coop | Pank

Annual report

2020

General information

Business name	Public Limited Company (AS) Coop Pank
Registered	15.03.1992 in Tallinn
Legal address	Narva road 4, Tallinn 15014, Republic of Estonia
Commercial register number	10237832 (Commercial Register of the Republic of Estonia)
Date of first entry	19.08.1997
Phone	+ 372 669 0900
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	31.12.2020
Beginning and end of the financial year	01.01.2020 - 31.12.2020
Reporting currency	euro (EUR), in thousands

Members of the Supervisory board:

Alo Ivask (Chairman), Ardo Hillar Hansson, Jaan Marjundi, Roman Provotorov, Raul Parusk, Silver Kuus

Members of the Management board:

Margus Rink (Chairman), Kerli Lõhmus, Heikko Mäe, Arko Kurtmann, Rasmus Heinla

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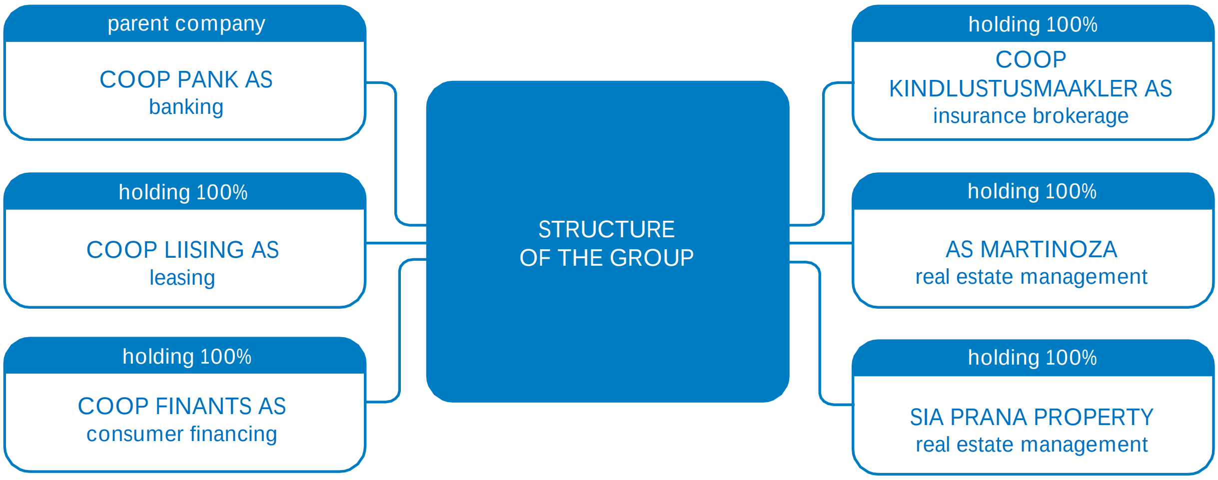
Management report

The following companies were part of AS Coop Pank Group (also used as "consolidation group", "banking group") as at 31.12.2020: Coop Pank AS, Coop Liising AS, Coop Finants AS, Coop Kindlustusmaakler AS, AS Martinoza and SIA Prana Property. The first five companies are registered in the Commercial Register of Republic of Estonia and SIA Prana Property in the Commercial Register of the Republic of Latvia.



Strategy

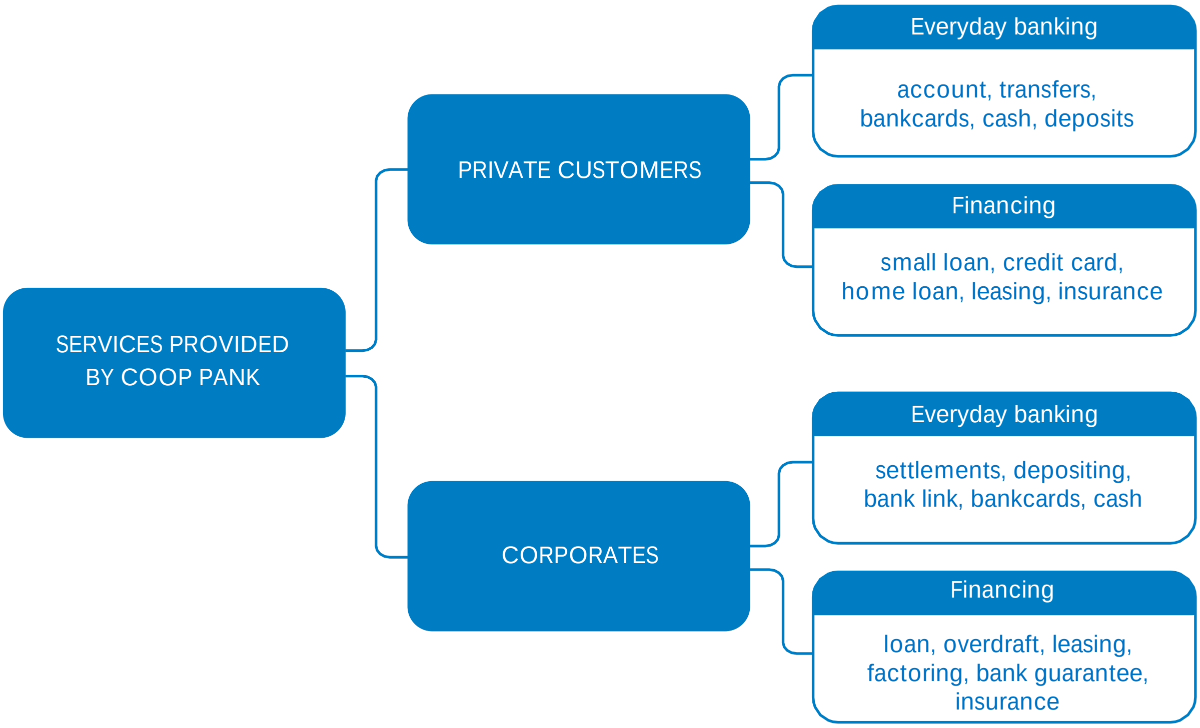
Coop Pank is a fast-growing Estonian universal bank, the cornerstone of which is the integration of banking and trade and the resulting synergy. We focus on domestic private and business customers, for whom we offer a wide range of daily banking and financing services. Our owners are domestic investors and we are for all Estonians. All our decisions are made here in Estonia. Our staff, the Management Board, the Supervisory Board sit around one table. Every week, if needed. This gives us the speed and flexibility of the decision-making process.

Our strategic owner is Estonia's largest retail chain Coop, with which we offer banking services in all Coop stores across Estonia. Coop offers Coop Pank bank card holders the largest possible discounts and 10% more Coop bonus points. Our customers can withdraw cash from their bank account free of charge at the cash desks of Coop stores and deposit it into the bank account. In addition, our customers can withdraw cash from ATMs of all other banks. Thus, Coop Pank offers the largest cash network in Estonia and the best availability of cash.

As we want to be a bank with a human face, in addition to convenient digital solutions, we are close to people's homes all over Estonia. We offer the opportunity to be in personal contact with us through our 15 bank branches as well as the customer service of 330 Coop stores. To become a Coop Pank customer, you can visit our website, come to our bank branch, but a private customer can also conveniently do so in Coop stores. We are diferent from other banks – each company that is our customer, has its own personal business client manager. At Coop Pank, business client manager knows the customer, and the entrepreneur can consider that the manager is aware of the business challenges and opportunities of his company and is ready to find solutions quickly.

Cooperation with Coop Estonia confirms one of our main values: we are a bank that dares to do otherwise. We are never satisfied with what we have achieved and constantly ask ourselves whether and how to change the client's life even better and easier. Our ambition is to grow and that is why we strive on behalf of each client taking the time to delve into their needs and look for flexible solutions. Coop Pank is a bank that fits into the life of an Estonian person and the business of Estonian entrepreneurs: we take time for the client and act quickly for him, we think out of the box and offer tailor-made solutions. Together with Coop Estonia, we are fulfilling our promise: "We will carry on life in every corner of Estonia".

To consume our daily banking services, it is most useful to use settlement packages - Rahn and Rändrahn. This way, you can get all the daily banking services in one package for a fixed monthly fee: debit card, transfers and cash. We offer entrepreneurs the best business package, where European payments, acceptance of bank link payments and a debit card are free of charge. Coop Pank offers the best interest rate on the market for current account balances, which is up to 0.25% per annum for business customers. For private customers who use the Rändrahn banking package, we offer up to 1% interest.

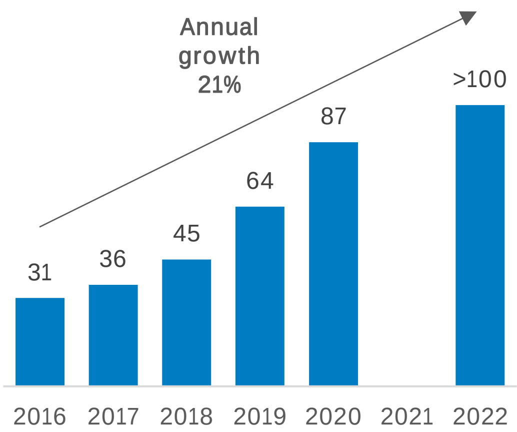


Targets

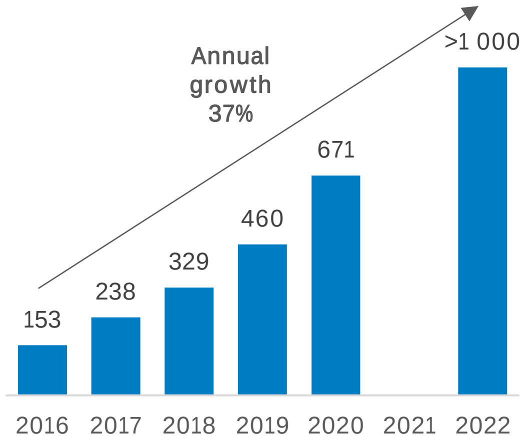
The mission of Coop Pank is to carry life forward in every corner of Estonia. For this, we give impetus to Estonian companies and help people realize their dreams both in the countryside and in the city. We believe that if Estonian entrepreneurs do well, the Estonian people and Estonia as a whole will do well, 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 to focus on product innovation. During the first four years of operation (2017–2020), we have been able to successfully operate all basic banking services and grow the bank almost four times larger. Now we want to expand the customer segments we focus on. In addition to the current customer segment further away from major cities, Coop Pank also targets urban customers who appreciate convenient domestic banking and focuses even more strongly on serving corporate customers.

The Banking group's is planning a significant increase in number of customers and loan portfolio by the end of 2022.

No of customers of Coop Pank, thousand

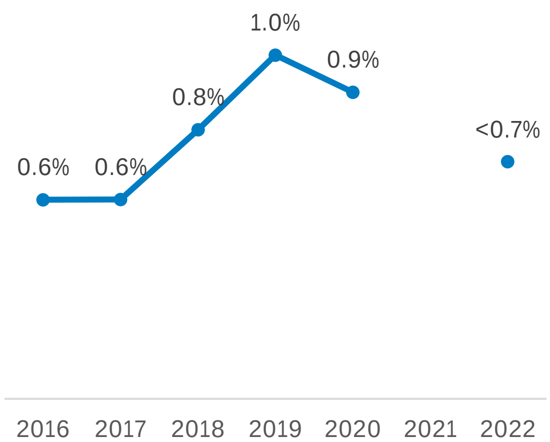


Net loan portfolio of Coop Pank, m€

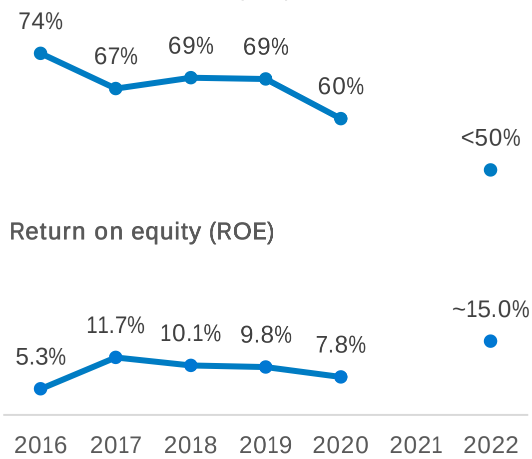


As a result of increasing business volumes, the Bank aims to achieve greater efficiency and offer higher return on equity to shareholders.

Cost of financing, %



Cost / income ratio (CIR)



Operating environment

The world economy fell by about 3.5% last year according to estimations. The coronavirus has led to a recession and a decline in trade between countries. Restrictions to prevent the spread of the virus have had a negative impact on both production and consumption. The sectors most affected are tourism and restaurants, moreover the service sector as general. Companies are taking a wait-and-see attitude when making investments because uncertainty about the future is still high. Stock markets have been very volatile during 2020, falling significantly on pandemic news in the spring, but positive vaccine news and a smaller-than-feared impact on the financial sector supported market recovery. Stock markets have been optimistic over the past six months, with larger stock indices ending at a higher level than at the beginning of the year. Government bond yields remained very low.

According to prognosis, the euro area economy contracted by 6.8% in 2020. This is the largest decline since 1995. Private consumption, investments and trade fell the most. However, the euro area economy is supported by government spending and large central bank support packages. In the last quarter of the year, countries were hit by a second wave of pandemics, and restrictions were re-imposed that hampered normal economic activity. This filled fears that the virus would spread for a long time and that the recession would deepen and the profitability of companies would be put under pressure. At the end of the year, many countries approved the introduction of the corona vaccine, but there are also a number of challenges here, both in terms of production and transport.

The labor market situation in the euro area deteriorated in 2020, unemployment has risen to 8.3%, and employment growth has slowed down. At the same time, the wage level has increased by 5.3%. The situation was alleviated by labor market support measures. Consumer confidence is very weak due to the epidemic and the difficult economic outlook. The consumer price index fell by -0.27% year-on-year, well below the 2% target set by the European Central Bank. Prices have been pressured mainly by falling energy prices, which are an input for many industrial products and thus have made the fall in prices widespread.

Due to the corona pandemic, the outlook for both inflation and the general economic situation is uncertain. As a result, the Governing Council of the European Central Bank has significantly eased the monetary policy, which aims to support both households and businesses during the crisis. In 2020, the European Central Bank launched an additional asset purchase program. To support the liquidity of the euro area financial system, banks will continue to be offered various refinancing operations on more favorable terms. Monetary policy interest rates remained unchanged during 2020. Interest rates in the euro area money market have fallen since the spring and have reached new lows. The central bank's money supply has decreased Euribor rate levels, thus being lower than the interest rate on the deposit facility with the central bank (deposit rate -0.5%).

The Estonian economy fell by 2.9% in 2020, remaining among the smallest declines in Europe. According to the forecast, the Estonian economy will start recovering from the crisis in 2021 and will reach the pre-crisis level by the end of 2021. Estonia's economic downturn was smaller than projected in the spring, but employment has deteriorated sharply. Unemployment rose to 6.8%. The pandemic has affected the economy unevenly, with the hotel and restaurant sector in particular. The sales volumes of exporting companies have been affected by restrictions in other countries both in the spring and during the second wave of the virus in the autumn. People's confidence for the future has diminished, leading to less consumption and more savings. This has negatively affected retail sales volumes. Consumer prices fell by 0.4% in 2020. This was mainly due to the fall in world oil prices, which enabled consumers to pay less for diesel and petrol. Cheaper electricity prices reduced the cost of housing. Depending on the speed of introduction of the vaccine and its effectiveness, the economy will be gradually starting for the recovery. Business expectations for the future are optimistic and point to a moderate recovery in economic activity.

Managing Director´s Statement

Coop Pank has been operating on Estonian banking market for four years. We've been implementing a growth strategy in these years and increased our business volumes by 40% a year on average. We feel that our footprint in Estonian economy is growing.

The crisis that broke out in the beginning of the year cast doubt on our growth opportunities in 2020. However, increase in our business volumes slowed down only in March and April, and recovered in May. In spring and summer, our strategy as a local Estonian bank led to particularly good results: our market share of new home loans and corporate financing in this period was 10%. Despite extraordinary nature of last year our branches remained open and we didn't ask our customers to make appointments for visiting us. Our customer managers continued communicating with customers from their home offices using digital channels. All in all, we can say that we want to grow and took advantage of the opportunity that presented itself.

Every year, increasingly more customers join us and start using Coop Pank as their main bank, which means that they have their monthly cash receipts paid into accounts in our bank and use our payment solutions. This trend has another positive aspect: the share of local demand resources increases, which reduces financing costs of the bank and makes it possible to offer better loan interest to customers.

Number of the bank's customers at the end of 2020 was 86,700 – an increase of 23,000 customers, i.e. 36% over the year. For comparison: 5,000 new customers were gained in 2017, 9,000 in 2018 and 19,000 in 2019. In 2020, the number of private customers increased by 21,000 and the number of corporate customers by 2,000.

Our biggest concern in the year was fear for preservation of jobs and solvency of our customers. We offered our customers grace periods to prevent insolvency, which many of them used. At the start of the crisis we also formed additional provisions in light of possible loan losses. Fortunately, real life turned out to be better than we feared. In second half of the year grace periods given to customers started to end and occasionally customers ended these periods early. We ended 2020 with lower rate of overdue loans than the year before.

Loan portfolio of Coop Pank increased to 671 million euros in 2020 – an increase of 210 million euros, i.e. 46%, over the year. Business loan and home loan portfolios increased the most with 64% and 47%, respectively. Leasing portfolio increased by 30% and consumer finance by 11%. Market share of the bank's loans at the end of 2020 was 3.4%, an increase of 1 percentage point over the year.

In August, international rating agency Moody's assigned Coop Pank investment-grade rating of Baa2 with a stable outlook. This step created opportunity for major businesses, state and local authorities to become customers of Coop Pank and keep their money in a local financial institution where interest paid on deposits is the best on the market. Inflow of deposits of corporate customers increased significantly after the rating was assigned. Deposits of corporate customers increased by 131% and deposits of private customers grew by 26% over the year.

Deposits of Coop Pank amounted to 758 million euros as at the end of 2020 – an increase of 251 million euros, i.e. 50%, over the year. Demand deposits grew by 99% over the year, term deposits and loans received by 29%. As the share of demand deposits in total deposits increased from 30% to 39% over the year, the bank's financing costs decreased from 1.0% to 0.9%. Market share of the bank's deposits increased from 2.6% to 3.2%.

While implementing our growth strategy, it has always been important to have profitable growth. 2020 was the first year when we saw that we were getting close to the critical level, i.e. the economies of scale, in our business volumes, which guarantees improvement of efficiency indicators. The bank's income grew twice as fast as its expenses and cost-income ratio decreased significantly.

Profit earned by Coop Pank in 2020 amounted to 7.3 million euros, an increase of 31% over the year. Annual increase in the bank's income was 31% as well. Largest contribution to revenue growth came from net interest income, which increased by 37% over the year. Annual increase in the bank's operating costs was 16%. Increase in IT expenses and personnel expenses had the biggest impact, as they grew by 63% and 12%, respectively, over the year. Return on equity of the bank was 7.8% and the cost-income ratio decreased from 69% to 60%.

Number of full-time employees in the Banking group reached 289 as of the end of December 2020, an increase of 16 employees or 6% over the year. The number of employees in IT unit increased the most.

Coop Pank had approximately 13,000 shareholders as at 31 December 2020. The bank has approximately 2,000 new shareholders in addition to the ones who participated in initial public offering of the bank's shares. We are grateful for their trust.

In 2021, we will continue with the strategy that has brought us success so far. We want to grow, we are proactive and we are looking for solutions that fit into our customers lives and/or businesses. We have promised our owners that by the end of 2022, Coop Pank will have at least 100,000 customers, our loan portfolio will be at least 1 billion euros, our financing costs will decrease to 0.7%, our cost-income ratio will drop to 50% and return on equity will increase to 15%. Our team does everything in its power to keep this promise."

Margus Rink

Increase in number of clients

The number of Coop Pank's clients increased by 21 thousand private customers and 2 thousand companies in 2020 and the bank had 87 thousand clients by the end of the year. The bank's consumer financing company Coop Finants also has 100 thousand clients.

Increase in profit

Profit of Coop Pank reached EUR 7.3 million in 2020, growing 31% over the year.

Increase in loans

Loan portfolio of Coop Pank increased by 46% in comparison with the previous year. The fast growth was supported by all financing business lines – home loans, consumer finance, business loans and leasing.

Increase in deposits

Deposits of the bank increased 50% over the year. Estonian private individuals brought 59 million euros and companies brought 170 million euros worth of deposits last year. Coop Pank raised 34 million euros of term deposits via the Raisin platform and othe financing sources decreased by 12 million euros.

Best Prices at Coop stores with Coop Pank card

Coop Pank card holders are getting the best discounts in all the Coop shops and earn 10% more Coop bonus points.

Coop Pank's 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.

Credit card

A renewed Coop Pank credit card was completed in July, with several good benefits that make it the most flexible credit card on the market.

Car dealership

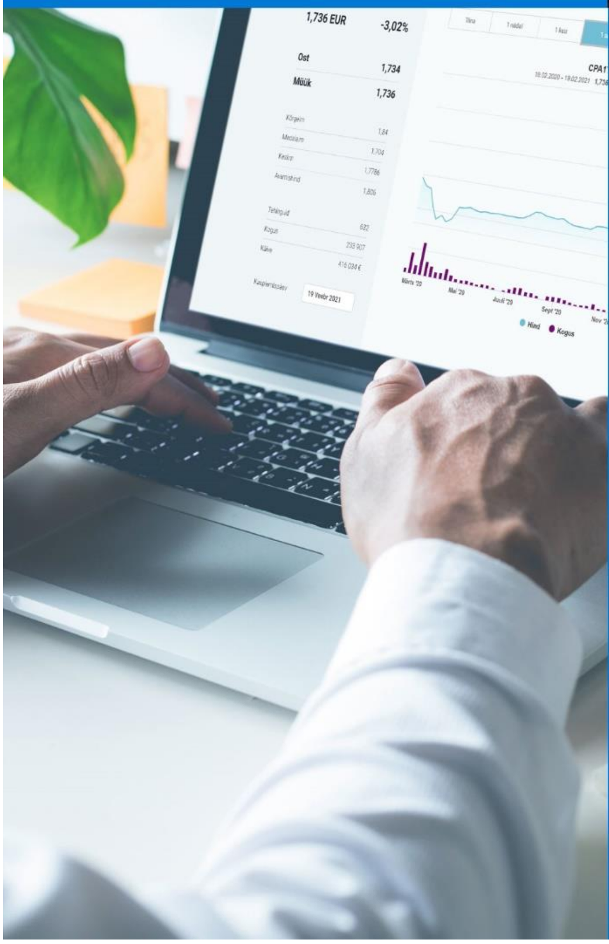
At the beginning of June, Coop Liising launched a new car dealership, which makes buying a car more convenient than before, offering the customer a one-stop service solution. kliendile ühest kohast teenuse lahendust. This way, the customer can choose a new car without leaving home and pick up the most suitable financing and insurance solution.

Insurance solutions

Coop Kindlustusmaakler is well established and offers clients the most common insurance products such as traffic and casco insurance, home and travel insurance, small and medium business property insurance, construction machinery and other equipment insurance.

Moody´s assigned 25.08.2020 investment grade rating with stable outlook to the bank

- Long- and short-term counterparty risk assessment of Baa1(cr)/Prime-2(cr)
- Long- and short-term counterparty risk rating of Baa1/Prime-2
- Foreign- and local currency long-term bank deposit rating Baa2
- Foreign- and local currency short-term bank deposit rating Prime-2
- Adjusted baseline credit assessment ba1
- Baseline credit assessment (BCA) ba1



Coop Pank in the main list of the stock exchange

In November 2019 , initial public offering of Coop Pank shares took place, attracting approximately 11 000 investors. The first trading day for the stock was 10.12.2019. By the end of first year Coop Pank investor base grew to almost 13 000.

Financial results

Income statement, in thousands of euros	2016	2017	2018	2019	2020
Net interest income	7 398	11 519	16 779	20 689	28 371
Net fee and commission income	2 737	2 170	2 302	2 372	2 097
Net other income	825	3 600	687	658	621
Total net operating income	10 960	17 289	19 768	23 719	31 089
Operating expenses	-8 088	-11 518	-13 601	-16 261	-18 796
Impairment costs	-1 009	-1 313	-1 392	-1 931	-4 789
Income tax expense	-120	0	-22	0	-245
Net profit	1 743	4 458	4 753	5 527	7 259
incl. profit attributable to the owners of the parent company	1 529	4 345	4 753	5 527	7 259

Business volumes, in millions of euros	2016	2017	2018	2019	2020
Net loan portfolio	153	238	329	460	671
Client deposits and loans received	254	316	385	507	758
Subordinated loans	4	5	5	7	7
Equity (attributable to owners of the parent)	29	45	49	89	98

Ratios	2018	2019	2020
Average shareholders' equity attributable to owners of the parent company, mln.euros	47	56	93
Return on equity (ROE) %	10.1	9.8	7.8
(net profit / shareholders' equity, average)			
Total assets, average, mln.euros	409	529	741
Return on assets (ROA), %	1.2	1.0	1.0
(net profit / total assets, average)			
Cash and interest-bearing assets, average, mln.euros	393	495	725
Net interest margin (NIM), %	4.3	4.2	3.9
(net interest income / interest-bearing assets, average)			
Cost / income ratio, %	68.8	68.6	60.5
(total operating costs / total net operating income)			
Loans / deposits ratio, %	85.4	90.9	88.5
(net loans / client deposits and loans received)			

Capitalisation and risk positions

Capital base, in thousands of euros	31.12.2020	31.12.2020 adjusted*	31.12.2019
Tier 1 capital			
Paid-in share capital and share premium	73 817	73 817	72 757
Statutory reserve capital	2 802	2 802	2 526
Accumulated profit/loss	13 564	13 564	8 314
The accepted profit of the reporting period	4 835	7 259	3 944
Other accumulated comprehensive income	-18	-18	1
Goodwill as intangible asset (-)	-6 757	-6 757	-6 757
Intangible assets (-)	-5 930	-5 930	-3 712
Adjustment of value arising from requirements of reliable measurement (-)	-3	-3	-4
Other deductions from Tier 1 Capital (-)	-715	0	-538
Other adjustments of own funds resulting from transitional provisions	441	441	535
Total Tier 1 capital	82 036	85 175	77 066
Subordinated debt	7 000	7 000	7 000
Tier 2 capital	7 000	7 000	7 000
Eligible capital for capital adequacy calculation	89 036	92 175	84 066
Risk-weighted assets (RWA)			
Central government and central banks using the standardised approach	624	624	699
Credit institutions, investment companies and local governments using the standardised approach	451	451	570
Companies using the standardised approach	72 962	72 962	39 450
Retail receivables using the standardised approach	110 660	110 660	86 643
Receivables secured by mortgage on real estate using the Standardised approach	195 622	195 622	142 311
Receivables past due using the standardised approach	6 612	6 612	5 972
Items subject to particularly high risk using the standardised approach	22 417	22 417	29 231
Other assets using the standardised approach	10 928	10 928	11 994
Total credit risk and counterparty credit risk	420 276	420 276	316 870
Operational risk using the Basic Indicator Approach	36 423	36 423	28 414
Total risk-weighted assets	456 699	456 699	345 284
Capital adequacy (%)	19.50%	20.18%	24.35%
Tier 1 capital ratio (%)	17.96%	18.65%	22.32%

* Includes audited profit for 2020, which will be added to regulatory Tier 1 capital after approval by the Financial Supervisory Authority or after approval of the 2020 Annual Report by shareholders. By the end of the reporting period the 9 month interim profit 2020 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
Systemic risk buffer	0.00%	Of total risk exposure
Capital conservation buffer	2.50%	Of total risk exposure

As at 31.12.2020, the Group complied with all regulatory capital requirements. The systemic risk buffer of the Group as at 31.12.2020 was 0 euro, as the Bank of Estonia has reduced the buffer rate temporarily from 01.05.2020 to 0% instead of the previous 1%. (31.12.2019: 3 453 thousand euros). The capital conservation buffer of the Group as at 31.12.2020 was 11 417 (31.12.2019: 8 632) thousand euros.
The financial leverage ratio of the Group at 31.12.2020 was 8,79% (31.12.2019: 11.98%). 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 31.12.2020 the Liquidity Coverage Ratio (LCR) was 275% (31.12.2019 was 682%), 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 31.12.2020 and 31.12.2019, 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 governing bodies of Coop Pank AS are the supervisory board and the management board.

The Supervisory Board is appointed by the General Meeting of Shareholders for a three-year term. Shareholders who hold shares at least 1/10 of the share capital are able to nominate candidates for election of members of the Supervisory Board in the form of a draft resolution of the General Meeting of Shareholders. The 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. The Supervisory Board also aims to take into consideration gender diversity when deciding on the composition of the Management Board.

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

Management Board

MARGUS RINK

Chairman of the Management Board
since February 2017

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

KERLI LÕHMUS

Member of the Management Board
since February 2017

Previously CFO of LHV Pank and LHV Varahaldus

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 Coop Eesti Keskühistu

ARDO HILLAR HANSSON

Vice-chairman of the Supervisory Board

JAAN MARJUNDI

Member of the Supervisory Board
Member of remuneration committee

Chairman of Management Board of Harju Tarbijate Ühistu

RAUL PARUSK

Member of the Supervisory Board
Member of remuneration committee
Member of Management Board of:
Forus Grupp OÜ
Forus Security Eesti AS
Forus Haldus OÜ

ROMAN PROVOTOROV

Member of the Supervisory Board

Member of Management Board 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

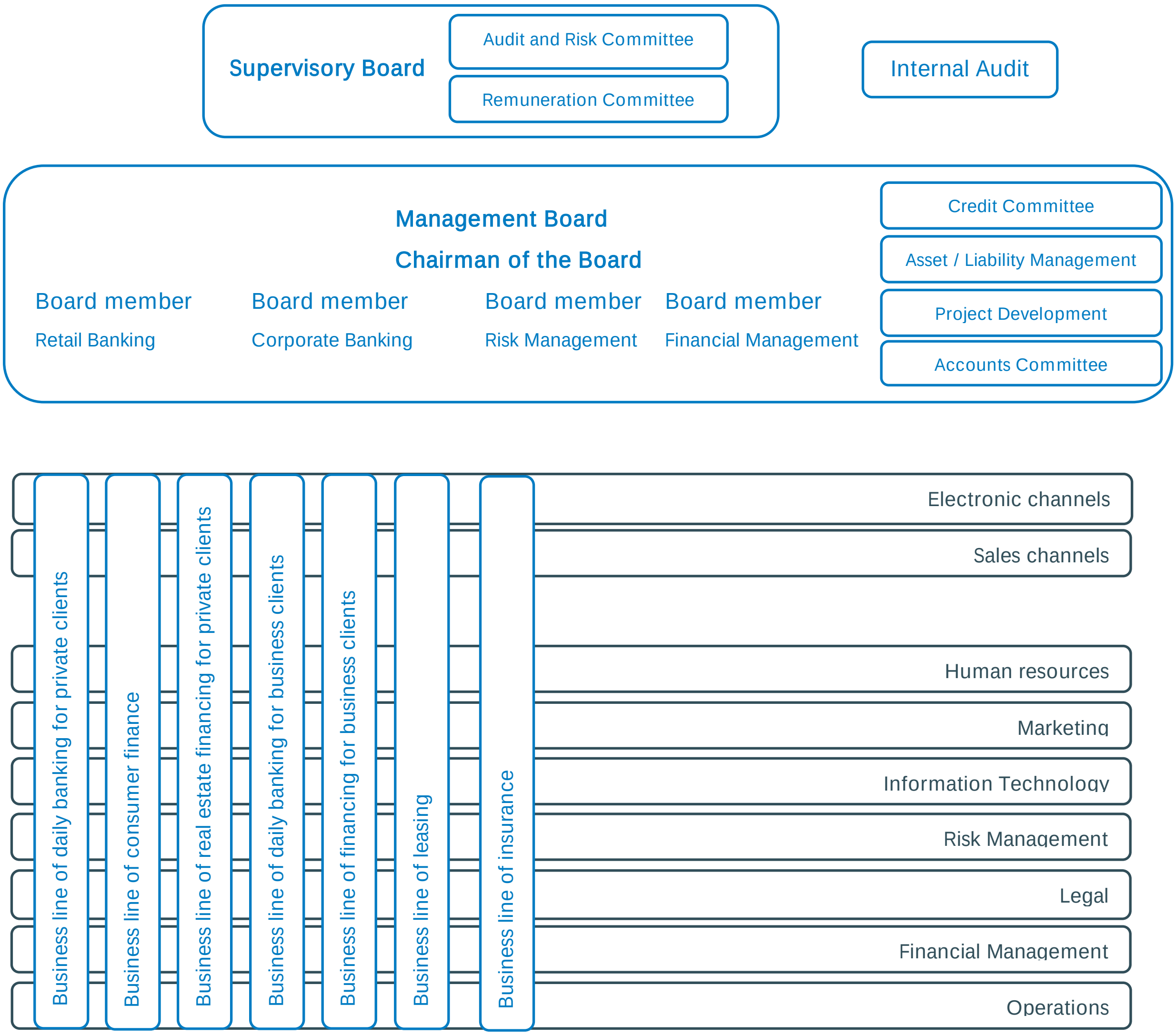
The structure of the Group is designed and approved by the management board of the bank in accordance with the provisions of legislation, the articles of association and strategies of the bank and its subsidiaries, as well as by adhering to the instructions provided by the supervisory board and the development 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.

Group structure



Remuneration policy

Coop Pank Group applies a single remuneration policy that has been approved by the Supervisory Board of the bank and the effectiveness, adherence to objectives and implementation of the policy is supervised by the Remuneration Committee. In 2020, three 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.

The ratio between performance pay and basic salary of the senior management and senior staff responsible for material business units and for management of specific risk categories in 2020 was:

- senior management – 29%
- staff managing control functions – 15%

AS at 31.12.2020, total of 1 545 310 options were granted to the members of the Management Board and key employees with a maturity date of three years starting from the moment of the issue. In November, 2019 new 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. Next share options issue may take place in 2021 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.

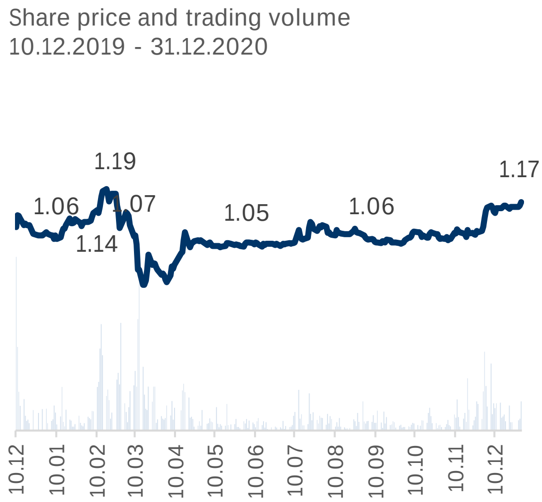
The total amount of bonuses are decided by the Supervisory Board, which also determines the specific amounts of bonuses for members of the Management Board and the internal audit unit. Bonuses to other employees are decided by the Management Board. The issue of options shall be decided by the Supervisory Board on a proposal from the Remuneration Committee.

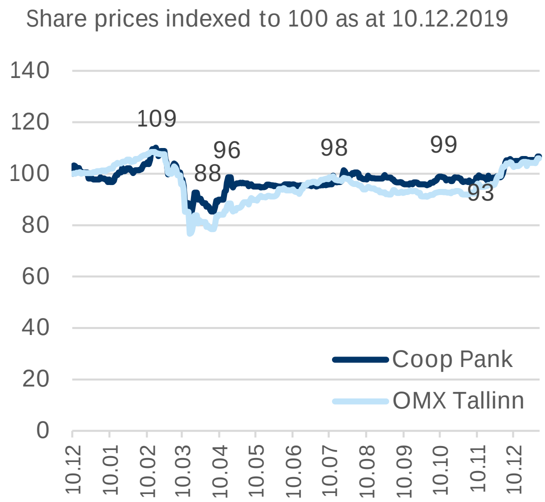
In addition to monetary incentives, the employees also have many non-monetary benefits such as flexible working hours, possibility to work from home, different common activities and benefits for sporting. The Group's employees work under employment contracts, members of the management based on authorization 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. Throughout the year, annual talks and semi-annual interviews are conducted with all staff to ensure that staff activities are in line with the bank's strategy and objectives.

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 ISIN EE3100007857 as of 10.12.2019. The share subscription price was 1.15 euros. As of 31.12.2020, the share price was 1,168 euros. In 2020, the lowest tradable price was 0.906 euros and the highest price was 1,210 euros. As of 31.12.2020, the market value of the bank was 106 million euros on the basis of the share price. During the year, the turnover of transactions totaled 14.7 million euros and 13.7 million shares changed hands with an average transaction price of 1,075 euros. Since the beginning of listing on the stock exchange, the turnover of transactions has totaled 16.3 million euros. The ratio of share price to earnings per share at the end of 2020 was 14.4. The basis for finding the ratio is the market price of the share, which is divided with net profit per average number of shares. The book value of the share as of 31.12.2020 was 1,077 and the ratio of the share price to the book value of the share was 1,085.





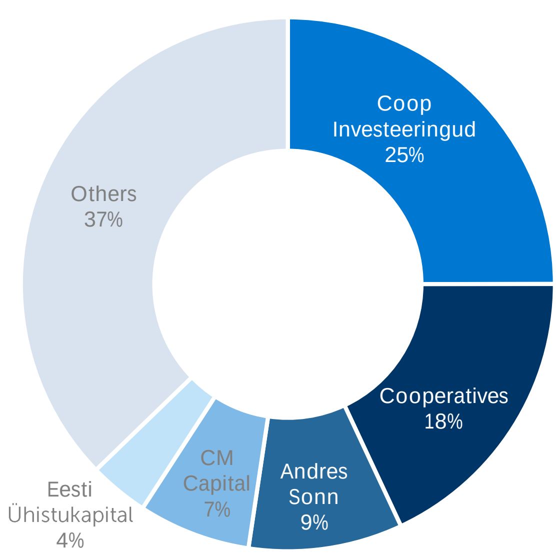
As at 31.12.2020 shareholders with holding over 5% are:

Coop Investeeringud OÜ	24,98%
Andres Sonn	9,32%
CM Capital OÜ	6,80%

In addition, the member cooperatives of Coop Eesti Keskühistu hold the total of 18.06% of the total amount of shares, however, separately none of them holds over 5%.

The bank has 12 867 shareholders as of 31.12.2020, of which institutional investors, i.e. owning more than 100 000 shares, are 47 shareholders. 2 000 shareholders have been added since the listing on 10.12.2019.

Coop Pank shareholders distribution, 31.12.2020



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 can 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 2020, 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 2020 Annual General Meeting was postponed by one month due to the emergency in the country caused by the health crisis. 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 2020, 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 neither planned to make available (CGC clause 1.3.3), since there is no need, demand nor suitable technical solution for that.

In 2020, one Annual General Meeting was held. The Annual General Meeting of Shareholders that took place on 28 May of 2020 approved the Annual Report 2019, distributed the profit for the year 2019 and it was decided not to pay dividends. An auditor was elected for the next three years, the articles of association were amended and the Supervisory Board was authorized to issue shares under the employee stock option plans. The full composition of the Supervisory Board was recalled, new members of the Supervisory Board were elected and the principles of remuneration of the Supervisory Board were decided. 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 as well as all new candidates of Supervisory Board attended the General Meeting. Also, the auditors of the Bank, Tiit Raimla and Evelin Lindvers and Annika Kuimet, notary 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. For carrying out the duties of a Management Board member, the chairman of the Supervisory Board signs an agreement with a member of the Management Board. Bank's Management Board member shall not simultaneously participate in the work of the Management or Supervisory Board of other companies. Different from the above, the members of the Management Board participate in the work of the management bodies of the companies of the consolidation group.

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 31.12.2020, 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 Master of Business Administration degree from the School of Economics and Business Administration at the University of Tartu in 2000 and a Bachelor´s degree in Financial Accounting and Analysis in

1994 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, Martinoza 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, Martinoza AS and Coop Kindlustusmaakler AS.

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, Martinoza AS and Coop Kindlustusmaakler AS and a member of the board of 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 board of the bank Subsidiaries Coop Finants AS, Coop Liising AS, Martinoza 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, where he currently still is a member of the board. Rasmus Heinla is also a member of the supervisory board of the bank Subsidiaries Coop Liising AS, Martinoza 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 2020 in euros:

	Basic salary 2020	Performance pay in 2020
Margus Rink	111 000	36 000
Hans Pajoma (former member of board)	100 185	49 500
Janek Uiboupin (former member of board)	28 004	22 400
Kerli Lõhmus	82 011	22 400
Heikko Mäe	74 053	0
Arko Kurtmann	16 000	0
Rasmus Heinla	14 000	0

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 31.12.2020:

Shares	Owned by the member	Owned by associated persons	Holding
Margus Rink	596 337	0	0,66%
Kerli Lõhmus	0	27 000	0,03%
Heikko Mäe	3 000	0	0,00%
Rasmus Heinla	12 487	0	0,01%

Options	Amount	Share purchase price payable at subscription	Subscription term
Kerli Lõhmus	233 540	0,7660	2021
Rasmus Heinla	40 000	0,7660	2021
Margus Rink	70 000	1,0100	2023
Kerli Lõhmus	50 000	1,0100	2023
Heikko Mäe	50 000	1,0100	2023
Rasmus Heinla	30 000	1,0100	2023

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 2020, 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 company established in Latvia which is 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. Vice Chairman is also elected.

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 31.12.2020, the Management Board members of the bank were Alo Ivask (chairman, term 28.05.2023), Ardo Hillar Hansson (deputy chairman, term 14.04.2021), Jaan Marjundi (term 28.05.2023), Roman Provotorov (term 28.05.2023), Raul Parusk (term 28.05.2023) and Silver Kuus (term 28.05.2023). In the meaning of CGR there are three independent members in the bank´s Supervisory Board – Ardo Hillar Hansson, Raul Parusk ja Silver Kuus.

Alo Ivask has 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).

Ardo Hillar Hansson has obtained a bachelor degree from University of British Columbia in 1980. In 1984 he obtained a master's degree in economics and in 1987 a doctoral degree in macroeconomics from Harvard University. He has worked, inter alia, as an assistant professor and research fellow in different universities in Europe, USA and Canada, as an economic adviser and economist with the Government of Estonia and the World Bank. From 2012-2019, Ardo Hillar Hansson served as the Governor of the Bank of Estonia.

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

Jaan Marjundi has obtained higher education in process engineering from Tallinn Polytechnical Institute (currently TalTech). For many years, he has worked in top management positions of retail establishments. 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 has 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, Raul Parusk is a member of management boards of Forus Grupp OÜ, Forus Security Eesti AS and Forus Haldus 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 1000, the chairman and deputy chairman at EUR 1500. There is no severance pay or other additional benefits for members of the Supervisory Board.

Gross remuneration paid to the Supervisory Board members in 2020 in euros:

	Basic wage in 2020
Jaanus Vihand (former member)	9 900
Priit Põldoja (former member)	9 900
Alo Ivask	10 650
Ardo Hillar Hansson	10 125
Jaan Marjundi	12 000
Roman Provotorov	12 000
Raul Parusk	7 100
Silver Kuus	7 100
Märt Meerits (former member)	4 950

Shares owned by members of Supervisory Board as of 31.12.2020

	Owned by the member	Holding
Jaan Marjundi	23 000	0,03%
Silver Kuus	20 000	0,02%
Alo Ivask	15 000	0,02%
Roman Provotorov	13 000	0,01%

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 2020.

In 2020, 11 Supervisory Board meetings were held, and 4 Supervisory Board resolutions was adopted without convening a meeting. All the Supervisory Board members attended in all meetings and participated in all votes.

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. 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 Act on Auditors 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. The members of the Audit Committee are Paavo Truu (chairman), Alo Ivask, Silver Kuus and Urmas Kaarlep. No remuneration is paid to the members of the Audit Committee who are member 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. The Remuneration Committee members are 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 $24^{'2}$ 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 2020, 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. 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. 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.

Social responsibility

The developed world countries and supranational organizations (such as the United Nations) are working together to achieve the directions and goals agreed in the 2015 Paris Climate Agreement. The European Union has developed a Green Deal, which must help Europe become the first continent to achieve climate neutrality by 2050. Not only the efforts of the states are enough for this, but also the initiative of the private sector. So far, there are no regulatory requirements for the banking sector on how banks must contribute to the achievement of the set goals, but many of the group's competitors and the group itself have increasingly aimed to apply the principles of responsibility in their operations.

In 2020, Coop Pank joined the Responsible Business Forum and as an investor member has contributed to the continued growth of Estonian business responsibility. In this way, we contribute to the creation of a framework for responsible operations for companies. Under the leadership of the Banking Association, we participate in the relevant working group and contribute to increasing the responsibility of banks' activities.

The largest shareholder of the banking group since 2017 is Coop Estonia. The connection of banking with retail defines our common mission: "We will carry on life in every corner of Estonia" - this has been characteristic of us for the last four years and defines one of the most important focuses of our responsibility.

In managing and developing responsible development, the banking group is guided by 17 generally accepted goals of sustainable development (see: https://sdgs.un.org/goals, SDG or sustainable development goals). By operating in the banking sector, we can directly or indirectly contribute to the development of sustainability in the following areas:

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

For the benefit of society

The wealth of Estonia is our enterprising people and clean nature. As an Estonian bank, we give impetus to Estonian companies and help people realize their dreams. By keeping together and valuing the pure nature of Estonia, we carry on life in every corner of Estonia - both in the countryside and in the city.

It is important to us that vital products and services are available to everyone in their home. As an Estonian bank, we bring everyday banking services closer to people, so that it would be good for everyone to live exactly where they like. In this way, Coop Pank's customers can make cash deposits and withdrawals from their bank account in more than 300 Coop stores across Estonia - cash can be withdrawn or credited to the cashier of their home store if they wish. It is also possible to open bank account and enter into banking services agreements in Coop stores.

We also have customer service representatives in 15 bank branches in 12 Estonian cities. Thus, we are the second largest bank in Estonia with a branch network.

We contribute to increasing the monetary wisdom of Estonian people, for example, we share knowledge about how to make smarter choices in financial matters to people of different ages in "Simply about money" podcasting and also in other channels.

Responsible products and services

Developing products and services with responsibility goals in mind is an ongoing process. The Banking Group has previously decided not to provide funding for the following areas of activity:

- 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.

We do not provide credit services in areas or to companies that are unethical, violate human rights, engage in corruption or have a significant negative impact on the environment.

We are honest and transparent in the pricing of banking services, and we follow responsible principles in the marketing of services. We follow the requirements of the Money Laundering and Terrorist Financing Prevention Act. In order to know our customers, we ask them for comprehensive information and monitor their activities, while complying with the requirements of the Personal Data Protection Act. In the protection of personal data, we follow the principle of integrated data protection, i.e. we use data protection throughout the data processing life cycle and use only as much data as is necessary to provide a high-quality banking service.

For the benefit of environment

Coop Pank takes into account the environmental impacts when lending to companies, and we are looking for opportunities to contribute to companies that reduce negative environmental impacts. In 2020, we have financed the construction of solar parks to a significant extent (with a nominal capacity of approx. 64 MW). We consider it important that our loan portfolio includes agricultural companies, whose activities we can contribute to in different parts of Estonia. We have offered leasing for electric and hybrid motor vehicles. We support recycling and the majority of our car leasing portfolio is used car leasing (approx. 60%). Also, this year, we want to contribute to solar and wind energy projects, including making residential buildings more energy efficient.

In 2021, we will move the bank's head office to a new, economical and energy-efficient Skyon office building, which will be built and maintained in accordance with the requirements of the LEED Gold certificate. LEED (Leadership in Energy and Environmental Design) is one of the world's best-known assessment systems for environmentally friendly construction. Reuse is also important to us here, which is why we take as much existing furniture and equipment as possible with us when moving instead of buying new ones.

We sort the garbage and collect the bottles, take them to the return point and donate the money to allow children's theater visits.

In our daily work, we have increasingly introduced paperless document management - we enter into agreements with both customers and partners electronically and enable customers to join the bank through a simple web solution. When purchasing services necessary for the Bank's operations, we try to follow the same criteria when selecting our cooperation partners.

Management culture

In our conduct, we follow good banking practices and the principles of responsible lending. We also ensure that our marketing activities comply with the applicable standards. To ensure ethical behavior, we have created a whistleblowing guide that allows employees to report potential ethical or legal violations in the group. In 2020, we have increasingly integrated the principles of social and environmental responsibility into our activities.

It is natural for us to offer our employees a modern work environment, motivating pay, flexible working hours, distance working opportunities, exciting work challenges, comprehensive development opportunities and a friendly and cohesive team spirit. We have common values.

We dare to do differently. We are inspired by the opportunity to do banking in a different way. We will not be satisfied with the already achieved, we constantly ask ourselves whether and how to make the life of our clients better and easier. We dare to make mistakes. We admit our errors. We learn from this and do better.

Professionals in interplay. Each our employee is a professional of own field and sets high standards for self. We work hard, but, at the same time, don’t take ourselves too seriously. Our way of working is team play.

We reach the target. We set ambitious goals and won’t do any less than maximum for achieving the result. Once we have started something, we shall do it!

We have brought the importance of sustainable operations to the focus of both the Management Board and the Supervisory Board, and in 2021 we will continue to develop more accurate indicators.

Consolidated Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

in thousands of euros	Note	2020	2019
Interest income calculated using the effective interest method		31 359	23 298
Other similar income		3 281	2 280
Interest and similar expense		-6 269	-4 889
Net interest and similar income	5	28 371	20 689
Fee and commission income		3 687	3 725
Fee and commission expense		-1 590	-1 353
Net fee and commission income	6	2 097	2 372
Sale of assets		146	140
Cost of assets sold		-146	-159
Rental income from investment properties		15	32
Direct property operating expenses		-57	-79
Change in fair value of investment property	13	0	-20
Net gains/losses from non-financial asset realization		40	0
Net gains/losses from financial assets measured at fair value		-183	7
Handling of overdue receivables		516	536
Other income		290	201
Net other income		621	658
Payroll expenses	7	-11 085	-9 880
Operating expenses	8	-5 040	-4 577
Depreciation	14	-2 671	-1 804
Total operating expenses		-18 796	-16 261
Net profit before impairment costs		12 293	7 458
Impairment costs		-4 789	-1 931
Net profit before income tax		7 504	5 527
Income tax expenses		-245	0
Net profit for the financial year	4	7 259	5 527
Other comprehensive income / loss			
Items that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income		-19	155
Other comprehensive income / loss		-19	155
Comprehensive income for the financial year		7 240	5 682
Net profit attributable to:			
The owners of the parent company		7 259	5 527
Net profit for the financial year		7 259	5 527
Comprehensive income attributable to:			
The owners of the parent company		7 240	5 682
Comprehensive income for the financial year		7 240	5 682
Basic earnings per share (in euros)	23	0,08	0,09
Diluted earnings per share (in euros)	23	0,08	0,09

Notes to the financial statements on pages 39 to 107 are an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position

in thousands of euros	Note	31.12.2020	31.12.2019
Assets			
Cash and cash equivalents	9	170 750	122 295
Debt securities at fair value through other comprehensive income	10	3 011	4 061
Equity instruments at fair value through profit or loss	10	67	0
Equity instruments at fair value through other comprehensive income	10	13	13
Loans and advances to customers	11	670 593	460 460
Other financial assets	12	999	1 263
Assets held for sale	12	6 734	6 756
Other assets	12	1 117	1 165
Investment property	12,13	594	594
Right-of-use assets	14	1 017	1 722
Tangible assets	14	2 327	2 504
Intangible assets	14	5 930	3 712
Goodwill	3	6 757	6 757
Total assets		869 909	611 302
Liabilities			
Customer deposits and loans received	16	757 835	506 531
Lease liabilities	15	1 018	1 725
Other financial liabilities	17	1 509	3 462
Other liabilities	17	4 916	3 169
Subordinated debt	18	7 064	7 064
Total liabilities		772 342	521 951
Shareholders' equity	19		
Share capital		61 756	60 960
Share premium		12 061	11 797
Statutory reserve capital		2 802	2 526
Retained earnings		20 824	13 841
Other reserves		124	227
Shareholders' equity attributable to owners of the parent company		97 567	89 351
Total shareholder's equity		97 567	89 351
Total liabilities and shareholders' equity		869 909	611 302

Notes to the financial statements on pages 39 to 107 are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

in thousands of euros	Note	2020	2019
Cash flows from operating activities			
Interest and other similar income received		33 953	25 171
Interest paid		-5 678	-4 086
Fees and commissions received		3 687	3 725
Fees and commissions paid		-1 590	-1 353
Other received income		804	671
Salaries paid		-10 719	-9 743
Other operating expenses paid		-5 040	-4 577
Income Tax paid		-137	0
Total cash flows from operating activities before changes in operating assets and liabilities		15 280	9 808
Change in operating assets:			
Loans and advances to customers		-214 218	-133 184
Change of mandatory reserve in central bank	9	-2 218	-1 151
Other assets		650	-1 118
Change in operating liabilities:			
Change in customer deposits and loans received		250 713	120 648
Other liabilities		-645	-123
Net cash flows from operating activities		49 562	-5 120
Cash flows from investing activities			
Acquisition of property, plant and equipment		-4 166	-2 746
Sale of property, plant and equipment and investment properties		67	212
Sale and redemption of debt instruments		782	4 999
Total cash flows from investing activities		-3 317	2 465
Cash flows from financing activities			
Contribution to share capital	19	853	34 383
Issue of subordinated bonds	18	0	2 000
Repayment of principal of lease liabilities	15	-658	-516
Total cash flows from financing activities		195	35 867
Effect on exchange rate changes on cash and cash equivalents		-3	-7
Change in cash and cash equivalents		46 437	33 205
Cash and cash equivalents at beginning of the period		118 002	84 797
Cash and cash equivalents at the end of the period		164 439	118 002
Cash and cash equivalents balance is comprised of:		164 439	118 002
Cash on hand		26 199	21 531
Demand deposits in central bank	9	130 589	94 019
Demand and short-term deposits in credit institutions and other financial institutions	9	7 651	2 452

Notes to the financial statements on pages 39 to 107 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 31.12.2018	38 199	175	2 288	103	-154	8 552	49 163	49 163
Increase of share capital on account of share premium	175	-175	0	0	0	0	0	0
Paid in share capital	22 586	11 797	0	0	0	0	34 383	34 383
Changes in reserves	0	0	238	0	0	-238	0	0
Share options *	0	0	0	123	0	0	123	123
Net profit	0	0	0	0	0	5 527	5 527	5 527
Other comprehensive income	0	0	0	0	155	0	155	155
Total comprehensive income	0	0	0	0	155	5 527	5 682	5 682
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 income	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

*See Note 19

Notes to the financial statements on pages 39 to 107 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) Narva road 4. These consolidated financial statements of AS Coop Pank for the year 2020 have been approved by the Management Board of AS Coop Pank and will be presented to the shareholders of the bank for approval.

Functional and presentation currency

The functional currency of the AS Coop Pank Group companies is euro. 2020 consolidated financial statements have been presented in thousands of euros, unless stated otherwise.

1.1 Basis of preparation

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

1.2 Critical accounting estimates and judgements

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

- loan allowances, incl. fair value assessments of collateral (Note 2; Note 11, 12);
- estimation of the fair value of investment property (Note 2);
- fair value of financial assets and liabilities (Note 2);
- goodwill 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 this 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 2020. Group entities use uniform accounting policies. The definition of group according to the Regulation (EU) No 575/2013 of the European Parliament and of the Council matches that of IFRS. The statements of financial position and income statements of the bank and its subsidiaries are consolidated on a line-by-line basis, eliminating the intercompany balances, revenues, income- expenses and unrealized gains/losses on transactions between group companies.

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%
AS Martinoza	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 income statement as income or expense of that period. Non-monetary financial assets and liabilities denominated in a foreign currency measured at fair value have been translated into functional currency based on the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date. Non-monetary assets and liabilities that are not measured at fair value (e.g. prepayments, inventories accounted for using the cost method; property, plant and equipment as well as intangible assets) in a foreign currency are not translated at the balance sheet date but they continue to be reported using the official exchange rate of the European Central Bank prevailing at the date of the transaction.

1.5. 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.

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 finance 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;
  - Loans and advances to credit 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 finance income using the effective interest rate method. Foreign exchange gains and losses and impairment expenses 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 2018 and 31 December 2019 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 income statement in "'Impairment losses on loans and advances".

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

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 financial lease agreements are recognized at net present value of the minimum lease payments, from which the payments of principal received have been deducted, plus unguaranteed residual value at the end of contract. Lease payments collected are allocated between repayment of principal and finance income. Finance income is recognized over the rental period based on the pattern reflecting a constant periodic rate of return on the lessor's net investment in the financial lease. The lessor's direct expenses related to the contract are part of effective interest rate and are booked as decrease of income from lease over the period of lease contract. Allowances for lease receivables are presented on the respective line of the statement of financial position at negative value. A lease receivable from a client is recognized in the statement of financial position as of the moment of delivering the assets being the subject of the agreement to the client. In case of transactions, in which the assets being the object of the agreement having a long delivery term have not yet been delivered to the client, the payments received from the lessees under these agreements are recognized in the statement of financial position as prepayments of buyers in line "Other financial liabilities". The amounts paid by the Group for the assets under lease agreements not yet delivered are recognize 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 leasing company acquires control of all rights at the moment of selling the receivable, the transaction is accounted for as an acquisition of a receivable at fair value. Subsequently receivables are measured at acquisition cost. The receivable from the client is recognized as of the moment of factoring the purchase-sale agreement, i.e. as of acquisition of the receivable.
Warehouse receipt financing transactions are financing transactions, where the lease firm finances its partners, by granting them a loan against pledged stock reserves.

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 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 income statement line item "Depreciation". Depreciation of an asset is ceased when the asset is fully depreciated, when the asset is reclassified as non-current assets held for sale or when the asset is retired from use. The appropriateness of the assets´ residual values, depreciation methods used, and useful lives are reviewed, and adjusted if that has become appropriate, at each balance sheet date.

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

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, minus 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 cash-generating unit groups, which are benefiting from the synergy of the business combination. Profit or loss from the termination or sale of cash-generating unit where goodwill is allocated, is consisting of the carrying amount of the goodwill allocated to the unit.

1.7 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 property" in the income statement of the reporting period in which they are incurred.

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

Category by IFRS9 — Category as determined by the Group

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

<u>Deposits from customers</u>

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

<u>Loans received</u>

Loans received are recognized initially at fair value net of transaction costs (the proceeds received, net of transaction costs incurred). Borrowings are subsequently stated at amortized cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the instrument using effective interest rate. The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity. The amortization of the transaction costs is presented in the income statement together with the interest expense. The respective interest expense is recorded in the income statement on line "Interest 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 (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. 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 income statement the fee income earned on a guarantee is recognized straight-line basis over the life of the guarantee. In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognized as revenue on a time proportion basis over the respective commitment period. At the end of each reporting period, the commitments are reflected either contract value at the time of reporting or contract value and in addition provision in balance sheet. The amounts disbursed to settle the guarantee obligation are recognized in the statement of financial position on the date it is disbursed.

1.13 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 be exercised. Changes compared to initial estimates are recognized in the income statement 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 income statement 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.

<u>Fee and commission income</u>

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 in 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 income statement 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 income statement as income tax expense in the period in which the basis for calculating the income tax is calculated, regardless of when the income tax is paid.

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

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

1.17 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.

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on 01.01.2020:

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

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

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020).

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
The amendment has not made an impact on financial statements.

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (effective for annual periods beginning on or after 1 January 2020).
The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8.
The Group didn't have any lease concessions related to COVID-19, so the amendment has not made an impact on the Group's financial statements.

Other standards, that became effective from 1 January 2020, did not have any material impact on the Group.

New or revised standards and interpretations have been issued that will become mandatory for the Group from 01.01.2021 or later, and which the Group has not implemented early:

IFRS 17, Insurance Contracts (effective for annual periods beginning on or after 1 January 2021; not yet adopted by the EU).
IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.
The Group is currently assessing the impact of the new amendments on financial statements.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective for annual periods beginning on or after 1 January 2021; not yet adopted by the EU).

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- End date for Phase 1 relief for non contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The Group is currently assessing the impact of the new amendments on financial statements.

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 is currently assessing the impact of the new amendments on 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.

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.

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

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

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

The Credit Committee is the Bank's highest body for making credit decisions, a workgroup responsible for risk management formed in accordance with the Credit Institutions Act and the Bank's statutes for ensuring that the

Bank's credit policy is implemented through the adoption of credit decisions and compliance assessment of collateral.

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

Account Establishment Committee manage and control through its decisions with clients with a higher risk of money laundering 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	31.12.2020	31.12.2020 adjusted*	31.12.2019
Tier 1 capital			
Paid-in share capital and share premium	73 817	73 817	72 757
Statutory reserve capital	2 802	2 802	2 526
Accumulated profit/loss	13 564	13 564	8 314
The accepted profit of the reporting period	4 835	7 259	3 944
Other accumulated comprehensive income	-18	-18	1
Goodwill as intangible asset (-)	-6 757	-6 757	-6 757
Intangible assets (-)	-5 930	-5 930	-3 712
Adjustment of value arising from requirements of reliable measurement (-)	-3	-3	-4
Other deductions from Tier 1 Capital (-)	-715	0	-538
Other adjustments of own funds resulting from transitional provisions	441	441	535
Total Tier 1 capital	82 036	85 175	77 066
Subordinated debt	7 000	7 000	7 000
Tier 2 capital	7 000	7 000	7 000
Eligible capital for capital adequacy calculation	89 036	92 175	84 066

* Includes audited profit for 2020, which will be added to regulatory Tier 1 capital after approval by the Financial Supervisory Authority or after approval of the 2020 Annual Report by shareholders. By the end of the reporting period the 9 month interim profit 2020 was 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 31.12.2020 and 31.12.2019, the Group complies 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 (bonds) (Note 10);
- Loans and advances to customers (Note 11);
- Other financial assets (Note 12).

The cash placements to credit institutions and financial investments into bonds 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%-8%	B1, B2	B+, B
D		8%-40%	B3	B-
E	Non-performing	40%-80%	Caa, Ca	CCC, C
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. S&P or Moody´s A rating classes are only applied to bonds 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:

- The Group joined the cross-market payment moratorium; offered customers payment holidays and loan period extensions if desired.
- Payment holiydays related to pandemic amounted to around 51 million euros during the peak (9,3% from the credit portfolio) and decreased to 8,2 million euros by the end of 2020 (1,2% form the credit portfolio), where 5,4 million euros are related with private individuals and 2,8 millions with legal entities accordingly. Most of the payment holidays were given in March and April and ending mainly in October.
- Remaining balance of the credit portfolio that is still on payment holiday is lower than expected. The Group is monitoring the credit quality of the portflo related with payment holidays separately (including contracts, where payment holiday has ended). The amount of overdue contracts as of 31.12.2020 are marginal.
- The Group's credit loss allowances increased in 2020. Increase was mainly driven by reclassification of the customers (regular annual reclassification as well as classifications due the paymant holidays) and annual review of model parameters.

Among other things, credit risk management focused more on regular monitoring of portfolio quality, incl. for the portfolio on payment holidays and that have ended their payment holidays. Increased emphasis was placed on customer communication and advising customers. Considering the Group's growth strategy and the developed market situation, the financing parameters and customer segments were reviewed in order to avoid a deterioration of the credit portfolio in the following periods.

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 80% for the baseline scenario and 10% for a positive and negative scenario for all products, where expert opinions have been used to determine the weights and the weights have remained unchanged compared to 2019.

<u>Individual and collective assessment, grouping</u>

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 100 thousand euros.

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, economic forecasts and the impact of the respective macro indicators on the solvency of the customers.

Frequency of receivable assessments:

- collective assessment is performed on a monthly basis;
- individual assessment is performed quarterly 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;
- significant increase in probability of default (PD) since issuing the loan – increase by 1,2% and 2,5x at the same time;
- one of the customer's receivables is restructured due to payment difficulties or contains grace period or interest rate rescheduling;
- the customer is under watch list.

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

The bank joined the over-the-market payment moratorium in April, where due to the effects of the COVID-19 pandemic and in accordance with the guidelines of the European Banking Authority, the Bank did not treat loans with a principal payment holiday as restructured loans up until 30.09.2020. The principal payment grace period of these loans has not been treated as a significant increase in credit risk and therefore the loans have not been recognized in stage 2 according to IFRS9. With regard to payment holidays added after 30.09.2020, the bank proceeds from the features of restructuring due to payment difficulties and the requirements of IFRS9. In addition, the Bank assesses corporate customers payment grace periods and the potential significant increase in credit risk individually depending on the financial strength of the counterparties, the nature of the business and the potential longer-term impact on 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;
- 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;
- financial assets have been purchased at a significant discount that reflects the credit losses incurred.

If the loan has been properly serviced for at least 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.

The weighted impact on default probability is calculated using weighting of 80% for base scenario and 10% for a positive and negative base scenario for all the loans categories. The table below shows the impact of changes in the base scenario weights on the Group's loans portfolio as at 31.12.2020.

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

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

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

As at 31.12.2019, the results of sensitivity analysis were the following:

Change in the weights of the scenario (base-positive-negative)	Impact on loan portfolio
80%-5%-15%	-39
80%-15%-5%	39

ECL change, if the following changes in unemployment rate and GDP will occur:

	Impact on loan portfolio
Legal entities' loans: GDP change -2%	-16
Private individual's loans: unemployment rate +2%	-74

Maximum exposure to credit risk

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

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	10 545	-	-	10 545
Unused credit limits	21 412	165	-	21 577
Unused overdrafts	43 020	1 094	-	44 114
Total off-balance sheet exposures	74 977	1 259	-	76 236
Loss allowance	-65	-34	-	-99
Total net off-balance sheet exposures	74 912	1 225	-	76 137

31.12.2019	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	122 295	-	-	122 295
Debt securities at fair value through other comprehensive income	4 061	-	-	4 061
Loans to private individuals				
Consumer loans	58 992	1 976	1 250	62 218
Lease financing	25 901	498	25	26 424
Mortgage loans and other loans	175 127	3 978	582	179 687
Loans to legal entities				
Lease financing	32 815	5 206	106	38 127
Other loans to legal entities	148 771	5 476	5 097	159 344
Total	441 606	17 134	7 060	465 800
Loss allowance	-2 292	-1 686	-1 362	-5 340
Total net loans	439 314	15 448	5 698	460 460
Exposures related to off-balance sheet items				
Financial guarantees	4 161	-	-	4 161
Unused credit limits	18 713	15	-	18 728
Unused overdrafts	19 383	303	-	19 686
Total off-balance sheet exposures	42 257	318	-	42 575

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

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

31.12.2019	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	117 466	117 466
Receivables from credit institutions and other financial institutions	2 136	716	0	0	0	1 977	4 829
Debt securities at fair value through other comprehensive income	1 254	0	1 398	420	0	989	4 061

On assessing the credit quality, the Group uses credit rating from rating agencies Fitch, Moody's and Standard & Poor's according to the recitals of European Parliament and of the Council (EC) No 575/2013 Article 138. The management has estimated that credit institutions´ receivables carry low credit risk and that their expected credit losses are insignificant, given their strong credit rating, financial condition and short-term economic outlook.

Debt instruments are predominantly liquid, which is why their expected credit losses are also considered insignificant.

Cash and high-quality receivables from central bank are not rated but can be classified as AA- or higher. Other non-rated receivables are of good quality and there is no indication of impairment.

Loans division by credit quality in different loan segments as at 31.12.2020 is presented in following tables:

Consumer loans to private individuals	Stage 1	Stage 2	Stage 3	2020 total
Standard monitoring	64 091	0	0	64 091
Special monitoring	0	3 497	0	3 497
Non-performing	0	0	3 293	3 293
Total	64 091	3 497	3 293	70 881
Loss allowances	-1 459	-754	-2 476	-4 689
Carrying amount	62 632	2 743	817	66 192

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

Lease financing to private individuals	Stage 1	Stage 2	Stage 3	2020 total
Standard monitoring	36 705	0	0	36 705
Special monitoring	0	475	0	475
Non-performing	0	0	127	127
Total	36 705	475	127	37 307
Loss allowances	-16	-11	-41	-68
Carrying amount	36 689	464	86	37 239

Mortgage loans and other private loans	Stage 1	Stage 2	Stage 3	2020 total
Standard monitoring	254 762	0	0	254 762
Special monitoring	0	7 077	0	7 077
Non-performing	0		622	622
Total	254 762	7 077	622	262 461
Loss allowances	-53	-121	-48	-222
Carrying amount	254 709	6 956	574	262 239

Lease financing to legal entities	Stage 1	Stage 2	Stage 3	2020 total
Standard monitoring	44 003	0	0	44 003
Special monitoring	0	2 805	0	2 805
Non-performing	0	0	296	296
Total	44 003	2 805	296	47 104
Loss allowances	-339	-169	-106	-614
Carrying amount	43 664	2 636	190	46 490

Other loans to legal entities	Stage 1	Stage 2	Stage 3	2020 total
Standard monitoring	240 611	0	0	240 611
Special monitoring	0	16 847	0	16 847
Non-performing	0		4 125	4 125
Total	240 611	16 847	4 125	261 583
Loss allowances	-1 484	-1 459	-207	-3 150
Carrying amount	239 127	15 388	3 918	258 433

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

Loans division by credit quality in different loan segments as at 31.12.2019 is presented in following tables:

Consumer loans to private individuals	Stage 1	Stage 2	Stage 3	2019 total
Standard monitoring	58 992	0	0	58 992
Special monitoring	0	1 976	0	1 976
Non-performing	0	0	1 250	1 250
Total	58 992	1 976	1 250	62 218
Loss allowances	-1 365	-440	-960	-2 765
Carrying amount	57 627	1 536	290	59 453

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

Lease financing to private individuals	Stage 1	Stage 2	Stage 3	2019 total
Standard monitoring	25 901	0	0	25 901
Special monitoring	0	498	0	498
Non-performing	0	0	25	25
Total	25 901	498	25	26 424
Loss allowances	-69	-22	-10	-101
Carrying amount	25 832	476	15	26 323

Mortgage loans and other private loans	Stage 1	Stage 2	Stage 3	2019 total
Standard monitoring	175 127	0	0	175 127
Special monitoring	0	3 978	0	3 978
Non-performing	0	0	582	582
Total	175 127	3 978	582	179 687
Loss allowances	-138	-172	-155	-465
Carrying amount	174 989	3 806	427	179 222

Lease financing to legal entities	Stage 1	Stage 2	Stage 3	2019 total
Standard monitoring	32 815	0	0	32 815
Special monitoring	0	5 206	0	5 206
Non-performing	0	0	106	106
Total	32 815	5 206	106	38 127
Loss allowances	-118	-142	-17	-277
Carrying amount	32 697	5 064	89	37 850

Other loans to legal entities	Stage 1	Stage 2	Stage 3	2019 total
Standard monitoring	148 771	0	0	148 771
Special monitoring	0	5 476	0	5 476
Non-performing	0	0	5 097	5 097
Total	148 771	5 476	5 097	159 344
Loss allowances	-602	-910	-220	-1 732
Carrying amount	148 169	4 566	4 877	157 612

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

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

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

31.12.2019	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	15	57	0	115	1	387
Lease financing	410	101	1	0	24	3
Mortgage loans and other loans	2 027	1 220	185	37	136	11
Total	2 452	1 378	186	152	161	401
Loans to legal entities						
Lease financing	4 720	939	5	0	101	0
Other loans	2 938	905	2 607	0	2 480	0
Total	7 658	1 844	2 612	0	2 581	0

Allocation of past due loans (gross carrying amount)

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

31.12.2019	Loans to private individuals			Loans to legal entities	
	Consumer loans	Lease financing	Mortgage loans and other loans	Lease financing	Other loans
1-30 days	3 742	1 649	3 398	5 030	1 298
31-60 days	905	136	445	961	0
61-90 days	506	95	220	224	109
Over 90 days	1 057	163	313	41	5 097
Total	6 210	2 043	4 376	6 256	6 504

Non-performing loans (stage 3)

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	86
Mortgage loans and other loans	622	-48	574	1 223
Total	4 042	-2 565	1 477	1 309
Loans to legal entities				
Lease financing	296	-106	190	190
Other loans	4 125	-207	3 918	15 619
Total	4 421	-313	4 108	15 809

31.12.2019	Gross carrying amount	Loss allowance	Carrying amount	Fair value of the collateral
Loans to private individuals				
Consumer loans	1 250	-960	290	0
Lease financing	25	-10	15	15
Mortgage loans and other loans	582	-155	427	1 685
Total	1 857	-1 125	732	1 700
Loans to legal entities				
Lease financing	106	-17	89	89
Other loans	5 097	-220	4 877	17 543
Total	5 203	-237	4 966	17 632

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.

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). An overview of the loan-to-market ratios of mortgage-backed non-performing loans and the breakdown of the credit portfolio by collateral are given in the tables below.

Non-performing (stage 3) loans, loan and collateral ratio (LTV), gross:

LTV, 31.12.2020	Gross carrying amount of private individuals	Gross carrying amount of legal entities	Total gross carrying amount of mortgage-backed loans
< 50%	190	3 097	3 287
50% - 60%	60	0	60
60% - 70%	30	0	30
70% - 80%	36	0	36
>80%	221	22	243
Total	537	3 119	3 656

LTV, 31.12.2019	Gross carrying amount of private individuals	Gross carrying amount of legal entities	Total gross carrying amount of mortgage-backed loans
< 50%	345	2 732	3 077
50% - 60%	70	503	573
60% - 70%	31	0	31
70% - 80%	0	110	110
>80%	59	456	515
Total	505	3 801	4 306

Loans and advances to customers by types of collateral

Private individuals	31.12.2020	31.12.2019
Loans secured by mortgage	261 345	178 799
Leased assets	37 296	26 424
Unsecured loans	71 785	62 930
Personal sureties, guarantees	138	175
Other	85	1
Total	370 649	268 329
Loss allowance	-4 979	-3 331
Total of net loans	365 670	264 998

Legal entities	31.12.2020	31.12.2019
Loans secured by mortgage	220 375	125 384
Leased assets	47 104	38 126
Unsecured loans	652	920
Personal sureties, guarantees	5 420	2 180
Other	35 136	30 861
Total	308 687	197 471
Loss allowance	-3 764	-2 009
Total of net loans	304 923	195 462

Impairment losses on financial assets

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

- Movement from stage 1 to stage 2 or 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.

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

2019	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2019	-2 112	-1 109	-617	-3 838
Transfer to stage 1	-106	103	3	0
Transfer to stage 2	115	-118	3	0
Transfer to stage 3	44	521	-565	0
Recalculations of allowances	1 064	-1 003	-1 144	-1 083
New financial assets originated or purchased	-1 297	-80	0	-1 377
Total net P&L charge during the period	-180	-577	-1 703	-2 460
Other movements with no P&L impact				
Write-offs	0	0	105	105
Financial assets derecognised and repaid during the period	0	0	853	853
Balance as at 31.12.2019	-2 292	-1 686	-1 362	-5 340

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

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 consumer loans, 2019	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2019	-1 138	-367	-458	-1 963
Transfer to stage 1	-1	0	1	0
Transfer to stage 2	1	-1	0	0
Transfer to stage 3	11	403	-414	0
Recalculations of allowances	628	-475	-942	-789
New financial assets originated or purchased	-866	0	0	-866
Total net P&L charge	-227	-73	-1 355	-1 655
Other movements with no P&L impact				
Write-offs	0	0	0	0
Financial assets derecognised and repaid during the period	0	0	853	853
Balance as at 31.12.2019	-1 365	-440	-960	-2 765

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 lease financing to private individuals, 2019	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2019	-43	-16	-1	-60
Transfer to stage 1	-9	8	1	0
Transfer to stage 2	1	-1	0	0
Transfer to stage 3	0	2	-2	0
Recalculations of allowances	14	-15	-19	-20
New financial assets originated or purchased	-32	0	0	-32
Total net P&L charge	-26	-6	-20	-52
Other movements with no P&L impact				
Write-offs	0	0	11	11
Financial assets derecognised and repaid during the period	0	0	0	0
Balance as at 31.12.2019	-69	-22	-10	-101

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 mortgage and other private loans, 2019	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2019	-225	-175	-85	-485
Transfer to stage 1	-64	63	1	0
Transfer to stage 2	59	-62	3	0
Transfer to stage 3	16	43	-59	0
Recalculations of allowances	117	-39	-35	43
New financial assets originated or purchased	-41	-2	0	-43
Total net P&L charge	87	3	-90	0
Other movements with no P&L impact				
Write-offs	0	0	20	20
Financial assets derecognised and repaid during the period	0	0	0	0
Balance as at 31.12.2019	-138	-172	-155	-465

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 lease financing to legal entities, 2019	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2019	-117	-44	-1	-162
Transfer to stage 1	-25	25	0	0
Transfer to stage 2	18	-18	0	0
Transfer to stage 3	2	8	-10	0
Recalculations of allowances	94	-100	-80	-86
New financial assets originated or purchased	-90	-13	0	-103
Total net P&L charge	-1	-98	-90	-189
Other movements with no P&L impact				
Write-offs	0	0	74	74
Financial assets derecognised and repaid during the period	0	0	0	0
Balance as at 31.12.2019	-118	-142	-17	-277

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

Loss allowance of other loans to legal entities, 2019	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2019	-589	-507	-72	-1 168
Transfer to stage 1	-7	7	0	0
Transfer to stage 2	36	-36	0	0
Transfer to stage 3	15	65	-80	0
Recalculations of allowances	211	-374	-68	-231
New financial assets originated or purchased	-268	-65	0	-333
Total net P&L charge	-13	-403	-148	-564
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 31.12.2019	-602	-910	-220	-1 732

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 six consecutive months.

The effect of the grace periods implemented as COVID-19 mitigation measures on the contractual cash flows of the loans did not have a significant effect on the gross carrying amount of these loans and no gains or losses on contract changes were recognized.

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.

55% of loans and advances to customers are granted to private individuals (31.12.2019: 58%). The portfolio of loans granted to legal entities is diversified between various economic sectors to avoid high levels of concentration. 32% (31.12.2019: 35%) of loans and leasing products to corporates are granted to companies engaged in the real estate sector, 12% (31.12.2019: 3%) to companies in energy sector and 9% (31.12.2019: 15%) are attributable to wholesale and retail entities. The lending activity of the Group is focused on providing financing to local market. 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	31.12.2020	31.12.2019
Private individuals	365 670	264 998
L – activities related to real estate	97 000	69 223
D – power and heat generation	35 260	5 419
G – wholesale and retail	28 961	29 022
A – agriculture, forestry and fishing	26 740	13 226
K – finance and insurance activities	25 973	17 005
C – manufacturing	20 071	9 349
N – administrative and support services	17 661	5 494
H – transportation and storage	16 401	11 674
I – hospitality, food service	15 618	9 473
S – other services	6 773	15 140
Other	14 465	10 437
Total	670 593	460 460

Cash and cash equivalents in amount 170 750 (2019: 122 295) thousands euros and other financial assets in amount 699 (2019: 936) thousands euros are in economic sector K. Debt securities in amount 3 011 (2019: 4 061) thousands euros, all equity investments and other financial assets in amount 300 (2019: 314) thousands euros are in other sectors.

Financial assets by geographical classification

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 changes 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

31.12.2019	EE	LV	FI	BE	Other	Total
Cash and cash equivalents	120 843	0	0	0	1 452	122 295
Debt securities at fair value through other comprehensive income	507	0	0	1 254	2 300	4 061
Loans and advances to customers	454 888	2 455	2 479	0	638	460 460
Equity instruments at fair value changes through other comprehensive income	0	0	0	0	13	13
Other financial assets	936	0	0	314	0	1 250
Total	577 174	2 455	2 479	1 568	4 403	588 079

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 table below.

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	1 012	497	0	0	1 509
Subordinated debt	122	374	1 984	8 158	10 638
Total financial liabilities	439 695	213 290	103 100	21 715	777 800
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	65 691	0	0	0	65 691
Financial guarantees	10 545	0	0	0	10 545
Total on-balance-sheet and off-balance-sheet liabilities	515 931	213 290	103 100	21 715	854 036
Duration gap of financial assets and financial liabilities	-298 977	-106 289	319 462	260 122	174 318

31.12.2019	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	121 893	400	0	0	122 293
Debt securities at fair value through other comprehensive income	0	0	4 061	0	4 061
Loans and advances to customers	39 180	85 284	272 935	193 242	590 641
Equity instruments at fair value through other comprehensive income	0	0	0	13	13
Other financial assets	949	0	0	314	1 263
Total financial assets	162 022	85 684	276 996	193 569	718 271
Liabilities					
Customer deposits and loans received	220 608	184 616	91 986	16 786	513 996
Lease liabilities	157	472	1 090	41	1 760
Other financial liabilities	3 438	24	0	0	3 462
Subordinated debt	149	374	1 985	8 653	11 161
Total financial liabilities	224 352	185 486	95 061	25 480	530 379
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	38 414	0	0	0	38 414
Financial guarantees	4 161	0	0	0	4 161
Total on-balance-sheet and off-balance-sheet liabilities	266 927	185 486	95 061	25 480	572 954
Duration gap of financial assets and financial liabilities	-104 905	-99 802	181 935	168 089	145 317

Market risk management

Market risk arises from the Group's trading and investment activities in the interest, currency and equity markets. Market risk arises from changes in interest rates, currency exchange rates and prices of financial assets. The acceptance of market risk is controlled by using risk limits. Different factors influencing market risks are monitored on a daily basis. The primary market risk bearing assets in the Group are investments in bonds. The volume of the bond portfolio decreased in total by 2019, a more detailed overview is given in Note 10. The average maturity of the portfolio has increased, but the total market risk has decreased, the risk arises primarily from bonds quoted in USD.

The market risk of the portfolio of bonds is mainly caused by the maturity date and possible change in the interest rates. The 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 31.12.2020 was 16 thousand euros (31.12.2019: 41 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 31.12.2020 was 60 thousand euros (2019: 164 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 comprehensive income, remaining constant for all other variables, the impact amount is 6 thousand euros (2019: 16 thousand euros).

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

31.12.2020	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	1 501	0	8	1 509
Total financial liabilities	763 860	2 357	1 209	767 426
Net position	77 947	4	56	78 007

31.12.2019	EUR	USD	Other	Total
Assets				
Cash and cash equivalents	120 658	796	841	122 295
Debt securities at fair value through other comprehensive income	1 409	2 652	0	4 061
Loans and advances to customers	460 460	0	0	460 460
Equity instruments at fair value through other comprehensive income	13	0	0	13
Other financial assets	961	184	105	1 250
Total financial assets	583 501	3 632	946	588 079
Liabilities				
Customer deposits and loans received	502 229	3 612	690	506 531
Subordinated debt	7 064	0	0	7 064
Lease liabilities	1 725	0	0	1 725
Other financial liabilities	3 350	0	112	3 462
Total financial liabilities	514 368	3 612	802	518 782
Net position	69 133	20	144	69 297

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.

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

31.12.2020	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets exposed to interest rate risk					
Balances with central banks	136 719	0	0	0	136 719
Loans and advances to credit institutions	7 651	200	0	0	7 851
Debt securities at fair value change through other comprehensive income	3 011	0	0	0	3 011
Loans and advances to customers, gross	375 632	305 568	0	0	681 200
Total Financial assets exposed to interest rate risk	523 013	305 768	0	0	828 781
Interest-bearing liabilities					
Customer deposits and loans received	437 442	216 857	94 257	6 241	754 797
Subordinated debt	0	0	0	7 000	7 000
Total interest-bearing liabilities	437 442	216 857	94 257	13 241	761 797
Exposure to interest rate risk duration gap	85 571	88 911	-94 257	-13 241	66 984

Volume of floating rate loans which are IBOR dependent as of 31.12.2020 was 556 582 thousand euros.

31.12.2019	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets exposed to interest rate risk					
Balances with central banks	97 923	0	0	0	97 923
Loans and advances to credit institutions	2 452	400	0	0	2 852
Debt securities at fair value change through other comprehensive income	0	0	4 061	0	4 061
Loans and advances to customers, gross	275 465	192 072	145	0	467 682
Total Financial assets exposed to interest rate risk	375 840	192 472	4 206	0	572 518
Interest-bearing liabilities					
Customer deposits and loans received	219 691	198 914	77 903	7 577	504 085
Subordinated debt	0	0	0	7 000	7 000
Total interest-bearing liabilities	219 691	198 914	77 903	14 577	511 085
Exposure to interest rate risk duration gap	156 149	-6 442	-73 697	-14 577	61 433

Interest rate risk management entails the analysis of the interest rate risk of all the Group's assets and liabilities and the management of duration. At least once a year the assessment of interest risk of the bank portfolio is done. The table below 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:

31.12.2020	EUR	USD	Total
Change in interest income	4 691	0	4 691
Change in interest expense	2 065	9	2 074
Change in net interest income	2 626	-9	2 617

31.12.2019	EUR	USD	Total
Change in interest income	3 206	0	3 206
Change in interest expense	1 339	14	1 353
Change in net interest income	1 867	-14	1 853

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 2 617 thousand euros (1 853 thousand euros 31.12.2019) at the balance sheet date, while the impact of the 100 bp interest rate decrease was 1 301 thousand euros (617 thousand euros 31.12.2019). 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 31.12.2020 was 1 580 thousand euros and the impact of a decrease of 100 basis points was 5 874 thousand euros, corresponding figures as at 31.12.2019 were 646 thousand euros and 3 618 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. Information security and compliance risks are managed with the most important sub-types of operational risk and 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 bond yield curve or counterparty credit risk) are Bloomberg and Reuters.
Level 3 – inputs for the asset or liability that are not based on observable market information (unobservable inputs).

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 31.12.2020 was 0,4% higher (2 700 thousand euros) than their carrying amount and the fair value of customer deposits corresponds to their carrying amount.
As at 31.12.2019 the fair value of loans and advances was 0,2% higher (993 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
incl. private individuals	-	-	368 739	368 739	365 666
incl. legal entities	-	-	304 554	304 554	304 927
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	-	-	1 509	1 509	1 509
Subordinated debt	-	-	7 064	7 064	7 064
Total of financial liabilities at amortized cost	-	757 835	9 591	767 426	767 426

31.12.2019	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets at fair value through other comprehensive income					
Debt securities at fair value through other comprehensive income	4 061	-	-	4 061	4 061
Equity instruments	-	13	-	13	13
Total of financial assets at fair value through other comprehensive income	4 061	13	-	4 074	4 074
Investment property	-	-	594	594	594
Financial assets at amortized cost					
Cash and cash equivalents	122 295	-	-	122 295	122 295
Loans and advances to customers	-	-	461 453	461 453	460 460
incl. private individuals	-	-	266 229	266 229	264 998
incl. legal entities	-	-	195 224	195 224	195 462
Other financial assets	-	-	1 263	1 263	1 263
Total of financial assets at amortized cost	122 295	-	462 716	585 011	584 018
Financial liabilities at amortized cost					
Customer deposits and loans received	-	506 531	-	506 531	506 531
incl. private individuals	-	338 137	-	338 137	338 137
incl. legal entities	-	165 693	-	165 693	165 693
incl. credit institutions	-	2 701	-	2 701	2 701
Lease liabilities	-	-	1 725	1 725	1 725
Other financial liabilities	-	-	3 462	3 462	3 462
Subordinated debt	-	-	7 064	7 064	7 064
Total of financial liabilities at amortized cost	-	506 531	12 251	518 782	518 782

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

The following attributes are used by expert appraisals for the determination of fair value of investment property:

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

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

Market approach is based on analysis to compare the appraised asset to sold assets of similar nature. The comparison determines differences between the appraised asset and sold assets of similar nature and then uses the results to adjust the prices of sold assets and determine the value of the appraised asset. In certain situations, it is not possible to only rely on one approach and therefore the methods must be combined. A valuation specialist uses one to three valuation approaches (or combination thereof) to carry out the appraisal. Typically, multiple different results are obtained when several approaches are used, which are then adjusted into the valuation through weighing.

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

31.12.2020	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			

31.12.2019	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 31.12.2020 was 6 757 thousand euros (31.12.2019: 6 757 thousand euros). As at 31.12.2020 and 31.12.2019 goodwill was tested for impairment. Value-in-use calculations are based on following assumptions:

- prognosis period 6 years (2019: 6 years)
- estimated growth in the volume of loan portfolio is 10-13% per year (2019: 10-14%)
- average increase in net income is 10% per year (2019: 10%)
- increase in expenses is 9% per year (2019: 8%)
- average loan impairment loss is 3,2-3,7% per year (2019: 3,3-3,5%)
- cost of capital of 15% is used as cash flows discount rate (2019: 15%)
- terminal growth rate used is 2% (2019: 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 up to 2% (2019: 2%)
- increase in expenses 18% (2019: 18%)
- loan impairment losses 4,7% (2019: 4,2-5,2%)
- 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.

In June 2017 the bank acquired 49% minority share in subsidiary Krediidipank Finants AS, becoming therefore owner of 100% of the shares, amount of the transaction was 2 058 thousand euros. 2 October 2017 AS Krediidipank Finants transferred all its assets and liabilities to Coop Finants AS, the business activities continue under the name of Coop Finants AS.

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. At the end of 2019 the new business line insurance brokerage was added, which 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 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 impairment losses and income tax	5 092	-1 186	8 734	352	-699	0	12 293
Impairment losses (-) or reversals (+)	-1 494	322	-3 212	-305	-100	0	-4 789
Income tax expense	-245	0	0	0	0	0	-245
Profit of the year	3 353	-864	5 522	47	-799	0	7 259

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

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 liabilitites	303	295	85	95	191	-197	772

Fee and commission income allocation

2020, in thousands of euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other	Elimina-tion	Total
Fees on card transactions	196	482	691	0	0	0	1 369
Monthly fees on cards	10	29	854	0	0	0	893
Account opening and management fees	102	656	0	0	0	0	758
Bank transfer fees	119	132	0	0	0	0	251
Gains from foreign exchange transactions	26	8	0	0	26	0	60
Other fee and commission income	114	85	20	133	4	0	356
Total fee and commission income	567	1 392	1 565	133	30	0	3 687

Segment profits in 2019, in thousands of euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Interest income	7 782	6 475	10 017	2 280	1 744	-2 720	25 578
Incl. external income	7 217	5 835	10 017	2 280	229	0	25 578
Incl. internal income	565	640	0	0	1 515	-2 720	0
Interest expenses	-2 010	-2 501	-867	-839	-1 392	2 720	-4 889
Net interest income	5 772	3 974	9 150	1 441	352	0	20 689
Commission income	712	1 210	1 630	99	74	0	3 725
Commission expense	-396	-686	-260	-11	0	0	-1 353
Net commission income	316	524	1 370	88	74	0	2 372
Other operating income	121	141	360	114	-78	0	658
Net income	6 209	4 639	10 880	1 643	348	0	23 719
Operating expenses	-3 828	-6 295	-3 935	-1 626	-577	0	-16 261
Profit before impairment losses and income tax	2 381	-1 656	6 945	17	-229	0	7 458
Impairment losses (-) or reversals (+)	-556	461	-1 600	-236	0	0	-1 931
Income tax expense	5	-5	0	0	0	0	0
Profit of the year	1 830	-1 200	5 345	-219	-229	0	5 527

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

Assets and liabilitites as at 31.12.2019, in millions of euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Loan portfolio	158	211	59	63	174	-205	460
Other assets	43	51	26	18	13	0	151
Total assets	201	262	85	81	187	-205	611
Total liabilitites	170	229	74	69	185	-205	522

Fee and commission income allocation

2019, in thousands of euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other	Elimina-tion	Total
Fees on card transactions	222	397	726	0	0	0	1 345
Monthly fees on cards	1	40	865	0	0	0	906
Account opening and management fees	118	550	0	0	0	0	668
Bank transfer fees	223	131	0	0	0	0	354
Gains from foreign exchange transactions	99	14	0	0	33	0	146
Other fee and commission income	87	79	39	99	2	0	306
Total fee and commission income	750	1 211	1 630	99	35	0	3 725

Note 5 Net interest income

	2020	2019
Interest income calculated using effective interest method:		
Consumer loans and hire-purchase loans	12 156	10 017
Loans to entities	11 166	7 181
Loans to private individuals	7 928	5 836
Bonds	100	225
Interest income on liabilities	7	36
Other assets	2	3
Other similar interest income:		
Leasing	3 281	2 280
Total interest income	34 640	25 578
Customer deposits and loans received	-5 306	-4 140
Subordinated debt	-497	-458
Interest expense on assets	-448	-270
Lease liabilities	-18	-21
Total interest expenses	-6 269	-4 889
Net interest income	28 371	20 689

Note 6 Fee and commission income

	2020	2019
Fees on card transactions	1 369	1 345
Monthly fees on cards	893	906
Account opening and management fees	758	668
Bank transfer fees	251	354
Gains from foreign exchange transactions	60	146
Other fee and commission income	356	306
Total fee and commission income	3 687	3 725
Charges on card transactions	-1 128	-890
Bank transfer fees	-219	-233
Other fee and commission expense	-243	-230
Total fee and commission expense	-1 590	-1 353
Net fee and commission income	2 097	2 372

In 2020, the Group earned 88% of fee and commission income from Estonian residents and 12% from residents of other countries (mostly EU countries). In 2019, 89% of fee and commission income was earned from Estonian residents and 11% from residents of other countries. All fee and commission income are recognized point in time.

Note 7 Payroll expenses

	2020	2019
Wages and salaries	-8 287	-7 367
Social tax, unemployment insurance premiums	-2 798	-2 513
Total	-11 085	-9 880

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

Note 8 Operating expenses

	2020	2019
Marketing expenses	-945	-1 006
Short-term leases	-239	-304
Administration of information systems	-1 334	-889
Office expenses	-421	-435
Services purchased	-430	-474
Contributions to Deposit Guarantee Fund	-364	-273
Training and travel expenses	-154	-179
Financial supervision fee instalments	-142	-139
Legal services, state fees	-84	-79
Transport expenses	-44	-58
Membership fees	-30	-21
Insurance	-101	-44
Other operating expenses	-752	-676
Total	-5 040	-4 577

Note 9 Cash and cash equivalents

	31.12.2020	31.12.2019
Cash	26 199	21 531
Mandatory reserve at the central bank *	6 111	3 893
Demand deposits at central bank	130 589	94 019
Demand deposits at credit institutions and other financial institutions	7 651	2 452
Term deposits at credit institutions *	200	400
Total	170 750	122 295

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

Term deposits with credit institutions are held as collateral for transactions. 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 31.12.2020 was 1% (31.12.2019: 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

	31.12.2020	31.12.2019
Government debt securities	1 249	1 398
Debt securities of other non-financial companies	1 762	2 663
Total of debt securities	3 011	4 061
Shares of other non-financial companies	80	13
Total of equity instruments	80	13
Total of financial investments	3 091	4 074

All debt securities and equity instruments in amount of 13 thousand euros are recognized at fair value through changes in other comprehensive income. Listed equity instruments in amount of 67 thousand euros are recognized at fair value through profit or loss.

Note 11 Loans and advances to customers

	31.12.2020	31.12.2019
Total receivables from private individuals	370 649	268 329
incl. consumers loans	70 881	62 218
incl. lease financing	37 307	26 424
incl. mortgage loans and other loans	262 461	179 687
Total receivables from legal entities	308 687	197 471
incl. lease financing	47 104	38 127
incl. other loans to legal entities	261 583	159 344
Total receivables	679 336	465 800
Loss allowances of loans and advances	-8 743	-5 340
Total	670 593	460 460

Finance lease receivables	31.12.2020	31.12.2019
Gross investment – lease payments receivable, incl	92 399	71 070
up to 1 year	28 829	23 180
1-2 years	19 219	13 420
2-3 years	18 197	12 939
3-4 years	15 523	11 890
4-5 years	10 576	9 515
over 5 years	55	126
Future interest income	-7 480	-6 044
up to 1 year	-2 980	-2 383
1-2 years	-2 096	-1 624
2-3 years	-1 398	-1 139
3-4 years	-758	-654
4-5 years	-247	-237
over 5 years	-1	-7
Finance lease net investment *	84 919	65 026
up to 1 year	25 849	20 797
1-2 years	17 123	11 796
2-3 years	16 799	11 800
3-4 years	14 765	11 236
4-5 years	10 329	9 278
over 5 years	54	119

* finance lease receivables gross investment includes accrued interest in the amount of 167 (31.12.2019: 142) thousand euros and contract fees in the amount of -675 (31.12.2019: -617) thousand euros.

Loan allowances	31.12.2020	31.12.2019
Balance at the beginning of the reporting period	-5 340	-3 838
Allowances during the reporting period	-4 851	-2 460
Derecognised during reporting period due to sale or write-off of loans	1 448	958
Balance of allowance at the end of the reporting period	-8 743	-5 340

Note 12 Other financial assets and other assets

	31.12.2020	31.12.2019
Financial assets		
Cash in transit	0	443
Security deposits	300	314
Amounts receivable	355	305
Other receivables	344	201
Total financial assets*	999	1 263
Other assets		
Properties under construction	2 344	2 489
Real estate acquired for sale	4 119	4 060
Other assets	271	207
Total assets held for sale	6 734	6 756
Prepayment for financial supervision	161	131
Settlements with the Tax and Customs Board	386	351
Other prepayments	570	683
Total other assets	1 117	1 165
Investment property	594	594
Total	9 444	9 778

*Financial assets are of good credit quality and there are no indications of impairment.

Note 13 Investment property

	31.12.2020	31.12.2019
Carrying amount at the beginning of the period	594	904
Sold during period	0	-290
Change in fair value	0	-20
Carrying amount at the end of the period	594	594
incl. investment property earning rental income	140	594

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 at 31.12.2018						
Incl. acquisition cost	0	136	3 608	0	4 113	7 857
Incl. depreciation	0	-4	-1 275	0	-1 824	-3 103
Carrying amount 31.12.2018	0	132	2 333	0	2 289	4 754
IFRS 16 initial recognition	1 768	0	0	0	0	1 768
Carrying amount at 01.01.2019	**1 768**	**132**	**2 333**	**0**	**2 289**	**6 522**
Acquisition and additions	576	0	710	174	1 861	3 321
Termination of lease contracts	-96	0	0	0	0	-96
Write-off at carrying amount	0	0	-5	0	0	-5
Depreciation charged	-526	-3	-663	-3	-609	-1 804
Carrying amount at 31.12.2019						
Incl. acquisition cost	2 248	136	4 105	174	5 942	12 605
Incl. depreciation	-526	-7	-1 730	-3	-2 401	-4 667
Carrying amount 31.12.2019	1 722	129	2 375	171	3 541	7 938

	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

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.

Note 15 Lease liabilities

The Group is renting various office spaces. Leases usually have a term of up to 5 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. As of 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.

	2020	2019
Beginning balance 01.01	1 725	1 768
Cash flows	-658	-516
New leases	29	569
Ended leases	-78	-96
Ending balance 31.12	1 018	1 725

In the statement of comprehensive income, the following amounts are recognized in relation to lease agreements:

	2020	2019
Interest expense (included in finance cost)	18	21
Expense relating to short-term leases (included in operating expenses)	108	134
Expense relating to leases of low-value assets (included in operating expenses)	32	27

Note 16 Customer deposits and loans received

	31.12.2020	31.12.2019
Private individuals	431 343	338 137
Legal entities	326 492	165 693
Credit institutions	0	2 701
Total	757 835	506 531

Demand deposits	302 179	152 189
Term deposits	435 363	327 431
Issued debt securities	9 712	14 103
Special purpose loans	10 581	12 808
Total	757 835	506 531

Issued debt securities are non-listed bonds with the maturity in 2021.

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 31.12.2020, the loan balance is 6,6 million euros. The remaining special-purpose loans have been received from the Rural Development Foundation.

Note 17 Other financial liabilities and other liabilities

	31.12.2020	31.12.2019
Financial liabilities		
Cash in transit	173	1 248
Trade payables	409	368
Settlements with cooperatives	357	444
Other financial liabilities	570	1 402
Total financial liabilities	1 509	3 462
Other liabilities		
Payables to employees	1 812	1 640
Tax liabilities	539	380
Provisions	554	455
Deferred liabilities	364	112
Other advance payments	421	174
Other liabilities	1 226	408
Total other liabilities	4 916	3 169
Total	6 425	6 631

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
Liabilities as at 31.12.2019				7 000
Liabilities as at 31.12.2020				7 000

Accrued interest liability as at 31.12.2019	64
Interest expense calculated during 2020	497
Paid out interest expense during 2020	-497
Accrued interest liability as at 31.12.2020	64

Note 19 Equity

Transactions with shares	Time	Number of shares	Share price, in euros	Share capital, in thousands of euros	Share premium, in thousands of euros
Share capital as at 31.12.2018		58 385 195		38 199	175
Transaction between share capital and share premium		0		175	-175
Paid in share capital	June 2019	3 834 650	1.05	4 026	0
Paid in share capital	Dec 2019	27 236 321	1.15	18 560	11 797
Share capital as at 31.12.2019		89 456 166		60 960	11 797
Paid in share capital	Nov 2020	1 167 700	0.73	796	264
Share capital as at 31.12.2020		90 623 866		61 756	12 061

In 2019 the share capital was raised 2 times. In December, 2019, initial public offering was carried out and the shares were listed on stock exchange. The share capital issue in 2020 was related to exercising of employee share options. The shares were fully paid in cash. As at 31.12.2020 the share capital of the bank is 61 756 thousand euros, which was divided into 90 623 866 ordinary shares of no par value. The carrying value of one share is 0.68 euros (31.12.2019: 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 31.12.2020 amounted to 142 thousand euros (31.12.2019: 226 thousand). Related expenses in statement of profit and loss in 2020 were 123 thousand euros (2019: 123 thousand) and 207 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 2020. In 2020, the options for 1 167 700 shares were exercised with share price 0,7305 euros.

Transactions with options	Number of options
As at 31.12.2018	1 964 780
Granted	70 000
Forfeited	-20 000
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**

Date of issue	Expiry date	Share price	Number of options
February 2018	May 2021	0,7660	540 310
August 2018	September 2021	0,8057	90 000
January 2019	May 2022	0,8420	70 000
April 2020	April 2023	1,0100	845 000
Total			1 545 310

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

	31.12.2020	31.12.2019
Financial guarantees	10 545	4 161
Lines of credit and overdraft facilities	65 691	38 414
Total	76 236	42 575

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

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 2020, 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, the court has not yet made a decision. The amount of second claim is 17 thousand euros and the claim were partially satisfied in the amount of 9 thousand euros. The third claim is related to challenging the right of superficies taken as collateral of a loan (mortgage amount of 3 million euros).

As at 31.12.2020, a total of EUR 340 thousand plus default interest, was settled in favor of various Group companies as a result of court proceedings. At the same time, the Group had 322 thousand euros (including payment orders) in legal actions (66 thousand euros at the end of 2019), 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. 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 24,98% of shares.

Balances	31.12.2020	31.12.2019
Shareholders:		
Loans	4	58
Deposits	15 827	275
Members of the management board and supervisory board and their close relatives and related entities:		
Loans	458	167
Deposits	503	2 736

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

Transactions	31.12.2020	31.12.2019
Shareholders:		
Interest expenses	19	1
Members of the management board and supervisory board and their close relatives and related entities:		
Interest income of the reporting period	22	3
Interest expenses of the reporting period	6	10
Sale of other goods and services	4	2
Purchase of other goods and services	0	23
Salaries to members of the Management Board and Supervisory Board	639	537

Maximum termination benefits payable to members of the management board on a contingent basis is 237 thousand euros (31.12.2019: 175). Information on stock options issued to members of the Management Board is provided in Note 19.

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.

	31.12.2020	31.12.2019
Profit attributable to the owners of the parent (in thousands of.euros)	7 259	5 527
Weighted average number of shares (in thousands of units)	89 690	62 572
Basic earnings per share (euros)	0,08	0,09
Adjustments for calculation of diluted earnings per share – share options (in thousands of units)	2 197	2 015
Weighted average number of shares used for calculating the diluted earnings per share (in thousands of units)	91 887	64 587
Diluted earnings per share (euros)	0,08	0,09

Note 24 Events after balance sheet date

Although the effects of the health crisis eased and the economy became more active in the third and fourth quarters, we are ready for further negative changes in the economic environment, given the continued high infection rates with additional restrictions by the state. We continuously monitor the impact on the quality of the credit portfolio and new sales. The market is also characterized by a decline in loan demand in certain customer segments, but we will continue to implement the current strategy by offering customers an individual approach and flexible solutions. 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 will issue subordinated bonds in March 2021. According to the prospectus, the total volume of the bond programme is 20 million euros, under which it is possible to issue bonds in several series over a period of 12 months. The volume of the first series is planned to be 8 million euros with the possibility of increasing to 10 million euros. The bonds are issued at an interest rate of 5.5% and have a maturity of 10 years. The bonds will be included in the bank's Tier 2 capital.

Note 25 Separate financial statements of parent company

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

	2020	2019
Interest income calculated using effective interest method	23 765	16 905
Interest and similar expense	-6 272	-4 892
Net interest income	17 493	12 013
Fee and commission income	1 993	1 998
Fee and commission expense	-1 366	-1 105
Net fee and commission income	627	893
Rental income from investment properties	7	11
Handling of overdue receivables	109	149
Other income	1 014	604
Net gains/losses from financial assets measured at fair value	-183	7
Net other income	947	771
Payroll expenses	-9 603	-8 683
Operating expenses	-3 873	-3 342
Depreciation	-2 249	-1 549
Total operating expenses	-15 725	-13 574
Net profit before impairment costs	3 342	103
Impairment costs	-1 314	-381
Net profit/loss before income tax expense	2 028	-278
Income tax expenses	-245	0
Net profit/ loss for the financial year	1 783	-278
Other comprehensive income/loss		
Debt instruments measured at fair value through other comprehensive income	-19	155
Comprehensive income/loss for the financial year	1 764	-123

Statement of Financial Position of parent company

	31.12.2020	31.12.2019
Assets		
Cash and cash equivalents	170 677	122 256
Debt securities at fair value change through other comprehensive income	3 011	4 061
Equity instruments at fair value through profit or loss	67	0
Equity instruments at fair value through other comprehensive income	13	13
Loans and advances to customers	652 218	447 016
Investments in subsidiaries	16 317	16 046
Other financial assets	521	845
Other assets	875	793
Investment property	213	213
Right-of-use assets	1 017	1 722
Tangible assets	2 275	2 418
Intangible assets	3 746	2 123
Total assets	850 950	597 506
Liabilities		
Customer deposits and loans received	760 115	508 455
Lease financial liabilities	1 018	1 725
Other financial liabilities	980	1 594
Other liabilities	2 835	2 470
Subordinated debt	7 064	7 064
Total liabilities	772 012	521 308
Shareholders' equity		
Share capital	61 756	60 960
Share premium	12 061	11 797
Statutory reserve capital	2 802	2 526
Retained earnings	2 195	688
Other reserves	124	227
Total shareholders' equity	78 938	76 198
Total liabilities and shareholders' equity	850 950	597 506

Statement of Cash Flows of parent company

	2020	2019
Cash flows from operating activities		
Interest and other similar income received	23 154	16 509
Interest paid	-5 680	-4 089
Fees and commissions received	1 993	1 998
Fees and commissions paid	-1 366	-1 105
Other received income	1 130	778
Salaries paid	-9 356	-8 491
Other operating expenses paid	-3 873	-3 342
Income Tax paid	-137	
Total cash flows from operating activities before changes in operating assets and liabilities	5 865	2 258
Change in operating assets:		
Loan receivables from customers	-205 888	-126 359
Change of mandatory reserve in central bank	-2 218	-1 151
Other assets	558	-943
Change in operating liabilities:		
Change in client deposits and loans received	251 068	121 066
Other liabilities	-569	-556
Net cash flows from operating activities	48 816	-5 685
Cash flows from investing activities		
Acquisition of property, plant and equipment	-3 166	-1 895
Sale of property, plant and equipment	50	0
Sale and redemption of debt instruments	782	4 999
Increase of subsidiary's equity	-271	-340
Acquisition of a minority interest in a subsidiary	0	264
Total cash flows from investing activities	-2 605	3 028
Cash flows from financing activities		
Contribution to share capital	853	34 383
Emission of subordinated bonds	0	2 000
Repayment of principal of lease liabilities	-658	-516
Total cash flows from financing activities	195	35 867
Effect on exchange rate changes on cash and cash equivalents	-3	-7
Change in cash and cash equivalents	46 403	33 203
Cash and cash equivalents at beginning of the period	117 963	84 760
Cash and cash equivalents at end of the period	164 366	117 963
Cash and cash equivalents balance is comprised of:	164 366	117 963
Cash on hand	26 199	21 531
Demand deposits in central banks	130 589	94 019
Demand and short-term deposits in credit institutions	7 578	2 413

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 31.12.2018	38 199	175	2 288	103	-154	1 204	41 815
Increase of share capital on account of share premium	175	-175	0	0	0	0	0
Paid in share capital	22 586	11 797	0	0	0	0	34 383
Change in reserves	0	0	238	0	0	-238	0
Share options	0	0	0	123	0	0	123
Net profit	0	0	0	0	0	-278	-278
Other comprehensive income	0	0	0	0	155	0	155
Total comprehensive income	0	0	0	0	155	-278	-123
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 income	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

Adjusted unconsolidated equity	
Book value of holding under control or significant influence	-16 317
Value of holdings under control or significant influence, calculated by equity method	34 946
Adjusted unconsolidated equity as at 31.12.2020	97 567

Management Board declaration

All data and supplementary information presented in the 2020 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 2020 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 2020 consolidated annual report of AS Coop Pank will be presented to the general meeting of shareholders for approval in April 2021. The previous 2019 consolidated annual report was approved by the general meeting of shareholders at 28.05.2020.

Margus Rink
Chairman of the Management Board

Kerli Lõhmus
Member of the Management Board

Heikko Mäe
Member of the Management Board

Arko Kurtmann
Member of the Management Board

Rasmus Heinla
Member of the Management Board

16.03.2021

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 2020, 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 16 March 2021.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include 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.

AS PricewaterhouseCoopers
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T: +372 614 1800, F: +372 614 1900, www.pwc.ee

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.

Independence

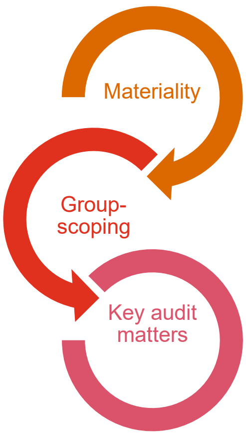
We are independent of the Company and of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities 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.

The non-audit services that we have provided to the Company and its subsidiaries in the period from 1 January 2020 to 31 December 2020 are disclosed in the Management report.

Our audit approach

Overview



Overall group audit materiality is EUR 975 thousand, which represents approximately 1% of net assets of the Group.

A full scope audit or an audit of specific balance sheet and income statement line items 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.

Translation note:

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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 975 thousand
How we determined it	Approximately 1% of net assets of the Group
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 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 2020 net carrying amount of loans and advances to customers amounted to EUR 670 593 thousand and related expected credit loss allowance to EUR 8 743 thousand. We focused on this area because management uses complex models with subjective inputs to assess the timing and the	We assessed whether the Group's accounting policies in relation to the impairment of loans and advances to customers complied with International Financial Reporting Standards 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:

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

- the completeness and accuracy of data used in the ECL calculations;
- the compliance of key inputs used in ECL calculation system with IFRS 9 methodology;
- the accuracy and compliance of 12-month and lifetime ECL calculations with IFRS 9 methodology;
- the accuracy and completeness of data used for staging of loans (including applying the criteria for determining significant increase in credit risk and definition of default);
- the internal assignment of credit risk grades, which serve as inputs into the ECL models;
- the correctness of information on collaterals and their values in the loan systems, which serve as an input into the ECL model; and
- the completeness of loans subject to stage 3 assessment and related ECL calculations.

We have assessed the reasonableness of key assumptions made by management, which serve as critical inputs in the ECL model, such as weights of different scenarios, point in time PD estimate, key forecasts of macroeconomic information.

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 balance sheet and income statement line items for aktsiaselts Martinoza (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.

Other information

The Management Board is responsible for the other information. The other information comprises the Management report, Corporate Governance Report, Social responsibility, Management Board declaration 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 and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

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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

Appointment and period of our audit engagement

We were first appointed as auditors of AS Coop Pank on 22 April 2014 for the financial year ended 31 December 2014. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for the Company, as a public interest entity, of 7 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

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

Evelin Lindvers
Auditor's certificate no.622

16 March 2021
Tallinn, Estonia

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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 2020 in the amount of 7 259 thousand euros as follows:

1. allocate 363 thousand euros to statutory reserve capital;
2. and 6 896 thousand euros to retained earnings.

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

Title	Economic activity based on EMTAK	Code	Sales income (in euros)
Finance activities	Credit institutions (separate)	64191	26 705 423
Finance activities	Credit institutions (consolidated)	64191	38 948 948

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