Coop | Pank

Annual Report

2022

General information

Business name	Public Limited Company (AS) Coop Pank
Registered	15.03.1992 in Tallinn
Legal address	Maakri 30, Tallinn 15014, Republic of Estonia
Commercial register number	10237832 (Commercial Register of the Republic of Estonia)
Date of first entry	19.08.1997
Phone	+ 372 669 0900
SWIFT/BIC	EKRDEE22
E-mail	info@cooppank.ee
Website	www.cooppank.ee
Auditor	AS PricewaterhouseCoopers
Commercial register number of the auditor	10142876 (Commercial Register of the Republic of Estonia)
Auditor's address	Tatari 1, Tallinn 10116
Balance sheet date of the financial statements	31.12.2022
Beginning and end of the financial year	01.01.2022 - 31.12.2022
Reporting currency	euro (EUR), in thousands

Members of the Supervisory Board:

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

Members of the Management Board:

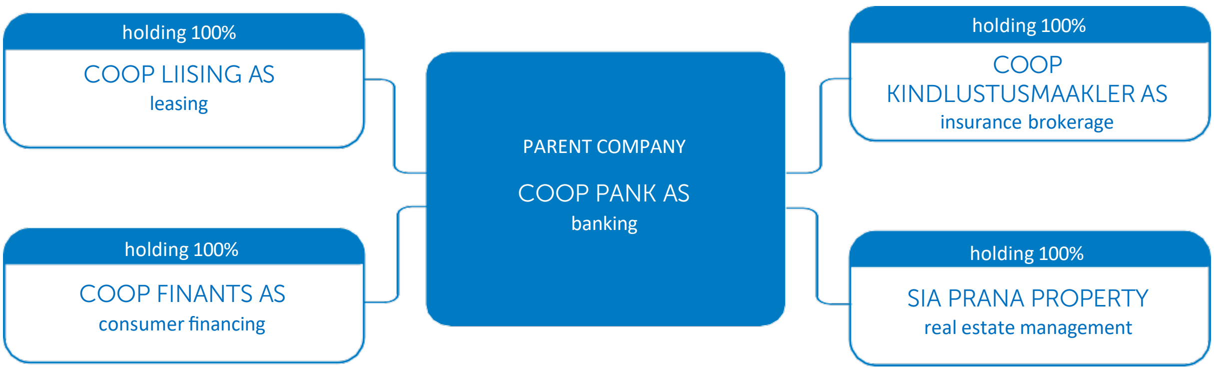
Margus Rink (Chairman), Paavo Truu, Heikko Mäe, Arko Kurtmann, Rasmus Heinla

Table of contents

Management report

The following companies were part of Coop Pank AS group (also used as "consolidation group", "the bank") as at 31.12.2022: Coop Pank AS, Coop Liising AS, Coop Finants AS, Coop Kindlustusmaakler AS and SIA Prana Property. The first four companies are registered in the Commercial Register of Republic of Estonia and SIA Prana Property in the Commercial Register of the Republic of Latvia.

STRUCTURE OF THE GROUP



Strategy

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

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

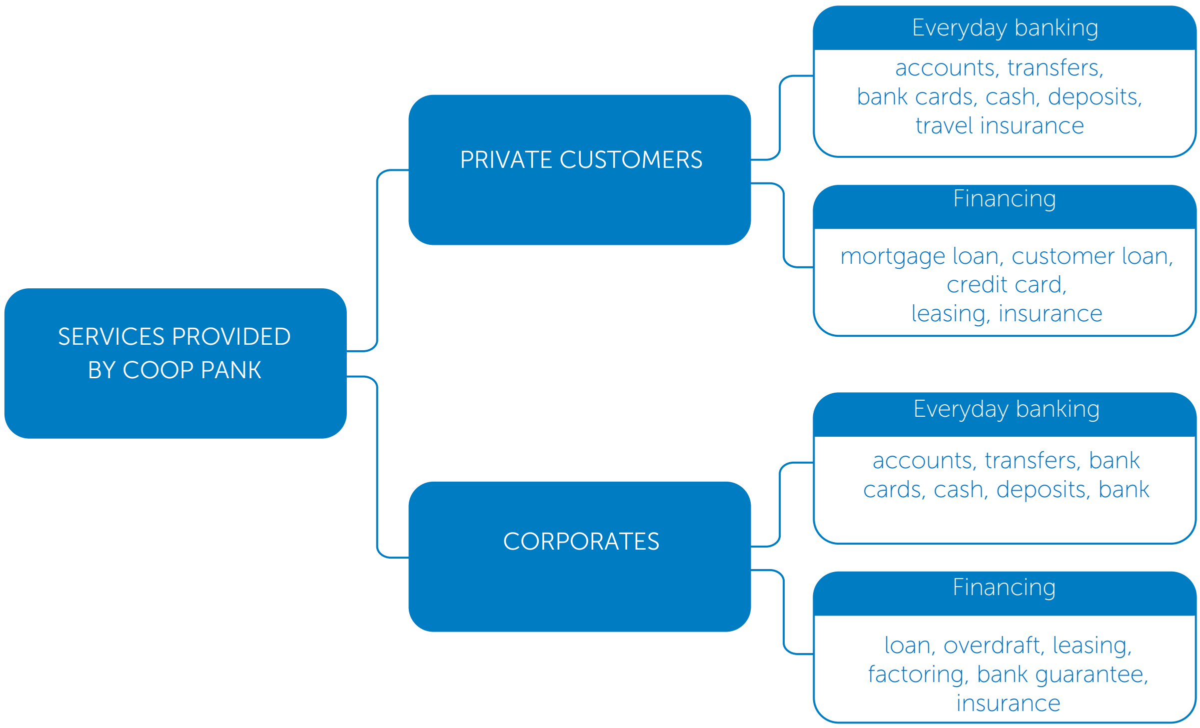
Everyday banking and financial services. Coop Pank sees its strengths and the resulting growth opportunities primarily in the provision of everyday banking (account, payments, bank card, cash, deposits) and financial services (mortgage loan, consumer loan, credit card, business loan, lease financing).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

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

Banking with a human face. At a time when the prevailing trend is digitalisation and service on electronic channels, Coop Pank is following the same path, but also differs by offering customers human contact – we have financial service staff working in bank branches (15 bank branches) and salespeople working in Coop stores (320 stores).

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

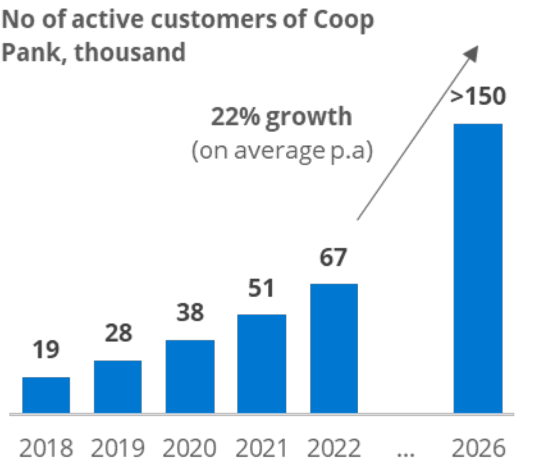
Integration of banking and retail. Thanks to the strategic partnership with Coop Eesti Keskühistu and its 18 member cooperatives, in addition to the usual sales and service channels (offices, internet banking, mobile banking), we can also offer financial services in 320 stores of Coop Eesti Keskühistu member associations all over Estonia. This is expressed through the Coop Sula service, i.e. the possibility to make a cash withdrawal from a bank account or a deposit to a bank account at cash registers of Coop stores. The customer also receives the cheapest prices in Coop Estonia stores when paying for purchases with a Coop Pank card.

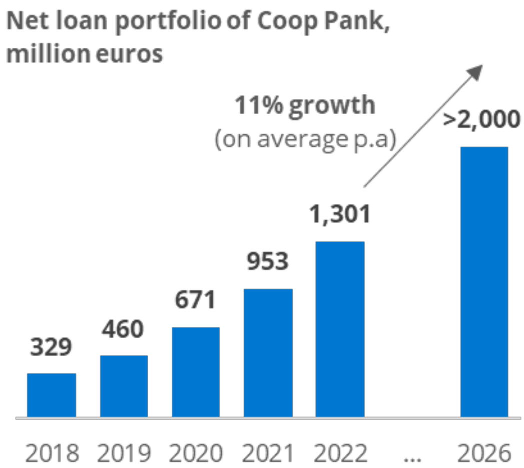


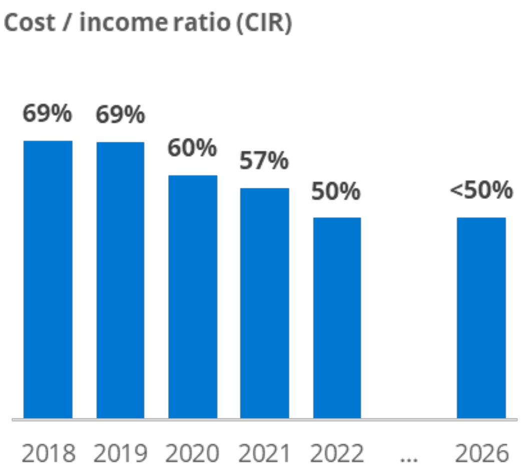
Targets

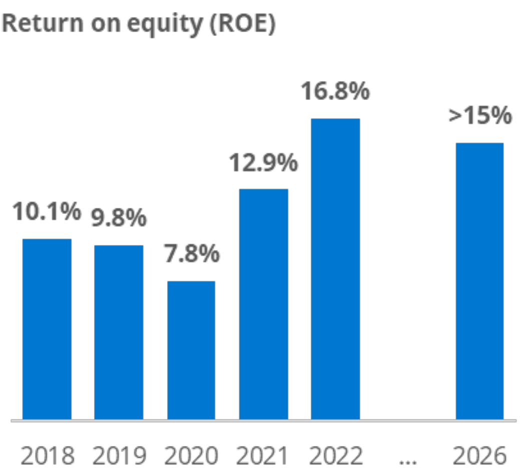
The mission of Coop Pank is to carry life forward in every corner of Estonia. For this, we give impetus to Estonian companies and help people realise their dreams both in the countryside and in the city. We believe that if Estonian entrepreneurs do well, the Estonian people and Estonia as a whole will do well too, and we want to contribute to that. The Estonian banking market and the outlook for the coming years favour banks based on domestic capital, which have a fast-growing ambition and a willingness respond quickly and flexibly to customer needs. During the last five years of operation (2018–2022), we have been able to grow the bank almost four-fold.

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









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

Operating environment

Main keywords describing operating environment in year 2022 are inflation, growth of interest rates and war in Ukraine. COVID-19 which dominated during previous years has not disappeared and regionally (in China for example) new outbreaks have happened, but globally it was overshadowed by other events and trends.

According to IMF's (International Monetary Fund) estimate[1], the world economy grew by about 3.4% in the year 2022. For the year 2023 IMF forecasts 2.9% of growth, which is lower than historical average but 0.2pp higher than IMF forecast published in October 2022. During the first half of the year, the world economy was influenced by a significant and wide-reaching increase in prices of commodities (incl. metals, timber, food and energy sources), whereas the growth of energy prices was steepest and had the strongest influence on inflation rates of most of the countries. Central banks all over the world (incl. the European Central Bank, US Federal Reserve and many national central banks) raised their main interest rates several times throughout the year with intentions to reduce money supply and therefore restrain inflation.

By the end of year 2022, prices of several commodities had decreased from the previous high levels. For example, Brent crude oil prices that reached levels above 120 dollars per barrel in 2022 came down to about 80 dollars per barrel by the end of the year. A similar change of trend happened in the European natural gas market where Dutch TTF gas futures prices grew to levels above 300 euros in 2022, but decreased to 80 euros by the end of the year.

2022 has been extremely volatile on stock markets and all major stock markets were declining during the year. The main stock indices declined heavily during first half of the year and showed somewhat more stable period or even slight recovery during last quarter. Major US stock indices Dow Jones, S&P500 and Nasdaq composite decreased by -7.0% to -30.0%, German DAX and Japanese Nikkei fell about -10.0% during a year.

The economical and political environment of Europe and rest of the World was influenced by full scale war of Russia against Ukraine which started on 24th of February 2022. This aggression was followed by comprehensive sanctions against Russian and Belarusian leaders and companies. The war has put additional pressure on growth of prices of energy sources but also to other commodities. Additionally the war caused massive waves of refugees to European countries include Estonia. By the end of the year there was no signs of end of the war but European countries and companies have been able to rearrange the supply chains and adjust consumption well enough to see the decline of energy souces and other commodities on the markets.

The Eurozone economy, which recovered quickly from the COVID-19 crisis in 2021, experienced strong setbacks in 2022. In particular, they were caused by the increase in the energy price, which led to the highest inflation in decades.Eurozone inflation rate reached 9.2%[2] in 2022 based on preliminary data. This is by far the fastest price increase since the beginning of the euro area. The acceleration in inflation is primarily reflected in the sharp rise in the price of fuel, gas and electricity. Inflation is also being accelerated by increased demand, which continues to outstrip supply in some sectors. With the goal to reduce price inflation European Central Bank (ECB) started to raise its base interest rates which have been negative for several years. During July-Dec 2022 ECB raised deposit facility rates in four occasions from level -0,5% to level 2,0% and is indicating the possibility to continue with additional increase during 2023. It has caused growth of rates of all monetary market instruments. As example 6-months Euribor, which is the base interest for most of corporate and mortgage lendings in Estonia, grew from level -0.5% to level 2,7% during the year.

The labor market situation has remained strong in 2022 and the consequences of economy slow down has not affected labor market yet. However, the measures taken by ECB to fight against inflation harm the growth of economy and may cause unemployment in eurozone.

Estonian gross domestig product (GDP) has declined by 0.5% according to estimates of Bank of Estonia[3] during 2022. The situation in economy was heavily dictated by inflation primarily led by growth of energy prices and which was highest in eurozone reaching more than 24.0% in third quarter. By December the pace of inflation

[1] https://www.imf.org/en/Publications/WEO/Issues/2023/01/31/world-economic-outlook-update-january-2023

[2] https://www.ecb.europa.eu/stats/macroeconomic_and_sectoral/hicp/html/index.en.html

[3] https://www.eestipank.ee/publikatsioonid/rahapoliitika-ja-majandus/2022/rahapoliitika-ja-majandus-42022

calmed down somewhat and reached 19.4% whereas food was contributing most to inflation instead of energy prices. The unemployment still remained at reasonably low level at 5.7% by the end of year according to Bank of Estonia estimates.

For the year 2023 Bank of Estonia expects real GDP growth 0.4%, inflation rate 9.3% and unemployment to reach 8.5% level.

Development of interest rates in Estonia is mainly led by ECB. ECB has indicated that in order to reduce inflation most probably they will continue with rising interest rates which brings along growth in other rates as well (incl. Euribor, bank deposits, bonds etc).

Managing Director´s Statement

We certainly couldn't have imaged 2022 would turn out the way it did when we made our forecasts a year ago. At the start of the year, we were overcoming the corona crisis and our expectations for the economic environment were moderately positive, but the war in Ukraine that started in February escalated the energy and commodity crisis, which in its turn accelerated the increase in the prices of goods and services. In a bid to curb the accelerating inflation, the European Central Bank (ECB) started to raise base interest rates again after an 11-year hiatus and did it four times over the year. As a result of the rise in base rates, the average interest rate of interbank money lending, the Euribor, also increased, making many loans for individuals and businesses more expensive than before. On the other hand, savers started to earn higher interest on their term deposits. All in all, these changes largely defined the priorities on the desks of bank managers.

Despite the challenging economic environment, Coop Pank managed to grow its business volumes by almost 40% in 2022, its sixth consecutive year of operations, and continue to execute its growth strategy.

Over the year, the number of the bank's customers increased by 32,400, up to 147,000. The number of actively billed customers increased by 16,000, up to 67,000. In order to ensure that Coop Pank continues to be easily accessible to all Estonians, we continued to serve our customers at 15 branches in 12 different Estonian cities. Having such a widely manned service channel is becoming an increasingly bigger competitive advantage for us. At the same time, we continued to develop our digital banking channels and updated our mobile app to make it even more user-friendly and increase the number of functions. The update for the mobile app improved its reliability, design and capacity for the addition of new functions, whilst retaining its previous ease of use.

We contributed to increasing people's confidence during a difficult time. In order to do this, we started offering lease payment insurance in addition to the already successfully introduced small loan insurance, which protects private car leasing customers from payment difficulties if they lose their job or capacity for work. The monthly premium-based travel insurance, which protects all family members and was previously only offered to users of the Rändrahn banking plan, became available to users of the Rahn and Väikerahn banking plans as well.

We strive to make getting a home easier for people who live outside bigger centres and are therefore the only bank operating in Estonia that accepts the guarantee of KredEx for acquiring a home in a rural area. In order to reduce the self-financing requirement, we also accept all other KredEx guarantees and co-financing from the Rural Development Foundation, which is also meant for people setting up their homes in rural areas.

At the beginning of the year, we responded to the energy crisis and the resulting sharp rise in energy prices by offering our private customers an energy loan to help pay their utility bills. In the second half of the year, we complied with the requests of our customers and increased the maximum amount of unsecured small loans to 25,000 euros, while extending the repayment period to 10 years, which are the most flexible terms and conditions among Estonian universal banks today.

In late 2022, we refreshed our communication language by launching the bank's image campaign, which focused on our customers. The campaign features Estonian people and entrepreneurs telling their success stories who also confirm, based on their personal experience, that Coop Pank listens to its customers, takes local conditions into account, is flexible and acts quickly.

In addition to Estonians, we were also a popular choice for Ukrainian war refugees who arrived in Estonia last year. Over the year, we have accepted more than 4,000 Ukrainian citizens as our customers to whom we offer free settlement options. Coop Pank and the regional cooperatives of Coop supported the operations of the Red Cross in Ukraine with a million euros to help people affected by the war with basic necessities.

2022 can be considered the year the green transition started at Coop Pank. We started offering green leasing to our customers, allowing them to get better terms and conditions for purchasing electric and hybrid cars. In order to improve our internal processes, we hired an ESG project manager, under whose leadership we became the first bank in Estonia to receive a B-rating from the Carbon Disclosure Project (CDP), an international environmental impact assessment organisation, which confirms that we're a well-managed company in terms of environmental impact. In this context, we've started assessing the carbon footprint of our organisation and loan portfolio, and joined the Partnership for Carbon Accounting Financials (PCAF). We're also a member of the Responsible Business Forum of Estonia, where we've been the holders of the Bronze Label since 2022. In 2022, we also became a member of the United Nations Environment Programme Finance Initiative (UNEP FI) and approved the Responsible Banking Principles, which make the bank's business strategy comply with the UN Sustainable Development Goals and the objectives of the Paris Climate Agreement to increase our positive impact on society. We take bold steps to manage our climate impact and strive to become a climate neutral bank by 2050 at the latest.

In terms of business performance, raising deposits was a major challenge throughout the year. In an environment of higher prices for essential goods and fuels as well as rising borrowing rates, customers tapped into earlier savings and the growth of deposits on the market slowed down sharply. This, in its turn, led to even more competition for deposits on the Estonian banking market and the financing costs of banks increased. Coop Pank's deposits amounted to 1.5 billion euros as at the end of 2022 – an increase of 409 million euros, i.e. 37%, over the year. Demand deposits grew by 38% over the year and term deposits by 36%.

Although the war, supply difficulties and inflation increased uncertainty about the future for both private customers and businesses during the year, demand for financial products remained high until autumn, when we started to see a decline in new loan applications. Over the year, our loan portfolio grew by 347 million euros (+36%) to 1.3 billion euros. In terms of business lines, the biggest growth throughout the year was achieved by the business loan portfolio, which increased by 157 million euros (+37%) and the home loan portfolio, which increased by 140 million euros (+38%). The leasing portfolio increased by 32 million euros (+32%) and the consumer financing portfolio by 19 million euros (+27%). Over a number of years, the price of money turned positive, allowing banks to earn additional interest income. We expect a similar impact to continue in the banking sector in 2023. The quality of the portfolio remained at a very good level throughout the year: the share of the portfolio in debt at the end of the year was only 1.5%. However, we're seeing a deterioration in key performance indicators in the financial statements of our customers and have therefore increased provisions for potential loan losses to 5.2 million euros – an increase of 114% compared to last year.

The continuing growth in the business volumes of Coop Pank has led to the expected scale effect, which means that our revenues are growing faster than our costs. In 2022, the bank earned revenues of 55 million euros, an annual increase of 39%, and its operating expenses amounted to 27 million euros, an annual increase of 21%. Our key performance indicators improved over the year as a result of this: profit increased to 20.4 million euros, or 51%, the cost/income ratio fell to 50% and the return on equity increased to 17%.

Despite the uncertain economic environment, we raised capital to continue the bank's growth in 2022 on three occasions: in spring we issued fixed-term subordinated bonds, in summer we organised a private placement of perpetual subordinated bonds and in autumn we issued new shares. All instances of raising capital proved to be successful and investors who showed high levels of trust in Coop Pank invested 46.4 million euros in the bank.

Last year, Coop Pank paid dividends to shareholders for the first time. By doing this, we kept the promise made to the shareholders during the IPO: to pay 25% of the pre-tax profit of the consolidation group as dividends starting in 2021. In 2022, the number of our shareholders increased by 8,200 and at the end of the year Coop Pank had 36,045 shareholders.

In 2022, we delivered on all the targets we'd set ourselves and kept the promises we made to investors, and we'll continue with the strategy that has brought us success so far. Our strategic goal is to increase the bank's market share in Estonia to 10% and the loan portfolio to at least 2 billion euros by the beginning of 2027, and thereby reach a position where one in ten Estonians settles with Coop Pank – this means at least 150,000 settling customers. As a result of the growth in business volumes, the bank aims to operate with increasing efficiency (cost/income ratio below 50%) and to offer shareholders a decent return on equity (ROE of at least 15%). We already achieved and even exceeded these levels in 2022.

I would like to thank all the customers, shareholders and employees of Coop Pank for a great year! Our goal is to build Coop Pank to be everyone's success story. A success story for customers. A success story for shareholders. A success story for employees.

Margus Rink

2022 Annual Report

		Annual growth
Customers	147,000	+28%
Deposits	1.5 bn €	+37%
Loan portfolio	1.3 bn €	+36%
Profit	20.4 m €	+51%

Increase in the number of customers

By the end of 2022 Coop Pank had 147,000 customers. In a year, the number of customers had increased by 32,400. Of these, 29,400 were private customers and 3,000 were business customers.

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

Increase in profit

Coop Pank's profits reached 20.4 million euros in 2022, growing 51% over the year.

Increase in loans

Coop Pank's loan portfolio increased by 36% over the year, reaching 1.3 billion euros by the end of 2022.

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

Increase in deposits

Coop Pank's deposits increased by 37% over the year, reaching 1.5 billion euros by the end of 2022.

Demand deposits grew by 38% and term deposits by 36% over the year.

Best Prices at Coop stores with a Coop Pank card

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

Bank cards with purchase protection insurance

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

Insurance solutions

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

Successful capital raisings

In 2022, the number of our shareholders increased by 8,200 and at the end of the year Coop Pank had 36,045 shareholders.

Despite the uncertain economic environment, we raised capital to continue the bank's growth in 2022 on three occasions and investors invested 46.4 million euros into the bank.

Coop Pank strives for sustainability

In 2022, we became the first bank in Estonia to receive a B-rating from the Carbon Disclosure Project (CDP), an international environmental impact assessment organisation, which confirms that we're a well-managed company in terms of environmental impact. We're also a member of the Responsible Business Forum of Estonia, where we've been the holders of the Bronze Label since 2022. In addition, we became a member of the United Nations Environment Programme Finance Initiative (UNEP FI) and approved the Responsible Banking Principles. We take bold steps to manage our climate impact and strive to become a climate neutral bank by 2050 at the latest.

Financial results

Statement of profit or loss, in millions of euros	2022	2021	2020	2019	2018
Net interest income	50.7	35.5	28.4	20.7	16.8
Net fee and commission income	3.8	3.1	2.1	2.4	2.3
Net other income	0.1	0.6	0.6	0.6	0.7
Total net operating income	54.6	39.2	31.1	23.7	19.8
Operating expenses	-27.2	-22.4	-18.8	-16.3	-13.6
Credit loss allowance	-5.2	-2.5	-4.8	-1.9	-1.4
Income tax expense	-1.8	-0.8	-0.2	0	0
Net profit	20.4	13.5	7.3	5.5	4.8
incl. profit attributable to the owners of the parent company	20.4	13.5	7.3	5.5	4.8

Business volumes, in millions of euros	2022	2021	2020	2019	2018
Net loan portfolio	1,301	953	671	460	329
Client deposits and loans received	1,508	1,099	758	507	385
Subordinated debt	38	17	7	7	5
Equity (attributable to owners of the parent)	149	112	98	89	49

Ratios	2022	2021	2020	2019	2018
Average shareholders' equity attributable to owners of the parent company, million euros	121	105	93	56	47
Return on equity (ROE) %	16.8	12.9	7.8	9.8	10.1
(net profit / shareholders' equity, average)					
Total assets, average, million euros	1,446	1,055	741	529	409
Return on assets (ROA), %	1.4	1.3	1.0	1.0	1.2
(net profit / total assets, average)					
Cash and interest-bearing assets, average, million euros	1,434	1,039	725	495	393
Net interest margin (NIM), %	3.5	3.4	3.9	4.2	4.3
(net interest income / interest-bearing assets, average)					
Cost to income ratio, %	49.7	57.2	60.5	68.6	68.8
(total operating costs / total net operating income)					
Loans to deposits ratio, %	86.3	86.8	88.5	90.9	85.5
(net loans / client deposits and loans received)					
Dividend to net profit ratio, %	0.2	-	-	-	-
(neto dividend / net profit for the previous period)					
Liquidity Coverage Ratio LCR, %	175.8	201.7	275.0	682.2	1,375.4
Net Stable Funding Ratio NSFR, %	144.1	133.5	131.8	144.6	134.7
Leverage Ratio LR, %	7.4	6.7	8.8	12.0	8.3
(as defined by the CRD IV)					

Capitalisation and risk positions

Capital base, in thousands of euros	31.12.2022	31.12.2021
Tier 1 capital		
Paid-in share capital and share premium	94,583	74,416
Statutory reserve capital	3,838	3,165
Retained earnings	30,513	20,461
The accepted profit of the reporting period*	10,769	8,012
Other accumulated comprehensive income	-883	-15
Goodwill as intangible asset (-)	-6,757	-6,757
Intangible assets (-)	-8,579	-7,457
Adjustment of value arising from requirements of reliable measurement (-)	-18	-6
Other deductions from Tier 1 Capital (-)	-1,898	-963
Other adjustments of own funds resulting from transitional provisions	157	315
Common Equity Tier 1 (CET1)	121,725	91,171
Additional Tier 1 capital	16,100	0
Total Tier 1 capital	137,825	91,171
Subordinated debt	22,000	17,000
Tier 2 capital	22,000	17,000
Eligible capital for capital adequacy calculation	159,825	108,171
Risk-weighted assets (RWA)		
Central government and central banks using the standardised approach	2,775	638
Credit institutions, investment companies and local governments using the standardised approach	1,833	3,112
Companies using the standardised approach	92,857	65,173
Retail receivables using the standardised approach	147,884	130,582
Receivables secured by mortgage on real estate using the standardised approach	463,540	325,729
Receivables past due using the standardised approach	4,355	3,033
Items subject to particularly high risk using the standardised approach	111,056	59,295
Other assets using the standardised approach	12,370	13,543
Total credit risk and counterparty credit risk	836,670	601,105
Operational risk using the Basic Indicator Approach	59,360	47,007
Total risk-weighted assets	896,030	648,112
CET1 capital ratio %	13.58%	14.07%
Tier 1 capital ratio %	15.38%	14.07%
Capital adequacy ratio %	17.84%	16.69%

* The accepted profit of the reporting period includes an auditor's reviewed 9 month interim profit for 2022, which was approved by the Financial Supervisory Authority and from which expected dividend payments have been deducted.

Own funds requirements (31.12.2022)		
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
Pillar 2 requirement (P2R)	2.55%	Of total risk exposure
Capital conservation buffer	2.50%	Of total risk exposure
Pillar 2 guidance (P2G)	1.50%	Of total risk exposure

As at 31.12.2022, the Group is in compliance with all regulatory capital requirements. The capital conservation buffer of the Group as at 31.12.2022 was 22,401 (31.12.2021: 16,203) thousand euros.

The financial leverage ratio of the Group at 31.12.2022 was 7.44% (31.12.2021: 6.66%). In order to calculate the financial leverage ratio, the Tier 1 capital indicator is divided by the total exposure (on- and off-balance) indicator. The group's liquidity position is strong. At 31.12.2022 the Liquidity Coverage Ratio (LCR) was 176% (31.12.2021: 202%); the regulatory minimum requirement is 100%.

According to the Regulation (EU) number 575/2013 article 392 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 Tier 1 capital (see the table on previous page about capitalisation). According to the EU Regulation number 575/2013 article 400 paragraph 1 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.

According to the EU Regulation number 575/2013 article 395 paragraph 1 the value of an exposure to a client or group of clients, after taking into account the effect of credit risk hedging, may not be more than 25% of the credit institution's Tier 1 capital. As at 31.12.2022 and 31.12.2021, 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

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

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

The Supervisory Board is appointed by the General Meeting of Shareholders for a three-year term. Shareholders who hold shares at least 1/10 of the share capital are able to nominate candidates for election of members of the Supervisory Board in the form of a draft resolution of the General Meeting of Shareholders. The candidate for 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 is sufficiently diverse in composition through a profile of knowledge, skills, experience and education in order to make sure that the Management Board has the capability to effectively manage all of the bank's operating segments.

Members of the governing body are appointed based upon requirements applicable to members of governing bodies pursuant to the provisions of the Credit Institutions Act: any appointed individual must have the necessary knowledge, skills, experience, education, professional qualifications and impeccable reputation in business to be able to manage a credit institution. A person whose earlier activities have caused a bankruptcy or compulsory liquidation or revocation of the activity license of a company, or from whom the right to engage in economic activity has been taken away pursuant to law, or whose earlier activities as a manager of a company have shown that he or she is not capable of organising 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 a member. The bank has established a policy for the regular training of members of the management board in order to ensure sustained competency of its management board members.

Management Board

MARGUS RINK

Chairman of the Management Board
since February 2017

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

PAAVO TRUU

Member of the Management Board
since February 2022

Previously CFO of Coop Estonia and AS Magnum

HEIKKO MÄE

Member of the Management Board
since February 2020

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

RASMUS HEINLA

Member of the Management Board
since November 2020

Previously Head of the Consumer Finance Department of Coop Pank

ARKO KURTMANN

Member of the Management Board
since November 2020

Previously Head of the Corporate Banking Department of LHV Pank

Supervisory Board

ALO IVASK

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

VILJAR ARAKAS

Member of the Supervisory Board

Chairman of the Management Board of EfTEN Capital

JAAN MARJUNDI

Member of the Supervisory Board
Member of remuneration committee

Chairman of the Management Board of Harju Tarbijate Ühistu

RAUL PARUSK

Member of the Supervisory Board
Member of remuneration committee

Member of the Management Board of Kodea OÜ

ROMAN PROVOTOROV

Member of the Supervisory Board

Head of Antsla Tarbijate Ühistu

SILVER KUUS

Member of the Supervisory Board
Member of audit committee

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

The structure of the Group is designed and approved by the management board of the bank in accordance with the provisions of legislation, the articles of association and the 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 organisational 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:

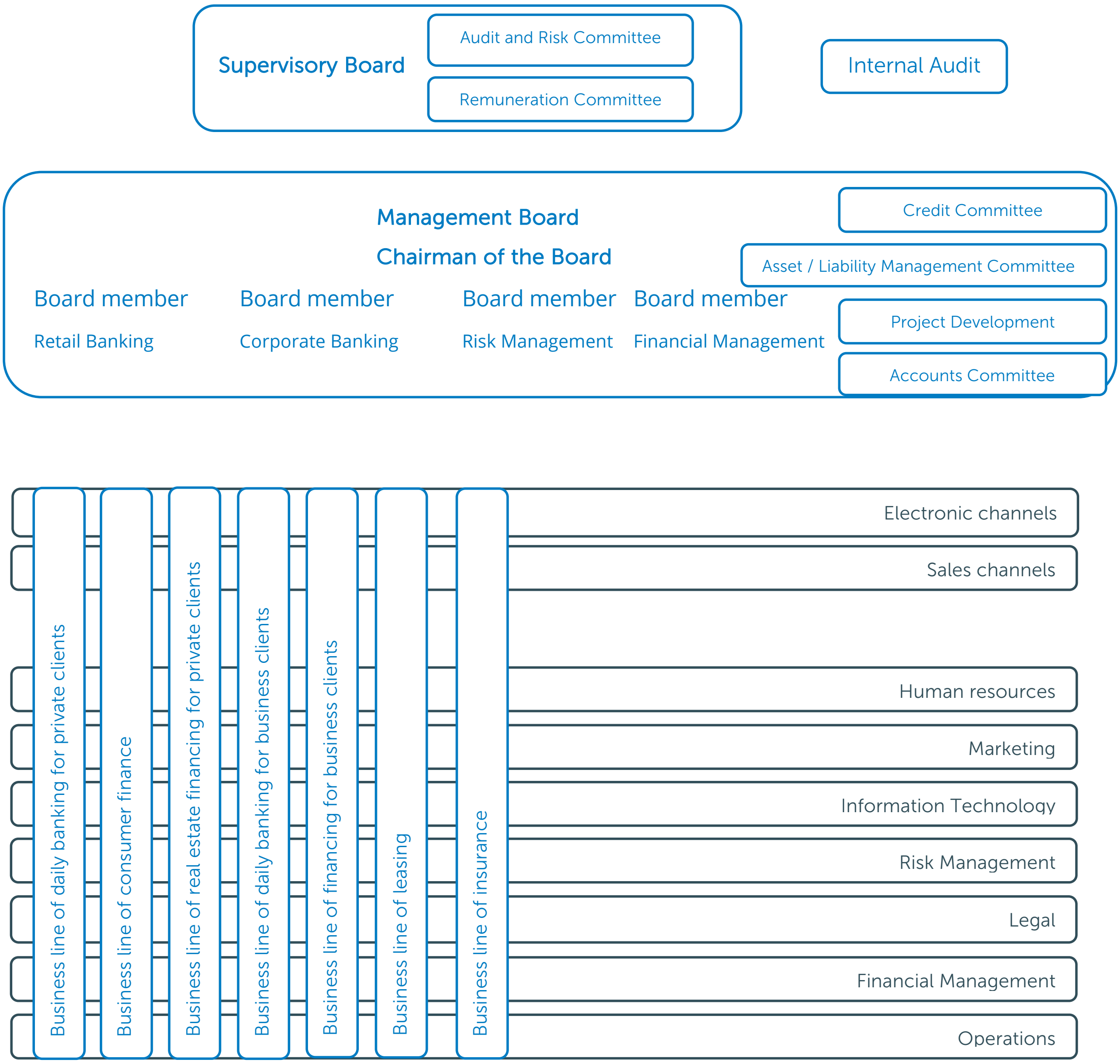
- The Audit/Risk Committee serves as an advisory body in respect of accounting, auditing, risk management, legal compliance, internal control and audit, general supervision and budgeting.
- The Remuneration Committee's role is to evaluate the implementation of remuneration policy and their adherence 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.
- The 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.
- The 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 the Account Establishment Committee is to guide through its decisions the establishment and discontinuing of relationships with high-risk clients when necessary.
- The main task of the 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 functions that operate as autonomous and independent control units. The third level comprises the internal audit unit that exercises control over the entire operations of the Group.

The Group has a uniform remuneration policy. Employees are paid salaries and performance fees according to the market level. In addition to monetary incentives, employees also have many non-monetary benefits such as flexible working hours, the possibility to work from home, different common activities and benefits for health insurance and sports. The Group's employees work under employment contracts, while members of the management board work based on authorisation agreements.

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

Group structure



Shares

Coop Pank AS has issued ordinary shares, each share giving one voting right. The shares are listed on the main list of Nasdaq Tallinn with ISIN code EE3100007857 as of 10.12.2019. The share subscription price during IPO was 1.15 euros. As of 31.12.2022, the share price was 2.46 euros. In 2022, the lowest tradable price was 2.17 euros and the highest price was 3.08 euros. As of 31.12.2022, the market value of the bank was 249.6 million euros on the basis of the share price. Throughout the year, the turnover of transactions totaled 32.4 million euros and 12.6 million shares changed hands with an average transaction price of 2.57 euros. Since the beginning of listing on the stock exchange, the turnover of transactions has totaled 139.3 million euros.

In November and December 2022 Coop Pank conducted a secondary public offering of shares with a base volume of 7.61 million new shares. The offering was oversubscribed by 4.2 times. Therefore the volume of the offering was increased to 10.15 million new shares. The shares were offered at price 2.00 euros per share. New shares were listed on Nasdaq Tallinn Stock Exchange on 7 December 2022. After issuing the new shares the total number of shares is 101.47 million.

The ratio of share price to earnings per share at the end of 2022 was 12.2. The basis for finding the ratio is the market capitalisation of Coop Pank as of 31.12.2022 divided by the net profit of the year. The book value of the share as of 31.12.2022 was 1.47 euros and the ratio of the share price to the book value of the share was 1.67 euros.

Share price (euro) and trading volume (thousand shares) 10.12.2019 - 31.12.2022

As at 31.12.2022 shareholders with holdings over 5% are:

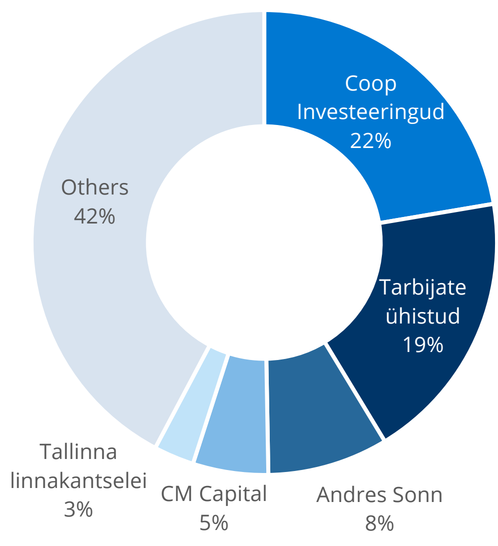
Coop Investeeringud OÜ	22.33%
Andres Sonn	8.39%
CM Capital OÜ	5.24%

In addition, the member cooperatives of Coop Eesti Keskühistu hold a total of 19.25% of the total amount of shares. Separately, none of them holds over 5%.

The bank has 36,045 shareholders as of 31.12.2022, of which 48 shareholders are institutional investors, i.e. owning more than 100,000 shares.

The shares are entitled to a dividend (see chapter 'Dividend policy').

Shareholder distribution as at 31.12.2022



In exercising the share option programmes, 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. 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.

The first dividend payment in the amount of 0.03 euros (net) per share from the profit earned in 2021 has been paid on 3 May 2022. In total, net dividends were paid out in the amount of 2,738 thousand euros. Additionally an income tax in a ratio of 20/80 of net amount was calculated.

Corporate Governance Report

Coop Pank 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 2019. The report provides an overview of Coop Pank 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 Coop Pank, where the shareholders exercise their rights. The competence of the General Meeting is provided by law and the Articles of Association of Coop Pank. 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 programme and 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 2022, no shareholders' questions on agenda topics were raised before the General Meeting. A shareholder may attend the General Meetings and vote at the meeting in person or through a duly authorized representative. The General Meetings are held on business days in Tallinn.

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

The agenda of the General Meeting, the proposals of the Management Board and the Supervisory Board, the draft resolutions and other relevant materials shall be made available to the shareholders before the General Meeting. In 2022, 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 Coop Pank's webpage and at Coop Pank's headquarters on workdays from 09:00-17:00 at Maakri 30, Tallinn. Shareholders are given the opportunity to ask questions on the agenda before the General Meeting.

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

In 2022 two General Meetings were held – an Annual General Meeting and Extraordinary General Meeting.

The Annual General Meeting of Shareholders that took place on 13 April 2022 approved the 2021 Annual Report, distributed the profit for the year 2021 and decided to pay dividends. It was also decided to approve the group's remuneration principles and the new option programme for the period 2023-2025, and in connection with the option programme, the existing shareholders' right to subscribe was excluded. The General Meeting was held in the Estonian language. The meeting was chaired by Mariann Suik, Head of the Legal Department of Coop Pank, and lawyer Renno Mägi took minutes of the meeting. All Management Board and Supervisory Board members of Coop Pank attended the General Meeting. Also, the auditor of Coop Pank from AS PricewaterhouseCoopers, Verner Uibo, attended the meeting.

At the extraordinary General Meeting of shareholders held on November 1, 2022, the conditional increase of the share capital of Coop Pank, the public offering of shares and the listing and trading of new shares were approved. Also, the auditor was elected for the years 2023–2027. The extraordinary General Meeting was held in the Estonian language. The meeting was chaired by Mariann Suik, Head of the Legal Department of Coop Pank, and lawyer Renno Mägi took minutes of the meeting. From the Management Board, Margus Rink and CFO Paavo Truu participated. From the Supervisory Board, Alo Ivask and Jaan Marjundi participated in the extraordinary General Meeting. Lauri Past, partner of Coop Pank's auditing firm AS PricewaterhouseCoopers, also participated in 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 Coop Pank on daily basis. According to the Articles of Association, any member of the Management Board may represent Coop Pank 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 their 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 their own area of responsibility, which is determined by the agreement of the Management Board member. On the basis of the authorisation received from the Supervisory Board, the chairman of the Supervisory Board shall enter into an agreement with the member of the Management Board to perform their duties. According to the restrictions set out in the Credit Institutions Act, until 2021, the members of the Management Board of Coop Pank could not simultaneously participate in the work of the Management Board or Supervisory Board of other companies. Contrary to the above, there was no restriction on work in the management bodies of the Group's companies. From 2021, the members of Coop Pank's Management Board may additionally hold one member of the Management Board and two members of the Supervisory Board, or four members of the Supervisory Board. The positions of head of the group shall be considered as one position.

In accordance with the agreements concluded with the Management Board members, the extension of the term of office of a Management Board member shall be decided 3 months before the expiry of their term of office. The Supervisory Board shall appoint the chairman of the Management Board. The chairman of the Management Board shall organise 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 Coop Pank's Management Board shall be elected as members of the Management Board. For the selection and evaluation of Coop Pank's Management Board and Supervisory Board members, Coop Pank has adopted the "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 31.12.2022, the Management Board of the Coop Pank comprised of five members: Margus Rink (chairman), Paavo Truu, Heikko Mäe, Arko Kurtmann and Rasmus Heinla. The responsibilities of Management Board members are: Margus Rink – general management, Paavo Truu – financial management, Heikko Mäe – risk management, Arko Kurtmann – corporate banking, Rasmus Heinla – retail banking.

Margus Rink received a Bachelor's degree in Financial Accounting and Analysis in 1994 from the School of Economics and Business Administration at the University of Tartu and a Master of Business Administration degree in 2000 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 AS Eesti Ühispank (current name AS SEB Pank) and worked in various positions in AS Hansapank (current name AS Swedbank) in 1996-2008, including 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 AS 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). Currently, Margus Rink is also a member of the Supervisory Board of Coop Pank subsidiaries Coop Finants AS, Coop Liising AS, and Coop Kindlustusmaakler AS.

Paavo Truu obtained a Bachelor's degree in 1996 from the Faculty of Economics of the University of Tartu, majoring in marketing, finance and banking, and has since participated in several professional further training courses. Paavo Truu worked as a board member and financial director of Coop Eesti Keskühistu from 2018 to 2022. In the years 2013-2018, he was a member of the board of AS Magnum and in the same period was also a member of the supervisory board of several subsidiaries of AS Magnum (Magnum Dental OÜ, AS Magnum Veterinaaria). In 2012-2013, Paavo Truu was the financial director of Alexela Group OÜ and in 2007-2012, a member of the board of Bauhof Grupp. Currently, Paavo Truu is also a member of the supervisory board of Coop Pank's subsidiaries Coop Finants AS, Coop Liising AS and Coop Kindlustusmaakler AS. He is also a member of the management board of Solaris Konsult, the private company he owns.

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 Supervisory Board member of TULEVA Fondid AS. 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 Coop Pank subsidiaries Coop Finants AS, Coop Liising 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 Coop Pank subsidiaries Coop Finants AS, Coop Liising AS and Coop Kindlustusmaakler AS.

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

2.2. Remuneration principles of managers

The purpose of Coop Pank'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, their performance, the overall performance of the Management Board, as well as the financial position of the Coop Pank, 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 Coop Pank. 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 and the set objectives must be described at the individual employee level.

Coop Pank applies an annual performance pay, commensurate with achieving the objectives, to all Group employees, plus a long-term option programme for key employees.

Gross remuneration paid to the Management Board members in 2022 in euros:

Gross remuneration paid in 2022	Basic salary	Performance pay	Value of options granted	Total remuneration
Margus Rink	139,500	31,500	94,615	265,615
Paavo Truu	66,971	0	35,094	102,065
Heikko Mäe	93,000	21,000	63,077	177,077
Arko Kurtmann	96,610	24,000	72,044	192,654
Rasmus Heinla	93,000	21,000	63,077	177,077
Kerli Lõhmus	12,348	21,000	0	33,348

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 31.12.2022:

31.12.2022	Shares	Holding	Subordinated debt
Margus Rink	646,000	0.64%	7
Paavo Truu (through Solaris Konsult OÜ)	48,248	0.05%	0
Heikko Mäe	3,270	0.00%	0
Arko Kurtmann (through Corby Capital OÜ)	49,000	0.05%	0
Rasmus Heinla	22,272	0.02%	3
Kerli Lõhmus (through Lucrativo OÜ)	21,000	0.02%	0

Holder of options	Quantity	Strike price	Subscription term
Margus Rink	70,000	1.010	2023
Kerli Lõhmus	50,000	1.010	2023
Heikko Mäe	50,000	1.010	2023
Rasmus Heinla	30,000	1.010	2023
Margus Rink	90,000	1.100	2024
Heikko Mäe	70,000	1.100	2024
Rasmus Heinla	70,000	1.100	2024
Arko Kurtmann	40,000	1.100	2024
Margus Rink	61,200	1.255	2025
Heikko Mäe	40,800	1.255	2025
Rasmus Heinla	40,800	1.255	2025
Arko Kurtmann	46,600	1.255	2025
Paavo Truu	22,700	1.255	2025

2.3. Conflicts of interest

Coop Pank has established a Group-wide "Policy of Management of Conflicts of Interest", under which members of the 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 constitute or are likely to give rise to a conflict of interest.

Transactions between the bank and the members of the Management Board or persons close to or associated to them shall be subject to the prior approval of the Supervisory Board. In 2022, no such transactions took place.

Management Board members are not members of the Management Board or Supervisory Board of other issuers, except Paavo Truu who is a member of the board of a private limited company he owns. The Management Board members of Coop Pank are also the Supervisory Board members of Coop Pank's subsidiaries; the Management Board member, fulfilling the duties of risk manager, is also a Management Board member of real estate management companies established in Estonia and Latvia which are part of the Group.

3. Supervisory Board

The Supervisory Board is Coop Pank's governing body, which plans and organises Coop Pank's management and supervises the activities of the Management Board. The Board determines and periodically reviews Coop Pank'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 organise the activities of the Supervisory Board.

The Supervisory Board regularly evaluates the activities of the Management Board by implementing Coop Pank's strategy, as well as evaluates the bank's financial position, risk management systems and the lawfulness of the activities of the 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, Coop Pank has adopted a "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 31.12.2022, the Supervisory Board of Coop Pank comprised of six members and they were Alo Ivask (chairman, term 27.05.2023), Viljar Arakas (term 14.04.2024), Jaan Marjundi (term 27.05.2023), Roman Provotorov (term 27.05.2023), Raul Parusk (term 27.05.2023) and Silver Kuus (term 27.05.2023). In the meaning of CGR there are three independent members in Coop Pank´s Supervisory Board – Viljar Arakas, Raul Parusk and Silver Kuus.

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

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

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

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

Raul Parusk obtained Master's degrees in political economy from Moscow National University and in business management from Vienna Business School. He has worked in top management positions in different companies, including credit institutions. Since 2017 until August 2021, Raul Parusk was a member of the management boards of Forus Grupp OÜ, Forus Security Eesti AS and Forus Haldus OÜ. From March 2022, Raul Parusk has been a member of the board of Kodea 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, the latest of them being manager of corporate banking at Luminor Bank AS from 2017-2019. Currently, he is manager of a business consulting company OÜ Lorikori Capital and also development manager of Agrone OÜ.

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

Gross remuneration paid to the Supervisory Board members in 2022 in euros:

	Gross remuneration paid in 2022
Alo Ivask	18,000
Viljar Arakas	12,000
Jaan Marjundi	12,000
Roman Provotorov	12,000
Raul Parusk	12,000
Silver Kuus	12,000

Shares owned by members of Supervisory Board as of 31.12.2022:

31.12.2022	Shares	Holding	Subordinated debt
Viljar Arakas (through Miemma Holding OÜ)	26,094	0.03%	0
Jaan Marjundi	79,247	0.08%	11
Alo Ivask	16,665	0.02%	7
Roman Provotorov	14,623	0.01%	0
Raul Parusk (through Sulvanius Invest OÜ)	6,201	0.01%	0

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

No significant transactions took place between Coop Pank and the members of the Supervisory Board or and persons close to or associated with them in 2022.

In 2022, 10 Supervisory Board meetings were held and five Supervisory Board resolutions was adopted without convening a meeting. The members of the Supervisory Board participated in all meetings and votes, except for Viljar Arakas who could not attend the meeting held in December.

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 Supervisory Board. Given the size of the Group and the principle of proportionality, no separate Nomination Committee has been set up.

3.1. Audit Committee

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

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

The Audit Committee shall comprise at least two members, elected by the Supervisory Board. As at 31.12.2021 the Audit Committee comprised of four members and they were Veiko Haavapuu (chairman), Alo Ivask, Silver Kuus and Stan Nahkor. No remuneration is paid to the members of the Audit Committee who are members of the Supervisory Board. Remuneration for Veiko Haavapuu and Stan Nahkor 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 Coop Pank's Supervisory Board and their consistency with Coop Pank's business objectives, the impact of the remuneration decisions on meeting the requirements set to Coop Pank's risk management, own funds and liquidity. The Remuneration Committee also supervises the remuneration of members of the Management Board and employees subject to increased requirements.

The Remuneration Committee comprises at least two members who are elected by the Supervisory Board. As at 31.12.2022, the Remuneration Committee comprised of four members and they were Alo Ivask (chairman), Jaan Marjundi, Raul Parusk and Irja Rae. No remuneration is paid to the members of the Remuneration Committee who are members of the Supervisory Board. Irja Rae's remuneration is 400 euros per meeting.

4. Cooperation between the Management Board and the Supervisory Board

The Management Board and the Supervisory Board cooperate closely to protect the best interests of Coop Pank. The Management Board and the Supervisory Board jointly develop Coop Pank'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 section 4 of article 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 2022, the bank did not implement a diversity policy, as it always considers the best interests of the Group in the selection of both executives and employees, considering the candidate's education, skills and previous work experience. At the same time, the Group follows the principle of non-discrimination of candidates on the grounds of gender or other status.

6. Disclosure of information

Coop Pank 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 Coop Pank's website all documents and information will be made available to shareholders in accordance with the Corporate Governance Recommendations. On its website, Coop Pank 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, Coop Pank publishes the Annual Report for previous year. The Annual Report shall be audited, accepted by the Supervisory Board and approved by the General Meeting.

Members of the Supervisory Board do not sign the Annual Report together with the Management Board members (clause 6.1.1 of CGR). The position of the Supervisory Board on the 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 Coop Pank 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 2022, the Management Board organised a competition for electing an auditor. Coop Pank held meetings with three major internationally recognised companies and asked them to submit their offers. As a result of the competition, the offer by AS PricewaterhouseCoopers was selected and the extraordinary General Meeting of Shareholders, held on 1 November 2022, appointed the company as the auditor of Coop Pank, and a five-year agreement for the auditing of the financial years 2023-2027 was concluded with them.

In 2022, 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 Coop Pank's activities.

Sustainability Report

Developed countries and international organisations like the United Nations (UN) are striving to ensure that the targets set as part of the Paris Agreement on climate change adopted in 2015 are met. The European Union (EU) has developed the Green Deal, which is designed to help Europe become the first continent to achieve climate neutrality by 2050. This depends not just on national efforts, but also on initiative from the private sector.

In November 2022, the CSRD (Corporate Sustainability Reporting Directive) was adopted, the purpose of which is to regulate ESG (Environmental, Social, and Governance) reporting and move towards a more sustainable economy. The reporting requirement is implemented gradually, and according to the CSRD, the Coop Pank group must submit sustainability information prepared on the basis of additional standards for the first time in 2026 (for 2025). It is important for us to be compliant with the Corporate Sustainability Reporting Directive and we have already started the gradual structuring of the sustainability report according to the CSRD.

The Coop Pank group already joined the Responsible Business Forum in 2020 and participated in the Responsible Business Index survey, where it carries the bronze level label from 2022. In 2022, the Group participated as the first Estonian bank in one of the world's leading environmental reporting projects, CDP (Carbon Disclosure Project). The Coop Pank group received the rating B-, i.e. the environmental manager level, which is assigned to companies that have demonstrated good management in the field of environmental impact (see: https://www.cooppank.ee/coop-pank-palvis-korge-keskkonnareitingu). We are also an active member of the Estonian Banking Association's working group on responsible banking, contributing to growth in the sustainability of banking operations.

In 2022, the Coop Pank group became a member of the financial initiative of the United Nations Environment Program (UNEP FI or United Nations Environment Program Finance Initiative) and signed the principles of responsible banking (see https://www.cooppank.ee/coop-pank-allkirjastas-uro-vastutustundliku-panganduse-pohimotted), which bring the bank's business strategy into a line with the goals of the UN sustainable development and the Paris climate agreement, and increase the positive impact on society. By joining the UN Environment Program, the Group conducts a comprehensive impact analysis in order to understand where the Bank has a significant positive and negative impact on society, the environment and the economy. As a result the group would set the specific goals to increase the positive influence and reduce the negative influence.

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

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

In 2022 our operations focused on the SDGs set out below.

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

It is important to us that vital products and services are accessible to everyone close to their homes. As an Estonian bank, we bring everyday banking services closer to people so that everyone can enjoy life wherever they want to live. For instance, cash services are available at people's local stores: Coop Pank group clients can make deposits and withdrawals from their accounts at more than 320 Coop stores around the country. We are pleased to see that more and more people are making use of these services all the time, as can be seen in the table below:

	2022	2021
COOP cash transactions *vs* ATMs (proportion of total number of transactions)	33.5%	31.6%
COOP cash transactions *vs* ATMs (proportion of total turnover)	28.7%	26.9%

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

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

	2022	2021
Everyday banking	62.5%	61.1%
Mortgage loans	38,0%	38.9%
Business loans	31.1%	36.7%
Leasing	40.4%	46.8%

We contribute to improving the financial literacy of the Estonian population by advising people of all ages on how to make smarter choices in regard to their finances via our *Lihtsalt rahast* ('Money Matters Put Simply') podcast and through other channels. We are a member of the Estonian Banking Association's working group on financial literacy, and in 2022 we also actively contributed (both via the association and independently) to efforts to thwart financial fraud so as to help protect the assets of people in the country.

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

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

- the organisation of gambling and betting activities;
- the manufacturing of tobacco;
- entertainment events;
- exports to countries subject to sanctions;
- aircraft, ships and railway stock;
- the weapons industry or arms trade which is not linked to Estonian national defence or NATO or
- political parties and other political organisations.

As at the end of 2022, our loan portfolio included no loans in any of these areas of activity. Nor do we offer credit services in areas or to companies whose activities are unethical or linked to corruption, violate human rights or have a significant negative impact on the environment. Customers whose activities have an environmental impact are checked in each specific case to ensure that they comply with the applicable environmental protection standards in their activities.

In 2022, we launched the first green product of the Coop Pank group – Green Leasing. The purpose of green leasing is to encourage the use of more climate-friendly vehicles, and for this purpose we offer green leasing an interest rate under better conditions compared to standard leasing.

In the pricing of bank services we are honest and transparent, and in the marketing of services we are guided by principles of responsibility. We observe all of the requirements of the Money Laundering and Terrorist

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

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

In 2022, we continued to finance the construction of solar parks and wind turbines, reaching a nominal capacity of 86 MW by the end of the year. Financing for renewable energy makes up about 8.6% of the portfolio of our corporate financing business line. It is important to us that our loan portfolio includes agricultural companies whose operations we can contribute to in different parts of Estonia. We support recycling, repurposing and reuse, with the majority of our car leasing sales in 2022 comprising second-hand cars (71.0% in 2022 compared to *ca* 68,0% in 2021). This year too we are looking to contribute to solar and wind projects, including those designed to make residential buildings more energy-efficient.

In August 2021 we moved our head office into the new, more economical, less energy-intensive Skyon building, which was constructed and is being maintained in accordance with the requirements of the LEED certificate. LEED (*Leadership in Energy and Environmental Design*) is one of the most prevalent green building rating systems in the world. In March 2022, the Skyon office building was awarded the LEED Platinum certificate, which is the highest indicator among gold, silver and classical certification.

For the years 2021 and 2022, we have performed an assessment of the carbon footprint associated with our organisation and loan portfolio in accordance with the GHG Protocol ("GHG Protocol Corporate Accounting and Reporting Standard"). The climate impact of the Coop Pank group's portfolio was calculated based on the standard "The Global GHG Accounting & Reporting Standard for the Financial Industry" of the Partnership for Carbon Accounting Financial (PCAF). The PCAF standard is the only sector-specific standard that allows financial institutions to estimate and disclose greenhouse gas emissions from loans and investments. The PCAF standard is in line with the GHG Protocol standard and complements the GHG Protocol Corporate Value Chain (scope 3) standard with detailed additional guidance for each asset class. A PCAF data quality score of 1 represents an estimate with the most accurate data quality, and a score of 5 represents an estimate with the lowest data quality. When evaluating the impact of the Group's portfolio in 2021, methodologies corresponding to scores 4 and 5 were used, depending on the availability of data. In assessing the impact of the loan portfolio in 2022, the data quality score was improved and the new average score was 3.7.

The carbon footprint of the Coop Bank group in 2022 was a total of 209,470 tons of CO_2 equivalent (204,323 in 2021), of which 99.7% (99.7% in 2021) was the impact from the portfolio and leasing and 0.3% (0.3% in 2021) was impact related to office activities.

Based on the GHG Protocol, leases are classified in the scope 3 category of "leased assets", so the impact of leases is not reflected in the analysis of the impact of the Coop Pank group's portfolio. The assessment of the impact of leasing was primarily based on the guidelines for the corresponding category of scope 3 of the GHG Protocol, but also to a certain extent on the methodology of PCAF vehicle loans. Since the impact of leasing has been significant among all the Group's emissions, the impact of the portfolio resulting from leasing was included in the table for comparison with other asset classes.

Asset class	t CO_2-ekv	Measured % of contract volume in the respective asset class	PCAF data quality score
Business loans	77,479 (85,707)	99.1 (72.9)	4.0 (4)
Housing loans	41,492 (53,373)	82.6 (85.5)	3.7 (4)
Commercial real estate	60,742 (45,980)	100.0 (99.9)	3.8 (4)
Leasing	29,106 (18,590)	83.6 (85.0)	N/A
Avoided emissions (renewable energy)	76,853 (N/A)	99.9 (N/A)	2.3 (N/A)

The results for 2021 are shown in parentheses.

Our big challenge will be to improve the data quality score when measuring the emissions of the loan portfolio. The higher the data quality score, the more accurate and reliable the results we get.

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

We have introduced the paper-free management of documents in our everyday work: we enter into agreements with our clients and partners electronically and allow clients to join the bank via a simple online solution that was used by 35.2% of our new clients in 2022 (compared to 40.9% in 2021). In the second half of 2023, we aim to create an opportunity for paperless document management in our client offices.

In 2022, we signed a cooperation agreement with the technology recycling company GreenDice, which deals with the organisation of the technical circulation of IT equipment and directing it to recycling. The GreenDice recycling system helps to valorise our used IT equipment by finding new users for them or directing unusable equipment to be recycled as raw materials. The usage journey of the devices is fully traceable throughout their entire life cycle. We consider the safe and traceable journey of equipment very important.

Management culture (SDG 16 & SDG 17)
We consider our management culture to be open and modern, the basis of which is that we are guided by regulations and international standards (such as human rights, labour law and the fight against discrimination). In our operations we are led by best practices in company management and banking, the principles of responsible lending, other guidelines issued by financial supervision authorities and valid legal acts.

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

We also monitor our marketing activities to ensure that they are in line with the valid norms. In order to guarantee ethical behaviour, we have established guidelines for reporting inappropriate behaviour, in accordance with which employees can inform of potential breaches of ethical norms or laws within the group.

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

To us it is only natural to offer our employees a contemporary working environment, motivating salaries, flexible hours, the option to work remotely, stimulating professional challenges, every opportunity for development and a friendly team that sticks together. We are linked by our shared values. In 2022, we started offering our employees the option of health insurance in addition to sports compensation.

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

We are professionals playing on the same team. Every one of our employees is a professional in their field and sets themselves high standards. We work hard, but at the same time we don’t take ourselves too seriously. Playing as a team is our game plan.

We reach our targets. We set ourselves ambitious goals and give our all to achieve the best possible results. We always finish what we have started. We have made the importance of sustainable operations the focus of attention of both our management and supervisory boards. In 2022, we hired a full-time employee dedicated to sustainability. An ESG roadmap has been created for 2023, according to which we will develop the bank's sustainability consistently and systematically.

Remuneration report

Coop Pank group applies a single remuneration policy that has been approved by the Supervisory Board of the bank and the effectiveness, adherence to objectives and implementation of the policy is supervised by the Remuneration Committee. In 2022, two Remuneration Committee meetings took place. The remuneration policy applies equally to all employees of the Group.

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

- basic salary, which is fixed pay agreed between the 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 employees whose contribution led to the results achieved while adhering to the Group's objectives and values. Performance pay supports efficient risk management and does not encourage taking excessive risks. The amount of pay is determined by the extent of reaching activity goals. The basic salary and performance pay are reasonably balanced. Each year, a performance bonus reserve of 15% of the salary fund is calculated.

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

In euros (rounded down to the hundred)	2018	2019	2020	2021	2022
Average monthly gross remuneration	2,300	2,400	2,600	2,800	3,000
Yearly profit before income tax per employee	22,600	23,000	26,400	47,000	63,300

As at 31.12.2022, a total of 2,212,200 options were granted to employees with a maturity date of three years starting from the moment of the issue.

In November 2019, a three-year share option programme was confirmed by the shareholders, which allows the issuing of options to employees every year making up to 1% of the total number of shares of the bank. The last share options issued in this programme took place in April 2022 based on the Supervisory Board's decision.

In April 2022, a new three-year share option programme was confirmed by the shareholders, which allows the issuing of options to employees every year making up to 1% of the total number of shares of the bank. Based on the new share option programme the share options issuing can take place between April 2023 and April 2025 based on the Supervisory Board's decision.

The purpose of the share options programmes is to align long-term interests and goals of Management Board members and employees treated as such with long-term interests of the bank's 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 programme in the relevant year. Options can be reduced or cancelled if the employment relationship is terminated, the person does not meet the performance criteria, the financial results of the group have significantly deteriorated or the risks of the group are not sufficiently covered by own funds.

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

The ratio between performance pay (including value of options granted) and basic salary of the senior management and senior staff responsible for material business units and for management of specific risk categories in 2022 was:

- senior management – 71%
- staff managing control functions – 26%

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

Margus Rink (since Feb 2017)	2018	2019	2020	2021	2022
Basic salary	108,000	108,000	111,000	126,000	139,500
Performance pay	27,000	31,500	36,000	31,500	31,500
Value of options granted	0	0	8,274	74,934	94,615
Total remuneration	135,000	139,500	155,274	232,434	265,615
Share of performance pay	20%	23%	29%	46%	47%
Number of options issued	0	0	70,000	90,000	61,200

Heikko Mäe (since Feb 2020)	2018	2019	2020	2021	2022
Basic salary	0	0	73,500	84,000	93,000
Performance pay	0	0	0	17,500	21,000
Value of options granted	0	0	5,910	58,282	63,077
Total remuneration	0	0	79,410	159,782	177,077
Share of performance pay	-	-	7%	47%	47%
Number of options issued	0	0	50,000	70,000	40,800

Arko Kurtmann (since Nov 2020)	2018	2019	2020	2021	2022
Basic salary	0	0	16,000	96,000	96,610
Performance pay	0	0	0	0	24,000
Value of options granted	0	0	0	33,304	72,044
Total remuneration	0	0	16,000	129,304	192,654
Share of performance pay	-	-	0%	26%	50%
Number of options issued	0	0	0	40,000	46,600

Rasmus Heinla (since Nov 2020)	2018	2019	2020	2021	2022
Basic salary	0	0	14,000	84,000	93,000
Performance pay	0	0	0	12,500	21,000
Value of options granted	0	0	3,546	58,282	63,077
Total remuneration	0	0	17,546	154,782	177,077
Share of performance pay	-	-	20%	46%	47%
Number of options issued	0	0	30,000	70,000	40,800

Paavo Truu (since Feb 2022)	2018	2019	2020	2021	2022
Basic salary	0	0	0	0	66,971
Performance pay	0	0	0	0	0
Value of options granted	0	0	0	0	35,094
Total remuneration	0	0	0	0	102,065
Share of performance pay	-	-	-	-	34%
Number of options issued	0	0	0	0	22,700

Kerli Lõhmus (until Jan 2022)	2018	2019	2020	2021	2022
Basic salary	67,200	67,200	81,900	84,000	12,348
Performance pay	16,800	19,600	22,400	21,000	21,000
Value of options granted	37,377	0	5,910	0	0
Total remuneration	121,377	86,800	110,210	105,000	33,348
Share of performance pay	45%	23%	26%	20%	63%
Number of options issued	233,540	0	50,000	0	0

Janek Uiboupin (until Feb 2020)	2018	2019	2020	2021	2022
Basic salary	67,200	67,200	28,400	0	0
Performance pay	16,800	19,600	22,400	0	0
Value of options granted	18,689	0	0	0	0
Total remuneration	102,689	86,800	50,800	0	0
Share of performance pay	35%	23%	44%	-	-
Number of options issued	116,770	0	0	0	0

Hans Pajoma (until Oct 2020)	2018	2019	2020	2021	2022
Basic salary	108,000	108,000	100,200	0	0
Performance pay	27,000	31,500	36,000	13,500	0
Value of options granted	0	0	0	0	0
Total remuneration	135,000	139,500	136,200	13,500	0
Share of performance pay	20%	23%	26%	100%	-
Number of options issued	0	0	0	0	0

Consolidated Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

in thousands of euros	Note	2022	2021
Interest income calculated using the effective interest method		54,555	39,005
Other income similar to interest		5,535	4,035
Interest and similar expense		-9,381	-7,502
Net interest and similar income	5	50,709	35,538
Fee and commission income		6,172	5,003
Fee and commission expense		-2,387	-1,918
Net fee and commission income	6	3,785	3,085
Sale of assets	12	0	2,335
Cost of assets sold	12	0	-2,286
Rental income from investment properties		0	3
Direct property operating expenses		-1	-31
Change in fair value of investment properties		-450	-404
Net gains from non-financial asset realisation		6	11
Net losses from financial assets measured at fair value		4	-68
Handling of overdue receivables		444	819
Other income		134	236
Net other income		137	615
Payroll expenses	7	-15,502	-12,490
Operating expenses	8	-7,352	-5,996
Depreciation	14	-4,323	-3,967
Total operating expenses		-27,177	-22,453
Profit before loss allowances and tax		27,454	16,785
Credit loss allowance	11	-5,245	-2,497
Profit before tax		22,209	14,288
Income tax expenses	24	-1,859	-825
Net profit for the financial year	4	20,350	13,463
Other comprehensive income / loss			
Items that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income		-868	3
Other comprehensive income/loss		-868	3
Comprehensive income for the financial year		19,482	13,466
Basic earnings per share (in euros)	23	0.22	0.15
Diluted earnings per share (in euros)	23	0.21	0.15

Notes to the financial statements on pages 46 to 118 are an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position

in thousands of euros	Note	31.12.2022	31.12.2021
Assets			
Cash, balances with central banks and other deposits	9	364,878	252,799
Debt securities at fair value through other comprehensive income	10	18,747	5,932
Equity instruments at fair value through other comprehensive income	10	13	13
Loans and advances to customers	11	1,300,775	953,396
Other financial assets	12	1,380	1,311
Other assets	12	697	927
Assets held for sale	12	3,412	3,725
Right-of-use assets	14	6,130	6,625
Tangible assets	14	2,808	3,034
Intangible assets	14	8,579	7,457
Goodwill	3	6,757	6,757
Total assets		1,714,176	1,241,976
Liabilities			
Customer deposits and loans received	16	1,508,126	1,098,746
Lease liabilities	15	6,142	6,639
Other financial liabilities	17	7,052	3,221
Other liabilities	17	5,601	4,563
Subordinated debt	18	38,139	17,064
Total liabilities		1,565,060	1,130,233
Shareholders' equity	19		
Share capital		69,148	62,186
Share premium		25,435	12,230
Statutory reserve capital		3,838	3,165
Retained earnings		50,863	33,924
Other reserves and assets revaluations		-168	238
Shareholders' equity attributable to owners of the parent company		149,116	111,743
Total shareholder's equity		149,116	111,743
Total liabilities and shareholders' equity		1,714,176	1,241,976

Notes to the financial statements on pages 46 to 118 are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

in thousands of euros	Note	2022	2021
Cash flows from operating activities			
Interest and other similar income received		58,528	42,902
Interest paid		-8,423	-7,116
Fees and commissions received		6,172	5,003
Fees and commissions paid		-2,387	-1,918
Other received income		596	1,004
Salaries paid		-15,439	-12,874
Other operating expenses paid		-7,352	-5,996
Income Tax paid	24	-1,390	-720
Total cash flows from operating activities before changes in operating assets and liabilities		30,305	20,285
Change in operating assets:			
Loans and advances to customers		-349,124	-286,954
Change of mandatory reserve in central bank	9	-4,724	-3,401
Other assets		289	252
Change in operating liabilities:			
Change in customer deposits and loans received		408,397	340,561
Other liabilities		3,309	853
Net cash flows from operating activities		88,452	71,596
Cash flows from investing activities			
Acquisition of property, plant and equipment		-4,412	-5,574
Sale of property, plant and equipment and investment properties		313	3,695
Acquisition of debt securities		-14,261	-3141
Sale and redemption of debt securities		1,612	499
Total cash flows used in investing activities		-16,748	-4,521
Cash flows from financing activities			
Contribution to share capital	19	20,149	486
Issue of subordinated debt	18	26,100	10,000
Redemption of subordinated bonds	18	-5,000	0
Dividends paid	19	-2,738	0
Repayment of principal of lease liabilities	15	-850	-710
Total cash flows from financing activities		37,661	9,776
Effect on exchange rate changes on cash and cash equivalents		-9	-4
Change in cash and cash equivalents		109,356	76,847
Cash and cash equivalents at beginning of the period		241,286	164,439
Cash and cash equivalents at the end of the period		350,642	241,286
Cash and cash equivalents balance is comprised of:		350,642	241,286
Cash on hand		3,598	27,192
Demand deposits in central bank	9	333,305	200,670
Demand and short-term deposits in credit institutions and other financial institutions	9	13,739	13,424

Notes to the financial statements on pages 46 to 118 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 equity
Balance as at 31.12.2020	61,756	12,061	2,802	142	-18	20,824	97,567
Paid in share capital	430	169	0	-113	0	0	486
Changes in reserves	0	0	363	0	0	-363	0
Share options *	0	0	0	224	0	0	224
Net profit	0	0	0	0	0	13,463	13,463
Other comprehensive loss	0	0	0	0	3	0	3
Total comprehensive income	0	0	0	0	3	13,463	13,466
Balance as at 31.12.2021	62,186	12,230	3,165	253	-15	33,924	111,743
Paid in share capital	6,962	13,205	0	-18	0	0	20,149
Dividends paid	0	0	0	0	0	-2,738	-2,738
Changes in reserves	0	0	673	0	0	-673	0
Share options *	0	0	0	480	0	0	480
Net profit	0	0	0	0	0	20,350	20,350
Other comprehensive income	0	0	0	0	-868	0	-868
Total comprehensive income	0	0	0	0	-868	20,350	19,482
Balance as at 31.12.2022	69,148	25,435	3,838	715	-883	50,863	149,116

*See Note 19

Notes to the financial statements on pages 46 to 118 are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1 Accounting principles

Coop Pank AS (Reg. No. 10237832) is a credit institution registered in Tallinn (Estonia) Maakri street 30. The consolidated annual report (incl. financial statements) of Coop Pank group for the year 2022 was approved by the Management Board of Coop Pank on 14 March 2023. The consolidated annual report approved by the Management Board shall be authorised for approval by the Supervisory Board and shareholders. The shareholders have the right not to approve the consolidated annual report while the Supervisory Board does not have that right.

Functional and presentation currency

The functional currency of the Coop Pank group companies is euro. 2022 consolidated financial statements have been presented in thousands of euros, unless stated otherwise.

1.1 Basis of preparation

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

1.2 Critical accounting estimates and judgements

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

Critical estimates are primarily used in the following areas:

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

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

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

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

1.3 Consolidation

These consolidated financial statements of the Coop Pank group are comprised as at 31 December 2022. The group's 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 the IFRS. The statements of financial position and statement of profit or loss and other comprehensive income of the bank and its subsidiaries are consolidated on a line-by-line basis, eliminating the intercompany balances, revenues, income, expenses and unrealised 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%
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 the parent company's separate financial statements investments in subsidiaries are accounted for at cost less any impairment recognised.

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

1.5. Financial assets

Classification

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

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

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

The classification made can be seen in the table below:

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

Recognition and derecognition

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

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

Measurement

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

Debt instruments

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

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

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

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

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net within other income/(expenses) in the period in which it arises. Such fair value gain or loss includes any contractual interest received on debt instruments classified to this category. As at 31 December 2021 and 31 December 2022 the Group had no debt financial assets measured at FVPL.

<u>Equity instruments</u>

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit or loss under ”credit loss allowance”.

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

Cash and cash equivalents

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

Lease receivables

Finance lease transactions are lease transactions under which all significant risks and rights from using the assets are transferred from the Group to the lessee. Legal ownership of assets is transferred to the customer at the end of the lease term. The receivables from the finance lease agreements are recognised 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 recognised over the rental period based on the pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. The lessor's direct expenses related to the contract are part of effective interest rate and are booked as decrease of income from lease over the period of lease contract. Lease receivables are presented in the statement of financial position net of the loss allowance. A lease receivable from a client is recognised in the statement of financial position as of the moment of delivering the assets that are the subject of the agreement to the client. In case of transactions in which the assets that are the object of the agreement have a long delivery term have not yet been delivered to the client, the payments received from the lessees under these agreements are recognised 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 recognised 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 Group as 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). The transaction is booked as financing if the Group does not own all the rights related to the receivable. The receivable is included in the statement of financial position until payment is received or recourse is expired. If a contract does not include the seller's guarantee and the Group acquires control of all rights at the moment of selling the receivable, the transaction is accounted for as an acquisition of a receivable at fair value. Subsequently, the receivables are measured at amortised cost. The receivable from the client is recognised as of the moment of factoring the purchase-sale agreement, i.e. as of acquisition of the receivable. Warehouse receipt financing transactions are financing transactions where the lease firm finances its partners by granting them a loan against pledged stock reserves.

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

1.6 Property, plant and equipment and intangible assets

Land, buildings, IT equipment, office equipment and other assets of long-term use are recognised in the statement of financial position as property, plant and equipment. Intangible assets are identifiable, non-monetary assets without physical substance and as at balance sheet date comprise acquired or internally developed software and licences (Note 14).

Property, plant and equipment and intangible assets are initially recognised at acquisition cost, consisting of the purchase price, non-refundable taxes and other direct costs related to taking the asset into use. Subsequent expenditures related to an item of property, plant and equipment are recognised as an asset if these are in accordance with the 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/amortisation and any impairment losses. Depreciation/amortisation is calculated starting from the month following to acquisition until the asset is fully depreciated. Assets are depreciated/amortised on a straight-line basis. Depreciation/amortisation calculation is based on the useful life of the assets groups, which serves as basis for forming the depreciation/amortisation rates.
In the case of tangible assets, the annual depreciation rate for buildings is up to 5%, the depreciation rate for vehicles is up to 15% p.a., for improvements of rental space is up to 20% p.a. or until the end of the lease term, whichever is shorter. The annual depreciation rate for computers, office equipment and furniture is up to 25% p.a.
For intangible assets, the annual depreciation rate for the group's core systems is 15% p.a., for user environments is 20% p.a. and for purchased licenses is up to 33% p.a.

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

Gains or losses from sale of non-current assets is determined by comparison of the sales price with the carrying amount. Gain or loss on sale is recognised in the statement of profit or loss in the line items "Net gains from non-financial assets realisation ".

Capitalisation of expenses

Leasehold improvements related to the leased space used by the Group are capitalised 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 recognised 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 recognised in acquisition value, less accumulated impairment losses. The Group tests 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 groups of cash-generating units that benefit from the synergy of the business combination. Profit or loss from the termination or sale of cash-generating units where goodwill is allocated consists 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 use in the ordinary course of business.

An investment property is initially recognised 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 recognised in the line item "Change in fair value of investment properties" in the statement of profit or loss of the reporting period in which they are incurred.

When an investment property undergoes a change in use, the asset is reclassified in the statement of financial position. From the date when this change occurred, accounting policies of this asset group into which the item has been reclassified shall be applied. If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes. If an item of owner-occupied property becomes an investment property any difference resulting between the fair value and carrying amount of the property is recognised 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 recognised 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 realisable value. The net realisable 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 amortisation and are tested annually for impairment, comparing the carrying value of the asset to its recoverable value. Assets that are subject to amortisation/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 recognised 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 the 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 a 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 a need to remeasure the lease liability. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

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

A lessee shall remeasure the lease liability by discounting the revised lease payments with unchanged discount rates, if either:
a) there is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.

b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments. The lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates.

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

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

1.11 Financial liabilities

The classification made can be seen in the table below:

<table>
<tr><th colspan="2">Category by IFRS9</th><th colspan="2">Category as determined by the Group</th></tr>
<tr><td rowspan="5">Financial liabilities</td><td rowspan="5">Financial liabilities measured at amortised cost</td><td rowspan="3">Deposits from customers and loans received</td><td>Private individuals</td></tr>
<tr><td>Legal entities</td></tr>
<tr><td>Credit institutions</td></tr>
<tr><td colspan="2">Subordinated debt</td></tr>
<tr><td colspan="2">Other financial liabilities</td></tr>
<tr><td rowspan="2">Contingent liabilities</td><td colspan="3">Contingent loan commitments</td></tr>
<tr><td colspan="3">Financial guarantees</td></tr>
</table>

Deposits from customers

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

Loans received

Loans received are recognised initially at fair value net of transaction costs (the proceeds received, net of transaction costs incurred). Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the instrument using the effective interest rate. The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity. The amortisation of the transaction costs is presented in the statement of profit or loss together with the interest expense. The respective interest expense is recorded in the statement of profit or loss on line "Interest and similar expense". If there is an unused limit for any borrowings, this is presented as contingent asset.

Loan commitments

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

1.12 Financial guarantee contracts

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

Financial guarantees are initially recognised 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 recognised at the outstanding value of guarantee. In the statement of profit or loss the fee income earned on a guarantee is recognised on a 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 recognised as revenue on a time proportion basis over the respective commitment period. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition, or (ii) the amount of the loss allowance determined based on the expected credit loss model. The amounts disbursed to settle the guarantee obligation are recognised 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 programme, 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 recognised as an expense over the term of the option programme as an increase in the Group's labor costs and an increase in equity (other reserves). The total cost is determined by the fair value of the options at the time they are issued. The fair value of the options is determined taking into account the market conditions affecting the option price, including the share price of Coop Pank AS. At the end of each reporting period, the Group estimates how many options are likely to become exercisable. Changes compared to initial estimates are recognised in the statement of profit or loss and with a correspondent adjustment to equity. When the options are exercised, Coop Pank AS issues new shares. According to the terms and conditions of the share options, there are no social tax expenses when exercising options after 3 years.

1.15 Revenue and expense recognition

Interest income and expense is recognised in statement of profit or loss for all interest-earning financial assets and interest-bearing financial liabilities carried at amortised cost using the effective interest rate method.
The effective interest method is a method of calculating the amortised 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 recognised using the rate of interest used to discount 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 (i.e. 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 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 recognised as an adjustment to the effective interest rate on the credit.
Fee and commission income are recognised when incurred. Such income includes recurring fees for account servicing. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

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

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

Dividend income

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

1.16 Taxation

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

In connection to the amendments to the Income Tax Act, starting from 2018 credit institutions are obliged to pay an 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 recognised in the consolidated statement of profit or loss as income tax expense in the period in which the basis for calculating the income tax is calculated, regardless of when the income tax is paid.

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

From 2019, a 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 a tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 was the first year to be taken into account.

1.17 Statutory reserve capital

The 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 the 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.

The following new or revised standards and interpretations became effective for the Group from 1 January 2022, but would not have a material impact on the 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 (becomes effective on 1 January 2022 or for reporting periods starting thereafter).

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of property, plant or equipment 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 has to use IAS 2 to measure the cost of those items. Cost does not include depreciation of the asset being tested because it is not yet 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 fulfill 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 would not expect the amendments to have a material impact on its financial statements.

The rest of the new or revised standards and interpretations, which came into force for the first time in the reporting year starting on 01.01.2022, are not expected to have a significant impact on the Group.

New or revised standards and interpretations have been issued that will become mandatory for the Group from 01.01.2023 or later, and which the Group has not implemented early:

Disclosure of Accounting policies - amendments to IAS 1 and IFRS Practice Statement 2 (effective for annual periods beginning on or after 1 January 2023).

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

Definition of Accounting Estimates – amendments to IAS 8 (effective for annual periods beginning on or after 1 January 2023).

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

Deferred tax related to assets and liabilities arising from a single transaction – amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2023).

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

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (effective for annual periods beginning on or after 1 January 2024; not yet adopted by the EU).

The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate.
The Group is currently assessing the impact of the new amendments on its financial statements.

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 2024; not yet adopted by the EU).

These 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. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations on whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. 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.
The Group is currently assessing the impact of the new amendments on its financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (effective date to be determined by the IASB; not yet adopted by the EU).

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the new amendments on its financial statements.

There are no other new or revised standards or interpretations (incl. IFRS 17, IFRS 4 and IFRS 14) 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 management, risk management also involves 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 taking into account the operational control environment based on expert judgment of the magnitude of the risk and the likelihood of its occurrence,.

Regardless of these options, 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 that reaches top management level.

Structure and responsibility of risk management

The Group's risk management system is centralised at 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 the implementation of risk management, control and risk management policies and methods and the effectiveness of risk management. In organising 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** are defined by 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 of the Bank's and Group's liquidity risk and short- and long-term liquidity position;
- monitoring of the maturity structure of the Bank's assets and liabilities;
- planning of the balance of interest income and expenses and management of interest rate risk;
- introducing limits on term and volume measures related to counterparties;
- debt securities portfolio management.

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

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

The Account Establishment Committee manages and controls the establishment of customer relationships and monitoring and, if necessary, termination of customer relationships through its decisions with clients with a higher risk of money laundering and terrorist financing prevention.

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

Structural units with direct risk control functions:

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 measures necessary for controlling risks are implemented.

Second line of defence

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

The main functions of the second line of defence are:

- a 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 organisation.

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 activities of the Internal Audit Unit are 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. Eligible capital is defined as the Group's own funds which consist of Tier 1 and Tier 2 capital. An overview of the regulatory capital is provided in the following table:

Capital base	31.12.2022*	31.12.2021
Tier 1 capital		
Paid-in share capital and share premium	94,583	74,416
Statutory reserve capital	3,838	3,165
Retained earnings	30,513	20,461
The accepted profit of the reporting period	10,769	8,012
Other accumulated comprehensive income	-883	-15
Goodwill as intangible asset (-)	-6,757	-6,757
Intangible assets (-)	-8,579	-7,457
Adjustment of value arising from requirements of reliable measurement (-)	-18	-6
Other deductions from Tier 1 Capital (-)	-1,898	-963
Other adjustments of own funds resulting from transitional provisions	157	315
Common Equity Tier 1 (CET1)	121,725	91,171
Additional Tier 1 capital	16,100	0
Total Tier 1 capital	137,825	91,171
Subordinated debt	22,000	17,000
Tier 2 capital	22,000	17,000
Eligible capital for capital adequacy calculation	159,825	108,171

* Includes audited profit for a nine month period in 2022, which is included as approved by the Financial Supervisory Authority.

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

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

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

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

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

For determining the capital requirement, the financial position is forecast, taking into account changes by items of the risk position and equity. The financial position and profit and loss forecasts are reviewed regularly and approved by the Bank's Management Board. It also takes into account the possible impact of strategic and reputation risk to the Group's business success, and determines the necessary equity buffer to ensure the desired internal capital adequacy level if alternative and risk scenarios materialise. 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 31.12.2022 and also at 31.12.2021, the Group was in compliance with all regulatory capital requirements.

Credit risk management

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

The Group follows the standard method of calculating credit risk capital requirements. In calculating capital requirements, the Group uses ratings of accepted rating agencies according to the procedure established by the Financial Supervisory Authority.

Credit risk management is based on the Group's credit policy. The main objectives of credit policy are to sustainably achieve the rate of return on the Group's assets from credit activities required by shareholders, adhering to the prudency and risk diversification principles and taking moderate risks that can be evaluated and managed.

Credit risk arises from the following financial instruments:

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

The cash placements to credit institutions and financial investments into debt securities are done within the counterparty transaction limits imposed by the Assets and Liabilities Committee (ALCO). When assessing the counterparty creditworthiness and credit limit, the counterparty's domicile, financial position, management, legal status and market position are 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, financial position and on other implications on the increase of credit risk:

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 performing, there are no overdue principal and interest payments or they 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 payments that are past due by 31-60 days.

D – insufficient creditworthiness of the borrower, on the basis of 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; payments past due by 61-90 days;

E – the borrower is not able to permanently execute the loan according to contractual terms, i.e. defaulted loan; payments past due by 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; payments 181 days overdue or 91 days or more with repayments in the past 3 months totalling 0 euros.

In risk classification and defining past due claims the materiality thresholds from capital regulation are applied.

The Group allocates loans to credit quality classes as follows:

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

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

2022 brought a considerable increase of uncertainty into the economy. There are several factors influencing the macroeconomical situation starting from continuous effects of the pandemic on supply chains, the political situation with the ongoing war in Ukraine, energy crises, etc. Very high inflation levels, increasing EURIBOR rate and an expected increase in unemplyment affects the confidence level of consumers. So far, the effects on the credit portfolio are not noticeable, the overdue debt level is continuously very low, there is very limited demand for payment holidays and the collateral values have not been affected yet. The Group follows closely the changes in overall market conditions and has adapted its general credit risk evaluation, processes and models according to the changed economical environment and outlook:

- During the first quarter of 2022, the Group detected a list of customers affected directly or indirectly by the confict between Ukraine and Russia. The list of customers were added to a watchlist and special ECL allowances were booked. As of the end of the year, most of the customers managed to reorganise their acivities and most of the special ECL allowances were relased.

The Group has further developed their model for the calculation of expected credit losses widening the macroeconomical, environmental, socioeconomic and management-related factors in the model and revising the weights. The changes have made the model more sensitive to changes in the economy and credit quality. Clients whose activities could pose an environmental risk are checked on a case-by-case basis to ensure that their activities are in line with all valid norms of environmental protection.

Measurement of expected credit loss (ECL)

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

In accordance with IFRS 9 the financial instruments are classified into three stages based on the number of days of past due, the 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 receivables 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 realisation 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.

In order to incorporate forward-looking information into ECL measurements, the expected PD of the receivable is adjusted with macroeconomic forecasts starting from month 4.

For all product groups, different macroeconomic scenarios have been used to correct PD's based on quantitative analysis and expert judgement. Of the macroeconomic indicators, the bank uses a mix of indicators which, according to performed analysis, proved to be statistically relevant for different product groups:

- Consumer loans – unemployment rate, consumer price index, 6 months Euribor rate;
- Mortgage loans – unemployment rate, consumer price index, GDP change, average mortgage loan interest margin, real estate price index, employment rate, average monthly gross wage;
- Corporate loans – unemployment rate, consumer price index, GDP change, real estate price index, employment rate, 6 months Euribor rate.

The regression analysis was made between Estonia's overdue loans and macro indicators. Forecasts of macro indicators are based on the latest available analysis of the Bank of Estonia on macroeconomic trends. The weighted impact on the probability of default is calculated using a weighting of 60% for the baseline scenario, 10% for a positive scenario and 30% for a negative scenario for all product groups, where expert opinions have been used to determine the weights. Compared to 2021, the weights remained unchanged.

Individual and collective assessment, grouping

Loans to legal entities are individually assessed where the total risk of the client (total amount of receivables, if the risk is subject to consolidation in the sense of regulatory concentration risk) exceeds the risk limit of 250 thousand euros and has a rating of C, D, E and F. For private individuals the corresponding risk limit is 150 thousand euros. Loans to watchlist clients are also individually assessed.

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

Frequency of receivable assessments:

- collective assessment is performed on a monthly basis;
- individual assessment is performed quarterly and the results are approved by 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;
- the customer's risk class has been downgraded by 2 levels since issuing the loan;

- one of the customer's receivables is restructured due to payment difficulties or contains a grace period or interest rate rescheduling;
- the customer is on the watchlist.

All receivables from the same corporate borrower are valued in the same category as the lowest risk category. In determining past due obligations in risk classification the Group uses materiality thresholds set by capital regulation.

Signs that indicate the potential need to include customers to the watchlist are:

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

Definition of default and credit-impaired assets

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

- at least one of the loans issued to the customer is more than 90 days past due on its contractual payments (principal or interest); and
- overdue debt exceeds materiality threshold.

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. reorganisation);
- the client's cash flow/income is insufficient to fully meet their obligations and the client's collateral has been settled in enforcement or bankruptcy proceedings;
- the net present value of receivable has been reduced more than 1% of the receivable amount in the course of restructuring due to payment difficulties and the characteristics of the restructuring due to payment difficulties remain;
- credit exposure has been restructured multiple times and it is probable that the customer is not able to service and repay the loans according to agreed terms;
- a private customer has died, and the receivable has not been re-written to a new borrower (such as an heir);

- the customer has committed fraud.

If the loan has been properly serviced for at least 3 months and none of the above criteria is present (default criteria or signs of significant increase in credit risk), the loan may recover to stage 2 or stage 1, excl. if the credit claim has been subject to restructuring measures due to insolvency. If the contracts have been subject to restructuring, a two years' probation period after the end of application of restructuring measures is applied before the claims can be recover to stage 1 or 2.

Sensitivity analysis

When conducting sensitivity analysis, the Group uses changes in macro indicators which, according to performed analyses, proved to be statistically relevant and have more effect on the changes of allowances – unemployment rate, consumer price index, GDP change, average mortgage loan interest margin and real estate price index. A sensitivity analysis shows impact on the Group's ECL if different macro indicator values are used in ECL calculations.

The weighted impact on default probability is calculated using weighting of 60% for a base scenario,10% for a positive scenario and 30% for a negative scenario for all the loan categories. The weights were not changed in 2022.

The table below shows the impact of changes in the base scenario weights on the Group's loan portfolio as at 31.12.2022.

Change in the weights of the scenario (base-positive-negative)	Impact on ECL
60%-0%-40%	221
60%-20%-20%	-203

As at 31.12.2021, the impact of changes in the base scenario weights were the following:

Change in the weights of the scenario (base-positive-negative)	Impact on ECL
60%-0%-40%	12
60%-20%-20%	-23

This table shows the Group's ECL change as of 31.12.2022, if the following changes had occured in macroeconomic indicators relative to the base scenario:

	Impact of increase	Impact of decrease
Unemployment rate +/-1%	856	-627
Consumer price index +/-1%	109	-91
Real estate price index +/-2%	-202	242
GDP change +/-5%	-23	91
Mortgage loan interest margin +/-0.5%	47	0

This table shows the Group's ECL change as of 31.12.2021, if the following changes had occurred in macroeconomic indicators relative to the base scenario:

	Impact of increase	Impact of decrease
Unemployment rate +/-1%	159	-97
Consumer price index +/-1%	35	-11
Real estate price index +/-2%	-46	36
GDP change +/-5%	-11	0
Mortgage loan interest margin +/-0.5%	34	-3

Maximum exposure to credit risk

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

31.12.2022	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	364,878	0	0	364,878
Debt securities at fair value through other comprehensive income	18,747	0	0	18,747
Loans to private individuals				
Consumer loans	85,073	2,573	1,422	89,068
Lease financing	60,814	619	15	61,448
Mortgage loans and other loans	496,235	10,197	393	506,825
Loans to legal entities				
Lease financing	78,666	3,072	654	82,392
Other loans to legal entities	539,151	29,610	4,145	572,906
Total	1,259,939	46,071	6,629	1,312,639
Loss allowance	-5,805	-3,481	-2,578	-11,864
Total net loans	1,254,134	42,590	4,051	1,300,775
Exposures related to off-balance sheet items				
Financial guarantees	13,764	1,561	94	15,419
Unused credit limits	30,450	1,458	3	31,911
Unused overdrafts	103,964	3,455	0	107,419
Total off-balance sheet exposures	148,178	6,474	97	154,749
Loss allowance	-355	-215	-8	-578
Total net off-balance sheet exposures	147,823	6,259	89	154,171

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

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

31.12.2022	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	351,139	351,139
Receivables from credit institutions and other financial institutions*	1,243	614	3	0	0	11,879	13,739
Debt securities at fair value through other comprehensive income	0	14,725	1,426	0	0	2,596	18,747

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

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

On assessing the credit quality, the Group uses credit ratings 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.
According to Article 114 of the mentioned regulation, receivables from the European Central Bank have the highest credit quality level, and receivables from the national central banks of member states have also the highest credit quality level, if these receivables are nominated in euros.
Coop Pank cash and high-quality receivables from the central bank (The Bank of Estonia) are not rated but can be classified as AA- or higher credit quality.

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.
Other non-rated receivables from credit institutions and other financial institutions are of good quality and there is no indication of impairment.
Debt securities at fair value through other comprehensive income are predominantly liquid, which is why their expected credit losses are also considered insignificant.

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

Consumer loans to individuals	Stage 1	Stage 2	Stage 3	2022 total	Stage 1	Stage 2	Stage 3	2021 total
A	83,456	0	0	83,456	64,084	0	0	64,084
B	1,617	0	0	1,617	1,411	0	0	1,411
C	0	2,300	0	2,300	0	2,490	0	2,490
D	0	273	0	273	0	436	0	436
E	0	0	338	338	0	0	362	362
F	0	0	1,084	1,084	0	0	1,597	1,597
Total	85,073	2,573	1,422	89,068	65,495	2,926	1,959	70,380
Loss allowances	-1,717	-547	-1,183	-3,447	-1,257	-547	-1,619	-3,423
Carrying amount	83,356	2,026	239	85,621	64,238	2,379	340	66,957

Lease financing to individuals	Stage 1	Stage 2	Stage 3	2022 total	Stage 1	Stage 2	Stage 3	2021 total
A	60,446	0	0	60,446	50,217	0	0	50,217
B	368	0	0	368	337	0	0	337
C	0	560	0	560	0	322	0	322
D	0	59	0	59	0	15	0	15
E	0	0	11	11	0	0	6	6
F	0	0	4	4	0	0	6	6
Total	60,814	619	15	61,448	50,554	337	12	50,903
Loss allowances	-86	-3	-6	-95	-32	-5	-5	-42
Carrying amount	60,728	616	9	61,353	50,522	332	7	50,861

Mortgage and other private loans	Stage 1	Stage 2	Stage 3	2022 total	Stage 1	Stage 2	Stage 3	2021 total
A	495,875	0	0	495,875	354,297	0	0	354,297
B	360	0	0	360	716	0	0	716
C	0	10,189	0	10,189	0	8,912	0	8,912
D	0	8	0	8	0	49	0	49
E	0	0	80	80	0	0	274	274
F	0	0	313	313	0	0	351	351
Total	496,235	10,197	393	506,825	355,013	8,961	625	364,599
Loss allowances	-222	-176	-129	-527	-78	-181	-109	-368
Carrying amount	496,013	10,021	264	506,298	354,935	8,780	516	364,231

Lease financing to legal entities	Stage 1	Stage 2	Stage 3	2022 total	Stage 1	Stage 2	Stage 3	2021 total
A	23,528	0	0	23,528	18,556	0	0	18,556
B	55,138	0	0	55,138	37,392	0	0	37,392
C	0	3,067	0	3,067	0	1,751	0	1,751
D	0	5	0	5	0	141	0	141
E	0	0	654	654	0	0	0	0
F	0	0	0	0	0	0	4	4
Total	78,666	3,072	654	82,392	55,948	1,892	4	57,844
Loss allowances	-341	-159	-124	-624	-367	-108	-2	-477
Carrying amount	78,325	2,913	530	81,768	55,581	1,784	2	57,367

Other loans to legal entities	Stage 1	Stage 2	Stage 3	2022 total	Stage 1	Stage 2	Stage 3	2021 total
A	186,901	0	0	186,901	85,902	0	0	85,902
B	352,250	0	0	352,250	317,257	0	0	317,257
C	0	29,274	0	29,274	0	12,705	0	12,705
D	0	336	0	336	0	0	0	0
E	0	0	3,983	3,983	0	0	2,515	2,515
F	0	0	162	162	0	0	118	118
Total	539,151	29,610	4,145	572,906	403,159	12,705	2,633	418,497
Loss allowances	-3,439	-2,596	-1,136	-7,171	-2,829	-866	-822	-4,517
Carrying amount	535,712	27,014	3,009	565,735	400,330	11,839	1,811	413,980

During the reporting period 2 thousand euros (2021: 24 thousand euros) were recognised as allowance provision for unused limits of lease financing and 576 thousand euros (2021: 276 thousand euros) were recognised as allowance provision for unused limits of other loans to legal entities.

Off-balance sheet exposures	Stage 1	Stage 2	Stage 3	2022 total	Stage 1	Stage 2	Stage 3	2021 total
A	71,258	0	0	71,258	56,871	0	0	56,871
B	76,920	40	0	76,960	82,728	0	0	82,728
C	0	6,434	0	6,434	0	1,792	0	1,792
D	0	0	0	0	0	0	0	0
E	0	0	97	97	0	0	0	0
F	0	0	0	0	0	0	0	0
Total	148,178	6,474	97	154,749	139,599	1,792	0	141,391
Loss allowances	-355	-215	-8	-578	-285	-15	0	-300
Carrying amount	147,823	6,259	89	154,171	139,314	1,777	0	141,091

Allocation of past due loans (gross carrying amount)

31.12.2022	Loans to private individuals			Loans to legal entities		
	Consumer loans	Lease financing	Mortgage loans and other loans	Lease financing	Other loans	Total
1-30 days	4,350	2,263	3,621	2,169	986	13,389
31-60 days	997	301	997	919	453	3,667
61-90 days	490	107	234	90	248	1,169
Over 90 days	1,552	42	342	363	162	2,461
Total	7,389	2,713	5,194	3,541	1,849	20,686

31.12.2021	Loans to private individuals			Loans to legal entities		
	Consumer loans	Lease financing	Mortgage loans and other loans	Lease financing	Other loans	Total
1-30 days	3,473	2,066	1,670	3,180	6,331	16,720
31-60 days	758	100	512	162	289	1,821
61-90 days	438	15	119	8	0	580
Over 90 days	1,816	6	380	4	118	2,324
Total	6,485	2,187	2,681	3,354	6,738	21,445

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

Non-performing loans (stage 3)

31.12.2022	Gross carrying amount	Loss allowance	Carrying amount	Fair value of the collateral
Loans to private individuals				
Consumer loans	1,422	-1,183	239	0
Lease financing	15	-6	9	32
Mortgage loans and other loans	393	-129	264	877
Total	1,830	-1,318	512	909
Loans to legal entities				
Lease financing	654	-124	530	1,729
Other loans	4,145	-1,136	3,009	2,863
Total	4,799	-1,260	3,539	4,592

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

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 realisation of collateral. Expert assessments are used to assess immovables. Individual valuations of commercial real estate are updated at least once a year. In the case of residential and other homogenous types of real estate, statistical indexing models are also used for regular revaluation.

The main types of loan collaterals are:

- real estate (mortgage on property);
- rights of claims;
- commercial pledge;
- machinery and equipment;
- guarantee of KredEx or Rural Development Foundation;
- a surety or guarantee from a private person or legal entity;
- bank deposit;
- pledge of shares;
- traded securities.

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

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

During the reporting period, the Group's internal rules regarding collateral have not changed significantly and there has also been no significant change in the overall quality of collateral. An overview of the over and under-collateralised loans to customers are given in the tables below.

31.12.2022	Over-collateralised loans		Under-collateralised loans	
	Carrying amount	Fair value of the collateral	Carrying amount	Fair value of the collateral
Loans to private individuals				
Consumer loans	0	0	85,621	0
Lease financing	60,142	95,486	1,211	368
Mortgage loans and other loans	501,110	1,015,715	5,188	682
Total	561,252	1,111,201	92,020	1,050
Loans to legal entities				
Lease financing	80,723	142,460	1,045	805
Other loans	522,101	2,618,603	43,634	6,194
Total	602,824	2,761,063	44,679	6,999

31.12.2021	Over-collateralised loans		Under-collateralised loans	
	Carrying amount	Fair value of the collateral	Carrying amount	Fair value of the collateral
Loans to private individuals				
Consumer loans	0	0	66,957	0
Lease financing	50,142	76,379	719	195
Mortgage loans and other loans	361,529	763,523	2,702	575
Total	411,671	839,902	70,378	770
Loans to legal entities				
Lease financing	57,055	102,232	312	233
Other loans	376,725	1,810,620	37,254	5,690
Total	433,780	1,912,852	37,566	5,923

The loan risk level is also expressed by the market value of the collateral relative to the loan amount, i.e. the LTV ratio. The financial impact of the collateral is important for loans and receivables that are unlikely to be serviced by the customer's primary cash flows, which is evidenced in long overdue of the customers (over 90-days).

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

31.12.2022	Over-collateralised loans		Under-collateralised loans	
	Carrying amount	Fair value of the collateral	Carrying amount	Fair value of the collateral
Loans to private individuals				
Consumer loans	0	0	239	0
Lease financing	9	32	0	0
Mortgage loans and other loans	203	835	61	0
Total	212	867	300	0
Loans to legal entities				
Lease financing	530	1,729	0	0
Other loans	3,002	11,846	7	0
Total	3,532	13,575	7	0

31.12.2021	Over-collateralised loans		Under-collateralised loans	
	Carrying amount	Fair value of the collateral	Carrying amount	Fair value of the collateral
Loans to private individuals				
Consumer loans	0	0	340	0
Lease financing	4	10	3	0
Mortgage loans and other loans	448	1,461	68	0
Total	452	1,471	411	0
Loans to legal entities				
Lease financing	2	6	0	0
Other loans	1,806	6,728	5	0
Total	1,808	6,734	5	0

Loans and advances to customers by types of collateral

Private individuals	31.12.2022	31.12.2021
Loans secured by mortgage	502,132	362,647
Leased assets	61,184	50,639
Unsecured loans	93,317	72,464
Personal sureties, guarantees	603	102
Other	105	30
Total	657,341	485,882
Loss allowance	-4,069	-3,833
Total of net loans	653,272	482,049

Legal entities	31.12.2022	31.12.2021
Loans secured by mortgage	500,889	367,684
Leased assets	82,392	57,844
Unsecured loans	119	110
Personal sureties, guarantees	4,397	4,650
Other	67,501	46,053
Total	655,298	476,341
Loss allowance	-7,795	-4,994
Total of net loans	647,503	471,347

Impairment losses on financial assets

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

- Movements between stages 1, 2 and 3 due to significant increase (or decrease) in the credit risk of a financial instrument or due to default, followed by moving from a 12-month to a lifetime expected credit loss model (or vice versa);
- Impairment allowance on new financial instruments recognised 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 and gross carrying values between stages during the reporting period. Net impact from movements between states is included in the line "Recalculations of allowances".

2022	ECL Stage 1 (12month ECL)	ECL Stage 2 (lifetime ECL)	ECL Stage 3 (lifetime ECL)	ECL Total	Gross amount carrying Stage 1 (12month ECL)	Gross amount carrying Stage 2 (lifetime ECL)	Gross amount carrying Stage 3 (lifetime ECL)	Gross amount carrying Total
Balance as at 01.01.2022	-4,563	-1,707	-2,557	-8,827	930,169	26,821	5,233	962,223
Transfer to stage 1	-495	384	111	0	5,994	-5,641	-353	0
Transfer to stage 2	285	-319	34	0	-32,874	32,975	-101	0
Transfer to stage 3	20	212	-232	0	-1,719	-2,519	4,238	0
Recalculations of allowances	582	-2,872	-1,739	-4,029	0	0	0	0
Financial assets derecognised and repaid	452	218	365	1,035	-150,045	-6,502	-1,000	-157,547
New financial assets originated or purchased	-2,147	-82	0	-2,229	508,628	3,041	0	511,669
Total net P&L charge during the period	-1,303	-2,459	-1,461	-5,223	329,984	21,354	2,784	354,122
Other movements with no P&L impact								
Write-offs	0	0	27	27	0	0	-59	-59
Financial assets derecognised and repaid during the period	61	685	1,413	2,159	-214	-2,104	-1,329	-3,647
Balance as at 31.12.2022	-5,805	-3,481	-2,578	-11,864	1,259,939	46,071	6,629	1,312,639

2021	ECL Stage 1 (12month ECL)	ECL Stage 2 (lifetime ECL)	ECL Stage 3 (lifetime ECL)	ECL Total	Gross carrying amount Stage 1 (12month ECL)	Gross carrying amount Stage 2 (lifetime ECL)	Gross carrying amount Stage 3 (lifetime ECL)	Gross carrying amount Total
Balance as at 01.01.2021	-3,351	-2,514	-2,878	-8,743	640,172	30,701	8,463	679,336
Transfer to stage 1	-507	436	71	0	6,442	-6,269	-173	0
Transfer to stage 2	91	-136	45	0	-13,966	14,109	-143	0
Transfer to stage 3	15	807	-822	0	-941	-3,447	4,388	0
Recalculations of allowances	1,049	-930	-1,539	-1,420	0	0	0	0
Financial assets derecognised and repaid	559	210	714	1,483	-111,634	-9,311	-3,515	-125,460
New financial assets originated or purchased	-2,419	-84	0	-2,503	410,098	2,345	1	412,444
Total net P&L charge during the period	-1,212	303	-1,531	-2,440	289,999	-2,573	-442	286,984
Other movements with no P&L impact								
Write-offs	0	3	125	128	0	-13	-221	-234
Financial assets derecognised and repaid during the period	0	501	1,727	2,228	-2	-1,294	-2,567	-3,863
Balance as at 31.12.2021	-4,563	-1,707	-2,557	-8,827	930,169	26,821	5,233	962,223

The following tables analyses the movement of allowances and gross carrying values during the reporting period by product:

Consumer loans. 2022	ECL Stage 1 (12month ECL)	ECL Stage 2 (lifetime ECL)	ECL Stage 3 (lifetime ECL)	ECL Total	Gross carrying amount Stage 1 (12month ECL)	Gross carrying amount Stage 2 (lifetime ECL)	Gross carrying amount Stage 3 (lifetime ECL)	Gross carrying amount Total
Balance as at 01.01.2022	-1,257	-547	-1,619	-3,423	65,495	2,926	1,959	70,380
Transfer to stage 1	-222	172	50	0	1,059	-981	-78	0
Transfer to stage 2	19	-43	24	0	-2,373	2,412	-39	0
Transfer to stage 3	12	43	-55	0	-856	-526	1,382	0
Recalculations of allowances	565	-857	-1,280	-1,572	0	0	0	0
Financial assets derecognised and repaid	185	0	284	469	-21,489	845	-473	-21,117
New financial assets originated or purchased	-1,080	0	0	-1,080	43,451	1	0	43,452
Total net P&L charge during the period	-521	-685	-977	-2,183	19,792	1,751	792	22,335
Other movements with no P&L impact								
Write-offs	0	0	0	0	0	0	0	0
Financial assets derecognised and repaid during the period	61	685	1,413	2,159	-214	-2,104	-1,329	-3,647
Balance as at 31.12.2022	-1,717	-547	-1,183	-3,447	85,073	2,573	1,422	89,068

Consumer loans. 2021	ECL Stage 1 (12month ECL)	ECL Stage 2 (lifetime ECL)	ECL Stage 3 (lifetime ECL)	ECL Total	Gross carrying amount Stage 1 (12month ECL)	Gross carrying amount Stage 2 (lifetime ECL)	Gross carrying amount Stage 3 (lifetime ECL)	Gross carrying amount Total
Balance as at 01.01.2021	-1,459	-754	-2,476	-4,689	64,091	3,497	3,293	70,881
Transfer to stage 1	-279	229	50	0	1,211	-1,122	-89	0
Transfer to stage 2	42	-65	23	0	-2,550	2,607	-57	0
Transfer to stage 3	14	50	-64	0	-870	-708	1,578	0
Recalculations of allowances	912	-508	-1,462	-1,058	0	0	0	0
Financial assets derecognised and repaid	267	4	583	854	-24,444	-72	-200	-24,716
New financial assets originated or purchased	-754	-4	0	-758	28,059	18	1	28,078
Total net P&L charge during the period	202	-294	-870	-962	1,406	723	1,233	3,362
Other movements with no P&L impact								
Write-offs	0	0	0	0	0	0	0	0
Financial assets derecognised and repaid during the period	0	501	1,727	2,228	-2	-1,294	-2,567	-3,863
Balance as at 31.12.2021	-1,257	-547	-1,619	-3,423	65,495	2,926	1,959	70,380

Lease financing to private individuals, 2022	ECL Stage 1 (12month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total	Gross carrying amount Stage 1 (12month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Balance as at 01.01.2022	-32	-5	-5	-42	50,554	337	12	50,903
Transfer to stage 1	-1	1	0	0	94	-94	0	0
Transfer to stage 2	0	0	0	0	-535	535	0	0
Transfer to stage 3	0	0	0	0	-8	-13	21	0
Recalculations of allowances	-35	0	-11	-46	0	0	0	0
Financial assets derecognised and repaid	6	1	7	14	-14,741	-153	-10	-14,904
New financial assets originated or purchased	-24	0	0	-24	25,450	7	0	25,457
Total net P&L charge during the period	-54	2	-4	-56	10,260	282	11	10,553
Other movements with no P&L impact								
Write-offs	0	0	3	3	0	0	-8	-8
Financial assets derecognised and repaid during the period	0	0	0	0	0	0	0	0
Balance as at 31.12.2022	-86	-3	-6	-95	60,814	619	15	61,448

Lease financing to private individuals, 2021	ECL Stage 1 (12month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total	Gross carrying amount Stage 1 (12month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Balance as at 01.01.2021	-16	-11	-41	-68	36,705	475	127	37,307
Transfer to stage 1	-26	6	20	0	371	-302	-69	0
Transfer to stage 2	0	-7	7	0	-295	318	-23	0
Transfer to stage 3	0	0	0	0	0	0	0	0
Recalculations of allowances	22	3	-7	18	0	0	0	0
Financial assets derecognised and repaid	3	1	4	8	-10,926	-141	-7	-11,074
New financial assets originated or purchased	-15	0	0	-15	24,699	0	0	24,699
Total net P&L charge during the period	-16	3	24	11	13,849	-125	-99	13,625
Other movements with no P&L impact								
Write-offs	0	3	12	15	0	-13	-16	-29
Financial assets derecognised and repaid during the period	0	0	0	0	0	0	0	0
Balance as at 31.12.2021	-32	-5	-5	-42	50,554	337	12	50,903

Mortgage and other private loans, 2022	ECL Stage 1 (12month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total	Gross carrying amount Stage 1 (12month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Balance as at 01.01.2022	-78	-181	-109	-368	355,013	8,961	625	364,599
Transfer to stage 1	-41	17	24	0	1,141	-962	-179	0
Transfer to stage 2	1	-11	10	0	-3,233	3,295	-62	0
Transfer to stage 3	0	1	-1	0	-142	-25	167	0
Recalculations of allowances	-62	-13	-61	-136	0	0	0	0
Financial assets derecognised and repaid	12	11	6	29	-26,851	-1,072	-156	-28,079
New financial assets originated or purchased	-54	0	0	-54	170,307	0	0	170,307
Total net P&L charge during the period	-144	5	-22	-161	141,222	1,236	-230	142,228
Other movements with no P&L impact								
Write-offs	0	0	2	2	0	0	-2	-2
Financial assets derecognised and repaid during the period	0	0	0	0	0	0	0	0
Balance as at 31.12.2022	-222	-176	-129	-527	496,235	10,197	393	506,825

Mortgage and other private loans, 2021	ECL Stage 1 (12month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total	Gross carrying amount Stage 1 (12month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Balance as at 01.01.2021	-53	-121	-48	-222	254,762	7,077	622	262,461
Transfer to stage 1	-11	11	0	0	1,167	-1,154	-13	0
Transfer to stage 2	2	-5	3	0	-4,183	4,213	-30	0
Transfer to stage 3	0	9	-9	0	-31	-232	263	0
Recalculations of allowances	1	-96	-70	-165	0	0	0	0
Financial assets derecognised and repaid	4	22	15	41	-26,211	-958	-217	-27,386
New financial assets originated or purchased	-21	-1	0	-22	129,509	15	0	129,524
Total net P&L charge during the period	-25	-60	-61	-146	100,251	1,884	3	102,138
Other movements with no P&L impact								
Write-offs	0	0	0	0	0	0	0	0
Financial assets derecognised and repaid during the period	0	0	0	0	0	0	0	0
Balance as at 31.12.2021	-78	-181	-109	-368	355,013	8,961	625	364,599

Lease financing to legal entities, 2022	ECL				Gross carrying amount			
	Stage 1 (12month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total	Stage 1 (12month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Balance as at 01.01.2022	-367	-108	-2	-477	55,948	1,892	4	57,844
Transfer to stage 1	-48	48	0	0	916	-916	0	0
Transfer to stage 2	39	-39	0	0	-3,021	3,021	0	0
Transfer to stage 3	4	15	-19	0	-584	-263	847	0
Recalculations of allowances	293	-74	-147	72	0	0	0	0
Financial assets derecognised and repaid	34	24	22	80	-11,484	-1,060	-148	-12,692
New financial assets originated or purchased	-296	-25	0	-321	36,891	398	0	37,289
Total net P&L charge during the period	26	-51	-144	-169	22,718	1,180	699	24,597
Other movements with no P&L impact								
Write-offs	0	0	22	22	0	0	-49	-49
Financial assets derecognised and repaid during the period	0	0	0	0	0	0	0	0
Balance as at 31.12.2022	-341	-159	-124	-624	78,666	3,072	654	82,392

Lease financing to legal entities, 2021	ECL				Gross carrying amount			
	Stage 1 (12month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total	Stage 1 (12month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Balance as at 01.01.2021	-339	-169	-106	-614	44,003	2,805	296	47,104
Transfer to stage 1	-71	70	1	0	1,353	-1,351	-2	0
Transfer to stage 2	11	-23	12	0	-1,283	1,316	-33	0
Transfer to stage 3	0	0	0	0	0	0	0	0
Recalculations of allowances	302	-14	-100	188	0	0	0	0
Financial assets derecognised and repaid	36	45	97	178	-8,838	-952	-123	-9,913
New financial assets originated or purchased	-306	-17	0	-323	20,713	74	0	20,787
Total net P&L charge during the period	-28	61	10	43	11,945	-913	-158	10,874
Other movements with no P&L impact								
Write-offs	0	0	94	94	0	0	-134	-134
Financial assets derecognised and repaid during the period	0	0	0	0	0	0	0	0
Balance as at 31.12.2021	-367	-108	-2	-477	55,948	1,892	4	57,844

Other loans to legal entities, 2022	ECL Stage 1 (12month ECL)	ECL Stage 2 (lifetime ECL)	ECL Stage 3 (lifetime ECL)	ECL Total	Gross carrying amount Stage 1 (12month ECL)	Gross carrying amount Stage 2 (lifetime ECL)	Gross carrying amount Stage 3 (lifetime ECL)	Gross carrying amount Total
Balance as at 01.01.2022	-2,829	-866	-822	-4,517	403,159	12,705	2,633	418,497
Transfer to stage 1	-183	146	37	0	2,784	-2,688	-96	0
Transfer to stage 2	226	-226	0	0	-23,712	23,712	0	0
Transfer to stage 3	4	153	-157	0	-129	-1,692	1,821	0
Recalculations of allowances	-179	-1,928	-240	-2,347	0	0	0	0
Financial assets derecognised and repaid	215	182	46	443	-75,480	-5,062	-213	-80,755
New financial assets originated or purchased	-693	-57	0	-750	232,529	2,635	0	235,164
Total net P&L charge during the period	-610	-1,730	-314	-2,654	135,992	16,905	1,512	154,409
Other movements with no P&L impact								
Write-offs	0	0	0	0	0	0	0	0
Financial assets derecognised and repaid during the period	0	0	0	0	0	0	0	0
Balance as at 31.12.2022	-3,439	-2,596	-1,136	-7,171	539,151	29,610	4,145	572,906

Other loans to legal entities, 2021	ECL Stage 1 (12month ECL)	ECL Stage 2 (lifetime ECL)	ECL Stage 3 (lifetime ECL)	ECL Total	Gross carrying amount Stage 1 (12month ECL)	Gross carrying amount Stage 2 (lifetime ECL)	Gross carrying amount Stage 3 (lifetime ECL)	Gross carrying amount Total
Balance as at 01.01.2021	-1,484	-1,459	-207	-3,150	240,611	16,847	4,125	261,583
Transfer to stage 1	-120	120	0	0	2,340	-2,340	0	0
Transfer to stage 2	36	-36	0	0	-5,655	5,655	0	0
Transfer to stage 3	1	748	-749	0	-40	-2,507	2,547	0
Recalculations of allowances	-188	-315	100	-403	0	0	0	0
Financial assets derecognised and repaid	249	138	15	402	-41,215	-7,188	-3,968	-52,371
New financial assets originated or purchased	-1,323	-62	0	-1,385	207,118	2,238	0	209,356
Total net P&L charge during the period	-1,345	593	-634	-1,386	162,548	-4,142	-1,421	156,985
Other movements with no P&L impact								
Write-offs	0	0	19	19	0	0	-71	-71
Financial assets derecognised and repaid during the period	0	0	0	0	0	0	0	0
Balance as at 31.12.2021	-2,829	-866	-822	-4,517	403,159	12,705	2,633	418,497

Write-offs of financial assets

The write-off of the receivables, i.e. the removal of the financial asset 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 realisation of the collateral, but the proceeds from the disposal have not been sufficient to cover the carrying amount of the receivable. Termination of the recovery 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 recognises 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 recognises a modification gain or loss.

In order to modify financial assets, loan agreements are restructured either due to commercial negotiations or payment difficulties, during which the payment term is extended, or payment holidays are granted, including sometimes retrospectively. Restructuring practices are based on management estimates that payments by the customer are expected to continue. The risk of default on such loans is measured at the following reporting date and compared to the risk that existed at initial recognition under the original terms, unless the modification is significant and results in derecognition of the original asset. The Group monitors the subsequent operation of the modified assets. The Group may decide that, after the restructuring, the credit risk has significantly improved so that the assets are moved from Stage 3 to Stage 2 or Stage 1. This applies only to assets that have operated under the new terms for at least two years.

Concentration of risks

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

In economic sector K, cash and cash equivalents are in the amount of 364,878 (2021: 252,799) in thousands of euros and other financial assets are in the amount of 1,360 (2021: 976) in thousands of euros. Debt securities in economic sector K are in the amount of 2,173 (2021: 2,329) in thousands of euros. In other sectors, debt securities are in the amount of 16,574 (2021: 3,603) in thousands of euros and other financial assets are in the amount of 20 (2021: 335) in thousands of euros.

The lending activity of the Group is focused on providing financing to the local market. 50% of loans and advances to customers are granted to private individuals (31.12.2021: 51%). The portfolio of loans granted to legal entities is diversified between various economic sectors to avoid high levels of concentration.

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	Stage1	Stage2	Stage3	Allowance	31.12.2022	%
Private individuals	642,121	13,390	1,830	-4,070	653,271	50.22%
L – activities related to real estate	279,929	7,604	1,430	-2,980	285,983	21.99%
G – wholesale and retail	67,366	4,506	51	-778	71,145	5.47%
C – manufacturing	52,348	2,361	456	-730	54,435	4.18%
K – finance and insurance activities	46,765	23	0	-190	46,598	3.58%
D – power and heat generation	40,432	249	2,343	-989	42,035	3.23%
A – agriculture, forestry and fishing	23,562	3,947	126	-451	27,184	2.09%
M – professional, scientific and technical activities	21,684	2,533	0	-231	23,986	1.84%
H – transportation and storage	22,668	926	208	-204	23,598	1.81%
F – construction	16,093	6,868	34	-673	22,322	1.72%
N – administrative and support services	10,290	1,407	24	-145	11,576	0.89%
I – hospitality and food service	8,286	314	127	-128	8,599	0.66%
S – other services	4,401	271	0	-44	4,628	0.36%
Other	23,993	1,673	0	-251	25,415	1.96%
Total	1,259,938	46,072	6,629	-11,864	1,300,775	100%

Loans and advances to customers by economic sector	Stage1	Stage2	Stage3	Allowance	31.12.2021	%
Private individuals	471,062	12,224	2,596	-3,833	482,049	50.56%
L – activities related to real estate	202,428	3,697	0	-1,826	204,299	21.43%
G – wholesale and retail	36,621	1,216	96	-352	37,581	3.94%
A – agriculture, forestry and fishing	31,991	2,602	83	-409	34,267	3.59%
D – power and heat generation	30,368	52	2,291	-955	31,756	3.33%
K – finance and insurance activities	31,137	0	0	-189	30,948	3.25%
N – administrative and support	28,503	82	0	-195	28,390	2.98%
C – manufacturing	17,896	2,803	163	-393	20,469	2.15%
H – transportation and storage	16,938	425	0	-170	17,193	1.80%
I – hospitality and food service	15,473	1,046	0	-146	16,373	1.72%
F - construction	14,875	964	4	-145	15,698	1.65%
S – other services	14,205	810	0	-108	14,907	1.56%
M – professional, scientific and technical activities	6,268	1	0	-13	6,256	0.66%
Other	12,404	899	0	-93	13,210	1.39%
Total	930,169	26,821	5,233	-8,827	953,396	100%

Financial assets by geographical classification

31.12.2022	EE	FR	CH	LT	Other	Total
Cash and cash equivalents	351,807	11,556	0	0	1,515	364,878
Debt securities at fair value through other comprehensive income	2,596	0	0	13,874	2,277	18,747
Loans and advances to customers	1,285,072	0	12,044	0	3,659	1,300,775
Equity instruments at fair value through other comprehensive income	0	0	0	0	13	13
Other financial assets	1,380	0	0	0	0	1,380
Total	1,640,855	11,556	12,044	13,874	7,464	1,685,793

31.12.2021	EE	FR	CH	LV	Other	Total
Cash and cash equivalents	239,973	11,511	0	0	1,315	252,799
Debt securities at fair value through other comprehensive income	2,354	0	0	1,504	2,074	5,932
Loans and advances to customers	944,577	0	5,495	2,476	848	953,396
Equity instruments at fair value through other comprehensive income	0	0	0	0	13	13
Other financial assets	922	0	0	0	389	1,311
Total	1,187,826	11,511	5,495	3,980	4,639	1,213,451

Liquidity risk management

Liquidity risk is defined as the risk of insufficient solvency on behalf of Coop Pank to perform its contractual obligations on a timely basis - i.e. the bank's failure to finance various assets in a timely and sustainable manner, 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 Coop Pank is to guarantee, at any given moment, the timely and complete performance of the obligations assumed by the Group while optimising 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 summarise 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 optimise 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, the Council, ALCO and the 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 Coop Pank group's liquidity position. An overview of the division of assets and liabilities by maturities has been provided in the 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 a 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. An overview of the Group's financial assets and financial liabilities by residual maturity (undiscounted cash flows) is provided in the following table.

31.12.2022	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	364,878	0	0	0	364,878
Debt securities at fair value through other comprehensive income	852	0	6,653	11,242	18,747
Loans and advances to customers	61,501	184,991	869,984	645,958	1,762,434
Equity instruments at fair value through other comprehensive income	0	0	0	13	13
Other financial assets	1,360	0	20	0	1,380
Total financial assets	428,591	184,991	876,657	657,213	2,147,452
Liabilities					
Customer deposits and loans received	942,862	451,139	119,215	2,600	1,515,816
Lease liabilities	222	650	3,059	2,531	6,462
Other financial liabilities	6,666	0	386	0	7,052
Subordinated debt	703	2,111	10,450	42,176	55,440
Total financial liabilities	950,453	453,900	133,110	47,307	1,584,770
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	139,330	0	0	0	139,330
Financial guarantees by contractual amounts	15,419	0	0	0	15,419
Total on-balance-sheet and off-balance-sheet liabilities	1,105,202	453,900	133,110	47,307	1,739,519
Duration gap of financial assets and financial liabilities	-676,611	-268,909	743,547	609,906	407,933

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

Market risk management

Market risk arises from the Group's trading and investment activities in the interest, currency and equity markets. Market risk arises from changes in interest rates, currency exchange rates and prices of financial assets. The acceptance of market risk is controlled by using risk limits. Different factors influencing market risks are monitored on a daily basis. The primary market risk bearing assets in the Group are investments in debt securities . The volume of the debt securities portfolio increased in total by 2022, a more detailed overview is given in Note 10. The average maturity of the portfolio has increased as new debt securities were added to the portfolio.

The market risk of the portfolio of debt securities is mainly caused by the maturity date and possible change in 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 31.12.2022 was 646 thousand euros (31.12.2021: 2 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 31.12.2022 was 263 thousand euros (2021: 159 thousand euros). The sensitivity analysis has been carried out with the justified effects of possible exchange rate changes (10% on average) on the statement of profit or loss remaining constant for all other variables, the impact amount is 6 thousand euros (2021: 19 thousand euros).

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

31.12.2022	EUR	USD	Other	Total
Assets				
Cash and cash equivalents	363,034	667	1,177	364,878
Debt securities at fair value through other comprehensive income	17,895	852	0	18,747
Loans and advances to customers	1,300,579	196	0	1,300,775
Equity instruments at fair value through other comprehensive income	13	0	0	13
Other financial assets	1,184	196	0	1,380
Total financial assets	1,682,705	1,911	1,177	1,685,793
Liabilities				
Customer deposits and loans received	1,505,486	1,696	944	1,508,126
Subordinated debt	38,139	0	0	38,139
Lease liabilities	6,142	0	0	6,142
Other financial liabilities	6,867	0	185	7,052
Total financial liabilities	1,556,634	1,696	1,129	1,559,459
Net position	126,071	215	48	126,334

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

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.

The volume of floating rate loans that are EURIBOR-related as of 31.12.2022 was 1,123,919 (31.12.2021: 829,114) in thousands of euros. The Group has no loans related with other benchmarks.

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

31.12.2022	Up to 3 months	3-12 months	1-5 years	Over 5 years	Principal	Accrued interest	Loss allowance	Total
Financial assets exposed to interest rate risk								
Balances with central banks	347,541	0	0	0	347,541	0	0	347,541
Loans and advances to credit institutions	13,739	0	0	0	13,739	0	0	13,739
Debt securities at fair value change through other comprehensive income	18,671	0	0	0	18,671	76	0	18,747
Loans and advances to customers	711,607	595,988	733	0	1,308,328	4,311	-11,864	1,300,775
Total financial assets exposed to interest rate risk	1,091,558	595,988	733	0	1,688,279	4,387	-11,864	1,680,802
Interest-bearing liabilities								
Customer deposits and loans received	941,142	444,205	112,254	6,155	1,503,756	4,370	0	1,508,126
Subordinated debt	38,100	0	0	0	38,100	39	0	38,139
Total interest-bearing liabilities	979,242	444,205	112,254	6,155	1,541,856	4,409	0	1,546,265
Exposure to interest rate risk duration gap	112,316	151,783	-111,521	-6,155	146,423	-22	-11,864	134,537

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

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

The bank assesses the following stress scenarios:

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

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

- For the assessment of interest rate risk, the fixed balances of demand deposits, to which an interest elasticity of 0% is applied, and the variable part, to which an interest elasticity of 50% of the interest rate change is applied, are found.
- For the assessment of the interest rate risk the permanent deposit ratio for 2022 was used, i.e. 76%.
- In determining the economic value of equity, the maturity of the fixed balances of demand deposits is 2 years and that of the variable part is 0 years, i.e. the fixed part of deposits is 76% and the variable part is 24%.
- Early repayment of loans and deposits will take place at the normal level, except for an additional 5% interruption of term deposits in the scenario of a 200bp increase in interest rates. The rate of early repayment of loans, i.e. the usual level in 2022, was 10.5%. The termination rate of term deposits based on 2022 was 7.9%.
- In the raising interest rates environment the effect of Euribor increase is passed on to 85% of floating rate loan agreements.

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

	EUR	USD	31.12.2022 total	EUR	USD	31.12.2021 total
Change in interest income	7,532	0	7,532	6,182	0	6,182
Change in interest expense	4,679	2	4,681	2,472	5	2,477
Change in net interest income	2,853	-2	2,851	3,710	-5	3,705

The total impact of the 100 bp increase in the interest rate curve on net interest income over one year was 2,851 thousand euros (31.12.2021: 3,705 thousand euros) at the balance sheet date, while the impact of the 100 bp interest rate decrease was -4,197 thousand euros (31.12.2021: 926 thousand euros). Sensitivity to interest rates is impacted by the transfer of interest rate risk arising from the established contractual minimum rate on loans and floating interest rates. The interest rate risk scenario assumes the impact of derivative instruments and decrease of interest rates to a minimum level of 0%.

The impact of a 100 basis points increase in interest rates of the Group's economic value of equity, while discounting assets and liabilities through lifetime, as at 31.12.2022 was 3,172 thousand euros and the impact of a decrease of 100 basis points was -4,660 thousand euros, corresponding figures as at 31.12.2021 were 2,805 thousand euros and 7,904 thousand euros.

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 realisation of risk. Awareness of the nature, impact and need for control of operational risk must take place at the level of each employee in the group. The most important sub-risks - information security and compliance risks – are managed separately.

The assessment of operational risks in the Group is primarily qualitative. Operational risk cases are registered in the case database together with the amount of damage that has occurred. The Group monitors the quantitative dynamics of operational risk by analysing 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.

Environmental, social and governance risk management

Environmental, social and governance (ESG)-related risks are expressed in the effects of the Group's operation and business activities on the environment, society and related interest groups, which may lead to a deterioration of the Group's financial condition, an increase in the cost of resources or a significant financial loss. ESG risk management is, among other things, integrated with the management of other risk categories such as credit risk, compliance risk, operational risk, and strategic and reputational risk. The Group tries to avoid the realization of ESG risks, which are consciously accompanied by risks.

The Chief Risk Officer is responsible for sustainability area among the members of the Management Board. The Supervisory Board has examined the ESG approach in the context of renewing business strategy. Coop Pank have recognized the existence of climate and environmental risks and have excluded financing that has a significant negative impact on the environment. A more concrete approach to climate risks is currently at the level of mapping and development.

In November 2022, the CSRD (Corporate Sustainability Reporting Directive) was adopted, the purpose of which is to regulate ESG reporting and move towards a more sustainable economy. The reporting requirement is implemented gradually, and according to the CSRD, the Coop Pank group must submit sustainability information prepared on the basis of additional standards for the first time in 2026 (for 2025). It is important for us to be compliant with the Corporate Sustainability Reporting Directive and we have already started the gradual structuring of the sustainability report according to the CSRD.

In 2022 we have developed the roadmap to follow and comply with the above. More precise overview about the current progress is presented under the Sustainability Report.

Fair value of assets and liabilities

The Group estimates the fair value of 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. The market rate for loans is the average interest rate used in the Group in the last 6 months prior to the balance sheet date. When determining the fair value of the deposits, the 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 that 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 (derived from prices). Sources for input parameters (for example euro debt securities yield curve or counterparty credit risk) are Bloomberg and Reuters.

Level 3 – inputs for assets or liabilities 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 recognised in amortised cost, where assets or liabilities are not observable with market parameters.

The fair value of loans and advances as at 31.12.2022 was 0.60% lower (7,655 thousand euros) than their carrying amount. The fair value of deposits as at 31.12.2022 was 0.04% higher (621 thousand euros) than their carrying amount.

31.12.2022	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets at fair value					
Debt securities at fair value through other comprehensive income	18,747	-	-	18,747	18,747
Equity instruments	-	13	-	13	13
Total of financial assets	18,747	13	-	18,760	18,760
Financial assets at amortised cost					
Cash and cash equivalents	-	364,878	-	364,878	364,878
Loans and advances to customers	-	-	1,293,121	1,293,121	1,300,775
Total receivables from private individuals	-	-	645,573	645,573	653,271
incl. consumer loans	-	-	85,081	85,081	85,621
incl. lease financing	-	-	61,277	61,277	61,353
incl. mortgage loans and other loans	-	-	499,215	499,215	506,297
Total receivables from legal entities	-	-	647,548	647,548	647,504
incl. lease financing	-	-	81,774	81,774	81,769
incl. other loans to legal entities	-	-	565,774	565,774	565,735
Other financial assets	-	-	1,380	1,380	1,380
Total of financial assets at amortised cost		364,878	1,294,501	1,659,379	1,667,033
Financial liabilities at amortised cost					
Customer deposits and loans received	-	1,508,747	-	1,508,747	1,508,126
incl. private individuals	-	640,536	-	640,536	640,178
incl. legal entities	-	868,211	-	868,211	867,948
Lease liabilities	-	-	6,142	6,142	6,142
Other financial liabilities	-	-	7,052	7,052	7,052
Subordinated debt	-	-	38,139	38,139	38,139
Total of financial liabilities at amortised cost	-	1,508,747	51,333	1,560,080	1,559,459

As at 31.12.2021 the fair value of loans and advances was 1.10% higher (10,500 thousand euros) than the carrying amount and the fair value of deposits was 0.10% higher (628 thousand euros) than the carrying amount.

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

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 recognised, 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 31.12.2022 was 6,757 thousand euros (31.12.2021: 6,757 thousand euros).

As at 31.12.2022 and 31.12.2021 goodwill was tested for impairment. Value-in-use calculations are based on the following assumptions:

- forecast period 6 years (2021: 6 years)
- estimated growth in the volume of loan portfolio is 10-11% per year (2021: 10-13%)
- average increase in net income is 5% per year (2021: 13%)
- average increase in expenses is 10% per year (2021: 9%)
- average loan impairment loss is 3.4% per year (2021: 3.2%)
- weighted average cost of capital of 12% is used as cash flow discount rate (2021: 15%)
- terminal growth rate used is 2% (2021: 2%)

While using these key assumptions, management relied on their best estimation of probable expectations. The value-in-use test indicated that the recoverable value of the cash-generating unit exceeds the carrying amount and consequently no impairment losses have been recognised. If it will not be possible to grow the loan portfolio, interest rates in the consumer finance market will decline while impairment costs will grow in a possible deterioration of the economic environment; there will be need for impairment of goodwill. The sensitivity to key assumptions tested, with other parameters being constant, was:

- loan portfolio and net interest income growth 2% (2021: 2%)
- increase in expenses 10-15% (2021: 18%)
- loan impairment costs 5% (2021: 5%)
- cost of capital 12% (2021: 15%)

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

Note 4 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. Profitability of the segments is measured by profit before income tax. The chief operating decision-maker, who is responsible for allocating resources and assessing the 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. The consumer financing segment earns interest income from lending and fee commissions from issuing hire-purchase cards. The leasing segment earns interest income from lending. Insurance brokerage earns revenue on intermediating insurance contracts.

Due to the Bank's customer-based division, the Group has both 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 intersegment 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 2022, in thousands of euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Interest income	28,880	16,134	13,251	5,058	2,209	-5,442	60,090
Incl. external income	25,642	14,817	13,251	5,058	1,322	0	60,090
Incl. internal income	3,238	1,317	0	0	887	-5,442	0
Interest expenses	-6,235	-5,372	-966	-1,422	-828	5,442	-9,381
Net interest income	22,645	10,762	12,285	3,636	1,381	0	50,709
Commission income	1,477	2,304	1,624	244	523	0	6,172
Commission expense	-533	-1,513	-227	-9	-105	0	-2,387
Net commission income	944	791	1,397	235	418	0	3,785
Other operating income	70	95	348	86	-462	0	137
Net income	23,659	11,648	14,030	3,957	1,337	0	54,631
Operating expenses	-7,974	-9,747	-5,367	-2,916	-1,173	0	-27,177
Profit before loss allowances and tax	15,685	1,901	8,663	1,041	164	0	27,454
Credit loss allowance	-3,025	-100	-2,087	-33	0	0	-5,245
Profit before tax	12,660	1,801	6,576	1,008	164	0	22,209
Income tax expense	-1,261	-491	0	0	-107	0	-1,859
Profit of the year	11,399	1,310	6,576	1,008	57	0	20,350

Fee and commission income allocation 2022, in thousands of euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Fees from customer loans	0	0	1,624	0	0	0	1,624
Monthly account fees and transaction fees	282	1,004	0	0	0	0	1,286
Fees from cards	354	1,015	0	0	0	0	1,369
Insurance brokerage commission	0	0	0	0	479	0	479
Foreign exchange transactions	38	6	0	0	44	0	88
Other fee and commission income	803	279	0	244	0	0	1,326
Total fee and commission income	1,477	2,304	1,624	244	523	0	6,172

Assets and liabilitites as at 31.12.2022, in millions of euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Loan portfolio	777	507	86	130	420	-619	1,301
Other assets	167	147	37	38	24	0	413
Total assets	944	654	123	168	444	-619	1,714
Total liabilites	878	598	112	153	443	-619	1,565

*Other includes treasury, subsidiaries Prana Property and Coop Kindlustusmaakler.
The distribution of interest income and comission income by products is presented in Note 5 and 6.

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

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

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

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

The distribution of interest income and comission income by products is presented in Note 5 and 6.

Note 5 Net interest income

	Note	2022	2021
Interest income calculated using effective interest method:			
Loans to entities		25,066	15,966
Consumer loans and hire-purchase loans		13,251	12,402
Other loans to private individuals		14,817	10,516
Debt securities		349	117
Interest income on liabilities		0	1
Other assets		1,072	3
Other similar interest income:			
Leasing		5,535	4,035
Total interest income		60,090	43,040
Customer deposits and loans received		-6,635	-5,780
Subordinated debt	18	-2,251	-908
Interest expense on assets		-416	-778
Lease liabilities	15	-79	-36
Total interest expenses		-9,381	-7,502
Net interest income		50,709	35,538

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

Note 6 Fee and commission income

	2022	2021
Fees from consumer loans	1,624	1,452
Monthly account fees and transaction fees	1,286	1,191
Fees from cards	1,369	1,039
Insurance brokerage commission	479	216
Foreign exchange transactions	88	52
Other fee and commission income	1,326	1,053
Total fee and commission income	6,172	5,003
Expenses related to cards	-1,749	-1,387
Transaction costs	-245	-204
Other fee and commission expense	-393	-327
Total fee and commission expense	-2,387	-1,918
Net fee and commission income	3,785	3,085

The distribution of fee and comission income by operating segments is presented in Note 4.
In 2022, the Group earned 85% of fee and commission income from Estonian residents and 15% from residents of other countries (mostly EU countries). In 2021, 87% of fee and commission income was earned from Estonian residents and 13% from residents of other countries. All fee and commission income is recognised point in time.

Note 7 Payroll expenses

	2022	2021
Wages and salaries	-11,014	-9,347
Social tax, unemployment insurance premiums	-4,488	-3,143
Total	-15,502	-12,490

Social security tax payments include a contribution to state pension funds. The Group has no legal or factual obligation to make pension or similar payments beyond social security tax. In 2022, the average number of employees of the Group (reduced to full-time equivalents) was approximately 351 (2021: 300).

Note 8 Operating expenses

	Note	2022	2021
Administration of information systems		-1,658	-1,467
Marketing expenses		-1,758	-1,247
Contributions to Deposit Guarantee Fund		-534	-490
Services purchased		-461	-471
Office expenses		-472	-444
Utilities of right of use assets		-364	-173
Training and travel expenses		-346	-227
Short-term and low value leases	15	-283	-206
Financial supervision fee instalments		-199	-164
Insurance		-90	-93
Legal services, state fees		-80	-87
Transport expenses		-39	-33
Membership fees		-34	-26
Other operating expenses		-1,034	-868
Total		-7,352	-5,996

Note 9 Cash, balances with central banks and other deposits

	31.12.2022	31.12.2021
Cash	3,598	27,192
Mandatory reserve at the central bank *	14,236	9,512
Demand deposits at the central bank	333,305	200,670
Demand deposits at credit institutions and other financial institutions	13,739	13,424
Term deposits at credit institutions *	0	2,001
Total	364,878	252,799

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

Mandatory reserve in the central bank is the minimum amount that the bank has to hold in the central bank and this amount is not freely usable. The mandatory reserve requirement as of 31.12.2022 was 1% (31.12.2021: 1%) of 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 the central bank.

Note 10 Financial investments

	31.12.2022	31.12.2021
Government debt securities	13,874	1,277
Credit institutions	2,173	2,329
Debt securities of other non-financial companies	2,700	2,326
Total of debt securities	18,747	5,932
Shares of other non-financial companies	13	13
Total of equity instruments	13	13
Total of financial investments	18,760	5,945

As at 31 December 2022 and 31 December 2021 all debt securities and equity instruments are recognised at fair value through changes in other comprehensive income.

Note 11 Loans and advances to customers

	31.12.2022	31.12.2021
Total receivables from private individuals	657,341	485,882
incl. consumers loans	89,068	70,380
incl. lease financing	61,448	50,903
incl. mortgage loans and other loans	506,825	364,599
Total receivables from legal entities	655,298	476,341
incl. lease financing	82,392	57,844
incl. other loans to legal entities	572,906	418,497
Total receivables	1,312,639	962,223
Loss allowances of loans and advances	-11,864	-8,827
Total	1,300,775	953,396

Finance lease receivables	31.12.2022	31.12.2021
Gross investment – lease payments receivable, incl.	161,087	118,813
up to 1 year	48,263	32,801
1-2 years	35,072	25,813
2-3 years	29,671	23,465
3-4 years	27,355	19,513
4-5 years	16,010	14,413
over 5 years	4,716	2,808
Future interest income	-16,661	-9,439
up to 1 year	-6,490	-3,674
1-2 years	-4,643	-2,630
2-3 years	-3,091	-1,754
3-4 years	-1,698	-971
4-5 years	-612	-353
over 5 years	-127	-57
Finance lease net investment *	144,426	109,374
up to 1 year	41,773	29,127
1-2 years	30,429	23,183
2-3 years	26,580	21,711
3-4 years	25,657	18,542
4-5 years	15,398	14,060
over 5 years	4,589	2,751

* finance lease receivables gross investment includes accrued interest in the amount of 352 (31.12.2021: 188) thousand euros and contract fees in the amount of -938 (31.12.2021: -816) thousand euros.

Loan allowances	31.12.2022	31.12.2021
Balance at the beginning of the reporting period	-8,827	-8,743
Loss allowances during the reporting period*	-5,223	-2,440
Derecognised during reporting period due to sale or write-off of loans	2,186	2,356
Balance of allowance at the end of the reporting period	-11,864	-8,827

*Loss allowances on the loan portfolio during the reporting period differ from the credit loss allowance recognised in the statement of profit or loss. The difference is due to such receipts of past due loans written off earlier as uncollectible claims, which were received in the amount of 257 (2021: 289) thousand euros during the reporting period; due to loss allowances in the amount of -279 (2021: -201) thousand euros from the exposures related to the off-balance sheet and in year 2021 due to impairment losses in the amount of -145 thousand euros from the debt securities not included in the loan portfolio.

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

Note 12 Other financial assets and other assets

	31.12.2022	31.12.2021
Financial assets		
Security deposits	20	335
Amounts receivable	397	320
Other receivables	963	656
Total financial assets*	1,380	1,311
Other assets		
Settlements with the Tax and Customs Board	29	70
Other prepayments**	668	857
Total other assets	697	927
Assets held for sale		
Real estate acquired for sale and properties under construction***	3,388	3,717
Other assets	24	8
Total assets held for sale	3,412	3,725

*Financial assets have a good credit quality and there are no indications of impairment.
** Other prepayments include insurance, communication services, periodicals, training and other similar prepayments.
*** Some real estate acquired for sale was sold in 2022. Income and losses received from sales was recognised in the statement of profit or loss under sale of assets and cost of assets sold.

Note 13 Investment property

	31.12.2022	31.12.2021
Carrying amount at the beginning of the period	0	594
Sold during period	0	-634
Change in fair value	0	40
Carrying amount at the end of the period	0	0
incl. investment property earning rental income	0	0

Note 14 Tangible and intangible assets

	Right-of-use assets	Land and properties	Other tangible assets	Internal development costs	Other intangible assets	Total
Carrying amount 31.12.2020	1,017	126	2,201	1,405	4,525	9,274
Acquisition and additions	6,650	0	2,059	1,921	1,594	12,224
Termination of lease contracts	-407	0	0	0	0	-407
Adjustments to lease payments	52	0	0	0	0	52
Sale at carrying amount	0	0	-53	0	0	-53
Depreciation charged	-687	-2	-1,290	-428	-1,560	-3,967
Carrying amount at 31.12.2021						
Incl. acquisition cost	8,452	136	6,311	3,461	9,310	27,670
Incl. depreciation	-1,827	-12	-3,401	-562	-4,752	-10,554
Carrying amount 31.12.2021	6,625	124	2,910	2,899	4,558	17,116
Acquisition and additions	348	0	569	2,310	1,533	4,760
Termination of lease contracts	-74	0	0	0	0	-74
Adjustments to lease payments	38	0	0	0	0	38
Sale at carrying amount	0	0	0	0	0	0
Depreciation charged	-807	-3	-792	-869	-1,852	-4,323
Carrying amount at 31.12.2022						
Incl. acquisition cost	8,764	136	6,880	5,771	10,843	32,394
Incl. depreciation	-2,634	-15	-4,193	-1,431	-6,604	-14,877
Carrying amount 31.12.2022	6,130	121	2,687	4,340	4,239	17,517

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

Note 15 Lease liabilities

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

	2022	2021
Beginning balance 01.01	6,639	1,018
Cash flows	-850	-710
Interest expense	79	36
New leases	348	6,702
Terminated leases	-74	-407
Ending balance 31.12	6,142	6,639

* In 2022, rent payments for several leased premises (including payments for leased premises in the Skyon commercial building) were indexed in accordance with the lease agreements. In August 2021, the bank concluded a 10-year rental agreement for the lease of head office spaces in the Skyon business building on Maakri Street.

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

	2022	2021
Interest expense (included in finance cost) (Note 5)	79	36
Expense relating to short-term leases (included in operating expenses)	206	169
Expense relating to leases of low-value assets (included in operating expenses)	78	37

Note 16 Customer deposits and loans received

	31.12.2022	31.12.2021
Private individuals	640,178	477,383
Legal entities	867,948	621,363
Total	1,508,126	1,098,746
Demand deposits	717,743	518,122
Term deposits	779,569	571,452
Special purpose loans	10,814	9,172
Total	1,508,126	1,098,746

The Bank signed a 10-year loan agreement of 8 million euros with the European Investment Fund (EIF) to finance small and medium-sized enterprises. As at 31.12.2022, the loan balance is 4.7 (2021: 5.6) million euros. The remaining special-purpose loans have been received from the Rural Development Foundation.

Note 17 Other financial liabilities and other liabilities

	31.12.2022	31.12.2021
Financial liabilities		
Cash in transit	2,467	332
Customer advances	2,503	1,584
Trade payables	431	640
Settlements with cooperatives	734	395
Other financial liabilities	917	270
Total financial liabilities	7,052	3,221
Other liabilities		
Payables to employees	2,610	2,085
Tax liabilities	1,341	691
Provisions	578	300
Deferred liabilities	488	378
Other advance payments	584	450
Other liabilities	0	659
Total other liabilities	5,601	4,563
Total	12,653	7,784

Note 18 Subordinated debt

The Coop Pank group has issued subordinated bonds in order to increase long-term capital. In the case of default of the Group, the subordinated debt are repayable after all other debts have been paid, but before debts to shareholders are paid. The balances of subordinated debt as at the end of each reporting period is disclosed in the table below.

	Year of issue	Interest rate	Maturity date	Amount
Subordinated bond	2017	6.75%	04.12.2027	5,000
Subordinated bond	2019	7.58%	29.03.2029	2,000
Subordinated bond	2021	5.50%	31.03.2031	10,000
Subordinated debt as at 31.12.2020				7,000
Cash flows from financing activities				10,000
Subordinated debt as at 31.12.2021				17,000
Subordinated bond	2022	5.00%	10.03.2032	10,000
Subordinated bond (Tier 1)	2022	10.00%	perpetual	16,100
Subordinated bond redeemed	2017	6.75%	04.12.2027	-5,000
Cash flows from financing activities				21,100
Subordinated debt as at 31.12.2022				38,100
Subordinated debt accrued interest as at 31.12.2020				64
Interest expenses calculated during 2021 (Note 5)				908
Paid out interest expense during 2021				-908
Subordinated debt accrued interestas at 31.12.2021				64
Interest expenses calculated during 2022(Note 5)				2,251
Paid out interest expense during 2022				-2,276
Subordinated debt accrued interest as at 31.12.2022				39

Accrued interest liabilities of subordinated debt are accounted in the statement of financial position using the effective interest rate.

Note 19 Equity

Transactions with shares	Time	Number of shares	Strike price, in euros	Share capital, in thousands of euros	Share premium, in thousands of euros
Share capital as at 31.12.2020		90,623,866		61,756	12,061
Paid in share capital	May 2021	540,310	0.7660	368	132
	Sept 2021	90,000	0.8057	62	37
Share capital as at 31.12.2021		91,254,176		62,186	12,230
Paid in share capital	May 2022	70,000	0.8420	47	30
Paid in share capital	Dec 2022	10,147,131	2.0000	6,915	13,175
Share capital as at 31.12.2022		101,471,307		69,148	25,435

The share capital issues in 2022 were related to the secondary public offering of shares and exercising of employee share options. In 2021 only the employee share options was exercised. The shares were fully paid in cash. As at 31.12.2022 the share capital of the bank is 69,148 (31.12.2021: 62,186) in thousands of euros, which was divided into 101,471,307 (31.12.2021: 91,254,176) ordinary shares of no par value. The carrying value of one share is 0.6815 euros (31.12.2021: 0.6815).

According to the articles of association, share capital can be increased to 160 million euros without any amendment to the articles of association. In 2022 Coop Pank AS used the right to increase the volume of the share capital by 6,914,813.16 euros, i.e. from the amount 62,233,279.82 euros up to the amount 69,148,092.98 euros. The total proceeds of the offering are 20.3 million euros. The shares were offered at a price of 2.00 euros per share, of which 0.6815 euros is the book value and 1.3185 euros is the share premium.

In the spring of 2022, Coop Pank paid dividends to shareholders of 0.03 euros per share from the profit of the year 2021, in the total net amount of 2,738 in thousands of euros (in addition, 20/80 income tax rate was calculated on the dividends). Coop Bank has not paid dividends in previous years. Income tax expense information is presented in Note 24.

The bank grants share options to members of the management board, department managers and key employees. The vesting period of the options is 3 years and the issue of shares will be decided in the Annual General Meeting of Shareholders or Meeting of the Shareholders close to the vesting date. The reserve of options granted as of 31.12.2022 amounted to 715 thousand euros (31.12.2021: 253 thousand). Related expenses in the statement of profit and loss in 2022 were 480 thousand euros (2021: 224 thousand) and 18 (2021: 113) thousand euros were transferred from reserve to share premium in relation with exercing the options. The fair value of options is calculated using the Black-Scholes model, which uses the share price of the bank, strike price, volatility and risk-free interest rate as inputs. In case of options issued in 2022 the main input values used are: share price of the bank 2.762 euros, strike price 1.255 euros volatility 20% and risk-free interest rate 1%. 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 the employee is leaving the company before the vesting period, but the Supervisory Board can decide otherwise. In 2022, the options for 70,000 shares were exercised with strike price 0.8420 euros. In 2021, the options for 540,310 shares were exercised with strike price 0.7660 euros and options for 90,000 shares with strike price 0.8057 euros. The bank may issue share options for the results of 2022.

Transactions with options	Number of options
As at 31.12.2020	1,545,310
Granted	905,000
Exercised	-630,310
Forfeited	-100,000
As at 31.12.2021	1,720,000
Granted	698,300
Exercised	-70,000
Forfeited	-136,100
As at 31.12.2022	2,212,200

Options outstanding as of 31.12.2022

Date of issue	Expiry date	Share price	Number of options
April 2020	April 2023	1.0100	770,000
April 2021	April 2024	1.1000	745,000
April 2022	April 2025	1.2550	697,200
Total options			2,212,200

According to the requirements of § 336 of the Commercial Code, during each financial year, at least 1/20 of the net profit shall be transferred to the statutory reserve, until the statutory reserve reaches 1/10 of the share capital. Once the statutory reserve capital reaches the amount specified in the Commercial Code, no more transfers on account of 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

	31.12.2022	2021
Financial guarantees	15,419	16,553
Lines of credit and overdraft facilities	139,330	124,838
Total	154,749	141,391

The Group applies the expected credit loss model for contingent liabilities, see Note 2. In 2022, 578 thousand euros was accounted as ECL allowance for contingent liabilities (2021: 300 thousand euros).

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

Note 21 Litigations

In 2022, three lawsuits were filed in the courts against the Group (the Group company is in the role of defendant).

The first claim is related to challenging the right of superficies taken as collateral of a loan (mortgage amount of 3 million euros). The parties reached a compromise, the applicant withdrew its action and the claim was terminated.
In the second claim, there is no monetary claim against the bank and the bank is, in essence, a third party on behalf of the defendant, although procedurally the bank is involved as a defendant. In this case, there is a dispute between neighbours over the size of the property.
The content of the third lawsuit is a claim for reimbursement of legal expenses in the amount of approx. 5 thousand euros related to a dispute between a client and the bank regarding the closing of a current account.

As at 31.12.2022, a total of 685 thousand euros plus default interest was settled in favor of various Group companies as a result of court proceedings (2021: 333 thousand euros). At the same time, the Group had 102 thousand euros (including payment orders) in legal actions (2021: 281 thousand euros), plus default interest. The main content of the claims are receivables from customers arising from different credit agreements. Claims arising from credit agreements have a good perspective and, as a rule, are fully settled by the court.

Note 22 Related parties

The following have been considered as related parties:

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

The terms of the loans granted to related parties do not differ from the loans granted to other customers with regard to interest rates. Interest rates on loans are in the range of 2.5-6.0% and on credit cards around 18%. Interest rates on deposits are in the range of 0.01- 1.40%. Transactions with related parties are based on the price list and/or are carried out at market value. There were no transactions with the biggest shareholder Coop Investeeringud OÜ, who holds 22,33% of shares.

Balances	31.12.2022	31.12.2021
Shareholders:		
Loans	0	0
Deposits	5,648	8,972

Members of the management board and supervisory board and their close relatives and related entities:

Loans	1,914	705
Deposits	606	1,308

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

Transactions	2022	2021
Shareholders:		
Interest expenses	3	16
Members of the management board and supervisory board and their close relatives and related entities:		
Interest income of the reporting period	52	51
Interest expenses of the reporting period	5	12
Sale of other goods and services	2	5
Salaries to members of the Management Board and Supervisory Board	698	636

Maximum termination benefits payable to members of the management board on a contingent basis is 258 thousand euros (31.12.2021: 237). The stock options issued to members of the Management Board are provided in the table below.

Transactions with options	Number of options
As at 31.12.2020	550,310
Granted	340,000
Exercised	-350,310
Forfeited	0
As at 31.12.2021	540,000
Granted	212,100
Exercised	0
Forfeited	-70,000
As at 31.12.2022	682,100

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. In order to calculate diluted earnings per share, net profit attributable to owners of the parent has been divided by the diluted weighted average number of shares, taking into account the potential shares covered by options contracts.

	31.12.2022	31.12.2021
Profit attributable to the owners of the parent (in thousands of euros)	20,350	13,463
Weighted average number of shares (in thousands of units)	93,843	90,984
Basic earnings per share (euros)	0.22	0.15
Adjustments for calculation of diluted earnings per share – share options (in thousands of units)	2,067	1,676
Weighted average number of shares used for calculating the diluted earnings per share (in thousands of units)	95,911	92,660
Diluted earnings per share (euros)	0.21	0.15

Note 24 Income tax expense

Starting from 2018 credit institutions calculate an advance income tax of 14%. Income tax is calculated based on unconsolidated profit of the bank.

	2022	2021
Advance income tax	-1,859	-825
Total	-1,859	-825

As of 31.12.2022 it is possible to pay out dividends in amount 4,566 (2021: 2,738) thousand euros. Part of the potential dividends (1/3 from dividends paid out in 2022) would be taxed at a preferential rate of 14/86 and the remaining part 20/80. The related income tax charge would be 1,062 (2021: 684 with 20/80 tax rate) thousand euros. Based on a forecast, sufficient advance income tax have been paid against which the corporate income tax could be utilised.

Information related to paid dividends is presented in Note 19.

Note 25 Separate financial statements of parent company

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

	2022	2021
Interest income calculated using effective interest method	46,515	31,390
Interest and similar expense	-9,382	-7,507
Net interest income	37,133	23,883
Fee and commission income	3,828	3,154
Fee and commission expense	-2,167	-1,691
Net fee and commission income	1,661	1,463
Net gains from non-financial asset realisation	0	11
Net losses from financial assets measured at fair value	4	-68
Handling of overdue receivables	103	440
Other income	1,055	868
Net other income	1,162	1,251
Payroll expenses	-14,214	-11,014
Operating expenses	-5,912	-4,633
Depreciation	-3,571	-3,318
Total operating expenses	-23,697	-18,965
Profit before loss allowances and tax	16,259	7,632
Credit loss allowance	-2,982	-1,739
Profit before tax	13,277	5,893
Income tax expenses	-1,859	-825
Net profit for the financial year	11,418	5,068
Other comprehensive income/loss		
Items that may be subsequently reclassified as profit or loss:		
Financial assets at fair value through other comprehensive income	-868	3
Comprehensive income for the financial year	10,550	5,071

Statement of Financial Position of parent company

	31.12.2022	31.12.2021
Assets		
Cash, balances with central banks and other deposits	364,876	252,799
Debt securities at fair value through other comprehensive income	18,747	5,932
Equity instruments at fair value through other comprehensive income	13	13
Loans and advances to customers	1,263,204	925,303
Investments in subsidiaries	13,816	16,172
Other financial assets	541	904
Other assets	660	799
Assets held for sale	85	0
Right-of-use assets	6,130	6,625
Tangible assets	2,807	3,033
Intangible assets	6,579	5,228
Total assets	1,677,458	1,216,808
Liabilities		
Customer deposits and loans received	1,509,582	1,103,502
Lease liabilities	6,142	6,639
Other financial liabilities	4,173	1,709
Other liabilities	4,557	3,175
Subordinated debt	38,139	17,064
Total liabilities	1,562,593	1,132,089
Shareholders' equity		
Share capital	69,148	61,186
Share premium	25,435	12,230
Statutory reserve capital	3,838	3,165
Retained earnings	16,612	6,900
Other reserves and assets revaluations	-168	238
Total shareholders' equity	114,865	84,719
Total liabilities and shareholders' equity	1,677,458	1,216,808

Statement of Cash Flows of parent company

	2022	2021
Cash flows from operating activities		
Interest received	44,908	30,960
Interest paid	-8,381	-7,123
Fees and commissions received	3,828	3,154
Fees and commissions paid	-2,167	-1,691
Other received income	703	377
Salaries paid	-13,211	-10,624
Other operating expenses paid	-5,912	-4,633
Income tax paid	-1,390	-720
Total cash flows from operating activities before changes in operating assets and liabilities	18,378	9,700
Change in operating assets:		
Loans and advances from customers	-339,340	-274,384
Change of mandatory reserve in central bank	-4,724	-3,401
Other assets	303	-172
Change in operating liabilities:		
Change in customer deposits and loans received	408,827	343,038
Other liabilities	1,514	13
Net cash flows from operating activities	84,958	74,794
Cash flows from investing activities		
Acquisition of property, plant and equipment	4,005	-4,928
Sale of property, plant and equipment	0	222
Acquisition of debt securities	-14,261	-3,141
Sale and redemption of debt securities	1,612	499
Increase of subsidiary's equity	-331	-300
Merger with a subsidiary	3,730	0
Total cash flows from investing activities	-13,255	-7,648
Cash flows from financing activities		
Contribution to share capital	20,149	486
Issue of subordinated debt	26,100	10,000
Redemption of subordinated bonds	-5,000	0
Dividends paid	-2,738	0
Repayment of principal of lease liabilities	-850	-710
Total cash flows from financing activities	37,661	9,776
Effect on exchange rate changes on cash and cash equivalents	-9	-4
Change in cash and cash equivalents	109,356	76,919
Cash and cash equivalents at beginning of period	241,285	164,366
Cash and cash equivalents at end of period	350,641	241,285
Cash and cash equivalents balance is comprised of:	350,641	241,285
Cash on hand	3,598	27,192
Demand deposits in central banks	333,305	200,670
Demand and short-term deposits in credit institutions	13,738	13,423

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 31.12.2020	61,756	12,061	2,802	142	-18	2,195	78,938
Paid in share capital	430	169	0	-113	0	0	486
Change in reserves	0	0	363	0	0	-363	0
Share options	0	0	0	224	0	0	224
Net profit	0	0	0	0	0	5,068	5,068
Other comprehensive loss	0	0	0	0	3	0	3
Total comprehensive income	0	0	0	0	3	5,068	5,071
Balance as at 31.12.2021	62,186	12,230	3,165	253	-15	6,900	84,719
Paid in share capital	6,962	13,205	0	-18	0	0	20,149
Dividends paid	0	0	0	0	0	-2,738	-2,738
Merger with a subsidiary	0	0	0	0	0	1,705	1,705
Change in reserves	0	0	673	0	0	-673	0
Share options	0	0	0	480	0	0	480
Net profit	0	0	0	0	0	11,418	11,418
Other comprehensive income	0	0	0	0	-868	0	-868
Total comprehensive income	0	0	0	0	-868	11,418	10,550
Balance as at 31.12.2022	69,148	25,435	3,838	715	-883	16,612	114,865

Adjusted unconsolidated equity	
Book value of holding under control or significant influence	-13,816
Value of holdings under control or significant influence, calculated by equity method	48,067
Adjusted unconsolidated equity as at 31.12.2022	149,116

Management Board declaration

All data and supplementary information presented in the 2022 consolidated financial statements of Coop Pank AS are true and complete and no omissions have been made with regard to data or information that would affect the content or meaning of the information. The management report gives a correct and fair view of the development and results of the business activities of Coop Pank group and contains a description of the main risks and doubts. The consolidated financial statements give a true and fair view of the financial position, performance and cash flows of 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 2022 consolidated financial statements of Coop Pank AS are in compliance with the laws of the Republic of Estonia. The consolidation group is going concern.

The 2022 consolidated annual report of Coop Pank AS will be presented to the general meeting of shareholders for approval in April 2023. The previous 2021 consolidated annual report was approved by the general meeting of shareholders on 13 April 2022.

Margus Rink
Chairman of the Management Board
Signed digitally

Paavo Truu
Member of the Management Board
Signed digitally

Heikko Mäe
Member of the Management Board
Signed digitally

Arko Kurtmann
Member of the Management Board
Signed digitally

Rasmus Heinla
Member of the Management Board
Signed digitally

14.03.2023

Independent auditor's report

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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 2022, 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 14 March 2023.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022;
- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

AS PricewaterhouseCoopers
Tatari 1, 10116 Tallinn, Estonia; License No. 6; Registry code: 10142876
T: +372 614 1800, www.pwc.ee

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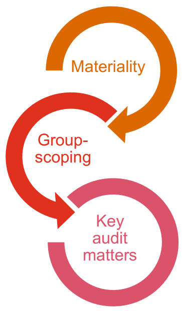
The non-audit services that we have provided to the Company and its subsidiaries in the period from 1 January 2022 to 31 December 2022 are disclosed in the management report.

Our audit approach

Overview



- Overall group audit materiality is EUR 1,490 thousand, which represents approximately 1% of net assets of the Group.
- A full scope audit or an audit of specific line items of the statement of financial position and income statement was performed by PwC Estonia for all Group entities covering substantially all of the Group's consolidated assets and revenues.
- Expected credit losses on loans and advances to customers.

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

Materiality

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

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

Overall Group audit materiality	EUR 1,490 thousand
How we determined it	Approximately 1% of net assets of the Group

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans and advances to customers (refer to Note 1 "Accounting principles", Note 2 "Risk management" and Note 11 "Loans and advances to customers"). As at 31 December 2022 net carrying amount of loans and advances to customers amounted to EUR 1,300,775 thousand and related expected credit loss allowance to EUR 11,864 thousand. We focused on this area because management uses complex models with subjective inputs to assess the timing and the amount of expected credit losses. Key areas requiring significant management judgements and modelling in calculating expected credit loss (ECL) include: • evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1, 2 or 3; • selecting relevant accounting policies and assessing modelling assumptions used to build the models that calculate ECL; • the modelling and calculation of key parameters of ECL model, including probability of default (PD), loss given default (LGD) and exposure at default (EAD); • determining the macro-economic indicators and incorporating forward-looking information into the ECL model; • estimating the above-mentioned indicators for reliable future period and for three different scenarios (base scenario, negative and positive scenario) and assigning probabilities to those scenarios; and	We assessed whether the Group's accounting policies in relation to the expected credit losses on loans and advances to customers complied with International Financial Reporting Standards as adopted by the European Union (IFRS). We assessed the design and operating effectiveness of key controls over ECL data and respective calculations, including: • review and approval of customer credit risk grades; • review and update of collateral values; • regular customer reviews. We performed detailed testing over: • the completeness and accuracy of data used in the ECL calculations; • the compliance of key inputs used in ECL calculation system with IFRS 9 methodology; • the accuracy and compliance of 12-month and lifetime ECL calculations with IFRS 9 methodology; • the accuracy and completeness of data used for staging of loans (including applying the criteria for determining significant increase in credit risk and definition of default); • the internal assignment of credit risk grades, which serve as inputs into the ECL models; • the correctness of information on collaterals and their values in the loan systems, which serve as an input into the ECL model; and • the completeness of loans subject to stage 3 assessment and related ECL calculations.

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• estimating ECL for stage 3 loans (individual assessment).	We have also 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 and key forecasts of macroeconomic information. Additionally, we verified adequacy and completeness of disclosures in the consolidated financial statements in accordance with applicable accounting standards.

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). We also performed an audit of specific line items of statement of financial position and income statement for 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 with the objective to obtain evidence that no material misstatements exist that may affect the consolidated financial statements. Information describing the structure of the Group is included in Note 1 of the consolidated financial statements.

Reporting on other information including the Management report

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

- the information given in the Management report for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management report has been prepared in accordance with the requirements of the Accounting Act of the Republic of Estonia; and
- the Remuneration Report has been prepared in accordance with Article 135^3 (3) of the Securities Market Act of the Republic of Estonia.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

We have been engaged based on an agreement by the Management Board of the Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of Coop Pank AS for the year ended 31 December 2022 (the "Presentation of the Consolidated Financial Statements").

Description of a subject matter and applicable criteria

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

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requirements regarding the Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

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

Responsibility of the Management Board and those charged with governance

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

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

Those charged with governance are responsible for overseeing the financial reporting process, which should also be understood as the preparation of consolidated financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

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

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

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

Quality control requirements

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

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

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the

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applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

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

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

Conclusion

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

Appointment and period of our audit engagement

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

AS PricewaterhouseCoopers

/signed/

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

14 March 2023
Tallinn, Estonia

Translation note:

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

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

Proposal for profit allocation

The Management Board of Coop Pank AS proposes to the General Meeting of the Shareholders to allocate the Group's net profit for the financial year 2022 in the amount of 20,350 thousand euros as follows:

1. pay dividends 0.045 euro per share in the total net amount of 4,566 thousand euros, related income tax on dividend would be 1,062 thousand euros;
2. allocate 1,017 thousand euros to statutory reserve capital;
3. allocate 14,767 thousand euros to retained earnings.

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

Title	Economic activity based on EMTAK	Code	Sales income (in euros)
Finance activities	Credit institutions (consolidated)	64191	66,399,578
Finance activities	Credit institutions (separate)	64191	51,504,630
Finance activities	Consumer financing	64929	15,268,025
Leasing activities	Finance lease	64911	5,820,286
Insurance activities	Insurance brokerage	66221	411,203

Contacts
372 669 0966
klienditugi@cooppank.ee
www.cooppank.ee

Coop | Pank