Coop | Pank

Annual report

2017

General information

Business name	Public Limited Company (AS) Coop Pank
Registered	15.03.1992 in Tallinn
Legal address	Narva road 4, Tallinn 15014, Republic of Estonia
Commercial register number	10237832 (Commercial Register of the Republic of Estonia)
Date of first entry	19.08.1997
Phone	+ 372 669 0900
Fax	+ 372 661 6037
SWIFT/BIC	EKRDEE22
E-mail	info@cooppank.ee
Website	www.cooppank.ee
Auditor	AS PricewaterhouseCoopers
Commercial register number of the auditor	10142876 (Commercial Register of the Republic of Estonia)
Auditor's address	Pärnu road 15, Tallinn 10141
Balance sheet date of the financial statements	31.12.2017
Beginning and end of the financial year	01.01.2017- 31.12.2017
Reporting currency	euro (EUR), in thousands

Members of the Supervisory board: Jaanus Vihand (Chairman of the Supervisory Board), Priit Põldoja, Jaan Marjundi, Roman Provotorov, Märt Meerits

Members of the Management board: Margus Rink (Chairman of the Management Board), Hans Pajoma, Janek Uiboupin, Kerli Lõhmus

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Management Board declaration

All data and supplementary information presented in the 2017 consolidated financial statements of AS Coop Pank is true and complete, no omissions have been made with regard to data or information that would affect the content or meaning of the information. The consolidated financial statements give a true and fair view of the financial position, performance and cash flows of AS Coop Pank Group.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and referred to in § 17 of the Accounting Act of Estonia. These 2017 consolidated financial statements of AS Coop Pank are in compliance with the laws of the Republic of Estonia. The Group is going concern.

The 2017 consolidated financial statements of AS Coop Pank will be presented to the general meeting of shareholders for approval in April 2018. The previous 2016 consolidated financial statements were approved by the general meeting of shareholders at 26.04.2017.

Margus Rink
Chairman of the Management Board

Hans Pajoma
Member of the Management Board

Janek Uiboupin
Member of the Management Board

Kerli Lõhmus
Member of the Management Board

16.03.2018

Management report

The following companies were part of AS Coop Pank group as at 31.12.2017, while the first five companies provided in the table below are registered in the Commercial Register of Republic of Estonia and the last one in the Commercial Register of the Republic of Latvia:

Name of the Company	Field of activity	Holding
Coop Pank AS	banking	parent company
Coop Liising AS	leasing	100%
CP Vara AS (previously AS Krediidipank Finants)	other credit granting (being liquidated)	100%
Coop Finants AS	other credit granting	100%
AS Martinoza	real estate management	100%
SIA Prana Property	real estate management	100%

All the above-mentioned subsidiaries are fully consolidated with the line by line method, eliminating all intra-group receivables and liabilities, transactions between group companies, and income and expenses. The definition of group according to the Regulation (EU) No 575/2013 of the European Parliament and of the Council matches that of IFRS.

Overview of the business activities

Since the end of January 2017, Coop Pank AS (former AS Eesti Krediidipank) has new majority shareholders. The shareholders elected the Bank's new Supervisory Board and the latter appointed the new Management Board.

In the following months, the Management Board drew up the Bank's new strategy and financial plan, which was approved by the Bank's Supervisory Board in April. According to the new strategy, Coop Pank is implementing a new business model in the Estonian banking market - we are combining the forces of banking and retail trade to provide value to customers that has not been available to them until now.

The cornerstone of our new strategy is the Bank's current customers, 600 000 customers of Coop Eesti and the needs of all our other customers. We are creating a Bank where:

- we primarily focus on private clients and on providing services to small and medium-sized businesses;
- we offer basic banking services to our customers:

  To private clients: daily banking (accounts, transfers, bankcards, cash, deposits) and financing (small loans, credit cards, home loans, leasing);

  To companies: daily banking (accounts, deposits, bank link, bank cards, cash) and financing for expansion, new investments and increase of stock (loans, overdraft, leasing, bank guarantees);
- we see our competitive advantages most realized outside large urban areas;
- in addition to ordinary sales and service channels (bank offices, internet bank, mobile banking) we also offer banking services in Coop stores;
- the basis of our business model is "Banking in Commerce", i.e. we offer high level banking services in the market that logically fit into the customer's shopping trail in the retail sector.

After the change in majority ownership and approval of the new strategy, we started to actively service corporate clients in addition to private clients. In early spring, we launched active sales activities concerning both loan products and deposits. It is nice to acknowledge that Coop Pank has been received well by companies. This can be seen from our business volumes. In 2017 we doubled our loan portfolio. Compared with the previous year we have also doubled our leasing portfolio through good cooperation with car dealerships and other companies dealing with sale of assets.

In May 2017, the bank acquired a 100% holding in Coop Finants AS from its current owners (Coop Eesti Keskühistu, AS Inbank) and in June 2017 acquired a minority holding in AS Krediidipank Finants from AS Inbank. On 2 October 2017, AS Krediidipank Finants transferred all its assets and liabilities to Coop Finants AS, the business activities continue under the name of Coop Finants AS. CP Vara AS (new business name of AS Krediidipank Finants from January 2018) will be liquidated.

In the summer we started to dispose of the Bank's real estate portfolio: according to the new strategy, the Bank will exit the real estate investment business by the end of 2018.

In accordance with the new strategy, we closed our Latvian branch in summer 2017. In May 2017, we established a 100% subsidiary SIA Prana Property in the Republic of Latvia that operates a real estate property acquired as collateral for a non-performing loan in the Latvian branch.

Since 2 October 2017, the Bank's business name is Coop Pank AS. We entered the banking market with a revamped customer offer:

- new internet bank and new mobile bank;
- a bank card that can be used as the Coop customer card and that ensures widespread availability of cash from all ATMs;
- as the first bank in Estonia we offer customers an opportunity to open a bank account online;
- Coop Pank AS is available in an increasing number Coop stores, both in bank offices and banking stands.

In December, we started cooperation with the international deposit collection platform Raisin, and we raised a significant volume of term deposits already in the first month.

In 2018, the focus of Coop Pank will be:

- Growth of business volumes.
  We are actively attracting new customers and actively selling daily banking and financing products.
- Technological development.
  Implementation of the new strategy will require significant investments in information systems.
- Building up a sales network.
  In addition to the 14 bank offices and their 50 employees, our sales network now also includes 350 Coop stores and their few thousand salespersons – we are actively training and putting this network to use.

During 2017, the auditor of the Group has provided other assurance services which are required to be performed by auditors according to Credit Institutions Act, Securities Market Act and Investment Funds Act. In addition, the auditor of the Group has provided to the Group some other services that are permissible in accordance with the Auditors Activities Act of the Republic of Estonia.

Economic environment

In 2017, the global economy expanded due to the growth of investments, industrial production and trade. Economic and political uncertainty in Europe has decreased, but geopolitical insecurity has grown due to tension between countries. These aspects affect equity markets as well as economic growth. The growth outlook for the European economy has generally improved because several fears, such as the rise of protectionist economic policies, have not materialized.

The economic growth in the euro area remains strong and unemployment is at its lowest level of the last eight years. Inflationary pressures remain low and are expected to remain below the European Central Bank's long-term average target rate of 2.0%. In 2017, the Governing Council of the European Central Bank kept its monetary policy rates at an all-time low: the main refinancing operations rate is 0.00%, the marginal lending rate is 0.25%, and the deposit facility rate is -0.40%. Interest rates are not expected to increase until the next year. The ultra-low interest rates have also affected the return earned from real-sector term deposits which has fallen to an average of 0.3% in the euro area. Nevertheless, in 2017 the balance of both corporate and household deposits grew as compared to the previous year, which to a degree may possibly be a sign of the deferral of consumption and investments.

The Estonian economy expanded throughout 2017. The growth of Estonia's main trading partners and other European countries has exceeded previous expectations boosting also the Estonian economy. Estonia's economic growth exceeded 4.9% in 2017, thus being the fastest growth in the last six years. Economic growth is expected to be slightly slower in 2018.

The economic cycle has reached a point where growth is primarily driven by demand and not by an increase in production capacity and labour productivity of companies. As companies have started to invest more in fixed assets, productivity is now slowly increasing. Private consumption continues to be positively affected by rapid wage growth and an increase in tax exempt minimum income with a marginal decline in the inflation rate. Consumer price growth remained close to 4% in the last months of 2017, but is expected to fall to approximately 2% in the upcoming years. Inflation is slowing down mainly due to lower commodity prices, and the contribution of indirect taxes is also decreasing.

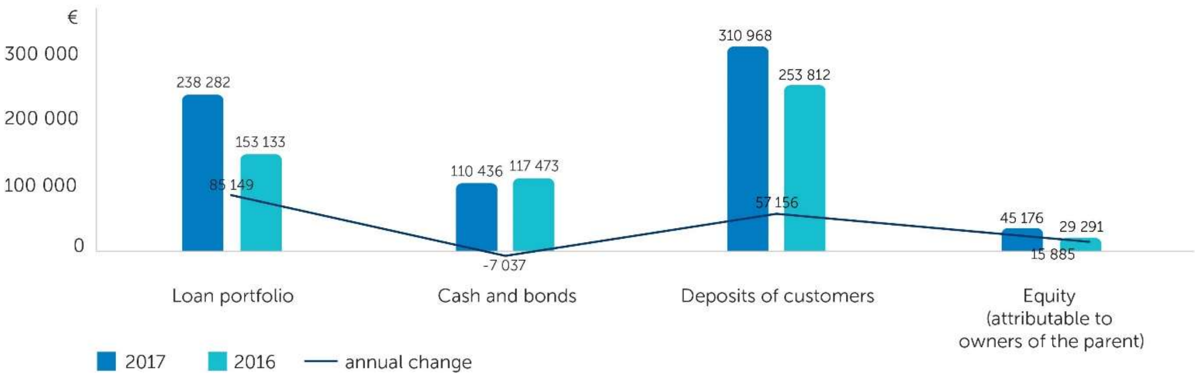
In its current state the economy does not yet show any signs of overheating, but the risk is there. Unlike ten years ago, the economy’s structure is not being distorted by the rapid growth of debt burden. By sectors, the risks are higher than the average in the construction sector, which is in a danger of overheating. Historically low interest rates and strong interbank competition have a positive impact on local businesses. Financing terms will remain quite favourable also in the upcoming years, and companies are still under considerable wage pressure. Exporting companies are in a better position because of accelerated price growth in international markets, which has made it possible to include production costs more easily in final prices. At the same time, the contribution of net exports to economic growth is negative. The main concerns are labour shortages and their potential amplification as government spending grows. In particular, it is important to achieve long-term sustainable economic growth that is balanced between different sectors.

Financial results

Income statement, in thousands of euros	2017	2016	Change
Net interest income	11 519	7 398	4 121
Net fee and commission income	2 170	2 737	-567
Other income	3 600	825	2 775
Total net operating income	17 289	10 960	6 329
Operating expenses	-11 518	-8 088	-3 430
Provision for loan impairment	-1 313	-1 009	-304
Income tax	0	-120	120
Net profit	4 458	1 743	2 715
incl. share of profit attributable to the owners of the parent company	4 345	1 529	2 816

* The financial results of Coop Finants AS are consolidated starting from 01.06.2017

Business volumes, in thousands of euros



The loan portfolio and the net interest income respectively increased by 56% and 55% in 2017. In 2017 the deposits from customers increased by 23%. Due to the reorganization and implementation of the new brand the operating costs of the Group increased by 42%, including the labour costs, which increased by 35% in 2017. To support the growth strategy of the business volumes additional capital in the amount of 13.2 millon euros were invested in the company.

Ratios (annual)	2017	2016	Change
Average shareholders' equity attributable to owners of the parent company, in thousands of euros	37 234	29 074	8 160
Return on equity (ROE) % (net profit / average shareholders´ equity)	11.7	5.3	6.4
Cash and interest-bearing assets, average, in thousands of euros	314 933	282 711	32 222
NET interest margin (NIM) % (net interest income / interest-bearing assets, average)	3.7	2.6	1.1
Cost / income ratio, % (total operating costs / total net operating income)	66.6	73.8	-7.2

Capitalisation and risk positions

Capital base, in thousands of euros	31.12.2017	31.12.2016
Tier 1 capital		
Paid-in share capital and share premium	38 374	25 175
Statutory reserve capital	2 070	1 970
Accumulated profit/loss (-)	387	617
The accepted profit of the reporting period	1 932	0
Goodwill as intangible asset (-)	-6 757	0
Intangible assets (-)	-1 166	-687
Deferred tax asset depending on future taxable profits (-)	0	-1
Adjustment of value arising from requirements of reliable measurement (-)	-14	-21
Other deductions from Tier I Capital (-)	-1 388	-1 019
Total Tier 1 capital	33 438	26 034
Subordinated debt	5 000	3 299
Tier 2 capital	5 000	3 299
Eligible capital for capital adequacy calculation	38 438	29 333
Risk-weighted assets (RWA)		
Central government and central banks using the Standardised Approach	1 424	1 452
Credit institutions, investment companies and local governments using the Standardised Approach	6 452	11 581
Companies using the Standardised Approach	23 090	8 323
Retail claims using the Standardised Approach	41 207	17 371
Claims secured by mortgage on real estate using the Standardised Approach	78 431	55 837
Claims past due using the Standardised Approach	5 271	2 645
Items subject to particularly high risk using the Standardised Approach	7 155	6 845
Other assets using the Standardised Approach	12 346	18 035
Total credit risk and counterparty credit risk	175 376	122 089
Operational risk using the Basic Indicator Approach	17 735	16 132
Total risk-weighted assets	193 111	138 221
Capital adequacy (%)	19.90%	21.22%
Tier 1 capital ratio (%)	17.32%	18.84%

Own funds requirements		
Core Tier 1 capital ratio	4.50%	Core Tier 1 capital/total risk exposure
Tier 1 capital ratio	6.00%	Tier 1 capital/total risk exposure
Total capital ratio	8.00%	Total capital/total risk exposure
Systemic risk buffer	1.00%	Of total risk exposure
Capital conservation buffer	2.50%	Of total risk exposure

As at 31.12.2017, the Group was in compliance with all regulatory capital requirements. The systemic risk buffer of Coop Pank Group as at 31.12.2017 was 1 931 thousand euros (31.12.2016: 1 382 thousand euros). The capital conservation buffer of Coop Pank Group as at 31.12.2017 was 4 828 (31.12.2016: 3 456) thousand euros.

The financial leverage ratio of Coop Pank Group was at 31.12.2017 8.47% (31.12.2016: 8.84%). In order to calculate the financial leverage ratio, the capital indicator (Tier 1 capital, see the table Capital Base above) is divided by the total exposure indicator and it is expressed as a percentage. Group's liquidity position is strong. At 31.12.2017 the Liquidity Coverage Ratio (LCR) was 728% (31.12.2016: 1 164%). The regulatory minimum requirement is 100%.

The remaining maturity of all the exposures, broken down by exposure classes are presented in the table below (in thousands of euros).

31.12.2017	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Balance sheet (Standardised Approach)						
Central governments and central banks	44 815	1 149	115	2 848	0	48 927
Credit institutions, investment companies and local governments	19 671	11 026	662	0	0	31 359
Companies	645	0	9 272	13 868	7	23 792
Retail claims	7 638	482	5 649	38 610	4 240	56 619
Claims secured by mortgage on real estate	81	809	4 261	40 023	116 205	161 379
Claims past due	1 601	5	236	1 971	110	3 923
Items subject to particularly high risk	0	0	0	1 513	416	1 929
Investments in equity	0	0	0	0	13	13
Other assets	33 709	0	0	0	1 804	35 513
Total balance sheet exposures	108 160	13 471	20 195	98 833	122 795	363 454
Off-balance sheet (Standardised Approach)						
Companies	310	0	0	0	0	310
Retail claims	19 897	0	0	0	0	19 897
Claims secured by mortgage on real estate under standard method	4 177	0	0	0	0	4 177
Claims past due	1 341	0	0	0	0	1 341
Items subject to particularly high risk	5 681	0	0	0	0	5 681
Total off-balance sheet exposures	31 406	0	0	0	0	31 406
Total exposure	139 566	13 471	20 195	98 833	122 795	394 860

31.12.2016	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Balance sheet (Standardised Approach)						
Central governments and central banks	43 919	103	2 904	0	0	46 926
Credit institutions, investment companies and local governments	24 050	15 380	3 053	0	0	42 483
Companies	603	2 410	0	5 430	7	8 450
Retail claims	3	309	2 113	18 268	1 781	22 474
Claims secured by mortgage on real estate	237	1 016	3 895	11 152	105 880	122 180
Claims past due	2 163	0	0	0	0	2 163
Items subject to particularly high risk	3 358	0	228	402	429	4 417
Investments in equity	0	0	0	0	13	13
Other assets	26 615	0	0	0	13 761	40 376
Total balance sheet exposures	100 948	19 218	12 193	35 252	121 871	289 482
Off-balance sheet (Standardised Approach)						
Companies	497	0	0	0	0	497
Retail claims	2 367	0	0	0	0	2 367
Claims secured by mortgage on real estate under standard method	1 887	0	0	0	0	1 887
Items subject to particularly high risk	311	0	0	0	0	311
Total off-balance sheet exposures	5 062	0	0	0	0	5 062
Total exposure	106 010	19 218	12 193	35 252	121 871	294 544

According to the Regulation (EU) number 575/2013 of the European Parliament and of the Council, a credit institution's exposure to a client or group of connected clients is considered a large exposure where its value is equal to or exceeds 10% of the credit institution's eligible capital. According to the EU Regulation number 575/2013 article 400 paragraph 1 terms the exposures relating to customers as a result of undrawn commitments are exempt from the applicable concentration of exposures limits specified in the table below. In addition, exposures to central governments and central banks which have been assigned a risk weight of 0% are exempt from the applicable concentration of exposures limits.

Concentration of exposure limits applicable to counterparties	Applicable limit	Number of clients	Concentration of exposure limits applicable to counterparties
Credit institutions and investment companies	eligible capital	5	24 157 th.euros
Clients, other than credit institutions and investment companies	25% of eligible capital	4	17 321 th.euros

The corresponding positions as of 31.12.2016 were 27 751 thousand euros (2 credit institutions) and 7 925 thousand euros (2 clients).

The assets of the Group are predominantly unencumbered with the exception of deposits pledged in the total amount of 668 thousand euros for securing various transactions. The bank has previously pledged bonds to the central bank, however, the bank is not subject to any obligations to the central bank with regard to the pledged assets, therefore such assets can be readily reclaimed. The value of the pledged assets is 2 million euros.

Assets are deemed encumbered if such assets are used for securing any on-balance sheet or off- balance sheet transaction or improvement of creditworthiness and such assets are pledged and cannot be withdrawn from the pledge without prior approval by the pledgee. Deposited or pledged assets that are not in use and can be readily reclaimed are not deemed encumbered assets.

The following table gives an overview about encumbered and unencumbered assets (in thousands of euros):

31.12.2017	Carrying value of encumbered assets	Fair value of encumbered assets	Carrying value of unencumbered assets	Fair value of unencumbered assets	Total carrying value of assets
Due from central banks and credit institutions	668	668	75 434	75 434	76 102
Shares	0	0	13	13	13
Government bonds	0	0	2 848	2 848	2 848
Bonds of non-financial companies	0	0	8 715	8 735	8 715
Loans and advances to customers	0	0	238 282	238 282	238 282
Other assets	0	0	45 418	45 418	45 418
Assets	668	668	370 710	370 730	371 378

31.12.2016	Carrying value of encumbered assets	Fair value of encumbered assets	Carrying value of unencumbered assets	Fair value of unencumbered assets	Total carrying value of assets
Due from central banks and credit institutions	690	690	82 522	82 522	83 212
Shares	0	0	13	13	13
Government bonds	0	0	2 904	2 904	2 904
Bonds of credit/financial institutions	0	0	3 073	3 073	3 073
Bonds of non-financial companies	0	0	5 947	5 954	5 947
Loans and advances to customers	0	0	153 133	153 866	153 133
Other assets	0	0	41 888	41 888	41 888
Assets	690	690	289 754	302 425	290 170

Group management system

AS Coop Pank Group acts based on the principle of consolidation, which entails the establishment of collective and coordinated objectives, the sharing of common core values and the formation of competent governing bodies to manage risks across the entire group.

The governing bodies of Coop Pank AS are the supervisory board and the management board. The Supervisory Board is appointed by the General Meeting of Shareholders for a three-year term. Shareholders who hold shares at least 1/10 of the share capital are able to nominate candidates for election of members of the Supervisory Board in the form of a draft resolution of the General Meeting of Shareholders. The Management Board is appointed by the Supervisory Board for a three-year term. When appointing members of the Management Board, the Supervisory Board ensures that the Management Board that is formed would be sufficiently diverse in composition through a profile of knowledge, skills, experience and education in order to make sure that the Management Board has the capability to effectively manage all of the bank's operating segments. The Supervisory Board also aims to take into consideration gender diversity when deciding on the composition of the Management Board.

Members of the governing body are appointed based upon requirements applicable to members of governing bodies pursuant to the provisions of the Credit Institutions Act: any appointed individual must have the necessary knowledge, skills, experience, education, professional qualifications and impeccable reputation in business to be able to manage a credit institution. A person whose earlier activities have caused a bankruptcy or compulsory liquidation or revocation of the activity license of a company, or from whom the right to engage in economic activity has been taken away pursuant to law, or whose earlier activities as a manager of a company have shown that he or she is not capable of organizing the management of a company such that the interests of the shareholders, members, creditors and clients of the company are adequately protected, or whose earlier activities have shown that he or she is not suitable to manage a company for other good reasons cannot be elected or appointed manager of a credit institution. In order to ensure compliance with the aforementioned requirements, the bank has adopted an internal policy for the evaluation of the suitability of a member of its governing body: suitability is evaluated before the individual is appointed member of a governing body and, if necessary, during their term of office as members. The bank has established a policy for the regular training for members of the management board in order to ensure sustained competency of its management board members.

Management Board

MARGUS RINK

Chairman of the Management Board of the bank since February 2017.

Previously Member of the Management Board of Eesti Energia and Head of Retail Banking in Swedbank.

HANS PAJOMA

Member of the Management Board since April 2017.

Previously Head of DNB Bank Norway Commercial Banking and CEO of DNB Bank Estonia.

KERLI LÕHMUS

Member of the Management Board since February 2017.

Previously CFO of LHV Bank and LHV Varahaldus.

JANEK UIBOUPIN

Member of the Management Board of AS since 2009.

Head of risk division of the bank since 2007.

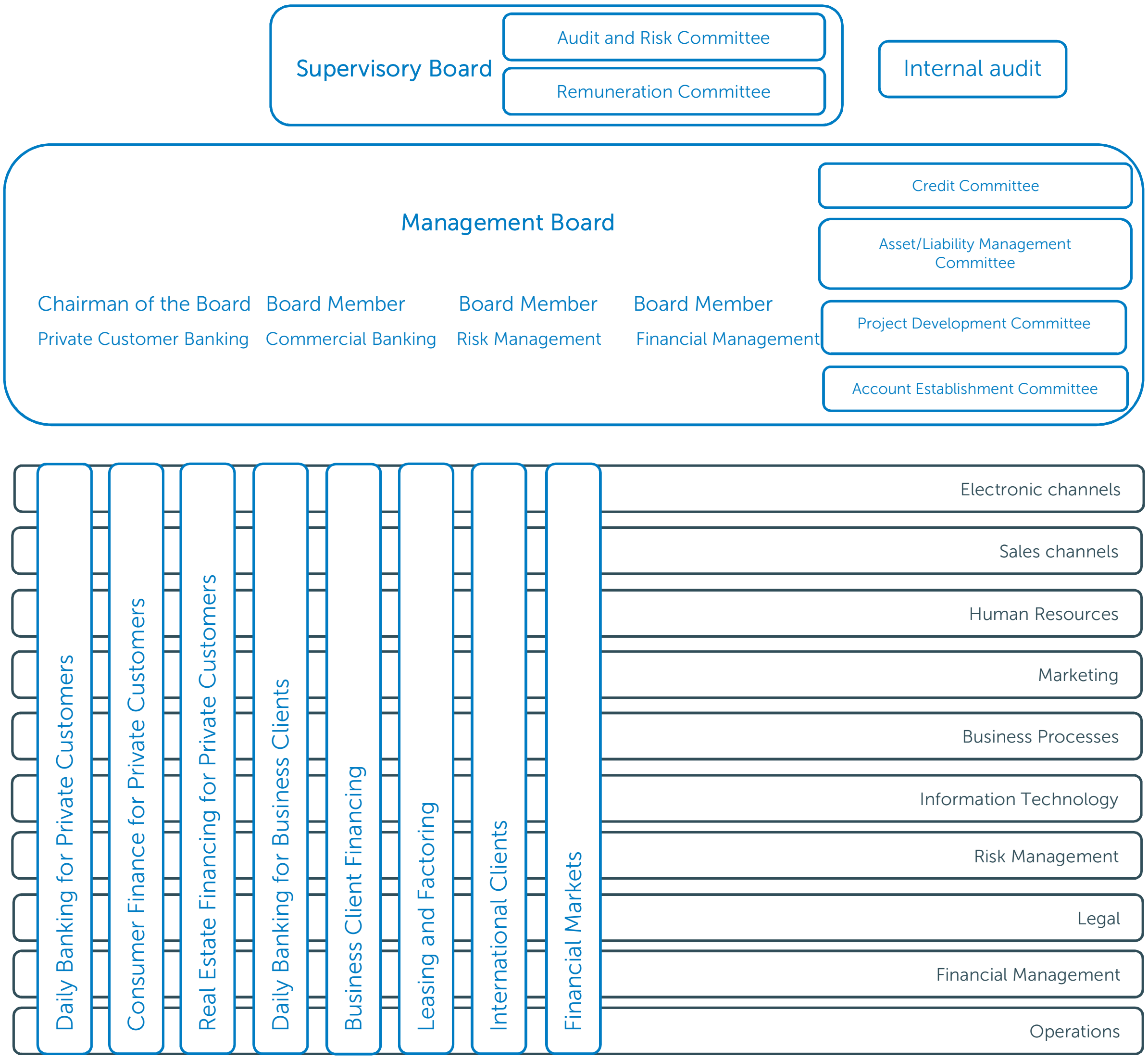
The structure of the Group is designed and approved by the management board of the bank in accordance with the provisions of legislation, the articles of association and strategies of the bank and its subsidiaries, as well as by adhering to the instructions provided by the supervisory board and the development priorities of the bank. The Group's organizational structure is mainly based on a functional structure. Responsibility for the activities of the bank and its subsidiaries is divided between the members of the bank's management board according to field of activity and function, thereby establishing areas of responsibility. The allocation of areas of responsibility among members of the management board is based on the principle of separation of functions, which ensures the separation of controlling entities from controlled entities.

The strategy, purposes and principles of the risk management of the Group is approved by the Supervisory Board of the bank. The Management Board of the bank and the members of Supervisory Boards of the entities belonging to the Group individually approve the plan of action for every company or business line. The core values stated in the Group's strategy stand for the whole Group. The Group manages risks across the entire Group and the following committees have been established:

- Audit/Risk Committee is comprised of members of the Supervisory Board of the bank and it serves as an advisory body in respect of accounting, auditing, risk management, legal compliance, internal control and audit, general supervision and budgeting.
- Remuneration Committee is comprised of members of the Supervisory Board of the bank and its role is to evaluate the implementation of remuneration policy and their adherence to the operational objectives of the bank and to evaluate the effect of decisions related to remuneration to compliance with requirements set forth concerning the Group's risk management, own funds and liquidity.
- Credit Committee are competent bodies for making credit decisions and their role is to ensure through their decision-making the adherence to common credit policy across the Group.
- Asset/Liability Management Committee is a competent body on a group-wide basis for the management of liquidity risk, interest rate risk of the bank portfolio and securities portfolio, designing of the structure of assets and liabilities, management of profitability and management of capital.
- The task of Account Establishment Committee is to guide through its decisions the establishing and discontinuing when necessary the relationships with high-risk clients.
- The main task of Investment Projects Committee is to lead different information system developments in order to attain the strategic goals of the Group.

A group-wide internal control system has been implemented by the Group encompassing all operational and management levels for the purposes of ensuring the effectiveness of the Group's operations, reliability of financial reporting, compliance of operations with applicable laws and other legislation, internal regulations approved by governing bodies and the adoption of decisions on the basis of reliable and relevant information. The control is based on a 3-level control system. The first level constitutes internal control that takes place internally within each division. The second level is made up of risk management and compliance function that operate as autonomous and independent control units. The third level comprises the internal audit unit that exercises control over the entire operations of the Group.

The structure of the Group



Remuneration policy

Coop Pank Group applies a single remuneration policy that has been approved by the Supervisory Board of the bank and the effectiveness, adherence to objectives and implementation of the policy is supervised by the Remuneration Committee. In 2017, two Remuneration Committee meetings took place. The remuneration policy applies equally to all employees of the Group.

The compensation structure applicable in the Coop Pank Group is comprised of two components:

- base salary, which is fixed pay agreed between employee and employer within a contract;
- variable pay, which is an additional pay based on the employer's resolution (sales bonus, performance pay, stock option).

Sales bonuses are paid to employees based on achieving monthly or quarterly goals. Performance pay is paid out the following period to those employees, whose contribution led to the results achieved while adhering to the Group's objectives and values. Performance pay supports efficient risk management and does not encourage taking excessive risks, the amount of pay is determined by the extent of reaching activity goals. In 2017, options to the members of the Management Board were granted with a maturity date of October 2020.

In addition to monetary incentives, the employees also have many non-monetary benefits such as flexible working hours, possibility to work from home, different common activities and benefits for sporting.

The Group's employees work under employment contracts, members of the management based on authorization agreements. The remuneration paid during the financial year within the Group are presented in the table below.

In thousands of euros	2017	2016
Wages and salaries and other compensation	4 790	3 612
Performance pay	435	225
Fringe benefits	62	57
Social tax, unemployment insurance premiums	1 675	1 266
Total	6 962	5 160

Number of employees at end of reporting period (in full time equivalent units)	192	163
Average number of employees in reporting period (in full time equivalent units)	164	166
Severance payments specified in contracts	250	247

Information regarding management compensation is provided in accounting report Note 23, related parties.

Dividend policy

The current dividend policy was approved by shareholders during the annual General Meeting on 25 April 2016. Due to the change among the majority shareholders new dividend policy is expected to be approved during the Annual General Meeting of the Shareholders in April 2018.

Persons that have close links

According to the 26 June 2013 Regulation (EU) number 575/2013 of the European Parliament and of the Council, close links is defined as a situation in which two or more natural or legal persons are linked in any of the following ways:

- participation in the form of ownership, direct or by way of control, of 20% or more of the voting rights or capital of an undertaking;
- control;
- a permanent link of both or all of them to the same third person by a control relationship.

According to this definition, until 27.01.2017 the Group had significant relationship with BM-Bank PJSC (8/15 Rozhdestvenka Street, Moscow) that owned 59.73% of shares.

As at 31.12.2017 the persons that own over 10% of the company's share capital are:

- Coop Investeeringud OÜ 38.77%
- AS Inbank 17.94%
- Andres Sonn 17.37%

Additionally the consumer cooperatives of Coop Estonia (Coop Eesti Tarbijate Keskühistu) control over 21.6% of the Group's share capital, however no one individually controls over 10% of the share capital.

Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

In thousands of euros	Note	2017	2016
Interest income		13 443	9 119
Interest expense		-1 924	-1 721
Net interest income	4	11 519	7 398
Fee and commission income		3 190	3 488
Fee and commission expense		-1 020	-751
Net fee and commission income	5	2 170	2 737
Revenue from sale of assets		1 141	975
Cost of assets sold		-1 389	-809
Rental income		523	753
Cost of rental income		-302	-304
Change in fair value of investment property	14	262	108
Other income	15	3 706	134
Net gains/losses from financial assets measured at fair value	6	-341	-32
Net other income		3 600	825
Payroll expenses	7	-6 962	-5 160
Operating expenses	8	-4 110	-2 474
Depreciation	15	-446	-454
Other expenses		-11 518	-8 088
Net profit before provision of loan impairment and icome tax expense		5 771	2 872
Provision for loan impairment	11	-1 313	-1 009
Income tax expenses		0	-120
Net profit		4 458	1 743
Other comprehensive income		0	0
Comprehensive income for the year		4 458	1 743
Net profit attributable to:			
The owners of the parent company		4 345	1 529
Non-controlling interest		113	214
Net profit for the year		4 458	1 743
Comprehensive income attributable to:			
The owners of the parent company		4 345	1 529
Non-controlling interest		113	214
Comprehensive income for the financial year		4 458	1 743

Notes to the financial statements on pages 20 to 68 are an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position

In thousands of euros	Note	2017	2016
Assets			
Cash		22 771	22 337
Balances with central banks	9	44 815	43 919
Loans and advances to credit institutions	9	31 287	39 293
Financial assets at fair value through profit or loss	10	11 060	11 421
Loans and advances to customers	11	238 282	153 133
Held-to-maturity financial assets	10	503	503
Available-for-sale financial assets	10	13	13
Other financial assets	13	477	714
Assets held for sale	13	7 323	4 279
Goodwill	3	6 757	0
Property, plant and equipment	15	3 600	5 199
Investment property	13,14	2 398	9 105
Other assets	13	2 092	254
Total assets		371 378	290 170
Liabilities			
Due to credit institutions		5 002	185
Due to customers	17	310 968	253 812
Other financial liabilities	18	3 216	1 433
Other liabilities	18	1 990	1 124
Subordinated debt	19	5 026	4 039
Total liabilities		326 202	260 593
Shareholders' equity			
Share capital		38 199	25 001
Share premium		175	174
Reserves		2 070	1 970
Retained earnings		4 732	2 146
Shareholders' equity attributable to owners of the parent company		45 176	29 291
Non-controlling interest		0	286
Total shareholders' equity		45 176	29 577
Total liabilities and shareholders' equity		371 378	290 170

Notes to the financial statements on pages 20 to 68 are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

In thousands of euros	Notes	2017	2016
Cash flows from operating activities			
Interest received		12 361	8 571
Interest paid		-1 761	-2 293
Service fees and commissions received		3 190	3 488
Service fees and commissions paid		-1 020	-751
Other received income		221	749
Salaries paid		-6 481	-4 995
Other operating expenses paid		-4 170	-3 945
Total cash flows from operating activities before changes in operating assets and liabilities		2 340	824
Change in operating assets:			
Loan receivables from customers		-85 900	-1 462
Change of mandatory reserve in central bank	9	-688	-302
Other assets		-1 601	1 909
Change in operating liabilities:			
Change in client deposits and loans received		56 982	-13 010
Change in credit institutions' depositories		4 815	70
Other liabilities		3 475	-2 381
Net cash flows from operating activities		-20 577	-14 352
Cash flows from investing activities			
Acquisition of assets and investment properties		-2 249	-144
Sale of assets and investment properties		13 484	37
Net change of investments in fair value		521	-6 040
Acquisition of subsidiaries, net cash flow	3	-10 672	0
Total cash flows from investing activities		1 084	-6 147
Cash flows from financing activities			
Contribution to share capital	19	13 198	0
Capital contribution of a non-controlling stake in the share capital of the subsidiary		0	31
Acquisition of a non-controlling interest in subsidiary	3	-2 058	0
Dividends paid		0	-1 095
Repayments of subordinated loan	18	-4 000	0
Emission of subordinated debt securities	18	5 000	0
Total cash flows from financing activities		12 140	-1 064
Change in cash and cash equivalents		-7 353	-21 563
Cash and cash equivalents at beginning of the period		103 121	124 684
Cash and cash equivalents at end of the period		95 768	103 121
Cash and cash equivalents balance is comprised of:		95 768	103 121
Cash on hand		22 771	22 337
Demand deposits in central banks		42 208	42 000
Demand and short-term deposits in credit institutions		30 789	38 784

Change in mandatory reserve, which previously was classified under cash and cash equivalents, has been reclassified to cash flows from operating activities after the approval of 2016 financial statement.

Notes to the financial statements on pages 20 to 68 are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

In thousands of euros	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total	Non-controlling interest	Total equity
Balance as of 01.01.2016	25 001	174	1 844	1 838	28 857	41	28 898
Dividends declared	0	0	0	-1 095	-1 095	0	-1 095
Changes in reserves	0	0	126	-126	0	0	0
Contribution of a non-controlling stake in the share capital of the subsidiary	0	0	0	0	0	31	31
Net profit	0	0	0	1 529	1 529	214	1 743
Total comprehensive income for financial period	0	0	0	1 529	1 529	214	1 743
Balance as of 31.12.2016	25 001	174	1 970	2 146	29 291	286	29 577
Increase of share capital	13 198	0	0	0	13 198	0	13 198
Approximation difference	0	1	0	0	1	0	1
Changes in reserves	0	0	100	-100	0	0	0
Acquisition of the non-controlling interest in subsidiary (Note 3)	0	0	0	-1 659	-1 659	-399	-2 058
Net profit	0	0	0	4 345	4 345	113	4 458
Total comprehensive income for financial period	0	0	0	4 345	4 345	113	4 458
Balance as of 31.12.2017	38 199	175	2 070	4 732	45 176	0	45 176

Notes to the financial statements on pages 20 to 68 are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1 Accounting principles

AS Coop Pank (Reg. No. 10237832, previous business name AS Eesti Krediidipank) is a credit institution registered in Tallinn (Estonia) Narva road 4. These consolidated financial statements of AS Coop Pank for the year 2017 have been approved by the Management Board of AS Coop Pank and will be presented to the shareholders of the bank for approval.

Functional and presentation currency

The functional currency of the AS Coop Pank Group is euro. 2017 consolidated financial statements have been presented in thousands of euros.

1.1 Basis of preparation

These consolidated financial statements of AS Coop Pank Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements have been prepared under the historical cost convention, except as disclosed in some of the accounting policies below (i.e. financial assets at fair value). Financial statements have been prepared according to accrual principle of accounting. The Group classifies its expenses by nature of expense method. When the presentation or classification of items in the consolidated financial statements is amended, comparative information for the previous period are also reclassified, if not referred differently in specific accounting principle.

1.2 Critical accounting estimates and judgements

The preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the EU requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Although these estimates are based on best knowledge and judgement of current events and actions, the actual outcome and the results ultimately may significantly differ from those estimates. More detailed overview of the estimates made is provided under accounting principles or disclosures set out below.
Critical estimates and judgements are primarily used in the following areas:

- loan allowances, incl. fair value assessment of collateral (Note 2; Note 11);
- estimation of the fair value of investment property (Note 2);
- fair value of financial assets and liabilities (Note 2).
- goodwill (Note 3).

Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under these circumstances. Changes in assumptions may have a significant impact on the financial statements in the period assumptions are changed. Management believes that the underlying assumptions are appropriate and the Group's financial statements therefore present the financial position and results truly and fairly.

1.3 Consolidation

These consolidated financial statements of the AS Coop Pank Group are comprised of the financial statements of the parent company AS Coop Pank and its subsidiaries Coop Liising AS, Coop Finants AS, CP Vara AS (previously AS Krediidipank Finants), AS Martinoza and SIA Prana Property as of 31 December 2017. The financial information of all companies controlled by AS Coop Pank has been consolidated. Group entities use uniform accounting policies. The definition of group according to the Regulation (EU) No 575/2013 of the European Parliament and of the Council matches that of IFRS. The statements of financial position and income statements of the bank and its subsidiaries are consolidated on a line-by-line basis, eliminating the intercompany balances, revenues, income- expenses and unrealized gains/losses on transactions between group companies.

Subsidiaries

Subsidiaries are all economic entities in which the Group has control. An entity is controlled by the Group if the Group receives or has rights to the variable profit arising from ownership interest in an entity and it is able to influence the size of the profit by exercising its influence over the entity. Subsidiaries are consolidated in the financial statements from the time control arises until it ceases.

Pursuant to the Accounting Act of the Republic of Estonia, information of the separate financial statements (primary statements) of the consolidating entity (parent company) shall be disclosed in the notes to the consolidated financial statements (see Note 25). In preparing the primary financial statements of the parent company, the same accounting policies have been used as in preparing the consolidated financial statements. In the parent company's separate primary financial statements, disclosed to these consolidated financial statements, the investments into the shares of subsidiaries are accounted for at cost less any impairment recognized.

Non-controlling interest

Non-controlling interest is the share of the net profit (loss) of a subsidiary in the statement of consolidated income, which is not related to the Group neither directly or indirectly. Non-controlling interests in the comprehensive income are included within equity in the consolidated statement of financial position separately from the equity attributable to the shareholders of the parent company and is disclosed below the consolidated statement of comprehensive income.

The Group applies the economic entity model to account for transaction with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognizes the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

1.4 Foreign currency transactions and assets and liabilities denominated in a foreign currency

All other currencies except for the functional currency, the euro, constitute foreign currencies. Foreign currency transactions have been translated to functional currencies based on the foreign currency exchange rates of the European Central Bank prevailing on the transaction date. Monetary assets and liabilities denominated in a foreign currency have been translated into functional currency based on the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date. Foreign exchange gains and losses are recognized in the income statement as income or expenses of that period. Non-monetary assets and liabilities denominated in a foreign currency measured at fair value have been translated into functional currency based on the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date. Non-monetary assets and liabilities that are not measured at fair value (e.g. prepayments, inventories accounted for using the cost method; property, plant and equipment as well as intangible assets) in a foreign currency are not translated at the balance sheet date but they continue to be reported using the official exchange rate of the European Central Bank prevailing at the date of the transaction.

1.5 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits due from central banks and other credit institutions, that are available for use without any significant restrictions and which are subject to an insignificant risk of changes in value. The cash flow statement is presented using the direct method.

1.6 Financial assets

AS Coop Pank Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

<table>
<tr><th colspan="2">Category (as defined by IAS 39)</th><th colspan="2">Class (as determined by the Group)</th></tr>
<tr><td rowspan="8">Financial assets</td><td rowspan="4">Loans and receivables</td><td colspan="2">Loans and advances to credit institutions</td></tr>
<tr><td rowspan="2">Loans and advances to clients</td><td>Private individuals</td></tr>
<tr><td>Legal entities</td></tr>
<tr><td colspan="2">Other financial assets</td></tr>
<tr><td rowspan="2">Financial assets at fair value through profit or loss</td><td colspan="2">Held for trading interest rate swaps - derivatives</td></tr>
<tr><td colspan="2">Debt securities designated at fair value through profit or loss</td></tr>
<tr><td>Held-to-maturity financial assets</td><td colspan="2">Debt securities held-to-maturity</td></tr>
<tr><td>Available-for-sale financial assets</td><td colspan="2">Investment securities – equity securities</td></tr>
<tr><td>Contingent receivables</td><td colspan="3">Contractual amounts of currency – related to derivatives</td></tr>
</table>

Financial assets are any assets that are cash, a contractual right to receive cash or another financial asset from another party, a contractual right to exchange financial instruments with another party under conditions that are potentially favorable or an equity instrument of another party. Management determines the classification of its investments at initial recognition.

1.6.1. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the resulting receivable.

Loans and advances are initially recognized in the consolidated statement of financial position at fair value including any transaction costs, when the cash is paid to the borrower or right to demand payment has arisen and are derecognized only when they are repaid or written-off, regardless of the fact that part of them may be recognized as costs through providing allowances for loans. The loan allowances are presented on the respective line of statement of financial position at negative value. Loans have been recognized in the statement of financial position at amortized cost, using effective interest rate method. Accrued interest on the loans is recorded in the respective line of statement of financial position. For overdrafts and credit cards, the actual use of the limit by the borrower is stated in the statement of financial position. The unused credit limit is recognized as contingent liability. Loan restructuring constitutes a change in the terms of the loan (maturity, payment schedule, interest rate) resulting from a change in the risk level of the borrower. The policies for the accounting and presentation of restructured loans do not differ from other loans.

Lease receivables

Finance lease transactions are lease transactions under which all significant risks and rights from using the assets are immediately transferred from the Group to the lessee. Legal ownership of assets is transferred to the customer at the end of the lease term. The receivables from the financial lease agreements are recognized at net present value of the minimum lease payments, from which the payments of principal received have been deducted, plus unguaranteed residual value at the end of contract. Lease payments collected are allocated between repayment of principal and finance income. Finance income is recognized over the rental period based on the pattern reflecting a constant periodic rate of return on the lessor's net investment in the financial lease. The lessor's direct expenses related to the contract are part of effective interest rate and are booked as decrease of income from lease over the period of lease contract. Allowances for lease receivables are presented on the respective line of the statement of financial position at negative value. A lease receivable from a client is recognized in the statement of financial position as of the moment of delivering the assets being the subject of the agreement to the client. In case of transactions, in which the assets being the object of the agreement having a long delivery term have not yet been delivered to the client, the payments received from the lessees under these agreements are recognized in the statement of financial position as prepayments of buyers in on line "Other financial liabilities". The amounts paid by the leasing firm for the assets under lease agreements not yet delivered are recognize in the statement of financial position as prepayments to suppliers on line "Other financial assets".

Factoring and warehouse receipt financing receivables

Factoring transactions are considered to be financing transactions where the leasing firm provides the financial resources to its selling partners through transfer of the rights to the receivables from these sales transactions. The leasing firm acquires the right for the receivables payable by the buyer subject to the sales contract. Factoring is the transfer of receivables. Depending on the terms of the factoring contract the buyer either accepts the transfer of substantially all the risks and rewards of the ownership of the receivable (non-recourse factoring) or retains the right to transfer the risks and rewards back to the seller during a pre- specified term (recourse factoring). Transaction is booked as financing in case the leasing company does not own all the rights related to the receivable. The receivable is included in statement of financial position until payment is received or recourse is expired. If a contract does not include the seller's guarantee and the leasing company acquires control of all rights at the moment of selling the receivable, the transaction is accounted for as an acquisition of a receivable at fair value. Subsequently receivables are measured at acquisition cost. The receivable from the client is recognized as of the moment of factoring the purchase-sale agreement, i.e. as of acquisition of the receivable.

Derecognition of factoring assets and liabilities follows the regulation in IAS 39 and the assessment is made based on each specific agreement type and status.

Warehouse receipt financing transactions are financing transactions, where the lease firm finances its partners, by granting them a loan against pledged stock reserves.

Valuation of loans and receivables

The Group assesses consistently whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For valuation of loans and receivables several risks are prudently considered. The Group uses a customer rating system for evaluating corporate loans, in accordance of which the valuation of the customer receivables is based on the legal entities financial position, trustworthiness of the borrower, timely fulfilment of contractual obligations and other factors, all of which together help to assess the value of the receivable and the amount of incurred loss in the portfolio of loans.

Valuation of loans to private individuals is based on timely fulfilment of contractual obligations, solvency and collateral and other factors, affecting the credit risk. Valuation of loans to private individuals is based on timely fulfilment of contractual obligations, solvency and collateral and other factors, affecting the credit risk.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical probabilities of default and historical rates of losses experienced on the assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future receivables are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

For assessment of loan losses, the expected collections from the loan and interest payments over the coming periods are considered, as well as expected collections and anticipated proceeds from the realization of collateral, discounted at the financial asset's original effective interest rate, which together form a recoverable amount of the loan and help to assess the amount of loss incurred of the loan. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. For these assessed incurred loan losses, the relevant allowance has been established. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Individual allowances are provided for individually assessed loans, and group based allowances for homogenous loan groups.

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement in "'Impairment losses on loans and advances".

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due and are treated as normal loans. More detailed overview of the credit risk management principles is given in Note 2 "Risk management".

1.6.2. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets designated at fair value through profit or loss and securities held for trading (incl. derivatives).

Securities at fair value through profit or loss are designated irrevocably, at initial recognition, into this category. In the current reporting period this class of securities is included the portfolio of liquid bonds. The intention of the investment is to keep local liquidity reserves in liquid securities, which can be pledged to the central bank or sold in order to raise liquidity whenever necessary.

Securities carried at fair value through profit of loss are measured at fair value, which is based on the bid price of the security. If the listing of a security does not indicate a price or quotations are not sufficiently regular, the financial instruments are revalued to fair value by using as a basis all of the available information concerning the issuer in order to determine the fair value of the financial instrument by using the prices of similar quoted securities that are available on the market.
Interest income on these instruments is recognized in income statement under "Interest income". The realized and unrealized gains or losses from the revaluation of these securities are presented in the income statement under "Net profit/loss change in fair value of financial assets designated at fair value through profit or loss".

Securities held for trading are securities that have been acquired mainly for the purposes of resale or redemption in the near term or if such securities form a part of an independent portfolio of financial securities that are collectively managed and where proof of recently realized short-term gain exists, and derivative securities. The Group does not own any securities acquired for the purposes of resale or redemption.

Derivative financial instruments (SWAP transactions) are initially recognized in the balance sheet at the fair value net of transaction costs at the trade date and are subsequently valued at fair value through profit or loss. If derivatives are quoted on an active market, market value is used as the fair value. Otherwise, the valuation techniques are used to find the fair value. Profits and losses from derivatives are recognized as income or expense of the period in the statement of comprehensive income under “Net gains/losses from financial assets measured at fair value”.

Derivatives are carried in the statement of financial position as assets, if their market value is positive and as liabilities, if the market value is negative. The fair values of derivative assets and liabilities recorded in the balance sheet are not netted. The Group does not use hedge accounting to account for its derivative financial instruments.

1.6.3. Available-for-sale financial assets

Securities are classified as available-for-sale financial assets, if they do not belong to one of the aforementioned categories: financial assets held for trading or other financial assets designated at fair value through profit or loss. Available-for-sale investments are intended to be:

- held for an indefinite period of time, which may be sold in response to needs for liquidity
- changes in interest rates, exchange rates or equity prices
- or investments with strategic purpose for long-term holding.

Available-for-sale financial assets are recorded at fair value plus transaction costs on their settlement date. Subsequently they are carried at fair value. If the assessment of fair value is not reliable, the securities will be presented at cost. The gains and losses arising from changes in the fair value of available for sale financial assets are recognised in the consolidated statement of comprehensive income on line "revaluation of available-for-sale financial assets".

The Group assesses consistently whether there is objective evidence that a financial asset available-for-sale is impaired. In the case of equity investments classified as available-for- sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. A debt instrument is considered to be impaired when there is a change in expected cash flows to be collected from the instrument. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from statement of comprehensive income and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. In a subsequent period, if the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

When a financial asset is sold, the cumulative gain previously recognized in statement of comprehensive income on that specific instrument is to the extent reversed from the statement of comprehensive income and the remaining portion is recognized in income statement.

Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the entity's right to receive payment is established.

1.6.4. Held-to-maturity financial assets

Held-to-maturity financial assets are financial instruments quoted in an active market with a fixed due date and which the Management Board of the bank has an intention and opportunity to hold until their maturity. They do not include:

- investments designated as fair value through profit or loss upon their initial recognition;
- investments classified as available-for-sale assets; and
- investments which meet the criteria of loans and receivables.

These investments are initially recognized at fair value, plus all directly attributable transaction costs incremental to such acquisitions and they are subsequently measured at amortized cost using the effective interest rate method. Interest income on held-to-maturity investments is included within interest income in the statement of comprehensive income. Impairment losses are deducted from the carrying amount of the investments and the impairment charge is recorded in the line "Other expenses" in the statement of comprehensive income.

1.7. Property, plant and equipment and intangible assets

Land, buildings, IT equipment, office equipment and other assets of long-term use are recognized in the statement of financial position as property, plant and equipment. Intangible assets are identifiable, non-monetary assets without physical substance and as of balance sheet date comprise of acquired software.

Property, plant and equipment and intangible assets are initially recognised at acquisition cost, consisting of the purchase price, non-refundable taxes and other direct costs related to taking the asset into use. Subsequent expenditures related to an item of property, plant and equipment are recognized as an asset if these are in accordance with definition of property, plant and equipment and meet the criteria for recognition in the statement of financial position (including if it is probable that future economic benefits associated with the item will flow to the entity). Ongoing repairs and maintenance expenditures are expensed during the reporting period in which they are incurred.

Property, plant and equipment and intangible assets with finite useful lives are subsequently stated at historical cost less depreciation / amortization and any impairment losses. Depreciation / amortization is calculated starting from the month of acquisition until the asset is fully depreciated. Assets are depreciated / amortized on a straight-line basis. Depreciation / amortization calculation is based on the useful life of the asset, which serves as basis for forming the depreciation / amortization rates. Depreciation of property, plant and equipment is charged in accordance with the estimated useful life of the asset from the month following the month it is taken into use:

- buildings 2-5% per annum,
- vehicles 15% per annum,
- fixtures 12.5% per annum,
- office equipment 25% per annum,
- computer hardware and software 10-25% per annum.

Non-current assets with an unlimited useful life (land) are not depreciated. Depreciation of non- current assets is presented in the income statement line item "Depreciation". Depreciation of an asset is ceased when the asset is fully depreciated, when the asset is reclassified as non-current assets held for sale or when the asset is retired from use. The appropriateness of the assets´ residual values, depreciation methods used and useful lives are reviewed, and adjusted if that has become appropriate, at each balance sheet date.

The gain or loss from sale of non-current assets are determined by comparison of the sales price with the carrying amount. Gain or loss on sale is recognized in the income statement in the line items "Other income" or "Other expenses".

Capitalization of expenses

Reconstruction expenses related to the leased space used by the Group are capitalized as property, plant and equipment and expensed on a straight-line basis in accordance with the duration of the lease agreement.

Development costs

If software development expenses result in additional functionality and if they meet the definition of intangible assets and criteria for inclusion in the statement of financial position (incl. expected participation in the generation of future economic benefits), such expenses are recognized as intangible assets. Expenses related to the use of software are expensed as incurred.

Expenditures incurred on advertising and the launch of new products, services and processes are expensed as incurred. Expenditures associated with internally developed trademarks and other such items are expensed as incurred.

Goodwill

Goodwill is recognized in acquisition value, minus probable impairment losses. The Group is testing the value of goodwill at least once a year or immediately if there is any indication that it might be impaired. Goodwill is distributed among cash-generating units or cash-generating unit groups, which are presumably benefiting from the synergy of the business combination. Profit or loss from the termination or sale of cash-generating unit where goodwill is allocated, is consisting of the carrying amount of the goodwill allocated to the unit.

1.8. Investment property

Investment property is a real estate property which is primarily held for the purpose of earning rental income or for capital appreciation or for both purposes but not for the use in the ordinary course of business.

An investment property is initially recognized in the balance sheet at cost, including the purchase price and any expenditure directly attributable to the acquisition. After initial recognition, investment property is measured at fair value at each balance sheet date. Independent expert valuation is used for determining the fair value of investment property, which is based on either the income approach (the value is determined by calculating the present value of future cash flows generated by the asset) or market approach (comparable market transactions involving similar properties are analyzed) or a combination of the two aforementioned approaches is used.
Gains and losses arising from a change in the fair value of investment property are recognized in the line item "Change in fair value of investment property" in the income statement of the reporting period in which they are incurred.

When an investment property undergoes a change in use, the asset is reclassified in the statement of financial position. From the date when this change occurred, accounting policies of this asset group into which the item has been reclassified shall be applied. If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes. If an item of owner-occupied property becomes an investment property any difference resulting between the carrying amount of the property is recognized in the statement of comprehensive income.

If a change occurs in the use of an investment property, as evidenced by starting development for the purposes of preparation of the property for sale, the property is reclassified as inventory and the cost of the item of inventory is the fair value at the reclassification date.

1.9. Assets held for sale

Assets held for sale are assets that are held for sale in the course of ordinary business and are recognized at cost.

Cost is either cash or the fair value of non-monetary consideration given to acquire an asset at the time of its acquisition or processing. Assets held for sale are measured at the balance sheet date and are carried in the balance sheet at the lower of cost and net realizable value. The net realizable value is the sales price less estimated costs to sell.

1.10. Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortization and are tested annually for impairment, comparing the carrying value of the asset to its recoverable value. Assets that are subject to amortization / depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In such circumstances, the recoverable value of the asset is assessed and compared to its carrying value. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1.11. Leases - the Group as the lessee

Leases of assets where the lessee acquires substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

The Group has not leased any assets under finance leases during the reporting period or the previous reporting period. Operating lease payments are recognized in the income statement as expenses over the rental period on straight line basis. The Group uses operating leases mainly for renting buildings / premises. Rental expense is recognized in income statement as "General and administrative expenses".

1.12. Financial liabilities

The classification made can be seen in the table below:

Category (by IAS 39) Class (as determined by the Group)

<table>
<tr><td rowspan="6">Financial liabilities</td><td rowspan="5">Financial liabilities measured at amortized cost</td><td colspan="2">Due to credit institutions</td></tr>
<tr><td rowspan="2">Deposits from customers</td><td>Private individuals</td></tr>
<tr><td>Legal entities</td></tr>
<tr><td colspan="2">Subordinated debt</td></tr>
<tr><td colspan="2">Other financial liabilities</td></tr>
<tr><td>Financial liabilities measured at fair value through profit or loss</td><td colspan="2">Held for trading interest rate swaps - derivatives</td></tr>
<tr><td rowspan="3">Contingent liabilities</td><td colspan="3">Contractual amounts of currency - related derivatives</td></tr>
<tr><td colspan="3">Loan commitments</td></tr>
<tr><td colspan="3">Financial guarantees</td></tr>
</table>

<u>Deposits from credit institutions and customers</u>

Deposits are recognized in the statement of financial position on their settlement date at fair value net of transaction costs and subsequently measured at amortized cost using the effective interest rate method and presented on line items "Due to credit institutions" and "Due to customers", accrued interest is included in corresponding liabilities line items. Interest expense is recorded in the income statement on line "Interest expense".

<u>Borrowings</u>

Borrowings are recognized initially at fair value net of transaction costs (the proceeds received, net of transaction costs incurred). Borrowings are subsequently stated at amortized cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the instrument using effective interest rate.

The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity. The amortization of the transaction costs is presented in the income statement together with the interest expense. The respective interest expense is recorded in the income statement on line "Interest expense". In case there is an unused limit for any borrowings, this is presented as contingent asset.

<u>Payables to employees</u>

Payables to employees include unpaid salary accruals, accruals for bonuses toghether with social security and unemployment insurance tax and a vacation pay accrual calculated in accordance with employment contracts and the laws of the Republic of Estonia in force as at the balance sheet date. The liability related to the payment of a vacation pay accrual together with social security and unemployment insurance premiums is included within current liabilities in the balance sheet and as wages and salaries expense in the statement of comprehensive income. Social tax includes payments to the state pension fund.

The Group has no existing legal or constructive obligations to make pension payments or similar payments supplementary to social tax.

1.13. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions, companies and other bodies on behalf of customers to secure loans, other banking facilities and liabilities to other parties.

Financial guarantees are initially recognized in the financial statements at fair value (contract value) on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are recognized at the outstanding value of guarantee. In the income statement the fee income earned on a guarantee is recognized straight-line basis over the life of the guarantee. In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognized as revenue on a time proportion basis over the respective commitment period. At the end of each reporting period, the commitments are reflected either contract value at the time of reporting or contract value and in addition provision in balance sheet. The amounts disbursed to settle the guarantee obligation are recognized in the statement of financial position on the date it is disbursed.

1.14. Revenue and expense recognition

Interest income and expense is recognized in income statement for all interest-earning financial assets and interest-bearing financial liabilities carried at amortized cost using the effective interest rate method. Interest income also includes similar income on interest bearing financial instruments classified at fair value through profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all significant fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

<u>Fee and commission income</u>

Revenue is recognized in the fair value of the consideration received or receivable for the services provided in the ordinary course of the Group's activities. Fees and commissions are generally recognized on an accrual basis when the service has been provided (e.g. charges related to credit and debit cards). Credit issuance fees for loans / leases are deferred and recognised as an adjustment to the effective interest rate on the credit. Fees from the custodial services of securities are recognized on an accrual basis.

Other transaction fee income and other income are recognized on accrual basis at the moment of executing the respective transactions.

Dividend income

Dividends are recognized in the income statement when the entity's right to receive payment is established.

1.15. Taxation

According to the effective legislation, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings or other payments decreasing the equity are subject to the taxation on the amount paid out as net distribution at the rate set forth in Income Tax Act. The profit of the Latvian branch is taxed in accordance with the legislation of the Republic of Latvia.

The corporate income tax arising from the payment of dividends or other payment decreasing the equity is accounted for as an expense in the period when dividends or other payment decreasing the equity are declared, regardless of the actual payment date or the period for which the dividends are paid.

From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

1.16. Statutory reserve capital

Statutory reserve capital is formed from annual net profit allocations to comply with the requirements of the Commercial Code. During each financial year, at least one-twentieth of the net profit shall be transferred to the statutory reserve, until reserve reaches one-tenth of share capital. Statutory reserve may be used to cover a loss, or to increase share capital. Payments to shareholders from statutory reserve are not allowed.

1.17. Events after the balance sheet date

Material events that have an effect on the evaluation of assets and liabilities and that became evident between the balance sheet date and the date of preparation of the financial statements by the management board but that are related to transactions in the reporting period or earlier periods, are reported in the financial statements.

Events after the balance sheet date that have not been taken into account for evaluating assets and liabilities but have a material impact on the results of the next financial year are disclosed in Note 24 to the financial statements.

1.18. New International Financial Reporting Standards, amendments to published standards and interpretations by the International Financial Reporting Interpretations Committee

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on 01.01.2017:

Amendments to IAS 7 - "Disclosure Initiative" (effective for annual periods beginning on or after 1 January 2017):

The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group has followed the new standards when preparing the consolidated financial statements.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on 01.01.2017 that would be expected to have a material impact to the Group.

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 01.01.2018:

Amendments to IAS 40 - "Transfers of Investment Property"(effective for annual periods beginning on or after 1 January 2018)
The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 9, "Financial Instruments": Classification and Measurement (effective for annual periods beginning on 1 January 2018).
Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk,

impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

On initial implementation of the IFRS 9, the Group intends to use the transition exemption and not to adjust comparative information in 2018 financial statements.
The initial implementation of the standard on 01.01.2018 had a negative effect on equity due to reassessment of the opening balances of impairment provisions. Further details of IFRS 9 standard implementation are presented in Note 24 – Subsequent events. The implementation of IFRS 9 has an effect on capital adequacy, but the Group is continuing to fulfill all regulations. The Group does not use hedge accounting, therefore changes in hedge accounting requirements do not have any direct effect on the Group.

IFRS 15, "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018):
The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortised over the period when the benefits of the contract are consumed. The Group estimates the effect of the new standard on the financial statements to be immaterial.

IFRS 16, "Leases" (effective for annual periods beginning on or after 1 January 2019):
The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
The Group is currently assessing the impact of the new standard on its financial statements.

Note 2 Risk management

Principles of risk management

The Group defines risk as possible negative deviation from the expected result. Risk management is a process aimed at efficiency and profitability of operations that would meet the expectations of shareholders identified in the strategy. As risks are associated with all business activities and on all levels of activity, in addition to the management, risk management involves also all the Group's employees through the internal control system.
The tasks of risk management is the identification and measurement of business-related risks, implementation of measures necessary for controlling risks and reporting on risk management performance.

Structure and responsibility of risk management

The Group's risk management system is centralized on the management level - policies and principles of risk management are established at Group level by the Bank's Supervisory Board or Management Board to ensure implementation of common risk management principles in AS Coop Pank and its subsidiaries as well as rapid and effective response to changes in the economic environment or in the Group's business model. Risk management procedures must comply with existing legislative regulations and standards.
The Bank's Management Board is responsible for implementation of risk management, control and risk management policies and methods and effectiveness of risk management. In organizing risk management, the Management Board may in limited degree delegate risk taking, control and monitoring to collegial decision-making bodies with limited decision-making competence set up by the Management Board.

The Bank's Management Board has set up the following committees and commissions with limited decision-making competence:

The tasks, composition and activities of the **Asset/Liability Management Committee** is defined with its rules. The committee's task is to monitor, control, analyze, and evaluate risks, make decisions and implement them in the following areas of responsibility:

- assessment and management the Bank's and Group's liquidity risk, short- and long-term liquidity position;
- monitoring of the maturity structure of the Bank's assets and liabilities;
- planning of the balance of interest income and expenses and management of interest rate risk;
- introducing limits on term and volume measures related to counterparties;
- bond portfolio management.

The Credit Committee is the Bank's highest body for making credit decisions, a workgroup responsible for risk management formed in accordance with the Credit Institutions Act and the Bank's statutes for ensuring that the Bank's credit policy is implemented through the adoption of credit decisions and compliance assessment of collateral.

Account Establishment Committee makes decisions regarding establishing relationships with high-risk clients.

Credit Commission performs the functions of the Credit Committee in adopting decisions on lower-risk credit.

For effective implementation of risk management, the Group uses a 3-level control system in accordance with the principles of internal control system approved by the Supervisory Board.

Structural units with direct risk control function:

First line of defence

The first level constitutes sales and support divisions and subsidiaries. The first line of defence is to ensure that risks related to the activities, products, and processes in its area of responsibility are identified, assessed and that implementation of measures necessary for controlling risks.

Second line of defence

The second line of defence performs the risk control function independent from business lines. It constitutes the Risk Management Department, Anti-Money Laundering Department, Compliance function and persons/units responsible for sub-risks of the operational risk.

Risk Management Department

The main functions of the Risk Management Department are:

- Group wide view of regular identification, assessment and monitoring of risks;
- Stress testing for liquidity, credit and market risks and drawing up relevant risk reports;
- The notification of the Management and Supervisory Board of risks;
- development of risk management methodology, first line of defence counselling in risk management;
- assessment of credit risk of credit projects and compliance with credit conditions;
- organization of planned and special internal checks in the organization.

Anti-Money Laundering Department

The main functions of the Anti-Money Laundering (AML) department are:

- ensuring that all AML related internal policies are updated and in compliance with regulations
- development of AML screening and monitoring system and the methodology of risk classes of clients;
- providing AML related training to all employees.

Compliance function

The compliance function is enforcement of various statutory requirements (regulations, guidelines of supervisory authorities, good banking practice, etc.). The independent compliance function acts as an additional first-level control to the existing self-control within the departments in managing compliance risk. Compliance risk means the risk of incurring a loss resulting from failure to comply with or improper performance of statutory requirements.

Third line of defence

Internal Audit Unit

The Internal Audit Unit that is part of the Bank's internal control system monitors the operations of AS Coop Pank and compliance with regulations, good banking practice and compliance with the requirements and guidelines of the Financial Supervisory Authority. The Internal Audit Unit monitors the implementation of decisions of the competent body by the Group's structural units, as well as set rules, limits and other internal rules. The activity of the Internal Audit Unit is aimed at protecting the interests of the Bank's shareholders, depositors and other creditors.

Capital management

The Group uses risk-based capital planning which ensures that all risks are adequately covered by own funds at any given time. Capital is defined as the Group's equity which consist of Tier 1 and Tier 2 capital. Overview of regulatory capital is provided in the following table:

Capital base	31.12.2017	31.12.2016
Tier 1 capital		
Paid-in share capital and share premium	38 374	25 175
Statutory reserve capital	2 070	1 970
Accumulated profit/loss (-)	387	617
The accepted profit of the reporting period	1 932	0
Goodwill as intangible asset (-)	-6 757	0
Intangible assets (-)	-1 166	-687
Deferred tax asset depending on future taxable profits (-)	0	-1
Adjustment of value arising from requirements of reliable measurement (-)	-14	-21
Other deductions from Tier I Capital (-)	-1 388	-1 019
Total Tier 1 capital	33 438	26 034
Subordinated debt	5 000	3 299
Tier 2 capital	5 000	3 299
Eligible capital for capital adequacy calculation	38 438	29 333
Capital adequacy (%)	19.90%	21.22%
Tier I capital ratio (%)	17.32%	18.84%

The Group's total amount of own funds for calculating capital adequacy has increased during the year 2017 due to the increase in share capital in the amount of 13.2 million euros (Tier 1 capital) and due to the replacement of subordinated debt, that was amortized in a large extent, with a new subordinated debt (Tier 2 capital; see Note 18).

As at 31.12.2017, the Group is compliant with all regulatory capital requirements.

The Group is using risk-based approach to capital management, ensuring that all risks would be sufficiently covered by capital at all times.
Capital planning is conducted on the basis of balance sheet and profit and loss forecasts that take into account the Group's strategy, future expectations, risk profile and risk appetite. Capital planning is the responsibility of the Bank's Management Board.

The internal capital adequacy assessment (ICAAP) is an ongoing process, which aims to assess the Group's risk profile and the corresponding need for capital. ICAAP is the basis for regular capital planning in the Group.

The planning and forecasting of capital requirement takes place on the basis of calculating regulatory capital adequacy that takes into account capital requirements arising from ICAAP and supervisory assessment of the Financial Supervisory Authority (SREP) plus capital requirements to cover additional risks that are not taken into account in the context of regulatory capital requirements.

The Group's risk profile is assessed in particular by the following risks: credit risk, concentration risk, liquidity risk, market risk, including risk exposure from the portfolio of financial investments, the Bank's portfolio of interest rate risk, operational risk, strategic risk, reputation risk.

The recommended minimum capital adequacy level is the minimum required capital adequacy level determined in the SREP assessment plus the need-based reserve required for increasing business volumes, implementing strategy plans and ensuring a stable financial position in accordance with the Group's current operating strategy and balance sheet forecasts.

For determining the capital requirement, the balance sheet position is forecast, taking into account changes by items of the risk position and equity. The balance sheet and profit and loss forecasts are reviewed regularly and approved by the Bank's Management Board. It also takes into account the possible impact of strategic and reputation risk to the Group's business success, and determines the necessary equity buffer to ensure that desired internal capital adequacy level if alternative and risk scenarios materialize. Overview of the development of capital adequacy including the capital requirements arising from the SREP assessment are presented to the Bank's Management Board and the Supervisory Board on a quarterly basis.

The Group ensures that all risks are covered by adequate capital at any time.

Credit risk management

Credit risk reflects the risk that the counterparty fails to fulfill its obligations to the Group. Credit risk expresses potential loss that could arise from non-compliance with the counterparty obligations in case of credit risk-bearing receivables. AS Coop Pank follows the standard method of calculating credit risk capital requirements. In calculating capital requirements, the Group uses ratings of accepted rating agencies according to the procedure established by the Financial Supervisory Authority. Credit risk management is based on the Group's credit policy. The main objectives of credit policy are to sustainably achieve the rate of return on Group's assets from credit activities required by shareholders, adhering to the prudency and risk diversification principles and taking moderate risks that can be evaluated and managed.

The primary assets of the Group that are exposed to credit risk are the following:

- Loans and advances to central banks and credit institutions (Note 9);
- Financial investments (Note 10);
- Loans and advances to customers (Note 11).

The cash transactions to credit institutions and financial investments into bonds are done based on the limits on transactions with counterparties the Assets and Liabilities Committee (ALCO) has set out. In its evaluation of counterparty creditworthiness and limit of credit, the bank takes into consideration their domicile and makes a judgment regarding the counterparty's financial position, management, legal status and market position. Additionally the liquidity and rating is taken into consideration in regards to investments in bonds.

All loans and advances to credit institutions are unsecured receivables. As at 31.12.2016 and 31.12.2017, all balances loans and advances to credit institutions were not due nor impaired.

The following table provides classification of loans and advances to credit institutions and investments in bonds by credit rating.

31.12.2017	AA- and higher	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Not rated	Total
Loans and advances to credit institutions	5 048	21 633	4 604	2	0	0	31 287
Financial assets designated at fair value through profit or loss	0	2 093	3 956	2 224	1 432	1 355	11 060
Held-to-maturity financial assets	0	0	0	0	0	503	503
Available-for-sale financial assets	0	0	0	0	0	13	13

31.12.2016	AA- and higher	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Not rated	Total
Loans and advances to credit institutions	20 321	10 595	7 725	607	0	45	39 293
Financial assets designated at fair value through profit or loss	0	2 188	5 977	433	1 732	1 091	11 421
Held-to-maturity financial assets	0	0	0	0	0	503	503
Available-for-sale financial assets	0	0	0	0	0	13	13

On assessing the credit quality, the Group uses credit rating from rating agencies Fitch, Moody's and Standard & Poor's according to the recitals of European Parliament and of the Council (EC) No 575/2013 Article 138.

The following table provides an overview of the observable positions of the Group that are exposed to credit risk by category.

31.12.2017	Not past due		Past due		Impairments		Total
	Impaired	Not impaired	Individual impairment	Not impaired	Individual	Collective	
Cash on hand	0	22 771	0	0	0	0	22 771
Balances with central banks	0	44 815	0	0	0	0	44 815
Loans and advances to credit institutions	0	31 287	0	0	0	0	31 287
Financial assets designated at fair value through profit or loss	0	11 060	0	0	0	0	11 060
Loans and advances to customers	123	226 120	1 488	14 195	-260	-3 384	238 282
Held-to-maturity financial assets	0	503	0	0	0	0	503
Available-for-sale financial assets	0	13	0	0	0	0	13
Other financial assets	0	477	0	0	0	0	477
Total financial assets	123	337 046	1 488	14 195	-260	-3 384	349 208
Financial guarantees	0	1 187	0	0	0	0	1 187
Loan commitments	0	645	0	0	0	0	645
Overdraft facilities	0	29 574	0	0	0	0	29 574
Total off-balance sheet exposures	0	31 406	0	0	0	0	31 406
Total exposure to credit risk	123	368 452	1 488	14 195	-260	-3 384	380 614

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31.12.2016	Not past due		Past due		Impairments		Total
	Impaired	Not impaired	Individual impairment	Not impaired	Individual	Collective	
Cash on hand	0	22 337	0	0	0	0	22 337
Balances with central banks	0	43 919	0	0	0	0	43 919
Loans and advances to credit institutions	0	39 293	0	0	0	0	39 293
Financial assets designated at fair value through profit or loss	0	11 421	0	0	0	0	11 421
Loans and advances to customers	2 844	136 847	4 618	11 077	-763	-1 490	153 133
Held-to-maturity financial assets	0	503	0	0	0	0	503
Available-for-sale financial assets	0	13	0	0	0	0	13
Other financial assets	0	714	0	0	0	0	714
Total financial assets	2 844	255 047	4 618	11 077	-763	-1 490	271 333
Financial guarantees	0	1 354	0	0	0	0	1 354
Loan commitments	0	539	0	0	0	0	539
Overdraft facilities	0	3 169	0	0	0	0	3 169
Total off-balance sheet exposures	0	5 062	0	0	0	0	5 062
Total exposure to credit risk	2 844	260 109	4 618	11 077	-763	-1 490	276 395

Principles for classification and measurement of receivables

Credit receivables are divided into risk categories in accordance with the borrower's payment discipline and the financial-economic position:

A – no circumstances have arisen that could cause a default on the loan as per the terms of the loan agreement, up to 13 days past due.

B – contains potential weaknesses, the mitigation of which may affect the creditworthiness of the borrower in the future, 14-45 days past due.

C – contains clearly identifiable deficiencies, giving reason to believe that the repayment of the loan in full is doubtful or the loan has been restructured, 46-59 days past due.

D – inadequate creditworthiness of the borrower, giving reason to believe that the repayment of the loan under contract terms is improbable unless the situation materially changes, 60-89 days past due

E – the borrower is unable to persistently perform the contract on agreed-upon terms, 90-179 days past due

F - the loan is no longer being serviced and there is no prospect of the restoration of solvency and/or the contract has been terminated on an extraordinary basis, 180 days past due and/or the amount of payments collected on the loan during a period of 90 consecutive days is 0.

Past due receivables are receivables which scheduled principal or interest part payments are not received by the deadline.

In the case of loans granted to private individuals, the basis for impairment of loans is the number of days and classification in the respective risk category. In case of loans granted to legal entities, the basis for impairment of loans is a combination of number of days past due and the internal judgment of the Group with regard to the company's financial position and classification in the respective risk category.

Receivables classified in risk categories A to D are classified as performing loans. Across risk categories and product categories homogeneous groups of loans are formed, to which group- based rates of impairment are applied. An individual impairment allowance is recognized on the basis of the probability of cash flows and net realizable value of collateral and the date of expected recovery of collateral. An overview of the Group's loan portfolio risk categories is provided in the table below with the distribution of private individuals and legal entities.

Risk categories of loans and advances to private individuals

31.12.2017	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
A	146 491	5 975	0	152 466	-2 987	0	149 479
B	93	3 292	0	3 385	-4	0	3 381
C	3 000	1 660	140	4 800	-77	-29	4 694
D	13	466	65	544	-2	-1	541
E	0	505	79	584	0	-9	575
F	78	1 298	569	1 945	-14	-153	1 778
Total	149 675	13 196	853	163 724	-3 084	-192	160 448

31.12.2016	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
A	106 312	1 679	1 362	109 353	-1 097	-2	108 254
B	31	2 813	7	2 851	-85	0	2 766
C	2 220	1 588	619	4 427	-91	-76	4 260
D	1	448	129	578	-21	-3	554
E	7	508	0	515	-25	0	490
F	123	1 121	293	1 537	-60	-116	1 361
Total	108 694	8 157	2 410	119 261	-1 379	-197	117 685

Risk categories of loans and advances to legal entities

31.12.2017	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
A	26 555	18	0	26 573	-117	0	26 456
B	18 372	415	27	18 814	-62	0	18 752
C	30 462	363	443	31 268	-121	-17	31 130
D	1 056	85	17	1 158	0	-2	1 156
E	0	40	0	40	0	0	40
F	0	78	271	349	0	-49	300
Total	76 445	999	758	78 202	-300	-68	77 834

31.12.2016	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
A	12 099	11	0	12 110	-46	0	12 064
B	12 614	103	810	13 527	-62	-40	13 425
C	3 214	2 569	148	5 931	-3	-13	5 915
D	226	9	250	485	0	-37	448
E	0	39	0	39	0	0	39
F	0	189	3 844	4 033	0	-476	3 557
Total	28 153	2 920	5 052	36 125	-111	-566	35 448

In 2017 the gross amount of impaired receivables decreased by 5 851 thousand euros (in 2016 increased by 1 525 thousand euros), including decrease in commercial loan portfolio by 4 294 thousand euros (in 2016 increased by 3 548 thousand euros), impaired receivables from private clients decreased by 1 557 thousand euros (in 2016 decreased by 2 023 thousand euros). Individually assessed impaired exposures totaled to 72, among those 30 with a payment delay (in 2016 there were 100 impaired exposures).

Individual impairment was 260 thousand euros total (2016: 763 thousand euros) and collective impairments 3 384 thousand euros total (2016: 1 490 thousand euros). Increased volume of group-based impairments was due to acquired subsidiary Coop Finants's loan portfolio.

In 2017, the gross volume of individually impaired loans given to private clients substantially decreased. The main reason was the sale of the housing finance portfolio during the closure of the bank´s Latvian branch. At 31.12.2017, individually impaired loans given to private clients were at gross amount of 853 thousand euros, individual impairment was in the amount of 192 thousand euros. The ratio of individual impairment to impaired receivables given to private clients was 22.5%.

At 31.12.2016 the gross volume of individually impaired loans given to private clients amounted to 2 410 thousand euros, individual impairment in the amount of 197 thousand euros. At 31.12.2016 The ratio of individual impairment to impaired receivables given to private clients was 8.2%. Impaired and due receivables are shown in the table below.

Structure of individually impaired loans to private individuals according to past due time

31.12.2017	Not past due	1-30 days	31- 60 days	61-90 days	91-180 days	Over 180 days	Total	Individual impairment	Net
C	90	12	38	0	0	0	140	-29	111
D	0	0	54	11	0	0	65	-1	64
E	0	0	0	0	79	0	79	-9	70
F	33	0	0	0	0	536	569	-153	416
Total	123	12	92	11	79	536	853	-192	661

31.12.2016	Not past due	1-30 days	31- 60 days	61-90 days	91-180 days	Over 180 days	Total	Individual impairment	Net
A	1 362	0	0	0	0	0	1 362	-2	1 360
B	7	0	0	0	0	0	7	0	7
C	619	0	0	0	0	0	619	-76	543
D	0	0	0	129	0	0	129	-3	126
F	0	0	0	0	6	287	293	-116	177
Total	1 988	0	0	129	6	287	2 410	-197	2 213

Structure of individually impaired loans to legal entities according to past due time

31.12.2017	Not past due	1-30 days	31- 60 days	61-90 days	91-180 days	Over 180 days	Total	Individual impairment	Net
A	0	0	0	0	0	0	0	0	0
B	0	27	0	0	0	0	27	0	27
C	0	443	0	0	0	0	443	-17	426
D	0	17	0	0	0	0	17	-2	15
F	0	0	0	0	0	271	271	-49	222
Total	0	487	0	0	0	271	758	-68	690

31.12.2016	Not past due	1-30 days	31- 60 days	61-90 days	91-180 days	Over 180 days	Total	Individual impairment	Net
A	0	0	0	0	0	0	0	0	0
B	810	0	0	0	0	0	810	-40	770
C	46	101	0	0	0	0	147	-13	134
D	0	0	0	1	0	249	250	-37	213
F	0	0	0	0	0	3 845	3 845	-476	3 369
Total	856	101	0	1	0	4 094	5 052	-566	4 486

As at 31.12.2017, the gross amount of impaired loans and receivables from legal entities was 758 thousand euros, the amount of individually impaired loans were in the amount of 68 thousand euros. As at 31.12.2017 there was 6 impaired and past due receivables.

As at 31.12.2016, the gross amount of impaired loans and receivables from legal entities was 5 052 thousand euros, the amount of individually impaired loans were in the amount of 566 thousand euros. As at 31.12.2016 there was 25 impaired and past due receivables.

Financial effect of loan collateral depends on market value of receivable and collateral for corresponding agreement. Loans and advances by collateralization type are presented in the table below. Financial effect on change in fair value of loan collateral's market value appears first of all in case of past due loans and advances, as servicing of those loans is more uncertain and need for realization of collateral is more probable than in case of not past due loans. Balance sheet value for past due under-collateralized loans as at 31.12.2017 was 833 thousand euros and 464 thousand euros as at 31.12.2016. Balance sheet value of under-collateralized loans and advances is bigger than fair value of collaterals for corresponding receivables and, on the contrary (LTV *(loan to value)* > 100%), balance sheet value of over-collateralized loans and advances is smaller than fair value of collaterals for corresponding receivables (LTV *(loan to value)* < 100%),.

Acceptance value of collateral represents the liquidity risk, market risk and legal risk of the collateral and is calculated as a percentage of its market value. Overview of ratios of residual overdue loans and market value of the collateral and the distribution of the credit portfolio by collateral is given in Note 12. The financial impact of collateral is significant for loans and receivables which are unlikely to be serviced from customer's primary cash flows, as reflected in long payment delays (over 90 days).

Loans and advances to customers by collateralization, gross

31.12.2017	Loans without collateral		Under-collateralized loans		Over-collateralized loans	
	Balance sheet value	Fair value of collateral	Balance sheet value	Fair value of collateral	Balance sheet value	Fair value of collateral
Incl not past due	34 985	0	21 779	3 157	167 160	442 962
Incl past due	7 577	0	833	712	9 592	18 161
Loans and advances to customers	42 562	0	22 612	3 869	176 752	461 123

31.12.2016	Loans without collateral		Under-collateralized loans		Over-collateralized loans	
	Balance sheet value	Fair value of collateral	Balance sheet value	Fair value of collateral	Balance sheet value	Fair value of collateral
Incl not past due	13 014	0	7 149	3 526	119 528	435 912
Incl past due	2 981	0	464	355	12 250	40 015
Loans and advances to customers	15 995	0	7 613	3 881	131 778	475 927

Loans and advances to customers by structure of collateral

In thousands of euros	Private individuals 31.12.2017	Private individuals 31.12.2016	Corporates 31.12.2017	Corporates 31.12.2016
Mortgage loans	112 986	98 479	52 199	30 379
Leased assets	8 626	5 134	10 013	4 308
Unsecured loans	41 745	15 147	817	848
Personal sureties, guarantees	367	500	1 218	424
Loans secured by deposits	0	1	5	3
Other	0	0	13 950	163
Total	163 724	119 261	78 202	36 125
Allowance for doubtful receivables	-3 276	-1 576	-368	-677
Total	160 448	117 685	77 834	35 448

The Group adheres to the principle of diversification of credit risk according to field of activity, geographical area and product. A summary of the division of exposures by economic sector and geographical areas has been provided in the tables below.

Financial assets by economic sector classification

31.12.2017	E	K	L	S	G	C	I	Ohter	Total
Cash on hand	0	22 771	0	0	0	0	0	0	22 771
Balances with central banks	0	44 815	0	0	0	0	0	0	44 815
Loans and advances to credit institutions	0	31 287	0	0	0	0	0	0	31 287
Financial assets designated at fair value through profit or loss	0	0	0	1 586	0	2 785	0	6 689	11 060
Loans and advances to customers	160 448	8 567	29 906	3 768	8 096	6 440	5 499	15 558	238 282
Held-to-maturity financial assets	0	0	0	0	0	0	0	503	503
Available-for-sale financial assets	0	0	0	0	0	0	0	13	13
Other financial assets	0	245	0	0	0	0	0	232	477
Total	160 448	107 685	29 906	5 354	8 096	9 225	5 499	22 995	349 208

31.12.2016	E	K	L	S	G	C	I	Ohter	Total
Cash on hand	0	22 337	0	0	0	0	0	0	22 337
Balances with central banks	0	43 919	0	0	0	0	0	0	43 919
Loans and advances to credit institutions	0	39 293	0	0	0	0	0	0	39 293
Financial assets designated at fair value through profit or loss	0	3 073	0	1 091	0	2 188	0	5 069	11 421
Loans and advances to customers	117 685	0	11 976	267	7 860	1 880	5 464	8 001	153 133
Held-to-maturity financial assets	0	0	0	0	0	503	0	0	503
Available-for-sale financial assets	0	0	0	0	0	0	0	13	13
Other financial assets	0	621	0	0	0	0	0	93	714
Total	117 685	109 243	11 976	1 358	7 860	4 571	5 464	13 176	271 333

E-private individuals, K - finance and insurance activities, L - activities related to real estate, S- other services G - wholesale and retail, D - power and heat generation, I - hospitality, food service, C- manufacturing

Financial assets by geographical classification

31.12.2017	EE	LV	AT	FR	BE	DE	Other	Total
Cash on hand	22 771	0	0	0	0	0	0	22 771
Balances with central banks	44 815	0	0	0	0	0	0	44 815
Loans and advances to credit institutions	5 084	0	6 677	4 109	7 962	4 171	3 284	31 287
Financial assets designated at fair value through profit or loss	2 398	0	0	0	0	0	8 662	11 060
Loans and advances to customers	234 986	2 525	0	0	0	0	771	238 282
Held-to-maturity financial assets	503	0	0	0	0	0	0	503
Available-for-sale financial assets	0	0	0	0	13	0	0	13
Other financial assets	477	0	0	0	0	0	0	477
Total	311 034	2 525	6 677	4 109	7 975	4 171	12 717	349 208

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31.12.2016	EE	LV	AT	FR	BE	DE	Other	Total
Cash on hand	22 075	262	0	0	0	0	0	22 337
Balances with central banks	43 886	33	0	0	0	0	0	43 919
Loans and advances to credit institutions	20 167	0	0	0	1 252	6 644	11 230	39 293
Financial assets designated at fair value through profit or loss	2 188	0	2 904	1 839	0	0	4 490	11 421
Loans and advances to customers	143 208	8 874	0	654	0	0	397	153 133
Held-to-maturity financial assets	503	0	0	0	0	0	0	503
Available-for-sale financial assets	0	0	0	0	13	0	0	13
Other financial assets	706	8	0	0	0	0	0	714
Total	232 733	9 177	2 904	2 493	1 265	6 644	16 117	271 333

68% of loans and advances to customers are granted to private individuals (31.12.2016: 77%). The portfolio of loans granted to corporate entities is diversified between various economic sectors to avoid high levels of concentration. 38% (31.12.2016: 34%) of loans to companies are granted to companies engaged in the real estate sector and 10% (31.12.2016: 22%) are attributable to wholesale and retail enterprises. The lending activity of the Group is focused on local financing. The distribution of loans and advances to customers according to main credit product is provided in Note 11.

Liquidity risk management

Liquidity risk is defined as the risk of insufficient solvency on behalf of AS Coop Pank to perform its contractual obligations on a timely basis - i.e. the bank's failure to timely and sustainably finance various assets, or to liquidate its positions in order to perform contractual obligations. Liquidity risk is managed based on the liquidity management policy. The objective of liquidity management in AS Coop Pank is to guarantee, at any given moment, the timely and complete performance of the obligations assumed by the Group while optimizing the liquidity risk in such a manner as to achieve maximum and stable profitability on investments with different maturities.

The Bank's main liquidity management body is the Assets and Liabilities Committee (ALCO). The functions and areas of responsibility of ALCO in the management of liquidity are:

- to plan short-term and long-term liquidity of the Group, and to design and implement the measures to be used;
- to analyze and summarize the information concerning the Group's assets and liabilities, interest income and expenses, management of liquidity and investments, and, if necessary, to prepare the adoption of strategic decisions by the Board;
- to optimize the ratio of the maturities, profitability and instruments of the Group's assets and liabilities in order to achieve the bank's strategic objectives;
- to regulate the Group's required liquidity level as well the level of the risk of change in the acceptable interest rate risk and the acceptable value of assets and liabilities.

The following bodies are regularly informed of the bank's liquidity position: the Management Board, ALCO and Credit Committee. The bank maintains a sufficient level of liquidity in order to ensure timely performance of its obligations.

Coop Pank group uses an approach based on the analysis of the duration gap between the maturities of assets and liabilities for the management of AS Coop Pank group's liquidity position. An overview of the division of assets and liabilities by maturities has been provided in following table. Limits have been established for all major liquidity indicators. The following indicators are used for the measurement of liquidity risk:

- Liquidity Coverage Ratio (LCR);
- Maintenance period in a liquidity crisis situation;
- Financing concentration;
- Ratio of liquid assets to demand deposits;
- Ratio of non-current liabilities to investments requiring stable funding

The Group's total duration gap in the period of up to 12 months is negative. This indicates that the Group has more liabilities with a duration of up to 12 months compared to receivables with the corresponding duration. The management of the duration gap risk is based on estimates concerning forecast cash flows arising from liabilities and the Group ensures an adequate amount of liquidity buffers in order to meet the net outflow of liabilities as they become due.

The liquidity policy of the group is built upon the principle of prudence and established liquidity buffers are sufficient to cover even a large-scale outflow of deposits. The Group has established a business continuity and recovery plan for conduct in a liquidity crisis, specifying the actions to be taken for covering a cash flow deficit even in extraordinary circumstances.

The overview of the Group's financial assets and financial by residual maturity (including receivables or payables interests in the future) is provided in the table below.

31.12.2017	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash on hand	22 771	0	0	0	22 771
Balances with central banks	44 815	0	0	0	44 815
Loans and advances to credit institutions	30 625	664	0	0	31 289
Financial assets designated at fair value through profit or loss	0	3 143	7 917	0	11 060
Loans and advances to customers	22 418	41 797	100 951	144 620	309 786
Held-to-maturity financial assets	0	0	503	0	503
Available-for-sale financial assets	0	0	0	13	13
Other financial assets	304	0	0	173	477
Total financial assets	120 933	45 604	109 371	144 806	420 714
Liabilities					
Due to credit institutions	5 006	0	0	0	5 006
Due to customers	177 853	82 076	50 102	2 640	312 671
Other financial liabilities	3 216	0	0	0	3 216
Subordinated debt	84	253	1 350	6 660	8 347
Total financial liabilities	186 159	82 329	51 452	9 300	329 240
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	30 219	0	0	0	30 219
Financial guarantees	1 187	0	0	0	1 187
Total on-balance-sheet and off-balance-sheet liabilities	217 565	82 329	51 452	9 300	360 646
Duration gap of financial assets and financial liabilities	-96 632	-36 725	57 919	135 506	60 068

31.12.2016	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash on hand	22 337	0	0	0	22 337
Balances with central banks	43 919	0	0	0	43 919
Loans and advances to credit institutions	38 793	500	0	0	39 293
Financial assets designated at fair value through profit or loss	1 037	5 457	4 927	0	11 421
Loans and advances to customers	15 220	21 271	73 399	92 503	202 393
Held-to-maturity financial assets	0	0	503	0	503
Available-for-sale financial assets	0	0	0	13	13
Other financial assets	431	0	0	283	714
Total financial assets	121 737	27 228	78 829	92 799	320 593
Liabilities					
Due to credit institutions	185	0	0	0	185
Due to customers	170 036	55 902	26 229	2 493	254 660
Other financial liabilities	1 433	0	0	0	1 433
Subordinated debt	76	234	4 969	0	5 279
Total financial liabilities	171 730	56 136	31 198	2 493	261 557
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	3 708	0	0	0	3 708
Financial guarantees	1 355	0	0	0	1 355
Total on-balance-sheet and off- balance-sheet liabilities	176 793	56 136	31 198	2 493	266 620
Duration gap of financial assets and financial liabilities	-55 056	-28 908	47 631	90 306	53 973

Market risk management

Market risk arises from the Group's trading and investment activities in the interest, currency and equity markets. Market risk arises from changes in interest rates, currency exchange rates and prices of financial assets. The acceptance of market risk is controlled by using risk limits. Different factors influencing market risks are monitored on a daily basis. The primary market risk bearing assets in the Group are investments in bonds. Investments in bonds are included in the following line items: Financial assets at fair value through profit or loss, Held-to-maturity financial assets and Available-for-sale financial assets. The total size of debt securities portfolio has been stable in 2017 decreasing by 361 thousand euros (3%) (see Note 10). The average maturity date and the total market risk has increased, risk comes mainly from bonds nominated in USD.

The market risk of the portfolio of bonds is mainly caused by the maturity date and possible change in the interest rates. The pricing risk of the financial investments portfolio is calculated using the Var *(Value at Risk)* method. The VaR of the debt securities portfolio given a 100bp increase in interest rates as at 31.12.2017 was 179 thousand euros, the respective indicator as at 31.12.2016 was 87 thousand euros.

Currency risk is defined as a risk arising from the differences in the currency structure of the Group's assets and liabilities. Changes in currency exchange rates cause changes in the value of assets and liabilities, as well as the amount of income and expenses measured in the functional currency. The group generally maintains minimum foreign currency positions required for the provision of services to customers. All foreign currency positions are continually monitored and marked to market. The Group covers open foreign currency positions using swap and forward transactions. The total amount of open currency positions as at 31.12.2017 was 313 thousand euros

(2016: absolute amount 57 thousand euros), currency risk is low. Data on the structure of assets and liabilities by currency positions and respective net currency positions have been presented in following table.

31.12.2017	EUR	USD	Ohter	Total
Assets				
Cash on hand	22 540	181	50	22 771
Balances with central banks	44 815	0	0	44 815
Loans and advances to credit institutions	13 907	13 391	3 989	31 287
Financial assets designated at fair value through profit or loss	4 895	6 165	0	11 060
Loans and advances to customers	238 282	0	0	238 282
Held-to-maturity financial assets	503	0	0	503
Available-for-sale financial assets	13	0	0	13
Other financial assets	305	169	3	477
Total financial assets	325 260	19 906	4 042	349 208
Liabilities				
Due to credit institutions	5 002	0	0	5 002
Due to customers	287 333	19 806	3 829	310 968
Subordinated debt	5 026	0	0	5 026
Other financial liabilities	3 216	0	0	3 216
Total financial liabilities	300 577	19 806	3 829	324 212
Off-balance sheet liabilities				
Undrawn lines of credit and overdraft facilities	30 219	0	0	30 219
Financial guarantees	1 187	0	0	1 187
Total on-balance-sheet and off-balance sheet liabilities	331 983	19 806	3 829	355 618
Net position	-6 723	100	213	-6 410

31.12.2016	EUR	USD	Other	Total
Assets				
Cash on hand	21 987	282	68	22 337
Balances with central banks	43 919	0	0	43 919
Loans and advances to credit institutions	4 468	28 756	6 069	39 293
Financial assets designated at fair value through profit or loss	5 964	5 457	0	11 421
Loans and advances to customers	152 922	211	0	153 133
Held-to-maturity financial assets	503	0	0	503
Available-for-sale financial assets	13	0	0	13
Other financial assets	376	220	118	714
Total financial assets	230 152	34 926	6 255	271 333
Liabilities				
Due to credit institutions	123	62	0	185
Due to customers	213 171	34 423	6 218	253 812
Subordinated debt	4 039	0	0	4 039
Other financial liabilities	1 012	404	17	1 433
Total financial liabilities	218 345	34 889	6 235	259 469
Off-balance sheet liabilities				
Undrawn lines of credit and overdraft facilities	3 708	0	0	3 708
Financial guarantees	1 354	0	0	1 354
Total on-balance-sheet and off-balance sheet liabilities	223 407	34 889	6 235	264 531
Net position	6 745	37	20	6 802

Interest rate risk is defined as a risk of unexpected unfavorable changes in interest rates that might affect the revenue generated by the group.

The Group is exposed to interest rate risk if the due payment dates of its main assets and liabilities are different, if the structure of assets and liabilities varies in different currencies or if the interest rates of assets and liabilities can be adjusted at different time intervals. The overview of interest-bearing financial assets and financial liabilities by the due date of changing the interest rate is provided in the following table.

31.12.2017	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest-earning assets					
Balances with central banks	44 815	0	0	0	44 815
Loans and advances to credit institutions	30 627	662	0	0	31 289
Financial assets designated at fair value through profit or loss	0	3 143	7 917	0	11 060
Loans and advances to customers, gross	151 220	92 723	30	0	243 973
Held-to-maturity financial assets	0	503	0	0	503
Total interest-earning assets	226 662	97 031	7 947	0	331 640
Interest-bearing liabilities					
Due to credit institutions	5 000	0	0	0	5 000
Due to customers	310 126	0	0	0	310 126
Subordinated debt	0	0	0	5 000	5 000
Total interest-bearing liabilities	315 126	0	0	5 000	320 126
Exposure to interest rate risk duration gap	-88 464	97 031	7 947	-5 000	11 514

31.12.2016	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest-earning assets					
Balances with central banks	43 919	0	0	0	43 919
Loans and advances to credit institutions	39 284	0	0	0	39 284
Financial assets designated at fair value through profit or loss	1 037	5 457	4 927	0	11 421
Loans and advances to customers, gross	94 176	63 793	23	0	157 992
Held-to-maturity financial assets	0	503	0	0	503
Total interest-earning assets	178 416	69 753	4 950	0	253 119
Interest-bearing liabilities					
Due to credit institutions	185	0	0	0	185
Due to customers	244 957	2 737	5 434	17	253 145
Subordinated debt	0	0	4 000	0	4 000
Total interest-bearing liabilities	245 142	2 737	9 434	17	257 330
Exposure to interest rate risk duration gap	-66 726	67 016	-4 484	-17	-4 211

Interest rate risk management entails the analysis of the interest rate risk of all of the Group's assets and liabilities and the management of duration. At least once a year the assessment of interest risk of the bank portfolio is done. The table below specifies the estimates with regard to the annual impact of a parallel shift in the yield curve on the net interest income:

Net change of interest income	31.12.2017	% net own funds	31.12.2016	% net own funds
+100 basis points	327	0.85%	268	0.91%
-100 basis points	186	0.48%	-164	-0.56%

Sensitivity to interest rates is impacted by the transfer of interest rate risk arising from the established contractual minimum rate on loans with floating interest rates. The interest rate risk scenario assumes the impact of derivative instruments and decrease of interest rates to a minimum level of 0%, demand deposits are classified as not interest-rate sensitive. The interest rate risk scenario assumes on-schedule repayment of loans.

The impact of a 100 basepoints increase in interest rates of the Group's equity as at 31.12.2017 was EUR 333 thousand euros and the impact of a decrease of 100 basepoints was EUR 8,104 thousand, corresponding figures as at 31.12.2016 were EUR 1 509 thousand and EUR 10 832 thousand. The positive impact on the Group's equity from the decline of interest rates comes from the contracts with minimum interest levels that the Group has signed which are not affected by the deadline in interest rate. The change of interest rate date equals with the due date for these loans.

Interest risk management is made through limiting due dates of assets and liabilities of different currencies that are open to interest risk, balancing the structure of due dates of assets and liabilities and the use of derivative instruments when needed.

Operational risk management

Operational risk is risk arising from malfunctions or deficiencies in the Group's information systems, errors in personnel policy, negligence or wrongful behavior of staff members, inadequate rules of procedure or external factors that cause damage to or disturb the Group's daily business activities. Operational risk includes information technology risk, procedural risk, personnel risk, legal risk, security systems risk and discovery risk. The Group manages operational risk on the basis of established operational risk policy.

Operational risk is viewed and managed as a separate risk management area within the Group, with the required resources allocated and an adequate amount of own funds provided for covering potential losses. The management of operational risk is integrated within the Group's day-to-day activities. The nature, impact and need to control the operational risk must be acknowledged by all employees within the Group.

The evaluation of operational risk is, above all, carried out qualitatively, as the organization is relatively small and simple and actual loss events are a rare. The loss events are registered in the loss database, specifying the amount of loss that was incurred. The Group monitors the dynamics of operational risk by analyzing the main risk indicators on a quarterly basis. Reports about the loss events related to the operational risk events and the main risk indicators are submitted to the Management Board on a regular basis at least once a quarter. The Group carries out operational risk self-evaluation on a regular basis. The Group uses the Basic Indicator Approach to calculate the operational risk capital requirements.

Financial assets and liabilities fair value

The Group estimates the fair value of such financial assets and financial liabilities that are not measured at fair value in the statement of financial position of the Group. Assets not measured at fair value are primarily loans and advances to customers and liabilities not measured at fair value are mainly deposits.

The Group discounts cash flows using the market yield curve as a basis in order to estimate the fair value of financial assets and financial liabilities.

	Carrying value 31.12.2017	Fair value 31.12.2017	Carrying value 31.12.2016	Fair value 31.12.2016
Assets				
Cash on hand	22 771	22 771	22 337	22 337
Balances with central banks	44 815	44 815	43 919	43 919
Loans and advances to credit institutions	31 287	31 287	39 293	39 293
Loans and advances to customers	238 282	240 943	153 133	153 866
incl. individuals	160 448	162 770	117 685	118 418
incl. legal entities	77 834	78 173	35 448	35 448
Held-to-maturity financial assets	503	523	503	510
Other financial assets	477	477	714	714
Total assets	338 135	340 816	259 899	260 632
Liabilities				
Due to credit institutions	5 002	5 002	185	185
Due to customers	310 968	311 056	253 812	253 791
incl. individuals	151 787	152 121	136 686	136 896
incl. legal entities	159 181	158 935	117 126	116 895
Other financial liabilities	3 216	3 216	1 433	1 433
Subordinated debt	5 026	5 026	4 039	4 039
Total liabilities	324 212	324 300	259 469	259 448

Fair value is calculated in accordance with the principles of Level 3, where assets or liabilities are not traceable with market parameters.

IFRS 13 determines a hierarchy for fair value measurements, which is based on whether inputs are observable or unobservable. Observable inputs reflect market information obtained from independent sources; unobservable inputs reflect assumptions that are available for a market. The following hierarchy for fair value measurement has been established on the basis of these two categories of inputs:

Level 1 – (unadjusted) quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. This level includes publicly quoted equity-related securities and debt instruments listed on exchanges, as well as instruments quoted by market participants.

Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (in the form of prices) or indirectly (are derived from prices). Sources for input parameters (for example euro bond yield curve or counterparty credit risk) are Bloomberg and Reuters.

Level 3 – inputs for the asset or liability that are not based on observable market information (unobservable inputs). Investment property is classified as Level 3 in the fair value hierarchy.

When determining the fair value of the deposits current depositories are discounted using the deposit interest rates offered to new deposits included in the analysis. When calculating the fair value of variable interest and fixed interest rate loans, future cash flows are discounted based on market interest rates, in addition margins applied to new loans are added.

The fair value of loans and advances as at 31.12.2017 was 1.1% higher (2 661 thousand euros) and the fair value of customer deposits was 88 thousand euros lower than their carrying amounts, which do not differ with balance value. As at 31.12.2016, the fair value of loans and advances was 0.5% higher (733 thousand euros) than the carrying amount and the fair value of deposits was 21 thousand euros lower than the carrying amount.

The following investments in the debt securities are classified by the valuation method:

31.12.2017	Amortized cost	1. level	2. level	3. level
Debt securities designated at fair value through profit or loss	0	11 060	0	0
Held-to-maturity financial assets	503	0	0	0
Available-for-sale financial assets - Shares	0	0	13	0

31.12.2016	Amortized cost	1. level	2. level	3. level
Debt securities designated at fair value through profit or loss	0	11 421	0	0
Held-to-maturity financial assets	503	0	0	0
Available-for-sale financial assets - Shares	0	0	13	0

Investment property is measured at fair value on the basis of expert appraisal carried out by qualified appraisers, as applicable to level 3 instruments. Independent expert valuation is based on either the income approach, market approach or a combination of the two aforementioned approaches is used.
The following attributes are used by expert appraisals for the determination of fair value of investment property:

- Rental income: rents under current lease agreements are used;
- Vacancy rate: the actual vacancy rate of the investment properties, taking into account the risks associated with the property;
- Discount rate: it is calculated using the weighted average cost of capital (WACC) associated with the investment property;
- Capitalization rate: it is based on the estimated level of return at the end of the estimated holding period, taking into consideration the forecast market condition and risks associated with the property.

Income approach based on the capability of the asset to generate income in the future. The value is defined as the present value of the expected future income. The income approach is used for the valuation of income-producing real estate (leased asset or can be deemed to be a leased asset). Income-based approaches are the capitalization of income and discounted cash flow analysis.

Market approach is based on analysis to compare the appraised asset to sold assets of similar nature. The comparison determines differences between the appraised asset and sold assets of similar nature and then uses the results to adjust the prices of sold assets and determine the value of the appraised asset.
In certain situations it is not possible to only rely on one approach and therefore the methods must be combined. A valuation specialist uses one to three valuation approaches (or combinations thereof) to carry out the appraisal. Typically multiple different results are obtained when several approaches are used, which are then adjusted into the valuation through weighing. No substantive changes have occurred in the approaches used to appraise real estate compared to the financial statements for the year 2016. The mixed method was used in evaluating two investment properties in 2017.

The following table provides an overview of the valuation methodology used and the classification of investment property.

31.12.2017	Fair value	Rent income per year	Value or medium rent price (eur/m2)	Discount rate	Capitali-zation rate	Possible change in rent price	Impact to value
Valued according to market approach:							
- other commercial real estate	481	27	3.45-7.62				+/-10%
- residential property	258	2	-	-	-	-	+/-10%
Income approach:							
- office premises	649	20	2.95-9.99	11%	10%	3-10%	+/-10%
Combined method							
- other commercial real estate	1 010	21	-	9.50%	8.50%	0	+/-20%
Total investment property	2 398	70	-	-	-	-	-

31.12.2016	Fair value	Rent income per year	Value or medium rent price (eur/m2)	Discount rate	Capitali-zation rate	Possible change in rent price	Impact to value
Valued according to market approach:							
- other commercial real estate	4 071	153	1.81 – 7.26	-	-	5-10%	+/- 20%
- residential property	388	6	1.39 – 8.98	-	-	0-6%	+/- 5%
- land	27	0	0	-	-	0-5%	+/-25%
Income approach:							
- office premises	4 619	373	5.70-9.86	9.5-11.0%	7.70-9.0%	CPI to 8 %	+/- 15%
Total investment property	9 105	532	-	-	-	-	-

Note 3 Subsidiaries and goodwill

In May 2017 the Group acquired 100% of the shares of Coop Finants AS. The main goal of acquisition was to increase the market share in small loans market. Bank recognized Coop Finants AS acquisition according to IFRS 3 standards, carrying out a purchase price analysis. Purchase price analysis was based on the financial position of 31.05.2017, in the process the fair value of Coop Finants AS assets was assessed. There were no significant transactions or events that had a material effect on acquired net asset between period end day 31.05.2017 and acquisition date 16.05.2017. The fair value of assets was 21 940 thousand euros and the fair value of liabilities was 17 697 thousand euros. Acquisition related costs of 2 thousand euros were expensed as operating expenses. The acquired subsidiary's separate net income and profit for the period of 01.06.2017-31.12.2017 was 2.9 million euros and 1.6 million euros respectively. If the acquisition had occurred on 1 January 2017, Group net revenue for 2017 would have been EUR 19.1 million and profit for 2017 would have been 5.4 million euros.

	The acquisition-date fair value
Cash and cash equivalents	328
Loans and advances to customers	20 911
Other assets	701
Due to credit institutions	-16 599
Other liabilities	-1 098
Total identified net assets	4 243
Total consideration paid by Coop Pank for the share	11 000
Goodwill acquired by Coop Pank Group	6 757

From the acquisition of subsidiary goodwill was identified, which is attributable to the synergies expected to arise immaterial assets not able to recognize separately. As at 31.12.2017 goodwill was tested for impairment. Value-in-use calculations are based on following assumptions:

- Estimated growth in the volume of loan portfolio is 10-13% per year
- Average increase in net income is 7-10% per year
- increase in expenses is 7%
- Average loan impairment loss is 5.4-5.7% per year
- Discount rate used in the cash flows is shareholders expected yield of 15%

While using these key assumptions, management relied on their best estimation of probable expectations. The value-in-use test indicated that recoverable value of the cash-generating unit is exceeding the carrying amount and consequently no impairment losses have been recognized. In case it will not be possible to grow loan portfolio, but expenses and impairment costs will grow according to assumptions used in value-in-use test, there will be need for impairment of goodwill.

In 20.06.2017 the bank acquired 49% minority share in subsidiary Krediidipank Finants AS, becoming therefore owner of 100% of the shares, amount of the transaction was 2 058 thousand euros. 02.10.2017 AS Krediidipank Finants transferred all its assets and liabilities to Coop FInants AS, the business activities continue under the name of Coop Finants AS. AS Krediidipank Finants business name was changed to CP Vara AS, aforementioned enterprise will be liquidated.

29.05.2017 bank founded a new subsidiary SIA Prana Property with share capital of 2.8 thousand euros and at 21.12.2017 the share capital was increased by an additional 120.2 thousand euros.

Note 4 Net interest income

Interest income	2017	2016
Loans to companies	2 288	1 465
Loans to private clients	3 531	3 237
Leasing	1 076	1 027
Consumer loans and installment loans	5 530	2 602
Bonds	587	544
Other assets	162	114
Interest income on liabilities	269	130
Total	13 443	9 119
Interest expense		
Demand deposits to customers	-1 394	-1 244
Subordinated debt	-311	-310
Interest expense on assets	-219	-167
Total	-1 924	-1 721
Net interest income	11 519	7 398

Note 5 Fee and commission income

Fee and commission income	2017	2016
Bank transfer fees	771	1 115
Gains from foreign exchange transactions	506	942
Account opening and management fees	506	438
Charges on card transactions	481	314
Other fees	926	679
Total	3 190	3 488
Fee and commission expense		
Charges on card transactions	-587	-437
Bank transfer fees	-279	-266
Other fee and commission expense	-154	-48
Total	-1 020	-751
Net fee and commission income	2 170	2 737

Note 6 Net gains/losses from financial assets measured at fair value

	2017	2016
Financial assets at fair value	-341	-186
Currency related derivatives	0	154
Total	-341	-32

Note 7 Payroll expenses

	2017	2016
Wages and salaries	-5 287	-3 894
Social tax, unemployment insurance premiums	-1 675	-1 266
Total	-6 962	-5 160

Note 8 Operating expenses

	2017	2016
Advertising expenses	-1 085	-349
Administration and use of information systems	-668	-367
Rent of buildings	-491	-401
Office expenses	-400	-292
Services purchased	-290	-457
Contributions to Deposit Compensation Fund	-195	-85
Legal services, state fees	-143	-80
Training and travel expenses	-109	-48
Financial supervision fee instalments	-95	-86
Transport expenses	-50	-28
Membership fees	-36	-30
Property and casualty insurance	-7	-9
Other operating expenses	-541	-242
Total	-4 110	-2 474

Note 9 Loans and advances to credit institutions and banks

	31.12.2017	31.12.2016
Mandatory reserve at the central bank*	2 607	1 919
Demand deposits to central banks,	42 208	42 000
Demand deposits to credit institutions	31 287	39 293
Total (see Note 2)	76 102	83 212

*Not included in cash and cash equivalents in the consolidated statement of cash flows.

Note 10 Financial investments

	31.12.2017	31.12.2016
Government debt securities	2 848	2 904
Debt securities of credit institutions and financing institutions	0	3 073
Debt securities of other non-financial companies	8 212	5 444
Financial assets designated at fair value through profit or loss	11 060	11 421
Debt securities of other non-financial companies	503	503
Held-to-maturity financial assets	503	503
Equity securities	13	13
Available-for-sale financial assets	13	13
Total	11 576	11 937

Note 11 Loans and advances to customers

	31.12.2017	31.12.2016
Total receivables from private individuals	163 724	119 261
incl home loan	103 953	88 961
incl consumer loan	51 145	25 166
incl lease financing	8 626	5 134
Total receivables from legal entities	78 202	36 125
incl investment loan	46 600	19 602
incl working capital loan	21 589	12 215
incl lease financing	10 013	4 308
Total receivables	241 926	155 386
Impairment of loans and advances	-3 644	-2 253
Total	238 282	153 133

Loan allowances	31.12.2017	31.12.2016
Balance at the beginning of the reporting period	-2 253	-2 494
Impairments during the reporting period	-2 600	-1 165
Write-offs during the reporting period	1 209	1 406
Balance at the end of the reporting period	-3 644	-2 253

Loan losses	31.12.2017	31.12.2016
Impairments during the reporting period	-1 550	-1 165
Receiving written off loans	237	156
Loan losses or reduction of loan losses	-1 313	-1 009

Finance lease receivables	31.12.2017	31.12.2016
Finance lease gross investment – lease payments receivable, incl	20 198	9 988
up to 1 year	7 552	4 541
1-5 years	11 898	5 278
over 5 years	748	169
Interest income not received	-1 525	-487
up to 1 year	-621	-220
1-5 years	-887	-259
over 5 years	-17	-8
Finance lease net investment	18 673	9 501
up to 1 year	6 931	4 321
1-5 years	11 011	5 019
over 5 years	731	161

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Note 12 Past due receivables

	31.12.2017		31.12.2016	
Private individuals	Loan balance	Collateral coverage ratio	Loan balance	Collateral coverage ratio
1-30 days	7 166	31.6%	4 718	44.9%
31-60 days	2 077	26.9%	1 370	35.1%
61-90 days	707	18.0%	579	37.1%
more than 90 days	3 976	13.8%	1 914	23.8%
Total*	13 926		8 581	

	31.12.2017		31.12.2016	
Legal entities	Loan balance	Collateral coverage ratio	Loan balance	Collateral coverage ratio
1-30 days	3 440	56.3%	282	32.2%
31-60 days	162	80.2%	43	58.1%
61-90 days	125	66.1%	2 467	49.4%
more than 90 days	349	64.2%	4 322	21.1%
Total	4 076		7 114	

* The increase of the past due receivables of private individuals is related to the acquisition of the loan portfolio of the purchased subsidiary Coop Finants.

Collateral coverage ratio is calculated by contract-based receivable for client divided with market value of the collateral. Outcome is multiplied by the weighted average of the loan balance in the corresponding group.

Note 13 Other assets

	31.12.2017	31.12.2016
Financial assets		
Cash in transit	72	431
Security deposits	173	190
Other receivables	232	93
Total financial assets	477	714
Other assets		
Prepayment for financial supervision	115	101
Settlements with the Tax and Customs Board	1 150	3
Other prepayments	827	150
Total other assets	2 092	254
Assets held for sale		
Properties under construction	3 133	3 563
Real estate acquired for resale	4 180	716
Other assets	10	0
Total assets held for sale	7 323	4 279
Investment property	2 398	9 105
Total	12 290	14 352

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Note 14 Investment property

	31.12.2017	31.12.2016
Carrying amount at the beginning of the period	9 105	11 220
Sold during the period	-7 155	0
Reclassification from property, plant and equipment	839	288
Reclassification from inventories	-653	-2 511
Change in fair value	262	108
Carrying amount at the end of the period	2 398	9 105
incl. investment property earning rental income	2 353	9 105

Note 15 Property, plant and equipment

	Land and properties	Other assets	Intangible assets	Total
Carrying amount at 31.12.2015				
incl. cost	5 446	2 400	2 014	9 860
incl. depreciation	-1 241	-1 517	-1 253	-4 011
Carrying amount	4 205	883	761	5 849
Acquisition	0	53	91	144
Sale at carrying amount	0	-49	0	-49
Write-off at carrying amount	0	-12	0	-12
Reclassification as investment property	-288	9	0	-279
Depreciation charged	-93	-196	-165	-454
Carrying amount at 31.12.2016				
incl. cost	5 092	2 237	2 104	9 433
incl. depreciation	-1 268	-1 549	-1 417	-4 234
Carrying amount	3 824	688	687	5 199
Acquisition	136	1 462	470	2 068
Assets acquired through acquisition of a subsidiary	0	147	215	362
Sale at carrying amount	-2 320	-27	0	-2 347
Write-off at carrying amount	-306	-61	-30	-397
Reclassification as investment property	-839	0	0	-839
Depreciation charged	-66	-204	-176	-446
Carrying amount at 31.12.2017				
incl. cost	495	2 209	1 342	4 046
incl. depreciation	-66	-204	-176	-446
Carrying amount	429	2 005	1 166	3 600

In 2017 the Group sold real estate object recognized as property, plant and equipment with a market price of 5.5 million euros. Difference between market price and the carrying amount of the assets was recognized as profit in the Statement of Comprehensive Income under Other Income.

Note 16 Due to customers

Due to customers	31.12.2017	31.12.2016
Private individuals	151 787	136 686
Legal entities	159 181	117 126
Total	310 968	253 812
Demand deposits	153 031	141 088
Term deposits	157 937	112 724
Total	310 968	253 812

Note 17 Other liabilities

	31.12.2017	31.12.2016
Financial liabilities		
Cash in transit	1 339	1 061
Trade payables	326	100
Other financial liabilities	1 551	272
Total financial liabilities	3 216	1 433
Other liabilities		
Payables to employees	1 033	668
Tax liabilities	250	186
Other liabilities	707	270
Total other liabilities	1 990	1 124
Total	5 206	2 557

Note 18 Subordinated debt

	31.12.2017	31.12.2016
Subordinated debt	5 000	4 000
Accrued interest	26	39
Total	5 026	4 039

As at 31.12.2016 the subordinated loan amounted to 4 million euros with the maturity date of 15.02.2021 and interest rate of 7.75%, the loan was repaid before the deadline on 01.12.2017. At the same time a new subordinated bond was issued in the total amount of 5 million euros with the maturity date of 04.12.2017 and interest rate of 6.75%.

Note 19 Equity

The share capital of the bank amounts to 38 199 thousand euros, which is divided into 58 385 195 ordinary shares of no par value. At 31.12.2016 share capital was 25 001 thousand euros, which was divided into 39 117 600 ordinary shares of no par value. In 2017 the share capital of the bank was increased twice, in May in the amount of 11 118 thousand euros and in June by 2 080 thousand euros. The shares were fully paid in cash.
According to the articles of association, share capital can be increased to 80 million euros without any amendment to the articles of association. As at 31.12.2017 the carrying value of one share is 0.65 euros and as at 31.12.2016 was 0.64 euros.

The shareholders have approved a share option program, which allows issuing share options to management team of the Group up to 3.5% of the number of shares outstanding on the date of approving the share option program (2 043 480 shares). Based on the share option program, options can be granted up to April 30, 2019. Vesting period of the options is 3 years and emission of shares will be done on the Annual General Meeting of Shareholders or Meeting of the Shareholders close to the vesting date. In 2017 there were 1 167 700 share options issued with a price of 0.7305 per share.

According to the requirements of § 336 of the Commercial Code, during each financial year, at least 1/20 of the net profit shall be transferred to the statutory reserve, until the statutory reserve reaches 1/10 of the share capital. Once the statutory reserve capital reaches the amount specified in the Commercial Code, no more transfers on account of net profit will be made to the statutory reserve capital. On the basis of a decision of the general meeting of shareholders, statutory reserve capital may be used to cover losses, as well as to increase share capital. Distributions to shareholders from the statutory reserve capital are not permitted.

Note 20 Contingent assets and liabilities

	31.12.2017	31.12.2016
Financial guarantees	1 187	1 354
Fines of credit and overdraft facilities	30 219	3 708
Total	31 406	5 062

The tax authorities may at any time inspect the books and records of the company within 5 years subsequent to the reported tax year, and may as a result of their inspection impose additional tax assessments and penalties. The management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Note 21 Litigations

In the previous years the bank's shareholders have challenged various decisions of the general meetings of shareholders. In January 2017, all claims were withdrawn by the counterparties and the court accepted the withdrawal of actions. The Group did not incur any financial obligations. In 2017 there were 3 claims filed against the group totalling 306 thousand euros, since the group finds that the legal prospect of winning is good, no provisions for claims have been set up.

As at 31 December 2017, there were several ongoing legal proceedings carried by group companies. The amount of such receivables totaled 154 thousand euros, plus interest for late payment.

Note 22 Leased assets

The contractual payments for office premises rented by the Group under operating lease terms are:

	2017	2016
Up to 1 year	556	171
1-5 years	1 649	390
Over 5 year	77	100
Total	2 282	661

Due to realization of the real estate previously belonged and used by the Group, there has been a noticeable increase in the payments for office premise rent.

Note 23 Related parties

The following have been considered related parties:

- a shareholder of significant influence and companies that are part of its group;
- management of the Group: members of the management board and the supervisory board of the parent company, the head of internal audit and entities controlled by them;
- those who have the same economic interest as management and entities related to them.

The terms of the loans granted to related parties do not differ from the loans granted to other customers with regard to interest rates. Transactions with related parties are based on the price list and/or are carried out at market value.

Shareholders	31.12.2017	31.12.2016
Deposits	1 502	28
Subordinated loan	0	4 000
Interest expenses of reporting period	1	310

Members of the management board and supervisory board and persons and companies associated with them		
Loans 31.12	133	128
Deposits 31.12	1 865	236
Interest income of the reporting period	3	3
Sale of other goods and services	2	2
Purchase of other goods and services	330	0
Salaries to members of the Management Board and Supervisory Board (incl. the contractual payments to the previous Management Board members)	578	469
Maximum termination benefits payable to members of the management board on a contingent basis	175	30

Note 24 Events after the balance sheet date

IFRS 9 „Financial Instruments: Classification and Measurement" is effective from 1 January 2018. The Group has not early adopted the latter standard.

According to IFRS 9 financial assets are required to be classified into three groups based on the change in credit quality of financial assets since initial recognition. For financial assets belonging to the first group, having no indication of credit quality loss, an immediate loss equal to 12-month expected credit loss (ECL) must be recorded on initial recognition (for accounts receivable balances the credit loss for the whole period of the asset). Receivables with indication of credit quality loss or indication of impairment loss of collateral compared to initial recognition will be classified into second group and all loans not being serviced will be classified in the third group.

The reclassification between groups is based mainly on days past due. For receivables in the second and third group, impairment is measures using lifetime ECL. The Group uses internally developed models as the basis of ECL measurement. The model uses macro-economic indicators (incl, unemployment and economic growth). when predicting expected credit loss.

The following description provides information about the differences in measurements based on regulations in force up to 31.12.2017 and regulations in force starting from 01.01.2018 and the impact on equity from the adoption of IFRS 9.

1. Starting from 1.01.2018 for all financial assets the probability of delay in payments will be estimated throughout the lifetime of the asset and immediate loss equal to 12-month ECL will recorded on initial recognition.

2. For financial assets with indication of credit quality loss on 01.01.2018 an individual allowance in the amount of loss incurred was recorded based on the standard in force during the financial year. Adoption of IFRS 9 led to calculation of expected credit loss throughout the whole period of the agreement, while the calculation is based on forward-looking information weighted with probability and forecasts.
3. Up to 31.12.2017 the Group recorded securities at fair value through profit and loss or held to maturity financial liabilities at amortized cost. Starting from 01.01.2018 as a result of change in classification and measurement, the Group has reclassified securities which were carried at fair value through profit and loss under IAS 39 to be measured at fair value through other comprehensive income category. The basis for reclassification is the securities portfolio business model "hold to collect and sell".

The following tables provide an overview of financial assets upon transition to IFRS 9 and impact on equity on 1 January 2018.

	Measurement category			Remeasurement			
	IAS 39	IFRS 9	IAS 39 closing balance 31.12.2017	ECL	Other	Mandatory reclassification	IFRS 9 opening balance 01.01.2018
Cash	L&R	AC	22 771	0	0	22 771	22 771
Balances with central banks	L&R	AC	44 815	0	0	44 815	44 815
Loans and advances to credit institutions	L&R	AC	31 287	0	0	31 287	31 287
Investments in bonds	FVPL	FVOCI	11 060	0	0	11 060	11 060
Investments in bonds	HTM	FVOCI	503	0	20	503	523
Investments in bonds	HTM	AC	0	0	0	0	0
Investments in equity instruments	AFS	FVOCI	13	0	0	13	13
Loans and advances to customers	L&R	AC	238 282	-630	0	238 282	237 652
Other financial assets	L&R	AC	477	0	0	477	477
Total financial assets			349 208	-630	20	349 208	348 598

ECL – Expected credit loss

FVPL – Financial assets measured at fair value through profit and loss

FVOCI – Financial assets measured at fait value through other comprehensive income

AC - Financial assets measured in amortized cost

AFS – Finanial asset available for sale

HTM- Financial asset held-to-maturity

	Share capital	Share premium	Statutory reserve capital	Change of fair value	Retained earnings	Total share capital
Balance as at 31.12.2017	38 199	175	2 070	0	4 732	45 176
Impact of changed methods to loan portfolio	0	0	0	0	-630	-630
Reclassification of debt securities FVPL >FVOCI	0	0	0	86	-86	0
Reclassification of debt securities HTM >FVOCI	0	0	0	20	0	20
Balance as at 01.01.2018	38 199	175	2 070	106	4 016	44 566

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Note 25 Separate financial statements of parent company

Statement of comprehensive income of parent company

	2017	2016
Interest income	9 623	7 659
Interest expense	-1 927	-1 721
Net interest income	7 696	5 938
Fee and commission income	2 376	3 104
Fee and commission expense	-896	-737
Net fee and commission income	1 480	2 367
Rental income	24	0
Other income	349	737
Net gains/losses from financial assets measured at fair value	-341	-32
Net other income	32	705
Payroll expenses	-6 038	-4 577
Operating expenses	-3 250	-1 933
Depreciation	-293	-294
Other expenses	-9 581	-6 804
Net profit before provision for loan impairment and income tax expense	-373	2 206
Provision for loan impairment	83	-196
Income tax	0	-8
Net profit for the financial year	-290	2 002
Other comprehensive income/loss	0	0
Comprehensive income/loss for the financial year	-290	2 002

Statement of financial position of parent company

Statement of financial position of the parent company	31.12.2017	31.12.2016
Assets		
Cash	22 771	22 337
Balances with central banks	44 815	43 919
Loans and advances to credit institutions	31 016	39 282
Financial assets at fair value through profit or loss	11 060	11 421
Loans and advances to customers	237 072	167 255
Held-to-maturity financial assets	503	503
Available-for-sale financial assets	13	13
Financial investments in subsidiaries	16 064	2 883
Other financial assets	285	656
Other assets	550	466
Property, plant and equipment	2 710	1 072
Total assets	366 859	289 807
Liabilities		
Due to credit institutions	5 002	185
Due to customers	311 990	254 374
Other financial liabilities	1 486	1 154
Other liabilities	1 292	900
Subordinated debt	5 026	4 039
Total liabilities	324 796	260 652
Shareholders' equity		
Share capital	38 199	25 001
Share premium	175	174
Reserves	2 070	1 970
Retained earnings	1 619	2 010
Total shareholders' equity	42 063	29 155
Total liabilities and shareholders' equity	366 859	289 807

Statement of cash flows of parent company

	12 months 2017	12 months 2016
Cash flows from operating activities		
Interest received	9 008	7 172
Interest paid	-1 764	-2 311
Service fees and commissions received	2 376	3 104
Service fees and commissions paid	-896	-737
Other received income	373	737
Salaries paid	-5 515	-4 424
Other operating expenses paid	-2 881	-2 495
Total cash flows from operating activities before adjustments in operating assets and liabilities	701	1 046
Change in operating assets		
Loan receivables from customers	-70 260	43
Change of mandatory reserve in central bank	-688	302
Other assets	242	972
Change in operating liabilities		
Change of client deposits and loans received	57 442	-12 199
Change of credit institutions depositories	4 815	70
Other liabilities	656	-3 924
Net cash flows from operating activities	-7 092	-14 294
Cash flows from investing activities		
Acquisition of subsidiaries, net cash flow	-10 672	0
Acquisition of assets and investment properties	-2 391	-133
Sale of assets and investment properties	2	36
Net change of investments in fair value	521	-6 040
Total cash flows from investing activities	-12 540	-6 137
Cash flows from financing activities		
Contribution to share capital	13 198	0
Increase of subsidiary's equity	-123	-33
Dividends paid	0	-1 095
Repayments of subordinated loan	-4 000	0
Emission of subordinated debt securities	5 000	0
Total cash flows from financing activities	12 017	-1 128
Change in cash and cash equivalents	-7 615	-21 559
Cash and cash equivalents at beginning of the period	103 110	124 669
Cash and cash equivalents at end of the period	95 495	103 110*
Cash and cash equivalents balance is comprised of:	95 495	103 110
Cash on hand	22 771	22 337
Demand deposits in central banks	42 208	42 000
Demand and short-term deposits in credit institutions	30 516	38 773

* Change in mandatory reserve, which previously was classified under cash and cash equivalents, has been reclassified to cash flows from operating activities after the approval of 2016 financial statement. Additionally deposits of credit institutions was adjusted in comparative period 2016 and 500 thousand euros is recognized in "Demand and short-term deposits in credit institutions".

Statement of changes in equity of parent company

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total equity
Balance as of 31.12.2015	25 001	174	1 844	1 229	28 248
Dividends declared	0	0	0	-1 095	-1 095
Changes in reserves	0	0	126	-126	0
Net profit	0	0	0	2 002	2 002
Total comprehensive income for financial period	0	0	0	2 002	2 002
Balance as of 31.12.2016	25 001	174	1 970	2 010	29 155
Increase of share capital	13 198	0	0	0	13 198
Changes in reserves	0	0	100	-100	0
Approximation difference	0	1	0	-1	0
Net profit	0	0	0	-290	-290
Total comprehensive income for financial period	0	0	0	-290	-290
Balance as of 31.12.2017	38 199	175	2 070	1 619	42 063

Adjusted unconsolidated equity	
Book value of holding under control or significant influence	-16 064
Value of holdings under control or significant influence, calculated by equity method	19 177
Adjusted unconsolidated equity as at 31.12.2017	45 176

Independent auditor's report

To the Shareholders of AS Coop Pank (formerly known as AS Eesti Krediidipank)

(Translation of the Estonian original)*

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Coop Pank and its subsidiaries (together the Group) as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

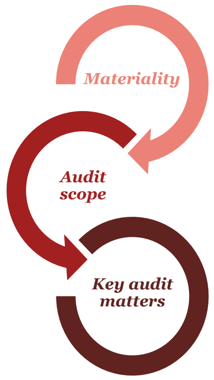
Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^1 of the Auditors Activities Act of the Republic of Estonia.

Our audit approach

Overview



Materiality
Overall group materiality is EUR 450 thousand, which represents approximately 1% of net assets of the Group.

Audit scope
We tailored our audit scope based on the risk and size of entities within the Group and performed either a full scope audit or specific audit procedures over material income statement and balance sheet line items. At the Group level, we tested the consolidation process to confirm our conclusion that no material misstatements exist that may affect the consolidated financial statements.

Key audit matters
- Valuation of loans and advances to customers

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	EUR 450 thousand
How we determined it	1% of net assets
Rationale for the materiality benchmark applied	We applied the net assets benchmark as at the beginning of 2017 the owners and management of the Group changed, which resulted in a change of the Group's business strategy. The Group was going through rapid growth in 2017 and significant expenses were made to implement new business strategies. Therefore, in 2017 the key performance measure for the Group was net assets.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	*How our audit addressed the key audit matters*
Valuation of loans and advances to customers (refer to Note 1 "Accounting principles", Note 2 "Risk Management" and Note 11 " Loans and advances to customers" for further details). As of 31 December 2017, gross loans and advances to customers amount to EUR 241.9 million against which loan impairment allowance in the amount of EUR 3.6 million has been recognized. We focused on this area because recognition and measurement of financial instruments as regulated in IAS 39 is a complex and significant area with large impact on Group's business and financial reporting. Management makes complex judgments over both timing of recognition of impairment and the estimation of the size of any such impairment. The Group first assesses whether objective evidence of impairment exists individually for those assets that are individually significant or meet the Group's criteria for individual assessment. Then loans and advances to customers are grouped for impairment calculation purposes into sub-classes on the basis of homogeneous credit risk features and are assessed on a collective basis, taking into account product type, customer payment discipline, net realizable value of the collateral and number of overdue days.	We assessed whether the Group's accounting policies in relation to the impairment of loans and advances to customers complied with International Financial Reporting Standars (IFRS). We assessed the design and operating effectiveness of the controls over impairment data and calculations. Corresponding controls covered the judgements made when assigning the correct risk class to the clients, identifying individual impairment indicators for loans and advances, valuation of collateral and calculating individual impairment. We performed detailed procedures over the collective impairment models to ensure accuracy and completeness of the data used and to validate critical assumptions, such as probability of default, length of loss identification period and loss given default. We assessed the valuation of loans and advances to customers, i.e the need for impairment, at the balance sheet date, taking into account the aforementioned inputs. We concluded that, in the context of the size of total loans and advances portfolio and the uncertainties disclosed in the financial statements, assumptions used by management are reasonable.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In order to achieve this objective, based on the size and risk characteristics, we performed a full scope audit of the financial information for the following entities within the Group: Coop Pank AS (Estonia), Coop Finants AS (Estonia), Coop Liising AS (Estonia) and AS Martinoza (Estonia). Additionally we performed an audit of specific balance sheet and income statement line items for SIA Prana Property (Latvia) and AS Krediidipank Finants (Estonia).

At the Group level we tested the consolidation process and performed additional analytical procedures over the components in scope to confirm our conclusion that no material misstatements exist that may affect the consolidated financial statements. Information describing the structure of the Group is included in Note 1 of the consolidated financial statements.

Other information

The Management Board is responsible for the other information contained in the consolidated annual report in addition to the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 ISAs 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 these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 to 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 consolidated 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.

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of AS Coop Pank on 22 April 2014 for the financial year ended 31 December 2014. The total period of our uninterrupted engagement appointment for AS Coop Pank is 4 years.

AS PricewaterhouseCoopers

Tiit Raimla
Certified auditor in charge, auditor's certificate no.287

Evelin Lindvers
Auditor's certificate no.622

16 March 2018

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

This independent auditor's report (translation of the Estonian original) should only be used with an annual report initialled for identification purposes by AS PricewaterhouseCoopers.

Proposal for profit allocation

The Management Board of AS Coop Pank proposes to the General Meeting of the Shareholders to allocate the Group's net profit attributable to the owners of the parent company for the financial year 2017 in the amount of 4 345 thousand euros as follows:

1. allocate 218 thousand euros to statutory reserve capital;
2. add 4 127 thousand euros to retained earnings.

Revenues by EMTA classification (the Estonian classification of economic activities)

Title	Economic activity based on EMTAK	Code	Sales income (in euros)
Finance activities	Credit institutions (separate)	64191	12 372 193
Finance activities	Credit institutions (consolidated)	64191	22 004 418

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