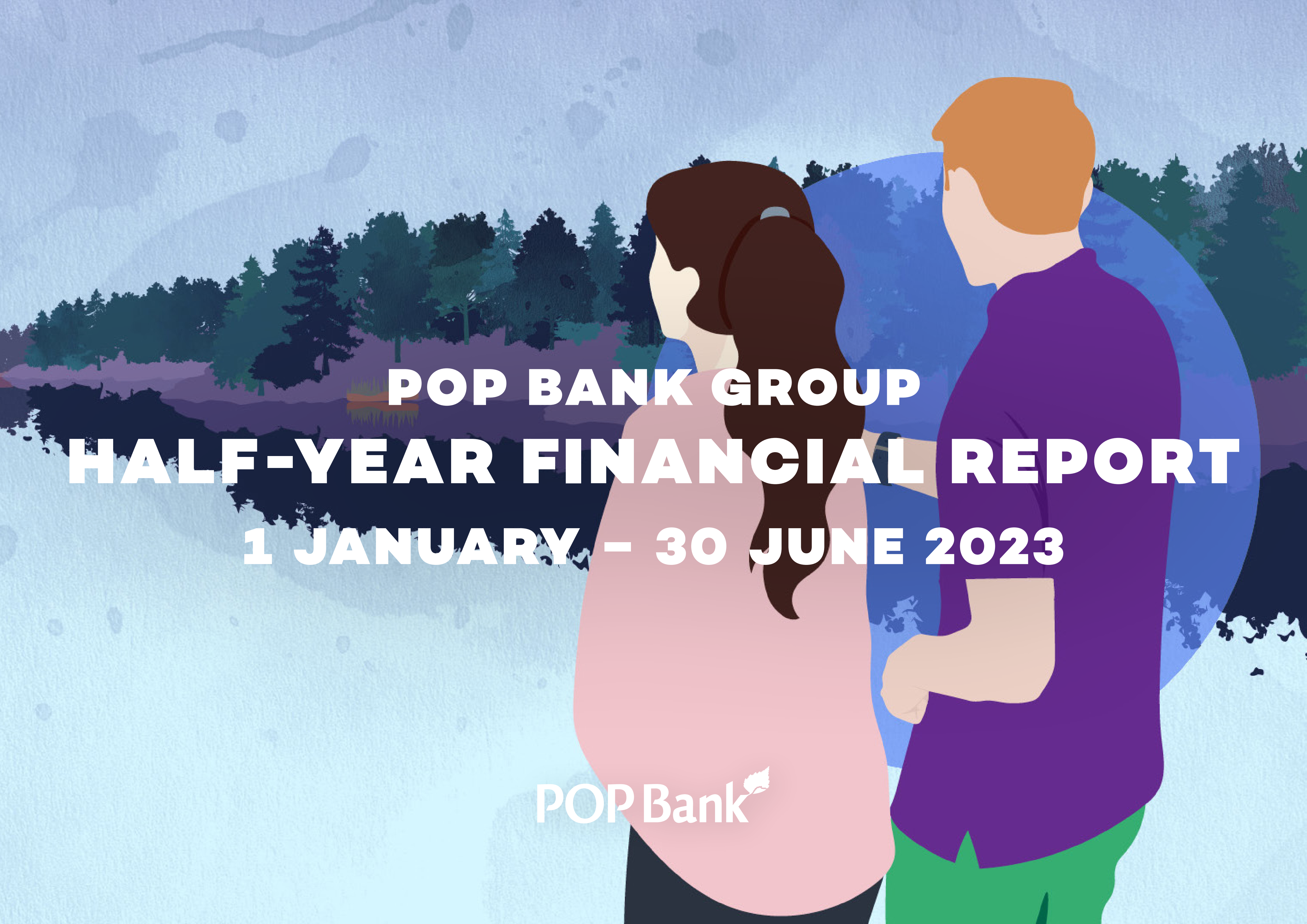

# POP BANK GROUP

# HALF-YEAR FINANCIAL REPORT

## 1 JANUARY – 30 JUNE 2023

POP Bank

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POP Bank Group's Half-Year Financial Report for 1 January – 30 June 2023 is a translation of the original Finnish version "POP Pankki -ryhmän puolivuosikatsaus 1.1.–30.6.2023". In case of discrepancies, the Finnish version shall prevail.

# CEO'S REVIEW

The first half of the year was busy and very productive for POP Bank Group. We achieved our best half-year result in the amalgamation's history and made progress in our strategic projects. The Group's structure was further streamlined when POP Bank Kurikka and POP Bank Jämijärvi merged at the end of May. On the other hand, our service network has grown in line with customer needs, with POP Bank Konnevesi opening a new branch in Laukaa. We have also strengthened our offering for corporate customers by launching new secured hire-purchase and leasing financing solutions in cooperation with our partner.

Two major strategic projects are underway in POP Bank Group. The reform of our core systems is progressing on schedule. The first parts of the project have already been successfully put into production, with pilot banks adopting new customer data management tools. The Group has also been preparing for the office infrastructure reform to be implemented in the autumn.

Another important project for POP Bank Group in the spring was the sale of the majority stake in Finnish P&C Insurance Ltd to LocalTapiola. The transaction will have a positive impact on the Group's performance in the short and long term. The sale of the majority stake in Finnish P&C Insurance enables us to focus more closely on our core business operations. We continue to be a shareholder in Finnish P&C Insurance with a 30 per cent stake, as it is important for us to be involved in developing the insurance services of the future for our customers. We have also launched a strategic partnership with LocalTapiola. Our cooperation is still in its early stages as the authorities approved the transaction in May, and we expect to be able to announce more details later this year.

The prolonged period of negative interest rates ended over a year ago in the spring of 2022, and this has had a significant positive impact on POP Bank Group's performance. POP Bank Group's net interest income increased by 93.4 per cent year-on-year and was EUR 78.0 million. Commission income also continued to grow, with net commission income increasing by 9.4 per cent year-on-year. Net investment income was EUR 1.1 million. Inflation has caused the general price level to rise, resulting in higher operating costs. The ongoing reform of the Group's core banking systems will also temporarily increase costs. POP Bank Group's profit before taxes from continuing operations was EUR 42.6 million. We recognised EUR 45.2 million in income from insurance operations and their divestment in the first half of the year. As a whole, this all makes up the best result for the first half of the year in the amalgamation's history.

The sale of the insurance business freed up capital. As a result of this, the amalgamation's CET1 capital ratio improved to 21.1 per cent. Despite tighter supply in the financial markets, the Group's acquisition of funding has been successful, and POP Bank Group has maintained a high liquidity buffer. The slowdown in housing sales and the increase in housing costs have reduced demand for housing loans, but demand for corporate funding has remained at a good level. Overall, the loan portfolio grew by 1.2 per cent. Rising costs and a decline in the savings rate affected deposits, which decreased by 0.1 per cent from the end of 2022. Despite the weaker economic outlook, credit losses remained at a moderate level.

Networking and cooperation are important ways for POP Bank Group to develop its operations and services efficiently and flexibly. With our new partnership with LocalTapiola, we will be able to provide our customers with a wider range of financial services with the same proven high level of customer service they have come to expect. We will continue to listen to the views of our customers, employees and partners as we develop our services. The themes of our responsibility programme, which we have specified together with our stakeholders, such as preventing a shadow economy and ensuring the well-being of our employees, as well as information security, are highly topical. The importance of security is highlighted in these times, and security is a key focus in the development of our services and products, as well as in our communications.

I am very happy with the progress we are making. I would like to thank our employees for their commitment to our value-driven vision of delivering customer-oriented services quickly in multiple channels. POP Bank Group has developed very rapidly in recent years, and our aspirations and vision are strongly driving us forward.

**Jaakko Pulli**
CEO
POP Bank Centre coop

**The first half of the year was busy and very productive for POP Bank Group. We achieved our best half-year result in the amalgamation's history and made progress in our strategic projects.**

**Operating income**
**106.3**
(63.5)
EUR million

**Profit before tax**
**42.6**
(5.1)
EUR million

**Net interest income**
**78.0**
(40.3)
EUR million

**Loan portfolio**
**4.5**
(4.4)
EUR billion

**CET 1 capital ratio**
**21.1**
(19.4)
per cent

**Total customers**
**257,500**
(256,500)

# POP BANK GROUP AND THE AMALGAMATION OF POP BANKS

POP Bank Group is a Finnish financial group that offers retail banking services for private customers and small and medium-sized companies. POP Banks are cooperative banks owned by their member customers. POP Bank Group's mission is to promote its customers' financial well-being and prosperity, as well as local success.

**STRUCTURE OF THE POP BANK GROUP**

POP Bank Group consists of POP Banks, POP Bank Centre coop and their controlled entities. POP Banks are member credit institutions of POP Bank Centre coop. POP Bank Centre coop and its member credit institutions are mutually liable for their debts and liabilities according to the Act on the Amalgamation of Deposit Banks. POP Banks, POP Bank Centre coop and their controlled service companies constitute the amalgamation of POP Banks.

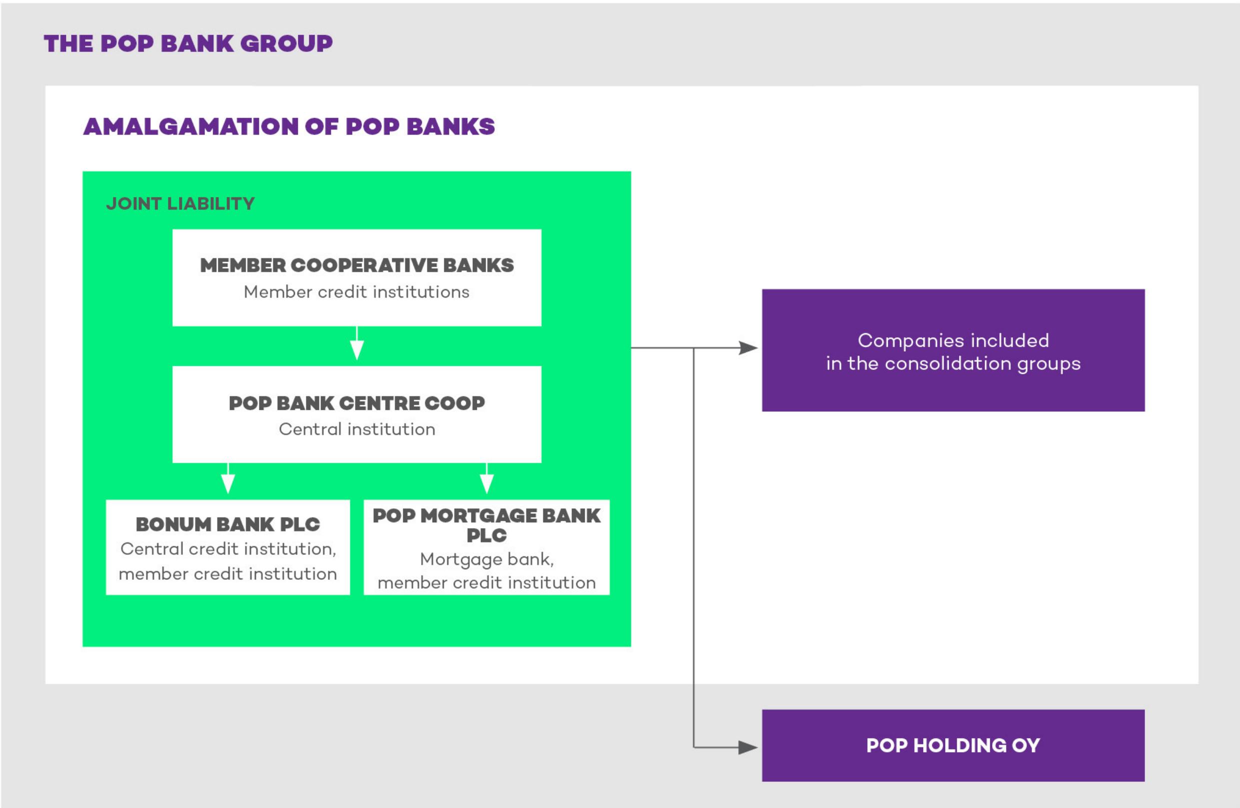
POP Bank Centre coop is the central institution of the amalgamation of POP Banks and is responsible for steering and supervising POP Bank Group. POP Bank Centre coop has two subsidiaries, Bonum Bank Plc and POP Mortgage Bank Plc, which are also its member credit institutions.

Bonum Bank Plc serves as the central credit institution of the POP Banks and acquires external funding for the Group by issuing unsecured bonds. Bonum Bank Plc is also responsible for the POP Banks' card business and the Group's payment transactions and centralised services, in addition to granting credit to retail customers. POP Mortgage Bank Plc is responsible for the Group's mortgage-backed funding, which it acquires by issuing covered bonds.

POP Bank Group also includes POP Holding Ltd owned by POP Banks and POP Bank Centre coop. POP Holding Ltd owns 30 per cent from Finnish P&C Insurance Ltd that belongs to LocalTapiola Group and uses the auxiliary business name of POP Insurance. POP Holding Ltd is not a member of the Amalgamation of POP Banks and is included in the scope of joint liability.

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

## POP BANK GROUP STRUCTURE



### CHANGES IN POP BANK GROUP'S STRUCTURE

During the review period, in May 2023, POP Bank Group relinquished control over Finnish P&C Insurance Ltd and continues as a minority shareholder in the company. Subsequently, Finnish P&C Insurance Ltd will be consolidated as an associated company into POP Bank Group's consolidated IFRS financial statements.

One merger was completed within POP Bank Group during the review period. At the end of May 2023, Jämijärven Osuuspankki merged with Kurikan Osuuspankki. After the merger, POP Bank Group consists of 18 cooperative banks. The merger was an intra-Group arrangement and had no impact on POP Bank Group's consolidated financial information.

## OPERATING ENVIRONMENT

The beginning of 2023 in Finland was marked by slow economic growth while inflation remained high and interest rates continued to rise. The employment rate has remained high in Finland, but GDP growth has been negative for two consecutive quarters, which meets the criterion for a technical recession. GDP growth is expected to remain low for the rest of the year.

Economic growth has continued to be weighed down by the ongoing war in Ukraine, high inflationary pressures on consumer demand and rising interest rates, although there have been positive developments in individual sectors. In Finland, however, companies' growth and investments are constrained by challenges in the availability of labour. The purchasing power of Finnish households has weakened because wage agreements are markedly more moderate than inflation. However, inflation is slowing down in Finland, as electricity prices have started to fall and fuel prices have also come down from their peak levels.

The European Central Bank (ECB) continued to fight inflation by raising key interest rates at a rapid pace also in early 2023. Since the beginning of the year, interest rates have been raised three times, by 1.25 percentage points in total. The ECB's messages and market expectations suggest that interest rate hikes will continue during the remainder of the year. The impact of higher interest rates has been passed on to households in the form of higher borrowing costs. The rise in the cost of housing loans and the increase in interest expenses for limited liability housing company loans have led to a sharp slowdown in residential construction and housing sales. Housing prices have declined, especially in the Helsinki metropolitan area.

For banks, changes in the operating environment have been reflected in a decline in consumers' willingness to borrow. The rising cost of living has caused some consumers to resort to savings. On the other hand, the good employment situation has helped consumers cope with rising costs and manage their loans. The declining economic cycle is gradually beginning to be reflected in an increase in corporate bankruptcy filings, but so far this trend has not been reflected in the quality of Finnish banks' loan portfolios.

## KEY EVENTS DURING THE FIRST HALF OF THE YEAR

### THE MAJORITY STAKE IN THE INSURANCE COMPANY WAS SOLD TO LOCALTAPIOLA

On 14 March 2023, POP Bank Group and LocalTapiola signed an agreement on the sale of the majority stake in Finnish P&C Insurance Ltd, which was part of POP Bank Group, to LocalTapiola. The sale was completed on 25 May 2023 and concerned 70 per cent of the company's share capital. Finnish P&C Insurance Ltd will continue to operate as an independent company and will continue to use the POP Vakuutus brand in its insurance products.

The transaction had a significant positive impact on POP Bank Group's profit and capital adequacy in the review period. POP Bank Group recognised a gain of EUR 41.9 million on the sale, and the overall positive impact of the insurance operations on the Group's result was EUR 45.2 million. Finnish P&C Insurance Ltd is included in POP Bank Group's financial statements as a subsidiary until 25 May 2023. IFRS 17 Insurance Contracts has been applied retrospectively to the consolidation from 1 January 2023. The company's result up to the date of sale and the sales gain are presented in the Group's financial statements as discontinued operations, separately from continuing operations. After the transaction, a share of the company's result corresponding to POP Bank Group's holding is consolidated in the Group's financial statements using the equity method. The amalgamation's capital adequacy improved with the reduction of capital tied up in insurance operations.

As a result of the change of control, POP Bank Group's management no longer monitors insurance operations as a separate operating segment. POP Bank Group will only have one operating segment.

### CHANGES IN THE GROUP STRUCTURE

The number of POP Banks decreased by one at the end of May, when Jämijärven Osuuspankki merged with Kurikan Osuuspankki. After the merger, POP Bank Group has 18 POP Banks. During the review period, the internal division of work within POP Bank Group was developed by expanding the services produced centrally for POP Banks in Bonum Bank's Service Centre. In addition to telephone and chat services for customers, the Service Centre provides anti-money laundering operations for the whole Group, as well as a range of centrally provided back-office services. The aim of the Service Centre is to improve the Group's operational efficiency.

### POP BANK GROUP'S RESPONSIBILITY PROGRAMME

In accordance with POP Bank Group's sustainability vision, POP Banks are trusted partners to their customers, members and local communities in creating sustainable well-being. In the spring of 2023, POP Bank Group drew up an action plan for 2023–2024 to support its responsibility programme. The action plan includes, for example, training for employees and a project to calculate the carbon footprint of the Group's own operations. POP Bank Group is preparing for enhanced sustainability reporting based on EU regulations.

### SYSTEM REFORM PROJECT

In January 2022, POP Bank Group started a project to modernise its core systems, including its entire core banking system, regulatory reporting solutions and the related integrations. As part of the whole plan, a customer data management system will be introduced in 2023, with a pilot launched in March and extended in May. The new core banking system will be supplied by Crosskey, a Finnish IT company. POP Bank Group expects to introduce the new core banking system during 2025.

It is estimated that the system reform project will cause overlapping costs to the Group until the end of 2025, as the implementation of new systems is prepared alongside the current systems. The project also includes a data warehousing and reporting reform project, which will enable more flexible reporting and improve POP Bank Group's ability to use data analytics in its business operations.

### POP BANK GROUP'S FUNDING

In April, POP Mortgage Bank Plc, which is part of POP Bank Group, issued the second covered bond under its EUR 1 billion covered bond programme. The covered bond has a nominal value of EUR 250.0 million, a maturity of five years and a fixed interest rate. In addition, Bonum Bank Plc issued certificates of deposit.

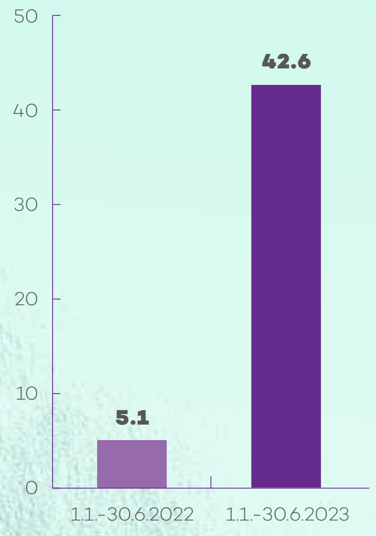
POP Bank Group has participated in the European Central Bank's TLTRO funding operation with a total of EUR 128.4 million between 2020 and 2021. Of the TLTRO funding, EUR 50.0 million matured in June. POP Bank Group has the option to repay the remaining EUR 78.4 million in advance before maturity. The remaining funding will mature in 2024.

**CREDIT RATINGS**

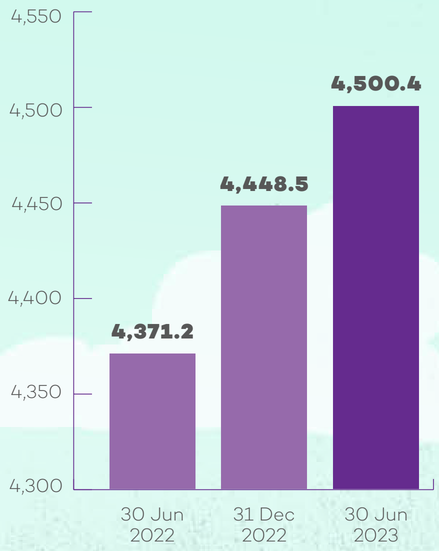
In October 2023, S&P Global Ratings affirmed Bonum Bank Plc's long-term investment grade to 'BBB' and short-term investment grade to 'A-2'. The outlook remained stable. S&P Global Ratings confirmed Bonum Bank Plc's credit rating in October 2022. Bonum Bank Plc's rating is BBB for long-term investment grade and A-2 for short-term investment grade. The outlook remained stable.

In April 2023, S&P Global Ratings confirmed an AAA rating with a stable outlook for POP Mortgage Bank Plc's loan programme and bonds issued.

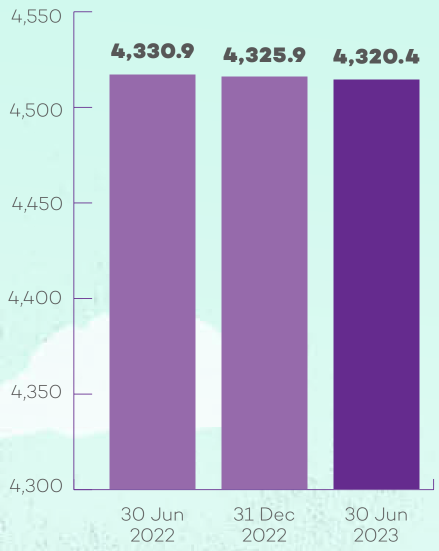
## PROFIT BEFORE TAX, EUR MILLION



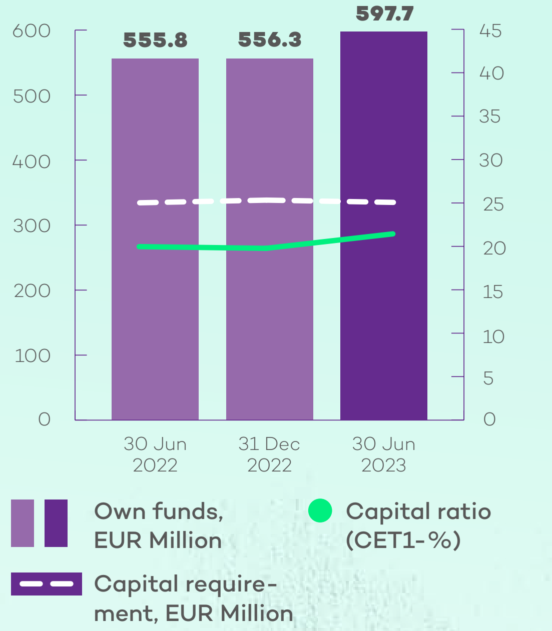

## LOAN PORTFOLIO, EUR MILLION



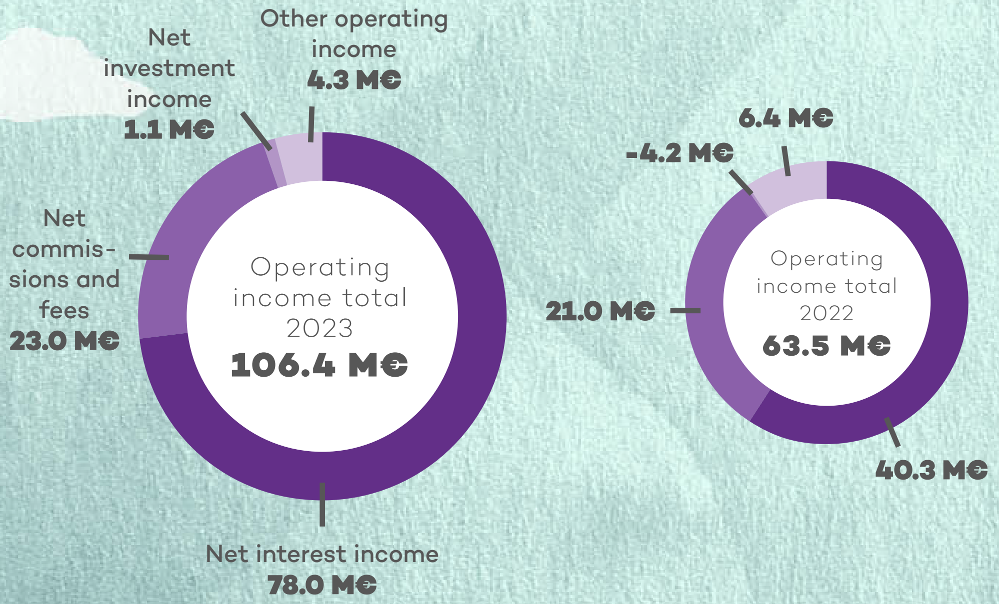

## DEPOSITS, EUR MILLION



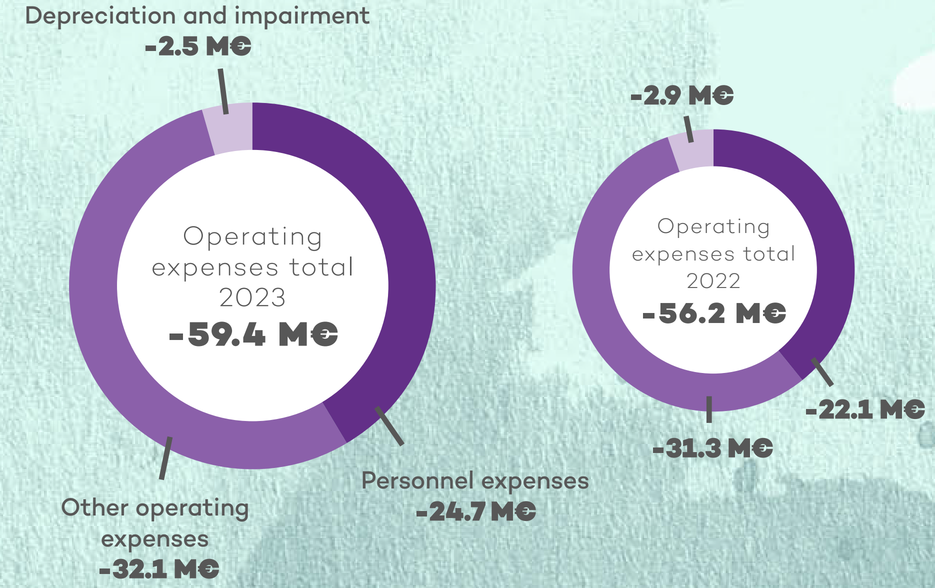

## CAPITAL ADEQUACY




## OPERATING INCOME, EUR MILLION




## OPERATING EXPENSES, EUR MILLION



# 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 2023 | 1 Jan-30 Jun 2022 | 1 Jan-31 Dec 2022 |
|---|---|---|---|
| Net interest income | 77,966 | 40,319 | 93,326 |
| Net commissions and fees | 22,987 | 21,013 | 42,098 |
| Net investment income | 1,106 | -4,245 | -602 |
| Personnel expenses | -24,731 | -22,090 | -43,571 |
| Other operating expenses | -32,116 | -31,265 | -58,303 |
| Impairment losses on financial assets | -4,156 | -2,126 | -7,738 |
| Profit before tax | 42,627 | 5,142 | 26,155 |

| Key balance sheet figures (EUR 1,000) | 30 Jun 2023 | 30 Jun 2022 | 31 Dec 2022 |
|---|---|---|---|
| Loan portfolio | 4,500,382 | 4,371,217 | 4,448,480 |
| Deposit portfolio | 4,320,431 | 4,330,886 | 4,325,946 |
| Insurance contract liabilities | - | 51,961 | 48,241 |
| Equity capital | 645,518 | 548,068 | 566,675 |
| Balance sheet total | 6,009,345 | 5,611,723 | 5,774,192 |

| Key ratios | 30 Jun 2023 | 30 Jun 2022 | 31 Dec 2022 |
|---|---|---|---|
| Cost to income ratio | 55.8 % | 88.6 % | 76.1 % |
| Return on assets, ROA | 1.1 % | 0.1 % | 0.4 % |
| Return on equity, ROE | 11.2 % | 1.5 % | 3.7 % |
| Equity ratio | 10.7 % | 9.8 % | 9.8 % |
| Common equity Tier 1 capital ratio, (CET1) | 21.1 % | 19.6 % | 19.4 % |
| Capital adequacy ratio, (TC) | 21.1 % | 19.6 % | 19.4 % |

POP Bank Group has adopted the IFRS 17 Insurance Contracts standard from January 1, 2023, retrospectively, and reclassified the financial assets of the insurance operations in connection with the initial application. The change has been taken into account retrospectively in key balance sheet figures. Since POP Bank Group has relinquished control over insurance operations, and therefore the result for the insurance operations is presented as discontinued operations, the result of the insurance operations has not been taken into account in the key income ratios. Details of adoption of the IFRS 17 has been presented in Note 2 and discontinued operations in Note 3.

The calculation formulas for key ratios are presented on POP Bank Group annual report 2022. When calculating ROA and ROE, the profit for the review period has been changed to match full year level.

### POP BANK GROUP'S EARNINGS PERFORMANCE

POP Bank Group's profit of continuing operations before taxes was EUR 42.6 million, compared with EUR 5.1 million in the corresponding period of the previous year. The profit of continuing operations for the review period after taxes was EUR 33.9 (4.1) million.

Total operating income of the continuing operations of the Group increased by EUR 42.9 million to EUR 106.3 (63.5) million. Net interest income rose by 93.4 per cent to EUR 78.0 (40.3) million. Interest income totalled EUR 106.0 (42.9) million in the review period, and interest expenses amounted to EUR 28.0 (2.6) million. Net commission income and expenses increased by 9.4 per cent year-on-year, amounting to EUR 23.0 (21.0) million.

Net investment income was EUR 1.1 million, while the net income was EUR 4.2 million negative in the previous year. The net amount of valuation gains and losses recognised during the first half of the year was EUR -1.4 (-7.3) million. Other operating income totalled EUR 4.3 (6.4) million. The other operating income of the comparison period includes an income of EUR 0.7 million recognised from divesting one subsidiary.

Total operating expenses from continuing operations increased 5.6 per cent to EUR 59.4 (56.2) million. Personnel expenses were EUR 24.7 (22.1) million, and other operating expenses were EUR 32.1 (31.3) million. Depreciation and impairment was EUR 2.5 (2.9) million.

An impairment loss of EUR 4.2 (2.1) million was recognised on financial assets in the review period. Expected credit losses (ECL) on loans and receivables and off-balance sheet credit commitments increased by EUR 2.8 (2.2) million to EUR 45.2 (42.4) million, which is 0.99 (0.94) per cent of the loan portfolio. Expected credit losses on investment assets increased by EUR 0.1 million in the review period, while they decreased by EUR 0.2 million in the comparison period. Final credit losses totalled EUR 1.3 (0.1) million.

### POP BANK GROUP'S BALANCE SHEET

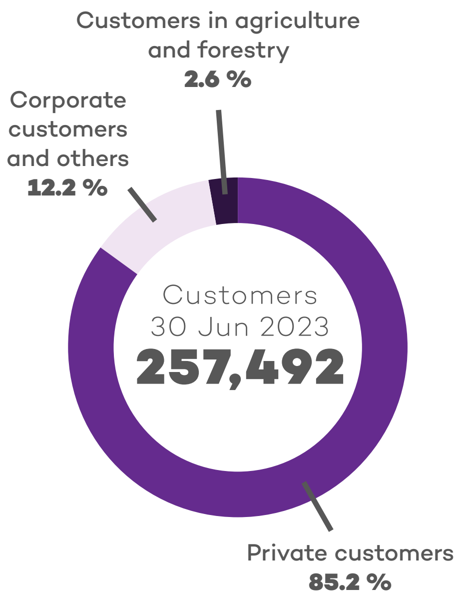
POP Bank Group's balance sheet totalled EUR 6,009.3 million at the end of the review period (EUR 5,774.2 million at the beginning of the review period). Group's loan portfolio increased under the review period by 1.2 per cent to EUR 4,500.4 (4,448.5) million. Deposits decreased by 0.1 per cent to EUR 4,320.4 (4,325.9) million.

POP Bank Group's equity totalled EUR 645.5 (566.7) million at the end of the review period. The cooperative capital, which consists of the POP Banks' cooperative contributions and POP Shares, amounted to EUR 70.0 (70.9) million at the end of the review period. The POP Banks have decided to pay EUR 1.7 (1.1) million in interest on cooperative capital for 2022. In total, the POP Banks have issued EUR 56.5 (60.2) million in POP Shares. POP Shares are investments in the cooperative bank's equity in accordance with the Co-operatives Act.

## BUSINESS DEVELOPMENT

At the end of the review period, POP Bank Group had 257.5 thousand banking customers (256.5 at the beginning of the review period). The customer groups are shown in the diagram.

### POP BANK GROUP'S CUSTOMERS 30 JUNE 2023




At the end of the review period, the POP Banks had 70 branches and service points, including three digital branches. In addition, customers have access to mobile and online banking services and online appointments.

In January–June, the Group's lending increased to EUR 4,500.4 million, with an increase of 1.2 per cent from the end of 2022. Private customers' loan portfolio remained at the level of the turn of the year, while the loan portfolio of corporate customers and customers in agriculture and forestry has increased by 2.6 per cent over the same period.

The sluggish housing market has reduced demand for mortgage loans. However, there was no significant change in the volume of mortgage loans, which stood at EUR 2,334.4 million at the end of June. The new loan sales amounted to EUR 106.5 (135.4) million, with a decrease of 21.3 per cent. The majority of the housing loan portfolio is tied to the 12-month Euribor. The relative share of interest rate hedges increased slightly from the end of 2022.

Net interest income on the loan portfolio increased strongly during the period, and the overall quality of the loan portfolio remained at a good level. There was no significant change in the average margin of the portfolio during the first half of the year. Although demand for mortgages has decreased, demand for consumer credit has been steady. Corporate lending developed well and was strong in the first half of the year, especially in loans to small and medium-sized enterprises.

Deposits decreased by 0.1 per cent from the end of 2022 and amounted to EUR 4,320.4 million. The rise in market interest rates has increased demand for fixed-term deposits, which increased by 44.0 per cent during the period. The Group's gross investment sales in funds and savings insurance amounted to EUR 24.8 million.

POP Lisätakaus, a product with a directly enforceable guarantee for private customers, was launched during the first half of the year. POP Lisätakaus can be used as collateral for financing residential or investment properties. The product is provided by Finnish P&C Insurance Ltd. The usability of POP Mobile was improved, and a new credit card limit increase functionality was released. During the first half of the year, secured hire-purchase and leasing financing solutions provided by Svea Bank were added to the product range for corporate customers.

## DISCONTINUED OPERATIONS

In May 2023, POP Bank Group sold majority of the shares of Finnish P&C Insurance Ltd, which comprises the insurance segment, to LocalTapiola. Insurance operations profit is reported as discontinued operations in accordance with IFRS 5 standard.

| (EUR 1,000) | 1 Jan - 25 May 2023 | 1 Jan - 30 Jun 2022 |
|---|---|---|
| Net interest income | 387 | 307 |
| Net investment income | 1,101 | -4,802 |
| Insurance service result | 2,109 | 1,153 |
| Net insurance finance income | -267 | 2,959 |
| Other operating income | 36 | 48 |
| Other operating expenses | -77 | -50 |
| **Profit from discontinued operations** | **3,290** | **-386** |
| Capital gain on discontinued operations | 38,098 | - |
| Fair valuation of share ownership | 3,840 | - |
| **Capital gain on discontinued operations** | **41,939** | **-** |
| **Profit from discontinued operations** | **45,228** | **-386** |

The profit from the discontinued operations is not comparable, since Finnish P&C Insurance Ltd has been consolidated into POP Bank Group until 25 May 2023, and the comparison period includes the result for six months.

Insurance operations accumulated a profit of EUR 3.3 million from the beginning of the review period until the sale, while the result before taxes in January-June 2022 was a loss of EUR -0.4 million. The net insurance service result from January 1 to May 25, 2023, was EUR 2.1 million and EUR 1.2 million in January-June 2022. The net insurance finance income accumulated from the beginning of the review period until the sale EUR -0.3 million and EUR 3.0 million in January-June 2022. The net investment income from January 1 to May 25, 2023, was EUR 1.1 million and EUR -4.8 million in January-June 2022.

POP Bank Group continues to be the owner of Finnish P&C Insurance Ltd with a 30 per cent ownership stake. The company's profit will in the future be consolidated by using the equity method.

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

The objectives, principles and organisation of POP Bank Group's risk management and capital adequacy management are described in Note 4 to POP Bank Group's financial statements for 2022. No material changes were made in the review period to the objectives, principles or organisation described in the financial statements. Furthermore, information concerning risks (Pillar III) specified in the EU Capital Requirements Regulation (2019/876) (CRR II) is presented in a separate Amalgamation of POP Banks' Capital Adequacy report 30 June 2023.

POP Bank Group has relinquished control over the insurance company, which is why the risks related to insurance operations are no longer included in the reporting.

## BANKING RISKS

### CREDIT RISK

The credit risk position remained stable in banking operations, and the risk level remained moderate. The uncertainty related to the development of the economy and the rapidly rising inflation have so far not had a significant effect to customers' ability to pay. During the reporting period, the amount of installment free periods granted to customers was slightly smaller than normally. Overdue receivables and loans reported as forbearance measures had no distinguished growth.

The proportion of 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 continued to increase. The industry and customer risks of the amalgamation of POP Banks are diversified.

The credit portfolio increased by 1.2 per cent from the end of the year, amounting to EUR 4,500.4 (4,448.5) million. Lending mainly focuses on low-risk credits to private customers. Expected credit losses (ECL) on loans and receivables and off-balance sheet credit commitments increased by 6.5 per cent to EUR 45.2 (42.4) million. ECL provision of EUR 0.7 (0.6) million was allocated to the investment assets. The ECL reserve also includes an additional EUR 3.0 (3.0) million management reserve for possible increase of doubtful receivables. The management reserve provision is aimed to the receivables from corporate customers and is used to prepare for the negative impact of cost inflation to corporate and agricultural customers' ability to pay. The amount of receivables in ECL-stage 1, of which the credit risk has not increased significantly since the initial recognition, was 91.6 (92.2) per cent of the loan portfolio. The amount of receivables in ECL-stage 2, with a significant increase in credit risk, was 6.1 (5.6) per cent of the loan portfolio. The amount of receivables classified as defaulted in ECL-stage 3 was 2.3 (2.1) per cent of the loan portfolio. Coverage ratio at ECL-stage 3 receivables was 27.4 (27.9) per cent. The Group's lending is mainly secured, which mitigates the impairment risk of receivables.

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

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 257.3 (184.8) per cent on 30 June 2023. At the end of June, the amalgamation of POP Banks had EUR 910.5 (691.7) million in LCR-eligible liquid assets before haircuts, of which 65.5 (64.8) per cent consisted of cash and receivables from the central bank, 31.5 per cent (31.0) consisted of liquid Level 1 securities. In addition, outside the amalgamation's LCR portfolio unencumbered securities eligible for central bank funding totalled to EUR 91.1 (38.8) million.

POP Bank Group's funding position remained stable throughout the review period. The proportion of deposits of the credit portfolio remained high, with the total amount of deposits decreasing by 0.1 per cent during the reporting period. With respect to the bond programme of the central credit institution, Bonum Bank Plc, EUR 255.0 (255.0) million was outstanding, with respectively to the certificate of deposit programme of EUR 67.0 (67.5) million. In addition, Bonum Bank Plc has a loan programme of

EUR 19.1 million with the Nordic Investment Bank (NIB). At the end of the reporting period, Bonum Bank had TLTRO III financing totalling EUR 78.4 (128.4) million.

The requirement for net stable funding, NSFR, became binding in 2021 (28 June 2021) as part of CRRII Regulation 2019/876. The minimum level of the requirement is 100 per cent. The NSFR measures the maturity mismatch of assets and liabilities on the balance sheet and ensures that the ongoing funding is sufficient to meet funding needs over a one-year period, thus preventing over-reliance on short-term wholesale funding. The amalgamation's NSFR ratio on 30 June 2023 was 136.2 (133.5) per cent.

Based on permission from the Financial Supervisory Authority, the member credit institutions are exempted, by a decision of the central institution, from the liquidity requirements set out in Part Six of the Regulation (EU) 575/2013 and 2019/876 of the European Parliament and of the Council. According to the permit, the regulatory requirements for LCR and NSFR must be met only at the amalgamation level. The Bonum Bank as a credit institution of the amalgamation is responsible for meeting the regulatory requirements..

**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 increase in interest rates has clear impact to amalgamation's net interest income risk and amalgamation has hedged part of open exposure. Hedges has been executed by increasing fixed rate investments in LCR portfolio and by using interest derivatives. Due amalgamation balance sheet structure, rising interest rates has positive impact to net interest rate income.

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 include trading on their own behalf or for customers. Their investing activities are primarily undertaken in order to invest financial surplus and manage liquidity.

**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.

As customer encounters move to mobile and online, security risks also increase. POP Bank Group has strengthened both technical capabilities and proactive measures related to fraud detection and customer communication.

**CRISIS RESOLUTION PLAN**

In accordance with the bank resolution act for own funds and eligible liabilities, the Financial Stability Authority has set the minimum requirement of own funds and eligible liabilities (MREL-requirement) for the amalgamation of POP Banks. The MREL requirement is 19.39 per cent of total risk-weighted assets (TREA) or 5.91 per cent of the leverage ratio exposures (LRE).

On 31 May 2023, the Financial Stability Authority updated the decision. The new MREL requirement is 19.99 per cent of the TREA or 7.75 per cent of the LRE. The new requirement replaces the previous decision as of 1 January 2024. The new requirement will be covered with 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 21.1 per cent (19.4 on 31 December 2022), and its CET1 capital ratio was 21.1 per cent (19.4) being clearly above minimum requirement of 11.8 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. Based on permission from the Financial Supervisory Authority, the intra-Group items have been excluded from the total exposure measure for calculating the leverage ratio as of 31 December 2020.

Totalling EUR 597.7 (556.3) million, the own funds of the amalgamation of POP Banks consist of cooperative contributions, POP Shares, retained earnings and other non-restricted reserves. The amalgamation's capital adequacy requirement consists of the following items:

- Capital Requirements Regulation minimum of 8.0 %
- Additional Pillar 2 capital requirement of 1.25 %
- Capital conservation buffer of 2.5 %
- Country-specific capital requirements for foreign exposures

Financial Supervisory Authority decided on 29 March 2023 to impose a systemic risk buffer of 1.0 per cent, which will enter into force after the transitional period on 1 April 2024. The amalgamation of POP Banks covers all capital requirements with Common Equity Tier 1.The amalgamation's Leverage Ratio, LR, in June 30, 2023 was 9.7 (9.5) per cent being clearly above minimum requirement of 3.0 per cent.

# SUMMARY OF CAPITAL ADEQUACY

| (EUR 1,000) | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| **Own funds** | | |
| Common Equity Tier 1 capital before deductions | 604,776 | 563,523 |
| Deductions from Common Equity Tier 1 capital | -7,081 | -7,216 |
| **Total Common Equity Tier 1 capital (CET1)** | **597,695** | **556,307** |
| Additional Tier 1 capital before deductions | - | - |
| Deductions from Additional Tier 1 capital | - | - |
| **Additional Tier 1 capital (AT1)** | **-** | **-** |
| **Tier 1 capital (T1 = CET1 + AT1)** | **597,695** | **556,307** |
| Tier 2 capital before deductions | - | - |
| Deductions from Tier 2 capital | - | - |
| **Total Tier 2 capital (T2)** | **-** | **-** |
| **Total capital (TC = T1 + T2)** | **597,695** | **556,307** |
| **Total risk weighted assets** | **2,834,386** | **2,871,756** |
| of which credit risk | 2,561,191 | 2,613,793 |
| of which credit valutaion adjustment risk (CVA) | 20,097 | 6,089 |
| of which market risk (foreign exchange risk) | 14,171 | 12,945 |
| of which operational risk | 238,928 | 238,928 |

| (EUR 1,000) | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| **CET1 Capital ratio (CET1-%)** | **21.1 %** | **19.4 %** |
| **T1 Capital ratio (T1-%)** | **21.1 %** | **19.4 %** |
| **Total capital ratio (TC-%)** | **21.1 %** | **19.4 %** |
| **Capital Requirement** | | |
| Total capital | 597,695 | 556,307 |
| Capital requirement * | 334,353 | 338,215 |
| Capital buffer | 263,342 | 218,092 |
| **Leverage ratio** | | |
| Tier 1 capital (T1) | 597,695 | 556,307 |
| Leverage ratio exposure | 6,154,136 | 5,879,750 |
| Leverage ratio, % | 9.7 % | 9.5 % |

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

## SUSTAINABILITY

Corporate responsibility in POP Bank Group is based on cooperative values, local operations and long-term business operations. POP Bank Group follows in its responsibility reporting international Global Reporting Initiative (GRI) framework and publishes a sustainability report as part of its annual report.

POP Bank Group's responsibility work is guided by its ESG (Environment, Social and Governance) vision according to which the POP Bank is trusted partner for its customers, members and local communities to create sustainable wellbeing. The Group's responsibility programme's key themes are:

- Promoting sustainable financing and investing and thereby mitigating climate change;
- Supporting local success, vitality and well-being;
- Transparent business operations;
- Ensuring the equality of employees and promoting diversity and well-being at work;
- Preventing a shadow economy, corruption and money laundering;
- Constantly developing information security and promoting safe banking

During the spring of 2023, POP Bank Group drew up an action plan to support the responsibility program and started preparations for expanding its responsibility reporting in accordance with EU regulations. POP Bank Group has also started the implementation of the personnel competence program by refining, renewing and, if necessary, expanding the contents offered.

Furthermore, local POP Banks have continued to diversify cooperation with educational institutions and supported various sports and cultural organizations in particular to promote the well-being of children and young people. To promote the financial knowledge of young people, the Group has been sharing information about student loans in OECD's Global Money Week coordinated by Finnish Foundation for Share Promotion. POP Bank Group also produced the POPCast podcast discussing about everyday financing. POP Banks' summer employees have been sharing their work life experiences in Finance Finland's Instagram takeover campaign. POP Bank Group also continues as the partner of the Finland's Digital and Population Data Services Agency's "In Your Own Hands" (Omissa Käsissä) guardianship campaign and in the 'Välitä viljelijästä' project led by Farmers' Social Insurance Institution (Mela). This project aims to identify farmers' exhaustion and need for help and provide them with guidance on access to expert help. POP Bank Group also participated in Agritech & Sustainable Food Chain event to discuss the sustainable options to develop agriculture and how to finance the new innovations and start-ups within sustainable finance framework.

## OUTLOOK FOR THE SECOND HALF OF THE YEAR

There continues to be uncertainty surrounding economic development, which is affecting POP Bank Group's operating environment. The European Central Bank raised the interest rate in July and is expected to continue to raise interest rates to curb inflation as necessary during the second half of 2023. Higher interest rates increase the risk of an economic downturn in the eurozone, which is also expected to increase credit risks in the longer term.

High inflation and the simultaneous increase in financial expenses are weakening households' purchasing power and especially the profitability of companies that are unable to fully transfer the increase in costs to prices. Price increases and reduced purchasing power are having a negative impact on demand.

The rise in market interest rates supports POP Bank Group's long-term improvement of the profitability of its core business. Net interest income and investment income in particular are expected to increase in 2023 from the previous year. On the other hand, inflation and the core system reform are expected to result in higher costs. POP Bank Group's profit for the 2023 financial year is expected to improve significantly on 2022. The most significant uncertainties related to performance are associated with changes in market interest rates, changes in the value of investments and credit losses.

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

## EVENTS AFTER THE REVIEW PERIOD

The Bonum Bank has renewed in July the debt security of EUR 50.0 million that was due on 12 July 2023. The new due date is 19 July 2028 with interest rate of EB 6m + 1.11 per cent.

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

# TABLES (IFRS)

## POP BANK GROUP'S INCOME STATEMENT

| (EUR 1,000) | Note | 1 Jan - 30 Jun 2023 | 1 Jan - 30 Jun 2022 |
|---|---|---|---|
| Interest income | | 105,974 | 42,917 |
| Interest expenses | | -28,009 | -2,599 |
| **Net interest income** | **4** | **77,966** | **40,319** |
| Net commissions and fees | 5 | 22,987 | 21,013 |
| Net investment income | 6 | 1,106 | -4,245 |
| Other operating income | | 4,273 | 6,378 |
| **Total operating income** | | **106,331** | **63,465** |
| Personnel expenses | | -24,731 | -22,090 |
| Other operating expenses | | -32,116 | -31,265 |
| Depreciation and amortisation | | -2,514 | -2,862 |
| **Total operating expenses** | | **-59,362** | **-56,217** |
| Impairment losses on financial assets | 9 | -4,156 | -2,126 |
| Associate's share of profits | | -187 | 21 |
| **Profit before taxes** | | **42,627** | **5,142** |
| Income tax expense | | -8,760 | -1,031 |
| **Profit from continuing operations** | | **33,866** | **4,111** |
| Profit from discontinued operations after taxes | 3 | 45,229 | -386 |
| **Profit for the period** | | **79,095** | **3,725** |

## POP BANK GROUP'S STATEMENT OF OTHER COMPREHENSIVE INCOME

| (EUR 1,000) | 1 Jan - 30 Jun 2023 | 1 Jan - 30 Jun 2022 |
|---|---|---|
| **Profit for the financial year** | **79,095** | **3,725** |
| **Other comprehensive income** | | |
| **Items that will not be reclassified to profit or loss** | | |
| Net changes in fair value of equity instruments | 82 | -1,208 |
| Capital gains and losses for equity instruments | - | 1,333 |
| Deferred taxes | -16 | 254 |
| **Total** | **66** | **379** |
| **Items that may be reclassified to profit or loss** | | |
| Movement in fair value reserve for liability instruments | 2,770 | -10,150 |
| Deferred taxes | -541 | 2,102 |
| **Total** | **2,228** | **-8,049** |
| **Other comprehensive income items total** | **2,294** | **-7,669** |
| **Comprehensive income for the financial year** | **81,389** | **-3,944** |

POP Bank Group has adopted the IFRS 17 Insurance Contracts standard from January 1, 2023, retrospectively, and reclassified the financial assets of the insurance operations in connection with the initial application, and therefore the comparative period has been restated. The change is described in Note 2. POP Bank Group has relinquished control over insurance operations, and therefore profit for the insurance operations are presented separately as discontinued operations. As a result, the Group's statement of other comprehensive income does not include items related to discontinued operations. Details of discontinued operations are presented in Note 3.

# POP BANK GROUP'S BALANCE SHEET

| (EUR 1,000) | Note | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|---|
| **Assets** | | | |
| Liquid assets | | 596,336 | 448,499 |
| Loans and advances to credit institutions | 7,8 | 72,314 | 62,333 |
| Loans and advances to customers | 7,8 | 4,500,382 | 4,448,480 |
| Investment assets | 7,8 | 721,796 | 712,087 |
| Investments in associates | | 20,968 | 230 |
| Reinsurance contract assets | | - | 9,331 |
| Intangible assets | | 6,263 | 8,965 |
| Property, plant and equipment | | 25,377 | 27,268 |
| Other assets | | 58,045 | 47,166 |
| Tax assets | | 7,864 | 9,833 |
| **Total assets** | | **6,009,345** | **5,774,192** |

| (EUR 1,000) | Note | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|---|
| **Liabilities** | | | |
| Liabilities to credit institutions | 7,8,10 | 113,155 | 163,139 |
| Liabilities to customers | 7,8,10 | 4,320,431 | 4,325,946 |
| Derivatives | 12 | 18,524 | 12,495 |
| Insurance contract liabilities | | - | 48,241 |
| Debt securities issued to the public | 11 | 810,370 | 565,252 |
| Other liabilities | | 69,424 | 63,271 |
| Tax liabilities | | 31,924 | 29,173 |
| **Total liabilities** | | **5,363,827** | **5,207,517** |
| | | | |
| **Equity capital** | | | |
| Cooperative capital | | | |
| Cooperative contributions | | 10,548 | 10,707 |
| POP Shares | | 59,455 | 60,153 |
| **Total cooperative capital** | | **70,003** | **70,860** |
| Reserves | | 154,611 | 152,105 |
| Retained earnings | | 420,903 | 343,709 |
| **Total equity capital** | | **645,518** | **566,675** |
| | | | |
| **Total liabilities and equity capital** | | **6,009,345** | **5,774,192** |

POP Bank Group has adopted the IFRS 17 Insurance Contracts standard from January 1, 2023, retrospectively, and reclassified the financial assets of the insurance operations in connection with the initial application, and therefore the comparative period has been restated. The change is described in Note 2.

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

| (EUR 1,000) | Cooperative capital | Fair value reserve | Other reserves | Retained earnings | Total | Non-controlling interests | Total equity capital |
|---|---|---|---|---|---|---|---|
| **Balance 1 Jan 2023** | **70,860** | **-10,220** | **162,325** | **343,709** | **566,674** | **-** | **566,674** |
| **Comprehensive income** | | | | | | | |
| Profit for the financial year | - | - | - | 79,095 | **79,095** | - | **79,095** |
| Other comprehensive income | - | 2,294 | - | - | **2,294** | - | **2,294** |
| **Total comprehensive income** | **-** | **2,294** | **-** | **79,095** | **81,389** | **-** | **81,389** |
| **Transactions with shareholders** | | | | | | | |
| Change in cooperative capital | -857 | - | - | - | **-857** | - | **-857** |
| Profit distribution | | - | - | -1,689 | **-1,689** | - | **-1,689** |
| Transfer of reserves | - | - | 212 | -212 | **-** | **-** | **-** |
| **Transactions with shareholders total** | **-857** | **-** | **212** | **-1,900** | **-2,546** | **-** | **-2,546** |
| **Balance 30 Jun 2023** | **70,003** | **-7,925** | **162,537** | **420,903** | **645,518** | **-** | **645,518** |

| (EUR 1,000) | Cooperative capital | Fair value reserve | Other reserves | Retained earnings | Total | Non-controlling interests | Total equity capital |
|---|---|---|---|---|---|---|---|
| **Balance** | **67,056** | **4,038** | **159,839** | **321,437** | **552,370** | **439** | **552,809** |
| IFRS 17 transition | - | -189 | - | 1,164 | **975** | - | **975** |
| **Balance 1 Jan 2022** | **67,056** | **3,849** | **159,839** | **322,601** | **553,346** | **439** | **553,785** |
| **Comprehensive income** | | | | | | | |
| Profit for the financial year | - | - | - | 3,725 | **3,725** | 0 | **3,725** |
| Other comprehensive income | - | -7,669 | - | - | **-7,669** | - | **-7,669** |
| **Total comprehensive income** | **-** | **-7,669** | **-** | **3,725** | **-3,945** | **0** | **-3,944** |
| **Transactions with shareholders** | | | | | | | |
| Change in cooperative capital | 246 | - | - | - | **246** | - | **246** |
| Profit distribution | - | - | - | -1,599 | **-1,599** | - | **-1,599** |
| Transfer of reserves | 532 | - | 2,486 | -3,017 | **-** | - | **-** |
| **Transactions with shareholders total** | **778** | **-** | **2,486** | **-4,617** | **-1,353** | **-** | **-1,353** |
| Disposals: shares, measured at fair value through other comprehensive income | - | -1,396 | - | 1,396 | **-** | - | **-** |
| Other changes | - | - | - | 20 | **20** | -439 | **-419** |
| **Other changes total** | **-** | **-1,396** | **-** | **1,416** | **20** | **-439** | **-419** |
| **Balance 30 Jun 2022** | **67,834** | **-5,216** | **162,325** | **323,125** | **548,068** | **-** | **548,068** |

POP Bank Group has adopted the IFRS 17 Insurance Contracts standard from January 1, 2023, retrospectively, and reclassified the financial assets of the insurance operations in connection with the initial application, and therefore the comparative period has been restated. The change is described in Note 2.

# POP BANK GROUP'S CASH FLOW STATEMENT

| (EUR 1,000) | Note | 1 Jan - 30 Jun 2023 | 1 Jan - 30 Jun 2022 |
|---|---|---|---|
| **Cash flow from operations** | | | |
| Income statement | | 79,095 | 3,725 |
| Adjustments to profit for the financial year | | -24,344 | 9,608 |
| **Increase (-) or decrease (+) in operating assets** | | **-150,685** | **-169,949** |
| Advances to credit institutions | | -2,967 | -2,437 |
| Advances to customers | | -56,061 | -129,487 |
| Investment assets | | -78,569 | -23,957 |
| Other assets | | -13,088 | -14,068 |
| **Increase (+) or decrease (-) in operating liabilities** | | **-40,643** | **109,501** |
| Liabilities to credit institutions | 7,8,10 | -49,984 | -417 |
| Liabilities to customers | 7,8,10 | -2,869 | 108,422 |
| Other liabilities | | 16,405 | 4,951 |
| Income tax paid | | -4,195 | -3,455 |
| **Total cash flow from operations** | | **-136,577** | **-47,115** |
| | | | |
| **Cash flow from investing activities** | | | |
| Changes in other investments | | 53,403 | 3,495 |
| Purchase of PPE and intangible assets | | -7,225 | -3,456 |
| Proceeds from sales of PPE and intangible assets | | 429 | 1,392 |
| **Total cash flow from investing activities** | | **46,608** | **1,430** |
| | | | |
| **Cash flow from financing activities** | | | |
| Change in cooperative capital, net | | -857 | 778 |
| Interests paid on cooperative capital and other profit distribution | | -1,689 | -2,131 |
| Debt securities issued, increase | 7,8,11 | 309,681 | 298,242 |
| Debt securities issued, decrease | 7,8,11 | -62,226 | -147,979 |
| Payment of lease liabilities | | -88 | -576 |
| **Total cash flow from financing activities** | | **244,821** | **148,334** |

| (EUR 1,000) | Note | 1 Jan - 30 Jun 2023 | 1 Jan - 30 Jun 2022 |
|---|---|---|---|
| **Change in cash and cash equivalents** | | | |
| Cash and cash equivalents at period-start | | 464,047 | 314,365 |
| Cash and cash equivalents at the end of the period | | 618,899 | 417,014 |
| **Net change in cash and cash equivalents** | | **154,852** | **102,649** |
| | | | |
| **Cash and cash equivalents** | | | |
| Liquid assets | | 596,336 | 389,052 |
| Receivables from credit institutions payable on demand | | 22,563 | 27,961 |
| **Total** | | **618,899** | **417,014** |

## ADDITIONAL INFORMATION OF THE CASH FLOW STATEMENT

| | | |
|---|---|---|
| **Interest received** | **117,211** | **41,645** |
| **Interest paid** | **33,378** | **1,695** |
| **Dividends received** | **3,540** | **3,657** |
| | | |
| **Adjustments to profit for the financial year** | | |
| Non-cash items and other adjustments | | |
| Impairment losses on receivables | 4,809 | 2,135 |
| Depreciations | 2,656 | 4,362 |
| Technical provision | 442 | 3,572 |
| Other | -32,251 | -461 |
| **Adjustments to profit for the financial year total** | **-24,344** | **9,608** |

POP Bank Group has adopted the IFRS 17 Insurance Contracts standard from January 1, 2023, retrospectively, and reclassified the financial assets of the insurance operations in connection with the initial application, and therefore the comparative period has been restated. The change is described in Note 2.

# NOTES

## NOTE 1 POP BANK GROUP

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. The POP Banks are independent, regionally and locally operating cooperative banks. POP Bank Centre coop functions as the central institution of the Group. POP Bank Group offers retail banking services to retail customers, small and medium-sized enterprises, as well as non-life insurance services to retail customers.

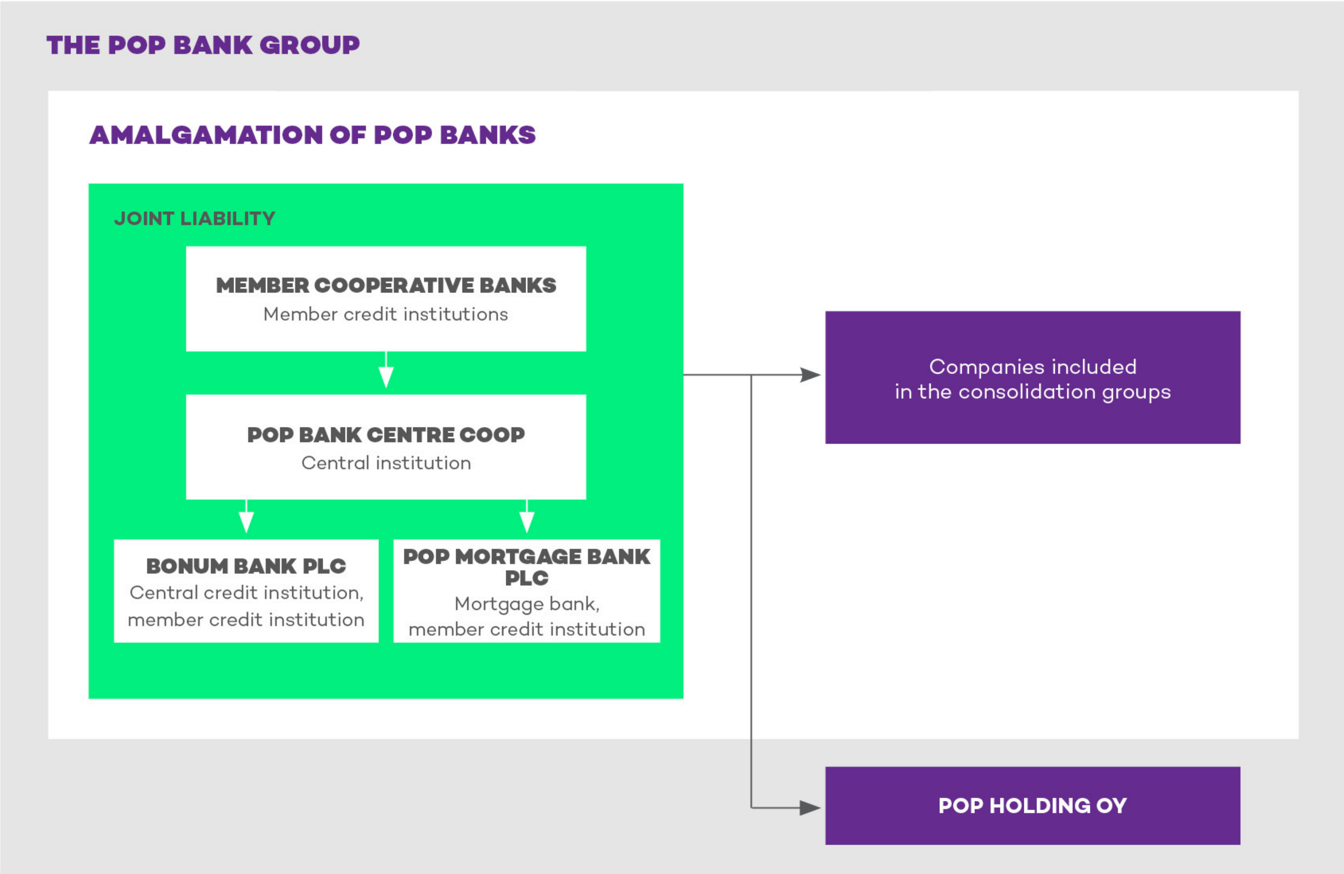
The member credit institutions of POP Bank Centre coop are the 18 cooperative banks and the central credit institution of the member cooperative banks, Bonum Bank Plc and mortgage bank POP Mortgage Bank. The amalgamation of POP Banks is an economic entity referred to in the Act on the Amalgamation of 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. Companies that belong in consolidation groups are mainly real estate companies.

POP Bank Group also includes other entities besides the entities included in the amalgamation of POP Banks. During the review period, POP Bank Group relinquished control over Finnish P&C Insurance Ltd and continues as a minority shareholder in the company. The sale was completed on May 25, 2023. In consolidation of the company into the half-year financial report of POP Bank Group, the IFRS 17 standard has been applied, and the company's income and expenses are presented in the half-year financial report as a discontinued operations in accordance with the IFRS 5 standard. POP Bank Group still has considerable control in Finnish P&C Insurance Ltd, and the company will be consolidated into the financial statements of POP Bank Group as an associated company after the sale. A minority share in the insurance company is owned by POP Holding Ltd, which is wholly owned by POP Banks and POP Bank Centre coop, and which is not in the scope of joint liability. The sale also affected POP Bank Group's segment reporting. Changes to the accounting policies are presented more in detail in Note 2.

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 POP Bank Group's consolidated IFRS Financial Statements 31 December 2022.

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

## POP BANK GROUP STRUCTURE




One merger was completed within POP Bank Group during the review period, when Jämijärven Osuuspankki merged with Kurikan Osuuspankki at the end of May 2023. After the merger, POP Bank Group has 18 cooperative banks. The merger was an intra-Group arrangement and had no impact on POP Bank Group's consolidated financial information.

# NOTE 2 POP BANK GROUP'S ACCOUNTING POLICIES

The consolidated financial statements of 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 2023 has been prepared in accordance with IAS 34 Interim Financial reporting and the accounting policies presented in POP Bank Group's consolidated IFRS Financial Statements 31 December 2022.

The figures disclosed in the half-year financial report are unaudited. The reported figures 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 POP Bank Group is euro.

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

## DISCONTINUED OPERATIONS

During the review period, POP Bank Group relinquished control over Finnish P&C Insurance Ltd, which comprises the insurance segment, and continues as a minority shareholder in the company. POP Bank Group applies the IFRS 5 Non-current assets held for sale and discontinued operations standard in the classification, presentation and recognition of sales of insurance operations. POP Bank Group reports the sold insurance operations as discontinued operations, and the result of discontinued operations is reported separately from the income and expenses of continuing operations. The comparative period has been restated accordingly. Intra-group income and expenses between continuing and discontinuing operations have been eliminated. In the balance sheet of comparative period, discontinued operations are not presented separately.

The IFRS 17 Insurance contracts standard has been applied to insurance operations from January 1, 2023, retrospectively, and therefore the comparative period for insurance operations has been restated.

## SEGMENT REPORTING

After the sale, POP Bank Group has only one operating segment, which is not reported separately. The previously separately reported insurance segment is presented in Note 3 Discontinued operations.

Until May 2023, POP Bank Group had two operating segments: banking and insurance. The operating segments have been reported in a way that is consistent with the internal reporting to the management. The chief operating decision maker of 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, Bonum Bank Plc and POP Mortgage Bank Plc. Cooperative banks engage in retail banking and Bonum Bank Plc acts as their central credit institution. POP Mortgage Bank Plc acts as mortgage bank of the member cooperative banks, which is responsible for acquiring external funding for the Group in cooperation with Bonum Bank Plc.

The Insurance segment has been comprised Finnish P&C Insurance Ltd, a provider of vehicle, property and personal insurance policies to private customers. In May 2023, POP Bank Group relinquished control over Finnish P&C Insurance Ltd.

## CHANGES IN THE ACCOUNTING POLICIES

### *Adoption of IFRS 17 Insurance contracts*

POP Bank Group has started applying the IFRS 17 Insurance contracts standard on January 1, 2023. At the date of initial adoption of IFRS 17 standard, POP Bank Group applies the possibility of designate financial assets as measured at fair value through profit or loss according to IFRS 9 standard. POP Bank Group applies a fully retrospective approach and has restated the comparative figures of the previous accounting period.

The new standard applies for insurance contracts and helps investors and other parties to better understand insurers' risk exposure and their profitability and financial position. The new standard replaced the previous IFRS 4 Insurance Contracts standard, and its adoption affected the valuation, recognition and presentation of insurance contracts in the financial statements.

As a result of the adoption of the IFRS 17 standard, POP Bank Group's equity on January 1, 2022 increased by EUR 1 million at the time of transition due to the differences in measurement of balance sheet items. The impact of the adoption on the balance sheet and equity is shown in detail in the table below.

# THE IMPACT OF THE ADOPTION OF IFRS 17 STANDARD ON THE BALANCE SHEET AND EQUITY CAPITAL 1 JAN 2022

| (EUR 1,000) | 31 Dec 2021 | IFRS 17 | IFRS 9 re-classification | 1 Jan 2022 |
|---|---|---|---|---|
| **Assets** | | | | |
| Liquid assets | 279,882 | - | - | 279,882 |
| Loans and advances to credit institutions | 73,897 | - | - | 73,897 |
| Loans and advances to customers | 4,243,829 | - | - | 4,243,829 |
| Investment assets | 681,552 | - | - | 681,552 |
| Investments in associates | 214 | - | - | 214 |
| Reinsurance contract assets | - | 13,136 | - | 13,136 |
| Intangible assets | 9,298 | - | - | 9,298 |
| Property, plant and equipment | 29,611 | - | - | 29,611 |
| Other assets | 34,014 | -11,614 | - | 22,399 |
| Tax assets | 5,401 | - | -50 | 5,351 |
| **Total assets** | **5,357,697** | **1,522** | **-50** | **5,359,169** |
| | | | | |
| **Liabilities** | | | | |
| Liabilities to credit institutions | 166,484 | - | - | 166,484 |
| Liabilities to customers | 4,222,364 | - | - | 4,222,364 |
| Insurance contract liabilities | 52,692 | 1,395 | - | 54,087 |
| Debt securities issued to the public | 284,920 | - | - | 284,920 |
| Other liabilities | 50,060 | -1,131 | - | 48,929 |
| Tax liabilities | 28,367 | 252 | -19 | 28,600 |
| **Total liabilities** | **4,804,888** | **516** | **-19** | **4,805,384** |

| (EUR 1,000) | 31 Dec 2021 | IFRS 17 | IFRS 9 re-classification | 1 Jan 2022 |
|---|---|---|---|---|
| **Equity capital** | | | | |
| Cooperative capital | 67,056 | - | - | 67,056 |
| Reserves | | | | |
| Fair value reserve | 4,038 | - | -189 | 3,849 |
| Other reserves | 159,839 | - | - | 159,839 |
| Retained earnings | 321,437 | 1,007 | 158 | 322,601 |
| Non-controlling interests | 439 | - | - | 439 |
| **Total equity capital** | **552,809** | **1,007** | **-31** | **553,785** |
| | | | | |
| **Total liabilities and equity capital** | **5,357,697** | **1,522** | **-50** | **5,359,169** |

# THE IMPACT OF THE ADOPTION OF IFRS 17 STANDARD ON THE BALANCE SHEET AND EQUITY CAPITAL 31 DEC 2022

| (EUR 1,000) | 31 Dec 2022 | IFRS 17 | IFRS 9 re-classification | 31 Dec 2022 |
|---|---|---|---|---|
| **Assets** | | | | |
| Liquid assets | 448,499 | - | - | 448,499 |
| Loans and advances to credit institutions | 62,333 | - | - | 62,333 |
| Loans and advances to customers | 4,448,480 | - | - | 4,448,480 |
| Investment assets | 712,087 | - | - | 712,087 |
| Investments in associates | 230 | - | - | 230 |
| Reinsurance contract assets | - | 9,331 | - | 9,331 |
| Intangible assets | 8,965 | - | - | 8,965 |
| Property, plant and equipment | 27,268 | - | - | 27,268 |
| Other assets | 59,460 | -12,294 | - | 47,166 |
| Tax assets | 9,886 | - | -52 | 9,833 |
| **Total assets** | **5,777,207** | **-2,963** | **-52** | **5,774,192** |
| | | | | |
| **Liabilities** | | | | |
| Liabilities to credit institutions | 163,139 | - | - | 163,139 |
| Liabilities to customers | 4,325,946 | - | - | 4,325,946 |
| Derivatives | 12,495 | - | - | 12,495 |
| Insurance contract liabilities | 57,011 | -8,770 | - | 48,241 |
| Debt securities issued to the public | 565,252 | - | - | 565,252 |
| Other liabilities | 64,397 | -1,126 | | 63,271 |
| Tax liabilities | 28,350 | 1,387 | -563 | 29,173 |
| **Total liabilities** | **5,216,590** | **-8,510** | **-563** | **5,207,517** |

| (EUR 1,000) | 31 Dec 2022 | IFRS 17 | IFRS 9 re-classification | 31 Dec 2022 |
|---|---|---|---|---|
| **Equity capital** | | | | |
| Cooperative capital | 70,860 | - | - | 70,860 |
| Reserves | | | | |
| Fair value reserve | -12,583 | - | 2,363 | -10,220 |
| Other reserves | 162,325 | - | - | 162,325 |
| Retained earnings | 340,014 | 5,546 | -1,852 | 343,709 |
| **Total equity capital** | **560,617** | **5,546** | **511** | **566,674** |
| | | | | |
| **Total liabilities and equity capital** | **5,777,207** | **-2,963** | **-52** | **5,774,192** |

The application of IFRS 17 standard did not have an effect on the capital adequacy of the amalgamation of POP Banks, as the insurance company is neither in scope of joint liability nor part of the amalgamation.

## SCOPE OF THE STANDARD

In POP Bank Group, the standard is applied to all issued direct insurance contracts as well as reinsurance contracts held. The Group has neither insurance contracts containing investment components or embedded derivatives, nor insurance contracts containing distinct components for services other than insurance services.

Insurance contracts has been issued by Finnish P&C Insurance Ltd, which has been consolidated in POP Bank Group's IFRS financial statements using the acquisition method until the moment of sale. In the sale, POP Bank Group relinquished control over the company, and the company's financial statements will in the future be consolidated by using the equity method.

The accounting policies according to the IFRS 17 standard are presented in Note 2 of POP Bank Group's IFRS financial statements 2022.

## 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. More detailed information on the fair values and valuation techniques of financial assets is provided in Note 8.

Increased inflation and rapidly rising market interest rates have weakened economic growth forecasts, which causes uncertainty in economic development. The fair values and impairments of financial assets are therefore subject to greater uncertainty 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.

Based on management's judgement, the Group has made additional impairment loss provisions (ECL) in previous financial periods, the amount of which was EUR 3,000 thousand at the beginning of the period. The provision was re-evaluated during the financial period 2023, and at the end of the period the amount of the provision remained the same. The provision is aimed to the receivables from corporate customers and is used to prepare for the negative impact of cost inflation to corporate and agricultural customers' ability to pay.

# NOTE 3 DISCONTINUED OPERATIONS

POP Bank Group relinquished control over Finnish P&C Insurance Ltd, which comprises the insurance segment, in a business transaction completed on May 25, 2023. POP Bank Group sold 70 per cent of the shares to LocalTapiola and continues as a minority shareholder in the company. The company has been consolidated into POP Bank Group's financial statements as a subsidiary until the sale was completed. POP Bank Group has only one operating segment after the sale, and therefore the Group does not prepare segment reporting.

POP Bank Group has adopted the IFRS 17 Insurance Contracts standard from January 1, 2023, retrospectively, and reclassified the financial assets of the insurance operations in connection with the initial application, and therefore the comparative period of discontinued operations has been restated.

Insurance operations are reported as discontinued operations in accordance with IFRS 5 Non-current assets held for sale and discontinued operations. The table enclosed show the profit of the discontinued operations and the impact of the discontinued operations on the balance sheet and cash flows of POP Bank Group. The profit from the discontinued operations is not comparable, since the insurance operations is included in the half-year result of 2023 for only five months, and the comparison period includes the result for six months.

| (EUR 1,000) | 1 Jan - 25 May 2023 | 1 Jan - 30 Jun 2022 |
|---|---|---|
| **Profit from discontinued operations** | | |
| **Net interest income** | 387 | 307 |
| **Net investment income** | 1,101 | -4,802 |
| **Insurance service result** | | |
| Insurance premium revenue | 20,755 | 23,930 |
| Insurance service expenses | -18,617 | -22,778 |
| Net income from reinsurance contracts | -28 | - |
| **Total net insurance service result** | **2,109** | **1,153** |
| **Net insurance finance income** | | |
| Net finance income from insurance contracts | -393 | 4,410 |
| Net finance income from reinsurance contracts | 126 | -1,451 |
| **Total net insurance finance income** | **-267** | **2,959** |
| **Other operating income** | **36** | **48** |
| **Other operating expenses** | **-77** | **-50** |
| **Profit from discontinued operations before taxes** | **3,290** | **-386** |
| **Profit from discontinued operations after taxes** | **3,290** | **-386** |
| Capital gain on discontinued operations | 38,098 | - |
| Fair valuation of share ownership | 3,840 | - |
| **Total capital gain on discontinued operations** | **41,939** | **-** |
| **Total profit from discontinued operations** | **45,228** | **-386** |

The discontinued operation had no items to be included in the comprehensive income statement, because in connection with the application of IFRS 17, financial assets belonging to insurance operations were designated retrospectively from fair value through other comprehensive income to fair value through profit and loss.

## THE EFFECT OF DISCONTINUED OPERATIONS ON THE BALANCE SHEET OF THE POP BANK GROUP AT THE TIME OF SALE

| (EUR 1,000) | 25 May 2023 |
|---|---|
| Loans and advances to credit institutions | 9,109 |
| Investment assets | 73,414 |
| Reinsurance contract assets | 11,297 |
| Intangible assets | 4,586 |
| Property, plant and equipment | 510 |
| Other assets | 816 |
| Tax assets | 1,353 |
| **Total assets** | **101,086** |
| | |
| Insurance contract liabilities | 50,244 |
| Other liabilities | 7,572 |
| Tax liabilities | 1,771 |
| **Total liabilities** | **59,587** |

## CASH FLOWS FROM DISCONTINUED OPERATIONS

| (EUR 1,000) | 25 May 2023 | 30 Jun 2022 |
|---|---|---|
| Cash flow from operations | 5,371 | -219 |
| Cash flow from investing activities | -1,469 | -675 |
| **Total cash flow** | **3,902** | **-894** |

## NOTE 4 NET INTEREST INCOME

| (EUR 1,000) | 1 Jan - 30 Jun 2023 | 1 Jan - 30 Jun 2022 |
|---|---|---|
| **Interest income** | | |
| Loans and advances to credit institutions | 6,944 | 0 |
| Loans and advances to customers | 83,641 | 40,588 |
| Debt securities | | |
| At amortised cost | 3,335 | 275 |
| At fair value through profit or loss | 75 | 97 |
| At fair value through other comprehensive income | 3,081 | 1,228 |
| Hedging derivatives | 8,303 | - |
| Other interest income | 596 | 730 |
| **Total interest income** | **105,974** | **42,917** |
| of which positive interest expense | - | 334 |
| **Interest expenses** | | |
| Liabilities to credit institutions | -1,747 | -272 |
| Liabilities to customers | -6,950 | -976 |
| Debt securities issued to the public | -9,832 | -837 |
| Hedging derivatives | -9,352 | - |
| Other interest expenses | -128 | -514 |
| **Total interest expenses** | **-28,009** | **-2,599** |
| of which negative interest income | -4 | -725 |
| **Net interest income** | **77,966** | **40,319** |
| Interest income from financial assets impaired due to credit risk (stage 3) | 2,357 | 2,670 |

## NOTE 5 NET COMMISSIONS AND FEES

| (EUR 1,000) | 1 Jan - 30 Jun 2023 | 1 Jan - 30 Jun 2022 |
|---|---|---|
| **Commissions and fees** | | |
| Lending | 4,202 | 4,155 |
| Deposits | 140 | 122 |
| Payment transfers | 14,714 | 12,756 |
| Legal services | 1,260 | 1,195 |
| Intermediated services | 2,082 | 2,090 |
| Issuing guarantees | 296 | 288 |
| Funds | 1,786 | 1,804 |
| Other commission income | 488 | 519 |
| **Total commissions and fees** | **24,968** | **22,929** |
| **Commissions expenses** | | |
| Payment transfers | -1,834 | -1,824 |
| Other commission expenses | -147 | -92 |
| **Total commission expenses** | **-1,981** | **-1,916** |
| **Net commissions and fees** | **22,987** | **21,013** |

POP Bank Group has adopted the IFRS 17 Insurance Contracts standard from January 1, 2023, retrospectively, and reclassified the financial assets of the insurance operations in connection with the initial application, and therefore the comparative period has been restated. The change is described in Note 2. POP Bank Group has relinquished control over insurance operations, and therefore profit for the insurance operations are presented separately as discontinued operations. Details of discontinued operations are presented in Note 3.

# NOTE 6 NET INVESTMENT INCOME

| (EUR 1,000) | 1 Jan - 30 Jun 2023 | 1 Jan - 30 Jun 2022 |
|---|---|---|
| **At fair value through profit or loss** | | |
| Debt securities | | |
| Capital gains and losses | 12 | -153 |
| Fair value gains and losses | -375 | -558 |
| Shares and participations | | |
| Dividend income | 3,394 | 3 472 |
| Capital gains and losses | 85 | -143 |
| Fair value gains and losses | -977 | -6 719 |
| **Total** | **2,139** | **-4 101** |
| **At fair value through other comprehensive income** | | |
| Debt securities | | |
| Capital gains and losses | 47 | 13 |
| Transferred from fair value reserve to the income statement | -150 | -454 |
| Shares and participations | | |
| Dividend income | 13 | 63 |
| **Total** | **-89** | **-378** |

| (EUR 1,000) | 1 Jan - 30 Jun 2023 | 1 Jan - 30 Jun 2022 |
|---|---|---|
| **Net income from foreign exchange trading** | | |
| **Net income from hedge accounting** | | |
| Change in hedging instruments' fair value | -6,029 | - |
| Change in hedged items' fair value | 5,804 | - |
| **Total** | **-225** | **-** |
| **Net income from investment property** | | |
| Rental income | 1,292 | 1,254 |
| Capital gains and losses | 151 | 164 |
| Other income from investment property | 30 | 91 |
| Maintenance charges and expenses | -1,669 | -1,007 |
| Depreciations and amortisation of investment property | -536 | -367 |
| Other expenses from investment property | -2 | -3 |
| **Total** | **-734** | **132** |
| **Total net investment income** | **1,106** | **-4,245** |

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

POP Bank Group has adopted the IFRS 17 Insurance Contracts standard from January 1, 2023, retrospectively, and reclassified the financial assets of the insurance operations in connection with the initial application, and therefore the comparative period has been restated. The change is described in Note 2. POP Bank Group has relinquished control over insurance operations, and therefore profit for the insurance operations are presented separately as discontinued operations. Details of discontinued operations are presented in Note 3.

# NOTE 7 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

## FINANCIAL ASSETS 30 JUN 2023

| (EUR 1,000) | At amortised cost | At fair value through profit or loss | At fair value through other comprehensive income | Expected credit loss | Total carrying amount |
|---|---|---|---|---|---|
| Liquid assets | 596,336 | - | - | - | **596,336** |
| Loans and advances to credit institutions | 72,315 | - | - | -1 | **72,314** |
| Loans and advances to customers | 4,544,766 | - | - | -44,383 | **4,500,382** |
| Debt securities* | 279,968 | 5,386 | 271,783 | -87 | **557,049** |
| Shares and participations | - | 138,303 | 1,399 | - | **139,702** |
| **Financial assets total** | **5,493,385** | **143,689** | **273,183** | **-44,472** | **5,865,784** |
| Other assets | | | | | **143,561** |
| **Total assets** | | | | | **6,009,345** |

*Expected credit loss of EUR 595 thousand from debt securities, measured at fair value through other comprehensive income, have been recorded in the fair value reserve.

## FINANCIAL ASSETS 31 DEC 2022

| (EUR 1,000) | At amortised cost | At fair value through profit or loss** | At fair value through other comprehensive income | Expected credit loss | Total carrying amount |
|---|---|---|---|---|---|
| Liquid assets | 448,499 | - | - | - | **448,499** |
| Loans and advances to credit institutions | 62,334 | - | - | -1 | **62,333** |
| Loans and advances to customers | 4,489,992 | - | - | -41,512 | **4,448,480** |
| Debt securities* | 207,677 | 56,789 | 255,347 | -67 | **519,746** |
| Shares and participations | - | 166,411 | 1,347 | - | **167,758** |
| **Financial assets total** | **5,208,501** | **223,200** | **256,695** | **-** | **5,646,816** |
| Other assets | | | | | **127,376** |
| **Total assets** | | | | | **5,774,192** |

*Expected credit loss of EUR 556 thousand from debt securities, measured at fair value through other comprehensive income, have been recorded in the fair value reserve.

**Of the debt securities at fair value through profit or loss, EUR 46,7 thousand have been designated at fair value through profit or loss in order to eliminate the asymmetry caused by the adoption of the IFRS 17 standard.

POP Bank Group has adopted the IFRS 17 Insurance Contracts standard from January 1, 2023, retrospectively, and reclassified the financial assets of the insurance operations in connection with the initial application, and therefore the comparative period of discontinued operations has been restated. The change is described in Note 2.

## FINANCIAL LIABILITIES 30 JUN 2023

| (EUR 1,000) | At fair value through profit or loss | At amortised cost | Total carrying amount |
|---|---|---|---|
| Liabilities to credit institutions | - | 113,155 | **113,155** |
| Liabilities to customers | - | 4,320,431 | **4,320,431** |
| Derivatives | 18,524 | - | **18,524** |
| Debt securities issued to the public | - | 810,370 | **810,370** |
| **Financial liabilities total** | **18,524** | **5,243,956** | **5,262,480** |
| Other liabilities | | | **101,348** |
| **Total liabilities** | | | **5,363,827** |

## FINANCIAL LIABILITIES 31 DEC 2022

| (EUR 1,000) | At fair value through profit or loss | At amortised cost | Total carrying amount |
|---|---|---|---|
| Liabilities to credit institutions | - | 163,139 | **163,139** |
| Liabilities to customers | - | 4,325,946 | **4,325,946** |
| Derivatives | 12,495 | - | **12,495** |
| Debt securities issued to the public | - | 565,252 | **565,252** |
| **Financial liabilities total** | **12,495** | **5,054,337** | **5,066,832** |
| Other liabilities | | | **140,685** |
| **Total liabilities** | | | **5,207,517** |

# NOTE 8 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES FAIR VALUES BY VALUATION TECHNIQUE

## FINANCIAL ASSETS

| | 30 Jun 2023 | | 31 Dec 2022 | |
|---|---|---|---|---|
| (EUR 1,000) | Carrying amount | Fair value | Carrying amount | Fair value |
| Liquid assets | 596,336 | 596,336 | 448,499 | 448,499 |
| Loans and advances to credit institutions | 72,314 | 72,314 | 62,333 | 62,333 |
| Loans and advances to customers | 4,500,382 | 4,465,968 | 4,448,480 | 4,410,256 |
| Investment assets | | | | |
| At amortised cost | 279,880 | 275,684 | 207,610 | 204,124 |
| At fair value through profit or loss | 143,689 | 143,689 | 223,200 | 223,200 |
| At fair value through other comprehensive income | 273,183 | 273,183 | 256,695 | 256,695 |
| **Total** | **5,865,784** | **5,827,174** | **5,646,816** | **5,605,107** |

## FINANCIAL LIABILITIES

| | 30 Jun 2023 | | 31 Dec 2022 | |
|---|---|---|---|---|
| (EUR 1,000) | Carrying amount | Fair value | Carrying amount | Fair value |
| Liabilities to credit institutions | 113,155 | 113,131 | 163,139 | 163,085 |
| Liabilities to customers | 4,320,431 | 4,319,568 | 4,325,946 | 4,325,150 |
| Derivatives | 18,524 | 18,524 | 12,495 | 12,495 |
| Debt securities issued to the public | 810,370 | 802,212 | 565,252 | 559,359 |
| **Total** | **5,262,480** | **5,253,435** | **5,066,832** | **5,060,089** |

## FAIR VALUE HIERARCHY LEVELS OF ITEMS RECURRENTLY RECOGNISED AT FAIR VALUE

### ASSETS RECURRENTLY MEASURED AT FAIR VALUE 30 JUN 2023

| (EUR 1,000) | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|
| **At fair value through profit or loss** | | | | |
| Shares and participations | 132,302 | - | 6,000 | **138,303** |
| Debt securities | 1,950 | - | 3,436 | **5,386** |
| **At fair value through other comprehensive income** | | | | |
| Shares and participations | - | - | 1,399 | **1,399** |
| Debt securities | 225,805 | 45,495 | 483 | **271,783** |
| **Total** | **360,058** | **45,495** | **11,318** | **416,871** |

### LIABILITIES RECURRENTLY MEASURED AT FAIR VALUE 30 JUN 2023

| (EUR 1,000) | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|
| **At fair value through profit or loss** | | | | |
| Derivatives | - | 18,524 | - | **18,524** |
| **Total** | **-** | **18,524** | **-** | **18,524** |

## ASSETS RECURRENTLY MEASURED AT FAIR VALUE 31 DEC 2022

| (EUR 1,000) | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|
| **At fair value through profit or loss** | | | | |
| Shares and participations | 154,769 | - | 11,642 | **166,411** |
| Debt securities | 51,073 | 995 | 4,721 | **56,789** |
| **At fair value through other comprehensive income** | | | | |
| Shares and participations | - | - | 1,347 | **1,347** |
| Debt securities | 211,216 | 43,642 | 489 | **255,347** |
| **Total** | **417,058** | **44,638** | **18,199** | **479,895** |

POP Bank Group has adopted the IFRS 17 Insurance Contracts standard from January 1, 2023, retrospectively, and reclassified the financial assets of the insurance operations in connection with the initial application, and therefore the comparative period has been restated. The change is described in Note 2.

## LIABILITIES RECURRENTLY MEASURED AT FAIR VALUE 31 DEC 2022

| (EUR 1,000) | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|
| **At fair value through profit or loss** | | | | |
| Derivatives | - | 12,495 | - | **12,495** |
| **Total** | **-** | **12,495** | **-** | **12,495** |

### FAIR VALUE DETERMINATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets are recorded in the balance sheet either at fair value or at amortized cost. The classification and measurement of financial instruments is described in more detail in IFRS financial statements of POP Bank Group's on 31 December 2022 in Note 2 POP Bank Group's accounting policies.

### FAIR VALUE HIERARCHIES

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

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

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

### TRANSFERS BETWEEN FAIR VALUE HIERARCHIES

Transfers between hierarchy levels are considered to have taken place on the date of the occurrence of the event that caused the transfer or the date when the circumstances changed.

During the review period, EUR 30 (1,826) thousands of debt securities have been transferred from hierarchy level 1 and 2 to level 3 based on the trading volumes.

## CHANGES IN FINANCIAL ASSETS RECURRENTLY MEASURED AT FAIR VALUE CLASSIFIED INTO LEVEL 3

| (EUR 1,000) | At fair value through profit or loss | At fair value through other comprehensive income | Total |
|---|---|---|---|
| **Carrying amount 1 Jan 2023** | **16,363** | **1,835** | **18,199** |
| Purchases | 900 | 7 | **907** |
| Sales* | -6,548 | -7 | **-6,555** |
| Matured during the financial year | -200 | - | **-200** |
| Realised changes in value recognised in income statement | -4 | - | **-4** |
| Unrealised changes in value recognised in the income statement | -1,073 | - | **-1,073** |
| Changes in value recognised in other comprehensive income | - | 17 | **17** |
| Transfers from levels 1 and 2 | - | 30 | **30** |
| Transfers to levels 1 and 2 | -3 | - | **-3** |
| **Carrying amount 30 Jun 2023** | **9,436** | **1,882** | **11,318** |

*Sales include write-offs from the balance sheet resulting from the relinquishment of control for EUR 6,468 thousand.

| (EUR 1,000) | At fair value through profit or loss | At fair value through other comprehensive income | Total |
|---|---|---|---|
| **Carrying amount 1 Jan 2022** | **15,768** | **3,819** | **19,587** |
| Purchases | 1,974 | 643 | **2,617** |
| Sales | -2,865 | -4,453 | **-7,318** |
| Matured during the financial year | -610 | - | **-610** |
| Realised changes in value recognised in income statement | -128 | -468 | **-595** |
| Unrealised changes in value recognised in the income statement | 2,207 | - | **2,207** |
| Changes in value recognised in other comprehensive income | - | -1,229 | **-1,229** |
| Realised changes in value recognised in retained earnings | - | 1,922 | **1,922** |
| Transfers from levels 1 and 2 | 130 | 1,696 | **1,826** |
| Transfers to levels 1 and 2 | -112 | -95 | **-207** |
| **Carrying amount 31 Dec 2022** | **16,363** | **1,835** | **18,199** |

## SENSITIVITY ANALYSIS OF FINANCIAL ASSETS AT LEVEL 3

### 30 JUN 2023

| (EUR 1,000) | Carrying amount | Possible effect on equity capital Positive | Negative |
|---|---|---|---|
| At fair value through profit or loss | 9,436 | 935 | -935 |
| At fair value through other comprehensive income | 1,883 | 215 | -215 |
| **Total** | **11,318** | **1,150** | **-1,150** |

### 31 DEC 2022

| (EUR 1,000) | Carrying amount | Possible effect on equity capital Positive | Negative |
|---|---|---|---|
| At fair value through profit or loss | 16,363 | 1,806 | -1,806 |
| At fair value through other comprehensive income | 1,836 | 207 | -207 |
| **Total** | **18,199** | **2,013** | **-2,013** |

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%.

POP Bank Group does not have assets measured non-recurrently at fair value.

# NOTE 9 IMPAIRMENT LOSSES ON FINANCIAL ASSETS

## IMPAIRMENT LOSSES RECORDED DURING THE REPORTING PERIOD

| (EUR 1,000) | 1 Jan - 30 Jun 2023 | 1 Jan - 30 Jun 2022 |
|---|---|---|
| Change of ECL due to write-offs | 997 | 201 |
| Change of ECL, receivables from customers and off-balance sheet items | -3,771 | -2,400 |
| Change of ECL, debt securities | -60 | 188 |
| Final credit losses | -1,321 | -116 |
| **Impairment losses on financial assets total** | **-4,156** | **-2,126** |

In the review period, EUR 1,321 (116) thousand were recorded as final credit losses.

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 and, for stage 3, financial instruments whose counterparty has been declared as default. Expected credit losses are determined for financial instruments classified in stage 2 and 3 based on the expected credit losses over the entire life of the instrument.

The basis for calculating the expected credit losses and the definition of default are presented in Note 2 POP Bank Group's accounting policies of POP Bank Group's financial statements 2022, in section 6.5 Impairment of financial assets.

## RECEIVABLES FROM CUSTOMERS

| (EUR 1,000) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **ECL 1 Jan 2023** | **5,258** | **4,783** | **31,473** | **41,513** |
| Transfers to stage 1 | 175 | -978 | -1,568 | **-2,371** |
| Transfers to stage 2 | -287 | 1,734 | -986 | **461** |
| Transfers to stage 3 | -133 | -373 | 5,981 | **5,475** |
| Increases due to origination | 949 | 335 | 778 | **2,063** |
| Decreases due to derecognition | -461 | -188 | -3,161 | **-3,811** |
| Changes due to change in credit risk (net) | -655 | 73 | 2,633 | **2,051** |
| Decreases due to write-offs | - | - | -997 | **-997** |
| **Total** | **-411** | **603** | **2,680** | **2,871** |
| **ECL 30 Jun 2023** | **4,846** | **5,386** | **34,152** | **44,384** |

The largest change in expected credit losses on receivables from customers comes from transfers to stage 3 that totaled EUR 5,475 (5,500) thousand. Decreases due to derecognition were EUR 3,811 (6,528) thousand. ECL for receivables from customers includes a management judgement based provision of EUR 3,000 thousand. The provision is aimed to the receivables from corporate customers and is used to prepare for the negative impact of cost inflation to corporate and agricultural customers' ability to pay. Of the provision, EUR 500 thousand are allocated to stage 2 and EUR 2,500 thousand to stage 3.

## DEBT SECURITIES

| (EUR 1,000) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **ECL 1 Jan 2023** | **246** | **377** | **-** | **623** |
| Transfers to stage 1 | 43 | -21 | - | **22** |
| Transfers to stage 2 | -99 | 72 | - | **-26** |
| Increases due to origination | 43 | 19 | - | **61** |
| Decreases due to derecognition | -8 | -18 | - | **-26** |
| Changes due to change in credit risk (net) | -53 | 82 | - | **29** |
| **Total** | **-74** | **134** | **-** | **60** |
| **ECL 30 Jun 2023** | **172** | **511** | **-** | **683** |

## OFF-BALANCE SHEET COMMITMENTS

| (EUR 1,000) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **ECL 1 Jan 2023** | **390** | **243** | **245** | **878** |
| Transfers to stage 1 | 5 | -190 | -26 | **-211** |
| Transfers to stage 2 | -5 | 29 | -2 | **22** |
| Transfers to stage 3 | -1 | -1 | 125 | **123** |
| Increases due to origination | 112 | 66 | 36 | **213** |
| Decreases due to derecognition | -11 | -1 | -17 | **-29** |
| Changes due to change in credit risk (net) | -180 | -16 | -19 | **-216** |
| **Total** | **-81** | **-113** | **96** | **-97** |
| **ECL 30 Jun 2023** | **309** | **130** | **341** | **781** |

| (EUR 1,000) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **ECL 1 Jan 2023** | **5,894** | **5,402** | **31,717** | **43,013** |
| **ECL 30 Jun 2023** | **5,327** | **6,027** | **34,493** | **45,848** |

## RECEIVABLES FROM CUSTOMERS

| (EUR 1,000) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **ECL 1 Jan 2022** | **5,199** | **3,960** | **27,363** | **36,523** |
| Transfers to stage 1 | 122 | -1,169 | -1,119 | **-2,165** |
| Transfers to stage 2 | -378 | 1,662 | -882 | **402** |
| Transfers to stage 3 | -164 | -414 | 6,079 | **5,500** |
| Increases due to origination | 2,293 | 1,058 | 1,457 | **4,808** |
| Decreases due to derecognition | -944 | -533 | -5,051 | **-6,528** |
| Changes due to change in credit risk (net) | -870 | 218 | 5,714 | **5,062** |
| Decreases due to write-offs | - | - | -2,089 | **-2,089** |
| **Total** | **58** | **822** | **4,109** | **4,989** |
| **ECL 31 Dec 2022** | **5,258** | **4,783** | **31,473** | **41,513** |

## DEBT SECURITIES

| (EUR 1,000) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **ECL 1 Jan 2022** | **132** | **777** | **393** | **1,301** |
| Transfers to stage 1 | 125 | -178 | - | **-54** |
| Transfers to stage 2 | -6 | 67 | - | **61** |
| Increases due to origination | 38 | 98 | - | **135** |
| Decreases due to derecognition | -30 | -181 | -393 | **-604** |
| Changes due to change in credit risk (net) | -12 | -206 | - | **-218** |
| **Total** | **114** | **-400** | **-393** | **-679** |
| **ECL 31 Dec 2022** | **246** | **377** | **-** | **623** |

## OFF-BALANCE SHEET COMMITMENTS

| (EUR 1,000) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **ECL 1 Jan 2022** | **414** | **43** | **215** | **672** |
| Transfers to stage 1 | 2 | -14 | -19 | **-30** |
| Transfers to stage 2 | -12 | 26 | -1 | **14** |
| Transfers to stage 3 | -3 | -1 | 40 | **36** |
| Increases due to origination | 190 | 204 | 69 | **463** |
| Decreases due to derecognition | -40 | -8 | -99 | **-148** |
| Changes due to change in credit risk (net) | -162 | -8 | 40 | **-129** |
| **Total** | **-24** | **200** | **30** | **206** |
| **ECL 31 Dec 2022** | **390** | **243** | **245** | **878** |

| (EUR 1,000) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **ECL 1 Jan 2022** | **5,745** | **4,780** | **27,971** | **38,495** |
| **ECL 31 Dec 2022** | **5,894** | **5,402** | **31,717** | **43,013** |

POP Bank Group has adopted the IFRS 17 Insurance Contracts standard from January 1, 2023, retrospectively, and reclassified the financial assets of the insurance operations in connection with the initial application, and therefore the comparative period has been restated. The change is described in Note 2.

## BALANCE SHEET ITEM BY STAGE 30 JUN 2023

| (EUR 1,000) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Receivables from customers** | | | | |
| Private | 2,686,468 | 136,076 | 45,618 | **2,868,161** |
| Corporate | 945,115 | 95,274 | 41,581 | **1,081,970** |
| Agriculture | 501,773 | 55,434 | 37,427 | **594,634** |
| **Receivables from customers total** | **4,133,356** | **286,784** | **124,626** | **4,544,766** |
| ECL 30 Jun 2023 | 4,846 | 5,386 | 34,152 | **44,384** |
| Coverage ratio % | 0.1 % | 1.9 % | 27.4 % | **1.0 %** |
| **Off-balance sheet commitments** | | | | |
| Private | 218,337 | 4,715 | 451 | **223,503** |
| Corporate | 74,118 | 7,657 | 1,060 | **82,834** |
| Agriculture | 25,127 | 2,412 | 276 | **27,814** |
| **Off-balance sheet commitments total** | **317,581** | **14,783** | **1,787** | **334,151** |
| ECL 30 Jun 2023 | 309 | 130 | 341 | **781** |
| Coverage ratio % | 0.1 % | 0.9 % | 19.1 % | **0.2 %** |
| **Debt securities** | **523,576** | **28,175** | **-** | **551,751** |
| ECL 30 Jun 2023 | 172 | 511 | - | **683** |
| Coverage ratio % | 0.0 % | 1.8 % | - | **0.1 %** |
| **Credit risk by stages total** | **4,980,336** | **329,742** | **126,413** | **5,436,492** |

The table above summarizes the exposure to credit risk and the amount of ECL in relation to the amount of the exposure in stages. The coverage ratio illustrates the relative share of the ECL in the amount of exposure. There were no significant changes in the coverage ratio during the period.

## BALANCE SHEET ITEM BY STAGE 31 DEC 2022

| (EUR 1,000) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Receivables from customers** | | | | |
| Private | 2,686,967 | 130,836 | 43,677 | **2,861,480** |
| Corporate | 922,536 | 72,037 | 36,580 | **1,031,152** |
| Agriculture | 509,491 | 55,918 | 31,951 | **597,359** |
| **Receivables from customers total** | **4,118,994** | **258,791** | **112,207** | **4,489,992** |
| ECL 31 Dec 2022 | 5,258 | 4,783 | 31,473 | **41,513** |
| Coverage ratio % | 0.1 % | 1.8 % | 28.0 % | **0.9 %** |
| | | | | |
| **Off-balance sheet commitments** | | | | |
| Private | 222,252 | 4,438 | 530 | **227,220** |
| Corporate | 86,622 | 7,573 | 571 | **94,767** |
| Agriculture | 22,070 | 2,422 | 321 | **24,813** |
| **Off-balance sheet commitments total** | **330,944** | **14,434** | **1,422** | **346,800** |
| ECL 31 Dec 2022 | 390 | 243 | 245 | **878** |
| Coverage ratio % | 0.1 % | 1.7 % | 17.2 % | **0.3 %** |
| | | | | |
| **Debt securities** | **439,564** | **23,460** | **-** | **463,024** |
| ECL 31 Dec 2022 | 246 | 377 | - | **623** |
| Coverage ratio % | 0.1 % | 1.6 % | - | **0.1 %** |
| | | | | |
| **Credit risk by stages total** | **4,889,502** | **296,685** | **113,629** | **5,299,816** |

POP Bank Group has adopted the IFRS 17 Insurance Contracts standard from January 1, 2023, retrospectively, and reclassified the financial assets of the insurance operations in connection with the initial application, and therefore the comparative period has been restated. The change is described in Note 2.

# NOTE 10 LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

| (EUR 1,000) | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| **Liabilities to credit institutions** | | |
| To central banks | 78,400 | 128,400 |
| To other credit institutions | | |
| Repayable on demand | 2,853 | 1,303 |
| Not repayable on demand | 31,902 | 33,435 |
| **Liabilities to credit institutions total** | **113,155** | **163,139** |
| **Liabilities to customers** | | |
| Deposits | | |
| Repayable on demand | 3,655,396 | 3,855,631 |
| Not repayable on demand | 663,789 | 469,237 |
| Other financial liabilities | | |
| Not repayable on demand | 1,246 | 1,078 |
| **Liabilities to customers total** | **4,320,431** | **4,325,946** |
| **Liabilities to credit institutions and customers total** | **4,433,586** | **4,489,084** |

Liabilities to central banks includes secured TLTRO III funding total of EUR 78,400 (128,400) thousand. During the review period, EUR 50,000 thousand from the funding matured (TLTRO 3.4) and at the same time the final interest rate of the funding was reviewed. The remaining funding matures on March 2024 (TLTRO 3.7, EUR 70,000 thousand) and June 2024 (TLTRO 3.8, EUR 8,400 thousand), but for which early repayment is possible from January 2023.

The interest rate for TLTRO funding is based on the ECB's deposit rate and the growth of the bank's net lending. During the period 24.6.2020-23.6.2022, the interest rate may be the ECB's deposit rate (-0.5%) less an additional interest rate of 0.5%. The additional interest rate has been recognized as income during financial year 2021. The ECB recalibrated the conditions of the funding in November 2022, from which the interest rate is tied to the ECB's key interest rate. The final interest rate on the loan will be reviewed when the TLTRO III funding matures. The loan has been treated in accordance with IFRS 9 Financial Instruments -standard.

# NOTE 11 DEBT SECURITIES ISSUED TO THE PUBLIC

| (EUR 1,000) | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| Covered bonds | 489,175 | 243,038 |
| Debt securities issued to the public | 254,914 | 254,892 |
| Certificates of deposits | 66,280 | 67,323 |
| **Debt securities issued to the public total** | **810,370** | **565,252** |

Certificates of deposit with a total nominal value of EUR 67 (66,5) million were outstanding on the balance sheet date. Amount of the certificates is 10, nominals range from 2 million to 20 million euros with average maturity of 8.5 months.

## DEBT SECURITIES ISSUED TO THE PUBLIC

| (EUR 1,000)<br>Name | Issue date | Due date | Interest | Nominal | Currency |
|---|---|---|---|---|---|
| BONUM 12072023 | 3.6.2020 | 12.7.2023 | EB 12kk + 1.04 % | 50,000 | EUR |
| BONUM 17012024 | 3.6.2020 | 17.1.2024 | EB 12kk + 1.20 % | 55,000 | EUR |
| BONUM 26102026 | 20.10.2021 | 20.10.2026 | EB 3kk + 0.85 % | 20,000 | EUR |
| BONUM 16112025 | 16.11.2021 | 16.11.2025 | EB 3kk + 0.75 % | 30,000 | EUR |
| BONUM 05042025 | 5.4.2022 | 5.4.2025 | EB 3kk + 1.40 % | 50,000 | EUR |
| BONUM 22042027 | 22.4.2022 | 22.4.2027 | EB 3kk + 1.25 % | 50,000 | EUR |
| POPA 22092025 | 22.9.2022 | 22.9.2025 | 2.625% / fixed | 250,000 | EUR |
| **Issued during the financial year** | | | | | |
| POPA 26042028 | 26.4.2023 | 26.4.2028 | 3.625% / fixed | 250,000 | EUR |

## AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

| (EUR 1,000) | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| **Balance 1 Jan** | **565,252** | **284,920** |
| Debt securities issued, increase | 249,203 | 349,401 |
| Certificates of deposits, increase | 60,478 | 239,012 |
| **Total increase** | **309,681** | **588,413** |
| Debt securities issued, decrease | - | -100,000 |
| Certificates of deposits, decrease | -62,226 | -201,853 |
| **Total decrease** | **-62,226** | **-301,853** |
| **Total changes in cash flow** | **247,455** | **286,560** |
| Valuation | -2,338 | -6,228 |
| **Balance at end of period** | **810,370** | **565,252** |

# NOTE 12 DERIVATIVE CONTRACTS AND HEDGE ACCOUNTING

POP Bank Group hedges its interest rate risk against changes in fair value, primarily using interest rate swaps. Hedge accounting is applied for fair value hedging. The hedged instrument of fair value hedging is fixed-rate deposits and fixed rate bonds issued.

## NOMINAL VALUES OF UNDERLYING ASSETS AND FAIR VALUES OF DERIVATIVES

### 30 JUN 2023

| | Nominal value / remaining maturity | | | | Fair value | |
|---|---|---|---|---|---|---|
| **(EUR 1,000)** | **Less than 1 year** | **1-5 years** | **More than 5 years** | **Total** | **Assets** | **Liabilities** |
| **Hedging derivative contracts** | | | | | | |
| Fair value hedging | | | | | | |
| Interest rate derivatives | - | 924,900 | - | **924,900** | - | 18,524 |
| **Derivatives total** | **-** | **924,900** | **-** | **924,900** | **-** | **18,524** |

### 31 DEC 2022

| | Nominal value / remaining maturity | | | | Fair value | |
|---|---|---|---|---|---|---|
| **(EUR 1,000)** | **Less than 1 year** | **1-5 years** | **More than 5 years** | **Total** | **Assets** | **Liabilities** |
| **Hedging derivative contracts** | | | | | | |
| Fair value hedging | | | | | | |
| Interest rate derivatives | - | 450,000 | - | **450,000** | - | 12,495 |
| **Derivatives total** | **-** | **450,000** | **-** | **450,000** | **-** | **12,495** |

Hedged debts are included on the balance sheet under “Debt securities issued to the public” and “Liabilities to customers”.

The nominal value of the fixed-rate deposits subject to fair value hedging was EUR 424,9 (200) million and the nominal value of the fixed-rate bond subject to fair value hedging was EUR 500 (250) million. The nominal values of derivative instruments correspond to the nominal values of the objects to be hedged.

## EFFECTS OF HEDGE ACCOUNTING ON FINANCIAL POSITION AND RESULT

| **Fair value hedging (EUR 1,000)** | **30 Jun 2023** | **31 Dec 2022** |
|---|---|---|
| **Liabilities** | | |
| Carrying amount of hedged liabilities to customers | 416,080 | 193,827 |
| of which the accrued amount of hedge adjustments | -8,820 | -6,173 |
| Carrying amount of hedged debt securities issued to the public | 489,175 | 243,038 |
| of which the accrued amount of hedge adjustments | -9,608 | -6,452 |

## NOTE 13 COLLATERAL GIVEN

| (EUR 1,000) | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| **Given on behalf of own liabilities and commitments** | | |
| Pledges | 2,546 | 2,546 |
| Debt securities | 213,265 | 187,450 |
| Derivatives | 8,400 | 5,150 |
| Mortgage-backed loan portfolio* | 675,384 | 330,791 |
| **Collateral given total** | **899,595** | **525,937** |

*Mortgage-backed loans pledged as collateral for secured bonds issued by POP Mortgage Bank Plc.

## NOTE 14 OFF-BALANCE-SHEET COMMITMENTS

| (EUR 1,000) | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| Guarantees | 18,354 | 20,083 |
| Loan commitments | 315,797 | 326,716 |
| **Off-balance sheet commitments, total** | **334,151** | **346,800** |
| **Other commitments** | | |
| Commitment to invest in venture capital funds | 2,300 | 5,768 |
| **Other commitments total** | **2,300** | **5,768** |

The expected credit losses of off-balance sheet commitments are presented in Note 9.

## NOTE 15 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. In addition, related parties include companies in which key management personnel or their immediate family members have control.

The related parties of 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. Other related parties include companies consolidated in the financial statements as well as immediate family members of key management personnel and companies which the above-mentioned persons exercise control.

In the review period 2023, the POP Banks have granted housing and consumption loans to related parties at ordinary terms. These loans are tied to generally applied reference rates.

There have been no material changes in related party transactions after 31 Dec 2022.

Espoo 14 August 2023

Board of Directors of POP Bank Centre coop

## FURTHER INFORMATION

**www.poppankki.fi/pop-pankki-ryhma**

POP Bank