POP Bank Group

HALF-YEAR FINANCIAL REPORT

1 January – 30 June 2019

POP Bank

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POP Bank Group's half-year financial report for 1 January – 30 June 2019 is a translation of the original Finnish version "POP Pankki -ryhmän puolivuosikatsaus 1.1.–30.6.2019". In case of discrepancies, the Finnish version shall prevail.

CEO'S REVIEW

Digital platforms will play an increasingly important role in the coming years.

The POP Bank Group recorded its best half-year result since the amalgamation was established. The result before taxes was EUR 18.8 million, compared with EUR 10.8 million for the same period a year ago. Capital adequacy also remained strong. The amalgamation's common equity tier 1 (CET1) capital ratio was 20.3 per cent.

The POP Bank Group's loan portfolio also continued to grow steadily, increasing by 2.4 per cent to EUR 3,556.7 million during the first half-year. The loan portfolio's risk exposure remained low, and deposits increased, albeit by a more moderate 0.9 per cent.

The POP Bank Group's operating income grew by EUR 9.4 million over the previous year, to a total of EUR 68.8 (59.4) million, largely as a result of growth in net investment income. Net interest income also improved, despite the challenging interest rate environment.

The POP Bank Group's new digital unsecured consumer credit product, POP Pikalaina, has met customer needs well, with sales of the product in the first half exceeding our expectations. We expect that POP Pikalaina will boost the Group's interest income in the coming years, and that digital platforms will generally play an increasingly important role as a channel for buying banking services.

The POP Bank Group's digital insurance company, Finnish P&C Insurance Ltd, achieved a positive half-year result for the first time in its history. The company, launched in late 2012, grew its customer base through agile, efficient operations, obtaining 4,200 new customers on average every month throughout the first half-year.

In the spring, we launched a project aimed at overhauling our core banking system after concluding negotiations on a new, modern system in January. We estimate that this will enable us to develop our banking services in the future with greater agility and customer-orientation. Our aim is to introduce the new system in 2021.

I would like to take this opportunity to thank our customers, staff, administration and partners for a successful first half of 2019.

Pekka Lemettinen
CEO
POP Bank Alliance Coop

POP Bank Group and amalgamation of POP Banks

The POP Bank Group is a Finnish financial group that offers retail banking services to private customers, small companies, agricultural and forestry companies, as well as non-life insurance services to private customers. In addition to healthy and profitable business, the objectives of the POP Bank Group emphasise the development of the customer experience. The POP Bank Group refers to the new legal entity created on 31 December 2015, comprised of POP Banks and POP Bank Alliance Coop, and the entities under their control. The POP Bank Group prepares its financial statements in accordance with the International Financial Reporting Standards (IFRS). The most significant companies in the POP Bank Group engaged in customer business are:

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

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

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

Operating Environment

The pace of economic growth slowed down in the first half of 2019. Uncertainty in the global economy has increased, owing to the more strained trade relations between the US and China and to the US policy of quickly resorting to trade tariffs as a means of applying political and economic pressure. The US has unresolved trade disputes with the EU as well. The postponement of Brexit and uncertainty over which form it will take are threatening economic performance in the eurozone.

The European Central Bank has continued to support the markets with bond purchases and special financing measures. Expectations of higher interest rates in the eurozone have again been pushed back a lot further into the future. However, negative short-term market rates and the good availability of financing are providing a boost to the equity and real estate markets.

Economic growth in Finland in the first half of the year slowed down considerably compared to the previous year, albeit the improved competitiveness of exports continues to support export sector companies. Over the long term, it is expected that construction will continue to be exceptionally brisk, although the number of applications for new building permits indicates a slackening in its pace.

Consumer purchasing power has maintained its positive trend owing primarily to an improved employment situation, but also to an increase in the wages and salaries sum due to pay rises, and flat inflation. The decline in unemployment is levelling off, however, as it becomes more challenging to find employment for those still out of work. Saving has finally begun to grow, with the result that consumer demand is hardly growing at all.

The agricultural sector continues to face overall challenges. The structural transformation is expected to continue and farms to grow in size. On the other hand investments to forestry and bioeconomy are increasing and the development prospects of the sector seem promising. The importance of the sector is emphasized by the climate change.

Low interest rates still support the housing markets and sales have remained on a decent level. At the growth centres, construction building continues this year, but the number of applied building permits indicates a slow-down in the housing construction. Outside of the Greater Helsinki area and other growth centres, housing prices are rising only modestly.

Key events during the first half of the year

An overhaul of the core banking system of the POP Bank Group was set in motion

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 will be delivered by Cognizant, a US company with extensive experience in the implementation of banking systems in various countries. The banking system overhaul, a joint project between the three banking groups, was launched in spring 2019, and is estimated to continue until 2021. The project aims at upgrading the banks' current banking systems, which will enable more efficient development of digital services in the future.

As part of the core banking system overhaul, the POP Bank Group and the other owners sold their shares in IT service provider Samlink to Cognizant on 1 April 2019. 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.

POP Banks' fund selection continues to expand

The POP Banks expanded their range of funds in March with 11 new POP funds. The new funds are suitable both for experienced investors looking to diversify their assets and for new customers who wish to start saving monthly. With these new products, the POP Banks are able to offer a very diverse fund selection in both traditional and emerging markets as well as in real property.

Development of digital services continues

The POP Bank Group continued to develop its digital services. New features, such as online payslips and e-invoices, were added to the POP Mobiili mobile banking app, and the electronic online banking concept was developed to make it more comprehensive. Launched in late 2018, the fully digital POP Pikalaina consumer credit has clearly met a customer need, and sales of this product exceeded expectations in the first half of the year. Additionally, the POP Bank Group has prepared for compliance with the requirements of the Payment Services Directive (PSD2). As part of these preparations, it is offering a developer portal to third parties, enabling service providers to test their applications against a PSD2 test interface offered by the bank.

Insurance segment achieves positive earnings

Finnish P&C Insurance Ltd, which is part of the POP Bank Group, continued to rapidly increase its customer count to more than 137,000 at the close of the period under review. The insurance company, set up in late 2012, achieved a positive half-year result for the first time. The company has grown steadily, continuously improving its profitability by taking full advantage of its digital business model.

Credit ratings

In May, S&P Global Ratings (S&P) reiterated Bonum Bank Plc's long-term rating as BBB (investment grade) and its short-term rating as A-2 (investment grade). The outlook remained stable. This reflects the POP Bank Group's strong capital adequacy and the expectations of enhanced efficiency resulting from the amalgamation.

POP Bank Group's earnings and balance sheet

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

POP Bank Group's key figures

(EUR 1,000)	1 Jan - 30 Jun 2019	1 Jan - 30 Jun 2018	1 Jan - 31 Dec 2018
Net sales	75,784	67,239	126,689
Net interes income	33,622	31,969	65,391
% of net sales	44.4 %	47.5 %	51.6 %
Profit before tax	18,808	10,804	11,569
% of net sales	24.8 %	16.1 %	9.1 %
Total operating income	68,837	59,396	111,643
Total operating expenses	51,085	49,520	96,871
Cost to income ratio	74.2 %	83.4 %	86.8 %
Balance sheet total	4,483,381	4,327,918	4,409,518
Equity capital	500,930	484,748	483,788
Return on assets, ROA %	0.7 %	0.4 %	0.2 %
Return on equity, ROE %	6.1 %	3.4 %	1.8 %
Equity ratio, %	11.2 %	11.2 %	11.0 %
Common equity Tier 1 capital ratio, (CET1) %	20.3 %	20.8 %	20.5 %
Capital adequacy ratio, (TC) %	20.5 %	21.1 %	20.8 %
Impairment losses on loans and other receivables	1,050	928	-3,195

The formulas for the key figures are presented on pages 21 to 22 of the POP Bank Group Board of Directors' Report and consolidated IFRS Financial Statements 31 December 2018.

POP Bank Group's earnings performance (comparison period 1 January – 30 June 2018)

The POP Bank Group's result before taxes grew by EUR 8.0 million on the same period a year ago, to EUR 18.8 (10.8) million. The profit for the review period was EUR 15.1 (8.2) million.

Total operating income grew by 15.9 per cent on the comparison period, to EUR 68.8 (59.4) million. Net interest income rose by 5.2 per cent, to EUR 33.6 (32.0) million, largely as a result of reduced interest expenses in deposit funding. Interest income totalled EUR 38.1 (37.5) million, while interest expenses amounted to EUR 4.5 (5.5) million. Net commission income and expenses remained at the previous year's level, amounting to EUR 15.0 (15.1) million.

A significant portion of the growth in income came from the appreciated value of fund and equity investments recognised at fair value through profit or loss. Net investment income was EUR 10.7 (3.9) million, representing growth of 177.2 per cent on the comparison period. The net amount of valuation gains and losses recorded in the first half-year was EUR 6.2 million. Net insurance income grew to EUR 5.4 (4.5) million, partly as a result of the calculation principles applied to technical provisions which were updated in June. Other operating income totalled EUR 4.1 (4.0) million.

Total operating expenses increased by 3.2 per cent, to EUR 51.1 (49.5) million. Personnel expenses amounted to EUR 21.0 (20.1) million, while other operating expenses were EUR 26.1 (26.1) million, the same level as in the previous year. Depreciation and impairment on tangible and intangible assets increased to EUR 4.0 (3.3) million, due to a change in accounting practices in accordance with IFRS 16, resulting in a corresponding reduction in other operating expenses.

A net amount of EUR 1.1 (0.9) million in impairment losses on financial assets was recognised during the review period. The impairment losses consisted of changes in both the recognised expected credit losses on receivables and debt securities, and the realised credit losses. The expected credit losses recognised during the review period on loan receivables decreased, improving the result by EUR 2.1 (2.4) million. The final credit losses recognised for the first half of the year totalled EUR 1.0 (1.4) million.

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

The POP Bank Group's balance sheet total was EUR 4,483.4 (4,409.5) million at the end of the review period. During the period, the Group's loan portfolio increased by 2.4 per cent to EUR 3,556.7 (3,473.3) million, and deposits rose by 0.9 per cent to EUR 3,700.0 (3,666.5) million.

The POP Bank Group's equity totalled EUR 500.9 (483.8) million at the end of the period. The POP Banks paid EUR 1.2 (1.2) million in interest on cooperative capital for 2018. In addition to cooperative contributions, the POP Banks have also issued POP Shares. A POP Share is an investment in the cooperative's equity pursuant to the Co-operatives Act. In total, the POP Banks have issued a total of EUR 55.1 (55.3) million in POP Shares. In the POP Banks' national financial statements, the supplementary cooperative contributions (totalling EUR 21.0 (21.4) million and included in equity) are classified as debt capital in accordance with IFRS, and the interest paid on them is recognised as an accrued interest expense. The POP Banks' cooperative capital totalled EUR 64.4 (64.7) million at the close of the review period.

Operating Segments

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

BANKING

The POP Bank Group's Banking segment includes the POP Banks engaged in retail banking and the amalgamation's central credit institution, Bonum Bank Plc. At the end of the review period, the POP Banks had 249,900 customers (251,000 at the end of 2018), of whom 85.2 (85.0) per cent were private customers, 8.3 (8.3) per cent were corporate customers, and 3.1 (3.4) per cent were in the agricultural and forestry sectors. At the end of the review period, 89,200 (88,500) customers were also members of the POP Banks. The POP Banks had 79 branches and service points at the close of the period.

The POP Bank Group continued to develop digital services in its online and mobile channels. The Group's first fully digital product, POP Pikalaina, an unsecured consumer credit product suitable for the customers of all banks, was launched in late 2018. The product has met customer needs well, as its sales during the review period exceeded expectations.

The Group also continued to update the banking product range, particularly in the area of saving, by offering the banks' customers a number of new investment funds. With the introduction of the new products, the POP Banks will be able to offer their customers an effective fund selection that enables them to diversify their investments across the developed and the emerging markets and real property. The new products have had a positive impact on the sales of the POP Banks' savings products.

Bonum Bank, the central credit institution of the POP Bank Group, was one of the first banks in Finland to intermediate SEPA Instant Credit Transfers, receiving the first such transfers in May. Additionally, the POP Bank Group has prepared for compliance with the requirements of the Payment Services Directive (PSD2). As part of these preparations, it is offering a developer portal for third parties, enabling service providers to test their applications against a PSD2 test interface offered by the bank. Investments in the development of the digital business and system upgrades increased the amount of intangible assets considerably during the first half-year.

Banking earnings (comparison period 1 January – 30 June 2018)

Banking profit before taxes grew by EUR 7.1 million on the comparison period, to a total of EUR 17.0 (9.9) million. The cost-to-income ratio of banking operations was 73.6 (82.8) per cent.

Operating income from banking operations grew by 15.1 percent to a total of EUR 62.9 (54.7) million. Net interest income rose from the comparison period, amounting to EUR 33.4 (31.8) million, largely as a result of reduced interest expenses in deposit funding. Net commission income and expenses from banking operations amounted to EUR 15.3 (15.4) million. Net investment income from banking operations totalled EUR 10.2 (4.0) million in the first half, an increase of 155.5 per cent year-on-year. The growth in income came from changes in the value of fund and equity investments recognised at fair value through profit or loss. Other operating income totalled EUR 4.0 (3.4) million.

Operating expenses from banking operations grew by 2.9 per cent, totalling EUR 47.0 (45.6) million. Personnel expenses in banking operations amounted to EUR 15.3 (14.7) million, while other operating expenses were EUR 29.3 (28.7) million. Depreciation and impairment on tangible and intangible assets increased by 9.5 per cent, to EUR 2.4 (2.2) million, due to a change in accounting practices in accordance with IFRS 16 Leases, resulting in a corresponding reduction in other operating expenses compared to the same period a year ago.

A total of EUR 1.1 (0.9) million in impairment losses were recognised through profit or loss during the period under review. The expected credit losses calculated on loans, guaranties and off-balance-sheet receivables fell by EUR 2.0 million in the review period, improving earnings. There were no major changes in the expected credit losses calculated on debt securities. Final credit losses for the first half-year totalled EUR 1.0 (1.4) million.

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

The banking segment's assets amounted to EUR 4,509.3 (4,444.2) million at the end of June (+1.5%). The banking segment's loan portfolio increased by 2.4 per cent in the review period, to EUR 3,559.2 (3,475.8) million. Deposits totalled EUR 3,706.3 (3,672.3) million (+0.9%). Loans granted to private customers accounted for 67.0 (67.0) per cent of the loan portfolio, loans granted to companies for 17.3 (17.0) per cent, and loans granted to agricultural entrepreneurs for 15.7 (16.0) per cent.

INSURANCE

The insurance segment of the POP Bank Group comprises Finnish P&C Insurance Ltd, which continued to grow its business strongly.

During the review period, the number of Finnish P&C Insurance customers rose from 124.6 thousand at the beginning of the period to 137.9 thousand at its end. The company gained 4,200 new insurance customers per month on average during the first half-year. The insurance segment succeeded in improving its operating expense ratio by increasing the efficiency of its operations. The company developed its sales operating models and enhanced the automation of marketing and claims handling. The POP Insurance brand was also redesigned in the first half of the year.

Insurance earnings (comparison period 1 January – 30 June 2018)

The price competition in motor insurance which started two years ago continued to be reflected by lower average prices for motor insurance policies. However, profit for the period before taxes improved on the comparison period, amounting to EUR 0.6 (-0.7) million. This came partly as a result of a change in June to the accounting policies applied to technical provisions, which improved net insurance income. The insurance segment's loss ratio weakened slightly to 73.6 (73.3) per cent, whereas its operating expense ratio improved by 4.5 percentage points to 28.8 (33.3).

Net insurance income amounted to EUR 5.4 (4.5) million, an improvement of 19.6 per cent on the previous year. Premiums written (gross) grew by 22.7 per cent on the comparison period, to EUR 25.3 (20.6), and the claims incurred totalled EUR 15.0 (12.4) million, an increase of 20.8 per cent on the previous year. Net investment income from insurance operations also grew, amounting to EUR 0.8 (0.2) million.

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

The assets of the insurance segment increased by 11.8 per cent, to EUR 68.8 (61.6) million. Insurance liabilities grew by 17.0 per cent, to EUR 38.0 (32.5) million. The liabilities of P&C insurance operations totalled EUR 42.8 (36.3) million.

POP Bank Group's Risk and Capital Adequacy Management and Risk Position

The objectives, principles and organisation of POP Banks' risk management and capital adequacy management are described in Note 4 to the POP Bank Group's financial statements for 2018. No material changes were made in the review period to the objectives, principles or organisation described in the financial statements.

BANKING RISKS

Credit risk

Banking credit risk exposure remained stable and its risk level moderate during the financial period. Key indicators of receivables past due remained at the previous year's level. The proportion of loans granted to private customers in the loan portfolio remained at the last year's level whereas loans granted to companies increased slightly. Expected credit losses (ECL) decreased during the financial period.

The loan portfolio increased by 2.4 per cent during the financial period to EUR 3,556.7 million (EUR 3,473.3 million). Majority of the lending is associated with low risk lending to private customers.

At the end of the financial period, the amalgamation of POP Banks' receivables more than 90 days past due accounted for 0.79 (0.89) per cent of the loan portfolio. The amalgamation's receivables 30–90 days past due accounted for 0.67 (0.83) per cent of the loan portfolio at the end of the financial period. Expected credit losses decreased 7.2 per cent to EUR 28.4 million (EUR 30.6 million) during the financial period.

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

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

Liquidity risk

The POP Bank Group's liquidity position remained strong during the financial period.. The Liquidity Coverage Ratio (LCR) of the amalgamation of POP Banks was 136 (121) per cent on 30 June 2019. On 30 June 2019, the amalgamation's LCR-eligible assets before haircuts totalled EUR 338.2 (305.9) million, of which 11.8 (13.6) per cent were cash and balance at the central bank and 86.6 (86.4) per cent were highly liquid tier 1 securities and 1.6 (0.0) per cent were tier 2 securities. The regulatory requirement for the liquidity of credit institutions LCR was 100 per cent by 1 January 2018.

The POP Bank Group's funding position remained strong during the financial period. The proportion of deposits from the loan portfolio remained high and the availability of liquidity stayed good. Bonum Bank Plc, the central credit institution of the amalgamation, has its certificate of deposit and bond loan programmes established in 2016, part of which EUR 75 million unsecured senior loan, EUR 20 unsecured senior bond and EUR 15 million of certificates of deposits have been issued. In addition, Bonum Bank Plc has signed a EUR 35 million loan program with the Nordic Investment Bank NIB during the financial period. Entering the wholesale funding market has diversified the amalgamation's funding activities, enhanced the transmission of intra-group funding and supported the growth of the Group.

Market risk

The market risk exposure of the POP Bank Group remained moderate during the financial period. The key market risk of the banking segment is the interest rate risk of the banking book, which is monitored and limited using both the present value and income risk models. Interest rate risk arises from the banking books of member credit institutions, consisting of lending and deposits, wholesale market funding and investment and liquidity portfolios. The interest rate risk exposure of the POP Banks' Amalgamation is moderate in relation to the limits set to it.

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

Operational risks

The materialisation of operational risks is minimised by identifying and assessing the risks, by evaluating the effectiveness and adequacy of control and management mechanisms, by continuously training the personnel and providing comprehensive operating instructions, as well as by internal control measures.

The operational risks associated with the key products, services, functions, processes and systems are identified in the process of assessing a new product or service. The process involves the preparation of impact assessments, in which the different functions of the amalgamation take part. The member credit institutions belonging to the amalgamation assess the likelihood and impact of the materialisation of operational risks through self-assessments prepared on the basis of the key business processes. Certain operational risks are hedged against through insurance. Risks caused by malfunctions in information systems are prepared for through continuity planning.

INSURANCE RISKS

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

Key operational risks 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 have increased.

Information security risks are significant for an online company and, therefore, the company is strongly investing in their management. The management of investments has been defensive, and no significant risks have emerged in relation to it.

BANK RESOLUTION PLAN

The bank resolution plan for POP Bank Group initiated in 2017 by the Financial Stability Authority was concluded during the review period. On 26 March 2019 the Financial Stability Authority determined the minimum requirement of own funds and eligible liabilities (MREL) for the amalgamation of POP Banks, in accordance with the Act on resolution of financial institutions and investment firms (1194/2014) chapter 8 section 7. The MREL requirement of 19.8 per cent of total risk will become applicable on 31 December 2019.

CAPITAL ADEQUACY MANAGEMENT

At the end of the review period, the capital adequacy of the amalgamation of POP Banks stood at a solid level. The amalgamation's capital adequacy ratio was 20.5 (20.8) per cent and CET1 capital ratio 20.3 (20.5) per cent. The amalgamation does not include the profit for the financial year in own funds.

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

The member credit institutions conduct an extensive identification and evaluation of risks related to their operations and set their risk-bearing capacity to match the total amount of the risks. In order to secure capital adequacy, the banks set risk-based capital objectives and prepare capital plans to achieve these objectives. The member institutions of the amalgamation use common measurement methodologies defined by the risk control function of the central institution for their capital plans. The member credit institutions have been exempted from the own funds requirements for intragroup items and large exposures limits for exposures between the central credit institution and the member credit institutions. The exemption is based on a permission granted by the Financial Supervisory Authority.

The own funds of the amalgamation of POP Banks consist of cooperative contributions, supplementary cooperative contributions, POP Shares, retained earnings and other non-restricted reserves. The statutory minimum requirement for capital adequacy ratio is 8 per cent, 4.5 percentage points of which must comprise of Common Equity Tier 1 (CET1) capital. In addition to the 8 per cent capital adequacy requirement, a fixed 2.5 per cent capital conservation buffer requirement became applicable on 1 January 2015, as well as a variable additional capital requirement which the authorities can upon need set at between 0–2.5 per cent. For the time being, the Financial Supervisory Authority has not set a variable additional capital requirement for Finnish exposures, which almost exclusively comprise the credit and counterparty risk of the amalgamation's member credit institutions. Consequently, the combined own funds requirement of POP Banks is 10.5 per cent at the end of the review period.

After the end of the review period the own funds requirement of POP Banks will be affected by application of the systemic risk buffer and the additional capital requirement (P2R) set by the Financial Supervisory Authority. The systemic risk buffer of 1.0 per cent becomes applicable on 1 July 2019 and the additional capital requirement of 1.25 per cent becomes applicable on 30 September 2019. The combined capital requirement for the amalgamation of POP Banks will thus rise to 12.75 per cent by 30 September 2019, 9.25 percentage points of which must be comprised of CET1 capital.

The amalgamation of POP Banks has decided to not apply the IFRS9-related transitional arrangements laid down in article 473 a of the Capital Requirements Regulation. As a result, reported own funds, capital and leverage ratio all reflect the full, phased-in impact of IFRS9.

Summary of capital adequacy

(EUR 1,000)	30 Jun 2019	31 Dec 2018
Own funds		
Common Equity Tier 1 capital before deductions	522,495	512,130
Deductions from Common Equity Tier 1 capital	-15,920	-11,358
Total Common Equity Tier 1 capital (CET1)	**506,576**	**500,772**
Additional Tier 1 capital before deductions	3,239	3,952
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**3,239**	**3,952**
Tier 1 capital (T1 = CET1 + AT1)	**509,815**	**504,724**
Tier 2 capital before deductions	2,268	2,371
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**2,268**	**2,371**
Total capital (TC = T1 + T2)	**512,083**	**507,096**
Total risk weighted assets	**2,494,381**	**2,443,632**
of which credit risk	2,264,778	2,213,845
of which credit valutaion adjustment risk (CVA)	-	1
of which market risk (foreign exchange risk)	24,288	24,470
of which operational risk	205,315	205,315

(EUR 1,000)	30 Jun 2019	31 Dec 2018
Fixed capital conservation buffer according to Act on Credit institutions (2.5%)	**62,360**	**61,091**
Countercyclical capital buffer	**405**	**379**
CET1 Capital ratio (CET1-%)	**20.3 %**	**20.5 %**
T1 Capital ratio (T1-%)	**20.4 %**	**20.7 %**
Total capital ratio (TC-%)	**20.5 %**	**20.8 %**
Capital Requirement		
Total capital	512,083	507,096
Capital requirement *	262,315	256,960
Capital buffer	249,768	250,136
Leverage ratio		
Tier 1 capital (T1)	509,815	504,724
Leverage ratio exposure	4,521,043	4,471,092
Leverage ratio, %	11.3 %	11.3 %

* The capital requirement comprises the minimum requirement of 8.0%, the capital conservation buffer of 2.5% and the country-specific countercyclical capital requirements of foreign exposures.

The capital requirement will increase cumulatively to 12.75% by 30 September 2019, due to the countercyclical capital buffer requirement to prevent systemic risk (1.0%, effective as of 1 July 2019) and the discretionary Pillar 2 additional capital requirement (1.25%, effective as of 30 September 2019) set by the Finnish Financial Supervisory Authority.

Outlook for the second half of the year

Finland's GDP growth rate is forecast to decelerate to 1.4 per cent in 2019. Market interest rates are expected to remain negative for longer than what was expected at the start of the year. Interest rates on residential mortgages have been falling and bank margins have shrunk/the margin on mortgage lending by banks has decreased, posing challenges for the profitability of banking operations.

The POP Bank Group's profit before tax for the 2019 financial year is expected to be at the same level or higher than in 2018. The outlook is affected by the trend in interest rates and the investments needed for the Group's strategic development measures. The situation in the investment markets is expected to continue to be challenging, causing increased volatility in the bank's earnings. The major uncertainties with regard to earnings stem from the valuation of financial assets and from impairments.

Events after the review period

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

Half-year report for 1 January – 30 June 2019

POP Bank Group's income statement

(EUR 1,000)	Note	1 Jan - 30 Jun 2019	1 Jan - 30 Jun 2018	Change, %
Interest income		38,101	37,452	1.7 %
Interest expenses		-4,479	-5,483	-18.3 %
Net interest income	**4**	**33,622**	**31,969**	**5.2 %**
Net commissions and fees	5	15,031	15,111	-0.5 %
Net investment income	6	10,710	3,863	177.2 %
Insurance icome	7	5,379	4,497	19.6 %
Other operating income		4,094	3,956	3.5 %
Total operating income		**68,837**	**59,396**	**15.9 %**
Personnel expenses		-20,958	-20,114	4.2 %
Other operating expenses		-26,177	-26,088	0.3 %
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		-3,950	-3,318	19.0 %
Total operating expenses		**-51,085**	**-49,520**	**3.2 %**
Impairment losses on financial assets	9	1,050	928	13.2 %
		5	-	...
Profit before tax		**18,808**	**10,804**	**74.1 %**
Income tax expense		-3,671	-2,588	41.9 %
Profit for the financial period		**15,136**	**8,216**	**84.2 %**
Attributable to				
Equity owners of the POP Bank Group		15,109	8,210	84.0 %
Non-controlling interests		27	6	368.2 %
Total		**15,136**	**8,216**	**84.2 %**

POP Bank Group's statement of other comprehensive income

(EUR 1,000)	1 Jan - 30 Jun 2019	1 Jan - 30 Jun 2018	Change, %
Profit for the financial period	15,136	8,216	84.2 %
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Changes in fair value			
Equity instruments	2,396	94	2450.5 %
Net gains			
Equity instruments	-1,150	-	...
Items that may be reclassified to profit or loss			
Changes in fair value reserve			
Debt instruments	3,341	-1,037	-422.1 %
Other comprehensive income for the financial period	**19,723**	**7,272**	**171.2 %**
			0.0 %
Other comprehensive income for the financial period attributable to			0.0 %
Other comprehensive income for the financial period attributable to owners of the POP Bank Group	19,696	7,266	171.1 %
Other comprehensive income for the financial period attributable to non-controlling interests	27	6	368.2 %
Total other comprehensive income for the financial period	**19,723**	**7,272**	**171.2 %**

POP Bank Group's balance sheet

(EUR 1,000)	Note	30 Jun 2019	31 Dec 2018	Change, %
Assets				
Liquid assets	8,10	39,961	81,117	-50.7 %
Loans and receivables from credit institutions	8,10	70,912	74,625	-5.0 %
Loans and receivables from customers	8,10	3,556,718	3,473,310	2.4 %
Derivative contracts	8,10	-	4	...
Investment assets	8,10	724,514	707,897	2.3 %
Investments in associates and joint ventures		174	166	4.9 %
Intangible assets		16,066	11,217	43.2 %
Property, plant and equipment		33,765	30,025	12.5 %
Other assets		35,713	26,680	33.9 %
Tax assets		5,557	4,478	24.1 %
Total assets		**4,483,381**	**4,409,518**	**1.7 %**
Liabilities				
Liabilities to credit institutions	8,10	39,643	3,030	1208.5 %
Liabilities to customers	8,10	3,699,965	3,666,543	0.9 %
Non-life insurance liabilities	11	38,013	32,488	17.0 %
Debt securities issued to the public	12	109,799	142,399	-22.9 %
Supplementary cooperative capital		20,997	21,416	-2.0 %
Other liabilities		48,989	38,157	28.4 %
Tax liabilities		25,045	21,698	15.4 %
Total liabilities		**3,982,451**	**3,925,730**	**1.4 %**
Equity capital				
Cooperative capital				
Cooperative contributions		9,257	9,344	-0.9 %
POP Shares		55,136	55,326	-0.3 %
Total cooperative capital		**64,393**	**64,670**	**-0.4 %**
Reserves		160,962	152,105	5.8 %
Retained earnings		275,120	266,586	3.2 %
Total equity attributable to the owners of the POP Bank Group		**500,475**	**483,361**	**3.5 %**
Non-controlling interests		455	428	6.3 %
Total equity capital		**500,930**	**483,788**	**3.5 %**
Total liabilities and equity capital		**4,483,381**	**4,409,518**	**1.7 %**

Statement of changes in POP Bank Group's equity capital

(1,000 euroa)	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
Restatement due to implementation of IFRS 16	-	-	-	4	4	-	4
Balance at 1 Jan 2019	64,670	-558	152,663	266,590	483,365	428	483,793
Comprehensive income for the financial period							
Profit for the financial period	-	-	-	15,109	15,109	27	15,136
Other comprehensive income	-	4,587	-	0	4,587	-	4,587
Total comprehensive income for the financial period	**-**	**4,587**	**-**	**15,109**	**19,696**	**27**	**19,723**
Transactions with shareholders							
Increase in cooperative capital	-277	-	-	0	**24,283**	-	24,283
Profit distribution	-	-	-	-1,158	-1,158	-	-1,158
Transfer of reserves	-	-	4,271	-4,271	-	-	-
Transactions with shareholders total	**-277**	**-**	**4,271**	**-5,429**	**23,124**	**-**	**23,124**
Other changes	-	-	-	-1,150	**-1,150**	-	**-1,150**
Balance at 30 Jun 2019	**64,393**	**4,028**	**156,934**	**275,120**	**500,475**	**455**	**500,930**

(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
Restatement due to implementation of IFRS 9	-	-5,532	-	-1,546	-7,078	-	-7,078
Balance at 1 Jan 2018	62,791	3,317	148,930	263,085	478,124	448	478,572
Comprehensive income for the financial year							
Profit for the financial year	-	-	-	8,210	8,210	6	8,216
Other comprehensive income	-	-943	-	-	-943	-	-943
Total comprehensive income for the financial period	**-**	**-943**	**-**	**8,210**	**7,266**	**6**	**7,272**
Transactions with shareholders							
Increase in cooperative capital	84	-	-	-	84	-	84
Profit distribution	-	-	-98	-1,121	-1,218	-	-1,218
Transfer of reserves	-	-	3,831	-3,831	-	-	-
Transactions with shareholders total	**84**	**-**	**3,733**	**-4,952**	**-1,134**	**-**	**-1,134**
Other changes	-	-	-	38	**38**	-	**38**
Balance at 30 Jun 2018	**62,874**	**2,374**	**152,664**	**266,382**	**484,294**	**454**	**484,748**

POP Bank Group's cash flow statement

(EUR 1,000)	1 Jan - 30 Jun 2019	1 Jan - 30 Jun 2018
Cash flow from operations		
Profit for the financial year	15,136	8,216
Adjustments to profit for the financial year	12,276	8,785
Increase (-) or decrease (+) in operating assets	**-99,876**	**-50,486**
Receivables from credit institutions	5,748	-5,482
Receivables from customers	-82,259	-79,464
Investment assets	-14,946	37,059
Other assets	-8,420	-2,598
Increase (+) or decrease (-) in operating liabilities	**74,128**	**48,121**
Liabilities to credit institutions	36,614	-4,315
Liabilities to customers	33,426	47,112
Other liablilities	6,389	8,748
Income tax paid	-2,301	-3,424
Total cash flow from operations	**1,664**	**14,635**
Cash flow from investing activities		
Changes in other investments	1,054	-65
Purchase of PPE and intangible assets	-7,290	-3,008
Proceeds from sale of PPE and intangible assets	601	436
Net cash used in investing activities	**-5,636**	**-2,637**
Cash flow from financing activities		
Change in cooperative capital, net	-277	84
Interests paid on cooperative capital and other profit distribution	-1,158	-1,218
Debt securities issued to the public	119,763	15,092
Debt securities issued to the public	-152,462	-14,991
Lease liabilities paid	-1,015	-
Net cash used in financing activities	**-35,150**	**-1,034**
Change in cash and cash equivalents		
Cash and cash equivalents at period-start	104,854	42,551
Cash and cash equivalents at the end of the period	65,732	53,516
Net change in cash and cash equivalents	**-39,122**	**10,965**

(EUR 1,000)	1 Jan - 30 Jun 2019	1 Jan - 30 Jun 2018
Interest received	**37,530**	**38,330**
Interest paid	**3,862**	**4,098**
Dividends received	**4,199**	**3,231**

Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on receivables	-1,050	-928
Depreciations	4,547	3,925
Technical provision	5,525	3,546
Other	3,254	2,242
Adjustments to profit for the financial year	**12,276**	**8,785**

Cash and cash equivalents		
Liquid assets	39,961	23,812
Receivables from credit institutions payable on demand	25,770	29,704
Total	**65,731**	**53,516**

NOTES

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

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

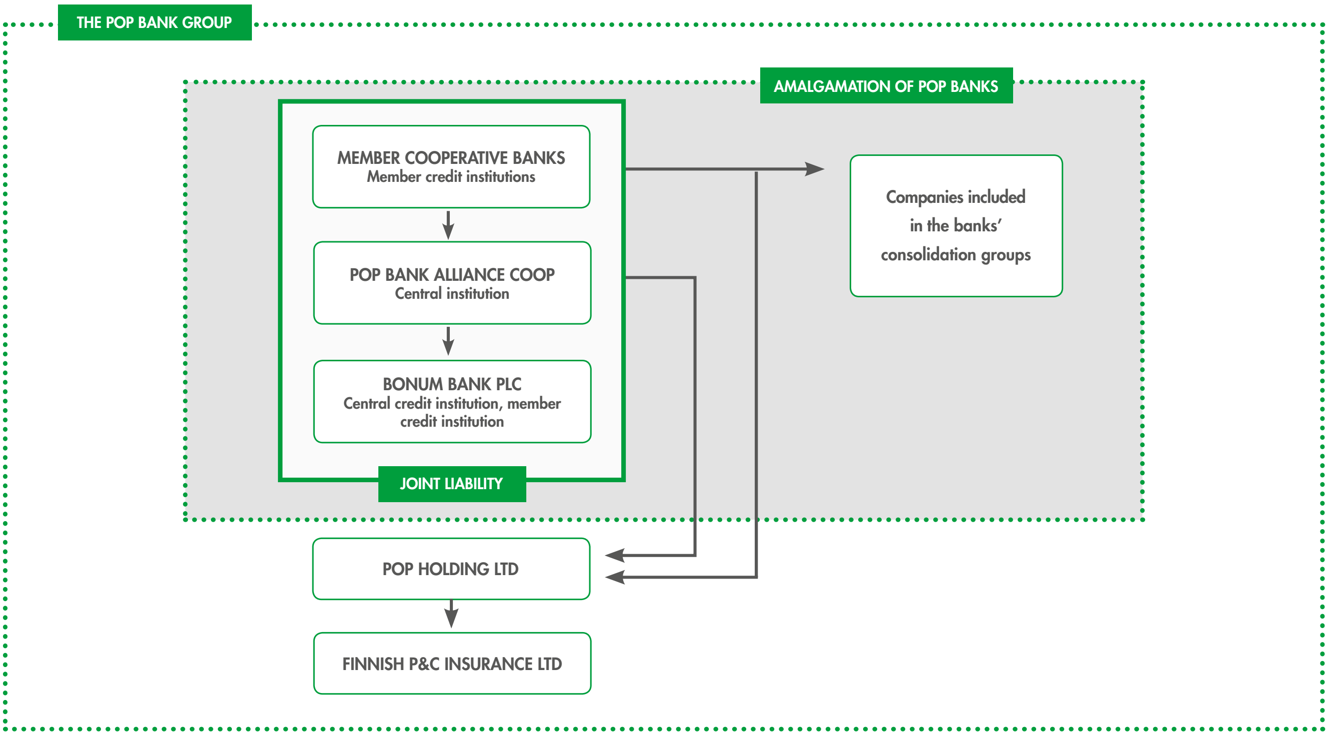
The member credit institutions of POP Bank Alliance Coop are the 26 cooperative banks and the central credit institution of the member cooperative banks, Bonum Bank Plc. The amalgamation of POP Banks is an economic entity referred to in the Act on the Amalgamation of Deposit Banks (hereinafter referred to as the "Amalgamation Act") the members of which and the central institution are jointly liable for each other's debts and commitments. The amalgamation of POP Banks is formed by the central institution POP Bank Alliance Coop, its member credit institutions, the companies included in their consolidation groups and those credit institutions, financial institutions and service companies in which entities included in the amalgamation jointly hold over 50 per cent of the votes. The companies included in the consolidation groups of the member credit institutions are primarily real estate companies.

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

POP Bank Group does not form a group of companies referred to in the Accounting Act (1336/1997) or a consolidation group referred to in the Act on Credit Institutions (610/2014). POP Bank Alliance Coop or its member cooperative banks do not exercise control pursuant to IFRS accounting standards on each other, and therefore no parent company can be determined for the Group. In accordance with the Amalgamation Act, the Board of Directors has specified the Group's accounting policies suitable for this structure to the extent that the IFRS accounting standards do not acknowledge the Group's structure. The accounting policies that include a description of the technical parent company consisting of the member cooperative banks are presented in Note 2 of the IFRS financial statements 2018.

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

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



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

NOTE 2 POP Bank Group's accounting policies

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

The half-year financial report for 1 January – 30 June 2019 has been prepared in accordance with IAS 34 Interim Financial reporting and the accounting policies presented in the POP Bank Group's consolidated IFRS financial statements 31 December 2018.

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

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

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.

Adoption of new standards

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. Adoption of the standard did not cause changes to the accounting of POP Bank Group's leases.

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 determined by the central credit institution of the amalgamation of POP Banks for intra-group credit is used for the incremental borrowing rate of interest used for the purposes of discounting.

The adoption of the standard does not have a material impact on Bonum Bank'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 Bonum Bank's balance sheet by EUR 5,818 thousand, as a result of which the balance sheet total grew by a corresponding amount. The adoption of the standard did not impact equity.

Transition to IFRS 16 January 1. 2019

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 miljon of right-of-use assets an lease liabilities.

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**

NOTE 3 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 – 30 June 2019

(EUR 1,000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Net interest income	33,441	187	33,628	-6	33,622
Net commissions and fees	15,299	-231	15,068	-37	15,031
Net investment income	10,210	793	11,003	-293	10,710
Net income from non-life insurance	-	5,379	5,379	-	5,379
Other operating income	3,985	184	4,169	-74	4,094
Total operating income*	**62,936**	**6,311**	**69,247**	**-410**	**68,837**
Personnel expenses	-15,286	-3,442	-18,727	-2,231	-20,958
Other operating expenses	-29,277	-1,382	-30,659	4,482	-26,177
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-2,398	-910	-3,308	-642	-3,950
Total operating expenses	**-46,961**	**-5,734**	**-52,695**	**1,610**	**-51,085**
Impairment losses on loans and receivables	1,071	-21	1,050	0	1,050
Share of the income of associates	-	-	-	5	5
Profit before tax	**17,046**	**556**	**17,603**	**1,205**	**18,808**
Income tax expense	-3,437	-7	-174	-54	-3,671
Profit for the financial period	**13,609**	**550**	**17,428**	**1,152**	**15,136**
External share of total operating income	62,936	6,311	**69,247**		
Internal share of total operating income	197	-	**197**		

Balance Sheet 30 June 2019

(EUR 1,000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Assets					
Liquid assets		-	39,961	-	39,961
Loans and receivables from credit institutions		9,241	74,627	-3,715	70,912
Loans and receivables from customers		-	3,559,180	-2,463	3,556,718
Derivative contracts		-	-	-	-
Investment assets		39,957	820,089	-95,575	724,514
Investments in associates and joint ventures		-	-	174	174
Intangible assets		5,792	14,616	1,450	16,066
Property, plant and equipment		515	32,302	1,463	33,765
Other assets		13,250	33,073	2,641	35,713
Tax assets		82	4,262	1,294	5,557
Total assets		**68,755**	**4,578,111**	**-94,730**	**4,483,381**
Liabilities					
Liabilities to credit institutions		-	39,573	71	39,643
Liabilities to customers		-	3,706,271	-6,306	3,699,965
Non-life insurance liabilities		38,013	38,013	-	38,013
Debt securities issued to the public		-	109,799	-	109,799
Supplementary cooperative capital		-	20,997	-	20,997
Other liabilities		4,436	45,074	3,915	48,989
Tax liabilities		360	24,646	398	25,045
Total liabilities		**42,809**	**3,984,374**	**-1,922**	**3,982,451**

POP BANK GROUP'S OPERATING SEGMENTS 2018

Income statement 1 January – 30 June 2018

(EUR 1,000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Net interest income	31,824	151	31,975	-6	31,969
Net commissions and fees	15,398	-239	15,158	-47	15,111
Net investment income	3,996	168	4,164	-301	3,863
Net income from non-life insurance	-	4,497	4,497	-	4,497
Other operating income	3,441	181	3,621	335	3,956
Total operating income	**54,659**	**4,757**	**59,416**	**-20**	**59,396**
Personnel expenses	-14,715	-3,423	-18,138	-1,976	-20,114
Other operating expenses	-28,725	-1,347	-30,071	3,984	-26,088
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-2,189	-699	-2,889	-430	-3,318
Total operating expenses	**-45,629**	**-5,469**	**-51,098**	**1,577**	**-49,520**
Impairment losses on loans and receivables	906	23	928	-	928
Profit before tax	**9,935**	**-689**	**9,246**	**1,558**	**10,804**
Income tax expense	-2,269	-15	-2,284	-304	-2,588
Non-controlling interests	0	0	0	-6	-6
Profit for the financial period	**7,666**	**-704**	**6,962**	**1,248**	**8,210**
External share of total operating income	54,634	4,757	**59,391**		
Internal share of total operating income	24	-	**24**		

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 4 Net Interest Income

(EUR 1,000)	1 Jan - 30 Jun 2019	1 Jan - 30 Jun 2018
Interest Income		
Loans and advances to credit institutions	8	17
Loans and advances to customers*	35,286	34,558
Debt securities		
At fair value through profit or loss	203	199
At fair value through other comprehensive income	1,920	1,814
Hedging derivatives	4	448
Other interest income	679	417
Total interest income	**38,101**	**37,452**
Of which negative interest expense	-1	1
Interest expense		
Liabilities to credit institutions	-180	-84
Liabilities to customers	-3,702	-4,918
Debt securities issued to the public	-582	-474
Other interest expenses	-15	-7
Total interest expenses	**-4,479**	**-5,483**
Of which negative interest income	-499	-436
Net interest income	**33,622**	**31,969**

NOTE 5 Net Commissions and Fees

(EUR 1,000)	1 Jan - 30 Jun 2019	1 Jan - 30 Jun 2018
Commissions and fees		
Lending	3,810	4,003
Deposits	106	128
Payment transfers	8,695	8,392
Legal services	1,130	980
Intermediated services	1,727	1,901
Issuing guarantees	264	270
Funds	1,190	1,206
Other commission income	577	590
Total commissions and fees	**17,499**	**17,471**
Commissions expenses		
Payment transfers	-1,979	-1,869
Other commission expenses	-488	-491
Total commission expenses	**-2,468**	**-2,360**
Net commissions and fees	**15,031**	**15,111**

NOTE 6 Net Investment Income

(EUR 1,000)	1 Jan - 30 Jun 2019	1 Jan - 30 Jun 2018
Financial assets at fair value through profit and loss		
Debt securities		
Capital gains and losses	4	-
Impairment losses	315	-91
Shares and participations		
Dividend income	3,820	3,103
Capital gains and losses	213	-31
Impairment losses	5,921	-222
Total net income from financial assets at fair value through profit or loss	**10,274**	**2,759**
Financial assets at fair value through other comprehensive income		
Debt securities		
Capital gains and losses	-11	11
Transferred from fair value reserve	32	640
Shares and participations		
*) Dividend income	398	128
Total net income from financial assets at fair value through other comprehensive income	**420**	**779**
Net income from hedge accounting	0	8
Net income from foreign exchange trading	155	142
Net income from investment property		
Rental income	1,599	1,525
Capital gains and losses	-54	298
Other income from investment property	113	61
Maintenance charges and expenses	-1,193	-1,096
Depreciations and amortisation of investment property	-597	-606
Other expenses from investment property	-6	-7
Total net income from investment property	**-138**	**175**
Total net investment income	**10,710**	**3,863**

*) Dividend income from equity shares measured at fair value through other comprehensive income held in the end of the financial period is 7 thousand euro.

NOTE 7 Insurance Income

(EUR 1,000)	1 Jan - 30 Jun 2019	1 Jan - 30 Jun 2018
Insurance premium revenue		
Premiums written	25,328	20,649
Change in the provision for unearned premiums	-4,544	-3,407
Gross insurance premium revenue	**20,784**	**17,243**
Ceded to reinsurers	-394	-364
Total insurance premium revenue	**20,390**	**16,879**
Claims incurred		
Claims paid	-13,503	-11,727
Change in provision for unpaid claims	-5,626	-2,251
Total claims incurred, gross	**-19,129**	**-13,978**
Ceded to reinsurers	4,119	1,596
Total claims incurred	**-15,011**	**-12,382**
Insurance income	**5,379**	**4,497**

NOTES TO ASSETS AND LIABILITIES

NOTE 8 Classification of Financial Assets and Liabilities

Financial assets 30 June 2019

(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	39,961	-	-	-	-	39,961
Loans and receivables from credit institutions	70,915	-	-	-	-3	70,912
Loans and receivables from customers	3,585,263	-	-	-	-28,545	3,556,718
Derivative contracts	-	-	-	-	-	-
Debt securities	-	11,081	-	465,912	*)	476,994
Shares and participations	-	211,884	-	1,886	-	213,770
Financial assets total	**3,696,139**	**222,965**	**-**	**467,799**	**-28,548**	**4,358,355**
Other assets						125,026
Total assets at 30 Jun						**4,483,381**

*) Expected credit loss of EUR 1,266 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 investments in Visa Inc C-shares. During the period POP Bank Group has sold the shares of Samlink Ltd.

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						**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 investments in shares of Samlink Ltd.

Financial liabilities 30 June 2019

(EUR 1,000)	Other financial liabilities	Total carrying amount
Liabilities to credit institutions	39,643	39,643
Liabilities to customers	3,699,965	3,699,965
Debt securities issued to the public	109,799	109,799
Supplementary cooperative capital	20,997	20,997
Financial liabilities total	**3,870,404**	**3,870,404**
Other liabilities		112,047
Total liabilities at 30 June		**3,982,451**

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 liabilities		92,342
Total liabilities at 31 Dec		**3,925,730**

NOTE 9 Impairment Losses on Financial Assets

Impairment losses recorded during the reporting period

(EUR 1,000)	1 Jan - 30 Jun 2019	1 Jan - 30 Jun 2018
Change of ECL due to write-offs	642	565
Change of ECL, receivables from customers and off-balance sheet items	1,396	1,814
Change of ECL, debt securities	39	-21
Final credit losses	-1,026	-1,430
Impairment losses on loans and receivables	**1,050**	**928**

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

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	194	-1,019	-2,518	-3,343
Transfers to stage 2	-131	1,167	-2,211	-1,174
Transfers to stage 3	-64	-504	4,704	4,137
Increases due to origination	1,113	384	588	2,085
Decreases due to derecognition	-283	-336	-2,662	-3,280
Changes due to change in credit risk (net)	-605	-157	801	40
Changes in calculation parametres	4	0	12	16
Decreases due to write-offs	-	-	-642	-642
Total	229	-464	-1,925	-2,161
ECL 30 Jun 2019	**3,991**	**3,660**	**20,897**	**28,548**

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	-82	-	-75
Transfers to stage 2	-3	11	-	7
Increases due to origination	66	297	-	363
Decreases due to derecognition	-37	-215	-	-252
Changes due to change in credit risk (net)	-7	-73	-	-80
Total	25	-63	-	-37
ECL 30 Jun 2019	**159**	**1,107**	**-**	**1,266**

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	6	-25	-38	-58
Transfers to stage 2	-15	48	-15	19
Transfers to stage 3	-1	0	12	11
Increases due to origination	156	47	46	250
Decreases due to derecognition	-15	-7	-22	-44
Changes due to change in credit risk (net)	-93	8	29	-56
Total	39	70	12	122
ECL 30 Jun 2019	**319**	**145**	**238**	**702**

ECL 1 Jan 2019	**4,175**	**5,369**	**23,048**	**32,593**
ECL 30 Jun 2019	**4,469**	**4,913**	**21,135**	**30,516**

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**	**22,960**	**32,167**
Transfers to stage 1	287	-2,069	-3,538	-5,320
Transfers to stage 2	-127	1,349	-3,819	-2,597
Transfers to stage 3	-93	-371	5,017	4,553
Increases due to origination	1,020	773	1,534	3,327
Decreases due to derecognition	-275	-368	-1,643	-2,287
Changes due to change in credit risk (net)	-500	-242	383	-358
Changes in calculation parametres	0	-1	871	871
Decreases due to write-offs	-	-	-565	-565
Total	311	-929	-1,759	-2,377
ECL 30 Jun 2018	**3,773**	**4,816**	**21,201**	**29,790**

Debt securities

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2018	**130**	**1,291**	**-**	**1,303**
Transfers to stage 1	1	-32	-	-31
Transfers to stage 2	-4	61	-	57
Increases due to origination	57	283	-	340
Decreases due to derecognition	-54	-183	-	-236
Changes due to change in credit risk (net)	-6	-104	-	-111
Total	-5	24	-	19
ECL 30 Jun 2018	**125**	**1,316**	**-**	**1,440**

ECL 1 Jan 2018	**3,591**	**7,036**	**22,960**	**33,470**
ECL 30 Jun 2018	**3,897**	**6,132**	**21,201**	**31,230**

Balance sheet item 30 Jun 2019

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Receivables from customers	3,193,503	273,493	118,267	**3,585,263**
Debt securities	415,182	50,732	-	**465,913**
Off-balance sheet commitments	242,407	12,376	1,592	**256,375**

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	390,858	51,644	-	**442,502**
Off-balance sheet commitments	224,763	12,157	2,022	**238,941**

NOTE 10 Fair values of Financial Assets and Liabilities

Financial assets

	30 Jun 2019		31 Dec 2018	
(EUR 1,000)	Carrying amount	Fair value	Carrying amount	Fair value
Liquid assets	39,961	39,961	81,117	81,117
Loans and receivables	3,627,630	3,701,639	3,547,935	3,567,550
Derivative contracts	-	-	4	4
At fair value through profit or loss	222,965	222,965	227,215	227,215
At fair value through other comprehensive income	467,799	467,799	446,253	446,253
Total	**4,358,355**	**4,432,364**	**4,302,523**	**4,322,139**

Financial liabilities

	30 Jun 2019		31 Dec 2018	
(EUR 1,000)	Carrying amount	Fair value	Carrying amount	Fair value
Deposits	3,699,965	3,658,200	3,666,543	3,630,497
Debt securities issued to the public	109,799	112,242	142,399	142,925
Other financial liabilities	60,640	60,027	24,446	24,446
Total	**3,870,404**	**3,830,469**	**3,833,387**	**3,797,868**

Hierarchy levels of items recognised at fair value

Items recognised at fair value 30 Jun 2019

(EUR 1,000)	Level 1	Level 2	Level 3	Fair value total
At fair value through profit or loss				
Shares and participations	203,898	-	7,986	211,884
Debt securities	5,086	-	5,996	11,081
At fair value through other comprehensive income				
Shares and participations	-	-	1,886	1,886
Debt securities	281,641	182,966	1,306	465,912
Total	**490,624**	**182,966**	**17,174**	**690,764**

Items recognised at fair value 31 Dec 2018

(EUR 1,000)	Level 1	Level 2	Level 3	Fair value total
At 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**

Financial assets are recorded in the balance sheet either at fair value or at amortised cost. POP Bank Group applied IFRS 9 Financial Instruments standard. 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

During the reporting period, securities of EUR 482 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	1,087	200	1,287
- Sales	-96	-2,225	-2,321
- Matured during the financial year	-259	-	-259
+/- Realised changes in value recognised in income statment	9	0	9
+/- Unrealised changes in value recognised in the income statement	306	-	306
+/- Changes in value recogimsed in other comprehensive income	-	141	141
- Transfers to levels 1 and 2	-	-482	-482
Total	**13,982**	**3,192**	**17,174**

(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 recogimsed in other comprehensive income	-	-848	-848
- Transfers to levels 1 and 2	-	-370	-370
Total 31.12.2018	**12,936**	**5,557**	**18,493**

Sensitivity analysis of financial instruments at level 3

30 Jun 2019

(EUR 1,000)	Carrying amount	Possible effect on equity capital Positive	Negative
Financial assets at fair value through profit or loss	13,982	1,258	-1,258
Financial assets at fair value through other comprehensive income	3,192	296	-296
Total	**17,174**	**1,258**	**-1,258**

31 Dec 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 11 Insurance contract liabilities

(EUR 1,000)	30 Jun 2019	31 Dec 2018
Provision for unearned premiums	20,249	15,704
Ceded to reinsurers	-527	-
Provisions for unpaid claims	26,681	21,055
Ceded to reinsurers	-8,390	-4,272
Total insurance contract liabilities	**38,013**	**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 period. 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 12 Debt Securities Issued to Public

(EUR 1,000)	30 Jun 2019	31 Dec 2018
Debt securities issued to the public	94,802	99,913
Certificate of deposits	14,998	42,485
Total debt securities issued to the public	**109,799**	**142,399**

Bonum Bank has a EUR 750 million bond programme under which it issued a three-year, EUR 75 million unsecured senior bond in April to replace the EUR 100 million senior bond which matured in June. Bonum also issued a two-year, EUR 20 million unsecured senior bond within the bond programme in the first half of the year. The bonds are listed on Nasdaq Helsinki (the Helsinki Stock Exchange).

Bonum Bank renewed its certificate of deposit programme in January, increasing its size to EUR 250 million. During the period under review, certificates of deposit worth EUR 32.5 million matured and one certificate of deposit with a nominal value of EUR 5 million was issued.

NOTE 13 Collateral Given

(EUR 1,000)	30 Jun 2019	31 Dec 2018
Given on behalf of own liabilities and commitments		
Pledges	2,546	2,546
Mortgages	400	400
Collateral given to the Bank of Finland	17,155	16,805
Total collateral given	**20,101**	**19,751**

NOTE 14 Off-balance-sheet Commitments

(EUR 1,000)	30 Jun 2019	31 Dec 2018
Guarantees	20,245	20,332
Loan commitments	236,130	218,609
Total off-balance sheet commitments	**256,375**	**238,941**

NOTE 15 Related Party Disclosures

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

There has been no substantial changes in related-party transactions after 31 Dec 2018.

FURTHER INFORMATION

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Espoo 16 August 2019
Board of Directors of POP Bank Alliance Coop

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

POP Bank