POP Bank Group

FINANCIAL STATEMENTS RELEASE

1 January – 31 December 2017

POP Pankki

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This document is a translation of the original Finnish version "POP Pankki -ryhmän tilinpäätöstiedote 1.1.-31.12.2017". In case of discrepancies, the Finnish version shall prevail.

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.

> We will systematically continue our renewal work and the creation of an even better group of banks in accordance with our customers' needs and wishes.

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 Financial Statements Release 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.

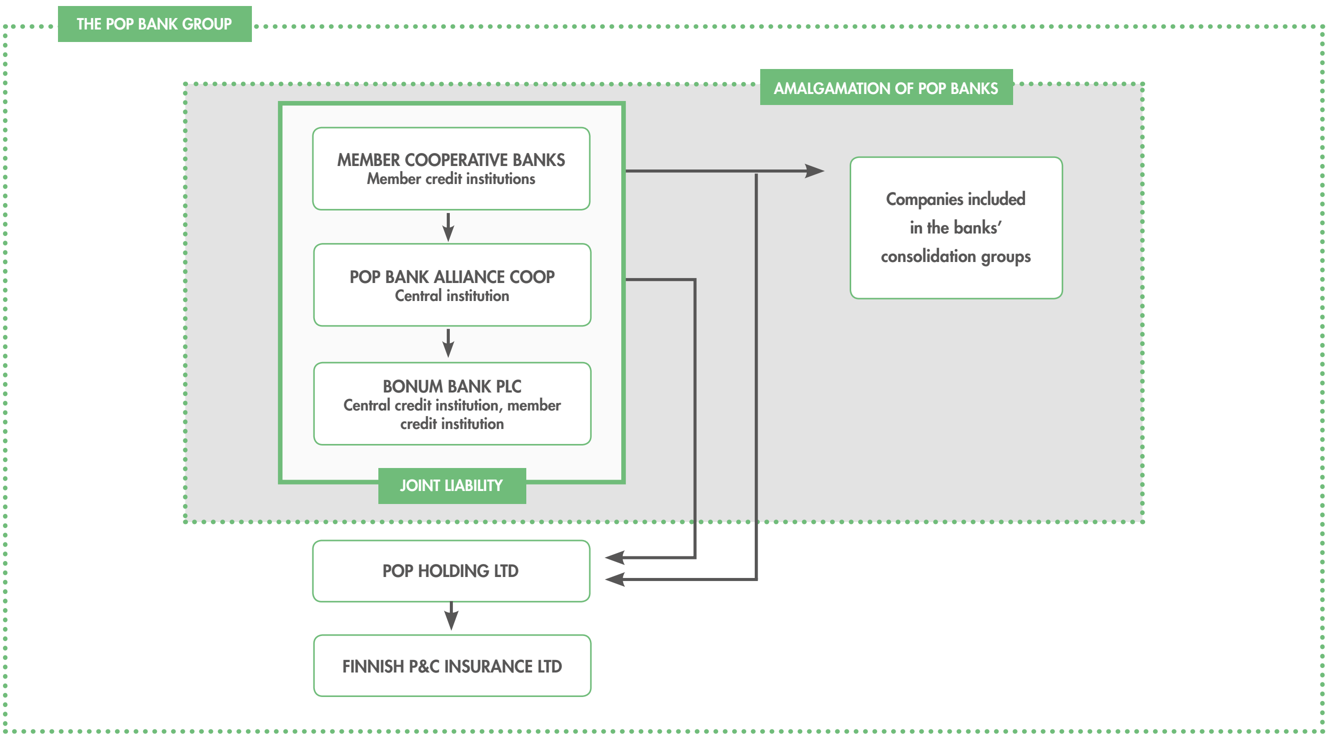
The chart below presents the structure of the POP Bank Group and the entities included in the amalgamation and scope of joint liability. POP Bank Alliance Coop, the central institution, is responsible for the group steering and supervision in accordance with the Act on the Amalgamation of Deposit Banks (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, %

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

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	4	**62,469**	**62,417**	**0.1 %**
Net commissions and fees	5	28,446	28,369	0.3 %
Net trading income		304	542	-43.9 %
Net investment income	6	13,208	8,945	47.7 %
Net income from non-life insurance	7	9,712	8,078	20.2 %
Other operating income		4,747	6,501	-27.0 %
Total operating income		**118,885**	**114,851**	**3.5 %**
Personnel expenses		-39,720	-40,062	-0.9 %
Other operating expenses		-47,170	-45,672	3.3 %
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		-7,516	-5,429	38.4 %
Total operating expenses		**-94,406**	**-91,162**	**3.6 %**
Impairment losses on loans and receivables		-4,991	-6,731	-25.8 %
Profit before tax		**19,488**	**16,958**	**14.9 %**
Income tax expense		-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)	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	-709	-135	425.3 %
Items that may be reclassified to profit or loss			
Changes in fair value reserve			
Available-for-sale financial assets	-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		82,843	99,174	-16.5 %
Financial assets at fair value through profit or loss	8	1,262	1,681	-24.9 %
Loans and receivables from credit institutions	8,9	39,258	73,515	-46.6 %
Loans and receivables from customers	8,9	3,325,363	3,188,681	4.3 %
Derivative contracts	8	647	2,541	-74.5 %
Investment assets	8,10	713,226	754,362	-5.5 %
Non-life insurance assets	8,11	46,236	42,915	7.7 %
Intangible assets		11,003	13,566	-18.9 %
Property, plant and equipment		33,028	35,604	-7.2 %
Other assets		19,956	15,459	29.1 %
Tax assets		3,015	1,920	57.1 %
Total assets		**4,275,838**	**4,229,417**	**1.1 %**
Liabilities				
Liabilities to credit institutions	12	6,964	11,385	-38.8 %
Liabilities to customers	12	3,554,357	3,505,090	1.4 %
Non-life insurance liabilities	13	34,153	32,420	5.3 %
Debt securities issued to the public	14	109,713	100,220	9.5 %
Supplementary cooperative capital		26,219	37,512	-30.1 %
Other liabilities		33,221	52,764	-37.0 %
Tax liabilities		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		**62,791**	**52,559**	**19.5 %**
Reserves		157,779	155,086	1.7 %
Retained earnings		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

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.

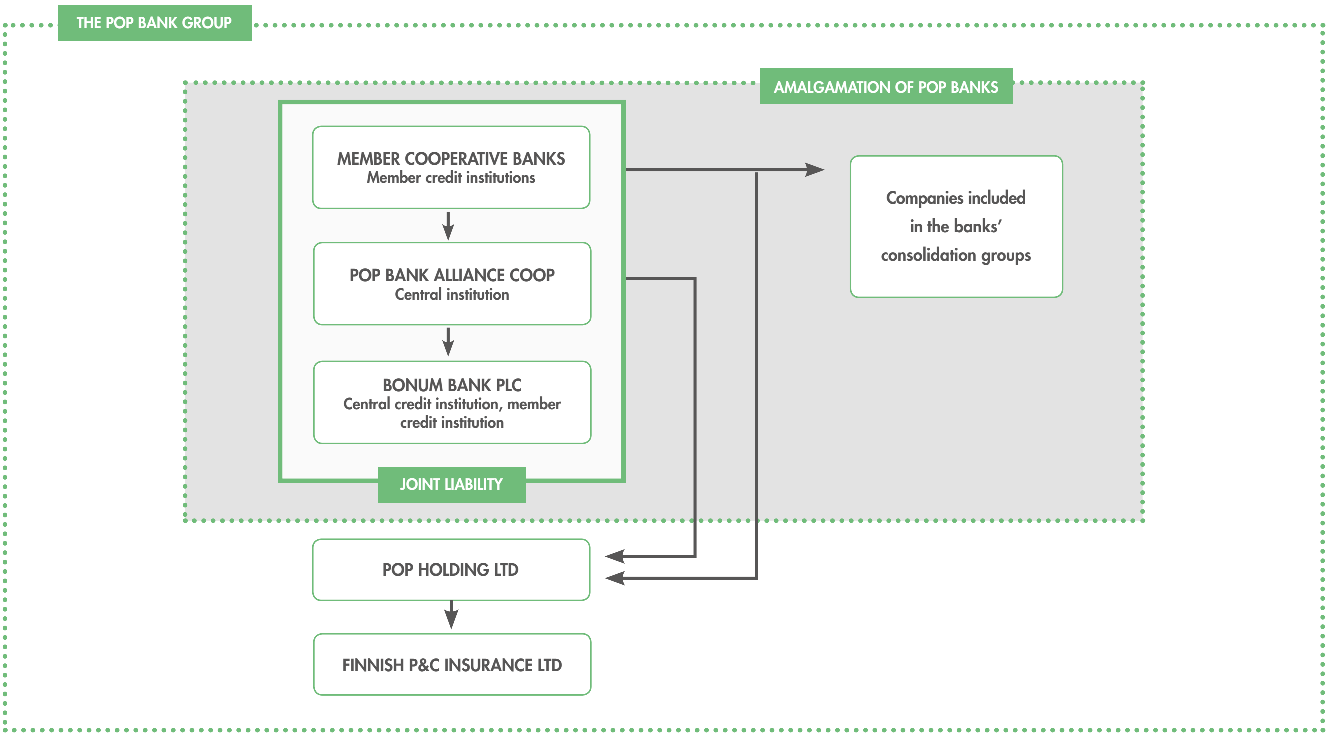
The POP Bank Group also includes other entities besides the entities included in the amalgamation of POP Banks. The most significant entities that do not belong to the POP Bank Group are POP Holding Ltd and its wholly-owned subsidiary Finnish P&C Insurance Ltd, which are not in the scope of joint liability.

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.
POP Bank Alliance Coop acts as the central institution

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



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

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

The financial statements release for 1 January - 31 December 2016 has been prepared in accordance with IAS 34 Interim Financial reporting. There are no material changes in accounting policies of the POP Bank Group's consolidated IFRS financial statement. New and improved standards adopted during the financial year did not have a material effect on the POP Bank Group's financial statements.

The figures of the financial statements release are unaudited.

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

Adoption of IFRS 9

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.

The table below illustrates the effects of reclassification of POP Bank Group's assets and liabilities.

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 448 203 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 EUR 100
– 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. The excepted credit losses 1 January 2018 when adopting IFRS 9 was EUR 33,588 thousand. The individually and collectively assessed impairment losses in financial statements 31 December 2017 totalled EUR 23,309 thousand. The greater amount of expected credit losses was mainly due to losses expected from exposures not treated as in default. Including debt securities at fair value through other comprehensive income and off-balance-sheet commitments to calculation of expected credit losses also had an effect on the amount of total expected credit losses.

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 per cent. The Board of Directors of POP Bank Alliance Coop has decided that the amalgamation of POP Banks will not apply transitional rules of Capital Requirements Regulation on capital adequacy upon transition to IFRS 9.

The calculation model of expected credit losses is assessed and modified if needed during the financial year 2018.

NOTE 3 POP Bank Group's operating segments 2017

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

Profit for the period 1 January - 31 December 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 the presentation of the financial period 2017. The change of the presentation increased net commissions and fees of the reference period by EUR 6.0 million and decreased correspondingly other operating income. The change of the presentation has no impact on the profit of the segment.

Balance Sheet 31 December 2016

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

RECONCILIATIONS

Income

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Segments' total income	118,957	117,194
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 internal 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
Unallocated liabilities, other functions	7,333	31,712
Eliminations of internal items between segments and other functions	-4,672	-46,523
Group's total liabilities	**3,790,189**	**3,766,396**

NOTE 4 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 includes negative interest expenses EUR 810 thousand and interest expenses include negative interest income EUR 225 thousand.

NOTE 5 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 6 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	-	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	-1,203
Impairment losses	-211	-1,453
Transferred from fair value reserve	9,174	8,339
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 on the reference period includes EUR 1,479 thousand from Visa transaction transferred from fair value reserve.

NOTE 7 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**

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

NOTE 8 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	**3,447,464**	**1,262**	**647**	**713,088**	**4,162,461**

Investment assets include additionally real estates of EUR 34,902 thousand that are not 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	**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	**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	3,505,090	3,505,090
Debt securities issued to the public	100,220	100,220
Supplementary cooperative capital	37,512	37,512
Total	**3,654,206**	**3,654,206**

NOTE 9 Loans and receivables

(EUR 1,000)	31 Dec 2017	31 Dec 2016
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

	1 Jan - 31 Dec 2017	1 Jan - 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 at the end of period	**23,309**	**21,667**

NOTE 10 Investment assets

(EUR 1,000)	31 Dec 2017	31.12.2016
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 related to non-life insurance are included in non-life insurance assets. Non-life insurance assets are presented in note 11.

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
IImpairment 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**

NOTE 11 Non-life insurance assets

(EUR 1,000)	31 Dec 2017	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**

NOTE 12 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 13 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
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 14 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		
Certificate of deposits	9,996	699
Total debt securities issued to the public	**109,713**	**100,220**

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

Two certificates of deposits of total nominal value of EUR 10 million were issued during the reporting period.

NOTE 15 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 16 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 17 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					
Real estates					
Banking	-	-	41,619	41,619	34,902
Total financial 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					
Real estates					
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)	1 Jan-31 Dec 2017 Banking	1 Jan-31 Dec 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

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

(EUR 1,000)	Carrying amount	Possible effect on equity capital 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 18 Related party disclosures

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

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

Related-party transactions

	Key persons in management		Other	
(EUR 1,000)	2017	2016	2017	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

	Key persons in management		Other	
(EUR 1,000)	1 Jan-31 Dec 2017	1 Jan-31 Dec 2016	1 Jan-31 Dec 2017	1 Jan-31 Dec 2016
Income and expenses				
Interest income	29	26	58	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 19 Capital adequacy

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 1.

Pillar III disclosure requirements are presented in Note 4 of the POP Bank Group consolidated financial statements on risk and capital adequacy management and Note 3 on corporate governance. The disclosure requirements concerning remuneration are presented in Note 3 on corporate governance and Note 12 on employee expenses.

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

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 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 conservaction 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 %

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