POP Bank Group

BOARD OF DIRECTORS' REPORT AND CONSOLIDATED IFRS FINANCIAL STATEMENTS

31 December 2017

POP Pankki

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Fast-paced change and good earnings development

The second operating year, 2017, of the amalgamation of POP Banks was successful in terms of business operations. We strengthened our position as a Finnish bank group with focused renewals. The business grew and developed as planned. Operating income totalled EUR 118.9 million, and the profit before taxes was EUR 19.5 million. Loans and receivables from customers totalled EUR 3,325.4 million.

The capital adequacy of the amalgamation remained strong. Own funds were EUR 507 million and the CET 1 capital ratio was 20.9 per cent.

For the third consecutive time, surveys showed that POP Banks have the most satisfied personal customers. In the EPSI Rating 2017 survey, POP Banks achieved the highest result in customer satisfaction among all banks operating in the Nordic countries. Despite the fast-paced changes, the POP Bank Group invested – with excellent results – in a strong local presence, personal service and a high level of availability. At the end of the year, we had 250,000 banking customers and 104,000 insurance customers. The customer volumes of the insurance company reached a new record and grew by as much as 13.8 per cent. Customers were served at 85 branches and service points, as well as via the online services and mobile channel of the POP Bank Group.

We achieved a great deal in 2017. We renewed the structures of the central institution and appointed a new management team. We continued to sharpen our strategy extending up to 2020, and managed significantly to improve the Group-level reaction capacity and decision-making. To achieve Group synergies, we made our non-life insurance company Finnish P&C Insurance Ltd (POP Insurance) and our central credit institution, Bonum Bank Plc, an increasingly integrated part of the central institution's change programme.

The Group's digital know-how is on a high level. We incorporated the lessons from our insurance company into the banking business in terms of online sales, robotics and technology solutions, for example. We invested particularly in business intelligence, to gain a more accurate picture of the current management and a deeper customer understanding.

The Group's strategy emphasises the development of the customer experience through the digitalisation of services and functions. The strategy is based on the transition of the financial sector, as well as on changes in customer behaviour and customer expectations. The objective of the change is a seamless, channel-independent customer experience.

In 2017, POP Bank Group prepared for the biggest investment in its history, the renewal of the core banking system. The renewal aims to ensure the Group's competitiveness and efficiency by harmonising products, processes and operating methods and through automation.

POP Bank Group continues the development of long-term customer relationships by keeping its product selection, pricing and operations competitive and attractive to customers. Our long-term objective is to improve the profitability of our business and achieve a capital adequacy higher than the industry's average. I want to thank our personnel for a very successful year. At the same time, I would like to extend my thanks to our customers and partners for the trust they have shown towards POP Bank Group.

Pekka Lemettinen
CEO
POP Bank Alliance Coop

POP Bank Group's Board of Directors' report 1 January - 31 December 2017

YEAR 2017 IN BRIEF

- Profit before tax EUR 19.5 (17.0) million (+14.9%)
- Loan portfolio EUR 3,325.4 (3,188.7) million (+4.3%)
- Balance sheet EUR 4,275.8 (4,229.4) million (+1.1%)
- CET 1 Capital ratio of the amalgamation 20.9 (20.9) per cent
- POP Bank has the highest customer satisfaction in the Nordic countries (EPSI Rating 2017)
- The increase in number of insurance customers 13.8 (25.4) per cent

KEY EVENTS

- Preparing for the renewal of the core banking system proceeds
- Development of structures of the amalgamation of POP Banks is well under way
- New cooperation agreements in investment and insurance products
- Customer volume of the insurance business surpassed the limit of a hundred thousand
- Cooperation with Aktia Real Estate Mortgage Bank Plc has ended

POP Bank Group and Amalgamation of POP Banks

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

The POP Bank Group refers to the new legal entity created 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.

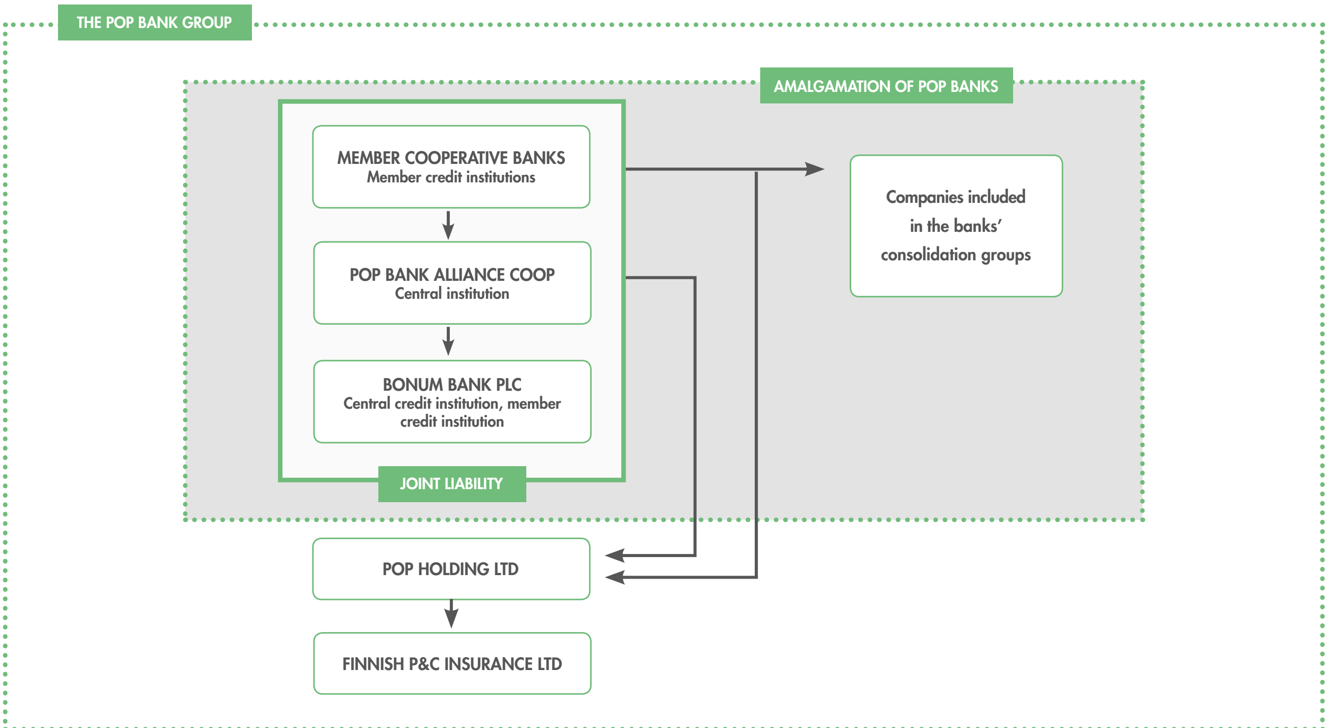
The chart below presents the structure of the POP Bank Group and the entities included in the amalgamation and scope of joint liability. POP Bank Alliance Coop, the central institution, is responsible for the group steering and supervision in accordance with the Act on the Amalgamation of Deposit Banks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

In addition to the organisations that belong to the amalgamation of POP Banks, the POP Bank Group comprises POP Holding Ltd and its wholly owned company Finnish P&C Insurance Ltd. Neither of these are included in the scope of joint liability.

No changes took place in the structure of the POP Bank Group during the financial year.

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, amalgamation of POP Banks and joint liability



Operating Environment

Finland's economy in 2017 was marked by a strong turn to growth, following a lengthy period of weak growth. Following the financial crisis, the average development of Finland's economy had fallen clearly behind the general growth development of the eurozone. Due to the low growth figures of the Finnish economy, employment performance was also modest, and the strong indebtedness of the public sector continued.

The massive interest rate and monetary stimulus of the European Central Bank supported the eurozone's recovery from the financial crisis. The wage settlements made in Finland, which were more expensive than those in competing countries, nevertheless meant unfavourable development to competitiveness. This undermined Finland's ability to join the recovery of the eurozone. Still, the low level of interest rates helped the domestic business sector to survive the prolonged period of weak growth.

The competitiveness pact signed in the summer of 2016 cut holiday pays in the public sector and, in practice, froze all wage increases at the same time as working hours were extended. This contributed to an improvement in the competitiveness of the export sector. The demand for investment, which had long been held in check in Finland, began a slow recovery in 2016 and reached full speed in 2017. The first signs of recovery were seen in construction, from where it gradually spread to the postponed machinery and equipment investments. Given that interest rates remained exceptionally low while the drive of the world economy improved, Finland was finally able to join the positive economic development.

The low level of interest rates has had both positive and negative effects on the operating environment of banks. Consumers have deemed the time favourable for taking out loans, which is why the indebtedness of households has risen to a record-high level. The number of payment defaults in public records is also higher than ever before. The prices of dwellings have risen beyond the means of many, particularly in the metropolitan area.

The positive mood in the Finnish economy is expected to continue in 2018, although the rate of growth is also expected to slow down slightly. The high rate of indebtedness among consumers and in the public sector, and the continuing low level of employment are nevertheless a concern. Agriculture has also suffered from exceptionally poor profitability development in recent years, with no notable improvement in sight.

The banking sector is particularly influenced by the still continuing development towards a banking union in the EU area. The LCR regulation concerning liquidity coverage, set to take full effect at the beginning of 2018 following a transitional period, is part of the eurozone's single rulebook. In 2017, banking was also influenced by preparations for other changes in the regulatory environment, key among them the Second Payment Services Directive (PSD2) and the IFRS 9 Financial Instruments standard, both taking effect at the beginning of 2018, as well as the EU's General Data Protection Regulation (GDPR) and the Data Protection Directive, applicable as of May 2018.

POP Bank Group's Business Operations

Preparing for the renewal of the core banking system proceeds

Oy Samlink Ab is the current supplier of core banking system for POP Bank Group's Banking segment. POP Bank Group has negotiated with the other customer banks of Oy Samlink Ab on the renewal of the core banking system with Norwegian EVRY A/S. The negotiations have lasted longer than expected. The supplier selection process concerning the new core banking system is expected to be concluded during 2018. As part of the renewal of the core banking system, POP Bank Group and the other owners of Oy Samlink Ab have also negotiated on the sale of Oy Samlink Ab's share capital to EVRY A/S. The possible financial effects of the transaction cannot be estimated while the negotiations are in progress.

Development of structures of the amalgamation of POP Banks is well under way

On 21 February 2017, the Board of Directors of POP Bank Alliance Coop exempted the member credit institutions from the limitations of major counterparty risks with regard to liabilities based on the centralised management of the member credit institutions' liquidity. In addition, the Board exempted the amalgamation's member credit institutions from the own funds requirement with regard to intra-Group items. This exemption from the own funds requirement has no effect on the capital adequacy ratios of the amalgamation of POP Banks.

During the financial year, POP Bank Alliance, the central institution of the amalgamation of POP Banks, received the Finnish Financial Supervisory Authority's permission to decide that its member credit institutions would not be subject to the liquidity coverage requirements imposed on credit institutions in Part Six of the EU's Capital Requirements Regulation ((EU) No. 575/2013) and the European Union's provisions issued by virtue of it. The amalgamation's central credit institution, Bonum Bank Plc, is responsible for managing the amalgamation's liquidity coverage requirement.

New cooperation agreements in investment and insurance products

At the end of 2017, POP Bank Group and the Savings Bank Group agreed on an extensive product cooperation, which aims to introduce the products of Sp-Henkivakuutus Oy and Sp-Rahastoyhtiö Oy, which belong to the Savings Bank Group, to the selection of POP Banks and the non-life insurance products of Finnish P&C Insurance Ltd to the customers of Savings Banks in branches and digital channels. The new products will be introduced to the selection of POP Banks in phases, and the first products are expected to be in the selection in the summer of 2018.

In addition, POP Bank Group and UB Asset Management Ltd signed a cooperation agreement in November 2017, concerning the distribution of selected funds in POP Banks. The funds covered by the agreement focus on real asset investments, in which UB is a pioneer on the Nordic scale. The funds complement the fund selection of POP Banks with an entirely new allocation class. The distribution of the funds is expected to begin in early 2018.

Customer volume of the insurance business surpassed the limit of a hundred thousand

The business operations of Finnish P&C Insurance, which is part of the POP Bank Group, continued to grow strongly, and its number of customers exceeded 100,000 in April. As an agile operator, this digital company made use of the changes in the Finnish insurance markets by being one of the first companies to introduce a new motor liability insurance product, which offers the highest bonuses in Finland. The legislative amendments that came into effect at the beginning of the year have affected premium revenues and the market situation with regard to motor liability insurance.

Cooperation with Aktia Real Estate Mortgage Bank Plc has ended

The cooperation between POP Banks and Aktia Real Estate Mortgage Bank Plc on the intermediation of loans has ended. As part of the discontinuation of the cooperation, POP Banks sold their shares in Aktia Real Estate Mortgage Bank to Aktia Bank Plc in September 2016. Aktia Real Estate Mortgage Bank merged with Aktia Bank in February 2017. The last mortgage intermediated by POP Banks was transferred from Aktia Bank to POP Banks' balance sheet in May 2017.

Credit rating

In May, S&P Global Ratings (S&P) affirmed a long-term investment grade rating of BBB and a short-term investment grade rating of A-2 for Bonum Bank Plc.
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 given by S&P reflects POP Bank Group's strong capital adequacy and the stability and predictability of its business operations, and expectations of increased efficiency resulting from the amalgamation. The rating remained unchanged with a stable outlook after S&P's assessment in November.

POP BANK GROUP'S KEY FIGURES AND RATIOS

(EUR 1,000)	1 Jan-31 Dec 2017	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015*
Net sales	137,529	137,449	126,963
Net interes income	62,469	62,417	61,237
% of net sales	45.4 %	45.4 %	48.2 %
Profit before tax	19,488	16,958	12,023
% of net sales	14.2 %	12.3 %	9.5 %
Total operating income	118,885	114,851	103,292
Total operating expenses	-86,890	-85,733	-80,474
Cost to income ratio	73.1 %	74.6 %	77.9 %
Balance sheet total	4,275,838	4,229,417	4,071,635
Equity capital	485,649	463,021	423,716
Return on assets, ROA %	0.4 %	0.2 %	0.2 %
Return on equity, ROE %	3.3 %	2.3 %	2.1 %
Equity ratio, %	11.4 %	10.9 %	10.4 %
Common equity Tier 1 capital ratio, (CET1) %	20.9 %	20.9 %	20.2 %
Capital adequacy ratio, (TC) %	21.2 %	21.3 %	20.8 %
Impairment losses on loans and other receivables	-4,991	-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.

POP Bank Group's Earnings Development (comparison period 1 January - 31 December 2016)

POP Bank Group's profit before tax was EUR 19.5 (17.0) million, showing a growth of 14.9 per cent from the previous year. The profit for the financial period was EUR 15.7 (10.3) million.

Challenging interest environment reflected to interest income which decreased by 3.9 per cent despite the growth in loan portfolio. Amalgamation's internal trading of funds becoming more efficient and funding becoming more diversified had a decreasing impact on interest expenses which decreased by 17.7 per cent during the financial year.Net interest income remained at the level of the previous year and was EUR 62.5 (62.4) million. Commission income decreased to EUR 32.3 (33.1) million, but net commission income and expenses remained at EUR 28.4 (28.4) million. Other operating income increased by 3.5 per cent to EUR 118.9 (114.9) million.

Net investment income increased to EUR 13.2 (8.9) million. Net investment income increased due to assets sold during the financial period. No significant impairment losses were recognised in the income statement in terms of assets available for sale. The investment income of the comparison period includes the EUR 1.5 million capital gain recognised by Bonum Bank for the sale of the Visa Europe share. Net insurance income also improved and was EUR 9.7 (8.1) million. Other operating income decreased to EUR 4.7 (6.5) million. In the comparison period, other operating income increased by the earnings of EUR 2.5 million recognised from the Visa transaction of POP Banks as a non-recurring item.

Operating expenses increased by 3,6 per cent to EUR 94.4 (91.2) million. Personnel expenses, EUR 39.7 (40.1) million decreased slightly from the previous year, but other operating expenses increased from EUR 45.7 million to EUR 47.2 million. Other operating expenses increased due to costs related to regulation and investments in business development. Depreciation and impairment losses on tangible and intangible assets were EUR 7.5 (5.4) million.

A total of EUR 5.0 (6.7) million of impairment losses were recognised from loans and other receivables.

POP Bank Group's Balance Sheet (comparison information 31 December 2016)

At the end of the financial period, POP Bank Group's balance sheet totalled EUR 4,275.8 (4,229.4) million. The Group's loan portfolio increased by 4.3 per cent in the financial period, to EUR 3,325.4 (3,118.7) million. Deposits grew more modestly, by 1.4 per cent, totalling EUR 3,554.4 (3,505.1) million at the end of the financial period. Bonum Bank Plc, the Group's central credit institution, issued two certificates of deposit of EUR 5 million during the financial period. Issued debt instruments totalled EUR 109.7 (100.2) million at the end of the financial period. Group's investments consisting of investment assets and financial assets at fair value through profit or loss totalled EUR 714.5 (756.0) million at the end of the financial period.

POP Bank Group's equity was EUR 485.6 (463.0) million at the end of the financial period. POP Banks paid EUR 0.7 (0.1) million in interest on cooperative capital for 2016. In addition to cooperative contributions, POP Banks have issued POP Shares. A POP Share is an investment in the cooperative's equity pursuant to the Co-Operatives Act. In total, POP Banks have issued EUR 53.6 (43.5) million in POP Shares. In POP Banks' national financial statements, the supplementary cooperative contributions, which total EUR 26.2 (37.5) million and are included in equity, are recognised as debt capital in accordance with the IFRS, and the interest paid on them is recognised as an accrued interest expense. POP Banks' cooperative capital totalled EUR 62.8 (52.6) million.

Development of the Operating Segments

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

BANKING

The POP Bank Group's Banking segment includes the POP Banks engaged in retail banking and the amalgamation's central credit institution, Bonum Bank Plc.

Customer Accounts

At the end of 2017, POP Banks had 250,000 (249,900) customers. Of these, 84.8 (84.4) per cent were private customers, 8.0 (7.9) per cent corporate customers and 3.8 (4.3) per cent agriculture and forestry customers. At the end of the year, 87,200 (86,100) customers were also members of POP Banks.

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 2017, POP Banks continued to have the most satisfied customers of Nordic banks (EPSI Rating customer satisfaction surveys in Nordic countries in autumn 2017) and the best banking services in Finland (national customer feedback survey of Taloustutkimus in 2017).

POP Banks had 85 branch offices and service points in the end of the year.

Banking Earnings (comparison period 1 January - 31 December 2016)

Banking segment's profit before tax decreased by 29.1 per cent to EUR 21.2 (29.8) million. The cost/income ratio was 0.72 (0.65). The decrease was due to non-recurring income recognised in other operating income during the comparison period; no corresponding income was recognised for the period under review.

Operating income was EUR 108.9 (115.1) million. Despite the challenging interest rate environment, net interest income remained at the level of the previous year, totalling EUR 62.8 (62.7) million. Commission income and expenses also remained at the level of the previous year, EUR 28.7 (28.5) million. Net investment income increased to EUR 13.7 (7.1) million. Net investment income increased due to assets sold during the financial period. No significant impairment losses were recognised in the income statement in terms of assets available for sale. The investment income of the comparison period includes the EUR 1.5 million capital gain recognised by Bonum Bank for the sale of the Visa Europe share.

Other operating income decreased notably to EUR 3.4 (16.3) million. Income for the comparison period increased due to the EUR 2.5 million recognised from the Visa transaction and the EUR 10.0 million recognised for the return of the assets of the POP Banks' guarantee fund as non-recurring items. The assets of

POP Banks' guarantee fund were returned to member banks in connection with its dissolution. The internal asset distribution of POP Bank Group was not included in the Group's income, but the tax expense attributable to it decreased the Group's result for the comparison period.

Operating expenses totalled EUR 82.7 (78.6) million, showing a growth of 5.3 per cent. Personnel expenses, EUR 29.8 (30.1) million, were slightly lower than during the previous year, but other operating expenses grew by 6.8 per cent to EUR 48.0 (45.0) million. Depreciation and impairment losses on tangible and intangible assets were EUR 4.9 (3.5) million.

Impairments from loans and other receivables totalled EUR 5.0 (6.7) million, of which final credit losses accounted for EUR 3.3 (2.0) million. Impairment losses totalled 0.15 (0.21) per cent of the loan portfolio. Receivables more than 90 days overdue from the loan and guarantee portfolio grew slightly from the levels of the previous year, accounting for 0.89 (0.75) per cent of the loan portfolio.

Banking Segment's assets and liabilities (comparison information 31 December 2016)

Banking assets totalled EUR 4,309.7 (4,271.2) million at the end of the financial period. The Banking segment's loan portfolio increased by 3.5 per cent to EUR 3,327.9 (3,216.2) million. Deposits increased by 1.4 per cent, totalling EUR 3,560.2 (3,511.0) million at the end of the financial period.

INSURANCE

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

Customer Accounts

Finnish P&C Insurance Ltd started customer operations at the end of 2012. In five years, the company has grown strongly. At the end of the financial period, the company had 104,400 (91,700) customers. In 2017, the company acquired 3,700 (3,400) 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.

Key distribution partners include POP Bank Group and the Savings Banks Group, as well as car dealerships and vehicle inspection stations. Banks both direct their customers to the online store and forward contact requests to the service centre of Finnish P&C Insurance Ltd. Dealerships and vehicle inspection stations grant vehicle insurance policies in the capacity of an intermediary.

Insurance Earnings (comparison period 1 January - 31 December 2016)

Net insurance income increased by 20.4 per cent from EUR 8.1 million to EUR 9.7 million. The result before taxes was EUR -0.7 (-3.3) million.

During the operating year, the company continued its investments in increasing the efficiency of operating processes and pursuing scale benefits by increasing business volumes. The operating expense ratio improved from 34 per cent to 32 per cent. Other key objectives included the improvement of the company's loss ratio by specifying prices and selected risks and by developing claims processes. The loss ratio declined from 77 per cent to 75 per cent and the combined expense ratio from 111 per cent to 107 per cent. Operations are expected to turn profitable in 2018.

In 2017, Finnish P&C Insurance Ltd sold 127,000 (103,100) new insurance agreements, and its premiums written totalled EUR 35.2 (34.6) million. The insurance categories of motor liability insurance and land vehicles account for 86 per cent of the premiums written. Accident and health, fire and other property, as well as other direct insurance policies, generate a total of 14 per cent of premiums written. Insurance premium income was EUR 33.9 (33.0) million at the end of the financial period, representing a growth of 2.8 per cent from the year before.

Claims incurred totalled EUR 25.4 (25.3) million, showing a growth of 0.7 per cent. Claims incurred comprised claims paid EUR 23.1 (21.5) million and a change in provisions for unpaid claims EUR 3.8 (4.8) million, less an increase in the change in provisions for unpaid claims ceded to reinsurers EUR -1.5 (-1.1) million. During the operating year, the company became aware of three losses exceeding the retention limits of reinsurance. Reinsurance provisions for a total of six losses had been made to technical provisions at the end of the year.

Personnel expenses decreased to EUR 6.1 (6.5) million. Other operating expenses decreased and were EUR 3.2 (3.5) million, and depreciation and impairment was EUR 1.5 (1.3) million. Operating expenses totalled EUR 10.8 (11.3) million.

Insurance segment's assets and liabilities (comparison information 31 December 2016)

The assets of the insurance segment increased by 4.4 per cent totalling EUR 62.1 (59.5) million. The assets of non-life insurance operations totalled EUR 46.2 (42.9) million. Insurance liabilities grew by 10.1 per cent during the financial period, to EUR 29.3 (26.6) million. The liabilities of the insurance segment totalled EUR 36.2 (34.5) million.

OTHER FUNCTIONS

Other functions include 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.

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

Principles and organization 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 liquidity 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 within confirmed business risk thresholds.

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 control 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.

The loan portfolio increased by 3.4 per cent since the year-end to EUR 3,325.4 million (EUR 3,216.2 million on 31 December 2016). Majority of the lending is associated with low risk lending to private customers. Loans granted to private customers accounted for 66.7 (65.9) per cent of the loan portfolio, companies for 16.4 (16.1) per cent and agriculture entrepreneurs for 16.9 (18.0) per cent. Loans secured by residential real estate collateral accounted for 65.2 (64.8) per cent of the loan portfolio. The remaining Aktia Real Estate Mortgage Bank's mortgage loans were transferred to the balance sheets of the POP Banks.

At the end of the financial year, the amalgamation of POP Banks' receivables more than 90 days past due accounted for 0.89 (0.75) per cent of the loan portfolio. The amalgamation's receivables 30–90 days past due accounted for 0.60 (1.53) per cent of the loan portfolio at the end of the financial year.

Impairment losses on loans and receivables totaled EUR 23.3 (21.7) million at the end of the financial year. Of these, individually assessed impairment losses totaled EUR 20.3 (18.8) million and collectively assessed impairment losses totaled EUR 3.0 (2.9) million.

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 is part of the POP Bank Group.

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

Liquidity risk

During the financial period, POP Bank Alliance Coop, the central institution of POP Banks' Amalgamation, was granted a permission by the Finnish Financial Supervisory Authority to decide that the requirements laid down in the sixth part of the European Union's Credit Requirements Regulation (EU 575/2013) are not applied to its member credit institutions. The central credit institution Bonum Bank Plc manages the liquidity coverage requirement (LCR) of the amalgamation.

The POP Bank Group's liquidity position remained strong during the financial period. The regulatory requirement for the liquidity of credit institutions, LCR (Liquidity Coverage Ratio), was 80 per cent on 1 January 2017 and increased to its full level 100 per cent by 1 January 2018. The LCR of the amalgamation of POP Banks was 149 (220) per cent on 31 December 2017. The decrease of the LCR-ratio is due to the exemption of member credit institutions of the LCR-requirement, which resulted in downsizing and reorganization of the excessive LCR-eligible liquidity buffers. On 31 December 2017, the amalgamation's LCR-eligible assets before haircuts totalled EUR 327.9 (450.3) million, of which 15.5 (15.2) per cent were cash and balance at the central bank and 84.5 (73.7) per cent were highly liquid level 1 securities.

The POP Bank Group's funding position also remained strong during the financial period. The proportion of deposits from the loan portfolio remained high and the availability of financing stayed good. During the financial period, Bonum Bank Plc issued EUR 10 million of certificate of deposits as part of the EUR 150 million certificate of deposit programme. Bonum Bank Plc has previously issued EUR 100 million unsecured senior loan as part of the EUR 750 million bond loan programme established in May 2016. Entering the wholesale funding market has diversified the amalgamation's funding activities, enhanced the transmission of intra-group funding and supported the growth of the Group. The long-term financing position is therefore expected to continue its positive development.

The liquidity risk of the amalgamation is controlled through the loan/deposit –ratio and the cash flow gap analysis based on the maturity differences of assets and liabilities. A sufficient liquidity buffer is maintained to cover the short-term liquidity needs and the funding gaps in different maturity buckets.

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 of the POP Bank Group is the interest rate risk in the banking book, which is monitored and limited using both the present value and income risk models. The income risk of the amalgamation measured by the effect of one percentage point decrease in interest rates to 12 months net interest income was EUR 4.4 (3.5) million in 31.12.2017. 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, risk type 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 minimized 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 with particular focus with the development of pricing and customer selections, and the sufficient increase in business volumes, taking the profitability aspect into account.

Key operational risks still related to the building of IT systems and the controlled scaling and development of insurance business processes as the sales, customer and claim volumes have increased. Information security risks are significant for an online company and, therefore, the company is strongly investing in their management. The personnel risk is significant due to the relatively small size of the organization, however the organization and partnerships are constantly developed to minimize risks. The investment risk of the insurance company is moderate and the main risks are equity, credit and interest rate risk.

The 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. During the review period, member credit institutions have been exempted from the own funds requirements for intragroup items and large exposures limits for exposures between the central credit institution and the member credit institutions. The exemption is based on permission granted by the Financial Supervisory Authority.

The own funds of the amalgamation of POP Banks consist of cooperative contributions, supplementary cooperative contributions, POP Shares, retained earnings and other non-restricted reserves. The EU's Capital Requirements Regulation No. 575/2013 does not acknowledge the supplementary cooperative contributions previously used by the member credit institutions 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 53.6 (43.5) million of POP Shares had been issued at the end of 2017. In addition to new issuances, some former supplementary cooperative contributions have been converted to POP Shares.

At the end of 2017, the capital adequacy of the amalgamation of POP Banks was on a solid level. The amalgamation's capital adequacy ratio was 21.2 (21.3) per cent and CET1 Capital ratio 20.9 (20.9) per cent. 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.

Bank Resolution Plan

The bank resolution planning of the POP Bank Group has been initiated during the financial period. The resolution authority of the POP Bank Group is the Financial Stability Authority. As the outcome of the process, the Financial Stability Authority will determine the minimum requirement for own funds and eligible liabilities for the Amalgamation of POP Banks, as required in the Act on resolution of financial institutions and investment firms (1194/2014) chapter 8 section 7.

SUMMARY OF CAPITAL ADEQUACY

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Own funds		
Common Equity Tier 1 capital before deductions	509,965	486,655
Deductions from Common Equity Tier 1 capital	-10,271	-5,245
Total Common Equity Tier 1 capital (CET 1)	**499,694**	**481,410**
Additional Tier 1 capital before deductions	4,980	6,897
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**4,980**	**6,897**
Tier 1 capital (T1=CET1+AT1)	**504,674**	**488,307**
Tier 2 capital before deductions	2,490	2,759
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**2,490**	**2,759**
Total capital (TC=T1+T2)	**507,164**	**491,065**
Total Risk Weighted Assets	**2,395,591**	**2,308,526**
of which credit risk	2,165,067	2,084,072
of which credit valuation adjustment risk (CVA)	270	1,321
of which market risk (exchange rate risk)	25,571	25,597
of which operational risk	204,682	197,536
Fixed capital conservation buffer according to the Act on Credit Institutions (2.5%)	**59,890**	**57,713**
Countercyclical capital buffer	**285**	**222**
CET1 Capital ratio (%)	20.9 %	20.9 %
T1 Capital ratio (%)	21.1 %	21.2 %
Total capital ratio (%)	21.2 %	21.3 %
Leverage ratio		
Tier 1 capital (T1)	504,674	488,307
Total exposures	4,327,162	4,291,563
Leverage ratio, %	11.7 %	11.4 %

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.

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:

Teemu Teljosuo, Managing Director
Kurikan Osuuspankki
Chairman starting from 18 January 2017

Juha Niemelä, Managing Director
Liedon Osuuspankki
Ordinary member,
Vice Chairman

Petri Jaakkola, Managing Director
Lapuan Osuuspankki
Ordinary member,
Chairman until 18.January 2017

Ari Heikkilä, Managing Director
Konneveden Osuuspankki
Ordinary member

Marja Pajulahti, Managing Director
SOS Lapsikyläsäätiö
Ordinary member

Soile Pusa, Managing Director
Siilinjärven Osuuspankki
Ordinary member

Hannu Tuominiemi, Managing Director
Suupohjan Osuuspankki
Ordinary member

The CEO of POP Bank Alliance Coop is **Pekka Lemettinen**. CEO's deputy was **Timo Hulkko** until 5 April 2017 and starting from 5 April 2017 **Jaakko Pulli**.

The auditor of POP Bank Alliance Coop is KPMG Oy Ab, an accounting firm, with **Johanna Gråsten**, APA, as the auditor-in-charge.

Personnel and Remuneration

Personnel

At the end of 2017, the POP Bank Group had 718 (741) employees, of whom 539 (565) in banking, 116 (116) in non-life insurance and 63 (60) 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

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 4.5 (6,3) million in taxes on its earnings in 2017. 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 32.3 (32.1) million in salaries.

Events after the closing date

The Board of Directors of POP Bank Alliance Coop is not aware of any 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 2018

The 2018 result of POP Bank Group is expected to be smaller than the 2017 result, due to the challenging interest rate environment and the investments demanded by the Group's strategic development measures. The emphasis in the development of the financial sector is still on digitalisation and the preparation for changes in regulations that demand major system changes, such as the Second Payment Services Directive (PSD2) and the EU's General Data Protection Regulation (GDPR). The low level of interest rates creates challenges, particularly for the retail banking reliant on deposit funding. Competition isexpected to increase in 2018, as PSD2 lowers the threshold for introducing services that compete with traditional banking services.

IFRS 9, concerning the recognition of financial assets, will have a material impact on the result reporting of POP Bank Group in the future, particularly in relation to the recognition date of investment income and the impairment of financial assets. This is expected to increase profit volatility.

Further information:

Pekka Lemettinen, CEO, tel. +358 40 5035411 and Jaakko Pulli, CCO, tel. +358 50 4200925.

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), %

$$\frac{\text{Profit for the financial year}}{\text{Equity capital and non-controlling interest (average of the beginning and end of period)}} \times 100$$

Return on assets (ROA), %

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

Equity ratio, %

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

Common Equity Tier 1 capital ratio (CET1), %

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

Tier 1 capital ratio (T1), %

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

Capital adequacy ratio (TC), %

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

Leverage ratio, %

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

Liquidity coverage ratio (LCR), %

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

Non-life insurance key figures

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

Loss ratio, %

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

Operating expense ratio, %

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

POP BANK GROUP FINANCIAL STATEMENTS 31 DECEMBER 2017

The POP Bank Group's income statement

(EUR 1,000)	Note	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016	Change, %
Interest income		77,214	80,324	-3.9 %
Interest expenses		-14,746	-17,907	-17.7 %
Net interest income	6	**62,469**	**62,417**	**0.1 %**
Net commissions and fees	7	28,446	28,369	0.3 %
Net trading income	8	304	542	-43.9 %
Net investment income	9	13,208	8,945	47.7 %
Net income from non-life insurance	10	9,712	8,078	20.2 %
Other operating income	11	4,747	6,501	-27.0 %
Total operating income		**118,885**	**114,851**	**3.5 %**
Personnel expenses	12	-39,720	-40,062	-0.9 %
Other operating expenses	13	-47,170	-45,672	3.3 %
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	14	-7,516	-5,429	38.4 %
Total operating expenses		**-94,406**	**-91,162**	**3.6 %**
Impairment losses on loans and receivables	20	-4,991	-6,731	-25.8 %
Profit before tax		**19,488**	**16,958**	**14.9 %**
Income tax expense	15	-3,745	-6,618	-43.4 %
Profit for the financial year		**15,744**	**10,340**	**52.3 %**
Attributable to				
Equity owners of the POP Bank Group		15,759	10,260	53.6 %
Non-controlling interests		-15	80	…
Total		**15,744**	**10,340**	**52.3 %**

The POP Bank Group's statement of other comprehensive income

(EUR 1,000)	Note	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016	Change, %
Profit for the financial year		15,744	10,340	52.3 %
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Gains/(losses) arising from remeasurement of defined benefit plans	38	-709	-135	425.3 %
Items that may be reclassified to profit or loss				
Changes in fair value reserve				
Available-for-sale financial assets	33	-1,868	6,434	...
Other comprehensive income for the financial period		**13,167**	**16,639**	**-20.9 %**
Other comprehensive income for the financial period attributable to				
Other comprehensive income for the financial period attributable to owners of the POP Bank Group		13,182	16,559	-20.4 %
Other comprehensive income for the financial period attributable to non-controlling interests		-15	80	...
Total other comprehensive income for the financial year		**13,167**	**16,639**	**-20.9 %**

The POP Bank Group's balance sheet

(EUR 1,000)	Note	31 Dec 2017	31 Dec 2016	Change, %
Assets				
Liquid assets	18	82,843	99,174	-16.5 %
Financial assets at fair value through profit or loss	19	1,262	1,681	-24.9 %
Loans and receivables from credit institutions	20	39,258	73,515	-46.6 %
Loans and receivables from customers	20	3,325,363	3,188,681	4.3 %
Derivative contracts	21	647	2,541	-74.5 %
Investment assets	22	713,226	754,362	-5.5 %
Non-life insurance assets	23	46,236	42,915	7.7 %
Intangible assets	24	11,003	13,566	-18.9 %
Property, plant and equipment	25	33,028	35,604	-7.2 %
Other assets	26	19,956	15,459	29.1 %
Tax assets	27	3,015	1,920	57.1 %
Total assets		**4,275,838**	**4,229,417**	**1.1 %**
Liabilities				
Liabilities to credit institutions	28	6,964	11,385	-38.8 %
Liabilities to customers	28	3,554,357	3,505,090	1.4 %
Non-life insurance liabilities	29	34,153	32,420	5.3 %
Debt securities issued to the public	30	109,713	100,220	9.5 %
Supplementary cooperative capital	31	26,219	37,512	-30.1 %
Other liabilities	32	33,221	52,764	-37.0 %
Tax liabilities	27	25,562	27,006	-5.3 %
Total liabilities		**3,790,189**	**3,766,396**	**0.6 %**
Equity capital				
Cooperative capital				
Cooperative contributions		9,217	9,051	1.8 %
POP Shares		53,574	43,508	23.1 %
Total cooperative capital	**33**	**62,791**	**52,559**	**19.5 %**
Reserves	33	157,779	155,086	1.7 %
Retained earnings	33	264,631	254,913	3.8 %
Total equity attributable to the owners of the POP Bank Group		**485,201**	**462,558**	**4.9 %**
Non-controlling interests		448	463	-3.2 %
Total equity capital		**485,649**	**463,021**	**4.9 %**
Total liabilities and equity capital		**4,275,838**	**4,229,417**	**1.1 %**

Statement of changes in the POP Bank Group's equity capital

(EUR 1,000)	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
Balance at 1 Jan 2017	52,559	10,717	144,369	254,913	462,558	463	463,021
Comprehensive income for the financial year							
Profit for the financial year	-	-	-	15,759	15,759	-15	15,744
Other comprehensive income	-	-1,868	-	-709	-2,577	-	-2,577
Total comprehensive income for the financial year	**-**	**-1,868**	**-**	**15,050**	**13,182**	**-15**	**13,167**
Transactions with shareholders							
Increase in cooperative capital	10,231	-	-	-52	10,179	-	10,179
Profit distribution	-	-	-	-718	-718	-	-718
Transfer of reserves	-	-	4,614	-4,614	-	-	-
Transactions with shareholders total	**10,231**	**-**	**4,614**	**-5,384**	**9,461**	**-**	**9,461**
Balance at 31 Dec 2017	**62,791**	**8,849**	**148,983**	**264,579**	**485,201**	**448**	**485,649**

(EUR 1,000)	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
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 on the comparative period due to the dissolution of POP Banks' guarantee fund in June 2016.

POP Bank Group's cash flow statement

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Cash flow from operations		
Profit for the financial year	15,744	10,340
Adjustments to profit for the financial year	20,016	26,305
Increase (-) or decrease (+) in operating assets	**-113,836**	**-256,264**
Receivables from credit institutions	10,598	39,360
Receivables from customers	-141,611	-181,043
Investment assets	39,842	-121,519
Non-life insurance assets	-3,693	-5,305
Other assets	-18,972	12,243
Increase (+) or decrease (-) in operating liabilities	**30,031**	**108,416**
Liabilities to credit institutions	-4,421	-101,398
Liabilities to customers	51,254	165,248
Debt securities issued to the public	9,494	76,032
Non-life insurance liabilities	-954	156
Other liablilities	-19,738	-27,414
Income tax paid	-5,604	-4,208
Total cash flow from operations	**-48,046**	**-111,203**
Cash flow from investing activities		
Changes in other investments	-	15,060
Purchase of PPE and intangible assets	-3,886	-7,848
Proceeds from sale of PPE and intangible assets	2,428	3,953
Net cash used in investing activities	**-1,459**	**11,165**
Cash flow from financing activities		
Change in cooperative capital, net	10,231	12,958
Interests paid on cooperative capital and other profit distribution	-718	-74
Changes in other equity capital items	-	-2,822
Net cash used in financing activities	**9,514**	**10,062**
Change in cash and cash equivalents		
Cash and cash equivalents at period-start	146,338	236,314
Cash and cash equivalents at the end of the period	106,347	146,338
Net change in cash and cash equivalents	**-39,991**	**-89,976**

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Interest received	77,654	90,334
Interest paid	16,103	23,388
Dividends received	2,312	1,929

Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on receivables	5,016	6,731
Depreciations	9,468	7,040
Technical provision	2,687	5,880
Other	2,845	6,654
Adjustments to profit for the financial year	**20,016**	**26,305**

Cash and cash equivalents		
Liquid assets	82,843	99,174
Receivables from credit institutions payable on demand	23,504	47,164
Total	**106,347**	**146,338**

NOTES

NOTES CONCERNING THE PREPARATION OF THE FINANCIAL STATEMENTS

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

The POP Bank Group (hereinafter also referred to as the "Group") is a financial group comprising POP Banks and POP Bank 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.

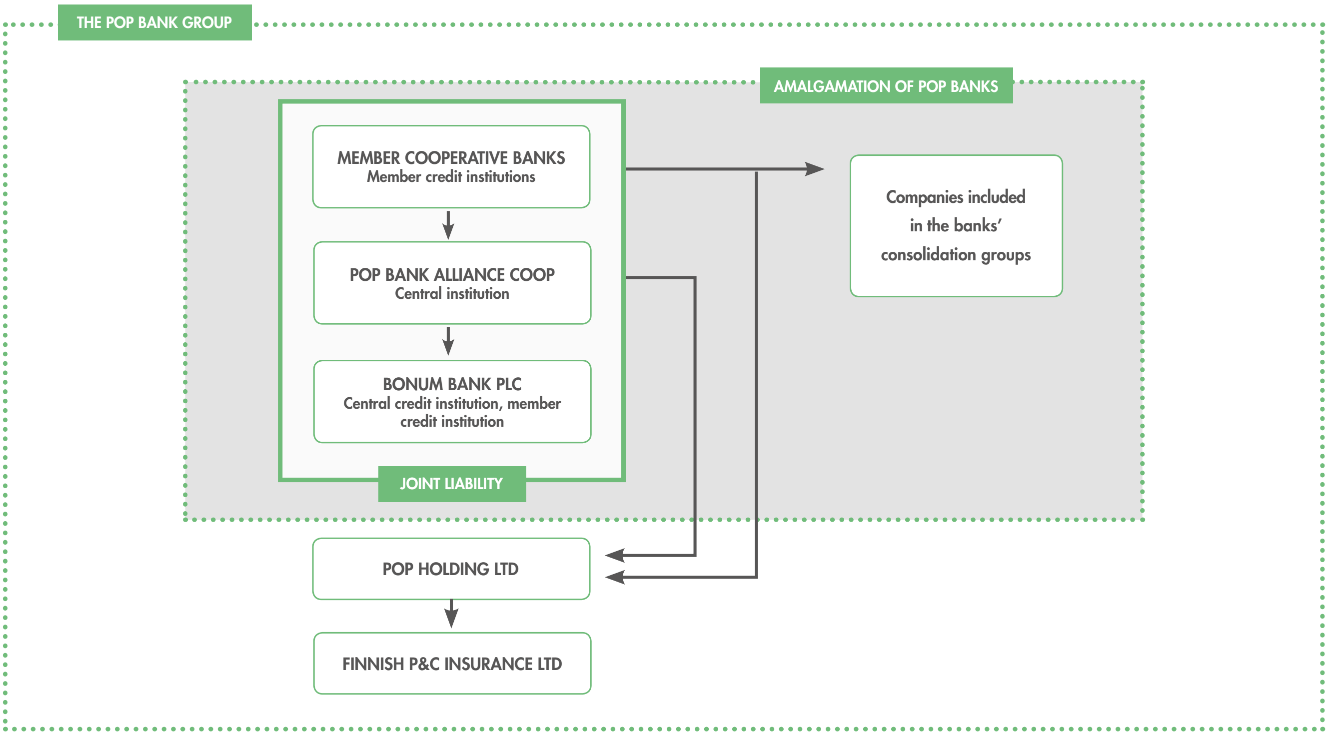
The POP Bank Group also includes other entities besides the entities included in the amalgamation of POP Banks. The most significant entities that do not belong to the POP Bank Group are POP Holding Ltd and its wholly-owned subsidiary Finnish P&C Insurance Ltd, which are not in the scope of joint liability.

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 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 40.

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

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



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 Coop has adopted the report and consolidated financial statements on 15 February 2018. The financial statements will be distributed to the general meeting of POP Bank Alliance Coop cooperative on 5 April 2018.

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.

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, 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.

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.

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. 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. 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. Suomen Vahikovakuutus Ltd, which belongs to the POP Bank Group, has capitalized also 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. The amount of the provision for unearned premiums is calculated of the contractual amendments on the contract level.

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 had two 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. 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.

12.1 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. 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. The Board of Directors of POP Bank Alliance Coop has 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. Impairment is considered long term when it has continuously lasted for more than 12 months.

12.2 Determining fair value

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

The management must assess whether the markets for financial instruments are active or not. Furthermore, the management must assess whether an individual financial instrument is subject to active trading and whether the price information obtained from the market is a reliable indication of the instrument's fair value. When the fair value of financial instruments is determined using a valuation technique, the management's judgement is needed in the choice of the valuation technique to be applied. Insofar as there is no market input available for the techniques, 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 37.

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 37.

12.3 Impairment of intangible assets

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

12.4 Assumptions used in actuarial calculations

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

13. NEW IFRS STANDARDS AND INTERPRETATIONS

13.1 Amended standards and interpretations applied in the financial period

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

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative (effective for financial years beginning on or after 1 January 2017). The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments have no material impact on the disclosures in POP Bank Group's financial statements.
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (effective for financial years beginning on or after 1 January 2017). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments have no impact on POP Bank Group's financial statements.

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

In the financial period starting 1 January 2018, 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.

- 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.

POP Bank Group will apply the standard for the first time once it becomes mandatory on 1 January 2018. Comparison figures will not be adjusted. POP Bank Group will continue to use the IAS 39 hedge accounting requirements also after IFRS 9 has been implemented.

Classification and measurement

According to IFRS 9, financial assets are recognized and measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss in accordance with the business model applied to their management. Only debt instruments, whose cash flows consist solely of payments of principle and interest, may to be classified to be measured at amortised cost or at fair value through other comprehensive income.

POP Bank Group's loans and receivables will continue to be measured at amortised cost. At the date of implementation the Group did not have financial instruments held to maturity, and it didn't reclassify financial assets classified as available-for-sale under IAS 39 to be measured at amortised cost under IFRS 9.

According to IFRS 9, all investments in shares and participations are measured at fair value, and changes in their value are recognised mainly through profit and loss, instead of being recognised in other comprehensive income. Also investments in funds are measured at fair value and changes in their value recognised through profit and loss. In the future, changes in the value of investments in shares and funds will be recognised in the income statement before realisation, while under IAS 39 they are recognised through profit and loss at the time they are sold. Furthermore, changes in the value of such debt securities where cash flows do not solely consist of payments of principle and interest are also recognized through profit and loss. POP Bank Group has adopted the exception in IFRS 9, according to which changes in fair value of investments in shares may be recognised in other comprehensive income, to investments in shares regarded stratetig. In case such an investment is subsequently sold, the result for sale is recognised in equity.

Adoption of IFRS 9 classification will not have material effect on the measurement of POP Bank Group financial assets. Financial assets classified to loans and receivables according to IAS 39 were classified to financial assets measured at amortised cost, when IFRS 9 was adopted. Of the available-for-sale assets in investment assets EUR 448,208 thousand were reclassified to financial assets at fair value through profit or loss and EUR 230,121 thousand to financial assets at fair value through other comprehensive income. Of the financial assets available-for-sale in non-life insurance assets EUR 27,809 thousand were classified to financial assets at fair value through profit or loss and EUR 6,954 thousand to financial assets at fair value through other comprehensive income. Reclassification had no impact on asset values or the amount of equity capital.

Impairment

IFRS 9 requires impairment to be recognized on the basis of expected credit losses on all debt instruments which are recognized at amortized cost or fair value through other comprehensive income and on off-balance sheet exposures.

The calculation of expected credit losses in POP Bank Group is based on four main segments:

– Private customers (excl. agricultural customers)
– Corporate customers (excl. agricultural customers)
– Agricultural customers
– Investment portfolio

In all of these segments, the calculation of expected credit losses will be based on the probability of default (PD), loss given default (LGD) and exposure at default (EAD) on contract level. In the measurement of expected credit losses, a transition will be made from the recognition of expected credit losses over 12 months to the recognition of expected credit losses throughout the lifetime of the contract as the credit risk increases significantly after the initial recognition.

The credit risk is considered as significantly increased when any of the following criteria is fulfilled on a contract:

– The contract is more than 30 days past due
– The contract terms have been renegotiated within 12 months due to financial difficulties of the obligor
– The probability of default of the obligor has increased significantly in comparison to origination
– The obligor has been defined as a potential problem customer for other criteria than is listed above

The obligor and all contracts of the obligor are treated as in default if any of the following criteria is fulfilled:

– The obligor has exposures more than 90 days past due, and the amount overdue exceeds 100 euros
– The bank has initiated recollection on the obligor's contracts
– A corporate client is in bankruptcy proceedings or in reorganization process

IFRS 9 requires reasonably available financial information to be used when estimating the amount of expected credit losses. For the calculation of expected credit losses, a model based on three macroeconomic scenarios and the related probabilities has been developed in POP Bank Group. The model is used to adjust the parameters used in the calculation when determining expected credit losses.

The adoption of the expected credit loss model will reduce the carrying amount of loan receivables and debt instruments which are recognized at amortized cost in comparison with the current accounting policies. Upon adoption to IFRS 9, the difference between impairment provisions and expected credit losses will be deducted from the retained earnings of the amalgamation, which will reduce the CET1 capital used in the calculation of capital adequacy. The own funds of the amalgamation on 1 January 2018 are estimated to decrease 7,086 thousand euros, and the total capital ratio according to IFRS 9 on 1 January 2018 is estimated to be 20.9 %. The Board of Directors of POP Bank Alliance Coop has decided that the amalgamation of POP Banks will not apply transitional rules on capital adequacy upon transition to IFRS 9.

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.

– Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial years beginning on or after 1 January 2018). The amendments respond to industry concerns about the impact of differing effective dates by allowing two optional solutions to alleviate temporary accounting mismatches and volatility. The amendments have no impact on POP Bank Group's financial statements.

– Amendments to IAS 40 Investment Property: Transfers of Investment Property* (effective for financial years beginning on or after 1 January 2018). When making transfers of an investment property, the amendments clarify that a change in management's intentions, in isolation, provides no evidence of a change in use. The examples of evidences of a change in use are also amended so that they refer to property under construction or development as well as to completed property. The amendments have no impact on POP Bank Group's financial statements.

– Annual Improvements to IFRSs (2014-2016 cycle)* (effective for financial years beginning on or after 1 January 2018). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 1 and IAS 28. The amendments have no impact on POP Bank Group's financial statements.

* = The standard has not been approved to be applied in the EU as of 31 December 2017.

In financial periods starting later than on 1 January 2018, the POP Bank Group will adopt the following new standards of IASB starting from their entry into force or from the beginning of the financial period following their entry into force, if they have been approved to be applied in the EU before the closing date.

– 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 is assessing the impact of the new standard.

– New IFRS 17 Insurance Contracts* (effective for financial years beginning on or after 1 January 2021). The new standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. This standard replaces IFRS 4-standard. The POP Bank Group has started to assess the impact of the new standard.

– IFRIC 23 Uncertainty over Income Tax Treatments* (effective for financial years beginning on or after 1 January 2019). The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company's chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The interpretation has no impact on POP Bank Group's financial statements.

– Amendments to IFRS 9: Prepayment Features with Negative Compensation* (effective for financial years beginning on or after 1 January 2019). The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation. The amendments have no impact on ABC's consolidated financial statements.

– Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures* (effective for financial years beginning on or after 1 January 2019). The amendments clarify that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendments have no impact on POP Bank Group's financial statements.

– Annual Improvements to IFRSs (2015-2017 cycle)* (effective for financial years beginning on or after 1 January 2019). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 3, IFRS 11, IAS 12 and IAS 23. The amendments have no impact on POP Bank Group's financial statements.

Other amendmends to standards to be applied later have no impact on POP Bank Group's financial statements.

* = The standard has not been endorsed for use byin the EU as of 31 December 2017.

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 Ltd 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 and sets 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 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 co-operative 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 institutions, within limits set by confirmed business risk thresholds, carry their business risks independently and are liable for their capital adequacy. A member credit institution of the amalgamation may not take such high risk in its operations that it causes essential risks to the combined liquidity coverage ratio or capital adequacy of the entities included in the amalgamation.

The capital adequacy, liquidity coverage ratio and customer risks of the entities included in the amalgamation of POP Banks are supervised at the consolidated amalgamation level in accordance with the Amalgamation Act. The entities included in the amalgamation must have the minimum combined own funds 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 to its member credit institutions. On the reporting date, the central institution has exempted the member credit institutions from own funds requirement for intra-group exposures, large exposure limitation for exposures between the central credit institution and member credit institutions and liquidity coverage ratio, which is managed in the amalgamation by Bonum Bank Plc.

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, within limits set by confirmed business risk thresholds, carry their business risks independently and are liable for their 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.

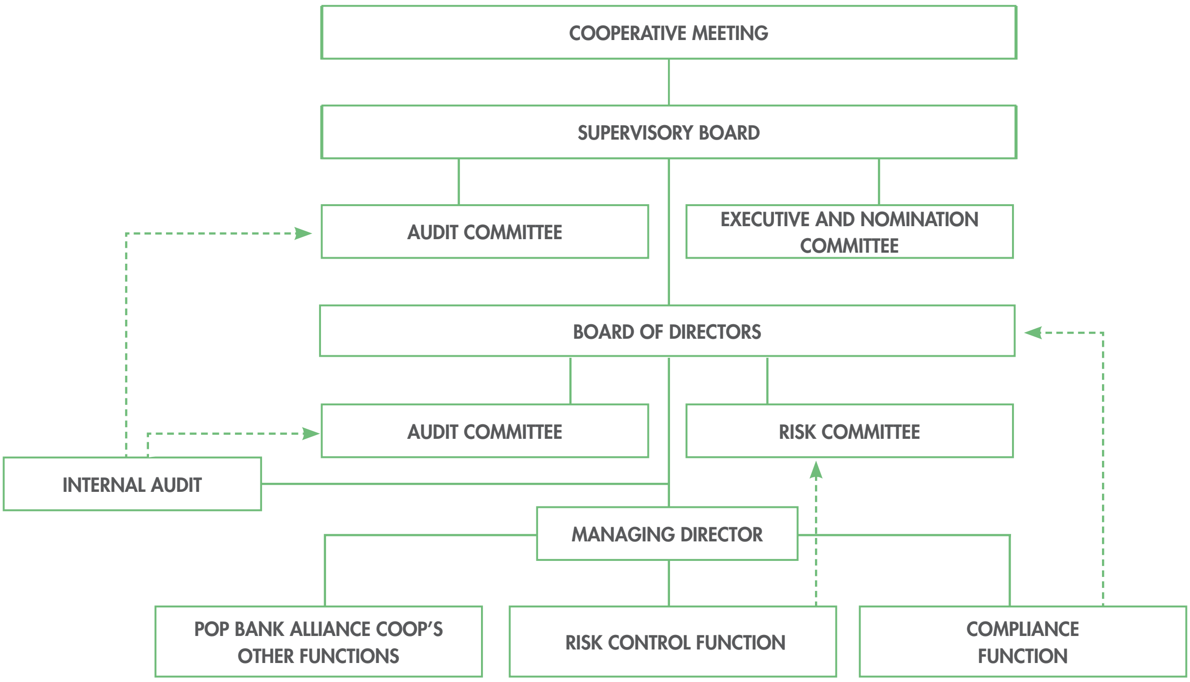
The business of the amalgamation of POP Banks is focused on the low-risk part of retail banking in accordance with its strategy. The amalgamation does not have excessively large customer or investment risk concentrations with regard to its financial risk-taking ability.

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 risk 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.

Organisation of risk management and internal control

I LINE OF DEFENCE	**MEMBER CREDIT INSTITUTIONS** • Day-to-day risk management • Supervisor control • The executive management and Board of Directors of the member credit institution have the primary responsibility for control
II LINE OF DEFENCE	**INDEPENDENT RISK CONTROL AND COMPLIANCE OF THE CENTRAL INSTITUTION** • Control • Instruction • Support, processes, tools
III LINE OF DEFENCE	**CENTRAL INSTITUTION'S INTERNAL AUDIT** • Independent assessment of control based on risk-based audit activity

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

3. CAPITAL ADEQUACY MANAGEMENT

The 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. During the review period, member credit institutions have been exempted from the own funds requirements for intragroup items and large exposures limits for exposures between the central credit institution and the member credit institutions. The exemption is based on permission granted by the Financial Supervisory Authority.

The amalgamation of POP Banks publishes material information regarding 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 both corporate and retail receivables. The amalgamation applies the standardised approach for the calculation of the capital requirement for credit risk, and the basic indicator approach for calculating the capital requirement 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 with limits having been set for the minimum diversification of lending 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 53 574 thousand of POP Shares had been issued at the end of 2017 (43 508 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 90.2 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 3,325,363 thousand through loans recognized on the balance sheet.

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

2017 Exposure class (EUR 1,000)	Total exposures	Financial collateral	Secured by real estate	Guarantees	Other
Exposures to corporates	682,239	4,362	0	22,095	181
Retail exposures	662,712	8,473	0	108,897	450
Exposures secured by mortgages on immovable property	2,303,933	0	2,303,933	0	0
Exposures in default	47,966	4	25,354	1,054	0
Other exposure classes total	820,545	0	0	0	0
Total	**4,517,394**	**12,838**	**2,329,287**	**132,046**	**631**

2016 Exposure class (EUR 1,000)	Total exposures	Financial collateral	Secured by real estate	Guarantees	Other
Exposures to corporates	678,169	4,417	0	25,965	275
Retail exposures	649,527	8,797	0	106,701	600
Exposures secured by mortgages on immovable property	2,197,591	0	2,197,591	0	0
Exposures in default	40,284	10	19,698	605	0
Other exposure classes total	897,939	0	0	0	0
Total	**4,463,510**	**13,223**	**2,217,288**	**133,271**	**875**

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 3,325,363 thousand at the end of 2017 (3,216,152 thousand at the end of 2016). The remaining Aktia Real Estate Mortgage Bank's mortgage loans were transferred to the balance sheets of the POP Banks.

Lending to private customers is mainly granted against residential real estate collateral. If necessary, other collateral is also used. A majority, 65.2% (64.8%) 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 2017	31 Dec 2016	Change, %
Private customers	2,218,322	2,118,347	4.7 %
Agricultural customers	562,381	579,244	-2.9 %
Corporate customers	544,660	518,560	5.0 %
Total	**3,325,363**	**3,216,152**	**3.4 %**

Corporate lending by industry 31 Dec 2017

	31 Dec 2017		31 Dec 2016	
(EUR 1,000)	Balance sheet value	%	Balance sheet value	%
Real estate	147,629	28.5 %	123,906	23.9 %
Construction	83,836	16.2 %	73,571	14.2 %
Industry	74,824	14.4 %	70,797	13.7 %
Wholesale and retail trade	71,461	13.8 %	66,665	12.9 %
Transport and storage	42,399	8.2 %	40,825	7.9 %
Other industries	124,512	24.0 %	142,796	27.5 %
Total	**544,660**	**100.0 %**	**518,560**	**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 0.89% of the loan portfolio on 31 December 2017 (0,75% on 31 December 2016). The member credit institution's receivables 30–90 days overdue accounted for 0,60% of the loan portfolio at the end of 2017 (1,53%).

Past due exposures 31 Dec 2017

(EUR 1,000)		% of loan portfolio
Exposures 30-90 days past due	20,093	0.60 %
Exposures over 90 days past due	26,723	0.80 %
Exposures 90-180 days past due	7,275	0.22 %
Exposures 180 days - 1 year past due	11,941	0.36 %
Exposures over 1 year past due	10,352	0.31 %

Past due exposures 31 Dec 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 %

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 3,280 thousand (1,927) in 2017.

Impairment losses on loans and receivables totaled EUR 23,309 thousand (21,667) at the end of the financial year. Of these, individually assessed impairment losses totaled EUR 20,323 thousand (18,782) and collectively assessed impairment losses totaled EUR 2,986 thousand (2,884). Of the collective impairment losses, EUR 1,206 thousand (1,181) concerned the exposures of private customers and EUR 1,499 thousand (1,414) corporate customers and EUR 280 thousand (289) agriculture customers' exposures. Accumulated impairment losses on loans and other receivables were 0.72% (0.67%) of the loan portfolio at the end of the financial year.

Impaired exposures by customer group 31 Dec 2017

EUR (1,000)	Balance sheet value	No impairment (gross)	Impaired (gross)	Individual impairment	Collective impairment
Private customers	2,218,322	2,215,358	10,587	6,416	1,206
Agricultural customers	562,381	554,654	10,819	2,812	281
Corporate customers and others	544,660	542,613	14,641	11,096	1,499
Receivables from customers total	**3,325,363**	**3,312,625**	**36,048**	**20,323**	**2,986**

Impaired exposures by customer group 31 Dec 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**

Impairment losses on loans and other receivables

EUR (1,000)	Total	Individually assessed	Collectively assessed
Impairment losses 1 January 2017	21,667	18,782	2,884
+ Increases in impairment losses	6,236	6,236	-
- Reversals of impairment losses	-1,416	-1,416	-
+/- Change in collectively assessed impairment losses	102	-	101
- Reversals of impairment losses from final credit losses	-3,280	-3,280	-
Impairment losses 31 December 2017	**23,309**	**20,323**	**2,986**

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**

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 may 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 balance sheet items. In the net present value method, the market values of each balance sheet item are expected to be formed as the present value of the cash flows generated by the instrument in question. The net interest income model predicts the future net interest income as market interest rates change.

The 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. There are only small amounts of derivative contracts left in the amalgamation 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 2017

(Eur 1,000)	Change	1-12 months	Effect on earnings 13-24 months	25-36 months	Effect on equity
Interes rate risk	+1% point	7,579	17,915	21,374	63,399
Interes rate risk	-1% point	-4,355	-6,647	-10,156	-19,979

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

(Eur 1,000)	Change	1-12 months	Effect on earnings 13-24 months	25-36 months	Effect on equity
Interest rate risk	+1% point	7,200	12,954	14,041	33,039
Interest 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.

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 changes in interest rates or share prices on profit will not threaten the capital adequacy or profitability of the member credit institution or the entire amalgamation.

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, risk type and counterparty. 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 has one counterparty within the POP Bank Group, POP Holding LLC, in which the amount of investments and other receivables 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.

Investment and liquidity portfolio

(EUR 1,000)	2017	2016
Available-for-sale financial assets		
Debt securities	452,866	411,948
Fund units	211,207	287,629
Public equity	3,926	9,777
Other equity and shares	5,373	2,765
Financial assets at fair value through profit or loss		
Structured products	1,262	1,681
Investment and liquidity portfolio total	**674,633**	**713,800**

In addition to the investment portfolio, POP Banks have 58,159 (37,790) 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. In addition, the liquidity portfolio of the amalgamation contains cash 82,843 (99,174) thousand euros, of which receivables from central bank 70,179 (85,073) thousand euros , receivables from other credit institutions repayable on demand 19,525 (42,616) thousand euros and other receivables from other credit institutions 15,739 (26,531) thousand euros.

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, which are determined based on the member credit institutions' liquidity needs and amalgamation-level risk appetite. The central institution's Board of Directors approves the liquidity strategy and the principles of liquidity management. In addition, the Board of Directors approves the funding plan and the liquidity contingency plan made by the central credit institution. The risk control function plans, develops and tests methods used in liquidity risk management. 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 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 independent risk management function of the central institution reports on the liquidity position regurarly to the Board of Directors of the central institution. 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

Intra-day liquidity, liquidity reserve and liquidity coverage ratio are the central ways to limit and measure the liquidity risk of the amalgamation.

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 member credit institutions follow continuously their intraday liquidity position. 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 80% in the beginning of year 2017, from which the requirement increased to its final level 100 per cent by 1 January 2018.

During the financial period, POP Bank Alliance Coop, the central institution of POP Banks' Amalgamation, was granted a permission by the Finnish Financial Supervisory Authority to decide that the requirements laid down in the sixth part of the European Union's Credit Requirements Regulation (EU 575/2013) are not applied to its member credit institutions. The central credit institution Bonum Bank Plc manages the liquidity coverage requirement (LCR) of the amalgamation.

The Board of Directors of the amalgamation's central institution specifies the required LCR level for the amalgamation in order to ensure a moderate liquidity risk position. The central institution monitors the LCR indicator of the amalgamation. The amalgamation's LCR-eligible assets before value haircuts totalled EUR 327,858 (450,311) thousand on 31 December 2017, of which 15.5 (15.2) per cent were cash and balance at a central bank and 84.5 (73.7) per cent liquid level 1 assets of extremely high liquidity. The amalgamation's LCR indicator was 149 (220) per cent on 31 December 2017. The decrease of the LCR indicator is due to the reorganization of the LCR-reserves within the amalgamation.

LCR disclosure template EU LIQ1

Consolidated		Total weighted adjusted value (average)			
EUR					
Quarter ending on		31 March 2017	30 June 2017	30 September 2017	31 December 2017
Number of data points used in the calculation of averages		12	12	12	12
21	**LIQUIDITY BUFFER**	401,290,767	401,861,425	390,287,343	370,776,527
22	**TOTAL NET CASH OUTFLOWS**	194,476,314	200,397,823	210,904,701	219,673,769
23	**LIQUIDITY COVERAGE RATIO (%)**	206.85 %	201.96 %	186.82 %	170.20 %

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 as the central credit institution entered the wholesale capital markets in 2016. In 2017, the central credit institution Bonum Bank Plc issued 10 Million Euros of certificate of deposits as part of its 150 Million Euro domestic CD-program.Bonum Bank Plc has earlier issued a senior bond of 100 Million Euros as part of its 750 Million Euro domestic EMTN -program started in May 2016. 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 continues to increase and providing liquidity to member credit institutions gets more efficient.

Maturity of financial assets 31 Dec 2017

(EUR 1,000)	less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash	82,843	-	-	-	82,843
Financial assets at fair value through profit or loss	-	-	1,262	-	1,262
Loans and receivables from credit institutions	29,008	7,750	2,500	-	39,258
Loans and receivables from customers	96,721	271,194	1,164,680	1,792,768	3,325,363
Derivatives	3	217	449	-	669
Investments	338,767	124,181	179,456	35,921	678,324
Total	**547,342**	**403,341**	**1,348,348**	**1,828,689**	**4,127,720**

Maturity of financial assets 31 Dec 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 liabilities 31 Dec 2017

(EUR 1,000)	less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to credit institutions	6,882	12	59	12	6,964
Liabilities to customers	2,972,599	419,638	162,110	10	3,554,357
Debt securities issued	-	9,996	99,717	-	109,713
Subordinated liabilities	-	-	-	-	0
Total	**2,979,481**	**429,646**	**261,886**	**22**	**3,671,034**

Maturity of financial liabilities 31 Dec 2016

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

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 0.8% of the balance sheet (0.9%).

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 of the contractual amendments on the contract level. 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.

During the financial year, two annuity losses were confirmed for the company.

5.5.4 Quantitative information about insurance risks

Technical provisions totalled EUR 29,273 thousand (26,586), with the equalization provisions amounting to EUR 0.

Premiums earned for the financial year, claims incurred and technical provisions 31 Dec 2017

(EUR 1,000)	Gross	Ceded to reinsurers	Retained
Premiums earned	34,862	971	33,891
Claims incurred	26,979	1,541	25,438
Provision for unearned premiums	13,281	-	13,281
Provision for claims outstanding	18,597	2,605	15,992

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	667	32,980
Claims incurred	26,326	1,064	25,262
Provision for unearned premiums	12,899	-	12,899
Provision for claims outstanding	14,751	1,064	13,687

5.6 Investment risks

5.6.1. Specification of risks and risk management strategy

The purpose of the investment activities of Finnish P&C Insurance Ltd is to secure the company's capital and to obtain a reasonable return on the defined investment horizon. Investment activities should not risk company profitability, solvency and liquidity.

Market risk associated with investment assets refers to loss risk or 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 categories, return objectives, currency restrictions, liquidity objectives, maintenance of investment assets and authorities.

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

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

At the end of 2017, investment assets including cash at bank totaled EUR 44.1 million (37.7) 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 credit institutions and companies and bank deposits. At the end of the year, the average maturity of fixed income investments was 1.8 years (1.7).

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 and other key risks include strategic risks, legal risks and data security risks.

Examples of previous risks include possible denial of service attacks or other attempts to prevent or interfere with the company's online business. The other instance is that the business environment quickly change to other way than the company's strategy is prepared.

NOTES ON OPERATING SEGMENTS

NOTE 5 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 POP Bank Group's accounting policies under IFRS. The chief operating decision maker of the POP Bank Group is the Board of Directors of the Group's central institution POP Bank Alliance Coop. The central institution is responsible for the allocation of resources and assessing the profitability of operations.

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

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

Internal transactions between banks included in the Banking segment are eliminated in segment reporting. Pricing between segments is based on market prices. Transactions between the Banking segment and the Insurance segment are included in eliminations presented with reconciliations. Unallocated items include income statement and balance sheet items related to other operations. The most significant institutions included in other operations are POP Holding Ltd and POP Bank Alliance Coop.

POP BANK GROUP'S OPERATING SEGMENTS 2017

Income statement 1 January–31 December 2017

(EUR 1,000)	Banking	Insurance	Segments total
Net interest income	62,796	-	62,796
Net commissions and fees	28,676	-	28,676
Net trading income	304	-	304
Net investment income	13,656	-	13,656
Net income from non-life insurance	-	9,712	9,712
Other operating income	3,424	389	3,813
Total operating income*	**108,856**	**10,101**	**118,957**
Personnel expenses	-29,830	-6,089	-35,919
Other operating expenses	-48,023	-3,217	-51,240
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-4,852	-1,465	-6,317
Total operating expenses	**-82,705**	**-10,771**	**-93,477**
Impairment losses on loans and receivables	-4,991	-	-4,991
Profit before tax	**21,160**	**-670**	**20,489**
Income tax expense	-3,866	-24	-3,889
Profit for the period	**17,294**	**-694**	**16,600**
*of which external	108,856	10,101	118,957
of which internal	-	-	-

Balance Sheet 31 Dec 2017

(EUR 1,000)	Banking	Insurance	Segments total
Assets			
Liquid assets	82,843	-	82,843
Financial assets at fair value through profit or loss	1,262	-	1,262
Loans and receivables from credit institutions	35,164	8,945	44,109
Loans and receivables from customers	3,327,879	-	3,327,879
Derivative contracts	647	-	647
Investment assets	807,829	-	807,829
Non-life insurance assets	-	46,236	46,236
Intangible assets	3,538	6,763	10,301
Property, plant and equipment	30,994	31	31,025
Other assets	17,688	75	17,763
Tax assets	1,905	8	1,913
Total assets	**4,309,749**	**62,058**	**4,371,806**
Liabilities			
Liabilities to credit institutions	6,882	-	6,882
Liabilities to customers	3,560,233	-	3,560,233
Non-life insurance liabilities	-	34,176	34,176
Debt securities issued to the public	109,713	-	109,713
Supplementary cooperative capital	26,219	-	26,219
Other liabilities	27,905	1,811	29,716
Tax liabilities	25,369	193	25,562
Total liabilities	**3,756,321**	**36,180**	**3,792,501**

THE 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	28,512	-	28,512
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*	**115,146**	**8,069**	**123,215**
Personnel expenses	-30,097	-6,514	-36,611
Other operating expenses	-44,961	-3,480	-48,441
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-3,515	-1,328	-4,843
Total operating expenses	**-78,572**	**-11,322**	**-89,894**
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 for the period 1 Jan - 31 Dec 2016 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 and is therefore not included in the Group's profit. The tax effect of EUR -2 million is included in Group's profit.

Presentation of the reference period's net commissions and fees on the segment report have been adjusted according to presentation of the financial period of 2017. The change of presentation increased the net commissions and fees of the reference perios by EUR 6.0 million and decreased correspondingly other operating income. The change of presentation has no impact on the profit of the segment.

Balance Sheet 31 Dec 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**

RECONCILIATIONS

Income

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Segments' total income	118,957	123,215
Unallocated income, other functions	8,269	6,804
Eliminations of internal items between segments and other functions	-8,341	-9,148
Group's total income	**118,885**	**114,851**

Result

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Segments' total result	16,600	19,810
Unallocated items	-856	-9,470
Group's total result	**15,744**	**10,340**

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Assets		
Total assets of the segments	4,371,806	4,330,711
Eliminations of internal items between segments	-4,973	-4,135
Unallocated assets, other functions	73,560	99,091
Eliminations of items between segments and other functions	-164,555	-196,249
Group's total assets	**4,275,838**	**4,229,417**
Liabilities		
Segments' total liabilities	3,792,501	3,785,342
Eliminations of internal items between segments	-4,973	-4,135
Eliminations of internal items between segments and other functions	7,333	31,712
Unallocated liabilities, other functions	-4,672	-46,523
Group's total liabilities	**3,790,189**	**3,766,396**

NOTES TO INCOME STATEMENT

NOTE 6 Net Interest Income

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Interest Income		
Loans and advances to credit institutions	589	745
Loans and advances to customers*	70,038	71,280
Debt securities	3,951	4,142
Hedging derivatives	2,031	3,224
Other interest income	606	932
Total interest income	**77,214**	**80,324**
Interest expenses		
Liabilities to credit institutions	-389	-408
Liabilities to customers	-13,356	-16,569
Debt securities issued to the public	-976	-835
Hedging derivatives	0	-1
Other interest expenses	-25	-93
Total interest expenses	**-14,746**	**-17,907**
Net interest income	**62,469**	**62,417**
*Impaired loans	419	423

Interest income of the financial period includes EUR 810 thousand negative interest expenses and interest expenses of the financial period include EUR 225 thousand negative interest income.

NOTE 7 Net Commissions and Fees

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Commissions and fees		
Lending	7,987	7,774
Card business	3,872	4,523
Deposits	431	459
Payment transfers	11,393	11,060
Legal services	2,083	1,958
Intermediated services	2,787	3,672
Issuing guarantees	609	437
Funds	2,291	1,914
Other commission income	890	1,263
Total commissions and fees	**32,343**	**33,060**
Commissions expenses		
Card business	-1,069	-1,575
Payment transfers	-2,306	-1,209
Other commission expenses	-522	-1,907
Total commission expenses	**-3,897**	**-4,691**
Net commissions and fees	**28,446**	**28,369**

NOTE 8 Net Trading Income

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Net income from hybrid instruments		
Capital gains and losses	-4	4
Fair value gains and losses	137	256
Net income from foreign exchange operation	168	308
Net income from hedge accounting		
Change in the fair value of hedging instruments	-1,244	-2,175
Change in the fair value of hedged instruments	1,247	2,149
Net trading income	**304**	**542**

NOTE 9 Net Investment Income

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Net income from available-for-sale financial assets		
Debt securities		
Capital gains and losses	150	-7
Impairment losses	0	1
Transferred from fair value reserve	1,969	1,281
Debt securities	**2,120**	**1,275**
Shares and participations		
Dividend income	2,272	1,914
Capital gains and losses	506	-203
Impairment losses	-211	-1,453
Transferred from fair value reserve	9,174	7,339
Total shares and participations	**11,740**	**7,598**
Total net income from available-for-sale financial assets	**13,860**	**8,873**
Net income from investment property		
Rental income	3,224	4,279
Capital gains and losses	539	-3
Other income from investment property	128	94
Maintenance charges and expenses	-2,491	-2,674
Depreciations and amortisation of investment property	-2,042	-1,611
Other expenses from investment property	-10	-12
Total net income from investment property	**-651**	**72**
Total net investment income	**13,208**	**8,945**

Net income from shares and participations of the reference year includes income of EUR 1,479 thousand transferred from fair value reserve at the time of Visa transaction.

NOTE 10 Net Income from Non-life Insurance

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Insurance premium revenue		
Premiums written	35,244	34,585
Change in the provision for unearned premiums	-382	-939
Gross insurance premium revenue	**34,862**	**33,646**
Ceded to reinsurers	-971	-667
Total insurance premium revenue	**33,891**	**32,980**
Claims incurred		
Claims paid	-23,133	-21,505
Change in provision for unpaid claims	-3,846	-4,822
Total claims incurred, gross	**-26,979**	**-26,327**
Ceded to reinsurers	1,541	1,064
Total claims incurred	**-25,438**	**-25,263**
Net investment income	1,259	361
Total net income from non-life insurance	**9,712**	**8,078**

Net investment income from non-life insurance

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Net income from available-for-sale financial assets		
Debt securities		
Interest income	276	150
Capital gains and losses	-11	34
Transfers from fair value reserve	231	2
Total debt securities	**496**	**186**
Shares and participations		
Dividend icome	40	7
Capital gains and losses	-	164
Transfers from fair value reserve	787	13
Total shares and participations	**827**	**183**
Total net income from available-for-sale financial assets	**1,323**	**369**
Other investment income and expenses		
Interest income	75	54
Interest expenses	-2	-1
Other investment income	26	21
Investment income management expenses	-163	-83
Other investment income and expenses total	**-64**	**-8**
Total net investment income from non-life insurance	**1,259**	**361**

Net investment income from non-life insurance includes all income and expenses from investments.

Insurance category-specific information

(1,000 euroa)		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	2017	1,201	1,081	-195	-367	-19	500
	2016	973	899	-613	-318	-14	-46
Motor vehicle	2017	19,259	19,619	-14,104	-5,886	616	245
	2016	20,358	20,177	-14,458	-6,663	411	-533
Land vehicles	2017	11,155	10,923	-9,435	-3,409	-20	-1,942
	2016	10,320	9,891	-8,890	-3,378	-7	-2,384
Vessels, aircraft, rail stock and transport	2017	540	505	-388	-165	-1	-50
	2016	484	450	-436	-158	-4	-149
Fire and other property loss	2017	2,384	2,105	-2,600	-729	-4	-1,228
	2016	1,876	1,699	-1,656	-614	8	-564
Third party	2017	202	181	-17	-62	0	102
	2016	168	155	-63	-55	1	38
Legal expenses	2017	309	274	-194	-94	0	-14
	2016	250	230	-150	-82	2	0
Other	2017	194	174	-46	-59	0	68
	2016	156	145	-60	-51	1	34
Direct insurance total	**2017**	**35,244**	**34,862**	**-26,979**	**-10,771**	**570**	**-2,318**
	2016	**34,585**	**33,646**	**-26,327**	**-11,319**	**397**	**-3,603**
Reinsurance	2017	-	-	-	-	-	-
	2016	-	-	-	-	-	-
Total	**2017**	**35,244**	**34,862**	**-26,979**	**-10,771**	**570**	**-2,318**
	2016	**34,585**	**33,646**	**-26,327**	**-11,319**	**397**	**-3,603**
Provision for collective guarantee item	2017						-
	2016						-
Change in the equalisation provisions	2017						-
	2016						-
Balance on technical account 2017	**2017**						**-2,318**
	2016						**-3,603**

NOTE 11 Other Operating Income

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Rental income from owner-occupied properties	673	120
Capital gains on owner-occupied properties	55	16
Recognition of Deposit Guarantee Fund contribution	2,532	2,123
Other income	1,487	4,242
Total other operating income	**4,747**	**6,501**

Other operating income includes recognition of EUR 2,532 (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 in 2016 includes income of EUR 2,528 thousand recognised by POP Banks for the Visa-transaction.

NOTE 12 Personnel Expenses

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Wages and salaries	-32,291	-32,119
Indirect personnel expenses	-905	-1,349
Pension expenses		
Defined contribution plans	-7,230	-6,668
Defined benefit plans	706	75
Total personnel expenses	**-39,720**	**-40,062**

Remuneration of personnel (Pillar III information on remuneration)

Fixed remuneration and variable remuneration

	Number of personnel		Fixed wages and salaries		Variable remuneration	
Employee group	2017	2016	2017	2016	2017	2016
Management	6	6	778	799	0	-
Risk-takers	102	105	8,273	9,095	174	264
Other personnel	610	630	22,095	20,849	970	1,112
Total	**718**	**741**	**31,147**	**30,743**	**1,144**	**1,376**

Remuneration by business area 2017

	Banking	Insurance	Other operations	Total
Fixed wages and salaries	23,874	4,168	3,105	31,147
Variable remuneration	347	797	-	1,144
Total remuneration	**24,221**	**4,965**	**3,105**	**32,291**

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**

The amalgamation of POP Banks did not pay signing bonuses or redundancy payments to risk-takers in 2017. Redundancy payments were defined to five risk-takers. The amalgamation of POP Banks has not paid compensation of over EUR 1 million in 2017 or such variable remunerations that should be delayed.

Remuneration to related parties is presented in Note 41. Other information about remuneration is presented in Note 3 Governance and management.

Other than audit services from KPMG Oy Ab to companies in POP Bank Group totalled to EUR 8 thousand during the financial year 2017.

NOTE 13 Other Operating Expenses

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Other administrative expenses		
Other personnel expenses	-3,057	-3,010
Office expenses	-4,722	-4,129
ICT expenses	-19,244	-19,129
Telecommunications	-3,152	-3,030
Entertainment and marketing expenses	-4,644	-5,050
Other administrative expenses total	**-34,819**	**-34,347**
Other operating expenses		
Rental expenses	-2,106	-2,039
Expenses arising from owner-occupied properties	-3,819	-3,765
Capital losses on owner-occupied properties	-27	-22
Insurance and security expenses	-3,222	-2,869
Audit fees	-292	-427
Other services	-1,184	-706
Other operating expenses	-1,993	-1,497
Other operating expenses total	**-12,351**	**-11,325**
Total other operating expenses	**-47,170**	**-45,672**

Audit fees		
Statutory audit	-266	-329
Audit-related services	-6	-11
Tax advisory	-11	-4
Other expert services	-9	-83
Total audit fees	**-292**	**-427**

Insurance and security expenses include EUR 2,532 (2,123) thousand of contribution collected by the Financial Stability Board for the deposit guarantee fund. Contributions from the old Deposit Guarantee Fund recognised as income are presented in other operating income.

Other than audit services from KPMG Oy Ab to companies in POP Bank Group totalled to EUR 8 thousand during the financial year 2017.

NOTE 14 Depreciation, Amortisation and Impairment of Property, Plant and Equipment and Intangible Assets

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Depreciation and amortisation on property, plant and equipment and intangible assets		
Buildings	-2,334	-1,169
Machinery and equipment	-949	-970
Intangible assets	-4,015	-2,551
Other	-16	-810
Total depreciation and amortisation of property, plant and equipment and intangible assets	**-7,314**	**-5,500**
Impairment losses on property, plant and equipment		
Owner-occupied properties	-202	71
Impairment losses on property, plant and equipment total	**-202**	**71**
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets total	**-7,516**	**-5,429**

NOTE 15 Income Tax

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Current tax	-4,544	-6,257
Tax for prior financial years	224	12
Other direct taxes	-12	-131
Change in deferred taxes	588	-240
Total income tax expense	**-3,745**	**-6,618**

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

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Profit before tax	19,488	16,958
Income tax rate	20 %	20 %
Tax calculated at the tax rate	-3,898	-3,392
+ Tax-exempt income	61	93
- Non-deductible expenses	-244	-570
- Taxable earnings not included in the profit	-	-2,006
+ Deductible expenses not included in the profit	43	16
+ Use of tax losses carried forward from previous years	4	-2
- Deferred tax assets not recognised on losses	-213	-731
+/- Difference due to the differing tax rate of foreign companies	12	42
+/- Other	266	51
+/- Tax for prior financial years	224	12
+/- Other direct taxes	-	-131
Tax expense in the income statement	**-3,745**	**-6,618**

NOTE 16 Net Income and Expenses for Financial Assets and Financial Liabilities by Measurement Category

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Financial assets at fair value through profit or loss		
Interest income	77	129
Fair value gains and losses	53	74
Capital gains and losses	-4	4
Total income and expenses from financial assets at fair value through profit or loss	**126**	**206**
Available-for-sale financial assets		
Interest income and expenses	4,419	4,624
Transferred from fair value reserve	11,143	9,621
Dividend income	2,272	1,921
Capital gains and losses	656	-851
Impairment losses	-211	-1,421
Income and expenses from available-for-sale financial assets	**18,279**	**13,894**
Loans and receivables		
Interest income	70,081	71,619
Other income	9,553	9,537
Impairment of loans and receivables	-1,643	-6,731
Total net income on loans and receivables	**77,992**	**74,426**
Other financial liabilities		
Interest expenses	-14,746	-17,906
Other expenses	0	-83
Total income and expenses on other financial liabilities	**-14,746**	**-17,989**
Derivative contracts		
Interest income and expenses from fair value hedges	2,031	3,223
Net income from fair value hedging	3	-26
Other income and expenses	84	182
Total income and expenses on derivative contracts	**2,118**	**3,379**
Net income from foreign exchange operation	168	308
Net income and expenses for financial assets and financial liabilities	**83,937**	**74,223**
Other operating income and expenses	-64,449	-57,266
Profit before tax	**19,488**	**16,958**

NOTES TO ASSETS

Note 17 Classification of Financial Assets and Financial Liabilities

Financial assets 31 December 2017

(EUR 1,000)	Loans and receivables	Measured at fair value through profit or loss	Hedging derivatives	Available-for-sale	Total carrying amount
Liquid assets	82,843	-	-	-	82,843
Assets at fair value through profit or loss	-	1,262	-	-	1,262
Loans and receivables from credit institutions	39,258	-	-	-	39,258
Loans and receivables from customers	3,325,363	-	-	-	3,325,363
Derivative contracts	-	-	647	-	647
Investment assets					
Debt securities	-	-	-	452,866	452,866
Shares and participations	-	-	-	225,459	225,459
Non-life insurance assets	-	-	-	34,763	34,763
Total financial assets	**3,447,464**	**1,262**	**647**	**713,088**	**4,162,461**

Investment assets balance sheet item also includes real estates of EUR 34 902 thousand that do not belong to financial assets. Non-life insurance assets include EUR 11 473 thousand other than financial assets, mainly insurance receivables from customers.

Financial liabilities 31 December 2017

(EUR 1,000)	Other financial liabilities	Total carrying amount
Liabilities to credit institutions	6,964	6,964
Liabilities to customers	3,554,357	3,554,357
Debt securities issued to the public	109,713	109,713
Supplementary cooperative capital	26,219	26,219
Total financial liabilities	**3,697,252**	**3,697,252**

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 balance sheet item also includes real estates of EUR 36 598 thousand that do not belong to financial assets. 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**

NOTE 18 Liquid assets

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Cash	12,664	14,101
Receivables from central banks repayable on demand	70,179	85,073
Total cash and cash equivalents	**82,843**	**99,174**

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

NOTE 19 Financial Assets at Fair Value Through Profit or Loss

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Hybrid instruments		
Bonds	1,262	1,681
Total financial assets at fair value through profit or loss	**1,262**	**1,681**

NOTE 20 Loans and Receivables

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Loans and receivables from credit institutions		
Deposits		
Repayable on demand	23,504	47,164
Other	15,754	26,351
Total loans and advances to credit institutions	**39,258**	**73,515**
Loans and advances to customers		
Loans	3,245,635	3,107,229
Loans granted from government funds	5,960	7,311
Guarantees	594	49
Used overdrafts	38,980	41,927
Credit card receivables	32,373	31,296
Other receivables	1,822	868
Total loans and advances to customers	**3,325,363**	**3,188,681**
Total loans and receivables	**3,364,621**	**3,262,196**

Impairment losses recorded on loans and receivables

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Increases in impairment losses	-6,236	-7,336
Reversals of impairment losses	1,416	777
Change in collectively assessed impairment losses	-102	-101
Reversals of impairment losses from final credit losses	3,280	1,927
Final credit losses	-3,349	-1,997
Impairment losses on loans and receivables	**-4,991**	**-6,731**

Accrued impairment losses on loans and receivables in the balance sheet

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Impairment losses 1 January	21,667	16,933
+ Increases in impairment losses	6,236	7,336
- Reversals of impairment losses	-1,416	-777
+/- Change in collectively assessed impairment losses	102	101
- Reversals of impairment losses from final credit losses	-3,280	-1,927
Impairment losses 31 December	**23,309**	**21,667**

NOTE 21 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 2017

(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	30,000	15,000	-	45,000	647
Hedging derivatives total	**30,000**	**15,000**	**-**	**45,000**	**647**

(EUR 1,000)	1 Jan-31 Dec 2017
Change in the fair value of the hedged item	-684

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**

(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 22 Investment Assets

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Available-for-sale financial assets		
Debt securities	452,866	411,948
Shares and participations	225,459	305,816
Investment properties	34,902	36,598
Total investment assets	**713,226**	**754,362**

Investments of non-life insurance are included in non-life insurance assets. Non-life insurance assets are presented in note 23.

Available-for-sale financial assets 31 December 2017

	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	56,284	-	-	-	56,284
Other	137,439	215,132	-	215,132	352,572
Other					
Public sector entities	234,968	-	-	-	234,968
Other	24,174	-	10,326	10,326	34,501
Investmens total	**452,866**	**215,132**	**10,326**	**225,459**	**678,324**

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 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 2017	375	3,705	4,081
+ Increases in impairment losses	-	211	211
- Reversals of impairment losses	-	-320	-320
Impairment losses 31 December 2017	**375**	**3,596**	**3,972**

(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)	2017	2016
Acquisition cost 1 January	48,062	44,135
+ Increases	1,128	1,375
- Decreases	-1,430	-1,554
+/- Transfers	548	4,105
Acquisition cost 31 December	**48,307**	**48,062**
Accumulated depreciation and impairment 1 January	-11,464	-10,037
+/- Accumulated depreciation on decreases and transfers	100	185
- Depreciation	-1,185	-1,220
- Impairment losses	-857	-391
Accumulated depreciation and impairment 31 December	**-13,406**	**-11,464**
Carrying amount 1 January	36,598	34,098
Carrying amount 31 December	34,902	36,598

NOTE 23 Non-life Insurance Assets

(EUR 1,000)	1 Jan-31 Dec 2017	1 Jan-31 Dec 2016
Investments		
Shares and participations	6,954	5,806
Bonds	27,809	22,824
Other assets		
Other receivables		
Direct insurance operations	10,876	13,749
Other receivables	596	537
Non-life insurance assets total	**46,236**	**42,915**

Available-for-sale financial assets 31 December 2017

(EUR 1,000)	Available-for-sale debt securities At fair value	Available-for-sale participations At fair value	Total
Quoted			
Other	27,809	6,954	34,763
Total investements	**27,809**	**6,954**	**34,763**

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**

NOTE 24 Intangible Assets

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Information systems	8,070	9,685
Other intangible assets	1,993	3,566
Incomplete intangible assets	940	315
Total intangible assets	**11,003**	**13,566**

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 2017, the carrying amount of the non-life insurance information system totalled EUR 6,301 (7,348) 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 2017

(EUR 1,000)	Information systems	Other intangible assets	Incomplete intangible assets	Total
Acquisition cost 1 January	16,499	6,520	315	23,334
+ Increases	181	294	1,053	1,529
- Decreases	-	-76	-	-76
+/- Transfers	-	428	-428	0
Acquisition cost 31 December	**16,680**	**7,166**	**940**	**24,787**
Accumulated depreciation and impairment 1 January	-6,814	-2,954	-	-9,768
+/- Accumulated depreciation on decreases and transfers	-	0	-	0
- Depreciation	-1,796	-2,219	-	-4,015
- Other changes	-	0	-	0
Accumulated depreciation and impairment 31 December	**-8,610**	**-5,174**	**-**	**-13,784**
Carrying amount 1 January	9,685	3,566	315	13,566
Carrying amount 31 December	8,070	1,993	940	11,003

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 25 Property, Plant and Equipment

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Owner-occupied properties		
Land and water	2,797	2,967
Buildings	26,508	28,893
Machinery and equipment	2,714	2,956
Other tangible assets	769	788
Construction in progress	240	0
Total property, plant and equipment total	**33,028**	**35,604**

Changes in property, plant and equipment 2017

(EUR 1,000)	Owner-occupied properties	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost 1 January	56,694	18,659	962	-	76,315
+ Increases	676	814	13	240	1,743
- Decreases	-1,742	-292	-	-	-2,034
+/- Transfers	-547	-1	-	-	-548
Acquisition cost 31 December	**55,081**	**19,180**	**975**	**240**	**75,476**
Accumulated depreciation and impairment 1 January	-24,834	-15,703	-174	-	-40,711
+/- Accumulated depreciation on decreases and transfers	1,488	186	-	-	1,674
- Depreciation	-2,334	-949	-16	-	-3,299
- Impairment losses	-96	0	-15	-	-112
Accumulated depreciation and impairment 31 December	**-25,776**	**-16,466**	**-206**	**-**	**-42,448**
Carrying amount 1 January	31,860	2,956	788	-	35,604
Carrying amount 31 December	29,304	2,714	769	240	33,028

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 26 Other Assets

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Payment transfer receivables	83	65
Accrued income and prepaid expenses	0	
Interest	11,100	11,539
Other accrued income and prepaid expenses	4,509	2,467
Other	4,264	1,388
Other assets total	**19,956**	**15,459**

NOTE 27 Deferred Taxes

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Tax assets		
Deferred tax assets	2,202	1,734
Income tax receivables	813	186
Total tax assets	**3,015**	**1,920**
Tax liabilities		
Deferred tax liabilities	24,698	25,497
Income tax liability	864	1,509
Total tax liabilities	**25,562**	**27,006**

Deferred tax assets

(EUR 1,000)	1 Jan 2017	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2017
Available-for-sale financial assets	338	-57	-73	209
Collective impairment	577	19	-	596
Real estate depreciation adjustments	738	208	-	947
Advances received	-	-	-	-
Defined benefit pension plans	65	-141	177	101
Tax losses	208	-60	-	149
Consolidation	-193	394	-	201
Total deferred tax assets	**1,734**	**364**	**104**	**2,202**

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**

The companies belonging to the POP Bank Group have EUR 33 520 (32 511) 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 2017	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2017
Appropriations	21,886	-28	-	21,858
Available-for-sale financial assets	2,946	-	-575	2,371
Intangible assets	665	-196	-	469
Total deferred tax liabilities	**25,497**	**-224**	**-575**	**24,698**

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**

Amounts recognised in other comprehensive income and related deferred taxes 2017

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	-2,370	502	-1,868
Defined benefit plans	-886	177	-709
Amounts recognised in other comprehensive income, total	**-3,256**	**679**	**-2,577**

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 28 Liabilities to Credit Institutions and Customers

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Liabilities to credit institutions		
Repayable on demand	6,896	5,893
Not repayable on demand	67	5,492
Total liabilities to credit institutions	**6,964**	**11,385**
Liabilities to customers		
Deposits		
Repayable on demand	2,787,538	2,559,514
Not repayable on demand	760,415	935,748
Other financial liabilities		
Not repayable on demand	6,405	9 829
Total liabilities to customers	**3,554,357**	**3,505,090**
Total liabilities to credit institutions and customers	**3,561,321**	**3,516,475**

NOTE 29 Non-life Insurance Liabilities

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Insurance contract liabilities	29,273	26,586
Liabilities from direct insurance operations	277	235
Liabilities from reinsurance operations	192	189
Other	4,412	5,411
Total non-life insurance liabilities	**34,153**	**32,420**

Insurance contract liabilities

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Provision for unearned premiums	13,281	12,899
Ceded to reinsurers	-	-
Provisions for unpaid claims	18,597	14,751
Ceded to reinsurers	-2,605	-1,064
Total insurance contract liabilities	**29,273**	**26,586**

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 30 Debt Securities Issued to the Public

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Debt securities issued to the public	99,717	99,521
Other	0	
Certificate of deposits	9,996	699
Total debt securities issued to the public	**109,713**	**100,220**

In the financial year 2016, 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.

Two certificates of deposits of total nominal value of EUR 10 million were issued during the financial year.

NOTE 31 Supplementary Cooperative Capital

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Supplementary cooperative capital 1 January	37,512	58,231
Increase in supplementary cooperative capital	-	1,262
Refunds of supplementary cooperative capital	-8,323	-9,195
Converted into POP Shares	-2,970	-12,786
Supplementary cooperative capital 31 December	**26,219**	**37,512**
of which cancelled supplementary cooperative contributions	4,304	6,259

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 2017, a total of EUR 2,970 (12,786) thousand of supplementary cooperative capital was converted into POP Shares. More detailed information about POP Shares is provided in Note 33.

NOTE 32 Other Liabilities

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Pension liabilities	506	326
Other liabilities		
Payment transfer liabilities	13,910	35,112
Accrued expenses		
Interest payable	3,916	5,233
Advances received	2,332	2,274
Other accrued expenses	11,190	9,241
Other		
Liabilities on card transactions	1,367	577
Total other liabilities	**33,221**	**52,764**

Defined benefit pension plans and related liabilities are presented in Note 38.

NOTE 33 Equity Capital

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Total equity attributable to the owners of the POP Bank Group		
Cooperative capital, cooperative contributions	9,217	9,051
of which cancelled cooperative contributions	497	470
Cooperative capital, POP Shares	53,574	43,508
of which cancelled POP Shares	3,956	2,516
Restricted reserves		
Reserve fund	52,494	52,494
Reserves based on the Articles of Association/rules	2,143	1,041
Fair value reserve		
Available-for-sale financial assets	8,849	10,717
Non-restricted reserves		
Other non-restricted reserves	94,294	90,834
Retained earnings		
Profit (loss) for previous financial years	248,873	244,653
Profit (loss) for the financial year	15,759	10,260
Total equity attributable to the owners of the POP Bank Group	**485,201**	**462,558**
Non-controlling interests	448	463
Total equity capital	**485,649**	**463,021**

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 2017, POP Banks had a total of 87 (86) thousand members.

POP Shares

The POP Bank Group's equity capital also includes investments made by the members of the member cooperative banks in POP Shares issued by the member cooperative banks. In accordance with its' rules, the cooperative bank has an unconditional right to refuse from the payment of interest on POP Shares and refund of capital.

The member banks of the POP Bank Group issued a total of EUR 12,582 (25,604) thousand of POP Shares during the financial year 2017. Of this, the share new sales amounted to EUR 9,612 (12,817) thousand and converted supplementary cooperative contributions amounted to EUR 2,970 (12,786) thousand. POP Shares totalled to EUR 53 574 (43,508) thousand in 31 December 2017.

The targeted interest rate on POP Shares is 2.0% - 2.5%. The interest to be paid is confirmed after the end of the financial year at the cooperative meeting according to the proposal of the Board of Directors. The interest rate objective can change annually. POP Shares do not convey voting rights or other rights to the member.

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

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 31.

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.

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 2017	31 Dec 2016
Fair value reserve 1 January	10,717	4,283
Fair value change, shares and participations	8,648	12,825
Fair value change, other financial instruments	1,147	3,894
Transferred to the income statement	-12,161	-8,635
Other changes	-4	-18
Deferred taxes	502	-1,632
Fair value reserve 31 December	**8,849**	**10,717**

OTHER NOTES

NOTE 34 Collateral Given

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Given on behalf of own liabilities and commitments		
Pledges	2,665	2,164
Mortgages	400	400
Collateral given to the Bank of Finland	16,389	36,403
Total collateral given	**19,454**	**38,967**

NOTE 35 Off-balance-sheet Commitments

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Guarantees	21,251	23,727
Loan commitments	206,217	193,807
Total off-balance sheet commitments	**227,468**	**217,534**

NOTE 36 Offsetting of Financial Assets and Financial Liabilities

Financial assets subject to netting agreements which are not offset on the balance sheet 2017

(EUR 1,000)	Financial instruments	Security held as collateral	Cash held as collateral	Net amount
Derivative contracts	647	-	-	647
Total financial assets	**647**	**-**	**-**	**647**

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 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 37 Fair Values by Valuation Technique

Items recurrently measured at fair value 31 December 2017

(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	-	-	1,262	1,262	1,262
Derivative contracts					
Banking	-	647	-	647	647
Available-for-sale financial assets					
Banking	409,490	251,961	16,873	678,324	678,324
Insurance	34,763	-	-	34,763	34,763
Total financial assets	**444,253**	**252,609**	**18,135**	**714,997**	**714,997**

Items measured at amortised cost 31 December 2017

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets					
Loans and receivables					
Banking	-	3,394,151	-	3,394,151	3,364,621
Other than financial assets					
Investment property					
Banking	-	-	41,619	41,619	34,902
Total assets measured at amortised cost	**-**	**3,394,151**	**41,619**	**3,435,770**	**3,399,523**
Financial liabilities					
Other financial liabilities					
Banking	101,382	3,583,765	-	3,685,147	3,697,252
Total financial liabilities measured at amortised cost	**101,382**	**3,583,765**	**-**	**3,685,147**	**3,697,252**

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	102,532	3,553,053	-	3,655,585	3,654,206
Total financial liabilities measured at amortised cost	**102,532**	**3,553,053**	**-**	**3,655,585**	**3,654,206**

Fair value determination of financial assets and financial liabilities

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

Fair value hierarchies

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

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

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

Transfers between fair value hierarchies

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

During the financial period, securities of EUR 400 thousand have been transferred from hierarchy level 1 to hierarchy level 3. A regular public quote could not be obtained for the securities, which is why they have been transferred to hierarchy level 3.

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 2017 Banking	1 Jan-31 Dec 2016 Banking
Carrying amount 1 January	1,681	3,383
+ Purchases	200	196
- Sales	-646	-368
- Matured during the financial year	-	-1,600
+/- Realised changes in value recognised in income statment	-4	34
+/- Unrealised changes in value recognised in the income statement	32	36
Carrying amount at the end of period	**1,262**	**1,681**

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

(EUR 1,000)	2017 Banking	2016 Banking
Carrying amount 1 January	16,035	30,959
+ Purchases	3,843	4,052
- Sales	-4,007	-12,435
- Matured during the period	-281	-1,105
+/- Realised changes in value recognised in income statement	76	-668
+/- Unrealised changes in value recognised in income statement	-259	-50
+/- Changes in value recognised in other comprehensive income	1,066	228
+ Transfers to level 3	400	-
- Transfers to level 1 and 2	-	-4,947
Carrying amount at the end of period	**16,873**	**16,035**

SENSITIVITY ANALYSIS OF FINANCIAL INSTRUMENTS AT LEVEL 3

Available-for-sale financial assets 31 December 2017

		Carrying amount	
(EUR 1,000)	Carrying amount	Positive	Negative
Banking	18,585	1,624	-1,624
Total available-for-sale financial assets	**18,585**	**1,624**	**-1,624**

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**

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 38 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 2017	31 Dec 2016
Current service cost	181	193
Net interest	3	1
Costs recognised in income statement	**184**	**194**
Remeasurements	886	148
Comprehensive income before tax	**1,070**	**342**
Present value of obligation 1 January	19,665	19,938
Current service cost	181	193
Interest expense	288	366
Actuarial gains (-)/losses (+) arising from experiential adjustments	-408	-812
Actuarial gains (-)/losses (+) arising from changes in economic expectations	177	915
Benefits paid	-854	-936
Present value of obligation 31 December	**19,049**	**19,665**
Fair value of plan assets 1 January	19,339	19,685
Interest income	285	365
Return on plan assets excl. items in interest expense/income	-1,117	-45
Benefits paid	-854	-936
Contributions paid	890	269
Fair value of plan assets 31 December	**18,543**	**19,339**
Present value of obligation	19,049	19,665
Fair value of plan assets	18,543	19,339
Net liability in balance sheet 31 December	**506**	**326**
Net liability in balance sheet 1 January	326	253
Costs recognised in income statement	184	194
Contributions paid	-890	-269
Remeasurements in comprehensive income statement	886	148
Net liability in balance sheet 31 December	**506**	**326**
Actuarial assumptions		
Discount rate, %	1.60 %	1.50 %
Pay development, %	2.00 %	1.50 %
Pension increase, %	1.8 %/0.0 %	1.66 %/0.0 %
Inflation rate, %	1.56 %	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 2017	31 Dec 2016
Change of +0.5% in discount rate	-31	-20
Change of -0.5% in discount rate	34	22
Pay development +0.5%	119	112
Pay development -0.5%	-119	-112
Change of +0.5% in pension increase	1,141	1,195
Change of -0.5% in pension increase	-1,076	-1,127

Duration based on the weighted average of the obligation is 13.4 years.

The POP Bank Group expects to contribute approximately EUR 636 thousand to defined benefit plans in 2018.

NOTE 39 Operating Leases

Group as lessee, future minimum lease payments

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Less than one year	1,444	910
Within 1–5 years	2,094	1,897
More than five years	941	894
Future minimum lease payments total	**4,478**	**3,701**

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 2017	31 Dec 2016
Less than one year	451	578
Within 1–5 years	115	143
More than five years	1,312	-
Future minimum lease payments receivable total	**1,878**	**720**

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 portion of leases in effect until further notice is the lease in accordance with the term of notice.

NOTE 40 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 2017 (EUR 1,000)	Balance sheet 31 Dec 2016 (EUR 1,000)
Hannulan Osuuspankki	Hankasalmi	29,607	28,361
Honkajoen Osuuspankki	Honkajoki	53,576	53,699
Isojoen Osuuspankki	Isojoki	63,121	61,415
Jämijärven Osuuspankki	Jämijärvi	59,114	58,633
Kannonkosken Osuuspankki	Kannonkoski	53,199	51,681
Keuruun Osuuspankki	Keuruu	187,274	180,929
Konneveden Osuuspankki	Konnevesi	124,496	115,958
Kosken Osuuspankki	Koski Tl	173,331	173,159
Kurikan Osuuspankki	Kurikka	287,088	285,521
Kyrön Seudun Osuuspankki	Pöytyä	93,755	90,133
Kyrönmaan Osuuspankki	Isokyrö	254,679	243,382
Kyyjärven Osuuspankki	Kyyjärvi	73,186	69,859
Lammin Osuuspankki	Hämeenlinna	173,775	168,508
Lanneveden Osuuspankki	Saarijärvi	46,029	43,243
Lappajärven Osuuspankki	Lappajärvi	106,749	106,474
Lapuan Osuuspankki	Lapua	240,113	232,914
Lavian Osuuspankki	Pori	73,717	69,248
Liedon Osuuspankki	Lieto	122,164	120,620
Nivalan Järvikylän Osuuspankki	Nivala	86,205	77,700
Piikkiön Osuuspankki	Kaarina	110,329	105,857
Pohjanmaan Osuuspankki	Kauhava	446,678	450,874
Reisjärven Osuuspankki	Reisjärvi	148,062	142,463
Sievin Osuuspankki	Sievi	145,410	145,654
Siilinjärven Osuuspankki	Siilinjärvi	313,285	304,878
Suupohjan Osuuspankki	Kauhajoki	803,766	797,132
Tiistenjoen Osuuspankki	Lapua	37,914	35,426

Subsidiaries and associates consolidated in the POP Bank Group

		Group's holding	
	Domicile	31 Dec 2017	31 Dec 2016
POP Bank Alliance Coop (central institution of the Group)	Helsinki	100.0 %	100.0 %
Bonum Bank Ltd (wholly-owned subsidiary of POP Bank Alliance Coop)	Espoo	100.0 %	100.0 %
POP Holding Ltd	Helsinki	100.0 %	100.0 %
Finnish P&C Insurance Ltd (wholly-owned subsidiary of POP Holding Ltd)	Espoo	100.0 %	100.0 %
Pajker AS	Audru, Viro	67.5 %	67.5 %
White Beach Development AS (subsidiary of Pajker AS)	Audru, Viro	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 Dec 2017	31 Dec 2016
Asunto Oy Keuruun Tarhiansuu	36.9 %	36.9 %
Asunto Oy Tampereen Kauppakatu 14	23.9 %	23.9 %
Asunto Oy Tampereen Koskilehmus	21.9 %	21.9 %
Kiinteistö Oy Kosken Pankkitalo	53.6 %	53.6 %
Kiinteistö Oy Lehto-Center	38.6 %	38.6 %
Kiinteistö Oy Liedon Torinkulma	62.5 %	62.5 %
Kiinteistö Oy Riihikuiva	82.7 %	82.7 %
Kiinteistö Oy Siilinjärven Pankkikeskus	66.5 %	66.5 %

Changes in holdings in subsidiaries

During the financial year 2017 no acquisitions or sales of subsidiaries were done.

Non-controlling interests in subsidiaries

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

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 41 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 2017	Key persons in management 31 Dec 2016	Other 31 Dec 2017	Other 31 Dec 2016
Assets				
Loans	3,053	2,813	2,911	3,743
Liabilities				
Deposits	1,542	1,527	1,064	1,999
Off-balance-sheet commitments				
Loan commitments	156	76	-	5
Guarantees	370	630	657	902
Investments to other than cooperative contributions	224	241	98	106
Cooperative contributions owned by related parties (pcs)	32	31	27	22

(EUR 1,000)	Key persons in management 31 Dec 2017	Key persons in management 31 Dec 2016	Other 31 Dec 2017	Other 31 Dec 2016
Income and expenses				
Interest income	29	26	19	56
Interest expenses	5	12	2	15
Insurance premium revenue	12	16	2	9

Compensations to key persons in management

(EUR 1,000)	1 Jan-31 Dec 2017	1 Jan-31 Dec 2016
Short-term employee benefits	2,369	2,284
Post-employment benefits	49	36
Total Compensation to key persons in management	**2,418**	**2,319**

NOTE 42 Events After the Closing Date

The Board of Directors of POP Bank Alliance Coop is not aware of any 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 and countercyclical capital buffer requirements pursuant to articles 439 and 440 of the EU's Capital Requirements Regulation, respectively. The Board of Directors of the central institution has considered in its materiality assessment that information concerning counterparty risk and countercyclical capital buffer requirements 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.

The Board of Directors of POP Bank Alliance Coop has decided that the amalgamation of POP Banks will not apply transitional rules on capital adequacy upon transition to IFRS 9. The own funds of the amalgamation on January 1 2018 are estimated to decrease 7,086 thousand euros, and the total capital ratio according to IFRS 9 on January 1 2018 is estimated to be 20.9 %. The amalgamation's leverage ratio on January 1 2018 is estimated to be 11.5 %.

NOTE 43 Summary of capital adequacy

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Own funds		
Common Equity Tier 1 capital before deductions	509,965	486,655
Deductions from Common Equity Tier 1 capital	-10,271	-5,245
Total Common Equity Tier 1 capital (CET1)	**499,694**	**481,410**
Additional Tier 1 capital before deductions	4,980	6,897
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**4,980**	**6,897**
Tier 1 capital (T1 = CET1 + AT1)	**504,674**	**488,307**
Tier 2 capital before deductions	2,490	2,759
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**2,490**	**2,759**
Total capital (TC = T1 + T2)	**507,164**	**491,065**
Total risk weighted assets	**2,395,591**	**2,308,526**
of which credit risk	2,165,067	2,084,072
of which credit valutaion adjustment risk (CVA)	270	1,321
of which market risk (foreign exchange risk)	25,571	25,597
of which operational risk	204,682	197,536
Fixed capital conservation buffer according to Act on Credit institutions (2.5%)	**59,890**	**57,713**
Countercyclical capital buffer	**285**	**222**
CET1 Capital ratio (%)	20.9 %	20.9 %
T1 Capital ratio (%)	21.1 %	21.2 %
Total capital ratio (%)	21.2 %	21.3 %
Leverage ratio		
Tier 1 capital (T1)	504,674	488,307
Leverage ratio exposure	4,327,162	4,291,563
Leverage ratio, %	11.7 %	11.4 %

NOTE 44 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	62,367	Article 26(1), Articles 27, 28 and 29, the EBA's list Article 26(3)	-
	of which: cooperative capital	8,970		-
	of which: POP Shares	53,397		-
2	Retained earnings	279,883	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)	157,754	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	9,961	Article 483(2)	9,961
	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	509,965		9,961
	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)	-3,842	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	-
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)	-6,429	and 46, Article 49(2 and 3), Article 79, Article 472(10)"	-
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)(i), Articles 43, 45 and 47, Article 48(1)(b), Article 49(1–3), Articles 79 and 470, Article 472(11)	-
22	The amount that exceeds the threshold value of 15% (a negative amount)	-	Article 36(1)(c), Article 38, Article 48(1)(a), Article 470, Article 472(5)	-
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 48(1)	-
26	Statutory adjustments to Common Equity Tier 1 capital (CET1) concerning the amount to which the treatment prior to the Solvency Regulation is applied	-	Article 36(1)(i), Article 48(1)(b) Article 470, Article 472(11)	-
26a	Statutory adjustments related to unrealised gains and losses in accordance with Articles 467 and 468	-		-
	of which: unrealised loss filter 1	-		-
	of which: unrealised gain filter 1	-	Article 467	-
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 468	-
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 481	-
28	Total statutory adjustments to Common Equity Tier 1 capital (CET1)	-10,271	Article 36(1)(j)	-
29	Common Equity Tier 1 capital (CET1)	499,694		9,961
	Additional Tier 1 capital (AT1): instruments	-		-
30	Capital instruments and the related share premium accounts	-		-
31	of which: classified as equity in accordance with the applicable financial reporting standards	-	Articles 51 and 52	-
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	4,980		4,980
	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)	-	Article 486(3)	-
35	of which: instruments issued by subsidiaries that are gradually eliminated	-	Articles 85, 86 and 480	-
36	Additional Tier 1 capital (AT1) before statutory adjustments:	4,980	Article 486(3)	4,980
	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)	-		-

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)	4,980		4,980
45	Tier 1 capital (T1=CET1+AT1)	504,674		14,941
	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	2,490	Article 486(4)	2,490
	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	2,490		2,490
	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	575/2013"	-	Article 475, Article 475(2)(a), Article 475(3), Article 475(4)(a)	-
56c	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	-	Articles 467, 468 and 481	-
57	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	-		-
58	Total statutory adjustments to Tier 2 capital (T2)	2,490		2,490
59	Tier 2 capital (T2)	507,164		17,431
59a	Total Capital (TC=T1+T2)	-		-
60	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)	2,395,591		-
	Total risk-weighted assets	-		-
61	Capital ratios and buffers	20.9 %	Article 92(2)(a), Article 465	-
62	Common Equity Tier 1 capital (CET1) (as a percentage of the total risk exposure amount)	21.1 %	Article 92(2)(b), Article 465	-
63	Tier 1 capital (T1) (as a percentage of the total risk exposure amount)	21.2 %	Article 92(2)(c)	-
	Total Capital (as a percentage of the total risk exposure amount)	-		-

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)	1,710	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)	50,612	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	19,921	Article 484(3), Article 486(2 and 5)	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	9,961	Article 484(3), Article 486(2 and 5)	-
82	Current cap on AT1 instruments subject to phase out arrangements	9,961	Article 484(4), Article 486(3 and 5)	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	4,980	Article 484(4), Article 486(3 and 5)	-
84	Current cap on T2 instruments subject to phase out arrangements	4,980	Article 484(5), Article 486(4 and 5)	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	2,490	Article 484(5), Article 486(4 and 5)	-

NOTE 45 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)	17,4	9,0	53,4
9	Nominal amount of the instrument	26,2	9,2	53,6
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 46 Minimum capital requirement and risk weighted assets

(EUR 1,000)	Capital requirement 2017	Capital requirement 2016	Risk weighted assets 2017	Risk weighted assets 2016
Credit and counterparty risk by exposure class				
Exposures to central governments or central banks	368	-	4,600	-
Exposures to regional governments or local authorities	61	16	758	195
Exposures to public sector entities	13	11	162	142
Exposures to institutions	1,216	1,872	15,202	23,398
Exposures to corporates	47,241	47,248	590,516	590,594
Retail exposures	25,136	24,609	314,194	307,610
Exposures secured by mortgages on immovable property	63,004	60,240	787,549	753,000
Exposures in default	2,981	2,417	37,265	30,214
Exposures associated with particularly high risk	399	306	4,989	3,830
Exposures in the form of covered bonds	217	288	2,711	3,599
Exposures in the form of units or shares in collective investment undertakings (CIUs)	15,355	15,569	191,932	194,611
Equity exposures	10,997	8,016	137,457	100,197
Other items	6,219	6,135	77,733	76,681
Total credit risk exposures	**173,205**	**166,726**	**2,165,063**	**2,084,075**
Credit valuation adjustment risk (CVA)	**22**	**106**	**270**	**1,321**
Market risk (exchange rate risk)	**2,046**	**2,048**	**25,571**	**25,597**
Operational risk	**16,375**	**15,803**	**204,682**	**197,536**
Total	**191,647**	**184,682**	**2,395,591**	**2,308,526**

NOTE 47 Average value of total exposures during the financial period by exposure class

Credit and counterparty risk

Exposure class (EUR 1,000)	2017	2016
Exposures to central governments or central banks	116,180	164,957
Exposures to regional governments or local authorities	203,365	136,684
Exposures to public sector entities	-	1,000
Exposures to multilateral development banks	598	-
Exposures to institutions	88,259	139,609
Exposures to corporates	692,725	681,033
Retail exposures	660,737	669,523
Exposures secured by mortgages on immovable property	2,268,083	2,104,762
Exposures in default	47,100	43,452
Exposures associated with particularly high risk	3,402	2,241
Exposures in the form of covered bonds	16,515	29,497
Exposures in the form of units or shares in collective investment undertakings (CIUs)	276,808	257,308
Equity exposures	56,777	53,947
Other items	99,324	102,688
Total	**4,529,873**	**4,386,701**

NOTE 48 Original exposure by risk weight

Credit and counterparty risk

Risk weight (%) (EUR 1,000)	2017	2016
0	381,963	382,009
10	14,263	26,225
20	82,176	161,617
35	2,289,366	2,178,770
50	28,972	41,118
75	662,712	649,527
100	972,645	965,255
150	32,844	26,479
250	52,452	32,509
350	-	-
Total	**4,517,394**	**4,463,510**

NOTE 49 Distribution of maturities of total exposure by exposure class

Credit and counterparty risk 31 December 2017

Exposure class (EUR 1,000)	Total	less than 3 months	3-12 months
Exposures to central governments or central banks	108,199	78,173	1,016
Exposures to regional governments or local authorities	261,968	800	3,507
Exposures to public sector entities	-	-	-
Exposures to multilateral development banks	601	-	-
Exposures to institutions	68,742	2,253	117
Exposures to corporates	682,239	27,976	35,905
Retail exposures	662,712	10,660	23,954
Exposures secured by mortgages on immovable property	2,303,933	21,939	28,947
Exposures in default	47,966	19,846	869
Exposures associated with particularly high risk	3,326	-	-
Exposures in the form of covered bonds	12,996	-	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	211,207	-	-
Equity exposures	61,539	-	-
Other items	91,967	21,682	-
Total	**4,517,394**	**183,329**	**94,316**

Exposure class (EUR 1,000)	1-5 years	5-10 years	over 10 years
Exposures to central governments or central banks	16,047	12,963	-
Exposures to regional governments or local authorities	18,654	-	239,007
Exposures to public sector entities	-	-	-
Exposures to multilateral development banks	-	601	-
Exposures to institutions	12,585	23,171	30,617
Exposures to corporates	147,418	145,929	325,012
Retail exposures	96,321	112,749	419,028
Exposures secured by mortgages on immovable property	212,519	410,989	1,629,539
Exposures in default	5,019	9,541	12,690
Exposures associated with particularly high risk	-	-	3,326
Exposures in the form of covered bonds	12,596	401	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	211,207
Equity exposures	-	-	61,539
Other items	129	-	70,156
Total	**521,285**	**716,343**	**3,002,121**

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 multilateral development banks	-	-	-
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 multilateral development banks	-	-	-
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**

NOTE 50 Total exposure by exposure class and counterparty

Credit and counterparty risk 31 December 2017

Exposure class (EUR 1,000)	Total	Private	Corporate	- of which SME exposures
Exposures to central governments or central banks	108,199	50,056	4,572	-
Exposures to regional governments or local authorities	261,968	-	1,215	-
Exposures to public sector entities	-	-	-	-
Exposures to multilateral development banks	601	-	-	-
Exposures to institutions	68,742	423	172	-
Exposures to corporates	682,239	63,434	287,833	120,367
Retail exposures	662,712	373,607	129,155	86,165
Exposures secured by mortgages on immovable property	2,303,933	1,856,883	218,004	101,663
Exposures in default	47,966	17,665	23,628	-
Exposures associated with particularly high risk	3,326	-	-	-
Exposures in the form of covered bonds	12,996	-	1,568	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	211,207	-	-	-
Equity exposures	61,539	-	12,956	-
Other items	91,967	-	-	-
Total	**4,517,394**	**2,362,067**	**679,103**	**308,194**

Exposure class (EUR 1,000)	Agriculture	Other
Exposures to central governments or central banks	3,851	49,721
Exposures to regional governments or local authorities	173	260,580
Exposures to public sector entities	-	-
Exposures to multilateral development banks	-	601
Exposures to institutions	-	68,147
Exposures to corporates	273,087	57,885
Retail exposures	147,733	12,216
Exposures secured by mortgages on immovable property	192,109	36,937
Exposures in default	5,760	913
Exposures associated with particularly high risk	-	3,326
Exposures in the form of covered bonds	-	11,428
Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	211,207
Equity exposures	39	48,544
Other items	-	91,967
Total	**622,752**	**853,471**

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 multilateral development banks	-	-	-	-
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 multilateral development banks	-	-
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**

NOTE 51 Geographical breakdown of significant credit exposures

Credit and counterparty risk 31 December 2017

Exposure class (EUR 1,000)	Total	Finland	Other
Exposures to central governments or central banks	108,199	77,025	31,175
Exposures to regional governments or local authorities	261,968	261,912	56
Exposures to public sector entities	-	-	-
Exposures to multilateral development banks	601	-	601
Exposures to institutions	68,742	51,136	17,606
Exposures to corporates	682,239	660,144	22,095
Retail exposures	662,712	660,726	1,986
Exposures secured by mortgages on immovable property	2,303,933	2,300,176	3,757
Exposures in default	47,966	47,923	42
Exposures associated with particularly high risk	3,326	3,326	-
Exposures in the form of covered bonds	12,996	1,568	11,428
Exposures in the form of units or shares in collective investment undertakings (CIUs)	211,207	193,990	17,217
Equity exposures	61,539	56,256	5,283
Other items	91,967	91,967	-
Total	**4,517,394**	**4,406,148**	**111,246**

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 multilateral development banks	-	-	-
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**

NOTE 52 Total exposures by exposure class by collateral

Credit and counterparty risk 31 December 2017

Exposure class (EUR 1,000)	Total	Financial collateral	Secured by real estate	Guarantees	Other
Exposures to central governments or central banks	108,199	-	-	-	-
Exposures to regional governments or local authorities	261,968	-	-	-	-
Exposures to public sector entities	-	-	-	-	-
Exposures to multilateral development banks	601	-	-	-	-
Exposures to institutions	68,742	-	-	-	-
Exposures to corporates	682,239	4,362	-	22,095	181
Retail exposures	662,712	8,473	-	108,897	450
Exposures secured by mortgages on immovable property	2,303,933	-	2,303,933	-	-
Exposures in default	47,966	4	25,354	1,054	-
Exposures associated with particularly high risk	3,326	-	-	-	-
Exposures in the form of covered bonds	12,996	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	211,207	-	-	-	-
Equity exposures	61,539	-	-	-	-
Other items	91,967	-	-	-	-
Total	**4,517,394**	**12,838**	**2,329,287**	**132,046**	**631**

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 multilateral development banks	-	-	-	-	-
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**

NOTE 53 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 54 Degree of asset encumbrance

Assets 31 Dec 2017

(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	**18,524**		**4,258,687**	
Equity instruments	-	-	282,165	282,235
Debt securities	18,524	18,524	439,484	439,484
Other assets	-		3,537,038	

Collateral received 31 Dec 2017

The bank did not have encumbered collateral received or own debt securities issued as of December 31 2017. 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 2017

(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	-	18,524

Information about the importance of asset encumbrance

The Bank has used collateral of securities in the balance with a carrying amount of EUR 18.523.689.

Information is as of December 31 2017.

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.

NOTE 55 Operational risk statement

Operational risk capital requirement 31 Dec 2017

(EUR 1,000)	2017	2016	2015	Capital requirement
Gross income total	109,046	117,625	100,821	
Profit indicator	16,357	17,644	15,123	16,375

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

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 56 Leverage ratio

31 Dec 2017

Reconciliation of leverage ratio and balance sheet		(EUR 1,000)
1	Total assets as per published financial statements	4,277,210
4	Adjustments for derivative financial instruments	75
6	Adjustment for off-balance sheet items	70,816
7	Other adjustments	-20,940
8	**Total leverage ratio exposures**	**4,327,162**

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)	4,264,897
3	**Total on-balance sheet exposures (excluding derivative contracts, SFTs and fiduciary assets)**	**4,264,897**
Derivative contracts		
4	Derivative contracts: market value	1,644
5	Derivative contracts: mark-to-market method	75
11	**Total derivative contracts**	**1,719**
Other off-balance-sheet exposures		
17	Off-balance sheet exposures at gross notional amount	227,468
18	(Adjustments for conversion to credit equivalent amounts)	-156,652
19	**Other off-balance-sheet exposures**	**70,816**
Capital and total exposures		
20	**Tier 1 capital**	**504,674**
21	**Total leverage ratio exposures**	**4,327,162**
Leverage ratio		
22	**Leverage ratio**	**11.7 %**
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	14,941

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:	4,264,897
EU-3	Banking book exposures, of which:	4,264,897
EU-4	Covered bonds	12,996
EU-5	Exposures treated as sovereigns	488,794
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	4,158
EU-7	Institutions	67,363
EU-8	Secured by mortgages of immovable properties	2,253,234
EU-9	Retail exposures	433,971
EU-10	Exposures to corporates	604,355
EU-11	Exposures in default	33,194
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	366,832

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

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. No target level has been set for the leverage ratio in the amalgamation.
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 0.3 percentage points compared to the previous financial period. The improvement was driven by growth in the amalgamation's own funds, mostly due to the inclusion of profit of the financial year 2016 and issuance of new POP Shares.

NOTE 57 Shareholdings not included in the trading book

31 Dec 2017

Share breakdown (EUR 1,000)	Market value	Balance sheet value
Listed shares	3,926	3,926
Unlisted shares	60,452	60,431
Total	**64,378**	**64,357**

Diversified distribution of shares (EUR 1,000)	
Listed shares	3,926
Necessary for operations	56,811
Shares in subsidiaries and participating interest	335
Other unlisted shares	3,285
Total	**64,357**

Capital gains and losses (EUR 1,000)	Gains	Losses	Total
Share/cooperative capital	10,294	-499	**9,794**

Fair value reserve (EUR 1,000)	EUR	EUR
Fair value reserve balance at 1 January 2017 (gross)		9,129
Fair value increases	15,218	
Fair value decreases	-6,786	
Transferred from fair value reserve to the income statement	-9,319	
Total changes in fair value reserve 1 January - 31 December 2017		-887
Fair value reserve balance at 31 December 2017 (gross)		**8,242**

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)	EUR	EUR
Fair value reserve balance at 1 January 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 January - 31 December 2016		5,811
Fair value reserve balance at 31 December 2016 (gross)		**9,129**

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 2017. The Board of Directors' Report and the Financial Statements will be presented to the general meeting of POP Bank Alliance Coop on 5 April 2018.

Helsinki, 15 February 2018

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.

Tampere, 16 February 2018

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, 2017. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows 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 position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Our opinion is consistent with the additional report submitted to the Board of Directors of POP Bank Alliance Coop.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of member institutions within POP Bank Group in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the POP Bank Group are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 13 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Valuation of receivables (loans and receivables from customers) (Refer to notes 2, 4, and 20 to the financial statements)

- Receivables from customers, totaling EUR 3 325 million, are the most significant item in the POP Bank Group's consolidated balance sheet representing 78 percent of the total assets on 31 December 2017.
- Impairment losses on loans and receivables are recognized on an individual or collective basis. Impairments are assessed on an individual basis if the debtor's total exposure is significant. Otherwise impairments are assessed on collective basis.
- The valuation of receivables involves management judgements, especially in respect of the amount and timing of impairment losses.
- Due to the significance of the carrying amount involved, and the high level of judgment involved relating to impairment review, valuation of receivables is addressed as a key audit matter
- We observed the impairment principles applied.
- Our audit procedures included testing of controls over determination and recording of impairment losses on loans.
- We requested other auditors of POP Bank Group institutions to issue an opinion that the institutions within POP Bank Group have complied with the instructions provided by POP Bank Alliance Coop in respect of valuation of receivables.
- Furthermore, we considered the appropriateness of the notes on receivables and impairment losses.

Financial assets measured at fair value – measurement (Refer to Notes 2, 4, 17 and 37 to the financial statements)

- Financial assets measured at fair value represent 17 percent of the total assets. In the financial statements for 2017 financial assets measured at fair value comprise investment assets EUR 678 million, non-life insurance assets EUR 35 million, derivatives EUR 1 million and financial assets at fair value through profit and loss EUR 1 million.
- Fair value of a financial instrument is determined using either prices quoted in an active market or POP Bank Group's own valuation techniques where no active market exists. Determining fair values involves management judgements, especially in respect of those instruments for which market-based data is not available.
- We assessed the appropriateness of the measurement principles applied by POP Bank Group and the compliance with the applicable financial reporting standards.
- Our audit procedures included testing of controls around risk management and the valuation process of financial assets measured at fair value, among others.
- As part of our year-end audit procedures we considered the accuracy of the fair values determined for financial assets measured at fair value.
- We requested other auditors of POP Bank Group institutions to issue an opinion that the institutions within POP Bank Group have complied with the instructions provided by POP Bank Alliance Coop in respect of valuation of financial assets.
- Finally, we considered the appropriateness of the notes on financial assets measured at fair value.

IT systems and related control environment

- The key processes of the institutions within POP Bank Group are dependent on technology. Therefore, IT plays essential role for business continuity, incident management and the accuracy of financial reporting.
- The most significant risks relate to integrity of data, confidentiality and disruption of services.
- The IT control environment related to the financial reporting process has a significant impact on the selected audit approach.
- We obtained an understanding of the IT systems related to financial reporting and the associated control environment, and tested the effectiveness of the related internal controls with the help of assurance reports received from external service providers, among others.
- Our audit procedures included extensive substantive procedures and data analyses.

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, and that financial statements 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 the 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 the POP Bank Group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of 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 scepticism 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 the 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 the POP Bank Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause POP Bank Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within POP Bank Group to express an opinion on the consolidated financial statements. We remain solely responsible for our audit opinion.
- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS

Information on our audit engagement

We were first appointed as auditors by the Cooperative Meeting of POP Bank Alliance Coop in 2012, and our appointment represents a total period of uninterrupted engagement of 6 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. 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, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Tampere 16 February 2018

KPMG OY AB

Johanna Gråsten
Authorised Public Accountant, KHT

POP Pankki