Coop Pank

Annual Report

2023

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	31.12.2023
Beginning and end of the financial year	01.01.2023 - 31.12.2023
Reporting currency	euro (EUR), in thousands

Members of the Supervisory Board:

Rainer Rohtla (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, Karel Parve

Table of contents

Management report

The following companies were part of Coop Pank AS group (also used as "consolidation group", "the bank") as at 31.12.2023: 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

* Coop Pank is carrying out an internal group reorganization, during which its 100% subsidiary Coop Finants AS will be merged with Coop Pank AS. The merger process has been started in year 2023 and it will presumably be completed during the 1st quarter of 2024, but not later than the 1st half of 2024. Considering that Coop Finants AS also consolidates 100% of the Group's results as a subsidiary, the merger has no effect on the Group's financial indicators. However, this leads to a significant change in Bank´s solo balance sheet and profit indicators and significantly improves Bank´s solo capitalization. In operational activities, customer service and customer management (including debt management) will improve, because technical and regulatory restrictions in the processing of joint customer data, customer communication and other customer management (including debt management), which exist when operating as two separate companies, will disappear.

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. We feel 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.

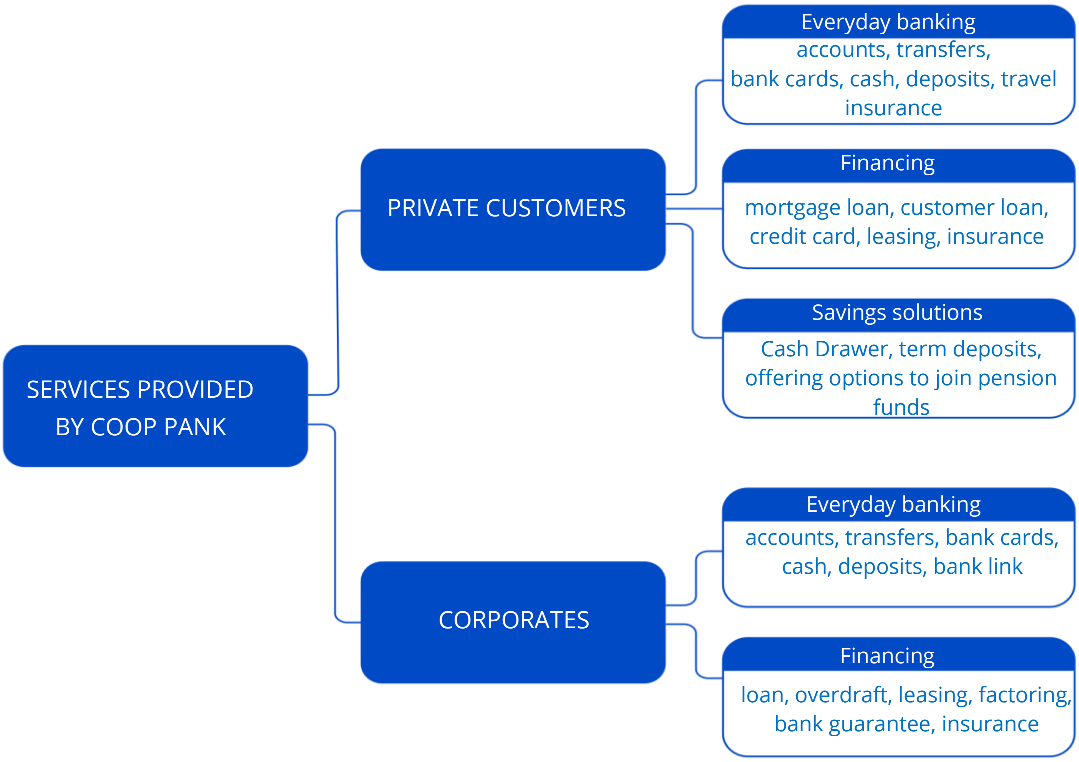
Everyday banking, financing services and saving products. Coop Pank sees its strengths and the resulting growth opportunities primarily in the provision of everyday banking (account, payments, bank card, cash, deposits), financing services (mortgage loan, consumer loan, credit card, business loan, lease financing) and saving products (short term saving, medium term saving into deposits, long term saving into pension funds). 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 - 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 we strive 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. We pay interest rates as on customer demand deposits as on term deposits.

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.

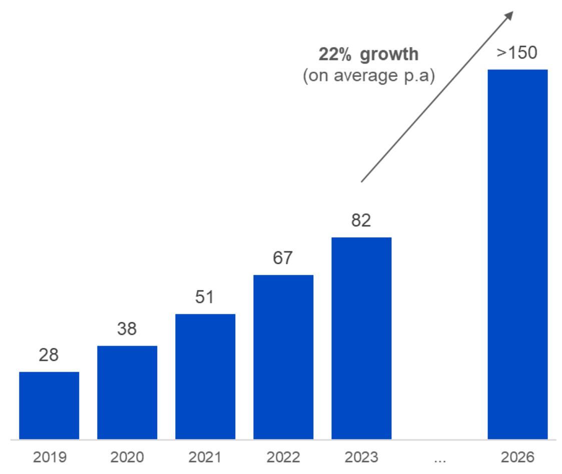


Targets

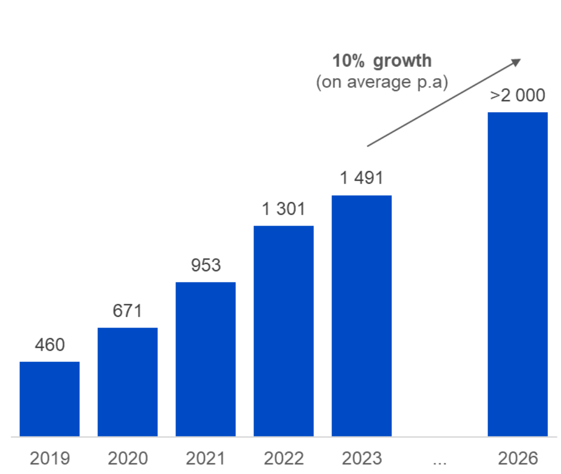
The mission of Coop Pank is to carry life forward in every corner of Estonia. For this, we give impetus to Estonian companies and help people realise their dreams both in the countryside and in the city. We believe that if Estonian entrepreneurs do well, the Estonian people and Estonia as a whole will 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 to respond quickly and flexibly to customer needs. Since the beginning of operations (2017), we have increased the bank's business volume (number of clients, loan portfolio) 5-10 times.

Over the next three 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%).

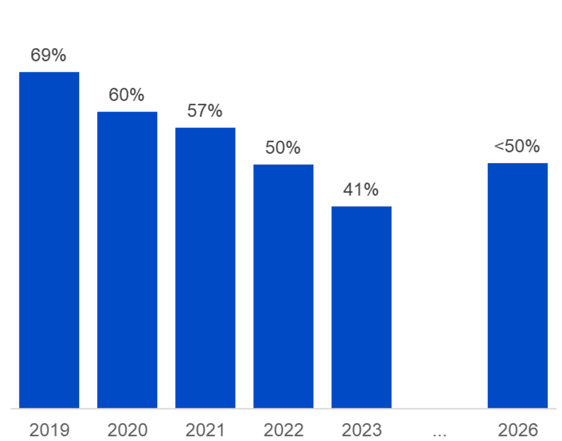
No of active customers of Coop Pank, thousand



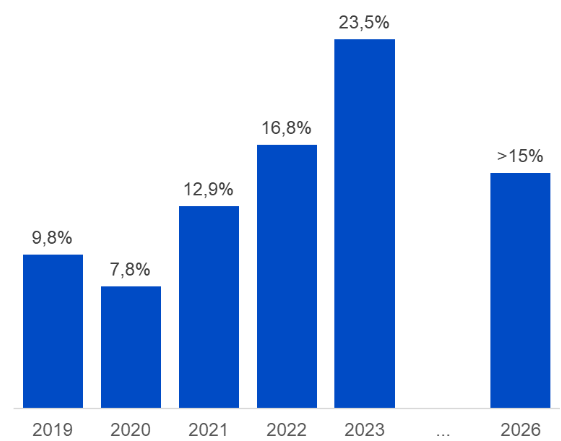
Net loan portfolio of Coop Pank, m€



Cost / income ratio (CIR)



Return on equity (ROE)



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

Operating environment

Main keywords describing the operating environment in the year 2023 are inflation, continuous growth of interest rates and war in Ukraine. Globally significant was Israel-Hamas military conflict, which caused additional tension in the whole Middle-East region. COVID-19 which dominated the environment in the year 2020 and 2021 has not disappeared, 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 2.9% in the year 2023. For the year 2024 IMF forecasts 3.1% of growth. During the whole year, the world economy was influenced by a significant and wide-reaching increase in prices, whereas the sharp growth of energy prices that took place in 2022 was replaced with decrease but inflation was transferred to other sectors and goods including food, services etc. Therefore, inflation remained high and central banks all over the world (incl. the European Central Bank, US Federal Reserve and many national central banks) continued to raise their main interest rates several times throughout the year.

During the year 2023, prices of several commodities continued to decrease from the previous high levels. For example, Brent crude oil prices that reached levels above 120 dollars per barrel in 2022 remained in the corridor of 75-95 dollars per barrel during 2023. An even stronger 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 year 2022 and continued to fall during 2023 reaching ca 30 euros level by the end of 2023.

2023 has been very strong on stock markets and all major stock markets were growing during the year. The main stock indices which declined heavily during first half of the year 2022 turned into growth in the end of 2022 and strong growth trend continued in 2023. US stock indices Dow Jones grew by 14%, S&P500 grew by 26% and Nasdaq composite even by 43% (however, Nasdaq's extremely strong performance is not very wide – most of the growth was driven by TOP7 biggest companies), German DAX increased by 20% and Japanese Nikkei by 28% during a year.

Russia's full-scale war against Ukraine that started in February 2022 did not show any signs of reaching end by the end of 2023. Despite the fact that intensity of war itself is not changing, the effect of war on economy has decreased because companies have adapted to new situation where extensive sanctions against Russia and Belorussia and disrupted supply chains to and from Russia, Belorussia and Ukraine influence their business.

The military conflict between Israel and Hamas is a new globally important conflict that begun in October 2023. As a side effect of this conflict there is additional instability in the whole region of the Middle-East including disruptions of traffic through one of the most important shipping routes in the World - Suez Canal, caused by attacks against cargo ships.

The Eurozone economy was influenced by high inflation, interest rate hikes dictated by ECB in order to fight the inflation and as a side effect cooling down the economy. Eurozone inflation rate as average over 2023 was 5,4% but December compared to previous December inflation was only 2,9%[2] based on preliminary data. Extremely high inflation that we saw in 2022 is clearly decreasing and ECB forecasts[3] 2,7% inflation for 2024 and 2,1% for 2025, which is close to ECB-s long term target (2,0%). Since July 2022 ECB raised deposit facility rates on ten occasions from level -0,5% to level 4,0%. Last hike took place in September 2023. It has caused growth of rates of all monetary market instruments. For example, 6-months Euribor, which is the base interest for most corporate and mortgage lending in Estonia, reached level 4,1% in October 2023 (at the beginning of 2022 it was at -0,5% level). Since October 2023 mid- and long-term rates are declining incl. 6-months Euribor dropped to level 3,86% and 12-months Euribor to level 3,51% by the end of 2023.

Unemployment rate in the EU as average reached 5,9%[4] in November 2023, which is a very moderate level, and the labour market therefore is not the biggest issue in the EU. However, it's important to notice that the

[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.ecb.europa.eu/pub/projections/html/ecb.projections202312_eurosystemstaff~9a39ab5088.en.html
[4] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Unemployment_statistics

unemployment rate varies regionally significantly between 3% and 12%. The measures taken by the ECB to fight against inflation harm the growth of the economy and may cause higher unemployment in the eurozone.

Estonia's gross domestic product (GDP) has declined by -3.5% according to estimates of Bank of Estonia[5] during 2023. This is a huge decrease. The fact that in this situation the increase of unemployment is rather moderate, and the number of bankruptcy cases is limited, shows that individuals and companies have buffers and resiliency to overcome changing situations. The unemployment which reached 5.6% at the end of 2022 increased to 7.3% by the end of 3rd quarter 2023. For the year 2024 the Bank of Estonia expects real GDP to decline another -0.4%, inflation rate 3.4% and unemployment to reach 9.0% level, which means that although the base scenario is 'soft landing' analysts don't expect growth yet from 2024. Growth is expected in 2025.

Development of interest rates in Estonia is mainly led by the ECB. Financial markets expect sharp interest rate cuts from ECB in 2024 but ECB has indicated that they don't rush with these cuts in order not to boost inflation again. Markets expect that base rates reach level 2.5%...3.0% by the end of 2024. This expectation is already considered on bond markets where expected yields are declining and bond values growing accordingly. The same expectation is reflected also in bank deposits where long term deposits are priced lower than short term deposits.

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

Managing Director´s Statement

After a six-year period of ultra-low interest rates, 2023 was dominated by rising rates in the banking sector and waning demand for credit due to the economic slowdown. In this economic environment, savers were the main beneficiaries; borrowers had a harder time. We clearly set the trend on the market last year when it came to changing interest rates on term deposits. We were also pleased to see that our customers didn't face problems with increased loan repayments and that the bank's loan portfolio remained so high-quality in the difficult circumstances.

Despite the challenging economic environment, Coop Pank continued to execute its growth strategy, and our market share increased to 6% by the end of the year. Our footprint in society is becoming increasingly visible. As our influence grows, we're ready to take on even greater responsibility in society. We're now on the list of critical service providers (CSPs) – the most important companies for the functioning of society and the economy – whose services must continue to operate in a crisis. At the same time, the European Central Bank has also designated Coop Pank as a high impact less-significant institution.

We've continued to develop our digital banking channels, with the introduction of biometric identification, Google Pay and Apple Pay, which offer convenient, secure payment options both in-store and online. We've also made it possible to apply for a loan, view loan details, open a deposit and amend e-invoice standing payment agreements on our mobile app. The most important product innovations for our business customers have been the option to open an account electronically and the introduction of Gateway, which helps companies quickly, securely and conveniently connect their accounting to Coop Pank's services.

In addition to electronic channels, our tellers, administrators and customer support will be continuing to serve customers in our 15 branches in 12 towns and cities around Estonia. Having such a wide network is increasingly becoming our biggest competitive advantage. In addition, our customers can use cash services free of charge in all Coop stores and at any bank's ATM, making us the bank with the largest cash network in the country. We make a difference in the daily lives of people in Estonia, and we have a broad social impact. This was recognised last year by Brand Capital, the largest brand and lifestyle research company in the Baltics, which awarded Coop Pank the title of 'Most Human Brand in Estonia'.

In 2023 we significantly expanded our range of services for private customers and started offering even more convenient ways of saving money. In addition to term deposits, which are growing again in popularity, we added a flexible saving service called the Cash Drawer to our mobile app and started giving our customers the option of joining the Tuleva pension fund.

In addition to offering financial back-up, our insurance solutions help people and businesses feel more secure. Last year, the rapidly growing Coop Kindlustusmaakler began offering clients the chance to quickly and easily take out both motor and comprehensive insurance on the Coop Pank website.

We've made applying for a home loan on our website quicker and easier for everyone too: we're now the only bank in Estonia that shows the applicant an indicative offer as soon as their application has been submitted. In order to make it easier for those who live a long way from towns and cities to build homes as well, we continue to be the only bank in Estonia that accepts KredEx guarantees for the purchase of housing in rural areas. We accept all other KredEx guarantees to reduce the co-financing requirement as well, and we're one of the most active banks on the market when it comes to counting Rural Enterprise Foundation (MES) co-loans as home co-financing. Nearly 40% of all contracts for the purchasing of a home with MES co-financing so far have been financed by Estonia's own Coop Pank.

In 2023 we also gave our visual identity a makeover. Using new graphic elements, imagery and colours, we're emphasising the bank's dynamism and responsiveness, and boosting our brand visibility. We've also introduced new-look bank cards.

Internally, we'd already designated 2022 as the first year of Coop Pank's green turnaround when we started taking bigger and bolder steps to manage our climate impact, with the aim of becoming a climate-neutral bank by 2050 at the latest. Activities and analyses related to reducing environmental impact continued in the bank in 2023. Among other things, our Responsible Business Forum bronze level label was upgraded to silver level. We signed an agreement with the European Energy Efficiency Fund (EEEF, co-financed by the European Union), under which we'll be borrowing 15 million euros from it as an unsecured subordinated loan to finance energy efficiency and renewable energy projects.

Coop Pank's results for 2023 were primarily affected by growth in our business volumes, including the number of customers and our loan portfolio, and the changed interest rate environment.

Over the year, our customer numbers increased by 36,000 to 182,000. The number of our actively billed clients increased by 15,000 to 82,000.

By the end of the year, the bank's deposits amounted to 1.7 billion euros, increasing by 214 million euros (+14%) over the year. Term deposits increased by 55% over the year, while demand deposits decreased by 31%.

The bank's loan portfolio increased by 190 million euros (+15%) over the year to reach 1.5 billion euros. In terms of business lines, the biggest growth during the year was in home loans, where the portfolio increased by 95 million euros (+19%), and corporate loan, where the portfolio increased by 60 million euros (+10%). Leasing portfolio increased by 27 million euros (+19%) and consumer finance portfolio increased by 11 million euros (+12%). The quality of our loan portfolio remained at a very good level throughout 2023, with only 2% of the portfolio in debt during the year. Nonetheless, we're also prepared for a deterioration in the performance of our loan portfolio: we've increased provisions for potential loan losses by 6 million euros, credit loss allowance increased by 20% over the year.

Coop Pank's continued growth in business volumes and digitisation has led to the expected economies of scale, which means our revenues are rising more quickly than our costs. Income and expenses are also largely affected by the general interest rate environment: on the one hand, the rise in Euribor last year led to an exceptional increase in revenue, while on the other hand, the cost of interest on deposits increased. In 2023 Coop Pank generated 85 million euros in revenue, an annual increase of 56%, while operating expenses were 35 million euros, representing an annual increase of 29%. As a result, our key performance indicators improved over the year: profit increased to 39 million euros or by 93%, our cost/income ratio fell to 41% and our return on equity increased to 23%.

In September we raised capital to support the bank's growth strategy by issuing 12 million euros in fixed-term subordinated bonds.

We adhered to our current dividend policy, paying out dividends equal to 25% of the group's pre-tax profit for 2022 in the total net amount of 4.6 million euros (4.5 cents per share; 50% more than the year before), related income tax on dividend was 1.1 million euros. More than 98% of this amount was deposited in the bank accounts of Estonian people and businesses. During the year, the number of our shareholders increased by 1,200 and at the end of the year 2023 Coop Pank had 37,147 shareholders.

Coop Pank's strategic goal is to increase its market share in Estonia to 10% and to grow its loan portfolio to at least 2 billion euros by the beginning of 2027, reaching a position whereby one in every 10 people in Estonia banks with us – meaning at least 150,000 regular customers. As a result of the growth in our business volumes, we aim to operate with increasing efficiency (a cost/income ratio below 50%) and to offer shareholders a decent return on equity (a ROE of at least 15%). In fact, we've already reached and even exceeded those levels since 2022.

I'd like to thank all our customers, shareholders and staff for a great year! Our goal is to build up Coop Pank so that it is everyone's success story. A success story for our clients. A success story for our shareholders. A success story for our employees.

Margus Rink

Increase in the number of customers

By the end of 2023 Coop Pank had 182,000 customers. In a year, the number of customers had increased by 36,000. Of these, 32,000 were private customers and 4,000 were business customers.

In addition, the bank's consumer financing company Coop Finants has 90,000 customers.

Increase in profit

Coop Pank's profits reached 39.2 million euros in 2023, growing 93% over the year.

Increase in loans

Coop Pank's loan portfolio increased by 15% over the year, reaching 1.5 billion euros by the end of 2023.

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

Increase in deposits

Coop Pank's deposits increased by 14% over the year, reaching 1.7 billion euros by the end of 2023.

Term deposits increased by 55% over the year, while demand deposits decreased by 31%.

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.

In 2023 Coop Kindlustusmaakler began offering clients the chance to quickly and easily take out both motor and comprehensive insurance on the Coop Pank website.

New Strategic Focus: Fundraising Solutions

In 2023 we significantly expanded our range of services for private customers and started offering even more convenient ways of saving money.

In addition to term deposits, which are growing again in popularity, we added a flexible saving service called the Cash Drawer to our mobile app and started giving our customers the option of joining the Tuleva pension fund.

Coop Pank strives for sustainability

Activities and analyses related to reducing environmental impact continued in the bank in 2023.

Among other things, our Responsible Business Forum bronze level label was upgraded to silver level.

We signed an agreement with the European Energy Efficiency Fund (EEEF, co-financed by the European Union), under which we'll be borrowing EUR 15 million from it as an unsecured subordinated loan to finance energy efficiency and renewable energy projects.

Financial results

Statement of profit or loss, in millions of euros	2023	2022	2021	2020	2019
Net interest income	81.3	50.7	35.5	28.4	20.7
Net fee and commission income	4.8	3.8	3.1	2.1	2.4
Net other income	-0.9	0.1	0.6	0.6	0.6
Total net operating income	85.2	54.6	39.2	31.1	23.7
Operating expenses	-35.1	-27.2	-22.4	-18.8	-16.3
Credit loss allowance	-6.3	-5.2	-2.5	-4.8	-1.9
Income tax expense	-4.6	-1.8	-0.8	-0.2	0
Net profit	39.2	20.4	13.5	7.3	5.5

Business volumes, in millions of euros	2023	2022	2021	2020	2019
Net loan portfolio	1,491	1,301	953	671	460
Client deposits and loans received	1,722	1,508	1,099	758	507
Subordinated debt	50	38	17	7	7
Equity	186	149	112	98	89

Ratios	2023	2022	2021	2020	2019
Average shareholders' equity, million euros	167	121	105	93	56
Return on equity (ROE) %	23.5	16.8	12.9	7.8	9.8
(net profit / shareholders' equity, average)					
Total assets, average, million euros	1,866	1,446	1,055	741	529
Return on assets (ROA), %	2.1	1.4	1.3	1.0	1.0
(net profit / total assets, average)					
Cash and interest-bearing assets, average, million euros	1,857	1,434	1,039	725	495
Net interest margin (NIM), %	4.4	3.5	3.4	3.9	4.2
(net interest income / interest-bearing assets, average)					
Cost to income ratio, %	41.2	49.7	57.2	60.5	68.6
(total operating costs / total net operating income)					
Loans to deposits ratio, %	86.6	86.3	86.8	88.5	90.9
(net loans / client deposits and loans received)					
Dividend to net profit ratio, %	0.2	0.2	-	-	-
(net dividend / net profit for the previous period)					
Liquidity Coverage Ratio LCR, %	293.4	175.8	201.7	275.0	682.2
Net Stable Funding Ratio NSFR, %	134.3	144.1	133.5	131.8	144.6
Leverage Ratio LR, %	8.4	7.4	6.7	8.8	12.0
(*as defined by the CRD IV*)					

Capitalisation and risk positions

Capital base, in thousands of euros	31.12.2023	31.12.2022
Tier 1 capital		
Paid-in share capital and share premium	94,452	94,583
Statutory reserve capital	4,855	3,838
Retained earnings	45,280	30,513
The accepted profit of the reporting period*	23,757	10,769
Other accumulated comprehensive income	-459	-883
Goodwill as intangible asset (-)	-6,757	-6,757
Intangible assets (-)	-10,838	-8,579
Adjustment of value arising from requirements of reliable measurement (-)	-36	-18
Other deductions from Tier 1 Capital (-)	-1,148	-1,898
Other adjustments of own funds resulting from transitional provisions	0	157
Common Equity Tier 1 (CET1)	150,106	121,725
Additional Tier 1 capital	28,100	16,100
Total Tier 1 capital	178,206	137,825
Subordinated debt	22,000	22,000
Tier 2 capital	22,000	22,000
Eligible capital for capital adequacy calculation	200,206	159,825
Risk-weighted assets (RWA)		
Central government and central banks using the standardised approach	5,998	2,775
Credit institutions, investment companies and local governments using the standardised approach	3,084	1,833
Companies using the standardised approach	115,263	92,857
Retail receivables using the standardised approach	166,608	147,884
Receivables secured by mortgage on real estate using the standardised approach	525,037	463,540
Receivables past due using the standardised approach	8,883	4,355
Items subject to particularly high risk using the standardised approach	105,909	111,056
Other assets using the standardised approach	10,994	12,370
Total credit risk and counterparty credit risk	941,776	836,670
Operational risk using the Basic Indicator Approach	78,909	59,360
Total risk-weighted assets	1,020,685	896,030
CET1 capital ratio %	14.71%	13.58%
Tier 1 capital ratio %	17.46%	15.38%
Capital adequacy ratio %	19.61%	17.84%

* The accepted profit of the reporting period includes an auditor's reviewed 9 month interim profit for 2023, which was approved by the Financial Supervisory Authority and from which expected dividend payments have been deducted.

Own funds requirements (31.12.2023)		
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)	2.61%	Of total risk exposure
Capital conservation buffer	2.50%	Of total risk exposure
Pillar 2 guidance (P2G)	1.50%	Of total risk exposure
Countercyclical capital buffer rate	1.50%	Of total risk exposure

As at 31.12.2023, the Group is in compliance with all regulatory capital requirements. The capital conservation buffer of the Group as at 31.12.2023 was 25,517 (31.12.2022: 22,401) thousand euros.

The financial leverage ratio of the Group at 31.12.2023 was 8.44% (31.12.2022: 7.44%). 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 31.12.2023 the Liquidity Coverage Ratio (LCR) was 293% (31.12.2022: 176%); 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 considering the effect of credit risk hedging, may not be more than 25% of the credit institution's Tier 1 capital. As at 31.12.2023 and 31.12.2022, 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 up to five-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 up to five-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 Magnum

HEIKKO MÄE

Member of the Management Board
since February 2020

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

KAREL PARVE

Member of the Management Board
since November 2023

Previously Head of Private Banking of LHV Pank

ARKO KURTMANN

Member of the Management Board
since November 2020

Previously Head of the Corporate Banking Department of LHV Pank

Supervisory Board

RAINER ROHTLA

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

Chairman of the Management Board of Coop Eesti Keskühistu

VILJAR ARAKAS

Member of the Supervisory Board

Chairman of the Management Board of EfTEN Capital

JAAN MARJUNDI

Member of the Supervisory Board
Member of remuneration committee

Chairman of the Management Board of Harju Tarbijate Ühistu

RAUL PARUSK

Member of the Supervisory Board
Member of remuneration committee

Member of the Management Board of Kodea

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
Head of Lorikoru Capital

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:

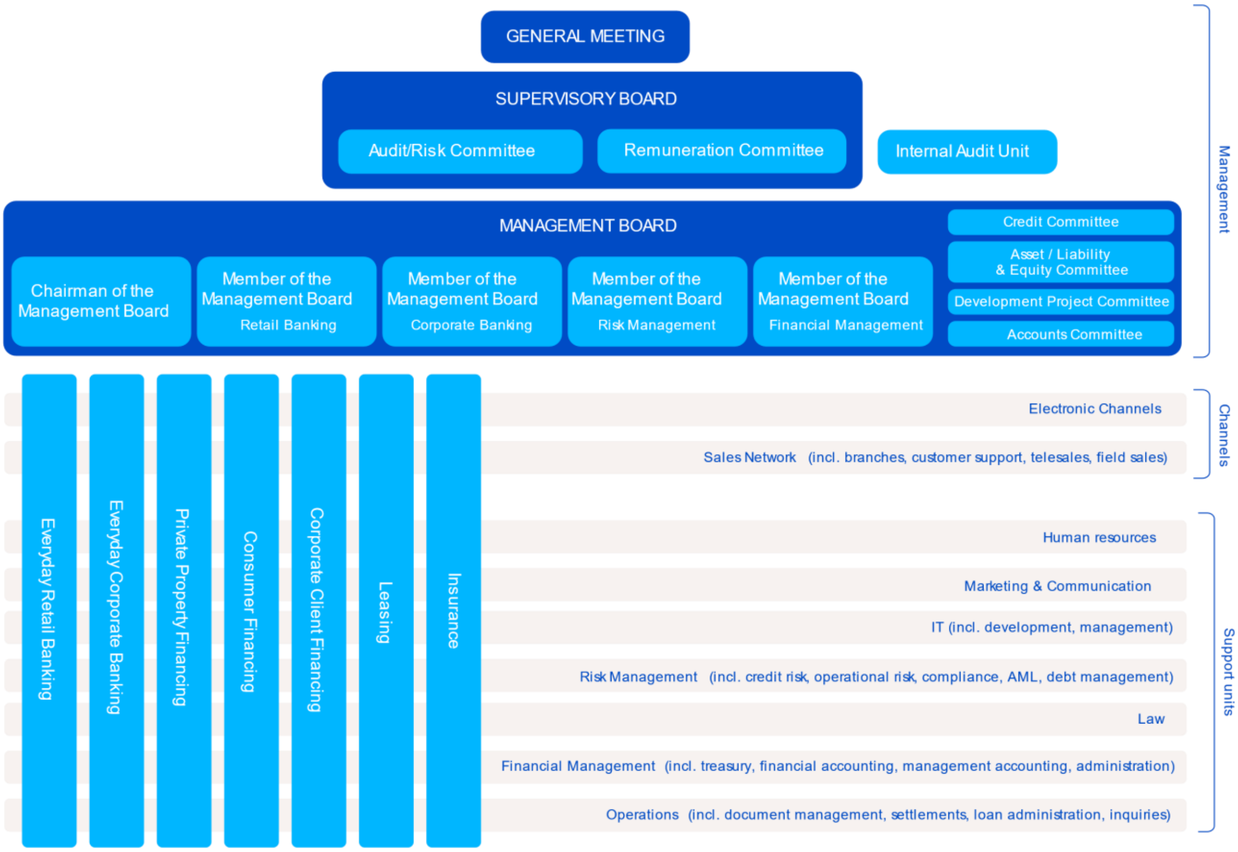
- The Audit/Risk Committee serves as an advisory body in respect of accounting, auditing, risk management, legal compliance, internal control and audit, general supervision and budgeting.
- The Remuneration Committee's role is to evaluate the implementation of remuneration policy and their adherence 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 based on 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.

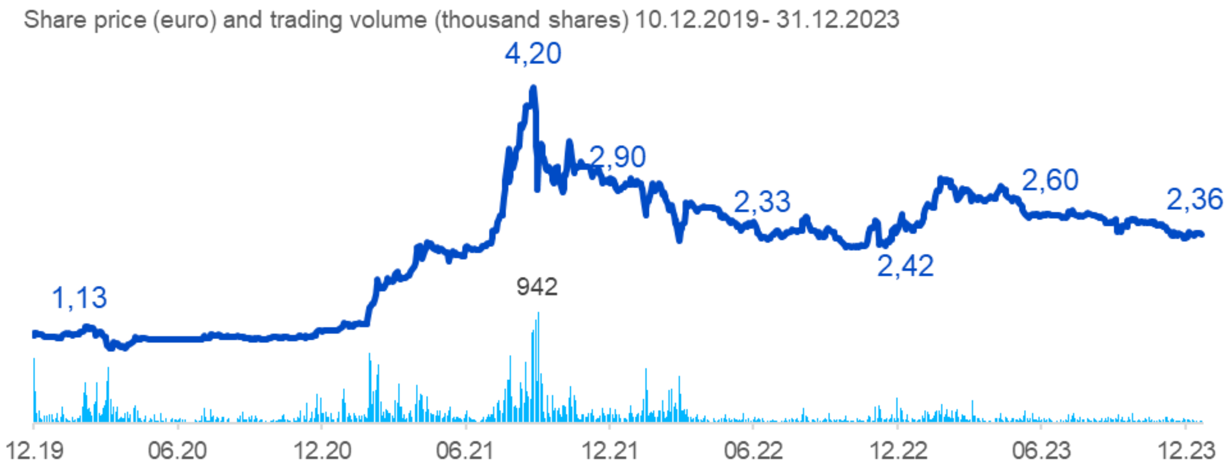
Group structure



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 the IPO was 1.15 euros. As of 31.12.2023, the share price was 2.36 euros. In 2023 the lowest tradable price was 2.30 euros and the highest price was 3.09 euros. As of 31.12.2023, the market value of the bank was 241.3 million euros on the basis of the share price. Throughout the year, the turnover of transactions totalled 23.4 million euros and 8.7 million shares changed hands with an average transaction price of 2.68 euros. Since the beginning of listing on the stock exchange, the turnover of transactions has totalled 162.7 million euros.

The ratio of share price to earnings per share at the end of 2023 was 6.2. The basis for finding the ratio is the market capitalisation of Coop Pank as of 31.12.2023 divided by the net profit of the year. The book value of the share as of 31.12.2023 was 1.82 euros and the ratio of the share price to the book value of the share was 1.30.



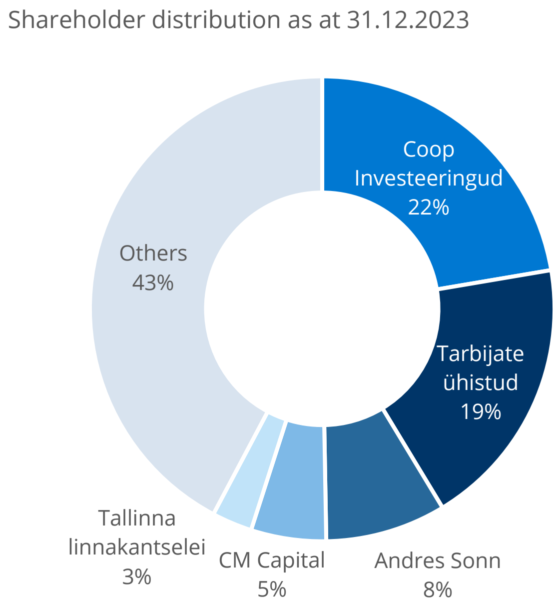
As at 31.12.2023 shareholders with holdings over 5% are:

Coop Investeeringud OÜ	22.17%
Andres Sonn	8.33%

In addition, the member cooperatives of Coop Eesti Keskühistu hold a total of 19.10% of the total amount of shares. Separately, none of them hold over 5%.

The bank has 37,147 shareholders as of 31.12.2023, of which 49 shareholders are institutional investors, i.e. owning more than 100,000 shares.
The shares are entitled to a dividend (see chapter 'Dividend policy').

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.

Dividend payments have been made as follows:

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 dividend amount was calculated.

On May 3, 2023, Coop Pank paid a dividend of 0.045 euros (net) per share from the profit earned in 2022, in the total net amount of 4,566 thousand euros. Part of the dividends (1/3 from dividends paid out in 2022) were taxed at a preferential rate of 14/86 and the remaining part at a rate of 20/80.

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 2023, 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 2023, from the announcement of the General Meeting until the day of the General Meeting, the shareholders had access to the materials and draft resolutions of the General Meeting 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 2023 one General Meetings were held – an Annual General Meeting.

The Annual General Meeting of Shareholders that took place on 12 April 2023 approved the 2022 Annual Report, distributed the profit for the year 2022 and decided to pay dividends and adopted the new Articles of Association. The General Meeting also recalled the current chairman Alo Ivask from the Supervisory Board and elected a new member of the Supervisory Board Mr. Rainer Rohtla in his place, and also extended the powers of other members of the Supervisory Board for a new 3-year term. The General Meeting also made a decision regarding the remuneration of the members of the Supervisory Board. 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, Lauri Past, attended the meeting. The minutes and decisions of the General Meeting was certified Annika Kuimet, Notary public in and for Tallinn.

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 Supervisory Board. 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 up to five 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 31.12.2023, the Management Board of the Coop Pank comprised of five members: Margus Rink (chairman), Paavo Truu, Heikko Mäe, Arko Kurtmann and Karel Parve. The responsibilities of Management Board members are: Margus Rink – general management, Paavo Truu – financial management, Heikko Mäe – risk management, Arko Kurtmann – corporate banking, Karel Parve – 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) and from June 2023 he is also a member of the management board of Estonian Chamber of Commerce and Industry. 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.

Karel Parve holds a Bachelor's degree in International Relations from Bucknell University. Since 2019, he has been working at LHV Pank, where he last managed the private banking unit. He has previously worked at Luminor Bank AS and Swedbank AS. Karel Parve 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, consider 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 2023 in euros:

Gross remuneration paid in 2023	Basic salary	Performance pay	Value of options granted	Total remuneration
Margus Rink	156 000	36 000	108 024	300 024
Paavo Truu	114 000	21 000	62 952	197 952
Heikko Mäe	116 000	24 000	71 966	211 966
Arko Kurtmann	108 000	24 000	71 966	203 966
Karel Parve	20 000	0	0	20 000
Rasmus Heinla	96 000	32 000	0	128 000

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

Shares, bonds and share options owned by the Management Board members and their associated persons as at 31.12.2023:

Holder of securities	Shares	Holding	Bonds
Margus Rink	716 000	0,70%	7
Paavo Truu (by the Solaris Konsult OÜ)	48 248	0,05%	100
Heikko Mäe	53 270	0,05%	0
Arko Kurtmann (by the Corby Capital OÜ)	49 000	0,05%	0

Holder of options	Quantity	Strike price	Subscription term
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
Margus Rink	71 900	1,526	2026
Paavo Truu	41 900	1,526	2026
Heikko Mäe	47 900	1,526	2026
Arko Kurtmann	47 900	1,526	2026

No significant transactions took place between Coop Pank and the members of the Management Board or persons close to or associated with them in 2023.

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, except for transactions made on the basis of market prices within the framework of daily economic activity. In 2023, 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 up to five 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, compliance with prudential regulations 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 31.12.2023, the Supervisory Board of Coop Pank comprised of six members and they were Rainer Rohtla (chairman, term 12.04.2026), Viljar Arakas (term 12.04.2026), Jaan Marjundi (term 12.04.2026), Roman Provotorov (term 12.04.2026), Raul Parusk (term 12.04.2026) and Silver Kuus (term 12.04.2026). In the meaning of CGR there are three independent members in Coop Pank´s Supervisory Board – Viljar Arakas, Raul Parusk and Silver Kuus.

Rainer Rohtla has obtained higher education in logistics management from Jyväskyla university of Applied Sciences, Finland. Rainer Rohtla has worked in top management positions in various logistics management related international enterprises, latest of them from 2019-2022 as General Manager of Via 3L Group. From 2023 February he acts as chairman of the board of Coop Eesti Keskühistu.

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. From 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 1,500, the chairman at EUR 2,000. There is no severance pay or other additional benefits for members of the Supervisory Board.

Gross remuneration paid to the Supervisory Board members in 2023 in euros:

	Gross remuneration paid in 2023
Alo Ivask	5 000
Rainer Rohtla	17 000
Viljar Arakas	16 000
Jaan Marjundi	16 000
Roman Provotorov	16 000
Raul Parusk	16 000
Silver Kuus	16 000

Shares and bonds owned by members of Supervisory Board as of 31.12.2023:

	Shares	Holding	Bonds
Viljar Arakas (by the Miemma Holding OÜ)	26 094	0,03%	114
Jaan Marjundi	79 247	0,08%	11
Roman Provotorov	14 623	0,01%	0
Raul Parusk (by the 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 persons close to or associated with them in 2023.

In 2023, eleven Supervisory Board meetings were held and two Supervisory Board resolutions were adopted without convening a meeting. The members of the Supervisory Board participated in all meetings and votes, except for Silver Kuus who could not attend the meeting held in June.

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 of 31.12.2023 the Audit Committee comprised of four members and they were Veiko Haavapuu (chairman), Rainer Rohtla, 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 of 31.12.2023, the Remuneration Committee comprised of four members and they were Rainer Rohtla (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 2023, 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 considers 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 the previous year. The Annual Report shall be audited by an external auditor, 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 2023, 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 2023, the fees paid or payable for the services provided by the auditor amounted to 229 thousand euros.

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 January 2023, the CSRD (Corporate Sustainability Reporting Directive) entered into force, 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. In 2024, we will additionally perform a CSRD gap analysis with the aim of complying with the requirements for the disclosure of sustainability information.

The Coop Pank group already joined the Responsible Business Forum in 2020 and participated in the Responsible Business Index survey, where it carries the silver level label from 2023. 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). In 2023, we received the rating C, i.e. the awareness level. We are also an active member of the Estonian Banking Association's committee on sustainable 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 specific goals to increase the positive influence and reduce the negative influence. In 2023, we conducted an initial impact analysis, and in 2024 we will work on setting specific goals.

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 8 – Decent Work and Economic Growth
SDG 11 – Sustainable Cities and Communities
SDG 12 – Responsible Consumption and Production
SDG 13 – Climate Action
SDG 16 – Peace, Justice and Strong Institutions

In 2023 our operations focused on the SDGs set out below.

For the benefit of society (SDG 8 & SDG 11)
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 seven 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:

	2023	2022
COOP cash transactions *vs* ATMs (proportion of total number of transactions)	36.5%	33.5%
COOP cash transactions *vs* ATMs (proportion of total turnover)	31.9%	28.7%

We also serve clients at 15 branches in 12 towns, making ours the second-biggest network of bank branches in Estonia. Moreover, we have 11 banking points in larger Coop stores around the country.

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

	2023	2022
Everyday banking	62.6%	62.5%
Mortgage loans	37.7%	38.0%
Business loans	33.3%	31.1%
Leasing	42.0%	40.4%

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 promote saving for retirement and its importance with Tuleva pension funds. We are a member of the Estonian Banking Association's working group on financial literacy, and in 2023 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 8, SDG 12 & SDG 16)

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 2023, 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 at an interest rate under better conditions compared to standard leasing. We also offer more favourable conditions for the purchase of property with a higher energy class.

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 8, SDG 12 & SDG 13)

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 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.

In 2023, we continued to finance the construction of solar parks and wind turbines, reaching a nominal capacity of 103.8 MW by the end of the year. Financing for renewable energy makes up about 8.4% of the portfolio of our corporate financing business line. This year we are also looking to contribute to solar and wind projects, including those designed to make residential buildings more energy efficient. In 2023, we signed an agreement with the European Energy Efficiency Fund to include 15 million euros for the purpose of financing energy efficiency and renewable energy projects.

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, for instance, the majority of our car leasing sales in 2023 were second-hand cars (74.0% in 2023 compared to *ca* 71.0% in 2022).

For the years 2021, 2022 and 2023, 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. In 2023, the new average score was 3.2.

The carbon footprint of the Coop Bank group in 2022 was a total of 214,023 tons of CO_2 equivalent (209,470 in 2022), of which 99.7% (99.7% in 2022) was the impact from the portfolio and leasing and 0.3% (0.3% in 2022) 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	98,357 (77,479)	97.4 (99.1)	4.0 (4.0)
Housing loans	43,923 (41,492)	99.8 (82.6)	3.75 (3.7)
Commercial real estate	40,388 (60,742)	96.8 (100.0)	3.85 (3.8)
Leasing	30,619 (29,106)	100.0 (83.6)	1.44 (N/A)
Avoided emissions (renewable energy)	75,060 (76,853)	100.0 (99.9)	3.0 (2.3)

The results for 2022 are shown in parentheses.

Our big challenge will be to improve the data quality score when measuring the climate impact 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 50.8% of our new clients in 2023 (compared to 35.2% in 2022). In the second half of 2023, we aimed to create an opportunity for paperless document management in our client offices and in 2024 we will start with a pilot project.

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. In 2023, GreenDice directed our devices (altogether handed over 18 desk computers and 18 monitors) for the use of both a school's computer class and a youth center.

Management culture (SDG 16)

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. ESG Roadmap is updated annually.

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 2023, three Remuneration Committee meetings took place. The remuneration policy applies equally to all employees of the Group.

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

- basic salary, which is fixed pay agreed between 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)	2019	2020	2021	2022	2023
Average monthly gross remuneration	2,400	2,600	2,800	3,000	3,400
Yearly profit before income tax per employee	23,000	26,400	47,000	63,300	110,500

As at 31.12.2023, a total of 2,256,500 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 2023 was:

- senior management – 36%
- staff managing control functions – 23%

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)	2019	2020	2021	2022	2023
Basic salary	108 000	111 000	126 000	139 500	156 000
Performance pay	31 500	36 000	31 500	31 500	36 000
Value of options granted	0	8 274	74 934	94 615	108 024
Total remuneration	**139 500**	**155 274**	**232 434**	**265 615**	**300 024**
Share of performance pay	23%	29%	46%	47%	48%
Number of options issued	0	70 000	90 000	61 200	71 900

Heikko Mäe (since Feb 2020)	2019	2020	2021	2022	2023
Basic salary	0	73 500	84 000	93 000	116 000
Performance pay	0	0	17 500	21 000	24 000
Value of options granted	0	5 910	58 282	63 077	71 966
Total remuneration	**0**	**79 410**	**159 782**	**177 077**	**211 966**
Share of performance pay	-	7%	47%	47%	45%
Number of options issued	0	50 000	70 000	40 800	47 900

Paavo Truu (since Feb 2022)	2019	2020	2021	2022	2023
Basic salary	0	0	0	66 971	114 000
Performance pay	0	0	0	0	21 000
Value of options granted	0	0	0	35 094	62 952
Total remuneration	**0**	**0**	**0**	**102 065**	**197 952**
Share of performance pay	-	-	-	34%	42%
Number of options issued	0	0	0	22 700	41 900

Arko Kurtmann (since Nov 2020)	2019	2020	2021	2022	2023
Basic salary	0	16 000	96 000	96 610	108 000
Performance pay	0	0	0	24 000	24 000
Value of options granted	0	0	33 304	72 044	71 966
Total remuneration	**0**	**16 000**	**129 304**	**192 654**	**203 966**
Share of performance pay	-	0%	26%	50%	47%
Number of options issued	0	0	40 000	46 600	47 900

Karel Parve (since Nov 2023)	2019	2020	2021	2022	2023
Basic salary	0	0	0	0	20 000
Performance pay	0	0	0	0	0
Value of options granted	0	0	0	0	0
Total remuneration	**0**	**0**	**0**	**0**	**20 000**
Share of performance pay	-	-	-	-	0%
Number of options issued	0	0	0	0	0

Rasmus Heinla (until Oct 2023)	2019	2020	2021	2022	2023
Basic salary	0	14 000	84 000	93 000	96 000
Performance pay	0	0	12 500	21 000	32 000
Value of options granted	0	3 546	58 282	63 077	0
Total remuneration	**0**	**17 546**	**154 782**	**177 077**	**128 000**
Share of performance pay	-	20%	46%	47%	25%
Number of options issued	0	30 000	70 000	40 800	0

Kerli Lõhmus (until Jan 2022)	2019	2020	2021	2022	2023
Basic salary	67 200	81 900	84 000	12 348	0
Performance pay	19 600	22 400	21 000	21 000	0
Value of options granted	0	5 910	58 282	0	0
Total remuneration	**86 800**	**110 210**	**163 282**	**33 348**	**0**
Share of performance pay	23%	26%	49%	63%	-
Number of options issued	0	50 000	70 000	0	0

Janek Uiboupin (until Feb 2020)	2019	2020	2021	2022	2023
Basic salary	67 200	28 400	0	0	0
Performance pay	19 600	22 400	0	0	0
Value of options granted	0	0	0	0	0
Total remuneration	**86 800**	**50 800**	**0**	**0**	**0**
Share of performance pay	23%	44%	-	-	-
Number of options issued	0	0	0	0	0

Hans Pajoma (until Oct 2020)	2019	2020	2021	2022	2023
Basic salary	108 000	100 185	0	0	0
Performance pay	31 500	36 000	13 500	0	0
Value of options granted	0	5 910	0	0	0
Total remuneration	**139 500**	**142 095**	**13 500**	**0**	**0**
Share of performance pay	23%	29%	100%	-	-
Number of options issued	0	50 000	0	0	0

Consolidated Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

in thousands of euros	Note	2023	2022
Interest income calculated using the effective interest method		109,627	54,555
Other income similar to interest		11,024	5,535
Interest and similar expense		-39,386	-9,381
Net interest and similar income	5	81,265	50,709
Fee and commission income		7,609	6,172
Fee and commission expense		-2,762	-2,387
Net fee and commission income	6	4,847	3,785
Sale of assets	12	80	0
Cost of assets sold	12	-85	0
Direct property operating expenses		0	-1
Change in fair value of investment properties		-1,825	-450
Net gains from non-financial asset realisation		4	6
Net gains from financial assets measured at fair value		57	4
Handling of overdue receivables		560	444
Other income		301	134
Net other income		-908	137
Payroll expenses	7	-20,234	-15,502
Operating expenses	8	-10,213	-7,352
Depreciation	13	-4,681	-4,323
Total operating expenses		-35,128	-27,177
Profit before loss allowances and tax		50,076	27,454
Credit loss allowance	11	-6,302	-5,245
Profit before tax		43,774	22,209
Income tax expenses	23	-4,570	-1,859
Net profit for the financial year	4	39,204	20,350
Other comprehensive income / loss			
Items that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income		424	-868
Other comprehensive income/loss		424	-868
Total comprehensive income for the financial year		39,628	19,482
Basic earnings per share (in euros)	22	0.38	0.22
Diluted earnings per share (in euros)	22	0.38	0.21

Notes to the financial statements on pages 45 to 117 are an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position

in thousands of euros	Note	2023	2022
Assets			
Cash and demand deposits at the Central Bank, credit institutions and other financial institutions	9	411,256	350,642
Mandatory reserve kept in the Central Bank	9	17,098	14,236
Debt securities at fair value through other comprehensive income	10	36,421	18,747
Equity instruments at fair value through other comprehensive income	10	13	13
Loans and advances to customers	11	1,490,873	1,300,775
Other financial assets	12	832	1,380
Other assets	12	1,275	697
Assets held for sale	12	1,722	3,412
Right-of-use assets	13	5,380	6,130
Tangible assets	13	3,746	2,808
Intangible assets	13	10,839	8,579
Goodwill	3	6,757	6,757
Total assets		1,986,212	1,714,176
Liabilities			
Customer deposits and loans received	15	1,721,765	1,508,126
Lease liabilities	14	5,417	6,142
Other financial liabilities	16	14,444	7,052
Other liabilities	16	8,574	5,601
Subordinated debt	17	50,187	38,139
Total liabilities		1,800,387	1,565,060
Shareholders' equity	18		
Share capital		69,673	69,148
Share premium		25,779	25,435
Statutory reserve capital		4,855	3,838
Retained earnings		84,484	50,863
Other reserves and assets revaluations		1,034	-168
Total shareholder's equity		185,825	149,116
Total liabilities and shareholders' equity		1,986,212	1,714,176

Notes to the financial statements on pages 45 to 117 are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

in thousands of euros	Note	2023	2022
Cash flows from operating activities			
Interest and other similar income received		118,064	58,528
Interest paid		-24,874	-8,423
Fees and commissions received		7,609	6,172
Fees and commissions paid		-2,762	-2,387
Other received income		930	596
Salaries paid		-20,320	-15,439
Other operating expenses paid		-10,213	-7,352
Income Tax paid	23	-2,973	-1,390
Total cash flows from operating activities before changes in operating assets and liabilities		65,461	30,305
Change in operating assets:			
Loans and advances to customers		-194,087	-349,124
Change of base level of the reserve kept in the Central Bank	9	-2,862	-4,724
Other assets		-115	289
Change in operating liabilities:			
Change in customer deposits and loans received		199,245	408,397
Other liabilities		10,877	3,309
Net cash flows from operating activities		78,519	88,452
Cash flows from investing activities			
Acquisition of property, plant and equipment		-7,200	-4,412
Sale of property, plant and equipment and investment properties		88	313
Acquisition of debt securities		-18,226	-14,261
Sale and redemption of debt securities		274	1,612
Total cash flows used in investing activities		-25,064	-16,748
Cash flows from financing activities			
Contribution to share capital	18	778	20,149
Issue of subordinated debt	17	12,000	26,100
Redemption of subordinated bonds	17	0	-5,000
Dividends paid	18	-4,566	-2,738
Repayment of principal of lease liabilities	14	-1,040	-850
Total cash flows from financing activities		7,172	37,661
Effect on exchange rate changes on cash and cash equivalents		-13	-9
Change in cash and cash equivalents		60,614	109,356
Cash and cash equivalents at beginning of the period		350,642	241,286
Cash and cash equivalents at the end of the period		411,256	350,642
Cash and cash equivalents balance is comprised of:		411,256	350,642
Cash on hand		2,276	3,598
Demand deposits at the Central Bank	9	394,089	333,305
Demand and short-term deposits in credit institutions and other financial institutions	9	14,891	13,739

Notes to the financial statements on pages 45 to 117 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 31.12.2021	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
Paid in share capital	525	344	0	-91	0	0	778
Dividends paid	0	0	0	0	0	-4,566	-4,566
Changes in reserves	0	0	1,017	0	0	1,017	0
Share options *	0	0	0	869	0	0	869
Net profit	0	0	0	0	0	39,204	39,204
Other comprehensive income	0	0	0	0	424	0	424
Total comprehensive income	0	0	0	0	424	39 204	39,628
Balance as at 31.12.2023	69,673	25,779	4,855	1,493	-459	84,484	185,825

*See Note 18

Notes to the financial statements on pages 45 to 117 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 2023, which have been prepared on a going concern basis, was approved by the Management Board of Coop Pank on 15 March 2024. 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. 2023 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 material accounting policy information and significant accounting estimates and judgements 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:

- expected credit loss, 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 2023. 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 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.

Equity instruments

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

Impairment of financial assets

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

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

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

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

Stage 1 – comprises balances for which the credit risk has not increased significantly since initial recognition. ECL is measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (12-month ECL).

Stage 2 – comprises balances for which there has been a significant increase in credit risk since initial recognition, but which do not have objective evidence of impairment. The expected credit losses are determined on a lifetime basis.

Stage 3 – comprises balances that are credit-impaired (i.e. which are overdue more than 90 days, if debtor is insolvent, if it is likely that the debtor will enter bankruptcy or financial reorganisation; non-performing receivable). The expected credit losses are measured as lifetime expected credit losses.

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

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

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was 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 13).

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 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.

1.8 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.

1.9 Leases – the Group as the lessee

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.

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.

1.10 Financial liabilities

The classification made can be seen in the table below:

Category by IFRS9 | Category as determined by the Group

<table>
<tr><td rowspan="5">Financial liabilities</td><td rowspan="5">Financial liabilities measured at 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 the 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 the 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 the 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.

1.11 Financial guarantee contracts

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.

1.12 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.

1.13 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.

1.14 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.

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.

Fee and commission income

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

1.15 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.

1.16 Statutory reserve capital

The Group forms the statutory reserve capital from annual net profit allocations to comply with the requirements of the Commercial Code. In each financial year the Group transfers at least one-twentieth of the net profit to the statutory reserve, until the reserve reaches one-tenth of share capital.

1.7 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 when the financial statements are authorised for issue but that are related to transactions in the reporting period or earlier periods are reported in the financial statements.

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

The following new or revised standards and interpretations became effective for the Group from 1 January 2023.

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 has assessed, that the amendments do not affect recognition or measurement principles but may have an impact on accounting policy information to be disclosed.

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 would not expect the amendments to have a material impact 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 would not expect the amendments to have a material impact on its financial statements. .

International Tax Reform – Pillar Two Model Rules – amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2023).

In May 2023, the IASB issued narrow-scope amendments to IAS 12, 'Income Taxes'. This amendment was introduced in response to the imminent implementation of the Pillar Two model rules released by the Organisation for Economic Co-operation and Development's (OECD) as a result of international tax reform. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules. Companies may apply the exception immediately, but disclosure requirements are required for annual periods commencing on or after 1 January 2023.
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 (incl. IFRS 17), which came into force for the reporting year starting on 01.01.2023, 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 beginning on or after 01.01.2024, and which the Group has not implemented early:

"Leases: Lease Liability in a Sale and Leaseback" - amendments to IFRS 16 (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.

Lack of Exchangeability – amendments to IAS 21 (effective for annual periods beginning on or after 1 January 2025; not yet adopted by the EU).

In August 2023, the IASB issued amendments to IAS 21 to help entities assess exchangeability between two currencies and determine the spot exchange rate, when exchangeability is lacking. An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. The amendments to IAS 21 do not provide detailed requirements on how to estimate the spot exchange rate. Instead, they set out a framework under which an entity can determine the spot exchange rate at the measurement date. When applying the new requirements, it is not permitted to restate comparative information. It is required to translate the affected amounts at estimated spot exchange rates at the date of initial application, with an adjustment to retained earnings or to the reserve for cumulative translation differences.
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 14) that will become effective in next accounting period(s), 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.

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

The tasks, composition and activities of the **Asset/Liability Management Committee** 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	31.12.2023	31.12.2022
Tier 1 capital		
Paid-in share capital and share premium	95,452	94,583
Statutory reserve capital	4,855	3,838
Retained earnings	45,280	30,513
The accepted profit of the reporting period*	23,757	10,769
Other accumulated comprehensive income	-459	-883
Goodwill as intangible asset (-)	-6,757	-6,757
Intangible assets (-)	-10,838	-8,579
Adjustment of value arising from requirements of reliable measurement (-)	-36	-18
Other deductions from Tier 1 Capital (-)	-1,148	-1,898
Other adjustments of own funds resulting from transitional provisions	0	157
Common Equity Tier 1 (CET1)	150,106	121,725
Additional Tier 1 capital	28,100	16,100
Total Tier 1 capital	178,206	137,825
Subordinated debt	22,000	22,000
Tier 2 capital	22,000	22,000
Eligible capital for capital adequacy calculation	200,206	159,825

* Includes audited profit for a nine-month period in 2023, 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 requirements 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 forecasted, 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.

As at 31.12.2023 and also as at 31.12.2022, 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 balances at 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:

<table>
<tr><th>Risk class</th><th>PD</th><th>Comparable S&P rating</th><th>Description</th></tr>
<tr><td>1</td><td>0,2%</td><td>A... AAA</td><td>The obligor's capacity to meet its financial commitment on the obligation is very strong</td></tr>
<tr><td>2</td><td>0,5%</td><td>BBB</td><td>The obligor's capacity to meet its financial commitment on the obligation is adequate. Adverse economic conditions or changing circumstances are likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation</td></tr>
<tr><td>3</td><td>1,0%</td><td>BB+</td><td rowspan="3">The obligor's capacity to meet its financial commitment on the obligation is adequate in the short-term perspective. Adverse business, financial, or economic conditions could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.</td></tr>
<tr><td>4</td><td>1,5%</td><td>BB</td></tr>
<tr><td>5</td><td>2,5%</td><td>BB-</td></tr>
<tr><td>6</td><td>5,0%</td><td>B+</td><td rowspan="3">The obligor's capacity to meet its financial commitment on the obligation is adequate in the short-term perspective. Adverse business, financial, or economic conditions will likely impair the obligor's capacity to meet its financial commitment on the obligation.</td></tr>
<tr><td>7</td><td>7,5%</td><td>B</td></tr>
<tr><td>8</td><td>10,0%</td><td>B-</td></tr>
</table>

9	20,0%	CCC	The obligor's capacity to meet its financial commitment on the obligation is questionable and is dependent upon favourable business, financial, or economic conditions for the obligor to meet its financial commitment on the obligation. Probable payment delays.
10	30,0%	CC	The obligor's capacity to meet its financial commitment on the obligation is probably insufficient. Payment delays.
11	60,0%	C	The obligor's capacity to meet its financial commitment on the obligation is insufficient. Payment delays.
12	100,0%	D	The obligor is in default.

In 2023 uncertainty into the economy continued. There are several factors influencing the macroeconomic situation starting from, the ongoing war in Ukraine, military conflict in Gaza sector, attacks on ships in Red Sea, energy crisis, etc. Very high inflation levels, high EURIBOR rate and an expected increase in unemployment affect 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 economic environment and outlook. The Group has further developed their model for the calculation of expected credit losses widening the macroeconomic, 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, macroeconomic forecasts and their confidence intervals have been used to correct PD's based on quantitative analysis and expert judgement. Of the macroeconomic indicators, the Group uses a mix of indicators which, according to performed analysis, proved to be statistically relevant for different product groups:

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

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 2022, the weights remained unchanged.

Individual and collective assessment, grouping

Loans are individually assessed where the total risk of the client (on-balance plus off-balance amount) exceeds 500 thousand euros and has been assigned to loan stage 3. Loans to watchlist clients exceeding 500 thousand euros 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 or repeatedly in past year;
- one of the customer's receivables is restructured due to payment difficulties or has been repeatedly restructured due to payment difficulties;
- corporate borrower has significant payment defaults to other creditors;
- in the case of claims secured by real estate of a private customer, the loan amount exceeds the value of the collateral;
- the customer is on the watchlist.

All receivables from the same corporate borrower are valued in the same category as the lowest risk category and loan stage 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) or has been repeatedly more than 90 days past due on its contractual payments; or
- customer's receivables have been more than three times restructured due to payment difficulties; 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 that is restructured due to payment difficulties has been properly serviced for at least 12 months and none of the above criteria is present (default criteria or signs of significant increase in credit risk), the loan can be classified as performing receivable.

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 in probability of customers default and thereby allowances. Actual levels of macro indicators published by Bank of Estonia, Statistics Estonia and Land Board and forecasts made by the Ministry of Finance, Bank of Estonia and the Group were used in the analysis. A sensitivity analysis shows impact on the Group's ECL if different macro indicator values are used in ECL calculations.

During analysis in addition to the main forecast, which is called base scenario, a confidence interval was also calculated, which is used as the positive and the negative scenario. The weighted impact on probability of default 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 2023.

The table below shows the impact of changes in the base scenario weights on the Group's loan portfolio as at 31.12.2023.

Change in the weights of the scenario (base-positive-negative)	Impact on ECL
60%-0%-40%	188
60%-20%-20%	-211

As at 31.12.2022, 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%	221
60%-20%-20%	-203

This table shows the Group's ECL change as of 31.12.2023, if the following changes had occurred in macroeconomic indicators relative to the base scenario:

	Impact of increase	Impact of decrease
Average wages and salaries +/-5%	-139	152
Unemployment rate +/-1%	563	-421
Business loan interest margin +/-0.5%	59	-59
Mortgage loan interest margin +/-0.5%	118	-59
6 months EURIBOR +/-0.5%	668	-483
Real estate price index +/-2%	-499	563
Employment rate +/-1%	-583	677

This table shows the Group's ECL change as of 31.12.2022, if the following changes had occurred 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

Maximum exposure to credit risk

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

31.12.2023	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	428,354	0	0	428,354
Debt securities at fair value through other comprehensive income	36,421	0	0	36,421
Loans to private individuals				
Consumer loans	93,695	4,449	1,919	100,063
Lease financing	71,725	1,125	70	72,920
Mortgage loans and other loans	584,492	16,025	2,583	603,100
Loans to legal entities				
Lease financing	95,457	2,278	660	98,395
Other loans to legal entities	581,921	43,755	7,113	632,789
Total	1,427,290	67,632	12,345	1,507,267
Loss allowance	-6,820	-5,516	-4,058	-16,394
Total net loans	1,420,470	62,116	8,287	1,490,873
Financial guarantees	15,490	802	0	16,292
Unused credit limits	38,795	731	7	39,533
Unused overdrafts	88,739	161	58	88,958
Total off-balance sheet exposures	143,024	1,694	65	144,783
Loss allowance	-371	-88	-2	-461
Total net off-balance sheet exposures	142,653	1,606	63	144,322

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

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

31.12.2023	AA- and higher	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Not rated	Total
Cash	0	0	0	0	0	2,276	2,276
Base level of the mandatory reserve kept in the Central Bank	0	0	0	0	0	17,098	17,098
Demand deposits at the Central Bank	0	0	0	0	0	394,089	394,089
Receivables from credit institutions and other financial institutions*	785	1,056	0	0	0	13,050	14,891
Debt securities at fair value through other comprehensive income	0	29,988	3,863	0	0	2,570	36,421

*Non-rated are the one Estonian credit institution and the EU financial institution - payment infrastructure operator, where the Group holds only very liquid positions.

31.12.2022	AA- and higher	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Not rated	Total
Cash	0	0	0	0	0	3,598	3,598
Base level of the mandatory reserve kept in the Central Bank	0	0	0	0	0	14,236	14,236
Demand deposits at the Central Bank	0	0	0	0	0	333,305	333,305
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

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:

Loans to private individuals	31.12.2023	31.12.2022
Normal monitoring		
I credit quality class	49	26
II credit quality class	578,400	491,965
III credit quality class	71,286	60,194
IV credit quality class	15,778	14,433
V credit quality class	1,415	693
VI credit quality class	82,393	73,727
VII credit quality class	147	195
Specific monitoring		
VIII credit quality class	15,842	10,169
IX credit quality class	1,729	1,597
X credit quality class	4,153	2,252
Non-performing loans		
XI credit quality class	319	260
XII credit quality class	4,572	1,830
Total	776,083	657,341
Loss allowances	-6,071	-4,069
Carrying amount	770,012	653,272

Loans to legal entities	31.12.2023	31.12.2022
Normal monitoring		
I credit quality class	9,329	3,771
II credit quality class	39,133	21,001
III credit quality class	168,334	121,164
IV credit quality class	173,086	162,502
V credit quality class	160,163	122,756
VI credit quality class	93,779	167,810
VII credit quality class	40,006	24,271
Specific monitoring		
VIII credit quality class	2,637	7,659
IX credit quality class	36,629	19,403
X credit quality class	6,091	4,706
Non-performing loans		
XI credit quality class	570	93
XII credit quality class	1,427	162
Total	731,184	655,298
Loss allowances	-10,323	-7,795
Carrying amount	720,861	647,503

Off-balance exposures of credit lines and overdraft facilities	31.12.2023	31.12.2022
Normal monitoring		
I credit quality class	88	410
II credit quality class	12,719	14,323
III credit quality class	17,605	16,279
IV credit quality class	33,233	41,734
V credit quality class	51,180	18,295
VI credit quality class	8,322	37,212
VII credit quality class	4,098	5,829

Specific monitoring		
VIII credit quality class	390	1,111
IX credit quality class	790	4,134
X credit quality class	62	3
Non-performing loans		
XI credit quality class	0	0
XII credit quality class	4	0
Total	128,491	139,330
Loss allowances	-437	-537
Carrying amount	128,054	138,793

Off-balance exposures of financial guarantees	31.12.2023	31.12.2022
Normal monitoring		
I credit quality class	57	0
II credit quality class	436	74
III credit quality class	6,319	1,986
IV credit quality class	4,302	1,989
V credit quality class	586	6,575
VI credit quality class	3,987	3,136
VII credit quality class	105	39
Specific monitoring		
VIII credit quality class	0	26
IX credit quality class	500	1,500
X credit quality class	0	94
Non-performing loans		
XI credit quality class	0	0
XII credit quality class	0	0
Total	16,292	15,419
Loss allowances	-24	-41
Carrying amount	16,268	15,378

Allocation of past due loans (gross carrying amount)

31.12.2023	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	4,858	2,298	8,612	1,548	2,668	19,984
31-60 days	1,361	407	2,299	556	250	4,873
61-90 days	583	62	425	674	126	1,870
Over 90 days	2,091	54	913	4	1,349	4,411
Total	8,893	2,821	12,249	2,782	4,393	31,138

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

Non-performing loans (stage 3)

31.12.2023	Gross carrying amount	Loss allowance	Carrying amount	Fair value of the collateral
Loans to private individuals				
Consumer loans	1,919	-1,604	315	0
Lease financing	70	-14	56	132
Mortgage loans and other loans	2,583	-522	2,061	6,727
Total	4,572	-2,140	2,432	6,859
Loans to legal entities				
Lease financing	660	-108	552	1,922
Other loans	7,113	-1,810	5,303	15,310
Total	7,773	-1,918	5,855	17,232

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

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.

31.12.2023	Over-collateralised loans Carrying amount	 Fair value of the collateral	Under-collateralised loans Carrying amount	 Fair value of the collateral
Loans to private individuals				
Consumer loans	0	0	95,419	0
Lease financing	71,209	114,495	1,590	378
Mortgage loans and other loans	595,299	1,442,738	6,495	952
Total	666,508	1,557,233	103,504	1,330
Loans to legal entities				
Lease financing	95,912	172,773	1,851	1,426
Other loans	609,664	3,808,017	13,434	8,366
Total	705,576	3,980,790	15,285	9,792

31.12.2022	Over-collateralised loans Carrying amount	 Fair value of the collateral	Under-collateralised loans 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

The loan risk level is also expressed by the market value of the collateral relative to the loan amount, i.e. the LTV (loan to value) 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 stage 3 customers.

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

31.12.2023	Over-collateralised loans Carrying amount	 Fair value of the collateral	Under-collateralised loans Carrying amount	 Fair value of the collateral
Loans to private individuals				
Consumer loans	0	0	315	0
Lease financing	55	132	1	0
Mortgage loans and other loans	1,991	8,541	70	0
Total	2,046	8,673	386	0
Loans to legal entities				
Lease financing	552	1,922	0	0
Other loans	5,296	29,366	7	0
Total	5,848	31,288	7	0

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

Loans and advances to customers by types of collateral

Private individuals	31.12.2023	31.12.2022
Loans secured by mortgage	596,612	502,132
Leased assets	72,620	61,184
Unsecured loans	105,698	93,317
Personal sureties, guarantees	847	603
Other	306	105
Total	776,083	657,341
Loss allowance	-6,071	-4,069
Total of net loans	770,012	653,272

Legal entities	31.12.2023	31.12.2022
Loans secured by mortgage	549,693	500,889
Leased assets	98,395	82,392
Unsecured loans	197	119
Personal sureties, guarantees	5,386	4,397
Other	77,513	67,501
Total	731,184	655,298
Loss allowance	-10,323	-7,795
Total of net loans	720,861	647,503

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;
- 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".

2023	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 01.01.2023	-5,805	-3,481	-2,578	-11,864	1,259,939	46,071	6,629	1,312,639
Transfer to stage 1	-825	793	32	0	10,307	-10,210	-97	0
Transfer to stage 2	307	-311	4	0	-38,088	38,097	-9	0
Transfer to stage 3	27	193	-220	0	-4,011	-2,841	6,852	0
Recalculations of allowances	650	-4,275	-2,708	-6,333	0	0	0	0
Financial assets derecognised and repaid	772	559	569	1,900	-187,683	-5,297	168	-192,812
New financial assets originated or purchased	-2,166	-84	0	-2,250	387,269	4,026	3	391,298
Total net P&L charge during the period	-1,235	-3,125	-2,323	-6,683	167,794	23,775	6,917	198,486
Other movements with no P&L impact								
Write-offs	0	2	63	65	0	-2	-63	-65
Financial assets derecognised and repaid during the period	220	1,088	780	2,088	-443	-2,212	-1,138	-3,793
Balance as at 31.12.2023	-6,820	-5,516	-4,058	-16,394	1,427,290	67,632	12,345	1,507,267

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	-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

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

Consumer loans. 2023	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 01.01.2023	-1,717	-547	-1,183	-3,447	85,073	2,573	1,422	89,068
Transfer to stage 1	-121	101	20	0	519	-493	-26	0
Transfer to stage 2	69	-73	4	0	-2,156	2,165	-9	0
Transfer to stage 3	18	47	-65	0	-642	-220	862	0
Recalculations of allowances	513	-2,089	-1,473	-3,049	0	0	0	0
Financial assets derecognised and repaid	148	393	313	854	-32,539	576	808	-31,155
New financial assets originated or purchased	-1,090	0	0	-1,090	43,883	2,060	0	45,943
Total net P&L charge during the period	-463	-1,621	-1,201	-3,285	9,065	4,088	1,635	14,788
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	220	1,088	780	2,088	-443	-2,212	-1,138	-3,793
Balance as at 31.12.2023	-1,960	-1,080	-1,604	-4,644	93,695	4,449	1,919	100,063

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

	ECL				Gross carrying amount			
Lease financing to private individuals, 2023	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 01.01.2023	-86	-3	-6	-95	60,814	619	15	61,448
Transfer to stage 1	0	0	0	0	59	-59	0	0
Transfer to stage 2	2	-2	0	0	-1,000	1,000	0	0
Transfer to stage 3	0	0	0	0	-34	-55	89	0
Recalculations of allowances	18	-2	-25	-9	0	0	0	0
Financial assets derecognised and repaid	12	1	10	23	-18,425	-391	-28	-18,844
New financial assets originated or purchased	-46	0	0	-46	30,311	11	1	30,323
Total net P&L charge during the period	-14	-3	-15	-32	10,911	506	62	11,479
Other movements with no P&L impact								
Write-offs	0	0	7	7	0	0	-7	-7
Financial assets derecognised and repaid during the period	0	0	0	0	0	0	0	0
Balance as at 31.12.2023	-100	-6	-14	-120	71,725	1,125	70	72,920

	ECL				Gross carrying amount			
Lease financing to private individuals, 2022	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	-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

Mortgage and other private loans, 2023	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 01.01.2023	-222	-176	-129	-527	496,235	10,197	393	506,825
Transfer to stage 1	-54	42	12	0	1,298	-1,227	-71	0
Transfer to stage 2	4	-4	0	0	-8,340	8,340	0	0
Transfer to stage 3	2	15	-17	0	-1,452	-911	2,363	0
Recalculations of allowances	37	-396	-473	-832	0	0	0	0
Financial assets derecognised and repaid	10	19	43	72	-32,754	-939	-62	-33,755
New financial assets originated or purchased	-51	-11	0	-62	129,505	565	2	130,072
Total net P&L charge during the period	-52	-335	-435	-822	88,257	5,828	2,232	96,317
Other movements with no P&L impact								
Write-offs	0	0	42	42	0	0	-42	-42
Financial assets derecognised and repaid during the period	0	0	0	0	0	0	0	0
Balance as at 31.12.2023	-274	-511	-522	-1, 307	584,492	16,025	2,583	603,100

Mortgage and other private 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	-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

Lease financing to legal entities, 2023	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 01.01.2023	-341	-159	-124	-624	78,666	3,072	654	82,392
Transfer to stage 1	-25	25	0	0	774	-774	0	0
Transfer to stage 2	4	-4	0	0	-1,338	1,338	0	0
Transfer to stage 3	2	2	-4	0	-289	-68	357	0
Recalculations of allowances	227	50	-72	205	0	0	0	0
Financial assets derecognised and repaid	35	22	78	135	-18,700	-1,639	-337	-20,676
New financial assets originated or purchased	-323	-41	0	-364	36,344	351	0	36,695
Total net P&L charge during the period	-80	54	2	-24	16,791	-792	20	16,019
Other movements with no P&L impact								
Write-offs	0	2	14	16	0	-2	-14	-16
Financial assets derecognised and repaid during the period	0	0	0	0	0	0	0	0
Balance as at 31.12.2023	-421	-103	-108	-632	95,457	2,278	660	98,395

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

Other loans to legal entities, 2023	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 01.01.2023	-3,439	-2,596	-1,136	-7,171	539,151	29,610	4,145	572,906
Transfer to stage 1	-625	625	0	0	7,657	-7,657	0	0
Transfer to stage 2	228	-228	0	0	-25,254	25,254	0	0
Transfer to stage 3	5	129	-134	0	-1,594	-1,587	3,181	0
Recalculations of allowances	-145	-1,838	-665	-2,648	0	0	0	0
Financial assets derecognised and repaid	567	124	125	816	-85,265	-2,904	-213	-88,382
New financial assets originated or purchased	-656	-32	0	-688	147,226	1,039	0	148,265
Total net P&L charge during the period	-626	-1,220	-674	-2,520	42,770	14,145	2,968	59,883
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 31.12.2023	-4,065	-3,816	-1,810	-9,691	581,921	43,755	7,113	632,789

Other loans to legal entities, 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	-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

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. 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, payment holidays or other restructuring measures are granted, including sometimes retrospectively. Restructuring practices are based on management estimates that payments by the customer are expected to continue. 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.

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 428,354 (2022: 364,878) in thousands of euros and other financial assets are in the amount of 812 (2022: 1,360) in thousands of euros. Debt securities in economic sector K are in the amount of 4,596 (2022: 2,173) in thousands of euros. In other sectors, debt securities are in the amount of 31,825 (2022: 16,574) in thousands of euros and other financial assets are in the amount of 20 (2022: 20) in thousands of euros.

The lending activity of the Group is focused on providing financing to the local market. 52% of loans and advances to customers are granted to private individuals (31.12.2022: 50%). 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	31.12.2023	%
Private individual	749,912	21,599	4,572	-6,071	770,012	51,66%
L – activities related to real estate	265,681	27,201	1,678	-5,296	289,264	19,40%
G – wholesale and retail	89,288	3,597	699	-948	92,636	6,20%
C – manufacturing	55,224	1,772	716	-585	57,127	3,83%
D – power and heat generation	54,834	0	2,248	-909	56,173	3,77%
K – finance and insurance activities	54,333	0	0	-308	54,025	3,62%
M – professional, scientific and technical activities	33,069	45	0	-277	32,837	2,20%
F – construction	24,370	6,938	100	-576	30,832	2,08%
H – transportation and storage	28,071	932	87	-347	28,743	1,94%
A – agriculture, forestry and fishing	22,191	4,238	721	-533	26,617	1,79%
N – administrative and support services	15,243	196	18	-58	15,399	1,02%
I – hospitality and food service	4,617	746	496	-124	5,735	0,38%
S – other services	3,172	12	0	-22	3,162	0,21%
Other	27,285	356	1,010	-340	28,311	1,90%
Total	1,427,290	67,632	12,345	-16,394	1,490,873	100%

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%

Financial assets by geographical classification

31.12.2023	EE	FR	CH	LT	LV	Other	Total
Cash and cash equivalents	414,528	12,480	0	0	0	1,346	428,354
Debt securities at fair value through other comprehensive income	4,114	0	0	18,762	10,661	2,884	36,421
Loans and advances to customers	1,477,013	0	12,065	0	34	1,761	1,490,873
Equity instruments at fair value through other comprehensive income	0	0	0	0	0	13	13
Other financial assets	832	0	0	0	0	0	832
Total	1,896,487	12,480	12,065	18,762	10,695	6,004	1,956,493

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

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 behavioural 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.

31.12.2023	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	428,354	0	0	0	428,354
Debt securities at fair value through other comprehensive income	0	506	18,473	17,442	36,421
Loans and advances to customers	78,845	272,860	971,966	942,637	2,266,308
Equity instruments at fair value through other comprehensive income	0	0	0	13	13
Other financial assets	812	0	20	0	832
Total financial assets	508,011	273,366	990,459	960,092	2,731,928
Liabilities					
Customer deposits and loans received	797,200	876,381	65,326	2,645	1,741,552
Lease liabilities	226	676	3,562	1,926	6,390
Other financial liabilities	14,444	0	0	0	14,444
Subordinated debt	1,062	3,179	14,192	52,985	71,418
Total financial liabilities	812,932	880,236	83,080	57,556	1,833,804
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	128,491	0	0	0	128,491
Financial guarantees by contractual amounts	16,292	0	0	0	16,292
Total on-balance-sheet and off-balance-sheet liabilities	957,715	880,236	83,080	57,556	1,978,587
Duration gap of financial assets and financial liabilities	-449,704	-606,870	907,379	902,536	753, 341

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

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 2023, 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 31.12.2023 was -1,409 thousand euros (31.12.2022: -646 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 total amount of open currency positions as at 31.12.2023 was 150 thousand euros (2022: 263 thousand euros). The sensitivity analysis has been carried out with the justified effects of possible exchange rate changes (8% on average) on the statement of profit or loss remaining constant for all other variables, the impact amount is 13 thousand euros (2022: 6 thousand euros).

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

31.12.2023	EUR	USD	Other	Total
Assets				
Cash and cash equivalents	426,162	1,200	992	428,354
Debt securities at fair value through other comprehensive income	36,421	0	0	36,421
Loans and advances to customers	1,490,873	0	0	1,490,873
Equity instruments at fair value through other comprehensive income	13	0	0	13
Other financial assets	832	0	0	832
Total financial assets	1,954,301	1,200	992	1,956,493
Liabilities				
Customer deposits and loans received	1,719,749	1,176	840	1,721,765
Subordinated debt	50,187	0	0	50,187
Lease liabilities	5,417	0	0	5,417
Other financial liabilities	14,418	24	2	14,444
Total financial liabilities	1,789,771	1,200	842	1,791,813
Net position	164,530	0	150	164,680

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

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 31.12.2023 was 1,322,752 (31.12.2022: 1,123,919) 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

31.12.2023	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	411,187	0	0	0	411,187	0	0	411,187
Loans and advances to credit institutions	14,890	0	0	0	14,890	0	0	14,890
Debt securities at fair value change through other comprehensive income	0	500	18,158	17,413	36,071	350	0	36,421
Loans and advances to customers	791,937	707,605	1,101	0	1,500,643	6,624	-16,394	1,490,873
Total financial assets exposed to interest rate risk	1,218,014	708,105	19,259	17,413	1,962,791	6,974	-16,394	1,953,371
Interest-bearing liabilities								
Customer deposits and loans received	793,127	843,936	59,415	6,450	1,702,928	18,837	0	1,721,765
Subordinated debt	0	0	0	50,100	50,100	87	0	50,187
Total interest-bearing liabilities	793,127	843,936	59,415	56,550	1,753,028	18,924	0	1,771,952
Exposure to interest rate risk duration gap	424,887	-135,831	-40,156	-39,137	209,763	-11,950	-16,394	181,419

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	844	0	6,599	11,228	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	1,073,731	595,988	7,332	11,228	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	0	0	0	38,100	38,100	39	0	38,139
Total interest-bearing liabilities	941,142	444,205	112,254	44,255	1,541,856	4,409	0	1,546,265
Exposure to interest rate risk duration gap	132,589	151,783	-104,922	-33,027	146,423	-22	-11,864	134,537

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 daily according to the European Banking Authority guidelines on the management of interest rate risk arising from non-trading book activities as specified in the supervisory outlier test. The bank measures interest rate risk once a month with the model that is designed by the bank specific criteria. 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 are taken into account, including changes in slope and shape, that 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 parallel shift from -200bp to + 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, up to 30% of the interest stress is applied to the core part of non-maturity deposits, and up to 100% of the interest stress is applied to the non-core part of non-maturity deposits.
- For the assessment of the interest rate risk, the core part of the non-maturity deposit ratio of 78% for 2023 was used.
- In determining the economic value of equity, the maturity of the core part of non-maturity deposits is up to 2 years and that of the non-core part of non-maturity deposits is 0 years.
- 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 2023, was 6,1%. The termination rate of term deposits based on 2023 was 8,44%.

The table below specifies the estimates with regard to the annual impact of a parallel shifts in the yield curve on the net interest income:

	31.12.2023	31.12.2022
Parallel upward shift of the yield curve	4,742	5,705
Parallel downward shift of the yield curve	-7,789	-5,506

The interest rate risk scenario assumes decrease of interest rates to a minimum level of 0%.

The table below specifies the estimates regarding the annual impact of a parallel shifts in the yield curve on the Group's economic value of equity:

	31.12.2023	31.12.2022
Parallel upward shift of the yield curve	4,465	6,189
Parallel downward shift of the yield curve	-3,131	-5,706

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 conscious risks, which may be accompanied by the realization of ESG risks.

The Chief Risk Officer is responsible for the 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. In addition, we try to avoid creating a negative impact on society, for example, we do not offer financing for certain areas of activity that are not in line with the goals of responsibility and sustainability.

From the Bank's point of view, ESG risks can be divided into two categories. In the first case, we are dealing with ESG risks of the Coop Pank as an organization, and in the second case, with the risks of the Bank's loan portfolio. Today, we have become aware of the main organization-specific risks as:

Environmental risks – mainly related to our office operations and server parks (for instance, floods). When managing these risks, it is important to consider that our offices are located on leased premises and we do not bear significant property damage in the case of physical risks (except possible property damage to our IT equipment, furniture, etc., but we have insured against this risk). In the event of a physical adverse event, most employees will be able to continue working in the home office.

Social risks – the main risks are related to employee relations, human rights, working conditions, equal opportunities, and diversity. The HR department and the management actively deal with social risk management to ensure continuous improvement of the working environment, prevention of undesirable events and creation of various benefits and opportunities for employees.

Risks related to governance – the main risks are regulatory and related to the transparency of the bank's governance. Risks are managed through the fact that we are a listed company, and we are subject to significantly stricter frameworks and supervision requirements than ordinary companies. It is also the task of the legal department and the compliance control unit to ensure that the bank's operations comply with the applicable legal regulations. Additional regulatory obligation regarding ESG reporting (Pillar3, CSRD, Taxonomy, etc.), which risk we manage, being aware of future ESG regulatory requirements and we are creating a system for timely compliance with these legal regulations.

ESG risks of the bank's loan portfolio

When it comes to the ESG risks of the bank's portfolio, we approach from the principle of double materiality, paying attention to both, factors that are influenced by the bank and aspects that affect the bank (e.g. a flood negatively affects the bank's collateral assets; a loan issued by the bank may negatively affect the environment (e.g. a loan to the oil production). To clarify the main points of influence of Coop Pank's loan portfolio (both within and outside the bank), we have conducted a primary impact analysis based on the UNEP FI methodology. In this way, we have identified the main areas of influence, which we will continue to further analyse in 2024.

Leasing – leasing is most affected in the context of ESG by the fact that the global car market is increasingly moving towards electric cars, thus providing an opportunity to finance them. We also follow the principle that an important aspect of leasing portfolio's ESG risk management is to finance a significant volume of already produced car fleet and not to focus only on financing new vehicles. To date, we have created the bank's first green product aimed at purchasing environmentally friendly cars, and the share of used car financing in our portfolio continues to grow.

Consumer financing – the main risk is social risk, i.e. responsible lending. The risk is managed by assessing the loan servicing capacity on a customer-by-customer basis in accordance with current regulations and performing follow-up checks accordingly. Corresponding IT solutions are constantly being developed so that the realisation of the risk is minimised.

Private client real estate financing – the main risk is environmental risk. In cooperation with the Estonian Banking Association and the Estonian Association of Appraisers, a common ESG assessment is being developed, which will be used in the assessment of collateral assets. To date, the bank has mitigated the environmental risk through the fact that insurance is required for all guarantees.

Corporate client financing – all ESG-related risks occur here, similarly to the bank's ESG risks as an organisation, as well as collateral asset risks (see private client real estate financing). To manage the accompanying risks, the bank has decided not to finance areas of activity that have a negative social or environmental impact. According to the internal procedures, during 2023 it has been recommended to assess ESG risks separately for clients who are included in the assessment based on CSRD requirements (so-called large companies, clients with a significant environmental impact due to their field of activity, and clients whose potential loan position is greater than 10% of the bank's Tier 1 capital). Based on assessments, we have so far made qualitative conclusions about the possible increase in credit risk. In 2024, we plan to start with quantified estimates.

Considering the current development of ESG risk management both at the Bank and at the regulatory level, the level of ESG risks in 2023 has not been considered as an input in our ECL models. As an indirect effect, we can point out that since according to our credit policy (since 2017) it is not allowed to finance projects with either a significant environmental impact or a negative social impact, our ECL rates have been based on a portfolio in which significant ESG risk has been consciously avoided.

In order to successfully manage and mitigate risks, we consider it important to get to know them better. In 2024, we will continue with an in-depth analysis of areas of influence, mapping ESG risks and opportunities, perform a gap analysis for readiness for compliance with sustainability information disclosure requirements (CSRD directive), and we will also keep other legislative processes related to sustainability and risks under continued attention, including the European Union's taxonomy of sustainable activities.

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.

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 not available in a market. The following hierarchy for fair value measurement has been established based on 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).

The fair value of loans and advances as at 31.12.2023 was 0.08% higher (1,242 thousand euros) than their carrying amount. The fair value of deposits as at 31.12.2023 was -0,14% lower (-2,424 thousand euros) than their carrying amount.

31.12.2023	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets at fair value					
Debt securities at fair value through other comprehensive income	36,421	-	-	36,421	36,421
Equity instruments	-	13	-	13	13
Total of financial assets	36,421	13	-	36,434	36,434
Financial assets at amortised cost					
Cash and cash equivalents	-	428,354	-	428,354	428,354
Loans and advances to customers	-	-	1,492,115	1,492,115	1,490,873
Total receivables from private individuals	-	-	771,380	771,380	770,012
incl. consumer loans	-	-	96,339	96,339	95,419
incl. lease financing	-	-	72,832	72,832	72,800
incl. mortgage loans and other loans	-	-	602,209	602,209	601,793
Total receivables from legal entities	-	-	720,735	720,735	720,861
incl. lease financing	-	-	97,744	97,744	97,763
incl. other loans to legal entities	-	-	622,991	622,991	623,098
Other financial assets	-	-	832	832	832
Total of financial assets at amortised cost		428,354	1,492,947	1,921,301	1,920,059
Financial liabilities at amortised cost					
Customer deposits and loans received	-	1,719,341	-	1,719,341	1,721,765
incl. private individuals	-	809,221	-	809,221	810,992
incl. legal entities	-	910,120	-	910,120	910,773
Lease liabilities	-	-	5,417	5,417	5,417
Other financial liabilities	-	-	14,444	14,444	14,444
Subordinated debt	-	-	50,187	50,187	50,187
Total of financial liabilities at amortised cost	-	1,719,341	70,048	1,789,389	1,791,813

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.

The fair value of loans and advances as at 31.12.2022 was 0.60% lower (7,654 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. consumers 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
		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

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.

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 the consumer loans segment. From the acquisition of the 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 31.12.2023 was 6,757 thousand euros (31.12.2022: 6,757 thousand euros).

As at 31.12.2023 and 31.12.2022 goodwill was tested for impairment. Value-in-use calculations are based on the following assumptions:

- forecast period 6 years (2022: 6 years)
- estimated growth in the volume of loan portfolio is 10-13% per year (2022: 10-11%)
- average increase in net income is 3% per year (2022: 5%)
- average increase in expenses is 8% per year (2022: 10%)
- average loan impairment loss is 3.2% per year (2022: 3.4%)
- weighted average cost of capital of 14% is used as cash flow discount rate (2022: 12%)
- terminal growth rate used is 2% (2022: 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 a 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% (2022: 2%)
- increase in expenses 5% (2022: 10-15%)
- loan impairment costs 3-7% (2022: 5%)
- cost of capital 14% (2022: 12%)

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 gathering 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. The geographical breakdown of interest income is shown in Note 5. The geographical breakdown of commission fees is shown in Note 6.

Segment profits in 2023, in thousands of euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Interest income	52,444	40,674	15,243	10,050	19,809	-17,569	120,651
Incl. external income	47,593	33,584	15,243	10,050	14,181	0	120,651
Incl. internal income	4,851	7,090	0	0	5,628	-17,569	0
Interest expenses	-16,711	-14,753	-2,550	-3,822	-19,119	17,569	-39,386
Net interest income	35,733	25,921	12,693	6,228	690	0	81,265
Commission income	1,962	2,771	1,895	267	714	0	7,609
Commission expense	-566	-1,834	-224	-7	-131	0	-2,762
Net commission income	1,396	937	1,671	260	583	0	4,847
Other operating income	79	101	657	75	-1,820	0	-908
Net income	37,208	26,959	15,021	6,563	-547	0	85,204
Operating expenses	-11,288	-12,780	-5,895	-3,578	-1,587	0	-35,128
Profit before loss allowances and tax	25,920	14,179	9,126	2,985	-2,134	0	50,076
Credit loss allowance	-2,383	-707	-3,232	20	0	0	-6,302
Profit before tax	23,537	13,472	5,894	3,005	-2,134	0	43,774
Income tax expense	-2,897	-1,673	0	0	0	0	-4,570
Profit of the year	20,640	11,799	5,894	3,005	-2,134	0	39,204

Fee and commission income allocation 2023, in thousands of euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Monthly account fees and transaction fees	272	1,073	0	0	0	0	1,345
Fees from cards	402	1,270	1,895	0	0	0	3,567
Insurance brokerage commission	0	0	0	0	658	0	658
Foreign exchange transactions	50	5	0	0	56	0	111
Other fee and commission income	1,238	423	0	267	0	0	1,928
Total fee and commission income	1,962	2,771	1,895	267	714	0	7,609

Assets and liabilities as at 31.12.2023, in millions of euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Loan portfolio	812	602	96	153	387	-559	1,491
Other assets	191	177	38	47	42	0	495
Total assets	1,003	779	134	200	429	-559	1,986
Total liabilities	924	707	122	181	425	-559	1,800

*Other includes treasury, subsidiaries Prana Property and Coop Kindlustusmaakler.
The distribution of interest income and commission income by products is presented in Note 5 and 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
Monthly account fees and transaction fees	282	1,004	0	0	0	0	1,286
Fees from cards	354	1,015	1,624	0	0	0	2,993
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 liabilities 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 liabilities	878	598	112	153	443	-619	1,565

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

Note 5 Net interest income

	Note	2023	2022
Interest income calculated using effective interest method:			
Loans to entities		46,520	25,066
Consumer loans and hire-purchase loans		15,243	13,251
Other loans to private individuals		33,584	14,817
Debt securities		1,016	349
Other assets		13,264	1,072
Other similar interest income:			
Leasing		11,024	5,535
Total interest income and income similar to interest		120,651	60,090
Customer deposits and loans received		-36,028	-6,635
Subordinated debt	17	-3,222	-2,251
Interest expense on assets		0	-416
Lease liabilities	14	-136	-79
Total interest expenses		-39,386	-9,381
Net interest income		81,265	50,709

In 2023, the Group earned 98% of interest income from Estonian residents and 2% from residents of other countries (mostly EU countries). In 2022, all interest income was earned from Estonian residents.
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

	2023	2022
Fees from cards	3,567	2,993
Monthly account fees and transaction fees	1,345	1,286
Insurance brokerage commission	658	479
Foreign exchange transactions	111	88
Other fee and commission income	1,928	1,326
Total fee and commission income	7,609	6,172
Expenses related to cards	-2,014	-1,749
Transaction costs	-258	-245
Other fee and commission expense	-490	-393
Total fee and commission expense	-2,762	-2,387
Net fee and commission income	4,847	3,785

The distribution of fee and commission income by operating segments is presented in Note 4.
In 2023, the Group earned 87% of fee and commission income from Estonian residents and 13% from residents of other countries (mostly EU countries). In 2022, 85% of fee and commission income was earned from Estonian residents and 15% from residents of other countries. All fee and commission income are recognised point in time.

Note 7 Payroll expenses

	2023	2022
Wages and salaries	-14,330	-11,014
Social tax, unemployment insurance premiums	-5,904	-4,488
Total	-20,234	-15,502

Social security tax payments include a contribution to state pension funds in amount 238 (2022: 190) thousand euros. The Group has no legal or factual obligation to make pension or similar payments beyond social security tax. In 2023, the average number of employees of the Group (reduced to full-time equivalents) was approximately 396 (2022: 351).

Note 8 Operating expenses

	Note	2023	2022
Administration of information systems		-1,772	-1,658
Marketing expenses		-2,587	-1,758
Contributions to Deposit Guarantee Fund		-1,568	-534
Training and travel expenses		-627	-346
Office expenses		-587	-472
Services purchased		-539	-461
Utilities of right of use assets		-352	-364
Financial supervision fee instalments		-308	-199
Auditor services		-229	-153
Short-term and low value leases	14	-187	-283
Legal services, state fees		-113	-80
Insurance		-97	-90
Membership fees		-46	-34
Transport expenses		-44	-39
Other operating expenses		-1,157	-881
Total		-10,213	-7,352

Note 9 Cash, cash balances at central banks and other deposits

	31.12.2023	31.12.2022
Cash	2,276	3,598
Base level of the mandatory reserve kept in the Central Bank*	17,098	14,236
Demand deposits at the Central Bank	394,089	333,305
Demand deposits at credit institutions and other financial institutions	14,891	13,739
Total	428,354	364,878

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

Mandatory reserve at the Central Bank is the minimum amount that the bank must hold and this amount is not freely usable. The base rate of mandatory reserve kept at the Central Bank as of 31.12.2023 was 1% (31.12.2022: 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

	31.12.2023	31.12.2022
Government debt securities	29,988	13,874
Credit institutions	4,596	2,173
Debt securities of other non-financial companies	1,837	2,700
Total of debt securities	36,421	18,747
Shares of other non-financial companies	13	13
Total of equity instruments	13	13
Total of financial investments	36,434	18,760

As at 31 December 2023 and 31 December 2022 all debt securities and equity instruments are recognised at fair value through changes in other comprehensive income.

Note 11 Loans and advances to customers

	31.12.2023	31.12.2022
Total receivables from private individuals	776,083	657,341
incl. consumers loans	100,063	89,068
incl. lease financing	72,920	61,448
incl. mortgage loans and other loans	603,100	506,825
Total receivables from legal entities	731,184	655,298
incl. lease financing	98,395	82,392
incl. other loans to legal entities	632,789	572,906
Total receivables	1,507,267	1,312,639
Loss allowances of loans and advances	-16,394	-11,864
Total	1,490,873	1,300,775

Finance lease receivables	31.12.2023	31.12.2022
Gross investment – lease payments receivable, incl.	200,575	161,087
up to 1 year	60,462	48,263
1-2 years	41,502	35,072
2-3 years	38,019	29,671
3-4 years	27,896	27,355
4-5 years	25,791	16,010
over 5 years	6,905	4,716
Future interest income	-28,865	-16,661
up to 1 year	-10,900	-6,490
1-2 years	-7,795	-4,643
2-3 years	-5,277	-3,091
3-4 years	-3,115	-1,698
4-5 years	-1,502	-612
over 5 years	-276	-127
Finance lease net investment *	171,710	144,426
up to 1 year	49,562	41,773
1-2 years	33,707	30,429
2-3 years	32,742	26,580
3-4 years	24,781	25,657
4-5 years	24,289	15,398
over 5 years	6,629	4,589

*Finance lease receivables gross investment includes accrued interest in the amount of 619 (31.12.2022: 352) thousand euros and contract fees in the amount of -1,015 (31.12.2022: -938) thousand euros.

Loan allowances	31.12.2023	31.12.2022
Balance at the beginning of the reporting period	-11,864	-8,827
Loss allowances during the reporting period*	-6,503	-5,223
Derecognised during reporting period due to sale or write-off of loans	1,973	2,186
Balance of allowance at the end of the reporting period	-16,394	-11,864

*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 84 (2022: 257) thousand euros during the reporting period; due to loss allowances in the amount of -117 (2022: -279) thousand euros from the exposures related to the off-balance sheet.

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

Note 12 Other financial assets and other assets

	31.12.2023	31.12.2022
Financial assets		
Security deposits	20	20
Amounts receivable	343	397
Other receivables	469	963
Total financial assets*	832	1,380
Other assets		
Settlements with the Tax and Customs Board	6	29
Other prepayments**	1,269	668
Total other assets	1,275	697
Assets held for sale		
Real estate acquired for sale and properties under construction***	1,607	3,388
Other assets	115	24
Total assets held for sale	1,722	3,412

*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 Tangible and intangible assets

	Right-of-use assets	Land and properties	Other tangible assets	Internally generated intangibles	Other intangible assets	Total
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
Acquisition and additions	211	0	1,796	3,584	1,820	7,411
Termination of lease contracts	-32	0	0	0	0	-32
Adjustments to lease payments	-135	0	0	0	-112	-247
Sale at carrying amount	0	0	-3	0	0	-3
Depreciation charged	-794	-3	-852	-1,550	-1,482	-4,681
Carrying amount at 31.12.2023						
Incl. acquisition cost	8,808	136	7,186	9,351	12,507	37,988
Incl. depreciation	-3,428	-18	-3,558	-2,977	-8,042	-18,023
Carrying amount 31.12.2023	5,380	118	3,628	6,374	4,465	19,965

Right-of-use assets include leases of property and real estate. Land and properties include 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 14 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. 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.

	2023	2022
Beginning balance 01.01	6,142	6,639
Cash flows	-1,040	-850
Interest expense	136	79
New leases*	211	348
Terminated leases	-32	-74
Ending balance 31.12	5,417	6,142

*In 2023, 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:

	2023	2022
Interest expense (included in finance cost) (Note 5)	136	79
Expense relating to short-term leases (included in operating expenses)	130	206
Expense relating to leases of low-value assets (included in operating expenses)	57	78

Note 15 Customer deposits and loans received

	31.12.2023	31.12.2022
Private individuals	810,992	640,178
Legal entities	910,773	867,948
Total	1,721,765	1,508,126
Demand deposits	494,092	717,743
Term deposits	1,217,991	779,569
Special purpose loans	9,682	10,814
Total	1,721,765	1,508,126

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 31.12.2023, the loan balance is 3.8 (2022: 4.7) million euros. The remaining special-purpose loans have been received from the Rural Development Foundation.

Note 16 Other financial liabilities and other liabilities

	31.12.2023	31.12.2022
Financial liabilities		
Cash in transit	6,144	2,467
Customer advances	2,593	2,503
Card clearing	2,117	225
Balance of terminated customer contracts	1,515	386
Trade payables	713	431
Settlements with cooperatives	875	734
Other financial liabilities	487	306
Total financial liabilities	14,444	7,052
Other liabilities		
Payables to employees	3,302	2,610
Tax liabilities	3,104	1,341
Provisions	461	578
Deferred liabilities	1,301	488
Other advance payments	406	584
Total other liabilities	8,574	5,601
Total	23,018	12,653

Note 17 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
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 bond (Tier 1)	2023	12.00%	perpetual	12,000
Cash flows from financing activities				12,000
Subordinated debt as at 31.12.2023				50,100
Subordinated debt accrued interest as 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
Interest expenses calculated during 2023 (Note 5)				3,222
Paid out interest expense during 2023				-3,174
Subordinated debt accrued interest as at 31.12.2023				87

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

Note 18 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 31.12.2021		91,254,176		62,186	12,230
Paid in share capital	May 2022	70,000	0.8420	47	30
	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
Paid in share capital	May 2023	770,000	1.010	525	344
Share capital as at 31.12.2023		102,241,307		69,673	25,779

The share capital issue in 2023 was related only to the exercising of employee share options. In 2022, the secondary public offering of shares was issued and the employee share options were exercised. The shares were fully paid in cash. As at 31.12.2023 the share capital of the bank is 69,673 (31.12.2022: 69,148) in thousands of euros, which was divided into 102,241,307 (31.12.2022: 101,471,307) ordinary shares of no par value. The carrying value of one share is 0.6815 euros (31.12.2022: 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 2023 Coop Pank AS used the right to increase the share capital by 525 in thousands of euros in connection with the option programme, i.e. from the amount 69,148 in thousands of euros up to the amount 69,673 in thousands of euros. The total proceeds of the subscription were 778 thousand euros. The issue price was 1.01 euros per share, of which 0.6815 euros is the book value and 0.3285 euros is the share premium. In 2022 Coop Pank AS used the right to increase the volume of the share capital by 6,915 in thousands of euros in connection with the secondary public offering, i.e. from the amount 62,233 in thousands of euros up to the amount 69,148 in thousands of euros. The total proceeds of the public offering are 20.3 million thousands of 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.

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. The related income tax was calculated with a tax rate of 20/80 from the net dividend amount.

In the spring of 2023, Coop Pank paid dividends to shareholders at a rate of 0.045 euros (net) per share from the profit of the year 2022, in the total net amount of 4,566 in thousands of euros. Part of the dividends (1/3 from dividends paid out in 2022) were taxed at a preferential rate of 14/86 and the remaining part at a rate of 20/80.

As of 31.12.2023 it is possible to pay out dividends to shareholders at a rate of 0.087 euros (net) per share in the total net amount of 8,895 thousand euros. Part of the potential dividends (1/3 from dividends paid out in 2022 and 1/3 from dividends paid out in 2023) would be taxed at a preferential rate of 14/86 and the remaining part at a rate of 20/80.
Income tax expense information is presented in Note 23.

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 31.12.2023 amounted to 1,493 (2022: 715) thousand euros. Related expenses in the statement of profit and loss in 2023 were 869 (2022: 480) thousand euros and 91 (2022: 18) thousand euros were transferred from reserve to share premium in relation with exercising 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 2023 the main input values used are: share price of the bank 2.893 (2022: 2.762) euros, strike price 1.526 (2022: 1.255) euros volatility 20% (2022: 20%) and risk-free interest rate 3% (2022: 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 2023, the options for 770,000 shares were exercised with strike price 1.0100 euros. In 2022, the options for 70,000 shares were exercised with strike price 0.8420 euros. The bank may issue share options for the results of 2023.

Transactions with options	Number of options
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
Granted	891,100
Exercised	-770,000
Forfeited	-76,800
As at 31.12.2023	2,256,500

Valid options as of 31.12.2023 are subject to exercising.

Date of issue	Expiry date	Share price	Number of options
Aprill 2021	Aprill 2024	1,1000	745,000
Aprill 2022	Aprill 2025	1,2550	678,500
Aprill 2023	Aprill 2026	1,5260	833,000
Total options to be exercised		1,3039	2,256,500

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 19 Contingent liabilities

	31.12.2023	2022
Financial guarantees	16,292	15,419
Lines of credit and overdraft facilities	128,491	139,330
Total	144,783	154,749

The Group applies the expected credit loss model for contingent liabilities, see Note 2. In 2023, 461 thousand euros was accounted as ECL allowance for contingent liabilities (2022: 578 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 20 Litigations

In 2023, ten lawsuits against the Group (i.e. the Group's company is the defendant) were pending in the courts. In the first lawsuit, there is no financial claim against the Bank, and the Bank is essentially a third party on the side of the defendant, although procedurally the Bank is included as a defendant. In the mentioned case, there is a dispute between neighbours about the size of the property.
The content of the second lawsuit is a claim for reimbursement of legal expenses in the amount of 5 thousand euros, which is related to the dispute between the client and the Bank regarding the closure of the current account.
The content of the third action was a claim to terminate the enforcement proceedings due to the statute of limitations, which the court refused to consider because the wrong action was filed.
The fourth to sixth lawsuits are similar in content: three legal entities have challenged the extraordinary cancellations of the current account agreement at the initiative of the Bank and demand the continuation of the current account agreement.
In the seventh lawsuit, the legal entity has challenged the Bank's refusal to conclude a current account agreement.
In the eighth action, a natural person has filed a lawsuit to declare the enforcement procedure inadmissible, because he considers the enforcement procedure to be expired.
The ninth lawsuit is filed seeking to declare the loan agreement null and void because it is alleged that the agreement was entered into by fraud.
The tenth lawsuit is related to the claim to establish the nullity of the loan agreement in connection with the gift transaction of the mortgage asset. The Bank is involved in the proceedings as a third party.

As of 31.12.2023, a total of 506 thousand euros (2022: 685 thousand euros) had been awarded in the course of court proceedings in favour of various companies of the Group, plus default interest. At the same time, lawsuits filed by the Group (including payment orders) in the total amount of 271 thousand euros (2022: 102 thousand euros) were pending, plus default interest. The main content of the claims are various claims against customers arising from credit agreements. Claims arising from credit agreements have a good perspective and are generally satisfied in full by the court.

Note 21 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- 5.0%. 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 22.17% of shares.

Balances	31.12.2023	31.12.2022
Shareholders:		
Loans	0	0
Deposits	9,897	5,648
Members of the management board and supervisory board and their close relatives and related entities:		
Loans	2,396	1,914
Deposits	1,011	606

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

Transactions	2023	2022
Shareholders:		
Interest expenses	81	3
Members of the management board and supervisory board and their close relatives and related entities:		
Interest income of the reporting period	91	52
Interest expenses of the reporting period	11	5
Sale of other goods and services	2	2
Salaries to members of the Management Board and Supervisory Board	849	698

Maximum termination benefits payable to members of the management board on a contingent basis is 324 thousand euros (31.12.2022: 258).

The share options issued to members of the Management Board are provided in the tables below.

Transactions with options	Number of options
As at 31.12.2021	540,000
Granted	212,100
Exercised	0
Forfeited	-70,000
As at 31.12.2022	682,100
Granted	257,500
Exercised	-200,000
Forfeited	-47,900
As at 31.12.2023	691,700

Valid options as of 31.12.2023 are subject to exercising.

Date of issue	Expiry date	Share price	Number of options
Aprill 2021	Aprill 2024	1.1000	270,000
Aprill 2022	Aprill 2025	1.2550	212,100
Aprill 2023	Aprill 2026	1.5260	209,600
Total options to be exercised		1.2766	691,700

Note 22 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.

	31.12.2023	31.12.2022
Profit attributable to the owners of the parent (in thousands of euros)	39,204	20,350
Weighted average number of shares (in thousands of units)	101,933	93,843
Basic earnings per share (euros)	0,38	0.22
Adjustments for calculation of diluted earnings per share – share options (in thousands of units)	2,262	2,067
Weighted average number of shares used for calculating the diluted earnings per share (in thousands of units)	104,195	95,911
Diluted earnings per share (euros)	0,38	0.21

Note 23 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. Income tax expenses are recognized in the income statement at the time of their occurrence.

	2023	2022
Profit before tax	43,774	22,209
incl. non-taxable income	11,130	8,932
Advance income tax for credit institutions	-4,570	-1,859
Corporate income tax	-173	-163
Total income tax expense	-4,743	-2,022
Effective tax rate	11%	9%

As of 31.12.2023 the bank has been paid advance income tax in the amount of 2,973 (2022: 1,390) thousand euros in total of which 2,290 has been calculated based on the profit earned in 2023.

On May 3, 2022, Coop Pank paid dividends from the profit earned in 2021 in the total net amount of 2,738 thousand euros. Income tax was calculated on net dividends in the amount of 684 thousand euros with a tax rate of 20/80. The income tax liability calculated on net dividends was offset against the advanced income tax paid by the bank.

On May 3, 2023, Coop Pank paid dividends from the profit of the year 2022 in the total net amount of 4,566 in thousands of euros. The total related income tax charge on dividends was 1,062 thousand euros. Part of dividend (1/3 from dividends paid out in 2022) was taxed at a preferential rate of 14/86 in the amount of 149 thousand euros and the remaining part at a tax rate of 20/80 in the amount 913 thousand euros. The income tax liability calculated on net dividends was offset against the advanced income tax paid by the bank.

As of 31.12.2023 it is possible to pay out dividends in the amount of 8,895 thousand euros. Part of the potential dividends (1/3 from dividends paid out in 2022 and 1/3 from dividends paid out in 2023) would be taxed at a preferential rate of 14/86 in the amount of 396 thousand euros and the remaining part at a tax rate of 20/80 in the amount 1,615 thousand euros. The total related income tax charge would be 2,011 thousand euros. Based on a forecast, sufficient advance income tax has been paid against which the corporate income tax could be offset.

Information related to paid dividends is presented in Note 18.

Note 24 Events after balance sheet date

On December 2023, Coop Pank entered into an agreement with the European Energy Efficiency Fund (EEEF), co-financed by the European Union, on the basis of which, in February 2024, the bank has obtained an unsecured subordinated loan of 15 million euros from the fund for the financing of energy efficiency and renewable energy projects. The loan agreement is a capital instrument forming part of the bank's own second-tier funds. The agreement was signed by the Bank for the purpose of raising long-term capital. The loan term is 10 years and an interest rate is 6 months' Euribor + 3.25% per annum. It must be repaid in full in a single amount, but the bank has the right, with the permission of the Financial Supervision and Resolution Authority, to repay the loan ahead of time once five years has passed from the date of its issuing. The bank's subordinated debt is recognised in the balance sheet at the amortised cost using the effective interest rate method.

Note 25 Separate financial statements of parent company

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

	2023	2022
Interest income calculated using effective interest method	104,121	46,515
Interest and similar expense	-39,390	-9,382
Net interest income	64,731	37,133
Fee and commission income	4,793	3,828
Fee and commission expense	-2,542	-2,167
Net fee and commission income	2,251	1,661
Sale of assets	80	0
Cost of assets sold	-85	0
Net losses from financial assets measured at fair value	57	4
Handling of overdue receivables	162	103
Other income	-305	1,055
Net other income	-91	1,162
Payroll expenses	-18,654	-14,214
Operating expenses	-8,412	-5,912
Depreciation	-4,164	-3,571
Total operating expenses	-31,230	-23,697
Profit before loss allowances and tax	35,661	16,259
Credit loss allowance	-3,017	-2,982
Profit before tax	32,644	13,277
Income tax expenses	-4,570	-1,859
Net profit for the financial year	28,074	11,418
Other comprehensive income/loss		
Items that may be subsequently reclassified as profit or loss:		
Financial assets at fair value through other comprehensive income	424	-868
Comprehensive income for the financial year	28,498	10,550

Statement of Financial Position of parent company

	31.12.2023	31.12.2022
Assets		
Cash and demand deposits at the Central Bank, credit institutions and other financial institutions	411,254	350,641
Mandatory reserve kept in the Central Bank	17,098	14,236
Debt securities at fair value through other comprehensive income	36,421	18,747
Equity instruments at fair value through other comprehensive income	13	13
Loans and advances to customers	1,441,236	1,263,204
Investments in subsidiaries	12,291	13,816
Other financial assets	476	541
Other assets	997	660
Assets held for sale	0	85
Right-of-use assets	5,380	6,130
Tangible assets	3,746	2,807
Intangible assets	8,775	6,579
Total assets	1,937,687	1,677,458
Liabilities		
Customer deposits and loans received	1,723,269	1,509,582
Lease liabilities	5,417	6,142
Other financial liabilities	11,451	4,173
Other liabilities	6,919	4,557
Subordinated debt	50,187	38,139
Total liabilities	1,797,243	1,562,593
Shareholders' equity		
Share capital	69,673	69,148
Share premium	25,779	25,435
Statutory reserve capital	4,855	3,838
Retained earnings	39,103	16,612
Other reserves and assets revaluations	1,034	-168
Total shareholders' equity	140,444	114,865
Total liabilities and shareholders' equity	1,937,687	1,677,458

Statement of Cash Flows of parent company

	2023	2022
Cash flows from operating activities		
Interest received	101,162	44,908
Interest paid	-24,875	-8,381
Fees and commissions received	4,793	3,828
Fees and commissions paid	-2,542	-2,167
Other received income	1,772	703
Salaries paid	-18,786	-13,211
Other operating expenses paid	-8,412	-5,912
Income tax paid	-2,973	-1,390
Total cash flows from operating activities before changes in operating assets and liabilities	50,139	18,378
Change in operating assets:		
Loans and advances from customers	-178,364	-339,340
Change of base level of the reserve kept in the Central Bank	-2,862	-4,724
Other assets	-255	303
Change in operating liabilities:		
Change in customer deposits and loans received	199,290	408,827
Other liabilities	10,293	1,514
Net cash flows from operating activities	78,241	84,958
Cash flows from investing activities		
Acquisition of property, plant and equipment	-6,620	-4,005
Sale of property, plant and equipment	86	0
Acquisition of debt securities	-18,226	-14,261
Sale and redemption of debt securities	274	1,612
Increase of subsidiary's equity	-301	-331
Merger with a subsidiary	0	3,730
Total cash flows from investing activities	-24,787	-13,255
Cash flows from financing activities		
Contribution to share capital	778	20,149
Issue of subordinated debt	12,000	26,100
Redemption of subordinated bonds	0	-5,000
Dividends paid	-4,566	-2,738
Repayment of principal of lease liabilities	-1,040	-850
Total cash flows from financing activities	7,172	37,661
Effect on exchange rate changes on cash and cash equivalents	-13	-9
Change in cash and cash equivalents	60,613	109,356
Cash and cash equivalents at beginning of the period	350,641	241,285
Cash and cash equivalents at the end of the period	411,254	350,641
Cash and cash equivalents balance is comprised of:	411,254	350,641
Cash on hand	2,276	3,598
Demand deposits at the Central Bank	394,089	333,305
Demand and short-term deposits at credit institutions	14,889	13,738

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 31.12.2021	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
Paid in share capital	525	344	0	-91	0	0	778
Dividends paid	0	0	0	0	0	-4,566	-4,566
Change in reserves	0	0	1,017	0	0	-1,017	0
Share options	0	0	0	869	0	0	869
Net profit	0	0	0	0	0	28,074	28,074
Other comprehensive income	0	0	0	0	424	0	424
Total comprehensive income	0	0	0	0	424	28,074	28,498
Balance as at 31.12.2023	69,673	25,779	4,855	1,493	-459	39,103	140,444

Adjusted unconsolidated equity	
Book value of holding under control or significant influence	-12,291
Value of holdings under control or significant influence, calculated by equity method	57,672
Adjusted unconsolidated equity as at 31.12.2023	185,825

Management Board declaration

All data and supplementary information presented in the 2023 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 2023 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 2023 consolidated annual report of Coop Pank AS will be presented to the general meeting of shareholders for approval in April 2024. The previous 2022 consolidated annual report was approved by the general meeting of shareholders on 12 April 2023.

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

Karel Parve
Member of the Management Board
Signed digitally

15.03.2024

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 "Bank") and its subsidiaries (together – the "Group") as at 31 December 2023, and the Group´s consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 15 March 2024.

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 2023;
- the consolidated statement of financial position as at 31 December 2023;
- 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, comprising material accounting policy information 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 Bank 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

Translation note:

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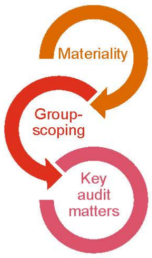
The non-audit services that we have provided to the Bank and its subsidiaries in the period from 1 January 2023 to 31 December 2023 are disclosed in the Management report.

Our audit approach

Overview



- Overall group audit materiality is EUR 2,189 thousand, which represents approximately 5% of profit before tax.

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

- 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 2,189 thousand
How we determined it	Approximately 5% of profit before tax
Rationale for the materiality benchmark applied	We have applied this benchmark as profit before income tax is one of the principal considerations when assessing the Group's performance and a key performance indicator for Management and Supervisory Board. We chose 5%, which is consistent with quantitative materiality thresholds used for this benchmark.

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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" for further details). As at 31 December 2023, net carrying amount of loans and advances to customers amounted to EUR 1,490,873 thousand and loss allowances of loans and advances amounted to EUR 16,394 thousand. We focused on this area because application of IFRS 9 "Financial instruments" 3-stage expected credit loss (ECL) model requires management to use 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 macroeconomic 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 scenario and positive scenario) and assigning probabilities to those scenarios; and • estimating ECL for stage 3 loans (individual assessment).	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 European Union. 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 application of the criteria for determining significant increase in credit risk and definition of default); • the internal assignment of credit risk grades, which serve as inputs into the ECL models; • the correctness of information on collaterals and their values in the loan systems, which serve as an input into the ECL model; and • the completeness of loans subject to stage 3 assessment and related ECL calculations. We have 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

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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 the 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 our agreement by the Management Board of the Bank 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 2023 (the "Presentation of the Consolidated Financial Statements").

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Description of a subject matter and applicable criteria

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

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

Responsibility of the Management Board and those charged with governance

The Management Board of the Bank 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 management requirements and professional ethics

We apply the provisions of the International Standard on Quality Management (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.

Translation note:

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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).

Summary of the work performed

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

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

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

Conclusion

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

Appointment and period of our audit engagement

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

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

15 March 2024
Tallinn, Estonia

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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 2023 in the amount of 39,204 thousand euros as follows:

1. pay dividends 0.087 euro per share in the total net amount of 8,895 thousand euros, related income tax on dividend would be 2,011 thousand euros;
2. allocate 1,960 thousand euros to statutory reserve capital;
3. allocate 28,349 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	127,353,018
Finance activities	Credit institutions (separate)	64191	108,824,007
Finance activities	Consumer financing	64929	17,793,066
Leasing activities	Finance lease	64911	11,330,339
Insurance activities	Insurance brokerage	66221	623,585

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