooperates closely with educational institutions, scientific communities and the authorities.

The POP Bank Group aims to maintain capital adequacy and efficient operating methods. Its business development and opportunities rely on the trust of customers, employees and society. To maintain this, the Group's operations are strongly guided by transparency, an active approach and high ethical principles.

In the POP Bank Group, customer satisfaction is a key indicator of success. Responsibility is put into practice in the central institutions' and banks' daily operations. Continuous development at the POP Bank Group is guided by the principle of providing smoothly running and accessible banking services. The extensive network of branch offices has been accompanied by digital service channels that enable customers in different life situations to discuss their financial management with POP Banks' experts.

Responsibility programme

The POP Bank Group's responsibility programme guides the implementation of its social responsibility measures. The Group's responsibility programme is based on ESG (Environmental, Social and Governance) factors.

Megatrends are studied and materiality analyses are implemented to identify the POP Bank Group's key focus areas in relation to stakeholder expectations and our Group's key opportunities for influence. The information gained through materiality analyses guides the Group's strategy process, which is updated continuously.

The POP Bank Group's responsibility programme has three key themes: promoting local vitality, supporting our customers' prosperity, and creating added value for society and the environment.

For stakeholders, the key elements of the programme are:

1. Transparent governance
2. Prevention of money laundering and corruption
3. Confidentiality and security of customer data
4. Capital adequacy and the payment of taxes
5. Responsible financing and lending
6. Responsible investing activities
7. Accessibility and service channels
8. Customer loyalty and satisfaction
9. Good leadership, highly competent employees and equality

In the POP Bank Group, matters related to responsibility are discussed by the Executive Board and the Board of Directors. The Executive Board prepares proposals for the Board of Directors concerning responsibility matters. The operational management of social responsibility has been integrated into normal day-to-day business operations. The implementation of social responsibility is monitored using qualitative and quantitative indicators. The policies are reviewed annually, and policies and principles are updated to support operations as necessary.

Responsible lending

Responsible lending is based on customer knowledge and careful examination of the customer's situation. Lending is reviewed comprehensively, with the goal of establishing long-term customer relationships. For private customers, the most significant issues related to lending are determining the appropriate amount of credit and the customer's debt servicing capacity.

In the POP Bank Group, lending to private customers is based on the customer's level of financial security and on good business principles and ethical guidelines on lending. Recommendations issued by the Financial Supervisory Authority, as well as the rules concerning good lending practices, are taken into account in lending. For corporate clients, it is important to identify the financial risks and environmental impacts related to their operations or to a project to be funded.

In the event of payment difficulties, the POP Banks seek to respond as early as possible and remedy the situation sustainably.

Responsible investing activities

The POP Bank Group's responsible investing activities are based on the view that a company operating responsibly is more profitable and competitive over the long term than a peer that neglects responsibility factors. The principles of responsible investment apply to the products offered to customers, as well as to the banks' own investing activities. On average, the POP Funds rank in or above the middle of the Morningstar Sustainability Rating (revised 21 January 2020, 12-month monitoring period).

With regard to financial products and funds, the POP Bank Group only works with responsible partners whose investment philosophy is in line with that of the Group. The Group favours players who are supported by the UN, have signed the Principles for Responsible Investment (PRI) and report their carbon footprint. This makes it possible to increase the transparency of the environmental impacts of the Group's investing activities, as well as the transparency of its carbon risk.

In addition, ESG risks and opportunities are identified in the Group's investing activities to create a better foundation for healthy investment decisions. The Group seeks to exclude investments that may cause risks that are difficult to predict, that may cause claims for damages, or unfavourable publicity, or that are otherwise in conflict with the Group's ethical principles. These include the tobacco industry, gambling operations or companies that use child labour, for example.

Environmental responsibility

Environmental responsibility is significant in the Group's own solutions and its lending to customers. The POP Bank Group seeks to reduce its environmental load and climate impact by improving resource and energy efficiency.

The POP Bank Group seeks to favour environmentally friendly purchases. It advises its employees to use public transport and replace business travel with videoconferencing.

The Group encourages its customers to use digital services, e-invoices, electronic documents and digital signatures through its online bank and mobile services. These have enabled the Group to significantly reduce its environmental load in recent years.

Responsibility for customer data

The development of the POP Bank Group's products and services is based on the best possible customer experience and the accessibility and timeliness of services. To make this possible, the Group uses customer data and AI-based solutions responsibly and transparently. Strong privacy practices are in place to protect customers', partners' and employees' personal data.

The POP Bank Group is systematically expanding its responsibility programme and reporting simultaneously with the implementation of its new Group strategy.

Events after the closing date

POP Bank Alliance Coop's Board of Directors is not aware of other events having taken place 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 2020

The POP Bank Group's financial performance is strongly linked to capital market development, economic growth in Finland and regional development. Low interest rates continue to raise concerns about the eurozone, in addition to creating a challenging environment where the identification of uncertainties is easier than assessing their probability and timing.

Currently, there are several simultaneous macroeconomic and political factors that may have a negative impact on the banking sector. Political risks in particular are running high at the moment. In our view, this challenge will continue for some years. Market, credit, insurance and operational risks have the most significant impact on the POP Bank Group's profitability and fluctuations.

POP Bank Group continues to invests on simplifying and digitalising the service processes in 2020. The renewal of the core banking system is at the heart of this development work.

Considering the risks mentioned above and the overall situation, we expect the POP Bank Group's result in 2020 to be weaker than in 2019.

Further information:

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

Formulas for key figures

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), %

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

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), %

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

Leverage ratio, %

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

Liquidity coverage ratio (LCR), %

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

NON-LIFE INSURANCE KEY FIGURES

Operating expenses

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

Loss ratio, %

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

Operating expense ratio, %

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

POP BANK GROUP FINANCIAL STATEMENTS 31 DECEMBER 2019

POP Bank Group's income statement

(EUR 1,000)	Note	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018	Change, %
Interest income		77,281	75,695	2.1 %
Interest expenses		-7,963	-10,304	-22.7 %
Net interest income	6	**69,318**	**65,391**	**6.0 %**
Net commissions and fees	7	30,013	29,790	0.7 %
Net investment income	8	15,588	1,111	1302.9 %
Insurance income	9	10,913	10,433	4.6 %
Other operating income	10	5,529	4,918	12.4 %
Total operating income		**131,362**	**111,643**	**17.7 %**
Personnel expenses	11	-42,843	-41,769	2.6 %
Other operating expenses	12	-47,927	-48,257	-0.7 %
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	13	-7,861	-6,845	14.8 %
Total operating expenses		**-98,631**	**-96,871**	**1.8 %**
Impairment losses on financial assets	18	-6,528	-3,195	104.3 %
Share of the income of associates	22	-53	-9	507.1 %
Profit before tax		**26,150**	**11,569**	**126.0 %**
Income tax expense	14	-4,775	-2,640	80.8 %
Profit for the financial period		**21,376**	**8,928**	**139.4 %**
Attributable to				
Equity owners of the POP Bank Group		21,381	8,949	138.9 %
Non-controlling interests		-5	-20	-75.8 %
Total		**21,376**	**8,928**	**139.4 %**

POP Bank Group's statement of other comprehensive income

(EUR 1 000)	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018	Change, %
Profit for the financial period	**21,376**	**8,928**	**139.4 %**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans	-894	-280	219.5 %
Changes in fair value reserve			
Equity instruments	250	-891	...
Items that may be reclassified to profit or loss			
Changes in fair value reserve			
Liability instruments	2,975	-2,985	...
Other comprehensive income for the financial period	**23,707**	**4,772**	**396.7 %**

Other comprehensive income for the financial period attributable to			
Owners of the POP Bank Group	23,711	4,793	394.7 %
Non-controlling interests	-5	-20	-75.8 %
Total other comprehensive income for the financial period	**23,707**	**4,772**	**396.7 %**

POP Bank Group's balance sheet

(EUR 1 000)	Note	31 Dec 2019	31 Dec 2018	Change, %
Assets				
Liquid assets	19	167,428	81,117	106.4 %
Loans and receivables from credit institutions	20	74,293	74,625	-0.4 %
Loans and receivables from customers	20	3,635,488	3,473,310	4.7 %
Derivative contracts		-	4	...
Investment assets	21	573,058	707,897	-19.0 %
Investments in associates and joint ventures	22	116	166	-30.1 %
Intangible assets	23	18,138	11,217	61.7 %
Property, plant and equipment	24	33,462	30,025	11.4 %
Other assets	25	30,612	26,680	14.7 %
Tax assets	26	2,961	4,478	-33.9 %
Total assets		**4,535,557**	**4,409,518**	**2.9 %**
Liabilities				
Liabilities to credit institutions	27	37,542	3,030	1139.2 %
Liabilities to customers	27	3,746,305	3,666,543	2.2 %
Non-life insurance liabilities	28	38,606	32,488	18.8 %
Debt securities issued to the public	29	114,829	142,399	-19.4 %
Supplementary cooperative capital	30	18,003	21,416	-15.9 %
Other liabilities	31	48,479	38,157	27.1 %
Tax liabilities	26	23,357	21,698	7.6 %
Total liabilities		**4,027,122**	**3,925,730**	**2.6 %**
Equity capital				
Cooperative capital				
Cooperative contributions		9,422	9,344	0.8 %
POP Shares		57,323	55,326	3.6 %
Total cooperative capital	**32**	**66,745**	**64,670**	**3.2 %**
Reserves	32	160,695	152,105	5.6 %
Retained earnings	32	280,566	266,586	5.2 %
Total equity attributable to the owners of the POP Bank Group		**508,006**	**483,361**	**5.1 %**
Non-controlling interests		429	428	0.4 %
Total equity capital		**508,435**	**483,788**	**5.1 %**
Total liabilities and equity capital		**4,535,557**	**4,409,518**	**2.9 %**

Statement of changes in the POP Bank Group's equity capital

(EUR 1 000)	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
Balance at 31 Dec 2018	**64,670**	**-558**	**152,663**	**266,586**	**483,361**	**428**	**483,788**
IFRS16 transition	-	-	-	4	**4**	-	4
Balance at 1st of Jan 2019	**64,670**	**-558**	**152,663**	**266,590**	**483,365**	**428**	**483,793**
Comprehensive income for the financial year							
Profit for the financial year	-	-	-	21,381	**21,381**	-5	21,376
Other comprehensive income	-	3,225	-	-894	**2,331**	-	2,331
Total comprehensive income for the financial year	**-**	**3,225**	**-**	**20,486**	**23,711**	**-5**	**23,707**
Transactions with shareholders							
Increase in cooperative capital	2,075	-	-	-	**2,075**	-	2,075
Profit distribution	-	-	-	-1,158	**-1,158**	-	-1,158
Transfer of reserves	-	-	4,271	-4,271	**-**	-	-
Transactions with shareholders total	**2,075**	**-**	**4,271**	**-5,429**	**916**	**-**	**916**
Disposals, shares and participations, measured at fair value through other comprehensive income	**-**	**1,094**	**-**	**-1,094**	**-**	**-**	**-**
Other changes	**-**	**-**	**-**	13	**13**	**-**	19
Balance at 31 Dec 2019	**66,745**	**3,761**	**156,934**	**280,566**	**508,006**	**429**	**508,435**

The result from the sale of equity shares measured at fair value through other comprehensive income (FVOCI) has been transferred to retained earnings from the fair value reserve.

(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	**-**	-	-
Transactions with shareholders total	**1,880**	**-**	**3,733**	**-4,951**	**662**	**-**	**662**
Other changes	**-**	**-**	**-**	**228**	**228**	**-**	**228**
Balance at 31 Dec 2018	**64,670**	**-558**	**152,663**	**266,586**	**483,361**	**428**	**483,788**

POP Bank Group's Cash Flow Statement

(EUR 1 000)	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Cash flow from operations		
Profit for the financial year	21,376	8,929
Adjustments to profit for the financial year	27,751	17,966
Increase (-) or decrease (+) in operating assets	**-34,302**	**-122,095**
Receivables from credit institutions	3,237	-3,241
Receivables from customers	-168,264	-160,252
Investment assets	125,668	1,722
Other assets	5,057	39,676
Increase (+) or decrease (-) in operating liabilities	**112,500**	**96,797**
Liabilities to credit institutions	34,513	-3,934
Liabilities to customers	79,793	112,866
Other liablilities	389	-6,850
Income tax paid	-2,195	-5,285
Total cash flow from operations	**127,324**	**1,597**
Cash flow from investing activities		
Changes in other investments	2,068	-240
Purchase of PPE and intangible assets	-12,710	-5,875
Proceeds from sales of PPE and intangible assets	1,265	1,262
Net cash used in investing activities	**-9,377**	**-4,853**
Cash flow from financing activities		
Change in cooperative capital, net	2,075	1,880
Interests paid on cooperative capital and other profit distribution	-1,163	-1,218
Debt securities issued, increase	139,750	72,463
Debt securities issued, decrease	-167,449	-39,463
Payment of lease liabilities	-1,945	-
Net cash used in financing activities	**-28,732**	**33,661**
Change in cash and cash equivalents		
Cash and cash equivalents at period-start	104,854	74,449
Cash and cash equivalents at the end of the period	194,069	104,854
Net change in cash and cash equivalents	**89,215**	**30,405**

(EUR 1 000)	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Interest received	**77,065**	**80,256**
Interest paid	**7,804**	**13,148**
Dividends received	**4,534**	**3,625**
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on receivables	6,528	3,195
Depreciations	10,019	8,083
Technical provision	6,119	3,635
Other	5,088	3,052
Adjustments to profit for the financial year	**27,752**	**17,966**
Cash and cash equivalents		
Liquid assets	12,078	81,117
Receivables from credit institutions payable on demand	181,991	23,737
Total	**194,069**	**104,854**

On 31 December 2018, debt securities issued were transferred from Cash flow from operating activities to Cash flow from financing activities in the comparison information.

The minimum reserve deposit in the Bank of Finland on 31st December 2018 was transferred from Cash and cash equivalents to Receivables from credit institutions. The transfer has an impact on Cash and cash equivalent in cash flow statement.

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 include 26 cooperative banks and Bonum Bank Plc, which serves as the central credit institution for the member cooperative banks. 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 consists of POP Bank Alliance Coop, which is the central institution, and its member credit institutions and the companies included in their consolidation groups, as well as credit institutions, financial institutions and service companies in which entities belonging to the amalgamation jointly hold more than 50 per cent of the votes. The companies included in the consolidation groups of the member credit institutions are primarily real estate companies.

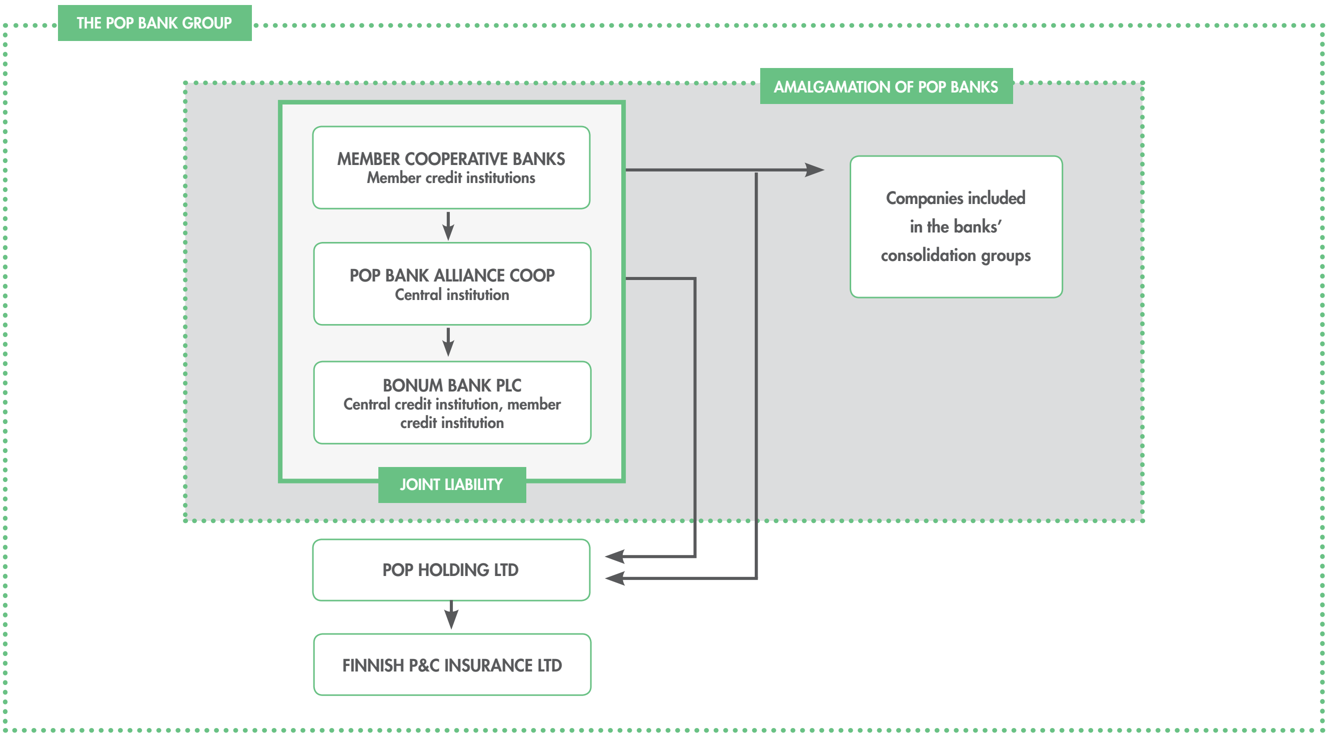
The POP Bank Group also includes other entities besides the entities included in the amalgamation of POP Banks. In addition to the organisations that belong to the amalgamation of POP Banks, the POP Bank Group comprises POP Holding Ltd and its wholly owned company Finnish P&C Insurance Ltd. Neither of these are included in the scope of joint liability.

The amalgamation of POP Banks began operations on 31 December 2015. In accordance with the Amalgamation Act, the central institution shall prepare financial statements as a combination of the financial statements or the consolidated financial statements of the central institution and its member credit institutions in accordance with the International Financial Reporting Standards (IFRS).

The POP Bank Group 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, 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 scope of joint liability.

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



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 13 February 2020. The financial statements will be distributed to the general meeting of POP Bank Alliance Coop cooperative on 2 April 2020. Copies of the financial statements and the financial statements release of the POP Bank Group are available at 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

1. GENERAL

The consolidated financial statements of the POP Bank Group (hereinafter also referred to as the "Group") have been prepared in accordance with the International Financial Reporting Standards (IFRS) 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").

Figures in the consolidated financial statements of the POP Bank Group are presented in thousand euros, unless otherwise stated. Figures in the notes are rounded, whereby the sum total of individual figures may deviate from the sum total presented in the calculations and tables. Assets and liabilities denominated in currencies other than euro have been translated into euro at the exchange rate of the balance sheet date. Exchange rate differences resulting from measurement have been recognised in net investment income in the income statement with the exception of financial instruments measured at fair value through other comprehensive income. 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. Furthermore, information concerning risks specified in the EU Capital Requirements Regulation (EU 575/2013) (CRR) is disclosed in a separate Pillar III report published on the Internet page of the POP Bank Group in February 2020.

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 or its member cooperative banks do not exercise control on each other, and therefore no parent company can be determined for the 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

In the future, the POP Bank Group will disclose debt securities issued to the public on the cash flow statement under 'Cash flow from financing activities'.

In reporting by segment, items unallocated to any business segment and the elimination of intra-group transactions will, in the future, be presented in connection with the segment-specific tables.

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 recognized 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 assets and financial liabilities at fair value through profit or loss are recognised on the income statement on the date of acquisition. Transaction costs from other 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. In addition, an agreement included in financial assets is derecognised on the balance sheet if the rights to cash flows that are based on the agreement are transferred to another party or if the agreement includes an obligation to pay the cash flows in question to one or several recipients. 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. An exception is made with regards to shares which are 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.

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

The POP Bank Group's financial liabilities are measured at amortised cost according to the effective interest rate method with the exception of financial liabilities measured at fair value through profit of loss. 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".

POP Bank Group does not have hedging derivate contracts on reporting day.

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.

The calculation of expected credit losses in POP Bank Group is based on four main segments:

– Private customers (excl. agricultural customers)
– Corporate customers (excl. 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 lifecycle 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.

In the measurement of expected credit losses, a transition will be made from the recognition of expected credit losses over 12 months to the recognition of expected credit losses throughout the lifetime of the contract as the credit risk increases significantly after the initial recognition, after which the contract is transferred from stage 1 to stage 2. 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.

Liabilities are classified in stage 3 of IFRS 9 if they meet the criteria for default at the contract or customer level. Contracts are treated as in default if any of the following criteria is fulfilled:

– The receivable 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
– The customer has been classified as being in default: more than 20 per cent of the customer's credits meet the stage 3 criteria mentioned above at the contract level or a corporate customer has become subject to bankruptcy or reorganisation proceedings.

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 IFRS9, 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.

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. 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

The properties owned by the POP Bank Group 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.

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

7.1 The POP Bank Group as the lessor

The POP Bank Group leases properties it owns or parts thereof by way of operating leases. In the leases, the essential risks and benefits of ownership remain with the lessor. The Group has classified all its leases as other leases. Investment properties are recognised as investment assets on the balance sheet, and other properties are recognised as property, plant and equipment. Rental revenue from investment properties is recognised in net investment income and from other properties in other operating income.

7.2 The POP Bank Group as the lessee

POP Bank Group has obtained mostly commercial premises, office equipment and company cars for employees through contracts classified as leases. At the time of establishing a contract, POP Bank Group assesses whether the contract is a lease or includes a lease. A contract is a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

Under IFRS 16, the Group as a lessee is required to recognise on its balance sheet a right-of-use asset and a lease liability arising from a lease. Lease liabilities are presented under other liabilities and the related interest expenses under net interest income. The right-of-use asset is presented under property, plant and equipment and depreciation on it is presented under depreciation and impairment losses on tangible and intangible assets. POP Bank Group has applied the exemptions included in the standard, according to which leases with a term of 12 months or less, or leases where the underlying asset is of low value, need not be recognised on the balance sheet. The expenses arising from these leases are recognised under other operating income.

A right-of-use asset is initially measured at acquisition cost. After the beginning of the contract, right-of-use assets are measured at acquisition cost less accumulated depreciation and impairment losses. Depreciation on a right-of-use asset is recognised using the straight-line method.

A lease liability is initially measured at the present value of the lease payments remaining unpaid at the beginning of the contract. The incremental borrowing rate of interest is used in the calculation of lease liabilities. The interest rate used for additional credit is the interest rate determined by the central credit institution of the amalgamation of POP Banks for credits granted within the group.

The economic lifetime of a leased asset is taken into consideration when determining the lease period. The management's estimates are significant, particularly when determining the lease period for contracts valid until further notice and the incremental borrowing rate of interest. Contracts valid until further notice are assigned a lease period based on the management's estimate in cases when it is reasonably certain that they are entered into for a period that exceeds their notice period.

7.3 Accounting principles applied to leases in the comparison period

Lease agreements made in the comparison period have been classified as other leases in accordance with IAS 17. Rental expenses are recognised in other operating income over the period of lease. The impact of the adoption of the new IFRS 16 standard is presented in section 14.1 ('Amendments to and interpretations of standards adopted during the financial year').

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 and credit losses are deducted from the premiums written. The portion of premiums written for the post-balance sheet date for which future expenses are expected is recorded as a provision for unearned premiums. The amount of the provision for unearned premiums is calculated of the contractual amendments on the contract level. An additional premium is also added to the provision for unearned premiums.

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. An additional premium is also added to the provision for unpaid claims. 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, which was 0.0% on the balance sheet date. The company has three confirmed pension liabilities.

The provision for unearned premiums ceded to reinsurers is calculated similarly to the direct insurer's share. The reinsurer's portion of insurance contract liabilities does not include an additional premium.

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 fulfil 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

11.1 Interest 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 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 is recognised to the extent that the Group expects to be entitled to in exchange for the service provided to the customer. Commission income is recognised at a point in time or over time. 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 pay-out 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 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.

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, expenses related to low-value and short-term leases, sales losses from owner-occupied properties, other expenses related to business operations

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 ANDJUDGEMENTS

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 of 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, 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 17.

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 17. POP Bank Group does not have derivatives on reporting day.

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.

13.5 Lease periods of contracts classified as leases

Determining the lease periods of leases in effect until further notice requires discretion from the management, which requires the assessment of the economic life of the asset when it is reasonably certain that the leases have been made for a period longer than the term of notice. The assessment must take into account the conditions in which the leased asset will be used.

14. NEW IFRS STANDARDS AND INTERPRETATIONS

14.1 Adoption of new standards

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

As of 1 January 2019, POP Bank Group has adopted IFRS 16 Leases, which supersedes the earlier IAS 17 Leases and its interpretations. Under IFRS 16, a lessee is required to recognise on its balance sheet a right-of-use asset and a lease liability arising from a lease. POP Bank Group's lease liabilities are presented under other liabilities and the related interest expenses under net interest income. The incremental borrowing rate of interest is used in the calculation of lease liabilities. The right-of-use asset is presented under property, plant and equipment and depreciation on it is presented under depreciation and impairment losses on tangible and intangible assets. POP Bank Group has applied the exemptions included in the standard, according to which leases with a term of 12 months or less, or leases where the underlying asset is of low value, need not be recognised on the balance sheet. The expenses arising from these leases are recognised under other operating income. The adoption of the standard did not result in changes in the accounting treatment of leases issued by the POP Bank Group.

POP Bank Group has obtained mostly commercial premises, office equipment and company cars for employees through contracts classified as leases. The economic lifetime of a leased asset is taken into consideration when determining the lease period. The management's estimates are significant, particularly when determining the lease period for contracts valid until further notice and the incremental borrowing rate of interest. Contracts valid until further notice are assigned a lease period based on the management's estimate in cases when it is reasonably certain that they are entered into for a period that exceeds their notice period. The interest rate used for additional credit in the discounting is the interest rate determined by the central credit institution of the amalgamation of POP Banks for credits granted within the group.

The adoption of the standard does not have a material impact on POP Bank Group's result or financial position. In the transition to the new standard, POP Bank Group applied the modified retrospective approach, according to which comparative information is not restated and any cumulative effects are recognised as an adjustment to retained earnings. The adoption of the standard increased the assets and other liabilities on POP Bank Group's balance sheet by EUR 5,818 thousand, as a result of which the balance sheet total grew by a corresponding amount. The adoption does not have a material effect on equity.

The effects of the adoption of IFRS 16 are presented in the table below.

Transition to IFRS 16	(EUR 1,000)
Operating lease discounted using the incremental borrowing rate at 1 Jan 2019	4,043
Extension options reasonably certain to be exercised	1,775
Lease liabilities recognised at 1 January 2019	**5,818**
Lease liabilities were discounted with the incremental borrowing rate of 0,35 % on 31 December 2018	
Right-of-use assets January 1. 2019	
Office Buildings	5,134
Vehicles	249
Machinery and other equipment	439
Total right-of-use assets	**5,822**
Equity capital	
Retained earnings	**4**

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 AND IMPROVEMENTS TO THE CURRENT STANDARDS

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 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.

14.2 New standards and amendments to be adopted on later financial periods

STANDARDS AND AMENDMENTS APPLIED ON FINANCIAL PERIOD BEGINNING 1 JANUARY 2020

In financial period starting on 1 January 2020, 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.

Amendments to IFRS 3 Business Combinations: Definition of Material (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. The amendments have no impact on POP Bank Group's financial statements.

Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Interest Rate Benchmark Reform* (effective for financial years beginning on or after 1 January 2020)

The amendments arise from the uncertainty related to the preparation and implementation of the interest rate benchmark (IBOR) reform. The amendments make it easier to comply with the hedge accounting requirements for financial instruments in the period leading up to the IBOR reform. The amendments have no impact on POP Bank Group's financial statements.

NEW STANDARDS AND AMENDMENTS TO BE ADOPTED ON LATER FINANCIAL PERIODS

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.

* = The standard has not been endorsed for use in the EU as of 31 December 2019.

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 to the cooperative meeting on POP Bank Group's strategy and financial statements prepared by the Board of Directors of the central institution 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 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 assessment of reliability, suitability and professional skills of the 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 collectively 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.

The majority of Board members must 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 2019 were Juha Niemelä (Chairman), Soile Pusa (Vice Chairman), Ari Heikkilä, Marja Pajulahti, Petri Jaakkola, ja Hannu Tuominiemi.

2.4 Managing Director of POP Bank Alliance Coop

The central institution is led by a Managing Director or CEO 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 CEO of POP Bank Alliance Coop is Pekka Lemettinen. CEO's deputy is Chief Commercial Officer Jaakko Pulli. The CEO 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 off 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 has 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 resolution authority of the amalgamation is the Financial Stability Authority.

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. The auditor of POP Bank Alliance Coop is KPMG Oy Ab, an accounting firm, with Tiia Kataja, APA, as the auditor-in-charge. 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"). Information pursuant to Part 8 of the CRR is disclosed in a separate Capital Adequacy Report of 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.

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. POP Bank Group does not have a uniform remuneration scheme 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.

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 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 which 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 in their operations 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 a member credit institution, the 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 investment risk is mitigated through diversification and investment allocation limits. 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 institutions 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 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 Executive management

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 as part of of internal capital adequacy accessment process.

2.3 Compliance function

The central institution's compliance function monitors the amalgamation's and its member credit institutions' compliance with the applicable laws, statutory guidelines and orders, market self-regulation and the amalgamation's internal guidelines. The compliance function is also responsible for keeping the central institution's senior and operative management, as well as its member credit institutions, aware of any significant changes to key regulations and the implications of such changes. The compliance function prepares guidelines for applying the regulations.

The largest member credit institutions of the amalgamation of POP Banks have a compliance officer who is independent of their business operations and is responsible for the bank's compliance function.

In other member credit institutions Compliance function is operated by the centralised Compliance function of the amalgamation.

The compliance function reports regularly on its activities and findings to the central institution's operating management, the Board of Directors and the Audit Committee of the Supervisory Board. 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.

The compliance risk is managed by monitoring developments in legislation; by providing business operations with guidelines, training and advice on operating methods that comply with the regulations; and by monitoring the compliance of procedures.

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 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. 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 the Supervisory Board.

2.5 Member credit institutions

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 of POP Banks 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. 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.

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 risk. 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 key figures, capital requirements and main items of capital adequacy calculations of the amalgamation are presented in the Board of Directors' report in the financial statements and in a separate Pillar III report in accordance with Part Eight of the Capital Requirements Regulation (EU 575/2013). 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 available capital management methods and 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 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 is responsible for the amalgamation's capital adequacy in accordance with the valid legislation and regulations.

3.2 Assessment of capital provisions

The amalgamation of POP Banks performs scenario analyses and stress tests for the assessment of capital provisions. Stress tests are utilised to assess how various exceptionally severe, yet possible situations could 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 where 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 comprised 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 for 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 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 (hereinafter referred to as the EU Capital Requirements Regulation). The amalgamation does not include the profit for the financial year in the own funds.

The EU Capital Requirements Regulation does not acknowledge the supplementary cooperative contributions previously used by the member credit institution as an equity instrument. Supplementary cooperative contributions are no longer items recognized in own funds of the member credit institutions after transition period. 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 57,323 (55,326) thousand POP Shares were outstanding at the end of 2019.

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 90,9 (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 3,635 (3,473) million 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 credit worthiness 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.

Monitoring expected credit losses (ECL) 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 central institution's Board of Directors on the development of credit risks, risk position, non-performing receivables, forbearance and expected credit losses on a quarterly basis.

Lending to private customers is primarily based on the customer's sufficient debt servicing capacity. The assessment of the credit worthiness 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 behaviour or application scoring model. Customers with exposures are scored with the behaviour scoring model based on payment behaviour. 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.

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 as per IFRS 9 in the calculation of excepted credit losses. Receivables with a significant increase in credit risk are classified in stage 2. Other receivables are classified in stage 1.

Loans and receivables, debt securities and off-balance sheet items in highest-risk rating category 8 totalled 129,258 (133,600) thousand at the end of 2019.

RECEIVABLES BY RATING CATEGORY

Loans and receivables from customers by rating category and by ECL stage 31 Dec 2019

(EUR 1,000, gross value)	PD value		31 Dec 2019				31 Dec 2018
Rating category	Lower	Upper	Stage 1	Stage 2	Stage 3	Total	Total
1	0.00	0.15	127,973	172	-	128,145	112,756
2	0.15	0.30	1,360,919	643	-	1,361,562	1,200,231
3	0.30	0.80	585,081	9,727	-	594,808	561,716
4	0.80	1.50	599,368	8,231	-	607,599	597,522
5	1.50	5.00	481,439	46,157	-	527,595	571,840
6	5.00	25.00	135,380	108,732	-	244,112	239,735
7	25.00	100.00	2,376	75,027	-	77,404	92,099
8	100.00	100.00	-	217	127,846	128,062	130,583
Total			**3,292,536**	**248,905**	**127,846**	**3,669,286**	**3,506,483**

Debt securities by rating category and by ECL stage 31 Dec 2019

(EUR 1,000, market value)	PD value		31 Dec 2019				31 Dec 2018
Rating category	Lower	Upper	Stage 1	Stage 2	Stage 3	Total	Total
1	0.00	0.15	201,696	1,500	-	203,196	341,628
2	0.15	0.30	52,837	499	-	53,336	54,780
3	0.30	0.80	2,579	3,347	-	5,925	7,569
4	0.80	1.50	328	11,200	-	11,528	7,052
5	1.50	5.00	-	15,037	-	15,037	22,774
6	5.00	25.00	-	8,064	-	8,064	5,268
7	25.00	100.00	-	1,855	-	1,855	3,432
8	100.00	100.00	-	-	40	40	-
Total			**257,440**	**41,501**	**40**	**298,982**	**442,502**

Off balance-sheet commitments by rating category and by ECL stage 31 Dec 2019

(EUR 1,000, gross value)	PD value		31 Dec 2019				31 Dec 2018
Rating category	Lower	Upper	Stage 1	Stage 2	Stage 3	Total	Total
1	0.00	0.15	99,874	3,924	-	103,798	98,370
2	0.15	0.30	69,385	1,034	-	70,419	56,814
3	0.30	0.80	38,902	1,759	-	40,661	32,714
4	0.80	1.50	20,162	837	-	20,998	24,712
5	1.50	5.00	16,086	1,875	-	17,961	18,058
6	5.00	25.00	4,902	1,121	-	6,022	5,236
7	25.00	100.00	83	1,849	-	1,932	374
8	100.00	100.00	-	-	1,373	1,373	3,017
Total			**249,394**	**12,398**	**1,373**	**263,164**	**239,295**

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 totalled EUR 3,635,488 (3,473,310) thousand at the end of 2019.

Breakdown of loans by customer groups

(EUR 1,000)	31 Dec 2019	31 Dec 2018	Change, %	Main collateral type
Private customers	2,438,525	2,327,196	4.8 %	Residential real estate
Agricultural customers	561,230	556,138	0.9 %	Other real estate
Corporate customers	635,733	589,976	7.8 %	Other real estate
Total	**3,635,488**	**3,473,310**	**4.7 %**	

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.

Corporate lending by industry

	31 Dec 2019		31 Dec 2018	
EUR 1,000	Balance sheet value	%	Balance sheet value	%
Real estate	180,366	28.4 %	166,916	28.3 %
Construction	99,486	15.6 %	92,132	15.6 %
Industry	77,425	12.2 %	77,727	13.2 %
Wholesale and retail trade	70,205	11.0 %	72,021	12.2 %
Transport and storage	45,806	7.2 %	44,286	7.5 %
Other industries	162,445	25.6 %	136,892	23.2 %
Total	**635,733**	**100.0 %**	**589,976**	**100.0 %**

Lending to private customers is mainly secured by residential real estate collateral. Other collateral is used according to need. A majority, 65.0 (65.6) per cent 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 and unsecured digital consumer credits are booked in the balance sheet of the central credit institution.

LOAN PORTFOLIO BY COLLATERAL TYPE AND BY COLLATERAL TYPE

Loan portfolio by collateral type and by ECL stage 31 Dec 2019

EUR 1,000	Stage 1	Stage 2	Stage 3	Total
Residential real estate	2,259,211	113,084	49,837	2,422,133
Other real estate	852,283	119,731	44,562	1,016,576
Financial collateral	12,084	283	628	12,996
Guarantee	47,265	4,899	2,546	54,709
Other collateral	35,262	4,441	1,754	41,457
Non-collateralized	84,168	1,548	1,900	87,616
Total	**3,290,274**	**243,987**	**101,228**	**3,635,488**

Loan portfolio by collateral type and by ECL stage 31 Dec 2018

EUR 1,000	Stage 1	Stage 2	Stage 3	Total
Residential real estate	2,117,230	145,243	49,043	2,311,516
Other real estate	795,410	141,469	49,852	986,731
Financial collateral	9,335	1,614	408	11,357
Guarantee	46,864	6,396	3,383	56,643
Other collateral	25,723	4,606	2,419	32,748
Non-collateralized	70,779	1,443	2,091	74,314
Total	**3,065,341**	**300,773**	**107,196**	**3,473,310**

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 can 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 is part of the POP Bank Group.

4.1.4. Doubtful receivables, forbearances and impairment losses

The monitoring of credit risk is based on the continuous monitoring of non-performing receivables and past-due payments, forbearances 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 0.80 (0.89) per cent of the loan portfolio. The amalgamation's receivables 30–90 days past due accounted for 0.42 (0.83) per cent of the loan portfolio at the end of the financial year.

Past due exposures

EUR 1,000	31 Dec 2019 Balance sheet value	31 Dec 2019 % of loan portfolio	31 Dec 2018 Balance sheet value	31 Dec 2018 % of loan portfolio
Exposures 30–90 days past due	15,381	0.42 %	28,663	0.83 %
Exposures over 90 days past due	29,169	0.80 %	30,848	0.89 %
Exposures 90–180 days past due	5,267	0.14 %	8,955	0.26 %
Exposures 180 days – 1 year past due	7,497	0.21 %	6,853	0.20 %
Exposures over 1 year past due	14,973	0.41 %	15,040	0.43 %

Stage 3 receivables by Note 2 accounting policies and other non-performing receivables 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).

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. Receivables past due under 90 days with forbearance measures are categorized in stage 2 by Note 2 accounting policies.

Doubtful receivables and forbearance

(EUR 1,000, gross value)	31 Dec 2019 Credit balance	31 Dec 2018 Credit balance
Non-performing receivables, from which	130,027	134,084
- Receivables in stage 3	127,846	130,389
Stage 3 forbearance receivables	43,354	34,466
- Other non-performing receivables	2,181	3,695
Stage 2 receivables with forbearance measures	117,180	187,354

Receivables in stage 3 are covered mainly by residential real estate or other real estate. Loans categorised in stage 3 decreased 2.0 per cent during the financial year.

Loan portfolio in stage 3 by the primary collateral type

31 Dec 2019 (EUR 1,000, gross value)	Credit balance	Eligible collateral *	Expected credit losses	Open credit risk after ECL provisions and collaterals
Residential real estate	57,273	51,585	7,435	-
Other real estate	57,714	47,552	13,152	-
Financial collateral	725	496	97	132
Guarantee	4,224	-	1,678	2,546
Other collateral	3,323	1,047	1,568	707
Non-collateralized	4,587	531	1,763	2,293
Total	**127,846**	**101,120**	**25,693**	**1,033**

31 Dec 2018 (EUR 1,000, gross value)	Credit balance	Eligible collateral *	Expected credit losses	Open credit risk after ECL provisions and collaterals
Residential real estate	55,908	49,847	6,865	-
Other real estate	60,661	49,201	10,809	651
Financial collateral	480	255	72	153
Guarantee	5,030	-	1,647	3,383
Other collateral	4,515	2,046	2,096	373
Non-collateralized	3,795	467	323	3,004
Total	**130,389**	**101,763**	**21,812**	**6,814**

*The tables only show the effect of eligible collateral arrangements for capital adequacy purposes. Receivables are also subject to non-secured collateral arrangements.

Expected credit losses (ECL) increased 10.5 per cent to EUR 33.8 (30.6) million during the financial year. The accounting policies for impairment on loans and other receivables are defined in Note 2 to the financial statements, and more detailed information about changes in expected credit losses is presented in Note 18 ('Impairment losses on 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. The process for managing a member credit institution's capital adequacy is a key part of the process for determining the risk capacity and appetite related to investing activities.

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.

The currency risk related to the Group's operations is low. Currency risk is not taken at all in lending; all loans are granted in euros. 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. The amalgamation does not have derivative contracts.

The amalgamation's interest rate risk is managed by applying the risk thresholds issued by the central institution's Board of Directors for net interest income and changes in the present value of the balance sheet. 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

Impact to interest margin (EUR 1,000)	Change	31 Dec 2019 1–12 months	31 Dec 2018 1–12 months
Interest rate risk	+1%-point	11,840	12,041
Interest rate risk	-1%-point	-6,950	-7,367

The interest rate calculations present interest rate sensitivity concerning the impact of a change of 1 per cent at the time of reporting on net interest income for the following financial year and, with regard to the investment and liquidity portfolio, on the profit for the period and total comprehensive income (fair value reserve).

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, consisting of counterparty, interest rate, currency and general market price 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.

Portfolio diversification decreases the concentration risk arising from individual investments. Risks arising from the investment and liquidity portfolio are managed by diversifying investments in terms of timing, asset category, risk type and counterparty. Investment risks are also monitored through sensitivity analysis. Counterparty risk is managed with counterparty limits. The Boards of Directors of the amalgamation's individual member credit institutions set risk limits for the composition of the investment and liquidity portfolio with regard to asset category and counterparty. In addition, the Board of Directors of the central institution has set risk limits for the individual credit institutions' investment portfolios.

Asset allocation and largest counterparties of the amalgamation's portfolio are regularly reported to the Board of Directors of the central institution. Risk appetite in the investment portfolio is assessed in relation to the earnings and own funds of the amalgamation. At the end of the financial year, the amalgamation had one counterparty within the POP Bank Group, POP Holding LLC, in which the amount of investments and other receivables exceeded the large exposures limit of 10 per cent of own funds in accordance with the EU's Capital Requirements Regulation. The amalgamation's equity holding of POP Holding LLC, totalling EUR 57.0 (57.0) million, is presented as part of strategic investments. The investment is eliminated on the group level.

Investment and liquidity portfolio

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Cash	12,078	12,980
Receivables from the central bank	155,350	68,137
Receivables from credit institutions payable on demand	23,291	18,017
Other receivables from credit institutions	47,652	50,893
Debt securities	276,876	425,481
from which financial assets at fair value through other comprehensive income	265,212	414,187
from which financial assets at fair value through profit or loss	11,664	11,294
Fund units	209,914	201,452
Public equity	3,227	3,872
Strategic shares	58,516	60,457
Other equity and shares	2,523	2,495
Investment and liquidity portfolio total	**789,428**	**843,784**

Sensitivity Analysis

		31 Dec 2019		31 Dec 2018	
(EUR 1,000)	Stress Scenario	Impact on P&L	Impact on Comprehensive Income	Impact on P&L	Impact on Comprehensive Income
Change in Risk-free Interest Rate	+100 bp	-2,794	-7,039	-3,044	-6,904
Change in Credit Spreads	+50 bp	-1,467	-3,695	-1,598	-3,625
Change in Listed Equities	-10 %	-1,992	-	-2,266	-
Change in Unlisted Equities	-10 %	-	-5,852	-	-6,046
Alternative Investments - liquidity premium	-10 %	-8,118	-	-7,205	-
Foreign Exchange risk	-5 %	-1,124	-96	-1,145	-72

4.3 Liquidity risks

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 fulfil 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 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.

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 Capital Requirements Regulation (EU 575/2013) and EU's statutory orders based on the Regulation 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 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 has been 100 per cent from 1 January 2018. The Board of Directors of the amalgamation's central institution has set a limit for the amalgamation's liquidity coverage ratio (LCR) to ensure its liquidity risk position. This is monitored by the central institution's risk control function. On 31 December 2019, the amalgamation's LCR-eligible assets before haircuts totalled EUR 305,366 (364.088) thousand, of which 54.8 (22.3) per cent were cash and balance at the central bank and 40.2 (77.7) per cent were highly liquid tier 1 securities. The amalgamation's LCR indicator was 114.7 (151) per cent on 31 December 2019.

The amalgamation's central credit institution Bonum Bank Plc supervises the intra-day liquidity coverage by monitoring the balances of the payment accounts of the member credit institutions. The member credit institutions follow continuously their intra-day liquidity position.

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.

The Net Stable Funding Ratio (NSFR) was 121.28 (119.5) at the end of the period, with the future requirement being 100 per cent in accordance with Regulation (EU) 2019/876, which was confirmed in summer 2019. Bonum Bank Plc has EUR 95 million (100) outstanding unsecured senior notes from EUR 750 million bond programme.

Maturity of financial assets 31 Dec 2019

(EUR 1,000)	less than 3 months	3–12 months	1–5 years	Over 5 years	Total
Cash	167,428	-	-	-	167,428
Loans and receivables from credit institutions	59,496	8,902	2,550	-	70,948
Loans and receivables from customers	74,281	49,909	447,017	3,098,080	3,669,287
Investments	284,439	35,841	176,590	54,721	551,592
Total	**585,645**	**94,653**	**626,157**	**3,152,801**	**4,459,255**

Maturity of financial assets 31 Dec 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 liabilities 31 Dec 2019

(EUR 1,000)	less than 3 months	3–12 months	1–5 years	Over 5 years	Total
Liabilities to credit institutions	37,379	139	25	-	37,543
Liabilities to customers	3,380,056	246,058	124,537	10	3,750,661
Debt securities issued	9,999	9,991	94,839	-	114,829
Total	**3,427,433**	**256,188**	**219,401**	**10**	**3,903,033**

Maturity of financial liabilities 31 Dec 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**

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 (0.8) per cent of the balance sheet.

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 compliance function. Furthermore, the member credit institution report the results of their self-assessments of operational risks to the compliance function. The compliance 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 compliance and risk control function.

The compliance function semi-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 for example 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 and strategy. 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 on a weekly level and claim proportions on a monthly level. The development of sales, the customer base and acquisition of new customers are monitored on a weekly level. Technical provisions, solvency capital and its minimum limits are monitored on a 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. Approval for the calculation principles of the equalisation provisions will be sought from the Financial Supervisory Authority.

The portion of premiums written for the post-balance sheet date for which future expenses are expected is recorded as a provision for unearned premiums. An additional premium is also added to the provision for unearned 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. An additional premium is also added to the provision for unpaid claims.

The provision for unearned premiums ceded to reinsurers is calculated similarly to the direct insurer's share. The reinsurer's portion of insurance contract liabilities does not include an additional premium.

5.5.4 Quantitative information about insurance risks

Technical provisions totalled EUR 38,606 (32,488) thousand at the end of the financial year.

Premiums earned for the financial year, claims incurred and technical provisions 31 December 2019

(EUR 1,000)	Gross	Ceded to reinsurers	Retained
Premiums earned	43,430	960	42,470
Claims incurred	35,500	3,943	31,557
Provision for unearned premiums	18,061	-	18,061
Provision for claims outstanding	28,759	8,214	20,545

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

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 unfavourable 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 2019, investment assets including cash at bank totalled EUR 53.3 (47.0) million at fair value. Only liquid euro-denominated direct and indirect interest rate instruments, indirect equity investments, indirect property and capital 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 1.9 (1.6) years.

5.7 Liquidity risks

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 mainly 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 on call 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 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 changes in a way that the company has not prepared for in its strategy.

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.

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 presented in unallocated items and eliminations. 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 2019

Income statement 1 January – 31 Dec 2019

(EUR 1 000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Net interest income	68,927	405	69,332	-14	69,318
Net commissions and fees	30,545	-450	30,094	-82	30,013
Net investment income	13,161	1,235	14,395	1,193	15,588
Net income from non-life insurance	-	10,913	10,913	-	10,913
Other operating income	4,777	436	5,213	317	5,529
Total operating income	**117,410**	**12,538**	**129,948**	**1,414**	**131,362**
Personnel expenses	-31,250	-6,927	-38,177	-4,666	-42,843
Other operating expenses	-51,119	-2,175	-53,294	5,366	-47,927
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-4,769	-1,851	-6,620	-1,241	-7,861
Total operating expenses	**-87,138**	**-10,952**	**-98,090**	**-541**	**-98,631**
Impairment losses on loans and receivables	-6,487	-41	-6,528	0	-6,528
Share of the income of associates	-	-	-	-53	-53
Profit before tax	**23,785**	**1,545**	**25,330**	**821**	**26,150**
Income tax expense	-4,892	-13	-4,905	130	-4,775
Profit for the financial period	**18,893**	**1,532**	**20,425**	**951**	**21,376**
External share of total operating income	117,410	12,538	**129,948**		
Internal share of total operating income	163	-	**163**		

Balance Sheet 31 Dec 2019

(EUR 1 000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Assets					
Liquid assets	167,428	-	167,428	-	167,428
Loans and receivables from credit institutions	70,851	7,504	78,355	-4,063	74,293
Loans and receivables from customers	3,637,559	-	3,637,559	-2,071	3,635,488
Investment assets	621,202	45,946	667,148	-94,090	573,058
Investments in associates and joint ventures	-	-	-	116	116
Intangible assets	10,692	5,518	16,210	1,928	18,138
Property, plant and equipment	31,365	806	32,171	1,291	33,462
Other assets	18,134	11,154	29,288	1,325	30,612
Tax assets	1,679	6	1,685	1,275	2,961
Total assets	**4,558,910**	**70,934**	**4,629,844**	**-94,287**	**4,535,557**
Liabilities					
Liabilities to credit institutions	37,226	-	37,226	317	37,542
Liabilities to customers	3,751,741	-	3,751,741	-5,436	3,746,305
Non-life insurance liabilities	-	38,606	38,606	-	38,606
Debt securities issued to the public	114,829	-	114,829	-	114,829
Supplementary cooperative capital	18,003	-	18,003	-	18,003
Other liabilities	39,781	5,053	44,834	3,645	48,479
Tax liabilities	23,064	277	23,341	16	23,357
Total liabilities	**3,984,644**	**43,936**	**4,028,580**	**-1,458**	**4,027,122**

POP BANK GROUP'S OPERATING SEGMENTS 2018

Income statement 1 January – 31 Dec 2018

(EUR 1 000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Net interest income	65,101	306	65,407	-16	65,391
Net commissions and fees	30,380	-505	29,875	-85	29,790
Net investment income	2,066	-380	1,686	-575	1,111
Net income from non-life insurance	-	10,433	10,433	-	10,433
Other operating income	3,927	372	4,299	619	4,918
Total operating income	**101,473**	**10,227**	**111,700**	**-57**	**111,643**
Personnel expenses	-30,588	-7,107	-37,695	-4,074	-41,769
Other operating expenses	-50,852	-2,375	-53,227	4,971	-48,257
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-4,534	-1,413	-5,947	-898	-6,845
Total operating expenses	**-85,974**	**-10,895**	**-96,869**	**-2**	**-96,871**
Impairment losses on loans and receivables	-3,217	21	-3,195	-	-3,195
Share of the income of associates	-	-	-	-9	-9
Profit before tax	**12,283**	**-647**	**11,635**	**-67**	**11,569**
Income tax expense	-2,587	-49	-2,637	-4	-2,640
Profit for the financial period	**9,695**	**-696**	**8,999**	**-71**	**8,928**
External share of total operating income	101,473	10,227	**111,700**		
Internal share of total operating income	253	-	**253**		

Balance Sheet 30 Dec 2018

(EUR 1 000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Assets					
Liquid assets	81,117	-	81,117	-	81,117
Loans and receivables from credit institutions	68,826	10,174	79,000	-4,375	74,625
Loans and receivables from customers	3,475,795	-	3,475,795	-2,485	3,473,310
Derivative contracts	4	-	4	-	4
Investment assets	766,678	36,418	803,096	-95,199	707,897
Investments in associates and joint ventures	-	-	-	166	166
Intangible assets	4,101	5,980	10,081	1,136	11,217
Property, plant and equipment	28,654	31	28,685	1,340	30,025
Other assets	15,665	8,965	24,629	2,050	26,680
Tax assets	3,340	15	3,355	1,124	4,478
Total assets	**4,444,179**	**61,582**	**4,505,762**	**-96,244**	**4,409,518**
Liabilities					
Liabilities to credit institutions	2,959	-	2,959	70	3,030
Liabilities to customers	3,672,303	-	3,672,303	-5,760	3,666,543
Non-life insurance liabilities	-	32,488	32,488	-	32,488
Debt securities issued to the public	142,399	-	142,399	-	142,399
Supplementary cooperative capital	21,416	-	21,416	-	21,416
Other liabilities	31,131	3,600	34,731	3,426	38,157
Tax liabilities	21,506	192	21,698	-	21,698
Total liabilities	**3,891,713**	**36,279**	**3,927,993**	**-2,263**	**3,925,730**

NOTE 6 Net Interest Income

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Interest Income		
Loans and advances to credit institutions	15	28
Loans and advances to customers	71,935	70,037
Debt securities		
Measured at fair value through profit or loss	401	378
Measured at fair value through other comprehensive income	3,794	3,635
Hedging derivatives	4	678
Other interest income	1,133	938
Total interest income	**77,281**	**75,695**
Of which positive interest expense	1	2
Interest expenses		
Liabilities to credit institutions	-335	-191
Liabilities to customers	-6,745	-9,143
Debt securities issued to the public	-852	-958
Other interest expenses	-31	-12
Total interest expenses	**-7,963**	**-10,304**
Of which negative interest income	-783	-892
Net interest income	**69,318**	**65,391**
Interest income from financial assets impaired due to credit risk (stage 3)	4,013	4,028

NOTE 7 Net Commissions and Fees

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Commissions and fees		
Lending	7,573	8,038
Deposits	201	253
Payment transfers	17,752	17,049
Legal services	2,249	2,168
Intermediated services	3,021	3,127
Issuing guarantees	534	538
Funds	2,641	2,358
Other commission income	1,040	1,002
Total commissions and fees	**35,011**	**34,532**
Commissions expenses		
Payment transfers	-4,197	-3,751
Other commission expenses	-801	-990
Total commission expenses	**-4,998**	**-4,742**
Net commissions and fees	**30,013**	**29,790**

Commisisons and fees are mainly accrued from the banking segment.

NOTE 8 Net Investment Income

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Financial assets measured at fair value through profit or loss		
Debt securities		
Capital gains and losses	10	-12
Impairment gains and losses	515	-588
Shares and participations		
Dividend income	4,123	3,282
Capital gains and losses	161	-227
Impairment gains and losses	10,867	-2,831
Total	**15,676**	**-378**
Financial assets measured at fair value through other comprehensive income		
Debt securities		
Capital gains and losses	-49	20
Transferred from fair value reserve	686	972
Shares and participations		
Dividend income*	411	343
Total	**1,048**	**1,336**
Net income from hedge accounting	**0**	**15**
Net income from foreign exchange trading	**359**	**315**
Net income from investment property		
Rental income	3,137	3,089
Capital gains and losses	-82	372
Other income from investment property	139	189
Maintenance charges and expenses	-2,522	-2,577
Depreciations and amortisation of investment property	-2,158	-1,239
Other expenses from investment property	-9	-12
Total	**-1,495**	**-177**
Net income investments total	**15,588**	**1,111**

Net investment income includes net income from financial instruments except interest income from bonds recognised in net interest income.

*) Dividend income from shares measured at fair value through other comprehensive income held at the end of the financial period EUR 20 (11) thousand. Dividend income from shares disposed during the financial period EUR 391 (332) thousand.

NOTE 9 Net insurance income

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Insurance premium revenue		
Premiums written	45,787	38,884
Change in the provision for unearned premiums	-2,357	-2,424
Gross insurance premium revenue	43,430	36,460
Ceded to reinsurers	-960	-810
Total insurance premium revenue	**42,470**	**35,650**
Claims incurred		
Claims paid	-27,795	-24,426
Change in provision for unpaid claims	-7,704	-2,457
Total claims incurred, gross	-35,500	-26,883
Ceded to reinsurers	3,943	1,666
Total claims incurred	**-31,557**	**-25,217**
Net insurance Income	**10,913**	**10,433**

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	2019	2,003	2,132	-2,020	-551	-21	-460
	2018	1,717	1,569	-987	-482	-29	71
	2017	1,201	1,081	-195	-367	-19	500
Motor vehicle	2019	22,669	22,417	-18,148	-5,792	3,033	1,509
	2018	19,674	18,908	-12,804	-5,807	916	1,212
	2017	19,259	19,619	-14,104	-5,886	616	245
Land vehicles	2019	14,729	13,346	-11,013	-3,448	-21	-1,136
	2018	12,343	11,488	-9,609	-3,529	-22	-1,671
	2017	11,155	10,923	-9,435	-3,409	-20	-1,942
Vessels, aircraft, rail stock and transport	2019	642	599	-583	-155	-1	-140
	2018	598	599	-532	-184	-1	-119
	2017	540	505	-388	-165	-1	-50
Fire and other property loss	2019	4,708	3,876	-2,910	-1,001	-6	-42
	2018	3,716	3,090	-2,484	-949	-6	-349
	2017	2,384	2,105	-2,600	-729	-4	-1,228
Third party	2019	291	328	-96	-85	-1	147
	2018	232	224	-95	-69	0	59
	2017	202	181	-17	-62	0	102
Legal expenses	2019	506	470	-566	-121	-1	-218
	2018	388	360	-268	-111	-1	-19
	2017	309	274	-194	-94	0	-14
Other	2019	239	262	-163	-68	0	31
	2018	215	223	-103	-68	0	51
	2017	194	174	-46	-59	0	68
Direct insurance total	**2019**	**45,787**	**43,430**	**-35,500**	**-11,221**	**2,982**	**-308**
	2018	**38,884**	**36,460**	**-26,883**	**-11,199**	**856**	**-765**
	2017	**35,244**	**34,862**	**-26,979**	**-10,771**	**570**	**-2,318**
Total	**2019**	**45,787**	**43,430**	**-35,500**	**-11,221**	**2,982**	**-308**
	2018	**38,884**	**36,460**	**-26,883**	**-11,199**	**856**	**-765**
	2017	**35,244**	**34,862**	**-26,979**	**-10,771**	**570**	**-2,318**
Balance on technical account	**2019**						**-308**
	2018						**-765**
	2017						**-2,318**

NOTE 10 Other Operating Income

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Rental income from owner-occupied properties	702	638
Capital gains on owner-occupied properties	262	48
Recognition of Deposit Guarantee Fund contribution	3,318	3,092
Other income	1,247	1,141
Total other operating income	**5,529**	**4,918**

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 2019	1 Jan - 31 Dec 2018
Wages and salaries	-34,804	-33,942
Indirect personnel expenses	-767	-765
Pension expenses		
Defined contribution plans	-7,480	-6,385
Defined benefit plans	209	-677
Total personnel expenses	**-42,843**	**-41,769**

Remuneration to related parties is presented in Note 38. Other information about remuneration is presented in Note 3 Governance and management.

NOTE 12 Other Operating Expenses

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Other administrative expenses		
Other personnel expenses	-3,156	-3,209
Office expenses	-5,445	-4,881
ICT expenses	-20,612	-20,264
Telecommunications	-3,499	-3,153
Entertainment and marketing expenses	-4,430	-4,390
Other administrative expenses total	**-37,142**	**-35,897**
Other operating expenses		
Rental expenses	-1,165	-2,414
Expenses arising from owner-occupied properties	-3,286	-3,639
Capital losses on owner-occupied properties	-	-21
Insurance and security expenses	-4,061	-3,814
Audit fees	-410	-409
Other services	-765	-1,075
Other operating expenses	-1,099	-987
Other operating expenses total	**-10,785**	**-12,359**
Total other operating expenses	**-47,927**	**-48,257**

Audit fees		
Statutory audit	-365	-272
Audit-related services	-2	-2
Tax advisory	-	-
Other expert services	-43	-135
Total audit fees	**-410**	**-409**

After the adoption of IFRS 16, only expenses from items covered by exemptions providing practical relief are presented in the rental expenses and expenses from owner-occupied properties.

Insurance and security expenses include EUR 3,322 (3,092) 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 37 (135) thousand during the finacial year 2019.

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

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Depreciation and amortisation on property, plant and equipment and intangible assets		
Plant	-12	-8
Buildings	-3,465	-1,855
Machinery and equipment	-1,053	-975
Intangible assets	-3,319	-3,996
Other	-11	-11
Total depreciation and amortisation of property, plant and equipment and intangible assets	**-7,861**	**-6,845**
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets total	**-7,861**	**-6,845**

More detailed information about right-off-use asetts is provided in Note 36.

NOTE 14 Income Tax

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Current tax	-4,273	-3,146
Tax for prior financial years	-33	-41
Other direct taxes	-9	-16
Change in deferred taxes	-459	562
Total income tax expense	**-4,775**	**-2,640**

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

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Profit before tax	26,150	11,569
Income tax rate	20%	20%
Tax calculated at the tax rate	-5,230	-2,314
+ Tax-exempt income	422	100
- Non-deductible expenses	-93	-61
+ Deductible expenses not included in the profit	16	22
+ Use of tax losses carried forward from previous years	298	6
- Deferred tax assets not recognised on losses	-22	-199
+/- Difference due to the differing tax rate of foreign companies	-4	-7
+/- Other	-130	-146
+/- Tax for prior financial years	-33	-41
Tax expense in the income statement	**-4,775**	**-2,640**

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

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Financial assets		
Financial assets at fair value through profit or loss		
Interest income and expenses	401	378
Fair value gains and losses	11,382	-3,441
Dividend income	4,123	3,282
Capital gains and losses	171	-240
Total	**16,077**	**-21**
Financial assets measured at fair value through other comprehensive income		
Interest income and expenses	3,794	3,635
Transferred from fair value reserve	686	972
Dividend income	411	343
Capital gains and losses	-49	20
Expected credit loss	-260	118
Total	**4,582**	**5,088**
Measured at amortised cost (IFRS 9)		
Interest income and expenses	73,052	70,993
Other income	7,773	8,291
Expected credit loss (IFRS 9)	-3,242	1,434
Final credit losses	-2,758	-4,748
Total	**74,825**	**75,969**
Financial liabilities		
Measured at amortised cost		
Interest income and expenses	-7,932	-10,292
Total	**-7,932**	**-10,292**
Derivative contracts		
Interest income and expenses from fair value hedges	4	678
Net income from fair value hedging	0	15
Total	**4**	**693**
Net income from foreign exchange operation	**359**	**315**
Other operating income and expenses (net)	-61,763	-60,184
Profit before tax	**26,150**	**11,569**

NOTES TO ASSETS

NOTE 16 Classification of Financial Assets and Financial Liabilities

Financial assets 31 December 2019

(EUR 1,000)	Measured at amortised cost	Measured at fair value through profit or loss	Measured at fair value through other comprehensive income	Expected credit loss	Total carrying amount
Liquid assets	167,428	-	-	-	167,428
Loans and receivables from credit institutions	74,299	-	-	-6	74,293
Loans and receivables from customers	3,669,287	-	-	-33,798	3,635,488
Debt securities	-	11,664	298,982	-	310,646
Shares and participations	-	227,841	2,010	-	229,851
Financial assets total	**3,911,013**	**239,505**	**300,992**	**-33,804**	**4,417,706**
Other assets					117,851
Total assets at 31 Dec 2019					**4,535,557**

*) Expected credit loss of EUR 1,603 thousand from debt securities have been recorded in the fair value reserve.

The shares of Samlink Ltd measured at fair value through other comprehensive income have been disposed during the financial period.

Financial assets 31 December 2018

(EUR 1,000)	Measured at amortised cost	Measured at fair value through profit or loss	Hedging derivatives	Measured at fair value through other comprehensive 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 liabilities 31 December 2019

(EUR 1,000)	Other financial liabilities	Total carrying amount
Liabilities to credit institutions	37,542	**37,542**
Liabilities to customers	3,746,305	**3,746,305**
Debt securities issued to the public	114,829	**114,829**
Supplementary cooperative capital	18,003	**18,003**
Financial liabilities total	**3,916,680**	**3,916,680**
Other than financial liabilities		**110,442**
Total liabilities at 31 Dec 2019		**4,027,122**

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**

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 2019

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value
Ar fair value through profit or loss				
Shares and participations	219,654	-	8,187	227,841
Debt securities	4,718	-	6,945	11,664
Derivative contracts	-	-	-	0
At fair value through other comprehensive income				
Shares and participations	-	-	2,010	2,010
Debt securities	279,030	19,513	438	298,982
Total	**503,403**	**19,513**	**17,580**	**540,497**

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**

FAIR VALUE HIERARCHY LEVELS OF ITEMS RECOGNIZED AT AMORTISED COST

Assets measured at amortised cost 31 December 2019

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Measured at amortised cost					
Loans and receivables	-	3,780,560	-	3,780,560	3,709,781
Investment property	-	-	47,227	47,227	32,562
Total	**-**	**3,780,560**	**47,227**	**3,827,787**	**3,742,343**

Liabilities measured at amortised cost 31 December 2019

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Measured at amortised cost					
Liabilities to credit institutions and customers	-	3,739,949	-	3,739,949	3,783,848
Other financial liabilities	116,821	-	-	116,821	132,832
Total	**116,821**	**3,739,949**	**-**	**3,856,770**	**3,916,680**

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**

Fair value determination of financial assets and financial liabilities

Financial assets are recorded in the balance sheet either at fair value or at amortised cost. The classification and measurement of financial instruments is described in more detail in Note 2 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 577 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 1 Jan 2019	**12,936**	**5,557**	**18,493**
+ Purchases	2,149	586	2,735
- Sales	-524	-2,278	-2,802
- Matured during the financial year	-389	-	-389
+/- Realised changes in value recognised in income statment	-125	-	-125
+/- Unrealised changes in value recognised in the income statement	470	-	470
+/- Changes in value recogmised in other comprehensive income	37	1,085	1,122
+/- Sales revenue trasferred to retained earnings	-	-1,094	-1,094
+ Transfers from levels 1 and 2	577	-	577
- Transfers to levels 1 and 2	-	-1,408	-1,408
Carrying amount 31 Dec 2019	**15,132**	**2,448**	**17,580**

(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	-848
- Transfers to levels 1 and 2	-	-370	-370
Carrying amount 31 Dec 2018	**12,936**	**5,557**	**18,493**

SENSITIVITY ANALYSIS OF FINANCIAL ASSETS AT LEVEL 3

31 December 2019

(EUR 1,000)	Carrying amount	Possible effect on equity capital Positive	Negative
Financial assets at fair value through profit or loss	15,132	1,292	-1,292
Financial assets at fair value through other comprehensive income	2,448	306	-306
Total	**17,580**	**1,598**	**-1,598**

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**

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

Impairment losses recorded during the reporting period

(EUR 1 000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Change of ECL due to write-offs	1,687	1,646
Change of ECL, receivables from customers and off-balance sheet items	-4,930	-211
Change of ECL, debt securities	-260	117
Final credit losses	-3,025	-4,747
Impairment losses on loans and receivables	**-6,528**	**-3,195**

During the financial year, EUR 3,205 thousand was recognised as final credit loss. Recollection measures are attributed to EUR 756 thousand.

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

The bases of calculating expected credit losses and determining the probability of default are presented in section 4.5 Impairment of financial assets of Note 2 POP Bank Group's accounting policie

Receivables from customers

(EUR 1 000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2019	**3,763**	**4,125**	**22,822**	**30,709**
Transfers to stage 1	180	-1,352	-2,635	-3,807
Transfers to stage 2	-134	1,199	-2,075	-1,010
Transfers to stage 3	-102	-610	7,122	6,409
Increases due to origination	2,413	718	1,232	4,363
Decreases due to derecognition	-610	-570	-3,315	-4,496
Changes due to change in credit risk (net)	-842	-184	1,969	943
Changes in calculation parametres	95	25	2,260	2,379
Decreases due to write-offs	-	-	-1,687	-1,687
Total	**998**	**-781**	**2,871**	**3,095**
ECL 31 Dec 2019	**4,761**	**3,344**	**25,693**	**33,804**

Debt securities

(EUR 1 000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2019	**134**	**1,170**	**-**	**1,303**
Transfers to stage 1	7	-138	-	-132
Transfers to stage 2	-2	7	-	5
Increases due to origination	46	482	360	888
Decreases due to derecognition	-69	-321	-	-390
Changes due to change in credit risk (net)	1	-74	-359	-432
Changes in calculation parametres	-	-	359	359
Total	**-16**	**-44**	**360**	**299**
ECL 31 Dec 2019	**117**	**1,125**	**360**	**1,603**

Off-balance sheet commitments

(EUR 1 000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2019	**279**	**75**	**226**	**580**
Transfers to stage 1	5	-30	-48	-73
Transfers to stage 2	-5	10	-11	-5
Transfers to stage 3	-3	-1	33	29
Increases due to origination	228	49	14	291
Decreases due to derecognition	-34	-15	-64	-113
Changes due to change in credit risk (net)	-96	-13	89	-20
Total	**96**	**0**	**13**	**109**
ECL 31 Dec 2019	**375**	**75**	**238**	**688**
ECL 1 Jan 2019	**4,175**	**5,369**	**23,048**	**32,593**
ECL 31 Dec 2019	**5,253**	**4,544**	**26,291**	**36,095**

Balance sheet item 31 Dec 2019

(EUR 1 000)	Stage 1	Stage 2	Stage 3	Total
Receivables from customers	3,292,536	248,905	127,846	**3,669,286**
Debt securities at fair value through other comprehensive income	257,440	41,501	40	**298,982**
Off-balance sheet commitments	249,394	12,398	1,373	**263,164**

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**
ECL 1 Jan 2018	**3,591**	**7,036**	**23,517**	**34,145**
ECL 31 Dec 2018	**4,175**	**5,369**	**23,048**	**32,593**

Balance sheet item 31 Dec 2018

(EUR 1 000)	Stage 1	Stage 2	Stage 3	Total
Receivables from customers	3,067,653	305,972	130,389	**3,504,014**
Debt securities at fair value through other comprehensive income	390,858	51,644	-	**442,502**
Off-balance sheet commitments	224,763	12,157	2,022	**238,941**

NOTE 19 Liquid assets

(EUR 1 000)	31 Dec 2019	31 Dec 2018
Cash	12,078	12,980
Receivables from central banks repayable on demand	155,350	68,137
Total cash and cash equivalents	**167,428**	**81,117**

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 2019	31 Dec 2018
Loans and receivables from credit institutions		
Deposits		
Repayable on demand	26,641	23,737
Other	47,652	50,888
Total loans and advances to credit institutions	**74,293**	**74,625**
Loans and advances to customers		
Loans	3,528,259	3,390,444
Loans granted from government funds	3,292	4,812
Guarantees	379	466
Used overdrafts	43,112	42,195
Credit card receivables	60,447	35,393
Total loans and advances to customers	**3,635,488**	**3,473,310**
Total loans and receivables	**3,709,781**	**3,547,935**

NOTE 21 Investment Assets

(EUR 1,000)	31 Dec 2019	31 Dec 2018
At fair value through profit or loss		
Debt securities	11,664	11,294
Shares and participations	227,841	215,922
At fair value through other comprehensive income		
Debt securities	298,982	442,502
Shares and participations	2,010	3,751
Investment properties	32,562	34,428
Investment assets total	**573,058**	**707,897**

Investments on 31 December 2019

	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	-	-	101,441	-	101,441
Other	11,664	220,787	197,541	-	429,992
Other					
Other	-	7,054	-	2,010	9,063
	11,664	**227,841**	**298,982**	**2,010**	**540,497**

Investments on 31 December 2018

(EUR 1,000)	At fair value through profit or loss		At fair value through other comprehensive income		Total
	Debt securities	Shares and participations	Debt securities	Shares and participations	
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**

Changes in investment property

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Acquisition cost 1 January	48,816	48,307
+ Increases	1,012	982
- Decreases	-1,189	-903
+/- Transfers	154	429
Acquisition cost 31 December	**48,793**	**48,816**
Accumulated depreciation and impairment 1 January	-14,388	-13,406
+/- Accumulated depreciation on decreases and transfers	315	257
- Depreciation	-1,011	-1,208
- Impairment losses	-1,147	-30
Accumulated depreciation and impairment 31 December	**-16,231**	**-14,388**
Carrying amount 1 January	**34,428**	**34,902**
Carrying amount 31 December	**32,562**	**34,428**

NOTE 22 Investments in Associates and Joint Ventures

Name	Industry	Holding % 31 Dec 2019	Holding % 31 Dec 2018	% of votes 31 Dec 2019	% of votes 31 Dec 2018
Paikallispankkien PP-Laskenta Ltd	Services	25%	25%	25%	25%

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Acquisition cost 1 Jan	166	-
+ additional acquistions	3	175
+/- share of profit for the financial year	-53	-9
Acquisition cost	**116**	**166**

Paikallispankkien PP-Laskenta Ltd provides accounting and regulatory reporting services to customers in financial sector.

NOTE 23 Intangible Assets

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Information systems	5,382	6,500
Other intangible assets	3,467	2,801
Incomplete intangible assets	9,289	1,916
Total intangible assets	**18,138**	**11,217**

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 2019, the carrying amount of the non-life insurance information system totalled EUR 4,215 (5,252) 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 2019

(EUR 1,000)	Information systems	Other intangible assets	Incomplete intangible assets	Total
Acquisition cost 1 January	**16,779**	**10,151**	**1,916**	**28,847**
+ Increases	251	904	9,167	10,322
- Decreases	-	-318	-	-318
+/- Transfers	602	1,193	-1,794	-
Acquisition cost 31 December	**17,632**	**11,929**	**9,289**	**38,850**
Accumulated depreciation and impairment 1 January	-10,279	-7,350	-	-17,630
+/- Accumulated depreciation on decreases and transfers	-	236	-	236
- Depreciation	-1,971	-1,348	-	-3,319
Accumulated depreciation and impairment 31 December	**-12,251**	**-8,462**	**-**	**-20,712**
Carrying amount 1 January	**6,500**	**2,801**	**1,916**	**11,217**
Carrying amount 31 December	**5,382**	**3,467**	**9,289**	**18,138**

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**

NOTE 24 Property, Plant and Equipment

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Owner-occupied properties		
Land and water	2,900	2,802
Buildings	27,640	24,463
Machinery and equipment	2,164	2,012
Other tangible assets	754	748
Construction in progress	4	-
Total property, plant and equipment total	**33,462**	**30,025**

Changes in property, plant and equipment 2019

(EUR 1,000)	Owner-occupied properties	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost 1 January	**59,206**	**15,467**	**965**	**-**	**75,637**
+ Increases	1,595	571	18	4	2,188
- Decreases	-652	-150	-1	-	-803
+/- Transfers	-154	-	-	-	-154
Acquisition cost 31 December	**59,995**	**15,888**	**982**	**4**	**76,868**
Accumulated depreciation and impairment 1 Jan	-26,807	-12,766	-217	-	-39,790
+/- Accumulated depreciation on decreases and transfers	518	96	-	-	614
- Depreciation	-3,477	-1,053	-11	-	-4,542
+/- Other changes	312	-	-	-	312
Accumulated depreciation and impairment 31 December	**-29,454**	**-13,724**	**-228**	**-**	**-43,406**
Carrying amount 1 January	**32,399**	**2,700**	**748**	**-**	**35,847**
Carrying amount 31 December	**30,540**	**2,164**	**754**	**4**	**33,462**

Under IFRS 16, right-of-use assets in the balance sheet are included in the owner-occupied properties and machinery and equipment. More detailed information about the right-of-use assets is presented in Note 34 and the effects of the adoption of IFRS 16 standard are presented in Note 2.

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**

NOTE 25 Other Assets

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Payment transfer receivables	208	157
Accrued income and prepaid expenses		
Interest	9,092	9,117
Other accrued income and prepaid expenses	5,797	5,043
Insurance operations	10,448	8,368
Other	5,067	3,995
Other assets total	**30,612**	**26,680**

NOTE 26 Deferred Taxes

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Tax assets		
Deferred tax assets	2,134	2,309
Income tax receivables	827	2,169
Total tax assets	**2,961**	**4,478**
Tax liabilities		
Deferred tax liabilities	22,440	21,560
Income tax liability	916	138
Total tax liabilities	**23,357**	**21,698**

Deferred tax assets

(EUR 1,000)	31 Dec 2018	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2019
At fair value	540	11	-194	356
Real estate depreciation adjustments	1,117	175	-	1,293
Defined benefit pension plans	307	-42	224	488
Tax losses	64	-64	-	-
Consolidation and others	282	-285	-	-3
Total deferred tax assets	**2,309**	**-205**	**29**	**2,134**

(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	-	3,236	-3,142	445	540
Available-for-sale financial assets	209	-204	-4	-	-
Collective impairment	596	-596	-	-	-
Real estate depreciation adjustments	947	-	170	-	1,117
Advances received	-	-	-	-	-
Defined benefit pension plans	101	-	135	70	307
Tax losses	149	-	-84	-	64
Consolidation and others	201	-42	123	-	282
Total deferred tax assets	**2,202**	**2,394**	**-2,802**	**515**	**2,309**

The companies belonging to the POP Bank Group have EUR 32,996 (33,520) thousand of losses for which no deferred tax assets have been recognised. The losses will expire in 2021–2029

Deferred tax liabilities

(EUR 1,000)	31 Dec 2018	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2019
Appropriations	20,681	344	-	21,026
At fair value	552	71	585	1,208
Intangible assets	295	-97	-	198
Consolidation	32,702	-24	-	9
Total deferred tax liabilities	**21,560**	**295**	**585**	**22,440**

(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	-	2,831	-2,032	-247	552
Available for sale	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**

Amounts recognised in other comprehensive income and related deferred taxes 2019

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	4,165	-940	3,225
Defined benefit plans	1,118	-224	-894
Amounts recognised in other comprehensive income, total	**5,283**	**-1,164**	**2,331**

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**

NOTES TO LIABILITIES AND EQUITY CAPITAL

NOTE 27 Liabilities to Credit Institutions and Customers

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Liabilities to credit institutions		
Repayable on demand	2,287	1,553
Not repayable on demand	35,255	1,477
Total liabilities to credit institutions	**37,542**	**3,030**
Liabilities to customers		
Deposits		
Repayable on demand	3,232,560	3,053,293
Not repayable on demand	510,538	608,594
Other financial liabilities		
Not repayable on demand	3,207	4,655
Total liabilities to customers	**3,746,305**	**3,666,543**
Total liabilities to credit institutions and customers	**3,783,848**	**3,669,572**

NOTE 28 Non-life Insurance Liabilities

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Provision for unearned premiums	18,061	15,704
Provisions for unpaid claims	28,759	21,055
Ceded to reinsurers	-8,214	-4,272
Total insurance contract liabilities	**38,606**	**32,488**

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 29 Debt Securities Issued to the Public

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Debt securities issued to the public	94,839	99,913
Other		
Certificates of deposits	19,990	42,485
Total debt securities issued to the public	**114,829**	**142,399**

In the 2019 financial period, Bonum Bank Plc issued a two-year floating-rate unsecured bond of EUR 20 million and a three-year floating-rate unsecured bond of EUR 75 million. Both bonds are listed on the Nasdaq Helsinki. In addition, certificates of deposit with a total nominal value of EUR 20 million were outstanding on the balance sheet date.

Amounts recognised in statement of cash flows

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Balance at 1 Jan 2019	**142,399**	**109,713**
Debt securities issued, increase	114,764	-
Certificates of deposits, increase	24,986	72,463
Total increase	**139,750**	**72,463**
Debt securities issued, decrease	-119,980	-
Certificates of deposits, decrease	-47,469	-39,463
Total decrease	**-167,449**	**-39,463**
Total changes in cash flow	**-27,699**	**33,000**
Valuation, accrued interest	130	-315
Balance at 31 Dec 2019	**114,829**	**142,399**

NOTE 30 Supplementary Cooperative Capital

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Supplementary cooperative capital 1 Jan	21,416	26,219
Refunds of supplementary cooperative capital	-2,906	-4,403
Converted into POP Shares	-507	-399
Supplementary cooperative capital 31 Dec	**18,003**	**21,416**
of which cancelled supplementary cooperative contributions	6,625	2,671

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 2019, a total of EUR 507 (399) thousand of supplementary cooperative capital was converted into POP Shares. More detailed information about POP Shares is provided in Note 32.

NOTE 31 Other Liabilities

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Expected credit loss reservation	688	580
Other liabilities		
Pension liabilities	2,442	1,533
Direct and reinsurance liabilities	1,245	-3,339
Payment transfer liabilities	14,690	13,392
Lease liabilities	5,391	-
Accrued expenses		
Interest payable	2,764	3,076
Advances received	2,249	2,275
Liabilities on card transactions	9,165	3,334
Other accrued expenses	9,844	17,305
Total other liabilities	**48,479**	**38,157**

Defined benefit pension plans and related liabilities are presented in Note 35 and lease liabilities are presented in Note 36.

NOTE 32 Equity Capital

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Total equity attributable to the owners of the POP Bank Group		
Cooperative capital, cooperative contributions	9,422	9,344
of which cancelled cooperative contributions	512	499
Cooperative capital, POP Shares	57,323	55,326
of which cancelled POP Shares	4,055	4,715
Restricted reserves		
Reserve fund	52,494	52,494
Reserves based on the Articles of Association/rules	4,617	3,341
Fair value reserve		
Shares and participations	624	-720
Debt securities	3,137	162
Non-restricted reserves		
Other non-restricted reserves	99,823	96,829
Retained earnings		
Profit (loss) for previous financial years	259,185	257,637
Profit (loss) for the financial year	21,381	8,949
Total equity attributable to the owners of the POP Bank Group	**508,006**	**483,361**
Non-controlling interests	429	428
Total equity capital	**508,435**	**483,788**

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 2019, POP Banks had a total of 89 (89) 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 1 489 (5,708) thousand of POP Shares during the financial year 2019. Of this, the share new sales amounted to EUR 1 489 (5,309) thousand and converted supplementary cooperative contributions amounted to EUR 507 (399) thousand. POP Shares totalled to EUR 57 323 (55,326) thousand in 31 December 2019.

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 30.

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.

The fair value reserve includes the cumulative net change in the fair value of equity securities measured at FVOCI and the cumulative net change in the fair value of debt securities measured at FVOCI. The change in the fair value can be positive or negative. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment. An expected credit loss on debt security is recognised in the income statement and added to the fair value reserve. The fair value reserve also includes changes in the fair value of equity securities recognised in the fair value of comprehensive income, which are not transferred to retained earnings upon later disposal.

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 2019

(EUR 1,000)	Debt instruments	Equity instruments	Total
Fair value reserve 1 Jan	**162**	**-720**	**-559**
Fair value change, increases	9,707	849	10,555
Fair value change, decreases	-5,561	1,746	-3,815
Transferred to the income statement	-686	-	-686
Transferred to the retained earnings	-	-1,094	-1,094
Expected credit loss	299	-	299
Deferred taxes	-784	-156	-940
Fair value reserve 31 Dec	**3,137**	**624**	**3,761**

Specification of changes in fair value reserve 2018

(EUR 1,000)	Debt instruments	Equity instruments	Total
Fair value reserve 31 Dec 2017 (gross)	11,061	-	11,061
Deferred taxes 31 Dec 2017	-2,212	-	-2,212
Fair value reserve 31 Dec 2017	**8,849**	**-**	**8,849**
Restatement due to implementation of IFRS 9 1 Jan 2018	-7,043	214	-6,829
Deferred taxes restatement due to implementation of IFRS 9	1,340	-43	1,297
Fair value reserve 1 Jan	**3,146**	**171**	**3,318**
Fair value change, increases	4,226	384	4,610
Fair value change, decreases	-6,082	-1,249	-7,331
Transferred to the income statement	-972	-	-972
Other changes	-	-	-
Expected credit loss	-118	-	-118
Deferred taxes	-39	-26	-65
Fair value reserve 31 Dec	**162**	**-720**	**-559**

OTHER NOTES

NOTE 33 Collateral Given

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Given on behalf of own liabilities and commitments		
Pledges	2,546	2,546
Mortgages	3,841	400
Collateral given to the Bank of Finland	20,740	16,805
Total collateral given	**27,127**	**19,751**

NOTE 34 Off-balance-sheet Commitments

(EUR 1,000)	31 Dec 2019	31 Dec 2019
Guarantees	17,029	20,332
Loan commitments	246,135	218,609
Total off-balance sheet commitments	**263,164**	**238,941**

NOTE 35 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 2019	31 Dec 2018
Current service cost	224	238
Past service cost	-	579
Net interest	25	3
Costs recognised in income statement	**249**	**819**
Remeasurements	1,118	350
Comprehensive income before tax	**1,367**	**1,169**
Present value of obligation 1 January	19,966	19,049
Current service cost	224	238
Past service cost	-	579
Interest expense	348	298
Actuarial gains (-)/losses (+) arising from experiential adjustments	-533	1,615
Actuarial gains (-)/losses (+) arising from changes in economic expectations	1,945	-599
Benefits paid	-1,118	-1,213
Present value of obligation 31 December	**20,832**	**19,966**
Fair value of plan assets 1 January	18,433	18,543
Interest income	323	295
Return on plan assets excl. items in interest expense/income	294	666
Benefits paid	-1,118	-1,213
Contributions paid	458	142
Fair value of plan assets 31 December	**18,390**	**18,433**
Present value of obligation	20,832	19,966
Fair value of plan assets	18,390	18,433
Net liability in balance sheet 31 December	**2,442**	**1,533**
Net liability in balance sheet 1 January	1,533	506
Costs recognised in income statement	249	819
Contributions paid	-458	-142
Remeasurements in comprehensive income statement	1,118	350
Net liability in balance sheet 31 December	**2,442**	**1,533**
Actuarial assumptions		
Discount rate, %	0.70 %	1.80 %
Pay development, %	2.00 %	2.00 %
Pension increase, %	1,39 %/0,00 %	1,76 %/0,00 %
Inflation rate, %	1.15 %	1.52 %

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 2019	31 Dec 2018
Change of +0.5% in discount rate	-153	-90
Change of -0.5% in discount rate	172	100
Pay development +0.5%	153	126
Pay development -0.5%	-152	-125
Change of +0.5% in pension increase	1,294	1,173
Change of -0.5% in pension increase	-1,218	-1,107

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

Duration based on the weighted average of the obligation is 14.1 (13.1) years.

The POP Bank Group expects to contribute approximately EUR 310 (290) thousand to defined benefit plans in 2020.

NOTE 36 Leasing

Group as a lessor

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.

Future minimum lease payments receivable

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Less than one year	367	530
Within 1–5 years	116	237
More than five years	1,601	1,764
Future minimum lease payments receivable total	**2,084**	**2,531**

Group as a lessee

The POP Bank Group has leased out e.g. residential and business premises it owns. On transition to IFRS 16, POP Bank -group recognised an additional 5.8 million of right-of-use assets and lease liabilities.

Right-of-use assets 31 Dec 2019

(EUR 1,000)	Office Buildings	Machinery and equipment	Total
+ Transition of IFRS 16	**5,134**	**688**	**5,822**
+ Increases	1,747	212	**1,959**
- Decreases	-491	-76	**-567**
Acquisition cost 31 December	**6,390**	**824**	**7,214**
Accumulated depreciation and impairment 1 January			
+/- Accumulated depreciation on decreases and transfers	166	40	206
- Depreciation	-1,635	-309	-1,943
Accumulated depreciation and impairment 31 December	**-1,469**	**-269**	**-1,738**
Carrying amount 1 January	**5,134**	**688**	**5,822**
Carrying amount 31 December	**4,921**	**556**	**5,477**

Presented in Property, Plant and Equipment

Lease liabilities	31 Dec 2019
Lease liabilities 1 Jan	**5,818**
+ Increases	**1,871**
- Decreases	**-2,302**
Lease liabilities 31 Dec	**5,387**

Presented in other liabilities

Amounts recognised in statement of cash flows

(EUR 1,000)	1 Jan - 31 Dec 2019
Total cash outflow for leases	-1,945

Amounts recognised in profit of loss

(EUR 1,000)	1 Jan - 31 Dec 2019
Depreciation	
Office Buildings	-309
Machinery and equipment	-1,635
Total	**-1,943**
Presented in Depreciation, Amortisation and Impairment of Property, Plant and Equipment	
Interest on lease liabilities	8
Presented in Net interest Income	
Expenses relating to short-term leases	12
Espenses relating to leases of low-value assets	1,066
Total	**1,078**

Presented in other operating expenses.

NOTE 37 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).

Name of the bank	Domicile	Balance sheet 31 Dec 2019 (EUR 1,000)	Balance sheet 31 Dec 2018 (EUR 1,000)
Hannulan Osuuspankki	Hankasalmi	32,454	31,067
Honkajoen Osuuspankki	Honkajoki	56,560	55,188
Isojoen Osuuspankki	Isojoki	72,852	67,366
Jämijärven Osuuspankki	Jämijärvi	60,617	59,506
Kannonkosken Osuuspankki	Kannonkoski	57,654	55,408
Keuruun Osuuspankki	Keuruu	194,734	190,917
Konneveden Osuuspankki	Konnevesi	133,088	129,458
Kosken Osuuspankki	Koski Tl	177,612	172,793
Kurikan Osuuspankki	Kurikka	302,401	285,108
Kyrön Seudun Osuuspankki	Pöytyä	103,733	102,641
Kyrönmaan Osuuspankki	Isokyrö	273,592	261,186
Kyyjärven Osuuspankki	Kyyjärvi	79,847	76,910
Lammin Osuuspankki	Hämeenlinna	187,400	177,635
Lanneveden Osuuspankki	Saarijärvi	56,805	53,335
Lappajärven Osuuspankki	Lappajärvi	97,451	105,981
Lapuan Osuuspankki	Lapua	244,895	244,238
Lavian Osuuspankki	Pori	75,672	74,660
Liedon Osuuspankki	Lieto	130,355	123,703
Nivalan Järvikylän Osuuspankki	Nivala	93,597	89,950
Piikkiön Osuuspankki	Kaarina	132,694	137,980
Pohjanmaan Osuuspankki	Kauhava	470,037	465,913
Reisjärven Osuuspankki	Reisjärvi	176,776	161,188
Sievin Osuuspankki	Sievi	159,124	158,287
Siilinjärven Osuuspankki	Siilinjärvi	324,731	321,069
Suupohjan Osuuspankki	Kauhajoki	828,892	814,444
Tiistenjoen Osuuspankki	Lapua	42,626	40,588

Subsidiaries and associates consolidated in the POP Bank Group

		Group's holding	
	Domicile	31 Dec 2019	31 Dec 2018
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, Estonia	0.0 %	67.5 %
White Beach Development AS (subsidiary of Pajker AS)	Audru, Estonia	72.5 %	72.5 %
Paikallispankkien PP-Laskenta Ltd	Espoo	25.0 %	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 2019	31 Dec 2018
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

No subsidiaries were sold or acquired during the financial year 2019. During the financial year Pajker AS merged into its subsidiary White Beach Development AS.

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 38 Related Party Disclosures

The related parties of POP Bank Group comprise the companies and associates consolidated in the financial statements, and members of the Board of Directors and Executive Group and members of their immediate families.

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 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Assets				
Loans	2,457	3,693	1,546	3,597
Expected credit loss	6	-	5	-
Liabilities				
Deposits	1,297	1,765	654	1,577
Off-balance-sheet commitments				
Loan commitments	81	99	29	-
Guarantees	142	4,696	50	4,767
Investments to other than cooperative contributions	215	230	88	98

	Key persons in management		Other	
(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Income and expenses				
Interest income	33	40	54	64
Interest expenses	5	8	3	3
Insurance premium revenue	14	12	6	4

Compensation to key persons in management

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Short-term employee benefits	2,291	2,260
Post-employment benefits	103	47
Total compensation to key persons in management	**2,394**	**2,307**

NOTE 39 Events After the Closing Date

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 2019. The Board of Directors' Report and the Financial Statements will be presented to the general meeting of POP Bank Alliance Coop on 2 April 2020.

Espoo, 13 February 2020

Board of Directors of POP Bank Alliance Coop

Juha Niemelä
Chairman

Soile Pusa
Vice chairman

Ari Heikkilä
Member of the Board

Petri Jaakkola
Member of the Board

Timo Kalliomäki
Member of the Board

Ilkka Lähteenmäki
Member of the Board

Marja Pajulahti
Member of the Board

AUDITOR'S NOTE

A report on the audit performed has been issued today.

Helsinki, 13 February 2020

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, 2019. 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.

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, 6, 7, 15, 16, 18 and 20 to the financial statements)

- Receivables from customers, totaling € 3,6 billion, are the most significant item on the POP Bank Group's consolidated balance sheet representing 80 percent of the total assets.
- POP Bank Group adopted IFRS 9 Financial instruments -standard on 1 January 2018.
- 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, 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.
- 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.

Investment assets (notes 2, 4, 6, 8, 15, 16, 17, 18 and 21 to the financial statements)

- The carrying value of investment assets totals € 0,6 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.
- 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 part of our year-end audit procedures we compared the fair values used in valuation of investment assets to external price references.
- Furthermore, we considered the appropriateness of the notes on investment asset.

Control environment relating to financial reporting process and IT systems

- The key reporting processes of the institutions within POP Bank Group 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 8 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 13, 2020

KPMG OY AB

Tiia Kataja

Authorised Public Accountant, KHT

POP Bank