Bonum Bank Plc

ANNUAL REPORT

2021

POP Bank
Bonum Bank Plc

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This document is a translation of the original Finnish version “Bonum Pankki Oyj:n vuosikertomus 2021”. In case of discrepancies, the Finnish version shall prevail.

BONUM BANK PLC ANNUAL REPORT 2021

BOARD OF DIRECTORS' REPORT

Bonum Bank Plc (hereinafter "Bonum Bank") is part of the amalgamation of POP Banks and is responsible for providing 21 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. The purpose of Bonum Bank's internal service production is to limit the Group's dependence on external service providers and enhance the efficiency of the whole Group's cost structure. In its external business operations, Bonum Bank provides services that are in line with the Group's strategy and supplement its offering.

During 2021, Bonum Bank effectively operated as the central credit institution for the banks of the amalgamation, arranging funding from the capital markets for the member banks. The bank also provided the member credit institutions with the option to invest their excess liquidity in Bonum Bank. In the second half of 2021, Bonum Bank issued two long-term directed senior bonds (EUR 20 million and EUR 30 million) under its EUR 750 million bond programme. During the year, Bonum Bank also acquired funding by issuing short-term certificates of deposit under its EUR 250 million certificates of deposit programme and by accepting money market deposits. In addition, Bonum Bank continued to benefit from the European Central Bank's TLTRO funding operation by participating in its TLTRO 3.7 and 3.8 operations to the amount of EUR 78.4 million during the first half of the year. At the end of the financial period, Bonum Bank had a total of EUR 128.4 (50.0) million in TLTRO III funding.

In addition to providing central credit institution services, Bonum Bank is responsible for issuing payment cards and card credit facilities to the POP Banks' customers, as well as for maintaining these services. Bonum Bank is a shareholder in Visa Europe and provides card products under the Visa brand. Card processes, card products and card payment services are being continuously developed and enhanced in cooperation with internal and external stakeholders. During 2021, new card-related functionalities were again added to the POP Bank mobile banking application, including Apple Pay. The Service Centre, which was founded in the previous year, has established its position as a provider of centralised services within the Group. During the year, the Service Centre focused on expanding its offering and improving operational efficiency.

Bonum Bank is actively seeking new business opportunities to supplement the Group's product offering. POP Pikalaina is Bonum Bank's own fully digital retail banking product. 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 from POP Pikalaina, and the targeted growth rate was not achieved until the final quarter of the year. In November unsecured loan portfolio was transferred to the new system and the process and principles of calculating expected credit loss were reviewed. In the future receivable items with collection measures will be assessed more closely. The change did not have a significant impact on Bonum Bank's financial statement. Final credit loss due to unsecured loan receivables and also the amount of cancelled credit loss is expected to decrease whereas the of amount expected credit loss (ECL) is anticipated to increase. Lending to partners' customers grew rapidly towards the end of the year.

Improving the efficiency and systems of anti-money laundering were key development focuses during the year. This included updating the binding guidelines on the prevention of money laundering and other financial crime, increasing the selection of solutions and the amount of resources available for continuous monitoring, and acquiring and implementing a completely new

AML monitoring system, as well as active communication and a considerable increase in training. In the future, the anti-money laundering measures of the Group's banks will be implemented centrally by Bonum Bank, using the new system. The new system and centralised services will ensure the effective prevention of money laundering and terrorist funding in present day circumstances and make the monitoring of asset transfers more efficient.

Preparations for starting mortgage banking operations are in progress in the POP Bank Group. The capacity to issue secured bonds will support the business growth of the member banks of the amalgamation and will ensure a competitive price level for long-term wholesale financing. Bonum Bank's personnel have been actively involved in the preparation of the project.

In August, S&P Global Ratings confirmed Bonum Bank's ratings of BBB for long-term investment grade and A-2 for short-term investment grade. The credit rating remained unchanged.

Bonum Bank's Annual General Meeting was held in April 2021. The Annual General Meeting dealt with statutory matters and elected Pekka Lemettinen, Hanna Linna, Kirsi Salo and Ilkka Lähteenmäki to the Board of Directors. Pekka Lemettinen has served as Chair of the Board.

On 2 December, 2021 POP Bank Centre coop's Board of Directors appointed Acting CEO of the POP Bank Centre coop Jaakko Pulli as member of the Bonum Bank's Board of Directors as of January 1st, 2022 thus replacing Pekka Lemettinen.

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 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.

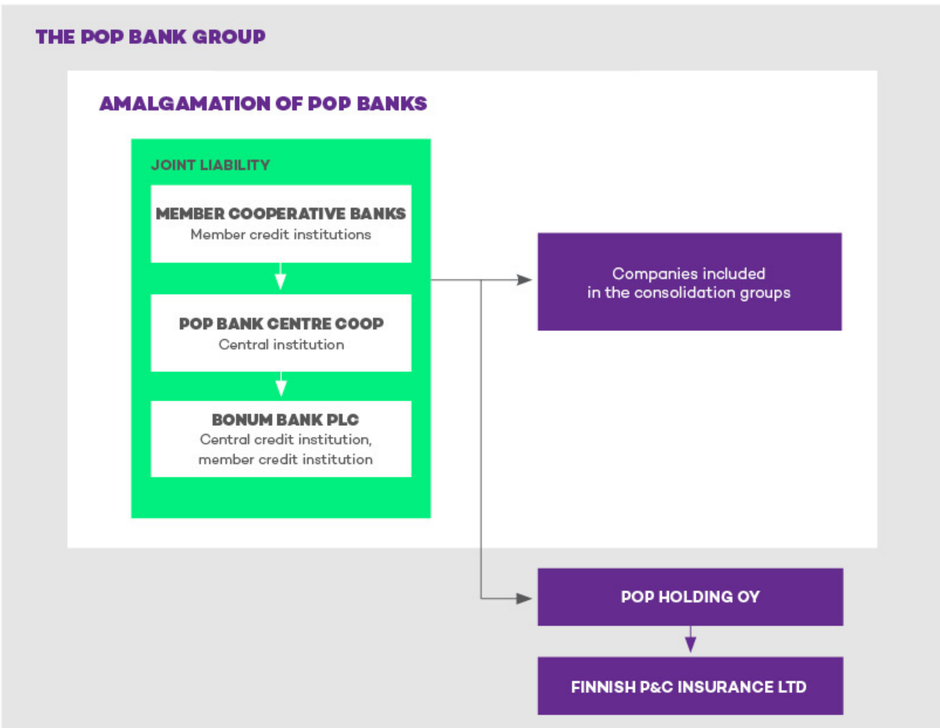
The POP Bank Group comprises of POP Banks and POP Bank Centre coop, and the entities under their control. The most significant companies with customer operations in the POP Bank Group are:

- 21 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 POP Banks are cooperative banks owned by their member customers. In accordance with the Amalgamation Act, the central institution shall prepare financial statements as a combination of the financial statements or the consolidated financial statements of the central institution and its member credit institutions in accordance with the International Financial Reporting Standards (IFRS). 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.

The following chart 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).

POP BANK GROUP STRUCTURE



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 and the new coronavirus variants, as well as the restrictive measures to control infections, continue to have significant impacts on the global economy. Economic recovery was achieved gradually after the shock impact of the steep fall in production in the previous year. This trend was significantly aided by the extensive economic support programmes started by governments in 2020, and by the European Central Bank's support measures to maintain banks' funding capacity.

The inflation rate increased rapidly during the second half of the year, due to higher energy prices in particular. If the rapid inflation trend is not temporary, it will increase future-related economic risks.

Measures to combat climate change are playing a continuously growing role in Finland and Europe. As a result of these measures, there are already signs of impacts that are causing costs to increase through emissions allowance price rises, for example. On the other hand, companies' transfer to more environmentally friendly operating models has furthered new investments and improved employment.

The eurozone economy, which is key for Finnish exports, recovered strongly during 2021. Although the infection situation continued to be challenging in Europe, in particular, economic activity and the rest of society have effectively adapted to the prolonged restrictions. Recovery has been hindered by global bottlenecks in production and deliveries. Logistical challenges have contributed to the rapid increase in inflation rates in Finland and the eurozone, and especially in the United States.

Finnish economic growth has been more moderate than in the eurozone in general, but the decrease in production in 2020 was also more moderate in Finland. While Finland's GDP decreased by 2.9% in 2020, it grew by around 3.5% in 2021, which means that the slump in total production caused by the coronavirus pandemic has been cancelled out. The growth was expected to continue in 2021, driven by exports and a higher employment rate, but the Omicron variant, which spread exponentially towards the end of the year, cast a shadow on the short-term economic outlook.

During the first year of the coronavirus pandemic, household consumption decreased substantially, following various restrictions on travel and the restaurant business, for example. The restrictive measures were reduced when the vaccination coverage increased and the infection situation began to ease, particularly in the summer and early autumn of 2021, but the positive trend turned out to be temporary. Tighter restrictions were imposed again when the infection situation worsened towards the end of the year.

Household savings increased to a record high in 2020. Consequently, consumers were able to make major investments in 2021. Interest rates remained low, which encouraged consumers to borrow. Households became particularly interested in building and renovating, which caused the building supplies market to overheat severely during 2021. Housing sales were also active, and the number of housing loans grew markedly. Housing prices continued to increase as well, especially in growth centres, but also somewhat in smaller towns. However, the price trend has been negative in many small localities.

Major waves of corporate bankruptcy have so far been avoided, and company outlooks have turned more positive, although their financial situations have developed differently in different sectors. In the tourism, hotel, catering and event sectors, there was distress for the second consecutive year. The grain harvest was modest in 2021, and farms continued to face challenges with profitability. The demand for timber and pulp continued to be strong, which supported an upturn in the forest industry.

FINANCIAL POSITION

PERFORMANCE

Bonum Bank Plc's profit for the financial year was EUR 1,046 thousand, whereas last year that was EUR 712 thousand. 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 75,4 per cent (71,4).

The bank's key income statement items have developed as follows, compared with year 2020:

(EUR 1,000)	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	Change-%
Interest income	11,132	9,203	21.0
Interest expenses	-2,634	-2,142	23.0
Net interest income	**8,498**	**7,061**	**20.3**
Net commissions and fees	6,639	7,207	-7.9
Net investment income	389	440	-11.6
Other operating income	3,105	2,484	25.0
Total operating income	**18,630**	**17,192**	**8.4**
Personnel expenses	-4,273	-3,137	36.2
Other operating expenses	-8,665	-8,380	3.4
Depreciation and amortisation	-1,103	-923	19.5
Total operating expenses	**-14,041**	**-12,440**	**12.9**
Impairment losses on financial assets	-3,281	-3,865	-15.1
Profit before taxes	**1,309**	**888**	**47.4**
Income taxes	-263	-176	49.7
Result for the period	**1,046**	**712**	**46.9**

Operating income totalled EUR 18,630 thousand (17,192). The increase in income arose from the favourable development of the bank's net interest income, which amounted to EUR 8,498 thousand (7,061). This represents an increase of 20,3 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 decreased to EUR 6,639 thousand (7,207 thousand). Commission income consists mostly of income from the cards business and payment transmission fees.

Net investment income decreased to EUR 389 thousand (440). Net investment income concsists of mainly net gains from foreign currency transactions. Other operating income, totalling EUR 3,105 thousand (2,484), originated primarily from the Group's internal fees

Operating expenses totalled at EUR 14,041 thousand ((12,440) Personnel expenses, that are composed composed of salary expenses and pension and other indirect employee expenses, grew 36,2 per cent being in total EUR 4,273 thousand (3,137). Expenses grew because of an increase in the number of personnel. Other operating expenses increased year-on-year, amounting to EUR 8,665 thousand (8,380) This was mainly due to an increase in ICT expenses.

Impairment losses on financial assets decreased to EUR 3,281 thousand (3,865) during the period. Active collection measures are being targeted at receivables recognised as credit losses

BALANCE SHEET

At the end of the year 2021, Bonum Bank's balance sheet stood at EUR 1,037,914 (1,006,480) thousand.

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

(EUR 1,000)	31 Dec 2021	31 Dec 2020
Assets		
Cash funds	268,871	380,108
Loans and advances to credit institutions	442,718	314,967
Loans and advances to customers	116,455	84,159
Investment assets	197,563	215,354
Intangible assets	1,933	2,728
Property, plant and equipment	361	367
Other assets	10,008	8,737
Tax assets	5	58
Total assets	**1,037,914**	**1,006,480**
Liabilities		
Liabilities to credit institutions	655,626	659,657
Liabilities to customers	53,329	36,654
Debt securities issued to the public	284,920	266,346
Other liabilities	7,978	8,653
Tax liabilities	724	800
Total liabilities	**1,002,578**	**972,112**
Equity capital		
Share capital	10,000	10,000
Reserves	22,121	22,199
Retained earnings	3,215	2,169
Total equity capital	**35,336**	**34,368**
Total liabilities and equity	**1,037,914**	**1,006,480**

KEY FIGURES AND THE FORMULAS OF KEY FIGURES

	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017
Cost-to-income -ratio, %	75.4	71.4	84.6	94.9	95.6
ROA, %	0.10	0.09	0.04	0.03	0.02
ROE, %	3.00	2.13	0.76	0.60	0.44
Capital adequancy ratio (TC) %	21.8	24.1	29.7	43.7	53.2
Equity ratio, %	3.4	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

In January 2021, S&P Global Ratings has affirmed Bonum Bank Plc's long-term investment grade to 'BBB' and short-term investment grade to 'A-2'. At the same time, the agency revised the bank's outlook from negative to stable. The credit rating and the outlook were reconfirmed in August 2021.

SHAREHOLDINGS AND EQUITY

On 31 December 2021, 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 35,336 thousand (34,368).

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 RISKS

Bonum Bank's credit risk exposure grew during the financial period. Balance sheet items exposed to credit risk totalled EUR 316,004 (300,426) thousand at the end of 2021. Bonum Bank's off-balance sheet credit commitments totalled EUR 145,485 (125,354) thousand, consisting mainly of unrestricted credit facilities related to card credit and the POP Banks' liquidity facilities. Bonum Bank's most significant credit risks are related to investment activities and unsecured credits.

At the end of the financial period, Bonum Bank's investment assets totalled EUR 197,562 (215,354) thousand. 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 4,948 (3,621) thousand 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 distributing investment assets across sectors, counterparties and instrument classes.

The retail banking segment's loan portfolio increased by 38.3 per cent during the financial period, amounting to EUR 116,455 (84,159) thousand. Most of the lending was unsecured lending, which represented 61.4 per cent of the loan portfolio. Loans granted to private customers represented 82.3 (92.0) per cent of the loan portfolio.

Expected credit losses (ECL) on loans, receivables and off-balance sheet items increased by EUR 309 thousand during the financial period, amounting to EUR 3,302 thousand. With regard to the unsecured loan portfolio, EUR -2,972 (-2,770) thousand was recognised as final credit losses in 2021.

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 RISKS

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 141.3 (191.4) per cent on 31 December 2021, with the minimum level being 100 per cent. At the end of the financial period, Bonum Bank had EUR 457.9 (621.9) million in LCR-eligible liquid assets before haircuts, of which 61.1 (63.0) per cent consisted of cash and receivables from the central bank and 32.2 (32.4) per cent consisted of highly liquid Tier 1 securities. In addition, the member credit institutions of the amalgamation had EUR 28.0 (71.1) million in unpledged securities outside the LCR portfolio.

The requirement for stable funding, NSFR, became binding in 2021 (28 June 2021) as part of CRR II Regulation 2019/876, which reformed Capital Requirement Regulation 575/2013 of the European Parliament and of the Council. The minimum requirement is 100 perc ent. NSFR measures the maturity mismatch of assets and liabilities on the balance sheet and is responsible for ensuring that ongoing funding is sufficient to meet funding needs over a one-year period, thus preventing over-reliance on short-term wholesale funding. The consortium's NSFR ratio on 31 December 2021 was 130 (148) per cent.

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.

At the end of the year, Bonum Bank had EUR 255 (225) million outstanding in an unsecured senior loan issued as part of its EUR 750 million bond programme. Of the bank's EUR 250 million certificate of deposit programme, EUR 30.0 (41.5) million was outstanding at the end of the review period. In addition, Bonum Bank has a EUR 28.6 million loan programme with the Nordic Investment Bank (NIB). At the end of the financial period, Bonum Bank had a total of EUR 128.4 (50.0) million in TLTRO III funding from the European Central Bank.

MARKET RISKS

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

Bonum Bank's business operations do not include trading activities. Any use of derivatives is limited to hedging banking book items. Bonum Bank did not use any derivatives in 2021.

Bonum Bank monitors the interest rate risk using the present value method and the dynamic income risk model on a monthly basis. The present value method measures how changes in interest rates affect 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 used to monitor the market value changes caused by changes in the interest rates and credit spreads of investment items in different interest rate scenarios. The income risk model predicts 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 business operations and minimise their materialisation and impacts. The objective is pursued through continuous personnel development and by means of comprehensive operating instructions and internal control measures, such as by segregating preparation, decision-making, implementation and control from one another.

The operational risks associated with Bonum Bank's most significant new products, services, functions, processes and systems are identified in the assessment process for a new product or service. The bank carries out an annual self-assessment of operational risks on the basis of the risks assessments it performs, in which the monitoring of operational risk incidents is utilised. The risk assessment also aims to evaluate the risks related to Bonum Bank's most significant outsourced operations. Some of the potential losses caused by operational risks are hedged through insurance. Risks caused by malfunctions in information systems are prepared for through continuity planning.

CAPITAL ADEQUACY

Bonum Bank's capital adequacy was at a good level at the end of 2021. Its capital adequacy ratio was 21.8 (24.1) per cent, and its core capital adequacy ratio was 21.8 (24.1) per cent. At the end of 2021, the bank's own funds totalled EUR 31,763 (26,568) thousand, consisting entirely of CET1 capital. The increase in own funds was mainly due the reversal of earlier capitalisations in intangible assets on the balance sheet in accordance with amalgamation-level IFRS policies.

The bank's capital adequacy decreased moderately during 2021 because of an increase in the retail bank's loan portfolio and a related increase in risk-weighted receivables. Bonum Bank's retail banking business is expected to continue in 2022, which will increase the amount of its risk-weighted receivables accordingly.

The CRR II regulation (2019/876), amending the Capital Adequacy Regulation (575/2013) of the European Union and the European Council, has been applied to capital adequacy calculations since 28 June 2021. Bonum Bank's own funds consist of share capital, retained earnings and other non-restricted reserves, less the deductible items in accordance with the CRR. In line with the practice followed by the amalgamation, the bank does not include the profit accrued during the financial period in its own funds. Based on permission from the Financial Supervisory Authority, the member credit institutions of the amalgamation are exempted, by a decision of the central institution, from the own funds requirement for intra-group items, and from the restrictions imposed on major counterparties concerning items between the central credit institution and the member banks.

The minimum leverage ratio (LR) became binding in June as part of the amendment (CRR II) to the Capital Adequacy Regulation of the EU. The leverage ratio requirement is 3 per cent. The bank's leverage ratio was 4.9 per cent on 31 December 2021. With special permission from the Financial Supervisory Authority, intra-amalgamation items are deducted from the amount of liabilities in the calculation of the minimum leverage ratio.

At the beginning of 2021, the POP Bank Group adopted the definition of default under Article 178 of the EU Capital Adequacy Regulation (575/2013). 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 did not have a significant impact on the amount of the bank's default receivables during the financial period.

The statutory minimum is 8 per cent for the capital adequacy ratio and 4.5 per cent for CET1 capital. In addition to the minimum capital adequacy ratio, Bonum Bank is subject to the fixed additional capital requirement, which is 2.5 per cent in accordance with the Act on Credit Institutions, and to the variable country-specific additional capital requirements for foreign exposures.

SUMMARY OF CAPITAL ADEQUACY

Bonum Pankki Oyj **Summary of capital adequacy (EUR 1,000)**	**31 Dec 2021**	**31 Dec 2020**
Own funds		
Common Equity Tier 1 capital before deductions	34,290	33,656
Deductions from Common Equity Tier 1 capital	-2,527	-7,088
Total Common Equity Tier 1 capital (CET1)	**31,763**	**26,568**
Additional Tier 1 capital before deductions	-	-
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**31,763**	**26,568**
Tier 2 capital before deductions	-	-
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**-**	**-**
Total capital (TC = T1 + T2)	**31,763**	**26,568**
Total risk weighted assets	**145,727**	**110,125**
of which credit risk	112,834	83,048
of which credit valuation adjustment risk (CVA)	-	-
of which market risk (exchange rate risk)	2,999	2,867
of which operational risk	29,894	24,210
Fixed capital conservation buffer according to Act on Credit institutions (2.5%)	**3,643**	**2,753**
Countercyclical capital buffer	**2**	**0**
CET1 Capital ratio (%)	**21.8 %**	**24.1 %**
T1 Capital ratio (%)	**21.8 %**	**24.1 %**
Total capital ratio (%)	**21.8 %**	**24.1 %**
Capital requirement	-	
Total capital	31,763	26,568
Capital requirement *	15,304	11,563
Capital buffer	16,459	15,005
Leverage ratio	-	
Tier 1 capital (T1)	31,763	26,568
Leverage ratio exposure	644,960	730,690
Leverage ratio, %	4.9 %	3.6 %

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

INTERNAL CONTROL

The purpose of The Bonum Bank's internal control is to ensure that the Bank, in a systematic and effective manner, works towards the goals and implements the procedures confirmed by senior management. Internal control aims to ensure that the organisation complies with regulations and manages risks comprehensively, and that its operations are efficient and reliable.

Internal control is implemented at all levels of the organisation. Internal control is implemented by the Board of Directors, the CEO and other management and personnel, as well as the risk management and compliance functions independently of business operations. As part of internal control, the amalgamation has implemented a whistle-blowing mechanism that enables the bank's employees to report, internally through an independent channel, suspected violations of rules and regulations concerning the financial market in the central institution or a member credit institution.

INTERNAL AUDIT

Within the amalgamation, POP Bank Centre coop is centrally responsible for the steering and organisation of internal audit in the bank centre, member credit institutions and other companies of the amalgamation. Bonum Bank's internal audit is based on the internal audit guidelines confirmed by the Board of Directors and the Supervisory Board of POP Bank Centre coop as well as on the audit plan approved by the Board of Directors of POP Bank Centre coop.

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 the internal audit unit of the central institution and PricewaterhouseCoopers Oy.

BONUM BANK'S MANAGEMENT AND PERSONNEL

Bonum Bank's Annual General Meeting of 24 April 2021 adopted the financial statements for 2020 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 31 times.

Regular board members were:

Pekka Lemettinen, CEO
Chairman of the Board

Hanna Linna, CEO
Vice Chairman of the Board

Ilkka Lähteenmäki, Adjunct Professor
Member of the Board

Kirsi Salo, CEO
Member of the Board

Bonum Bank Plc's CEO was **Pia Ali-Tolppa** and CEO's deputy was **Timo Hulkko**. **Jaakko Pulli** started as Chair of the Board in 3 January 2022.

On 31 December 2021, the Bank had 59 employees, of which 570 full-time with permanent employment contract and two with hourly wage. Equivalent concentration risk may also arise when collateral held for credit is similar.

Employees' professional competence is maintained and developed in line with the bank's needs and changing operating environment, as well as with employees' individual competence requirements and changes therein.

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.

REMUNERATION

The Board of Directors of Bonum Bank is responsible for matters related to remuneration. Bonum Bank does not have a remuneration committee appointed by the Board to manage its remuneration scheme. It has not been deemed necessary to establish a remuneration committee, considering the quality, scope and diversity of the bank's operations. Bonum Bank's Board of Directors monitors compliance with the remuneration scheme and assesses its functionality annually.

The central institution's internal audit 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 REMUNERATION AND RESULT

The remuneration scheme must be in line with the Bank's business strategy, goals, values and long-term interests and support the Bank's long-term benefit. It must also be consistent with and promote the Bank's sound and effective risk management and risk-bearing capacity The remunaeration scheme must also support good corporate governance.

CRITERIA USED IN THE ASSESSMENT OF PERFORMANCE, RISK-BASED CHANGES TO THE AMOUNT OF REMUNERATION, POSTPONEMENT PRACTICES AND PAYMENT CRITERIA

At Bonum Bank, variable bonuses paid to an individual are not allowed to exceed EUR 50,000 over a one-year earnings period. The bank may decide not to pay any variable bonuses in full or in part if its financial position has become weaker to such an extent that, based on the Board's estimate, the payment of performance bonuses would be unreasonable, considering the bank's situation.

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

In the bank's remuneration scheme, variable bonuses may not exceed 50% 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 criteria for variable compensation will be determined and communicated to the recipients in advance. The Board may also reward employees for exceptional performance without such predetermined grounds with a bonus equalling no more than one month's salary.
2. The compensation must be based on an overall assessment of the performance of the recipient and the related function. Their performance must be evaluated over the long term.
3. When determining the bonus amounts, the risks known at the time of the assessment must be taken into account, as well as future risks, capital costs and the necessary solvency.
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

No variable compensation payments nor 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 SWIFT Service Bureau provided by Tietoevry Oyj and SEPA Instant Payment Gateway and, 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 and payment monitoring system provided by SAS Institute Oy. 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.

EVENTS AFTER THE CLOSING DATE

After the closing date, POP Bank Group signed in January 2022 an agreement with Finnish IT company Crosskey for the renewal of the core bank system. POP Bank expects to introduce the new core banking system during 2025.

In January 2022 Bonum Bank agreed with Evli Bank Plc on a trade based on which Bonum Bank will be buying 25 million euros worth of bonds from Evli's loan portfolio.

S&P Global Ratings has affirmed February 4, 2022 Bonum Bank Plc's long-term counterparty credit rating 'BBB' and short term credit rating 'A-2'. The outlook remains 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 2022

Bonum Bank Plc will use the available funding sources diversely during 2022. 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.

In 2022, the focus will be on increasing operational efficiency and improving profitability. In its card business operations, the bank is focusing on improving the customer experience, as well as continuing the development of functionalities related to card payments in the POP Mobiili application. Key development focuses include improving the efficiency of anti-money laundering measures and continuing the effective adoption of the new system and operating methods. Bonum Bank's personnel are involved in the Pop Bank Group's core banking system reform project to a significant degree. Bonum Bank will also actively seek new services and products that support the business operations of the banks within the amalgamation during 2022.

The full-year result for 2022 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 21,311,163.86. Bonum Bank Plc's Board of Directors proposes to the Annual General Meeting that the profit for the period (EUR 1,046,093.58) be recognised in retained earnings and that no dividends be paid.

BOARD OF DIRECTORS' AND FINANCIAL STATEMENTS REPORT 31.12.2021

INCOME STATEMENT

(EUR 1,000)	Note	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	Change-%
Interest income	3	11,132	9,203	21.0
Interest expenses	3	-2,634	-2,142	23.0
Net interest income		**8,498**	**7,061**	**20.3**
Net commissions and fees	4	6,639	7,207	-7.9
Net investment income	5	389	440	-11.6
Other operating income	6	3,105	2,484	25.0
Total operating income		**18,630**	**17,192**	**8.4**
Personnel expenses	7	-4,273	-3,137	36.2
Other operating expenses	8	-8,665	-8,380	3.4
Depreciation and amortisation	9	-1,103	-923	19.5
Total operating expenses		**-14,041**	**-12,440**	**12.9**
Impairment losses on financial assets	14	-3,281	-3,865	-15.1
Profit before taxes		**1,309**	**888**	**47.4**
Income taxes	10	-263	-176	49.7
Result for the period		**1,046**	**712**	**46.9**

POP Bank Group has changed the accounting policies, and therefore comparison period has been re-stated. The changes are presented in Note 1.

STATEMENT OF OTHER COMPREHENSIVE INCOME

(EUR 1,000)	Note	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	Change-%
Profit for the financial period		1,046	712	46.9
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Changes in fair value reserve				
Equity instruments	25	152	992	-84.7
Items that may be reclassified to profit or loss				
Changes in fair value reserve				
Liability instruments	25	-229	231	-199.1
Total other comprehensive income for the financial period		**968**	**1,936**	**-50.0**

BALANCE SHEET

(EUR 1,000)	Note	31 Dec 2021	31 Dec 2020
Assets			
Cash funds	15	268,871	380,108
Loans and advances to credit institutions	13, 16	442,718	314,967
Loans and advances to customers	13, 16	116,455	84,159
Investment assets	13, 17	197,563	215,354
Intangible assets	18	1,933	2,728
Property, plant and equipment	19	361	367
Other assets	20	10,008	8,737
Tax assets	21	5	58
Total assets		**1,037,914**	**1,006,480**
Liabilities			
Liabilities to credit institutions	13, 22	655,626	659,657
Liabilities to customers	13, 22	53,329	36,654
Debt securities issued to the public	23	284,920	266,346
Other liabilities	24	7,978	8,653
Tax liabilities	21	724	800
Total liabilities		**1,002,578**	**972,112**
Equity capital			
Share capital	25	10,000	10,000
Reserves	25	22,121	22,199
Retained earnings	25	3,215	2,169
Total equity capital		**35,336**	**34,368**
Total liabilities and equity		**1,037,914**	**1,006,480**

POP Bank Group has changed the accounting policies, and therefore comparison period has been re-stated. The changes are presented in Note 1.

STATEMENT OF CHANGES IN EQUITY

(EUR 1,000)	Share capital	Fair value reserve	Other reserves	Retained earnings	Total equity
Balance at 1st of Jan 2021	**10,000**	**2,199**	**20,000**	**2,169**	**34,368**
Comprehensive income for the financial year					
Profit for the financial year	-	-	-	1,046	1,046
Other comprehensive income	-	-78	-	-	-78
Total comprehensive income for the financial year	**-**	**-78**	**-**	**1,046**	**968**
Balance at 31 December 2021	**10,000**	**2,121**	**20,000**	**3,215**	**35,336**

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

CASH FLOW STATEMENT

(EUR 1,000)	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Cash flow from operating activities		
Profit for the financial year	1,046	712
Adjustments to profit for the financial year	4,663	5,086
Increase (-) or decrease (+) in operating assets	**-145,358**	**-195,533**
Advances to credit institutions	-126,424	-61,947
Advances to customers	-35,622	-11,507
Investment assets	17,762	-119,684
Other assets	-1,075	-2,395
Increase (+) or decrease (-) in operating liabilities	**12,005**	**263,830**
Liabilities to credit institutions	-4,032	243,718
Liabilities to customers	16,675	19,316
Other liablilities	-638	796
Income tax paid	-266	31
Total cash flow from operating activities	**-127,910**	**74,125**
Cash flow from investing activities		
Changes in other investments	-65	-
Purchase of PPE and intangible assets	**-335**	**-951**
Total cash flow from investing activities	**-401**	**-951**
Cash flow from financing activities		
Payment of lease liabilities	-157	-107
Debt securities issued, increase	79,945	246,821
Debt securities issued, decrease	-61,387	-95,426
Total cash flow from financing activities	**18,401**	**151,288**
Change in cash and cash equivalents		
Cash and cash equivalents at period-start	383,730	159,268
Cash and cash equivalents at the end of the period	273,820	383,730
Net change in cash and cash equivalents	**-109,910**	**224,462**
Interest received	9,480	8,573
Interest paid	2,697	1,500
Dividends received	4	9
Adjustments to result for the financial year	**4,663**	**5,085**
Non-cash items and other adjustments		
Income taxes	263	176
Impairment losses on receivables	3,281	3,865
Depreciation	1,103	923
Other	17	122
Cash and cash equivalents		
Liquid assets	268,871	380,108
Receivables from credit institutions payable on demand	4,949	3,622
Total	**273,820**	**383,730**

POP Bank Group has changed the accounting policies, and therefore comparison period has been restated. The changes are presented in Note 1.

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 2019/876) (CRR) in a separate Pillar III report.

BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Bonum Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) approved in the EU and the related Interpretations (IFRIC). The applicable Finnish accounting and corporate legislation and regulatory requirements have also been taken into account when preparing the notes to the financial statements.

Figures in the notes are rounded, whereby the sum total of individual figures may deviate from the sum total presented in the calculations and tables. Assets and liabilities denominated in currencies other than euro have been translated into euro at the exchange rate of the balance sheet date. Exchange rate differences resulting from measurement have been recognised in net investment income in the income statement.

Bonum Bank has no subsidiaries or associated companies.

CHANGES IN ACCOUNTING POLICIES

NEW IFRS STANDARDS AND ITERPRETATIONS

No new IFRS standards were adopted during the financial year in Bonum Bank's financial statements.

During the financial year, the agenda decision of the IFRS Interpretations Committee in April 2021 on the accounting treatment of configuration and customization costs (Configuration or Customization Costs in a Cloud Computing Arrangement) for supplier's application software in a Software as a Service (SaaS) was adopted. The agenda decision considered on how the costs of configuration or customization for software purchased as cloud service are accounted for, if an intangible asset is not recognized.

Bonum Bank has taken into account the effects of the agenda decision on the handling of cloud services retrospectively in the second half of the financial year. Under the new accounting policy, configuration and customization costs related to cloud service contracts are recognized as prepayments or expenses, depending on whether the configuration and customization services are distinct from the actual cloud service contract. In the cloud service arrangement, the software is controlled by a third party, and the software's configuration and customization costs are not capitalized as an intangible asset. The prepayment recognized under the cloud service agreement is released as an expense during the contract period from the time the asset is ready for use. The effects of the change in accounting policy on the various financial statements line items are presented in the table below.

EFFECT OF SAAS AGENDA DECISION FOR BONUM BANK PLC

(EUR 1,000)	Note	31 Dec 2020	Change in accounting policy	31 Dec 2020
Assets				
Intangible assets	18	6,937	-4,208	2,728
Other assets	20	4,528	4,208	8,737
Total changes in assets		**11,465**	**-**	**11,465**
Retained earnings	25	2,169	-	2,169
Total changes in equity capital		**2,169**	**-**	**2,169**
Income statement				
Other operating income	6	1,912	571	2,484
Other operating expenses	8	-7,638	-742	-8,380
Depreciation and amortisation	9	-1,093	170	-922
Profit for the financial year		712	-	712

OTHER CHANGES IN ACCOUNTING POLICIES

At the beginning of 2021, Bonum Bank adopted the definition of default in accordance with Article 178 of Regulation 575/2013 of the European Parliament and of the Council for the calculation of expected credit losses. Liabilities are classified in ECL stage 3 when they meet the default criteria. The adoption of the definition reduced the number of receivables to be recorded in ECL stage 3, as the criteria previously applied by the POP Bank Group for recording receivables in ECL stage 3 were stricter.

FINANCIAL INSTRUMENTS

CLASSIFICATION AND RECOGNITION

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 settlement 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. Bonum Bank has no financial liabilities measured 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. The credit rating models are defined for the three main segments described above. Credit rating models constructed using statistical methods are used to estimate the PD of private and corporate customers.

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. Industry-specific LGD data from the Finnish market have been used to determine LGD values.

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.

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

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 such as a significant change in the customer's business that is not yet reflected in the payment delay. 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.

Bonum Bank applies the definition of default in accordance with Article 178 of Regulation 575/2013 of the European Parliament and of the Council when calculating expected credit losses. Liabilities are classified in stage 3 when they meet the definition criteria. For non-retail customers, which are customers with a turnover of more than EUR 50 million and liabilities of more than EUR 1 million, the definition of default applies at customer level and to retail customers at contract level. However, all receivables from a retail customer are recorded as defaulted (customer-level default) if the amount of the customer's liabilities exceeds 20 per cent of the customer's total liabilities.

The contract is considered defaulted at the latest when the liability under the default criteria has been continuously delayed for more than 90 days. In addition, a customer is considered defaulted when repayment is considered unlikely for example if the customer has been declared bankrupt or similar proceedings, or if the customer has forbearance measures that causes a change in the present value of the liability of more than 1 per cent. The contract or customer is considered defaulted for a period of 90 days after the conditions for default have ceased to exist.

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.

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.

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 most important intangible assets are the information systems for central credit institution operations and card business. An intangible asset is recognized in the balance sheet at acquisition cost if it is probable that the expected economic benefits associated with the asset will flow to the POP Bank Group and the acquisition cost of the asset can be measured reliably. Acquisition cost includes all costs that are directly attributable to bringing the asset to its working condition for its intended use. 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.

Configuration and customization costs related to Software as a Service (SaaS) cloud service agreements are recognized as prepayments or expenses, depending on whether the configuration and customization services are distinct from the actual cloud service agreement. In the cloud service arrangement, the software is controlled by a third party, and the software's configuration and customization functions are not capitalized as an intangible asset. The prepayment recognized under the cloud service agreement is released as an expense during the agreement period from the time the asset is ready for use.

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 recognised in the income statement on depreciation, amortisation and impairment.

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.

Bonum Bank 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 is presented under depreciation and impairment losses. 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. Depreciation period for commercial premises with lease valid until further notice is generally 2 years. For fixed-term contracts, the depreciation period is in principle the contractual period. Depreciation times for office equipment vary from 2 to 5 years.

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 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 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.

NOTE 2 RISK 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, 0260.

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 Bonum Bank Plc Board of Directors' and Financial Statements Report for 1 January – 31 December 2020 35 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 316,004 (300,426) thousand at the end of 2021. Bonum Bank's off-balance sheet credit commitments amounted to EUR 145,485 (125,354) 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 197,562 thousand (215,354). Investment assets decreased during the year due to the decrease 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 4,948 thousand (3,621).

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 38.3 per cent during the financial year, reaching EUR 116,455 thousand (84,159). Loans granted to retail customers accounted for 82.3 per cent (92.0) 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 4,437 thousand (4,099).

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

(EUR 1,000, gross value)	PD		31 Dec 2021				31 Dec 2020
Rating Class	**Lower**	**Upper**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
1-4	0.00	1.50	398,360	-	-	**398,360**	**274,310**
Total			398,360	-	-	**398,360**	**274,310**
Expected credit losses			4	-	-	**4**	**4**
Total			398,356	-	-	**398,356**	**274,306**

Loans and advances to credit institutions consist of intra-POP Bank Group items, the amount of which increased by 45.2 per cent during the financial year.

RECEIVABLES FROM CUSTOMERS

(EUR 1,000, gross value)	PD		31 Dec 2021				31 Dec 2020
Rating Class	**Lower**	**Upper**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
1-4	0.00	1.50	58,332	86	-	**58,418**	**39,187**
5	1.50	5.00	29,229	423	-	**29,652**	**9,003**
6	5.00	25.00	23,189	1,700	-	**24,889**	**33,218**
7	25.00	100.00	1,597	760	-	**2,357**	**1,536**
8	100.00	100.00	-	-	4,154	**4,154**	**3,878**
Total			112,347	2,969	4,154	**119,471**	**86,821**
Expected credit losses			1,265	119	1,632	**3,016**	**2,662**
Total			111,082	2,850	2,523	**116,455**	**84,159**

Receivables from customers mainly consist of unsecured loans 61.4% (76.6%). The amount of the three lowest risk categories (risk categories 6-8) in receivables increased to 26.3 per cent (44.5) during the financial year. The amount of stage two and three receivables increased to 6.0 percent (9.1).

OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000, gross value)	PD		31 Dec 2021				31 Dec 2020
Rating Class	**Lower**	**Upper**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
1-4	0.00	1.50	140,120	352	-	**140,472**	**117,282**
5	1.50	5.00	4,023	227	-	**4,249**	**6,398**
6	5.00	25.00	304	171	-	**476**	**1,442**
7	25.00	100.00	5	-	-	**5**	**11**
8	100.00	100.00	-	-	284	**284**	**222**
Total			144,452	750	284	**145,485**	**125,354**
Expected credit losses			187	10	36	**233**	**275**
Total			144,265	740	248	**145,253**	**125,079**

Off-balance sheet receivables mainly consist of unused credit card facilities 85.0% (88.0%) and intra-group items 13.1% (10.4%).

DEBT SECURITIES

(EUR 1,000, gross value)	PD		31 Dec 2021				31 Dec 2020
Rating Class	**Lower**	**Upper**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
1-4	0.00	1.50	194,307	308	-	**194,615**	**212,662**
Total			194,307	308	-	**194,615**	**212,662**
Expected credit losses*			14	-	-	**14**	**16**
Total			194,292	308	-	**194,600**	**212,647**

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 2021, final credit losses of EUR 2,972 thousand (2,770) were recorded. Bank's receivables overdue for more than 90 days accounted for 3.5 percent (4.7) of the loan portfolio. At the end of 2021, the Bank's receivables overdue for 30–90 days accounted for 0.9 per cent (1.4) of the loan portfolio. The number of doubtful receivables reported during the financial year remained at the same level that in the previous year due to the impact of the corona pandemic on the receivables of the unsecured loan portfolio.

OVERDUE RECEIVABLES

(EUR 1,000)	31 Dec 2021	31 Dec 2020
31-90 days	1,081	1,139
over 90 days	4,017	3,934
Total	**5,098**	**5,073**

Expected credit losses (ECL) on loans and receivables and off-balance sheet commitments were EUR 1,668 thousand (1,562). 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 2021	31 Dec 2020
From central banks	268,871	380,108
Governments and public bodies	127,511	145,663
Credit institutions	28,644	26,873
From companies	3,407	3,747
Total	**428,434**	**556,392**

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.

LCR AND NSFR

(%)	31 Dec 2021	31 Dec 2020
LCR	141	191
NSFR	130	148

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 2021, the non-pledged financial assets and cash included in the liquidity reserve were in total of EUR 549,1 million (758,7).

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 2021		
(EUR 1,000)	**Under 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
To central banks	-	-	128,400	-	128,400
Deposits	2,500	20,000	-	-	22,500
Issued debt instruments	-	129,978	154,942	-	284,920
Liabilities to credit institutions	400,865	27,500	92,908	5,952	527,226
Lease liabilities	39	117	159	-	315
Total	**403,404**	**177,595**	**376,410**	**5,952**	**963,361**

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	**479,526**	**94,337**	**347,771**	**41,025**	**962,658**

At the end of the financial year, Bonum Bank had EUR 255 million (225) in unsecured senior loans issued under the EUR 750 million bond program. EUR 30.0 million (41.5) of the Bank's EUR 250 million certificates of deposits program was issued. In addition, Bonum Bank has a EUR 28.6 million loan program with the Nordic Investment Bank NIB. During the 2021, Bonum Bank participated in the European Central Bank's TLTRO III financing operation for EUR 78,4 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 2021.

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 2021

(EUR 1,000)	Change	Effect on result	Effect on equity
Interest rate risk	+1 percentage point	-740	-1,768
Interest rate risk	-1 percentage point	1,426	586

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

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 longterm 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 2021	1 Jan - 31 Dec 2020
Interest income		
Loans and advances to credit institutions	2,846	2,893
Loans and advances to customers	6,236	6,010
Debt securities		
Other interest income	1,626	1
Total interest income	**11,132**	**9,203**
Of which positive interest expense	1,891	1,683
Interest expenses		
Liabilities to credit institutions	-937	-599
Liabilities to customers	-463	-294
Debt securities issued to the public	-1,217	-1,246
Other interest expenses	-17	-2
Total interest expenses	**-2,634**	**-2,142**
Of which negative interest income	-1,137	-589
Net interest income	**8,498**	**7,061**

Net Interest Income includes additional interest income of TLTRO III funding total of 942 thousand euros.

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

NOTE 4 NET COMMISSIONS AND FEES

(EUR 1,000)	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Commissions and fees		
Lending	455	415
Card business	4,529	5,383
Payment transfers	4,043	3,923
Other commission income	0	0
Total fee and commission income	**9,026**	**9,721**
Commissions expenses		
Card business	-1,512	-1,704
Payment transfers	-843	-772
Other commission expenses	-33	-38
Total commission expenses	**-2,387**	**-2,514**
Net commissions and fees	**6,639**	**7,207**

NOTE 5 NET INVESTMENT INCOME

(EUR 1,000)	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
At fair value through other comprehensive income		
Debt securities		
Capital gains and losses	1	29
Transferred from fair value reserve to the income statement	16	38
Shares and participations		
Dividend income *)	4	9
Total	**21**	**76**
Net income from foreign exchange trading	**367**	**364**
Net income investments total	**389**	**440**

*) Dividend income from equity shares measured at fair value through other comprehensive income held in the end of the financial period is 4 (9) thousand euro.

NOTE 6 OTHER OPERATING INCOME

(EUR 1,000)	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Business development fees from banks	223	285
Central credit institution services excl. payment transfer	66	79
Other income	2,816	2,120
Total other operating income	**3,105**	**2,484**

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 2021	1 Jan - 31 Dec 2020
Wages and salaries	-3,522	-2,609
Indirect personnel expenses	-132	-103
Pension costs		
Defined contribution plans	-620	-425
Total personnel expenses	**-4,273**	**-3,137**

On 31 December 2021, the bank had 59 (55) employees. On average, during year 2021, the bank had 57 (43) employees.

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

NOTE 8 OTHER OPERATING EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Other administrative expenses		
Other personnel expenses	-215	-139
Office expenses	-1,080	-1,030
ICT expenses	-6,459	-6,551
Telecommunications	-273	-316
Entertainment and marketing expenses	-193	-89
Other administrative expenses total	**-8,220**	**-8,125**
Other operating expenses		
Rental expenses	-86	-70
Audit fees	-34	-24
Other operating expenses	-326	-161
Other operating expenses total	**-445**	**-255**
Total other operating expenses	**-8,665**	**-8,380**
Audit fees		
Statutory audit	-34	-17
Other expert services	-	-7
Total audit fees	**-34**	**-24**

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 0 (7) thousand.

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

(EUR 1,000)	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Machinery and equipment	-20	-16
Right of use assets	-151	-117
Intangible assets	-932	-790
Total depreciation of property, plant and equipment and intangible assets	**-1,103**	**-923**

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

NOTE 10 INCOME TAXES

(EUR 1,000)	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Current tax	-267	-183
Tax for prior financial years	-3	-
Withholding tax paid outside Finland	-1	-3
Change in deferred tax assets	-49	-48
Change in deferred tax liabilities	58	59
Total income tax expense	**-263**	**-176**

Reconciliation between tax expense in the income statement and tax expense calculated using the applicable tax rate

(EUR 1,000)	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Profit before tax	1,309	888
Income tax rate	20 %	20 %
Tax calculated at the tax rate	-262	-178
- Non-deductible expenses	0	0
+ Deductible expenses not included in the profit	2	2
- Tax for prior financial years	-3	-
Tax expense in the income statement	**-263**	**-176**

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

(EUR 1,000)	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Financial assets		
At fair value through other comprehensive income		
Interest income ja expenses	-84	20
Transferred from fair value reserve	16	38
Dividend income	4	9
Capital gains and losses	1	29
Expected credit loss	1	-6
Total	**-62**	**89**
At amortised cost		
Interest income ja expenses	9,879	8,355
Other income	1,873	1,750
Expected credit loss	-311	-1,073
Total	**11,440**	**9,032**
Financial liabilities		
At amortised cost		
Interest income ja expenses	-1,217	-1,246
Total	**-1,217**	**-1,246**
Net income from foreign exchange operation	367	364
Total	**10,529**	**8,238**

NOTES TO ASSETS

NOTE 12 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS 31 DECEMBER 2021

(EUR 1,000)	Measured at amortised cost	Measured at fair value through other comprehensive income	Expected Credit Loss	Total carrying amount
Liquid assets	268,871	-	-	268,871
Loans and advances to credit institutions	442,723	-	5	442,718
Loans and advances to customers	113,439	-	-3,016	116,455
Debt securities*	40,000	154,615	14	194,600
Shares and participations	-	2,962	-	2,962
Financial assets total	**865,034**	**157,577**	**-2,997**	**1,025,608**
Other assets				12,306
Total assets 31 December 2021				**1,037,914**

*) Expected credit loss of EUR 34 (35) thousand from debt securities have been recorded in the fair value reserve.

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
Liquid assets	380,108	-	-	380,108
Loans and advances to credit institutions	314,972	-	5	314,967
Loans and advances to customers	86,821	-	2,662	84,159
Debt securities*	40,000	172,662	16	212,647
Shares and participations	-	2,708	-	2,708
Financial assets total	**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 from debt securities have been recorded in the fair value reserve.

FINANCIAL LIABILITIES 31 DECEMBER 2021

(EUR 1,000)	Measured at amortised cost	Total carrying amount
Liabilities to credit institutions	655,626	655,626
Liabilities to customers	53,329	53,329
Debt securities issued to the public	284,920	284,920
Financial liabilities total	**993,875**	**993,875**
Other liabilities		8,702
Total liabilities 31 December 2021		**1,002,578**

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
Financial liabilities total	**962,658**	**962,658**
Other liabilities		9,454
Total liabilities 31 December 2020		**972,112**

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 2021

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value
At fair value through other comprehensive income				
Shares and participations	-	-	2,962	2,962
Debt securities	99,392	95,208	-	194,600
Total	**99,392**	**95,208**	**2,962**	**197,563**

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**

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	Level 3	Total fair value	Carrying amount
Loans and advances to credit institutions	-	446,463	-	446,463	442,718
Loans and advances to customers	-	119,961	-	119,961	116,455
Investment assets					
Debt securities	-	40,871	-	40,871	39,986
Total	**-**		**-**	**607,295**	**599,159**

LIABILITIES MEASURED AT AMORTISED COST 31 DECEMBER 2020

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Liabilities to credit institutions	-	658,089	-	658,089	655,626
Liabilities to customers	-	53,409	-	53,409	53,329
Debt securities issued to the public	-	289,850	-	289,850	284,920
Total	**-**	**1,001,348**	**-**	**1,001,348**	**993,875**

ASSETS MEASURED AT AMORTISED COST 31 DECEMBER 2019

(EUR 1,000)	Level 1	Level 2	Level 3	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 2019

(EUR 1,000)	Level 1	Level 2	Level 3	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**

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.

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 2021	**-**	**2,708**	**2,708**
+ Purchases	-	65	65
+/- Changes in value recognised in other comprehensive income	-	190	190
Carrying amount 31 Dec 2021	**-**	**2,962**	**2,962**

(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**

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	2,962	444	-444
Total	**2,962**	**444**	**-444**

31 December 2019

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

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 Jun 2021	1 Jan - 31 Jun 2020
Change of ECL due to write-offs	1,512	-
Change of ECL, receivables from customers and off-balance sheet items	-1,823	-1,072
Change of ECL, debt securities	2	-23
Final credit losses	-2,972	-2,770
Impairment losses on financial assets total	**-3,281**	**-3,865**

During the financial year, EUR 3,302 (2,770) thousand 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 principles for calculating expected credit losses and determining the probability of default are presented in IFRS financial statements of the Bonum Bank on 31 December 2020, Note 1 Accounting policies.

At the beginning of 2021, Bonum Bank implemented a definition of default in accordance with Article 178 of EU Capital Requirements Regulation 575/2013. The implementation of the new definition of default did not materially affect the amount of impairment lossess on financial assets.

RECEIVABLES FROM CUSTOMERS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2021	**1,046**	**89**	**1,528**	**2,662**
Transfers to stage 1	9	-40	-670	-701
Transfers to stage 2	-72	37	-363	-398
Transfers to stage 3	-89	-18	1,100	993
Increases due to origination	752	76	249	1,076
Decreases due to derecognition	-346	-22	-206	-574
Changes due to change in credit risk (net)	-34	-3	1,507	1,469
Decreases due to write-offs	-	-	-1,512	-1,512
Total	**219**	**30**	**104**	**353**
ECL 31 Dec 2021	**1,265**	**119**	**1,632**	**3,016**

OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2021	**182**	**58**	**35**	**275**
Transfers to stage 1	5	-45	-18	**-59**
Transfers to stage 2	-1	3	-1	**2**
Transfers to stage 3	-1	-1	8	**6**
Increases due to origination	45	0	11	**57**
Decreases due to derecognition	-3	-	-	**-3**
Changes due to change in credit risk (net)	-41	-4	1	**-45**
Total	**4**	**-48**	**1**	**-42**
ECL 31 Dec 2021	**187**	**10**	**36**	**233**

DEBT SECURITIES

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2021	**50**	**1**	**-**	**51**
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Increases due to origination	16	-	-	16
Decreases due to derecognition	-14	-	-	-14
Changes due to change in credit risk (net)	-3	-1	-	-4
Total	**-2**	**-1**	**-**	**-2**
ECL 31 Dec 2021	**48**	**1**	**-**	**49**

RECEIVABLES FROM CREDIT INSTITUTIONS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2021	**4**	**-**	**-**	**4**
Increases due to origination	2	-	-	2
Decreases due to derecognition	0	0	-	0
Changes due to change in credit risk (net)	-2	0	-	-1
Total	**0**	**-**	**-**	**0**
ECL 31 Dec 2021	**4**	**-**	**-**	**4**

ECL 1 Jan 2021	**1,282**	**148**	**1,562**	**2,993**
ECL 31 Dec 2021	**1,504**	**130**	**1,668**	**3,302**

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**

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**	**58**	**35**	**275**

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**

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** **0**	**-**	**-**	**4**
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 2021

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
Private	86,556	2,621	4,109	93,286
Corporate	25,791	349	45	26,185
Receivables from customers total	**112,347**	**2,969**	**4,154**	**119,471**
ECL 31 Dec 2021	1,265	119	1,632	3,016
Coverage ratio %	1.1 %	4.0 %	39.3 %	2.5 %
Off-balance sheet commitments				
Private	137,711	731	265	138,707
Corporate	6,741	19	19	6,778
Off-balance sheet commitments total	**144,452**	**750**	**284**	**145,485**
ECL 31 Dec 2021	187	10	36	233
Coverage ratio %	0.1 %	1.3 %	12.7 %	0.2 %
Debt securities				
ECL 31 Dec 2021	48	1	-	49
Coverage ratio %	0.0 %	0.2 %	0.0 %	0.0 %
Receivables from credit institutions	**398,360**	**0**	**0**	**398,360**
ECL 31 Dec 2021	4	-	-	4
Coverage ratio %	0.0 %	0.0 %	0.0 %	0.0 %
Credit risk by stages total	**849,466**	**4,028**	**4,438**	**857,931**

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**
ECL 31 Dec 2020	1,046	89	1,528	2,662
Coverage ratio %	1.3 %	2.2 %	39.4 %	3.1 %
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**
ECL 31 Dec 2020	182	58	35	275
Coverage ratio %	0.1 %	1.9 %	15.6 %	0.2 %
Debt securities	**212,354**	**308**	**-**	**212,662**
ECL 31 Dec 2020	50	1	-	51
Coverage ratio %	0.0 %	0.5 %	0.0 %	0.0 %
Receivables from credit institutions	**274,310**	**-**	**-**	**274,310**
ECL 31 Dec 2020	4	-	-	4
Coverage ratio %	0.0 %	-	-	0.0 %
Credit risk by stages total	**687,721**	**7,328**	**4,099**	**699,148**

NOTE 15 CASH FUNDS

(EUR 1,000)	31 Dec 2021	31 Dec 2020
Cash	-	-
Receivables from central banks repayable on demand	268,871	380,108
Total cash and cash equivalents	**268,871**	**380,108**

Cash and cash equivalents include cheque account with the Bank of Finland.

NOTE 16 LOANS AND RECEIVABLES

(EUR 1,000)	31 Dec 2021	31 Dec 2020
Loans and receivables from credit institutions		
Deposits		
Repayable on demand	44,363	40,661
Other	398,356	274,306
Total loans and advances to credit institutions	**442,718**	**314,967**
Loans and receivables from customers		
Loans	70,459	46,420
Credit card receivables	44,807	37,717
Other receivables	1,189	22
Total loans and advances to customers	**116,455**	**84,159**
Total loans and receivables	**559,174**	**399,126**

NOTE 17 INVESTMENT ASSETS

(EUR 1,000)	30 Jun 2021	31 Dec 2020
At fair value through other comprehensive income		
Debt securities	154,615	172,662
Shares and participations	2,962	2,708
Measured at amortised cost		
Debt securities	39,986	39,984
Investment assets total	**197,563**	**215,354**

INVESTMENTS ON 31 DECEMBER 2021

	At fair value through other comprehensive income		Measured at amortised cost	
Quoted	**Debt securities**	**Shares and participations**	**Debt securities**	**Total**
Quoted				
Public sector entities	32,303	-	-	32,303
Other	27,104	-	39,986	67,089
Other				
Public sector entities	95,208	-	-	95,208
Other	-	2,962	-	2,962
Total	**154,615**	**2,962**	**39,986**	**197,563**

INVESTMENTS ON 31 DECEMBER 2020

	At fair value through other comprehensive income		Measured at amortised cost	
(EUR 1,000)	**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**

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.

(EUR 1,000)	31 Dec 2021	31 Dec 2020
Information systems	1,825	2,529
Other long-term expenditures	6	12
Incomplete intangible assets	102	188
Total intangible assets	**1,933**	**2,728**

CHANGES IN INTANGIBLE ASSETS 2021

(EUR 1,000)	Information systems	Intangible assets under development	Other long-term ex-penditures	Total
Acquisition cost on 1 Jan	**6,210**	**188**	**20**	**6,417**
+ Increases	-	333	-	333
+/- Transfers between items	222	-222	-	-
- Decreases	-	-196	-	-196
Acquisition cost on 31 Dec	**6,431**	**102**	**20**	**6,553**
Accumulated amortisation and impairments on 1 Jan	-3,681	-	-8	-3,689
- Amortisation	-925	-	-7	-932
Accumulated amortisation and impairments on 31 Dec	**-4,606**	**-**	**-14**	**-4,621**
Carrying amount on 1 Jan	**2,529**	**188**	**12**	**2,728**
Carrying amount on 31 Dec	**1,825**	**102**	**6**	**1,933**

CHANGES IN INTANGIBLE ASSETS 2020

(EUR 1,000)	Information systems	Intangible assets under development	Other long-term ex-penditures	Total
Acquisition cost on 1 Jan	**4,065**	**4,081**	**20**	**8,166**
	-	-2,367	-	-2,367
+ Increases	135	483	-	618
- Decreases	2,009	-2,009	-	-
Acquisition cost on 31 Dec	**6,210**	**188**	**20**	**6,417**
Accumulated amortisation and impairments on 1 Jan	-2,898	-	-1	-2,900
- Amortisation	-782	-	-7	-789
Accumulated amortisation and impairments on 31 Dec	**-3,681**	**-**	**-8**	**-3,689**
Carrying amount on 1 Jan	**1,167**	**4,081**	**19**	**5,266**
Carrying amount on 31 Dec	**2,529**	**188**	**12**	**2,728**

NOTE 19 PROPERTY, PLANT AND EQUIPMENT

(EUR 1,000)	31 Dec 2021	31 Dec 2020
Machinery and equipment	51,567.56	68,449.58
Right-of-use assets	309,155.29	299,028.14
Total property, plant and equipment total	**360,722.85**	**367,477.72**

CHANGES IN MACHINERY AND EQUIPMENT 2021

(EUR 1,000)	Right-of-use items	Machinery and equipment	31 Dec 2021
Acquisition cost on 1 Jan	**532**	**192**	**724**
+ Increases	161	3	164
Acquisition cost on 31 Dec	**693**	**195**	**888**
Accumulated depreciation and impairments on 1 Jan	**-233**	**-124**	**-356**
- Depreciation	-151	-20	-171
Accumulated depreciation and impairments on 31 Dec	**-384**	**-143**	**-527**
Carrying amount on 1 Jan	**299**	**68**	**367**
Carrying amount on 31 Dec	**309**	**52**	**361**

An itemisation of fixed asset items is provided in Note 28

CHANGES IN MACHINERY AND EQUIPMENT 2020

(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**

NOTE 20 OTHER ASSETS

(EUR 1,000)	31 Dec 2021	31 Dec 2020
Accrued income and prepaid expenses		
Interest	3,527	1,870
Other accrued income and prepaid expenses	5,786	6,487
Other	694	379
Other assets total	**10,008**	**8,737**

NOTE 21 DEFERRED TAXES

(EUR 1,000)	31 Dec 2021	31 Dec 2020
Income tax receivable	-	-
Deferred tax assets	5	58
Total tax assets	**5**	**58**
Income tax liabilities	188	183
Deferred tax liabilities	535	617
Total tax liabilities	**724**	**800**

DEFERRED TAX ASSETS 2021

(EUR 1,000)	1 Jan 2021	Recognised through profit or loss	Recognised in other comprehensive income	31 Dec 2021
At fair value through other comprehensive income	5	-	-4	0
Deferred tax assets on losses	-	0	-	0
Advances received	54	-50	-	4
Deferred tax assets total	**58**	**-49**	**-4**	**5**

DEFERRED TAX ASSETS 2020

(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
Advances received	102	-48	-	54
Deferred tax assets total	**108**	**-48**	**-1**	**58**

DEFERRED TAX LIABILITIES 2021

(EUR 1,000)	1 Jan 2021	Recognised through profit or loss	Recognised in other comprehen-sive income	31 Dec 2021
At fair value through other comprehensive income	541	-	-24	517
Intangible assets	76	-58	-	18
Deferred tax liabilities total	**617**	**-58**	**-24**	**535**

DEFERRED TAX LIABILITIES 2020

(EUR 1,000)	1 Jan 2020	Recognised through profit or loss	Recognised in other comprehen-sive income	31 Dec 2020
At fair value through other comprehensive income	236	-	305	541
Intangible assets	135	-59	-	76
Deferred tax liabilities total	**371**	**-59**	**305**	**617**

AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME AND RELATED DEFERRED TAXES 2021

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	1,002	-1,080	-78
Amounts recognised in other comprehensive income, total	**1,002**	**-1,080**	**-78**

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**

NOTES RELATING TO LIABILITIES AND EQUITY

NOTE 22 LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31 Dec 2021	31 Dec 2020
Liabilities to credit institutions		
Central Banks	335,245	368,224
Repayable on demand	191,980	241,433
Other	655,626	659,657
Total liabilities to credit institutions		
Liabilities to customers		
Deposits		
Repayable on demand	53,329	36,654
Total liabilities to customers	**53,329**	**36,654**
Total liabilities to credit institutions and customers	**708,955**	**696,312**

Liabilities to central banks includes secured TLTRO III funding total of 128,400 thousand euros. The funding matures on 27 March 2024 (TLTRO 3.7) and 26 June 2024 (TLTRO 3.8) but for which early repayment is possible from 30 March 2022 and 29 June 2022 onwards. The interest rate on the financing period from 24 June 2020 to 23 June 2022 may be the ECB's deposit rate (-0.5%) less an additional interest rate of 0.5%. The determination of the interest rate is affected by the growth of the POP Bank Group's net lending, and the interest rate for the period 24 June 2021 - 23 June 2022 was determined on the basis of the net lending review period ending on 31 December 2021. The POP Bank Group estimates it has met the growth criteria. The final interest rate on the loan will be reviewed when the loan matures. The loan has been treated in accordance with IFRS 9 Financial Instruments -standard, as the POP Bank Group has assessed that the loan meets the conditions of a market-based loan.

NOTE 23 DEBT SECURITIES ISSUED TO THE PUBLIC

(EUR 1,000)	31 Dec 2021	31 Dec 2020
Bonds	254,926	224,910
Certificates of deposits	29,995	41,436
Total debt securities issued to the public	**284,920**	**266,346**

DEBT SECURITIES ISSUED TO THE PUBLIC

Name	Issue date	Due date	Interest	Nominal (EUR 1000)	Currency
BONUM FRN 180422	18.4.2019	18.4.2022	EB 3kk + 0,88 %	100,000	EUR
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
Debt securities issued during the reporting period					
BONUM FRN 161125	20.10.2021	20.10.2026	EB 3kk + 0,85 %	20,000	EUR
BONUM FRN 161125	16.11.2021	16.11.2025	EB 3kk + 0,75 %	30,000	EUR

Certificates of deposit with a total nominal value of EUR 30 (41.5) million were outstanding on the balance sheet date. Amount of the certificates is 6, nomimals range from 1,5 million to 5 million euros with average maturity is 10.7 months.

DEBT SECURITIES PRESENTED IN CASH FLOW RECONCILIATION TO BALANCE SHEET

(EUR 1,000)	31 Dec 2021	31 Dec 2020
Balance sheet 1 Jan	**266,346**	**114,829**
Increase of bonds	49,952	129,995
Increase of Certificates of deposits	29,993	116,826
Total increase	**79,945**	**246,821**
Decrease of bonds	-20,000	-
Decrease of Certificates of deposits	-41,387	-95,426
Total decrease	**-61,387**	**-95,426**
Total changes of cash flow of financial activities	**18,558**	**151,395**
Valuations and accrued interests	17	122
Balance sheet 31 Dec	**284,920**	**266,346**

NOTE 24 OTHER LIABILITIES

(EUR 1,000)	31 Dec 2021	31 Dec 2020
Provision for expected credit loss	233	275
Other liabilities		
Payment transfer liabilities	528	858
Rental liabilities, right of use items	315	310
Accrued expenses		
Interest payable	739	798
Advances received	450	757
Other accrued expenses	1,510	1,261
Other		
Liabilities on card transactions	3,899	2,977
Other	304	1,417
Total other liabilities	**7,978**	**8,653**

Lease liabilities are presented in Note 28.

NOTE 25 CAPITAL AND RESERVES

(EUR 1,000)	31 Dec 2021	31 Dec 2020
Share capital	10,000	10,000
Restricted reserves		
Fair value reserve		
From measurement of equity instruments (IFRS 9)	1,768	1,616
From measurement of liability instruments (IFRS 9)	353	583
Non-restricted reserves		
Reserve for invested non-restricted equity	20,000	20,000
Retained earnings		
Profit (loss) for previous financial years	2,169	1,457
Profit (loss) for the period	1,046	712
Total equity	**35,336**	**34,368**

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 2021

(EUR 1,000)	Liability instruments	Equity instruments	Total
Fair value reserve on 1 Jan 2021	**583**	**1,616**	**2,199**
Fair value change, increases	416	1,288	1,704
Fair value change, decreases	-685	-1,098	-1,783
Transferred to the income statement	-16	-	-16
Expected credit loss	-1	-	-1
Deferred taxes	57	-38	19
Fair value reserve on 31 Dec 2021	**353**	**1,768**	**2,121**

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**

OTHER NOTES

NOTE 26 COLLATERAL GIVEN

(EUR 1,000)	31 Dec 2021	31 Dec 2020
Collaterals given		
Given on behalf of own liabilities and commitments		
Other collateral to the Bank of Finland	144,361	115,673
Total collateral given	**144,361**	**115,673**

(EUR 1,000)	31 Dec 2021	31 Dec 2020
Collaterals received		
Collaterals received from banks of POP Group	64,306	59,360
Total collateral given	**64,306**	**59,360**

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

NOTE 27 OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000)	31 Dec 2021	31 Dec 2020
Loan commitments	145,485	125,354
Total off-balance sheet commitments	**145,485**	**125,354**

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 2021

(EUR 1,000)	Office Buildings	Total
Acquisition cost 1 Jan	**532**	**532**
+ Increases	161	**161**
Acquisition cost 31 December	**693**	**693**
Accumulated depreciation and impairment 1 January	**-233**	**-233**
- Depreciation	-151	**-151**
Accumulated depreciation and impairment 31 December	**-384**	**-384**
Carrying amount 1 January		**299**
Carrying amount 31 December		**309**

RIGHT-OF-USE ASSETS 31 DEC 2020

(EUR 1,000)	Office Buildings	Total
Acquisition cost 1 Jan	**348**	**348**
+ Increases	184	**184**
Acquisition cost 31 December	**532**	**532**
Accumulated depreciation and impairment 1 January	**-116**	**-116**
- 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

LIABILITIES / LEASE LIABILITIES

Increases	31 Dec 2021	31 Dec 2020
Lease liabilities 1 Jan	**310**	**233**
+ Increases	161	184
- Decreases	-156	-106
Lease liabilities 31 Dec	**315**	**310**

Presented in other liabilities

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

(EUR 1,000)	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Total cash outflow for leases	-157	-107

AMOUNTS RECOGNISED IN PROFIT OF LOSS

(EUR 1,000)	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Depreciation		
Office Buildings	-151	-117
Total	**-151**	**-117**
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	-44	-32
Expenses relating to short-term leases	-2	-10
Espenses relating to leases of low-value assets	-19	-13
Total	-65	-55

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 Alliance, as well as its managing director and deputy managing director. Furthermore, related parties include those entities over which key persons included in the management and/or members of their immediate families have control or joint control. Key persons included in the management comprise Bonum Bank's Board of Directors, CEO and Executive Group. In addition, key persons include POP Bank Alliance 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 2021**	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
Assets				
Loans	214	221	174	205
ECL	0	0	0	0
Liabilities				
Deposits	4	-4	3	94
Off-balance-sheet commitments				
Loan commitments	-	26	-	-

COMPENSATION TO KEY PERSONS IN MANAGEMENT

(EUR 1,000)	**1 Jan-31 Dec 2020**	**1 Jan-31 Dec 2019**
Short-term employee benefits	936	864
Total	**936**	**864**

COMPENSATION TO CEO AND MEMBERS OF THE BOARD

(EUR 1,000)	**Salaries and remuneration**
Ali-Tolppa Pia, CEO	192
Lemettinen Pekka, Chairman of the Board	40
Linna Hanna, Vice Chairman of the Board	32
Lähteenmäki Ilkka, member of the Board	29
Kirsi Salo, member of the Board	29
Total	**323**

NOTE 30 EVENTS AFTER THE REPORTING PERIOD

After the closing date, POP Bank Group signed in January 2022 an agreement with Finnish IT company Crosskey for the renewal of the core bank system. POP Bank expects to introduce the new core banking system during 2025.

In January 2022 Bonum Bank agreed with Evli Bank Plc on a trade based on which Bonum Bank will be buying 25 million euros worth of bonds from Evli's loan portfolio.

S&P Global Ratings has affirmed February 4, 2022 Bonum Bank Plc's long-term counterparty credit rating 'BBB' and short term credit rating 'A-2'. The outlook remains 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.

SIGNATURES TO THE FINANCIAL STATEMENTS AND BOARD OF DIRECTORS' REPORT

Espoo, February 16th 2022

Board of Directors of Bonum Bank Plc

Jaakko Pulli
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 16th 2021

KPMG Oy Ab

Tiia Kataja
APA

POP Bank

Bonum Bank Plc