Bonum Bank Plc

HALF YEAR REPORT

1 January – 30 June 2017

POP Pankki
Bonum Pankki Oyj

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This Half-Year Report 1 January-30 June 2017 is a translation of the original Finnish version "Bonum Pankin puolivuosikatsaus 1.1.-30.6.2017". In case of discrepancies, the Finnish version shall prevail.

BOARD OF DIRECTORS' REPORT FOR 1 JANUARY – 30 JUNE 2017

Bonum Bank Plc is a part of the amalgamation of POP Banks. It provides central credit institution services and secures external funding for the 26 POP Banks and is responsible for their payment card issuance. Bonum Bank has continued to develop and centralise these services in accordance with the amalgamation strategy. The Financial Supervisory Authority has granted the POP Bank Alliance, the central institution of the amalgamation of POP Banks, permission to decide on exemptions in accordance with the Amalgamation Act. The central institution's Board of Directors has granted the member credit institutions exemptions from the large exposures limits for esposures relating to the centralised management of the member credit institutions' liquidity. The exemption offers an opportunity to increase the mediation within the amalgamation and increase its efficiency. By ensuring continuous and competitive wholesale funding, Bonum Bank also makes healthy, profitable business growth possible for POP Banks.

In June, S&P Global Ratings confirmed 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.

Bonum Bank's Annual General Meeting was held in March 2017. The Annual General Meeting covered the statutory issues. Timo Hulkko, Ossi Karesvuo (until 31 August 2017), Pekka Lemettinen, Hanna Linna, Kirsi Salo (as of 1 September 2017) and Mikael Zilliacus were elected as the members of the Board of Directors. Ossi Karesvuo is Chairman of the Board.

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, 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 POP Bank Group prepares its financial statements in accordance with the International Financial Reporting Standards (IFRS). 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 are included in the scope of joint liability.

Operating environment

Recently, the global economy has showed signs of positive development. The growth rate has picked up in the eurozone, which is particularly important for Finland. The favourable development of the global economy and eurozone is also reflected in the economic outlook for Finland, which rapidly became more positive in the first half of 2017.

The good momentum in the export markets, in particular, has supported exports from Finland, which remained weak for a long time. The Competitiveness Pact is keeping salary development moderate in Finland, which supports the competitiveness of exports.

Low interest levels and increased construction activity, in particular, are supporting the favourable development of employment. The positive economic development and employment have also improved consumer confidence: according to the results of Statistics Finland's survey, consumer views of the economy are exceptionally positive.

However, consumers' purchasing power is not expected to increase, as the deflationary price development is reaching the point of inflation, and salary development is moderate. The housing market has remained stable, and consumers' positive sentiment has enabled prices to keep increasing in growth centres, particularly in the Helsinki metropolitan area. The moderate development of consumers' purchasing power, combined with the positive sentiment and expectations, is reflected in the fact that consumers continue to become more indebted, even though a new record-high level has already been reached.

The continuation of European Central Bank's stimulus policy is keeping the interest rate levels low. Furthermore the economy is improving in Eurozone and recovering in Finland, so the expected credit losses stay at low level. However, the growing indebtness of private households is gradually increasing the risk of payment defaults, which is also suggested by the increasing level of new payment default entries in the public credit information registries.

Bonum Bank's performance and balance sheet

PERFORMANCE

Bonum Bank Plc's profit for the review period amounted to EUR 105 thousand (EUR 1,336 thousand in the corresponding period of the previous year). The profit for the reporting period primarily consists of interest and commission income on central credit institution services provided for POP Banks and commission income on the card business. The Bank's cost-to-income ratio was 87.06% (68.11%).

The Bank's income statement has developed as follows, in comparison with the corresponding period of the previous year:

(EUR 1,000)	1 Jan–30 Jun 2017	1 Jan–30 Jun 2016	Change %
Interest income	1,830	1,621	12,9
Interest expenses	-756	-235	222,1
Net interest income	**1,073**	**1,386**	**-22,6**
Net commissions and fees	2,440	2,031	20,1
Net trading income	148	151	-2,3
Net investment income	3	1,522	-99,8
Other operating income	313	622	-49,7
Total operating income	**3,977**	**5,713**	**-30,4**
Personnel expenses	-662	-656	1,0
Other operating expenses	-2,799	-3,235	-13,5
Depreciation and amortisation on property, plant and equipment and intangible assets	-294	-292	0,4
Total operating expenses	**-3,756**	**-4,183**	**-10,2**
Impairment losses on loans and receivables	-116	-193	-39,8
Profit before taxes	**105**	**1,336**	**-92,2**
Income taxes	-21	-268	-92,0
Result for the period	**83**	**1,069**	**-92,2**

The Bank's net interest income amounted to EUR 1,073 thousand (1,386). Its interest income mainly consists of interest income on the card business and the Bank's own investments. The decreasing interest rates and negative money market yield will continue to challenge the Bank's interest income.

Net commissions and fees increased to EUR 2,440 thousand (2,031). Commission income consisted mainly of payment transfer fees and income from the card business.

Net investment income decreased to EUR 3 thousand (1,522). In the comparison period, a sales gain attributable to the sale of shares in Visa had a positive effect of around EUR 1,500 thousand on net investment income. Other operating income amounted to EUR 313 thousand (622).

Personnel expenses were EUR 662 thousand (656) and consisted of salary expenses, pension expenses and other indirect personnel expenses. Other operating expenses decreased to EUR 2,799 thousand (3,235).

BALANCE SHEET

The Bank's balance sheet total was EUR 490,693 thousand (456,960) at the end of the review period.

Bonum Bank Plc's balance sheet items are as follows:

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Assets		
Cash funds	73,179	85,073
Loans and advances to credit institutions	102,478	74,408
Loans and advances to customers	42,107	38,556
Investment assets	268,365	254 638
Intangible assets	2,117	2,364
Property, plant and equipment	45	53
Other assets	2,127	1,556
Tax assets	276	312
Total assets	**490,693**	**456,960**
Liabilities		
Liabilities to credit institutions	338,273	326,899
Liabilities to customers	12,405	3,613
Debt securities issued to the public	109,609	99,521
Other liabilities	8,149	4,558
Tax liabilities	433	685
Total liabilities	**468,868**	**435,277**
Equity		
Share capital	10,000	10,000
Reserves	10,446	10,387
Profit (loss) for previous financial years	1,296	318
Profit (loss) for the period	83	978
Total equity	**21,825**	**21,683**
Total liabilities and equity	**490,693**	**456,960**

KEY RATIOS

	30 Jun 2017	31 Dec 2016	31 Dec 2015
Cost-to-Income ratio, %	87,06	76,71	82,59
ROA	0,04	0,22	0,14
ROE	0,77	4,66	1,52
Equity ratio	4,45	4,75	4,74

Key events during the review period

Bonum Bank has a EUR 150 million certificate of deposit programme. In June, the Bank issued two certificates of deposit according to the programme, both with a nominal value of EUR 5 million. In addition, Bonum Bank has a bond programme of EUR 750 million. In 2016, the Bank issued a three-year unsecured senior bond of EUR 100 million according to the programme. The bond is listed on the Nasdaq Helsinki.

In October 2015, Visa Europe and Visa Inc. announced that Visa Inc. would acquire Visa Europe. As part of the transaction, shares in Visa Europe were returned to members in proportion to service fees. Visa Inc. paid the portions allocated to POP Banks, which served as associate members, to Nets Ltd, which served as a direct member. However, the C-Series shares received as part of the transaction can only be transferred to a party that is a member of Visa and that has received a share of payment in the share transaction. Within the Group, Bonum Bank is the only direct member of Visa. In addition, the Bank has previously received C-Series shares. For this reason, it will receive the shares against the consideration paid to POP Banks in May.

Bonum Bank has explored the possibility of making use of robotics in business operations. The Bank has identified several processes that can be replaced with robotics, which will significantly save working time. The first process in which manual work was replaced with robotics was implemented in the spring.

Risk and capital adequacy management and risk exposure

PRINCIPLES AND ORGANISATION OF RISK MANAGEMENT

The purpose of Bonum Bank's risk management is to ensure that all significant risks resulting from business operations are identified, measured, assessed, limited and monitored in accordance with the appropriate internal control principles. Risk management is part of the capital adequacy management process, which aims to ensure that the risk levels are proportionate to the Bank's risk-bearing capacity and will not risk the Bank's capital adequacy position.

With regard to Bonum Bank's business operations and capital adequacy, the key areas of risk management are credit risk, interest rate risk, liquidity risk and operational risks.

CAPITAL ADEQUACY

The Bank applies the standardised approach for the calculation of the capital requirement to the credit risk and the basic indicator approach to the operational risk. Bonum Bank's own funds consist of share capital, non-restricted reserves and retained earnings, less the deductible items in accordance with the EU's Capital Requirements Regulation (No. 575/2013). On 30 June 2017, Bonum Bank's CET1 capital stood at EUR 19,931 thousand (18,685 on 31 December 2016), and its CET1 capital adequacy ratio was 30.4% (28.7%). Bonum Bank does not include the profit for the period in its own funds.

Bonum Bank's capital adequacy remained stable during the first half of 2017. The Bank kept its amount of risk-weighted receivables and capital adequacy at the planned level, even though it increased its liquid assets.

CREDIT RISK AND CONCENTRATIONS

Bonum Bank's most significant credit risks are related to investment assets and the card business. Its investment assets was EUR 268,365 thousand (254,638) at the end of the review period. The investment asset items included in its liquidity portfolio consist of debt securities, collateralised securities and loans with ECB eligible collateral issued by governments, municipalities, financial institutions and companies with investment grade credit ratings. The debt securities included in the liquidity portfolio are measured at market-quoted price on the balance sheet.

At the end of June, the loan portfolio of card credit amounted to EUR 32,598 thousand (31,296). In the first half of 2017, EUR -138 thousand was recognised as a credit loss on card credits (-193 in Q2/2016). Receivables overdue for more than 90 days accounted for 0.71% (0.98%) of the loan portfolio. No credit losses or non-performing receivables were recognised on other balance sheet items.

SUMMARY OF CAPITAL ADEQUACY

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Common Equity Tier 1 capital before deductions	21,741	20,705
Deductions from Common Equity Tier 1 capital	-1 810	-2 020
Total Common Equity Tier 1 capital (CET 1)	19,931	18,685
Additional Tier 1 capital before deductions	-	-
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	-	-
Tier 1 capital (T1=CET1+AT1)	19,931	18,685
Tier 2 capital before deductions	-	-
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	-	-
Total capital (TC=T1+T2)	19,931	18,685
Total Risk Weighted Assets	65,478	65,014
Of which credit risk	53,652	53,948
Of which credit valuation adjustment risk (CVA)	-	-
Of which market risk (exchange rate risk)	760	-
Of which operational risk	11,066	11,066
Fixed capital conservation buffer according to the Act on Credit Institutions (2.5%)	1,637	1,625
Countercyclical capital buffer	63	60
Common Equity Tier 1 capital (CET1) in relation to risk-weighted assets (%)	30.44 %	28.74 %
Tier 1 capital (T1) in relation to risk-weighted assets (%)	30.44 %	28.74 %
Total Capital (TC) in relation to risk-weighted assets (%)	30.44 %	28.74 %
Leverage ratio		
Tier 1 capital (T1)	19,931	18,685
Total exposures	500,642	463,362
Leverage ratio, %	3.98 %	4.03 %

LIQUIDITY RISK

Bonum Bank's liquidity position remained strong throughout the first half of 2017. The key ratio for measuring liquidity risk is the liquidity coverage ratio (LCR), specified in the EU's Capital Requirements Regulation. The LCR requirement increased to 80% at the beginning of 2017.

On 30 June 2017, Bonum Bank's LCR stood at 106.9% (133.6%). The Bank's LCR-eligible assets totalled EUR 247.5 million (255.2).

INTEREST RATE RISK

Bonum Bank's market risk levels remained moderate in the first half of 2017. The most significant market risk related to the Bank's business operations is the interest rate risk in banking book. Interest rate risk arises from balance shet items including the liquidity portfolio, the card card loans, funding and retail loans and deposits. Bonum Bank did not use any derivatives in the first half of 2017.

The interest rate risk is monitored by means of the present value method and the income risk model. The present value method measures how changes in interest rates change the constructed market value of the financial assets. In the present value method, the market value of each balance sheet item is expected to be formed as the present value of the cash flows generated by the instrument in question. The income risk model predicts future net interest income with changes in market interest rates.

Events after the review period

No such significant events have taken place at Bonum Bank after the review period that would have a material effect on the information presented in this half-year report.

Outlook for the second half of the year

The efficiency of the operations of the internal bank will continue to be improved, and external funding for the member banks of the amalgamation will be made available in a centralised manner through Bonum Bank, which will allow for the further improvement of POP Banks' business operations and cost-efficiency. Customer experience, customer service and liquidity management will be further improved, when outbound payment transactions in autumn 2017 will begin to be cleared within the same banking day.

Bonum Bank will continue to make use of robotics in replacing its internal manual processes. This will remove several work phases, save working time and reduce the risks related to manual processes.

In late 2017, Bonum Bank will introduce a renewed credit rating model for the issuance of card credit, and the model is expected to significantly improve the customer experience and credit monitoring.

Full-year result is expected to be positive.

HALF YEAR REPORT 1 JANUARY – 30 JUNE 2017

INCOME STATEMENT

(EUR 1,000)	1 Jan–30 Jun 2017	1 Jan–30 Jun 2016	Change %
Interest income	1,830	1,621	12.9
Interest expenses	-756	-235	222.1
Net interest income	**1,073**	**1,386**	**-22.6**
Net commissions and fees	2,440	2,031	20.1
Net trading income	148	151	-2.3
Net investment income	3	1,522	-99.8
Other operating income	313	622	-49.7
Total operating income	**3,977**	**5,713**	**-30.4**
Personnel expenses	-662	-656	1.0
Other operating expenses	-2,799	-3,235	-13.5
Depreciation and amortisation on property, plant and equipment and intangible assets	-294	-292	0.4
Total operating expenses	**-3,756**	**-4,183**	**-10.2**
Impairment losses on loans and receivables	-116	-193	-39.8
Profit before taxes	**105**	**1,336**	**-92.2**
Income taxes	-21	-268	-92.0
Result for the period	**83**	**1,069**	**-92.2**

STATEMENT OF OTHER COMPREHENSIVE INCOME

(EUR 1,000)	1 Jan–30 Jun 2017	1 Jan–30 Jun 2016	Change %
Profit for the period	83	1,069	-92.2
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	73	769	-90.5
Deferred taxes	-15	-154	-90.5
Total comprehensive income	**142**	**1,684**	**-91.6**

BALANCE SHEET

(EUR 1,000)	30 Jun 2017	31 Dec 2016	Change %
Assets			
Cash funds	73,179	85,073	-14.0
Loans and receivables from credit institutions	102,478	74,408	37.7
Loans and receivables from customers	42,107	38,556	9.2
Investment assets	268,365	254,638	5.4
Intangible assets	2,117	2,364	-10.5
Property, plant and equipment	45	53	-15.2
Other assets	2,127	1,556	36.7
Tax assets	276	312	-11.6
Total assets	**490,693**	**456,960**	**7.4**
Liabilities			
Liabilities to credit institutions	338,273	326,899	3.5
Liabilities to customers	12,405	3,613	243.3
Debt securities issued to the public	109,609	99,521	10.1
Other liabilities	8,149	4,558	78.8
Tax liabilities	433	685	-36.8
Total liabilities	**468,868**	**435,277**	**7.7**
Equity			
Share capital	10,000	10,000	0.0
Reserves	10,446	10,387	0.6
Profit (loss) for previous financial years	1,296	318	307.6
Profit (loss) for the period	83	978	-91.5
Total equity	**21,825**	**21,683**	**0.7**
Total liabilities and equity	**490,693**	**456,960**	**7.4**

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				83	83
Other comprehensive income		58			58
Total comprehensive income		58		83	142
Other changes					0
Equity on 30 Jun 2017	**10,000**	**446**	**10,000**	**1,379**	**21,825**

(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				1,069	1,069
Other comprehensive income		615			615
Total comprehensive income		615		1,069	1,684
Other changes					0
Equity on 30 Jun 2016	**10,000**	**535**	**10,000**	**1,387**	**21,921**

CASH FLOW FROM OPERATIONS

(EUR 1,000)	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Cash flow from operations		
Profit for the period	83	1,069
Adjustments to result for the financial year	431	753
Increase (-) or decrease (+) in business assets	**-52,392**	**-73,664**
Receivables from credit institutions	-34,500	-27,995
Receivables from customers	-3,667	-1 842
Notes and bonds	-13,673	-43,709
Other assets	-552	-118
Increase (+) or decrease (-) in business liabilities	**33,844**	**86,385**
Liabilities to credit institutions	11,374	-22,720
Liabilities to customers	8 792	4,101
Debt securities issued to the public	10,088	99,422
Provisions and other liabilities	3,590	5,583
Income taxes paid	-252	-4
Total cash flow from operations	**-18,285**	**14,540**
Cash flow from investments		
Investments in tangible and intangible assets	-38	-13
Total cash flow from investments	**-38**	**-13**
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	78,157	210,493
Net change in cash and cash equivalents	**-18,323**	**14,526**
Interest received	1,893	1,955
Interest paid	756	256
Dividends received	3	-
Adjustments to result for the financial year	**431**	**753**
Non-cash items and other adjustments		
Impairment losses on receivables	116	193
Depreciation	294	292
Other	21	268
Cash and cash equivalents		
Cash funds	73,179	190,349
Receivables from credit institutions repayable on demand	4,978	20,144
Total	**78,157**	**210,493**

NOTES

NOTE 1 ACCOUNTING PRINCIPLES

Bonum Bank's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the related interpretations (IFRIC).

The half-year report for 1 January – 30 June 2017 has been prepared in accordance with IAS 34 Interim Financial Reporting and the accounting policies presented in Bonum Bank's IFRS financial statements 31 December 2016.

The figures disclosed in the half-year report are unaudited. The figures in the half-year report are in thousand euros, unless otherwise stated. The figures in the calculations and tables are rounded, whereby the sum total of individual figures may deviate from the sum total presented.

Copy of Bonum Bank's half-year report is available from its office at Hevosenkenkä 3, FI-02600 Espoo, and online at www.bonumpankki.fi.

ADOPTION OF IFRS 9

The new IFRS 9 Financial Instruments standard (to be applied in financial periods starting on or after 1 January 2018) will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 changes the recognition and measurement of financial assets and includes a new model for evaluating impairment on financial assets based on expected credit losses. The classification and measurement of financial liabilities largely correspond to 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 Plc will apply the standard for the first time once it becomes mandatory on 1 January 2018. Comparison figures will not be adjusted. The effects of the application of the standard on Bonum Bank's financial statement items cannot yet be reliably assessed, as the effects depend on the number of various financial instruments at the time of transition, the calculation principles applied to valuation and the financial operating environment. The determination and testing of the calculation processes related to the determination of expected credit losses in accordance with the standard are still partly in progress.

Classification and measurement

According to IFRS 9, financial assets are recognised 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.

Bonum Bank's loans and receivables will continue to be measured at amortised cost, with the exception of any minor changes. The Bank does not currently have financial instruments held to maturity. In the future, however, the Bank may classify instruments whose cash flows consist solely of payments of principle and interest to be measured at amortised cost in accordance with the business model applied to their management. Reclassifications are not expected to have any significant effects on equity at the time of transition.

Most of Bonum Bank's debt securities are measured at fair value, and changes in their value can be recognised in other comprehensive income in accordance with IFRS 9. In accordance with IAS 39, these debt securities are classified as available-for-sale financial assets and are measured at fair value through other comprehensive income.

According to IFRS 9, investments in shares 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. In the future, changes in the value of investments in shares and funds will be recognised in the income statement before realisation, while they are currently 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 recognised through profit and loss.

The adoption of classification and measurement principles in accordance with IFRS 9 will generally not affect the amount of equity, but it will have effects on

Bonum Bank's fair value reserves and retained earnings at the time of transition and on the Bank's net income on investment activities and its other comprehensive income. The changes in the classification of investments in shares and funds will not affect the amount of Bonum Bank's equity at the time of transition, but they will have effects on the Bank's fair value reserves and retained earnings at the time of transition. In future financial periods, the changes in classification may have an effect on Bonum Bank's capital adequacy ratio, unless the Bank includes the year-end profit in its own funds.

The quantitative impact of the changes in recognition and measurement depends on the structure of Bonum Bank's investment portfolio on and after the standard adoption date.

<u>Impairment</u>

IFRS 9 requires impairment to be recognised on the basis of expected credit losses on all debt instruments, which are recognised at amortised cost or fair value through other comprehensive income and on off-balance sheet exposures. 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 lifetime of the contract as the credit risk increases significantly after the initial recognition.

The determination of an expected credit loss at Bonum Bank will be based on two principal segments: private customers and investment portfolio.

In both 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). In addition, quantitative and qualitative criteria have been determined for significantly increased credit risk. If these criteria are met, the expected credit losses of a contract will be calculated over its expected lifetime, instead of just 12 months.

The probability of default will be based on POP Banks' historical default statistics (private customers) and data available from the financial markets (investment portfolio). Loss given default will be based on an expert model in which the type of collateral determines the LGD percentage to be applied in the calculation of expected credit losses. Exposure at default will be determined based on expected cash flows of each contract and on the product type of an off-balance sheet exposure. In addition, low credit risk exception will be applied for the investment portfolio.

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 have been developed. The model is used to adjust the parameters used in the calculations when determining expected credit losses.

The adoption of the principles for impairment losses in IFRS 9 will reduce Bonum Bank's own funds and affect its capital adequacy ratio, as the amount of expected credit losses is expected to increase compared to current impairment provisions. Preliminary calculations have been made on the amount of expected credit losses, but their amount is sensitive to the parameters used in the calculation of expected credit losses, and the creation of the models is still in progress at the POP Bank Group in this respect.

With the transition to IFRS 9, the difference between impairment provisions and expected credit losses will be deducted from retained earnings, which will reduce the CET1 capital used in the calculation of capital adequacy. It is currently unclear what type of transition rules will be used for changes in CET1 capital in European Union. For this reason, it is not yet possible to reliably estimate the impact of IFRS 9 on Bonum Bank's capital adequacy ratio. In addition, after the adoption of IFRS 9, changes in expected credit losses will affect the Bank's profit, other comprehensive income and fair value reserves.

<u>Hedge accounting</u>

IFRS 9 also enables the application of the current IAS 39 standard to hedge accounting. The POP Bank Group has not yet made a decision on the adoption of IFRS 9 to hedge accounting. The POP Bank Group may postpone the adoption of hedge accounting in accordance with IFRS 9 until a later financial period, as the Group's member credit institutions currently have only a small number of hedge instruments.

Notes to the income statement

NOTE 2 INTEREST INCOME AND EXPENSES

(EUR 1,000)	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Interest income		
On receivables and debts from credit institutions	886	419
On receivables from customers	851	1,043
On notes and bonds	93	159
Other interest income	0	0
Total interest income	**1,830**	**1,621**
Interest expenses		
On receivables and debts to credit institutions	-112	-170
On liabilities to customers	-153	-3
On debt securities issued to the public	-490	-62
Other interest expenses	-1	0
Total interest expenses	**-756**	**-235**
Net interest income	**1,073**	**1,386**

Interest income includes negative interest expenses EUR 468 thousand and interest expenses include negative interest income EUR 252 thousand. Bonum Bank has no interest income on impaired receivables, as it has no significant individual receivables with recognised impairment loss.

NOTE 3 NET COMMISSIONS AND FEES

(EUR 1,000)	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Fee and commission income		
Lending	9	17
Card business	2,472	2,666
Payment transfers	1,340	1,254
Other	171	189
Total fee and commission income	**3,992**	**4,125**
Fee and commission expenses		
Card business	-1,191	-1,608
Payment transfers	-348	-399
Securities	-2	-3
Other	-11	-85
Total fee and commission expenses	**-1,553**	**-2,094**
Net commissions and fees	**2,440**	**2,031**

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

NOTE 4 NET TRADING INCOME

(EUR 1,000)	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Net gains from foreign currency transactions	148	151
Net trading income	**148**	**151**

NOTE 5 NET INVESTMENT INCOME

(EUR 1,000)	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Net income from available-for-sale financial assets		
Notes and bonds		
Gains and losses from sales	-	-1
Reclassified from fair value reserve	-	44
Total notes and bonds	-	43
Shares and participations		
Capital gains and losses	-	1,479
Dividend income		
Total shares and participations	3	-
Total net income form available-for-sale financial assets	3	1,479
Total net investment income	3	1,522

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 – 30 Jun 2017	1 Jan – 30 Jun 2016
Business development fees from banks	280	588
Central credit institution services excl. payment transfer	10	11
Other income	23	24
Total other operating income	**313**	**622**

NOTE 7 PERSONNEL EXPENSES

(EUR 1,000)	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Salaries and remuneration	-549	-535
Indirect personnel expenses	-15	-25
Defined contribution plans	-99	-96
Total personnel expenses	**-662**	**-656**

NOTE 8 OTHER OPERATING EXPENSES

(EUR 1,000)	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Other administrative expenses		
Other personnel expenses	-88	-59
Office expenses	-134	-279
ICT expenses	-2,277	-2,561
Telecommunications	-113	-148
Representation and marketing expenses	-2	-4
Other administrative expenses total	**-2,615**	**-3,052**
Other operating expenses	-	-
Rental expenses	-87	-89
Consulting fees	-	-11
Audit fees	-9	-17
Statutory audit	-6	-17
Other services	**-3**	**-**
Other	**-89**	**-66**
Other operating expenses total	**-185**	**-183**
Total other operating expenses	**-2,799**	**-3,235**

Notes to assets

NOTE 9 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets 30 June 2017

(EUR 1,000)	Loans and receivables	Available-for-sale	Total carrying amount
Cash funds	73,179		73,179
Loans and receivables from credit institutions	102,478		102,478
Loans and receivables from customers	42,107		42,107
Investment assets			
Notes and bonds		268,129	268,129
Shares and participations		236	236
Total financial assets	**217,764**	**268,365**	**486,129**

Financial liabilities 30 June 2017

(EUR 1,000)	Other financial liabilities	Total carrying amount
Liabilities to credit institutions	338,273	338,273
Liabilities to customers	12,405	12,405
Debt securities issued to the public	109,609	109,609
Total financial liabilities	**460,287**	**460,287**

Financial assets 31 December 2016

(EUR 1,000)	Loans and receivables	Available-for-sale	Total carrying amount
Cash funds	85,073		85,073
Loans and receivables from credit institutions	74,408		74,408
Loans and receivables from customers	38,556		38,556
Investment assets			
Notes and bonds		254,425	25,425
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 10 LOANS AND RECEIVABLES

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Loans and receivables from credit institutions		
Repayable on demand	4,978	11,408
Other	97,500	63,000
Total loans and receivables from credit institutions	**102,478**	**74,408**
Loans and receivables from customers		
Loans	9,370	7,010
Credit card receivables	32,496	31,296
Other receivables	241	250
Total loans and receivables from customers	**42,107**	**38,556**
Total loans and receivables	**144,584**	**112,964**

Impairment losses recorded on loans and receivables

(EUR 1,000)	1 Jan–30 Jun 2017	1 Jan– 30 Jun 2016
-/+ Change in collectively assessed impairment losses	22	4
- Final credit losses	-138	-197
Impairment losses on loans and receivables	**-116**	**-193**

Accrued impairment losses on loans and receivables in the balance sheet

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Impairment losses 1 Jan	140	153
+/- Change in collectively assessed impairment losses	-22	-13
Impairment losses at the end of period	**118**	**140**

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

NOTE 11 INVESTMENT ASSETS

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Available-for-sale financial assets		
Quoted notes and bonds measured at fair value		
From general government	205,074	54,659
From others	63,055	199,766
Shares and participations	236	213
Total investment assets	**268,365**	**254,638**

Notes relating to liabilities and equity

NOTE 12 LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Liabilities to credit institutions		
Liabilities to credit institutions		
Repayable on demand	123,160	138,226
Other	215,112	188,672
Total liabilities to credit institutions	**338,273**	**326,899**
Liabilities to customers		
Deposits		
Repayable on demand	12,405	3,613
Total liabilities to customers	**12,405**	**3,613**
Total liabilities to credit institutions and customers	**350,678**	**330,512**

NOTE 13 DEBT SECURITIES ISSUED TO THE PUBLIC

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Bonds	99,618	99,521
Certificates of deposits	9,991	-
Total debt securities issued to the public	109,609	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 reporting period was issued two certificates of deposits of EUR 5 million nominal value.

Other notes

NOTE 14 FAIR VALUES BY VALUATION TECHNIQUE

Financial assets and financial liabilities 30 June 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	64,796	203,333	236	268,365	268,365
Financial assets measured at amortised cost					
Loans and receivables	-	144,219	-	144,219	144,584
Total financial assets	**64,796**	**347,552**	**236**	**412,585**	**412,950**
Financial liabilities measured at amortised cost					
Debt securities issued to the public	111,895	-	-	111,895	109,609
Other financial liabilities	-	350,678	-	350,678	350,678
Total financial liabilities	**111,895**	**350,678**	**0**	**462,573**	**460,287**

Financial assets and financial liabilities 31 December 2016

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

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 reporting period.

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

(EUR 1,000)	1 Jan–30 Jun 2017
Carrying amount 1 Jan	213
+/- Unrealised changes in value recognised in income statement purchases	-18
+/- Changes in value recognised in comprehensive income statement	42
Carrying amount 30 Jun	236

(EUR 1,000)	1 Jan–31 Dec 2016
Carrying amount 1 Jan	0
+ Purchases	251
+/- Unrealised changes in value recognised in income statement	5
+/- Changes in value recognised in comprehensive income statement	-43
Carrying amount 31 Dec	213

Sensitivity analysis of financial instruments at level 3

Available-for-sale financial assets 30 June 2017

	Carrying amount	Possible effect on equity capital	
(EUR 1,000)		Positive	Negative
Available-for-sale financial assets total	236	35	-35

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 15 COLLATERAL GIVEN

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Collateral given		
Given on behalf of own liabilities and commitments		
Other collateral to the Bank of Finland	26,487	27,915
Total collateral given	**26,487**	**27,915**

NOTE 16 OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000)	30 Jun 2017	31 Dec 2016
Loan commitments	89,808	84,865
Total off-balance sheet commitments	**89,808**	**84,865**

NOTE 17 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. Also entities in the same group with Bonum Bank belong to the related parties.

In the half-year period, Bonum Bank granted housing and consumption loans to related parties at employee terms. These loans are tied to generally applied reference rates. Entities in the same group have been granted loans at market-based terms.

There are no material changes in related party transactions since 31 December 2016.

NOTE 18 CAPITAL ADEQUACY

Bonum Bank belongs to the amalgamation of POP Banks. Financial information about Bonum Bank's capital adequacy is part of the amalgamation capital adequacy presented in the consolidated half-year report of POP Bank Group.

POP Bank Group's financial statements are available from the office of POP Bank Alliance at the address Hevosenkenkä 3, 02600 Espoo, Finland, or online at www.poppankki.fi.

The figures disclosed in the half-year financial report are unaudited.

Espoo 22 August 2017

Bonum Bank Plc
Board of Directors of Bonum Bank Plc

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