Bonum Bank Plc

BOARD OF DIRECTORS' AND FINANCIAL STATEMENTS REPORT

for 1 January – 31 December 2018

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.-31.12.2018". In case of discrepancies, the Finnish version shall prevail.

BOARD OF DIRECTORS REPORT FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2018

Operating environment

Good growth in Finland's economy continued 2018. However, compared to the record-strong economic growth of 2017, growth slowed down. Although the growth rate of the global economy was also at a good level, the uncertainty about whether the growth would continue increased.

The Competitiveness Pact signed for the labour market in 2016 improved the price competitiveness of Finnish exports. The wage agreements signed thereafter are also moderate compared to the competitor countries.

The positive economic development in Finland's most important export countries was also reflected in the powerful export demand. The construction rate continued to be brisk, but the decline in the number of construction permits issued anticipated the slowing down of construction. The economic boost supported the employment rate, which at the end of the year reached the target level of 77 per cent set by the Government. At the same time, unemployment decreased to close to seven per cent.

A long-awaited turn was experienced in the development of indebtedness of Finland, as the strong economic growth helped decrease gearing. However, the total amount of debt continued to grow. Private households' indebtedness also continued and their savings rate was negative. Housing prices in growth centres continued to rise due to migration to the Helsinki metropolitan area, in particular, and demand by investors. Outside the growth centres, however, the demand for housing was clearly more moderate, and the price level either decreased or remained unchanged.

The Financial Supervisory Authority grew concerned about the increased indebtedness of households and tightened the cap on housing loans starting from 1 July 2018. The preparation of additional regulation of consumer credits was also initiated at the end of the year.

In the euro region, the interest rate level and outlook continued to be moderate and short-term market rates remained negative. The European Central Bank's extensive stimulus policy involving interest rates and monetary amounts has maintained a low interest rate level in the euro region for a long time. However, the first indications of a change in direction were seen during the year. The growth in the purchasing programme came to an end, and there was an upward turn in the 12-month euribor rates. However, the ECB did not yet make any changes in the key interest rates.

The regulatory changes affecting the banking sector continued in 2018. At the beginning of the year, the liquidity coverage (LCR) regulation took effect in full after the transition period, as did the Payment Services Directive (PSD2) and the IFRS 9 Financial Instruments standard. In May, the EU's General Data Protection Regulation (GDPR) and Data Protection Directive became effective. The preparation of the small investor account to facilitate direct saving in shares by households was initiated. The intention of the small investor account is to increase the popularity of saving in shares and share investment among households.

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

Bonum Bank's role as the provider of services for the banks in the amalgamation has strengthened. The funding intermediated from Bonum Bank to POP Banks intensified considerably during the year. Bonum Bank has a bond programme of EUR 750 million and in 2016, the Bank issued a three-year unsecured senior bond of EUR 100 million under the programme. The Bank also has a EUR 150 million certificate of deposit programme, and a decision was made in December to increase it to EUR 250 million. Preparations were made to diversify the amalgamation's funding sources at the end of the year. Bonum Bank has established the operations of the internal bank as an essential part of the amalgamation's intermediation of funding and the POP Banks utilise this internal credit granting opportunity regularly.

The amalgamation's corporate credit granting opportunities were strengthened by Bonum Bank through the development of a new product to be offered to the POP Banks. The product will enable the amalgamation's banks to jointly offer larger corporate credit than before. The goal is to deploy the product during the 2019 financial year.

In 2018, the utilisation of robotics in the work processes of both Bonum Bank and the POP Banks continued. Robotics allows for increased process efficiency, in addition to which it reduces manual labour and any errors resulting from it.

In addition to the central credit institution services, Bonum Bank is also responsible for issuing 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. The bank continued to improve the efficiency of card processing during the year.

The digital operations of the POP Bank Group expanded at the end of 2018 when Bonum Bank introduced the POP Pikalaina loan product to the market. The POP Pikalaina is a completely digital unsecured consumer credit, which is also offered to customers outside POP Banks.

Financial position

PERFORMANCE

Bonum Bank Plc's profit for the financial year was EUR 192 thousand (EUR 118 thousand for 1 January – 31 December 2017). The profit for the financial year 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 94,92 per cent (95,63).

The Bank's income statement developed as follows in comparison to 2017:

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017	Change-%
Interest income	4,016	3,758	6.9
Interest expenses	-1,706	-1,562	9.2
Net interest income	**2,310**	**2,196**	**5.2**
Net commissions and fees	6,235	5,037	23.8
Net investment income	466	376	23.9
Other operating income	661	612	8.2
Total operating income	**9,672**	**8,220**	**17.7**
Personnel expenses	-1,862	-1,337	39.3
Other operating expenses	-6,712	-5,936	13.1
Depreciation and amortisation on property, plant and equipment and intangible assets	-607	-588	3.3
Total operating expenses	**-9,180**	**-7,861**	**16.**8
Impairment losses on financial assets	-245	-	N/A
Impairment losses on loans and receivables	-	-210	N/A
Profit before taxes	**246**	**149**	**65.3**
Income taxes	-54	-31	75.0
Result for the period	**192**	**118**	**62.80**

Total operating income was EUR 9,672 thousand (8,220). The Bank's net interest income amounted to EUR 2,310 thousand (2,196). The increase in comparison to the previous year was 5 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 6,235 thousand (5,037). Commission income consisted mainly of payment transfer fees and income from the card business.

Net investment income increased to EUR 164 thousand (137). Net investment income includes mainly net gains from foreign currency transactions. Other operating income, totalling EUR 611 thousand (312), originated primarily from fees charged from the POP Banks for setting up Bonum Bank's central credit institution operations.

Operating expenses totalled at EUR 9,180 thousand (7,861). Personnel expenses grew to EUR 1,862 thousand (1,337). Personnel expenses consist of salary expenses, pension expenses and other indirect personnel expenses. Growth was due to an increase in the number of personnel and the nonrecurring costs arising from the change of CEO.

Other operating expenses increased in comparison to the previous year, totalling EUR 6,711 thousand (5,936). The increase was mainly due to the growth in office- and ICT expences.

BALANCE SHEET

Bonum Bank's balance sheet increased in 2018 to EUR 606,015 thousand (EUR 556,310 thousand on 31 December 2017).

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

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Assets		
Cash funds	68,137	38,281
Loans and advances to credit institutions	235,339	172,914
Loans and advances to customers	41,444	35,791
Investment assets	255,960	305,497
Intangible assets	2,629	1,833
Property, plant and equipment	26	39
Other assets	2,233	1,711
Tax assets	248	244
Total assets	**606,015**	**556,310**
Liabilities		
Liabilities to credit institutions	414,973	405,688
Liabilities to customers	9,983	4,801
Debt securities issued to the public	142,399	109,713
Other liabilities	6,604	3,682
Tax liabilities	344	456
Total liabilities	**574,302**	**524,340**
Equity		
Share capital	10,000	10,000
Reserves	20,498	20,556
Profit (loss) for previous financial years	1,215	1,414
Total equity	**31,713**	**31,970**
Total liabilities and equity	**606,015**	**556,310**

KEY FIGURES

(EUR 1,000)	31 Dec 2018	31 Dec 2017	31 Dec 2016
Cost-to-income -ratio, %	94.9	95.6	82.7
ROA	0.03	0.02	0.22
ROE	0.60	0.44	4.66
Capital adequancy ratio (TC) %	43.7	53.2	28.7
Equity ratio	5.2	5.7	4.7

FORMULAS OF KEY FIGURES

Cost-to-income -ratio, %

$$\frac{\text{Total operating expenses}}{\text{Total operating income}} \times 100$$

Return on assets (ROA), %

$$\frac{\text{Result for the period}}{\text{Balance sheet total (average of beginning and end of year)}} \times 100$$

Return on equity (ROE), %

$$\frac{\text{Result for the period}}{\text{Equity (average of beginning and end of year)}} \times 100$$

Capital adequacy ratio (TC), %

$$\frac{\text{Total capital (TC)}}{\text{Total minimum capital requirement}} \times 100$$

Equity ratio, %

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

Credit rating

S&P Global Ratings affirmed Bonum Bank's rating of BBB for long-term investment grade and A-2 for short-term investment grade in May. The outlook remains stable. 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.

Shareholdings and equity

On 31 December 2018, Bonum Bank had 900,000 shares, all of them held by the POP Bank Alliance. Bonum Bank holds no own shares.

At the end of the financial year, Bonum Bank's share capital was EUR 10,000 thousand (10,000). Equity totalled EUR 31,713 thousand (31,970).

Capital adequacy management, risk management and risk exposure

PRINCIPLES AND ORGANISATION OF RISK MANAGEMENT

The purpose of Bonum Bank 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 authorities. The management is responsible for the risk management of the daily operations within the scope of the confirmed risk limits and risk-taking authorities. 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 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 systems 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 a separate Pillar III report. The financial statements of the POP Bank Group are available from the office of POP Bank Alliance, Hevosenkenkä 3, 02600 Espoo, Finland, or online at www.poppankki.fi.

BUSINESS RISKS

Credit risks

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

At the end of the financial year, Bonum Bank's investment assets totalled EUR 255 960 thousand (304 699). 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 4 072 thousand (1 016) 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 have remained in a stable level in proportion to total credit portfolio. 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. Credit risk monitoring is based on continuous monitoring of overdue receivables and nonperforming loans, quality of the loan portfolio and the amount of expected credit losses (ECL).

The retail loan portfolio increased 15,8 % in the financial period to EUR 41 444 thousand (35 791). The portion of retail customers of the loan portfolio was 99,5 % (99,2%). Credit card loans increased 8,0 % during the financial period totaling EUR 34 970 thousand (32 373). In 2018, EUR 271 thousand (233) were recognised as credit loss on card credits. No credit losses were recognised on other banking items and they contain no non-performing receivables.

Expected credit losses (ECL) on loans and receivables decreased 3,0 % during the financial period totalling EUR 561 thousand. The accounting standards concerning impairments changed 1.1.2018, as the bank changed over to apply IFRS 9 standard. Historical data on impairments has not been revised.

Bonum Bank's receivables overdue for more than 90 days accounted for 0.80% (0.88%) of the loan portfolio. The bank's receivables overdue for 30–90 days accounted for 0.10% (0.08%) of the loan portfolio at the end of 2018.

Balance sheet items exposed to credit risk totaled EUR 300 444 thousand (341 506) at the end of 2018. Bonum Bank's off-balance sheet credit commitments amounted to EUR 108 616 thousand (101 283). These consisted primarily of unused credit card limits and POP Banks' liquidity commitments.

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

Liquidity risks

Liquidity risk can be divided into short-term liquidity risk and long-term structural financing risk. Short-term liquidity risk refers to a situation in which the bank cannot without difficulty fulfil its payment obligations. Structural financing risk refers to a refinancing risk that arises from the difference in the maturities of balance sheet receivables and liabilities.

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

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 is 100%. The LCR ratio of POP Bank amalgamation was 151,3% at the end of 2018 (142,9).

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 the 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.

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 timely monitoring of the risk exposures. 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 risks in the balance sheet, involving capital allocation 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 rate levels 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 banking book operations. Bonum Bank did not use any derivatives in 2018.

Bonum Bank monitors the interest rate risk by with present value method and dynamic income risk model on a monthly basis. The present value method measures how changes in interest rates change the constructed market value of the balance sheet. In the present value method, the market value of the balance sheet is calculated as the present value of the expected cash flows of individual balance sheet items. Interest rate sensitivity indicators are primarily used to monitor the market value changes caused by the changes in the interest rates and credit spreads of investment items in different interest rate scenarios. The income risk model predicts the future net interest income and its changes in various market rate scenarios within a time frame of five years.

Operational risks

The objective of the management of operational risks is to identify essential operational risks in the business operations and minimise their materialisation and effects. The objective is pursued by continuous personnel development, as well as comprehensive operating instructions and internal control measures, such as by segregating preparation, decision-making, implementation and control from each other, whenever possible.

The operational risks associated with the key products, services, functions, processes and systems are identified in the assessment process concerning a new product or service carried out by the business function and reviewed by the risk control function. The bank carries out annual self-assessment of operational risks on the basis of the risk assessments it performs, in which the monitoring of operational risk incidents is applied. Some of the losses caused by operational risks are hedged through insurance. Risks caused by malfunctions of information systems are prepared for through continuity planning.

Strategic risk

Strategic risk refers to losses caused by choosing 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 business plan focuses on the development of the central credit institution activities needed by the amalgamation's member banks and stabilization of new business areas.

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 objective 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 2018, Bonum Bank's own funds totalled EUR 28 845 thousand (30 288), which consisted wholly of Common Equity Tier 1 (CET1) capital.

At the end of 2018, Bonum Bank's capital adequacy ratio was 43,7 percent (53,2) and the ratio of Core Equity Tier 1 capital to risk-weighted items was 43,7 percent (53,2). Bonum Bank does not include financial year-end profits in its own funds. Bonum Bank's capital adequacy has remained high since the increase of capital at the end 2017. Capital adequacy is expected to normalize due to growth in central credit institution operations and banking business, which is expected to increase the amount of risk weighted assets.

The statutory minimum level for the capital adequacy ratio is 8% and 4.5% for CET 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.

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 2018	31 Dec 2017
Own funds		
Common Equity Tier 1 capital before deductions	31,521	31,851
Deductions from Common Equity Tier 1 capital	-2,676	-1,563
Total Common Equity Tier 1 capital (CET 1)	**28,845**	**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
Tier 1 capital (T1=CET1+AT1)	28,845	30,288
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)	**28,845**	**30,288**
Total Risk Weighted Assets	**65,955**	**56,970**
- Of which credit risk	48,624	42,213
- Of which credit valuation adjustment risk (CVA)	0	0
- Of which market risk (exchange rate risk)	1,266	998
- Of which operational risk	16,064	13,758
CET1 capital ratio (%)	43.7 %	53.2 %
T1 capital ratio (%)	43.7 %	53.2 %
Total Capital ratio (%)	**43.7 %**	**53.2 %**
Capital requirement		
Total capital	28,845	30,288
Capital requirement *	6,952	6,044
Capital buffer	21,893	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)	28,845	30,288
Total exposures	620,359	572,016
Leverage ratio, %	4.6 %	5.3 %

INTERNAL CONTROL

The purpose of internal control is to ensure that the organisation complies with regulations and carries out comprehensive risk management.

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 and that it operates efficiently and reliably. 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 3 April 2018 adopted the financial statements for 2017 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 from 29 January 2018 four members. The Board of Directors convened 19 times during the year.

Regular Board members:

Chairman of the Board until 29 January 2018	**Kirsi Salo** Managing Director
Chairman of the Board from 30 January 2018 **Member of the Board** until 29 January 2018	**Pekka Lemettinen** Managing Director
Member of the Board from 19 October 2018	**Arvi Helenius** CLO
Member of the Board until 11 October 2018	**Timo Hulkko** Director
Member of the Board	**Hanna Linna** Managing Director
Member of the Board	**Mikael Zilliacus** CLO

Bonum Bank's CEO was **Anders Dahlqvist** until 16 January 2018, acting CEO **Marjo Orrenmaa** between 17 January and 28 January 2018 and acting CEO **Kirsi Salo** from 29 January until 12 December 2018. **Pia Ali-Tolppa** was appointed new CEO 13 December 2018. CEO's deputy was **Lassi Vepsäläinen**.

On 31 December 2018, the Bank had 24 employees, of which 23 full-time with permanent employment contract and one with hourly wage. 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 **Tiia Kataja**, 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's corporate governance report is available online at https://www.poppankki.fi/en/pop-pankki-ryhma/bonum-bank-plc/bonum-bank's-management-and-control-systems.

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 thousand 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 or start-up payments. Total of EUR 78 thousand was paid as severance pay. Severance pay is not specified in the current 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. Bonum Bank's accounting is managed at Paikallispankkien PP-Laskenta Ltd., which POP Bank Group owns together with other customer banks of the company. 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.

Some 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 thousand. 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) totals EUR 100 thousand. 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

In January 2019, Bonum Bank and the Nordic Investment Bank (NIB) established a EUR 25 million loan programme for financing SMEs and environmental projects. The period of the loan programme is seven years. The Bank also issued a EUR 20 million, two-year directed bond. Bonum Bank's certificate of deposit programme was renewed in January and the size of the programme was increased to EUR 250 million.

Bonum Bank's Board of Directors is not aware of other events having taken place after the closing date that would have a material impact on the information presented in the financial statements.

Outlook for 2019

Bonum Bank's most important duties in the amalgamation of the POP Banks include serving as a central credit institution of the amalgamation and as an issuer of cards, as well as taking care of the amalgamation's payment transactions. The Bank will develop the amalgamation's funding in 2019 by growing the operations of the internal bank and by diversifying the methods to obtain financing. 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 the card processing. In addition, preparations will be made for real-time payments and the utilisation of the development opportunities introduced by the Payment Services Directive (PSD2).

In 2019, Bonum Bank will be preparing new services and products that support the business of the amalgamation banks. The centralisation of the amalgamation's services will promote the management of the cost structure and enables the automatisation of certain work stages through robotics. The development of the unsecured consumer credit product introduced at the end of 2018 and other digital business operations will be the focus areas of the bank's operations in 2019. The result for 2019 is expected to be positive.

Board of directors' proposal on the disposal of the result for the period

Bonum Bank's distributable funds amounted to EUR 19,814,896.97. Bonum Bank's Board of Directors proposes to the Annual General Meeting that the profit for the financial year, EUR 118,189.28, be entered in retained earnings and that no dividend be paid.

FINANCIAL STATEMENTS 31 DECEMBER 2018

INCOME STATEMENT

(EUR 1,000)	Note	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017	Change-%
Interest income	Note 3	4,016	3,758	6.9
Interest expenses	Note 3	-1,706	-1,562	9.2
Net interest income		**2,310**	**2,196**	**5.2**
Net commissions and fees	Note 4	6,235	5,037	23.8
Net investment income	Note 5	466	376	23.9
Other operating income	Note 6	661	612	8.2
Total operating income		**9,672**	**8,220**	**17.7**
Personnel expenses	Note 7	-1,862	-1,337	39.3
Other operating expenses	Note 8	-6,712	-5,936	13.1
Depreciation and amortisation on property, plant and equipment and intangible assets	Note 9	-607	-588	3.3
Total operating expenses		**-9,180**	**-7,861**	**16.8**
Impairment losses on financial assets	Note 14	-245	-	N/A
Impairment losses on loans and receivables	Note 14	-	-210	N/A
Profit before taxes		**246**	**149**	**65.3**
Income taxes	Note 10	-54	-31	75.0
Result for the period		**192**	**118**	**62.8**

STATEMENT OF COMPREHENSIVE INCOME

(EUR 1,000)	Note	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017	Change-%
Profit for the period		192	118	62.8
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Changes in fair value reserve				
Equity instruments	Note 25	105	-	N/A
Items that may be reclassified to profit or loss				
Changes in fair value reserve			-	N/A
Liability instruments	Note 25	-222		N/A
Available-for-sale financial assets	Note 25		168	
Total comprehensive income		**75**	**287**	**-73.9**

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

BALANCE SHEET

(EUR 1,000)	Note	31 Dec 2018	31 Dec 2017
Assets			
Cash funds	Note 15	68,137	38,281
Loans and advances to credit institutions	Note 16	235,339	172,914
Loans and advances to customers	Note 16	41,444	35,791
Investment assets	Note 17	255,960	305,497
Intangible assets	Note 18	2,629	1,833
Property, plant and equipment	Note 19	26	39
Other assets	Note 20	2,233	1,711
Tax assets	Note 21	248	244
Total assets		**606,015**	**556,310**
Liabilities			
Liabilities to credit institutions	Note 22	414,973	405,688
Liabilities to customers	Note 22	9,983	4,801
Debt securities issued to the public	Note 23	142,399	109,713
Other liabilities	Note 24	6,604	3,682
Tax liabilities	Note 21	344	456
Total liabilities		**574,302**	**524,340**
Equity			
Share capital	Note 25	10,000	10,000
Reserves	Note 25	20,498	20,556
Profit (loss) for previous financial years	Note 25	1,215	1,414
Total equity		**31,713**	**31,970**
Total liabilities and equity		**606,015**	**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**
		60		-429	-369
Equity on 1 January 2018	**10,000**	**616**	**20,000**	**985**	**31,601**
Total comprehensive income					
Profit for the period				192	192
Other comprehensive income		-118			-118
		-118		**192**	**75**
Other changes				38	38
Equity on 31 December 2018	**10,000**	**498**	**20,000**	**1,215**	**31,713**

(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					0
Profit for the period				118	118
Other comprehensive income		168			168
Other changes			10,000		10,000
Equity on 31 December 2017	**10,000**	**556**	**20,000**	**1,414**	**31,970**

CASH FLOW STATEMENT

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Cash flow from operating activities		
Profit for the period	192	118
Adjustments to result for the financial period	906	595
Increase (-) or decrease (+) in operating assets	**-16,546**	**-126,176**
Receivables from credit institutions	-59,439	-78,161
Receivables from customers	-6,086	2,788
Notes and bonds	49,501	-50,648
Other assets	-522	-155
Increase (+) or decrease (-) in operating liabilities	**49,863**	**89,293**
Liabilities to credit institutions	9,285	78,789
Liabilities to customers	5,182	1,188
Debt securities issued to the public	32,685	10,193
Provisions and other liabilities	2,711	-876
Income taxes paid	-48	-235
Total cash flow from operating activities	**34,368**	**-36,404**
Cash flow from investing activities		
Increases in other investments	-65	-
Investments in tangible and intangible assets	-1,391	-42
Total cash flow from investing activities	**-1,456**	**-42**
Cash flow from financing activities		
Equity investment	-	10,000
Total cash flow from financing activities	**0,00**	**10,000**
Change in cash and cash equivalents		
Cash and cash equivalents at beginning of period	39,297	65,744
Cash and cash equivalents at end of period	72,209	39,297
Net change in cash and cash equivalents	**32,912**	**-26,446**
Interest received	3,992	3,746
Interest paid	1,697	1,559
Dividends received	11	5
Adjustments to result for the financial year	**906**	**595**
Non-cash items and other adjustments		
Impairment losses on receivables	245	-23
Depreciation	607	588
Other	54	31
Cash and cash equivalents		
Cash funds	68,137	38,281
Receivables payable on demand from credit institutions	4,072	1,016
Total	**72,209**	**39,297**

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, 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.

Changes in presentation

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

FINANCIAL INSTRUMENTS

Classification and recognition

Financial assets are classified on initial recognition in accordance with IFRS 9 Financial instruments into the following measurement categories based on the business model applied to their management and debt instruments' cash flow characteristics:

- Financial assets at amortised cost
- Financial assets at value through other comprehensive income
- Financial assets at fair value through profit and loss

Financial liabilities are classified on initial recognition in accordance with IFRS 9 Financial instruments to following measurement categories:

- Financial liabilities at amortised cost
- Financial liabilities at fair value through profit and loss

On initial recognition, all financial assets and financial liabilities are recognised at fair value. Transaction costs related to financial instruments are included in the acquisition cost.

Purchases and sales of financial instruments are recognised on the transaction date. Loans granted are recognised in the balance sheet on the date when the customer draws down the loan. Instruments issued are recognised in the balance sheet at the latest on the date when the customer makes the subscription.

Financial assets and financial 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 financial liabilities on the balance sheet.

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 so that substantially all the risks and rewards of ownership of the financial asset are transferred. If a consideration is received, but all the risks and rewards of ownership of the transferred asset are substantially retained, the transferred asset is recognised in its entirety and a financial liability is recognised for the consideration received.

Impaired financial assets are derecognised when no further payments are expected and the actual final loss can be determined. In connection with derecognition, the previously recognised expected credit loss is cancelled and the final credit loss is recognised. Payments on derecognised receivables received later are recognised in the income statement as an adjustment of impairment losses.

Financial liabilities are derecognised when the related obligations have been fulfilled and they have been extinguished. An exchange of a debt instrument with substantially different terms or substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Business models for managing financial assets and measurement

According to the IFRS 9, an entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

In Bonum Bank, financial assets are managed according to three business models:

1. Financial assets held (objective to collect cash flows)

2. Combination of financial assets held and sold (objective to collect cash flows and sale)

3. Other long term investments

Financial assets held -business model includes loans and receivables and debt instruments held to maturity, which pass the SPPI-test (Solely Payments of Principal and Interest) for their cash flow charasteristics. In the SPPI test it is determined whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

Combination -business model includes debt instruments with contractual cash flows solely payments of principal and interest, held to maturity or close to maturity or sold for example to reach the targets of the investment strategy.

Other long term investments -business model includes shares and other instruments, whose cash flows do not consist solely on payments of principal and interest.

Bonum Bank doesn't actively trade financial assets. The purpose of Bonum Bank's investment activities is to invest liquidity surplus with long-term objective and to maintain investment portfolio for liquidity purposes.

Financial assets measured at amortised cost

Financial assets measured at amortised cost includes loans and receivables and the debt instruments, which are, according to the investment policy, intended to be held to maturity with terms of regular payments of interest and principal either in part or entirety (SPPI test). Also liquid assets of which the liquidity does not have to be tested by regular sales may be classified to this measurement class.

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income includes debt instruments, which are, according to the investment policy, intended to be held to collect contractual cash flows or sold, if necessary, for reaching the objectives of the business model (combination -business model). Classification requires, that the contractual terms of the instrument include regular payments of interest and principal either in part or in entirety (SPPI test). Among other things, investments which can be sold to cover liquidity needs, for example, and liquid assets which have to be tested on regular sales in order to demonstrate the liquidity of those assets are classified to this measurement class.

Changes in financial instrument's fair value is recognised in items of other comprehensive income. The increase and decrease on expected credit losses is recognised in income statement and in items of other comprehensive income. Profit and loss from foreign currencies are also recognised in other comprehensive income. When sold, the chance in fair value as well as the profit and loss from foreign currencies are recognised from other comprehensive income to net investment income in the income statement and expected credit loss in impairment losses on financial assets in the income statement.

Financial assets measured at fair value through profit or loss

Financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. Financial assets measured at fair value through profit or loss includes shares and participations and debt instruments, that do not meet the SPPI test with the exception of shares measured at fair value through other comprehensive income.

Bonum Bank does not have financial assets held for trading purposes or Financial assets measured at fair value through profit or loss.

Equity instruments assets 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. The exception is adopted to investments in shares regarded stratetig to Bonum Bank's business operations.

Changes in fair value are recognised in other comprehensive income. In case such an investment is subsequently sold, the result for sale is recognised in equity. The election may be made only at initial recognition and it is irrevocable.

Financial liabilities measured at amortised cost

Bonum Bank's financial liabilities are measured at amortised cost according to the effective interest rate method. Financial liabilities measured at amortised cost includes deposits and debt securities issued to the public as well as other financial liabilities.

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss may include derivative liabilities. Bonum Bank does not have these items on reporting day. Bonum Bank has not applied the possibility to designate liabilities at fair value through profit or loss.

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 of financial assets

A loss allowance on financial assets measured at amortised cost or fair value through other comprehensive income and off-balance sheet credit commitments are recognised on the basis of expected credit losses. The expected credit loss of a financial instrument is determined as the difference between the contractual cash flows that the entity is entitled to receive under the contract and the cash flows expected to be received by the entity at the original effective interest rate at the time of reporting.

To determine expected credit losses, financial instruments are classified in stages 1-3. Stage 1 represents financial instruments whose credit risk has not increased significantly since the initial recognition. Expected credit losses are determined for such financial instruments based on expected loan losses for 12 months. Stage 2 represents financial instruments whose credit risk has increased significantly after the initial recognition on the basis of qualitative or quantitative criteria and, for stage 3, financial instruments whose counterparty has been declared as default. Expected credit losses are determined for financial instruments classified in Stage 2 and 3 based on expected credit losses over the entire life of the instrument.

Calculating expected credit losses in Bonum Bank is based on three main segments:

– Private customers
– Corporate customers
– Investment portfolio

The calculation of expected credit losses is based on the probability of default (PD), the loss ratio (LGD, loss given default) and the exposure at default (EAD) for each segment. The probability of default (PD) is measured by the historical credit rating model estimated by historical data. The credit rating models are defined for the four main segments described above, of which the rating model for agricultural customers is based on expert valuation-based PD values. Loss given default (LGD) refers to the expected portion of the loan loss on the remaining capital if the counterparty is classified as default. The parameters for calculating loss shares in the POP Bank Group are determined on the basis of expert estimates. The exposure at default (EAD) is calculated for each loan and off-balance sheet item separately on the basis of repayments under the terms of the contract, with the exception of contracts without maturity whose life cycle is determined on the basis of expert judgment. In the EAD calculation of off-balance sheet items, CCF coefficients shall be applied in accordance with the standardised credit risk standard for credit risk calculation, with the exception of card credits for which a CCF value has been determined on the basis of expert judgment.

Expected credit losses are calculated over 12 months in the stage 1. As the credit risk increases significantly after the initial origination, the contract is transferred from stage 1 to stage 2 and the expected credit losses are calculated throughout the lifetime of the contract. The credit risk is considered to have increased significantly, when forbearance measures to the contract have been made less than 12 months ago, contract has been overdue for more than 30 days, or another qualitative risk factor has been identified in the customer's situation. In addition, the credit risk is considered significantly increased if the counterparty credit rating has deteriorated significantly. The threshold value determined by expert estimation of significant impairment is based on the change in PD value between the time of reporting and the time of the contract origination.

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 reorganisation process

Liabilities classified as default are classified in stage 3 of IFRS 9. POP Banks do not have contracts that are originated as impaired.

If the customer has not fulfilled the criteria for default for at least 3 months, the customer's liability will be returned to either stage 2 or stage 1, depending on whether the exposures meet a significant increase in the credit risk criteria at the time of return. The contract will return from stage 2 to stage 1 without a separate trial period if the contract no longer meets the criteria for significant credit risk growth.

Predictable credit losses are estimated using reasonably available future information. For the purpose of calculating expected credit losses, the POP Bank Group has developed a model based on three macroeconomic scenarios and related implementation probabilities to correct the parameters used in the calculation when estimating expected credit losses. The macroeconomic scenarios are based on the projected growth rate of Finland's Gross Domestic Product over the next three years.

To financial assets at fair value through profit or loss other than IFRS 9, POP Bank Group applies an exception, where all instruments with a low credit risk are classified in stage 1 and instruments with higher credit risk are classified in stage 2. Only investment grade instruments can be classified in stage 1.

A loss allowance on financial assets recognised at amortised cost and fair value through other comprehensive income and for off-balance sheet items is recognised in the income statement. Loss allowance in the income statement consists of the expected credit loss calculated for the financial asset, where the expected credit losses previously recognised have been deducted. A loss allowance is cancelled if a final credit loss is recognised for the financial asset. The loss allowance on financial assets recognised at amortised cost reduces the carrying amount of the financial assets. The loss allowance for financial assets at fair value through other comprehensive income is recognised in the statement of comprehensive income. Loss allowance on off-balance sheet commitments is recognised as a provision in other provisions and liabilities.

ACCOUNTING POLICIES FOR FINANCIAL INSTRUMENTS UNDER THE COMPARISON PERIOD

Under the comparison period, IAS 39 Financial instruments: Recognition and Measurement was applied to financial instruments. Implementation of the new IFRS 9 Financial instruments -standard 1 January 2018 has been presented in chapter "New IFRS standardis and implementations".

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.

Available-for-sale financial assets

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.

Investments held to maturity

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.

Loans and receivables

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.

Other financial liabilities

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.

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.Aineelliset hyödykkeet

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
Impairment losses on financial assets	Impairment losses on financial assets, expected credit losses and realised credit losses and cancellations of credit losses

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

Adoption of new standards

<u>Adoption of ifrs 9 financial instruments on 1 january 2018</u>

Bonum Bank has applied the standard IFRS 9 Financial Instruments from 1 January 2018. The standard has not been applied retrospectively, so comparative figures have not been restated and are mainly presented according to IAS 39.

Classification and measurement

When adopting IFRS 9, financial assets were reclassified from IAS 39 measurement classes as presented below:

IAS 39 Measurement class		IFRS 9 Measurement class
Available-for-sale assets	→	Financial assets at fair value through other comprehensive income
Loans and receivables	→	Financial assets at amortised cost

Loans and receivables from customers and deposits from other credit institutions are continued to be measured at amortised cost. The bank did not have investments held to maturity at the date of adoption and it did not reclassify IAS 39 available-for-sale assets to assets at amortised cost.

Bonum Bank's debt instruments have been reclassified from IAS 39 available-for-sale assets to financial assets at fair value through other comprehensive income. All equity instruments are measured at fair value. 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 stratetig. In case such an investment is subsequently sold, the result for sale is recognised in equity. Bonum Bank has no other investments in shares at the reporting date.

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

Impairment

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.

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.

Effects of implementation

On reclassification of assets, the financial assets were revalued according to the IFRS 9. Revaluation did not have an effect on carrying amounts of assets measured at fair value. Main changes due to implementation of IFRS 9 concern the impairment of financial assets. Expected credit losses at 1 January 2018 amounted to EUR 653 thousand. At the end of the reporting period, 31 December 2018, expected credit losses amounted to EUR 628 thousand.

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 at amortised cost.

The reclassification had an impact on equity. Expected credit losses on financial assets at amortised cost reduced retained earnings. Also expected credit losses on financial assets at fair value through other comprehensive income reduced retained earnings. As the amount recognised in fair value reserve was amended accordingly, the expected credit losses had no effect on the total amount of equity.

The effect of implementation on Bonum Bank's equity is presented on the table below:

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

(EUR 1,000)	31 Dec 2017	Revaluation	31 Dec 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

The new standard includes a five-step model applied to determine when to recognise revenue on contracts with customers. The new standard has replaced earlier IAS 18 and IAS 11 -standards and related interpretations. Revenue is recognised either over time or at a point in time with transfer of control as a central criterion. The standard has also introduced extensive new disclosure requirements. The standard had no material impact on Bonum Bank's financial statements.

Other new standards and amendments had no impact on Bonum Bank's financial statements.

Adoption of new and amended standard in future financial years

In the financial period starting 1 January 20189 Bonum Bank will adopt the following new standards of IASB starting from their entry into force.

IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019)

The new standard replaces the current IAS 17 –standard and related interpretations. The new standard requires the lessees to recognise the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contacts in which the lease term is 12 months or less, or to low value items. The lessor accounting remains mostly similar to current IAS 17 accounting.

The standard is applied to Bonum Bank's business premises. Bonum Bank will adopt the exceptions of the standard to computers on basis of their low value. Implementation of the standard will increase Bonum Bank's assets and liabilities with approximately EUR 230 thousand. The implementation has no impact on Bonum Bank's equity. The standard has no material impact on Bonum Bank's capital adequacy.

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 interpretation has no impact on Bonum 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 2018.

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's risk management and capital adequacy management are an essential aspect of the bank's daily business management and internal control. Bonum Bank 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 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 a separate Pillar III report. 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 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 covered 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 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 2018, Bonum Bank's own funds totalled EUR 28 845 thousand (30 288), which consisted wholly of Common Equity Tier 1 (CET1) capital.

At the end of 2018, Bonum Bank's capital adequacy ratio was 43,7 percent (53,2) and the ratio of Core Equity Tier 1 capital to risk-weighted items was 43,7 percent (53,2). Bonum Bank does not include financial year-end profits in its own funds. Bonum Bank's capital adequacy has remained high since the increase of capital at the end 2017. Capital adequacy is expected to normalize due to growth in central credit institution operations and banking business, which is expected to increase the amount of risk weighted assets.

The statutory minimum level for the capital adequacy ratio is 8 percent and 4.5% for CET 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.

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 2018	31 Dec 2017
Own funds		
Common Equity Tier 1 capital before deductions	31,521	31,851
Deductions from Common Equity Tier 1 capital	-2,676	-1,563
Total Common Equity Tier 1 capital (CET 1)	**28,845**	**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**
Tier 1 capital (T1=CET1+AT1)	**28,845**	**30,288**
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)	**28,845**	**30,288**
Total Risk Weighted Assets	**65,955**	**56,970**
- Of which credit risk	48,624	42,213
- Of which credit valuation adjustment risk (CVA)	0	0
- Of which market risk (exchange rate risk)	1,266	998
- Of which operational risk	16,064	13,758
CET1 capital ratio (%)	43.7 %	53.2 %
T1 capital ratio (%)	43.7 %	53.2 %
Total Capital ratio (%)	**43.7 %**	**53.2 %**
Capital requirement		
Total capital		
Capital requirement *		
Capital buffer		

* 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)	28,845	30,288
Total exposures	620,359	572,016
Leverage ratio, %	4.6 %	5.3 %

BUSINESS RISKS

Credit risk

Credit risk refers to a counterparty failing to fulfil its payment obligations as agreed. 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.

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. Balance sheet items exposed to credit risk totaled EUR 301 476 thousand (341 506) at the end of 2018. Bonum Bank's off-balance sheet credit commitments amounted to EUR 108 616 thousand (101 283). These consisted primarily of unused credit card limits and POP Banks' liquidity commitments. The Pillar I capital reserves in Bonum Bank's credit and counterparty risk account for approximately 73,7 % of all Pillar I capital reserves.

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 255 960 thousand (304 699). 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 4 072 thousand (1 016) of current cash at bank.

Credit risk exposure in banking activities remained stable and its risk level moderate. The credit losses of the credit card business have remained in a stable level in proportion to total credit portfolio. 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. Credit risk monitoring is based on continuous monitoring of overdue receivables and nonperforming loans, quality of the loan portfolio and the amount of expected credit losses (ECL).

The retail loan portfolio increased 15,8 % to EUR 41 444 thousand (35 791) in the financial period. The portion of retail customers of the loan portfolio was 99,5 % (99,2%). Credit card loans increased 8,0 % during the financial period totaling EUR 34 970 thousand (32 373).

Problem loans and impairments

In 2018, EUR 271 thousand (233) were recognised as credit loss on card credits. No credit losses were recognised on other banking items and they contain no non-performing receivables.

Overdue receivables (EUR 1,000)	31 Dec 2018	31 Dec 2017
31-90 days	40	28
Over 90 days	331	315
Total	**371**	**342**

Bonum Bank's receivables overdue for more than 90 days accounted for 0.80% (0.88%) of the loan portfolio. The bank's receivables overdue for 30–90 days accounted for 0.10% (0.08%) of the loan portfolio at the end of 2018.

Expected credit losses (ECL) on loans and receivables decreased 3,0 percent during the financial period totalling EUR 561 thousand. Receivables with payments over 90 days overdue are categorized to ECL stage three. The accounting standards concerning impairments changed 1.1.2018, as the bank changed over to applying IFRS 9 standard. Historical data on impairments has not been revised. Expected credit loss amounts and changes during the financial period are presented in note 14.

Risk concentrations

Credit concentration risk arises when credit 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 collateral held for credit is similar.

The total amount of credit granted by Bonum Bank to a single customer and/or group of connected clients 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 2018	31 Dec 2017
From central banks	68,137	70,179
Governments and public bodies	215,868	258,290
Credit institutions	33,143	41,433
From companies	9,989	5,992
Total	**327,137**	**375,894**

To illustrate Bonum Bank's credit exposure and risk concentrations, individual exposures have been divided into eight risk classes by PD (probability of default) values representing their default probability. In the table below, receivables from retail customers, investment receivables and off balance sheet items have been presented by risk class and ECL staging defined in expected credit loss methodology. Furthermore, the table presents the upper and lower limit of PD's in each risk class.

Loans and advances to Credit Institutions by risk class and staging (IFRS 9) 31 Dec 2018

(EUR 1,000)	PD					
Risk Class	Lower Limit	Upper Limit	Stage 1	Stage 2	Stage 3	Total
1	0.00	0.15	171,750	-	-	171,750
2	0,.15	0.30	27,000	-	-	27,000
Total			**198,750**	**0**	**0**	**198,750**

Loans and advances to Credit Institutions by risk class and staging (IFRS 9) 01 Jan 2018

(EUR 1,000)	PD-luku					
Risk Class	Lower Limit	Upper Limit	Stage 1	Stage 2	Stage 3	Total
1	0.00	0.15	54,000	-	-	54,000
2	0.15	0.30	86,000	-	-	86,000
Total			**140,000**	**0**	**0**	**140,000**

Loans and advances to credit institutions consist of POP Bank amalgamation internal receivables, which grew 42,2 percent in the financial period.

Loans and advances to customers by risk class and staging (IFRS 9) 31 Dec 2018

(EUR 1,000)	PD					
Risk Class	Lower limit	Upper limit	Stage 1	Stage 2	Stage 3	Total
1	0.00	0.15	126	0	-	126
2	0.15	0.30	21,852	0	-	21,852
3	0.30	0.80	1,835	40	-	1,875
4	0.80	1.50	10,160	99	-	10,259
5	1.50	5.00	5,381	451	-	5,831
6	5.00	25.00	508	778	-	1,286
7	25.00	100.00	19	12	-	31
8	100.00	100.00	-	-	579	579
Total			**39,880**	**1,381**	**579**	**41,839**

Loans and advances to customers by risk class and staging (IFRS 9) 01 Jan 2018

(EUR 1,000)	PD					
Risk Class	Lower limit	Upper limit	Stage 1	Stage 2	Stage 3	Total
1	0.00	0.15	232	0	-	232
2	0.15	0.30	19,063	0	-	19,063
3	0.30	0.80	1,585	25	-	1,609
4	0.80	1.50	8,545	73	-	8,619
5	1.50	5.00	4,881	406	-	5,287
6	5.00	25.00	51	534	-	585
7	25.00	100.00	-	3	-	3
8	100.00	100.00	-	-	572	572
Total			**34,357**	**1,042**	**572**	**35,970**

Customer receivables consist mainly of card credit (85,0%). The share of three lowest risk classes (classes 6-8) grew to 4,5 percent of the total portfolio (3,2). The combined share of Stage 2 and 3 accounted for 4,7 percent of the total portfolio (4,5).

Off balance sheet items by risk class and staging (IFRS9) 31 Dec 2018

(EUR 1,000)	PD					
Risk Class	Lower limit	Upper limit	Stage 1	Stage 2	Stage 3	Total
1	0.00	0.15	57,037	231	-	57,268
2	0.15	0.30	35,585	167	-	35,752
3	0.30	0.80	2,446	150	-	2,596
4	0.80	1.50	7,013	17	-	7,030
5	1.50	5.00	3,085	548	-	3,633
6	5.00	25.00	60	482	-	542
7	25.00	100.00	0	8	-	8
8	100.00	100.00	-	-	292	292
Total			**105,226**	**1,602**	**292**	**107,120**

Off balance sheet items by risk class and staging (IFRS9) 01 Jan 2018

(EUR 1,000)	PD					
Risk Class	Lower limit	Upper limit	Stage 1	Stage 2	Stage 3	Total
1	0.00	0.15	34,278	18,642	-	52,920
2	0.15	0.30	32,499	3,419	-	35,918
3	0.30	0.80	1,523	151	-	1,674
4	0.80	1.50	6,343	8	-	6,351
5	1.50	5.00	2,648	506	-	3,154
6	5.00	25.00	35	266	-	302
7	25.00	100.00	0	2	-	2
8	100.00	100.00	-	-	292	Total 292
Total			**77,327**	**22,994**	**292**	**100,613**

Off balance sheet items consists mainly of unused credit card limits (79.7%) and group internal items (19.7%).

Investment assets by risk class and staging (IFRS 9) 31 Dec 2018

(EUR 1,000)	PD					
Risk Class	Lower limit	Upper limit	Stage 1	Stage 2	Stage 3	Total
1	0.00	0.15	226,500	3,000	-	229,500
2	0.15	0.30	19,050	3,000	-	22,050
3	0.30	0.80	-	3,000	-	3,000
4	0.80	1.50	-	-	-	0
Total			**245,550**	**9,000**	**0**	**254,550**

Investment assets by risk class and staging (IFRS 9) 01 Jan 2018

(EUR 1,000)	PD					
Risk Class	Lower limit	Upper limit	Stage 1	Stage 2	Stage 3	Total
1	0.00	0.15	275,700	1,500	-	277,200
2	0.15	0.30	24,550	-	-	24,550
3	0.30	0.80	-	-	-	0
4	0.80	1.50	-	2,000	-	2,000
Total			**300,250**	**3,500**	**0**	**303,750**

Investment assets included in the liquidity portfolio are classified to the three highest risk classes. Investments classified to Stage 2 are corporate notes used in liquidity management.

Liquidity risk

Liquidity risk refers to Bonum Bank's ability to fulfil its commitments. Liquidity risk can be divided into short term liquidity risk and long-term structural financing risk. Short-term liquidity risk refers to a situation in which the bank cannot without difficulty fulfil its payment obligations. Structural financing risk refers to a refinancing risk that arises from the difference in the maturities of balance sheet receivables and liabilities.

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

Balance sheet items considered as liquid assets (EUR 1,000)	31 Dec 2018	31 Dec 2017
Debt securities eligible for refinancing with central banks	**58,901**	**52,837**
From general government	29,830	23,322
From credit institutions	29,071	29,515
Other notes and bonds	**196,027**	**251,861**
From general government and municipalities	186,038	234,968
From credit institutions	0	10,901
From companies	9,989	5,992
Deposits	**72,209**	**71,195**
Fixed-term	0	0
Repayable on demand	4,072	1,016
Balances at central banks	68,137	70,179
Total	**327,137**	**375,894**

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 key ratio for measuring liquidity risk is the liquidity coverage ratio (LCR), specified in the EU's Capital Requirements Regulation. The regulatory minimum requirement for the LCR is 100%. The LCR ratio of POP Bank amalgamation was 151,3% at the end of 2018 (142,9). Bonum Bank managed LCR-eligible liquid assets totaled EUR 362 431 thousand, of which 100.0 percent were L1 eligible liquid assets.

Liquidity Coverage Ratio (EUR 1,000)	31 Dec 2018	31 Dec 2017
Liquid assets (LCR)	362,431	314,421
Net cash outflow	239,557	220,075
Liquidity coverage ratio (LCR)	**151.3 %**	**142.9 %**

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 2016. At the end of 2018, total face value of Bonum Bank issued certificate of deposits was EUR 42,5 million . Bonum Bank will prepare for growing the amalgamation's wholesale funding.

Maturity distribution of financial assets 31 Dec 2018 (EUR 1,000)	Under 3 months	3-12 months	1-5 years	Over 5 years	Total
From central banks	100,724	-	-	-	100,724
Available-for-sale financial assets	124,508	73,522	53,401	3,497	254,928
Loans and receivables from customers	35,464	9	351	5,900	41,723
Loans and receivables from credit institutions	38,822	139,000	25,000	-	202,822
Total	**299,518**	**212,531**	**78,752**	**9,397**	**600,197**

Maturity distribution of financial liabilities 31 Dec 2018 (EUR 1,000)	Under 3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits	9,983	-	-	-	9,983
Issued debt instruments	19,998	122,400	-	-	142,399
Liabilities to credit institutions	328,687	23,800	62,486	-	414,973
Total	**358,668**	**146,200**	**62,486**	**0**	**567,355**

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**

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 timely monitoring of the risk exposures. 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 risks in the balance sheet, involving capital allocation for market risks.

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 rate levels 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 banking book operations. Bonum Bank did not use any derivatives in 2018.

Bonum Bank monitors the interest rate risk with present value method and dynamic income risk model on a monthly basis. The present value method measures how changes in interest rates change the constructed market value of the balance sheet. In the present value method, the market value of the balance sheet is calculated as the present value of the expected cash flows of individual balance sheet items. Interest rate sensitivity indicators are primarily used to monitor the market value changes caused by the changes in the interest rates and credit spreads of investment items in different interest rate scenarios. The income risk model predicts the future net interest income and its changes in various market rate scenarios within a time frame of five years.

The impact of the interest rate risk on operating income has been calculated as a change to the 12-month forecast of the net interest income, assuming one percentage point upward or downward parallel interest rate level shift. The effect on own funds has been determined through present value change in balance sheet with the same interest rate shocks.

Interest rate sensitivity analysis, effect of 1 percentage point parallel change in interest rate			
31 Dec 2018 (EUR 1,000)	Change	Effect on result	Effect on equity
Interest rate risk	+1 percentage point	-416	551
Interest rate risk	-1 percentage point	415	365

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

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 also 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 product management process. 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 potential 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 2018, 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.

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 business plan focuses on the development of the central credit institution activities needed by the amalgamation's member banks and stabilization of new business areas.

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 2018	1 Jan - 31 Dec 2017
Interest income		
On receivables and debts from credit institutions	2,073	1,839
On receivables from customers	1,768	1,732
On notes and bonds	174	187
Other interest income	0	0
Total interest income	**4,016**	**3,758**
Of which negative interest expense	1,124	980
Interest expenses		
On receivables and debts to credit institutions	-160	-224
On receivables and debts to customers	-587	-360
On debt securities issued to the public	-958	-974
Other interest expenses	0	-3
Total interest expenses	**-1,706**	**-1,562**
Of which negative interest income	-735	-569
Net interest income	**2,310**	**2,196**

NOTE 4 NET COMMISSIONS AND FEES

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Fee and commission income		
Lending	48	26
Card business	5,866	5,080
Payment transfers	3,817	3,121
Other	1	6
Total fee and commission income	**9,732**	**8,233**
Fee and commission expenses		
Card business	-2,692	-2,456
Securities	-771	-715
Other	-34	-25
Total fee and commission expenses	**-3,497**	**-3,196**
Net commissions and fees	**6,235**	**5,037**

NOTE 5 NET INVESTMENT INCOME

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Fair value through other comprehensive income		
Notes and bonds		
Gains and losses from sales	-5	2
Transferred from fair value reserve	161	131
Shares and participations		
Dividend income	11	-
Fair value through other comprehensive income total	**168**	**132**
Net income from available-for-sale financial assets		
Shares and participations		
Dividend income	-	5
Net income from available-for-sale financial assets total	**0**	**5**
Net gains from foreign currency transactions	**298**	**239**
Total net investment income	**466**	**376**

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

NOTE 6 OTHER OPERATING INCOME

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Business development fees from banks	440	440
Central credit institution services excl. payment transfer	81	50
Other income	141	122
Total other operating income	**661**	**612**

NOTE 7 PERSONNEL EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Salaries and remuneration	-1,552	-1,097
Indirect personnel expenses	-41	-34
Pension costs		
Defined contribution plans	-269	-206
Total personnel expenses	**-1,862**	**-1,337**

Remunerations to related parties are presented in Note 29.

NOTE 8 OTHER OPERATING EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Other administrative expenses		
Other personnel expenses	-148	-144
Office expenses	-586	-282
ICT expenses	-5,235	-4,874
Telecommunications	-211	-234
Entertainment and marketing expenses	-22	-18
Other administrative expenses total	**-6,202**	**-5,552**
Other operating expenses		
Rental expenses	-195	-185
Audit fees	-17	-15
Other	-298	-184
Other operating expenses total	**-510**	**-384**
Total other operating expenses	**-6,712**	**-5,936**

Audit fees		
Statutory audit	-16	-12
Other expert services	-1	-3
Total audit fees	**-17**	**-15**

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

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Machinery and equipment	-19	-20
Intangible assets	-588	-568
Total depreciation of property, plant and equipment and intangible assets	**-607**	**-588**

NOTE 10 INCOME TAXES

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Current tax	3	-43
Tax for prior financial years	-4	0
Withholding tax paid outside Finland	-3	1
Change in deferred tax assets	-124	-60
Change in deferred tax liabilities	74	74
Total income taxes	**-54**	**-31**
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 2018	1 Jan - 31 Dec 2017
Accounting profit before tax	246	149
Tax calculated at the tax rate	-49	-30
+ Tax-exempt income	0	0
- Non-deductible expenses	-1	-1
- Taxable income not included in the profit	0	0
+ Deductible expenses not included in the profit	1	1
+ Use of tax losses carried forward from previous years	0	0
- Deferred tax assets not recognised on losses	0	0
- Tax for prior financial years	-4	0
Taxes in the income statement	**-54**	**-31**

NOTE 11 NET INCOME AND EXPENSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Financial assets		
At fair value through other comprehensive income (IFRS 9)		
Interest income ja expenses	-419	-
Transferred from fair value reserve	161	-
Dividend income	11	-
Capital gains and losses	-5	-
Expected credit loss	8	-
Total	**-244**	**0**
Available-for-sale financial assets		
Interest income ja expenses	-	187
Transferred from fair value reserve	-	131
Dividend income	-	5
Capital gains and losses	-	2
Impairment losses	-	-
Total	**0**	**324**
Items measured at amortised cost (IFRS9)/Loans and other receivables		
Interest income ja expenses	3,688	3,571
Other income	1,489	1,163
Impairment losses on loans and other receivables (IAS 39)	-	23
Expected credit loss (IFRS 9)	17	-
Total	**5,193**	**4,757**
Financial liabilities		
Items measured at amortised cost		
Interest income ja expenses	-958	-1,562
Total	**-958**	**-1,562**
Net gains from foreign currency transactions	**298**	**239**
Other operating income and expenses	-4,043	-3,608
Profit before taxes	**246**	**149**

Notes to assets

NOTE 12 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets 31 December 2018

(EUR 1,000)	Amortised cost	Fair value through other comprehensive income	Expected Credit Loss	Total carrying amount
Cash funds	68,137			68,137
Loans and receivables from credit institutions to credit institutions	235,410		71	235,339
Loans and receivables to customers	41,723		279	41,444
Notes and bonds *)		254,928		254,928
Shares and participations		1,032		1,032
Total financial assets	**345,270**	**255,960**	**350**	**600,880**
Other assets				5,136
Total assets 31 December 2018				**606,015**

*) Expected credit loss on notes and bonds EUR 67 thousand.

Financial assets 31 December 2017

(EUR 1,000)	Loans and receivables	Available-for-sale	Total
Cash funds	38,281		38,280
Loans to and receivables from credit institutions	172,914		172,914
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**
Other assets			3,826
Total assets 31 December 2017			**556,310**

Bonum Bank's minimum reserves in Bank of Finland 31 December 2017 have been transferred from cash funds to receivables from credit institutions.

Financial liabilities 31 December 2018

(EUR 1,000)	Measured at amortised cost	Total
Liabilities to credit institutions	414,974	414,973
Liabilities to customers	9,983	9,983
Debt securities issued to the public	142,399	142,399
Total financial liabilities	**567,355**	**567,355**
Other liabilities		6,948
Total liabilities 31 December 2018		**574,302**

Financial liabilities on 31 December 2017

(EUR 1,000)	Other financial liabilities	Total
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 2017		**524,340**

NOTE 13 FAIR VALUES BY VALUATION TECHNIQUE

Fair values of financial assets and financial liabilities on 31 December 2018

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets measured at fair value through other comprehensive income					
Shares and participations	-	-	1,032	1,032	1,032
Notes and bonds	58,901	196,027	-	254,928	254,928
Financial assets measured at amortised cost					
Loans and other receivables	-	276,783	-	276,783	276,783
Financial assets total	**58,901**	**472,810**	**1,032**	**532,743**	**532,743**
Financial liabilities measured at amortised cost					
Debt securities issued to the public	100,425	42,500	-	142,925	142,399
Other financial liabilities	-	424,956	-	424,956	424,956
Financial liabilities total	**100,425**	**467,456**	**0**	**567,881**	**567,355**

Fair values of financial assets and financial liabilities on 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 other receivables	-	208,916	-	208,916	208,706
Financial assets total	**52,837**	**460,777**	**798**	**514,413**	**514,203**
Financial liabilities measured at amortised cost					
Debt securites issued to the public	101,382	10,003	-	111,385	109,713
Other financial liabilities	-	410,489	-	410,489	410,489
Financial liabilities total	**101,382**	**420,492**	**0**	**521,874**	**520,202**

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 financial assets classified into level 3

(EUR 1,000)	2018
Carrying amount 1 Jan.	798
+ Purchases	65
+/- Changes in value recognised in comprehensive income statement	169
Carrying amount 31 Dec	**1,032**

Sensitivity analysis of financial instruments at level 3

31 December 2018

	Carrying amount	Possible effect on equity capital	
(EUR 1,000)		Positive	Negative
Financial assets measured at fair value through other comprehensive income	1 032	155	-155

31 December 2017

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

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 14 IMPAIRMENT LOSSES ON FINANCIAL ASSETS

Changes in expected credit loss (ECL) during the financial period have been presented in the table below.

Loans and receivables from customers and off-balance sheet commitments

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 January 2018	**222**	**103**	**252**	**578**
Transfers to stage 1	36	-85	-95	-144
Transfers to stage 2	-3	13	-33	-23
Transfers to stage 3	-2	-1	160	157
Increases due to origination	92	22	37	150
Decreases due to derecognition	-22	-8	-83	-113
Changes due to change in credit risk (net)	-44	-2	-29	-76
Decreases due to write-offs	-	-	31	31
Total	56	-62	-12	-17
ECL 31 December 2018	**279**	**42**	**241**	**561**

Notes and bonds

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 January 2018	**66**	**9**	**0**	**75**
Changes due to origination and acquisition	52	7	0	59
Changes due to derecognition	-49	-9	0	-59
Changes due to change in credit risk (net)	-9	0	0	-9
Total	-6	-2	0	-8
ECL 31 December 2018	**60**	**7**	**0**	**67**

Impairment losses recorded on financial period

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Decreases of ECL due to write-offs	0	-
Change of ECL, loans and receivables and off-balance sheet items	17	-
Change of ECL, notes and bonds	8	-
Change in collectively assessed impairment losses	-	23
Final credit losses	-271	-233
Impairment losses on loans and receivables	**-245**	**-210**

Accrued impairment losses on loans and receivables in the balance sheet (IAS 39)

(EUR 1,000)	
Impairment losses 1 January 2017	140
+/- Change in collectively assessed impairment losses	-13
Impairment losses 31 December 2017	**126**

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

NOTE 15 CASH FUNDS

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Receivables from central banks repayable on demand	68,137	38,281
Total cash funds	**68,137**	**38,281**

A current account at the Bank of Finland is included in cash funds. Bonum Bank's minimum reserves in Bank of Finland 31 December 2017 have been transferred from cash funds to receivables from credit institutions.

NOTE 16 LOANS AND RECEIVABLES

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Loans and receivables from credit institutions		
Deposits		
Repayable on demand	4,072	1,016
Other	231,267	171,898
Total loans and receivables from credit institutions	**235,339**	**172,914**
Loans and receivables from customers		
Loans	5,815	3,119
Credit card receivables	34,970	32,373
Other receivables	658	299
Total loans and receivables from customers	**41,444**	**35,791**
Total loans and receivables	**276,783**	**208,706**

Bonum Bank's minimum reserves in Bank of Finland 31 December 2017 have been transferred from cash funds to receivables from credit institutions.

NOTE 17 INVESTMENT ASSETS

(EUR 1,000)	31 Dec 2018	31 Dec 2017
At fair value through other comprehensive income (IFRS 9)		
Notes and bonds	254,928	-
Shares and participations	1,032	-
Available-for-sale financial assets (IAS 39)		
Notes and bonds	-	304,699
Shares and participations	-	798
Investment assets total	**255,960**	**305,497**

Investments on 31 Dec 2018

(EUR 1,000)	At fair value through other comprehensive income		
	Notes and bonds	Shares and participations	Total
Publicly traded			
Public sector entities	29,830	-	29,830
Other	26,065	-	26,065
Other			
Public sector entities	196,027	-	196,027
Other	3,005	1,032	4,038
Investments total	**254,928**	**1,032**	**255,960**

Investments on 31 Dec 2017

(EUR 1,000)	Available-for-sale financial assets		
	Notes and bonds	Shares and participations	Total
Publicly traded			
Public sector entities	23,322	-	23,322
Other	27,008	-	27,008
Other			
Public sector entities	234,968	-	234,968
Other	19,401	798	20,199
Investments total	**304,699**	**798**	**305,497**

NOTE 18 INTANGIBLE ASSETS

Bonum Bank's intangible assets are information systems over which Bonum Bank has control as referred to in IAS 38 Intangible assets. The information systems are implemented by POP Bank group's partners of which the most important 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 2018	31 Dec 2017
Information systems	1,276	1,797
Other intangible assets	1,353	36
Total intangible assets	**2,629**	**1,833**

Changes in intangible assets 2018

(EUR 1,000)	Information systems	Intangible assets under development	Total
Acquisition cost on 1 Jan	3,396	36	3,433
+ Increases	31	1,353	1,384
+/- Transfers between items	36	-36	0
Acquisition cost on 31 Dec	3,464	1,353	4,817
Accumulated amortisation and impairments on 1 Jan	-1,600	0	-1,600
- Amortisation	-588	0	-588
Accumulated amortisation and impairments on 31 Dec	-2,188	0	-2,188
Carrying amount on 1 Jan	1,797	36	1,833
Carrying amount on 31 Dec	1,276	1,353	2,629

Changes in intangible assets 2017

(EUR 1,000)	Information systems	Intangible assets under development	Total
Acquisition cost on 1 Jan	3,396	0	3,396
+ Increases	0	36	36
- Decreases	0	0	0
Acquisition cost on 31 Dec	3,396	36	3,433
Accumulated amortisation and impairments on 1 Jan	-1,032	0	-1,032
- Amortisation	-568	0	-568
Accumulated amortisation and impairments on 31 Dec	-1,600	0	-1,600
Carrying amount on 1 Jan	2,364	0	2,364
Carrying amount on 31 Dec	1,797	36	1,833

NOTE 19 PROPERTY, PLANT AND EQUIPMENT

Changes in machinery and equipment

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Acquisition cost on 1 Jan	113	107
+ Increases	6	6
Acquisition cost on 31 Dec	119	113
Accumulated depreciation and impairments on 1 Jan	-74	-54
- Depreciation	-19	-20
Accumulated depreciation and impairments on 31 Dec	-93	-74
Carrying amount on 1 Jan	39	53
Carrying amount on 31 Dec	26	39

NOTE 20 OTHER ASSETS

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Accrued income and prepaid expenses		
Interest	673	650
Other accrued income and prepaid expenses	1,343	922
Other	216	139
Other assets total	**2,233**	**1,711**

NOTE 21 DEFERRED TAXES

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Income tax receivable	3	0
Deferred tax assets	244	244
Total tax assets	**248**	**244**
Income tax liabilities	0	40
Deferred tax liabilities	344	416
Total tax liabilities	**344**	**456**

Deferred tax assets 2018

(EUR 1,000)	1 Jan 2018	Effect of implementation of IFRS 9	Recognised through profit or loss	Recognised in other comprehensive income	31 Dec 2018
Available-for-sale financial assets	7	-7	-	-	0
Collective impairment losses	23	-23	-	-	0
At fair value through other comprehensive income	-	138	-131	17	24
Deferred tax assets on losses	-	-	63	-	63
Advances received	214	-	-56	-	158
Deferred tax assets total	**244**	**107**	**-124**	**17**	**244**

Deferred tax assets 2017

(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
Deferred tax assets on losses	-	-	-	-
Advances received	270	-56	-	214
Deferred tax assets total	**312**	**-60**	**-7**	**244**

Deferred tax liabilities 2018

(EUR 1,000)	1 Jan 2017	Effect of implementation of IFRS 9	Recognised through profit or loss	Recognised in other comprehensive income	31 Dec 2018
Available-for-sale financial assets	146	-146	-	-	0
At fair value through other comprehensive income	-	146	-	-11	135
Intangible assets	270	-	-74	13	209
Deferred tax liabilities total	**416**	**0**	**-74**	**2**	**344**

Deferred tax liabilities 2017

(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**

Amounts recognised in other comprehensive income and related deferred taxes 2018

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	-147	29	-118
Amounts recognised in other comprehensive income, total	**-147**	**29**	**-118**

Amounts recognised in other comprehensive income and related deferred taxes 2016

(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**

Notes relating to liabilities and equity

NOTE 22 LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Liabilities to credit institutions		
Liabilities to credit institutions		
Repayable on demand	284,867	288,273
Other	130,106	117,415
Total liabilities to credit institutions	**414,973**	**405,688**
Liabilities to customers		
Deposits		
Repayable on demand	9,983	4,801
Total liabilities to customers	**9,983**	**4,801**
Total liabilities to credit institutions and customers	**424,956**	**410,489**

NOTE 23 DEBT SECURITIES ISSUED TO THE PUBLIC

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Bonds	99,913	99,717
Certificates of deposits	42,485	9,996
Total debt securities issued to the public	**142,399**	**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.Certificates of deposits of total EUR 42,5 million nominal value were outstanding on 31 Dec 2018.

NOTE 24 OTHER LIABILITIES

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Provision for expected credit loss	210	-
Other liabilities		
Payment transfer liabilities	373	117
Accrued expenses		
Interest payable	59	51
Advances received	1,104	1,527
Other accrued expenses	1,347	928
Other		
Liabilities on card transactions	3,298	863
Other	211	195
Total other liabilities	**6,604**	**3,682**

In order to cover 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 the charges collected, 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 25 CAPITAL AND RESERVES

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Share capital	10,000	10,000
Restricted reserves		
Fair value reserve		
From measurement of available-for-sale financial assets (IAS 39)	-	556
From measurement of equity instruments (IFRS 9)	276	-
From measurement of liability instruments (IFRS 9)	222	-
Non-restricted reserves		
Reserve for invested non-restricted equity	20,000	20,000
Retained earnings		
Profit (loss) for previous financial years	1,022	1,296
Profit (loss) for the period	192	118
Total equity	**31,713**	**31,970**

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. The effect of implementation of IFRS 9 on 1 Jan 2018 is presented on note 2.

Specification of changes in fair value reserve 1 Jan - 31 Dec 2018 (IFRS 9)

(EUR 1,000)	Liability instruments	Equity instruments	Total
Fair value reserve on 31 Dec 2017	**385**	**171**	**556**
Effect of implementation of IFRS 9	60	-	60
Fair value reserve on 1 Jan 2018	**445**	**171**	**616**
Increases in fair value reserve	463	384	847
Decreases in fair value reserve	-572	-253	-825
Transferred to the income statement	-161	-	-161
Expected credit loss on notes and bonds	-8	-	-8
Deferred taxes	56	-26	29
Fair value reserve on 31 Dec 2018	**222**	**276**	**498**

Specification of changes in fair value reserve 1 Jan - 31 Dec 2017 (IAS 39)

(EUR 1,000)	Total
Fair value reserve on 1 Jan 2017	**387**
Change in fair value reserve, available-for-sale financial assets	341
Transferred to the income statement	-131
Deferred taxes	-42
Fair value reserve on 31 Dec 2017	**556**

Other notes

NOTE 26 COLLATERAL GIVEN

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Collaterals given		
Given on behalf of own liabilities and commitments		
Other collateral to the Bank of Finland	16,805	16,389
Total collateral given	**16,805**	**16,389**

NOTE 27 OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Loan commitments	108,616	101,283
Total off-balance sheet commitments	**108,616**	**101,283**

NOTE 28 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.

(EUR 1,000)	31 Dec 2018	31 Dec 2017
within 1 year	84	167
within 1–5 years	-	10
after more than 5 years	-	0
Total	**84**	**176**

NOTE 29 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 2018, 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)	Key persons		Other	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Assets				
Loans	867	864	-	-
Liabilities				
Deposits	31	-	1,129	781
Off-balance-sheet commitments				
Loan commitments	30	47	250	250

Compensation to key persons in management

(EUR 1,000)	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Short-term employee benefits	788	507
Total	**788**	**507**

Compensation to key persons in management 1 Jan - 31 Dec 2018

(EUR 1,000)	Salaries and remuneration	Pension costs
Dahlqvist Anders, CEO (until 16 Jan 2018)	193	36
Orrenmaa Marjo, interim CEO (17 Jan - 28 Jan 2018)	20	4
Salo Kirsi, interim CEO (29 Jan - 12 Dec 2018)	96	18
Ali-Tolppa Pia, CEO (from 13 Dec 2018)	9	2
Lemettinen Pekka, Chairman of the Board (from 30 Jan 2018)	17	-
Salo Kirsi, Chairman of the Board (until 29 Jan 2018)	2	-
Linna Hanna, Vice Chairman of the Board	6	-
Hulkko Timo	5	-
Zilliacus Mikael	6	-
Helenius Arvi	1	-
Total	**355**	**58**

NOTE 30 EVENTS AFTER THE REPORTING PERIOD

POP Bank Group renews its core banking system, which will enable more efficient development of digital services in the future. The investment is one of the largest in POP Bank Group's history. POP Bank Group will renew the core banking system together with Savings Bank Group and Oma Savings Bank Plc. The project will be launched in the spring of 2019 and is expected to continue until 2021.

POP Bank Group has selected T24 from Temenos as the new core banking system. It will be supplied by the US-based company Cognizant, one of the world's leading providers of digital services. The agreement signed on 23 January 2019 covers borrowing and lending, as well as payment services. As a part of the agreement, Cognizant will acquire 100 % of the shares of Samlink Ltd. The transaction still requires approval from the Ministry of Economic Affairs and Employment and an inspection by the Finnish Financial Supervisory Authority. Bonum Bank is not a shareholder in Samlink Ltd.

SIGNATURES TO THE FINANCIAL STATEMENTS AND BOARD OF DIRECTORS' REPORT

Espoo, 14 February 2019

Board of Directors of Bonum Bank Plc

Pekka Lemettinen
Chairman of the board

Arvi Helenius

Mikael Zilliacus

Hanna Linna

Pia Ali-Tolppa
CEO

AUDITOR'S NOTE

A report on the audit performed has been issued today.

Espoo, February 2019

KPMG OY AB

Tiia Kataja
KHT

POP Pankki

Bonum Pankki Oyj