POP Mortgage Bank Plc

# BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

1 January – 31 December 2022

POP Bank
POP Mortgage Bank Plc

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This document is a translation of the original Finnish version "POP Asuntoluottopankki Oyj:n toimintakertomus ja tilinpäätös 1.1.-31.12.2022". In case of discrepancies, the Finnish version shall prevail.

# BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2022

## BOARD OF DIRECTOR'S REPORT

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 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 one billion euros Covered Bond issuance program. In September 2022 POP Mortgage Bank issued its inaugural 250 million euro covered bond.

POP Mortgage Bank recorded a loss of EUR 1.4 million for the reporting period and balance sheet totalled EUR 268.3 million at the end of the reporting period.

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 for private customers and small and medium-sized enterprises, in addition to providing private customers with non-life insurance services. The POP Banks are cooperative banks owned by their member customers. The POP Banks' mission is to promote their customers' financial well-being and prosperity, as well as local success.

### STRUCTURE OF THE POP BANK GROUP

The 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.

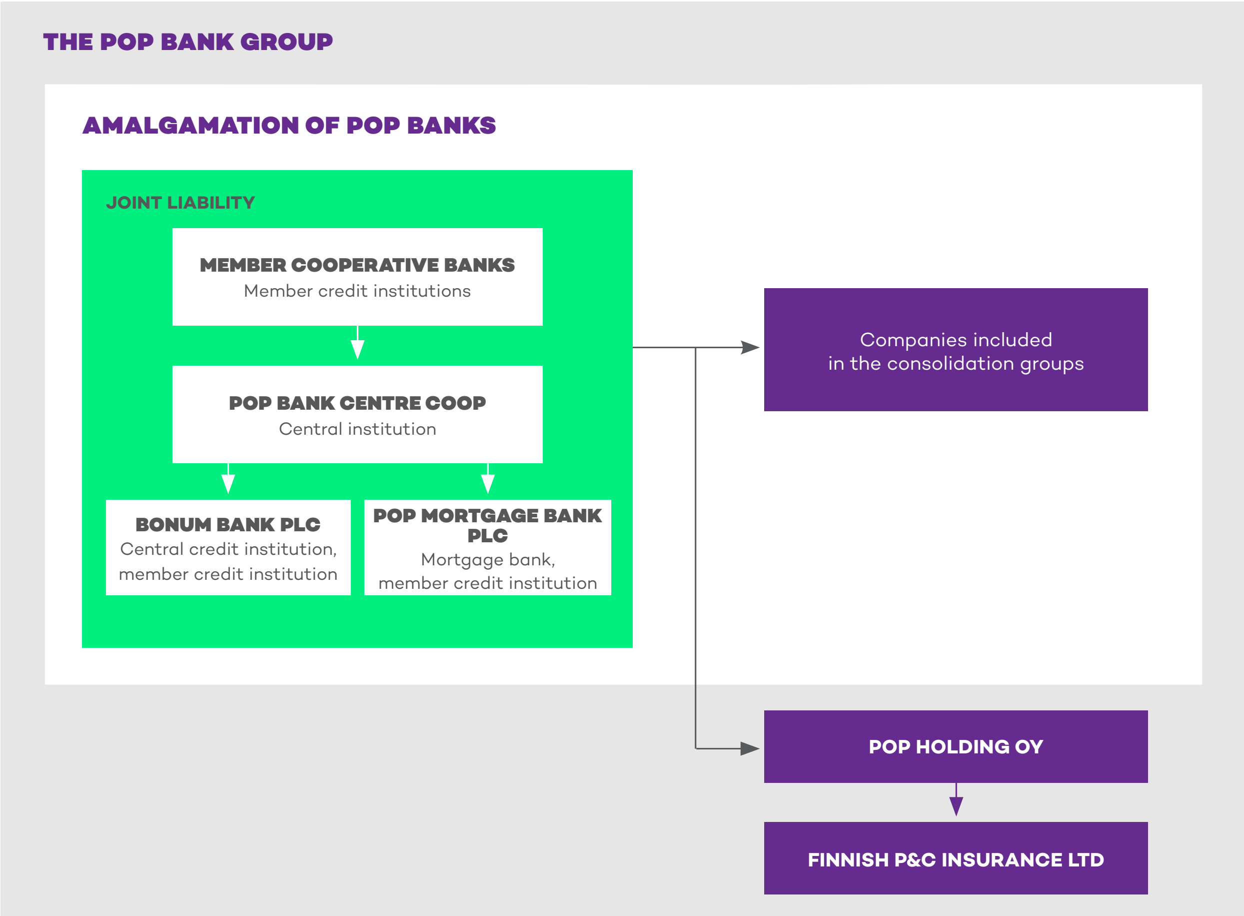
POP Bank Centre coop is the central institution of the Amalgamation of POP Banks and is responsible for steering and supervising the POP Bank Group. POP Bank Centre coop has two subsidiaries, Bonum Bank Plc and POP Mortgage Bank Plc, which are also its member credit institutions.

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.

The 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 figure shows the structure of the POP Bank Group and the entities included in the amalgamation and covered by joint mutual responsibility.

## 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.

## 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 FIGURES AND THE FORMULAS OF KEY FIGURES

| | 31 Dec 2022 |
|---|---|
| Cost-to-income -ratio, % | 610 % |
| ROA, % | -1.0 % |
| ROE, % | -7.9 % |
| Capital adequancy ratio (TC) % | 307.1 % |
| Equity ratio, % | 6.3 % |

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 Mortgage Bank 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.

### COST-TO-INCOME RATIO, %

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

### RETURN ON EQUITY (ROE), %

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

### 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), %

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

## NET STABLE FUNDING RATIO (NSFR), %

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

# PERFORMANCE AND BALANCE SHEET

## PERFORMANCE

POP Mortgage Bank recorded a loss of EUR 1.4 (0.8) million for the reporting period.

POP Mortgage Bank's net interest income was EUR 0.3 (-) million. Interest income consisted of EUR 1.3 (-) million in receivables from credit institutions and EUR 1.9 (-) million in derivative contracts. Interest expenses consisted of EUR 1.8 (-) million in bonds issued and EUR 1.0 (-) million in derivative contracts.

POP Mortgage Bank's operating expenses totalled EUR 1.6 (0.8) million. Personnel expenses included fees paid to the members of the Board of Directors. Other operating expenses include EUR 0.5 (0.2) million in ICT expenses and EUR 0.9 (0.3) million in purchased services. Purchased services include management services purchased from Bonum Bank Plc and POP Bank Centre coop, among other services. Depreciation and impairment include the amortisation of intangible assets. Other operating expenses totalled EUR 0.2 (0.4) million, including regulatory and consulting costs related to the mortgage banking authorisation process, among other expenses.

## BALANCE SHEET AND FINANCIAL POSITION

POP Mortgage Bank's balance sheet totalled EUR 268.3 (18.3) million at the end of the reporting period.

Loans and receivables from credit institutions include EUR 15.8 (17.7) million in deposits in Bonum Bank and EUR 250.0 (-) million in intermediary loans granted to banks belonging the Amalgamation of POP Banks.

The item "Intangible assets" includes EUR 0.5 (0.5) million in investments made by POP Mortgage Bank in long-term ICT systems.

Derivative contracts consist of interest rate swaps for hedging purposes. The accumulated change in their fair value stood at EUR 6.5 (0.0) million at the end of the reporting period.

The bonds issued, at EUR 243.0 (-) million, include a secured bond issued in September 2022, with a nominal value of EUR 250 million, and the change in the fair value of the underlying asset in hedge accounting.

POP Mortgage Bank's equity was EUR 16.8 (18.2) million at the end of the reporting period.

# CREDIT RATING

In September 2022, S&P Global Ratings' assigned POP Mortgage Bank's covered bond program and inaugural covered bond issuance 'AAA' ratings with stable outlook.

# 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 a 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. 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 consist of intermediary loans granted to the member banks of the amalgamation of POP Banks and from derivatives.

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 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 coverage ratio (LCR) for the amalgamation of POP Banks was 184.8 (163.5) per cent on 31 December 2022, with the regulatory minimum level being 100 per cent. The amalgamation's Net Stable Funding Ratio (NSFR) was 133.5 (131.3) per cent on 31 December 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 rate 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 and market-based financing.

POP Mortgage Bank does not engage in trading activities. The 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. 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.

### 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. The Bank's capital ratio was 307.1 per cent and the core capital adequacy ratio 307.1 per cent. On 31 December 2022, the Bank's own funds totalled EUR 16.3 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.

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 31 December 2022 was 339.2 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

| (EUR 1,000) | 31 Dec 2022 |
|---|---|
| **Own funds** | |
| Common Equity Tier 1 capital before deductions | 16,793 |
| Deductions from Common Equity Tier 1 capital | -529 |
| **Total Common Equity Tier 1 capital (CET1)** | **16,264** |
| | |
| Additional Tier 1 capital before deductions | - |
| Deductions from Additional Tier 1 capital | - |
| **Additional Tier 1 capital (AT1)** | **-** |
| | |
| **Tier 1 capital (T1 = CET1 + AT1)** | **16,264** |
| | |
| Tier 2 capital before deductions | - |
| Deductions from Tier 2 capital | - |
| **Total Tier 2 capital (T2)** | **-** |
| | |
| **Total capital (TC = T1 + T2)** | **16,264** |
| | |
| **Total risk weighted assets** | **5,296** |
| of which credit risk | 974 |
| of which credit valuation adjustment risk (CVA) | 2,657 |
| of which market risk (exchange rate risk) | - |
| of which operational risk | 1,666 |
| | |
| **Fixed capital conservation buffer according to Act on Credit institutions (2.5%)** | **132** |
| **Countercyclical capital buffer** | **-** |
| | |
| **CET1 Capital ratio (%)** | **307.1 %** |
| **T1 Capital ratio (%)** | **307.1 %** |
| **Total capital ratio (%)** | **307.1 %** |
| | |
| **Capital requirement** | |
| Total capital | 16,264 |
| Capital requirement * | 556 |
| Capital buffer | 15,707 |
| | |
| **Leverage ratio** | |
| Tier 1 capital (T1) | 16,264 |
| Leverage ratio exposure | 4,794 |
| Leverage ratio, % | 339.2 % |

* 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.

## 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.

## THE BANK'S MANAGEMENT AND PERSONNEL

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

- **Juha Niemelä**, Chairman of the Board
- **Matti Vainionpää**, Vice Chairman of the Board
- **Marja Pajulahti**, 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. **Tony Tötterström** was appointed as the CEO's deputy on 15 May 2022.

## THE BANK'S CORPORATE GOVERNANCE

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**.

## AUDIT

The company's auditor was KPMG Oy Ab, authorized public accountants, with Tiia Kataja, authorised public accountant, as the principal auditor.

## SOCIAL RESPONSIBILITY

POP Mortgage Bank's social responsibility refers to the Bank's responsibility for the effects of its operations on the surrounding society and the company's stakeholders. By acting as the mortgage bank for POP Banks, POP Mortgage Bank contributes to supporting the social responsibility of local POP Banks. POP Bank Group's social responsibility is included in the Group's financial statements.

## 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.

## OUTLOOK FOR 2023

POP Mortgage Bank's result is expected to turn positive after the second issue has been implemented.

## BOARD OF DIRECTORS'S PROPOSAL ON THE DISPOSAL OF THE RESULT FOR THE PERIOD

POP Mortgage Bank's distributable funds were EUR 6,792,625.09. POP Mortgage Bank's Board of Directors proposes to the Annual General Meeting that the losses for the period (EUR -1,379,403.45) be recognised in retained earnings and that no dividends be paid.

# POP MORTGAGE BANK'S FINANCIAL STATEMENTS 1 JANUARY – 31 DECEMBER 2022

## POP MORTGAGE BANK'S INCOME STATEMENT

| (EUR 1,000) | Note | 1 Jan - 31 Dec 2022 | 2 Sep - 31 Dec 2021 |
|---|---|---|---|
| Interest income | | 3,216 | - |
| Interest expenses | | -2,878 | - |
| **Income statement** | **3** | **339** | - |
| Net income from hedge accounting | 4 | -69 | - |
| **Total operating income** | | **270** | **-** |
| Personnel expenses | 5 | -25 | -7 |
| Other operating expenses | 6 | -1,557 | -821 |
| Depreciation and amortisation | 7 | -68 | - |
| **Total operating expenses** | | **-1,650** | **-828** |
| **Profit before taxes** | | | |
| Income taxes | 8 | - | - |
| **Result for the period** | | **-1,379** | **-828** |

POP Mortgage Bank has no items to be presented in the statement of other comprehensive income.

# POP MORTGAGE BANK'S BALANCE SHEET

| (EUR 1,000) | Note | 31 Dec 2022 | 31 Dec 2021 |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to credit institutions | 10, 11, 12 | 265,784 | 17,748 |
| Intangible assets | 13 | 514 | 539 |
| Other assets | 14 | 2,033 | - |
| **Total assets** | | **268,332** | **18,287** |
| | | | |
| **Liabilities** | | | |
| Debt securities issued to the public | 10, 11, 15 | 243,038 | - |
| Derivatives | 10, 11, 16 | 6,520 | - |
| Other liabilities | 17 | 1,981 | 115 |
| **Total liabilities** | | **251,539** | **115** |
| | | | |
| **Equity capital** | | | |
| Share capital | 18 | 10,000 | 10,000 |
| Reserves | 18 | 9,000 | 9,000 |
| Retained earnings | 18 | -2,207 | -828 |
| **Total equity capital** | | **16,793** | **18,172** |
| | | | |
| **Total liabilities and equity** | | **268,332** | **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 | - | - | -1,379 | -1,379 |
| **Profit for the financial year** | **-** | **-** | **-1,379** | **-1,379** |
| **Balance at 31 Dec 2022** | **10,000** | **9,000** | **-2,207** | **16,793** |

| (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** | **-** | **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 - 31 Dec 2022 | 2 Sep - 31 Dec 2021 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit for the financial year | -1,379 | -828 |
| Adjustments to profit for the financial year | 169 | - |
| **Increase (-) or decrease (+) in operating assets** | **-266,533** | **-** |
| Advances to credit institutions | -264,500 | - |
| Other assets | -2,033 | - |
| **Increase (+) or decrease (-) in operating liabilities** | **1,866** | **115** |
| Other liabilities | 1,866 | 115 |
| **Total cash flow from operating activities** | **-265,878** | **-713** |
| | | |
| **Cash flow from investing activities** | | |
| Changes in other investments | 0 | - |
| Purchase of PPE and intangible assets | -43 | -539 |
| **Total cash flow from investing activities** | **-43** | **-539** |
| | | |
| **Cash flow from financing activities** | | |
| Debt securities issued, increase | 249,458 | - |
| Increases in share capital | - | 19,000 |
| **Total cash flow from financing activities** | **249,458** | **19,000** |
| | | |
| **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 | 1,284 | 17,748 |
| **Net change in cash and cash equivalents** | **-16,464** | **17,748** |
| | | |
| **Additional information of the Cash Flow Statement** | | |
| Interest received | 1,202 | - |
| Interest paid | 945 | - |
| | | |
| **Adjustments to result for the financial year** | | |
| Changes in fair value | 69 | - |
| Depreciation | 68 | - |
| Other | 32 | - |
| | | |
| **Cash and cash equivalents** | | |
| Receivables from credit institutions payable on demand | 1,284 | 17,748 |

# 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 has been established on September 2, 2021. On 25 May 2022, POP Mortgage Bank Plc was authorised by the European Central Bank to engage in mortgage banking operations.

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, 02600 Espoo, Finland, 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'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 figures in the financial statements 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's accounting and operational currency is euro.

POP Mortgage Bank has no subsidiaries or associated companies.

## 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.

## 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
- Financial liabilities at fair value through profit

and loss 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 financial assets, 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 are described in more detail in Note 3 POP Bank Group's accounting policies to the POP Bank Group's financial statements.

**DERIVATIVE CONTRACTS AND HEDGE ACCOUNTING**

POP Mortgage Bank 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 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 Hedge accounting. 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 Mortgage Bank applies IFRS 9 Financial Instruments to hedge accounting for all hedging relationships.

### 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 3–5 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.

# NOTE 2 RISK MANAGEMENT

## PRINCIPLES OF RISK MANAGEMENT AND CAPITAL ADEQUACY MANAGEMENT

POP Mortgage Bank is the mortgage bank and a member credit institution of the amalgamation of POP Banks and a subsidiary of the POP Bank Centre Coop. 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 controlling thresholds have been established for the member institutions to ensure that the risks taken by an individual member institution are within acceptable limits.

Risk and capital adequacy management is regulated by EU legislation, Act on Credit Institutions (610/2014), Act on the Amalgamation of Deposit Banks (2010/599; hereinafter referred to as the "Amalgamation Act") and the standards, regulations and guidelines issued by the Financial Supervisory Authority. POP Mortgage Bank also complies with the Act on Mortgage Banks and Covered Bonds (151/2022).

The purpose of risk management is to ensure that the bank does not take such risks in its operations that would result in a material threat to the capital adequacy or solvency. The purpose of the risk management process 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 appetite capacity of the POP Mortgage Bank.

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 POP Mortgage Bank's business strategy and plan and to secure the uninterrupted operation of the POP Mortgage Bank in case of unexpected losses. The goal is pursued through a documented and systematic capital adequacy management process that is integrally linked to the amalgamations and other member credit institutions' business planning and management.

The central institution is responsible for the risk and capital adequacy management of the POP Bank 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 special regulations related to the operations of a mortgage bank have been taken into account in the guidance of the central cooperative and in the steering limits and process requirements set for the business operations of the POP Mortgage Bank. POP Mortgage Bank, within limits set by confirmed business risk thresholds, carries its business risks independently in its operations and is liable for its capital adequacy. The capital adequacy, liquidity coverage ratio and customer risks of the POP Mortgage Bank 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.

POP Mortgage Bank conducts an extensive identification and evaluation of risks related to its operations and sets risk-bearing capacity to match the total amount of the risks. In order to secure the capital adequacy, bank sets risk-based capital objectives and prepares a capital plan to achieve these objectives. Calculation methods defined by the central institution's risk monitoring function are used when preparing the capital plan.

The most significant risks associated with POP Mortgage Bank's operations are credit risk, liquidity risk, interest rate risk and operational risk. The risk strategy confirmed by the Board of Directors of the central institution outlines the risk appetite of the operations, within which the Board of Directors of the POP Mortgage Bank sets its own guidelines and restrictions. Business activities are carried out at a moderate risk level so that the risks can be managed in full.

Risk management is an essential part of the internal controls of POP Mortgage Bank. 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.

## ORGANISATION OF RISK AND CAPITAL ADEQUACY MANAGEMENT

POP Mortgage Bank's Board of Directors confirms the objectives of the business operations, guidelines, limits to the risk levels of the operations as well as the risk-taking authorities. 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 assesses the appropriateness, extent and reliability of capital adequacy management. 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 executive management is responsible for the risk management of the daily operations within the scope of the risk limits and risk-taking authority.

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

POP Mortgage Bank's independent risk monitoring is responsible for monitoring the risk limits and capital adequacy in the business operations as well as reporting them to the Board of Directors and the independent risk management function of the central institution of the amalgamation. The assignment of Bonum Bank's risk monitoring function is to form a comprehensive view of the risks included in the bank's operations, develop risk management methods and processes for identifying, measuring, and monitoring risks in accordance with the principles issued by the central institution.

The centralized compliance function of the central institution supervises that the bank complies with applicable 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. As the central institution, POP Bank Centre coop supervises the sufficiency and functioning of the risk management systems in all the member credit institutions in accordance with section 17 of the Amalgamation Act. In addition, the supervision of a mortgage bank takes into account the requirements and special features of the regulation related to the mortgage banking business.

The principles, organisation and internal control measures of amalgamation's risk and capital adequacy management are described in more detail in Note 4 to the POP Bank Group's financial statements. Material information regarding capital adequacy as specified in the Capital Requirements Regulation (EU575/2013) is presented in a separate Pillar III report. Copies of the financial statements of the POP Bank Group are available from the office of the central institution, address Hevosenkenkä 3, 02600 Espoo, Finland, and online at www.poppankki.fi.

## CAPITAL ADEQUACY MANAGEMENT

The objective of capital adequacy management is to ensure that the POP Mortgage Bank has an adequate capital buffer to achieve its business strategy and to cover the material risks arising from them in all circumstances. In solvency management, the POP Mortgage Bank complies with the solvency management principles set by the central cooperative of the amalgamation.

Capital adequacy management is pursued through a systematic capital adequacy management process that is integrally linked to the amalgamation's and other member credit institutions' business planning and management. As part of the capital adequacy management process the aim is to identify all material risks and assess their magnitude and required capital levels.

Under the supervision of the central institution, POP Mortgage Bank prepares its own capital plan and stress tests on an annual basis using harmonized principles defined by the central institution. The process ensures that the POP Mortgage Bank's growth, profitability and risk-bearing capacity objectives are appropriate and consistent.

The most significant capital requirements of POP Mortgage Bank arise from receivables from intermediary loans granted to the member banks of the amalgamation of POP Banks. The amalgamation applies the standardised approach for the calculation of the capital requirement for credit risk, and the basic indicator approach for calculating the capital requirement to the operational risk. POP Mortgage Bank does not engage in trading activities.

POP Mortgage Bank's own funds consist of share capital, retained earnings and other non-restricted reserves, less the deductible items in accordance with the EU's Capital Requirements Regulation (No. 575/2013).

POP Mortgage Bank releases the essential information in terms of capital adequacy calculation annually as part of its Board of Directors' report and notes to the financial statements.

## BUSINESS RISKS

### CREDIT RISK

POP Mortgage Bank's most significant risk is credit and counterparty risk. Credit risk refers to a situation in which a counterparty cannot fulfil its contractual obligations. POP Mortgage Bank's credit risk consist of intermediary loans granted to the member banks of the amalgamation of POP Banks and from derivatives.

The POP Mortgage Bank engages in mortgage bank operations under an intermediary loan model established in accordance with the Act on Mortgage Credit 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 the POP Mortgage Bank's balance sheet. The risks associated with the mortgage-backed loans provided as collateral are not transferred to the POP Mortgage Bank. The loans 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.

The POP Mortgage Bank is responsible for monitoring the amount and adequacy of the eligible loan portfolio in the POP Bank Group's mortgage banking operations. The pool eligibility of collateral is reviewed on a daily basis, based on the criteria of the business operations and the Act on Mortgage Credit Banks. The POP Mortgage Bank has a framework agreement with the member credit institutions of the POP Bank Group on the issue of secured bonds and the use of mortgage-backed loans on the balance sheets of the member banks as collateral for the bonds to be issued. Credit decisions, credit management and collateral assessment are carried out locally by the member banks, based on the guidelines issued by the central institution. Loan collateral is prudently valued at fair value, and market valuations are monitored regularly using both statistical models and good industry knowledge. The valuation factors applied to collateral are consistent across all the member credit institutions of the amalgamation.

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. Copies of the financial statements 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.

## MARKET RISKS

Market risk refers to the effect of changes in interest rates or other market prices on the bank's result and capital adequacy. The market risk classes are interest rate, currency, equity and commodity 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 timely monitoring of the risk exposures. Within the amalgamation of POP Banks, the central institution's Board of Directors confirms the market risk strategy and market risk management guidelines, which create the foundation for market risk management at POP Mortgage Bank.

In accordance with the Act on Mortgage Credit Banks and Covered Bonds, the business of the POP Mortgage Bank is to issue euro-denominated secured bonds and to grant intermediate loans to the member credit banks of the Amalgamation of POP Banks. The POP Mortgage Bank does not have a trading book, and it invests its excess liquid assets as deposits in Bonum Bank Plc, a member of the Amalgamation of POP Banks.

The POP Mortgage Bank does not take stock risk, commodity risk or currency risk in its operations. Both the secured bonds and intermediary loans issued are denominated in euros. In its operations, POP Mortgage Bank uses interest rates derivatives, where necessary, to match the interest cash flows of issued bonds and intermediary loans to reduce the interest rate risk.

The interest rate risk is the most significant market risk in POP Mortgage Bank's business operations. Interest rate risk refers to the effect of changes in interest rate levels on the market value or net interest income of balance sheet items and off-balance sheet items. The banking book consists of loans and advances to credit institutions and market-based financing.

Interest rate risk arises from differences in the interest terms of receivables and liabilities and mismatches in interest rate repricing and maturity dates. The objective of interest rate risk management is to stabilise the interest rate risk involved in the bank's balance sheet to a level at which the effect of open risk is minor in all circumstances and meet the regulatory requirements set for mortgage banks as well as stricter internal risk limits. Interest rate risk is managed primarily by planning the balance sheet structure, such as the interest rate fixing or maturity of assets and liabilities or alternatively by using interest rate derivatives for hedging purposes. The information on the derivatives have been disclosed in Note 16 derivatives and hedge accounting.

Interest rate risk in POP Mortgage Bank 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 INTEREST RATE SENSITIVITY ANALYSIS OF THE BANKING BOOK

| Impact to interest margin (EUR 1,000) | Change | 31 Dec 2022 1-12 months |
|---|---|---|
| Interest rate risk | +1% -point | 33,607 |
| Interest rate risk | -1% -point | -33,612 |

The impact of the interest rate risk on operating income has been calculated as a change to the 12-month forecast of the net interest income, assuming one percentage point upward or downward parallel interest rate level shift. The effect on own funds has been determined through present value change in balance sheet with the same interest rate shocks.

### LIQUIDITY RISKS

Liquidity risk refers to POP Mortgage Bank's ability to fulfil its commitments. Liquidity risk can be divided into short-term liquidity risk and long-term structural financing risk. Short-term liquidity risk refers to a situation in which the bank cannot without difficulty fulfil its liabilities to pay. Structural financing risk refers to a refinancing risk that arises from the difference in the maturities of balance sheet receivables and liabilities.

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 are met at the amalgamation level only. The central credit institution, Bonum Bank Plc, is responsible for meeting the regulatory requirements.

Bonum Bank as 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.

### MATURITY OF FINANCIAL LIABILITIES 31 DEC 2022

| (EUR 1,000) | Less than 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Debt securities issued to the public | - | - | 243,038 | - | 243,038 |
| Derivatives | - | - | 6,520 | - | 6,520 |
| **Total** | **-** | **-** | **249,558** | **-** | **249,558** |

## OPERATIONAL RISKS

Operational risks refer to financial losses or other harmful consequences to business that may be caused by internal inadequacies or errors in systems, processes, procedures and the actions of personnel, or by external factors affecting the business. The operational risk of POP Mortgage Bank also arises from outsourced operations and major business projects.

The objective of the management of operational risks is to identify essential operational risks in the business operations and minimise their materialisation and effects. The objective is pursued by continuous personnel development, as well as comprehensive operating instructions and internal control measures, such as by segregating preparation, decision-making, implementation and control from each other, whenever possible.

The operational risks associated with the key products, services, functions, processes and systems are identified in the assessment process concerning a new product or service carried out by the business function and reviewed by the compliance and risk control function. The bank carries out annual self-assessment of operational risks on the basis of the risk assessments it performs, in which the monitoring of operational risk incidents is applied. Some of the losses caused by operational risks are hedged through insurance. Risks caused by malfunctions of information systems are prepared for by continuity planning.

Operational risks are monitored by collecting information on operational risk events, financial losses and any malpractices encountered. The executive management utilises reporting produced by internal control on compliance with instructions and information on changes in the operating environment.

## STRATEGIC RISK

Strategic risk refers to losses caused by choosing wrong strategy or business model in relation to the development of the bank's operating environment. The losses may also be caused by unsuccessful implementation of strategy, unexpected changes in the competitive environment or responding too slowly to changes.

In accordance with the strategic objectives specified in the business plan, POP Mortgage Bank must be able to secure the long-term funding needed by the banks within the amalgamation. Potential strategic threats have been considered when estimating capital needs.

POP Mortgage Bank aims to minimise strategic risks by means of regular updates of its 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.

## NOTE 3 INTEREST INCOME AND EXPENSES

| (EUR 1,000) | 1 Jan - 31 Dec 2022 | 2 Sep - 31 Dec 2021 |
|---|---|---|
| **Interest income** | | |
| Loans and advances to credit institutions | 1,344 | - |
| Hedging derivatives | 1,872 | - |
| **Total interest income** | **3,216** | **-** |
| | | |
| **Interest expenses** | | |
| Debt securities issued to the public | -1,830 | - |
| Hedging derivatives | -1,047 | - |
| **Total interest expenses** | **-2,878** | **-** |
| | | |
| **Net interest income** | **339** | **-** |

## NOTE 4 NET INCOME FROM HEDGE ACCOUNTING

| (EUR 1,000) | 1 Jan - 31 Dec 2022 | 2 Sep - 31 Dec 2021 |
|---|---|---|
| Change in hedging instruments' fair value | -6,520 | - |
| Change in hedged items' fair value | 6,452 | - |
| **Net income from hedge accounting** | **-69** | **-** |

## NOTE 5 PERSONNEL EXPENSES

| (EUR 1,000) | 1 Jan - 31 Dec 2022 | 2 Sep - 31 Dec 2021 |
|---|---|---|
| Wages and salaries | -25 | -7 |
| **Total personnel expenses** | **-25** | **-7** |

## NOTE 6 OTHER OPERATING EXPENSES

| (EUR 1,000) | 1 Jan - 31 Dec 2022 | 2 Sep - 31 Dec 2021 |
|---|---|---|
| Purchased services | -905 | -279 |
| ICT expenses | -470 | -180 |
| Audit fees | -20 | -4 |
| Other operating expenses | -162 | -358 |
| **Total other operating expenses** | **-1,557** | **-821** |
| | | |
| **Audit fees** | | |
| Statutory audit | -20 | -4 |
| Audit-related services | - | - |
| Tax advisory | - | - |
| Other expert services | - | - |
| **Total audit fees** | **-20** | **-4** |

## NOTE 7 INTEREST INCOME AND EXPENSES

| (EUR 1,000) | 1 Jan - 31 Dec 2022 | 2 Sep - 31 Dec 2021 |
|---|---|---|
| Intangible assets | -68 | - |
| **Total depreciation, amortisation and impairment** | **-68** | **-** |

## NOTE 8 INCOME TAX

| (EUR 1,000) | 1 Jan - 31 Dec 2022 | 2 Sep - 31 Dec 2021 |
|---|---|---|
| Profit before tax | -1,379 | -828 |
| Income tax rate | 20 % | 20 % |
| Tax calculated at the tax rate | 276 | 166 |
| | | |
| - Deferred tax assets not recognised on losses | -276 | -166 |
| **Tax expense in the income statement** | **-** | **-** |

POP Mortgage Bank's result for the financial year was negative, and no deferred tax asset has been recognised for the loss in accordance with the principle of prudence. Therefore, income taxes are not presented in the income statement.

## NOTE 9 NET INCOME AND EXPENSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

| Financial assets (EUR 1,000) | 1 Jan - 31 Dec 2022 | 2 Sep - 31 Dec 2021 |
|---|---|---|
| **At amortised cost** | | |
| Interest income and expenses | 1,344 | - |
| **Total** | **1,344** | **-** |

| Financial liabilities (EUR 1,000) | 1 Jan - 31 Dec 2022 | 2 Sep - 31 Dec 2021 |
|---|---|---|
| **At amortised cost** | | |
| Interest income and expenses | -1,830 | - |
| **Total** | **-1,830** | **-** |
| **At fair value through profit or loss** | | |
| Derivatives | | |
| Fair value gains and losses | -69 | - |
| Interest income and expenses | 825 | - |
| **Total** | **756** | **-** |

# NOTE 10 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

## FINANCIAL ASSETS 31 DEC 2022

| (EUR 1,000) | Measured at amortised cost | At fair value through profit or loss | Measured at fair value through other comprehensive income | Total carrying amount |
|---|---|---|---|---|
| Loans and advances to credit institutions | 265,784 | - | - | 265,784 |
| **Financial assets total** | **265,784** | **-** | **-** | **265,784** |
| Other assets | | | | 2,547 |
| **Total assets 31 Dec 2022** | | | | **268,332** |

## FINANCIAL ASSETS 31 DECEMBER 2021

| (EUR 1,000) | Measured at amortised cost | At fair value through profit or loss | Measured at fair value through other comprehensive income | 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 31 DEC 2022

| (EUR 1,000) | Measured at amortised cost | At fair value through profit or loss | Total carrying amount |
|---|---|---|---|
| Debt securities issued to the public | 243,038 | - | 243,038 |
| Derivative contracts | - | 6,520 | 6,520 |
| **Financial liabilities total** | **243,038** | **6,520** | **249,558** |
| Other liabilities | | | 1,981 |
| **Total liabilities 31 Dec 2022** | | | **251,539** |

## FINANCIAL LIABILITIES 31 DECEMBER 2021

| (EUR 1,000) | Measured at amortised cost | At fair value through profit or loss | Total carrying amount |
|---|---|---|---|
| Other liabilities | | | 115 |
| **Total liabilities 31 December 2021** | | | **115** |

# NOTE 11 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES AND FAIR VALUES BY VALUATION TECHNIQUE

## FAIR VALUE HIERARCHY LEVELS OF ITEMS RECURRENTLY RECOGNISED AT FAIR VALUE

### FINANCIAL ASSETS AT FAIR VALUE 31 DEC 2022

| (EUR 1,000) | Level 1 | Level 2 | Level 3 | Total fair value | Carrying amount |
|---|---|---|---|---|---|
| Derivatives | - | 6,520 | - | 6,520 | 6,520 |
| **Total financial assets** | **-** | **6,520** | **-** | **6,520** | **6,520** |

## 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 receivables from credit institutions | - | 265,784 | - | 265,784 | 265,784 |
| **Total** | **-** | **265,784** | **-** | **265,784** | **265,784** |

### ASSETS MEASURED AT AMORTISED COST 31 DECEMBER 2021

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

### LIABILITIES MEASURED AT AMORTISED COST 31 DECEMBER 2022

| (EUR 1,000) | Level 1 | Level 2 | Level 3 | Total fair value | Carrying amount |
|---|---|---|---|---|---|
| Debt securities issued to the public | - | 249,490 | - | 249,490 | 249,490 |
| **Total** | **-** | **249,490** | **-** | **249,490** | **249,490** |

POP Mortgage Bank did not have derivative contracts or bonds issued to the general public during the comparison period.

### 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 instrument allocated to Level 2 may be based on the value derived from the market quotation of components of an instrument. This group includes interest derivatives and other instruments that are not traded in liquid markets.

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

### 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 12 LOANS AND RECEIVABLES

| (EUR 1,000) | 31 Dec 2022 | 31 Dec 2021 |
|---|---|---|
| **Loans and receivables from credit institutions** | | |
| Deposits | | |
| Repayable on demand | 1,284 | 17,748 |
| Other | 14,500 | - |
| Intermediary loans | 250,000 | - |
| **Total loans and advances to credit institutions** | **265,784** | **17,748** |

# NOTE 13 INTANGIBLE ASSETS

## CHANGES IN INTANGIBLE ASSETS 2022

| (EUR 1,000) | Information systems | Incomplete intangible assets | Total |
|---|---|---|---|
| **Acquisition cost 1 January** | - | 539 | 539 |
| + Increases | - | 43 | 43 |
| +/- Transfers | 582 | -582 | 0 |
| **Acquisition cost 31 December** | **582** | **0** | **582** |
| **Accumulated depreciation and impairment 1 January** | - | - | - |
| - Depreciation | -68 | - | -68 |
| **Accumulated depreciation and impairment 31 December** | **-68** | **0** | **-68** |
| **Carrying amount 1 January** | **-** | **539** | **539** |
| **Carrying amount 31 December** | **514** | **-** | **514** |

### CHANGES IN INTANGIBLE ASSETS 2021

| (EUR 1,000) | Information systems | Incomplete intangible assets | Total |
|---|---|---|---|
| **Acquisition cost 1 January** | - | - | - |
| + Increases | - | 539 | 539 |
| +/- Transfers | - | | |
| **Acquisition cost 31 December** | **-** | **539** | **539** |
| | | | |
| **Accumulated depreciation and impairment 1 January** | - | - | - |
| - Depreciation | - | - | - |
| **Accumulated depreciation and impairment 31 December** | **-** | **-** | **-** |
| | | | |
| **Carrying amount 1 January** | **-** | **-** | **-** |
| **Carrying amount 31 December** | **-** | **539** | **539** |

## NOTE 14 OTHER ASSETS

| (EUR 1,000) | 31 Dec 2022 | 31 Dec 2021 |
|---|---|---|
| Accrued income and prepaid expenses | | |
| Interest | 2,014 | - |
| Other | 19 | - |
| **Other assets total** | **2,033** | **-** |

## NOTE 15 DEBT SECURITIES ISSUED TO THE PUBLIC

| (EUR 1,000) | 31 Dec 2022 | 31 Dec 2021 |
|---|---|---|
| Covered bonds | 243,038 | - |
| **Total debt securities issued to the public** | **243,038** | **-** |

### DEBT SECURITIES ISSUED TO THE PUBLIC (EUR 1,000)

| Bond | Issue date | Due date | Interest | Nominal | Currency |
|---|---|---|---|---|---|
| POPA FI4000526876 | 22 September 2022 | 22 September 2025 | 2.625 % / fixed | 250,000 | EUR |

### DEBT SECURITIES PRESENTED IN CASH FLOW RECONCILIATION TO BALANCE SHEET

| (EUR 1,000) | 31 Dec 2022 | 31 Dec 2021 |
|---|---|---|
| **Balance sheet 1 Jan** | - | - |
| Increase of bonds | 249,490 | - |
| **Total increase** | **249,490** | **-** |
| **Total changes of cash flow of financial activities** | | |
| Valuations and accrued interests | -6,452 | - |
| **Balance sheet 31 Dec** | **243,038** | **-** |

## NOTE 16 DERIVATIVES AND HEDGE ACCOUNTING

POP Mortgage Bank 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 bonds issued.

### NOMINAL AND FAIR VALUES OF DERIVATIVES

| 31 Dec 2022 | 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 | - | 250,000 | - | 250,000 | - | -6,520 |
| **Derivatives total** | **-** | **250,000** | **-** | **250,000** | **-** | **-6,520** |

The nominal value of the fixed-rate bond subject to fair value hedging at the end of reporting period was EUR 250 million. This item is included on the balance sheet under "debt securities issued to the public". The nominal values of derivative instruments correspond to the nominal values of the objects to be hedged.

### EFFECTS OF HEDGE ACCOUNTING ON FINANCIAL POSITION AND RESULT

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

## NOTE 17 LOANS AND RECEIVABLES

| (EUR 1,000) | 31 Dec 2022 | 31 Dec 2021 |
|---|---|---|
| **Accrued expenses** | | |
| Interest payable | -1,933 | - |
| Other accrued expenses | -48 | -115 |
| **Total provisions and other liabilities** | **-1,981** | **-115** |

## NOTE 18 EQUITY CAPITAL

| (EUR 1,000) | 31 Dec 2022 | 31 Dec 2021 |
|---|---|---|
| **Share capital** | 10,000 | 10,000 |
| Reserve for invested non-restricted equity | 9,000 | 9,000 |
| Retained earnings | | |
| Profit (loss) for previous financial years | -828 | 0 |
| Profit (loss) for the period | -1,379 | -828 |
| **Total equity** | **16,793** | **18,172** |

### SHARE CAPITAL

POP Mortgage Bank has one class of shares, and each share has one vote and equal rights to dividend. Shares have no nominal value. All issued shares have been fully paid. The total number of shares issued is 500.

There are no restrictions on the use of equity items.

The share subscription price received in connection with the share issues is entered in share capital to the extent that it has not been recorded in the invested unrestricted equity reserve according to the share issue decision.

### INVESTED UNRESTRICTED EQUITY RESERVE

The invested unrestricted equity reserve includes the subscription price of shares to the extent that it has not been recorded in share capital according to specific resolution.

### RETAINED EARNINGS

Retained earnings are earnings accrued in previous financial years that have not been transferred to equity reserves or distributed to shareholders.

## NOTE 19 COLLATERAL GIVEN

| (EUR 1,000) | 31 Dec 2022 | 31 Dec 2021 |
|---|---|---|
| **Collaterals given** | | |
| Given on behalf of own liabilities and commitments | 332,291 | - |
| **Total collateral given** | **332,291** | **-** |
| | | |
| **Collaterals received** | | |
| Collaterals received from banks of POP Group | 330,791 | - |
| **Total collateral given** | **330,791** | **-** |

The collateral provided and received by POP Mortgage Bank is related to a secured bond issued under the EUR 1 billion issuance programme established in September 2022 and to the interim loans based on it. The collateral given and received consists of loans secured by real estate.

## NOTE 20 DISTRIBUTABLE FUNDS

### DISTRIBUTABLE FUNDS

| (EUR 1,000) | 31 Dec 2022 | 31 Dec 2021 |
|---|---|---|
| Profit (loss) for the period | -1,379 | -828 |
| Profit (loss) for previous financial years | -828 | - |
| Reserve for invested non-restricted equity | 9,000 | 9,000 |
| **Distributable funds total** | **6,793** | **8,172** |

# NOTE 21 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 coop, 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.

## BUSINESS TRANSACTIONS WITH RELATED PARTY KEY PERSONS

| | Other | |
|---|---|---|
| **(EUR 1,000)** | **31 December 2022** | **31 December 2021** |
| **Assets** | | |
| Loans | 15,784 | 17,748 |
| **Income statement** | | |
| Income statement | 65 | - |
| Other operating expenses | 227 | 143 |

## COMPENSATION TO MEMBERS OF THE BOARD

| | Salaries and remuneration | |
|---|---|---|
| **(EUR 1,000)** | **31 December 2022** | **31 December 2021** |
| Juha Niemelä, Chairman of the Board | 9 | 2 |
| Matti Vainionpää, Vice Chairman of the Board | 9 | 2 |
| Marja Pajulahti, Member of the Board | 8 | 2 |
| **Total** | **25** | **7** |

# NOTE 22 EVENTS AFTER THE CLOSING DATE

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.

# SIGNATURES

Espoo, February 15th, 2023

Board of Directors of POP Mortgage Bank

| | |
|---|---|
| Juha Niemelä<br>Chairman of the Board | Matti Vainionpää<br>Vice Chairman of the Board |
| Marja Pajulahti<br>Member of the Board | Timo Hulkko<br>CEO |

**Auditor's note**

A report on the audit performed has been issued today.

Espoo, February 15th, 2023

KPMG Oy Ab

Tiia Kataja
APA

# AUDITOR'S REPORT

To the Annual General Meeting of POP Mortgage Bank Plc

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### OPINION

We have audited the financial statements of POP Mortgage Bank Plc (business identity code 3236645-3) for the year ended 31 December 2022. The financial statements comprise balance sheet, income statement, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the bank's financial performance and financial position and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and comply with statutory requirements. Our opinion is consistent with the additional report submitted to the Board of Directors.

### 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 the company in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We have only provided audit services to the POP Mortgage Bank Plc.

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 |
|---|---|
| **Receivables from credit institutions, Debt securities issued to the public (accounting policies, notes 2, 10, 12 and 15 to financial statements)** | |
| • Receivables from credit institutions, EUR 266 million, and Debt securities issued to the public, EUR 243 million, are significant items on the POP Mortgage Bank's balance sheet. Receivables from credit institutions mainly include intermediary loans issued to POP Bank Group's member banks, and Debt securities issued to the public comprise covered bonds<br>• — In the intermediary loan model, POP Mortgage Bank issues covered bonds and provides POP banks with intermediary loans against property mortgages. The mortgage-backed loans included in the cover pool constituting the collateral for the covered bonds are recorded on the balance sheets of POP banks.<br>• — POP Mortgage Bank manages the bond register, which includes not only bonds but also collaterals given and received, as well as intermediary loans. The company is responsible for ensuring that the collaterals comply with the regulatory requirements at all times.<br>• — Due to the significance of the carrying amounts of Receivables from credit institutions and Debt securities issued to the public, the regulatory requirements for the intermediary loan process, Receivables from credit institutions and Debt securities issued to the public are addressed as a key audit matter. | • We evaluated the intermediary loan process of POP Mortgage Bank, including provision of loans to POP banks, collateral management for intermediary loans (cover pool) and bond register management.<br>• We gained an understanding of POP Bank Centre coop's control environment for the centralised lending process regarding POP banks by performing centralised audit procedures.<br>• The main areas of the audit were the assessment of the monitoring process of collateral valuations for covered bonds using data analyses, and inspection of intermediary loan contracts on a sample basis.<br>• Furthermore, we considered the appropriateness of the notes provided by POP Mortgage Bank in respect of Receivables from credit institutions and Debt securities issued to the public. |

## 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 financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU 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 the company'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 the company or cease operations, or there is no realistic alternative but to do so.

**AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance 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 the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company'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 the company 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.

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 Annual General Meeting in 2021 and our appointment represents a total period of uninterrupted engagement of 2 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, 15 February 2023
KPMG OY AB

Tiia Kataja
Authorised Public Accountant, APA

POP Bank

POP Mortgage Bank Plc