Coop | Pank

Annual report

2021

General information

Business name	Public Limited Company (AS) Coop Pank
Registered	15.03.1992 in Tallinn
Legal address	Maakri 30, 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
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	31.12.2021
Beginning and end of the financial year	01.01.2021 - 31.12.2021
Reporting currency	euro (EUR), in thousands

Members of the Supervisory Board:

Alo Ivask (Chairman), Viljar Arakas, Jaan Marjundi, Roman Provotorov, Raul Parusk, Silver Kuus

Members of the Management Board:

Margus Rink (Chairman), Paavo Truu, Heikko Mäe, Arko Kurtmann, Rasmus Heinla

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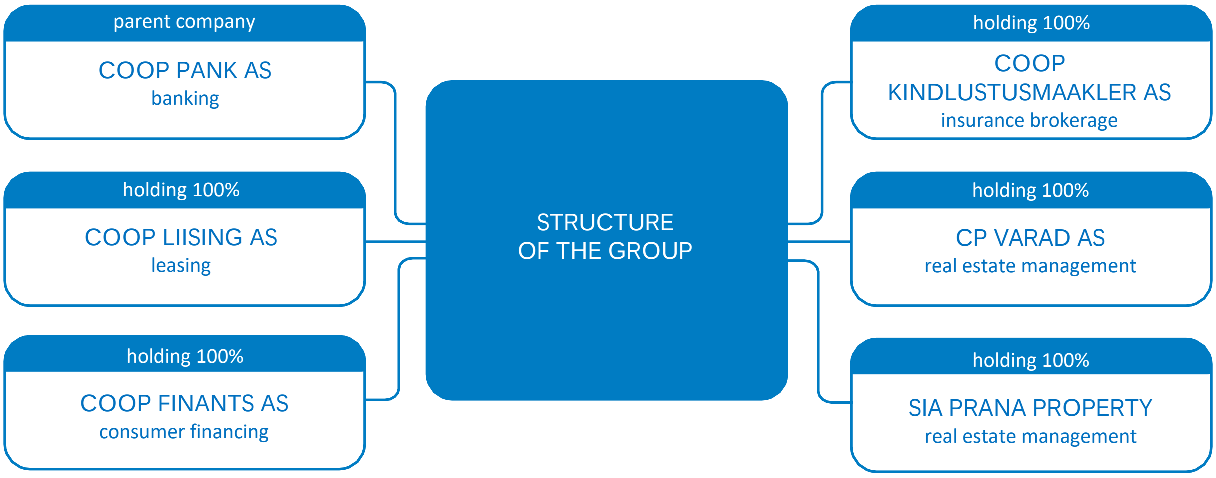
Management report

The following companies were part of AS Coop Pank Group (also used as "consolidation group", "banking group") as at 31.12.2021: Coop Pank AS, Coop Liising AS, Coop Finants AS, Coop Kindlustusmaakler AS, CP Varad AS 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.



Strategy

The Bank's way of operating for achieving its strategic objectives is as follows:

Estonian bank. Coop Pank is predominantly owned by domestic investors. The bank's customers are all residents of Estonia. All our decisions are made in Estonia. Our employees, the Management Board, the Supervisory Board sit at one table, even every week. In the light of recent events in the sector, there is public support for domestic capital-based banks. Through its activities, the Bank wishes to contribute to the development of Estonian people and companies and thereby support the development of the Estonian economy. In fulfilling this mission, we are cooperating proactively with Estonian entrepreneurs who need financial support to implement their business plans in both rural and urban areas. By supporting the development of companies outside the big cities, we contribute to the regional development of Estonia and create an opportunity for people to live in places in Estonia in which they want to.

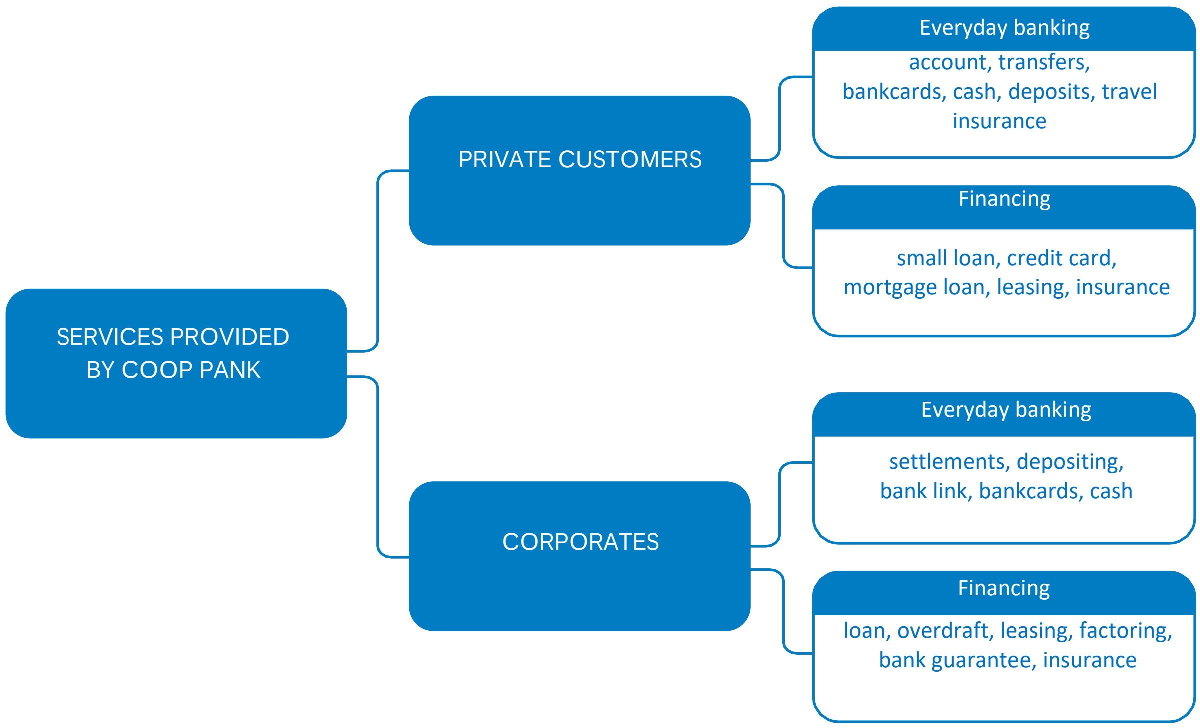
Everyday banking and financial services. Coop Pank sees its strengths and the resulting growth opportunities primarily in the provision of everyday banking (account, payments, bank card, cash, deposits) and financial services (mortgage loan, consumer loan, credit card, business loan, lease financing). In addition, we intermediate the most common property insurance products (motor third party liability insurance, comprehensive insurance, home insurance, travel insurance, purchase insurance) through our insurance broker.

We're fast. Our way of operating is fast always and everywhere - a private customer can open an account in electronic channels in about 3 minutes, instant payments are made in seconds, we make a decision on private customer's small loan and credit card in about 5 minutes, we make a lease financing decision within one working day. From summer 2022 we will also make a mortgage loan decision within one working day.

Banking with a human face. At a time when the prevailing trend is digitalisation and service on electronic channels, Coop Pank is following the same path, but also differs by offering customers human contact - financial service staff working in bank branches (15 bank branches) and salespeople working in Coop stores (330 stores).

A bank that suits your life / business. **Not the other way around.** Coop Pank has an ambition to grow and therefore strives on behalf of every customer. Our risk appetite is meaningfully higher. Having a growth strategy, we see as our strength the will and ability to delve into the wishes of our customers, to approach them personally and to find a solution that suits the customer's wishes. We price everyday banking services on a package basis, allowing for the use of all banking services the customer needs on a daily basis for a fixed monthly fee. The bank pays higher interest rates on customer demand deposits and term deposits than other competing universal banks.

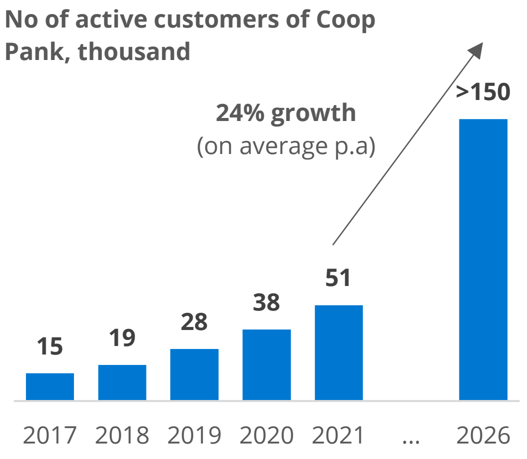
Integration of banking and retail. Thanks to the strategic partnership with Coop Eesti Keskühistu and its 19 member cooperatives, in addition to the usual sales and service channels (offices, internet banking, mobile banking), we can also offer financial services in 330 stores of Coop Eesti Keskühistu member associations all over Estonia. This is expressed through the Coop Sula service, i.e. the possibility to make a cash withdrawal from a bank account or a deposit to a bank account at the cash registers of Coop stores. The customer also receives the cheapest prices in Coop Estonia stores when paying for purchases with a Coop Pank card.

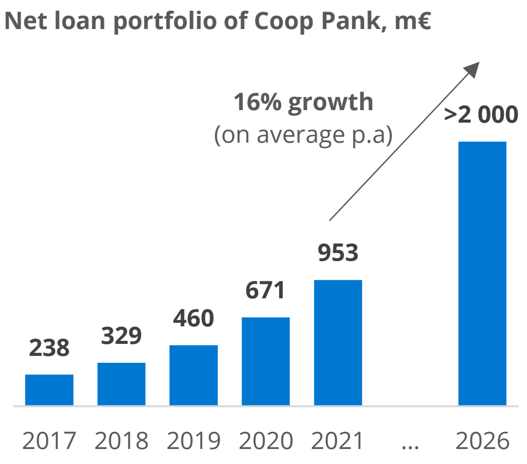


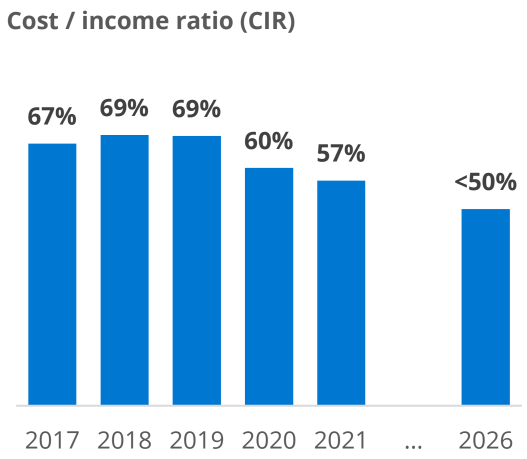
Targets

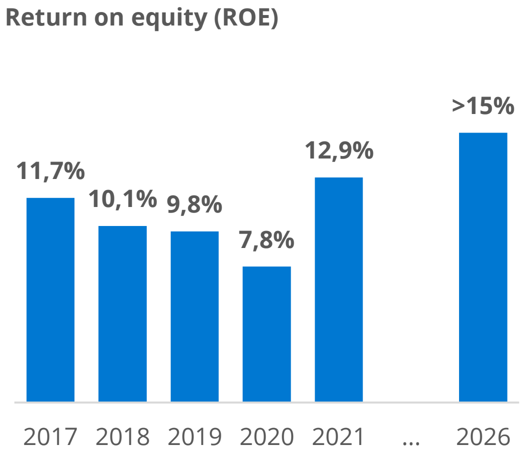
The mission of Coop Pank is to carry life forward in every corner of Estonia. For this, we give impetus to Estonian companies and help people realize their dreams both in the countryside and in the city. We believe that if Estonian entrepreneurs do well, the Estonian people and Estonia as a whole will do well too, and we want to contribute to that. Estonian banking market and the outlook for the coming years favor banks based on domestic capital, which have a fast-growing ambition and a willingness respond quickly and flexibly to customer needs. During the first five years of operation (2017–2021), we have been able to grow the bank almost five-fold.

Over the next five years (by the beginning of 2027), our strategic goal is to increase the bank's market share in Estonia to 10% (a loan portfolio of at least 2 billion euros) and thereby to reach a position in which every tenth Estonian is a current customer of Coop Pank (approximately 150 000 current customers). By increasing business volumes, the bank aims to achieve greater efficiency (cost / income ratio max 50%) and to offer shareholders a higher return on equity (ROE min 15%).









$$\text{Compound annual growth rate (CAGR)} = \left(\frac{\text{volume at the end of period}}{\text{volume at the beginning of period}}\right)^{\frac{1}{\text{number of years}}} - 1$$

Operating environment

According to IMF (International Monetary Fund) estimate, the world economy grew by about 5.9% last year. The strong recovery and growth has been remarkable as new COVID-19 mutations have put into question how quickly the pandemic will emerge. The economic growth rate slowed down in the second half of the year due to the spread of new COVID-19 strains. The outbreak of the disease has also had a negative impact on the supply chains of the economy, production has been disrupted and supply has not been met by growing demand, which has led to a rapid rise in inflation in numerous countries. 2021 has been very successful for the stock markets. All major stock indices have been growing at a high rate or have even reached new record highs. This has been driven by a favorable financial environment in the form of central bank money supply, overall good macroeconomic indicators, and strong corporate performance. The raw materials market has been characterized mainly by rising prices. The price of Brent crude oil has risen above the $ 80 mark while the price of natural gas has also increased. The rise in energy prices has had a severe impact on different industries, leading to higher prices for both food and industrial raw materials.

The euro area economy is recovering faster than expected and is projected to grow by 5.0% according to the 2021 forecast. The economic recovery has mainly been driven by the growth in domestic consumption. Compared to the previous year, the demand for leisure and catering services has increased, with domestic consumption also supported bythe savings accumulated during the pandemic. This past year will be characterized by problems in global supply chains and a lack of inputs such as microchips, on which the entire European car industry depends. The recovery in the euro area has also been somewhat hampered by rising energy prices, which are an input to both commodity and transport prices, thereby affecting the industrial sector. Annual inflation in the euro area is set to accelerate to 5.0% according to the European Central Bank. This is the fastest price increase since the beginning of the euro area. The acceleration in inflation is primarily reflected in the sharp rise in the price of fuel, gas and electricity. Inflation is also being accelerated by increased demand, which continues to outstrip supply in some sectors. The labor market situation has improved in 2021. Thanks to the economic recovery, employment has increased and the unemployment rate reached pre-pandemic levels by the end of the year. The labor market has also been supported by various aid measures introduced in response to the spread of the coronavirus.

Due to the corona pandemic, the outlook for both inflation and the general economic situation is uncertain. Inflation has risen faster than expected during the year, but is expected to fall soon. The medium-term inflation target for the euro area is set at 2%. Monetary policy interest rates remained unchanged during 2021. At the December meeting, the Governing Council of the European Central Bank decided that net asset purchases under the Pandemic Emergency Purchasing Plan (PEPP) would end in March 2022. Interest rates in the euro area money market have remained at a record low during the year, with the 6-month Euribor remaining consistently lower than the interest rate on the central bank's deposit facility of -0.5%. Banks' financing conditions were exceptionally favorable and demand for loans remained strong for both companies and households.

Estonia's economic growth exceeded forecasts during 2021, and the Estonian Central Bank estimates that the economic growth rate is at 8%, recovering from the crisis faster than most European countries. This has been supported by strong domestic demand in the form of private consumption. In September, those who withdrew from the second pension pillar received their money and part of it immediately went into the retail sector. In addition, the money was used to repay loans and make investments. The spending of the savings is expected to continue over the next year. Compared to the previous year, the pandemic has affected the economy less in 2021 thanks to relatively liberal restrictions on movement and keeping the economy open. This has had a positive impact on retail businesses and services. Employment has improved significantly during 2021, but the changes vary by industry. Employment in the accommodation and catering sector is still about a fifth lower than before the crisis. Unemployment fell to 5.7% in the third quarter of 2021 due to an increase in employment, but has not yet reached pre-pandemic levels. Consumer prices have risen during 2021, with the rise mainly caused by higher energy prices, which are passed on to other goods and services, making inflation broad-based.

Managing Director´s Statement

2021 was a year of recovery and rapid growth in the Estonian economy: GDP and wages showed growth, consumer confidence was good and unemployment rate decreased. Estonia's GDP growth has been one of the fastest in Europe and has even grown compared to 2019, which was before the pandemic. At the same time, 2021 was accompanied by an ongoing health crisis, rapidly rising real estate prices, supply chain problems which led to the limited availability of new cars and other equipment, the second pillar pension funds entry into the market, and the multiple-times increase of energy prices.

In these constantly changing circumstances, Coop Pank has been able to successfully implement its growth strategy with rapid action and flexibility, growing its business volumes by an average of 40% per year for the fifth year in a row. Coop Pank's footprint in the Estonian economy, in the local banking market, and in people's daily lives is increasing more and more.

In order to offer our customers best banking experience, we renewed our daily banking offer in the spring by eliminating payment service fees, launching a free banking plan package, and introducing innovative insurance solutions such as monthly paid COVID-19 travel insurance and adding free purchase insurance to all Coop Pank's private customers bank cards.

In the summer we celebrated the growth of our customer base to 100 000 customers. This was one of the five strategic goals which we promised during our IPO to achieve by the end of 2022 at the latest, and which we met a year and a half earlier. The number of Coop Pank's customers reached 114 600 at the end of 2021, increasing by 27 900, or 32% year-on-year. For comparison: 5 000 new customers were added in 2017, 9 000 in 2018, 19 000 in 2019, and 23 000 in 2020.

We also see that in 2021, the activity of our customers increased: more and more people and businesses across Estonia use our services on daily basis and consider us to be their home bank. As a result, domestic demand deposits grew during the year, and we continued to reduce the more expensive term deposits attracted through international deposit platforms. This also allowed us to meet the second target a year earlier than we promised during the IPO: the bank's funding costs fell to 0.7%.

As of the end of 2021, Coop Pank's deposits reached 1.1 billion euros, increasing by 341 million euros (+45%) over the year. Demand deposits increased by 71% year-on-year and term deposits (incl. loans received and issued debt securities) by 27% year-on-year. The growing local deposit portfolio and reduced financing costs allow us to more actively participate in the corporate and retail loan market. Of all the business lines, corporate loans and mortgage loans showed the largest growth during the year: the corporate loan portfolio increased by 166 million euros (+64%) and the mortgage loan portfolio by 102 million euros (+39%). The leasing portfolio increased by 14 million (+17%) and the consumer finance portfolio increased by 1 million euros (+1%). We ended the year with a loan portfolio of 953 million euros and we are very close to fulfilling the third promise made to investors: a loan portfolio of 1 billion euros by the end of 2022.

The continued growth in business volumes has led to the expected economies of scale, which means that our revenues are growing faster than our expenses. In 2021, the bank earned 39 million euros in revenue- an annual increase of 26%, and operating expenses were 22 million euros- an annual increase of 19%. The quality of our loan portfolio was the highest it has been in five years: the share of the loans past due reached only 2%. As a result, our key performance indicators improved over the year: profit rose to 13.5 million euros or 85%, cost / income ratio fell to 57% and return on equity rose to 12.9%.

We are pleased that our good performance in 2021 was also reflected in the share price and in the increase of the number of shareholders. The number of the bank's shareholders has more than doubled in a year. As of the end of 2021, Coop Pank was the third largest listed company in Estonia in terms of the number of shareholders with 28 000 shareholders. At the beginning of the year, we launched the first subordinated debt of Coop Pank, with which we raised 10 million euros of capital for growth.

In addition to our customers and shareholders, last year we also delighted our employees by moving the bank's head office to the newly built and modern Skyon business building in Maakri business district in Tallinn –over 80% of Coop Pank's more than 300 employees work here. The new high-capacity, LEED-certified headquarters will support our continued ambition for growth and sustainability, including reducing our carbon footprint.

In 2021, we met all our goals and promises to our investors, and we will continue with the strategy that has brought us success, but from now on we do it with even greater ambition. Over the next five years, more precisely by the beginning of 2027, our strategic goal is to increase the bank's market share in Estonia to 10% and loan portfolio to approximately 2 billion euros, and thus reach a position in which every tenth Estonian settles at Coop Pank – that is at least 150 000 settled customers. As a result of the increase in business volumes, the bank aims to achieve better efficiency (cost-income ratio less than 50%) and to offer shareholders a higher return on equity (ROE at least 15%).

Margus Rink

Increase in the number of clients

By the end of 2021 Coop Pank had 114 600 clients, in a year number of clients increased by 27 900. Of these, 25 400 were private customers and 2 500 were business customers.

In addition, the bank's consumer financing company Coop Finants has 100 000 clients.

Increase in profit

Profit of Coop Pank reached EUR 13.5 million in 2021, growing 85% over the year.

Increase in loans

Loan portfolio of Coop Pank increased by 42% over the year, reaching EUR 953 million by the end of 2021.

The rapid growth of the loan portfolio was supported by all business lines engaged in financing.

Increase in deposits

Deposits of Coop Pank increased by 45% over the year, reaching EUR 1.1 billion by the end of 2021.

Demand deposits grew by 71% and term deposits by 27% over the year.

Best Prices at Coop stores with Coop Pank card

Coop Pank card holders are getting the best discounts in all the Coop stores and earn 10% more Coop bonus points. Coop Pank customers can pay cash to their bank account free of charge at the cash desks of Coop stores, as well as withdraw money from it.

Bank cards with purchase protection insurance

All bank cards of Coop Pank private customers have free purchase insurance, which automatically insures all durable goods purchased with a bank card up to 2 500 euros against accidents and theft.

Insurance solutions

Coop Kindlustusmaakler creates more and more added value for the bank's customers by offering all the most common insurance products such as traffic, comprehensive, home and travel insurance, property insurance for small and medium-sized enterprises, construction machinery and other equipment.

In 2021, new services were launched. Private customers were offered COVID-19 travel insurance, which has monthly fee, and free purchase insurance was added to all Coop Pank private customers bank cards. In addition, were introduced the popular small loan insurance and the possibility to add all insurance premiums to the loan payment schedule.

Successful year in stock market

In 2021, the number of Coop Pank's shareholders doubled, reaching 27 799 shareholders by the end of the year. This made us the third largest listed company in Estonia in terms of shareholders.

At the beginning of 2021, we launched the first subordinated debt of Coop Pank, with which we raised 10 million euros of capital for growth.

New headquarters in the high-rise Skyon building

In addition to our customers and shareholders, we also delighted our employees in 2021 by moving the bank's head office to the newly built and modern Skyon business building in the Maakri business district in Tallinn.

Our customer office is located in the same building, at Maakri 30.

Financial results

Statement of profit or loss, in thousands of euros	2017	2018	2019	2020	2021
Net interest income	11 519	16 779	20 689	28 371	35 538
Net fee and commission income	2 170	2 302	2 372	2 097	3 085
Net other income	3 600	687	658	621	615
Total net operating income	17 289	19 768	23 719	31 089	39 238
Operating expenses	-11 518	-13 601	-16 261	-18 796	-22 453
Credit loss allowance	-1 313	-1 392	-1 931	-4 789	-2 497
Income tax expense	0	-22	0	-245	-825
Net profit	4 458	4 753	5 527	7 259	13 463
incl. profit attributable to the owners of the parent company	4 345	4 753	5 527	7 259	13 463

Business volumes, in millions of euros	2017	2018	2019	2020	2021
Net loan portfolio	238	329	460	671	953
Client deposits and loans received	316	385	507	758	1 099
Subordinated debt	5	5	7	7	17
Equity (attributable to owners of the parent)	45	49	89	98	112

Ratios	2019	2020	2021
Average shareholders' equity attributable to owners of the parent company, mln.euros	56	93	105
Return on equity (ROE) %	9.8	7.8	12.9
(net profit / shareholders' equity, average)			
Total assets, average, mln.euros	529	741	1 055
Return on assets (ROA), %	1.0	1.0	1.3
(net profit / total assets, average)			
Cash and interest-bearing assets, average, mln.euros	495	725	1 039
Net interest margin (NIM), %	4.2	3.9	3.4
(net interest income / interest-bearing assets, average)			
Cost / income ratio, %	68.6	60.5	57.2
(total operating costs / total net operating income)			
Loans / deposits ratio, %	90.9	88.5	86.8
(net loans / client deposits and loans received)			

Capitalisation and risk positions

Capital base, in thousands of euros	31.12.2021	31.12.2021 adjusted*	31.12.2020
Tier 1 capital			
Paid-in share capital and share premium	74 416	74 416	73 817
Statutory reserve capital	3 165	3 165	2 802
Retained earnings	20 461	20 461	13 564
The accepted profit of the reporting period	8 012	10 725	4 835
Other accumulated comprehensive income	-15	-15	-18
Goodwill as intangible asset (-)	-6 757	-6 757	-6 757
Intangible assets (-)	-7 457	-7 457	-5 930
Adjustment of value arising from requirements of reliable measurement (-)	-6	-6	-3
Other deductions from Tier 1 Capital (-)	-963	0	-715
Other adjustments of own funds resulting from transitional provisions	315	315	441
Total Tier 1 capital	91 171	94 847	82 036
Subordinated debt	17 000	17 000	7 000
Tier 2 capital	17 000	17 000	7 000
Eligible capital for capital adequacy calculation	108 171	111 847	89 036
Risk-weighted assets (RWA)			
Central government and central banks using the standardised approach	638	638	624
Credit institutions, investment companies and local governments using the standardised approach	3 112	3 112	451
Companies using the standardised approach	65 173	65 173	72 962
Retail receivables using the standardised approach	130 582	130 582	110 660
Receivables secured by mortgage on real estate using the Standardised approach	325 729	325 729	195 622
Receivables past due using the standardised approach	3 033	3 033	6 612
Items subject to particularly high risk using the standardised approach	59 295	59 295	22 417
Other assets using the standardised approach	13 543	13 543	10 928
Total credit risk and counterparty credit risk	601 105	601 105	420 276
Operational risk using the Basic Indicator Approach	47 007	47 007	36 423
Total risk-weighted assets	648 112	648 112	456 699
Capital adequacy (%)	16,69%	17,26%	19.50%
Tier 1 capital ratio (%)	14,07%	14,63%	17.96%

* Includes audited profit for 2021, which will be added to regulatory Tier 1 capital after approval by the Financial Supervisory Authority or after approval of the Annual Report by shareholders, and from which expected dividend payments have been deducted. By the end of the reporting period 9 month interim profit 2021 is included as approved by the Financial Supervisory Authority.

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
Capital conservation buffer	2.50%	Of total risk exposure

As at 31.12.2021, the Group is in compliance with all regulatory capital requirements. The capital conservation buffer of the Group as at 31.12.2021 was 16 203 (31.12.2020: 11 417) thousand euros.

The financial leverage ratio of the Group at 31.12.2021 was 6.66% (31.12.2020: 8.79%). In order to calculate the financial leverage ratio, the Tier 1 capital indicator is divided by the total exposure (on- and off-balance) indicator. Group's liquidity position is strong. At 31.12.2021 the Liquidity Coverage Ratio (LCR) was 202% (31.12.2020: 275%), the regulatory minimum requirement is 100%.

According to the Regulation (EU) number 575/2013 of the European Parliament and of the Council, an exposure to a client or group of clients is considered as risky concentration where its value is equal to or exceeds 10% of the credit institution's eligible capital (see the table on previous page about capitalisation). 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. 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.

As at 31.12.2021 and 31.12.2020, the exposure of any credit institution, client or group of clients did not exceed the risk concentration limits established by Regulation 575/2013.

Group management system

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

The management of Coop Pank AS has three levels, where the governing bodies are the General Meeting of Shareholders, the Supervisory Board and the Management Board. The General Meeting of Shareholders is the highest governing body of Coop Pank AS, which is open to all shareholders and which normally takes place once a year.

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 candidate for a member of the Supervisory Board must have relevant knowledge and experience to participate in the management body of the bank, the composition of the Supervisory Board must be diverse and the Supervisory Board must have sufficient independent members.

The Management Board is appointed by the Supervisory Board for a three-year term. When appointing members of the Management Board as collegial body, 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.

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

PAAVO TRUU

Member of the Management Board
since February 2022

Previously CFO of Coop Estonia and AS Magnum

HEIKKO MÄE

Member of the Management Board
since February 2020

Previously CEO of Magnum Veterinary and Head of Energy Trading in Eesti Energia

RASMUS HEINLA

Member of the Management Board
since November 2020

Previously Head of the Consumer Finance Department of Coop Pank

ARKO KURTMANN

Member of the Management Board
since November 2020

Previously Head of the Corporate Banking Department of LHV Pank

Supervisory Board

ALO IVASK

Chairman of the Supervisory Board
Member of audit committee
Member of remuneration committee

Chairman of the Management Board of Coop Eesti Keskühistu

VILJAR ARAKAS

Member of the Supervisory Board

Chairman of the Management Board of EfTEN Capital

JAAN MARJUNDI

Member of the Supervisory Board
Member of remuneration committee

Chairman of the Management Board of Harju Tarbijate Ühistu

RAUL PARUSK

Member of the Supervisory Board
Member of remuneration committee

Head of Sulvanius Invest OÜ

ROMAN PROVOTOROV

Member of the Supervisory Board

Head of Antsla Tarbijate Ühistu

SILVER KUUS

Member of the Supervisory Board
Member of audit committee

Head of development of Agron Halduse OÜ
Head of Lorikoru Capital OÜ

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 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:

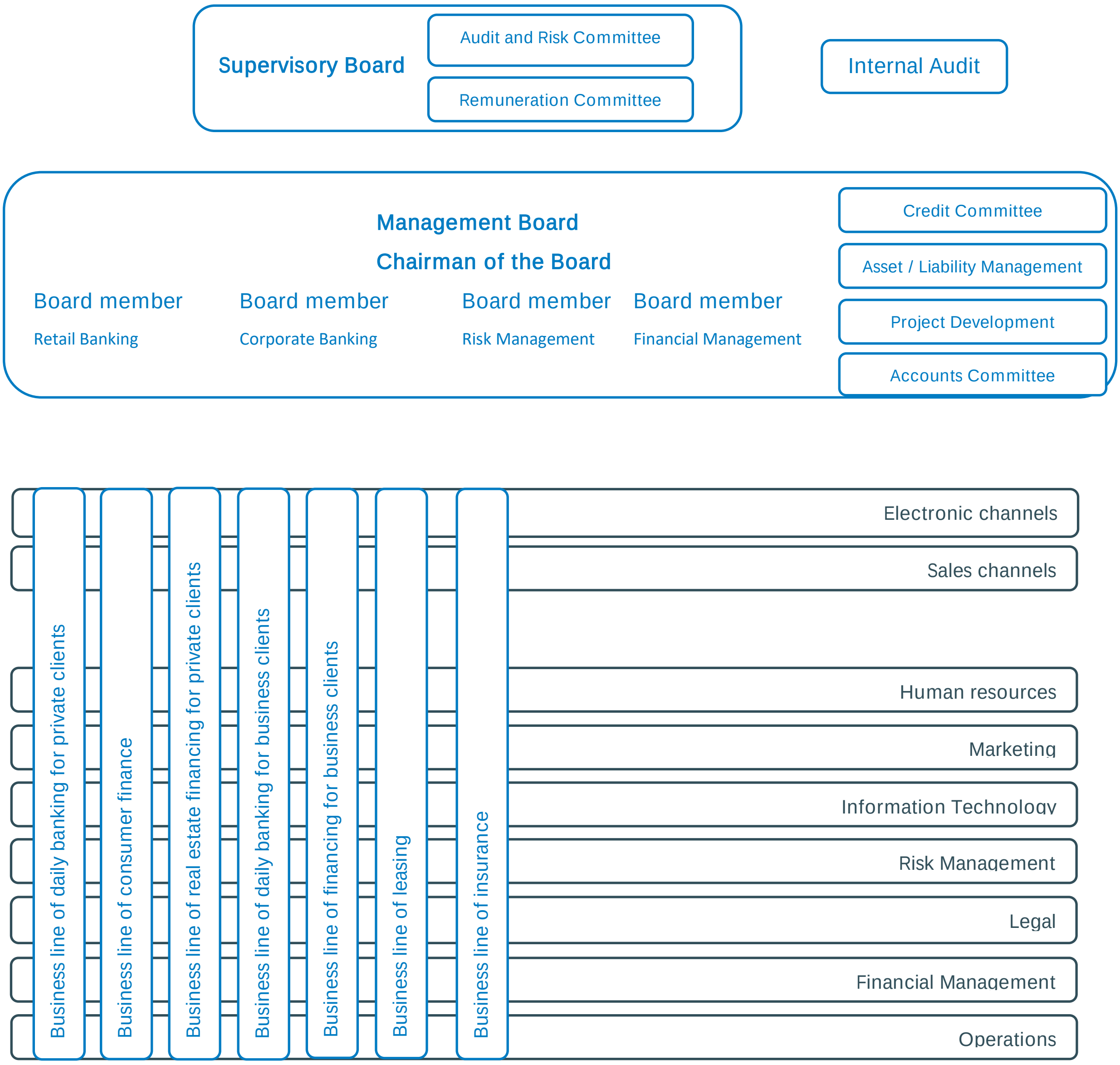
- Audit/Risk Committee serves as an advisory body in respect of accounting, auditing, risk management, legal compliance, internal control and audit, general supervision and budgeting.
- Remuneration Committee's role is to evaluate the implementation of remuneration policy and their adherence to the operational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

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

The Group has a uniform remuneration policy. Employees are paid salaries and performance fees according to the market level. 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.

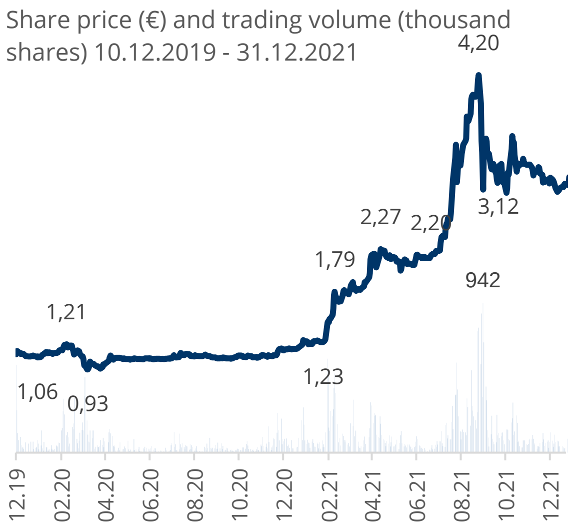
For the bank, employee satisfaction and development are important. To ensure this, various development training and joint events will be organized, such as Gala of the beginning of the year and joint summer days with Coop Eesti. Annual and semi-annual interviews are conducted with all staff during the year to ensure the staff development and that their activities are better aligned with the Bank's strategy and common goals.

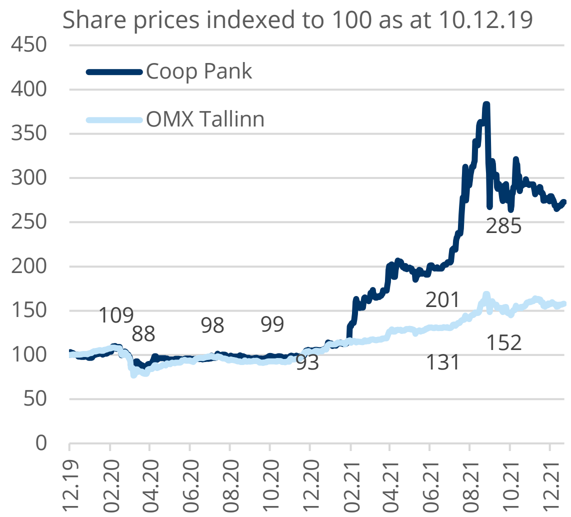
Group structure



Shares

Coop Pank AS has issued ordinary shares, each share giving one voting right. The shares are listed on the main list of NASDAQ Tallinn with ISIN code EE3100007857 as of 10.12.2019. The share subscription price was 1.15 euros. As of 31.12.2021, the share price was 2.99 euros. In 2021, the lowest tradable price was 1.168 euros and the highest price was 4.50 euros. As of 31.12.2021, the market value of the bank was 273 million euros on the basis of the share price. During the year, the turnover of transactions totaled 90.6 million euros and 33.2 million shares changed hands with an average transaction price of 2.73 euros. Since the beginning of listing on the stock exchange, the turnover of transactions has totaled 106.9 million euros. The ratio of share price to earnings per share at the end of 2021 was 20.2. The basis for finding the ratio is the market price of the share, which is divided by the net profit per average number of shares. The book value of the share as of 31.12.2021 was 1.225 euros and the ratio of the share price to the book value of the share was 2.44.



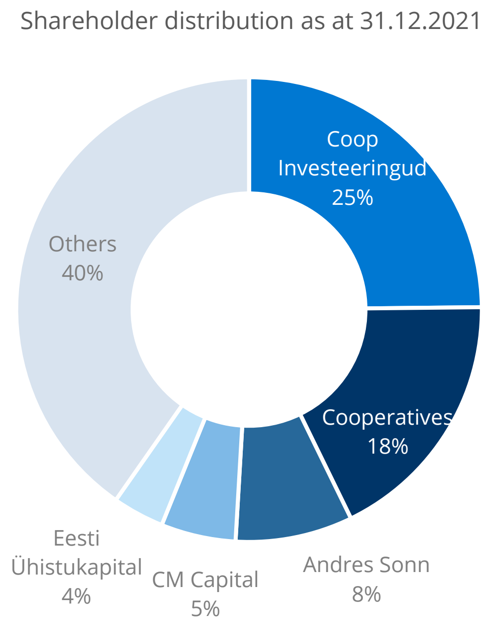


As at 31.12.2021 shareholders with holding over 5% are:

Coop Investeeringud OÜ	24.81%
Andres Sonn	8.13%
CM Capital OÜ	5.19%

In addition, the member cooperatives of Coop Eesti Keskühistu hold the total of 17.93% of the total amount of shares, however, separately none of them holds over 5%.
The bank has 27 799 shareholders as of 31.12.2021, of which institutional investors, i.e. owning more than 100 000 shares, are 47 shareholders. 17 000 shareholders have been added since the listing on 10.12.2019.

The shares are entitled to a dividend. In exercising the share option programs, the shareholders have delegated the authority to issue new shares to the Supervisory Board.



Dividend policy

At the shareholders' meeting on 08.11.2019 the dividend policy was approved, according to which the consolidation bank aims to pay a dividend of 25% of the annual earnings before taxes (incl. income tax), attributable to shareholders of the Group. The first dividend payment will be made in 2022 from the profit earned in 2021. Preconditions for dividend payment are:

- compliance with external and internal capital and liquidity requirements;
- the level of capital after dividend payments shall be sustainable and sufficient to ensure business growth and investment needs.

Corporate Governance Report

Coop Pank AS implements the Corporate Governance Recommendations (hereinafter CGR) approved by the Nasdaq Tallinn Stock Exchange and the Financial Supervision Authority since the listing of Coop Pank AS shares on the Tallinn Stock Exchange main list on 10 December of 2019. The report provides an overview of Coop Pank AS management and compliance with CGR guidelines. Coop Pank AS complies with the recommendations of the Good Corporate Governance, unless otherwise stated in this report.

1. General Meeting

Coop Pank is a public limited company whose management bodies are the General Meeting of Shareholders, the Supervisory Board and the Management Board. The General Meeting is the highest directing body of the bank, where the shareholders exercise their rights. The competence of the General Meeting is provided by law and the Articles of Association of the bank. For example, the General Meeting is competent to amend the Articles of Association, increase and decrease the share capital, decide on the issue of convertible bonds, elect and extend the term, as well as decide on the early removal of the Supervisory Board members, approve the annual report and distribute the profit, approve the share option program, appoint and dismiss the auditor.

Every shareholder is entitled to participate in the General Meeting, to speak at the General Meeting on the topics in the agenda and to ask reasonable questions and make proposals. In 2021, no shareholders' questions on agenda topics were raised before the General Meeting. A shareholder may attend the General Meeting and vote at the meeting in person or through a duly authorized representative. The General Meetings are held on business days in Tallinn.

The General Meeting is called by the Management Board. The Annual General Meeting, which approves the annual report, is held at least once a year. The Management Board shall call an Annual General Meeting not later than four months after the end of the financial year. The Management Board shall give the notice of both the Annual and Special General Meetings at least three weeks in advance by publishing the notice of convening the General Meeting through the information system of the Nasdaq Tallinn Stock Exchange as well as on its homepage and at least through one daily national newspaper.

The agenda of the General Meeting, the proposals of the Management Board and the Supervisory Board, the draft resolutions and other relevant materials shall be made available to the shareholders before the General Meeting. In 2021, from the announcement of the General Meetings until the day of the General Meeting, the shareholders had access to the materials and draft resolutions of the General Meetings and other documents required by law on the bank's homepage and at the bank's headquarters on workdays from 09:00-17:00 at Narva mnt 4, Tallinn. Shareholders are given the opportunity to ask questions on the agenda before the General Meeting.

Following and participation in the General Meeting via means of communication has not been made available (CGC clause 1.3.3), since there hass been no need, demand nor suitable technical solution for that.

In 2021, one Annual General Meeting was held. The Annual General Meeting of Shareholders that took place on 14 April of 2021 approved the Annual Report 2020, distributed the profit for the year 2020 and it was decided not to pay dividends. One member of the Supervisory Board was recalled and a new member were elected. The General Meeting was held in Estonian language. The meeting was chaired by Mariann Suik, Head of the Legal Department of the bank and lawyer Renno Mägi took minutes of the meeting. All Management Board and Supervisory Board members of the bank attended the General Meeting. Also, the auditors of the Bank from AS PricewaterhouseCoopers, Tiit Raimla and Evelin Lindvers and the notary Annika Kuimet, who attested the General Meeting minutes and resolutions, attended the meeting.

2. Management Board

2.1. Responsibilities of the Management Board

The Management Board is the governing body of Coop Pank, that represents and manages the bank on daily basis. According to the Articles of Association, every member of the Management Board may represent the bank in all legal acts. The members of the Board are elected and removed by the Council. The consent of the Board member is required for the election. According to the Articles of Association of the bank, the Management Board comprises three to seven members. The term of office of a Management Board member is three years. Each member of the Management Board has his or her area of responsibility, which is determined by the agreement of the Management Board member. On the basis of the authorization received from the Supervisory Board, the chairman of the Supervisory Board shall enter into an agreement with the member of the management board to perform his or her duties. According the restrictions set out in the Credit Institutions Act, until 2021, the members of the management board of the bank could not simultaneously participate in the work of the management board or Supervisory Board of other companies. Contrary to the above, there was no restriction on the work of the management bodies of the Bank's consolidation group companies. From 2021, the members of the Bank's Management Board may additionally hold one member of the Management Board and two members of the Supervisory Board, or four members of the Supervisory Board. The positions of head of the group shall be considered as one position.

In accordance with the agreements concluded with the Management Board members, the extension of the term of office of a Management Board member shall be decided 3 months before the expiry of the term of office. The Supervisory Board shall appoint the chairman of the Management Board. The chairman of the Management Board shall organize the work of the Management Board. The Supervisory Board may dismiss a member of the Management Board regardless of the reason. A member of the Management Board may resign from the Management Board regardless of the reason with prior notice to the Supervisory Board. The rights and obligations arising from the agreement, concluded with the member of the Management Board, shall expire in accordance with the agreement.

Persons with sufficient knowledge and experience to participate in the work of the bank's Management Board shall be elected as members of the Management Board. For the selection and evaluation of the bank's Management Board and Supervisory Board members, the bank has adopted "Suitability assessment policy", which is implemented in conjunction with applicable legislation (the Credit Institutions Act in particular) as well as with the recommendations manual and other relevant guidance documents issued by the Financial Supervision Authority and / or other supervisory agencies.

As of 31.12.2021, the Management Board of the bank comprised of five members: Margus Rink (chairman), Kerli Lõhmus, Heikko Mäe, Arko Kurtmann and Rasmus Heinla. The responsibilities of Management Board members are: Margus Rink – general management, Kerli Lõhmus – financial management, Heikko Mäe – risk management, Arko Kurtmann – corporate banking, Rasmus Heinla – retail banking.

Margus Rink received a Bachelor´s degree in Financial Accounting and Analysis in 1994 from the School of Economics and Business Administration at the University of Tartu and a Master of Business Administration degree in 2000 and from the same university. Margus Rink has worked in the banking sector for more than 15 years, starting in 1994 as a bank cashier in aktsiaselts Eesti Ühispank (current name AS SEB Pank) and worked in various positions in aktsiaselts Hansapank (current name AS Swedbank) in 1996-2008, among others, as the Manager of the Viljandi branch, Account Manager, Manager of the Personal Banking Division and Managing Director of Retail Banking. In 2008 Margus Rink took a position as the member of the management board of Eesti Energia AS where he worked until 2015. In the period 2015–2016 Margus Rink was the chairman of the management board of aktsiaselts Magnum and a member of the Supervisory Board of several subsidiaries of that group. Margus Rink is also on the management board of the non-profit association Estonian Banking Association (*Pangaliit* in Estonian) and a chairman of the Supervisory Board of Good Deed Foundation, a venture philanthropy organisation (*Heateo Sihtasutus* in Estonian). Currently, Margus Rink is also a member of the

Supervisory Board of bank Subsidiaries Coop Finants AS, Coop Liising AS, CP Varad AS and Coop Kindlustusmaakler AS.

Kerli Lõhmus received a Bachelor's degree of Social Sciences in Business Administration from the Tallinn Technical University in 2000 (officially equivalent to a master´s degree). Kerli Lõhmus has over 20 years of experience in the financial sector and has since 1997 worked in various positions in AS Hansapank (in 1997–2000 as a bank cashier and life insurance adviser), in AS LHV Pank (in 2002–2015 as Chief Accountant and CFO) and in AS LHV Varahaldus (in 2008–2015 as Chief Accountant and CFO). In the period 2007–2015 Kerli Lõhmus was a member of the management board of AS LHV Pank and in the period 2008– 2015 a member of the management board of AS LHV Varahaldus. Currently, Kerli Lõhmus is also a member of the Supervisory Board of the bank Subsidiaries Coop Finants AS, Coop Liising AS, CP Varad AS and Coop Kindlustusmaakler AS. Mandates of Kerli Lõhmus in Coop Pank and in the bank Subsidiaries was terminated at 24.01.2022.

Heikko Mäe holds Master of Arts degree in Law from Audentes University (2008). In the period of 2004-2008 Heikko Mäe has worked in AS PricewaterhouseCoopers Advisory as the risk management senior consultant, in 2008 – 2013 in Eesti Energia AS as Director of the Risk Management and Internal Auditing Unit and in 2013 – 2015 as Director of Energy Trading in Eesti Energia AS. In the period of 2015 – 2019 Heikko Mäe worked as the head of AS Magnum Veterinary and in 2016-2020 as TULEVA Fondid AS Supervisory Board member. Heikko Mäe has been working at the bank as a risk manager since 2019. Currently, Heikko Mäe is also a member of the Supervisory board of the bank Subsidiaries Coop Finants AS, Coop Liising AS and Coop Kindlustusmaakler AS and a member of the board of CP Varad AS and SIA Prana Property.

Arko Kurtmann graduated with a degree in Economics and Business from the Estonian University of Life Sciences in 2003. Arko. Kurtmann has worked for AS LHV Pank as the head of the business banking department and a member of the credit committee in 2012-2019. Arko Kurtmann is a member of the management board of Corby Capital OÜ. Currently, Arko Kurtmann is also a member of the Supervisory Soard of the bank Subsidiaries Coop Finants AS, Coop Liising AS, CP Varad AS and Coop Kindlustusmaakler AS.

Rasmus Heinla received a Bachelor´s degree in Law from the University of Tartu in 2009. Currently he is pursuing an applied Master´s Degree in Executive Business Administration at Estonian Business School. In 2007–2009 he worked as a lawyer in two different notary's offices (notary's office of Priidu Pärna, Lee Mõttus (Jäetma), Maarika Pihlak and notary's office of Liivi Laos, Tea Türnpuu). In 2009–2013 Rasmus Heinla was a Key Account Manager in OÜ BCP Kindlustusmaakler and in 2013–2017 the Head of Business Development of AS Creditstar Group. In the period 2017-2020, before becoming a member of the Management Board of the bank, Rasmus Heinla was the head of Coop Finants AS. Rasmus Heinla is also a member of the Supervisory Board of the bank Subsidiaries Coop Finants AS, Coop Liising AS, CP Varad AS and Coop Kindlustusmaakler AS.

The Management Board carries out its day-to-day management decisions independently, considering the best interests of the bank and its shareholders, while excluding any personal interests. The members of the Management Board are responsible for the day-to-day management of the bank and for developing and implementing the bank's strategy. The Management Board ensures proper functioning of risk management and internal control considering the bank's area of activity.

2.2. Remuneration principles of managers

The purpose of the bank's remuneration policy is to provide fair, motivating, transparent and legally compliant remuneration. The Supervisory Board has the right to decide on the remuneration of the members of the Management Board. The Remuneration Committee of the bank annually reviews the remuneration principles of the Management Board. When determining the remuneration of a member of the Management Board, the Remuneration Committee shall, in particular, take into account the responsibilities of the individual member of the Management Board, his or her performance, the overall performance of the Management Board, as well as the financial position of the bank, the current state and future direction of the business in comparison with the corresponding indicators of companies of the same economic sector.

The remuneration of a Management Board member must be such as to motivate the person to act in the best interests of the bank. The basic wage of the Management Board members is agreed in the Management Board member agreement. The remuneration principles of the Management Board members and /or employees, exercising internal control and risk management functions, must ensure their independence and objectivity in performing their risk management / internal control tasks. The remuneration of these employees must not depend on the results of the departments controlled, the set objectives must be described at the individual employee level.

The Bank applies an annual performance pay, commensurate with achieving the objectives, to all employees, plus a long-term option program for key employees.

Gross remuneration paid to the Management Board members in 2021 in euros:

	Basic salary 2021	Performance pay in 2021
Margus Rink	126 000	31 500
Arko Kurtmann	96 000	0
Rasmus Heinla	84 000	12 500
Heikko Mäe	84 000	17 500
Kerli Lõhmus	84 000	21 000

In the event of an extraordinary termination of the Management Board member's agreement by the Bank, the Management Board member shall be paid severance pay in the amount of 6 months' remuneration. The severance pay is not payable if the termination is due to significant culpable failure to fulfil official duties or to any other act that seriously damages the bank's reputation. If the term of office of a member of the Management Board is not extended, the Management Board member is entitled to a severance pay in the amount of 3 months' remuneration.

Shares and share options owned by the Management Board members and their associated persons as at 31.12.2021:

Shares and subordinated debt	Shares	Hoding	Subordinated debt
Margus Rink	596 337	0.65%	7
Kerli Lõhmus (through company OÜ Lucrativo	130 000	0.14%	0
Heikko Mäe	3 000	0.00%	0
Rasmus Heinla	23 200	0.03%	3

Options	Amount	Share purchase price payable at subscription	Subscription term
Margus Rink	70 000	1.01	2023
Kerli Lõhmus	50 000	1.01	2023
Heikko Mäe	50 000	1.01	2023
Rasmus Heinla	30 000	1.01	2023
Margus Rink	90 000	1.10	2024
Kerli Lõhmus	70 000	1.10	2024
Heikko Mäe	70 000	1.10	2024
Rasmus Heinla	70 000	1.10	2024
Arko Kurtmann	40 000	1.10	2024

Due to the termination of the Management Board member contract of Kerli Lõhmus in January 2022, the options for 70 000 shares with subscription term in 2024, expired.

2.3. Conflict of interests

The Bank has established a Banking group-wide "Policy of Management of the Conflict of Interest", under which members of the Banking group's corporate bodies, heads of departments and client managers are required to submit and annually update their Declaration of Financial Interests and Credibility. Also, a new declaration must be submitted immediately after a change of significant circumstances which are, or are likely to give rise to, a conflict of interest which constitute or may give rise to a conflict of interest.

Transactions between the bank and the members of the Management Board, persons close or associated to them shall be subject to the prior approval of the Supervisory Board. In 2021, no such transactions took place.

Management Board members are not members of the Management Board or Supervisory Board of other issuers. The Management Board members of Coop Pank AS are also the Supervisory Board members of the bank's subsidiaries; the Management Board member, fulfilling the duties of risk manager, is also a Management Board member of a real estate management companies established in Estonia and Latvia which are part of the Banking group.

3. Supervisory Board

The Supervisory Board is the bank's governing body, which plans and organises the Bank's management and supervises the activities of the Management Board. The Board determines and periodically reviews the bank's strategy, general business plan, principles of risk management and annual budget. The Supervisory Board comprises five to seven members, the term of office of the Supervisory Board members is three years. The members of the Supervisory Board shall elect from among themselves the chairman of the Supervisory Board who shall organize the activities of the Supervisory Board.

The Supervisory Board regularly evaluates the activities of the Management Board by implementing the bank's strategy, as well as evaluates the bank's financial position, risk management systems and lawfulness of the activities of Management Board.

Persons with sufficient knowledge and experience to participate in the work of the bank's Supervisory Board shall be elected as members of the Supervisory Board. For the selection and evaluation of the bank's Management Board and Supervisory Board members, the bank has adopted "Suitability assessment policy", which is implemented in conjunction with applicable legislation (the Credit Institutions Act in particular) as well as with the recommendations manual and other relevant guidance documents issued by the Financial Supervision Authority and / or other supervisory agencies.

As at 31.12.2021, the Supervisory Board of the bank comprised of six members and they were Alo Ivask (chairman, term 27.05.2023), Viljar Arakas (term 14.04.2024), Jaan Marjundi (term 27.05.2023), Roman Provotorov (term 27.05.2023), Raul Parusk (term 27.05.2023) and Silver Kuus (term 27.05.2023). In the meaning of CGR there are three independent members in the bank´s Supervisory Board – Viljar Arakas, Raul Parusk ja Silver Kuus.

Alo Ivask obtained a master's degree in engineering from the Estonian University of Life Sciences in 1997. In the period of 2007-2016 he was chairman of the management board of Kesko Senukai AS and in the years of 2017 – 2019 he served as chairman of the board of Enterprise Estonia and since October 2019, he is the chairman of the board of Coop Eesti Keskühistu (Coop Estonia).

Viljar Arakas obtained a bachelor's degree in business administration from EBS International University in 2003 and has completed his second bachelor's degree at Hogeschool NOVI in the Netherlands. Viljar Arakas is a founding member and a member of the Management Board and CEO of EfTEN Capital AS, the largest management company focused on commercial real estate in the Baltic States.

Roman Provotorov obtained higher education in economics and management from Estonian Agricultural University (currently Estonian University of Life Sciences). Since 1995, he is a head of Antsla Tarbijate Ühistu (Antsla Consumer Association) and, since 2017, member of the Supervisory Board of Coop Pank AS.

Jaan Marjundi obtained higher education in process engineering from Tallinn Polytechnical Institute (currently TalTech). For years, he has worked in top management positions of retail businesses. Since 2007, Jaan Marjundi is a chairman of the board of Harju Tarbijate Ühistu (Harju Consumer Association) and, since 2017, member of the Supervisory Board of Coop Pank AS.

Raul Parusk obtained a master's degrees in political economy from Moscow National University and in business management from Vienna Business School. He has worked in top management positions in different companies, including credit institutions. Since 2017 until August 2021, Raul Parusk was a member of management boards of Forus Grupp OÜ, Forus Security Eesti AS and Forus Haldus OÜ. Currently, he is manager of a business consulting company Sulvanius Invest OÜ.

Silver Kuus has obtained a master's degree in international business management from Estonian Business School. Silver Kuus has worked in top management positions in different financial institutions, latest of them from 2017-2019 as manager of corporate banking at Luminor Bank AS. Currently, he is manager of a business consulting company OÜ Lorikori Capital.

The General Meeting of Shareholders has decided to set the gross monthly remuneration of the members of the Supervisory Board at EUR 1 000, the chairman at EUR 1 500. There is no severance pay or other additional benefits for members of the Supervisory Board.

Gross remuneration paid to the Supervisory Board members in 2021 in euros:

	Basic wage in 2021
Alo Ivask	18 000
Arto Hillar Hansson	5 143
Viljar Arakas	8 619
Jaan Marjundi	12 000
Roman Provotorov	12 000
Raul Parusk	12 000
Silver Kuus	12 000

Shares owned by members of Supervisory Board as of 31.12.2021

	Shares	Holding	Subordinated debt
Viljar Arakas (through company Miemma Holding OÜ)	20 000	0.02%	14
Jaan Marjundi	23 000	0.03%	11
Alo Ivask	15 000	0.02%	7
Roman Provotorov	13 000	0.01%	0

As set out in clause 2.3 of this report, the Supervisory Board members shall also submit a declaration of their financial interests and reliability.

No significant transactions took place between the bank and the members of the Supervisory Board, and persons close or associated to them in 2021.

In 2021, 12 Supervisory Board meetings were held, and 2 Supervisory Board resolutions was adopted without convening a meeting. The members of the Supervisory Board participated in all votes, except in one case when one member of the Supervisory Board withdrew from voting, in order to avoid possible conflicts of interest.

The Supervisory Board has formed two committees: the Audit Committee and the Remuneration Committee. The Committees act under the supervision of the Supervisory Board as advisory bodies to the Board. Given the size of the banking group and the principle of proportionality, no separate Nomination Committee has been set up.

3.1. Audit Committee

The Audit Committee is an advisory body to the Supervisory Board in the areas of accounting, auditing, risk management, internal control and audit, supervision and budgeting, and the legality of the activities. The activities of the Audit Committee are primarily based on the Auditors Activities Act and the rules of procedure of the Audit Committee, approved by the Supervisory Board.

The Audit Committee is responsible, inter alia, for supervision of the audit process of the annual or consolidated accounts and the independence of the sworn auditor. The Audit Committee also performs the functions of the Risk Committee and advises the Supervisory Board and the Management Board on risk management principles and supervises risk management. The Audit Committee makes proposals to the Supervisory Board for the appointment or removal of the external and internal auditor, as well as for changes in risk management principles, elimination of problems in the organization and compliance with legal acts. At least once a year, the external auditor shall report to the Audit Committee on the findings of the audit.

The Audit Committee shall comprise at least two members, elected by the Supervisory Board. As at 31.12.2021 the Audit Committee comprised of four members and they were Paavo Truu (chairman), Alo Ivask, Silver Kuus and Urmas Kaarlep. No remuneration is paid to the members of the Audit Committee who are members of the Supervisory Board, remuneration to Paavo Truu and Urmas Kaarlep is 400 euros per meeting.

3.2. Remuneration Committee

The responsibility of the Remuneration Committee is to evaluate the implementation of the Remuneration Principles approved by the bank's Supervisory Board and their consistency with the Bank's business objectives, the impact of the remuneration decisions on meeting the requirements set to bank's risk management, own funds and liquidity. The Remuneration Committee also supervises the remuneration of the members of the Management Board and employees subject to the increased requirements.

The Remuneration Committee comprises at least two members, who are elected by the Supervisory Board. As at 31.12.2021, the Remuneration Committee comprised of four members and they were Alo Ivask (chairman), Jaan Marjundi, Raul Parusk and Irja Rae. No remuneration is paid to the members of the Remuneration Committee who are members of the Supervisory Board, Irja Rae's remuneration is 400 euros per meeting.

4. Cooperation between the Management Board and the Supervisory Board

The Management Board and the Supervisory Board cooperate closely to protect the best interests of the bank. The Management Board and the Supervisory Board jointly develop the bank's strategy. The Management Board is invited to attend monthly meetings of the Supervisory Board. The Management Board shall regularly inform the Supervisory Board of any material information regarding the bank's planning and conduct of business, operational risks and management of these risks.

5. Implementation of diversity policy

In accordance with clause 4 of section $24^{\prime 2}$ of the Accounting Act, a large undertaking whose securities granting voting rights have been admitted for trading on a regulated securities market of Estonia or another Contracting State shall describe in the corporate governance report the diversity policies carried out in the company's management board and senior management and the results of the implementation thereof during the accounting year. If no diversity policies have been implemented during the accounting year, the reasons for this should be explained in the corporate governance report.

In 2021, the bank did not implement the diversity policy, as it always considers the best interests of the Banking group in the selection of both executives and employees, considering the candidate's education, skills and previous work experience. At the same time, the Banking group follows the principle of non-discrimination of candidates on the grounds of gender or other status.

6. Disclosure of information

The bank shall treat all shareholders equally and shall notify all shareholders equally of material circumstances and from 10.12.2019 takes into account the rules established for listed companies by providing information.

On the Investor section of bank's website all documents and information will be made available to the shareholders in accordance with the Corporate Governance Recommendations. On its website, the bank shall publish a financial calendar which includes the dates of publication of the Annual Report and Interim Reports. The published information shall also be made available in English.

7. Financial reporting and audit

Once every year the bank publishes the Annual Report for previous year. The Annual Report shall be audited, accepted by the Supervisory Board and approved by the General Meeting.

Members of the Supervisory Board do not sign the Annual Report together with the Management Board members (clause 6.1.1 of CGR). The position of the Supervisory Board on Annual Report is included in the Supervisory Board's written report, approved with the resolution of the Supervisory Board. The bank submits the Annual Report, signed by the Management Board, to the General Meeting of Shareholders (thus the Bank does not comply with the requirement to submit the report signed by the members of the Management and Supervisory Board to the shareholders, clause 6.1.1 of CGR), however, a proposal for approval of the Annual Report, prepared by the Supervisory Board, shall be submitted to the General Meeting.

The auditor shall be appointed by the General Meeting of Shareholders, who shall also determine the auditor's remuneration arrangements. The auditor is appointed to perform a single audit or for a period specified by the General Meeting.

In 2017, the Management Board organised a competition for electing an auditor. The bank held meetings with four major internationally recognized companies and asked for submitting their offers. As a result of the competition, the offer AS PricewaterhouseCoopers was selected and the annual General Meeting of Shareholders, held on April 26, 2017, appointed the company as the auditor of the bank, and a three-year agreement for the auditing of the financial years 2017-2019 was concluded with them. In 2020, it was not considered necessary to organize a new competition to elect auditor, as there has been good cooperation with the current auditor. They know bank consolidation group and audit a large number of companies in the financial sector, which is why they have good experience in the sector. Therefore, on 28 May 2020, it was decided to elect AS PricewaterhouseCoopers as the auditor of the financial years 2020-2022.

In 2020, the auditor has provided contracted services to companies of the consolidation group, including audits of Annual Reports of Group companies and quarterly reviews and other assurance services subject to obligations under the Credit Institutions Act and the Securities Market Act. Also, the auditor has provided other services permitted pursuant to the Republic of Estonia Auditors Activities Act.

In agreement with the external auditor, the bank shall not disclose contractual fees (clause 6.1.1 of CGR) paid or payable to the auditor, as this is confidential information between the parties, the disclosure of which is not indispensable for assessing the bank's activities.

Sustainability Report

Developed countries and international organisations like the United Nations (UN) are striving to ensure that the targets set as part of the Paris Agreement on climate change adopted in 2015 are met. The European Union (EU) has developed the Green Deal, which is designed to help Europe become the first continent to achieve climate neutrality by 2050. This depends not just on national efforts, but also on initiative from the private sector. To date, no definitive regulatory requirements have been set in terms of how the banking sector should contribute to the achievement of climate goals, but many of the Coop Pank group's competitors (and the group itself) have undertaken to increasingly implement sustainability principles in their operations.

Approval was granted in principle at the EU level in 2021 for the Taxonomy Climate Delegated Act, but it is not exhaustive and the planning of regulatory amendments is ongoing, which is affecting all branches of industry. This in turn has created a vacuum between regulation, practice and the established goals. In such circumstances, as a bank we are primarily able to focus on the sustainability of our operations.

Coop Pank joined the Responsible Business Forum and first took part in its index survey in 2020. It is also an active member of the Estonian Banking Association's working group on responsible banking, contributing to growth in the sustainability of banking operations.

Proceeding from the areas of activity in which the Coop Pank group operates, we have assessed our impact on sustainability on two levels:

- impact related to the group operating as a whole
- impact related to the group offering its products and services

Our main focus in 2021 was on comprehending the impact of the group operating and reducing negative environmental impact. We have mapped the environmental impact of offering our products and services as well as the proportion this represents of our total operations.

In managing and fostering sustainable development, the group is guided by the UN's 17 sustainable development goals (SDGs; see https://sdgs.un.org/goals). Operating within the banking sector, we are able to contribute either directly or indirectly to the following areas of sustainable development:

SDG 1 – No Poverty
SDG 3 – Good Health and Well-being
SDG 4 – Quality Education
SDG 5 – Gender Equality
SDG 7 – Affordable and Clean Energy
SDG 8 – Decent Work and Economic Growth
SDG 12 – Responsible Consumption and Production
SDG 15 – Life on Land
SDG 16 – Peace, Justice and Strong Institutions
SDG 17 – Partnerships for the Goals

In 2021 our operations focussed on the SDGs set out below.

For the benefit of society (SDG 1, SDG 3, SDG 4 & SDG 5)
Since 2017, the Coop Pank group's biggest shareholder has been the retail chain Coop Estonia. The link between retail and banking is reflected in our joint mission statement: 'Driving life forward in every corner of the country'. This has exemplified our operations for the last five years and determines a key focal point of our sustainability. Enterprising people and pristine nature are Estonia's greatest assets. As a bank, we spur Estonian companies on every day and help people realise their dreams. We drive life forward in every corner of the country – urban and rural areas alike – by sticking together and valuing our pristine environment.

It is important to us that vital products and services are accessible to everyone close to their homes. As an Estonian bank, we bring everyday banking services closer to people so that everyone can enjoy life wherever they like to live. For instance, cash services are available at people's local stores: Coop Pank clients can make deposits and withdrawals from their accounts at more than 330 Coop stores around the country. We are pleased to see an upward trend in people taking advantage of this service, as can be seen in the table below:

	2021	2020
COOP cash transactions *vs* ATMs (proportion of total number of transactions)	31.6%	25.8%
COOP cash transactions *vs* ATMs (proportion of total turnover)	26.9%	22%

We also serve clients at 15 branches in 12 towns and cities, making ours the second-biggest network of bank branches in Estonia. Moreover, we have 17 banking points in larger Coop stores around the country.

Our client relationships outside of Tallinn/Harju County can be summarised as follows:

	2021	2020
Everyday banking	61.1%	59.6%
Mortgage loans	39%	39.4%
Business loans	33.4%	34.8%
Leasing	47.5%	47.1%

We contribute to improving the financial knowledge of the Estonia population by advising people of all ages on how to make smarter choices in regard to their finances via our Lihtsalt rahast ('Money Matters Put Simply') podcast and through other channels. We are a member of the Estonian Banking Association's working group on financial literacy, and in 2021 we also actively contributed (both via the association and independently) to efforts to thwart financial fraud so as to help protect the assets of people in the country.

Responsible products and services (SDG 7, SDG 8 & SDG 12)

The development of products and services in line with responsibility and sustainability objectives is an ongoing process. The Coop Pank group decided some time ago that it would not offer financing for::

- gambling and betting;
- tobacco production;
- entertainment events;
- export activities to sanctioned countries;
- financing of aircraft, ships and railway wagons;
- arms industry and trade, which is not related to Estonian national defense and NATO;
- political parties and other political organizations.

As at the end of 2021, our loan portfolio included no loans in any of these areas of activity. Nor do we offer credit services in areas or to companies whose activities are unethical or linked to corruption, violate human rights or have a significant negative impact on the environment. Significant negative impact means an impact that affects the natural environment, considered individually or cumulatively with other impacts depending on the sector in which the company operates.

In 2021 we added to our credit risk assessment process by introducing a framework for the evaluation of environmental, socioeconomic and management-related impact, since we realise that the materialisation of such risks is directly linked to the credit risk of our clients. No clients in our loan portfolio have a significant negative impact on the environment. Clients whose activities could pose an environmental risk are checked on a case-by-case basis to ensure that their activities are in line with all valid norms of environmental protection.

We are honest and transparent in the pricing of banking services, and we are guided by principles of responsibility in the marketing of services. We observe all of the requirements of the Money Laundering and Terrorist Financing Prevention Act. In order to get to know our clients, we ask them to provide us with detailed information and we monitor their activities, all while observing the requirements of the Personal Data Protection Act. We are guided in our protection of personal data by the principle of integrated data protection, wherein we apply data protection throughout the data-processing life cycle and use only as much data as we need to in order to offer quality banking services.

For the good of the environment (SDG 7 & SDG 12)
In issuing loans to companies, Coop Pank takes environmental impact into consideration (see also 'Responsible products and services') and looks for opportunities to contribute to companies that minimise negative environmental impact. The bank is also increasingly environmentally aware in its own operations and in 2021 approved its green office principles, which are based on the guidelines issued by the Estonian Association for Environmental Management.

Having financed a significant number of solar parks and wind turbines in 2020 (with a nominal production capacity of ca 64 MW), we continued growing the segment and reached a nominal production capacity of 78 MW by the end of 2021. Moreover, our financing of renewable energy now forms around 10% of our business line portfolio, compared to 6% in 2020. It is important to us that our loan portfolio includes agricultural companies whose operations we can contribute to in different parts of Estonia. We have offered leasing for electric and hybrid-power vehicles. We support recycling, repurposing and reuse, with the majority of our lease financing portfolio comprising second-hand cars (64% in 2021 compared to ca 60% in 2020). We are looking to continue contributing to solar and wind projects, including those designed to make residential buildings more energy-efficient, during the current year.

In August 2021 we moved our head office into the new, more economical, less energy-intensive Skyon building, which was constructed and is being maintained in accordance with the requirements of the LEED Gold/Platinum certificate. LEED (Leadership in Energy and Environmental Design) is one of the most prevalent green building rating systems in the world.

In regard to 2021 we have assessed the carbon footprint of our head office and its use in line with the GHG Protocol Corporate Accounting and Reporting Standard. Since we continued to use our former office at Narva mnt 4 for a period of eight months, we compared key environmental footprint indicators of both buildings, from which we can highlight the following positive aspects:

	Narva mnt 4	Maakri 30
Average electricity use per month	28 502 kWh	8 933 kWh
Average heating use per month	44 510 kWh	37 339 kWh
Average water use per month	83 m^3	40 m^3
Waste generated per month	2 460 kg	2 431 kg

The carbon footprint of Coop Pank in 2021 was 382 t CO_{2eq}, of which employee commuting accounted for 42.6%, electricity for 39.5%, heat for 11.6%, waste for 4.6% and other sources for 1.8%.

We do not use separate rubbish bins at every desk, and we sort our waste. We collect packaging for delivery to recycling points, with any money raised from doing so being donated to charity to enable children to attend plays.

We have introduced the paper-free management of documents in our everyday work: we enter into agreements with our clients and partners electronically and allow clients to join the bank via a simple web solution that was used by 40.9% of our new clients in 2021 (compared to 34.1% in 2020). Our average use of paper per month was 58 kg.

As an employer we also raise our employees' environmental awareness. In 2021 we launched an initiative to measure the footprint of our employees' environmental impact. The teams we formed agreed on shared goals for the reduction of their personal footprints and published these on our intranet. During the year, in cooperation with experts from outside of the bank, we organised three environment-themed training sessions to help our employees understand how they can make their everyday lives more environmentally friendly. In the first quarter of 2022 we will be conducting repeat measurements and assessing the level of achievement of the goals set.

Management culture (SDG 16 & SDG 17)

We consider our management culture to be open and modern, the basis of which is guidance by regulations and international standards (such as human rights, labour law and the fight against discrimination). In our operations we are led by best practice in company management and banking, the principles of responsible lending, other guidelines issued by financial supervision authorities, and valid legal acts.

The fields of the prevention of money laundering and terrorist financing, as well as the implementation of international sanctions are important to us, and we apply the necessary due diligence measures.

We also monitor our marketing activities to ensure that they are in line with valid norms. In order to guarantee ethical behaviour, we have established guidelines for reporting inappropriate behaviour, in accordance with which employees can inform of potential breaches of ethical norms or laws within the group. We integrated the principles of environmental and corporate social responsibility even further into our operations in 2021 by establishing them as our own green office principles.

We have adopted a procedure for informing of breaches and, in cooperation with a law office, ensure the maximum possible protection for employees who wish to retain their anonymity when passing on information. In our view this lays the groundwork in the best possible way for every employee to be able to inform of any breach pertaining to internal management without having to worry that doing so may affect their working relationship with the company.

To us it is only natural to offer our employees a contemporary working environment, motivating salaries, flexible hours, the option to work remotely, stimulating professional challenges, every opportunity for development and a friendly team that sticks together. We are linked by our shared values.

<u>We dare to do things differently.</u> We are inspired by the opportunity to do things differently in banking. We don't rest on our laurels, but rather constantly ask ourselves whether and how we can make our clients' lives easier and better. We are not afraid of making mistakes. We own up to our errors. We learn from them and strive to do things better.

We are professionals playing on the same team. Every one of our employees is a professional in their field and holds him- or herself to a high standard. We work hard, but at the same time we don't take ourselves too seriously. Playing as a team is our game plan.

We reach our targets. We set ourselves ambitious goals and give our all to achieve the best possible results. We always finish what we have started!

We have made the importance of sustainable operations the focus of attention for both our management and Supervisory Boards, and we will be continuing to develop this aspect in 2022 by acquiring additional resources designed specifically for this field.

Remuneration report

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 2021, 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:

- basic 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. The basic salary and performance pay are reasonably balanced. Each year, a performance bonus reserve of 15% of the salary fund is calculated.

The following is an overview of the average gross monthly remuneration of employees for the last five years, taking into account the basic salary and monetary performance pay for the previous calendar year. For comparison, the profit before corporate income tax per employee for the respective year is presented.

In euros (rounded down to the hundred)	2017	2018	2019	2020	2021
Average monthly gross remuneration	1 900	2 300	2 400	2 600	2 800
Yearly profit before income tax per employee	25 600	22 600	23 000	26 400	47 000

AS at 31.12.2021, total of 1 720 000 options were granted to employees with a maturity date of three years starting from the moment of the issue. In November, 2019, three-year share option program was confirmed by the shareholders, which allows to issue options to employees up to 1% of the total number of shares of the bank. The last share options issue in this program may take place in April 2022 based on Supervisory Board decision. The purpose of the share options program is to align long-term interests and goals of Management Board members and employees treated as such with long-term interests of the bank shareholders. The common interests are expressed in the professional and balanced management of the Group, which ensures the sustainable development and long-term growth of the Group in accordance with the set goals and strategy. The options are issued based both on the results of the Group and results of the person entitled to participate in the option program in the relevant year. Options can be reduced or cancelled if the employment relationship is terminated, the person does not meet the performance criteria, the financial results of the group have significantly deteriorated or the risks of the group are not sufficiently covered by own funds.

The total amount of performance bonuses are decided by the Supervisory Board, which also determines the specific amounts of bonuses for members of the Management Board and the internal audit unit. Bonuses to other employees are decided by the Management Board. The establishment of the option program and its conditions shall be decided by the general meeting of shareholders. The issuance of specific options is decided by the Supervisory Board on the proposal of the Remuneration Committee.

The ratio between performance pay (including calculated expenses for options) and basic salary of the senior management and senior staff responsible for material business units and for management of specific risk categories in 2021 was:

- senior management – 60%
- staff managing control functions – 16%

The performance fees and options assigned to the Management Board are in accordance with the remuneration principles and are based on the general objectives of the Bank as well as the personal goals of each member of the Management Board. No exceptions have been made for the members of the Management Board and no extraordinary bonuses have been granted. The right to reclaim cash performance fees has not been exercised, but the options have been revoked upon the departure of a member of the Management Board. The following is an overview of the five-year remuneration of the members of the Management Board.

Margus Rink (since February 2017)	2017	2018	2019	2020	2021
Basic salary	94 500	108 000	108 000	111 000	126 000
Performance pay	0	27 000	31 500	36 000	31 500
Total remuneration	94 500	135 000	139 500	147 000	157 500
Share of performance pay		20%	23%	24%	20%
Number of options granted	583 850			70 000	90 000
Subscrition price	0,7305			1,01	1,10
Excercised options				-583 850	
Options outstanding at the end of year	583 850	583 850	583 850	70 000	160 000

Kerli Lõhmus (since February 2017)	2017	2018	2019	2020	2021
Basic salary	56 100	67 200	67 200	82 000	84 000
Performance pay	0	16 800	19 600	22 400	21 000
Total remuneration	56 100	84 000	86 800	104 400	105 000
Share of performance pay		20%	23%	21%	20%
Number of options granted		233 540		50 000	70 000
Subscription price		0,766		1,01	1,10
Excercised options					-233 540
Options outstanding at the end of year		233 540	233 540	283 540	120 000

Janek Uiboupin (until February 2020)	2017	2018	2019	2020	2021
Basic salary	63 600	67 200	67 200	28 000	
Performance pay	0	16 800	19 600	22 400	
Total remuneration	63 600	84 000	86 800	50 400	
Share of performance pay		20%	23%	44%	
Number of options granted		233 540			
Subscription price		0,766			
Excercised options					-116 770
Forfeited options				-116 770	
Options outstanding at the end of year		233 540	233 540	116 770	0

Heikko Mäe (since February 2020)	2017	2018	2019	2020	2021
Basic salary				74 000	84 000
Performance pay				0	17 500
Total remuneration				74 000	101 500
Share of performance pay				0%	17%
Number of options granted				50 000	70 000
Subscription price				1,01	1,10
Options outstanding at the end of year				50 000	120 000

Hans Pajoma (March 2017 - Oct. 2020)	2017	2018	2019	2020	2021
Basic salary	90 000	108 000	108 000	100 200	
Performance pay	0	27 000	31 500	49 500	
Total remuneration	90 000	135 000	139 500	149 700	
Share of performance pay		20%	23%	33%	
Number of options granted	583 850			50 000	
Subscription price	0,7305				
Excercised options				-583 850	
Forfeited options				-50 000	
Options outstanding at the end of year	583 850	583 850	583 850	0	

Arko Kurtmann (since November 2020)	2017	2018	2019	2020	2021
Basic salary				16 000	96 000
Performance pay				0	0
Total remuneration				16 000	96 000
Share of performance pay				0%	0%
Number of options granted					40 000
Subscription price					1,10
Options outstanding at the end of year					40 000

Rasmus Heinla (since November 2020)	2017	2018	2019	2020	2021
Basic salary				14 000	84 000
Performance pay				0	12 500
Total remuneration				14 000	96 500
Share of performance pay				0%	13%
Number of options granted				30 000	70 000
Subscription price				1,01	1,10
Options outstanding at the end of year				30 000	100 000

Consolidated Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

in thousands of euros	Note	2021	2020
Interest income calculated using the effective interest method		39 005	31 359
Other similar income		4 035	3 281
Interest and similar expense		-7 502	-6 269
Net interest and similar income	5	35 538	28 371
Fee and commission income		5 003	3 687
Fee and commission expense		-1 918	-1 590
Net fee and commission income	6	3 085	2 097
Sale of assets	12	2 335	146
Cost of assets sold	12	-2 286	-146
Rental income from investment properties		3	15
Direct property operating expenses		-31	-57
Change in fair value of investment properties		-404	0
Net gains from non-financial asset realization		11	40
Net losses from financial assets measured at fair value		-68	-183
Handling of overdue receivables		819	516
Other income		236	290
Net other income		615	621
Payroll expenses	7	-12 490	-11 085
Operating expenses	8	-5 996	-5 040
Depreciation	14	-3 967	-2 671
Total operating expenses		-22 453	-18 796
Net profit before loss allowances		16 785	12 293
Credit loss allowance	11	-2 497	-4 789
Net profit before income tax		14 288	7 504
Income tax expenses		-825	-245
Net profit for the financial year	4	13 463	7 259
Other comprehensive income / loss			
Items that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income		3	-19
Other comprehensive income / loss		3	-19
Comprehensive income for the financial year		13 466	7 240
Net profit attributable to:			
The owners of the parent company		13 463	7 259
Net profit for the financial year		13 463	7 259
Comprehensive income attributable to:			
The owners of the parent company		13 466	7 240
Comprehensive income for the financial year		13 466	7 240
Basic earnings per share (in euros)	23	0,15	0,08
Diluted earnings per share (in euros)	23	0,15	0,08

Notes to the financial statements on pages 43 to 113 are an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position

in thousands of euros	Note	31.12.2021	31.12.2020
Assets			
Cash and cash equivalents	9	252 799	170 750
Debt securities at fair value through other comprehensive income	10	5 932	3 011
Equity instruments at fair value through profit or loss	10	0	67
Equity instruments at fair value through other comprehensive income	10	13	13
Loans and advances to customers	11	953 396	670 593
Other financial assets	12	1 311	999
Other assets	12	927	1 117
Assets held for sale	12	3 725	6 734
Investment property	13	0	594
Right-of-use assets	14	6 625	1 017
Tangible assets	14	3 034	2 327
Intangible assets	14	7 457	5 930
Goodwill	3	6 757	6 757
Total assets		1 241 976	869 909
Liabilities			
Customer deposits and loans received	16	1 098 746	757 835
Lease liabilities	15	6 639	1 018
Other financial liabilities	17	3 221	2 671
Other liabilities	17	4 563	3 754
Subordinated debt	18	17 064	7 064
Total liabilities		1 130 233	772 342
Shareholders' equity	19		
Share capital		62 186	61 756
Share premium		12 230	12 061
Statutory reserve capital		3 165	2 802
Retained earnings		33 924	20 824
Other reserves		238	124
Shareholders' equity attributable to owners of the parent company		111 743	97 567
Total shareholder's equity		111 743	97 567
Total liabilities and shareholders' equity		1 241 976	869 909

Notes to the financial statements on pages 43 to 113 are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

in thousands of euros	Note	2021	2020
Cash flows from operating activities			
Interest and other similar income received		42 902	33 953
Interest paid		-7 116	-5 660
Fees and commissions received		5 003	3 687
Fees and commissions paid		-1 918	-1 590
Other received income		1 004	804
Salaries paid		-12 874	-10 719
Other operating expenses paid		-5 996	-5 040
Income Tax paid		-720	-137
Total cash flows from operating activities before changes in operating assets and liabilities		20 285	15 298
Change in operating assets:			
Loans and advances to customers		-286 954	-214 218
Change of mandatory reserve in central bank	9	-3 401	-2 218
Other assets		252	650
Change in operating liabilities:			
Change in customer deposits and loans received		340 561	250 713
Other liabilities		853	-645
Net cash flows from operating activities		71 596	49 580
Cash flows from investing activities			
Acquisition of property, plant and equipment		-5 574	-4 166
Sale of property, plant and equipment and investment properties		3 695	67
Acquisition of debt securities		-3 141	0
Sale and redemption of debt securities		499	782
Total cash flows used in investing activities		-4 521	-3 317
Cash flows from financing activities			
Contribution to share capital	19	486	853
Issue of subordinated debt	18	10 000	0
Repayment of principal of lease liabilities	15	-710	-676
Total cash flows from financing activities		9 776	177
Effect on exchange rate changes on cash and cash equivalents		-4	-3
Change in cash and cash equivalents		76 847	46 437
Cash and cash equivalents at beginning of the period		164 439	118 002
Cash and cash equivalents at the end of the period		241 286	164 439
Cash and cash equivalents balance is comprised of:		241 286	164 439
Cash on hand		27 192	26 199
Demand deposits in central bank	9	200 670	130 589
Demand and short-term deposits in credit institutions and other financial institutions	9	13 424	7 651

Notes to the financial statements on pages 43 to 113 are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

in thousands of euros	Share capital	Share premium	Statutory reserve capital	Other reserves	Revaluation reserve	Retained earnings	Total attributable to share-holders of parent	Total equity
Balance as at 31.12.2019	60 960	11 797	2 526	226	1	13 841	89 351	89 351
Paid in share capital	796	264	0	-207	0	0	853	853
Changes in reserves	0	0	276	0	0	-276	0	0
Share options *	0	0	0	123	0	0	123	123
Net profit	0	0	0	0	0	7 259	7 259	7 259
Other comprehensive loss	0	0	0	0	-19	0	-19	-19
Total comprehensive income	0	0	0	0	-19	7 259	7 240	7 240
Balance as at 31.12.2020	61 756	12 061	2 802	142	-18	20 824	97 567	97 567
Paid in share capital	430	169	0	-113	0	0	486	486
Changes in reserves	0	0	363	0	0	-363	0	0
Share options *	0	0	0	224	0	0	224	224
Net profit	0	0	0	0	0	13 463	13 463	13 463
Other comprehensive income	0	0	0	0	3	0	3	3
Total comprehensive income	0	0	0	0	3	13 463	13 466	13 466
Balance as at 31.12.2021	62 186	12 230	3 165	253	-15	33 924	111 743	111 743

*See Note 19

Notes to the financial statements on pages 43 to 113 are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1 Accounting principles

AS Coop Pank (Reg. No. 10237832) is a credit institution registered in Tallinn (Estonia) Maakri street 30 . The consolidated annual report (incl. financial statements) of AS Coop Pank for the year 2021 was approved by the Management Board of AS Coop Pank on 15th of March 2022. The consolidated annual report approved by the Management Board shall be authorised for approval by the Supervisory Board and shareholders. The shareholders have the right not to approve the consolidated annual report while the Supervisory Board does not have that right.

Functional and presentation currency

The functional currency of the AS Coop Pank Group companies is euro. 2021 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. Debt securities and equity instruments at fair value through other comprehensive income and equity instruments at fair value through profit or loss). 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 the 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 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 impairment (Note 3).

The most significant management judgements are related to the introduction of the IFRS 9 standard starting from 01.01.2018. 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 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 recognized financial assets meet these criteria.

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 as at 31 December 2021. 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 statement of profit or loss and other comprehensive income 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.

Structure of the Group	Country	Activity	Holding
Coop Pank AS	Estonia	banking	parent company
Coop Liising AS	Estonia	leasing	100%
Coop Finants AS	Estonia	consumer financing	100%
Coop Kindlustusmaakler AS	Estonia	insurance brokerage	100%
CP Varad AS	Estonia	real estate management	100%
SIA Prana Property	Latvia	real estate management	100%

Subsidiaries

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.

In parent company's separate financial statements investments in subsidiaries are accounted for at cost less any impairment recognized.

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 statement of profit or loss 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. Financial assets

Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

The classification made can be seen in the table below:

<table>
<tr><th>Measurement category as defined by IFRS9</th><th colspan="2">Financial assets category as definded by the Group</th></tr>
<tr><td rowspan="5">Financial assets measured at amortized cost</td><td colspan="2">Balances with central banks</td></tr>
<tr><td colspan="2">Demand and term deposits at credit institutions and other financial institutions</td></tr>
<tr><td rowspan="2">Loans and advances to customers</td><td>Receivables from private individuals</td></tr>
<tr><td>Receivables from legal entities</td></tr>
<tr><td colspan="2">Other financial assets</td></tr>
<tr><td>Financial assets at fair value through profit or loss</td><td colspan="2">Investments in equity instruments</td></tr>
<tr><td rowspan="2">Financial assets measured at fair value through other comprehensive income</td><td colspan="2">Investments in debt securities</td></tr>
<tr><td colspan="2">Investments in equity instruments</td></tr>
</table>

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset (i.e. whether the Group's objective is solely to collect the contractual cash flows from the assets, or to collect both the contractual cash flows and also the cash flows from the sale of assets; or is none of the above described two models) and the cash flow characteristics of the asset (i.e. whether the cash flows represent solely payments of principal and interest ("SPPI"), interest including only consideration for credit risk, time value of money, other basic lending risks and profit margin). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The Group's debt instruments have been classified into the following measurement categories:

- Amortised cost (AC): Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/(expenses). Foreign exchange gains and losses and impairment losses are presented as separate line items in the statement of profit or loss.
  The following financial assets of the Group are classified in this category:
    - Cash;
    - Balances with central banks;
    - Demand deposits at credit institutions and other financial institutions;;
    - Loans and advances to customers;
    - Other financial assets.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other income/(expenses). Interest income from these financial assets is included in interest income using the effective interest rate method. Foreign exchange gains and losses and impairment losses are presented as separate line items in the statement of profit or loss.
  The following financial assets of the Group are measured FVOCI:
    - Investments in debt securities.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net within other income/(expenses) in the period in which it arises. Such fair value gain or loss includes any contractual interest received on debt instruments classified to this category. As at 31 December 2020 and 31 December 2021 the Group had no debt financial assets measured FVPL.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has made an irrevocable election to present in OCI the fair value gains and losses on equity investments that are not held for trading, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.
Changes in the fair value of financial assets at FVPL are recognised in other income/(expenses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.
The Group subsequently measures equity investments that are listed at FVPL and equity investments that are not listed at FVOCI.

Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables and contract assets without a significant financing component the Group applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. The Group uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

For all other debt instruments, including finance lease receivables, at amortised cost or FVOCI, the Group follows a three-stage model based on changes in credit quality since initial recognition.

- Stage 1 – comprises balances for which the credit risk has not increased significantly since initial recognition. ECL is measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (12-month ECL).
- Stage 2 – comprises balances for which there has been a significant increase in credit risk since initial recognition but which do not have objective evidence of impairment. The expected credit losses are determined on a lifetime basis.
- Stage 3 – comprises balances that are credit-impaired (i.e. which are overdue more than 90 days, if debtor is insolvent, if it is likely that the debtor will enter bankruptcy or financial reorganisation; non-performing receivable). The expected credit losses are measured as lifetime expected credit losses.

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

For contracts that include both a loan and an undrawn commitment and where the Group cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

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 statement of profit or loss in "credit loss allowance".

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

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.

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 finance 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 finance 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. Lease receivables are presented in the statement of financial position net of the loss allowance. 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 line "Other financial liabilities". The amounts paid by the Group for the assets under lease agreements not yet delivered are recognized in the statement of financial position as prepayments to suppliers in line "Other assets".

Factoring and warehouse financing receivables

Factoring transactions are considered to be financing transactions where the Group provides the financial resources to its selling partners through transfer of the rights to the receivables from these sales transactions. The Group 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 Group 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 Group 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 amortised 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.

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

Contract fees are recognised in interest income over the term of underlying contract. This method yields a result approximating the one obtained on applying the effective interest rate method.

1.6 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 acquired or internally developed 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.

Non-current assets with an unlimited useful life (land) are not depreciated. Depreciation of non- current assets is presented in the statement of profit or loss 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 statement of profit or loss in the line items "Net gains from non-financial assets realization ".

Capitalization of expenses

Leasehold improvements 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, less accumulated 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 the groups of cash-generating unit, 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.

1.7 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.
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 properties" in the statement of profit or loss 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 profit or loss.

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.

1.8 Assets held for sale

Assets held for sale (inventory) 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.

1.9 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 it 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.

1.10 Leases – the Group as the lessee

The Group is as lessee in all lease agreements. The Group leases office premises. At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. A lessee reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee; and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. The Group revises the lease term if there is a change in the non-cancellable period of a lease.

Initial measurement

At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.
At the commencement date, a lessee shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise the amount of the initial measurement of the lease liability.

Right-of-use asset is recorded on the separate line in the statement of financial position.
At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term:
(a) fixed payments, less any lease incentives receivable;
(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date. Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as EURIBOR) or payments that vary to reflect changes in market rental rates. Variable lease payments are included in some lease contracts of the Group.

For a contract that contains a lease component and one or more additional non-lease components. As a practical expedient, the Group has elected not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Subsequent measurement

After the commencement date, a lessee measures the right-of-use asset applying a cost model. To apply a cost model, a lessee measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

After the commencement date, a lessee shall measure the lease liability by:
a) increasing the carrying amount to reflect interest on the lease liability;
b) reducing the carrying amount to reflect the lease payments made; and
c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. After the commencement date, a lessee recognises in profit or loss interest on the lease liability and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

If there are changes in lease payments, there may be need to remeasure the lease liability. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:
(a) there is a change in the lease term. A lessee shall determine the revised lease payments on the basis of the revised lease term; or
(b) there is a change in the assessment of an option to purchase the underlying asset. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

A lessee shall remeasure the lease liability by discounting the revised lease payments with unchanged discount rate, if either:
a) there is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.
b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when

there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments. The lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates.

A lessee shall account for a lease modification as a separate lease if both: (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

The Group has elected not to apply the requirements of IFRS 16 to short-term leases and leases for which the underlying asset is of low value. Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of IT equipment.

1.11 Financial liabilities

The classification made can be seen in the table below:

<table>
<tr><th colspan="2">Category by IFRS9</th><th colspan="2">Category as determined by the Group</th></tr>
<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 statement of profit or loss on line "Interest and similar expense".

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 statement of profit or loss 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 statement of profit or loss together with the interest expense. The respective interest expense is recorded in the statement of profit or loss on line "Interest and similar expense". In case there is an unused limit for any borrowings, this is presented as contingent asset.

Loan commitments

The Group issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition, or (ii) the amount of the loss allowance determined based on the expected credit loss model. The carrying amount of the loan commitments represents a liability.

1.12 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 statement of profit or loss 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 measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition, or (ii) the amount of the loss allowance determined based on the expected credit loss model. The amounts disbursed to settle the guarantee obligation are recognized in the statement of financial position on the date it is disbursed.

1.13 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.
The Group has no existing legal or constructive obligations to make pension payments or similar payments supplementary to social tax.

1.14 Share-based payments

The Group has established a share-based option program, under which the Group issues options to employees to buy shares of Coop Pank AS in return for their services. The fair value of options issued is recognized as an expense over the term of the option program as an increase in the Group's labor costs and an increase in equity (other reserves). The total cost is determined by the fair value of the options at the time they are issued. The fair value of the options is determined taking into account the market conditions affecting the option price, including the share price of Coop Pank AS. At the end of each reporting period, the Group estimates how many options are likely to become exercisable. Changes compared to initial estimates are recognized in the statement of profit or loss and with a correspondent adjustment to equity. When the options are exercised, Coop Pank AS issues new shares. According to the terms and conditions of the share options, there are no social tax expenses when exercising options after 3 years.

1.15 Revenue and expense recognition

Interest income and expense is recognized in statement of profit or loss for all interest-earning financial assets and interest-bearing financial liabilities carried at amortized cost using the effective interest rate method.
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. Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for

(i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost, net of the expected credit loss provision, and
(ii) financial assets that are purchased or originated credit impaired, for which the original credit adjusted effective interest rate is applied to the amortised cost.

If the credit risk on the financial asset classified in Stage 3 subsequently improves so that the asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the asset had been determined as credit-impaired (ie the asset becomes cured), the asset is reclassified from stage 3 and the interest revenue is calculated by applying the effective interest rate to the gross carrying amount. The additional interest income, which was previously not recognised in profit and loss due to the asset being in stage 3 but it is now expected to be received following the asset's curing, is recognised as a reversal of impairment.
Other similar income to interest income also includes income on interest bearing financial instruments classified at fair value through profit or 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.
Fee and commission income are recognised when incurred. Such income includes recurring fees for 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, Revenue from sale of assets

Revenue from sale of assets, except for property, plant and equipment, is recognised at transaction price. Transaction price is the total consideration, that the Group is entitled to receive for the transfer of promised goods or services to customer, less amounts collected on behalf of third parties. The Group recognises revenue from sale of goods when the control over the goods or services is transferred to the customer.

Dividend income

Dividends are recognized in the statement of profit or loss when the entity's right to receive payment is established.

1.16 Taxation

The annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise (except for recognising a deferred tax liability for all taxable differences associated with investments in subsidiaries, associates and branches, unless it is probable that the temporary difference will not reverse in the foreseeable future).

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. Income tax is calculated based on unconsolidated profit of the credit institution, which is the parent company. 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 statement of profit or loss 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 was the first year to be taken into account.

1.17 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.

1.18 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.

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

Standards, that became effective from 1 January 2021, did not have any material impact on the Group.
These are as follows:
Covid-19 Related Concessions – Amendments to IFRS 16;
Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.
The Group does not apply an interest rate benchmark (IBOR) and has only Euro Interbank Offered Rate (EURIBOR) related instruments..

New or revised standards and interpretations have been issued that will become mandatory for the Group from 01.01.2022 or later, and which the Group has not implemented early:

Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2022; not yet adopted by the EU).
These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU).
The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance
The Group would not expect the amendments to have a material impact on its financial statements.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022; not yet adopted by the EU).

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.
The Group is currently assessing the impact of the new amendments on financial statements.

Disclosure of Accounting policies - amendments to IAS 1 and IFRS Practice Statement 2 (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU).

IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.
The Group is currently assessing the impact of the new amendments on financial statements.

Definition of Accounting Estimates – amendments to IAS 8 (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU).

The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.
The Group is currently assessing the impact of the new amendments on financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU).

The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.
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.

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 are the identification and measurement of business-related risks, implementation of measures necessary for controlling risks and reporting on risk management performance.

In essence, the Group measures risks by:

i) quantifying or assessing the potential magnitude of the risk through a change in the financial volume; or
ii) qualitatively, based on expert judgment of the magnitude of the risk and the likelihood of its occurrence, taking into account the operational control environment.

Regardless of these choices, we have implemented risk appetite and tolerance metrics that help us identify trends in risk movement and prepare for actions required for better control or mitigation. Depending on the risk category, either monthly or quarterly reports are prepared. The quarterly risk report is a summary risk report and it reaches top management level.

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.

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

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;
- debt securities 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 and terrorist financing prevention, the establishment of customer relationships and monitoring and, if necessary, termination of customer relationships.

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 role of the second line of defence is performed by risk managers and analysts in Risk Management Department and Credit Risk Department.

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.

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	31.12.2021	31.12.2021 adjusted*	31.12.2020
Tier 1 capital			
Paid-in share capital and share premium	74 416	74 416	73 817
Statutory reserve capital	3 165	3 165	2 802
Retained earnings	20 461	20 461	13 564
The accepted profit of the reporting period	8 012	10 725	4 835
Other accumulated comprehensive income	-15	-15	-18
Goodwill as intangible asset (-)	-6 757	-6 757	-6 757
Intangible assets (-)	-7 457	-7 457	-5 930
Adjustment of value arising from requirements of reliable measurement (-)	-6	-6	-3
Other deductions from Tier 1 Capital (-)	-963	0	-715
Other adjustments of own funds resulting from transitional provisions	315	315	441
Total Tier 1 capital	91 171	94 847	82 036
Subordinated debt	17 000	17 000	7 000
Tier 2 capital	17 000	17 000	7 000
Eligible capital for capital adequacy calculation	108 171	111 847	89 036

* Includes audited profit for 2021, which will be added to regulatory Tier 1 capital after approval by the Financial Supervisory Authority or after approval of the Annual Report by shareholders, and from which expected dividend payments have been deducted. By the end of the reporting period 9 month interim profit 2021 is included as approved by the Financial Supervisory Authority.

Capital planning is conducted on the basis of financial position and profit and loss forecasts that take into account the Group's strategy, future expectations, risk profile and risk appetite. Capital planning is the responsibility of the Bank's Management Board.

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

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

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

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

For determining the capital requirement, the financial position is forecast, taking into account changes by items of the risk position and equity. The financial position 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. As at 31.12.2021 and also at 31.12.2020, the Group was in compliance with all regulatory capital requirements.

Credit risk management

Credit risk is the risk of suffering financial loss, should any of the Group's customers or counterparties fail to fulfil their contractual obligations to the Group.

The Group 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.
Credit risk arises from the following financial instruments:

- Cash and cash equivalents (including cash in Central Banks and credit institutions, Note 9);
- Debt securities (Note 10);
- Loans and advances to customers (Note 11);
- Other financial assets (Note 12).

The cash placements to credit institutions and financial investments into debt securities are done within the counterparty transaction limits imposed by the Assets and Liabilities Committee (ALCO). When assessing the counterparty creditworthiness and credit limit, the counterparty's domicile, financial position, management, legal status and market position is taken into consideration. Additionally, for investments into debt securities the liquidity and rating are assessed.

Credit risk measurement

The Group uses internal credit risk gradings, that reflect its assessment of the probability of default of the individual counterparties.
Classification and grouping of the Bank's loan 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, 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, 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 according to contractual 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 terminated i.e. non-collectible loan, 181 days overdue or 91 days or more, and the repayments during 3 months have been 0 euros.

A debt of more than three (3) euros in the principal or interest payments of the loan is considered as debt in assessment of credit claims.

The Group allocates loans to credit quality classes as follows:

Risk class	Monitoring	PD%	Moody´s	S&P
A	Standard monitoring	0.01%- 1%	Baa1, Baa2, Baa3	BBB, BBB+, BBB-
B		1%-3%	Ba1, Ba2, Ba3	BB+, BB, BB-
C	Special monitoring	3%-20%	B1, B2, B3	B+, B, B-
D		20%-50%	C	C
E	Non-performing	100%	C	D
F		100%	C	D

Probability of Default (PD) ratios are calculated based on weighted average loan product mix of the Group and may vary with different product mix. Leasing and mortgage loans have lower than average PD ratios and consumer loans have higher than average PD ratios. S&P or Moody´s A rating classes are only applied to debt securities traded on active market, therefore not shown in table above.

COVID-19 pandemic, the declared emergency situation and the accompanying changes in the economic environment affected the Group's credit portfolio in 2020, The Group joined the cross-market payment moratorium; offered customers payment holidays and loan period extensions if desired.
As of 2021 most of the payment holidays have ended and payment discipline of the affected portfolio is very good. 2021 did not bring along remarkable increase in applications of payment holidays that is supported by the recovery of the overall economic situation, labour market and sector composition of the credit portfolio.

In 2021 the Group added own credit risk assessment process by introducing a framework for the evaluation of environmental, socioeconomic and management-related impact, since we realise that the materialisation of such risks is directly linked to the credit risk of clients. Clients whose activities could pose an environmental risk are checked on a case-by-case basis to ensure that their activities are in line with all valid norms of environmental protection.

Measurement of expected credit loss (ECL)

The impairment requirements are based on a three-stage expected credit loss (ECL) model, which considers changes in credit quality since initial recognition. The Group uses internally developed models which take into account external macroeconomic indicators (including unemployment rate, economic growth).

In accordance with IFRS 9 the financial instruments are classified into three stages based on the number of days of past due, financial position of the legal entity and other changes in the quality of the receivable, either as a performing receivable (stage 1), an under-performing receivable (significant increase in credit risk, stage 2) or a non-performing receivable (default, stage 3). 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 lifetime expected credit losses, the latter assumes default of the financial instruments.

Expected credit loss is calculated based on probability of default (PD), loss given default (LGD) and exposure at default (EAD) discounted to present day. 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, sale of the loan or future payments arising from the solvency, discounted at the financial asset's original effective interest rate, which together form a recoverable amount of the loan.

For the purpose of calculating the expected credit loss over the life of the contract, the expected 12-month PD of the receivable is adjusted with macroeconomic forecast.

For all products, the different macroeconomic scenarios have been used to correct PD's is based on quantitative analysis and expert judgement. 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. Forecasts of macro indicators are based on latest available analysis of Ministry of Finance on macroeconomic trends. The weighted impact on the probability of default is calculated using a weighting of 60% for the baseline scenario, 10% for a positive scenario and 30% for negative scenario for all products, where expert opinions have been used to determine the weights. Compared to 2020 more weight is given to negative scenario (10% ->30%) and less weight to base scenario (80% -> 60%) due to uncertain macroeconomic prospects.

Individual and collective assessment, grouping

Loans to legal entities 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 of 250 thousand euros and has rating of C, D, E and F. For private individuals the corresponding risk limit is 150 thousand euros. Loans to watchlist clients are also individually assessed.

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 collateral, 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, macroeconomic forecasts and the impact of the respective macro indicators on the solvency of the customers and collateral values.

Frequency of receivable assessments:

- collective assessment is performed on a monthly basis;
- individual assessment is performed quarterly and the results are approved in the Bank's Credit Committee.

Significant increase in credit risk

The Group considers a financial instrument to have a significant increase in credit risk where one or more of the following criteria have been met:

- the customer's contractual payments have been past due over 30-days at least once in the past three months;
- customer's risk class has been downgraded by 2 levels since issuing the loan;
- one of the customer's receivables is restructured due to payment difficulties or contains grace period or interest rate rescheduling;
- the customer is in watchlist.

All receivables from the same borrower are valued in the same category as the lowest risk category.

The Bank introduced new additional criteria for increased credit risk through the watchlist principle. Signs that indicate the potential need to include customer to watchlist are:

- negative macroeconomic events that affect the customer or the industry etc;
- adverse changes in the financial condition of the customer that can significally affect the ability to service the debt;
- some of the claims of the customer are restructured;
- customers weakened payment behaviour and >30 overdues;
- customer is in breach with financial covenants in the extent that indicates the limited possibilities to correctly service the debt;
- adverse changes in collateral values and position;
- legal actions and measures that can result in significant effect to customers financial condition;
- remarks brought out by the external auditors;
- other factors that indicate potentially increased credit risk.

Definition of default and credit-impaired assets

The Group defines financial assets as default, which is fully aligned with the definition of credit-impaired, based on the following qualitative or quantitative criteria:
Quantitative criteria:

- at least one of the loans issued to customer is more than 90 days past due on its contractual payments (principal or interest) and
- overdue 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;
- credit exposure has been restructured multiple times and it is probable that the customer is not able to service and repay the loans according to agreed terms;
- a private customer has died, and the receivable has not been re-written to a new borrower (such as an heir);
- the customer has committed fraud;

If the loan has been properly serviced for at least 3 months and none of the above criteria is present, the loan may go back to stage 2, excl. if the credit claim has been subject to restructuring measures due to insolvency.

Sensitivity analysis

When conducting sensitivity analysis, the Group uses macro indicators - the change of unemployment rate for loans to private individuals and the change in GDP for loans to legal entities. Estonian Ministry of Finance macroeconomic forecast is used as base scenario, for positive scenario GDP change of +5% pa and unemployment rate of -1% compared to base scenario and for negative scenario GDP change of -1,5% pa and unemployment rate of +3,5% compared to base scenario is used. Changes to ECL are found by assessing impact of these macroeconomic changes on the default probability.

The weighted impact on default probability is calculated using weighting of 60% for base scenario,10% for a positive scenario and 30% for negative scenario for all the loans categories. The weights were changed in 2021 due to uncertain macroeconomic prospects giving more weight to negative scenario.

The table below shows the impact of changes in the base scenario weights on the Group's loans portfolio as at 31.12.2021.

Change in the weights of the scenario (base-positive-negative)	Impact on loan portfolio
60%-0%-40%	-340
60%-20%-20%	308

As at 31.12.2020, the impact of changes in the base scenario weights were the following:

Change in the weights of the scenario (base-positive-negative)	Impact on loan portfolio
80%-5%-15%	-30
80%-15%-5%	30

This table shows the ECL change, if the following changes in negative scenario for unemployment rate and GDP will occur:

	Impact on loan portfolio 2021	Impact on loan portfolio 2020
Legal entities' loans: GDP change -2%	-163	-4
Private individual's loans: unemployment rate +2%	-950	-57

Maximum exposure to credit risk

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

31.12.2021	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	252 799	0	0	252 799
Debt securities at fair value through other comprehensive income	5 932	0	0	5 932
Loans to private individuals				
Consumer loans	65 495	2 926	1 959	70 380
Lease financing	50 554	337	12	50 903
Mortgage loans and other loans	355 013	8 961	625	364 599
Loans to legal entities				
Lease financing	55 948	1 892	4	57 844
Other loans to legal entities	403 159	12 705	2 633	418 497
Total	930 169	26 821	5 233	962 223
Loss allowance	-4 563	-1 707	-2 557	-8 827
Total net loans	925 606	25 114	2 676	953 396
Exposures related to off-balance sheet items				
Financial guarantees	16 000	553	0	16 553
Unused credit limits	30 719	188	0	30 907
Unused overdrafts	92 880	1 051	0	93 931
Total off-balance sheet exposures	139 599	1 792	0	141 391
Loss allowance	-285	-15	0	-300
Total net off-balance sheet exposures	139 314	1 777	0	141 091

31.12.2020	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	170 750	-	-	170 750
Debt securities at fair value through other comprehensive income	3 011	-	-	3 011
Loans to private individuals				
Consumer loans	64 091	3 497	3 293	70 881
Lease financing	36 705	475	127	37 307
Mortgage loans and other loans	254 762	7 077	622	262 461
Loans to legal entities				
Lease financing	44 003	2 805	296	47 104
Other loans to legal entities	240 611	16 847	4 125	261 583
Total	640 172	30 701	8 463	679 336
Loss allowance	-3 351	-2 514	-2 878	-8 743
Total net loans	636 821	28 187	5 585	670 593
Exposures related to off-balance sheet items				
Financial guarantees	9 144	1 401	-	10 545
Unused credit limits	20 960	617	-	21 577
Unused overdrafts	43 020	1 094	-	44 114
Total off-balance sheet exposures	73 124	3 112	-	76 236
Loss allowance	-65	-34	-	-99
Total net off-balance sheet exposures	73 059	3 078	-	76 137

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

31.12.2021	AA- and higher	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Not rated	Total
Cash and receivables from central bank	0	0	0	0	0	237 374	237 374
Receivables from credit institutions and other financial institutions*	557	1 356	0	0	0	13 512	15 425
Debt securities at fair value through other comprehensive income	0	797	2 780	0	0	2 355	5 932

*non-rated are Estonian credit institutions and the EU financial institutions - payment infrastructure operator, were the Group holds only very liquid positions

31.12.2020	AA- and higher	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Not rated	Total
Cash and receivables from central bank	0	0	0	0	0	162 899	162 899
Receivables from credit institutions and other financial institutions	158	2 098	0	0	0	5 595	7 851
Debt securities at fair value through other comprehensive income	0	737	1 249	407	0	618	3 011

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.

Cash and high-quality receivables from central bank (The Bank of Estonia) are not rated but can be classified as AA- or higher.

Other non-rated receivables from credit institutions and other financial institutions are of good quality and there is no indication of impairment.

Debt securities at fair value through other comprehensive income are predominantly liquid, which is why their expected credit losses are also considered insignificant.

Loans division by credit quality in different loan segments is presented in following tables:

Consumer loans to individuals	Stage 1	Stage 2	Stage 3	2021 total	Stage 1	Stage 2	Stage 3	2020 total
A	64 084	0	0	64 084	61 062	0	0	61 062
B	1 411	0	0	1 411	3 029	0	0	3 029
C	0	2 490	0	2 490	0	3 018	0	3 018
D	0	436	0	436	0	479	0	479
E	0	0	362	362	0	0	827	827
F	0	0	1 597	1 597	0	0	2 466	2 466
Total	65 495	2 926	1 959	70 380	64 091	3 497	3 293	70 881
Loss allowances	-1 257	-547	-1 619	-3 423	-1 459	-754	-2 476	-4 689
Carrying amount	64 238	2 379	340	66 957	62 632	2 743	817	66 192

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Lease financing to individuals	Stage 1	Stage 2	Stage 3	2021 total	Stage 1	Stage 2	Stage 3	2020 total
A	50 217	0	0	50 217	36 540	0	0	36 540
B	337	0	0	337	165	0	0	165
C	0	322	0	322	0	453	0	453
D	0	15	0	15	0	22	0	22
E	0	0	6	6	0	0	114	114
F	0	0	6	6	0	0	13	13
Total	50 554	337	12	50 903	36 705	475	127	37 307
Loss allowances	-32	-5	-5	-42	-16	-11	-41	-68
Carrying amount	50 522	332	7	50 861	36 689	464	86	37 239

Mortgage and other private loans	Stage 1	Stage 2	Stage 3	2021 total	Stage 1	Stage 2	Stage 3	2020 total
A	354 297	0	0	354 297	253 746	0	0	253 746
B	716	0	0	716	1 016	0	0	1 016
C	0	8 912	0	8 912	0	6 887	0	6 887
D	0	49	0	49	0	164	0	164
E	0	0	274	274	0	26	124	150
F	0	0	351	351	0	0	498	498
Total	355 013	8 961	625	364 599	254 762	7 077	622	262 461
Loss allowances	-78	-181	-109	-368	-53	-121	-48	-222
Carrying amount	354 935	8 780	516	364 231	254 709	6 956	574	262 239

Lease financing to legal entities	Stage 1	Stage 2	Stage 3	2021 total	Stage 1	Stage 2	Stage 3	2020 total
A	18 556	0	0	18 556	13 016	0	0	13 016
B	37 392	0	0	37 392	30 987	0	0	30 987
C	0	1 751	0	1 751	0	2 735	0	2 735
D	0	141	0	141	0	70	0	70
E	0	0	0	0	0	0	189	189
F	0	0	4	4	0	0	107	107
Total	55 948	1 892	4	57 844	44 003	2 805	296	47 104
Loss allowances	-367	-108	-2	-477	-339	-169	-106	-614
Carrying amount	55 581	1 784	2	57 367	43 664	2 636	190	46 490

Other loans to legal entities	Stage 1	Stage 2	Stage 3	2021 total	Stage 1	Stage 2	Stage 3	2020 total
A	85 902	0	0	85 902	100 643	0	0	100 643
B	317 257	0	0	317 257	139 968	0	0	139 968
C	0	12 705	0	12 705	0	16 608	0	16 608
D	0	0	0	0	0	176	0	176
E	0	0	2 515	2 515	0	63	147	210
F	0	0	118	118	0	0	3 978	3 978
Total	403 159	12 705	2 633	418 497	240 611	16 847	4 125	261 583
Loss allowances	-2 829	-866	-822	-4 517	-1 484	-1 459	-207	-3 150
Carrying amount	400 330	11 839	1 811	413 980	239 127	15 388	3 918	258 433

During the reporting period 24 thousand euros (2020: 10 thousand euros) were recognized as allowance provision for unused limits of lease financing and 276 thousand euros (2020: 89 thousand euros) were recognized as allowance provision for unused limits of other loans to legal entities.

Off-balance sheet exposures	Stage 1	Stage 2	Stage 3	2021 total	Stage 1	Stage 2	Stage 3	2020 total
A	56 871	0	0	56 871	41 488	0	0	41 488
B	82 728	0	0	82 728	31 636	0	0	31 636
C	0	1 792	0	1 792	0	3 112	0	3 112
D	0	0	0	0	0	0	0	0
E	0	0	0	0	0	0	0	0
F	0	0	0	0	0	0	0	0
Total	139 599	1 792	0	141 391	73 124	3 112	0	76 236
Loss allowances	-285	-15	0	-300	-65	-34	0	-99
Carrying amount	139 314	1 777	0	141 091	73 059	3 078	0	76 137

The following table analyses loan transfers between stages, gross carrying values

31.12.2021	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	956	827	177	24	341	59
Lease financing	221	236	0	19	0	57
Mortgage loans and other loans	3 950	1 121	216	28	29	15
Total	5 127	2 184	393	71	370	131
Loans to legal entities						
Lease financing	496	1 009	0	26	0	0
Other loans	4 502	2 134	2 450	0	40	0
Total	4 998	3 143	2 450	26	40	0

31.12.2020	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	1 356	212	293	23	1 235	11
Lease financing	355	222	39	0	69	0
Mortgage loans and other loans	5 186	1 174	183	93	105	8
Total	6 897	1 608	515	116	1 409	19
Loans to legal entities						
Lease financing	1 169	2 037	92	0	66	0
Other loans	8 917	492	0	0	147	0
Total	10 086	2 529	92	0	213	0

Allocation of past due loans (gross carrying amount)

31.12.2021	Loans to private individuals			Loans to legal entities	
	Consumer loans	Lease financing	Mortgage loans and other loans	Lease financing	Other loans
1-30 days	3 473	2 066	1 670	3 180	6 331
31-60 days	758	100	512	162	289
61-90 days	438	15	119	8	0
Over 90 days	1 816	6	380	4	118
Total	6 485	2 187	2 681	3 354	6 738

31.12.2020	Loans to private individuals			Loans to legal entities	
	Consumer loans	Lease financing	Mortgage loans and other loans	Lease financing	Other loans
1-30 days	4 100	872	3 407	3 788	175
31-60 days	901	114	448	60	164
61-90 days	507	37	115	122	176
Over 90 days	3 093	31	590	148	4 125
Total	8 601	1 054	4 560	4 118	4 640

Decrease in past due loans over 90 days is mainly caused by sale of non-performing consumer loans and by resolving biggest non-performing loans to legal entities.

Non-performing loans (stage 3)

31.12.2021	Gross carrying amount	Loss allowance	Carrying amount	Fair value of the collateral
Loans to private individuals				
Consumer loans	1 959	-1 619	340	0
Lease financing	12	-5	7	10
Mortgage loans and other loans	625	-109	516	1 461
Total	2 596	-1 733	863	1 471
Loans to legal entities				
Lease financing	4	-2	2	6
Other loans	2 633	-822	1 811	1 439
Total	2 637	-824	1 813	1 445

31.12.2020	Gross carrying amount	Loss allowance	Carrying amount	Fair value of the collateral
Loans to private individuals				
Consumer loans	3 293	-2 476	817	0
Lease financing	127	-41	86	253
Mortgage loans and other loans	622	-48	574	1 223
Total	4 042	-2 565	1 477	1 476
Loans to legal entities				
Lease financing	296	-106	190	1 762
Other loans	4 125	-207	3 918	15 619
Total	4 421	-313	4 108	17 381

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 are updated at least once a year. 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 collaterals are:

- real estate (mortgage on property);
- 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.

Collaterals 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 collateral have not changed significantly and there has also been no significant change in the overall quality of collateral. An overview of the over and under-collateralised loans to customers are given in the tables below.

31.12.2021	Over-collateralised loans		Under-collateralised loans	
	Carrying amount	Fair value of the collateral	Carrying amount	Fair value of the collateral
Loans to private individuals				
Consumer loans	0	0	66 957	0
Lease financing	50 142	76 379	719	195
Mortgage loans and other loans	358 942	867 539	5 289	1 698
Total	409 084	943 918	72 965	1 893
Loans to legal entities				
Lease financing	57 055	102 232	312	233
Other loans	339 110	1 109 670	74 870	17 508
Total	396 165	1 211 902	75 182	17 741

31.12.2020	Over-collateralised loans		Under-collateralised loans	
	Carrying amount	Fair value of the collateral	Carrying amount	Fair value of the collateral
Loans to private individuals				
Consumer loans	0	0	66 192	0
Lease financing	37 198	54 809	41	27
Mortgage loans and other loans	258 383	620 047	3 856	1 084
Total	295 581	674 856	70 089	1 111
Loans to legal entities				
Lease financing	46 391	79 671	99	92
Other loans	203 385	686 242	55 048	12 143
Total	249 776	765 913	55 147	12 235

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 evidenced in long overdue of the customers (over 90-days).

The breakdown of the non-performing (stage 3) over and under-collateralised loans are given in the tables below

31.12.2021	Over-collateralised loans Carrying amount	Over-collateralised loans Fair value of the collateral	Under-collateralised loans Carrying amount	Under-collateralised loans Fair value of the collateral
Loans to private individuals				
Consumer loans	0	0	340	0
Lease financing	4	10	3	0
Mortgage loans and other loans	448	1 461	68	0
Total	452	1 471	411	0
Loans to legal entities				
Lease financing	2	6	0	0
Other loans	160	609	1 651	830
Total	162	615	1 651	830

31.12.2020	Over-collateralised loans Carrying amount	Over-collateralised loans Fair value of the collateral	Under-collateralised loans Carrying amount	Under-collateralised loans Fair value of the collateral
Loans to private individuals				
Consumer loans	0	0	817	0
Lease financing	79	253	7	0
Mortgage loans and other loans	477	1 211	97	12
Total	556	1 464	921	12
Loans to legal entities				
Lease financing	190	1 762	0	0
Other loans	3 462	15 619	456	0
Total	3 652	17 381	456	0

Loans and advances to customers by types of collateral

Private individuals	31.12.2021	31.12.2020
Loans secured by mortgage	362 647	261 345
Leased assets	50 639	37 296
Unsecured loans	72 464	71 785
Personal sureties, guarantees	102	138
Other	30	85
Total	485 882	370 649
Loss allowance	-3 833	-4 979
Total of net loans	482 049	365 670

Legal entities	31.12.2021	31.12.2020
Loans secured by mortgage	367 684	220 375
Leased assets	57 844	47 104
Unsecured loans	110	652
Personal sureties, guarantees	4 650	5 420
Other	46 053	35 136
Total	476 341	308 687
Loss allowance	-4 994	-3 764
Total of net loans	471 347	304 923

Impairment losses on financial assets

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

- Movements between stages 1, 2 and 3 due to significant increase (or decrease) in the credit risk of a financial instrument or due to default, followed by moving from 12-month to lifetime expected credit loss model (or vice versa);
- Impairment allowance on new financial instruments recognized in the reporting period, as well as decrease in impairment due to derecognition;
- Regular review of risk parameters and resulting changes in ECL due to changes in probability of default (PD), exposure at default (EAD) and loss given default (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.

The following table analyses the movement of allowances during the reporting period. Net impact from movements between states is included in the line "Recalculations of allowances". On this row also impacts from loan repayments are reported.

2021	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2021	-3 351	-2 514	-2 878	-8 743
Transfer to stage 1	-507	436	71	0
Transfer to stage 2	91	-136	45	0
Transfer to stage 3	15	807	-822	0
Recalculations of allowances	1 608	-720	-825	63
New financial assets originated or purchased	-2 419	-84	0	-2 503
Total net P&L charge during the period	-1 212	303	-1 531	-2 440
Other movements with no P&L impact				
Write-offs	0	3	125	128
Financial assets derecognised and repaid during the period	0	501	1 727	2 228
Balance as at 31.12.2021	-4 563	-1 707	-2 557	-8 827

2020	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2020	-2 292	-1 686	-1 362	-5 340
Transfer to stage 1	-235	225	10	0
Transfer to stage 2	118	-157	39	0
Transfer to stage 3	51	114	-165	0
Recalculations of allowances	518	-1 780	-1 999	-3 261
New financial assets originated or purchased	-1 513	-77	0	-1 590
Total net P&L charge during the period	-1 061	-1 675	-2 115	-4 851
Other movements with no P&L impact				
Write-offs	0	0	112	112
Financial assets derecognised and repaid during the period	2	847	487	1 336
Balance as at 31.12.2020	-3 351	-2 514	-2 878	-8 743

The following tables analyses the movement of allowances during the reporting period by product:

Loss allowance of consumer loans. 2021	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2021	-1 459	-754	-2 476	-4 689
Transfer to stage 1	-279	229	50	0
Transfer to stage 2	42	-65	23	0
Transfer to stage 3	14	50	-64	0
Recalculations of allowances	1 179	-504	-879	-204
New financial assets originated or purchased	-754	-4	0	-758
Total net P&L charge	202	-294	-870	-962
Other movements with no P&L impact				
Write-offs	0	0	0	0
Financial assets derecognised and repaid during the period	0	501	1 727	2 228
Balance as at 31.12.2021	-1 257	-547	-1 619	-3 423

Loss allowance of consumer loans. 2020	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2020	-1 365	-440	-960	-2 765
Transfer to stage 1	-67	60	7	0
Transfer to stage 2	50	-71	21	0
Transfer to stage 3	50	86	-136	0
Recalculations of allowances	686	-1 236	-2 007	-2 557
New financial assets originated or purchased	-815	0	0	-815
Total net P&L charge	-96	-1 161	-2 115	-3 372
Other movements with no P&L impact				
Write-offs	0	0	112	112
Financial assets derecognised and repaid during the period	2	847	487	1 336
Balance as at 31.12.2020	-1 459	-754	-2 476	-4 689

Loss allowance of lease financing to private individuals, 2021	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2021	-16	-11	-41	-68
Transfer to stage 1	-26	6	20	0
Transfer to stage 2	0	-7	7	0
Transfer to stage 3	0	0	0	0
Recalculations of allowances	25	4	-3	26
New financial assets originated or purchased	-15	0	0	-15
Total net P&L charge	-16	3	24	11
Other movements with no P&L impact				
Write-offs	0	3	12	15
Financial assets derecognised and repaid during the period	0	0	0	0
Balance as at 31.12.2021	-32	-5	-5	-42

Loss allowance of lease financing to private individuals, 2020	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2020	-69	-22	-10	-101
Transfer to stage 1	-11	11	0	0
Transfer to stage 2	1	-1	0	0
Transfer to stage 3	0	3	-3	0
Recalculations of allowances	101	-1	-28	72
New financial assets originated or purchased	-38	-1	0	-39
Total net P&L charge	53	11	-31	33
Other movements with no P&L impact				
Write-offs	0	0	0	0
Financial assets derecognised and repaid during the period	0	0	0	0
Balance as at 31.12.2020	-16	-11	-41	-68

Loss allowance of mortgage and other private loans, 2021	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2021	-53	-121	-48	-222
Transfer to stage 1	-11	11	0	0
Transfer to stage 2	2	-5	3	0
Transfer to stage 3	0	9	-9	0
Recalculations of allowances	5	-74	-55	-124
New financial assets originated or purchased	-21	-1	0	-22
Total net P&L charge	-25	-60	-61	-146
Other movements with no P&L impact				
Write-offs	0	0	0	0
Financial assets derecognised and repaid during the period	0	0	0	0
Balance as at 31.12.2021	-78	-181	-109	-368

Loss allowance of mortgage and other private loans, 2020	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2020	-138	-172	-155	-465
Transfer to stage 1	-58	55	3	0
Transfer to stage 2	4	-22	18	0
Transfer to stage 3	0	11	-11	0
Recalculations of allowances	253	10	97	360
New financial assets originated or purchased	-114	-3	0	-117
Total net P&L charge	85	51	107	243
Other movements with no P&L impact				
Write-offs	0	0	0	0
Financial assets derecognised and repaid during the period	0	0	0	0
Balance as at 31.12.2020	-53	-121	-48	-222

Loss allowance of lease financing to legal entities, 2021	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2021	-339	-169	-106	-614
Transfer to stage 1	-71	70	1	0
Transfer to stage 2	11	-23	12	0
Transfer to stage 3	0	0	0	0
Recalculations of allowances	338	31	-3	366
New financial assets originated or purchased	-306	-17	0	-323
Total net P&L charge	-28	61	10	43
Other movements with no P&L impact				
Write-offs	0	0	94	94
Financial assets derecognised and repaid during the period	0	0	0	0
Balance as at 31.12.2021	-367	-108	-2	-477

Loss allowance of lease financing to legal entities, 2020	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2020	-118	-142	-17	-277
Transfer to stage 1	-66	66	0	0
Transfer to stage 2	7	-7	0	0
Transfer to stage 3	0	12	-12	0
Recalculations of allowances	-63	-55	-77	-195
New financial assets originated or purchased	-99	-43	0	-142
Total net P&L charge	-221	-27	-89	-337
Other movements with no P&L impact				
Write-offs	0	0	0	0
Financial assets derecognised and repaid during the period	0	0	0	0
Balance as at 31.12.2020	-339	-169	-106	-614

Loss allowance of other loans to legal entities, 2021	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2021	-1 484	-1 459	-207	-3 150
Transfer to stage 1	-120	120	0	0
Transfer to stage 2	36	-36	0	0
Transfer to stage 3	1	748	-749	0
Recalculations of allowances	61	-177	115	-1
New financial assets originated or purchased	-1 323	-62	0	-1 385
Total net P&L charge	-1 345	593	-634	-1 386
Other movements with no P&L impact				
Write-offs	0	0	19	19
Financial assets derecognised and repaid during the period	0	0	0	0
Balance as at 31.12.2021	-2 829	-866	-822	-4 517

Loss allowance of other loans to legal entities, 2020	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2020	-602	-910	-220	-1 732
Transfer to stage 1	-33	33	0	0
Transfer to stage 2	56	-56	0	0
Transfer to stage 3	1	2	-3	0
Recalculations of allowances	-459	-498	16	-941
New financial assets originated or purchased	-447	-30	0	-477
Total net P&L charge	-882	-549	13	-1 418
Other movements with no P&L impact				
Write-offs	0	0	0	0
Financial assets derecognised and repaid during the period	0	0	0	0
Balance as at 31.12.2020	-1 484	-1 459	-207	-3 150

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 different from the original terms, the Group derecognises the original financial asset and recognizes a new asset. The Group also assesses whether the new financial asset is credit-impaired at initial 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 recognizes 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 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 two years.

Concentration of risks

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

The lending activity of the Group is focused on providing financing to local market. 51% of loans and advances to customers are granted to private individuals (31.12.2020: 55%). The portfolio of loans granted to legal entities is diversified between various economic sectors to avoid high levels of concentration. 43% (31.12.2020: 32%) of loans and leasing products to corporates are granted to companies engaged in the real estate sector, 8% (31.12.2020: 9%) to wholesale and retail entities, 7% (31.12.2020: 12%) to companies in energy sector and 7% (31.12.2020: 9%) to agricultural sector. The loans granted to legal entities in other sectors is total 35% (31.12.2020: 38%).
The distribution of loans and advances to customers according to credit product is provided in Note 11.

Loans and advances to customers by economic sector	31.12.2021	31.12.2020
Private individuals	482 049	365 670
L – activities related to real estate	204 299	97 000
G – wholesale and retail	37 581	28 961
A – agriculture, forestry and fishing	34 267	26 740
D – power and heat generation	31 756	35 260
K – finance and insurance activities	30 948	25 973
N – administrative and support services	28 390	17 661
C – manufacturing	20 469	20 071
H – transportation and storage	17 193	16 401
I – hospitality and food service	16 373	15 618
F – construction	15 698	4 933
S – other services	14 907	6 773
M – professional, scientific and technical activities	6 256	1 333
Other	13 210	8 199
Total	953 396	670 593

Cash and cash equivalents in amount 252 799 (2020: 170 750) thousands euros and other financial assets in amount 976 (2020: 699) thousands euros are in economic sector K. Debt securities in amount of 2 329 (2020: 0) thousand euros are in economic sector K. Debt securities in amount of 3 603 (2020: 3 011) thousands euros, all equity investments and other financial assets in amount 335 (2020: 300) thousands euros are in other sectors.

Financial assets by geographical classification

	EE	FR	CH	US	Other	Total
Cash and cash equivalents	239 973	11 511	0	0	1 315	252 799
Debt securities at fair value through other comprehensive income	2 354	0	0	1 504	2 074	5 932
Loans and advances to customers	944 577	0	5 495	2 476	848	953 396
Equity instruments at fair value through other comprehensive income	0	0	0	0	13	13
Other financial assets	922	0	0	0	389	1 311
Total	1 187 826	11 511	5 495	3 980	4 639	1 213 451

31.12.2020	EE	LV	CH	US	Other	Total
Cash and cash equivalents	163 958	0	0	0	6 792	170 750
Debt securities at fair value through other comprehensive income	507	0	0	737	1 767	3 011
Loans and advances to customers	664 991	2 455	2 473	0	674	670 593
Equity instruments at fair value changes through profit or loss	0	0	0	0	67	67
Equity instruments at fair value through other comprehensive income	0	0	0	0	13	13
Other financial assets	699	0	0	300	0	999
Total	830 155	2 455	2 473	1 037	9 313	845 433

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.

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 – demand deposits are usually rather stable source of funding and up to 12-month term deposits are often prolonged – therefore the behavioral nature of these deposits is longer than 12 months. 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 liabilities by residual maturity (undiscounted cash flows) is provided in the following table.

31.12.2021	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	252 799	0	0	0	252 799
Debt securities at fair value through other comprehensive income	1 277	202	2 124	2 329	5 932
Loans and advances to customers	49 243	150 539	599 836	392 379	1 191 997
Equity instruments at fair value through other comprehensive income	0	0	0	13	13
Other financial assets	976	0	21	314	1 311
Total financial assets	304 295	150 741	601 981	395 035	1 452 052
Liabilities					
Customer deposits and loans received	648 424	342 412	102 092	8 395	1 101 323
Lease liabilities	226	647	2 911	3 251	7 035
Other financial liabilities	3 221	0	0	0	3 221
Subordinated debt	260	786	4 185	19 999	25 230
Total financial liabilities	652 131	343 845	109 188	31 645	1 136 809
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	124 838	0	0	0	124 838
Financial guarantees by contractual amounts	16 553	0	0	0	16 553
Total on-balance-sheet and off-balance-sheet liabilities	793 522	343 845	109 188	31 645	1 278 200
Duration gap of financial assets and financial liabilities	-489 227	-193 104	492 793	363 390	173 852

31.12.2020	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	170 550	200	0	0	170 750
Debt securities at fair value through other comprehensive income	0	407	2 604	0	3 011
Loans and advances to customers	45 660	106 394	419 936	281 524	853 514
Equity instruments at fair value changes through profit or loss	67	0	0	0	67
Equity instruments at fair value through other comprehensive income	0	0	0	13	13
Other financial assets	677	0	22	300	999
Total financial assets	216 954	107 001	422 562	281 837	1 028 354
Liabilities					
Customer deposits and loans received	438 414	212 002	100 649	13 557	764 622
Lease liabilities	147	417	467	0	1 031
Other financial liabilities	2 174	497	0	0	2 671
Subordinated debt	122	374	1 984	8 158	10 638
Total financial liabilities	440 857	213 290	103 100	21 715	778 962
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	65 691	0	0	0	65 691
Financial guarantees by contractual amounts	10 545	0	0	0	10 545
Total on-balance-sheet and off-balance-sheet liabilities	517 093	213 290	103 100	21 715	855 198
Duration gap of financial assets and financial liabilities	-300 139	-106 289	319 462	260 122	173 156

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 debt securities . The volume of the debt securities portfolio increased in total by 2021, a more detailed overview is given in Note 10. The average maturity of the portfolio has increased as new debt securities were added to the portfolio.

The market risk of the portfolio of debt securities is mainly caused by the maturity date and possible change in the interest rates. The interest rate sensitivity of the financial investments portfolio is calculated regularly. The sensitivity of the debt securities portfolio given a 100 bp increase in interest rates as at 31.12.2021 was 2 thousand euros (31.12.2020: 16 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 31.12.2021 was 159 thousand euros (2020: 60 thousand euros). The sensitivity analysis has been carried out with the justified effects of possible exchange rate changes (10% on average) on the statement of profit or loss remaining constant for all other variables, the impact amount is 19 thousand euros (2020: 6 thousand euros).

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

31.12.2021	EUR	USD	Other	Total
Assets				
Cash and cash equivalents	251 447	0	1 352	252 799
Debt securities at fair value through other comprehensive income	3 859	2 073	0	5 932
Loans and advances to customers	953 396	0	0	953 396
Equity instruments at fair value through other comprehensive income	13	0	0	13
Other financial assets	1 126	185	0	1 311
Total financial assets	1 209 841	2 258	1 352	1 213 451
Liabilities				
Customer deposits and loans received	1 095 375	2 154	1 217	1 098 746
Subordinated debt	17 064	0	0	17 064
Lease liabilities	6 639	0	0	6 639
Other financial liabilities	3 141	0	80	3 221
Total financial liabilities	1 122 219	2 154	1 297	1 125 670
Net position	87 622	104	55	87 781

31.12.2020	EUR	USD	Other	Total
Assets				
Cash and cash equivalents	169 280	205	1 265	170 750
Debt securities at fair value through other comprehensive income	1 025	1 986	0	3 011
Loans and advances to customers	670 593	0	0	670 593
Equity instruments at fair value changes through profit or loss	67	0	0	67
Equity instruments at fair value through other comprehensive income	13	0	0	13
Other financial assets	829	170	0	999
Total financial assets	841 807	2 361	1 265	845 433
Liabilities				
Customer deposits and loans received	754 277	2 357	1 201	757 835
Subordinated debt	7 064	0	0	7 064
Lease liabilities	1 018	0	0	1 018
Other financial liabilities	2 663	0	8	2 671
Total financial liabilities	765 022	2 357	1 209	768 588
Net position	76 785	4	56	76 845

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.

Volume of floating rate loans which are EURIBOR-related as of 31.12.2021 was 829 114 thousand euros (31.12.2020: 556 582 thousand euros). The Group has no loans related with other benchmarks.

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

31.12.2021	Up to 3 months	3-12 months	1-5 years	Over 5 years	Principal	Accrued interest	Loss allowance	Total
Financial assets exposed to interest rate risk								
Balances with central banks	210 204	0	0	0	210 204	-22	0	210 182
Loans and advances to credit institutions	15 424	0	0	0	15 424	1	0	15 425
Debt securities at fair value change through other comprehensive income	5 932	0	0	0	5 882	50	0	5 932
Loans and advances to customers	509 890	449 521	0	0	959 411	2 812	-8 827	953 396
Total Financial assets exposed to interest rate risk	741 450	449 521	0	0	1 190 921	2 841	-8 827	1 184 935
Interest-bearing liabilities								
Customer deposits and loans received	647 495	345 516	96 135	6 213	1 095 359	3 387	0	1 098 746
Subordinated debt	0	0	0	17 000	17 000	64	0	17 064
Total interest-bearing liabilities	647 495	345 516	96 135	23 213	1 112 359	3 451	0	1 115 810
Exposure to interest rate risk duration gap	93 955	104 055	-96 135	-23 213	78 562	-610	-8 827	69 125

31.12.2020	Up to 3 months	3-12 months	1-5 years	Over 5 years	Principal	Accrued interest	Loss allowance	Total
Financial assets exposed to interest rate risk								
Balances with central banks	136 719	0	0	0	136 719	-18	0	136 701
Loans and advances to credit institutions	7 651	200	0	0	7 851	0	0	7 851
Debt securities at fair value change through other comprehensive income	3 011	0	0	0	2 971	40	0	3 011
Loans and advances to customers	372 699	303 972	0	0	676 671	2 665	-8 743	670 593
Total Financial assets exposed to interest rate risk	520 080	304 172	0	0	824 212	2 687	-8 743	818 156
Interest-bearing liabilities								
Customer deposits and loans received	437 442	216 857	94 257	6 241	754 797	3 038	0	757 835
Subordinated debt	0	0	0	7 000	7 000	64	0	7 064
Total interest-bearing liabilities	437 442	216 857	94 257	13 241	761 797	3 102	0	764 899
Exposure to interest rate risk duration gap	82 638	87 315	-94 257	-13 241	62 415	-415	-8 743	53 257

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. The bank measures interest rate risk once a quarter. To measure and stress test the interest rate risk of the banking book, the parallel shift of the risk-free interest rate curve and other possible changes in the interest rate curve, including changes in slope and shape, affect the Group's net interest income and the economic value of equity.

The bank assesses the following stress scenarios:

1. The effect of the risk-free interest rate curve of + 25bp, + 50bp, + 100bp, + 200bp, -25bp, -50bp, -100bp, -200bp on the group's net interest income over 12 months and on the economic value of equity is assessed.
2. The effect of the change in the shape and slope of the interest rate curve on the economic value of the Group's equity is assessed by changing interest rates between + 200bp and -200bp across maturity curves, including short-term and long-term interest rate movements in the opposite direction.
3. Changes in the slope of the interest rate curve:
   – rise and fall in short-term interest rates;
   – increase in short-term interest rates, decrease in long-term interest rates;
   – decrease in short-term interest rates, increase in long-term interest rates

The calculation of interest rate risk is based on, among other things, the following assumptions:

- For the assessment of interest rate risk, the fixed balances of demand deposits, to which an interest elasticity of 0% is applied, and the variable part, to which an interest elasticity of 50% of the interest rate change is applied, are found.
- For the assessment of the interest rate risk the permanent deposit ratio for 2021 was used, i.e. 77%.
- In determining the economic value of equity, the maturity of the fixed balances of demand deposits is 2 years and that of the variable part is 0 years, i.e. the fixed part of deposits is 77% and the variable part is 23%.
- Early repayment of loans and deposits will take place at the normal level, except for an additional 5% interruption of term deposits in the scenario of a 200bp increase in interest rates. The rate of early repayment of loans, i.e. the usual level in 2021, was 14.4%. The termination rate of term deposits based on 2021 was 4.1%.

The table below specifies the estimates with regard to the annual impact of a parallel shift by +100 bp in the yield curve on the net interest income:

	EUR	USD	31.12.2021 total	EUR	USD	31.12.2020 total
Change in interest income	6 182	0	6 182	4 691	0	4 691
Change in interest expense	2 472	5	2 477	2 065	9	2 074
Change in net interest income	3 710	-5	3 705	2 626	-9	2 617

The total impact of the 100 bp increase in the interest rate curve on net interest income over one year and corresponding impact on equity was 3 705 thousand euros (31.12.2020: 2 617 thousand euros) at the balance sheet date, while the impact of the 100 bp interest rate decrease was 926 thousand euros (31.12.2020: 1 301 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 basis points increase in interest rates of the Group's economic value of equity, while discounting assets and liabilities through lifetime, as at 31.12.2021 was 2 805 thousand euros and the impact of a decrease of 100 basis points was 7 904 thousand euros, corresponding figures as at 31.12.2020 were 1 580 thousand euros and 5 874 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 the risk that arises from disruptions or deficiencies in the Group's information systems, personnel, processes or external factors, causing damage or disruption to the Group's day-to-day business. Operational risk includes information systems risk, information security risk, compliance risk (including money laundering and terrorist financing risk), process risk, personnel risk, legal risk, physical security risk, work environment risk, external risk and asset destruction risk. The Group follows the operational risk policy established in the management of operational risk.

Operational risk is treated and managed in the Group as a separate area of risk management for which the necessary resources have been allocated. Operational risk management is integrated into the Group's day-to-day operations and is primarily aimed at activities that prevent and control the realization of risk. Awareness of the nature, impact and need for control of operational risk must take place at the level of each employee in the group. The most important sub-risks - information security and compliance risks – are managed separately.

The assessment of operational risks in the Group is primarily qualitative. Operational risk cases are registered in the case database together with the amount of damage that has occurred. The Group monitors the quantitative dynamics of operational risk by analyzing the main risk indicators at least quarterly. The Management Board conducts regular quarterly reviews of the main risk indicators of operational risk and incidents. The Group conducts regular operational risk self-assessment. The Group uses the basic approach to calculate the capital requirement for operational risk.

Fair value of assets and liabilities

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 rate as a basis in order to estimate the fair value of financial assets and financial liabilities. Market rate for the loans is the average interest rate used in the Group in past 6 months prior to balance sheet date. When determining the fair value of the deposits current deposit balances are discounted using the deposit interest rates offered to new deposits included in the analysis.

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 debt securities 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).

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

The fair value of loans and advances as at 31.12.2021 was 1,1% higher (10 500 thousand euros) than their carrying amount. The fair value of deposits as at 31.12.2021 was 0,1% higher (627 thousand euros) than their carrying amount

31.12.2021	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets at fair value					
Debt securities at fair value through other comprehensive income	5 932	-	-	5 932	5 932
Equity instruments	-	13	-	13	13
Total of financial assets	5 932	13	0	5 945	5 945
Financial assets at amortized cost					
Cash and cash equivalents	252 799	-	0	252 799	252 799
Loans and advances to customers	-	-	963 896	963 896	953 396
Total receivables from private individuals	-	-	492 389	492 389	482 049
incl. consumers loans			66 957	66 957	66 957
incl. lease financing			50 849	50 849	50 861
incl. mortgage loans and other loans			374 583	374 583	364 231
Total receivables from legal entities	-	-	471 507	471 507	471 347
incl. lease financing			57 354	57 354	57 367
incl. other loans to legal entities			414 153	414 153	413 980
Other financial assets	-	-	1 311	1 311	1 311
Total of financial assets at amortized cost	252 799	0	965 207	1 218 006	1 207 506
Financial liabilities at amortized cost					
Customer deposits and loans received	-	1 099 374	0	1 099 374	1 098 746
incl. private individuals	-	477 478	0	477 478	477 383
incl. legal entities	-	621 896	0	621 896	621 363
Lease liabilities	-	-	6 639	6 639	6 639
Other financial liabilities	-	-	3 221	3 221	3 221
Subordinated debt	-	-	17 064	17 064	17 064
Total of financial liabilities at amortized cost	-	1 099 374	26 924	1 126 298	1 125 670

As at 31.12.2020 the fair value of loans and advances was 0,4% higher (2 700 thousand euros) than the carrying amount and the fair value of deposits corresponded to their carrying amount.

31.12.2020	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets at fair value					
Debt securities at fair value through other comprehensive income	3 011	-	-	3 011	3 011
Equity instruments	67	13	-	80	80
Total of financial assets	3 078	13	-	3 091	3 091
Investment property	-	-	594	594	594
Financial assets at amortized cost					
Cash and cash equivalents	170 750	-	-	170 750	170 750
Loans and advances to customers	-	-	673 293	673 293	670 593
Total receivables from private individuals	-	-	368 739	368 739	365 666
incl. consumers loans			66 192	66 192	66 192
incl. lease financing			37 235	37 235	37 235
incl. mortgage loans and other loans			265 312	265 312	262 239
Total receivables from legal entities	-	-	304 554	304 554	304 927
incl. lease financing			46 494	46 494	46 494
incl. other loans to legal entities			258 060	258 060	258 433
Other financial assets	-	-	999	999	999
Total of financial assets at amortized cost	170 750	-	674 292	845 042	842 342
Financial liabilities at amortized cost					
Customer deposits and loans received	-	757 835	-	757 835	757 835
incl. private individuals	-	431 343	-	431 343	431 343
incl. legal entities	-	326 492	-	326 492	326 492
incl. credit institutions	-	-	-	-	-
Lease liabilities	-	-	1 018	1 018	1 018
Other financial liabilities	-	-	2 671	2 671	2 671
Subordinated debt	-	-	7 064	7 064	7 064
Total of financial liabilities at amortized cost	-	757 835	10 753	768 588	768 588

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.

As at 31.12.2021 the Group had no investment property.
As at 31.12.2020 overview of the valuation methodology used and the classification of investment property is given in following table.

31.12.2020	Fair value	Rent income per year	Medium rent price (eur/m2)	Possible change in rent price	Maximum impact to value
Valued according to market approach:					
-commercial real estate	381	25	6.21-7.95	7%	+/-7%
-residential property	213	11	5.8	5%	+/-5%
Total investment property	594	36			

Note 3 Subsidiaries and goodwill

In May 2017 the Group acquired 100% of the shares of Coop Finants AS in order to grow its market share in consumer loans segment. From the acquisition of subsidiary goodwill was recognized, which includes synergies and intangible assets that were not separately identified. The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined cost savings expected to arise. Goodwill is allocated to the segment of consumer financing. Goodwill as at 31.12.2021 was 6 757 thousand euros (31.12.2020: 6 757 thousand euros).

As at 31.12.2021 and 31.12.2020 goodwill was tested for impairment. Value-in-use calculations are based on following assumptions:

- forecast period 6 years (2020: 6 years)
- estimated growth in the volume of loan portfolio is 10-13% per year (2020: 10-13%)
- average increase in net income is 13% per year (2020: 10%)
- increase in expenses is 9% per year (2020: 9%)
- average loan impairment loss is 3.2% per year (2020: 3.2-3.7%)
- cost of capital of 15% is used as cash flows discount rate (2020: 15%)
- terminal growth rate used is 2% (2020: 2%)

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 of the economic environment, there will be need for impairment of goodwill. The sensitivity to key assumptions tested, with other parameters being constant, was:

- loan portfolio and net interest income growth 2% (2020: 2%)
- increase in expenses 18% (2020: 18%)
- loan impairment costs 5% (2020: 4.7%)
- cost of capital 15%

Based on the assessment of reasonably possible changes for key assumptions the management has not identified any instances that could cause the carrying amount of cash generating unit to exceed its recoverable amount.

Note 4 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. Measures of profitability for the segments is profit before income tax. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, is the management board of the Parent Company.

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 consumer financing and leasing segments that include 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. Insurance brokerage earns revenues on intermediating insurance contracts.

Due to the Bank's customer-based division, the Group has 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 is 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, but business lines are not defined as separate segments.

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. The geographical breakdown of commission fees is shown in Note 6.

Segment profits in 2021, in thousands of euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Interest income	18 558	11 503	12 402	3 841	1 336	-4 600	43 040
Incl. external income	16 160	10 516	12 402	3 841	121	0	43 040
Incl. internal income	2 398	987	0	0	1 215	-4 600	0
Interest expenses	-4 435	-4 298	-979	-1 251	-1 139	4 600	-7 502
Net interest income	14 123	7 205	11 423	2 590	197	0	35 538
Commission income	1 266	1 858	1 452	182	245	0	5 003
Commission expense	-457	-1 203	-233	-9	-16	0	-1 918
Net commission income	809	655	1 219	173	229	0	3 085
Other operating income	475	119	335	92	-406	0	615
Net income	15 407	7 979	12 977	2 855	20	0	39 238
Operating expenses	-5 734	-8 327	-4 939	-2 498	-955	0	-22 453
Profit before loss allowances	9 673	-348	8 038	357	-935	0	16 785
Credit loss allowance	-1 575	-68	-812	103	-145	0	-2 497
Net profit before income tax	**8 098**	**-416**	**7 226**	**460**	**-1 080**		**14 288**
Income tax expense	-825	0	0	0	0	0	-825
Profit of the year	7 273	-416	7 226	460	-1 080	0	13 463

Fee and commission income allocation 2021, in thousands of euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Fees from customer loans	0	0	1 452	0	0	0	1 452
Monthly account fees and transaction fees	263	928	0	0	0	0	1 191
Fees from cards	286	753	0	0	0	0	1 039
Insurance brokerage commission	0	0	0	0	216	0	216
Foreign exchange transactions	22	4	0	0	26	0	52
Other fee and commission income	695	173	0	182	3	0	1 053
Total fee and commission income	1 266	1 858	1 452	182	245	0	5 003

Assets and liabilitites as at 31.12.2021, in millions of euros	Corporat e banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Loan portfolio	556	362	67	98	251	-381	953
Other assets	117	103	30	28	11	0	289
Total assets	673	465	97	126	262	-381	1 242
Total liabilites	623	423	89	115	261	-381	1 130

*Other includes treasury, subsidiaries CP Varad, Prana Property and Coop Kindlustusmaakler.

Segment profits in 2020, in thousands of euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Interest income	12 221	8 705	12 156	3 281	2 072	-3 795	34 640
Incl. external income	11 173	7 928	12 156	3 281	102	0	34 640
Incl. internal income	1 048	777	0	0	1 970	-3 795	0
Interest expenses	-2 935	-3 206	-967	-1 100	-1 856	3 795	-6 269
Net interest income	9 286	5 499	11 189	2 181	216	0	28 371
Commission income	567	1 392	1 565	133	30	0	3 687
Commission expense	-403	-943	-234	-10	0	0	-1 590
Net commission income	164	449	1 331	123	30	0	2 097
Other operating income	72	143	373	179	-146	0	621
Net income	9 522	6 091	12 893	2 484	99	0	31 089
Operating expenses	-4 430	-7 277	-4 159	-2 132	-798	0	-18 796
Profit before loss allowances	5 092	-1 186	8 734	352	-699	0	12 293
Credit loss allowance	-1 494	322	-3 212	-305	-100	0	-4 789
Net profit before income tax	**3 598**	**-864**	**5 522**	**47**	**-799**	**0**	**7 504**
Income tax expense	-245	0	0	0	0	0	-245
Profit of the year	3 353	-864	5 522	47	-799	0	7 259

Fee and commission income allocation 2020, in thousands of euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Fees from customer loans	0	0	1 565	0	0	0	1 565
Monthly account fees and transaction fees	221	788	0	0	0	0	1 009
Fees from cards	206	511	0	0	0	0	717
Insurance brokerage commission	0	0	0	0	0	0	0
Foreign exchange transactions	26	8	0	0	26	0	60
Other fee and commission income	114	85	0	133	4	0	336
Total fee and commission income	567	1 392	1 565	133	30	0	3 687

Assets and liabilitites as at 31.12.2020, in millions of euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Loan portfolio	272	263	66	84	182	-197	670
Other assets	68	70	29	23	10	0	200
Total assets	340	333	95	107	192	-197	870
Total liabilities	303	295	85	95	191	-197	772

*Other includes treasury, subsidiaries CP Varad, Prana Property and Coop Kindlustusmaakler.

Note 5 Net interest income

	Note	2021	2020
Interest income calculated using effective interest method:			
Loans to entities		15 966	11 166
Consumer loans and hire-purchase loans		12 402	12 156
Other loans to private individuals		10 516	7 928
Debt securities		117	100
Interest income on liabilities		1	7
Other assets		3	2
Other similar interest income:			
Leasing		4 035	3 281
Total interest income		43 040	34 640
Customer deposits and loans received		-5 780	-5 306
Subordinated debt	18	-908	-497
Interest expense on assets		-778	-448
Lease liabilities	15	-36	-18
Total interest expenses		-7 502	-6 269
Net interest income		35 538	28 371

The distribution of interest income by operating segments is presented in Note 4. Loan portfolio is presented in Note 11.

Note 6 Fee and commission income

	2021	2020
Fees from consumer loans	1 452	1 565
Monthly account fees and transaction fees	1 191	1 009
Fees from cards	1 039	717
Insurance brokerage commission	216	0
Foreign exchange transactions	52	60
Other fee and commission income	1 053	336
Total fee and commission income	5 003	3 687
Expenses related to cards	-1 387	-1 128
Transaction costs	-204	-219
Other fee and commission expense	-327	-243
Total fee and commission expense	-1 918	-1 590
Net fee and commission income	3 085	2 097

In 2021, the Group earned 87% of fee and commission income from Estonian residents and 13% from residents of other countries (mostly EU countries). In 2020, 88% of fee and commission income was earned from Estonian residents and 12% from residents of other countries. All fee and commission income are recognized point in time.

Note 7 Payroll expenses

	2021	2020
Wages and salaries	-9 347	-8 287
Social tax, unemployment insurance premiums	-3 143	-2 798
Total	-12 490	-11 085

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. In 2021, the average number of employees of the Group (reduced to full-time equivalents) was approximately 300 (2020: 280).

Note 8 Operating expenses

	Note	2021	2020
Administration of information systems		-1 467	-1 334
Marketing expenses		-1 247	-945
Contributions to Deposit Guarantee Fund		-490	-364
Short-term and low value leases	15	-206	-140
Utilities of right of use assets		-173	-99
Services purchased		-471	-430
Office expenses		-444	-421
Training and travel expenses		-227	-154
Financial supervision fee instalments		-164	-142
Insurance		-93	-101
Legal services, state fees		-87	-84
Transport expenses		-33	-44
Membership fees		-26	-30
Other operating expenses		-868	-752
Total		-5 996	-5 040

Note 9 Cash and cash equivalents

	31.12.2021	31.12.2020
Cash	27 192	26 199
Mandatory reserve at the central bank *	9 512	6 111
Demand deposits at central bank	200 670	130 589
Demand deposits at credit institutions and other financial institutions	13 424	7 651
Term deposits at credit institutions *	2 001	200
Total	252 799	170 750

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

Mandatory reserve in the central bank is the minimum amount that the bank has to hold in the central bank and this amount is not freely usable. Mandatory reserve requirement as of 31.12.2021 was 1% (31.12.2020: 1%) from all financing sources (deposits from customers and loans received). The reserve requirement is to be fulfilled as a monthly average in euros or in foreign securities preapproved by central bank.

Note 10 Financial investments

	31.12.2021	31.12.2020
Government debt securities	1 277	1 249
Credit institutions	2 329	0
Debt securities of other non-financial companies	2 326	1 762
Total of debt securities	5 932	3 011
Shares of other non-financial companies	13	80
Total of equity instruments	13	80
Total of financial investments	5 945	3 091

As at 31 December 2021 all debt securities and equity instruments are recognized at fair value through changes in other comprehensive income. As at 31 of December 2020 listed equity instruments in amount 67 thousand euros was recognized at fair value through profit or loss.

Note 11 Loans and advances to customers

	31.12.2021	31.12.2020
Total receivables from private individuals	485 882	370 649
incl. consumers loans	70 380	70 881
incl. lease financing	50 903	37 307
incl. mortgage loans and other loans	364 599	262 461
Total receivables from legal entities	476 341	308 687
incl. lease financing	57 844	47 104
incl. other loans to legal entities	418 497	261 583
Total receivables	962 223	679 336
Loss allowances of loans and advances	-8 827	-8 743
Total	953 396	670 593

Finance lease receivables	31.12.2021	31.12.2020
Gross investment – lease payments receivable, incl	118 813	92 399
up to 1 year	32 801	28 829
1-2 years	25 813	19 219
2-3 years	23 465	18 197
3-4 years	19 513	15 523
4-5 years	14 413	10 576
over 5 years	2 808	55
Future interest income	-9 439	-7 480
up to 1 year	-3 674	-2 980
1-2 years	-2 630	-2 096
2-3 years	-1 754	-1 398
3-4 years	-971	-758
4-5 years	-353	-247
over 5 years	-57	-1
Finance lease net investment *	109 374	84 919
up to 1 year	29 127	25 849
1-2 years	23 183	17 123
2-3 years	21 711	16 799
3-4 years	18 542	14 765
4-5 years	14 060	10 329
over 5 years	2 751	54

* finance lease receivables gross investment includes accrued interest in the amount of 188 (31.12.2020: 167) thousand euros and contract fees in the amount of -816 (31.12.2020: -675) thousand euros.

Loan allowances	31.12.2021	31.12.2020
Balance at the beginning of the reporting period	-8 743	-5 340
Loss allowances during the reporting period*	-2 440	-4 851
Derecognised during reporting period due to sale or write-off of loans	2 356	1 448
Balance of allowance at the end of the reporting period	-8 827	-8 743

*Loss allowances on the loan portfolio during the reporting period differ from the credit loss allowance recognized in the statement of profit or loss. The difference is due to such receipts of past due loans written off earlier as uncollectible claims, that was received in amount 289 (2020: 261) thousand euros during the reporting period; due to impairment losses in amount of -145 (2020: -100) thousand euros from the debt securities not included in the loan portfolio and due to loss allowances in amount -201 (2020: -99) thousand euros from the exposures related to off-balance sheet.

For credit risk exposures and loan collateral, see Credit Risk management section in Note 2.
Distribution of loans granted by currencies is disclosed in Market Risk management in Note 2.
Distribution of loans granted by maturity is disclosed in Liquidity Risk management in Note 2.
The geographical distribution of loans granted is disclosed in Concentration of Risk in Note 2.
For interest income on loans granted, see Note 5.

Note 12 Other financial assets and other assets

	31.12.2021	31.12.2020
Financial assets		
Security deposits	335	322
Amounts receivable	320	243
Other receivables	656	434
Total financial assets*	1 311	999
Other assets		
Prepayment for Financial Supervision Authority	193	161
Settlements with the Tax and Customs Board	70	386
Other prepayments**	664	570
Total other assets	927	1 117
Assets held for sale		
Real estate acquired for sale and properties under construction***	3 717	6 463
Other assets	8	271
Total assets held for sale	3 725	6 734

*Financial assets have a good credit quality and there are no indications of impairment.
** Other prepayments include insurance, communication services, periodicals and training .
*** Some real estate acquired for sale was sold in 2021. Income and losses received from sales was recognized in the statement of profit or loss under sale of assets and cost of assets sold.

Note 13 Investment property

	31.12.2021	31.12.2020
Carrying amount at the beginning of the period	594	594
Sold during period	-634	0
Change in fair value	40	0
Carrying amount at the end of the period	0	594
incl. investment property earning rental income	0	140

Note 14 Tangible and intangible assets

	Right-of-use assets	Land and properties	Other tangible assets	Internal development costs	Other intangible assets	Total
Carrying amount 31.12.2019	1 722	129	2 375	171	3 541	7 938
Acquisition and additions	52	0	827	1 366	1 972	4 217
Termination of lease contracts	-78	0	0	0	0	-78
Adjustments to lease payments	-65	0	0	0	0	-65
Sale at carrying amount	0	0	-67	0	0	-67
Depreciation charged	-614	-3	-934	-132	-988	-2 671
Carrying amount at 31.12.2020						
Incl. acquisition cost	2 157	136	4 639	1 540	7 717	16 189
Incl. depreciation	-1 140	-10	-2 438	-135	-3 192	-6 915
Carrying amount 31.12.2020	1 017	126	2 201	1 405	4 525	9 274
Acquisition and additions	6 650	0	2 059	1 921	1 594	12 224
Termination of lease contracts	-407	0	0	0	0	-407
Adjustments to lease payments	52	0	0	0	0	52
Sale at carrying amount	0	0	-53	0	0	-53
Depreciation charged	-687	-2	-1 290	-428	-1 560	-3 967
Carrying amount at 31.12.2021						
Incl. acquisition cost	8 452	136	6 311	3 461	9 310	27 670
Incl. depreciation	-1 827	-12	-3 401	-562	-4 752	-10 554
Carrying amount 31.12.2021	6 625	124	2 910	2 899	4 558	17 116

Right-of-use assets include leases of property and real estate. Land and properties includes office premises owned by group. Other tangible assets include computer technology and office equipment, furniture, capitalised costs of office renovation. Other Intangible assets include licences and external development costs related to banking software.

Note 15 Lease liabilities

The Group is renting various office spaces. Leases usually have a term of up to 5 years and head office rental agreement is 10 years, but usually include options for renewal and termination. Lease terms are agreed on a contract-by-contract basis and may include a variety of different terms. Since 01.01.2019 IFRS 16 was adopted and rent agreements are recognized as right-of-use assets and liabilities. The maturity analysis of lease liabilities are disclosed in Note 2 Liquidity risk management.

	2021	2020
Beginning balance 01.01	1 018	1 725
Cash flows	-710	-676
Interest expense	36	18
New leases	6 702	29
Terminated leases	-407	-78
Ending balance 31.12	6 639	1 018

* In August 2021, the bank concluded a 10-year rental agreement for the lease of head office spaces in the Skyon business building in the Maakri street

In the statement of of profit or loss , the following amounts are recognized in relation to lease agreements:

	2021	2020
Interest expense (included in finance cost) (Note 5)	36	18
Expense relating to short-term leases (included in operating expenses)	169	108
Expense relating to leases of low-value assets (included in operating expenses)	37	32

Note 16 Customer deposits and loans received

	31.12.2021	31.12.2020
Private individuals	477 383	431 343
Legal entities	621 363	326 492
Total	1 098 746	757 835
Demand deposits	518 122	302 179
Term deposits	571 452	435 363
Issued debt securities	0	9 712
Special purpose loans	9 172	10 581
Total	1 098 746	757 835

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 31.12.2021, the loan balance is 5.6 million euros. The remaining special-purpose loans have been received from the Rural Development Foundation.

Note 17 Other financial liabilities and other liabilities

	31.12.2021	31.12.2020
Financial liabilities		
Cash in transit	332	173
Trade payables	640	409
Settlements with cooperatives	395	357
Other financial liabilities	1 854	1 732
Total financial liabilities	3 221	2 671
Other liabilities		
Payables to employees	2 085	1 812
Tax liabilities	691	539
Provisions	300	554
Deferred liabilities	378	364
Other advance payments	450	310
Other liabilities	659	175
Total other liabilities	4 563	3 754
Total	7 784	6 425

Note 18 Subordinated debt

	Year of issue	Interest rate	Maturity date	Amount
Subordinated debt	2017	6.75%	04.12.2027	5 000
Subordinated debt	2019	7.58%	29.03.2029	2 000
Subordinated debt	2021	5.50%	31.03.2031	10 000
Liabilities as at 31.12.2019				7 000
Liabilities as at 31.12.2020				7 000
Cash flows from financing activities				10 000
Liabilities as at 31.12.2021				17 000
Accrued interest liability as at 31.12.2019				64
Interest expense calculated during 2020 (Note 5)				497
Paid out interest expense during 2020				-497
Accrued interest liability as at 31.12.2020				64
Interest expense calculated during 2021 (Note 5)				908
Paid out interest expense during 2021				-908
Accrued interest liability as at 31.12.2021				64

Note 19 Equity

Transactions with shares	Time	Number of shares	Strike price, in euros	Share capital, in thousands of euros	Share premium, in thousands of euros
Share capital as at 31.12.2019		89 456 166		60 960	11 797
Paid in share capital	Nov 2020	1 167 700	0,7300	796	264
Share capital as at 31.12.2020		90 623 866		61 756	12 061
Paid in share capital	May 2021	540 310	0,7660	368	132
Paid in share capital	Sept 2021	90 000	0,8057	62	37
Share capital as at 31.12.2021		91 254 156		62 186	12 230

The share capital issues in 2020 and 2021 were related to exercising of employee share options. The shares were fully paid in cash. As at 31.12.2021 the share capital of the bank is 62 186 thousand euros, which was divided into 91 254 156 ordinary shares of no par value. The carrying value of one share is 0.68 euros (31.12.2020: 0.68).

According to the articles of association, share capital can be increased to 160 million euros without any amendment to the articles of association.

The bank is granting share options to members of management board, department managers and key employees. Vesting period of the options is 3 years and issue of shares will be decided on the Annual General Meeting of Shareholders or Meeting of the Shareholders close to the vesting date. Reserve of options granted as of 31.12.2021 amounted to 253 thousand euros (31.12.2020: 142 thousand). Related expenses in statement of profit and loss in 2021 were 224 thousand euros (2020: 123 thousand) and 113 thousand euros were transferred from reserve to share premium in relation with exercing the options. The fair value of options is calculated with Black-Scholes model, which uses the share price of the bank, volatility and risk-free interest rate as inputs. Employees do not have the possibility to take the specified amount in cash in lieu of the share options. Share options cannot be exchanged, sold, pledged or encumbered. Share options can be inherited. The contract of share options will expire if employee is leaving the company before vesting period, but the Supervisory Board can decide otherwise. The bank may issue share options for the results of 2021. In 2021, the options for 540 310 shares were exercised with strike price 0.766 euros and options for 90 000 shares with strike price 0.8057 euros.

Transactions with options	Number of options
As at 31.12.2019	2 014 780
Granted	895 000
Exercised	-1 167 700
Forfeited	-196 770
As at 31.12.2020	1 545 310
Granted	905 000
Exercised	-630 310
Forfeited	-100 000
As at 31.12.2021	1 720 000

Options outstanding as of 31.12.2021

Date of issue	Expiry date	Share price	Number of options
January 2019	May 2022	0,8420	70 000
April 2020	April 2023	1,0100	785 000
April 2021	April 2024	1,1000	865 000
Total			1 720 000

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 liabilities

	31.12.2021	31.12.2020
Financial guarantees	16 553	10 545
Lines of credit and overdraft facilities	124 838	65 691
Total	141 391	76 236

The Group applies the expected credit loss model for contingent liabilities, see Note 2. In 2021, 300 thousand euros was accounted as allowance reserve for contingent liabilities (2020: 99 thousand euros).

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 2021, three lawsuits were filed in the courts against the Group (the Group company is in the role of defendant). One court decision was made in January, 2020, the claim was dismissed, the other party appealed the decision to the district court, where the decision in favor of the bank was upheld in 2021. In the second claim, there is no monetary claim against the bank and the bank is, in essence, a third party on behalf of the defendant, although procedurally the bank is involved as a defendant. In this case, there is a dispute between the neighbors over the size of the property. The third claim is related to challenging the right of superficies taken as collateral of a loan (mortgage amount of 3 million euros), there is a high probability that a compromise will be reached by which the applicant withdraws its action.

As at 31.12.2021, a total of 333 thousand euros plus default interest, was settled in favor of various Group companies as a result of court proceedings (2020: 340 thousand euros). At the same time, the Group had 281 thousand euros (including payment orders) in legal actions (2020: 322 thousand euros), plus default interest. The main content of the claims are receivables from customers arising from different credit agreements. Claims arising from credit agreements have a good perspective and, as a rule, are fully settled by the court.

Note 22 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. Interest rates on loans is in range of 2.5-6% and on credit cards around 18%. Interest rates on deposits is in range of 0.01- 1.40%. Transactions with related parties are based on the price list and/or are carried out at market value. There were no transactions with the biggest shareholder Coop Investeeringud OÜ, who holds 24.81% of shares.

Balances	31.12.2021	31.12.2020
Shareholders:		
Loans	0	4
Deposits	8 972	15 827

Members of the management board and supervisory board and their close relatives and related entities:		
Loans	705	458
Deposits	1 308	503

Related party receivables have not been written down during the reporting period.

Transactions	2021	2020
Shareholders:		
Interest expenses	16	19
Members of the management board and supervisory board and their close relatives and related entities:		
Interest income of the reporting period	51	22
Interest expenses of the reporting period	12	6
Sale of other goods and services	5	4
Salaries to members of the Management Board and Supervisory Board	636	639

Maximum termination benefits payable to members of the management board on a contingent basis is 237 thousand euros (31.12.2020: 237). The stock options issued to members of the Management Board is provided in the table below.

Transactions with options	Number of options
As at 31.12.2019	1 634 780
Granted	250 000
Exercised	-1 167 700
Forfeited	-166 770
As at 31.12.2020	550 310
Granted	340 000
Exercised	-350 310
Forfeited	0
As at 31.12.2021	540 000

Note 23 Basic earnings and diluted earnings per share

In order to calculate basic earnings per share, net profit attributable to owners of the parent has been divided by the weighted average number of shares issued.

	31.12.2021	31.12.2020
Profit attributable to the owners of the parent (in thousands of.euros)	13 463	7 259
Weighted average number of shares (in thousands of units)	90 984	89 690
Basic earnings per share (euros)	0.15	0.08
Adjustments for calculation of diluted earnings per share – share options (in thousands of units)	1 676	2 197
Weighted average number of shares used for calculating the diluted earnings per share (in thousands of units)	92 660	91 887
Diluted earnings per share (euros)	0.15	0.08

Note 24 Events after balance sheet date

Although the effects of the health crisis have eased, not all sectors have recovered equally. Additionally, increasing energy prices and inflation further influence the Estonian economy. We are ready for additional negative changes in the economic environment. We continuously monitor the impact on the quality of the credit portfolio and new sales. We see that the changing economic environment does not have an equal impact on all sectors and customer segments, which we take into account both in new sales and in assessing the quality of the existing portfolio. If necessary, we are ready to offer customers various mitigation measures.

In order to support the growth of business volumes and strengthen the capital base, the bank issued subordinated debt in the amount of 10 million euros in March 2022. This is the second tranch in a series of 2020 subordinated debt program. The subordinated debt was issued with an interest rate of 5% and a maturity of 10 years and is included in the bank's Tier 2 capital.

Russia's military attack on the independent state of Ukraine, which began on February 24, 2022, has increased several risks for the Group. At the reporting time, it is also uncertainty in the assessment of the final impact, as the sanctions planned by the Western countries are still being finalized. The Group has prepared preliminary impact analyzes of the implementation of the planned comprehensive sanctions against Russia and Belarus on the economic activities of the Group's customers and has found that, in our best understanding, the direct effects are marginal. The assessment of indirect effects (ie energy prices, the impact on the economies of Western countries themselves, etc.) is still uncertainty, which in turn does not allow to assess their impact on the Group's operations.

Note 25 Separate financial statements of parent company

Statement of Profit or Loss and Other Comprehensive income of parent company

	2021	2020
Interest income calculated using effective interest method	31 390	23 765
Interest and similar expense	-7 507	-6 272
Net interest income	23 883	17 493
Fee and commission income	3 154	1 993
Fee and commission expense	-1 691	-1 366
Net fee and commission income	1 463	627
Rental income from investment properties	0	7
Net gains from non-financial asset realization	11	22
Net losses from financial assets measured at fair value	-68	-183
Handling of overdue receivables	440	109
Other income	868	992
Net other income	1 251	947
Payroll expenses	-11 014	-9 603
Operating expenses	-4 633	-3 873
Depreciation	-3 318	-2 249
Total operating expenses	-18 965	-15 725
Net profit before loss allowances	7 632	3 342
Credit loss allowance	-1 739	-1 314
Net profit before income tax expense	5 893	2 028
Income tax expenses	-825	-245
Net profit for the financial year	5 068	1 783
Other comprehensive income/loss		
Items that may be subsequently reclassified to profit or loss:		
Financial assets at fair value through other comprehensive income	3	-19
Comprehensive income for the financial year	5 071	1 764

Statement of Financial Position of parent company

	31.12.2021	31.12.2020
Assets		
Cash and cash equivalents	252 799	170 677
Debt securities at fair value through other comprehensive income	5 932	3 011
Equity instruments at fair value through profit or loss	0	67
Equity instruments at fair value through other comprehensive income	13	13
Loans and advances to customers	925 303	652 218
Investments in subsidiaries	16 172	16 317
Other financial assets	904	521
Other assets	799	875
Investment property	0	213
Right-of-use assets	6 625	1 017
Tangible assets	3 033	2 275
Intangible assets	5 228	3 746
Total assets	1 216 808	850 950
Liabilities		
Customer deposits and loans received	1 103502	760 115
Lease liabilities	6 639	1 018
Other financial liabilities	1 182	980
Other liabilities	3 702	2 835
Subordinated debt	17 064	7 064
Total liabilities	1 132 089	772 012
Shareholders' equity		
Share capital	61 186	61 756
Share premium	12 230	12 061
Statutory reserve capital	3 165	2 802
Retained earnings	6 900	2 195
Other reserves	238	124
Total shareholders' equity	84 719	78 938
Total liabilities and shareholders' equity	1 216 808	850 950

Statement of Cash Flows of parent company

	2021	2020
Cash flows from operating activities		
Interest received	30 960	23 154
Interest paid	-7 123	-5 662
Fees and commissions received	3 154	1 993
Fees and commissions paid	-1 691	-1 366
Other received income	377	1 130
Salaries paid	-10 624	-9 356
Other operating expenses paid	-4 633	-3 873
Income Tax paid	-720	-137
Total cash flows from operating activities before changes in operating assets and liabilities	9 700	5 883
Change in operating assets:		
Loans and advances from customers	-274 384	-205 888
Change of mandatory reserve in central bank	-3 401	-2 218
Other assets	-172	558
Change in operating liabilities:		
Change in customer deposits and loans received	343 038	251 068
Other liabilities	13	-569
Net cash flows from operating activities	74 794	48 834
Cash flows from investing activities		
Acquisition of property, plant and equipment	-4 928	-3 166
Sale of property, plant and equipment	222	50
Acquisition of debt securities	-3 141	0
Sale and redemption of debt securities	499	782
Increase of subsidiary's equity	-300	-271
Total cash flows from investing activities	-7 648	-2 605
Cash flows from financing activities		
Contribution to share capital	486	853
Issue of subordinated debt	10 000	0
Repayment of principal of lease liabilities	-710	-676
Total cash flows from financing activities	9 776	177
Effect on exchange rate changes on cash and cash equivalents	-4	-3
Change in cash and cash equivalents	76 919	46 403
Cash and cash equivalents at beginning of the period	164 366	117 963
Cash and cash equivalents at end of the period	241 285	164 366
Cash and cash equivalents balance is comprised of:	241 285	164 366
Cash on hand	27 192	26 199
Demand deposits in central banks	200 670	130 589
Demand and short-term deposits in credit institutions	13 423	7 578

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 31.12.2019	60 960	11 797	2 526	226	1	688	76 198
Paid in share capital	796	264	0	-207	0	0	853
Change in reserves	0	0	276	0	0	-276	0
Share options	0	0	0	123	0	0	123
Net profit	0	0	0	0	0	1 783	1 783
Other comprehensive loss	0	0	0	0	-19	0	-19
Total comprehensive income	0	0	0	0	-19	1 783	1 764
Balance as at 31.12.2020	61 756	12 061	2 802	142	-18	2 195	78 938
Paid in share capital	430	169	0	-113	0	0	486
Change in reserves	0	0	363	0	0	-363	0
Share options	0	0	0	224	0	0	224
Net profit	0	0	0	0	0	5 068	5 068
Other comprehensive income	0	0	0	0	3	0	3
Total comprehensive income	0	0	0	0	3	5 068	5 071
Balance as at 31.12.2021	62 186	12 230	3 165	253	-15	6 900	84 719

Adjusted unconsolidated equity	
Book value of holding under control or significant influence	-16 172
Value of holdings under control or significant influence, calculated by equity method	43 196
Adjusted unconsolidated equity as at 31.12.2021	111 743

Management Board declaration

All data and supplementary information presented in the 2021 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 2021 consolidated financial statements of AS Coop Pank are in compliance with the laws of the Republic of Estonia. The consolidation group is going concern.

The 2021 consolidated annual report of AS Coop Pank will be presented to the general meeting of shareholders for approval in April 2022. The previous 2020 consolidated annual report was approved by the general meeting of shareholders at 14.04.2021.

Margus Rink
Chairman of the Management Board
Signed digitally

Paavo Truu
Member of the Management Board
Signed digitally

Heikko Mäe
Member of the Management Board
Signed digitally

Arko Kurtmann
Member of the Management Board
Signed digitally

Rasmus Heinla
Member of the Management Board
Signed digitally

15.03.2022

Independent auditor's report

To the Shareholders of Coop Pank AS

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 Coop Pank AS (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2021, and the Group´s consolidated financial performance and 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 dated 15 March 2022.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021;
- the consolidated statement of financial position as at 31 December 2021;
- 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 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiaries 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.

Translation note:

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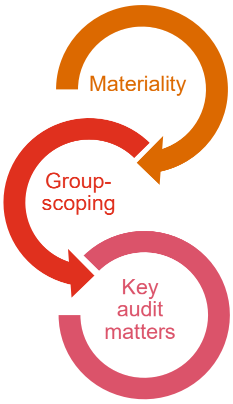
The non-audit services that we have provided to the Company and its subsidiaries in the period from 1 January 2021 to 31 December 2021 are disclosed in the management report.

Our audit approach

Overview



- Overall group audit materiality is EUR 1 100 thousand, which represents approximately 1% of net assets of the Group.

- A full scope audit or an audit of specific line items of the statement of financial position and income statement was performed by PwC Estonia for all Group entities covering substantially all of the Group's consolidated assets and revenues.

- Expected credit losses on 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 audit materiality	EUR 1 100 thousand
How we determined it	Approximately 1% of net assets of the Group

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Rationale for the materiality benchmark applied	We have applied this benchmark, as the Group is going through rapid growth. Therefore, net assets is a relevant measure used by investors, regulators and other stakeholders when assessing the performance of the Group. We chose the threshold of 1%, which is consistent with quantitative materiality thresholds used for this benchmark.

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 matter	How our audit addressed the key audit matter
Expected credit losses on loans and advances to customers (refer to Note 1 "Accounting principles", Note 2 "Risk management" and Note 11 "Loans and advances to customers"). As at 31 December 2021 net carrying amount of loans and advances to customers amounted to EUR 953 396 thousand and related expected credit loss allowance to EUR 8 827 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 expected credit loss (ECL) include: • evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1, 2 or 3; • selecting relevant accounting policies and assessing 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); • 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	We assessed whether the Group's accounting policies in relation to the expected credit losses on loans and advances to customers complied with International Financial Reporting Standards as adopted by the European Union (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 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.

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• estimating ECL for stage 3 loans (individual assessment).	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.

How we tailored our Group 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 line items of statement of financial position and income statement for CP Varad (Estonia), Coop Kindlustusmaakler AS (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.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises the Management report, the Remuneration Report and Revenues by EMTA classification (the Estonian classification of economic activities) (but does not include the consolidated financial statements and our auditor’s report thereon).

Our opinion on the consolidated financial statements does not cover the other information, including the Management report.

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.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act.

In accordance with the Securities Market Act with respect to the Remuneration Report, our responsibility is to consider whether the Remuneration Report includes the information in accordance with the requirements of Article 135^3 of the Securities Market Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;

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- the Management report has been prepared in accordance with the requirements of the Accounting Act; and
- the Remuneration Report has been prepared in accordance with Article 135^3 of the Securities Market Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. 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, actions taken to eliminate threats or safeguards applied.

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

Report on the compliance of the presentation of consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

We have been engaged by the Management Board of the Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of Coop Pank AS for the year ended 31 December 2021 (the "Presentation of the Consolidated Financial Statements").

Description of a subject matter and applicable criteria

The Presentation of the Consolidated Financial Statements has been applied by the Management Board of the Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Presentation of the Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the Management Board and the Supervisory Board

The Management Board of the Company is responsible for the Presentation of the Consolidated Financial Statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Presentation of the Consolidated Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation.

Members of the Supervisory Board are responsible for overseeing the financial reporting process, which should also be understood as the preparation of financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000 (R) - 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' (ISAE 3000(R)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE 3000(R) will always detect the existing material misstatement (significant non-compliance with the requirements).

Quality control requirements

We apply the provisions of the International Standard on Quality Control (Estonia) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group’s' use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

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

Conclusion

In our opinion, based on the procedures performed, the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

Appointment and period of our audit engagement

We were first appointed as auditors of Coop Pank AS for the financial year ended 31 December 2014. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for Coop Pank AS, as a public interest entity, of 8 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of Coop Pank AS can be extended for up to the financial year ending 31 December 2033.

AS PricewaterhouseCoopers

/signed/

Lauri Past
Certified auditor in charge, auditor’s certificate no.567

/signed/

Verner Uibo
Auditor’s certificate no.568

15 March 2022
Tallinn, Estonia

Translation note:

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

This independent auditor’s report (translation of the Estonian original) should only be used with the original document submitted in machine-readable .xhtml format that is submitted to the Tallinn Stock Exchange (Link: https://nasdaqbaltic.com/statistics/et/instrument/EE3100007857/reports).

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 2021 in the amount of 13 463 thousand euros as follows:

1. pay dividends 0.03 euro per share in the total net amount of 2 738 thousand euros, related income tax on dividend would be 684 thousand euros;
2. allocate 673 thousand euros to statutory reserve capital;
3. allocate 10 052 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 (consolidated)	64191	48 658 000
Finance activities	Credit institutions (separate)	64191	35 795 682
Finance activities	Consumer financing	64929	14 191 760
Leasing activities	Finance lease	64911	4 283 526
Insurance activities	Insurance brokerage	66221	217 034
Activities with real estate	Real estate management	68101	106 287

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