

A photograph of a modern multi-story brick building with glass balconies, viewed from a low angle against a clear sky. The building features a mix of red brick and dark grey panels. A small bird is visible in the sky above the building.

# POP Mortgage Bank Investor Presentation

October 2024

# Content overview

<b>1. Highlights of H1 2024</b>	<b>p. 3</b>
<b>2. Introduction to the POP Bank Group</b>	<b>p. 7</b>
<b>3. Strategy and focus areas</b>	<b>p. 15</b>
<b>4. Operations and figures</b>	<b>p. 18</b>
<b>5. POP Mortgage Bank</b>	<b>p. 26</b>
<b>6. Operating environment</b>	<b>p. 33</b>
<b>7. Contemplated transaction</b>	<b>p. 38</b>
<b>8. Contact information</b>	<b>p. 40</b>
<b>9. Disclaimer</b>	<b>p. 42</b>

# 1. Highlights of H1 2024

# Highlights 1 January - 30 June 2024

- The POP Bank Group continues its historically strong performance. **The Group's profit before taxes for the first half of the year exceeded the previous year's record half year result**, and capital adequacy remained high.
- **The POP Bank Group's system reform project is progressing towards its planned implementation in 2025.** During the review period, the office infrastructure reform was completed, replacing the workstations and networks of the Group with new solutions. In the regulatory reporting project, a new capital adequacy calculation solution was implemented, utilising a new regulatory reporting data warehouse.
- S&P Global Ratings assigned its resolution counterparty rating (RCR) 'BBB+' for long-term and 'A-2' for short-term funding to Bonum Bank Plc reflecting the entire Group.
- The Group is currently preparing for reporting in accordance with the EU Corporate Sustainability Reporting Directive (CSRD), and numerous development projects are underway in this regard.
- **Strategic collaboration with LocalTapiola;** customer events with LocalTapiola throughout Finland and a new insurance solution that can be tailored to fit the customer's individual life situation was launched (POP Talousturva).
- During the first half of the year, **gradual hedging of open net interest income rate exposure with derivatives was continued.** Hedging procedures were implemented by the Bonum Bank Plc for all member cooperative banks of the amalgamation.
- The POP Bank Group also joined the InvestEU business finance programme, which enables competitive financing of investments that support business growth.

# Key figures H1 2024



Operating income

**124.9**

(106.3)  
EUR million



Profit before tax

**46.5**

(42.6)  
EUR million



Net interest income

**96.0**

(78.0)  
EUR million



CET 1 capital ratio

**22.8**

(20.3)  
per cent



Loan portfolio

**4.7**

(4.5)  
EUR billion

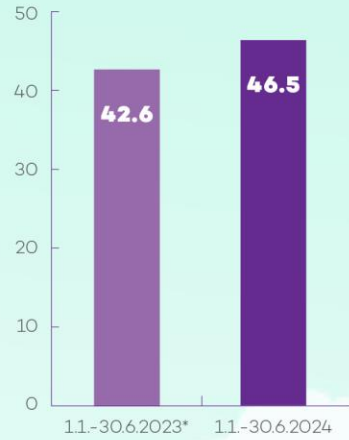


Total customers

**253,400**

(255,900)

### PROFIT BEFORE TAX, EUR MILLION



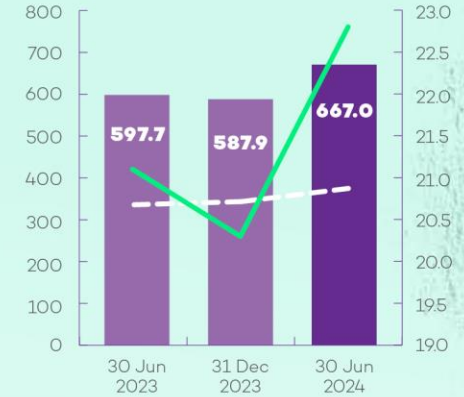
\*continuing operations

### LOAN PORTFOLIO AND DEPOSITS, EUR MILLION



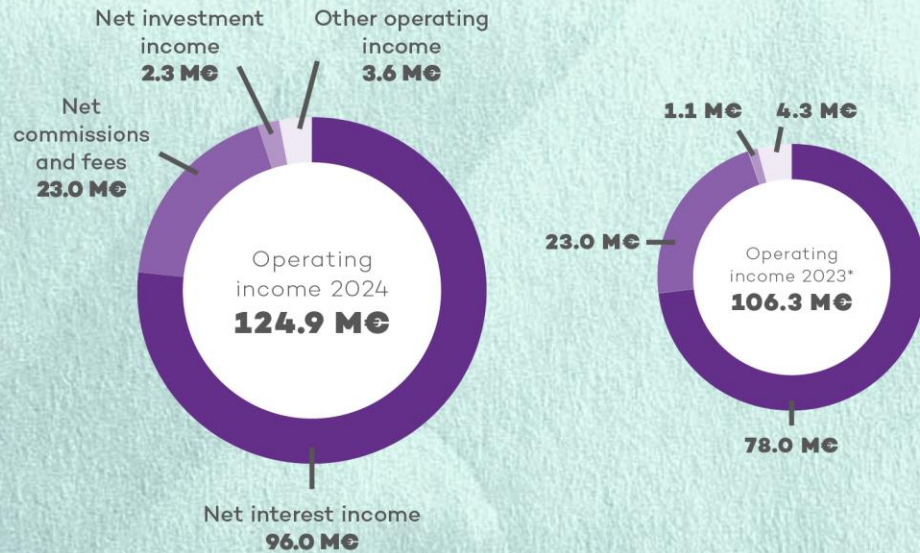
■ Loan portfolio, EUR Million ■ Deposits, EUR Million

### CAPITAL ADEQUACY



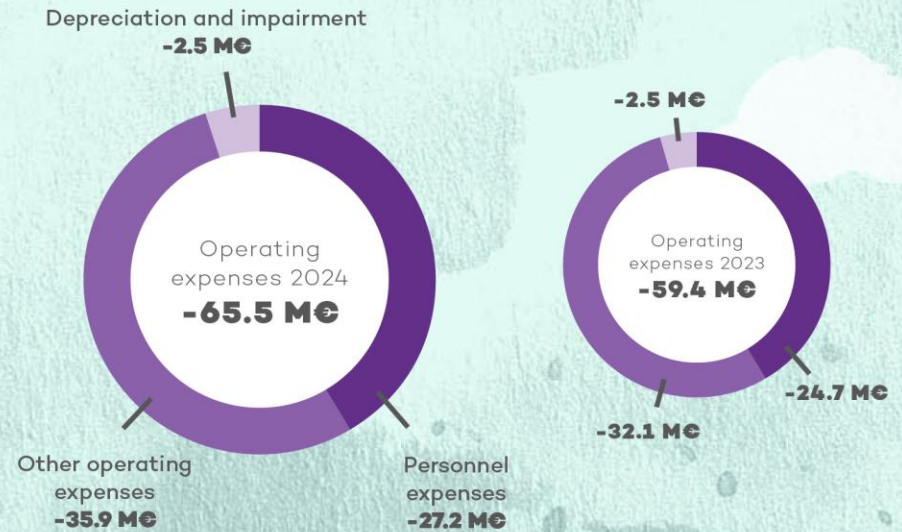
■ Own funds, EUR Million  
 ■ Capital requirement, EUR Million  
 — Capital ratio (CET1-%)

### OPERATING INCOME, EUR MILLION



\*continuing operations

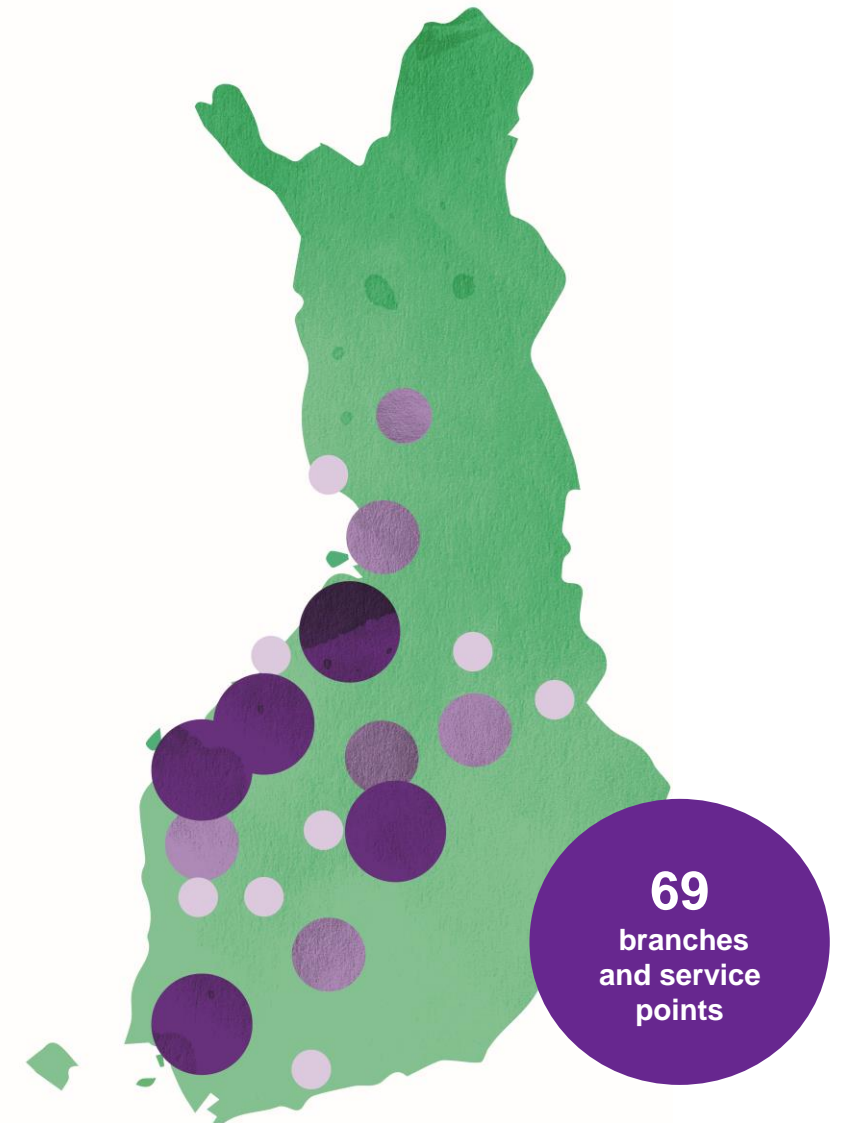
### OPERATING EXPENSES, EUR MILLION



## **2. Introduction to the POP Bank Group**

# Overview

- The POP Bank Group is a Finnish financial group that offers retail banking services for private customers and small and medium-sized companies. POP Banks are cooperative banks owned by their member customers
- The POP Banks' network is in the demographically vital regions around growth centers of Western, Central and Southwestern Finland. Less exposure to Eastern Finland.
- Highest customer satisfaction in Finland (EPSI Rating 2023)
- Very strong capital position: target to maintain CET1 Ratio > 17.5%
- Investment grade rating: BBB (S&P Global) with positive outlook
- Low risk and diversified loan portfolio; 90% of loan portfolio with residential or other real estate collateral
- Main funding through retail deposits, wholesale funding through covered and senior bonds (no AT1)





# POP Bank Group's timeline

1997

POP Bank Group is founded

2015

The amalgamation of POP Banks commence operating on 31 December

2021

The POP Banks entered into an agreement on single operator status at the amalgamation level

2023

POP Bank Group focuses on banking segment by selling 70 % of the Finnish P&C Insurance; a strategic partnership starts with LocalTapiola

**1902  
-1933**

Individual co-operative banks were founded that now are part of the POP Bank Group

2014

Bonum Bank Plc, the central credit institution, starts to operate

2016

Bond programme and first issued bond. Rating from S&P Global Ratings

2022

Renewal of core banking system starts; POP Mortgage Bank Plc begins operating

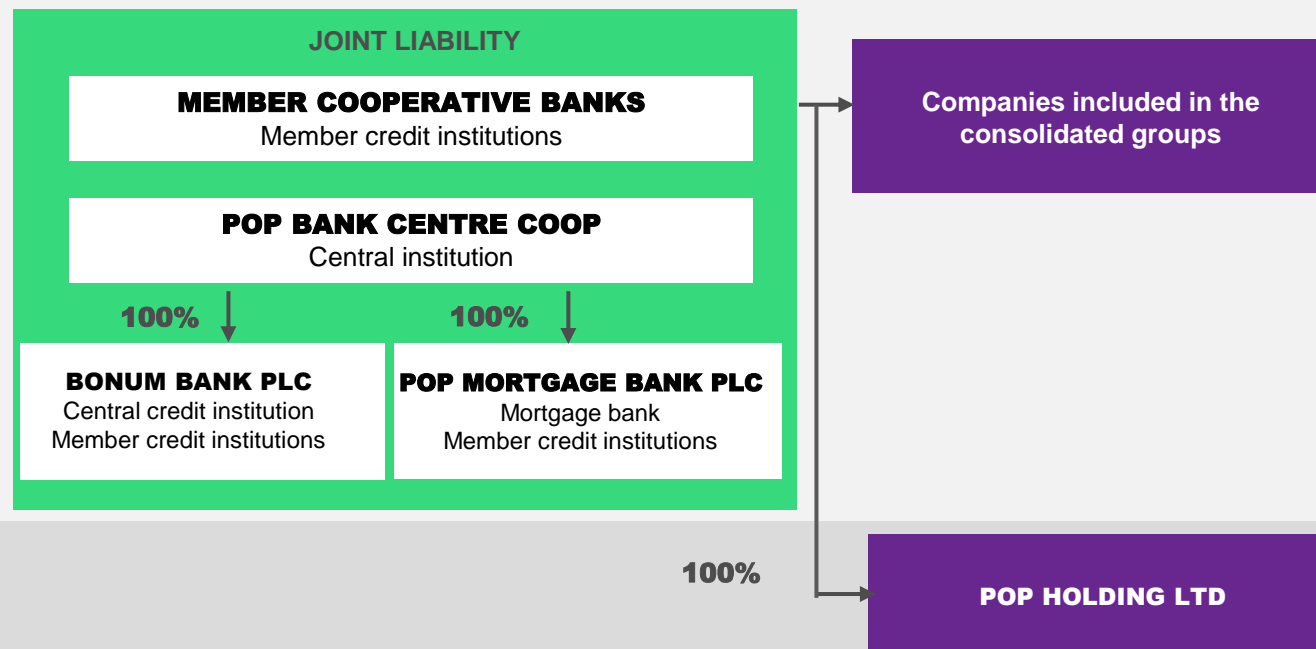
2025

Introducing the new new core banking system during 2025

# The Group structure

## POP Pankki THE POP BANK GROUP

### THE AMALGAMATION OF POP BANKS

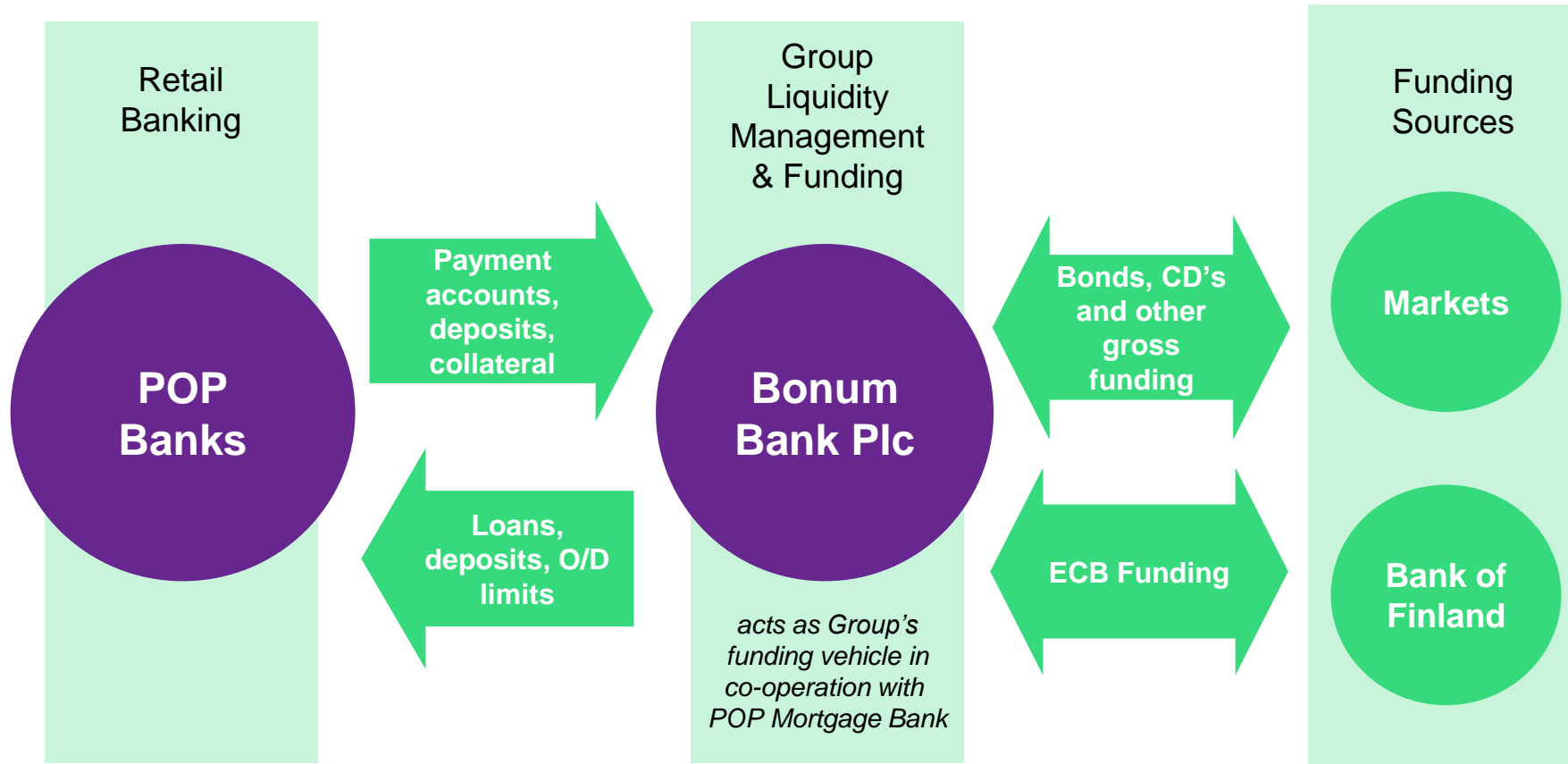


- The POP Bank Group consists of POP Banks, POP Bank Centre coop and their controlled entities.
- The POP Banks, Bonum Bank Plc and POP Mortgage Bank Plc are member credit institutions of POP Bank Centre coop.
- The POP Banks, POP Bank Centre coop and their controlled service companies constitute the 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 POP Bank Group.
- 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 Ltd owned by POP Banks and POP Bank Centre coop. POP Holding Ltd owns 30 per cent from Finnish P&C Insurance Ltd that belongs to LocalTapiola Group and uses the auxiliary business name of POP Insurance.

# The Amalgamation of POP Banks

<b>Amalgamation</b>	POP Banks established an amalgamation, as defined in the Act on the Amalgamation of Deposit Banks (599/2010), on 31 December 2015. The amalgamation structure enables a single point of access to funding, internal bank and cost-efficient operations.
<b>Central Institution's role</b>	As the central institution, POP Bank Centre coop is obliged to supervise and instruct the member banks according to the Act. Responsibilities include (among others): <ul style="list-style-type: none"><li>• Risk Management</li><li>• Corporate Governance</li><li>• Liquidity and Capital Adequacy</li><li>• Internal Auditing</li></ul>
<b>Joint Liability</b>	<p>The POP Bank Centre coop (the central institution) and all member banks (18 POP Banks, Bonum Bank, POP Mortgage Bank) are jointly liable for each other's debt.</p> <p>In the case of insolvency of the POP Bank Centre coop, the member banks have unlimited liability to pay the debts of POP Bank Centre coop.</p>
<b>Capital Ratio</b>	POP Bank Centre coop is, as the central institution, responsible for the group's joint capital ratio.
<b>Obligation</b>	If a member bank fails to meet its obligations, a creditor may demand payment from POP Bank Centre coop. Other member banks are obliged to participate in the central institution's supporting actions.

# Bonum Bank Plc - POP Bank Group's internal bank



# POP Bank Group and sustainability

## Themes of our responsibility programme

Promoting sustainable financing and investing, and thereby mitigating climate change

Supporting local success, vitality and well-being

Transparent business operations

Ensuring the equality of employees and promoting diversity and well-being at work

Preventing a grey economy, corruption and money laundering

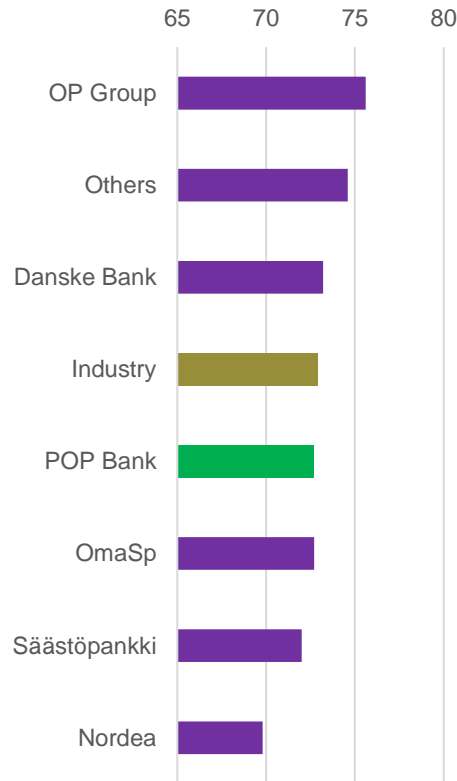
Continuous improvement of information security and promoting secure banking

- The POP Bank Group's ESG vision is to be the trusted partner for its customers, members and local communities to create sustainable wellbeing.
- Many of the POP Banks have history of 100+ years and being the local trusted financial partner. This reflects the commitment to the local community and the goal of establishing long-term customer relationships.
- Long-term partnership approach is reflected in the Group's lending principles, investing operations and the environment. Responsible lending is based on knowing the customer and careful examination of the customer's situation.
- The systematic reinforcement of the operating model for risk management related to preventing money laundering and other financial crime is on-going at the level of the amalgamation.
- POP Bank Group has joined with PCAF (Partnership for Carbon Accounting Financials) and has published its direct and indirect greenhouse gas emissions (Scope 1 + Scope 2 market-based) of its own operations in 2023 totalling 1,278 carbon dioxide equivalent tonnes.

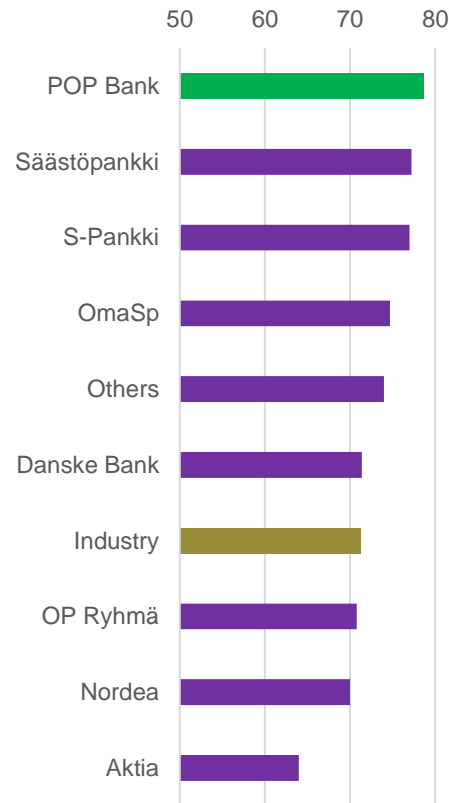
# Customer satisfaction & EPSI Sustainable Index



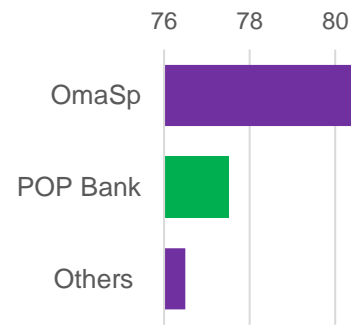
Corporate customers, EPSI Rating 2023



Private customers, EPSI Rating 2023



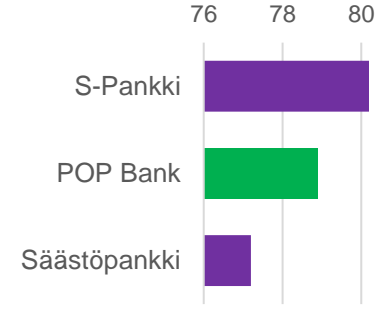
Corporate customers, TOP 3 banks, EPSI Sustainable Index 2023



POP Bank has had the most satisfied private customers in Finland 12 times since the study has been conducted by the EPSI Rating. POP Bank participated in EPSI Rating's B2B study for the first time in 2021.

**EPSI Rating Sustainability Index** is based on customers' assessments of their bank and how socially, environmentally and financially responsible they consider their bank is.

Private customers, TOP 3 banks, EPSI Sustainable Index 2023



# **3. Strategy and focus areas**

# POP Bank Group's mission, values and strategy

## The Mission & Values

Our mission is to promote its customers' financial well-being and prosperity, as well as local success. Our values are customer orientation, profitability, bold renewal, responsibility and speed.

## The Vision

Our Group's vision is to be a bank that combines personal and digital services, that achieves the highest level of customer satisfaction and efficient decision-making, and that maintains capital adequacy and outperforms the market in profitable growth.

The POP Bank Group focuses on building long-term customer relationships and continuously renewing its ways of working to ensure that its vision materializes through its customer service, product offering, pricing and operational efficiency.

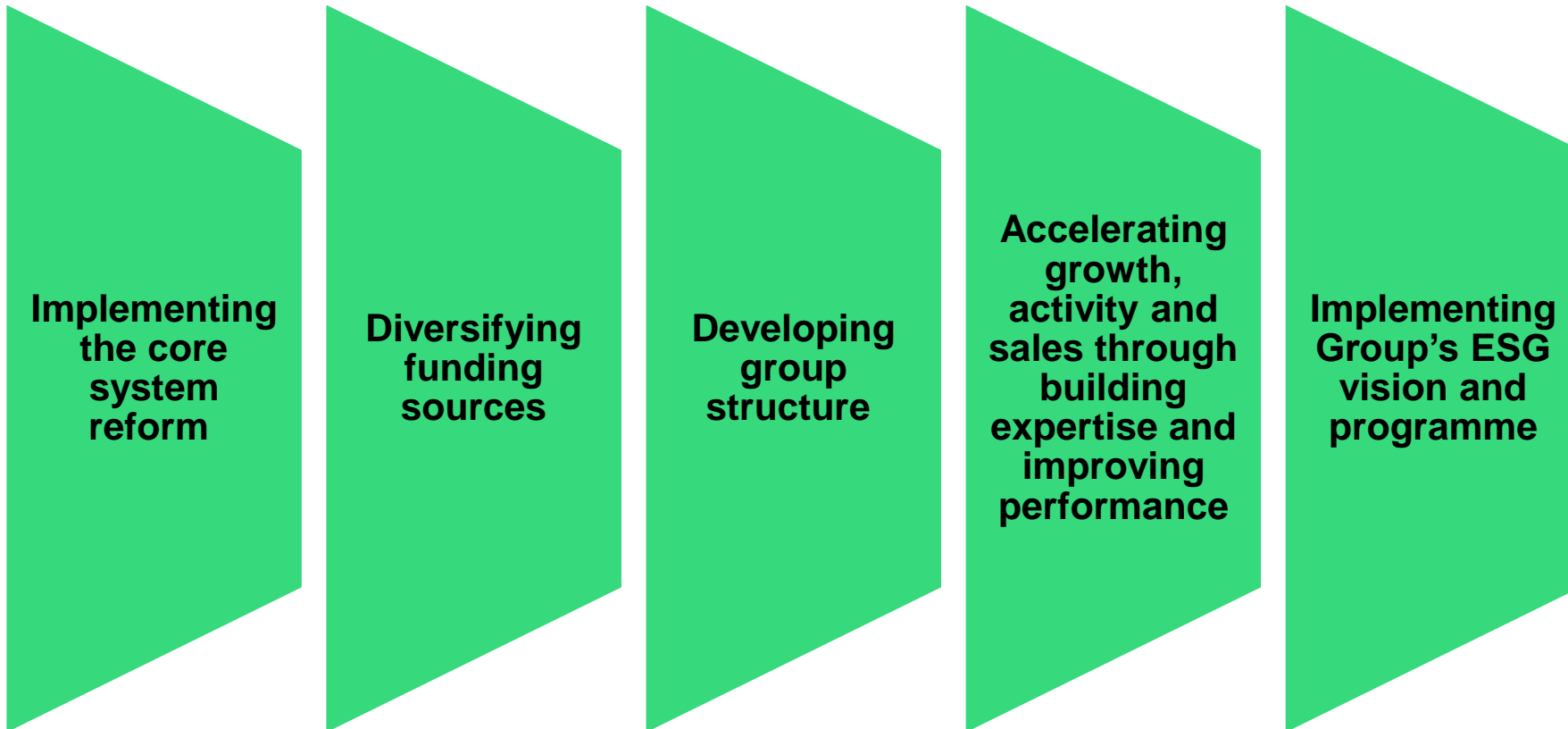
## The Strategy

The POP Bank Group's strategy focuses on investments in the management of personal and fully digital customer service situations, as well as on strengthening lending to companies and shifting the focus of operations to growth areas.

Long-term strategic goals				
	Target	H1 2024	Year 2023	Year 2022
Cost-to-income ratio	<60%	52.5%	52.9%	77.7%
CET 1 ratio	17.5%	22.8%	20.3%	19.4%
ROA %	1.0%	1.3%	1.2%	0.4%



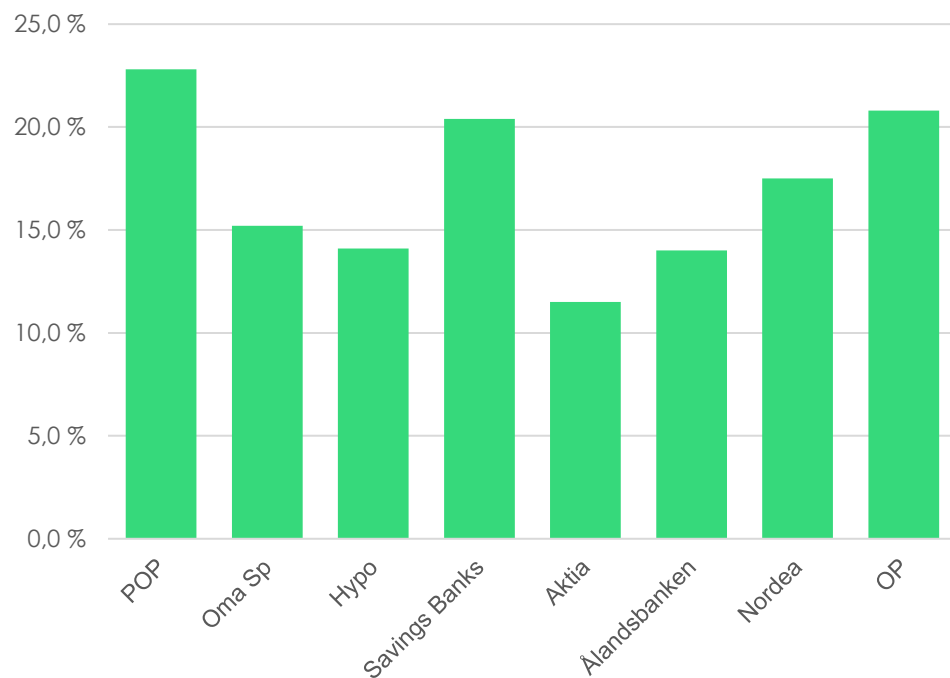
# Strategic focus areas of the POP Bank Group



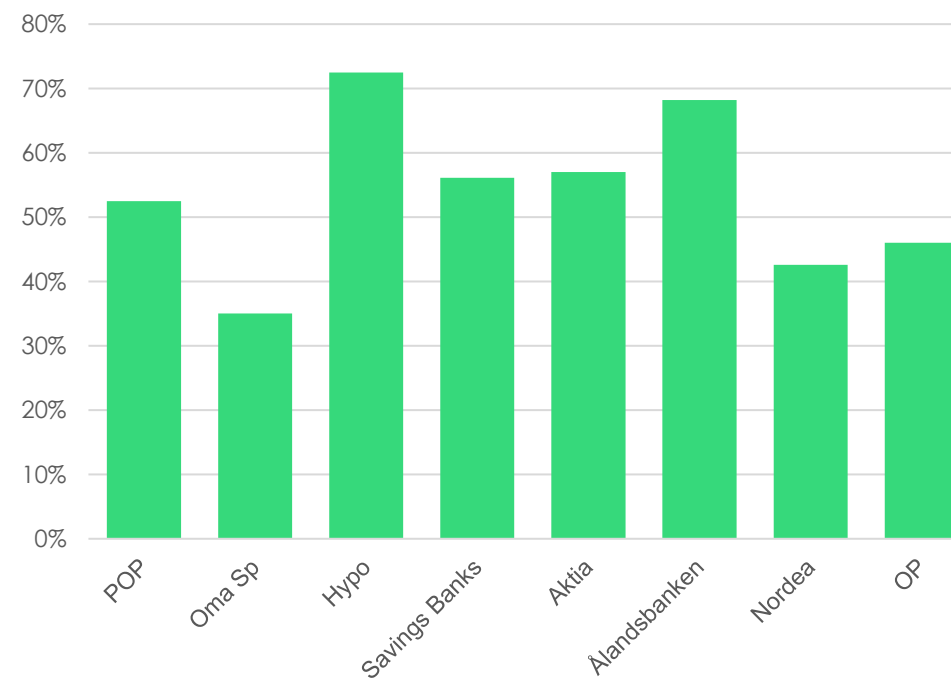
# 4. Operations and figures

# Strong capital position and improving efficiency (H1/2024)

## CET1



## Cost / Income -ratio



Source: Company reports, Bloomberg

# Bonum Bank / POP Bank Group rating – 'BBB/A-2'

**S&P Global Ratings assigned June 2024 Bonum Bank BBB+/A-2 resolution counterparty rating (RCR) and affirmed BBB/A-2 counterparty rating with positive outlook**

## Finnish banks (anchor rating)

A-

- Capital & Earnings (very strong) +2
  - Very strong capitalisation
- Liquidity & Funding (adequate) 0
  - Stable customer deposit base
  - Adequate liquidity buffers
- Risk position (moderate) -1
  - Regional concentration
  - Concentration mitigated by sound collateralisation and moderate loan sizes
- Business position (constrained) -2
  - Only in Finnish retail & SME sectors
  - Weak position in growth centres
- Additional: Comparable ratings analysis -1
- **POP Bank Group credit rating**      **BBB (POSITIVE OUTLOOK)**

## Major rating factors (from S&P)

### Strengths

- Very strong capitalisation, which offers a robust buffer to absorb potential losses
- A solid cooperative business model
- Sound regional franchise in selected rural areas

### Weaknesses

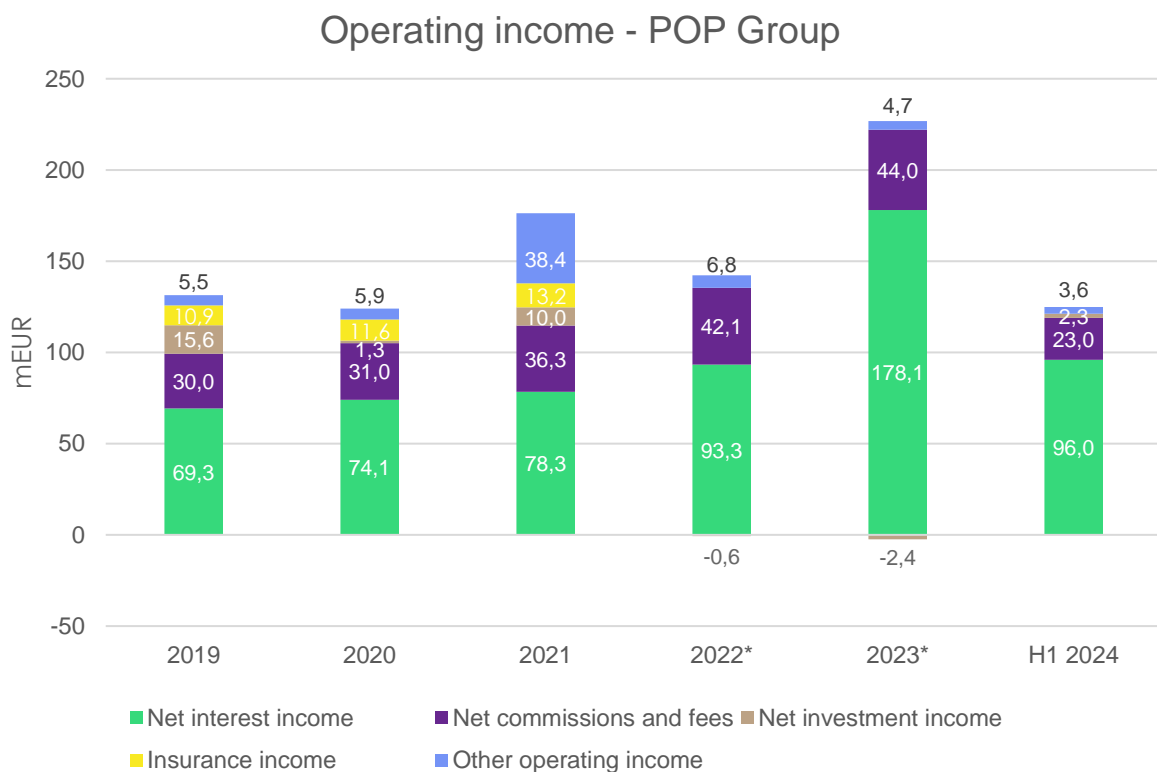
- Concentrated business operations focused on lending to individuals and small and midsize enterprises

### Positive outlook

- The outlook remains positive and reflects our expectation that POP Bank Group will maintain sound earnings generation even as interest rates decline
- Improved earnings and high profit retention will further underpin already robust capitalisation

Source: S&P Global Ratings Reports (latest published in June 2024)

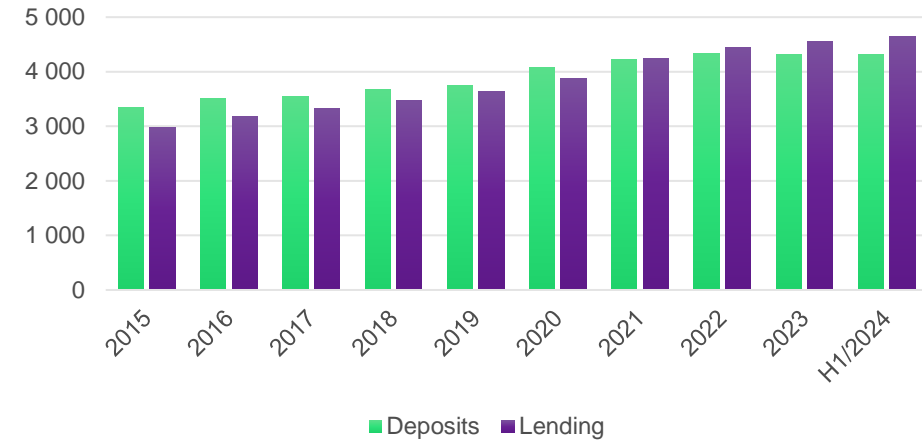
# Stable growth and increased net interest income



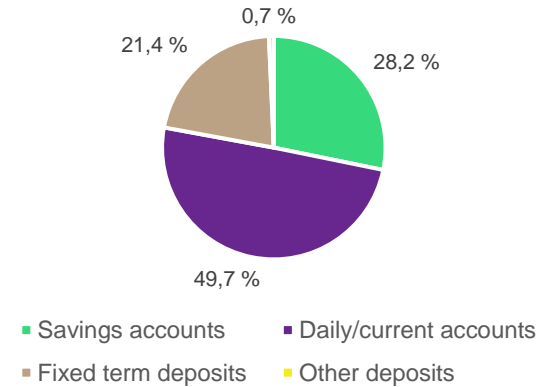
\*continuing operations

# Deposit base

- Deposit base is stable and granular
- 49.7% of total deposits are on daily/current accounts, 28.2% on savings accounts and 21.4% on fixed term accounts.
- 80.5% of total deposits come from private customers and 13.7% from corporate customers.
- 74% of total deposits are covered by depositor guarantee scheme (31.12.2023).



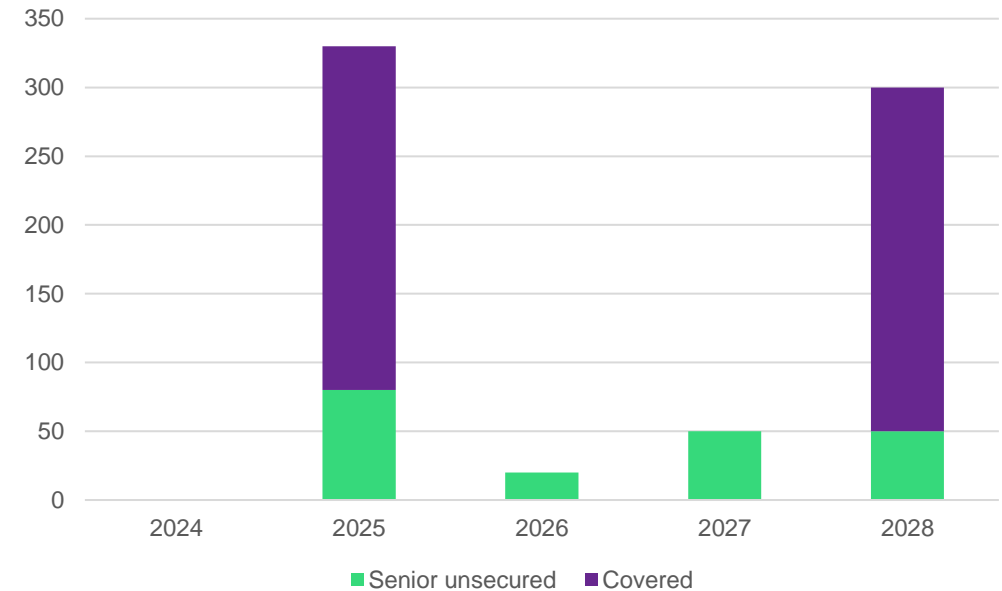
Deposit structure



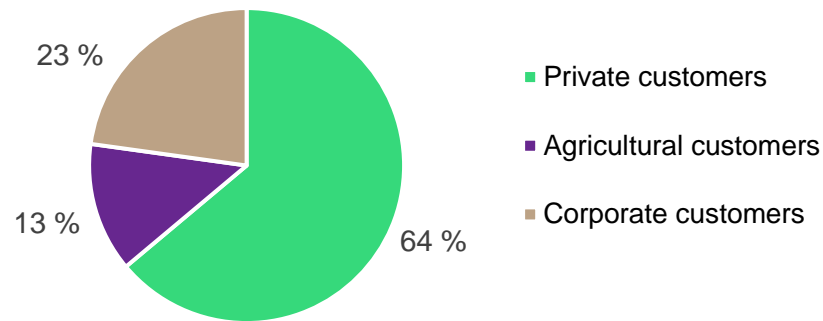
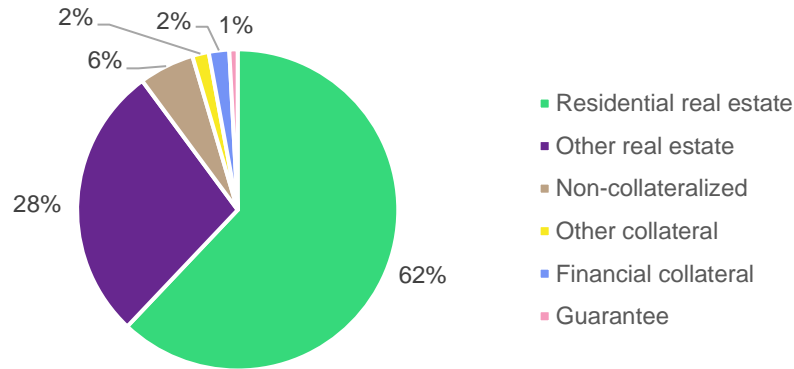
# Funding

- After the amalgamation was established in 2015, the POP Bank Group started to introduce different funding instruments (cd's, senior bonds etc.) to enable strategic growth acceleration.
- POP Mortgage Bank Plc started issuing covered bonds in 2022. POP Mortgage Bank is expected to issue covered bonds regularly. Bonum Bank will also be issuing senior bonds on a regular basis.
- Customers' deposits will be still POP Bank Group's main source of funding in the future.
- Effective on January 1, 2024, the Finnish FSA has given the amalgamation of POP Banks a formal MREL requirement under European Union regulations. The updated requirement is 19.99 per cent of total risk-weighted assets (TREA) or 7.75 per cent of the leverage ratio exposures (LRE). The Group's MREL requirement has been covered with own funds and unsecured senior bonds.

Maturity of long term funding H1 2024

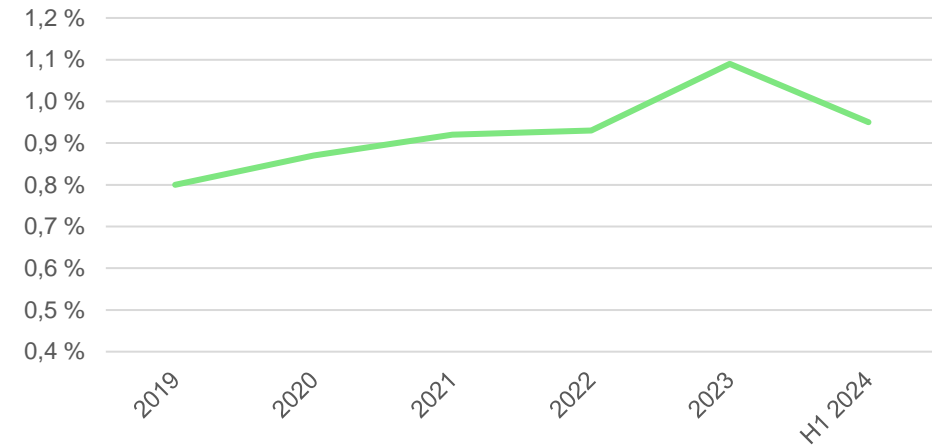


# Low risk and diversified loan portfolio (H1 2024)

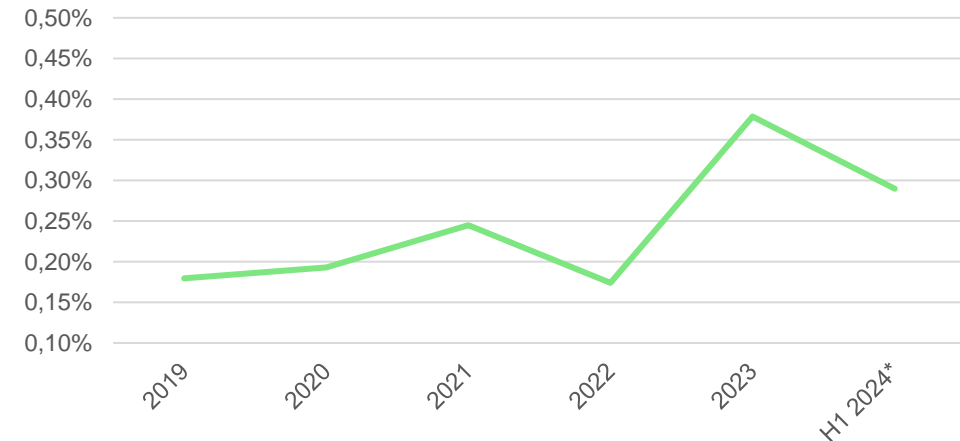


- Total loan portfolio EUR 4.6 bn€
- Individual housing loans are moderate – average €74,200 (2023)

Loans over 90 days past due (%)



Annual impairment losses (%)





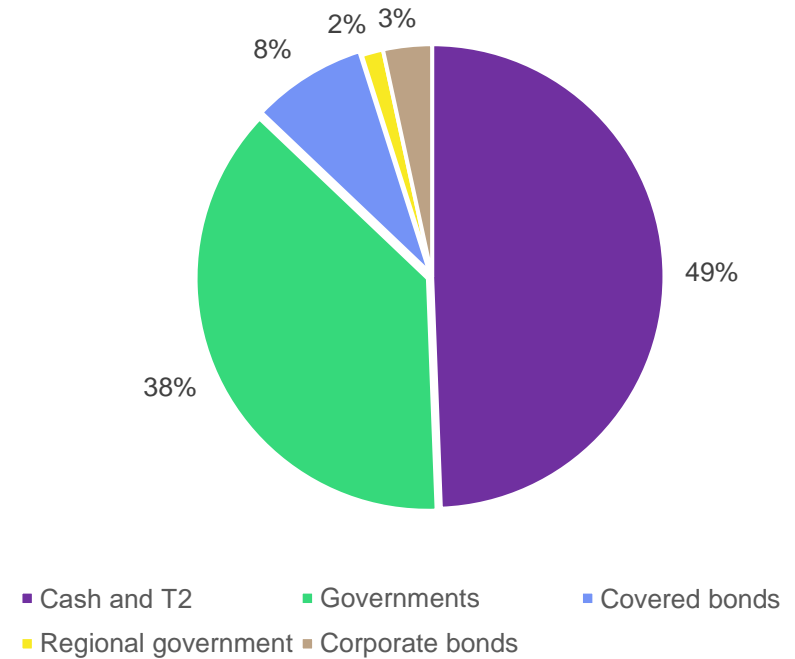
# Solid liquidity position

- LCR eligible liquid assets were 706 m€ per 30 June 2024
- LCR of the POP Bank Group was 230 (265)% as of 30 June 2024

Cash and T2	49.4 (55.9)%
Other Level 1 assets	47.2 (41.3)%
Government bonds	37.7%
Regional government CD's	1.5%
Covered bonds	8.0%
Other Level 2 assets	3.4 (0.9)%

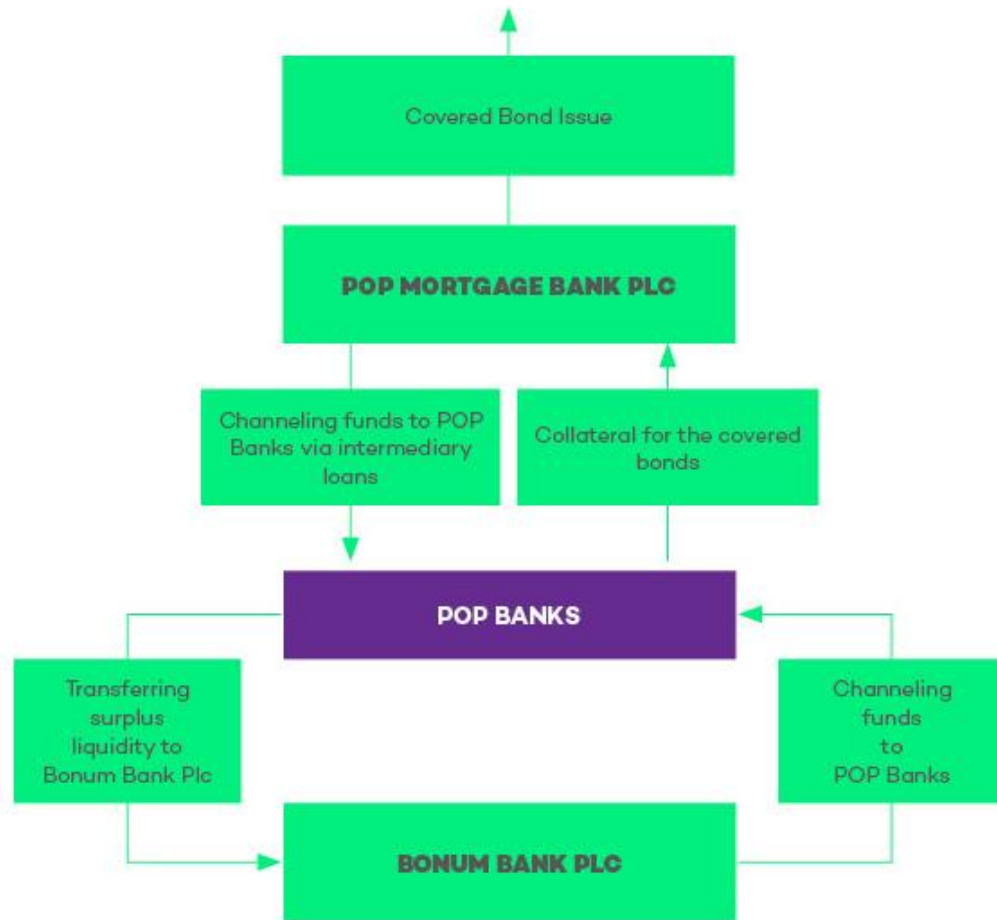
30 June 2023 figures in parentheses

LCR, liquid assets per 30 June 2024



# **5. POP Mortgage Bank**

# Business model of POP Mortgage Bank Plc



- POP Mortgage Bank Plc (POPMB) acts as a mortgage bank according to established principles in Finland.
- The POP Bank Centre coop has a 100% ownership of POPMB
- The intermediation mechanism of POPMB's funding is based on the intermediary loan approach where the assets of POPMB consist of receivables from member cooperative banks, whose mortgages have been registered as collateral for the covered bonds issued by POPMB
- Funds acquired will be channelled via the intermediary loans to member credit institutions
- POPMB's key function is to provide long-term funding for member credit institutions as cost-effectively as possible
- The fundamental function of POPMB is to diversify the financial structure of the amalgamation by maintaining the capability of issuing covered bonds
- Bonum Bank Plc (Bonum) steers issue activities of POPMB based on the funding plan of the Amalgamation

# Underwriting criteria

<b>The Group credit policy of mortgage loans</b>	<ul style="list-style-type: none"> <li>• Lending criteria according to the Finnish national standard</li> </ul>
<b>Maximum LTV</b>	<ul style="list-style-type: none"> <li>• 90% in general</li> <li>• 95% for customers purchasing their first home</li> </ul>
<b>General lending criteria</b>	<ul style="list-style-type: none"> <li>• Max 80% of collateral value as main internal rule. Other acceptable collaterals are used, such as government or loan insurance guarantee, forest or other real estate collaterals to some extent (excluded from the pool)</li> </ul>
<b>Assessment of the customer's repayment ability</b>	<ul style="list-style-type: none"> <li>• Affordability calculations are made for all customers, as well as a stress test for 6% interest / max 25 years maturity</li> <li>• Loan expenses should not exceed 45% of the regular net income</li> <li>• As a main rule, no lending to borrowers on furlough (temporarily lay off) schemes</li> <li>• Further advance to debtors on a payment holiday is possible, requires a separate loan decision classification, always payment holiday / forbearance classification</li> </ul>
<b>Customer identification</b>	<ul style="list-style-type: none"> <li>• Customer must be identified and verified, also regarding age (+18)</li> </ul>
<b>Income verification</b>	<ul style="list-style-type: none"> <li>• Customer's income is verified by pay slip and/or taxation information</li> </ul>
<b>Credit register</b>	<ul style="list-style-type: none"> <li>• National positive credit register for private individuals expected to be rolled out in spring 2024</li> </ul>

# POP Mortgage Bank with AAA-rating

<b>Reference Rating Level</b>	<b>a-</b>	+	<b>Jurisdiction-Supported Rating Level</b>	<b>aa-</b>	+	<b>Maximum Achievable Covered Bond Rating</b>	<b>aaa</b>	=	<b>Covered Bond Rating</b>		
<b>Resolution Regime Uplift</b>	<b>+2</b>		<b>Assigned Jurisdictional Support Uplift</b>	<b>+3</b>		<b>Collateral Support Uplift</b>	<b>+4</b>		<b>AAA/Stable</b>		
<b>Systemic Importance</b>	<b>Very Strong</b>		<b>Jurisdictional Support Assessment</b>	<b>Very Strong</b>		<b>Overcollateralization Adjustment</b>	<b>0</b>		<b>Rating Constraints</b> <b>aaa</b>		
<b>Resolution Counterparty Rating</b>	<b>N/A</b>		<b>Legal Framework</b>	<b>Very Strong</b>		<b>Liquidity Adjustment</b>	<b>0</b>		<b>Counterparty Risk</b> <b>aaa</b>		
<b>ICR Or Parent Bank Rating Or Guarantor Rating</b>	<b>BBB</b>		<b>Systemic Importance</b>	<b>Very Strong</b>		<b>Potential Collateral Based Uplift</b>	<b>+4</b>		<b>Country Risk</b> <b>aaa</b>		
			<b>Sovereign Credit Capacity</b>	<b>Very Strong</b>							
<small>*As a starting point of the analysis, we may use the ICR of the parent or guarantor when the issuer is not rated, but it belongs to a group with a rated parent or payments under the covered bonds are guaranteed by another rated entity. ICR--Issuer credit rating. N/A--Not applicable.</small>											

## Major Rating Factors

### • Strengths

- The cover pool is granular, comprising Finnish residential loans secured predominantly by owner-occupied properties
- The structure features soft-bullet extendible maturities, which mitigates liquidity risk
- The structure benefits from a public commitment by the issuer to maintain overcollateralization consistent with a 'AAA' rating

### • Weaknesses

- Concentration of mortgages in the West of Finland, which we have considered in our determination of default frequency
- Cover pool payments received before an issuer insolvency could be commingled with the issuers' insolvent estate as these are not registered in the cover pool

Source: S&P Global Ratings, Transaction update 10/2023

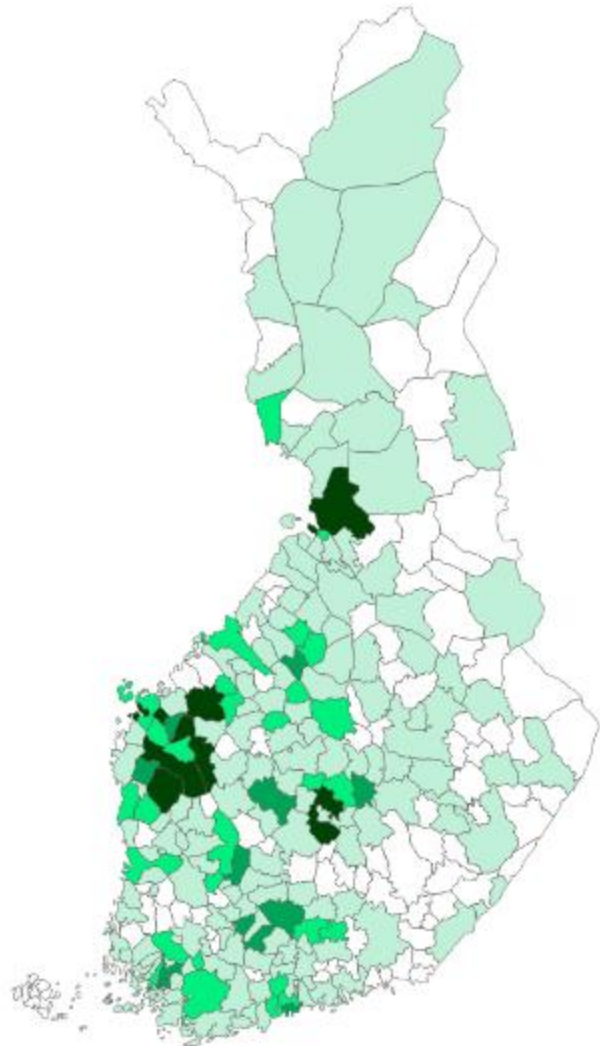
# Cover pool characteristics (as of 30.9.2024)

Key characteristics of the cover pool	
Rating	AAA by S&P
Size of the pool	EUR 677.2 million (nominal)
Collateral type	100% Finnish residential mortgages
Number of loans	11,459
Average loan size	EUR 59,100
WALTV	68.1%
WA loan seasoning	59.5 months
Non-performing loans	0.0 %
Loans in arrears (> 30 days past due)	0.0 %
Interest rate base	92.1% floating / 7.9% fixed
Over-collateralisation	35.4%

Customers	<ul style="list-style-type: none"> <li>100% retail customers (no housing associations or CRE)</li> </ul>
Currency	<ul style="list-style-type: none"> <li>Only EUR</li> </ul>
Max loan size	<ul style="list-style-type: none"> <li>EUR 3.0 million</li> </ul>
Max maturity	<ul style="list-style-type: none"> <li>30 years</li> </ul>
Customer rating	<ul style="list-style-type: none"> <li>AAA-A</li> </ul>
Max LTV	<ul style="list-style-type: none"> <li>100% (of which 70% is accounted for in the pool)</li> </ul>
Interest rate	<ul style="list-style-type: none"> <li>Euribor, POP Prime, Fixed</li> </ul>

Outstanding issues				
ISIN	Issue Date	Maturity Date	Nominal	Coupon
FI4000526876	22.9.2022	22.9.2025	250 000 000	2.625 %
FI4000550371	26.4.2023	26.4.2028	250 000 000	3.625 %

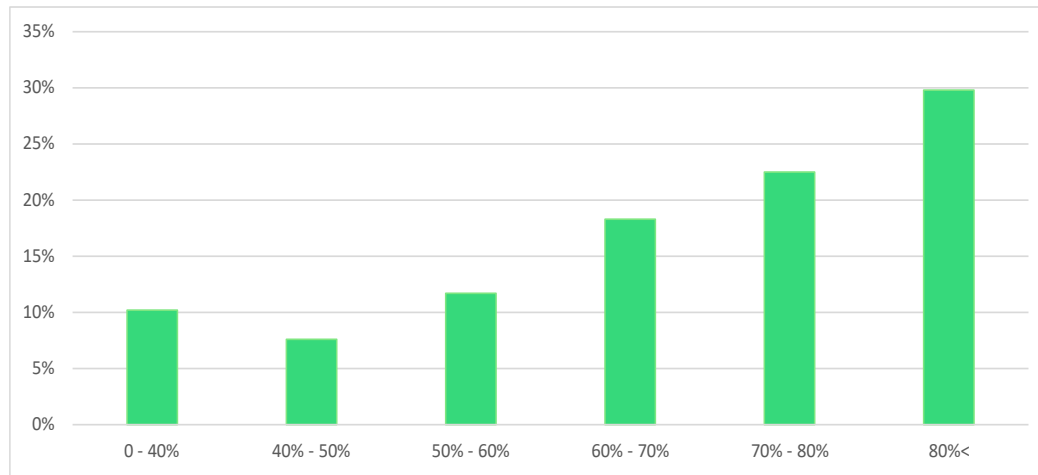
# Geographical distribution (as of 30.9.2024)



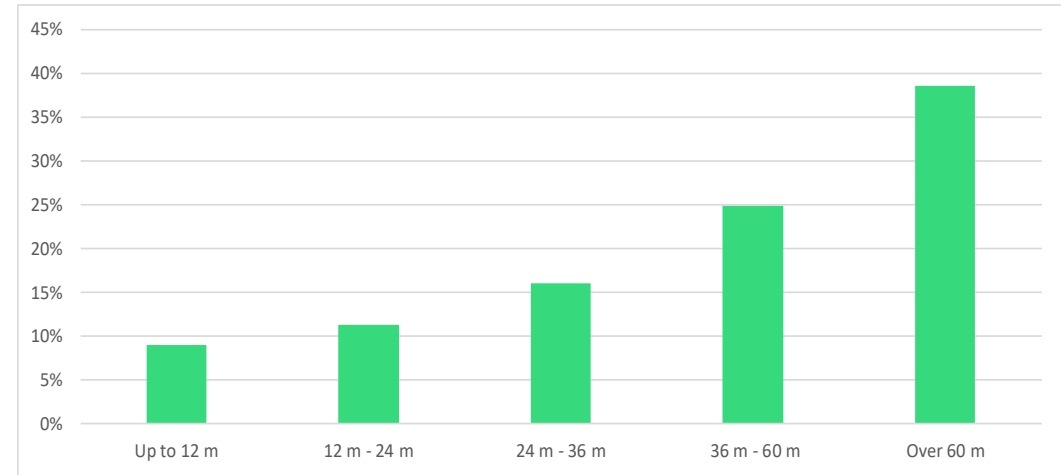
Region	Major City	mEUR	Share
North Ostrobothnia	Oulu	123,6	18,3 %
South Ostrobothnia	Seinäjoki	113,7	16,8 %
Central Finland	Jyväskylä	88,4	13,0 %
Varsinais-Suomi	Turku	65,9	9,7 %
Ostrobothnia	Vaasa	56,0	8,3 %
Pirkanmaa	Tampere	52,4	7,7 %
Uusimaa	Helsinki	44,7	6,6 %
Pohjois-Savo	Kuopio	36,0	5,3 %
Central Ostrobothnia	Kokkola	20,4	3,0 %
Others		76,2	11,2 %
<b>Total</b>		<b>677,2</b>	<b>100,0 %</b>

# Cover pool data (as of 30.9.2024)

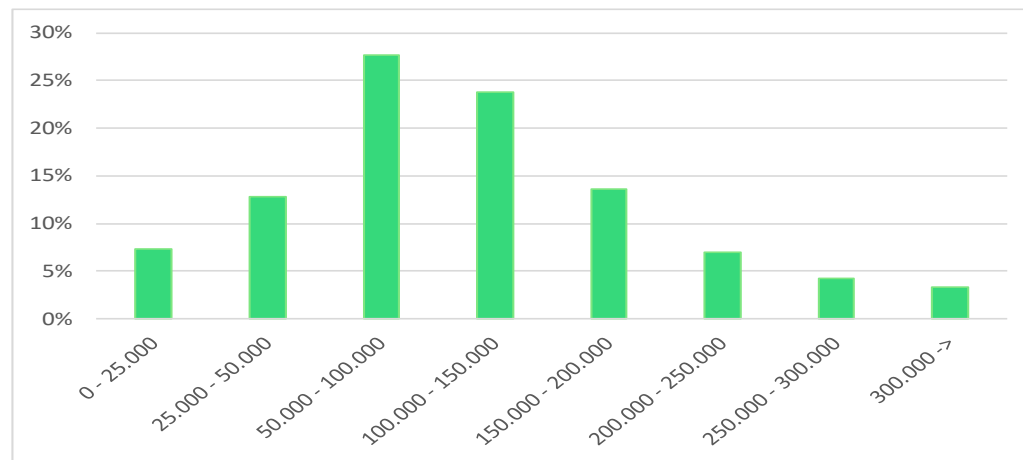
## LTV distribution of the pool



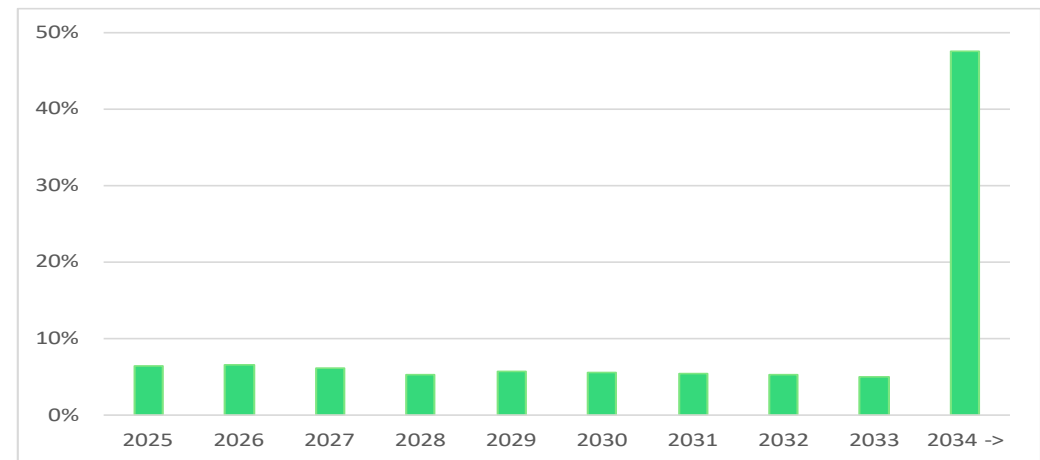
## Loan seasoning of the pool



## Loan size buckets (EUR)



## Cover pool maturity profile





# 6. Operating environment

# GDP growth still behind trend

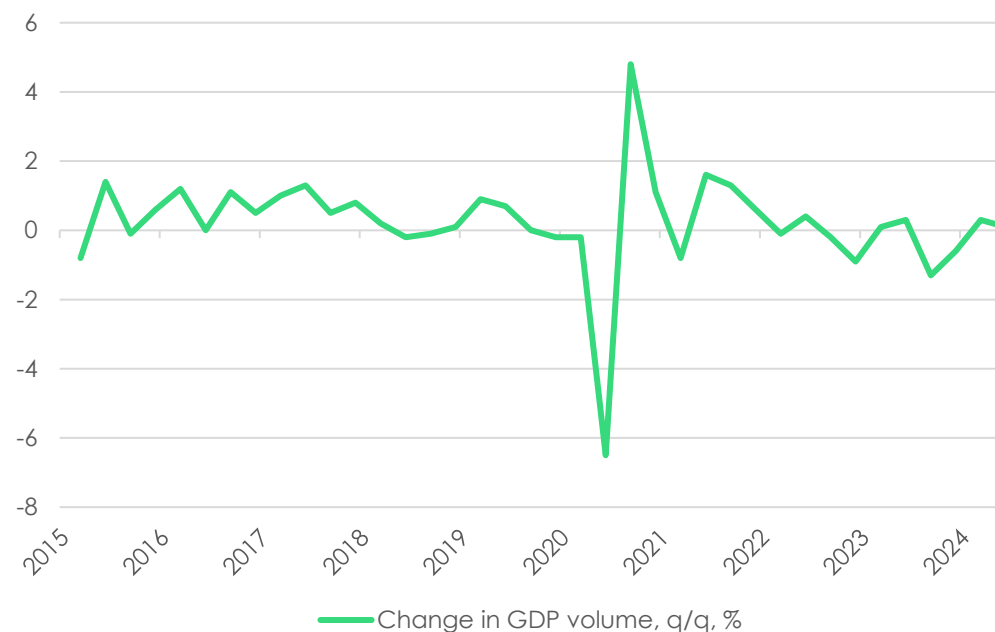
- Economy is gradually moving out of recession.
- GDP to contract in 2024 but will grow in 2025 and 2026.
- Consumer price inflation will start to pick up in 2024. The increase in value added tax will push up prices starting in September 2024.
- According to the Bank of Finland's forecast, the cost of labor will rise more slowly than the euro area average, which will improve cost competitiveness.

	2023	2024e	2025e	2026e
GDP	-1.0	-0.5	1.2	1.7
Private consumption	0.4	0.6	0.7	1.3
Exports	-1.7	-1.7	2.8	3.0
Unemployment	7.2	8.1	7.8	7.6
Wages and salaries	3.5	1.4	2.8	2.9
HICP inflation	4.3	1.2	2.0	1.6

# Easing inflation pressure

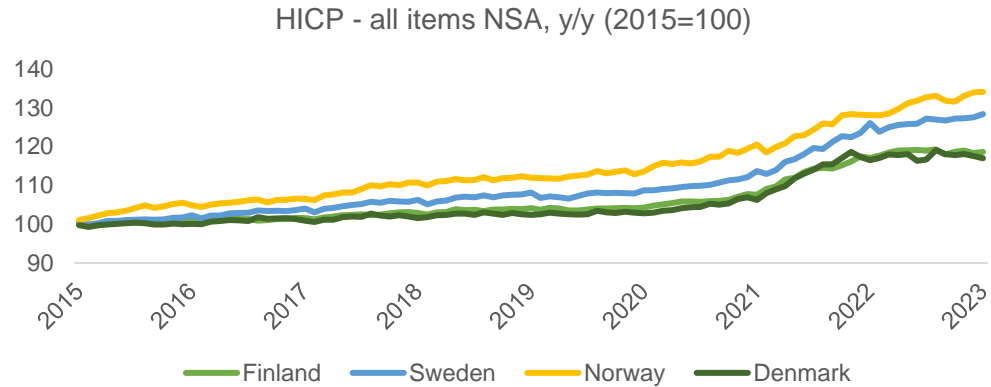
- Lowering inflation will support private consumption.
- Higher rates will dampen the effect of private consumption. GDP growth is estimated to remain negative at -0.5% for 2024.
- Investments are facing pressure due to higher funding costs and uncertain visibility for the near future.
- Housing construction will continue to decline sharply, and corporate fixed investment will also fall due to the tight monetary policy and uncertain economic outlook.

Slight downturn in 2023

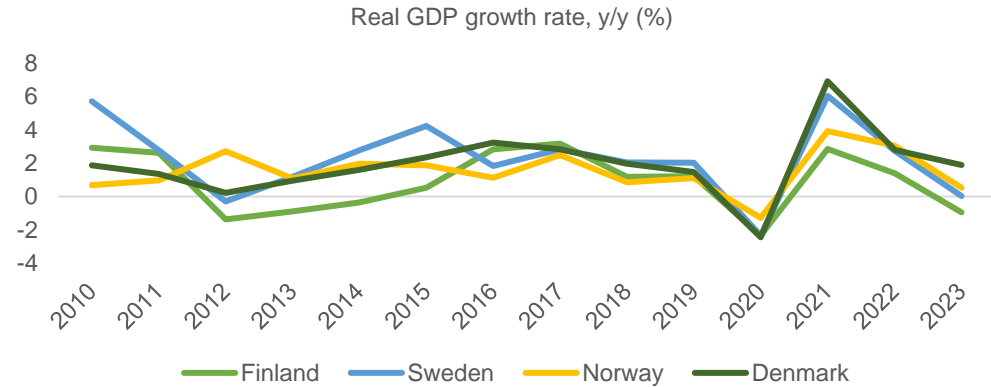


# Growth and improving employment in Finland

## Inflation



## GDP growth



## Employment rate

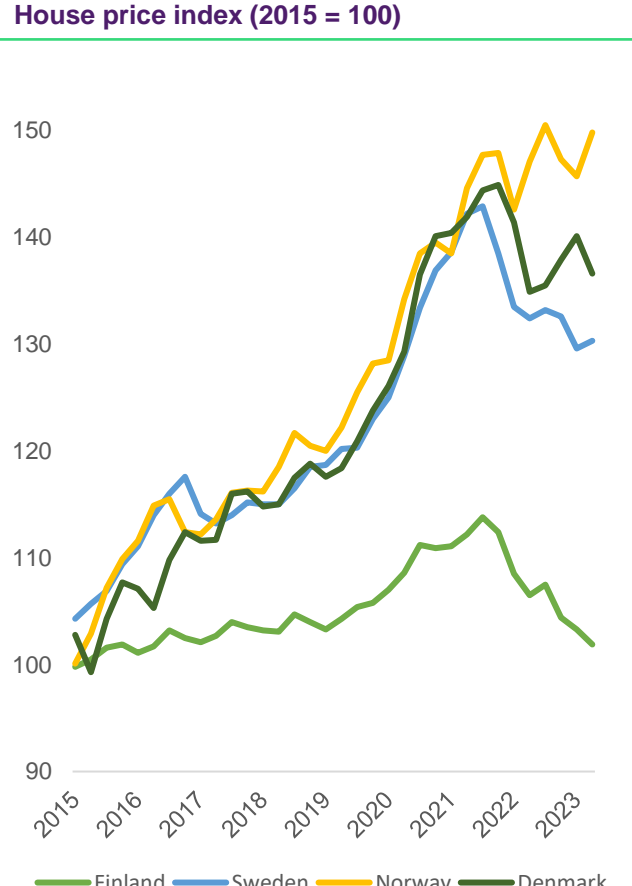
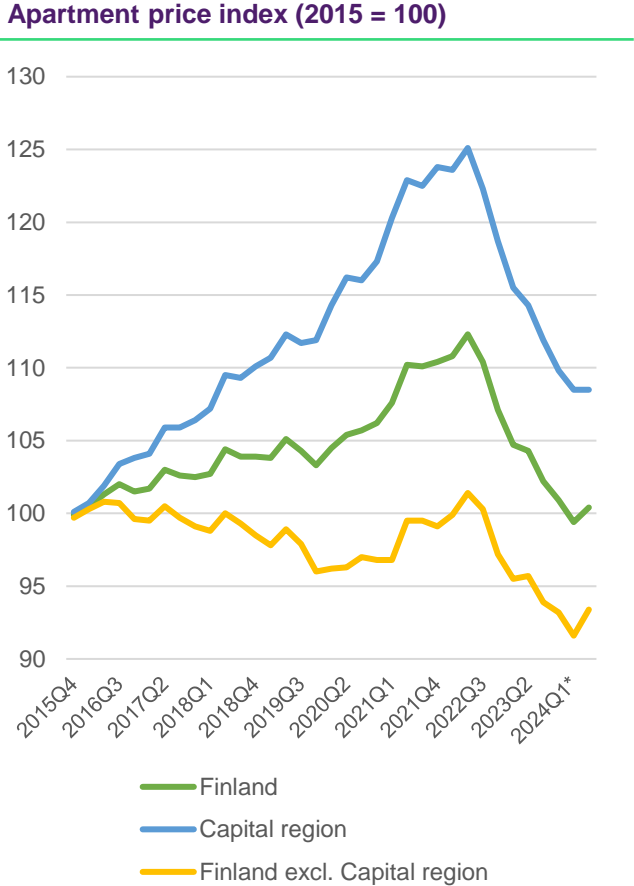


## Unemployment rate



# Evolution of residential property prices in Finland

- The Greater Helsinki region has encountered significant growth in prices but at the same time the development in the rest of Finland has been more steady
- A hefty decline in housing prices since Q2 2022
  - Finland total -12%
  - Capital region -17%
  - Finland (excl. capital region) -8%
- Overall, the prices have had a relatively moderate growth trend in Finland.



\*Preliminary data

# 8. Contemplated transaction

# Indicative terms and conditions

Issuer:	POP Mortgage Bank Plc
Status:	European Covered Bond Premium backed by 100% Finnish residential mortgages, expected ECB repo and LCR 2A eligible
Exp. Issue Rating:	AAA by S&P
Amount:	EUR 250,000,000 (WNG)
Tenor:	[5] years (soft-bullet)
Coupon:	Fixed, payable annually, Act/Act (ICMA), following, unadjusted
Redemption Price:	100%
Documentation:	Issuer's EUR 1,5bn Programme for the Issuance of Covered Bonds
Listing / Clearing:	Nasdaq Helsinki / Euroclear Finland
Denominations:	EUR 100,000 + EUR 100,000
Target Market:	MiFID II Eligible counterparties and professional clients only
Lead Managers:	Danske Bank, Helaba, SEB

# 7. Contact information



# Contact information

## **Jaakko Pulli, CEO, POP Bank Centre coop**

Email: [jaakko.pulli@poppankki.fi](mailto:jaakko.pulli@poppankki.fi)

Tel: +358 50 4200 925

## **Timo Hulkko, CEO, POP Mortgage Bank Plc**

Email: [timo.hulkko@poppankki.fi](mailto:timo.hulkko@poppankki.fi)

Tel: + 358 500 894 008

## **Tony Tötterström, Deputy CEO, POP Mortgage Bank Plc**

Email: [tony.totterstrom@poppankki.fi](mailto:tony.totterstrom@poppankki.fi)

Tel: +358 505 306 623

# 8. Disclaimer

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