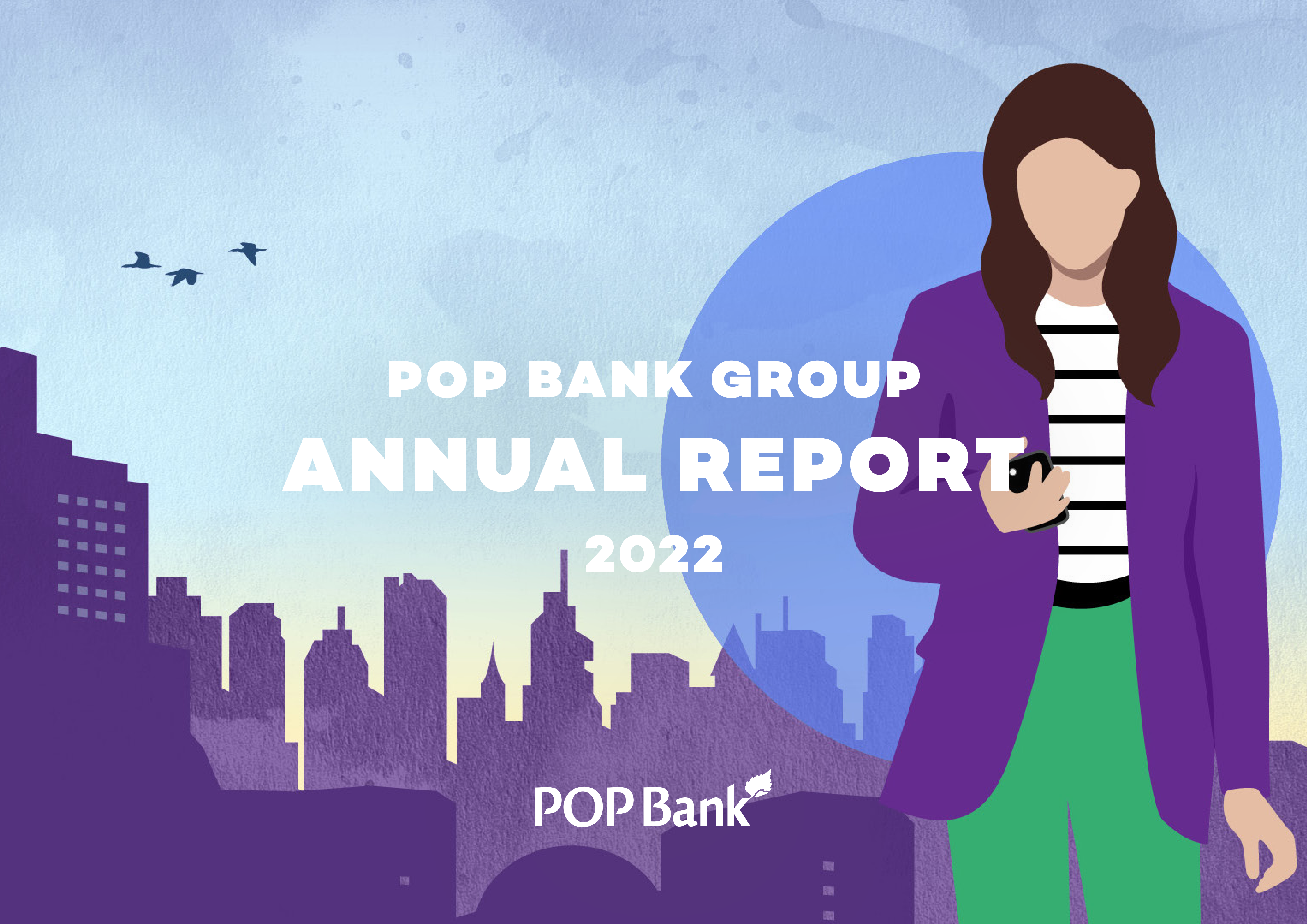

POP BANK GROUP
ANNUAL REPORT
2022

POP Bank

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This document is a translation of the original Finnish version "POP Pankki -ryhmä Vuosikertomus 2022". In case of discrepancies, the Finnish version shall prevail.

CEO'S REVIEW

The year 2022 was profitable for the POP Bank Group, which maintained a high level of capital adequacy. The increase in the profitability of the Group's core business, which had continued for a long time, was supported by an exceptionally rapid rise in market interest rates. Net interest income increased in 2022 by 20 per cent to EUR 94.2 million, and net commission income increased by nearly 15 per cent to EUR 41.6 million. While rising interest rates increase the cost of funding, the end of negative interest rates and the return to a more normal interest rate environment are having a positive impact on banks' net interest income.

The rapid change in market interest rates was negatively reflected in the valuation of the Group's fixed income investments, which had an adverse impact on the results of the Group's banking and insurance segments. Despite the year being weak in terms of investments, the banking business reported a good result, driven by the performance of core business operations. In addition to weak investment market, insurance operations faced challenges arising from rapid inflation, longer repair times caused by bottlenecks in production and supply chains, as well as delays in the delivery of new cars during 2022. Despite the challenges in the operating environment, also the insurance segment reached a positive result.

The POP Bank Group's profit before taxes was EUR 26.4 million. Although the result decreased from the previous year, the figures show an increase in profitability, as the comparison period included significant one-off gains. Our ongoing core system reform is temporarily increasing the cost of banking operations as we build new systems and maintain old ones at the same time. The reform is extremely important for our competitiveness and with the reform, we will ensure the efficient development of our information systems and respond even faster to our customers' ever-growing digital needs. We expect the new core banking system to decrease our IT costs significantly after the implementation of the new system.

The Group's loan portfolio increased by 4.8 per cent and was EUR 4.4 billion at the end of 2022, and deposits increased by 2.5 per cent to EUR 4.3 billion. In line with the Group's strategy, a significant portion of the growth was in corporate funding, where we achieved an increase of around 16 per cent. The cooling down of the housing market was reflected in the demand for housing loans during the last months of the year.The trend for the year 2023 depends heavily on the direction of the Finnish economy and employment.

"The year 2022 was profitable for the POP Bank Group, which maintained a high level of capital adequacy.

POP Mortgage Bank, which started operations in 2022, completed successfully its first covered bond issue in a challenging market environment in September. The covered bonds, enabled by the mortgage bank operations, significantly supplement the POP Bank Group's funding.

The POP Bank Group revised its strategy in early 2022. Customer orientation, profitability, bold renewal, responsibility and speed are closely intertwined in our operations. Our focus is on growth in lending to businesses and the management of personal digital service situations, as well as outperforming the market in profitable growth and strong capital adequacy. As part of the renewal of our strategy, we also updated our responsibility programme. In the autumn, we carried out a stakeholder survey, with more than 1,400 responses. POP Bank's themes, such as the prevention of the grey economy and business transparency, continued to be perceived as important. Information security, which has long been at the core of the banking business, also came up in the responses. Information security was also a generally topical subject in 2022, with extensive news coverage on issues such as influence through information, cyberattacks and scams. Awareness and caution are of primary importance, and the POP Bank Group actively develops its own services and provides information about opportunities to be prepared for these threats.

Both stability and success are built together. We are extremely proud that we have Finland's most satisfied banking customers, and that POP Insurance has the most loyal customers in its sector, as well as the best price-to-quality ratio measured in terms of customer satisfaction. POP Insurance participated in the EPSI Rating survey in its sector for the first time in 2022. We would like to extend our heartfelt thanks to our customers, personnel and partners alike.

Jaakko Pulli
CEO
POP Bank Centre coop

POP BANK GROUP IN BRIEF

POP Bank Group is a Finnish financial group that offers retail banking services for private customers, small and medium-sized companies, in addition to providing private customers with non-life insurance services. POP Bank Group consists of the 19 co-operative POP Banks owned by their member customers, POP Bank Centre coop, central credit institution Bonum Bank Plc and POP Mortgage Bank Plc. POP Bank Group also includes POP Holding Oy that owns Finnish P&C Insurance Ltd, also known as POP Insurance. POP Bank Centre coop is the central institution of the Amalgamation of POP Banks and is responsible for steering and supervising the POP Bank Group.

POP Bank Group's mission is to promote its customers' financial well-being and prosperity, as well as local success. Our operations cover the whole of Finland.

POP BANK GROUP'S VISION AND VALUES

POP Bank Group's vision is to be the bank that combines personal and digital services, that achieves the highest level of customer satisfaction and efficient decision-making, and that maintains capital adequacy and outperforms the market in profitable growth. Our values are customer orientation, profitability, bold renewal, responsibility and speed.

POP Bank Group strategy, that was revised in spring 2022, has a focus on strong capital adequacy and profitable growth. We are aiming to this, among other things, by comprehensively reviewing and enhancing our operations and developing the skills of our personnel with our new wide-ranging training program. With the core banking project that started in 2022 we are creating, in accordance with our values, a foundation for smooth customer experience in channels that he or she chooses to use to encounter with us.

POP Bank Group's target in capital adequacy is more than 17.5 per cent. Its long-term targets, set after the core system reform, are 0.7 per cent for return on assets and no more than 60 per cent for the cost-to-income rate. The following table summarises the targets and our level of achievement in 2022.

POP BANK GROUP, STRATEGIC LONG-TERM TARGETS AND LEVEL OF ACHIEVEMENT IN 2022

	Year 2022	Target
Capital adequacy	19.4%	17.5%
Return on assets, ROA %	0.4%	0.7%
Cost-to-income ratio	77.7%	< 60%

Balance sheet total
5.8
(5.4) billion euros

Customers, total
440,500
(427,900)

Personnel, total
853
(822)

SUOMEN PARAS PANKKI 2022*

Improved effiency

Sustainable operations

Growing faster than the market

The most satisfied customers in Finland

We are the bank that combines personal and digital services, that achieves the highest level of customer satisfaction and efficient decision-making, and that maintains capital adequacy and outperforms the market in profitable growth.

CUSTOMER ORIENTATION **REPONSIBILITY** **SPEED** **PROFITABILITY** **RENEWAL**

Operating income
153.3
(176.2)
EUR million

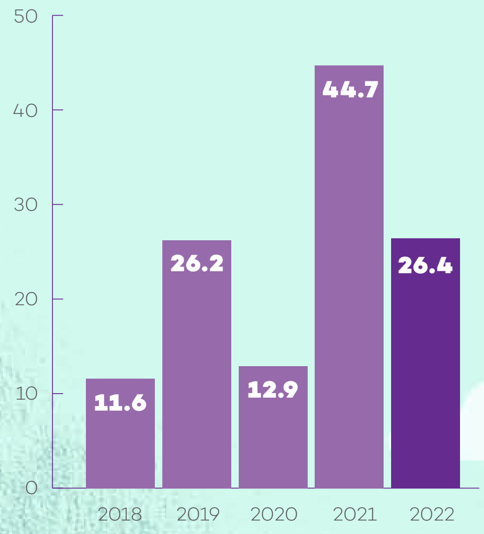
Profit before tax
26.4
(44.7)
EUR million

Net interest income
94.2
(78.3)
EUR million

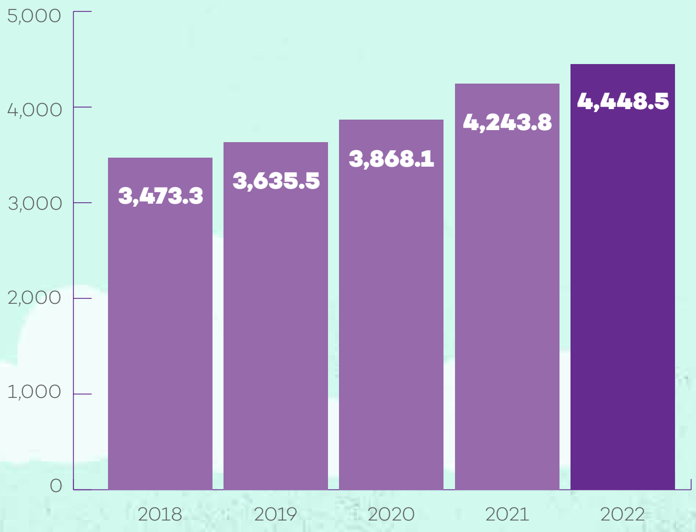
Loan portfolio
4.4
(4.2)
EUR billion

CET 1 capital ratio
19.4 %
(19.2%)

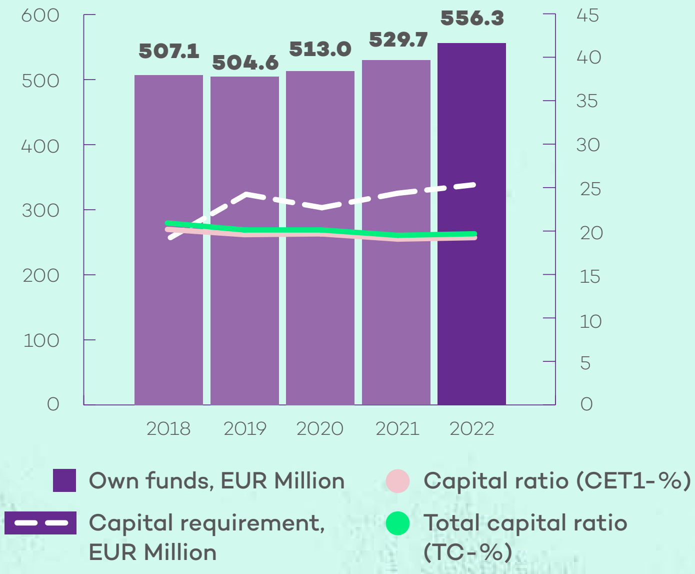
PROFIT BEFORE TAX, EUR MILLION



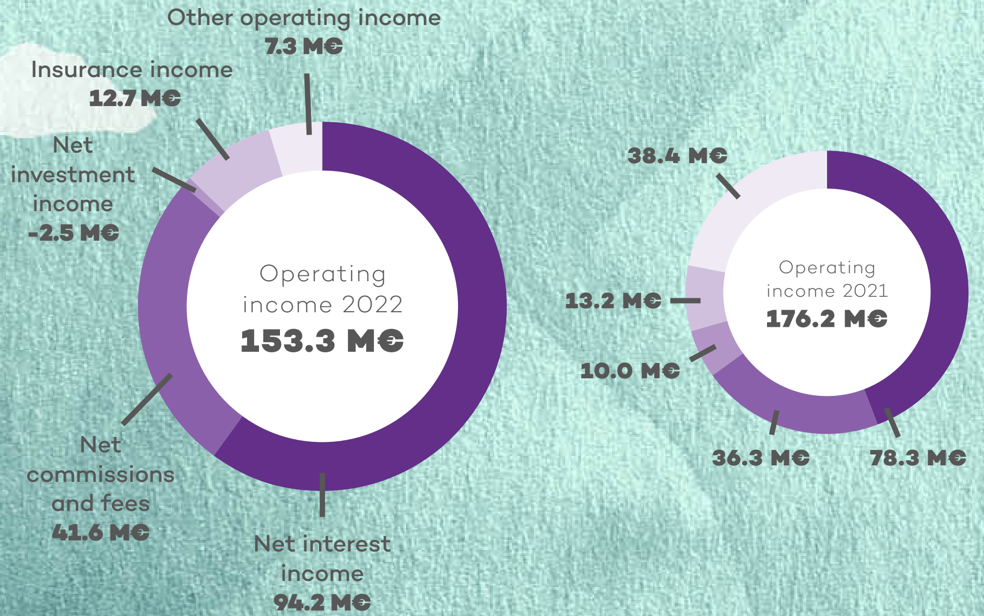
LOAN PORTFOLIO, EUR MILLION



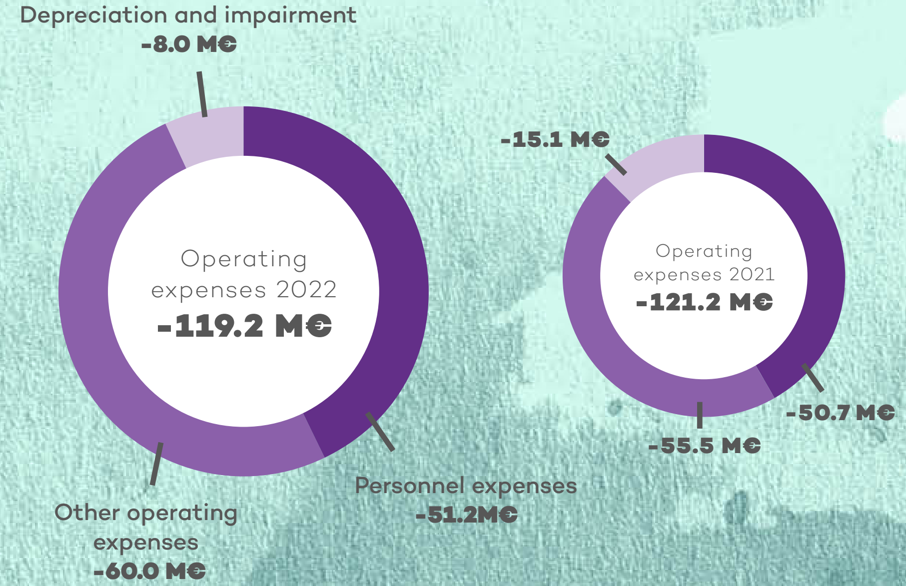
OWN FUNDS AND CAPITAL ADEQUACY



OPERATING INCOME, EUR MILLION



OPERATING EXPENSES, EUR MILLION



POP BANK GROUP'S BUSINESS SEGMENTS

The POP Bank Group monitors its business operations based on two business segments: Banking and Insurance. Both business segments are operating based on the Group's fundamental principle of providing all our customers banking and insurance services through any channel of their choice.

BANKING SEGMENT IN POP BANK GROUP

The POP Bank Group's Banking segment consists of the POP Banks that are owned by the member customers, central credit institution Bonum Bank Plc and POP Mortgage Bank Plc. At the end of 2022, POP Bank Group had 256.5 (256.3) thousand banking customers. Of these, 85.2 (85.3) per cent are private customers, 9.2 (8.9) per cent are corporate customers, and 2.6 (2.7) per cent are in the agriculture and forestry sectors.

POP Bank had the most satisfied private customers for the 11th time according to the Finnish bank industry report conducted by independent research company, EPSI Rating. POP Bank had also the most satisfied business customers, now for the second time, it participated EPSI Rating's research targeted to B2B customers. In the private customer study, POP Bank received 78.8 index points compared to the industry average that was 71.7 index points. In the business customer study, POP Bank's index points were 77.0 whereas the industry average was 70.5.

According to the EPSI Rating studies, POP Bank's strengths were customer satisfaction, service quality and the image. The importance of personal service was emphasised in the study. POP Banks offer both the private and business customers their own contact person who helps, guides and gives advice on questions related to banking.

In connection with the EPSI Rating customer satisfaction research, the customers were asked whether their selected supplier is making investments with future generations in mind, is striving for financial success without sacrificing social or environmental factors, and whether the supplier is operating in a socially, environmentally and financially responsible manner. POP Bank Group also received the highest EPSI Rating Sustainability Index points in the industry from both private and business customers. More information about the Group's responsibility actions can be read from this report's responsibility section.

At the end of the year 2022, POP Banks had 70 branch offices and service points. In addition, customers have access to mobile and online banking services and online appointments. Many customers have noticed how successful online meetings from home can be and how these bring flexibility to busy everyday like. POP Banks actively organise online meetings as well as POP Talousshetki meetings that are specially themed meetings to discuss with the customer about matching one's own economy and life goal. Also the Group introduced a new signature service that makes e-banking experience even smoother.

POP Bank Group also offers a digitised service entity that enables customer to apply for a mortgage loan,

BANKING SEGMENT'S KEY FIGURES

Profit before tax
26.1
(40.4) million euros

Customers
256,500
(256,300)

Cost-to-income ratio
75.7
(66.2) per cent

Net commissions and fees
42.1
(36.8) million euros

negotiate with a bank and buy home, all online. The mobile payment services, Apple Pay and Google Pay, offered by the POP Bank Group from the turn of 2022, have grown in popularity rapidly both in terms of value and volume. According to POP Bank's statistics, the age distribution of mobile payments is wide, ranging from 15 to 75 years.

POP Bank Group provides comprehensive services for day-to-day transactions as well as saving and investing, and constantly develops its product and service portfolio to meet the needs of its customers. During 2022, POP Tarmo, a stock-oriented fund option, was added to the selection of the POP Banks' combined funds. In addition, at the end of the year, an unsecured household loan for POP Banks' mortgage customers, POP Kotitalouslaina, was launched. It is to provide financial flexibility to everyday life, for example when it comes to unexpected expenses.

MAKING CUSTOMERS' LIVES EASIER

Anne Korte has held various positions at Bonum Bank within the POP Bank Group since 2015. She is currently responsible for Bonum Bank's retail banking unit, which manages POP Bank's account and card payment services, as well as the POP Pikalaina, a consumer credit product and the new Kotitalousluotto, a credit product for households.

YOUR TEAM IS INVOLVED IN MANY OF POP BANK'S SERVICES. CAN YOU TELL US MORE ABOUT THIS?

"POP Bank's vision is founded on customer satisfaction. As a development organisation, our mission is to develop services that meet customers' needs. In 2022, we introduced new payment services for mobile payments, for example, and launched Kotitalouslaina, an unsecured loan designed to bring flexibility to mortgage customers' daily financial management. Our unit is also responsible for the development of payment services in self-service channels. Our work may not always be directly visible to the end customer, but it improves the payment experience, eliminates errors and makes payment services easy to use."

HOW ARE CHANGES IN THE MARKET SITUATION REFLECTED IN YOUR WORK?

"Because of the global situation, continuity and preparedness became important themes, and topics such as cash and home emergency supplies were discussed a lot. In the longer term, however, we can see that the share of cash is decreasing while card, mobile and online payments are increasing, and that payments have increasingly become a back-office service."

"For example, when you drive your car into a car park, it's identified automatically when you enter and exit, and the parking fee is charged directly to your card. As part of this trend of invisible payments, it's increasingly important for customers to stay informed about their finances and feel secure about paying. For example, our customers have access to a service that sends notification messages about all card transactions."

HOW IS SUSTAINABILITY INTERTWINED WITH YOUR WORK?

"Sustainability affects all aspects of my work. As a manager, I'm responsible for our employees, customers and range of services. I feel that the development of digital services in response to customers' needs and trends is an essential part of sustainability work. Bonum Bank's WWF Green Office certification has also encouraged us to think about our own processes. For example, our payment cards are now made of recycled plastic."

INSURANCE SEGMENT IN POP BANK GROUP

The POP Bank Group's insurance segment includes Finnish P&C Insurance Ltd that uses in its marketing and sales operations the auxiliary business name of POP Insurance. The insurance company offers typical non-life insurance products to private customers. The insurances are mostly sold via electronic channels.

The company's operations and product development are aiming to continuously elevate the customer satisfaction. For example POP Insurance's offering include mileage-based car insurance targeted to those who use their cars less often, home insurance for single people and car insurance options that cover the special needs of the electric car owners.

Finnish P&C Insurance Ltd monitors the development of the customer satisfaction in many ways. The company participated in 2022 for the first time in independent the customer satisfaction survey for insurance industry by EPSI Rating ranking second with 74.1 index points while the industry average was 72.1. According to the survey, POP Insurance had the most loyal customers and it also had the most satisfied customers with the price-quality ratio. In addition to that, the company carried out own customer surveys to monitor regarding how customers experienced the completion of compensation processes. The feedback has been extremely positive and the average of responses has been repeatedly commendable.

An estimate 75 per cent of the insurance premiums paid will return to the Finnish P&C Insurance Ltd's customers. POP Insurance's most common type of compensation is car towing, worth on average EUR 280. According to the company statistics, the tow truck is called for help over 6,000 times a year.

INSURANCE SEGMENT'S KEY FIGURES

Profit before tax
0.3
(5.0) million euros

Net insurance income
12.7
(13.2) million euros

Consolidated cost ratio
96.9
(92.5) per cent

Customers
184,000
(171,600)

SUSTAINABILITY AND POP BANK GROUP

Corporate responsibility in the POP Bank Group is based on cooperative values, local operations and long-term business operations. POP Bank Group's operations comply with current laws, regulations and the guidelines and orders issued by the authorities, as well as with the princi-ples of good governance and the Group's values, strategy, own rules and binding internal guidelines. In its banking operations, the Group also complies with Good Banking Practice and the related trading guidelines, as well as with the amalgamation's internal guidelines. In its insurance operations, the Group complies with the guidelines issued by Finance Finland concerning good insurance practice, as well as with the company's internal guidelines.

POP BANK GROUP'S SUSTAINABILITY PROGRAM

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

1. Promoting sustainable financing and investing, and thereby mitigating climate change
2. Supporting local success, vitality and well-being
3. Transparent business operations
4. Ensuring the equality of employees and promoting diversity and well-being at work
5. Preventing a grey economy, corruption and money laundering

POP Bank Group has recognised that its sustainability programmes support the goals of the UN's 2030 Agenda for Sustainable Development for the following topics: quality education (UN Sustainable Development Goal 4), gender equality (5), the promotion of decent work and economic growth (8), reduced inequalities (10), the encouragement of climate action (13) and the promotion of peace, justice and strong institutions (16).

MANAGING AND REPORTING THE SUSTAINABILITY WORK

The operational management of matters related to sustainability has been integrated as part of POP Bank Group' normal day-to-day business. In the POP Bank Group, matters concerning sustainability are discussed by the Executive Board and the Board of Directors of the POP Bank Centre coop. The guidelines are reviewed annually by the Executive Board and the Board of Directors, and the policies and principles are updated to support operations as necessary.

The Group's ESG strategy and vision as well as the need to review the sustainability program is discussed and decided by the Executive Board and the Board of Directors of the POP Bank Centre coop. POP Bank Centre coop's Executive Board has pointed a dedicated ESG working group that monitors, for example, legislation and reporting related to sustainability and prepares guidelines and recommendations accordingly for the Group. The ESG working group also ensures that the development work required by the reporting in accordance with EU taxonomy regulation is carried out systematically.

In addition to business metrics, the Group monitors the implementation of its sustainability program with the set of internal benchmarks and surveys. For example the work satisfaction of the personnel is measured annually and customer satisfaction in the POP Bank Group is tracked using the Net Promoter Score (NPS) as well as by participating in the banking and insurance industry surveys such as conducted by EPSI Rating.

The Group sustainability report including GRI Index is conducted with reference to the GRI Standards. In accordance with the EU Taxonomy on Sustainable Finance, the Non-Financial Information section of the POP Bank Group's Board of Directors' report 2022 includes the information of the proportion of taxonomy-eligible assets in relation to its total assets and the proportion of taxonomy-eligible financial activities in insurance.

PRINCIPLES OF TAXATION

POP Bank Group operates in Finland, and therefore the Group pays taxes in accordance with Finnish laws and regulations. Corporate taxes paid by POP Banks on their profits are distributed among operating areas of banks' customers thus benefiting local communities. POP Bank Group's income taxes for 2022 were EUR 3.9 (6.5) million. Other direct taxes include property taxes and parafiscal charges that are included in the operating expenses.

POP Bank Group pays value added tax (VAT) and tax on insurance premiums as indirect taxes. Sales and brokerage of financial services are not subject to VAT, which is why VAT for purchases related to these services cannot be deducted. For other activities, the Group is liable for VAT. As a result, the VAT included in purchases mainly remains as an expense of the Group. Tax on insurance premiums is paid, among other things, on property and motor liability insurances issued by the insurance company.

The Group also pays the State of Finland taxes collected on payments, such as withholding tax on wages paid to employees and tax at source on interest paid on customer deposits. POP Bank Group's goal is timely reporting of taxable income and appropriate payment of taxes. The Group does not actively seek to affect the effective tax rate by the structure of the Group. Efforts are made to ensure the appropriateness of the payment of taxes by preparing tax returns carefully. Operational tasks related to income tax returns have been outsourced to Figure Taloushallinto Oy. The Group does not have a separate tax function. Group taxation responsibilities are included in the financial management organisation and customer and product-related tax matters in legal organisation. POP Bank Group discusses openly with tax authorities. Possible tax risks are reported to the Management Team and the Board of Directors of POP Bank Centre.

YEAR OF SUSTAINABILITY 2022 IN THE POP BANK GROUP

POP Bank Group's sustainability program was actively implemented during 2022. For example the Group changed the material used in its payment cards, reducing the greenhouse gas emissions related to the production and delivery of cards by nearly 50 per cent. The first cards made from 80 per cent recycled rPVC plastic were delivered to customers in late summer 2022.

As part of a broader review of its sustainability program, POP Bank Group conducted an extensive stakeholder survey of its customers, personnel, partners and investors in the autumn of 2022. The survey received more than 1,400 responses. For the majority of respondents, the general ESG themes as well as the state of the nature and the climate were personally important. Regarding the stakeholders' expectations for the POP Bank Group as a sustainable organisation, the bank's financial stability, data protection and employees' well-being were being particularly emphasised. The capital adequacy is the foundation of the POP Bank Group's operations and an essential part of the Group's ESG vision. In the POP Bank Group, bank secrecy is respected in all operations and data protection is taken into account in the development of products and services as well as in training staff and in customer communications.

POP Bank Group's member organisations have invested in the well-being of the employees in many ways. The emergence of this theme in the survey describes about how the customer care linked to POP Bank brand is reciprocally reflected in the employees as well. The POP Bank Group has used the results of the survey in the development of its sustainability program. For example data security has been included in the program as its own theme since 2023. The development of the programme will continue in terms of an action plan and training for the personnel in 2023.

The Group has been preparing the implementation of the carbon footprint mapping so that the organisations belonging to the Group are able to do the measuring during 2023. The carbon footprint is a method for estimating the climate load caused by the company's operations, i.e. how much greenhouse gases the company is generating. The calculation takes into account, among other things, the energy use of offices and the form of energy production, emissions from travelling and various office operations such as mailing and ICT services. In addition, POP Bank Centre coop has started preparations the goal of meeting the certification criteria related to WWF's (World Wildlife Found) Green Office program in 2023. Bonum Bank, belonging to the Group, has been participating this program since 2020.

POP Bank received the highest index scores in its sector from both private and corporate customers in the EPSI Rating Sustainability Index assessment that was carried out in connection with the EPSI Rating customer satisfaction survey. The index is based on customers' assessments of their bank and how socially, environmentally and financially responsible they consider their bank is.

PROMOTING SUSTAINABLE FINANCING AND INVESTING AND THEREBY MITIGATING CLIMATE CHANGE

The UN's Sustainable Development Goal for Climate Action include improving education, awareness-raising and enhancing human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning. The main environmental impacts of the POP Bank Group's operations are related to the financing customers' investments and other activities as well as the Group's own investment activities and offering investment products to customers. The goal of the POP Bank Group is to reduce the risk caused by environmental impacts and climate change by providing customers with financing for investments that support climate change mitigation and adaptation, as well as by offering investment targets that support sustainable development and informing customers about related opportunities.

In providing investment advice, the POP Banks take account of sustainability risks through their product selections. Sustainable risk refers to an event, or circumstance related to the environment, society or governance, the occurrence of which could have an actual or potential adverse effect on the value of an investment. All POP Bank Group's investment partners have signed the UN-supported Principles for Sustainable Investment (PRI).

The POP Bank employees who offer investment advice to customers are provided with opportunities for training related to the ESG disclosure obligation, and the banks have actively used this opportunity. In addition, since August 2022, the POP Banks have studied their customers' sustainability preferences as part of the investment and insurance advice process by enquiring about their desired minimum percentage of investments with an environmental or social objective and investments that are environmentally sustainable in line with the EU taxonomy (2020/852).

The majority of POP Funds have the Morningstar sustainability rating. The average score of these funds is 3.6 on a scale of 1 to 5. The average score remains the same as in year 2021. The Morningstar sustainability rating describes the sustainability of those companies included in the fund, in relation to the holdings of other funds in the same comparison category, as determined by Morningstar. An investment fund is issued with a sustainability rating, if at least 50 per cent of its assets are invested in companies for which Sustainanalytics has determined a company-specific ESG rating.

POP Bank's 'green loan' product, 'Vihreä laina', is targeted to private customers who are interested in environmentally friendly purchases or to do a renovation that increase the energy efficiency of their home or summer house. POP Bank's website has calculators enabling anyone to assess the emission impacts related to the energy efficiency of housing, or of exchanging one's car, or of heating systems.

SUPPORTING LOCAL SUCCESS, VITALITY AND WELL-BEING

One of the targets under the UN Sustainable Development Goal concerning decent work and economic growth is supporting the capacity of domestic financial institutions to provide banking, insurance and financial services to all. This goal also includes promoting development-oriented practices to support productive activities and encouraging the establishment and growth of micro-enterprises and small and medium-sized enterprises.

In the POP Bank Group, sustainability work is carried out both nationally as a Group and locally by the regional POP Banks. The POP Banks are cooperative banks owned by their member customers. Membership of a POP Bank entitles the member to participate in the bank's decision-making at cooperative meetings or in electing the members of the representative council, which has the highest decision-making power. The POP Banks im-plement their owners' intent, which is founded on the Group's mission to promote its customers' financial well-being and prosperity, as well as local success.

Many local POP Banks belonging to the Group have an operating history of over 100 years. In addition to the services offered to the private customers, the independent POP Banks are involved in developing the vitality of their region by financing companies that further employee people as well as financing various social projects. The banks also cooperate with educational institutions by giving lectures at schools and offering internships and summer jobs to young people interested in the financial sector. POP Banks are also actively supporting various club and association activities.

POP Bank Group has been granted the right to use the Key Flag Symbol by the Association for Finnish Work. The symbol signifies the provision of services and employment in Finland. POP Bank Group employed in 2022 in total 853 persons. 92.5 per cent of the employees had permanent working status. As a Finnish company POP Bank Group pays its taxes to Finland. The domiciles of the companies of the Group cover 20 different locations, meaning that the taxes paid by the Group are allocated extensively to the areas where its customers are located.

In 2022, the Finnish households experienced the rise in the price of food and electricity reflecting the increased inflation. POP Banks have actively offered for their customers POP Taloushetki and POP Verkkohetki, both are online meeting concepts to discuss and review customers' financial situations. POP Bank Group also launched an unsecured loan, POP Kotitalouslaina, for its mortgage customers, in late 2022. This loan is designed to bring flexibility to the management of customers' day-to-day finances.

Furthermore, POP Bank Group participated in the Digital and Population Data Services Agency's new campaign 'Omissa käsissä' about continuing power of attorney. The Group shared and produced information about this document with which one may point a legal representative to handle daily business in case person him/herself is not able to do this due to illness, old age etc. This document is especially important if a customer needs another person to handle one's banking.

Various scams and phishing attempts have been on the rice in recent years. POP Bank Groups is participating for the second year on a row in the national information campaign 'Varo, Varoita and Varmista' aimed at reducing scams. The Group has been informing its customers about the different types of scams and phishing attempts through various communications channels and organised trainings and webinars on the subject.

The Group also contributed to the young people's financial literacy by participating in the Finnish Foundation for Share Promotion's national Money Week event and in Economy and Youth TAT's educational theme week introducing students to different industries. POP Bank Group also participated Pellervo Coop Centre's campaign #OsuuskuntaElämää (Co-op Life) to introduce young people to co-operative's business models with the help of social media influencers. During autumn 2022, POP Bank Group also took part in Aalto University's Societal Project Design course, giving the students the task of finding out what kind of support a young first-home buyer wishes to have at different stages of their purchasing path. The student report have been used in the development of the Group's digital mortgage loan process and in the training of customer service representatives working with young people.

In addition to private customers, POP Bank Group also service small and medium size companies. In the August 2022, the Group attended to FinnMETKO event, that is the Finland's main event for the heavy machinery industry: forestry, logging, bioenergy, logistics and earth moving. POP Banks informed the business visitors about Laskuraha, a financing product that enables funding against invoice receivables. The event had over 28,000 visitors. POP Bank Group also joined the partner of the Farmers' Social Insurance Institution (Mela). The 'Välitä viljelijästä' project aims to identify farmers' exhaustion and need for help and provide them with guidance on access to expert help.

Many have been touched by the situation in Ukraine. POP Bank Group made a donation to UNICEF to help Ukrainian families in spring 2022. In addition, the Group participated in the Mannerheim League for Child Welfare's Good Holiday Spirit collection for low-income families.

DIGITALISATION SUPPORTS POP BANK'S GROWTH STRATEGY AND LOCAL FOCUS

Ari Voutilainen is the Strategy Director of Istekki, an organisation of more than 1,000 professionals specialising in information, health and wellness technologies. He is Chair of the Board of POP Bank Järvi-Suomi in Finnish Lakeland, and has served as Vice Chair of the Supervisory Board of POP Bank Centre coop since the beginning of 2023. He says that the Board plays an important role in supporting and safeguarding the bank's personnel and strategic direction.

Ari Voutilainen became a member of the Board of POP Bank Siilinjärvi in 2007. He became Vice Chair of the Board in 2009, and Chair in February 2020. He has served as Chair of the Board of POP Bank Järvi-Suomi since the spring of 2021, when the POP Banks in Siilinjärvi and Reisjärvi merged to create a new bank.

POP BANK JÄRVI-SUOMI'S AREA OF OPERATION EXTENDS FROM THE KUOPIO REGION TO CENTRAL FINLAND, NORTH OSTROBOTHNIA AND NORTH KARELIA. THE BANK ALSO SERVES ITS CUSTOMERS EXTENSIVELY THROUGH ITS DIGITAL BRANCH. WHAT DOES A LOCAL FOCUS MEAN TO YOU AS A BANK?

"A local focus is a top priority for the POP Banks. Today, it means much more than just local branches and their location. We must also be present in channels where we can meet our customers regardless of their physical location. In addition, we meet customers in locations other than branches," says Voutilainen.

"When customers, young customers in particular, move away from their home region, we want to maintain these customer relationships and make banking effortless through our digital services."

POP BANK JÄRVI-SUOMI IS ACTIVELY INVOLVED IN DEVELOPING DIGITAL OPERATING MODELS. DIGITALISATION IS OFTEN CRITICISED FOR MAKING SERVICES FACELESS. HOW CAN A BANK USE DIGITALISATION AS A COMPETITIVE ADVANTAGE AND HOW IS THIS REFLECTED IN YOUR OPERATIONS?

"Let's first look at what digitalisation means. Our digital branch serves our customers electronically, even outside Finland. The idea is that we are present and the customer can consult us and use our services regardless of their location. In addition to customer service, we can use digitalisation to improve the efficiency of our own operations by, for example, automating our back-office functions, so that personnel have more time to meet and serve our customers.

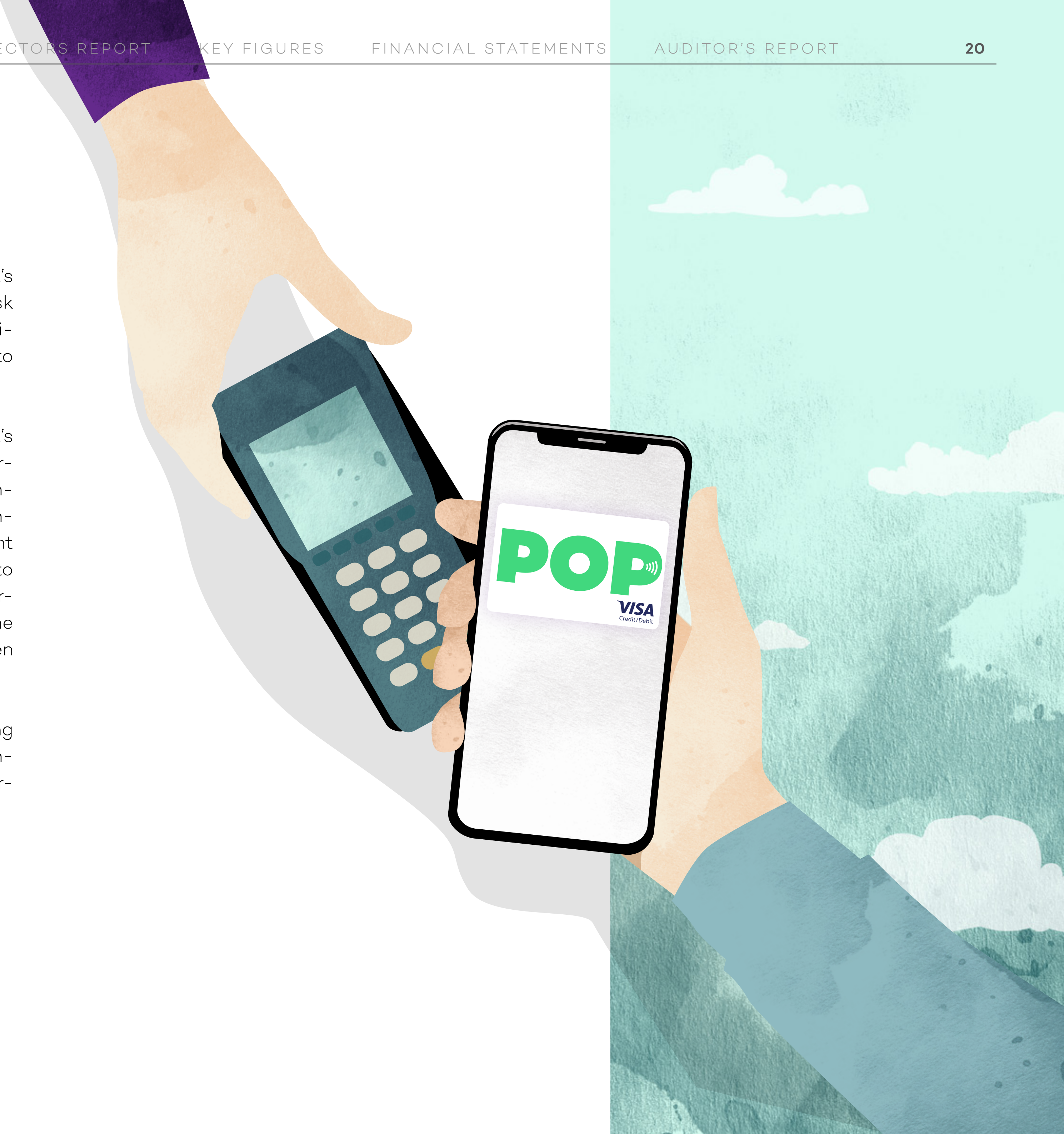
"In my opinion, both of these aspects must be taken into account when discussing digitalisation. For example, in this interview right now, we are also talking person to person, albeit digitally on Teams," Voutilainen points out.

IN YOUR OPINION, WHAT ARE THE THREE MOST IMPORTANT ASPECTS THAT A BANK'S BOARD SHOULD TAKE INTO ACCOUNT IN ITS OPERATIONS?

"First, through its role, the board safeguards the bank's operations. In practice, this means monitoring the risk position, addressing deviations, taking care of the liquidity position, and identifying and responding to changes in the operating environment."

"The second aspect is securing the future of the bank's business operations. The bank's strategy is an important tool here. It lays the foundation for operational planning, taking changes in the operating environment into account. While the executive management creates the strategy, it's a good idea for the board to be involved in the planning phase, coaching and sharing its expertise. The board also needs to monitor the implementation of the plans to ensure that the chosen strategic direction is followed."

"The third is related to providing support and coaching for the bank's employees and management. For example, I frequently discuss the future from different perspectives with the CEO."



TRANSPARENT BUSINESS OPERATIONS

POP Bank Group supports active and open communication. The guiding principle is to provide all stakeholders equal and simultaneous access to the information and that the information about the operations is correct and sufficient. The Group's communications is compliant with the Good Banking Practice and ensures that privacy of any party is not compromised.

The POP Bank Group requires all its employees and members of its executive management and administration to be familiar with good governance guidelines and to comply with them. Compliance with good governance is monitored by the Board of Directors of the central institution. If shortcomings are detected in the organisation of reliable governance, or if significant risks or damage emerge in operations as a result of non-compliance with regulations, these are reported to the Board of Directors without delay. The Board of Directors is also immediately informed about any question concerning the reliability, suitability or professional skills of the people responsible for key operations or the compliance officer.

Suspected misconduct can be reported to the compliance function and internal audit confidentially by using a whistleblowing channel designated for this purpose. The aim is to prevent potential conflicts of interest by avoiding high-risk combinations of duties in operations through the separation of supervisory duties related to operational and risk management, for example, at all organisational levels within the Group. A person belonging to the compliance function reports the number of justified and unfounded reports submitted via the whistleblowing channel during the year, specific to each workplace community, to the Board of Directors of the central institution.

The Board of Directors of the POP Bank Centre coop confirms and regularly updates the guidelines concerning insider registers and the obligation to disclose securities holdings, as well as trading rules, for its member credit institutions. A member of the personnel may not participate in processing a matter concerning an agreement between such person and a member credit institution. Furthermore, they may not participate in processing a matter between a member credit institution and a third person if they can reasonably be expected to have material interests that may conflict with the interests of the member credit institution. If a conflict of interest arises, it must be reported transparently to the affected customers, who can consider the situation in their own decision-making, as well as to the Board of Directors of the central institution. The Executive Board of Finnish P&C Insurance has confirmed and regularly updates the guidelines concerning conflicts of interest and disqualification. A disqualified person may not participate in processing the matter in question, nor may they be present when the matter is being processed.

POP Bank Group acts on the basis that all customers should be treated fairly and equally. The banks seek to know their customers and their backgrounds as thoroughly as the customer relationships require and so that the customers can be provided with the suitable products and services. Feedback and complaints from customers are also processed accordingly.

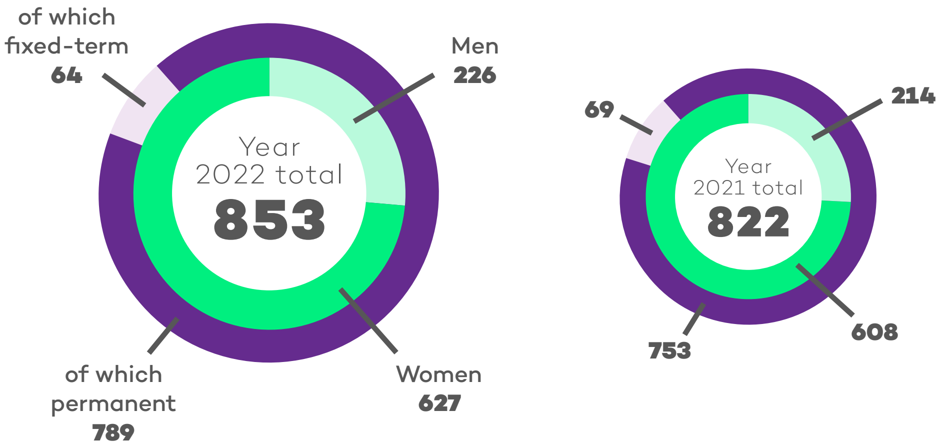
The POP Bank Group also expects its partners to comply with the legislation, official regulations and sector-specific good practices. When selecting partners, the Group seeks to ensure that the partner's values are consistent with the values of the POP Bank Group, and that the partner will not pose a significant reputation risk or impair the quality of services. When selecting partners, the Group seeks to ensure that the partner's values are consistent with the values of the POP Bank Group, and that the partner will not pose a significant reputation risk or impair the quality of services. During 2022, addition to the several authorities, among the most significant external stakeholders were Finance Finland, Pellervo Coop Centre, Association for Finnish Work as well as Farmers' Social Insurance Institution.

POP Bank Group's main business partners for its investment product selection are Aktia Fund Management Company Ltd, Sb-Fund Management Company Ltd and UB Asset Management Ltd. In securities services, the partner is the Finnish branch of Nordnet Bank AB. The pension and savings insurance products provided by the POP Banks are produced by Aktia Life Insurance Ltd and Sb Life Insurance Ltd, and the loan insurance products provided by the POP Banks are produced by the AXA Group and Sb Life Insurance Ltd. The purpose of the cooperation is to secure competitive pension, savings and loan insurance services for the POP Banks' customers. Puro Finance Oy is producing the Laskuraha service provided to POP Bank's business customers. Oy Samlink Ab serves as the POP Banks' information system supplier, while POP Bank Group is reforming its core banking system with Finnish IT-company, Crosskey. In risk reporting, we cooperate with ALM Partners Ltd. Our provider of financial management and statutory reporting services is Figure Financial Management Ltd, which POP Bank Group owns together Figure Financial's other customer banks.

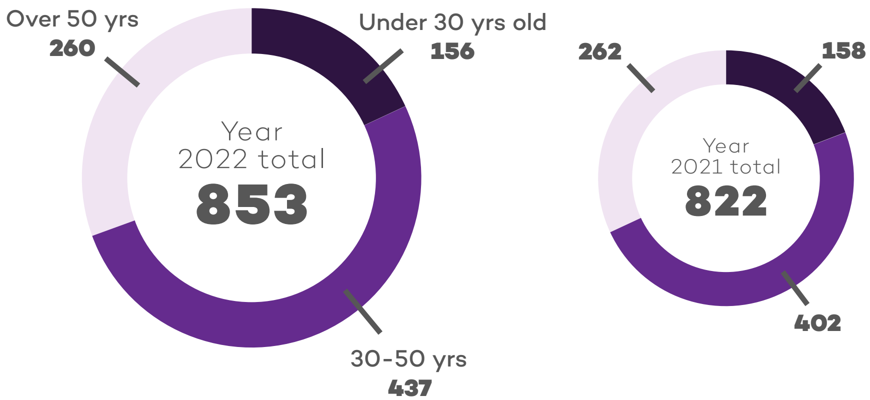
POP Bank Group's governance principles has been described in more detail in Appendix 3 and in the governance report published in the Group's website.

ENSURING THE EQUALITY OF EMPLOYEES AND PROMOTING DIVERSITY AND WELL-BEING AT WORK

POP BANK GROUP'S PERSONNEL



POP BANK GROUP'S PERSONNEL AGE DISTRIBUTION



All employees and their capabilities are valued within POP Bank Group. The Group has zero tolerance towards discrimination. In the workplace community, equal treatment is reflected in day-to-day work, recruitment, remuneration and career development. Equal treatment is not limited to employees; it also concerns administration, partners and customers.

The POP Bank Group seeks to improve well-being at work in all its operations. Employee satisfaction is measured annually, and plans are prepared regularly to develop fair and equal workplace communities. Employees have an opportunity to discuss matters related to equality and non-discrimination with their supervisors, health and safety representatives or personnel representatives. The competence requirements for employees in the financial sector are high in the current environment, which is extensively regulated and highly digitalised.

For more than 10 years, the POP Banks have had their own competence and salary passport system as an aid in talent management. Competence has been supported through various internal and external training and coaching programs and events of current affairs. Furthermore the Group has prepared a new competence development program. Implementation of this program starts in 2023.

POP Bank Group participated in the Responsible Employer programme in Finland for the third consecutive year. The programme provides a wide range of information about various themes related to organisational and work culture.

In 2022, the POP Bank Group employed a total of 853 people, compared to 822 the previous year. The Group's average number of employees was 827 (807). During 2022, a total of 57 took family leave, 66.7 per cent of were women and 33.3 were men. Age-wise, 18.3 per cent of the Group's employees were under 30 years old and 30.5 per cent over 50 years old.

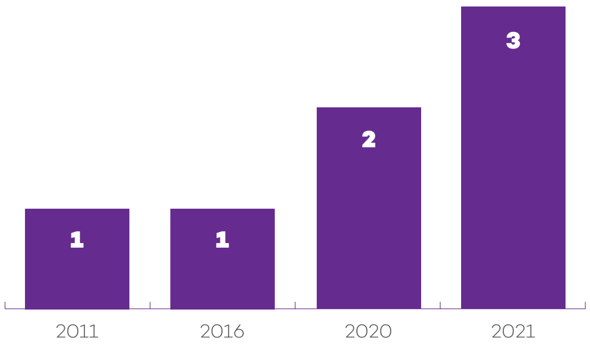
The gender distribution of the Group's personnel reflects the average in the female-dominated financial sector. The women represented 73.5 (74.0) per cent and the men rep-resented 26.5 (26.0) per cent of the Group's personnel. Permanent employment accounted for 92.5 (91.6) per cent for all employment.

POP BANK CENTRE COOP'S DIVERSITY

At least half of the Board members must be elected from persons employed by a member credit institution. In 2022, POP Bank Centre coop's board consisted of seven members, 57 per cent of whom were employed by the member credit institution. Six of the members were men and one was a woman.

In terms of age distribution, 29 per cent of the board members belong to the age group of 30 to 50 years old and 72 per cent represents the age group of over 50 years old. The board member who has served the longest joined the board in 2011. The most recent appointments of board members were made in 2021. The following graph shows the distribution of board members according to the years they joined. The composition of the board is presented in more detail on page 40.

POP BANK CENTRE COOP'S BOARD OF DIRECTORS BY THE YEAR OF APPOINTMENT



PREVENTING A GREY ECONOMY, CORRUPTION AND MONEY LAUNDERING

POP Bank Group has zero tolerance towards bribery, corruption and other unethical means of influence. The principles and guidelines for dealing with corruption and bribery, written in its management system, cover employees, the operational management and administrators. Their purpose is to identify and prevent any risks related to corruption, bribery and money laundering. The Board of Directors and the operational management monitor the imple-mentation of the principles.

The operating model for risk management related to money laundering and other financial crime has been systematically reinforced in 2022 at the level of the amalgamation of POP Banks. For example this has included updating the binding guidelines on the prevention of money laundering and other financial crime within the amalgamation. The implementation of the renewed AML system, that enhances the monitoring of payment transactions, was continued as planned and the system was launched in early 2022.

TACKLING THE GREY ECONOMY AND SCAMMERS

Touko Knuuttila serves as AML (Anti Money Laundering) Compliance Officer at POP Bank Centre coop. His job includes monitoring sanctions and the regulations related to the prevention of money laundering and terrorism, in addition to ensuring that the POP Banks comply with these.

HOW WAS THE YEAR 2022 AT WORK?

Busy. The centralisation of the POP Banks' AML operations has been a major internal change process, and the results are promising. The sanctions against Russia have also involved a great deal of work. Many new sanctions and new types of sanctions have been imposed. Putting these into practice and providing the latest guidelines, as well as providing banking services for Ukrainian refugees in Finland, has been a major effort for all operators in the sector. Considering the amount of work and the schedule, I'd say that the POP Bank Group has done a good job.

Fraud and scams appear to have decreased somewhat from last year, but various scams and money laundering attempts targeted at customers are still regrettably common. The banks' input in detecting these is important.

WHAT IS POP BANK DOING TO PREVENT FRAUD AND SCAMS?

A wide range of preventive measures are taken. Measures concerning money laundering are guided by regulations, but the prevention of the grey economy is also part of our sustainability programme, and we want to contribute to this end and be active. For example, the centralisation of our money laundering and fraud prevention operations has made our work even more effective.

Scammers are quick to adopt new approaches and operating models. We have sought to communicate with and educate our customers in various ways to prevent scams. We are also continuously improving the security of our online and mobile services and the security of payments.

It's important that customers and banks are alert and proactive in reporting any scams they detect. Cooperation between different operators is important in preventing crime.

EXPERT TIPS TO AVOID SCAMS:

- Always be alert when using services.
- Report your suspicions of fraud to your bank as soon as possible. Outside office hours, our 24-hour deactivation service (020 333, or +358 20 333 when calling from abroad) will help you cancel your card and deactivate your banking codes.
- Don't believe everything you see in messages or online. Read the messages you receive carefully.
- Always access your online bank via the bank's own website. The mobile banking app is also a secure way to manage your day-to-day banking.
- Digital transactions are safe when you know what you are doing.

POP BANK GROUP GRI CONTENT INDEX

GRI Standard	Disclosure	Page or URL	Explanation or comment
Statement of use: POP Bankg Group has reported the information cited in this GRI content index for the period 1.1.2022 - 31.12.2022 with reference to the GRI Standard			
GRI 1 used: GRI 1:	Foundation 2021		
GRI 2: General Disclosures 2021			
2-1-a	Organizational details; Legal name		POP Bank Group
2-1-b	Organizational details; Legal form and nature of ownership	pages 6,29-30	POP Bank Group and amalgamation of POP Banks
2-1-c	Organizational details; location of its headquarters		POP Bank Centre coop, the central institution of POP Bank Group, has registered office is Helsinki. It's head office is in Espoo, Finland.
2-1-d	Organizational details; countries of operation		POP Bank Group operates in Finland
2-2	Entities included in the organization's sustainability reporting	pages 6, 29-30, 14	POP Bank Group and amalgamation of POP Banks, Sustainability and POP Bank Group
2-3	Reporting period, frequency and contact point		The report is published annually together with Annual Report covering the fiscal period of 1 January- 31 December 2022. Contact point for the report is POP Bank Group's Communications Manager, https://www.poppankki.fi/en/pop-bank/for-media
2-5	External assurance		No external assurance
2-6	Activities, value chain and other business relationships	pages 6-13	POP Bank Group in brie, Key figures, POP Bank Group's business segments
2-7	Employees	page 23	POP Bank Group and amalgamation of POP Banks, Ensuring the equality of employees and promoting diversity and well-being at work
2-9	Governance structure and composition	pages 29-30, 42-43, 72-74	Administration of POP Bank Centre coop, Note 3 Governance and management
2-10	Nomination and selection of the highest governance body	pages 42-43, 72-74	Administration of POP Bank Centre coop, Note 3 Governance and management
2-11	Chair of the highest governance body	pages 42-43	Sustainability and POP Bank Group, Administration of POP Bank Centre coop
2-12	Role of the highest governance body in overseeing the management of impacts	pages 14, 72-74	Administration of POP Bank Centre coop, Note 3 Governance and management
2-13	Delegation of responsibility for managing impacts	pages 14, 72-74	Administration of POP Bank Centre coop, Note 3 Governance and management
2-14	Role of the highest governance body in sustainability reporting	page 14	Sustainability and POP Bank Group
2-15	Conflicts of interest	page 21-22	Transparent business operations
2-16	Communication of critical concerns	page 21-22	Transparent business operations
2-19	Remuneration policies	pages 43, 77-78, 149	Administration of POP Bank Centre coop, Note 3 Governance and management; Note 38 Related party disclosure
2-20	Process to determine remuneration	pages 43, 77-78	Administration of POP Bank Centre coop, Note 3 Governance and management
2-22	Statement on sustainable development strategy	page 14	Sustainability and POP Bank Group
2-26	Mechanisms for seeking advice and raising concerns	pages 21-22	Transparent business operations

GRI 3: Material Topics 2021

3-1	3-1 Process to determine material topics	page 14	Sustainability and POP Bank Group
3-2	3-2 List of material topics	page 14	Sustainability and POP Bank Group
3-3	3-3 Management of material topics	page 14	Sustainability and POP Bank Group

GRI 201: Economic Performance 2016

201-1	Direct economic value generated and distributed	pages 33-34	POP Bank Group's earnings and balance sheet

GRI 205 Anti-corruption 2016

205-3	Confirmed incidents of corruption and actions taken		No reported incidents in 2022

GRI 207: Tax 2019

207-1	Approach to tax	page 15	Principles of taxation
207-4	Country-by-country reporting	pages 15, 18, 111	Sustainability and POP Bank Group, Note 14 Income tax

GRI 404: Training and Education 2016

404-2	Programs for upgrading employee skills and transition assistance programs	page 23	Ensuring the equality of employees and promoting diversity and well-being at work

GRI 405: Diversity and Equal Opportunity 2016

405-1	Diversity of governance bodies and employees	pages 23-24, 42-43	Administration of POP Bank Centre coop, Note 3 Governance and management

POP BANK GROUP'S BOARD OF DIRECTORS' REPORT 1 JANUARY - 31 DECEMBER 2022

POP BANK GROUP AND AMALGAMATION OF POP BANKS

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

STRUCTURE OF THE POP BANK GROUP

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

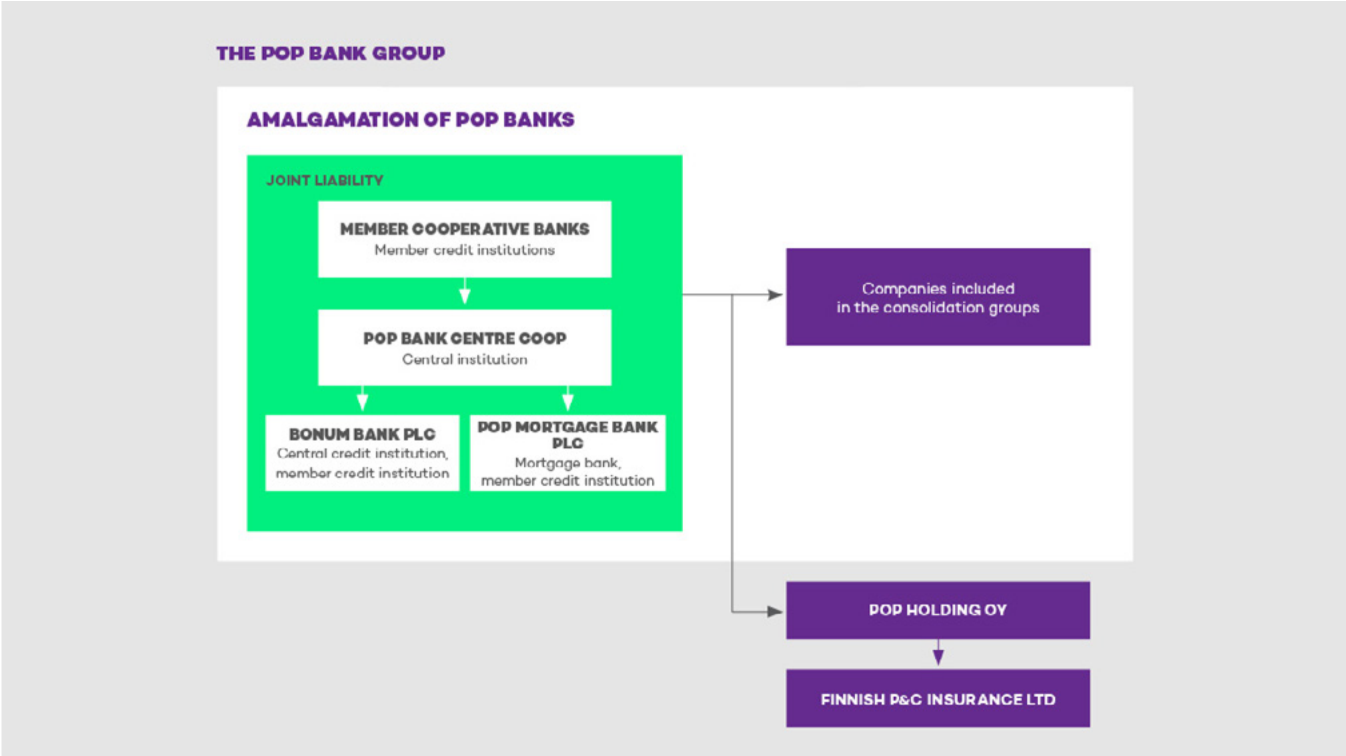
POP Bank Centre coop is the central institution of the Amalgamation of POP Banks and is responsible for steering and supervising the POP Bank Group. POP Bank Centre coop has two subsidiaries, Bonum Bank Plc and POP Mortgage Bank Plc, which are also its member credit institutions.

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

POP Bank Group also includes POP Holding Oy and Finnish P&C Insurance Ltd, a company wholly owned by POP Holding, which are not covered by mutual liability. Finnish P&C Insurance Ltd uses the auxiliary business name of POP Insurance.

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

POP BANK GROUP STRUCTURE



CHANGES IN POP BANK GROUP'S STRUCTURE

One merger was completed within the POP Bank Group during the financial period. Liedon Osuuspankki and Piikkiön Osuuspankki merged with Suupohjan Osuuspankki at the end of May. At the same time the name of the bank was changed to Suomen Osuuspankki. After the merger, the POP Bank Group consists of 19 cooperative banks. The merger was an intra-Group arrangement and had no impact on the POP Bank Group's consolidated financial information.

In March POP Bank Group divested one of the real estate companies previously consolidated to the Group. In addition to this, POP Mortgage Bank Plc was accepted as a member credit institution of the amalgamation of POP Banks in May after the company had received authorisation to engage in mortgage bank operations.

Kurikan Osuuspankki and Jämijärven Osuuspankki decided on a merger in December. The merger is set to be registered in May 2023.

OPERATING ENVIRONMENT

Economic recovery and growth continued after the most challenging phase of the coronavirus pandemic in 2022. The strict lockdown measures related to the pandemic in China continued to limit the pace of global economic recovery to some extent. In Finland, the improvement in the employment rate and the robust growth in total production in early 2022 were particularly positive developments.

The economic outlook turned significantly weaker following Russia's extensive attack on Ukraine. The EU quickly imposed wide-ranging economic sanctions on Russia, and the rest of the world broadly joined many of the measures against Russia. The sanctions imposed on Russia are also having a significant impact on the Finnish economy. The worst blows have been suffered by companies whose Russian business operations have become practically worthless in a short period of time.

The high inflation rate, which had previously been deemed temporary by the European Central Bank (ECB), continued to accelerate during the spring. The main driver of inflation is the sharp increase in energy prices, which has been reflected, with a delay, extensively in all economic sectors. As Russia previously delivered large volumes of natural gas to the EU, the sanctions have led to an energy crisis in Europe, with demand exceeding energy supply. As the need for energy typically increases in the autumn, the increase in electricity prices witnessed in the autumn of 2022 was exceptionally high.

The long period of low interest rates and stimulating monetary policy came to an end in the eurozone when the ECB deemed that interest rate hikes were necessary to ensure price stability. The ECB started to ramp down its securities purchase programme, and began to increase its key interest rates in July. Towards the end of the year, its key interest rate levels were 2.5 percentage points higher than at the beginning of the year.

Although production increased markedly in Finland in 2022 from the previous year, expectations of growth have subsided. The Finnish economy is expected to fall into recession, and the annual change in GDP in 2023 is expected to be negative. Towards the end of the year, consumers' expectations turned more pessimistic than ever before, and the increase in electricity prices in particular has caused concern among businesses and households. The number of housing sales began to decrease markedly towards the end of the year, and expectations of lower housing price levels increased, especially in the Helsinki metropolitan area. Households' ability to cope with financial challenges continues to be eased by the high employment rate and savings that accumulated during the coronavirus pandemic.

KEY EVENTS

STRATEGY

In the spring, the Board of Directors of POP Bank Centre coop confirmed the POP Bank Group's strategy for 2022–2024. The Group's vision is to be a bank that combines personal and digital services, that achieves the highest level of customer satisfaction and efficient decision-making, and that maintains capital adequacy and outperforms the market in profitable growth. The Group's target in capital adequacy is more than 17.5 per cent. Its long-term targets, set after the core system reform, are 0.7 per cent for return on assets and no more than 60 per cent for the cost-to-income ratio.

In the autumn of 2022, the POP Bank Group carried out an extensive stakeholder survey of customers, partners and investors. The results have been used in the review and development of the focus areas of the Group's responsibility programme, and to determine the sustainability strategy and vision integrated into the Group's strategy. The development of the programme will continue in terms of an action plan and training for the personnel in 2023.

SYSTEM REFORM PROJECT

In January 2022, the POP Bank Group selected Crosskey, a Finnish IT company, as its partner for its core system reform project. The project started in January and has progressed as planned. The POP Bank Group expects to introduce the new core banking system during 2025. The POP Bank Group decided to terminate the previous agreement on core banking system reform in June 2021. The significant compensation received for the termination of the agreement was recognised as revenue for the comparison period.

BEGINNING OF MORTGAGE BANK OPERATIONS

In May, POP Mortgage Bank Plc, which is part of the POP Bank Group, was authorised by the European Central Bank to engage in mortgage bank operations. POP Mortgage Bank Plc is responsible for acquiring external funding for the Group in cooperation with Bonum Bank Plc. POP Mortgage Bank is the issuer of the POP Bank Group's mortgage-backed bonds. POP Mortgage Bank has a EUR 1 billion covered bond programme, under which a covered bond of EUR 250 million was issued in September.

STRUCTURAL DEVELOPMENT OF THE POP BANK GROUP

During the financial year, one bank merger took place, with three member banks merging to form a bank with a balance sheet of EUR 1.4 billion at the time of the merger. In December, two banks announced a merger that will take place during 2023. The mergers will enhance the POP Bank Group's operational efficiency and strengthen its ability to meet its customers' financial needs. In May, following its authorisation, POP Mortgage Bank Plc was accepted as a member of the amalgamation of POP Banks. At the end of the reporting period, the POP Bank Group consisted of 21 banks, of which 19 were POP Banks.

IMPACTS OF THE CORONAVIRUS PANDEMIC AND THE GEOPOLITICAL SITUATION ON BUSINESS OPERATIONS

The lifting of the restrictions related to the coronavirus pandemic has increased people's mobility and supported the recovery of the service sector in Finland. However, the lockdowns in China have had a major impact on global demand and supply in 2022, and this has also been reflected in the Finnish economy to some extent.

The Russian attack on Ukraine has had a major impact on the international economy. Although the POP Bank Group has no customer companies with operations in Russia or Ukraine, the crisis is indirectly affecting the operations of the POP Banks' customers. In payment transactions, the POP Bank Group complies with the economic sanctions imposed by the EU and the UN, as well as the sanctions imposed by the United States and the United Kingdom. In addition, the POP Bank Group has raised its level of preparedness to meet various cybersecurity threats.

So far, the changes in the operating environment have not significantly affected the POP Bank Group's business operations. The strong increase in interest rates supports the development of the Group's net interest income, but it has also undermined the fair values of the Group's fixed income investments measured at market value. The rise in the costs of production inputs in agriculture in particular, combined with increasing financial expenses, is threatening profitability in agriculture and forestry, which may later be reflected in the amount of credit losses. However, no extensive repayment delays have been reported so far. In insurance operations, the number of claims for damage has normalised, and the demand for travel insurance has recovered with the easing of the coronavirus pandemic. However, inflation has caused claims to increase, and delivery issues in the car trade have been reflected in the sales of motor insurance.

CREDIT RATINGS

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

POP BANK GROUP'S EARNINGS AND BALANCE SHEET

POP BANK GROUP KEY FIGURES AND RATIOS

Key income figures (EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Net interest income	94,175	78,338	74,099	69,318	65,391
Net commissions and fees	41,617	36,326	31,049	30,013	29,790
Insurance income	12,675	13,192	11,611	10,913	10,433
Net investment income	-2,460	10,028	1,298	15,588	1,111
Personnel expenses	-51,178	-50,655	-43,531	-42,843	-41,769
Other operating expenses	-59,997	-55,464	-51,978	-47,927	-48,257
Impairment losses on financial assets	-7,716	-10,390	-7,468	-6,528	-3,195
Profit before tax	26,408	44,670	12,919	26,150	11,569

Key balance sheet figures (EUR 1,000)	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
Loan portfolio	4,448,480	4,243,829	3,868,147	3,635,488	3,473,310
Deposit portfolio	4,325,946	4,222,364	4,086,045	3,746,305	3,666,543
Insurance contract liabilities	57,011	52,692	43,915	38,606	32,488
Equity capital	560,617	552,809	517,242	508,435	483,788
Balance sheet total	5,777,207	5,357,697	5,098,398	4,535,557	4,409,518

Key ratios	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
Cost to income ratio	77.7 %	68.8 %	83.6 %	75.1 %	86.8 %
Return on assets, ROA %	0.4 %	0.7 %	0.2 %	0.5 %	0.2 %
Return on equity, ROE %	3.8 %	6.9 %	2.2 %	4.3 %	1.8 %
Equity ratio, %	9.7 %	10.3 %	10.1 %	11.2 %	11.0 %
Common equity Tier 1 capital ratio, (CET1) %	19.4 %	19.2 %	19.9 %	19.8 %	20.5 %
Capital adequacy ratio, (TC) %	19.4 %	19.2 %	19.9 %	19.9 %	20.8 %

POP BANK GROUP'S EARNINGS PERFORMANCE

POP Bank Group's profit before tax was EUR 26.4 (44.7) million, and profit for the financial year was EUR 21.1 (37.1) million.

Group's net interest income increased by 20.2 per cent to EUR 94.2 (78.3) million. Interest income for the financial year amounted to EUR 105.3 (83.9) million, and interest expenses were EUR 11.1 (5.5) million. Interest income was boosted primarily by the rapid rise of market interest rates, which also had an impact on interest expenses. Net commissions and fees increased from previous year by 14.6 per cent to EUR 41.6 (36.3) million. Group's insurance income declined by 3.9 per cent to EUR 12.7 (13.2) million.

The increase in market interest rates led to the recognition of negative changes in the value of fixed income investments, and the growing uncertainty in the investment market also weakened the fair values of other investments. Net investment income amounted to a loss of EUR -2.5 million, whereas on the comparison period, net investment income was EUR 10.0 million.

Other operating income totalled EUR 7.3 (38.4) million. Other operating income of the comparison period includes EUR 31.7 million of non-recurring items. Other operating income includes the reimbursement of the old Deposit Guarantee Fund, which covers the deposit guarantee contribution of the Financial Stability Authority included in other operating expenses. Other operating income totalled EUR 153.3 (176.2) million.

Total operating expenses increased by 1.7 per cent to EUR 119.2 (121.2) million. Other operating income of the comparison period includes EUR 6.0 million non-recurring items. Personnel expenses totalled EUR 51.2 (50.7) million. Other operating expenses were EUR 60.0 (55.5) million. Depreciation, amortisation and impairment on property, plant and equipment and intangible assets was EUR 8.0 (15.1) million.

A total of EUR 7.7 (10.4) million was recognised in impairment on financial assets. Impairments of loans and advances to customers was 0.19 (0.28) per cent of the loan portfolio. Impairment losses include a net increase in expected losses (ECL) of EUR 4.5 (2.3) million and realised credit losses of EUR 3.2 (8.0) million.

POP BANK GROUP'S BALANCE SHEET

POP Bank Group's assets totalled EUR 5,777.2 (5,358.7) million at the end of the period. The loan portfolio increased by 4.8 per cent during the financial year, amounting to EUR 4,448.5 (4,243.8) million. At the end of the financial year, the Group had deposits totalling EUR 4,325.9 (4,222.4) million with a growth of 2.5 per cent.

The number of bonds in issue was EUR 565.3 (284.9) million at the end of the financial year of which covered bonds were EUR 250.0 million. The Group's investment assets were 712.3 (681.6) million. In addition to investments in securities and real estate in banking operations, the investment assets include the insurance company's investments in securities.

POP Bank Group's equity totalled EUR 560.6 (552.8) million at the end of the financial period. The cooperative capital, which consists of the POP Banks' cooperative contributions and POP Shares, amounted to EUR 70.9 (67.1) million. POP Banks paid EUR 1.1 (1.1) million in interest on cooperative capital for 2021. POP Shares are investments in the cooperative bank's equity in accordance with the Co-operatives Act. In total, the POP Banks have issued EUR 60.2 (56.9) million in POP Shares.

OPERATING SEGMENTS

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

BANKING

POP Bank Group's Banking segment consists of the POP Banks engaged in retail banking, Bonum Bank Plc, which is central credit institution of the amalgamation and POP Mortgage Bank Plc, which is a mortgage bank. At the end of 2022, POP Bank Group had 256.5 (256.3) thousand banking customers. Of these, 85.2 (85.3) per cent are private customers, 9.2 (8.9) per cent are corporate customers, and 2.6 (2.7) per cent are in the agriculture and forestry sectors. At the end of the year, POP Banks had 70 branch offices and service points, which include three digital branches. In addition to visiting branch offices, customers have access to mobile and online banking services and online appointments.

According to the independent EPSI Rating survey, POP Bank's customer satisfaction is still the best in Finland. Among private customers, POP Bank stood out especially in the quality of customer service and in the wat the customer considers that the bank takes care of its customers. With regard to corporate customers POP Bank stood out from the industry in terms of ease of doing business with, exceeding expectations and keeping customers informed. POP Banks have, for example, offered and actively organised POP Taloushetki, specially themed meetings, to discuss with the customer about matching one's own economy and life goals.

POP Bank Group's loan portfolio grew 4.8 per cent during 2022. The demand for financing decreased at the end of the year and this also affected the growth of POP Bank's loan portfolio. In accordance with the Group's strategy, POP Banks have focused on developing their corporate finance services, which, during the reporting period, was reflected in the strong growth of the corporate loan portfolio.

POP Bank's investment sales decreased during 2022. Net subscriptions of both savings and investment subcategories declined but these were still positive despite market nervousness. The development of deposits has been stable and deposits grew 2.5 per cent during 2022.

POP Tarmo, a stock-oriented fund option, was added to the selection of the POP Banks' combined funds. In addition, the Group banks implemented an ESG preference questionnaire as part of their investment and insurance advice process to learn their investor customers' sustainability preferences and to recommend better matching investment products and the combination of these products. New, an unsecured household loan for POP Banks' mortgage customers, POP Kotitalouslaina, was launched in late 2022. This loan is competitively priced for the existing mortgage loan segment.

Lead by its vision, the POP Bank Group has continued to develop its digital services. The Group introduced a new electronic signature service to facilitate the digital transactions with both private and business customers. During the review period, POP Mobile's services were supplemented with, among other things, the Google Pay mobile payment featured. During the year, the popularity of mobile payments have grown significantly among POP Bank's payment customers, both in terms of value and volume.

BANKING EARNINGS

Banking profit development was strong despite the declined profit year-on-year as a result of non-recurring income at the comparison period. Profit before tax was EUR 26.1 (40.4) million. Terminating the agreement on renewal of core banking platform in 2021 had a positive effect of EUR 25.7 million on profit before tax for the comparison period. The cost-to-income ratio of banking operations was 75.7 (66.2) per cent.

The key income items of banking operations, net interest income and net commissions and fees developed strongly under the review period. Banking net interest income increased by 20.1 per cent to EUR 93.3 (77.7) million, and net commissions and fees increased by 14.4 per cent to EUR 42.1 (36.8) million. The increase in net interest income was primarily caused by the rapid rise in market interest rates, driven by the European Central Bank's key interest rate hikes. The positive development in net commission income mainly resulted from changes in the prices of banking services. Positive development of commissions and fees was mainly due to changes in pricing of banking services.

Net investment income amounted to EUR -0.1 (8.5) million. Valuation losses were recorded on investments due to the challenging market situation and the impact of rising interest rates on the valuation of fixed income investments. Other operating income totalled EUR 8.3 (38.7) million. Other operating income of comparison period includes EUR 31.7 million of non-recurring items. Operating income totalled EUR 143.7 (161.7) million.

Operating expenses in banking declined by 4.6 per cent from EUR 110.9 million to EUR 109.8 million. Expenses of the comparison period include EUR 6.0 million non-recurring costs. Personnel expenses in banking operations were EUR 35.5 (34.8) million and other operating expenses EUR 70.0 (64.6) million. Depreciation and impairment losses on property, plant and equipment and intangible assets were EUR 4.2 (11.6) million.

Impairment losses on financial assets were recognised in expenses to the tune of EUR 7.7 (10.4) million. Expected credit losses (ECL) on loans and off-balance-sheet loan commitments increased during the financial year by EUR 5.2 (4.1) million to EUR 42.4 (37.2) million. ECL from debt securities decreased by EUR -0.7 (-1.8) during the financial year. EUR 3.2 (8.0) million was recognised in realised credit losses.

POP Bank Group has recognised an additional provision of EUR 3.0 million earlier in financial year 2021 based on management judgement. The amount of the provision has been re-evaluated during the financial period 2022 and at the end of the period the amount of provision is EUR 3.0 million. The provision has been made in order to prepare for the negative impact of cost inflation to corporate and agricultural customers' ability to pay.

BANKING ASSETS AND LIABILITIES

The banking segment's assets totalled EUR 5,806.7 (5,375.1) million at the end of the financial period. The banking segment's loan portfolio increased by 4.8 per cent to EUR 4,450.2 (4,245.7) million. The loan portfolio grew in both the private and corporate customer segments. Deposits increased by 2.5 per cent, and the banking segment's deposits totalled EUR 4,334.3 (4,227.8) million at the end of the financial period.

INSURANCE

POP Bank Group's 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 insurance segment is a central part of the digital operations of the POP Bank Group.

In 2022, Finnish P&C Insurance Ltd. gained an average of 3.6 (3.6) thousand new customers per month, and at the end of the financial period, the company had 184.0 (171.6) thousand customers. Challenges in sales and deliveries in the vehicle market continue to hamper motor insurance sales, although the demand for travel insurance in particular has normalised since the end of the coronavirus pandemic. According to the results of an NPS survey, which measured customers' willingness to recommend, the company is a leader in its field. The company placed second in the EPSI Rating industry survey, which measures customer satisfaction. The company participated in the survey for the first time in 2022.

The company, which operates via electronic channels, has customers throughout Finland. The majority of the company's insurance policies are granted through its own sales channels. Key distribution partners include POP Bank Group and Savings Banks Group, as well as car dealerships, vehicle inspection stations and own insurance agents in the capacity of an intermediary. Finnish P&C Insurance Ltd. focuses on online marketing in particular and directs customers to its online store. Also bank partners mainly direct their own customers to the online store. Dealerships and vehicle inspection stations grant vehicle insurance policies in the capacity of an intermediary.

INSURANCE EARNINGS

The operating expense ratio of insurance declined compared to the previous year, which was mainly due to increased sales and marketing expenses. The loss ratio declined year-on-year, which was due to the number of claims normalising to the level preceding coronavirus pandemic as well as accelerating inflation during the year. Fair value losses were recorded from investments due to rapid rise of market interest rates.

Profit before tax for insurance was EUR 0.3 (5.0) million. Net insurance income was reduced by 3.9 per cent to EUR 12.7 (13.2) million. The loss ratio increased by 2.3 percentage points from 71.2 to 73.5 per cent. The operating expense ratio of the company was 23.4 (21.3) per cent, and the consolidated cost ratio was 96.9 (92.5) per cent[1].

In 2022, Finnish P&C Insurance Ltd sold a total of 131.5 (127.9) thousand new insurance agreements. Premiums written totalled EUR 50.5 (48.0) million, of which 78.5 (80.6) per cent accrued from the motor vehicle liability and land vehicles insurance categories. Accident and health, fire and other property, as well as other direct insurance policies generate a total of 21.5 (19.4) per cent of the premiums written. Insurance premium revenue increased by 4.4 per cent to EUR 47.8 (45.8) million.

Claims incurred increased from the previous year and totalled EUR 35.1 (32.6) million. These consisted of EUR 31.7 (27.7) million in claims paid, EUR 2.2 (7.1) million in changes in provisions for unpaid claims, less EUR -1.2 (-1.3) million in increases in provisions for unpaid claims ceded to reinsurers. During the financial period, eight losses exceeded the retention limits of reinsurance, but no reinsurance claims were made. Reinsurance provisions for 22 losses were made to technical provisions at the end of the year.

[1] The operating expense ratio and the consolidated cost ratio have been calculated on the basis of Finnish P&C Insurance Ltd.'s financial statement information (FAS).

Personnel expenses in insurance operations were EUR 7.6 (7.8) million. Other operating expenses increased to EUR 1.7 (0.7) million. Depreciation and impairment amounted to EUR 2.1 (2.1) million. Operating expenses totalled EUR 11.5 (10.6) million.

INSURANCE SEGMENT'S ASSETS AND LIABILITIES

The assets of the insurance segment totalled EUR 96.0 (97.2) million at the end of the financial period. The liabilities of the insurance segment totalled EUR 72.1 (71.7) million. Insurance liabilities grew by 8.2 per cent to EUR 57.0 (52.7) million. The liabilities of the insurance segment totalled EUR 65.0 (60.8) million.

OTHER FUNCTIONS

Other functions include POP Holding Ltd, POP Bank Centre 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 reportable 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

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 purpose of the risk management is to ensure that all significant risks are identified, assessed, measured and monitored, and that they are proportionate to the risk-bearing capacity of the amalgamation and the individual member credit institution.

As the central institution, POP Bank Centre 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, common business risk limits have been established for the member institutions to ensure that the risks taken by an individual member institution are within acceptable limits according to accepted risk appetitive.

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 internal binding instructions of the amalgamation in its activities. The independent functions within the central institution are formed as the risk control function monitoring the risk position, the compliance function supervising the compliance within the regulations and internal audit.

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.

Risk and capital adequacy management is described in more detail in Note 4 to the financial statements. Material information regarding capital adequacy as specified in the updated Capital Requirements Regulation (EU 2019/876) is presented in a separate Pillar III report published on the Internet page of the POP Bank Group.

BANKING RISKS

Credit risk

The amalgamation's credit risk position in banking remained stable and the risk level moderate.

Impaired exposures (ECL stage 3) were larger than in previous financial year EUR 113.6 (98.4) million. Expected credit losses in ECL stage 3 grew to EUR 31.7 (27.6) million and thus coverage ratio was 27.9 per cent of ECL stage 3 exposures. Non-performing receivables increased to 155.7 (138.6) million, of which 113.4 (98.4) were held on ECL stage 3 and 38.6 (37.9) million were held on ECL stage 2.

POP Bank Group has recognised an additional provision of EUR 3.0 million earlier in financial year 2021 based on management judgement. The amount of the provision has been re-evaluated during the financial period 2022 and at the end of the period the amount of provision is EUR 3.0 million. The provision has been made in order to prepare for the negative impact of cost inflation to corporate and agricultural customers' ability to pay.

The amount of expected credit losses (ECL) for loans, receivables and investment portfolios increased ending up at EUR 43.1 (38.6) million. Realised credit losses incurred during the financial year were EUR 3.2 (8.0) million.

The amalgamation's loan portfolio grew by 4.8 per cent amounting EUR 4,448.5 (4,243.8) million at the end of the accounting period. Industry and customer risks are diversified. Loans granted to private customers accounted for 63.9 (65.4) per cent, to companies 22.8 (20.4) per cent and to agricultural entrepreneurs 13.3 (14.2) per cent of the loan portfolio. Majority of the lending is associated with low-risk lending to private customers with real estate collaterals. Portion of the loans secured by residential real estate was 63.0 (64.0) per cent of the loan portfolio.

Credit risk management is based on a continuous monitoring of past-due payments, forbearances and non-performing loans as well as the quality of the loan portfolio. Monitoring expected credit losses (ECL) is an essential part of the credit risk management processes. Foreseen problems are to be assessed as early as possible. Key figures of ECL are presented more thoroughly in Note 4 and Note 18.

Liquidity risk

The POP Bank Group's liquidity position remained strong during the financial period. Liquidity Coverage ratio (LCR) as the key regulatory indicator for liquidity buffer was 184.8 (141.3) per cent on 31 December 2022, with the requirement being 100 per cent. On 31 December 2022, the amalgamation's LCR-eligible assets before haircuts totalled EUR 691.7 (457.9) million, of which 64.8 (61.1) per cent were cash and balance at the central bank and 31.0 (32.2) per cent were highly liquid Level 1 securities. In addition, outside the amalgamation's LCR portfolio unencumbered securities, available for central bank funding operations totalled to EUR 39.8 (28.0). POP Mortgage Bank will have a substantial impact to liquidity risk management in future as it will broaden potential investor base.

The requirement for stable funding, NSFR, measures the maturity mismatch of assets and liabilities on the balance sheet and is responsible for ensuring that ongoing funding is sufficient to meet funding needs over a one-year period, thus preventing over-reliance on short-term wholesale funding. The amalgamation's NSFR ratio was 133.5 (130.0) per cent while minimum regulatory requirement is 100 per cent.

POP Bank Group's funding position remained strong during the financial year. The proportion of deposits of the credit portfolio remained high and total deposits increased by 2.5 per cent during the reporting period. During 2022 the funding position was supported by the first emission of EUR 250 million by POP Mortgage Bank. At the end of the reporting period, issued securities totalled EUR 565.3 (284.9) million. In addition, at the end of the financial year, Bonum Bank had TLTRO III financing totalling EUR 128.4 (128.4) million.

POP Bank Centre coop, the central institution of POP Banks' Amalgamation, applies a permission granted by the Finnish Financial Supervisory Authority to decide that the requirements laid down in the sixth part of the European Union's Capital Requirements Regulation (EU 575/2013) and EU's statutory orders set in the Regulation are not applied to its member credit institutions. According to the permission, the regulatory requirements for liquidity risk (LCR and NSFR) shall only be met at the amalgamation level.

Market risk

Market risks from banking arise from the banking book of member credit institutions, consisting of lending and deposits, wholesale market funding and investment and liquidity portfolios. Market risk exposure for investment activities remained at a moderate level and respectively banking book interest rate exposure was increased as result of rising interest rates. In order to mitigate bonking book exposure, hedging activities were started during the period with interest rate derivatives and alternatively by increasing fixed rate LCR eligible investments. The banking book exposure is monitored and limited via both the net present value and income risk models. The impact of +/- one percentage point change in interest rates for the following 12 months' net interest income stood at EUR +17.9 (+12.7) / -17,8 (-6.0) million. The member credit institutions do not have any trading activities.

Market risks arising from investing activities are limited through asset allocation and by diversification into different asset classes and counterparties. Risk limits are in place for different counterparties and asset classes. No currency risk is taken in lending activities. The use of derivatives is limited to hedging the interest rate risk in the banking book.

Operational risks

Key tools and controls for operational risk management includes established guidelines and principles, regular self-assessment of operational risks, registration and reporting of realized risk events and near-miss situations, access authorization management and technical controls that prevent improper and unauthorized use of systems, substitute arrangements related to personnel, internal control measures, outsourcing supervision, continuity management, insurance coverage, training and continuous improvement of competence.

The member credit institutions report annually to the compliance function on the operational risks related to their own operations through self-assessments. In addition to this, the member credit institutions maintain a register on their materialised operational risks and near misses, which is to be delivered to the central institution upon request. The compliance function regularly assesses the nature of the identified operational risks, as well as the probability of their materialisation, across the amalgamation.

The compliance function monitors significant and critical outsourcings, maintains a register of outsourced operations and functions and participates in evaluating risks involved in outsourcing operations. 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 and compliance function.

The operating model for risk management related to money laundering and other financial crime has been systematically reinforced in 2022 at the level of the amalgamation of POP Banks. This has included updating the binding guidelines on the prevention of money laundering and other financial crime within the amalgamation, increasing the selection of solutions and the amount of resources available for continuous monitoring, and acquiring and implementing a completely new AML monitoring system, as well as active communication and a considerable increase in training. Particular attention has been paid to ensuring safer banking for customers by developing internal systems and communicating about safe banking through websites, social media and separate customer events, for example.

The renewed system that enhances the monitoring of payment transactions was introduced in early 2022. With the help of a centralized monitoring system, POP Banks are able to more effectively detect possible money laundering or terrorist financing attempts, as well as payment transactions that may be related to, for example, misuse of online banking credentials. In addition to the money laundering regulation, the centralized system also supports more effective compliance with the requirements set by the sanctions regulation.

RISKS RELATED TO INSURANCE OPERATIONS

During the period under review, the most significant insurance risks were associated with business profitability development with particular focus in the development of pricing and customer selections, and the sufficient increase in business volumes, taking the profitability aspect into account. New risks that emerged during the review period include uncertainty related to rapid inflation in claims and operating costs, as well as a higher interest rate risk caused by interest rate developments.

Key operational risks are 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 increase. 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 organisation; however, the organisation and partnerships are constantly developed to minimize risks.

Although the company's investment assets mainly consist of euro-denominated fixed income investments, the company also has moderate equity, real estate and currency exposures. As the maturity of fixed income investments is low at 1.4 years, following the rise in market interest rates, the significance of the interest rate risk on the insurance balance sheet is increasing in terms of risk management. The company has outsourced the execution of investment activities to asset managers.

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

RECOVERY AND RESOLUTION PLAN

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

On 6 April 2022, the Financial Stability Authority updated the decision. The new MREL requirement is 19.71 per cent of the TREA or 7.83 per cent of the LRE. The new requirement replaces the previous decision as of 1 January 2024. The requirement has been covered with own funds and unsecured senior bonds.

CAPITAL ADEQUACY MANAGEMENT

At the end of the financial year, the capital adequacy of the amalgamation of POP Banks remained at a solid level. The amalgamation's capital adequacy ratio and CET1 capital ratio were both 19.4 (19.2) per cent . The amalgamation does not include the profit for the financial year in own funds. The amalgamation's own funds of EUR 556.3 (529.7) million are comprised of cooperative contributions, POP Shares, retained earnings and other non-restricted reserves. Issuance of POP Shares is the member credit institutions' primary means for raising capital. The amount of POP Shares outstanding at the end of the financial year was EUR 60.2 (56.9) million.

The amalgamation's own funds requirement is comprised of the following:

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

All capital requirements are fully covered with CET1 Capital.

Member credit institutions of the amalgamation 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 based on a permission granted by the FIN-FSA. Similarly member credit institutions have received exemption from FIN-FSA regarding amalgamation's internal items in leverage ratio reporting.

The leverage ratio was 9.5 (9.7) per cent in relation to minimum requirement of 3 per cent.

SUMMARY OF CAPITAL ADEQUACY

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Own funds		
Common Equity Tier 1 capital before deductions	563,523	541,450
Deductions from Common Equity Tier 1 capital	-7,216	-11,717
Total Common Equity Tier 1 capital (CET1)	**556,307**	**529,733**
Additional Tier 1 capital before deductions	-	-
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**556,307**	**529,733**
Tier 2 capital before deductions	-	-
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**-**	**-**
Total capital (TC = T1 + T2)	**556,307**	**529,733**
Total risk weighted assets	**2,871,756**	**2,766,096**
of which credit risk	2,613,793	2,521,248
of which credit valutaion adjustment risk (CVA)	6,089	-
of which market risk (foreign exchange risk)	12,945	20,202
of which operational risk	238,928	224,646

(EUR 1,000)	31 Dec 2022	31 Dec 2021
CET1 Capital ratio (CET1-%)	**19.4 %**	**19.2 %**
T1 Capital ratio (T1-%)	**19.4 %**	**19.2 %**
Total capital ratio (TC-%)	**19.4 %**	**19.2 %**
Capital Requirement		
Total capital	556,307	529,733
Capital requirement *	338,215	325,162
Capital buffer	218,092	204,570
Leverage ratio		
Tier 1 capital (T1)	556,307	529,733
Leverage ratio exposure	5,879,750	5,445,616
Leverage ratio, %	9.5 %	9.7 %

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

DEPOSITOR AND INVESTOR PROTECTION

Provisions on deposit insurance are laid down in the Act on the Financial Stability Authority. According to the act 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. During the financial year, payments to the Deposit Guarantee Fund were made using funds from the VTS Fund (Old Deposit Guarantee Fund).

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.

ADMINISTRATION OF POP BANK CENTRE COOP

The 19 member cooperative banks (POP Banks), Bonum Bank Plc and POP Mortgage Bank Plc are members of POP Bank Centre coop. The member cooperative banks exercise their statutory voting rights in the meeting of POP Bank Centre coop cooperative, which elects the Supervisory Board. In accordance with the rules, Bonum Bank Plc and POP Mortgage Bank Plc have no voting rights in the cooperative meetings as a subsidiary of the Centre coop.

In accordance with the rules, the Supervisory Board of POP Bank Centre 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 2022, the Supervisory Board consisted of the total of twenty-one (21) members so that one (1) member represented each member credit institution, with the exception of Bonum Bank and POP Mortgage Bank. Only the Chairman of the Board of Directors or the 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 Harri Takala (Chairman of the Board of Pohjanmaan Osuuspankki) and the Vice Chairman of the Supervisory Board was Hannu Saarimäki (Chairman of the Board of Keuruun Osuuspankki). As a result from mergers within the Group, the number of members was 19 at the end of financial year.

The Board of Directors of POP Bank Centre coop consists of a minimum of five (5) and a maximum of eight (8) members elected by the Supervisory Board. At least half of the Board members must be elected from persons 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.

During year 2022, the Board of Directors met in total 22 times and the Supervisory Board 3 times.

The following persons acted as members of the Board of Directors of POP Bank Centre coop:

Timo Kalliomäki
Managing Director, Suomen Osuuspankki
Member of the Board
Chairman

Ari Heikkilä
Senior Advisor, Konneveden Osuuspankki
Member of the Board
Vice Chairman

Ilkka Lähteenmäki
Research Fellow, Aalto University, Oulu University, Hanken School of Economics
Member of the Board

Mika Mäenpää
Managing Director, Lavian Osuuspankki
Member of the Board

Marja Pajulahti
Managing Director, Live Foundation
Member of the Board

Mikko Seppänen
Managing Director, Lammin Osuuspankki
Member of the Board

Matti Vainionpää
Master of Laws
Member of the Board

The Acting CEO **Jaakko Pulli** was appointed on 16 February 2022 as CEO of POP Bank Centre coop and **Arvi Helenius** as CEO's deputy.

The auditor of POP Bank Centre coop is KPMG Oy Ab, an accounting firm, with **Tiia Kataja** APA, as the auditor-in-charge.

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 long-term remuneration, the earning period is 3-5 years.

In the POP Bank Group, variable remuneration is company-specific. POP Bank Group does not have a uniform remuneration scheme. 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.

NON-FINANCIAL INFORMATION

POP Bank Group is a Finnish financial group that offers retail banking services for private customers, small and medium-sized enterprises, in addition to providing private customers with non-life insurance services. POP Banks are cooperative banks owned by their member customers. POP Banks' mission is to promote its customers' financial well-being and prosperity, as well as local success. POP Bank Group's operational area is Finland.

Social responsibility in the POP Bank Group is based on cooperative values, local operations and long-term business operations. The Group sustainability report including GRI Index is conducted with reference to the GRI Standards. The report is published as part of the Group's Annual Report.

POP Bank Group's operations comply with current laws, regulations and the guidelines and orders issued by the authorities, as well as with the principles of good governance and the Group's values, strategy own rules and binding internal guidelines. In its banking operations, the Group also complies with Good Banking Practice and the related trading guidelines, as well as with the amalgamation's internal guidelines. In its insurance operations, the Group complies with the guidelines issued by Finance Finland concerning good insurance practice, as well as with the company's internal guidelines.

The operational management of matters related to responsibility has been integrated as part of normal day-to-day business. In the POP Bank Group, matters concerning responsibility are discussed by the Executive Board and the Board of Directors of the POP Bank Centre coop. The guidelines are reviewed annually by the Executive Board and the Board of Directors, and the policies and principles are updated to support operations as necessary.

POP Bank Group's responsibility work is guided by its ESG vision according to which POP Bank is trusted partner for its customers, members and local communities to create sustainable wellbeing. The Group's responsibility programme's focus areas areg responsibility themes were identified as being significant for the POP Bank Group:

1. Promoting sustainable financing and investing, and thereby mitigating climate change
2. Supporting local success, vitality and well-being
3. Transparent business operations
4. Ensuring the equality of employees and promoting diversity and well-being at work
5. Preventing a grey economy, corruption and money laundering

POP Bank Group actively monitors the development of the EU regulation related to sustainable finance and is continuously preparing its own services, processes, reporting and guidelines to meet the regulatory changes related to sustainable finance. According to the POP Bank Group's assessment, its operations have not involved any risks directly related to the environment, social responsibility or human rights that would have had a significant impact on its operations. In the estimate of the POP Bank Group, its operations have not involved any risks directly related to the environment, social responsibility or human rights that would have had a significant impact on its operations.

POP Bank Group conducted an extensive stakeholder survey of its customers, personnel, partners and investors in the autumn of 2022. The results of the survey highlighted the current themes of the Group's responsibility programme, as well as information security as a new theme. The Group has used the results in the development of its responsibility programme and the determination of its sustainability strategy.

POP Bank received the highest index scores in its sector from private and corporate customers in the Sustainability Index assessment in connection with the EPSI Rating customer satisfaction survey. The index is based on customers' assessments of the operator and the questions related to sustainability in the survey.

ENVIRONMENTAL RESPONSIBILITY

The key environmental impacts of the POP Bank Group's own business operations are related to the funding of customers' investments and other operations, as well as to the Group's own investment activities and the provision of investment products to customers. The POP Banks aim to reduce the risks caused by environmental impacts and climate change by providing funding to its customers for investments that support the mitigation of, and adjustment to, climate change, as well as by offering investments that support sustainable development, and by informing customers about the related opportunities.

Lending is reviewed in the POP Bank Group comprehensively, with the goal of establishing long-term customer relationships. Responsible lending is based on knowing the customer and careful examination of the customer's situation. We identify the financial risks and environmental impacts related to the customer's operations or to the projects that are to be funded. Since 2021, the POP Bank Group has offered a loan product, Vihreä laina, for households to consider environmentally friendly alternatives when planning bigger purchases or renovations. POP Bank Group has also published online calculators for customers to a assess the environmental impact of exchanging their car or heating system, for example.

In providing investment advice, the POP Banks take account of sustainability risks through their product selections. Sustainable risk refers to an event, or circumstance related to the environment, society or governance, the occurrence of which could have an actual or potential adverse effect on the value of an investment. All our partners have signed the UN-supported Principles for Sustainable Investment (PRI).

The POP Bank employees who offer investment advice to customers are provided with opportunities for training related to the ESG disclosure obligation, and the banks have actively used this opportunity. In addition, since August 2022, the POP Banks have studied their investor customers' sustainability preferences as part of the investment and insurance advice process by enquiring about their desired minimum percentage of investments with an environmental or social objective and investments that are environmentally sustainable in line with the EU taxonomy (2020/852).

Most POP Funds have a sustainability rating. The POP Funds, that have the Morningstar sustainability rating, have the average score of 3.6 (3.6 on previous year) on a scale of 1 to 5. The Morningstar sustainability rating describes the sustainability of those companies included in the fund, in relation to the holdings of other funds in the same comparison category, as determined by Morningstar. An investment fund is issued with a sustainability rating, if at least 50 per cent of its assets are invested in companies for which Sustainanalytics has determined a company-specific ESG rating.

In terms of identifying the environmental impacts of the POP Bank Group's own operations, POP Bank Centre coop has started preparations aiming at meeting the certification criteria related to the WWF Green Office programme during 2023. Bonum Bank has been involved in the programme since 2020.

POP Bank changed the material used in its payment cards, reducing the greenhouse gas emissions related to the production and delivery of cards by nearly 50 per cent. The first cards made from 80% recycled rPVC plastic were delivered to customers in late summer 2022.

SUPPORTING VITALITY AND WELL-BEING, AND SOCIAL RESPONSIBILITY

The POP Bank Group acts on the basis that all customers should be treated fairly and equally. The banks seek to know their customers and their backgrounds as thoroughly as the customer relationships require. The Group's member banks do not knowingly provide funding for operations that violate the law or good practice.

In the POP Bank Group, lending to customers is examined comprehensively, with the goal of establishing long-term relationships. In its lending, the POP Bank Group operates responsibly and transparently, taking into account the customer's interests when marketing loans and concluding loan agreements. The customer is provided with sufficient and clear information about the credit and its terms and conditions well in advance of entering into an agreement. Such information, and the terms and conditions, are then reviewed carefully together with the customer when finalising the agreement. If repayment delays occur, the customer is provided with advice on how to deal with insolvency situations, and a responsible approach is applied to the arrangements made. In the event of payment difficulties, the POP Banks seek to respond as early as possible and to remedy the situation sustainably.

In early 2022, the POP Bank Group launched the POP Tarmo Fund and the POP Capitalisation Agreement (POP Kapitalisaatiosopimus) for those interested in long-term savings. It also launched the Household Loan (Kotitalouslaina), an unsecured loan for its mortgage customers, in late 2022. This loan is designed to bring flexibility to the management of customers' day-to-day finances. The Group also contributed to the development of young people's financial literacy by participating in the Finnish Foundation for Share Promotion's national Money Week event and in Economy and Youth TAT's themed day for the financial sector as part of the RemoteTET Week event.

Farmers are an important customer group for POP Bank. The past few years have seen opposing developments in the agricultural sector. While some farmers have been successful, others have suffered from the discrepancy between the prices of grain and fertilisers. In the autumn of 2022, the POP Bank Group joined the partner network within the Care for the Farmer project of the Farmers' Social Insurance Institution (Mela). The project aims to identify farmers' exhaustion and need for help and provide them with guidance on access to expert help. The POP Bank Group also made a donation to UNICEF to help Ukrainian families. In addition, the Group participated in the Mannerheim League for Child Welfare's Christmas collection for needy families.

POP Bank has actively shared information about the new Omissa käsissä ('In Your Own Hands') campaign of the Digital and Population Data Services Agency, and has also organised webinars on authorised trusteeship. In addition, POP Bank also communicated about scams and phishing attempts in various ways.

Feedback and complaints from customers are processed as appropriate in the Group, and the aim is to take these into account as effectively as possible when steering operations. For example, the POP Bank Group continuously monitors feedback from app stores on its mobile services, and it also systematically measures customers' willingness to recommend its banking and insurance services, which is done by means of the Net Promoter Score (NPS). In addition, for more than a decade, POP Bank has participated in the EPSI Rating industry survey measuring customer experience. POP Insurance participated in its sector's EPSI Rating survey for the first time in 2022. The POP Banks maintained their position as the bank with the most satisfied customers in Finland, and POP Insurance placed second in the survey in its sector.

The independent POP Banks are regionally active operators and engage in long-term efforts, especially for children and young people, by supporting local clubs and associations. The banks also cooperate with educational institutions by giving lectures at schools and offering internships and summer jobs to young people interested in the financial sector, to name just two examples.

PERSONNEL

At the end of 2022, the POP Bank Group had 854 (822) employees, of whom 622 (604) in banking, 133 (124) in non-life insurance and 98 (94) in other functions. The average number of employees during the period was 827 (807).

The POP Bank Group respects the diverse nature of workplaces and the individual characteristics of people. All employees are treated equally, regardless of gender, age, origin, convictions, health, sexual orientation or other personal characteristics. In the workplace community, equal treatment is reflected in day-to-day work, recruitment, remuneration and career development.

The POP Bank Group measures employee satisfaction annually. If necessary, the POP Bank Group's employees have opportunities to discuss matters related to equality and non-discrimination with their supervisors, health and safety representatives or personnel representatives. For more than 10 years, the POP Banks have had their own competence and salary passport system as an aid in talent management. In 2022, a new extensive competence development program has also been prepared, the implementation of which is planned to start in 2023.

POP Bank Group participated in the Responsible Employer programme in Finland for the third consecutive year. The programme provides a wide range of information about various themes related to organisational and work culture.

RESPONSIBILITY FOR HUMAN RIGHTS

The POP Bank Group respects international human rights conventions and prevents discrimination in its operations. The Group expects its partners to operate in accordance with the same principles. The POP Group estimates that the direct human rights risks and impacts related to its own operations are low. However, there may be indirect impacts related to the operations of the recipients of investment and funding. To prevent this, the POP Bank Group's internal guidelines prohibit making investments in, or providing funding for, any operations that violate human rights.

PREVENTING CORRUPTION AND BRIBERY

The POP Bank Group has zero tolerance towards bribery, corruption and other unethical means of influence. The principles and guidelines for dealing with corruption and bribery, written in its management system, cover employees, the operational management and administrators. Their purpose is to identify and prevent any risks related to corruption, bribery and money laundering. Furthermore, they aim to prevent potential conflicts of interest by avoiding high-risk combinations of duties in operations through the separation of supervisory tasks related to operational and risk management, for example, at all organisational levels within the Group.

All the operators within the Group are responsible for complying with these principles and reporting any conduct that breaches them. The Board of Directors and the operational management monitor the implementation of the principles. Any indications of bribery or corruption are addressed, regardless of the position of the person in question. All cases are processed confidentially, protecting the rights of both suspect and informant. The Board of Directors decides on corrective measures.

The operating model for risk management related to money laundering and other financial crime was systematically reinforced at the level of the amalgamation in 2022. Particular attention has been paid to ensuring even safer banking for customers by developing internal systems. The central institution's binding guidelines on the prevention of money laundering and other financial crime have been revised together with the implementation of new AML monitoring system at the beginning of the year 2022. Development of the expertise on the money laundering and financial crimes have been continues while the Group has also communicated about safe banking through, for example, its website, social media channels as well as organising different kinds of customer events.

DISCLOSURES IN ACCORDANCE WITH THE TAXONOMY REGULATION

POP Bank Group complies with Regulation (EU) 2020/852 (Taxonomy Regulation) in its daily business operations, and takes the Taxonomy Regulation into account in the product design process. The EU taxonomy is a classification system that defines environmentally sustainable economic activities. Taxonomy-eligible activities must promote at least one of the six sustainability goals, that are related to climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control as well as the protection and restoration of biodiversity and ecosystems. So far, the POP Bank Group has not set more specific goals in its strategy for financing or investing in accordance with the Taxonomy Regulation.

In the POP Bank Group, preparations are in progress to ensure the timely and appropriate application of the disclosure requirements of Article 8 of the Taxonomy Regulation in future financial years. For the 2022 financial year, the POP Bank Group is publishing information about the proportion of taxonomy-eligible assets in relation to its total assets and the proportion of taxonomy-eligible financial activities in insurance. At the end of the financial year, the POP Bank Group's taxonomy-eligible assets represented 36.9 (34.4) per cent of its total assets. Its non-taxonomy-eligible assets accounted for 63.1 (65.6) per cent of its total assets. Receivables from governments, central banks and multinational issuers represented 11.4 (8.7) per cent of the POP Bank Group's total assets. The POP Bank Group had no derivative assets or financial assets held for trading purposes at the time of the period end.

At the time of reporting, the POP Bank Group's exposures to companies with no obligation to disclose non-financial information under Article 19a or Article 29a of Directive 2013/34/EU (non-NFRD) represented 24.5 (24.3) per cent of the Group's total assets. The EU regulation on reporting on environmentally sustainable economic activities (NFRD) does not, for the present, apply to corporate customers of POP Bank Group. The assets to be reported consist of the POP Bank Group's direct investments and loans granted to corporate customers. The amount of interbank loans repayable on demand was 0.3 (0.6) per cent of total assets.

In insurance operations, the proportion of taxonomy-eligible economic activities was 95.8 (96.4) per cent of the premiums written. The proportion of non-taxonomy-eligible activities was 4.2 (3.6) per cent of the premiums written. Taxonomy-eligible proportion includes premiums written for insurance services based on information on insurance category of the insurance contract. Taxonomy eligible premiums written include i.a. insurances for motor vehicles as well as insurances for fire and other property loss.

According to the results of an assessment of the taxonomy eligibility of the loan portfolio, the most significant criteria were the granting of loans to private or corporate customers, as well as product information about the loan and information about its purpose of use. Only housing loans, as well as loans granted for renovating homes and improving their energy efficiency, were included in the taxonomy-eligible loan portfolio. All of the Group's corporate lending was classified as non-NFRD based on customer records and bank's own judgement. Assessment of taxonomy eligibility of the Group's investments has been based on NACE codes derived from counterparties' industry code, information on listing of the security and the amount of personnel according to the latest financial statements. The analysis of the NACE codes has included both climate change preventing and adjusting classifications. The analysis of loan portfolio and investments have been conducted in a manner that the risk of overlapping information is minor.

EVENTS AFTER THE CLOSING DATE

POP Bank Centre coop's Board of Directors is not aware of events having taken place after the closing date that would have a material impact on the information presented in the financial statements of the POP Bank Group.

OUTLOOK FOR 2023

There is considerable uncertainty surrounding economic development, which is affecting the POP Bank Group's operating environment. The European Central Bank has announced that it will continue to raise interest rates to curb inflation during 2023. Higher interest rates increase the risk of an economic downturn in the eurozone, which is also expected to increase credit risks in the longer term.

High inflation and the simultaneous increase in financial expenses are weakening households' purchasing power and especially the profitability of companies that are unable to fully transfer the increase in costs to prices. Price increases also weaken demand.

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

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

FORMULAS FOR KEY FIGURES

Alternative Performance Measures (APMs) are key figures other than those specified in the accounting standards or other regulation and are used to describe the company's financial position and development. The key figures presented by the POP Bank Group are based on IFRS Financial Statement Reporting standards, except for the operating expenses ratio and the combined expense ratio for insurance operations. The calculation formulas for the key figures included in the annual report are described below.

Total operating income
Net interest income, net commissions and fees, net investment income, insurance income, other operating income

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

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), %

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

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), %

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

NET STABLE FUNDING RATIO (NSFR), %

$$\frac{\text{Stable funding}}{\text{Required amount of stable funding}} \times 100$$

Non-performing exposure

Non-performing exposure consists of receivables over 90 days in arrears as well as other receivables with uncertainty in payments caused by customer's financial difficulties (e.g. non-performing forbearance). Non-performing exposure includes all receivables classified in ECL stage 3, also the ones that have not been over 90 days in arrears.

NON-LIFE INSURANCE KEY FIGURES

OPERATING EXPENSES	Personnel expenses, other operating expenses, 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, %	$\frac{\text{Operating expenses}}{\text{Insurance premium revenue (after share ceded to reinsurers)}} \times 100$
CONSOLIDATED COST RATIO, %	Loss ratio + Operating expense ratio

POP BANK GROUP FINANCIAL STATEMENTS 31 DECEMBER 2022

POP BANK GROUP'S INCOME STATEMENT

(EUR 1,000)	Note	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Interest income		105,250	83,879
Interest expenses		-11,075	-5,541
Net interest income	**6**	**94,175**	**78,338**
Net commissions and fees	**7**	**41,617**	**36,326**
Net investment income	8	-2,460	10,028
Insurance income	9	12,675	13,192
Other operating income	10	7,259	38,360
Total operating income		**153,266**	**176,243**
Personnel expenses	11	-51,178	-50,655
Other operating expenses	12	-59,997	-55,464
Depreciation and amortisation	13	-7,984	-15,083
Total operating expenses		**-119,159**	**-121,203**
Impairment losses on financial assets	18	-7,716	-10,390
Associate's share of profits	22	16	19
Profit before tax		**26,408**	**44,670**
Income tax expense	14	-5,283	-7,565
Profit for the financial period		**21,124**	**37,105**
Attributable to			
Equity owners of the POP Bank Group		21,124	37,110
Non-controlling interests		0	-5
Total		**21,124**	**37,105**

POP BANK GROUP'S STATEMENT OF OTHER COMPREHENSIVE INCOME

(EUR 1,000)	Note	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Profit for the financial period		**21,124**	**37,105**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans	35	458	-353
Net changes in fair value of equity instruments	32	184	152
Capital gains and losses for equity instruments	32	-1,538	-
Items that may be reclassified to profit or loss			
Movement in fair value reserve for liability instruments at FVOCI	32	-15,078	-1,018
Total other comprehensive income for the financial period		**5,150**	**35,885**
Attributable to			
Owners of the POP Bank Group		5,149	35,890
Non-controlling interests		0	-5
Total other comprehensive income for the financial period		**5,150**	**35,885**

The capital gain of EUR 1,922 thousand on shares recognised at fair value through other comprehensive income has been transferred to retained earnings and the deferred tax liability of EUR 384 thousand recognised at valuation has been dissolved.

POP BANK GROUP'S BALANCE SHEET

(EUR 1,000)	Note	31 Dec 2022	31 Dec 2021
Assets			
Liquid assets	19	448,499	279,882
Loans and advances to credit institutions	16,20	62,333	73,897
Loans and advances to customers	16,20	4,448,480	4,243,829
Investment assets	16,21	712,087	681,552
Investments in associates	22	230	214
Intangible assets	23	8,965	9,298
Property, plant and equipment	24	27,268	29,611
Other assets	25	59,460	34,014
Tax assets	26	9,886	5,401
Total assets		**5,777,207**	**5,357,697**

(EUR 1,000)	Note	31 Dec 2022	31 Dec 2021
Liabilities			
Liabilities to credit institutions	16,27	163,139	166,484
Liabilities to customers	16,27	4,325,946	4,222,364
Non-life insurance liabilities	28	57,011	52,692
Debt securities issued to the public	29	565,252	284,920
Derivatives	30	12,495	-
Other liabilities	31	64,397	50,060
Tax liabilities	26	28,350	28,367
Total liabilities		**5,216,590**	**4,804,888**
Equity capital			
Cooperative capital			
Cooperative contributions		10,707	10,163
POP Shares		60,153	56,893
Total cooperative capital	**32**	**70,860**	**67,056**
Reserves	32	149,931	163,877
Retained earnings	32	339,826	321,437
Total equity attributable to the owners of the POP Bank Group		**560,617**	**552,370**
Non-controlling interests		-	439
Total equity capital		**560,617**	**552,809**
Total liabilities and equity capital		**5,777,207**	**5,357,697**

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

(EUR 1,000)	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
Balance 1 Jan 2022	**67,056**	**4,038**	**159,839**	**321,437**	**552,370**	**439**	**552,809**
Comprehensive income for the financial year							
Profit for the financial year	-	-	-	21,124	**21,124**	0	**21,124**
Other comprehensive income	-	-16,432	-	458	**-15,974**	-	**-15,974**
Total comprehensive income for the financial year	**-**	**-16,432**	**-**	**21,581**	**5,149**	**0**	**5,150**
Transactions with shareholders							
Change in cooperative capital	3,273	-	-	-	**3,273**	-	**3,273**
Profit distribution		-	-	-1,599	**-1,599**	-	**-1,599**
Transfer of reserves	532	-	2,486	-3,017	**-**	**-**	**-**
Transactions with shareholders total	**3,804**	**-**	**2,486**	**-4,617**	**1,673**	**-**	**1,673**
Disposals: shares, measured at fair value through other comprehensive income				1,538	**1,538**		**1,538**
Other changes	-	-	-	-114	**-114**	-439	**-553**
Other changes total	**-**	**-**	**-**	**1,424**	**1,424**	**-439**	**985**
Balance 31 Dec 2022	**70,860**	**-12,394**	**162,325**	**339,825**	**560,617**	**-**	**560,617**

(EUR 1,000)	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
Balance 1 Jan 2021	**66,031**	**4,905**	**161,592**	**284,271**	**516,799**	**444**	**517,243**
Comprehensive income for the financial year							
Profit for the financial year	-	-	-	37,110	**37,110**	-5	**37,105**
Other comprehensive income	-	-867	-	-353	**-1,219**	-	**-1,219**
Total comprehensive income for the financial year	**-**	**-867**	**-**	**36,757**	**35,890**	**-5**	**35,885**
Transactions with shareholders							
Change in cooperative capital	834	-	-	-	**834**	-	**834**
Profit distribution	-	-	-	-1,089	**-1,089**	-	**-1,089**
Transfer of reserves	192	-	-1,753	1,561	**-**	-	**-**
Transactions with shareholders total	**1,026**	**-**	**-1,753**	**472**	**-255**	**-**	**-255**
Other changes	-	-	-	-63	**-63**	-	**-63**
Other changes total	**-**	**-**	**-**	**-63**	**-63**	**-**	**-63**
Balance 31 Dec 2021	**67,057**	**4,038**	**159,839**	**321,437**	**552,370**	**439**	**552,809**

POP BANK GROUP'S CASH FLOW STATEMENT

(EUR 1,000)	Note	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Cash flow from operations			
Profit for the financial year		21,124	37,105
Adjustments to profit for the financial year		26,442	44,494
Increase (-) or decrease (+) in operating assets		**-42,483**	**-383,899**
Advances to credit institutions	20	-1,662	1,177
Advances to customers	20	11,296	-387,854
Investment assets	21	-30,193	3,537
Other assets	25	-21,925	-759
Increase (+) or decrease (-) in operating liabilities		**-137,366**	**188,483**
Liabilities to credit institutions	27	-10,111	69,266
Liabilities to customers	27	-137,994	124,591
Other liabilities	31	16,985	-2,053
Income tax paid		-6,246	-3,322
Total cash flow from operations		**-132,283**	**-113,819**
Cash flow from investing activities			
Changes in other investments		1,418	-165
Purchase of PPE and intangible assets		-8,995	-5,767
Proceeds from sales of PPE and intangible assets		2,800	2,339
Net cash used in investing activities		**-4,777**	**-3,593**
Cash flow from financing activities			
Change in cooperative capital, net	32	3,804	1,031
Interests paid on cooperative capital and other profit distribution		-1,599	-1,089
Debt securities issued, increase	29	588,413	79,945
Debt securities issued, decrease	29	-301,853	-61,387
Payment of lease liabilities	36	-2,024	-1,842
Net cash used in financing activities		**286,742**	**16,657**

(EUR 1,000)	Note	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Change in cash and cash equivalents			
Cash and cash equivalents at period-start		314,365	415,120
Cash and cash equivalents at the end of the period		464,046	314,365
Net change in cash and cash equivalents		**149,681**	**-100,755**
Cash and cash equivalents			
Liquid assets	19	11,587	11,011
Receivables from credit institutions payable on demand	19 ,20	452,459	303,354
Total		**464,046**	**314,365**

ADDITIONAL INFORMATION OF THE CASH FLOW STATEMENT

Interest received	**90,344**	**80,838**
Interest paid	**2,036**	**5,709**
Dividends received	**3,795**	**3,591**
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on receivables	7,587	10,390
Depreciations	8,799	18,186
Technical provision	4,190	15,083
Other	5,866	835
Adjustments to profit for the financial year	**26,442**	**44,494**

NOTES

NOTES CONCERNING THE PREPARATION OF THE FINANCIAL STATEMENTS

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

POP Bank Group (hereinafter also referred to as the "Group") is a financial group comprising POP Banks and POP Bank Centre coop and their subsidiaries and jointly controlled entities that operates in Finland. POP Banks are independent, regionally and locally operating cooperative banks. POP Bank Centre coop functions as the central institution of the Group. POP Bank Group offers retail banking services to retail customers, small and medium-sized enterprises as well as non-life insurance services to retail customers.

The member credit institutions of POP Bank Centre coop include 19 cooperative banks, Bonum Bank Plc, which serves as the central credit institution for the member cooperative banks and POP Mortgage Bank, which is a mortgage bank. The amalgamation of POP Banks is an economic entity referred to in the Act on the Amalgamation of Deposit Banks (599/2010) (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 consists of POP Bank Centre coop, which is the central institution, and its member credit institutions and the companies included in their consolidation groups, as well as credit institutions, financial institutions and service companies in which entities belonging to the amalgamation jointly hold more than 50 per cent of the votes. The companies included in the consolidation groups of the member credit institutions are primarily real estate companies.

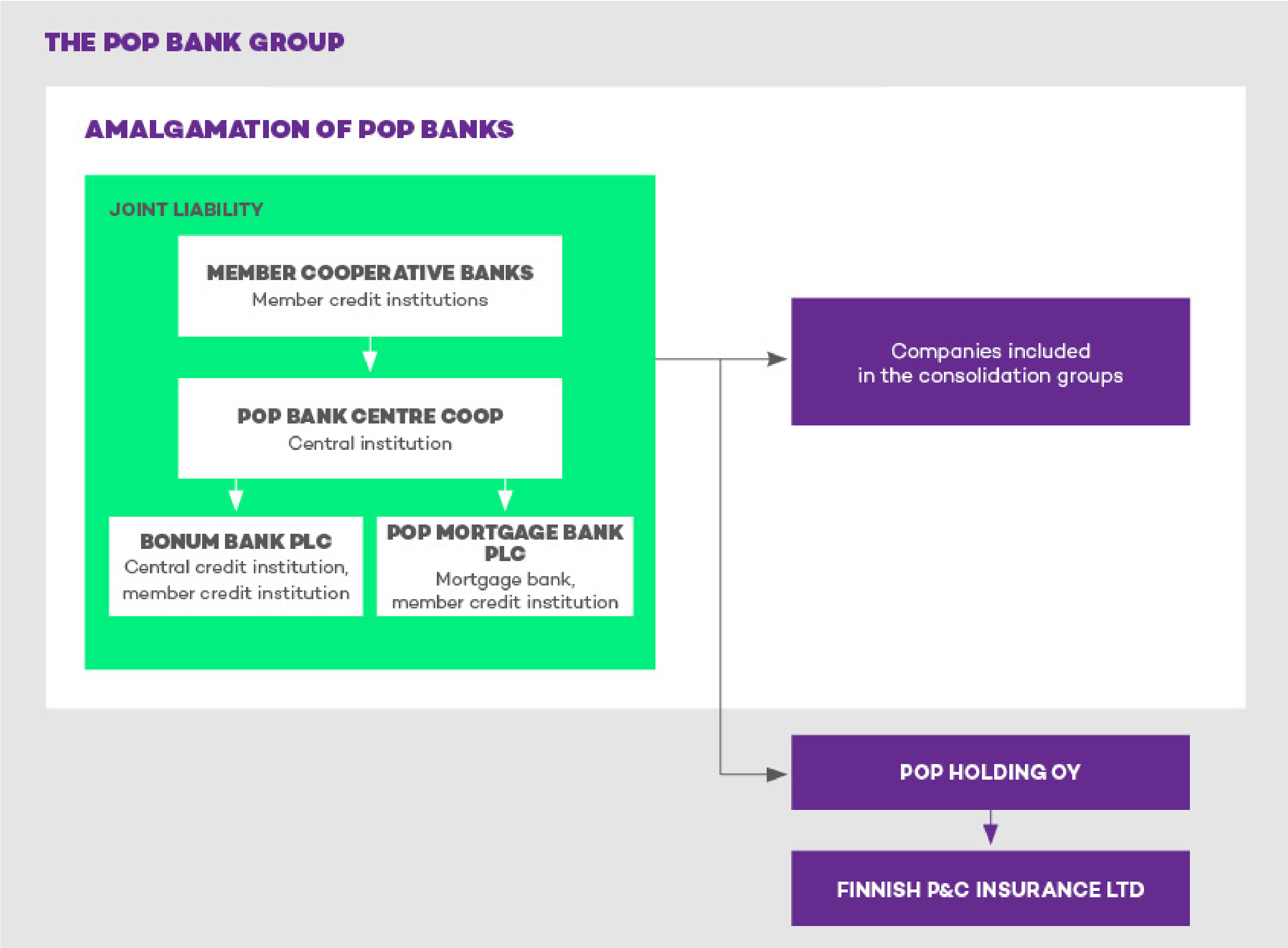
POP Bank Group also includes other entities besides the entities included in the amalgamation of POP Banks. In addition to the organisations that belong to the amalgamation of POP Banks, the POP Bank Group comprises POP Holding Ltd and its wholly owned company Finnish P&C Insurance Ltd. Neither of these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

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).

POP Bank Group does not form a group of companies referred to in the Accounting Act (1336/1997) or a consolidation group referred to in the Act on Credit Institutions (610/2014). POP Bank Centre coop or its member cooperative banks do not exercise control pursuant to IFRS accounting standards on each other, and therefore no parent company can be determined for the Group. In accordance with the Amalgamation Act, Board of Directors has ratified 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 37.

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

POP BANK GROUP STRUCTURE



One merger was completed within the POP Bank Group during the financial period. Liedon Osuuspankki and Piikkiön Osuuspankki merged with Suupohjan Osuuspankki at the end of May. At the same time the name of the bank was changed to Suomen Osuuspankki. After the merger, the POP Bank Group consists of 19 cooperative banks. The merger was an intra-Group arrangement and had no impact on the POP Bank Group's consolidated financial information.

In March POP Bank Group divested one of the real estate companies previously consolidated to the Group. In addition to this, POP Mortgage Bank Plc was accepted as a member credit institution of the amalgamation of POP Banks in May after the company had received authorisation to engage in mortgage bank operations.

Kurikan Osuuspankki and Jämijärven Osuuspankki decided on a merger in December. The merger is set to be registered in May 2023.

POP Bank Centre coop acts as the central institution responsible for group steering and supervision of the POP Bank Group in accordance with the Amalgamation Act. POP Bank Centre coop's registered office is Helsinki and its address is Hevosenkenkä 3, 02600 Espoo, Finland. POP Bank Centre 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 Centre coop has adopted the report and consolidated financial statements on 15 February 2023. The financial statements will be distributed to the general meeting of POP Bank Centre coop cooperative on 31 March 2023. Copies of the financial statements and the financial statements release of the POP Bank Group are available at the office of the central institution, address Hevosenkenkä 3, 02600 Espoo, Finland, and online at **www.poppankki.fi**.

NOTE 2 POP BANK GROUP'S ACCOUNTING POLICIES

1. BASIS OF PREPARATION

The consolidated financial statements of the POP Bank Group (hereinafter also referred to as the "Group") have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the related interpretations (IFRIC). The applicable Finnish accounting and corporate legislation and regulatory requirements have also been taken into account when preparing the notes to the financial statements.

The obligation of the POP Bank Group to prepare financial statements in accordance with IFRS is based on the Act on the Amalgamation of Deposit Banks (599/2010; hereinafter referred to as the "Amalgamation Act").

Figures in the consolidated financial statements of the POP Bank Group are presented in thousand euros, unless otherwise stated. Figures in the notes are rounded, whereby the sum total of individual figures may deviate from the sum total presented in the calculations and tables.

Assets and liabilities denominated in currencies other than euro have been translated into euro at the exchange rate of the balance sheet date. Exchange rate differences resulting from measurement have been recognised in net investment income in the income statement with the exception of financial instruments measured at fair value through other comprehensive income. The operating currency of all of the companies belonging to the POP Bank Group is euro.

The consolidated financial statements of the POP Bank Group are based on original cost, with the exception of financial assets and financial liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income, hedged items in fair value hedging (with respect to the hedged risk) and hedging derivatives used in fair value hedging, that are measured at fair value.

Information concerning risks specified in the EU Capital Requirements Regulation (EU 2019/876) is disclosed in a separate Pillar III report published on the Internet page of the POP Bank Group.

2. THE EFFECT OF CLIMATE CHANGE ON FINANCIAL REPORTING

The main environmental impacts of the POP Bank Group's own business are related to the financing of customers' investments and other activities, as well as the Group's investment activities and offering of investment products to customers. The goal of POP Banks is to reduce the risk caused by environmental impacts and climate change by offering customers financing for investments that support climate change mitigation and adaptation, as well as by offering investment targets that support sustainable development and by informing customers about opportunities related to these.

Sustainability is explained more detail in the section Non-financial information of the POP Bank Group's management report. In addition, the POP Bank Group publishes the sustainability report of the year 2022 as part of its annual report. In its reporting, the Group applies the international Global Reporting Iniative (GRI) framework.

3. CONSOLIDATION PRINCIPLES

3.1 TECHNICAL PARENT COMPANY

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

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

3.2 SUBSIDIARIES, ASSOCIATES AND JOINT ARRANGEMENTS

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

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

Associated companies are companies over which the Group exercises significant influence on business management and financing. Significant influence is based on voting rights. Associates are consolidated using the equity method.

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

3.3 NON-CONTROLLING INTERESTS

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

4. ACCOUNTING POLICIES REQUIRING MANAGEMENT JUDGEMENT AND UNCERTAINTIES RELATED TO ESTIMATES

The application of IFRS requires the management's assessments and assumptions concerning the future. These affect the reported amounts in the financial statements and the information included in the notes. The management's main estimates concern the future and the key uncertainties related to the amounts at the balance sheet date. In particular, they are related to fair value assessment and impairment of financial assets and intangible assets, as well as the assumptions used in actuarial analyses. The management's estimates and assumptions are based on the best view at the balance sheet date, which may differ from the actual result. Due to the uncertainty to the development of economy caused by changes in geopolitical situation, the fair values and impairments of financial assets are subject to greater uncertainty than usual.

These estimates and assumptions, as well as the related uncertainty, are presented in more detail in the financial statement line item level in the sections 4.1–4.5.

4.1 IMPAIRMENT OF FINANCIAL ASSETS

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

Based on management judgement, an additional provision of EUR 3,000 thousand was made in the comparison period. The amount of the additional provision has been estimated during the financial year 2022, and at the end of the period the amount of the provision is unchanged. The provision is aimed to the receivables from corporate customers and is used to prepare on negative impact of a cost inflation for Corporate and Agricultural customers.

The policies on impairment of financial assets have been presented in detail in chapter 6.5 Impairment of financial assets.

4.2 DETERMINING FAIR VALUE

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

The management must assess whether the markets for financial instruments are active or not. Furthermore, the management must assess whether an individual financial instrument is subject to active trading and whether the price information obtained from the market is a reliable indication of the instrument's fair value.

When the fair value of financial instruments is determined using a valuation technique, the management's judgement is needed in the choice of the valuation technique to be applied. Insofar as there is no market input available for the techniques, management must evaluate how other data can be used for the valuation. The principles for determining fair value are presented in more detail in sections 6.3 Determining fair value and 8. Property, plant and equipment and investment properties.

4.3 IMPAIRMENT OF INTANGIBLE ASSETS

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

4.4 ASSUMPTIONS USED IN ACTUARIAL CALCULATIONS

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

4.5 LEASE PERIODS OF CONTRACTS CLASSIFIED AS LEASES

Determining the lease periods of leases in effect until further notice requires discretion from the management, which requires the assessment of the economic life of the asset when it is reasonably certain that the leases have been made for a period longer than the term of notice. The assessment must take into account the conditions in which the leased asset will be used.

5. CHANGES IN ACCOUNTING POLICIES

5.1 ADOPTION OF NEW IFRS STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

No new IFRS standards were adopted during the financial year in the POP Bank Group's financial statements

5.2 ADOPTION OF NEW IFRS STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS IN FUTURE FINANCIAL YEARS

In subsequent financial years, the POP Bank Group will adopt the following new standards issued by the IASB from the effective date or from the beginning of the financial year following the effective date, if they have been approved for application in the EU before the effective date.

New IFRS 17 Insurance Contracts (effective for financial years beginning on or after 1 January 2023)

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

SCOPE OF THE STANDARD

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

Insurance Contracts are issued by Finnish P&C Insurance Ltd, which is consolidated in the POP Bank Group's IFRS financial statements. Finnish P&C Insurance Ltd is a subsidiary of POP Holding Ltd. POP Holding Ltd is owned by POP Bank Centre coop and 19 POP Bank Group's member cooperative banks.

INSURANCE CONTRACTS

The portfolios of direct insurance contracts consist of contracts, which are subject to similar risks and managed together. Coverage periods have mostly a length of one year. A portfolio of insurance contracts is divided into groups based on the issue date and expected profitability.

POP Bank Group estimates the profitability of insurance contracts on initial recognition using the general measurement model (GMM). The measurement is based on future cashflow estimates, which have been adjusted by the time value of money and the risk adjustment for non-financial risk. Cashflow estimates contain premiums adjusted by expected credit loss, expected claim costs developed to the ultimate level as well as insurance service expenses.

RECOGNITION

Insurance contracts are added to the calendar year's cohort, in which the contract is issued.

POP Bank Group has made the preliminary accounting policy choice, to recognise acquisition cashflows as expenses when it incurs those costs, as POP Bank Group applies the premium allocation approach to all insurance contracts and the coverage period of each contract in the group is no more than a year. The contract boundary of each contract is the end of insurance coverage period.

The carrying amount of a group of insurance contracts at the end of each reporting period is the sum of the liability for remaining coverage and the liability for incurred claims.

POP Bank Group has a made the accounting policy choice to include insurance finance income and expenses for the period in the profit or loss.

MEASUREMENT

Measurement of liability for remaining coverage

For the measurement of the liability for remaining coverage, POP Bank Group applies the simplified measurement provided by the IFRS 17 standard, the premium allocation approach (PAA), to all its insurance contracts, as coverage periods are one year or less.

Measurement of liability for incurred claims

The liability for incurred claims (LIC) is measured by applying the general measurement model (GMM).

At transition to apply the IFRS 17 standard starting from 1.1.2023, POP Bank Group will apply a fully retrospective approach and will adjust the comparative figures of the previous accounting period.

The application of the standard is estimated to have a positive effect of approx. EUR 1 million on the POP Bank Group's equity 1 January 2022 due to the differences in measurement of balance sheet items. The most material changes are regarding the measurement of insurance contracts and the presentation of profit and loss. In future personnel costs and other operating expenses as well as deprecations related to insurance business will be presented as part of insurance service expenses according to IFRS 17 standard.

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

THE IMPACT OF THE ADOPTION OF THE IFRS 17 STANDARD ON THE CLASSIFICATION AND VALUATION OF THE INSURANCE SEGMENT'S FINANCIAL ASSETS

At the date of initial application of IFRS 17 standard, POP Bank Group applies the possibility of designate financial assets as measured at fair value through profit or loss according to IFRS 9 standard. Designation of financial assets at fair value through profit or loss has not previously been applied in the POP Bank Group.

Designation of financial assets as measured at fair value through profit or loss is based on an inconsistency that arises when financial income and expenses related to insurance contracts are fully recorded in the income statement and changes in the fair value of debt instruments that pass the SPPI test are recorded in the comprehensive income. Both items are subject to interest rate risk, consequently a change in market interest rates affects the valuation of these items in the opposite direction. All financial assets included in the insurance company's investment assets are investments designated to insurance operations.

The redesignation of financial assets at the date of initial application of IFRS 17 standard does not affect the determination of the fair value of financial assets or the carrying amount at the time of transition. Redesignation affects only the way the change in fair value is recorded. The change in fair value previously presented in comprehensive income will be presented in the income statement in the future.

The transition is made retrospectively by adjusting the opening balance sheet on January 1, 2022 in a similar way, as in the initial application of IFRS 9 standard. The change in classification does not affect the valuation classes and valuation of previous periods.

Other IFRS standards or IFRIC interpretations that have already been issued are not expected to have a material impact on the POP Bank Group's financial statements.

6. FINANCIAL INSTRUMENTS

6.1 CLASSIFICATION AND RECOGNITION OF FINANCIAL ASSETS

Classification

Financial assets are classified on initial recognition into following measurement categories based on the business model followed in their management and the debt instruments' cash flow characteristics:

- Financial assets at amortised cost
- Financial assets at value through other comprehensive income
- Financial assets recognized at fair value through profit and loss.

In accordance with the IFRS 9 Financial instruments, Financial liabilities are classified on initial recognition into following measurement categories:

- Financial liabilities at amortised cost
- Financial liabilities at fair value through profit and loss

Recognition

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

Purchases and sales of financial instruments are recognised on the settlement date. Loans granted are recognised in the balance sheet on the date when the customer draws down the loan. Instruments issued are recognised in the balance sheet at the latest on the date when the customer makes the subscription.

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

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the rights have been transferred to another party so that substantially all the risks and rewards of ownership of the financial asset are transferred. In addition, an agreement included in financial assets is derecognised on the balance sheet if the rights to cash flows that are based on the agreement are transferred to another party or if the agreement includes an obligation to pay the cash flows in question to one or several recipients. If a consideration is received, but all the risks and rewards of ownership of the transferred asset are substantially retained, the transferred asset is recognised in its entirety and a financial liability is recognised for the consideration received.

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

Financial liabilities are derecognised when the related obligations have been fulfilled and they have been extinguished. An exchange of a debt instrument with substantially different terms or substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

6.2 BUSINESS MODELS FOR MANAGING FINANCIAL ASSETS AND MEASUREMENT

According to IFRS 9, an entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, entity's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The business model is determined at a level that reflects how financial asset groups are managed together to achieve a particular business objective.

In POP Bank Group, financial assets are managed according to three business models:

1. Financial assets held (objective to collect cash flows)
2. Combination of financial assets held and sold (objective to collect cash flows and sale)
3. Other long-term investments

Financial assets held -business model includes loans and receivables and debt instruments held to maturity, which pass the SPPI-test (Solely Payments of Principal and Interest) for their cash flow characteristics. In the SPPI-test, it is determined whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

Combination-business model includes debt instruments with contractual cash flows being solely payments of principal and interest, held to maturity or close to maturity or sold for example to reach the targets of the investment strategy.

Other long-term investments -business model includes shares and other instruments, whose cash flows do not consist solely on payments of principal and interest.

POP Bank Group does not actively trade financial assets. The purpose of POP Bank Group's investment activities is to invest surplus with long-term objective and to maintain investment portfolio for liquidity purposes.

FINANCIAL ASSETS MEASURED AT AMORTISED COST

Financial assets measured at amortised cost includes loans and receivables and the debt instruments, which are, according to the investment policy, intended to be held to maturity with terms of regular payments of interest and principal either in part or entirety (SPPI-test). In addition, liquid assets held to maintain liquidity, which are held until the maturity and can basically only be sold due to a deterioration in credit risk or a liquidity crisis, can also be classified to this measurement class.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets measured at fair value through other comprehensive income includes debt instruments, which are, according to the investment policy, intended to be held in order to collect contractual cash flows or sold, if necessary, for reaching the objectives of the business model (combination-business model). Classification requires, that the contractual terms of the instrument include regular payments of interest and principal either in part or in entirety (SPPI-test).

Among other things, investments which can be sold to cover liquidity needs, for example, and liquid assets which have to be tested on regular sales in order to demonstrate the liquidity of those assets are classified to this measurement class.

Changes in financial instrument's fair value is recognised in items of other comprehensive income. The increase and decrease of expected credit losses are recognised in the income statement and in items of other comprehensive income. When sold, the change in fair value is recognised from other comprehensive income to net investment income in the income statement and expected credit loss in impairment losses on financial assets in the income statement.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. Financial assets measured at fair value through profit or loss include shares and participations and debt instruments, which do not meet the SPPI-test. An exception is made with regards to shares which are measured at fair value through other comprehensive income.

POP Bank Group does not have financial assets held for trading purposes.

Hedging derivatives are recorded at fair value through profit or loss.

Changes in fair value are recognised in the net investment income.

EQUITY INSTRUMENT ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

POP Bank Group has adopted the exception in IFRS 9, according to which changes in the fair value of investments in shares may be recognised in other comprehensive income. The exception is adopted to investments in shares regarded strategic to POP Bank Group's business operations.

Changes in fair value are recognised in other comprehensive income. In case such an investment is subsequently sold, the result of the sale is recognised in equity. The election can be made only at initial recognition and it is irrevocable.

FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

POP Bank Group's financial liabilities are measured at amortised cost according to the effective interest rate method.. Financial liabilities measured at amortised cost includes deposits and debt securities issued to the public, liabilities to credit institutions as well as other financial liabilities.

FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

Derivative contracts are recognised in financial liabilities at fair value through profit or loss. The POP Bank Group has no other financial liabilities measured at fair value through profit or loss.

6.3 DETERMINING FAIR VALUE

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

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

Current bid price is used as the quoted market price of financial assets.

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

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

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

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

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

6.4 DERIVATIVE CONTRACTS AND HEDGE ACCOUNTING

During the 2022 financial year, POP Bank Group has acquired derivatives and started to apply hedge accounting. POP Bank Group hedges its interest rate risk against changes in fair value, primarily using interest rate swaps. Hedge accounting is applied for fair value hedging. The hedged instrument of fair value hedging is fixed-rate deposits and fixed-rate bonds issued. Derivative contracts are not made for trading purposes.

All derivative contracts are recognised and measured at fair value through profit or loss. The positive fair values of derivative contracts are presented as assets under Derivatives and negative fair values as liabilities under Derivatives. Changes in the value of derivatives in hedge accounting are recorded in the income statement under net income from investments under the item Net income from derivative contracts. Interest on hedging derivatives is presented in the income statement under interest income and expenses.

The hedging relationship between the hedging derivative contract and the hedged instrument and the objectives of risk management are documented before hedge accounting is applied. If there is a high correlation between the change in the value of the hedging derivative and the hedged instrument, the hedging is considered effective.

POP Bank Group applies IFRS 9 Financial Instruments to hedge accounting for all hedging relationships, except for the fixed rate borrowings the Group applies the "carve-out" model of IAS 39 hedge accounting, which makes it possible for assets and liabilities with a similar risk profile to be combined for hedging ("macro hedging"), making it possible to include deposits in the scope of hedging.

6.5 IMPAIRMENT OF FINANCIAL ASSETS

A loss allowance on financial assets measured at amortized cost or fair value through other comprehensive income and off-balance sheet credit commitments is recognized on the basis of expected credit losses. The expected credit loss of a financial instrument is determined as the difference between the contractual cash flows that the entity is entitled to receive under the contract and the cash flows expected to be received by the entity at the original effective interest rate at the time of reporting.

To determine expected credit losses, financial instruments are classified in stages from 1 to 3. Stage 1 represents financial instruments whose credit risk has not increased significantly since the initial recognition. Expected credit losses are determined for such financial instruments based on expected loan losses for 12 months. Stage 2 represents financial instruments whose credit risk has increased significantly after the initial recognition on the basis of qualitative or quantitative criteria and, for stage 3, financial instruments whose counterparty has been declared as default. Expected credit losses are determined for financial instruments classified in Stage 2 and 3 based on the expected credit losses over the entire life of the instrument.

The 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

The calculation of expected credit losses is based on the Probability of Default (PD), the loss ratio (LGD, Loss Given Default) and the Exposure at Default (EAD) for each segment.

The probability of default (PD) is measured by the historical credit rating model. The credit rating models are defined for the four main segments described above. Credit rating models constructed using statistical methods are used to estimate the PD of private and corporate customers. The credit rating model for agricultural customers is constructed by an expert and is based on the customers' financial ratios. Management estimates have been used to set PDs for agricultural customers, as there are few cases of default in the segment for statistical modelling.

Loss given default (LGD) refers to the expected portion of the loan loss on the remaining capital if the counterparty is classified as default. The parameters for calculating loss shares in the POP Bank Group are determined on the basis of expert estimates. Industry-specific LGD data from the Finnish market have been used to determine LGD values.

The exposure at default (EAD) is calculated for each loan and off-balance sheet item separately on the basis of repayments under the terms of the contract, with the exception of contracts without maturity whose lifecycle is determined on the basis of expert judgment. In the EAD calculation of off-balance sheet items, CCF coefficients shall be applied in accordance with the standardised credit risk standard for the credit risk calculation, with the exception of card credits for which a credit equivalent value (CCF) has been determined on the basis of expert judgment.

Estimated credit losses are estimated using future information available with reasonable ease. For the purpose of calculating expected credit losses, the POP Bank Group has developed a model based on three macroeconomic scenarios and related implementation probabilities to correct the parameters used in the calculation when estimating expected credit losses. The macroeconomic scenarios are based on the projected growth rate of Finland's Gross Domestic Product over the next three years.

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, after which the contract is transferred from stage 1 to stage 2. The credit risk is considered to have increased significantly, when forbearance measures to the contract have been made less than 12 months ago, contract has been overdue for more than 30 days, or another qualitative risk factor has been identified in the customer's situation such as a significant change in the customer's business that is not yet reflected in the payment delay. In addition, the credit risk is considered significantly increased if the counterparty credit rating has deteriorated significantly. The threshold value determined by expert estimation of significant impairment is based on the change in PD value between the time of reporting and the time of the contract origination.

POP Bank Group applies the definition of default in accordance with Article 178 of Regulation 575/2013 of the European Parliament and of the Council when calculating expected credit losses. Liabilities are classified in stage 3 when they meet the definition criteria. For non-retail customers, which are customers with a turnover of more than EUR 50 million and liabilities of more than EUR 1 million, the definition of default applies at customer level and to retail customers at contract level. However, all receivables from a retail customer are recorded as defaulted (customer-level default) if the amount of the customer's liabilities exceeds 20 per cent of the customer's total liabilities.

The contract is considered defaulted at the latest when the liability under the default criteria has been continuously delayed for more than 90 days. In addition, a customer is considered defaulted when repayment is considered unlikely for example if the customer has been declared bankrupt or similar proceedings, or if the customer has forbearance measures that causes a change in the present value of the liability of more than 1 per cent. The contract or customer is considered defaulted for a period of 90 days after the conditions for default have ceased to exist.

POP Banks do not have contracts that are originated as impaired.

If the customer has not fulfilled the criteria for default for at least 3 months, the customer's liability will return to either stage 2 or stage 1, depending on whether the exposures meet a significant increase in the credit risk criteria at the time of return. The contract will return from stage 2 to stage 1 without a separate trial period if the contract no longer meets the criteria for significant credit risk growth.

POP Bank Group applies an exception of IFRS 9 -standard to financial assets at fair value through profit or loss, in which all instruments with a low credit risk are classified in stage 1 and instruments with higher credit risk are classified in stage 2.

A loss allowance on financial assets recognised at amortised cost and fair value through other comprehensive income and for off-balance sheet items is recognised in the income statement. Loss allowance in the income statement consists of the expected credit loss calculated for the financial asset, where the expected credit losses previously recognized have been deducted. A loss allowance is cancelled if a realised credit loss is recognized for the financial asset. The loss allowance on financial assets recognized at amortized cost reduces the carrying amount of the financial assets. The loss allowance for financial assets at fair value through other comprehensive income is recognised in the statement of comprehensive income. The loss allowance on off-balance sheet commitments is recognised as a provision in other provisions and liabilities.

7. INTANGIBLE ASSETS

The most significant intangible assets of the POP Bank Group are comprised of banking and insurance information systems and licenses. An intangible asset is recognized in the balance sheet at acquisition cost if it is probable that the expected economic benefits associated with the asset will flow to the POP Bank Group and the acquisition cost of the asset can be measured reliably. Acquisition cost includes all costs that are directly attributable to bringing the asset to its working condition for its intended use. POP Bank Group has capitalised also internally produced intangible assets. The capitalised expenditures for internally produced intangible assets includes, for example, license fees, purchased services, in-house work and other external costs related to projects.

POP Bank Group has started a system reform project at the beginning of 2022, which will renew the core banking system used by the banking segment, the customer information system, the authority reporting solution, the data storage and reporting solution and the office infrastructure. Part of the costs of the system reform project are capitalized as an intangible asset.

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

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

Configuration costs related to Software as a Service (SaaS) cloud service agreements are recognized mainly as expenses and customization costs as prepayments or expenses, depending on whether the customization services are distinct from the actual cloud service agreement. In the cloud service arrangement, the software is controlled by a third party, and the software's configuration and customization functions are not capitalized as an intangible asset. The prepayment recognized under the cloud service agreement is released as an expense during the agreement period from the time the asset is ready for use.

8. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

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

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

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

Indications of impairment of property, plant and equipment and investment properties are assessed on each balance sheet date. If such indications exist, the recoverable amount from the asset will be estimated. These indications are, for example, significant decrease in the market value of the property or evidence of physical damage. If the future generated income is expected to be lower than the acquisition cost without depreciation, the resulting difference will be recorded as impairment loss and charged to expenses.

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

9. LEASES

9.1 THE POP BANK GROUP AS THE LESSOR

POP Bank Group leases properties it owns or parts thereof by way of operating leases. In the leases, the essential risks and benefits of ownership remain with the lessor. The Group has classified all its leases as operative leases. Investment properties are recognised as investment assets on the balance sheet, and other properties are recognised as property, plant and equipment. Rental revenue from investment properties is recognised in net investment income and from other properties in other operating income.

9.2 THE POP BANK GROUP AS THE LESSEE

POP Bank Group has obtained mostly commercial premises, office equipment and company cars for employees through contracts classified as leases. At the time of establishing a contract, POP Bank Group assesses whether the contract is a lease or includes a lease. A contract is a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

POP Bank Group as a lessee is required to recognise on its balance sheet a right-of-use asset and a lease liability arising from a lease. Lease liabilities are presented under other liabilities and the related interest expenses under net interest income. The right-of-use asset is presented under property, plant and equipment and depreciation is presented under depreciation and impairment losses. POP Bank Group has applied the exemptions included in the standard, according to which leases with a term of 12 months or less, or leases where the underlying asset is of low value, need not be recognised on the balance sheet. The expenses arising from these leases are recognised under other operating income.

A right-of-use asset is initially measured at acquisition cost. After the beginning of the contract, right-of-use assets are measured at acquisition cost less accumulated depreciation and impairment losses. Depreciation on a right-of-use asset is recognised using the straight-line method. Depreciation period for commercial premises with lease valid until further notice is generally 2 years. For fixed-term contracts, the depreciation period is in principle the contractual period. Depreciation times for office equipment vary from 2 to 5 years.

A lease liability is initially measured at the present value of the lease payments remaining unpaid at the beginning of the contract. The incremental borrowing rate of interest is used in the calculation of lease liabilities. The interest rate used for additional credit is the interest rate determined by the central credit institution of the amalgamation of POP Banks for credits granted within the group.

The economic lifetime of a leased asset is taken into consideration when determining the lease period. The management's estimates are significant, particularly when determining the lease period for contracts valid until further notice and the incremental borrowing rate of interest. Contracts valid until further notice are assigned a lease period based on the management's estimate in cases when it is reasonably certain that they are entered into for a period that exceeds their notice period.

10. INSURANCE ASSETS AND LIABILITIES

10.1 FINANCIAL ASSETS OF NON-LIFE INSURANCE

Financial assets of non-life insurance are classified according to the business model applied to their management in accordance with IFRS 9. The policies have been presented in chapter 6 Financial instruments.

10.2 CONTRACTS ISSUED BY THE INSURANCE COMPANY

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

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

10.3 LIABILITIES FOR INSURANCE CONTRACTS

Insurance contract liabilities are calculated in accordance with the national accounting policies for technical provisions.

The insurance contracts issued by the company are primarily annual policies. Premiums written include insurance premiums for the contract periods that have begun during the financial year. After this, the expected expiries and credit losses are deducted from the premiums written. The portion of premiums written for the post-balance sheet date for which future expenses are expected is recorded as a provision for unearned premiums. The amount of the provision for unearned premiums is calculated of the contractual amendments on the contract level. An additional premium is also added to the provision for unearned premiums.

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

Provisions for unpaid claims for annuities are discounted based on a constant discount rate, which was 0.0% on the balance sheet date.

The provision for unearned premiums ceded to reinsurers is calculated similarly to the direct insurer's share. The reinsurer's portion of insurance contract liabilities does not include an additional premium.

As part of the provisions for unpaid claims, the company reserves equalisation provisions. Equalisation provisions are an item calculated in case of claim-intensive years based on theoretical risk. In IFRS Financial statements the equalisation provision is not recognised in insurance contract liabilities, but the amount is recognised in equity without the amount of deferred tax.

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

11. PROVISIONS

A provision is recognised when a legal or factual obligation has emerged to the POP Bank Group due to a previous event and the fulfilment of the obligation is likely. A provision is recognised when the Group can reliably assess the amount of the obligation. Any remuneration paid by a third party is recognised as a separate item when receiving the remuneration is considered practically certain. The provision is measured at the present value of the amounts paid to fulfil the obligation.

12. EMPLOYEE BENEFITS

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

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

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

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

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

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

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

13. PRINCIPLES FOR RECOGNISING INCOME AND EXPENSES

13.1 INTEREST INCOME AND EXPENSES

Interest income and expenses are amortised over the maturity of the contract using the effective interest rate method, in proportion to the remaining carrying amount in the balance sheet. Interest income and expenses are recognised in net interest income. Interest income and expenses related to insurance assets are recognised in net insurance income in the income statement. Interest income on impaired receivables (receivables registered on stage 3) is calculated for net amount where expected credit loss is deducted.

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

13.2 COMMISSION INCOME AND EXPENSES

Commission income is recognised to the extent that the Group expects to be entitled to in exchange for the service provided to the customer. Commission income is recognised at a point in time or over time. Commissions and fees that are considered as an integral part of the effective interest of a financial instrument are accounted for as an adjustment to the effective interest. However, commissions and fees relating to financial instruments measured at fair value through profit or loss are recognised in the income statement on initial recognition.

13.3 DIVIDENDS

Dividends are primarily recognised when the General Meeting of Shareholders of the distributing entity has made a decision on dividend pay-out and the right to receive dividends has emerged. Dividend income is recognised in net investment income.

13.4 PREMIUMS

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

13.5 PRESENTATION OF INCOME STATEMENT ITEMS

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

Net interest income	Interest income and expenses on financial assets and liabilities, the amount of amortisation on the difference between the nominal and acquisition values, interest on interest-rate derivatives and fees that are accounted as part of the financial asset's effective interest.
Commission income and expenses	Commission income from lending, deposits and legal tasks, products transmitted, such as funds and insurances, commission income and expenses from payments, commission income from securities.
Net investment income	Net income from available-for-sale financial assets (realised capital gains and losses, impairment losses, dividends), net income from investment property (rental and dividend income, capital gains and losses and maintenance charges and expenses related to investment property, depreciation and impairment losses).
Net income from non-life insurance	Premiums written, change in insurance liability, claims paid.
Other operating income	Rental and dividend income and capital gains from owner-occupied properties, other operating income.
Personnel expenses	Wages and salaries, social expenses and pension expenses.
Other operating expenses	Other administrative expenses, expenses related to low-value and short-term leases, sales losses from owner-occupied properties, charges to financial authorities, other expenses related to business operations
Impairment losses on financial assets	Impairment losses on financial assets, expected credit losses and realised credit losses and cancellations of credit losses

14. INCOME TAX

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

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

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

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

NOTE 3 GOVERNANCE AND MANAGEMENT

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

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

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

The POP Bank Group entities not included in the amalgamation are entities other than credit and financial institutions or service companies. Most significant of them are POP Holding Ltd, and its wholly-owned subsidiary Finnish P&C Insurance Ltd.

1. ENTITIES INCLUDED IN THE AMALGAMATION OF POP BANKS

1.1 CENTRAL INSTITUTION POP BANK CENTRE COOP

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

1.2 POP BANKS

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

1.3 CENTRAL CREDIT INSTITUTION BONUM BANK PLC

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

1.4 MORTGAGE BANK POP MORTGAGE BANK PLC

POP Mortgage Bank Plc is a member credit institution and subsidiary of POP Bank Centre coop. POP Mortgage Bank Plc has authorisation to engage in mortgage banking operations. As a member credit institution and subsidiary of POP Bank Centre coop, POP Mortgage Bank Plc is included in the scope of both the member credit institutions of the central institution and group management. POP Mortgage Bank Plc operates as the mortgage bank of POP Banks, and is responsible for acquiring external funding by issuing secured bonds for the amalgamation in cooperation with Bonum Bank Plc.

1.5 OTHER ENTITIES IN THE AMALGAMATION

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

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

2.1 COOPERATIVE MEETING OF POP BANK CENTRE COOP

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

2.2 SUPERVISORY BOARD OF POP BANK CENTRE COOP

It is a key task of the Supervisory Board of POP Bank Centre coop to supervise that the operations of the central institution are managed with expertise and care in compliance with the legislation, guidelines and the members' interests and that the ratified guidelines and decisions by the cooperative meeting are followed. The Supervisory Board gives a statement to the Board of Directors for POP Bank Group's strategy and a statement to the spring cooperative meeting for the POP Bank Centre Coop financial statements, consolidated financial statements and report of the Board of Directors. The Supervisory Board also processes other issues presented by the Board of Directors.

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

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

2.3 BOARD OF DIRECTORS OF POP BANK CENTRE COOP

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

The Board of Directors of the central institution confirms the POP Bank Group's strategy after hearing the Supervisory Board. The Board of Directors ratifies the amalgamation's risk level and risk appetite based on business plans and approves the plan concerning the maintenance of capital adequacy proportioned to the risk level. The Board of Directors sets the target level for capital adequacy and confirms the level and structure of capital required by the risk profile. The Board of Directors is also responsible for proactive capital planning and adapting the capital adequacy management planning and proactive capital planning into reliable governance and guidance. The Board of Directors annually estimates the suitability, comprehensiveness and credibility of the capital adequacy management, and confirms the capital adequacy management plan of the amalgamation.

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

The assessment of reliability, suitability and professional skills of the Board member candidates is carried out following pre-defined and neutral selection grounds. A diverse composition of the Board of Directors aims at the optimum ability to develop and manage the efficiency, competitiveness and risk management of the central institution and amalgamation. In planning the composition of the

Board of Directors, it is ensured that the required competence is represented at each time. Regional representation is also part of the assessment of diversity. Equal representation of both genders in the Board of Directors is an important aspect of diversity. The Board of Directors approves the objective of equal representation of genders and prepares the operating principles with which the objective is achieved and maintained.

The Board of Directors annually reviews its work and the knowledge and skills, experience and diverse collectively necessary for its work and the job description of new members.

The members of the Board of Directors shall have the preconditions for successfully taking care of their duties and sufficient time for it. A Board member and member of the executive management must have sufficient expertise in the amalgamation's business, related key risks and managerial work.

At least half of the Board members must be elected from persons who are employed by a member credit institution of the amalgamation.

Board members must be reliable persons with a good reputation. The reliability, suitability and professional skills of persons elected as Board members are assessed in connection with their election and at regular intervals thereafter. The Board of Directors of the central institution has specified a maximum number of board memberships of a Board member. A member of the Board of Directors may be a member of a maximum of four other boards of directors. When calculating the number of board memberships, memberships of the boards of directors within the POP Bank Group or those related to the Group's cooperative relationships or membership in the administrative organs of entities with no commercial purposes, such as non-profit or charity organisations and housing associations can be excluded.

2.4 MANAGING DIRECTOR OF POP BANK CENTRE COOP

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

The Managing Director prepares the matters presented to the Board of Directors and assists the Board of Directors in the preparation of matters presented to the Supervisory Board and the cooperative meeting. The CEO is required to seek the approval of the Board of Directors for any secondary jobs.

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

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

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

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

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

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

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

In accordance with the Amalgamation Act, the Financial Supervisory Authority may grant the central institution a permit to decide on granting certain exceptions related to capital adequacy and liquidity to its member credit institutions. On the reporting date, the central institution has exempted the member credit institutions from own funds requirement for intra-group exposures, large exposure limitation for exposures between the central credit institution and member credit institutions, amalgamation's internal items are exempted from leverage ratio measurements both liquidity coverage ratio (LCR) and net stable Funding Ratio (NSFR) requirements. Bonum Bank Plc manages both LCR and NFSR at amalgamation level.

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

4. JOINING AND RESIGNING FROM THE AMALGAMATION OF POP BANKS

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

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

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

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

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

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

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

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

6. SUPERVISION OF THE AMALGAMATION OF POP BANKS

The Financial Supervisory Authority supervises the central institution in accordance with the Amalgamation Act. The member credit institutions are supervised by the Financial Supervisory Authority and the central institution. The resolution authority of the amalgamation is the Financial Stability Authority.

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

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

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

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

According to the legislation concerning the Deposit Guarantee Fund, the deposit banks belonging to the amalgamation of POP Banks are considered to constitute a single bank in respect of deposit insurance.

The Deposit Guarantee Fund reimburses a maximum total of EUR 100,000 to an individual account holder who has receivables from deposit banks belonging to the amalgamation of POP Banks. The Financial Stability Board administers the Deposit Guarantee Fund and carries out duties related to deposit protection.

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

8. FINANCIAL STATEMENTS AND AUDIT OF THE POP BANK GROUP

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

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

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

A member credit institution is not obliged to publish interim reports pursuant to Chapter 12, section 12 of the Act on Credit Institutions, or the capital adequacy information pursuant to the EU's Capital Requirements Regulation ("Pillar III disclosures"). Information pursuant to Capital Requirements Regulation is disclosed in a separate report of the amalgamation of POP Banks.

9. REMUNERATION

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

Remuneration is divided into fixed and variable remuneration. Fixed remuneration refers to salaries tied to a specific period of time and variable remuneration refers to remuneration tied to the beneficiary's performance or financial factors.

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

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

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

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

The internal audit function of the amalgamation conducts a centralized, independent assessment of the amalgamation's remuneration scheme and practices once a year. The internal audit reports the assessment results to the Board of Directors of the amalgamation annually.

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

The member credit institutions in which variable remuneration is in use have different remuneration schemes. The systems differ with regard to, inter alia, the personnel included in their scope, the amount of remuneration and the remuneration criteria.

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

The payment criteria for severance pay or other comparable remuneration that is paid to a beneficiary if employment terminates prematurely are laid down so that compensation is not paid for failed performance. Provisions on the payment of variable remuneration are laid down in the Act on Credit Institutions.

The amalgamation of POP Banks applies the exemption laid down in point of Article 94(3) of the Capital Requirements Directive, as a result of which the amalgamation of POP Banks does not apply the provisions of Chapter 8, sections 11 and 12 of the Act on Credit Institutions to the entities do have to postpone the payment of variable remuneration or pay variable remuneration in other form than cash. The exemption applies until the balance sheet of the amalgamation of POP Banks is on average equal to or less than the threshold of EUR 5 billion over the four-year period immediately preceding the current annual reporting period or the amalgamation of POP Banks is not a large institution.

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

The member credit institutions publish a report on compliance with the provisions of the Act on Credit Institutions regarding remuneration on their websites. Salaries and bonuses for the financial year are presented in Note 11 to the POP Bank Group's financial statements. The information required by the EU Capital Requirements Regulation No 575/2013 article 450 on the remuneration of people who influence the POP Bank Group's risk exposure is presented in a Pillar III report separate to the financial statements and board of directors' report.

NOTE 4 RISK MANAGEMENT IN THE POP BANK GROUP

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

The strategic objectives of risk management in the POP Bank Group are to ensure the risk-bearing capacity in all circumstances and to keep the amalgamation's and its member credit institutions' risks at a moderate level in relation the their risk-bearing capacity, thus ensuring business continuity. Risk-bearing capacity is built upon risk management proportionated to the scope and complexity of the institution and sufficient capitalization based on profitable business operations. The purpose of the 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 institutions.

The purpose of capital adequacy management is to ensure the sufficient amount, quality and efficient use of the capital. Capital is held to cover the material risks arising from the amalgamation's business strategy and plan and to secure the uninterrupted operations 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 central institution is responsible for the risk and capital adequacy management of the Group. The central institution provides guidance to the member credit institutions to ensure risk management and supervises that the member institutions operate in accordance with regulation, their own rules, guidelines issued by the central institution and in accordance with appropriate and ethically acceptable procedures. The member credit institutions of the amalgamation, within limits set by confirmed business risk thresholds, carry their business risks independently in their operations and are liable for their capital adequacy. The capital adequacy, liquidity coverage ratio and customer risks of the entities included in the amalgamation of POP Banks are supervised both at the level of individual member institutions and at the consolidated amalgamation level. Violations of the risk management principles are addressed in accordance with the agreed operating models.

Risk and capital adequacy management is regulated by EU legislation, Act on Credit Institutions (610/2014), Act on the Amalgamation of Deposit Banks (24.6.2010/599; hereinafter referred to as the "Amalgamation Act") and the standards, regulations and guidelines issued by the Financial Supervisory Authority and European Banking Authority.

Most significant risks of the amalgamation consist of credit, liquidity, market and operational risk. Credit risk is mitigated careful evaluation of customer repayment capacity and by diversification and collateral. Liquidity risk is mitigated by maintaining a sufficient liquidity reserve and by diversification of funding with regard to timing and counterparty. The most significant subtypes of market risk are the interest rate risk in the banking book and risks stemming from investment activities. Asset and liability management and interest rate derivatives are used to mitigate the interest rate risk. Investment risk is mitigated through diversification and investment counterparty and allocation limits. Operational risk is managed through clear processes and training of personnel, guidelines and control mechanisms.

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

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

Risk management is an essential part of the internal controls of the amalgamation. The purpose of internal controls is to ensure that the institution complies with regulations, carries out comprehensive risk management and operates efficiently and reliably. Moreover, internal controls serve to ensure that the objectives and goals set for different levels of the amalgamation are achieved in accordance with internal guidelines.

2. ORGANISATION OF RISK AND CAPITAL ADEQUACY MANAGEMENT

The role of the Supervisory Board and the Board of Directors in amalgamation's risk management has been described in the Note 3 Governance and management.

2.1 EXECUTIVE MANAGEMENT

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

2.2 RISK CONTROL FUNCTION

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

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

The risk control function regularly reports a summary of the activities of the risk control function and the observations made by it and risk situation to the Board of Directors. The risk control function ensures that the combined effect of the significant risks taken by all member credit institutions in their business operations on earnings and the own funds is reported to the Board of Directors as part of internal capital adequacy assessment process.

2.3 COMPLIANCE FUNCTION

The compliance function monitors the amalgamation's and its member credit institutions' compliance with the applicable laws, statutory guidelines and orders, market self-regulation and the amalgamation's internal guidelines. The compliance function is also responsible for keeping the central institution's and its member credit institutions senior and operative management aware of any significant changes to key regulations and the implications of such changes. The compliance function prepares guidelines for applying the regulations.

The compliance function reports regularly on its activities and findings to the central institution's operating management, the Board of Directors and the Audit Committee of the Supervisory Board. The Compliance function has been centralized for all member credit institutions of the amalgamation of POP Banks.

The compliance risk is managed by monitoring developments in legislation; by providing business operations with guidelines, training and advice on operating methods that comply with the regulations; and by monitoring the compliance of procedures.

2.4 INTERNAL AUDIT

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

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

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

2.5 MEMBER CREDIT INSTITUTIONS

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

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

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

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

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

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

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

ORGANISATION OF RISK MANAGEMENT AND INTERNAL CONTROL

I LINE OF DEFENCE

MEMBER CREDIT INSTITUTIONS

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

II LINE OF DEFENCE

INDEPENDENT RISK CONTROL AND COMPLIANCE OF THE CENTRAL INSTITUTION

- Control
- Instruction
- Support, processes, tools

III LINE OF DEFENCE

CENTRAL INSTITUTION'S INTERNAL AUDIT

- Independent assessment of control based on risk-based audit activity

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

3. CAPITAL ADEQUACY MANAGEMENT

The objective of capital adequacy management is to ensure that the amalgamation of POP Banks and its member credit institutions have an adequate capital buffer to achieve their business strategy and to cover the material risks arising from them in all circumstances. The capital adequacy position is managed in accordance with the risk appetite framework and related limits set by the amalgamation.

Monitoring and controlling of capital adequacy are implemented by setting limits for both the amalgamations' and the member credit institutions' capital adequacy. The limits are set both for the capital adequacy ratio calculated in accordance with the Capital Requirements Regulation (EU 2019/876) (hereinafter the EU Capital Requirements Regulation) and for the economic capital requirement which is based on an internal risk assessment (Pillar 2).

As part of the capital adequacy management process the aim is to identify all material risks and assess their magnitude and required capital requirements. Under the supervision of the central institution, the member credit institutions of the amalgamation prepare their own capital plans and stress tests on an annual basis using harmonized principles defined by the central institution. Based on the capital plans of the member credit institutions, the capital plan of the amalgamation is prepared, which includes a summary of the development of the capital and exposures of the amalgamation in different scenarios. The process ensures that the amalgamation's growth, profitability and risk-bearing capacity objectives are appropriate and consistent. The baseline scenario of the capital plan forms the basis for budgeting for member credit institutions and the amalgamation.

The key figures, capital requirements and main items of capital adequacy calculations of the amalgamation are presented in the Board of Directors' report in the financial statements. More detailed information is presented in a separate Pillar III report in accordance with Part Eight of the EU Capital Requirements Regulation.

3.1 PILLAR I CAPITAL ADEQUACY RATIO

The amalgamation's most significant Pillar I capital requirements are comprised of exposures secured by real estate and both corporate and retail receivables. The amalgamation applies the standardised approach for the calculation of the capital requirement for credit risk, and the basic indicator approach for calculating the capital requirement for operational risk. Member credit institutions of the amalgamation do not engage in trading activities, so the capital requirement for market risk is only calculated for foreign exchange risk.

Own funds of the amalgamation are comprised of cooperative contributions, POP Shares, retained earnings and reserves less the deductions pursuant to the EU Capital Requirements Regulation. Profit for the financial year is not included in the own funds.

4. BANKING RISKS

4.1 CREDIT RISK

The most significant risk of the amalgamation is the credit and counterparty risk. Credit risk refers to a situation in which a counterparty cannot fulfil its contractual obligations. The most significant source of credit risk is loans, but credit risk can also arise from other kinds of receivables, such as debt securities, and off-balance-sheet commitments, such as unused credit facilities and overdraft limits and guarantees.

4.1.1 Management of credit risk

The Board of Directors of the central institution controls the credit risk management of the member credit institutions, the methods used in it and the control and reporting of credit risk. The Board of Directors of the central institution approves the credit risk strategy specifying the target risk level and the principles concerning guidelines on risk-taking, customer selection and collateral. Credit risk management aims at limiting the effects of credit risks resulting from lending activities on profit and balance sheet to an acceptable level. The Board of Directors of the central institution approves the customer group and industry division principles and risk and monitoring limits of the credit portfolio used in the monitoring the quality of the credit portfolio. The credit risk strategy is supplemented by credit risk and collateral management guidelines, which lay the foundation for the management of credit risk by the member credit institutions. The central institution's risk control function is responsible for the preparation and maintenance of the credit risk strategy. The credit risk strategy is updated at least annually or whenever there are essential changes in the operating environment or business model of the amalgamation, legislation or regulatory requirements.

Credit strategy approved in Central institution's Board of Directors forms directly credit strategy at individual member credit institution. Credit risk strategy and other operative credit risk guidelines specify the maximum limits for risk concentrations and act as guidelines for the targeting of lending by customer sector, industry and credit grade.

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

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

Monitoring expected credit losses (ECL) is an essential part of the credit risk management. Principles of impairment and calculation of expected credit losses are described in Note 2 POP Bank Group's accounting policies under IFRS. Impairment losses on loans and receivables, off-balance sheet items and changes during the financial year are presented in Note 18 Impairment of financial assets.

Exposures of customers and non-performing receivables are reported monthly to the Boards of Directors of the member credit institutions. The reports include, amongst other things, the amount and development of credit risk by customer group, industry sector and credit grade category. The risk control function reports to the central institution's Board of Directors on the development of credit risks, risk position, non-performing receivables, forbearance and expected credit losses on a quarterly basis or more often if deemed necessary.

The assessment of the credit worthiness of a customer is based on a good customer knowledge, the customer's occupation and income data, ability to pay and surplus calculation and a credit rating models. Private and corporate customers with open exposures are scored with the behaviour scoring model based on payment behaviour. Agricultural customers with exposures are scored regularly using a credit rating model. New customers who are applying for a loan are scored with application scoring. The purpose of the scoring is to group the customers according to their risk.

Loans and receivables are categorised in rating categories 1–8 by probability of default (PD) of the receivable. Rating category 1 represents the receivables of the lowest risk and risk category 8 represents the receivables of the highest risk. Both the customer and the receivable are categorised as defaulted (rating category 8), if a default criteria described in accounting policies is met. Receivables categorised as defaulted are classified in stage 3 as per IFRS 9 in the calculation of excepted credit losses. Receivables with a significant increase in credit risk are classified in stage 2. Other receivables are classified in stage 1. The principles for calculating expected credit losses are described more in detail in Note 2.

Loans and receivables, debt securities and off-balance sheet items in highest-risk rating category 8 totalled 113,629 (98,655) thousand at the end of reporting period.

Risk categories 1-4 had 66.4 (69.4) per cent private customers, 20.7 (18.6) per cent corporate customers and 12.9 (12.0) per cent agricultural customers. Of the higher risk categories 5-8, private customers were 52.8 (50.4) per cent, agricultural customers 15.2 (22.4) per cent and corporate customers 32.0 (27.4) per cent at the end of reporting period.

RECEIVABLES BY RATING CATEGORY 31 DEC 2022

LOANS AND RECEIVABLES FROM CUSTOMERS BY RATING CATEGORY AND BY ECL STAGE

(EUR 1,000)	PD value		31 Dec 2022				31 Dec 2021
Rating category	Lower	Upper	Stage 1	Stage 2	Stage 3	Total	Total
1-4	0.00	1.50	3,597,267	12,715	-	3,609,982	3,344,201
5	1.50	5.00	401,998	52,821	-	454,820	527,848
6	5.00	25.00	116,961	103,593	-	220,554	224,204
7	25.00	100.00	2,767	89,661	-	92,428	86,733
8	100.00	100.00	-	-	112,207	112,207	97,366
Gross value			**4,118,994**	**258,791**	**112,207**	**4,489,992**	**4,280,352**
ECL			**5,258**	**4,782**	**31,473**	**41,512**	**36,523**
Net value			**4,113,736**	**254,009**	**80,735**	**4,448,480**	**4,243,829**

DEBT SECURITIES BY RATING CATEGORY AND BY ECL STAGE

(EUR 1,000)	PD value		31 Dec 2022				31 Dec 2021
Rating category	Lower	Upper	Stage 1	Stage 2	Stage 3	Total	Total
1-4	0.00	1.50	470,996	22,357	-	493,353	426,873
5	1.50	5.00	0	10,330	-	10,330	11,417
6	5.00	25.00	1,278	4,685	-	5,963	3,813
7	25.00	100.00	0	90	-	90	3,487
8	100.00	100.00	0	0	-	0	0
Gross value			**472,274**	**37,463**	**-**	**509,736**	**445,590**
ECL			**67**	**0**	**-**	**67**	**38**
Net value			**472,207**	**37,463**	**-**	**509,669**	**445,552**

Expected credit losses from debt securities measured at fair value through other comprehensive income totalled 655 (1,385) thousand euros, of which 199 thousand is in Stage 1 and 456 thousand in Stage 2.

OFF BALANCE-SHEET COMMITMENTS BY RATING CATEGORY AND BY ECL STAGE

(EUR 1,000)	PD value		31 Dec 2022				31 Dec 2021
Rating category	**Lower**	**Upper**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
1-4	0.00	1.50	311,457	8,833	-	320,290	318,775
5	1.50	5.00	14,793	1,244	-	16,037	28,167
6	5.00	25.00	4,273	3,373	-	7,646	7,374
7	25.00	100.00	382	983	-	1,365	382
8	100.00	100.00	40	-	1,422	1,462	1,289
Gross value			**330,944**	**14,434**	**1,422**	**346,800**	**355,987**
ECL			**390**	**243**	**245**	**878**	**672**
Net value			**330,554**	**14,191**	**1,177**	**345,922**	**355,316**

4.1.2 Breakdown of loans by customer groups

The amalgamation's key customer groups are private customers, agricultural customers and small companies. The amalgamation's loan portfolio totalled EUR 4,448,480 (4,243,829) thousand at the end of 2022.

BREAKDOWN OF LOANS BY CUSTOMER GROUPS

(EUR 1,000, net value)	31 Dec 2022	31 Dec 2021	Change, %	Main collateral type
Private customers	2,843,929	2,777,106	2.4 %	Residential real estate
Corporate customers	1,015,620	864,432	17.5 %	Other real estate
Agricultural customers	588,930	602,292	-2.2 %	Other real estate
Total	**4,448,480**	**4,243,829**	**4.8 %**	

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

CORPORATE LENDING BY INDUSTRY

	31 Dec 2022		31 Dec 2021	
(EUR 1,000)	**Net value**	**%**	**Net value**	**%**
Real estate	376,971	37.1 %	303,548	35.1 %
Construction	143,063	14.1 %	131,993	15.3 %
Wholesale and retail trade	89,196	8.8 %	85,018	9.8 %
Industry	86,681	8.5 %	83,914	9.7 %
Transport and storage	49,727	4.9 %	51,226	5.9 %
Other industries	269,983	26.6 %	208,732	24.1 %
Total	**1,015,620**	**100.0 %**	**864,432**	**100.0 %**

4.1.3 Loan portfolio by collateral and stages

Lending to private customers is mainly secured by residential real estate collateral. Other collateral is used according to need. A majority, 63.0 (64.1) per cent of the amalgamation's loans has been granted against residential collateral. The loans to private customers are booked in the balance sheets of POP Banks, whereas Visa credit cards and unsecured digital consumer credits are booked in the balance sheet of the central credit institution. The table below shows the amount exposed to credit risk by collateral and stages.

LOAN BOOK BY COLLATERAL TYPE AND BY ECL STAGE 31 DEC 2022

(EUR 1,000, net value)	Stage 1	Stage 2	Stage 3	Total
Residential real estate	2,636,362	136,181	31,002	2,803,545
Other real estate	1,090,362	96,955	40,467	1,227,784
Financial collateral	94,512	2,520	264	97,296
Guarantee	38,534	4,339	1,535	44,408
Other collateral	59,275	7,509	1,263	68,047
Non-collateralized	194,691	6,505	6,205	207,401
Total	**4,113,736**	**254,009**	**80,735**	**4,448,480**

LOAN BOOK BY COLLATERAL TYPE AND BY ECL STAGE 31 DEC 2021

(EUR 1,000, net value)	Stage 1	Stage 2	Stage 3	Total
Residential real estate	2,560,470	131,574	26,297	2,718,342
Other real estate	1,048,851	92,959	36,527	1,178,336
Financial collateral	53,424	792	383	54,599
Guarantee	42,028	4,735	1,507	48,271
Other collateral	52,750	4,552	992	58,294
Non-collateralized	177,113	4,720	4,154	185,987
Total	**3,934,636**	**239,332**	**69,861**	**4,243,829**

4.1.4. Concentration risk

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

The total amount of loans granted by the amalgamation or an individual member credit institution to a single customer and/or customer group cannot exceed the maximum amounts confirmed in the EU's Capital Requirements Regulation, or the regulations and guidelines provided by the Finnish Financial Supervisory Authority or other supervisory authorities. At the amalgamation level, the maximum concentration risk limit has been defined for customer groups and risk industries as well as a euro-dominated limit for individual customer entities. In addition, a euro-denominated limit has been specified at the amalgamation level with new credit exceeding the limit the Central institution's Risk Control to be informed prior to the granting of the credit. There were no credit concentrations risks arising from lending in the amalgamation or at individual member credit institution at the end of the year.

4.1.5. Doubtful receivables, forbearances and impairment losses

The monitoring of credit risk is based on the continuous monitoring of doubtful receivables and past-due payments, forbearances and the quality as well as the composure of the loan portfolio. Problems that can be foreseen are addressed as early as possible. The main principals for managing doubtful receivables and problematic customers are defined in guidelines issued by the Central institution. The main principle of the guidelines is an active management of the receivables in arrears. Bank's risk position can be enhanced by contacting the customer in an early stage of arrears and timely actions for collections. Lengthened arrears affect the ECL staging as well as internal and authority reporting as problem loan.

PAST DUE EXPOSURES

	31 Dec 2022		31 Dec 2021	
(EUR 1,000)	**Net value**	**% of loan portfolio**	**Net value**	**% of loan portfolio**
Exposures 30-90 days past due	27,520	0.62 %	31,658	0.75 %
Exposures over 90 days past due	41,193	0.93 %	39,064	0.92 %
Exposures 90-180 days past due	8,734	0.20 %	10,808	0.25 %
Exposures 180 days - 1 year past due	11,342	0.25 %	10,899	0.26 %
Exposures over 1 year past due	21,117	0.47 %	17,356	0.41 %

Doubtful receivables are being followed and reported by criteria that are similar to the definitions of ECL stage 3 and forbearance. In addition to these criteria a single receivable or customer's all receivables can be classified as doubtful receivables by using bank's own consideration.

Forbearance is a temporary concession to contract terms due to customer's financial difficulties. Purpose of forbearance measures is to secure the customer's ability to pay and limit the credit risk of the receivables. Receivables that are more than 90 days past due with forbearance measures are included in stage 3. Receivables with more than one forbearance measure are also included in stage 3. Other receivables with forbearance measures are included in stage 2.

DOUBTFUL RECEIVABLES AND FORBEARANCE

(EUR 1,000, gross value)	31 Dec 2022	31 Dec 2021
Receivables in stage 3	112,207	97,224
of which forbearance receivables	41,294	35,404
Receivables in stage 2	258,791	243,292
of which forbearance receivables	108,838	90,201

Receivables in stage 3 are covered mainly by residential real estate or other real estate. Significant receivables that are in stage 2 or 3 are being evaluated monthly. In the survey actions for securing the receivable, valuation of the collateral, change in the credit classification and possible credit loss are being considered. Loans categorized in stage 3 increased by 15.4 per cent during the financial year.

LOAN BOOK IN STAGE 3 BY THE PRIMARY COLLATERAL TYPE 31 DEC 2022

(EUR 1,000)	Gross value	Eligible collateral *	ECL	Open credit risk after ECL and collaterals
Residential real estate	41,014	37,823	10,012	-
Other real estate	54,107	50,184	13,640	-
Financial collateral	461	300	197	-
Guarantee	2,597	-	1,062	1,535
Other collateral	3,472	153	2,209	1,110
Non-collateralized	10,557	-	4,352	6,205
Total	112,207	88,461	31,473	8,850

LOAN BOOK IN STAGE 3 BY THE PRIMARY COLLATERAL TYPE 31 DEC 2021

(EUR 1,000)	Gross value	Eligible collateral *	ECL	Open credit risk after ECL and collaterals
Residential real estate	35,186	32,247	8,888	-
Other real estate	48,991	44,636	12,464	-
Financial collateral	451	321	68	62
Guarantee	2,776	-	1,269	1,507
Other collateral	2,679	224	1,686	769
Non-collateralized	7,142	-	2,988	4,154
Total	97,224	77,428	27,363	6,492

*The tables only show the effect of eligible collateral arrangements for capital adequacy purposes. Receivables are also subject to non-secured collateral arrangements.

Expected credit losses (ECL) increased by 13.7 per cent to EUR 41.5 (36.5) million during the financial year. Increase in expected credit losses is explained mainly by the increase in ECL at stage 3.

The accounting policies for impairment on loans and other receivables are defined in Note 2 of the financial statements, and more detailed information about changes in expected credit losses is presented in Note 18 Impairment losses on financial assets.

4.2 MARKET RISK

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

4.2.1 Management of market risk

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

The Boards of Directors of the member credit institutions confirm market risk management guidelines in accordance with the market risk strategy of the central institution. The process for managing a member credit institution's capital adequacy is a key part of the process for determining the risk capacity and appetite related to investing activities. The taking of market risk has been limited within the amalgamation with regard to trading, interest rate risk, equity risk, currency risk, derivative contracts, structured products and commodity risk. Taking commodity risk is not allowed. The member credit institutions of the amalgamation do not engage in trading for own or customers' account, and the member credit institutions do not have a separate trading book.

The currency risk related to the Group's operations is low. Currency risk is not taken at all in lending; all loans are granted in euros. Currency risk may arise to a small extent mainly from mutual fund holdings in the investment portfolio and covering transactions related to the central credit institution's international payments. The use of derivatives is limited to hedging purposes only.

4.2.2 Interest rate risk in the banking book

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

Interest rate risk in the amalgamation and its member credit institutions is monitored using the net present value method and the net interest income model. The net present value method measures how changes in interest rates change the calculated market value of balance sheet items. In the net present value method, the market values of each balance sheet item are expected to be formed as the present value of the cash flows generated by the instrument in question. The net interest income model predicts the future net interest income as market interest rates change. The net interest income forecast is calculated at the reporting date using forward interest rates available in the market for the following five years. The amount of interest rate risk taken is assessed with the effect of diverse interest rate shocks on the net interest income and net present value. The effect of early loan prepayments and the behaviour of non-maturity deposits have been considered in the analysis.

The amalgamation's interest rate risk is managed by applying the risk limits issued by the central institution's Board of Directors for net interest income and changes in the present value of the balance sheet.

Primary tool to manage amalgamation interest rate risk is planning balances balance sheet structure such as assets and liabilities maturity and interest rate fixing structure. In addition, during 2022 interest rate risk was managed with interest rate derivatives and by adding fixed rate instrument to LCR liquidity portfolio.

THE INTEREST RATE SENSITIVITY ANALYSIS OF THE BANKING BOOK

Impact to interest margin (EUR 1,000)	Change	31 Dec 2022 1-12 mo.	31 Dec 2021 1-12 mo.
Interest rate risk	+1%-point	17,893	12,656
Interest rate risk	-1%-point	-17,770	-5,963

The interest rate risk calculations present interest rate sensitivity concerning the impact of a change of 1 per cent at the time of reporting on net interest income for the following financial year and.

4.2.3 Investment and liquidity portfolio

The investment and liquidity portfolio of the amalgamation consists of securities and other investments included in the liquidity reserves of the central and member credit institutions. Market risk emerges in these investment activities, consisting of counterparty, interest rate, currency and general market price risks.

Member credit institutions can invest their liquidity surplus after the internal target limit of the liquidity buffer has been reached. The member credit institutions' objective in investing in securities is to obtain a competitive return on investment in terms of yield/risk ratio on a long-term perspective.

Risks arising from the investment and liquidity portfolio are managed by limits defined for the amalgamation, which ensures the diversification of investments in terms of timing, asset category, risk type and counterparty. Investment risks are also monitored through sensitivity analysis. The purpose of the limitation is that the price volatility of investment portfolio will not threaten the capital adequacy or profitability of the member credit institution or the entire amalgamation.

Risk appetite in the investment portfolio is assessed in relation to the earnings and own funds of the amalgamation. The breakdown and sensitivity analysis of investment assets at Group level are described in Note 21 Investment Assets.

4.3 LIQUIDITY RISKS

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

4.3.1 Management of liquidity risk

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

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

The central credit institution reports on the liquidity situation to the Board of Directors of the central credit institution and is responsible for the planning of the liquidity position and funding of the amalgamation. The Board of Directors of the central credit institution is responsible for monitoring the implementation of the liquidity strategy at the central credit institution.

4.3.2 Short-term liquidity risk

The liquidity management of the amalgamation follows the principles set out in the liquidity strategy, which aims to limit risk through a diversified financial structure. The most important means of securing a good liquidity position are maintaining a sufficient and high-quality liquidity reserve and diversifying funding sources. Intra-day liquidity, liquidity reserve and liquidity coverage ratio are the key means to limit and measure the liquidity risk of the amalgamation. The internal limits and controls of the amalgamation limits the liquidity risk associated with the business activities of the amalgamation and the member credit institutions and ensure that the regulatory requirements related to liquidity risk are met.

The key ratios for measuring short-term liquidity risk are the liquidity coverage ratio (LCR), specified in the EU's Capital Requirements Regulation and The Net Stable Funding Ratio (NSFR). LCR measures short-term liquidity risk and is responsible for ensuring that the liquidity reserve, consisting of good quality assets under LCR regulation, is sufficient to cover outflow net cash flows in stress situations for 30 days. The NSFR measures the reconciliation of assets and liabilities on the balance sheet with maturity more than one year and is responsible for ensuring that long-term lending is adequately funded by long-term funding.

LCR AND NSFR RATIOS

(per cent)	31 Dec 2022	30 Jun 2022	31 Dec 2021
LCR	184.8	163.5	141.3
NSFR	133.5	131.3	130.1

The central institution of amalgamation applies a permission by the Finnish Financial Supervisory Authority to decide that the requirements laid down in the sixth part of the EU Capital Requirements Regulation and EU's statutory orders based on the Regulation are not applied to its member credit institutions. According to the permission, the regulatory requirements for liquidity risk (LCR and NSFR) are met at the amalgamation level only. The central credit institution is responsible for meeting the regulatory requirements.

The liquidity reserve of the amalgamation consists of high-quality assets in accordance with the EU Capital Requirements Regulation, which can meet the liquidity need in stress situations either by selling the securities or by pledging them as collateral for central bank funding. At the end of 2022, the non-pledged financial assets and cash included in the primary liquidity reserve were in total of EUR 779.7 (549.1) million.

LIQUIDITY RESERVE, MARKET VALUE

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Cash and deposits with central banks	448,499	279,882
Government bonds	92,819	29,084
Debt securities issued or guaranteed by municipalities or the public sector	92,964	103,754
Covered bonds	34,466	19,799
Debt securities issued by financial institutions or corporates	61,689	51,903
Other liquid assets*	49,288	64,736
Total	**779,725**	**549,159**

* Item includes deposit repayable on demand EUR 6,604 (23,828) thousand and minimum reserve deposit EUR 41,636 (39,415) thousand..

In addition to the liquidity reserve, the member credit institutions of the amalgamation have various investment securities as other instruments, such as funds and debt securities in the amount of EUR 101.1 (158.3) million. These investment assets are not included in the primary liquidity reserve due to their liquidity in stressed situations involves uncertainty.

The amalgamation's central credit institution supervises the intra-day liquidity coverage by monitoring the balances of the payment accounts of the member credit institutions. The member credit institutions follow continuously their intra-day liquidity position.

4.3.3 Structural funding risk

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

The table below shows the maturities of the amalgamation's liabilities. Current deposits are assumed to mature immediately.

MATURITY OF FINANCIAL LIABILITIES 31 DEC 2022

(EUR 1,000)	less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to central banks	-	50,000	78,400	-	128,400
Liabilities to credit institutions	3,303	9,000	22,435	-	34,739
Liabilities to customers	4,000,895	233,172	91,879	-	4,325,946
Lease liabilities	454	1,298	2,804	495	5,050
Debt securities issued	49,953	67,369	447,931	-	565,252
Total	**4,054,605**	**360,838**	**643,449**	**495**	**5,059,386**

MATURITY OF FINANCIAL LIABILITIES 31 DEC 2021

(EUR 1,000)	less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to central banks	-	50,000	78,400	-	128,400
Liabilities to credit institutions	1,483	8,000	28,603	-	38,085
Liabilities to customers	4,144,760	71,930	10,596	-	4,227,286
Lease liabilities	438	1,264	2,124	610	4,436
Debt securities issued	-	130,188	155,319	-	285,507
Total	**4,146,681**	**261,382**	**275,042**	**610**	**4,683,714**

4.4 REAL ESTATE RISK

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

Owner-occupied properties are recognized under property, plant and equipment and investment properties under investment assets on the balance sheet. Both properties used by member credit institutions of the amalgamation and investment properties are measured at acquisition cost less depreciation and impairment in the financial statements. The value of real estate assets is moderate compared to the balance sheet and own funds of the amalgamation. The balance sheet value of investment properties accounted for 0.5 (0.6) per cent of the balance sheet.

4.5 OPERATIONAL RISKS

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

The Board of Directors of the central institution approves the principles of operational risk management and the key guidelines concerning operational risk. The target level for risks are limited.

Certain operational risks are covered with insurance coverage. Risks caused by malfunctions of information systems are prepared for by continuity planning.

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

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

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

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

4.6 STRATEGIC RISK

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

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

5. INSURANCE RISKS

5.1 GENERAL PRINCIPLES OF RISK MANAGEMENT

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

The Board of Directors of Finnish P&C Insurance Ltd is responsible for the organisation of risk management. The Board of Directors annually approves a risk management plan that contains the main outlines on the company's risk management and a description of the company's risk profile. The Own Risk and Solvency Assessment (ORSA) is an essential part of risk management, and the company uses it to maintain a view of its capital needs in the long and medium term.

When organizing risk management, particular attention is paid to the company's strategic choices, objectives of insurance and investment activities and capital adequacy. The appropriate organization of risk management is supported e.g. by internal control as a whole, investment plan, continuity plan related to data security, the company's internal monitoring and reporting mechanisms and internal audit.

5.2 ORGANISATION, RESPONSIBILITY AND SUPERVISION OF RISK MANAGEMENT

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

5.3 RISK MANAGEMENT PROCESSES AND RISKS

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

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

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

5.4 RISK MANAGEMENT REPORTING

Risks are reported to the Board of Directors in accordance with the practices recorded in the risk management plan and strategy. An extensive survey of risks is reviewed annually by a meeting of the Board of Directors in connection with the review of the risk management plan. The Board of Directors approves the company's Own Risk and Solvency Assessment (ORSA). The Board of Directors regularly receives reports on the company's finances, business operations, solvency and investment activities.

5.5 INSURANCE RISKS

5.5.1 Specification of risks and risk management strategy

The policyholder transfers the insured risk to the insurer with the insurance contract. The claims incurred of Finnish P&C Insurance Ltd is composed of the number and extent of losses indemnified from the insured risks and their random variation. The claims incurred are further divided into losses arising from property risk and personnel risk. The most significant insurance risks are associated with the pricing of insurance policies, subscription of insurance policies (customer and risk selection) and sufficiency of the technical provisions.

In particular, the pricing risk of insurance policies is linked to the accurate basic pricing of motor vehicle insurance. The risk is prepared for by monitoring the profitability of operations, risk-based pricing and by enabling a technically and process-wise flexible pricing system. The functioning of customer and risk selection is continuously monitored, and changes are made to the guidelines as necessary. The risk level is kept moderate, and customer selection is also guided with targeted pricing changes. The sufficiency risk of technical provisions is particularly associated with the development of the loss ratio of motor vehicle insurance and personal injuries with significant costs indemnified based on traffic insurance. The bases of determination of the technical provisions is specified in the technical provision calculation bases. The technical provision calculation bases have been determined in a securing way. The calculation bases are assessed annually and amended, if necessary. In addition, the effect of individual losses has been restricted through excess-of-loss reinsurance contracts covering the company's vehicle, property and personal insurance product portfolios.

5.5.2 Risk management processes

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

5.5.3 Actuarial assumptions

The bases of calculation used by Finnish P&C Insurance Ltd. with justifications are reviewed annually and submitted to the Financial Supervisory Authority by the end of the financial year. Approval for the calculation principles of the equalisation provisions will be sought from the Financial Supervisory Authority.

The portion of premiums written for the post-balance sheet date for which future expenses are expected is recorded as a provision for unearned premiums. An additional premium is also added to the provision for unearned premiums.

Claims unsettled on the balance sheet date for losses already occurred and their settlement expenses – including claims incurred but not yet reported – are reserved in the provision for unpaid claims. An additional premium is also added to the provision for unpaid claims.

The provision for unearned premiums ceded to reinsurers is calculated similarly to the direct insurer's share. The reinsurer's portion of insurance contract liabilities does not include an additional premium.

5.5.4 Quantitative information about insurance risks

Technical provisions totalled EUR 57,011 (52,692) thousand at the end of the financial year.

PREMIUMS EARNED FOR THE FINANCIAL YEAR, CLAIMS INCURRED AND TECHNICAL PROVISIONS 31 DECEMBER 2022

(EUR 1,000)	Gross	Ceded to reinsurers	Retained
Premiums earned	49,536	1,755	47,781
Claims incurred	33,880	-1,227	35,106
Provision for unearned premiums	21,139	-	21,139
Provision for claims outstanding	45,623	9,750	35,872

PREMIUMS EARNED FOR THE FINANCIAL YEAR, CLAIMS INCURRED AND TECHNICAL PROVISIONS 31 DECEMBER 2021

(EUR 1,000)	Gross	Ceded to reinsurers	Retained
Premiums earned	47,614	1,856	45,758
Claims incurred	34,792	2,226	32,566
Provision for unearned premiums	20,205	-	20,205
Provision for claims outstanding	43,464	10,977	32,488

5.6 INVESTMENT RISKS

5.6.1 Specification of risks and risk management strategy

The purpose of the investment activities of Finnish P&C Insurance Ltd. is to secure the company's capital and to obtain a reasonable return on the defined investment horizon. The company's investment assets mainly consists of euro-denominated fixed income investments, but the company also has a moderate amount of equity risk, real estate risk and currency risk. The maturity of interest rate investments is a low 1.4 years, so when market interest rates rise, the interest rate risk of the balance sheet of the insurance operation must be paid more attention than before. The investment activities in the company are outsourced to asset managers.

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

5.6.2 Risk management processes

The Board of Directors of Finnish P&C Insurance Ltd. annually confirms the investment plan specifying the investment categories, return objectives, currency restrictions, liquidity objectives, maintenance of investment assets and authorities. Investment activities are the responsibility of the person responsible for investments within the organisation, who is a subordinate of the Managing Director. The management of the investment portfolio has been outsourced to an external treasurer. Investment decisions are made by the Board of Directors, Managing Director, manager responsible for investments and treasurer within their mandate. The mandate of the portfolio manager is specified in a written agreement. The portfolio manager regularly reports to the company.

5.6.3 Quantitative information about the risk structure of the investment portfolio

At the end of 2022, investment assets including cash at bank totalled EUR 78.4 (79.9) million at fair value. Only liquid euro-denominated direct and indirect interest rate instruments, indirect equity investments, indirect property and capital investments and deposits were used in the investments.

Fixed income investments were allocated to money market funds, bonds issued by credit institutions and companies and bank deposits. At the end of the year, the average maturity of fixed income investments was 1.4 (2.1) years.

The breakdown and sensitivity analysis of investment assets at group level is described in Note 21 Investment assets.

5.7 LIQUIDITY RISKS

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

5.8 OPERATIONAL RISKS

5.8.1 Specification of risks and risk management strategy

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

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

5.8.2 Risk management processes

Operational risks are surveyed as part of Finnish P&C Insurance Ltd.'s risk management process described above. The management of operational risks is supported through internal control and occupational health and safety measures. The reporting and monitoring models make it possible to observe an increase in the probability or effect of risks. Risks related to the company's IT systems and technical solutions have been prepared, for example, by documenting the IT practices and preparing a continuity plan. A 24-hour on call and alarm practice ensures swift reaction in emergencies.

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

IT security risks are an integral part of operational risks. Examples of possible IT risks include possible service attacks or other attempts to prevent or interfere with the company's online business.

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

5.9 KEY OTHER RISKS

Other risks herein refer to all identified risks that have not been specifically mentioned above. Other risks are included in the scope of the company's risk management process and other key risks include strategic risks. The other instance is that the business environment quickly changes in a way that the company has not prepared for in its strategy. A change in the business environment can also cause rising risks.

In 2022, a regulation regarding sustainability risks, consisting of physical risks and transition risks, entered into force. However, the effects of the aforementioned risks on the company's operations are estimated to be rather marginal in the short term.

Due to the receding coronavirus pandemic, the operating environment is returning to the level that prevailed before the pandemic in many respects, which was reflected in the increase in the number of claims. The increase in compensation cost-inflation and the geopolitical situation were reflected in the increase in the number of compensation of claims.

NOTE 5 POP BANK GROUP'S OPERATING SEGMENTS

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

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

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

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

POP BANK GROUP'S OPERATING SEGMENTS 2022

INCOME STATEMENT 1 JANUARY – 31 DEC 2022

(EUR 1,000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Interest income	93,328	849	**94,177**	-2	**94,175**
Net commissions and fees	42,120	-503	**41,618**	-1	**41,617**
Net investment income	-79	-1,858	**-1,936**	-523	**-2,460**
Insurance income	-	12,675	**12,675**	-	**12,675**
Other operating income	8,444	552	**8,996**	-1,737	**7,259**
Total operating income*	**143,814**	**11,715**	**155,529**	**-2,263**	**153,266**
Personnel expenses	-35,548	-7,607	**-43,156**	-8,023	**-51,178**
Other operating expenses	-70,049	-1,736	**-71,786**	11,789	**-59,997**
Depreciation and amortisation	-4,210	-2,141	**-6,351**	-1,633	**-7,984**
Total operating expenses	**-109,807**	**-11,485**	**-121,292**	**2,133**	**-119,159**
Impairment losses on financial assets	-7,738	22	**-7,716**	-	**-7,716**
Associate's share of profits	-	-	**-**	16	**16**
Profit before tax	**26,268**	**252**	**26,520**	**-113**	**26,408**
Income tax expense	-5,389	-	**-5,389**	105	**-5,283**
Profit for the financial year	**20,879**	**252**	**21,132**	**-8**	**21,124**
*External share of total operating income	143,814	11,715	**155,529**		
*Internal share of total operating income	1,977	-	**1,977**		

BALANCE SHEET 31 DEC 2022

(EUR 1,000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Assets					
Liquid assets	448,499	-	**448,499**	-	**448,499**
Loans and advances to credit institutions	59,789	5,207	**64,996**	-2,663	**62,333**
Loans and advances to customers	4,450,154	-	**4,450,154**	-1,675	**4,448,480**
Investment assets	762,286	72,100	**834,386**	-122,299	**712,087**
Investments in associates	-	-	**-**	230	**230**
Intangible assets	4,166	3,700	**7,866**	1,099	**8,965**
Property, plant and equipment	28,398	568	**28,966**	-1,698	**27,268**
Other assets	46,615	13,165	**59,780**	-320	**59,460**
Tax assets	6,841	1,300	**8,141**	1,744	**9,886**
Total assets	**5,806,748**	**96,040**	**5,902,788**	**-125,581**	**5,777,207**
Liabilities					
Liabilities to credit institutions	162,956	-	**162,956**	183	**163,139**
Liabilities to customers	4,334,257	-	**4,334,257**	-8,311	**4,325,946**
Non-life insurance liabilities	-	57,011	**57,011**	-	**57,011**
Debt securities issued to the public	565,252	-	**565,252**	-	**565,252**
Derivatives	12,495	-	**12,495**	-	**12,495**
Other liabilities	53,491	7,134	**60,625**	3,772	**64,397**
Tax liabilities	27,310	843	**28,153**	197	**28,350**
Total liabilities	**5,155,762**	**64,989**	**5,220,750**	**-4,160**	**5,216,590**

POP BANK GROUP'S OPERATING SEGMENTS 2021

INCOME STATEMENT 1 JANUARY – 31 DEC 2021

(EUR 1,000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Interest income	77,695	655	**78,350**	-13	**78,338**
Net commissions and fees	36,813	-396	**36,417**	-91	**36,326**
Net investment income	8,502	1,654	**10,156**	-128	**10,028**
Insurance income	-	13,192	**13,192**	-	**13,192**
Other operating income	38,716	523	**39,239**	-879	**38,360**
Total operating income*	**161,725**	**15,629**	**177,354**	**-1,111**	**176,243**
Personnel expenses	-34,796	-7,797	**-42,593**	-8,062	**-50,655**
Other operating expenses	-64,576	-687	**-65,263**	9,799	**-55,464**
Depreciation and amortisation	-11,568	-2,126	**-13,694**	-1,389	**-15,083**
Total operating expenses	**-110,940**	**-10,610**	**-121,551**	**348**	**-121,203**
Impairment losses on financial assets	-10,356	-34	**-10,390**	-	**-10,390**
Associate's share of profits	-	-	**-**	19	**19**
Profit before tax	**40,428**	**4,985**	**45,413**	**-743**	**44,670**
Income tax expense	-7,414	-	**-7,414**	-151	**-7,565**
Profit for the financial year	**33,015**	**4,985**	**37,999**	**-895**	**37,105**

*External share of total operating income	161,725	15,629	**177,354**
*Internal share of total operating income	1,174	-	**1,174**

BALANCE SHEET 31 DEC 2021

(EUR 1,000)	Banking	Insurance	Segments total	Unallocated items and eliminations	Group total
Assets					
Liquid assets	279,882	-	**279,882**	-	**279,882**
Loans and advances to credit institutions	67,993	8,243	**76,237**	-2,340	**73,897**
Loans and advances to customers	4,245,716	-	**4,245,716**	-1,887	**4,243,829**
Investment assets	725,603	71,656	**797,259**	-115,707	**681,552**
Investments in associates	-	-	**-**	214	**214**
Intangible assets	2,529	4,098	**6,627**	2,671	**9,298**
Property, plant and equipment	28,520	480	**29,000**	611	**29,611**
Other assets	21,478	12,378	**33,856**	157	**34,014**
Tax assets	3,389	374	**3,763**	1,638	**5,401**
Total assets	**5,375,111**	**97,229**	**5,472,340**	**-114,643**	**5,357,697**
	0				
Liabilities					
Liabilities to credit institutions	184,002	-	**184,002**	-17,518	**166,484**
Liabilities to customers	4,227,799	-	**4,227,799**	-5,435	**4,222,364**
Non-life insurance liabilities	-	52,692	**52,692**	-	**52,692**
Debt securities issued to the public	284,920	-	**284,920**	-	**284,920**
Other liabilities	38,592	7,637	**46,228**	3,831	**50,060**
Tax liabilities	27,542	509	**28,050**	317	**28,367**
Total liabilities	**4,762,855**	**60,838**	**4,823,693**	**-18,805**	**4,804,888**

NOTES TO INCOME STATEMENT

NOTE 6 NET INTEREST INCOME

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Interest income		
Loans and advances to credit institutions	1,963	0
Loans and advances to customers	94,133	77,053
Debt securities		
At amortised cost	1,020	779
At fair value through profit or loss	187	412
At fair value through other comprehensive income	3,640	3,097
Hedging derivatives	3,233	-
Other interest income	1,075	2,538
Total interest income	**105,250**	**83,879**
Of which positive interest expense	18	1,640
Interest expenses		
Liabilities to credit institutions	-596	-631
Liabilities to customers	-3,086	-3,072
Debt securities issued to the public	-4,754	-1,217
Hedging derivatives	-1,944	-
Other interest expenses	-694	-622
Total interest expenses	**-11,075**	**-5,541**
Of which negative interest income	-903	-1,129
Net interest income	**94,175**	**78,338**
Interest income from financial assets impaired due to credit risk (stage 3)	3,327	2,685

Income and expenses of financial assets and financial liabilities by measurement category are presented in Note 15.

NOTE 7 NET COMMISSIONS AND FEES

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Commissions and fees		
Lending	8,271	8,578
Deposits	283	206
Payment transfers	27,220	21,667
Legal services	2,480	2,317
Intermediated services	3,729	3,598
Issuing guarantees	571	534
Funds	3,524	3,509
Other commission income	1,011	1,153
Total commissions and fees	**47,088**	**41,564**
Commissions expenses		
Payment transfers	-4,791	-4,444
Other commission expenses	-681	-794
Total commission expenses	**-5,472**	**-5,238**
Net commissions and fees	**41,617**	**36,326**

Commissions and fees are mainly accrued from the banking segment.

NOTE 8 NET INVESTMENT INCOME

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
At fair value through profit or loss		
Debt securities		
Capital gains and losses	-184	-68
Fair value gains and losses	229	-916
Shares and participations		
Dividend income	3,881	3,569
Capital gains and losses	-59	-76
Fair value gains and losses	-6,429	9,218
Total	**-2,563**	**11,726**
At fair value through other comprehensive income		
Debt securities		
Capital gains and losses	209	-21
Transferred from fair value reserve to the income statement	-635	-10
Shares and participations		
Dividend income*	78	23
Total	**-348**	**-7**
Net income from foreign exchange trading	**159**	**370**
Net income from derivative contracts		
Change in hedging instruments' fair value	-12,495	-
Change in hedged items' fair value	12,625	-
Total	**129**	**-**

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Net income from investment property		
Rental income	2,587	2,747
Capital gains and losses	313	160
Other income from investment property	130	209
Maintenance charges and expenses	-2,045	-2,065
Depreciations and amortisation of investment property	-815	-3,103
Other expenses from investment property	-7	-9
Total	**163**	**-2,062**
Net income investments total	**-2,460**	**10,028**

*Dividend income from equity shares measured at fair value through other comprehensive income held in the end of the financial period is EUR 78 (23) thousand.

Net investment income includes net income from financial instruments except interest income from debt securities recognised in net interest income.

NOTE 9 NET INSURANCE INCOME

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Insurance premium revenue		
Premiums written	50,470	48,006
Ceded to reinsurers	-1,755	-1,856
Change in the provision for unearned premiums	-934	-392
Total	**47,781**	**45,758**
Claims incurred		
Claims paid	-31,722	-27,697
Ceded to reinsurers	-	3,517
Change in provision for unpaid claims	-2,158	-7,094
Ceded to reinsurers	-1,227	-1,291
Total	**-35,106**	**-32,566**
Net insurance Income	**12,675**	**13,192**

INSURANCE CATEGORY-SPECIFIC INFORMATION

(EUR 1,000)		Premiums written before share ceded to reinsurers	Insurance premium revenue before share ceded to reinsurers	Claims incurred before share ceded to reinsurers	Operating expenses before reinsurers' commissions and shares of profit	Ceded to reinsurers	Balance on technical account before change in equalisation provisions
Other accident and health	2022	1,990	1,849	-797	-417	-23	612
	2021	1,625	1,600	-836	-328	-21	415
	2020	1,671	1,717	-883	-366	-19	449
Motor vehicle	2022	22,214	21,631	-15,575	-4,883	-2,883	-1,710
	2021	22,020	21,230	-18,425	-4,347	457	-1,086
	2020	21,865	21,210	-21,012	-4,526	3,817	-510
Land vehicles	2022	17,413	17,377	-12,911	-3,923	-51	492
	2021	16,660	16,680	-11,513	-3,415	-44	1,708
	2020	15,610	14,752	-11,231	-3,148	-30	344
Vessels, aircraft,	2022	712	703	-509	-159	-2	33
	2021	608	617	-404	-126	-2	85
	2020	602	583	-429	-124	-1	28
Fire and other property loss	2022	6,017	5,975	-3,212	-1,349	-17	1,397
	2021	5,357	5,826	-2,880	-1,193	-16	1,738
	2020	4,914	4,865	-2,236	-1,038	-10	1,581
Third party	2022	570	560	-83	-127	-2	349
	2021	460	448	-96	-92	-1	259
	2020	371	345	-89	-74	-1	182
Credit and guarantee	2022	3	0	0	0	0	0
	2021	0	0	0	0	0	0
	2020	0	0	0	0	0	0
Legal expenses	2022	1,343	1,237	-533	-279	-4	422
	2021	1,122	1,070	-572	-219	-3	276
	2020	849	648	-427	-138	-1	81
Other	2022	210	203	-259	-46	-1	-103
	2021	154	142	-64	-29	0	48
	2020	166	173	-131	-37	0	4
DIRECT INSURANCE TOTAL	**2022**	**50,470**	**49,536**	**-33,880**	**-11,183**	**-2,982**	**1,491**
	2021	**48,006**	**47,614**	**-34,792**	**-9,749**	**370**	**3,443**
	2020	**46,046**	**44,294**	**-36,438**	**-9,452**	**3,755**	**2,159**

(EUR 1,000)		Premiums written before share ceded to reinsurers	Insurance premium revenue before share ceded to reinsurers	Claims incurred before share ceded to reinsurers	Operating expenses before reinsurers' commissions and shares of profit	Ceded to reinsurers	Balance on technical account before change in equalisation provisions
Reinsurers	2022	0	0	0	0	0	0
	2021	0	0	0	0	0	0
	2020	0	0	0	0	0	0
TOTAL	**2022**	**50,470**	**49,536**	**-33,880**	**-11,183**	**-2,982**	**1,491**
	2021	**48,006**	**47,614**	**-34,792**	**-9,749**	**370**	**3,443**
	2020	**46,046**	**44,294**	**-36,438**	**-9,452**	**3,755**	**2,159**
Total	2022						0
	2021						0
	2020						0
Change in equalization	2022						-1
	2021						1
	2020						0
BALANCE ON TECHNICAL ACCOUNT	**2022**						**1,491**
	2021						**3,444**
	2020						**2,159**

The Insurance category-specific information are reported by Finnish accounting standards and cannot be reconciled with the IFRS figures for insurance operations.

NOTE 10 OTHER OPERATING INCOME

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Rental income from owner-occupied properties	121	532
Capital gains on owner-occupied properties	49	96
Recognition of Deposit Guarantee Fund contribution and previously paid bank tax	4,716	4,541
Other income	2,373	33,191
Total other operating income	**7,259**	**38,360**

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

Other income at the comparison period includes non-recurring items of EUR 31,671 thousand related to the termination of the agreement.

NOTE 11 PERSONNEL EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Wages and salaries	-43,019	-41,827
Indirect personnel expenses	-1,198	-1,267
Pension expenses	-6,961	-7,561
Total personnel expenses	**-51,178**	**-50,655**

Remuneration to key management personnel is presented in Note 38. Other information about remuneration is presented in Note 3 Governance and management.

NOTE 12 OTHER OPERATING EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Other operating expenses		
Other personnel expenses	-3,034	-3,003
Office expenses	-1,683	-1,594
Purchased services	-7,807	-6,247
ICT expenses	-27,213	-24,192
Telecommunications	-3,497	-3,301
Entertainment and marketing expenses	-4,591	-4,379
Rental expenses	-1,364	-1,272
Expenses arising from owner-occupied properties	-3,500	-3,450
Insurance and security expenses	-5,868	-5,403
Government charges and member fees	-484	-597
Audit fees	-455	-496
Other operating expenses	-501	-1,528
Total other operating expenses	**-59,997**	**-55,464**
Audit fees		
Audit services	-388	-381
Audit-related services according to Auditing Act 1.1,2 §	-10	-23
Tax advisory	-3	-1
Other services	-54	-91
Total audit fees	**-455**	**-496**

Rental expenses include the expenses of short-term and low-value leases.

Insurance and security expenses include EUR 3,921 (3,646) thousands of contribution collected by the Financial Stability Board for the deposit guarantee fund, which is fully covered by payments accounted for from the old Deposit Guarantee Fund, and a stability contribution of EUR 1,059 (895) thousand, of which EUR 795 (891) thousand is covered by previously paid bank tax. Contributions from the old Deposit Guarantee Fund and previously paid bank tax recognised as income are presented in other operating income.

Other than audit services from KPMG Oy Ab to companies in POP Bank Group totalled to EUR 51,6 (101) thousand during the financial year 2022.

NOTE 13 DEPRECIATION, AMORTISATION AND IMPAIRMENT

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Depreciation and amortisation		
Buildings	-3,460	-3,441
Machinery and equipment	-726	-850
Intangible assets	-3,818	-3,876
Other	-7	-6
Total	**-8,011**	**-8,173**
Impairment		
Buildings	-	-1,234
Intangible assets	27	-5,675
Total	**27**	**-6,909**
Total depreciation, amortisation and impairment	**-7,984**	**-15,083**

More detailed information about right-off-use assets is provided in Note 36.

NOTE 14 INCOME TAX

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Current tax	-3,910	-6,499
Tax for prior financial years	22	-82
Other direct taxes	-25	-4
Change in deferred taxes	-1,370	-981
Total income tax expense	**-5,283**	**-7,565**

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

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Profit before tax	26,408	44,670
Income tax rate	20 %	20 %
Tax calculated at the tax rate	-5,282	-8,934
+ Tax-exempt income	146	14
- Non-deductible expenses	-43	-170
+ Deductible expenses not included in the profit	90	745
+ Use of tax losses carried forward from previous years	0	1,053
- Deferred tax assets not recognised on losses	-217	-189
+/- Difference due to the differing tax rate of foreign companies	0	-4
+/- Tax for prior financial years	22	-82
Tax expense in the income statement	**-5,283**	**-7,565**

NOTE 15 NET INCOME AND EXPENSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

FINANCIAL ASSETS

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
At fair value through profit or loss		
Interest income and expenses	187	412
Fair value gains and losses	-6,201	8,302
Dividend income	3,881	3,569
Capital gains and losses	-243	-144
Total	**-2,376**	**12,138**
At fair value through other comprehensive income		
Interest income and expenses	3,640	3,097
Transferred from fair value reserve to the income statement	-635	-10
Dividend income	78	23
Capital gains and losses	209	-21
Expected credit loss	730	1,755
Total	**4,022**	**4,844**
At amortised cost		
Interest income and expenses	97,116	77,833
Other income	8,554	8,784
Expected credit loss	-5,195	-4,104
Final credit losses	-3,222	-8,044
Total	**97,253**	**74,468**

FINANCIAL LIABILITIES

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
At amortised cost		
Interest income and expenses	-8,437	-4,919
At fair value through profit or loss		
Hedging derivatives		
Fair value gains and losses	129	-
Interest income and expenses	1,288	-
Total	**-7,019**	**-4,919**
Net income from foreign exchange operation	**159**	**370**
Total	**92,039**	**86,902**

NOTES TO ASSETS

NOTE 16 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

FINANCIAL ASSETS 31 DECEMBER 2022

(EUR 1,000)	At amortised cost	At fair value through profit or loss	At fair value through other comprehensive income	Expected credit loss	Total carrying amount
Liquid assets	448,499	-	-	-	448,499
Loans and advances to credit institutions	62,334	-	-	-1	62,333
Loans and advances to customers	4,489,992	-	-	-41,512	4,448,480
Debt securities*	207,677	10,077	302,060	-67	519,746
Shares and participations	-	166,411	1,347	-	167,758
Financial assets total	**5,208,501**	**176,488**	**303,407**	**-41,580**	**5,646,816**
Other assets					130,391
Total assets 31 Dec 2022					**5,777,207**

*Expected credit loss of EUR 655 thousand from debt securities have been recorded in the fair value reserve.

FINANCIAL ASSETS 31 DECEMBER 2021

(EUR 1,000)	At amortised cost	At fair value through profit or loss	At fair value through other comprehensive income	Expected credit loss	Total carrying amount
Liquid assets	279,882	-	-	-	279,882
Loans and advances to credit institutions	73,897	-	-	-1	73,897
Loans and advances to customers	4,280,352	-	-	-36,523	4,243,829
Debt securities*	105,000	9,290	340,590	-38	454,842
Shares and participations	-	197,000	3,724	-	200,724
Financial assets total	**4,739,132**	**206,290**	**344,314**	**-36,561**	**5,253,174**
Other assets					104,523
Total assets 31 Dec 2021					**5,357,697**

*Expected credit loss of EUR 1,385 thousand from debt securities have been recorded in the fair value reserve.

FINANCIAL LIABILITIES 31 DECEMBER 2022

(EUR 1,000)	At fair value through profit or loss	At amortised cost	Total carrying amount
Liabilities to credit institutions	-	163,139	**163,139**
Liabilities to customers	-	4,325,946	**4,325,946**
Debt securities issued to the public	-	565,252	**565,252**
Derivatives	12,495	-	**12,495**
Financial liabilities total	**12,495**	**5,054,337**	**5,066,832**
Other than financial liabilities			**149,758**
Total liabilities 1 Dec 2022			**5,216,590**

FINANCIAL LIABILITIES 31 DECEMBER 2021

(EUR 1,000)	At amortised cost	Total carrying amount
Liabilities to credit institutions	166,484	**166,484**
Liabilities to customers	4,222,364	**4,222,364**
Debt securities issued to the public	284,920	**284,920**
Financial liabilities total	**4,673,768**	**4,673,768**
Other than financial liabilities		**131,119**
Total liabilities 31 Dec 2021		**4,804,888**

Financial assets are presented in detail in Note 20 and 21. Financial liabilities are presented in detail in Note 27, 28 and 30.

NOTE 17 CLASSIFICATION OF FINANCIAL ASSETS, FINANCIAL LIABILITIES AND INVESTMENT PROPERTIES FAIR VALUES BY VALUATION TECHNIQUE

FAIR VALUE HIERARCHY LEVELS OF ITEMS RECURRENTLY RECOGNISED AT FAIR VALUE

ASSETS RECURRENTLY MEASURED AT FAIR VALUE 31 DECEMBER 2022

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value
At fair value through profit or loss				
Shares and participations	154,769	-	11,642	166,411
Debt securities	5,356	-	4,721	10,077
At fair value through other comprehensive income				
Shares and participations	-	-	1,347	1,347
Debt securities	256,933	44,638	489	302,060
Total	**417,058**	**44,638**	**18,199**	**479,895**

LIABILITIES RECURRENTLY MEASURED AT FAIR VALUE 31 DECEMBER 2022

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

ASSETS RECURRENTLY MEASURED AT FAIR VALUE 31 DECEMBER 2021

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value
At fair value through profit or loss				
Shares and participations	187,498	-	9,502	197,000
Debt securities	3,024	-	6,266	9,290
At fair value through other comprehensive income				
Shares and participations	-	-	3,724	3,724
Debt securities	242,288	98,206	95	340,590
Total	**432,810**	**98,206**	**19,587**	**550,604**

FAIR VALUE HIERARCHY LEVELS OF ITEMS RECOGNIZED AT AMORTISED COST

ASSETS MEASURED AT AMORTISED COST 31 DECEMBER 2022

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Loans and advances to credit institutions	-	62,333	-	62,333	62,333
Loans and advances to customers	-	4,410,256	-	4,410,256	4,448,480
Debt securities	204,124	-	-	204,124	207,610
Investment property	-	-	39,090	39,090	24,582
Total	**204,124**	**4,472,589**	**39,090**	**4,715,803**	**4,743,005**

LIABILITIES MEASURED AT AMORTISED COST 31 DECEMBER 2022

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Liabilities to credit institutions	-	163,114	-	163,114	163,139
Liabilities to customers	-	4,324,240	-	4,324,240	4,325,946
Debt securities issued to the public	-	559,359	-	559,359	565,252
Total	**-**	**5,046,713**	**-**	**5,046,713**	**5,054,337**

ASSETS MEASURED AT AMORTISED COST 31 DECEMBER 2021

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Loans and advances to credit institutions	-	74,080	-	74,080	73,897
Loans and advances to customers	-	4,314,310	-	4,314,310	4,243,829
Debt securities	-	108,056	-	108,056	104,962
Investment property	-	-	40,653	40,653	25,986
Total	**-**	**4,496,446**	**40,653**	**4,537,099**	**4,448,674**

LIABILITIES MEASURED AT AMORTISED COST 31 DECEMBER 2021

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Liabilities to credit institutions	-	165,926	-	165,926	166,484
Liabilities to customers	-	4,220,011	-	4,220,011	4,222,364
Debt securities issued to the public	-	289,850	-	289,850	284,920
Total	**-**	**4,675,788**	**-**	**4,675,788**	**4,673,768**

FAIR VALUE DETERMINATION

Financial assets are recorded in the balance sheet either at fair value or at amortised cost. The classification and measurement of financial instruments is described in more detail in Note 2 POP Bank Group's accounting policies in Financial statements. Investment properties are recorded in the balance sheet at the acquisition cost less depreciation and impairment losses.

Fair value hierarchies

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

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

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

TRANSFERS BETWEEN FAIR VALUE HIERARCHIES

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

During the reporting period, securities of EUR 1,826 (672) thousand have been transferred from hierarchy level 1 and 2 to hierarchy level 3 due to small trading volumes in the markets.

In addition, debt securities issued to the public have been transferred from hierarchy level 3 to hierarchy level 1 based on the volume of trades during the reporting period.

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

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

(EUR 1,000)	At fair value through profit or loss	At fair value through other comprehensive income	Total
Carrying amount 1 Jan 2021	**16,264**	**3,370**	**19,633**
+ Purchases	2,266	169	**2,435**
- Sales	-258	-247	**-504**
- Matured during the financial year	-1,424	-376	**-1,800**
+/- Realised changes in value recognised in income statement	-182	26	**-156**
+/- Unrealised changes in value recognised in the income statement	-637	-	**-637**
+/- Changes in value recognised in other comprehensive income	-	205	**205**
+ Transfers from levels 1 and 2	-	672	**672**
- Transfers to levels 1 and 2	-261	-	**-261**
Carrying amount 31 Dec 2021	**15,768**	**3,819**	**19,587**

SENSITIVITY ANALYSIS OF FINANCIAL ASSETS AT LEVEL 3

31 DECEMBER 2022

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

31 DECEMBER 2021

		Possible effect on equity capital	
(EUR 1,000)	**Carrying amount**	**Positive**	**Negative**
At fair value through profit or loss	15,768	1,488	-1,488
At fair value through other comprehensive income	3,819	560	-560
Total	**19,587**	**2,048**	**-2,048**

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 IMPAIRMENT LOSSES ON FINANCIAL ASSETS

IMPAIRMENT LOSSES RECORDED DURING THE REPORTING PERIOD

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Change of ECL due to write-offs	2,089	4,303
Change of ECL, receivables from customers and off-balance sheet items	-7,285	-8,407
Change of ECL, debt securities	701	1,758
Final credit losses	-3,222	-8,044
Impairment losses on financial assets total	**-7,716**	**-10,390**

During the financial year, EUR 3,222 (8,044) thousand was recognized as final credit losses. Recollection measures are attributed to EUR 2,668 (3,012) thousand. Due to the change in the process of recognizing final credit losses for unsecured consumer loans, the recognized final credit losses have decreased remarkably.

Changes in expected credit loss (ECL) during the financial period are presented in the tables below. Stage 1 represents financial instruments whose credit risk has not increased significantly since the initial recognition. Expected credit losses are determined for such financial instruments based on expected loan losses for 12 months. Stage 2 represents financial instruments whose credit risk has increased significantly after the initial recognition on the basis of qualitative or quantitative criteria and, for stage 3, financial instruments whose counterparty has been declared as default. Expected credit losses are determined for financial instruments classified in Stage 2 and 3 based on the expected credit losses over the entire life of the instrument.

The principles for calculating expected credit losses and determining the probability of default are presented in section 6.5 Impairment of financial assets of Note 2 POP Bank Group's accounting policies.

RECEIVABLES FROM CUSTOMERS

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

The largest change in expected credit losses on receivables from customers comes from transfers to stage 3 that totalled EUR 5,500 (6,997) thousand. Decreases due to derecognition were EUR 6,527 (6,606) thousand. A management judgement based provision of EUR 3,000 thousand has been made in the comparison period to the receivables from customers in order to prepare for possible impact of a cost inflation for Corporate and Agricultural customers. Of the provision, EUR 500 thousand are allocated to stage 2 and EUR 2,500 thousand to stage 3.

More detailed information of forbearance measures is provided in Note 4.

DEBT SECURITIES

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2022	**160**	**870**	**393**	**1,423**
Transfers to stage 1	87	-178	-	-91
Transfers to stage 2	-10	98	-	88
Increases due to origination	61	124	-	186
Decreases due to derecognition	-38	-209	-393	-640
Changes due to change in credit risk (net)	-14	-229	-	-243
Total	**86**	**-394**	**-393**	**-701**
ECL 31 Dec 2022	**246**	**476**	**-**	**722**

OFF-BALANCE SHEET COMMITMENTS

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

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2022	**5,772**	**4,874**	**27,971**	**38,617**
ECL 31 Dec 2022	**5,894**	**5,502**	**31,717**	**43,113**

RECEIVABLES FROM CUSTOMERS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2021	**5,359**	**3,539**	**23,405**	**32,303**
Transfers to stage 1	162	-1,392	-2,888	**-4,119**
Transfers to stage 2	-264	1,513	-3,128	**-1,879**
Transfers to stage 3	-158	-357	7,512	**6,997**
Increases due to origination	2,509	954	1,541	**5,003**
Decreases due to derecognition	-1,138	-546	-4,921	**-6,606**
Changes due to change in credit risk (net)	-1,271	-250	7,647	**6,127**
Changes due to management estimates	-	500	2,500	**3,000**
Decreases due to write-offs	-	-	-4,303	**-4,303**
Total	**-161**	**421**	**3,959**	**4,219**
ECL 31 Dec 2021	**5,199**	**3,960**	**27,363**	**36,523**

DEBT SECURITIES

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2021	**169**	**939**	**2,073**	**3,181**
Transfers to stage 1	5	-206	-	**-201**
Transfers to stage 2	-1	1,456	-1,680	**-225**
Increases due to origination	37	271	-	**308**
Decreases due to derecognition	-32	-305	-	**-337**
Changes due to change in credit risk (net)	147	0	-	**146**
Changes due to management estimates	-165	-1,284	-	**-1,449**
Total	**-9**	**-69**	**-1,680**	**-1,758**
ECL 31 Dec 2021	**160**	**870**	**393**	**1,423**

OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2021	**331**	**138**	**319**	**788**
Transfers to stage 1	7	-104	-49	**-146**
Transfers to stage 2	-5	6	-3	**-1**
Transfers to stage 3	-2	-2	31	**28**
Increases due to origination	263	22	14	**300**
Decreases due to derecognition	-35	-11	-61	**-108**
Changes due to change in credit risk (net)	-145	-7	-37	**-189**
Total	**83**	**-95**	**-104**	**-117**
ECL 31 Dec 2021	**414**	**43**	**215**	**672**

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2021	**5,859**	**4,617**	**25,797**	**36,272**
ECL 31 Dec 2021	**5,772**	**4,874**	**27,971**	**38,617**

BALANCE SHEET ITEM BY STAGE 31 DEC 2022

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
Private	2,686,967	130,836	43,677	**2,861,480**
Corporate	922,536	72,037	36,580	**1,031,152**
Agriculture	509,491	55,918	31,951	**597,359**
Receivables from customers total	**4,118,994**	**258,791**	**112,207**	**4,489,992**
ECL 31 Dec 2022	5,258	4,783	31,473	41,513
Coverage ratio %	0.13 %	1.85 %	28.05 %	0.92 %
Off-balance sheet commitments				
Private	222,252	4,438	530	**227,220**
Corporate	86,622	7,573	571	**94,767**
Agriculture	22,070	2,422	321	**24,813**
Off-balance sheet commitments total	**330,944**	**14,434**	**1,422**	**346,800**
ECL 31 Dec 2022	390	243	245	878
Coverage ratio %	0.12 %	1.68 %	17.21 %	0.25 %
Debt securities				
Banking segment	439,564	23,460	-	**463,024**
Insurance segment	32,710	14,002	-	**46,712**
Debt securities total	**472,274**	**37,463**	**-**	**509,736**
ECL 31 Dec 2022	246	476	-	722
Coverage ratio %	0.05 %	1.27 %	-	0.14 %
Credit risk by stages total	**4,922,212**	**310,687**	**113,629**	**5,346,528**

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

BALANCE SHEET ITEM BY STAGE 31 DEC 2021

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
Private	2,633,042	124,010	35,143	**2,792,195**
Corporate	783,410	61,363	32,530	**877,303**
Agriculture	523,383	57,919	29,552	**610,854**
Receivables from customers total	**3,939,835**	**243,292**	**97,224**	**4,280,352**
ECL 31 Dec 2021	5,199	3,960	27,363	36,523
Coverage ratio %	0.13 %	1.63 %	28.14 %	0.85 %
Off-balance sheet commitments				
Private	226,773	3,759	441	**230,973**
Corporate	98,302	2,880	578	**101,760**
Agriculture	20,850	2,250	154	**23,254**
Off-balance sheet commitments total	**345,925**	**8,890**	**1,173**	**355,987**
ECL 31 Dec 2021	414	43	215	672
Coverage ratio %	0.12 %	0.48 %	18.29 %	0.19 %
Debt securities				
Banking segment	370,628	23,452	-	**394,081**
Insurance segment	36,915	14,594	-	**51,509**
Debt securities total	**407,544**	**38,046**	**-**	**445,590**
ECL 31 Dec 2021	160	870	393	1,423
Coverage ratio %	0.04 %	2.29 %	-	0.32 %
Credit risk by stages total	**4,693,304**	**290,228**	**98,397**	**5,081,929**

NOTE 19 LIQUID ASSETS

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Cash	11,587	11,011
Receivables from central banks repayable on demand	436,911	268,871
Total cash and cash equivalents	**448,499**	**279,882**

Receivables repayable on demand include cheque account with the Bank of Finland.

NOTE 20 LOANS AND RECEIVABLES

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Loans and receivables from credit institutions		
Deposits		
Repayable on demand	15,548	34,482
Other	46,786	39,415
Total loans and advances to credit institutions	**62,333**	**73,897**
Loans and advances to customers		
Loans	4,353,592	4,156,555
Loans granted from government funds	1,147	1,883
Guarantees	391	189
Used overdrafts	41,949	40,395
Credit card receivables	51,400	44,807
Total loans and advances to customers	**4,448,480**	**4,243,829**
Total loans and receivables	**4,510,813**	**4,317,726**

NOTE 21 INVESTMENT ASSETS

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Measured at amortised cost		
Debt securities	207,610	104,962
At fair value through profit or loss		
Debt securities	6,085	9,290
Shares and participations	170,403	197,000
At fair value through other comprehensive income		
Debt securities	302,060	340,590
Shares and participations	1,347	3,724
Investment properties	24,582	25,986
Investment assets total	**712,087**	**681,552**

INVESTMENTS ON 31 DECEMBER 2022

	Measured at amortised cost	At fair value through profit or loss		At fair value through other comprehensive income		
(EUR 1,000)	**Debt securities**	**Debt securities**	**Shares and participations**	**Debt securities**	**Shares and participations**	**Total**
Quoted						
Public sector entities	207,610	-	-	50,738	-	**258,347**
Other	-	5,226	151,368	203,827	-	**360,421**
Other						
Public sector entities	-	-	-	43,642	-	**43,642**
Other	-	4,851	15,044	3,852	1,347	**25,094**
Investments total	**207,610**	**10,077**	**166,411**	**302,060**	**1,347**	**687,505**

INVESTMENTS ON 31 DECEMBER 2021

	Measured at amortised cost	At fair value through profit or loss		At fair value through other comprehensive income		
(EUR 1,000)	**Debt securities**	**Debt securities**	**Shares and participations**	**Debt securities**	**Shares and participations**	**Total**
Quoted						
Public sector entities	104,962	-	-	66,408	-	**171,370**
Other	-	3,258	184,753	173,175	-	**361,186**
Other						
Public sector entities	-	-	-	93,206	-	**93,206**
Other	-	6,032	12,247	7,801	3,724	**29,804**
Investments total	**104,962**	**9,290**	**197,000**	**340,590**	**3,724**	**655,566**

The most important risks with regard to investments are interest rate and credit spread risk and the liquidity premium. Below is a summary of the investments at fair value in different market risk scenarios. The shocks used are based on possible changes in the securities under stressed conditions and reflect the resulting effect on the profit or the comprehensive income statement.

SENSITIVITY ANALYSIS

		31 Dec 2022		31 Dec 2021	
(EUR 1,000)	**Stress**	**Effect on profit**	**Effect on comprehensive income**	**Effect on profit**	**Effect on comprehensive income**
Change in Risk-free Interest Rate	+100 bp	-1,838	-6,183	-5,119	-5,135
Change in Credit Spreads	+50 bp	-1,000	-3,274	-2,688	-2,696
Change in Listed and Unlisted Equities	-10 %	-2,019	-	-2,256	-296
Foreign Exchange risk	-10 %	-1,211	-68	-1,735	-334

CHANGES IN INVESTMENT PROPERTY

(EUR 1,000)	**31 Dec 2022**	**31 Dec 2021**
Acquisition cost 1 January	**45,553**	**45,852**
+ Increases	1,620	1,186
- Decreases	-4,990	-4,794
+/- Transfers	-	3,308
Acquisition cost 31 December	**42,182**	**45,553**
Accumulated depreciation and impairment 1 January	**-19,567**	**-15,160**
+/- Accumulated depreciation on decreases and transfers	2,782	-1,304
- Depreciation	-868	-1,062
- Impairment losses	53	-2,040
Accumulated depreciation and impairment 31 December	**-17,600**	**-19,567**
Carrying amount 1 January	**25,986**	**30,692**
Carrying amount 31 December	**24,582**	**25,986**

NOTE 22 INVESTMENTS IN ASSOCIATES

Name	**Industry**	**Holding % 31 Dec 2022**	**Holding % 31 Dec 2021**
Figure Financial Management Ltd	Services	25 %	25 %

(EUR 1,000)	**31 Dec 2022**	**31 Dec 2021**
Acquisition cost 1 Jan	214	195
Share of profit for the financial period	16	19
Acquisition cost	**230**	**214**

Figure Financial Management Ltd provides accounting services to companies operating in the financial sector.

NOTE 23 INTANGIBLE ASSETS

The most significant intangible assets are the information systems of non-life insurance and banking, over which POP Bank Group has the control as referred to in IAS 38 Intangible assets.

CHANGES IN INTANGIBLE ASSETS 2022

(EUR 1,000)	IT systems	Incomplete intangible assets	Total
Acquisition cost 1 January	**35,075**	**7,852**	**42,927**
+ Increases	1,921	1,773	**3,694**
- Decreases	-5,231	-185	**-5,416**
+/- Transfers	1,397	-1,397	**-**
Acquisition cost 31 December	**33,162**	**8,043**	**41,204**
Accumulated depreciation and impairment 1 January	**-28,003**	**-5,675**	**-33,679**
- Depreciation	-3,818	-	**-3,818**
-/+ Accumulated depreciation on decreases and transfers			
- Impairment losses	27	-	**27**
Accumulated depreciation and impairment 31 December	**-26,563**	**-5,675**	**-32,239**
Carrying amount 1 January	**7,072**	**2,177**	**9,248**
Carrying amount 31 December	**6,599**	**2,368**	**8,965**

CHANGES IN INTANGIBLE ASSETS 2021

IT systems	Tieto-järjestelmät	Incomplete intangible assets	Total
Acquisition cost 1 January	**33,724**	**5,600**	**39,324**
+ Increases	1,011	2,916	**3,927**
- Decreases	-	-273	**-273**
+/- Transfers	340	-391	**-51**
Acquisition cost 31 December	**35,075**	**7,852**	**42,927**
Accumulated depreciation and impairment 1 January	**-24,127**	**-**	**-24,128**
- Depreciation	-3,876	-	**-3,876**
Impairment losses	-	-5,675	**-5,675**
Accumulated depreciation and impairment 31 December	**-28,003**	**-5,675**	**-33,679**
Carrying amount 1 January	**9,597**	**5,600**	**15,196**
Carrying amount 31 December	**7,072**	**2,177**	**9,248**

NOTE 24 PROPERTY, PLANT AND EQUIPMENT

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Owner-occupied properties		
Land and water	1,633	2,426
Buildings	23,121	24,799
Machinery and equipment	1,817	1,686
Other tangible assets	696	700
Total property, plant and equipment total	**27,268**	**29,611**

CHANGES IN PROPERTY, PLANT AND EQUIPMENT 2022

(EUR 1,000)	Owner-occupied properties	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost 1 January	**59,600**	**9,684**	**890**	**-**	**70,173**
+ Increases	4,421	901	35	-	**5,357**
- Decreases	-5,509	-1,164	-76	-	**-6,749**
Acquisition cost 31 December	**58,512**	**9,421**	**849**	**-**	**68,782**
Accumulated depreciation and impairment 1 January	**-32,375**	**-7,998**	**-190**	**-**	**-40,563**
+/- Accumulated depreciation on decreases and transfers	2,078	1,120	44	-	**3,242**
- Depreciation	-3,461	-726	-6	-	**-4,193**
Accumulated depreciation and impairment 31 December	**-33,758**	**-7,604**	**-152**	**-**	**-41,514**
Carrying amount 1 January	**27,225**	**1,686**	**700**	**-**	**29,610**
Carrying amount 31 December	**24,754**	**1,817**	**696**	**-**	**27,268**

The fixed assets include owner-occupied properties and machinery and equipment. More detailed information on fixed asset items is presented in Note 34.

CHANGES IN PROPERTY, PLANT AND EQUIPMENT 2021

(EUR 1,000)	Owner-occupied properties	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost 1 January	**58,777**	**15,470**	**939**	**9**	**75,195**
+ Increases	2,464	371	-	-	**2,836**
- Decreases	-1,392	-762	-49	-9	**-2,213**
+/- Transfers	-249	-5,396	-	-	**-5,645**
Acquisition cost 31 December	**59,600**	**9,684**	**890**	**-**	**70,173**
Accumulated depreciation and impairment 1 January	**-29,246**	**-13,626**	**-186**	**-**	**-43,057**
+/- Accumulated depreciation on decreases and transfers	1,546	6,479	1	-	**8,025**
- Depreciation	-3,440	-851	-6	-	**-4,296**
- Impairment losses	-1,234	-	-	-	**-1,234**
Accumulated depreciation and impairment 31 December	**-32,375**	**-7,998**	**-190**	**-**	**-40,563**
Carrying amount 1 January	**29,530**	**1,845**	**754**	**9**	**32,138**
Carrying amount 31 December	**27,225**	**1,686**	**700**	**-**	**29,610**

NOTE 25 OTHER ASSETS

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Payment transfer receivables	160	115
Accrued income and prepaid expenses		
Interest	20,754	11,178
Other	4,331	3,686
Insurance operations	12,264	11,584
Advanced paid to SaaS services	7,109	4,516
Other assets total	14,842	2,935
Other assets total	**59,460**	**34,014**

NOTE 26 DEFERRED TAXES

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Tax assets		
Deferred tax assets	8,342	5,085
Income tax receivables	1,544	316
Total tax assets	**9,886**	**5,401**
Tax liabilities		
Deferred tax liabilities	27,047	25,986
Income tax liability	1,303	2,381
Total tax liabilities	**28,350**	**28,367**

DEFERRED TAX ASSETS

(EUR 1,000)	31 Dec 2021	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2022
At fair value	**352**	-2	3,022	**3,372**
Real estate depreciation adjustments	**1,609**	117	-	**1,727**
Defined benefit pension plans	**536**	-136	-114	**286**
Consolidation and others	**2,587**	368	1,943	**2,957**
Total deferred tax assets	**5,085**	**348**	**2,909**	**8,342**

(EUR 1,000)	31 Dec 2020	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2021
At fair value	**733**	-	-381	**352**
Real estate depreciation adjustments	**1,427**	182	-	**1,609**
Defined benefit pension plans	**475**	-27	88	**536**
Consolidation and others	**681**	1,906	0	**2,587**
Total deferred tax assets	**3,317**	**2,062**	**-293**	**5,085**

The companies belonging to the POP Bank Group have EUR 26,461 (19,994) thousands of losses for which no deferred tax assets have been recognised. The losses will expire in 2023–2032.

DEFERRED TAX LIABILITIES

(EUR 1,000)	31 Dec 2021	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2022
Appropriations	**24,094**	1,617	-	**25,711**
At fair value	**1,591**	382	-944	**1,029**
Intangible assets	**18**	-5	-	**13**
Consolidation	**283,180**	10	-	**293**
Total deferred tax liabilities	**25,986**	**2,004**	**-944**	**27,047**

(EUR 1,000)	31 Dec 2020	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2021
Appropriations	**21,426**	2,668	-	**24,094**
At fair value	**2,035**	-239	-206	**1,591**
Intangible assets	**68**	-50	-	**18**
Consolidation	**12**	271	-	**283**
Total deferred tax liabilities	**23,542**	**2,650**	**-206**	**25,986**

AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME AND RELATED DEFERRED TAXES 2022

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	-20,540	4,108	-16,432
Defined benefit plans	572	-114	458
Amounts recognised in other comprehensive income, total	**-19,968**	**3,994**	**-15,974**

AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME AND RELATED DEFERRED TAXES 2021

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	-1,083	217	-867
Defined benefit plans	-441	88	-353
Amounts recognised in other comprehensive income, total	**-1,524**	**305**	**-1,219**

NOTES TO LIABILITIES AND EQUITY CAPITAL

NOTE 27 LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Liabilities to credit institutions		
Central Banks	128,400	128,400
To other credit institutions		
Repayable on demand	1,303	1,252
Not repayable on demand	33,435	36,832
Total liabilities to credit institutions	**163,139**	**166,484**
Liabilities to customers		
Deposits		
Repayable on demand	3,855,631	3,809,583
Not repayable on demand	475,410	411,039
Other financial liabilities		
Not repayable on demand	-5,095	1,742
Total liabilities to customers	**4,325,946**	**4,222,364**
Total liabilities to credit institutions and customers	**4,489,084**	**4,388,848**

Liabilities to central banks includes secured TLTRO III funding total of EUR 128,400 thousand. The funding matures in June 2023 EUR (50,000 thousand), March 2024 (EUR 70,000 thousand) and June 2024 (EUR 8,400 thousand) but for which early repayment is possible from January 2023 onwards. The interest rate on the financing period from 24 June 2020 to 23 June 2022 may be the ECB's de-posit rate (-0.5%) less an additional interest rate of 0.5%. The determination of the interest rate is affected by the growth of the POP Bank Group's net lending, and the interest rate for the period 24 June 2021 - 23 June 2022 was determined on the basis of the net lending review period ending on 31 December 2021. The POP Bank Group estimates it has met the growth criteria and the additional interest rate has been recognised as income during financial year 2021. ECB has recalibrated the conditions of the third series of targeted longer-term refinancing operations (TLTRO III) from 11/2022 onwards. POP Bank Group has used ECB deposit rate as interest rate for the loans for 2022. The final interest rate on the loan will be reviewed when the loan matures. The loan has been treated in accordance with IFRS 9 Financial Instruments -standard, as the POP Bank Group has assessed that the loan meets the conditions of a market-based loan.

NOTE 28 NON-LIFE INSURANCE LIABILITIES

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Provision for unearned premiums	21,139	20,205
Provisions for unpaid claims	45,622	43,464
Reinsurers' share	-9,750	-10,977
Total insurance contract liabilities	**57,011**	**52,692**

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 29 DEBT SECURITIES ISSUED TO THE PUBLIC

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Covered bonds	243,038	-
Debt securities issued to the public	254,892	254,926
Certificate of deposits	67,323	29,995
Total debt securities issued to the public	**565,252**	**284,920**

DEBT SECURITIES ISSUED TO THE PUBLIC

(EUR 1,000) Name	Issue date	Due date	Interest	Nominal	Currency
BONUM FRN 120723	3 Jun 2020	12 Jul 2023	EB 12 month + 1.04%	50,000	EUR
BONUM FRN 170124	3 Jun 2020	17 Jan 2024	EB 12 month + 1.20%	55,000	EUR
BONUM FRN 261026	20 Oct 2021	20 Oct 2026	EB 3 month + 0.85%	20,000	EUR
BONUM FRN 161125	16 Nov 2021	16 Nov 2025	EB 3 month +0.75%	30,000	EUR
Issued during the financial year					
BONUM FRN 050425	5 Apr 2022	5 Apr 2025	EB 3 month + 1.40%	50,000	EUR
BONUM FRN 220427	22 Apr 2022	22 Apr 2027	EB 3 month + 1.25%	50,000	EUR
POPA FI4000526876	22 Sep 2022	22 Sep 2025	2.625 % / fixed	250,000	EUR

Certificates of deposit with a total nominal value of EUR 66,500 (30,000) thousand were outstanding on the balance sheet date. Amount of the certificates is 12, nominals range from EUR 2,000 to 10,000 thousand with average maturity is 8.8 months.

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Balance 1 Jan	**284,920**	**266,346**
Debt securities issued, increase	349,401	49,952
Certificates of deposits, increase	239,012	29,993
Total increase	**588,413**	**79,945**
Debt securities issued, decrease	-100,000	-20,000
Certificates of deposits, decrease	-201,853	-41,387
Total decrease	**-301,853**	**-61,387**
Total changes in cash flow	**286,560**	**18,558**
Valuation	-6,228	17
Balance 31 Dec	**565,252**	**284,920**

NOTE 30 DERIVATIVE CONTRACTS AND HEDGE ACCOUNTING

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

NOMINAL VALUES OF UNDERLYING ASSETS AND FAIR VALUES OF DERIVATIVES

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

EFFECTS OF HEDGE ACCOUNTING ON FINANCIAL POSITION AND RESULT

Fair value hedging (EUR 1,000)	**31 Dec 2022**	**31 Dec 2021**
Liabilities		
Carrying amount of hedged liabilities to customers	193,827	-
of which the accrued amount of hedge adjustments	-6,173	-
Carrying amount of hedged debt securities issued to the public	243,038	-
of which the accrued amount of hedge adjustments	-6,452	-

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

The nominal value of the fixed-rate deposits subject to fair value hedging at the end of reporting period was EUR 200,000 thousand and the nominal value of the fixed-rate bond subject to fair value hedging at the end of reporting period was EUR 250,000 thousand. The nominal values of derivative instruments correspond to the nominal values of the objects to be hedged.

NOTE 31 PROVISIONS AND OTHER LIABILITIES

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Provisions		
Expected credit losses	878	672
Other provisions	673	273
Other liabilities		
Pension liabilities	1,431	2,681
Direct and reinsurance liabilities	842	903
Payment transfer liabilities	17,577	14,301
Lease liabilities	5,050	4,842
Accrued expenses		
Interest payable	8,125	3,100
Advances received	1,226	1,748
Liabilities on card transactions	15,955	8,785
Other accrued expenses	12,639	12,755
Total provisions and other liabilities	**64,397**	**50,060**

Defined benefit pension plans and related liabilities are presented in Note 35 and lease liabilities are presented in Note 36.

CHANGE IN PROVISIONS

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Provisions 1 Jan	**944**	**788**
Change in expected credit losses	206	-117
Increase in other provisions	400	273
Provisions 31 Dec	**1,550**	**944**

Other provisions consist of a provision recognized for an unfinished juridical proceeding.

NOTE 32 EQUITY CAPITAL

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Total equity attributable to the owners of the POP Bank Group		
Cooperative capital, cooperative contributions	10,707	10,163
of which cancelled cooperative contributions	775	565
Cooperative capital, POP Shares	60,153	56,893
of which cancelled POP Shares	6,061	4,505
Restricted reserves		
Reserve fund	52,494	52,494
Reserves based on the Articles of Association/rules	3,341	3,341
Fair value reserve		
Shares and participations	414	1,767
Debt securities	-12,807	2,271
Non-restricted reserves		
Other non-restricted reserves	106,491	104,005
Retained earnings		
Profit (loss) for previous financial years	318,702	284,327
Profit (loss) for the financial year	21,124	37,110
Total equity attributable to the owners of the POP Bank Group	**560,617**	**552,370**
Non-controlling interests	-	439
Total equity capital	**560,617**	**552,809**

COOPERATIVE CAPITAL AND CLASSIFICATION OF CONTRIBUTIONS AS CAPITAL EQUITY

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

Cooperative contributions

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

On 31 December 2022, POP Banks had a total of 88.4 (90.1) thousand members.

POP Shares

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

The member banks of the POP Bank Group issued a total of EUR 5,206 (2,551) thousand of POP Shares during the financial year 2022. POP Shares totalled to EUR 60,153 (56,893) thousand in 31 December 2022.

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

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

RESTRICTED RESERVES

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

The fair value reserve includes the cumulative net change in the fair value of equity securities measured at FVOCI and the cumulative net change in the fair value of debt securities measured at FVOCI. The change in the fair value can be positive or negative. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment. An expected credit loss on debt security is recognised in the income statement and added to the fair value reserve. The fair value reserve also includes changes in the fair value of equity securities recognised in the fair value of comprehensive income, which are not transferred to retained earnings upon later disposal.

NON-RESTRICTED RESERVES

Other non-restricted reserves consist of retained earnings based on the Articles of Association or other rules, or decisions taken by the general meeting or cooperative meeting.

RETAINED EARNINGS

Retained earnings consist of the profit or loss for the period and earnings accrued in previous financial years that have not been transferred to equity reserves or distributed. In addition, it includes provisions for credit losses and depreciation differences included in banks' separate financial statements, as well as the equalisation provision of a non-life insurance company net of deferred taxes. This item also includes gains and/or losses arising from the reassignment of defined benefit pension plans, less deferred tax.

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

SPECIFICATION OF CHANGES IN FAIR VALUE RESERVE 2022

(EUR 1,000)	Debt securities	Shares and participations	Total
Fair value reserve 1 Jan	**2,271**	**1,768**	**4,038**
Fair value change, increases	7,216	1,719	**8,936**
Fair value change, decreases	-25,969	-1,536	**-27,505**
Transferred from fair value reserve to the income statement	635	-	**635**
Transferred from fair value reserve to the retained earnings	-	-1,876	**-1,876**
Expected credit loss	-730	-	**-730**
Deferred taxes	3,770	338	**4,108**
Fair value reserve 31 Dec	**-12,807**	**414**	**-12,394**

SPECIFICATION OF CHANGES IN FAIR VALUE RESERVE 2021

(EUR 1,000)	Debt securities	Shares and participations	Total
Fair value reserve 1 Jan	**3,289**	**1,616**	**4,905**
Fair value change, increases	5,821	1,288	**7,109**
Fair value change, decreases	-5,351	-1,098	**-6,449**
Transferred from fair value reserve to the income statement	10	-	**10**
Expected credit loss	-1,753	-	**-1,753**
Deferred taxes	254	-38	**216**
Fair value reserve 31 Dec	**2,271**	**1,768**	**4,038**

OTHER NOTES

NOTE 33 COLLATERAL GIVEN

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Given on behalf of own liabilities and commitments		
Pledges	2,546	2,546
Collateral given to the Bank of Finland	162,940	144,361
Given on behalf of own liabilities and commitments	332,291	-
Total collateral given	**497,777**	**146,907**

The guarantees provided by POP Bank Group are related to a collateralised bond loan of 1 billion issued under the securitization program established in September 2022. The guarantees given are made up of real estate-collateral loans.

NOTE 34 OFF-BALANCE-SHEET COMMITMENTS

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Guarantees	20,083	17,455
Loan commitments	326,716	338,532
Total off-balance sheet commitments	**346,800**	**355,987**
Other commitments		
Commitment to invest in venture capital funds	5,768	4,712
Total other commitments	**5,768**	**4,712**

The expected credit losses of off-balance sheet commitments are presented in Note 18.

NOTE 35 PENSION LIABILITIES

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

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

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Current service cost	127	216
Net interest	24	9
Costs recognised in income statement	**150**	**225**
Remeasurements	-572	441
Comprehensive income before tax	**-422**	**666**
Present value of obligation 1 January	**21,180**	**22,235**
Current service cost	127	216
Interest expense	194	91
Actuarial gains (-)/losses (+) arising from experience adjustment	-165	-684
Actuarial gains (-)/losses (+) arising from changes in financial assumptions	-3,669	710
Actuarial gains (-)/losses (+) arising from changes in demographic assumptions	-	0
Benefits paid	-1,254	-1,388
Present value of obligation 31 December	**16,413**	**21,180**
Fair value of plan assets 1 January	**18,499**	**19,859**
Interest income	170	82
Return on plan assets excl. items in interest expense/income	-3,262	-415
Benefits paid	-1,254	-1,388
Contributions paid	828	362
Fair value of plan assets 31 December	**14,982**	**18,499**

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Present value of obligation	16,413	21,180
Fair value of plan assets	14,982	18,499
Net liability in balance sheet 31 December	**1,431**	**2,681**
Net liability in balance sheet 1 January	**2,681**	**2,377**
Costs recognised in income statement	150	225
Contributions paid	-828	-362
Remeasurements in comprehensive income statement	-572	441
Net liability in balance sheet 31 December	**1,431**	**2,681**
Actuarial assumptions		
Discount rate, %	3.20 %	0.95 %
Pay development, %	2.00 %	2.00 %
Pension increase, %	2.80 %	2.24 %
Inflation rate, %	2.56 %	2.00 %

SENSITIVITY ANALYSIS - NET LIABILITIES

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

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Change of +0.5% in discount rate	-75	-167
Change of -0.5% in discount rate	82	186
Pay development +0.5%	35	71
Pay development -0.5%	-35	-71
Change of +0.5% in pension increase	912	1,373
Change of -0.5% in pension increase	-864	-1,290

Duration based on the weighted average of the obligation is 11.7 (13.8) years.

The POP Bank Group expects to contribute approximately EUR 673 (351) thousand to defined benefit plans in 2023.

NOTE 36 LEASING

GROUP AS A LESSOR

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

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

FUTURE MINIMUM LEASE PAYMENTS RECEIVABLE

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Less than one year	216	330
Within 1–5 years	108	13
More than five years	1,185	1,181
Future minimum lease payments receivable total	**1,509**	**1,524**

GROUP AS A LESSEE

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

RIGHT-OF-USE ASSETS 31 DECEMBER 2022

(EUR 1,000)	Office Buildings	Machinery and equipment	Total
Acquisition cost 1 Jan	**8,864**	**1,262**	**10,126**
+ Increases	2,343	207	**2,550**
- Decreases	-787	-11	**-798**
Acquisition cost 31 Dec	**10,420**	**1,458**	**11,878**
Accumulated depreciation and impairment 1 January	**-4,559**	**-788**	**-5,348**
+/- Accumulated depreciation on decreases and transfers	445	9	**454**
- Depreciation	-1,807	-256	**-2,063**
Accumulated depreciation and impairment 31 December	**-5,922**	**-1,035**	**-6,957**
Carrying amount 1 Jan	**4,305**	**473**	**4,778**
Carrying amount 31 Dec	**4,498**	**423**	**4,921**

RIGHT-OF-USE ASSETS 31 DECEMBER 2021

(EUR 1,000)	Office Buildings	Machinery and equipment	Total
Acquisition cost 1 Jan	**7,905**	**993**	**8,898**
+ Increases	1,814	371	**2,185**
- Decreases	-855	-102	**-957**
Acquisition cost 31 Dec	**8,864**	**1,262**	**10,126**
Accumulated depreciation and impairment 1 Jan	**-3,276**	**-560**	**-3,836**
+/- Accumulated depreciation on decreases and transfers	365	41	**406**
- Depreciation	-1,649	-270	**-1,918**
Accumulated depreciation and impairment 31 December	**-4,559**	**-788**	**-5,348**
Carrying amount 1 Jan	**4,629**	**433**	**5,062**
Carrying amount 31 Dec	**4,305**	**473**	**4,778**

Right-of-use assets are presented in Property, Plant and Equipment

LIABILITIES/LEASE LIABILITIES

Lease liabilities	31 Dec 2022	31 Dec 2021
Lease liabilities 1 Jan	**4,842**	**5,174**
+ Increases	2,550	2,185
- Decreases	-2,342	-2,517
Lease liabilities 31 Dec	**5,050**	**4,842**

Lease liabilities are presented in other liabilities

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Total cash outflow for leases	-2,024	-1,842

AMOUNTS RECOGNISED IN PROFIT OF LOSS

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Depreciation		
Office Buildings	-1,807	-1,649
Machinery and equipment	-256	-270
Total	**-2,063**	**-1,918**

Depreciation is presented in Depreciation and amortisation

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Interest on lease liabilities	-26	-9

Interest is presented in Net interest Income

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Expenses relating to short-term leases	23	63
Expenses relating to leases of low-value assets	1,340	1,209
Total	**1,364**	**1,272**

Expenses are presented in other operating expenses.

NOTE 37 ENTITIES INCLUDED IN THE POP BANK GROUP'S FINANCIAL STATEMENTS

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

TECHNICAL PARENT COMPANY

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

(EUR 1,000) Name of the bank	Domicile	Balance sheet 31 Dec 2022	Balance sheet 31 Dec 2021
Honkajoen Osuuspankki	Honkajoki	80,243	61,360
Isojoen Osuuspankki	Isojoki	96,796	86,510
Jämijärven Osuuspankki	Jämijärvi	68,355	62,249
Järvi-Suomen Osuuspankki	Siilinjärvi	621,432	551,227
Kannonkosken Osuuspankki	Kannonkoski	69,971	63,390
Keuruun Osuuspankki	Keuruu	238,050	208,765
Konneveden Osuuspankki	Konnevesi	222,061	188,221
Kosken Osuuspankki	Koski Tl	221,104	193,790
Kurikan Osuuspankki	Kurikka	410,921	384,062
Kyrön Seudun Osuuspankki	Pöytyä	140,480	118,524
Kyyjärven Osuuspankki	Kyyjärvi	99,422	88,956
Lakeuden Osuuspankki	Seinäjoki	703,225	597,622
Lammin Osuuspankki	Hämeenlinna	233,568	207,353
Lanneveden Osuuspankki	Saarijärvi	75,716	67,383
Lappajärven Osuuspankki	Lappajärvi	114,889	104,768
Lavian Osuuspankki	Pori	93,389	85,741
Lydon Osuuspankki *	Lieto	-	140,142
Nivalan Järvikylän Osuuspankki	Nivala	135,082	115,362
Piikkiön Osuuspankki *	Kaarina	-	146,485
Pohjanmaan Osuuspankki	Kauhava	782,540	715,504
Suomen Osuuspankki*	Kauhajoki	1,504,569	1,040,085

*On May 31, 2022 Liedon Osuuspankki and Piikkiön Osuuspankki merged with Suupohjan Osuuspankki, which changed its name to Suomen Osuuspankki.

SUBSIDIARIES AND ASSOCIATES CONSOLIDATED IN THE POP BANK GROUP

		Group's holding	
	Domicile	31 Dec 2022	31 Dec 2021
POP Bank Centre coop (central institution of the Group)	Helsinki	100.0 %	100.0 %
Bonum Bank Plc (wholly-owned subsidiary of POP Bank Centre coop)	Espoo	100.0 %	100.0 %
POP Mortgage Bank Plc (wholly-owned subsidiary of POP Bank Centre coop)	Espoo	100.0 %	100.0 %
POP Holding Ltd	Helsinki	100.0 %	100.0 %
Finnish P&C Insurance Ltd (wholly-owned subsidiary of POP Holding Ltd)	Espoo	100.0 %	100.0 %
White Beach Development AS	Audru, Viro	-	72.5 %
Figure Taloushallinto Ltd	Espoo	25.0 %	25.0 %

JOINT ARRANGEMENTS

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

JOINT ARRANGEMENTS CONSOLIDATED IN THE POP BANK GROUP (KEY REAL ESTATE COMPANIES)

	Group's holding	
	31 Dec 2022	31 Dec 2021
Asunto Oy Keuruun Tarhiansuu	36.9 %	36.9 %
Asunto Oy Tampereen Kauppakatu 14	23.9 %	23.9 %
Asunto Oy Tampereen Koskilehmus	21.9 %	21.9 %
Kiinteistö Oy Kosken Pankkitalo	53.6 %	53.6 %
Kiinteistö Oy Lehto-Center	38.3 %	38.3 %
Kiinteistö Oy Liedon Torinkulma	48.8 %	62.5 %
Kiinteistö Oy Riihikuiva	82.7 %	82.7 %
Kiinteistö Oy Siilinjärven Pankkikeskus	66.5 %	66.5 %

CHANGES IN HOLDINGS IN SUBSIDIARIES

During the financial year 2022 POP Bank Group relinquished ownership of White Beach Development As and control of Kiinteistö Oy Liedon Torikulma.

NOTE 38 RELATED PARTY DISCLOSURES

The related parties of POP Bank Group comprise the companies and associates consolidated in the financial statements, and members of the Board of Directors and Executive Group and members of their immediate families. Intercompany transactions of the POP Bank Group have been eliminated and are not included in the figures of note.

The key persons in management of the POP Bank Group include the members of the supervisory board and board of directors of POP Bank Centre coop, as well as the managing director and deputy managing director of POP Bank Centre coop. Other related parties comprise the companies and associates consolidated in the financial statements and the relatives of the key persons in charge.

Transactions with key persons in management and other related parties are presented below.

In the financial period 2022, POP Banks have granted housing and consumption loans to related parties at ordinary terms. These loans are tied to generally applied reference rates.

RELATED-PARTY TRANSACTIONS

	Key persons in management		Other	
(EUR 1,000)	**31 Dec 2022**	**31 Dec 2021**	**31 Dec 2022**	**31 Dec 2021**
Assets				
Loans	1,669	2,445	2,908	3,092
Expected credit loss	3	3	3	3
Liabilities				
Deposits	1,608	1,759	1,572	1,755
Off-balance-sheet commitments				
Loan commitments	30	153	-	55
Guarantees	190	498	60	354
Investments to other than cooperative contributions	50	60	54	64

	Key persons in management		Other	
(EUR 1,000)	**1 Jan - 31 Dec 2022**	**1 Jan - 31 Dec 2021**	**1 Jan - 31 Dec 2022**	**1 Jan - 31 Dec 2021**
Income and expenses				
Interest income	17	41	63	59
Interest expenses	0	0	0	0
Insurance premium revenue	12	17	4	5

COMPENSATION TO KEY PERSONS IN MANAGEMENT

(EUR 1,000)	**1 Jan - 31 Dec 2022**	**1 Jan - 31 Dec 2021**
Short-term employee benefits	2,642	3,493
Post-employment benefits	27	27
Total compensation to key persons in management	**2,669**	**3,520**

NOTE 39 EVENTS AFTER THE CLOSING DATE

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

SIGNATURES

We have adopted the Report of Board of Directors and the Consolidated Financial Statements of the POP Bank Group, referred to in the Act on the Amalgamation of Deposit Banks, for the financial year ended 31 December 2022. The Board of Directors' Report and the Financial Statements will be presented to the general meeting of POP Bank Centre coop on 31 March 2023.

Espoo, 15 February 2023
Board of Directors of POP Bank Centre coop

Timo Kalliomäki
Chairman

Ari Heikkilä
Vice chairman

Ilkka Lähteenmäki
Member of the Board

Mika Mäenpää
Member of the Board

Marja Pajulahti
Member of the Board

Mikko Seppänen
Member of the Board

Matti Vainionpää
Member of the Board

AUDITOR'S NOTE

A report on the audit performed has been issued today.
Helsinki, 16 February 2023

KPMG Oy Ab

Tiia Kataja
Authorised Public Accountant

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

AUDITOR'S REPORT

To the members of POP Bank Centre coop

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of amalgamation POP Bank Group pursuant to the Act on the Amalgamation of Deposit Banks for the year ended 31 December, 2022. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity capital, cash flow statement and notes.

In our opinion the consolidated financial statements give a true and fair view of POP Bank Group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

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

BASIS FOR OPINION

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

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

In our best knowledge and understanding, the non-audit services that we have provided to member institutions within POP Bank Group are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 12 to the consolidated financial statements.

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

MATERIALITY

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

KEY AUDIT MATTERS

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

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

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Loans and receivables from customers – valuation (notes 2, 4, 15, 16, 18 and 20 to financial statements)	
• Receivables from customers, totaling EUR 4.5 billion, are the most significant item on the POP Bank Group's consolidated balance sheet representing 77 percent of the total assets. • The calculation of expected credit losses (ECL) in accordance with IFRS 9 Financial Instruments is based on impairment models and expert estimates and involves assumptions, estimates and management judgement in determining, particularly, the probability of expected credit losses, valuation of collaterals and significant increases in credit risk. • The components of the ECL calculation are updated and refined in the light of actual credit risk developments, the evolution of the calculation process, and regulatory changes and requirements. • Due to the significance of the carrying amount of receivables, the complexity of the valuation methods applied and management judgement involved, the valuation of receivables is addressed as a key audit matter.	• We evaluated the appropriateness of the recognition and measurement principles for receivables, as well as tested controls over recognition and monitoring of impairment losses and valuation of receivables. • We assessed the impairment models, the underlying key assumptions, as well as tested controls over the ECL calculation process and credit risk models. We involved our own IFRS and financial instruments specialists. • We also requested other auditors of POP Bank Group institutions to issue an opinion that the institutions within POP Bank Group have complied with the instructions provided by POP Bank Centre coop in respect of valuation of receivables lending process and determination of expected credit losses under IFRS 9. • Furthermore, we considered the appropriateness of the notes provided in respect of receivables and expected credit losses
Investment assets (notes 2, 4, 8,15, 16, 17, 18 and 21 to financial statements)	
• The carrying amount of investment assets totals EUR 0.7 billion mainly consisting of investments measured at fair value. • The fair value of financial instruments is determined using either prices quoted in an active market or POP Bank Group's own valuation techniques where no active market exists. Determining fair values involves management judgements, especially in respect of those instruments for which market-based data is not available. • In case of illiquid instruments, management judgement is involved in the valuation of investment assets, and the valuation of these items is addressed as a key audit matter.	• We evaluated the appropriateness of the accounting principles applied and the valuation techniques used by POP Bank Group. • Our audit work included testing controls over the process of measuring financial assets at fair value, among others. • As part of our year-end audit procedures we compared the fair values used in valuation of investment assets to external price references. We involved our own financial instruments specialists. • Furthermore, we considered the appropriateness of the notes on investment assets.

Insurance liabilities (notes 2, 4, 9 and 28 to financial statements)	
• Measurement of insurance liabilities, amounting to EUR 57 million in the POP Bank Group's balance sheet, is based on various actuarial assumptions and calculations methods. • Calculation of insurance liabilities is based on data processed in many IT systems and combination of that data. • Due to the complexity associated with the actuarial models used, insurance liabilities are addressed as a key audit matter.	• Our audit procedures included assessment of the principles related to calculation and recognition of insurance liabilities. Our actuary specialist evaluated the appropriateness of the assumptions and methods used in determining insurance liabilities. • We assessed the internal control processes for the insurance liabilities and the accuracy of the input data for the calculation, as well as the link between the calculation of the insurance liabilities and the financial accounting system. • Furthermore, we considered the appropriateness of the notes on insurance liabilities.
Control environment relating to financial reporting process and IT systems	
• In respect of the accuracy of the financial statements of POP Bank Group, the key reporting processes are dependent on technology. Therefore, information technology plays an essential role for business continuity, incident management and the accuracy of financial reporting. • The main risks relate to the integrity and confidentiality of information and the continuity of services. • Consequently, the IT environment related to the financial reporting process and the application controls of individual IT systems have a significant effect on the selected audit approach.	• We obtained an understanding of the financial reporting information systems and the associated control environment, and tested the effectiveness of the related internal controls by using assurance reports from external service organisations, among others. • As part of our audit we also performed substantive procedures and data analyses relating to various aspects in financial reporting process.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU in a manner explained in more detail in the notes to the financial statements and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing POP Bank Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate POP Bank Group, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of POP Bank Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on POP Bank Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause POP Bank Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within POP Bank Group to express an opinion on the consolidated financial statements. We remain solely responsible for our audit opinion.
- Audit of the consolidated financial statements of amalgamation POP Bank Group is based on the financial statements of POP Bank Centre coop and member institutions,

as well as the auditors' reports submitted for the audit of POP Bank Group's consolidated financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

OTHER REPORTING REQUIREMENTS

INFORMATION ON OUR AUDIT ENGAGEMENT

We were first appointed as auditors by the Cooperative Meeting of POP Bank Centre coop in 2012 and our appointment represents a total period of uninterrupted engagement of 11 years.

OTHER INFORMATION

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the board of directors. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the board of directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the board of directors is consistent with the information in the financial statements and the report of the board of directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the board of directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki February 16, 2023

KPMG OY AB

Tiia Kataja
Authorised Public Accountant, KHT

POP Bank