

Coop Pank AS
Management report of Supervisory Board
20 March 2024

Organisation of the Supervisory Board's work

A Supervisory Board consisting of six members was elected with a resolution of the general meeting of the bank's shareholders. The composition of the Supervisory Board changed last year when the mandate of the current chairman, Alo Ivask, expired and the general meeting elected Rainer Rohtla as a new member and as the Chairman of the Supervisory Board as of 12 April 2023. The mandates of all of the other members of the board were renewed for a further three-year term.

The bank's Supervisory Board organises its work in the form of regular and extraordinary meetings. In 2023, a total of 11 such meetings took place, while five resolutions of the board were adopted without a meeting being called. All of the members of the board took part in all of the meetings and votes that took place with the exception of Silver Kuus, who was unable to attend the June meeting.

The usual activities of the Supervisory Board during the year included monthly discussions of the achievement of the group's goals, its economic performance and compliance with the prudential requirements established for credit institutions. The board also updated the internal guidelines needed for the day-to-day work of the bank. The bank's risk reports and internal auditor's reports were reviewed quarterly, while the instructions and precepts issued by the Financial Supervision Authority were reviewed on an ongoing basis.

The Supervisory Board was supported in its activities by the Remuneration Committee and the Audit Committee.

The Remuneration Committee is responsible for assessing the bank's remuneration policies and whether they align with the bank's strategy and objectives. Three meetings of the Remuneration Committee were held in 2023. There was one change in the Remuneration Committee during the year when current member Alo Ivask was recalled as of 12 April 2023 and a new member was elected chairman: Rainer Rohtla.

The Audit Committee performs the tasks of such a committee arising from the Credit Institutions Act and the Auditors Activities Act, as well as the tasks of a risk committee arising from the Credit Institutions Act. Six regular meetings of the bank's Audit Committee were held in 2023. There was one change in the membership of the committee when current member Alo Ivask was recalled from his position as of 12 April 2023 and a new member was elected chairman: Rainer Rohtla.

Work of the bank's Internal Audit Unit

The bank's Internal Audit Unit is an organisational unit working under the authority of the Supervisory Board. It is tasked with contributing to the improvement of the bank's operations and to the achievement of its objectives. Specifically, internal audits focus on assessing the effectiveness and efficiency of the bank's risk management, internal control and governance processes and on proposing improvements thereto.

The Supervisory Board's cooperation with the Internal Audit Unit proved very effective in 2023. The bank's Audit Committee regularly approved the work plans and audit results of the Internal Audit Unit under the authority granted to it by the Supervisory Board.

The Supervisory Board has assessed that as at the end of 2023, the bank's Internal Audit Unit is adequately staffed and that its operational capacity and competencies are commensurate with its mandate.

Business strategy and financial plan of the bank

The Supervisory Board approves the business strategy, objectives and financial plan of the bank on an annual basis.

In autumn 2023 the board was given an overview of the macroeconomic situation and forecasts in Estonia, of the bank's competitive position and of the results of its business lines. The bank's business strategy and objectives were updated on this basis in the last quarter of the year, while its financial plan for 2024-2026 was approved in early January 2024. The bank's strategy for 2024 was prepared taking into account the complex macroeconomic situation, the resulting market demand and potential growth areas. In view of the economic conjuncture and changes in the interest rate environment, the Supervisory Board set clear objectives for the Management Board in terms of cost management. During 2023, the bank invested in and launched first-rate IT solutions and bolstered its business line teams, which in the view of the Supervisory Board are prerequisites for successfully continuing with the agreed growth strategy for the bank in 2024.

General risk framework of the bank

Given the external environment, the Supervisory Board paid special attention to the quality of the credit portfolio and to the management of client sanction risks and the liquidity risks of the bank in 2023. The bank's general risk management policies were updated in August. The Management Board also provided the Supervisory Board with an overview of the guidelines of the Financial Supervision Authority for improving the area of corporate governance and risk management.

In order to deal effectively with risks, additional posts were created in 2023 in both the AML department and the Compliance department.

The annual, systematic activities of the Supervisory Board in regard to risk include the renewal and approval of the bank's financial recovery plan.

Liquidity and capital of the bank

The year started on a subdued note in terms of lending volumes, which turned around in the second quarter when demand for business loans surged. This led to the bank launching a campaign in June to attract seasonal deposits, which proved very successful. In view of the situation and the risks in the economy, in summer the Supervisory Board issued guidelines to the Management Board to limit the bank's growth slightly in order to ensure sufficient capital and liquidity buffers for the autumn and for 2024. As a result, growth was more modest in the second half of the year.

In order to secure Coop Pank's capital requirements, EUR 12 million in additional Tier 1 bonds (AT1) was issued in September, while in December a subordinated loan agreement was signed between the bank and the European Energy Efficiency Fund under which the bank took out an unsecured subordinated loan of EUR 15 million in February 2024.

To secure the Tier 1 capital requirements, a total of EUR 23.8 million in equity was raised from the bank's current 2023 profits: the first tranche of EUR 15.2 million at the end of the second quarter and EUR 8.6 million at the end of the third quarter.

In summary, Coop Pank AS raised EUR 50.8 million in additional capital for the development of the bank in 2023. In the view of the Supervisory Board, this will ensure that Coop Pank has sufficient capital buffers to cover the increased risks in the macro-economy and to implement the bank's growth strategy in 2024.

The bank ended the financial year with liquidity and capital ratios significantly above the regulatory requirement.

Transactions beyond the everyday economic activities of the Bank

Coop Pank recorded one transaction in 2023 that went beyond the scope of its day-to-day business. In September, the Supervisory Board decided to merge Coop Pank AS and the bank's wholly owned subsidiary Coop Finants AS. This transaction is planned to be completed in the first half of 2024.

Management and management structure of the bank

The Supervisory Board made no changes to the management structure of the bank in 2023. In the board's view, the current organisation of the bank's management corresponds to the bank's level of development and complexity. The Management Board of the Bank continued to operate with five members in 2023. Following the end of his term of office, Head of Private Banking Rasmus Heinla left the Management Board and Karel Parve was elected as both a new member and the Head of Private Banking. In June, the Supervisory Board extended the mandates of Chairman of the Management Board Margus Rink and member of the Management Board and Head of Business Banking Arko Kurtmann for a further three-year period from the end of their previous terms of office.

Ongoing cooperation between the Supervisory Board and Management Board remains good, with open discussions covering all of the key issues related to the bank's day-to-day operations.

Work of the Supervisory Board in regard to shareholders

Coop Pank AS shares have been listed on the Tallinn Stock Exchange since autumn 2019. The bank has been open to investors, sharing monthly updates on its performance and providing quarterly presentations of results. The bank adheres to the principles of good corporate governance of Tallinn Stock Exchange.

One ordinary general meeting of shareholders was held in 2023, for which the Supervisory Board was involved in the preparation of draft resolutions. At the Annual General Meeting in April, shareholders approved the annual report for 2022, the profit distribution proposal prepared by the Supervisory Board and the new Articles of Association. The AGM also recalled then current Chairman of the Supervisory Board Alo Ivaski, elected a new member (Rainer Rohtla) to replace him and extended the mandate of the other members of the Supervisory Board for a new three-year term. The meeting also decided on the remuneration of the members of Supervisory Board.

The Supervisory Board made two decisions regarding the option programme in 2023: in April it decided to issue a total of 895,300 options to 102 employees of the banking group, with an exercise date of May 2026 and a price of EUR 1.526 per share; and it also decided to issue 770,000 new shares that month to exercise options issued to employees.

The bank's financial performance in 2023

Coop Pank continued to successfully implement its growth strategy in 2023, meeting most of the targets it set. One which was not met was the number of settled customers, which was 2% below target. Over the last seven years the bank has increased its market share of deposits and loans from 1% to 6%.

Year on year, the economy of scale resulting from growth is boosting the bank's performance indicators (net profit, cost/income ratio and return on equity). In 2023 the bank achieved an excellent ROE of 23.4%, driven by volume growth and a positive change in Euribor.

On 20 March 2024 the Supervisory Board reviewed the Management Board's annual report for the financial year 2023 (consisting of the management report, the financial statements and the remuneration report), the certified auditor's report and the profit distribution proposal and approved them for submission to the general meeting of shareholders.