POP Bank Group

BOARD OF DIRECTORS' REPORT AND CONSOLIDATED IFRS FINANCIAL STATEMENTS

31 December 2020

POP Bank

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This document is a translation of the original Finnish version "POP Pankki -ryhmä Toimintakertomus ja yhdistelty IFRS-tilinpäätös 31.12.2020". In case of discrepancies, the Finnish version shall prevail.

CEO'S REVIEW

The year 2020 reminded us, in a very concrete manner, how our society is intertwined with the global economy. Travel restrictions caused by the coronavirus pandemic, little social contact and new ways of working changed Finns' daily lives in a historic way.

The uncertainty caused by the exceptional circumstances and the threat of unemployment were widely reflected in increased household saving, while companies were seeking ways to survive, as well as new business opportunities, with the significance of the domestic market growing. Uncertainty over economic development caused companies to postpone their production investments.

The financial markets remained stable largely because of recovery measures implemented by the central banks, and the Finnish government succeeded in mitigating the impact of the recession on the Finnish economy through reflationary fiscal policy. The worst-case forecasts of the collapse of the Finnish economy did not materialise.

In response to government recommendations on dealing with the coronavirus pandemic, the POP Banks promptly shifted to serving customers also online. During the spring, we granted a record number of instalment-free periods for loans, and we responded actively to companies' increased needs for short-term funding. We received a great deal of positive feedback on our quick decision-making, particularly from corporate customers. Despite the increase in instalment-free months, the loan servicing capacity of both households and companies remained at a good level throughout the year, and the amount of overdue payments remained moderate. The impact of the pandemic on Finnish agriculture was also relatively minor, with some farms even benefitting from an increase in producer prices.

The consolidated balance sheet total exceeded EUR 5 billion. The POP Bank Group has more than 400,000 banking and insurance customers. Demand for housing loans remained strong throughout the year, and we succeeded in increasing lending to small and medium-sized enterprises.

The Group's loan portfolio increased by 6.4 per cent during the year, amounting to EUR 3.9 billion. Deposits increased by 9.1 per cent to EUR 4.1 billion as a result of changes in customers' purchasing behaviour and increased saving. The amalgamation's capital adequacy remained on a solid basis, and its CET1 ratio was 19.9 per cent at the end of the financial period.

The POP Bank Group's profit before taxes decreased year-on-year because of a significant decrease in net investment income. However, net interest income – our key source of revenue – increased by 6.9 per cent to EUR 74.1 million, and net commission income grew by 3.5 per cent to EUR 31.0 million. The Group's profit before taxes was EUR 13.4 million. The insurance segment's profit before taxes was EUR 2.4 million, which increases the significance of insurance operations for the Group's profitability.

Early in the year, we confirmed a new strategy for the POP Bank Group and adopted a model in which the strategy is continuously updated. In line with the new strategy, we worked to shift the focus of our business operations to growth areas and increased lending to business, and we continued our extensive renewal programme aimed at the seamless combination of personal and digital services. To improve the Group's efficiency, we began to centralise the banks' routine measures in the service centre, and we continued to invest in robotics and the development of new products and services.

The significance of mobile banking continued to increase, and POP Mobiili quickly became one of the best banking applications in Finland. The number of users of the POP Avain identification application increased at a record rate of nearly 80 per cent. Biometric identification was also included in POP Avain in order to prepare for the expanded use of more secure identification at the beginning of 2021. The first digital housing sales were completed in the summer, when we joined the DIAS platform for digital housing sales. At the same time, we piloted an automated housing loan service, which our Group will adopt extensively later.

To improve lending services for companies, we started to serve as a guarantee intermediary bank for the European Investment Bank towards the end of the year. At the same time, to secure funding for our growth strategy, we began to implement concrete measures to start our mortgage bank operations during 2021.

Three major mergers were completed within the amalgamation as part of the POP Bank Group's structural development. As a result of the mergers, stronger banks were created in Ostrobothnia and central Finland, and new demand for their services has emerged over a short period of time. The merger development is expected to continue in the coming years.

The outlook for 2021 is cautiously promising, and consumer confidence is increasing as a result of the vaccination programme. Economic recovery will be dependent on domestic demand for a long time, and the prolonged coronavirus crisis is likely to result in longer-term problems for the economy. Long-term conditions for growth are burdened by population ageing and weak productivity. In Finland's key export markets, the recovery of the operating environment will take time, while the rapid increase in government debt in these countries increases the risk of unstable economic development.

The past year will be remembered as one of the most important learning experiences in our history, highlighting the importance of fundamentals and cooperation. For the POP Banks, a local focus is a strategic choice. Local vitality arises from forward-looking decisions and bold business owners, as well as banking operations that recognise local potential.

I would like to take this opportunity to thank our employees, customers and partners for our shared journey so far.

Pekka Lemettinen
CEO
POP Bank Centre coop

POP BANK GROUP'S BOARD OF DIRECTORS' REPORT 1 JANUARY – 31 DECEMBER 2020

POP BANK GROUP'S YEAR 2020 IN BRIEF

- Net interest income 74.1 (69.3) million (+6.9 %)
- Operating income EUR 124.0 (131.4) million (-5.6 %)
- Profit before tax EUR 13.4 (26.2) million (-48.8 %)
- Loan portfolio EUR 3,868.1 (3,635.5) million (+6.4 %)
- Balance sheet EUR 5,099.3 (4,535.6) million (+12.4 %)
- CET 1 Capital ratio of the amalgamation 19.9 (19.8) per cent
- POP Bank has the highest customer satisfaction in Nordic countries (EPSI Rating 2020)
- Insurance operations' loss ratio 73.1 (74.3) %
- The increase in number of insurance customers 9.4 (14.8) %

KEY EVENTS

- The POP Bank Group's strategy was confirmed
- Digital service opportunities have been expanded
- New products in asset management and corporate funding
- Expanding the funding sources of the POP Bank Group
- The impact of the coronavirus pandemic on business operations
- Reform of basic systems

POP BANK GROUP AND AMALGAMATION OF POP BANKS

The POP Bank Group is a Finnish financial group that offers retail banking services for private customers, small and medium-sized enterprises and agricultural, forestry and bioeconomy companies, in addition to providing private customers with non-life insurance services. The POP Banks' mission is to promote its customers' financial well-being and prosperity, as well as local success. The POP Bank Group's values are responsibility, customer orientation, profitability and bold renewal.

THE POP BANK GROUP'S VISION AND STRATEGY

The Group's vision is to be a bank that combines personal and digital services, thus providing the highest level of customer satisfaction and a rapid decision-making process. The POP Bank Group focuses on building long-term customer relationships and continuously renewing its ways of working to ensure that its vision materialises through its customer service, product offering, pricing and operational efficiency. To support this, the Group has engaged in strategy work based on continuously updated situation analyses since the beginning of 2020.

The POP Bank Group's strategy determines long-term financial targets for banking operations at the level of the amalgamation. The amalgamation's target for its cost-to-income ratio is no more than 60 per cent of the balance sheet total, and its target level for its operating profit is at least 0.7 per cent of the balance sheet total. The target for its common equity tier 1 (CET1) capital ratio is 17.5 per cent. In accordance with the strategy for insurance operations, the target for the consolidated cost ratio is 96.5 per cent. The consolidated cost ratio is calculated based on the company's national financial statements reporting.

STRUCTURE OF THE POP BANK GROUP

The POP Bank Group comprises of POP Banks and POP Bank Centre coop, and the entities under their control. The most significant companies with customer operations in the POP Bank Group are:

- 22 member cooperative banks of POP Bank Centre 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 Centre coop
- Finnish P&C Insurance Ltd, which uses the auxiliary business name POP Insurance.

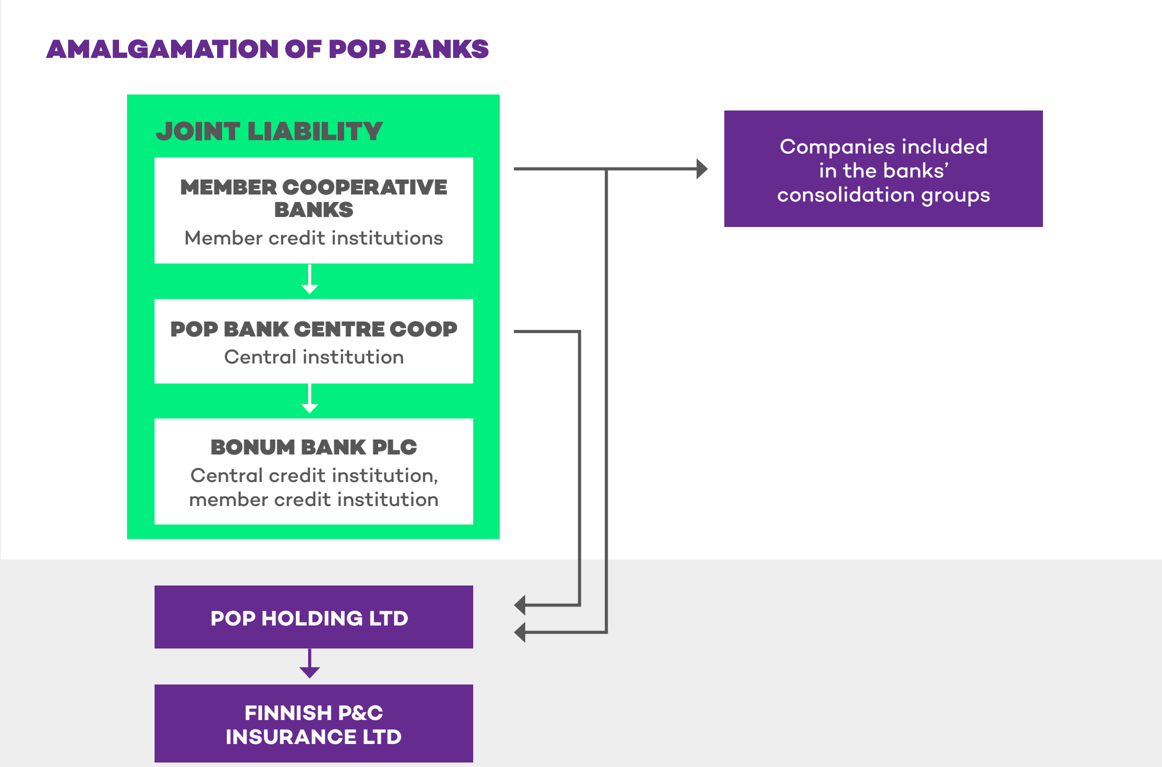
The POP Banks are cooperative banks owned by their member customers. The cooperative banks within the POP Bank Group have 89.8 thousand members in total. Cooperative bank membership entitles the member to participate in the bank's decision-making at cooperative meetings or in electing the members of the representative council, which has the highest decision-making power.

POP Bank Centre 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"). 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).

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

THE POP BANK GROUP



CHANGES IN POP BANK GROUP'S STRUCTURE

Three mergers were completed within the POP Bank Group during the financial period. At the end of September, Sievin Osuuspankki and Tiistenjoen Osuuspankki merged with Pohjanmaan Osuuspankki, and Hannulan Osuuspankki merged with Konneveden Osuuspankki. At the end of November, Kyrönmaan Osuuspankki merged with Lapuan Osuuspankki, and the name of the bank was changed to Lakeuden Osuuspankki. After the mergers, the POP Bank Group consists of 22 cooperative banks. The mergers will not have an impact on the POP Bank Group's financial statements.

In September, the cooperative meetings of Reisjärven Osuuspankki and Siilinjärven Osuuspankki approved the plan to merge Reisjärven Osuuspankki with Siilinjärven Osuuspankki. The merger is set to be registered on 28 February 2021. In connection with the merger, Siilinjärven Osuuspankki will become Järvi-Suomen Osuuspankki.

OPERATING ENVIRONMENT

The coronavirus pandemic was the most significant factor affecting the operating environment in 2020. Global measures to prevent the spread of the virus affected economies and people's daily lives in many ways. Recommendations and restrictions of various degrees were adopted rapidly in Finland and globally concerning mobility, meetings and the opening hours of shops, for example. As a result of these measures, total production decreased in many European countries by nearly 10 per cent in 2020.

To avoid waves of bankruptcies, governments have supported businesses more extensively than ever before. The EU also decided to implement a comprehensive support programme to reduce the negative impacts of the coronavirus pandemic. Economic growth has gradually started to recover but reaching the pre-crisis level will require bringing the pandemic under control by means of vaccinations.

The European Central Bank (ECB) participated in supporting the funding capacity of economies and banks through new and extended funding programmes, as well as by easing the collateral requirement level for central bank funding. In addition, the ECB decided to continue its bond purchase programme, and it also participated extensively in secured new issues by banks in order to ensure, on its part, the functionality of the financial markets in the exceptional circumstances. Key interest rates and market interest rates were at a record-low level at the end of the year, and market expectations of higher interest rates have been postponed long into the future.

In Finland, the decrease in production caused by the coronavirus pandemic was among the smallest in Europe. The factors that have been suggested to explain this include a more moderate escalation of the pandemic compared with other countries, and a flexible and widespread adoption of remote working practices. The support measures targeted at businesses by the Finnish government softened the negative impact of the coronavirus pandemic, but government debt increased rapidly as a result. In Finland, the problems caused by the coronavirus pandemic had the strongest impact on the service, tourism and catering sectors, whereas its impacts on construction, industry and the food sector were more moderate. The increase in the number of bankruptcies in 2020 was held back by the support measures and a temporary decree restricting the filing of bankruptcy applications. Any delays in bringing the coronavirus situation under control may increase the number of companies with problems over the longer term.

The employment situation worsened as a result of lay-offs, particularly during the spring of 2020, but improved considerably during the summer and autumn. Significant changes were seen in household purchasing behaviour. The proportion of consumption accounted for by services and tourism decreased sharply, as consumers invested in cars, home electronics and renovations instead. Household saving increased substantially during the year. Housing sales were also very active towards the end of the year.

KEY EVENTS IN THE POP BANK GROUP

THE POP BANK GROUP'S STRATEGY WAS CONFIRMED

The POP Bank Group's updated strategy and renewal programme were approved in January. The Group's strategy focuses on investments in the management of personal and fully digital customer service situations, as well as on strengthening lending to companies and shifting the focus of operations to growth areas.

As part of the renewal programme, the central institution's steering power was enhanced during the financial period by adopting new risk models and a steering framework for the member banks. The banks' compliance function was also centralised in the central institution. In the spring of 2020, the Group established a joint service centre that supports the banks in achieving their growth targets, finds cost savings by centralising and developing processes, enhances customer acquisition and provides customer service in digital channels.

Three mergers were completed within the POP Bank Group during the financial period. As well as supporting the Group's strategy, the mergers strengthen the banks' ability to support local economies and local vitality.

DIGITAL SERVICE OPPORTUNITIES HAVE BEEN EXPANDED

The extensive digitalisation of banking operations and customer service is one of the key focus areas of the POP Bank Group's new strategic renewal programme. The Group's mobile application, POP Mobiili, has been developed continuously, and the number of users has grown steadily. At the end of the review period, the number of mobile bank users was around 75 per cent of the total number of online and mobile bank users. Nearly half of all mobile bank users use the application daily, and it has become the main tool for taking care of daily banking within a short period of time. The fund subscription feature, which was introduced in late 2019, has also been well received, and the number of subscriptions through the mobile app has remained steady despite turbulence in the investment markets.

Due to the ending of the transition period for the Payment Services Directive (PSD2), the requirements for more secure identification have become stricter. The POP Banks have communicated actively with their customers concerning the adoption of the POP Avain identification application, and the number of users increased by nearly 80 per cent during the year. Towards the end of the year, biometric identification was introduced as an additional feature in POP Avain.

The use of digital services has been made easier for customers by introducing digital signatures more extensively throughout the product portfolio. In addition, new customer relationships can now be established and the related banking services provided through the POP Banks' electronic customer meetings (POP Verkkohetki). The proportion of online meetings of all customer meetings has increased strongly.

In June, the POP Banks joined the DIAS platform for digital housing sales. The platform brings together all parties involved in housing sales and makes it possible to buy and sell homes completely digitally. To expand its digital service processes, the POP Bank Group is piloting the use of digital housing loan decisions. The goal is to introduce the service in all POP Banks during 2021.

NEW PRODUCTS IN ASSET MANAGEMENT AND CORPORATE FUNDING

During the spring, the POP Banks' product offering was supplemented by new asset management and savings services for private and corporate customers. POP Environment, a new fund focusing on supporting sustainable development, was added to the selection of funds.

The development of corporate funding services is a key part of the POP Bank Group's strategy. In the autumn, co-operation was started with the European Investment Fund in order to support corporate funding, as the POP Banks were starting to transfer the EIF guarantee to their corporate bonds.

EXPANDING THE FUNDING SOURCES OF THE POP BANK GROUP

The POP Bank Group issued three senior bonds during the financial year. In June, Bonum Bank participated for the first time in the European Central Bank's TLTRO III funding operation to the tune of EUR 50 million.

The POP Bank Group also started preparations for commencing mortgage banking operations. The mortgage bank may issue covered mortgage-backed bonds. Mortgage banking requires a license from the European Central Bank. The commencement of mortgage banking operations is expected to take place during 2021.

THE IMPACT OF THE CORONAVIRUS PANDEMIC ON BUSINESS OPERATIONS

The coronavirus pandemic and the related service restrictions had a significant impact on loan and capital market activity. Demand for instalment-free periods grew in the spring to a level much higher than the normal. But the situation stabilised from the early summer, and volumes did not increase during the latter part of the year. Repayments were granted mainly to retail customers.

Market reactions to the pandemic caused the fair values of investment assets in banking and insurance operations to decrease, as well as affecting the price and availability of funding from the capital markets. However, the valuation of investments recovered to a large extent in the second half of the year to the pre-crisis level, with the exception of a few individual securities. The group's liquidity remained at a good level despite uncertainty in the capital markets.

Following national recommendations, the employees of the group largely adopted remote working habits in March. The coronavirus crisis limited the opening hours of banks to some degree, but thanks to their investments in digital products and services, the POP Banks were able to provide banking and expert services without interruption through online meetings, for example. The coronavirus crisis has not had a significant impact on the availability of services provided by the non-life insurance company, which operates online.

REFORM OF CORE SYSTEMS

An extensive card system project was completed in the autumn whereby the management of debit cards was transferred from Oy Samlink Ab's system to a system provided by Nets A/S. The project was aimed at reducing the risks related to the reform of the core banking system and centralising the administration of all cards under one service provider which was already responsible for managing the POP Bank credit cards.

The POP Bank Group is also carrying out a major overhaul of its core banking system in cooperation with Cognizant Company from the US, whose subsidiary, Oy Samlink Ab, will provide the banks with a new banking system. The project is in definition phase and the project schedule is currently being specified with the partners. The project will be carried out in cooperation with the Savings Bank Group and Oma Savings Bank.

CREDIT RATINGS

In May 2020, 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 changed from stable to negative because of the economic uncertainty caused by the coronavirus pandemic.

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 2020	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Net interes income	74,099	69,318	65,391
Net commissions and fees	31,049	30,013	29,790
Insurance income	11,611	10,913	10,433
Net investment income	1,298	15,588	1,111
Personnel expenses	-43,531	-42,843	-41,769
Other operating expenses	-50,738	-47,927	-48,257
Impairment losses on financial assets	-7,468	-6,528	-3,195
Profit before tax	13,393	26,150	11,569

Key balance sheet figures (EUR 1,000)	31 Dec 2020	31 Dec 2019	31 Dec 2018
Loan portfolio	3,868,147	3,635,488	3,473,310
Deposit portfolio	4,086,045	3,746,305	3,666,543
Insurance contract liabilities	43,915	38,606	32,488
Equity capital	518,114	508,435	483,788
Balance sheet total	5,099,270	4,535,557	4,409,518

Key ratios	31 Dec 2020	31 Dec 2019	31 Dec 2018
Cost to income ratio	83.2 %	75.1 %	86.8 %
Return on assets, ROA %	0.2 %	0.5 %	0.2 %
Return on equity, ROE %	2.2 %	4.3 %	1.8 %
Equity ratio, %	10.2 %	11.2 %	11.0 %
Common equity Tier 1 capital ratio, (CET1) %	19.9%	19.8 %	20.5 %
Capital adequacy ratio, (TC) %	19.9%	19.9 %	20.8 %

POP BANK GROUP'S EARNINGS PERFORMANCE

The POP Bank Group's core business income grew significantly, but profit before taxes was lower than in the previous year due to the contraction in net investment income. Profit before taxes was EUR 13.4 (26.2) million, and profit for the period was EUR 11.5 (21.4) million.

The Group's net interest income increased by 6.9 per cent from EUR 69.3 million to EUR 74.1 million due to increases in interest income and lower interest expenses than in the comparison period. Interest income for the financial year amounted to EUR 80.1 (77.3) million, and interest expenses were EUR 6.0 (8.0) million. Insurance premium revenue increased by 3.5 per cent to EUR 31.0 (30.0) million. Insurance liabilities grew by 6.4 per cent to EUR 11.6 (10.9) million.

Net investment income improved significantly from the previous year and was EUR 1.3 (15.6) million. The corona pandemic caused a strong market reaction in the spring, which caused the fair values of investment assets to decline substantially. However, during the second half of the year, the fair values of investments recovered, and net investment income turned positive as a whole.

Other operating income totalled EUR 5.9 (5.5) million. Other operating income includes the reimbursement of the old Deposit Guarantee Fund, which covers the deposit guarantee contribution of the Financial Stability Authority included in other operating expenses. Other operating income totalled EUR 124.0 (131.4) million.

Total operating expenses increased by 4.6 per cent to EUR 103.2 (98.6) million. Personnel expenses formed 42.2 per cent of operating expenses and totalled EUR 43.5 (42.8) million. Other operating expenses increased to EUR 50.7 (47.9) million. Depreciation and impairment on tangible and intangible assets was EUR 8.9 (7.9) million.

In the review period, EUR 7.5 (6.5) million was recognised in impairment on financial assets. Impairment losses include a net increase in expected losses of EUR 0.2 (3.5) million and realised credit losses of EUR 7.3 (3.0) million.

POP BANK GROUP'S BALANCE SHEET

The POP Bank Group's equity totalled EUR 5,099.3 (4,535.6) million at the end of the period. The loan portfolio increased by 6.4 per cent during the financial year, amounting to EUR 3,868.1 (3,635.5) million. Total deposits grew exceptionally strongly during the financial year, by 9.1 per cent. At the end of the financial year, the Group had deposits from customers totalling EUR 4,086.0 (3,746.3) million.

The number of bonds in issue increased to EUR 266.3 (114.8) million during the financial year. The Group's investment assets increased from EUR 573.1 million to EUR 688.9 million. In addition to investments in securities and real estate in banking operations, the investment assets include the insurance company's investments in securities.

The POP Bank Group's equity totalled EUR 518.1 (508.4) million at the end of the financial period. The cooperative capital, which consists of the POP Banks' cooperative contributions and POP Shares, amounted to EUR 66.0 (66.7) million. The POP Banks paid EUR 1.3 (1.2) million in interest on cooperative capital for 2019. POP Shares are investments in the cooperative bank's equity in accordance with the Co-operatives Act. In total, the POP Banks have issued EUR 56.1 (57.3) million in POP Shares.

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 2020, POP Bank Group had 253.7 (252.0) thousand banking customers. Of these, 85.5 (85.4) per cent are private customers, 8.6 (8.4) per cent are corporate customers, and 2.8 (2.9) per cent are in the agriculture and forestry sectors.

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 2020, 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 2020). At the end of the year, POP Banks had 75 branch offices and service points. In addition, customers have access to mobile and online banking services and online appointments.

The POP Bank Group focused on sales management development during the 2020 review period. The Group's commission income and loan portfolio increased significantly before the beginning of the coronavirus pandemic. However, as the pandemic considerably slowed economic activity in Finland, the increases in both commission income and the loan portfolio levelled out towards the end of the review period.

The Group has invested strongly in digitalisation for some time now, which enabled it to respond rapidly to the coronavirus pandemic and implement the necessary special measures. The POP Banks were able to continue to provide daily services without interruption, as well as to successfully transfer customer meetings online, thanks to their POP Verkkohetki sessions. The number of online sessions was at its highest in May: around five times higher than before the coronavirus pandemic. While the number of online sessions decreased after May, it was still many times higher than before the pandemic.

The Group continued to update its banking product selection, in terms of savings products in particular, by introducing new asset management solutions for private and corporate customers. At the same time, a cooperation project that had lasted several years and affected the POP Banks' product partners was completed.

BANKING EARNINGS

In banking, the profit before taxes was EUR 11.3 (23.8) million. Net interest income and fee income increased in banking, but the low investment income had a negative impact on earnings. The cost-to-income ratio of banking operations was 82.6 (72.1) per cent.

Net interest income in banking operations increased by 6.7 per cent to EUR 73.5 (68.9) million, and net commission income increased by 3.3 per cent to EUR 31.6 (30.5) million. Net investment income amounted to EUR 1.5 (13.2) million. Other operating income totalled EUR 5.8 (4.8) million. Operating income totalled EUR 112.4 (117.4) million, representing a decrease of 4.2 per cent year-on-year as a result of lower net investment income.

Personnel expenses in banking operations decreased to EUR 30.7 (31.3) million, while other operating expenses increased by 13.2 per cent to EUR 57.9 (51.1) million as a result of higher IT expenses, among other factors. Depreciation and impairment losses on tangible and intangible assets were EUR 5.1 (4.8) million. Operating expenses grew by 7.6 per cent to EUR 93.7 (87.1) million.

Impairment losses on financial assets were recognised in expenses to the tune of EUR 7.4 (6.5) million. Impairment losses include a net increase of EUR 0.1 (3.5) million in expected losses, as well as EUR 7.3 (3.0) million in actual credit losses. The increase in actual credit losses is partly explained by the Group's expanded unsecured consumer credit business, which is characterised by a higher level of returns and credit losses. Active collection measures are targeted at items recognised as credit losses.

THE BANKING SEGMENT'S ASSETS AND LIABILITIES

The banking segment's assets and liabilities totalled EUR 5,114.4 (4,558.9) million at the end of the financial period. The banking segment's loan portfolio increased by 6.4 per cent to EUR 3,870.2 (3,637.6) million. The loan portfolio grew in both the private and corporate customer segments. Deposits increased by 9.0 per cent, and the banking segment's deposits totalled EUR 4,089.3 (3,751.7) 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.

Growth in insurance operations slowed in 2020 as a result mainly of the coronavirus pandemic. In 2020, Finnish P&C Insurance Ltd. gained an average of 3.5 (3.8) thousand new customers per month, and at the end of the financial period, the company had 156.5 (143.0) thousand customers. According to the results of an NPS survey, which measured customers' willingness to recommend, the company is among the leaders 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. focuses on online marketing in particular and directs customers to its online store. Also bank partners mainly direct their own customers to the 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

Market reactions to the coronavirus pandemic had a negative impact on the valuations of investment assets during the first half of the year in particular. Growth in premium income volumes in insurance operations slowed, mainly as a result of the pandemic and the exceptional circumstances that ensued. The coronavirus pandemic had a slightly decreasing impact on loss expenses.

Profit before tax for insurance was EUR 2.4 (1.5) million. Net insurance income grew by 6.4 per cent to EUR 11.6 (10.9) million. The loss ratio decreased by 1.2 percentage points from 74.3 to 73.1 per cent. The operating expense ratio of the company was 21.9 (26.4) per cent, and the consolidated cost ratio was 95.0 (100.7) per cent[1].

In 2020, Finnish P&C Insurance sold 126,2 (130,5) thousand new insurance agreements. Premiums written totalled EUR 46.0 (45.8) million, of which 81.4 (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 18.6 (18.0) per cent of the premiums written. Insurance premium revenue increased by 1.6 per cent to EUR 43.1 (42.5) million.

Claims incurred decreased slightly from the previous year and totalled EUR 31.5 (31.6) million. These consisted of EUR 28.8 (27.8) million in claims paid, EUR 7.6 (7.7) million in changes in provisions for unpaid claims, less EUR -4.1 (-3.9) 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 nine losses were made to technical provisions at the end of the year.

Personnel expenses in insurance operations remained at the previous year's level, at EUR 6.9 (6.9) million. Other operating expenses decreased to EUR 1.1 (2.2) million. Depreciation and impairment amounted to EUR 2.1 (1.9) million. Operating expenses totalled EUR 10.0 (11.0) million.

INSURANCE SEGMENT'S ASSETS AND LIABILITIES

The assets of the insurance segment totalled EUR 80.7 (70.9) million at the end of the financial period. The liabilities of the insurance segment totalled EUR 57.7 (45.9) million. Insurance liabilities grew by 13.8 per cent to EUR 43.9 (38.6) million. The liabilities of the insurance segment totalled EUR 49.2 (43.9) million.

OTHER FUNCTIONS

Other functions include POP Holding Ltd, POP Bank Centre 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.

[1] The operating expense ratio and the consolidated cost ratio have been calculated on the basis of Finnish P&C Insurance Ltd.'s financial statement information (FAS).

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 Centre 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 risk limits have been established for the member institutions to ensure that the risks taken by an individual member institution are within acceptable limits according to accepted risk appetitive.

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. The independent functions within the central institution are formed as the risk control function monitoring the risk position, the compliance function supervising the compliance within the regulations and internal audit.

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

The amalgamation's credit risk position in banking remained stable and the risk level moderate. COVID-19 pandemic's primary impact was a significant increase in the number of the instalment-free periods for loans during the spring 2020. Substantial part of the granted instalment-free periods ended during the last quarter of 2020 and application for new instalment-free months decreased substantially by the end of the year.

Despite of the exceptional market environment the amounts of overdue loans stayed on a moderate level. Loans over 90 days overdue amounted 0.87 (0.80) per cent of the loan portfolio, and loans between 30-90 days overdue were 0.55 (0.42) per cent of the loan portfolio at the end of the year 2020.

The consequences of COVID-19 pandemic reflected most significantly on the amalgamation's investment portfolio. Additional loan loss provision of EUR 1,448 thousand was made to a few individual debt securities based on the management judgement, as the COVID-19 has substantial impact to issuers' financial conditions. The amount of expected credit losses (ECL) for loans and receivables portfolio decreased by 4.4 percent ending up at EUR 32.3 (33.8) million. The final credit losses incurred during the financial year EUR 7.3 (3.0) million impacted mainly to the decrease of the amount of ECL for loans and receivables.

The amalgamation's loan portfolio grew 6.4 per cent amounting EUR 3,870.2 (3,635.5) million at the end of the accounting period. Industry and customer risks are well diversified. Loans granted to private customers accounted for 66.4 (67.1) per cent; to companies 18.5 (17.5) per cent and; to agricultural entrepreneurs 15.1 (15.4) per cent of the loan portfolio. Majority of the lending is associated with low risk lending to private customers with real estate collaterals. Portion of the loans secured by residential real estate was 64.6 (65.0) per cent of the loan portfolio.

Credit risk management is based on a continuous monitoring of past-due payments, forbearances and non-performing loans as well as the quality of the loan portfolio. Monitoring expected credit losses (ECL) is an essential part of the credit risk management processes. Foreseen problems are to be assessed 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 191.4 (114.7) per cent on 31 December 2020 with the requirement being 100 per cent. On 31 December 2020, the amalgamation's LCR-eligible assets before haircuts totalled EUR 621.9 (305.4) million, of which 63.0 (54.8) per cent were cash and balance at the central bank and 32.4 (40.2) per cent were highly liquid Tier 1 securities. In addition, outside the amalgamation's LCR portfolio unencumbered securities eligible for central bank funding totalled to EUR 71.1 (28.1). The central credit institution Bonum Bank Plc manages the liquidity coverage requirement (LCR) of the amalgamation. During the financial year, Bonum Bank Plc participated for the first time in the European Central Bank's TLTRO III financing operation for EUR 50 million.

POP Bank Centre 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. According to the permission, the regulatory requirements for liquidity risk shall only be met at the amalgamation level.

The POP Bank Group's funding position remained strong during the financial year. The proportion of deposits from the funding portfolio remained high and total deposits increased by 8.3 per cent during the reporting period. The Net Stable Funding Ratio (NSFR) was 147.7 (140.9) at the end of the period, with the future requirement being 100 per cent in accordance with Regulation (EU) 2019/876. End of reporting period Bonum Bank Plc has EUR 225 (95) million outstanding unsecured senior notes from EUR 750 million bond programme, of which new unsecured senior notes of EUR 50 and 55 million were issued during the financial year, and previously issued 75 million unsecured senior note was increased to EUR 100 million through an additional issue. At the end of the year, the availability of financing with short-term investment certificates normalized from the exceptional situation caused by COVID-19 pandemic and the open portfolio of investment certificates totaled to EUR 41.5 (20.0) million.

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 +13.1 (+11.8) / -9.7 (-7.0) million on 31 December 2020. 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 member credit institutions annually report to the compliance function on the operational risks related to their own operations through self-assessments. The member credit institutions report to the central institution every six months on their materialised operational risks and near misses. The compliance function regularly assesses the nature of the identified operational risks, as well as the probability of their materialisation, across the amalgamation.

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.

The operating model for risk management related to money laundering and other financial crime has been systematically reinforced at the level of the amalgamation. This has included updating the binding guidelines on the prevention of money laundering and other financial crime within the amalgamation, increasing the selection of solutions and the amount of resources available for continuous monitoring, and acquiring and implementing a completely new AML monitoring system, as well as active communication and a considerable increase in training.

During the year, measures were taken to centralise the compliance function in the central institution in line with the Group's strategy. As a result of this, more resources have been allocated to the compliance function, and an organisation was established for the centralised function during the year. Responsibility for monitoring compliance was transferred from the banks to the central institution during 2020.

RISKS RELATED TO INSURANCE OPERATIONS
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. The outbreak of the coronavirus pandemic in the spring changed the operating environment in many respects. However, the pandemic did not have a significant impact on insurance operations. The decline in driving and travelling was reflected in a slowdown in the increase in losses and the insurance portfolio.

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 pandemic did not have a major impact on operating activities, because the company operates digitally and has good capabilities for remote work.

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 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 2021.

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 (19.9) per cent and CET1 capital ratio 19.9 (19.8) per cent. The amalgamation does not include the profit for the financial year in own funds. The amalgamation's own funds of EUR 513.0 (504.6) million are comprised of 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 56.1 (57.3) million.

Supplementary cooperative contributions are not acknowledged as an equity instrument according to the Capital Requirements Regulation (CRR) and instruments are thus gradually phased out from own funds. During the financial year redemption permission was received from Financial Supervisory Authority (FIN-FSA) and instruments are fully excluded from own funds at 31th Dec 2020. Redemptions will be executed during 2021.

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 %
- Country-specific capital requirements for foreign exposures

From Capital Requirements Regulation Minimum requirement 4.5 per cent must be Common Equity Tier 1 (CET1) capital and all additional capital requirements must be covered with CET1 Capital. FIN-FSA released the systemic risk buffer capital requirement 6th April 2020.

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 FIN-FSA. Similarly member credit institutions have received 2020 exemption from FIN-FSA regarding amalgamation's internal items in leverage ratio reporting.

Amalgamation will report definition of default in accordance with Article 178 of the EU Capital Requirements Regulation 575/2013 from 1.1.2021. Changes in definition of default regulation is expected to increase number of defaulted receivables and thus decrease capital adequacy ratio somewhat during 2021.

SUMMARY OF CAPITAL ADEQUACY

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Own funds		
Common Equity Tier 1 capital before deductions	536,352	520,317
Deductions from Common Equity Tier 1 capital	-23,306	-19,363
Total Common Equity Tier 1 capital (CET1)	**513,046**	**500,954**
Additional Tier 1 capital before deductions	-	2,163
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**-**	**2,163**
Tier 1 capital (T1 = CET1 + AT1)	**513,046**	**503,117**
Tier 2 capital before deductions	-	1,514
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**-**	**1,514**
Total capital (TC = T1 + T2)	**513,046**	**504,632**
Total risk weighted assets	**2,578,449**	**2,531,685**
of which credit risk	2,349,874	2,300,929
of which credit valutaion adjustment risk (CVA)	-	-
of which market risk (foreign exchange risk)	20,858	24,633
of which operational risk	207,717	206,123
CET1 Capital ratio (CET1-%)	**19.9 %**	**19.8 %**
T1 Capital ratio (T1-%)	**19.9 %**	**19.9 %**
Total capital ratio (TC-%)	**19.9 %**	**19.9 %**
Capital Requirement		
Total capital	513,046	504,632
Capital requirement *	302,968	323,558
Capital buffer	210,031	181,074
Leverage ratio		
Tier 1 capital (T1)	513,046	503,117
Leverage ratio exposure	5,146,910	4,588,442
Leverage ratio, %	10.0 %	11.0 %

* 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 % and country-specific countercyclical capital requirements for foreign exposures. FIN-FSA released the systemic risk buffer capital requirement (1%) 6th April 2020.

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.

ADMINISTRATION OF POP BANK CENTRE COOP

The 22 member cooperative banks (POP Banks) and Bonum Bank Plc are members of POP Bank Centre coop. The member cooperative banks exercise their statutory voting rights in the meeting of POP Bank Centre 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 Centre coop.

In accordance with the rules, the Supervisory Board of POP Bank Centre 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 2020, 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). As a result from mergers within the Group, the number of members was 22 at the end of financial year.

The Board of Directors of POP Bank Centre coop consists of a minimum of five (5) and a maximum of eight (8) members elected by the Supervisory Board. At least half of the Board members must be elected from persons 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 CENTRE COOP:

Juha Niemelä Managing Director,
Liedon Osuuspankki
Ordinary member
Chairman

Soile Pusa Managing Director,
Siilinjärven Osuuspankki
Ordinary member
Vice Chairman

Ari Heikkilä Managing Director,
Konneveden Osuuspankki
Ordinary member

Petri Jaakkola Deputy Managing Director,
Lakeuden Osuuspankki
Ordinary member

Timo Kalliomäki Managing Director,
Suupohjan Osuuspankki
Ordinary member

Ilkka Lähteenmäki Research Fellow,
Aalto University, Oulu University, Hanken
School of Economics
Ordinary member

Marja Pajulahti Managing Director,
Invalidisäätiö
Ordinary member

The CEO of POP Bank Centre coop is **Pekka Lemettinen**. CEO's deputy is **Jaakko Pulli**.

The auditor of POP Bank Centre 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 2020, the POP Bank Group had 785 (735) employees, of whom 580 (538) in banking, 115 (114) in non-life insurance and 90 (83) in other functions.

POP BANK GROUP PERSONNEL 31 DECEMBER 2020

Men	203
Women	582
Total	**785**
Of which permanent	723
Of which fixed-term	62

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.

REMUNERATION OF THE MEMBERS OF THE POP BANK CENTRE'S ADMINISTRATION

The monthly fees confirmed by the central institution's Supervisory Board for the members of the Board of Directors were as follows: EUR 2,700 for the Chair; EUR 1,800 for the Vice Chair; and EUR 1,500 for each member. In addition, all Board members were paid a meeting fee of EUR 1,000 per meeting. The fees are paid in cash. The monthly fee confirmed by the cooperative meeting for the Chair of the Supervisory Board was EUR 1,200. The members of the Supervisory Board were paid a meeting fee of EUR 600 per meeting. A meeting fee of EUR 100 per meeting was paid for the email and telephone meetings of the Board of Directors and the Supervisory Board. In addition, Board members were paid EUR 600 for attending a Supervisory Board meeting. The fee paid to the Chair and Vice Chair of the Supervisory Board for attending a meeting of the Board of Directors was 70 per cent of the fee paid to the Board members.

The fees paid to the members of the POP Bank Centre's Board of Directors and Supervisory Board in 2020 are presented in the table below.

FEES TO POP BANK CENTRES BOARD OF DIRECTORS AND SUPERVISORY BOARD

(EUR)	Chairmen	Vice Chairmen and Other Members	Total
Monthly fees	46,800	111,600	**158,400**
Meeting fees	41,970	222,520	**264,490**
Total	**88,770**	**334,120**	**422,890**

In 2020, the Board of Directors and the Supervisory Board met more frequently than usual because of the coronavirus pandemic. The Board of Directors met 30 times, and the Supervisory Board met five times.

THE POP BANK GROUP'S MAIN PARTNERS AND STAKEHOLDERS

The POP Bank Group's business development and opportunities rely on the trust of customers, employees and society. The POP Banks actively participate in supporting local business and industry and local stakeholders in various ways. In addition, the Group cooperates closely with educational institutions, scientific communities and the authorities.

The POP Bank Group actively contributes to the development of its sector as a member of Finance Finland. The purpose of Finance Finland is to promote the development of fair and transparent regulations and guidelines in line with the principles of good governance in the financial sector in Finland. The POP Bank Group is also a member of the Pellervo Coop Centre, which promotes cooperative operations as a business model and cooperatives as a competitive form of enterprise, by influencing legislation and economic and industrial policy relating to them in order to ensure that cooperatives receive sufficient attention.

The POP Banks' selection of investment products includes investment funds managed by two of its partners, Sb-Fund Management Company Ltd and UB Asset Management Ltd. In securities services, the partner is the Finnish branch of Nordnet Bank AB. The pension and savings insurance products provided by the POP Banks are produced by Aktia Life Insurance Ltd and Sb Life Insurance Ltd, and the loan insurance products provided by the POP Banks are produced by the AXA Group and Sb Life Insurance Ltd. The purpose of the cooperation is to secure competitive pension, savings and loan insurance services for the POP Banks' customers.

In non-life insurance services for private customers, the bank cooperates with Finnish P&C Insurance Ltd, which is part of the POP Bank Group and uses the auxiliary business name of POP Insurance in its marketing.

In card services, the POP Banks cooperate with Nets Denmark A/S, Finnish Branch.

Oy Samlink Ab serves as the POP Banks' information system supplier. In risk reporting, we cooperate with ALM Partners Ltd. Figure Financial Management Ltd is our provider of financial management and statutory reporting services.

DONATIONS AND GRANTS

The donations and grants provided by the POP Bank Group totalled around EUR 300,000 in 2020. Most of this amount is attributable to the foundation established by Tiistenjoen Osuuspankki in 2020. The purpose of the foundation is to support local operators and communities. In the summer, the POP Bank Group participated in a national forest planting campaign organised by 4H in Finland. The campaign offered young people an opportunity to learn about working life in practice. At the local level, the POP Banks support sports and association activities and cultural events.

SOCIAL RESPONSIBILITY

The POP Bank Group reports on its responsibility work in accordance with the Global Reporting Initiative (GRI) guidelines. The GRI recommendations concerning the financial sector are also taken into account in the POP Bank Group's reporting. The GRI index will be published on the POP Bank Group's website.

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 aware of the fact that responsibility work is a continuous undertaking which, in addition to reporting, requires the regular updating of goals in order to ensure operational development.

The POP Bank Group sees climate change as one of the key challenges of our time. Climate change has a strong impact on the Group's customers and operating environment. The financial sector and the companies to which we provide funding play an important role in combating climate change. Therefore the POP Bank Group is, to a significant degree, focusing its lending on agriculture, forestry and the bioeconomy. The transition to a carbon-neutral economy will require major investments in the future, as well as systematic work over the long term. The POP Bank Group is firmly committed to promoting a sustainable approach to the economy, and this is one of the cornerstones of the Group's recently updated responsibility programme.

The POP Bank Group's responsibility work is guided by its responsibility programme, which was updated at the end of 2020. The programme is based on a materiality analysis aimed at identifying those responsibility aspects that are the most important for the POP Bank Group and its key stakeholders.

The POP Bank Group's responsibility work is guided by its responsibility programme, which was updated at the end of 2020. The programme is based on a materiality analysis aimed at identifying those responsibility aspects that are the most important for the POP Bank Group and its key stakeholders.

The following responsibility themes were identified as being significant for the POP Bank Group:

1. Promoting sustainable financing and investing and thereby mitigating climate change
2. Supporting local success, vitality and well-being
3. Transparent business operations
4. Ensuring the equality of employees and promoting diversity and well-being at work
5. Preventing a shadow economy, corruption and money laundering

In the POP Bank Group, matters concerning responsibility are discussed by the Executive Board and the Board of Directors. The operational manage ment of matters related to responsibility has been integrated into normal day-to-day business operations. The guidelines are reviewed annually by the Executive Board and the Board of Directors, and policies and principles are updated to support operations as necessary.

Responsible lending

In its lending, the POP Bank Group takes into account the recommendations issued by the Financial Supervisory Authority, as well as the rules concerning good lending practice. The Group's member banks do not knowingly provide funding to operations that violate the law or good practice. Lending is reviewed comprehensively, with the goal of establishing long-term customer relationships. Responsible lending is based on customer knowledge and careful examination of the customer's situation.

In the POP Bank Group, lending to private customers emphasizes the customer's financial security and is based on good business principles and ethical guidelines on lending. For private customers, the most significant issues related to lending are determining the appropriate amount of credit and the customer's debt servicing capacity. With regard to corporate customers, we identify the financial risks and environmental impacts related to their operations or to the projects that are to be funded.

The POP Bank Group operates responsibly and transparently, taking into account the customer's interests when marketing loans and concluding loan agreements. We always obtain sufficient information on each customer's financial position and creditworthiness and thoroughly examine each borrower's ability to meet their commitments. The customer is provided with sufficient and clear information about the credit and its terms and conditions well in advance of entering into a loan agreement. Such information and the terms and conditions are then reviewed carefully together with the customer when finalising the agreement. If payment delays occur, the customer must be provided with advice on how to deal with insolvency situations, and a responsible approach must be applied to payment arrangements. In the event of payment difficulties, the POP Banks seek to respond as early as possible and to 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 company that neglects responsibility aspects.

The principles of responsible investment apply not only to the products offered to customers, but also to the Group's own investing activities. Most of the POP Funds have a Morningstar sustainability rating. Their average sustainability rating is 3.6 on a scale of 1–5. In addition to this, since June 2020, POP Environment fund has been available for customers interested in sustainable development issues.

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 and that have signed the UN-supported Principles for Responsible Investment (PRI). 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.

SUPPORTING LOCAL SUCCESS, VITALITY AND WELL-BEING

The POP Bank Group's mission is to support its customers' financial well-being and local success. For this reason, 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. The domiciles of the companies of the Group cover 24 different locations, meaning that the taxes paid by the Group are allocated extensively to the areas where its customers are. The POP Bank Group paid EUR 1.9 (4.3) million in taxes on its earnings in 2020. The POP Bank Group employs more than 700 professionals across Finland.

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 joined by digital service channels that enable customers in different life situations to discuss their financial management with POP Banks' experts.

An independent survey conducted by EPSI Rating has nine times indicated that the POP Bank Group has the most satisfied private customers. In the POP Bank Group, customer satisfaction is a key indicator of success. In line with their strategy, the POP Banks are closely involved in their customers' daily lives, providing personal service through various channels. Based on their feedback, our customers appreciate easy access to bank staff and quick decision-making.

TRANSPARENT BUSINESS OPERATIONS

One of the POP Bank Group's key principles is to communicate transparently, meaning that we provide key information openly within the Group. We also apply this principle to the Group's external communications. The POP Bank Group aims for equality and transparency in all its communication and marketing.

The POP Bank Group's operations comply with the current regulations and the orders issued by the authorities. In banking operations, the Group complies with the Good Banking Practice and trading instructions confirmed by Finance Finland, as well as with the amalgamation's internal guidelines. In insurance operations, the Group complies with the guidelines issued by Finance Finland concerning good insurance practice, as well as with the company's internal guidelines. Key management practices are defined in the POP Bank Group's guidelines for reliable governance.

The POP Bank Group also complies with the principles of good governance. Compliance with good governance is monitored by the Board of Directors. If shortcomings are detected in the organisation of reliable governance, or if significant risks or damage emerge in operations as a result of non-compliance with regulations, these are reported to the Board of Directors without delay. The Board of Directors is also immediately informed about any question concerning the reliability, suitability or professional skills of the people responsible for key operations or the compliance officer. Suspected misconduct can be reported to the compliance function and internal audit confidentially by using a whistleblowing channel designated for this purpose.

Identifying conflicts of interest is part of normal financial activities. The aim is to prevent potential conflicts of interest by avoiding high-risk combinations of duties in operations through the separation of supervisory duties related to operational and risk management, for example, at all organisational levels within the Group. A person belonging to the compliance function reports the number of justified and unfounded reports submitted via the whistleblowing channel during the year, specific to each workplace community, to the Board of Directors of the central institution.

The Board of Directors of the POP Bank Centre coop confirms and regularly updates the guidelines concerning insider registers and the obligation to disclose securities holdings, as well as trading rules, for its member credit institutions. A member of the personnel may not participate in processing a matter concerning an agreement between such person and a member credit institution. Furthermore, they may not participate in processing a matter between a member credit institution and a third person if they can reasonably be expected to have material interests that may conflict with the interests of the member credit institution. If a conflict of interest arises, it must be reported transparently to the affected customers, who can consider the situation in their own decision-making, as well as to the Board of Directors of the central institution. The Executive Board of Finnish P&C Insurance has confirmed and regularly updates the guidelines concerning conflicts of interest and disqualification. A disqualified person may not participate in processing the matter in question, nor may they be present when the matter is being processed.

No conflicts of interest, violations or legal proceedings concerning the Group were reported within the POP Bank Group during the year.

Responsibility for customer data

The development of the POP Bank Group's products and services strives to achieve the best possible customer experience and accessible and timely 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 the personal data of customers, partners and employees.

ENSURING THE EQUALITY OF EMPLOYEES AND PROMOTING DIVERSITY AND WELL-BEING AT WORK

The competence requirements for employees in the financial sector are high in the current environment, which is extensively regulated and highly digitalised. The POP Bank Group aims to provide its employees with an environment that values learning and development, and also with meaningful job descriptions that enable employees to have an impact on their work. The POP Bank Group seeks to improve well-being at work in all its operations. Employee satisfaction is measured annually, and plans are prepared regularly to develop fair and equal workplace communities.

High-quality training and active internal communications are emphasized to ensure that employees have the necessary level of competence. Career opportunities and remuneration are examined from the perspective of equality. We are continuously examining the implementation of diversity and equality in our work environment, and we have zero tolerance towards discrimination in the workplace.

Employees have an opportunity to discuss matters related to equality and non-discrimination with their supervisors, health and safety representatives or personnel representatives. No challenges related to equality or non-discrimination were reported during 2020.

While the financial sector is a female-dominated sector, the management level continues to be male-dominated. There is general awareness of the situation, and various measures are being taken accordingly. The gender breakdown of the POP Bank Group reflects the average for the sector. At the end of 2020, women represented 74.1 per cent and men represented 25.9 per cent of the Group's personnel. The average age of personnel at the end of 2020 was 42 years, while the average age of employees in the financial sector is 45.

The age distribution of the POP Bank Group's employees is presented in the table below.

POP BANK GROUP PERSONNEL AGE DISTRIBUTION 31 DECEMBER 2020

Age distribution	Total
less than 30 yrs	148
30 – 39 yrs	227
40 – 49 yrs	138
50 – 59 yrs	199
over 60 yrs	73
Total	**785**

EVENTS AFTER THE CLOSING DATE

S&P Ratings has affirmed January 22, 2021 Bonum Bank Plc's long-term counterparty credit ratings 'BBB' and short-term credit rating 'A-2'. The agency revised the bank's outlook from negative to stable.

POP Bank Centre 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 2021

The POP Bank Group's financial performance is closely linked to capital market development, economic growth in Finland and regional development. Success in the vaccination programme being carried out in the eurozone countries will represent a significant step for the better in the public health and economic crisis caused by the coronavirus pandemic.

However, the pandemic continues to pose serious risks to the entire eurozone and the global economy. The tight long-term restrictions imposed in many countries hinder economic recovery. Monetary stimulus continues to be crucial, as it builds the confidence required for private consumption and corporate investment to pick up again. Key interest rates are expected to remain at or below the current level until the inflation outlook recovers closer to the ECB's target level of 2 per cent. The ECB's funding operations, as well as its purchase programmes related to the pandemic, continue to provide the markets with ample liquidity.

The outlook for 2021 is cautiously optimistic, but the recovery of the Finnish economy will continue to be dependent on domestic demand for a long time. The economy is developing unevenly across sectors. The recovery of the operating environment in Finland's key export markets will take its time. Restrictions have a stronger impact on the service sector than on industry. The prolonged coronavirus crisis is likely to result in longer-term problems for the economy. The rapid increase in government debt elevates the risk of unstable economic development. Finland's long-term conditions for growth are also burdened by population ageing and weak productivity.

These factors create a challenging operating environment that is difficult to predict. In our view, this challenge will continue to prevail for a few years. Market, credit, insurance and operational risks have the most significant impact on the POP Bank Group's profitability and fluctuations. Considering the overall circumstances, we expect the POP Bank Group's result in 2021 to be at the same level as in 2020.

FURTHER INFORMATION:

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FORMULAS FOR KEY FIGURES

Alternative Performance Measures (APMs) are key figures other than those specified in the accounting standards or other regulation and are used to describe the company's financial position and development. The key figures presented by the POP Bank Group are based on IFRS Financial Statement Reporting Standards, except for the operating expenses ratio and the combined expense ratio for insurance operations. The calculation formulas for the key figures included in the annual report are described below.

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, %

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

COMBINED EXPENSE RATIO, %

Loss ratio + Operating expense ratio

POP BANK GROUP FINANCIAL STATEMENTS 31 DECEMBER 2020

POP BANK GROUP'S INCOME STATEMENT

(EUR 1,000)	Note	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019	Change, %
Interest income		80,090	77,281	3.6 %
Interest expenses		-5,991	-7,963	-24.8 %
Net interest income	6	**74,099**	**69,318**	**6.9 %**
Net commissions and fees	7	31,049	30,013	3.5 %
Net investment income	8	1,298	15,588	-91.7 %
Insurance income	9	11,611	10,913	6.4 %
Other operating income	10	5,902	5,529	6.7 %
Total operating income		**123,959**	**131,362**	**-5.6 %**
Personnel expenses	11	-43,531	-42,843	1.6 %
Other operating expenses	12	-50,738	-47,927	5.9 %
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	13	-8,908	-7,861	13.3 %
Total operating expenses		**-103,177**	**-98,631**	**4.6 %**
Impairment losses on financial assets	18	-7,468	-6,528	14.4 %
Associate's share of profits	22	78	-53	...
Profit before tax		**13,393**	**26,150**	**-48.8 %**
Income tax expense	14	-1,912	-4,775	-60.0 %
Profit for the financial period		**11,480**	**21,376**	**-46.3 %**
Attributable to				
Equity owners of the POP Bank Group		11,466	21,381	-46.4 %
Non-controlling interests		15	-5	...
Total		**11,480**	**21,376**	**-46.3 %**

POP BANK GROUP'S STATEMENT OF OTHER COMPREHENSIVE INCOME

(EUR 1,000)	Note	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019	Change, %
Profit for the financial period		**11,480**	**21,376**	**-46.3 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Gains/(losses) arising from remeasurement of defined benefit plans	35	-564	-894	-36.9 %
Changes in fair value reserve				
Equity instruments	32	992	250	296.9 %
Items that may be reclassified to profit or loss				
Changes in fair value reserve				
Liability instruments	32	152	2,975	-94.9 %
Other comprehensive income for the financial period		**12,060**	**23,707**	**-49.1 %**
Other comprehensive income for the financial period attributable to				
Owners of the POP Bank Group		12,045	23,711	-49.2 %
Non-controlling interests		15	-5	...
Total other comprehensive income for the financial period		**12,060**	**23,707**	**-49.1 %**

POP BANK GROUP'S BALANCE SHEET

(EUR 1,000)	Note	31 Dec 2020	31 Dec 2019	Change, %
Assets				
Liquid assets	19	391,544	167,428	133.9 %
Loans and advances to credit institutions	16 20	64,166	74,293	-13.6 %
Loans and advances to customers	16 20	3,868,147	3,635,488	6.4 %
Investment assets	16 20	688,871	573,058	20.2 %
Investments in associates	22	195	116	67.4 %
Intangible assets	23	20,549	18,138	13.3 %
Property, plant and equipment	24	32,138	33,462	-4.0 %
Other assets	25	28,553	30,612	-6.7 %
Tax assets	26	5,108	2,961	72.5 %
Total assets		**5,099,270**	**4,535,557**	**12.4 %**
Liabilities				
Liabilities to credit institutions	16 27	97,219	37,542	159.0 %
Liabilities to customers	16 27	4,086,045	3,746,305	9.1 %
Non-life insurance liabilities	28	43,915	38,606	13.8 %
Debt securities issued to the public	29	266,346	114,829	131.9 %
Supplementary cooperative capital	30	11,287	18,003	-37.3 %
Other liabilities	31	51,991	48,479	7.2 %
Tax liabilities	26	24,353	23,357	4.3 %
Total liabilities		**4,581,156**	**4,027,122**	**13.8 %**
Equity capital				
Cooperative capital				
Cooperative contributions		9,909	9,422	5.2 %
POP Shares		56,121	57,323	-2.1 %
Total cooperative capital	32	**66,030**	**66,745**	**-1.1 %**
Reserves	32	166,497	160,695	3.6 %
Retained earnings	32	285,142	280,566	1.6 %
Total equity attributable to the owners of the POP Bank Group		**517,670**	**508,006**	**1.9 %**
Non-controlling interests		444	429	3.4 %
Total equity capital		**518,114**	**508,435**	**1.9 %**
Total liabilities and equity capital		**5,099,270**	**4,535,557**	**12.4 %**

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

(EUR 1,000)	Coop-erative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-con-trolling interests	Total equity capital
Balance at 1st of Jan 2020	**66,745**	**3,761**	**156,934**	**280,566**	**508,006**	**429**	**508,435**
Comprehensive income for the financial year							
Profit for the financial year	-	-	-	11,466	**11,466**	15	11,480
Other comprehensive income	-	1,144	-	-564	**580**	-	580
Total comprehensive income for the financial year	**-**	**1,144**	**-**	**10,901**	**12,045**	**15**	**12,060**
Transactions with shareholders							
Decrease in cooperative capital	-1,106	-	-	-	**-1,106**	-	-1,106
Profit distribution	-	-	-1	-1,285	**-1,286**	-	-1,286
Transfer of reserves	392	-	4,658	-5,052	**-1**	-	-1
Transactions with shareholders total	**-714**	**-**	**4,657**	**-6,337**	**-2,393**	**-**	**-2,393**
Other changes	-	-	-	12	**12**	-	12
Balance at 31 Dec 2020	**66,031**	**4,905**	**161,591**	**285,142**	**517,670**	**444**	**518,114**

(EUR 1,000)	Coop-erative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-con-trolling interests	Total equity capital
Balance at 31 Dec 2018	**64,670**	**-558**	**152,663**	**266,586**	**483,361**	**428**	**483,788**
IFRS 16 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**	7	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.

POP BANK GROUP'S CASH FLOW STATEMENT

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Cash flow from operations		
Profit for the financial year	11,480	21,376
Adjustments to profit for the financial year	24,660	27,751
Increase (-) or decrease (+) in operating assets	**-346,971**	**-34,302**
Advances to credit institutions	7,065	3,237
Advances to customers	-238,399	-168,264
Investment assets	-117,307	125,668
Other assets	1,670	5,057
Increase (+) or decrease (-) in operating liabilities	**392,331**	**112,500**
Liabilities to credit institutions	59,676	34,513
Liabilities to customers	339,739	79,793
Other liablilities	-3,873	389
Income tax paid	-3,211	-2,195
Total cash flow from operations	**81,500**	**127,324**
Cash flow from investing activities		
Changes in other investments	-120	2,068
Purchase of PPE and intangible assets	-9,017	-12,710
Proceeds from sales of PPE and intangible assets	1,235	1,265
Net cash used in investing activities	**-7,902**	**-9,377**
Cash flow from financing activities		
Change in cooperative capital, net	-829	2,075
Interests paid on cooperative capital and other profit distribution	-1,285	-1,163
Debt securities issued, increase	246,821	139,750
Debt securities issued, decrease	-95,426	-167,449
Payment of lease liabilities	-1,831	-1,945
Net cash used in financing activities	**147,450**	**-28,732**
Change in cash and cash equivalents		
Cash and cash equivalents at period-start	194,071	104,854
Cash and cash equivalents at the end of the period	415,120	194,071
Net change in cash and cash equivalents	**221,049**	**89,217**

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Interest received	**78,691**	**77,065**
Interest paid	**4,468**	**7,804**
Dividends received	**4,355**	**4,534**
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on receivables	7,468	6,528
Depreciations	10,016	10,019
Technical provision	5,287	6,119
Other	1,890	5,088
Adjustments to profit for the financial year	**24,660**	**27,752**
Cash and cash equivalents		
Liquid assets	11,435	12,078
Receivables from credit institutions payable on demand	403,684	181,991
Total	**415,120**	**194,069**

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 Centre coop and their subsidiaries and jointly controlled entities that operates in Finland. POP Banks are independent, regionally and locally operating cooperative banks. POP Bank Centre coop functions as the central institution of the Group. POP Bank Group offers retail banking services to retail customers, small and medium-sized enterprises, agricultural, forestry and bioeconomy companies, as well as non-life insurance services to retail customers.

The member credit institutions of POP Bank Centre coop include 22 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 (599/2010) (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 Centre 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.

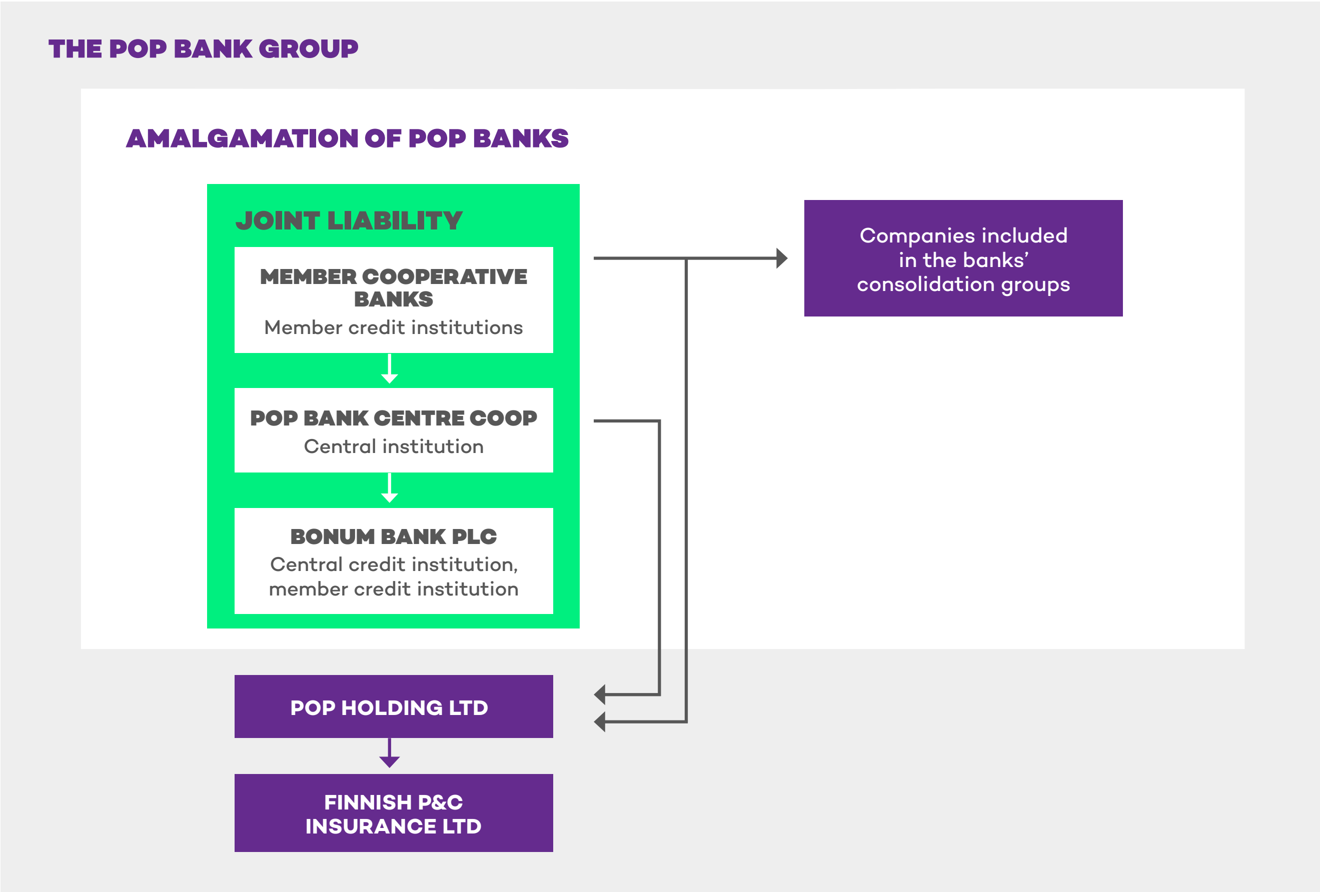
During the financial year, three internal mergers in the POP Bank Group took place. At the end of September, Sievin Osuuspankki and Tiistenjoen Osuuspankki merged with Pohjanmaan Osuuspankki and Hannulan Osuuspankki merged with Konneveden Osuuspankki. In addition, at the end of November, Kyrönmaan Osuuspankki merged with Lapuan Osuuspankki and the bank's name was changed to Lakeuden Osuuspankki. Following the mergers, the POP Bank Group includes 22 member banks. The mergers have no effect on the financial statements of the POP Bank Group.

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.

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 Centre 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 ratified 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 37.

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 Centre 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 Centre coop's registered office is Helsinki and its address is Hevosenkenkä 3, FI-02600 Espoo, Finland. POP Bank Centre 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 Centre coop has adopted the report and consolidated financial statements on 15 February 2021. The financial statements will be distributed to the general meeting of POP Bank Centre coop cooperative on 1 April 2021. 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 and financial assets at fair value through other comprehensive income. 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 2021.

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 Centre 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 Centre 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. FINANCIAL INSTRUMENTS

3.1 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.

3.2 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, liabilities to credit institutions 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 and does not apply hedge accounting. POP Bank Group has not applied the possibility to designate liabilities at fair value through profit or loss.

3.3 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.

3.4 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.

More information in recognising and measuring of final credit losses is described in the section 3.1

4. 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. The capitalised expenditures for internally produced intangible assets includes, for example, license fees, purchased services, in-house work and other external costs related to projects.

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.

5. 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.

Indications of an asset's impairments are assessed on each balance sheet date. If such indications exist, the recoverable amount from the asset will be estimated. These indications are, for example, significant decrease in the market value of the property or evidence of physical damage. If the future generated income is expected to be lower than the acquisition cost without depreciation, the resulting difference will be recorded as impairment loss and charged to expenses.

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.

6. LEASES

6.1 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.

6.2 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. INSURANCE ASSETS AND LIABILITIES

7.1 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.

7.2 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.

7.3 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 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.

8. 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.

9. 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.

10. PRINCIPLES FOR RECOGNISING INCOME AND EXPENSES

10.1 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.

10.2 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.

10.3 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.

10.4 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.

10.5 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, charges to financial authorities, 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

11. 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.

12. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The application of IFRS requires the management's assessments and assumptions concerning the future. These affect the reported amounts in the financial statements and the information included in the notes. The management's main estimates concern the future and the key uncertainties related to the amounts at the balance sheet date. In particular, they are related to fair value assessment and impairment of financial assets and intangible assets, as well as the assumptions used in actuarial analyses. The management's estimates and assumptions are based on the best view at the balance sheet date, which may differ from the actual result. Due to the corona pandemic, the fair values and impairments of financial assets are subject to greater uncertainty.

These estimates and assumptions, as well as the related uncertainty, are presented in more detail in the financial statement line item level in the sections 12.1-12.5.

12.1 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 future macroeconomic information used in the calculation of the expected credit losses (ECL) has been updated through projected GDP developments exceptionally twice during the financial year. The probability of a positive macroeconomic scenario was decreased in the beginning of the year due to the uncertainty caused by the corona pandemic. Management estimates that the information of the development and commercial distribution of several corona vaccines will improve the expectations for GDP developments in the coming financial years. As a result, the probability of a positive macroeconomic scenario was increased at the balance sheet date closer to the pre-pandemic level.

Management estimates that the instalment-free periods for loans that were applied in the beginning of corona pandemic may lead to increased payment difficulties at the end of 2020 and as a result additional impairment loss was recognized at the beginning of the pandemic. The instalment-free periods granted in the spring ended to a significant extent during the last quarter, and no corresponding amounts of new repayment reschedules have been applied for. Hence, management has considered to de-recognize the additional impairment loss since the possible deteriorating payment behaviour of customers will be reflected in the normal ECL calculation process through delays in loan repayments or potential problematic loan rearrangements.

Based on management's judgement, additional impairment losses have been recognized due to the increase in credit risk associated with certain issuers of debt securities. Management has assessed the financial situation of these issuers on a case-by-case basis and increased impairment loss provisions since these issuers have faced financial difficulties as a result of Covid-19 pandemic.

The policies on impairment of financial assets have been presented in detail in chapter 3.4 Impairment of financial assets.

12.2 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. The principles for determining fair value are presented in more detail in sections 3.3 Determining fair value and 5. Property, plant and equipment and investment properties.

12.3 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. In addition, management's judgement is required for the evaluation of intangible assets under development.

12.4 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.

12.5 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.

13. NEW IFRS STANDARDS AND INTERPRETATIONS

13.1 ADOPTION OF NEW STANDARDS

No new IFRS standards were adopted in the POP Bank Group's financial statements during the financial year.

Standards and amendments applied on financial period beginning 1 January 2020

Definition of a Business – Amendments to IFRS 3 Business Combinations (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 is a group of assets rather than a business. The amendments have no impact on POP Bank Group's financial statements.

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

Amendments have been issued to address uncertainties related to the reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. The amendments have no impact on POP Bank Group's financial statements.

Definition of Material – Amendments to IAS 1 Presentation of Financial Instruments and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for financial years beginning on or after 1 January 2020)

The amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments have no impact on POP Bank Group's financial statements.

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

The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs. The amendments have no impact on POP Bank Group's financial statements.

Covid-19-Related Rent Concessions – Amendment to IFRS 16 Leases (effective for financial years beginning on or after 1 June 2020)

The amendment allows the lessees not to account for rent concessions as lease modifications if the concessions are a direct consequence of the corona pandemic and only if certain conditions are met. The amendments have no impact on POP Bank Group's financial statements.

13.2 NEW STANDARDS AND AMENDMENTS TO BE ADOPTED ON LATER FINANCIAL PERIODS

Standards and amendments applied on financial period beginning 1 January 2021

In financial period starting on 1 January 2021, 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.

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases* (to be applied from 1 January 2021)

Amendments address issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of interest rate benchmark reform. Amendments assist companies in providing useful information about the effects of interest rate benchmark reform on financial statements. 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 2021, 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.

Property, Plant and Equipment — Proceeds before Intended Use – Amendments to IAS 16 Property, Plant and Equipment* (to be applied from 1 January 2022)

Under the amendments, proceeds from selling items before the related item of PPE is available for use should be recognized in profit or loss, together with the costs of producing those items. The amendments have no impact on POP Bank Group's financial statements.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets* (to be applied from 1 January 2022)

When an onerous contract is accounted for based on the costs of fulfilling the contract, the amendments clarify that these costs comprise both the incremental costs and an allocation of other direct costs. The amendments have no impact on POP Bank Group's financial statements.

Annual Improvements to IFRS Standards 2018–2020 * (to be applied from 1 January 2022)

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

Classification of Liabilities as Current or Non-current - Amendments to IAS 1 Presentation of Financial Statements * (to be applied from 1 January 2023)

The amendments are to promote consistency in application and clarify the requirements on determining if a liability is current or non-current. The amendments have no impact on POP Bank Group's financial statements.

IFRS 17 Insurance Contracts (IASB's tentative proposal: effective for financial years beginning on or after 1 January 2023)

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. The adoption of the standard has been postponed by a decision of the IASB by one year. 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 2020.

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 CENTRE COOP

POP Bank Centre 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 Centre coop is owned by its member cooperative banks; they use their voting rights in a cooperative meeting of POP Bank Centre coop.

1.2 POP BANKS

POP Banks are member credit institutions of POP Bank Centre 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 Centre coop. Bonum Bank Plc is licensed as a deposit bank. As a member credit institution and subsidiary of POP Bank Centre 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 CENTRE COOP

The cooperative meeting is the supreme decision-making body of POP Bank Centre 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 CENTRE COOP

It is a key task of the Supervisory Board of POP Bank Centre 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 decide on POP Bank Group's strategy 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 CENTRE 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.

At least half of the Board members must be elected from persons who are 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 2020 were Juha Niemelä (Chairman), Soile Pusa (Vice Chairman), Ari Heikkilä, Petri Jaakkola, Timo Kalliomäki, Ilkka Lähteenmäki ja Marja Pajulahti.

2.4 MANAGING DIRECTOR OF POP BANK CENTRE 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 Centre 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 Centre 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. In addition, member credit institutions have received 2020 exemption from Financial Supervisory Authority to exclude amalgamation's internal items from leverage ratio measurement.

The principles followed in the risk management of the amalgamation of POP Banks are described in more detail in Note 4 on risk 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 Centre 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 Capital Requirements Regulation is disclosed in a separate 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 and European Banking 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 Centre 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 11 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 MANAGEMENT IN THE POP BANK GROUP

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

The strategic objectives of risk management in the POP Bank Group are to ensure the risk-bearing capacity in all circumstances and to keep the amalgamation's and its member credit institutions' risks at a moderate level in relation the their risk-bearing capacity, thus ensuring business continuity. Risk-bearing capacity is built upon risk management proportionated to the scope and complexity of the institution and sufficient capitalization based on profitable business operations. The purpose of the 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 institutions.

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 operations 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 central institution is responsible for the risk and capital adequacy management of the Group. The central institution provides guidance to the member credit institutions to ensure risk management and supervises that the member institutions operate in accordance with regulation, their own rules, guidelines issued by the central institution and in accordance with appropriate and ethically acceptable procedures. 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. 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 institutions and at the consolidated amalgamation level. Violations of the risk management principles are addressed in accordance with the agreed operating models.

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 and European Banking Authority.

Most significant risks of the amalgamation consist of credit, liquidity, market and operational risk. Credit risk is mitigated by diversification and collateral. Liquidity risk is mitigated by maintaining a sufficient liquidity reserve and by diversification of funding with regard to timing and counterparty. The most significant subtypes of market risk are the interest rate risk in the banking book and risks stemming from investment activities. Asset and liability management is employed to mitigate the interest rate risk. 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 to the Board of Directors of the central institution on the risks faced by the amalgamation and member credit institutions. Systems and practices intended for reporting and monitoring of risks 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 management comply with the requirements of legislation and the requirements of the authorities.

Risk management is an essential part of the internal controls of the amalgamation. The purpose of internal controls is to ensure that the institution complies with regulations, carries out comprehensive risk management and operates efficiently and reliably. Moreover, internal controls serve to ensure that the objectives and goals set for different levels of the amalgamation are achieved in accordance with internal 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 risk management have been clearly defined and sufficiently described and that the employees are familiar with risk 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. 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 internal capital adequacy assessment process.

2.3 COMPLIANCE FUNCTION

The 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 and its member credit institutions senior and operative management aware of any significant changes to key regulations and the implications of such changes. The compliance function prepares guidelines for applying the regulations.

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. During the year 2020, the Compliance function has been centralized for all member credit institutions of the amalgamation of POP Banks. The centralized function will be responsible for compliance monitoring from the beginning of 2021.

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 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 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 central institution's Board of Directors and the Audit Committee of 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 business operations risks at a manageable and low level.

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 guides 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, who is responsible for the implementation of risk control 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 objective of capital adequacy management is to ensure that the amalgamation of POP Banks and its member credit institutions have an adequate capital buffer to achieve their business strategy and to cover the material risks arising from them in all circumstances. The capital adequacy position is managed in accordance with the risk-taking framework set by the amalgamation.

The monitoring and control of the capital adequacy position has been implemented by setting the control thresholds for the adequacy of both the amalgamation and the member credit institutions. The capital adequacy targets (control limits) are set for the capital adequacy ratio in accordance with Part Eight of the Capital Requirements Regulation (EU 575/2013) (hereinafter the EU Capital Requirements Regulation) and for the economic capital requirement which is based on the internal risk assessment (Pillar 2).

As part of the capital adequacy management process the aim is to identify all material risks and assess their magnitude and required capital requirements. Under the supervision of the central institution, the member credit institutions of the amalgamation prepare their own capital plans and stress tests on an annual basis using harmonized principles defined by the central institution. Based on the capital plans of the member credit institutions, the capital plan of the amalgamation is prepared, which includes a summary of the development of the capital and exposures of the amalgamation in different scenarios. The process ensures that the amalgamation's growth, profitability and risk-bearing capacity objectives are appropriate and consistent. The baseline scenario of the capital plan forms the basis for budgeting for member credit institutions and the amalgamation.

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. More detailed information is presented in a separate Pillar III report in accordance with the EU Capital Requirements Regulation.

3.1 PILLAR I CAPITAL ADEQUACY RATIO

The most significant Pillar I capital requirements of the amalgamation 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.

The own funds of the amalgamation consist of cooperative contributions, POP Shares, retained earnings and reserves less the deductions pursuant to the EU Capital Requirements Regulation. The amalgamation does not include the profit for the financial year in the own funds. A total of EUR 56,121 (57,323) thousand POP Shares were outstanding at the end of 2020.

The EU Capital Requirements Regulation does not acknowledge the supplementary cooperative contributions used by the member credit institution as an equity instrument after the transition period. Transition rules has been applied for comparative figures for reporting period 2019. During the financial year 2020 redemption permission was obtained from the Financial Supervisory Authority for supplementary cooperative contributions. As a result of the authorization, these contributions are no longer presented as part of the own funds in the capital adequacy calculations. Redemptions will be executed in 2021.

4. BANKING RISKS

4.1 CREDIT RISK

The most significant risk of the amalgamation is the credit and counterparty risk. 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 debt securities, and off-balance-sheet commitments, such as unused credit facilities and overdraft limits and guarantees.

4.1.1 Management of credit risk

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 approves the credit risk strategy specifying the target risk level and the principles concerning guidelines on risk-taking, customer selection and collateral. 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 approves the customer group and industry division principles and risk and monitoring limits of the credit portfolio used in the monitoring the quality of the credit portfolio. The credit risk strategy is supplemented by credit risk and collateral management guidelines, 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 regulatory requirements.

Credit strategy approved in Central institution's Board of Directors forms directly credit strategy at individual member credit institution. Credit risk strategy and other operative credit risk 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 reported monthly 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 or more often if deemed necessary.

The assessment of the credit worthiness of a customer is based on a good customer knowledge, the customer's occupation and income data, ability to pay and surplus calculation and a credit rating models. Private and corporate customers with open exposures are scored with the behaviour scoring model based on payment behaviour. Agricultural customers with exposures are scored regularly using a credit rating model. New customers who are applying for a loan are scored with application scoring. The purpose of the scoring is to group 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. The principles for calculating expected credit losses are described more in detail in Note 2.

From 1 January 2021, the definition of default in accordance with Article 178 of the EU Capital Requirements Regulation 575/2013 will be implemented in the calculation of expected credit losses. The change is expected to reduce the number of exposures classified in Stage 3.

Loans and receivables, debt securities and off-balance sheet items in highest-risk rating category 8 totalled 122,873 (129,258) thousand at the end of 2020.

Risk categories 1-4 had 71.6 (77.5) per cent private customers, 18.5 (15.1) per cent agricultural customers and 9.9 (7.4) per cent corporate customers. Of the higher risk categories 5-8, private customers were 52.0 (51.1) per cent, agricultural customers 27.5 (31.5) per cent and corporate customers 20.5 (17.4) per cent at the end of 2020.

RECEIVABLES BY RATING CATEGORY

LOANS AND RECEIVABLES FROM CUSTOMERS BY RATING CATEGORY AND BY ECL STAGE 31 DEC 2020

(EUR 1,000)	PD value		31 Dec 2020				31 Dec 2019
Rating category	Lower	Upper	Stage 1	Stage 2	Stage 3	Total	Total
1-4	0.00	1.50	2,735,214	16,152	-	2,751,366	2,692,114
5	1.50	5.00	639,101	46,830	-	685,931	527,595
6	5.00	25.00	143,358	122,169	-	265,528	244,112
7	25.00	100.00	2,542	77,997	-	80,539	77,404
8	100.00	100.00	-	-	117,084	117,084	128,062
Total			**3,520,216**	**263,149**	**117,084**	**3,900,449**	**3,669,287**
Expected credit losses			**5,359**	**3,538**	**23,405**	**32,302**	**33,798**
Total			**3,514,857**	**259,611**	**93,680**	**3,868,147**	**3,635,488**

DEBT SECURITIES BY RATING CATEGORY AND BY ECL STAGE 31 DEC 2020

(EUR 1,000)	PD value		31 Dec 2020				31 Dec 2019
Rating category	Lower	Upper	Stage 1	Stage 2	Stage 3	Total	Total
1-4	0.00	1.50	424,319	20,060	-	444,379	273,986
5	1.50	5.00	-	12,836	-	12,836	15,037
6	5.00	25.00	-	7,959	-	7,959	8,064
7	25.00	100.00	-	1,466	-	1,466	1,855
8	100.00	100.00	-	2,060	4,487	6,547	40
Total			**424,319**	**44,381**	**4,487**	**473,186**	**298,982**
Expected credit losses			**41**	**-**	**-**	**41**	**-**
Total			**424,278**	**44,381**	**4,487**	**473,145**	**298,982**

*) Expected credit lossess from debt securities measured at fair value through other comprehensive income totalled 3,140 (1,603) thousand euros, of which 128 thousand is in Stage 1, 939 thousand in Stage 2 and 2,073 thousand euros in Stage 3.

OFF BALANCE-SHEET COMMITMENTS BY RATING CATEGORY AND BY ECL STAGE 31 DEC 2020

(EUR 1,000)	PD value		31 Dec 2020				31 Dec 2019
Rating category	**Lower**	**Upper**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
1-4	0.00	1.50	248,663	10,928	-	259,590	235,877
5	1.50	5.00	26,311	2,820	-	29,132	17,961
6	5.00	25.00	3,261	2,995	-	6,256	6,022
7	25.00	100.00	37	631	-	668	1,932
8	100.00	100.00	36	-	1,301	1,338	1,373
Total			**278,308**	**17,374**	**1,301**	**296,984**	**263,164**
Expected credit losses			**331**	**138**	**319**	**788**	**688**
Total			**277,977**	**17,236**	**982**	**296,196**	**262,476**

4.1.2 Breakdown of loans by customer groups

The amalgamation's key customer groups are private customers, agricultural customers and small companies. The amalgamation's loan portfolio totalled EUR 3,868,147 (3,635,488) thousand at the end of 2020.

BREAKDOWN OF LOANS BY CUSTOMER GROUPS

(EUR 1,000)	31 Dec 2020	31 Dec 2019	Change, %	Main collateral type
Private customers	2,568,294	2,438,525	5.3 %	Residential real estate
Agricultural customers	583,295	561,230	3.9 %	Other real estate
Corporate customers	716,558	635,733	12.7 %	Other real estate
Total	**3,868,147**	**3,635,488**	**6.4 %**	

The primary target groups of the lending are micro 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 2020		31 Dec 2019	
(EUR 1,000)	Balance sheet value	%	Balance sheet value	%
Real estate	218,491	30.5 %	180,366	28.4 %
Construction	111,924	15.6 %	99,486	15.6 %
Industry	84,834	11.8 %	77,425	12.2 %
Wholesale and retail trade	73,254	10.2 %	70,205	11.0 %
Transport and storage	48,746	6.8 %	45,806	7.2 %
Other industries	179,309	25.0 %	162,445	25.6 %
Total	**716,558**	**100.0 %**	**635,733**	**100.0 %**

4.1.3 Loan portfolio by collateral and stages

Lending to private customers is mainly secured by residential real estate collateral. Other collateral is used according to need. A majority, 64.6 (65.0) 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. The table below shows the amount exposed to credit risk by collateral and stages.

LOAN BOOK BY COLLATERAL TYPE AND BY ECL STAGE 31 DEC 2020

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Residential real estate	2,315,817	139,828	42,139	2,497,784
Other real estate	937,969	104,590	43,167	1,085,725
Financial collateral	18,171	650	430	19,251
Guarantee	42,984	5,197	2,526	50,707
Other collateral	43,429	3,805	973	48,207
Non-collateralized	156,487	5,541	4,445	166,472
Total	**3,514,857**	**259,611**	**93,680**	**3,868,147**

LOAN BOOK BY COLLATERAL TYPE AND BY ECL STAGE 31 DEC 2019

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Residential real estate *)	2,201,259	111,514	48,913	2,361,687
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 *)	142,121	3,118	2,824	148,063
Total	**3,290,274**	**243,987**	**101,228**	**3,635,488**

*) The balances of Residential real estate and Non-collateralized have been adjusted for the comparison period.

4.1.4. 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, 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. There were no credit concentrations risks arising from lending in the amalgamation or at individual member credit institution at the end of the year.

4.1.5. 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 0.87 (0.80) per cent of the loan portfolio. The amalgamation's receivables 30–90 days past due accounted for 0.55 (0.42) per cent of the loan portfolio at the end of the financial year.

PAST DUE EXPOSURES

(EUR 1,000)	31 Dec 2020 Balance sheet value	31 Dec 2020 % of loan portfolio	31 Dec 2019 Balance sheet value	31 Dec 2019 % of loan portfolio
Exposures 30-90 days past due	21,102	0.55 %	15,381	0.42 %
Exposures over 90 days past due	33,194	0.87 %	29,169	0.80 %
Exposures 90-180 days past due	9,533	0.25 %	5,267	0.14 %
Exposures 180 days - 1 year past due	7,423	0.20 %	7,497	0.21 %
Exposures over 1 year past due	16,238	0.43 %	14,973	0.41 %

Stage 3 receivables and other non-performing receivables are categorized as doubtful receivables.

Forbearance is a temporary concession to contract terms due to customer's financial difficulties. Purpose of forbearance measures is to secure the customer's ability to pay and limit the credit risk of the receivables. Receivables that are more than 90 days past due with forbearance measures are included in stage 3. Receivables with more than one forbearance measure are also included in stage 3. Other receivables with forbearance measures are included in stage 2. Coronapandemia did not impact to the amount of past due receivables during the reporting period. Impact of pandemia is described at more detail in Note 18 Impairment losses on financial assets.

DOUBTFUL RECEIVABLES AND FORBEARANCE

(EUR 1,000, gross value)	31 Dec 2020 Credit balance	31 Dec 2019 Credit balance
Non-performing receivables, from which	118,866	130,027
- Receivables in stage 3	117,084	127,846
Stage 3 forbearance receivables	37,194	43,354
- Other non-performing receivables	1,782	2,181
Stage 2 receivables with forbearance measures	116,459	117,180

Receivables in stage 3 are covered mainly by residential real estate or other real estate. Loans categorised in stage 3 decreased 8.4 percent during the financial year.

LOAN BOOK IN STAGE 3 BY THE PRIMARY COLLATERAL TYPE 31 DEC 2020

(EUR 1,000, gross value)	Credit balance	Eligible collateral *	Expected credit losses	Open credit risk after ECL provisions and collaterals
Residential real estate	49,156	44,148	7,017	-
Other real estate	53,401	44,333	10,234	-
Financial collateral	640	360	210	70
Guarantee	4,317	-	1,791	2,526
Other collateral	2,343	491	1,370	483
Non-collateralized	7,228	4,659	2,783	-
Total	**117,084**	**93,991**	**23,405**	**3,079**

LOAN BOOK VALUE 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	56,348	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	**126,921**	**101,212**	**25,693**	**5,678**

*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) decreased 4.4 percent to EUR 32.3 (33.8) million during the financial year. Decrease in expected credit losses is explained mainly in increase in realized credit losses EUR 7.3 (3.0) million.

The accounting policies for impairment on loans and other receivables are defined in Note 2 of 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 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. Taking commodity risk is not allowed. The member credit institutions of the amalgamation do not engage in trading for own or customers' account, and the member credit institutions do not have a separate trading book.

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 direct investments in other currencies with a permission from the central institution's risk management function. The use of derivatives is limited to hedging purposes only.

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. The possibility to use zero floor as reference rate to most of granted loans will reduce the amalgamations exposure towards declining market reference rates.

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	31.12.2020 1-12 kk	31.12.2019 1-12 kk
Interest rate risk	+1%-point	13,070	11,840
Interest rate risk	-1%-point	-9,723	-6,950

The interest rate risk 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.

4.2.3 Investment and liquidity portfolio

The investment and liquidity portfolio of the amalgamation consists of securities and other investments included in the liquidity reserves of the central and member credit institutions. Market risk emerges in these investment activities, consisting of counterparty, interest rate, currency and general market price risks.

Member credit institutions can invest their liquidity surplus after the internal target limit of the liquidity buffer has been reached. 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.

Risks arising from the investment and liquidity portfolio are managed by limits defined for the amalgamation, which ensures the diversification of investments in terms of timing, asset category, risk type and counterparty. Investment risks are also monitored through sensitivity analysis. The purpose of the limitation is that 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.

Risk appetite in the investment portfolio is assessed in relation to the earnings and own funds of the amalgamation. The breakdown and sensitivity analysis of investment assets at Group level are described in Note 21 Investment Assets.

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, principles and limits 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 and is responsible for risk reporting to the Board of Directors of the central institution. The central credit institution and its executive management assist the risk control function in this process. The Board of Directors of the central institution's 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 central credit institution reports on the liquidity situation to the Board of Directors of the central credit institution and is responsible for the planning of the liquidity position and funding of the amalgamation. The Board of Directors of the central credit institution is responsible for monitoring the implementation of the liquidity strategy at the central credit institution.

4.3.2 Short-term liquidity risk

The liquidity management of the amalgamation follows the principles set out in the liquidity strategy, which aims to limit risk through a diversified financial structure. The most important means of securing a good liquidity position are maintaining a sufficient and high-quality liquidity reserve and diversifying funding sources. Intra-day liquidity, liquidity reserve and liquidity coverage ratio are the key means to limit and measure the liquidity risk of the amalgamation. The internal limits and controls of the amalgamation limits the liquidity risk associated with the business activities of the amalgamation and the member credit institutions and ensure that the regulatory requirements related to liquidity risk are met.

The key ratios for measuring short-term liquidity risk is the liquidity coverage ratio (LCR), specified in the EU's Capital Requirements Regulation and The Net Stable Funding Ratio (NSFR). LCR measures short-term liquidity risk and is responsible for ensuring that the liquidity reserve, consisting of good quality assets under LCR regulation, is sufficient to cover outflow net cash flows in stress situations for 30 days. The NSFR measures the reconciliation of assets and liabilities on the balance sheet with maturity more than one year and is responsible for ensuring that long-term lending is adequately funded by long-term funding.

LCR AND NSFR RATIO

(per cent)	31 Dec 2020	30 Jun 2020	31 Dec 2019
LCR	191	186	115
NSFR	148	143	141

The central institution of amalgamation applies a permission by the Finnish Financial Supervisory Authority to decide that the requirements laid down in the sixth part of the EU Capital Requirements Regulation and EU's statutory orders based on the Regulation are not applied to its member credit institutions. According to the permission, the regulatory requirements for liquidity risk are met at the amalgamation level only. The central credit institution is responsible for meeting the regulatory requirements.

The liquidity reserve of the amalgamation consists of high-quality assets in accordance with the EU Capital Requirements Regulation, which can meet the liquidity need in stress situations either by selling the securities or by pledging them as collateral for central bank funding. At the end of 2020, the non-pledged financial assets and cash included in the liquidity reserve were in total of EUR 693.0 (338.4) million. The non-LCR-eligible securities, which were eligible for pledging for central bank funding, were in total of EUR 71.1 (31.8) million.

LIQUIDITY RESERVE, MARKET VALUE

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Cash and deposits with central banks	391,544	167,297
Government bonds	40,557	43,862
Debt securities issued or guaranteed by municipalities or the public sector	146,384	59,076
Covered bonds	17,480	19,705
Debt securities issued by financial institutions or corporates	97,001	48,413
Total	**692,966**	**338,353**

In addition to the liquidity reserve, the member credit institutions of the amalgamation have various investment securities as other instruments, such as funds and debt securities in the amount of EUR 158.6 (211.6) million. These investment assets are not included in the liquidity reserve due to their liquidity in stressed situations involves uncertainty.

The amalgamation's central credit institution 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.

The table below shows the maturities of the amalgamation's liabilities with interests. Instant deposits are assumed to mature immediately.

MATURITY OF FINANCIAL LIABILITIES 31 DEC 2020

(EUR 1,000)	less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to central banks	-	-	50,000	-	50,000
Liabilities to credit institutions	6,995	5,030	47	35,147	47,219
Liabilities to customers	3,741,884	248,293	98,253	-	4,088,430
Lease liabilities	491	1,465	2,453	766	5,174
Debt securities issued	24,998	36,437	204,911	-	266,346
Total	**3,774,369**	**291,224**	**355,663**	**35,913**	**4,457,169**

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	2,440	139	25	34,939	37,543
Liabilities to customers	3,380,056	246,058	124,537	10	3,750,661
Lease liabilities*	727	2,097	1,877	690	5,391
Debt securities issued	9,999	9,991	94,839	-	114,829
Total	**3,393,222**	**258,285**	**221,278**	**35,639**	**3,908,424**

*The presentation of the comparison period has been changed by adding the maturity of lease liabilities.

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 0.6 (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 reports 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 Board of Directors of Finnish P&C Insurance Ltd 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 and frequencies 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 reviewed annually and 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 43,915 (38,606) thousand at the end of the financial year.

PREMIUMS EARNED FOR THE FINANCIAL YEAR, CLAIMS INCURRED AND TECHNICAL PROVISIONS 31 DECEMBER 2020

(EUR 1,000)	Gross	Ceded to reinsurers	Retained
Premiums earned	44,295	1,158	43,137
Claims incurred	36,438	4,912	31,526
Provision for unearned premiums	19,813	-	19,813
Provision for claims outstanding	36,370	12,268	24,102

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

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 to an external treasurer. 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 2020, investment assets including cash at bank totalled EUR 63.0 (53.3) 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 (1.9) years.

The breakdown and sensitivity analysis of investment assets at group level is described in Note 21 Investment assets.

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.

IT security risks are an integral part of operational risks. Examples of possible IT risks include possible service attacks or other attempts to prevent or interfere with the company's online business.

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. The other instance is that the business environment quickly changes in a way that the company has not prepared for in its strategy. The coronavirus pandemic that began in the spring changed the operating environment in many respects, but it did not have a significant impact on insurance operations. At the beginning of the pandemic, premium income decreased, but towards the end of the year the situation began to recover. The reduced volume of movement of people and tourism was reflected in a slowdown in both claims' growth and insurance portfolio growth. As the company operates digitally and the teleworking capabilities have been good, the pandemic did not have a major impact on operational activities.

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 Centre 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 Centre coop.

POP BANK GROUP'S OPERATING SEGMENTS 2020

INCOME STATEMENT 1 JANUARY – 31 DEC 2020

(EUR 1,000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Net interest income	73,548	564	**74,112**	-13	**74,099**
Net commissions and fees	31,552	-417	**31,135**	-86	**31,049**
Net investment income	1,505	253	**1,758**	-459	**1,298**
Net income from non-life insurance	-	11,611	**11,611**	-	**11,611**
Other operating income	5,831	483	**6,314**	-412	**5,902**
Total operating income	**112,436**	**12,493**	**124,929**	**-970**	**123,959**
Personnel expenses	-30,711	-6,895	**-37,606**	-5,925	**-43,531**
Other operating expenses	-57,873	-1,100	**-58,973**	8,235	**-50,738**
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-5,146	-2,027	**-7,173**	-1,736	**-8,908**
Total operating expenses	**-93,730**	**-10,022**	**-103,751**	**575**	**-103,177**
Impairment losses on loans and receivables	-7,445	-23	**-7,468**	-	**-7,468**
Share of the income of associates	-	-	**-**	78	**78**
Profit before tax	**11,262**	**2,448**	**13,710**	**-317**	**13,393**
Income tax expense	-2,092	101	**-1,991**	79	**-1,912**
Profit for the financial period	**9,170**	**2,549**	**11,719**	**-238**	**11,480**
External share of total operating income	112,436	12,493	**124,929**		
Internal share of total operating income	437	-	**437**		

BALANCE SHEET 31 DEC 2020

(EUR 1,000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Assets					
Liquid assets	391,544	-	**391,544**	-	**391,544**
Loans and receivables from credit institutions	60,547	5,617	**66,164**	-1,998	**64,166**
Loans and receivables from customers	3,870,155	-	**3,870,155**	-2,008	**3,868,147**
Investment assets	727,687	57,700	**785,387**	-96,516	**688,871**
Investments in associates	-	-	-	195	**195**
Intangible assets	13,441	4,763	**18,205**	2,344	**20,549**
Property, plant and equipment	30,621	794	**31,415**	723	**32,138**
Other assets	16,920	11,589	**28,509**	44	**28,553**
Tax assets	3,477	193	**3,670**	1,438	**5,108**
Total assets	**5,114,392**	**80,656**	**5,195,048**	**-95,778**	**5,099,270**
Liabilities					
Liabilities to credit institutions	96,944	-	**96,944**	275	**97,219**
Liabilities to customers	4,089,302	-	**4,089,302**	-3,257	**4,086,045**
Non-life insurance liabilities	-	43,915	**43,915**	-	**43,915**
Debt securities issued to the public	266,346	-	**266,346**	-	**266,346**
Supplementary cooperative capital	11,287	-	**11,287**	-	**11,287**
Other liabilities	44,856	4,956	**49,812**	2,179	**51,991**
Tax liabilities	23,950	338	**24,287**	66	**24,353**
Total liabilities	**4,532,684**	**49,209**	**4,581,893**	**-737**	**4,581,156**

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**	-	**-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 30 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	-	-	-	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**

NOTES TO INCOME STATEMENT

NOTE 6 NET INTEREST INCOME

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Interest Income		
Loans and advances to credit institutions	6	15
Loans and advances to customers	75,072	71,935
Debt securities		
Measured at amortised cost	494	-
Measured at fair value through profit or loss	267	401
Measured at fair value through other comprehensive income	3,369	3,794
Hedging derivatives	-	4
Other interest income	883	1,133
Total interest income	**80,090**	**77,281**
Of which positive interest expense	10	1
Interest expenses		
Liabilities to credit institutions	-386	-335
Liabilities to customers	-4,325	-6,745
Debt securities issued to the public	-1,246	-852
Other interest expenses	-34	-31
Total interest expenses	**-5,991**	**-7,963**
Of which negative interest income	-647	-783
Net interest income	**74,099**	**69,318**
Interest income from financial assets impaired due to credit risk (stage 3)	2,951	4,013

Income and expenses of financial assets and financial liabilities by measurement category are presented in Note 15.

NOTE 7 NET COMMISSIONS AND FEES

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Commissions and fees		
Lending	7,418	7,573
Deposits	225	201
Payment transfers	18,472	17,752
Legal services	2,233	2,249
Intermediated services	3,226	3,021
Issuing guarantees	487	534
Funds	2,788	2,641
Other commission income	891	1,040
Total commissions and fees	**35,740**	**35,011**
Commissions expenses		
Payment transfers	-4,156	-4,197
Other commission expenses	-535	-801
Total commission expenses	**-4,691**	**-4,998**
Net commissions and fees	**31,049**	**30,013**

Commisisons and fees are mainly accrued from the banking segment.

NOTE 8 NET INVESTMENT INCOME

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Financial assets measured at fair value through profit or loss		
Debt securities		
Capital gains and losses	71	10
Fair value gains and losses	-825	515
Shares and participations		
Dividend income	4,346	4,123
Capital gains and losses	-1,344	161
Fair value gains and losses	382	10,867
Total	**2,630**	**15,676**
Financial assets measured at fair value through other comprehensive income		
Debt securities		
Capital gains and losses	-73	-49
Transferred from fair value reserve to the income statement	-1,102	686
Shares and participations		
Dividend income*	9	411
Total	**-1,166**	**1,048**
Net income from foreign exchange trading	**441**	**359**
Net income from investment property		
Rental income	2,854	3,137
Capital gains and losses	-187	-82
Other income from investment property	110	139
Maintenance charges and expenses	-2,265	-2,522
Depreciations and amortisation of investment property	-1,107	-2,158
Other expenses from investment property	-13	-9
Total	**-607**	**-1,495**
Net income investments total	**1,298**	**15,588**

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

*) Dividend income from equity shares measured at fair value through other comprehensive income held in the end of the financial period is EUR 9 (20) thousand euro. Dividend income from shares disposed during the financial period EUR 0 (391) thousand.

NOTE 9 NET INSURANCE INCOME

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Insurance premium revenue		
Premiums written	46,046	45,787
Change in the provision for unearned premiums	-1,752	-2,357
Gross insurance premium revenue	44,294	43,430
Ceded to reinsurers	-1,158	-960
Total insurance premium revenue	**43,137**	**42,470**
Claims incurred		
Claims paid	-27,969	-27,795
Change in provision for unpaid claims	-7,611	-7,704
Total claims incurred, gross	-35,580	-35,500
Ceded to reinsurers	4,054	3,943
Total claims incurred	**-31,526**	**-31,557**
Net insurance Income	**11,611**	**10,913**

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 rein-surers	Balance on technical account before change in equalisation provisions
Other accident and health	2020	1,671	1,717	-883	-366	-19	449
	2019	2,003	2,132	-2,020	-551	-21	-460
	2018	1,717	1,569	-987	-482	-29	71
Motor vehicle	2020	21,865	21,210	-21,012	-4,526	3,817	-510
	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
Land vehicles	2020	15,610	14,752	-11,231	-3,148	-30	344
	2019	14,729	13,346	-11,013	-3,448	-21	-1,136
	2018	12,343	11,488	-9,609	-3,529	-22	-1,671
Vessels, aircraft, rail stock and transport	2020	602	583	-429	-124	-1	28
	2019	642	599	-583	-155	-1	-140
	2018	598	599	-532	-184	-1	-119
Fire and other property loss	2020	4,914	4,865	-2,236	-1,038	-10	1,581
	2019	4,708	3,876	-2,910	-1,001	-6	-42
	2018	3,716	3,090	-2,484	-949	-6	-349
Third party	2020	371	345	-89	-74	-1	182
	2019	291	328	-96	-85	-1	147
	2018	232	224	-95	-69	0	59
Legal expenses	2020	849	648	-427	-138	-1	81
	2019	506	470	-566	-121	-1	-218
	2018	388	360	-268	-111	-1	-19
Other	2020	166	173	-131	-37	0	4
	2019	239	262	-163	-68	0	31
	2018	215	223	-103	-68	0	51
Direct insur-ance total	**2020**	**46,046**	**44,294**	**-36,438**	**-9,452**	**3,755**	**2,159**
	2019	**45,787**	**43,430**	**-35,500**	**-11,221**	**2,982**	**-308**
	2018	**38,884**	**36,460**	**-26,883**	**-11,199**	**856**	**-765**
Reinsurers	2020	-	-	-	-	-	-
	2019	-	-	-	-	-	-
	2018	-	-	-	-	-	-
Total	**2020**	**46,046**	**44,294**	**-36,438**	**-9,452**	**3,755**	**2,159**
	2019	**45,787**	**43,430**	**-35,500**	**-11,221**	**2,982**	**-308**
	2018	**38,884**	**36,460**	**-26,883**	**-11,199**	**856**	**-765**
Contingency reserve	2020	-	-	-	-	-	-
	2019	-	-	-	-	-	-
	2018	-	-	-	-	-	-
Balance on technical account	**2020**						**2,159**
	2019						**-308**
	2018						**-765**

The Insurance category-specific information are reported by Finnish accounting standards and cannot be reconciled with the IFRS figures for insurance operations.

NOTE 10 OTHER OPERATING INCOME

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Rental income from owner-occupied properties	534	702
Capital gains on owner-occupied properties	177	262
Recognition of Deposit Guarantee Fund contribution and previously paid bank tax	3,591	3,318
Other income	1,601	1,247
Total other operating income	**5,902**	**5,529**

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. Stability contribution collected by the Financial Stability Board is fully covered by previously paid bank tax.

NOTE 11 PERSONNEL EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Wages and salaries	-36,446	-34,804
Indirect personnel expenses	-1,014	-767
Pension expenses	-6,071	-7,271
Total personnel expenses	**-43,531**	**-42,843**

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 2020	1 Jan - 31 Dec 2019
Other administrative expenses		
Other personnel expenses	-2,351	-3,156
Office expenses	-5,998	-5,445
ICT expenses	-22,589	-20,612
Telecommunications	-3,540	-3,499
Entertainment and marketing expenses	-4,328	-4,430
Other expenses	-130	-
Other administrative expenses total	**-38,937**	**-37,142**
Other operating expenses		
Rental expenses	-1,420	-1,165
Expenses arising from owner-occupied properties	-3,188	-3,286
Insurance and security expenses	-4,401	-4,061
Audit fees	-478	-410
Other services	-1,105	-765
Other operating expenses	-1,208	-1,099
Other operating expenses total	**-11,801**	**-10,785**
Total other operating expenses	**-50,738**	**-47,927**
Audit fees		
Statutory audit	-338	-365
Audit-related services	-26	-2
Tax advisory	0	-
Other expert services	-114	-43
Total audit fees	**-478**	**-410**

Rental expenses includes expenses subject to practical relief allowed lessors in accordance with IFRS 16.

Insurance and security expenses include EUR 3,062 (2,938) thousand of contribution collected by the Financial Stability Board for the deposit guarantee fund, which is fully covered by payments accounted for from the old Deposit Guarantee Fund, and a stability contribution of EUR 528 (384) thousand, which is fully covered by previously paid bank tax. Contributions from the old Deposit Guarantee Fund and previously paid bank tax 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 121 (37) thousand during the finacial year 2020.

NOTE 13 DEPRECIATION, AMORTISATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Depreciation and amortisation on property, plant and equipment and intangible assets		
Buildings and plants	-3,431	-3,477
Machinery and equipment	-966	-1,053
Intangible assets	-4,502	-3,319
Other	-9	-11
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets total	**-8,908**	**-7,861**

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

NOTE 14 INCOME TAX

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Current tax	-2,003	-4,273
Tax for prior financial years	92	-33
Other direct taxes	-11	-9
Change in deferred taxes	9	-459
Total income tax expense	**-1,912**	**-4,775**

RECONCILIATION BETWEEN TAX EXPENSE IN THE INCOME STATEMENT AND TAX EXPENSE CALCULATED USING THE APPLICABLE TAX RATE

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Profit before tax	13,393	26,150
Income tax rate	20 %	20 %
Tax calculated at the tax rate	-2,679	-5,230
+ Tax-exempt income	267	422
- Non-deductible expenses	-182	-93
+ Deductible expenses not included in the profit	30	16
+ Use of tax losses carried forward from previous years	571	298
- Deferred tax assets not recognised on losses	-24	-22
+/- Difference due to the differing tax rate of foreign companies	11	-4
+/- Other	2	-130
+/- Tax for prior financial years	92	-33
Tax expense in the income statement	**-1,912**	**-4,775**

NOTE 15 NET INCOME AND EXPENSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Financial assets		
Financial assets at fair value through profit or loss		
Interest income and expenses	267	401
Fair value gains and losses	-443	11,382
Dividend income	4,346	4,123
Capital gains and losses	-1,273	171
Total	**2,896**	16,077
Financial assets measured at fair value through other comprehensive income		
Interest income and expenses	3,369	3,794
Transferred from fair value reserve to the income statement	-1,102	686
Dividend income	9	411
Capital gains and losses	-73	-49
Expected credit loss	-1,537	-260
Total	**666**	**4,582**
Measured at amortised cost		
Interest income and expenses	76,454	73,052
Other income	7,643	7,773
Expected credit loss	1,360	-3,242
Final credit losses	-7,291	-2,758
Total	**78,167**	**74,825**
Financial liabilities		
Measured at amortised cost		
Interest income and expenses	-5,991	-7,932
Total	**-5,991**	**-7,932**
Derivative contracts		
Interest income and expenses from fair value hedges	-	4
Total	**-**	**4**
Net income from foreign exchange operation	**441**	**359**
Total	**76,180**	**87,914**

NOTES TO ASSETS

NOTE 16 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

FINANCIAL ASSETS 31 DECEMBER 2020

(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	391,544	-	-	-	391,544
Loans and advances to credit institutions	64,167	-	-	-1	64,166
Loans and advances to customers	3,900,449	-	-	-32,302	3,868,147
Debt securities *	105,000	9,929	368,186	-41	483,074
Shares and participations	-	171,735	3,370	-	175,104
Financial assets total	**4,461,159**	**181,663**	**371,556**	**-32,344**	**4,982,035**
Other assets					117,235
Total assets at 31 Dec 2020					**5,099,270**

*) Expected credit loss of EUR 3,140 thousand from debt securities have been recorded in the fair value reserve.

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 advances to credit institutions	74,299	-	-	-6	74,293
Loans and advances to 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.

FINANCIAL LIABILITIES 31 DECEMBER 2020

(EUR 1,000)	Measured at amortised cost	Total carrying amount
Deposits from banks	97,219	**97,219**
Deposits from customers	4,086,045	**4,086,045**
Debt securities issued to the public	266,346	**266,346**
Supplementary cooperative capital	11,287	**11,287**
Financial liabilities total	**4,460,896**	**4,460,896**
Other than financial liabilities		**120,260**
Total liabilities at 31 Dec 2020		**4,581,156**

FINANCIAL LIABILITIES 31 DECEMBER 209

(EUR 1,000)	Measured at amortised cost	Total carrying amount
Deposits from banks	37,542	**37,542**
Deposits from 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**

NOTE 17 FAIR VALUE MEASUREMENTS BY VALUATION TECHNIQUE

FAIR VALUE HIERARCHY LEVELS OF ITEMS RECURRENTLY RECOGNISED AT FAIR VALUE

ITEMS RECURRENTLY MEASURED AT FAIR VALUE 31 DECEMBER 2020

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value
Investment assets				
At fair value through profit or loss				
Shares and participations	162,735	-	9,000	171,735
Debt securities	2,665	-	7,263	9,929
At fair value through other comprehensive income				
Shares and participations	-	-	3,370	3,370
Debt securities	260,540	107,647	-	368,186
Total	**425,940**	**107,647**	**19,633**	**553,220**

ITEMS RECURRENTLY MEASURED AT FAIR VALUE 31 DECEMBER 2019

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value
Investment assets				
At fair value through profit or loss				
Shares and participations	219,654	-	8,187	227,841
Debt securities	4,718	-	6,945	11,664
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**

FAIR VALUE HIERARCHY LEVELS OF ITEMS RECOGNIZED AT AMORTISED COST

ASSETS MEASURED AT AMORTISED COST 31 DECEMBER 2020

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Loans and advances to credit institutions	-	64 358	-	64 358	64 166
Loans and advances to customers	-	3 986 180	-	3 986 180	3 868 147
Investment assets					
Debt securities	-	106 495	-	106 495	104 959
Investment property	-	-	45 015	45 015	30 692
Total	**-**	**4 157 032**	**45 015**	**4 202 048**	**4 067 964**

LIABILITIES MEASURED AT AMORTISED COST 31 DECEMBER 2020

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Liabilities to credit institutions	-	98,127	-	98,127	97,219
Liabilities to customers	-	4,074,582	-	4,074,582	4,086,045
Debt securities issued to the public	-	270,944	-	270,944	266,346
Supplementary cooperative capital	-	11,287	-	11,287	11,287
Total	**-**	**4,454,940**	**-**	**4,454,940**	**4,460,896**

ASSETS MEASURED AT AMORTISED COST 31 DECEMBER 2019

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Loans and advances to credit institutions	-	75,617	-	75,617	74,293
Loans and advances to customers	-	3,704,944	-	3,704,944	3,635,488
Investment assets					
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
Liabilities to credit institutions	-	37,946	-	37,946	37,542
Liabilities to customers	-	3,702,003	-	3,702,003	3,746,305
Debt securities issued to the public	116,821	-	-	116,821	114,829
Supplementary cooperative capital	-	18,003	-	18,003	18,003
Total	**116,821**	**3,757,952**	**-**	**3,874,773**	**3,916,680**

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 and liabilities 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 1,128 (577) thousand have been transferred from hierarchy level 1 and 2 to hierarchy level 3 due to small trading volumes in the markets.

In addition, debt securities issued to the public have been transferred from hierarchy level 1 to hierarchy level 2 based on the volume of trades during the reporting period.

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 2020	**15,132**	**2,448**	**17,580**
+ Purchases	1,900	120	2,020
- Sales	-514	-366	-880
- Matured during the financial year	-91	-300	-391
+/- Realised changes in value recognised in income statment	-123	-27	-150
+/- Unrealised changes in value recognised in the income statement	-378	-	-378
+/- Changes in value recognised in other comprehensive income	-	1,309	1,309
+ Transfers from levels 1 and 2	1,128	186	1,314
- Transfers to levels 1 and 2	-791	-	-791
Carrying amount 31 Dec 2020	**16,264**	**3,370**	**19,633**

(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 recognised 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**

SENSITIVITY ANALYSIS OF FINANCIAL ASSETS AT LEVEL 3

31 DECEMBER 2020

		Possible effect on equity capital	
(EUR 1,000)	**Carrying amount**	**Positive**	**Negative**
Financial assets at fair value through profit or loss	16,264	1,423	-1,423
Financial assets at fair value through other comprehensive income	3,370	505	-505
Total	**19,633**	**1,928**	**-1,928**

31 DECEMBER 2019

		Possible effect on equity capital	
(EUR 1,000)	**Carrying amount**	**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**

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 2020	1 Jan - 31 Dec 2019
Change of ECL due to write-offs	3,540	1,687
Change of ECL, receivables from customers and off-balance sheet items	-2,143	-4,930
Change of ECL, debt securities	-1,574	-260
Final credit losses	-7,291	-3,025
Impairment losses on financial assets total	**-7,468**	**-6,528**

During the financial year, EUR 7,291 (3,205) thousand was recognized as final credit loss. Recollection measures are attributed to EUR 2,779 (756) thousand. The growth of final credit losses is partly explained due to a credit loss of EUR 2,770 (398) thousand recorded on unsecured consumer loans.

The macro-scenarios used in the calculation of expected credit losses (ECL) were exceptionally updated twice during the financial year due to the pandemic. The effect of changes in macro-scenarios on the result for the financial year remained marginal as GDP forecasts improved at the end of the financial year.

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 principles for calculating expected credit losses and determining the probability of default are presented in section 3.4 Impairment of financial assets of Note 2 POP Bank Group's accounting policies.

RECEIVABLES FROM CUSTOMERS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2020	**4,761**	**3,351**	**25,693**	**33,804**
Transfers to stage 1	167	-1,157	-2,883	-3,874
Transfers to stage 2	-352	1,109	-1,309	-551
Transfers to stage 3	-203	-222	5,106	4,681
Increases due to origination	2,526	1,250	3,461	7,237
Decreases due to derecognition	-1,088	-640	-7,849	-9,578
Changes due to change in credit risk (net)	-450	-152	4,727	4,124
Decreases due to write-offs	-	-	-3,540	-3,540
Total	**599**	**188**	**-2,288**	**-1,501**
ECL 31 Dec 2020	**5,360**	**3,538**	**23,405**	**32,304**

The forbearance measures and instalment-free periods granted as a result of pandemic expired mainly during the last quarter and corresponding amounts of new forbearance measures were not applied for. At the beginning of the pandemic the unallocated loan loss provision of EUR 320 thousand was recognized, which was de-recognized at the end of the financial year due to the expired instalment-free periods. Terminated instalment-free periods have not impacted to the amount of late payments or customers scoring at large scale. More detailed information of forbearance measures is provided in Note 4.

The largest change in expected credit losses on receivables from customers is from decreases due to derecognition total EUR 9,578 (4,496) thousand. Transfers to stage 3 totaled EUR 5,106 (7,122) thousand.

DEBT SECURITIES

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2020	**117**	**1,125**	**360**	**1,603**
Transfers to stage 1	1	-4	-	-3
Transfers to stage 2	-7	63	-	57
Transfers to stage 3	-3	-272	340	65
Increases due to origination	73	26	40	140
Decreases due to derecognition	-19	-175	-	-193
Changes due to change in credit risk (net)	6	26	33	65
Changes due to management estimates	-	149	1,299	1,449
Total	**51**	**-186**	**1,713**	**1,578**
ECL 31 Dec 2020	**169**	**939**	**2,073**	**3,181**

An additional provision EUR 1,449 (0) thousand has been made in the debt securities based on management's judgement, as the pandemic has affected the financial conditions of certain issuers. Management judgement explains majority of the changes in expected credit loss.

OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2020	**375**	**75**	**238**	**688**
Transfers to stage 1	4	-44	-26	**-67**
Transfers to stage 2	-14	48	-5	**28**
Transfers to stage 3	-1	0	22	**20**
Increases due to origination	166	75	53	**294**
Decreases due to derecognition	-44	-8	-35	**-87**
Changes due to change in credit risk (net)	-155	-7	73	**-89**
Total	**-44**	**63**	**81**	**100**
ECL 31 Dec 2020	**331**	**138**	**319**	**788**

ECL 1 Jan 2020	**5,253**	**4,551**	**26,291**	**36,095**
ECL 31 Dec 2020	**5,860**	**4,616**	**25,797**	**36,273**

BALANCE SHEET ITEM BY STAGE 31 DEC 2020

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
Private	2,397,346	139,168	50,819	**2,587,333**
Corporate	640,183	45,952	36,604	**722,739**
Agriculture	482,686	78,029	29,661	**590,377**
Receivables from customers total	**3,520,216**	**263,149**	**117,084**	**3,900,449**
Off-balance sheet commitments				
Private	220,577	8,681	813	**230,070**
Corporate	40,614	5,196	116	**45,926**
Agriculture	17,118	3,497	372	**20,987**
Off-balance sheet commitments total	**278,308**	**17,374**	**1,301**	**296,984**
Debt securities				
Banking segment	395,545	31,234	4,487	**431,266**
Insurance segment	28,774	13,146	-	**41,920**
Debt securities total	**424,319**	**44,381**	**4,487**	**473,186**

RECEIVABLES FROM CUSTOMERS AND OFF-BALANCE SHEET COMMITMENTS

(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**	**-774**	**2,871**	**3,095**
ECL 31 Dec 2019	**4,761**	**3,351**	**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**	**4,551**	**26,291**	**36,095**

BALANCE SHEET ITEM BY STAGE 31 DEC 2019

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
Private	2,288,317	105,538	57,484	**2,451,339**
Corporate	557,804	52,909	39,648	**650,360**
Agriculture	446,416	90,459	30,713	**567,587**
Receivables from customers total	**3,292,536**	**248,905**	**127,846**	**3,669,287**
Off-balance sheet commitments				
Private	196,045	5,609	416	**202,069**
Corporate	33,869	4,313	631	**38,813**
Agriculture	19,480	2,476	326	**22,282**
Off-balance sheet commitments total	**249,394**	**12,398**	**1,373**	**263,164**
Debt securities				
Banking segment	229,710	35,463	40	**265,212**
Insurance segment	27,731	6,039	-	**33,770**
Debt securities total	**257,440**	**41,501**	**40**	**298,982**

NOTE 19 LIQUID ASSETS

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Cash	11,435	12,078
Receivables from central banks repayable on demand	380,108	155,350
Total cash and cash equivalents	**391,544**	**167,428**

Cash and cash equivalents comprise cash assets and cheque account with the Bank of Finland. The increase in liquid assets during 2020 mainly arose from a strong increase in deposits.

NOTE 20 LOANS AND RECEIVABLES

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Loans and receivables from credit institutions		
Deposits		
Repayable on demand	23,575	26,641
Other	40,591	47,652
Total loans and advances to credit institutions	**64,166**	**74,293**
Loans and advances to customers		
Loans	3,789,800	3,550,394
Loans granted from government funds	2,637	3,292
Guarantees	487	379
Used overdrafts	37,505	43,112
Credit card receivables	37,717	38,312
Total loans and advances to customers	**3,868,147**	**3,635,488**
Total loans and receivables	**3,932,313**	**3,709,781**

NOTE 21 INVESTMENT ASSETS

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Measured at amortised cost		
Debt securities	104,959	-
At fair value through profit or loss		
Debt securities	9,929	11,664
Shares and participations	171,735	227,841
At fair value through other comprehensive income		
Debt securities	368,186	298,982
Shares and participations	3,370	2,010
Investment properties	30,692	32,562
Investment assets total	**688,871**	**573,058**

INVESTMENTS ON 31 DECEMBER 2020

	Measured at amortised cost	At fair value through profit or loss		At fair value through other comprehensive income		
(EUR 1,000)	Debt securities	Debt securities	Shares and participations	Debt securities	Shares and participations	Total
Quoted						
Public sector entities	-	-	-	77,700	-	77,700
Other	104,959	3,141	164,102	183,976	-	456,177
Other						
Public sector entities	-	-	-	106,511	-	106,511
Other	-	6,787	7,633	-	3,370	17,790
	104,959	**9,929**	**171,735**	**368,186**	**3,370**	**658,179**

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
Investments total	**11,664**	**227,841**	**298,982**	**2,010**	**540,497**

The most important risks with regard to investments are interest rate and credit spread risk and the liquidity premium. Below is a summary of the investments at fair value through profit or loss and at fair value through other comprehensive income in different market risk scenarios. The shocks used are based on possible changes in the securities under stressed conditions and reflect the resulting effect on the profit or the comprehensive income statement.

SENSITIVITY ANALYSIS

		31 Dec 2020		31 Dec 2019	
(EUR 1,000)	**Stress**	**Effect on profit**	**Effect on comprehen-sive income**	**Effect on profit**	**Effect on comprehen-sive income**
Change in Risk-free Interest Rate	+100 bp	-2,135	-7,173	-2,794	-7,868
Change in Credit Spreads	+50 bp	-1,121	-3,766	-1,467	-4,130
Change in Listed and Unlisted Equities	-10 %	-1,806	-337	-2,302	-201
Foreign Exchange risk	-10 %	-2,060	-365	-2,388	-293

CHANGES IN INVESTMENT PROPERTY

(EUR 1,000)	**31 Dec 2020**	**31 Dec 2019**
Acquisition cost 1 January	**48,793**	**48,816**
+ Increases	853	1,012
- Decreases	-4,200	-1,189
+/- Transfers	406	154
Acquisition cost 31 December	**45,852**	**48,793**
Accumulated depreciation and impairment 1 January	**-16,231**	**-14,388**
+/- Accumulated depreciation on decreases and transfers	2,178	315
- Depreciation	-1,053	-1,011
- Impairment losses	-54	-1,147
Accumulated depreciation and impairment 31 December	**-15,160**	**-16,231**
Carrying amount 1 January	**32,562**	**34,428**
Carrying amount 31 December	**30,692**	**32,562**

NOTE 22 INVESTMENTS IN ASSOCIATES

Name	Industry	Holding % 31 Dec 2020	Holding % 31 Dec 2019
Figure Financial Management Ltd	Services	25 %	25 %

	31 Dec 2020	31 Dec 2019
Acquisition cost 1 Jan	**116**	**166**
+/- share of profit for the financial year	78	-50
Acquisition cost	**195**	**116**

Figure Financial Management Ltd provides accounting and regulatory reporting services to companies operating in the financial sector.

NOTE 23 INTANGIBLE ASSETS

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Information systems	9,539	5,382
Other intangible assets	5,123	3,467
Incomplete intangible assets	5,887	9,289
Total intangible assets	**20,549**	**18,138**

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.

CHANGES IN INTANGIBLE ASSETS 2020

(EUR 1,000)	Information systems	Other intangible assets	Incomplete intangible assets	Total
Acquisition cost 1 January	**17,632**	**11,929**	**9,289**	**38,850**
+ Increases	145	890	6,013	7,048
- Decreases	-77	-757	-	-835
+/- Transfers	6,299	3,116	-9,415	-
Acquisition cost 31 December	**23,998**	**15,179**	**5,887**	**45,064**
Accumulated depreciation and impairment 1 January	**-12,251**	**-8,462**	**-**	**-20,712**
+/- Accumulated depreciation on decreases and transfers	14	685	-	700
- Depreciation	-2,223	-2,279	-	-4,502
Accumulated depreciation and impairment 31 December	**-14,459**	**-10,056**	**-**	**-24,515**
Carrying amount 1 January	**5,382**	**3,467**	**9,289**	**18,138**
Carrying amount 31 December	**9,539**	**5,123**	**5,887**	**20,549**

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**

NOTE 24 PROPERTY, PLANT AND EQUIPMENT

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Owner-occupied properties		
Land and water	2,505	2,900
Buildings	27,026	27,640
Machinery and equipment	1,845	2,164
Other tangible assets	754	754
Construction in progress	9	4
Total property, plant and equipment total	**32,138**	**33,462**

CHANGES IN PROPERTY, PLANT AND EQUIPMENT 2020

(EUR 1,000)	Owner-occupied properties	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost 1 January	**59,995**	**15,888**	**982**	**4**	**76,868**
+ Increases	4,976	704	28	5	5,713
- Decreases	-5,788	-1,122	-71	-	-6,980
+/- Transfers	-406	-	-	-	-406
Acquisition cost 31 December	**58,777**	**15,470**	**939**	**9**	**75,195**
Accumulated depreciation and impairment 1 January	**-29,454**	**-13,724**	**-228**	**-**	**-43,406**
+/- Accumulated depreciation on decreases and transfers	3,640	1,064	52	-	4,755
- Depreciation	-3,416	-966	-9	-	-4,391
- Impairment losses	-15	-	-	-	-15
Accumulated depreciation and impairment 31 December	**-29,246**	**-13,626**	**-186**	**-**	**-43,057**
Carrying amount 1 January	**30,540**	**2,164**	**754**	**4**	**33,462**
Carrying amount 31 December	**29,530**	**1,845**	**754**	**9**	**32,138**

In accordance with IFRS 16, the fixed assets include owneroccupied properties and machinery and equipment. More detailed information on fixed asset items is presented in Note 34.

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 January	**-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**

NOTE 25 OTHER ASSETS

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Payment transfer receivables	179	208
Accrued income and prepaid expenses		
Interest	9,293	9,092
Other accrued income and prepaid expenses	4,473	5,797
Insurance operations	10,843	10,448
Other	3,766	5,067
Other assets total	**28,553**	**30,612**

NOTE 26 DEFERRED TAXES

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Tax assets		
Deferred tax assets	3,099	2,134
Income tax receivables	2,010	827
Total tax assets	**5,108**	**2,961**
Tax liabilities		
Deferred tax liabilities	23,542	22,440
Income tax liability	812	916
Total tax liabilities	**24,353**	**23,357**

DEFERRED TAX ASSETS

(EUR 1,000)	31 Dec 2019	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2020
At fair value	**356**	-24	401	**733**
Real estate depreciation adjustments	**1,293**	162	-	**1,455**
Defined benefit pension plans	**488**	-154	141	**475**
Consolidation and others	**-3**	438	-	**435**
Total deferred tax assets	**2,134**	**423**	**542**	**3,099**

(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**

The companies belonging to the POP Bank Group have EUR 29,797 (32,996) thousand of losses for which no deferred tax assets have been recognised. The losses will expire in 2022–2030.

DEFERRED TAX LIABILITIES

(EUR 1,000)	31 Dec 2019	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2020
Appropriations	**21,026**	401	-	**21,426**
At fair value	**1,208**	140	687	**2,035**
Intangible assets	**198**	-130	-	**68**
Consolidation	**8,904**	3	-	**12**
Total deferred tax liabilities	**22,440**	**414**	**687**	**23,542**

(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	**33**	-24	-	**9**
Total deferred tax liabilities	**21,560**	**295**	**585**	**22,440**

AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME AND RELATED DEFERRED TAXES 2020

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	1,419	-275	1,144
Defined benefit plans	-705	141	-564
Amounts recognised in other comprehensive income, total	**714**	**-134**	**580**

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	**3,048**	**-717**	**2,331**

NOTES TO LIABILITIES AND EQUITY CAPITAL

NOTE 27 LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Liabilities to credit institutions		
Central Banks	50,000	-
Repayable on demand	1,995	2,287
Not repayable on demand	45,224	35,255
Total liabilities to credit institutions	**97,219**	**37,542**
Liabilities to customers		
Deposits		
Repayable on demand	3,583,780	3,232,560
Not repayable on demand	499,814	510,538
Other financial liabilities		
Not repayable on demand	2,451	3,207
Total liabilities to customers	**4,086,045**	**3,746,305**
Total liabilities to credit institutions and customers	**4,183,263**	**3,783,848**

In June Bonum Bank Plc participated to ECB's TLTRO III programme with EUR 50 million which is included in liabilities to credit Institutions. The loan expires on 30 June 2023 but repayment is possible starting from 29 September 2021. The terms of the loan are more favourable compared to market-based line of credit. Financial relevance of the loan compared to a market-based credit is not significant. Interest rate of the loan is determined by the rate of ECB's deposit facility. In addition, the growth of POP Group's outstanding loans have an affect on the interest rate of the ECB loan, as according to the terms of the TLTRO programme.

NOTE 28 NON-LIFE INSURANCE LIABILITIES

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Provision for unearned premiums	19,813	18,061
Provisions for unpaid claims	36,370	28,759
Reinsurers' share	-12,268	-8,214
Total insurance contract liabilities	**43,915**	**38,606**

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 2020	31 Dec 2019
Debt securities issued to the public	224,910	94,839
Certificates of deposits	41,436	19,990
Total debt securities issued to the public	**266,346**	**114,829**

DEBT SECURITIES ISSUED TO THE PUBLIC

Name	Due date	Interest	Nominal
BONUM FRN 290121	29.1.2021	EB 3kk + 0,75 %	20,000
BONUM FRN 180422	18.4.2022	EB 3kk + 0,88 %	75,000
Issued during the financial period			
BONUM FRN 120723	12.7.2023	EB 12kk + 1,044 %	50,000
BONUM FRN 170124	17.1.2024	EB 12kk + 1,2 %	55,000

In addition, certificates of deposit with a total nominal value of EUR 41.5 (20.0) million were outstanding on the balance sheet date. Amount of the certificates is 12, nomimals range from 1.5 million to 5 million euros with average maturity is 9.9 months.

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Balance at 1 Jan	**114,829**	**142,399**
Debt securities issued, increase	129,995	114,764
Certificates of deposits, increase	116,826	24,986
Total increase	**246,821**	**139,750**
Debt securities issued, decrease	-	-119,980
Certificates of deposits, decrease	-95,426	-47,469
Total decrease	**-95,426**	**-167,449**
Total changes in cash flow	**151,395**	**-27,699**
Valuation, accrued interest	122	130
Balance at 31 Dec	**266,346**	**114,829**

NOTE 30 SUPPLEMENTARY COOPERATIVE CAPITAL

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Supplementary cooperative capital 1 Jan	**18,003**	**21,416**
Refunds of supplementary cooperative capital	-6,698	-2,906
Converted into POP Shares	-18	-507
Supplementary cooperative capital 31 Dec	**11,287**	**18,003**
of which cancelled supplementary cooperative contributions	11,287	6,625

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. During the financial year redemption permission was obtained from the Financial Supervisory Authority for supplementary cooperative contributions. Redemptions will be executed in 2021.

During the financial year 2020, a total of EUR 18 (507) 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 2020	31 Dec 2019
Expected credit loss reservation	788	688
Other liabilities		
Pension liabilities	2,377	2,442
Direct and reinsurance liabilities	966	1,245
Payment transfer liabilities	19,460	14,690
Lease liabilities	5,174	5,391
Accrued expenses		
Interest payable	3,363	2,764
Advances received	2,060	2,249
Liabilities on card transactions	9,013	9,165
Other accrued expenses	8,790	9,844
Total other liabilities	**51,991**	**48,479**

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 2020	31 Dec 2019
Total equity attributable to the owners of the POP Bank Group		
Cooperative capital, cooperative contributions	9,909	9,422
of which cancelled cooperative contributions	527	512
Cooperative capital, POP Shares	56,121	57,323
of which cancelled POP Shares	3,660	4,055
Restricted reserves		
Reserve fund	52,494	52,494
Reserves based on the Articles of Association/rules	5,965	4,617
Fair value reserve		
Shares and participations	1,616	624
Debt securities	3,289	3,137
Non-restricted reserves		
Other non-restricted reserves	103,134	99,823
Retained earnings		
Profit (loss) for previous financial years	273,677	259,185
Profit (loss) for the financial year	11,466	21,381
Total equity attributable to the owners of the POP Bank Group	**517,670**	**508,006**
Non-controlling interests	444	429
Total equity capital	**518,114**	**508,435**

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 2020, POP Banks had a total of 90 (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 1,193 (1,997) thousand of POP Shares during the financial year 2020. Of this, the share new sales amounted to EUR 1,178 (1,489) thousand and converted supplementary cooperative contributions amounted to EUR 14 (507) thousand. POP Shares totalled to EUR 56,121 (57,323) thousand in 31 December 2020.

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.

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 2020

(EUR 1,000)	Liability instruments	Equity instruments	Total
Fair value reserve 1 Jan	**3,137**	**624**	**3,761**
Fair value change, increases	17,332	2,801	20,133
Fair value change, decreases	-19,790	-1,561	-21,351
Transferred from fair value reserve to the income statement	1,102	-	1,102
Expected credit loss	1,543	-	1,543
Deferred taxes	-34	-248	-282
Fair value reserve 31 Dec	**3,289**	**1,616**	**4,905**

SPECIFICATION OF CHANGES IN FAIR VALUE RESERVE 2019

(EUR 1,000)	Liability 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 from fair value reserve to the income statement	-686	-	**-686**
Transferred from fair value reserve 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**

OTHER NOTES

NOTE 33 COLLATERAL GIVEN

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Given on behalf of own liabilities and commitments		
Pledges	2,546	2,546
Mortgages	-	3,841
Collateral given to the Bank of Finland	115,673	20,740
Total collateral given	**118,218**	**27,127**

NOTE 34 OFF-BALANCE-SHEET COMMITMENTS

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Guarantees	17,064	17,029
Loan commitments	279,920	246,135
Total off-balance sheet commitments	**296,984**	**263,164**
Other commitments		
Commitment to invest in venture capital funds	2,779	3,500
Total other commitments	**2,779**	**3,500**

The expected credit losses of off-balance sheet commitments are presented in Note 18.

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 2020	31 Dec 2019
Current service cost	236	224
Net interest	16	25
Costs recognised in income statement	**252**	**249**
Remeasurements	705	1,118
Comprehensive income before tax	**957**	**1,367**
Present value of obligation 1 January	20,832	19,966
Current service cost	236	224
Interest expense	142	348
Actuarial gains (-)/losses (+) arising from experiential adjustments	1,387	-533
Actuarial gains (-)/losses (+) arising from changes in economic expectations	827	1,945
Benefits paid	-1,189	-1,118
Present value of obligation 31 December	**22,235**	**20,832**
Fair value of plan assets 1 January	18,390	18,433
Interest income	126	323
Return on plan assets excl. items in interest expense/income	1,509	294
Benefits paid	-1,189	-1,118
Contributions paid	1,023	458
Fair value of plan assets 31 December	**19,859**	**18,390**
Present value of obligation	22,235	20,832
Fair value of plan assets	19,859	18,390
Net liability in balance sheet 31 December	**2,377**	**2,442**
Net liability in balance sheet 1 January	2,442	1,533
Costs recognised in income statement	252	249
Contributions paid	-1,023	-458
Remeasurements in comprehensive income statement	705	1,118
Net liability in balance sheet 31 December	**2,377**	**2,442**
Actuarial assumptions		
Discount rate, %	0.42 %	0.70 %
Pay development, %	2.00 %	2.00 %
Pension increase, %	1,39%/0,00%	1,39%/0,00%
Inflation rate, %	1.15 %	1.15 %

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 2020	31 Dec 2019
Change of +0.5% in discount rate	-155	-153
Change of -0.5% in discount rate	174	172
Pay development +0.5%	165	153
Pay development -0.5%	-163	-152
Change of +0.5% in pension increase	1,444	1,294
Change of -0.5% in pension increase	-1,356	-1,218

Duration based on the weighted average of the obligation is 14.6 (14.1) years.

The POP Bank Group expects to contribute approximately EUR 315 (310) thousand to defined benefit plans in 2021.

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 receivable 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 2020	31 Dec 2019
Less than one year	407	367
Within 1–5 years	29	116
More than five years	1,609	1,601
Future minimum lease payments receivable total	**2,045**	**2,084**

GROUP AS A LESSEE

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

RIGHT-OF-USE ASSETS 31 DEC 2020

(EUR 1,000)	Office Buildings	Machinery and equipment	Total
Acquisition cost 1 Jan	**6,390**	**824**	**7,214**
+ Increases	1,486	180	**1,666**
- Decreases	29	-12	**18**
Acquisition cost 31 December	**7,905**	**993**	**8,898**
Accumulated depreciation and impairment 1 January	**-1,469**	**-269**	**-1,738**
+/- Accumulated depreciation on decreases and transfers	-166	-	**-166**
- Depreciation	-1,641	-291	**-1,932**
Accumulated depreciation and impairment 31 December	**-3,276**	**-560**	**-3,836**
Carrying amount 1 January	**4,921**	**556**	**5,477**
Carrying amount 31 December	**4,629**	**433**	**5,062**

Presented in property, plant and equipment.

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**

LEASE LIABILITIES

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Lease liabilities 1 Jan	**5,387**	**5,818**
+ Increases	1,606	1,871
- Decreases	-1,820	-2,302
Lease liabilities 31 Dec	**5,174**	**5,387**

Presented in other liabilities

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Total cash outflow for leases	-1,831	-1,945

AMOUNTS RECOGNISED IN PROFIT OF LOSS

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Depreciation		
Office Buildings	-1,641	-1,635
Machinery and equipment	-291	-309
Total	**-1,932**	**-1,943**

Presented in depreciation, amortisation and impairment of property, plant and equipment.

Interest on lease liabilities	-9	-8

Presented in net interest Income.

Expenses relating to short-term leases	8	12
Espenses relating to leases of low-value assets	1,240	1,066
Total	**1,249**	**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).

(EUR 1,000) Name of the bank	Domicile	Balance sheet 31 Dec 2020	Balance sheet 31 Dec 2019
Hannulan Osuuspankki *)	Hankasalmi	-	32,454
Honkajoen Osuuspankki	Honkajoki	55,416	56,560
Isojoen Osuuspankki	Isojoki	77,055	72,852
Jämijärven Osuuspankki	Jämijärvi	60,440	60,617
Kannonkosken Osuuspankki	Kannonkoski	61,382	57,654
Keuruun Osuuspankki	Keuruu	200,543	194,734
Konneveden Osuuspankki	Konnevesi	177,011	133,088
Kosken Osuuspankki	Koski Tl	186,065	177,612
Kurikan Osuuspankki	Kurikka	336,518	302,401
Kyrön Seudun Osuuspankki	Pöytyä	111,710	103,733
Kyrönmaan Osuuspankki *)	Isokyrö	-	273,592
Kyyjärven Osuuspankki	Kyyjärvi	83,690	79,847
Lammin Osuuspankki	Hämeenlinna	193,619	187,400
Lanneveden Osuuspankki	Saarijärvi	63,454	56,805
Lappajärven Osuuspankki	Lappajärvi	103,741	97,451
Lakeuden Osuuspankki	Seinäjoki	576,732	244,895
Lavian Osuuspankki	Pori	81,263	75,672
Liedon Osuuspankki	Lieto	135,795	130,355
Nivalan Järvikylän Osuuspankki	Nivala	105,199	93,597
Piikkiön Osuuspankki	Kaarina	141,639	132,694
Pohjanmaan Osuuspankki	Kauhava	708,397	470,037
Reisjärven Osuuspankki	Reisjärvi	187,120	176,776
Sievin Osuuspankki *)	Sievi	-	159,124
Siilinjärven Osuuspankki	Siilinjärvi	349,821	324,731
Suupohjan Osuuspankki	Kauhajoki	949,931	828,892
Tiistenjoen Osuuspankki *)	Lapua	-	42,626

The POP Bank of Tiistenjoki and Sievi merged with the POP Bank of Pohjanmaa on September 30, 2020. POP Bank of Hannula merged with POP Bank of Konnevesi on September 30, 2020. On November 30, 2020 POP Bank of Kyrönmaa merged with POP Bank of Lapua, which changed its name to Lakeuden Osuuspankki.

SUBSIDIARIES AND ASSOCIATES CONSOLIDATED IN THE POP BANK GROUP

		Ryhmän omistusosuus	
	Kotipaikka	31.12.2020	31.12.2019
POP Bank Centre coop (central institution of the Group)	Helsinki	100.0 %	100.0 %
Bonum Bank Ltd (wholly-owned subsidiary of POP Bank Centre 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 %
White Beach Development AS	Audru, Viro	72.5 %	72.5 %
Figure Financial Management 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 2020	31 Dec 2019
Asunto Oy Keuruun Tarhiansuu	36.9 %	36.9 %
Asunto Oy Tampereen Kauppakatu 14	23.9 %	23.9 %
Asunto Oy Tampereen Koskilehmus	21.9 %	21.9 %
Kiinteistö Oy Kosken Pankkitalo	53.6 %	53.6 %
Kiinteistö Oy Lehto-Center	38.6 %	38.6 %
Kiinteistö Oy Liedon Torinkulma	62.5 %	62.5 %
Kiinteistö Oy Riihikuiva	82.7 %	82.7 %
Kiinteistö Oy Siilinjärven Pankkikeskus	66.5 %	66.5 %

CHANGES IN HOLDINGS IN SUBSIDIARIES

During the financial year 2020 no acquisitions or sales of subsidiaries were done.

NON-CONTROLLING INTERESTS IN SUBSIDIARIES

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

NOTE 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 Board 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 Centre coop and their close relatives. Related parties also include the managing director and deputy managing director of POP Bank Centre coop. In addition, related parties include companies controlled by the above-mentioned persons.

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 Centre coop.

RELATED-PARTY TRANSACTIONS

	Key persons in management		Other	
(EUR 1,000)	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Assets				
Loans	2,700	2,457	3,635	1,546
Expected credit loss	2	6	2	5
Liabilities				
Deposits	1,822	1,297	2,235	654
Off-balance-sheet commitments				
Loan commitments	80	81	96	29
Guarantees	196	142	228	50
Investments to other than cooperative contributions	209	215	159	88

	Key persons in management		Other	
(EUR 1,000)	**1 Jan - 31 Dec 2020**	**1 Jan - 31 Dec 2019**	**1 Jan - 31 Dec 2020**	**1 Jan - 31 Dec 2019**
Income and expenses				
Interest income	34	33	61	54
Interest expenses	3	5	2	3
Insurance premium revenue	14	14	5	6

COMPENSATION TO KEY PERSONS IN MANAGEMENT

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Short-term employee benefits	2,430	2,291
Post-employment benefits	22	103
Total compensation to key persons in management	**2,452**	**2,394**

NOTE 39 EVENTS AFTER THE CLOSING DATE

S&P Ratings has affirmed January 22, 2021 Bonum Bank Plc's long-term counterparty credit ratings 'BBB' and short term credit rating 'A-2'. The agency revised the bank's outlook from negative to stable.

The Board of Directors of POP Bank Centre 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 2020. The Board of Directors' Report and the Financial Statements will be presented to the general meeting of POP Bank Centre coop on 1 April 2021.

Espoo, 15 February 2021
Board of Directors of POP Bank Centre 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, _____ February 2021

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 CENTRE 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, 2020. 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 Centre 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 € 3,9 billion, are the most significant item on the POP Bank Group's consolidated balance sheet representing 76 percent of the total assets.
- In accordance with IFRS 9 *Financial instruments* -standard calculated expected credit losses involve 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 impacts of COVID-19 pandemic to the bank's credit risk position and the calculation of expected credit losses.
- 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.
- 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 POP Bank Centre coop 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 € 0,7 billion mainly consisting of investments measured at fair value.
- The fair value of financial instruments is determined using either prices quoted in an active market or POP Bank Group's own valuation techniques where no active market exists. Determining fair values for investments and derivatives involves management judgements, especially in respect of those instruments for which market-based data is not available.
- 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 as-

sociated 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 Centre 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 Centre coop in 2012 and our appointment represents a total period of uninterrupted engagement of 9 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 16, 2021
KPMG OY AB

TIIA KATAJA
Authorised Public Accountant, KHT

POP BANK GROUP GRI CONTENT

GRI Standard	Disclosure	Page or URL	Explanation or comment

Page numbers are referring to POP Bank Group Board of Directors' Report and Consolidated IFRS Financial Statements 31.12.2020

Organizational profile

102-1	Name of the organization		POP Bank Group
102-2	Activities, brands, products, and services		The POP Bank Group is a Finnish financial group that offers retail banking services for private customers, small and medium-sized enterprises and agricultural, forestry and bioeconomy companies, in addition to providing private customers with non-life insurance services.
102-3	Location of headquarters		POP Bank Centre coop, the central institution of POP Bank Group, has registered office is Helsinki. It's head office is in Espoo, Finland.
102-4	Location of operations		POP Bank Group's operations are focused on Finland.
102-5	Ownership and legal form	page 7	Structure of the POP Bank Group
102-6	Markets served	pages 13-14	Operating segments
102-7	Scale of the organization	pages 7-8	Structure of the POP Bank Group
102-8	Information on employees and other workers	page 22	Personnel and remuneration
102-10	Significant changes to the organization and its supply chain	page 8	Changes in POP Bank Group's structure
102-13	Membership of associations	page 23	The POP Bank Group's maint partners and stakeholders

Strategy

102-14	Statement from senior decision-maker	pages 3-4	CEO's Review
102-15	Key impacts, risks, and opportunities	pages 8, 15-19, 27	Operating environment, POP Bank Group's risk and capital adequacy and risk position, Outlook for 2021

Ethics and integrity

102-16	Values, principles, standards, and norms of behavior	page 7	The POP Bank Group and amalgamation of POP Banks
102-17	Mechanisms for advice and concerns about ethics	page 26	Transparent business operations

Governance

102-18	Governance structure	page 7, 21, 54-56	The POP Bank Group and amalgamation of POP Banks, Administration of POP Bank Centre coop, Note 3 Governance and management
102-19	Delegating authority	page 24	Social responsibility
102-20	Executive-level responsibility for economic, environmental, and social topics	page 21-22, 24, 54-56	Administration of POP Bank Centre coop, Social responsibility, Note 3 Governance and management
102-22	Composition of the highest governance body and its committees	page 21-22, 54-56	Administration of POP Bank Centre coop, Note 3 Governance and management
102-23	Chair of the highest governance body	page 21-22	Administration of POP Bank Centre coop
102-24	Nominating and selecting the highest governance body	page 21-22, 55-57	Administration of POP Bank Centre coop, Note 3 Governance and management
102-25	Conflicts of interest	page 26	Transparent business operations
102-26	Role of highest governance body in setting purpose, values, and strategy	pages 55-57	Note 3 Governance and management
102-29	Identifying and managing economic, environmental, and social impacts	page 24, 55	Social responsibility, Note 3 Governance and management
102-30	Effectiveness of risk management processes	page 55	Note 3 Governance and management
102-32	Highest governance body's role in sustain-ability reporting	page 24	Social responsibility
102-33	Communicating critical concerns	page 26	Transparent business operations
102-35	Remuneration policies	pages 22-23, 60-61	Personnel and remuneration, Note 3 Governance and management - 9. Remuneration
102-36	Process for determining remuneration	page 22	Personnel and remuneration

Stakeholder engagement

102-40	List of stakeholder groups	page 23	The POP Bank Group's maint partners and stakeholders

Reporting practice

102-45	Entities included in the consolidated financial statements	page 38, 131	Note 1 The POP Bank Group and the scope of IFRS financial statements, Note 37 Entities included in the POP Bank Group's Financial Statements
102-46	Defining report content and topic Boundaries	page 24	Social responsibility
102-47	List of material topics	page 24	Social responsibility

102-50	Reporting period		Reporting period is 1.1.-31.12.2020.
102-52	Reporting cycle		Financial year
102-53	Contact point for questions regarding the report		CEO Pekka Lemettinen, POP Centre coop
102-54	Claims of reporting in accordance with the GRI Standards		The reporting complies with the Core level of the GRI Standards
102-55	GRI content index		GRI Content
102-56	External assurance		No external assurance

Management Approach

103-1	Explanation of the material topic and its Boundary	pages 24-27	Social responsibility
103-2	The management approach and its components	pages 24-27	Social responsibility

Economic Performance

201-1	Direct economic value generated and distributed	pages 12-15	POP Bank Group's earnings and balance sheet

Tax

207-4	Country-by-country reporting	page 26	Supporting local success, vitality and well-being

Diversity and Equal Opportunity

405-1	Diversity of governance bodies and employees	page 22, 27	Personnel and remuneration, Ensuring the equality of employees and promoting diversity and well-being at work

POP Bank