Bonum Bank Plc

BOARD OF DIRECTORS' AND FINANCIAL STATEMENTS REPORT

for 1 January – 31 December 2019

POP Bank
Bonum Bank Plc

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BONUM BANK PLC BOARD OF DIRECTORS' REPORT 2019

Board of directors' report

Bonum Bank Plc is part of the amalgamation of POP Banks and is responsible for providing 26 POP Bank central credit institution services, obtaining external funding for the POP Bank Group, handling payments and issuing payment cards to the customers of the POP Banks. In addition, Bonum Bank grants unsecured consumer credits and secured debt securities to retail customers. The purpose of Bonum Bank's internal service production is to limit the group's dependence on external service providers and enhance the efficiency of the whole group's cost structure. In its external business operations, the Bank provides services that are in line with the group's strategy and supplement its offering.

Bonum Bank's role as the provider of finance for the POP banks became significantly stronger and more diversified during the year. Bonum Bank has a bond programme of EUR 750 million and in 2019, the Bank issued a three-year unsecured senior bond of EUR 75 million under the programme. The Bank's certificate of deposit programme was renewed and now totals EUR 250 million. In addition, the Bank issued a EUR 20 million two-year directed bond and established a EUR 35 million loan programme in cooperation with the Nordic Investment Bank. Bonum Bank has established the operations of the internal bank as an essential part of the amalgamation's intermediation of financing and the POP Banks utilise this internal credit granting opportunity regularly.

Bonum Bank is actively seeking new business opportunities to supplement the group's product offering. The Bank's first own retail banking product, POP Pikalaina, was launched in November 2018. POP Pikalaina is an unsecured consumer credit offered to the public through digital channels. The year 2019 was very favourable for POP Pikalaina, and sales of the product exceeded the targets set for the year. In addition, lending to retail customers has been diversified by offering secured loans to partners' customers. Measures to make more effective use of the whole group's balance sheet have been developed and tested in order to improve corporate credit granting possibilities.

In 2019, 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.

Bonum Bank was one of the first banks in Finland to adopt SEPA Instant Credit Transfers, and the first such transfers were received in May. Additionally, Bonum Bank has prepared for compliance with the requirements of the Payment Services Directive (PSD2). Improving the efficiency of anti-money laundering measures and systems is currently one of the key focus areas for the bank.

The POP Bank Group is currently renewing its core banking system, which will enable the more efficient development of digital services in the future. The investment is one of the largest in the POP Bank Group's history, and also requires a significant input from Bonum Bank's employees.

The Annual General Meeting of Bonum Bank was held in April 2019. The General Meeting discussed and decided on the statutory issues and selected Pekka Lemettinen, Hanna Linna, Mikael Zilliacus and Arvi Helenius to the Board of Directors. Pekka Lemettinen has served as Chairman of the Board.

POP Bank group and amalgamation of POP Banks

The POP Bank Group is a Finnish financial group that offers retail banking services to private customers, small companies, agricultural and forestry companies, as well as non-life insurance services to private customers. In addition to healthy and profitable business, the objectives of the POP Bank Group emphasise the development of the customer experience.

The POP Bank Group refers to the legal entity created on 2015, comprised of POP Banks and POP Bank

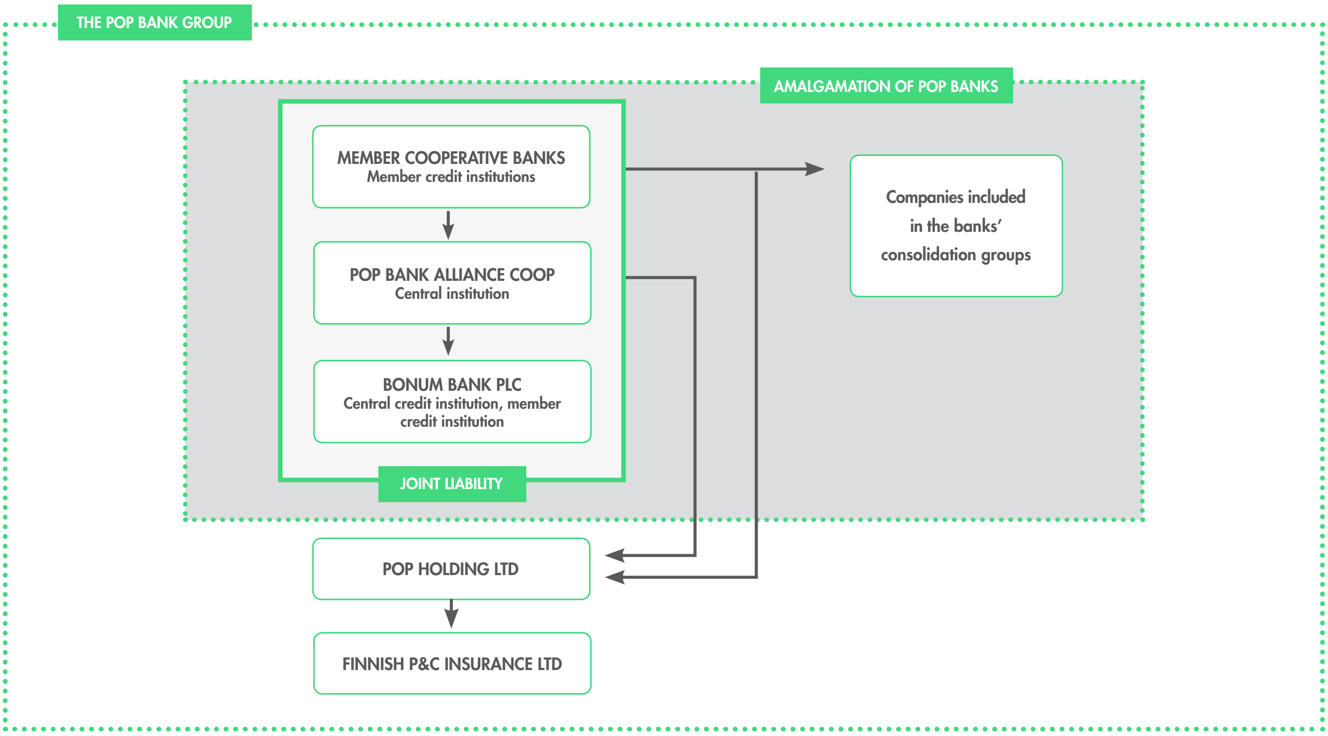
Alliance Coop, and the entities under their control. The most significant companies with customer operations in the POP Bank Group are:

- 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.

The chart below presents the structure of the POP Bank Group and the entities included in the amalgamation and scope of joint liability. POP Bank Alliance Coop, the central institution, is responsible for the group steering and supervision in accordance with the Act on the Amalgamation of Deposit Banks (24 June 2010/599) (hereinafter referred to as the "Amalgamation Act").

The POP Bank Group, amalgamation of POP Banks and joint liability



In addition to the organisations that belong to the amalgamation of POP Banks, the POP Bank Group comprises POP Holding Ltd and its wholly owned company Finnish P&C Insurance Ltd. Neither of these are included in the scope of joint liability.

Operating environment

Economic growth slowed in 2019. The trade war between the United States and China increased tensions and slowed the volume of world trade, with exports from the EU to the US also decreasing. This, combined with the expectation of Brexit, depressed the growth of the EU economy.

The European Central Bank continued to support the markets through its bond purchase programme and by cutting its interest rate for deposits to -0.5 %. Expectations of interest rate hikes were thereby postponed much further into the future. As a result, both short-term and long-term interest rates were at a record-low level in the summer. The low interest rates and good availability of finance supported the stock and real estate markets.

The export outlook for Finland was weakened by slow economic growth in Germany and Sweden, its main export markets – which was also reflected in weaker outlooks among Finnish companies and low investment. Construction activity has also begun to decrease after having peaked at record-high levels. Tensions increased in the labour market, and some industrial action took place towards the end of the year. The employment rate improved and unemployment decreased, but this trend slowed during the second half of the year.

The overall situation in agriculture remained challenging, but the increased focus on environmental aspects supported an increase in investments in the forest industry and the bioeconomy.

Moderate inflation and low interest rate levels have increased consumers' purchasing power. Strong construction activity in growth centres and an increase in the availability of rental housing have kept the increase in housing costs in check. Although housing price increases have stabilised at the national level, regional price increases have varied greatly.

The high level of household indebtedness became a key concern during the year. The Ministry of Finance established a working group to look into the issue. In October 2019, the working group proposed that the maximum amount of household loans be linked to annual income, in addition to suggesting limitations to housing company loans.

Financial position

PERFORMANCE

Bonum Bank Plc's profit for the financial year was EUR 242 thousand (EUR 192 thousand for 1 January – 31 December 2018). 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 (95.63) per cent.

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

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018	Change-%
Net interest income	**4,196**	**2,310**	**81.7**
Net commissions and fees	7,064	6,235	13.3
Net investment income	491	466	5.5
Other operating income	1,034	661	56.4
Total operating income	**12,786**	**9,672**	**32.2**
Personnel expenses	-2,437	-1,862	30.9
Other operating expenses	-7,532	-6,712	12.2
Depreciation and amortisation on property, plant and equipment and intangible assets	-842	-607	38.7
Total operating expenses	**-10,811**	**-9,180**	**17.8**
Impairment losses on financial assets	-1,669	-245	580.0
Profit before taxes	**306**	**246**	**24.1**
Income taxes	-64	-54	18.0
Result for the period	**242**	**192**	**25.9**

Total operating income was EUR 12,786 (9,672) thousand. The increase in income arose from the favourable development of the Bank's net interest income, which amounted to EUR 4,196 (2,310) thousand. The increase in comparison to the previous year was 5 per cent. The sales of POP Pikalaina, which exceeded expectations, was the single most significant factor affecting the development of net interest income.

Net commission income grew to EUR 7,064 (6,235) thousand. Commission income consists mostly of payment transmission fees and income from the cards business.

Net investment income increased to EUR 491 (466) thousand. Net investment income includes mainly net gains from foreign currency transactions. Other operating income, totalling EUR 1,034 (661) thousand, originated primarily from fees charged from the POP Banks for setting up Bonum Bank's central credit institution operations.

Operating expenses totalled at EUR 10,811 (9,180) thousand. Personnel expenses grew to EUR 2,437 (1,862) thousand. Personnel expenses are composed of salary expenses and pension and other indirect employee expenses. The increase in expenses was due to an increase in the number of personnel. Other operating expenses increased in comparison to the previous year, totalling EUR 7,532 (6,712) thousand. The increase was mainly caused by increase in the ICT expenses and the marketing expenses of POP Pikalaina. Impairment losses on financial assets increased to EUR 1,669 (245) thousand during the period. The increase arose from the sales of POP Pikalaina, which were higher than targeted.

BALANCE SHEET

Bonum Bank's balance sheet at the end of 2019 was EUR 588,631 (606,015) thousand on 31 December 2018).

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

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Assets		
Cash funds	155,350	68,137
Loans and advances to credit institutions	253,317	235,339
Loans and advances to customers	76,434	41,444
Investment assets	94,163	255,960
Intangible assets	5,266	2,629
Property, plant and equipment	271	26
Other assets	3,688	2,233
Tax assets	141	248
Total assets	**588,631**	**606,015**
Liabilities		
Liabilities to credit institutions	415,939	414,973
Liabilities to customers	17,338	9,983
Debt securities issued to the public	114,829	142,399
Other liabilities	7,721	6,604
Tax liabilities	371	344
Total liabilities	**556,198**	**574,302**
Equity		
Share capital	10,000	10,000
Reserves	20,976	20,498
Profit (loss) for previous financial years	1,457	1,215
Total equity	**32,433**	**31,713**
Total liabilities and equity	**588,631**	**606,015**

KEY FIGURES AND THE FORMULAS OF KEY FIGURES

	31 Dec 2019	31 Dec 2018	31 Dec 2017
Cost-to-income -ratio, %	84.6	94.9	95.6
ROA, %	0.04	0.03	0.02
ROE, %	0.76	0.60	0.44
Capital adequancy ratio (TC) %	29.7	43.7	53.2
Equity ratio, %	5.5	5.2	5.7

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 from S&P reflects the POP Bank Group's strong capital adequacy and expectations of enhanced efficiency resulting from the amalgamation.

Shareholdings and equity

On 31 December 2019, Bonum Bank had 1,400,000 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 (10,000) thousand. Equity totalled EUR 32,433 (31,713) thousand.

Risk and capital adequacy management and risk position

PRINCIPLES AND ORGANISATION OF RISK MANAGEMENT

The POP Bank Group's strategy outlines the Group's risk appetite. Business activities are carried out at a moderate risk level so that the risks can be managed in full.

As the central institution, POP Bank Alliance Coop supervises the sufficiency and functioning of the risk management systems at the level of the member credit institutions and the amalgamation and is liable for the Group's risk and capital adequacy management in accordance with section 17 of the Amalgamation Act. The central institution of the amalgamation issues binding instructions concerning risk and capital adequacy management, corporate governance and internal control to the member credit institutions to secure their solvency and capital adequacy. Furthermore, common business controlling thresholds have been established for the member institutions to ensure that the risks taken by an individual member institution are within acceptable limits.

Bonum Bank Plc is the central credit institution and also a member credit institution of the amalgamation of POP Banks. The purpose of Bonum Bank Plc's risk management is to ensure that all risks are identified, measured and monitored and that they are proportionate to Bonum Bank's and the amalgamation's risk-bearing capacity. Bonum Bank's risk management as a member bank and the central credit institution of the amalgamation ensures that the guidelines provided by the central institution are in accordance with the objectives of risk management with regard to Bonum Bank's central credit institution liabilities.

The purpose of capital adequacy management is to ensure the sufficient amount, type and efficient use of the capital of the Bonum Bank. A sufficient level of capital covers the material risks arising from implementation of the bank's business plan in accordance with its strategy, and also secures the uninterrupted operation of the bank in the case of unexpected losses. The goal is pursued through a documented and systematic capital adequacy management process that is integrally linked to the strategy process, business planning and management at the level of the amalgamation.

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.

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

The amalgamation's risk management and capital adequacy management are described in more detail in Note 4 to the POP Bank Group's financial statements. Furthermore, information concerning risks specified in the EU Capital Requirements Regulation (EU575/2013) (CRR) is presented in a separate Pillar III report. 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, FI-02600 Espoo, Finland.

BUSINESS RISKS

Credit risk

The credit risk of Bonum Bank's investment activities remained stable. At the end of the financial year, Bonum Bank's investment assets totalled EUR 94,163 (255,960) thousand. Investment assets decreased considerably in Autumn 2019 due to the adoption of ECB's 10/2019 Target 2 account interest rate gradation, which resulted in investment assets being allocated into partly liquid assets as a deposits in the central bank. 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 3,916 (4,072) thousand of current cash at bank. The credit risk of the investment activities is managed primarily by limiting the credit worthiness of investment counterparties and by diversifying investments by sector, counterparty and instrument.

Credit risk exposure in banking activities has grown as a result of the increase in the POP Pikalaina loan portfolio. The amount of Expected Credit Loss (ECL) from POP Pikalaina increased as the credit portfolio grew, but for the time being, credit losses have remained moderate in proportion to the size of the loan portfolio. The credit losses of the credit card business have remained in a stable level in proportion to total credit portfolio. The credit loss exposure in banking activities is expected to grow with the increase in the loan portfolio according to plan.

The management of credit risks in the card and unsecured consumer credit business' is based on a active management of the 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 84.4 per cent to EUR 76,434 (41,444) thousand in the financial period. The portion of retail customers of the loan portfolio was 91.7 (99.5) per cent. Credit card loans increased 9.5 per cent during the financial period totaling EUR 38,308 (34,970) thousand. In 2019, EUR 398 (271) were recognised as credit loss.

Expected credit losses (ECL) on loans and receivables increased EUR 1,308 thousand during the financial year totalling EUR 1,869 thousand.

Bonum Bank's receivables overdue for more than 90 days accounted for 1.99 (0.80) per cent of the loan portfolio. The bank's receivables overdue for 30–90 days accounted for 0.71 (0.10) per cent of the loan portfolio at the end of 2019.

Balance sheet items exposed to credit risk totalled EUR 173,045 (300,444) thousand at the end of 2019. Bonum Bank's off-balance sheet credit commitments amounted to EUR 122,235 (108,616) thousand. 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 risk

Bonum Bank as the central credit institution manages the liquidity coverage requirement (LCR) and solvency management. 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 short-term liquidity risk is the liquidity coverage ratio (LCR), specified in the EU's Capital Requirements Regulation. The minimum requirement for the LCR is 100 per cent. The LCR ratio of POP Bank amalgamation was 115.1 (151.3) per cent at the end of 2019.

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 financing 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 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 mismatches in interest rate repricing 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 2019.

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 productor 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. The risk assessment aims to evaluate Bonum Bank Plc's strategic risks, and minimise them by means of regular updates of its strategic and annual plans. Some of the losses caused by operational risks are hedged through insurance. Risks caused by malfunctions of information systems are prepared for by continuity planning.

CAPITAL ADEQUACY MANAGEMENT

At the end of 2019, Bonum Bank's capital adequacy ratio was 29.7 (43.7) per cent and the ratio of Core Equity Tier 1 capital to risk-weighted items was 29.7 (43.7) per cent. In accordance with the practises of the amalgamation Bonum Bank does not include financial year-end profits in its own funds. 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 2019, Bonum Bank's own funds totalled EUR 26,957 (28,845) thousand, which consisted wholly of Common Equity Tier 1 (CET1) capital.

In 2019, the Bank's capital adequacy decreased in accordance with the business plan. Bonum Bank's retail banking business will continue to grow in 2020, and this will increase the Bank's risk-weighted receivables accordingly.

The statutory minimum level of capital adequacy ratio is 8 per cent, 4.5 percentage points of which must comprise of Common Equity Tier 1 (CET1) capital. In addition to the 8 per cent capital adequacy requirement, a fixed 2.5 per cent capital conservation buffer requirement became applicable on 1 January 2015, as well as a variable additional capital requirement which the authorities can upon need set between 0–2.5 per cent.

Bonum Bank Plc Summary of capital adequacy (EUR 1,000)	31 Dec 2019	31 Dec 2018
Own funds		
Common Equity Tier 1 capital before deductions	32,190	31,521
Deductions from Common Equity Tier 1 capital	-5,233	-2,676
Total Common Equity Tier 1 capital (CET1)	**26,957**	**28,845**
Additional Tier 1 capital before deductions	-	-
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**26,957**	**28,845**
Tier 2 capital before deductions	-	-
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**-**	**-**
Total capital (TC = T1 + T2)	**26,957**	**28,845**
Total risk weighted assets	**90,679**	**65,955**
of which credit risk	70,106	48,624
of which credit valuation adjustment risk (CVA)	-	-
of which market risk (exchange rate risk)	1,644	1,266
of which operational risk	18,929	16,064
Fixed capital conservation buffer according to Act on Credit institutions (2.5 %)	**2,267**	**1,649**
Countercyclical capital buffer	**35**	**27**
CET1 Capital ratio (%)	**29.7 %**	**43.7 %**
T1 Capital ratio (%)	**29.7 %**	**43.7 %**
Total capital ratio (%)	**29.7 %**	**43.7 %**
Capital requirement		
Total capital	26,957	28,845
Capital requirement *	9,556	6,952
Capital buffer	17,401	21,893
Leverage ratio		
Tier 1 capital (T1)	26,957	28,845
Leverage ratio exposure	606,196	620,359
Leverage ratio, %	4.4 %	4.6 %

* 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.

INTERNAL CONTROL

Bonum Bank's internal control serves to ensure thatthe objectives and goals set for the Bank are achieved systematically and effectively in line with the goals and procedures confirmed by senior management. The purpose of internal control is to ensure that the organisation complies with regulations and carries out comprehensive risk management.

Internal control is implemented from within the Bank at all organisational levels, and internal control covers all of the Bank's operations, with the primary focus being on the state, quality and results of operations. 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 internal audit unit of the amalgamation's central institution is responsible for organising the internal audit in the central institution and member credit institutions, and it controls organising the internal audit in other companies belonging to the amalgamation. Bonum 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 of its activity and observations regularly to central institution's Supervisory Board, 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 1 April 2019 adopted the financial statements for 2018 and granted discharge from liability to the Bonum Bank's Board members and the CEO. The Board of Directors of Bonum Bank Plc had four members. During the year, the Board has convened 19 times.

Regular Board members:

Pekka Lemettinen, CEO
Chairman of the Board

Arvi Helenius, CLO
Member of the Board

Hanna Linna, Managing Director
Member of the Board

Mikael Zilliacus, CLO
Member of the Board

Bonum Bank's CEO was **Pia Ali-Tolppa**. CEO's deputy was Lassi Vepsäläinen until 25 March 2019 and **Timo Hulkko** from 26 March 2019 to 31 December 2019.

On 31 December 2019, the Bank had 32 employees, of which 30 full-time with permanent employment contract and two with hourly wage. Equivalent concentration risk may also arise when collateral held for credit is similar.

AUDIT

The company's auditor was KPMG Oy Ab, authorized public accountants, 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 Plc's corporate governance report is available online at 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.

Bonum Bank's compliance function verifies at least once a year whether the remuneration scheme, as approved by the 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 remuneration of a beneficiary in the bank can not exceed EUR 50,000 during an earning 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 per cent.

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 per cent 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

6. CEO and members of the management team,

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

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

9. 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.

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.In addition, the Bank uses a platform service provided by a subsidiary of Google Inc. for customer data management.

Some card business services are outsourced to Samlink Ltd., Nets Ltd., Intrum Justitia Ltd. and Evry Card Services 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 Plc) totals EUR 100,000. Bonum Bank's operations focus on central credit institution services provided for the member banks of the amalgamation. Therefore, the Deposit Guarantee Fund is of minor significance.

Social responsibility

POP Bank Group's social responsibility is described in the Group's financial statements. Bonum Bank's social responsibility refers to the Bank's responsibility for the effects of its operations on the surrounding society and the company's stakeholders. By acting as the central credit institution for POP Banks, Bonum Bank contributes to supporting the social responsibility of local POP Banks.

Events after the financial period

Bonum Bank's Board of Directors 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 2020

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 available financing sources will be used diversely during 2020. The goal is to keep the average price in the group's financing as low as possible while also seeking to gradually increase long-term financing.

The Bank is strongly focused on developing digital services. In 2020, Bonum Bank will focus on further developing operations related to the unsecured consumer credit product introduced at the end of 2018 and to the products introduced in 2019. The Bank is also actively seeking new business opportunities.

In 2020, 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. In addition to its focus on the bank branch channels, the Bank's card business strategy is focusing on POP Mobiili as a sales and customer service channel, and this will also be evident in the Bank's development in 2020. 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, Bonum Bank is preparing to establish a customer service centre for the POP Bank Group's current and new customers.

The POP Bank Group is currently renewing its core banking system, which will enable the more efficient development of digital services in the future. The investment is one of the largest in POP Bank Group's history. The project will be launched in the spring of 2019 and is expected to continue until 2021. The project also requires a significant input from Bonum Bank's employees.

The result for 2020 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 16,870,721.19. Bonum Bank's Board of Directors proposes to the Annual General Meeting that the profit for the financial year, EUR 242,190.57, be entered in retained earnings and that no dividend be paid.

FINANCIAL STATEMENTS 31 DECEMBER 2019

INCOME STATEMENT

(EUR 1,000)	Note	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018	Change-%
Interest income	Note 3	5,905	4,016	47.0
Interest expenses	Note 3	-1,709	-1,706	0.2
Net interest income		**4,196**	**2,310**	**81.7**
Net commissions and fees	Note 4	7,064	6,235	13.3
Net investment income	Note 5	491	466	5.5
Other operating income	Note 6	1,034	661	56.4
Total operating income		**12,786**	**9,672**	**32.2**
Personnel expenses	Note 7	-2,437	-1,862	30.9
Other operating expenses	Note 8	-7,532	-6,712	12.2
Depreciation and amortisation on property, plant and equipment and intangible assets	Note 9	-842	-607	38.7
Total operating expenses		**-10,811**	**-9,180**	**17.8**
Impairment losses on financial assets	Note 14	-1,669	-245	580.0
Profit before taxes		**306**	**246**	**24.1**
Income taxes	Note 10	-64	-54	18.0
Result for the period		**242**	**192**	**25.9**

STATEMENT OF COMPREHENSIVE INCOME

(EUR 1,000)	Note	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018	Change-%
Profit for the period		242	192	25.9
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Changes in fair value reserve				
Equity instruments	Note 25	349	105	...
Items that may be reclassified to profit or loss				
Changes in fair value reserve				
Liability instruments	Note 25	129	-222	...
Total comprehensive income		**720**	**75**	**862.6**

BALANCE SHEET

(EUR 1,000)	Note	31 Dec 2019	31 Dec 2018
Assets			
Cash funds	Note 15	155,350	68,137
Loans and advances to credit institutions	Note 16	253,317	235,339
Loans and advances to customers	Note 16	76,434	41,444
Investment assets	Note 17	94,163	255,960
Intangible assets	Note 18	5,266	2,629
Property, plant and equipment	Note 19	271	26
Other assets	Note 20	3,688	2,233
Tax assets	Note 21	141	248
Total assets		**588,631**	**606,015**
Liabilities			
Liabilities to credit institutions	Note 22	415,939	414,973
Liabilities to customers	Note 22	17,338	9,983
Debt securities issued to the public	Note 23	114,829	142,399
Other liabilities	Note 24	7,721	6,604
Tax liabilities	Note 21	371	344
Total liabilities		**556,198**	**574,302**
Equity			
Share capital	Note 25	10,000	10,000
Reserves	Note 25	20,976	20,498
Profit (loss) for previous financial years	Note 25	1,457	1,215
Total equity		**32,433**	**31,713**
Total liabilities and equity		**588,631**	**606,015**

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**	**498**	**20,000**	**1,215**	**31,713**
Total comprehensive income					
Profit for the period	-	-	-	242	242
Other comprehensive income	-	477	-	-	477
Total comprehensive income	-	477	-	242	720
Equity on 31 December 2018	**10,000**	**976**	**20,000**	**1,457**	**32,433**

(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**
IFRS 9 transition		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
Total comprehensive income	-	-118	-	192	75
Other changes	-	-	-	38	38
Equity on 31 December 2018	**10,000**	**498**	**20,000**	**1,215**	**31,713**

CASH FLOW STATEMENT

(EUR 1,000)	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Cash flow from operating activities		
Profit for the period	242	192
Adjustments to result for the financial period	2,704	592
Increase (-) or decrease (+) in operating assets	**106,151**	**-16,546**
Receivables from credit institutions	-18,066	-59,439
Receivables from customers	-36,759	-6,086
Notes and bonds	162,431	49,501
Other assets	-1,456	-522
Increase (+) or decrease (-) in operating liabilities	**9,201**	**17,178**
Liabilities to credit institutions	966	9,285
Liabilities to customers	7,355	5,182
Provisions and other liabilities	880	2,711
Income taxes paid	-49	-48
Total cash flow from operating activities	**118,249**	**1,368**
Cash flow from investing activities		
Increases in other investments	-	-65
Investments in tangible and intangible assets	-3,376	-1,391
Total cash flow from investing activities	**-3,376**	**-1,456**
Cash flow from financing activities		
Lease liabilities, decrease	-115	-
Increases in debt securities issued to the public	139,750	72,463
Decreases in debt securities issued to the public	-167,449	-39,463
Total cash flow from financing activities	**-27,814**	**33,000**
Change in cash and cash equivalents		
Cash and cash equivalents at beginning of period	72,209	39,297
Cash and cash equivalents at end of period	159,268	72,209
Net change in cash and cash equivalents	**87,058**	**32,912**
Interest received	5,332	3,992
Interest paid	1,606	1,697
Dividends received	20	11
Adjustments to result for the financial year	**2,704**	**906**
Non-cash items and other adjustments		
Income taxes	64	-
Impairment losses on receivables	1,669	245
Depreciation	842	607
Other	130	54
Cash and cash equivalents		
Cash funds	155,350	68,137
Receivables payable on demand from credit institutions	3,917	4,072
Total	**159,268**	**72,209**

On 31 December 2018, debt securities issued to the public by Bonum Bank Plc were transferred from “Cash flow from operating activities” to “Cash flow from financing activities” in the comparison information.

NOTES

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

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, FI-02600 Espoo, Finland. POP Bank Group will present information concerning risks specified in the EU Capital Requirements Regulation (EU 575/2013) (CRR) in a separate Pillar III report.

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.

Figures in the notes are rounded, whereby the sum total of individual figures may deviate from the sum total presented in the calculations and tables. 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 has no subsidiaries or associated companies.

Changes in presentation

Debt securities issued to the public are presented under "Cash flow from financing activities", whereas they were previously included in "Cash flow from operating activities".

FINANCIAL INSTRUMENTS

Classification and recognition

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

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

In accordance with the IFRS 9 Financial instruments, Financial liabilities are classified on initial recognition into 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 from other financial instruments are included in the acquisition cost.

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 in the balance sheet 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. In addition, an agreement included in financial assets is derecognised on the balance sheet if the rights to cash flows that are based on the agreement are transferred to another party or if the agreement includes an obligation to pay the cash flows in question to one or several recipients. 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 to 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 IFRS 9, an entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, 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 financial asset groups 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 characteristics. 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 being 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 does not 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). In addition, liquid assets, in 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 in order 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 of expected credit losses are recognised in the 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 include shares and participations and debt instruments, which do not meet the SPPI-test. An exception is made with regards to shares which are 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 instrument 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 strategic 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 of the sale is recognised in equity. The election can 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.

Determining fair value

Fair value is the price that would be attained if the asset was sold or would be paid to transfer the liability from one market party to another in a standard business transaction taking place on a valuation day.

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. Current bid price is used as the quoted market price of financial assets.

If the market has a well-established valuation technique for a financial instrument for which there is no direct market price available, the fair value is based on the commonly used valuation model and on the market quotations of the input data used in the model.

If there is no well-established valuation technique in the market, fair value is determined based on a specific valuation model created for the product in question. The valuation models are based on widely used measuring techniques, incorporating all the factors that market participants would consider when setting a price. The valuation prices used include market transaction prices, the discounted cash flow method, as well as the fair value of another substantially similar instrument at the reporting date. The valuation methods take into account an estimate of the credit risk, applicable discount rates, early repayment options, and other such factors that may impact reliable determination of the fair value of the financial instrument.

The fair values of financial instruments are divided into three hierarchical levels depending on how the fair value is defined:

- Quoted fair values in active markets for identical assets or liabilities (Level 1)

- Fair values that are determined using other input data than the quoted prices at Level 1, which are observable for the assets or liabilities either directly (e.g. prices) or indirectly (e.g. derived from prices) (Level 2)

- Fair values determined by the input data, which is essentially not based on the observable market data (Level 3).

The fair value hierarchy level into which an item measured at fair value is fully classified is determined by the input data, which is at the lowest level and is significant in respect to the whole item. The significance of the input data is evaluated considering the whole item, which is valued at fair value.

Impairment of financial assets

A loss allowance on financial assets measured at amortized cost or fair value through other comprehensive income and off-balance sheet credit commitments is recognized 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 from 1 to 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 the 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 lifecycle 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 the credit risk calculation, with the exception of card credits for which a CCF value has been determined on the basis of expert judgment.

In the measurement of expected credit losses, a transition will be made from the recognition of expected credit losses over 12 months to the recognition of expected credit losses throughout the lifetime of the contract as the credit risk increases significantly after the initial recognition, after which the contract is transferred from stage 1 to stage 2. 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.

Liabilities are classified in stage 3 of IFRS 9 if they meet the criteria for default at the contract or customer level. 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
- The customer has been classified as being in default: more than 20 % of the customer's credits meet the stage 3 criteria mentioned above at the contract level or a corporate customer has become subject to bankruptcy or reorganisation proceedings.

Bonum Bank does 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 return 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 future information available with reasonable ease. For the calculation of expected credit losses, a model based on three macroeconomic scenarios and the related probabilities has been developed in POP Bank Group. The model is used to adjust the parameters used in the calculation when determining expected credit losses. The macroeconomic scenarios are based on the projected growth rate of Finland's Gross Domestic Product over the next three years.

Bonum Bank applies an exception to financial assets at fair value through profit or loss other than IFRS 9, in which 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 recognized have been deducted. A loss allowance is cancelled if a final credit loss is recognized for the financial asset. The loss allowance on financial assets recognized at amortized 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. The loss allowance on off-balance sheet commitments is recognised as a provision in other provisions and liabilities.

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 capitalised also 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 estimated useful lives of assets. 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. Indications of impairment of intangible assets are examined annually and intangible assets are tested for impairment when necessary. 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 machinery and equipment, which are measured at acquisition cost less depreciation and impairment. Depreciation is based on the useful life of the assets. The economic life for machinery and equipment is 3–10 years.

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

LEASES

Bonum Bank has acquired office equipment and business facilities for its use through contracts classified as leases. At the time of establishing a contract, Bonum Bank assesses whether the contract is a lease or includes a lease. A contract is a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

Under IFRS 16, a lessee is required to recognise on its balance sheet a right-of-use asset and a lease liability arising from a lease. Lease liabilities are presented under other liabilities and the related interest expenses under net interest income. The right-of-use asset is presented under property, plant and equipment and depreciation on it is presented under depreciation and impairment losses on tangible and intangible assets. Bonum Bank has applied the exemptions included in the standard, according to which leases with a term of 12 months or less, or leases where the underlying asset is of low value, need not be recognised on the balance sheet. The expenses arising from these leases are recognised under other operating income.

A right-of-use asset is initially measured at acquisition cost. After the beginning of the contract, right-of-use assets are measured at acquisition cost less accumulated depreciation and impairment losses. Depreciation on a right-of-use asset is recognised using the straight-line method.

A lease liability is initially measured at the present value of the lease payments remaining unpaid at the beginning of the contract. The incremental borrowing rate of interest is used in the calculation of lease liabilities. The interest rate used for additional credit is the interest rate determined for credits granted within the group.

The economic lifetime of a leased asset is taken into consideration when determining the lease period. The management's estimates are significant, particularly when determining the lease period for contracts valid until further notice and the incremental borrowing rate of interest. Contracts valid until further notice are assigned a lease period based on the management's estimate in cases when it is reasonably certain that they are entered into for a period that exceeds their notice period.

<u>Accounting principles applied to leases in the comparison period</u>

Lease agreements made in the comparison period have been classified as other leases in accordance with IAS 17. Rental expenses are recognised in other operating income over the period of lease. The impact of the transition to the new IFRS 16 standard is presented under "New IFRS standards and interpretations".

EMPLOYEE BENEFITS

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

Post-employment benefits consist of pensions and other benefits paid out after the termination of employment. Statutory pension cover is arranged through 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.

Commission income and expenses

Commission income is recognised to the extent that Bonum Bank expects to be entitled to in exchange for the service provided to the customer. Commission income is recognised at a point in time or over time. 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 recognised in the income statement on initial recognition.

Dividends

Dividends are primarily recognised when the General Meeting of Shareholders of the distributing entity has made a decision on dividend pay-out and the right to receive dividends has emerged. Dividend income is recognised in net investment income.

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, interest on interest-rate derivatives and fees that are accounted as part of the financial asset'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	Sales gains and losses and dividend income from financial instruments measured at fair value, net gains from foreign currency transactions.
Other operating income	Income from central credit institution services, development charges collected from banks and other operating income.
Personnel expenses	Wages and salaries, social expenses and pension expenses
Other operating expenses	Other administrative expenses, expenses related to low-value and short-term leases, development expenses and other expenses related to business operations.
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 except when they are directly linked to items entered into equity capital or other items in the statement of 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.

Determining fair value

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, management must evaluate how other data can be used for the valuation.

Impairment

Calculation of the expected credit losses includes parameters requiring management's consideration. Management has to determine the method of taking macroeconomic information into consideration in the calculations, the principles of evaluating significant increases in the credit risk, the assessment of loss in default and the credit conversion factors applied to credit cards.

The policies on impairment of financial assets have been presented in detail in chapter 4.5 Impairment of financial assets.

The amount recoverable from intangible assets 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.

Lease periods of contracts classified as leases

Determining the lease periods of leases in effect until further notice requires discretion from the management, which requires the assessment of the economic life of the asset when it is reasonably certain that the leases have been made for a period longer than the term of notice. The assessment must take into account the conditions in which the leased asset will be used.

NEW IFRS STANDARDS AND INTERPRETATIONS

Adoption of new standards and amendments during the financial year

As of 1 January 2019, Bonum Bank has adopted IFRS 16 Leases, which supersedes the earlier IAS 17 Leases and its interpretations. Under IFRS 16, a lessee is required to recognise on its balance sheet a right-of-use asset and a lease liability arising from a lease. Bonum Bank's lease liabilities are presented under other liabilities and the related interest expenses under net interest income. The incremental borrowing rate of interest is used in the calculation of lease liabilities. The right-of-use asset is presented under property, plant and equipment and depreciation on it is presented under depreciation and impairment losses on tangible and intangible assets. Bonum Bank has applied the exemptions included in the standard, according to which leases with a term of 12 months or less, or leases where the underlying asset is of low value, need not be recognised on the balance sheet. The expenses arising from these leases are recognised under other operating income. Bonum Bank does not operate as a lessor.

Bonum Bank has obtained mostly commercial premises, office equipment and company cars for employees through contracts classified as leases. The economic lifetime of a leased asset is taken into consideration when determining the lease period. The management's estimates are significant, particularly when determining the lease period for contracts valid until further notice and the incremental borrowing rate of interest. Contracts valid until further notice are assigned a lease period based on the management's estimate in cases when it is reasonably certain that they are entered into for a period that exceeds their notice period. The interest rate used for additional credit in the discounting is the interest rate determined by the central credit institution of the amalgamation of POP Banks for credits granted within the group.

The adoption of the standard does not have a material impact on Bonum Bank's result or financial position. In the transition to the new standard, Bonum Bank applied the modified retrospective approach, according to which comparative information is not restated and any cumulative effects are recognised as an adjustment to retained earnings. The adoption of the standard increased the assets and other liabilities on Bonum Bank's balance sheet by EUR 231 thousand, as a result of which the balance sheet total grew by a corresponding amount. The adoption does not have an impact on equity.

The effects of the adoption of IFRS 16 are presented in the table below.

Transition to IFRS 16	(EUR 1,000)
Operating lease obligation on 31 Dec 2018	84
Operating lease discounted using the incremental borrowing rate at 1 Jan 2019	231
Assessment of extension option and economic lifetime	160
Exemptions: low asset-value leases	5
Exemptions: short-term leases	7
Lease liabilities recognised at 1 January 2019	**231**
Operating lease discounted using the incremental borrowing rate of 0.35 %	
Right-of-use assets 1 January 2019	
Office Buildings	231
Total right-of-use assets	**231**

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 financial period starting on 1 January 2020, Bonum Bank will adopt the following new standards of IASB starting from their entry into force or from the beginning of the financial period following their entry into force, if they have been approved to be applied in the EU before the closing date.

Amendments to IFRS 3 Business Combinations: Definition of Material (effective for financial years beginning on or after 1 January 2020)

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments have no impact on Bonum Bank's financial statements.

Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Interest Rate Benchmark Reform* (effective for financial years beginning on or after 1 January 2020)

The amendments arise from the uncertainty related to the preparation and implementation of the interest rate benchmark (IBOR) reform. The amendments make it easier to comply with the hedge accounting requirements for financial instruments in the period leading up to the IBOR reform. The amendments have no impact on Bonum Bank's financial statements.

Other amendments to standards to be applied later have no impact on Bonum Bank's financial statements.

* = The standard has not been endorsed for use in the EU as of 31 December 2019.

NOTE 2 PRINCIPLES OF RISK MANAGEMENT AND CAPITAL ADEQUACY MANAGEMENT

PRINCIPLES AND ORGANIZATION 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 and capital adequacy management is to ensure that an individual member credit institution does not take such risks in its operations that would result in a material threat to the capital adequacy or solvency of a member credit institution, the central institution or the entire amalgamation. The guidelines and decision-making concerning risks comply with sound and prudent business practices. Violations of the risk management principles are addressed in accordance with the 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 is held to cover the material risks arising from the amalgamation's business strategy and plan and to secure the uninterrupted operation of the amalgamation 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. 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.

To achieve this objective, the member credit institutions conduct an extensive identification and evaluation of risks related to their operations and set their risk-bearing capacity to match the total amount of the risks. In order to secure their capital adequacy, the member credit institutions set risk-based capital objectives and prepare 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.

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 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.

The central institution issues binding instructions concerning risk and capital adequacy management, corporate governance and internal control to the member credit institutions to secure their solvency and capital adequacy. Furthermore, common business controlling thresholds have been established for the member institutions to ensure that the risks taken by an individual member institution are within acceptable limits.

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 Board of Directors is also responsible for proactive capital planning and adapting the capital adequacy management planning and proactive capital planning into reliable governance and guidance. The Board of Directors assesses the appropriateness, extent and reliability of capital adequacy management. The Board of Directors sets the target level for capital adequacy and confirms the level and structure of capital required by the risk profile.

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

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. 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, POP Bank Alliance Coop supervises the sufficiency and functioning of the risk management systems in all the member credit institutions in accordance with section 17 of the Amalgamation Act.

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). Material information regarding capital adequacy as specified in the Capital Requirements Regulation (EU575/2013) is presented in a separate Pillar III report. 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, FI-02600 Espoo, Finland.

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. To achieve this objective, the member credit institutions conduct an extensive identification and evaluation of risks related to their operations and set their risk-bearing capacity to match the total amount of the risks. In order to secure their capital adequacy, the member credit institutions set risk-based capital objectives and prepare 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 is influenced, among other things, by constraints due to regulations on which capital items are considered eligible capital or for which risks the capital items in question can be used.

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 deployed to assess how different exceptionally severe, yet possible situations can affect the liquidity coverage, 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 amalgamation applies the standardised approach for the calculation of the capital requirement for credit risk, and the basic indicator approach for calculating the capital requirement to the operational risk. Bonum Bank does not engage in trading activities, so the capital requirement for market risk is only calculated for the foreign exchange risk. In the standardised approach for credit risk, the exposures are divided into exposure classes with limits having been set for the minimum diversification of lending in the retail exposure class.

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 semi-annual interim report includes the most relevant capital adequacy information.

BUSINESS RISKS

Credit risk

Credit risk refers to a situation in which a counterparty cannot fulfil its contractual obligations.

The most significant source of credit risk is loans, but credit risk can also arise from other kinds of receivables, such as bonds, short-term debt securities and 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 totalled EUR 173,045 (300,444) thousand at the end of 2019. Bonum Bank's off-balance sheet credit commitments amounted to EUR 122,235 (108,616) thousand. 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 77.3 per cent 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 worthiness of investment counterparties and by diversifying investments by sector, counterparty and instrument. 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 94,163 (255,960) thousand. Investment assets decreased considerably in Autumn 2019 due to the adoption of ECB's 10/2019 Target 2 account interest rate gradation, which resulted in investment assets being allocated into partly liquid assets as a deposits in the central bank. 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 reserve includes a total of EUR 3,916 (4,072) thousand of current cash at bank.

Credit risk exposure in banking activities has grown as a result of the increase in the POP Pikalaina loan portfolio, but for the time being, credit losses have remained moderate in proportion to the size of the loan portfolio. The credit losses of the credit card business have remained at a stable level in proportion to the total credit portfolio. In the future, credit loss exposure in banking activities will continue to grow with the increase in the loan portfolio according to plan.

The management of credit risks in the card business is based on an active management of the 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 84.4 per cent to EUR 76,434 (41,444) thousand in the financial period. The portion of retail customers of the loan portfolio was 91.7 (99.5) per cent. Credit card loans increased 9.6 per cent during the financial period totalling EUR 38,312 (34,970) thousand.

Doubtful receivables and impairment losses

In 2019, write-offs from the credit receivables totalled EUR 398 (271) thousand. Bonum Bank's receivables overdue for more than 90 days accounted for 1.99 (0.80) per cent of the loan portfolio. The bank's receivables overdue for 30–90 days accounted for 0.71 (0.10) per cent of the loan portfolio at the end of 2019.

Overdue receivables (EUR 1,000)	31 Dec 2019	31 Dec 2018
31–90 days	545	40
over 90 days	1,524	331
Total	**2,069**	**371**

Expected credit losses (ECL) on loans and receivables and loss allowance on off-balance sheet commitments increased by EUR 1,308 thousand during the financial period totalling EUR 1,869 (561) thousand. Total amount includes deacreasing effect of -127 thousand due to changes in LGD parameters of intra-group lending. Credits classified into ECL stage three are receivables with exposures more than 90 days past due. Predictable credit losses and their changes are presented in Note 14.

Risk concentrations

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

The total amount of credit granted by Bonum Bank to a single customer and/or 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 2019	31 Dec 2018
From central banks	155,219	68,137
Governments and public bodies	58,380	215,868
Credit institutions	30,952	33,143
From companies	7,279	9,989
Total	**251,830**	**327,137**

In order to depict Bonum Bank's exposure to credit risk and the credit risk concentrations, items including credit risk have been divided into eight risk categories based on the PD value measuring the Probability of Default. 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 31 Dec 2019

(EUR 1,000)	PD		31 Dec 2019				31 Dec 2018
Risk Class	Lower limit	Upper Limit	Stage 1	Stage 2	Stage 3	Total	Total
1	0.00	0.15	64,900	-	-	64,900	171,750
2	0.15	0.30	150,500	-	-	150,500	27,000
Total			**215,400**	**-**	**-**	**215,400**	**198,750**

Loans and advances to credit institutions consist of POP Bank Group's internal receivables, which grew 8.4 per cent in the financial year.

Loans and advances to customers by risk class and staging 31 Dec 2019

(EUR 1,000)	PD		31 Dec 2019				31 Dec 2018
Risk Class	Lower limit	Upper Limit	Stage 1	Stage 2	Stage 3	Total	Total
1	0.00	0.15	323	1	-	323	126
2	0.15	0.30	24,731	9	-	24,740	21,851
3	0.30	0.80	2,685	56	-	2,741	1,875
4	0.80	1.50	11,579	373	-	11,952	10,259
5	1.50	5.00	6,908	271	-	7,179	5,831
6	5.00	25.00	27,074	850	-	27,924	1,286
7	25.00	100.00	1,454	611	-	2,065	31
8	100.00	100.00	-	-	1,511	1,511	579
Total			**74,754**	**2,170**	**1,511**	**78,435**	**41,837**

Customer receivables consist mainly of unsecured credit (79.0 per cent). The share of three lowest risk classes (classes 6–8) grew to 40.2 (4.5) per cent of the total portfolio. The combined share of Stage 2 and 3 accounted for 4.7 (4.7) per cent of the total portfolio.

Off balance sheet items by risk class and staging 31 Dec 2019

(EUR 1,000)	PD		31 Dec 2019				31 Dec 2018
Risk Class	Lower limit	Upper Limit	Stage 1	Stage 2	Stage 3	Total	Total
1	0.00	0.15	67,212	67	-	67,280	57,268
2	0.15	0.30	41,086	266	-	41,352	35,752
3	0.30	0.80	3,374	192	-	3,567	2,596
4	0.80	1.50	6,437	34	-	6,471	7,030
5	1.50	5.00	2,518	422	-	2,940	3,633
6	5.00	25.00	32	366	-	399	542
7	25.00	100.00	-	6	-	6	8
8	100.00	100.00	-	-	221	221	292
Total			**120,660**	**1,355**	**221**	**122,235**	**107,120**

Off balance sheet items consists mainly of unused credit card limits 78.2 (79.7) per cent and group internal items 21.2 (19.7) per cent.

Investment assets by risk class and staging 31 Dec 2019

(EUR 1,000)	PD		31 Dec 2019				31 Dec 2018
Risk Class	Lower limit	Upper Limit	Stage 1	Stage 2	Stage 3	Total	Total
1	0.00	0.15	85,800	1,500	-	87,300	229,500
2	0.15	0.30	5,077	-	-	5,077	22,050
3	0.30	0.80	-	319	-	319	3,000
Total			**90,877**	**1,819**	**-**	**92,695**	**254,550**

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 risks

Liquidity risk refers to Bonum Bank's ability to fulfil its commitments. Liquidity risk can be divided into short-term liquidity risk and long-term structural financing risk. Short-term liquidity risk refers to a situation in which the bank cannot without difficulty fulfil its liabilities to pay. 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 2019	31 Dec 2018
Debt securities eligible for refinancing with central banks	**72,558**	**58,901**
From general government	42,366	29,830
From credit institutions	27,036	29,071
From companies	3,156	-
Other notes and bonds	**20,137**	**196,027**
From general government and municipalities	16,015	186,038
From companies	4,122	9,989
Deposits	**159,135**	**72,209**
Repayable on demand	3,916	4,072
Balances at central banks	155,219	68,137
Total	**251,830**	**327,137**

Bonum Bank as the central credit institution is responsible for amalgamation level LCR management and monitors liquidity situation of the member banks. Bonum Bank is also responsible for obtaining long term financing and operates as the internal bank to member credit institutions. The planning of the Bonum Bank's financing structure is based on liquidity and financing planning of the entire amalgamation as a whole within the objectives and steering limits given by the central institution.

The LCR ratio of POP Bank amalgamation was 115.1 (151.3) per cent at the end of 2019. Bonum Bank managed LCR-eligible liquid assets totalled EUR 297,475 (362,431) thousand, of which 97.2 (100.0) per cent were L1 eligible liquid assets. The key ratio for measuring short-term liquidity risk is the liquidity coverage ratio (LCR), specified in the EU's Capital Requirements Regulation. The minimum requirement for the LCR is 100 per cent.

Liquidity Coverage Ratio (EUR 1,000)	31 Dec 2019	31 Dec 2018
Liquid assets (LCR)	297,475	362,431
Net cash outflow	258,366	239,557
Liquidity coverage ratio (LCR)	**115.1 %**	**151.3 %**

During 2019, Bonum Bank updated its EUR 750 million bond programme. By the end of 2019, two senior bonds, EUR 95 million in total, had been issued under the programme, with maturities of less than three years.

At the end of 2019, total face value of Bonum Bank issued certificate of deposits was EUR 20.0 (42.5) million. Bonum Bank will prepare for growing the amalgamation's wholesale financing.

Maturity distribution of financial assets (EUR 1,000)	31 Dec 2019					31 Dec 2018
	Under 3 months	3-12 months	1-5 years	Over 5 years	Total	Total
From central banks	189,354	-	-	-	189,354	100,724
Available-for-sale financial assets	10,979	24,531	57,211	1,442	94,163	254,928
Loans and receivables from customers	38,763	192	11,425	27,704	78,083	41,723
Loans and receivables from credit institutions	25,816	43,000	150,500	-	219,316	202,822
Total	**264,911**	**67,723**	**219,136**	**29,146**	**580,916**	**600,197**

Maturity distribution of financial liabilities (EUR 1,000)	31 Dec 2019					31 Dec 2018
	Under 3 months	3-12 months	1-5 years	Over 5 years	Total	Total
Deposits	17,338	-	-	-	17,338	9,983
Issued debt instruments	9,999	9,991	94,839	-	114,829	142,399
Liabilities to credit institutions	291,766	19,600	63,435	41,139	415,939	414,973
Total	**319,103**	**29,591**	**158,274**	**41,139**	**548,107**	**567,355**

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 confirm 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 mismatches in interest rate repricing 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 2019.

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.

Interest rate sensitivity analysis, effect of 1 percentage point parallel change in interest rate (EUR 1,000)			31 Dec 2019
	Change	Effect on result	Effect on equity
Interest rate risk	+1 percentage point	-58	-780
Interest rate risk	-1 percentage point	92	-415

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

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.

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 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 by continuity planning.

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

In 2019, Bonum Bank did not have any operational risk events, which would meet the loss event criteria (a loss exceeding EUR 10,000) in the Finnish Financial Supervisory Authority's annual notification.

Strategic risk

Strategic risk refers to losses caused by choosing 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.

Bonum Bank aims to minimise strategic risks by means of regular updates of its strategic and annual plans. Analyses of the condition and development of the POP Bank Group, as well as other analyses and estimates concerning the development of the sector, competition and financial operating environment are utilized in the planning.

Notes to the income statement

NOTE 3 INTEREST INCOME AND EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Interest income		
On receivables and debts from credit institutions	2,455	2,073
On receivables from customers	3,269	1,768
On notes and bonds	181	174
Other interest income	0	0
Total interest income	**5,905**	**4,016**
Of which negative interest expense	1,239	1,124
Interest expenses		
On receivables and debts to credit institutions	-377	-160
On receivables and debts to customers	-479	-587
On debt securities issued to the public	-852	-958
Other interest expenses	-1	0
Total interest expenses	**-1,709**	**-1,706**
Of which negative interest income	-694	-735
Net interest income	**4,196**	**2,310**

NOTE 4 NET COMMISSIONS AND FEES

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Fee and commission income		
Lending	192	48
Card business	6,315	5,866
Payment transfers	4,061	3,817
Other	3	1
Total fee and commission income	**10,571**	**9,732**
Fee and commission expenses		
Card business	-2,702	-2,692
Securities	-775	-771
Other	-30	-34
Total fee and commission expenses	**-3,507**	**-3,497**
Net commissions and fees	**7,064**	**6,235**

NOTE 5 NET INVESTMENT INCOME

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Fair value through other comprehensive income		
Notes and bonds		
Gains and losses from sales	-6	-5
Transferred from fair value reserve	113	161
Shares and participations		
Dividend income	20	11
Fair value through other comprehensive income total	**128**	**168**
Net gains from foreign currency transactions	**364**	**298**
Total net investment income	**491**	**466**

Net investment income includes net income from financial instruments except interest income from bonds, which is recognised in net interest income. Dividend income includes EUR 14,653.18 in income from shares still held and EUR 5,660.11 in income from shares transferred during the financial year.

NOTE 6 OTHER OPERATING INCOME

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Business development fees from banks	440	440
Central credit institution services excl. payment transfer	81	81
Other income	514	141
Total other operating income	**1,034**	**661**

The “Other income” item includes mainly intra-group charges related to development projects.

NOTE 7 PERSONNEL EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Salaries and remuneration	-2,004	-1,552
Indirect personnel expenses	-56	-41
Pension costs		
Defined contribution plans	-377	-269
Total personnel expenses	**-2,437**	**-1,862**

Related party fees are specified in Note 29 (Related party disclosures).

NOTE 8 OTHER OPERATING EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Other administrative expenses		
Other personnel expenses	-180	-148
Office expenses	-758	-586
ICT expenses	-5,637	-5,235
Telecommunications	-234	-211
Entertainment and marketing expenses	-334	-22
Other administrative expenses total	**-7,144**	**-6,202**
Other operating expenses		
Rental expenses	-78	-195
Audit fees	-10	-17
Other	-300	-298
Other operating expenses total	**-388**	**-510**
Total other operating expenses	**-7,532**	**-6,712**

Audit fees		
Statutory audit	-10	-16
Other expert services	-	-1
Total audit fees	**-10**	**-17**

After the adoption of IFRS 16, only items covered by exemptions providing practical relief are presented in the "Rental expenses" item.

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

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Machinery and equipment	-15	-19
Right of use assets	-116	-
Intangible assets	-711	-588
Total depreciation of property, plant and equipment and intangible assets	**-842**	**-607**

An itemisation of fixed asset items is provided in Note 28.

NOTE 10 DEFERRED TAXES

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Current tax	-12	3
Tax for prior financial years	-3	-4
Withholding tax paid outside Finland	-4	-3
Change in deferred tax assets	-118	-124
Change in deferred tax liabilities	74	74
Total income taxes	**-64**	**-54**

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 2019	1 Jan - 31 Dec 2018
Accounting profit before tax	306	246
Tax calculated at the tax rate	-61	-49
+ Tax-exempt income	-	-
- Non-deductible expenses	0	-1
- Taxable income not included in the profit	-	-
+ Deductible expenses not included in the profit	1	1
+ Use of tax losses carried forward from previous years	-	-
- Deferred tax assets not recognised on losses	-	-
- Tax for prior financial years	-3	-4
Taxes in the income statement	**-64**	**-54**

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

(EUR 1,000)	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Financial assets		
At fair value through other comprehensive income (IFRS 9)		
Interest income ja expenses	-329	-419
Transferred from fair value reserve	113	161
Dividend income	20	11
Capital gains and losses	-6	-5
Expected credit loss	38	8
Total	**-164**	**-244**
Items measured at amortised cost (IFRS9)/Loans and other receivables		
Interest income ja expenses	5,377	3,688
Other income	1,712	1,489
Expected credit loss (IFRS 9)	-1,308	17
Total	**5,780**	**5,193**
Financial liabilities		
Items measured at amortised cost		
Interest income ja expenses	-852	-958
Total	**-852**	**-958**
Net gains from foreign currency transactions	**364**	**298**
Other operating income and expenses	-4,822	-4,043
Profit before taxes	**306**	**246**

NOTES TO ASSETS

NOTE 12 NET INCOME AND EXPENSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

Financial assets 31 December 2019

(EUR 1,000)	Amortised cost	Fair value through other comprehensive income	Expected Credit Loss	Total carrying amount
Cash funds	155,350	-	-	155,350
Loans and receivables from credit institutions to credit institutions	253,321	-	4	253,317
Loans and receivables to customers	78,083	-	1,649	76,434
Notes and bonds *)	-	92,695	-	92,695
Shares and participations	-	1,468	-	1,468
Total financial assets	**486,755**	**94,163**	**1,654**	**579,264**
Other assets				9,367
Total assets 31 December 2019				**588,631**

*) Expected credit loss on notes and bonds EUR 29 thousand.

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 liabilities 31 December 2019

(EUR 1,000)	Measured at amortised cost	Total
Liabilities to credit institutions	415,939	415,939
Liabilities to customers	17,338	17,338
Debt securities issued to the public	114,829	114,829
Total financial liabilities	**548,107**	**548,107**
Other liabilities		8,092
Total liabilities 31 December 2018		**556,198**

Financial liabilities 31 December 2018

(EUR 1,000)	Measured at amortised cost	Total
Liabilities to credit institutions	414,973	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**

NOTE 13 FAIR VALUES BY VALUATION TECHNIQUE

Fair values of financial assets and financial liabilities on 31 December 2019

(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	-	-	1,468	1,468	1,468
Notes and bonds	73,182	19,513	-	92,695	92,695
Financial assets measured at amortised cost					
Loans and other receivables	-	331,640	-	331,640	329,751
Financial assets total	**73,182**	**351,153**	**1,468**	**425,803**	**423,914**
Financial liabilities measured at amortised cost					
Debt securities issued to the public	96,795	20,026	-	116,821	114,829
Other financial liabilities	-	433,278	-	433,278	433,278
Financial liabilities total	**96,795**	**453,304**	**-**	**550,099**	**548,107**

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

	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	-	276,099	-	276,099	276,783
Financial assets total	**58,901**	**472,126**	**1,032**	**532,059**	**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**	**-**	**567,881**	**567,355**

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 Markets where quotations are regularly available are considered liquid. This group includes all securities with publicly quoted prices.

Level 2 includes financial instruments measured using generally approved measurement techniques or models that are based on assumptions derived from observable market prices. For example, the fair value of a financial instrument allocated to Level 2 may be based on the value derived from the market quotation of a similar instrument or components of an instrument. This group includes card credits and other instruments that are not traded in liquid markets.

Level 3 includes financial instruments and other assets that are not measured using market quotations or values determined on the basis of observable market prices using measurement techniques or models. The assumptions applied in the measurement techniques often involve insecurity. The fair value of assets allocated to Level 3 is often based on price information obtained from a third party. This group includes unlisted shares and funds.

Transfers between fair value hierarchy levels
Transfers between hierarchy levels are considered to have taken place on the date of the occurrence of the event that caused the transfer or the date when the circumstances changed. There were no transfers between levels during the financial year.

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

(EUR 1,000)	2019	2018
Carrying amount 1 Jan.	1,032	798
+ Purchases	0	65
+/- Changes in value recognised in comprehensive income statement	436	169
Carrying amount 31 Dec	**1,468**	**1,032**

Sensitivity analysis of financial instruments at level 3

31 December 2019

		Possible effect on equity capital	
(EUR 1,000)	Carrying amount	Positive	Negative
Financial assets measured at fair value through other comprehensive income	1,468	220	-220
Total	**1,468**	**220**	**-220**

31 December 2018

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

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

Impairment losses recorded on financial period

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Changes in ECL due to write-offs	**157**	**31**
Change in ECL, customer receivables and off-balance sheet commitments	-1,465	-13
Change in ECL, notes and bonds	38	8
Write-offs	-398	-271
Impairment losses on loans and receivables	**-1,669**	**-245**

Changes in expected credit loss (ECL)

Receivables from customers

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2019	**57**	**14**	**209**	**280**
Transfers to stage 1	2	-6	-54	-58
Transfers to stage 2	-3	8	-4	1
Transfers to stage 3	-4	-1	170	164
Increases due to origination	969	45	371	1,386
Decreases due to derecognition	-3	-1	53	50
Changes due to change in credit risk (net)	-32	-2	-2	-37
Changes due to change in ECL parameters	21	1	1	23
Decreases due to write-offs	-	-	-157	-157
Total	950	43	378	1,371
ECL 31 Dec 2019	**1,007**	**57**	**587**	**1,651**

Notes and bonds

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2019	**60**	**7**	**-**	**67**
Changes due to origination and acquisition	15	2	-	16
Decreases due to derecognition	-45	-7	-	-52
Changes due to change in credit risk (net)	-2	-	-	-2
Total	-32	-5	-	-38
ECL 31 Dec 2019	**28**	**2**	**-**	**29**

Receivables from credit institutions

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2019	**71**	**-**	**-**	**71**
Increases due to origination	3	-	-	3
Decreases due to derecognition	-65	-	-	-65
Changes due to change in credit risk (net)	-5	-	-	-5
Total	-68	-	-	-68
ECL 31 Dec 2019	**3**	**-**	**-**	**3**

Off-balance sheet commitments

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2019	**151**	**28**	**32**	**210**
Transfers to stage 1	3	-19	-17	-32
Transfers to stage 2	-1	6	-3	2
Transfers to stage 3	-1	-1	13	12
Increases due to origination	24	15	11	50
Decreases due to derecognition	-2	3	-3	-2
Changes due to change in credit risk (net)	-17	-7	0	-24
Total	7	-3	2	5
ECL 31 Dec 2019	**157**	**25**	**34**	**215**
ECL 1 Jan 2019	**339**	**48**	**241**	**628**
ECL 31 Dec 2019	**1,195**	**83**	**620**	**1,899**

Loans and receivables from customers and off-balance sheet commitments

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 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
Changes in risk parametres	-	-	-	-
Decreases due to write-offs	-	-	31	31
Total	56	-62	-12	-17
ECL 31 Dec 2018	**279**	**42**	**241**	**561**

Notes and bonds

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

Credit risk by stages 31 Dec 2019

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Loans and receivables from customers	74,754	2,170	1,511	78,435
Loans and advances to credit institutions	215,400	0	0	215,400
Debt securities	90,877	1,819	0	92,695
Off balance-sheet commitments	120,660	1,355	221	122,235

Credit risk by stages 31 Dec 2018

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Loans and receivables from customers	39,880	1,381	579	41,839
Loans and advances to credit institutions	198,750	0	0	198,750
Debt securities	245,550	9,000	0	254,550
Off balance-sheet commitments	105,226	1,602	292	107,120

NOTE 15 CASH FUNDS

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Cash	0	-
Receivables from central banks repayable on demand	155,350	68,137
Total cash funds	**155,350**	**68,137**

NOTE 16 LOANS AND RECEIVABLES

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Loans and receivables from credit institutions		
Deposits		
Repayable on demand	37,920	36,659
Others than repayable on demand	215,397	198,679
Total loans and receivables from credit institutions	**253,317**	**235,339**
Loans and receivables from customers		
Loans	15,797	5,815
Credit card receivables	38,312	34,970
Other receivables	22,324	658
Total loans and receivables from customers	**76,434**	**41,444**
Total loans and receivables	**329,751**	**276,783**

NOTE 17 INVESTMENT ASSETS

(EUR 1,000)	31 Dec 2019	31 Dec 2018
At fair value through other comprehensive income		
Notes and bonds	92,695	254,928
Shares and participations	1,468	1,032
Investment assets total	**94,163**	**255,960**

Investments on 31 Dec 2019

	At fair value through other comprehensive income		
(EUR 1,000)	Notes and bonds	Shares and participations	Total
Publicly traded			
Public sector entities	42,366	-	42,366
Other	28,813	-	28,813
Other			
Public sector entities	16,015	-	16,015
Other	5,502	1,468	6,970
Investments total	**92,695**	**1,468**	**94,163**

Investments on 31 Dec 2018

	At fair value through other comprehensive income		
(EUR 1,000)	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**

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. Increase of other intangible assets is due to development project of existing card business information system.

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Information systems	1,167	1,276
Other long-term expenditures	19	-
Other intangible assets	4,081	1,353
Total intangible assets	**5,266**	**2,629**

Changes in intangible assets 2019

(EUR 1,000)	Information systems	Intangible assets under development	Other long-term expenditures	Total
Acquisition cost on 1 Jan	3,464	1,353	-	4,817
+ Increases	-	3,329	20	3,349
+/- Transfers between items	602	-602	-	-
Acquisition cost on 31 Dec	4,065	4,081	20	8,166
Accumulated amortisation and impairments on 1 Jan	-2,188	-	-	-2,188
- Amortisation	-710	-	-1	-711
Accumulated amortisation and impairments on 31 Dec	-2,898	-	-1	-2,900
Carrying amount on 1 Jan	1,276	1,353	-	2,629
Carrying amount on 31 Dec	1,167	4,081	19	5,266

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
- Decreases	36	-36	-
Acquisition cost on 31 Dec	3,464	1,353	4,817
Accumulated amortisation and impairments on 1 Jan	-1,600	-	-1,600
- Amortisation	-588	-	-588
Accumulated amortisation and impairments on 31 Dec	-2,188	-	-2,188
Carrying amount on 1 Jan	1,797	36	1,833
Carrying amount on 31 Dec	1,276	1,353	2,629

NOTE 19 PROPERTY, PLANT AND EQUIPMENT

Changes in machinery and equipment

(EUR 1,000)	Right-of-use items	Machinery and equipment	31 Dec 2019
Acquisition cost on 1 Jan	231	119	350
+ Increases	117	27	144
Acquisition cost on 31 Dec	348	146	494
Accumulated depreciation and impairments on 1 Jan	0	-93	-93
- Depreciation	-116	-15	-130
Accumulated depreciation and impairments on 31 Dec	-116	-107	-223
Carrying amount on 1 Jan	231	26	257
Carrying amount on 31 Dec	232	39	271

An itemisation of fixed asset items is provided in Note 28.

Changes in machinery and equipment

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

NOTE 20 OTHER ASSETS

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Accrued income and prepaid expenses		
Interest	1,248	673
Other accrued income and prepaid expenses	1,991	1,343
Other	449	216
Other assets total	**3,688**	**2,233**

NOTE 21 DEFERRED TAXES

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Income tax receivable	33	3
Deferred tax assets	108	244
Total tax assets	**141**	**248**
Income tax liabilities		
Deferred tax liabilities	-	-
Total tax liabilities	**371**	**344**
	371	**344**

Deferred tax assets 2019

(EUR 1,000)	1 Jan 2019	Recognised through profit or loss	Recognised in other comprehensive income	31 Dec 2019
At fair value through other comprehensive income	24	-	-18	5
Deferred tax assets on losses	63	-63	-	-
Advances received	158	-56	-	102
Deferred tax assets total	**244**	**-118**	**-18**	**108**

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	-	-	-
Collective impairment losses	23	-23	-	-	-
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 liabilities 2019

(EUR 1,000)	31 Dec 2018	Recognised through profit or loss	Recognised in other comprehensive income	31 Dec 2019
At fair value through other comprehensive income	135	-	101	236
Intangible assets	209	-74	-	135
Deferred tax liabilities total	**344**	**-74**	**101**	**371**

Deferred tax liabilities 2018

(EUR 1,000)	31 Dec 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	-	-	-
At fair value through other comprehensive income	-	146	-	-11	135
Intangible assets	270	-	-74	13	209
Deferred tax liabilities total	**416**	**-**	**-74**	**3**	**344**

Amounts recognised in other comprehensive income and related deferred taxes 2019

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	597	-119	477
Amounts recognised in other comprehensive income, total	**597**	**-119**	**477**

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**

Notes related to liabilities and equity

NOTE 22 LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Liabilities to credit institutions		
Liabilities to credit institutions		
Repayable on demand	250,364	284,867
Other	165,575	130,106
Total liabilities to credit institutions	**415,939**	**414,973**
Liabilities to customers		
Deposits		
Repayable on demand	17,338	9,983
Total liabilities to customers	**17,338**	**9,983**
Total liabilities to credit institutions and customers	**433,278**	**424,956**

NOTE 23 DEBT SECURITIES ISSUED TO THE PUBLIC

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Bonds	94,839	99,913
Certificates of deposits	19,990	42,485
Total debt securities issued to the public	**114,829**	**142,399**

Debt securities presented in cash flow reconciliation to balance sheet

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Balance sheet 1 Jan	**142,399**	**109,713**
Increase of bonds	114,764	-
Increase of Certificates of deposits	24,986	72,463
Total increase	**139,750**	**72,463**
Decrease of bonds	-119,980	-
Decrease of Certificates of deposits	-47,469	-39,463
Total decrease	**-167,449**	**-39,463**
Total changes of cash flow of financial activities	**-27,699**	**33,000**
Valuations and accrued interests	130	-315
Balance sheet 31 Dec	**114,829**	**142,399**

In financial year 2019, Bonum Bank Plc issued a two-year unsecured bond of EUR 20 million and three-year unsecured bond of EUR 75 million with floating interest rate. Both of the bonds are listed on the Helsinki stock exchange. Certificates of deposits of total EUR 20 million nominal value were outstanding on 31 Dec 2019.

NOTE 24 OTHER LIABILITIES

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Provision for expected credit loss	215	210
Other liabilities		
Payment transfer liabilities	551	373
Rental liabilities, right of use items	233	-
Accrued expenses		
Interest payable	165	59
Advances received	1,044	1,104
Other accrued expenses	1,241	1,347
Other		
Liabilities on card transactions	3,573	3,298
Other	699	211
Total other liabilities	**7,721**	**6,604**

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 2019	31 Dec 2018
Share capital	10,000	10,000
Restricted reserves		
Fair value reserve		
From measurement of equity instruments (IFRS 9)	624	276
From measurement of liability instruments (IFRS 9)	351	222
Non-restricted reserves		
Reserve for invested non-restricted equity	20,000	20,000
Retained earnings		
Profit (loss) for previous financial years	1,215	1,022
Profit (loss) for the period	242	192
Total equity	**32,433**	**31,713**

Share capital

Share capital includes the paid share capital. Bonum Bank has a total of 1,400,000 shares. There was no change during the financial year.

Restricted reserves

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

Non-restricted reserves

The reserve for invested non-restricted equity includes the portion of subscription price that is not recognised in share capital, as well as other equity investments which are not recognised in other reserves.

Retained earnings

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

Specification of changes in fair value reserve 1 Jan - 31 Dec 2019 (IFRS 9)

(EUR 1,000)	Liability instruments	Equity instruments	Total
Fair value reserve on 1 Jan 2019	**222**	**276**	**498**
Increases in fair value reserve	1,095	620	1,715
Decreases in fair value reserve	-783	-185	-967
Transferred to the income statement	-113	0	-113
Expected credit loss on notes and bonds	-38	0	-38
Deferred taxes	-32	-87	-119
Fair value reserve on 31 Dec 2019	**351**	**624**	**976**

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**

Other notes

NOTE 26 COLLATERAL GIVEN

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Collaterals given		
Given on behalf of own liabilities and commitments		
Other collateral to the Bank of Finland	20,740	16,805
Total collateral given	**20,740**	**16,805**

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Collaterals received		
Collaterals received from banks of POP Group	57,935	55,986
Total collateral given	**57,935**	**55,986**

Deposit liabilities are long-term money market deposits related to the offering of central credit institution services and made by the banks in the POP Bank Group to the Bonum Bank Plc. The amount of deposit liabilities in relation to the balance sheet total is confirmed annually.

NOTE 27 OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Loan commitments	122,235	108,616
Total off-balance sheet commitments	**122,235**	**108,616**

NOTE 28 OTHER LEASES

Bonum Bank Plc as lessee

Bonum Bank Plc has leased mainly business premises. On transition to IFRS 16, Bonum Bank Plc recognised an additional 231 thousand euros of right-of-use assets and lease liabilities.

Right-of-use assets 31 Dec 2019

(EUR 1,000)	Office Buildings	Total
+ Transition of IFRS 16	**231**	**231**
+ Increases	117	117
Acquisition cost 31 December	**348**	**348**
Accumulated depreciation and impairment 1 January		
- Depreciation	-116	-116
Accumulated depreciation and impairment 31 December	**-116**	**-116**
Carrying amount 1 January	231	231
Carrying amount 31 December	232	232

Presented in Property, Plant and Equipment

Lease liabilities

(EUR 1,000)	31 Dec 2019
Lease liabilities 1 Jan (IFRS 16)	**231**
+ Increases	117
- Decreases	-115
Lease liabilities 31 Dec	**233**

Presented in other liabilities

Amounts recognised in statement of cash flows

(EUR 1,000)	31 Dec 2019
Total cash outflow for leases	-116

Amounts recognised in profit of loss

(EUR 1,000)	1 Jan–31 Dec 2019
Depreciation	
Office Buildings	-116
Total	**-116**
Presented in Depreciation, Amortisation and Impairment of Property, Plant and Equipment	
Expenses relating to short-term leases	-64
Total	**-64**
Balance at 31 Dec	

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 2019, 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

	Key persons		Other	
(EUR 1,000)	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Assets				
Loans	216	867	-	-
Liabilities				
Deposits	196	31	1,024	1,129
Off-balance-sheet commitments				
Loan commitments	4	30	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	725	788
Total	**725**	**788**

Compensation to key persons in management 1 Jan - 31 Dec 2019

(EUR 1,000)	Salaries and remuneration	Pension costs
Ali-Tolppa Pia, CEO	182	18
Lemettinen Pekka, Chairman of the Board (from 30 January 2018)	20	-
Linna Hanna, Vice Chairman of the Board	8	-
Helenius Arvi	8	-
Zilliacus Mikael	7	
Total	**224**	**18**

NOTE 30 EVENTS AFTER THE REPORTING PERIOD

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.

SIGNATURES TO THE FINANCIAL STATEMENTS AND BOARD OF DIRECTORS' REPORT

Espoo, February 13th 2020

Board of Directors of Bonum Bank Plc

Pekka Lemettinen
Chairman of the Board

Arvi Helenius

Hanna Linna

Mikael Zilliacus

Pia Ali-Tolppa
CEO

AUDITOR'S NOTE

A report on the audit performed has been issued today.

Espoo, February 13th 2020

KPMG OY AB

Tiia Kataja
KHT

POP Bank

Bonum Bank Plc