Bonum Bank Plc

BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

1 January - 31 December 2016

POP Pankki
Bonum Pankki Oyj

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Bonum Bank's Balance Sheet Book 1 January-31 December 2016 is a translation of the original Finnish version "Bonum Pankki Oyj:n toimintakertomus ja tilinpäätös 1.1.-31.12.2016". In case of discrepancies, the Finnish version shall prevail.

BOARD OF DIRECTORS REPORT
FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2016

Operating environment

POP Bank Group provides banking services mainly to private customers, rural enterprises, such as agriculture and forestry companies, as well as small companies. Banking services are centralised in the main offices of the banks, which are located in smaller towns and municipalities. However, banking operations are geographically very dispersed on a group level, with growth centres and new branches representing key growth areas in recent years. Non-life insurance operations are highly decentralised geographically.

The business environment of the POP Bank Group is largely influenced by the general development of the national economy, changes in regulation of the sector and general market interest rates. If interest rates remain low, there will be challenges in terms of the profitability of banking operations, and regulatory changes will bind development resources. Competition in the sector is becoming more diverse in the areas of payments, investments and loans, for example. Conventional banks are also developing their competitiveness.

There was a slight turn for the better in the Finnish economy during 2016. During the year, the unemployment rate started to decrease and, in particular, investments in the construction industry increased heavily. Industries and exports continued modest development but the outlook improved significantly when the Finnish Government completed the extensive competitiveness pact to support the improvement of productivity. It is expected to support the competitiveness of industries and exports, in particular. The solution aimed to compensate for the purchasing power of consumers and, for example, the poor outlook on domestic trade and services was lighter income taxation. The business sector also benefited from the continued low energy prices and interest rates. In agriculture, profitability increased, while remaining low compared with longer-term levels.

Low interest and inflation rates helped the situations of indebted households. The housing market was characterised by the continuous increase in rents and the regional differentiation in apartment prices. Apartment prices continued to increase to a high level in the capital region and in certain other growth centres, in particular, in relation to the income available to households. In other regions, apartment prices have developed more slowly and even decreased in some areas. There are also increasing differences in sales periods between different regions and apartment types.

POP Bank group

Bonum Bank Plc is a member and wholly owned subsidiary of the POP Bank Alliance. It belongs to the amalgamation of POP Banks that commenced on 31 December 2015. The amalgamation of POP Banks is formed by 26 independent co-operative banks, the central institution POP Bank Alliance, the companies included in their consolidation groups and those credit institutions, financial institutions and service companies in which entities included in the amalgamation jointly hold a control of over 50 per cent. POP Bank Alliance acts as the central institution responsible for group steering and supervision.

Business operations of Bonum Bank

Bonum Bank Plc is part of the amalgamation of POP Banks and responsible for providing central credit institution services to the 26 POP Banks. During the year, Bonum Bank continued to develop services in accordance with the amalgamation's strategy. By developing the services, Bonum Bank strives to strengthen the business operations and cost efficiency of the POP Banks, enabling healthy and profitable growth.

Bonum Bank's operations in the amalgamation were established during 2016, which was the bank's first full year of operation as a provider of central credit institution services to the POP Banks. During the year, Bonum Bank considerably increased the treasury services offered to the POP Banks and prepared and secured the availability of longer-term financing for the banks.

In addition to the central credit institution services, Bonum Bank is also responsible for issuing and maintaining POP Bank customers' payment cards and card credit. Bonum Bank has been a shareholder in Visa Europe and provided Visa Europe's card services to POP Bank customers. Visa Europe's Board of Directors agreed on selling the company to Visa Inc. registered in USA in the spring 2016. The acquisition was finalized in June and Bonum Bank's sales gain from the share was EUR 1.5 million. In connection with the transaction, Bonum Bank received Visa Inc. C-Series shares as part of the sales price.

The credit rating institution S&P Global Ratings granted Bonum Bank a rating of 'BBB' for long-term investment grade and a rating of 'A-2' for short-term investment grade on 23 May 2016. The outlook is stable. The rating reflects the assessment performed in accordance with the criteria used by S&P, assessing, among other things, the POP Bank Group's business position, financial performance, capital and liquidity buffers, risk profile and funding. The stable outlook rating by S&P is proof of the POP Bank Group's strong capital adequacy, stability and predictability of business operations, and expectations for increasing efficiency resulting from the amalgamation.

S&P Global Ratings confirmed its view concerning the credit rating in November and also stated that the outlook has remained stable. Bonum Bank's Annual General Meeting decided in February to change Bonum Bank's form of business to a public limited liability company.

Bonum Bank published a EUR 750 million bond programme in May and issued its first multiyear bond of EUR 100 million in June according to the programme. The bond is a three-year unsecured senior bond, listed on NASDAQ Helsinki. The arrangers are Danske Bank A/S and Nordea Bank Finland Plc. Opening a wholesale funding channel diversifies the POP Bank Group's funding activities and supports the growth of the Group.

Bonum Bank also has a EUR 150 million certificate of deposit programme. No certificates have yet been issued under the programme.

In 2016, the provision of central credit institution services and payment card issuing and credit services to the six banks that withdrew from the POP Bank Alliance in 2015 was discontinued. In accordance with the agreement, the banks were refunded part of the charges related to the development of central credit institution services and card business, as well as their deposits in Bonum Bank in the autumn of 2016.

Financial position

PERFORMANCE

Bonum Bank Plc's profit for the financial year amounted to EUR 978 thousand (EUR 306 thousand for 1 January – 31 December 2015). The profit for the financial year primarily consists of interest and commission income on central credit institution services provided for POP Banks as well as the sales gain from the Visa transaction. The bank's cost-to-income ratio stood at 76.71% (82.59%).

The bank's profit and loss developed as follows:

(EUR 1,000)	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015	Change, %
Interest income	3,468	2,043	69.7
Interest expenses	-991	-311	218.4
Net interest income	**2,476**	**1,732**	**43.0**
Net commissions and fees	4,082	2,416	68.9
Net investment income	1,936	163	1,091.3
Other operating income	1,228	1,539	-20.2
Total operating income	**9,722**	**5,850**	**66.2**
Personnel expenses	-1,216	-1,032	17.8
Other operating expenses	-6,242	-3,799	64.3
Depreciation and amortisation on property, plant and equipment and intangible assets	-586	-491	19.3
Total operating expenses	**-8,044**	**-5,322**	**51.1**
Impairment losses on loans and receivables	-356	-262	35.8
Profit before taxes	**1,322**	**265**	**398.5**
Income taxes	-344	41	-948.3
Result for the period	**978**	**306**	**219.7**

The bank's net interest income amounted to EUR 2,476 thousand (1,732). Compared to the previous year, growth was 43%, attributable primarily to the increase in the card business and the growth in the central credit institution services. The decreasing interest rates and negative money market yield will continue to challenge the bank's interest income.

Net commission income increased to EUR 4,082 thousand (2,416). Commission income consisted mainly of payment transfer fees and income from the card business.

Net income from investment activities increased to EUR 1,936 thousand (163). The income consisted primarily of the sales gain from the Visa transaction.

Other operating income, totalling EUR 1,228 thousand (1,539), originated from fees charged from the POP Banks for the building of Bonum Bank's central credit institution operations.

Personnel expenses consist of salary expenses, pension expenses and other indirect personnel expenses. Personnel expenses increased to EUR 1,216 thousand (1,032).

Other operating expenses of EUR 6,242 thousand (3,799) grew primarily due to the expenses of expanding the central credit institution services and the card business.

BALANCE SHEET

Bonum Bank's balance sheet grew slightly during 2016 and totalled 456,960 thousand at the end of financial year (427,333 thousand 31.12.2015).

The balance sheet developed as follows:

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Assets		
Cash funds	85,073	159,147
Loans and advances to credit institutions	74,408	47,725
Loans and advances to customers	38,556	43,944
Investment assets	254,638	171,147
Intangible assets	2,364	2,932
Property, plant and equipment	53	50
Other assets	1,556	1,893
Tax assets	312	495
Total assets	**456,960**	**427,333**
Liabilities		
Liabilities to credit institutions	326,899	390,200
Liabilities to customers	3,613	7,007
Debt securities issued to the public	99,521	0
Other liabilities	4,558	9,453
Tax liabilities	685	435
Total liabilities	**435,277**	**407,095**
Equity		
Share capital	10,000	10,000
Reserves	10,387	9,919
Profit (loss) for previous financial years	318	12
Profit (loss) for the period	978	306
Total equity	**21,683**	**20,237**
Total liabilities and equity	**456,960**	**427,333**

FORMULAS FOR KEY FIGURES

KEY FIGURES	31 Dec 2016 IFRS	31 Dec 2015 IFRS	31 Dec 2014 IFRS
Cost-to-income -ratio, %	76.71	82.59	116.50
ROA	0.22	0.14	-1.60
ROE	4.66	1.52	-1.80
Equity ratio	4.75	4.74	86.15

Cost-to-income -ratio, %

$$\frac{\text{Administrative expenses + other operating expenses}}{\text{Net interest income + net fee income + net trading income + net invest income + other operating income}} \times 100$$

Return on equity (ROE), %

$$\frac{\text{Operating profit (loss) - income taxes}}{\text{Equity (average of beginning and end of year)}} \times 100$$

Return on assets (ROA), %

$$\frac{\text{Operating profit (loss) - Income taxes}}{\text{Balance sheet total (average of beginning and end of year)}} \times 100$$

Capital adequacy ratio (TC), %

$$\frac{\text{Total capital (TC)}}{\text{Risk-weighted assets}} \times 100$$

Equity ratio, %

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

Shareholdings and equity

On 31 December 2016, Bonum Bank had 900,000 shares, all of them held by the POP Bank Alliance. Bonum Bank holds no own shares.

On 31 December 2016, Bonum Bank's share capital was EUR 10,000 thousand (10,000). Equity totalled EUR 21,683 thousand (20,237).

Capital adequacy management, risk management and risk exposure

PRINCIPLES AND ORGANISATION OF RISK MANAGEMENT

The purpose of Bonum Bank Plc's risk management is to ensure that all significant risks resulting from business activities are identified, assessed, measured and monitored on a regular basis and that they are proportionate to the bank's risk-bearing capacity. The purpose of risk management is to ensure that the bank does not take such high risk in its operations that it would result in any material threat to the capital adequacy or solvency of the bank, central institution or the entire amalgamation. Guidelines and decision-making concerning risks comply with sound and prudent business practices.

The most significant risks associated with Bonum Bank's operations are credit risk, liquidity risk and interest rate risk. The risk strategy confirmed by the Board of Directors based on Bonum Bank's business planning outlines the risk appetite of the operations. Business activities are carried out at a moderate risk level so that the risks can be managed in full.

Bonum 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 authority. The management is responsible for the risk management of the daily operations within the scope of the risk limits and risk-taking authority. The management is also responsible for organising internal control and the adequacy of the risk management systems. Bonum 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. Bonum Bank's compliance function supervises 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.

Bonum Bank Plc is the central credit institution and also a member credit institution of the amalgamation of POP Banks. As the central institution, POP Bank Alliance supervises the sufficiency and functioning of the risk management system in the member credit institutions in accordance with section 17 of the Amalgamation Act. The central institution issues binding instructions concerning risk and capital adequacy management, reliable governance and internal control to the member credit institutions to secure their solvency and capital adequacy. In addition, member credit institutions are provided with shared business control limits to ensure that the risks taken by individual member credit institutions are within acceptable limits.

The amalgamation's principles, organisation and internal control of risk management and capital adequacy management are described in greater detail in Appendix 4 of the Financial Statements of the POP Bank Group. Furthermore, information concerning risks specified in the EU Capital Requirements Regulation (EU 575/2013) (CRR) is presented in the Pillar III disclosures of the Group's consolidated IFRS financial statements. The financial statements of the POP Bank Group are available from the office of POP Bank Alliance, Hevosenkenkä 3, 02600 Espoo, Finland, or online at www.poppankki.fi.

BUSINESS RISKS

Credit risks

Credit risk refers to a counterparty failing to fulfil its payment obligations as agreed. The credit risk of Bonum Bank's operations consists of the investment activities of the liquidity reserves as well as banking operations, including card business and other retail banking. Credit risk management aims at limiting the effects on profit and capital adequacy of credit risks resulting from investment activities and any other customer receivables to a manageable level.

At the end of the financial year, Bonum Bank's investment assets totalled EUR 254,638 thousand

(171,147). The investment assets in the liquidity reserve include securities issued by governments, municipalities, credit institutions. Some of them are covered bonds and ECB eligible collateral . In addition, Bonum Bank's liquidity reserve includes a total of EUR 20,408 thousand (47,725) of current cash at bank. The credit risk of the investment activities is managed primarily by limiting the creditworthiness of investment counterparties and by diversifying investments by sector, counterparty and instrument.

Credit risk exposure in banking activities remained stable and its risk level moderate. The credit losses of the credit card business normalised to the level of the first full year of operation. The management of credit risks in the card business is based on a moderate credit policy, an application rating model as well as the assessment of the customer's repayment ability. The management of credit risks in other banking activities is based on the assessment of the customer's repayment ability as well as sufficient level of safe collateral.

The loan portfolio of card credit decreased by 20.9% to 31,296 thousand (39,547) during the financial period. The decrease in the card credit portfolio was attributable to the card credit balance sheet transactions of the banks, which had withdrawn from the POP Bank Group. In 2016, EUR 370 thousand (109) were recognised as credit loss on card credits. A EUR 140 thousand (153) collective provision for impairment loss has been made for 2016. No credit losses were recognised on other banking items and they contain no non-performing receivables. Other loan receivables from retail banking totalled EUR 7,260 thousand (4,549).

Bonum Bank's receivables overdue for more than 90 days accounted for 0.98% (0.94%) of the loan portfolio. The bank's receivables overdue for 30–90 days accounted for 0.05% (0.10%) of the loan portfolio at the end of 2016.

Balance sheet items exposed to credit risk totalled EUR 313,602 thousand (262,968) at the end of 2016. Bonum Bank's off-balance sheet credit commitments amounted to EUR 84,865 thousand (101,165). These consisted primarily of unused credit limits of card credits and POP Banks' liquidity commitments.

The total amount of credit granted by Bonum Bank to a single customer and/or customer entity must not exceed the maximum amounts confirmed in the EU's Capital Requirements Regulation (No. 575/2013), other statutory orders or the regulations and guidelines provided by the Finnish Financial Supervisory Authority or other supervisory authority.

Liquidity risks

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 payment obligations. Structural financing risk refers to a refinancing risk that arises from the difference in the maturities of balance sheet receivables and liabilities.

Liquidity risks are prepared for by maintaining a liquidity reserve, which helps the bank to manage without external financing until a financing continuity plan, prepared for emergencies, can be executed in full. The liquidity reserve consists of LCR-eligible liquid assets, assets eligible as collateral for central bank financing, as well as current cash at bank. As a central credit institution of the amalgamation of POP Banks, Bonum Bank monitors the liquidity status and current liquidity needs of the member banks and is responsible for obtaining long-term financing. The planning of Bonum Bank's financing structure is based on the liquidity and financing planning of the entire amalgamation as well as the objectives and the steering limits issued to them by the central institution.

The key ratio for measuring liquidity risk is the liquidity coverage ratio (LCR), specified in the EU's Capital Requirements Regulation. The minimum requirement for the LCR was 70% in 2016 and it increased to 80% at the beginning of 2017. The minimum requirement for the LCR will increase to 100% on 1 January 2018. The LCR of Bonum Bank Plc was 133.5% at the end of 2016 (153.3).

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 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 monitor the risk exposure in real time. 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 Bonum Bank. Bonum Bank's Board of Directors confirms the maximum levels for market risks and the investment policy. The capital adequacy management process is a central process for the measurement and monitoring of the market risk included in the financial account, involving the establishment of capital reserves for market risk.

Interest rate risk

The interest rate risk is the most significant market risk in Bonum Bank's business operations. Interest rate risk refers to the effect of changes in interest rates on the market value or net interest income of balance sheet items and off-balance sheet items. Interest rate risk arises from differences in the interest terms of receivables and liabilities and differences in interest reset and maturity dates. The objective of interest rate management is to stabilise the interest rate risk involved in the bank's balance sheet to a level at which business is profitable but profit or capital adequacy are not threatened even in considerable changes of the interest rate environment.

Interest rate risk also arises from the liquidity reserve investment activities and the financial account of the banking business. Bonum Bank did not use any derivatives in 2016.

Bonum Bank monitors the interest rate risk by with present value method and dynamic income risk model on a monthly basis. The present value method measures how changes in interest rates change 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 primarily used to monitor the market value changes caused by the changes in the interest rates and credit spreads of investment items in different interest rate scenarios. The income risk model predicts the future net interest income and its changes in various market rate scenarios within a time frame of five years.

Operational risks

The objective of the management of operational risks is to identify essential operational risks in 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 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 through continuity planning.

Strategic risk

Strategic risk refers to losses caused by choosing a 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, Bonum Bank must be able to secure the basic operations needed by the POP Banks. Potential strategic threats have been taken into account when estimating capital needs. The prepared strategy focuses on the stabilisation of the central credit institution activities needed by the amalgamation's member banks and the card business.

The bank aims to minimise strategic risks by means of regular updates of its strategic and annual plans. Analyses of the condition of the POP Bank group and the development of its business, as well as analyses and estimates concerning the development of the sector, competition and financial operating environment are utilised in the planning.

CAPITAL ADEQUACY MANAGEMENT

The purpose of capital adequacy management in Bonum Bank is to ensure sufficient level and quality of capital and it's efficient use. Material risks arising from the implementation of the bank's business plan are covered by sufficient level of capital which secures the uninterrupted operation of the 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 amalgamation's and other member credit institutions' business planning.

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

Bonum 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). At the end of 2016, Bonum Bank's own funds totalled EUR 18,685 thousand (17,410), which consisted wholly of Common Equity Tier 1 (CET1) capital.

At the end of 2016, the capital adequacy of Bonum Bank was at a good level. The bank's capital adequacy ratio was 28.74% (19.52) and the ratio of Tier 1 capital to risk-weighted items was 28.74% (19.52). Bonum Bank does not include year-end profits in its own funds. The development of Bonum Bank's capital adequacy was primarily affected by the discontinuation of the central credit institution services provided by the banks that had withdrawn from the POP Bank Group as well as the card business transfers, which reduced the amount of risk-weighted assets. The changes in the allocation of investment items have also reduced the amount of risk-weighted assets. The capital requirement for operational risk will normalise further in line with current commission income levels in 2017.

The cooperative capital of POP Bank Alliance Coop was increased in December 2016. EUR 10 million of the cooperative capital increase will be used to strengthen Bonum Bank's capital, with the purpose of preparing for the streamlining and expansion of the central credit institution's business operations in the coming years.

The statutory minimum level for the capital adequacy ratio is 8% and 4.5% for Tier 1 capital. In addition to the statutory 8% leverage ratio requirement, a fixed 2.5 per cent additional capital requirement became applicable on 1 January 2015, as well as a variable additional capital requirement which the authorities can set at 0–2.5%, if necessary. For the time being, the Financial Supervisory Authority has not set a variable additional requirement for Finnish exposures.

Bonum 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. The interim report released every six months includes the key capital adequacy information.

SUMMARY OF CAPITAL ADEQUACY (EUR 1,000)	31 Dec 2016	31 Dec 2015
Common Equity Tier 1 capital before deductions	20,705	19,928
Deductions from Common Equity Tier 1 capital	-2,020	-2,518
Total Common Equity Tier 1 capital (CET 1)	**18,685**	**17,410**
Additional Tier 1 capital before deductions	0	0
Deductions from Additional Tier 1 capital	0	0
Additional Tier 1 capital (AT1)	0	0
Tier 1 capital (T1=CET1+AT1)	18,685	17,410
Tier 2 capital before deductions	0	0
Deductions from Tier 2 capital	0	0
Total Tier 2 capital (T2)	0	0
Total capital (TC=T1+T2)	**18,685**	**17,410**
Total Risk Weighted Assets	**65,014**	**89,175**
Of which credit risk	53,948	82,755
Of which credit valuation adjustment risk (CVA)	0	0
Of which market risk (exchange rate risk)	0	0
Of which operational risk	11,066	6,420
Fixed capital conservation buffer according to the Act on Credit Institutions (2.5%)	1,625	2,229
Countercyclical capital buffer	60	72
Common Equity Tier 1 capital (CET1) in relation to risk-weighted assets (%)	28.74 %	19.52 %
Tier 1 capital (T1) in relation to risk-weighted assets (%)	28.74 %	19.52 %
Total Capital (TC) in relation to risk-weighted assets (%)	**28.74 %**	**19.52 %**
Leverage ratio		
Tier 1 capital (T1)	18,685	17,410
Total exposures	463,362	441,750
Leverage ratio, %	4.03 %	3.94 %

INTERNAL CONTROL

The purpose of internal control is to ensure that the organisation complies with regulations, carries out comprehensive risk management and operates efficiently and reliably. Bonum Bank's internal control serves to ensure that the objectives and goals set for different levels of the bank are achieved according to the agreed and specified internal control guidelines. Internal control refers to the monitoring conducted by the administrative bodies and the organisation within the bank, primarily focusing on the operational status, quality and results. Internal control is performed by the Board of Directors, the CEO, the management, supervisors and salaried employees. In addition, employees are obligated to report any detected deviations and illegal actions.

INTERNAL AUDIT

The central institution of the amalgamation has centralised responsibility for supervising and organising internal audit in the amalgamation's central institution, member credit institutions and other companies within the amalgamation. The bank's internal audit is based on the internal audit guidelines confirmed by the Board of Directors and the audit plan approved by the Board of Directors. 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. The internal audits conducted in the bank during the year were carried out by PricewaterhouseCoopers Oy.

BONUM BANK'S CORPORATE GOVERNANCE AND PERSONNEL

The Annual General Meeting of 29 February 2016 adopted the financial statements for 2015 and granted discharge from liability to the bank's Board members and the CEO. The Board of Directors of Bonum Bank Plc has five members. The Board of Directors convened 15 times during the year.

Regular Board members:

Chairman of the Board:
- **Ossi Karesvuo**, Managing Director

Vice Chairman of the Board:
- **Ilkka Harjunpää**, Managing Director

Members:
- **Hanna Linna**, Managing Director
- **Timo Hulkko**, Director
- **Mikael Zilliacus**, CLO

Bonum Bank's CEO is **Anders Dahlqvist** and the deputy CEO is **Lassi Vepsäläinen**.

On 31 December 2016, the bank had 14 employees, all of them full-time. Thirteen employees had a permanent employment contract and one a fixed-term employment contract. The professional competence of employees is maintained and developed in accordance with the bank's needs, the changing operating environment, employees' individual expertise requirements, and any changes taking place in these requirements.

AUDIT

The company's auditor was KPMG Ltd with **Johanna Gråsten**, Authorised Public Accountant, as the principal auditor.

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.

Bonum Bank Plc's corporate governance report is available online at **www.bonumpankki.fi/en_US/governance**.

Compensation programme

DECISION-MAKING PROCESS USED IN THE SPECIFICATION OF THE COMPENSATION PROGRAMME

The bank's Board of Directors is responsible for compensation matters. The bank does not have a compensation committee appointed by the Board for the management of the compensation programme. It was not considered necessary due to the narrow scope of the bank's business. The bank's Board of Directors monitors the compensation programmes and annually assesses their effectiveness.

The bank's compliance function verifies once a year whether the compensation programme approved by the bank's Board of Directors has been complied with. The compensation of control functions' personnel is independent of the business area being supervised.

RELATIONSHIP BETWEEN COMPENSATION AND RESULT

The compensation programme shall be in line with the bank's business strategy, objectives and values and support the bank's long-term benefit. The compensation programme shall also be in harmony with the bank's proper and effective risk management and risk-bearing capacity and promote them.

CRITERIA USED IN THE ASSESSMENT OF PERFORMANCE, RISK-BASED CHANGES TO THE AMOUNT OF COMPENSATION, POSTPONEMENT PRACTICES AND COMPENSATION PAYMENT CRITERIA

The variable compensation of any beneficiary at the bank may not exceed EUR 50,000 for an earnings period of one year. The bank may decide not to pay any variable compensation either partially or at all in the event that the bank's capital adequacy is less than 10.5%.

Severance pay or other compensation payable to an employee can be paid if employment terminates prematurely. The principles referred to above are taken into account in payment, and the payment criteria are laid down so that compensation is not paid for failed performance. The Board of Directors decides on the payment of compensation.

FIXED AND VARIABLE COMPENSATION

The variable compensation under the compensation programme may be no more than 20% of the fixed annual salary.

KEY PARAMETERS AND CRITERIA APPLIED IN THE SPECIFICATION OF VARIABLE COMPENSATION AND OTHER FRINGE BENEFITS

The bank's variable compensation is subject to the following principles:

1. The payment grounds of variable compensation are determined and communicated to compensation beneficiaries ahead of time. However, without payment grounds determined and communicated ahead of time, the Board of Directors can reward an employee for

exceptional performance with compensation that is equivalent of the employee's salary of one month.

2. The compensation must be based on an overall assessment of the performance of the compensation beneficiary and the business unit in question. When assessing performance, the long term result must be considered.

3. At a minimum, known and future risks, capital costs and liquidity at the time of assessment must be taken into account when determining the compensation amount.

4. The compensation beneficiary may be entitled to variable compensation, which can be only paid if the compensation beneficiary has not violated the regulations, instructions or operating principles and procedures defined by the credit institutions, which generate obligations to the credit institution, or contributed to such action through their acts or failure to act. It must also be possible to not pay or to recover the variable compensation if the credit institution becomes aware of such action only after the compensation has been determined or paid.

5. The bank may commit to unconditional payment of compensation (non-recoverable compensation) only for particularly weighty reasons and provided that the promised compensation only targets the first year of employment of the compensation beneficiary.

AGGREGATE INFORMATION ON COMPENSATION TO THE MANAGEMENT AND MEMBERS OF PERSONNEL WHO HAVE A SIGNIFICANT IMPACT ON THE BANK'S RISK PROFILE

The bank maintains a list of the following persons and the compensation paid to them:

1. CEO and members of the management team,

2. Other persons whose actions have a significant impact on the risk position of the central institution or amalgamation,

3. Persons who work in the risk control function, risk management tasks, compliance function or internal audit function,

4. Another person whose total amount of compensation is not significantly different from the total amount of compensation of the persons referred to in items 1 and 2.

PAID COMPENSATION

During the financial period, the bank paid variable compensation but no start-up payments or severance payments. Severance pay is not specified in the employment contracts.

The bank did not pay compensation of over EUR 1 million during the financial period.

Key outsourced operations

Bonum Bank's bank system is outsourced to Samlink Ltd, in which the member banks of the amalgamation have a holding of 5.23%. Bonum Bank's accounting is managed at Paikallispankkien PP-Laskenta Ltd, wholly owned by Samlink Ltd. Payment message handling at Bonum Bank (excluding internal payments within the POP Bank group) is carried out through SWIFT Service Bureau provided by Tieto Plc.

Card business services are outsourced to Samlink, Nets Ltd., Intrum Justitia Ltd. and TAG Ltd.

Deposit guarantee

Bonum Bank is a member of the Deposit Guarantee Fund, which protects the deposits of customers to a maximum of EUR 100,000. Bonum Bank's operations focus on central credit institution services provided for the member banks of the amalgamation. Therefore, the Deposit Guarantee Fund is of minor significance.

Social responsibility

POP Bank Group's social responsibility is described in the Group's financial statements. Bonum 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 central credit institution for POP Banks, Bonum Bank contributes to supporting the social responsibility of local POP Banks.

Events after the financial period

No such significant events have taken place at Bonum Bank after the balance sheet date that would have a material effect on the information presented in the financial statements.

Business development in 2017

The use and sales of the payment cards issued by the bank will be intensified and streamlined in cooperation with the POP Banks. Developing the bank's operations requires investments in the personnel training of POP Banks, risk management and internal control. Bonum Bank's retail banking will be developed by introducing, for example, POP Banks' authentication services and e-payment.

POP Bank Alliance Coop has made a decision on an additional capitalisation of EUR 10 million to Bonum Bank. The capitalisation will be carried out in 2017.

Board of directors' proposal on the disposal of distributable funds

Bonum Bank's distributable funds amounted to EUR 1,296 thousand.

Bonum Bank's Board of Directors proposes to the Annual General Meeting that the profit for the financial year, EUR 978 thousand, be entered in retained earnings and that no dividend be paid.

FINANCIAL STATEMENTS 31 DECEMBER 2016

INCOME STATEMENT

(EUR 1,000)	Note	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015	Change, %
Interest income	Note 3	3,468	2,043	69.7
Interest expenses	Note 3	-991	-311	218.4
Net interest income		**2,476**	**1,732**	**43.0**
Net commissions and fees	Note 4	4,082	2,416	68.9
Net investment income	Note 5	1,936	163	1,091.3
Other operating income	Note 6	1,228	1,539	-20.2
Total operating income		**9,722**	**5,850**	**66.2**
Personnel expenses	Note 7	-1,216	-1,032	17.8
Other operating expenses	Note 8	-6,242	-3,799	64.3
Depreciation and amortisation on property, plant and equipment and intangible assets	Note 9	-586	-491	19.3
Total operating expenses		**-8,044**	**-5,322**	**51.1**
Impairment losses on loans and receivables	Note 14	-356	-262	35.8
Profit before taxes		**1,322**	**265**	**398.5**
Income taxes	Note 10	-344	41	-948.3
Result for the period		**978**	**306**	**219.7**

STATEMENT OF COMPREHENSIVE INCOME

(EUR 1,000)	Note	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015	Change, %
Profit for the period		978	306	219.7
Other comprehensive income				
Items that may be reclassified to profit or loss				
Changes in fair value reserve				
From measurement of available-for-sale financial assets	Note 23	468	-81	-680.0
Total comprehensive income		**1,446**	**225**	**542.2**

Bonum Bank is a subsidiary wholly owned by POP Bank Alliance.

BALANCE SHEET

(EUR 1,000)	Note	31 Dec 2016	31 Dec 2015
Assets			
Cash funds	Note 13	85,073	159,147
Loans and advances to credit institutions	Note 14	74,408	47,725
Loans and advances to customers	Note 14	38,556	43,944
Investment assets	Note 15	254,638	171,147
Intangible assets	Note 16	2,364	2,932
Property, plant and equipment	Note 17	53	50
Other assets	Note 18	1,556	1,893
Tax assets	Note 19	312	495
Total assets		**456,960**	**427,333**
Liabilities			
Liabilities to credit institutions	Note 20	326,899	390,200
Liabilities to customers	Note 20	3,613	7,007
Debt securities issued to the public	Note 21	99,521	0
Other liabilities	Note 22	4,558	9,453
Tax liabilities	Note 22	685	435
Total liabilities		**435,277**	**407,095**
Equity			
Share capital	Note 23	10,000	10,000
Reserves	Note 23	10,387	9,919
Profit (loss) for previous financial years	Note 23	318	12
Profit (loss) for the period		978	306
Total equity		**21,683**	**20,237**
Total liabilities and equity		**456,960**	**427,333**

STATEMENT OF CHANGES IN EQUITY

(EUR 1,000)	Share capital	Fair value reserve	Other reserves	Retained earnings	Total equity
Equity on 1 Jan 2016	**10,000**	**-81**	**10,000**	**318**	**20,237**
Total comprehensive income					
Profit for the period				978	978
Other comprehensive income		468			468
Other changes					0
Equity on 31 Dec 2016	**10,000**	**387**	**10,000**	**1,296**	**21,683**

(EUR 1,000)	Share capital	Fair value reserve	Other reserves	Retained earnings	Total equity
Equity on 1 Jan 2015	**10,000**	**-**	**10,000**	**8**	**20,008**
Total comprehensive income					
Profit for the period				306	306
Other comprehensive income		-81			-81
Other changes				4	4
Equity on 31 Dec 2015	**10,000**	**-81**	**10,000**	**318**	**20,237**

CASH FLOW STATEMENT

(EUR 1,000)	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Cash flow from operations		
Profit for the period	978	306
Adjustments to result for the financial year	917	603
Increase (-) or decrease (+) in business assets	**-129,262**	**-217,747**
Receivables from credit institutions	-52,095	-1,706
Receivables from customers	5,401	-44,097
Notes and bonds	-82,637	-171,248
Investment assets	-268	-
Other assets	337	-697
Increase (+) or decrease (-) in business liabilities	**27,931**	**403,934**
Liabilities to credit institutions	-63,302	390,200
Liabilities to customers	-3,394	7,007
Debt securities issued to the public	99,521	-
Provisions and other liabilities	-4,894	6,727
Income taxes paid	-28	-
Total cash flow from operations	**-99,465**	**187,096**
Cash flow from investments		
Decreases in held-to-maturity financial assets	-	1,000
Increases in other investments	-1	-
Investments in tangible and intangible assets	-21	-971
Total cash flow from investments	**-22**	**29**
Change in cash and cash equivalents		
Cash and cash equivalents at beginning of period	195,967	8,842
Cash and cash equivalents at end of period	96,481	195,967
Net change in cash and cash equivalents	**-99,486**	**187,125**
Interest received	3,843	1,055
Interest paid	1,033	222
Dividends received	1	-
Adjustments to result for the financial year	**917**	**603**
Non-cash items and other adjustments		
Impairment losses on receivables	-13	153
Depreciation	586	491
Other	344	-41
Cash and cash equivalents		
Cash funds	85,073	159,147
Receivables from credit institutions repayable on demand	11,408	36,820
Total	**96,481**	**195,967**

NOTE 1 ACCOUNTING POLICIES

GENERAL

Bonum Bank Plc and POP Bank group

Bonum Bank Plc (hereinafter 'Bonum Bank') is a subsidiary wholly owned by POP Bank Alliance and a member credit institution in the amalgamation of POP Banks, acting as the central credit institution for the member banks of the POP Bank Alliance (POP Banks). Bonum Bank takes care of POP Banks' payment transfer accounts and transfers payment transactions between the customers of POP Banks and other banks, makes the minimum reserve deposits for POP Banks in the Bank of Finland, receives deposits for POP Banks and grants credits to POP Banks that they need to ensure their liquidity. In addition, Bonum Bank manages the liquidity of the amalgamation of POP Banks and operates in the financing wholesale market by issuing unsecured senior bonds. Bonum Bank's duties also include operations related to Visa cards of POP Banks' customers. Bonum Bank has been the issuer of POP Bank's payment cards since June 2015.

Bonum Bank's registered office is Espoo. Copies of Bonum Bank's financial statements are available from the office of Bonum Bank Oyj, address Hevosenkenkä 3, 02600 Espoo, Finland, or online at www.bonumpankki.fi.

Bonum 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 Alliance. Its members consist of Bonum Bank and 26 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.

The central institution of POP Banks 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 or from the office of the central institution, address Hevosenkenkä 3, 02600 Espoo, Finland. The POP Bank group presents the Pillar 3 capital adequacy information in accordance with the EU's Capital Requirements Regulation (575/2013) in the Notes to the financial statements.

Basis of presentation of financial statements

Bonum 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 Bonum Bank's financial statements are in thousand euros unless otherwise indicated. The figures in the notes are rounded, whereby the sum total of individual figures may deviate from the sum total presented in a table or calculation. Assets and liabilities denominated in currencies other than euro have been translated into euro at the exchange rate of the balance sheet date. Exchange rate differences resulting from measurement have been recognised in net investment income in the income statement.

Bonum Bank's financial statements are based on original cost, with the exception of available-for-sale financial assets, which have been measured at fair value. Bonum Bank has no subsidiaries or associated companies.

FINANCIAL INSTRUMENTS

Classification and recognition in the balance sheet

Financial assets and liabilities are classified on initial recognition in accordance with IAS 39 Financial Instruments: Recognition and Measurement into the following measurement categories:

– Available-for-sale financial assets
– Loans and receivables
– Other financial liabilities

The recognition of financial instruments in Bonum Bank's balance sheet is not dependent on the categorisation presented in the notes for measurement. The classification into measurement categories of financial assets and liabilities recognised in the balance sheet is presented in Note 12. Purchases and sales of financial instruments are recognised on the trade date. Loans granted are recognised in the balance sheet on the date when the customer draws down the loan. Instruments issued are recognised on the date when the customer makes the subscription.

On initial recognition, all financial assets and liabilities are recognised at fair value. The transaction costs of financial instruments are included in the acquisition cost.

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

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 in a transaction in which substantially all the risks and rewards of ownership are transferred. Financial liabilities are derecognised when the related obligations have been fulfilled and they have been extinguished.

<u>Available-for-sale financial assets</u>

Debt securities and shares that are not recognised at fair value through profit or loss and that may be sold before their maturity are recognised in available-for-sale financial assets. Available-for-sale financial assets are measured at fair value, and unrealised change in value is recognised in other comprehensive income. Change in value is reclassified from other comprehensive income to the income statement into net investment income upon transfer or impairment.

<u>Investments held to maturity</u>

In the financial year 2015, Bonum Bank has reclassified investments held to maturity into available-for-sale financial assets. Because of the reclassification, the bank cannot classify investments into investments held to maturity in 2016 and 2017. The reclassification was a result of the change in Bonum Bank's investment policy that is associated with the bank's capital adequacy management and the adjustment of its investment position to match the expected changes in the business volume.

<u>Loans and receivables</u>

Receivables from credit institutions as well as loans and advances to the public and general government are recognised as loans and receivables. Loans and advances to the public consist mainly of credit card receivables. Loans and receivables are recognised at amortised cost.

<u>Other financial liabilities</u>

Liabilities to credit institutions, liabilities to the public and general government and debt securities to the public are recognised as other financial liabilities. Other financial liabilities are included in the balance sheet at amortised cost.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the valuation date.

The fair value of a financial instrument is determined on the basis of prices quoted in an active markets or, where no active market exists, using standard valuation techniques. A market is considered as active if price quotes are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. The current bid price is used as the quoted market price of financial assets.

If the market has a commonly used valuation technique applied to a financial instrument to which the fair value is not directly available, the fair value is based on a commonly used market price calculation model and market quotations of the inputs used by the model.

If the valuation technique is not commonly used in the market, a valuation model created for the instrument in question is used to determine the fair value. Valuation models are based on commonly used measurement methods and cover all the components that market participants would consider in setting a price. The valuation prices used include prices of market transactions, discounted cash flows and the fair value of another substantially similar instrument at the balance sheet date.

The valuation techniques take into account estimated credit risk, applicable discount rates, the possibility of early repayment and other factors that affect the reliable measurement of the fair value of a financial instrument.

The fair values of financial instruments are categorised into three hierarchy levels, depending on the fair value determination technique:

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

The fair value hierarchy level into which a particular item measured at fair value is classified in its entirety is determined at the lowest level of input information for the whole item. The importance of the input data is assessed in its entirety in relation to the item that is measured at fair value.

Impairment losses on financial assets

The impairment loss on a financial asset other than an asset measured at fair value through profit or loss is recognised in the income statement if there is objective evidence of impairment. Objective evidence is assessed at the end of each reporting period.

Available-for-sale financial assets

Objective evidence of an impairment loss on available-for-sale financial assets may include considerable financial difficulties of the issuer or debtor, breach of contract terms, issuer's or debtor's bankruptcy or other reorganisation becoming probable, unfavourable changes in the operating environment of the issuer or debtor or the disappearance of an active market for a financial asset. If there is objective evidence of impairment loss of a financial asset at the end of the reporting period, impairment testing is performed on the asset.

In addition, a significant or prolonged decline of the fair value of an investment in an equity instrument below its acquisition cost is objective evidence of impairment and results in the recognition of impairment losses. The decline in the fair value of an investment in an equity instrument is significant when it is more than 30% below the instrument's acquisition cost and long-term when the impairment has continuously lasted for more than 12 months. Impairment loss is recognised as the difference between the acquisition cost of the equity instrument and its fair value at the reporting date less any earlier impairment losses on that item which have been recognised in the income statement. Impairment loss is recognised in the income statement under "Net investment income". Impairment losses on an investment in an equity instrument which is classified as available-for-sale are not reversed through profit or loss; instead, the subsequent change in value is recognised in other comprehensive income.

The impairment of an available-for-sale debt instrument is determined mainly as the difference between its acquisition cost and the present value of future cash flows from the instrument. A decrease in fair value resulting from an increase in a risk-free market interest rate does not lead to recognition of impairment loss. Impairment loss is recognised in the income statement in net investment income. A decrease in impairment loss related to an event occurring after the recognition of impairment loss is recognised through profit and loss.

Loans and receivables

Impairment loss on loans and receivables is assessed on an individual basis or on a collective basis for groups of similar receivables. Bonum Bank's loans and receivables are mainly card credit receivables and do not include any significant individual receivables. Therefore, impairment loss on card credit receivables is assessed only on a collective basis.

Collective impairment is assessed by dividing receivables with similar credit risk characteristics into groups. Impairment losses that have materialised according to the assessment but cannot be allocated to an individual receivable are recognised collectively. When determining collective impairment loss, the previous loss development of groups with similar credit risk characteristics is taken into account.

Impairment losses on loans and receivables are recognised in the balance sheet using an allowance account, which adjusts the carrying amount of the receivable. In the income statement, impairment losses are recognised in impairment losses on loans and other receivables. If the amount of impairment loss later decreases, the impairment loss is reversed accordingly.

Loans and receivables are derecognised when no further payments are expected and the actual final loss can be determined. The final credit loss is recognised on an individual basis. Payments on derecognised receivables received later are recognised in the income statement as an adjustment of impairment losses.

INTANGIBLE ASSETS

Intangible assets included in Bonum Bank's balance sheet mainly consist of acquisition costs of information systems. The costs of development carried out by Bonum Bank's strategic partners are capitalised as intangible assets when the result of the development work is an identifiable intangible asset that is under Bonum Bank's control and produces economic benefit for Bonum Bank. The most important intangible assets are the information systems for central credit institution operations and card business. Bonum Bank has not capitalised internally produced intangible assets.

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

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment included in Bonum Bank's balance sheet consist of machines and equipment that are recognised in the balance sheet at cost less depreciation and impairment. Depreciation is based on the economic life of the assets. The economic life for machinery and equipment is 3–10 years.

Depreciation and impairment on property, plant and equipment are included in depreciation, amortisation and impairment loss on intangible assets and property, plant and equipment.

LEASES

Bonum bank is leasing office equipment and the premises it uses for business. Leases have been classified as operating leases in accordance with IAS 17. Rental expenses are recognised in other operating income over the period of lease.

EMPLOYEE BENEFITS

Employee benefits at Bonum Bank in accordance with IAS 19 consist mainly of short-term employee benefits, such as holiday pay and bonus payments, which are expected to be paid in connection with the work performance they are related to or within the following 12 months.

Post-employment benefits consist of pensions and other benefits paid out after the end of employment. The statutory pension coverage is provided by external pension insurance companies. Bonum Bank's pension plans are defined contribution plans. Expenses from defined contribution plans are recognised in personnel expenses in the period during which they are charged by the insurance company. Bonum Bank has no defined benefit pension plans.

PRINCIPLES FOR RECOGNISING INCOME AND EXPENSES

Interest income and expenses

Interest income and expenses are amortised over the maturity of the contract using the effective interest rate method, in proportion to the remaining carrying amount in the balance sheet. Interest income and expenses are recognised in net interest income.

Negative interest income paid by Bonum Bank is shown in interest expenses, and the negative interest expense charged to the customer bank is shown in interest income.

Commissions and fees income and expenses

Commission and fees income and expenses are generally recognised on an accrual basis when the related services are performed. Commissions and fees relating to services performed over several years are amortised over the service period. Commissions and fees that are considered as an integral part of the effective interest of a financial instrument are accounted for as an adjustment to the effective interest. However, commissions and fees relating to financial instruments measured at fair value through profit or loss are expensed in the income statement on initial recognition.

Income from development charges

Bonum Bank has collected development charges included in other operating income from its customer banks for the development of the central credit institution operations and the card business. These payments have not been recognised insofar as they are used for covering expenses included in the acquisition cost of an intangible asset. Unrecognised payments have been treated as advances and included in other liabilities in the balance sheet. These payments are recognised when Bonum Bank uses the intangible asset to earn income. Unrecognised payments 2015 also included items that Bonum Bank refunded 2016 to co-operative banks that have withdrawn from POP Bank Alliance.

Presentation of income statement items in the financial statements:

Net interest income	Interest income and expenses on financial assets and liabilities, the amount of amortisation on the difference between the nominal and acquisition values as well as fees that are accounted as part of financial instrument's effective interest
Commission income and expenses	Commission income from lending, deposits and legal tasks, commission income and expenses from payments and card business, commission income from securities
Net investment income	Realised sales gains and losses arising from available-for-sale financial assets, impairment, sales gains and losses, dividends and net gains on foreign exchange operations
Other operating income	Income from central credit institution services, development charges collected from banks and other operating income
Personnel expenses	Salaries and remuneration, pension expenses and other indirect personnel expenses
Other operating expenses	Administrative expenses, rental expenses and other business operations-related expenses

INCOME TAXES

The income statement includes taxes on Bonum Bank's taxable income for the financial year, adjustments to taxes from previous financial years and changes in deferred taxes. Tax expenses are recognised in the income statement excluding items that are directly related to equity or other items recognised in other comprehensive income, in which case the tax effect is also included in these items.

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

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

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

SEGMENT REPORTING

Bonum Bank is engaged in the banking business. Thus, the bank has only one operational segment, which is why its financial statements do not include segment reporting.

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

The application of IFRS requires the management's assessments and assumptions concerning the future. These affect the reported amounts in the financial statements and the information included in the notes. The management's main estimates concern the future and the key uncertainties related to the amounts at the balance sheet date. In particular, they are related to fair value assessment and impairment of financial assets and intangible assets.

Fair value assessment

The management must assess whether the markets for financial instruments are active or not. Furthermore, the management must assess whether an individual financial instrument is subject to active trading and whether the price information obtained from the market is a reliable indication of the instrument's fair value. When the fair value of financial instruments is determined using a valuation technique, the management's judgement is needed in the choice of the valuation technique to be applied. Insofar as there is no market input available for the techniques, the management must evaluate how other data can be used for the valuation.

Impairment

The management must assess at regular intervals whether there is objective evidence of impairment of a financial or other asset and, when necessary, carry out impairment testing on the asset. The verification of objective evidence involves management's judgement.

The impairment testing of available-for-sale financial assets, as well as notes and bonds included in loans and receivables must be conducted at the end of the reporting period. If there is objective evidence of impairment, any impairment loss is recognised in the income statement.

The impairment testing of receivables is carried out on a collective basis. Bonum Bank has no significant individual receivables, which is why receivable-specific testing is not performed. The most important matters that require assessment are the identification of objective factors and future cash flows. The principles of collective impairment are described in more detail under Impairment losses on financial assets.

An intangible asset's recoverable amount is determined in the impairment assessment on the basis of the use value or fair value of the asset. Impairment testing requires management's judgement and assessment of the recoverable amount of the asset in question, as well as the interest rate used for discounting. In addition, management's judgement is required for the evaluation of intangible assets under development.

NEW IFRS STANDARDS AND INTERPRETATIONS

In the financial period, Bonum Bank implemented the following new standards and improvements to existing standards:

- Annual improvements to IFRS standards 2012–2014: The Annual Improvements procedure provides minor and non-urgent amendments to the standards to be grouped together and issued in one package annually. The amendments are related to four standards. Their effects vary depending on the standard, but they are not significant.

- Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative. The amendments clarify the guidance provided in IAS 1 on materiality, consolidation of income statement and balance sheet items, presentation of sub-headings and the structure and accounting policies of the financial statements. Bonus Bank has implemented minor amendments to the presentation of the financial statements and, when necessary, an equivalent change has been made in the comparison period presented.

In the financial period starting on 1 January 2017, Bonum Bank will implement the following new standards and interpretations published by IASB, if they are approved to be applied in the EU before the end of the financial period.

Changes and improvements to existing standards

- IAS 12 – Income taxes, amended by Recognition of Deferred Tax Assets for Unrealised Losses (to be applied in financial periods starting on or after 1 January 2017). This amendment clarifies how deferred tax assets from debt instruments recognised at fair value can be registered (recognition of deferred tax assets for unrealised losses). The amendment has no impact on the financial statements of Bonum Bank.

- IAS 7 – Statement of Cash Flows, amended by Disclosure Initiative (to be applied in financial periods starting on or after 1 January 2017). The aim of this amendment is to help users of financial statements to assess changes in financial liabilities with and without impact on cash flows. The amendments are not expected to have a material effect on Bonum Bank's financial statements.

Other significant amendments that are effective for financial years beginning later than 1 January 2017.

- New IFRS 9 Financial Instruments standard (effective for financial years beginning on or after 1 January 2018): The standard replaces the existing standard IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 changes the recognition and measurement of financial assets and includes a new model for evaluating the impairment of financial assets based on expected credit losses. The recognition and measurement of financial liabilities largely correspond with the current requirements set out in IAS 39.

To adopt IFRS 9, the POP Bank Group has launched an internal project and a cooperation project with system supplier Oy Samlink Ab. The POP Bank Group's internal project aims to define accounting principles and the modelling required by expected losses together with external partners, and to assess what impact the application of the standard has on the Group's operations. The project also assesses the impact on Bonum Bank's business operations.

The recognition of financial assets in accordance with IFRS 9 will have an impact on Bonum Bank's profit because, according to the IFRS 9 standard, any changes in the value of shares and participations are mainly recognised in the income statement instead of the statement of comprehensive income. Furthermore, changes in the value of such debt securities where cash flows do not solely consist of payments of interest on capital and the remaining capital amount are also recognised in the income statement. This change will have an impact on the Bonum Bank's net investment income, comprehensive income and fair value reserves. The change in recognition has not impact on the amount of Bonum Bank's equity, but it may have an impact on the bank's capital adequacy figure. The financial impact on the changes in recognition and measurement depends on the structure of Bonum Bank's investment portfolio on and after the standard adoption date.

IFRS 9 requires that impairment losses be recognised on the basis of expected credit losses from all financial assets based on liabilities, and these are recognised at amortised cost or fair value through other comprehensive income items. In the measurement of expected credit losses, a transition will be made from the recognition of expected credit losses over 12 months to the recognition of expected credit losses throughout the agreement validity period as the credit risk increases significantly after the original recognition. To define expected credit losses, the POP Bank Group's internal IFRS 9 project models the probability of default (PD) and the loss given default (LGD) of its customers, evaluates the exposure at default (EAD) per contract, and specifies the factors that indicate a significant increase in the credit risk. The credit risk can be deemed to have increased significantly due to qualitative or quantitative factors.

The recognition of expected credit losses is expected to reduce Bonum Bank's profit and the balance sheet value of loan receivables from customers and liability investments recognised at amortised cost compared with the current accounting principles. The impact of the adoption of the standard on the capital adequacy figure of Bonum Bank depends on how the amount of impairment losses is taken into account in capital adequacy accounting.

IFRS 9 also enables the continuation of the application of the current IAS 39 standard to hedge accounting. The amendments concerning hedge accounting are not expected to have material impact on Bonum Bank's financial statements, since currently there are no hedging instruments.

– New IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018): The new standard includes five-step instructions for the recognition of sales gains acquired on the basis of customer contracts, and its replaces the current IAS 18 and IAS 11 standards and interpretations. Sales can be recognised over time or on a specific date. Here, the key criterion is the transfer of control. The standard also increases the number of notes to be disclosed. The standard is not expected to have a material effect on Bonum Bank's financial statements.

– New IFRS 16 Leases* standard (effective for financial years beginning on or after 1 January 2019). The standard replaces the current IAS 17 – Leases standard and interpretations. The new standard requires that lessees recognise leases on the balance sheet as leasing liabilities and related asset items. The standard makes it easier to recognise agreements of at most 12 months and those concerning commodities of a low value. For lessors, the new standard does not include any significant changes. Bonum Bank has started assessing the possible impact of the standard.

* = The provision has not been approved to be applied in the EU as of 31 December 2016.

NOTE 2 PRINCIPLES OF RISK MANAGEMENT AND CAPITAL ADEQUACY MANAGEMENT

PRINCIPLES OF RISK MANAGEMENT AND CAPITAL ADEQUACY MANAGEMENT

The purpose of Bonum Bank Plc's risk management is to ensure that all significant risks resulting from business activities are identified, assessed, measured and monitored on a regular basis and that they are proportionate to the bank's risk-bearing capacity. The purpose of risk management is to ensure that the bank does not take such high risk in its operations that it would result in any material threat to the capital adequacy or solvency of the bank, central institution or the entire amalgamation. Guidelines and decision-making concerning risks comply with sound and prudent business practices. Violations of the risk management principles are addressed in accordance with agreed operating models.

The purpose of capital adequacy management is to ensure the sufficient amount, type and efficient use of the capital of the Bonum Bank. Capital covers the material risks arising from the implementation of the bank's business plan and secures the uninterrupted operation of the bank in case of unexpected losses. In credit institutions that belong to the amalgamation of POP Banks, capital adequacy management is based on the capital adequacy management principles confirmed by the central institution's Supervisory Board as well as the capital planning methods confirmed for all member credit institutions by the central institution's Board of Directors. Bonum Bank's Board of Directors has confirmed a systematic and documented capital adequacy management process for the bank. The process is integrated in the planning of the business operations of the entire amalgamation and other member credit institutions.

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

The most significant risks associated with Bonum Bank's operations are credit risk, liquidity risk and interest rate risk. The risk strategy confirmed by the Board of Directors based on Bonum Bank's business planning outlines the risk appetite of the operations. Business activities are carried out at a moderate risk level so that the risks can be managed in full.

ORGANISATION OF RISK MANAGEMENT AND CAPITAL ADEQUACY MANAGEMENT

Bonum Bank Plc's risk management and capital adequacy management are an essential aspect of the bank's daily business management and internal control. Bonum Bank Plc is the central credit institution and also a member credit institution of the amalgamation of POP Banks as well as a subsidiary of the POP Bank Alliance Coop.

The amalgamation's central institution issues binding instructions concerning risk and capital adequacy management, reliable governance and internal control to the member credit institutions to secure their solvency and capital adequacy. In addition, member credit institutions are provided with shared business control limits to ensure that the risks taken by individual member credit institutions are within acceptable limits.

Bonum Bank's Board of Directors confirms the goals of the business operations, guidelines and limits to the risk levels of the operations as well as the risk-taking authority in accordance with the binding instructions issued by the central institution. The Board of Directors is responsible for proactive capital planning and for including proactive capital planning in reliable governance and other supervision. The Board of Directors assesses the appropriateness, extent and reliability of capital adequacy management. The Board of Directors sets the target level at which capital adequacy should be maintained and confirms the level and structure of capital required by the risk profile.

The management is responsible for the risk management of the daily operations within the scope of the risk limits and risk-taking authority. The management is responsible for the practical implementation, continuous monitoring and supervision of capital adequacy management and risk management as well as reporting to the amalgamation's Board of Directors. The management also ensures that the responsibilities, authorities, processes and reporting relationships related to capital adequacy management have been defined clearly and described adequately, and that employees, to the extent required by their job duties, are familiar with capital adequacy management and the related processes and methods.

The purpose of Bonum Bank's independent risk monitoring fuction is to monitor the risk limits and capital adequacy in the business operations as well as to report them to the Board of Directors and the independent risk monitoring function of the amalgamation's central institution. The assignment of Bonum Bank's risk monitoring function is to form a comprehensive view of the risks included in the central credit institution services provided to the amalgamation's member credit institutions and the bank's other operations, develop risk management methods and processes for identifying, measuring and monitoring risks in accordance with the principles issued by the central institution.

Bonum Bank's compliance function supervises 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. As the central institution of the amalgamation, POP Bank Alliance supervises the sufficiency and functioning of the risk management system in the member credit institutions in accordance with section 17 of the Amalgamation Act.

The amalgamation's principles, organisation and internal control of risk management and capital adequacy management are described in greater detail in Appendix 4 of the Financial Statements of the POP Bank Group. Furthermore, information concerning risks specified in the EU Capital Requirements Regulation (EU 575/2013) (CRR) is presented in the Pillar III disclosures of the Group's consolidated IFRS financial statements. The financial statements of the POP Bank Group are available from the office of POP Bank Alliance, Hevosenkenkä 3, 02600 Espoo, Finland, or online at www.poppankki.fi.

CAPITAL ADEQUACY MANAGEMENT

Bonum Bank's capital adequacy management is based on the capital adequacy management principles confirmed by the central institution's Supervisory Board as well as the capital planning methods confirmed for all member credit institutions by the central institution's Board of Directors. Bonum Bank's Board of Directors has confirmed a systematic capital adequacy management process and a process to assess the sufficiency of liquidity for the bank. They are integrated in the planning of the business operations of the entire amalgamation and other member credit institutions.

The objective of the capital adequacy management process is to ensure the bank's risk-bearing capacity in relation to all essential risks of the operations and to verify the capital adequacy objective. The bank conducts an extensive identification and evaluation of risks related to its operations and scales its risk-bearing capacity to match the total amount of the risks. In order to secure its capital adequacy, the bank sets risk-based capital objectives and prepares a capital plan for the next two years to achieve these objectives. The capital plan also defines the appropriate quantity and structure of capital in terms of efficient use of capital by the bank. This depends, among other things, on regulatory restrictions concerning which capital items are accepted in capital adequacy or which risks can be targeted by items of the said capital.

The capital adequacy management process also aims at maintaining and developing high-quality risk management. Capital provisions are assessed by means of scenario analyses defined and approved by the central institution as well as stress tests. Stress tests are used to assess how different exceptionally serious, yet possible situations can affect the solvency, profitability or capital adequacy of the amalgamation or its member credit institutions. The stress factors are used to assess the effect of both individual risk factors and effects of simultaneous changes of several variables.

PILLAR I CAPITAL ADEQUACY RATIO

The most significant Pillar I capital requirements of Bonum Bank arises from retail receivables in card credit operations as well as bank receivables in treasury and investment operations. The bank applies the standardised approach for the calculation of the capital requirement to the credit risk and the basic indicator approach for calculating the capital requirement to the operational risk. Bonum Bank does not engage in trading activities,

so the capital requirement for market risk is only calculated for the foreign exchange risk. In the standardised approach for credit risk, the exposures are divided into exposure classes, and the minimum limits for the diversification of lending are specified in the retail exposure class.

Bonum 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). At the end of 2016, Bonum Bank's own funds totalled EUR 18,685 thousand (17,410), which consisted wholly of Common Equity Tier 1 (CET1) capital.

At the end of 2016, the capital adequacy of Bonum Bank was at a good level. The bank's capital adequacy ratio was 28.74% (19.52) and the ratio of Tier 1 capital to risk-weighted items was 28.74% (19.52). Bonum Bank does not include year-end profits in its own funds. The development of Bonum Bank's capital adequacy was primarily affected by the discontinuation of the central credit institution services provided by the banks that had withdrawn from the POP Bank Group as well as the card business transfers, which reduced the amount of risk-weighted assets. The changes in the allocation of investment items have also reduced the amount of risk-weighted assets. The capital requirement for operational risk will normalise further in line with the current level of commission income in 2017.

The cooperative capital of POP Bank Alliance Coop was increased in December 2016. EUR 10 million of the cooperative capital increase will be used to strengthen Bonum Bank's capital, with the purpose of preparing for the streamlining and expansion of the central credit institution's business operations in the coming years.

The statutory minimum level for the capital adequacy ratio is 8% and 4.5% for Tier 1 capital. In addition to the statutory 8% leverage ratio requirement, a fixed 2.5 per cent additional capital requirement became applicable on 1 January 2015, as well as a variable additional capital requirement which the authorities can set at 0–2.5%, if necessary. For the time being, the Financial Supervisory Authority has not set a variable additional requirement for Finnish exposures.

Bonum Bank releases the information essential in terms of capital adequacy calculation annually as part of its Board of Directors' report and notes to the financial statements. The interim report prepared every six months includes the key capital adequacy information.

SUMMARY OF CAPITAL ADEQUACY (EUR 1,000)	31 Dec 2016	31 Dec 2015
Common Equity Tier 1 capital before deductions	20,705	19,928
Deductions from Common Equity Tier 1 capital	-2,020	-2,518
Total Common Equity Tier 1 capital (CET 1)	**18,685**	**17,410**
Additional Tier 1 capital before deductions	0	0
Deductions from Additional Tier 1 capital	0	0
Additional Tier 1 capital (AT1)	0	0
Tier 1 capital (T1=CET1+AT1)	18,685	17,410
Tier 2 capital before deductions	0	0
Deductions from Tier 2 capital	0	0
Total Tier 2 capital (T2)	0	0
Total capital (TC=T1+T2)	**18,685**	**17,410**
Total Risk Weighted Assets	**65,014**	**89,175**
Of which credit risk	53,948	82,755
Of which credit valuation adjustment risk (CVA)	0	0
Of which market risk (exchange rate risk)	0	0
Of which operational risk	11,066	6,420
Fixed capital conservation buffer according to the Act on Credit Institutions (2.5%)	1,625	2,229
Countercyclical capital buffer	60	72
Common Equity Tier 1 capital (CET1) in relation to risk-weighted assets (%)	28.74 %	19.52 %
Tier 1 capital (T1) in relation to risk-weighted assets (%)	28.74 %	19.52 %
Total Capital (TC) in relation to risk-weighted assets (%)	**28.74 %**	**19.52 %**
Leverage ratio		
Tier 1 capital (T1)	18,685	17,410
Total exposures	463,362	441,750
Leverage ratio, %	4.03 %	3.94 %

BUSINESS RISKS

Credit risk

The Pillar I capital reserves in Bonum Bank's credit and counterparty risk account for approximately 82.7% of all Pillar I capital reserves. Credit risk refers to a counterparty failing to fulfil its payment obligations as agreed.

The credit risk of Bonum Bank's operations consists of the investment activities of the liquidity reserves as well as banking operations including credit card business and other retail banking. In addition to loans credit risk can also arise from other kinds of receivables, such as bonds, short-term debt securities and various off-balance-sheet commitments, such as unused credit facilities and overdraft limits and guarantees. Bonum Bank's balance sheet includes items exposed to credit risk in the total amount of EUR 313,346 thousand.

Management of credit risks

Credit risk management aims at limiting the effects on profit and capital adequacy of credit risks resulting from investment activities and any other customer receivables to a manageable level. The central institution's binding instructions, business strategy, investment principles and lending and collateral guidelines confirmed by the Board of Directors specify the maximum limits for risk concentrations and direct the targeting of investment activities and lending by customer sector, industry and credit exposure class.

The credit risk of the investment activities is managed primarily by limiting the credit exposure by diversifying investment assets by sector, counterparty, credit exposure class and instrument category. The diversification of credit risks is defined in the allocation and limit framework of the investment plan. Investment decisions are made in line with the investment authorisation confirmed by the Board of Directors in accordance with the investment policy and credit exposure management guidelines, spreading the risks.

At the end of the financial year, Bonum Bank's investment assets totalled EUR 254,638 thousand (171,147). The investment assets included in the liquidity portfolio include notes and bonds issued by governments, municipalities, credit institutions. Some of them are loans with collateral and ECB eligible collateral. In addition, Bonum Bank's liquidity portfolio includes a total of EUR 20,408 thousand (47,725) of current cash at bank.

Credit risk exposure in banking activities remained stable and its risk level moderate. The key figures of receivables which have fallen due and the amount of collectively recognised impairment losses remained near the same level as at the previous turn of the year. The credit losses of the card business normalised to the level of the first full year of operation. The management of credit risks in the card business is based on a moderate credit policy, an application rating model as well as the assessment of the customer's repayment ability. The management of credit risks in other banking activities is based on the assessment of the customer's repayment ability as well as sufficient level of safe collateral. Collateral is cautiously measured at fair value and the development of the values is monitored regularly.

The loan portfolio of card credit decreased by 20.9% to 31,296 thousand (39,547) during the financial period. The decrease in the card credit portfolio was attributable to the card credit balance sheet transactions of the banks, which had withdrawn from the POP Bank Group. In 2016, EUR 370 thousand (109) were recognised as credit loss on card credits. A EUR 140 thousand (153) collective provision for impairment loss has been made for 2016. No credit losses were recognised on other banking items and they contain no non-performing receivables. Other loan receivables from retail banking totalled EUR 7,260 thousand (4,549).

Bonum Bank's receivables overdue for more than 90 days accounted for 0.98% (0.94%) of the loan portfolio. The bank's receivables overdue for 30–90 days accounted for 0.05% (0.10%) of the loan portfolio at the end of 2016.

Balance sheet items exposed to credit risk totalled EUR 313,602 thousand (262,968) at the end of 2016. Bonum Bank's off-balance sheet credit commitments amounted to EUR 84,865 thousand (101,165). These consisted primarily of unused credit limits of card credits and POP Banks' liquidity commitments.

Overdue receivables (EUR 1,000)	31 Dec 2016	31 Dec 2015
31-90 days	21	42
over 90 days	377	414
Total	**398**	**456**

Risk concentrations

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

The total amount of credit granted by Bonum Bank to a single customer and/or customer entity must not exceed the maximum amounts confirmed in the EU's Capital Requirements Regulation (No. 575/2013), other statutory orders or the regulations and guidelines provided by the Finnish Financial Supervisory Authority or other supervisory authority.

Counterparty distribution of liquid assets (EUR 1,000)	31 Dec 2016	31 Dec 2015
From central banks	85,073	159,147
Governments and public bodies	195,886	74,587
Credit institutions	67,012	115,183
From companies	11,873	29,102
Total	**359,843**	**378,019**

Liquidity risks

Liquidity risk refers to Bonum 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 payment obligations. Structural financing risk refers to a refinancing risk that arises from the difference in the maturities of balance sheet receivables and liabilities.

Liquidity risks are prepared for by maintaining a liquidity reserve, which helps the bank to manage without external financing until a financing continuity plan, prepared for emergencies, can be executed in full. The liquidity reserve consists of LCR-eligible liquid assets, assets eligible as collateral for central bank financing, as well as current cash at bank.

Balance sheet items considered as liquid assets (EUR 1,000)	31 Dec 2016	31 Dec 2015
Debt securities eligible for refinancing with central banks	**57,671**	**75,647**
From general government	19,018	20,069
From credit institutions	38,653	55,578
Other notes and bonds	**196,754**	**95,500**
From general government and municipalities	176,867	54,518
From credit institutions	8,014	16,989
From companies	11,873	23,993
Deposits	**105,418**	**206,872**
Fixed-term	9,000	10,905
Repayable on demand	11,345	36,820
Balances at central banks	85,073	159,147
Total	**359,843**	**378,019**

As a central credit institution of the amalgamation of POP Banks, Bonum Bank monitors the liquidity status and current liquidity needs of the member banks and is responsible for obtaining long-term financing. The planning of Bonum Bank's financing structure is based on the liquidity and financing planning of the entire amalgamation as well as the objectives and the steering limits issued to them by the central institution.

The key ratio for measuring liquidity risk is the liquidity coverage ratio (LCR), specified in the EU's Capital Requirements Regulation. The minimum requirement for the LCR was 70% in 2016 and it increased to 80% at the beginning of 2017. The minimum requirement for the LCR will increase to 100% on 1 January 2018.

Bonum Bank's LCR was 133.6 per cent at the end of the year (153.3). The bank's LCR-eligible assets totalled EUR 255,238 million, of which 100.0% were L1-eligible liquid assets.

LCR (EUR 1,000)	31 Dec 2016	31 Dec 2015
Liquid assets (LCR)	255,238	258,070
Net cash outflow	191,077	168,321
Liquidity coverage ratio (LCR)	133.58 %	153.32 %

Bonum Bank published a EUR 750 million bond programme in May 2016 and issued a three-year unsecured senior bond of EUR 100 million in June. Bonum Bank will prepare for growing the amalgamation's wholesale funding and diversifying the financing structure.

Maturity distribution of financial assets 31 Dec 2016 (EUR 1,000)	Under 3 months	3-12 months	1-5 years	Over 5 years	Total
From central banks	85,073				85,073
Available-for-sale financial assets	129,234	74,073	46,327	5,005	254,638
Loans and receivables from customers	31,569	1,500	3,500	1,987	38,556
Loans and receivables from credit institutions	11,408	63,000			74,408
Total	**257,283**	**138,573**	**49,827**	**6,992**	**452,675**

Maturity distribution of financial liabilities 31 Dec 2016 (EUR 1,000)	Under 3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits	3,613				3,613
Issued debt instruments			99,521		99,521
Liabilities to credit institutions	261,364	12,950	1,000	51,585	326,899
Total	**264,977**	**12,950**	**100,521**	**51,585**	**430,033**

Maturity distribution of financial assets 31 Dec 2015 (EUR 1,000)	Under 3 months	3-12 months	1-5 years	Over 5 years	Total
From central banks	159,147				159,147
Available-for-sale financial assets	64,902	46,619	42,582	17,043	171,147
Loans and receivables from customers	39,926		3,500	518	43,944
Loans and receivables from credit institutions	37,697	10,028			47,725
Total	**301,673**	**56,647**	**46,082**	**17,561**	**421,963**

Maturity distribution of financial liabilities 31 Dec 2015 (EUR 1,000)	Under 3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits	7,007				7,007
Issued debt instruments					0
Liabilities to credit institutions	114,710	177,231		98,260	390,200
Total	**121,717**	**177,231**	**0**	**98,260**	**397,208**

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 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 monitor the risk exposure in real time. 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 Bonum Bank. Bonum Bank's Board of Directors confirms the maximum levels for market risks and the investment policy. The capital adequacy management process is a central process for the measurement and monitoring of the market risk included in the financial account, involving the establishment of capital reserves for market risk.

Interest rate risk

The interest rate risk is the most significant market risk in Bonum Bank's business operations. Interest rate risk refers to the effect of changes in interest rates on the market value or net interest income of balance sheet items and off-balance sheet items. Interest rate risk arises from differences in the interest terms of receivables and liabilities and differences in interest reset and maturity dates. The objective of interest rate management is to stabilise the interest rate risk involved in the bank's balance sheet to a level at which business is profitable but profit or capital adequacy are not threatened even in considerable changes of the interest rate environment.

Interest rate risk also arises from the liquidity reserve investment activities and the financial account of the banking business. Bonum Bank did not use any derivatives in 2016.

Bonum Bank monitors interest rate risk with present value method and the dynamic income risk model on a monthly basis. The present value method measures how changes in interest rates change 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 primarily used to monitor the market value changes caused by the changes in the interest rates and credit spreads of investment items in different interest rate scenarios. The income risk model predicts the future net interest income and its changes in various market rate scenarios within a time frame of five years.

The impact of the interest rate risk on result has been calculated as a change to the 12-month forecast of the net interest income, assuming that the interest rate level changes upward or downward in parallel by one percentage point. The effect on equity has been determined through present value change in balance sheet with the same interest rate shock.

Interest rate sensitivity analysis, effect of 1 percentage point parallel change in interest rate 31 Dec 2016 (EUR 1,000)

	Change	Effect on result	Effect on equity
Interest rate risk	+1 percentage point	-278	73
Interest rate risk	-1 percentage point	-982	99

Interest rate sensitivity analysis, effect of 1 percentage point parallel change in interest rate 31 Dec 2015 (EUR 1,000)

	Change	Effect on result	Effect on equity
Interest rate risk	+1 percentage point	-428	-802
Interest rate risk	-1 percentage point	-1	612

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. All business processes, including credit and investment processes, involve operational risks. The operational risk of Bonum Bank 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 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 through continuity planning.

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

In 2016, Bonum Bank did not have any operational risk events, which would meet the loss event criteria (a loss exceeding EUR 10,000) in the Finnish Financial Supervisory Authority's annual notification.

Strategic risk

Strategic risk refers to losses caused by choosing a 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, Bonum Bank must be able to secure the basic operations needed by the POP Banks. Potential strategic threats have been taken into account when estimating capital needs. The prepared strategy focuses on the stabilisation of the central credit institution activities needed by the amalgamation's member banks and the card business.

The bank aims to minimise strategic risks by means of regular updates of its strategic and annual plans. Analyses of the condition of the POP Bank group and the development of its business, as well as analyses and estimates concerning the development of the sector, competition and financial operating environment are utilised in the planning.

Notes to the income statement

NOTE 3 INTEREST INCOME AND EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Interest income		
On receivables and debts from credit institutions	1,197	426
On receivables from customers	1,995	1,288
On notes and bonds	276	329
Other interest income	0	0
Total interest income	**3,468**	**2,043**
Interest expenses		
On receivables and debts to credit institutions	-352	-311
On debt securities issued to the public	-588	-
Other interest expenses	-52	0
Total interest expenses	**-991**	**-311**
Net interest income	**2,476**	**1,732**

Interest income includes negative interest expenses EUR 62 thousand and interest expenses include negative interest income EUR 52 thousand. Bonum Bank has no interest income on impaired receivables, as it has no significant individual receivables with recognised impairment loss.

NOTE 4 NET COMMISSIONS AND FEES

(EUR 1,000)	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Fee and commission income		
Lending	31	31
Card business	5,460	2,634
Payment transfers	2,488	1,645
Other	4	0
Total fee and commission income	**7,983**	**4,310**
Fee and commission expenses		
Card business	-3,015	-1,135
Payment transfers	-783	-731
Securities	-6	-4
Other	-98	-25
Total fee and commission expenses	**-3,901**	**-1,894**
Net commissions and fees	**4,082**	**2,416**

The grouping of net commission and fees has been changed to better represent the business activities. Grouping changes have also affected to comparison period.

NOTE 5 NET INVESTMENT INCOME

(EUR 1,000)	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Net gains from foreign currency transactions	309	143
Net income from available-for-sale financial assets		
Notes and bonds		
Gains and losses from sales	-12	26
Reclassified from fair value reserve	159	-7
Total notes and bonds	**147**	**19**
Shares and participations		
Capital gains and losses	1,479	-
Dividend income	1	-
Total shares and participations	**1,480**	**0**
Total net income form available-for-sale financial assets	**1,627**	**19**
Total net investment income	**1,936**	**163**

Bonum Bank has been a shareholder in Visa Europe and provided Visa Europe's card services to POP Bank customers. Visa Europe's Board of Directors agreed on selling the company to Visa Inc. registered in USA in the spring 2016. The acquisition was finalized in June and Bonum Bank's sales gain from the share was EUR 1.5 million.

NOTE 6 OTHER OPERATING INCOME

(EUR 1,000)	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Business development fees from banks	533	1,357
Central credit institution services excl. payment transfer	213	145
Other income	481	37
Total other operating income	**1,228**	**1,539**

NOTE 7 PERSONNEL EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Salaries and remuneration	-986	-837
Indirect personnel expenses	-47	-36
Defined contribution plans	-183	-160
Total personnel expenses	**-1,216**	**-1,032**

Remunerations to related parties are presented in Note 28.

NOTE 8 OTHER OPERATING EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Other administrative expenses		
Other personnel expenses	-112	-93
Office expenses	-412	-1,619
ICT expenses	-4,981	-1,450
Telecommunications	-282	-125
Representation and marketing expenses	-8	-7
Other administrative expenses total	**-5,795**	**-3,294**
Other operating expenses		
Rental expenses	-174	-173
Consulting fees	-17	-202
Audit fees	-23	-24
Other	-233	-107
Other operating expenses total	**-447**	**-505**
Total other operating expenses	**-6,242**	**-3,799**

Audit fees		
Statutory audit	-23	-11
Other services	-	-13
Total audit fees	**-23**	**-24**

NOTE 9 DEPRETIATION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(EUR 1,000)	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Machinery and equipment	-17	-15
Intangible assets	-568	-475
Total depreciation of property, plant and equipment and intangible assets	**-586**	**-491**

NOTE 10 INCOME TAXES

(EUR 1,000)	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Current tax	-258	-
Tax for prior financial years	0	-
Withholding tax paid abroad	0	-
Change in deferred tax assets	-156	-32
Change in deferred tax liabilities	71	72
Total income taxes	**-344**	**41**
Domestic income tax rate	20 %	20 %

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

(EUR 1,000)	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Accounting profit before tax	1,322	265
+ Tax calculated at the tax rate	-264	-53
- Tax-exempt income	0	122
+ Non-deductible expenses	-80	-72
+ Deductible expenses not included in the result	1	1
- Use of tax losses carried forward from previous years	-2	34
- Deferred tax assets not recognised on losses	-	9
Tax for prior financial years	0	-
Taxes in the income statement	**-344**	**41**

NOTE 11 CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

(EUR 1,000)	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Available-for-sale financial assets		
Interest income	276	241
Amounts shown in the income statement	159	-7
Dividend income	1	-
Gains and losses from sales	1,468	26
Income and expenses from financial assets classified as held for sale	**1,903**	**260**
Financial assets held to maturity		
Interest income*	-	88
Total income and expenses on financial assets held to maturity	**-**	**88**
Loans and receivables		
Interest income	3,192	1,714
Other income	1,317	716
Impairment of loans and receivables	13	-153
Total net income on loans and receivables	**4,522**	**2,278**
Other financial liabilities		
Interest expenses	-991	-311
Total income and expenses on other financial liabilities	**-991**	**-311**
Net gains from foreign currency transactions	**309**	**143**
Total carrying amounts of financial assets and liabilities	**5,743**	**2,458**
Other operating income and expenses	**-4,421**	**-2,192**
Profit before taxes	**1,322**	**265**

*Interest income accrued before reclassification.

Notes to assets

NOTE 12 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Assets 31 December 2016

(EUR 1,000)	Loans and receivables	Available-for-sale	Total carrying amount
Cash funds	85,073		85,073
Loans and advances to credit institutions	74,408		74,408
Loans and advances to customers	38,556		38,556
Investment assets			
Notes and bonds		254,425	254,425
Shares and participations		213	213
Total financial assets	**198,037**	**254,638**	**452,675**

Liabilities 31 December 2016

(EUR 1,000)	Other financial liabilities	Total carrying amount
Liabilities to credit institutions	326,899	326,899
Liabilities to customers	3,613	3,613
Debt securities issued to the public	99,521	99,521
Total financial liabilities	**430,033**	**430,033**

Assets 31 December 2015

(EUR 1,000)	Loans and receivables	Available-for-sale	Total carrying amount
Cash funds	159,147		159,147
Loans and advances to credit institutions	47,725		47,725
Loans and advances to customers	43,944		43,944
Investment assets			
Notes and bonds		171,147	171,147
Total financial assets	**250,816**	**171,147**	**421,963**

Liabilities 31 December 2015

(EUR 1,000)	Other financial liabilities	Total carrying amount
Liabilities to credit institutions	390,200	390,200
Liabilities to customers	7,007	7,007
Total financial liabilities	**397,208**	**397,208**

In the financial year 2015, Bonum Bank has reclassified EUR 63,744 thousand of investments held to maturity into available-for-sale financial assets. Because of the reclassification, the bank cannot classify investments into investments held to maturity during financial year 2016 or 2017. The reclassification was a result of the change in Bonum Bank's investment policy that is associated with the bank's capital adequacy management and the adjustment of its investment position to match the expected changes in the business volume.

NOTE 13 CASH FUNDS

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Receivables from central banks repayable on demand	85,073	159,147
Total cash funds	**85,073**	**159,147**

A current account at the Bank of Finland is included in cash funds.

NOTE 14 LOANS AND RECEIVABLES

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Loans and advances to credit institutions		
Deposits		
Repayable on demand	11,408	36,820
Other	63,000	10,905
Total loans and advances to credit institutions	**74,408**	**47,725**
Loans and advances to customers		
Loans	7,010	4,039
Credit card receivables	31,296	39,395
Other receivables	250	510
Total loans and advances to customers	**38,556**	**43,944**
Total loans and receivables	**112,964**	**91,669**

Credit card receivables have decreased in 2016 compared to the end of 2015, as the payment card issuing to the six banks that withdrew from the POP Bank Alliance in 2015 was discontinued.

Impairment losses recorded on loans and receivables

(EUR 1,000)	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
-/+ Change in collectively assessed impairment losses	13	-153
- Final credit losses	-370	-109
Impairment losses on loans and receivables	**-356**	**-262**

Accrued impairment losses on loans and receivables in the balance sheet

(EUR 1,000)	2016	2015
Impairment losses 1 Jan	153	-
+/- Change in collectively assessed impairment losses	-13	153
Impairment losses 31 Dec	**140**	**153**

Impairment losses have been recognised on card credit receivables. Impairment testing is carried out on a collective basis.

NOTE 15 INVESTMENT ASSETS

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Available-for-sale financial assets		
Quoted notes and bonds measured at fair value		
From general government	54,659	80,637
From others	199,766	90,509
Shares and participations	213	-
Total investment assets	**254,638**	**171,147**

NOTE 16 INTANGIBLE ASSETS

Bonum Bank's intangible assets are information systems implemented by POP Bank group's partners, over which Bonum Bank has control as referred to in IAS 38 Intangible assets. The most important of these partners is Samlink Ltd. The most significant intangible assets are information systems used for central bank services and card business. Other intangible assets consist of licences, etc.

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Information systems	2,364	2,932
Other intangible assets	-	1
Total intangible assets	**2,364**	**2,932**

Changes in intangible assets 2016

(EUR 1,000)	Information systems	Other intangible assets	Intangible assets under development	Total
Acquisition cost on 1 Jan	3,396	325	-	3,721
+ Increases	0	-	-	0
- Decreases	-	-	-	0
Acquisition cost on 31 Dec	3,396	325	-	3,721
Accumulated amortisation and impairments on 1 Jan	-465	-324	-	-789
- Amortisation	-568	-1	-	-568
Accumulated amortisation and impairments on 31 Dec	-1,032	-325	-	-1,357
Carrying amount on 1 Jan	2,932	1	-	2,932
Carrying amount on 31 Dec	2,364	0	-	2,364

Changes in intangible assets 2015

(EUR 1,000)	Information systems	Other intangible assets	Intangible assets under development	Total
Acquisition cost on 1 Jan	-	325	2,429	2,754
+ Increases	3,396	-	-	3,396
- Decreases	-	-	-2,429	-2,429
Acquisition cost on 31 Dec	3,396	325	-	3,721
Accumulated amortisation and impairments on 1 Jan	-	-314	-	-314
- Amortisation	-465	-10	-	-475
Accumulated amortisation and impairments on 31 Dec	-465	-324	-	-789
Carrying amount on 1 Jan	-	11	2,429	2,440
Carrying amount on 31 Dec	2,932	1	-	2,932

NOTE 17 PROPERTY, PLANT AND EQUIPMENT

Changes in machinery and equipment

(EUR 1,000)	2016	2015
Acquisition cost on 1 Jan	86	83
+ Increases	21	4
Acquisition cost on 31 Dec	107	86
Accumulated depreciation and impairments on 1 Jan	-36	-21
- Depreciation	-17	-15
Accumulated depreciation and impairments on 31 Dec	-54	-36
Carrying amount on 1 Jan	50	62
Carrying amount on 31 Dec	53	50

NOTE 18 OTHER ASSETS

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Accrued income and prepaid expenses		
Interest	754	1,186
Other accrued income and prepaid expenses	757	656
Other	45	50
Other assets total	**1,556**	**1,893**

NOTE 19 DEFERRED TAXES

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Deferred tax assets	312	495
Total tax assets	**312**	**495**
Income tax liabilities	230	-
Deferred tax liabilities	455	435
Total tax liabilities	**685**	**435**

Deferred tax assets

(EUR 1,000)	1 Jan 2016	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2016
Available-for-sale financial assets	41	-	-27	14
Collective impairment losses	31	-3	-	28
Advances received	414	-145	-	270
Tax losses	9	-9	-	0
Deferred tax assets total	**495**	**-156**	**-27**	**312**

(EUR 1,000)	1 Jan 2015	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2015
Available-for-sale financial assets	-	-	41	41
Collective impairment losses	-	31	-	31
Advances received	486	-72	-	414
Tax losses	-	9	-	9
Deferred tax assets total	**486**	**-32**	**41**	**495**

Deferred tax liabilities on

(EUR 1,000)	1 Jan 2016	Recognised through profit and loss	Recognised in other comprehensive income	Recognised in equity	31 Dec 2016
Available-for-sale financial assets	21	-	90	-	111
Intangible assets	414	-71	-	-	344
Deferred tax liabilities total	**435**	**-71**	**90**	**0**	**455**

(EUR 1,000)	1 Jan 2015	Recognised through profit and loss	Recognised in other comprehensive income	Recognised in equity	31 Dec 2015
Appropriations	5	-1	-	-4	-
Available-for-sale financial assets	-	-	21	-	21
Intangible assets	486	-72	-	-	414
Deferred tax liabilities total	**490**	**-72**	**21**	**-4**	**435**

Amounts recognised in other comprehensive income and related deferred taxes 2016

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	585	-117	468
Amounts recognised in other comprehensive income, total	**585**	**-117**	**468**

Amounts recognised in other comprehensive income and related deferred taxes 2015

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	-101	20	-81
Amounts recognised in other comprehensive income, total	**-101**	**20**	**-81**

Notes relating to liabilities and equity

NOTE 20 LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Liabilities to credit institutions		
Liabilities to credit institutions		
Repayable on demand	192,376	212,360
Other	134,522	177,841
Total liabilities to credit institutions	**326,899**	**390,200**
Liabilities to customers		
Deposits		
Repayable on demand	3,613	7,007
Total liabilities to customers	**3,613**	**7,007**
Total liabilities to credit institutions and customers	**330,512**	**7,007**

NOTE 21 DEBT SECURITIES ISSUED TO THE PUBLIC

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Bonds	99,521	0
Total debt securities issued to the public	**99,521**	**0**

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

NOTE 22 OTHER LIABILITIES

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Other liabilities		
Payment transfer liabilities	780	476
Accrued expenses		
Interest payable	48	90
Other accrued expenses	1,053	855
Other		
Liabilities on card transactions	577	3,598
Advances received	1,846	2,932
Other	255	1,503
Total	**4,558**	**9,453**

In order to cover the development costs of the information systems used for central credit institution activities and card business, in 2014 and 2015 Bonum Bank collected development charges from all the banks that used these services. Of these charges collected from the banks, the amount used for covering expenses capitalised as intangible assets have not been recognised. In this case, the payments have been treated as advances and included in other liabilities. The payments are recognised when the intangible asset is used in business operations. In comparison period, advances received included payments refunded 2016 to the co-operative banks that remained outside the POP Bank Group.

NOTE 23 CAPITAL AND RESERVES

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Share capital	10,000	10,000
Restricted reserves		
Fair value reserve		
From measurement of available-for-sale financial assets	387	-81
Non-restricted reserves		
Reserve for invested non-restricted equity	10,000	10,000
Retained earnings		
Profit (loss) for previous financial years	318	12
Profit (loss) for the period	978	306
Total equity	**21,683**	**20,237**

Share capital

Share capital includes the paid share capital. Bonum Bank has a total of 900,000 shares. No changes took place during the financial year.

Restricted reserves

The fair value reserve includes changes in the fair value of available-for-sale financial assets less deferred tax. The change in fair value may be positive or negative. The amounts recognised in the fair value reserve are transferred to the income statement, when the available-for-sale security is disposed of or an impairment loss is recognised on it.

Non-restricted reserves

The reserve for invested non-restricted equity includes the portion of subscription price that is not recognised in share capital.

Retained earnings

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

Specification of changes in fair value reserve

(EUR 1,000)	2016	2015
Fair value reserve 1 Jan	-81	-
Change in fair value, available-for-sale financial assets	744	-108
Transferred to the income statement	-159	7
Deferred taxes	-117	20
Fair value reserve 31 Dec	**387**	**-81**

Other notes

NOTE 24 COLLATERAL GIVEN

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Collateral given		
Given on behalf of own liabilities and commitments		
Other collateral to the Bank of Finland	27,915	27,588
Total collateral given	**27,915**	**27,588**

NOTE 25 OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Loan commitments	84,865	101,165
Total off-balance sheet commitments	**84,865**	**101,165**

NOTE 26 FAIR VALUES BY VALUATION TECHNIQUE

Financial assets and financial liabilities 31 December 2016

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets recurrently measured at fair value					
Available-for-sale financial assets	59,684	194,741	213	254,638	254,638
Financial assets measured at amortised cost					
Loans and receivables	-	114,258	-	114,258	112,964
Total financial assets	**59,684**	**308,999**	**213**	**368,896**	**367,602**
Financial liabilities measured at amortised cost					
Debt securities issued to the public	102,532	-	-	102,532	99,521
Other financial liabilities	-	330,512	-	330,512	330,512
Total financial liabilities	**102,532**	**330,512**	**0**	**433,045**	**430,033**

Financial assets and financial liabilities 31 December 2015

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets recurrently measured at fair value					
Available-for-sale financial assets	80,637	90,509	-	171,147	171,147
Financial assets measured at amortised cost					
Loans and receivables	-	91,380	-	91,380	91,669
Total financial assets	**80,637**	**181,889**	**0**	**262,527**	**262,815**
Financial liabilities measured at amortised cost					
Other financial liabilities	-	396,933	-	396,933	397,208
Total financial liabilities	**0**	**396,933**	**0**	**396,933**	**397,208**

Fair value determination of financial assets and liabilities

Financial assets are recorded in the balance sheet either at fair value or at amortised cost. The classification and measurement of financial instruments is described in more detail in Note 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 quotations are regularly available. This group includes all securities with publicly quoted prices.

Level 2 includes financial instruments measured 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 a similar instrument or components of an instrument. This group includes card credits 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. This group includes unlisted shares and funds.

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 financial year.

Changes in available-for-sale financial assets classified into level 3

(EUR 1,000)	2016
Carrying amount 1 Jan	0
+ Purchases	251,074
+/- Changes in value recognised in comprehensive income statement	-38,163
Carrying amount 31 Dec	212,911

Sensitivity analysis of financial instruments at level 3

Available-for-sale financial assets 31 December 2016

	Carrying amount	Possible effect on equity capital	
(EUR 1,000)		Positive	Negative
Available-for-sale financial assets total	212,911	31,937	-31,937

The sensitivity of financial assets recurrently measured at fair value at level 3 has been calculated by assuming the market price of the security to change by 15%.

Bonum Bank does not have assets measured non-recurrently at fair value.

NOTE 27 OPERATING LEASES

Bonum Bank has leased its business premises and equipment used for business operations.

The future minimum lease payments include payments to be paid or received under non-cancellable leases. The non-cancellable portion of leases in effect until further notice is the lease in accordance with the term of notice.

Bonum Bank as a lessee, future minimum lease payments

(EUR 1,000)	31 Dec 2016	31 Dec 2015
within 1 year	166	166
within 1–5 years	163	257
after more than 5 years	-	-
Total	**329**	**424**

NOTE 28 RELATED PARTY DISCLOSURES

The related parties of Bonum 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 Bonum Bank's parent entity POP Bank Alliance, 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. Key persons included in the management comprise Bonum Bank's Board of Directors, CEO and Executive Group. In addition, key persons include POP Bank Alliance's managing director and deputy managing director.

In the financial period 2016, Bonum Bank granted housing and consumption loans to related parties at employee terms. These loans are tied to generally applied reference rates.

Business transactions with related party key persons

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Assets		
Loans	6,074	284
Off-balance-sheet commitments		
Loan commitments	3,091	13

Compensation to key persons in management

(EUR 1,000)	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Short-term employee benefits	230	195
Total compensation to key persons in management	**230**	**195**

Compensation to key persons in management 1 January - 31 December 2016

(EUR 1,000)	Salaries and remuneration	Pension costs
Dahlqvist Anders, CEO	113	21
Vepsäläinen Lassi, the deputy CEO	83	15
Karesvuo Ossi, chairman of the board	15	-
Harjunpää Ilkka, Vice Chairman of the Board	5	-
Hulkko Timo	5	-
Linna Hanna	4	-
Pusa Soile	1	-
Ristiniemi Markku	1	-
Zilliacus Mikael	4	-
Total	**230**	**36**

NOTE 29 EVENTS AFTER THE REPORTING PERIOD

No such significant events have taken place at Bonum Bank after the balance sheet date that would have a material effect on the information presented in the financial statements.

SIGNATURES TO THE FINANCIAL STATEMENTS AND BOARD OF DIRECTORS' REPORT

Espoo, 21 February 2017

Board of Directors of Bonum Bank Plc

Ossi Karesvuo
Chairman of the board

Ilkka Harjunpää

Timo Hulkko

Hanna Linna

Mikael Zilliacus

Anders Dahlqvist
CEO

AUDITOR'S NOTE

A report on the audit performed has been issued today.

Espoo, 21 February 2017

KPMG OY AB

Johanna Gråsten
KHT

POP Pankki

Bonum Pankki Oyj