Annual report

2018

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	31.12.2018
Beginning and end of the financial year	01.01.2018- 31.12.2018
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

Table of contents

General information ... 2

Table of contents ... 3

Management Board declaration ... 4

Management report ... 5

- Business overview ... 5
- Operating environment ... 10
- Financial results ... 11
- Capitalisation and risk positions ... 12
- Group management system ... 15
- Remuneration policy ... 18
- Dividend policy ... 19
- Persons that have close links ... 19

Consolidated Financial Statements ... 20

- Consolidated Statement of Comprehensive Income ... 20
- Consolidated Statement of Financial Position ... 21
- Consolidated Statement of Cash Flows ... 22
- Consolidated Statement of Changes in Equity ... 23

Notes to Consolidated Financial Statements ... 24

- Note 1 Accounting principles ... 24
- Note 2 Risk management ... 48
- Note 3 Subsidiaries and goodwill ... 74
- Note 4 Operating segments ... 75
- Note 5 Net interest income ... 77
- Note 6 Fee and commission income ... 77
- Note 7 Payroll expenses ... 78
- Note 8 Operating expenses ... 78
- Note 9 Cash and cash equivalents ... 78
- Note 10 Financial investments ... 78
- Note 11 Loans and advances to customers ... 79
- Note 12 Loan allowances and loan losses ... 79
- Note 13 Other financial assets and other assets ... 80
- Note 14 Investment property ... 80
- Note 15 Property, plant and equipment ... 81
- Note 16 Customer deposits and loans received ... 81
- Note 17 Other financial liabilities and other liabilities ... 82
- Note 18 Subordinated debt ... 82
- Note 19 Equity ... 82
- Note 20 Contingent assets and liabilities ... 83
- Note 21 Litigations ... 83
- Note 22 Leased assets ... 83
- Note 23 Related parties ... 84
- Note 24 Separate financial statements of parent company ... 85

Independent auditor's report ... 89

Proposal for profit allocation ... 96

Revenues by EMTA classification (the Estonian classification of economic activities) ... 97

Management Board declaration

All data and supplementary information presented in the 2018 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.

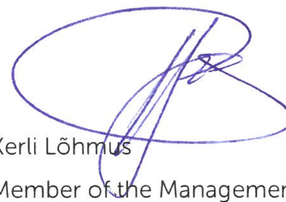
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and referred to in § 17 of the Accounting Act of Estonia. These 2018 consolidated financial statements of AS Coop Pank are in compliance with the laws of the Republic of Estonia. The Group is going concern.

The 2018 consolidated annual report of AS Coop Pank will be presented to the general meeting of shareholders for approval in April 2019. The previous 2017 consolidated annual report was approved by the general meeting of shareholders at 18.04.2018.

Margus Rink
Chairman of the Management Board

Hans Pajoma
Member of the Management Board

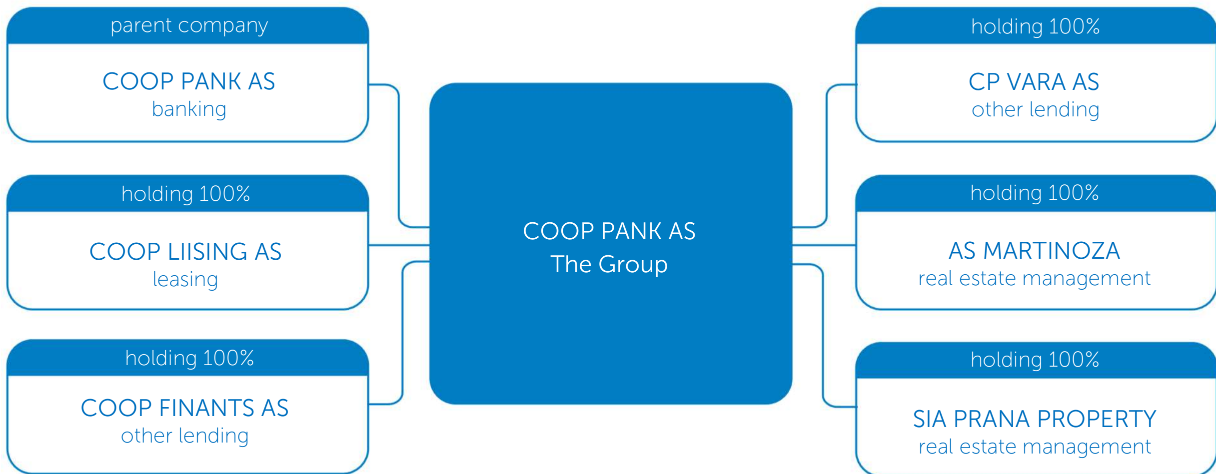
Janek Uiboupin
Member of the Management Board



Kerli Lõhmus
Member of the Management Board

26.03.2019

Management report



The following companies were part of AS Coop Pank group as at 31.12.2018: Coop Pank AS, Coop Liising AS, Coop Finants AS, CP Vara AS (being liquidated), AS Martinoza and SIA Prana Property. The first five companies are registered in the Commercial Register of Republic of Estonia and SIA Prana Property in the Commercial Register of the Republic of Latvia:

All the above-mentioned subsidiaries are fully consolidated with the line by line method, eliminating all intragroup 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.

Business overview

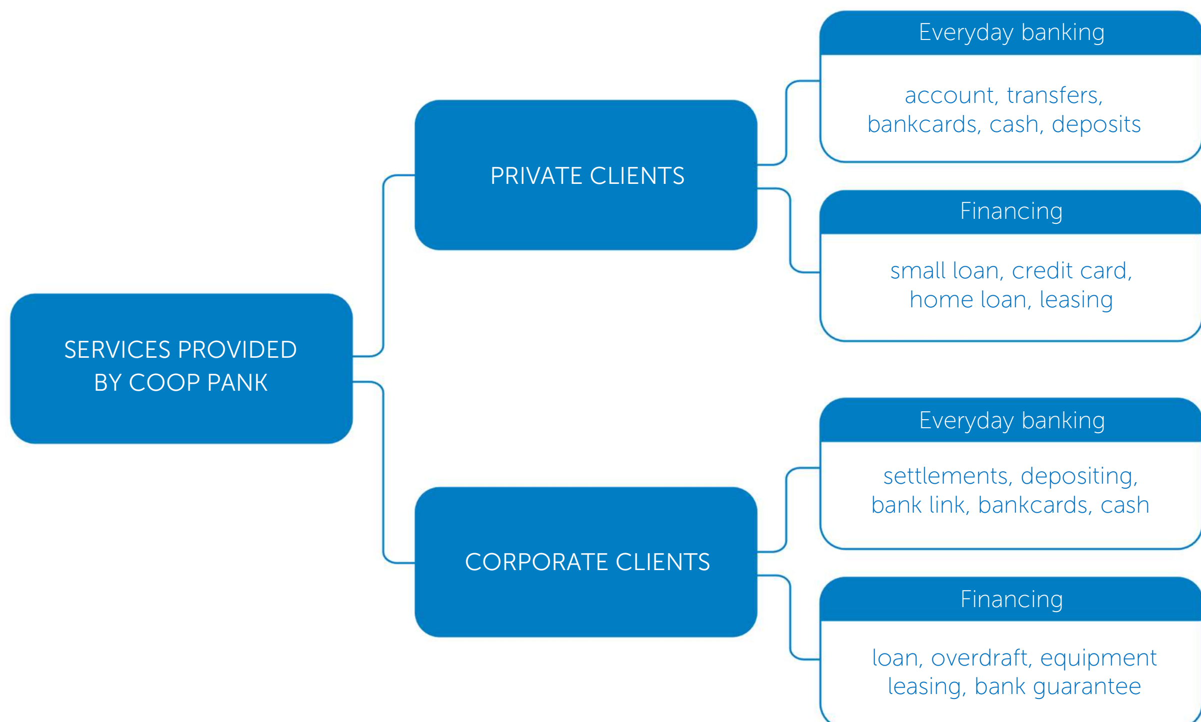
Coop Pank was launched in 2017 to launch the first bank in Estonia that is creating synergies between commerce and banking. The strategic owner of the bank is Coop Eesti, with whom bank services are offered in all Coop stores across Estonia. Coop has total of 350 stores in Estonia, which means that Coop Pank is able to serve customers all over Estonia, just as Coop Eesti´s message "We keep life in every corner of Estonia" also promises.

Coop Pank wants to improve access to banking services for all Estonians, regardless of their life or workplace. In order to access our banking services, you do not necessarily need to go to a bank office to open an account. This can be done online or at Coop stores. In addition to Coop stores, customers of the bank can also use the services in all normal banking channels. The bank has 16 bank branches, an internet bank and a mobile bank. Coop Pank is also the largest cash network bank in Estonia, because the bank´s customers can in addition to cash dispensers at Coop stores withdraw cash from ATM´s all over Estonia.

Through its activities, the Bank also wants to contribute to the development of Estonian entrepreneurship and thereby support the development of Estonian economy. In fulfilling this mission, cooperation is proactively in process with Estonian entrepreneurs who need financial support to realize their business plans in Tallinn, Tartu and other areas in Estonia. By supporting the development of companies Coop Pank contributes to the regional development of Estonia and creates the opportunities for people to have a chance to live in the places of Estonia where they wish.

One of the strengths of the Bank is its ability and capability to provide flexible solutions by clearly identifying the needs of the customers, for both private as well as corporate customers by different products, and to offer quick and convenient solutions. Flexibility is one of the distinctive features of Coop Pank in the banking market.

The operations of Coop Pank are also recognized externally. Launching the Bank was awarded last year with the title of *Aasta Turundustegu* [The Marketing Act of the Year] and in October 2018, Coop Pank was nominated at the competition of the best companies of Estonia organised by Enterprise Estonia and The Estonian Employers' Confederation in the category of *Aasta Uuendaja* [Innovator of the Year], and the bank ranked among the best three.



Increase in number of clients

The number of Coop Pank's clients increased by 9 thousand in 2018 and the bank had over 45 thousand clients by the end of the year and the bank's small financing company Coop Finants also has 100 thousand clients.

Increase in loans

The loan portfolio of Coop Pank increased by 37% in comparison with the previous year. The bank increased the volumes of all of its most important business lines last year and tripled the profit earned from banking activities.

Increase in deposits

Estonian clients brought 40 million euros worth of deposits to the bank last year. In March Coop Pank issued 5 million euros worth of bonds to LHV Pension Funds for a term of 3 years to support the company's growth strategy. A loan of 4 million euros was also drawn down on the basis of the loan agreement entered into with the European Investment Fund in 2017. Taking deposits is vitally important to the bank. Coop Pank raised 56 million euros worth of term deposits and 11 million euros from institutional investors via the Raisin platform.

The best deposit interest

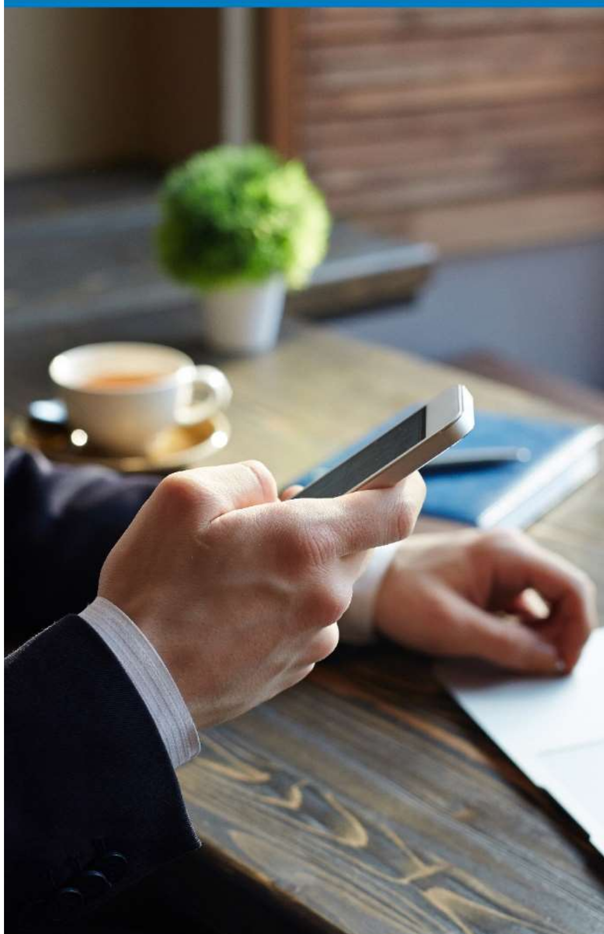
Coop Pank pays the highest deposit interest to companies among banks – up to 0.25% per year. The interest paid by the bank on term deposits to private clients is up to 2%, which is the best in the comparison of universal banks.

Employees of Coop Eesti as the bank's clients

One of the most important focuses in 2018 was the sale of banking services at Coop stores and the sale of everyday banking services directly at the checkouts of Coop stores. Approximately 20% of the employees of Coop Eesti joined the bank as a result of this.

Coop Sula

The Coop Sula project, which is aimed at improving the accessibility of cash in rural areas and strengthening the cooperation between banking and stores, was launched in spring 2018. Clients using the banking plans offered by Coop Pank can withdraw cash from all Coop ATMs throughout Estonia and get cashback from 350 Coop stores. The Estonian Traders Association awarded the bank the title of Trade Deed of the Year 2018 for launching the service.



New information system

The consumer financing business line of the bank started using a new information system in 2018, which has made Coop Pank one of the fastest and most convenient small loan providers on the market.

Development of the Internet and mobile bank

Innovations in digital banking channels and creation of the solution for opening accounts electronically, which allows people to open a bank accounts at home with their ID card or Mobile ID. The list of means of identification was increased and the bank made it possible for clients to log in to the Internet bank with Smart ID as well.

Action plan for 2019

The Bank has attracted the attention of its customers through its distinctive strategy and more people have chosen domestic Coop Pank as their home bank for their finances. In 2019, the focus of the Bank remains on strong growth. Today, Coop Pank holds 2% of the banking market but the bank has committed to achieve a market share of 5% in the medium term, and 100 thousand customers.

The bank will continue to focus on the activities related to attracting new customers both in the private as well as corporate line. Increased cooperation with Coop Eesti retail business will help to boost the growth. During the first half of 2019, the new *Coop Sula* cash deposit service using the cashiers of the Coop stores will be launched with the objective to improve the availability of banking services all over Estonia.

AS PricewaterhouseCoopers, the auditor of the company, provided other assurance services to the Group in 2018, and the obligation to provide these arises from the Credit Institutions Act, Securities Market Act, and the auditor has also provided other services permitted pursuant to the Republic of Estonia Auditors Activities Act.

Operating environment

In 2018, the loans issued to non-financial businesses of the euro area increased about 4%, and the loans issued to households increased about 3.3%. Private consumption and investments in housing purchases increased in 2018, and the unemployment rate remained low at about 8%. Business investments are supported by steady growth of the domestic demand, favorable financing conditions and improving corporate balance sheets. The economic growth is expected to persist in 2019.

The supporting monetary policy is still required in order to ensure stable approaching of the inflation rates to the target level of 2%. Therefore, the European Central Bank has not increased the interest rates and is not expected to raise them before the summer of 2019. In 2018, the Governing Council of the European Central Bank kept its monetary policy rates at an all-time low of the Economic and Monetary Union: the interest rates of main refinancing operations are 0.00%, the marginal lending rate is 0.25%, and the deposit facility's interest rate is -0.40%. The downside risks caused by geopolitical insecurity, vulnerability of emerging markets and volatility of financial markets have started to affect the growth outlook of the euro area.

The global economic growth will slow down in 2019 and should stabilize thereafter. The financing conditions have remained favorable in developed countries but in certain emerging markets they have become more severe. The US dollar has become more expensive due to interest rate increase and a strong economic position which means additional challenges for emerging markets upon servicing of external debts denominated in dollars. Instability in connection with future trade relations has increased. Based on the macroeconomic projections prepared by the Euro system experts in December 2018, the worldwide real GDP growth (except for the euro area) should be 3.5% in 2019. It should remain more or less unchanged during 2020-2021.

Estonia's economy has shown the first signs of deterioration in its export competitiveness. The increase of labor costs in Estonia has been one of the fastest in Europe, the rate of unemployment has decreased to approximately 5%. The number of people employed in our manufacturing industry is relatively higher than that in the other Baltic countries, therefore Estonia still has quite a big share of low-productivity industry, and low-productivity companies find it increasingly difficult to survive in the future. In corporate investments, the share of construction investments has increased, and in the energy sector the investments in fixed assets. The investments continued to grow even in the processing industry where the investments were mainly made in machinery and equipment.

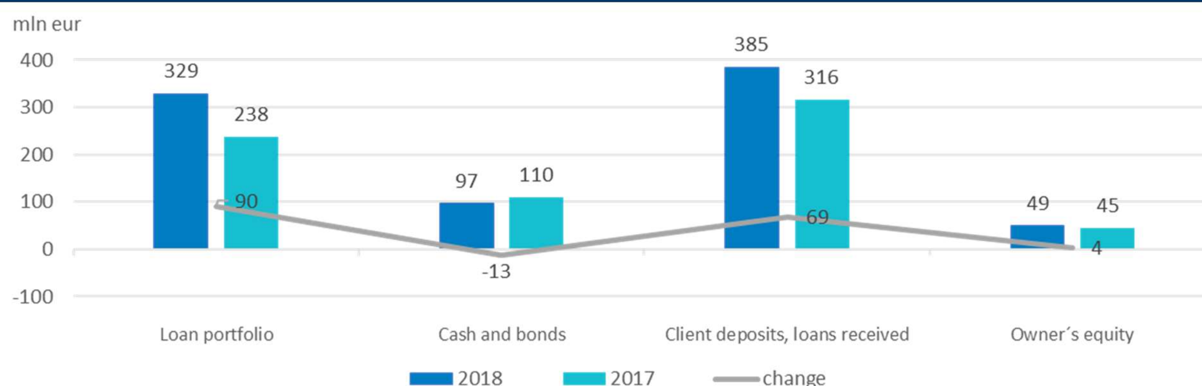
Estonia's economic growth is expected to slow down and decrease in 2019 from the level of 3.2% to the level of 2.2% by 2021. International trade barriers and tightening of the monetary policy have in particular hindered emerging economies but the impact thereof can easily reach Europe, should the confidence decline. This would put brakes on the growth of Estonia's export sector. Strong domestic demand will mitigate the slowdown in the foreign demand but the economic growth, which merely rests on domestic demand, may lead to overheating of domestic market oriented branches, such as construction and servicing. The growth of private consumption and investments in housing is expected to slow down.

Financial results

Income statement	2018	2017	change
Net interest income	16 779	11 519	5 260
Net fee and commission income	2 302	2 170	132
Other income	687	3 600	-2 913
Total net operating income	19 768	17 289	2 479
Operating expenses	-13 601	-11 518	-2 083
Impairment losses on loand and advances	-1 392	-1 313	-79
Income tax expense	-22	0	-22
Net profit	4 753	4 458	295
incl. profit attributable to the owners of the parent company	4 753	4 345	408

Excluding the extraordinary income in 2017 (3 mln euros in the composition of other operating income), the profit from banking activities increased three times compared to previous year. Operating expenses increased 18%, primarily on account of personnel expenses.

Business volumes



In 2018, the Group's net loan portfolio grew by 38% and net interest income by 46%. The volume of client deposits and loans increased by 22%.

Ratios	2018	2017	change
Average shareholders' equity attributable to owners of the parent company, in th. of euros	47 169	37 234	9 936
Return on equity (ROE) %	10.1	11.7	-1.6
(net profit / average shareholders' equity)			
Total assets, average, in th. of euros	408 828	330 774	78 054
Return on assets (ROA), %	1.2	1.3	-0.1
(net profit / total assets, average)			
Cash and interest-bearing assets, average, in th. of euros	393 073	314 933	78 140
Net interest margin (NIM), %	4.3	3.7	0.6
(net interest income / interest-bearing assets, average)			
Cost / income ratio, %	68.8	66.6	2.2
(total operating costs / total net operating income)			

Capitalisation and risk positions

Capital base, in thousands of euros	31.12.2018	31.12.2017
Tier 1 capital		
Paid-in share capital and share premium	38 374	38 374
Statutory reserve capital	2 288	2 070
Accumulated profit/loss	3 799	387
The accepted profit of the reporting period	3 989	1 932
Other accumulated comprehensive income	-154	0
Goodwill as intangible asset (-)	-6 757	-6 757
Intangible assets (-)	-2 290	-1 166
Adjustment of value arising from requirements of reliable measurement (-)	-10	-14
Other deductions from Tier 1 Capital (-)	-313	-1 388
Other adjustments of own funds resulting from transitional provisions	598	0
Total Tier 1 capital	39 524	33 438
Subordinated debt	5 000	5 000
Tier 2 capital	5 000	5 000
Eligible capital for capital adequacy calculation	44 524	38 438
Risk-weighted assets (RWA)		
Central government and central banks using the Standardised Approach	965	1 424
Credit institutions, investment companies and local governments using the Standardised Approach	2 915	6 452
Companies using the Standardised Approach	28 245	23 090
Retail receivables using the Standardised Approach	62 038	41 207
Receivables secured by mortgage on real estate using the Standardised Approach	100 004	78 431
Receivables past due using the Standardised Approach	959	5 271
Items subject to particularly high risk using the Standardised Approach	19 626	7 155
Other assets using the Standardised Approach	10 330	12 346
Total credit risk and counterparty credit risk	225 082	175 376
Operational risk using the Basic Indicator Approach	21 509	17 735
Total risk-weighted assets	246 591	193 111
Capital adequacy (%)	18.06%	19.90%
Tier 1 capital ratio (%)	16.03%	17.32%

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 31.12.2018, the Group complied with all regulatory capital requirements. The systemic risk buffer of Coop Pank Group as at 31.12.2018 was 2 466 (31.12.2017: 1 931 thousand euros). The capital conservation buffer of Coop Pank Group as at 31.12.2018 was 6 165 (31.12.2017: 4 828 thousand euros).

The financial leverage ratio of Coop Pank Group was at 31.12.2018 8.33% (31.12.2017: 8.47%). 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 31.12.2018 the Liquidity Coverage Ratio (LCR) was 1 375% (31.12.2017 was 728%), the regulatory minimum requirement is 100%.

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 31.12.2018
Credit institutions and investment firms	eligible capital	1	7 590
Clients, other than credit institutions and investment companies	25% of eligible capital	4	20 381

The corresponding positions as at 31.12.2017 were 24 157 thousand euros (5 credit institutions) and 17 321 thousand euros (4 clients).

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

31.12.2018	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	52 063	325	0	1 929	0	54 317
Public sector entities	0	0	0	12	0	12
Credit institutions, investment companies and local governments	13 746	0	500	0	0	14 246
Companies	395	515	10 649	16 042	283	27 884
Retail receivables	9 723	382	6 293	55 063	15 667	87 128
Receivables secured by mortgage on real estate	508	1 841	6 233	61 833	139 288	209 703
Receivables past due	545	3	9	85	213	855
Items subject to particularly high risk	0	1 046	3 285	6 789	405	11 525
Investments in equity	0	0	0	0	13	13
Other assets	32047	0	98	0	0	32 145
Total balance sheet exposures	109 027	4 112	27 067	141 753	155 869	437 828
Off-balance sheet (Standardised Approach)						
Companies	2 310	0	0	0	0	2 310
Retail receivables	21 555	0	0	0	0	21 555
Receivables secured by mortgage on real estate under standard method	9 553	0	0	0	0	9 553
Receivables past due	135	0	0	0	0	135
Items subject to particularly high risk	3 550	0	0	0	0	3 550
Total off-balance sheet exposures	37 103	0	0	0	0	37 103
Total exposure	146 130	4 112	27 067	141 753	155 869	474 931

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 receivables	7 638	482	5 649	38 610	4 240	56 619
Receivables secured by mortgage on real estate	81	809	4 261	40 023	116 205	161 379
Receivables 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 receivables	19 897	0	0	0	0	19 897
Receivables secured by mortgage on real estate under standard method	4 177	0	0	0	0	4 177
Receivables 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

The assets of the Group are predominantly unencumbered with the exception of deposits pledged in the total amount of 678 thousand euros for securing various transactions. 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:

31.12.2018	Carrying value of encum-bered assets	Fair value of encumbered assets	Carrying value of unencum-bered assets	Fair value of unencumbered assets	Total carrying value
Due from central banks and credit institutions	500	500	65 809	65 809	66 309
Government bonds	0	0	1 929	1 929	1 929
Bonds of non-financial companies	0	0	7 201	7 201	7 201
Loans and advances to customers	0	0	328 723	326 199	328 723
Other assets	178	178	41 938	41 938	42 116
Assets	678	678	445 600	443 076	446 278

31.12.2017	Carrying value of encum-bered assets	Fair value of encumbered assets	Carrying value of unencum-bered assets	Fair value of unencumbered assets	Total carrying value
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

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
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
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.

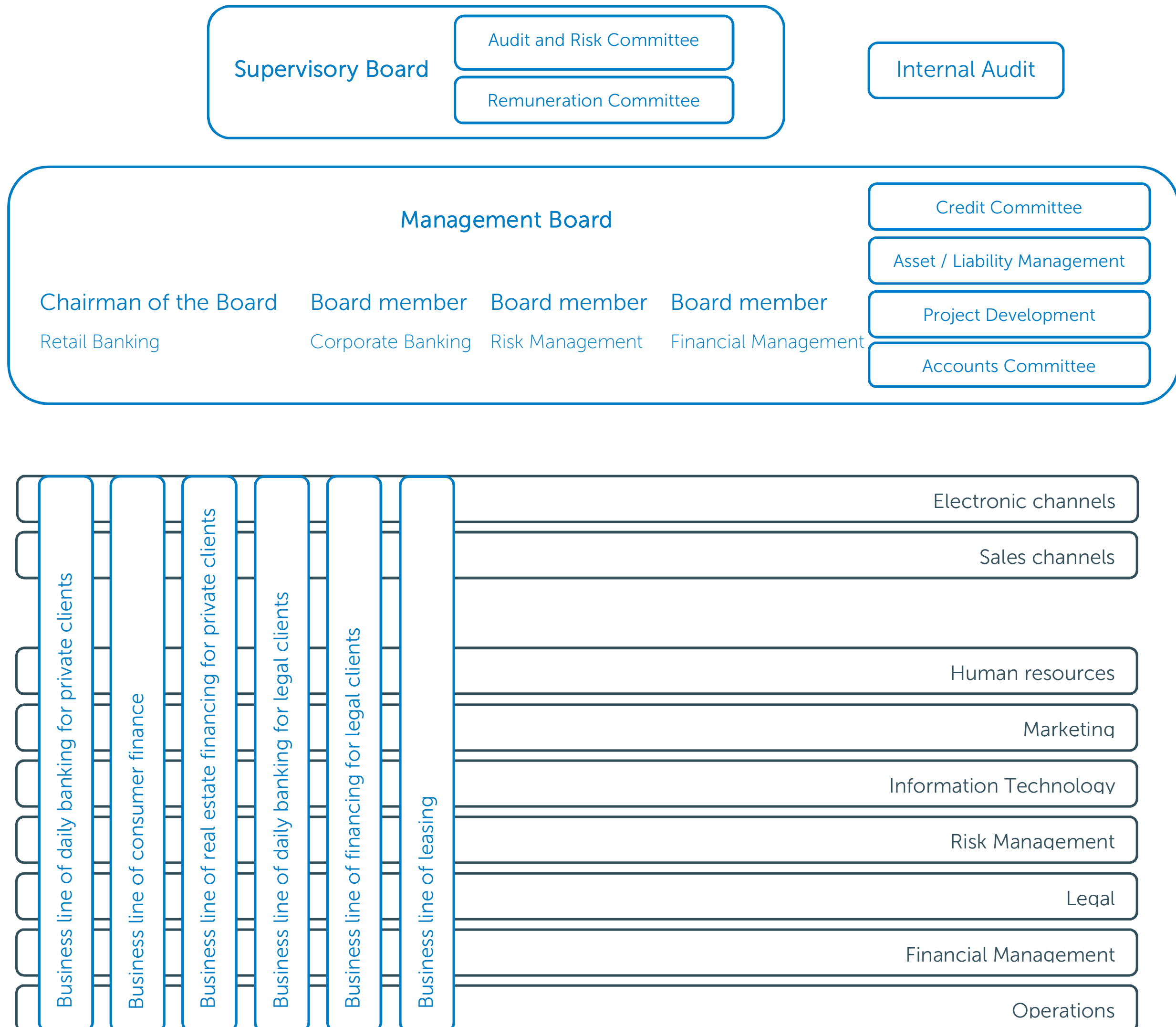
The strategy, purposes and principles of the risk management of the Group is approved by the Supervisory Board of the bank. The Management Board of the bank and the members of Supervisory Boards of the entities belonging to the Group individually approve the plan of action for every company or business 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.

For the bank, employee satisfaction and development are important. To ensure this, various development training and joint events will be organized, such as Gala of the beginning of the year and joint summer days with Coop Eesti. Throughout the year, annual talks and semi-annual interviews are conducted with all staff to ensure that employees move in the right direction with motivation and productiveness. In 2018, the satisfaction of the employees of the organizational health survey was investigated in the company with an average rating of 5.5 points out of 7.

Group structure



In 2018, the management decided to liquidate the separate business line of international clients in connection with a decrease in the business volumes of non-residents. The former business line of financial markets will focus on the treasury function (liquidity risk and market risk management) in the composition of Financial Management.

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 2018, 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. During the period from September 2017 to January 2019, total of 2 034 780 options were granted to the members of the Management Board with a maturity date of three years starting from the moment of the issue.

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.

	2018	2017
Wages and salaries and other compensation	4 935	4 790
Performance pay	1 101	435
Fringe benefits	101	62
Social tax, unemployment insurance premiums	2 040	1 675
Total	8 177	6 962
Number of employees at the end of reporting period (in full time equivalent units)	220	192
Average number of employees in reporting period (in full time equivalent units)	211	164
Severance payments specified in contracts	293	250

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

Dividend policy

At the shareholders' meeting in April 2018, it was decided that dividends will not be paid for the year of 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.

As at 31.12.2018 the persons that own over 10% of the company's share capital are:

- Coop Investeeringud OÜ 38.77%
- Andres Sonn 19.87%

Additionally the consumer cooperatives of Coop Estonia (Coop Eesti Tarbijate Keskühistu) control over 21.60% of the Group's share capital, however no one individually controls over 10% of the share capital.

The members of the Supervisory Board of the bank do not hold any shares of Coop Pank; the members of the Management Board of the bank hold 7 thousand shares of Coop Pank which represents 0.01% of the share capital of the bank.

Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

	Note	2018	2017
Interest income calculated using the effective interest method		17 561	12 367
Other similar income		2 294	1 076
Interest expense calculated using the effective interest method		-3 076	-1 924
Net interest income	5	16 779	11 519
Fee and commission income		3 669	3 190
Fee and commission expense		-1 367	-1 020
Net fee and commission income	6	2 302	2 170
Revenue from sale of assets		648	1 141
Cost of assets sold		-662	-1 389
Rental income from investment properties		77	523
Direct property operating expenses		-127	-302
Change in fair value of investment property	14	-187	262
Net gains/losses from non-financial asset realization		-6	3 185
Net gains/losses from financial assets measured at fair value		-12	-341
Revenue from claims handling		599	250
Other income		357	271
Net other income		687	3 600
Payroll expenses	7	-8 177	-6 962
Operating expenses	8	-4 628	-4 110
Depreciation	15	-796	-446
Total operating expenses		-13 601	-11 518
Net profit before impairment losses on loans and advances		6 167	5 771
Impairment losses on loans and advances	12	-1 392	-1 313
Net profit before income tax		4 775	4 458
Income tax expenses		-22	0
Net profit for the financial year		4 753	4 458
Other comprehensive income / loss			
Items that may be reclassified subsequently to statement of income:			
Financial assets at fair value through other comprehensive income		-239	-
Comprehensive income for the financial year		4 514	4 458
Net profit attributable to:			
The owners of the parent company		4 753	4 345
Non-controlling interest		0	113
Net profit for the financial year		4 753	4 458
Comprehensive income attributable to:			
The owners of the parent company		4 514	4 345
Non-controlling interest		0	113
Comprehensive income for the financial year		4 514	4 458

Notes to the financial statements on pages 24 to 84 are an integral part of the consolidated financial statements.

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Kuupäev/date 27.03.2019
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Consolidated Statement of Financial Position

	Note	31.12.2018	31.12.2017
Assets			
Cash and cash equivalents	9	88 030	98 873
Financial assets at fair value through profit or loss	10	0	11 060
Held-to-maturity financial assets	10	0	503
Debt securities at fair value through other comprehensive income	10	9 130	0
Available-for-sale financial assets	10	0	13
Loans and advances to customers	11,12	328 723	238 282
Equity instruments at fair value through profit or loss	10	13	0
Other financial assets	13	333	477
Assets held for sale	13	6 697	7 323
Goodwill	3	6 757	6 757
Property, plant and equipment	15	4 754	3 600
Investment property	13,14	904	2 398
Other assets	13	937	2 092
Total assets		446 278	371 378
Liabilities			
Customer deposits and loans received	16	385 118	315 970
Other financial liabilities	17	4 126	3 216
Other liabilities	17	2 845	1 990
Subordinated debt	18	5 026	5 026
Total liabilities		397 115	326 202
Shareholders' equity	19		
Share capital		38 199	38 199
Share premium		175	175
Reserves		2 391	2 070
Retained earnings		8 552	4 732
Revaluation reserve		-154	0
Shareholders' equity attributable to owners of the parent company		49 163	45 176
Total shareholder's equity		49 163	45 176
Total liabilities and shareholders' equity		446 278	371 378

Notes to the financial statements on pages 24 to 84 are an integral part of the consolidated financial statements.

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Consolidated Statement of Cash Flows

	Note	2018	2017
Cash flows from operating activities			
Interest received		19 790	12 361
Interest paid		-2 239	-1 761
Fee and commissions received		3 669	3 190
Fees and commissions paid		-1 367	-1 020
Other received income		886	221
Salaries paid		-8 042	-6 481
Other operating expenses paid		-4 665	-4 170
Total cash flows from operating activities before changes in operating assets and liabilities		8 032	2 340
Change in operating assets:			
Loans and advances to customers		-92 315	-85 900
Change of mandatory reserve in central bank	9	-135	-688
Other assets		1 731	-1 601
Change in operating liabilities:			
Change in client deposits and loans received		54 311	56 982
Change in due to credit institutions		5 000	4 815
Other liabilities		1 543	3 475
Net cash flows from operating activities		-21 833	-20 577
Cash flows from investing activities			
Acquisition of property, plant and equipment		-2 476	-2 249
Sale of property, plant and equipment and investment properties		2 232	13 484
Acquisition of debt investments		-2 632	-6 286
Sale and redemption of debt investments		4 738	6 807
Acquisition of subsidiaries, net of cash acquired	3	0	-10 672
Total cash flows from investing activities		1 862	1 084
Cash flows from financing activities			
Contribution to share capital	19	0	13 198
Acquisition of a non-controlling interest in subsidiary	3	0	-2 058
Repayments of a subordinated loan		0	-4 000
Issue of subordinated bonds	18	0	5 000
Issue of bonds	16	5 000	0
Loans received	16	4 000	0
Total cash flows from financing activities		9 000	12 140
Change in cash and cash equivalents		-10 971	-7 353
Cash and cash equivalents at beginning of the period		95 768	103 121
Cash and cash equivalents at the end of the period		84 797	95 768
Cash and cash equivalents balance is comprised of:		84 797	95 768
Cash on hand		21 721	22 771
Demand deposits in central banks	9	49 321	42 208
Demand and short-term deposits in credit institutions	9	13 755	30 789

Notes to the financial statements on pages 24 to 84 are an integral part of the consolidated financial statements.

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Kuupäev/date 27.03.2019
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Consolidated Statement of Changes in Equity

	Share capital	Share premium	Statutory reserve capital	Other reserves	Revaluation rserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 31.12.2016	25 001	174	1 970	0	0	2 146	29 291	286	29 577
Increase of share capital	13 198	0	0	0	0	0	13 199	0	13 198
Acquisition of the non-controlling interest in subsidiary	0	0	0	0	0	-1 659	-1 659	-399	-2 058
Changes in reserves	0	0	100	0	0	-100	0	0	0
Net profit	0	0	0	0	0	4 345	4 345	113	4 458
Total comprehensive income for the financial year	0	0	0	0	0	4 345	4 345	113	4 458
Balance as at 31.12.2017	38 199	175	2 070	0	0	4 732	45 176	0	45 176
Change in initial application of IFRS9:									
Loan portfolio, loan commitments	0	0	0	0	0	-630	-630	0	-630
Debt securities	0	0	0	0	105	-85	20	0	20
Balance as at 01.01.2018	38 199	175	2 070	0	105	4 017	44 566	0	44 566
Change in reserves	0	0	218	0	0	-218	0	0	0
Share options*	0	0	0	103	0	0	103	0	103
Net profit	0	0	0	0	0	4 753	4 753	0	4 753
Other comprehensive income	0	0	0	0	-259	0	-259	0	-259
Total comprehensive income for the financial year	0	0	0	0	-259	4 753	4 494	0	4 494
Balance as at 31.12.2018	38 199	175	2 288	103	-154	8 552	49 163	0	49 163

*See Note 19

Notes to the financial statements on pages 24 to 84 are an integral part of the consolidated financial statements.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
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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 2018 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. 2018 consolidated financial statements have been presented in thousands of euros, unless stated otherwise.

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 assessments of collateral (Note 2; Note 11, 12);
- estimation of the fair value of investment property (Note 2);
- fair value of financial assets and liabilities (Note 2);
- goodwill (Note 3).

The most significant management estimates are related to the introduction of the new IFRS 9 standard. Management has assessed the business model for classifying different financial assets. The commercial purpose of loans to customers is the collection of contractual cash flows, while loans under this model may also be sold for credit risk mitigation purposes. Financial investments in debt instruments are made for the purpose of investing liquid assets, which is why the commercial purpose of investing in debt instruments is to collect and sell contractual cash flows as needed. In addition, it has been assessed whether the contractual cash flows only

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Kuupäev/date 27.03.2019
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include the principal and interest payments, including interest cash flows for the time value of money, credit risk, liquidity risk and, inter alia, cover administrative costs and profit margin. All financial assets recognized meet this criterion.

Management also estimates the expected inputs of the expected credit loss model for financial assets. Models, estimates, and inputs are reviewed regularly by the Group Risk Management function.

Estimates and judgments of the management 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 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 all of its subsidiaries Coop Liising AS, Coop Finants AS, CP Vara AS (previously AS Krediidipank Finants), AS Martinoza and SIA Prana Property as at 31 December 2018. 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

<u>Subsidiaries</u>
Subsidiaries are all economic entities in which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power 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. 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 in Note 25 to these consolidated financial statements, the investments into the shares of subsidiaries are accounted for at cost less any impairment recognized.

<u>Non-controlling interest</u>
Non-controlling interest is that part of the net results and of the net assets of a subsidiary, which is attributable to interests, which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity. Non-controlling interest in the consolidated statement of financial position is disclosed separately from the equity attributable to the shareholders of the parent company. In consolidated statement of profit or loss and other comprehensive income, non-controlling interest share of profit is disclosed separately from owners of the parent.

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Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
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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 expense of that period. Non-monetary financial 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 and term deposits with original maturities of three months or less, 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

Accounting policies from 1 January 2018

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.
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 favourable or an equity instrument of another party. Management determines the classification of its investments at initial recognition. In accordance with IFRS 9, the Group recognizes financial assets held for the purpose of collecting contractual cash flows at amortized cost and those financial assets for which the Group may also dispose of assets at amortized cost.

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Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
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The effect of the difference in the measurement of financial assets according to the regulations in force until 31.12.2017 and in force as at 01.01.2018 is described in the table:

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

Explanations of abbreviations:

AC – financial assets measured at amortized cost

FVPL – financial assets measured at fair value through profit or loss

FVOCI – financial assets measured at fair value through other comprehensive income

MER – held-to-maturity financial assets

AFS – available-for–sale financial assets

L&R – loans and receivables

Accounting policies until 31.12.2017

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">Category as determined by the Group</th></tr>
<tr><td rowspan="8">Financial assets</td><td rowspan="4">Loans and receivables</td><td colspan="2">Loand and advances to credit institutions</td></tr>
<tr><td rowspan="2">Loans and advances to clients</td><td>Loans and advances to private individuals</td></tr>
<tr><td>Loans and advances to 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">Helt-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>Contigent 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.

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Kuupäev/date 27.03.2019
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1.6.1. Loans and advances to customers

Accounting policies from 01.01.2018

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 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 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

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Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

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

In accordance with IFRS 9 credit losses are recognized using „three stage" approach which is based on the change in credit quality of financial assets since initial recognition. First level (Stage 1) financial assets that are not credit impaired, must be recorded as an immediate loss equal to the 12-month expected credit loss on initial recognition. Second level financial assets (Stage 2) are classified as receivables when there is a significant increase in credit risk compared to the initial recognition of the loan customer or the loan collateral. Third level financial assets (Stage 3) are classified as non-performing assets. The reclassification of receivables between stages is mainly based on the number of days of past due. For financial assets in stage 2 and 3, impairment should be measured using the expected credit loss over the life of the receivable.

The Group uses internally developed models to estimate expected credit losses. The model takes into account external macroeconomic indicators (including unemployment rate, economic growth) when calculating expected credit losses.

As of 1 January 2018, the Group assesses the probability of default on loans over the contractual period and immediately recognizes a loss equal to 12 months of expected credit loss when issuing the loan.

For loans with significant deterioration in credit quality as of 01.01.2018, the amount of individual impairment was previously calculated on the basis of estimated loss. The implementation of IFRS 9 led to the calculation of expected loss for the entire contractual period, including a calculation based on forward-looking, probabilistic information and forecasts.

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

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Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
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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 recognized (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.

More detailed overview of the credit risk management principles is given in Note 2 "Risk management". Interest income is recognized in the income statement “Interest income calculated using effective interest rate method”.

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Kuupäev/date 27.03.2019
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Accounting policies until 31.12.2017

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 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 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

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Kuupäev/date 27.03.2019
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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

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Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

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 recognized (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.

More detailed overview of the credit risk management principles is given in Note 2 "Risk management". Interest income is recognized in the income statement “Interest income calculated using effective interest rate method”.

1.6.2. Debt securities recognized at fair value through other comprehensive income

Accounting policies from 01.01.2018

Financial assets at fair value through other comprehensive income include, after the date of application of IFRS 9, reclassification as defined at fair value through other comprehensive income securities. During the reporting period, previously mentioned financials assets were classified as equity and debt securities.

Until 31.12.2017, debt securities were recognized in the Group balance sheet at fair value through changes in the income statement or in debt securities held to maturity at amortized cost. As of 01.01.2018, as a result of the IFRS 9 classification and measurement requirements, the Group has reclassified debt instruments previously recognized at fair value through profit or loss under IAS 39 and debt securities at amortized cost as "fair value through other comprehensive income".

The reclassification of financial assets at fair value through other comprehensive income is based on a business model that requires that the investment objective is to collect contractual cash flows, but debt investments can also be sold if necessary. The classification is based on a combination of assessing the business model for managing the financial assets and whether the contractual cash flows consist of solely payments of principal and interest. the principal is defined as the fair value of the debt instrument at initial recognition, which can change over the life if there are repayments or capitalisation of interest. Interest cash flows are consistent with

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Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

components per a basic lending arrangement including consideration for time value of money, credit risk, liquidity risk as well as administrative costs and profit margin.

Debt securities recognized at fair value through other comprehensive income are measured at fair value, based on the purchase price of the security. If prices are not quoted or quotations are not regular enough, financial instruments are revalued to fair value based on all available information about the issuer to compare the price of the financial instrument to determine fair value at the cost of similar instruments available on the market.
In case of listed securities (i.e. the securities which have an active market), the current bid price is considered as the fair value of investments. To estimate the fair value of investments not actively traded in the market, alternatiive methods such as the price of recent transactions (under market conditions), the discounted cash flow method or option valuation models are used.

Interest income on financial investments is recognized under "Interest income" in the income statement. Unrealized net income from the revaluation of these securities is recognized in the balance sheet as equity, through other comprehensive income. Realized net income is recognized in the income statement under „Net profit or (-) net loss at fair value through other comprehensive income from derecognition of financial assets measured at fair value".

As at the reporting date of the reporting period and the reference period, the Group did not have any trading securities or derivatives.

1.6.3. Equity instruments recognized at fair value through other comprehensive income

Accounting policies from 01.01.2018

Until 31.12.2017, equity investments as available for sale financial assets were recognized in the Group's balance sheet. As of 01.01.2018, as a result of the IFRS 9 classification and measurement requirements, the Group has reclassified equity investments into the category of 'fair value through other comprehensive income', keeping the share investments indefinitely and, if possible, selling on the basis of the business model.

Equity instruments (shares, units) recognized at fair value through other comprehensive income are recognized on the trade date at fair value plus transaction costs. Henceforward, they will be recognized at fair value in the Group's financial statements. In case the fair value cannot be measured reliably, these securities are carried at cost. Unrealized gains and losses arising from changes in fair value are recognized in other comprehensive income in equity as a revaluation of financial assets.

Gains / losses on the sale of equity investments are recognized as a decrease in other comprehensive income to the extent that the previously recognized increase in value from the same instrument and the realized portion of net income in the income statement line "Net profit or (-) net loss at fair value through other comprehensive income from derecognition of financial assets measured at fair value through profit or loss".

Dividends on ready for sale equity instruments are recognized in the income statement when the Group has the right to receive dividends.

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Kuupäev/date 27.03.2019
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1.6.4. Financial assets at amortized cost

Accounting policies from 01.01.2018

Due to the IFRS 9 classification and measurement requirements applied on 01.01.2018, when debt securities are low-liquid or have no secondary market or the bank uses investment in debt securities instead of granting loans, the debt securities are recognized at amortized cost. The business model for these investments is the collection of contractual cash flows. Debt instruments are classified in this category if two assumptions are met: the business model objective is to both hold assets to collect contractual cash flows and the contractual cash flows consist of solely payments of principal and interest.

These investments are initially recognized at fair value with all costs directly attributable to the acquisition and are subsequently carried at amortized cost using the effective interest rate method. Interest income on investments held at amortized cost is recognized in the statement of comprehensive income as interest income. In the internal interest rate method, the write-downs are deducted from the carrying amount of the investment and the impairment charge is recognized in the statement of comprehensive income under „Other operating expenses".

During the reporting period, the Group does not have any debt securities at amortized cost.

1.6.5. Financial assets at fair value through profit or loss

Accounting policies until 31.12.2017

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

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Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

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.

1.6.6. Available-for-sale financial assets

Accounting policies until 31.12.2017

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-forsale 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

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Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

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.

1.6.7 Held-to-maturity financial assets

Accounting policies until 31.12.2017

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 at balance sheet date comprise of acquired software.

Property, plant and equipment and intangible assets are initially recognized 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.

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Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
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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 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 analysed) or a combination of the two aforementioned approaches is used.

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Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

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

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Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

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".

As of 01.01.2019 IFRS 16 „Leases“, applied that all leases are classified as finance leases and recognized in the balance sheet in accordance with IFRS 16.
The Group has not applied this standard in previous reporting periods. The Group applied the standard from 01.01.2019. Amendments related to the implementation of IFRS 16 are described in this note, section 1.18.

1.12 Financial liabilities

The classification made can be seen in the table below:
Category by IFRS9 Category as determined by the Group

<table>
<tr><td rowspan="5">Financial liabilities</td><td rowspan="5">Financial liabilities measured at amortized cost</td><td rowspan="3">Deposits from customers and loans received</td><td>Private individuals</td></tr>
<tr><td>Legal entities</td></tr>
<tr><td>Credit institutions</td></tr>
<tr><td colspan="2">Subordinated debt</td></tr>
<tr><td colspan="2">Other financial liabilities</td></tr>
<tr><td rowspan="2">Contingent liabilities</td><td colspan="3">Contingent loan commitments</td></tr>
<tr><td colspan="3">Financial guarantees</td></tr>
</table>

Deposits from customers

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 item "Customer deposits and loans received”, accrued interest is included in corresponding liabilities line items. Interest expense is recorded in the income statement on line "Interest expense calculated using the effective interest method".

Loans received

Loans received 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.

Payables to employees

Payables to employees include unpaid salary accruals, accruals for bonuses together 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.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

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

Accounting policies from 01.012018

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.

Fee and commission income

The recognition of revenue from contracts with customers is reported as fee and commission income. This does not apply for revenue from leasing contracts or financial instruments and other contractual obligations within the scope of IFRS 9 Financial Instruments. Credit issuance fees for loans / leases are deferred and recognized as an adjustment to the effective interest rate on the credit.

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Kuupäev/date 27.03.2019
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Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Such income includes recurring fees for account account servicing. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements,

Dividend income

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

Accounting policies until 31.12.2017

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.

Fee and commission income

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.

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Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
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Dividend income

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

1.15 Taxation

In connection to the amendments to the Income Tax Act, starting from 2018 credit institutions are obliged to pay advance income tax of 14% on previous quarter net income before income tax. Advance income tax paid can be taken into account on the distribution of profits and the calculation of the related income tax liability. In calculating income tax, the profit is reduced by the dividends received and the profit attributed to the permanent establishment to which the exemption method is applied in order to avoid double taxation. Secondly, the profits will be reduced by losses earned in the previous quarters. Income tax is recognized in the consolidated income statement as income tax expense in the period in which the basis for calculating the income tax is calculated, regardless of when the income tax is paid.

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.

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 01.01.2018:

IFRS 9, "Financial Instruments": Classification and Measurement (effective for annual periods beginning on 1 January 2018).

Key features of the new standard are:

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Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
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- 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.

Following the initial application of IFRS 9, the Group used an exemption in 2018 for not adjusting its comparative information for 2017.
The first application of the standard in 01.01.2018 had a negative impact on equity due to the revaluation of the opening balances. More detailed impacts on the implementation of IFRS 9 are presented in these consolidated financial statements and in the notes to the financial statements. With a goal to avoid negative impact on capital adequacy in relation to the implementation of IFRS 9, the Group used the transitional period allowed by Article 473a of Regulation 575/2013 (CRR) in order to mitigate the effect of the write-down on loans due to the transition to IFRS 9, the amount of discounts may be partially deducted from own funds over a period of 5 years.

Amendments to IAS 40 - "Transfers of Investment Property" (effective for annual periods beginning on or after 1 January 2018):

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Kuupäev/date 27.03.2019
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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 amendment has not made an impact on financial statements.

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 has no significant impact on financial statements arising from the transition to IFRS 15.

IFRS 15, "Revenue from Contracts with Customers" changes (effective for annual periods beginning on or after 1 January 2018):

The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

The Group estimates that IFRS 15 amendments will not have a material impact on financial statements.

The rest of the revised standards or interpretations that became effective for the first time since 01.01.2018 have no significant impact on the Group.

New or revised standards and interpretations have been issued that will become mandatory for the Group from 01.01.2019 or later, and which the Group has not implemented early:

IFRS 16, "Leases" (effective starting from 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.

Following the initial application of IFRS 16, the Group intends to use the exemption in 2019 to not adjust the comparative information for 2018. The effect of the standard is reflected in the income statement by the fact

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Kuupäev/date 27.03.2019
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that the costs incurred in the first year of the lease are higher, while the costs in the last year of the lease are lower. The impact on expenses recognized in the statement of income in 2019 is 12 thousand euros. As of 01.01.2019, EUR 1.8 million will be recognized on the Group's statement of financial position as assets and liabilities, thus increasing the total of the statement of financial position of the Group.

When implementing IFRS 16, the Group uses a simplified method, i.e. low-value items with a market value of less than EUR 5 thousand and short-term contracts of up to 12 months were excluded. When recognized as a finance lease, the Group follows the following accounting policies:

1. Leased assets and leases relating to a lease contract with a lessor are recognized in the balance sheet on separate items.
2. The leased asset includes the bank's office space used by the bank under a lease agreement with the lessor for the provision of banking services or for administrative purposes over a certain period of time, and intends to use the lease for a period longer than one year (i.e. not a short-term lease) with a market value that exceeds EUR 5 thousand.
3. The leased asset is initially recognized at its cost, which consists of the present value of the lease payments made to the lessor during the lease term and the direct costs of concluding the lease.
4. Leased assets are recognized in the balance sheet at their acquisition cost less accumulated depreciation and any impairment losses. Leased assets are depreciated on a straight-line basis, and the depreciation period is usually the estimated rental period.
5. Lease liabilities are initially recognized at acquisition cost, which consists of the present value of the lease payments made to the lessor during the lease term and the direct costs of concluding the lease.
6. Lease liabilities are recognized in the balance sheet at amortized cost using an alternative borrowing rate when discounting lease payments.
7. If the estimate of the lease payment changes (e.g. in relation to the use of the option to extend or terminate the lease), the lease liability is remeasured in the balance sheet, i.e. new lease payments are discounted at a new discount rate and, with the lease obligation, the carrying amount of the leased asset is also restated. The difference resulting from this change is recognized in the income statement.

Amendments to IFRS 9 – "Prepayment Features with Negative Compensation (effective starting from 1 January 2019)

The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification.
The Group is currently assessing the impact of the new amendments on financial statements.

Annual Improvements to IFRSs 2015-2017 cycle (effective starting from 1 January 2019).

The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control

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Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
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of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete.
The Group is currently assessing the impact of the new amendments on financial statements.

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).
The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.
The Group is currently assessing the impact of the new amendments on financial statements.

Definition of a business – Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).
The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).
The Group is currently assessing the impact of the new amendments on financial statements.

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).
The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
The Group is currently assessing the impact of the new amendments on financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

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Kuupäev/date 27.03.2019
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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, analyse, 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.

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

Account Establishment Committee manage and control through its decisions with clients with a higher risk of money laundering, the establishment of customer relationships and monitoring and, if necessary, termination of customer relationships.

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Kuupäev/date 27.03.2019
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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 main functions of the second line of defence 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;
- conducting training in the field of risk management;
- control and monitoring of compliance with internal rules and legislation;
- conducting scheduled and emergency internal controls within the organization.

Third line of defence

Internal Audit Unit

The Internal Audit Unit audits the compliance of the Group's activities with legislation and instructions, the operation and efficiency of the business processes and internal control system, the compliance of the Bank's structural units with the decisions taken by the Bank's competent body, as well as compliance with the established rules, limits and other internal regulations. The activity of the Internal Audit Unit is aimed at protecting the interests of the Bank's shareholders, depositors and other creditors.

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Kuupäev/date 27.03.2019
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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	31.12.2018	31.12.2017
Tier 1 capital		
Paid-in share capital and share premium	38 374	38 374
Statutory reserve capital	2 288	2 070
Accumulated profit/loss	3 799	387
The accepted profit of the reporting period	3 989	1 932
Other accumulated comprehensive income	-154	0
Goodwill as intangible asset (-)	-6 757	-6 757
Intangible assets (-)	-2 290	-1 166
Adjustment of value arising from requirements of reliable measurement (-)	-10	-14
Other deductions from Tier 1 Capital (-)	-313	-1 388
Other adjustments of own funds resulting from transitional provisions	598	0
Total Tier 1 capital	39 524	33 438
Subordinated debt	5 000	5 000
Tier 2 capital	5 000	5 000
Eligible capital for capital adequacy calculation	44 524	38 438
Capital adequacy (%)	18.06%	19.90%
Tier 1 capital ratio (%)	16.03%	17.32%

From 2016 forward, the calculation of own funds shall be based on the guidelines of the European Commission Delegated Regulation no 183/2014 according to which, any amounts recognized during the financial year may be included in the calculation of general and specific credit risk adjustments only if the corresponding amounts are deducted from the credit institution's Tier 1 capital.

The Group's total amount of own funds for calculating capital adequacy has increased during the year 2018 due to the increase in 6,1 million of retained earnings and audited profit for the period (Tier 1 own funds), the amount of Tier 2 capital has remained unchanged (see Note 18). As at 31.12.2018 and 31.12.2017, the Group complies 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

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Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
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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 fulfil 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 debt securities.

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Kuupäev/date 27.03.2019
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Measurement of expected credit loss (ECL)

The impairment requirements are based on an expected credit loss (ECL) model. Credit receivables include financial assets in the Group's balance sheet: cash on correspondent accounts, debt securities and loans and leases to customers. The expected credit loss on financial assets is recognized as an allowance. The allowance reduces the gross carrying amount of the receivable.

The ECL model consists of three stages. The receivable stage is the classification of a receivable in accordance with IFRS9 according to one of three situations, based on the number of days of past due and other changes in the quality of the receivable, either as a performing receivable, an under-performing receivable or a non-performing receivable.

- Stage 1 (working receivable)
  The principal and interest of the loan are paid according to the payment schedule. There are no overdue payments or interest or are up to 30 days past due, the risk category of the receivable is A or B, or the risk category is C and the risk category has not changed more than one level compared to the original risk category of the receivable. Risk category C is assigned to stage 1 loans when the client's payment discipline is good, but the financial position is showing initial signs of weakening.
- Stage 2 (under-performing receivable)
  The principal and/or interest payments are past due by 31 to 90 days and the risk category of the receivable is C or D, or the principal and/or interest payments are past due from 0 to 30 days, but the risk category of the receivable has become more than one level lower than the original risk category of the receivable.
- Stage 3 (non-performing receivable)
  All receivables in risk category F.

For a significant increase in credit risk where the assessment of the receivable moves from stage 1 to stage 2, the following shall be considered:

- If the customer's payments have been past due over 30-days at least once in three months.
- If one of the customer's receivables is restructured due to payment difficulties or contains grace period or interest rate rescheduling
- All receivables from the same borrower are valued in the same category as the lowest risk category.

The allowance rate for Stage 1 receivables is based on the 12-month expected credit loss. The allowance rate for Stage 2 and Stage 3 requirements is determined on the basis of expected credit losses over the life of the contract. An allowance is found for Stage 3 requirements, assuming default of the receivable. The future cash flows of the receivable are derived from the realization of the collateral, the sale of the receivable or future payments arising from the solvency. Expected credit loss is found by multiplying the PD, LGD and EAD by the discounted present day. For the purpose of calculating the expected credit loss over the life of the contract, the expected 12-month PD of the receivable will be adjusted according to the macroeconomic forecast.

For all products, the choice of macroeconomic scenarios used to correct PD's is based on expert judgement and qualitative analysis. Of the macro indicators, the bank uses the rate of unemployment and the change in GDP. The regression analysis was made between Estonia's overdue loans and macro indicators. The weighted

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Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

impact on the probability of default is calculated using a weighting of 80% for the baseline scenario and 10% for a positive and negative baseline scenario for all products. Expert opinions have been used to determine the weights. Based on the prudence principle, macro-scenarios assume that the expected EAD, LGD and PD are unchanged until the economic growth is positive.

Credit receivables are assessed on a collective or individual basis, based on the classification and grouping results. The purpose of grouping receivables is to collect receivables with similar credit risk to assess them on a collective basis, considering the type of loan, loan guarantee, credit rating. The prerequisite for grouping is the availability of sufficient and statistically reliable information. The calculation of the characteristics and allowance rates of groups of receivables is based on the analysis of the statistical behaviour of the loan portfolio, changes in the actual loss events and the general economic situation, economic forecasts and the impact of the respective macro indicators on the solvency of the customers.

Frequency of receivable assessments:

- collective assessment is performed on a monthly basis;
- individual assessment is performed quarterly in the Bank's Credit Committee. Customers' receivables are individually assessed where the total risk of the client (total amount of receivables, if the risk is subject to consolidation in the sense of regulatory concentration risk) exceeds the risk limit set by the credit committee of 500 thousand euros and the risk categories D, E and F from the amount of 50 thousand euros. Individual customer receivables will be assessed individually from the amount of 50 thousand euros if the receivable is in risk category E or F. The discount rate is the contractual interest rate.

Classification and grouping of the Bank's credit receivables takes place once a month. The credit risk categories for credit receivables depend on the borrower's payment discipline and financial position:

A – there are no circumstances that could cause the loan to fail according to the terms and conditions of the loan agreement, i.e., the loan is outstanding, there are no overdue principal and interest payments or are up to 14 days past due;

B – contains potential weaknesses, the non-elimination of which may affect the borrower's creditworthiness in the future, i.e. the loan, principal or interest payments are past due by 15-30 days.

C – contains clearly identifiable shortcomings that suggest that the loan won't be fully repaid or that the loan has been restructured due to a solvency problem, i.e. a loan with a past due of 31-60 days.

D – insufficient creditworthiness of the borrower, on the basis on which it can be assumed that the repayment of the loan under the contract is unlikely if the situation does not change significantly, i.e. a suspicious loan, a past due of 61-90 days;

E – the borrower is not able to permanently execute the loan under default terms, i.e. defaulted loan, past due 91-180 days;

F – loan servicing has ended and there is no prospect of recovery, and/or the contract is extraordinarily abandoned or hopeless loan, 181 days overdue or 91 days or more, and the amount of repayments during 3 months has been 0 euros.

A debt of more than three (3) euros per contract is considered to be a debt in the principal or interest payments of the loan. The risk category of a non-performing receivable cannot be higher than E. If the reason for the non-performing receivable is other than the number of days past due, the receivable is assigned the risk category F.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Definition of default

The Group defines financial assets as default based on qualitative or quantitative criteria.

Quantitative criteria:

- at least one of the receivables issued to the client is over 90 days past due (principal or interest);
- the amount of the debt exceeds 3 euros.

Qualitative criteria:

- significant deterioration in the company's financial position to the extent that the customer is unable to service and repay the loan;
- infringement of financial or other covenants to an extent that materially affects the customer's solvency and ability to repay the loans;
- unintentional use of the funding received compared to what was agreed in the loan agreement to an extent that substantially affects the customer's solvency and ability to repay the loans.
- the client has filed (or filed against) a bankruptcy petition or a similar application for legal protection (e.g. reorganization);
- the client's cash flow/income is insufficient to fully meet his/her obligations and the client's collateral has been settled in enforcement or bankruptcy proceedings;
- the receivable has been reduced more than 1% of the receivable amount in the course of restructuring due to payment difficulties and the characteristics of the restructuring due to payment difficulties remain;
- a private customer has died and the receivable has not been re-written to a new borrower (such as a heir);
- the customer has committed fraud;
- financial assets have been purchased at a significant discount that reflects the credit losses incurred.

If the loan has been properly serviced for at least 6 months and none of the above criteria is present, the loan may go back to stage 1 or stage 2.

Sensitivity analysis

When conducting sensitivity analysis, the Group uses macro indicators - the change of unemployment rate for retail receivables and the change in GDP for corporate loans.

The weighted impact on default probability is calculated using weighting of 80% for base scenario and 10% for a positive and negative base scenarios for all the loans categories. The table below shows the impact of changes in the base scenario weights on the Group's loans portfolio as at 31.12.2018.

Change in the weights of the scenario (base-positive-negative)	Impact on loan portfolio
80%-5%-15%	-38
80%-15%-5%	38

The following table shows the ECL change if the following changes in unemployment rate and GDP will occur:

	Impact on loan portfolio
Legal entities' loans: GDP change -2%	-16
Private individual's loans: unemployment rate +2%	-61

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Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Maximum exposure to credit risk

The Group's maximum exposure to credit risk from financial instruments subjected to impairment:

	Stage 1	Stage 2	Stage 3	2018 total
Cash and cash equivalents	88 030	-	-	88 030
Debt securities at fair value through other comprehensive income	9 130	-	-	9 130
Loans and advances to customers*				
Risk categories A and B	270 889	2 747	0	273 636
Risk categories C and D	45 973	11 252	54	57 279
Risk categories E and F	110	350	1 186	1 646
Total	316 972	14 349	1 240	332 561
Loss allowance	-2 097	-1 020	-721	-3 838
Total net loans	314 875	13 329	519	328 723
Exposures related to off-balance sheet items				
Financial guarantees	2 186	-	-	2 186
Unused credit limits	18 075	-	-	18 075
Overdraft	16 842	-	-	16 842
Total off-balance sheet exposures	37 103	-	-	37 103

*Risk categories are grouped by credit quality: A and B – good credit quality; C and D – increased credit risk; E and F – default. The breakdown by loan categories is shown in the tables on the following pages.

The Group's maximum exposure to credit risk from financial instruments until 31.12.2017:

31.12.2017	Not past due			Past due	Impairments		Total
	Impaired	Not impaired	Individual impairment	Not impaired	Individual	Collective	
Cash and cash equivalents	0	98873	0	0	0	0	98 873
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	18 529	0	0	0	0	18 529
Overdraft facilities	0	11 690	0	0	0	0	11 690
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

Receivables from credit institutions and financial investments in securities brakedown by credit quality:

31.12.2018	AA- and higher	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Not rated	Total
Cash and cash equivalents	3 726	9 297	1 223	0	0	73 784	88 030
Debt securities at fair value through other comprehensive income	1 219	0	3 765	1 751	968	1 427	9 130

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Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

31.12.2017	AA- and higher	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Not rated	Total
Cash and cash equivalents	5 048	21 633	4 604	2	0	67 586	98 873
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

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 management has estimated that credit institutions´ receivables carry low credit risk and that their expected credit losses are insignificant, given their strong credit rating, financial condition and short-term economic outlook. Debt instruments are predominantly liquid, which is why their expected credit losses are also considered insignificant.

Not rated cash and cash equivalents include high quality receivables from European Central Bank and cash.

Risk categories and stages of loans and advances

	Stage 1	Stage 2	Stage 3	2018 total
Loans to private individuals				
Risk categories A and B	195 487	1 204	0	196 691
Risk categories C and D	1 896	4 114	54	6 064
Risk categories E and F	80	248	920	1 248
Loans to legal entities				
Risk categories A and B	75 402	1 543	0	76 945
Risk categories C and D	44 077	7 138	0	51 215
Risk categories E and F	30	102	266	398
Total	316 972	14 349	1 240	332 561
Loss allowances	-2 097	-1 020	-721	-3 838
Total carrying amount	314 875	13 329	519	328 723
Unused credit limits for private individuals	18 075	-	-	18 075
Overdrafts for legal entities	16 842	-	-	16 842
Financial guarantees for legal entities	2 186	-	-	2 186
Total off-balance sheet liabilities	37 103	-	-	37 103

The following table analyses loan transfers between stages, gross, as at 31.12.2018

	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
Loans to private individuals						
Consumer loans	291	241	9	2	83	17
Lease financing	1 031	175	10	27	75	7
Mortgage loans and other loans	3 154	1 115	234	36	72	83
Total	4 476	1 531	253	65	230	107
Loans to legal entities						
Lease financing	639	58	0	0	4	129
Other loans to legal entities	3 966	1 142	120	0	0	0
Total	4 605	1 200	120	0	4	129

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Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Consumer loans to private individuals	Stage 1	Stage 2	Stage 3	2018 total
Risk categories A and B	57 120	219	0	57 339
Risk categories C and D	441	1 554	0	1 995
Risk categories E and F	45	7	615	667
Total	57 606	1 780	615	60 001
Loss allowances	-937	-443	-562	-1 942
Carrying amount	56 669	1 337	53	58 059

Unused credit limits related to consumer loans can be cancelled which is the reason why loss allowances for unused credit limits have not been taken into account.

Lease financing to private individuals	Stage 1	Stage 2	Stage 3	2018 total
Risk categories A and B	16 571	2	0	16 573
Risk categories C and D	54	228	5	287
Risk categories E and F	0	15	0	15
Total	16 625	245	5	16 875
Loss allowances	-35	-25	0	-60
Carrying amount	16 590	220	5	16 815

Mortgage loans and other private loans	Stage 1	Stage 2	Stage 3	2018 total
Risk categories A and B	121 796	983	0	122 779
Risk categories C and D	1 401	2 332	49	3 782
Risk categories E and F	35	226	305	566
Total	123 232	3 541	354	127 127
Loss allowances	-419	-1	-86	-506
Carrying amount	122 813	3 540	268	126 621

Lease financing to legal entities	Stage 1	Stage 2	Stage 3	2018 total
Risk categories A and B	16 374	1 533	0	17 907
Risk categories C and D	4 271	1 453	0	5 724
Risk categories E and F	0	0	4	4
Total	20 645	2986	4	23 635
Loss allowances	-108	-53	-1	-162
Carrying amount	20 537	2 933	3	23 473

Other loans to legal entities	Stage 1	Stage 2	Stage 3	2018 total
Risk categories A and B	59 028	10	0	59 038
Risk categories C and D	39 806	5 685	0	45 491
Risk categories E and F	30	102	262	394
Total	98 864	5 797	262	104 923
Loss allowances	-598	-498	-72	-1 168
Carrying amount	98 266	5 299	190	103 755

The off-balance sheet portion of corporate loans is assessed individually. No allowances were applied for unused limits during the reporting period.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Loans and receivables by risk categories as at 31.12.2017

31.12.2017	Not past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
Loans to individuals							
A and B	146 584	9 267	0	155 851	-2 991	0	152 860
C and D	3 013	2 126	205	5 344	-79	-30	5 235
E and F	78	1 803	648	2 529	-14	-162	2 353
Total	149 675	13 196	853	163 724	-3 084	-192	160 448
Loans to legal entities							
A and B	44 927	433	27	45 387	-179	0	45 208
C and D	31 518	448	460	32 426	-121	-19	32 286
E and F	0	118	271	389	0	-49	340
Total	76 445	999	758	78 202	-300	-68	77 834

Allocation of past due loans

	31.12.2018			31.12.2017		
	Unsecured loans to private individuals	Secured loans to private individuals	Loans to legal entities	Unsecured loans to private individuals	Secured loans to private individuals	Loans to legal entities
1-30 days	3 925	4 375	2 120	3 296	3 870	3 440
31-60 days	974	631	3 649	1 020	1 057	162
61-90 days	439	252	37	385	322	125
üle 90 days	703	437	367	2 905	1 071	349
Total	6 041	5 695	6 173	7 606	6 320	4 076

Non-performing loans (stage 3)

31.12.2018	Gross carrying amount	Loss allowance	Carrying amount	Fair value of the collateral
Loans to private individuals				
Consumer loans	615	-562	53	0
Lease financing	5	0	5	16
Mortgage loans and other loans	354	-86	268	1 020
Total	974	-648	326	1 036
Loans to legal entities				
Lease financing	4	-1	3	72
Other loans to legal entities	262	-72	190	403
Total	266	-73	193	475

Structure of individually impaired loans to private individuals and 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
Loans to private individuals									
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
Loans to legal entities									
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

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Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Collaterals of financial assets

The Group evaluates the value of collateral both during the loan application process and subsequently. The Group has internal rules for the maximum acceptance value of different types of collateral at the time of applying for a loan. Estimates of the market value of collateral are based on the prudence principle and take into account the type, location, liquidity and probability of realization of collateral. Expert assessments are used to assess immovables. Individual valuations of commercial real estate will be updated at least once a year or two. In the case of residential and other homogenous types of real estate, statistical indexing models are also used for regular revaluation.

The main types of loan guarantees are:

- mortgage
- rights of claims
- commercial pledge
- machinery and equipment
- guarantee of KredEx or Rural Development Foundation
- a surety or guarantee from a private person or legal entity
- bank deposit
- pledge of shares
- traded securities

Guarantees with a low correlation between the customer's payment risk and the market value of the collateral are preferred. Assets pledged as collateral must be insured, the life of the collateral must be longer than the loan repayment term and the market value of the collateral must exceed the loan balance.

Unsecured loans are issued to private individuals to a limited extent. Legal persons are only granted unsecured loans if the client's credit risk is very low, the solvency is high and the cash flow forecast is stable.

During the reporting period, the Group's internal rules regarding guarantees have not changed significantly and there has also been no significant change in the overall quality of collateral.

The loan risk level is also expressed by the market value of the collateral relative to the loan amount, i.e. the LTV ratio. The financial impact of the collateral is important for loans and receivables that are unlikely to be serviced by the customer's primary cash flows, which is reflected in a long (over 90-day) default. An overview of the loan-to-market ratios of mortgage-backed non-performing loans and the breakdown of the credit portfolio by collateral are given in the tables below.

Mortgage-backed non-performing loans loan and collateral ratio (LTV), gorss, as at 31.12.2018:

LTV	Gross carrying amount of private individuals	Gross carrying amount of legal entities	Total gross carrying amount of mortgage-backed loans
< 50%	245	17	262
50% - 60%	60	0	60
60% - 70%	21	0	21
70% - 80%	33	249	282
>80%	0	0	0
Total	359	266	625

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Loans and advances to customers by collateralization, as at 31.12.2017

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

Loans and advances to customers by structure of collateral

	Individuals 31.12.2018	Individuals 31.12.2017	Legal entities 31.12.2018	Legal entities 31.12.2017
Mortgage loans	137 530	112 986	85 698	52 199
Leased assets	16 875	8 626	23 635	10 013
Unsecured loans	49 373	41 745	780	817
Personal sureties, guarantees	224	367	1 948	1 218
Loans secured by deposits	1	0	0	5
Other	0	0	16 497	13 950
Total	204 003	163 724	128 558	78 202
Loss allowance	-2 508	-3 276	-1 330	-368
Total of net loans	201 495	160 448	127 228	77 834

Impairment losses on financial assets

Loan allowances during the reporting period are influenced by various factors:

- Movement from stage 1 to stage 2 or 3 due to a noticeable increase (or decrease) in the credit risk of a financial instrument or a non-performing loan, followed by moving to a 12-month or lifetime credit loss model based on calculations.
- Impairment losses on new financial instruments recognized in the reporting period, as well as write-downs on off-balance sheet financial instruments.
- Upgrading inputs to regular impairment models and changes in expected credit loss (ECL) due to changes in PD's, outstanding loans at default (EAD) and loss (LGD).
- Effects of model and assumption changes on the ECL model
- The effect of discounting on the ECL model as the ECL is measured at present value
- Effects of exchange rate fluctuations on financial assets denominated in foreign currencies.
- Loans and related write-downs written off during the reporting period.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

The following table analyses the movement of allowances during the reporting period:

Total of loss allowances	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-1 149	-912	-2 213	-4 274
Transfer to stage 1	43	-33	-10	0
Transfer to stage 2	184	-184	0	0
Transfer to stage 3	110	15	-125	0
Recalculations of allowances	-856	20	-524	-1 360
New financial assets originated or purchased	-474	-14	0	-488
Financial assets derecognised during the period	45	88	2095	2 228
Write-offs	0	0	30	30
Stage 3 discounting effect *	0	0	26	26
Balance as at 31.12.2018	-2 097	-1 020	-721	-3 838

*For Stage 3 loans, the interest income and discount on the loan are adjusted so that the interest income is calculated on the carrying amount rather than on the gross carrying amount of loan.

Loss allowance of consumer loans	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-878	-372	-1 888	-3 138
Transfer to stage 1	24	-22	-2	0
Transfer to stage 2	69	-69	0	0
Transfer to stage 3	108	15	-123	0
Recalculations of allowances	-98	-40	-606	-744
New financial assets originated or purchased	-168	0	0	-168
Financial assets derecognised during the period	6	45	2 052	2 103
Write-offs	0	0	0	0
Stage 3 discounting effect *	0	0	5	5
Balance as at 31.12.2018	-937	-443	-562	-1 942

Loss allowance of lease financing to private individuals	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-53	2	-2	-53
Transfer to stage 1	2	-2	0	0
Transfer to stage 2	8	-8	0	0
Transfer to stage 3	0	0	0	0
Recalculations of allowances	-7	-20	-1	-28
New financial assets originated or purchased	11	1	0	12
Financial assets derecognised during the period	4	2	1	7
Write-offs	0	0	1	1
Stage 3 discounting effect *	0	0	1	1
Balance as at 31.12.2018	-35	-25	0	-60

Loss allowance of mortgage and other private loans	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-94	-185	-257	-536
Transfer to stage 1	12	-4	-8	0
Transfer to stage 2	45	-45	0	0
Transfer to stage 3	2	0	-2	0
Recalculations of allowances	-349	223	121	-5
New financial assets originated or purchased	-43	-9	0	-52
Financial assets derecognised during the period	8	19	41	68
Write-offs	0	0	4	4
Stage 3 discounting effect *	0	0	15	15
Balance as at 31.12.2018	-419	-1	-86	-506

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Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Loss allowance of lease financing to legal entities	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-105	18	-1	-88
Transfer to stage 1	5	-5	0	0
Transfer to stage 2	4	-4	0	0
Transfer to stage 3	0	0	0	0
Recalculations of allowances	40	-68	-1	-29
New financial assets originated or purchased	-57	-6		-63
Financial assets derecognised during the period	5	12	0	17
Write-offs	0	0	0	0
Stage 3 discounting effect *	0	0	1	1
Balance as at 31.12.2018	-108	-53	-1	-162

Loss allowance of other loans to legal entities	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-19	-375	-65	-459
Transfer to stage 1	0	0	0	0
Transfer to stage 2	58	-58	0	0
Transfer to stage 3	0	0	0	0
Recalculations of allowances	-442	-75	-37	-554
New financial assets originated or purchased	-217	0	0	-217
Financial assets derecognised during the period	22	10	1	33
Write-offs	0	0	25	25
Stage 3 discounting effect *	0	0	4	4
Balance as at 31.12.2018	-598	-498	-72	-1 168

Write-offs of financial assets

The write-off of the receivables, i.e. the removal of the financial position from the statement of financial position, occurs in part or in full when the Group has implemented all possible recovery measures and it has been concluded that there is no reasonable expectation of further recoveries. The write-off indicator may be the termination of the recovery procedure or, in the case of a secured loan, the realization of the collateral, but the proceeds from the disposal have not been sufficient to cover the carrying amount of the receivable. Termination of the receivable procedure may be conditional on the death of the client, bankruptcy, criminal proceedings or a court-approved debt restructuring plan, under which the receivable is reduced.

Modification of financial assets

The Group may renegotiate loans and modify contractual terms. If the new terms are substantially diferent from the original terms, the Group derecognises the originaal financial asset and recognises a new asset. The Group also assesses whether the new financial asset is credit-impaired at intial recognition. If the terms are not substantially different the modification does not result in derecognition and the Group recalculates the gross carrying amount based on the new cash flows using the original effective interest rate of the financial asset and recognises a modification gain or loss.

In order to modify financial assets, loan agreements are restructured either due to commercial negotiations or payment difficulties, during which the payment term is extended or payment holidays are granted, including sometimes retrospectively. Restructuring practices are based on management estimates that payments by the customer are expected to continue. The risk of default on such loans is measured at the following reporting date and compared to the risk that existed at initial recognition under the original terms, unless the modification

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Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

is significant and does not result in derecognition of the original asset. The Group monitors the subsequent operation of the modified assets. The Group may decide that, after the restructuring, the credit risk has significantly improved so that the assets are moved from Stage 3 to Stage 2 or Stage 1. This applies only to assets that have operated under the new terms for at least six consecutive months.

There were no significant effects due to the modification of the contractual cash flows of financial assets during the reporting period.

Concentration of risks

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

31.12.2018	E	K	L	S	G	C	I	Other	Total
Cash and cash equivalents	0	88 030	0	0	0	0	0	0	88 030
Debt securities at fair value through other comprehensive income	0	0	0	1 434	0	0	0	7 696	9 130
Loans and advances to customers	201 494	12 001	48 044	5 110	13 308	4 494	8 099	36 173	328 723
Equity instruments at fair value through profit or loss	0	0	0	0	0	0	0	13	13
Other financial assets	0	179	0	0	0	0	0	154	333
Total	201 494	100 210	48 044	6 544	13 308	4 494	8 099	44 036	426 229

31.12.2017	E	K	L	S	G	D	I	Other	Total
Cash and cash equivalents	0	98 873	0	0	0	0	0	0	98 873
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

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

61% of loans and advances to customers are granted to private individuals (31.12.2017: 68%). The portfolio of loans granted to corporate entities is diversified between various economic sectors to avoid high levels of concentration. 37% (31.12.2017: 38%) of loans to companies are granted to companies engaged in the real estate sector and 10% (31.12.2017: 10%) %) 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.

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Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
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Financial assets by geographical classification

31.12.2018	EE	LV	FI	BE	Other	Total
Cash and cash equivalents	75 712	0	0	2 517	9 801	88 030
Debt securities at fair value through other comprehensive income	507	0	0	0	8 623	9 130
Loans and advances to customers	325 639	2 419	525	0	140	328 723
Equity instruments at fair value through profit or loss	0	0	0	13	0	13
Other financial assets	333	0	0	0	0	333
Total	402 191	2 419	525	2 530	18 564	426 229

31.12.2017	EE	LV	AT	FR	BE	DE	Other	Total
Cash and cash equivalents	72 670	0	6 677	4 109	7 962	4 171	3 284	98 873
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

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 analyse 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.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

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.

31.12.2018	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	87 538	500	0	0	88 030
Debt securities at fair value through other comprehensive income	514	1 371	7 245	0	9 130
Loans and advances to customers	26 300	59 794	203 403	132 670	422 167
Equity instruments at fair value through profit or loss	0	0	0	13	13
Other financial assets	155	0	0	178	333
Total financial assets	114 507	61 665	210 648	132 861	519 681
Liabilities					
Customer deposits and loans received	166 137	158 391	55 034	7 645	387 207
Other financial liabilities	4 126	0	0	0	4 126
Subordinated debt	0	337	1 350	6 325	8 012
Total financial liabilities	170 263	158 728	56 384	13 970	399 345
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	34 917	0	0	0	34 917
Financial guarantees	2 186	0	0	0	2 186
Total on-balance-sheet and off-balance-sheet liabilities	207 366	158 728	56 384	13 970	436 448
Duration gap of financial assets and financial liabilities	-92 859	-97 063	154 264	118 891	83 233

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Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

31.12.2017	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash	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					
Customer deposits and loans received	182 859	82 076	50 102	2 640	317 677
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

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.. The volume of the bond portfolio decreased in total by 2018, decreasing by 21% (EUR 2 433 thousand), a more detailed overview is given in Note 10. The average maturity of the portfolio has increased, but the total market risk has decreased, the risk arises primarily from bonds quoted 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 31.12.2018 128 thousand euros, the respective indicator as at 31.12.2017 was VaR 179 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 31.12.2018 was 164 thousand euros (2017: 313 thousand euros). The sensitivity analysis has been carried out with the justified effects of possible

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Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

exchange rate changes on the statement of comprehensive income, remaining constant for all other variables, the impact amount is 16 thousand euros (2017: 31 thousand euros).

Data on the structure of assets and liabilities by currency positions and respective net currency positions have been presented in following table.

31.12.2018	EUR	USD	Other	Total
Assets				
Cash and cash equivalents	86 287	811	932	88 030
Debt securities at fair value through other comprehensive income	2 377	6 753	0	9 130
Loans and advances to customers	328 723	0	0	328 723
Equity instruments at fair value through profit or loss	13	0	0	13
Other financial assets	153	178	2	333
Total financial assets	417 553	7 742	934	426 229
Liabilities				
Customer deposits and loans received	376 677	7 669	772	385 118
Subordinated debt	5 026	0	0	5 026
Other financial liabilities	4 055	0	71	4 126
Total financial liabilities	385 758	7 669	843	394 270
Off-balance sheet liabilities				
Undrawn lines of credit and overdraft facilities	34 917	0	0	34 917
Financial guarantees	2 186	0	0	2 186
Total on-balance-sheet and off-balance sheet liabilities	422 861	7 669	843	431 373
Net position	-5 308	73	91	-5 144

31.12.2017	EUR	USD	Other	Total
Assets				
Cash	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 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				
Customer deposits and loans received	292 335	19 806	3 829	315 970
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

Interest rate risk is defined as a risk of unexpected unfavourable 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.

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Initialled for the purpose of identification only
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Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Interest-bearing financial assets and financial liabilities by next interest rate repricing period

31.12.2018	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest-earning assets					
Balances with central banks	52 063	0	0	0	52 063
Loans and advances to credit institutions	13 746	500	0	0	14 246
Debt securities at fair value through other comprehensive income	514	1 371	7 245	0	9 130
Loans and advances to customers, gross	203 428	131 120	19	0	334 567
Total interest-earning assets	269 751	132 991	7 264	0	410 006
Interest-bearing liabilities					
Customer deposits and loans received	378 438	0	0	0	378 438
Subordinated debt	0	0	5 000	0	5 000
Total interest-bearing liabilities	378 438	0	0	0	383 438
Exposure to interest rate risk duration gap	-108 687	132 991	2 264	0	26 568

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					
Customer deposits and loans received	315 126	0	0	0	315 126
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

Interest rate risk management entails the analysis of the interest rate risk of all 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 gives estimates of the annual impact of the parallel shift of the interest rate curve on interest income and interest expense by currencies as at 31.12.2018.

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:

	EUR	USD	Other	31.12.2018 total	EUR	USD	Other	31.12.2017 total
Change in interest income	1 631	0	0	1 631	1 077	0	0	1 077
Change in interest expense	935	20	0	955	661	20	0	681
Change in net interest income	696	-20	0	676	416	-20	0	396

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Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

The total impact of the 100 bp increase in the interest rate curve on net interest income over one year was 275 thousand euros at the balance sheet date, while the impact of the 100 bp interest rate decrease was 354 thousand euros. Sensitivity to interest rates is impacted by the transfer of interest rate risk arising from the established contractual minimum rate on loans and 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%.

The impact of a 100 basepoints increase in interest rates of the Group's equity as at 31.12.2018 was 234 thousand euros and the impact of a decrease of 100 basepoints was 2 836 thousand euros, corresponding figures as at 31.12.2017 were 333 thousand euros and 8 104 thousand euros. 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 behaviour 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 informational 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 analysing the main risk indicators on a quarterly basis. Reports about the loss events related to the operational risk by analysing 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 requirement.

Initsialiseeritud ainult identifitseerimiseks
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Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

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.

31.12.2018	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial assets at fair value through other comprehensive income					
Debt securities at fair value through other comprehensive income	9 130	-	-	9 130	9 130
Equity instruments at fair value through profit or loss	-	13	-	13	13
Total of financial assets at fair value through other comprehensive income	9 130	13	-	9 143	9 143
Investment property	-	-	904	904	904
Financial assets at amortized cost					
Cash and cash equivalents	88 030	-	-	88 030	88 030
Loans and advances to customers	-	-	328 723	328 723	326 200
incl. private individuals	-	-	202 177	202 177	199 853
incl. legal entities	-	-	126 546	126 546	126 347
Other financial assets	333	-	-	333	333
Total of financial assets at amortized cost	88 363	-	328 723	417 086	414 563
Financial liabilities at amortized cost					
Customer deposits and loans received	-	-	385 118	385 118	385 118
incl. private individuals	-	-	237 279	237 279	237 279
incl. legal entities	-	-	137 837	137 837	137 837
Other financial liabilities	-	-	4 126	4 126	4 126
Subordinated debt	-	-	5 026	5 026	5 026
Total of financial liabilities at amortized cost	-		394 270	394 270	394 270

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Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

31.12.2017	Level 1	Level 2	Level 3	Carrying value	Fair value
Debt instruments – at fair value through profit or loss	11 060	-	-	11 060	11 060
Equity instruments – assets held for sale	-	13	-	13	13
Investment property – at fair value through profit or loss	-	-	2 398	2 398	2 398
Financial assets at amortized cost					
Cash and cash equivalents	98 873	-	-	98 873	98 873
Loans and advances to customers	-	-	238 282	238 282	240 943
incl. private individuals	-	-	160 448	160 448	162 770
incl. legal entities	-	-	77 834	77 834	78 173
Held.to-maturity financial assets	-	-	503	503	523
Other financial assets	477	-	-	477	477
Total of financial assets at amortized cost	99 350	-	238 785	338 135	340 816
Financial liabilities at amortized cost					
Customer deposits and loans received	-	-	315 970	315 970	316 058
incl. private invidividuals	-	-	151 787	151 787	152 121
incl. legal entities	-	-	159 181	159 181	158 935
Other financial liabilities	-	-	3 216	3 216	3 216
Subordinated debt	-	-	5 026	5 026	5 026
Total of financial liabilities at amortized cost	-	-	324 212	324 212	324 300

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 31.12.2018 was 0,8% lower (2 524 thousand euros) than their carrying amount and the fair value of customer deposits corresponds to their carrying amount.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

As at 31.12.2017 the fair value of loans and advances was 1,1% higher (2 661 thousand euros) than the carrying amount and the fair value of deposits was 88 thousand euros higher than the carrying amount.

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 combination 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.

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

31.12.2018	Fair value	Rent income per year	Medium rent price (eur/m2)	Discount rate	Capitalization rate	Possible change in rent price	Impact to value
Valued according to market approach:							
-other commercial real estate	381	24	6.21-7.95	-	-	3-8%	+/-10%
-residential property	213	11	-	-	-	-	+/-10%
Income approach:							
-other commercial real estate	310	23	3.61-10.99	13%	11%	3-10%	+/-10%
Total investment property	904	58	-	-	-	-	-

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Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

31.12.2017	Fair value	Rent income per year	Medium rent price (eur/m2)	Discount rate	Capitaliza-tion 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	-	-	-	-	-

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Kuupäev/date 27.03.2019
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Note 3 Subsidiaries and goodwill

In May 2017 the Group acquired 100% of the shares of Coop Finants AS. Accordingly to IFRS 3 standards, a purchase price analysis was carried out at 31.05.2017, in the process the fair value of Coop Finants AS assets was assessed. The carrying value of receivablessubstantially matched their fair value, which was 21 940 thousand euros. The fair value of liabilities was 17 697 thousand euros. Acquisition related costs of 2 thousand euros were recognized as operating expenses.

The acquired subsidiary's separate net revenue and profit for the period of 1.06.2017-31.12.2017 was 2.9 million euros and 1.6 million euros respectively. If the acquisition had occured 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.

	Fair value at acquisition
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	11 000
Goodwill acquired by Coop Pank Group	6 757

From the acquisition of subsidiary goodwill was recognized, which includes synergies and immaterial assets that were not separately identified. Goodwill as at 31.12.2018 was 6 757 thousand euros (31.12.2017: the same). As at 31.12.2018 goodwill was tested for impairment. Value-in-use calculations are based on following assumptions:

- estimated growth in the volume of loan portfolio is 10-15% per year (2017: 10-13%)
- average increase in net income is 10-12% per year (2017: 7-10%)
- increase in expenses is 10% (2017: 7%)
- average loan impairment loss is 3,3-3,5% per year (2017: 5,4-5,7%)
- shareholders expected yield of 15% is used as cash flows discount rate (2017: 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, interest rates in consumer finance market decline while impairment costs will grow in possible deterioration ot the economic environment, there will be need for impairment of goodwill.

In June 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. 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. In January 2018 Krediidipank Finants name was changed to CP Vara AS, the company will be liquidated.

In May 2017 bank founded a new subsidiary SIA Prana Property in the Republic of Lativa with share capital of 2.8 thousand euros. The company obtained the property held as collateral of a problem loan of the former Latvian branch. At the end of 2017 the share capital was increased by an addition 120 thousand euros and at the end of 2018 another 360 thousand euros. The company had no turnover or employees in 2018 or 2017. The loss for 2018 was 307 thousand euros and the loss for 2017 was 115 thousand euros.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Note 4 Operating segments

The Group divides its business into segments based on both the legal structure and the customer-specific distribution within the Bank. According to the legal structure, the Group has a consumer loan and leasing segment that provides consumer loans to private customers and leasing products to both private and corporate customers, respectively. Consumer financing segment earns interest incomes from lending and fee commissions from issuing hire-purchase cards. Leasing segment earns interest income from lending and fee commissions from insurance brokerage.

Due to the Bank's customer-based division, the Group owns corporate banking (legal entities) and retail banking (private individuals) segments. Both segments offer money transferring products and loan products to customers, as well as gather deposits. The segments earn interest income from lending and commissions fees from settlement of payments and bank card transactions.

Segments are the basis for regular monitoring of business results by the Group's management and supervisory boards, and separate financial data are available for the segments. According to the group's structure, the group also divides the corporate banking and retail banking segments into more detailed business lines of loans and everyday banking (deposits, settlements). The Group also uses business lines for planning and budgeting. The Management Board of the Group has been appointed as the chief decision maker for assessing financial allocations and the profitability of business.

Revenue reported by a segment consists of revenue from external customers and additional interest income or interest expense on inter-segment borrowing, which is based on the internal transfer pricing model in the Group and is shown as elimination in the tables below. The Group does not have any customers whose income would account for more than 10% of the respective type of income. All interest income is earned in Estonia. At the beginning of 2017, the Group closed the Latvian branch, due to which there were some interest revenues in 2017 also from Latvia. The geographical breakdown of commission fees is shown in Note 6.

Segment profits in 2018	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Interest income	5 680	4 952	7 883	1 253	1 371	-1 284	19 855
Incl. external income	5 680	4 952	7 883	1 243	88	0	19 855
Incl. internal income	0	0	0	0	1 284	-1 284	0
Interest expenses	-1 097	-1 536	-530	-369	-828	1 284	-3 076
Net interest income	4 583	3 416	7 353	884	543	0	16 779
Commission income	1 216	888	1 364	33	168	0	3 669
Commission expense	-517	-585	-259	-6	0	0	-1 367
Net commission income	699	303	1 105	27	168	0	2 302
Other operating income	124	140	396	62	-35	0	687
Net income	5 406	3 859	8 854	973	676	0	19 768
Operating expenses total	-2 954	-5 030	-3 794	-1 173	-650	0	-13 601
Profit before credit losses and income tax	2 452	-1 171	5 060	-200	26	0	6 167
Impairment losses (-) or derecognition (+)on loans	-701	159	-761	-89	0	0	-1 392
Income tax expense	-14	-8	0	0	0	0	-22
Profit of the year	1 737	-1 020	4 299	-289	26	0	4 753

*Other includes treasury, subsidiaries Martinoza and Prana Property and Latvian branch in 2017.

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Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Assets and liabilitites as at 31.12.2018	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Loan portfolio	104	161	46	41	86	-109	329
Other assets	47	29	17	8	17	0	112
Total assets	151	190	64	49	103	-109	446
Total liabilitites	137	174	60	41	94	-109	397

Segment profits in 2017	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Interest income	2 655	4 204	5 535	481	1 097	-489	13 483
Incl. external income	2 655	4 204	5 535	481	607	0	13 483
Incl. internal income	0	0	0	0	489	-489	0
Interest expenses	-534	-1 182	-314	-138	-285	489	-1 964
Net interest income	2 121	3 022	5 221	343	812	0	11 519
Commission income	1 324	698	814	17	338	0	3 191
Commission expense	-417	-453	-132	-3	-16	0	-1 020
Net commission income	907	245	682	14	322	0	2 170
Other operating income	84	61	264	43	3 148	0	3 600
Net income	3 112	3 328	6 167	400	4 282	0	17 289
Operating expenses total	-2 369	-3 769	-3 189	-722	-1 469	0	-11 518
Profit before credit losses and income tax	743	-441	2 978	-322	2 813	0	5 771
Impairment losses (-) or derecognition (+) on loans	-16	103	-1 366	-34	0	0	-1 313
Income tax expense	0	0	0	0	0	0	0
Profit of the year	727	-338	1 612	-356	2 813	0	4 458

Assets and liabilitites as at 31.12.2017	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Loan portfolio	93	140	38	19	6	-58	244
Other assets	78	17	13	2	22	0	127
Total assets	171	157	51	21	28	-58	371
Total liabilitites	155	141	46	15	27	-58	326

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Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Note 5 Net interest income

	2018	2017
Interest income calculated using effective interest method:		
Consumer loans and hire-purchase loans	7 882	5 530
Loans to entities	4 825	2 288
Loans to private individuals	4 161	3 531
Bonds	406	587
Other assets	94	162
Interest income on liabilities	193	269
Other similar interest income:		
Leasing	2 294	1 076
Total interest income	19 855	13 443
Interest expense		
Demand deposits to customers	-2 484	-1 394
Subordinated debt	-342	-311
Interest expense on assets	-250	-219
Total interest expenses	-3 076	-1 924
Net interest income	16 779	11 519

Note 6 Fee and commission income

	2018	2017
Fees on card transactions	1 034	481
Monthly fees on cards	837	460
Account opening and management fees	659	506
Bank transfer fees	609	771
Gains from foreign exchange transactions	333	506
Other fee and commission income	197	466
Total fee and commission income	3 669	3 190
Charges on card transactions	-879	-587
Bank transfer fees	-263	-279
Other fee and commission expense	-225	-154
Total fee and commission expense	-1 367	-1 020
Net fee and commission income	2 302	2 170

In 2018, the Group earned 79% of fee and commission income from Estonian residents and 21% from residents of other countries (Latvia, Finland and other EU countries); in 2017, 67% of fee and commission income was earned from Estonian residents and 33% from residents of other countries (incl. Latvian branch of the bank and residents of other EU countries).

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Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Note 7 Payroll expenses

	2018	2017
Wages and salaries	-6 137	-5 287
Social tax, unemployment insurance premiums	-2 040	-1 675
Total	-8 177	-6 962

Social security tax payments include a contribution to state pension funds. The Group has no legal or factual obligation to make pension or similar payments beyond social security tax.

Note 8 Operating expenses

	2018	2017
Advertising expenses	-1 122	-1 085
Rent of buildings	-743	-491
Administration of information systems	-653	-668
Office expenses	-463	-400
Services purchased	-420	-290
Contributions to Deposit Guarantee Fund	-187	-195
Training and travel expenses	-179	-109
Financial supervision fee instalments	-111	-95
Legal services, state fees	-63	-143
Transport expenses	-47	-50
Membership fees	-18	-36
Property and casualty insurance	-7	-7
Other operating expenses	-615	-541
Total	-4 628	-4 110

Note 9 Cash and cash equivalents

	31.12.2018	31.12.2017
Cash	21 721	22 771
Mandatory reserve at the central bank *	2 742	2 607
Demand deposits at central bank	49 321	42 208
Demand deposits at credit institutions	13 755	30 789
Term deposits at credit institutions *	491	498
Total	88 030	98 8732

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

Term deposits with credit institutions are pledged as collateral.

Note 10 Financial investments

	31.12.2018	31.12.2017
Government debt securities	1 929	2 848
Debt securities of other non-financial companies	7 201	8 715
Total of debt securities	9 130	11 563
Shares of other non-financial corporations	13	13
Total of equity instruments	13	13
Total of financial investments	9 143	11 576

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Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

As at 31.12.2018, debt securities and equity instruments are recognized at fair value through changes in other comprehensive income. As at 31.12.2017, bonds in the amount of 503 thousand euros were recognized as held-to-maturity and the remaining bonds at fair value through profit or loss, equity instruments were recognized as available-for-sale financial assets.

Note 11 Loans and advances to customers

	31.12.2018	31.12.2017
Total receivables from private individuals	204 003	163 724
incl. consumers loans	60 001	51 145
incl. lease financing	16 875	8 626
incl. mortgage loans and other loans	127 127	103 953
Total receivables from legal entities	128 558	78 202
incl. lease financing	23 635	10 013
incl. other loans to legal entities	104 923	68 189
Total receivables	332 561	241 926
Loss allowances of loans and advances	-3 838	-3 644
Total	328 723	238 282

Finance lease receivables	31.12.2018	31.12.2017
Finance lease gross investment – lease payments receivable, incl	44 584	20 198
up to 1 year	13 280	7 552
1-5 years	29 808	11 898
over 5 years	1 496	748
Interest income not received	-3 836	-1 525
up to 1 year	-1 436	-621
1-5 years	-2 375	-887
over 5 years	-25	-17
Finance lease net investment	40 748	18 673
up to 1 year	11 844	6 931
1-5 years	27 433	11 011
over 5 years	1 471	731

Note 12 Loan allowances and loan losses

Loan allowances	31.12.2018	31.12.2017
Balance at the beginning of the reporting period	-3 644	-2 253
IFRS 9 first day effect	-630	0
Allowances during the reporting period	-1 598	-2 600
Derecognized during reporting period	2 034	1 209
Balance of allowance at the end of the reporting period	-3 838	-3 644

Loan losses	31.12.2018	31.12.2017
Allowances during the reporting period	-1 598	-1 550
Receiving written off loans	206	237
Loan losses or reduction of loan losses	-1 392	-1 313

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Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Note 13 Other financial assets and other assets

	31.12.2018	31.12.2017
Financial assets		
Cash in transit	1	72
Security deposits	178	173
Other receivables	154	232
Total financial assets	333	477
Other assets		
Prepayment for financial supervision	131	115
Settlements with the Tax and Customs Board	193	1 150
Other prepayments	613	827
Properties under construction	2 649	3 133
Real estate acquired for sale	4 019	4 180
Other assets	29	10
Total other assets	7 634	9 415
Investment property	904	2 398
Total	8 871	12 290

Note 14 Investment property

	31.12.2018	31.12.2017
Carrying amount at the beginning of the period	2 398	9 105
Sold during period	-1 281	-7 155
Reclassification from property, plant and equipment	0	839
Reclassification from inventories	0	-653
Change in fair value	-213	262
Carrying amount at the end of the period	904	2 398
incl. investment property earning rental income	904	2 353

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Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Note 15 Property, plant and equipment

	Land and properties	Other assets	Intangible assets	Total
Carrying amount 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	565	2 949	2 662	6 176
incl. depreciation	-136	-944	-1 496	-2 576
Carrying amount	429	2 005	1 166	3 600
Acquisition	0	797	1 452	2 249
Sale at carrying amount	-290	-9	0	-299
Depreciation charged	-7	-460	-329	-796
Carrying amount at 31.12.2018				
Incl. cost	136	3 608	4 113	7 857
Incl. depreciation	-4	-1 275	-1 824	-3 103
Carrying amount	132	2 333	2 289	4 754

Note 16 Customer deposits and loans received

	31.12.2018	31.12.2017
Private individuals	237 279	151 787
Legal entities	137 837	159 181
Credit institutions	10 002	5 002
Total	385 112	315 970
Demand deposits	120 544	153 031
Term deposits	249 864	159 290
Issued debt securities	5 052	0
Special purpose loans	9 658	3 649
Total	385 118	315 970

The Bank signed a 10-year loan agreement of EUR 8 million with the European Investment Fund (EIF) to finance small and medium-sized enterprises. As at 31.12.2018, 4 million euros has been taken into use. The remaining special-purpose loans have been received from the Rural Development Foundation.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Note 17 Other financial liabilities and other liabilities

	31.12.2018	31.12.2017
Financial liabilities		
Cash in transit	2 966	1 339
Trade payables	289	326
Other financial liabilities	871	1 551
Total financial liabilities	4 126	3 216
Other liabilities		
Payables to employees	1 270	1 033
Tax liabilities	311	250
Other liabilities	1 264	707
Total other liabilities	2 845	1 990
Total	6 971	5 206

As at 31.12.2018, the current transactions of the subsidiaries and the outstanding accounts in the amount of 629 thousand euros, provisions 455 thousand euros and other liabilities in the amount of 180 thousand euros are recognized as other liabilities.

Note 18 Subordinated debt

	Year of emancipation	Interest rate	Maturity date	Amount
Subordinated debt	2017	6.75%	04.12.2027	5 000
Liabilities as at 31.12.2017				5 000
Liabilities as at 31.12.2018				5 000
Accrued interest liability as at 31.12.2017				26
Interest expense calculated during 2018				338
Paid out interest expense during 2018				-338
Accrued interest liability as at 31.12.2018				26

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. 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 31.12.2018 the carrying value of one share is 0.65 euros (31.12.2017: the same).

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 decided on the Annual General Meeting of Shareholders or Meeting of the Shareholders close to the vesting date.

Date of issue	Number of shares	Share price
September 2017	1 167 700	0,7305
February 2018	677 080	0,7660
August 2018	120 000	0,8057
January 2019	70 000	0,8420
Total	2 034 780	

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Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

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 reached 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 the net profit will be made to the statutory reserve capital. On a basis of a decision of the general meetings 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

	31.12.2018	31.12.2017
Financial guarantees	2 186	1 187
Lines of credit and overdraft facilities	34 917	30 219
Total	37 103	31 406

The Group applies the expected credit loss model for contingent liabilities, see Note 2.
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 addition 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 2018, there were 5 claims against the Group (the Group company is in the role of defendant). Porpability of realization of the claims is very low and perspective of the claims is in benefit for the Group. 4 claims make total of 550 thousand euros and one is related to challenging the right of superficies taken as collateral of a loan.

As at 31.12.2018 a total of 136 thousand euros was paid to the various companies as a result of the Group in court proceedings, plus interest for late payment. At the same time, the proceedings brought by the Group (including payment orders) total of EUR 47 thousand plus interest (at the end of 2017 total of EUR 154 thousand). The main content of the claims are claims against the customers arising from different credit agreements. Claims arising from credit agreements have a good perspective and, as a rule, are fully requested by the court.

Note 22 Leased assets

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

	2018	2017
Up to 1 year	147	556
1-5 years	1 437	1 649
Over 5 years	353	77
Total	1 937	2 282

Initial change of IFRS 16 and impact on Group assets, liabilities and profit, see Note 1.18.

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Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Note 23 Related parties

The following have been considered as 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.

Balances	31.12.2018	31.12.2017
Shareholders:		
Deposits	5 280	1 502
Members of the management board and supervisory board and their close relatives and related entities:		
Loans	114	133
Deposits	1 567	1 865

Transactions	31.12.2018	31.12.2017
Shareholders:		
Interest expenses	7	1
Members of the management board and supervisory board and their close relatives and related entities:		
Interest income of the reporting period	3	3
Interest expenses of the reporting period	1	2
Sale of other goods and services	2	2
Purchase of other goods and services	104	330
Salaries to members of the Management Board and Supervisory Board	521	516
Maximum termination benefits payable to members of the management board on a contingent basis	175	175

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Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Note 24 Separate financial statements of parent company

Statement of comprehensive income of parent company

	2018	2017
Interest income calculated using effective interest method	13 023	9 623
Interest expense calculated using effective interest method	-3 007	-1 927
Net interest income	9 946	7 696
Fee and commission income	2 273	2 376
Fee and commission expense	-1 118	-896
Net fee and commission income	1 155	1 480
Rental income	10	24
Other income	782	349
Net gains/losses from financial assets measured at fair value	-12	-341
Net other income	780	32
Payroll expenses	-7 087	-6 038
Operating expenses	-3 373	-3 250
Depreciation	-665	-293
Total operating expenses	-11 125	-9 581
Net profit before impairment losses on loans and advances	756	-373
Impairment losses on loans and advances	-553	83
Net profit/loss before income tax expense	203	-290
Income tax expenses	-22	0
Net profit/ loss for the financial year	181	-290
Other comprehensive income/loss		
Debt instruments measured at fair value through other comprehensive income (FVOCI)	-239	0
Comprehensive income/loss for the financial year	-58	-290

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Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Statement of financial position of parent company

	31.12.2018	31.12.2017
Assets		
Cash and cash equivalents	88 030	88 030
Financial assets at fair value through profit or loss	0	11 060
Held-to-maturity financial assets	0	503
Debt securities at fair value through other comprehensive income	9 130	0
Available-for-sale financial assets	320 565	237 072
Loans and advances to customers	0	13
Equity instruments at fair value through profit or loss	13	0
Financial investments in subsidiaries	15 970	16 064
Other financial assets	237	285
Other assets	669	550
Property, plant and equipment	3 670	2 710
Total assets	438 247	366 859
Liabilities		
Customer deposits and loans received	386 624	316 992
Other financial liabilities	3 284	1 486
Other liabilities	1 498	1 292
Subordinated debt	5 026	5 026
Total liabilities	396 432	324 796
Shareholders' equity		
Share capital	38 199	38 199
Share premium	175	175
Reserves	2 391	2 070
Retained earnings	1 204	1 619
Revaluation reserve	-154	0
Total shareholders' equity	41 815	42 063
Total liabilities and shareholders' equity	438 247	366 859

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Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Statement of cash flows of parent company

	12 months 2018	12 months 2017
Cash flows from operating activities		
Interest received	12 958	9 008
Interest paid	-2 240	-1 764
Service fees and commissions received	2 273	2 376
Service fees and commissions paid	-1 118	-896
Other received income	792	373
Salaries paid	-6 917	-5 515
Other operating expenses paid	-3 355	-2 881
Total cash flows from operating activities before adjustments in operating assets and liabilities	2 393	701
Change in operating assets:		
Loan receivables from customers	-84 275	-70 260
Change of mandatory reserve in central bank	-135	-688
Other assets	611	242
Change in operating liabilities:		
Change in client deposits and loans received	54 795	57 442
Change in due to credit institutions	5 000	4 815
Other liabilities	1 982	656
Net cash flows from operating activities	-19 629	-7 092
Cash flows from investing activities		
Acquisition of subsidiaries, net cash flow	0	-10 672
Acquisition of property, plant and equipment	-1 852	-2 391
Sale of property, plant and equipment	0	2
Acquisition of debt instruments	-2 632	-6 286
Sale and redemption of debt instruments	4 738	6 807
Total cash flows from investing activities	254	-12 540
Cash flows from financing activities		
Loans received	4 000	0
Issue of subordinated bonds	5 000	0
Increase of subsidiary's equity	-360	-123
Contribution to share capital	0	13 198
Acquisition of a minority interest in a subsidiary	0	-2 058
Repayments of subordinated loan	0	-4 000
Emission of subordinated debt securities	0	5 000
Total cash flows from financing activities	8 640	12 017
Change in cash and cash equivalents	-10 735	-7 615
Cash and cash equivalents at beginning of the period	95 495	103 110
Cash and cash equivalents at end of the period	84 760	95 495
Cash and cash equivalents balance is comprised of:	84 760	95 495
Cash on hand	21 721	22 771
Demand deposits in central banks	49 321	42 208
Demand and short-term deposits in credit institutions	13 718	30 516

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Statement of changes in equity of parent company

	Share capital	Share premium	Statutory reserve capital	Other reserves	Revaluation reserve	Retained earnings	Total equity
Balance as at 31.12.2016	25 001	174	1 970	0	0	2 010	29 155
Increase of share capital	13 198	0	0	0	0	0	13 198
Change in reserves	0	0	100	0	0	-100	0
Approximation difference	0	1	0	0	0	-1	0
Net profit	0	0	0	0	0	-290	-290
Total comprehensive income for financial period	0	0	0	0	0	-290	-290
Balance as at 31.12.2017	38 199	175	2 070	0	0	1 619	42 063
Change in initial application of IFRS9: Loan portfolio and loan commitments	0	0	0	0	0	-292	-292
Debt securities	0	0	0	0	105	-85	20
Balance as at 31.12.2017	38 199	175	2 070	0	105	1 242	41 791
Change in reserves	0	0	218	0	0	-218	0
Share options	0	0	0	103	0	0	103
Approximation difference	0	0	0	0	0	-1	-1
Net profit	0	0	0	0	0	181	181
Comprehensive income	0	0	0	0	-239	0	-239
Total comprehensive income for financial period	0	0	0	0	-259	181	-78
Balance as at 31.12.2018	38 199	175	2 288	103	-154	1 204	41 815

Adjusted unconsolidated equity	
Book value of holding under control or significant influence	-15 970
Value of holdings under control or significant influence, calculated by equity method	23 318
Adjusted unconsolidated equity as at 31.12.2018	49 163

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Independent auditor's report
To the Shareholders of AS Coop Pank

(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 2018, 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 2018;
- 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.

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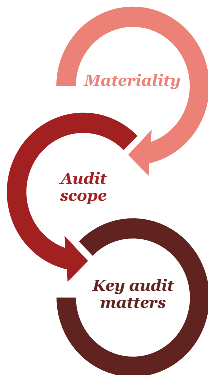
Our audit approach

Overview



Materiality
Overall group materiality is EUR 492 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 492 thousand
How we determined it	1% of net assets
Rationale for the materiality benchmark applied	We applied the net assets benchmark as the Group's business strategy has recently changed and the Group was going through rapid growth in 2017-2018. Therefore, in 2018 net assets is a relevant measure used by investors, regulators and other stakeholders when assessing the performance of the Group.

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”, Note 11 “Loans and advances to customers” and Note 12 “Loan allowances and loan losses” for further details). On 1 January 2018, a new accounting standard IFRS 9 became effective that replaced the previously applied incurred loss model with a new 3-stage impairment model based on expected credit losses (ECL). ECL calculations are forward looking and probability-weighted, based on complex modelling and subjective inputs determined by the management. The adoption of IFRS 9 resulted in a reduction of the carrying amount of loans and advances to customers by EUR 630 thousand, which was recorded as an adjustment to retained earnings as at 1 January 2018 (refer to 1.6. Financial assets on page 26). As at 31 December 2018 net carrying amount of loans and advances to customers amounted to EUR 328 723 thousand and related impairment allowance to EUR 3 838 thousand. We focused on this area because management uses complex models with subjective inputs to assess the timing and the amount of expected credit losses. Key areas requiring significant management judgements and modelling in calculating ECL include: • evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1, 2 or 3; • assessing accounting interpretations and modelling assumptions used to build the models that calculate ECL; • the modelling and calculation of key parameters of ECL model, including probability of default (PD), loss given default (LGD) and exposure at default (EAD);	We assessed whether the Group’s accounting policies in relation to the impairment of loans and advances to customers complied with International Financial Reporting Standards (IFRS). We assessed the design and operating effectiveness of key controls over ECL data and respective calculations, including: • review and approval of customer credit risk grades; • review and update of collateral values; • regular customer reviews; We determined that we could rely on these controls for the purposes of our audit. We performed detailed testing over: • the completeness and accuracy of data used in the ECL calculations; • the compliance of key inputs used in ECL calculation system with IFRS 9 methodology; • the accuracy and compliance of 12-month and lifetime ECL calculations with IFRS 9 methodology; • the accuracy and completeness of data used for staging of loans (including applying the criteria for determining significant increase in credit risk and definition of default); • the internal assignment of credit risk grades, which serve as inputs into the ECL models; • the correctness of information on collaterals and their values in the loan systems, which serve as an input into the ECL model; and • the completeness of loans subject to stage 3 assessment and related ECL calculations. We have assessed the reasonableness of key assumptions made by management, which serve as critical inputs in the ECL model, such as weights of different scenarios, point in time PD estimate, key forecasts of macroeconomic information.

- determining the macro-economic indicators and incorporating forward-looking information into the ECL model;
- estimating the above mentioned indicators for reliable future period and for three different scenarios (base scenario, negative and positive scenario) and assigning probabilities to those scenarios; and
- estimating ECL for stage 3 loans (individual assessment).

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) and Coop Liising AS (Estonia). Additionally we performed an audit of specific balance sheet and income statement line items for AS Martinoza (Estonia) and SIA Prana Property (Latvia).

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 5 years.

AS PricewaterhouseCoopers

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

Evelin Lindvers
Auditor's certificate no.622

27 March 2019

* *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.*

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 for the financial year 2018 in the amount of 4 753 thousand euros as follows:

1. allocate 238 thousand euros to statutory reserve capital;
2. and 4 515 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	16 087 487
Finance activities	Credit institutions (consolidated)	64191	25 198 678

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