POP Bank Group

BOARD OF DIRECTORS' REPORT AND CONSOLIDATED IFRS FINANCIAL STATEMENTS

31 December 2016

POP Pankki

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POP Bank Group Board of Directors' Report and Consolidated IFRS Financial Statements 31 December 2016 is a translation of the original Finnish version "POP Pankki -ryhmä toimintakertomus ja yhdistelty IFRS-tilinpäätös 31.12.2016". In case of discrepancies, the Finnish version shall prevail.

CEO'S REVIEW

THE BEST CUSTOMER EXPERIENCE DURING THE FIRST OPERATING YEAR OF THE AMALGAMATION

The first operating year 2016 of the amalgamated POP Banks was a success in terms of business. Deposits, loans and equity increased in accordance with the strategy. Similarly, the Group's operating profit grew from the year before. According to the survey conducted by EPSI Rating, we maintained our first position having the highest customer satisfaction in the Nordic countries. Despite the fast paced changes, the POP Bank Group continued to invest in a strong local presence and a high level of availability.

Through the amalgamation, Bonum Bank Plc, the central credit institution of the Group, obtained an investment grade credit rating and issued its first bond loan. Helped by the international capital market, we were able to more effectively cover the financing needs of our customers.

POP Insurance, established four years ago, has evolved into the most rapidly growing non-life insurance company in the market. The digital operating model has proven to be a right one – the young company is the market leader in motor liability insurance taken out online, and its customer volume exceeded 90,000 customers.

POP BANK GROUP IS GROWING AND ENTERING THE DIGITAL ERA

In 2016, our Group-level strategy process proceeded as planned. The objective of the strategy was to identify any changes in the operating environment and to brighten the outlook for 2017–2020. Our new strategy is particularly aimed at improving the customer experience, introducing new operating models and developing our expertise. Changes in the financial industry and rapidly developing technologies set demands for a more agile corporate culture.

We are reshaping the basic structures of our banking group, and intensifying cooperation between group companies to strengthen the POP Bank brand.
Our customers are setting even higher expectations for online and mobile services. Therefore, we will simplify our customer service processes and internal operating methods. We will implement what we have learned from our subsidiaries in banking operations: digital customer service, agile product development and a high level of automation. The objective of these changes is to build an effective bank that is available in all channels for consumers and corporate customers – a combination of a comprehensive branch network and developing digital services.

I wish to thank our customers, staff, administration and partners for a great year of 2016!

Pekka Lemettinen
CEO

POP BANK GROUP'S BOARD OF DIRECTORS' REPORT 1 JANUARY – 31 DECEMBER 2016

Year 2016 in brief

STEADY GROWTH, IMPROVED EARNINGS AND THE BEST CUSTOMER EXPERIENCE

- Earnings before taxes EUR 17.0 (12.0) million (+41.0%)
- The balance sheet EUR 4,229.4 (4.017.6) million (+3.9%)
- CET1 Capital ratio 20.9 (20.2%)
- The equity ratio 10.9 (10.5%)
- POP Bank has the highest customer satisfaction in Nordic countries (EPSI Rating 2016).
- The number of insurance customers increased by 25.4%

KEY EVENTS

- The year 2016 was the first operating year of the amalgamation of POP Banks which started operating on 31 December 2015.
- Strategic development programmes of the POP Bank Group were launched.
- Bonum Bank Plc, the central credit institution of the POP Bank Group, obtained an investment grade credit rating from S&P Global Ratings (credit rating BBB and short-term credit rating A-2).
- Bonum Bank issued its first multi-year bond loan of EUR 100 million.
- The internal control and supervisory practices confirmed for the amalgamation were entered into use and developed further.
- POP Banks and Bonum Bank Plc received earnings of EUR 4.0 million from the sale of Visa Europe to Visa Inc.
- The guarantee fund of POP Banks was dissolved.
- The new online service poppankki.fi was opened.
- Finnish P&C Insurance launched POP Kilsa, the first casco and motor third party liability insurance product in Finland priced according to mileage.

POP Bank Group and amalgamation of POP Banks

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

POP Banks are cooperative banks established at the beginning of the 1990s which, in 1997–1998, organised to form a banking group consisting of member banks of POP Bank Alliance Coop and the guarantee fund of POP Banks. The Group expanded as Finnish P&C Insurance, a provider of digital insurance services, started operating in 2012. Bonum Bank Plc, the central credit institution of POP Banks, was established in 2013–2014, and it started operating in its new role in February 2015, replacing Aktia Bank Plc, the former central credit institution.

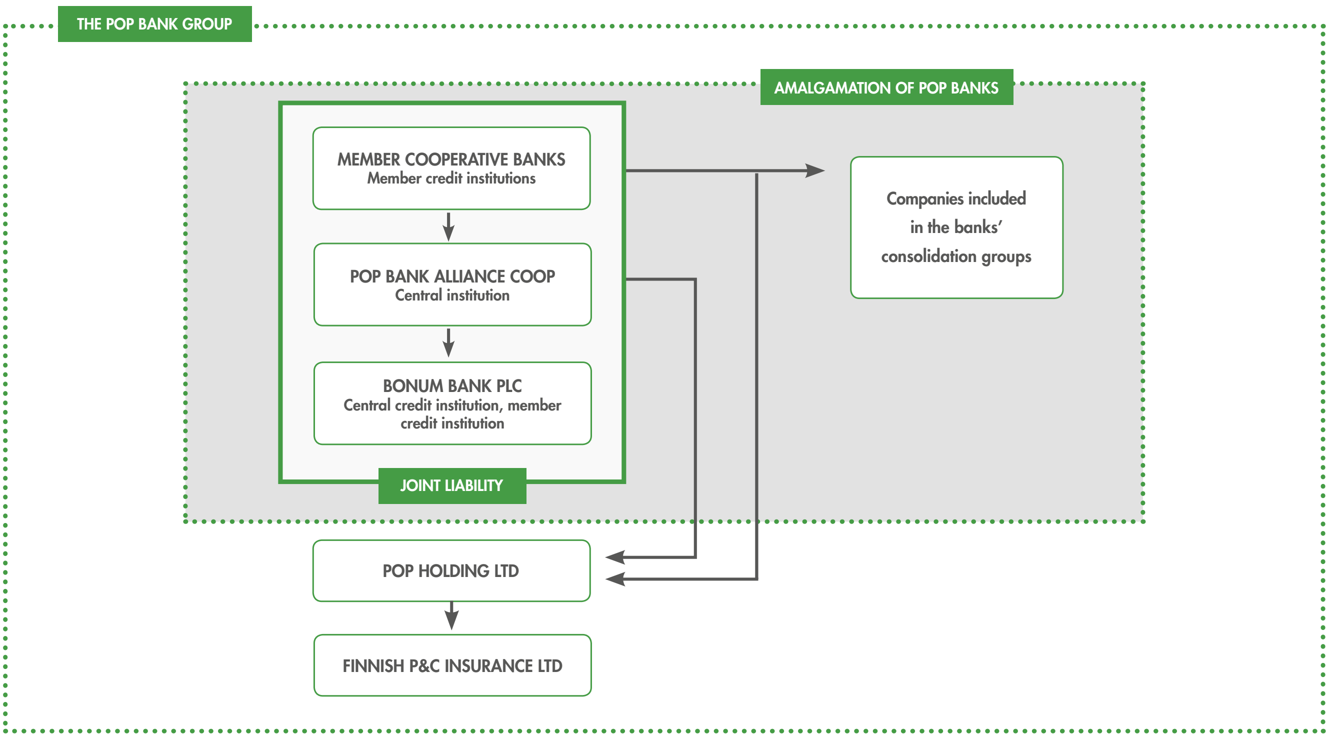
At the end of 2015, POP Bank Alliance Coop and its member institutions formed the amalgamation of POP Banks. In December 2015, POP Bank Alliance Coop was authorised by the Finnish Financial Supervisory Authority to function as the central institution of the amalgamation of deposit banks, and the amalgamation of POP Banks started operating on 31 December 2015.

POP Bank Group refers to the legal entity created in 2015, comprised of POP Banks and POP Bank Alliance Coop, and the entities under their control. The most significant companies in the POP Bank Group engaged in customer business are:

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

The chart below presents the structure of the POP Bank Group and the entities included in the amalgamation and scope of joint liability. POP Bank Alliance Coop, the central institution, is responsible for the group steering and supervision in accordance with the Act on the Amalgamation of Deposit Banks (24 June 2010/599) (hereinafter referred to as the "Amalgamation Act").

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



CHANGES IN THE STRUCTURE OF THE POP BANK GROUP

In February, POP Banks sold shares in their jointly held subsidiary Optium Oy to UB Asset Management Ltd. The guarantee fund of POP Banks was dissolved as planned in June, and its assets were distributed to member banks. The guarantee fund was no longer needed once the amalgamation of POP Banks started its operation.

POP BANK GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the Amalgamation Act, the central institution shall prepare financial statements as a combination of the financial statements or the consolidated financial statements of the central institution and its member credit institutions in accordance with the International Financial Reporting Standards (IFRS).

The POP Bank Group's obligation to prepare consolidated financial statements started on the date the amalgamation of POP Banks started operating. The 2015 financial statements covered the financial period, including notes valid on the closing date of 31 December 2015. In addition, additional financial information covering information for the financial period 1 January – 31 December 2015 and reference period 1 January – 31 December 2014 calculated in accordance with IFRS was given in notes to the official IFRS financial statements. Furthermore, the 2016 financial statements include additional financial information from the reference period of 1 January – 31 December 2015 preceding the start of operations. The purpose of additional financial information is to give useful market information about the results and the formation of earnings of the POP Bank Group.

The POP Bank Group's business segments are banking and insurance.

Operating environment

In its banking operations, the POP Bank Group focuses particularly on private customers, agriculture and forestry companies, as well as small companies. Banking operations are centralised in the locations main branches, i.e. smaller towns and municipalities. However, banking operations are geographically decentralised on a group level, with growth centres and new branches representing key growth areas in recent years. Non-life insurance operations are highly decentralised geographically.

Key factors for the POP Bank Group include the general development of the national economy, changes in regulation on the sector and general market interest rates. If interest rates remain low, there will be challenges in terms of the profitability of banking operations and changes in regulation will bind development resources. Competition in the sector is becoming more diverse, for example, in areas of payments, investments and loans. Conventional banks are also developing their competitiveness.

There was a slight turn for the better in the Finnish economy during 2016. During the year, the unemployment rate started to decrease and, in particular, investments in the construction industry increased heavily. Industries and exports continued their modest development but the outlook improved significantly when the Finnish Government completed the extensive competitiveness pact to support the improvement of productivity. It is expected to support the competitiveness of industries and exports, in particular. The solution aimed to compensate for the purchasing power of consumers and, for example, the poor outlook on domestic trade and services by lightening income taxes. The business sector also benefited from low energy prices and interest rates. In agriculture, profitability increased, while remaining low compared with long-term levels.

Low interest and inflation rates helped the situations of indebted households. The housing market was characterised by the continuous increase in rents and the regional differentiation in apartment prices. Apartment prices continued to increase high, in particular, in the Helsinki region and in certain other growth centres compared with the income available to households. In other regions, apartment prices have developed more slowly and even decreased in some areas. There are also increasing differences in sales periods between different regions and apartment types.

POP Bank Group's business operations

CUSTOMER ACCOUNTS

Cooperative activities form the basic value of the POP Bank Group. This means that the wellbeing of customers and the operating environment, equality and sustainable long-term operations are supported actively. We offer services that genuinely meet the customers' needs, situations and wishes, with locally made decisions. According to surveys conducted in 2016, POP Banks have the most satisfied customers of Nordic banks (EPSI Rating customer satisfaction survey) and the best banking services in Finland (national customer feedback survey of Taloustutkimus).

At the end of the 2016 financial period, POP Banks had 249.9 (241.3) thousand customers and Finnish P&C Insurance had 91.7 (73.1) thousand customers.

POP Banks have invested in a personal customer service, which is under constant development. During the 2016 financial period, POP Banks continued to develop customer value, providing their customers with services customised according to each customer. In the POP Taloushetki service, the bank's specialist reviews the customer's situation and the financial solutions required. The service has received positive feedback from customers. At the end of the year, POP Banks had 85 branches.

A significant strategic development area in banking operations is the improvement of the customer experience in digital services. During the financial period, the online banking service poppankki.fi was updated.

The development of digital services is strongly supported by Finnish P&C Insurance, part of the POP Bank Group, which, with its POP Insurance online shop, is one of the pioneers in the financial sector, also on an international scale. The digital services of POP Insurance have been designed from the very beginning to be understandable and easy to use from the customers' point of view. It is also important that the online shop is continuously analysed and developed.

Finnish P&C Insurance has no traditional customer service branches. Its sales and customer service are in digital channels: the Internet, mobile networks and telephones. As an indication of its excellent digital services, the customer volume of Finnish P&C Insurance increased by 25.4% during the period. Motor liability insurance is also sold by dealerships and inspection stations acting as intermediaries. Insurance policies of Finnish P&C Insurance are sold under two different brands: POP Insurance and Savings Banks Insurance. POP Insurance is the auxiliary business name of Finnish P&C Insurance.

KEY EVENTS DURING THE 2016 FINANCIAL PERIOD

The year 2016 was the first operating year of the amalgamation of POP Banks. During the period, the internal control and supervisory practices confirmed for the amalgamation were entered into use and developed further. Projects to implement the strategy confirmed in 2015 proceeded as planned.

Bonum Bank Plc, the central credit institution of the POP Bank Group, issued a EUR 150 million certificate of deposit programme in March and a EUR 750 million bond programme in May. In June, Bonum Bank issued its first multi-year bond loan of EUR 100 million within the scope of its bond programme. The loan is quoted at the Helsinki stock exchange.

Cooperation of POP Banks as an intermediary of loans of Aktia Real Estate Mortgage Bank Plc is about to end, and most of the housing loans intermediated by POP Banks were transferred to the banks' balance sheets during the second half of the year. These transfers increased the Group's loan portfolio about 3 %. All loans will be transferred to the banks' balance sheets by summer 2017. POP Banks sold their shares in Aktia Real Estate Mortgage Bank to Aktia Plc in September.

The sale of Visa Europe announced in November 2015 to the US-based Visa Inc. was completed in June. Sales gains from the transaction were specified at the end of the year when POP Banks received their proportions of the purchase price. The POP Bank Group received non-recurring earnings of EUR 4.0 million from the transaction.

The guarantee fund of POP Banks was dissolved as planned in June, and its assets were returned to member banks. The guarantee fund was no longer needed once the amalgamation started its operation. The dissolution of the guarantee fund had no impact on the POP Bank Group's results but produced tax expenses which reduced profit for the period.

Finnish P&C Insurance Ltd launched the POP Auto Kilsa motor liability insurance product, which is the first mileage-based product in the market covering both motor third party liability and casco insurances. The launch of the product received wide visibility in principal media and received positive feedback from customers.

CREDIT RATING

Bonum Bank Plc, the central credit institution of the POP Bank Group, obtained an international credit rating from S&P Global Ratings (S&P) in May. S&P granted Bonum Bank Plc the long-term investment grade credit rating "BBB" and the short-term credit rating "A-2." The rating reflects the assessment performed in accordance with the criteria used by S&P, assessing, among other things, the POP Bank Group's business position, financial performance, capital and liquidity buffers, risk profile and funding. The stable outlook rating by S&P is proof of the POP Bank Group's strong capital adequacy, stability and predictability of business operations, and expectations for increasing efficiency resulting from the amalgamation. The credit rating remained unchanged with a stable outlook after the S&P assessment in November.

BUSINESS DEVELOPMENT (REFERENCE PERIOD 1 JANUARY – 31 DECEMBER 2015*)

Results of the POP Bank Group improved significantly from the year before. Profit before taxes stood at EUR 17.0 (12.0) million, showing a growth of 41.0% from the previous year. The POP Bank Group's balance sheet total was EUR 4,119.4 (4,071.6) million.

Total operating income increased by 11.2% to EUR 114.9 (103.3) million. The positive development of the deposit and loan portfolios increased the net interest income to EUR 62.4 (61.2) million, regardless of negative market rates. Net commission income increased to EUR 33.1 (32.5) million, but net commission income and expenses fell to EUR 28.4 (30.2) million due to an increase in other commission expenses. Net trading income remained at the previous year's level at EUR 0.5 (0.5) million.

Net investment income increased notably to EUR 8.9 (2.7) million. Investment income was increased by the sales gains of EUR 1.5 million attributable to the sale of shares in Visa Europe by Bonum Bank and the impairment of shares and participations which was lower than in the reference period. In addition, net insurance income improved clearly to EUR 8.1 (5.2) million. Other operating income was also increased by the earnings of EUR 2.5 million recognised from the Visa transaction of POP Banks. Other operating income totalled EUR 6.5 (3.4) million.

Operating expenses increased by 5.6% to EUR 91.2 (86.3) million. Personnel expenses amounted to EUR 40.1 (37.1) million. Personnel expenses were increased by the strong growth of insurance activities and the resources required for the development of the amalgamation and central credit institution activities. Other operating expenses increased to EUR 45.7 (43.4) million due to the system expenses caused by the expanded operations of Bonum Bank Plc and the development investments in other ICT systems. Depreciation and impairment losses on tangible and intangible assets were EUR 5.4 (5.8) million.

Impairment losses on loans and other receivables were EUR 6.7 (5.0) million. Profit before taxes stood at EUR 17.0 (12.0) million. Tax expenses of EUR 2.0 million caused by the dissolution of the guarantee fund of POP Banks strained the profit for the period. The assets returned to member banks through the dissolution increased the taxable income of the member banks, but the return is not included in the results of the POP Bank Group because it was an intra-group arrangement. Income taxes totalled EUR 6.6 (3.6) million, and profit for the period stood at EUR 10.3 (8.4) million.

* Additional financial information for the period preceding the start of the operations of the amalgamation of POP Banks on 31 December 2015.

KEY INDICATORS OF THE POP BANK GROUP

(EUR 1000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Net sales	137,449	126,963
Net interes income	62,417	61,237
% of net sales	45.4%	48.2%
Profit before tax	16,958	12,023
% of net sales	12.3%	9.5%
Total operating income	114,851	103,292
Total operating expenses without depreciations	-85,733	-80,474
Cost to income ratio	74.6%	77.9%
Balance sheet total	4,229,417	4,071,635
Equity capital	463,021	423,716
Return on assets, ROA %	0.2%	0.2%
Return on equity, ROE %	2.3%	2.1%
Equity ratio, %	10.9%	10.4%
Common equity Tier 1 capital ratio, (CET1) %	20.9%	20.2%
Capital adequacy ratio, (TC) %	21.3%	20.8%
Impairment losses on loans and other receivables	-6,731	-4,961

* The figures are based on additional financial information disclosed for the period preceding the commencement of the operations of the amalgamation of POP Banks on 31 December 2015. The key indicators for 2015 have been adjusted due to an adjustment to real estate entities' depreciation.

Development of business segments

BANKING BUSINESS

The banking segment of the POP Bank Group includes POP Banks engaged in retail banking and Bonum Bank Plc, their central credit institution.

Customer accounts

At the end of 2016, POP Banks had 249,900 (241,300) customers. Of these, 84.4% (84.0%) were private customers, 7.9% (7.9%) corporate customers and 4.3% (4.6%) agriculture and forestry customers.

At the end of the year, 86,100 (84,500) customers were also members of POP Banks. A total of 15 POP Banks have issued equity-based investment instruments activated in 2015. Most of the POP Shares have been carried out so that supplementary contributions removed from the solvency capital have been converted into POP Shares. Members of POP Banks had subscribed to POP Shares at a total of EUR 43.5 (17.9) million on the closing date. During the financial period, the amount of supplementary contributions decreased by EUR 58,2 million to EUR 37,5 million. The amount of supplementary contributions converted into POP Shares was EUR 25.6 (11.3) million.

Offering and developing the best customer experience are key factors for POP Banks. Throughout the 2000s, POP Banks have ranked at the top of independent customer satisfaction and service surveys. According to surveys conducted in 2016, POP Banks have the most satisfied customers of Nordic banks (EPSI Rating customer satisfaction surveys in Nordic countries in autumn 2016) and the best banking services in Finland (national customer feedback survey of Taloustutkimus).

Business development
(reference period 1 January – 31 December 2015*)

Banking assets totalled EUR 4,271.2 (4,081.8) million. Deposits increased by 4.9%, totalling EUR 3,511.0

* Additional financial information for the period preceding the start of the operations of the amalgamation of POP Banks on 31 December 2015.

(3,347.2) million at the end of the financial period. The loan portfolio increased by 6.2% to EUR 3,216.2 (3,029.0) million. About 3% of the increase in the loan portfolio was due to the transfer of loans intermediated by banks from the balance sheet of Aktia Real Estate Mortgage Bank Plc to the balance sheets of the banks.

Banking earnings before taxes increased by 39.0% to EUR 29.8 (21.5) million. Profit for the period was EUR 23.1 (17.6) million, showing a growth of 30.7%. The cost/income ratio was 0.63% (0.69%).

Earnings were increased by the positive development of net interest income and the increase in other operating income. Operating income increased to EUR 109 (98.5) million. The good growth of the loan and deposit portfolios compensated the negative impact of decreasing market rates on net interest income, which increased by 1.7% from the reference period to EUR 62.7 (61.6) million. The amount of net commission income and expenses decreased to EUR 22.5 (27.5) million, and net trading income remained at the previous year's level at EUR 0.5 (0.5) million. Net investment income stood at EUR 7.1 (3.8) million, including the sales gains of EUR 1.5 million from the sale of shares in Visa Europe.

Other operating income increased to EUR 16.3 (5.1) million, with the assets of EUR 10.0 million returned from the guarantee fund of POP Banks and the sales gains of EUR 2.5 million from the Visa transaction being the most significant items. The guarantee fund of POP Banks was dissolved in June, and its assets were returned to member banks. The intra-group distribution of assets is not included in the POP Bank Group's earnings, but the related tax expenses of EUR 2.0 million strain the Group's profit for the period. The return of assets is reflected in the consolidated equity as a transfer from equity funds to retained earnings.

Operating expenses totalled EUR 72.6 (72.1) million. Personnel expenses increased to EUR 30.1 (29.0) million. Other operating expenses of EUR 38.9 (38.8) million remained at the reference period's level. Depreciation and impairment losses on tangible and intangible assets were EUR 3.5 (4.2) million.

Impairment losses on loans and other receivables increased. Banks paid attention to the timely recognition of individually assessed impairment losses according to the instructions of the amalgamation. Impairment losses on loans and other receivables were EUR 6.7 (5.0) million of which final credit losses accounted for EUR 2.0 (4.3) million. Impairment losses comprised 0.21 (0.16) per cent of the loan portfolio. Receivables more than 90 days overdue from the loan and guarantee portfolio remained at the previous year's level and accounted for 0.75 (0.76) per cent of the loan portfolio.

INSURANCE BUSINESS

The insurance segment includes Finnish P&C Insurance Ltd, which offers non-life insurance policies to private customers. The insurance company offers typical non-life insurance products to private customers. They are mostly sold via electronic channels.

Customer accounts

Finnish P&C Insurance Ltd started customer operations at the end of 2012. In four years, the company has grown strongly. At the end of the financial period, the company had 91,700 (73,100) customers. In 2016, the company acquired 3,400 (2,900) new customers per month. In customer surveys, nine out of ten customers would recommend POP Insurance. The company, which operates in electronic channels, has customers throughout Finland.

Its key distribution partners are the POP Bank Group and the Savings Banks Group. Banks guide their customers towards the online shop and forward contact requests to the service centre of Finnish P&C Insurance. The company also invested in the car dealership and vehicle inspection channel by signing partnership agreements with several parties.

Business development (reference period 1 January – 31 December 2015*)

Net insurance income increased by 47.8% from EUR 5.2 million to EUR 8.1 million. Results for the period stood at EUR -3.3 (-5.2) million.

The key objective set for the operating year was to improve the company's loss ratio by specifying prices and selected risks and by developing claims processes. The loss ratio improved from 81.0% to 77.0%. The company will continue to invest in automated operating processes and digital service processes. The operating expense

* Additional financial information for the period preceding the start of the operations of the amalgamation of POP Banks on 31 December 2015.

ratio improved from 37.0% to 34.0%. Operations are expected to produce profit during the next year.

In 2016, Finnish P&C Insurance Ltd sold 103,100 (80,800) new insurance agreements, and its premiums written totalled EUR 34.6 (30.4) million. The insurance categories motor liability insurance and land vehicles account for approximately 90% of the premiums written. Accident and health, fire and other property and other direct insurance policies generate a total of 10% of premiums written. Insurance premium revenue totalled EUR 33.0 (28.1) million at the end of the financial period, representing growth of 17.4% from the year before. Claims incurred totalled EUR 25.3 (22.9) million, showing a growth of 10.5%. Claims incurred comprised claims paid (EUR 21.5 (20.3) million), a change in provisions for unpaid claims (EUR 4.8 (2.5) million), and an increase in the change in provisions for unpaid claims ceded to reinsurers (EUR -1.1 (0.1) million). During the financial period, there were three losses exceeding the retention limits of reinsurance for which reinsurance provisions were made to technical provisions.

Personnel expenses increased to EUR 6.5 (5.3) million. Other operating expenses decreased to EUR 3.5 (3.7) million, and depreciation stood at EUR 1.3 (1.3) million. Operating expenses totalled EUR 11.3 (10.4) million.

OTHER FUNCTIONS

Other functions include the guarantee fund of POP Banks dissolved in June, POP Holding Ltd, POP Bank Alliance Coop and other entities consolidated in the POP Bank Group and not included in the banking and insurance business segments. Other functions is not a reporting segment in the POP Bank Group's IFRS financial statements.

Since the establishment of the amalgamation of POP Banks, POP Bank Alliance Coop has also carried out the tasks that previously belonged to the guarantee fund. As a result, the guarantee fund of POP Banks was dissolved in June, and its assets were returned to member banks. POP Banks recognised returns of EUR 10.0 million in other operating income. This amount is included in banking earnings. The intra-group arrangement is not included in the Group's results, but the related tax expenses of EUR 2.0 million strain the Group's profit for the period.

Other entities included in other functions are mainly real estate companies.

The POP Bank Group's risk and capital adequacy management and risk position

PRINCIPLES AND ORGANISATION OF RISK MANAGEMENT

The purpose of the POP Bank Group's risk management is to ensure that all significant risks resulting from business activities are identified, assessed, measured and monitored on a regular basis and that they are proportionate to the risk-bearing capacity of the amalgamation and the individual member credit institution or company. The purpose of risk management is to ensure that an individual member credit institution does not take such high risk in its operations that it would result in material threat to the capital adequacy or solvency of the member credit institution, central institution or the entire amalgamation. The guidelines and decision-making concerning risks comply with sound and prudent business practices. Violations of the risk management principles are addressed in accordance with the agreed operating models.

The most significant risks associated with the operations of the POP Bank Group are credit risk, liquidity risk and interest rate risk in the banking book and, in the insurance business, underwriting risk. The POP Bank Group's strategy outlines the Group's risk appetite. Business activities are carried out at a moderate risk level so that the risks can be managed in full. The companies included in the POP Bank Group independently carry the risks associated with their business.

As the central institution, POP Bank Alliance Coop supervises the sufficiency and functioning of the risk management systems at the level of the member credit institutions and the amalgamation and is liable for the Group's risk and capital adequacy management in accordance with section 17 of the Amalgamation Act. The central institution issues binding instructions concerning risk and capital adequacy management, corporate governance and internal control to the member credit institutions to secure their solvency and capital adequacy. Furthermore, controlling thresholds and common business risk thresholds have been established for the member institutions to ensure that the risks taken by an individual member institution are within acceptable limits.

The central institution supervises that the member credit institutions comply with laws, decrees, instructions and regulations issued by the authorities, their own rules and the Group's internal binding guidelines in their activities. The central institution has a risk management function independent of the business functions that performs the risk control duties and a compliance function that supervises compliance with the regulations and internal audit.

Risk management is an essential part of internal control. The purpose of internal control is to provide reasonable certainty of e.g. the achievement of objectives and goals, profitability and reliability of operations, appropriateness and efficiency of operations, compliance with laws and decrees and management of risks associated with operations. Internal control is carried out at all organisational levels within the POP Bank Group.

Risk and capital adequacy management is described in more detail in Note 4 to the financial statements. Furthermore, information concerning risks specified in the EU capital requirements regulation (EU 575/2013) (CRR) is presented in the Pillar III disclosures of the consolidated IFRS financial statements.

BANKING RISKS

Credit risk

Banking credit risk exposure remained stable and its risk level moderate. Key indicators of receivables past due remained at the previous year's level. The proportion of loans granted to private customers in the loan portfolio increased slightly. The amount of collectively assessed impairment losses was close to the previous year's level, whereas individually assessed impairment losses increased. During the financial period, POP Banks focused especially on the impairment recognition principles and compliance with common principles.

The loan portfolio increased by 6.2 per cent since the year-end to EUR 3,216.2 million (EUR 3,029.0 million on 31 December 2015). The amount of intermediated Aktia Real Estate Mortgage Bank's mortgage loans was EUR 33.3 million (203.1) at the end of the second quarter. Majority of the lending is associated with low-risk lending to private customers. Loans granted to private customers accounted for 65.9 per cent (64.1) of the loan portfolio, companies for 16.1 per cent (16.8) and agriculture entrepreneurs for 18.0 per cent (19.1). Loans secured by residential real estate collateral accounted for 64.8 per cent (63.0) of the loan portfolio.

The amalgamation of POP Banks' receivables more than 90 days past due accounted for 0.75 per cent (0.76) of the loan portfolio. The amalgamation's receivables 30–90 days past due accounted for 1.53 per cent (1.53) of the loan portfolio at the end of the financial year.

Impairment losses on loans and receivables totaled EUR 21.7 million (16.9) at the end of the financial year. Of these, individually assessed impairment losses totaled EUR 18.8 million (14.2) and collectively assessed impairment losses totaled EUR 2.9 million (2.8).

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

Liquidity risk

The POP Bank Group's liquid position remained strong during the financial period. The regulatory requirement for the liquidity of the member credit institutions, LCR (Liquidity Coverage Ratio), was 70% at the beginning of 2016, from which it rose to 80% on 1 January 2017 and it will continue to increase to 100% by 1 January 2018. The LCR of the amalgamation of POP Banks was 220% (202%) on 31 December 2016. On 31 December 2016, the amalgamation's LCR-eligible assets before value decreases totalled EUR 450.3 (434.3) million, of which 15.2% (39.8%) were cash and balance at a central bank, 73.7% (48.7%) were highly liquid tier 1 securities, and 11.1% (11.5%) were other liquid assets.

The POP Bank Group's financing position also remained strong during the financial period. The proportion of deposits from the loan portfolio remained high and the availability of financing expanded through wholesale funding opened by the central credit institution of the amalgamation. During the first operating year of the amalgamation, Bonum Bank Plc obtained the long-term investment grade credit rating "BBB" from

S&P Global Ratings and issued its first bond loan (a three-year unsecured senior loan of EUR 100 million) as part of the EUR 750 million bond loan programme established in May 2016. In addition, Bonum Bank Plc has a EUR 150 million certificate of deposit programme, under which the bank can issue bonds of at most 12 months. The opened wholesale funding channel diversifies the amalgamation's funding activities and supports the growth of the Group. The long-term financing position is expected to develop positively as the availability of financing becomes more diversified and the transmission of intra-group financing improves.

Market risk

Market risks in banking are caused by the banking books of member credit institutions, consisting of lending and deposits, wholesale market funding and investment and liquidity portfolios. The market risk exposure remained moderate during the financial period. The key market risk in banking is the interest rate risk in the banking book, which is monitored and limited using both the present value and income risk models. The market risk is also caused by the investment activities of member credit institutions, the primary purposes of which are to invest the liquidity surplus and maintain liquidity reserves. Principally, the business activities of member credit institutions do not include actual trading.

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

Operational risks

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

The operational risks associated with the key products, services, functions, processes and systems are identified in the assessment process concerning a new product or service carried out by the business function and reviewed by the risk control function. Moreover, the member credit institutions carry out an annual self-assessment of operational risks. Part of the losses caused by operational risks are hedged through insurance. Risks caused by malfunctions of information systems are prepared for by continuity planning.

INSURANCE RISKS

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

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

Information security risks are significant for an online company and, therefore, the company is strongly investing in their management. Investment activities have been protective and have not been associated with any significant risks.

The Board of Directors of Finnish P&C Insurance annually approves the company's risk management plan.

CAPITAL ADEQUACY MANAGEMENT

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

The member credit institutions conduct an extensive identification and evaluation of risks related to their operations and set their risk-bearing capacity to match the total amount of the risks. In order to secure its capital adequacy, the bank sets risk-based capital objectives and prepares a capital plan to achieve these objectives. The member institutions of the amalgamation use common measurement methodologies defined by the risk control function of the central institution for their capital plan.

The own funds of the amalgamation of POP Banks consist of cooperative contributions, supplementary cooperative contributions, POP Shares, retained earnings and other non-restricted reserves. The EU's Capital Requirements Regulation No. 575/2013 does not acknowledge the supplementary cooperative contributions previously used by the member credit institution as an equity instrument, ergo supplementary cooperative contributions are no longer items recognized in own funds of the member credit institutions according to the new regulations. The Capital Requirements Regulation is applied as of 1 January 2014, but the application of the transitional rules concerning supplementary cooperative contributions will be gradually phased in. Some of the member credit institutions of the amalgamation have since 2015 issued new equity instruments, POP Shares, which are included in own funds. A total of EUR 43.5 million of POP Shares had been issued at the end of 2016 (17.9 million). In addition to new issuances, some former supplementary cooperative contributions have been converted to POP Shares.

At the end of 2016, the capital adequacy of the amalgamation of POP Banks was on a solid level. The amalgamation's capital adequacy ratio was 21.3 per cent (20.8) and CET1 Capital ratio 20.9 per cent (20.2). The amalgamation does not include the profit for the financial year in own funds.

The statutory minimum level of the capital adequacy ratio is 8 per cent and of Tier 1 capital it is 4.5 per cent. In addition to the 8 per cent capital adequacy requirement, a fixed 2.5 per cent capital conservation buffer requirement became applicable on 1 January 2015, as well as a variable additional capital requirement which the authorities can upon need set at 0–2.5 per cent. For the time being, the Financial Supervisory Authority has not set a variable additional capital requirement for Finnish exposures, which almost exclusively comprise the credit and counterparty risk of the amalgamation's member credit institutions.

SUMMARY OF CAPITAL ADEQUACY

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Own funds		
Common Equity Tier 1 capital before deductions	486,655	461,632
Deductions from Common Equity Tier 1 capital	-5,245	-6,089
Total Common Equity Tier 1 capital (CET1)	**481,410**	**455,542**
Additional Tier 1 capital before deductions	6,897	10,545
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**6,897**	**10,545**
Tier 1 capital (T1 = CET1 + AT1)	**488,307**	**466,087**
Tier 2 capital before deductions	2,759	3,164
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**2,759**	**3,164**
Total capital (TC = T1 + T2)	**491,065**	**469,251**
Total risk weighted assets	**2,308,526**	**2,252,853**
of which credit risk	2,084,072	2,038,332
of which credit valutaion adjustment risk (CVA)	1,321	3,599
of which market risk (foreign exchange risk)	25,597	24,892
of which operational risk	197,536	186,031
Fixed capital conservation buffer according to Act on Credit institutions (2.5%)	**57,713**	**56,321**
Countercyclical capital buffer	**222**	**253**
CET1 Capital ratio (%)	20.9%	20.2%
T1 Capital ratio (%)	21.2%	20.7%
Total capital ratio (%)	21.3%	20.8%
Leverage ratio		
Tier 1 capital (T1)	488,307	466,087
Leverage ratio exposure	4,291,563	4,283,948
Leverage ratio, %	11.4%	10.9%

Depositor and investor protection

Provisions on deposit insurance are laid down in the Act on the Financial Stability Authority, according to which the Financial Stability Authority is responsible for offering deposit protection. Its financial stability fund consists of a crisis resolution fund and deposit guarantee fund. The deposit guarantee fund covers the eligible deposits of a depositor in a single deposit bank up to a maximum of EUR 100,000. Fees of the deposit guarantee fund were covered by the assets of the former national deposit guarantee fund during the financial period.

The deposit banks that are members of the amalgamation of deposit banks are considered to be a single deposit bank in terms of deposit guarantee. Therefore, the deposit guarantee concerning a depositor's deposits in all member credit institutions of the amalgamation of POP Banks (POP Banks and Bonum Bank Plc) totals EUR 100,000.

Furthermore, in accordance with the legislation on the investors' compensation fund, the member credit institutions of the amalgamation of POP Banks are considered to be a single bank in terms of investor protection. A maximum amount of EUR 20,000 is compensated from the compensation fund.

Governance of POP Bank Alliance Coop

The 26 member cooperative banks (POP Banks) and Bonum Bank Plc are members of POP Bank Alliance Coop. The member cooperative banks exercise their statutory voting rights in the meeting of POP Bank Alliance Coop cooperative, which elects the Supervisory Board. In accordance with the rules, Bonum Bank Plc has no voting rights in the cooperative meetings as the subsidiary of the Alliance.

In accordance with the rules, the Supervisory Board of POP Bank Alliance Coop consists of a minimum of three (3) and a maximum of thirty-four (34) members elected by the general meeting of the cooperative so that one (1) member shall be elected from each member credit institution; however, not from a subsidiary of the central institution that acts as a member credit institution.

In 2016, the Supervisory Board consisted the total of twenty-six (26) members so that one (1) member represented each member credit institution. Only the Chairman of the Board of Directors or Supervisory Board of a member credit institution can be elected as the Chairman or Vice Chairman of the Supervisory Board. The Chairman of the Supervisory Board was Hannu Saarimäki (Chairman of the Board of Keuruun Osuuspankki) and the Vice Chairman was Harri Takala (Chairman of the Board of Pohjanmaan Osuuspankki).

The Board of Directors of POP Bank Alliance Coop consists of a minimum of five (5) and a maximum of seven (7) members elected by the Supervisory Board so that at least one member is elected from each cooperative region pursuant to the rules. The majority of the Board members shall be employed by a member credit institution. The term of office of the Board members is three (3) years from the conclusion of the meeting that decided on the election of the Supervisory Board until the conclusion of the next Supervisory Board meeting that decides on the election. Of these members, annually the number closest to one-third resign based on the term of office.

During the financial period, the number of Board members was increased from six (6) to seven (7), and a new member independent of the POP Bank Group was selected.

The Board of Directors elects the Chairman and Vice Chairman from among its members.

The following persons acted as members of the Board of Directors of POP Bank Alliance Coop:

- **Petri Jaakkola** (Lapuan Osuuspankki)
  Chairman starting from and
  Vice Chairman until 16 March 2016
- **Juha Niemelä** (Liedon Osuuspankki)
  Ordinary member, Vice Chairman starting
  from 16 March 2016
- **Ari Heikkilä** (Konneveden Osuuspankki)
  Ordinary member
- **Marja Pajulahti** (independent of the POP Bank Group)
  Ordinary member starting from 29 September 2016
- **Soile Pusa** (Siilinjärven Osuuspankki)
  Ordinary member, Chair until 16 March 2016
- **Teemu Teljosuo** (Kurikan Osuuspankki)
  Ordinary member
- **Hannu Tuominiemi** (Suupohjan Osuuspankki)
  Ordinary member

The managing director of POP Bank Alliance Coop was Heikki Suutala until 31 December 2016, and his deputy was Timo Hulkko. In August 2016, the Supervisory Board of POP Bank Alliance Coop started an application process to appoint a new managing director at the request of Heikki Suutala, the long-term managing director of POP Bank Alliance Coop. In November 2016, Pekka Lemettinen was appointed the new managing director starting from 1 January 2017. Before his appointment, Lemettinen worked as the managing director of Finnish P&C Insurance Ltd. The Board of Directors of Finnish P&C Insurance Ltd started an application process to appoint a new managing director in December 2016.

The auditor of POP Bank Alliance Coop is KPMG Oy Ab, authorised public accountants, with Johanna Gråsten, authorised public accountant, as the main auditor.

Personnel and remuneration

PERSONNEL

At the end of 2016, the POP Bank Group had 741 (695) employees, of whom 565 (555) in banking, 116 (96) in non-life insurance and 60 (44) in other functions.

REMUNERATION

Remuneration scheme refers to the decisions, contracts, policies and procedures followed in rewarding the management and personnel.

Remuneration is divided into fixed and variable remuneration. Fixed remuneration refers to salaries tied to a specific period of time and variable remuneration refers to remuneration tied to the beneficiary's performance or financial factors. The variable remuneration includes both short- and long-term remuneration. In short-term remuneration, the earning period is the calendar year and the reward is paid in cash.

In the POP Bank Group, variable remuneration is company-specific. The POP Bank Group does not have a uniform remuneration scheme. The remuneration schemes are based on the business strategy, objectives and values of each member credit institution or company, and they are aligned with the company's long-term interests. The remuneration schemes are in harmony with the bank's proper and effective risk management and risk-bearing capacity. Remuneration does not encourage risk-taking that would exceed the risk level defined on the basis of the risk-bearing capacity of the member credit institutions or the company or otherwise sustainable risk level.

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

Social responsibility

Social responsibility is an integral part of the operations of the POP Bank Group of cooperative companies. The value of the POP Bank Group is to promote the wellbeing of its customers and the operating environment. The POP Bank Group implements this in all of its activities in the form of small everyday actions. Taking care of the healthy business and profitability of the Group's companies and their long-term development are also part of social responsibility.

The POP Bank Group paid EUR 6.6 million (3.6) in taxes on its earnings in 2016. The domiciles of the main companies of the POP Bank Group cover 28 different locations, and taxes are allocated to the areas where its customers are. The POP Bank Group paid EUR 32.1 (30.2) million in salaries.

Events after the closing date

Financial Supervisory Authority has granted POP Bank Alliance Coop on 30 January 2017 a permission to grant member credit institutions exemptions as defined in Amalgamation Act sections 21, 21a, 21b and 23. Exemptions according to the permission will be decided by the board of POP Bank Alliance Coop.

The Board of Directors of POP Bank Alliance Coop is not aware of any other events after the closing date that would have material impact on the information presented in the financial statements of the POP Bank Group.

Outlook for 2017

The POP Bank Group 2017 emphasis is on the advancement of development projects related to the implementation of the new strategy. The most important initiatives are the digitalization and mobile services development projects, bank's operational streamlining, better utilization of synergies between group companies and maintaining the growth of the insurance company. The key objective is to improve the POP Banks' growth potential and profitability by enhancing liquidity management and optimization of balance sheet of the amalgamation of POP Banks. These development undertakings will be the key to the POP Bank Group's in improving its cost efficiency and reaching its growth targets.

POP Bank Group's result is affected by several factors, the most important of which are the general economic situation, interest rate and fluctuations in share prices, as well as regional competition. There are many uncertainties over economic development in Finland and Europe. Interest rates are expected to remain low, which makes it difficult to increase net interest income, but makes it easier to manage customer loans.

Digitalization will increase efficiency and make competition fiercer due to increased consumers' comparison opportunities.

The shadow banking system will slowly gain ground from conventional banks in terms of financial growth. In addition, a significant proportion of development inputs of financial companies holding a license will need to be allocated to the implementation of continuously increasing regulations.

In this challenging environment, the POP Bank Group aims, in 2017, at least to meet, if not exceed the POP Bank Group 2016 result, and maintain its capital adequacy and customer satisfaction at an excellent level. Its operational objective is to set ground for long term business growth, profitability and pricing competitiveness.

FURTHER INFORMATION:

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Formulas for key figures

Net sales

Interest income, commission income, net trading income, net income from non-life insurance, other operating income, net income from hedge accounting

Total operating income

Net interest income, net commissions and fees, net trading income, net investment income, net income from non-life insurance, other operating income, net income from hedge accounting

Total operating expenses

Personnel expenses, other operating expenses (excluding amortisation)

Cost-income ratio, %

$$\frac{\text{Total operating expenses}}{\text{Total operating income}} \times 100$$

Return on equity (ROE), %

$$\frac{\text{Profit for the period}}{\text{Equity capital and non-controlling interest}} \times 100$$

Return on assets (ROA), %

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

Equity ratio, %

$$\frac{\text{Equity capital and non-controlling interest}}{\text{Balance sheet total}} \times 100$$

Common Equity Tier 1 capital ratio (CET1), %

$$\frac{\text{Common Equity Tier 1 capital (CET1}}{\text{Risk weighted assets}} \times 100$$

Tier 1 capital ratio (T1), %

$$\frac{\text{Tier 1 capital (T1)}}{\text{Risk weighted assets}} \times 100$$

Capital adequacy ratio, (TC) %

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

Leverage ratio, %

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

Liquidity coverage ratio (LCR), %

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

NON-LIFE INSURANCE KEY FIGURES

Operating expenses

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

Loss ratio, %

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

Operating expense ratio, %

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

POP BANK GROUP FINANCIAL STATEMENTS 31 DECEMBER 2016

POP Bank Group's Income Statement

(EUR 1,000)	Note	1 Jan-31 Dec 2016
Interest income		80,324
Interest expenses		-17,907
Net interest income	**7**	**62,417**
Net commissions and fees	8	28,369
Net trading income	9	542
Net investment income	10	8,945
Net incom from non-life insurance	11	8,078
Other operating income	12	6,501
Total operating income		**114,851**
Personnel expenses	13	-40,062
Other operating expenses	14	-45,672
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	15	-5,429
Total operating expenses		**-91,162**
Impairment losses on loans and receivables	21	-6,731
Profit before tax		**16,958**
Income tax expense	16	-6,618
Profit for the financial year		**10,340**

Attributable to	
Equity owners of the POP Bank Group	10,260
Non-controlling interests	80
Total	**10,340**

POP Bank Group's Statement of Other Comprehensive Income

(EUR 1,000)	Note	1 Jan-31 Dec 2016
Profit for the financial year		10,340
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Gains/(losses) arising from remeasurement of defined benefit plans	39	-135
Items that may be reclassified to profit or loss		
Changes in fair value reserve		
Available-for-sale financial assets	34	6,434
Other comprehensive income for the financial year		**16,639**

Other comprehensive income for the financial period attributable to		
Other comprehensive income for the financial year attributable to owners of the POP Bank Group		16,559
Other comprehensive income for the financial year attributable to non-controlling interests		80
Total other comprehensive income for the financial year		**16,639**

POP Bank Group's Balance Sheet

(EUR 1,000)	Note	31 Dec 2016	31 Dec 2015*
Assets			
Liquid assets	19	99,174	172,899
Financial assets at fair value through profit or loss	18, 20	1,681	3,383
Loans and receivables from credit institutions	18, 21	73,515	129,327
Loans and receivables from customers	18, 21	3,188,681	3,013,972
Derivative contracts	18, 22	2,541	5,356
Investment assets	18, 23	754,362	635,904
Non-life insurance assets	18, 24	42,915	37,610
Intangible assets	25	13,566	15,839
Property, plant and equipment	26	35,604	39,796
Other assets	27	15,459	13,582
Tax assets	28	1,920	3,967
Total assets		**4,229,417**	**4,071,635**
Liabilities			
Liabilities to credit institutions	18, 29	11,385	112,783
Liabilities to customers	18, 29	3,505,090	3,342,813
Non-life insurance liabilities	18, 30	32,420	27,567
Debt securities issued to the public	18, 31	100,220	24,188
Supplementary cooperative capital	18, 32	37,512	58,231
Other liabilities	33	52,764	57,056
Tax liabilities	28	27,006	25,281
Total liabilities		**3,766,396**	**3,647,918**
Equity capital			
Cooperative capital			
Cooperative contributions		9,051	8,904
POP Shares		43,508	17,904
Total cooperative capital	**33**	**52,559**	**26,809**
Reserves	33	155,086	156,081
Retained earnings	33	254,913	237,566
Total equity attributable to the owners of the POP Bank Group		**462,558**	**420,455**
Non-controlling interests	41	463	3,261
Total equity capital		**463,021**	**423,716**
Total liabilities and equity capital		**4,229,417**	**4,071,635**

*Adjusted see note 5

Statement of Changes in 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
Reported balance at 31 Dec 2015	26,809	4,283	151,798	239,831	422,721	3,261	425,982
Error in real estate depreciations*	-	-	-	-2,265	-2,265	-	-2,265
Restated balance at 1 Jan 2016	26,809	4,283	151,798	237,566	420,455	3,261	423,716
Comprehensive income for the financial year							
Profit for the financial year	-	-	-	10,260	10,260	80	10,340
Other comprehensive income	-	6,434	-	-135	6,299	-	6,299
Total comprehensive income for the financial year	**-**	**6,434**	**-**	**10,125**	**16,559**	**80**	**16,639**
Transactions with shareholders							
Increase in cooperative capital	25,750	-	-	-	25,750	-	25,750
Profit distribution	-	-	-	-74	-74	-	-74
Transfer of reserves	-	-	3,135	-3,135	-	-	-
Transactions with shareholders total	**25,750**	**-**	**3,135**	**-3,209**	**25,677**	**-**	**25,677**
Other changes							
Changes in holdings in subsidiaries	-	-	-10,564	10,431	-133	-2,878	-3,011
Other changes total	**-**	**-**	**-10,564**	**10,431**	**-133**	**-2,878**	**-3,011**
Balance at 31 Dec 2016	**52,559**	**10,717**	**144,369**	**254,913**	**462,558**	**463**	**463,021**

The non-controlling interests decreased significantly due to the dissolution of POP Banks' guarantee fund in June 2016 and the refund of cooperative capital to the cooperative banks that remained outside the amalgamation of POP Banks. As a result of dissolution of the guarantee fund, refunded contribution of EUR 8 253 thousand was transferred from funds to retained earnings.

* See note 5

POP Bank Group's Cash Flow Statement

(EUR 1,000)	2016
Cash flow from operations	
Profit for the financial year	10,340
Adjustments to profit for the financial year	26,305
Increase (-) or decrease (+) in operating assets	**-256,264**
Receivables from credit institutions	39,360
Receivables from customers	-181,043
Investment assets	-121,519
Non-life insurance assets	-5,305
Other assets	12,243
Increase (+) or decrease (-) in operating liabilities	**108,417**
Liabilities to credit institutions	-101,398
Liabilities to customers	165,248
Increases in debt securities issued to the public	76,032
Other liabilities	-27,257
Income tax paid	-4,208
Total cash flow from operations	**-111,202**
Cash flow from investing activities	
Increases in other investments	15,060
Purchase of PPE and intangible assets	-7,848
Proceeds from sale of PPE and intangible assets	3,953
Net cash used in investing activities	**11,164**
Cash flow from financing activities	
Increase in cooperative capital	12,958
Interests paid on cooperative capital and other profit distribution	-74
Changes in other equity capital items	-2,822
Net cash used in financing activities	**10,062**
Change in cash and cash equivalents	
Cash and cash equivalents at period-start	236,314
Cash and cash equivalents at the end of the period	146,338
Net change in cash and cash equivalents	**-89,976**

(EUR 1,000)	2016
Interest received	90,334
Interest paid	23,388
Dividends received	1,929

Adjustments to profit for the financial year	
Non-cash items and other adjustments	
Impairment losses on receivables	6,731
Depreciations	7,040
Technical provision	5,880
Other	6,653
Adjustments to profit for the financial year	**26,305**

Cash and cash equivalents	
Liquid assets	99,174
Receivables from credit institutions payable on demand	47,164
Total	**146,338**

NOTES

NOTES CONCERNING THE PREPARATION OF THE FINANCIAL STATEMENTS

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

1. THE POP BANK GROUP

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

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

The POP Bank Group also includes other entities besides the entities included in the amalgamation of POP Banks. The most significant entities that do not belong to the POP Bank Group are POP Holding Ltd and its wholly-owned subsidiary Finnish P&C Insurance Ltd as well as POP Banks' guarantee fund (dissolved in June 2016), which are not in the scope of joint liability.

The POP Bank Group does not form a group of companies referred to in the Accounting Act (1336/1997) or a consolidation group referred to in the Act on Credit Institutions (610/2014). POP Bank Alliance Coop or its member cooperative banks do not exercise control pursuant to IFRS accounting standards on each other, and therefore no parent company can be determined for the Group. In accordance with the Amalgamation Act, 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. The member cooperative banks and other Group companies consolidated in the IFRS financial statements included in the technical parent company are listed in Note 41.

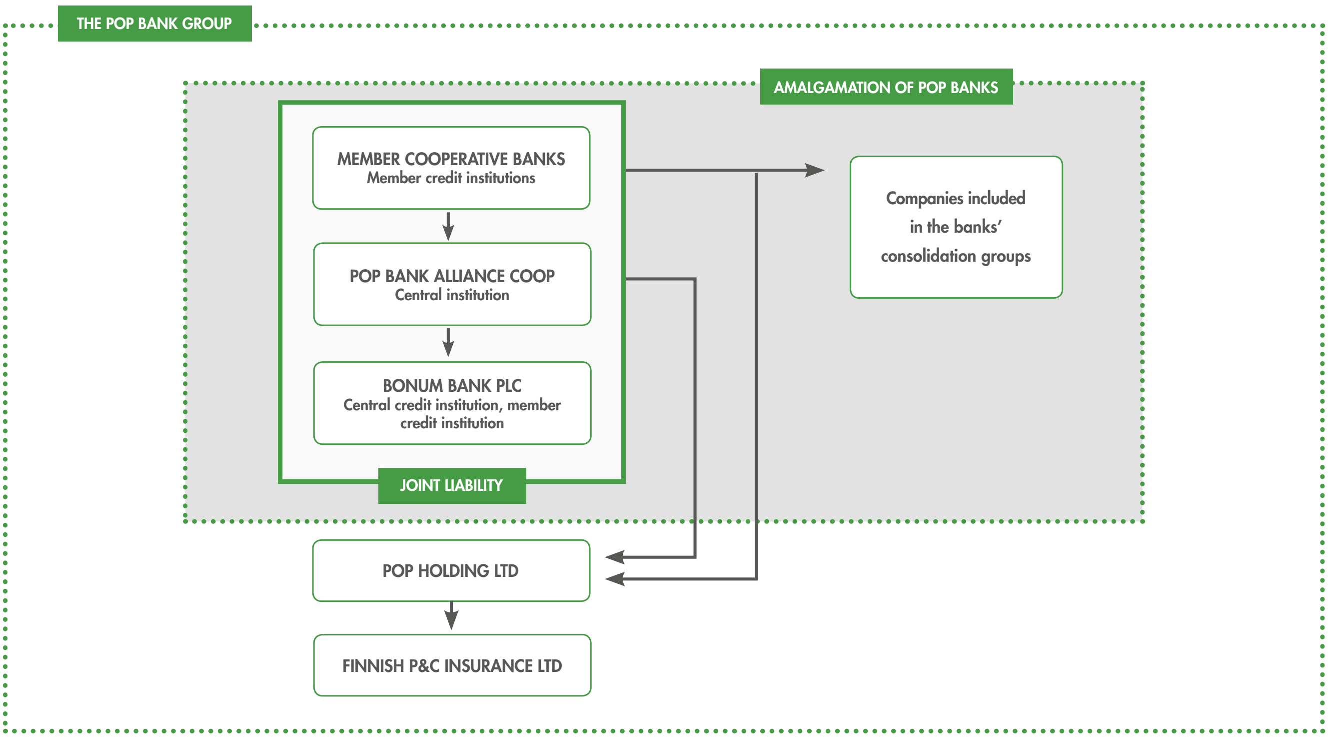
The chart on the next page presents the structure of the POP Bank Group and the entities included in the amalgamation and the scope of joint liability.

During the financial year POP Banks sold all their shares in Optium Ltd. The transaction did not have a material effect on the profit for the financial year. Bonum Bank Ltd changed its company form into public limited liability company (Plc) and a decision to dissolve the POP Banks' guarantee fund was made. The final settlement of the guarantee fund and distribution of the assets to the members of the guarantee fund were approved in June. The dissolution of the guarantee fund is an intra-Group arrangement, and therefore has no effects on the Group's earnings. The dissolution of the guarantee fund is visible the Group's equity structure as a transfer from funds to retained earnings.

POP Bank Alliance Coop acts as the central institution responsible for group steering and supervision of the POP Bank Group in accordance with the Amalgamation Act. POP Bank Alliance Coop's registered office is Helsinki and its address is Hevosenkenkä 3, FI-02600 Espoo, Finland.

POP Bank Alliance Coop has prepared the POP Bank Group's consolidated IFRS financial statements in accordance with the Act on the Amalgamation of Deposit Banks. The Board of Directors of POP Bank Alliance

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



Coop has adopted the report and consolidated financial statements on 21 February 2017. The financial statements will be distributed to the general meeting of POP Bank Alliance Coop cooperative on 6 April 2017.

Copies of the financial statements and the financial statements release of the POP Bank Group are available in the office of the central institution, address Hevosenkenkä 3, FI-02600 Espoo, Finland, and online at www.poppankki.fi.

2. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS OF THE POP BANK GROUP

The amalgamation of POP Banks began operations on 31 December 2015. In accordance with the Amalgamation Act, the central institution shall prepare the financial statements as a combination of the financial statements of the central institution and its member credit institutions or the group financial statements in accordance with the International Financial Reporting Standards (IFRS). The first consolidated financial statements of the POP Bank Group was prepared as of the start date of the operations of the amalgamation, and it included the closing date 31 December 2015. The financial statements included the POP Bank Group's balance sheet 31 December 2015 and the disclosures presented as notes to the balance sheet, accounting policies and other notes. Additional financial information was also presented to the official IFRS financial statements in Note 48, covering IFRS data for the financial period 1 January–31 December 2015 and comparison period 1 January – 31 December 2014. The additional financial information was presented for the period preceding the formation of the amalgamation of POP Banks, at which time POP Banks acted as a single bank group but were not legally liable for each other's commitments. The purpose of the additional financial information was to provide the market with useful information of the profitability of the operations of the POP Bank Group, formation of earnings and the financial position of the Group.

The additional financial information has been prepared by consolidating the audited separate financial statements of the companies and entities included in the POP Bank Group. The information presented as additional financial information has been prepared under the "combined financial statement" principle, in which the historical additional financial information of the companies and entities have been combined into a single entity, the inter-company items have been eliminated and the balance sheet and income statement items have been adjusted to correspond to IFRS. The preparation of the consolidated financial statements as a single entity is based on the “common management” concept as the POP Bank Group has operated under joint management, applying joint financial statement processes even though the Group was not under joint control. The balance sheet of the official financial statements at 31 December 2015 corresponds to the balance sheet at 31 December 2015 presented in the additional financial information.

Note 59 to the consolidated financial statements 2016 of the POP Bank Group represents, as additional financial information with the comparison information of 2015, the POP Bank Group’s consolidated income statement, other comprehensive income, balance sheet, statement of changes in equity and the notes that include information for financial year 1 January – 31 December 2015. The comparison information corresponds to the information presented in the financial statements 31 December 2015. The information has been prepared according to the accounting policies presented in note 2. The Group adopted IFRS on 1 January 2014.

NOTE 2 POP Bank Group's accounting policies under IFRS

1. GENERAL

The consolidated financial statements of the POP Bank Group (hereinafter also referred to as the "Group") have been prepared in accordance with International Financial Reporting Standards (IFRS) approved in the EU and the related interpretations (IFRIC). The applicable Finnish accounting and corporate legislation and regulatory requirements have also been taken into account when preparing the notes to the financial statements. The obligation of the POP Bank Group to prepare financial statements in accordance with IFRS is based on the Act on the Amalgamation of Deposit Banks (599/2010; hereinafter referred to as the "Amalgamation Act").

The figures in the POP Bank Group's consolidated financial statements are in thousand euros unless otherwise indicated. The figures in the notes are rounded, whereby the sum total of individual figures may deviate from the sum total presented in a table or calculation. Assets and liabilities denominated in currencies other than euro have been translated into euro at the exchange rate of the balance sheet date. Exchange rate differences resulting from measurement have been recognised in net investment income in the income statement. Exchange rate differences resulting from the non-life insurance business have been recognised in net income from Insurance. The operating currency of all of the companies belonging to the POP Bank Group is euro.

The consolidated financial statements of the POP Bank Group are based on original cost, with the exception of financial assets and financial liabilities at fair value through profit or loss, available-for-sale financial assets and the hedged items of fair value hedges (with regard to hedged risk) and hedge instruments hedging fair value or cash flow, which are measured at fair value. The POP Bank Group presents the Pillar 3 capital adequacy information in accordance with the EU's Capital Requirements Regulation (575/2013) in the notes to the financial statements.

2. CONSOLIDATION PRINCIPLES

2.1 Technical parent company

In accordance with the Amalgamation Act, the consolidated financial statements of the POP Bank Group shall be prepared as a combination of the financial statements or consolidated financial statements of the central institution POP Bank Alliance Coop and its member credit institutions. The consolidated financial statements also include entities in which the entities referred to above have joint control.

POP Bank Alliance Coop and its member cooperative banks do not exercise control over each other, and therefore no parent company can be determined for the POP Bank Group. In the IFRS financial statements, a "technical parent" company has been formed for the POP Bank Group from the member cooperative banks. The member cooperative banks and the central institution have individually or jointly control over the other entities combined in the Group's IFRS financial statements. Within the technical parent company, intra-group holdings, transactions, receivables and liabilities, distribution of profit and margins are eliminated. Cooperative capital comprises such cooperative contributions paid by members of cooperative banks which the member banks have an unconditional right to refuse the redemption.

2.2 Subsidiaries and joint arrangements

The POP Bank Group's financial statements include the financial statements of the technical parent company and its subsidiaries. Companies over which the Group exercises control are considered to be subsidiaries. The POP Bank Group has control over an entity if it has control over the company and is exposed, or has rights to, the variable returns of the company and the ability to affect those returns through its power over the company. The Group's control is based on voting rights.

The POP Bank Group's intra-group holdings have been eliminated using the acquisition method. All intra-group transactions, receivables and liabilities, unrealised earnings and distribution of profit are eliminated in the Group's consoldiated financial statements.

A joint operation is a joint arrangement over which two or more parties exercise joint control and have rights concerning assets related to the arrangement and obligations related to liabilities. Mutual real estate companies are consolidated in the Group's financial statements as joint operations. Their income statement items, assets and liabilities are combined in accordance with the Group's holding.

2.3 Non-controlling interests

The POP Bank Group's equity capital, earnings and other items of comprehensive income attributable to non-controlling interests are presented as separate items in the Group's income statement, statement of comprehensive income and balance sheet. The share of earnings and comprehensive income is attributed to non-controlling interests even if it would lead to the non-controlling interests' share becoming negative. The share of non-controlling interests is presented as part of equity capital on the balance sheet.

The portion of the POP Bank Group's equity capital, which is subject to an irrevocable commitment to refund to non-controlling interests, is not presented in the balance sheet as part of equity capital. During the financial period POP Bank Alliance Coop has refunded the cooperative contributions paid by the member banks that resigned from the Alliance in 2015. The commitment to refund the cooperative contributions has been presented in other liabilities in the comparison period.

3. FINANCIAL INSTRUMENTS

3.1 Classification and recognition

Financial assets and financial liabilities are classified on initial recognition in accordance with IAS 39 Financial Instruments: Recognition and Measurement into the following measurement categories:

- Financial assets at fair value through profit or loss
- Available-for-sale financial assets
- Investments held to maturity
- Loans and receivables
- Financial liabilities at fair value through profit or loss
- Other financial liabilities

The recognition of financial instruments in the POP Bank Group's balance sheet is not dependent on the categorisation presented in the notes for measurement. The division into measurement categories of financial assets and financial liabilities recognised in the balance sheet is presented in notes. Purchases and sales of financial instruments are recognised on the transaction date. Loans granted are recognised in the balance sheet on the date when the customer draws down the loan. Instruments issued are recognised in the balance sheet at the latest on the date when the customer makes the subscription.

On initial recognition, all financial assets and financial liabilities are recognised at fair value. Transaction costs related to financial assets and financial liabilities at fair value through profit or loss are recognised on the date of acquisition. The transaction costs of other financial instruments are included in the acquisition cost.

Financial assets and financial liabilities are offset in the balance sheet if the POP Bank Group currently has a legally enforceable right of set-off in the normal course of business and in the event of default, insolvency or bankruptcy, and it has the intention and ability to settle the asset and liability on a net basis. The POP Bank Group has not offset the financial assets and financial liabilities on the balance sheet.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the rights have been transferred to another party so that substantially all the risks and rewards of ownership of the financial asset are transferred. Financial liabilities are derecognised when the related obligations have been fulfilled and they have been extinguished.

Financial assets at fair value through profit or loss

Financial instruments at fair value through profit or loss include structured bonds and investments that include embedded derivative contracts. The value change is recognised directly in the income statement. Derivatives are also recognised at fair value through profit and loss.

Available-for-sale financial assets

Debt securities, shares and participations which are not recognised at fair value through profit or loss and that may be sold before their maturity are recognised in available-for-sale financial assets. Insurance investments are classified as available-for-sale financial assets. Available-for-sale financial assets are measured at fair value, and unrealised value changes are recognised in other comprehensive income. However, unlisted equity financial assets are valued at acquisition cost or at acquisition cost less impairment because their fair value cannot be reliably determined. Change in value is reclassified from other comprehensive income to the income statement into net investment income upon transfer or impairment. The value change of insurance investments is recognised in net investment income.

Held-to-maturity investments

In the financial year 2015, the POP Bank Group has reclassified investments held to maturity into available-for-sale financial assets. Because of the reclassification, the POP Bank Group cannot classify investments into investments held to maturity in financial year 2016 or 2017. The reclassification was a result of the change in Bonum Bank Plc's investment policy that is associated with the bank's capital adequacy management and the adjustment of its investment position to match the expected changes in the business volume.

Loans and receivables

Receivables from credit institutions as well as loans and advances to the public and central government are recognised as loans and receivables. Loans and receivables are recognised at amortised cost.

Other financial liabilities

Liabilities to credit institutions, liabilities to the public and general government and debt securities to the public are recognised as other financial liabilities. Other financial liabilities are included in the balance sheet at amortised cost with the exception of derivative contracts.

3.2 Determining fair value

Fair value is the price that would be attained if the asset was sold or would be paid to transfer the liability from one market party to another in a standard business transaction taking place on a valuation day.

A financial instrument's fair value is based on price quotations obtained from active markets or, if active markets do not exist, on the company's own valuation methods. A market is considered active if price quotations are readily and regularly available and if they reflect real and regularly occurring arm's-length market transactions. Current bid price is used as the quoted market price of financial assets.

If the market has a well-established valuation technique for a financial instrument for which there is no direct market price available, the fair value is based on the commonly used valuation model and on the market quotations of the input data used in the model.

If there is no well-established valuation technique in the market, the fair value is determined based on a specific valuation model created for the product in question. The valuation models are based on widely used measuring techniques, incorporating all the factors that market participants would consider when setting a price. The valuation prices used include market transaction prices, the discounted cash flow method, as well as the fair value of another substantially similar instrument at the reporting date. The valuation methods take into account an estimate of credit risk, applicable discount rates, early repayment option, and other such factors that may impact reliable determination of the fair value of the financial instrument.

The fair values of financial instruments are divided into three hierarchical levels, depending on how the fair value is defined:

- Fair values quoted in active markets for identical assets or liabilities (Level 1)
- Fair values that are determined using other input data than the quoted prices at Level 1, which are observable for the assets or liabilities either directly (e.g. prices) or indirectly (e.g. derived from prices) (Level 2)
- Fair values that are determined using input data which is essentially not based on observable market data (Level 3).

The fair value hierarchy level into which an item measured at fair value is fully classified is determined by the input data which is at the lowest level and is significant in respect of the whole item. The significance of input data is evaluated considering the whole item which is valued at fair value.

3.3 Derivative contracts and hedge accounting

The POP Bank Group can hedge interest rate risk by applying fair value or cash flow hedging. Derivative contracts are not made for trading purposes. The POP Bank Group did not use cash flow hedging on the financial periods presented.

The connection between hedging derivative contracts and hedged instruments (hedging relationship) and the effectiveness of hedging are documented. The Group applies the EU-approved "carve-out" model of IAS 39 hedge accounting to fixed rate borrowings, which makes it possible for assets and liabilities with a similar risk profile to be combined for hedging ("macro hedging"), making it possible to include deposits in the scope of hedging. The aim is to stabilise net interest income and to neutralise any changes in the fair value of assets and liabilities.

Derivative contracts are measured at fair value, and value changes are recognised through profit or loss.

Fair value hedges hedge against fair value changes of fixed rate lending. When hedging fair value, the hedged item is also measured at fair value during hedging even if it would otherwise be measured at amortised cost. A change in the hedged item's fair value is recognised in the balance sheet as an adjustment to the balance sheet item and in the income statement under "Net trading income". Interest on hedging derivatives is recorded as an adjustment to interest expense and measurement gains under "Net trading income".

3.4 Impairment losses on financial assets

Impairment losses on financial assets other than assets measured at fair value through profit or loss are recognised in the income statement if there is objective evidence of impairment. Evaluation of objective evidence takes place at the end of each reporting period.

Available-for-sale financial assets

Objective evidence of an impairment loss on available-for-sale financial assets includes significant financial difficulties of the issuer or debtor, breach of contract terms, issuer's or debtor's bankruptcy or other reorganisation becoming probable, negative changes in the operating environment of the issuer or debtor or the disappearance of an active market for a financial asset. If there is objective evidence of impairment loss of a financial asset at the end of the reporting period, impairment testing is performed on the asset. The principles applied by the entities of the POP Bank Group to impairment of financial assets were harmonized as the amalgamation started its operations at the end of financial period 2015.

Also, a significant or prolonged decline of the fair value of an investment in an equity instrument below its acquisition cost is objective evidence of impairment and results in the recognition of impairment losses. The Board of Directors of POP Bank Alliance Coop determined in May 2016 that a decline in the fair value of an investment in an equity instrument is significant when it is more than 30% below the instrument's acquisition cost. On comparison period the significance criteria was 40%. Impairment is considered long-term when the impairment has continuously lasted for more than 12 months. Impairment loss is recognised as the difference between the acquisition cost of the equity instrument and its fair value at the reporting date less any earlier impairment losses on that item which have been recognised in the income statement. Impairment loss is recognised in the income statement under "Net investment income". Impairment losses on an investment in an equity instrument which is classified as available-for-sale are not reversed through profit or loss; instead, the subsequent change in value is recognised in other comprehensive income.

The impairment of an available-for-sale debt instrument is determined mainly as the difference between its acquisition cost and the present value of future cash flows from the instrument. A decrease in fair value resulting from an increase in a risk-free market interest rate does not lead to recognition of impairment loss. Impairment loss is recognised in the income statement under "Net investment income". A decrease in impairment loss related to an event occurring after the recognition of impairment loss is recognised through profit and loss.

Loans and receivables

Impairment losses on loans and receivables are assessed on an individual basis if the debtor's total exposure is significant. In other respects, impairment on receivables is assessed on a collective basis for groups of similar receivables.

Individual impairment is recognised when there is objective evidence that the loan or receivable cannot be collected in accordance with the contract. Objective evidence of impairment on a receivable includes breach of contract, such as delayed payment or payment default of interest or instalments or the debtor's bankruptcy or other reorganisation. A change made to loan terms due to client's weakened financial situation is also objective evidence of impairment. The assessment is performed by discounting all future cash flows using the receivable's original effective interest rate. In determining future cash flows, the amount that the collateral it is likely to yield on realisation is assessed, taken into account the realization costs. The amount of the individual impairment is the difference between the book value of the receivable and its recoverable future cash flows.

When assessing impairment on a collective basis, the entire the POP Bank Group's receivables are classified into groups of similar credit risk properties based on customer groups. Impairment losses that have materialised according to the assessment but cannot be allocated to an individual receivable are recognised collectively. Receivables whose impairment has been assessed on an individual basis and for which an impairment loss has been recognised are not taken into account in assessing collective impairment. When determining collective impairment loss, the previous loss development of groups with similar credit risk characteristics is taken into account. Collective loss development is adjusted based on the management's estimate to correspond to the conditions at the time of assessment. When impairment can be allocated to be due to an individual receivable, the receivable is omitted from the collective impairment assessment and individual impairment is recognised.

Impairment losses on loans and receivables are recognised in the balance sheet using an allowance account, which adjusts the book amount of the receivable. In the income statement, impairment losses are recognised in impairment losses on loans and other receivables. If the amount of impairment loss later decreases, the impairment loss is reversed accordingly.

Loans and receivables are derecognised when no further payments are expected and the actual final loss can be determined. In connection with derecognition, the previously recognised impairment is reversed and the final credit loss is recognised. Payments on derecognised receivables received later are recognised in the income statement as an adjustment of impairment losses.

4. INTANGIBLE ASSETS

The most significant intangible assets of the POP Bank Group are comprised of banking and insurance information systems. Banking's intangible assets are mainly information systems implemented by the POP Bank Group's partner Samlink Ltd over which the POP Bank Group has control as referred to in IAS 38 Intangible Assets and which yield economic benefit to the Group. Finnish P&C Insurance Ltd has obtained its information system from an external provider. The POP Bank Group has not capitalised internally produced intangible assets.

All of the Group's intangible assets have a limited useful life. The acquisition cost of intangible assets is amortised in the income statement on the basis of the estimated useful lives of assets. The estimated useful life is 3–5 years for information systems and 3–4 years for other intangible assets. The estimated useful life of the basic banking and insurance systems may be longer, but not more than 10 years.

The amortisation of the acquisition cost of intangible assets begins when the asset is ready to be taken into use. Intangible assets under development are annually tested for impairment. Research costs are recorded as expenses as they occur.

5. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

All of the properties owned by the POP Bank Group are divided into owner-occupied properties and investment properties. Owner-occupied properties are recognised under property, plant and equipment and investment properties under investment assets on the balance sheet.

The purpose of investment properties is to yield rental revenue or increase in value on capital. If a property is used both by the Group and for investment purposes, the parts are presented separately only if they can be divested separately. In this case, the division is based on the floor area of the properties. If the parts cannot be divested separately, the property is considered to be an investment property only when only a small part of it is used by the owner.

Both owner-occupied properties and investment properties are measured at acquisition cost less depreciation and impairment. Machinery and equipment as well as other property, plant and equipment are similarly also measured at acquisition cost less depreciation and impairment. Depreciation is based on the useful life of the assets. The average useful life for buildings is 30–40 years. The useful life for technical equipment, renovations and machinery and equipment is 3–10 years. Land is not subject to depreciation.

Depreciation and impairment on property, plant and equipment are included in depreciation, amortisation and impairment loss on intangible assets and property, plant and equipment. Depreciation on investment properties is recognised in the income statement under net investment income. Capital gains and losses are determined as the difference between the income received and balance sheet values. Proceeds from the sale of owner-occupied properties are recognised under other operating income and losses under other operating expenses. Proceeds and losses from the sale of investment properties are recognised in net investment income.

6. LEASES

The Group leases properties it owns or parts thereof by way of operating leases pursuant to IAS 17 Leases. In the leases, the essential risks and benefits of ownership remain with the lessor. Rental revenue from investment properties is recognised in net investment income and from other properties in other operating income.

The Group is leasing office equipment and premises it uses for business. Leases have been classified as operating leases in accordance with IAS 17. Rental expenses are recognised in other operating income over the period of lease.

7. NON-LIFE INSURANCE ASSETS AND LIABILITIES

7.1 Financial assets of non-life insurance

Financial assets of non-life insurance are classified as available-for-sale financial assets.

7.2 Contracts issued by the insurance company

Insurance products are classified as insurance contracts or investment contracts. Insurance contracts include those with which a significant insurance risk is transferred from the policyholder to the insurer or entitle the policyholder to a discretionary share of the company's surplus. Other contracts are classified as investment contracts.

All of the insurance products issued by the POP Bank Group are treated in the Group's consolidated financial statements in accordance with IFRS 4 Insurance Contracts.

7.3 Liabilities for insurance contracts

Technical provisions are calculated in accordance with the national accounting policies.

The insurance contracts issued by the company are primarily annual policies. Premiums written include insurance premiums for the contract periods that have begun during the financial year. After this, the expected expiries are deducted from the premiums written. The portion of premiums written for the post-balance sheet date is recorded as provision for unearned premiums in the balance sheet. The amount of the provision for unearned premiums is calculated at the monthly level from previous premiums written using straight-line depreciation.

The provision for unearned premiums ceded to reinsurers is calculated similarly to the direct insurer's share. The provisions for unpaid claims ceded to reinsurers is reserved on a case-by-case basis.

Claims paid out to policyholders and claim settlement expenses are charged to claims incurred when the company makes the decision to pay out the claim. Claims unsettled on the balance sheet date for losses already occurred and their settlement expenses – including claims incurred but not yet reported – are reserved in the provision for unpaid claims. Provisions for unpaid claims consist of both claims reserved for individual cases and a collective reservation proportioned to previous Insurance premium revenue. The claims paid out and change in the provisions for unpaid claims make up the claims incurred.

Provisions for unpaid claims for annuities are discounted based on a constant discount rate. The company did not have confirmed pension liabilities on the closing date.

As part of the provisions for unpaid claims, the company reserves equalisation provisions. Equalisation provisions are an item calculated in case of claim-intensive years based on theoretical risk. The equalisation provision was EUR 0 on the closing date.

The sufficiency of the provision for unearned premiums in non-life insurance and provision for unearned premiums is assessed separately. Provisions for unpaid claims are based on estimates of future claim cash flows. The estimates are made using well-established actuarial methods. Any insufficiency of provision for unearned premiums identified is corrected by adjusting the calculation bases.

8. PROVISIONS

A provision is recognised when a legal or factual obligation has emerged due to a previous event and the fulfilment of the obligation is likely. A provision is recognised when the Group can reliably assess the amount of the obligation.

Any remuneration paid by a third party is recognised as a separate item when receiving the remuneration is considered practically certain. The provision is measured at the present value of the amounts paid to fulfill the obligation. The POP Bank Group did not have provisions on the closing date.

9. EMPLOYEE BENEFITS

The Group's employee benefits in accordance with IAS 19 Employee Benefits consist mainly of short-term employee benefits, such as holiday pay and bonus payments, which are expected to be paid in connection with the work performance they are related to or within the following 12 months.

Benefits related to the termination of employment consist of severance payments.

Post-employment benefits consist of pensions and other benefits paid out after the termination of employment. Statutory pension cover is arranged through external pension insurance companies. Most of the Group's pension arrangements are defined contribution plans. Defined benefit plans are contracts that include additional pension cover.

Expenses from defined contribution plans are recognised in personnel expenses in the period during which they are charged by the insurance company.

The asset or liability recognised in respect of a defined benefit plan is the present value of the obligation on the closing date less the fair value of plan assets. The present value of the pension obligation has been calculated by discounting the estimated cash flows using the discount rate based on the market yield of high-quality bonds issued by companies.

The amount of the pension liability is calculated annually by independent actuaries. The obligation is calculated using the projected unit credit method.

Pension costs are charged to expenses over the employees' working lives and recognised in personnel expenses. Items resulting from remeasurements of the net defined benefit liability are recognised in other comprehensive income in the period they occur. These items will not be reclassified to the income statement in later financial periods.

10. PRINCIPLES FOR RECOGNISING INCOME AND EXPENSES

10.1 Interest income and expenses

Interest income and expenses are amortised over the maturity of the contract using the effective interest rate method, in proportion to the remaining carrying amount in the balance sheet. Interest income and expenses are recognised in net interest income. Interest income and expenses related to insurance assets are recognised in net income from insurance in the income statement.

Negative interest rates did not have a significant effect on the interest income or expenses of the POP Bank Group.

Negative interest income on financial assets is recognised in interest expenses and positive interest costs on financial liabilities in interest income.

10.2 Commission income and expenses

Commission income and expenses are generally recognised on an accrual basis when the related services are performed. Commissions and fees relating to services performed over several years are amortised over the service period. Commissions and fees that are considered as an integral part of the effective interest of a financial instrument are accounted for as an adjustment to the effective interest. However, commissions and fees relating to financial instruments measured at fair value through profit or loss are recognised in the income statement on initial recognition.

10.3 Dividends

Dividends are primarily recognised when the General Meeting of Shareholders of the distributing entity has made a decision on dividend payout and the right to receive dividends has emerged. Dividend income is recognised in net investment income or net income from insurance operations.

10.4 Premiums

Premiums written from non-life insurance operations are recognised in net income from insurance in the income statement. Premiums are recognised in premiums written in accordance with the charging principle.

10.5 Presentation of income statement items

Income statement items are presented in the financial statements using the principles below.

Net interest income
Interest income and expenses on financial assets and liabilities, the amount of amortisation on the difference between the nominal and acquisition values, interest on interest-rate derivatives and fees that are accounted as part of the financial asset's effective interest.

Commission income and expenses
Commission income from lending, deposits and legal tasks, commission income and expenses from payments and card business, commission income from securities

Net trading income
Capital gains and losses and fair value changes and dividends from financial instruments at fair value through profit or loss, net gains on foreign exchange operations, net gains on fair value hedges

Net investment income
Net income from available-for-sale financial assets (realised capital gains and losses, impairment losses, dividends), net income from investment property (rental and dividend income, capital gains and losses and maintenance charges and expenses related to investment property, depreciation and impairment losses)

Net income from non-life insurance
Premiums written, change in insurance liability, claims paid and net investment income (interest, realised capital gains and losses and impairment of investments)

Other operating income
Rental and dividend income and capital gains from owner-occupied properties, other operating income.

Personnel expenses
Wages and salaries, social expenses and pension expenses

Other operating expenses
Other administrative expenses, rental expenses and capital losses from owner-occupied properties, other business operations-related expenses

11. INCOME TAX

Income tax expense shown in the income statement includes current tax, based on the taxable income of the POP Bank Group companies for the financial year, adjustments for income tax for prior financial years and change in deferred taxes. Tax expenses are recognised in the income statement except when they are directly linked to items entered into equity capital or other items in the statement of comprehensive income, in which case the tax effect is also included in these items.

Deferred tax liabilities and assets are calculated on taxable and deductible temporary differences between the carrying amount and the tax basis. Deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilised.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply at the time when the temporary difference is reversed.

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that future taxable profit will be probable and unused tax credits can be utilised.

12. ERRORS CONCERNING PREVIOUS FINANCIAL PERIODS

Essential errors concerning previous financial periods are adjusted retrospectively in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting, Estimates and Errors. An error concerning the depreciation of real property was observed in the financial statements for 2015. Its effect on the balance sheet of 31 December 2015 and opening balance sheet of 1 January 2015 presented as additional financial information and the earnings for the financial period 1 January – 31 December 2015 is presented in Note 5.

13. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The application of IFRS requires the management's assessments and assumptions concerning the future. These affect the reported amounts in the financial statements and the information included in the notes. The management's main estimates concern the future and the key uncertainties related to the amounts at the balance sheet date. In particular, they are related to fair value assessment and impairment of financial assets and intangible assets, as well as the assumptions used in actuarial analyses.

13.1 Impairment losses on financial assets

The management must regularly assess whether there is objective evidence of impairment of financial assets and, when necessary, carry out impairment testing on the asset.

The impairment testing of receivables is carried out individually or on a collective basis. The most important matters that require assessment are the identification of objective factors and future cash flows. The principles of individual and collective impairment are described in more detail in section 3.4. Impairment losses on financial assets.

The impairment testing of available-for-sale financial assets must be conducted at the end of the reporting period. The principles applied to impairment by the entities of the POP Bank Group were harmonized at the end of financial period 2015, when the Board of Directors of POP Bank Alliance Coop approved the accounting principles applied to the financial statements of the amalgamation. If there is objective evidence of impairment, any impairment loss is recognised in the income statement. The verification of objective evidence involves management's judgement. In addition, impairment loss on an equity investment must be recognised if the impairment is significant or prolonged. In May 2016, the Board of Directors of POP Bank Alliance Coop determined that a decline in the fair value of an investment in an equity instrument is significant when it is more than 30% below the instrument's acquisition cost. The significance criteria applied at comparison period was 40%. Impairment is considered long term when it has continuously lasted for more than 12 months.

13.2 Determining fair value

Determining the fair value of unquoted investments requires the management's judgement and estimates of several factors used in the estimates, which can differ from the actual outcomes, thereby leading to a significant change in the value of the available-for-sale investment and equity capital.

The management must assess whether the markets for financial instruments are active or not. Furthermore, the management must assess whether an individual financial instrument is subject to active trading and whether the price information obtained from the market is a reliable indication of the instrument's fair value. When the fair value of financial instruments is determined using a valuation technique, the management's judgement is needed in the choice of the valuation technique to be applied. Insofar as there is no market input available for the techniques, the management must evaluate how other data can be used for the valuation. Compound instruments, such as index-linked bonds, usually have no active aftermarket. In this case, fair value is based on imputed value determined by an external partner of the Group. More detailed information on the measurement of such instruments is presented in Note 38.

The fair value of OTC derivatives is measured based on price components available in the market, such as interest rates, in accordance with commonly used valuation models. More detailed information on the measurement of derivative contracts is presented in Note 38.

13.3 Impairment of intangible assets

In addition, the management must assess at the end of each reporting period whether there are indications of impairment of non-financial assets. The impairment of intangible assets must be assessed when there are indications of the impairment of an asset. The amount recoverable from intangible assets is determined in the impairment assessment on the basis of the use value or fair value of the asset. Impairment testing requires management's judgement and assessment of the recoverable amount of the asset in question, as well as the interest rate used for discounting.

13.4 Assumptions used in actuarial calculations

Liabilities arising from insurance contracts involve several discretionary factors and estimates. Besides actuarial analyses of Group's own claims statistics, the assessments are based on statistical data and assumptions related to the operating environment. Provisions for unpaid claims related to major losses are made on a case-by-case basis. The management's discretion is particularly required when assessing the claims incurred arising from major losses. The assumptions concerning the provision for unearned premiums are evaluated annually.

14. NEW IFRS STANDARDS AND INTERPRETATIONS

14.1 Amended standards and interpretations applied in the financial period

POP Bank Group adopted following changes and improvements to existing standards:

- Annual Improvements to IFRSs 2012–2014 cycle: The Annual Improvements procedure provides minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments are related to four standards. Their effects vary depending on the standard, but they are not significant.

- Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative. The amendments clarify IAS 1 guidance on materiality, combining profit & loss statement and balance sheet items, presenting subheadings as well as the structure of the financial statements and accounting principles. POP Bank Group has made minimal changes to presenting financial statements and, when required, a corresponding change has been made to the comparison period.

- Amendments to IFRS 11 Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations: The amendments require the accounting for business combinations to be applied to acquisitions of an interest in a joint operation when the operation constitutes a business

14.2 Amended standards, new standards and interpretations to be applied in future financial periods

In the financial period starting after 1 January 2017, the POP Bank Group will adopt the following amended standards of IASB starting from their entry into force, if they have been approved to be applied in the EU before the closing date.

- IAS 12 – Income taxes, amended by Recognition of Deferred Tax Assets for Unrealised Losses (to be applied in financial periods starting on or after 1 January 2017). This amendment clarifies how deferred tax assets from debt instruments recognised at fair value can be registered (recognition of deferred tax assets for unrealised losses). This amendment has no impact on the financial statements of the POP Bank Group.

- IAS 7 – Statement of cash flows, amended by Disclosure Initiative (to be applied in financial periods starting on or after 1 January 2017). The aim of this amendment is to help users of financial statements to assess changes in financial liabilities with and without impact on cash flows. This amendment is not expected to have any significant impact on the financial statements of the POP Bank Group.

In financial periods starting later than on 1 January 2017, the POP Bank Group will adopt the following net standards of IASB starting from their entry into force or from the beginning of the financial period following their entry into force, if they have been approved to be applied in the EU before the closing date.

- New IFRS 9 – Financial Instruments (to be applied in financial periods starting on or after 1 January 2018). This standard replaces the current IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 changes the recognition and measurement of financial assets and includes a new model for evaluating the impairment of financial assets based on expected credit losses. The recognition and measurement of financial liabilities largely correspond with the current requirements set out in IAS 39. There remains three hedge accounting types. More risk positions can be included in hedge accounting, and the principles of hedge accounting have been standardised together with risk management.

  To adopt IFRS 9, the POP Bank Group has launched an internal project and a cooperation project with system supplier Oy Samlink Ab. The POP Bank Group's internal project aims to define accounting principles and the modelling required by expected losses together with external partners, and to assess what impact the application of the standard has on the Group's operations.

The recognition of financial assets in accordance with IFRS 9 will have an impact on the POP Bank Group's profit because, according to the standard, any changes in the value of shares and participations are mainly recognised in the income statement instead of the statement of comprehensive income. Furthermore, changes in the value of such debt securities where cash flows do not solely consist of payments of interest on capital and the remaining capital amount are also recognised in the income statement. This change has an impact on the POP Bank Group's net investment income, comprehensive income and fair value reserves. The change in recognition has not impact on the amount of the POP Bank Group's equity, but it may have an impact on the capital adequacy figure of the amalgamation of POP Banks. The financial impact on the changes in recognition and measurement depends on the structure of the POP Bank Group's investment portfolio on and after the standard adoption date.

IFRS 9 requires that impairment losses be recognised on the basis of expected credit losses from all financial assets based on liabilities, and these are recognised at amortised cost or fair value through other comprehensive income items. In the measurement of expected credit losses, a transition will be made from the recognition of expected credit losses over 12 months to the recognition of expected credit losses throughout the agreement validity period as the credit risk increases significantly after the original recognition. To define expected credit losses, the POP Bank Group's internal IFRS 9 project models the probability of default (PD) and the loss given default (LGD) of its customers, evaluates the exposure at default (EAD), and specifies the factors that indicate a significant increase in the credit risk. The credit risk can be deemed to have increased significantly due to qualitative or quantitative factors.

The recognition of expected credit losses is expected to reduce the POP Bank Group's profit and the balance sheet value of loan receivables from customers and liability investments recognised at amortised cost compared with the current accounting principles. The impact of the adoption of the standard on the capital adequacy figure of the amalgamation of POP Banks depends on how the amount of impairment losses is taken into account in capital adequacy accounting.

IFRS 9 also enables the application of the current IAS 39 standard to hedge accounting. The POP Bank Group has not yet made a decision on the adoption of IFRS 9 to hedge accounting. However, the changes in IFRS 9 concerning hedge accounting are not expected to have any significant impact on the POP Bank Group's financial statements because the volume of hedging instruments is low in the Group's member credit institutions.

- New IFRS 15 – Revenue from Contracts with Customers (to be applied in financial periods starting on or after 1 January 2018). The new standard includes five-step instructions for the recognition of sales gains acquired on the basis of customer contracts, and its replaces the current IAS 18 and IAS 11 standards and interpretations. Sales can be recognised over time or on a specific date. Here, the key criterion is the transfer of control. The standard also increases the number of notes to be disclosed. This standard is not expected to have any significant impact on the financial statements of the POP Bank Group.

- New IFRS 16 – Leases (to be applied in financial periods starting on or after 1 January 2018). The standard replaces the current IAS 17 – Leases standard and interpretations. The new standard requires that lessees recognise leases on the balance sheet as leasing liabilities and related asset items. The standard makes it easier to recognise agreements of at most 12 months and those concerning commodities of a low value. For lessors, the new standard does not include any significant changes. The POP Bank Group has started to assess the impact of the new standard.

* = The provision has not been approved to be applied in the EU as of 31 December 2016.

15. ADDITIONAL FINANCIAL INFORMATION

The POP Bank Group formed the legal entity amalgamation of POP Banks when it started operations on 31 December 2015. Financial period 1 January - 31 December 2016 was the first 12 month financial period for which POP Bank Group prepares official consolidated financial statements.

In accordance with the Amalgamation Act, the central institution shall prepare the financial statements as a combination of the financial statements or the group financial statements of the central institution and its member credit institutions in accordance with the International Financial Reporting Standards (IFRS). Before the formation of the amalgamation, the Group did not have a statutory obligation to prepare consolidated FAS financial statements. Additional financial information was presented as notes to the first IFRS financial statements of the POP Bank Group, which included the financial statements prepared in accordance with IFRS for the financial year 1 January – 31 December 2015 and the comparison period 1 January – 31 December 2014. The additional financial information was prepared for the period preceding the formation of the amalgamation of POP Banks, at which time POP Banks acted as a single bank group but were not legally liable for each other's commitments.

The purpose of the additional financial information was to provide investors, credit rating agencies and other stakeholders with useful information about the POP Bank Group's financial position and formation of earnings during the time preceding the formation of the amalgamation. The preparation of the consolidated financial statements as a single entity is based on the "common management" concept. Because the POP Bank Group has not been under joint control, the Group has operated under joint management already before the formation of the amalgamation.

The IFRS financial statements presented as additional financial information have been prepared using the "combined financial statements" principle by consolidating the audited separate financial statements of the companies included in the POP Bank Group prepared pursuant to the national accounting and financial statement standards so that the inter-company items have been eliminated and the balance sheet and income statement items have been adjusted to correspond to IFRS. The POP Bank Group adopted IFRS on 1 January 2014.

The consolidated income statement, other comprehensive income, balance sheet, statement of changes in equity capital, cash flow statement and such notes that include information regarding financial period 1 January - 31 December 2015 are presented in note 59 with comparison information. Comparison information corresponds to additional financial information presented in financial statements 31 December 2015 and the information has been prepared in accordance to the accounting principles presented in note 2.

NOTE 3 Governance and management

The structure of the POP Bank Group and amalgamation of POP Banks are presented in Note 1.

The operations of the amalgamation of POP Banks are regulated by the European Union's regulations, national legislation and regulations issued by the authorities. The key national acts are the Act on Credit Institutions (610/2014; hereinafter referred to as the "Credit Institutions Act), Act on the Amalgamation of Deposit Banks (599/2010; hereinafter referred to as the "Amalgamation Act"), Co-operatives Act (421/2013), Act on Co-operative Banks and Other Credit Institutions in the Form of a Cooperative (423/2013), Limited Liability Companies Act (624/2006) and Act on Insurance Companies (521/2008). In addition, the amalgamation complies with good banking practice and policies concerning the processing of personal data in its operations.

The scope of consolidation of the POP Bank Group differs from the scope of consolidation of the amalgamation of POP Banks. The POP Bank Group consists of the amalgamation of POP Banks and entities over which the entities included in the amalgamation exercise control as referred to in the Accounting Act (1336/1997).

The POP Bank Group entities not included in the amalgamation are entities other than credit and financial institutions or services companies. The most significant of them are POP Holding Ltd, Finnish P&C Insurance Ltd and POP Banks' guarantee fund (dissolved in June 2106).

1. ENTITIES INCLUDED IN THE AMALGAMATION OF POP BANKS

1.1 Central institution POP Bank Alliance Coop

POP Bank Alliance Coop is the central institution of the amalgamation of POP Banks, and it is licensed as the central institution of an amalgamation of deposit banks. POP Bank Alliance Coop is owned by its member cooperative banks; they use their voting rights in a cooperative meeting of POP Bank Alliance Coop.

1.2 POP Banks

POP Banks are member credit institutions of POP Bank Alliance Coop with deposit bank licences. POP Banks are co-operatives (cooperative banks) in terms of company form. The cooperative meeting of the members of the bank or an elected representatives' meeting is the supreme decision-making body of POP Banks. The cooperative meeting or representatives' meeting elects a Supervisory Board for the bank, which elects the Board of Directors. The Managing Director is appointed by the Supervisory Board or the Board of Directors, depending on the bank's rules.

1.3 Central credit institution Bonum Bank Plc

Bonum Bank Plc is a member credit institution and subsidiary of POP Bank Alliance Coop. Bonum Bank Plc is licensed as a deposit bank. As a member credit institution and subsidiary of POP Bank Alliance Coop, Bonum Bank Plc is included in the scope of both the member credit institutions of the central institution and group management. Bonum Bank Plc operates as the central credit institution of POP Banks, and it can also engage in other banking operations besides central credit institution operations.

1.4 Other entities in the amalgamation

Other entities belonging to the amalgamation include the companies included in the consolidation groups of the member co-operative banks, and they are primarily real estate companies. In addition, the amalgamation includes those credit institutions, financial institutions and service companies in which entities included in the amalgamation jointly hold over 50% of the votes.

2. ADMINISTRATIVE ORGANS OF THE CENTRAL INSTITUTION OF THE AMALGAMATION OF POP BANKS

2.1 Cooperative meeting of POP Bank Alliance Coop

The cooperative meeting is the supreme decision-making body of POP Bank Alliance Coop. The cooperative meeting confirms the rules and adopts the financial statements and balance sheet of the central institution, decides on the POP Bank Group's strategy and elects the members of the Supervisory Board and the auditor. One member shall be elected to the Supervisory Board from each member credit institution; however, not from a subsidiary of the central institution acting as a member credit institution.

2.2 Supervisory Board of POP Bank Alliance Coop

It is a key task of the Supervisory Board of POP Bank Alliance Coop to supervise that the operations of the central institution are managed with expertise and care in compliance with the legislation, guidelines and the members' interests and that the ratified guidelines and decisions by the cooperative meeting are followed.

It is the duty of the Supervisory Board to issue a statement on POP Bank Group's strategy and financial statements prepared by the Board of Directors of the central institution to the cooperative meeting and to annually confirm the principles of capital adequacy management of the amalgamation of POP Banks. The Supervisory Board also ratifies the general operating principles of the amalgamation of POP Bank's and the principles of bank-specific management.

The Supervisory Board elects and discharges the members of the Board of Directors, the Managing Director and head of audit and elects Managing Director's deputy. The Supervisory Board decides on the fees of Board of Directors and the emolument of the head of audit.

The Supervisory Board elects an executive and nomination committee from among its number to prepare matters related to the appointment and salaries and remuneration of the Supervisory Board and Board members, the Managing Director and his deputy and the head of audit. The Supervisory Board elects an audit committee from among its number to take care of the supervisory duties for which the Supervisory Board is responsible.

2.3 Board of Directors of POP Bank Alliance Coop

The Board of Directors of the central institution manages the central institution professionally in accordance with sound and prudent business practice. The Board of Directors is responsible for the appropriate and reliable organisation of the governance and operations of the central institution.

The Board of Directors of the central institution confirms the amalgamation's risk level and risk appetite based on the strategy and business plans and approves the plan concerning the maintenance of capital adequacy proportioned to the risk level. The Board of Directors sets the target level for capital adequacy and confirms the level and structure of capital required by the risk profile. The Board of Directors is also responsible for proactive capital planning.

The Board of Directors is responsible for the sufficiency of the risk management system at the amalgamation level. It is the task of the Board of Directors to guide the operation of the amalgamation and issue the member credit institution belonging to it guidelines on their risk management, reliable governance and internal control to secure their solvency and capital adequacy. The Board of Directors supervises that the companies belonging to the amalgamation operate in compliance with the laws, decrees, regulations and instructions issued by the authorities, their own rules and the binding guidelines of the amalgamation. Moreover, it is the duty of the Board of Directors to oversee the functioning and sufficiency of internal control and risk management, approve the principles and guidelines of risk management and the risk category-specific strategies.

The Board has a risk committee whose task it is to monitor and prepare the Board's duties related to risk management. The tasks of the risk committee include assisting the Board of Directors in matters related to the amalgamation's risk strategy and risk-taking ability, preparing risk category-specific strategies and overseeing and coordinating the member credit institutions' risk management and capital adequacy. In addition, the committee monitors the preparation and implementation of the capital adequacy management plan.

The Board has an audit committee whose task it is to monitor and prepare the Board's duties related to internal audit. The tasks of the audit committee include reviewing the reports submitted by the internal audit function and present them to the Board of Directors, monitor and oversee the statutory audit of the amalgamation and supervise compliance with laws, regulations and decrees.

The assessment of the competence of Board member candidates is carried out following pre-defined and neutral selection grounds. A diverse composition of the Board of Directors aims at the optimum ability to develop and manage the efficiency, competitiveness and risk management of the central institution and amalgamation. In planning the composition of the Board of Directors, it is ensured that the required competence is represented at each time. Regional representation is also part of the assessment of diversity. Equal representation of both genders in the Board of Directors is an important aspect of diversity. The Board of Directors approves the objective of equal representation of genders and prepares the operating principles with which the objective is achieved and maintained. The Board of Directors annually reviews its work and the knowledge and skills, experience and diverse necessary for its work and the job description of new members.

The members of the Board of Directors shall have the preconditions for successfully taking care of their duties and sufficient time for it. A Board member and member of the executive management must have sufficient expertise in the amalgamation's business, related key risks and managerial work. A majority of the Board members shall be employed by a member credit institution of the amalgamation. Board members must be reliable persons with a good reputation. The reliability, suitability and professional skills of persons elected as Board members are assessed in connection with their election and at regular intervals thereafter.

The Board of Directors of the central institution has specified a maximum number of board memberships of a Board member. A member of the Board of Directors may be a member of a maximum of four other boards of directors. In calculating the number of board memberships, memberships of the boards of directors within the POP Bank Group or those related to the Group's cooperative relationships or membership in the administrative organs of entities with no commercial purposes, such as non-profit or charity organisations and housing associations.

The members of the Board of Directors at the end of the financial year on 31 December 2016 were Petri Jaakkola (Chairman), Juha Niemelä (Vice Chairman), Ari Heikkilä, Marja Pajulahti, Soile Pusa, Teemu Teljosuo and Hannu Tuominiemi.

2.4 Managing Director of POP Bank Alliance Coop

The central institution has a Managing Director who is responsible for the day-to-day management and administration of the central institution in accordance with the instructions and orders issued by the Board of Directors.

The Managing Director prepares the matters presented to the Board of Directors and assists the Board of Directors in the preparation of matters presented to the Supervisory Board and the cooperative meeting. The Managing Director of POP Bank Alliance Coop until 31 December 2016 was Heikki Suutala and from 1 January 2017 Pekka Lemettinen. Managing Director's deputy has been Timo Hulkko.

The Managing Director is required seek the approval of the Board of Directors for any secondary jobs.

3. CONTROL AND RISK AND CAPITAL ADEQUACY MANAGEMENT OF THE AMALGAMATION OF POP BANKS

In accordance with the Amalgamation Act, POP Bank Alliance Coop, the central institution of the amalgamation of POP Banks, is responsible for supervising the operations of the member credit institutions and issuing them binding guidelines concerning risk management, reliable governance and internal control to secure their liquidity coverage ratio and capital adequacy and for issuing instructions concerning the preparation of the consolidated financial statements of the amalgamation for the purpose of compliance of harmonised accounting policies. Moreover, the central institution can confirm general operating principles for its member credit institutions to follow in their operations significant from the point of view of the amalgamation as specified in its rules.

The central institution supervises that the entities included in the amalgamation comply with laws, decrees, instructions and regulations issued by the authorities, their own rules and the Group's internal binding guidelines in their activities.

The central institution issues instructions to member credit institutions and, if necessary, interferes in the operations of the member credit institution in accordance with separately agreed principles and procedures. The Board of Directors of the central institution decides on the use of the necessary control methods.

The member credit institution carry their operational risks independently and are liable for their liquidity coverage ratio and capital adequacy. However, a member credit institution of the amalgamation may not take such high risk in its operations that it causes essential risks to the combined liquidity coverage ratio or capital adequacy of the entities included in the amalgamation.

The capital adequacy, liquidity coverage ratio and customer risks of the entities included in the amalgamation of POP Banks are supervised at the consolidated amalgamation level in accordance with the Amalgamation Act. The entities included in the amalgamation must have the minimum combined own funds that is sufficient for covering the consolidated risks of the companies included in the amalgamation specified in more detail in the Act on Credit Institutions. In addition, the combined own funds of the entities included in the amalgamation must be sufficient in relation to the combined customer risks and combined significant holdings of the entities included in the amalgamation.

The central institution has reliable governance that enables the effective risk management of the amalgamation and sufficient internal control and risk management systems considering the operations of the amalgamation.

In accordance with the Amalgamation Act, the Financial Supervisory Authority may grant the central institution a permit to decide on granting certain exceptions related to capital adequacy and liquidity coverage ratio to its member credit institutions.

The principles followed in the risk management of the amalgamation of POP Banks are described in more detail in Note 4 on risk management and capital adequacy management.

4. JOINING AND RESIGNING FROM THE AMALGAMATION OF POP BANKS

Credit institutions whose rules or Articles of Association are compliant with the provisions of the Amalgamation Act and whose rules or Articles of Association the central institution has approved can be members of the central institution of the amalgamation of POP Banks. The central institution's Supervisory Board decides on acceptance as a member based on a written application.

A member credit institution has the right to resign from the central institution in accordance with the rules of the central institution and the provisions of the Co-operatives Act and Amalgamation Act when the conditions laid down by them are met. The combined amount of the own funds of the companies included in the amalgamation must remain at the level required by the Amalgamation Act in spite of the resignation of a member credit institution.

A member credit institution can be dismissed from the central institution in accordance with the rules of the central institution and the Co-operatives Act if the member credit institution has neglected its duties arising from its membership. Furthermore, a member credit institution can be dismissed from the central institution if it has, in spite of a warning issued by the Supervisory Board, neglected compliance with the instructions issued by the central institution under section 17 of the Amalgamation Act in a way that significantly threatens joint liquidity coverage or the application of principles concerning capital adequacy management or the preparation of financial statements or the supervision of compliance with them in the amalgamation. A member credit institution can also be dismissed if the member credit institution has otherwise acted essentially in violation of the general operating principles of the amalgamation ratified by the central institution or the interests of the central institution or the POP Bank Group. The decision on dismissing a member credit institution is made by a cooperative meeting of the central institution at the proposal of the Supervisory Board.

The provisions of the Amalgamation Act on the liability to pay of a member credit institution are also applied to a credit institution that has resigned or has been dismissed from the central institution if less than five years have passed since the end of the calendar year in which the member credit institution resigned or was dismissed when the demand concerning liability to pay is made to the member credit institution.

5. CENTRAL INSTITUTION'S LIABILITY FOR DEBT AND JOINT LIABILITY OF MEMBER CREDIT INSTITUTIONS

The central institution of the amalgamation of POP Banks is liable for the debt and commitments of its member credit institutions in accordance with the Amalgamation Act. As a support measure referred to in the Amalgamation Act, the central institution is liable to pay any of its member credit institutions an amount that is necessary to prevent the credit institution from being placed in liquidation. The central institution is liable for the debts of a member credit institution which cannot be paid using the member credit institution's capital.

Each member credit institution is liable to pay a proportion of the amount which the central institution has paid to either another member credit institution as part of support action or to a creditor of such member credit institution in payment of an amount overdue which the creditor has not received from the member credit institution. Furthermore, in the case of the central institution's default, a member credit institution has unlimited refinancing liability for the central cooperative's debts as referred to in the Co-operatives Act.

Each member credit institution's liability for the amount the central institution has paid to the creditor on behalf of a member credit institution is divided between the member credit institutions in proportion to their last adopted balance sheets. The combined annual amount collected from each member credit institution in order to prevent liquidation of one of the member credit institutions may in each financial year account for a maximum of 0.5% of the last confirmed balance sheet of each member credit institution.

6. SUPERVISION OF THE AMALGAMATION OF POP BANKS

The Financial Supervisory Authority supervises the central institution in accordance with the Amalgamation Act. The member credit institutions are supervised by the Financial Supervisory Authority and the central institution.

The Financial Supervisory Authority supervises that the central institution controls and supervises the operations of the member credit institutions in accordance with the provisions of the Amalgamation Act and that the entities included in the amalgamation meet their statutory requirements.

The central institution supervises that the companies belonging to the amalgamation operate in compliance with the legislation and decrees on the financial market, regulations issued by the authorities, their own rules and Articles of Association and the instructions issued by the central institution in accordance with section 17 of the Amalgamation Act. Furthermore, the central institution supervises the financial position of the companies belonging to the amalgamation.

The internal audit unit of the amalgamation's central institution is responsible for the organisation of internal audit in the central institution and member credit institution, and it controls the organisation of internal audit in the other companies belonging to the amalgamation.

7. PROTECTION AFFORDED BY THE DEPOSIT GUARANTEE FUND AND THE INVESTORS' COMPENSATION FUND

According to the legislation concerning the Deposit Guarantee Fund, the deposit banks belonging to the amalgamation of POP Banks are considered to constitute a single bank in respect of deposit insurance. The Deposit Guarantee Fund reimburses a maximum total of EUR 100,000 to an individual account holder who has receivables from deposit banks belonging to the amalgamation of POP Banks. The Financial Stability Board administers the Deposit Guarantee Fund and carries out duties related to deposit protection.

Furthermore, in accordance with the legislation on the investors' compensation fund, the amalgamation of POP Banks is considered to constitute a single bank in terms of deposit insurance. The Investors' Compensation Fund reimburses a maximum total of EUR 20,000 to an investor who has receivables from entities belonging to the amalgamation of POP Banks.

8. FINANCIAL STATEMENTS AND AUDIT OF THE POP BANK GROUP

In accordance with the Amalgamation Act, the financial statements of the POP Bank Group shall be prepared in compliance with the International Financial Reporting Standards (IFRS) referred to in the Accounting Act. In accordance with IFRS; also other significant entities included in the POP Bank Group must be consolidated in the financial statements. The accounting policies are described in Note 2 POP Bank Group's accounting policies under IFRS.

In accordance with the Amalgamation Act, the central institution is liable to issue instructions to the member credit institutions for the purpose of harmonising the accounting policies applied in preparing the financial statements of the POP Bank Group. The member credit institutions are liable to provide the central institution the POP Bank Group the information required for consolidating the financial statements.

The central institution has one auditor that must be a firm of Authorised Public Accountants. The auditor is elected by the cooperative meeting. The auditor's term of office is a calendar year. POP Bank Alliance Coop's auditor is KPMG Oy Ab, Authorised Public Accountants, with Johanna Gråsten, Authorised Public Accountant, as the main auditor. The auditor also audits the consolidated financial statements referred to in the Amalgamation Act. The central institution and its auditors have the right to receive a copy of the documents concerning the audit of a member credit institution for the purpose of auditing the consolidated financial statements of the POP Bank Group.

A member credit institution is not obliged to publish interim reports pursuant to Chapter 12, section 12 of the Act on Credit Institutions, or the capital adequacy information pursuant to the EU's Capital Requirements Regulation ("Pillar III disclosures"). The information required by the EU's Capital Requirements Regulation are presented of the amalgamation of POP Banks.

9. REMUNERATION

Remuneration scheme refers to the decisions, contracts, policies and procedures followed in rewarding the management and personnel.

Remuneration is divided into fixed and variable remuneration. Fixed remuneration refers to salaries tied to a specific period of time and variable remuneration refers to remuneration tied to the beneficiary's performance or financial factors. Variable remuneration includes both short and long-term remuneration. In short-term remuneration, the earning period is the calendar year and the reward is paid in cash.

At the POP Bank Group, variable remuneration is company-specific. The POP Bank Group does not have a uniform remuneration scheme. The remuneration schemes are based on the business strategy, objectives and values of each member credit institution or company, and they are aligned with the company's long-term interests. The remuneration schemes are in harmony with the bank's proper and effective risk management and risk-bearing capacity. Remuneration does not encourage risk-taking that would exceed the risk level defined on the basis of the risk-bearing capacity of the member credit institutions or the company or otherwise sustainable risk level.

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

The amalgamation of POP Banks follows the Act on Credit Institutions, with the exceptions mentioned below, when deciding on the remuneration scheme of the executive management and employees of the member credit institutions.

The remuneration principles at the member credit institutions are confirmed by each member credit institution's Board of Directors, which also monitors and supervises compliance with the remuneration schemes and regularly assesses their functionality. The executive management is responsible for the implementation of remuneration in accordance with the confirmed remuneration principles. The amalgamation of POP Banks bank does not have a joint remuneration committee for the management of the remuneration scheme. It has not been deemed necessary as each entity belonging to the amalgamation makes decisions on remuneration independently.

The internal audit function of the amalgamation verifies at least once a year whether the remuneration scheme, as approved by the member credit institution's Board of Directors, has been complied with. The internal audit unit reports annually a summary of the remuneration schemes of the member credit institution and compliance with them to the Board of Directors of the central institution.

The remuneration of control functions independent from business operations is not dependent on the earnings of the supervised business unit at the amalgamation of POP Banks.

Not all member credit institutions have variable remuneration in use. The member credit institutions in which variable remuneration is in use have different remuneration schemes. The systems differ with regard to, inter alia, the personnel included in their scope, the amount of remuneration and the remuneration criteria.

The member credit institution may decide not to pay any variable remuneration either partially or at all by way of a decision of the Board of Directors, for example in the event the member credit institution's capital adequacy is below the level specified for it.

The payment criteria for severance pay or other comparable remuneration that is paid to a beneficiary if employment terminates prematurely are laid down so that compensation is not paid for failed performance.

Provisions on the payment of variable remuneration are laid down in the Act on Credit Institutions. The amalgamation of POP Banks does not apply the provisions of Chapter 8, sections 9, 11 and 12 of the Act on Credit Institutions to beneficiaries whose variable remuneration during an earning period of one year does not exceed EUR 50,000. The EUR 50,000 limit is based on the opinion of the Financial Supervisory Authority. This means that the payment of variable remuneration paid to the beneficiary need not be deferred but it can be paid as a lump sum.

If a person who, based on his/her job description, is assigned to a group whose professional duties may cause significant risk to a member credit institution or the company ("person affecting risk profile"), is proposed to be paid more than EUR 50,000 annually, the provisions of the Act on Credit Institutions on deferring the payment of variable remuneration are applied. A significant proportion – at least 40% of the defined variable remuneration total – is deferred and paid in 3–5 years, at the earliest. When determining the length of deferral, the person's risk profile and the nature of the business are taken into consideration. If the amount of variable compensation exceeds EUR 50,000, it is taken into account that at least half of the compensation must be affected in non-cash form.

The amalgamation of POP Banks has identified significant risk-takers who can impact the risk profile of the amalgamation or a member credit institution or through their actions cause considerable financial risk to the amalgamation or member credit institution. The persons affecting the risk profile of the Amalgamation include the Managing Directors and other people participating in the management and decision-making in the member credit institutions, central institution or other companies along with other people with a major impact on the company's risk exposure and people associated with functions independent of business operations. POP Bank Alliance Coop collects up-to-date information about significant risk-takers. Each group member is responsible for the accuracy and timeliness of its own information.

The member credit institutions publish a report on compliance with the provisions of the Act on Credit Institutions regarding remuneration on their websites. The information required by the EU's Capital Requirements Regulation No 573/2013 article 450 about the remuneration of people who influence the POP Bank Group's risk exposure is presented in Note 13, which also presents the salaries, wages and fees for the financial year.

NOTE 4 Risk and capital adequacy management at the POP Bank Group

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

The purpose of the POP Bank Group's risk management is to ensure that all significant risks resulting from business activities are identified, assessed, measured and monitored on a regular basis and that they are proportionate to the risk-bearing capacity of the amalgamation and the individual member credit institution. The guidelines and decision-making concerning risks comply with sound and prudent business practices. Violations of the risk management principles are addressed in accordance with the agreed operating models.

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

The member credit institutions of the amalgamation carry their business risks independently and are liable for their liquidity coverage and capital adequacy. In addition, each member credit institution takes into account the effects of its operations on the liquidity coverage and capital requirements of the other member credit institutions of the amalgamation. The purpose of risk and capital adequacy management is to ensure that an individual member credit institution does not take such risks in its operations that would result in a material threat to the capital adequacy or solvency of the member credit institution, central institution or the entire amalgamation. The capital adequacy, liquidity coverage ratio and customer risks of the entities included in the amalgamation of POP Banks are supervised both at the level of individual member institution and at the consolidated amalgamation level.

Risk and capital adequacy management is regulated by EU legislation, Act on Credit Institutions (610/2014), Act on the Amalgamation of Deposit Banks (24.6.2010/599; hereinafter referred to as the "Amalgamation Act") and the standards, regulations and guidelines issued by the Financial Supervisory Authority. Risk management covers all the essential risks associated with business operations. Risk management manages external and internal risks as well as quantitative and qualitative risks. The amalgamation also monitors dependencies between different risks. The most significant risks affecting the amalgamation are credit risk, liquidity risk and market risk as well as operational risk.

Credit risk is mitigated with the use of diversification and collateral. Liquidity risk is mitigated by the use of diversification of funding with regard to timing and counterparty. In addition, a sufficient liquidity reserve is maintained to prepare for unexpected liquidity crises. The most significant subtypes of market risk are the interest rate risk in the banking book and risks stemming from investment activities. Interest rate risk is mitigated with balance sheet management. The risks stemming from investment activities is mitigated through diversification. Operational risk is managed through clear processes and training of personnel, guidelines and control mechanisms.

The business of the amalgamation of POP Banks is focused on the low-risk part of retail banking in accordance with its strategy. The amalgamation does not have excessively large customer or investment risk concentrations with regard to its financial risk-taking ability.

The risk control function reports regularly on the level of risks of the amalgamation and member credit institution to the Board of Directors of the central institution. Systems and practices intended for reporting on risks and monitoring them meet the requirements set for risk management, taking the nature and scope of the amalgamation's operations into account. The amalgamation's corporate governance, internal control and risk control comply with the requirements of legislation and the requirements of the authorities.

Risk and capital adequacy management are an essential part of the internal control of the amalgamation. The purpose of internal control is to ensure that the organisation complies with regulations, carries out comprehensive risk management and operates efficiently and reliably. Moreover, internal control serves to ensure that the objectives and goals set for different levels of the amalgamation are achieved according to the specified guidelines.

2. ORGANISATION OF RISK AND CAPITAL ADEQUACY MANAGEMENT

The chart below describes the position of the administrative organs and the different functions of the central institution in the amalgamation's risk management.

2.1 Supervisory Board

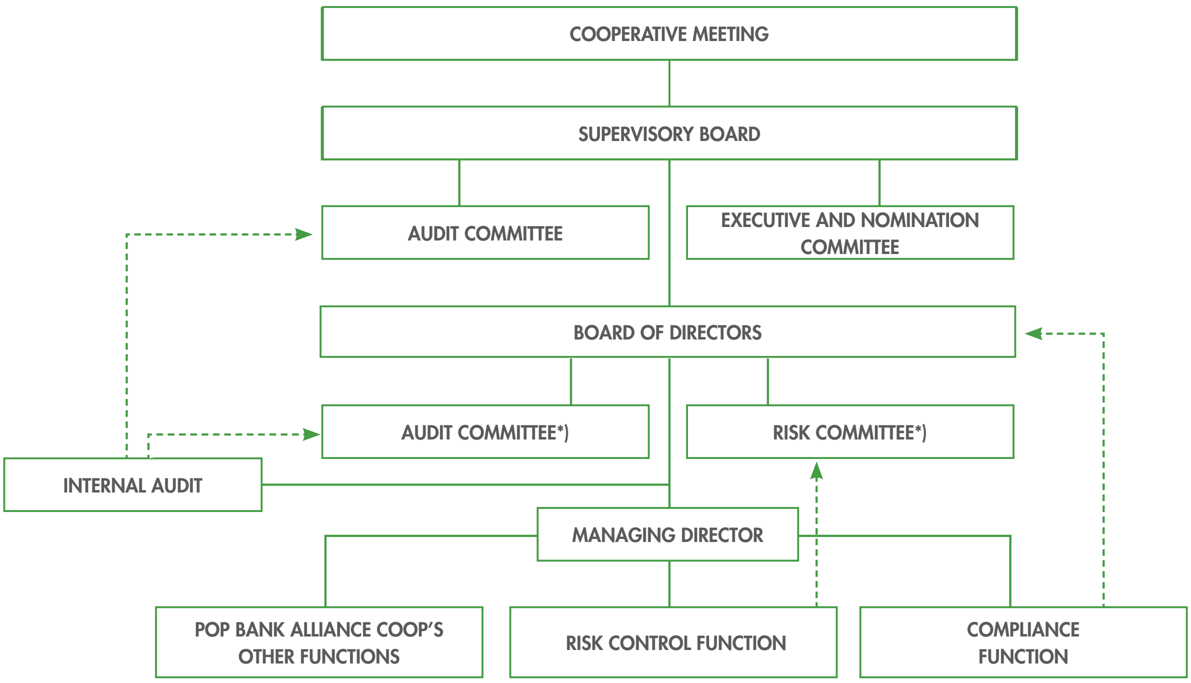
The Supervisory Board of the amalgamation's central institution POP Bank Alliance Coop supervises that the operations of the central institution are managed with expertise and care in compliance with legislation, guidelines and the members' interests and that the ratified guidelines and decisions by the cooperative meeting are followed.

The Supervisory Board issues a statement on the amalgamation's strategy and financial statements prepared by the Board of Directors of the central institution to the cooperative meeting and annually confirms the principles of capital adequacy management of the amalgamation of POP Banks. Furthermore, the Supervisory Board confirms the business risk thresholds which are applied in the amalgamation, with the purpose of limiting the risk taking of individual member institution.

The Supervisory Board confirms the general operating principles of the amalgamation and the bank-specific control principles that define the principles for classifying the member credit institutions into different risk categories, the control methods in the different risk categories and the control indicators. Furthermore, the Supervisory Board confirms the other general control principles and operating principles of internal audit and elects the Audit Committee of the Supervisory Board from among its number. The Supervisory Board also confirms the operational and financial objectives of the central institution and its group of companies.

2.2 Board of Directors

The Board of Directors of the central institution confirms the amalgamation's risk level and risk appetite based on the strategy and business plans and approves the plan concerning the maintenance of capital adequacy proportional to the risk level. The Board of Directors sets the target level for capital adequacy and confirms the level and structure of capital required by the risk profile. The Board of Directors is also responsible for proactive capital planning and incorporation of capital adequacy management and proactive capital planning in corporate governance and other control. The Board of Directors assesses the appropriateness, adequacy and reliability of capital adequacy management.



The Board of Directors is responsible for the sufficiency of the risk management system at the amalgamation level. It is the task of the Board of Directors to guide the operation of the amalgamation and issue to the member credit institutions binding guidelines pursuant to section 17 of the Amalgamation Act on their risk management, reliable governance and internal control to secure their liquidity coverage ratio and capital adequacy. The Board of Directors supervises that the companies belonging to the amalgamation operate in compliance with the laws, decrees, regulations and instructions issued by the authorities, their own rules and the binding guidelines of the amalgamation. Moreover, it is the duty of the Board of Directors to oversee the functioning and sufficiency of internal control and risk management, approve the principles and guidelines of risk management and the risk category-specific strategies.

The Board has a risk committee whose duty it is to monitor and prepare tasks related to risk management that belong to the Board's duties. The tasks of the risk committee include e.g. assisting the Board of Directors in matters related to the amalgamation's risk strategy and risk-taking capacity, preparing risk category-specific strategies and overseeing and coordinating the member credit institutions' risk management and capital adequacy. In addition, the committee monitors the preparation and implementation of the capital adequacy management plan.

The Board has an audit committee whose task it is to monitor and prepare the Board's duties related to internal audit. The tasks of the audit committee include reviewing the reports submitted by the internal audit function and present them to the Board of Directors, monitor and oversee the statutory audit of the amalgamation and supervise compliance with laws, regulations and decrees.

2.3 Executive management

The amalgamation's executive management is responsible for the practical implementation, continuous monitoring, supervision and reporting of capital adequacy and risk management to the Board of Directors of the amalgamation. The executive management also ensures that the responsibilities, authorizations, processes and reporting relationships related to capital adequacy management have been clearly defined and sufficiently described and that the employees are familiar with capital adequacy management and the related processes and methods to the extent required by their duties.

2.4. Risk control function

The task of the central institution's independent risk control function is to supervise the risks and capital adequacy of the member credit institutions. Its task is to form a comprehensive view of the risks associated with the business operations of the amalgamation and member credit institutions, develop risk management methodologies and operating models for identifying, measuring and controlling risks and coordinate and develop the capital adequacy management process, risk control and reporting.

The risk control function prepares instructions for the Board of Directors of the central institution to decide on. It also supports, advises and educates the member credit institutions in the organization and development of risk and capital adequacy management. The risk control function monitors the development of the risk exposures of the member credit institutions and gives feedback to the member credit institutions on them and the adequacy of the own funds in proportion to the risk exposures. The control function's duty is also to ensure that the risk measurement methods are appropriately and sufficiently accurate and reliable and to monitor that the risk management guidelines, business risk thresholds and risk strategies approved by the Board of Directors are followed.

The risk control function regularly reports a summary of the activities of the risk control function and the observations made by it and risk situation to the Board of Directors. Chief Risk Officer is responsible for the operation of the risk control function of the amalgamation's central institution. The risk control function ensures that the combined effect of the significant risks taken by all member credit institutions in their business operations on earnings and the own funds is reported to the Board of Directors in connection with the assessment of capital adequacy.

2.5 Compliance function

The Compliance function of the central institution oversees that the amalgamation and member credit institutions comply with the legislation concerning their operations, instructions and regulations issued by the authorities, self-regulation of markets and internal guidelines of the amalgamation. It is also the Compliance function´s duty to keep Senior and Executive management of the central institution and member credit institutions aware of significant changes taking place in key regulations and their effects. The Compliance function prepares operating guidelines on the application of the regulations.

In the largest member credit institutions of the amalgamation of POP Banks Compliance function is operated by Compliance officer who is independent from business operations. In other member credit institutions Compliance function is operated centered by the Compliance function of the amalgamation.

The Compliance function reports of its activity and observations regularly to the Executive management and to the Board of Directors of the amalgamation and also to the Audit Committee of the Supervisory Board of the amalgamation. In addition, the Compliance Function of the amalgamation reports to Board of Directors of those member credit institutions whose Compliance function is operated by amalgamation.

Compliance risk is managed by monitoring the development of legislation, preparing guidelines, educating and advising business operations to comply operating models that are consistent with the regulation and supervising that procedures are compliant.

2.6 Internal audit

Internal audit is an independent and objective assessment and securing activity. The purpose of the activity is to support the Supervisory Board, Board of Directors and executive management of the central institution in reaching the objectives by offering a systematic approach to the assessment and development of the organisation's control, management and governance processes and the effectiveness of risk management.

The internal audit unit of the amalgamation's central institution is responsible for the organisation of internal audit in the central institution and member credit institution, and it controls the organisation of internal audit in the other companies belonging to the amalgamation. The head of audit is responsible for the operation of the internal audit unit. Internal audit acts functionally under the Board of Directors and Audit Committee of the central institution and administratively under the Managing Director. The Supervisory Board of the central institution confirms the operating principles of internal audit.

Internal audit assesses the coverage and reliability of the amalgamation's capital adequacy management process and the sufficiency and effectiveness of the control procedures. Internal audit reports its key audit observations and the recommendations related to the capital adequacy management process it has issued to the Board of Directors of the central institution, Audit Committee of the Board of Directors and the Audit Committee of the Supervisory Board at least annually. Significant deviations with regard to the capital adequacy management observed in the audit are reported immediately to the Audit Committees of the central institution's Board of Directors and Supervisory Board.

2.7 Member credit institution

The amalgamation's member credit institutions, member cooperative banks and Bonum Bank Plc, comply with the risk and capital adequacy management principles specified by the central institution.

Except for the central credit institution, the member credit institutions of the amalgamation are engaged in retail banking in line with their strategy. By operating only in this business area, the member credit institutions are able to keep the risks inherent in their operations at a manageable level, which is low considering the type of operations.

At POP Banks, the highest administrative organ is the cooperative meeting or representatives' meeting, which elects the members of the Supervisory Board. The Supervisory Board elects the members of the Board of Directors. At Bonum Bank Plc, the Annual General Meeting elects the members of the Board of Directors. The Supervisory Board elects an Audit Committee from among its number, which assists the Supervisory Board in implementing its control obligation.

The Board of Directors of the member credit institution confirms, inter alia, internal guidelines concerning internal control and risk management, business objectives, risk limits concerning different risk categories and capital adequacy management plan. Furthermore, the Board of Directors is responsible for the adequacy of risk management and supervises the business operations, risk exposure and adequacy of risk-bearing capacity of the bank. In the capital adequacy management process, the member credit institution prepares, among other things, result, growth and capital adequacy estimates. Based on the forecasts, the member credit institution maps the necessary measures by means of which the capital adequacy objective in accordance with the business strategy can be achieved.

The executive management of the member credit institution is responsible for the implementation of internal control and risk management and reports regularly to the Board of Directors on the business operations, risk-bearing capacity and risk exposure of the member credit institution.

The central institution's independent risk control function and Compliance function guide the supervision of the amalgamation's risks. In addition to this, the largest member credit institutions have their own independent persons in charge of risk control and compliance function, who is responsible for the implementation of risk control and compliance at the member credit institution as instructed by the central institution. The other member credit institutions have a contact person responsible for the function.

Primary responsibility, control responsibility and assessment responsibility have been specified for the duties of risk management and distribution of responsibilities. The member credit institution responsible for business operations has the primary responsibility for the implementation of internal control and practical risk management measures, and it is also responsible for compliance with the risk management guidelines and procedures.

The central institution's risk control function supervises risk management in the amalgamation, and the compliance function supervises the compliance of the operations. Internal Audit, which operates within the central institution, conducts independent audit and assurance tasks to ensure the adequacy and efficiency of the control procedures.

Organisation of risk management and internal control

I LINE OF DEFENCE

MEMBER CREDIT INSTITUTIONS
- Day-to-day risk management
- Supervisor control
- The executive management and Board of Directors of the member credit institution have the primary responsibility for control

II LINE OF DEFENCE

INDEPENDENT RISK CONTROL AND COMPLIANCE OF THE CENTRAL INSTITUTION
- Control
- Instruction
- Support, processes, tools

III LINE OF DEFENCE

CENTRAL INSTITUTION'S INTERNAL AUDIT
- Independent assessment of control based on risk-based audit activity

3. CAPITAL ADEQUACY MANAGEMENT

The amalgamation has a capital adequacy management process in use that aims to secure the sufficiency of the amalgamation's and its member credit institutions' risk-bearing capacity in relation to all the material risks involved in the operations. To achieve this objective, the member credit institutions conduct an extensive identification and evaluation of risks related to their operations and set their risk-bearing capacity to match the total amount of the risks. In order to secure their capital adequacy, the member credit institutions set risk-based capital objectives and prepare a capital plan to achieve these objectives. The capital adequacy management process also aims at maintaining and developing high-quality risk management.

The amalgamation's capital adequacy management process and liquidity coverage assessment process determine the risk-taking capacity and risk appetite of the amalgamation in proportion to the business objectives. The purpose of capital adequacy management and liquidity coverage assessment is to secure the risk-bearing capacity of the member credit institutions and amalgamation through sufficient capital and liquidity provisions.

In addition to the 8 per cent capital adequacy requirement, a fixed 2.5 per cent capital conservation buffer requirement has become applicable on 1 January 2015, as well as a variable additional capital requirement which the authorities can upon need set at 0–2.5 per cent. For the time being, the Financial Supervisory Authority has not set a variable additional capital requirement for Finnish exposures, which almost exclusively comprise the credit and counterparty risk of the amalgamation's member credit institutions.

The amalgamation of POP Banks publishes material information from the point of view of capital adequacy annually as part of its financial statements and the notes to the financial statements. The semi-annual interim report includes the most relevant capital adequacy information.

3.1 Capital plan

Capital planning is part of the capital adequacy management process and business strategy process of the Board of Directors and executive management of POP Bank Alliance Coop, which ensures that the amalgamation's growth, profitability and risk-bearing capacity objectives are appropriate and consistent.

The purpose of capital plan is to ensure the securing of the capital adequacy of the amalgamation of POP Banks even in exceptional conditions by proactively determining the capital management methods available to the amalgamation of POP Banks and the principles of their implementation and, if necessary, implement them in accordance with pre-agreed principles. The capital plan is updated at least annually. The capital plan covers the current year and at least the two following years.

It is also the task of capital planning to define the appropriate capital structure from the point of view of the effective use of capital of the amalgamation. This is influenced, among other things, by constraints due to regulations on which capital items are considered eligible capital or for which risks the capital items in question can be used.

Every member credit institution and entity belonging to the amalgamation of POP Banks is primarily responsible for its own capital adequacy and sets target levels and reaction limits for its capital adequacy in accordance with the guidelines issued by the central institution of the amalgamation. Secondarily, the central institution of the amalgamation of POP Banks is responsible for the amalgamation's capital adequacy in accordance with the valid legislation and regulations.

3.2 Assessment of capital provisions

The amalgamation uses scenario analyses and stress tests for the assessment of capital provisions. Stress tests are used to assess how different exceptionally severe, yet possible situations can affect the liquidity coverage, profitability or capital adequacy of the amalgamation or its member credit institution. The stress factors are used to assess the effect of both individual risk factors and effects of simultaneous changes of several variables.

Scenario analyses are used as part of the assessment of total risk position. Scenario analyses involve creating risk scenarios with which capital adequacy is assessed in different changes in the operating environment when several risk areas stress the need for capital simultaneously.

3.3 Pillar I capital adequacy ratio

The most significant Pillar I capital requirements of the amalgamation of POP Banks are composed of exposures secured by real estate and retail receivables. The amalgamation applies the standardised approach for the calculation of the capital requirement for credit risk, and the basic indicator approach for calculating the capital requirement to the operational risk. The member credit institutions of the amalgamation do not engage in trading activities, so the capital requirement for market risk is only calculated for the foreign exchange risk. In the standardised approach for credit risk, the exposures are divided into exposure classes, and the minimum limits for the diversification of lending are specified in the retail exposure class.

The own funds of the amalgamation of POP Banks consist of cooperative contributions, supplementary cooperative contributions, POP Shares, retained earnings and reserves less the deductions pursuant to the EU's

Capital Requirements Regulation No. 575/2013. The amalgamation of POP Banks does not include the profit for the financial year in the own funds.

The EU's Capital Requirements Regulation No. 575/2013 does not acknowledge the supplementary cooperative contributions previously used by the member credit institution as an equity instrument, ergo supplementary cooperative contributions are no longer items recognized in own funds of the member credit institutions according to the new regulations. The Capital Requirements Regulation is applied as of 1 January 2014, but the application of the transitional rules concerning supplementary cooperative contributions will be gradually phased in.

Some of the member credit institutions of the amalgamation have since 2015 issued new equity instruments, POP Shares, which are included in own funds. A total of EUR 43 508 thousand of POP Shares had been issued at the end of 2016 (17 904 thousand).

Summary of the capital adequacy of the amalgamation is presented in the pillar III disclosures of the financial statements.

4. BANKING RISKS

4.1 Credit risk

The most significant risk of the amalgamation is the credit and counterparty risk, the Pillar I capital requirements of which account for approximately 90.3 per cent of all Pillar I capital requirements. Credit risk refers to a situation in which a counterparty cannot fulfil its contractual obligations. The most significant source of credit risk is loans, but credit risk can also arise from other kinds of receivables, such as bonds, short-term debt securities and off-balance-sheet commitments, such as unused credit facilities and overdraft limits and guarantees. The amalgamation of POP Banks is exposed to credit risk of a total of EUR 3,249,463 thousand through loans recognized on the balance sheet and Aktia Real Estate Mortgage Bank Plc intermediated by POP Banks.

4.1.1 Management of credit risk

Credit risk management aims at limiting the effects of credit risks resulting from lending activities on profit and balance sheet to an acceptable level.

The Board of Directors of the central institution controls the credit risk management of the member credit institutions, the methods used in it and the control and reporting of credit risk. The Board of Directors of the central institution prepares the credit risk strategy specifying the target risk level and the principles concerning guidelines on risk-taking, customer selection and collateral. The credit risk strategy is supplemented by credit risk and collateral management guidelines issued by the Board of Directors of the central institution, which lay the foundation for the management of credit risk by the member credit institutions. The central institution's risk control function is responsible for the preparation and maintenance of the credit risk strategy. The credit risk strategy is updated at least annually or whenever there are essential changes in the operating environment or business model of the amalgamation, legislation or requirements of the authorities.

The Boards of Directors of the member credit institutions confirm their credit risk strategies in accordance with the credit risk strategy of the central institution's Board of Directors. The business strategy and credit risk and collateral management guidelines specify the maximum limits for risk concentrations and act as guidelines for the targeting of lending by customer sector, industry and credit grade.

Credit decisions are based on the customer's creditworthiness and ability to pay and the fulfilment of the other credit criteria, such as requirements for collateral. The main principle is decision making by two persons having lending authorization. The lending decisions are made within the decision-making authorizations confirmed by the Board of Directors of each member credit institution. Member credit institutions primarily grant loans and guarantees in their own operating areas. This ensures local and sufficiently thorough knowledge of the customer.

To ensure the repayment of exposures, exposures should primarily be secured by collateral. Collaterals are valued prudently at fair value, and the development of values is monitored regularly utilizing both statistics and good knowledge of the operating area. The collateral valuation coefficients used for valuating collaterals are harmonized in the member credit institutions of the amalgamation.

The monitoring of credit risk is based on the continuous monitoring of non-performing receivables and past-due payments and the quality of the loan portfolio. Problems that can be foreseen are addressed as early as possible.

Exposures of customers and non-performing receivables are regularly reported to the Boards of Directors of the member credit institutions. The reports include, amongst other things, the amount and development of credit risk by customer group, industry sector and credit grade category. The risk control function reports to the Board of Directors of the central institution on the development of credit risks, risk position and non-performing receivables on a quarterly basis.

TOTAL EXPOSURES BY EXPOSURE CLASS BY COLLATERAL

Credit and counterparty credit risk

2016 Exposure class (EUR 1,000)	Total exposures	Financial collateral	Secured by real estate	Guarantees	Other
Exposures to corporates	678,169	4,417	-	25,965	275
Retail exposures	649,527	8,797	-	106,701	600
Exposures secured by mortgages on immovable property	2,197,591	-	2,197,591	-	-
Exposures in default	40,284	10	19,698	605	-
Other exposure classes total	897,939	-	-	-	-
Total	**4,463,510**	**13,223**	**2,217,288**	**133,271**	**875**

2015 Exposure class (EUR 1,000)	Total exposures	Financial collateral	Secured by real estate	Guarantees	Other
Exposures to corporates	675,888	5,132	-	26,336	231
Retail exposures	686,742	8,962	-	92,702	1,023
Exposures secured by mortgages on immovable property	1,994,040	-	1,991,922	-	-
Exposures in default	34,298	113	17,892	489	77
Other exposure classes total	909,618	-	-	-	-
Total	**4,300,587**	**14,207**	**2,009,814**	**119,527**	**1,330**

4.1.2 Breakdown of loans by customer groups

The amalgamation's key customer groups are private customers, agriculture entrepreneurs and small companies. A majority of the amalgamation's funding has been granted as loans to the customers of the member credit institutions. The amalgamation's loan portfolio totaled EUR 3,216,152 thousand at the end of 2016 (3,029,032 thousand at the end of 2015). In addition, POP Banks have mediated EUR 33,311 thousand of Aktia Real Estate Mortgage Bank's mortgage loans, primarily to private customers (203,105 thousand). The reason the amount of mediated loans decreased during the financial year was that the majority of mediated loans have been booked in POP Banks' own balance sheets during the financial year.

Lending to private customers is mainly granted against residential real estate collateral. If necessary, other collateral is also used. A majority, 64.8% (63.0%), of the amalgamation's loans has been granted against residential collateral. The loans to private customers are booked in the balance sheets of POP Banks, whereas Visa credit cards are booked in the balance sheet of the central credit institution.

Lending to private customers is primarily based on the customer's sufficient debt servicing capacity. The assessment of the creditworthiness of a private customer is based on POP Bank's good customer knowledge, the customer's occupation and income data, ability to pay and surplus calculation and statistical behavior or application scoring model. Customers with exposures are scored with the behavior scoring model based on payment behavior. Customers with no exposures who are applying for a loan are scored with application scoring. The purpose of the scoring is to classify the customers according to their risk.

The primary target groups of the member credit institutions' corporate lending are micro companies and small companies, self-employed persons and agriculture and forestry customers operating in the operating area of the member credit institution. In lending to corporate customers, the basis for granting a loan are the customer's financial position, debt servicing capacity, analysis of financial statements, coverage of the collateral offered and the customer's credit rating.

4.1.3. Concentration risk

Credit risk concentration arises when the counterparties are financially dependent on each other and operate in a similar operating environment, in which case individual events can have effects on a significant number of counterparties at the same time. Similar concentration risk may also arise when similar collateral is held for credit facilities.

The total amount of loans granted by the amalgamation or an individual member credit institution to a single customer and/or customer group must not exceed the maximum amounts confirmed in the EU's Capital Requirements Regulation, other statutory orders or the regulations and guidelines provided by the Finnish Financial Supervisory Authority or other supervisory authorities. A euro-denominated limit has been specified at the amalgamation level with customer groups exceeding the limit within the amalgamation requiring the central institution's permit for granting additional credit.

At the end of the financial year the amalgamation had one customer group whose total exposures exceeded 10 per cent of the amalgamation's own funds and which therefore is classified as large exposure in accordance with Article 392 of the EU Capital Requirements Regulation. The customer group belongs to POP Bank Group.

Breakdown of loans by customer groups

Customer group (EUR 1,000)	31 Dec 2016	31 Dec 2015	Change, %
Private customers	2,118,347	1,941,187	9.1%
Agricultural customers	579,244	578,943	0.1%
Corporate customers	518,560	508,902	1.9%
Total	**3,216,152**	**3,029,032**	**6.2%**

Corporate lending by industry 31 December 2016

(EUR 1,000)	Balance sheet value	%
Real estate	123,906	23.9%
Construction	73,571	14.2%
Industry	70,797	13.7%
Wholesale and retail trade	66,665	12.9%
Transport and storage	40,825	7.9%
Other industries	142,796	27.5%
Total	**518,560**	**100.0%**

Corporate lending by industry 31 December 2015

(EUR 1,000)	Balance sheet value	%
Real estate	120,355	23.6%
Construction	81,683	16.1%
Industry	70,050	13.8%
Wholesale and retail trade	64,207	12.6%
Transport and storage	40,739	8.0%
Other industries	131,868	25.9%
Total	**508,902**	**100.0%**

4.1.4 Past due exposures

Exposures past due refer to credit that has not been repaid in accordance with the amortization schedule but the repayments of principal or interest are delayed from the dates agreed upon in the amortization schedule. The member credit institutions' receivables more than 90 days past due accounted for a total of 0.75% of the loan portfolio on 31 December 2016 (0,76% on 31 December 2015). The member credit institution's receivables 30–90 days overdue accounted for 1.53% of the loan portfolio at the end of 2015 (1,53%).

Past due exposures 31 December 2016

(EUR 1,000)		% of loan portfolio
Exposures 30-90 days past due	49,303	1.53%
Exposures over 90 days past due	24,247	0.75%
Exposures 90-180 days past due	7,050	0.22%
Exposures 180 days - 1 year past due	7,059	0.22%
Exposures over 1 year past due	10,139	0.32%

Past due exposures 31 December 2015

(EUR 1,000)		% of loan portfolio
Exposures 30-90 days past due	46,204	1.53%
Exposures over 90 days past due	23,137	0.76%
Exposures 90-180 days past due	6,063	0.20%
Exposures 180 days - 1 year past due	6,017	0.20%
Exposures over 1 year past due	11,057	0.37%

4.1.5 Impairment losses on loans and other receivables

Impairment losses on loans and receivables are assessed on an individual basis if the debtor's total exposure is significant. In other respects, impairment on receivables is assessed on a collective basis for groups of similar receivables.

Impairment of significant exposures are assessed on an individual basis, when objective evidence has emerged that the principal or interest of the loan will not be received in full. The amount of the impairment loss is determined as the difference of the carrying amount of the receivable and the present value of the estimated recoverable cash flows. When recognizing the impairment loss, the collateral is measured at the amount it is likely to yield on realisation after realisation costs. If it is subsequently found that the amount of the impairment loss is lower than estimated, the impairment loss is reversed correspondingly.

When assessing impairment on a collective basis, the entire the POP Bank Group's receivables are classified into groups of similar credit risk properties. Impairment losses that have materialised according to the assessment but cannot be allocated to an individual receivable are recognised collectively. When determining collective impairment loss, the previous loss development of groups with similar credit risk characteristics is taken into account. The recognition principles of impairment losses are described in more detail in Note 2 POP Bank Group's accounting policies under IFRS.

Loans and other receivables are derecognized as realized credit losses when the ordinary debt collection process has been completed with regard to the debtor and any others liable for the debt, and it is estimated that no more payments will be incurred and the final amount of the loss from the loan or receivable is known. The POP Bank Group's member credit institutions' realized credit losses totalled EUR 1,997 thousand (4,314) in 2016.

Impairment losses on loans and receivables totaled EUR 21,667 thousand (16,933) at the end of the financial year. Of these, individually assessed impairment losses totaled EUR 18,782 thousand (14,150) and collectively assessed impairment losses totaled EUR

2,884 thousand (2,783). Of the collective impairment losses, EUR 1,181 thousand (1,103) concerned the exposures of private customers and EUR 1,414 thousand (1,391) corporate customers and EUR 289 thousand (289) agriculture customers' exposures. Accumulated impairment losses on loans and other receivables were 0.67% (0.56) of the loan portfolio at the end of the financial year.

Impaired exposures by customer group 31 December 2016

EUR (1,000)	Balance sheet value	No impairment (gross)	Impaired (gross)	Individual impairment	Collective impairment
Private customers	2,118,347	2,115,886	9,651	6,009	1,181
Agricultural customers	579,244	577,643	4,472	2,582	289
Corporate customers and others	518,560	511,408	18,758	10,191	1,414
Receivables from customers total	**3,216,152**	**3,204,937**	**32,881**	**18,782**	**2,884**

Impaired exposures by customer group 31 December 2015

EUR (1,000)	Balance sheet value	No impairment (gross)	Impaired (gross)	Individual impairment	Collective impairment
Private customers	1,941,187	1,939,356	7,317	4,383	1,103
Agricultural customers	578,943	577,339	3,219	1,325	289
Corporate customers and others	508,902	502,691	16,044	8,442	1,391
Receivables from customers total	**3,029,032**	**3,019,385**	**26,580**	**14,150**	**2,783**

Impairment losses on loans and other receivables

EUR (1,000)	Total	Individually assessed	Collectively assessed
Impairment losses 1 January 2016	16,933	14,150	2,783
+ Increases in impairment losses	7,336	7,336	-
- Reversals of impairment losses	-777	-777	-
+/- Change in collectively assessed impairment losses	101	-	101
- Reversals of impairment losses from final credit losses	-1,927	-1,927	-
Impairment losses 31 December 2016	**21,667**	**18,782**	**2,884**

Impairment losses on loans and other receivables

EUR (1,000)	Total	Individually assessed	Collectively assessed
Impairment losses 1 January 2015	16,286	13,860	2,426
+ Increases in impairment losses	5,768	5,768	-
- Reversals of impairment losses	-827	-827	-
+/- Change in collectively assessed impairment losses	357	-	357
- Reversals of impairment losses from final credit losses	-4,652	-4,652	-
Impairment losses 31 December 2015	**16,933**	**14,150**	**2,783**

4.2 Market risk

Market risk refers to the possibility of losses caused by changes in interest rates and market prices. The market risk types are interest rate, currency, equity and commodity risk. Interest rate risk of the banking book is the most significant market risk in the POP Bank Group's banking business. Interest rate risks arise from the banking book of member credit institutions, consisting of lending and deposits, wholesale market funding and investment and liquidity portfolios. In investment activities, a change in interest rates results in market risk through a change in the market prices of the securities. Currency risk refers to the effect of changes in foreign exchange rates on earnings or own funds. Equity risk refers to effects on earnings due to changes in the market prices of,for example, public equities and fund units. Commodity risk refers to the risk of losses due to changes in commodity prices.

4.2.1 Management of market risk

The objective of market risk management is to identify and assess market risks related to the business operations, mitigate the risks to an acceptable level and report regularly on them. The Board of Directors of the POP Bank Amalgamation's central institution confirms the market risk strategy and market risk management guidelines, which create the foundation for market risk management at the member credit institutions.

The Boards of Directors of the member credit institutions confirm their market risk strategy and market risk management guidelines in accordance with the market risk strategy of the central institution. Together with the market risk management guidelines, the strategy defines the member credit institution's risk appetite with regard to market risk and sets the maximum amounts for risk concentrations.

The capital adequacy management process is a central process for the measurement and monitoring of the market risk included in the banking book, involving the establishment of Pillar I and Pillar II capital provisions for market risk. Because the amalgamation does not engage in trading activities, Pillar I capital provision for investments is only held for credit and currency risk.

The taking of market risk has been limited within the amalgamation with regard to trading, currency risk, derivative contracts, structured products and commodity risk. The member credit institutions of the amalgamation do not engage in trading for own or customers' account, and the member credit institutions do not, as a rule, have a separate trading book. However, due to a specific need and with the permission of the central institution, an individual member credit institution can have a small trading book as referred to in article 94 of the EU's Capital Requirements Regulation.

Currency risk is not taken at all in lending; all loans are granted in euros. The banking operations of the amalgamation do not involve significant currency risks. Currency risk may arise to a small extent mainly from mutual fund holdings in the investment portfolio and covering transactions related to the central credit institution's international payments. The member credit institutions may only make investments in other currencies with a permission from the central institution's risk management function. Permission is also required for making new derivative contracts and investments in structured products. The use of derivatives is limited to hedging purposes only. Taking commodity risk is not allowed.

4.2.2 Interest rate risk in the banking book

Interest rate risk in the banking book refers to the negative effect of changes in interest rates on the market value of the amalgamation's balance sheet items and off-balance sheet items or net interest income. Interest rate risk arises from differences in the interest terms of receivables and liabilities and mismatches in interest rate repricing and maturity dates.

Interest rate risk in the amalgamation and its member credit institutions is monitored using the net present value method and the net interest income model. The net present value method measures how changes in interest rates change the calculated market value of financial assets. In the net present value method, the market values of each balance sheet item are expected to be formed as the present value of the cash flows generated by the instrument in question. The net interest income model predicts the future net interest income as market interest rates change.

The amalgamation and its member credit institutions use balance sheet analysis for measuring interest rate risk, measuring the effect of changes in forward interest rates on the net interest income forecast for the following 1–36 months and with the net present value method by measuring the effect of changes in interest rates on the present value of the balance sheet. The net interest income forecast is calculated at the reporting date using forward interest rates available in the market for the following three years. The amount of interest rate risk taken is assessed with the effect of diverse interest rate shocks on the net interest income and net present value. The effect of early loan prepayments and the behaviour of non-maturity deposits have been considered in the analysis.

Interest rate risk is managed primarily by planning the balance sheet structure, such as the interest rate fixing or maturity of assets and liabilities or by using hedging interest rate derivatives. The largest part of the derivative contracts in place in the beginning of 2016 has been matured and any new contracts have not been made during the year.

The risk-taking in the amalgamation's member credit institutions is limited with regard to interest rate risk with interest rate risk limits set by the Board of Directors for both the net interest income and the net present value of the balance sheet. In addition, the central institution's Board of Directors have set a common limit for the net interest income. The objective of interest rate management is to stabilise the interest rate risk involved in the amalgamation's balance sheet at a level where business is profitable but the income or capital adequacy of the amalgamation is not compromised even in the event of strong changes in the interest rate environment.

The interest rate sensitivity analysis of the banking book 31 December 2016

			Effect on earnings		Effect on equity
(Eur 1,000)	Change	1-12 months	13-24 months	25-36 months	
Interes rate risk	+1% point	7,200	12,954	14,041	33,039
Interes rate risk	-1% point	-3,475	-3,139	-3,044	54,113

The effect on earnings has been calculated from the change in the net interest income. The effect on equity has been calculated from the change in the present value of the balance sheet.

The interest rate sensitivity analysis of the banking book 31 December 2015

			Effect on earnings		Effect on equity
(Eur 1,000)	Change	1-12 months	13-24 months	25-36 months	
Interes rate risk	+1% point	6,378	11,510	14,095	-9,769
Interes rate risk	-1% point	-2,454	-2,915	-4,159	5,564

4.2.3 Investment and liquidity portfolio

The primary purpose of the investment activities of the member credit institutions is to invest their liquidity surplus and to maintain a liquidity portfolio. Market risk emerges in these investment activities. The market risk in the investment and liquidity portfolio consists of the counterparty risk of the investment and the general market price, interest rate and currency risks. Changes in share prices, interest rates and exchange rates affect the value and, therefore, yield of the investment portfolio.

The member credit institutions' objective in investing in securities is to obtain competitive return on investment in terms of yield/risk ratio. The member credit institutions invest in securities only in a way where the effect of share price changes on profit will not threaten the capital adequacy or profitability of the member credit institution or the entire amalgamation.

The diversification of investments decreases the concentration risk arising from individual investments. The risks of the investment and liquidity portfolio are managed by diversifying investments in terms of timing, asset category, counterparty, sector and geography. The investment risks are also monitored through sensitivity analysis. The credit risk arising from investment activities is managed with counterparty limits. The Boards of Directors of the amalgamation's member credit institutions set risk limits for the composition of the investment and liquidity portfolio with regard to asset category and counterparty. Common limits for the same aspects have also been set by the Board of Directors of the central institution.

The development of the position of the investment portfolio and biggest counterparties at the amalgamation level are regularly reported to the Board of Directors of the central institution. The amalgamation does not have investment counterparties in which the amount of investments and other receivables would exceed the large exposures limit of 10% of the capital of the amalgamation in accordance with the EU's Capital Requirements Regulation. The risk of the investment portfolio is assessed in relation to the earnings and own funds of the amalgamation.

In addition to the investment portfolio, POP Banks have 37,790 (69,725) thousand euros of available-for-sale shares and participations measured at amortised cost, which are primarily POP Banks' equity investments in shares of companies that are necessary for its operation and for which a reliable fair value cannot be determined. The most significant unquoted investments are shares and participations in POP Holding Ltd, POP Bank Alliance Coop and Samlink Ltd.

Investment and liquidity portfolio

(EUR 1,000)	2016	2015
Available-for-sale financial assets		
Debt securities	411,948	311,983
Fund units	287,629	241,235
Public equity	9,777	16,546
Other equity and shares	2,765	3,754
Financial assets at fair value through profit or loss		
Hybrid instruments	1,681	3,383
Investment and liquidity portfolio total	**713,800**	**576,901**

4.3 Liquidity risk

Liquidity risk refers to the capability of the POP Banks' amalgamation and its individual member credit institution to meet their commitments. Liquidity risk can be divided into short-term liquidity risk and long-term structural funding risk. Short-term liquidity risk refers to a situation in which an entity cannot without difficulty fulfill its liabilities to pay. Structural funding risk is a risk related to the availability and price of refinancing which arises when the maturities of receivables and liabilities differ from each other. Funding risk also arises if receivables and liabilities are concentrated on individual counterparties to too high a degree.

4.3.1 Management of liquidity risk

The liquidity needs of the member credit institutions communicated to the Board of Directors of the central institution and the executive management of the central credit institution Bonum Bank Plc are the starting point of the amalgamation's liquidity management.

The executive management of the central institution prepares the amalgamation's strategy and principles of liquidity management together with the Board of Directors of the central credit institution, which are determined based on the member credit institutions' liquidity needs and amalgamation-level risk appetite. The central institution's Board of Directors approves the liquidity strategy and the principles of liquidity management. In addition, the Board of Directors approves the funding plan and the liquidity contingency plan. The risk control function plans, develops and tests methods used in liquidity risk management. The central credit institution and its executive management assist the risk control function in this process. The central institution's executive management approves the liquidity strategy and the methods used in implementing the principles of liquidity management.

The executive management of the central credit institution is responsible for coordinating the implementation of the liquidity strategy at the amalgamation level, and it monitors and supervises the liquidity strategy implemented by the member credit institutions. The central credit institution coordinates the payment transactions of the member credit institutions and the acquisition and balancing of liquidity in the amalgamation. The task of the amalgamation's independent risk control function is to supervise and monitor the liquidity risk. The member credit institutions are responsible for implementing the liquidity strategy.

The central credit institution reports on the liquidity situation to the Board of Directors of the central institution and the executive management of the central credit institution. The Board of Directors of the central credit institution is responsible for monitoring the implementation of the liquidity strategy at the central credit institution and plan the liquidity coverage of the central credit institution in accordance with the amalgamation's liquidity strategy. The Board of Directors of the central institution takes the required measures based on the reporting it receives.

4.3.2 Short-term liquidity risk

The amalgamation's central credit institution Bonum Bank Plc supervises the intraday liquidity coverage by monitoring the balances of the payment accounts of the member credit institutions. The key ratio for measuring short-term liquidity risk is the liquidity coverage ratio (LCR), specified in the EU's Capital Requirements Regulation. The minimum LCR requirement set in the Regulation was 70% in the beginning of year 2016, from which the requirement increased to 80 % as of 1 January 2017 and will further increase to 100 per cent by 1 January 2018.

The Board of Directors of the amalgamation's central institution specifies the required LCR level for the member credit institutions and at the amalgamation level. The member credit institutions continuously monitor their liquidity and LCR indicator. The central institution monitors the LCR indicator at the amalgamation and at the member credit institution level. The amalgamation's LCR-eligible assets totalled EUR 450,311 (434,259) thousand on 31 December 2016, of which 15.2 (39.8) per cent were cash and balance at a central bank, 73.7 (48.7) per cent liquid level 1 assets of extremely high liquidity, 3.7 (6.8) per cent liquid level 2A assets and 7.4 (4.7) level 2B liquid assets. The amalgamation's LCR indicator was 220 (202) per cent on 31 December 2016.

4.3.3 Structural funding risk

The funding risk arising through the maturity transformation of lending and borrowing is an essential part of the amalgamation's business operations. The business operations are based on deposits received by the member credit institutions from their customers, which are used to finance the member credit institutions' lending to customers.

Funding risk is measured by the lending-borrowing ratio and analysis by maturity class, which assesses the difference between the cash flows of the receivables and liabilities of each maturity class. Funding risk is managed by timing the cash flows of the balance sheet assets and liabilities to be equal by time category and by maintaining a sufficient liquidity buffer to cover time category-specific differences. The lending-borrowing ratio is also restricted through a limit set by the Board of Directors of the central institution.

The amalgamation's funding is diversified into several small counterparties as the amalgamation obtains the refinancing it needs primarily as deposits from the public. The funding structure of the amalgamation has been diversified during the past year as the central credit institution has entered the wholesale capital markets. The central credit institution Bonum Bank Plc has received a long-term investment grade rating BBB from the S&P Global Ratings during the first functioning year of the amalgamation and it has issued its first senior bond of 100 Million Euros as part of its 750 Million Euro domestic EMTN -program started in May 2016. In addition, Bonum Bank Plc has a 150 Million Euro domestic CD-program and within this program it can issue transferable Certificate of Deposits with a maturity of less than 12 months. Entering the wholesale capital markets diversifies the funding of the amalgamation and supports its growth. Long-term funding position is expected to develop positively, as the availability of funding increases and providing liquidity to member credit institutions gets more efficient.

Maturity of financial assets 31 December 2016

(EUR 1,000)	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash	99,174	-	-	-	99,174
Financial assets at fair value through profit or loss	-		75	1,606	1,681
Loans and receivables from credit institutions	57,815	15,700	-	-	73,515
Loans and receivables from customers	109,797	269,266	1,156,548	1,653,070	3,188,681
Derivatives	22	711	1,913	-	2,646
Investments	445,426	92,960	151,106	28,272	717,764
Total	**712,234**	**378,637**	**1,309,643**	**1,682,948**	**4,083,462**

Maturity of financial assets 31 December 2015

(EUR 1,000)	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash	172,899	-	-	-	172,899
Financial assets at fair value through profit or loss	-	1,573	50	1,760	3,383
Loans and receivables from credit institutions	87,395	41,932	-	-	129,327
Loans and receivables from customers	97,968	258,865	1,080,188	1,576,952	3,013,972
Derivatives	-	823	4,821	-	5,644
Investments	361,347	56,562	144,363	39,533	601,806
Total	**719,609**	**359,755**	**1,229,422**	**1,618,245**	**3,927,031**

Maturity of financial liabilities 31 December 2016

(EUR 1,000)	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits	2,758,377	518,344	228,369	-	3,505,090
Debt securities issued	-	699	99,521	-	100,220
Subordinated liabilities	-	-	-	-	0
Other liabilities to credit institutions	11,385	-	-	-	11,385
Total	**2,769,762**	**519,043**	**327,890**	**0**	**3,616,694**

Maturity of financial liabilities 31 December 2015

(EUR 1,000)	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits	2,694,098	458,767	183,337	-	3,336,202
Debt securities issued	381	24,076	-	-	24,457
Subordinated liabilities	-	-	-	-	-
Other liabilities to credit institutions	115,807	-	-	-	115,807
Total	**2,810,286**	**482,842**	**183,337**	**0**	**3,476,465**

4.4 Real estate risk

Real estate risk refers to impairment, income or loss risk related to real estate property. Real estate investments are not included in the core business of the amalgamation's banking operations. The properties owned by the amalgamation of POP Banks are divided into owner-occupied properties and the investment properties.

Owner-occupied properties are recognized under property, plant and equipment and investment properties under investment assets on the balance sheet. Both properties used by member credit institutions of the amalgamation and investment properties are measured at acquisition cost less depreciation and impairment in the financial statements. The value of real estate assets is moderate compared to the balance sheet and own funds of the amalgamation. The balance sheet value of investment properties accounted for 0.9% of the balance sheet (1.0%).

4.5 Operational risks

Operational risks refer to the risk of financial loss or other negative effects caused by insufficient or failed internal processes, lacking or incorrect operating methods, personnel, systems or external factors. All business processes, including credit and investment processes, involve operational risks. The amalgamation also has operational risk through outsourced IT functions and financial administration function.

The Board of Directors of the central institution approves the principles of operational risk management and the key guidelines concerning operational risk. The target level for risks are limited. Certain operational risks are covered with insurance coverage. Risks caused by malfunctions of information systems are prepared for by continuity planning.

The identification and assessment of risks and assessment of the functionality and adequacy of control and management methods are key aspects in operational risk management. The member credit institutions included in the amalgamation assess the likelihood of the realisation of operational risks and their effects in operational risk self-assessments, which have been prepared based on the most significant business processes.

The member credit institutions report on the operational risks, interruptions and losses concerning their operations annually to the central institution's risk control function. Furthermore, the member credit institution report the results of their self-assessments of operational risks to the risk control function. The risk control function regularly assesses the nature of the operational risks it has observed and the likelihood of the realisation of the risks in the entire amalgamation.

The operational risks associated with the key products, services, functions, processes and systems are identified in the assessment process concerning a new product or service carried out by the business function and reviewed by the risk control function.

The risk control function annually reports the losses incurred due to the realisation of operational risks and a summary of the self-assessments of operational risks to the Board of Directors of the amalgamation's central institution and the executive management of the central institution.

4.6 Strategic risk

Strategic risk arises from choosing a wrong strategy, unsuccessful implementation of strategy, changes in the competitive environment or responding too slowly to changes.

Strategic risks are minimized by means of regular updates of strategic and annual plans. Analyses of the condition and development of the POP Bank Group, as well as other analyses and estimates concerning the development of the sector, competition and financial operating environment are utilized in the planning.

5. INSURANCE RISKS

5.1 General principles of risk management

Finnish P&C Insurance Ltd carries out insurance operations within the POP Bank Group. At Finnish P&C Insurance Ltd, risk management refers to a process that aims to identify possible risks, assess and limit the likelihood and effects of the identified risks, enable reacting to changes in the market situation and generally to ensure the reliability, safety and efficiency of operations.

The company's Board of Directors is responsible for the organisation of risk management. The Board of Directors annually approves a risk management plan that contains the main outlines on the company's risk management and a description of the company's risk profile. The Own Risk and Solvency Assessment (ORSA) is an essential part of risk management, and the company uses it to maintain a view of its capital needs in the long and medium term. When organizing risk management, particular attention is paid to the company's strategic choices, objectives of insurance and investment activities and capital adequacy.

The appropriate organization of risk management is supported e.g. by internal control as a whole, investment plan, continuity plan related to data security, the company's internal monitoring and reporting mechanisms and internal audit.

5.2 Organisation, responsibility and supervision of risk management

The responsibilities related to the implementation of risk management and the distribution of work are documented in the risk management plan. The Managing Director of Finnish P&C Insurance Ltd is responsible for the performance of all risk management and internal audit measures. The Board of Directors supervises the operational implementation of the measures.

5.3 Risk management processes and risks

Finnish P&C Insurance Ltd's risk management is a continuous activity and it covers all of the company's operations. Risk management is embedded in the planning and conduct of the company's business through internal guidelines and operating models, among other things. These include customer and risk selection guidelines, reporting practices and approval limits and procedures.

The regular risk survey process is a process that supports comprehensive risk management and is tied to the company's annual operations; in it, the risks are identified and assessed, decisions are made on the methods of preparing for the risk, and a person responsible for risk is appointed. Risks and preparations for them are monitored and assessed as part of the regular risk management process.

The company maintains solvency capital that is sufficient in terms of quantity and quality in case of financial losses caused by risks. Solvency is monitored continuously in the short and long term. In connection with annual planning, a comprehensive view of the company's long and medium-term capital requirements based on the company's action plans, risk profile and solvency requirements in the Own Risk and Solvency Assessment (ORSA). The report on the assessment is approved by the Board of Directors of the Company.

5.4 Risk management reporting

Risks are reported to the Board of Directors in accordance with the practices recorded in the risk management plan. An extensive survey of risks is reviewed annually by a meeting of the Board of Directors in connection with the review of the risk management plan. The Board of Directors approves the company's Own Risk and Solvency Assessment (ORSA).

The Board of Directors regularly receives reports on the company's finances, business operations, solvency and investment activities.

5.5 Insurance risks

5.5.1. Specification of risks and risk management strategy

The policyholder transfers the insured risk to the insurer with the insurance contract. The claims incurred of Finnish P&C Insurance Ltd is composed of the number and extent of losses indemnified from the insured risks and their random variation. The claims incurred are further divided into losses arising from property risk and personnel risk.

The most significant insurance risks are associated with the pricing of insurance policies, subscription of insurance policies (customer and risk selection) and sufficiency of the technical provisions.

In particular, the pricing risk of insurance policies is linked to the accurate basic pricing of motor vehicle insurance. The risk is prepared for by monitoring the profitability of operations, risk-based pricing and by enabling a technically and process-wise flexible pricing system.

The functioning of customer and risk selection is continuously monitored and changes are made to the guidelines as necessary. The risk level is kept moderate, and customer selection is also guided with targeted pricing changes.

The sufficiency risk of technical provisions is particularly associated with the development of the loss ratio of motor vehicle insurance and personal injuries with significant costs indemnified based on traffic insurance. The bases of determination of the technical provisions is specified in the technical provision calculation bases. The technical provision calculation bases have been determined in a securing way. The calculation bases are assessed annually and amended, if necessary. In addition, the effect of individual losses has been restricted through Excess-of-Loss reinsurance contracts covering the company's entire product portfolio.

5.5.2. Risk management processes

The claim situation, claims incurred and major losses are monitored at the weekly level and claim proportions at the monthly level. The development of sales, the customer base and acquisition of new customers are monitored at the weekly level. Technical provisions, solvency capital and its minimum limits are monitored at the monthly level. Technical provision and capital adequacy calculations are made by the actuary function. Risks are reported to the company's Executive Board and the Board of Directors and, as agreed, to the Finnish Financial Supervisory Authority.

5.5.3. Actuarial assumptions

The bases of calculation used by Finnish P&C Insurance Ltd with justifications are submitted to the Financial Supervisory Authority by the end of the financial year.

The portion of premiums written for the post-balance sheet date is recorded as provision for unearned premiums. The amount of the provision for unearned premiums is calculated at the monthly level from previous premiums written using straight-line depreciation. Corresponding recognition and reservation practices are also used for reinsurance premiums.

Claims unsettled on the balance sheet date for losses already occurred and their settlement expenses – including claims incurred but not yet reported – are reserved in the provision for unpaid claims. Provisions for unpaid claims consist of both claims reserved for individual cases and a collective reservation proportioned to previous Insurance premium revenue.

At the end of the financial year, the company had no confirmed annuity losses.

5.5.4 Quantitative information about insurance risks

Technical provisions totalled EUR 26,586 thousand (21,889), with the equalization provisions amounting to EUR 0.

Premiums earned for the financial year, claims incurred and technical provisions 31 Dec. 2016

(EUR 1,000)	Gross	Ceded to reinsurers	Retained
Premiums earned	33,646.2	666.6	32,979.6
Claims incurred	26,326.0	1,064.0	25,262.0
Provision for unearned premiums	12,898.8	-	12,898.8
Provision for claims outstanding	14,751.0	1,064.0	13,687.0

Premiums earned for the financial year, claims incurred and technical provisions 31 Dec. 2015

(EUR 1,000)	Gross	Ceded to reinsurers	Retained
Premiums earned	29,480.0	1,386.1	28,093.9
Claims incurred	22,820.9	-50.0	22,870.9
Provision for unearned premiums	11,960.0	-	11,960.0
Provision for claims outstanding	9,929.1	-	9,929.1

5.6 Investment risks

5.6.1. Specification of risks and risk management strategy

The purpose of the investment activities of Finnish P&C Insurance Ltd is primarily to secure its investment assets and avoid unnecessary risks.

Market risk associated with investment assets refers to loss risk or unfavorable change in the economic situation, which is directly or indirectly due to the fluctuation of the market prices of the financial instrument. Market risks include share risk, real estate value change risk and currency risk. Credit loss risk refers to the counterparty risk of investment assets and liquid assets and the resulting fluctuation of value.

5.6.2. Risk management processes

The Board of Directors of Finnish P&C Insurance Ltd annually confirms the investment plan specifying the investment diversification and return objectives, currency restrictions, liquidity objectives, maintenance of investment assets and authorities.

Investment activities are the responsibility of the person responsible for investments within the organisation, who is a subordinate of the Managing Director. The management of the investment portfolio has been outsourced. Investment decisions are made by the Board of Directors, Managing Director, manager responsible for investments and treasurer within their mandate. The mandate of the portfolio manager is specified in a written agreement. The portfolio manager regularly reports to the company.

5.6.3. Quantitative information about the risk structure of the investment portfolio

Investment risk was kept at a moderate level in 2016. At the end of 2016, investment assets totaled EUR 37.7 million (28.1) at fair value. Only liquid euro-denominated direct and indirect interest rate instruments, indirect equity investments and deposits were used in the investments.

Fixed income investments were allocated to money market funds, bonds issued by EEA states and direct bonds issued by Nordic credit institutions and companies. At the end of the year, the average maturity of fixed income investments was 2.3 years (1.9).

5.7 Liquidity risk

Liquidity risk refers to the risk of the company not having liquid assets to meet its future liability to pay within due time. With regard to Finnish P&C Insurance Ltd, liquidity risk refers to claims paid and the company's other liabilities to pay. The company's liabilities are primarily comprised of technical provisions covered by liquid financial instruments. With regard to other liabilities, the company monitors the liquidity position through cash flow analysis. With regard to major losses, liquidity is secured by way of reinsurance.

5.8 Operational risks

5.8.1. Specification of risks and risk management strategy

Operational risk refers to exposure to risk of loss caused by own operations and related choices. Operational risks can be related to internal processes, IT systems or personnel, for example. With regard to external factors, operational risk can arise from events causing a partner company's inability to perform, for example.

The governance and management system of Finnish P&C Insurance Ltd and internal control as a whole play a key role in the management of operational risks.

5.8.2. Risk management processes

Operational risks are surveyed as part of Finnish P&C Insurance Ltd's risk management process described above. The management of operational risks is supported through internal control and occupational health and safety measures. The reporting and monitoring models make it possible to observe an increase in the probability or effect of risks.

Risks related to the company's IT systems and technical solutions have been prepared, for example, by documenting the IT practices and preparing a continuity plan. A 24-hour oncall and alarm practice ensures swift reaction in emergencies.

5.8.3. Key operational risks

Due to the nature of the company's operations and business mode, the key operational risks concern the company's IT system structure and activities supporting or developing it. The performance and operational stability of the IT system as a whole has been monitored closely.

Personnel risk has been mitigated by decreasing dependence on partners and their employees. In spite of the development of the in-house organisation, the organisation is still relatively small and competence is concentrated. Because of this, the company's personnel risk is significant.

5.9 Key other risks

Other risks herein refer to all identified risks that have not been specifically mentioned above.

Other risks are included in the scope of the company's risk management process similarly to the above-mentioned insurance risks, investment risks and operational risks.

Key other risks include strategic risks and data security risks, such as possible denial of service attacks or other attempts to prevent or interfere with the company's online business.

CORRECTION OF AN ERROR AFFECTING PREVIOUS PERIODS

NOTE 5 Error in Depreciations on Real Estate Assets, which Affects Previous Periods

Due to an accounting error in consolidating real estate entities, the depreciations on real estate assets were understated in Financial Statements 31 December 2015. The reported equity capital of the POP Bank Group 31 December was EUR 2 265 thousands overstated.

The error has been corrected retrospectively in accordance with the requirements of Standard IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors by adjusting the financial statements as follows:

31 December 2015

(EUR 1,000)	Reported	Adjustment	Adjusted
Investment assets	637,308	-1,403	635,904
Property, plant and equipment	41,224	-1,428	39,796
Tax assets	3,401	566	3,967
Retained earnings	239,831	-2,265	237,566
Total equity capital			
Total equity attributable to the owners of the POP Bank Group	422,721	-2,265	420,455
Non-controlling interests	3,261	-	3,261

The adjustment had no material effect on capital adequacy ratios of the amalgamation of POP Banks 31 December 2015

NOTES ON OPERATING SEGMENTS

NOTE 6 The POP Bank Group's Operating Segments

The operating segments of POP Bank Group are banking and insurance. The operating segments are reported in a way that is consistent with the internal reporting to the management. The reporting of operating segments complies with the accounting policies applied to the Group's IFRS financial statements. The policies are presented in note 2 for the Financial statements. The chief operating decision maker of the POP Bank Group is the Board of Directors of the Group's central institution POP Bank Alliance Coop. The central institution is responsible for the allocation of resources and assessing the profitability of operations.

The Banking segment includes the member cooperative banks and Bonum Bank Plc. Cooperative banks engage in retail banking and Bonum Bank Plc acts as their central credit institution. The most significant income items of Banking are net interest income, fee and commission income as well as investment income. The most significant expense items consist of personnel expenses and other operating expenses.

The Insurance segment comprises Finnish P&C Insurance Ltd, a provider of vehicle, property and personal insurance policies to private customers. The most significant income items of Insurance are insurance premium revenue and net investment income. The most significant expense items of Insurance consist of personnel expenses and other operating expenses.

Internal transactions between banks included in the Banking segment are eliminated in segment reporting. Pricing between segments is based on market prices. Transactions between the Banking segment and the Insurance segment are included in eliminations presented with reconciliations. Unallocated items include income statement and balance sheet items related to other operations. Other operations include POP Holding Ltd, POP Bank Alliance Coop and POP Banks' guarantee fund, which was dissolved during the financial year.

POP BANK GROUP'S OPERATING SEGMENTS 2016

Income statement 1 January–31 December 2016

(EUR 1,000)	Banking	Insurance	Segments total
Net interest income	62,688	-	62,688
Net commissions and fees	22,491	-	22,491
Net trading income	542	-	542
Net investment income	7,080	-	7,080
Net income from non-life insurance	-	8,069	8,069
Other operating income	16,325	-	16,325
Total operating income*	**109,125**	**8,069**	**117,194**
Personnel expenses	-30,097	-6,514	-36,611
Other operating expenses	-38,940	-3,480	-42,420
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-3,515	-1,328	-4,843
Total operating expenses	**-72,552**	**-11,322**	**-83,874**
Impairment losses on loans and receivables	-6,731	-	-6,731
Profit before tax	**29,842**	**-3,253**	**26,590**
Income tax expense	-6,778	-1	-6,779
Profit for the period	**23,064**	**-3,254**	**19,810**
*of which external	109,125	8,069	117,194
of which internal	-	-	-

Profit of the banking segment includes the funds of EUR 10.0 million refunded to member banks when the POP Banks guarantee fund was dissolved. Dissolving is an internal arrangement, so it is not included in the Group's profit. The tax effect of EUR -2 million is included in Group's profit.

Balance Sheet 31 December 2016

(EUR 1,000)	Banking	Insurance	Segments total
Assets			
Liquid assets	99,174	-	99,174
Financial assets at fair value through profit or loss	1,681	-	1,681
Loans and receivables from credit institutions	68,611	8,676	77,287
Loans and receivables from customers	3,216,152	-	3,216,152
Derivative contracts	2,541	-	2,541
Investment assets	829,085	-	829,085
Non-life insurance assets	-	42,915	42,915
Intangible assets	4,947	7,726	12,674
Property, plant and equipment	32,781	43	32,824
Other assets	15,311	103	15,414
Tax assets	966	-	966
Total assets	**4,271,248**	**59,462**	**4,330,711**
Liabilities			
Liabilities to credit institutions	11,385	-	11,385
Liabilities to customers	3,510,967	-	3,510,967
Non-life insurance liabilities	-	32,420	32,420
Debt securities issued to the public	100,220	-	100,220
Supplementary cooperative capital	37,512	-	37,512
Other liabilities	64,018	1,815	65,832
Tax liabilities	26,746	260	27,006
Total liabilities	**3,750,847**	**34,495**	**3,785,342**

POP BANK GROUP'S OPERATING SEGMENTS 2015

Balance Sheet 31 December 2015

(EUR 1,000)	Banking	Insurance	Segments total
Assets			
Liquid assets	172,899	-	172,899
Financial assets at fair value through profit or loss	3,383	-	3,383
Loans and receivables from credit institutions	128,780	3,483	132,263
Loans and receivables from customers	3,029,032	-	3,029,032
Derivative contracts	5,356	-	5,356
Investment assets	686,487	-	686,487
Non-life insurance assets	-	37,610	37,610
Intangible assets	6,547	8,885	15,432
Property, plant and equipment	32,766	57	32,824
Other assets	13,293	162	13,455
Tax assets	3,266	56	3,322
Total assets	**4,081,809**	**50,252**	**4,132,062**
Liabilities			
Liabilities to credit institutions	112,658	-	112,658
Liabilities to customers	3,347,181	-	3,347,181
Non-life insurance liabilities	-	27,567	27,567
Debt securities issued to the public	24,188	-	24,188
Supplementary cooperative capital	58,231	-	58,231
Other liabilities	54,151	1,752	55,903
Tax liabilities	24,995	153	25,149
Total liabilities	**3,621,404**	**29,473**	**3,650,876**

RECONCILIATIONS

Income

(EUR 1,000)	1 Jan-31 Dec 2016
Segments' total income	117,194
Unallocated income, other functions	6,804
Eliminations of internal items between segments and other functions	-9,148
Group's total income	**114,851**

Result

(EUR 1,000)	1 Jan-31 Dec 2016
Segments' total result	19,810
Unallocated items	-9,470
Group's total result	**10,340**

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Assets		
Total assets of the segments	4,330,711	4,132,062
Eliminations of internal items between segments	-4,135	-3,321
Unallocated assets, other functions	99,091	127,489
Eliminations of internal items between segments and other functions	-196,249	-184,595
Group's total assets	**4,229,417**	**4,071,635**
Liabilities		
Segments' total liabilities	3,785,342	3,650,876
Eliminations of internal items between segments	-4,135	-3,321
Unallocated liabilities, other functions	-46,523	19,445
Eliminations of internal items between segments and other functions	31,712	-19,082
Group's total liabilities	**3,766,396**	**3,647,918**

NOTES TO INCOME STATEMENT

NOTE 7 Net Interest Income

(EUR 1,000)	1 Jan-31 Dec 2016
Interest Income	
Loans and advances to credit institutions	745
Loans and advances to customers*	71,280
Debt securities	4,142
Hedging derivatives	3,224
Other interest income	932
Total interest income	**80,324**
Interest expenses	
Liabilities to credit institutions	-408
Liabilities to customers	-16,569
Debt securities issued to the public	-835
Hedging derivatives	-1
Other interest expenses	-93
Total interest expenses	**-17,907**
Net interest income	**62,417**
*Impaired loans	847

Negative interest rates did not have a significant effect on the interest income or expenses.

NOTE 8 Net Commissions and Fees

(EUR 1,000)	1 Jan-31 Dec 2016
Commissions and fees	
Lending	7,774
Card business	4,523
Deposits	459
Payment transfers	11,060
Legal services	1,958
Intermediated services	3,672
Issuing guarantees	437
Funds	1,914
Other commission income	1,263
Total commissions and fees	**33,060**
Commissions expenses	
Card business	-1,575
Payment transfers	-1,209
Other commission expenses	-1,907
Total commission expenses	**-4,691**
Net commissions and fees	**28,369**

NOTE 9 Net Trading Income

(EUR 1,000)	1 Jan-31 Dec 2016
Net income from hybrid instruments	
Capital gains and losses	4
Fair value gains and losses	256
Net income from foreign exchange operation	308
Net income from hedge accounting	
Change in the fair value of hedging instruments	-2,175
Change in the fair value of hedged instruments	2,149
Net trading income	**542**

NOTE 10 Net Investment Income

(EUR 1,000)	1 Jan-31 Dec 2016
Net income from available-for-sale financial assets	
Debt securities	
Capital gains and losses	-7
Impairment losses	1
Transferred from fair value reserve	1,281
Debt securities	**1,275**
Shares and participations	
Dividend income	1,914
Capital gains and losses	-203
Impairment losses	-1,453
Transferred from fair value reserve	7 339
Total shares and participations	**7,598**
Total net income from available-for-sale financial assets	**8,873**
Net income from investment property	
Rental income	4,279
Capital gains and losses	-3
Other income from investment property	94
Maintenance charges and expenses	-2,674
Depreciations and amortisation of investment property	-1,611
Other expenses from investment property	-12
Total net income from investment property	**72**
Total net investment income	**8,945**

Net income from shares and participations includes EUR 1 479 thousand from Visa transaction transferred from fair value reserve.

NOTE 11 Net Income from Non-life Insurance

(EUR 1,000)	1 Jan-31 Dec 2016
Insurance premium revenue	
Premiums written	34,585
Change in the provision for unearned premiums	-939
Gross insurance premium revenue	**33,646**
Ceded to reinsurers	-667
Total insurance premium revenue	**32,980**
Claims incurred	
Claims paid	-21,505
Change in provision for unpaid claims	-4 822
Total claims incurred, gross	**-26 327**
Ceded to reinsurers	1 064
Total claims incurred	**-25,263**
Net investment income	361
Total net income from non-life insurance	**8,078**

Net investment income from non-life insurance

(EUR 1,000)	1 Jan-31 Dec 2016
Net income from available-for-sale financial assets	
Debt securities	
Interest income	150
Capital gains and losses	34
Transfers from fair value reserve	2
Total debt securities	**186**
Shares and participations	
Dividend icome	7
Capital gains and losses	164
Transfers from fair value reserve	13
Total shares and participations	**183**
Total net income from available-for-sale financial assets	**369**
Other investment income and expenses	
Interest income	54
Interest expenses	-1
Other investment income	21
Investment income management expenses	-83
Other investment income and expenses total	**-8**
Total net investment income from non-life insurance	**361**

The net investment income of the investment activities of the non-life insurance company includes all income and expenses from investments.

Insurance category-specific information 2016

(EUR 1,000)	Premiums written before share ceded to reinsurers	Insurance premium revenue before share ceded to reinsurers	Claims incurred before share ceded to reinsurers	Operating expenses before reinsurers' commissions and shares of profit	Ceded to reinsurers	Balance on technical account before change in equalisation provisions
Other accident and health	973	899	-613	-318	-14	-46
Motor vehicle third party	20,358	20,177	-14,458	-6,663	411	-533
Land vehicles	10,320	9,891	-8,890	-3,378	-7	-2,384
Vessels, aircraft, rail stock and transport	484	450	-436	-158	-4	-149
Fire and other property loss	1,876	1,699	-1,656	-614	8	-564
Third party	168	155	-63	-55	1	38
Legal expenses	250	230	-150	-82	2	0
Other	156	145	-60	-51	1	34
Direct insurance total	**34,585**	**33,646**	**-26,327**	**-11,319**	**397**	**-3,603**
Reinsurance	-	-	-	-	-	-
Total	**34,585**	**33,646**	**-26,327**	**-11,319**	**397**	**-3,603**
Provision for collective guarantee item						-
Change in the equalisation provisions						-
Balance on technical account 2016						**-3,603**

NOTE 12 Other Operating Income

(EUR 1,000)	1 Jan-31 Dec 2016
Rental income from owner-occupied properties	120
Capital gains on owner-occupied properties	16
Recognition of Deposit Guarantee Fund contribution	2,123
Other income	4,242
Total other operating income	**6,501**

Other operating income includes recognition of EUR 2,123 thousand of contribution paid to the old Deposit Guarantee Fund. The fee collected by the Financial Stability Board for deposit guarantee purposes will be covered with payments made to the old Deposit Guarantee Fund pursuant to the Credit Institutions Act. Contributions paid to the old fund are recognised as income when the old fund makes a payment to the new fund and the same amount of contribution is recognised in other operating expenses.

Other income includes revenue of EUR 2,528 thousand recognised by POP Banks for the Visa-transaction.

NOTE 13 Personnel Expenses

(EUR 1,000)	1 Jan-31 Dec 2016
Wages and salaries	-32,119
Indirect personnel expenses	-1,349
Pension expenses	
Defined contribution plans	-6,668
Defined benefit plans	75
Total personnel expenses	**-40,062**

Remuneration of personnel (Pillar III information on remuneration)

Fixed remuneration and variable remuneration

Employee group	Number of personnel 2016	Fixed wages and salaries 2016	Variable remuneration 2016
Management	6	799	-
Risk-takers	105	9,095	264
Other personnel	630	20,849	1,112
Total	**741**	**30,743**	**1,376**

Remuneration by business area 2016

	Banking	Insurance	Other operations	Total
Fixed wages and salaries	23,529	4,371	2,844	30,743
Variable remuneration	511	865	-	1,376
Total remuneration	**24,040**	**5,236**	**2,844**	**32,119**

Remuneration to related parties is presented in Note 42.

The amalgamation of POP Banks did not pay signing bonuses or redundancy payments to risk-takers in 2016. Redundancy payments were defined to five risk-takers.

The amalgamation of POP Banks has not paid compensation of over EUR 1 million in 2016 or such variable remunerations, that should be delayed.

Other information about remuneration is presented in Note 3.

NOTE 14 Other Operating Expenses

(EUR 1,000)	1 Jan-31 Dec 2016
Other administrative expenses	
Other personnel expenses	-3,010
Office expenses	-4,129
ICT expenses	-19,129
Telecommunications	-3,030
Entertainment and marketing expenses	-5,050
Other administrative expenses total	**-34,347**
Other operating expenses	
Rental expenses	-2,039
Expenses arising from owner-occupied properties	-3,765
Capital losses on owner-occupied properties	-22
Insurance and security expenses	-2,869
Audit fees	-427
Other services	-706
Other operating expenses	-1,497
Other operating expenses total	**-11,325**
Total other operating expenses	**-45,672**

Audit fees	
Statutory audit	-329
Audit-related services	-11
Tax advisory	-4
Other expert services	-83
Total audit fees	**-427**

Insurance and security expenses includes EUR 2,123 thousand of contribution collected by the Financial Stability Board for the deposit guarantee fund. Contributions of the old Deposit Guarantee Funs recognised as income are presented in other operating income.

NOTE 15 Depreciation, Amortisation and Impairment of Property, Plant and Equipment and Intangible Assets

(EUR 1,000)	1 Jan-31 Dec 2016
Depreciation and amortisation on property, plant and equipment and intangible assets	
Buildings	-1,169
Machinery and equipment	-970
Intangible assets	-2,551
Other	-810
Total depreciation and amortisation of property, plant and equipment and intangible assets	**-5,500**
Impairment losses on property, plant and equipment	
Owner-occupied properties	71
Impairment losses on property, plant and equipment total	**71**
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets total	**-5,429**

NOTE 16 Income Tax

(EUR 1,000)	1 Jan-31 Dec 2016
Current tax	-6,257
Tax for prior financial years	12
Other direct taxes	-131
Change in deferred taxes	-240
Total income tax expense	**-6,618**

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

Profit before tax	16,958
Income tax rate	20%
+ Tax calculated at the tax rate	-3,392
- Tax-exempt income	93
- Non-deductible expenses	-570
+ Taxable earnings not included in the profit	-2,006
+ Deductible expenses not included in the profit	16
- Use of tax losses carried forward from previous years	-2
+/- Deferred tax assets not recognised on losses	-731
+/- Difference due to the differing tax rate of foreign companies	42
+/- Other	51
+/- Tax for prior financial years	12
+/- Other direct taxes	-131
Tax expense in the income statement	**-6,618**

Note 17 Net Income and Expenses for Financial Assets and Financial Liabilities by Measurement Category

(EUR 1,000)	1 Jan-31 Dec 2016
Financial assets at fair value through profit or loss	
Interest income	129
Fair value gains and losses	74
Capital gains and losses	4
Total income and expenses from financial assets at fair value through profit or loss	**206**
Available-for-sale financial assets	
Interest income and expenses	4,624
Transferred from fair value reserve	9,621
Dividend income	1,921
Capital gains and losses	-851
Impairment losses	-1,421
Income and expenses from available-for-sale financial assets	**13,894**
Loans and receivables	
Interest income	71,619
Other income	9,537
Impairment of loans and receivables	-6,731
Total net income on loans and receivables	**74,426**
Other financial liabilities	
Interest expenses	-17,906
Other expenses	-83
Total income and expenses on other financial liabilities	**-17,989**
Derivative contracts	
Interest income and expenses from fair value hedges	3,223
Net income from fair value hedging	-26
Other income and expenses	182
Total income and expenses on derivative contracts	**3,379**
Net income from foreign exchange operation	308
Net income and expenses for financial assets and financial liabilities	**74,223**
Other operating income and expenses	-57,266
Profit before tax	**16,958**

NOTES TO ASSETS

Note 18 Classification of Financial Assets and Financial Liabilities

Financial assets 31 December 2016

(EUR 1,000)	Loans and receivables	Measured at fair value through profit or loss	Hedging derivatives	Available-for-sale	Total carrying amount
Liquid assets	99,174	-	-	-	99,174
Assets at fair value through profit or loss	-	1,681	-	-	1,681
Loans and receivables from credit institutions	73,515	-	-	-	73,515
Loans and receivables from customers	3,188,681	-	-	-	3,188,681
Derivative contracts	-	-	2,541	-	2,541
Investment assets					
Debt securities	-	-	-	411,948	411,948
Shares and participations	-	-	-	305,816	305,816
Non-life insurance assets	-	-	-	28,629	28,629
Total financial assets	**3,361,370**	**1,681**	**2,541**	**746,393**	**4,111,985**

Investment assets include EUR 36 598 thousand other than financial assets (real estate). Non-life insurance assets include EUR 14 285 thousand other than financial assets, mainly insurance receivables from customers.

Financial liabilities 31 December 2016

(EUR 1,000)	Other financial liabilities	Total carrying amount
Liabilities to credit institutions	11,385	11,385
Liabilities to customers	3,502,418	3,502,418
Debt securities issued to the public	100,220	100,220
Supplementary cooperative capital	37,512	37,512
Total financial liabilities	**3,651,534**	**3,651,534**

Liabilities to customers include EUR 2 672 thousand other than financial liabilities.

Financial assets 31 December 2015

(EUR 1,000)	Loans and receivables	Measured at fair value through profit or loss	Hedging derivatives	Available-for-sale	Total carrying amount
Liquid assets	172,899	-	-	-	172,899
Assets at fair value through profit or loss	-	3,383	-	-	3,383
Loans and receivables from credit institutions	129,327	-	-	-	129,327
Loans and receivables from customers	3,013,972	-	-	-	3,013,972
Derivative contracts	-	-	5,356	-	5,356
Investment assets					
Debt securities	-	-	-	311,983	311,983
Shares and participations	-	-	-	289,823	289,823
Non-life insurance assets	-	-	-	24,412	24,412
Total financial assets	**3,316,198**	**3,383**	**5,356**	**626,218**	**3,951,155**

Investment assets include EUR 34 098 thousand other than financial assets (real estate). Non-life insurance assets include EUR 13 198 thousand other than financial assets, mainly insurance receivables from customers.

In November 2015, the Board of Directors of Bonum Bank Ltd decided on an amendment to the investment policy, as the result of which Bonum Bonum Bank Ltd's held-to-maturity investments of EUR 63 744 thousand were reclassified as available-for-sale investments. As the result of the reclassification, the investments classified as held to maturity in the IFRS financial statements of the POP Bank Group, EUR 67 367, had to be reclassified as available-for-sale investments. In accordance with IAS 39, the POP Bank Group cannot classify investments into investments held to maturity in 2016 and 2017.

Financial liabilities 31 December 2015

(EUR 1,000)	Other financial liabilities	Total carrying amount
Liabilities to credit institutions	112,783	112,783
Liabilities to customers	3,337,170	3,337,170
Debt securities issued to the public	24,188	24,188
Supplementary cooperative capital	58,231	58,231
Total financial liabilities	**3,532,372**	**3,532,372**

Liabilities to customers include EUR 5 643 thousand other than financial liabilities.

NOTE 19 Liquid Assets

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Cash	14,101	13,752
Receivables from central banks repayable on demand	85,073	159,147
Total cash and cash equivalents	**99,174**	**172,899**

Cash and cash equivalents comprise cash assets and cheque account with the Bank of Finland.

NOTE 20 Financial Assets at Fair Value Through Profit or Loss

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Hybrid instruments		
Bonds	1,681	3,383
Total financial assets at fair value through profit or loss	**1,681**	**3,383**

NOTE 21 Loans and Receivables

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Loans and receivables from credit institutions		
Deposits		
Repayable on demand	47,164	63,415
Other	26,351	65,912
Total loans and advances to credit institutions	**73,515**	**129,327**
Loans and advances to customers		
Loans	3,107,229	2,919,646
Loans granted from government funds	7,311	9,026
Guarantees	49	184
Used overdrafts	41,927	44,002
Credit card receivables	31,296	39,395
Other receivables	868	1,720
Total loans and advances to customers	**3,188,681**	**3,013,972**
Total loans and receivables	**3,262,196**	**3,143,299**

POP Banks belonging to the POP Bank Group have additionally intermediated Aktia Real Estate Mortgage Bank's loans. The loans intermediated by POP Banks amounted to EUR 33 311 (203 105) thousand on 31 December 2016. The cooperation is about to end, and all remaining loans will be transferred to the banks' balance sheets by summer 2017.

Impairment losses recorded on loans and receivables

(EUR 1,000)	1 Jan-31 Dec 2016
Increases in impairment losses	-7,336
Reversals of impairment losses	777
Change in collectively assessed impairment losses	-101
Reversals of impairment losses from final credit losses	1,919
Final credit losses	-1,997
Impairment losses on loans and receivables	**-6,731**

Accrued impairment losses on loans and receivables in the balance sheet

(EUR 1,000)	1 Jan-31 Dec 2016
Impairment losses 1 January	16,933
+ Increases in impairment losses	7,336
- Reversals of impairment losses	-777
+/- Change in collectively assessed impairment losses	101
- Reversals of impairment losses from final credit losses	-1,927
Impairment losses 31 December	**21,667**

NOTE 22 Derivative Contracts and Hedge Accounting

Nominal values of the underlying instruments of derivative contracts held for hedging purposes and fair values of derivative contracts 31 December 2016

(EUR 1,000)				Nominal values/residual maturity	Fair values
	< 1 year	1-5 years	> 5 years	Total	Assets
Fair value hedging					
Interest rate derivatives					
Interest rate swaps	35,000	45,000	-	80,000	2,541
Hedging derivatives total	**35,000**	**45,000**	**-**	**80,000**	**2,541**

Nominal values of the underlying instruments of derivative contracts held for hedging purposes and fair values of derivative contracts 31 December 2015

(EUR 1,000)				Nominal values/residual maturity	Fair values
	< 1 year	1-5 years	> 5 years	Total	Assets
Fair value hedging					
Interest rate derivatives					
Interest rate swaps	35,000	80,000	-	115,000	5,356
Hedging derivatives total	**35,000**	**80,000**	**-**	**115,000**	**5,356**

(EUR 1,000)	1 Jan-31 Dec 2016
Change in the fair value of the hedged item	-2,672

POP Bank Group has hedged the interest rate risk of borrowings from changes in fair value through interest rate derivatives and applies hedge accounting to all hedging relationships.

NOTE 23 Investment Assets

(EUR 1,000)	31 Dec 2016	31 Dec 2015*
Available-for-sale financial assets		
Debt securities	411,948	311,983
Shares and participations	305,816	289,823
Investment properties	36,598	34,098
Total investment assets	**754,362**	**635,904**

Investments of non-life insurance are included in non-life insurance assets. Non-life insurance assets are presented in note 24.

* Adjusted see Note 5

Available-for-sale financial assets 31 December 2016

	Available-for-sale debt securities	Available-for-sale shares and participations			Total
(EUR 1,000)	At fair value	At fair value	At cost	Total	
Quoted					
Public sector entities	59,865	-	-	-	59,865
Other	138,723	297,348	-	297,348	436,071
Other					
Public sector entities	181,893	-	-	-	181,893
Other	31,467	-	8,469	8,469	39,936
Investmens total	**411,948**	**297,348**	**8,469**	**305,816**	**717,764**

Available-for-sale financial assets 31 December 2015

	Available-for-sale debt securities	Available-for-sale shares and participations			Total
(EUR 1,000)	At fair value	At fair value	At cost	Total	
Quoted					
Public sector entities	50,442	-	-	-	50,442
Other	154,858	257,544	-	257,544	412,401
Other					
Public sector entities	54,518	-	-	-	54,518
Other	52,165	12,418	19,862	32,279	84,445
Investmens total	**311,983**	**269,961**	**19,862**	**289,823**	**601,806**

Available-for-sale shares and participations measured at cost are POP Banks' equity investments in shares of companies that are necessary for its operation and for which a reliable fair value cannot be determined. The most significant unquoted investment is in Samlink Ltd. POP Banks sold their shares in Aktia Real Estate Mortgage Bank Plc to Aktia Bank Plc in September 2016.

Impairment losses on available-for-sale financial assets

(EUR 1,000)	Debt securities	Shares and participations	Total
Impairment losses 1 January 2016	376	5,829	6,205
+ Increases in impairment losses	7	1,446	1,452
- Reversals of impairment losses	-8	-3,569	-3,577
Impairment losses 31 December 2016	**375**	**3,705**	**4,081**

Changes in investment property

(EUR 1,000)	2016
Acquisition cost 1 January	44,135
+ Increases	1,375
- Decreases	-1,554
+/- Transfers	4,105
Acquisition cost 31 December	**48,062**
Accumulated depreciation and impairment 1 January	-10,037
+/- Accumulated depreciation on decreases and transfers	185
- Depreciation	-1,220
- Impairment losses	-391
Accumulated depreciation and impairment 31 December	**-11,464**
Carrying amount 1 January	34,098
Carrying amount 31 December	36,598

NOTE 24 Non-life Insurance Assets

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Investments		
Shares and participations	5,806	7,900
Bonds	22,824	16,512
Other assets		
Other receivables		
Direct insurance operations	13,749	13,034
Other receivables	537	164
Non-life insurance assets total	**42,915**	**37,610**

Available-for-sale financial assets 31 December 2016

(EUR 1,000)	Available-for-sale debt securities At fair value	Available-for-sale participations At fair value	Total
Quoted			
Other	22,824	5,806	28,629
Total investements	**22,824**	**5,806**	**28,629**

Available-for-sale financial assets 31 December 2015

(EUR 1,000)	Available-for-sale debt securities At fair value	Available-for-sale participations At fair value	Total
Quoted			
Other	16,512	7,900	24,412
Total investements	**16,512**	**7,900**	**24,412**

NOTE 25 Intangible Assets

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Information systems	9,685	11,852
Other intangible assets	3,566	3,370
Incomplete intangible assets	315	617
Total intangible assets	**13,566**	**15,839**

The most significant intangible assets of the POP Bank Group are comprised of expenses resulting from the acquisition of non-life insurance and banking information systems. At the end of the financial year 2016, the carrying amount of the non-life insurance information system totalled EUR 7,726 (8,885) thousand.

Impairment testing of the non-life insurance system has been carried out in accordance with IAS 36. As the result of the testing, the recoverable amount exceeds the carrying amount of the intangible asset.

Changes in intangible assets 2016

(EUR 1,000)	Information systems	Other intangible assets	Incomplete intangible assets	Total
Acquisition cost 1 January	16,764	5,662	617	23,043
+ Increases	119	184	497	800
- Decreases	-383	-125	-	-508
+/- Transfers	-	799	-799	-
Acquisition cost 31 December	**16,499**	**6,520**	**315**	**23,334**
Accumulated depreciation and impairment 1 January	-4,912	-2,292	-	-7,204
+/- Accumulated depreciation on decreases and transfers	-	-	-	0
- Depreciation	-1,902	-648	-	-2,550
+/- Other changes	-	-15	-	-15
Accumulated depreciation and impairment 31 December	**-6,814**	**-2,954**	**-**	**-9,768**
Carrying amount 1 January	11,851	3,370	617	15,839
Carrying amount 31 December	9,685	3,566	315	13,566

NOTE 26 Property, Plant and Equipment

(EUR 1,000)	31 Dec 2016	31 Dec 2015*
Owner-occupied properties		
Land and water	2,967	2,748
Buildings	28,893	33,352
Machinery and equipment	2,956	2,927
Other tangible assets	788	769
Property, plant and equipment total	**35,604**	**39,796**

*Adjusted see Note 5

Changes in property, plant and equipment 2016

(EUR 1,000)	Owner-occupied properties	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost 1 January	58,987	17,726	928	-	77,641
+ Increases	1,011	1,071	36	902	3,020
- Decreases	-101	-139	-1	-	-241
+/- Transfers	-3,202	1	-1	-902	-4,105
Acquisition cost 31 December	**56,694**	**18,659**	**962**	**-**	**76,315**
Accumulated depreciation and impairment 1 January	-22,888	-14,799	-158	-	-37,845
+/- Accumulated depreciation on decreases and transfers	19	95	0	-	115
- Depreciation	-1,927	-999	-16	-	-2,943
- Impairment losses	65	-	-	-	65
+/- Other changes	-102	0	0	-	-102
Accumulated depreciation and impairment 31 December	**-24,834**	**-15,703**	**-174**	**-**	**-40,711**
Carrying amount 1 January	36,099	2,927	769	-	39,796
Carrying amount 31 December	31,860	2,956	788	-	35,604

NOTE 27 Other Assets

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Payment transfer receivables	65	65
Accrued income and prepaid expenses		
Interest	11,539	11,521
Other accrued income and prepaid expenses	2,467	1,259
Other	1,388	737
Other assets total	**15,459**	**13,582**

NOTE 28 Deferred Taxes

(EUR 1,000)	31 Dec 2016	31 Dec 2015*
Tax assets		
Deferred tax assets	1,734	2,924
Income tax receivables	186	1,043
Total tax assets	**1,920**	**3,967**
Tax liabilities		
Deferred tax liabilities	25,497	24,844
Income tax liability	1,509	437
Total tax liabilities	**27,006**	**25,281**

Deferred tax assets

(EUR 1,000)	1 Jan 2016	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2016
Available-for-sale financial assets	1,332	-233	-760	338
Collective impairment	557	20	-	577
Real estate depreciation adjustments	566	172	-	738
Advances received	31	-31	-	-
Defined benefit pension plans	51	-15	30	65
Tax losses	74	134	-	208
Consolidation	314	-507	-	-193
Total deferred tax assets	**2,924**	**-460**	**-730**	**1,734**

(EUR 1,000)	31 Dec 2015*
Available-for-sale financial assets	1,332
Collective impairment	557
Real estate depreciation adjustments	566
Advances received	31
Defined benefit pension plans	51
Tax losses	74
Consolidation	314
Total deferred tax assets	**2,924**

The companies belonging to the POP Bank Group have EUR 32,511 (29,867) thousand of losses for which no deferred tax assets have been recognised. The losses will expire in 2021–2026.

*Adjusted see Note 5

Deferred tax liabilities

(EUR 1,000)	1 Jan 2016	Recognised through profit and loss	Recognised in other comp-rehensive income	31 Dec 2016
Appropriations	21,891	-5	-	21,886
Available-for-sale financial assets	2,035	39	872	2,946
Intangible assets	917	-252	-	665
Total deferred tax liabilities	**24,844**	**-219**	**872**	**25,497**

(EUR 1,000)	31 Dec 2015
Appropriations	21,891
Available-for-sale financial assets	2,035
Intangible assets	917
Total deferred tax liabilities	**24,844**

Amounts recognised in other comprehensive income and related deferred taxes 2016

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	8,067	-1,632	6,434
Defined benefit plans	-165	30	-135
Amounts recognised in other comprehensive income, total	**7,902**	**-1,603**	**6,299**

NOTES TO LIABILITIES AND EQUITY CAPITAL

NOTE 29 Liabilities to Credit Institutions and Customers

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Liabilities to credit institutions		
Repayable on demand	5,893	84,175
Not repayable on demand	5,492	28,607
Total liabilities to credit institutions	**11,385**	**112,783**
Liabilities to customers		
Deposits		
Repayable on demand	2,559,514	2,424,924
Not repayable on demand	935,748	903,469
Other financial liabilities		
Not repayable on demand	9,829	14,421
Total liabilities to customers	**3,505,090**	**3,342,813**
Total liabilities to credit institutions and customers	**3,516,475**	**3,455,596**

NOTE 30 Non-life Insurance Liabilities

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Insurance contract liabilities	26,586	21,889
Liabilities from direct insurance operations	235	692
Liabilities from reinsurance operations	189	369
Other	5,411	4,617
Total non-life insurance liabilities	**32,420**	**27,567**

Insurance contract liabilities

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Provision for unearned premiums	12,899	11,960
Ceded to reinsurers	-	-
Provisions for unpaid claims	14,751	9,929
Ceded to reinsurers	-1,064	-
Total insurance contract liabilities	**26,586**	**21,889**

Insurance contract liabilities consist of insurance liability and provisions for unpaid claims. Premiums written include insurance premiums for the contract periods that have begun during the financial year. The portion of premiums written for the post-balance sheet date is recorded as provision for unearned premiums in the balance sheet. Unpaid claims are based on a collective provision proportioned both case-specifically and to previous insurance premium revenue and include indemnities for losses that have already occurred on the closing date but have not been paid yet and losses that have not yet been reported.

NOTE 31 Debt Securities Issued to the Public

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Debt securities issued to the public	99,521	23,356
Other		
Certificate of deposits	699	832
Total debt securities issued to the public	**100,220**	**24,188**

During the reporting period, Bonum Bank Plc, the central credit institution of POP Banks, issued a three-year unsecured bond of EUR 100 million with floating interest rate. The bond is listed on the Helsinki stock exchange.

NOTE 32 Supplementary Cooperative Capital

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Supplementary cooperative capital 1 January	58,231	74,831
Increase in supplementary cooperative capital	1,262	1,349
Refunds of supplementary cooperative capital	-9,195	-6,696
Converted into POP Shares	-12,786	-11,253
Supplementary cooperative capital 31 December	**37,512**	**58,231**
of which cancelled supplementary cooperative contributions	6,259	8,222

In accordance with national corporate legislation, the cooperative capital of the member cooperative bank includes cooperative contributions, supplementary cooperative contributions and POP Shares. In the IFRS statements, the contributions are classified as assets or liabilities in accordance with IAS 32 Financial Instruments: Presentation.

Supplementary cooperative contributions

In accordance with the national corporate legislation, the supplementary cooperative capital is included in the equity capital of each cooperative bank. In the IFRS financial statements, supplementary cooperative capital is classified as a liability as the coop- erative banks do not have an unconditional right to refuse refunding the supplementary cooperative capital to a member. Interest paid on the supplementary contribution is presented in interest expenses.

The supplementary contribution is refunded within six months of the end of the financial year based on which the refund can be made for the first time. If the refund cannot be made in full based on the provisions of the Co-Operatives Act or the Co-Operative Bank Act, the refund may take place subsequently if it is possible based on the next three financial statements.

The supplementary cooperative contributions can be converted into POP Shares, which are classified as equity capital in IFRS financial statements. During the financial year 2016, a total of EUR 12,786 (11,253) thousand of supplementary cooperative capital was converted into POP Shares. More detailed information about POP Shares is provided in Note 34.

NOTE 33 Other Liabilities

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Pension liabilities	326	253
Other liabilities		
Payment transfer liabilities	35,112	30,334
Accrued expenses		
Interest payable	5,233	5,367
Advances received	2,274	2,734
Other accrued expenses	9,241	8,326
Other		
Liabilities on card transactions	577	3,598
Other	-	6,444
Total other liabilities	**52,764**	**57,056**

In 2015 the central institution of the POP Bank Group, POP Bank Alliance Coop, was undertaken to refund the capital invested by the cooperative banks that had resigned from it according to a separately agreed schedule. POP Bank Alliance Coop refunded the capital in December 2016. The commitment amounted to EUR 4,968 thousand and it was recognised in other liabilities.

Bonum Bank Plc, a member of the POP Bank Group, had undertaken to refund the amounts collected for the development of information systems for central bank activities and card business from the cooperative banks that had resigned from POP Bank Alliance Coop insofar as the banks would not use these services after their withdrawal from the information systems used by the POP Bank Group. Bonum Bank refunded the amount in November 2016. The estimated commitment 31 December 2015 amounted to EUR 608 thousand, and it was recognised in other liabilities.

Defined benefit pension plans and related liabilities are presented in Note 39.

NOTE 34 Equity Capital

(EUR 1,000)	31 Dec 2016	31 Dec 2015*
Total equity attributable to the owners of the POP Bank Group		
Cooperative capital, cooperative contributions	9,051	8,904
of which cancelled cooperative contributions	470	473
Cooperative capital, POP Shares	43,508	17,904
of which cancelled POP Shares	2,516	634
Restricted reserves		
Reserve fund	52,494	52,499
Reserves based on the Articles of Association/rules	1,041	1,163
Fair value reserve		
Available-for-sale financial assets	10,717	4,283
Non-restricted reserves		
Other non-restricted reserves	90,834	98,136
Retained earnings		
Profit (loss) for previous financial years	244,653	229,028
Profit (loss) for the financial year	10,260	8,538
Total equity attributable to the owners of the POP Bank Group	**462,558**	**420,455**
Non-controlling interests	463	3,261
Total equity capital	**463,021**	**423,716**

*Adjusted see Note 5

Cooperative capital and classification of contributions as capital equity

The POP Bank Group's cooperative capital is composed of cooperative contributions and POP Shares.

Cooperative contributions

The capital equity of the POP Bank Group includes the cooperative contributions paid by the members of the member cooperative banks to the member cooperative banks, the payment of interest and refund of capital of which the bank has an unconditional right to refuse. The contribution conveys the member the right to participate in the governance and decision-making of the member cooperative bank.

On 31 December 2015, POP Banks had a total of 86 (84) thousand members.

POP Shares

The POP Bank Group's equity capital also includes investments made by the members of the member cooperative banks in POP Shares issued by the member cooperative banks. POP Shares are a new equity instrument issued for the first time during the financial year 2015. In accordance with the rules, the cooperative bank has an unconditional right to refuse from the payment of interest on POP Shares and refund of capital.

The member banks of the POP Bank Group issued a total of EUR 25,604 (17,904) thousand of POP Shares. Of this, the share new sales amounted to EUR 12,817 (6,652) thousand and converted supplementary cooperative contributions amounted to EUR 25,604 (11,253) thousand. POP Shares totalled to EUR 43,508 (17,904) thousand in 31 December 2016.

The targeted interest rate on POP Shares is 2.25% or 2.5%. The interest to be paid is confirmed after the end of the financial year at the cooperative meeting according to the proposal of the Board of Directors. The interest rate objective can change annually. POP Shares do not convey voting rights or other rights to the member.

A cooperative contribution and POP Share may be refunded within 12 months after the end of the financial year when membership terminated or POP Share was cancelled. If the refund of the cooperative contribution or POP Share cannot be made in full based on the provisions of the Co-Operatives Act or the Co-Operative Bank Act, the refund may take place subsequently if it is possible based on the next three financial statements. However, this entitlement to the refund for the balance will terminate after the fifth financial statements.

Supplementary cooperative contributions

The supplementary cooperative contributions included in equity capital in the cooperative banks' national financial statements are classified as a liability in the IFRS financial statements. The supplementary cooperative contributions can be converted into POP Shares, which are classified as equity capital in IFRS financial statements. More details on the supplementary cooperative contributions are provided in Note 32.

Restricted reserves

Restricted reserves include the reserve fund, fair value reserve and other restricted reserves. The reserve fund consists of profits transferred to it during previous periods and of the portion transferred to it from member cooperative banks' revaluation reserves and loan loss provisions. The reserve fund can be used to cover losses for which non-restricted equity is not sufficient.

The fair value reserve includes changes in the fair value of available-for-sale financial assets less deferred tax. The change in fair value may be positive or negative. The amounts recognised in the fair value reserve are transferred to the income statement, when the available-for-sale security is disposed of or an impairment loss is recognised on it.

Non-restricted reserves

Other non-restricted reserves consist of retained earnings based on the Articles of Association or other rules, or decisions taken by the general meeting or cooperative meeting. Other non-restricted reserves include the guarantee fund capital of POP Banks' guarantee fund.

Retained earnings

Retained earnings are earnings of Group entities accrued in previous financial years that have not been transferred to equity reserves or distributed to shareholders. Retained earnings also contain voluntary provisions and depreciation difference included in the separate financial statements of Group entities less deferred tax.

Specification of changes in fair value reserve

(EUR 1,000)	31 Dec 2016
Fair value reserve 1 January	**4,283**
Fair value change, shares and participations	12,825
Fair value change, other financial instruments	3,894
Transferred to the income statement	-8,635
Other changes	-18
Deferred taxes	-1,632
Fair value reserve 31 December	**10,717**

OTHER NOTES

NOTE 35 Collateral Given

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Given on behalf of own liabilities and commitments		
Pledges	2,164	3,442
Mortgages	400	536
Collateral given to the Bank of Finland	36,403	27,553
Total collateral given	**38,967**	**31,531**

NOTE 36 Off-balance-sheet Commitments

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Guarantees	23,727	24,508
Loan commitments	193,807	186,773
Total off-balance sheet commitments	**217,534**	**211,281**

NOTE 37 Offsetting of Financial Assets and Financial Liabilities

Financial assets subject to netting agreements which are not offset on the balance sheet 2016

(EUR 1,000)	Financial instruments	Security held as collateral	Cash held as collateral	Net amount
Derivative contracts	2,541	-	2,000	541
Total financial assets	**2,541**	**-**	**2,000**	**541**

Financial assets subject to netting agreements which are not offset on the balance sheet 2015

(EUR 1,000)	Financial instruments	Security held as collateral	Cash held as collateral	Net amount
Derivative contracts	5,069	3,038	2,000	31
Total financial assets	**5,069**	**3,038**	**2,000**	**31**

Financial assets and financial liabilities are not offset on the balance sheet. The derivative contracts presented are associated with the possibility of offsetting the receivables and liabilities included in the contract based on ISDA contracts.

NOTE 38 Fair Values by Valuation Technique

Items recurrently measured at fair value 31 December 2016

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets					
Measured at fair value through profit or loss					
Banking	-	-	1,681	1,681	1,681
Derivative contracts					
Banking	-	2,541	-	2,541	2,541
Available-for-sale financial assets					
Banking	506,889	194,841	16,035	717,764	717,764
Insurance	28,629	-	-	28,629	28,629
Total financial assets	**535,518**	**197,381**	**17,715**	**750,615**	**750,615**

Items measured at amortised cost 31 December 2016

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets					
Loans and receivables					
Banking	-	3,290,469	-	3,290,469	3,262,196
Other than financial assets					
Investment property					
Banking	-	-	47,412	47,412	36,598
Total assets measured at amortised cost		**3,290,469**	**47,412**	**3,337,881**	**3 298 795**
Financial liabilities					
Other financial liabilities					
Banking	-	3,652,913	-	3,652,913	3,651,534
Total financial liabilities measured at amortised cost	**-**	**3,652,913**	**-**	**3,652,913**	**3,651,534**

Items recurrently measured at fair value 31 December 2015

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets					
Measured at fair value through profit or loss					
Banking	-	-	3,383	3,383	3,383
Derivative contracts					
Banking	-	5,356	-	5,356	5,356
Available-for-sale financial assets					
Banking	463,754	94,675	30,959	589,388	589,388
Insurance	24,412	-	-	24,412	24,412
Other	12,418	-	-	12,418	12,418
Total financial assets	**500,583**	**100,032**	**34,342**	**634,957**	**634,957**

The "Other" item under available-for-sale financial assets 31 December 2015 includes the available-for-sale assets of other operations, which are comprised of investments of the POP Banks' guarantee fund. The guarantee fund was dissolved in June 2016.

Items measured at amortised cost 31 December 2015

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets					
Loans and receivables					
Banking	-	3,123,949	-	3,123,949	3,143,299
Other than financial assets					
Investment property					
Banking	-	-	43,575	43,575	34,098
Total assets measured at amortised cost		**3,123,949**	**43,575**	**3,167,524**	**3 177 397**
Financial liabilities					
Other financial liabilities					
Banking	-	3,519,270	-	3,519,270	3,532,372
Total financial liabilities measured at amortised cost	**-**	**3,519,270**	**-**	**3,519,270**	**3,532,372**

Fair value determination of financial assets and financial liabilities

Financial assets are recorded in the balance sheet either at fair value or at amortised cost. The classification and measurement of financial instruments is described in more detail in Note 2 to the POP Bank Group's consolidated financial statements.

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 quotations are regularly available. This group includes all securities with publicly quoted prices.

Level 2 includes financial instruments measured 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 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.

In 2016 EUR 4,947 thousand of securites have been transferred from hierarchy level 3 to hierarchy level 1. A regular public quote could not be previously obtained for the debt securities, which is why they were classified to hierarchy level 3 in the comparison period.

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

Changes in financial assets measured at fair value through profit or loss classified into level 3

(EUR 1,000)	2016 Banking
Carrying amount 1 January	**3,383**
+ Purchases	196
- Sales	-368
- Matured during the financial year	-1,600
+/- Realised changes in value recognised in income statment	34
+/- Unrealised changes in value recognised in the income statement	36
Carrying amount 31 December	**1,681**

Changes in available-for-sale financial assets classified into level 3

(EUR 1,000)	2016 Banking
Carrying amount 1 January	**30,959**
+ Purchases	4,052
- Sales	-12,435
- Matured during the period	-1,105
+/- Realised changes in value recognised in income statement	-668
+/- Unrealised changes in value recognised in income statement	-50
+/- Changes in value recognised in other comprehensive income	228
- Transfers to level 1 and 2	-4,947
Carrying amount 31 December	**16,035**

SENSITIVITY ANALYSIS OF FINANCIAL INSTRUMENTS AT LEVEL 3

Available-for-sale financial assets 31 December 2016

		Possible effect on equity capital	
(EUR 1,000)	Carrying amount	Positive	Negative
Banking	15,925	1,481	-1,481
Total available-for-sale financial assets	15,925	1,481	-1,481

Available-for-sale financial assets 31 December 2015

		Possible effect on equity capital	
(EUR 1,000)	Carrying amount	Positive	Negative
Banking	31,446	3,258	-3,258
Total available-for-sale financial assets	31,446	3,258	-3,258

The sensitivity of financial assets recurrently measured at fair value at level 3 has been calculated for interest rate linked investments by assuming a 1 percentage points change in interest rates and for other investments by assuming the market price of the security to change by 15%.

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

NOTE 39 Pension Liabilities

In addition to statutory cover (TyEL), the POP Bank Group has defined benefit pension schemes for the management and persons who have been members of the OP Bank Group Pension Fund. The retirement age of those covered by these insurance policies varies from 60 to 65 years

In the pension scheme, the amount of assets describes the part of the obligation for which the insurance company is liable, and it is calculated using the same discount rate as the liability. The assets included in the scheme include 100% acceptable insurance policies. Because the liabilities have been insured, the company is not liable for significant risks. The company remains primarily liable for increases in pensions tied to the employment pension index and the effect of changes in the discount rate and pay increases on the net liabilities.

(EUR 1,000)	31 Dec 2016
Current service cost	193
Net interest	1
Costs recognised in income statement	**194**
Remeasurements	148
Comprehensive income before tax	**342**
Present value of obligation 1 January	**19,938**
Current service cost	193
Interest expense	366
Actuarial gains (-)/losses (+) arising from experiential adjustments	-812
Actuarial gains (-)/losses (+) arising from changes in economic expectations	915
Benefits paid	-936
Present value of obligation 31 December	**19,665**
Fair value of plan assets 1 January	**19,685**
Interest income	365
Return on plan assets excl. items in interest expense/income	-45
Benefits paid	-936
Contributions paid	269
Fair value of plan assets 31 December	**19,339**
Present value of obligation	**19,665**
Fair value of plan assets	19,339
Net liability in balance sheet 31 December	**326**
Net liability in balance sheet 1 January	**253**
Costs recognised in income statement	194
Contributions paid	-269
Remeasurements in comprehensive income statement	148
Net liability in balance sheet 31 December	**326**
Actuarial assumptions	
Discount rate, %	1.50%
Pay development, %	1.50%
Pension increase, %	1.66% / 0.0%
Inflation rate, %	1.42%

Sensitivity analysis - net liabilities

The table below presents the effects of the assumed changes on net liabilities. In calculating the sensitivities, the other assumptions are assumed to remain unchanged.

(EUR 1,000)	31 Dec 2016
Change of +0.5% in discount rate	-20
Change of -0.5% in discount rate	22
Pay development +0.5%	112
Pay development -0.5%	-112
Change of +0.5% in pension increase	1,195
Change of -0.5% in pension increase	-1,127

Duration based on the weighted average of the obligation is 13.2 years.

The POP Bank Group expects to contribute approximately EUR 260 thousand to defined benefit plans in 2017.

The statutory pension scheme, which came into force at the beginning of year 2017, does not have a known effect on defined benefit pension plans of the POP Bank Group.

NOTE 40 Operating Leases

Group as lessee, future minimum lease payments

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Less than one year	910	492
Within 1–5 years	1,897	1,580
More than five years	894	1,045
Future minimum lease payments total	**3,701**	**3,117**

The POP Bank Group has primarily leased business premises and equipment used in business operations.

Group as lessor, future minimum lease payments receivable

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Less than one year	578	427
Within 1–5 years	143	86
More than five years	-	81
Future minimum lease payments receivable total	**720**	**594**

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

The minimum rents payable include the minimum rents payable based on irrevocable rental agreements. The non-cancellable por- tion of leases in effect until further notice is the lease in accordance with the term of notice.

NOTE 41 Entities Included in The POP Bank Group's Financial Statements

The structure of the POP Bank Group is described in Note 1 the POP Bank Group and the scope of the IFRS Financial Statements.

Technical parent company

The table below presents the member banks comprising the technical parent company of the POP Bank Group and their balance sheet total (FAS).

Name of the bank	Domicile	Balance sheet 31 Dec 2016 (EUR 1,000)	Balance sheet 31 Dec 2015 (EUR 1,000)
Hannulan Osuuspankki	Hankasalmi	28,361	28,615
Honkajoen Osuuspankki	Honkajoki	53,699	52,179
Isojoen Osuuspankki	Isojoki	61,415	56,816
Jämijärven Osuuspankki	Jämijärvi	58,633	56,814
Kannonkosken Osuuspankki	Kannonkoski	51,681	49,529
Keuruun Osuuspankki	Keuruu	180,929	172,669
Konneveden Osuuspankki	Konnevesi	115,958	106,510
Kosken Osuuspankki	Koski Tl	173,159	169,447
Kurikan Osuuspankki	Kurikka	285,521	261,682
Kyrön Seudun Osuuspankki	Pöytyä	90,133	87,353
Kyrönmaan Osuuspankki	Isokyrö	243,382	229,673
Kyyjärven Osuuspankki	Kyyjärvi	69,859	64,423
Lammin Osuuspankki	Hämeenlinna	168,508	152,019
Lanneveden Osuuspankki	Saarijärvi	43,243	42,624
Lappajärven Osuuspankki	Lappajärvi	106,474	106,782
Lapuan Osuuspankki	Lapua	232,914	216,916
Lavian Osuuspankki	Pori	69,248	64,083
Liedon Osuuspankki	Lieto	120,340	112,929
Nivalan Järvikylän Osuuspankki	Nivala	77,700	68,462
Piikkiön Osuuspankki	Kaarina	105,857	100,819
Pohjanmaan Osuuspankki	Kauhava	450,874	432,585
Reisjärven Osuuspankki	Reisjärvi	142,463	124,449
Sievin Osuuspankki	Sievi	145,654	121,295
Siilinjärven Osuuspankki	Siilinjärvi	304,878	283,828
Suupohjan Osuuspankki	Kauhajoki	797,132	775,983
Tiistenjoen Osuuspankki	Lapua	35,426	29,865

Subsidiaries and associates consolidated in the POP Bank Group

	Domicile	31 Dec 2016	Group's holding 31 Dec 2015
POP Bank Alliance Coop (central institution of the Group)	Helsinki	100.0%	77.9%
Bonum Bank Plc (wholly-owned subsidiary of POP Bank Alliance Coop)	Espoo	100.0%	77.9%
POP Banks' guarantee fund (dissolved 9 June 2016)	Helsinki	-	78.3%
POP Holding Ltd	Helsinki	100.0%	98.0%
Finnish P&C Insurance Ltd (wholly-owned subsidiary of POP Holding Ltd)	Espoo	100.0%	98.0%
Optium Ltd (sold 8 February 2016)	Tampere	-	96.7%
Pajker AS	Audru, Estonia	67.5%	67.5%
White Beach Development AS (subsidiary of Pajker AS)	Audru, Estonia	72.5%	72.5%

Joint arrangements

The Group's holdings of less than 100% in mutual real estate companies and housing companies are treated as joint operations in the POP Bank Group's financial statements. Both owner-occupied properties and investment properties are managed via the companies.

Joint arrangements consolidated in the POP Bank Group (key real estate companies)

	31 Dec 2016	Group's holding 31 Dec 2015
Asunto Oy Keuruun Tarhiansuu	36.9%	36.9%
Asunto Oy Tampereen Kauppakatu 14	23.9%	23.9%
Asunto Oy Tampereen Koskilehmus	21.9%	21.9%
Kiinteistö Oy Kosken Pankkitalo	53.6%	53.6%
Kiinteistö Oy Lehto-Center	38.6%	41.0%
Kiinteistö Oy Liedon Torinkulma	62.5%	62.5%
Kiinteistö Oy Riihikuiva	82.7%	82.7%
Kiinteistö Oy Siilinjärven Pankkikeskus	66.5%	66.5%

Changes in holdings in subsidiaries

During the financial year 2016 POP Banks sold all their shares in Optium Ltd and POP Banks' guarantee fund was dissolved.

No subsidiaries were aqcuired during the financial year 2016. On comparison perios 2015 , POP Banks acquired the shares of POP Holding Ltd and Optium Oy held by cooperative banks that had resigned from the POP Bank Group. The acquired holdings corresponded to 9.6% of the shares of POP Holding Ltd and 16.1% of the shares of Optium Ltd. In addition to this, on comparison period 2015 Pohjanmaan Osuuspankki's holding in Pajker AS grew by 17.5% due to the ownership arrangaments made in the company.

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Acquisition cost of non-controlling interests	-	1,972
Acquired non-controlling interests	-	1,757
Effect of the change in holding on the capital equity of the POP Bank Group	**-**	**-214**

Non-controlling interests in subsidiaries

Eight cooperative banks resigned from POP Bank Alliance Coop before the formation of the amalgamation of POP Banks. The banks that resigned from POP Bank Alliance Coop held 22.1% of POP Bank Alliance Coop cooperative capital on comparison period. Resigned banks has thus a share in every subsidiary and participation interest of POP Bank Alliance Coop and entitieas owned by them. In addition to this, resigned banks were members of the POP Bank Group's guarantee fund, which was dissolved in June 2016. The share of resigned banks totalled 21.7% of the equity capital of the POP Banks' guarantee fund.

POP Bank Alliance Coop refunded in December 2016 the cooperative contributions paid by the resigned banks. The financial rights of the resigned banks ended as the capital was refunded. The commitment to refund EUR 4,968 thousand was presented in other liabilities at the comparison period balance sheet 31 December 2015 and it was not included in the non-controlling interests of equity capital.

Due to changes presented above, there are no significant non controlling interest in the POP Bank Group subsidiaries on reportind date. Information on non-controlling interest on comparison period is presented below.

The presented financial statements have been adjusted to comply with the POP Bank Group's accounting policies. Eliminations of items between entities consolidated in the Group have not been taken into account in the information. POP Bank Alliance Coop's wholly-owned subsidiary Bonum Bank Plc has been consolidated in the POP Bank Alliance Coop using the acquisition method and the participation in the POP Holding group corresponding to its holding using the equity method. POP Holding Ltd's subsidiary Finnish P&C Insurance Ltd has been consolidated in the POP Holding group. Inter-group items of these groups have been eliminated.

Name of the company	Non-controlling interests 31 Dec 2015	Capital equity attributable to non-controlling interests 31 Dec 2015
POP Banks' guarantee fund	21.7%	2,771
POP Bank Alliance Group	22.1%	-267
POP Holding Group	2.0%	182

Balance sheet 31 December 2015 in summary

(EUR 1,000)	POP Banks' guarantee fund	POP Bank Alliance Group	POP Holding Group
Cash and receivables	50	251,242	3,810
Investments	12,818	172,086	-
Other assets	26	5,926	9,164
Total assets	**12,894**	**429,254**	**12,974**
Liabilities	136	412,911	41,560
Net assets	12,758	16,343	-28,586
Net assets attributable to non-controlling interests	2,771	-267	182
Cash and cash equivalents at the start of the period	526	9,898	1,834
Cash and cash equivalents at the end of the period	50	196,392	3,810

Structured entities

The sphere of influence of the POP Bank Group does not include entities considered structured entities.

Significant restrictions

There are no significant restrictions concerning the use of reserves in equity capital of POP Bank Group.

NOTE 42 Related Party Disclosures

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

Transactions with key persons in management and other related parties are presented below. Key persons in management include members of the Supervisory Board and the Board of Directors and the managing director and deputy managing director of POP Bank Alliance Coop.

Related-party transactions

	Key persons in management		Other	
(EUR 1,000)	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Assets				
Loans	2,813	2,622	3,743	924
Liabilities				
Deposits	1,527	1,620	1,999	352
Off-balance-sheet commitments				
Loan commitments	76	47	5	1
Guarantees	630	504	902	342
Investments to other than cooperative contributions	241	220	106	96
Cooperative contributions owned by related parties (pcs)	31	31	22	22

	Key persons in management	Other
(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2016
Income and expenses		
Interest income	26	56
Interest expenses	12	15
Insurance premium revenue	16	9

Compensations to key persons in management

(EUR 1,000)	1 Jan-31 Dec 2016
Short-term employee benefits	2,284
Post-employment benefits	36
Total Compensation to key persons in management	**2,319**

NOTE 43 Events After the Closing Date

Financial Supervisory Authority has granted POP Bank Alliance coop on 30 January 2017 a permission to grant member credit institutions exemptions as defined in Amalgamation Act sections 21, 21a, 21b and 23. Exemptions according to the permission will be decided by the board of POP Bank Alliance coop.

The Board of Directors of POP Bank Alliance Coop is not aware of any other events after the closing date that would have material impact on the information presented in the financial statements of the POP Bank Group.

PILLAR III CAPITAL ADEQUACY DISCLOSURES

The amalgamation of POP Banks is formed by the central institution (POP Bank Alliance Coop), the member credit institutions of the central institution, the companies included in the consolidation groups of the member credit institutions and those credit institutions, financial institutions and service companies in which entities included in the amalgamation jointly hold over 50% of the votes. More detailed information about the entities included in the consolidation group is presented in Note 41.

Information pursuant to the EU's Capital Requirements Regulation No 575/2013 about the capital adequacy of the amalgamation of POP Banks is presented in Notes 44-58 (Pillar III disclosures). The information is based on the capital adequacy of the amalgamation of POP Banks, so the presented information is not directly comparable with the other figures pertaining to the POP Bank Group presented in the balance sheet.

Pillar III disclosure requirements are also presented in Note 4 on risk and capital adequacy management and Note 1 on governance and management systems. The disclosure requirements concerning remuneration are presented in Note 3 on governance and management systems and Note 13 on employee expenses.

The amalgamation of POP Banks does not publish information about counterparty risk pursuant to article 439 of the EU's Capital Requirements Regulation. The Board of Directors of the central institution has considered in its materiality assessment that information concerning counterparty risk is not material as their share of the risk-weighted assets is very small.

The capital requirement to credit risk of the amalgamation of POP Banks is calculated using the standardised approach and capital requirement to operational risk using the basic indicator approach. The capital requirement for market risk is calculated for the foreign exchange exposure using the basic indicator approach.

NOTE 44 Summary of capital adequacy

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Own funds		
Common Equity Tier 1 capital before deductions	486,655	461,632
Deductions from Common Equity Tier 1 capital	-5,245	-6,089
Total Common Equity Tier 1 capital (CET1)	**481,410**	**455,542**
Additional Tier 1 capital before deductions	6,897	10,545
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**6,897**	**10,545**
Tier 1 capital (T1 = CET1 + AT1)	**488,307**	**466,087**
Tier 2 capital before deductions	2,759	3,164
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**2,759**	**3,164**
Total capital (TC = T1 + T2)	**491,065**	**469,251**
Total risk weighted assets	**2,308,526**	**2,252,853**
of which credit risk	2,084,072	2,038,332
of which credit valutaion adjustment risk (CVA)	1,321	3,599
of which market risk (foreign exchange risk)	25,597	24,892
of which operational risk	197,536	186,031
Fixed capital conservation buffer according to Act on Credit institutions (2.5%)	**57,713**	**56,321**
Countercyclical capital buffer	**222**	**253**
CET1 Capital ratio (%)	20.9 %	20.2 %
T1 Capital ratio (%)	21.2 %	20.7 %
Total capital ratio (%)	21.3 %	20.8 %
Leverage ratio		
Tier 1 capital (T1)	488,307	466,087
Leverage ratio exposure	4,291,563	4,283,948
Leverage ratio, %	11.4 %	10.9 %

NOTE 45 Own funds by class

		(A) Amount at disclosure date bank	(B) Regulation (EU) n:o 575/2013 article reference	(C) Amounts subject to pre-regulation (EU) N:o 575/2013 treatment or prescribed residual amount of regulation (EU) N:o 575/2013
	Common Equity Tier 1 capital (CET1): instruments and reserves			
1	Capital instruments and the related share premium accounts	52,323	Article 26(1), Articles 27, 28 and 29, the EBA's list Article 26(3)	-
	of which: cooperative capital	8,815		-
	of which: POP Shares	43,508		-
2	Retained earnings	262,285	Article 26(1)(c)	-
3	Accumulated items of other comprehensive income (and other reserves, also covers unrealised profits and losses pursuant to applicable financial reporting standards)	154,806	Article 26(1)	-
3a	Fund for general banking risk	-	Article 26(1)(f)	-
4	The amount of qualified items referred to in Article 484(3) and the related share premium accounts that are gradually eliminated from CET1	17,241	Article 483(2)	11,494
	Public sector capital investments that are permitted to continue until 1 January 2018	-	Article 483(2)	-
5	Minority interests (amount that may be included in the consolidated Common Equity Tier 1 capital (CET1))	-	Articles 84, 479 and 480	-
5a	Profits accumulated in the interim financial period, confirmed by an independent party, from which all foreseeable costs or dividends have been deducted	-	Article 26(2)	-
6	Common Equity Tier 1 capital (CET1) before statutory adjustments	486,655		11,494
	Common Equity Tier 1 capital (CET1): statutory adjustments	-		-
7	Other value adjustments (negative amount)	-	Article 34, Article 105	-
8	Intangible assets (from which the related tax liabilities have been deducted) (a negative amount)	-5,245	Article 36(1)(b), Article 37, Article 472(4)	-
10	Deferred tax assets that rely on future profitability, excluding those that arise as a result of temporary differences (from which the related tax liabilities have been deducted, provided the conditions of Article 38(3) are met) (a negative amount)	-	Article 36(1)(c), Article 38, Article 472(5)	-
11	Items in the fair value reserves related to gains or losses on cash flow hedges	-	Article 33(1)(a)	-
12	Negative amounts resulting from the calculation of expected loss amounts	-	Article 36(1)(d), Article 40, Article 159, Article 472(6)	-
13	Any increase in its equity that results from securitised assets (a negative amount)	-	Article 32(1)	-
14	Gains or losses on liabilities that are valued at fair value that result from changes in the own credit standing of the institution	-	Article 33(b)	-
15	Defined benefit pension fund assets (a negative amount)	-	Article 36(1)(e), Article 41, Article 472(7)	-
16	Direct and indirect holdings by an institution of own Common Equity Tier 1 (CET1) instruments (a negative amount)	-	Article 36(1)(f), Article 42, Article 472(8)	-
17	Holdings of the Common Equity Tier 1 (CET1) instruments of financial sector entities where those entities have a reciprocal cross holding with the institution that are considered to have been designed to inflate artificially the own funds of the institution (a negative amount)	-	Article 36(1)(g), Article 44, Article 472(9)	-

18	Direct and indirect holdings by the institution of Common Equity Tier 1 (CET1) instruments of financial sector entities where the institution does not have a significant investment in those entities (the amount that exceeds the threshold value of 10% and from which acceptable short positions have been deducted) (a negative amount)	-	Article 36(1)(h), Articles 43, 45 and 46, Article 49(2 and 3), Article 79, Article 472(10)	-
19	Direct, indirect and synthetic holdings by the institution of the Common Equity Tier 1 (CET1) instruments of financial sector entities where the institution has a significant investment in those entities (the amount that exceeds the threshold value of 10% and from which acceptable short positions have been deducted) (a negative amount)	-	Article 36(1)(i), Articles 43, 45 and 47, Article 48(1) (b), Article 49(1–3), Articles 79 and 470, Article 472(11)	-
21	Deferred tax assets that arise from temporary differences (the amount that exceeds the threshold value of 10% and from which the associated tax liabilities have been deducted, provided the conditions of Article 38(3) are met (a negative amount)	-	Article 36(1)(c), Article 38, Article 48(1)(a), Article 470, Article 472(5)	-
22	The amount that exceeds the threshold value of 15% (a negative amount)	-	Article 48(1)	-
23	of which: the direct and indirect holdings by the institution of the Common Equity Tier 1 (CET1) instruments of financial sector entities where the institution has a significant investment in those entities	-	Article 36(1)(i), Article 48(1)(b) Article 470, Article 472(11)	-
26	Statutory adjustments to Common Equity Tier 1 capital (CET1) concerning the amount to which the treatment prior to the Solvency Regulation is applied	-		-
26a	Statutory adjustments related to unrealised gains and losses in accordance with Articles 467 and 468	-		-
	of which: unrealised loss filter 1	-	Article 467	-
	of which: unrealised gain filter 1	-	Article 468	-
26b	The amount required to be deducted from or added to Common Equity Tier 1 capital (CET1) due to the additional filters and deductions that were required prior to the Solvency Regulation	-	Article 481	-
27	The amount of items required to be deducted from Additional Tier 1 (AT1) items that exceed the Additional Tier 1 capital (AT1) of the institution (a negative amount)	-	Article 36(1)(j)	-
28	Total statutory adjustments to Common Equity Tier 1 capital (CET1)	-5,245		-
29	Common Equity Tier 1 capital (CET1)	481,410		11,494
	Additional Tier 1 capital (AT1): instruments	-		-
30	Capital instruments and the related share premium accounts	-	Articles 51 and 52	-
31	of which: classified as equity in accordance with the applicable financial reporting standards	-		-
32	of which: classified as liabilities in accordance with the applicable financial reporting standards	-		-
33	The amount of qualified items referred to in Article 484(4) and the related share premium accounts that are gradually eliminated from AT1	6,897	Article 486(3)	4,598
	Public sector capital investments that are permitted to continue until 1 January 2018	-	Article 486(3)	-
34	Qualifying Tier 1 capital (T1) issued by subsidiaries and held by third parties that is included in consolidated Additional Tier 1 capital (AT1) (including minority interests that were not included in row 5)	-	Articles 85, 86 and 480	-
35	of which: instruments issued by subsidiaries that are gradually eliminated	-	Article 486(3)	-
36	Additional Tier 1 capital (AT1) before statutory adjustments:	6,897		4,598
	Additional Tier 1 capital (AT1): statutory adjustments	-		-
37	Direct and indirect holdings by the institution of own Additional Tier 1 capital (AT1) instruments (a negative amount)	-	Article 52(1)(b), Article 56(a), Article 57, Article 475(2)	-
38	Holdings of the Additional Tier 1 (AT1) instruments of financial sector entities with which the institution has reciprocal cross holdings that are considered to have been designed to inflate artificially the own funds of the institution (a negative amount)	-	Article 56(b), Article 58, Article 475(3)	-

39	Direct and indirect holdings by the institution of the Additional Tier 1 (AT1) instruments of financial sector entities where the institution does not have a significant investment in those entities (the amount that exceeds the threshold value of 10% and from which acceptable short positions have been deducted) (a negative amount)	-	Article 56(c), Articles 59, 60 and 79, Article 475(4)	-
40	Direct and indirect holdings by the institution of the Additional Tier 1 (AT1) instruments of financial sector entities where the institution has a significant investment in those entities (the amount that exceeds the threshold value of 10% and from which acceptable short positions have been deducted) (a negative amount)	-	Article 56(d), Articles 59, 60 and 79, Article 475(4)	-
41	Statutory adjustments to Additional Tier 1 capital (AT1) concerning amounts to which the treatment prior to the Solvency Regulation and the treatment of the transitional period are applied before they are eliminated in accordance with Regulation (EU) No 575/2013 (i.e. residual amounts in accordance with the Solvency Regulation)	-		-
41a	Residual amounts required to be deducted from Additional Tier 1 capital (AT1) that are associated with the deductions made from Common Equity Tier 1 capital during the transitional period in accordance with Article 472 of Regulation (EU) No 575/2013	-	Article 472, Article 472(3)(a), Article 472(4 and 6), Article 472(8)(a), Article 472(9), Article 472(10)(a), Article 472(11)(a)	-
41b	Residual amounts required to be deducted from Additional Tier 1 capital (AT1) that are associated with the deductions made from Tier 2 capital (T2) during the transitional period in accordance with Article 475 of Regulation (EU) No 575/2013	-	Article 477, Article 477(3), Article 477(4)(a)	-
41c	The amount required to be deducted from or added to Additional Tier 1 capital (AT1) due to the additional filters and deductions that were required prior to the Solvency Regulation	-	Articles 467, 468 and 481	-
42	The amount of items required to be deducted from Tier 2 (T2) items that exceed the Tier 2 capital (T2) of the institution (a negative amount)	-	Article 56€	-
43	Total statutory adjustments to Additional Tier 1 capital (AT1)	-		-
44	Additional Tier 1 capital (AT1)	6,897		4,598
45	Tier 1 capital (T1=CET1+AT1)	488,307		16,092
	Tier 2 capital (T2): Instruments and provisions	-		-
46	Capital instruments and the related share premium accounts	-	Articles 62 and 63	-
47	The amount of items meeting the conditions referred to in Article 484(5) and the associated share premium accounts that are gradually eliminated from T2	2,759	Article 486(4)	1,839
	Public sector capital investments that are permitted to continue until 1 January 2018	-	Article 483(4)	-
48	Qualifying own funds instruments issued by subsidiaries and held by third parties that are included in consolidated Tier 2 capital (T2) (including minority interests and Additional Tier 1 capital (AT1) instruments that are not included in row 5 or 34)	-	Articles 87, 88 and 480	-
49	of which: instruments issued by subsidiaries that are gradually eliminated	-	Article 486(4)	-
50	Credit risk adjustments	-	Article 62(c and d)	-
51	Tier 2 capital (T2) before statutory adjustments	2,759		1,839
	Tier 2 capital (T2): statutory adjustments	-		-
52	The direct and indirect holdings by the institution of own Tier 2 (T2) instruments and subordinated loans (a negative amount)	-	Article 63(b)(i), Article 66(a), Article 67, Article 477(2)	-
53	Holdings of the Tier 2 (T2) instruments and subordinated loans of financial sector entities with which the institution has reciprocal cross holdings that are considered to have been designed to inflate artificially the own funds of the institution (a negative amount)	-	Article 66(b), Article 68, Article 477(3)	-

54	Direct and indirect holdings by the institution of the Tier 2 (T2) instruments and subordinated loans of financial sector entities, where an institution does not have a significant investment in those entities (the amount that exceeds the threshold value of 10% and from which acceptable short positions have been deducted) (a negative amount)	-	Article 66(c), Articles 69, 70 and 79, Article 477(4)	-
54a	Of which new holdings to which the transitional arrangement is not applied	-		-
54b	Of which holdings that already existed before 1 January 2013 and to which the transitional arrangement is applied.	-		-
55	Direct and indirect holdings by the institution of the Tier 2 (T2) instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (the amount from which acceptable short positions have been deducted) (a negative amount)	-	Article 66(d), Articles 69 and 79, Article 477(4)	-
56	Statutory adjustments to Tier 2 capital (T2) concerning amounts to which the treatment prior to the Solvency Regulation and the treatment of the transitional period are applied before they are eliminated in accordance with Regulation (EU) No 575/2013 (i.e. residual amounts in accordance with the Solvency Regulation)	-		-
56a	"Residual amounts required to be deducted from the Tier 2 capital (T2) that are associated with the deductions made from the Common Equity Tier 1 capital during the transitional period in accordance with Article 472 of Regulation (EU) No	-	Article 472, Article 472(3)(a), Article 472(4 and 6), Article 472(8)(a), Article 472(9), Article 472(10)(a), Article 472(11)(a)	-
56b	Residual amounts required to be deducted from the Tier 2 capital (T2) that are associated with the deductions made from the Additional Tier 1 capital (AT1) during the transitional period in accordance with Article 475 of Regulation (EU) No 575/2013	-	Article 475, Article 475(2)(a), Article 475(3), Article 475(4)(a)	-
56c	The amount required to be deducted from or added to Tier 2 capital (T2) due to the additional filters and deductions that were required prior to the Solvency Regulation	-	Articles 467, 468 and 481	-
57	Total statutory adjustments to Tier 2 capital (T2)	-		-
58	Tier 2 capital (T2)	2,759		1,839
59	Total Capital (TC=T1+T2)	491,065		17,931
59a	Risk-weighted assets concerning amounts to which the treatment prior to the Solvency Regulation and the treatment of the transitional period are applied before they are eliminated in accordance with Regulation (EU) No 575/2013 (i.e. residual amounts in accordance with the Solvency Regulation)	-		-
60	Total risk-weighted assets	2,308,526		-
	Capital ratios and buffers	-		-
61	Common Equity Tier 1 capital (CET1) (as a percentage of the total risk exposure amount)	20,9 %	Article 92(2)(a), Article 465	-
62	Tier 1 capital (T1) (as a percentage of the total risk exposure amount)	21,2 %	Article 92(2)(b), Article 465	-
63	Total Capital (as a percentage of the total risk exposure amount)	21,3 %	Article 92(2)(c)	-
	Capital ratios and buffers	-		-
72	Direct and indirect holdings by the institution of the capital of financial sector entities where the institution does not have a significant investment in those entities (the amount which is lower than the threshold value of 10% and from which acceptable short positions have been deducted)	2,336	Article 36(1)(h), Articles 45 and 46, Article 56(c), Articles 59 and 60, Article 66(c), Articles 69 and 70	-
73	Direct and indirect holdings by the institution of the Common Equity Tier 1 (CET1) instruments of financial sector entities where the institution has a significant investment in those entities (the amount that is lower than the threshold value of 10% and from which acceptable short positions have been deducted)	32,509	Article 36(1)(i), Articles 45 and 48	-

	Applicable caps on the inclusion of provisions in Tier 2	-		-
76	Credit risk adjustments included in the Tier 2 capital (T2) in respect of exposures subject to standardised approach is applied (prior to the application of the cap)	-	Article 62	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	Article 62	-
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013–1 Jan 2022)	-		-
80	Current cap on CET1 instruments subject to phase out arrangements	28,735	Article 484(3), Article 486(2 and 5)	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	11,494	Article 484(3), Article 486(2 and 5)	-
82	Current cap on AT1 instruments subject to phase out arrangements	11,494	Article 484(4), Article 486(3 and 5)	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	4,598	Article 484(4), Article 486(3 and 5)	-
84	Current cap on T2 instruments subject to phase out arrangements	4,598	Article 484(5), Article 486(4 and 5)	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	1,839	Article 484(5), Article 486(4 and 5)	-

NOTE 46 Capital instruments' main features

Commission implementing regulation (EU) No 1423/2013

		Supplementary cooperative capital	Cooperative capital	POP Shares
1	Issuer	Member cooperative banks	Member cooperative banks	Member cooperative banks
2	Unique identifier	Not applicable	Not applicable	Not applicable
3	Governing law(s) of the instrument	Finnish legislation	Finnish legislation	Finnish legislation
4	Transitional CRR rules	Common Equity Tier 1 capital (CET1), Additional Tier 1 capital (AT1), Tier 2 capital (T2)	Common Equity Tier 1 capital (CET1)	Common Equity Tier 1 capital (CET1)
5	Post-transitional CRR rules	Not applicable	Common Equity Tier 1 capital (CET1)	Common Equity Tier 1 capital (CET1)
6	Eligible at solo/(sub-) consolidated/solo &(sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type	Regulation (EU) No 575/2013 article 484	Regulation (EU) No 575/2013 article 29	Regulation (EU) No 575/2013 article 29
8	Amount recognised in regulatory capital (currency in millions on the latest reporting date)	26.9	8.8	43.5
9	Nominal amount of the instrument	37.5	9.1	43.5
9a	Issue price	100%	100%	100%
9b	Redemption price	100%	100%	100%
10	Accounting classification	Cooperative's share	Cooperative's share	Cooperative's share
11	Original date of issuance	Continuous	Continuous	Bank specific
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes

15	Optional call date, contingent call dates and redemption amount	Cooperative banks refund unit holders their supplementary cooperative contributions upon termination of membership or when the unit holder has resigned the contribution. The supplementary contribution is refunded within six 6 months of the end of the financial year based on which the refund can be for the first time. If the refund cannot be made in full, the refund may take place subsequently if it is possible based on the next three financial statements.	The member contribution is refunded after the expiry of membership in accordance with the Co-operatives Act and the Act on Co-operative Banks and Other Credit Institutions in the Form of a Cooperative on conditions laid down in the abovementioned Acts. However, the cooperative bank has the right to refuse to refund the contributions while the bank is operating. If a cooperative bank has not refused to refund the contribution, this may take place within 12 months after the end of the financial year when membership terminated. If the refund cannot be made in full in any given year, the balance will be refunded from disposable cooperative capital based on subsequent financial statements. However, this entitlement to the refund for the balance will terminate after the fifth financial statements. No interest is paid on the unpaid portion.	The cooperative bank refunds POP Share subscription price upon termination of membership or when the when the unit holder has resigned the POP Share. However, the cooperative bank has the right to refuse to refund payments made for POP Shares while the bank is operating. If a cooperative bank has not refused to refund POP Share, this may take place within 12 months after the end of the financial year when the holder of the POP Share resigned the contribution. The payments made for POP Shares are refunded on the conditions laid down in the Co-operatives Act and the Act on Co-operative Banks and Other Credit Institutions in the Form of a Cooperative and these rules. If the refund cannot be made in full in any given year, the balance will be refunded from disposable cooperative capital based on subsequent financial statements. However, this entitlement to the refund for the balance will terminate after the fifth financial statements. No interest is paid on the unpaid portion.
16	Any subsequent redemption dates	See item 15	See item 15	See item 15
17	Fixed or variable dividend/ coupon	Variable	Variable	Variable
18	Coupon interest rate and the related indices	Decision by the cooperative	Decision by the cooperative	Decision by the cooperative
19	Existence of a dividend stopper clause	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary
20b	Fully discretionary, partly discretionary or mandatory (with regard to amount)	Fully discretionary	Fully discretionary	Fully discretionary
21	Existence of a step-up condition or other redemption incentive	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Negotiable or restricted	Restricted	Restricted	Restricted
24	If the instrument is negotiable, which factors affect the condition?	Not applicable	Not applicable	Not applicable
25	If the instrument is negotiable, is it negotiable in its entirety or partly?	Not applicable	Not applicable	Not applicable
26	If the instrument is negotiable, what is the exchange rate?	Not applicable	Not applicable	Not applicable
27	If the instrument is negotiable, is the exchange mandatory or optional?	Not applicable	Not applicable	Not applicable
28	If the instrument is negotiable, specify which kind of an instrument it can be exchanged for.	Not applicable	Not applicable	Not applicable

29	If the instrument is negotiable, specify which issuer's instrument it can be exchanged for.	Not applicable	Not applicable	Not applicable
30	Properties of a write-down of book value	Yes	Yes	Yes
31	If it is possible to write down the book value, which factors trigger it?	Accrual of losses	Accrual of losses	Accrual of losses
32	If it is possible to write down the book value, is it performed completely or partly?	Completely or partly	Completely or partly	Completely or partly
33	If it is possible to write down the book value, is it permanent or temporary?	Temporary	Temporary	Temporary
34	If the write down of the book value is temporary, describe the mechanism of an increase in book value.	Through increase in cooperative capital	Through increase in cooperative capital	Through increase in cooperative capital
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	If a cooperative bank is dissolved either through liquidation or bankruptcy, any supplementary cooperative capital is refunded other cooperative capital or, if the funds are insufficient, that part of supplementary cooperative capital that is proportional to the supplementary cooperative capital paid.	If a cooperative bank is dissolved, supplementary cooperative capital is first refunded and thereafter member cooperative capital and payments made for POP Shares with equal priority.	If a cooperative bank is dissolved, supplementary cooperative capital is first refunded and thereafter member cooperative capital and payments made for POP Shares with equal priority.
36	Non-compliant properties	No	No	No
37	Specify any non-compliant properties	Not applicable	Not applicable	Not applicable

NOTE 47 Minimum capital requirement and risk weighted assets

(EUR 1,000)	Capital requirement 2016	Capital requirement 2015	Risk weighted assets 2016	Risk weighted assets 2015
Credit and counterparty risk by exposure class				
Exposures to central governments or central banks	-	112	-	1,395
Exposures to regional governments or local authorities	16	15	195	191
Exposures to public sector entities	11	72	142	901
Exposures to institutions	1,872	3,360	23,398	41,999
Exposures to corporates	47,248	47,448	590,594	593,100
Retail exposures	24,609	26,902	307,610	336,275
Exposures secured by mortgages on immovable property	60,240	54,687	753,000	683,590
Exposures in default	2,417	2,223	30,214	27,788
Exposures associated with particularly high risk	306	220	3,830	2,755
Exposures in the form of covered bonds	288	378	3,599	4,728
Exposures in the form of units or shares in collective investment undertakings (CIUs)	15,569	11,702	194,611	146,277
Equity exposures	8,016	9,317	100,197	116,464
Other items	6,135	6,629	76,681	82,869
Total credit risk exposures	**166,726**	**163,067**	**2,084,072**	**2,038,332**
Credit valuation adjustment risk (CVA)	**106**	**288**	**1,321**	**3,599**
Market risk (exchange rate risk)	**2,048**	**1,991**	**25,597**	**24,892**
Operational risk	**15,803**	**14,882**	**197,536**	**186,031**
Total	**184,682**	**180,228**	**2,308,526**	**2,252,853**

NOTE 48 Average value of total exposures during the financial period by exposure class

Credit and counterparty risk

Exposure class (EUR 1,000)	2016	2015
Exposures to central governments or central banks	164,957	131,563
Exposures to regional governments or local authorities	136,684	7,006
Exposures to public sector entities	1,000	500
Exposures to international organisations	-	145
Exposures to institutions	139,609	418,605
Exposures to corporates	681,033	630,311
Retail exposures	669,523	464,842
Exposures secured by mortgages on immovable property	2,104,762	1,963,754
Exposures in default	43,452	32,723
Exposures associated with particularly high risk	2,241	1,622
Exposures in the form of covered bonds	29,497	2,104
Exposures in the form of units or shares in collective investment undertakings (CIUs)	257,308	216,373
Equity exposures	53,947	71,334
Other items	102,688	88,985
Total	**4,386,701**	**4,029,867**

NOTE 49 Original exposure by risk weight

Credit and counterparty risk

Risk weight (%) (EUR 1,000)	2016	2015
0	382,009	328,552
10	26,225	47,549
20	161,617	230,661
35	2,178,770	1,974,271
50	41,118	33,647
75	649,527	686,746
100	965,255	941,792
150	26,479	24,284
250	32,509	33,051
350	-	34
Total	**4,463,510**	**4,300,587**

NOTE 50 Distribution of maturities of total exposure by exposure class

Credit and counterparty risk 31 December 2016

Exposure class (EUR 1,000)	Total	less than 3 months	3-12 months
Exposures to central governments or central banks	142,704	51,193	6,412
Exposures to regional governments or local authorities	190,281	345	33
Exposures to public sector entities	-	-	-
Exposures to institutions	109,046	57,386	12,501
Exposures to corporates	678,169	24,450	39,414
Retail exposures	649,527	14,825	18,103
Exposures secured by mortgages on immovable property	2,197,591	18,297	28,867
Exposures in default	40,284	14,826	626
Exposures associated with particularly high risk	2,553	-	-
Exposures in the form of covered bonds	21,953	-	4,099
Exposures in the form of units or shares in collective investment undertakings (CIUs)	287,571	-	-
Equity exposures	51,433	-	-
Other items	92,398	19,239	-
Total	**4,463,510**	**200,562**	**110,054**

Exposure class (EUR 1,000)	1-5 years	5-10 years	over 10 years
Exposures to central governments or central banks	18,506	14,520	52,074
Exposures to regional governments or local authorities	10,578	1,905	177,420
Exposures to public sector entities	-	-	-
Exposures to institutions	5,556	11,178	22,425
Exposures to corporates	171,429	128,249	314,628
Retail exposures	108,978	125,588	382,034
Exposures secured by mortgages on immovable property	214,645	405,893	1,529,888
Exposures in default	4,843	7,100	12,890
Exposures associated with particularly high risk	-	-	2,553
Exposures in the form of covered bonds	16,324	1,530	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	287,571
Equity exposures	-	-	51,433
Other items	67	-	73,091
Total	**550,925**	**695,962**	**2,906,007**

Credit and counterparty risk 31 December 2015

Exposure class (EUR 1,000)	Total	less than 3 months	3-12 months
Exposures to central governments or central banks	215,794	10,593	12,850
Exposures to regional governments or local authorities	54,018	784	4,800
Exposures to public sector entities	4,007	-	-
Exposures to institutions	193,595	94,756	25,092
Exposures to corporates	675,888	16,646	28,542
Retail exposures	686,742	13,232	22,089
Exposures secured by mortgages on immovable property	1,994,040	15,940	24,424
Exposures in default	34,298	13,961	1,329
Exposures associated with particularly high risk	1,837	-	-
Exposures in the form of covered bonds	33,420	-	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	241,189	-	-
Equity exposures	67,724	-	-
Other items	98,035	17,578	-
Total	**4,300,587**	**183,489**	**119,126**

Exposure class (EUR 1,000)	1-5 years	5-10 years	over 10 years
Exposures to central governments or central banks	35,104	32,628	124,619
Exposures to regional governments or local authorities	3,341	19,745	25,348
Exposures to public sector entities	-	-	4,007
Exposures to institutions	4,335	1,081	68,331
Exposures to corporates	182,360	130,825	317,516
Retail exposures	148,140	159,826	343,455
Exposures secured by mortgages on immovable property	205,563	374,469	1,373,644
Exposures in default	4,009	4,992	10,008
Exposures associated with particularly high risk	-	-	1,837
Exposures in the form of covered bonds	33,420	-	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	241,189
Equity exposures	-	-	67,724
Other items	36	-	80,421
Total	**616,308**	**723,566**	**2,658,098**

NOTE 51 Total exposure by exposure class and counterparty

Credit and counterparty risk 31 December 2016

Exposure class (EUR 1,000)	Total	Private	Corporate	- of which SME exposures
Exposures to central governments or central banks	142,704	52,637	5,287	-
Exposures to regional governments or local authorities	190,281	-	1,364	-
Exposures to public sector entities	-	-	-	-
Exposures to institutions	109,046	153	28	-
Exposures to corporates	678,169	74,400	270,286	244,406
Retail exposures	649,527	359,204	120,180	114,728
Exposures secured by mortgages on immovable property	2,197,591	1,754,009	202,031	138,778
Exposures in default	40,284	18,793	15,486	-
Exposures associated with particularly high risk	2,553	-	-	-
Exposures in the form of covered bonds	21,953	-	1,560	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	287,571	-	-	-
Equity exposures	51,433	-	14,461	-
Other items	92,398	-	-	-
Total	**4,463,510**	**2,259,196**	**630,684**	**497,911**

Exposure class (EUR 1,000)	Agriculture	Other
Exposures to central governments or central banks	5,775	79,004
Exposures to regional governments or local authorities	172	188,745
Exposures to public sector entities	-	-
Exposures to institutions	-	108,864
Exposures to corporates	261,946	71,539
Retail exposures	150,801	19,342
Exposures secured by mortgages on immovable property	211,127	30,424
Exposures in default	3,782	2,223
Exposures associated with particularly high risk	-	2,553
Exposures in the form of covered bonds	-	20,393
Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	287,571
Equity exposures	32	36,940
Other items	-	92,398
Total	**633,635**	**939,996**

Credit and counterparty risk 31 December 2015

Exposure class (EUR 1,000)	Total	Private	Corporate	- of which SME exposures
Exposures to central governments or central banks	215,794	128,678	14,613	-
Exposures to regional governments or local authorities	54,018	-	13,778	-
Exposures to public sector entities	4,007	-	-	-
Exposures to institutions	193,595	346	275	-
Exposures to corporates	675,888	77,021	284,506	224,902
Retail exposures	686,742	329,651	152,782	95,632
Exposures secured by mortgages on immovable property	1,994,040	1,566,441	191,140	133,553
Exposures in default	34,298	12,955	15,146	-
Exposures associated with particularly high risk	1,837	-	1,165	-
Exposures in the form of covered bonds	33,420	-	33,420	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	241,189	-	-	-
Equity exposures	67,724	-	24,617	-
Other items	98,035	-	-	-
Total	**4,300,587**	**2,115,094**	**731,441**	**454,086**

Exposure class (EUR 1,000)	Agriculture	Other
Exposures to central governments or central banks	17,657	54,846
Exposures to regional governments or local authorities	1,796	38,443
Exposures to public sector entities	4,007	-
Exposures to institutions	3	192,972
Exposures to corporates	269,124	45,237
Retail exposures	184,137	20,172
Exposures secured by mortgages on immovable property	207,127	29,332
Exposures in default	4,513	1,683
Exposures associated with particularly high risk	-	672
Exposures in the form of covered bonds	-	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	241,189
Equity exposures	38	43,070
Other items	-	98,035
Total	**688,402**	**765,651**

NOTE 52 Geographical breakdown of significant credit exposures

Credit and counterparty risk 31 December 2016

Exposure class (EUR 1,000)	Total	Finland	Other
Exposures to central governments or central banks	142,704	97,013	45,691
Exposures to regional governments or local authorities	190,281	190,281	-
Exposures to public sector entities	-	-	-
Exposures to institutions	109,046	87,232	21,814
Exposures to corporates	678,169	666,294	11,875
Retail exposures	649,527	648,211	1,317
Exposures secured by mortgages on immovable property	2,197,591	2,194,558	3,033
Exposures in default	40,284	40,263	21
Exposures associated with particularly high risk	2,553	2,553	-
Exposures in the form of covered bonds	21,953	6,701	15,252
Exposures in the form of units or shares in collective investment undertakings (CIUs)	287,571	276,294	11,277
Equity exposures	51,433	46,055	5,378
Other items	92,398	92,398	-
Total	**4,463,510**	**4,347,853**	**115,657**

Credit and counterparty risk 31 December 2015

Exposure class (EUR 1,000)	Total	Finland	Other
Exposures to central governments or central banks	215,794	170,688	45,106
Exposures to regional governments or local authorities	54,018	54,018	-
Exposures to public sector entities	4,007	4,007	-
Exposures to institutions	193,595	170,691	22,904
Exposures to corporates	675,888	665,642	10,246
Retail exposures	686,742	685,260	1,482
Exposures secured by mortgages on immovable property	1,994,040	1,990,921	3,119
Exposures in default	34,298	34,265	34
Exposures associated with particularly high risk	1,837	1,837	-
Exposures in the form of covered bonds	33,420	11,742	21,677
Exposures in the form of units or shares in collective investment undertakings (CIUs)	241,189	233,014	8,175
Equity exposures	67,724	60,594	7,130
Other items	98,035	98,035	-
Total	**4,300,587**	**4,180,714**	**119,873**

NOTE 53 Total exposures by exposure class by collateral

Credit and counterparty risk 31 December 2016

Exposure class (EUR 1,000)	Total	Financial collateral	Secured by real estate	Guarantees	Other
Exposures to central governments or central banks	142,704	-	-	-	-
Exposures to regional governments or local authorities	190,281	-	-	-	-
Exposures to public sector entities	-	-	-	-	-
Exposures to institutions	109,046	-	-	-	-
Exposures to corporates	678,169	4,417	-	25,965	275
Retail exposures	649,527	8,797	-	106,701	600
Exposures secured by mortgages on immovable property	2,197,591	-	2,197,591	-	-
Exposures in default	40,284	10	19,698	605	-
Exposures associated with particularly high risk	2,553	-	-	-	-
Exposures in the form of covered bonds	21,953	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	287,571	-	-	-	-
Equity exposures	51,433	-	-	-	-
Other items	92,398	-	-	-	-
Total	**4,463,510**	**13,223**	**2,217,288**	**133,271**	**875**

Credit and counterparty risk 31 December 2015

Exposure class (EUR 1,000)	Total	Financial collateral	Secured by real estate	Guarantees	Other
Exposures to central governments or central banks	215,794	-	-	-	-
Exposures to regional governments or local authorities	54,018	-	-	-	-
Exposures to public sector entities	4,007	-	-	-	-
Exposures to institutions	193,595	-	-	-	-
Exposures to corporates	675,888	5,132	-	26,336	231
Retail exposures	686,742	8,962	-	92,702	1,023
Exposures secured by mortgages on immovable property	1,994,040	-	1,991,922	-	-
Exposures in default	34,298	113	17,892	489	77
Exposures associated with particularly high risk	1,837	-	-	-	-
Exposures in the form of covered bonds	33,420	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	241,189	-	-	-	-
Equity exposures	67,724	-	-	-	-
Other items	98,035	-	-	-	-
Total	**4,300,587**	**14,207**	**2,009,814**	**119,527**	**1,330**

NOTE 54 Collateral used in capital adequacy

The following collateral specified in the EU Capital Requirements Regulation No 575/2013 are utilised in capital adequacy calculations: residential real estates and shares entitling their holders to the possession of an apartment, deposits and securities. Deposits and securities are financial collateral, as referred to in the regulatory framework. Financial collateral has been treated using the comprehensive method and volatility adjustments specified by the supervisor.

In addition, approved guarantors specified in the EU's Capital Requirements Regulation are used in the standardised approach for credit risk. The Finnish State is the most significant individual guarantor. Credit derivatives have not been used in the calculation. Offsetting balance-sheet or off-balance-sheet items has not been applied in capital adequacy measurement.

NOTE 55 Degree of asset encumbrance

Assets 31 Dec 2016

(EUR 1,000)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the institution	**28,502**		**4,201,422**	
Equity instruments	-	-	337,990	338,063
Debt securities	28,502	28,502	387,797	387,797
Other assets	-		3,475,635	

Collateral received 31 Dec 2016

The bank did not have encumbered collateral received or own debt securities issued as of December 31 2016. The bank did neither have collateral received or own securities issued that would have been available for encumbrance.

Encumbered assets/collateral received and debts relating to them 31 Dec 2016

(EUR 1,000)	Financing obtained against encumbered asset items (liabilities), contingent liabilities or borrowed securities	Assets, collateral received and debt securities other than covered bonds and asset-backed securities encumbered
Carrying amount of selected financial liabilities	-	28,502

Information about the importance of asset encumbrance

The Bank has used collateral of securities in the balance with a carrying amount of EUR 28,501,936.

Information is as of December 31 2016.

Assets 31 Dec 2015

(EUR 1,000)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the institution	**29,141**		**4,035,079**	
Equity instruments	-	-	309,270	309,368
Debt securities	29,141	29,209	288,664	286,403
Other assets	-		3,437,145	

Collateral received 31 Dec 2015

The bank did not have encumbered collateral received or own debt securities issued as of December 31 2015. The bank did neither have collateral received or own securities issued that would have been available for encumbrance.

Encumbered assets/collateral received and debts relating to them 31 Dec 2015

(EUR 1,000)	Financing obtained against encumbered asset items (liabilities), contingent liabilities or borrowed securities	Assets, collateral received and debt securities other than covered bonds and asset-backed securities encumbered
Carrying amount of selected financial liabilities	-	29,141

Information about the importance of asset encumbrance

The Bank has used collateral of securities in the balance with a carrying amount of EUR 29,140,738.

Information is as of December 31 2015.

NOTE 56 Operational risk statement

Operational risk capital requirement 31 Dec 2016

(EUR 1,000)	2016	2015	2014	Capital requirement
Gross income total	117,625	100,821	97,612	
Profit indicator	17,644	15,123	14,642	15,803

Operational risk capital requirement 31 Dec 2015

(EUR 1,000)	2015	2014	2013	Capital requirement
Gross income total	100,821	97,612	-	
Profit indicator	15,123	14,642	-	14,882

Profit indicator is calculated according to the basic indicator approach described in the EU:s Capital Requirements Regulation No 575/2013.

Minimum capital requirement = sum of yearly positive profit indicators / sum of the years the profit indicator has been positive.

Operational risks refer to the risk of loss that banks may incur as a result of inadequate or incomplete internal processes, personnel, systems or external factors.

NOTE 57 Leverage ratio

31 Dec 2016

Reconciliation of leverage ratio and balance sheet		(EUR 1,000)
1	Total assets as per published financial statements	4,229,924
4	Adjustments for derivative financial instruments	225
6	Adjustment for off-balance sheet items	72,499
7	Other adjustments	-11,085
8	**Total leverage ratio exposures**	**4,291,563**

Disclosure of leverage ratio		
		CRR leverage ratio exposures
Balance sheet exposures (excluding derivative contracts, SFTs)		
1	On-balance sheet items (excluding derivative contracts, SFTs and fiduciary assets, but including collateral)	4,220,064
3	**Total on-balance sheet exposures (excluding derivative contracts, SFTs and fiduciary assets)**	**4,220,064**
Derivative contracts		
4	Derivative contracts: market value	4,020
5	Derivative contracts: mark-to-market method	225
11	**Total derivative contracts**	**4,245**
Other off-balance-sheet exposures		
17	Off-balance sheet exposures at gross notional amount	217,534
18	(Adjustments for conversion to credit equivalent amounts)	-145,035
19	**Other off-balance-sheet exposures**	**72,499**
Capital and total exposures		
20	**Tier 1 capital**	**488,307**
21	**Total leverage ratio exposures**	**4,291,563**
Leverage ratio		
22	**Leverage ratio**	**11.4%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	24,138

Balance sheet exposures total (excluding derivative contracts, SFTs and exempted exposures)		
		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivative contracts, SFTs and exempted exposures), of which:	4,220,064
EU-3	Banking book exposures, of which:	4,220,064
EU-4	Covered bonds	21,953
EU-5	Exposures treated as sovereigns	444,150
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	1,468
EU-7	Institutions	102,872
EU-8	Secured by mortgages of immovable properties	2,151,290
EU-9	Retail exposures	423,300
EU-10	Exposures to corporates	614,905
EU-11	Exposures in default	26,640
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	433,485

31 Dec 2015

Reconciliation of leverage ratio and balance sheet		(EUR 1,000)
1	Total assets as per published financial statements	4,064,220
4	Adjustments for derivative financial instruments	688
6	Adjustment for off-balance sheet items	225,968
7	Other adjustments	-6,928
8	**Total leverage ratio exposures**	**4,283,948**

Disclosure of leverage ratio		
		CRR leverage ratio exposures
Balance sheet exposures (excluding derivative contracts, SFTs)		
1	On-balance sheet items (excluding derivative contracts, SFTs and fiduciary assets, but including collateral)	4,050,415
3	**Total on-balance sheet exposures (excluding derivative contracts, SFTs and fiduciary assets)**	**4,050,415**
Derivative contracts		
4	Derivative contracts: market value	7,165
5	Derivative contracts: mark-to-market method	400
11	**Total derivative contracts**	**7,565**
Other off-balance-sheet exposures		
17	Off-balance sheet exposures at gross notional amount	225,968
18	(Adjustments for conversion to credit equivalent amounts)	-
19	**Other off-balance-sheet exposures**	**225,968**
Capital and total exposures		
20	**Tier 1 capital**	**466,087**
21	**Total leverage ratio exposures**	**4,283,948**
Leverage ratio		
22	**Leverage ratio**	**10.9%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	45,696

Balance sheet exposures total (excluding derivative contracts, SFTs and exempted exposures)		
		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivative contracts, SFTs and exempted exposures), of which:	4,050,415
EU-3	Banking book exposures, of which:	4,050,415
EU-4	Covered bonds	33,420
EU-5	Exposures treated as sovereigns	371,389
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	4,507
EU-7	Institutions	178,706
EU-8	Secured by mortgages of immovable properties	1,950,129
EU-9	Retail exposures	461,144
EU-10	Exposures to corporates	618,704
EU-11	Exposures in default	24,581
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	407,835

Disclosure of qualitative aspects of leverage ratio		
1	Description of the processes used to manage the risk of excessive leverage	The risk of excessive leverage of the amalgamation is assessed by frequent monitoring of the leverage ratio. In the amalgamation, no target level has been set for the leverage ratio.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	The leverage ratio increased by 0.5 percentage points compared to the last financial period. The increase is especially due to growth in the amalgamation's own funds, which was impacted mostly by the issuance of new POP Shares and profit for the financial year 2015.

NOTE 58: Shareholdings not included in the trading book

31 Dec 2016

Share breakdown (EUR 1,000)	Market value	Balance sheet value
Listed shares	9,777	9,777
Unlisted shares	38,337	38,315
Total	**48,114**	**48,092**

Diversified distribution of shares (EUR 1,000)	
Listed shares	9,777
Necessary for operations	35,780
Shares in subsidiaries and participating interest	335
Other unlisted shares	2,200
Total	**48,092**

Capital gains and losses (EUR 1,000)	Gains	Losses	Total
Share/cooperative capital	6,193	-2,619	3,575

Fair value reserve (EUR 1,000)		
Fair value reserve balance at 1 Jan 2016 (gross)		3,318
Fair value increases	22,370	
Fair value decreases	-11,541	
Transferred from fair value reserve to the income statement	-5,018	
Total changes in fair value reserve 1 Jan-31 Dec 2016		5,811
Fair value reserve balance at 31 Dec 2016 (gross)		**9,129**

31 Dec 2015

Share breakdown (EUR 1,000)	Market value	Balance sheet value
Listed shares	16,546	16,546
Unlisted shares	50,670	50,572
Total	**67,216**	**67,119**

Diversified distribution of shares (EUR 1,000)	
Listed shares	16,546
Necessary for operations	48,418
Shares in subsidiaries and participating interest	335
Other unlisted shares	1,819
Total	**67,119**

Capital gains and losses (EUR 1,000)	Gains	Losses	Total
Share/cooperative capital	9,078	-2,067	7,011

Fair value reserve (EUR 1,000)		
Fair value reserve balance at 1 Jan 2015 (gross)		500
Fair value increases	29,659	
Fair value decreases	-20,519	
Transferred from fair value reserve to the income statement	-6,321	
Total changes in fair value reserve 1 Jan-31 Dec 2015		2,819
Fair value reserve balance at 31 Dec 2015 (gross)		**3,318**

ADDITIONAL FINANCIAL INFORMATION

NOTE 59 Additional Financial Information

The additional financial information included in the IFRS financial statements of the POP Bank Group has been prepared for the period preceding the formation of the amalgamation of POP Banks, at which time POP Banks acted as a single bank group but were not legally liable for each other's commitments. The purpose of the additional financial information is to provide the market with useful information so that credit rating agencies, investors and other stakeholders can obtain a correct and sufficient view of the profitability of the operations of the POP Bank Group, formation of earnings and the financial position of the Group.

This Note presents the POP Bank Group's consolidated financial statements for the comparison period 1 January - 31 December 2015. The information presented in additional financial information corresponds to the information presented as additional financial infomration in financial statements 31 December 2015 and the information has been prepared in accordance with the accounting policies presented in Note 2. The Group adopted IFRS on 1 January 2014.

The additional financial information has been prepared by consolidating the audited separate financial statements of the compa- nies and entities included in the POP Bank Group. The information presented as additional financial information has been pre- pared under the "combined financial statement" principle, in which the historical additional financial information of the companies and entities have been combined into a single entity and eliminations of intra-group items and adjustments due to the application of IFRS have been made to them. The preparation of the consolidated financial statements as a single entity is based on the "common management" concept as the POP Bank Group has operated under joint management, applying joint financial statement processes even though the Group was not under joint control. The balance sheet of the official financial statements at 31 December 2015 corresponds to the balance sheet at 31 December 2015 presented in the additional financial information.

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NOTE 59.1 POP Bank Group's Income Statement

(EUR 1,000)	Note	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Interest income		80,324	82,674
Interest expenses		-17,907	-21,437
Net interest income	**59.9**	**62,417**	**61,237**
Net commissions and fees	59.10	28,369	30,233
Net trading income	59.11	542	539
Net investment income	59.12	8,945	2,684
Net incom from non-life insurance	59.13	8,078	5,232
Other operating income	59.14	6,501	3,366
Total operating income		**114,851**	**103,292**
Personnel expenses	59.15	-40,062	-37,121
Other operating expenses	59.16	-45,672	-43,353
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	59.17	-5,429	-5,834
Total operating expenses		**-91,162**	**-86,308**
Impairment losses on loans and receivables	59.20	-6,731	-4,961
Profit before tax		**16,958**	**12,023**
Income tax expense	59.18	-6,618	-3,613
Profit for the financial year		**10,340**	**8,411**
Attributable to			
Equity owners of the POP Bank Group		10,260	8,538
Non-controlling interests		80	-127
Total		**10,340**	**8,411**

NOTE 59.2 POP Bank Group's Statement of Other Comprehensive Income

(EUR 1,000)	Note	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Profit for the financial year		10,340	8,411
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans	59.28	-135	-894
Items that may be reclassified to profit or loss			
Changes in fair value reserve			
Available-for-sale financial assets	59.26	6,434	1,312
Other comprehensive income for the financial period		**16,639**	**8,829**
Other comprehensive income for t he financial period attributable to			
Other comprehensive income for the financial period attributable to owners of the POP Bank Group		16,559	8,984
Other comprehensive income for the financial period attributable to non-controlling interests		80	-155
Total other comprehensive income for the financial year		**16,639**	**8,829**

NOTE 59.3 POP Bank Group's Balance Sheet

(EUR 1,000)	Note	31 Dec 2016	31 Dec 2015*
Assets			
Liquid assets		99,174	172,899
Financial assets at fair value through profit or loss		1,681	3,383
Loans and receivables from credit institutions	59.20	73,515	129,327
Loans and receivables from customers	59.20	3,188,681	3,013,972
Derivative contracts		2,541	5,356
Investment assets	59.21	754,362	635,904
Non-life insurance assets		42,915	37,610
Intangible assets	59.22	13,566	15,839
Property, plant and equipment	59.23	35,604	39,796
Other assets		15,459	13,582
Tax assets	59.24	1,920	3,967
Total assets		**4,229,417**	**4,071,635**
Liabilities			
Liabilities to credit institutions		11,385	112,783
Liabilities to customers		3,505,090	3,342,813
Non-life insurance liabilities		32,420	27,567
Debt securities issued to the public		100,220	24,188
Supplementary cooperative capital	59.25	37,512	58,231
Other liabilities		52,764	57,056
Tax liabilities	59.24	27,006	25,281
Total liabilities		**3,766,396**	**3,647,918**
Equity capital			
Cooperative capital			
Cooperative contributions		9,051	8,904
POP Shares		43,508	17,904
Total cooperative capital	**59.26**	**52,559**	**26,809**
Reserves	59.26	155,086	156,081
Retained earnings	59.26	254,913	237,566
Total equity attributable to the owners of the POP Bank Group		**462,558**	**420,455**
Non-controlling interests	59.29	463	3,261
Total equity capital		**463,021**	**423,716**
Total liabilities and equity capital		**4,229,417**	**4,071,635**

*Adjusted see note 59.7

NOTE 59.4 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
Reported balance at 31 Dec 2015	26,809	4,283	151,798	239,831	422,721	3,261	425,982
Error in real estate depreciations*	-	-	-	-2,265	-2,265	-	-2,265
Restated balance at 1 Jan 2016	26,809	4,283	151,798	237,566	420,455	3,261	423,716
Comprehensive income for the financial year							
Profit for the financial year	-	-	-	10,260	10,260	80	10,340
Other comprehensive income	-	6,434	-	-135	6,299	-	6,299
Total comprehensive income for the financial year	**-**	**6,434**	**-**	**10,125**	**16,559**	**80**	**16,639**
Transactions with shareholders							
Increase in cooperative capital	25,750	-	-	-	25,750	-	25,750
Profit distribution	-	-	-	-74	-74	-	-74
Transfer of reserves	-	-	3,135	-3,135	-	-	-
Transactions with shareholders total	**25,750**	**-**	**3,135**	**-3,209**	**25,677**	**-**	**25,677**
Other changes							
Changes in holdings in subsidiaries	-	-	-10,564	10,431	-133	-2,878	-3,011
Other changes total	**-**	**-**	**-10,564**	**10,431**	**-133**	**-2,878**	**-3,011**
Balance at 31 Dec 2016	**52,559**	**10,717**	**144,369**	**254,913**	**462,558**	**463**	**463,021**

*See Note 59.7

The non-controlling interests decreased significantly due to the dissolution of POP Banks' guarantee fund in June 2016 and the refund of cooperative capital to the cooperative banks that remained outside the amalgamation of POP Banks. As a result of dissolution of the guarantee fund, refunded contribution of EUR 8 253 thousand was transferred from funds to retained earnings.

(EUR 1,000)	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
Reported balance at 31 Dec 2014	-	2 971	147 410	235 558	385 939	8 604	394 543
Error in real estate depreciations*	-	-	-	-1 583	-1 583	-	-1 583
Restated balance at 1 Jan 2015	-	2 971	147 410	233 976	384 357	8 604	392 961
Comprehensive income for the financial year							
Profit for the financial year	-	-	-	8 538	8 538	-127	8 411
Other comprehensive income	-	1 312	-	-894	418	-28	390
Total comprehensive income for the financial year	**-**	**1 312**	**-**	**7 644**	**8 956**	**-155**	**8 801**
Transactions with shareholders							
Increase in cooperative capital	17 904	-	-	-	17 904	-	17 904
Transfer of reserves	-	-	2 236	-2 236	-	-	-
Transactions with shareholders total	**17 904**	**-**	**2 236**	**-2 236**	**17 904**	**-**	**17 904**
Other changes							
Changes in holdings in subsidiaries		-	1 816	-1 792	24	-1 383	-1 359
Refund of cooperative capital classified as a liability		-	-	-	-	-2 702	-2 702
Other		-	336	-26	9 215	-1 103	8 111
Other changes total	**8 904**	**-**	**2 152**	**-1 818**	**9 239**	**-5 188**	**4 050**
Balance at 31 Dec 2015	**26 809**	**4 283**	**151 798**	**237 566**	**420 455**	**3 261**	**423 716**

*See Note 59.7

Refund of cooperative capital classified as a liability has been reclassified from non-controlling interests to other liabilities. More details on the reclassification in Note 59.29.

Other changes in cooperative capital is composed of cooperative contributions classified as equity capital.

NOTE 59.5 POP Bank Group's Cash Flow Statement

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Cash flow from operations		
Profit for the financial year	10,340	8,411
Adjustments to profit for the financial year	26,305	19,314
Increase (-) or decrease (+) in operating assets	**-256,264**	**-233,273**
Receivables from credit institutions	39,360	112,561
Receivables from customers	-181,043	-90,118
Investment assets	-121,519	-251,975
Non-life insurance assets	-5,305	-5,849
Other assets	12,243	2,108
Increase (+) or decrease (-) in operating liabilities	**108,417**	**197,728**
Liabilities to credit institutions	-101,398	107,845
Liabilities to customers	165,248	97,868
Increases in debt securities issued to the public	76,032	-
Provisions and other liablilities	-27,257	-1,664
Income tax paid	-4,208	-6,322
Total cash flow from operations	**-111,202**	**-7,821**
Cash flow from investing activities		
Increases in held-to-maturity financial assets	-	-313
Decreases in held-to-maturity financial assets	-	3,568
Increases in other investments	15,060	-1,525
Purchase of PPE and intangible assets	-7,848	-10,693
Proceeds from sale of PPE and intangible assets	3,953	2,881
Net cash used in investing activities	**11,164**	**-6,082**
Cash flow from financing activities		
Decreases in subordinated liabilities	-	-2,223
Osuuspäoman lisäykset	12,958	6,652
Interests paid on cooperative capital and other profit distribution	-74	-
Changes in other equity capital items	-2,822	-150
Net cash used in financing activities	**10,062**	**4 279**
Change in cash and cash equivalents		
Cash and cash equivalents at period-start	236,314	245,939
Cash and cash equivalents at the end of the period	146,338	236,314
Net change in cash and cash equivalents	**-89,976**	**-9,625**

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Interest received	**90,334**	**84,736**
Interest paid	**23,388**	**22,250**
Dividends received	**1,929**	**1,326**

Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on receivables	6,731	4,961
Depreciations	7,040	7 491
Technical provision	5,880	4,861
Other	6,653	2,002
Adjustments to profit for the financial year	**26,305**	**19 314**

Cash and cash equivalents		
Liquid assets	99 174	172,899
Receivables from credit institutions payable on demand	47,164	63,415
Total	**146 338**	**236,314**

NOTES CONCERNING THE PREPARATION OF THE FINANCIAL STATEMENTS

Note 59.6 Accounting Policies of Additional Financial Information

Additional financial information has been prepared in accordance to the POP Bank Group's accounting policies under IFRS presented in Note 2. Additional financial information is covered in section 15. Additional financial information of Note 2. POP Bank Group adopted IFRS in 1 January 2014.

CORRECTION OF AN ERROR AFFECTING PREVIOUS PERIODS

Note 59.7 Error in Depreciations on Real Estate Assets, which Affects Previous Periods

Due to an accounting error in consolidating real estate entities, the depreciations on real estate assets were understated in Financial Statements 31 December 2015. The reported equity capital of the POP Bank Group 31 December was EUR 2 265 thousands overstated. The effect on the profit for the period 1 January - 31 December 2015 presented as additional financial information was EUR 683 thousand.

The error has been corrected retrospectively in accordance with the requirements of Standard IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors by adjusting the financial statements as follows:

31 December 2015

(EUR 1,000)	Reported	Adjustment	Adjusted
Investment assets	637,308	-1,403	635,904
Property, plant and equipment	41,224	-1,428	39,796
Tax assets	3,401	566	3,967
Retained earnings	239,831	-2,265	237,566
Total equity capital			
Total equity attributable to the owners of the POP Bank Group	422,721	-2,265	420,455
Non-controlling interests	3,261	-	3,261

1 January-31 December 2015

(EUR 1,000)	Reported	Adjustment	Adjusted
1 January 2015			
Investment assets	388,668	-861	387,807
Property, plant and equipment	42,400	-1,118	41,282
Tax assets	2,574	396	2,969
Retained earnings	235,558	-1,583	233,976
Total equity capital			
Total equity attributable to the owners of the POP Bank Group	385,939	-1,583	384,356
Non-controlling interests	8,604	-	8,604
Impact on the income statement 1 Jan-31 Dec 2015			
Net investment income	3,226	-543	2,684
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-5,523	-311	-5,834
Income tax expense	-3,783	171	-3,613
Profit for the period	9,093	-683	8,411

The adjustment had no material effect on capital adequacy ratios of the amalgamation of POP Banks 31 December 2015

NOTES ON OPERATING SEGMENTS

Note 59.8 POP Bank Group's operating segments

The operating segments of POP Bank Group are banking and insurance. The operating segments are reported in a way that is consistent with the internal reporting to the management. The reporting of operating segments complies with the accounting policies applied to the Group's IFRS financial statements. The policies are presented in note 2 for the Financial statements. The chief operating decision maker of the POP Bank Group is the Board of Directors of the Group's central institution POP Bank Alliance Coop. The central institution is responsible for the allocation of resources and assessing the profitability of operations.

The Banking segment includes the member cooperative banks and Bonum Bank Plc. Cooperative banks engage in retail banking and Bonum Bank Plc acts as their central credit institution. The most significant income items of Banking are net interest income, fee and commission income as well as investment income. The most significant expense items consist of personnel expenses and other operating expenses.

The Insurance segment comprises Finnish P&C Insurance Ltd, a provider of vehicle, property and personal insurance policies to private customers. The most significant income items of Insurance are insurance premium revenue and net investment income. The most significant expense items of Insurance consist of personnel expenses and other operating expenses.

Internal transactions between banks included in the Banking segment are eliminated in segment reporting. Pricing between segments is based on market prices. Transactions between the Banking segment and the Insurance segment are included in eliminations presented with reconciliations. Unallocated items include income statement and balance sheet items related to other operations. Other operations include POP Holding Ltd, POP Bank Alliance Coop and POP Banks' guarantee fund, which was dissolved during the financial year.

POP BANK GROUP'S OPERATING SEGMENTS 2016

Income statement 1 January–31 December 2016

(EUR 1,000)	Banking	Insurance	Segments total
Net interest income	62,688	-	62,688
Net commissions and fees	22,491	-	22,491
Net trading income	542	-	542
Net investment income	7,080	-	7,080
Net income from non-life insurance	-	8,069	8,069
Other operating income	16,325	-	16,325
Total operating income*	**109,125**	**8,069**	**117,194**
Personnel expenses	-30,097	-6,514	-36,611
Other operating expenses	-38,940	-3,480	-42,420
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-3,515	-1,328	-4,843
Total operating expenses	**-72,552**	**-11,322**	**-83,874**
Impairment losses on loans and receivables	-6,731	-	-6,731
Profit before tax	**29,842**	**-3,253**	**26,590**
Income tax expense	-6,778	-1	-6,779
Profit for the period	**23,064**	**-3,254**	**19,810**

*of which external	109,125	8,069	117,194
of which internal	-	-	-

Profit of the banking segment includes the funds of EUR 10.0 million refunded to member banks when the POP Banks guarantee fund was dissolved. Dissolving is an internal arrangement, so it is not included in the Group's profit. The tax effect of EUR -2 million is included in Group's profit.

Balance Sheet 31 December 2016

(EUR 1,000)	Banking	Insurance	Segments total
Assets			
Liquid assets	99,174	-	99,174
Financial assets at fair value through profit or loss	1,681	-	1,681
Loans and receivables from credit institutions	68,611	8,676	77,287
Loans and receivables from customers	3,216,152	-	3,216,152
Derivative contracts	2,541	-	2,541
Investment assets	829,085	-	829,085
Non-life insurance assets	-	42,915	42,915
Intangible assets	4,947	7,726	12,674
Property, plant and equipment	32,781	43	32,824
Other assets	15,311	103	15,414
Tax assets	966	-	966
Total assets	**4,271,248**	**59,462**	**4,330,711**
Liabilities			
Liabilities to credit institutions	11,385	-	11,385
Liabilities to customers	3,510,967	-	3,510,967
Non-life insurance liabilities	-	32,420	32,420
Debt securities issued to the public	100,220	-	100,220
Supplementary cooperative capital	37,512	-	37,512
Other liabilities	64,018	1,815	65,832
Tax liabilities	26,746	260	27,006
Total liabilities	**3,750,847**	**34,495**	**3,785,342**

THE POP BANK GROUP'S OPERATING SEGMENTS 2015

Income statement 1 January–31 December 2015

(EUR 1,000)	Banking	Insurance	Segments total
Net interest income	61,618	-	61,618
Net commissions and fees	27,523	-	27,523
Net trading income	539	-	539
Net investment income	3,774	-	3,774
Net income from non-life insurance	-	5,155	5,155
Other operating income	5,065	-	5,065
Total operating income*	**98,519**	**5,155**	**103,674**
Personnel expenses	-29,040	-5,347	-34,388
Other operating expenses	-38,831	-3,740	-42,571
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-4,222	-1,294	-5,516
Total operating expenses	**-72,094**	**-10,381**	**-82,475**
Impairment losses on loans and receivables	-4,961	-	-4,961
Profit before tax	**21,464**	**-5,226**	**16,238**
Income tax expense	-3,823	-3	-3,826
Profit (loss)	**17,641**	**-5,229**	**12,412**

*of which external	98,519	5,155	103,674
of which internal	-	-	-

Balance Sheet 31 December 2015

(EUR 1,000)	Banking	Insurance	Segments total
Assets			
Liquid assets	172,899	-	172,899
Financial assets at fair value through profit or loss	3,383	-	3,383
Loans and receivables from credit institutions	128,780	3,483	132,263
Loans and receivables from customers	3,029,032	-	3,029,032
Derivative contracts	5,356	-	5,356
Investment assets	686,487	-	686,487
Non-life insurance assets	-	37,610	37,610
Intangible assets	6,547	8,885	15,432
Property, plant and equipment	32,766	57	32,824
Other assets	13,293	162	13,455
Tax assets	3,266	56	3,322
Total assets	**4,081,809**	**50,252**	**4,132,062**
Liabilities			
Liabilities to credit institutions	112,658	-	112,658
Liabilities to customers	3,347,181	-	3,347,181
Non-life insurance liabilities	-	27,567	27,567
Debt securities issued to the public	24,188	-	24,188
Supplementary cooperative capital	58,231	-	58,231
Other liabilities	54,151	1,752	55,903
Tax liabilities	24,995	153	25,149
Total liabilities	**3,621,404**	**29,473**	**3,650,876**

RECONCILIATIONS

Income

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Segments' total income	117,194	103,674
Unallocated income, other functions	6,804	4,085
Eliminations of internal items between segments and other functions	-9,148	-4,467
Group's total income	**114,851**	**103,292**

Result

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Segments' total result	19,810	12,412
Unallocated items	-9,470	-4,002
Group's total result	**10,340**	**8,411**

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Assets		
Total assets of the segments	4,330,711	4,132,062
Eliminations of internal items between segments	-4,135	-3,321
Unallocated assets, other functions	99,091	127,489
Eliminations of internal items between segments and other functions	-196,249	-184,595
Group's total assets	**4,229,417**	**4,071,635**
Liabilities		
Segments' total liabilities	3,785,342	3,650,876
Eliminations of internal items between segments	-4,135	-3,321
Unallocated liabilities, other functions	-46,523	19,445
Eliminations of internal items between segments and other functions	31,712	-19,082
Group's total liabilities	**3,766,396**	**3,647,918**

NOTES TO INCOME STATEMENT

Note 59.9 Net Interest Income

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Interest Income		
Loans and advances to credit institutions	745	2,123
Loans and advances to customers*	71,280	72,060
Debt securities	4,142	4,211
Hedging derivatives	3,224	3,387
Other interest income	932	894
Total interest income	**80,324**	**82,674**
Interest expenses		
Liabilities to credit institutions	-408	-734
Liabilities to customers	-16,569	-20,110
Debt securities issued to the public	-835	-401
Hedging derivatives	-1	-97
Subordinated liabilities	-	-12
Other interest expenses	-93	-82
Total interest expenses	**-17,907**	**-21,437**
Net interest income	**62,417**	**61,237**
*Impaired loans	847	453

Negative interest rates did not have a significant effect on the interest income or expenses.

NOTE 59.10 Net Commissions and Fees

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Commissions and fees		
Lending	7,774	7,559
Card business	4,523	2,634
Deposits	459	365
Payment transfers	11,060	10,650
Legal services	1,958	1,839
Intermediated services	3,672	2,714
Issuing guarantees	437	545
Funds	1,914	1,966
Other commission income	1,263	4,194
Total commissions and fees	**33,060**	**32,467**
Commissions expenses		
Card business	-1,575	-1,135
Payment transfers	-1,209	-840
Other commission expenses	-1,907	-259
Total commission expenses	**-4,691**	**-2,234**
Net commissions and fees	**28,369**	**30,233**

The grouping of net commission and fees has been changed to better represent the business activities. Grouping changes have also affected to comparison period.

Note 59.11 Net Trading Income

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Net income from hybrid instruments		
Capital gains and losses	4	17
Fair value gains and losses	256	187
Net income from foreign exchange operation	308	335
Net income from hedge accounting		
Change in the fair value of hedging instruments	-2,175	-2,456
Change in the fair value of hedged instruments	2,149	2,456
Net trading income	**542**	**539**

NOTE 59.12 Net Investment Income

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Net income from available-for-sale financial assets		
Debt securities		
Capital gains and losses	-7	-19
Impairment losses	1	-47
Transferred from fair value reserve	1,281	670
Debt securities	**1,275**	**603**
Shares and participations		
Dividend income	1,914	1,326
Capital gains and losses	-203	821
Impairment losses	-1,453	-5,233
Transferred from fair value reserve	7 339	6,321
Total shares and participations	**7,598**	**3,235**
Total net income from available-for-sale financial assets	**8,873**	**3,838**
Net income from investment property		
Rental income	4,279	4,396
Capital gains and losses	-3	-292
Other income from investment property	94	103
Maintenance charges and expenses	-2,674	-3,500
Depreciations and amortisation of investment property	-1,611	-1,855
Other expenses from investment property	-12	-7
Total net income from investment property	**72**	**-1,155**
Total net investment income	**8,945**	**2,684**

*Adjusted see Note 59.7

Net income from shares and participations includes EUR 1,479 thousand from Visa transaction transferred from fair value reserve.

NOTE 59.13 Net Income from Non-life Insurance

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Insurance premium revenue		
Premiums written	34,585	30,429
Change in the provision for unearned premiums	-939	-949
Gross insurance premium revenue	**33,646**	**29,480**
Ceded to reinsurers	-667	-1,386
Total insurance premium revenue	**32,980**	**28,094**
Claims incurred		
Claims paid	-21,505	-20,345
Change in provision for unpaid claims	-4 822	-2,476
Total claims incurred, gross	**-26 327**	**-22,821**
Ceded to reinsurers	1 064	-50
Total claims incurred	**-25,263**	**-22,871**
Net investment income	361	9
Total net income from non-life insurance	**8,078**	**5,232**

Net investment income from non-life insurance

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Net income from available-for-sale financial assets		
Debt securities		
Interest income	150	46
Capital gains and losses	34	32
Transfers from fair value reserve	2	-
Total debt securities	**186**	**78**
Shares and participations		
Dividend icome	7	-
Capital gains and losses	164	-69
Transfers from fair value reserve	13	-
Total shares and participations	**183**	**-69**
Total net income from available-for-sale financial assets	**369**	**9**
Other investment income and expenses		
Interest income	54	50
Interest expenses	-1	-2
Other investment income	21	21
Investment income management expenses	-83	-68
Other investment income and expenses total	**-8**	**1**
Total net investment income from non-life insurance	**361**	**9**

The net investment income of the investment activities of the non-life insurance company includes all income and expenses from investments.

Insurance category-specific information 2016

(EUR 1,000)		Premiums written before share ceded to reinsurers	Insurance premium revenue before share ceded to reinsurers	Claims incurred before share ceded to reinsurers	Operating expenses before reinsurers' commissions and shares of profit	Ceded to reinsurers	Balance on technical account before change in equalisation provisions
Other accident and health	2016	973	899	-613	-318	-14	-46
	2015	775	734	-497	-265	-16	-43
Motor vehicle third party	2016	20,358	20,177	-14,458	-6,663	411	-533
	2015	18,574	17,803	-10,752	-6,337	-1,264	-550
Land vehicles	2016	10,320	9,891	-8,890	-3,378	-7	-2,384
	2015	8,796	8,756	-9,553	-3,001	-7	-3,804
Vessels, aircraft, rail stock and transport	2016	484	450	-436	-158	-4	-149
	2015	378	351	-352	-129	-5	-135
Fire and other property loss	2016	1,876	1,699	-1,656	-614	8	-564
	2015	1,449	1,400	-1,109	-494	-121	-324
Third party	2016	168	155	-63	-55	1	38
	2015	133	126	-408	-45	-7	-334
Legal expenses	2016	250	230	-150	-82	2	0
	2015	198	191	-119	-68	-10	-6
Other	2016	156	145	-60	-51	1	34
	2015	126	119	-32	-43	-6	37
Direct insurance total	**2016**	**34,585**	**33,646**	**-26,327**	**-11,319**	**397**	**-3,603**
	2015	**30,429**	**29,480**	**-22,821**	**-10,381**	**-1,436**	**-5,158**
Reinsurance	2016	-	-	-	-	-	-
	2015	-	-	-	-	-	-
Total	**2016**	**34,585**	**33,646**	**-26,327**	**-11,319**	**397**	**-3,603**
	2015	**30,429**	**29,480**	**-22,821**	**-10,381**	**-1,436**	**-5,158**
Provision for collective guarantee item	2016						-
	2015						-
Change in the equalisation provisions	2016						-
	2015						-
Balance on technical account	**2016**						**-3,603**
	2015						**-5,158**

NOTE 59.14 Other Operating Income

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Rental income from owner-occupied properties	120	188
Capital gains on owner-occupied properties	16	203
Recognition of Deposit Guarantee Fund contribution	2,123	1,747
Other income	4,242	1,228
Total other operating income	**6,501**	**3,366**

Other operating income includes recognition of EUR 2,123 (1,747) thousand of contribution paid to the old Deposit Guarantee Fund. The fee collected by the Financial Stability Board for deposit guarantee purposes will be covered with payments made to the old Deposit Guarantee Fund pursuant to the Credit Institutions Act. Contributions paid to the old fund are recognised as income when the old fund makes a payment to the new fund and the same amount of contribution is recognised in other operating expenses.

Other income includes revenue of EUR 2,528 thousand recognised by POP Banks for the Visa-transaction.

NOTE 59.15 Personnel Expenses

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Wages and salaries	-32,119	-30,170
Indirect personnel expenses	-1,349	-1,155
Pension expenses		
Defined contribution plans	-6,668	-6,178
Defined benefit plans	75	382
Total personnel expenses	**-40,062**	**-37,121**

Remuneration of personnel (Pillar III information on remuneration)

Fixed remuneration and variable remuneration

	Number of personnel		Fixed wages and salaries		Variable remuneration	
Employee group	2016	2015	2016	2015	2016	2015
Management	6	6	799	629	-	-
Risk-takers	105	84	9,095	5,443	264	122
Other personnel	630	605	20,849	23,084	1,112	893
Total	**741**	**695**	**30,743**	**29,155**	**1,376**	**1,014**

Remuneration by business area 2016

	Banking	Insurance	Other operations	Total
Fixed wages and salaries	23,529	4,371	2,844	30,743
Variable remuneration	511	865	-	1,376
Total remuneration	**24,040**	**5,236**	**2,844**	**32,119**

Remuneration by business area 2015

	Banking	Insurance	Other operations	Total
Fixed wages and salaries	23,356	3,777	2,022	29,155
Variable remuneration	456	559	-	1,014
Total remuneration	**23,812**	**4,336**	**2,022**	**30,170**

Remuneration to related parties is presented in Note 59.30.

The amalgamation of POP Banks did not pay signing bonuses or redundancy payments to risk-takers in 2016. Redundancy payments were defined to five risk-takers.

The amalgamation of POP Banks has not paid compensation of over EUR 1 million in 2016 or such variable remunerations, that should be delayed.

Other information about remuneration is presented in Note 3.

NOTE 59.16 Other Operating Expenses

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Other administrative expenses		
Other personnel expenses	-3,010	-2,889
Office expenses	-4,129	-6,323
ICT expenses	-19,129	-13,146
Telecommunications	-3,030	-2,618
Entertainment and marketing expenses	-5,050	-5,143
Other administrative expenses total	**-34,347**	**-30,119**
Other operating expenses		
Rental expenses	-2,039	-1,847
Expenses arising from owner-occupied properties	-3,765	-3,652
Capital losses on owner-occupied properties	-22	-29
Insurance and security expenses	-2,869	-2,453
Audit fees	-427	-290
Other services	-706	-1,020
Other operating expenses	-1,497	-3,944
Other operating expenses total	**-11,325**	**-13,234**
Total other operating expenses	**-45,672**	**-43,353**

Audit fees		
Statutory audit	-329	-217
Audit-related services	-11	-47
Tax advisory	-4	-2
Other expert services	-83	-23
Total audit fees	**-427**	**-290**

Insurance and security expenses includes EUR 2,123 (1,747) thousand of contribution collected by the Financial Stability Board for the deposit guarantee fund. Contributions of the old Deposit Guarantee Funs recognised as income are presented in other operating income.

NOTE 59.17 Depreciation, Amortisation and Impairment of Property, Plant and Equipment and Intangible Assets

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Depreciation and amortisation on property, plant and equipment and intangible assets		
Buildings	-1,169	-1,260
Machinery and equipment	-970	-1,128
Intangible assets	-2,551	-2,069
Other	-810	-1,222
Total depreciation and amortisation of property, plant and equipment and intangible assets	**-5,500**	**-5,679**
Impairment losses on property, plant and equipment		
Owner-occupied properties	71	-155
Impairment losses on property, plant and equipment total	**71**	**-155**
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets total	**-5,429**	**-5,834**

*Adjusted see Note 59.7

NOTE 59.18 Income Tax

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Current tax	-6,257	-3,840
Tax for prior financial years	12	-28
Other direct taxes	-131	-16
Change in deferred taxes	-240	271
Total income tax expense	**-6,618**	**-3,613**

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

Profit before tax	16,958	12,023
Income tax rate	20%	20%
Tax calculated at the tax rate	-3,392	-2,405
+ Tax-exempt income	93	211
- Non-deductible expenses	-570	-166
- Taxable earnings not included in the profit	-2,006	-
+ Deductible expenses not included in the profit	16	210
+ Use of tax losses carried forward from previous years	-2	34
- Deferred tax assets not recognised on losses	-731	-1,228
+/- Difference due to the differing tax rate of foreign companies	42	-226
+/- Other	51	-
+/- Tax for prior financial years	12	-28
+/- Other direct taxes	-131	-16
Tax expense in the income statement	**-6,618**	**-3,613**

NOTE 59.19 Net Income and Expenses for Financial Assets and Financial Liabilities by Measurement Category

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Financial assets at fair value through profit or loss		
Interest income	129	162
Fair value gains and losses	74	-82
Capital gains and losses	4	17
Total income and expenses from financial assets at fair value t hrough profit or loss	**206**	**98**
Available-for-sale financial assets		
Interest income and expenses	4,624	4,368
Transferred from fair value reserve	9,621	7,207
Dividend income	1,921	1,326
Capital gains and losses	-851	549
Impairment losses	-1,421	-5,281
Income and expenses from available-for-sale financial assets	**13,894**	**8,169**
Held-to-maturity assets		
Interest income	-	246
Income and expenses from held-to-maturity assets	**-**	**246**
Loans and receivables		
Interest income	71,619	73,714
Other income	9,537	8,630
Impairment of loans and receivables	-6,731	-4,961
Total net income on loans and receivables	**74,426**	**77,384**
Other financial liabilities		
Interest expenses	-17,906	-21,419
Other expenses	-83	-68
Total income and expenses on other financial liabilities	**-17,989**	**-21,487**
Derivative contracts		
Interest income and expenses from fair value hedges	3,223	3,290
Net income from fair value hedging	-26	0
Other income and expenses	182	269
Total income and expenses on derivative contracts	**3,379**	**3,559**
Net income from foreign exchange operation	308	335
Net income and expenses for financial assets and financial liabilities	**74,223**	**68,303**
Other operating income and expenses	-57,266	-56,279
Profit before tax	**16,958**	**12,023**

NOTES TO ASSETS

Note 59.20 Loans and Receivables

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Loans and receivables from credit institutions		
Deposits		
Repayable on demand	47,164	63,415
Other	26,351	65,912
Total loans and advances to credit institutions	**73,515**	**129,327**
Loans and advances to customers		
Loans	3,107,229	2,919,646
Loans granted from government funds	7,311	9,026
Guarantees	49	184
Used overdrafts	41,927	44,002
Credit card receivables	31,296	39,395
Other receivables	868	1,720
Total loans and advances to customers	**3,188,681**	**3,013,972**
Total loans and receivables	**3,262,196**	**3,143,299**

POP Banks belonging to the POP Bank Group have additionally intermediated Aktia Real Estate Mortgage Bank's loans. The loans intermediated by POP Banks amounted to EUR 33 311 (203 105) thousand on 31 December 2016. The cooperation is about to end, and all remaining loans will be transferred to the banks' balance sheets by summer 2017.

Impairment losses recorded on loans and receivables

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Increases in impairment losses	-7,336	-5,768
Reversals of impairment losses	777	827
Change in collectively assessed impairment losses	-101	-357
Reversals of impairment losses from final credit losses	1,919	4,652
Final credit losses	-1,997	-4,314
Impairment losses on loans and receivables	**-6,731**	**-4,961**

Accrued impairment losses on loans and receivables in the balance sheet

	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Impairment losses 1 January	16,933	16,286
+ Increases in impairment losses	7,336	5,768
- Reversals of impairment losses	-777	-827
+/- Change in collectively assessed impairment losses	101	357
- Reversals of impairment losses from final credit losses	-1,927	-4,652
Impairment losses 31 December	**21,667**	**16,933**

NOTE 59.21 Investment Assets

(EUR 1,000)	31 Dec 2016	31 Dec 2015*
Available-for-sale financial assets		
Debt securities	411,948	311,983
Shares and participations	305,816	289,823
Investment properties	36,598	34,098
Total investment assets	**754,362**	**635,904**

*Adjusted see Note 59.7

Available-for-sale financial assets 31 December 2016

	Available-for-sale debt securities	Available-for-sale shares and participations			Total
(EUR 1,000)	At fair value	At fair value	At cost	Total	
Quoted					
Public sector entities	59,865	-	-	-	59,865
Other	138,723	297,348	-	297,348	436,071
Other					
Public sector entities	181,893	-	-	-	181,893
Other	31,467	-	8,469	8,469	39,936
Investmens total	**411,948**	**297,348**	**8,469**	**305,816**	**717,764**

Available-for-sale financial assets 31 December 2015

	Available-for-sale debt securities	Available-for-sale shares and participations			Total
(EUR 1,000)	At fair value	At fair value	At cost	Total	
Quoted					
Public sector entities	50,442	-	-	-	50,442
Other	154,858	257,544	-	257,544	412,401
Other					
Public sector entities	54,518	-	-	-	54,518
Other	52,165	12,418	19,862	32,279	84,445
Investmens total	**311,983**	**269,961**	**19,862**	**289,823**	**601,806**

Available-for-sale shares and participations measured at cost are POP Banks' equity investments in shares of companies that are necessary for its operation and for which a reliable fair value cannot be determined. The most significant unquoted investment is in Samlink Ltd. POP Banks sold their shares in Aktia Real Estate Mortgage Bank Plc to Aktia Bank Plc in September 2016.

Impairment losses on available-for-sale financial assets

(EUR 1,000)	Debt securities	Shares and participations	Total
Impairment losses 1 January 2016	376	5,829	6,205
+ Increases in impairment losses	7	1,446	1,452
- Reversals of impairment losses	-8	-3,569	-3,577
Impairment losses 31 December 2016	**375**	**3,705**	**4,081**

(EUR 1,000)	Debt securities	Shares and participations	Total
Impairment losses 1 January 2015	329	805	1,134
+ Increases in impairment losses	47	6,456	6,504
- Reversals of impairment losses	-	-1,433	-1,433
Impairment losses 31 December 2015	**376**	**5,829**	**6,205**

Changes in investment property

(EUR 1,000)	31 Dec 2016	31 Dec 2015*
Acquisition cost 1 January	44,135	41,312
+ Increases	1,375	4,819
- Decreases	-1,554	-2,076
+/- Transfers	4,105	80
Acquisition cost 31 December	**48,062**	**44,135**
Accumulated depreciation and impairment 1 January	-10,037	-8,402
+/- Accumulated depreciation on decreases and transfers	185	150
- Depreciation	-1,220	-1,077
- Impairment losses	-391	-709
Accumulated depreciation and impairment 31 December	**-11,464**	**-10,037**
Carrying amount 1 January	34,098	32,911
Carrying amount 31 December	36,598	34,098

*Adjusted see Note 59.7

NOTE 59.22 Intangible Assets

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Information systems	9,685	11,852
Other intangible assets	3,566	3,370
Incomplete intangible assets	315	617
Total intangible assets	**13,566**	**15,839**

The most significant intangible assets of the POP Bank Group are comprised of expenses resulting from the acquisition of non-life insurance and banking information systems. At the end of the financial year 2016, the carrying amount of the non-life insurance information system totalled EUR 7,726 (8,885) thousand.

Impairment testing of the non-life insurance system has been carried out in accordance with IAS 36. As the result of the testing, the recoverable amount exceeds the carrying amount of the intangible asset.

Changes in intangible assets 2016

(EUR 1,000)	Information systems	Other intangible assets	Incomplete intangible assets	Total
Acquisition cost 1 January	16,764	5,662	617	23,043
+ Increases	119	184	497	800
- Decreases	-383	-125	-	-508
+/- Transfers	-	799	-799	-
Acquisition cost 31 December	**16,499**	**6,520**	**315**	**23,334**
Accumulated depreciation and impairment 1 January	-4,912	-2,292	-	-7,204
+/- Accumulated depreciation on decreases and transfers	-	-	-	0
- Depreciation	-1,902	-648	-	-2,550
+/- Other changes	-	-15	-	-15
Accumulated depreciation and impairment 31 December	**-6,814**	**-2,954**	**-**	**-9,768**
Carrying amount 1 January	11,851	3,370	617	15,839
Carrying amount 31 December	9,685	3,566	315	13,566

Changes in intangible assets 2015

(EUR 1,000)	Information systems	Other intangible assets	Incomplete intangible assets	Total
Acquisition cost 1 January	14,537	2,232	2,519	19,288
+ Increases	2,241	3,455	507	6,203
- Decreases	-13	-25	-2,439	-2,478
+/- Transfers	-	-	29	29
Acquisition cost 31 December	**16,764**	**5,662**	**617**	**23,043**
Accumulated depreciation and impairment 1 January	-2,780	-1,686	-	-4,466
+/- Accumulated depreciation on decreases and transfers	13	-	-	13
- Depreciation	-2,146	-605	-	-2,751
Accumulated depreciation and impairment 31 December	**-4,912**	**-2,292**	**-**	**-7,204**
Carrying amount 1 January	11,757	545	2,519	14,822
Carrying amount 31 December	11,852	3,370	617	15,839

NOTE 59.23 Property, Plant and Equipment

(EUR 1,000)	31 Dec 2016	31 Dec 2015*
Owner-occupied properties		
Land and water	2,967	2,748
Buildings	28,893	33,352
Machinery and equipment	2,956	2,927
Other tangible assets	788	769
Property, plant and equipment total	**35,604**	**39,796**

*Adjusted see Note 59.7

Changes in property, plant and equipment 2016

(EUR 1,000)	Owner-occupied properties	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost 1 January	58,987	17,726	928	-	77,641
+ Increases	1,011	1,071	36	902	3,020
- Decreases	-101	-139	-1	-	-241
+/- Transfers	-3,202	1	-1	-902	-4,105
Acquisition cost 31 December	**56,694**	**18,659**	**962**	**-**	**76,315**
Accumulated depreciation and impairment 1 January	-22,888	-14,799	-158	-	-37,845
+/- Accumulated depreciation on decreases and transfers	19	95	0	-	115
- Depreciation	-1,927	-999	-16	-	-2,943
- Impairment losses	65	-	-	-	65
+/- Other changes	-102	0	0	-	-102
Accumulated depreciation and impairment 31 December	**-24,834**	**-15,703**	**-174**	**-**	**-40,711**
Carrying amount 1 January	36,099	2,927	769	-	39,796
Carrying amount 31 December	31,860	2,956	788	-	35,604

Changes in property, plant and equipment 2015

(EUR 1,000)	Owner-occupied properties*	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost 1 January	57,413	17,173	937	742	76,265
+ Increases	2,432	618	9	50	3,109
- Decreases	-1,428	-64	-18	-	-1,510
+/- Transfers	570	-	-	-793	-222
Acquisition cost 31 December	**58,987**	**17,726**	**928**	**-**	**77,641**
Accumulated depreciation and impairment 1 January	-21,157	-13,679	-147	-	-34,982
+/- Accumulated depreciation on decreases and transfers	93	39	5	-	137
- Depreciation	-1,731	-1,159	-17	-	-2,907
- Impairment losses	-93	-	-	-	-93
Accumulated depreciation and impairment 31 December	**-22,888**	**-14,799**	**-158**	**-**	**-37,845**
Carrying amount 1 January	36,256	3,494	790	742	41,282
Carrying amount 31 December	36,099	2,927	769	-	39,796

*Adjusted see Note 59.7

NOTE 59.24 Deferred Taxes

(EUR 1,000)	31 Dec 2016	31 Dec 2015*
Tax assets		
Deferred tax assets	1,734	2,924
Income tax receivables	186	1,043
Total tax assets	**1,920**	**3,967**
Tax liabilities		
Deferred tax liabilities	25,497	24,844
Income tax liability	1,509	437
Total tax liabilities	**27,006**	**25,281**

Deferred tax assets

(EUR 1,000)	1 Jan 2016	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2016
Available-for-sale financial assets	1,332	-233	-760	338
Collective impairment	557	20	-	577
Real estate depreciation adjustments	566	172	-	738
Advances received	31	-31	-	-
Defined benefit pension plans	51	-15	30	65
Tax losses	74	134	-	208
Consolidation	314	-507	-	-193
Total deferred tax assets	**2,924**	**-460**	**-730**	**1,734**

(EUR 1,000)	1 Jan 2015*	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2015*
Available-for-sale financial assets	1,863	143	-674	1,332
Collective impairment	485	71	-	557
Real estate depreciation adjustments	396	171	-	566
Advances received	48	-17	-	31
Defined benefit pension plans	-	-117	168	51
Tax losses	-	74	-	74
Consolidation	204	178	-68	314
Total deferred tax assets	**2,995**	**503**	**-574**	**2,924**

*Adjusted see Note 59.7

The companies belonging to the POP Bank Group have EUR 32,511 (29,867) thousand of losses for which no deferred tax assets have been recognised. The losses will expire in 2021–2026.

Deferred tax liabilities

(EUR 1,000)	1 Jan 2016	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2016
Appropriations	21,891	-5	-	21,886
Available-for-sale financial assets	2,035	39	872	2,946
Intangible assets	917	-252	-	665
Total deferred tax liabilities	**24,844**	**-219**	**872**	**25,497**

(EUR 1,000)	1 Jan 2015	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2015
Appropriations	21,497	394	-	21,891
Available-for-sale financial assets	2,509		-474	2,035
Intangible assets	1,034	-117	-	917
Defined benefit plans	98	-41	-57	-
Total deferred tax liabilities	**25,139**	**236**	**-531**	**24,844**

Amounts recognised in other comprehensive income and related deferred taxes 2016

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	8,067	-1,632	6,434
Defined benefit plans	-165	30	-135
Amounts recognised in other comprehensive income, total	**7,902**	**-1,603**	**6,299**

Amounts recognised in other comprehensive income and related deferred taxes 2015

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	1,592	-280	1,312
Defined benefit plans	-1,117	223	-894
Amounts recognised in other comprehensive income, total	**475**	**-57**	**418**

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 59.25 Supplementary Cooperative Capital

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Supplementary cooperative capital 1 January	58,231	74,831
Increase in supplementary cooperative capital	1,262	1,349
Refunds of supplementary cooperative capital	-9,195	-6,696
Converted into POP Shares	-12,786	-11,253
Supplementary cooperative capital 31 December	**37,512**	**58,231**
of which cancelled supplementary cooperative contributions	6,259	8,222

In accordance with national corporate legislation, the cooperative capital of the member cooperative bank includes cooperative contributions, supplementary cooperative contributions and POP Shares. In the IFRS statements, the contributions are classified as assets or liabilities in accordance with IAS 32 Financial Instruments: Presentation.

In accordance with the national corporate legislation, the supplementary cooperative capital is included in the equity capital of each cooperative bank. In the IFRS financial statements, supplementary cooperative capital is classified as a liability as the coop- erative banks do not have an unconditional right to refuse refunding the supplementary cooperative capital to a member. Interest paid on the supplementary contribution is presented in interest expenses.

The supplementary contribution is refunded within six months of the end of the financial year based on which the refund can be made for the first time. If the refund cannot be made in full based on the provisions of the Co-Operatives Act or the Co-Operative Bank Act, the refund may take place subsequently if it is possible based on the next three financial statements.

The supplementary cooperative contributions can be converted into POP Shares, which are classified as equity capital in IFRS financial statements. During the financial year 2016, a total of EUR 12,786 (11,253) thousand of supplementary cooperative capital was converted into POP Shares. More detailed information about POP Shares is provided in Note 59.26.

Note 59.26 Equity Capital

(EUR 1,000)	31 Dec 2016	31 Dec 2015*
Total equity attributable to the owners of the POP Bank Group		
Cooperative capital, cooperative contributions	9,051	8,904
of which cancelled cooperative contributions	470	473
Cooperative capital, POP Shares	43,508	17,904
of which cancelled POP Shares	2,516	634
Restricted reserves		
Reserve fund	52,494	52,499
Reserves based on the Articles of Association/rules	1,041	1,163
Fair value reserve		
Available-for-sale financial assets	10,717	4,283
Non-restricted reserves		
Other non-restricted reserves	90,834	98,136
Retained earnings		
Profit (loss) for previous financial years	244,653	229,028
Profit (loss) for the financial year	10,260	8,538
Total equity attributable to the owners of the POP Bank Group	**462,558**	**420,455**
Non-controlling interests	463	3,261
Total equity capital	**463,021**	**423,716**

*Adjusted see Note 59.7

Cooperative capital and classification of contributions as capital equity

The POP Bank Group's cooperative capital is composed of cooperative contributions and POP Shares.

Cooperative contributions

The capital equity of the POP Bank Group includes the cooperative contributions paid by the members of the member cooperative banks to the member cooperative banks, the payment of interest and refund of capital of which the bank has an unconditional right to refuse. The contribution conveys the member the right to participate in the governance and decision-making of the member cooperative bank.

The cooperative contributions of the member cooperative banks EUR 8,904 thousand have been reclassified as equity capital on 31 December 2015. At the beginning of the comparison period 1 January 2015 cooperative contributions EUR 8,872 thousand was classified as liability. The reclassification is a result of an amendment to the rules in 2015, after which the cooperative bank has the absolute right to refuse from the refund of cooperative contribution.

On 31 December 2015, POP Banks had a total of 86 (84) thousand members.

POP Shares

The POP Bank Group's equity capital also includes investments made by the members of the member cooperative banks in POP Shares issued by the member cooperative banks. POP Shares are a new equity instrument issued for the first time during the financial year 2015. In accordance with the rules, the cooperative bank has an unconditional right to refuse from the payment of interest on POP Shares and refund of capital.

The member banks of the POP Bank Group issued a total of EUR 25,604 (17,904) thousand of POP Shares. Of this, the share new sales amounted to EUR

12,817 (6,652) thousand and converted supplementary cooperative contributions amounted to EUR 25,604 (11,253) thousand. POP Shares totalled to EUR 43,508 (17,904) thousand in 31 December 2016.

The targeted interest rate on POP Shares is 2.25% or 2.5%. The interest to be paid is confirmed after the end of the financial year at the cooperative meeting according to the proposal of the Board of Directors. The interest rate objective can change annually. POP Shares do not convey voting rights or other rights to the member.

A cooperative contribution and POP Share may be refunded within 12 months after the end of the financial year when membership terminated or POP Share was cancelled. If the refund of the cooperative contribution or POP Share cannot be made in full based on the provisions of the Co-Operatives Act or the Co-Operative Bank Act, the refund may take place subsequently if it is possible based on the next three financial statements. However, this entitlement to the refund for the balance will terminate after the fifth financial statements.

Supplementary cooperative contributions

The supplementary cooperative contributions included in equity capital in the cooperative banks' national financial statements are classified as a liability in the IFRS financial statements. The supplementary cooperative contributions can be converted into POP Shares, which are classified as equity capital in IFRS financial statements. More details on the supplementary cooperative contributions are provided in Note 59.25.

Restricted reserves

Restricted reserves include the reserve fund, fair value reserve and other restricted reserves. The reserve fund consists of profits transferred to it during previous periods and of the portion transferred to it from member cooperative banks' revaluation reserves and loan loss provisions. The reserve fund can be used to cover losses for which non-restricted equity is not sufficient.

The fair value reserve includes changes in the fair value of available-for-sale financial assets less deferred tax. The change in fair value may be positive or negative. The amounts recognised in the fair value reserve are transferred to the income statement, when the available-for-sale security is disposed of or an impairment loss is recognised on it.

Non-restricted reserves

Other non-restricted reserves consist of retained earnings based on the Articles of Association or other rules, or decisions taken by the general meeting or cooperative meeting. Other non-restricted reserves include the guarantee fund capital of POP Banks' guarantee fund at the comparison period.

Retained earnings

Retained earnings are earnings of Group entities accrued in previous financial years that have not been transferred to equity reserves or distributed to shareholders. Retained earnings also contain voluntary provisions and depreciation difference included in the separate financial statements of Group entities less deferred tax.

Specification of changes in fair value reserve

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Fair value reserve 1 January	**4,283**	**2,971**
Fair value change, shares and participations	12,825	9,371
Fair value change, other financial instruments	3,894	-775
Transferred to the income statement	-8,635	-6,991
Other changes	-18	-13
Deferred taxes	-1,632	-280
Fair value reserve 31 December	**10,717**	**4,283**

OTHER NOTES

NOTE 59.27 Fair Values by Valuation Technique

Items recurrently measured at fair value 31 December 2016

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets					
Measured at fair value through profit or loss					
Banking	-	-	1,681	1,681	1,681
Derivative contracts					
Banking	-	2,541	-	2,541	2,541
Available-for-sale financial assets					
Banking	506,889	194,841	16,035	717,764	717,764
Insurance	28,629	-	-	28,629	28,629
Total financial assets	**535,518**	**197,381**	**17,715**	**750,615**	**750,615**

Items measured at amortised cost 31 December 2016

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets					
Loans and receivables					
Banking	-	3,290,469	-	3,290,469	3,262,196
Other than financial assets					
Investment property					
Banking	-	-	47,412	47,412	36,598
Total assets measured at amortised cost		**3,290,469**	**47,412**	**3,337,881**	**3 298 795**
Financial liabilities					
Other financial liabilities					
Banking	-	3,652,913	-	3,652,913	3,651,534
Total financial liabilities measured at amortised cost	**-**	**3,652,913**	**-**	**3,652,913**	**3,651,534**

Items recurrently measured at fair value 31 December 2015

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets					
Measured at fair value through profit or loss					
Banking	-	-	3,383	3,383	3,383
Derivative contracts					
Banking	-	5,356	-	5,356	5,356
Available-for-sale financial assets					
Banking	463,754	94,675	30,959	589,388	589,388
Insurance	24,412	-	-	24,412	24,412
Other	12,418	-	-	12,418	12,418
Total financial assets	**500,583**	**100,032**	**34,342**	**634,957**	**634,957**

The "Other" item under available-for-sale financial assets 31 December 2015 includes the available-for-sale assets of other operations, which are comprised of investments of the POP Banks' guarantee fund. The guarantee fund was dissolved in June 2016.

Items measured at amortised cost 31 December 2015

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets					
Loans and receivables					
Banking	-	3,123,949	-	3,123,949	3,143,299
Other than financial assets					
Investment property					
Banking	-	-	43,575	43,575	34,098
Total assets measured at amortised cost		**3,123,949**	**43,575**	**3,167,524**	**3 177 397**
Financial liabilities					
Other financial liabilities					
Banking	-	3,519,270	-	3,519,270	3,532,372
Total financial liabilities measured at amortised cost	**-**	**3,519,270**	**-**	**3,519,270**	**3,532,372**

Fair value determination of financial assets and financial liabilities

Financial assets are recorded in the balance sheet either at fair value or at amortised cost. The classification and measurement of financial instruments is described in more detail in Note 2 to the POP Bank Group's consolidated financial statements.

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 quotations are regularly available. This group includes all securities with publicly quoted prices.

Level 2 includes financial instruments measured 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 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.

In 2016 EUR 4 947 (10 099) thousand of securites have been transferred from hierarchy level 3 to hierarchy level 1. A regular public quote could not be previously obtained for the debt securities, which is why they were classified to hierarchy level 3 in the comparison period.

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

Changes in financial assets measured at fair value through profit or loss classified into level 3

(EUR 1,000)	1 Jan-31 Dec 2016 Banking	1 Jan-31 Dec 2015 Banking
Carrying amount 1 January	**3,383**	**3,477**
+ Purchases	196	-
- Sales	-368	-50
- Matured during the financial year	-1,600	-
+/- Realised changes in value recognised in income statment	34	-
+/- Unrealised changes in value recognised in the income statement	36	-44
Carrying amount 31 December	**1,681**	**3,383**

Changes in available-for-sale financial assets classified into level 3

(EUR 1,000)	1 Jan-31 Dec 2016 Banking	1 Jan-31 Dec 2015 Banking
Carrying amount 1 January	**30,959**	**44,166**
+ Purchases	4,052	5,081
- Sales	-12,435	-3,653
- Matured during the period	-1,105	-5,183
+/- Realised changes in value recognised in income statement	-668	118
+/- Unrealised changes in value recognised in income statement	-50	30
+/- Changes in value recognised in other comprehensive income	228	499
- Transfers to level 1 and 2	-4,947	-10,099
Carrying amount 31 December	**16,035**	**30,959**

SENSITIVITY ANALYSIS OF FINANCIAL INSTRUMENTS AT LEVEL 3

Available-for-sale financial assets 31 December 2016

		Possible effect on equity capital	
(EUR 1,000)	Carrying amount	Positive	Negative
Banking	15,925	1,481	-1,481
Total available-for-sale financial assets	15,925	1,481	-1,481

Myytävissä olevat rahoitusvarat 31.12.2015

		Possible effect on equity capital	
(EUR 1,000)	Carrying amount	Positive	Negative
Banking	31,446	3,258	-3,258
Total available-for-sale financial assets	31,446	3,258	-3,258

The sensitivity of financial assets recurrently measured at fair value at level 3 has been calculated for interest rate linked investments by assuming a 1 percentage points change in interest rates and for other investments by assuming the market price of the security to change by 15%.

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

NOTE 59.28 Pension Liabilities

In addition to statutory cover (TyEL), the POP Bank Group has defined benefit pension schemes for the management and persons who have been members of the OP Bank Group Pension Fund. The retirement age of those covered by these insurance policies varies from 60 to 65 years

In the pension scheme, the amount of assets describes the part of the obligation for which the insurance company is liable, and it is calculated using the same discount rate as the liability. The assets included in the scheme include 100% acceptable insurance policies. Because the liabilities have been insured, the company is not liable for significant risks. The company remains primarily liable for increases in pensions tied to the employment pension index and the effect of changes in the discount rate and pay increases on the net liabilities.

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Current service cost	193	141
Net interest	1	-10
Costs recognised in income statement	**194**	**131**
Remeasurements	148	1,123
Comprehensive income before tax	**342**	**1,254**
Present value of obligation 1 January	**19,938**	**19,744**
Current service cost	193	141
Interest expense	366	283
Actuarial gains (-)/losses (+) arising from experiential adjustments	-812	1,438
Actuarial gains (-)/losses (+) arising from changes in economic expectations	915	-334
Benefits paid	-936	-1,334
Present value of obligation 31 December	**19,665**	**19,938**
Fair value of plan assets 1 January	**19,685**	**20,232**
Interest income	365	293
Return on plan assets excl. items in interest expense/income	-45	-18
Benefits paid	-936	-1,334
Contributions paid	269	512
Fair value of plan assets 31 December	**19,339**	**19,685**
Present value of obligation	**19,665**	**19,938**
Fair value of plan assets	19,339	19,685
Net liability in balance sheet 31 December	**326**	**253**
Net liability in balance sheet/asset (-) 1 January	**253**	**-489**
Costs recognised in income statement	194	131
Contributions paid	-269	-512
Remeasurements in comprehensive income statement	148	1,123
Net liability in balance sheet 31 December	**326**	**253**
Actuarial assumptions		
Discount rate, %	1.50%	1.90%
Pay development, %	1.50%	1.50%
Pension increase, %	1.66%/0.0%	1.67%
Inflation rate, %	1.42%	1.43%

Sensitivity analysis - net liabilities

The table below presents the effects of the assumed changes on net liabilities. In calculating the sensitivities, the other assumptions are assumed to remain unchanged.

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Change of +0.5% in discount rate	-20	-16
Change of -0.5% in discount rate	22	18
Pay development +0.5%	112	133
Pay development -0.5%	-112	-132
Change of +0.5% in pension increase	1,195	1,142
Change of -0.5% in pension increase	-1,127	-1,079

Duration based on the weighted average of the obligation is 13.2 years.

The POP Bank Group expects to contribute approximately EUR 260 thousand to defined benefit plans in 2017.

The statutory pension scheme, which came into force at the beginning of year 2017, does not have a known effect on defined benefit pension plans of the POP Bank Group.

NOTE 59.29 Entities Included in The POP Bank Group's Financial Statements

The structure of the POP Bank Group is described in Note 1 the POP Bank Group and the scope of the IFRS Financial Statements.

Technical parent company

The table below presents the member banks comprising the technical parent company of the POP Bank Group and their balance sheet total (FAS).

Name of the bank	Domicile	Balance sheet 31 Dec 2016 (EUR 1,000)	Balance sheet 31 Dec 2015 (EUR 1,000)
Hannulan Osuuspankki	Hankasalmi	28,361	28,615
Honkajoen Osuuspankki	Honkajoki	53,699	52,179
Isojoen Osuuspankki	Isojoki	61,415	56,816
Jämijärven Osuuspankki	Jämijärvi	58,633	56,814
Kannonkosken Osuuspankki	Kannonkoski	51,681	49,529
Keuruun Osuuspankki	Keuruu	180,929	172,669
Konneveden Osuuspankki	Konnevesi	115,958	106,510
Kosken Osuuspankki	Koski Tl	173,159	169,447
Kurikan Osuuspankki	Kurikka	285,521	261,682
Kyrön Seudun Osuuspankki	Pöytyä	90,133	87,353
Kyrönmaan Osuuspankki	Isokyrö	243,382	229,673
Kyyjärven Osuuspankki	Kyyjärvi	69,859	64,423
Lammin Osuuspankki	Hämeenlinna	168,508	152,019
Lanneveden Osuuspankki	Saarijärvi	43,243	42,624
Lappajärven Osuuspankki	Lappajärvi	106,474	106,782
Lapuan Osuuspankki	Lapua	232,914	216,916
Lavian Osuuspankki	Pori	69,248	64,083
Liedon Osuuspankki	Lieto	120,340	112,929
Nivalan Järvikylän Osuuspankki	Nivala	77,700	68,462
Piikkiön Osuuspankki	Kaarina	105,857	100,819
Pohjanmaan Osuuspankki	Kauhava	450,874	432,585
Reisjärven Osuuspankki	Reisjärvi	142,463	124,449
Sievin Osuuspankki	Sievi	145,654	121,295
Siilinjärven Osuuspankki	Siilinjärvi	304,878	283,828
Suupohjan Osuuspankki	Kauhajoki	797,132	775,983
Tiistenjoen Osuuspankki	Lapua	35,426	29,865

Subsidiaries and associates consolidated in the POP Bank Group

		Group's holding	
	Domicile	31 Dec 2016	31 Dec 2015
POP Bank Alliance Coop (central institution of the Group)	Helsinki	100.0%	77.9%
Bonum Bank Plc (wholly-owned subsidiary of POP Bank Alliance Coop)	Espoo	100.0%	77.9%
POP Banks' guarantee fund	Helsinki	-	78.3%
POP Holding Ltd	Helsinki	100.0%	98.0%
Finnish P&C Insurance Ltd (wholly-owned subsidiary of POP Holding Ltd)	Espoo	100.0%	98.0%
Optium Oy	Tampere	-	96.7%
Pajker AS	Audru, Estonia	67.5%	67.5%
White Beach Development AS (subsidiary of Pajker AS)	Audru, Estonia	72.5%	72.5%

Joint arrangements

The Group's holdings of less than 100% in mutual real estate companies and housing companies are treated as joint operations in the POP Bank Group's financial statements. Both owner-occupied properties and investment properties are managed via the companies.

Joint arrangements consolidated in the POP Bank Group (key real estate companies)

	Group's holding	
	31.12.2016	31.12.2015
Asunto Oy Keuruun Tarhiansuu	36.9%	36.9%
Asunto Oy Tampereen Kauppakatu 14	23.9%	23.9%
Asunto Oy Tampereen Koskilehmus	21.9%	21.9%
Kiinteistö Oy Kosken Pankkitalo	53.6%	53.6%
Kiinteistö Oy Lehto-Center	38.6%	41.0%
Kiinteistö Oy Liedon Torinkulma	62.5%	62.5%
Kiinteistö Oy Riihikuiva	82.7%	82.7%
Kiinteistö Oy Siilinjärven Pankkikeskus	66.5%	66.5%

Changes in holdings in subsidiaries

During the financial year 2016 POP Banks sold all their shares in Optium Ltd and POP Banks' guarantee fund was dissolved.

No subsidiaries were aqcuired during the financial year 2016. On comparison perios 2015 , POP Banks acquired the shares of POP Holding Ltd and Optium Oy held by cooperative banks that had resigned from the POP Bank Group. The acquired holdings corresponded to 9.6% of the shares of POP Holding Ltd and 16.1% of the shares of Optium Ltd. In addition to this, on comparison period 2015 Pohjanmaan Osuuspankki's holding in Pajker AS grew by 17.5% due to the ownership arrangaments made in the company.

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Acquisition cost of non-controlling interests	-	1,972
Acquired non-controlling interests	-	1,757
Effect of the change in holding on the capital equity of the POP Bank Group	**-**	**-214**

Non-controlling interests in subsidiaries

Eight cooperative banks resigned from POP Bank Alliance Coop before the formation of the amalgamation of POP Banks. The banks that resigned from POP Bank Alliance Coop held 22.1% of POP Bank Alliance Coop cooperative capital on comparison period. Resigned banks has thus a share in every subsidiary and participation interest of POP Bank Alliance Coop and entitieas owned by them. In addition to this, resigned banks were members of the POP Bank Group's guarantee fund, which was dissolved in June 2016. The share of resigned banks totalled 21.7% of the equity capital of the POP Banks' guarantee fund.

POP Bank Alliance Coop refunded in December 2016 the cooperative contributions paid by the resigned banks. The financial rights of the resigned banks ended as the capital was refunded. The commitment to refund EUR 4,968 thousand was presented in other liabilities at the comparison period balance sheet 31 December 2015 and it was not included in the non-controlling interests of equity capital.

Due to changes presented above, there are no significant non controlling interest in the POP Bank Group subsidiaries on reportind date. Information on non-controlling interest on comparison period is presented below.

The presented financial statements have been adjusted to comply with the POP Bank Group's accounting policies. Eliminations of items between entities consolidated in the Group have not been taken into account in the information. POP Bank Alliance Coop's wholly-owned subsidiary Bonum Bank Plc has been consolidated in the POP Bank Alliance Coop using the acquisition method and the participation in the POP Holding group corresponding to its holding using the equity method. POP Holding Ltd's subsidiary Finnish P&C Insurance Ltd has been consolidated in the POP Holding Group. Inter-group items of these groups have been eliminated.

Name of the company	Non-controlling interests 31 Dec 2015	Profit or loss attributable to non-controlling interests 2015	Capital equity attributable to non-controlling interests 31 Dec 2015
POP Banks' guarantee fund	21.7%	-2	2,771
POP Bank Alliance Group	22.1%	-145	-267
POP Holding Group	2.0%	-109	182

Balance sheet 31 December 2015 in summary

(EUR 1,000)	POP Banks' guarantee fund	POP Bank Alliance Group	POP Holding Group
Cash and receivables	50	251,242	3,810
Investments	12,818	172,086	-
Other assets	26	5,926	9,164
Total assets	**12,894**	**429,254**	**12,974**
Liabilities	136	412,911	41,560
Net assets	12,758	16,343	-28,586
Net assets attributable to non-controlling interests	2,771	-267	182
Cash and cash equivalents at the start of the period	526	9,898	1,834
Cash and cash equivalents at the end of the period	50	196,392	3,810

Income statement 1 January - 31 December 2015 in summary

(EUR 1,000)	POP Banks' guarantee fund	POP Bank Alliance Group	POP Holding Group
Operating income	169	10 588	5 188
Operating expenses	-162	-10 580	-10 538
Profit for the financial year	-7	-657	-5 404
Other comprehensive income	-126	-88	-49
Comprehensive income for the financial year	-133	-745	-5 453
Earnings for the financial period attributable to non- controlling interests	-2	-145	-109
Comprehensive income attributable to non-controlling interests	-29	-164	-110

The sphere of influence of the POP Bank Group does not include entities considered structured entities.

Significant restrictions

There are no significant restrictions concerning the use of reserves in equity capital of POP Bank Group.

NOTE 59.30 Related Party Disclosures

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

Transactions with key persons in management and other related parties are presented below. Key persons in management include members of the Supervisory Board and the Board of Directors and the managing director and deputy managing director of POP Bank Alliance Coop.

Related-party transactions

(EUR 1,000)	Key persons in management 31 Dec 2016	Key persons in management 31 Dec 2015	Other 31 Dec 2016	Other 31 Dec 2015
Assets				
Loans	2,813	2,622	3,743	924
Liabilities				
Deposits	1,527	1,620	1,999	352
Off-balance-sheet commitments				
Loan commitments	76	47	5	1
Guarantees	630	504	902	342
Investments to other than cooperative contributions	241	220	106	96
Cooperative contributions owned by related parties (pcs)	31	31	22	22

(EUR 1,000)	Key persons in management 1 Jan-31 Dec 2016	Key persons in management 1 Jan-31 Dec 2015	Other 1 Jan-31 Dec 2016	Other 1 Jan-31 Dec 2015
Income and expenses				
Interest income	26	28	56	12
Interest expenses	12	17	15	2
Insurance premium revenue	16	17	9	3

Compensations to key persons in management

(EUR 1,000)	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Short-term employee benefits	2,284	2,441
Post-employment benefits	36	44
Total Compensation to key persons in management	**2,319**	**2,486**

Signatures

We have adopted the Report of Board of Directors and the Consolidated Financial Statements of the POP Bank Group, referred to in the Act on the Amalgamation of Deposit Banks, for the financial year ended 31 December 2016. The Board of Directors' Report and the Financial Statements will be presented to the general meeting of POP Bank Alliance Coop on 6 April 2017.

Espoo, 21 February 2017

Board of Directors of POP Bank Alliance Coop

Teemu Teljosuo
Chairman of the Board

Juha Niemelä
Vice Chairman of the Board

Ari Heikkilä
Member of the Board

Petri Jaakkola
Member of the Board

Marja Pajulahti
Member of the Board

Soile Pusa
Member of the Board

Hannu Tuominiemi
Member of the Board

AUDITOR'S NOTE

A report on the audit performed has been issued today.

Espoo, 22 February 2017

KPMG Oy Ab

Johanna Gråsten
Authorised Public Accountant

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

AUDITOR'S REPORT

To the members of POP Bank Alliance Coop

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of amalgamation POP Bank Group pursuant to the Act on the Amalgamation of Deposit Banks for the year ended 31 December 2016. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of POP Bank Group's financial performance and financial position in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of member institutions within POP Bank Group in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU in a manner explained in more detail in the notes to the financial statements, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing POP Bank Group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate POP Bank Group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of POP Bank Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

– Conclude on the appropriateness of the Board of Directors and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on POP Bank Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause POP Bank Group cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within POP Bank Group to express an opinion on the consolidated financial statements. We remain solely responsible for our audit opinion.

– We also acquaint ourselves with the financial statement policies adopted by POP Bank Group's member institutions, as well as the auditors' reports submitted for the audit of POP Bank Group's consolidated financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER REPORTING REQUIREMENTS

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Espoo 22 February 2017

KPMG OY AB

Johanna Gråsten
Authorised Public Accountant

POP Pankki