Bonum Bank Plc

HALF-YEAR REPORT

1 January – 30 June 2018

POP Pankki

CONTENTS

This Half-Year Report 1 January-30 June 2018 is a translation of the original Finnish version "Bonum Pankin puolivuosikatsaus 1.1.-30.6.2018". In case of discrepancies, the Finnish version shall prevail.

BOARD OF DIRECTORS' REPORT FOR 1 JANUARY – 30 JUNE 2018

Bonum Bank Plc is part of the amalgamation of POP Banks. It provides central credit institution services and secures external funding for the 26 POP Banks, and it issues their payment cards. Bonum Bank has been working to develop and centralise the services, and this work is ongoing. Centralising the administration of the amalgamation's liquidity coverage ratio (LCR) at the end of 2017 has been key in centralising the Bank's activities during the reporting period, and the LCR has continued to remain stable since the changeover.

During the first half of the year, Bonum Bank has explored opportunities for automating and centralising POP Banks' processes. Centralising more activities and taking advantage of robotics could save working hours and help POP Banks to become more efficient. Bonum Bank also plays a key role in developing digital services within the POP Bank Group. During the first half of the year, Bonum Bank has strengthened and streamlined its organisation in preparation for these development activities, as well as preparing for the revised Payment Services Directive (PSD2).

Funding from Bonum Bank to POP Banks has improved during the review period. Bonum Bank has a EUR 750 million bond programme, under which the Bank issued a three-year, EUR 100 million unsecured senior bond in 2016. The bond is listed on the Nasdaq Helsinki. The Bank also has a EUR 150 million certificate of deposit programme.

Bonum Bank held its Annual General Meeting in April 2018. The AGM covered the statutory issues and elected Timo Hulkko, Pekka Lemettinen, Hanna Linna and Mikael Zilliacus as the members of the Board of Directors. Pekka Lemettinen is the Chair of the Board.

Kirsi Salo, previously the Chair of the Board, was appointed as the interim CEO of Bonum Bank in January, and she will continue in this role until the new CEO has been recruited.

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.

Operating Environment

The world economy has grown steadily during 2018 so far. Economic growth is picking up in the United States, and China has also presented impressive growth figures again. The Eurozone economy is also expanding, albeit at a more modest rate. The tariffs introduced by the United States are negatively impacting international trade and industry, and threatening to stymie economic growth.

The EU is grappling with unresolved issues swirling around Brexit and the need for a common European refugee policy, which are both increasing political tensions. From the economic perspective, the ECB's monetary policy is keeping interest rates low to stimulate the economy, which makes managing loans easier, but has also led to disproportionately rapid increases in the values of investment targets.

For Finland, the growth in the global economy and Eurozone is welcome, as exports play a central role in our economy. The rapidly filling order books and companies continuously expanding their production capacity show that the Finnish economy is picking up. Exports have been boosted by better price competitiveness as a result of the longer working hours and limited pay rises set out in the Competitiveness Pact; however, wages have increased again during 2018. The higher employment rate and pay rises are boosting wage earners' purchasing power, while low interest rates and consumer willingness to borrow to finance purchases are also providing more opportunities for consumption. The situation in Finnish agriculture remains problematic.

Even though unemployment has fallen, the number of people without work remains high, and labour shortages are also a problem in many areas. Insufficient matching in the labour market is starting to be a drag on the robust economic growth. The high level of indebtedness and low savings rates among consumers will mean less growth in consumption in the coming years.

Housing prices have reached near-critical levels in the Helsinki region, augmented by strong demand maintained by property investors and a steady influx of people. Low interest rates, longer loan periods and the growth in housing company loans have encouraged consumers to purchase more expensive homes. The lower loan-to-value ratio introduced in July is intended to cool the overheated housing market. Outside growth centres, rises in housing prices have been more moderate.

The General Data Protection Regulation and PSD2, both of which came into force in the first half of the year, will also substantially change the operating environment for banks.

Bonum Bank's Performance and Balance Sheet

PERFORMANCE

During the review period, Bonum Bank Plc posted a loss of EUR 158 thousand before taxes (in the comparison period, the Bank made a profit of EUR 105 thousand). Higher personnel and IT expenses were the main reason for the weaker half-year result. The Bank's cost-to-income ratio was 100.64 per cent (94.44). The income for the review period primarily consisted of interest and commission income on central credit institution services provided for POP Banks as well as commission income on the card business.

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 2018	1 Jan–30 Jun 2017	Change %
Net interest income	**1,104**	**1,073**	**2.8**
Net commissions and fees	2,813	2,440	15.3
Net investment income	223	150	48.2
Other operating income	326	313	4.3
Total operating income	**4,466**	**3,977**	**12.3**
Personnel expenses	-968	-662	46.1
Other operating expenses	-3,223	-2,799	15.1
Depreciation and amortisation on property, plant and equipment and intangible assets	-304	-294	3.5
Total operating expenses	**-4,494**	**-3,756**	**19.7**
Impairment losses on financial assets	-130	-116	11.7
Profit before taxes	**-158**	**105**	**-251.2**
Income taxes	30	-21	-241.7
Result for the period	**-128**	**83**	**-253.6**

The Bank's net interest income amounted to EUR 1,104 thousand (1,073) consisting mainly of interest income on the card business and the Bank's own investments.

Net commission income increased to EUR 2,813 thousand (2,440), and mainly comprised payment transfer fees and income from the card business.

Net investment income increased to EUR 223 thousand (150). The changes in the accounting principles that took effect on 1 January 2018 impacted the classification of investments and the way in which changes in value are recognised. However, they did not affect Bonum Bank's investment income.

Other operating income amounted to EUR 326 thousand (313).

Personnel expenses increased to EUR 968 thousand (662), consisting of salary and pension expenses as well as other indirect personnel expenses. Other operating expenses came to EUR 3,223 thousand (2,799). The increase was partly the result of higher verification costs in the card business.

The accounting principles concerning provisions on impairment losses changed on 1 January 2018 when the IFRS 9 standard on financial instruments became applicable. A total of EUR 130 thousand was recognised in impairment losses on credit card receivables, off-balance-sheet receivables and debt securities recognised through items of comprehensive income. A total of EUR 116 thousand in receivables was recognised in impairment losses during the comparison period. The new accounting principles were introduced on 1 January 2018. Comparative figures for 2017 were not restated in accordance with the new principles.

BALANCE SHEET

The Bank's balance sheet total stood at EUR 552,107 thousand (556,310) at the end of the review period.

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

(EUR 1,000)	30 Jun 2018	31 Dec 2017
Assets		
Cash funds	73,381	70,179
Loans and receivables from credit institutions	159,983	141,016
Loans and receivables from customers	39,069	35,791
Investment assets	275,556	305,497
Other assets	4,116	3,826
Total assets	**552,107**	**556,310**
Liabilities		
Liabilities to credit institutions	383,965	405,688
Liabilities to customers	10,713	4,801
Debt securities issued to the public	109,814	109,713
Other liabilities	16,033	4,138
Total liabilities	**520,526**	**524,340**
Equity		
Share capital	10,000	10,000
Reserves	20,686	20,556
Retained earnings	894	1,414
Total equity	**31,580**	**31,970**
Total liabilities and equity	**552,107**	**556,310**

KEY RATIOS

	30 Jun 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015
Cost-to-income ratio, %	100,64	95,63	82,74	90,98
ROA	-0,05	0,05	0,22	0,14
ROE	-0,80	0,88	4,66	1,52
Capital adequacy ratio (TC), %	41,95	53,17	28,74	19,52
Equity ratio	5,72	5,75	4,75	4,74

KEY FIGURE FORMULAS

$$\text{Cost-to-income -ratio, \% } = \frac{\text{Personnel expenses+ other operating expenses + depreciation}}{\text{Net interest income + net fee income + net investment income + other operating income}} \times 100$$

$$\text{Return on equity (ROE), \% } = \frac{\text{Operating profit (loss) - income taxes}}{\text{Equity (average of beginning and end of year)}} \times 100$$

$$\text{Return on assets (ROA), \% } = \frac{\text{Operating profit (loss) - Income taxes}}{\text{Balance sheet total (average of beginning and end of year)}} \times 100$$

$$\text{Capital adequacy ratio (TC), \% } = \frac{\text{Total capital (TC)}}{\text{Total minimum capital requirement}} \times 100$$

$$\text{Equity ratio, \% } = \frac{\text{Equity}}{\text{Balance sheet total}} \times 100$$

CREDIT RATINGS

In May, S&P Global Ratings confirmed 'BBB' as the rating for Bonum Bank for long-term investment grade, and 'A-2' for short-term investment grade, both with stable outlook. This rating by S&P Global reflects the POP Bank Group's strong capital adequacy and the expectations of higher efficiency resulting from the amalgamation.

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 2018, Bonum Bank's CET1 capital stood at EUR 29,955 thousand (30,288 on 31 December 2017), and its CET1 capital adequacy ratio was 42% (53,2%). Own funds include accounting period loss (profit is not included in own funds on comparison period).

During the first half of 2018 Bonum Bank's capital adequacy was mainly affected by planned growth in risk weighted assets. Reported figures on own funds, capital and leverage ratio include the full effect of IFRS 9 implementation.

CREDIT RISK AND CONCENTRATIONS

Bonum Bank's most significant credit risks are related to investment assets and the credit card business. Its investment assets was EUR 275,556 thousand (305,497) at the end of the review period. The investment asset items included in its liquidity portfolio consist of debt securities issued by governments, municipalities, financial institutions and companies with investment grade credit ratings, some of them being collateralized debt securities or ECB eligible collateral. 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 34,290 thousand (32,373). In the first half of 2018, EUR -115 thousand was recognized as a credit loss on card credits (-138). Receivables overdue for more than 90 days accounted for 0.89 % (0.88%) of the loan portfolio. No credit losses or non-performing receivables were recognized on other balance sheet items.

Expected credit loss provisions (ECL) from credit and other receivables grew 6.1% ending up to 668 thousand (629) mainly because of growth in credit card portfolio.

LIQUIDITY RISK

POP Bank amalgamation transferred to fulfil and report its' LCR ratio on consolidated amalgamation level at the end of 2017. Bonum Bank as the central credit institution is responsible for amalgamation level LCR management and monitors liquidity situation of the member banks. On 30 June 2018, POP Bank amalgamation LCR-ratio stood at 121% (149%).

MARKET RISKS

Bonum Bank's market risk levels remained moderate in the first half of 2018. The most significant market risk related to the Bank's business operations is the interest rate risk in banking book. 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 arises from the liquidity reserve investment activities and the financial account of the banking business. Bonum Bank did not use any derivatives during first half of 2018.

SUMMARY OF CAPITAL ADEQUACY

(EUR 1,000)	30 Jun 2018	31 Dec 2017
Common Equity Tier 1 capital before deductions	31,580	31 851
Deductions from Common Equity Tier 1 capital	-1,626	-1 563
Total Common Equity Tier 1 capital (CET 1)	29,955	30 288
Additional Tier 1 capital before deductions	0	0
Deductions from Additional Tier 1 capital	0	0
Additional Tier 1 capital (AT1)	0	0
Total Tier 1 capital (T1=CET1+AT1)	**29,955**	**30 288**
Tier 2 capital before deductions	0	0
Deductions from Tier 2 capital	0	0
Total Tier 2 capital (T2)	0	0
Total Tier 2 capital (T2)	**29,955**	**30,288**
Total Risk Weighted Assets	**71,404**	**56,970**
Of which credit risk	56,266	42,213
Of which credit valuation adjustment risk (CVA)	0	0
Of which market risk (exchange rate risk)	1,379	998
Of which operational risk	13,758	13,758
CET1 capital ratio (%)	41.95 %	53.17 %
T1 capital ratio (%)	41.95 %	53.17 %
Total capital ratio (%)	**41.95 %**	**53.17 %**
Capital requirement		
Total capital	29,955	30,288
Capital requirement *	7,550	6,044
Capital buffer	22,405	24,244

* The capital requirement comprises the minimum requirement of 8 %, the capital conservation buffer of 2.5 % and the country-specific countercyclical capital requirements of foreign exposures.

Leverage ratio		
Tier 1 capital (T1)	29,955	30,288
Total exposures	568,500	572,016
Leverage ratio, %	5.27 %	5.29 %

Events after the Review Period

No 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

Bonum Bank's role as the provider of services for the banks in the amalgamation is strengthening. Digitalisation of the banking business and requirements concerning e.g. real-time payments will show in the development of Bonum Bank's services during the second half of the year.

Full-year result is expected to be positive. On the reporting period, Bonum Bank had some nonrecurring items that are not expected during the second half of the year.

HALF-YEAR REPORT 1 JANUARY – 30 JUNE 2018

INCOME STATEMENT

(EUR 1,000)	Note	1 Jan–30 Jun 2018	1 Jan–30 Jun 2017	Change-%
Interest income	Note 2	1,936	1,830	5.8
Interest expenses	Note 2	-833	-756	10.1
Net interest income		**1,104**	**1,073**	**2.8**
Net commissions and fees	Note 3	2,813	2,440	15.3
Net investment income	Note 4	223	150	48.2
Other operating income		326	313	4.3
Total operating income		**4,466**	**3,977**	**12.3**
Personnel expenses		-968	-662	46.1
Other operating expenses		-3,223	-2,799	15.1
Depreciation and amortisation on property, plant and equipment and intangible assets		-304	-294	3.5
Total operating expenses		**-4,494**	**-3,756**	**19.7**
Impairment losses on financial assets	Note 6	-130	-116	11.7
Profit before taxes		**-158**	**105**	**-251.2**
Income taxes		30	-21	-241.7
Result for the period		**-128**	**83**	**-253.6**

STATEMENT OF OTHER COMPREHENSIVE INCOME

(EUR 1,000)	1 Jan–30 Jun 2018	1 Jan–30 Jun 2017	Change-%
Profit for the period	-128	83	
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in fair value reserve			
Debt instruments	-24		
Available-for-sale investments		58	
Items that may not be reclassified to profit or loss			
Changes in fair value reserve			
Equity instruments	94		
Total comprehensive income	**-58**	**142**	**-140.8**

BALANCE SHEET

(EUR 1,000)	Note	30 Jun 2018	31 Dec 2017
Assets			
Cash funds		73,381	70,179
Loans and receivables from credit institutions		159,983	141, 016
Loans and receivables from customers		39,069	35,791
Investment assets		275,556	305,497
Intangible assets		1,871	1,833
Property, plant and equipment		32	39
Other assets		1,731	1,711
Tax assets		482	244
Total assets		**552,107**	**556,310**
Liabilities			
Liabilities to credit institutions		383,965	405,688
Liabilities to customers		10,713	4,801
Debt securities issued to the public	Note 8	109,814	109,713
Other liabilities		15,626	3,682
Tax liabilities		408	456
Total liabilities		**520,526**	**524,340**
Equity			
Share capital		10,000	10,000
Reserves		20,686	20,556
Retained earnings		894	1,414
Total equity		**31,580**	**31,970**
Total liabilities and equity		**552,107**	**556,310**

STATEMENT OF CHANGES IN EQUITY

(EUR 1,000)	Share capital	Fair value reserve	Other reserves	Retained earnings	Total equity
Equity on 1 January 2018	**10,000**	**556**	**20,000**	**1,414**	**31,970**
Restatement due to implementation of IFRS 9		60		-429	-369
Equity on 1 January 2018	**10,000**	616	20,000	985	31,601
Total comprehensive income					
Profit for the period				-128	-128
Other comprehensive income		70			70
Total comprehensive income		70		-128	-58
Other changes				38	38
Equity on 30 June 2018	**10,000**	**686**	**20,000**	**894**	**31,580**

(EUR 1,000)	Share capital	Fair value reserve	Other reserves	Retained earnings	Total equity
Equity on 1 January 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
Equity on 30 June 2017	**10,000**	**446**	**10,000**	**1,379**	**21,825**

CASH FLOW STATEMENT

(EUR 1,000)	1 Jan–30 Jun 2018	1 Jan–30 Jun 2017
Cash flow from operations		
Profit for the period	-128	83
Adjustments to result for the financial year	403	431
Increase (-) or decrease (+) in business assets	**9,289**	**-52 392**
Receivables from credit institutions	-17,300	-34 500
Receivables from customers	-3,533	-3 667
Notes and bonds	30,143	-13 673
Other assets	-21	-552
Increase (+) or decrease (-) in business liabilities	**-4,024**	**33 844**
Liabilities to credit institutions	-21,722	11 374
Liabilities to customers	5,912	8 792
Debt securities issued to the public	101	10 088
Provisions and other liabilities	11,686	3 590
Income taxes paid	-181	-252
Total cash flow from operations	**5,359**	**-18 285**
Cash flow from investments		
Increases in other investments	-65	-
Investments in tangible and intangible assets	-335	-38
Total cash flow from investments	-400	**-38**
Change in cash and cash equivalents		
Cash and cash equivalents at beginning of period	71,195	96 481
Cash and cash equivalents at end of period	76,154	78 157
Net change in cash and cash equivalents	**4,959**	**-18 323**
Interest received	1,990	1 893
Interest paid	839	756
Dividends received	5	3
Adjustments to result for the financial year	**403**	**431**
Non-cash items and other adjustments		
Impairment losses on receivables	130	116
Depreciation	304	294
Other	-30	21
Cash and cash equivalents		
Cash funds	73,381	73,179
Receivables from credit institutions repayable on demand	2,773	4,978
Total	**76,154**	**78 ,157**

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 2018 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 2017.

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.

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

CHANGES IN PRESENTATION

Net trading income is presented under net investment income in the income statement.

ADOPTION OF NEW STANDARDS

ADOPTION OF IFRS 9 FINANCIAL INSTRUMENTS ON 1 JANUARY 2018

Bonum Bank has applied the standard IFRS 9 Financial Instruments from 1 January 2018. Bank's accounting policies are presented in note 1 in Bonum Bank's financial statements 2017. The standard has not been applied retrospectively, so comparative figures have not been restated and are mainly presented according to IAS 39.

Main changes due to implementation of IFRS 9 concern the classification of investment assets and impairment of financial assets. Expected credit losses at 1 January 2018 amounted to EUR 653 thousand. At the end of the reporting period, 30 June 2018, expected credit losses amounted to EUR 668 thousand.

Classification and measurement

Bonum Bank's loans and receivables as well as deposits from financial institutions 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.

In transition, Bonum Bank's debt instruments are reclassified from available-for-sale to be measured at fair value through other comprehensive income. 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. Bonum Bank does not hold other shares.

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 and 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 classification and carrying amount of financial assets according to both IAS 39 and IFRS 9 are presented in the table below:

RECLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL ASSETS AND LIABILITIES 1 JANUARY 2018

(EUR 1,000)	Classification IAS 39	Classification IFRS 9	Carrying amount IAS 39	Revaluation*	Carrying amount IFRS 9
Cash funds	Loans and receivables	Amortised cost	70,179	-	70,179
Loans and receivables from credit institutions	Loans and receivables	Amortised cost	141,016	-83	140,933
Loans and receivables from customers	Loans and receivables	Amortised cost	35,791	-125	35,666
Investment assets	Available-for-sale	Fair value through other comprehensive income	305,497		305,497
Total financial assets			**552,483**	**-208**	**552,275**

*The amount of revaluation is the change in expected credit loss allowance of assets valued in amortised cost.

Implementation of IFRS 9 did not have an effect on classification and valuation of financial liabilities.

THE EFFECT OF RECLASSIFICATION OF FINANCIAL ASSETS ON EQUITY 1 JANUARY 2018

(EUR 1,000)	31 Dec 2017	Revaluation	1 Jan 2018
Share capital	10,000	-	10,000
Reserves			
Fair value reserve	556	60	616
Other	20,000	–	20,000
Retained earnings	1,414	-429	985
Total equity	**31,970**	**-369**	**31,601**

ADOPTION OF IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS ON 1 JANUARY 2018

Implementation of the standard IFRS 15 Revenue from Contracts with Customers did not have any impact on the recognition of revenues in Bonum Bank. Bonum Bank used a retrospective approach in application.

NOTE 2 INTEREST INCOME AND EXPENSES

(EUR 1,000)	1 Jan–30 Jun 2018	1 Jan–30 Jun 2017
Interest income		
On receivables and debts from credit institutions	1, 020	886
On receivables from customers	836	851
On notes and bonds	81	93
Other interest income	0	0
Total interest income	**1,936**	**1,830**
Of which negative interest expenses	572	468
Interest expenses		
On receivables and debts to credit institutions	-65	-112
On liabilities to customers	-294	-153
On debt securities issued to the public	-474	-490
Other interest expenses	0	-1
Total interest expenses	**-833**	**-756**
Of which negative interest income	-353	-252
Net interest income	**1,104**	**1,073**

NOTE 3 NET COMMISSIONS AND FEES

(EUR 1,000)	1 Jan–30 Jun 2018	1 Jan–30 Jun 2017
Fee and commission income		
Lending	24	9
Card business	2,717	2,472
Payment transfers	1,674	1,340
Other	131	171
Total fee and commission income	**4,546**	**3,992**
Fee and commission expenses		
Card business	-1,345	-1,191
Payment transfers	-372	-348
Other	-16	-14
Total fee and commission expenses	**-1,733**	**-1,553**
Net commissions and fees	**2,813**	**2,440**

NOTE 4 NET INVESTMENT INCOME

(EUR 1,000)	1 Jan–30 Jun 2018	1 Jan–30 Jun 2017
Fair value through other comprehensive income		
Notes and bonds		
Gains and losses from sales	7	-
Transferred from fair value reserve	76	-
Shares and participations		
Dividend income	5	-
Fair value through other comprehensive income total	**88**	**-**
Net income from available-for-sale financial assets		
Shares and participations		
Dividend income	-	3
Net income from available-for-sale financial assets total	**0**	**3**
Net gains from foreign currency transactions	135	148
Total net investment income	**223**	**150**

Net investment income includes net income from financial instruments except interest income from bonds recognised in net interest income.

NOTE 5 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets 30 June 2018

(EUR 1,000)	Amortised cost	Fair value through other comprehensive income	Total carrying amount
Cash funds	73,381	-	73,381
Loans and receivables from credit institutions	159,983	-	159,983
Loans and receivables from customers	39,069	-	39,069
Notes and bonds	-	274,537	274,537
Shares and participations	-	1,019	1,019
Total financial assets	**272,434**	**275,556**	**547,990**
Other assets			4,116
Total assets 30 June			**552,107**

Financial assets 31 December 2017

(EUR 1,000)	Loans and receivables	Available for sale	Total carrying amount
Cash funds	70,179	-	70,179
Loans and receivables from credit institutions	141,016	-	141,016
Loans and receivables from customers	35,791	-	35,791
Notes and bonds	-	304,699	304,699
Shares and participations	-	798	798
Total financial assets	**246,987**	**305,497**	**552,483**
Other assets			3,826
Total assets 31 December			**556,310**

Financial liabilities 30 June 2018

(EUR 1,000)	Other financial liabilities	Total carrying amount
Liabilities to credit institutions	383,965	383,965
Liabilities to customers	10,713	10,713
Debt securities issued to the public	109,814	109,814
Total financial liabilities	**504,493**	**504,493**
Other liabilities		16,033
Total liabilities 30 June		**520,526**

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**
Other liabilities		4,138
Total liabilities 31 December		524,340

NOTE 6 IMPAIRMENT LOSSES ON FINANCIAL ASSETS

Gross exposures broken down by stages 30 June 2018

	Stage 1	Stage 2	Stage 3	Total
Loans and receivables	194,913	1,188	573	196,674
Off-balance sheet items	81,224	24,079	174	105,477
Notes and bonds	271,538	3,000	-	274,537
Total	**547,675**	**28,267**	**747**	**576,689**

Gross exposures broken down by stages 1 January 2018

	Stage 1	Stage 2	Stage 3	Total
Loans and receivables	174,357	-	-	174,357
Off-balance sheet items	77,996	22,994	292	101,283
Notes and bonds	301,203	3,495	-	304,698
Total	**553,556**	**26,489**	**292**	**580,338**

Changes in expected credit loss (ECL)

	Stage 1	Stage 2	Stage 3	Total
Loans and receivables from customers and off-balance sheet commitments				
ECL 1 January 2018	222	103	252	578
Transfers to stage 1	4	-11	-74	-81
Transfers to stage 2	-2	15	-61	-49
Transfers to stage 3	-2	-1	148	145
Increases due to origination	44	14	15	74
Decreases due to derecognition	-6	-11	-20	-53
Changes due to change in credit risk (net)	-18	6	-2	-15
Changes in risk parametres	0	-1	6	5
Decreases due to write-offs	-	-	-15	-15
Total changes	19	11	-4	27
ECL 30 June 2018	242	114	249	605

	Stage 1	Stage 2	Stage 3	Total
Notes and bonds				
ECL 1 January 2018	66	9	-	75
Changes due to origination and acquisition	42	1	-	43
Changes due to derecognition	-44	-9	-	-54
Changes due to change in credit risk (net)	-1	-	-	-1
Total changes	-3	-8	-	-12
ECL 30 June 2018	**62**	**1**	**-**	**63**

Impairment losses recorded on loans and receivables

	1 Jan–30 Jun 2018	1 Jan–30 Jun 2017
Decreases of ECL due to write-offs	15	-
Change of ECL, loans and receivables and off-balance sheet items	-35	-
Change of ECL, notes and bonds	5	-
Change in collectively assessed impairment losses	-	22
Final credit losses	-115	-138
Impairment losses on loans and receivables	**-130**	**-116**

NOTE 7 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

(EUR 1,000)	30 June 2018 Carrying amount	30 June 2018 Fair value	31 Dec 2017 Carrying amount	31 Dec 2017 Fair value
Financial assets				
Cash funds	73,381	73,381	70,179	70,179
Loans and receivables	199,053	198,687	176,808	177,018
Fair value through other comprehensive income	275,556	275,556	-	-
Available-for-sale	-	-	305,497	305,497
Total	**547,990**	**547,625**	**552,483**	**552,693**
Financial liabilities				
Deposits	394,679	394,679	410,489	410,489
Debt securities issued to the public	109,814	110,878	109,713	111,385
Total	**504,493**	**505,557**	**520,202**	**521,874**

Financial assets at fair value 30 June 2018

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Fair value through other comprehensive income					
Shares and participations	-	-	1,019	1,019	1,019
Notes and bonds	50,330	224,208	-	274,537	274,537
Total financial assets	**50,330**	**224,208**	**1,019**	**275,556**	**275,556**

Financial assets at fair value 31 December 2018

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Available-for-sale assets					
Shares and participations	-	-	798	798	798
Notes and bonds	52,837	251,861	-	304,699	304,699
Total financial assets	**52,837**	**251,861**	**798**	**305,497**	**305,497**

Financial assets and liabilities are recognised in balance sheet at fair value or amortised cost. Bonum Bank has applied IFRS 9 Financial instruments from 1 January 2018. Classification and valuation of financial instruments are described in Note 1.

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 assets at fair value classified into level 3

(EUR 1,000)	Fair value through other comprehensive income	Total
Carrying amount 1 Jan 2018	798	798
+ Purchases	65	65
+/- Unrealised changes in value recognised in other comprehensive income	155	155
Carrying amount 30 Jun 2018	**1,019**	**1,019**

Sensitivity analysis of financial instruments at level 3

Financial instruments at fair value

	Carrying amount	Possible effect on equity capital	
(EUR 1,000)		Positive	Negative
Fair value through profit and loss			
Fair value through other comprehensive income	1,019	153	-153
Total	**1,019**	**153**	**-153**

The sensitivity of financial assets 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 8 DEBT SECURITIES ISSUED TO THE PUBLIC

(EUR 1,000)	30 Jun 2018	31 Dec 2017
Bonds	99,814	99,717
Certificates of deposits	10,000	9,996
Total debt securities issued to the public	**109,814**	**109,713**

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. Three certificates of deposits of EUR 5 million nominal value were issued during the reporting period and also three certificates of deposits of EUR 5 million nominal value has been paid back.

NOTE 9 COLLATERAL GIVEN

(EUR 1,000)	30 Jun 2018	31 Dec 2017
Given on behalf of own liabilities and commitments		
Other collateral to the Bank of Finland	16,871	16,389
Total collateral given	**16,871**	**16,389**

NOTE 10 OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000)	30 Jun 2018	31 Dec 2017
Loan commitments	105,477	101,283
Total off-balance sheet commitments	**105,477**	**101,283**

NOTE 11 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 2017.

NOTE 12 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 helf-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 falf-year financial report are unaudited.

Espoo 22 August 2018

Board of Directors of Bonum Pankki Oyj

Further information

Kirsi Salo, Interim CEO, +358 40 650 0411
Pekka Lemettinen, Chairman of the Board, +358 40 503 5411
www.bonumpankki.fi

POP Pankki