Bonum Bank Plc

BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

1 January – 31 December 2017

POP Pankki
Bonum Pankki Oyj

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This document is a translation of the original Finnish version "Bonum Pankki Oyj:n toimintakertomus ja tilinpäätös 1.1.-31.12.2017". In case of discrepancies, the Finnish version shall prevail.

BOARD OF DIRECTORS REPORT FOR THE FINANCIAL PERIOD 1 JANUARY – 31 DECEMBER 2017

Operating Environment

Finland's economy in 2017 was marked by a strong turn to growth, following a lengthy period of weak growth. Following the financial crisis, the average development of Finland's economy had fallen clearly behind the general growth development of the eurozone. Due to the low growth figures of the Finnish economy, employment performance was also modest, and the strong indebtedness of the public sector continued.

The massive interest rate and monetary stimulus of the European Central Bank supported the eurozone's recovery from the financial crisis. The wage settlements made in Finland, which were more expensive than those in competing countries, nevertheless meant unfavourable development to competitiveness. This undermined Finland's ability to join the recovery of the eurozone. Still, the low level of interest rates helped the domestic business sector to survive the prolonged period of weak growth.

The competitiveness pact signed in the summer of 2016 cut holiday pays in the public sector and, in practice, froze all wage increases at the same time as working hours were extended. This contributed to an improvement in the competitiveness of the export sector. The demand for investment, which had long been held in check in Finland, began a slow recovery in 2016 and reached full speed in 2017. The first signs of recovery were seen in construction, from where it gradually spread to the postponed machinery and equipment investments. Given that interest rates remained exceptionally low while the drive of the world economy improved, Finland was finally able to join the positive economic development.

The low level of interest rates has had both positive and negative effects on the operating environment of banks. Consumers have deemed the time favourable for taking out loans, which is why the indebtedness of households has risen to a record-high level. The number of payment defaults in public records is also higher than ever before. The prices of dwellings have risen beyond the means of many, particularly in the metropolitan area.

The positive mood in the Finnish economy is expected to continue in 2018, although the rate of growth is also expected to slow down slightly. The high rate of indebtedness among consumers and in the public sector, and the continuing low level of employment are nevertheless a concern. Agriculture has also suffered from exceptionally poor profitability development in recent years, with no notable improvement in sight.

The banking sector is particularly influenced by the still continuing development towards a banking union in the EU area. The LCR regulation concerning liquidity coverage, set to take full effect at the beginning of 2018 following a transitional period, is part of the eurozone's single rulebook. In 2017, banking was also influenced by preparations for other changes in the regulatory environment, key among them the Second Payment Services Directive (PSD2) and the IFRS 9 Financial Instruments standard, both taking effect at the beginning of 2018, as well as the EU's General Data Protection Regulation (GDPR) and the Data Protection Directive, applicable as of May 2018.

POP Bank Group and Amalgamation of POP Banks

The POP Bank Group is a Finnish financial group that offers retail banking services to private customers, small companies, and agricultural and forestry companies, as well as non-life insurance services to private customers. In addition to healthy and profitable business, the objectives of the POP Bank Group emphasise the development of the customer experience. The POP Bank Group refers to the new legal entity created on 31 December 2015, comprised of POP Banks and POP Bank Alliance Coop, and the entities under their control. The most significant companies in the POP Bank Group engaged in customer business are:

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

POP Banks and Bonum Bank Plc are member credit institutions of POP Bank Alliance Coop, which is the central institution of the amalgamation of POP Banks. In addition to the organisations that belong to the amalgamation of POP Banks, the POP Bank Group comprises POP Holding Ltd and its wholly owned company Finnish P&C Insurance Ltd. Neither of these is included in the scope of joint liability.

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.

During the financial year, Bonum Bank significantly increased the Treasury services offered to the POP Banks and prepared and secured the availability of the banks' wholesale funding by issuing certificates of deposits totalling EUR 10 million in nominal value. In June, S&P Global Ratings affirmed Bonum Bank's rating of BBB for long-term investment grade and A-2 for short-term investment grade. The outlook remains stable. The rating reflects the assessment that was done in accordance with the criteria used by S&P Global. Among the factors assessed were the POP Bank Group's business position, financial performance, capital and liquidity buffers, risk profile, and funding. The stable outlook rating by S&P Global reflects the POP Bank Group's strong capital adequacy, stability and predictability of business operations, and expectations for increasing efficiency resulting from the amalgamation.

As an internal bank of the amalgamation, Bonum Bank grants credit and accepts deposits. The internal banking operations grew during the second half of 2017 and the amalgamation's member banks took out loans from Bonum Bank to finance their business operations.

Since the beginning of November, Bonum Bank has been in charge of the amalgamation's liquidity coverage requirement (LCR) and its management. The centralised management of LCR reduces the capital tied to the requirement applicable to POP Banks and the working hours spent in its calculation in the banks. The balance sheet of Bonum Bank grew by approximately EUR 100 million due to the new LCR deposits of POP Banks.

Since the autumn, Bonum Bank has transmitted the payments of POP Banks to clearance within the same day, in addition to payments sent to overnight clearance. Following the change, payees can receive a payment to their account in the single euro payments area (SEPA) during the settlement date, even when the payment is made out from another bank.

In addition to the central credit institution services, Bonum Bank is also responsible for granting and maintaining POP Bank customers' payment and credit cards. Bonum Bank is a shareholder of Visa Europe and provides card products under the Visa brand. Bonum Bank has continued to improve the efficiency of card processing during the year.

The use of robotics in various work processes was continued in 2017. Robotics allows for a significant increase in process efficiency, in addition to which it reduces manual labour and any possible errors resulting from it.

POP Bank Alliance contributed to Bonum Bank's equity with EUR 10 million during the second half of the year.

Financial Position

PERFORMANCE

Bonum Bank Plc's profit for the financial year was EUR 118 thousand (EUR 978 thousand for 1 January – 31 December 2016). The profit for the financial period primarily consists of interest and commission income on central credit institution services provided for POP Banks and profit on the card business. The Bank's cost-to-income ratio was 88.48 per cent (76.71).

The Bank's income statement developed as follows in comparison to 2016:

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016	Change, %
Interest income	3,758	3,468	8.4
Interest expenses	-1,562	-991	57.6
Net interest income	**2,196**	**2,476**	**-11.3**
Net commissions and fees	5,037	4,082	23.4
Net investment income	376	1,936	-80.6
Other operating income	612	1,228	-50.2
Total operating income	**8,220**	**9,722**	**-15.5**
Personnel expenses	-1,337	-1,216	9.9
Other operating expenses	-5,936	-6,242	-4.9
Depreciation and amortisation on property, plant and equipment and intangible assets	-588	-586	0.4
Total operating expenses	**-7,861**	**-8,044**	**-2.3**
Impairment losses on loans and receivables	-210	-356	-41.0
Profit before taxes	**149**	**1,322**	**-88.7**
Income taxes	-31	-344	-91.0
Result for the period	**118**	**978**	**-87.9**

The Bank's net interest income amounted to EUR 2,196 thousand (2,476). The decrease in comparison to the previous year was 11 per cent. The low interest rates and negative money market yield will continue to challenge the Bank's interest income.

Net commission income grew to EUR 5,037 thousand (4,082). Commission income consisted mainly of payment transfer fees and income from the card business.

Net investment income decreased to EUR 137 thousand (1,936). A sales gain on the Visa transaction had a positive effect of EUR 1,479 thousand on the gains of the reference year.

Other operating income, totalling EUR 612 thousand (1,228), originated primarily from fees charged from the POP Banks for setting up Bonum Bank's central credit institution operations.

Personnel expenses consist of salary expenses, pension expenses and other indirect personnel expenses. Personnel expenses were EUR 1,337 thousand (1,216).

Other operating expenses decreased slightly in comparison to the previous year, totalling EUR 5,936 thousand (6,242).

BALANCE SHEET

Bonum Bank Plc's balance sheet in 2017 totalled EUR 556,310 thousand (EUR 456,960 thousand on 31 December 2016). Assets and liabilities increased due to the strengthening of central credit institution role in the management of the liquidity coverage of the amalgamation banks and securing the Group's liquidity position in exceptional conditions.

The Bank's balance sheet items developed as follows in comparison to the previous year:

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Assets		
Cash funds	70,179	85,073
Loans and advances to credit institutions	141,016	74,408
Loans and advances to customers	35,791	38,556
Investment assets	305,497	254,638
Intangible assets	1,833	2,364
Property, plant and equipment	39	53
Other assets	1,711	1,556
Tax assets	244	312
Total assets	**556,310**	**456,960**
Liabilities		
Liabilities to credit institutions	405,688	326,899
Liabilities to customers	4,801	3,613
Debt securities issued to the public	109,713	99,521
Other liabilities	3,682	4,558
Tax liabilities	456	685
Total liabilities	**524,340**	**435,277**
Equity		
Share capital	10,000	10,000
Reserves	20,556	10,387
Profit (loss) for previous financial years	1,296	318
Profit (loss) for the period	118	978
Total equity	**31,970**	**21,683**
Total liabilities and equity	**556,310**	**456,960**

KEY FIGURES

KEY FIGURES	31 Dec 2017	31 Dec 2016	31 Dec 2015
Cost-to-income -ratio, %	88.48	76.71	82.59
ROA, %	0.05	0.22	0.14
ROE, %	0.88	4.66	1.52
Capital adequancy ratio (TC) %	53.17	28.74	19.52
Equity ratio %	5.75	4.75	4.74

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 2017, Bonum Bank had 900,000 shares, all of them held by the POP Bank Alliance. Bonum Bank holds no own shares.

On 31 December 2017, Bonum Bank's share capital was EUR 10,000 thousand (10,000). Equity totalled EUR 31,970 thousand (21,683). Equity increased due to the equity investment of EUR 10 million made by the POP Bank Alliance Coop.

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 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 fulfill 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 305 497 thousand (254,638). 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 1 016 thousand (20,408) 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 remained stable totaling to EUR 32 373 thousand (31,296) during the financial period. In 2017, EUR 233 thousand (370) were recognised as credit loss on card credits. A EUR 117 thousand (140) collective provision for impairment loss has been made for 2017. No credit losses were recognised on other banking items and they contain no non-performing receivables. Other loan receivables from retail banking totalled EUR 3 418 thousand (7,260).

Bonum Bank's receivables overdue for more than 90 days accounted for 0.88% (0.98%) of the loan portfolio. The bank's receivables overdue for 30–90 days accounted for 0.08% (0.05%) of the loan portfolio at the end of 2017.

Balance sheet items exposed to credit risk totaled EUR 342 305 thousand (313,602) at the end of 2017. Bonum Bank's off-balance sheet credit commitments amounted to EUR 101 283 thousand (84,865). 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 fulfill 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.

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 80% in 2017 and it increased to 100% at the beginning of 2018.

POP Bank amalgamation proceeded to fulfill and report the LCR requirement at the amalgamation level. As the central credit institution, Bonum Bank is responsible for the management of the LCR ratio at the amalgamation level and monitors the liquidity of the member institutions. Bonum Bank is also responsible for obtaining long term financing and operates as the internal bank to member credit institutions. The planning of Bonum Bank's funding structure is based on liquidity and financing planning of the entire amalgamation as a whole within the objectives and steering limits given by the central institution. The LCR ratio of POP Bank amalgamation was 148.6% at the end of 2017 (220,5).

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 2017.

Bonum Bank monitors the interest rate risk by 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 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 2017, Bonum Bank's own funds totalled EUR 30,288 thousand (18,685), which consisted wholly of Common Equity Tier 1 (CET1) capital.

At the end of 2017, the capital adequacy of Bonum Bank was at a good level. The bank's capital adequacy ratio was 53.2% (28.7) and the ratio of Tier 1 capital to risk-weighted items was 53.2% (28.7). Bonum Bank does not include year-end profits in its own funds. Bonum Bank's capital adequacy was primarily affected by increase of capital by EUR 10 million at the end of 2017. The measure is preparing for the streamlining and expansion of the central credit institution's business operations in the coming years. Due to amalgamation level LCR ratio management responsibility, the balance sheet total increased by EUR 100 million, but the allocation changes of liquid assets resulted in decrease in risk weighted assets.

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% 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 2017	31 Dec 2016
Common Equity Tier 1 capital before deductions	31,851	20,705
Deductions from Common Equity Tier 1 capital	-1,563	-2,020
Total Common Equity Tier 1 capital (CET 1)	**30,288**	**18,685**
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)	30,288	18,685
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)	**30,288**	**18,685**
Total Risk Weighted Assets	**56,970**	**65,014**
Of which credit risk	42,213	53,948
Of which credit valuation adjustment risk (CVA)	0	0
Of which market risk (exchange rate risk)	998	0
Of which operational risk	13,758	11,066
Fixed capital conservation buffer according to the Act on Credit Institutions (2.5%)	1,424	1,625
Countercyclical capital buffer	63	60
Common Equity Tier 1 capital (CET1) in relation to risk-weighted assets (%)	53.17%	28.74%
Tier 1 capital (T1) in relation to risk-weighted assets (%)	53.17%	28.74%
Total Capital (TC) in relation to risk-weighted assets (%)	**53.17%**	**28.74%**
Leverage ratio		
Tier 1 capital (T1)	30,288	18,685
Total exposures	572,016	463,362
Leverage ratio, %	5.29%	4.03%

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. Internal Audit reports, regularly an summarized, for its operations and remarks to central institution's Supervisory Board's Audit Committee (Supervisory Board), Board's Audit Committee (central institution's Board) and CEO. 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 17 March 2017 adopted the financial statements for 2016 and granted discharge from liability to the Bank's Board members and the CEO. The Board of Directors of Bonum Bank Plc had five members and the Board of Directors convened 14 times during the year.

Regular Board members:

Chairman of the Board until 31 August 2017	**Ossi Karesvuo** Managing Director
Chairman of the Board from 1 September 2017	**Kirsi Salo** Managing Director
Member until 17 March 2017	**Ilkka Harjunpää** Managing Director
Member	**Hanna Linna** Managing Director
Member from 17 March 2017	**Pekka Lemettinen** Managing Director
Member	**Timo Hulkko** Director
Member	**Mikael Zilliacus** CLO

Bonum Bank's CEO was **Anders Dahlqvist** and his deputy **Lassi Vepsäläinen**.

On 31 December 2017, the Bank had 16 employees, all of them full-time. All of them had a permanent 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 Oy Ab, authorized public acoountants, 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 http://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 13%.

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 BENEFIT

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 did not pay variable compensation, 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 5.24%. Bonum Bank's accounting is managed at Paikallispankkien PP-Laskenta Ltd., wholly owned by Samlink Ltd. Payment message handling at Bonum Bank is carried out through SWIFT Service Bureau provided by Tieto Plc, excluding internal payments within the POP Bank group.

Card business services are outsourced to Samlink Ltd., 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. The deposit banks that are members of the amalgamation of deposit banks are considered to be a single deposit bank in terms of deposit guarantee. Therefore, the deposit guarantee concerning a depositor's deposits in all member credit institutions of the amalgamation of POP Banks (POP Banks and Bonum Bank Plc) totals EUR 100,000. 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

Bonum Bank's Board of Directors has started a recruitment process for the new CEO. Anders Dahlqvist resigned in January 2018 and Marjo Orrenmaa, who was nominated as an interim CEO, has also resigned. Kirsi Salo has been nominated as a new interim CEO of Bonum Bank. She acted as a Chairman of the Board of Bonum Bank until 29 January 2018. The Board of Directors has nominated Pekka Lemettinen as a Chairman of the Board.

No other 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.

Outlook for 2018

In 2018, Bonum Bank will be preparing new services and products that support the business of the amalgamation banks. The centralisation of services plays a key role in the management of cost structure and increase of competence. Centralisation also better allows for the automation of work phases with the help of robotics. The intensification of the use and sales of the payment cards issued by Bonum Bank will be continued in cooperation with the POP Banks by streamlining card processing.

The centralisation of the amalgamation's liquidity coverage requirement in Bonum Bank will increase the Bank's balance sheet and enhance the amalgamation's use of liquidity. The nature of the Bank's investment activities will change in such a way that the majority of investments will be made in high-quality liquid assets, in accordance with the LCR Regulation. The centralisation will not have a significant effect on the net interest income.

The result for 2018 is expected to be positive.

Board of Directors' Proposal on the disposal of Distributable Funds

Bonum Bank's distributable funds amounted to EUR 1,414 thousand.

Bonum Bank's Board of Directors proposes to the Annual General Meeting that the profit for the financial year, EUR 118 thousand, be entered in retained earnings and that no dividend be paid.

FINANCIAL STATEMENTS 31 DECEMBER 2017

INCOME STATEMENT

(EUR 1,000)	Note	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016	Change, %
Interest income	Note 3	3,758	3,468	8.4
Interest expenses	Note 3	-1,562	-991	57.6
Net interest income		**2,196**	**2,476**	**-11.3**
Net commissions and fees	Note 4	5,037	4,082	23.4
Net investment income	Note 5	376	1,936	-80.6
Other operating income	Note 6	612	1,228	-50.2
Total operating income		**8,220**	**9,722**	**-15.5**
Personnel expenses	Note 7	-1,337	-1,216	9.9
Other operating expenses	Note 8	-5,936	-6,242	-4.9
Depreciation and amortisation on property, plant and equipment and intangible assets	Note 9	-588	-586	0.4
Total operating expenses		**-7,861**	**-8,044**	**-2.3**
Impairment losses on loans and receivables	Note 14	-210	-356	-41.0
Profit before taxes		**149**	**1,322**	**-88.7**
Income taxes	Note 10	-31	-344	-91.0
Result for the period		**118**	**978**	**-87.9**

STATEMENT OF COMPREHENSIVE INCOME

(EUR 1,000)	Note	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016	Change, %
Profit for the period		118	978	-87.9
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	168	468	-64.0
Total comprehensive income		**287**	**1,446**	**-80.2**

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

BALANCE SHEET

(EUR 1,000)	Note	31 Dec 2017	31 Dec 2016
Assets			
Cash funds	Note 13	70,179	85,073
Loans and advances to credit institutions	Note 14	141,016	74,408
Loans and advances to customers	Note 14	35,791	38,556
Investment assets	Note 15	305,497	254,638
Intangible assets	Note 16	1,833	2,364
Property, plant and equipment	Note 17	39	53
Other assets	Note 18	1,711	1,556
Tax assets	Note 19	244	312
Total assets		**556,310**	**456,960**
Liabilities			
Liabilities to credit institutions	Note 20	405,688	326,899
Liabilities to customers	Note 20	4,801	3,613
Debt securities issued to the public	Note 21	109,713	99,521
Other liabilities	Note 22	3,682	4,558
Tax liabilities	Note 22	456	685
Total liabilities		**524,340**	**435,277**
Equity			
Share capital	Note 23	10,000	10,000
Reserves	Note 23	20,556	10,387
Profit (loss) for previous financial years	Note 23	1,296	318
Profit (loss) for the period		118	978
Total equity		**31,970**	**21,683**
Total liabilities and equity		**556,310**	**456,960**

STATEMENT OF CHANGES IN EQUITY

(EUR 1,000)	Share capital	Fair value reserve	Other reserves	Retained earnings	Total equity
Equity on 1 Jan 2017	**10,000**	**387**	**10,000**	**1,296**	**21,683**
Total comprehensive income					
Profit for the period	-	-	-	118	118
Other comprehensive income	-	168	-	-	168
Other changes	-	-	10 000	-	10,000
Equity on 31 Dec 2017	**10,000**	**556**	**20,000**	**1,414**	**31,970**

(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
Equity on 31 Dec 2016	**10,000**	**387**	**10,000**	**1,296**	**21,683**

CASH FLOW STATEMENT

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Cash flow from operating activities		
Profit for the period	118	978
Adjustments to result for the financial year	595	917
Increase (-) or decrease (+) in business assets	**-125,038**	**-129,262**
Receivables from credit institutions	-77,000	-52,095
Receivables from customers	2,765	5,401
Notes and bonds	-50,333	-82,637
Investment assets	-315	-268
Other assets	-155	337
Increase (+) or decrease (-) in business liabilities	**89,293**	**27,931**
Liabilities to credit institutions	78,789	-63,302
Liabilities to customers	1,188	-3,394
Debt securities issued to the public	10,193	99,521
Provisions and other liabilities	-876	-4,894
Income taxes paid	-235	-28
Total cash flow from operations	**-35,266**	**-99,465**
Cash flow from investing activities		
Increases in other investments	-	-1
Investments in tangible and intangible assets	-42	-21
Total cash flow from investing activities	**-42**	**-22**
Cash flow from financing activities		
Equity investment	10,000	-
Total cash flow from financing activities	**10,000**	**0**
Change in cash and cash equivalents		
Cash and cash equivalents at beginning of period	96,481	195,967
Cash and cash equivalents at end of period	71,195	96,481
Net change in cash and cash equivalents	**-25,285**	**-99,486**
Interest received	3,746	3,843
Interest paid	1,559	1,033
Dividends received	5	1
Adjustments to result for the financial year	**595**	**917**
Non-cash items and other adjustments		
Impairment losses on receivables	-23	-13
Depreciation	588	586
Other	31	344
Cash and cash equivalents		
Cash funds	70,179	85,073
Receivables from credit institutions repayable on demand	1,016	11,408
Total	**71,195**	**96,481**

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 Plc, 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 Notes. 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.

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

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.

<u>Loans and receivables</u>

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.

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

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.

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 adopted following changes and improvements to existing standards:

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative (effective for financial years beginning on or after 1 January 2017). The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments had no impact on Bonum Bank's financial statements.

- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (effective for financial years beginning on or after 1 January 2017). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments had no impact on Bonum Bank's financial statements.

In the financial period starting 1 January 2018, Bonum Bank will adopt the following amended standards of IASB starting from their entry into force.

- New IFRS 9 – Financial Instruments (to be applied in financial periods starting on or after 1 January 2018). This standard replaces the current 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. There remains three hedge accounting types. More risk positions can be included in hedge accounting, and the principles of hedge accounting have been standardised together with risk management.

  Bonum Bank will apply the standard for the first time once it becomes mandatory on 1 January 2018. Comparison figures will not be adjusted. Hedge accounting is not currently relevant in Bonum Bank, but POP Bank Group will continue to use the IAS 39 hedge accounting requirements also after IFRS 9 has been implemented.

Classification and measurement

According to IFRS 9, financial assets are recognized and measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss in accordance with the business model applied to their management. Only debt instruments, whose cash flows consist solely of payments of principle and interest, may to be classified to be measured at amortised cost or at fair value through other comprehensive income.

Bonum Bank's loans and receivables will continue to be measured at amortised cost. At the date of implementation the Bank did not have financial instruments held to maturity, and it didn't reclassify financial assets classified as available-for-sale under IAS 39 to be measured at amortised cost under IFRS 9.

According to IFRS 9, all investments in shares and participations are measured at fair value, and changes in their value are recognised mainly through profit and loss, instead of being recognised in other comprehensive income. Also investments in funds are measured at fair value and changes in their value recognised through profit and loss. In the future, changes in the value of investments in shares and funds will be recognised in the income statement before realisation, while under IAS 39 they are recognised through profit and loss at the time they are sold. Furthermore, changes in the value of such debt securities where cash flows do not solely consist of payments of principle and interest are also recognized through profit and loss. Bonum Bank has adopted the exception in IFRS 9, according to which changes in fair value of investments in shares may be recognised in other comprehensive income, to investments in shares regarded strategic. In case such an investment is subsequently sold, the result for sale is recognised in equity.

Reclassifications did not have any material effect on Bonum Bank's assets and liabilities.

Calculation of expected credit losses

IFRS 9 requires impairment to be recognized on the basis of expected credit losses on all debt instruments which are recognized at amortized cost or fair value through other comprehensive income and on off-balance sheet exposures.

The calculation of expected credit losses in Bonum Bank is based on three main segments:

– Private customers
– Corporate customers
– Investment portfolio

In all of these segments, the calculation of expected credit losses will be based on the probability of default (PD), loss given default (LGD) and exposure at default (EAD) on contract level. In the measurement of expected credit losses, a transition will be made from the recognition of expected credit losses over 12 months to the recognition of expected credit losses throughout the lifetime of the contract as the credit risk increases significantly after the initial recognition.

The credit risk is considered as significantly increased when any of the following criteria is fulfilled on a contract:

– The contract is more than 30 days past due
– The contract terms have been renegotiated within 12 months due to financial difficulties of the obligor
– The probability of default of the obligor has increased significantly in comparison to origination
– The obligor has been defined as a potential problem customer for other criteria than is listed above

The obligor and all contracts of the obligor are treated as in default if any of the following criteria is fulfilled:

– The obligor has exposures more than 90 days past due, and the amount overdue exceeds 100 euros
– The bank has initiated recollection on the obligor's contracts
– A corporate client is in bankruptcy proceedings or in reorganization process

IFRS 9 requires reasonably available financial information to be used when estimating the amount of expected credit losses. For the calculation of expected credit losses, a model based on three macroeconomic scenarios and the related probabilities has been developed in POP Bank Group. The model is used to adjust the parameters used in the calculation when determining expected credit losses.

The adoption of the expected credit loss model will reduce the carrying amount of loan receivables and debt instruments which are recognized at amortized cost in comparison with the current accounting policies. The amount of expected credit losses is 536 thousand euros more than recognised accumulated impairments. Upon adoption to IFRS 9, the difference between impairment provisions and expected credit losses will be deducted from the retained earnings, which will reduce the CET1 capital used in the calculation of capital adequacy. The own funds of Bonum Bank on 1 January 2018 are estimated to decrease 369 thousand euros, and the total capital ratio according to IFRS 9 on 1 January 2018 would be 52.5%.

– New IFRS 15 – Revenue from Contracts with Customers (to be applied in financial periods starting 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. This standard has not any significant impact on the financial statements of the Bonum Bank.

In financial periods starting later than on 1 January 2018, Bonum Bank will adopt the following new standards of IASB starting from their entry into force or from the beginning of the financial period following their entry into force, if they have been approved to be applied in the EU before the closing date.

- New IFRS 16 – Leases (to be applied in financial periods starting on or after 1 January 2018). 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 is assessing the impact of the new standard.

- IFRIC 23 Uncertainty over Income Tax Treatments* (effective for financial years beginning on or after 1 January 2019). The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company's chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The interpretation has no impact on Bonum Bank's financial statements.

- Amendments to IFRS 9: Prepayment Features with Negative Compensation* (effective for financial years beginning on or after 1 January 2019). The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation. The amendments have no impact on POP Bank's financial statements.

- Annual Improvements to IFRSs (2015-2017 cycle)* (effective for financial years beginning on or after 1 January 2019). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 3, IFRS 11, IAS 12 and IAS 23. The amendments have no impact on Bonum Bank's financial statements.

Other amendmends to standards to be applied later have no impact on POP Bank Group's financial statements.

* = The standard has not been endorsed for use in the EU as of 31 December 2017.

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 function 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 standardized 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 2017, Bonum Bank's own funds totalled EUR 30,288 thousand (18,685), which consisted wholly of Common Equity Tier 1 (CET1) capital.

At the end of 2017, the capital adequacy of Bonum Bank was at a good level. The bank's capital adequacy ratio was 53.2% (28.7) and the ratio of Tier 1 capital to risk-weighted items was 53.2% (28.7). Bonum Bank does not include year-end profits in its own funds. Bonum Bank's capital adequacy was primarily affected by increase of capital by EUR 10 million at the end of 2017. The measure is preparing for the streamlining and expansion of the central credit institution's business operations in the coming years. Due to amalgamation level LCR ratio management responsibility, the balance sheet total increased by EUR 100 million, but the allocation changes of liquid assets resulted in decrease in risk weighted assets.

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 2017	31 Dec 2016
Common Equity Tier 1 capital before deductions	31,851	20,705
Deductions from Common Equity Tier 1 capital	-1,563	-2,020
Total Common Equity Tier 1 capital (CET 1)	**30,288**	**18,685**
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)	30,288	18,685
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)	**30,288**	**18,685**
Total Risk Weighted Assets	**56,970**	**65,014**
Of which credit risk	42,213	53,948
Of which credit valuation adjustment risk (CVA)	0	0
Of which market risk (exchange rate risk)	998	0
Of which operational risk	13,758	11,066
Fixed capital conservation buffer according to the Act on Credit Institutions (2.5%)	1,424	1,625
Countercyclical capital buffer	63	60
Common Equity Tier 1 capital (CET1) in relation to risk-weighted assets (%)	53.17%	28.74%
Tier 1 capital (T1) in relation to risk-weighted assets (%)	53.17%	28.74%
Total Capital (TC) in relation to risk-weighted assets (%)	**53.17%**	**28.74%**
Leverage ratio		
Tier 1 capital (T1)	30,288	18,685
Total exposures	572,016	463,362
Leverage ratio, %	5.29 %	4.03 %

BUSINESS RISKS

Credit risk

The Pillar I capital reserves in Bonum Bank's credit and counterparty risk account for approximately 74.1% of all Pillar I capital reserves. Credit risk refers to a counterparty failing to fulfill 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 342,305 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 authorization 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 305,497 thousand (254,638). 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 1,016 thousand (20,408) 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 remained stable totaling to EUR 32,373 thousand (31,296) during the financial period. In 2017, EUR 233 thousand (370) were recognised as credit loss on card credits. A EUR 117 thousand (140) collective provision for impairment loss has been made for 2017. No credit losses were recognised on other banking items and they contain no non-performing receivables. Other loan receivables from retail banking totalled EUR 3,418 thousand (7,260).

Bonum Bank's receivables overdue for more than 90 days accounted for 0.88% (0.98%) of the loan portfolio. The bank's receivables overdue for 30–90 days accounted for 0.08% (0.05%) of the loan portfolio at the end of 2017.

Balance sheet items exposed to credit risk totaled EUR 342,305 thousand (313,602) at the end of 2017. Bonum Bank's off-balance sheet credit commitments amounted to EUR 101,283 thousand (84,865). These consisted primarily of unused credit limits of card credits and POP Banks' liquidity commitments.

Overdue receivables (EUR 1,000)	31 Dec 2017	31 Dec 2016
31–90 days	28	21
over 90 days	315	377
Total	**342**	**398**

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 2017	31 Dec 2016
From central banks	70,179	85,073
Governments and public bodies	258,290	195,886
Credit institutions	41,433	67,012
From companies	5,992	11,873
Total	**375,894**	**359,843**

Liquidity risks

Liquidity risk refers to Bonum Bank's ability to fulfill 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 fulfill 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 2017	31 Dec 2016
Debt securities eligible for refinancing with central banks	**52,837**	**57,671**
From general government	23,322	19,018
From credit institutions	29,515	38,653
Other notes and bonds	**251,861**	**196,754**
From general government and municipalities	234,968	176,867
From credit institutions	10,901	8,014
From companies	5,992	11,873
Deposits	**71,195**	**105,418**
Fixed-term	-	9,000
Repayable on demand	1,016	11,345
Balances at central banks	70,179	85,073
Total	**375,894**	**359,843**

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 80% in 2017 and it increased to 100% at the beginning of 2018.

POP Bank amalgamation proceeded to fulfill and report the LCR requirement at the amalgamation level. As the central credit institution, Bonum Bank is responsible for the management of the LCR ratio at the amalgamation level and monitors the liquidity of the member institutions. Bonum Bank is also responsible for obtaining long term financing and operates as the internal bank to member credit institutions. The planning of Bonum Bank's funding structure is based on liquidity and financing planning of the entire amalgamation as a whole within the objectives and steering limits given by the central institution.

The LCR ratio of POP Bank amalgamation was 148.6% at the end of 2017 (220,5). Bonum Bank's LCR-eligible liquid assets totaled EUR 327,086 million, of which 100.0% were L1-eligible liquid assets.

LCR (EUR 1,000)	31 Dec 2017	31 Dec 2016
Liquid assets (LCR)	327,086	422,069
Net cash outflow	220,075	191,448
Liquidity coverage ratio (LCR)	**148.62%**	**220.46%**

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. In 2017 Bonum Bank issued total EUR 10 million of certificate of deposit. Bonum Bank will prepare for growing the amalgamation's wholesale funding and diversifying the financing structure.

Maturity distribution of financial assets 31 Dec 2017 (EUR 1,000)	Under 3 months	3–12 months	1–5 years	Over 5 years	Total
From central banks	70,179	-	-	-	70,179
Available-for-sale financial assets	204,924	60,684	39,889		305,497
Loans and receivables from customers	32,672	-	69	3,050	35,791
Loans and receivables from credit institutions	21,016	38,000	82,000	-	141,016
Total	**328,791**	**98,684**	**121,958**	**3,050**	**552,483**

Maturity distribution of financial liabilities 31 Dec 2017 (EUR 1,000)	Under 3 months	3–12 months	1–5 years	Over 5 years	Total
Deposits	4,801	-	-	-	4,801
Issued debt instruments	5,000	4,997	99,717	-	109,713
Liabilities to credit institutions	341,913	8,000	55,775	-	405,688
Total	**351,714**	**12,997**	**155,492**	**0**	**520,202**

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**

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 in banking book arises from the liquidity reserve investment activities, retail banking business and funding operations. Bonum Bank did not use any derivatives in 2017.

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 2017 (EUR 1,000)			
	Change	Effect on result	Effect on equity
Interest rate risk	+1 percentage point	-325	893
Interest rate risk	-1 percentage point	275	57

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

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 materialization 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 utilizes reporting produced by internal control on compliance with instructions and information on changes in the operating environment. In 2017, 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 2017	1 Jan - 31 Dec 2016
Interest income		
On receivables and debts from credit institutions	1,839	1,197
On receivables from customers	1,732	1,995
On notes and bonds	187	276
Other interest income	0	0
Total interest income	**3,758**	**3,468**
Interest expenses		
On receivables and debts to credit institutions	-224	-352
On receivables and debts to customers	-360	-47
On debt securities issued to the public	-974	-588
Other interest expenses	-3	-5
Total interest expenses	**-1,562**	**-991**
Net interest income	**2,196**	**2,476**

Interest income includes negative interest expenses EUR 580 thousand and interest expenses include negative interest income EUR 980 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 2017	1 Jan - 31 Dec 2016
Fee and commission income		
Lending	26	31
Card business	5,080	5,460
Payment transfers	3,121	2,488
Other	6	4
Total fee and commission income	**8,233**	**7,983**
Fee and commission expenses		
Card business	-2,456	-3,015
Payment transfers	-2	-6
Securities	-715	-783
Other	-23	-98
Total fee and commission expenses	**-3,196**	**-3,901**
Net commissions and fees	**5,037**	**4,082**

NOTE 5 NET INVESTMENT INCOME

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Net gains from foreign currency transactions	239	309
Net income from available-for-sale financial assets		
Notes and bonds		
Gains and losses from sales	2	-12
Reclassified from fair value reserve	131	159
Total notes and bonds	**132**	**147**
Shares and participations		
Capital gains and losses	-	1,479
Dividend income	5	1
Total shares and participations	**5**	**1,480**
Total net income form available-for-sale financial assets	**137**	**1,627**
Total net investment income	**376**	**1,936**

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. 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 2017	1 Jan - 31 Dec 2016
Business development fees from banks	440	533
Central credit institution services excl. payment transfer	50	213
Other income	122	481
Total other operating income	**612**	**1,228**

NOTE 7 PERSONNEL EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Salaries and remuneration	-1,097	-986
Indirect personnel expenses	-34	-47
Defined contribution plans	-206	-183
Total personnel expenses	**-1,337**	**-1,216**

Remunerations to related parties are presented in Note 28.

NOTE 8 OTHER OPERATING EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Other administrative expenses		
Other personnel expenses	-144	-112
Office expenses	-282	-412
ICT expenses	-4,874	-4,981
Telecommunications	-234	-282
Entertainment and marketing expenses	-18	-8
Other administrative expenses total	**-5,552**	**-5,795**
Other operating expenses		
Rental expenses	-185	-174
Consulting fees	-3	-17
Audit fees	-12	-23
Other	-184	-233
Other operating expenses total	**-384**	**-447**
Total other operating expenses	**-5,936**	**-6,242**

Audit fees		
Statutory audit	-12	-23
Total audit fees	**-12**	**-23**

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

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Machinery and equipment	-20	-17
Intangible assets	-568	-568
Total depreciation of property, plant and equipment and intangible assets	**-588**	**-586**

NOTE 10 INCOME TAXES

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Current tax	-43	-258
Tax for prior financial years	0	0
Withholding tax paid abroad	-1	0
Change in deferred tax assets	-60	-156
Change in deferred tax liabilities	74	71
Total income taxes	**-31**	**-344**
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 2017	1 Jan - 31 Dec 2016
Accounting profit before tax	149	1,322
Tax calculated at the tax rate	-30	-264
+ Tax-exempt income	0	0
- Non-deductible expenses	-1	-80
- Taxable income not included in the profit	1	-
+ Deductible expenses not included in the profit	-	1
- Use of tax losses carried forward from previous years	-	-2
Tax for prior financial years	0	0
Taxes in the income statement	**-31**	**-344**

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

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Available-for-sale financial assets		
Interest income	187	276
Amounts shown in the income statement	131	159
Dividend income	5	1
Gains and losses from sales	2	1,468
Income and expenses from available-for-sale financial assets	**324**	**1,903**
Loans and receivables		
Interest income	3,571	3,192
Other income	1,163	1,317
Impairment of loans and receivables	23	13
Total net income on loans and receivables	**4,757**	**4,522**
Other financial liabilities		
Interest expenses	-1,562	-991
Total income and expenses on other financial liabilities	**-1,562**	**-991**
Net gains from foreign currency transactions	**239**	**309**
Total carrying amounts of financial assets and liabilities	**3,757**	**5,743**
Other operating income and expenses	**-3,608**	**-4,421**
Profit before taxes	**149**	**1,322**

Notes to assets

NOTE 12 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets 31 December 2017

(EUR 1,000)	Loans and receivables	Available-for-sale	Total carrying amount
Cash funds	70,179	-	70,179
Loans to and receivables from credit institutions	141,016	-	141,016
Loans to and receivables from customers	35,791	-	35,791
Investment assets			
Notes and bonds	-	304,699	304,699
Shares and participations	-	798	798
Total financial assets	**246,987**	**305,497**	**552,483**

Financial liabilities 31 December 2017

(EUR 1,000)	Other financial liabilities	Total carrying amount
Liabilities to credit institutions	405,688	405,688
Liabilities to customers	4,801	4,801
Debt securities issued to the public	109,713	109,713
Total financial liabilities	**520,202**	**520,202**

Financial assets 31 December 2016

(EUR 1,000)	Loans and receivables	Available-for-sale	Total carrying amount
Cash funds	85,073	-	85,073
Loans to and receivables from credit institutions	74,408	-	74,408
Loans to and receivables from 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**

Financial 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**

NOTE 13 CASH FUNDS

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Receivables from central banks repayable on demand	70,179	85,073
Total cash funds	**70,179**	**85,073**

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

NOTE 14 LOANS AND RECEIVABLES

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Loans and advances to credit institutions		
Deposits		
Repayable on demand	1,016	11,408
Other	140,000	63,000
Total loans and advances to credit institutions	**141,016**	**74,408**
Loans and advances to customers		
Loans	3,119	7,010
Credit card receivables	32,373	31,296
Other receivables	299	250
Total loans and advances to customers	**35,791**	**38,556**
Total loans and receivables	**176,808**	**112,964**

Impairment losses recorded on loans and receivables

(EUR 1,000)	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
-/+ Change in collectively assessed impairment losses	23	13
- Final credit losses	-233	-370
Impairment losses on loans and receivables	**-210**	**-356**

Accrued impairment losses on loans and receivables in the balance sheet

(EUR 1,000)	2017	2016
Impairment losses 1 Jan	140	153
+/- Change in collectively assessed impairment losses	-23	-13
Impairment losses 31 Dec	**117**	**140**

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 2017	31 Dec 2016
Available-for-sale financial assets		
Quoted notes and bonds measured at fair value		
From general government	258,290	195,886
From others	46,408	58,539
Shares and participations	798	213
Total investment assets	**305,497**	**254,638**

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 2017	31 Dec 2016
Information systems	1,797	2,364
Intangible assets under development	36	-
Total intangible assets	**1,833**	**2,364**

Changes in intangible assets 2017

(EUR 1,000)	Information systems	Other intangible assets	Intangible assets under development	Total
Acquisition cost on 1 Jan	3,396	-	-	3,396
+ Increases	-	-	36	73
Acquisition cost on 31 Dec	3,396	-	36	3,469
Accumulated amortisation and impairments on 1 Jan	-1,032	-		-1,032
- Amortisation	-568	-		-568
Accumulated amortisation and impairments on 31 Dec	-1,600	-	-	-1,600
Carrying amount on 1 Jan	2,364	-	-	2,364
Carrying amount on 31 Dec	1,797	-	36	1,833

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
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	-	-	2,364

NOTE 17 PROPERTY, PLANT AND EQUIPMENT

Changes in machinery and equipment

(EUR 1,000)	2017	2016
Acquisition cost on 1 Jan	107	86
+ Increases	6	21
Acquisition cost on 31 Dec	113	107
Accumulated depreciation and impairments on 1 Jan	-54	-36
- Depreciation	-20	-17
Accumulated depreciation and impairments on 31 Dec	-74	-54
Carrying amount on 1 Jan	53	50
Carrying amount on 31 Dec	39	53

NOTE 18 OTHER ASSETS

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Accrued income and prepaid expenses		
Interest	650	754
Other accrued income and prepaid expenses	922	757
Other	139	45
Other assets total	**1,711**	**1,556**

NOTE 19 DEFERRED TAXES

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Deferred tax assets	244	312
Total tax assets	**244**	**312**
Income tax liabilities	40	230
Deferred tax liabilities	416	455
Total tax liabilities	**456**	**685**

Deferred tax assets

(EUR 1,000)	1 Jan 2017	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2017
Available-for-sale financial assets	14	-	-7	7
Collective impairment losses	28	-5	-	23
Advances received	270	-56	-	214
Deferred tax assets total	**312**	**-60**	**-7**	**244**

(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**

Deferred tax liabilities

(EUR 1,000)	1 Jan 2017	Recognised through profit and loss	Recognised in other comprehensive income	31 Dec 2017
Available-for-sale financial assets	111	-	35	146
Intangible assets	344	-74	-	270
Deferred tax liabilities total	**455**	**-74**	**35**	**416**

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

Amounts recognised in other comprehensive income and related deferred taxes 2017

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	211	-42	168
Amounts recognised in other comprehensive income, total	**211**	**-42**	**168**

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**

Notes relating to liabilities and equity

NOTE 20 LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Liabilities to credit institutions		
Liabilities to credit institutions		
Repayable on demand	288,273	192,376
Other	117,415	134,522
Total liabilities to credit institutions	**405,688**	**326,899**
Liabilities to customers		
Deposits		
Repayable on demand	4,801	3,613
Total liabilities to customers	**4,801**	**3,613**
Total liabilities to credit institutions and customers	**410,489**	**330,512**

NOTE 21 DEBT SECURITIES ISSUED TO THE PUBLIC

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Bonds	99,717	99,521
Certificates of deposits	9,996	-
Total debt securities issued to the public	**109,713**	**99,521**

In financial year 2016, 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. During the financial period was issued two certificates of deposits of total EUR 10 million nominal value.

NOTE 22 OTHER LIABILITIES

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Other liabilities		
Payment transfer liabilities	117	780
Accrued expenses		
Interest payable	51	48
Advances received	1,527	1,846
Other accrued expenses	928	1,053
Other		
Liabilities on card transactions	863	577
Other	195	255
Total	**3,682**	**4,558**

In order to cover the development costs of the information systems used for central credit institution activities and card business, Bonum Bank collected development charges in 2014 and 2015 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.

NOTE 23 CAPITAL AND RESERVES

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Share capital	10,000	10,000
Restricted reserves		
Fair value reserve		
From measurement of available-for-sale financial assets	556	387
Non-restricted reserves		
Reserve for invested non-restricted equity	20,000	10,000
Retained earnings		
Profit (loss) for previous financial years	1,296	318
Profit (loss) for the period	118	978
Total equity	**31,970**	**21,683**

Share capital

Share capital includes the paid share capital. Bonum Bank has a total of 900,000 shares. There was no change during the financial year.

Restricted reserves

The fair value reserve includes changes in the fair value of available-for-sale financial assets deducted by 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, as well as other equity investments which are not recognised in other reserves.

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)	2017	2016
Fair value reserve 1 Jan	387	-81
Change in fair value, available-for-sale financial assets	341	744
Transferred to the income statement	-131	-159
Deferred taxes	-42	-117
Fair value reserve 31 Dec	**556**	**387**

Other assets

NOTE 24 COLLATERAL GIVEN

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Collateral given		
Given on behalf of own liabilities and commitments		
Other collateral to the Bank of Finland	16,389	27,915
Total collateral given	**16,389**	**27,915**

NOTE 25 OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Loan commitments	101,283	84,865
Total off-balance sheet commitments	**101,283**	**84,865**

NOTE 26 FAIR VALUES BY VALUATION TECHNIQUE

Financial assets and financial liabilities 31 December 2017

(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	52,837	251,861	798	305,497	305,497
Financial assets measured at amortised cost					
Loans and receivables	-	177,018	-	177,018	176,808
Total financial assets	**52,837**	**428,879**	**798**	**482,514**	**482,305**
Financial liabilities measured at amortised cost					
Debt securities issued to the public	101,382	10,003	-	111,382	109,713
Other financial liabilities	-	410,489	-	410,489	410,489
Total financial liabilities	**111,382**	**410,489**	**0**	**521,871**	**520,202**

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**	**0**	**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**

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)	2017
Carrying amount 1 Jan	213
+ Purchases	371
+/- Changes in value recognised in comprehensive income statement	214
Carrying amount 31 Dec	798

Sensitivity analysis of financial instruments at level 3

Available-for-sale financial assets 31 December 2017

	Carrying amount	Possible effect on equity capital	
(EUR 1,000)		Positive	Negative
Available-for-sale financial assets total	798	120	-120

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	213	32	-32

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 2017	31 Dec 2016
within 1 year	167	166
within 1–5 years	10	163
Total	**176**	**329**

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. Also entities in the same group with Bonum Bank belong to the related parties.

In the financial period 2017, 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 2017	31 Dec 2016
Assets		
Loans	864	6 074
Off-balance-sheet commitments		
Loan commitments	47	3 091

Compensation to key persons in management

(EUR 1,000)	31 Dec 2017	31 Dec 2016
Short-term employee benefits	910	747
Total compensation to key persons in management	**910**	**747**

Compensation to key persons in management 1 Jan - 31 Dec 2017

(EUR 1,000)	Salaries and remuneration	Pension costs
Dahlqvist Anders, CEO	141	26
Karesvuo Ossi, chairman of the board	12	-
Salo Kirsi, chairman of the board	5	-
Harjunpää Ilkka, Vice Chairman of the Board	2	-
Linna Hanna, Vice Chairman of the Board	5	-
Hulkko Timo	5	-
Lemettinen Pekka	3	-
Zilliacus Mikael	4	-
Total	**175**	**26**

NOTE 29 EVENTS AFTER THE REPORTING PERIOD

Bonum Banks Board of Directors has started a recruitment process for the new CEO. Anders Dahlqvist resigned in January 2018 and Marjo Orrenmaa, who was nominated as an interim CEO, has resigned as well. Kirsi Salo has been nominated as a new interim CEO of Bonum Bank. She acted as a Chairman of the Board of Bonum Bank until 29 January 2018. The Board of Directors has nominated Pekka Lemettinen as a Chairman of the Board.

No other 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 BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Espoo, 15 February 2018

Board of Directors of Bonum Bank Plc

Pekka Lemettinen
Chairman of the Board

Timo Hulkko

Hanna Linna

Mikael Zilliacus

Kirsi Salo
CEO

AUDITOR'S NOTE

A report on the audit performed has been issued today.

Espoo, 15 February 2018

KPMG OY AB

Johanna Gråsten
Authorised Public Accountant

POP Pankki

Bonum Pankki Oyj