POP Bank Group

HALF-YEAR FINANCIAL REPORT

1 JANUARY – 30 JUNE 2020

POP Bank

CONTENTS

POP Bank Group's Half-Year Financial Report for 1 January – 30 June 2020 is a translation of the original Finnish version "POP Pankki -ryhmän puolivuosikatsaus 1.1.–30.6.2020". In case of discrepancies, the Finnish version shall prevail.

CEO'S REVIEW

The first half of the year was exceptional in the POP Bank Group's history. The coronavirus pandemic caused upheaval in the markets and working life, as well as in the daily lives of households. The POP Bank Group responded rapidly to the changed situation, supported by its continuously updated strategy and renewal programme.

We strongly participated in support measures targeted at business and industry, and we made the situation easier for households by offering instalment-free periods: we granted 7,000 instalment-free periods during the first-half of the year. Of the bank group's 700 employees, more than half shifted to remote work and successfully handled the multiplied number of enquiries from our customers, mainly through online meetings, without interruption.

Despite the challenging market conditions and the economic uncertainty caused by the coronavirus pandemic, the Group's credit portfolio increased by 3.3 per cent to EUR 3.8 billion during the first half of the year, and deposits increased by 3.8 per cent to EUR 3.9 billion. The Group's liquidity and capital adequacy remained strong. CET1 capital adequacy was 19.9 per cent at the end of the review period.

The most important income items in customer business operations developed favourably. Net interest income increased by 9.9 per cent, and net commission income increased by 5.1 per cent. The Group's other than investment income grew by 8.1 per cent.

The investment markets responded notably to the coronavirus pandemic in March, since which the fair values of investments have recovered to some degree. The POP Bank Group's result before taxes was EUR 1.5 million, compared with EUR 18.8 million in the corresponding period of the previous year. The result decreased mainly because of negative valuations of investments. Payment delays did not increase significantly during the second quarter, but we expect the negative impacts of the coronavirus crisis to be reflected more markedly in customers' payment behaviour during the second half of the year.

The customer volume of the insurance company reached a new record: 150,300 customers. As a result of overall consumer activity decreasing, the premium income volume declined by 7 per cent, but the operating expense ratio improved. The impact of the coronavirus pandemic on loss expenses was minor. Net insurance income was slightly below last year's level. As a whole, however, the result of insurance operations met our expectations. The result of insurance operations excluding net investment income was EUR 0.5 million and result before taxes was EUR -0.5 million.

Photo: Markus Havia

During spring, we asked Finns for what they feel gratitude for and planted 10,000 trees to Kynkäänsuo area to the Forest of Gratitude together with Taimiteko youth.

The POP Bank Group confirmed its new strategy at the beginning of the year. Our vision is to be the bank that combines personal and digital services, provides the highest level of customer satisfaction and ensures rapid decision-making for private customers and small enterprises, as well as companies in agriculture, forestry and the bioeconomy. Our renewal programme is centred on shifting the focus of business operations to growth areas, as well as greater lending to businesses and the extensive digitisation of customer service situations.

Three bank mergers were confirmed within the POP Bank Group by the end of June. Mergers are at the core of our group strategy, and they create stronger POP Banks in various operating areas. During the spring, we changed the name of our central institution to POP Bank Centre coop, and continued to simplify our operating methods and centralise routine procedures. These changes have enabled the POP Banks to focus more effectively on work with customers.

Although the coronavirus crisis limited physical services, our investment in electronic channels made it possible to keep POP Banks' services and experts available for customers without interruption. The number of digital customer meetings, POP Verkkohetki, increased by 250 per cent. Our new service centre, which was opened in February, occasionally recorded up to three times more enquiries than expected. We expanded our services into digital housing sales as a bank partner of the DIAS platform, and we introduced four new funds, including POP Environment, which focuses on sustainable investing.

The importance of a sense of community has increased during the coronavirus crisis. Economic recovery relies on household consumption and business investments. Building regional vitality requires strong and fully functional local banks. I am proud of how rapidly our employees adapted to remote work and new operating methods. This indicates our strong commitment to providing the best customer service in Finland.

I would also like to thank our customers and partners for the trust they have shown in us. Although the forecasts are marked by uncertainty, together we can create a success story that supports continued well-being in Finland.

Pekka Lemettinen
CEO
POP Bank Centre coop

POP BANK GROUP AND THE AMALGAMATION OF POP BANKS

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

The most significant companies in the POP Bank Group engaged in customer business are:

- 26 member cooperative banks of POP Bank 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.

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

No changes took place in the structure of the POP Bank Group during the review period. POP Bank Alliance coop changed its name to POP Bank Centre coop, and the new name was registered in April. The change is part of the POP Bank Group's renewal programme, and further clarifies the division of work between the central institution and the banks in line with centralised service provision and product development.

In March, the cooperative meetings of Sievin Osuuspankki, Tiistenjoen Osuuspankki and Pohjanmaan Osuuspankki approved a plan according to which Sievin Osuuspankki and Tiistenjoen Osuuspankki will merge into Pohjanmaan Osuuspankki.

In addition, the cooperative meetings of Hannulan Osuuspankki and Konneveden Osuuspankki decided in April that Hannulan Osuuspankki would be merged into Konneveden Osuuspankki. Both mergers are set to be registered on 30 September 2020.

In June, the cooperative meetings of Kyrönmaan Osuuspankki and Lapuan Osuuspankki decided that Kyrönmaan Osuuspankki would be merged into Lapuan Osuuspankki. In connection with the merger, the name of the bank will be changed to Lakeuden Osuuspankki. The merger is set to be registered on 30 November 2020. After the mergers, the POP Bank Group will include 22 banks.

OPERATING ENVIRONMENT

After a promising start to 2020, the situation changed abruptly because of the impact of the coronavirus pandemic on the global economy. The economy has never shrunk as rapidly as this year. During the first half of the year, share prices fell exceptionally steeply, and bond risk premiums increased markedly. The restrictions imposed to suppress the pandemic changed consumer behaviour, which resulted in discontinued revenues and extensive lay-offs in many sectors.

Recovery measures have been implemented on a wide scale. Through maintaining low interest rate levels and a good availability of finance, the European Central Bank (ECB) has sought to support the development of investments and consumption. During the coronavirus crisis, the ECB has expanded its purchase programmes significantly. The ECB has also reviewed the eligibility requirements and conditions for collateral used in financing provided by central banks. As a result of these measures, share prices returned relatively quickly to almost the same level as they were before the slump.

As yet, the coronavirus crisis has not hit the Finnish economy as hard as in most Western European countries. In Finland, the restrictions affecting the economy have been milder, and industrial production plants and construction sites have not been closed extensively. In agriculture, the general situation has been challenging in recent years, but the increasing importance of environmental aspects continues to support the development of the forest sector and the bioeconomy. The overall impacts of the coronavirus crisis on agriculture are expected to remain minor. However, the restrictions caused by the pandemic hit the service sector much harder, with the number of lay-offs being highest in the tourism and catering sectors. The good snow situation was positive for Finnish winter holiday destinations, but the tourist season fell through because of global travel restrictions.

The coronavirus crisis does not seem to have had any considerable impacts on Finnish households during the review period. The sum of wages and salaries did not begin to decrease markedly until April. Public subsidies have helped consumers to compensate for some of their lost income, as well as maintaining consumer purchasing power. Low interest levels and the decrease in consumer prices in April and May have made the situation easier for households. However, consumer expectations for personal finances and the state economy weakened significantly during the spring. Employment is heavily dependent on the general recovery rate of the economy and consumer behaviour.

This year, the GDP is expected to decrease exceptionally strongly year-on-year. However, the extent of the decrease and the negative impacts on the Finnish economy are exceptionally difficult to predict. The risk of delays in the predicted economy recovery rate has increased because of the global development of the coronavirus pandemic. For the time being, however, the indicators related to credit risks in the banking sector are at the same level as before the pandemic.

KEY EVENTS DURING THE FIRST HALF OF THE YEAR

THE POP BANK GROUP'S STRATEGY WAS CONFIRMED

The POP Bank Group's updated strategy and renewal programme were approved in January. The strategy is supported by a continuously updated situation analysis. The POP Banks will continue its strong investment in digital services. The POP Bank Centre coop is committed to supporting and accelerating bank mergers to create stronger regional banks that support the development of local economies. The Group has also enhanced its internal efficiency by centralising operations in the central institution. As part of its strategy process, the Group has started an assessment of options to further diversify funding sources. One option is for the Group to start its own mortgage bank operations in 2021.

A new service centre for all the Group's banks was opened in February. The centre assists the banks in various service processes. The number of enquiries from customers has been higher than expected, which is partly explained by the increased use of electronic channels because of the coronavirus crisis.

The name of the POP Bank Alliance coop, the central institution of the amalgamation of POP Banks, was changed to the POP Bank Centre coop in May. The change further clarifies the division of work between the POP Bank Centre coop and the regional operations of the POP Banks.

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 multiplied in the spring compared with the normal level, but the situation stabilised in early summer. Around 7,000 instalment-free periods were granted, and more than 75 per cent of them were granted to private customers. The average length of an instalment-free period was five months. 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.

The Group's liquidity remained at a good level despite uncertainty in the capital markets. During the spring, Bonum Bank Plc issued two senior bonds. In June, Bonum Bank Plc participated in the European Central Bank's TLTRO III financing operation.

The coronavirus pandemic 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 pandemic has not had a significant impact on the availability of services provided by the non-life insurance company, which operates online. Following national recommendations, the employees of the Group shifted extensively to remote work in March.

No major changes in the quality of loan portfolio were detected during the first half of the year, and the credit risk position remained at a good level. The development of the risk position is linked to the development and economic impacts of the pandemic situation. The Group has strong liquidity and a moderate risk position.

QUICKER SERVICES THROUGH A WIDER RANGE OF PRODUCTS

The extensive digitalisation of banking services and customer service is one of the key focus areas of the POP Bank Group's new strategic renewal programme. The number of users of the Group's mobile application, POP Mobiili, has increased steadily. At the end of the review period, the number of mobile bank users was around half 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 development of the mobile banking application has continued as planned, and numerous new features were added to the application during the spring. These include fund subscriptions, the number of which has continued at a steady level despite fluctuations in the investment markets.

The use of digital services has been made easier 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 in all customer meetings has increased strongly. The number of online customer meetings multiplied during the second quarter compared with the first quarter.

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 digital service processes, POP Bank Group has started a pilot of digital housing loan proposals. The goal is to introduce the service in all POP Banks by the end of the year.

During the spring, the POP Banks product offering was supplemented by new asset management and savings services for private and corporate customers. In addition to this, a new investment fund POP Environment, focusing on supporting sustainable development, was launched to customers.

During the first half-year period, progress was made with the specifying service- and product requirements for the new banking system. This work began in 2019. New banking system is delivered by Oy Samlink Ab.

CREDIT RATINGS

In May, S&P Global Ratings (S&P) reiterated Bonum Bank Plc's long-term rating as BBB (investment grade) and its short-term rating as A-2 (investment grade). The outlook changed from stable to negative because of the economic uncertainty caused by the coronavirus pandemic. The outlook was downgraded for all banks operating in Finland, based on the credit rating agency's estimate of the ability of the Finnish economy to recover from the pandemic.

POP BANK GROUP'S EARNINGS AND BALANCE SHEET

POP BANK GROUP KEY FIGURES AND RATIOS

Key income figures (EUR 1,000)	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019	1 Jan- 31 Dec 2019
Net interes income	36,937	33,622	69,318
Net commissions and fees	15,801	15,031	30,013
Insurance income	5,149	5,379	10,913
Net investment income	-5,670	10,710	15,588
Personnel expenses	-21,200	-20,958	-42,843
Other operating expenses	-26,454	-26,177	-47,927
Impairment losses on financial assets	-3,695	1,050	-6,528
Profit before tax	1,544	18,808	26,150

Key balance sheet figures (EUR 1,000)	30 Jun 2020	30 Jun 2019	31 Dec 2019
Loan portfolio	3,756,935	3,556,718	3,635,488
Deposit portfolio	3,887,484	3,699,965	3,746,305
Insurance contract liabilities	44,130	38,013	38,606
Equity capital	502,251	500,930	508,435
Balance sheet total	4,868,157	4,483,381	4,535,557

Key ratios	30 Jun 2020	30 Jun 2019	31 Dec 2019
Cost to income ratio	90.8 %	74.2 %	75.1 %
Return on assets, ROA %	0.0 %	0.7 %	0.5 %
Return on equity, ROE %	0.4 %	6.1 %	4.3 %
Equity ratio, %	10.3 %	11.2 %	11.2 %
Common equity Tier 1 capital ratio, (CET1) %	19.9 %	20.3 %	19.8 %
Capital adequacy ratio, (TC) %	20.1 %	20.5 %	19.9 %

The formulas for the key figures and ratios are presented on pages 21–22 of POP Bank Group Board of Directors' Report and Consolidated IFRS Financial Statements 31 December 2019.

POP BANK GROUP'S EARNINGS PERFORMANCE (COMPARISON PERIOD 1 JANUARY – 30 JUNE 2019)

The POP Bank Group's result before taxes was EUR 1.5 million, compared with EUR 18.8 million in the corresponding period of the previous year. The profit for the review period was EUR 1.1 (15.1) million.

As the market reactions caused by the coronavirus pandemic resulted in a considerable decrease in the Group's investment income, total operating income declined by 17.0 per cent to EUR 57.2 (68.8) million. However, the net interest income increased by 9.9 per cent to EUR 36.9 (33.6) million, because the loan portfolio grew and funding costs decreased. Interest income totalled EUR 39.5 (38.1) million in the review period, and interest expenses amounted to EUR 2.5 (4.5) million. Net commission income and expenses increased slightly year-on-year, amounting to EUR 15.8 (15.0) million.

Net investment income was EUR 5.7 million negative (EUR 10.7 million positive in the comparison period). The net amount of valuation gains and losses recorded during the first half of the year was EUR -6.9 (6.2) million. Net insurance income was close to the previous year's level, at EUR 5.1 (5.4) million. Other operating income totalled EUR 4.9 (4.1) million.

Total operating expenses increased by 1.6 per cent, to EUR 51.9 (51.1) million. Personnel expenses were EUR 21.2 (21.0) million, and other operating expenses were EUR 26.5 (26.2) million. Depreciation and impairment on tangible and intangible assets was EUR 4.2 (4.0) million.

An impairment loss of EUR 3.7 million on financial assets was recognised in the review period, while a net gain of EUR 1.1 million was recognised in impairment losses in the comparison period. The impairment losses consisted of changes in the recognised expected credit losses on receivables and debt securities, and the realised credit losses. During the review period, the amount of expected credit losses increased by EUR 1.3 (-2.1) million, and EUR 2.4 (1.0) million was recognised in final credit losses.

POP BANK GROUP'S BALANCE SHEET (COMPARISON INFORMATION 31 DECEMBER 2019)

The POP Bank Group's balance sheet total was EUR 4,868.2 (4,535.6) million at the end of the review period. During the period, the Group's loan portfolio increased by 3.3 per cent to EUR 3,756.9 (3,635.5) million, and deposits rose by 3.8 per cent to EUR 3,887.5 (3,746.3) million.

The POP Bank Group's equity totalled EUR 502.3 (508.4) million at the end of the period. The POP Banks have decided to pay EUR 1.3 (1.2) million in interest on cooperative capital for 2019. In line with a recommendation issued by the Financial Supervisory Authority, the banks have postponed some of the payments of interest on cooperative capital until after 1 October 2020. After the end of the reporting period, the Financial Supervisory Authority extended the validity of the profit distribution recommendation until 1 January 2021, which may affect the timing of interest payments. In addition to the cooperative contributions, the POP Banks have issued POP Shares. A POP Share is an investment in the cooperative's equity in accordance with the Co-operatives Act. In total, the POP Banks have issued EUR 55.6 (57.3) million in POP Shares. In the POP Banks' national financial statements, the supplementary cooperative contributions, totalling EUR 18.0 (18.0) million and included in equity, are classified as debt capital in accordance with the IFRS, and the interest paid on them is recognised as an accrued interest expense. The POP Banks' cooperative capital totalled EUR 65.1 (66.7) million at the end of the review period.

OPERATING SEGMENTS

The POP Bank Group monitors its business operations in two segments: banking and insurance.

BANKING

The POP Bank Group's banking segment includes the POP Banks engaged in retail banking and Bonum Bank Plc, the central credit institution of the amalgamation. At the end of the review period, the POP Banks had 248,400 customers (252,000 at the end of 2019), of whom 85.5 per cent (85.3) were private customers, 8.5 per cent (8.5) were corporate customers and 2.9 per cent (3.0) were customers in agriculture and forestry sectors. At the end of the review period, 89,500 (89,300) customers were also members of the POP Banks. The POP Banks had 76 branches and service points at the end of the review period.

The POP Bank Group focused on sales management development in late 2019 and early 2020. The Group's commission income and credit portfolio increased significantly before the beginning of the coronavirus pandemic. However, as the pandemic considerably slowed economic activity in Finland, the increase of both commission income and the credit 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 Group continued to update the banking product range, 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 was completed. This had some effect on the POP Bank's product partners.

BANKING EARNINGS (COMPARISON PERIOD 1 JANUARY – 30 JUNE 2019)

The banking result was burdened by weaker investment income. The profit before taxes was EUR 1.3 (17.1) million. The cost-to-income ratio of banking operations was 90.3 per cent (73.6).

Operating income from banking operations decreased by 15.4 per cent to EUR 53.3 (62.9) million. Net interest income increased year-on-year, amounting to EUR 36.7 (33.4) million, while commission income increased to EUR 16.0 (15.3) million. Investment income in banking operations was EUR -4.3 (10.2) million due to negative changes in value. Other operating income totalled EUR 4.9 (4.0) million.

Operating expenses from banking operations grew by 2.9 per cent to EUR 48.3 (47.0) million. Personnel expenses in banking operations decreased to EUR 15.1 (15.3) million, while other operating expenses increased to EUR 30.9 (29.3) million. Depreciation and impairment on tangible and intangible assets was at the previous year's level, at EUR 2.4 (2.4) million.

In the review period, EUR 3.7 (-1.1) million was recognised in impairment on financial assets. In addition to the growth in the loan portfolio, the increase in impairment was driven by the generally weaker economic growth outlook resulting from the coronavirus pandemic. The amount of expected credit losses related to loan receivables and off-balance sheet credit commitments increased by EUR 0.6 (-2.0) million in the review period, amounting to EUR 35.1 (34.5) million. Expected credit losses related to debt securities increased by EUR 0.8 million to EUR 2.4 (1.6) million during the review period. The change was primarily caused by the generally weaker credit ratings of the issuers or the weaker financial situations of specific counterparties.

The macroeconomic forecast used in the calculation of expected credit losses was adjusted downwards to reflect the significantly weaker short-term economic growth outlook for Finland. The change in the calculation parameter primarily affected provisions related to receivables included in stages 1 and 2 of the calculation of expected credit losses. The change caused the reported expected credit losses to increase by EUR 0.7 million. In addition, as a result of the economic uncertainty caused by the coronavirus pandemic, an additional credit loss provision of EUR 0.8 million related to loan receivables and debt securities was recognised based on the management's judgement. According to the management's estimate, some customers' financial situations have deteriorated during the instalment-free period because of the coronavirus pandemic. Based on this, the management estimated that the credit risk had increased and decided to recognise an additional provision based on judgement. However, the additional provision cannot yet be allocated at the contract level.

Final credit losses represented EUR 2.4 (1.0) million of the net increase in impairment losses during the first half of the year.

THE BANKING SEGMENT'S ASSETS AND LIABILITIES (COMPARISON INFORMATION 31 DECEMBER 2019)

The banking segment's assets increased by 7.2 per cent during the first half of the year, amounting to EUR 4,887.5 (4,558.9) million at the end of the review period. The banking segment's credit portfolio increased by 3.3 per cent in the review period, to EUR 3,759.0 (3,637.6) million. Loans granted to private customers accounted for 67.0 (67.1) per cent of the loan portfolio, loans granted to companies for 17.3 (17.5) per cent, and loans granted to agricultural business owners for 15.7 (16.0) per cent. Deposits increased by 3.7 per cent and stood at EUR 3,891.3 (3,751.7) million at the end of the review period.

INSURANCE

The insurance segment of the POP Bank Group consists of Finnish P&C Insurance Ltd. During the review period, the number of Finnish P&C Insurance customers rose from 143,000 at the beginning of the period to 150,300 at its end. The company gained 3,500 new insurance customers per month on average during the first half of the year. In the first half of the year, the operating expense ratio in insurance operations improved significantly year-on-year, thanks to changes in the sales operating model in particular. The company also further developed claims handling operating models and system properties, as well as product pricing capabilities, and introduced the company's own customer relationship management system.

Market reactions to the coronavirus pandemic had a negative impact on the valuations of the insurance company's investment assets in particular. Premium income volumes in insurance operations decreased by 7 per cent year-on-year during the second quarter mainly because of the impact of the pandemic and the exceptional circumstances that ensued. The coronavirus pandemic did not have a significant impact on loss expenses. The pandemic did not have a major impact on the distribution channels and customer service of the insurance company, which operates digitally, and the company's remote work capabilities have been good.

INSURANCE EARNINGS (COMPARISON PERIOD 1 JANUARY – 30 JUNE 2019)

The profit before taxes for the review period was EUR -0.5 (0.6) million. The weak result of investment activities in the first half of the year, as well as the changes made in June to the accounting policies applied to technical provisions, had a negative impact on the result. The insurance segment's loss ratio weakened slightly to 75.0 (73.6), whereas its operating expense ratio improved by 4.3 percentage points to 24.5 (28.8).

Net insurance income amounted to EUR 5.1 (5.4) million, representing a decrease of 4.3 per cent on the previous year. Premiums written (gross) decreased by 1.8 per cent on the comparison period, to EUR 24.9 (25.3) million, and the claims incurred totalled EUR 15.4 (15.0) million, representing an increase of 2.7 per cent year-on-year. Net investment income from insurance operations decreased considerably, amounting to EUR -1.0 (0.8) million.

THE INSURANCE SEGMENT'S ASSETS AND LIABILITIES (COMPARISON INFORMATION 31 DECEMBER 2019)

The assets of the insurance segment increased by 6.1 per cent to EUR 75.2 (70.9) million. Insurance liabilities stood at EUR 44.1 (38.6) million at the end of the period. The liabilities of non-life insurance operations totalled EUR 47.4 (43.9) million.

POP BANK GROUP'S RISK AND CAPITAL ADEQUACY MANAGEMENT AND RISK POSITION

The objectives, principles and organisation of POP Banks' risk management and capital adequacy management are described in Note 4 to the POP Bank Group's financial statements for 2019. No material changes were made in the review period to the objectives, principles or organisation described in the financial statements.

BANKING RISKS

CREDIT RISK

The credit risk position remained stable in banking operations, and the risk level remained moderate, although the uncertainty related to the coronavirus pandemic and the limited availability of reliable information pose exceptional challenges for monitoring the credit risk position. The number of customers that applied for instalment-free periods increased as a result of the coronavirus situation, but the key indicators related to overdue receivables remained at a moderate level. The proportion of the credit portfolio taken up by credits granted to private customers remained at the same level as at the end of the year, while the proportion of credits granted to corporate customers increased slightly. The amount of expected credit losses (ECL) increased compared with their level at the end of the year.

The credit portfolio increased by 3.3 per cent from the end of the year, amounting to EUR 3,756.9 (3,635.5) million. Lending mainly focuses on low-risk credits to private customers.

Receivables overdue by more than 90 days represented 0.98 per cent (0.80) of the credit portfolio of the amalgamation of POP Banks. The amalgamation's receivables overdue by 30–90 days represented 0.54 per cent (0.42) of the credit portfolio at the end of the second quarter. Expected credit losses (ECL) on loans and receivables and off-balance sheet credit commitments increased by 1.7 per cent to EUR 35.1 (34.5) million.

The industry and customer risks of the amalgamation of POP Banks are diversified. At the end of the second quarter, the amalgamation had one group of connected clients whose total liabilities exceeded 10 per cent of the amalgamation's own funds. Consequently, this is classified as a major customer risk in accordance with Article 392 of the EU's Capital Requirements Regulation. This group of connected clients is part of the POP Bank Group.

Credit risk monitoring is based on the continuous monitoring of non-performing receivables, late payments and forbearance, and on monitoring the quality of the credit portfolio. The validation of the calculation principles for expected credit losses (ECL) and the monitoring and analysis of changes are essential parts of credit risk management.

LIQUIDITY RISK

The POP Bank Group's liquidity position remained strong during the review period. The short-term liquidity position is monitored by means of the Liquidity Coverage Ratio (LCR) requirement, for which the indicator must be at least 100 per cent. The amalgamation's LCR ratio was 186 (136) per cent on 30 June 2020. At the end of June, the amalgamation of POP Banks had EUR 496.2 (338.2) million in LCR-eligible liquid assets before haircuts, of which 48.6 (11.8) per cent consisted of cash and receivables from the central bank, 45.9 (86.6) per cent consisted of liquid Tier 1 securities, and 5.5 (1.6) per cent consisted of Tier 2 securities. The POP Bank Group's funding position remained strong throughout the review period. The proportion of deposits of the credit portfolio remained high, with the total amount of deposits increasing by 3.8 per cent during the reporting period. With respect to the bond programme of the central credit institution, Bonum Bank Plc, EUR 200 million was outstanding, of which new unsecured senior bonds of EUR 50 million and EUR 55 million were issued during the review period. With respect to the certificate of deposit programme of Bonum Bank Plc, EUR 52 (15) million was outstanding. In addition, Bonum Bank Plc has a loan programme of EUR 35 million with the Nordic Investment Bank (NIB). In June, Bonum Bank Plc participated for the first time in the European Central Bank's TLTRO III financing operation to the tune of EUR 50 million.

MARKET RISK

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

The market risk related to investing activities is limited through asset class allocation and counterparty-specific risk limits. The business operations of the member credit institutions do not generally include trading on their own behalf or for customers. Their investing activities are primarily undertaken in order to invest financial surplus and manage liquidity. A member credit institution needs permission from the amalgamation's risk control function in order to make direct currency-denominated investments, or structured product investments, or derivative contracts to hedge against interest rate risks related to the financial account.

OPERATIONAL RISKS

The materialisation of operational risks is minimised by identifying and assessing the risks, by evaluating the effectiveness and adequacy of control and management mechanisms, by continuously training the personnel and providing comprehensive operating instructions, as well as by internal control measures. The operational risks associated with the key products, services, functions, processes and systems are identified in the process of assessing a new product or service. The process involves the preparation of impact assessments, in which the different functions of the amalgamation take part. The member credit institutions belonging to the amalgamation assess the likelihood and impact of the materialisation of operational risks through self-assessments prepared on the basis of the key business processes. Certain operational risks are hedged against through insurance. Risks caused by malfunctions in information systems are prepared for through continuity planning.

INSURANCE RISKS

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

Key operational risks still related to the building of IT systems and the controlled scaling and development of insurance business processes as the sales, customer and claim volumes have increased.

Information security risks are significant for an online company, and therefore, the company is strongly investing in their management. The key risks related to investing activities concern changes in the value of equity and interest rate instruments – which changes affect the company's capital adequacy and the result of its investing activities. These risks are controlled by means such as investment limits and the quality requirements for investment assets, taking into account the maturity of the insurance contract liabilities.

CRISIS RESOLUTION PLAN

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 came into effect in Finland in 2015. The Financial Stability Authority was established to implement the Act on the Resolution of Credit Institutions and Investment Firms (Act on the Financial Stability Authority, 1195/2014). The Financial Stability Authority serves as the national crisis resolution authority in Finland as part of the EU's common crisis resolution mechanism. Serving as the crisis resolution authority for the POP Bank Group, the Financial Stability Authority specified a crisis resolution plan for the amalgamation of POP Banks on 26 March 2019, as well as the minimum amount of equity and subordinated debt (MREL requirement) in accordance with chapter 8, section 7 of the Act on the Resolution of Credit Institutions and Investment Firms (1194/2014), to take effect as of 31 December 2019. In accordance with this decision, the MREL requirement is 19.8 per cent of the total risk exposure. The POP Bank Group has met the requirement through its own funds and unsecured senior bonds.

CAPITAL ADEQUACY MANAGEMENT

The capital adequacy of the amalgamation of POP Banks was at a good level. The amalgamation's capital adequacy ratio was 20.1 per cent (19.9 on 31 December 2019), and its CET1 capital ratio was 19.9 (19.8) per cent. The amalgamation does not include the profit for the financial period in own funds.

The purpose of capital adequacy management at the amalgamation of POP Banks is to ensure a sufficient level and quality of capital and its efficient use. A sufficient level of capital covers the material risks arising from the implementation of the amalgamation's business strategy and plan, as well as securing the uninterrupted operation of the amalgamation in the case of unexpected losses. The goal is pursued through a documented and systematic capital adequacy management process – a process that forms an integral part of the strategy process, business planning and management of the amalgamation, and its member credit institutions.

The member credit institutions comprehensively identify and assess the risks related to their operations and adjust their risk-bearing capacity to the total amount of risks. To ensure its capital adequacy, the bank sets risk-based capital targets and prepares a capital plan to meet the targets. To prepare a capital plan, the member credit institutions of the amalgamation use consistent calculation methods determined by the risk control function of the central institution. Based on permission from the Financial Supervisory Authority, the member credit institutions are exempted, by a decision of the central institution, from the own funds requirement for intra-group items, and from the restrictions imposed on major counterparties concerning items between the central credit institution and the member credit institutions.

Totalling EUR 515.0 (504.6) million, the own funds of the amalgamation of POP Banks consist of co-operative contributions, the supplementary cooperative contributions enacted in the old Co-operatives Act, POP Shares, retained earnings and other non-restricted reserves. The amalgamation's Additional Tier 1 capital and Tier 2 capital consist in full of supplementary cooperative contributions enacted in the old Co-operatives Act, which are not capital instruments in line with Regulation (EU) No 575/2013 of the European Parliament and of the Council (Capital Requirements Regulation). The transitional provision of the Capital Requirements Regulation applies to supplementary co-operative contributions, meaning that they can be used only partly in own funds. The amalgamation's capital adequacy requirement consists of the following items:

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

The total capital requirement was 11.75 per cent at the time of reporting. During the review period, the Financial Supervisory Authority removed its earlier capital requirement of 1 per cent for a system risk buffer as part of the measures to maintain the banking sector's lending ability during the coronavirus pandemic.

SUMMARY OF CAPITAL ADEQUACY

(EUR 1,000)	30 Jun 2020	31 Dec 2019
Own funds		
Common Equity Tier 1 capital before deductions	534,306	520,317
Deductions from Common Equity Tier 1 capital	-22,048	-19,363
Total Common Equity Tier 1 capital (CET1)	**512,258**	**500,954**
Additional Tier 1 capital before deductions	1,516	2,163
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**1,516**	**2,163**
Tier 1 capital (T1 = CET1 + AT1)	**513,774**	**503,117**
Tier 2 capital before deductions	1,213	1,514
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**1,213**	**1,514**
Total capital (TC = T1 + T2)	**514,986**	**504,632**
Total risk weighted assets	**2,568,098**	**2,531,685**
of which credit risk	2,342,189	2,300,929
of which credit valutaion adjustment risk (CVA)	-	-
of which market risk (foreign exchange risk)	19,787	24,633
of which operational risk	206,123	206,123
CET1 Capital ratio (CET1-%)	**19.9 %**	**19.8 %**
T1 Capital ratio (T1-%)	**20.0 %**	**19.9 %**
Total capital ratio (TC-%)	**20.1 %**	**19.9 %**
Capital Requirement		
Total capital	514,986	504,632
Capital requirement *	301,816	323,558
Capital buffer	213,170	181,074
Leverage ratio		
Tier 1 capital (T1)	513,774	503,117
Leverage ratio exposure	4,922,658	4,588,442
Leverage ratio, %	10.4 %	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.

OUTLOOK FOR THE SECOND HALF OF THE YEAR

The development of the coronavirus pandemic has had a strong impact on the development of the Finnish economy through domestic demand and the outlook for exports. The GDP is expected to decrease by around 6 per cent in 2020, and the market interest rates are predicted to remain low for a long time. The lifting of restrictions, support for companies and the ECB's extensive recovery measures are supporting the recovery of the economy, but the situation may rapidly deteriorate if the pandemic begins to spread widely again.

Due to the unstable situation in the investment markets, the POP Bank Group's full-year result for 2020 is expected to decrease from 2019. The most significant uncertainties related to the result concern the valuation of and impairment on financial assets. In this respect, the financial outlook for the second half of the year involves particular uncertainty because of the coronavirus pandemic.

All the forecasts and estimates presented in this half-year report are based on the management's current view on economic development, and the actual results may be significantly different because of many factors, including the development of the coronavirus pandemic situation.

EVENTS AFTER THE REVIEW PERIOD

No such significant business transactions have taken place at the POP Bank Group after the review period that would have a material impact on the financial information presented for the review period.

HALF-YEAR REPORT FOR 1 JANUARY-30 JUNE 2020

POP BANK GROUP'S INCOME STATEMENT

(EUR 1,000)	Note	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019	Change, %
Interest income		39,478	38,101	3.6 %
Interest expenses		-2,541	-4,479	-43.3 %
Net interest income	**4**	**36,937**	**33,622**	**9.9 %**
Net commissions and fees	5	15,801	15,031	5.1 %
Net investment income	6	-5,670	10,710	...
Insurance income	7	5,149	5,379	-4.3 %
Other operating income		4,943	4,094	20.7 %
Total operating income		**57,160**	**68,837**	**-17.0 %**
Personnel expenses		-21,200	-20,958	1.2 %
Other operating expenses		-26,454	-26,177	1.1 %
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		-4,242	-3,950	7.4 %
Total operating expenses		**-51,896**	**-51,085**	**1.6 %**
Impairment losses on financial assets	10	-3,695	1,050	...
Share of the income of associates		-25	5	...
Profit before tax		**1,544**	**18,808**	**-91.8 %**
Income tax expense		-424	-3,671	-88.5 %
Profit for the financial period		**1,120**	**15,136**	**-92.6 %**
Attributable to				
Equity owners of the POP Bank Group		1,120	15,109	-92.6 %
Non-controlling interests		0	27	...
Total		**1,120**	**15,136**	**-92.6 %**

POP BANK GROUP'S STATEMENT OF OTHER COMPREHENSIVE INCOME

(EUR 1,000)	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019	Change, %
Profit for the financial period	**1,120**	**15,136**	**-92.6 %**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Changes in fair value			
Equity instruments	22	2,340	-99.1 %
Net gains			
Equity instruments	-	-1,094	...
Items that may be reclassified to profit or loss			
Changes in fair value reserve			
Debt instruments	-4,250	3,341	...
Other comprehensive income for the financial period	**-3,109**	**19,723**	**...**
Other comprehensive income for the financial period attributable to			
Other comprehensive income for the financial period attributable to owners of the POP Bank Group	-3,108	19,696	...
Other comprehensive income for the financial period attributable to non-controlling interests	0	27	...
Total other comprehensive income for the financial period	**-3,109**	**19,723**	**...**

POP BANK GROUP'S BALANCE SHEET

(EUR 1,000)	Note	30 Jun 2020	31 Dec 2019	Change, %
Assets				
Liquid assets		241,219	167,428	44.1 %
Loans and receivables from credit institutions	8, 11	62,513	74,293	-15.9 %
Loans and receivables from customers	8, 11	3,756,935	3,635,488	3.3 %
Investment assets	12	707,189	573,058	23.4 %
Investments in associates and joint ventures		91	116	-21.8 %
Intangible assets		19,587	18,138	8.0 %
Property, plant and equipment		31,614	33,462	-5.5 %
Other assets		43,897	30,612	43.4 %
Tax assets		5,112	2,961	72.6 %
Total assets		**4,868,157**	**4,535,557**	7.3 %
Liabilities				
Liabilities to credit institutions	8, 13	97,590	37,542	159.9 %
Liabilities to customers	8, 13	3,887,484	3,746,305	3.8 %
Non-life insurance liabilities	14	44,130	38,606	14.3 %
Debt securities issued to the public	15	251,805	114,829	119.3 %
Supplementary cooperative capital		17,994	18,003	0.0 %
Other liabilities		44,486	48,479	-8.2 %
Tax liabilities		22,417	23,357	-4.0 %
Total liabilities		**4,365,906**	**4,027,122**	8.4 %
Equity capital				
Cooperative capital				
Cooperative contributions		9,527	9,422	1.1 %
POP Shares		55,616	57,323	-3.0 %
Total cooperative capital		**65,143**	**66,745**	**-2.4 %**
Reserves		160,051	160,695	-0.4 %
Retained earnings		276,627	280,566	-1.4 %
Total equity attributable to the owners of the POP Bank Group		**501,822**	**508,006**	**-1.2 %**
Non-controlling interests		429	429	-0.1 %
Total equity capital		**502,251**	**508,435**	**-1.2 %**
Total liabilities and equity capital		**4,868,157**	**4,535,557**	**7.3 %**

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-controlling 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 period							
Profit for the financial period	-	-	-	1,120	**1,120**	0	**1,120**
Other comprehensive income	-	-4,228	-	-	**-4,228**	-	**-4,228**
Total comprehensive income for the financial period	**-**	**-4,228**	**-**	**1,120**	**-3,108**	**0**	**-3,109**
Transactions with shareholders							
Change in cooperative capital	-1,794	-	-	-	**-1,794**	-	**-1,794**
Profit distribution	-	-	-	-1,280	**-1,280**	-	**-1,280**
Transfer of reserves	192	-	3,586	-3,778	**-**	-	**-**
Transactions with shareholders total	**-1,602**	**-**	**3,586**	**-5,059**	**-3,074**	**-**	**-3,074**
Other changes	-	-	-1	-	**-1**	-	**-1**
Balance at 30 Jun 2020	**65,143**	**-467**	**160,519**	**276,627**	**501,822**	**429**	**502,251**

(EUR 1,000)	Coop-erative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
Balance at 31 Dec 2018	**64,670**	**-558**	**152,663**	**266,586**	**483,361**	**428**	**483,788**
Restatement due to implementation of IFRS 16	-	-	-	4	**4**	-	**4**
Balance at 1 Jan 2019	**64,670**	**-558**	**152,663**	**266,590**	**483,365**	**428**	**483,793**
Comprehensive income for the financial period							
Profit for the financial period	-	-	-	15,109	**15,109**	27	**15,136**
Other comprehensive income	-	4,587	-	-	**4,587**	-	**4,587**
Total comprehensive income for the financial period	**-**	**4,587**	**-**	**15,109**	**19,696**	**27**	**19,723**
Transactions with shareholders							
Change in cooperative capital	-277	-	-	-	**24,283**	-	**24,283**
Profit distribution	-	-	-	-1,158	**-1,158**	-	**-1,158**
Transfer of reserves	-	-	4,271	-4,271	**-**	-	**-**
Transactions with shareholders total	**-277**	**-**	**4,271**	**-5,429**	**23,124**	**-**	**23,124**
Other changes	-	-	-	-1,150	**-1,150**	-	**-1,150**
Balance at 30 Jun 2019	**64,393**	**4,028**	**156,934**	**275,120**	**500,475**	**455**	**500,930**

On 28 March 2020 the Financial Supervisory Authority recommended that banks not distribute profits until 1 October 2020. Those cooperative banks of the POP Bank Group which had made decisions concerning profit distribution before the recommendation was issued have distributed profits in accordance with their decisions. Those banks whose cooperative meeting was held after the Financial Supervisory Authority issued its recommendation have postponed profit distribution payments until after 1 October 2020. After the end of the reporting period, the Financial Supervisory Authority extended the validity of the profit distribution recommendation until 1 January 2021, which may affect the date on which interest payments are made. Profit distribution does not have a material impact on the POP Banks' ability to offer finance to their customers.

POP BANK GROUP'S CASH FLOW STATEMENT

(EUR 1,000)	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Cash flow from operations		
Profit for the financial year	1,120	15,136
Adjustments to profit for the financial year	14,353	12,276
Increase (-) or decrease (+) in operating assets	**-275,824**	**-99,876**
Receivables from credit institutions	2,308	5,748
Receivables from customers	-124,382	-82,259
Investment assets	-140,461	-14,946
Other assets	-13,289	-8,420
Increase (+) or decrease (-) in operating liabilities	**195,087**	**74,128**
Liabilities to credit institutions	60,049	36,614
Liabilities to customers	141,179	33,426
Other liablilities	-3,683	6,389
Income tax paid	-2,458	-2,301
Total cash flow from operations	**-65,265**	**1,664**
Cash flow from investing activities		
Changes in other investments	-70	1,054
Purchase of PPE and intangible assets	-4,444	-7,290
Proceeds from sale of PPE and intangible assets	620	601
Net cash used in investing activities	**-3,894**	**-5,636**
Cash flow from financing activities		
Change in cooperative capital, net	-1,794	-277
Interests paid on cooperative capital and other profit distribution	-705	-1,158
Debt securities issued to the public, increase	176,909	119,763
Debt securities issued to the public, decrease	-39,990	-152,462
Lease liabilities paid	-942	-1,015
Net cash used in financing activities	**133,478**	**-35,150**
Change in cash and cash equivalents		
Cash and cash equivalents at period-start	194,069	104,854
Cash and cash equivalents at the end of the period	258,388	65,732
Net change in cash and cash equivalents	**64,319**	**-39,122**

(EUR 1,000)	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Interest received	**39,189**	**37,530**
Interest paid	**1,263**	**3,862**
Dividends received	**4,104**	**4,199**
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on financial assets	3,695	-1,050
Depreciations	4,812	4,547
Technical provision	5,524	5,525
Other	321	3,254
Adjustments to profit for the financial year	**14,353**	**12,276**
Cash and cash equivalents		
Liquid assets	241,219	39,961
Receivables from credit institutions payable on demand	17,169	25,770
Total	**258,388**	**65,731**

NOTES

NOTE 1 THE POP BANK GROUP AND THE SCOPE OF IFRS FINANCIAL STATEMENTS

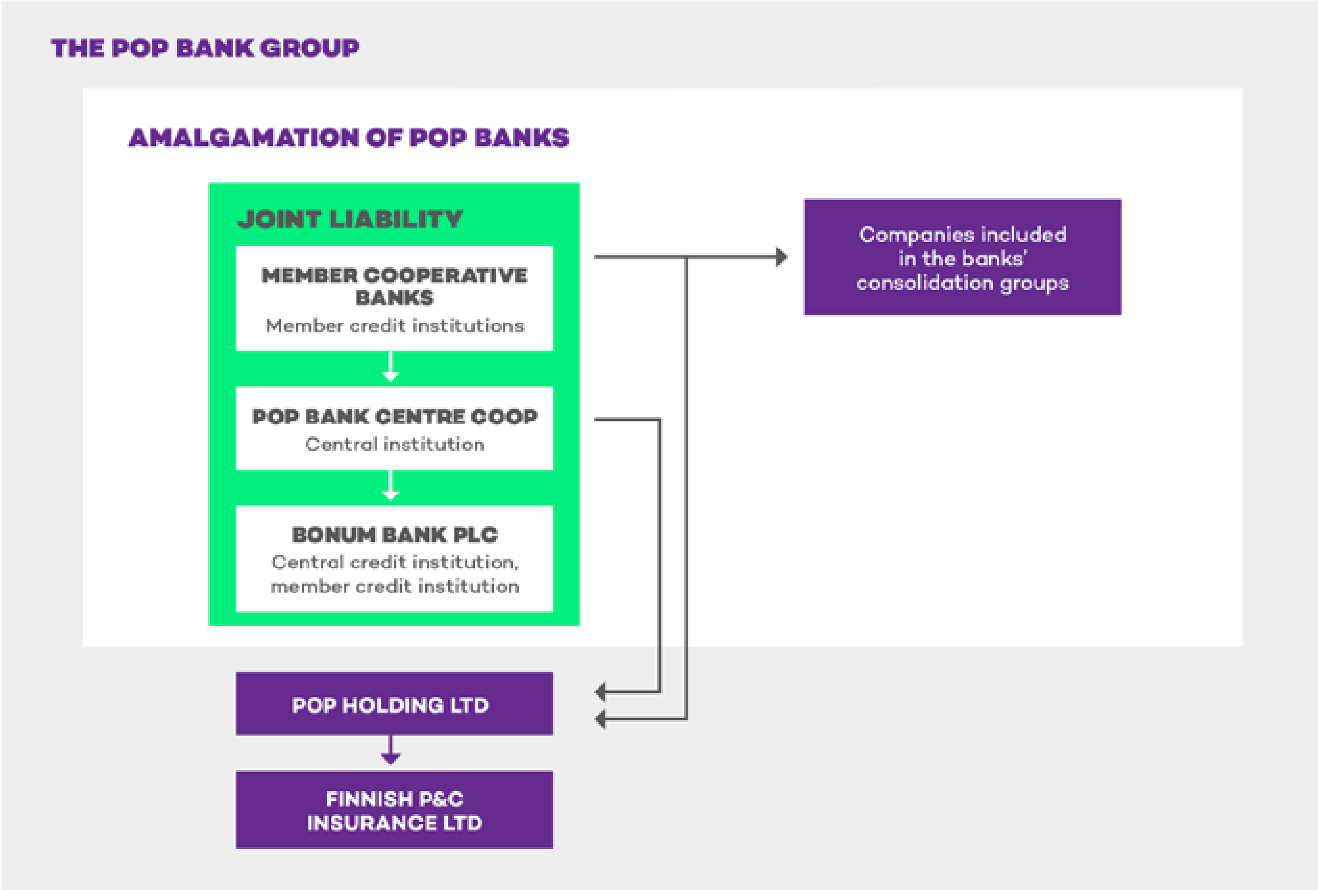
POP Bank Group (hereinafter also referred to as the "Group") is a financial group comprising POP Banks and POP Bank Centre coop and their subsidiaries and jointly controlled entities that operates in Finland. POP Banks are independent, regionally and locally operating cooperative banks. POP Bank Centre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

The member credit institutions of POP Bank Centre coop are the 26 cooperative banks and the central credit institution of the member cooperative banks, Bonum Bank Plc. The amalgamation of POP Banks is an economic entity referred to in the Act on the Amalgamation of Deposit Banks (hereinafter referred to as the "Amalgamation Act") the members of which and the central institution are jointly liable for each other's debts and commitments. The amalgamation of POP Banks is formed by the central institution POP Bank Centre coop, its member credit institutions, the companies included in their consolidation groups and those credit institutions, financial institutions and service companies in which entities included in the amalgamation jointly hold over 50 per cent of the votes. The companies included in the consolidation groups of NOTE 1 POP Bank Group and the scope of IFRS Financial Statements the member credit institutions are primarily real estate companies.

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

POP Bank Group does not form a group of companies referred to in the Accounting Act (1336/1997) or a consolidation group referred to in the Act on Credit Institutions (610/2014). POP Bank 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, the Board of Directors has specified the Group's accounting policies suitable for this structure to the extent that the IFRS accounting standards do not acknowledge the Group's structure. The accounting policies that include a description of the technical parent company consisting of the member cooperative banks are presented in Note 2 of the IFRS financial statements 2019.

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



No changes took place in the structure of the POP Bank Group during the review period. POP Bank Alliance coop changed its name to POP Bank Centre coop, and the new name was registered in April.

In March, the cooperative meetings of Sievin Osuuspankki, Tiistenjoen Osuuspankki and Pohjanmaan Osuuspankki approved a plan according to which Sievin Osuuspankki and Tiistenjoen Osuuspankki will merge into Pohjanmaan Osuuspankki. In addition, the cooperative meetings of Hannulan Osuuspankki and Konneveden Osuuspankki decided in April that Hannulan Osuuspankki would be merged into Konneveden Osuuspankki. Both mergers are set to be registered on 30 September 2020.

In June, the cooperative meetings of Kyrönmaan Osuuspankki and Lapuan Osuuspankki decided that Kyrönmaan Osuuspankki would be merged into Lapuan Osuuspankki. In connection with the merger, the name of the bank will be changed to Lakeuden Osuuspankki. The merger is set to be registered on 30 November 2020.

After the mergers, the POP Bank Group will include 22 banks. The mergers are intra-group arrangements, and they do not have an impact on the POP Bank Group's consolidated financial information.

NOTE 2 POP BANK GROUP'S ACCOUNTING POLICIES

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

The half-year financial report for 1 January – 30 June 2020 has been prepared in accordance with IAS 34 Interim Financial reporting and the accounting policies presented in the POP Bank Group's consolidated IFRS financial statements 31 December 2019.

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

Copies of the financial statements and half-year financial report of the POP Bank Group are available at the office of the central institution, address Hevosenkenkä 3, FI02600 Espoo, Finland, and online at www.poppankki.fi. The POP Bank Group only publishes one interim financial report.

Accounting policies requiring management judgement and uncertainties related to estimates

The application of IFRS requires the management to make estimates and assumptions concerning the future that affect the amount of items presented in financial statements, as well as the information provided in the notes. The management's key estimates concern the future and key uncertainties related to the values on the balance sheet date. Such key estimates are related to fair value measurement in particular, as well as the impairment of financial assets and intangible assets.

Due to the financial impacts of the COVID-19 pandemic, the uncertainty involved in the fair values and impairment provisions related to financial assets is more significant than usual.

Impairment on financial assets

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

Due to the coronavirus pandemic, the macroeconomic information concerning the future that is used in the calculation of expected credit losses (ECL) has been updated in line with the expected GDP development. According to the management's estimate, some customers' financial situations have deteriorated during the instalment-free period because of the coronavirus pandemic. Based on this, the management estimated that the credit risk had increased and decided to recognise an additional provision based on judgement. However, the additional provision cannot yet be allocated at the contract level. More information about customers' solvency will be available after the end of the instalment-free periods during the second half of 2020. When such information can be obtained, the provision for expected credit losses can be allocated to contracts and determined in line with the normal ECL calculation process, In addition, based on the management's judgement, additional provisions have been made because of the increased credit risk related to certain issuers of debt securities.

New IFRS standards and interpretations

New IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2023).

The new standard for insurance contracts will help investors and other parties to better understand insurers' risk exposure and their profitability and financial position. The new standard will replace the current IFRS 4 *Insurance Contracts*. Due to a decision made by the IASB, the implementation of the standard has been postponed by one year. The POP Bank Group is in the process of assessing the impacts of the standard, as well as running a project to prepare for its implementation. The POP Bank Group will implement the standard starting from the annual period beginning on 1 January 2023, when its implementation becomes mandatory. The standard is yet to be endorsed by the EU.

NOTE 3 POP BANK GROUP'S OPERATING SEGMENTS

The operating segments of POP Bank Group are banking and insurance. The operating segments are reported in a way that is consistent with the internal reporting to the management. The reporting of operating segments complies with the accounting policies applied to the Group's IFRS financial statements. The policies are presented in note 2 POP Bank Group's accounting policies under IFRS. The chief operating decision maker of the POP Bank Group is the Board of Directors of the Group's central institution POP Bank 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 – 30 JUN 2020

(EUR 1,000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Net interest income	36,682	261	**36,943**	-6	**36,937**
Net commissions and fees	16,049	-208	**15,841**	-40	**15,801**
Net investment income	-4,336	-1,041	**-5,377**	-293	**-5,670**
Net income from non-life insurance	-	5,149	**5,149**	-	**5,149**
Other operating income	4,867	237	**5,103**	-161	**4,943**
Total operating income*	**53,262**	**4,398**	**57,660**	**-499**	**57,160**
Personnel expenses	-15,065	-3,367	**-18,432**	-2,767	**-21,200**
Other operating expenses	-30,892	-461	**-31,353**	4,899	**-26,454**
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-2,358	-1,053	**-3,411**	-831	**-4,242**
Total operating expenses	**-48,316**	**-4,881**	**-53,196**	**1,300**	**-51,896**
Impairment losses on loans and receivables	-3,663	-32	**-3,695**	-	**-3,695**
Share of the income of associates	-	-	**-**	-25	**-25**
Profit before tax	**1,283**	**-515**	**768**	**776**	**1,544**
Income tax expense	-267	1	**-266**	-158	**-424**
Profit for the financial period	**1,016**	**-514**	**502**	**618**	**1,120**
*) External share of total operating income	53,262	4,398	**57,660**		
*) Internal share of total operating income	99	-	**99**		

BALANCE SHEET 30 JUN 2020

(EUR 1,000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Assets					
Liquid assets	241,219	-	**241,219**	-	**241,219**
Loans and receivables from credit institutions	58,160	7,302	**65,462**	-2,949	**62,513**
Loans and receivables from customers	3,758,970	-	**3,758,970**	-2,035	**3,756,935**
Investment assets	755,307	48,193	**803,500**	-96,311	**707,189**
Investments in associates and joint ventures	-	-	**-**	91	**91**
Intangible assets	12,316	5,128	**17,444**	2,143	**19,587**
Property, plant and equipment	29,995	717	**30,712**	901	**31,614**
Other assets	28,062	13,638	**41,700**	2,197	**43,897**
Tax assets	3,471	263	**3,734**	1,377	**5,112**
Total assets	**4,887,500**	**75,242**	**4,962,742**	**-94,585**	**4,868,157**
Liabilities					
Liabilities to credit institutions	97,273	-	**97,273**	317	**97,590**
Liabilities to customers	3,891,278	-	**3,891,278**	-3,794	**3,887,484**
Non-life insurance liabilities	-	44,130	**44,130**	-	**44,130**
Debt securities issued to the public	251,805	-	**251,805**	-	**251,805**
Supplementary cooperative capital	17,994	-	**17,994**	-	**17,994**
Other liabilities	38,684	2,947	**41,631**	2,855	**44,486**
Tax liabilities	21,806	362	**22,168**	249	**22,417**
Total liabilities	**4,318,840**	**47,439**	**4,366,279**	**-373**	**4,365,906**

POP BANK GROUP'S OPERATING SEGMENTS 2019

INCOME STATEMENT 1 JANUARY – 30 JUN 2019

(EUR 1,000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Net interest income	33,441	187	**33,628**	-6	**33,622**
Net commissions and fees	15,299	-231	**15,068**	-37	**15,031**
Net investment income	10,210	793	**11,003**	-293	**10,710**
Net income from non-life insurance	-	5,379	**5,379**	-	**5,379**
Other operating income	3,985	184	**4,169**	-74	**4,094**
Total operating income*	**62,936**	**6,311**	**69,247**	**-410**	**68,837**
Personnel expenses	-15,286	-3,442	**-18,727**	-2,231	**-20,958**
Other operating expenses	-29,277	-1,382	**-30,659**	4,482	**-26,177**
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-2,398	-910	**-3,308**	-642	**-3,950**
Total operating expenses	**-46,961**	**-5,734**	**-52,695**	**1,610**	**-51,085**
Impairment losses on loans and receivables	1,071	-21	**1,050**	-	**1,050**
Share of the income of associates	-	-	**-**	5	**5**
Profit before tax	**17,046**	**556**	**17,603**	**1,205**	**18,808**
Income tax expense	-3,437	-7	**-3,444**	-228	**-3,671**
Profit for the financial period	**13,609**	**550**	**14,159**	**977**	**15,136**
*) External share of total operating income	62,936	6,311	**69,247**		
*) Internal share of total operating income	197	-	**197**		

BALANCE SHEET 31 DEC 2019

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

NOTE 4 NET INTEREST INCOME

(EUR 1,000)	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Interest Income		
Loans and advances to credit institutions	5	8
Loans and advances to customers	37,130	35,286
Debt securities		
Measured at amortised cost	71	-
Measured at fair value through profit or loss	159	203
Measured at fair value through other comprehensive income	1,744	1,920
Hedging derivatives	-	4
Other interest income	370	679
Total interest income	**39,478**	**38,101**
Of which negative interest expense	5	1
Interest expense		
Liabilities to credit institutions	-46	-180
Liabilities to customers	-2,081	-3,702
Debt securities issued to the public	-398	-582
Other interest expenses	-17	-15
Total interest expenses	**-2,541**	**-4,479**
Of which negative interest income	-112	-499
Net interest income	**36,937**	**33,622**
Interest income from financial assets impaired due to credit risk (stage 3)	1,727	1,946

NOTE 5 NET COMMISSIONS AND FEES

(EUR 1,000)	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Commissions and fees		
Lending	3,643	3,810
Deposits	100	106
Payment transfers	8,850	8,695
Legal services	1,069	1,130
Intermediated services	1,923	1,727
Issuing guarantees	234	264
Funds	1,486	1,190
Other commission income	523	577
Total commissions and fees	17,828	17,499
Commissions expenses		
Payment transfers	-1,738	-1,979
Other commission expenses	-289	-488
Total commission expenses	-2,027	-2,468
Net commissions and fees	**15,801**	**15,031**

Commisisons and fees are mainly accrued from the banking segment.

NOTE 6 NET INVESTMENT INCOME

(EUR 1,000)	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Financial assets measured at fair value through profit or loss		
Debt securities		
Capital gains and losses	65	4
Fair value gains and losses	-765	315
Shares and participations		
Dividend income	4,100	3,820
Capital gains and losses	-1,943	213
Fair value gains and losses	-6,127	5,921
Total	**-4,671**	**10,274**
Financial assets measured at fair value through other comprehensive income		
Debt securities		
Capital gains and losses	-4	-11
Transferred from fair value reserve	-977	32
Shares and participations		
*) Dividend income	5	398
Total	**-976**	**420**
Net income from foreign exchange trading	**219**	**155**
Net income from investment property		
Rental income	1,401	1,599
Capital gains and losses	61	-54
Other income from investment property	21	113
Maintenance charges and expenses	-1,149	-1,193
Depreciations and amortisation of investment property	-570	-597
Other expenses from investment property	-6	-6
Total net income from investment property	**-241**	**-138**
Total net investment income	**-5,670**	**10,710**

Net investment income includes net income from financial instruments except interest income from bonds 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 5 (7) thousand euro.

NOTE 7 INSURANCE INCOME

(EUR 1,000)	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Insurance premium revenue		
Premiums written	24,879	25,328
Change in the provision for unearned premiums	-3,640	-4,544
Gross insurance premium revenue	**21,239**	**20,784**
Ceded to reinsurers	-667	-394
Total insurance premium revenue	**20,572**	**20,390**
Claims incurred		
Claims paid	-12,865	-13,503
Change in provision for unpaid claims	-1,414	-5,626
Total claims incurred, gross	**-14,279**	**-19,129**
Ceded to reinsurers	-1,145	4,119
Total claims incurred	**-15,423**	**-15,011**
Insurance income	**5,149**	**5,379**

NOTE 8 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS 30 JUN 2020

(EUR 1,000)	Measured at amortised cost	Measured at fair value through profit or loss	Measured at fair value through other comprehen-sive income	Expected credit loss	Total carrying amount
Liquid assets	241,219	-	-	-	**241,219**
Loans and receivables from credit institutions	62,517	-	-	-3	**62,513**
Loans and receivables from customers	3,791,308	-	-	-34,373	**3,756,935**
Debt securities *)	105,000	9,900	386,993	-51	**501,842**
Shares and participations	-	171,030	2,107	-	**173,137**
Financial assets total	**4,200,044**	**180,930**	**389,100**	**-34,427**	**4,735,646**
Other assets					**132,510**
Total assets at 30 Jun 2020					**4,868,157**

*) Expected credit loss of EUR 2,316 thousand from debt securities, measured at fair value through other comprehensive income, 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 receivables from credit institutions	74,299	-	-	-6	**74,293**
Loans and receivables from customers	3,669,287	-	-	-33,798	**3,635,488**
Debt securities*	-	11,664	298,982	-	**310,646**
Shares and participations	-	227,841	2,010	-	**229,851**
Financial assets total	**3,911,013**	**239,505**	**300,992**	**-33,804**	**4,417,706**
Other assets					**117,851**
Total assets at 31 Dec 2019					**4,535,557**

*) Expected credit loss of EUR 1.603 thousand from debt securities, measured at fair value through other comprehensive income, have been recorded in the fair value reserve.

FINANCIAL LIABILITIES 30 JUN 2020

(EUR 1,000)	Measured at amortised cost	Total carrying amount
Liabilities to credit institutions	97,590	**97,590**
Liabilities to customers	3,887,484	**3,887,484**
Debt securities issued to the public	251,805	**251,805**
Supplementary cooperative capital	17,994	**17,994**
Financial liabilities total	**4,254,873**	**4,254,873**
Other than financial liabilities		**111,033**
Total liabilities at 30 Jun 2020		**4,365,906**

FINANCIAL LIABILITIES 31 DECEMBER 2019

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

NOTE 9 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES AND FAIR VALUES BY VALUATION TECHNIQUE

FINANCIAL ASSETS

	30 Jun 2020		31 Dec 2019	
(EUR 1,000)	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Liquid assets	241,219	241,219	167,428	167,428
Loans and receivables from credit institutions	62,513	62,595	74,293	75,617
Loans and receivables from customers	3,756,935	3,870,064	3,635,488	3,704,944
Investment assets				
Measured at amortised cost	104,949	105,566	-	-
At fair value through profit or loss	180,930	180,930	239,505	239,505
At fair value through other comprehensive income	389,100	389,100	300,992	300,992
Total	**4,735,646**	**4,849,474**	**4,417,706**	**4,488,485**

FINANCIAL LIABILITIES

	30 Jun 2020		31 Dec 2019	
(EUR 1,000)	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Liabilities to credit institutions	97,590	97,329	37,542	37,946
Liabilities to customers	3,887,484	3,844,104	3,746,305	3,702,003
Debt securities issued to the public	251,805	257,605	114,829	116,821
Supplementary cooperative capital	17,994	17,994	18,003	18,003
Total	**4,254,873**	**4,217,033**	**3,916,680**	**3,874,773**

FAIR VALUE HIERARCHY LEVELS OF ITEMS RECURRENTLY RECOGNISED AT FAIR VALUE

ITEMS RECURRENTLY MEASURED AT FAIR VALUE 30 JUN 2020

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value
At fair value through profit or loss				
Shares and participations	161,991	-	9,038	**171,030**
Debt securities	2,764	-	7,135	**9,900**
At fair value through other comprehensive income				
Shares and participations	-	-	2,107	**2,107**
Debt securities	253,583	132,972	438	**386,993**
Total	**418,339**	**132,972**	**18,719**	**570,030**

ITEMS RECURRENTLY MEASURED AT FAIR VALUE 31 DECEMBER 2019				
(EUR 1,000)	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
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 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 IFRS financial statements of the POP Bank Group's on 31 December 2019 Note 2 POP Bank Group's accounting policies.

FAIR VALUE HIERARCHIES

Level 1 includes financial instruments that are measured on the basis of quotations obtained from liquid markets. A market is considered as liquid if quotations are regularly available. This group included all securities with publicly quoted prices.

Level 2 includes financial instruments measures using generally approved measurement techniques or models which are based on assumptions made on the basis of observable market prices. For example, the fair value of a financial instument allocated to Level 2 may be based on the value derived from the market quotation of components of an instrument. This group includes interest derivatives and other instruments that are not traded in liquid markets.

Level 3 includes financial instruments and other assets that are not measured using market quotations or values determined on the basis of observable market prices using measurement techniques or models. The assumptions applied in the measurement teghniques often involve insecurity. The fair value of assets allocated to Level 3 is often based on price information obtained from a third party. This group includes unlisted shares and funds and investment properties.

TRANSFERS BETWEEN FAIR VALUE HIERARCHIES

Transfers between hierarchy levels are considered to have taken place on the date of the occurrence of the event that caused the transfer or the date when the circumstances changed. No transfers between hierarchy levels took place 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	1,193	70	**1,263**
- Sales	-151	-	**-151**
- Matured during the financial year	-59	-	**-59**
+/- Realised changes in value recognised in income statment	-76	-	**-76**
+/- Unrealised changes in value recognised in the income statement	-26	-	**-26**
+/- Changes in value recogmised in other comprehensive income	-	27	**27**
+ Transfers from levels 1 and 2	161	-	**161**
Carrying amount 30 Jun 2020	**16,174**	**2,545**	**18,719**

(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

30 JUN 2020

(EUR 1,000)	Carrying amount	Possible effect on equity capital	
		Positive	Negative
Financial assets at fair value through profit or loss	16,174	1,427	-1,427
Financial assets at fair value through other comprehensive income	2,545	320	-320
Total	**18,719**	**1,748**	**-1,748**

31 DECEMBER 2019

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

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 10 IMPAIRMENT LOSSES ON FINANCIAL ASSETS

IMPAIRMENT LOSSES RECORDED DURING THE REPORTING PERIOD

(EUR 1,000)	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Change of ECL due to write-offs	1,344	642
Change of ECL, receivables from customers and off-balance sheet items	-1,912	1,396
Change of ECL, debt securities	-762	39
Final credit losses	-2,366	-1,026
Impairment losses on loans and receivables	**-3,695**	**1,050**

Because GDP forecasts weakened significantly due to the coronavirus pandemic, macroeconomic scenarios were updated exceptionally for the half-year report in line with the new situation. The change increased the amount of expected credit losses by EUR 715 thousand.

Changes in expected credit loss (ECL) during the financial period are presented in the tables below. Stage 1 represents financial instruments whose credit risk has not increased significantly since the initial recognition. Expected credit losses are determined for such financial instruments based on expected loan losses for 12 months. Stage 2 represents financial instruments whose credit risk has increased significantly after the initial recognition on the basis of qualitative or quantitative criteria and, for stage 3, financial instruments whose counterparty has been declared as defaulted. 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 IFRS financial statements of the POP Bank Group's on 31 December 2019 section 4.5 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	144	-850	-1,382	-2,088
Transfers to stage 2	-385	1,105	-1,124	-404
Transfers to stage 3	-152	-251	4,652	4,249
Increases due to origination	1,380	569	726	2,675
Decreases due to derecognition	-279	-198	-1,789	-2,266
Changes due to change in credit risk (net)	-767	-306	-50	-1,123
Changes in calculation parametres	400	153	-	553
Impact of the management's estimate	320	-	-	320
Decreases due to write-offs	-	-	-1,344	-1,344
Total	**662**	**221**	**-311**	**572**
ECL 30 Jan 2020	**5,423**	**3,572**	**25,382**	**34,376**

The instalment-free months granted because of the pandemic will mainly end during the fourth quarter of 2020. As this is expected to increase payment defaults by businesses and individuals, a discretionary additional provision of EUR 320 thousand has been recognised in expected credit losses.

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	2	-23	-	-21
Transfers to stage 2	-10	150	-	140
Increases due to origination	81	155	-	236
Decreases due to derecognition	-21	-141	-	-162
Changes due to change in credit risk (net)	7	21	-	28
Impact of the management's estimate	-	544	-	544
Total	**59**	**704**	**-**	**764**
ECL 30 Jan 2020	**177**	**1,830**	**360**	**2,366**

A discretionary additional provision of EUR 544 thousand has been recognised in debt securities, because the coronavirus crisis has affected the issuer's financial operating conditions.

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	3	-29	-24	-50
Transfers to stage 2	-8	21	-3	10
Transfers to stage 3	-	-1	20	19
Increases due to origination	180	24	18	222
Decreases due to derecognition	27	-5	-14	8
Changes due to change in credit risk (net)	-193	-15	-7	-215
Total	**8**	**-5**	**-9**	**-6**
ECL 30 Jun 2020	**383**	**70**	**229**	**682**
ECL 1 Jan 2020	**5,253**	**4,551**	**26,291**	**36,095**
ECL 30 Jun 2020	**5,983**	**5,471**	**25,971**	**37,425**

BALANCE SHEET ITEM BY STAGE 30 JUN 2020

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
Private	2,340,677	113,983	55,938	**2,510,597**
Corporate	601,157	55,807	39,767	**696,731**
Agriculture	468,194	81,460	34,325	**583,979**
Receivables from customers total	**3,410,028**	**251,250**	**130,030**	**3,791,308**
Off-balance sheet commitments				
Private	195,168	5,456	467	**201,092**
Corporate	55,427	1,790	498	**57,715**
Agriculture	23,110	3,962	313	**27,385**
Off-balance sheet commitments total	**273,705**	**11,208**	**1,279**	**286,192**
Debt securities				
Banking segment	421,110	37,832	40	**458,982**
Insurance segment	25,539	7,472	-	**33,011**
Debt securities total	**446,649**	**45,304**	**40**	**491,993**

RECEIVABLES FROM CUSTOMERS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2019	**3,763**	**4,125**	**22,822**	**30,709**
Transfers to stage 1	180	-1,352	-2,635	**-3,807**
Transfers to stage 2	-134	1,199	-2,075	**-1,010**
Transfers to stage 3	-102	-610	7,122	**6,409**
Increases due to origination	2,413	718	1,232	**4,363**
Decreases due to derecognition	-610	-570	-3,315	**-4,496**
Changes due to change in credit risk (net)	-842	-184	1,969	**943**
Changes in calculation parametres	95	25	2,260	**2,379**
Decreases due to write-offs	-	-	-1,687	**-1,687**
Total	**998**	**-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 11 LOANS AND RECEIVABLES

(EUR 1,000)	30 Jun 2020	31 Dec 2019
Loans and receivables from credit institutions		
Deposits		
Repayable on demand	17,168	26,641
Other	45,345	47,652
Total loans and advances to credit institutions	**62,513**	**74,293**
Loans and advances to customers		
Loans	3,677,413	3,550,394
Loans granted from government funds	2,949	3,292
Guarantees	384	379
Used overdrafts	39,630	43,112
Credit card receivables	36,559	38,312
Total loans and advances to customers	**3,756,935**	**3,635,488**
Total loans and receivables	**3,819,448**	**3,709,781**

NOTE 12 INVESTMENT ASSETS

(EUR 1,000)	30 Jun 2020	31 Dec 2019
Measured at amortised cost		
Debt securities	104,949	-
At fair value through profit or loss		
Debt securities	9,900	11,664
Shares and participations	171,030	227,841
At fair value through other comprehensive income		
Debt securities	386,993	298,982
Shares and participations	2,107	2,010
Investment properties	32,211	32,562
Investment assets total	**707,189**	**573,058**

INVESTMENTS ON 30 JUN 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 participa-tions**	**Debt securities**	**Shares and participa-tions**	**Total**
Quoted						
Public sector entities	-	-	-	208,785	-	**208,785**
Other	104,949	3,089	163,536	178,208	-	**449,783**
Other						
Other	-	6,811	7,493	-	2,107	**16,411**
Total	**104,949**	**9,900**	**171,030**	**386,993**	**2,107**	**674,979**

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

NOTE 13 LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	30 Jun 2020	31 Dec 2019
Liabilities to credit institutions		
To central banks	50,000	-
To other credit institutions		
Repayable on demand	2,330	2,287
Not repayable on demand	45,260	35,255
Total liabilities to credit institutions	**97,590**	**37,542**
Liabilities to customers		
Deposits		
Repayable on demand	3,375,340	3,232,560
Not repayable on demand	509,267	510,538
Other financial liabilities		
Not repayable on demand	2,877	3,207
Total liabilities to customers	**3,887,484**	**3,746,305**
Total liabilities to credit institutions and customers	**3,985,074**	**3,783,848**

In June, Bonum Bank Plc participated in the ECB's TLTRO III financing programme to the tune of EUR 50 million.

NOTE 14 INSURANCE CONTRACT LIABILITIES

(EUR 1,000)	30 Jun 2020	31 Dec 2019
Provision for unearned premiums	21,701	18,061
Ceded to reinsurers	-675	-
Provisions for unpaid claims	30,173	28,759
Ceded to reinsurers	-7,069	-8,214
Total insurance contract liabilities	**44,130**	**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 period. The portion of premiums written for the post-balance sheet date is recorded as provision for unearned premiums in the balance sheet. Unpaid claims are based on a collective provision proportioned both case-specifically and to previous insurance premium revenue and include indemnities for losses that have already occurred on the closing date but have not been paid yet and losses that have not yet been reported.

NOTE 15 DEBT SECURITIES ISSUED TO THE PUBLIC

(EUR 1,000)	30 Jun 2020	31 Dec 2019
Debt securities issued to the public	199,855	94,839
Certificate of deposits	51,949	19,990
Total debt securities issued to the public	**251,805**	**114,829**

DEBT SECURITIES ISSUED TO THE PUBLIC

Name	Due date	Interest	Currency	Nominal
BONUM FRN 290121	29/01/2021	EB 3kk + 0,75 %	EUR	20,000
BONUM FRN 180422	18/04/2022	EB 3kk + 0,88 %	EUR	75,000
Issued during the financial period				
BONUM FRN 120723	12/07/2023	EB 12kk + 1,044 %	EUR	50,000
BONUM FRN 170124	17/01/2024	EB 12kk + 1,2 %	EUR	55,000

In addition, certificates of deposit with a total nominal value of EUR 52 million were outstanding on the balance sheet date.

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

(EUR 1,000)	30 Jun 2020	31 Dec 2019
Balance at 1 Jan	**114,829**	**142,399**
Debt securities issued, increase	104,978	114,764
Certificates of deposits, increase	71,931	24,986
Total increase	**176,909**	**139,750**
Debt securities issued, decrease	-	-119,980
Certificates of deposits, decrease	-39,990	-47,469
Total decrease	**-39,990**	**-167,449**
Total changes in cash flow	**136,918**	**-27,699**
Valuation, accrued interest	57	130
Balance at the end of period	**251,805**	**114,829**

NOTE 16 COLLATERAL GIVEN

(EUR 1,000)	30 Jun 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	114,820	20,740
Total collateral given	**117,365**	**27,127**

NOTE 17 OFF-BALANCE-SHEET COMMITMENTS

(EUR 1,000)	30 Jun 2020	31 Dec 2019
Guarantees	17,349	17,029
Loan commitments	268,843	246,135
Total off-balance sheet commitments	**286,192**	**263,164**
Other commitments		
Commitment to invest in venture capital funds	2,879	3,500
Total other commitments	**2,879**	**3,500**

The expected credit losses of off-balance sheet commitments are presented in note 10.

NOTE 18 RELATED PARTY DISCLOSURES

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

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

There has been no substantial changes in related-party transactions after 31 Dec 2019.

Espoo 18 August 2020
Board of Directors of POP Bank Centre coop

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

FURTHER INFORMATION

Pekka Lemettinen, CEO, tel. +358 40 503 5411
Jaakko Pulli, COO, tel. +358 50 420 0925

www.poppankki.fi/pop-pankki-ryhma

POP Bank