Bonum Bank Plc

BOARD OF DIRECTORS' AND FINANCIAL STATEMENTS REPORT

for 1 January – 31 December 2020

POP Bank

Bonum Bank Plc

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This document is a translation of the original Finnish version "Bonum Pankki Oyj:n toimintakertomus ja tilinpäätös 1.1.-31.12.2020". In case of discrepancies, the Finnish version shall prevail.

BONUM BANK PLC BOARD OF DIRECTORS' REPORT 2020

BOARD OF DIRECTORS' REPORT

Bonum Bank Plc is part of the amalgamation of POP Banks and is responsible for providing 22 POP Banks with 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. In its external business operations, Bonum Bank provides services that are in line with the Group's strategy and supplement its offering.

The purpose of Bonum Bank Plc'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. For this reason, a service centre was established in Vaasa in the spring of 2020. The service centre supports banks in achieving their growth targets, finds cost savings by centralising and developing processes, enhances customer acquisition and provides customer service in digital channels.

Bonum Bank Plc operated actively in the capital markets during 2020, providing the member banks of the amalgamation with access to funding and also diversified the sources of funding. Bonum Bank Plc has a EUR 750 million bond programme, within which three issues were conducted in 2020. Two directed long-term senior bonds, totalling EUR 105 million, were issued during the first half of the year. A previously issued EUR 75 million bond was increased to EUR 100 million through an additional issue during the second half of the year. In addition, Bonum Bank Plc has a EUR 250 million certificate of deposit programme, within which the bank issued short-term certificates of deposit during the year. In June, Bonum Bank Plc participated in the European Central Bank's TLTRO III funding operation to the tune of EUR 50 million. In addition, Bonum Bank Plc began to acquire money market deposits during the first quarter of the year as planned. The coronavirus pandemic in general had a negative affect to the availability of unsecured funding during spring but the actions to increase liquidity taken by the European Central Bank supported the markets by the end of the year.

In addition to providing central credit institution services, Bonum Bank Plc is responsible for issuing payment cards and card credit facilities to the POP Banks' customers, as well as for maintaining these services. Bonum Bank Plc is a shareholder in Visa Europe and provides card products under the Visa brand. The bank continued to enhance the efficiency of its card processing during the year. An extensive card system project was completed in the autumn whereby the management of debit cards was transferred from Oy Samlink Ab's system to the system provided by Nets A/S, which was already responsible for managing Bonum Bank Plc's credit cards.

Bonum Bank Plc is actively seeking new business opportunities to supplement the Group's product offering. POP Pikalaina is the bank's first digital retail banking product. The product is wholly owned by the bank, and its interest income developed very favourably year-on-year. However, the temporary interest rate cap, direct marketing restriction and other measures imposed by the authorities in response to the coronavirus pandemic slowed the development of interest income. In addition, lending to retail customers has been diversified by offering secured loans to partners' customers.

Improving the efficiency of anti-money laundering measures and systems is currently one of the key development focuses of the bank. In August 2020, the bank signed an agreement with SAS Institute Finland on acquiring a monitoring system licence and implementing it within the bank system. Its purpose is to ensure the effective prevention of money laundering and terrorist funding in the present day, and to make the monitoring of asset transfers more efficient. Alongside this project, the bank is also developing an internal continuous monitoring system which will support and supplement the anti-money laundering measures of the Group's banks through the analysis of payment data.

The POP Bank Group is currently renewing its core banking system, which will enable the more efficient development of digital services in the future. This project is also benefitting from a significant input by Bonum Bank Plc's own employees.

Another project was started in 2020 to create a mortgage bank that will belong to the amalgamation of POP Banks as a member bank. The mortgage bank will enable the amalgamation to obtain long-term wholesale funding at a competitive price for its business growth by issuing covered bonds. This project will have a major impact on Bonum Bank Plc's operations, which is why the bank's employees are actively participating in the preparation of the project.

The bank's Annual General Meeting was held in April 2020. The Annual General Meeting dealt with statutory matters and elected Pekka Lemettinen, Hanna Linna, Arvi Helenius and Ilkka Lähteenmäki to the Board of Directors. Pekka Lemettinen has served as Chair of the Board.

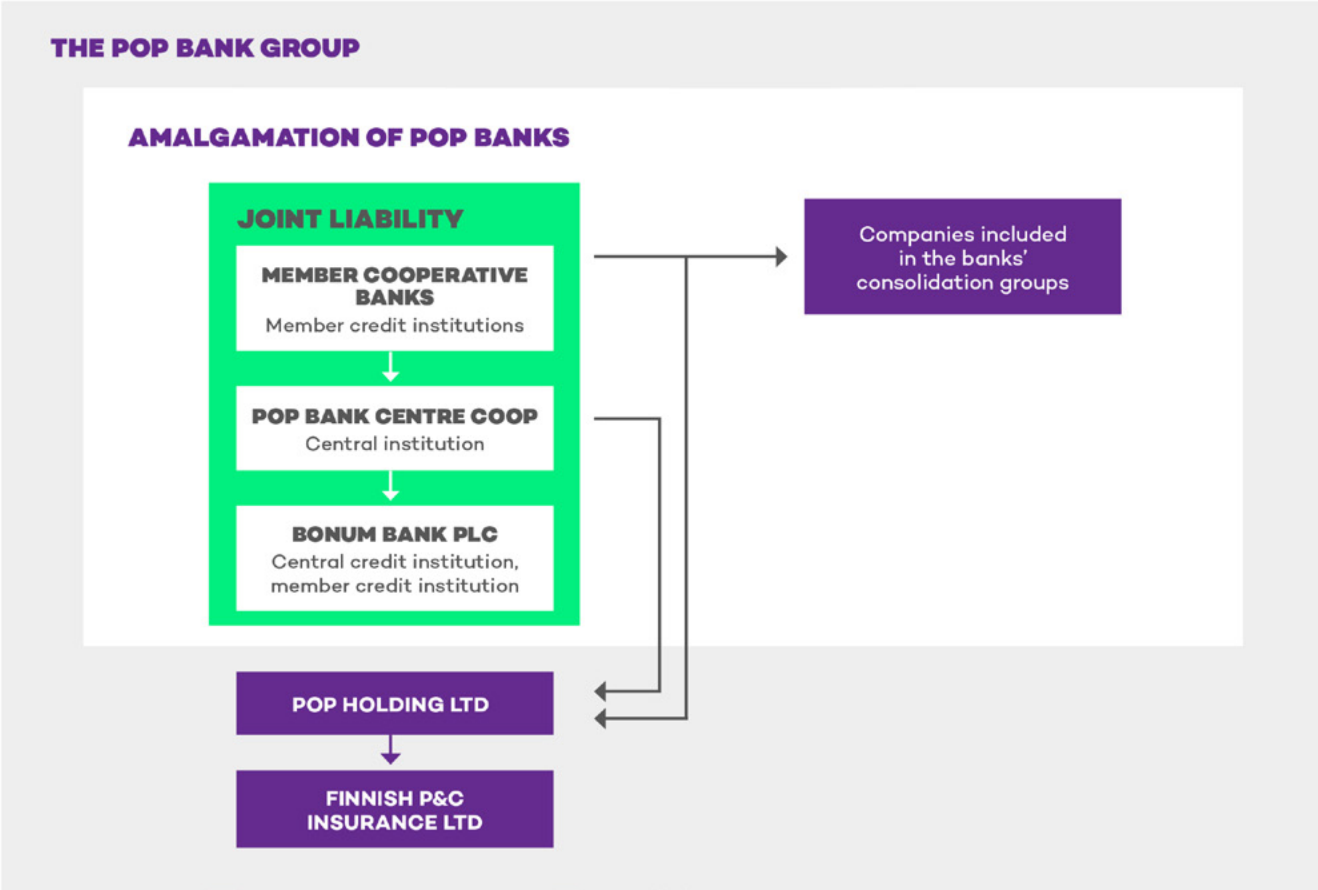
POP BANK GROUP AND AMALGAMATION OF POP BANKS

The POP Bank Group is a Finnish financial group that offers retail banking services to private customers, small and medium sized companies, agricultural and forestry companies, as well as non-life insurance services to private customers. The POP Bank's mission is to promote its customers' financial well-being and prosperity, as well as local success.

The POP Bank Group comprises of POP Banks and POP Bank Centre coop, and the entities under their control. The most significant companies with customer operations in the POP Bank Group are:

- 22 member cooperative banks of POP Bank Centre 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 Centre coop
- Finnish P&C Insurance Ltd, which uses the auxiliary business name POP Insurance.

The chart on the next page presents the structure of the POP Bank Group and the entities included in the amalgamation and scope of joint liability. POP Bank Centre 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").



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

The coronavirus pandemic was the most significant factor affecting the operating environment in 2020. Global measures to prevent the spread of the virus affected economies and people's daily lives in many ways. Recommendations and restrictions of various degrees were adopted rapidly in Finland and globally concerning mobility, meetings and the opening hours of shops, for example. As a result of these measures, total production decreased in many European countries by nearly 10 per cent in 2020.

To avoid waves of bankruptcies, governments have supported businesses more extensively than ever before. The EU also decided to implement a comprehensive support programme to reduce the negative impacts of the coronavirus pandemic. Economic growth has gradually started to recover, but reaching the pre-crisis level will require bringing the pandemic under control by means of vaccinations.

The European Central Bank (ECB) participated in supporting the funding capacity of economies and banks through new and extended funding programmes, as well as by easing the collateral requirement level for central bank funding. In addition, the ECB decided to continue its bond purchase programme, and it also participated extensively in secured new issues by banks in order to ensure, on its part, the functionality of the financial markets in the exceptional circumstances. Key interest rates and market interest rates were at a record-low level at the end of the year, and market expectations of higher interest rates have been postponed long into the future.

In Finland, the decrease in production caused by the coronavirus pandemic was among the smallest in Europe. The factors that have been suggested to explain this include a more moderate escalation of the pandemic compared with other countries, and a flexible and widespread adoption of remote working practices. The support measures targeted at businesses by the Finnish government softened the negative impact of the coronavirus pandemic, but government debt increased rapidly as a result. In Finland, the problems caused by the coronavirus pandemic had the strongest impact on the service, tourism and catering sectors, whereas its impacts on construction, industry and the food sector were more moderate. The increase in the number of bankruptcies in 2020 was held back by the support measures and a temporary decree restricting the filing of bankruptcy applications. Any delays in bringing the coronavirus situation under control may increase the number of companies with problems over the longer term.

The employment situation worsened as a result of lay-offs, particularly during the spring of 2020, but improved considerably during the summer and autumn. Significant changes were seen in household purchasing behaviour. The proportion of consumption accounted for by services and tourism decreased sharply, as consumers invested in cars, home electronics and renovations instead. Household saving increased substantially during the year. Housing sales were also very active towards the end of the year.

FINANCIAL POSITION

PERFORMANCE

Bonum Bank Plc's profit for the financial year was EUR 712 thousand (EUR 242 thousand for 1 January–31 December 2019). 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 71.4 per cent (84.6).

The bank's key income statement items have developed as follows, compared with the corresponding period in the previous year:

(EUR 1,000)	Note	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019	Change-%
Net interest income		**7,061**	**4,196**	**68.3**
Net commissions and fees	Note 4	7,207	7,064	2.0
Net investment income	Note 5	440	491	-10.5
Other operating income	Note 6	1,912	1,034	84.9
Total operating income		**16,620**	**12,786**	**30.0**
Personnel expenses	Note 7	-3,137	-2,437	28.7
Other operating expenses	Note 8	-7,638	-7,532	1.4
Depreciation and amortisation on property, plant and equipment and intangible assets	Note 9	-1,093	-842	29.9
Total operating expenses		**-11,868**	**-10,811**	**9.8**
Impairment losses on financial assets	Note 14	-3,865	-1,669	131.6
Profit before taxes		**888**	**306**	**190.3**
Income taxes	Note 10	-176	-64	175.7
Result for the period		**712**	**242**	**194.1**

Operating income totalled EUR 16,620 thousand (12,786). The increase in income arose from the favourable development of the bank's net interest income, which amounted to EUR 7,061 thousand (4,196). This represents an increase of 68.3 per cent year-on-year. An increase in the unsecured loan portfolio was the single most significant factor affecting the development of net interest income.

Net commission income grew to EUR 7,207 thousand (7,064). Commission income consists mostly of payment transmission fees and income from the cards business.

Net investment income decreased to EUR 440 thousand (491). Net investment income includes mainly net gains from foreign currency transactions. Other operating income, totalling EUR 1,912 thousand (1,034), originated primarily from fees charged from the POP Banks for setting up Bonum Bank's central credit institution operations and other from internal fees.

Operating expenses totalled at EUR 11,868 thousand (10,811). Personnel expenses grew to EUR 3,137 thousand (2,437). Personnel expenses are composed of salary expenses and pension and other indirect employee expenses. Expenses grew because of an increase in the number of personnel. Other operating expenses increased year-on-year, amounting to EUR 7,638 thousand (7,532). This was mainly due to an increase in ICT expenses. Impairment losses on financial assets increased to EUR 3,865 thousand (1,669) during the period. An increase in the unsecured loan portfolio was the underlying factor for this development. Active collection measures are being targeted at receivables recognised as credit losses.

BALANCE SHEET

At the end of the year, Bonum Bank's balance sheet stood at EUR 1,006,480 thousand (588,631). The increase in the balance sheet is due to the bonds issued during the year and Bonum Bank's participation in the central bank's TLTRO III operation.

The key items on the balance sheet of Bonum Bank Plc are as follows:

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Assets		
Cash funds	380,108	155,350
Loans and advances to credit institutions	314,967	253,317
Loans and advances to customers	84,159	76,434
Investment assets	215,354	94,163
Intangible assets	6,937	5,266
Property, plant and equipment	367	271
Other assets	4,528	3,688
Tax assets	58	141
Total assets	**1,006,480**	**588,631**
Liabilities		
Liabilities to credit institutions	659,657	415,939
Liabilities to customers	36,654	17,338
Debt securities issued to the public	266,346	114,829
Other liabilities	8,653	7,721
Tax liabilities	800	371
Total liabilities	**972,112**	**556,198**
Equity		
Share capital	10,000	10,000
Reserves	22,199	20,976
Profit (loss) for previous financial years	2,169	1,457
Total equity	**34,368**	**32,433**
Total liabilities and equity	**1,006,480**	**588,631**

KEY FIGURES AND THE FORMULAS OF KEY FIGURES

	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017
Cost-to-income ratio, %	71.4	84.6	94.9	95.6
ROA, %	0.09	0.04	0.03	0.02
ROE, %	2.13	0.76	0.60	0.44
Capital adequancy ratio (TC) %	24.1	29.7	43.7	53.2
Equity ratio, %	3.4	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 2020. The credit rating remained unchanged, but the outlook changed from stable to negative because of the general economic uncertainty caused by the COVID-19 pandemic.

SHAREHOLDINGS AND EQUITY

On 31 December 2020, Bonum Bank had 1,400,000 shares, all of them held by the POP Bank Centre coop. Bonum Bank holds no own shares.

At the end of the financial year, Bonum Bank's share capital was EUR 10,000 thousand (10,000). Equity totalled EUR 34 368 thousand (32,433).

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. The purpose of Bonum Bank'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 and capital adequacy position. Risk management processes must be able to identify all significant risks of the business operations and assess, measure and monitor these regularly. The most significant risks associated with Bonum Bank's operations are credit risk, liquidity risk and interest rate risk.

As the central institution, POP Bank Centre 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 is the central credit institution and a member credit institution of the amalgamation of POP Banks. Bonum Bank's risk management's goal is to ensure 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. In addition to central institution's independent functions, Bonum Bank has own separate risk control unit to monitor risk position and a compliance contact person.

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.

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 POP Bank Centre coop, address Hevosenkenkä 3, 02600 Espoo, Finland.

BUSINESS RISKS

CREDIT RISK

Bonum Bank's credit risk exposure grew during the financial period. Balance sheet items exposed to credit risk totalled EUR 300,426 thousand (173,045) at the end of 2020. Bonum Bank Plc's off-balance sheet credit commitments totalled EUR 125,354 thousand (122,235), consisting mainly of unused credit card limits and the POP Banks' liquidity facilities. Bonum Bank's most significant credit risks are related to investment activities and unsecured loans.

At the end of the financial period, Bonum Bank's investment assets totalled EUR 215,354 thousand (94,163). The investment asset items in the liquidity reserve include debt securities issued by governments, municipalities, credit institutions and companies. Some of these debt securities are accepted as collateral by the ECB. In addition, the bank had a total of EUR 3,621 thousand (3,916) in short-term bank receivables belonging to the liquidity portfolio. The credit risk related to investment activities is managed mainly by limiting the creditworthiness of investments and diversifying investment assets across sectors, counterparties and instrument classes.

The retail banking loan portfolio increased by 10.1 per cent during the financial period, amounting to EUR 84,159 thousand (76,434). Most of the lending was unsecured lending, which represented 76.6 per cent of the loan portfolio. Loans granted to private customers represented 92.0 per cent (91.7) of the loan portfolio.

With regard to the unsecured loan portfolio, EUR -2,700 thousand (-398) was recognised as final credit losses in 2020. Receivables overdue by more than 90 days represented 4.7 percent (1.99) of the loan portfolio. No credit losses or non-performing receivables were recognised for other balance sheet items. Active collection measures are being targeted at receivables recognised as credit losses.

Expected credit losses (ECL) on loans, receivables and off-balance sheet items increased by EUR 1,094 thousand during the financial period, amounting to EUR 2,993 thousand.

Credit risk monitoring in banking operations is based on the continuous monitoring of non-performing receivables, payment delays and forbearance, and on monitoring the quality of the loan portfolio. Monitoring the amount of expected credit losses is an important part of the credit risk management process. Foreseeable credit management problems are addressed as early as possible.

LIQUIDITY RISK

Bonum Bank plc as the central credit institution is responsible for fulfilling liquidity coverage requirements and liquidity risk management at the POP Bank Group level. Liquidity risks are prepared for by maintaining a sufficient liquidity reserve comprising of LCR eligible high-quality liquid assets, assets eligible as central bank collateral, and short-term bank receivables.

The POP Bank Group's liquidity position remained strong during the financial period. The liquidity requirement (liquidity coverage ratio, LCR) for the amalgamation of POP Banks was 191.4 per cent (115.1) on 31 December 2020, with the minimum level being 100 per cent. At the end of the financial period, Bonum Bank had EUR 621.9 million (305.4) in LCR-eligible liquid assets before haircuts, of which 63.0 per cent (54.8) consisted of cash and receivables from the central bank and 32.4 per cent (40.2) consisted of highly liquid Level 1 securities. The increase in liquid assets during 2020 mainly arose from a strong increase in deposits.

Bonum Bank Plc provides the member banks of the amalgamation with access to long-term wholesale funding, in addition to serving as an internal bank for member credit institutions. The planning of the bank's funding structure is based on liquidity and funding planning of the whole amalgamation as well as the strategic goals and limits set by the central institution.

Of Bonum Bank Plc's EUR 750 million bond programme, EUR 225 million (95) in unsecured senior loans was outstanding at the end of the year. Of the bank's EUR 250 million certificate of deposit programme, EUR 41.5 million was outstanding at the end of the review period. In addition, Bonum Bank has a EUR 35 million loan programme with the Nordic Investment Bank (NIB). In June, Bonum Bank participated for the first time in the European Central Bank's TLTRO III funding operation to the tune of EUR 50 million.

MARKET RISK

The most significant market risk related to the Bonum Bank's business operations is the interest rate risk in banking book. The interest rate risk refers to the effect of changes in interest levels on the market value of balance sheet and off-balance-sheet items, or on net interest income. Banking book consists of loans and deposits, wholesale funding and liquidity portfolio investments.

Bonum Bank's business does not involve trading activities. Possible use of derivatives is restricted to hedging banking book items. Bonum Bank did not use any derivatives in 2020.

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 utilized. The risk assessment also aims to evaluate Bonum Bank's the risks related to most significant outsourced operations. 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 2020, Bonum Bank's capital adequacy ratio was on a good level. The capital adequacy ratio was 24,1 per cent (29.7) and the Core Equity Tier 1 capital ratio was 24,1 per cent (29.7). At the end of 2020, Bonum Bank's own funds totalled EUR 26 568 thousand (26,957), which consisted wholly of Common Equity Tier 1 (CET1) capital.

The bank's capital adequacy ratio has decreased moderately due to increase in risk weighted assets during 2020. The increase was caused by increase in loan portfolio and investment assets. Growth in Bonum Bank's retail banking business may increase the Bank's risk-weighted assets accordingly.

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). In accordance with the practises of the amalgamation Bonum Bank does not include financial year-end profits in its own funds. With a permission granted by the Finnish FSA, the member banks of the amalgamation have been relieved of the own funds requirements and large exposures restrictions concerning internal items between amalgamation central credit institution and member banks.

At the beginning of 2021, the POP Bank Group adopted the guidelines of Article 178 of the EU Capital Requirements Regulation 57/2013 on the definition of default. The change of definition harmonises the definition of customers' default used by banks operating within the jurisdiction of the EBA. The adoption of the new definition of default is expected to increase the amount of default receivables as a result of the aggregation effect, which will lead to a decrease in the bank's reported capital adequacy in the next financial period.

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, a fixed 2.5 per cent capital conservation buffer requirement is applied to Bonum Bank, as well as a variable additional capital requirement on foreign assets.

SUMMARY OF CAPITAL ADEQUACY

Bonum Pankki Oyj **Summary of capital adequacy (EUR 1,000)**	**31 Dec 2020**	**31 Dec 2019**
Own funds		
Common Equity Tier 1 capital before deductions	33,656	32,190
Deductions from Common Equity Tier 1 capital	-7,088	-5,233
Total Common Equity Tier 1 capital (CET1)	**26,568**	**26,957**
Additional Tier 1 capital before deductions	-	-
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**26,568**	**26,957**
Tier 2 capital before deductions	-	-
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**-**	**-**
Total capital (TC = T1 + T2)	**26,568**	**26,957**
Total risk weighted assets	**110,125**	**90,679**
of which credit risk	83,048	70,106
of which credit valuation adjustment risk (CVA)	-	-
of which market risk (exchange rate risk)	2,867	1,644
of which operational risk	24,210	18,929
Fixed capital conservation buffer according to Act on Credit institutions (2.5%)	**2,753**	**2,267**
Countercyclical capital buffer	**0**	**35**
CET1 Capital ratio (%)	**24.1 %**	**29.7 %**
T1 Capital ratio (%)	**24.1 %**	**29.7 %**
Total capital ratio (%)	**24.1 %**	**29.7 %**
Capital requirement		
Total capital	26,568	26,957
Capital requirement *	11,563	9,556
Capital buffer	15,005	17,401
Leverage ratio		
Tier 1 capital (T1)	26,568	26,957
Leverage ratio exposure	730,690	606,196
Leverage ratio, %	3.6 %	4.4 %

* 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 RISK

Bonum Bank's internal control serves to ensure that the objectives and goals set for the Bank are achieved systematically and effectively in line with the goals and procedures confirmed by senior management. In addition, internal control aims to ensure that the organisation complies with regulations, carries out comprehensive risk management considering special characteristics of business operations and effective and reliable operation of the organisation.

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 Pricewaterhouse-Coopers Oy.

BONUM BANK'S MANAGEMENT AND PERSONNEL

The Annual General Meeting of 13 April 2020 adopted the financial statements for 2019 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 24 times.

REGULAR BOARD MEMBERS:

Pekka Lemettinen, CEO
Chairman of the Board

Arvi Helenius, CLO
Member of the Board until 31.7.2020

Hanna Linna, Managing Director
Member of the Board

Ilkka Lähteenmäki, Adjunct Professor
Member of the Board as of 20.3.2020

Kirsi Salo, CEO
Member of the Board as of 1.8.2020

Mikael Zilliacus, CLO
Member of the Board until 19.3.2020

Bonum Bank Plc's CEO was **Pia Ali-Tolppa** and CEO's deputy was **Timo Hulkko**.

On 31 December 2020, the Bank had 55 employees, of which 52 full-time with permanent employment contract and three 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 https://www.poppankki.fi/en/bonum-bank/corporate-governance

COMPENSATION PROGRAMME

Decision-making process used in the specification of the compensation programme:

The Bank's Board of Directors is responsible for compensation matters. The Bank does not have a compensation committee appointed by the Board for the management of the compensation programme. It was not considered necessary due to the narrow scope of the Bank's business. The Bank's Board of Directors monitors the compensation programmes and annually assesses their effectiveness.

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. The compensation programme must also support good corporate governance.

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 cannot 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 financial position of the bank has weakened to the extent that this would be unreasonable considering the situation of the bank.

Severance pay or other compensation payable to an employee can be paid if employment terminates prematurely. The principles of Act on Credit Institutions chapter 8 are taken into account in payment, and the payment criteria are laid down so that compensation is not paid for failed performance.

FIXED AND VARIABLE COMPENSATION

The variable compensation under the compensation programme may be no more than 50 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

The Bank maintains a list of the following persons and the compensation paid to them:

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 has paid variable compensation payments in total 22,500 EUR. No start-up payments were paid during fiscal year.

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 Figure Taloushallinto Ltd., which POP Bank Group owns together with other customer banks of the company. Payment message handling at Bonum Bank is carried out through SEPA Instant Payment Gateway and 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 Denmark A/S Finnish Branch, 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.

In November 2020, Bonum Bank Plc received Green Office environmental management system certification by the WWF. The themes of the bank's programme include enhanced recycling and reduced energy consumption, as well as a reduction in emissions caused by mobility. The goals also include increasing environmental awareness across the bank's organisation and among partners through effective communication.

EVENTS AFTER THE FINANCIAL PERIOD

S&P Ratings has affirmed January 22, 2021 Bonum Bank Plc's long-term counterparty credit ratings 'BBB' and short term credit rating 'A-2'. The agency revised the bank's outlook from negative to stable.

Bonum Bank Plc'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 2021

Bonum Bank Plc will use the available funding sources diversely during 2021. The goal is to keep the average price of funding for the Group as low as possible. The future mortgage bank will enable the amalgamation to obtain long-term wholesale funding at a competitive price for its business growth by issuing covered bonds.

Bonum Bank Plc is focusing strongly on the development of digital services – in particular by emphasizing the more effective and extensive use of the new Service Centre in the Group's customer service and processes. Likewise, the bank will continue to further develop its lending products. In its card business operations, the bank is focusing on online payment solutions and improved customer experience, as well as continuing the development of functionalities related to card payments in the POP Mobiili application. The bank will also actively seek and prepare new services and products that support the business operations of the banks within the amalgamation during 2021.

In addition to further developing its digital services, the bank has made improvement of the anti-money laundering measures and systems one of its key development focuses. Continuous internal monitoring is being developed alongside a new monitoring system implementation project. This will support and supplement the anti-money laundering measures of the Group's banks through the analysis of payment data.

The ongoing renewal of the core banking system will be benefit from a significant input by Bonum Bank Plc's own employees also for the coming year. The full-year result for 2021 is expected to be positive.

BOARD OF DIRECTORS' PROPOSAL ON THE DISPOSAL OF THE RESULT FOR THE PERIOD

Bonum Bank Plc's distributable funds were EUR 15,547,204.55. Bonum Bank Plc's Board of Directors proposes to the Annual General Meeting that the profit for the period (EUR 712,276.07) be recognised in retained earnings and that no dividends be paid.

BONUM BANK PLC'S FINANCIAL STATEMENTS REPORT FOR 1 JANUARY 2020 –31 DECEMBER 2020

INCOME STATEMENT

(EUR 1,000)	Note	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019	Change-%
Interest income	Note 3	9,203	5,905	55.9
Interest expenses	Note 3	-2,142	-1,709	25.3
Net interest income		**7,061**	**4,196**	**68.3**
Net commissions and fees	Note 4	7,207	7,064	2.0
Net investment income	Note 5	440	491	-10.5
Other operating income	Note 6	1,912	1,034	84.9
Total operating income		**16,620**	**12,786**	**30.0**
Personnel expenses	Note 7	-3,137	-2,437	28.7
Other operating expenses	Note 8	-7,638	-7,532	1.4
Depreciation and amortisation on property, plant and equipment and intangible assets	Note 9	-1,093	-842	29.9
Total operating expenses		**-11,868**	**-10,811**	**9.8**
Impairment losses on financial assets	Note 14	-3,865	-1,669	131.6
Profit before taxes		**888**	**306**	**190.3**
Income taxes	Note 10	-176	-64	175.7
Result for the period		**712**	**242**	**194.1**

STATEMENT OF COMPREHENSIVE INCOME

(EUR 1,000)	Note	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019	Change-%
Profit for the financial period		712	242	194.1
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Changes in fair value reserve				
Equity instruments	Note 25	992	349	184.5
Items that may be reclassified to profit or loss				
Changes in fair value reserve				
Liability instruments	Note 25	231	129	79.8
Total comprehensive income		**1,936**	**720**	**169.0**

BALANCE SHEET

(EUR 1,000)	Note	31 Dec 2020	31 Dec 2019
Assets			
Cash funds	Note 15	380,108	155,350
Loans and advances to credit institutions	Note 13, 16	314,967	253,317
Loans and advances to customers	Note 13, 16	84,159	76,434
Investment assets	Note 13, 17	215,354	94,163
Intangible assets	Note 18	6,937	5,266
Property, plant and equipment	Note 19	367	271
Other assets	Note 20	4,528	3,688
Tax assets	Note 21	58	141
Total assets		**1,006,480**	**588,631**
Liabilities			
Liabilities to credit institutions	Note 13, 22	659,657	415,939
Liabilities to customers	Note 13, 22	36,654	17,338
Debt securities issued to the public	Note 23	266,346	114,829
Other liabilities	Note 24	8,653	7,721
Tax liabilities	Note 21	800	371
Total liabilities		**972,112**	**556,198**
Equity			
Share capital	Note 25	10,000	10,000
Reserves	Note 25	22,199	20,976
Profit (loss) for previous financial years	Note 25	2,169	1,457
Total equity		**34,368**	**32,433**
Total liabilities and equity		**1,006,480**	**588,631**

STATEMENT OF CHANGES IN EQUITY

(EUR 1,000)	Share capital	Fair value reserve	Other reserves	Retained earnings	Total equity
Equity on 1 January 2020	**10,000**	**976**	**20,000**	**1,457**	**32,433**
Total comprehensive income					
Profit for the period	-	-	-	712	712
Other comprehensive income	-	1,223	-	-	1,223
Total comprehensive income	**-**	**1,223**	**-**	**712**	**1,936**
Equity on 31 December 2020	**10,000**	**2,199**	**20,000**	**2,169**	**34,368**

(EUR 1,000)	Share capital	Fair value reserve	Other reserves	Retained earnings	Total equity
Equity on 1 January 2019	**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 2019	**10,000**	**976**	**20,000**	**1,457**	**32,433**

CASH FLOW STATEMENT

	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Cash flow from operating activities		
Profit for the financial year	712	242
Adjustments to result for the financial period	5,255	2,704
Increase (-) or decrease (+) in operating assets	**-193,978**	**106,151**
Advances to credit institutions	-61,947	-18,066
Advances to customers	-11,507	-36,759
Investment assets	-119,684	162,431
Other assets	-840	-1,456
Increase (+) or decrease (-) in operating liabilities	**263,830**	**9,201**
Liabilities to credit institutions	243,718	966
Liabilities to customers	19,316	7,355
Other liablilities	796	880
Income tax paid	31	-49
Total cash flow from operating activities	**75,850**	**118,249**
Cash flow from investing activities		
Purchase of PPE and intangible assets	-2,676	-3,376
Total cash flow from investing activities	**-2,676**	**-3,376**
Cash flow from financing activities		
Changes in lease liabilities	-107	-115
Debt securities issued, increase	246,821	139,750
Debt securities issued, decrease	-95,426	-167,449
Total cash flow from financing activities	**151,288**	**-27,814**
Change in cash and cash equivalents		
Cash and cash equivalents at period-start	159,268	72,209
Cash and cash equivalents at the end of the period	383,730	159,268
Net change in cash and cash equivalents	**224,462**	**87,058**
Interest received	8,573	5,332
Interest paid	1,500	1,606
Dividends received	9	20
Adjustments to result for the financial year	**5,255**	**2,640**
Non-cash items and other adjustments		
Income taxes	176	64
Impairment losses on receivables	3,865	1,669
Depreciation	1,093	842
Other	122	130
Cash and cash equivalents		
Liquid assets	380,108	155,350
Receivables payable on demand from credit institutions	3,622	3,917
Total	**383,730**	**159,268**

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 Centre coop 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 Centre coop (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 financial statements are available from its office at Hevosenkenkä 3, FI-02600 Espoo, and online at www.bonumpankki.fi.

Bonum Bank Plc 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 Centre coop. Its members consist of Bonum Bank and 22 co-operative banks. The amalgamation of POP Banks is an economic entity specified in the Act on the Amalgamation of Deposit Banks, the members of which are jointly liable for each other's debts and commitments.

The central institution of POP Banks has prepared the POP Bank Group's consolidated financial statements in accordance with the Act on the Amalgamation of Deposit Banks. Copies of the financial statements of the POP Bank Group are available online at www.poppankki.fi or from the office of the central institution, address Hevosenkenkä 3, 02600 Espoo, Finland. 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.

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, liabilities to credit institutions 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 and does not apply hedge accounting. 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 three main segments described above. 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. The capitalised expenditures for internally produced intangible assets includes, for example, purchased services, in-house work and other external costs related to projects.

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.

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 and expenses are generally recognised on an accrual basis when the related services are performed. Commissions and fees relating to services performed over several years are amortised over the service period. Commissions and fees that are considered as an integral part of the effective interest of a financial instrument are accounted for as an adjustment to the effective interest. However, commissions and fees relating to financial instruments measured at fair value through profit or loss are 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, charges to financial authorities 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 the IFRS requires the management to make estimates and assumptions concerning the future that affect the amounts of items presented in financial statement calculations, as well as the information provided in the notes. The management's key estimates concern the future and key uncertainties related to the values on the balance sheet date. Such key estimates are related to fair value measurement in particular, as well as the impairment of financial assets and intangible assets. The management's estimates and assumptions are based on the best view at the balance sheet date, which may differ from the actual result. Due to the corona pandemic, the fair values and impairments of financial assets are subject to greater uncertainty.

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 future macroeconomic information used in the calculation of the expected credit losses (ECL) has been updated through projected GDP developments exceptionally twice during the financial year. The probability of a positive macroeconomic scenario was decreased in the beginning of the year due to the uncertainty caused by the corona pandemic. Management estimates that the information of the development and commercial distribution of several corona vaccines will improve the expectations for GDP developments in the coming financial years. As a result, the probability of a positive macroeconomic scenario was increased at the balance sheet date closer to the pre-pandemic level.

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

Definition of a Business – Amendments to IFRS 3 Business Combinations (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 is a group of assets rather than a business. The amendments have no impact on Bonum Bank's financial statements.

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

Amendments have been issued to address uncertainties related to the reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. The amendments have no impact on Bonum Bank's financial statements.

Definition of Material – Amendments to IAS 1 Presentation of Financial Instruments and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for financial years beginning on or after 1 January 2020)

The amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments have no impact on Bonum Bank's financial statements.

Amendments to References to Conceptual Framework in IFRS Standards (effective for financial years beginning on or after 1 January 2020)

The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs. The amendments have no impact on Bonum Bank's financial statements.

Covid-19-Related Rent Concessions – Amendment to IFRS 16 Leases (effective for financial years beginning on or after 1 June 2020)

The amendment allows the lessees not to account for rent concessions as lease modifications if the concessions are a direct consequence of the corona pandemic and only if certain conditions are met. The amendments have 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 2021, 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.

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases* (to be applied from 1 January 2021)

Amendments address issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of interest rate benchmark reform. Amendments assist companies in providing useful information about the effects of interest rate benchmark reform on financial statements. 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 2020.

NOTE 2 RISK MANAGEMENT

PRINCIPLES OF RISK MANAGEMENT AND CAPITAL ADEQUACY MANAGEMENT

The purpose of Bonum Bank's risk management is to ensure that the bank 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 and support the strategic target of risk management in POP Bank Group and ensure for its own part the continuation the operations at all circumstances. Risk-bearing capacity is built upon risk management proportionated to the scope and complexity of the institution and adequate capitalization based on profitable business operations. The purpose of the risk management process 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 risk-bearing capacity of the Bonum Bank and the amalgamation.

The purpose of capital adequacy management is to ensure the adequate amount, quality and efficient use of the capital of the Bonum Bank. Capital is held to cover the material risks arising from the Bank's and amalgamation's business strategy and plan and to secure the uninterrupted operation of the Bank and amalgamation in case of unexpected losses. The goal is pursued through a documented and systematic capital adequacy management process that is integrally linked to the amalgamation's and other member credit institutions' business planning and management.

The central institution is responsible for the risk and capital adequacy management of the POP Bank Group. The central institution provides guidance to the member credit institutions to ensure risk management and supervises that the member institutions operate in accordance with regulation, their own rules, guidelines issued by the central institution and in accordance with appropriate and ethically acceptable procedures. Bonum Bank, within limits set by confirmed business risk thresholds, carries its business risks independently in its operations and is liable for its capital adequacy. The capital adequacy, liquidity coverage ratio and customer risks of the Bonum Bank are supervised both at the level of individual member institutions and at the consolidated amalgamation level. Violations of the risk management principles are addressed in accordance with the agreed operating models.

Bonum Bank conducts an extensive identification and evaluation of risks related to its operations and sets risk-bearing capacity to match the total amount of the risks. In order to secure the capital adequacy, bank sets risk-based capital objectives and prepares a capital plan to achieve these objectives. Calculation methods defined by the central institution's risk monitoring function are used when preparing the capital plan.

The most significant risks associated with Bonum Bank's operations are credit risk, liquidity risk, interest rate risk and operational risk. The risk strategy confirmed by the Board of Directors of the central institution outlines the risk appetite of the operations, within which the Board of Directors of the Bonum Bank sets its own guidelines and restrictions. Business activities are carried out at a moderate risk level so that the risks can be managed in full.

Risk and capital adequacy management is regulated by EU legislation, Act on Credit Institutions (610/2014), Act on the Amalgamation of Deposit Banks (24.6.2010/599; hereinafter referred to as the "Amalgamation Act") and the standards, regulations and guidelines issued by the Financial Supervisory Authority.

Risk management is an essential part of the internal controls of Bonum Bank. The purpose of internal controls is to ensure that the institution complies with regulations, carries out comprehensive risk management and operates efficiently and reliably. Moreover, internal controls serve to ensure that the objectives and goals set for different levels of the amalgamation are achieved in accordance with internal guidelines.

ORGANISATION OF RISK AND CAPITAL ADEQUACY MANAGEMENT

Bonum Bank is the central credit institution and also a member credit institution of the amalgamation of POP Banks and a subsidiary of the POP Bank Centre Coop. 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.

The centralized compliance function of the central institution supervises that the bank complies with applicable 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 Centre 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.

The principles, organisation and internal control measures of amalgamation's risk and capital adequacy management are described in more detail in Note 4 to the POP Bank Group's financial statements. Material information regarding capital adequacy as specified in the Capital Requirements Regulation (EU 575/2013) is presented in a separate Pillar III report. 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 from the office of the central institution, address Hevosenkenkä 3, 02600 Espoo, Finland or online at www.poppankki.fi.

CAPITAL ADEQUACY MANAGEMENT

The objective of capital adequacy management is to ensure that the Bonum Bank has an adequate capital buffer to achieve its business strategy and to cover the material risks arising from them in all circumstances. The capital adequacy position is managed in accordance with the risk-taking framework set by the central institution of the amalgamation.

The monitoring and control of the capital adequacy position has been implemented by setting the control thresholds for the adequacy in accordance with the limits set by the central institution of the amalgamation. The capital adequacy targets (control limits) are set for the capital adequacy ratio in accordance with Part Eight of the Capital Requirements Regulation (EU 575/2013) (hereinafter the EU Capital Requirements Regulation) and for the economic capital requirement which is based on the internal risk assessment (Pillar 2).

Capital adequacy management is pursued through a systematic capital adequacy management process that is integrally linked to the amalgamation's and other member credit institutions' business planning and management. As part of the capital adequacy management process the aim is to identify all material risks and assess their magnitude and required capital levels.

Under the supervision of the central institution, Bonum Bank prepares its own capital plan and stress tests on an annual basis using harmonized principles defined by the central institution. The process ensures that the Bank's growth, profitability and risk-bearing capacity objectives are appropriate and consistent. Capital is held to cover the material risks arising from the Bank's business strategy and plan and to secure the uninterrupted operation of the Bank and amalgamation in case of unexpected losses. The baseline scenario of the capital plan forms the basis for budgeting for Bonum Bank.

PILLAR I CAPITAL ADEQUACY RATIO

The most significant Pillar I capital requirements of Bonum Bank arises from retail banking receivables as well as receivables in liquidity reserve 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'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).

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.

BUSINESS RISKS

CREDIT RISK

Bonum Bank's most significant risk is credit and counterparty 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 liquidity reserve investment operations as well as retail banking operations, for the most part formed of unsecured lending. Balance sheet items exposed to credit risk totalled EUR 300,426 (173,045) thousand at the end of 2020. Bonum Bank's off-balance sheet credit commitments amounted to EUR 125,354 (122,235) thousand. These consisted primarily of unused credit card limits and POP Banks' liquidity commitments.

MANAGEMENT OF CREDIT RISKS

The Board of Directors of the central institution controls the credit risk management of the member credit institutions, the methods used in it and the control and reporting of credit risk. The Board of Directors of the Bonum Bank approves the credit risk strategy defined by the central institution, specifying the target risk level and the principles concerning guidelines on risk-taking, customer selection and collateral. Credit risk management aims at limiting the effects of credit risks resulting from lending activities on profit and balance sheet to an acceptable level.

Credit risk strategy and other operative credit risk guidelines specify the maximum limits for risk concentrations and act as guidelines for the targeting of lending by customer sector, industry and credit grade. These guidelines form the basis of credit strategy and defines the customer group and industry division principles and risk and monitoring limits of the credit portfolio used in the monitoring the quality of the credit portfolio. The credit risk strategy is updated at least annually or whenever there are essential changes in the operating environment or business model of the amalgamation, legislation or regulatory.

Automated lending credit decisions are made based on an assessment of the customer's credit worthiness and with application scoring model, as well as other credit criteria. Credit risk management is implemented through active management of credit policy and automated decision-making guidelines based on monitoring and analysis of credit risks. Credit monitoring is based on continuous monitoring of payment behaviour and non-performing receivables, monitoring the quality of the credit portfolio, as well as monitoring of the amount of expected credit losses and final credit losses.

Credit decisions are based on the customer's credit worthiness and ability to pay and the fulfilment of the other credit policy criteria, such as collateral requirements. Collaterals are valued prudently at fair value, and the development of values is monitored regularly. The collateral valuation coefficients are harmonized in the member credit institutions of the amalgamation. Credit decisions are made within the decision-making authorizations confirmed by the Bank's Board of Directors.

Credit risk of investment operations is mainly managed by limiting the credit rating of investments and allocating investment assets by industry, counterparty, credit rating and instrument category. The allocation and limits of credit risks are defined in the investment plan and investment instructions approved by the Board of Directors. Investment decisions are made within investment plan and investment instructions approved by the Board of Directors, by diversifying risks.

Monitoring expected credit losses is an essential part of the credit risk management. Principles of impairment and calculation of expected credit losses are described in Note 1 Accounting policies under IFRS. Impairment losses on loans and receivables, off-balance sheet items and changes during the financial year are presented in Note 14 Impairment of financial assets.

Risk management function reports exposures of customers and non-performing receivables regularly to the Boards of Directors. The reports include, amongst other things, the amount and development of credit risk by customer group, industry sector and credit grade category.

CREDIT RISK POSITION

At the end of the financial year, Bonum Bank's total investment assets totaled EUR 215,354 thousand (94,163). Investment assets increased during the first quarter of 2020 due to the increase in the liquidity reserve. The investment assets included in the liquidity reserve include certificates of receivables issued by governments, municipalities, credit institutions and corporations, some of which are secured and ECB-eligible loans. In addition, Bonum Bank had short-term bank receivables included in the liquidity portfolio totaling EUR 3,621 thousand (3,916).

The credit risk position of banking operations has increased as a result of the growth of the unsecured retail loan portfolio. The amount of expected credit losses increased with the loan portfolio, as did the final credit losses. The credit risk position of banking operations is expected to grow in line with the planned growth in the loan portfolio.

The loan portfolio of retail banking operations increased by 10.1 per cent during the financial year, reaching EUR 84,159 thousand (76,434). Loans granted to retail customers accounted for 92.0 per cent (91.7) of the loan portfolio.

Loans and receivables are categorised in rating categories 1–8 by probability of default (PD) of the receivable. Rating category 1 represents the receivables of the lowest risk and risk category 8 represents the receivables of the highest risk. Both the customer and the receivable are categorised as defaulted (rating category 8), if default criteria described in accounting policies is met. Receivables categorised as defaulted are classified in stage 3 as per IFRS 9 in the calculation of excepted credit losses. Receivables with a significant increase in credit risk are classified in stage 2. Other receivables are classified in stage 1. From 1 January 2021, the definition of default in accordance with Article 178 of the EU Capital Requirements Regulation 57/2013 will be implemented in the calculation of expected credit losses. The change is not expected to have material impact on the number of exposures classified in Stage 3.

At the end of the financial year, the gross amount of loans and receivables, certificates of receivables and off-balance sheet items in the highest risk category 8 totalled EUR 4,099 thousand (1,731).

The tables below show receivables from customers, debt securities and off-balance sheet commitments in accordance with the stages defined in the calculation of expected credit losses by risk category. The table also shows the lower and upper limits of the PD for each risk category.

RECEIVABLES FROM CREDIT INSTITUTIONS BY RATING CATEGORY AND BY ECL STAGE 31 DEC 2020

(EUR 1,000, gross value)	PD		31 Dec 2020				31 Dec 2019
Rating Class	**Lower**	**Upper**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
1-4	0.00	1.50	274,310	-	-	**274,310**	**215,400**
Total			274,310	-	-	**274,310**	**215,400**
Expected credit losses			4	-	-	**4**	**3**
Total			274,306	-	-	**274,306**	**215,397**

Loans and advances to credit institutions consist of intra-POP Bank Group items, the amount of which increased by 27.3 per cent during the financial year.

LOANS AND RECEIVABLES FROM CUSTOMERS BY RATING CATEGORY AND BY ECL STAGE 31 DEC 2020

(EUR 1,000, gross value)	PD		31 Dec 2020				31 Dec 2019
Rating Class	**Lower**	**Upper**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
1-4	0.00	1.50	38,973	214	-	**39,187**	**39,756**
5	1.50	5.00	8,323	680	-	**9,003**	**7,179**
6	5.00	25.00	30,463	2,754	-	**33,218**	**27,924**
7	25.00	100.00	1,162	374	-	**1,536**	**2,065**
8	100.00	100.00	-	-	3,878	**3,878**	**1,511**
Total			78,922	4,022	3,878	**86,821**	**78,436**
Expected credit losses			1,046	89	1,528	**2,662**	**1,649**
Total			77,875	3,933	2,350	**84,159**	**76,786**

Receivables from customers mainly consist of unsecured loans 76.6% (79.1%). The amount of the three lowest risk categories (risk categories 6-8) in receivables increased to 44.5 per cent (40.2) during the financial year. The amount of stage two and three receivables increased to 9.1 percent (4.7).

OFF BALANCE-SHEET COMMITMENTS BY RATING CATEGORY AND BY ECL STAGE 31 DEC 2020

(EUR 1,000, gross value)	PD		31 Dec 2020				31 Dec 2019
Rating Class	**Lower**	**Upper**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
1-4	0.00	1.50	116,096	1,186	-	**117,282**	**118,669**
5	1.50	5.00	5,920	479	-	**6,398**	**2,940**
6	5.00	25.00	114	1,328	-	**1,442**	**399**
7	25.00	100.00	5	6	-	**11**	**6**
8	100.00	100.00	-	-	222	**222**	**221**
Total			122,135	2,998	222	**125,354**	**122,235**
Expected credit losses			182	58	35	**275**	**215**
Total			121,952	2,940	187	**125,079**	**122,020**

Off-balance sheet receivables mainly consist of unused credit card facilities 88.0% (78.2%) and intra-group items 10.4% (21.2%).

DEBT SECURITIES BY RATING CATEGORY AND BY ECL STAGE 31 DEC 2020

(EUR 1,000, gross value)	PD		31 Dec 2020				31 Dec 2019
Rating Class	**Lower**	**Upper**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
1-4	0.00	1.50	212,354	308	-	**212,662**	**92,695**
Total			212,354	308	-	**212,662**	**92,695**
Expected credit losses*			16	-	-	**16**	**-**
Total			212,339	308	-	**212,647**	**92,695**

*) Expected credit losses from debt securities measured at fair value through other comprehensive income totalled 35 thousand (29) euros, of which 34 thousand is in Stage 1 and 1 thousand is in Stage 2.

Debt securities included in the liquidity reserve fall into the four highest risk categories. Tier 2 certificates are commercial papers used for liquidity management.

DOUBTFUL RECEIVABLES, FORBEARANCES AND IMPAIRMENT LOSSES

In 2020, final credit losses of EUR 2,770 thousand (398) were recorded. Bonum Bank's receivables overdue for more than 90 days accounted for 4.7 percent (1.99) of the loan portfolio. At the end of 2020, the Bank's receivables overdue for 30–90 days accounted for 1.4 per cent (0.71) of the loan portfolio. The increase in the number of doubtful receivables reported during the financial year was due to a previously strong increase in the loan portfolio and the impact of the corona pandemic on the receivables of the unsecured loan portfolio.

OVERDUE RECEIVABLES

(EUR 1,000)	31 Dec 2020	31 Dec 2019
31-90 days	1,139	545
over 90 days	3,934	1,524
Total	**5,073**	**2,069**

Expected credit losses (ECL) on loans and receivables and off-balance sheet commitments increased during the financial year by EUR 1,094 thousand to EUR 2,993 thousand (1,899). In stage three of the ECL calculation, loans with more than 90 days overdue payments are classified. The amount of expected credit losses and the changes in them 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 2020	31 Dec 2019
From central banks	380,108	155,219
Governments and public bodies	145,663	58,380
Credit institutions	26,873	30,952
From companies	3,747	7,279
Total	**556,392**	**251,830**

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.

MANAGING LIQUIDITY RISKS

Bonum Bank's Board of Directors confirms the liquidity strategy and liquidity management guidelines prepared by the central institution at the amalgamation level, which define the principles, methods and restrictions for liquidity management and implementation. The Board of Directors of the central institution manages the implementation of the amalgamation's liquidity management, the methods used in it and monitors the adequacy and composition of the liquidity reserve.

Bonum Bank as the central credit institution is responsible for coordinating the implementation of the liquidity strategy at the amalgamation level, and it monitors and supervises the liquidity strategy implemented by the member credit institutions. The central credit institution coordinates the payment transactions of the member credit institutions and the acquisition and balancing of liquidity in the amalgamation. The task of the amalgamation's independent risk control function is to supervise and monitor the liquidity risk.

The central institution's Board of Directors approves the liquidity strategy and the principles of liquidity management. In addition, the Board of Directors approves the funding plan and the liquidity contingency plan made by the central credit institution. The risk control function plans, develops and tests methods used in liquidity risk management and is responsible for risk reporting to the Board of Directors of the central institution. The central credit institution and its executive management assist the risk control function in this process. The Board of Directors of the central institution's approves the liquidity strategy and the methods used in implementing the principles of liquidity management.

The central credit institution reports on the liquidity situation to the Board of Directors of the central credit institution and is responsible for the planning of the liquidity position and funding of the amalgamation. The Board of Directors of the central credit institution is responsible for monitoring the implementation of the liquidity strategy at the central credit institution.

LIQUIDITY RISK

The liquidity management of the Bonum Bank follows the principles set out in the liquidity strategy, which aims to limit risk through a diversified financial structure. The most important means of securing liquidity position are maintaining a sufficient and high-quality liquidity reserve and diversifying funding sources. Intra-day liquidity, liquidity reserve and liquidity coverage ratio are the key means to limit and measure the liquidity risk. The internal limits and controls of the amalgamation limits the liquidity risk associated with the business activities of the amalgamation and the member credit institutions and ensure that the regulatory requirements related to liquidity risk are met.

The key ratios for measuring short-term liquidity risk is the liquidity coverage ratio (LCR), specified in the EU's Capital Requirements Regulation and The Net Stable Funding Ratio (NSFR). LCR measures short-term liquidity risk and is responsible for ensuring that the liquidity reserve, consisting of high-quality liquid assets under LCR regulation, is sufficient to cover outflow net cash flows in stress situations for 30 days. The NSFR measures the mismatch of assets and liabilities on the balance sheet with maturity more than one year and is responsible for ensuring that long-term lending is adequately funded by long-term funding.

LIQUIDITY COVERAGE RATIO

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Liquid assets (LCR)	607,332	297,475
Net cash outflow	317,392	258,366
Liquidity coverage ratio (LCR)	**191.4 %**	**115.1 %**

The liquidity reserve of the amalgamation consists of high-quality liquid assets in accordance with the EU Capital Requirements Regulation, which can meet the liquidity need in stress situations either by selling the securities or by pledging them as collateral for central bank funding. In addition to the assets on the central credit institutions balance sheet, the amalgamation's liquidity reserve also includes liquid assets in the balance sheet of the other member credit institutions, that can be managed by the central credit institution on the basis of internal agreements. At the end of 2020, the non-pledged financial assets and cash included in the liquidity reserve were in total of EUR 607,332 thousand (297,475). The non-LCR-eligible securities, which were eligible for pledging for central bank funding, were in total of EUR 55,8 million (3,7).

Bonum Bank supervises the intra-day liquidity coverage by monitoring the balances of the payment accounts of the member credit institutions. The member credit institutions follow continuously their intra-day liquidity position.

STRUCTURAL FUNDING RISK

The central credit institution's business involves funding risk arising from financial intermediation and the maturity transformation of lending activities. Bonum Bank acts as an internal bank of the amalgamation, provides wholesale funding to POP Banks, maintains a liquidity reserve and engages in retail banking and investment activities.

The table below shows the maturities of the Bonum Bank liabilities with interests. Instant deposits are assumed to mature immediately.

MATURITY DISTRIBUTION OF FINANCIAL LIABILITIES

	31 Dec 2020				
(EUR 1,000)	Under 3 months	3-12 months	1-5 years	Over 5 years	Total
To central banks	-	-	50,000	-	50,000
Deposits	24,154	10,000	2,500	-	36,654
Issued debt instruments	24,998	36,437	204,911	-	266,346
Liabilities to credit institutions	430,373	47,900	90,360	41,025	609,657
Lease liabilities	39	117	154	-	310
Total	**479,565**	**94,455**	**347,924**	**41,025**	**962,968**

MATURITY DISTRIBUTION OF FINANCIAL LIABILITIES

	31 Dec 2019				
(EUR 1,000)	**Under 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Deposits	17,338	-	-	-	17,338
Issued debt instruments	9,999	9,991	94,839	-	114,829
Liabilities to credit institutions	291,766	19,600	63,435	41,139	415,939
Lease liabilities	29	87	116	-	233
Total	**319,132**	**29,678**	**158,390**	**41,139**	**548,339**

At the end of the financial year, Bonum Bank had EUR 225 million (95) in unsecured senior loans issued under the EUR 750 million bond program. EUR 41.5 million of the Bank's EUR 250 million certificates of deposits program was issued. In addition, Bonum Bank has a EUR 35 million loan program with the Nordic Investment Bank NIB. In June 2020, Bonum Bank participated for the first time in the European Central Bank's TLTRO III financing operation for EUR 50 million.

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 market risk classes are interest rate, currency, equity and commodity risk.

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.

In the amalgamation, market risk exposure is limited in terms of trading, interest rate risk, currency risk, derivatives, structured products and commodity risk. Bonum Bank does not engage in trading activities. The possible use of derivatives is limited to hedging interest rate risk in the banking book.

Currency risk is not taken at all in lending; all loans are granted in euros. Currency risk arises to a small extent through the shareholdings necessary for operations and from margin payments related to foreign payments. Taking commodity risk is not allowed.

INTEREST RATE RISK IN THE BANKING BOOK

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. The banking book consists of lending and borrowing items, market-based financing and investment items in the liquidity portfolio.

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. Interest rate risk is managed primarily by planning the balance sheet structure, such as the interest rate fixing or maturity of assets and liabilities. Bonum Bank did not use any derivatives in 2020.

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. The amount of interest rate risk taken is assessed with the effect of diverse interest rate shocks on the net interest income and net present value. The effect of early loan prepayments and the behaviour of non-maturity deposits have been considered in the analysis.

INTEREST RATE SENSITIVITY ANALYSIS, EFFECT OF 1 PERCENTAGE POINT PARALLEL CHANGE IN INTEREST RATE

31 Dec 2020

(EUR 1,000)	Change	Effect on result	Effect on equity
Interest rate risk	+1 percentage point	776	1,194
Interest rate risk	-1 percentage point	-130	-28

INTEREST RATE SENSITIVITY ANALYSIS, EFFECT OF 1 PERCENTAGE POINT PARALLEL CHANGE IN INTEREST RATE

31 Dec 2019

(EUR 1,000)	Change	Effect on result	Effect on equity
Interest rate risk	+1 percentage point	-58	-780
Interest rate risk	-1 percentage point	92	-415

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.

INVESTMENT AND LIQUIDITY PORTFOLIO

The investment and liquidity portfolio of the central credit institution consists of liquid securities and other investments included in the banks' balance sheet. Market risk emerges in these investment activities, consisting mainly of counterparty and interest rate risks. The objective in investing activities is to obtain a competitive return on investment in terms of yield/risk ratio on a long-term perspective.

Risks arising from the investment and liquidity portfolio are managed by limits defined by the amalgamation, which ensures the diversification of investments in terms of timing, asset category, risk type and counterparty. Investment risks are also monitored through sensitivity analysis. The purpose of the limitation is that the effect of changes in interest rates or share prices on profit will not threaten the capital adequacy or profitability of the bank or the entire amalgamation.

Risk appetite in the investment portfolio is assessed in relation to the earnings and own funds. The breakdown of investment assets is described in Note 17 Investment Assets.

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.

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 2020	1 Jan - 31 Dec 2019
Interest income		
Loans and advances to credit institutions	2,893	2,455
Loans and advances to customers	6,010	3,269
Debt securities		
Measured at amortised cost	187	-
Measured at fair value through other comprehensive income	112	181
Other interest income	1	0
Total interest income	**9,203**	**5,905**
Of which positive interest expense	1,683	1,239
Interest expenses		
Receivables and liabilities to credit institutions	-599	-377
Liabilities to customers	-294	-479
Debt securities issued to the public	-1,246	-852
Other interest expenses	-2	-1
Total interest expenses	**-2,142**	**-1,709**
Of which negative interest income	-589	-694
Net interest income	**7,061**	**4,196**

Income and Expense by Measurement Category is presented in Note 11.

NOTE 4 NET COMMISSIONS AND FEES

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Commissions and fees		
Lending	415	192
Card business	5,383	6,315
Payment transfers	3,923	4,061
Other commission income	0	3
Total fee and commission income	**9,721**	**10,571**
Commissions expenses		
Card business	-1,704	-2,702
Securities	-772	-775
Other commission expenses	-38	-30
Total commission expenses	**-2,514**	**-3,507**
Net commissions and fees	**7,207**	**7,064**

NOTE 5 NET INVESTMENT INCOME

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Financial assets measured at fair value through other comprehensive income		
Debt securities		
Capital gains and losses	29	-6
Transferred from fair value reserve	38	113
Shares and participations		
Dividend income *)	9	20
Total	**76**	**128**
Net income from foreign exchange trading	**364**	**364**
Net income from investment property	**440**	**491**

*) Dividend income from equity shares measured at fair value through other comprehensive income held in the end of the financial period is 9 thousand euro (20).

NOTE 6 OTHER OPERATING INCOME

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Business development fees from banks	285	440
Central credit institution services excl. payment transfer	79	81
Other income	1,548	514
Total other operating income	**1,912**	**1,034**

The "Other income" item includes mainly intra-group charges related to development projects and service fees.

NOTE 7 PERSONNEL EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Wages and salaries	-2,609	-2,004
Indirect personnel expenses	-103	-56
Pension costs		
Defined contribution plans	-425	-377
Total personnel expenses	**-3,137**	**-2,437**

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

NOTE 8 OTHER OPERATING EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Other administrative expenses		
Other personnel expenses	-139	-180
Office expenses	-1,030	-758
ICT expenses	-5,809	-5,637
Telecommunications	-316	-234
Entertainment and marketing expenses	-89	-334
Other administrative expenses total	**-7,383**	**-7,144**
Other operating expenses		
Rental expenses	-70	-78
Audit fees	-24	-10
Other operating expenses	-161	-300
Other operating expenses total	**-255**	**-388**
Total other operating expenses	**-7,638**	**-7,532**
Audit fees		
Statutory audit	-17	-10
Other expert services	-7	-
Total audit fees	**-24**	**-10**

After the adoption of IFRS 16, only expenses from items covered by exemptions providing practical relief are presented in the rental expenses and expenses from owner-occupied properties.

Other than audit services from KPMG Oy Ab totalled to EUR 7 thousand (0) during the finacial year 2020.

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

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Machinery and equipment	-16	-15
Right of use assets	-117	-116
Intangible assets	-960	-711
Total depreciation of property, plant and equipment and intangible assets	**-1,093**	**-842**

More detailed information about right off use assets is provided in Note 28.

NOTE 10 INCOME TAXES

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Current tax	-183	-12
Tax for prior financial years	-	-3
Withholding tax paid outside Finland	-3	-4
Change in deferred tax assets	-48	-118
Change in deferred tax liabilities	59	74
Total income taxes	**-176**	**-64**

RECONCILIATION BETWEEN TAX EXPENSE IN THE INCOME STATEMENT AND TAX EXPENSE CALCULATED USING THE APPLICABLE TAX RATE

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Profit before tax	888	306
Income tax rate	20 %	20 %
Tax calculated at the tax rate	-178	-61
- Non-deductible expenses	0	0
+ Deductible expenses not included in the profit	2	1
- Tax for prior financial years	-	-3
Tax expense in the income statement	**-176**	**-64**

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

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Financial assets		
At fair value through other comprehensive income		
Interest income ja expenses	20	-329
Transferred from fair value reserve	38	113
Dividend income	9	20
Capital gains and losses	29	-6
Expected credit loss	-6	38
Total	**89**	**-164**
Measured at amortised cost		
Interest income ja expenses	8,355	5,377
Other income	1,750	1,712
Expected credit loss	-1,073	-1,308
Total	**9,032**	**5,780**
Financial liabilities		
Measured at amortised cost		
Interest income ja expenses	-1,246	-852
Total	**-1,246**	**-852**
Net income from foreign exchange operation	**364**	**364**
Total	**8,238**	**5,128**

NOTES TO ASSETS

NOTE 12 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS 31 DECEMBER 2020

(EUR 1,000)	Measured at amortised cost	Measured at fair value through other comprehensive income	Expected Credit Loss	Total carrying amount
Cash funds	380,108	-	-	380,108
Loans and receivables from credit institutions to credit institutions	314,972	-	5	314,967
Loans and receivables to customers	86,821	-	2,662	84,159
Notes and bonds *)	40,000	172,662	16	212,647
Shares and participations	-	2,708	-	2,708
Total financial assets	**821,901**	**175,370**	**2,683**	**994,589**
Other assets				11,891
Total assets 31 December 2020				**1,006,480**

*) Expected credit loss of EUR 35 thousand (29) from debt securities have been recorded in the fair value reserve.

FINANCIAL ASSETS 31 DECEMBER 2019

(EUR 1,000)	Measured at amortised cost	Measured at 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 of EUR 29 thousand from debt securities have been recorded in the fair value reserve.

FINANCIAL LIABILITIES 31 DECEMBER 2020

(EUR 1,000)	Measured at amortised cost	Total carrying amount
Liabilities to credit institutions	659,657	659,657
Liabilities to customers	36,654	36,654
Debt securities issued to the public	266,346	266,346
Total financial liabilities	**962,658**	**962,658**
Other liabilities	-	9,454
Total liabilities 31 December 2020		**972,112**

FINANCIAL LIABILITIES 31 DECEMBER 2019

(EUR 1,000)	Measured at amortised cost	Total carrying amount
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 2019		**556,198**

NOTE 13 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES AND FAIR VALUES BY VALUATION TECHNIQUE

FAIR VALUE HIERARCHY LEVELS OF ITEMS RECURRENTLY RECOGNISED AT FAIR VALUE

ITEMS RECURRENTLY MEASURED AT FAIR VALUE 31 DECEMBER 2020

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value
At fair value through other comprehensive income				
Shares and participations	-	-	2,708	2,708
Debt securities	69,510	103,153	-	172,662
Total	**69,510**	**103,153**	**2,708**	**175,370**

ITEMS RECURRENTLY MEASURED AT FAIR VALUE 31 DECEMBER 2019

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value
At fair value through other comprehensive income				
Shares and participations	-	-	1,468	1,468
Debt securities	73,182	19,513	-	92,695
Total	**73,182**	**19,513**	**1,468**	**94,163**

FAIR VALUE HIERARCHY LEVELS OF ITEMS RECOGNIZED AT AMORTISED COST

ASSETS MEASURED AT AMORTISED COST 31 DECEMBER 2020

(EUR 1,000)	Level 1	Level 2	Total fair value	Carrying amount
Loans and advances to credit institutions	-	314,967	314,967	314,967
Loans and advances to customers	-	90,092	90,092	84,159
Investment assets				
Debt securities	-	40,208	40,208	39,984
Total	**-**	**445,267**	**445,267**	**439,110**

LIABILITIES MEASURED AT AMORTISED COST 31 DECEMBER 2020

(EUR 1,000)	Level 1	Level 2	Total fair value	Carrying amount
Liabilities to credit institutions	-	659,657	659,657	659,657
Liabilities to customers	-	36,654	36,654	36,654
Debt securities issued to the public	-	270,944	270,944	266,346
Total	**-**	**967,256**	**967,256**	**962,658**

ASSETS MEASURED AT AMORTISED COST 31 DECEMBER 2019

(EUR 1,000)	Level 1	Level 2	Total fair value	Carrying amount
Loans and advances to credit institutions	-	253,317	253,317	253,317
Loans and advances to customers	-	78,323	78,323	76,434
Total	**-**	**331,640**	**331,640**	**329,751**

LIABILITIES MEASURED AT AMORTISED COST 31 DECEMBER 2019

(EUR 1,000)	Level 1	Level 2	Total fair value	Carrying amount
Liabilities to credit institutions	**-**	**415,939**	415,939	**415,939**
Liabilities to customers	**-**	**17,338**	17,338	**17,338**
Debt securities issued to the public	96,795	20,026	116,821	114,829
Total	**96,795**	**453,304**	**550,099**	**548,107**

FAIR VALUE DETERMINATION OF FINANCIAL ASSETS AND FINANCIAL 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 2 POP Bank Group's accounting policies.

Debt securities issued to the public have been transferred from hierarchy level 1 to hierarchy level 2 based on the volume of trades during the reporting period.

FAIR VALUE HIERARCHIES

Level 1 includes financial instruments that are measured on the basis of quotations obtained from liquid markets. A market is considered as liquid if quotations are regularly available. This group included all securities with publicly quoted prices.

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

Level 3 includes financial instruments and other assets and liabilities 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 teghniques 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 and investment properties.

TRANSFERS BETWEEN FAIR VALUE HIERARCHIES

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.

CHANGES IN FINANCIAL ASSETS RECURRENTLY MEASURED AT FAIR VALUE CLASSIFIED INTO LEVEL 3

(EUR 1,000)	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total
Carrying amount 1 Jan 2020		**1,468**	**1,468**
+/- Changes in value recognised in other comprehensive income	-	1,240	1,240
Carrying amount 31 Dec 2020	**-**	**2,708**	**2,708**

(EUR 1,000)	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total
Carrying amount 1 Jan 2019		**1,032**	**1,032**
+/- Changes in value recognised in other comprehensive income	-	436	**436**
Carrying amount 31 Dec 2019	**-**	**1,468**	**1,468**

SENSITIVITY ANALYSIS OF FINANCIAL ASSETS AT LEVEL 3

31 December 2020

		Possible effect on equity capital	
(EUR 1,000)	Carrying amount	Positive	Negative
Financial assets at fair value through other comprehensive income	2,708	406	-406
Total	**2,708**	**406**	**-406**

31 December 2019

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

The sensitivity of financial assets recurrently measured at fair value at level 3 has been calculated for interest rate linked investments by assuming a 1 percentage points change in interest rates and for other investments by assuming the market price of the security to change by 15%.

Bonum Bank Plc does not have assets measured non-recurrently at fair value.

NOTE 14 IMPAIRMENT LOSSES ON FINANCIAL ASSETS

IMPAIRMENT LOSSES RECORDED DURING THE REPORTING PERIOD

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Change of ECL due to write-offs	1,109	157
Change of ECL, receivables from customers and off-balance sheet items	-2,198	-1,465
Change of ECL, debt securities	-6	38
Final credit losses	-2,770	-398
Impairment losses total	**-3,865**	**-1,669**

During the financial year, EUR 2770 thousand (398) was recognised as final credit loss. Recollection measures are attributed to the whole amount.

Changes in expected credit loss (ECL) during the financial period are presented in the tables below. 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. The changes in ECL are explained in more detail in Note 2.

The principles for calculating expected credit losses and determining the probability of default are pre-sented in IFRS financial statements of the POP Bank Group's on 31 December 2020 section 4.5 Impairment of financial assets of Note 2 POP Bank Group's accounting policies.

RECEIVABLES FROM CREDIT INSTITUTIONS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2020	**3**	**-**	**-**	**3**
Increases due to origination	2	-	-	2
Decreases due to derecognition	0	-	-	0
Changes due to change in credit risk (net)	0	-	-	0
Total	**1**	**-**	**-**	**1**
ECL 31 Dec 2020	**4**	**-**	**-**	**4**

RECEIVABLES FROM CUSTOMERS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2020	**1,007**	**57**	**587**	**1,651**
Transfers to stage 1	3	-11	-40	-47
Transfers to stage 2	-225	54	-17	-188
Transfers to stage 3	-111	-6	997	880
Increases due to origination	564	29	465	1,058
Decreases due to derecognition	-161	-33	-462	-656
Changes due to change in credit risk (net)	-33	-1	1,107	1,073
Decreases due to write-offs	-	-	-1,109	-1,109
Total	**39**	**32**	**941**	**1,011**
ECL 31 Dec 2020	**1,046**	**89**	**1,528**	**2,662**

DEBT SECURITIES

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2020	**28**	**2**	**-**	**29**
Increases due to origination	31	-	-	31
Decreases due to derecognition	-6	0	-	-6
Changes due to change in credit risk (net)	-3	0	-	-3
Total	**22**	**0**	**-**	**22**
ECL 31 Dec 2020	**50**	**1**	**-**	**51**

OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2020	**157**	**25**	**34**	**215**
Transfers to stage 1	3	-14	-23	-34
Transfers to stage 2	-6	32	-1	26
Transfers to stage 3	-1	0	9	8
Increases due to origination	41	19	15	75
Decreases due to derecognition	-4	0	0	-5
Changes due to change in credit risk (net)	-8	-4	1	-10
Total	**25**	**33**	**1**	**60**
ECL 31 Dec 2020	**182** **0**	**58**	**35**	**275**
ECL 1 Jan 2020	**1,195**	**83**	**620**	**1,899**
ECL 31 Dec 2020	**1,282**	**148**	**1,562**	**2,993**

CREDIT RISK BY STAGES 31 DEC 2020

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
Private	70,975	4,022	3,878	78,874
Corporate	7,947	-	-	7,947
Receivables from customers total	**78,922**	**4,022**	**3,878**	**86,821**
Off-balance sheet commitments				
Private	120,393	2,998	222	123,613
Corporate	1,741	-	-	1,741
Off-balance sheet commitments total	**122,135**	**2,998**	**222**	**125,354**
Debt securities				
Receivables from credit institutions	274,310	-	-	274,310
Total	**687,721**	**7,328**	**4,099**	**699,148**

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**

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 in calculation parametres	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**

DEBT SECURITIES

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2019	**60**	**7**	**-**	**67**
Transfers to stage 2	15	2	-	16
Increases due to origination	-45	-7	-	-52
Decreases due to derecognition	-2	-	-	-2
Changes due to change in credit risk (net)	-	-	-	-
Changes in calculation parametres	-	-	-	-
Total	**-32**	**-5**	**0**	**-38**
ECL 31 Dec 2019	**28**	**2**	**0**	**29**

OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2020	**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	**157**	**25**	**34**	**215**
ECL 1 Jan 2019	**339**	**48**	**241**	**628**
ECL 31 Dec 2019	**1,195**	**83**	**620**	**1,899**

BALANCE SHEET ITEM BY STAGE 31 DEC 2019

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
Private	68	2	2	71
Corporate	7	-	-	7
Receivables from customers total	**75**	**2**	**2**	**78**
Off-balance sheet commitments				
Private	94	1	0	96
Corporate	27	-	-	27
Off-balance sheet commitments total	**121**	**1**	**0**	**122**
Debt securities	**91**	**2**	**-**	**93**
Receivables from credit institutions	215	-	-	215
Total	**502**	**5**	**2**	**508**

NOTE 15 CASH FUNDS

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Cash	-	0
Receivables from central banks repayable on demand	380,108	155,350
Total cash and cash equivalents	**380,108**	**155,350**

Cash and cash equivalents include cheque account with the Bank of Finland. Increase of total cash and cash equivalents is due to strong growth in bank deposits.

NOTE 16 LOANS AND RECEIVABLES

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Loans and receivables from credit institutions		
Deposits		
Repayable on demand	40,661	37,920
Other	274,306	215,397
Total loans and advances to credit institutions	**314,967**	**253,317**
Loans and receivables from customers		
Loans	46,420	37,932
Credit card receivables	37,717	38,312
Other receivables	22	190
Total loans and advances to customers	**84,159**	**76,434**
Total loans and receivables	**399,126**	**329,751**

NOTE 17 INVESTMENT ASSETS

(EUR 1,000)	30 Jun 2020	31 Dec 2019
At fair value through other comprehensive income		
Debt securities	172,662	92,695
Shares and participations	2,708	1,468
Measured at amortised cost		
Debt securities	39,984	-
Investment assets total	**215,354**	**94,163**

INVESTMENTS ON 31 DECEMBER 2020

(EUR 1,000)	At fair value through other comprehensive income		Measured at amortised cost	
	Debt securities	Shares and participations	Debt securities	Total
Quoted				
Public sector entities	42,510	-	-	42,510
Other	26,999	-	39,984	66,984
Other				
Public sector entities	103,153	-	-	103,153
Other	-	2,708	-	2,708
Total	**172,662**	**2,708**	**39,984**	**215,354**

INVESTMENTS ON 31 DECEMBER 2019

(EUR 1,000)	At fair value through other comprehensive income		
	Debt securities	Shares and participations	Total
Quoted			
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
Total	**92,695**	**1,468**	**94,163**

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 increase of Information systems during the year is due to completed card system project.

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Information systems	6,450	1,167
Other long-term expenditures	12	19
Incomplete intangible assets	475	4,081
Total intangible assets	**6,937**	**5,266**

CHANGES IN INTANGIBLE ASSETS 2020

(EUR 1,000)	Information systems	Intangible assets under development	Other long-term expenditures	Total
Acquisition cost on 1 Jan	**4,065**	**4,081**	**20**	**8,166**
+ Increases	-	2,630	-	2,630
+/- Transfers between items	6,236	-6,236	-	-
Acquisition cost on 31 Dec	**10,301**	**475**	**20**	**10,796**
Accumulated amortisation and impairments on 1 Jan	-2,898	-	-1	-2,900
- Amortisation	-953	-	-7	-960
Accumulated amortisation and impairments on 31 Dec	**-3,851**	**-**	**-8**	**-3,859**
Carrying amount on 1 Jan	**1,167**	**4,081**	**19**	**5,266**
Carrying amount on 31 Dec	**6,450**	**475**	**12**	**6,937**

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
- Decreases	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**

NOTE 19 PROPERTY, PLANT AND EQUIPMENT

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Machinery and equipment	68	39
Right of use assets	299	232
Total property, plant and equipment total	**367**	**271**

CHANGES IN MACHINERY AND EQUIPMENT

(EUR 1,000)	Right-of-use items	Machinery and equipment	31 Dec 2020
Acquisition cost on 1 Jan	**348**	**146**	**494**
+ Increases	184	46	230
Acquisition cost on 31 Dec	**532**	**192**	**724**
Accumulated depreciation and impairments on 1 Jan	**-116**	**-107**	**-223**
- Depreciation	-117	-16	-133
Accumulated depreciation and impairments on 31 Dec	**-233**	**-124**	**-356**
Carrying amount on 1 Jan	**232**	**39**	**271**
Carrying amount on 31 Dec	**299**	**68**	**367**

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

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	**-**	**-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**

NOTE 20 OTHER ASSETS

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Accrued income and prepaid expenses		
Interest	1,870	1,248
Other accrued income and prepaid expenses	2,279	1,991
Other	379	449
Other assets total	**4,528**	**3,688**

NOTE 21 DEFERRED TAXES

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Income tax receivable	**-**	**33**
Deferred tax assets	58	108
Total tax assets	**58**	**141**
Income tax liabilities	183	-
Deferred tax liabilities	617	371
Total tax liabilities	**800**	**371**

DEFERRED TAX ASSETS 2019

(EUR 1,000)	1 Jan 2020	Recognised through profit or loss	Recognised in other comprehensive income	31 Dec 2020
At fair value through other comprehensive income	5	-	-1	5
Deferred tax assets total	102	-48	-	54
Yhteensä	**108**	**-48**	**-1**	**58**

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 LIABILITIES 2020

(EUR 1,000)	31 Dec 2019	Recognised through profit or loss	Recognised in other comprehensive income	31 Dec 2019
At fair value through other comprehensive income	236	-	305	541
Intangible assets	135	-59	-	76
Deferred tax liabilities total	**371**	**-59**	**305**	**617**

DEFERRED TAX LIABILITIES 2019

(EUR 1,000)	31 Dec 2017	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**

AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME AND RELATED DEFERRED TAXES 2020

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	2,017	-794	1,223
Amounts recognised in other comprehensive income, total	**2,017**	**-794**	**1,223**

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**

NOTES RELATING TO LIABILITIES AND EQUITY

NOTE 22 LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Liabilities to credit institutions		
Central Banks	50,000	-
Repayable on demand	368,224	250,364
Other	241,433	165,575
Total liabilities to credit institutions	**659,657**	**415,939**
Liabilities to customers		
Deposits		
Repayable on demand	36,654	17,338
Total liabilities to customers	**36,654**	**17,338**
Total liabilities to credit institutions and customers	**696,312**	**433,278**

In June Bonum Bank Plc participated to ECB's TLTRO III programme with EUR 50 million which is included in Liabilities to Credit Institutions. The loan expires on 30 June 2023 but repayment is possible starting from 29 September 2021. The terms of the loan are more favourable compared to market-based line of credit. Financial relevance of the loan compared to a market-based credit is not significant. Interest rate of the loan is determined by the rate of ECB's deposit facility. In addition, the growth of POP Bank Group's outstanding loans have an affect on the interest rate of the ECB loan, as according to the terms of the TLTRO programme.

NOTE 23 DEBT SECURITIES ISSUED TO THE PUBLIC

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Bonds	224,910	94,839
Certificates of deposits	41,436	19,990
Total debt securities issued to the public	**266,346**	**114,829**

DEBT SECURITIES ISSUED TO THE PUBLIC

Name	Issue date	Due date	Interest	Nominal (EUR 1000)	Currency
BONUM FRN 290121	29.1.2019	29.1.2021	EB 3kk + 0,75 %	20,000	EUR
BONUM FRN 180422	18.4.2019	18.4.2022	EB 3kk + 0,88 %	75,000	EUR
Debt securities issued during the year					
BONUM FRN 120723	3.6.2020	12.7.2023	EB 12kk + 1,044 %	50,000	EUR
BONUM FRN 170124	3.6.2020	17.1.2024	EB 12kk + 1,2 %	55,000	EUR

In addition, certificates of deposit with a total nominal value of EUR 41,5 million (20) were outstanding on the balance sheet date. Amount of the certificates is 12, nomimals range from 1,5 million to 5 million euros with average maturity of 9,9 months.

DEBT SECURITIES PRESENTED IN CASH FLOW RECONCILIATION TO BALANCE SHEET

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Balance sheet 1 Jan	**114,829**	**142,399**
Increase of bonds	129,995	114,764
Increase of Certificates of deposits	116,826	24,986
Total increase	**246,821**	**139,750**
Decrease of bonds	-	-119,980
Decrease of Certificates of deposits	-95,426	-47,469
Total decrease	**-95,426**	**-167,449**
Total changes of cash flow of financial activities	**151,395**	**-27,699**
Valuations and accrued interests	122	130
Balance sheet 31 Dec	**266,346**	**114,829**

NOTE 24 OTHER LIABILITIES

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Provision for expected credit loss	275	215
Other liabilities		
Payment transfer liabilities	858	551
Rental liabilities, right of use items	310	233
Accrued expenses		
Interest payable	798	165
Advances received	757	1,044
Other accrued expenses	1,261	1,241
Other		
Liabilities on card transactions	2,977	3,573
Other	1,417	699
Total other liabilities	**8,653**	**7,721**

Lease liabilities are presented in Note 28.

NOTE 25 CAPITAL AND RESERVES

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Share capital	10,000	10,000
Restricted reserves		
Fair value reserve		
From measurement of equity instruments (IFRS 9)	1,616	624
From measurement of liability instruments (IFRS 9)	583	351
Non-restricted reserves		
Reserve for invested non-restricted equity	20,000	20,000
Retained earnings		
Profit (loss) for previous financial years	1,457	1,215
Profit (loss) for the period	712	242
Total equity	**34,368**	**32,433**

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 the cumulative net change in the fair value of equity securities measured at FVOCI and the cumulative net change in the fair value of debt securities measured at FVOCI. The change in the fair value can be positive or negative. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment. An expected credit loss on debt security is recognised in the income statement and added to the fair value reserve. The fair value reserve also includes changes in the fair value of equity securities recognised in the fair value of comprehensive income, which are not transferred to retained earnings upon later disposal.

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 2020

(EUR 1,000)	Liability instruments	Equity instruments	Total
Fair value reserve on 1 Jan 2020	**351**	**624**	**976**
Fair value change, increases	1,624	2,801	4,425
Fair value change, decreases	-1,303	-1,561	-2,865
Transferred to the income statement	-38	-	-38
Expected credit loss	6	-	6
Deferred taxes	-58	-248	-306
Fair value reserve on 31 Dec 2020	**583**	**1,616**	**2,199**

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**
Fair value change, increases	1,095	620	1,715
Fair value change, decreases	-783	-185	-967
Transferred to the income statement	-113	-	-113
Expected credit loss	-38	-	-38
Deferred taxes	-32	-87	-119
Fair value reserve on 31 Dec 2019	**351**	**624**	**976**

OTHER NOTES

NOTE 26 COLLATERAL GIVEN

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Collaterals given		
Given on behalf of own liabilities and commitments		
Other collateral to the Bank of Finland	115,673	20,740
Other collateral to the Bank of Finland	**115,673**	**20,740**

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Collaterals received		
Collaterals received from banks of POP Bank Group	59,360	57,935
Total collateral given	**59,360**	**57,935**

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)	31.12.2020	31.12.2019
Loan commitments	125,354	122,235
Total off-balance sheet commitments	**125,354**	**122,235**

The expected credit losses of off-balance sheet commitments are presented in note 14.

NOTE 28 OTHER LEASES

BONUM BANK PLC AS LESSEE

Bonum Bank Plc has leased mainly business premises.

RIGHT-OF-USE ASSETS 31 DEC 2020

(EUR 1,000)	Office Buildings	Total
Acquisition cost 1 Jan	**348**	**348**
+ Increases	184	**184**
- Decreases	-	**-**
Acquisition cost 31 December	**532**	**532**
Accumulated depreciation and impairment 1 January	**-116**	**-116**
+/- Accumulated depreciation on decreases and transfers	-	**-**
- Depreciation	-117	**-117**
Accumulated depreciation and impairment 31 December	**-233**	**-233**
Carrying amount 1 January		**232**
Carrying amount 31 December		**299**

Presented in Property, Plant and Equipment

RIGHT-OF-USE ASSETS 31 DEC 2019

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

Presented in Property, Plant and Equipment

LIABILITIES / LEASE LIABILITIES

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Lease liabilities 1 Jan	**233**	**231**
+ Increases	184	117
- Decreases	-106	-115
Lease liabilities 31 Dec	**310**	**233**

Presented in other liabilities

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Total cash outflow for leases	-107	-116

AMOUNTS RECOGNISED IN PROFIT OF LOSS

(EUR 1,000)	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Depreciation		
Office Buildings	-117	-116
Total	**-117**	**-116**
Presented in Depreciation, Amortisation and Impairment of Property, Plant and Equipment		
Interest on lease liabilities		
Presented in Net interest Income	0	0
Variable lease payments not included in the measurement of lease liabilities	-32	-51
Expenses relating to short-term leases	-10	0
Espenses relating to leases of low-value assets	-13	-13
Total	-55	-64

Presented in other operating expenses.

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 Centre coop, 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 Centre coop managing director and deputy managing director. Also entities in the same group with Bonum Bank belong to the related parties.

In the financial period 2020, 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 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Assets				
Loans	221	216	205	-
ECL	0	-	0	-
Liabilities				
Deposits	-4	196	94	1,024
Off-balance-sheet commitments				
Loan commitments	26	4	-	250

COMPENSATION TO KEY PERSONS IN MANAGEMENT

(EUR 1,000)	**1 Jan-31 Dec 2020**	**1 Jan-31 Dec 2019**
Short-term employee benefits	864	725
Total	**864**	**725**

COMPENSATION TO KEY PERSONS IN MANAGEMENT 1 JAN - 31 DEC 2020

(EUR 1,000)	**Salaries and remuneration**
Ali-Tolppa Pia, CEO	197
Lemettinen Pekka, Chairman of the Board	27
Linna Hanna, Vice Chairman of the Board	16
Helenius Arvi, member of the Board, to 31 July 2020	6
Lähteenmäki Ilkka, member of the Board, from 20 March 2020	13
Salo Kirsi, member of the Board, from 1 August 2020	10
Zilliacus Mikael, member of the Board, to 19 March 2020	3
Total	**270**

NOTE 30 EVENTS AFTER THE REPORTING PERIOD

S&P Ratings has affirmed January 22, 2021 Bonum Bank Plc's long-term counterparty credit ratings 'BBB' and short-term credit rating 'A-2'. The agency revised the bank's outlook from negative to stable.

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 15th 2021

Board of Directors of Bonum Bank Plc

Pekka Lemettinen
Chairman of the Board

Hanna Linna

Ilkka Lähteenmäki

Kirsi Salo

Pia Ali-Tolppa
CEO

Auditor's note

A report on the audit performed has been issued today.

Espoo, February 15th 2021

KPMG Oy Ab

Tiia Kataja
APA

POP Bank

Bonum Bank Plc