Bonum Bank Plc

BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

1 January - 31 December 2022

POP Bank
Bonum Bank Plc

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This document is a translation of the original Finnish version "Bonum Pankki Oyj:n toimintakertomus ja tilinpäätös 1.1.-31.12.2022". In case of discrepancies, the Finnish version shall prevail.

BONUM BANK PLC BOARD OF DIRECTORS' REPORT 2022

BOARD OF DIRECTORS' REPORT

Bonum Bank Plc (hereinafter "Bonum Bank") is part of the amalgamation of POP Banks and is responsible for providing 19 POP Banks with central credit institution services, obtaining external funding for the POP Bank Group, handling payments, issuing payment cards to the customers of the POP Banks and providing centralised services for the Group. In addition, Bonum Bank grants unsecured consumer credit 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 2022, 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 excess liquidity in Bonum Bank. In April, Bonum Bank issued a three-year bond of EUR 50 million and a five-year directed bond of EUR 50 million within 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. During 2022, Bonum Bank also executed interest rate swaps as part of its interest rate risk management. Fixed-rate deposits are hedged by the derivatives.

The POP Bank Group's mortgage bank was granted a licence under the Act on Mortgage Societies in May. At the end of June, it was granted a new licence under the Act on Covered Bonds, which replaced the previous licence. POP Mortgage Bank issued its first EUR 250 million secured bond in September. Bonum Bank's personnel were actively involved in the preparation and operational activities of POP Mortgage Bank. POP Mortgage Bank's need to implement issues of securities is determined in Bonum Bank's Treasury.

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. Bonum Bank sold its Series A shares in Visa during the year but is continuing as a shareholder with respect to Series C shares. Volumes in the card business developed favourably during 2022, following the lifting of restrictions related to the coronavirus pandemic and the recovery of consumption. The significance of digital card-related services continued to increase, and customers have actively adopted mobile payment features.

Bonum Bank's Service Centre in Vaasa is the provider of the Group's centralised services. In 2022, it focused on operational development and improving the competence of the personnel. During the year, new solutions for centralised customer service have been piloted, and strong caller identification has been introduced.

The POP Bank Group's anti-money laundering measures of the Group's banks are implemented centrally by Bonum Bank. Centralised services and monitoring systems ensure that the prevention of money laundering and terrorist funding is always state-of-the-art and that asset transfers are monitored with maximum efficiency. Following the Russian attack on Ukraine, the implementation of sanctions related to payment transactions has required immediate responses from Bonum Bank in line with the rest of the financial sector. The war has had no other significant direct impacts on the bank's operations.

Bonum Bank's business operations outside the Group mainly consist of the issue of secured bonds and unsecured consumer credits. The amount of secured loans increased during the year. In January, Bonum Bank and Evli Bank Plc agreed on a transaction by which Bonum Bank acquired around EUR 25 million in debt securities from Evli's loan portfolio. In late 2021, the unsecured loan portfolio was transferred to a new system, and the process and principles of recognising credit losses were correspondingly updated. As a result of the change, the amount of unsecured receivables recognised as credit losses decreased as expected in 2022, while the amount of expected credit losses and recovered credit losses has increased.

S&P Global Ratings confirmed Bonum Bank's credit rating on 7 October 2022. Bonum Bank's rating is BBB for long-term investment grade and A-2 for short-term investment grade. The outlook remained stable.

Bonum Bank's Annual General Meeting was held in March 2022. The Annual General Meeting dealt with statutory matters and elected Jaakko Pulli, Hanna Linna, Kirsi Salo and Ilkka Lähteenmäki to the Board of Directors. Jaakko Pulli has served as Chair of the Board.

POP BANK GROUP AND AMALGAMATION OF POP BANKS

The POP Bank Group is a Finnish financial group that offers retail banking services for private customers and small and medium-sized enterprises, in addition to providing private customers with non-life insurance services. The POP Banks are cooperative banks owned by their member customers. The POP Banks' mission is to promote their customers' financial well-being and prosperity, as well as local success.

STRUCTURE OF THE POP BANK GROUP

The POP Bank Group consists of the POP Banks, POP Bank Centre coop and their controlled entities. The POP Banks are member credit institutions of POP Bank Centre coop. POP Bank Centre coop and its member credit institutions are mutually liable for their debts and liabilities in line with the Act on the Amalgamation of Deposit Banks. The POP Banks, POP Bank Centre coop and their controlled service companies constitute the Amalgamation of POP Banks.

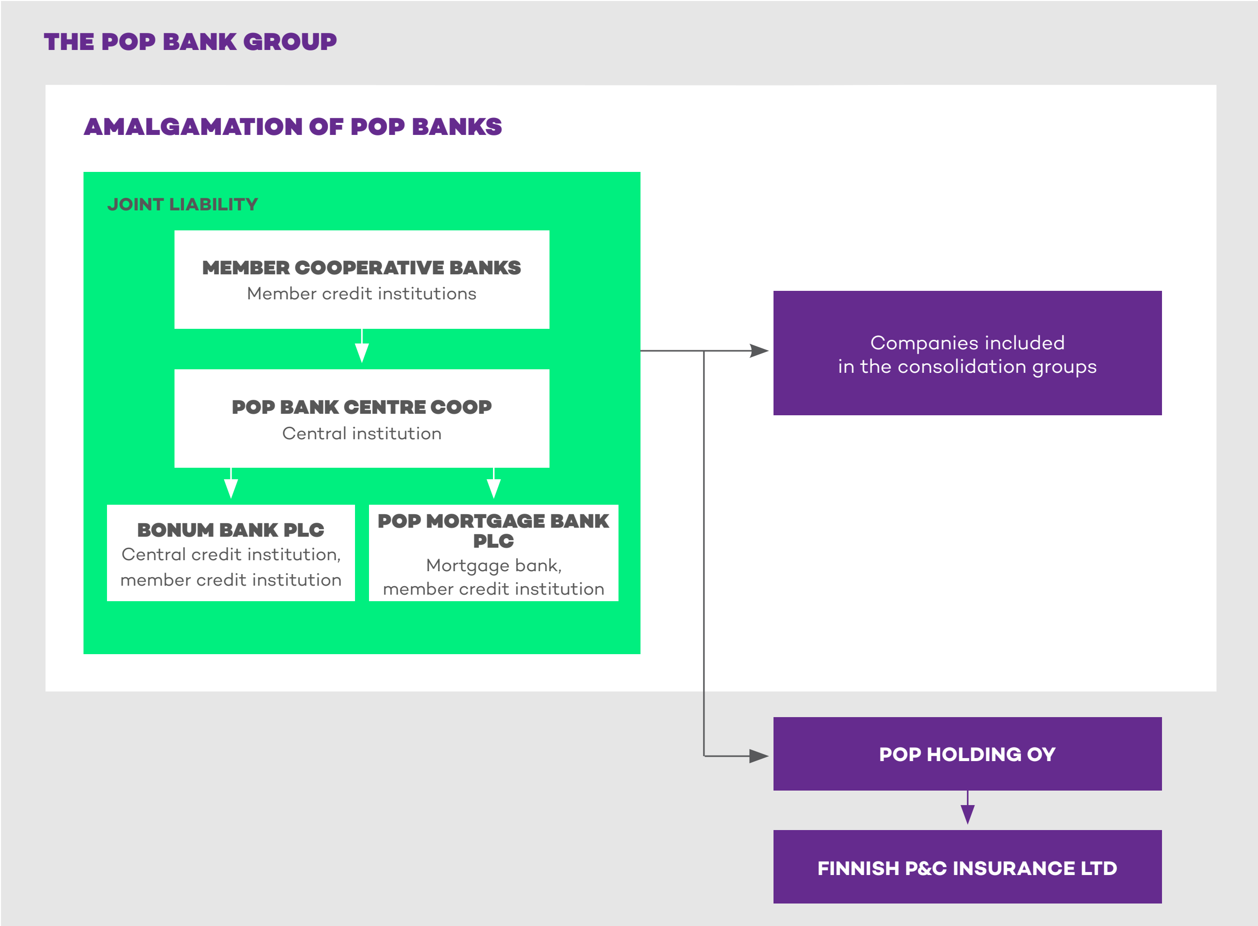
POP Bank Centre coop is the central institution of the Amalgamation of POP Banks and is responsible for steering and supervising the POP Bank Group. POP Bank Centre coop has two subsidiaries, Bonum Bank Plc and POP Mortgage Bank Plc, which are also its member credit institutions.

Bonum Bank Plc serves as the central credit institution of the POP Banks and acquires external funding for the Group by issuing unsecured bonds. Bonum Bank Plc is also responsible for the POP Banks' card business and the Group's payment transactions and centralised services, in addition to granting credit to retail customers. POP Mortgage Bank Plc is responsible for the Group's mortgage-backed funding, which it acquires by issuing covered bonds.

The POP Bank Group also includes POP Holding Oy and Finnish P&C Insurance Ltd, a company wholly owned by POP Holding, which are not covered by mutual liability. Finnish P&C Insurance Ltd uses the auxiliary business name of POP Insurance.

The following figure shows the structure of the POP Bank Group and the entities included in the amalgamation and covered by joint mutual responsibility.

POP BANK GROUP STRUCTURE



CHANGES IN GROUP STRUCTURE

One merger was completed within the POP Bank Group during the financial period. Liedon Osuuspankki and Piikkiön Osuuspankki merged with Suupohjan Osuuspankki at the end of May. At the same time the name of the bank was changed to Suomen Osuuspankki. After the merger, the POP Bank Group consists of 19 cooperative banks. The merger was an intra-Group arrangement and had no impact on the POP Bank Group's consolidated financial information.

In March POP Bank Group divested one of the real estate companies previously consolidated to the Group. In addition to this, POP Mortgage Bank Plc was accepted as a member credit institution of the amalgamation of POP Banks in May after the company had received authorisation to engage in mortgage bank operations.

Kurikan Osuuspankki and Jämijärven Osuuspankki decided on a merger in December. The merger is set to be registered in May 2023.

OPERATING ENVIRONMENT

Economic recovery and growth continued after the most challenging phase of the coronavirus pandemic in 2022. The strict lockdown measures related to the pandemic in China continued to limit the pace of global economic recovery to some extent. In Finland, the improvement in the employment rate and the robust growth in total production in early 2022 were particularly positive developments.

The economic outlook turned significantly weaker following Russia's extensive attack on Ukraine. The EU quickly imposed wide-ranging economic sanctions on Russia, and the rest of the world broadly joined many of the measures against Russia. The sanctions imposed on Russia are also having a significant impact on the Finnish economy. The worst blows have been suffered by companies whose Russian business operations have become practically worthless in a short period of time.

The high inflation rate, which had previously been deemed temporary by the European Central Bank (ECB), continued to accelerate during the spring. The main driver of inflation is the sharp increase in energy prices, which has been reflected, with a delay, extensively in all economic sectors. As Russia previously delivered large volumes of natural gas to the EU, the sanctions have led to an energy crisis in Europe, with demand exceeding energy supply. As the need for energy typically increases in the autumn, the increase in electricity prices witnessed in the autumn of 2022 was exceptionally high.

The long period of low interest rates and stimulating monetary policy came to an end in the eurozone when the ECB deemed that interest rate hikes were necessary to ensure price stability. The ECB started to ramp down its securities purchase programme and began to increase its key interest rates in July. Towards the end of the year, its key interest rate levels were 2.5 percentage points higher than at the beginning of the year.

Although production increased markedly in Finland in 2022 from the previous year, expectations of growth have subsided. The Finnish economy is expected to fall into recession, and the annual change in GDP in 2023 is expected to be negative. Towards the end of the year, consumers' expectations turned more pessimistic than ever before, and the increase in electricity prices in particular has caused concern among businesses and households. The number of housing sales began to decrease markedly towards the end of the year, and expectations of lower housing price levels increased, especially in the Helsinki metropolitan area. Households' ability to cope with financial challenges continues to be eased by the high employment rate and savings that accumulated during the coronavirus pandemic.

FINANCIAL POSITION

PERFORMANCE

Bonum Bank's profit for the financial year was EUR 3,383 thousand, whereas last year that was EUR 1,046 thousand. The profit for the financial year primarily consists of interest and commission income on central credit institution services provided for POP Banks, income from unsecured lending and profit on the card business and payments. The Bank's cost-to-income ratio was 74.2 per cent (75.4).

The bank's key income statement items have developed as follows, compared with year 2021:

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021	Change-%
Interest income	18,800	11,132	68.9
Interest expenses	-8,639	-2,634	228.0
Net interest income	**10,161**	**8,498**	**19.6**
Net commissions and fees	7,285	6,639	9.7
Net investment income	459	389	18.0
Other operating income	4,196	3,105	35.1
Total operating income	**22,101**	**18,630**	**18.6**
Personnel expenses	-4,583	-4,273	7.2
Other operating expenses	-10,863	-8,665	25.4
Depreciation and amortisation	-949	-1,103	-13.9
Total operating expenses	**-16,395**	**-14,041**	**16.8**
Impairment losses on financial assets	-1,485	-3,281	-54.7
Profit before taxes	**4,221**	**1,309**	**222.5**
Income tax expense	-838	-263	219.0
Profit for the financial period	**3,383**	**1,046**	**223.4**

Operating income totalled EUR 22,101 (18,630) thousand. The increase in income arose from the favourable development of the bank's net interest income, which amounted to EUR 10,161 (8,498) thousand. This represents an increase of 19.6 per cent year-on-year. The growth of net interest income was mainly due to growth of income in central credit institution services, unsecured lending and card business. In addition, income from derivatives increased the net interest income for the year 2022.

Net commission income increased to EUR 7,285 (6,639) thousand. Commission income consists mostly of income from the cards business and payment transmission fees. The increase is due to positive development of the business.

Net investment income increased to EUR 459 (389) thousand. Net investment income consists of mainly net gains from foreign currency transactions. Other operating income totalled to EUR 4,196 (3,105) thousand. The increase in income is due to the growth of the Group's internal services.

Operating expenses totalled at EUR 16,395 (14,041) thousand. The increase in comes mainly from ICT expenses and other operating expenses. Personnel expenses, that are composed of salary expenses and pension and other indirect employee expenses, to EUR 4,583 (4,273) thousand. On 31 December 2022, the Bank had 66 (58) employees.

Impairment losses on financial assets decreased to EUR 1,485 (3,281) during the year. In late 2021, the unsecured loan portfolio was transferred to a new system, and the process and principles of recognizing credit losses were correspondingly updated. As a result of the change, the amount of unsecured receivables recognized as credit losses decreased as expected in 2022, while the amount of expected credit losses and recovered credit losses has increased. Active collection measures are being targeted at receivables recognised as credit losses

BALANCE SHEET

At the end of the year 2022, Bonum Bank's balance sheet stood at EUR 1,574,594 (1,037,914) thousand.

The amount of liquid assets grew during the review period to EUR 436,911 (268,871) thousand. Loans and receivables from credit institutions were EUR 778,257 (422,718) thousand. This item includes the funding provided by Bonum Bank to other member banks of the POP Bank Group. Loans and receivables from customers totalled to EUR 170,485 (116,455) thousand. This item includes the credit used on credit cards issued by Bonum Bank and other loan products issued by Bonum Bank to its customers.

Liabilities to credit institutions increased ended up to EUR 1,122,965 (655,626) thousand. This item includes deposits made by other member banks of the POP Bank Group, TLTRO loans from the central bank and deposits made by other banks outside the Group. The amount of debt securities issued to the public was EUR 322,214 (284,920) thousand at the end of the review period.

In December 2022, Bonum Bank gained additional equity of EUR 10 million. The equity was booked to unrestricted equity fund.

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Assets		
Liquid assets	436,911	268,871
Loans and advances to credit institutions	778,257	442,718
Loans and advances to customers	170,485	116,455
Investment assets	163,891	197,563
Intangible assets	1,057	1,933
Property, plant and equipment	359	361
Other assets	23,118	10,008
Tax assets	515	5
Total assets	**1,574,594**	**1,037,914**
Liabilities		
Liabilities to credit institutions	1,122,965	655,626
Liabilities to customers	55,930	53,329
Debt securities issued to the public	322,214	284,920
Derivatives	5,975	0
Other liabilities	20,003	7,978
Tax liabilities	850	724
Total liabilities	**1,527,938**	**1,002,578**
Equity capital		
Share capital	10,000	10,000
Reserves	28,520	22,121
Retained earnings	8,136	3,215
Total equity capital	**46,657**	**35,336**
Total liabilities and equity capital	**1,574,594**	**1,037,914**

KEY FIGURES AND THE FORMULAS OF KEY FIGURES

	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019
Cost-to-income -ratio, %	74.2	75.4	71.4	84.6
ROA, %	0.26	0.1	0.09	0.04
ROE, %	8.25	3.0	2.13	0.76
Capital adequancy ratio (TC) %	20.00	21.8	24.1	29.7
Equity ratio, %	3.0	3.4	3.4	5.5

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 October 2022, S&P Global Ratings has affirmed Bonum Bank's long-term investment grade to 'BBB' and short-term investment grade to 'A-2'. The outlook remained stable.

SHAREHOLDINGS AND EQUITY

On 31 December 2022, 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 46,657 (35,336) thousand.

RISK AND CAPITAL ADEQUACY MANAGEMENT AND RISK POSITION

PRINCIPLES AND ORGANISATION OF RISK AND CAPITAL 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 340,172 (316,004) thousand at the end of 2022. Bonum Bank's off-balance sheet credit commitments totalled EUR 160,498 (145,485) 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 163,890 (197,562) 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 6,611 (4,948) 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 46.4 per cent during the financial period, amounting to EUR 170,485 (116,455) thousand. Most of the lending was unsecured lending, which represented 50.9 per cent of the loan portfolio. Loans granted to private customers represented 83.1 (82.3) per cent of the loan portfolio.

Expected credit losses (ECL) on loans, receivables and off-balance sheet items increased by EUR 1,597 thousand during the financial period, amounting to EUR 4,899 thousand. Expected credit losses in IFRS stage 3 increased to EUR 2,883 (1,668) thousand. Due to a change in write off process of unsecured loan portfolio in 2022, more credit loss recoveries were recognised than credit losses, in total EUR 113 (-2,972) thousand was recognised as final write off balance in 2022.

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 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 184.8 (141.3) per cent on 31 December 2022, with the minimum level being 100 per cent. At the end of the financial period, Bonum Bank had EUR 691.6 (457.9) million in LCR-eligible liquid assets before haircuts, of which 64.8 (61.1) per cent consisted of cash and receivables from the central bank and 31.0 (32.2) per cent consisted of highly liquid Tier 1 securities. In addition, the member credit institutions of the amalgamation had EUR 39.8 (28.0) million in unpledged securities outside the LCR portfolio.

The requirement for stable funding, NSFR, measures the maturity mismatch of assets and liabilities on the balance sheet and aims to ensures that the level of stable 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 2022 was 133.5 (130) per cent.

Bonum Bank 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 (255) 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 67.5 (30.0) million was outstanding at the end of the review period. In addition, Bonum Bank has a EUR 22.3 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 (128.4) 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. 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. The Bank executed derivative hedges during the financial year to decrease banking book interest rate risk in member banks balance sheet.

Bonum Bank monitors the interest rate risk using the present value method and the dynamic income risk model on 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 impact. The objective is pursued through continuous personnel development and comprehensive operating instructions and internal control measures.

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 based on business risks assessments, 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 2022. Both capital adequacy ratio and core capital adequacy ratio were 20.0 (21.8) per cent. At the end of 2022, the bank's own funds totalled EUR 41,981 (31,763) thousand, consisting entirely of CET1 capital.

Bonum Bank's risk weighted assets increased during 2022 mainly because of increase in retail credit portfolio. The bank's own funds were increased by EUR 10 million at the end of financial year, to enable planned balance sheet growth. The growth in the retail credit portfolio is expected to continue in 2022, which will increase the amount of its risk weighted receivables accordingly.

Bonum Bank's own funds consist of share capital, retained earnings and other non-restricted reserves. 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 statutory minimum for capital adequacy ratio is 8 per cent and 4.5 per cent for CET1 capital. In addition to the minimum capital adequacy ratio, Bonum Bank is subject to 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. All additional capital requirements have to be covered in full with tier 1 capital.

Bonum Bank's leverage ratio was 4.9 (4.9) per cent on 31 December 2022, as the required minimum level is 3 per cent. With special permission from the Financial Supervisory Authority, intra-amalgamation items are deducted from the amount of leverage exposure in the calculation of the leverage ratio.

SUMMARY OF CAPITAL ADEQUACY

Bonum Bank Plc	31 Dec 2022	31 Dec 2021
Summary of capital adequacy (EUR 1,000)		
Own funds	43,274	34,290
Common Equity Tier 1 capital before deductions	-1,293	-2,527
Deductions from Common Equity Tier 1 capital	**41,981**	**31,763**
Total Common Equity Tier 1 capital (CET1)		
Additional Tier 1 capital before deductions	-	-
Deductions from Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**41,981**	**31,763**
Tier 2 capital before deductions	-	-
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	**-**	**-**
Total capital (TC = T1 + T2)	**41,981**	**31,763**
Total risk weighted assets	**210,283**	**145,727**
of which credit risk	171,065	112,834
of which credit valuation adjustment risk (CVA)	3,433	-
of which market risk (exchange rate risk)	-	2,999
of which operational risk	35,785	29,894
Fixed capital conservation buffer according to Act on Credit institutions (2.5%)	**5,257**	**3,643**
Countercyclical capital buffer	**26**	**2**
CET1 Capital ratio (%)	**20.0 %**	**21.8 %**
T1 Capital ratio (%)	**20.0 %**	**21.8 %**
Total capital ratio (%)	**20.0 %**	**21.8 %**
Capital requirement		**0.0 %**
Total capital	41,981	31,763
Capital requirement *	22,115	15,304
Capital buffer	19,865	16,459
Leverage ratio		
Tier 1 capital (T1)	41,981	31,763
Leverage ratio exposure	858,279	644,960
Leverage ratio, %	4.9 %	4.9 %

* 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 23 March 2022 adopted the financial statements for 2021 and granted discharge from liability to the Bonum Bank's Board members and the CEO. The Board of Directors of Bonum Bank had four members. During the year, the Board has convened 31 times.

Regular board members were: :

Jaakko Pulli, 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 Banks CEO is **Pia Ali-Tolppa** and CEO's deputy is **Timo Hulkko**.

On 31 December 2022, the Bank had 66 employees, of which 65 with permanent employment contract and two with hourly wage. Out of the total of 66 employees, 55 worked full-time. 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 remuneration 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 100,000 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 100% 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

During the financial period, the Bank has paid variable compensation payments in total 75,994.02 EUR. No start-up payments were paid during fiscal year. The Bank did not pay compensation of over EUR 1 million during the financial period.

KEY OUTSOURCED OPERATIONS

Bonum Bank's bank system is outsourced to Samlink Ltd. Bonum Bank's accounting is managed at Figure Taloushallinto Ltd., which POP Bank Group owns together with other customer banks of the company. Payment message handling at Bonum Bank is carried out through 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) 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.

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

EVENTS AFTER THE CLOSING DATE

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

OUTLOOK FOR 2023

Bonum Bank will use the available funding sources diversely during 2023. 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 2023, the general focus will be on increasing operational efficiency and improving profitability. In its card business operations, the bank is focusing on the business development and also further 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 2023.

The full-year result for 2023 is expected to be positive.

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

Bonum Bank's distributable funds were EUR 37,079,014.66. Bonum Banks Board of Directors proposes to the Annual General Meeting that the profit for the period EUR 3,383,278.34 be recognised in retained earnings and that no dividends be paid.

BOARD OF DIRECTORS' AND FINANCIAL STATEMENTS REPORT 31.12.2022

INCOME STATEMENT

(EUR 1,000)	Note	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021	Change-%
Interest income	Note 3	18,800	11,132	68.9
Interest expenses	Note 3	-8,639	-2,634	228.0
Net interest income		**10,161**	**8,498**	**19.6**
Net commissions and fees	Note 4	7,285	6,639	9.7
Net investment income	Note 5	459	389	18.0
Other operating income	Note 6	4,196	3,105	35.1
Total operating income		**22,101**	**18,630**	**18.6**
Personnel expenses	Note 7	-4,583	-4,273	7.2
Other operating expenses	Note 8	-10,863	-8,665	25.4
Depreciation and amortisation	Note 9	-949	-1,103	-13.9
Total operating expenses		**-16,395**	**-14,041**	**16.8**
Impairment losses on financial assets	Note 14	-1,485	-3,281	-54.7
Profit before taxes		**4,221**	**1,309**	**222.5**
Income tax expense	Note 10	-838	-263	219.0
Profit for the financial period		**3,383**	**1,046**	**223.4**

STATEMENT OF COMPREHENSIVE INCOME

(EUR 1,000)	Note	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021	Change-%
Profit for the financial period		3,383	1,046	223.4
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Net changes in fair value				
Equity instruments at FVOCI	Note 26	184	152	21.5
Capital gains and losses				
Equity instruments at FVOCI	Note 26	-1,538	-	-
Items that may be reclassified to profit or loss				
Changes in fair value reserve				
Liability instruments at FVOCI	Note 26	-2,247	-229	879.7
Total other comprehensive income for the financial period		**-217**	**968**	**-122.5**

The capital gain of EUR 1,922 thousand on shares recognised at fair value through other comprehensive income has been transferred to retained earnings and the deferred tax liability of EUR 384 thousand recognised at valuation has been dissolved.

BALANCE SHEET

(EUR 1,000)	Note	31 Dec 2022	31 Dec 2021
Assets			
Liquid assets	Note 15	436,911	268,871
Loans and advances to credit institutions	Note 13, 16	778,257	442,718
Loans and advances to customers	Note 13, 16	170,485	116,455
Investment assets	Note 13, 17	163,891	197,563
Intangible assets	Note 18	1,057	1,933
Property, plant and equipment	Note 19	359	361
Other assets	Note 20	23,118	10,008
Tax assets	Note 21	515	5
Total assets		**1,574,594**	**1,037,914**
Liabilities			
Liabilities to credit institutions	Note 13, 22	1,122,965	655,626
Liabilities to customers	Note 13, 22	55,930	53,329
Debt securities issued to the public	Note 23	322,214	284,920
Derivatives	Note 24	5,975	0
Other liabilities	Note 25	20,003	7,978
Tax liabilities	Note 21	850	724
Total liabilities		**1,527,938**	**1,002,578**
Equity capital			
Share capital	Note 26	10,000	10,000
Reserves	Note 26	28,520	22,121
Retained earnings	Note 26	8,136	3,215
Total equity capital		**46,657**	**35,336**
Total liabilities and equity capital		**1,574,594**	**1,037,914**

STATEMENT OF CHANGES IN EQUITY

(EUR 1,000)	Share capital	Fair value reserve	Other reserves	Retained earnings	Total equity
Balance at 1st of Jan 2022	**10,000**	**2,121**	**20,000**	**3,215**	**35,336**
Comprehensive income for the financial year					
Profit for the financial year				3,383	3,383
Other comprehensive income		-3,601			-3,601
Total comprehensive income for the financial year		**-3,601**		**3,383**	**-217**
Investment in the unrestricted equity fund			**10,000**		**10,000**
Shares measured at fair value through other comprehensive income				1,538	1,538
Balance at 31 December 2022	**10,000**	**-1,480**	**30,000**	**8,136**	**46,657**

(EUR 1,000)	Share capital	Fair value reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2021	**10,000**	**2,199**	**20,000**	**2,169**	**34,368**
Comprehensive income for the financial year					
Profit for the financial year				1,046	192
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**

CASH FLOW STATEMENT

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Cash flow from operating activities		
Profit for the financial year	3,383	1,046
Adjustments to profit for the financial year	3,688	4,663
Increase (-) or decrease (+) in operating assets	**-373,740**	**-145,358**
Advances to credit institutions	-333,871	-126,424
Advances to customers	-55,480	-35,622
Investment assets	28,722	17,762
Other assets	-13,111	-1,075
Increase (+) or decrease (-) in operating liabilities	**488,080**	**12,005**
Liabilities to credit institutions	455,764	-4,032
Liabilities to customers	20,349	16,675
Other liabilities	11,966	-638
Income tax paid	-706	-266
Total cash flow from operating activities	**120,705**	**-127,910**
Cash flow from investing activities		
Investments in shares and other equity	1,993	0
Changes in other investments	0	-65
Purchase of PPE and intangible assets	102	-335
Total cash flow from investing activities	**2,095**	**-401**
Cash flow from financing activities		
Payment of lease liabilities	-167	-157
Debt securities issued, increase	338,923	79,945
Debt securities issued, decrease	-301,853	-61,387
Equity investment	10,000	0
Total cash flow from financing activities	**46,903**	**18,401**
Change in cash and cash equivalents		
Cash and cash equivalents at period-start	273,820	383,730
Cash and cash equivalents at the end of the period	443,523	273,820
Net change in cash and cash equivalents	**169,703**	**-109,910**
Interest received	14,059	9,480
Interest paid	4,331	2,697
Dividends received	71	4
Adjustments to result for the financial year	**3,888**	**4,663**
Non-cash items and other adjustments		
Change in deferred taxes	-1	0
Net changes in fair value	-198	0
Income taxes	1,224	263
Impairment losses on receivables	1,485	3,281
Depreciation	949	1,103
Other	230	17
Cash and cash equivalents		
Liquid assets	436,911	268,871
Receivables from credit institutions payable on demand	6,612	4,949
Total	**443,523**	**273,820**

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, 02600 Espoo, Finland and online at www.poppankki.fi/en/investors/financial-reports.

Bonum Bank belongs to the POP Bank Group. The POP Bank Group consists of the amalgamation of POP Banks and companies over which it has control. The Group is engaged in banking and insurance business. The central institution for the amalgamation of POP Banks is POP Bank 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.

DERIVATIVE CONTRACTS AND HEDGE ACCOUNTING

During the 2022 financial year, Bonum Bank has acquired derivatives and started to apply hedge accounting. Bank hedges its interest rate risk against changes in fair value, primarily using interest rate swaps. Hedge accounting is applied for fair value hedging. The hedged instrument of fair value hedging is fixed-rate deposits. Derivative contracts are not made for trading purposes.

All derivative contracts are recognised and measured at fair value through profit or loss. The positive fair values of derivative contracts are presented as assets under Derivatives and negative fair values as liabilities under Derivatives. Changes in the value of derivatives in hedge accounting are recorded in the income statement under net income from investments under the item Net income from derivative contracts. Interest on hedging derivatives is presented in the income statement under interest income and expenses.

The hedging relationship between the hedging derivative contract and the hedged instrument and the objectives of risk management are documented before hedge accounting is applied. If there is a high correlation between the change in the value of the hedging derivative and the hedged instrument, the hedging is considered effective.

Bonum Bank applies IFRS 9 Financial Instruments to hedge accounting for all hedging relationships.

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.

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.

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 am-

ortised 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.

NOTE 2 RISK MANAGEMENT

PRINCIPLES OF RISK MANAGEMENT AND CAPITAL ADEQUACY MANAGEMENT

The purpose of Bonum Bank's risk management is to ensure that the bank does not take such risks in its operations that would result in a material threat to the capital adequacy or solvency of a member credit institution, the central institution or the entire amalgamation and support the strategic target of risk management in POP Bank Group and ensure for its own part the continuation the operations at all circumstances. Risk-bearing capacity is built upon risk management proportionated to the scope and complexity of the institution and adequate capitalization based on profitable business operations. The purpose of the risk management process is to ensure that all significant risks resulting from business activities are identified, assessed, measured and monitored on a regular basis and that they are proportionate to the risk-bearing capacity of the Bonum Bank and the amalgamation.

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

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

Bonum Bank's Board of Directors confirms the objectives of the business operations, guidelines, limits to the risk levels of the operations as well as the risk-taking authorities. The Board of Directors is also responsible for proactive capital planning and adapting the capital adequacy management planning and proactive capital planning into reliable governance and guidance. The Board of Directors assesses the appropriateness, extent and reliability of capital adequacy management. The Board of Directors sets the target level for capital adequacy and confirms the level and structure of capital required by the risk profile. The executive management is responsible for the risk management of the daily operations within the scope of the risk limits and risk-taking authority.

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

Bonum Bank's independent risk monitoring is responsible for monitoring the risk limits and capital adequacy in the business operations as well as reporting them to the Board of Directors and the independent risk management function of the central institution of the amalgamation. The assignment of Bonum Bank's risk monitoring function is to form a comprehensive view of the risks included in the central credit institution services provided to the amalgamation's member credit institutions and the bank's other operations, develop risk management methods and processes for identifying, measuring and monitoring risks in accordance with the principles issued by the central institution.

The centralized compliance function of the central institution supervises that the bank complies with applicable laws, decrees, instructions and regulations issued by the authorities, their own rules and the internal binding guidelines issued by the central institution of the amalgamation in its activities. As the central institution, POP Bank Centre coop supervises the sufficiency and functioning of the risk management systems in all the member credit institutions in accordance with section 17 of the Amalgamation Act.

The principles, organisation and internal control measures of amalgamation's risk and capital adequacy management are described in more detail in Note 4 to the POP Bank Group's financial statements. Material information regarding capital adequacy as specified in the Capital Requirements Regulation (EU 575/2013) is presented in a separate Pillar III report. Material information regarding capital adequacy as specified in the Capital Requirements Regulation (EU575/2013) is presented in a separate Pillar III report. Copies of the financial statements of the POP Bank Group are available from the office of the central institution, address Hevosenkenkä 3, 02600 Espoo, Finland or through the website www.poppankki.fi.

CAPITAL ADEQUACY MANAGEMENT

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

The monitoring and control of the capital adequacy position has been implemented by setting the control thresholds for the adequacy in accordance with the limits set by the central institution of the amalgamation. The capital adequacy targets (control limits) are set for the capital adequacy ratio in accordance with Capital Requirements Regulation (EU 575/2013) and it's reformative regulation 2019/876 (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). The bank does not include the profit accrued during the financial period in its own funds.

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 340,172 (316,004) thousand at the end of 2022. Bonum Bank's off-balance sheet credit commitments amounted to EUR 160,498 (145,485) 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 totalled EUR 163,890 (197,562) thousand. 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 totalling EUR 6,611 (4,948) thousand.

The credit risk position of banking operations has increased because of the growth of the retail loan portfolio. The amount of expected credit losses increased with the loan portfolio, but the amount of write offs decreased due to a change in write off process of unsecured loan portfolio in 2022. 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 46.4 per cent during the financial year, reaching EUR 170,485 (116,455) thousand. Loans granted to retail customers accounted for 83.1 (82.3) per cent 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.

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 7,523 (4,437) thousand.

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 2022				31 Dec 2021
Rating Class	**Lower**	**Upper**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
1-4	0.00	1.50	724,641	219	-	**724,860**	**398,360**
5	1.50	5.00	-	-	-	**-**	**-**
6	5.00	25.00	-	-	-	**-**	**-**
7	25.00	100.00	-	-	-	**-**	**-**
8	100.00	100.00	-	-	-	**-**	**-**
Total			724,641	219	-	**724,860**	**398,360**
Expected credit losses			-	1	-	**1**	**4**
Total			724,641	218	-	**724,859**	**398,356**

Loans and advances to credit institutions consist of intra-POP Bank Group items, the amount of which increased by 82.0 per cent during the financial year.

RECEIVABLES FROM CUSTOMERS

(EUR 1,000, gross value)	PD		31 Dec 2022				31 Dec 2021
Rating Class	Lower	Upper	Stage 1	Stage 2	Stage 3	Total	Total
1-4	0.00	1.50	102,774	133	-	**102,907**	**58,418**
5	1.50	5.00	29,432	871	-	**30,303**	**29,652**
6	5.00	25.00	28,158	3,310	-	**31,468**	**24,889**
7	25.00	100.00	1,787	1,465	-	**3,253**	**2,357**
8	100.00	100.00	-	-	7,133	**7,133**	**4,154**
Total			162,151	5,780	7,133	**175,064**	**119,471**
Expected credit losses			1,549	213	2,816	**4,578**	**3,016**
Total			160,602	5,567	4,316	**170,485**	**116,455**

Receivables from customers mainly consist of unsecured loans 50.9 (61.4 per cent). The amount of the three lowest risk categories (risk categories 6-8) in receivables decreased to 23.9 (26.3) per cent during the financial year. The amount of stage two and three receivables increased to 7.4 (6.0) percent.

OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000, gross value)	PD		31 Dec 2022				31 Dec 2021
Rating Class	Lower	Upper	Stage 1	Stage 2	Stage 3	Total	Total
1-4	0.00	1.50	155,750	848	-	**156,598**	**140,472**
5	1.50	5.00	2,542	343	-	**2,885**	**4,249**
6	5.00	25.00	10	574	-	**584**	**476**
7	25.00	100.00	-	41	-	**41**	**5**
8	100.00	100.00	-	-	391	**391**	**284**
Total			158,302	1,806	391	**160,498**	**145,485**
Expected credit losses			172	39	67	**277**	**233**
Total			158,130	1,767	324	**160,221**	**145,253**

Off-balance sheet receivables mainly consist of unused credit card facilities 84.1 (85.0 per cent) and intra-group items 14.4 (13.1 per cent).

DEBT SECURITIES

(EUR 1,000, gross value)	PD		31 Dec 2022				31 Dec 2021
Rating Class	**Lower**	**Upper**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
1-4	0.00	1.50	158,139	300	-	**158,439**	**194,615**
5	1.50	5.00	-	-	-	**-**	**-**
6	5.00	25.00	-	-	-	**-**	**-**
7	25.00	100.00	-	-	-	**-**	**-**
8	100.00	100.00	-	-	-	**-**	**-**
Total			158,139	300	-	**158,439**	**194,615**
Expected credit losses*			13	-	-	**13**	**14**
Total			158,126	300	-	**158,426**	**194,600**

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 2022, impairment losses recorded from loans and receivables were 1,493 thousand. During the financial period, more credit loss recoveries were recognised than credit losses, with the total amount of credit losses being positive 112 (-2,972) thousand.

Bank's receivables overdue for more than 90 days accounted for 3.9 (3.5) percent of the loan portfolio.

At the end of 2022, the Bank's receivables overdue for 30–90 days accounted for 0.8 (0.9) per cent of the loan portfolio. The number of doubtful receivables in proportion to the total credit portfolio reported during the financial year remained at the same level that in the previous year. Expected credit losses (ECL) on loans and receivables and off-balance sheet commitments increased 1,597 thousand to EUR 4,899 (3,302) thousand during the financial year.

OVERDUE RECEIVABLES

(EUR 1,000)	31 Dec 2022	31 Dec 2021
31-90 days	1,386	1,081
over 90 days	6,703	4,017
Total	**8,089**	**5,098**

Expected credit losses (ECL) on loans and receivables and off-balance sheet commitments in ECL Stage 3 were EUR 2,883 (1,668) thousand. In ECL calculation, loans with more than 90 days overdue payments are classified to stage three. 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 is managed through amalgamation level limits, in consideration with regulation in force.

COUNTERPARTY DISTRIBUTION OF LIQUID ASSETS

(EUR 1,000)	31 Dec 2022	31 Dec 2021
From central banks	436,911	268,871
Governments and public bodies	72,533	127,511
Credit institutions	94,067	28,644
From companies	3,087	3,407
Total	**606,599**	**428,434**

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 approves the liquidity strategy and liquidity management guidelines prepared by the central institution at the amalgamation level, which defines the principles, methods, restrictions and implementation for liquidity management. 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 managing the regulatory minimum levels of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) in the amalgamation level. The Central institution has released the member banks from the regulatory demands of liquidity coverage and net stable funding ratio with permission granted by the Finnish Financial Supervision Authority. According to the permission regulatory demands in liquidity risk have to be filled at amalgamation level only.

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 funding plan and the liquidity contingency plan written out by the management of the central credit institution. The central institution's risk monitoring 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 are 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

(percentage)	31 Dec 2022	31 Dec 2021
LCR	185	141
NSFR	134	130

The liquidity reserve of the amalgamation consists of high-quality liquid assets in accordance with the EU Capital Requirements Regulation, which can meet the liquidity need in stress situations either by selling the securities or by pledging them as collateral for central bank funding. In addition to the assets on the central credit institutions balance sheet, the amalgamation's liquidity reserve also includes liquid assets in the balance sheet of the other member credit institutions, that can be managed by the central credit institution on the basis of internal agreements. At the end of 2022, the market value of non-pledged financial assets and cash included in the liquidity reserve were in total of EUR 779.7 (549.1) million.

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

Maturity distribution of financial liabilities (EUR 1,000)	31 Dec 2022				
	Under 3 months	3-12 months	1-5 years	Over 5 years	Total
To central banks	-	50,000	78,400	-	128,400
Deposits	20,000	13,400	-	-	33,400
Issued debt instruments	49,953	67,369	204,892	-	322,214
Liabilities to credit institutions	382,226	29,800	576,710	5,828	994,565
Derivatives	-	-	5,975	-	5,975
Lease liabilities	40	123	166	-	329
Total	**452,220**	**160,692**	**866,144**	**5,828**	**1,484,883**

Maturity distribution of financial liabilities (EUR 1,000)	31 Dec 2021				
	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**

At the end of the financial year, Bonum Bank had EUR 255 (255) million in unsecured senior loans issued under the EUR 750 million bond program. EUR 67.5 (30.0) million of the Bank's EUR 250 million certificates of deposits program was issued. In addition, Bonum Bank has a EUR 22.2 million loan program with the Nordic Investment Bank NIB. At the end of 2022, Bonum Bank had European Central Bank's TLTRO III funding for EUR 128.4 (128.4) million.

MARKET RISKS

Market risk refers to the probability of loss resulting from changes in interest rates or other market prices. 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 within the investment plan according to the market risk strategy. 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 use of derivatives is limited to hedging purposes only.

Currency risk is not taken at all in lending; all loans are granted in euros. Currency risk arises to a small extent through strategic shareholdings and from customers foreign currency payments. 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.

Interest rate risk arises from differences in the interest terms of receivables and liabilities and mismatches in interest rate repricing and maturity dates. Interest rate risk arises from the liquidity reserve investment activities and the banking book operations.

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.

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 is managed primarily by planning the balance sheet structure, such as the interest rate fixing or maturity of assets and liabilities. During the financial period, Bonum Bank executed derivative hedges to decrease interest rate risk in member banks' banking book.

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

			31 Dec 2022
(EUR 1,000)	**Change**	**Effect on result**	**Effect on equity**
Interest rate risk	+1 percentage point	-470,551	-1,238,102
Interest rate risk	-1 percentage point	475,322	1,290,323

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	-740,210	-1,767,972
Interest rate risk	-1 percentage point	1,425,580	585,525

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

Investment and liquidity portfolio

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

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

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

OPERATIONAL RISKS

Operational risks refer to financial losses or other harmful consequences to business that may be caused by internal inadequacies or errors in systems, processes, procedures and the actions of personnel, or by external factors affecting the business. All business processes, including credit and investment processes, involve operational risks. The operational risk of Bonum Bank also arises from outsourced operations and major business projects.

The Bank's Board of Directors approves the principles of operational risk management and other guidelines as binding instructions given by the central institution. Targeted risk level is moderate.

Risk identification and assessment as well as evaluation of functionality and sufficiency of controls is essential in operative risk management. The Bank assesses the probability of occurrence and impact of the identified operational risks in risk self-assessment based on the relevant business processes.

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 compliance and risk monitoring function.

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.

The Banks' executive management monitors operational risks by collecting information on operational risk events, incidents, financial losses and any malpractices encountered, in order to assess the risk involved and take timely mitigating actions if necessary. Risk Control reports significant operative risk events and risk assessment results to the board as well as to the central institutions compliance function.

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.

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 2022	1 Jan - 31 Dec 2021
Interest income		
Loans and advances to credit institutions	7,662	2,846
Loans and advances to customers	8,805	6,236
Debt securities	0.00	0.00
At amortised cost	361	295
At fair value through profit or loss		
Derivatives	1,360	-
Other interest income	-15	1,626
Total interest income	**18,800**	**11,132**
Of which positive interest expense	1,164	1,891
Interest expenses		
Liabilities to credit institutions	-4,279	-937
Liabilities to customers	-512	-463
Debt securities issued to the public	-2,924	-1,217
Derivatives	-897	-
Other interest expenses	-28	-17
Total interest expenses	**-8,639**	**-2,634**
Of which negative interest income	-847	-1,137
Net interest income	**10,161**	**8,498**

Income and expense by measurement category is presented in Note 11.

NOTE 4 NET COMMISSIONS AND FEES

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Commissions and fees		
Lending	619	455
Card business	5,275	4,529
Payment transfers	4,030	4,043
Other commission income	1	0
Total fee and commission income	**9,925**	**9,026**
Commissions expenses		
Card business	-1,806	-1,512
Payment transfers	-792	-843
Other commission expenses	-42	-33
Total commission expenses	**-2,639**	**-2,387**
Net commissions and fees	**7,285**	**6,639**

NOTE 5 NET INVESTMENT INCOME

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
At fair value through other comprehensive income		
Debt securities		
Capital gains and losses	0	1
Transferred from fair value reserve to the income statement	-2	16
Shares and participations		
Dividend income *)	71	4
Total	**69**	**21**
Net income from foreign exchange trading	**192**	**367**
Net income from derivative contracts		
Change in hedging instruments' fair value	-5,975	-
Change in hedged items' fair value	6,173	-
Net income from derivative contracts	**198**	**-**
Net income investments total	**459**	**389**

*) Dividend income from equity shares measured at fair value through other comprehensive income held in the end of the financial period is EUR 71 (4) thousand.

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

NOTE 6 OTHER OPERATING INCOME

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Business development fees from banks	19	223
Central credit institution services excl. payment transfer	62	66
Other income	4,116	2,816
Total other operating income	**4,196**	**3,105**

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 2022	1 Jan - 31 Dec 2021
Wages and salaries	-3,762	-3,522
Indirect personnel expenses	-150	-132
Pension costs		
Defined contribution plans	-671	-620
Total personnel expenses	**-4,583**	**-4,273**

On 31 December 2022, the bank had 66 (59) employees. On average, during year 2022, the bank had 59 (57) employees.

Related party fees are specified in Note 30 Related party disclosures.

NOTE 8 OTHER OPERATING EXPENSES

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Other operating expenses		
Other personnel expenses	-267	-215
Office expenses	-1,950	-1,080
ICT expenses	-7,509	-6,459
Telecommunications	-368	-273
Entertainment and marketing expenses	-80	-193
Rental expenses	-106	-86
Audit fees	-36	-34
Other operating expenses	-547	-326
Total other operating expenses	**-10,863**	**-8,665**
Audit fees		
Statutory audit	-29	-27
Audit related services	-7	-7
Tax advisory	-	-
Other expert services	-	-
Total audit fees	**-36**	**-34**

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 (0) thousand during the financial year 2022.

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

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Machinery and equipment	-17	-20
Right of use assets	-159	-151
Intangible assets	-773	-932
Total depreciation of property, plant and equipment and intangible assets	**-949**	**-1,103**

More detailed information about right off use assets is provided in Note 29.

NOTE 10 INCOME TAXES

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Current tax	-1,206	-267
Tax for prior financial years	1	-3
Withholding tax paid outside Finland	-19	-1
Change in deferred tax assets	-3	-49
Change in deferred tax liabilities	389	58
Total income tax expense	**-838**	**-263**

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

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Profit before tax	4,221	1,309
Income tax rate	20 %	20 %
Tax calculated at the tax rate	-844	-262
- Non-deductible expenses	0	0
- Taxable income not included in the profit	-384	0
+ Deductible expenses not included in the profit	5	2
- Tax for prior financial years	1	-3
Tax expense in the income statement	**-838**	**-263**

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

(EUR 1,000) Financial assets	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
At fair value through other comprehensive income		
Interest income ja expenses	535	-84
Transferred from fair value reserve	-2	16
Dividend income	71	4
Capital gains and losses	0	1
Expected credit loss	5	1
Total	**609**	**-62**
At amortised cost		
Interest income ja expenses	12,086	9,879
Other income	2,315	1,873
Expected credit loss	-1,603	-311
Total	**12,798**	**11,440**

(EUR 1,000) Financial assets	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
At amortised cost		
Interest income ja expenses	-2,924	-1,217
Total	**-2,924**	**-1,217**
At fair value through profit or loss		
Derivatives		
Fair value gains and losses	198	-
Interest income and expenses	463	-
Total	**661**	**-**
Net income from foreign exchange operation	**192**	**367**
Total	**11,336**	**10,529**

NOTES TO ASSETS

NOTE 12 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS 31 DECEMBER 2022

(EUR 1,000)	At amortised cost	At fair value through other comprehensive income	Expected Credit Loss	Total carrying amount
Liquid assets	436,911	-	-	436,911
Loans and advances to credit institutions	778,258	-	1	778,257
Loans and advances to customers	175,064	-	4,578	170,485
Debt securities*	50,853	112,234	11	163,076
Shares and participations	-	815	-	815
Financial assets total	**1,441,086**	**113,049**	**4,590**	**1,549,544**
Other assets				25,050
Total assets 31 December 2022				**1,574,594**

Loans and advances to credit institutions includes mainly loans within POP Bank Group. Loans and advances to customers includes loans for EUR 25,000 thousand that Bonum Bank acquired from Evli Bank Plc.

*) Expected credit loss of EUR 30 (34) thousand from debt securities have been recorded in the fair value reserve.

FINANCIAL ASSETS 31 DECEMBER 2021

(EUR 1,000)	At amortised cost	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	119,471	-	3,016	116,455
Debt securities*	40,000	154,615	14	194,600
Shares and participations	-	2,962	-	2,962
Financial assets total	**871,066**	**157,577**	**3,035**	**1,025,608**
Other assets				12,306
Total assets 31 December 2021				**1,037,914**

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

FINANCIAL LIABILITIES 31 DECEMBER 2022

(EUR 1,000)	At fair value through profit or loss	At amortised cost	Total carrying amount
Liabilities to credit institutions	-	1,122,965	1,122,965
Liabilities to customers	-	55,930	55,930
Debt securities issued to the public	-	322,214	322,214
Derivatives	5,975	-	5,975
Financial liabilities total	**5,975**	**1,501,109**	**1,507,085**
Other liabilities			20,853
Total liabilities 31 December 2022			**1,527,938**

FINANCIAL LIABILITIES 31 DECEMBER 2021

(EUR 1,000)	At fair value through profit or loss	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**

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

ASSETS RECURRENTLY MEASURED AT FAIR VALUE 31 DECEMBER 2022

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value
At fair value through other comprehensive income				
Shares and participations	-	-	815	815
Debt securities	68,591	43,642	-	112,234
Total	**68,591**	**43,642**	**815**	**113,049**

ASSETS 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**

LIABILITIES RECURRENTLY MEASURED AT FAIR VALUE 31 DECEMBER 2022

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value
At fair value through profit or loss				
Derivatives	-	5,975	-	5,975
Total financial liabilities	**-**	**5,975**	**-**	**5,975**

LIABILITIES RECURRENTLY MEASURED AT FAIR VALUE 31 DECEMBER 2021

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value
At fair value through profit or loss				
Derivatives	-	-	-	-
Total financial liabilities	**-**	**-**	**-**	**-**

FAIR VALUE HIERARCHY LEVELS OF ITEMS RECOGNIZED AT AMORTISED COST

ASSETS MEASURED AT AMORTISED COST 31 DECEMBER 2022

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Loans and advances to credit institutions	-	778,257	-	778,257	778,257
Loans and advances to customers	-	168,477	-	168,477	170,485
Investment assets					
Debt securities	-	50,170	-	50,170	50,842
Total	**-**	**996,904**	**-**	**996,904**	**999,585**

LIABILITIES MEASURED AT AMORTISED COST 31 DECEMBER 2022

(EUR 1,000)	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Liabilities to credit institutions	-	1,122,911	-	1,122,911	1,122,965
Liabilities to customers	-	55,930	-	55,930	55,930
Debt securities issued to the public	-	315,109	-	315,109	322,214
Total	**-**	**1,493,950**	**-**	**1,493,950**	**1,501,109**

ASSETS MEASURED AT AMORTISED COST 31 DECEMBER 2021

(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**	**-**	**607,295**	**599,159**

LIABILITIES MEASURED AT AMORTISED COST 31 DECEMBER 2021

(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**

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 instrument 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 techniques often involve insecurity. The fair value of assets allocated to Level 3 is often based on price information obtained from a third party. This group includes unlisted shares and funds 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 other comprehensive income	Total
Carrying amount 1 Jan 2022	**2,962**	**2,962**
+ Purchases	310	310
- Sales	-765	-765
+/- Changes in value recognised in other comprehensive income	230	230
+/- Sales revenue transferred to retained earnings	-1,922	-1,922
Carrying amount 31 Dec 2022	**815**	**815**

(EUR 1,000)	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**

SENSITIVITY ANALYSIS OF FINANCIAL ASSETS AT LEVEL 3

31 December 2022

(EUR 1,000)	Carrying amount	Possible effect on equity capital	
		Positive	Negative
Financial assets at fair value through other comprehensive income	815	122	-122
Total	**815**	**122**	**-122**

31 December 2021

(EUR 1,000)	Carrying amount	Possible effect on equity capital	
		Positive	Negative
Financial assets at fair value through other comprehensive income	2,962	444	-444
Total	**2,962**	**444**	**-444**

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 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 2022	1 Jan - 31 Jun 2021
Change of ECL due to write-offs	231	1,512
Change of ECL, receivables from customers and off-balance sheet items	-1,834	-1,823
Change of ECL, debt securities	6	2
Final credit losses	113	-2,972
Impairment losses on financial assets total	**-1,485**	**-3,281**

During the financial year, EUR -113 (2,972) thousand was recognised as final credit loss. Recollection measures are attributed to the whole amount of credit losses.

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 2022, Note 1 Accounting policies.

RECEIVABLES FROM CUSTOMERS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2022	**1,265**	**119**	**1,632**	**3,016**
Transfers to stage 1	7	-20	-125	-138
Transfers to stage 2	-140	64	-33	-109
Transfers to stage 3	-116	-44	1,493	1,333
Increases due to origination	915	131	255	1,301
Decreases due to derecognition	-283	-34	-427	-745
Changes due to change in credit risk (net)	-99	-3	253	151
Decreases due to write-offs	-	-	-231	-231
Total	**284**	**94**	**1,185**	**1,563**
ECL 31 Dec 2022	**1,549**	**213**	**2,816**	**4,578**

OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2022	**187**	**10**	**36**	**233**
Transfers to stage 1	1	-5	-13	-17
Transfers to stage 2	-10	17	-1	6
Transfers to stage 3	-1	0	16	14
Increases due to origination	27	19	27	73
Decreases due to derecognition	-8	0	-	-8
Changes due to change in credit risk (net)	-25	-1	3	-23
Total	**-15**	**29**	**31**	**44**
ECL 31 Dec 2022	**172**	**39**	**67**	**277**

DEBT SECURITIES

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2022	**48**	**1**	**-**	**49**
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Increases due to origination	15	-	-	15
Decreases due to derecognition	-19	-	-	-19
Changes due to change in credit risk (net)	-1	-1	-	-2
Total	**-5**	**-1**	**-**	**-6**
ECL 31 Dec 2022	**43**	**0**	**-**	**43**

RECEIVABLES FROM CREDIT INSTITUTIONS

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL 1 Jan 2022	**4**	**-**	**-**	**4**
Increases due to origination	-	-	-	-
Decreases due to derecognition	-1	-	-	-1
Changes due to change in credit risk (net)	-3	-	-	-3
Total	**-4**	**-**	**-**	**-4**
ECL 31 Dec 2022	**1**	**-**	**-**	**1**
ECL 1 Jan 2022	**1,504**	**130**	**1,668**	**3,302**
ECL 31 Dec 2022	**1,765**	**251**	**2,883**	**4,899**

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** **0**	**-**	**-**	**4**
ECL 1 Jan 2021	**1,282**	**148**	**1,562**	**2,993**
ECL 31 Dec 2021	**1,504**	**130**	**1,668**	**3,302**

CREDIT RISK BY STAGES 31 DEC 2022

(EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
Private	124,766	5,684	7,048	137,498
Corporate	37,385	96	84	37,566
Receivables from customers total	**162,151**	**5,780**	**7,133**	**175,064**
ECL 31 Dec 2022	1,549	213	2,816	4,578
Coverage ratio %	1.0 %	3.7 %	39.5 %	2.6 %
Off-balance sheet commitments				
Private	151,604	1,725	386	153,715
Corporate	6,698	81	5	6,784
Off-balance sheet commitments total	**158,302**	**1,806**	**391**	**160,498**
ECL 31 Dec 2022	172	39	67	277
Coverage ratio %	0.1 %	2.1 %	17.1 %	0.2 %
Debt securities				
ECL 31 Dec 2022	43	0	-	43
Coverage ratio %	0.0 %	0.0 %	-	0.0 %
Receivables from credit institutions	**724,641**	**219**	**-**	**724,860**
ECL 31 Dec 2022	1	-	-	1
Coverage ratio %	0.0 %	0.0 %	0.0 %	0.0 %
Credit risk by stages total	**1,198,884**	**8,105**	**7,524**	**1,214,513**

The table above summarizes the exposure to credit risk and the amount of the expected credit loss in relation to the amount of the exposure in stages. The coverage ratio illustrates the relative share of the ECL in the amount of exposure. There were no significant changes in the coverage ratio during the period.

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	**194,307**	**308**	**-**	**194,615**
ECL 31 Dec 2021	48	1	-	49
Coverage ratio %	0.0 %	0.2 %	0.0 %	0.0 %
Receivables from credit institutions	**398,360**	**-**	**-**	**398,360**
ECL 31 Dec 2021	4	-	-	4
Coverage ratio %	0.0 %	-	-	0.0 %
Credit risk by stages total	**849,466**	**4,028**	**4,438**	**857,931**

NOTE 15 CASH FUNDS

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Cash	0	-
Receivables from central banks repayable on demand	436,911	268,871
Total cash and cash equivalents	**436,911**	**268,871**

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

NOTE 16 LOANS AND RECEIVABLES

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Loans and receivables from credit institutions		
Deposits		
Repayable on demand	53,397	44,363
Other	724,860	398,356
Total loans and advances to credit institutions	**778,257**	**442,718**
Loans and receivables from customers		
Loans	117,518	70,459
Credit card receivables	51,400	44,807
Other receivables	1,568	1,189
Total loans and advances to customers	**170,485**	**116,455**
Total loans and receivables	**948,743**	**559,174**

NOTE 17 INVESTMENT ASSETS

(EUR 1,000)	31 Dec 2022	31 Dec 2021
At fair value through other comprehensive income		
Debt securities	112,234	154,615
Shares and participations	815	2,962
Measured at amortised cost		
Debt securities	50,842	39,986
Investment assets total	**163,891**	**197,563**

INVESTMENTS ON 31 DECEMBER 2022

	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	24,273	-	-	24,273
Other	44,319	-	50,842	95,160
Other				
Public sector entities	43,642	-	-	43,642
Other	-	815	-	815
Total	**112,234**	**815**	**50,842**	**163,891**

INVESTMENTS ON 31 DECEMBER 2021

	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	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**

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 2022	31 Dec 2021
Information systems	1,057	1,825
Other long-term expenditures	-	6
Incomplete intangible assets	-	102
Total intangible assets	**1,057**	**1,933**

CHANGES IN INTANGIBLE ASSETS 2022

(EUR 1,000)	Information systems	Intangible assets under development	Other long-term expenditures	Total
Acquisition cost on 1 Jan	**6,431**	**102**	**20**	**6,553**
+ Increases	0	-	-	-
+/- Transfers between items	0	-		-
- Decreases	0	-102	-	-102
Acquisition cost on 31 Dec	**6,431**	**-**	**20**	**6,451**
Accumulated amortisation and impairments on 1 Jan	-4,606	-	-14	-4,621
- Amortisation	-768	-	-6	-773
Accumulated amortisation and impairments on 31 Dec	**-5,374**	**-**	**-20**	**-5,394**
Carrying amount on 1 Jan	**1,825**	**102**	**6**	**1,933**
Carrying amount on 31 Dec	**1,057**	**0**	**-**	**1,057**

CHANGES IN INTANGIBLE ASSETS 2021

(EUR 1,000)	Information systems	Intangible assets under development	Other long-term expen-ditures	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**

NOTE 19 PROPERTY, PLANT AND EQUIPMENT

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Machinery and equipment	35	52
Right-of-use assets	324	309
Total property, plant and equipment total	**359**	**361**

CHANGES IN MACHINERY AND EQUIPMENT 2022

(EUR 1,000)	Right-of-use items	Machinery and equipment	Total
Acquisition cost on 1 Jan	**693**	**195**	**888**
+ Increases	174	-	174
Acquisition cost on 31 Dec	**867**	**195**	**1,062**
Accumulated depreciation and impairments on 1 Jan	**-384**	**-143**	**-527**
- Depreciation	-159	-17	-176
Accumulated depreciation and impairments on 31 Dec	**-543**	**-160**	**-704**
Carrying amount on 1 Jan	**309**	**52**	**361**
Carrying amount on 31 Dec	**324**	**35**	**359**

An itemisation of fixed asset items is provided in Note 29.

CHANGES IN MACHINERY AND EQUIPMENT 2021

(EUR 1,000)	Right-of-use items	Machinery and equip-ment	Total
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**

NOTE 20 OTHER ASSETS

(EUR 1,000)	1 Jan 2021	1 Jan 2022
Accrued income and prepaid expenses		
Interest	8,282	3,527
Other accrued income and prepaid expenses	4,779	5,786
Other	10,057	694
Other assets total	**23,118**	**10,008**

NOTE 21 DEFERRED TAXES

(EUR 1,000)	1 Jan 2021	1 Jan 2022
Income tax receivable	-	-
Deferred tax assets	515	5
Total tax assets	**515**	**5**
Income tax liabilities	706	188
Deferred tax liabilities	144	535
Total tax liabilities	**850**	**724**

DEFERRED TAX ASSETS 2022

(EUR 1,000)	1 Jan 2022	Recognised through profit or loss	Recognised in other comprehensive income	31 Dec 2022
At fair value through other comprehensive income	0	-	514	514
Deferred tax assets on losses	0	1	-	1
Advances received	4	-4	-	-
Deferred tax assets total	**5**	**-3**	**514**	**515**

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 LIABILITIES 2022

(EUR 1,000)	1 Jan 2022	Recognised as retained earnings	Recognised through profit or loss	Recognised in other comprehensive income	31 Dec 2022
At fair value through other comprehensive income	517	384	-384	-386	131
Intangible assets	18	-	-5	-	13
Deferred tax liabilities total	**535**	**384**	**-389**	**-386**	**144**

DEFERRED TAX LIABILITIES 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	541	-	-24	517
Intangible assets	76	-58	-	18
Deferred tax liabilities total	**617**	**-58**	**-24**	**535**

AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME AND RELATED DEFERRED TAXES 2022

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	-4,501	900	-3,601
Amounts recognised in other comprehensive income, total	**-4,501**	**900**	**-3,601**

AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME AND RELATED DEFERRED TAXES 2021

(EUR 1,000)	Gross change	Deferred tax	Net change
Fair value reserve	97	-19	78
Amounts recognised in other comprehensive income, total	**97**	**-19**	**78**

NOTES RELATING TO LIABILITIES AND EQUITY

NOTE 22 LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Liabilities to credit institutions		
Central Banks	128,400	128,400
Repayable on demand	326,780	335,245
Other	667,785	191,980
Total liabilities to credit institutions	**1,122,965**	**655,626**
Liabilities to customers		
Deposits		
Repayable on demand	55,930	53,329
Total liabilities to customers	**55,930**	**53,329**
Total liabilities to credit institutions and customers	**1,178,895**	**708,955**

Liabilities to central banks includes secured TLTRO III funding total of EUR 128,400 thousand. The funding matures in June 2023 EUR (50,000 thousand), March 2024 (EUR 70,000 thousand) and June 2024 (EUR 8,400 thousand) but for which early repayment is possible from January 2023 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 and the additional interest rate has been recognised as income during financial year 2021. ECB has recalibrated the conditions of the third series of targeted longer-term refinancing operations (TLTRO III) from 11/2022 onwards. POP Bank Group has used ECB deposit rate as interest rate for the loans for 2022. 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 2022	31 Dec 2021
Bonds	254,892	254,926
Certificates of deposits	67,323	29,995
Total debt securities issued to the public	**322,214**	**284,920**

DEBT SECURITIES ISSUED TO THE PUBLIC

Name	Issue date	Due date	Interest	Nominal (EUR 1000)	Currency
BONUM FRN 120723	3.6.2020	12.7.2023	EB 12kk + 1,04 %	50,000	EUR
BONUM FRN 170124	3.6.2020	17.1.2024	EB 12kk + 1,20 %	55,000	EUR
BONUM FRN 261026	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
Debt securities issued during the reporting period					
BONUM FRN 050425	5.4.2022	5.4.2025	EB 3kk + 1,40 %	50,000	EUR
BONUM FRN 220427	22.4.2022	22.4.2027	EB 3kk + 1,25 %	50,000	EUR

Certificates of deposit with a total nominal value of EUR 66.5 (30.0) million were outstanding on the balance sheet date. Amount of the certificates is 12, nominals range from 2 million to 10 million euros with average maturity is 8.8 months.

DEBT SECURITIES PRESENTED IN CASH FLOW RECONCILIATION TO BALANCE SHEET

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Balance sheet 1 Jan	**284,920**	**266,346**
Increase of bonds	99,911	49,952
Increase of Certificates of deposits	239,012	29,993
Total increase	**338,923**	**79,945**
Decrease of bonds	-100,000	-20,000
Decrease of Certificates of deposits	-201,853	-41,387
Total decrease	**-301,853**	**-61,387**
Total changes of cash flow of financial activities	**37,070**	**18,558**
Valuations and accrued interests	224	17
Balance sheet 31 Dec	**322,214**	**284,920**

NOTE 24 DERIVATIVES AND HEDGE ACCOUNTING

Bonum Bank hedges its interest rate risk against changes in fair value, primarily using interest rate swaps. Hedge accounting is applied for fair value hedging. The hedged instrument of fair value hedging is fixed-rate deposits.

NOMINAL AND FAIR VALUES OF DERIVATIVES

31 Dec 2022	Nominal value / remaining maturity				Fair value	
(EUR 1,000)	Less than 1 year	1-5 years	More than 5 years	Total	Assets	Liabilities
Hedging derivative contracts						
Fair value hedging						
Interest rate derivatives	-	200,000	-	200,000	-	5,975
Deriavatives total	**-**	**200,000**	**-**	**200,000**	**-**	**5,975**

The nominal value of the fixed-rate deposits subject to fair value hedging at the end of reporting period was EUR 200 million. This item is included on the balance sheet under "Loans and advances to credit institutions". The nominal values of derivative instruments correspond to the nominal values of the objects to be hedged.

EFFECTS OF HEDGE ACCOUNTING ON FINANCIAL POSITION AND RESULT

Fair value hedging (EUR 1,000)	31 Dec 2022	31 Dec 2021
Liabilities		
Carrying amount of hedged deposits	193,827	-
- of which the accrued amount of hedge adjustments	-6,173	-

NOTE 25 OTHER LIABILITIES

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Provision for expected credit loss	277	233
Other liabilities		
Payment transfer liabilities	925	528
Rental liabilities, right of use items	315	315
Accrued expenses		
Interest payable	5,062	739
Advances received	409	450
Other accrued expenses	1,801	1,510
Other		
Liabilities on card transactions	10,740	3,899
Other	460	304
Total other liabilities	**20,003**	**7,978**

Lease liabilities are presented in Note 29.

NOTE 26 CAPITAL AND RESERVES

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Share capital	10,000	10,000
Restricted reserves		
Fair value reserve		
From measurement of equity instruments (IFRS 9)	414	1,768
From measurement of liability instruments (IFRS 9)	-1,894	353
Non-restricted reserves		
Reserve for invested non-restricted equity	30,000	20,000
Retained earnings		
Profit of sale of shares	1,538	-
Profit (loss) for previous financial years	3,215	2,169
Profit (loss) for the period	3,383	1,046
Total equity	**46,657**	**35,336**

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. In December 2022, Bonum Bank gained additional equity of EUR 10 million. The equity was booked to unrestricted equity fund.

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 2022

(EUR 1,000)	Liability instruments	Equity instruments	Total
Fair value reserve on 1 Jan 2022	**353**	**1,768**	**2,121**
Fair value change, increases	1,628	1,719	3,347
Fair value change, decreases	-4,434	-1,536	-5,970
Transferred to the income statement	2	0	2
Transferred to retained earnings	-	-1,876	-1,876
Expected credit loss	-5	0	-5
Deferred taxes	562	338	900
Fair value reserve on 31 Dec 2022	**-1,894**	**414**	**-1,480**

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	0	-16
Expected credit loss	-1	0	-1
Deferred taxes	57	-38	19
Fair value reserve on 31 Dec 2021	**353**	**1,768**	**2,121**

OTHER NOTES

NOTE 27 COLLATERAL GIVEN

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Collaterals given		
Given on behalf of own liabilities and commitments		
Other collateral to the Bank of Finland	162,940	144,361
Total collateral given	**162,940**	**144,361**

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Collaterals received		
Collaterals received from banks of POP Group	67,958	64,306
Total collateral given	**67,958**	**64,306**

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. The amount of deposit liabilities in relation to the balance sheet total is confirmed annually.

NOTE 28 OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Loan commitments	160,498	145,485
Total off-balance sheet commitments	**160,498**	**145,485**

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

NOTE 29 OTHER LEASES

BONUM BANK PLC AS LESSEE

Bonum Bank has leased mainly business premises.

RIGHT-OF-USE ASSETS 31 DEC 2022

(EUR 1,000)	Office Buildings	Total
Acquisition cost 1 Jan	**693**	**693**
+ Increases	174	**174**
- Decreases	-	**-**
Acquisition cost 31 December	**867**	**867**
Accumulated depreciation and impairment 1 January	**-384**	**-384**
+/- Accumulated depreciation on decreases and transfers	-	**-**
- Depreciation	-159	**-159**
Accumulated depreciation and impairment 31 December	**-543**	**-543**
Carrying amount 1 January		**309**
Carrying amount 31 December		**324**

RIGHT-OF-USE ASSETS 31 DEC 2021

(EUR 1,000)	Office Buildings	Total
Acquisition cost 1 Jan	**532**	**532**
+ Increases	161	**161**
- Decreases	-	**-**
Acquisition cost 31 December	**693**	**693**
Accumulated depreciation and impairment 1 January	**-233**	**-233**
+/- Accumulated depreciation on decreases and transfers	-	**-**
- 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 are presented in Property, Plant and Equipment.

LIABILITIES / LEASE LIABILITIES

(EUR 1,000)	31 Dec 2022	31 Dec 2021
Lease liabilities 1 Jan	**315**	**310**
+ Increases	174	161
- Decreases	-160	-156
Lease liabilities 31 Dec	**329**	**315**

Lease liabilities are presented in other liabilities.

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Total cash outflow for leases	-167	-156

AMOUNTS RECOGNISED IN PROFIT OF LOSS

(EUR 1,000)	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Depreciation		
Office Buildings	-159	-151
Total	**-159**	**-151**

Depreciations are presented in Depreciation, Amortisation and Impairment of Property, Plant and Equipment.

Interest on lease liabilities		
Presented in Net interest Income	-6	0
Variable lease payments not included in the measurement of lease liabilities	-49	-44
Expenses relating to short-term leases	-5	-2
Expenses relating to leases of low-value assets	-26	-19
Total	**-80**	**-65**

Expenses are presented in other operating expenses.

NOTE 30 RELATED PARTY DISCLOSURES

The related parties of Bonum Bank comprise the members of the company's Board of Directors and Executive Group and members of their immediate families. In addition, related parties include Bonum Bank's parent entity POP Bank Centre coop, as well as the members of the company's Board of Directors and Executive Group. Furthermore, related parties include those entities over which key persons included in the management and/or members of their immediate families have control or joint control. Key persons included in the management comprise Bonum Bank's Board of Directors, CEO and Executive Group. In addition, key persons include POP Bank Centre coop managing director and deputy managing director. Also entities in the same group with Bonum Bank belong to the related parties.

In the financial period 2022, 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 2022**	**31 Dec 2021**	**31 Dec 2022**	**31 Dec 2021**
Assets				
Loans	284	214	219	174
ECL	0	0	0	0
Liabilities				
Deposits	5	4	5,601	3
Off-balance-sheet commitments				
Loan commitments	-	-	-	-

COMPENSATION TO KEY PERSONS IN MANAGEMENT

(EUR 1,000)	1 Jan-31 Dec 2022	1 Jan-31 Dec 2021
Short-term employee benefits	1,030	936
Total	**1,030**	**936**

COMPENSATION TO CEO AND MEMBERS OF THE BOARD

(EUR 1,000)	Salaries and remuneration
Ali-Tolppa Pia, CEO	230
Lemettinen Pekka, Chairman of the Board	34
Linna Hanna, Vice Chairman of the Board	29
Lähteenmäki Ilkka, member of the Board	26
Kirsi Salo, member of the Board	26
Total	**345**

NOTE 31 EVENTS AFTER THE REPORTING PERIOD

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

SIGNATURES

Espoo, February 15th 2023

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 15th 2023

KPMG OY AB

Tiia Kataja
APA

AUDITOR'S REPORT

To the Annual General Meeting of Bonum Bank Plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Bonum Bank Plc (business identity code 2192977-5) for the year ended 31 December, 2022. The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the company´s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Our opinion is consistent with the additional report submitted to the Board of Directors.

BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the company in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We have not provided any non-audit services to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIALITY

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Loans and receivables from customers (notes 1, 2, 12, 13, 14 and 16 to financial statements)	
• Loans and receivables from customers amounted to EUR 170.5 million. Interest and fee and commission income on receivables from customers represent a significant part of Bonum Bank's revenue. • The calculation of expected credit losses in accordance with IFRS 9 Financial Instruments is based on the valuation models used by the POP Bank Group and on expert estimates. The calculation involves assumptions, estimates and management judgement, in particular regarding the probability of expected credit losses and the determination of significant increases in credit risk. • The components of the expected loss calculation are updated and refined based on actual credit risk developments, the development of the calculation process, and regulatory changes and requirements. • Due to the significance of the carrying amount of receivables involved, the complexity of the calculation methods used and management judgement, the valuation of receivables is addressed as a key audit matter.	• We evaluated compliance with lending guidelines, credit risk management, and policies and controls for recording and monitoring receivables. • We gained understanding of the control environment for outsourced process elements based on ISAE 3402 reports. • We assessed the models and underlying key assumptions for calculating expected credit losses, as well as tested the controls over the calculation process and credit risk models for expected credit losses. • We involved our own IFRS and financial instruments specialists. • Furthermore, we considered the appropriateness of the notes in respect of receivables and expected credit losses.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and that financial statements comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the company or cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS

INFORMATION ON OUR AUDIT ENGAGEMENT

We were first appointed as auditors by the shareholders' meeting on 27 of June 2013, and our appointment represents a total period of uninterrupted engagement of 10 years.

OTHER INFORMATION

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki February 15, 2023
KPMG OY AB

Tiia Kataja
Authorised Public Accountant, APA

POP Pankki

Bonum Pankki Oyj