POP Mortgage Bank Plc

HALF-YEAR REPORT

1.1.–30.6.2022

POP Bank
POP Mortgage Bank Plc

CONTENT

POP Mortgage Bank Plc Half-Year Report for 1 January – 30 June 2022 is a translation of the original Finnish version "POP Asuntoluottopankki Oyj puolivuosikatsaus 1.1.–30.6.2022". In case of discrepancies, the Finnish version shall prevail.

BOARD OF DIRECTOR'S REPORT 1.1.-30.6.2022

On 25 May 2022, POP Mortgage Bank Plc was authorised by the European Central Bank to engage in mortgage banking operations. At the same time, the company's official name was changed from POP Newco Plc to POP Mortgage Bank Plc (hereinafter "POP Mortgage Bank"). As a result of the authorisation, POP Mortgage Bank has been accepted as a member credit institution of the amalgamation of POP Banks.

POP Mortgage Bank is part of the amalgamation of POP Banks, and is responsible for acquiring external funding for the amalgamation in cooperation with Bonum Bank Plc. POP Mortgage Bank is also responsible for issuing secured bonds and forwarding the acquired funding to member credit institutions belonging to the amalgamation of POP Banks.

POP Mortgage Bank's operations are based on the intermediary loan model. Thus, the mortgage-backed loan portfolio provided as collateral for bonds to be issued is not recognised on POP Mortgage Bank's balance sheet. Instead, it remains on each member credit institution's balance sheet.

During the reporting period, POP Mortgage Bank established a EUR 1 billion covered bond programme and made preparations necessary to enable an issue. The intention is to launch the first issue during the second half of 2022.

During the reporting period, POP Mortgage Bank also sought, from the Financial Supervisory Authority, an operating licence under the Act on Mortgage Banks and Covered Bonds which entered into force on 8 July 2022. POP Mortgage Bank was granted a licence under the new Act on 30 June 2022.

POP BANK GROUP AND AMALGAMATION OF POP BANKS

The POP Bank Group is a Finnish financial group that offers retail banking services to private customers, small and medium sized companies, agricultural and forestry companies, as well as non-life insurance services to private customers. The POP Bank's mission is to promote its customers' financial well-being and prosperity, as well as local success.

STRUCTURE OF THE POP BANK GROUP

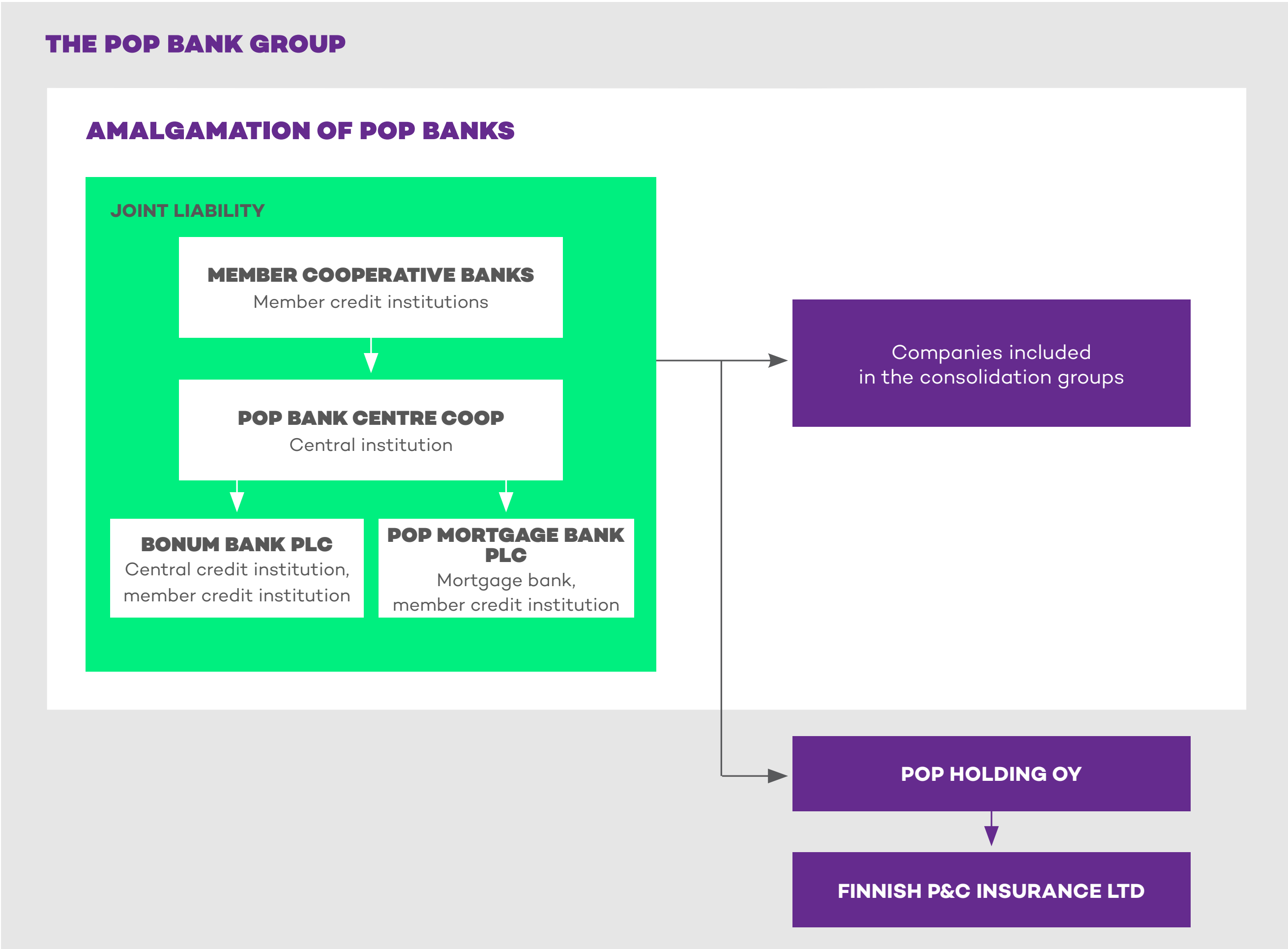
The POP Bank Group comprises of POP Banks and POP Bank Centre coop, and the entities under their control. The most significant companies with customer operations in the POP Bank Group are:

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

POP Bank Mortgage Bank Plc is also part of the POP Bank Group and a subsidiary of POP Bank Centre coop.

The POP Banks are cooperative banks owned by their member customers. POP Bank Centre coop, the central institution, is responsible for the group steering and supervision in accordance with the Act on the Amalgamation of Deposit Banks (24 June 2010/599) (hereinafter referred to as the "Amalgamation Act"). In 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). 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. 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 reporting period. Liedon Osuuspankki and Piikkiön Osuuspankki merged with Suupohjan Osuuspankki at the end of May. The name of the bank was changed to Suomen Osuuspankki. After the merger, the POP Bank Group has 19 cooperative member banks. The merger will not have an impact on the POP Bank Group's financial statements.

POP Mortgage Bank Plc has been accepted as a member credit institution of the amalgamation of POP Banks in May.

OPERATING ENVIRONMENT

Economic recovery continued throughout the beginning of the year, as the coronavirus epidemic eased. The increase in the employment-to-population ratio was a particularly positive development for the Finnish economy – with this ratio surpassing the pre-coronavirus crisis level by early 2022. Total production also continued to develop positively at the beginning of the year.

However, the economic outlook took a downturn when Russia launched a large-scale attack on Ukraine in February. The attack was exceptionally widely condemned around the world, and the EU was particularly unified in its stand against Russia's military operations, quickly imposing a range of financial sanctions. Much of the rest of the world also participated in various anti-Russia measures affecting money transfers and the assets of those oligarchs who were sanctioned.

The EU sanctions imposed on Russia are also having a significant impact on the Finnish economy – the worst blows being suffered by individual companies, whose Russian business operations have become practically worthless in a short period of time. In May, Russia shut down the supply of natural gas, which has been one of the most critical imports from Russia to Finland. It is possible to replace natural gas with other sources of energy, but the costs will increase. The closing of the Russian market to foreign operators has also caused losses for many Finnish export companies, which now have to compensate by seeking business opportunities in other market areas. Challenges continued in agriculture, as the prices of production inputs rose steeply and food exports to Russia stopped.

Inflation continued to increase in Finland – as in other countries – during the first half of the year. The main reason has been a strong increase in the price of energy globally, which is being reflected widely – and with a short time delay – in all sectors of the economy. In the eurozone, the short-term and long-term interest rates, which had remained moderate for a long time, began to increase rapidly during the spring. In July the European Central Bank (ECB) decided to raise the key interest rates and ramp down its securities purchase programme. The ECB is expected to continue to increase interests during rest of the year.

Although the positive trend in the operating environment has continued in terms of the employment rate, for example, the economic outlook has deteriorated. With the inflation rate increasing more rapidly than salaries, consumers' purchasing power is decreasing.

Housing prices have continued to increase in the growth centres of Finland for a long time, but this trend slowed during the first half of the year. Housing investors are faced with new concerns as housing companies' interest and maintenance costs are rising and it is increasingly difficult to find good tenants in a situation where the supply of rental housing is greater than its demand. Share prices also decreased globally during the spring – which is explained by higher interest rates and weaker corporate outlooks.

KEY RATIOS

	30 Jun 2022
Cost-to-income -ratio, %	4.986 %
ROA, %	-9.8 %
ROE, %	-9.9 %
Capital adequancy ratio (TC) %	412.8 %
Equity ratio, %	98.0 %

In calculation of ROA and ROE the profit for the review period has been changed to match full year level.

COST-TO-INCOME -RATIO, %

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

RETURN ON ASSETS (ROA), %

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

RETURN ON EQUITY (ROE), %

$$\frac{\text{Result for the period}}{\text{Equity (average of beginning and end of year)}} \times 100$$

CAPITAL ADEQUACY RATIO (TC), %

$$\frac{\text{Total capital (TC)}}{\text{Total minimum capital requirement}} \times 100$$

EQUITY RATIO, %

$$\frac{\text{Equity}}{\text{Balance sheet total}} \times 100$$

PERFORMANCE AND BALANCE SHEET

As POP Mortgage Bank was only established on 2 September 2021, no comparison period has been presented for the income statement and the cash flow statement provided in this half-year report. The balance sheet is compared with the situation on 31 December 2021.

PERFORMANCE

POP Mortgage Bank recorded a loss of EUR 0.9 million for the reporting period.

Its income consisted of interest income from fixed-term deposits made in Bonum Bank Plc. POP Mortgage Bank's operating income will consist of interest income from intermediary loans granted to the member banks of the amalgamation of POP Banks.

Operating expenses totalled EUR 0.9 million. Personnel expenses included fees paid to the members of the Board of Directors. Other operating expenses include ICT and office costs. Depreciation and impairment include the amortisation of intangible assets.

BALANCE SHEET AND FINANCIAL POSITION

POP Mortgage Bank's balance sheet totalled EUR 17.6 (18.3) million at the end of the reporting period. The item "Loans and receivables from credit institutions" includes EUR 17.0 (17.7) million in deposits made in Bonum Bank. The item "Intangible assets" includes investments made by POP Mortgage Bank in long-term ICT systems.

POP Mortgage Bank's equity was EUR 17.3 (18.2) million at the end of the reporting period.

RISK AND CAPITAL ADEQUACY MANAGEMENT AND RISK POSITION

PRINCIPLES AND ORGANISATION OF RISK MANAGEMENT

The POP Bank Group's strategy outlines the Group's risk appetite. Business activities are carried out at a moderate risk level so that the risks can be managed in full. The purpose of risk management is to ensure the risk levels are proportionate to bank's and the amalgamation's risk-bearing capacity and capital adequacy position. Risk management processes must be able to identify all significant risks of the business operations and assess, measure and monitor these regularly.

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 of the amalgamation 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 controlling thresholds have been established for the member institutions to ensure that the risks taken by an individual member institution are within acceptable limits.

POP Mortgage Bank's risk management goal is to ensure that the bank complies with laws, decrees, instructions and regulations issued by the authorities, their own rules and the internal binding guidelines issued by the central institution of the amalgamation in its activities.

The purpose of capital adequacy management is to ensure the sufficient amount, type and efficient use of the capital of the POP Mortgage Bank. 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. POP Mortgage Bank is responsible for member banks long-term funding by issuing secured bonds. Issuing is based on the funding needs of the amalgamation as an entity due to which POP Mortgage Bank's control process of the capital adequacy is closely connected to the strategy process of the amalgamation as well as the planning and managing of the business operations.

The amalgamation's risk management and capital adequacy management are described in more detail in Note 4 to the POP Bank Group's financial statements 2021. Furthermore, information concerning risks specified in the EU Capital Requirements Regulation (2019/876) (CRR II) is presented in a separate Pillar III report. Copies of the financial statements and the Pilar III report of the POP Bank Group are available online at **www.poppankki.fi/en** or from the office of the POP Bank Centre coop, address Hevosenkenkä 3, 02600 Espoo, Finland.

BUSINESS RISKS

CREDIT RISKS

POP Mortgage Bank's credit risk will consist of intermediary loans granted to the member banks of the amalgamation of POP Banks.

POP Mortgage Bank engages in mortgage bank operations under an intermediary loan model established by the Act on Mortgage Banks and Covered Bonds (151/2022). Thus, the Bank may issue secured bonds and use the acquired funds to offer intermediary loans to the member banks of the amalgamation. Under the intermediary loan model, the mortgage-backed loans provided as collateral for secured bonds remain on the member banks' balance sheets and are not recognised on POP Mortgage Bank's balance sheet. The risks associated with the mortgage-backed loans provided as collateral are not transferred to POP Mortgage Bank. The bonds are recognised as collateral for the secured bonds issued. The intermediary loans granted to member banks are presented under "Receivables from credit institutions" on the balance sheet.

LIQUIDITY RISKS

Bonum Bank Plc, the central credit institution of the amalgamation, is responsible for the liquidity management. Liquidity risks are managed by maintaining a liquidity reserve consisting of LCR-eligible liquid assets, assets eligible as collateral for central bank funding, and short-term bank receivables. Based on an authorisation granted by the Financial Supervisory Authority, the member credit institutions of the amalgamation have been exempted from the LCR and NSFR requirements by the decision of the central institution. The LCR and NSFR requirements are calculated at the level of the amalgamation of POP Banks.

POP Bank Group's liquidity position remained strong during the financial period. The liquidity requirement (LCR) for the amalgamation of POP Banks was 163.5 (141.3) per cent on 30 June 2022, with the regulatory minimum level being 100 per cent. The amalgamation's Net Stable Funding Ratio (NSFR) was 131.3 per cent on 30 June 2022.

MARKET RISKS

POP Mortgage Bank's most significant market risk is the interest rate risk associated with the banking book. The interest rate risk refers to the impact of changes in interest levels on the market value of balance sheet and off-balance-sheet items, or on net interest income. The banking book consists of intermediary loans granted to the amalgamation's member banks.

POP Mortgage Bank does not engage in trading activities. The possible use of derivatives is limited to hedging interest rate risk in the banking book.

POP Mortgage Bank monitors the interest rate risk by using the present value method and the dynamic income risk model. The present value method measures how changes in interest rates affect the constructed market value of the balance sheet. In the present value method, the market value of the balance sheet is calculated as the present value of the expected cash flows of individual balance sheet items. Interest rate sensitivity indicators are used to monitor the market value changes caused by changes in the interest rates and credit spreads of investment items in different interest rate scenarios. The income risk model predicts future net interest income and its changes in various market rate scenarios within a time frame of five years.

OPERATIONAL RISKS

The objective of the management of operational risks is to identify essential operational risks in business operations and minimise their materialisation and impacts. The objective is pursued through continuous personnel development and by means of comprehensive operating instructions and internal control measures, such as by segregating preparation, decision-making, implementation and control from one another.

POP Mortgage Bank carries out an annual self-assessment of operational risks based on the risks assessments it performs, in which the monitoring of operational risk incidents is utilised. The risk assessment also aims to evaluate the risks related to POP Mortgage Bank most significant outsourced operations. Some of the potential losses caused by operational risks are hedged through insurance. Risks caused by malfunctions in information systems are prepared for through continuity planning.

CAPITAL ADEQUACY MANAGEMENT

At the end of the reporting period. POP Mortgage Bank's capital adequacy was at a good level consisting entirely of CET1 capital. The Bank's capital ratio was 412.8 per cent and the core capital adequacy ratio 412.8 per cent. On 30 June 2022, the Bank's own funds totalled EUR 16.7 million consisting entirely of CET1 capital adequacy. POP Mortgage Bank was authorised to engage in mortgage banking operations during reporting period due to which no comparison period has been presented for the capital adequacy in this half-year report.

CRR II Regulation 2019/876, reforming the Solvency Regulation 575/2013 of the European Parliament and of the Council, has been applied since 28 June 2021. POP Mortgage Bank's own funds are comprised of share capital, retained earnings and other non-restricted reserves, less the deductible items in accordance with the CRR. 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.

POP Mortgage Bank's leverage ratio on 30 June 2022 was 19039.5 per cent. The minimum level of regulation is 3 per cent.

The statutory minimum is 8 per cent for the capital adequacy ratio and 4.5 per cent for CET1 capital. In addition to the minimum capital adequacy ratio, POP Mortgage Bank is subject to the fixed additional capital requirement, which is 2.5 per cent in accordance with the Act on Credit Institutions, and to the variable country-specific additional capital requirements for foreign exposures.

SUMMARY OF CAPITAL ADEQUACY

Summary of capital adequacy (EUR 1,000)	**30 June 2022**
Own funds	
Common Equity Tier 1 capital before deductions	17,292
Deductions from Common Equity Tier 1 capital	-572
Total Common Equity Tier 1 capital (CET1)	**16,719**
Additional Tier 1 capital before deductions	0
Deductions from Additional Tier 1 capital	0
Additional Tier 1 capital (AT1)	**0**
Tier 1 capital (T1 = CET1 + AT1)	**16,719**
Tier 2 capital before deductions	0
Deductions from Tier 2 capital	0
Total Tier 2 capital (T2)	**0**
Total capital (TC = T1 + T2)	**16,719**
Total risk weighted assets	
of which credit risk	88
of which credit valuation adjustment risk (CVA)	0
of which market risk (exchange rate risk)	0
of which operational risk	3,963
Fixed capital conservation buffer according to Act on Credit institutions (2.5%)	**101**
Countercyclical capital buffer	**0**
CET1 Capital ratio (%)	**412.8 %**
T1 Capital ratio (%)	**412.8 %**
Total capital ratio (%)	**412.8 %**
Capital requirement	
Total capital	16,719
Capital requirement *	425
Capital buffer	16,294
Leverage ratio	
Tier 1 capital (T1)	16,719
Leverage ratio exposure	88
Leverage ratio, %	19039.5 %

* The capital requirement comprises the minimum requirement of 8 %, the capital conservation buffer of 2.5 % and the country-specific countercyclical capital requirements of foreign exposures.

CRISIS RESOLUTION PLAN

Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms came into effect in Finland in 2015. The Financial Stability Authority was established to implement the Act on the Resolution of Credit Institutions and Investment Firms (Act on the Financial Stability Authority, 1195/2014). The Financial Stability Authority serves as the national crisis resolution authority in Finland as part of the EU's common crisis resolution mechanism.

On 28 April 2021, the Financial Stability Authority updated the MREL requirement of the amalgamation of POP Banks. The new requirement is 19.39 per cent of the total amount of risk or 5.91 per cent of the total amount of exposures used in the calculation of the leverage ratio exposure. The new requirement came into effect on January 1, 2022. The POP Bank Group's requirement will be covered by own funds and unsecured senior bonds.

On 6 April 2022, the MREL requirement of the amalgamation of POP Banks was updated again. The new requirement is 19.71 per cent of the total amount of risk or 7.83 per cent of the total amount of exposures used in the calculation of the leverage ratio exposure. The new requirement will come into effect on January 1, 2024.

INTERNAL CONTROL

The purpose of The POP Mortgage Bank's internal control is to ensure that the Bank, in a systematic and effective manner, works towards the goals and implements the procedures confirmed by senior management. Internal control aims to ensure that the organisation complies with regulations and manages risks comprehensively, and that its operations are efficient and reliable.

Internal control is implemented at all levels of the organisation. Internal control is implemented by the Board of Directors, the CEO and other management and personnel, as well as the risk management and compliance functions independently of business operations. As part of internal control, the amalgamation has implemented a whistle-blowing mechanism that enables the Bank's employees to report, internally through an independent channel, suspected violations of rules and regulations concerning the financial market in the central institution or a member credit institution.

INTERNAL AUDIT

Within the amalgamation, POP Bank Centre coop is centrally responsible for the steering and organisation of internal audit in the bank centre, member credit institutions and other companies of the amalgamation. POP Mortgage Bank's internal audit is based on the internal audit guidelines confirmed by the Board of Directors and the Supervisory Board of POP Bank Centre coop as well as on the audit plan approved by the Board of Directors of POP Bank Centre coop.

The purpose of internal audit is to assess the scope and sufficiency of the internal control of the Bank's operational organisation and to monitor and assess the functionality of risk management systems. Internal audit reports its observations primarily to the Bank's Board of Directors. After audits, the Bank's Board of Directors discusses the summaries prepared as a result of the internal audit. Internal Audit reports of its activity and observations regularly to central institution's Supervisory Board, central institution's Board and CEO.

MANAGEMENT AND PERSONNEL

POP Mortgage Bank's Board of Directors during the financial year included

- Juha Niemelä, Chairman of the Board
- Marja Pajulahti, Member of the Board
- Matti Vainionpää, Member of the Board

POP Mortgage Bank does not have personnel. The Deputy CEO of Bonum Bank Plc Timo Hulkko has acted as the CEO of POP Mortgage Bank since 16 December 2021. Tony Tötterström was appointed as the CEO's deputy on 15 May 2022.

Administrative and managerial services have been purchased from POP Bank Centre Coop and POP Mortgage Bank's sister company Bonum Bank Plc. Financial administration has been outsourced to Figure Taloushallinto Ltd.

THE BANK'S CORPORATE COVERNANCE SYTEM

The Bank's functions are controlled by its shareholder, which exercises its decision-making power at the General Meeting in accordance with the Finnish Limited Liability Companies Act and the Articles of Association. The Annual General Meeting decides on the distribution of the Bank's profit and elects the members of the Board of Directors.

The Bank is represented by and directed by the Board of Directors. Operational decisions concerning the Bank's business operations and strategic issues are made by the Bank's Board of Directors. The work of the Board of Directors is based on the Bank's Articles of Association, decisions of the General Meeting and applicable legislation. The Bank's CEO manages the Bank's operational activities in accordance with the instructions provided by the Board of Directors.

The investigation of the independence of Board members and the CEO takes place in accordance with regulations issued by the Finnish Financial Supervisory Authority. Board members and the CEO shall provide an account of the entities in which they operate when they are elected to their office. In addition, Board members and the CEO shall provide an account of fitness and propriety according to the regulation by the Financial Supervisory Authority when they accept their duties.

POP Mortgage Bank's Corporate Governance Report is available online at **www.poppankki.fi/en.**

OUTLOOK FOR THE SECOND HALF OF THE YEAR

POP Mortgage Bank's result for the 2022 financial period is expected to remain negative. In accordance with the business plan, its result is not expected to turn positive until after a second issue has been implemented. POP Mortgage Bank's intention is to launch the first issue during the second half of 2022.

EVENTS AFTER THE REVIEW PERIOD

Board of Directors of POP Mortgage Bank is not aware of events after the closing date that would have a material impact on the information presented in the financial statements.

HALF-YEAR REPORT 1.1-30.6.2022

POP MORTGAGE BANK'S INCOME STATEMENT

(EUR 1 000)	Note	1 Jan - 30 Jun 2022
Interest income	2	18
Net interest income		**18**
Total operating income		**18**
Personnel expenses		-13
Other operating expenses		-875
Depreciation and amortisation		-10
Total operating expenses		**-898**
Profit before taxes		
Income taxes		-
Result for the period		**-880**

The company has no items to be presented in the statement of other comprehensive income.

POP MORTGAGE BANK'S BALANCE SHEET

(EUR 1 000)	30 June 2022	31 Dec 2021
Assets		
Loans and advances to credit institutions	16,961	17,748
Intangible assets	572	539
Other assets	106	
Total assets	**17,639**	**18,287**
Liabilities		
Other liabilities	347	115
Total liabilities	**347**	**115**
Equity capital		
Share capital	10,000	10,000
Reserves	9,000	9,000
Retained earnings	-1,708	-828
Total equity capital	**17,292**	**18,172**
Total liabilities and equity	**17,639**	**18,287**

POP MORTGAGE BANK'S STATEMENT OF CHANGES IN EQUITY CAPITAL

(EUR 1 000)	Share capital	Reserve for invested non-restricted equity	Retained earnings	Total equity
Balance at 1 Jan 2022	**10,000**	**9,000**	**-828**	**18,172**
Profit for the financial year	-	-	-880	-880
Profit for the financial year	**-**	**-**	**-880**	**-880**
Balance at 30 June 2022	**10,000**	**9,000**	**-1,708**	**17,292**

(EUR 1 000)	Share capital	Reserve for invested non-restricted equity	Retained earnings	Total equity
Balance at 2 Sep 2021	**2,000**	**-**	**-**	**2,000**
Profit for the financial year	-	-	-828	-828
Total income for the financial year	**-**	**-**	**-828**	**-828**
Transactions with shareholders				
Issue of shares	8,000	9,000	-	17,000
Transactions with shareholders total	**8,000**	**9,000**	**0**	**17,000**
Balance at 31 Dec 2021	**10,000**	**9,000**	**-828**	**18,172**

POP MORTGAGE BANK'S CASH FLOW STATEMENT

(EUR 1 000)	1 Jan - 30 Jun 2022
Cash flow from operating activities	
Profit for the financial year	-880
Adjustments to profit for the financial year	10
Increase (-) or decrease (+) in operating assets	**-14,606**
Advances to credit institutions	-14,500
Other assets	-106
Increase (+) or decrease (-) in operating liabilities	**232**
Other liablilities	232
Total cash flow from operating activities	**-15,244**
Cash flow from investing activities	
Purchase of PPE and intangible assets	-43
Total cash flow from investing activities	**-43**
Change in cash and cash equivalents	
Cash and cash equivalents at period-start	17,748
Cash and cash equivalents at the end of the period	2,461
Net change in cash and cash equivalents	**-15,287**
Cash and cash equivalents	
Receivables from credit institutions payable on demand	2,461
Total	**2,461**

NOTES

NOTE 1 ACCOUNTING POLICIES

GENERAL

POP MORTGAGE BANK PLC AND POP BANK GROUP

POP Mortgage Bank Plc (hereinafter 'POP Mortgage Bank) is a subsidiary wholly owned by POP Bank Centre coop and a member credit institution in the amalgamation of POP Banks, acting as the mortgage bank for the member banks of the POP Bank Centre coop (POP Banks).

POP Mortgage Bank belongs to the POP Bank Group. The POP Bank Group consists of the amalgamation of POP Banks and companies over which it has control. The Group is engaged in banking and insurance business. The central institution for the amalgamation of POP Banks is POP Bank Centre coop. Its members consist of POP Mortgage Bank, Bonum Bank Plc and 19 co-operative banks. The amalgamation of POP Banks is an economic entity specified in the Act on the Amalgamation of Deposit Banks, the members of which are jointly liable for each other's debts and commitments.

POP Mortgage Bank and Bonum Bank Plc are responsible for acquiring external funding for the amalgamation. POP Mortgage Bank engages in mortgage bank operations under an intermediary loan model established by the Act on Mortgage Banks and Covered Bonds (151/2022). In the intermediary loan model, POP Mortgage Bank distributes the capital originating from the issued bond to the member banks of amalgamation as an intermediary loan. POP Mortgage Bank underwrites intermediary loans on member banks balance sheets in security for issued bonds. In the intermediary loan model, member banks mortgage-backed loans capital and associated risks are not transferred to POP Mortgage Bank. Intermediary loans will be stated to balance sheet item "Loans and advances to credit institutions".

POP Mortgage Bank's registered office is Espoo. Copy of POP Mortgage Bank's financial statements are available from its office at Hevosenkenkä 3, FI-02600 Espoo, and online at www.poppankki.fi/en.

POP Bank Centre coop has prepared the POP Bank Group's consolidated financial statements in accordance with the Act on the Amalgamation of Deposit Banks. Copies of the financial statements of the POP Bank Group are available online at www.poppankki.fi/en or from the office of the central institution, address Hevosenkenkä 3, 02600 Espoo, Finland. POP Bank Group will present information concerning risks specified in the EU Capital Requirements Regulation (EU 2019/876) (CRR) in a separate Pillar III report.

BASIS OF PREPARATION

POP Mortgage Bank has been established on September 2, 2021, due to which this half-year report does not present comparative figures for the result, cash flow statement or solvency. POP Mortgage Bank's accounting and operational currency is euro.

POP Mortgage Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) approved in the EU and the related Interpretations (IFRIC). The applicable Finnish accounting and corporate legislation and regulatory requirements have also been taken into account when preparing the notes to the financial statements.

The half-year report has been prepared in accordance with IAS 34 Interim Financial Reporting. The figures disclosed in the half-year report are unaudited. The figures in the half-year report are in thousand euros, unless otherwise stated. The figures in the calculations and tables are rounded, whereby the sum total of individual figures may deviate from the sum total presented.

POP Mortgage Bank has no subsidiaries or associated companies.

FINANCIAL INSTRUMENTS

CLASSIFICATION AND RECOGNITION

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

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

- Financial liabilities at amortised cost

Purchases and sales of financial instruments are recognised on the settlement date. Instruments issued are recognised in the balance sheet on the date when the customer makes the subscription.

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 final 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.

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

POP Mortgage Bank's 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, in which the liquidity does not have to be tested by regular sales, may be classified to this measurement class.

Financial liabilities measured at amortised cost

POP Mortgage Bank'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. The POP Bank Group has no financial liabilities measured at fair value through profit or loss.

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.

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.

POP Mortgage Bank's all financial assets, from which expected credit losses should be calculated, consist of internal deposits of the POP Banks Group. In the calculation of expected credit losses (ECL), the probability of default (PD) of the group's internal items has been considered to be zero, based on the group's structure and risk management principles. Calculation principles for expected credit losses can be read in POP Bank Group Annual Report for 2021, "POP Bank Group's accounting policies".

INTANGIBLE ASSETS

Intangible assets are comprised 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, 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.

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 3–7 years for information systems and licenses.

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.

EMPLOYEE BENEFITS

Employee benefits are short-term employee benefits, such as remunerations for positions of responsibility, which are expected to be paid in connection with the work performance they are related to or within the following 12 months.

POP Mortgage Bank does not have employees. The company purchases the administrative and management services needed from its parent company POP Bank Centre coop and its sister company Bonum Bank Plc.

INCOME TAX

The income statement includes taxes on income for the financial year and changes in deferred taxes.

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.

ACCOUNTING POLICIES REQUIRING MANAGEMENT'S JUDGEMENT AND UNCERTAINTY FACTORS AFFECTING ESTIMATES

The application of the IFRS requires the management to make estimates and assumptions concerning the future that affect the reported amounts in the financial statements, as well as the information included in the notes. The management's main estimates concern the future and key uncertainties related to the amounts at the balance sheet date. Such key estimates are related to fair value measurement, as well as the impairment of financial assets and intangible assets. The management's estimates and assumptions are based on the best view at the balance sheet date, which may differ from the actual result.

At the end of each reporting period, management is required to assess whether there is any indication that an asset other than a financial asset may be impaired. Impairment of intangible assets should be assessed whenever there is any indication that an asset may be impaired. The impairment test for intangible assets determines the amount of the asset's future recoverable amount based on either the asset's value in use or its fair value. Impairment testing requires management to exercise judgment and estimate the amount of cash or interest that will be used in discounting the asset in the future. The valuation of intangible assets in progress also requires management judgment.

In the calculation of expected credit losses, the management's assessment has been used in deciding that the probability of default of the POP Banks Group's internal items is to be zero. The assessment was made based on the structure of the Group and the principles of risk management.

NOTE 2 INTEREST INCOME AND EXPENSES

(EUR 1 000)	1 Jan - 30 Jun 2022
Interest income	
Loans and advances to credit institutions	18
Total interest income	**18**
Net interest income	**18**

NOTE 3 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS 30 JUN 2022

(EUR 1 000)	Measured at amortised cost	Total carrying amount
Loans and advances to credit institutions	16,961	16,961
Financial assets total	**16,961**	**16,961**
Other assets		678
Total assets 30 Jun 2022		**17,639**

FINANCIAL ASSETS 31 DECEMBER 2021

(EUR 1 000)	Measured at amortised cost	Total carrying amount
Loans and advances to credit institutions	17,748	17,748
Financial assets total	**17,748**	**17,748**
Other assets		539
Total assets 31 December 2021		**18,287**

FINANCIAL LIABILITIES 30 JUN 2022

(EUR 1 000)	Measured at amortised cost	Total carrying amount
Other liabilities	-	347
Total liabilities 30 Jun 2022		**347**

FINANCIAL LIABILITIES 31 DECEMBER 2021

(EUR 1 000)	Measured at amortised cost	Total carrying amount
Other liabilities	-	115
Total liabilities 31 December 2021		**115**

NOTE 4 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES AND FAIR VALUES BY VALUATION TECHNIQUE

	30 Jun 2022		31 Dec 2021	
(EUR 1 000)	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Loans and receivables from credit institutions	16,961	16,961	17,748	17,748
Total	**16,961**	**16,961**	**17,748**	**17,748**

FAIR VALUE HIERARCHY LEVELS OF ITEMS RECOGNIZED AT AMORTISED COST

ASSETS MEASURED AT AMORTISED COST 30 JUNE 2022

(EUR 1 000)	Level 1	Level 2	Level 3	Total fair value
Loans and receivables from credit institutions	-	16,961	-	16,961
Total	**0**	**16,961**		**16,961**

ASSETS MEASURED AT AMORTISED COST 31 DECEMBER 2021

(EUR 1 000)	Level 1	Level 2	Level 3	Total fair value
Loans and receivables from credit institutions	-	17,748	-	17,748
Total	**0**	**17,748**		**17,748**

FAIR VALUE DETERMINATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and liabilities are recognised in balance sheet at fair value or amortised cost. Classification and valuation of financial instruments are described in more detail in Note 1 Accounting policies.

FAIR VALUE HIERARCHIES

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

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

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

TRANSFERS BETWEEN FAIR VALUE HIERARCHY LEVELS

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. There were no transfers between levels during the reporting period.

NOTE 5 RELATED PARTY DISCLOSURES

The related parties of POP Mortgage Bank comprise the members of the company's Board of Directors and Executive Group and members of their immediate families. In addition, related parties include POP Mortgage Bank's parent entity POP Bank Centre, as well as its managing director and deputy managing director. Furthermore, related parties include those entities over which key persons included in the management and/or members of their immediate families have control or joint control. Also entities in the same group with POP Mortgage Bank belong to the related parties.

NOTE 6 EVENTS AFTER THE REPORTING PERIOD

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

Espoo 11 August 2022

POP Mortgage Bank Plc
Board of Directors

FURTHER INFORMATION

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POP Mortgage Bank Plc