Coop Pank aktsiaselts
(a public limited company registered in the Republic of Estonia)

Offering of up to 40,245,855 Offer Shares
Offer Price Range EUR 1.15 – EUR 1.30 per Offer Share
Offer Period 18 November 2019 – 29 November 2019

PROSPECTUS ON PUBLIC OFFERING, LISTING AND ADMISSION OF SHARES TO TRADING

This Public Offering, Listing and Admission to Trading Prospectus (the **Prospectus**) has been drawn up and published by Coop Pank aktsiaselts (registered in the Estonian Commercial Register under registry code 10237832, address Narva mnt 4, 15014 Tallinn, Estonia; the **Bank**) in connection with (i) new issued shares; (ii) the public offering of the existing shares of the Bank belonging to certain shareholders of the Bank; and (iii) listing and admission to trading on the Baltic Main List of the Nasdaq Tallinn Stock Exchange.

The Bank is offering up to 32,180,155 new ordinary no-par-value shares (the **New Shares**) and certain shareholders of the Bank offer up to 8,065,700 existing ordinary no-par-value shares (the **Existing Shares**; jointly with New Shares, the **Offer Shares**). As a result of Overallotment Option, the total number of Offer Shares may increase by up to 6,036,878 Existing Shares to 46,282,733 Offer Shares. The Offer Shares are offered (i) publicly to retail investors of Estonia, Latvia and Lithuania (the **Retail Offering**); and (ii) non-publicly to qualified investors within the meaning of Article 2(e) of the Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market (the **Prospectus Regulation**) in Estonia and in certain selected Member States of the European Economic Area as well as other selected investors in accordance with the exemptions set out in the legislation of the Member States (the **Institutional Offering**). The public offering shall take place only in Estonia, Latvia and Lithuania and Offer Shares shall not be publicly offered in any other jurisdiction. The Prospectus has been registered by the decision under no. 4.3-4-1/3973 of the Management Board of the Financial Supervision Authority on 11 November 2019.

The Offer Period of the Offer Shares commences on 18 November 2019 at 10:00 and terminates on 29 November 2019 at 15:30 (the **Offer Period**) in accordance with the terms and conditions set out in the Prospectus. The Offer Price is within the range of EUR 1.15 euros and EUR 1.30 per one Offer Share (the **Offer Price Range**). The final offer price (the **Offer Price**) to be paid for each Offer Share shall be decided by the Bank after establishing the demand directed to institutional investors within the Institutional Offering by the end of the Offer Period. The Offer Price shall be the same in the Retail Offering and in the Institutional Offering. The Bank will notify of the final Offer Price through the Nasdaq Tallinn Stock Exchange information system and the website of the Bank https://www.cooppank.ee/en/pakkumine on or about 2 December 2019.

The Bank and the Selling Shareholders have authorised AS LHV Pank as the stabilising manager (the **Stabilising Manager**) to allocate for the purpose of stabilisation in the course of the Offering up to 15% more shares than the total number of Offer Shares, i.e. up to 6,036,878 Existing Shares (**Over-Allotment Shares**) and the right to acquire up to 6,036,878 Shares from the Nasdaq Tallinn Stock Exchange to stabilise the stock exchange price of the Shares in conformity with the applicable law. The Selling Shareholders shave provided to the Stabilising Manager an overallotment option (the **Over-Allotment Option)** to cover the short position taken with the overallotment, according to which the Stabilising Manager may acquire additional Offer Shares up to the total number of Over-Allotment Shares from the Selling Shareholders at the Offer Price. Shares sold under the Overallotment Option bear the same rights with the Offer Shares. The Stabilising Manager may (but is not obligated to) make stabilisation transactions on the Nasdaq Tallinn Stock Exchange or over-the-counter at any time within 30 calendar days (included) as of commencement of the trading with the Bank's Shares on the Nasdaq Tallinn Stock Exchange (the **Stabilisation Period**). The Overallotment Option can be used by the

Stabilising Manager on the basis of a respective notification at any time within 30 calendar days (included) during the Stabilisation Period.

On 7 November 2019 the Bank submitted a listing application to Nasdaq Tallinn Stock Exchange for the listing of all the Shares of the Bank (the **Shares**), incl. Offer Shares, on the Baltic Main list of the Nasdaq Tallinn Stock Exchange. Trading with the Shares on the Baltic Main list of the Nasdaq Tallinn Stock Exchange is expected to commence on or about 9 December 2019.

The Bank reserves the right to cancel the Offering or amend the terms and conditions of the Offering in accordance with the terms and conditions prescribed in the Prospectus.

Investment in shares entails risks. While every care has been taken by the Bank to ensure that this Prospectus presents a fair and complete overview of the Bank, the consolidated subsidiaries of the Bank, i.e. Coop Liising AS, Coop Finants AS, Coop Kindlustusmaakler AS, AS Martinoza and SIA Prana Property (Group) and their operations, and the Offer Shares, the value of investment in the Offer Shares may be significantly affected by circumstances that are either not evident at the date of approval of this Prospectus or not reflected in the Prospectus. Investment in Offer Shares must be based on the Prospectus as a whole. Hence, we ask you to study the Prospectus with care.

The Prospectus is valid until the end of the Offer Period or commencement of trading with Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange, whichever occurs later. The Bank is obligated to update the Prospectus by publishing a supplement only in case new facts, material errors or inaccuracies occur, such an obligation does not apply after the end of the validity period of the Prospectus.

MIFID II product governance. The Retail Offering is directed to all retail investors in Estonia, Latvia and Lithuania. The Institutional Offering is directed to qualified investors in Estonia and in certain selected countries of the European Economic Area which have implemented the Prospectus Regulation, and to certain selected investors in accordance with other exemptions available under the laws of respective jurisdictions. Persons who offer, sell or recommend Shares (the **Distributors**) are independently responsible for the evaluation of the target market and appropriate distribution channels and must guarantee that these are in conformity with the provisions of the Prospectus.

AS LHV Pank

Global Lead Manager

1. TABLE OF CONTENTS

2. INTRODUCTORY INFORMATION

2.1. Applicable Law

The Prospectus has been drawn up in accordance with Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (the **Prospectus Regulation**) and Regulation (EU) 2019/980 of 14 March 2019 supplementing Prospectus Regulation as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004 (**Delegated Regulation**), in particular with annexes 1 and 11 thereof. Estonian law shall apply to the Prospectus and any disputes arising from the Prospectus shall be settled in Harju County Court, except when, according to the applicable law, jurisdiction cannot be agreed on differently than provided in legal acts.

Please review the following important introductory information before reading the Prospectus.

2.2. Responsible Persons and Limitation of Liability

Coop Pank aktsiaselts (the **Bank**) is the person responsible for the information given in the Prospectus. The Bank accepts responsibility for the correctness and accuracy of the information in the Prospectus as at the date of registration of the Prospectus. Having taken all reasonable care, the Bank believes that the information in the Prospectus is, to the best of the Bank's knowledge, in conformity with the facts and excludes no information likely to affect the meaning of the Prospectus.

[*digitally signed*]
Chairman of the Management Board
Margus Rink

[*digitally signed*]
Member of the Management Board
Kerli Lõhmus

[*digitally signed*]
Member of the Management Board
Hans Pajoma

[*digitally signed*]
Member of the Management Board
Janek Uiboupin

Without prejudice to the above, the persons responsible for the information given in the Prospectus are not liable solely on the basis of the summary of the Prospectus, unless the information given in the summary is misleading or inaccurate together with the Prospectus or does not provide material information needed for a decision on the investment in Offer Shares together with other parts of the Prospectus.

2.3. Presentation of Information

<u>Approximation of numbers</u>. Numerical data and quantitative values in the Prospectus (e.g. monetary value, percentage value, etc.) are presented with the precision the Bank deems necessary in order to provide adequate and sufficient information while avoiding excessive level of detail. In some cases, quantitative values have been rounded up to the nearest decimal place or whole number to avoid excessive level of detail. As a result, data expressed in percentages does not always add up to 100%. Exact numbers can be examined via the Financial Statements.

<u>Currencies</u>. In the Prospectus, financial information is presented in euros, the official currency of the European Union member States in the eurozone.

<u>Date of financial information</u>. The financial information presented in the Prospectus has been derived or taken from the audited consolidated financial statements of the Group pertaining to the three financial years which

ended on 31 December 2018, 31 December 2017 and 31 December 2016 (the **Audited Financial Statements**) prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The Audited Financial Statements have been audited by AS PricewaterhouseCoopers and have been enclosed to the Prospectus together with the auditor's report. The financial information in the Prospectus for the 9-month periods which ended on 30 September 2019 and 30 September 2018, respectively, has been derived or taken from the unaudited consolidated interim financial statements for the 9-month period which ended on 30 September 2019 (the **Interim Financial Statements**) prepared in accordance with the International Accounting Standards (IAS) 34 (Interim Financial Statements together with Audited Financial Statements also referred to as the **Financial Statements**).

Unless expressly stated otherwise, the Prospectus provides information as at the date of registration of the Prospectus. If information has been provided as at another date, it will be indicated with reference to the specific date.

Third-party information and market information. Certain information in parts of the Prospectus may have been obtained from third parties. Such information is accurately reproduced and, as far as the Bank is aware and is able to ascertain from the information published by the third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Certain information as regards the markets on which the Bank and its Subsidiaries operate is based on the best assessment made by the Management (as defined in Chapter **Error! Reference source not found.** "Glossary"). Reliable information pertaining to the markets on which the Bank and its Subsidiaries operate is not always available or conclusive. While all reasonable measures have been taken to provide the best possible assessment and information about the relevant area of activity, such information may not be relied upon as final and conclusive. Investors are encouraged to conduct their own analysis of the relevant areas of activity or employ a professional consultant.

Updates. The Bank will update the information contained in the Prospectus only to such extent, with the regularity, and by the means required by the applicable law or considered necessary and appropriate by the Management Board. The Bank is not obligated to modify the forward-looking statements included in the Prospectus (please see subsection "Forward-Looking Statements" below).

Definitions of terms. In this Prospectus, terms with capitalized first letters have the meaning given to them in Chapter 14 "Glossary", unless the context evidently requires to the contrary, whereas the singular shall include plural and vice versa. Other terms may be defined elsewhere in the Prospectus.

Alternative Performance Measures. The Prospectus contains certain financial measures which have not been defined or recognised under the International Financial Reporting Standards adopted by the European Union and which the European Securities Market Authority (the **ESMA**) considers alternative performance measures as defined in the "Guidelines on Alternative Performance Measures" issued by the ESMA on 5 October 2015. Such measures have been further explained in subsection 12.1 "Selected Historical Financial Information"

Application of IFRS 9. The Group has applied the requirements of the IFRS 9 standard to the compilation of Financial Statements of the Group for the reporting periods starting from 1 January 2018. The Group used an exemption not to adjust the comparative information for the financial year 2017 following the initial application of the IFRS 9 standard. Consequently, comparative analysis of the Financial Statements of the Group may be complicated.

References to Issuer´s Website. The Prospectus contains references to the Issuer´s website. The Bank does not incorporate in the Prospectus the information available on the website, i.e. the information on the websites is not part of the Prospectus and has not been verified or confirmed by the Financial Supervision Authority. This does not apply to the hyperlinks indicating information incorporated by way of reference.

2.4. Accounting Principles

The Audited Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The Interim Financial Statements have been prepared in accordance with the International Accounting Standards (IAS).

2.5. Forward-Looking Information

The Prospectus includes forward-looking information (notably in Chapters "Summary", "Risks", "Purpose of Offering and Use of Proceeds" and "Principal Areas of Activity and Markets". This information is based on current forecasts which in turn are based on the best estimates of the Management. Some information is based on the Management´s opinions and assumptions as well as information currently available to the them. Any forward-looking information included in the Prospectus includes risks, uncertainties and assumptions about the future operations of the Group, the macroeconomic environment and other similar factors.

Forward-looking information in the Prospectus can mainly be identified by the use of words such as "strategy", "expectation", "plan", "assume", "believe", "in the future", "from now on", "estimate", "intention", "project", "goals", "targets" and other words or expressions of similar meaning. Forward-looking information can also be identified by the fact that it does not rely on historical or current events. As with any forecast, it is inherently susceptible to uncertainty and changes in circumstances, and the Bank is under no obligation to, and expressly disclaims any obligation to, update or modify the forward-looking information in the Prospectus whether as a result of changes in information, new information, subsequent events or otherwise.

The validity and accuracy of any forward-looking information is affected by the fact that the Group operates in a highly competitive field. The field is affected by changes in regulations (including in the European Union), taxes, developments in competition, economic, strategic, political and social conditions, customers´ response to new and existing products as well as technological developments and other factors. The Group's actual results may differ materially from the expectations of the Management Board because of the changes in such factors. Other factors and risks could adversely affect the activities, business or financial results of the Group (please refer to Chapter "Risks" for an overview of the risks currently identified and deemed material).

2.6. Use of Prospectus

The Prospectus is prepared solely for the purposes of the Offering as well as for the listing and admission to trading of the Offer Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange. No public offering of the Offer Shares is conducted in any jurisdiction other than Estonia, Latvia and Lithuania and, consequently, the dissemination of the Prospectus in other countries may be restricted or prohibited by law. The Prospectus may not be used for any other purpose than deciding on participating in the Offering or investing in the Shares. The copying, reproduction (other than for private and non-commercial use) or dissemination of the Prospectus without express written consent of the Bank is prohibited.

2.7. Approval of Prospectus

The Prospectus has been registered by decision of the Management Board of the Financial Supervision Authority, dated 11 November 2019, under number 4.3-4.1/3973. Registration by the Financial Supervision Authority merely confirms that the Prospectus is in accordance with the standards of completeness, comprehensibility and consistency provided in the Prospectus Regulation. The registration of the Prospectus should not be regarded as an endorsement of the Offer Shares. The investors should assess the suitability of investing in the Offer Shares by themselves.

2.8. Documents incorporated into the Prospectus

The below described pages have been incorporated into the Prospectus by references from the following statutory audited Financial Statements of the Group (**Annual Reports**):

1) Group's audited consolidated annual report for the financial year ended on 31 December 2018 (pages 20–94), which is available at https://www.cooppank.ee/s3fs-public/finantsaruanded/Aastaaruanne_2018_EE.pdf;
2) Group's audited consolidated annual report for the financial year ended on 31 December 2017 (pages 16–74), which is available at https://www.cooppank.ee/s3fspublic/Coop%20Pank%20AA%202017.pdf;
3) Group's audited consolidated annual report for the financial year ended on 31 December 2016 (pages 21–83), which is available at https://www.cooppank.ee/s3fspublic/finantsaruanded/AA2016.pdf.

The Annual Reports have been audited by an independent auditor AS Pricewaterhouse Coopers (more detailed information has been presented in section 10.15 "Group auditors" of Chapter 10 "Management"). The Annual Reports incorporated by references the information requested under sections 18.1.1, 18.1.3, 18.1.6 and 18.3.1 of Annex 1 to the Delegated Regulation. The parts of the Annual Reports not incorporated by reference into this Prospectus are either covered elsewhere in the Prospectus or not relevant for the investor.

2.9. Documents on Display

The Prospectus and its summaries in Latvian and Lithuanian will be available in an electronic form on the website of the Financial Supervision Authority (http://www.fi.ee) and Nasdaq Tallinn Stock Exchange website (https://www.nasdaqbaltic.com/). In addition, the following documents can be accessed through the website of the Bank (https://www.cooppank.ee/en/pakkumine) during the validity period of the Prospectus:

- This Prospectus (including the translations of the Summary into Latvian and Lithuanian language);
- Articles of Association of the Bank.

Any interested party may download the above documents from the Bank´s website free of charge or request delivery of electronic copies of the documents from the Bank or the Global Lead Manager. Hard copies of the Prospectus will be delivered to any interested party upon request. The Prospectus will not be delivered to jurisdictions in which there is no public offering of the Offer Shares (i.e. outside Estonia, Latvia and Lithuania).

3. SUMMARY

Introduction and warnings

This Summary (the **Summary**) is a brief overview of the information disclosed in the Prospectus on the public offering (the **Public Offering**) of up to 32,180,155 new ordinary no-par-value shares (the **New Shares**) of Coop Pank aktsiaselts (the **Bank**, together with consolidated subsidiaries Coop Liising AS, Coop Finants AS, Coop Kindlustusmaakler AS, AS Martinoza and SIA Prana Property, also referred to as the **Group)** and up to 8,065,700 existing ordinary no-par-value shares of the Bank offered by certain shareholders of the Bank (the **Existing Shares,** jointly with New Shares the **Offer Shares**) and listing and admission to trading (the **Listing**) of the Bank's shares (the **Shares**) on the Baltic Main List of the Nasdaq Tallinn Stock Exchange (**Nasdaq Tallinn**) dated 11 November 2019 (the **Prospectus**). The number of Offer Shares may be increased by up to 6,036,878 Existing Shares (the **Over-Allotment Shares**). Information given in this Prospectus has been presented by the Bank as at the registration of the Prospectus, unless otherwise stipulated.

The Summary should be read as an introduction to the Prospectus and any decision to invest in the Offer Shares by the investors should be based on consideration of the Prospectus as a whole. Civil liability in relation to this Summary attaches individually to persons who have drawn up the Summary, including any translation thereof, only where the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus, or where it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Offer Shares. Investment in Offer Shares involves risks and the investor may lose all or part of the investment. The investor must consider that in the event the investor wants to bring a claim to the court in relation to the information contained in this Prospectus, they may be required to bear the costs of translating the Prospectus.

Name and international securities identification number (ISIN) of the securities. Share of Coop Pank, ISIN-code EE3100007857.

Name and contact data of the issuer, incl. its legal entity identifier (LEI). The business name of the Issuer is Coop Pank aktsiaselts. The issuer is registered in the Commercial Register of the Republic of Estonia under registry code 10237832 and the registered address of the issuer is Narva mnt 4, 15014 Tallinn, the Republic of Estonia. The issuer's e-mail is info@cooppank.ee and contact number is +372 669 0900. The legal entity identifier (LEI) of the Issuer is 549300EHNXQVOI120S55.

Name and contact data of the competent authority approving the Prospectus; date of registering the Prospectus. The Prospectus has been registered with the resolution dated 11 November 2019 of the management board of the Estonian Financial Supervision Authority under registration no. 4.3-4.1/3973. Registration by the management board of the Financial Supervision Authority does not mean that the Financial Supervision Authority has examined the accuracy of information published in the Prospectus. The address of the Financial Supervision Authority is Sakala 4, 15030 Tallinn, Republic of Estonia. The e-mail of the Financial Supervision Authority is info@fi.ee and contact number is +372 668 0500.

Key information on the issuer

"Who is the issuer of the securities?"

The issuer is Coop Pank aktsiaselts (the **Bank**), established and operating under the laws of the Republic of Estonia in the form of a public limited company. The Bank has been established for an indefinite term. The principal and permanent activity of the Bank is to act as a credit institution. The Bank offers basic banking services (everyday banking and financing) at the Estonian market to private as well as legal persons. The Bank is a parent company of the Group. The Group's business activity is divided between four business directions: (i) corporate banking, (ii) retail banking, (ii) leasing financing; (iv) consumer financing. In addition to the above, the Group's activities also include the administration and realisation of real estate serving as collateral to problem credit of the Bank through its subsidiary AS Martinoza, engaged in the management and realisation of real estate in Estonia, and through its subsidiary SIA Prana Property, engaged in the management and realisation of real estate in Latvia. Until August 2017, the Group was operating through the Bank's Latvian branch also on Latvian market. The Latvian branch was closed due to a strategic decision to focus on the Estonian market. In addition to the above, the Group has decided to commence activities in the field of insurance as an insurance broker. The Group has undertaken the relevant preparations; a subsidiary Coop Kindlustusmaakler AS has been established and on 5 September 2019, an application was submitted to the Estonian Financial Supervision Authority for the company to be registered in the list of insurance brokers.

As at the date of this Prospectus, the Bank's management board and supervisory board are not aware of any person with direct or indirect control over the Bank or any agreement or circumstances which later might cause a change in the control of the Bank. The following shareholders hold over 5% of all Shares of the Bank and the Bank considers them its main shareholders:

Name of Shareholder	Proportion	Person directly or indirectly controlling the Shareholder
Coop Investeeringud OÜ	36.38%	Coop Eesti Keskühistu
Andres Sonn	13.42%	N/A
CM Capital OÜ	9.90%	N/A
Harju Tarbijate Ühistu	5.46%	N/A
Eesti Ühistukapital	5.00%	N/A

The management board of the Bank has four members and includes Margus Rink (chairman of the management board, retail banking), Kerli Lõhmus (financial management), Hans Pajoma (corporate banking) and Janek Uiboupin (risk management). The contracts concluded with the management board members Kerli Lõhmus and Janek Uiboupin expire on 12 February 2020; the contracts concluded with the management board members Margus Rink and Hans Pajoma expire on 31 October 2020. The supervisory board of the Bank has requested to extend the contract of the management board member Kerli Lõhmus. Janek Uiboupin has informed the Supervisory Board that he does not want to continue as a member of the Bank's management board; accordingly, the Bank has commenced the recruitment process of for a new member of the management board.

The supervisory board of the Bank has five members. The chairman of the supervisory board is Jaanus Vihand and the members are Jaan Marjundi, Roman Provotorov, Priit Põldoja and Märt Meerits. The authorities of all members of the supervisory board are valid until 9 February 2022.

With its resolution of 26 April 2017, the General Meeting has appointed AS PricewaterhouseCoopers (registry code 10142876, address Pärnu mnt 15, Tallinn 10141) as the auditor of the Group for the financial years 2017–2019.

"What is the key financial information regarding the issuer?"

The Group's consolidated audited financial statements for the financial years ended 31 December 2018, 31 December 2017 and 31 December 2016 (the **Audited Financial Statements**) has been enclosed to the Prospectus. Also, the Group's consolidated unaudited 9-month interim report for the period ended 30 September 2019 (**Interim Financial Statements;** together with the Audited Financial Statements referred to also as the **Financial Statements**) has been enclosed to the Prospectus. The Audited Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union. The Interim Financial Statements have been prepared in conformity with the International Accounting Standard 34, Interim Financial Reporting (IAS 34). The below tables present the consolidated financial information in accordance with Annex III of Commission Delegated Regulation 2019/979/EU and is based on or derived from the Financial Statements and should be read together with the Financial Statements, including the explanations provided in the notes to the Financial Statements.

Table 1 Consolidated Statement of Comprehensive Income (in TEUR)

	9 months 2019 (unaudited)	9 months 2018 (unaudited)	2018 (audited)	2017 (audited)	2016 (audited)
Net interest income	14,870	11,796	16,779	11,519	7,398
Net fee and commission income	1,697	1,839	2,302	2,170	2,737
Net gains from financial assets at fair value	7	-32	-12	-341	-32
Other revenue	389	595	699	3,941	857
Total net operating profit	16,963	14,198	19,768	17,289	10,960
Operating expenses	-11,626	-10,008	-13,601	-11,518	-8,088
Profit before loan impairment losses	5,337	4,190	6,167	5,771	2,872
Loan impairment losses	-1,393	-1,080	-1,392	-1,313	-1,009
Income tax expense	0	0	-22	0	-120
Net profit for the reporting period	3,944	3,110	4,753	4,458	1,743
Net profit attributable to owners of the parent company	3,944	3,110	4,753	4,345	1,529
Basic earnings per share (EUR)[1]	0.06	0.05	0.08	0.09	0.04

Diluted earnings per share (EUR)[1]	0.06	0.05	0.08	0.09	0.04

[1] Net profit attributable to owners of the parent company divided by the weighted average number of shares.

Table 2. Consolidated statement of financial position (in TEUR)

	30.09.2019 (unaudited)	31.12.2018 (audited)	31.12.2017 (audited)	31.12.2016 (audited)
Loans and advances to customers (net)	417,907	328,723	238,282	153,133
Total assets	551,298	446,278	312,321	290,170
Deposits from customers	451,017	370,408	315,970	249,015
Senior debt	26,809	14,710	3,649	4,982
Subordinated debt	7,111	5,026	5,026	4,039
Total equity	57,346	49,163	45,176	29,577
Non-performing loans (past due more than 90 days) % of total loans	1.18%	0.45%	1.82%	4.07%
Tier 1 CAD %	14.72%	16.03%	17.32%	18.84%
CAD %	16.97%	18.06%	19.90%	21.22%
Financial leverage	7.88%	8.33%	8.47%	8.84%

“What are the key risks that are specific to the issuer?”

The Group is exposed to counterparty credit risk due to its business activity. The credit risk is mainly expressed in the fact that the borrowers might not be able to repay the credit in accordance with the terms and conditions of the agreement and the collateral provided to secure the fulfilment of the Group’s claims might be insufficient to cover the claim. Materialisation of credit risk may have material adverse effect on the Group’s financial results and profitability of business.

The Group is exposed to real estate and whole sale sector risks. If the loans have been concentrated in one specific area, the Group is exposed also to the risks related to this area. As at 30 September 2019, 31% of corporate loans have been granted to real estate companies and 9% to whole sale and retail sale companies. As the Group’s credit activity is concentrated on the Estonian market, it means that the wellbeing of Estonian economy, primarily that of the real estate and wholesale industry, may have a material adverse effect on the Group. Notable market decline above all on Estonian property market, but also in whole sale industry, may lead to increased credit losses and the need for additional provisions, which in turn would have an adverse effect on the Group’s results of operations and financial condition.

Liquidity risk and inability to secure favourable funding. The Group’s business activity depends on its ability to finance its activities on favourable terms and to meet its contractual obligations on time. When planning the liquidity, the Bank proceeds from the assumptions of customers’ behaviour when depositing and the stability analysis of demand deposits. Deposit volumes, however, depend on the factors beyond the bank’s control, such as changes in the household savings and customers’ ability to save. In addition to involving deposits, the Bank has received loans from the European Investment Fund and the Rural Development Foundation; also, the bank has issued bods (incl. subordinated bonds) for Estonian pension funds. If the bank is unable to raise new funds from money and capital markets or refinance its existing commitments on similar favourable terms with current funding, this might have a material adverse effect on the Group’s business operations, financial condition and results of operations.

The Group operates on a highly competitive market. The Group competes not only with credit institutions, but also with various credit providers and payment institutions. The financial services market on which the Group operates, is highly competitive. Tight competition in the financial sector might also lead to bigger price pressure on the Group’s products and services, which may have an adverse effect on the Group’s business operations, financial condition and results of operations.

Materialisation of operational risk may give rise to a loss or disruption to everyday business of the Group. Operational risk is risk arising from malfunctions or deficiencies in the Group’s information systems, personnel or external factors causing damage to or disturbance in the Group’s daily business activities. The Group’s working procedures are reviewed periodically to ensure minimising human and process flaws and the potential loss arising therefrom; however, the risk of such losses cannot be eliminated altogether. Also, the Group’s activity depends on the functioning of the information technology systems and failures of or significant disruptions in the work of the Group’s information technology systems and in their development could prevent the Group’s operations.

The operations of the Group are inherently exposed to interest rate risk. The operations of the Group, and above all those of the Bank, Coop Finants and Coop Liising, are inherently exposed to interest rate risk. The amount of net income earned by the Group companies materially affects the revenues and profitability of the operations of the Group, which could be affected by unforeseen adverse changes in interest rates.

Strategic risk pertaining to fast growth phase. Strategic risk is a source of loss that may emerge from the pursuit of wrong strategic decisions. For reasons of corporate growth, the strategic risk of the Group in fast growth phase exceeds the strategic risk of a bank positioned in a stable stage.

Good reputation is important in the banking sector, in which the Group is operating, and materialisation of the reputational risk may reduce the Group's competitiveness and trustworthiness. Disclosure of negative information about the Group may have an adverse effect on the Group's reputation among the public, investors and partners regardless of correctness of the information and thereby may reduce the Group's competitiveness and income. The Group shares the trademark of Coop Eesti Keskühistu with the stores of the consumer associations belonging to the retail trade chain of Coop, the circumstances and activity in connection with which may also have an effect on the Group's reputation. In addition, Coop is a new trademark; accordingly, development of a positive image of the trademark is essential and materialisation of the reputational risk may have a higher than average impact on the Group's operations.

The Bank is subject to strict capital adequacy requirements subject to frequent reforms and changes. Tightening of the capital requirements may have a material adverse impact on the Group's operations, causing the need to increase capital, decrease financial leverage or risk-weighted assert, change the legal structure or business model of the Group.

Group's operations are exposed to higher risk of money laundering and terrorist financing. The risk that the banks may be exploited for money laundering or terrorist financing purposes has increased worldwide. The Group may not be able to identify all patterns of customers and cases which refer to violation by the customer of the legislation concerning money laundering or sanctions. Violation or even suspected violation of any regulations on anti-abuse of the financial system may lead to serious legal consequences for the Group and its reputation, which in turn may have a material adverse effect on the Group.

The operations of the Group are materially dependent on the validity and enforceability of the transactions and agreements entered into by the Group. The Group considers the cooperation and license agreements with Coop Eesti Keskühistu and the deposit-taking agreement with Raisin GmbH, the platform through which the Bank takes deposits from Germany, Austria, Spain and the Netherlands, to be significant to its operations. While due care is taken to ensure that the terms and conditions of the transactions and agreements concluded by Group companies are fully enforceable under the laws applicable to them, occasional contradictions and variations of interpretation may occur, as a result of which the Group companies may not always be able to exercise their contractual rights.

The Group operates in a legal and regulatory environment that exposes it to significant risk of claims, disputes and legal proceedings. The results of such disputes are inherently difficult to predict and even the disputes themselves, not only unfavourable outcomes, may result in the Group incurring significant expenses and damages, and in negative effects on the Group's reputation, which in turn may have a material adverse effect on the Group's financial performance and profitability of operations.

Unfavourable developments in global and Estonian economy may reduce the demand for banking services and lead to lower income of the banking sector, also cause difficulties for the Group's customers in the fulfilment of payment obligations, resulting in problems with loan repayment, allowances and loan losses. Although the Group constantly monitors developments on both domestic and international markets, it is not possible to forecast the timing or extent of economic or political changes.

Key information on the securities

"What are the main features of the securities?"

The Offer Shares include up to 32,180,155 new ordinary no-par-value shares (the **New Shares**) and up to 8,065,700 existing ordinary no-par-value shares, offered by certain shareholders of the Bank (the **Existing Shares**). The international securities identification number (ISIN) of the Offer Shares is EE3100007857. There is no general prohibition on transfer applicable to the Bank's Shares. The Shares are freely transferrable.

As at the date of the Prospectus, the Bank's registered share capital is 42,400,000.34 euros, which is divided into 62,219,845 ordinary no-par-value shares, with book value of 0.68 euros. All the existing Shares have been paid for in full. The Bank has one type of Shares, granting equal rights to the shareholders. After registration of the Bank's share capital within the New Shares in the Commercial Register, the New Shares shall bear the same rights with all Bank's Shares.

Shareholder's right to participate in the General Meeting. Each Share entitles its holder one vote at the Bank's general meeting of shareholders (General Meeting). In order to have the right to attend and vote at the General Meeting, a shareholder must be registered in the shareholders' register on the cut-off date, which is seven days before the meeting. A Shareholder whose shares are registered in the name of a nominee may exercise the voting rights only if the nominee account holder has authorised the shareholder for that purpose. A Shareholder may attend and vote at a General Meeting in person or by proxy. To adopt a resolution of the General Meeting, generally, the majority of votes represented at the meeting, i.e. over one half of the votes represented at the General Meeting, is necessary. In cases provided for in the Bank's articles of association and the law, certain resolutions require a higher majority (e.g. of two-thirds or three-quarters) of the votes represented at the General Meeting.

Shareholder's right to information. The Shareholders have the right to receive information on the activities of the Bank from the Management Board at the General Meeting. However, the Management Board may refuse to give information if there is a reason to presume that this may cause significant damage to the interests of the Bank. In the event the Management Board refuses to give information, a shareholder may demand the General Meeting to decide on the legality of his or her request or file, within two weeks after the General Meeting, a petition to a court by way of proceedings on petition in order to obligate the Management Board to give information.

Right to dividends. All Shares entitle to receive a dividend. After registration of the Offer Shares in the Commercial Register, the Offer Shares grant equal rights with the existing Shares and the Offer Shares grant a right to receive a dividend, the payment of which is decided, and which shall be paid for the financial year commencing on 1 January 2019 and the following financial years. The General Meeting approved the dividend policy on 29 April 2019, according to which no dividend is paid in 2020 from the profit of the financial year 2019 or from the retained earnings of previous periods.

Shares in case of applicability of bail-in measures The Bank as a credit institution is subject to the Financial Crisis Prevention and Resolution Act (the **FCPRA**) which means that the Financial Supervision Authority may subject the Group to crisis prevention and resolution measures, if the Financial Supervision Authority assesses it to be likely that the Bank is insolvent or may become insolvent in the future. Resolution measures are applied only in extraordinary circumstances, upon the fulfilment of a number of specific criteria and as a last resort; however if the resolution measures are applied, the Financial Supervision Authority has a right to require: (i) the write-down or cancellation of the Bank's Shares (ii) the delivery or transfer of the Bank's Shares, (iii) the revocation of the subscription rights to acquire additional Shares, (iv) the issue of new Shares or other capital instruments, (v) suspending or terminating the trading or listing of Shares. Pursuant to the Credit Institutions Act (**CIA**), in the event of insolvency of the Bank, accepted claims which arise from the Shares, shall be satisfied after satisfaction of claims which are not filed on time but are accepted, together with the rest of the accepted claims which arise from own funds provided for in Articles 26-88 of Regulation (**CRR**) (EU) No 575/2013 of the European Parliament and of the Council.

"Where will the securities be traded?"

The Bank has applied for the listing of the Shares in the on Nasdaq Tallinn on 7 November 2019. No application has been or will be submitted for listing or admission to trading of the Shares on any other stock exchange. Trading with the Bank's Shares is expected to commence on Nasdaq Tallinn on or about 9 December 2019, after registration of the conditional increase of share capital of the Bank in the commercial register of the Republic of Estonia (the **Commercial Register**) and after registration of the New Shares to be issued within the Offering in the Estonian Register of Securities (the **ERS**) maintained by Nasdaq CSD SE Estonian branch (**Nasdaq CSD**).

What are the key risks that are specific to the securities?

- The shares have not been traded before and accordingly, the interest of the investors in the Shares or in trading with the shares is not known.
- The price of the Shares may be subject to volatility. The value of the Shares may fluctuate due to events related to the Group or materialisation of risks, but also due to events beyond the control of the Group, such as the general situation in the Estonian or European economy.
- The Bank's ability to pay dividends in the future is not guaranteed.
- Issuances of additional equity capital may dilute existing shareholdings.
- Though every effort is made by the Bank to ensure a successful Offering, the Bank is not able to guarantee the success of the Offering or that the investors will receive their subscribed Offer Shares.
- Though every effort will be made to ensure that admission of the Shares to trading on the Main List of the Nasdaq Tallinn Stock Exchange will occur, the Bank cannot ensure this.

- Nasdaq Tallinn has limited liquidity and the Shareholders might not be able to sell their Shares at the desired price or sell the Shares at all.
- There is no guarantee of independent analyst research coverage for the Bank. Negative or deficient third-party analyses may most likely have adverse effect on the market price and liquidity of the Shares.
- If the Bank meets the conditions for the commencement of the resolution proceedings (i.e. it is likely that the Bank will become insolvent and certain other criteria have been fulfilled), the Financial Supervision Authority as a competent resolution authority has a right to require: (i) the write-down or cancellation of the Bank's Shares (ii) the delivery or transfer of the Bank's Shares, (iii) the revocation of the subscription rights to acquire additional Shares, (iv) the issue of new Shares or other capital instruments, (v) suspending or terminating the trading or listing of Shares.

Key information on the public offer of securities and/or the admission to trading on a regulated market

"Under which conditions and timetable can I invest in this security?"

In the course of the Offering, the Bank offers up to 32,180,155 new issued ordinary no-par-value shares (the **New Shares**) and certain shareholders of the Bank offer a total of up to 8,065,700 existing ordinary no-par-value shares of the Bank (the **Existing Shares;** together with New Shares, the **Offer Shares**) which may be increased by up to 6,036,878 existing ordinary no-par-value shares (the **Over-Allotment Shares**) to up to 46,282,733 Offer Shares. Whereas the Bank's Shareholder Inbank offers up to 745,151 Existing Shares, the Bank's Shareholder Andres Sonn offers up to 4,775,358 Existing Shares, Roberto de Silvestri offers up to 757,806 Existing Shares and the Bank's Shareholder Luciano Orsero offers up to 1,787,385 Existing Shares (the named shareholders are jointly referred to as the **Selling Shareholders**).

Right to participate in the Offering. The Offer Shares are offered (i) publicly to retail investors of Estonia, Latvia and Lithuania (the **Retail Offering**) and (ii) non-publicly to qualified investors within the meaning Article 2(e) of the Regulation No 1129/2017 of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market (the **Prospectus Regulation**) in Estonia and in certain selected countries belonging to the European Economic Area and to other selected investors in reliance on exemptions available under the laws of those jurisdictions (the **Institutional Offering**). The Retail Offering is directed to all retail investors in Estonia, Latvia and Lithuania and all those investors may participate in the Retail Offering. For the purposes of the Offering, a natural person is considered to be in Estonia, Latvia or Lithuania, if such person has a securities account with Nasdaq CSD account operator or a financial institution who is a member of the Exchange and such person's address registered in connection with such person's securities account is either in Estonia, Latvia or Lithuania. A legal person is considered to be in Estonia, Latvia or Lithuania, if such person has a securities account with Nasdaq CSD account operator or with a financial institution who is a member of Nasdaq Tallinn and such person's address is registered in connection with such person's securities account in Estonia, Latvia or Lithuania or the registered registry code of the person is a registry code of Estonia, Latvia or Lithuania.

The Offer Price. The Offer Price is within the range of 1.15 euros and 1.30 euros per one Offer Share (the **Offer Price Range**). The final offer price (**Offer Price**) to be paid for each Offer Share shall be decided by the Bank after the end of the book-building process directed to institutional investors within the Institutional Offering. The Offer Price shall be the same in the Retail Offering as well as in the Institutional Offering. An investor entitled to participate in the Retail Offering may submit a subscription order for subscribing to the Offer Shares only at a price that corresponds to the upper level of the Offer Price Range, i.e. 1.30 euros per one Offer Share (**Subscription Price**). The Bank intends to announce the final Offer Price through the information system of the Nasdaq Tallinn Stock Exchange and on the website of the Bank at https://www.cooppank.ee/en/pakkumine on or about 2 December 2019 together with publishing the results of the Offering.

The Offer Period. The Offer Period commences on 18 November 2019 at 10:00 local time in Estonia and terminates on 29 November 2019 at 15:30 local time in Estonia, unless it is shortened or extended.

Subscription orders in the Retail Offering. In order to subscribe to the Offer Shares, an investor must have a securities account at Nasdaq CSD or with a financial institution who is a member of Nasdaq Tallinn. An Estonian investor wishing to subscribe to the Offer Shares should contact the account operator that operates such investor's securities account at Nasdaq CSD and submit a subscription undertaking within the Offer Period for the purchase of Offer Shares in the form set out below. By submitting a Subscription Undertaking, an investor authorises the account operator managing the investor's cash account connected to its securities account to immediately block the whole transaction amount on the investor's current account until the settlement is completed or funds are released in accordance with the terms and conditions of the Prospectus.

Owner of the securities account:	name of the investor

Securities account:	number of the investor's securities account
Custodian:	name of the investor's account operator
Security:	additional share of Coop Pank
ISIN code:	EE380B007855
Amount of securities:	the number of Offer Shares which the investor wishes to subscribe to
Price (per one share):	1.30 euros
Transaction amount:	The number of Offer Shares which the investor wishes to subscribe to, by the Subscription Price
Counterparty:	AS LHV Pank
Securities account of the counterparty:	99104086627
Custodian of the counterparty:	AS LHV Pank
Value date of the transaction:	4 December 2019
Type of transaction:	"subscription undertaking"

A Latvian or Lithuanian investor wishing to subscribe for the Offer Shares should contact the financial institution which is a member of Nasdaq Tallinn and that that operates such investor's securities account and submit a subscription undertaking within the Offer Period for the purchase of Offer Shares in the form accepted by the financial institution and in accordance with the terms of the Offering.

Multiple subscription undertakings by one investor shall be merged for the purposes of allocation. An investor shall bear all costs and fees payable in connection with the submission, cancellation or amendment of a subscription undertaking as charged by the respective Nasdaq CSD account operator or financial institution who is a member of Nasdaq Tallinn, accepting the Subscription Undertaking. The Bank does not require payment of any direct costs upon subscription to the Offer Shares from the investors.

Allocation of the Offer Shares. The Bank together with AS LHV Pank (the **Global Lead Manager**) will decide on the allocation of the Offer Shares after the end of the Offer Period and no later than on or about 2 December 2019. The allocation of the Offer Shares between the Institutional Offering and the Retail Offering has not been previously determined and will be subject to discretion. Only New Shares will be allocated to the investors in Retail Offering. In Institutional Offering, both, the New Shares as well as the Existing Shares will be allocated to the investors.

The New Shares will be allocated to the investors participating in the Retail Offering in accordance with the following principles (the Bank together with the Global Lead Manager of the Offering may change the principles):

(i) Each investor who submitted a subscription undertaking in the Retail Offering and has opened a current account at the Bank as at 29 November 2019 by 15:00 the latest is presumably guaranteed an allocation of up to 10,000 Offer Shares subscribed for;

(ii) Each investor who submitted a subscription undertaking in the Retail Offering before 22 November 2019 at 16:00 is presumably guaranteed an allocation of up to 5,000 Offer Shares subscribed for. If the investor amends the subscription undertaking or subscribes for additional Offer Shares after 22 November 2019 at 16:00, the current allocation principle will apply only to the Offer Shares subscribed before the referred term;

(iii) Each investor who submitted a subscription undertaking in the Retail Offering, is presumably guaranteed an allocation of up to 2,500 Offer Shares subscribed for;

(iv) The above principles will be applied to each investor who has submitted a subscription undertaking in the Retail Offering only once and applicability will be determined in the above sequence. That is in the first order it will be confirmed whether the investor has opened a current account at the Bank as of the time referred to in (i) and if not, it will be confirmed whether the investor has submitted the subscription undertaking before the time referred to in (ii) and if not, principle (iii) will be applied in allocation;

(v) In the part in which the subscription undertakings submitted in the Retail Offering exceed the part allocated to the investor pursuant to (i) – (iii), the Offer Shares shall be allocated in accordance with steps.

Settlement of the Offering. The Offer Shares allocated to investors will be transferred to their securities accounts presumably on or about 4 December 2019 (date is subject to change) through the "delivery versus payment" method simultaneously with the monetary transfer for such Offer Shares.

Stabilisation. The Bank and the Selling Shareholders have authorised AS LHV Pank as the stabilising manager (**Stabilising Manager**) to allocate for the purpose of stabilisation in the course of the Offering up to 15% more shares than the total number of Offer Shares (**Over-Allotment Shares**) and the right to acquire from the Nasdaq Tallinn Stock Exchange up to 6,036,878 Shares, to stabilise the stock exchange price of the Shares in conformity with the applicable regulation. The Selling Shareholders have provided to the Stabilising Manager an overallotment option

(**Overallotment Option)** to cover the short position taken with the overallotment, according to which the Stabilising Manager may acquire up to the total number of Over-Allotment Shares additional Offer Shares from the Selling Shareholders at the Offer Price. Shares sold under the Overallotment Option bear the same rights with the Offer Shares. The Stabilising Manager may (but is not obligated to) make stabilisation transactions on Nasdaq Tallinn or over-the-counter at any time within 30 calendar days (included) as of commencement of the trading with the Bank's Shares on Nasdaq Tallinn (**Stabilisation Period**). The Overallotment Option can be used by the Stabilising Manager on the basis of a respective notification at any time within 30 calendar days (included) during the Stabilisation Period.

Dilution. As at the date of this Prospectus, the number of the Shares of the Bank is 62,219,845. The amount of the Offer Shares offered in the course of the Offering is up to 32,180,155. Accordingly, after registration of the increase of share capital within the New Shares, the number of Shares of the Bank is up to 94,400,000. Therefore, the shareholdings in the Bank prior to the Offering will be diluted by up to 34.10% as a result of the Offering, unless existing Shareholder subscribes to the number of Shares corresponding to the proportion of its shareholding in the course of the Offering.

"Why is this prospectus being produced?"

The Bank needs additional equity for further growth and expansion of its activity and intends to use the funds raised with the Offering to increase its operating volumes and market share, to involve new customer segments and for the development of a technological modular platform and the Bank's IT solutions. The Bank needs own funds as Tier 1 capital for financing the growth of its operating volumes in the set pace during the period of 2020–2022, by ensuring at the same time also the existence of conservative capital buffer. As a result of the Offering, the Bank also intends to expand the investor base of the Bank besides raising additional capital, and through listing, make the Shares liquid, as well as increase the Group's reputation among the current and potential investors and partners.

The total estimated proceeds from the issue of New Shares by the Bank based on the midpoint of the Price Range of the Offering (1.23 euros) is 39.6 million euros (provided that all New Shares are subscribed for and issued), from which the costs in connection with organising the Offering are to be deducted. Expenses directly related to the Offering are estimated to be approximately 0.9 million euros; therefore, the estimated net income of the Offering for the Bank is approximately 38.7 million euros, after deduction of costs. The Bank will not earn any income from the sale of Existing Shares, since the respective income shall be earned by the Selling Shareholders.

Estimated net proceeds of the Existing Shares to be sold to the Offering by AS Inbank together with the Over-Allotment Shares (in total up to 2 173 073 Shares) after deduction of the costs relating to the Offering is up to 2.6 million euros. Inbank intends to use the net sales proceeds of the Shares held by it for investments into its international growth. Estimated net proceeds of the Existing Shares to be sold to the Offering by Andres Sonn together with the Over-Allotment Shares (in total up to 8,349,537 Shares) is up to 10.1 million euros. Estimated net proceeds of the Existing Shares to be sold to the Offering by Roberto de Silvestri and the Over-Allotment Shares (in total up to 1,065,901 Shares) is up to 1.3 million euros. Estimated net proceeds of the Existing Shares to be sold to the Offering by Luciano Orsero together with the Over-Allotment Shares (in total up to 2,514,067 Shares) is up to 3 million euros. Andres Sonn, Roberto de Silvestri and Luciano Orsero intend to use the sale proceeds for general investment activity. The net sales proceeds of the Shares earned by the Shareholders is presented after deduction of the costs related to the Offering and has been calculated based on the midpoint of the Price Range of the Offering (1.23 euros) and provided that all the Existing Shares are subscribed for and the Stabilising Manager exercises its right to allocate the Over-Allotment Shares to the Offering and the Stabilising Manager will not perform support purchases during the Stabilisation period, the Shares acquired in the course of which shall be returned to the Selling Shareholders in proportion to the Existing Shares sold by them to the Offering.

According to the knowledge of the Bank and the Selling Shareholders, there are no binding commitments assumed in relation to the Offer Shares. In connection with the Offering, the Bank and the Selling Shareholders have appointed AS LHV Pank to act as Global Lead Manager and the parties plan to execute a Placement and Services Agreement on or about 14 November 2019 that establishes, inter alia, the undertaking of the Global Lead Manager to sell the Offer Shares on a "best efforts" basis, organise the settlement of the Offering and act as Stabilisation Manager.

The Management Board and certain key employees of the Bank own shareholdings in the Bank and have been issued share options and therefore they may be interested in the future wellbeing and success of the Bank, incl. success of the Offering. According to the knowledge of the Bank's Management Board, the persons connected with the Offering have no other material personal interests from the viewpoint of the Offering, which could have an effect on the Offering and is thus not aware of any conflict of interest relating to the Offering.

4. RISKS

Investment in the Offer Shares and the Group in its activities are opened to various risks which may, either independently or collectively, have an adverse effect on the activity of the Bank or the Group and the value of the investment to the Bank´s shareholders or affect the realisation potential of the Shares. Every future investor of the Offer Shares should thoroughly consider all the information provided in the Prospectus, including the risk factors described below. In addition to the risks named below there could be risks the Bank is currently not aware of or which the Bank considers unimportant at the moment, but which could also affect the Bank, Group or the price of the Bank´s Shares. As a result of materialisation of risks, the investors could lose a part of or all the investment value.

The Management Board believes that the principal risks inherent in investing in the Offer Shares are presented below. The risk factors are divided into categories based on the principle that each risk factor is represented only once, in the most relevant category, despite suitability for several categories. The first risk factor of each category represents the risk most material in the opinion of the Management Board. The rest of the risk factors are not presented in an order of priority. To exemplify the significance of the risk factors, quantitative information characteristic of a risk has been provided for risks where relevant and possible (e.g. such information has been published in the Audited Financial Statements of the Group). If quantitative assessment does not exist or is not relevant, the risk factors have been qualified according to the likelihood of occurrence or possible adverse effect referred to as “low”, “medium” or “high”.

This Prospectus is not, and does not purport to be, an investment advice or an investment recommendation to acquire the Offer Shares. Each prospective investor of the Offer Shares must determine, based on the investor’s own independent review or analysis, involving a professional counsel, if deemed necessary, whether an investment in the Offer Shares is consistent with the investor’s financial capacities and investment objectives and whether such investment is consistent with all the rules, requirements and restrictions as may be applicable to that investor.

RISKS RELATED TO THE FINANCIAL POSITION OF THE ISSUER

The Group is susceptible to the counterparty credit risk due to its business activity. The borrowers could be unable to repay the credit in accordance with the terms and conditions of the contract and the loan collateral securing the Group’s claims might also not be enough to satisfy the claims in full. Claims against central banks and credit institutions as well as financial investments are also Group´s principal assets exposed to credit risks. The recoverability of the credit given to the customers can be adversely affected by circumstances which are beyond the Group´s control, such as negative changes in the overall economic, political or regulatory environment, or a decrease in collateral value. The Group’s total maximum exposure to credit risk from financial instruments subjected to an impairment model includes balance sheet claims of 422,951 thousand euros and off-balance sheet liabilities of 39,449 thousand euros (as at 30 September 2019). The risk level indicates the potential loss of the Group which can arise from the counterparty´s inability to fulfil the contractual obligations before the Group companies. The Group implements reserves for potential credit losses in accordance with the applicable requirements, including the International Financial Reporting Standards (the **IFRS**) requirements; however, such reserves are established based on the available information, estimates and assumptions, which are subject to uncertainty. The Group has created a loan allowance reserve of 5,044 thousand euros (as at 30 September 2019) for covering potential credit losses, but there is no assurance that the reserves will cover the potential losses. Further, although the Group regularly conducts stress tests on the credit portfolio to assess the financial effect of the potential negative scenarios on the Group’s capital, such tests are based on available information and historical market behaviour which might not be adequate in future situations. Materialisation of the credit risk may have significant adverse effect on the Group’s financial results and profitability.

The Group is also susceptible to risks pertaining to the real estate, wholesale and retail sale sectors. The Group considers concentration risk as part of the credit risk. Concentration risk is a risk arising from the distribution of existing customers and claims arising from transactions made with the customers among the customers operating in different areas of activity. If the loans have been concentrated in one specific area, the Group is exposed also to the risks related to this area. In accordance with Regulation (EU) No 575/2013 (CRR) of the European Parliament and of the Council, an institution's exposure to a client or group of connected clients shall be considered a large exposure where its value is equal to or exceeds 10% of its eligible capital. The Group follows the principle of credit risk diversification according to the areas of activity, geographical areas, and products and tries to diversify the portfolio of loans granted to corporate entities between different economic sectors to avoid concentration that exceeds 10% of the Bank´s eligible capital. As at 30 September 2019, loans granted to private individuals form 60% of the whole credit portfolio of the Group (61% on 31 December 2018), loans to granted to corporate entities form 40% of the whole credit portfolio of the Group (39% on 31 December 2018), of which 31% is granted to companies engaged in the real estate sector and 9% to wholesale and retail companies. As the Group's credit activity is concentrated to the Estonian market, it means that the wellbeing of Estonian economy, primarily that of the real estate and wholesale sectors may have a material adverse effect on the Group. Notable market decline above all on Estonian property market, but also in wholesale and retail sale industry, may lead to increased credit losses and the need for additional allowances, which in turn would have adverse effect on the Group's financial performance and financial position. In addition, as at 30 September 2019, the Bank has eight customer groups of legal persons towards whom the risk position exceeds 10% of the Bank´s eligible capital, with a total value of 42,713 thousand euros, the largest single position is in the sum of 6,905 thousand euros. Materialisation of the concentration risk may have significant adverse effect on the Group's operations, financial position and performance.

Liquidity risk and possible inability to guarantee financing on favourable terms. The Group's business operations relay on its ability to finance its operations on favourable terms and fulfil the contractual obligations on time. The liquidity risk of the Group arises from the differences between maturities of assets and liabilities. The maturity gap in the period of up to 12 months is negative in the sum of -213,274 thousand euros (as at 30 September 2019). This indicates that the Group has more liabilities with a maturity of up to 12 months compared to receivables with the corresponding maturity. The negative maturity gap is caused by the fact that the Bank predominantly uses retail and corporate deposits to finance its business operations (taking deposits from the home market and through the platform for taking deposits operated by Raisin GmbH (www.weltsparen.de; **Raisin platform**) from the German, Austrian, Dutch and Spanish markets in approximately 95% of the total funding capacity) and, as a rule, the customers prefer term deposits with maturity of up to 12 months whereas the money in the current accounts is disclosed with a maturity of 0 days in the financial statements. This results in a negative maturity gap in assets and liabilities as the assets, i.e. loans given to customers, have a longer maturity date than the liabilities, i.e. deposits of customers.

When planning the liquidity, the Bank proceeds from the assumptions of customers' behaviour when depositing and the stability analysis of demand deposits. The liquidity policy of the Group is built upon the prudence concept and, according to the Management Board, the established liquidity buffers are sufficient to cover even a large-scale outflow of deposits. However, the volume of deposits is affected by factors which the Group is unable to control, such as change in the household savings, the customers' ability to save up for deposits, and changes in tax regulations applicable to bank deposits. The underlying assumptions about customers' behaviour used for forecasting the Bank´s liquidity and funding plan might prove to be incorrect in critical and exceptional circumstances. To meet the funding needs, the Bank relies considerably on the deposits taken through the Raisin platform which make up 25% of all deposits as at 30 September 2019. Materialisation of the liquidity risk (incl. significant outflow of deposits) would have material adverse effect on the Group's activity, financial position and results of operations.

In addition to deposit-taking, the Bank has received long-term loans from the European Investment Fund and Rural Development Foundation to finance the business operations. The Bank has also issued different bonds (including senior and subordinated) to Estonian pension funds. Accessibility to taking funds from the money and capital markets and the related costs depend, among other things, on the general level of interest rates, situation of the financial markets or decrease in the performance of other market participants, and the Bank´s own capital adequacy. Hence, the Bank might be unable to take new funding from the money and capital markets or substitute the deposits taken through the Raisin platform under similar terms or refinance the existing liabilities under similarly favourable terms with the current funding which might have material adverse effect on the Group's operations, financial position and performance.

Group's trading, investment and lending activities are susceptible to market risk. Market risk arises from the Group's trading and investment activities in the financial markets, primarily in interest rate product markets, foreign exchange and stock markets, as well as from lending activities and involving other sources of finance. Financial investments market risk consists of interest risk, currency risk and price risk which arise from the changes in interest rates, exchange rates and prices of financial assets. Within the Group, internal judgement and know-how is used to assess and avoid potential market losses; however, such internal judgement may turn out to be inaccurate due to changes in the financial markets not foreseen at the time of making the judgement and, therefore, the Group estimates the risk to be significant despite the risk management principles. To reduce the market risk, conservative limits have been set for the trading portfolio risk of the Group companies and open foreign currency risks. However, despite the measures taken by the Group, the market risk may have material adverse effect on the Group's operations, financial position and performance.

Group's investments in bonds entail a price risk. Main assets which entail a price risk in the Group are investments in bonds. The volume of the Group´s bond portfolio was EUR 4.1 million on 30 September 2019 of which government bonds account for 34% and bonds of non-financial companies account for the rest; the volume of USD-nominated bonds is 2.7 million euros. The price risk of the bond portfolio is mainly affected by the maturity date, coupon and currency of the bonds as well as possible changes in interest rates. The Group calculates the price risk of the financial investment portfolio using the Value at Risk method which estimates the possible financial loss in 12 months. The largest possible loss of the bond portfolio given a 100 percentage point increase in interest rates was 128 thousand euros as at 31 December 2018 calculated using the Value at Risk method.

Changes in exchange rates may have an adverse effect on the financial performance of the Group. 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 limits the currency risk and maintains minimum foreign currency positions required for the provision of services to customers. The total amount of open currency positions of the Group on 30 September 2019 was 377 thousand euros. From total assets of the Group, the assets denominated in foreign currency amount to 5.5 million euros, i.e. 1%; consequently, the currency risk is limited. However, future foreign exchange rates may be affected by complex political and economic factors (for example relative rates of inflation, interest rate levels, the balance of payments between countries, the monetary, economic and trade policies pursued by the governments of the relevant currencies, and exchange rate devaluation or appreciation). If the exchange rates are to change 10%, the Group's potential loss would amount to 37 thousand euros. Additionally, the Group's foreign currency risk management is based on risk policies, limits and internal procedures, which, however, may turn out to be inadequate and accordingly, the materialisation of foreign currency risk may have adverse effect on the financial results of the Group.

The operations of the Group are inherently exposed to interest rate risk. The operations of the Group, and above all those of the Bank, Coop Finants and Coop Liising, are inherently exposed to interest rate risk. The amount of interest income earned by the Group companies materially affects the revenues and profitability of the operations of the Group, which could be affected by unforeseen adverse changes in interest rates. The position of financial assets of the Group exposed to interest risk on 31 December 2018 was 410,006 thousand euros and the financial liabilities exposed to interest risk were 383,438 thousand euros. A small increase in interest rates would have a negative effect on the Group´s net interest income and economic value of equity. The Group evaluates that an increase in interest rates by 25 base points in a 12-month perspective would have a negative effect on the net interest income in the sum of -122 thousand euros and the corresponding effect on the economic value of equity would be -137 thousand euros (as at 31.12.2018). According to the Group's assessments, a larger increase or decrease in interest rates would have a positive effect on the Group's net interest income and economic value of equity. The positive effect of a decrease in interest rates is due to the reason that the Group has concluded loan agreements with minimum interest rates which would not be affected by the decrease of interest rates. The Group manages the interest risk through limiting the time gap of assets and liabilities in different currencies and monitoring the structure thereof; also, interest rate derivates might be used in the future when needed. However, interest rates are affected by numerous factors beyond the control of the Group companies and which may not be estimated adequately. Due to the fluctuations of interest rates there may be a mismatch between the interest income earned from the lending operations of the Group and the interest costs paid on the interest-bearing liabilities, which may have material adverse effect on the Group's operations, financial position and performance results.

The Group finds that the interest rate risk as a component of market risk is medium, the currency risk and price risk, however, low.

RISKS RELATED TO THE ISSUER, SUBSIDIARIES AND AREAS OF ACTIVITY OF THE GROUP

The Group operates on a highly competitive market. The Group competes not only with credit institutions, but also with various creditors and payment institutions. The financial services market on which the Group operates, is highly competitive. Both, the established market participants and newcomers compete on the market. The Bank competes mainly in the area of universal banking activities with both domestic credit institutions and large Scandinavian banking groups operating on the Estonian market in the areas of retail, corporate and investment banking. The market share of the Bank as regards the volume of deposits and loans was 2%[1] on 31 December 2018 and as regards the volume of assets, the market share of the Bank was 1.7%[2]. Considering the large investments into new technologies by all the financial institutions, the Bank faces growing competition for all product and sales channels. Tight competition in the financial sector might also lead to bigger price pressure on the Group's products and services, which may have an adverse effect on the Group's business operations, financial position and operating results. Stronger competition in the field of deposits might lead to an increase in funding costs of the Group.

In addition, new entrants, e.g. financial technology companies offering web-based financial services, compete more and more over the customers and market share. The development of the relationship between financial technology companies and traditional banks is an apparent trend and can materially affect the existing market structure of banking services.

Further, additional competition arises from the effect of regulatory changes. An example is the Payment Services Directive (PSD2) which in Estonia has been transposed into the Payment Institutions and E-money Institutions Act and the Law of Obligations Act whereby the legislator has opened the payment services market to more participants than before. Banks, including the Bank, are obligated from 14 September 2019 to grant access to the customers' payment accounts to payment service providers with authorisation, if the customer has given their approval. Thereby, the competition on the payment services market will presumably increase and the customers will have more options when choosing a service provider.

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[1] Overview of the Estonian financial services market as at 31.12.2018, published by the Financial Supervision Authority. Available at: https://www.fi.ee/sites/default/files/Eesti%20finantsteenuste%20turg%2031.%20detsembri%202018%20seisuga.pdf.

[2] Based on the overview of the banking sector for Q4 of 2018 published by the Financial Supervision Authority. Available at: https://www.fi.ee/et/publikatsioonid/pangandussektori-iv-kvartali-2018-ulevaade.

As the Bank. and Coop Finants and Coop Liising, the Subsidiaries offering financial services, operate under a new trade mark, the Group might be more exposed to competition due to the less known trade mark and smaller customer base.

If the Group fails to respond to the competitive environment in its target markets by offering attractive and profitable product and service solutions, it may affect the Group's competitiveness, market shares, growth potential, customer base and, therefore, the business operations, financial position and financial results may suffer. The Group finds that the risk level of operating on a competitive market is "high".

Strategic risk pertaining to fast growth phase. Strategic risk is a possible source of loss that may emerge from the pursuit of wrong strategic decisions or the inability to successfully enforce the strategy. It is estimated that the strategic risk of the Group, which is in the fast growth phase, exceeds the strategic risk of a bank in a stable phase, hence, the strategic risk is considered high. The strategic risk of the Group is mitigated through thought-out business plans and analyses as well as by employing specialists with long-term experience in banking and/or business in the management boards and supervisory boards of Group companies. In addition, thorough analysis is always conducted before entering new markets and sectors, and required specialists are engaged, if needed. However, despite the measures taken by the Group, the strategic risks may materialise and have significant negative effect on the Group's operations, financial position and results of operations.

Materialisation of operational risk may give rise to a loss or disruption to everyday business of the Group. Operational risk is a risk arising from malfunctions or deficiencies in the Group's information systems, personnel or external factors causing damage to or disturbance in the Group's daily business activities. Operational risk includes information systems risk, information security risk, physical security risk, process risk, personnel risk, legal risk, compliance risk, work environment risk, external dimension risk and loss of property risk. Group conducts operational risk self-assessment (ORSA), in the course of which the main operational risks arising in the group's operations and the action plan for mitigating and minimizing these risks are detected and assessed. One of the substantial risks detected is the partial functionality of the alternative place of operation and back-up servers and the ability to switch the operations to the alternative place of operations when needed. The capital allocated for covering operational risks according to the regulatory standard method of assessing operational risk was 1,721 thousand euros as at 31 December 2018. Due to operational risk incidents, the Group incurred financial loss in 2018 in the sum of 29 thousand euros. The Group's information systems and rules of procedures are regularly revised to ensure minimization of possible losses suffered due to omissions by persons or errors in processes, however, it is not possible to fully eliminate the risk of this kind of loss. The materialisation of operational risk may have material adverse effect on the Group's operations, financial position and the results of operations.

Group's operations are dependent on the functioning of information technology systems. The Group has developed and uses several important information technology systems and web-based applications in its everyday operations on which the Group's activity in rendering services to its customers depend. Taking into account the Group's rapid growth in recent years, if this growth continues it might occur that the existing information technology systems of the Group do not fully comply with the needs of the Group. The Group is redeveloping the current monolithic core IT system to replace it with a modular one which is more flexible in growth conditions. Failures of or significant disruptions to the Group's IT systems could prevent the Group from conducting its operations.

The activities of the Group require correct and safe processing of vast amounts of data, often confidential data. As part of its business operations, the Group processes personal and banking data received from the customers of the Group or by provision of services to the customers of the Group, which is subject to data protection regulation and legislation as well as banking secrecy regulations. Should the information security risk materialise, i.e. if someone unlawfully gains access to confidential information or the information is unlawfully modified, the Group could bear significant costs. In any case, the Group incurs costs by protecting itself against violation of data protection legislation and banking secrecy regulations and by solving problems caused by such violations. Facing problems might cause disruptions or delays in the customer service of the

Group which could affect the reputation of the Group, decrease the customers' wish to use the services of the Group and make the customers file claims for damages against the Group. Security risks pertaining to personal data may increase as a result of amendments to data protection legislation and corresponding systems.

The Group is dependent on the key personnel and employees, the losing of whom, or the Group´s inability to recruit or retain competent and skilled employees, could have a material adverse effect on the Group's operations. As the Group operates on a highly competitive market and in a highly-regulated area of activity, the performance results of the Group depend to a great extent on the Group's ability to recruit and retain qualified, skilled and experienced staff. To maintain the competitiveness of the Group, implement strategies and operate in compliance with regulatory requirements, the Group must recruit and retain competent and skilled employees in all business segments of the Group. The key personnel have specific knowledge and skills of high importance to maintaining and enhancing the competitiveness of the Group. For example, the Group uses the services of a third-party service provider to manage and develop IT systems. In case the contract with the service provider is terminated, it might prove difficult to find personnel with the required skills and experience. The failure to hire qualified employees and retain the key personnel would have material adverse effect on the Group. The Group has so far been able to recruit the required employees from Estonia. To mitigate the risk pertaining to qualified personnel, it would be possible to hire employees from elsewhere in Europe, considering the free movement of workers within member States. However, this could prove difficult as the working language of the Group is Estonian which means that hiring from other countries would require certain changes, including the creation of an English working environment in the Group companies.

The Group finds the risk in the operational risk category, including information technology and qualified personnel risk, to be "medium".

Good reputation is important in the banking sector, in which the Group is operating, and materialisation of the reputational risk may reduce the Group's competitiveness and trustworthiness. Reputational risk is a risk pertaining to the Group´s reputation. Disclosure of negative information about the Group may have an adverse effect on the Group's reputation among the public, investors and partners regardless of correctness of the information and thereby may reduce the Group's competitiveness and income. The Group relies on the trade mark Coop and good reputation when competing for customers. Good reputation is important in the banking sector, since rumours and speculations about the ability to guarantee solvency and liquidity affect primarily financial institutions. Rumours and speculations may cause deposit outflow, while the Bank may have limited possibilities for preventing or restricting this. The Group shares the trade mark "Coop" of Coop Eesti Keskühistu with the stores of the consumer co-operatives belonging to the retail trade chain of Coop, the circumstances and activity in connection with which may also influence the Group's reputation. In addition, Coop is a new trade mark in Estonia; accordingly, development of a positive image of the trade mark is essential and materialisation of the reputational risk may have higher than average impact on the Group's operations. At the same time, the area of activity of Coop, i.e. retail trade, does not involve a high environmental risk and Coop contributes to corporate social responsibility (CSR). The Group mitigates the reputational risk by transparent, open and honest business activities and by providing sufficient information to the public. However, future decisions regarding the business of the Group and choice of services and products may have a negative impact on the trade mark and reputation of the Group. In addition, disputes in which the Group companies are involved, and external factors which affect the whole sector beyond the Group's control, could also have an influence. The Group evaluates the reputational risk category as "medium".

The Corporate brand and insignia of the Group are dependent on the trade mark Coop not owned by the Group. The Corporate brand and insignia of the Group are based on the trade mark Coop which the Group uses under a licence agreement concluded with Coop Eesti Keskühistu. Consequently, the Group does not have control over the legal protection of the trade marks (incl. extension of registrations). The licence agreement is valid indefinitely, but the parties to the agreement have the right to cancel the agreement ordinarily at any time by notifying the other party at least 12 months in advance or, under certain limited terms, cancel the agreement extra-ordinarily without adhering to the advance notice requirement. If the holding of subsidiaries of Coop Eesti Keskühistu and the member co-operatives in the Bank falls under 51% of the share capital, the parties may agree on faster termination of the agreement when needed. Under the license agreement, the Group may use the Coop trade mark only in Estonia. In case the Group wishes to expand the activities outside Estonia, it is likely that the Group must reach an agreement regarding the right to use the trade mark with the persons holding the right to use the trade mark Coop in the relevant country, which might not be possible. The necessity to develop and introduce a new brand could have material adverse effect on the turnover, operations and performance of the Group. The Group finds that the category of the risk is “low”.

LEGAL AND REGULATORY RISKS

The bank is subject to strict capital adequacy requirements which are subject to frequent reforms and changes. The capital requirements regulation based on the Basel III framework that was agreed in the Basel Committee on Banking Supervision sets forth the minimum capital requirements, in addition to which, in Estonia the capital maintenance and systemic risk buffers imposed by the Financial Supervision Authority and Eesti Pank (i.e. the Bank of Estonia) are applied. So far, the Group has complied with all applicable capital requirements. Tightening of the capital requirements may have material adverse impact on the Group’s operations, causing the need to increase capital, decrease financial leverage or risk-weighted asserts, change the legal structure or business model of the Group. Capital adequacy may also decrease as a result of loan losses or other losses, or due to the low credit rating of the counterparties of the financial transactions the Group has entered into. A decreased capital adequacy may limit the funding available for the Group and increase the cost of funding. If the Group fails to comply with the capital adequacy requirements, the Group may be required to raise more equity capital or subordinated loans, it might also be more difficult to achieve its growth or strategic objectives. According to the Group’s assessment, the capital adequacy risk category is “high”.

The Group’s operations are exposed to a heightened risk of money laundering and terrorist financing. The money laundering, corruption and terrorist financing prevention and international sanctions regulations applicable to the financial sector have been made stricter and continue to be made stricter. The risk that the banks may be exploited for money laundering or terrorist financing purposes has increased worldwide. For financial institutions, the risk of new money laundering or terrorist financing related cases is always present. Violation or even suspected violation of any regulations on anti-abuse of the financial system may lead to serious legal consequences for the Group and its reputation, which in turn may have material adverse effect on the Group.

The Group is consistently focused on the prevention of money laundering (**AML**) and combating terrorist financing (**CFT**) and international sanctions and to the application of measures related to these fields. Among other things, the Group companies assess on an ongoing basis their customer base and in compliance with the AML/CFT risk level assigned to the client due diligence measures are applied, the principles of know your customer (**KYC**) are applied and customer data is updated, but the risk may still materialise due to the fact that the customer’s risk level has been incorrectly determined based on insufficient data.

As efforts continue to be made to use the financial system for money laundering purposes, the risk remains that despite all measures, the Group may not be able to identify all behaviour patterns of customers and cases that indicate a breach by the customer of legislation concerning AML or sanctions. As a result of exiting in 2017-2018 the line of business of servicing non-residents, the share of non-resident customer deposits at the Bank (excluding deposits acquired through the Raisin Platform) makes 3.5% of all deposits as at 30.09.2019. The Bank considers deposits acquired through the Raisin Platform separately from other non-resident customer deposits because ordinary settlement services are not offered to these customers. Despite the small share of non-resident client deposits, it is not possible for the Group to guarantee that all appropriate measures were taken regarding persons who were the Bank’s customers before the change of the shareholders of the Bank in January 2017 and regarding transactions carried out by these persons. The occurrence and materialisation of risks referred to above may have a material adverse effect on the Group due to the enforcement activities of supervision authorities and negative public opinion. According to the Group’s assessment, the category of the risk is “high”, mostly due to the current general topicality of addressing these risks in the banking sector (that means not due to reasons arising from the Group’s risk profile).

The Group provides various financial services and products and is therefore subject to extensive regulations, the compliance with which is subject to regular state supervision. Several authorities, including the Financial Supervision Authority, consumer protection, anti-money laundering, tax and other authorities regularly perform supervision over the Group’s business, including, but not limited to regarding compliance with capital requirements, responsible lending requirements, obligations arising from money laundering and terrorist financing prevention, tax and reporting obligations, corporate governance practices, etc. The enforcement activities of national supervision authorities and the negative public opinion resulting from that may have an adverse effect on the Group’s financial position and results of operations. According to the Group’s assessment, the regulatory supervision risk category is “medium”.

The Group operates in highly regulated areas of activity and the operations of the Group companies are subject to a number of laws, regulations, policies, guidelines and codes of conduct which might change. In recent years, the regulations regarding banking activities and the financial sector have in general extensively changed in Estonia, the European Union and internationally. Regulatory changes, both known (for example, CRR II, CRD V, BRRD II) and yet unknown, can be expected also in the coming years. Regulations applicable to banks and generally in the financial sector have been continuously made stricter and the authorisation of regulatory authorities has been increased since the 2008–2009 financial crisis. These changes may, for example, affect the capital and liquidity requirements of banking activities, bringing about additional costs and obligations to the Group. Changes could also be made to rules that apply to the Group’s business management. New regulations may force the Group to reduce its risk level, scope of business activity and lending in certain activities. New regulations generally also increase the administrative burden which brings about higher costs and lower profitability. The inability to properly comply with the implementation deadlines established with the new regulations may result in coercive measures (including penalty payment up to 10% of the annual net turnover) by the supervision authorities.

The International Accounting Standards Board (**IASB**) regularly reviews the financial accounting standards that are applicable to the Group’s accounting / reporting. Changes related to this are difficult to predict and may have a significant effect on how the Group presents and reports its financial position and results. In some cases, the Group may be obliged to apply new and amended standards retroactively, as a result of which the previously compiled financial information has to be restated. Accounting principles and methods are the basis to presenting and reporting the Group’s financial position and results. The executive management of the Group has to exercise its judgment in the process of interpreting and applying accounting principles and methods to ensure that the Group operates in compliance with the IFRS. The Group’s general accounting principles are related to taking into account information concerning the future in estimates of fair value, in writing down financial assets and loans and other claims, in assessing the impairment of tangible and intangible assets. The IASB reviews and amends standards which affect financial statements. If the IASB makes changes in accounting / reporting standards which apply to the Group’s reporting and which must be implemented by the Group, it can significantly affect the financial position and results presented in the Group’s report.

As the Group is focused mostly on everyday universal banking, the Group is not susceptible to the risk of regulatory changes that come with complicated products and services (in that respect, the Group withdrew for strategic reasons from providing investment services and is, therefore, not affected by the MiFID II and by legislation related to it), which is why in the Group’s opinion, the regulatory changes risk category is „medium“.

The Group’s operations are materially dependent on the validity and enforceability of transactions and agreements entered into by the Group. The Group considers the cooperation and licence agreements with Coop Eesti Keskühistu and the agreement for acquiring deposits with the Raisin Platform through which the Bank acquires deposits from Germany, Austria, Spain and the Netherlands, as important agreements in terms of its operations. The Bank considers the agreement concluded with the Raisin Platform as a commercially important agreement in the Bank’s operations because the deposits acquired through the platform presently constitute an important support for financing the growth of the loan portfolio. The Bank's goal is to increasingly focus on the local Estonian depositor and to decrease the share of deposits acquired through the Raisin Platform. As at 30.09.2019, 25% of the Bank's deposits are acquired through the Raisin Platform. However, Raisin is not the only potential platform for acquiring foreign deposits which is why the risk of this agreement can be regarded as "medium".

While due care is taken to ensure that the terms and conditions of these transactions and agreements concluded by the Group companies are fully enforceable under the laws applicable to them, occasional contradictions and variations of interpretation may occur. Consequently, the Group companies may not be always able to enforce their contractual rights. In addition, the legal environment where such transactions and agreements were concluded is subject to change, both through the enactment of new laws and regulations and through changes in interpretation by the competent authorities and courts. Therefore, it cannot be fully excluded that certain terms and conditions of the transactions and agreements concluded by the Group companies turn out to be unenforceable, which in turn may have an adverse effect on the Group's operations, financial position and results of operations.

The Group operates in a legal environment that exposes it to a significant risk of claims, disputes and legal proceedings. The results of such disputes are inherently difficult to predict and even the disputes themselves, not only unfavourable outcomes, may result in the Group incurring significant expenses and damages, and in negative effects on the Group's reputation, which in turn may have material adverse effect on the Group's financial performance and profitability of operations. In that respect, such negative effect on reputation may also result from the Group companies being in the position of a victim in a criminal proceeding which is related to exploiting the possibility of concluding contracts from a distance for criminal purposes (for example, identity theft or fraud). According to the Group's assessment, the legal disputes risk category is "medium".

In 2017, the Group's subsidiary SIA Prana Property (**Prana Property**) acquired from a public auction in Latvia an asset which had been the collateral for a problem loan of the Bank's Latvia branch. The apartment building was connected to the Maxima shopping centre where in 2013 a collapse with human casualties took place and, therefore, also the building permit of the apartment building has been revoked. Since 2018, Prana Property has been making efforts to restore the building right of the apartment building, among other things an engineering expert analysis has been drawn up concerning the apartment building which confirms that it is possible to finish the construction of the apartment building. The expert analysis has been presented to the local government, being the City of Riga. The book value of the asset as at 31 December 2018 is over EUR 4 million. Considering the discount in the sum of EUR 355 thousand granted to cover the potential loss that may arise from the earlier problem loan, the total net book value is nearly EUR 3.7 million. The Bank's goal is to restore the building permit of the apartment building and after that sell the property with book value but currently it is unknown whether the sale of the property will be successful. The complete or partial failure of the process would cause the Bank a significant financial loss.

Changes in tax laws and regulations or in their interpretation can have an adverse effect on the Group's operations, financial position and results of operations. The tax regime of the markets where the Group operates may change. Some of these changes may be dictated by short-term political needs and may, therefore, be unexpected and unpredictable. For example, as a result of the Income Tax Act amendment adopted in 2017, Estonian credit institutions are required from the year 2018 to make advance corporate tax payments at a rate of 14%. The tax is calculated and paid on the profit earned every quarter. The purpose of the amendment is to ensure a more regular payment of income tax into the state budget. Companies operating in other sectors remain subject to the previous tax regime whereunder profit is subject to corporate income tax only upon distribution of profit as dividends. The amendment has more impact on credit institutions in the growth phase, such as the Bank, and credit institutions with smaller capital, as income tax reduces the bank's equity and as a result decreases capital adequacy. Similar changes or any other changes in tax laws and regulations or in their interpretation may have an adverse effect on the Group's operations, financial position and results of operations. The Group is focused on offering simple and clear financial products and does not have branches or places of business outside of Estonia; tax risks can be regarded as “medium”.

POLITICAL AND ECONOMIC RISKS

Adverse developments in the Estonian economy can decrease demand for banking services and bring about smaller revenue in the banking sector. Each of the Group’s operating segments is affected by general economic and geopolitical conditions. Political instability in regions which are important to global and especially European economy, as well as Great Britain leaving from the European Union, political instability in Russia and possible additional economic sanctions could adversely affect Estonian economy. Estonian economy has grown together with the world economy in the past ten years, whereas inflation has considerably exceeded the European Union average in the recent years. Increase in salaries has been rapid and the unemployment rate in the previous year was the lowest of last ten years. However, the competitiveness of Estonian companies has decreased due to lower level of productivity. The global and European economy is showing signs of slowdown. The global financial crisis that started in 2008 brought along recession in the Estonian economy, higher unemployment rates, decreasing loan volumes and impairment of assets. These macroeconomic indicators also caused loan losses as well as write-down of portfolios for the credit institutions operating at the Estonian market. Recurrence of an analogous, yet with a smaller impact, economic slowdown may have adverse effect on the Bank’s operations in several ways; above all this might result in a decline in the loan portfolio value and lower demand for the Group’s services. As the business activity of the Group is focused only on Estonia and the Group only operates on Estonian market, negative changes in Estonian economy affect the Group to a greater extent than the competitors or other financial institutions who also operate in foreign countries and whose activity is therefore diversified. Possible underemployment and unemployment caused by deterioration of the health of the Estonian economy may lead to customers’ difficulties in adhering to the payment obligations and translate into impairment and loan losses for the Group. The customers’ ability to service the loans could be negatively affected also by the increase in interest rates. Although the Group constantly monitors developments on both domestic and international markets, it is not possible to forecast the timing or extent of economic or political changes.

RISKS RELATED TO SHARES

The price of Shares is subject to volatility. The price of the Shares can fluctuate on the securities market due to events and the materialisation of risks related to the Group, but also because of events outside the Group’s control, such as economic, financial or political events, changes of interest rate levels or currency exchange rates, policy of central banks, changes in the demand or supply of securities of the same type in general or of the Shares. The relatively small market capitalisation and low liquidity of Nasdaq Baltic Stock Exchange can increase the volatility of the price of Shares (as of 30.09.2019 the total market capitalisation of issuers listed on the Baltic Main List is EUR 5.5 billion and during the first 9 months in 2019, there have been 93,219 transactions with a total volume of EUR 199 million. The price of Shares can decrease or increase in accordance with the market reaction to the Group strategy or as a result of the activities of competitors. If the results of the activities of the Group and/or the prospects differ from the expectations of the market analysts or shareholders, the price of Shares can be affected by speculations about the business activity, results, management and strategic plans of the Group, regardless of being justified or not. There is no guarantee of independent analyst research coverage for the Bank. Negative or deficient third-party analyses may most likely have adverse effect on the market price and liquidity of the Shares. Further, the overall market sentiment can affect the price of Shares. As Nasdaq Tallinn Stock Exchange is considered a stock exchange showing very low activity, an individual transaction may significant affect the market situation. As a result of volatility of the price, the investors should be aware that the value of the investment made in the shares of the Bank can increase or decrease.

Payment of dividends is not guaranteed to investors. The Bank is under no permanent and binding obligation to pay regular dividends to its shareholders and the Bank cannot provide any confirmations with respect to future payment and amount of dividends. Dividend pay-out cannot be guaranteed to investors and the investors might not receive dividends in the desired amount or may not receive any at all. The payment of dividends depends on the economic performance of the Bank and its Subsidiaries and may not be possible even if the financial situation of the Bank would enable it. The Management Board's proposal to pay dividends depends on the financial results of the Bank, capital adequacy requirements, reinvestment need and strategic considerations which might not coincide with the interests of all shareholders. The payment and amount of dividends is the discretionary decision of the qualified majority of the General Meeting, but the General Meeting may decide not to pay dividends even if the financial situation of the Bank would enable it. The Bank is in the growth phase of the development. Hence, on 18 April 2018 the General Meeting approved the divided policy for 2019, according to which no dividends will be paid in 2019 on the account of the profit of the financial year 2018 or the retained earnings. On 29 April 2019, the General Meeting approved the dividend policy for 2020, according to which no dividends will be paid in 2020 from the profit of the financial year 2019 or the retained earnings.

The proportional size of the shareholding in the Bank held by the Shareholders is subject to dilution. The proportion of the shareholding held by the Shareholders in the Bank may be diluted if the share capital of the Bank is increased and new Shares are issued in the future, if the need for increasing the share capital of the Bank arises. The pre-emptive right of the shareholders to subscribe for new shares in proportion to the shares they own may be barred by a resolution of the General Meeting which receives at least ¾ of the votes represented at the General Meeting. Therefore, there can be no assurance that the shareholders will be entitled to subscribe for the new Shares of the Bank issued in the future. As a result, the proportion of their shareholding in the Bank may decrease in the future.

The applicability of crisis resolution measures may result in material loss to Shareholders. The Bank as a credit institution is subject to the Financial Crisis Prevention and Resolution Act (the **FCPRA**) which means that the Financial Supervision Authority may subject the Group to crisis prevention and resolution measures, if the Financial Supervision Authority assesses it to be likely that the Bank is insolvent or may become insolvent in the future. The crisis resolution measures are applied only in extraordinary circumstances, upon the fulfilment of a number of specific criteria and as a last resort; however, if the resolution measures are applied, the Financial Supervision Authority has a right to require: (i) the write-down or cancellation of the Bank's Shares; (ii) the transfer or sale of the Bank's Shares; (iii) the revocation of the subscription rights to acquire additional Share; (iv) the issue of new Shares or other capital instruments; or (v) suspending or terminating the trading or listing of Shares. Unless otherwise provided in the decision on the commencement of the resolution proceedings, the voting rights of shareholders of the Bank and the authority of all or some of the members of the management bodies of the Bank will be suspended for the duration of the resolution proceedings. Accordingly, should the Bank meet the conditions for the commencement of the resolution proceedings, the application of the resolution tools may cause significant damage to the Bank's shareholders.

RISKS RELATED TO OFFERING, ADMISSION TO TRADING, AND LISTING

Cancellation of offering and undersubscription. Although best efforts will be made by the Bank to ensure that the Offering is successful, the Bank cannot provide any assurance that the Offering will be successful, and the investors will receive the Offer Shares they subscribed for. The Bank is entitled to cancel the Offering until the decision on distribution. The Offering can be cancelled also in the unsubscribed part. In the case of undersubscription and partial cancellation, the Bank needs to find alternative sources for financing the planned growth strategy published in the Prospectus or adopt a more conservative growth strategy, cut the volume of technological investments or extend the investment timeline.

Listing and admission to trading of Shares on the Nasdaq Tallinn Stock Exchange. The Bank intends to apply for the listing and admission to trading of all the Shares (including Offer Shares subscribed for and issued by the Bank and allocated to investors as a result of the Offering) on the Main List of Nasdaq Tallinn Stock

Exchange as soon as possible after the registration of the Offer Shares in the in the ERS and the Estonian Commercial Register. The Company will to take all the necessary measures in order to comply with the Nasdaq Tallinn Stock Exchange rules so that its application would be approved. Though the Bank plans to do everything possible to guarantee the admission to trading and listing of Shares, the Issuer cannot guarantee that the Shares (including Offer Shares) will be listed and admitted to trading.

Nasdaq Tallinn Stock Exchange is considerably less liquid and more volatile than established securities markets in other countries with longer history. The relatively small market capitalisation and low liquidity of the Nasdaq Tallinn Stock Exchange may adversely affect the shareholders' ability to sell the Shares on the Nasdaq Tallinn Stock Exchange or increase the volatility of the price of Shares; whereas an individual transaction may have a significant impact on the market situation. Low activity may cause a big difference in the sale and purchase transactions, i.e. the asking price of the shares and the eventual selling price. The decision to delist by a large company listed on the Nasdaq Tallinn Stock Exchange could have a significant effect on the market capitalisation and the liquidity of the Nasdaq Tallinn Stock Exchange as a whole. In addition, the Shares have not been traded publicly before and, therefore, it is not known whether investors have interest in the Shares or trading therewith.

5. TERMS AND CONDITIONS OF OFFERING

5.1. Offering

During the Offering, the Bank offers up to 32,180,155 newly issued ordinary no-par-value shares (the **New Shares**) and certain shareholders of the Bank offer a total of up to 8,065,700 existing ordinary no-par-value shares of the Bank (the **Existing Shares**; together with New Shares, the **Offer Shares**). At the same time, the Bank's Shareholder Inbank offers up to 745,151 Existing Shares, the Bank's Shareholder Andres Sonn offers up to 4,775,358 Existing Shares, Roberto de Silvestri offers up to 757,806 Existing Shares and the Bank's Shareholder Luciano Orsero offers up to 1,787,385 Existing Shares (together the **Selling Shareholders**). The total number of Offer Shares may increase as a result of exercising the Overallotment Option by 6,36,878 Existing Shares up to 46,282,733 Offer Shares.

The Offer Shares are offered (i) publicly to retail investors of Estonia, Latvia and Lithuania (the **Retail Offering**) and (ii) non-publicly to qualified investors within the meaning Article 2(e) of the Prospectus Regulation in Estonia and in certain selected member states of the European Economic Area and to other selected investors in reliance on certain exemptions available under the laws of respective member states (the **Institutional Offering**).

The Retail Offering will take place in the Republic of Latvia and in the Republic of Lithuania after the Estonian Financial Supervision Authority has approved the Prospectus and notified the Latvian financial supervision authority (**FCMC**) and the Lithuanian financial supervision authority (**BoL**) of approval of the Prospectus and the Prospectus together with translations of its summary into Latvian and Lithuanian has been published in the Republic of Latvia and in the Republic of Lithuania.

The Offering will be conducted and respective number of New Shares will be issued on the basis of the resolution of the 8 November 2019 General Meeting of the Bank, in which the conditional increase of share capital of the Bank by up to 32,180,155 newly issued ordinary shares was approved and the pre-emptive right of Shareholders was barred. The conditional increase of share capital in the amount of New Shares is estimated to be registered in the Commercial Register on or about 18 November 2019 (date subject to change).

The division of the Offer Shares between the Retail Offering and the Institutional Offering is not been predetermined and will be decided by the Bank after consulting with the Global Lead Manager in accordance with the principles described in section 5.6 "Distribution of Offer Shares". The total amount of Offer Shares may decrease in case any part of the Offering is cancelled – this has been described in more detail in section 0 "Postponement or Cancellation of Offering".

The Bank has on 7 November 2019 submitted a listing application to Nasdaq Tallinn Stock Exchange for the listing of all the Bank's shares, including the Offer Shares, on the Baltic Main List of the Nasdaq Tallinn Stock Exchange. Trading with the Bank's Shares is expected to commence on the Stock Exchange on or about 9 December 2019.

The indicative timetable of the Offering is the following:

Start of Offer Period	18 November 2019 at 10:00
End of Offer Period	29 November 2019 at 15:30
Announcement of Offer Price and results of the Offering	on or about 2 December 2019
Settlement of the Offering	on or about 4 December 2019
First trading day on Nasdaq Tallinn Stock Exchange	On or about 9 December 2019

5.2. Institutional Offering

Right to participate in the Institutional Offering

The Institutional Offering is directed at qualified investors within the meaning of Article 2(e) of the Prospectus Regulation in Estonia and in certain selected member states of the European Economic Area and to other selected investors in reliance on certain exemptions available in the laws of respective member states. The Institutional Offering is carried out non-publicly.

Subscription Period

The Institutional Offering will take place in parallel to the Retail Offering by way of traditional book building process. The subscription and submission of application within the Institutional Offering is expected to commence on 18 November 2019 at 10:00 and terminate on 29 November 2019 at 15:30 (the **Subscription Period**). The Bank together with the Global Lead Manager may, if necessary, change the commencement and end dates of the Subscription Period, including on several occasions and without changing other important dates of the Offering.

Submitting Subscription Undertakings in the Institutional Offering

In order to subscribe for the Offer Shares in the Institutional Offering, an application must be submitted during the Subscription Period informing the Global Lead Manager or the financial institution who is a member of the Nasdaq Tallinn Stock Exchange or Nasdaq CSD account operator managing the investor's securities account of the number of Offer Shares the investor wishes to subscribe for and the price within the Offer Price Range based on which the application is submitted (**Application**). Investors has to submit the Application with a value date that enables settlement "delivery versus payment" on 4 December 2019.

The Global Lead Manager accepts the Applications of institutional investors, with whom a mutual brokerage agreement is in place. Institutional investors, who do not have a brokerage agreement with the Global Lead Manager, should contact the Nasdaq CSD account operator or a financial institution, who is a member of the Nasdaq Tallinn Stock Exchange, who manages the securities account of the respective investor, and submit an Application in a format accepted by the respective account operator or financial institution for subscribing to the Offer Shares. An investor may use any method suggested by the account operator or the financial institution for submitting the Application (e.g. physically at the location of the broker or the bank's customer service, via Internet Bank or in any other way). An investor may amend the Application at any time during the Subscription Period or cancel it at any time before the end of the Subscription Period. Upon ending of the Subscription Period, all Applications which have not been cancelled become binding on the investor.

By submitting an Application, an investor authorises the Global Lead Manager to alter the ISIN code of the Offer Shares shown on the Application either to the ISIN code of the New Shares (during the settlement of the Offering the New Shares will carry a temporary ISIN code EE380B007855, which will be changed into a permanent ISIN after registration of the New Shares in the ERS) or to the ISIN code of the Existing Shares (the permanent ISIN of Offer Shares is EE3100007857), as the case may be. The ISIN code is altered pursuant to whether the investor is distributed New Shares or Existing Shares in accordance with section 5.6 of this Chapter. By submitting an Application, an investor authorises its' Nasdaq CSD account operator to enter a "delivery versus payment" transaction order with the permanent ISIN code in case the investor is allocated the Existing Shares in accordance with section 5.6 of this Chapter.

The investor may amend the Application or cancel it at any time before the end of the Offer Period. For that, the investor should contact the account operator, through which the respective Subscription Undertaking was submitted and carry out the actions required by the account operator for changing or annulling the Application.

An investor may submit the Application through a nominee account only in case the investor authorises the holder of the nominee account to disclose the person of the investor to the Nasdaq CSD or Nasdaq Tallinn

Stock Exchange, respectively, in writing (depending on whether the Application is submitted through the Nasdaq CSD account operator or financial institution which is a member of the Nasdaq Tallinn Stock Exchange). Applications submitted via nominee accounts shall be taken into account upon allocation only if the holder of the nominee account has disclosed the investor's identity, seat and registry code, the number of securities subscribed for and the total amount of the transaction to Nasdaq CSD or Nasdaq Tallinn Stock Exchange in writing. Among others, the registered address of a legal person must be disclosed.

Upon submitting an Application, an investor must take into consideration the special provisions of the Credit Institutions Act and CRR applicable to acquiring a holding in banks (including the Bank). A person who intends to acquire a direct or indirect qualifying holding in a bank or increase its holding so that its exceeds 10%, 20%, 30% of 50% of the bank's share capital or votes or make a transaction as a result of which the bank would become a company controlled by that person, is, inter alia, obliged to notify the Financial Supervision Authority of such intention beforehand and submit the information and documents required under the law. The Financial Supervision Authority will forward the notification documents to the European Central Bank who will decide on approving the acquisition of a qualifying or controlling holding or refusal thereof. In case the qualifying or controlling holding in a bank is acquired without notifying the Financial Supervision Authority as prescribed, the person shall not acquire the voting rights represented by the shares and the votes represented by the shares shall not be included in the quorum of the general meeting.

5.3. Retail Offering

Right to participate in the Retail Offering

The Retail Offering is directed to all retail investors in Estonia, Latvia and Lithuania. For the purposes of the Retail Offering, a natural person is considered to "be in Estonia", if such person has a securities account with an account operator of Nasdaq CSD SE Estonia branch (address Maakri tn 19/1, 10145 Tallinn, Estonia) (**Nasdaq CSD**) acting as the operator of the Estonian securities register (**ESR**) , and such person's address is registered in the ERS in connection with such person's securities account in Estonia. A legal person is considered to "be in Estonia", if such person has a securities account at the ERS, and such person's address is registered in the ERS in connection with such person's securities account in Estonia, or such person's registry code registered in the ERS is a registry code of the Commercial Register.

For the purposes of the Retail Offering, a natural person is considered to "be in Latvia", if such person has a securities account with a financial institution who is a member of the Nasdaq Tallinn Stock Exchange, and such person's address is registered in connection with such person's securities account in Latvia. A legal person is considered to "be in Latvia", if such person has a securities account with a financial institution who is a member of the Nasdaq Tallinn Stock Exchange, and such person's address is registered in connection with such person's securities account in Latvia, or such person's registered registry code is a registry code of the Latvian commercial register.

For the purposes of the Retail Offering, a natural person is considered to "be in Lithuania", if such person has a securities account with a financial institution who is a member of the Nasdaq Tallinn Stock Exchange, and such person's address is registered in connection with such person's securities account in Lithuania. A legal person is considered to "be in Lithuania", if such person has a securities account with a financial institution who is a member of the Nasdaq Tallinn Stock Exchange, and such person's address is registered in connection with such person's securities account in Lithuania, or such person's registered registry code is a registry code of the Lithuanian commercial register.

Offer Period

The Offer Period is a period during which persons who have a right to participate in the Retail Offering may submit Subscription Undertakings (described in more detail in section "Subscription Undertakings") for Offer Shares. The Offer Period commences on 18 November 2019 at 10:00 local time in Estonia and terminates on

29 November 2019 at 15:30 local time in Estonia, unless it is shortened or extended (described in more detail in section 5.10).

Subscription Undertakings

Subscription Undertakings may be submitted only during the Offer Period. An investor participating the Offering may apply for the Offer Shares for the Offer Price only. Multiple Subscription Undertakings by one investor shall be merged for the purposes of allocation. All investors participating in the Offering may submit Subscription Undertakings in euros only. An investor shall bear all costs and fees charged in connection with the submission, cancellation or amendment of a Subscription Undertaking pursuant to the price list of the respective account operator of Nasdaq CSD or a financial institution who is a member of the Nasdaq Tallinn Stock Exchange accepting the Subscription Undertaking.

In order to subscribe for the Offer Shares, an investor must have a securities account with a Nasdaq CSD account operator or with a financial institution who is a member of the Nasdaq Tallinn Stock Exchange. The Subscription Undertakings submitted within the Estonian Retail Offering are registered with Nasdaq CSD, the Subscription Undertakings submitted within the Latvian and Lithuanian Retail Offering are registered through the auction system of the Nasdaq Tallinn Stock Exchange.

Investors may open a securities account through any Nasdaq CSD account operator or a financial institution which is a member of the Nasdaq Tallinn Stock Exchange. The list of banks and investment firms which operate as Nasdaq CSD account operators is available at https://nasdaqcsd.com/services/services-to-account-operators/list-of-account-operators/. The list of financial institutions which are members of the Nasdaq Tallinn Stock Exchange is available on the webpage of the Nasdaq Tallinn Stock Exchange at https://nasdaqbaltic.com/statistics/et/members (in order to review the list of members of the Nasdaq Tallinn Stock Exchange, selection “Tallinn” should be made).

Upon submitting a Subscription Undertaking, an investor must take into consideration the special provisions of the Credit Institutions Act and CRR applicable to acquiring a holding in banks (including the Bank). A person who intends to acquire a direct or indirect qualifying holding in a bank or increase its holding so that its exceeds 10%, 20%, 30% of 50% of the bank’s share capital or votes or make a transaction as a result of which the bank would become a company controlled by that person, is, inter alia, obliged to notify the Financial Supervision Authority of such intention beforehand and submit the information and documents required under the law. The Financial Supervision Authority will forward the notification documents to the European Central Bank who will decide on approving the acquisition of a qualifying or controlling holding or refusal thereof. In case the qualifying or controlling holding in a bank is acquired without notifying the Financial Supervision Authority as prescribed, the person shall not acquire the voting rights represented by the shares and the votes represented by the shares shall not be included in the quorum of the general meeting.

a. *Submission of Subscription Undertakings within Estonian Retail Offering*

An investor wishing to subscribe for the Offer Shares must contact an account operator who operates such investor’s Nasdaq CSD securities account and submit a Subscription Undertaking for the purchase of Offer Shares in the form set below during the Offer Period. The Subscription Undertaking must be submitted to the account operator by the end of the Offer Period at the latest. By submitting the Subscription Undertaking, the investor authorises the account operator, who manages the current account tied to the investor’s securities account, to immediately block the total amount of transaction in the investor’s current account, until the settlements are complete or the funds released pursuant to terms and conditions set out in the Prospectus.

The investor may use any method that such investor's account operator offers to submit the Subscription Undertaking (e.g. physically at the client service venue of the account operator, over the internet or by other means). The Subscription Undertaking must include the following information:

Owner of the securities account:	name of the investor
Securities account:	number of the investor's securities account
Account operator:	name of the investor's account operator
Security:	Additional share of Coop Pank
ISIN code:	EE380B007855
Amount of securities:	the number of Offer Shares which the investor wishes to subscribe for
Price (per one share):	1.30 euros
Transaction amount:	The number of Offer Shares which the investor wishes to subscribe for, multiplied by the Subscription Price
Counterparty:	AS LHV Pank
Securities account of the counterparty:	99104086627
Account operator of the counterparty:	AS LHV Pank
Value date of the transaction:	December 4, 2019
Type of transaction:	"Subscription Undertaking"

b. Submission of Subscription Undertakings within Latvian and Lithuanian Retail Offering

An investor wishing to subscribe for the Offer Shares must contact the financial institution, which is a member of the Nasdaq Tallinn Stock Exchange and manages such investor's securities account and submit a Subscription Undertaking for the purchase of Offer Shares in a form accepted by the financial institution and in conformity with the terms and conditions of the Prospectus. The investor may use any method that such investor's account operator offers to submit the Subscription Undertaking (e.g. physically at the client service venue of the account operator, via the Internet Bank or by other means).

c. *Terms and conditions for the submission of the Subscription Undertaking*

An investor may submit a Subscription Undertaking through a nominee account only if such investor authorises in writing the holder of the nominee account to disclose in writing the investor's identity to Nasdaq CSD or the Stock Exchange, respectively (depending on whether the Subscription Undertaking is submitted via Nasdaq CSD account operator or a financial institution which is a member of the Nasdaq Tallinn Stock Exchange). Subscription Undertakings submitted through nominee accounts shall be taken into account in allocation only if the owner of the nominee account has disclosed in writing to Nasdaq CSD or the Nasdaq Tallinn Stock Exchange the investor's identity, place of residence or seat, personal identification number or registry code, the number of securities subscribed for and the total amount of the transaction. Among others, the person's permanent address, personal identification number or the registered address of a legal person must be disclosed. An investor may submit a Subscription Undertaking either personally or through a representative whom the investor has authorised to submit the Subscription Undertaking.

A Subscription Undertaking is deemed submitted from the moment Nasdaq CSD or Nasdaq Tallinn Stock Exchange, as the case may be, receives a duly completed transaction instruction from the account operator or the financial institution managing investor's securities account. An investor must ensure that all information contained in the Subscription Undertaking is correct, complete and legible. The Bank reserves the right to reject any Subscription Undertakings which are incomplete, incorrect or illegible, or which have not been completed and submitted during the Offer Period in accordance with all the terms and conditions of the Prospectus.

By submitting a Subscription Undertaking each investor:

(i) confirms that they have read the Prospectus and its Summary, including (but not limited to) risk factors set out in this Prospectus and a description of rights and obligations resulting from the ownership of the Shares;

(ii) accepts the terms and conditions of the Offering set out in this Chapter and elsewhere in the Prospectus and agrees with the Bank that such terms will be applicable to the investor's acquisition of any Offer Shares;

(iii) acknowledges that the Offering does not constitute an offer (in Estonian: *ofert*) to conclude a sales contract within the meaning of § 16 (1) of the Law of Obligations Act or otherwise, and that the submission of a Subscription Undertaking does neither in itself entitle the investor to acquire the Offer Shares, nor result in a contract for the sale of the Offer Shares between the Bank and the investor;

(iv) accepts that the number of the Offer Shares indicated in the Subscription Undertaking will be regarded as the maximum number of Offer Shares which the investor wishes to acquire (the **Maximum Amount**) and that the investor may receive less (but not more) Offer Shares than the Maximum Amount (described in more detail in section 5.6 "Allocation of Offer Shares");

(v) undertakes to acquire and pay for any number of Offer Shares allocated to them in accordance with these terms and conditions up to the Maximum Amount;

(vi) authorises the account operator or the financial institution and instructs them to forward the registered Subscription Undertaking to the Nasdaq CSD or the Nasdaq Tallinn Stock Exchange;

(vii) authorises the account operator or the financial institution, or Nasdaq CSD or Nasdaq Tallinn Stock Exchange, as the case may be, to amend the information contained in the Subscription Undertaking, including to (a) specify the value date of the transaction and (b) specify the number of Offer Shares to be purchased by the investor and the total amount of the transaction, which results by multiplying the Offer Price by the number of Offer Shares allocated to the respective investor.

Investors have the right to amend or cancel their Subscription Undertakings at any time until the end of the Offer Period. To do so, the investor must contact his/her/its Nasdaq account operator or the financial institution which is a member of Nasdaq Tallinn Stock Exchange through whom the Subscription Undertaking is question has been made and carry out the procedure required by the account operator for amending or cancelling the Subscription Undertaking (such procedures may differ between different account operators).

5.4. Offer Price

The Offer Price is within the range of 1.15 euros and 1.30 euros per one Offer Share (the **Offer Price Range**). The final offer price to be paid for each Offer Share (**Offer Price**) shall be decided by the Bank together with the Global Lead Manager after the end of the book building process directed at institutional investors in the course of the Institutional Offering based on (i) the total demand in the Retail Offering and the Institutional Offering, (ii) the demand and price sensitivity of each respective investor who participated in the Institutional Offering. The Selling Shareholders have authorised the Bank to determine the Offer Price for Existing Shares as well. The Offer Price shall be the same in the Retail Offering and in the Institutional Offering.

An investor entitled to participate in the Retail Offering may submit a Subscription Undertaking for subscribing for the Retail Offer Shares only at a price that corresponds to the upper level of the Offer Price Range, i.e. 1.30 euros per one Offer Share (the **Subscription Price**).

The Bank intends to announce the final Subscription Price through the information system of the Nasdaq Tallinn Stock Exchange and on the website of the Bank at https://www.cooppank.ee/en/pakkumine on or about 2 December 2019 together with publishing the results of the Offering.

5.5. Payment

By submitting a Subscription Undertaking within the Retail Offering, an investor authorises the account operator managing the investor's current account connected to their securities account to immediately block the whole transaction amount on the investor's current account until the settlement is completed or funds are released in accordance with the terms and conditions of the Prospectus. The transaction amount to be blocked will be equal to the Subscription Price multiplied by the Maximum Amount. An investor may submit a Subscription Undertaking only if there are sufficient funds on the current account connected to its Nasdaq CSD securities account or to the securities account opened with a financial institution which is a member of the Nasdaq Tallinn Stock Exchange to cover the whole transaction amount for that particular Subscription Undertaking.

Depending on the terms and conditions of the financial institution which is a member of the Nasdaq Tallinn Stock Exchange, the financial institution which operates the current account connected to the investor's securities account, may immediately block the whole transaction amount on the investor's current account until the settlement is completed or funds released in accordance with the terms and conditions described in the Prospectus. The Offer Shares allocated to the investor shall be paid for pursuant to as described in section 5.7 "Settlement and Admission to Trading" of this Chapter.

5.6. Allocation of Offer Shares

The Bank together with the Global Lead Manager will decide on the allocation of the Offer Shares after the expiry of the Offer Period and no later than on or about 2 December 2019. The Selling Shareholders have authorised the Bank to decide on the allocation of the Existing Shares as well. The allocation of the Offer Shares between the Institutional Offering and the Retail Offering has not been previously determined. The Bank together with the Global Lead Manager will determine the exact allocation upon its sole discretion.

Only New Shares will be allocated to the investors in the Retail Offering. The Offer Shares will be allocated to the investors participating in the Retail Offering in accordance with the following principles, which the Bank together with the Global Lead Manager may change depending on the distribution of subscription undertakings collected in the Retail Offering and the Institutional Offering, the total demand and other circumstances.

(i) Each investor who submitted a Subscription Undertaking in the Retail Offering and has opened a current account at the Bank as at 29 November 2019 by 15:00 the latest is presumably guaranteed an allocation of up to 10,000 Offer Shares subscribed for;
(ii) Each investor who submitted a Subscription Undertaking in the Retail Offering before 22 November 2019 at 16:00 is presumably guaranteed an allocation up to 5,000 of the Offer Shares subscribed for. For Subscription Undertakings, amended or supplemented after the referred term, the current allocation principle will apply only to the Offer Shares subscribed before the referred term;
(iii) Each investor who submitted a Subscription Undertaking in the Retail Offering is presumably guaranteed an allocation of up to 2,500 of the Offer Shares subscribed for;
(iv) Only one of these principles is applied to each investor who submitted a Subscription Undertaking in the Retail Offering and the correspondence of subscriptions shall be verified pursuant to the sequence indicated above. This means that first, it is determined whether the investor has a current account opened at the Bank as at the time stated in clause (i); if not, it is determined whether the investor submitted the Subscription Undertaking before the term specified in clause (ii) and, if not, (iii) shall be applied upon allocation.
(v) In the part in which the Subscription Undertakings submitted in the Retail Offering exceed the part guaranteed to the investors pursuant to clauses (i) – (iii), the Offer Shares shall be allocated in steps. For application in steps, each step is allocated a certain percentage of Offer Shares based on the

number of Offer Shares subscribed for in the Subscription Undertaking less the part guaranteed in the Retail Offering. The allocation tiers are the following: (a) up to 24,999 Offer Shares (including), (b) from 25,000 Offer Shares to 99,999 Offer Shares (including) and (c) allocation for investors who have subscribed for more than 99,999 Offer Shares shall be decided in the Institutional Offering by the Bank and the Global Lead Manager at their sole discretion. The percentages of allocation tiers have not been fixed and the Bank together with the Global Lead Manager shall decide on the percentages based on the total demand of the Offering.

Upon allocation, all Subscription Undertakings submitted by one investor shall be aggregated. Upon preferential allocation to the Bank customers (i), the Bank relies on the data available in the Bank's information systems as at the end of the Subscription Period for identifying the customer relationship, whereas the investor must ensure that the data provided to the Bank is correct, true and complete. Upon temporal preference allocation (ii), the Subscription Undertaking submitted by the investor at the earliest shall be taken into account and it shall be ensured to the investor once.

To illustrate the allocation principles of the Retail Offering, few examples of the application of the principles in practice are provided below. The examples have been prepared based on the assumption that the Bank together with the Global Lead Manager will not change the size of guaranteed allocations.

Example 1. An investor subscribes for 1–2,500 Offer Shares. An investor shall be allocated 1–2,500 New Shares, regardless of the time of submission of the Subscription Undertaking.

Example 2. An investor subscribes for 8,000 Offer Shares but as at 29 November 2019 by 15:00 has not opened a current account at the Bank. The number of Offer Shares allocated to such investor shall be dependent on the following circumstances:

a. If the Subscription Undertaking has been submitted before 16:00 on 22 November 2019, the investor's ensured allocation shall be 5,000 New Shares, plus a certain percentage of the remaining 3,000 (8,000–5,000=3,000) Offer Shares subscribed for pursuant to the principles of the first tier of tiered allocation;
b. If the Subscription Undertaking has been submitted after 16:00 on 22 November 2019, but before the end of the Offer Period, the investor's ensured allocation shall be 2,500 New Shares, plus a certain percentage of the remaining 5,500 (8,000–2,500=5,500) Offer Shares subscribed for pursuant to the principles of the first tier of tiered allocation.

Example 3. An investor subscribes for 25,000 Offer Shares and has opened a current account at the Bank. Regardless of the time of submission of the Subscription Undertaking, provided that it has been submitted during the Offer Period, the investor's ensured allocation shall be 10,000 New Shares, plus a certain percentage of the remaining 14,999 (24,999–10,000=14,999) Offer Shares subscribed for pursuant to the principles of the first tier of tiered allocation and a certain percentage of the remaining 501 (25,500–24,999=501) Offer Shares subscribed for pursuant to the principles of the second tier of tiered allocation.

Investors participating in the Institutional Offering may be allocated both New Shares as well as Existing Shares. The allocation of Offer Shares in the Institutional Offering shall be decided by the Bank together with the Global Lead Manager at its sole discretion. The Bank together with the Global Lead Manager reserves the right to deem a Subscription Undertaking submitted in the Retail Offering which subscribes for more than 99,999 Offer Shares, to be part of the Institutional Offering and decide on the allocation of Offer Shares to such investor in accordance with the principles of allocation of the Institutional Offering; however, in such case only New Shares shall be allocated to the investor.

Upon over-subscription of the Offering, the Bank may, at the proposal of the Global Lead Manager, decide to increase the number of Offer Shares by the number of Over-Allotment Shares, which would increase the number of Offer Shares to up to 46,282,733 Offer Shares, which shall be allocated between the investors participating in the Offering in accordance with the principles described in section "Allocation of Offer Shares".

The funds blocked on the current account of the investor who participated in the Retail Offering will be returned in the amount corresponding to the Offer Price multiplied by the number of Shares no allocated to such investor as described under “Return of Funds” in section “Terms and Conditions of Offering”. The Offer Shares subscribed for will be allocated to the investors participating in the Offering in accordance with the principles described in this section “Allocation of Offer Shares”.

The Bank expects to announce the results of the allocation process through the information system of Nasdaq Tallinn Stock Exchange and at the Bank’s website https://www.cooppank.ee/en/pakkumine on or about 2 December 2019.

5.7. Settlement of Offering, Listing of Shares and Admission to Trading

The Offer Shares allocated to investors will be transferred to their securities account on or about 4 December 2019 (date subject to change) through the “delivery versus payment” method at the time of monetary payment for the Offer Shares. During the settlement of the Offering, the New Shares will carry a temporary ISIN EE380B007855, which will be changed to the permanent ISIN EE3100007857 on or about 9 December 2019.

If an investor has submitted several Subscription Undertakings through several securities accounts belonging to them, the Offer Shares allocated to such investor are transferred to such investor’s securities account proportionally with the respective securities amounts set out in such investor’s Subscription Undertakings. The number of the Offer Shares to be transferred to each securities account may be rounded up or down, as necessary, in order to ensure that a whole number of Offer Shares is transferred to each securities account. If the transfer cannot be completed due to the lack of sufficient funds on the investor’s current account, the Subscription Undertaking of the respective investor will be rejected and the investor will lose all rights to the Offer Shares allocated to such investor.

On 7 November 2019, the Bank submitted a listing application to the Nasdaq Tallinn Stock Exchange for the listing of all the Shares of the Bank, incl. the Offer Shares, on the Baltic Main list of the Stock Exchange. The Bank will take all necessary measures in order to comply with the rules of the Nasdaq Tallinn Stock Exchange rules to ensure the application would be approved. The expected date of listing and admission to trading of the Shares on the Baltic Main List of the Stock Exchange is on or about 9 December 2019.

5.8. Agreements Related to the Offering

The Bank and the Selling Shareholders have appointed AS LHV Pank as the Global Lead Manager and intend to conclude on or about 14 November 2019 a Placement and Services Agreement in connection with the Offering, which includes, among others, the obligation of the Global Lead Manager to sell the Offer Shares „on a best effort basis“, arrange the settlement of the Offering and act as a Stabilising Manager (described in further detail under section 5.9 “Stabilisation and Overallotment“).

In addition, the Selling Shareholders and certain shareholders of the Bank have agreed to be subject to lock-up agreements as follows:

The selling Shareholders have agreed, in case the holding of each single Selling Shareholder at the Bank exceeds 1% of the Bank’s Shares after completion of the Offering, not to sell, pledge or otherwise dispose of the Bank’s Shares within 180 calendar days as of the first day of trading the Shares at the Nasdaq Tallinn Stock Exchange, without the prior written consent of AS LHV Pank. AS LHV Pank will decide on granting the consent at its sole discretion.

Coop Investeeringud OÜ, which owns approximately 36.38% of the Bank’s Shares before the Offering, has agreed not to sell, pledge or otherwise dispose of the Bank’s Shares owned after completion of the Offering until 31 October 2020 without the prior written consent of AS LHV Pank. AS LHV Pank will decide on granting the consent at its sole discretion.

Coop Co-operatives, which are Shareholders of the Bank and own altogether 24% of the Bank's Shares before the Offering, have agreed not to sell, pledge or otherwise dispose of the Bank's Shares owned after completion of the Offering until 31 October 2020 without the prior written consent of AS LHV Pank. AS LHV Pank will decide on granting the consent at its sole discretion.

CM Capital OÜ, who is a Shareholder of the Bank and owns approximately 9.9% of the Bank's Shares before the Offering, has agreed not to sell, pledge or otherwise dispose of the Bank's Shares owned after completion of the Offering for up to 180 calendar days as of the first trading day of the Shares at the Nasdaq Tallinn Stock Exchange without the prior written consent of AS LHV Pank. AS LHV Pank will decide on granting the consent at its sole discretion.

5.9. Stabilisation and Overallotment

The Selling Shareholders have in connection with the Offering authorised AS LHV Pank as the stabilising manager (the **Stabilising Manager**) to over allocate for the purpose of stabilisation up to 6,036,878 shares (the **Over-Allotment Shares**), i.e. 15% of Offer Shares. The Over-allotment Shares bear the same rights as the Offer Shares. Further information about the number of Over-Allotment Shares sold to the Offering is presented in section 5.14 "Dilution" of this Chapter.

The Bank and the Selling Shareholders have mandated the Stabilisation Manager to purchases on the Nasdaq Tallinn Stock Exchange or over-the-counter with a view of stabilising the stock exchange price of the Shares at a level higher than which might not otherwise prevail in conformity with the applicable law (including with Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse (Market Abuse Regulation) up to the amount of the Over-Allotment Shares. The Stabilising Manager is not required to enter into such transactions and is entitled to discontinue support purchases at any time without prior notification. In addition, the Stabilising Manager might not enter into stabilisation transactions at all and there is no guarantee whatsoever as to the intended effect of such transactions. In the course of stabilisation, no purchases shall be made to keep the price of the Shares higher than the Offer Price. The Bank and the Stabilising Manager shall notify of all transactions made for the purposes of stabilisation in accordance with applicable law. The Stabilising Manager may make the purchases within 30 calendar days (included) as of commencement of the trading with the Bank's Shares on the Baltic Main List of Nasdaq Tallinn Stock Exchange (the **Stabilisation Period**).

The Shares acquired as a result of the transactions made during the Stabilisation Period will be returned to the Selling Shareholders in accordance with the proportion of the Over-Allotment Shares sold to the Offering. In addition, the Selling Shareholders have provided to the Stabilising Manager an overallotment option (the **Overallotment Option)** to cover the short position taken with the overallotment, according to which the Stabilising Manager may acquire up to the total number of Over-Allotment Shares additional Offer Shares from the Selling Shareholders at the Offer Price which allows the short position taken with over-allotment in case there will be no stabilisation transactions. The Over-Allotment Option can be used by the Stabilising Manager on the basis of a respective notification at any time during the Stabilisation Period as of commencement of trading with the Bank's Shares on the Baltic Main List of Nasdaq Tallinn Stock Exchange.

5.10. Change to the Offer Price Range and Offer Period

In accordance with the Prospectus Regulation, the Bank may be required to draw up a supplement to the Prospectus if the Price Range of the Offering is changed or the Offer Period is shortened or prolonged. Above all, the obligation to register a supplement to the Prospectus may apply if due to the demand or market situation the Offer Price is determined at a higher price than the Price Range of the Offering, or if the Offer Period is prolonged. The supplement to the Prospectus will be published after registration thereof in the same way as the Prospectus and its summaries. In case the Price Range of the Offering is changed, other dates and terms and conditions as provided in this Prospectus may change as well, including the total number of Offer Shares. Furthermore, in accordance with the Prospectus Regulation, every significant new factor, material mistake or material inaccuracy relating to the information included in this Prospectus which may affect the assessment of the securities and which arises or is noted between the time the Prospectus is approved and the time the Bank's Shares are listed on Nasdaq Tallinn Stock Exchange, shall be mentioned in a supplement to the Prospectus. All other changes will be disclosed through the information system of Nasdaq Tallinn Stock Exchange and at the Bank's website https://www.cooppank.ee/en/pakkumine.

In case the Bank is required to publish a supplement to the Prospectus, an investor, who has submitted a Subscription Undertaking or an Application in the Offering before the publication of the supplement to the Prospectus, has a right to withdraw within 2 working days (or within another time period as specified in the supplement to the Prospectus) after publication of the supplement to the Prospectus in accordance with the procedure described under "Subscription Undertakings" in section 5.3 "Retail Offering". If the Offer Price Range is changed so that the Offer Price is determined higher than the preliminary Offer Price Range, all Subscription Undertakings will be cancelled and will have to be submitted again in accordance with the procedure described under "Subscription Undertakings" in section 5.3 "Retail Offering".

5.11. Return of Funds

If the Offering or a part thereof is cancelled in accordance with the terms and conditions described in this Prospectus, if the investor's Subscription Undertaking is rejected or if the allocation deviates from the amount of Offer Shares applied for, the funds blocked on the investor's current account, or a part thereof (the amount in excess of payment for the allocated Offer Shares), is expected to be released by the respective account operator within one working day. The Company shall not be liable for the release of the respective amount and for the payment of interest on the released amount for the time it was blocked.

5.12. Postponement or Cancellation of the Offering

The Bank has reserved the right to postpone or cancel the Offering in its entirety at any time before the publication of the allocation of the Offer Shares. The reason for postponement or cancellation of the Offering could be, among others, the following circumstances:

- Unexpected and significant change in the economic or political situation in Estonia or the world, which may affect the financial markets, the economic situation or the prospects and operations of the Group;
- Significant change or development, which affects the general situation, management, financial position, capital or results of operations of the Group;
- Insufficient demand for the Offer Shares and the Over-Allotment Shares.

Among others, the Bank may cancel the Offering in case of insufficient demand, i.e. in case the total volume of the Offering (the Offer Shares and the Over-Allotment Shares) are not subscribed for. Any cancellation of the Offering will be announced through the information system of Nasdaq Tallinn Stock Exchange and at the Bank's website https://www.cooppank.ee/en/pakkumine. All rights and obligations of the parties in relation to the cancelled part of the Offering will be considered terminated as of the moment when such announcement is made public.

5.13. Conflicts of Interest

The members of the Management Board and certain Key Personnel of the Bank own shareholdings in the Bank and/or have been issued share options and therefore such members of the Management Board and employees of the Bank are interested in the future wellbeing and success of the Bank, incl. success of the Offering (the size of the shareholdings and issued share options are described in more detail under subsection 9.5**Error! Reference source not found.** "Option Plan for Management Board and Employees" of Chapter 9 "Share Capital, Shares and Ownership Structure" and under subsection 10.12 "Share Ownership of Managers and Key Personnel" of Chapter 10 "Management". According to the knowledge of the Bank's Management

Board, the persons connected with the Offering have no other material personal interests from the viewpoint of the Offering, which could have an effect on the Offering. The Management Board is not aware of any conflict of interest relating to the Offering.

5.14. Dilution

As at the date of this Prospectus, the number of Shares of the Bank is 62,219,845. The number of New Shares issued in the course of the Offering is up to 32,180,155. Therefore, the number of Shares of the Bank after registration of the increase of share capital in the amount of New Shares is up to 94,400,000, provided that the number of Offer Shares will not be changed in accordance with the terms and conditions specified under subsection 0 “Postponement or Cancellation of Offering“ of this Chapter. This would result in the existing shareholdings diluting by 34.1% (on the assumption that existing Shareholders do not subscribe in the course of the Offering for Shares corresponding to their shareholding).

The Group’s net asset value per share is 0.92 euros as at 30 September 2019. Further information on the price formation of Offer Shares in the course of the Offering is provided under subsection 5.4 “Offering Price” of this Chapter.

The following table shows the size of the holdings of the Selling Shareholders in the Bank as at the date of this Prospectus and the assumed size after completion of the Offering (assuming that the Selling Shareholders will not subscribe for additional shares during the Offering and that the New Shares are issued in full volume). The information presented below does not take into consideration possible Shares returned to the Selling Shares as a result of transactions made during the Stabilisation period (further information about the Stabilisation Period is presented in subsection 5.9 “Stabilisation and overallotment” of this Chapter.

	As at the date of Prospectus		After completion of the Offering, assuming the sale of all Existing Shares into the Offering		After completion of the Offering, assuming the sale of all Existing Shares and Over-Allotment Shares into the Offering	
Shareholder	Number of shares	% of votes	Number of shares	% of votes	Number of shares	% of votes
Andres Sonn	8,349,537	13,42%	3,574,179	3,79%	-	-
AS Inbank	2,173,073	3,49%	1,427,922	1,51%	-	-
Luciano Orsero	2,514,067	4,04%	726,682	0,77%	-	-
Roberto de Silvestri	1,065,901	1,71%	308,095	0,33%	-	-
Total	14,102,578	22,67%	6,036,878	6,39%	-	-

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6. REASONS FOR OFFERING AND USE OF PROCEEDS

Since 2017 (following the changes of the owners), the Bank has implemented a growth strategy and thereby increased the Bank's operating volumes (loan portfolio, number of customers, deposits, profit) by 30–50% per annum. The growth so far has been financed mainly through existing equity capital and current profits earned, but also through subordinated bonds, which are treated as Tier 2 capital. The Management Board believes that, based on (i) a distinctive strategy which has proven its viability to date, (ii) positive economic environment, (iii) positive social expectation for the development of domestic capital-based banking, it is possible to significantly increase the Bank's operating volumes in the following years. The Bank needs Tier 1 capital to finance the growth of its operating volumes in the set pace during the period of 2020–2022 while at the same time ensuring also the existence of conservative capital buffer. As a result of the Offering, the Bank also wishes to expand the investor base of the Bank and through listing, make the Shares liquid, as well as enhance the Group’s reputation among the current and potential customers and partners.

The total estimated amount of gross income from the issue of New Shares is 39.6 million euros (provided that all 32,180,155 New Shares are subscribed for and issued), from which the costs related to the organising the Offering shall be deducted. This has been calculated based on the midpoint of the Price Range of the Offering (1.23 euros). Expenses directly related to the Offering are estimated to be approximately 0.9 million euros, therefore, the estimated net proceeds of the Offering for the Bank are approximately 38.7 million euros, after deduction of costs. The Bank shall not generate any income from the sale of Existing Shares, as such income (if any) shall be earned by the Selling Shareholders.

The Bank intends to use the capital raised by the Offering to increase operating volumes and market share, to expand the customer base and to develop a modular technological platform as well as the Bank's IT solutions with a view to increase long-term operating efficiency and profitability. The Bank plans to use estimably 30 million euros of the proceeds from the Offering to maintain a necessary level of own capital necessary to increase the operating volumes and market share and the remainder in accordance with the overall purpose of the Offering. If the proceeds of the Offering differ are significantly, the Group will use an alternative growth strategy and a restricted capital plan that includes raising additional capital from alternative sources and limiting the growth of the Group's economic activities. The alternative strategy ensures full compliance with the applicable capital adequacy requirements.

The estimated net proceeds of the Existing Shares together with the Over-Allotment Shares (a total of up to 2,173,073 Shares) to be sold to the Offering by Inbank is up to 2.6 million euros, after deduction of costs related to the Offering. Inbank plans to use the net income generated by the sale of its Shares to invest in its international growth.

The estimated net proceeds of the Existing Shares together with the Stabilisation Shares (a total of up to 8,349,537 Shares) to be sold to the Offering by Mr Andres Sonn is up to 10.1 million euros. The estimated net proceeds of the Existing Shares together with the Stabilisation Shares (a total of up to 1,065,901 Shares) to be sold to the Offering by Mr Roberto de Silvestri is up to 1.3 million euros. The estimated net proceeds of the Existing Shares together with the Stabilisation Shares (a total of up to 2,514,067 Shares) to be sold to the Offering by Mr Luciano Orsero is up to 3 million euros. Andres Sonn, Mr Roberto de Silvestri and Luciano Orsero plan to use the proceeds of the Offering for general investment activity. The net proceeds earned by the Shareholders from the sale of the Shares is presented after deduction of the costs related to the offering and is calculated based on the mid-point of the Offering (1.23 euros) and assuming that all the Existing Shares will be subscribed for and the Global Lead Manager uses its right to allocate to the Offering the Stabilisation Shares and the Stabilising Manager does not perform supporting purchases during the Stabilisation period, the Shares acquired in the course of which are returned to the Selling Shareholders.

7. DIVIDEND POLICY

After the registration of the Offer Shares in the Commercial Register, the Offer Shares confer the same rights as the Existing Shares and the Offer Shares will give rights to dividends that are decided to be paid and will be paid for the financial year beginning on 1 January 2019 and for the subsequent financial years.

In so far as, under the Estonian law, the dividend payment is decided by the General Meeting, the Bank cannot guarantee that dividends will be paid in the future, or if the dividends are paid, what they will amount to. On 29 April 2019, the General Meeting approved the dividend policy for 2020, according to which no dividend will be paid in 2020 from the profit of the financial year 2019 or from the retained earnings of previous periods. According to the Banks's dividend policy as approved by the General Meeting on 8 November 2019 for the period starting from 2022, it is the intention of the Bank to pay dividends, including income tax, at 25% from the prior financial year's consolidated profit before taxes.

The prerequisites for paying dividends are (i) compliance with external and internal capital and liquidity requirements, and (ii) a sustainable and sufficient capital level after paying out dividends to ensure business growth and the need for investments. The payment of any future dividends and the amount thereof will depend on the Group's results of operations, financial condition, capital requirements, future prospects and other aspects. Given the regulated nature of the operations of the Bank and the Group, the Group must ensure sufficient capitalisation (including meet the applicable capital adequacy requirements) and liquidity (including maintaining adequate liquidity buffers).

8. GENERAL CORPORATE INFORMATION AND ARTICLES OF ASSOCIATION

8.1. General Corporate Information

The business name of the Bank is Coop Pank aktsiaselts. The Bank was registered in the Commercial Register on 19 August 1997 under the registry code 10237832. The Bank has been incorporated and is operating under the laws of the Republic of Estonia in the form of a public limited company (in Estonian: aktsiaselts or AS) and is established for an indefinite term. The legal entity number (LEI) of the Bank is 549300EHNXQVOI120S55.

The contact details of the Bank are the following:

Address: Narva mnt 4, 15014, Tallinn, Estonia

E-mail: info@cooppank.ee

Phone: +372 669 0966

According to the latest available annual report of the Bank, i.e. the annual report for the financial year ended on 31 December 2018, the area of activity of the Bank was “Credit institutions (solo)” (EMTAK 64191). The consolidated area of activity of the Group was “Credit institutions (consolidated)” (EMTAK 64191). The Issuer's website is www.cooppank.ee.

8.2. Articles of Association of the Bank

The current version of the Articles of Association of the Bank was adopted by the respective resolution of the General Meeting, dated 6 June 2017. The main terms of the Articles of Association of the Bank are the following:

(i) The minimum amount of share capital of the Bank is 20,000,000 (twenty million) euros and the maximum amount of share capital of the Bank is 80,000,000 (eighty million) euros;

(ii) The Bank has registered no-par-value shares, corresponding to an equal share of the share capital. The Company has one type of Shares and they grant the shareholders the same rights.

(iii) The minimum number of the ordinary no-par-value shares is 20,000,000 (twenty million) and the maximum is 80,000,000 (eighty million). Each ordinary share grants the owner one vote at the General Meeting;

(iv) By the resolution of the General Meeting, the Bank's share capital may be increased by additional financial contributions or, without contributions, from retained earnings or share premium by way of capitalisation of reserves, or, with the prior written consent of the Financial Supervision Authority, by converting the convertible bonds into shares or by offsetting the financial claim and the issue price of the subordinated loan agreement. Upon the resolution of the General Meeting, in the event of Bank’s capital increase, the Shares may be paid in by non-monetary contribution in the course of a merger of credit institutions.

(v) The Shares are freely transferrable. In respect of the Bank, a Share shall be deemed to have been transferred when the acquirer is entered in the Bank's Share Register;

(vi) The Shares may be pledged.

(vii) The Share entitles the Shareholder in proportion to the book value of Shares held by the Shareholder to participate in the management of the Bank and the distribution of profit as well as to receive a corresponding part of the Bank's assets upon dissolution of the Bank.

(viii) The General Meeting has a quorum if more than 2/3 of the total votes represented by the all Shares are represented at the General Meeting, unless the Articles of Association or legislation require a greater participation.

(ix) A resolution of the General Meeting shall be adopted if more than 50% of the votes represented by the all Shares are in favour, unless the Articles of Association or legislation require a greater majority. In order for the following resolutions to be adopted, more than 2/3 of the total votes represented by the all Shares must be in favour of the decision: (i) amendment of the Articles of Association; (ii) increase and decrease of share capital; (iii) the dissolution, merger, division and restructuring of the Bank; (iv) transfer or disposal of the Bank's business or activities;

(x) The Supervisory Board comprises of five members elected by the General Meeting by a simple majority for a period of three years.

(xi) The following matters are within the competence of the Supervisory Board: (i) approve and modify the risk profile; (ii) adopt or amend the strategy and annual budget as well as to approve decisions in the event of deviations from them; (iii) elect and remove the members of the Management Board, to decide on their remuneration and to decide whether to enter into legal disputes with them and appoint a representative of the Bank in such disputes; (iv) carry out significant organisational changes; (v) decide upon a transaction outside the usual economic activities or institute, terminate such legal proceedings or arbitration or conclude an agreement in these proceedings; (vi) establish Subsidiaries (and decide on their merger, division, restructuring and dissolution) as well as elect a representative of the Bank to attend the Shareholders' Meeting or the General Meeting of the Subsidiaries; (vii) open and close the branches and the affiliates of Subsidiaries; (viii) the Bank's decision to invest in another company or acquire a holding in it, the Bank's decision to participate in any other joint venture or partnership or other organisation; as well as the transfer of such holding and termination of ownership, unless the transaction is related to the Bank's trading portfolio and the transaction is carried out on the basis of the Bank's trading portfolio principle established by the Bank's Management Board, as well as transactions forming part of usual economic activities; (ix) decide to conclude or modify the transactions between the Bank and the Shareholder, as well as between the Bank and a member of the Management Board and to determine the terms and conditions of the respective transactions and to appoint a representative of the Bank to perform the transaction.

(xii) A resolution of the Supervisory Board shall be adopted if over one-half of the members of the Supervisory Board participating in the meeting vote in favour, unless the legislation or the Articles of Association prescribe a greater majority. If the votes are evenly divided, the Chairman of the Supervisory Board shall have the casting vote. In matters concerning the resolution of transactions between the Bank and the Shareholder, as well as between the Bank and a member of the Management Board, the conclusion or modification of such transactions and determination of the terms and conditions of such transactions and the appointment of a representative of the Bank to perform the transaction, a decision of the Supervisory Board shall be deemed to have been adopted if all the members of the Supervisory Board participating in the voting have voted in favour of the resolution of the Supervisory Board.

(xiii) The Management Board comprises of three to five members elected by the Supervisory Board for a period of three years.

(xiv) The Chairman of the Management Board shall be elected by the Supervisory Board. The Chairman of the Management Board must have at least five years' practical financial experience in a managerial position.

(xv) The Management Board's resolution shall be adopted by a simple majority. In the event of an equality of votes, the vote of the Chairman of the Management Board shall be decisive.

(xvi) The financial year of the Bank is the calendar year.

On November 8, 2019, the General Meeting of the Bank approved the new wording of the Articles of Association. The entry into force of the decision to approve the new Articles of Association is subject to (i) the approval of the amendments by the Financial Supervision Authority in accordance with subsection 27 (1) of the Credit Institutions Act (CIA) (ii) the registration of an entry in the Commercial Register concerning the new Articles of Association.

According to the new Articles of Association, the new business name of the Bank is "Coop Pank AS" instead of "Coop Pank aktsiaselts" and the minimum share capital of the Bank shall be 40,000,000 (forty million) euros and maximum 160,000,000 (one hundred sixty million) euros. The minimum number of the no-par-value shares of the Bank is 40,000,000 (forty million) and the maximum number is 160,000,000 (one hundred sixty million). The Articles of Association shall also be supplemented with a clause according to which the Bank may issue convertible bonds, the nominal value of which may not exceed 1/10 of the share capital and the holder of which has the right to exchange the bond for a Share. In addition, according to the new Articles of Association, the Supervisory Board shall consist of five to seven members elected by the General Meeting for three years and the Management Board shall consist of three to seven members elected by the Supervisory Board for three years. According to the new wording of the Articles of Association, the Chairman of the Management Board shall be elected by the Supervisory Board. Otherwise, the basic conditions of the Articles of Association remain unchanged. The revision of the new Articles of Association is available on the Bank's website at https://www.cooppank.ee/en/pakkumine.

9. SHARE CAPITAL, SHARES AND OWNERSHIP STRUCTURE

9.1. Share Capital and Shares

The current registered share capital of the Bank is 42,400,000.34 euros, which is divided into 62,219,845 ordinary no-par-value shares of the Bank (**Shares**). The Shares are registered in book-entry form in the ERS under ISIN code EE3100007857. ERS is maintained by the Estonian branch of Nasdaq CSD SE (registry code 14306553, address Maakri 19/1, Tallinn, Harju County, 10145). The Shares have been issued in accordance with and are subject to Estonian law. The Shares have not been listed nor admitted to trading on any regulated securities market. The Shares are freely transferrable.

During the period covered by the Financial Statements, the following changes in share capital took place:

Date of registration	New amount of share capital (EUR)	Total number of Shares
02.02.2015	25,000,703.03	39,117,600
24.05.2017	36,118,892.82	55,348,534
28.06.2017	38,199,005.60	58,385,195
14.05.2019	38,373,617.84	58,385,195
01.07.2019	42,400,000.34	62,219,845

9.2. Shareholders of the Bank

At the date of this Prospectus, the Shareholders holding over 5% of all Shares in the Bank are the following:

Name of Shareholder	Proportion	Number of Shares	Person directly or indirectly controlling the Shareholder
Coop Investeeringud OÜ	36.38%	22,637,993	Coop Eesti Keskühistu
Mr Andres Sonn	13.42%	8,349,537	N/A
CM Capital OÜ	9.90%	6,159,765	N/A
Harju Tarbijate Ühistu	5.46%	3,396,828	N/A
Eesti Ühistukapital	5.00%	3,110,993	N/A

As at the date of this Prospectus, the Bank's Management Board and Supervisory Board are not aware of any person with direct or indirect control over the Bank or any agreement or circumstances which later might cause a change in the control of the Bank. The major Shareholders of the Bank do not have any additional rights different than those described in section 9.3 "Rights of Shareholders" below.

9.3. Rights of Shareholders

Introductory Remark. This section "Rights of Shareholders" aims to provide the general overview of the rights of Shareholders arising from Estonian law applicable in respect of the Shareholders of the Bank.

Right to Participate in Management of the Bank. According to the Estonian Commercial Code the Shareholders exercise their rights in a public limited company at the General Meeting unless otherwise stipulated by law. The Shareholders have the right to attend the General Meeting and to vote on matters on the agenda of the General Meeting. According to the law, the following matters in particular fall within the competence of the General Meeting: amendment of Articles of Association, increase and decrease of share capital, issuance of convertible bonds, election and removal of members of the Supervisory Board, election of an auditor, appointment of the special audit, approval of annual report and distribution of profits, deciding on dissolution, merger, division and restructuring of a public limited company and deciding on the conclusion of a transaction with a member of the Supervisory Board, determination of the terms of the transaction, deciding on the resolution of a legal dispute and appointment of a representative of a public limited company in this transaction or dispute.

The General Meeting is the highest governing body of a public limited company. The annual General Meeting must be held once a year pursuant to the procedure and at the time set forth by the law and the Articles of Association. An annual General Meeting is a General Meeting whose agenda is to approve the annual report. Despite the fact that according to the Estonian Commercial Code the annual General Meeting must be held within six months as from the end of the financial year, the Estonian Securities Market Act specifies that the audited annual report of the Issuer must be made public within four months as from the end of the financial year. According to the Estonian Securities Market Act, a credit institution is required to make public the annual report, a proposal and decision for the distribution of profits or loss coverage and the sworn auditor's report no later than four months after the end of the financial year. According to the Bank's Articles of Association, the Management Board convenes an annual General Meeting not later than four months after the end of the financial year.

According to the Estonian Commercial Code, before submitting the report to the General Meeting, the Supervisory Board must review the annual report and provide the General Meeting with a written report on the annual report, indicating whether the Supervisory Board approves the report or not but also providing information on how the Supervisory Board has organised and managed the public limited company. The respective report shall be made available to the Shareholders before the General Meeting in accordance with the procedure provided by law.

All the other of the meetings are special General Meetings. A special General Meeting must be convened in the cases set forth in the Articles of Association of a public limited company but also in the event where: (i) the net equity of the company decreases below the legally required minimum level (net equity is less than half of the share capital, the amount of net equity is less than the amount of share capital specified in the Commercial Code or the other minimum amount of share capital provided by law) or (ii) it is required by Shareholders whose Shares represent at least 1/20 of the share capital , or (iii) it is required by the Supervisory Board or the Auditor; (iv) the meeting is required in the interests of the company. The Articles of Association of the Bank do not provide additional grounds for calling a special General Meeting.

If the Management Board of a public limited company fails to convene the special General Meeting within one month after the receipt of the relevant request from Shareholders, the Supervisory Board or the Auditor, or the Management Board does not convene it at the required agenda, the Shareholders, the Supervisory Board or the Auditor have the right to convene the meeting themselves. The notice of an upcoming General Meeting must be notified at least three weeks in advance. The notice on convening the General Meeting must be published in at least one national daily newspaper in Estonia. In addition, the announcement is also published through the information system of the Nasdaq Tallinn Stock Exchange.

If there is a material breach of the requirements of the law or the Articles of Association of convening the General Meeting, such meeting is not entitled to adopt resolutions, except if all Shareholders participate or are represented at the meeting. Resolutions taken at such meeting are invalid, if the Shareholders in respect of whom the convocation procedure was violated, do not approve the resolution.

As a rule, the agenda of the General Meeting is determined by the Supervisory Board. However, if the meeting is convened by the Shareholders or by the Auditor, the agenda is determined by them. Furthermore, the Management Board or the Shareholders whose Shares represent at least 1/20 of the share capital of a public limited company may demand the inclusion of a certain item into the agenda of the annual General Meeting. An item which is initially not on the agenda of the General Meeting may be included in the agenda upon the consent of at least 9/10 of the Shareholders who participate at the meeting if their Shares represent at least 2/3 of the share capital of such company.

According to the Bank's Articles of Association, the General Meeting has a quorum if more than 2/3 of the votes represented by Shares are represented at the General Meeting, unless the Articles of Association or legal acts require a greater participation. If the quorum requirement is not met, the Management Board shall convene a new General Meeting within three weeks, but not before seven calendar days, on the same agenda. Provided that Shareholders have been duly informed of the new General Meeting, the new General Meeting shall have the power to take resolutions, regardless of the votes represented at the General Meeting.

Only those Shareholders are eligible to attend and vote at a General Meeting who were on the list of Shareholders as of the date falling seven calendar days before the meeting. Pursuant to the Articles of Association, the resolution of the General Meeting is adopted if more than 50% of the votes represented by the all Shares are in favour. Certain resolutions, such as amending the Articles of Association, increasing the share capital, resolutions relating to a dissolution or merger of the Bank, etc., require a qualified majority of at least 2/3 of the votes represented by the all Shares at the meeting. The Bank's Articles of Association sets out higher majority standards for making resolutions than the Estonian Commercial Code.

Right to Information. Pursuant to the Estonian Commercial Code, the Shareholders have the right to receive information on the activities of the public limited company from the Management Board at the General Meetings. However, the Management Board may refuse to give information if there is a reason to presume that this may cause significant damage to the interests of the public limited company. In the event the Management Board refuses to give information, a Shareholder may demand the General Meeting to decide on the legality of his or her request or file, within two weeks after the General Meeting, a petition to a court by way of proceedings on petition in order to obligate the Management Board to give information.

Pre-emptive subscription right. Pursuant to the Estonian Commercial Code, existing Shareholders of a public limited company have the pre-emptive right to subscribe for New Shares in proportion to the nominal or book value of its own Shares when increasing the share capital and issuing New Shares. Shareholders' pre-emptive rights may be excluded by a resolution of the General Meeting, which has received at least 3/4 of the votes represented at the General Meeting, which according to the majority requirement of the Bank's Articles of Association must represent more than 50% of the votes represented by the all Shares.

Right to Dividends. All Shareholders of the Bank have the right to participate in the distribution of profits. A Shareholder shall be paid a share of the profit (dividend) according to the nominal or book value of the shareholder's Shares. The payment of dividends and the amount thereof shall be decided by the General Meeting. Dividends may be paid on the basis of the approved annual report, whereof the proposal for distribution of profit approved by the Supervisory Board is submitted to the General Meeting by the Management Board either as part of the annual report or as a separate document attached to the annual report. The Supervisory Board has the right to make changes in the profit distribution proposal before submitting it to the General Meeting. The profit distribution proposal must include the following information: (i) the amount of net profit; (ii) the payments into statutory capital reserve; (iii) the payments into other reserves prescribed by applicable law or the Articles of Association (the Bank's Articles of Association do not prescribe any other reserves); (iv) the amount of the profit being distributed among Shareholders; (v) using the profit for other purposes. The list of Shareholders who are entitled to participate in the distribution of profit and receive dividends shall be determined on the basis of the list of Shareholders as maintained by the Estonian branch of Nasdaq CSD SE, which is fixed on the date determined by the General Meeting, whereas in respect of companies listed on the Nasdaq Tallinn Stock Exchange, such date may not occur earlier than on the tenth trading day after the General Meeting where the nature or extent of the rights arising from the securities were determined (rights conferred on holders of securities or their scope). While distributing profit and making dividend payments to the shareholders, a public limited company is under the obligation to treat all shareholders equally.

9.4. Shareholders' Agreements

According to the Management Board's knowledge, the following Shareholders of the Bank are partiers to the Shareholders' Agreement as at the date of the Prospectus: Coop Investeeringud OÜ (registry code 14148083), Antsla Tarbijate Ühistu (registry code 10240840), Elva Tarbijate Ühistu (registry code 10023216), Järva Tarbijate Ühistu (registry code 10097762), Viljandi Tarbijate Ühistu (registry code 10249309), Harju Tarbijate Ühistu (registry code 10347236), Tartu Tarbijate Kooperatiiv (registry code 10151355), Saaremaa Tarbijate Ühistu (registry code 10044010), Haapsalu Tarbijate Ühistu (registry code 10202590), Rapla Tarbijate Ühistu (registry code 10359831), Lihula Tarbijate Ühistu (registry code 10048611), Jõgeva Majandusühistu (registry code 10136232), Vändra Tarbijate Ühistu (registry code 10374019) (the referred consumer associations, consumer co-operative, and economic association, hereinafter jointly the **Coop Co-operatives**), AS Inbank (registry code 12001988), Andres Sonn (date of birth 07.04.1972), Mr Luciano Orsero (date of birth 23.03.1940), Mr Roberto de Silvestri (date of birth 30.04.1977), TÜ Eesti Ühistukapital (registry code 129899447) and Aleksander Kostin (date of birth 08.08.1984). According to the Management Board's knowledge, the Shareholders of the Bank, who are parties to the shareholders agreement, have agreed to terminate the agreement on the event of listing the Bank's Shares on the Exchange so that the Agreement will automatically expire from the moment the Bank's Shares are listed on the Exchange.

<u>Purpose of the Agreement.</u> Pursuant to the purpose stated in the agreement, the Shareholders, who are parties to that agreement, shall regulate their relationship with this agreement in relation to their shareholding in the Bank as well as establish the mutual rights, obligations and responsibilities of the Shareholders during the term of the agreement.

<u>Appointment of the Members of the Supervisory Board</u>. The agreement stipulates that the Supervisory Board shall consist of 5 members, elected by the General Meeting by simple majority for three years, taking into account the following: Coop Investeeringud OÜ has the right to nominate up to two members of the Supervisory Board, AS Inbank has the right to nominate one member of the Supervisory Board, Coop Co-operatives who are the Shareholders of the Bank have the right to jointly appoint one member of the Supervisory Board. Shareholders undertake to vote at the General Meeting in favour of the candidates for Supervisory Board member nominated by Coop Investeeringud OÜ, AS Inbank and Coop Co-operatives who are the Shareholders, as well as upon request to recall the Supervisory Board member nominated by the Shareholders and to elect a new corresponding member. One member of the Supervisory Board is unrelated to Coop Investeeringud OÜ, AS Inbank and Coop Co-operatives (independent member of the Supervisory Board).

Under the agreement, the Shareholders shall make certain that the members of the Supervisory Board have sufficient professional knowledge and experience to ensure the successful organisation and control of the work of the Bank. No member of the Supervisory Board shall be nominated and Shareholders shall not be required to elect any person to the Supervisory Board (a) who is not legally permitted to be a member of the supervisory board of a credit institution; or (b) whose previous activities as a member of the management body of any undertaking have demonstrated their inability to organize the management of the undertaking in such a way as to sufficiently ensure the interests of the shareholders and creditors of the undertaking; or (c) who has been convicted of an economic or professional crime; or (d) whose previous activity has otherwise shown that he or she is not suitable for directing the Bank and participate in the activities of the Supervisory Board for other justified reasons.

The Shareholders have agreed that a member of the Supervisory Board selected from among the nominees submitted by Coop Investeeringud OÜ shall be elected as the Chairman of the Supervisory Board.

As of the date of this Prospectus, the Supervisory Board of the Bank has 5 members, of whom Mr Jaanus Vihand (Chairman of the Supervisory Board) and Mr Jaan Marjundi are representatives appointed by Coop Investeeringud OÜ, Mr Priit Põldoja is the representative appointed by AS Inbank and Mr Roman Provotorov is the representative appointed by Coop Co-operatives. The fifth member of the Supervisory Board is Mr Märt Meerits, who is not related to Coop Investeeringud OÜ, AS Inbank or Coop Co-operatives, but whose membership in the Supervisory Board was proposed by the Bank's Shareholder Mr Andres Sonn.

Due to the resignation of Mr Jaanus Vihand from the Chief Executive Officer (CEO) position of Coop Investeeringud OÜ and the intention of Inbank AS and Mr Andres Sonn to offer the Existing Shares within the Offering, there may be changes in the composition of the Supervisory Board of the Bank after the Offering.

In addition, the agreement includes, inter alia, the terms and conditions of the transfer of the Shares, according to which:

(i) if a Shareholder wishes to transfer her or his Shares to a third-party acquirer, the other Shareholders shall be entitled to acquire the relevant Shares themselves under the same terms as would have been the case under the terms initially agreed between the transferring Shareholder and the third-party acquirer (pre-emption right);

(ii) if a Shareholder wishes to transfer Shares representing at least 10% of the Bank's share capital to a third party acquirer and the other Shareholders do not wish to exercise the pre-emptive right, the other Shareholders have the right to sell their Shares to a third party acquirer under the same terms as the transferring Shareholder (tag-along right). If the third-party acquirer does not wish to purchase the Shares which the Shareholder wishes to transfer to him under the tag-along right, the transferring Shareholder shall not be permitted to transfer her or his Shares to the acquirer. If, despite the prohibition, the transferring Shareholder disposes its Shares, the transferring Shareholder is obliged, upon the respective written request of the Shareholder wishing to exercise the tag-along right, to purchase from a Shareholder wishing to exercise the tag-along right its Shares under the terms and conditions as agreed between the transferring Shareholder and the acquirer and stated in the transfer notice.

The content of the agreement is provided here in an abbreviated and summarized manner and its wording does not reflect the corresponding complete content of the contract terms.

9.5. Option Plan for Management Board and Employees

The Supervisory Board approved on 28 October 2019 the new Option Plan for the Shares of the Bank (**Option Plan**) and it has also been approved by the General Meeting held on 8 November 2019. The purpose of the Option Plan was to further align the long-term interests of the Management and key employees of the Bank with the long-term interests of the Shareholders of the Bank in increasing the value of the company. In the course of the Option Plan, the options will be granted with the term of three years from April 2020 until and including April 2022, up to a maximum of 1% per year of the total number of Shares of the Bank at the relevant time. Total number of Shares to be issued under the Option Plan and prior option plan may not at any time exceed 5% of the Bank's Shares. Option value is determined in accordance with the Black-Scholes model, whereas the input for calculation is determined by the Supervisory Board. The options are granted to the entitled persons free of charge. The term of the options is three years from the moment the options are granted. The purchase price of the Share that the option holder undertakes to pay upon subscription of the Shares, is the book value of the Share at the time the options were granted, except if the book value of the Share at the time of issue of and subscription for the Shares is higher, in which case the purchase price of the Share shall be deemed to be the latter.

Based on the previous Option Plan approved by the General Meeting of the Bank on 11 December 2017 (**Option Plan 2017–2019**), options were granted since the approval of the option plan until 30 April 2019 and its volume was up to 3.5% of the Bank's Shares at the time of approval of the option plan (i.e. up to 2,043,480 Shares). The exercise date of the option to the option holder is three years and the underlying Shares of the options are issued at the annual general meeting or at an extraordinary meeting of Shareholders close to the exercise date of the option.

As of the date of this Prospectus, the Bank has issued options to altogether 2,014,780 Shares (3.24% of all the Shares of the Bank as at the date of the Prospectus). The following table summarizes the information on the number and price of the Shares represented by the options granted.

Issue Date	Number of Shares	Price per Share
September 2017	1,167,700	0.7305 euros
February 2018	657,080	0.7660 euros
August 2018	120,000	0.8057 euros
January 2019	70,000	0.8420 euros

9.6. Other Instruments

As of the date of this Prospectus, the following subordinated debt instruments issued by the Bank are valid and considered as Tier 2 own funds by the Bank.

In December 2017, the Bank issued 5,000 subordinated bonds named COOP PANK subordinated bonds 04.12.2027, with a nominal value of 1000 euros, maturity date 4 December 2027, at an interest rate of 6.75% per annum, with interest payments on 4 June and 4 December each year. Subordinated bonds are registered in the ERS under ISIN EE3300111384, the total issue volume was 5 million euros.

In March 2019, the Bank issued 2,000 subordinated bonds named COOP PANK subordinated bonds 29.03.2029, with a nominal value of 1000 euros, maturity date 29 March 2029, at an interest rate of 7.58% per annum, with interest payments on 29 September and 29 March each year. Subordinated bonds are registered in the ERS under ISIN EE3300111699, the total issue volume was 2 million euros.

The bonds described above have been issued by way of private placement to pension funds managed by the pension management company AS LHV Varahaldus (registry code 10572453).

10. MANAGEMENT

10.1. Management Structure of the Bank

The Management Board and the Supervisory Board are the managing bodies of the Bank, and the General Meeting is the highest managing body of the Bank. The Management Board is responsible for the everyday management of the Bank's activities and is authorised to represent the Bank in concluding transactions and performing acts in accordance with the law and the Articles of Association. The Supervisory Board is responsible for the strategic planning and management of the Bank´s operations and for supervising the activities of the Management Board. The General Meeting provides a decision-making forum for the shareholders to exercise their principal rights as shareholders. Additional information on the competence of the General Meeting is provided under section 9.3 "Rights of Shareholders" of Chapter 9 "Share Capital, Shares and Ownership Structure".

Additionally, an advisory Audit Committee (also has the competence of the risk committee) and a Remuneration Committee have been formed at the Supervisory Board as well as a decision-making Credit Committee, Assets and Liabilities Management Committee, Accounts Committee and Development Projects Committee at the Management Board.

The place of business of the Management Board and the Supervisory Board is the registered address of the Bank – Narva mnt 4, Tallinn, 15014, Republic of Estonia.

10.2. Management Board

Role. The Management Board manages the everyday activities of the Bank based on the strategy confirmed by the Supervisory Board and supervises the everyday activities of the Bank's employees. The Management Board reports to the Supervisory Board and must adhere to its lawful instructions. The Management Board prepares the matters to be discussed at a general meeting and the drafts of resolutions, and guarantees the enforcement of the resolutions of the General Meeting.

Duties. In accordance with the Credit Institutions Act, the Management Board must present an overview of the activities and economic situation of the Bank to the Supervisory Board at least once every three months and is under the obligation to give immediate notice of any material deterioration of the economic condition of the Bank or threat of such deterioration or deviation from prudential ratios to the members of the Supervisory Board. Transactions which are beyond the scope of everyday economic activities of the Bank may only be concluded by the Management Board with the prior consent of the Supervisory Board.

The Management Board is also required to fulfil the following duties in accordance with the Articles of Association of the Bank and the Credit Institutions Act:

a) develop a three-year strategy of the Bank and submit the developed strategy to the Supervisory Board for approval;
b) develop a business plan for implementation of the strategy approved by the Supervisory Board and submit an overview of implementation of the strategy and/or the need to modify the strategy to the Supervisory Board together with the budget of the subsequent calendar year and the investment plan;
c) submit to the Supervisory Board a monthly overview of the economic activities and economic performance of the previous month and the balance and income statement of the Bank and monthly report on the economic performance of the Bank in comparison with the previous year;
d) submit the strategy and budget of the Bank for the subsequent calendar year to the Supervisory Board for approval by November of each year the latest;
e) establish and regularly review the Bank´s risk taking, management, monitoring and risk mitigation principles and procedures which comprise both the current and also potential risks, including risks from macroeconomic environment;

f) determine the risk tolerance of the Bank for each relevant business line and unit;
g) establish the Bank´s principles and procedures for the trading portfolio management;
h) approve and submit to the Financial Supervision Authority the financial recovery plan prepared on the basis of the FCPRA and be apprised of the relevant information on a regular basis;
i) identify and assess regularly all risks involved in the activities of the Bank and ensure the monitoring and control of the extent of such risks;
j) ensure the existence of adequate financial resources and members of staff or third persons for management of all the significant risks of the Bank and for evaluation of the assets related to these risks, and for implementation of external credit quality assessments and internal models;
k) develop the organisational structure of the Bank on the basis of the principles provided for in the Articles of Association and approve the structure of the Bank
l) develop and implement systems for monitoring the activities of the Bank, ensure adherence to such systems, regularly assess the adequacy thereof and improve them if necessary pursuant to the principles established by the Supervisory Board;
m) ensure that all members of staff of the Bank are aware of the provisions of legislation relating to their duties of employment and of the principles provided for in the documents approved by the managing bodies of the Bank;
n) organise the effective functioning of the internal control system of the Bank and ensure monitoring of the compliance of the activities of the Bank and the managers and members of staff thereof with legislation and the documents approved by the managing bodies of the Bank and with the principles of sound banking management;
o) ensure the existence and functioning of systems to guarantee that information necessary for members of staff of the Bank to perform their duties is communicated thereto in a timely manner;
p) ensure the safety and regular monitoring of information technology systems used by the Bank and systems used for the safekeeping of assets of customers;
q) inform the Supervisory Board to the extent and pursuant to the procedure established thereby of all discovered violations of legislation or of internal rules or other rules established by the managing bodies of the Bank.
r) monitor that adequate separation of functions is guaranteed in all the activities of the Bank and avoid the creation of conflict of interests.
s) arrange the disclosure of the data by the Bank.

Pursuant to the law, the Management Board must also organise the accounting of the Bank and submit annual reports to the Supervisory Board for review and to the General Meeting for approval. The Management Board is required to act in the most economically purposeful manner. Each member of the management board is required to perform his or her duties using the care due of a prudent businessman.

<u>Members of the Management Board</u>. In accordance with the amended version of the Articles of Association submitted to the General Meeting of 8 November 2019 for approval, the Management Board consists of up to seven members elected for a term of three years by the Supervisory Board. As of the date of this Prospectus, the Management Board of the Bank comprises four members on whom detailed information has been provided below.

Name	Year of birth	Role in the Bank	Member of the Management Board since	Date of expiry of authorisations	Area of responsibility
Margus Rink	1972	Chairman of the Management Board	13.02.2017	31.10.2020	Retail Banking
Hans Pajoma	1974	Member of the Management Board	19.04.2017	31.10.2020	Corporate Banking
Janek Uiboupin	1976	Member of the Management Board	01.04.2009	12.02.2020	Risk Management
Kerli Lõhmus	1977	Member of the Management Board	13.02.2017	12.02.2020	Financial Management

Margus Rink. Mr Rink received a Master of Business Administration degree from the School of Economics and Business Administration at the University of Tartu in 2000 and a Bachelor´s degree in Financial Accounting and Analysis in 1994 from the same university. Margus Rink has worked in the banking sector for more than 15 years, starting in 1994 as a bank cashier in aktsiaselts Eesti Ühispank (current name AS SEB Pank) and worked in various positions in Hansapank (current name AS Swedbank) in 1996–2008, among others, as the Manager of the Viljandi branch, Account Manager, Manager of the Personal Banking Division and Managing Director of Retail Banking. In 2008 Margus Rink took a position as the member of the management board of Eesti Energia AS where he worked until 2015. In the period 2015–2016 Margus Rink was the chairman of the management board of aktsiaselts Magnum and a member of the supervisory board of several subsidiaries of that group.

Currently, Margus Rink is the Chairman of the Management Board as well as a chairman of the supervisory board of Group Subsidiaries Coop Finants, Coop Liising, Martinoza and Coop Kindlustusmaakler. Margus Rink is also on the management board of the non-profit association Estonian Banking Association (*Pangaliit* in Estonian) and a chairman of the supervisory board of Good Deed Foundation, a venture philanthropy organisation (*Heateo Sihtasutus* in Estonian).

Hans Pajoma. Mr Pajoma received a bachelor´s degree in Business Administration from the Estonian-American Business College in 1999. In 2001–2006 Hans Pajoma worked in various positions in AS Hansa Liising (current business name Swedbank Liising Aktsiaselts) and AS Hansapank (current business name AS Swedbank). In the years 2006–2008 Hans Pajoma was the manager of AS DnB NORD Banka Estonia branch; in 2006–2008 and 2012–2013 he was a member of the management board and CEO of DNB Pank aktsiaselts (current business name Luminor Bank AS) and in 2010–2012 a member of the supervisory board. In the period of 2008–2013, Hans Pajoma was also the manager of the DNB Invest Denmark A/S Estonia branch and in 2013–2015 Head of the Corporate Banking Unit of DNB Bank ASA Baltic Division. In the period of 2009–2014, Hans Pajoma was on the management board of the non-profit association Estonian Banking Association, in 2008–2014 he was a liquidator of AS DnB NORD Banka Estonia branch. In 2016–2017 Hans Pajoma worked as the Head of Investments in aktsiaselts Olerex.

Currently, Hans Pajoma is a member of the supervisory board of the Subsidiaries Coop Finants, Martinoza, and Coop Kindlustusmaakler, the chairman of the supervisory board of Coop Liising and a member of the management board of Tallinn Volleyball Club (*Tallinna Võrkpalliklubi* in Estonian).

Kerli Lõhmus. Ms Lõhmus received a Bachelor's degree of Social Sciences in Business Administration from the Tallinn Technical University in 2000 (officially equivalent to a master´s degree). Kerli Lõhmus has over 20 years of experience in the financial sector and has since 1997 worked in various positions in AS Hansapank (in 1997–2000 as a bank cashier and life insurance adviser), in AS LHV Pank (in 2002–2015 as Chief

Accountant and CFO) and in AS LHV Varahaldus (in 2008–2015 as Chief Accountant and CFO). In the period 2007–2015 Kerli Lõhmus was a member of the management board of AS LHV Pank and in the period 2008–2015 a member of the management board of AS LHV Varahaldus. In the period 2013–2014 Kerli Lõhmus was a member of the management board of Mustamäe Gümnaasium foundation and in 2015–2016 a member of the management board of SLICE OÜ and OÜ Lucrativo.

Currently, Kerli Lõhmus is a member of the supervisory board of the Subsidiaries Coop Finants, Coop Liising and Coop Kindlustusmaakler and the Chairman of the Supervisory Board of Martinoza.

The authorisations of Kerli Lõhmus as the Member of the Management Board expire on 12 February 2020. The Supervisory Board has expressed its wish to extend the authorisations.

Janek Uiboupin. Mr Uiboupin holds a Doctoral degree in Economics from the School of Economics and Business Administration at the University of Tartu since 2005. Janek Uiboupin also received Bachelor´s and Master´s degrees in Economics from the same university in 1998 and 2000, respectively. In the years 2003–2005 Janek Uiboupin worked as a research fellow in the School of Economics and Business Administration at the University of Tartu, in 2006– 2007 as a senior research fellow at the Turku School of Economics in the Pan-European Institute in Finland. Janek Uiboupin works as the Head of Risk Division in the Bank since 2007 and is a member of the Management Board since 2009.

Currently, Mr Janek Uiboupin is also a member of the supervisory board of the Subsidiaries Coop Finants, Martinoza, Coop Liising and Coop Kindlustusmaakler as well as the member of the management board of Prana Property.

The authorisations of Janek Uiboupin as the member of the Management Board expire on 12 February 2020. Janek Uiboupin has informed the Supervisory Board that he does not want to continue as a member of the management board of the Bank; accordingly, the Bank has started the process of hiring a new Risk Manager/member of the Management Board.

10.3. Supervisory Board

Role. The Supervisory Board is responsible for the planning of the activities of the Bank, organising the management of the Bank, and supervising the activities of the Bank and the Management Board. The Supervisory Board is accountable to the shareholders of the Bank (exercising their rights through the General Meeting) and the Supervisory Board informs the General Meeting of the results of supervision.

Duties. In accordance with the legislation and the Articles of Association the duties of the Supervisory Board include the duties to:

a) approve the strategy and general principles of the activities of the Bank;
b) approve the general principles of risk management of the Bank;
c) approve the principles of remuneration of the members of the management board and members of staff of the Bank;
d) approve the principles of the organisational structure of the Bank;
e) approve the general principles of monitoring of the activities of the Bank;
f) approve the statutes of the internal audit unit;
g) elect and remove the chairman and members of the management board of the Bank;
h) appoint and remove from office the head of the internal audit unit of the Bank and, on the proposal of the head of the internal audit unit, appoint and remove from office members of staff of the internal audit unit;
i) approve the budget and the investment plan of the Bank;
j) decide on the foundation or closure of branches in foreign states;
k) approve the general principles of the activities and the competence of the credit committee;

l) decide on the conclusion of transactions which are beyond the scope of the everyday economic activities of the Bank;
m) decide on the conclusion of transactions with members of the management board, and appoint the representative of the Bank in such transactions;
n) file claims against members of the management board, and appoint the representative of the Bank in such claims;
o) approve the financial recovery plan prepared on the basis of the FCPRA;
p) decide on other matters placed in the competence of the supervisory board by the articles of association or legislation, including but not limited to, approve and modify the risk profile of the Bank and adopt and modify the budget and business plan of the Bank as well as Bank´s investment in other companies or acquiring of holdings therein.

In accordance with the amended version of the Articles of Association submitted to the General Meeting of 8 November 2019 for approval, the Supervisory Board consists of five to seven members elected for a term of three years by the General Meeting.

As of the date of this Prospectus, the Supervisory Board comprises five members, on whom detailed information has been provided below.

Name	Year of birth	Role in the Bank	Member of the Supervisory Board since	Date of expiry of authorisations
Jaanus Vihand	1973	Chairman of the Supervisory Board	10.02.2017	09.02.2022
Priit Põldoja	1969	Vice-Chairman of the Supervisory Board	10.02.2017	09.02.2022
Roman Provotorov	1966	Member of the Supervisory Board	10.02.2017	09.02.2022
Märt Meerits	1974	Member of the Supervisory Board	11.12.2017	09.02.2022
Jaan Marjundi	1952	Member of the Supervisory Board	10.02.2017	09.02.2022

<u>Jaanus Vihand</u>. Mr Vihand holds a Bachelor´s degree from the School of Economics and Business Administration at the University of Tartu (officially equal to a master´s degree). From 2012 until August 2019 Jaanus Vihand was a member of the management board of Coop Eesti Keskühistu. In connection with the latter position, he also acted as a member of the management board at Coop Investeeringud OÜ in 2016–2019 and member of the supervisory board of Coop Kaubanduse AS in 2012–2016. In 2012–2016, he was a member of the supervisory board of Coop Finants AS. In the period of 2008–2011 Jaanus Vihand worked as a member of the management board of Bauhof Group AS and before that, in 2004 –2008 as the chairman of the management board of Rakvere Piim AS, in 2001–2004 as a chairman of the management board of Rocca al Mare Suurhall AS and as a member of the management board of Ekspress Grupp AS in 1999–2001. Jaanus Vihand was a member of the management board of Vihand Turms Innova OÜ in 2008–2017 and of OÜ Sefri in 2013–2016.

Currently, Jaanus Vihand is also the chairman of the management board of Apollo Group OÜ and a member of the management boards of Appollo Group OÜ companies (Piano Group OÜ, Piano Solaris OÜ, PIANO Foorum OÜ, Vapi People OÜ, Piano Ülemiste OÜ, Piano Tartu OÜ), in addition to being the Chairman of the Supervisory Board of the Bank. Jaanus Vihand is also on the management boards of the Estonian Traders Association (*Eesti Kaupmeeste Liit* in Estonian) (since 2014) and non-profit association Eesti Elava Ajaloo Keskus.

Märt Meerits. Mr Meerits received a Bachelor´s degree in International Business Administration from the Estonian Business School in 1996 and a Master´s degree in Business Administration from the Stockholm School of Economics in Riga in 2005. Märt Meerits has worked as the manager of the consulting company Rainbow Holding (2008–2010) and as the manager of Trilliane Capital (2006–2008) in Switzerland as well as a member of the management board of Ühispanga Varahalduse AS (current business name aktsiaselts SEB Varahaldus) and as the Head of the Private Banking Department of Ühispank AS (current business name AS SEB Pank). In 2010–2015 Märt Meerits was a member of the management board of a listed company Silvano Fashion Group AS, in 2016–2018 a member of the management board of Crowdestate OÜ and in the same period a member of the management board of the subsidiaries of that company (Crowdestate TST47D OÜ, Crowdestate SA2 OÜ, Crowdestate MKV25 OÜ, Crowdestate TST16 OÜ, Crowdestate PTR98 OÜ, Crowdestate MTS31 OÜ, Crowdestate TBS3 OÜ, Crowdestate TST47B OÜ, Agenskalna 24 OÜ, BAL7 OÜ, Crowdestate AST19 OÜ, Crowdestate LKS5 OÜ, Crowdestate Collateral Agent OÜ, Crowdestate KZB14 SPV OÜ). In addition, he was a member of the management board of Vakning OÜ in the period 2017–2018 and OÜ Linret EST in the period 2010–2015 as well as a member of the supervisory board of Eurex Capital OÜ in 2015–2017.

Currently, Märt Meerits is also the member of the management board of OÜ Placebo and OÜ Terviston, in addition to being the Member of the Supervisory Board of the Bank as well as a member of the supervisory board of Osaühing Saue Spordirajatised.

Jaan Marjundi. Mr Marjundi received an academic degree in 1979 from the Tallinn Polytechnic Institute in Public Catering Technology and Organisation. From 2000 to 2007 Jaan Marjundi worked as the manager of the retailer Eesti Tarbijate Ühistute Keskühistu, a consumer association (current business name Coop Eesti Keskühistu). Jaan Marjundi was on the management boards of OÜ Puidu Apartments in 2007–2017, Eesti Taaskasutusorganisatsioon MTÜ in 2005–2014 and the Estonian Traders Association in 1997–2014. In the period 2011–2019 Jaan Marjundi was the chairman of the supervisory board of Coop Kaubanduse AS.

In addition to being a Member of the Supervisory Board of the Bank, Jaan Marjundi is currently also the chairman of the management board of Harju Tarbijate Ühistu, a member of the supervisory board of Coop Eesti Keskühistu and a member of the management board of Eesti ODD Fellow Ühing.

Priit Põldoja. Mr Põldoja received a Bachelor´s degree from the Mount Saint Mary's College in the United States of America in Business and Finance in 1994. In 2006. Priit Põldoja completed the Advanced Management programme at the INSEAD university in France. Priit Põldoja started his career in 1995 as a financial analyst in the Dai-Ichi Kangyo bank's San Francisco branch. In 1996–1998, he held various managerial positions in Tallinna Pank (currently AS SEB Pank). In 1998–2008 he held several positions in Hansapank AS (current business name Swedbank AS), also as a CEO in 2005–2008 and the Head of Retail Banking in 2004–2005. In 2008–2009 Priit Põldoja was the CEO of Alta capital Partners and in 2010 Põldoja founded AS Cofi which in 1005 became AS Inbank, in which he works until today. In 2012–2015 he was a member of the supervisory board of Alexela Energia AS.

In addition to being a Member of the Supervisory Board of the Bank, Priit Põldoja is currently also on the management boards of the companies Cofi Investeeringud OÜ, Maksekeskus Holding OÜ and Lamu Investeeringud OÜ , and is a member of the supervisory boards of the companies AS Inbank, AS SmartCap and Maksekeskus AS. Priit Põldoja is also the member of the management board of MTÜ „FinanceEstonia" and the non-profit organization Estonian Tennis Association (MTÜ Eesti Tennise Liit).

Roman Provotorov. Mr Provotorov received an academic degree in 1993 from the Estonian University of Life Sciences in Economics and Administration. Roman Provotorov is a member of the management board of Antsla Tarbijate Ühistu, a consumer association, and has worked as an economics and marketing teacher at Antsla Gymnasium since 1998. Roman Provotorov was a member of the supervisory board of Coop Investeeringud OÜ in 2016–2019.

In addition to being a member of the Supervisory Board of the Bank, Roman Provotorov is currently also on the supervisory board of Coop Eesti Keskühistu and AS Eesti Pagar.

10.4. Other Key Personnel of the Bank

Kaarel Loigu. Mr Loigu is the Head of Credit Risk of the Bank and a member of the Credit Committee since 2018. K. Loigu has secondary education. K. Loigu has worked in various positions in several Estonian credit institutions during his professional career (including as a customer relations manager and the Head of the Restructuring Department). In 2012–2014 Kaarel Loigu worked as the Credit Manager of DNB Pank (current business name Luminor Bank AS), thereafter in 2014–2015 as the Head of Leasing of the Baltic Division. In 2016 Kaarel Loigu worked as the Head of Risk in Citadele banka Estonia branch for four months and in 2017 as the Head of Credit and the Head of the Credit Department in Versobank AS.

Currently, Kaarel Loigu is also a member of the management board of Martinoza and is on the management board of the non-profit organisations Estonian Basketball Association (Eesti Korvpalliliit) and MTÜ Tabasalu Palliklubi.

Helo Koskinen. Ms Koskinen works as the Head of Business Client Financing since 2017. Helo Koskinen holds a Bachelor´s degree in Law from the University of Tartu since 2002. She has worked as an enforcement officer in Lääne-Viru County Court in 2000–2001 and in 2002–2006 in Virumaa Pension Board as a lawyer and deputy director. Helo Koskinen joined the Bank in 2007 and has worked in different positions, including as a manager of the Rakvere branch, project manager and team leader of the Business Line. In addition, she was a member of the management board of the Bank in 2016–2017 and a member of the management board of the choir studio SO-LA-RE in 2014–2017.

Karin Ossipova. Ms Ossipova works as the Head of Mortgage Lending since 2017. She graduated the Estonian University of Life Sciences in Economics and Organisation in 1993. In 1993–1999 Karin Ossipova worked in various positions in aktsiaselts ERA PANK, in 1996–1997 also as a lector in AS Audentes Tartu branch. Karin Ossipova has worked in the Bank since 1999 in various positions, in the period 2013–2015 she was a member of the supervisory board of AS Krediidipank Finants, in 2015–2017 a member of the management board of AS Krediidipank Finants and in 2016–2017 a member of the management board of the Bank. Karin Ossipova was also a member of the management board of Coop Finants in 2017–2018.

Martin Ilves. Mr Ilves is a member of the management board of Coop Liising since 2017 and the Head of Business Line. He received a secondary specialized education (law) from Tallinn School of Economics (previously named *Majandustehnikum*) in 1995 and a Bachelor´s degree in International Business Administration from the Concordia International University Estonia in 2001. In 1997–1998 he worked in AS Hoiupank as a specialist in the Loan Monitoring Department and in 1998–2006 in different positions in AS Hansapank (current business name AS Swedbank) and in AS Hansa Liising (current business name Swedbank Liising AS). In 2007–2014 Martin Ilves worked in AS DnB Nord Liising, mainly as the Head of Risk, and in 2016 he was the CEO of OÜ Citadele Leasing & Factoring. In 2015–2016 Mr Ilves was on the management board of Osaühing Milves.

Rasmus Heinla. Mr Heinla is a member of the management board of Coop Finants since 2017. He received a Bachelor´s degree in Law from the University of Tartu in 2009. In 2007–2009 he worked as a lawyer in two different notary's offices (notary's office of Priidu Pärna, Lee Mõttus (Jäetma), Maarika Pihlak and notary's office of Liivi Laos, Tea Türnpuu). In 2009–2013 Rasmus Heinla was a Key Account Manager in OÜ BCP Kindlustusmaakler and in 2013–2017 the Head of Business Development of AS Creditstar Group. He was also a member of the management board of Balkantrade OÜ in 2013–2016.

Currently, Rasmus Heinla is also on the management board of JARH Invest OÜ and MTÜ Keila JK.

10.5. Audit Committee

Role. The Audit Committee has been established in the Bank in accordance with the Credit Institutions Act and the Auditors Activities Act. The Audit Committee is an advisory body formed by and acting under the supervision of the Supervisory Board advising in matters involving accounting, auditing, risk management, internal control and audit, exercising of oversight, budget preparation, and the legality of the activities.

In accordance with legislation, the duty of the Audit Committee is to monitor and analyse:

1) processing of financial information;
2) efficiency of risk management and internal control and internal audit;
3) the process of auditing of annual accounts or consolidated accounts;
4) independence of an audit firm and a sworn auditor representing an audit firm on the basis of law and the compliance of their activities with the Auditors Activities Act.

A separate risk committee has not been formed at the Supervisory Board, instead, the Audit Committee performs the duties of a risk committee. Such an arrangement of activities is in compliance with the Credit Institutions Act if it is proportional to the nature, extent and level of complexity of the activities of the credit institution and the members of an audit committee have the necessary knowledge, skills and experience to fulfil the duties of a risk committee. The competence, rights and principles of activity of both the Audit Committee and the risk committee are determined by the Supervisory Board of the Bank.

When performing the duties of the risk committee the Audit Committee is responsible for:

1) consulting the supervisory board and the management board in the fields of risk management principles and risk tolerance of the credit institution;
2) supervision over the implementation of risk management principles by the management board in accordance with the guidance of the supervisory board;
3) checking of how the business model and risk management principles are taken into consideration in the fees established to customers of the credit institution and in the case of deficiencies submission of a remedy plan to the supervisory board.

Members of the Audit Committee. In accordance with the rules and regulations of the Audit Committee, the Audit Committee consists of at least two members who will be selected from the members of the Supervisory Board of the Bank by the Supervisory Board. Instead of members of the Supervisory Board, other persons appointed by the Supervisory Board can be members of the Audit Committee, who have the knowledge, skills and experience required from a member of the committee, excluding employees and members of the Management Board of the Bank. Members of the risk committee must have the required knowledge, skills and experience to understand and constantly monitor the principles of risk management and risk tolerance of the Bank. The Audit Committee of the Bank currently comprises four members, who are Paavo Truu (chairman), Priit Põldoja, Jaanus Vihand and Märt Meerits. Detailed information about Priit Põldoja, Jaanus Vihand and Märt Meerits has been provided under section 10.3 “Supervisory Board” of this Chapter.

Paavo Truu. Mr Truu was born in 1974 and received a Bachelor´s degree in 1996 from the School of Economics and Business Administration at the University of Tartu in marketing, finance and banking and has received further professional training since then. Paavo Truu works as a member of the management board and CFO of Coop Eesti Keskühistu since 2018. In 2013–2018 he was a member of the management board of AS Magnum and in the same period was also on the supervisory boards of several subsidiaries of AS Magnum (Magnum Dental OÜ, Aktsiaselts Magnum Veterinaaria). In 2012–2013 Paavo Truu was the CFO of Alexela Group OÜ and in 1998–2007 the CFO (1998–2002) and manager of AS Ühendatud Kapital (2002–2007).

In addition, Paavo Truu has been a member of the supervisory board of AS Krulli Kvartal (2013–2015), AS Wasa (2014–2016), Benita Kodu AS (2014–2015), OmaKoduMaja AS (2013–2014), MyInvest Estonia OÜ (2013–2015) and Paldiski Arendamise AS (2013–2015). Mr Truu has also been a member of the management board of BacterField OÜ (2016), MMGR Consulting & Holding OÜ (2016), FreshGo OÜ (2017), OÜ HETMAN INVEST (2001–2018), Transgreen OÜ (2014–2018), OÜ freshgo.ee (2017–2018) and UP Invest OÜ (2014–10.01.2017).

Currently, Paavo Truu is a member of the management board of private limited company Solaris Konsult and a member of the supervisory board of Reval Auto Esindused OÜ, in addition to being a member of the management board of Coop Eesti Keskühistu and Coop Investreeringud AS.

10.6. Remuneration Committee

Role. In accordance with the Credit Institutions Act, the Remuneration Committee has been established in the Bank from the members of the Supervisory Board. The Remuneration Committee is a body of the Bank with the function to evaluate the implementation of the principles of remuneration in the Bank and the effect of the resolutions related to remuneration on meeting the requirements set to risk management, own resources and liquidity. The Remuneration Committee is accountable to the Supervisory Board of the Bank.

Remuneration Committee:

1) supervises the remuneration of the members of the management board and members of staff;
2) at least once a year evaluates the implementation of the principles of remuneration and, if necessary, makes a proposal for updating the principles of remuneration;
3) prepares the draft resolutions on remuneration for the Supervisory Board.

The Remuneration Committee bases its activities on the long-term interests of the shareholders or members and customers, and public interest. The Remuneration Committee currently comprises three members, who are the members of the Supervisory Board Priit Põldoja, Jaanus Vihand and Jaan Marjundi, on whom detailed information has been provided under section 10.3 “Supervisory Board” of this Chapter.

10.7. Credit Committee

Role. In accordance with the Credit Institutions Act the Credit Committee has been established in the Bank. The Credit Committee is a body of the Bank, the purpose of which is to ensure uniform implementation of the credit policy in the group through the adoption of decisions. The Credit Committee is accountable to the Management Board.

The Credit Committee acts in accordance with the statutes approved by the Supervisory Board (hereinafter **Credit Committee Statutes**) pursuant to which the Credit Committee holds the sole responsibility for decisions concerning the conclusion, amendment and performance of credit contracts in case the total risk exposure of the client and related parties exceeds 250,000 euros. If the total risk exposure of the client and related parties exceeds 6,000,000 euros, the credit decision requires the approval of the Supervisory Board of the Bank. In certain cases the Credit Committee is allowed to delegate its decision-making competence to a lower decision-making level provided that it establishes a client-based credit limit by products limited to a fixed amount and with a maximum term of one year or provided that it sets a discretion rule for decisions based on the condition that the increase in credit risk remains below 10% of the last sum set by the Credit Committee and the additional decision does not change the risk profile of the client no more than 250,000 euros additionally.

The Credit Committee is also responsible for different issues concerning credit contracts, including determining problem loans and issues concerning restructuring, extraordinary termination of contracts, approval of plans for the realisation of problem loan collaterals and sales prices, termination of management of problem loans, evaluation of credit claims, evaluation of uncollectable loans and write-offs, evaluation of the customers' risk of money laundering and adoption of necessary decisions, including opening and closing of accounts.

Members of the Credit Committee. The Credit Committee appointed by the decision of the Management Board consists of at least five members in accordance with the Articles of Association and Credit Committee Statutes. Bank employees and the members of the management board of the Bank and its Subsidiaries can be appointed as members of the Credit Committee. Members of the Credit Committee are divided into ex officio members and named members. Members of the Management Board of the Bank are ex officio members. The Management Board of the Bank can appoint alternate named members. The alternate members have the right to vote. Upon appointment of named members, the value added to the work of the Credit Committee by the person and his or her position are taken into consideration. No alternate members are appointed for named members. The Management Board of the Bank will appoint the Chairman of the Credit Committee amongst the members of the Credit Committee, who cannot be the Chairman of the Management Board.

Currently the ex officio members of the Credit Committee are the Members of the Management Board Janek Uiboupin (Deputy Chairman of the committee), Margus Rink (alternate member Karin Ossipova), Hans Pajoma (alternate member Helo Koskinen) and Kerli Lõhmus. A named member is Kaarel Loigu, the Head of Credit Risk (Chairman of the committee). Additional information about the Members of the Management Board is provided under section 10.2 "Management Board" of this Chapter and information about Kaarel Loigu, Karin Ossipova and Helo Koskinen has been provided under section 10.4 "Other Key Personnel of the Bank" of this Chapter.

10.8. Assets and Liabilities Committee

Role. Asset and Liability Committee (**ALCO**) is a body established by the Management Body of the Bank with the main function being to design the structure of Group´s assets and liabilities considering the required liquidity, risk appetite and profitability. The specific competence, rights and policies of ALCO have been established by the decision of the Management Board. The committee reports to the Management Board and acts in accordance with the rules and regulations of the Asset and Liabilities Committee.

ALCO is responsible for the following matters:

1) group-wide management of liquidity risk, including (i) assessment, planning of short- and long-term liquidity position and planning and implementation of the measures to be used; monitoring of the structure, dynamics and diversification of funding sources; (ii) optimisation of the maturity structure of the assets and liabilities, profitability and liquidity of instruments to achieve the strategic objectives; (iii) monitoring the dynamics of liquidity position and adherence to limits of liquidity risk as well as adoption of decisions to guarantee the liquidity position; (iv) regular oversight of liquidity stress testing; (v) approving interest rates of deposits, adoption of volume and interest rates of campaigns for deposit taking and the special offers targeted to customers;
2) Management of the income and market risk of the Bank, including (i) management of the return on assets and the price of resources (incl. identification, assessment of risks, implementation and monitoring of control measures); (ii) management of the currency structure of the balance of assets and liabilities; (iii) approval of base rates of credit products; (iv) adoption of limits for securities portfolio, including setting limits considering specific markets, possible instruments and securities/issuers.
3) Management of the counterparty credit risk, including introducing limits on term and volume measures related to financial institutions and counterparties.

ALCO members. ALCO is established by the decision of the Management Board comprising at least five members including ex officio all the members of the management board of the Bank and the Head of Treasury. Currently the ALCO consists of five members who are Margus Rink, Hans Pajoma, Kerli Lõhmus, Janek Uiboupin (on whom additional information is provided under section 10.2 "Management Board" of this Chapter) and Roman Migunov, the Head of Treasury of the Bank.

Roman Migunov. Mr Migunov works as the Head of Treasury of the Bank since 2019. Roman Migunov holds a Bachelor´s degree from the University of Tartu in Economics and Entrepreneurship since 2008. Roman Migunov has previously worked as the Head of Funds in AS Danske Capital in 2011–2016 and as an analyst and adviser in OÜ Eziil Production in the period 2016–2018. In addition, Roman Migunov has worked in Transferwise Ltd as a Treasury specialist in 2019 for three months. Currently Roman Migunov is also the CEO and member of the management board of OÜ Puhas Maailm (since 2016).

10.9. Accounts Committee

Role. The Accounts Committee is a body competent to make decisions, established by the Management Board of the Bank with the main function to ensure application of due diligence measures set in the Money Laundering and Terrorist Financing Prevention Act upon establishment, monitoring and, if necessary, termination of customer relationships. The specific competence, rights and policies of the Accounts Committee have been established by the decision of the Management Board. The Accounts Committee reports to the Management Board.

The Accounts Committee is responsible for the adoption of the following decisions pursuant to risk-based approach:

1) establishment of customer relationships or the refusal to establish a relationship if the risk level of the client is high or extremely high;
2) regular or ad hoc monitoring of the customer relationships with customers who have a high or extremely high level of risk and, if necessary, termination thereof.

Members of the Accounts Committee. In accordance with the decision of the Management Board, the Accounts Committee consists of at least three members. Currently, the committee has four members, i.e. Janek Uiboupin and Hans Pajoma (additional information above under section 10.2 “Management Board”) as well as Mari-Liis Stalde and Teet Kerem.

Teet Kerem. Mr Kerem is the Head of Daily Banking for Private Clients since 2017. He was born in 1986 and holds a Bachelor´s and Master´s degree in Environmental Technology from the University of Tartu (received in 2004 and 2014, respectively). Teet Kerem’s previous work experience includes working as a project manager, product manager and product development manager in AS Eesti Energia (in 2012–2017). He was a member of the management board of OÜ Lotik previously.

Mari-Liis Stalde. Ms Stalde joined the Bank in 2017 and works as the Head of Daily Banking for Business Clients. She was born in 1984 and received a bachelor´s degree from the Estonian University of Life Sciences in Rural Entrepreneurship and Financial Management in 2005. In 2005–2010 Mari-Liis Stalde worked in different positions in Nordea Bank Finland plc Estonia branch (including account manager for private clients, investment adviser and account manager for SMEs) and in the period 2010–2016 as a Manager of Corporate and Private Banking in AS LHV Pank.

10.10. Development Projects Committee

Role. Development Projects Committee (**DPC**) is a body competent to make decisions established by the Management Board of the Bank with the main function to organise management of development projects required for achieving the objectives of the Bank and the Subsidiaries, adopt managerial decisions and observe development activity. More detailed responsibility, rights and policies of DPC have been established by the Management Board decision.

The main task of the DPC is to lead different developments in order to attain the strategic goals of the Group through prioritising development projects and adopting decisions on the investments necessary for development.

Members of the Development Projects Committee. In accordance with the decision of the Management Board, the DPC consists of five members. The members of the DPC are currently Margus Rink, Hans Pajoma, Janek Uiboupin, Kerli Lõhmus (on whom additional information is provided under section 10.2 "Management Board" of this Chapter) as well as Madis Tapupere and Martin Kuustik.

Martin Kuustik. Mr Kuustik works as the IT Development Manager of the Bank since 2018. He was born in 1986 and received a Bachelor´s degree in International Business Administration from the Alma College in the United States of America in 2010. Prior to joining the Bank, Martin Kuustik worked as the Product Manager in AS Eesti Energia and the Head of Business Processes in Coop Finance. Martin Kuustik is also on the management board of MTÜ Eesti Lacrossiliit.

Madis Tapupere. Mr Tapupere works as the IT Manager of the Bank since 2018. Madis Tapupere was born in 1968 and received a bachelor´s degree from the Tallinn Technical University in Systems Engineering. Prior to joining the Bank, he worked as the IT Manager of AS Versobank in 2018, head of department in Telia Eesti AS in 2017 and as a manager in Osaühing Icefire in 2016. Madis Tapupere has also worked in different IT positions in Swedbank AS in 2007–2011 (former name Hansapank AS) and as an IT consultant in Hewlett-Pacard OY Estonia branch in 1998–2002.

10.11. Remuneration and Benefits

The Group has a coherent remuneration policy approved by the Supervisory Board of the Bank pursuant to which the remuneration of employees is made up of the base salary and variable remuneration, i.e. additional remuneration determined by a Group member (sales bonus, performance pay or share option). The total gross sum of remuneration and benefits paid to the members of the Management Board and Supervisory Board and the Key Personnel of the Group in the financial year which ended on 31 December 2018 was 1,059 thousand euros. The total gross sum paid to the Management Board and Supervisory Board accounted for 521 thousand euros (including base salary and performance pay for 2017). In addition to the remuneration and monetary benefits, several members of the Management Board and employees have received share options of the Bank based on the Option Plan of 2017, which has been explained in more detail under section 10.12 "Share Ownership of Managers and Key Personnel" of this Chapter.

The contracts concluded between the Bank and the members of the Management Board lay down a dismissal compensation which in the case of an extraordinary termination of contract equals six months´ remuneration and in the case of not extending a contract equals three months´ remuneration. At the end of the preceding financial year the maximum dismissal compensation to be paid for all the members of the Management Board was 175 thousand euros. The gross remuneration paid to the members of the Management Board and Supervisory Board for 2018 has been provided in the table below.

Name	Base salary for 2018	Performance pay for 2018
Margus Rink	EUR 108,000	EUR 31,500
Hans Pajoma	EUR 108,000	EUR 31,500
Janek Uiboupin	EUR 67,200	EUR 19,600
Kerli Lõhmus	EUR 67,200	EUR 19,600
Jaanus Vihand	EUR 24,000	-
Priit Põldoja	EUR 24,000	-
Jaan Marjundi	EUR 12,000	-
Roman Provotorov	EUR 12,000	-
Märt Meerits	EUR 12,000	-

10.12. Share Ownership of Managers and Key Personnel

As of the date of the Prospectus, the shares of the Bank held by the members of the Management Board and Key Personnel of the Bank have been provided in the table below.

	Number of shares	Proportion
Kerli Lõhmus (through OÜ Lucrativo)	2,488	0.0059%
Margus Rink	2,487	0.0059%
Hans Pajoma	2,487	0.0059%
Rasmus Heinla	2,487	0.0059%
Karin Ossipova	2,333	0.0055%

In addition, options have been issued to the members of the Management Board and employees to purchase shares in 2017–2019 based on the Option Plan the specific terms and conditions of which have been explained under section 9.5 “Option Plan for Management Board and Employees” of Chapter 9 “Share Capital, Shares and Ownership Structure”. In total, options for 2,014,780 shares of the Bank have been issued to the Management Board and employees the details of which have been given in the table below.

Option recipient	Number of shares (underlying asset)	Issue of shares	Share purchase price to be paid by option recipient upon subscription
Margus Rink	583,850	Annual General Meeting of 2020 (subscription deadline September 2020)	EUR 0.7305
Hans Pajoma	583,850	Annual General Meeting of 2020 (subscription deadline September 2020)	EUR 0.7305
Janek Uiboupin	233,540	Annual General Meeting of 2021 (subscription deadline May 2021)	EUR 0.7660
Kerli Lõhmus	233,540	Annual General Meeting of 2021 (subscription deadline May 2021)	EUR 0.7660
Issued to employees in February 2018	190,000	Annual General Meeting of 2021 (subscription deadline May 2021)	EUR 0.7660
Issued to employees in August 2018	120,000	Annual General Meeting of 2021 (subscription deadline September 2021)	EUR 0.8057
Issued to employees in January 2019	70,000	Annual General Meeting of 2022 (subscription deadline May 2022)	EUR 0.8420

10.13. Conflict of Interests and other Declarations

According to the knowledge of the Management Board, there are no known actual or potential conflicts of interests between the duties of any of the members of the Management Board and the Supervisory Board of the Bank or the Subsidiaries, and their private interests and duties as at the date of this Prospectus. According to the knowledge of the Management Board, none of the members of the Management Board, Supervisory Board or the Key Personnel have ever been punished in criminal proceedings or convicted of fraud or deception. According to the knowledge of the Management Board, none of the members of the Management Board, Supervisory Board or the Key Personnel have been a member of a management board of a legal person subject to bankruptcy or liquidation proceedings at the time of initiation of the relevant proceedings, i.e. no other person besides the member of the Management Board Hans Pajoma and the member of the Key Personnel Kaarel Loigu who have been liquidators in the liquidation proceedings of Bank DnB NORD Estonia branch in connection with the reorganisations in the DnB Bank group after which AS DNB Bank was established; and the member of the Key Personnel Rasmus Heinla who acted as the liquidator for the Subsidiary CP Vara (additional information on the circumstances of the liquidation of CV Vara has been provided in section 11.3 “Group members” of Chapter “Principal Activities and Markets”). According to the knowledge of the Management Board, courts or other competent supervisory organs have not prohibited any persons named in this section to act as a member of a managing body of an issuer or prohibited to participate in managing the activity of an issuer. Supervision of the Bank by the Financial Supervision Authority includes assessment of suitability of the members of the Management Board and Supervisory Board of the Bank in accordance with the legislation.

10.14. Compliance with Good Corporate Governance

The Bank complies with the corporate governance legislation of the Republic of Estonia. The Bank does not follow the principles set out in the guidelines of the Financial Supervision Authority´s “Good Corporate Governance Code” as the guidelines are not mandatory for the Bank. The Supervisory Board of the Bank has adopted a decision on 7 August 2019 to apply the “Good Corporate Governance Code” as of listing and admission to trading of the Shares on the Baltic Main List of Nasdaq Tallinn Stock Exchange. Thereafter, publishing a Good Corporate Governance report is mandatory for the Bank.

10.15. Group Auditors

Pursuant to the Articles of Association of the Bank, the General Meeting is responsible for choosing auditors. AS PricewaterhouseCoopers (registry code 10142876, registered office Pärnu mnt 15, 10141 Tallinn, Estonia) was selected as the Group auditor for the financial years 2017–2019 at the General Meeting of 26 April 2017. AS PricewaterhouseCoopers is a member of the Estonian Auditors’ Association. The audited Financial Statements and Annual Accounts enclosed to this Prospectus have been audited by AS PricewaterhouseCoopers.

11. PRINCIPAL ACTIVITIES AND MARKETS

11.1. History and Development of Group

The Bank started operating in 1992 under the name Krediidipank and has an authorisation of a credit institution since 13 February 1993. The principal activity of the Group has historically been acting as a credit institution on the Estonian banking market which is supported by leasing, consumer credit and real estate management offered by the Subsidiaries. The foundation for the Group's operations in its current form was laid at the beginning of 2017 when Coop Eesti Keskühistu and Inbank AS acquired 70% of the Bank´s shares. The new owners set the aim to establish a strong new bank focused on the Estonian market on the basis of Krediidipank which exploits the synergy between commerce and banking created by the strategic partnership with Coop Eesti Keskühistu as the Estonian largest retail chain.

As at 30 September 2019, the Bank had over 56,000 customers and the subsidiary Coop Finants had 87,000 customer contracts and over 100,000 users of Säästukaart+. The Group has 251 employees (in full time equivalent units) as at the same date.

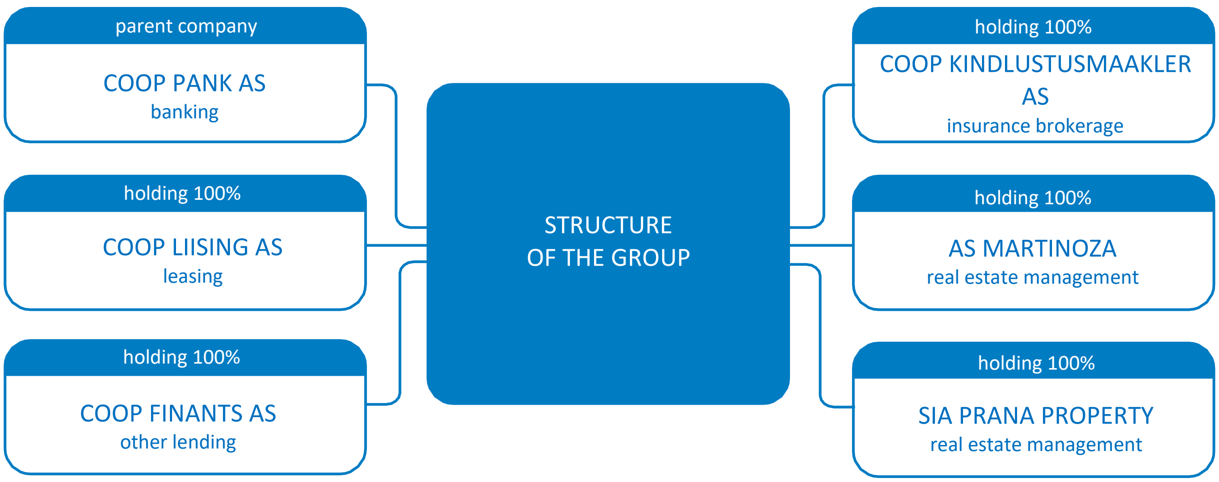
Below are the milestones in the development of the Group since foundation:

1992	Foundation of the Bank
1993	Obtaining the authorisation of a credit institution from the Banking Supervision (current name Financial Supervision Authority)
1996	Foundation of subsidiaries Krediidipanga Liisingu AS (current business name Coop Liising AS) and aktsiaselts Martinoza
2010	Registration of Krediidipank AS Latvia branch in the Republic of Latvia
2013	Foundation of AS Krediidipank Finants (last business name CP Vara AS, deleted from the Commercial Register) in cooperation with AS Inbank (holdings upon foundation 51% and 49%, respectively)
January 2017	Coop Eesti Keskühistu as a strategic investor and Inbank AS as a financial investor acquired 70% of the shares of the Bank
May 2017	The Bank acquired a 100% holding in Coop Finants AS, a consumer credit provider
May 2017	Foundation of subsidiary SIA Prana Property in Latvia for managing property held as collateral for problem loans
June 2017	The Bank became the sole shareholder of AS Krediidipank Finants after acquiring a minority interest from Inbank AS
August 2017	The Bank closed the Latvian branch based on the new strategy
September 2017	Based on the new strategy, the bank stopped offering investment services
October 2017	Launch of the trademark Coop Pank
October 2017	Transfer of business activities of AS Krediidipank Finants to Coop Finants AS; change of the name of AS Krediidipank Finants to CP Vara AS and commencement of liquidation proceedings
October 2017	Implementation of the new internet bank, mobile bank and website
December 2017	Launch of an electronic platform for establishing client relationships (so-called electronic on-boarding)
May 2018	Launch of offering the Coop Sula product as a result of which it is possible to withdraw cash from the cash registers of Coop Eesti stores
December 2018	Renouncing the status of the securities account operator based on the new strategy
March 2019	Based on the new strategy, the Bank stopped servicing the high-risk non-resident customer segment (process started at the beginning of 2017)

May 2019	Adding a cash deposit option to the Coop Sula product

11.2. Group Structure and Group Members

As at the date of the Prospectus, the Group of the Bank has the following members and the structure of the Group is the following (Coop Kindlustusmaakler has not commenced business activity yet):



11.3. Group Members

<u>Coop Pank aktsiaselts.</u> Coop Pank aktsiaselts (Bank) is the parent company of the Group. The Bank holds an authorisation of a credit institution in accordance with the Credit Institutions Act (**CIA**). The principal market of the Bank is Estonia; as at the date of the Prospectus, the Bank offers everyday banking services to private individuals (accounts, payments, bank cards, cash services and deposits) and financing services (small loan, credit card, home loan, leasing); everyday banking services are also offered to legal persons (settlements, depositing, bank link service, bank cards, cash services) and financing products (loan, overdraft, bank guarantees).

In 2010–2017 the Bank also operated on the Latvian market servicing customers through the Latvian branch, but the Latvian branch was closed on 31 August 2017 due to the change in strategy and the decision to focus on offering services to customers on the Estonian market.

The Bank has over 56,000 customers. The Bank offers services in 15 bank offices across Estonia and through the internet and mobile bank. The Bank has created the largest cash network in Estonia – customers of the Bank can withdraw cash and make cash deposits in the cash registers of the member stores of Coop Eesti Keskühistu (330 stores) and ATMs of Swedbank AS, SEB Pank AS, Luminor Pank AS and AS LHV Pank across Estonia.

As of 30 September 2019, the Bank's net loan portfolio of private individuals was 155.2 million euros and on 31 December 2018, 125.5 million euros (100.3 million euros in 2017, 84.8 million euros in 2016), as of 30 September 2019, the net loan portfolio of legal persons was 137.3 million euros and as of 31 December 2018 103.7 million euros (67.9 million euros in 2017, 31.1 million euros in 2016).

<u>Coop Liising AS</u>. The main activity of Coop Liising AS (Coop Liising) is leasing, incl. warehouse receipt financing. Coop Liising has the right to provide credit to Estonian consumers and since 9 May 2016 has been

listed under creditors acting under the exception provided in § 2 (8) of the Creditors and Credit Intermediaries Act (**CCIA**). Coop Liising offers lease financing of new and used vehicles for private and legal persons. The entrepreneurs are offered financing of commercial vehicles mainly, but also registered assets, trucks, trailers, forestry and agricultural equipment and machinery.

As of 30 September 2019, the net leasing portfolio of Coop Liising was 57.6 million euros of which leases to private individuals accounted for 24.3 million euros and leases to legal persons 33.3 million euros. As of 31 December 2018, the portfolio was 40.3 million euros, of which leases to private individuals accounted for 16.8 million euros (8.6 million euros in 2017, 5.4 million euros in 2016) whereas the leases to legal persons were 23.5 million euros (9.9 million euros in 2017, 4.3 million euros in 2016). As of 30 September 2019, Coop Liising also owns a mortgage loan and consumer loan portfolio for private persons in the net value of 11.8 million euros and as of 31 December 2018 in the net value of 12.6 million euros (13.4 million euros in 2017, 14.1 million euros in 2016). Coop Liising has over three thousand customers.

Coop Finants AS. Coop Finants AS (Coop Finants, former business name ETK Finants AS) is a subsidiary that belongs to the Group since 16 May 2017. The principal activity of Coop Finants is offering small financing products to consumers, i.e. in a sum of up to 15,000 euros, on the Estonian market as well as offering credit limit for card payments in Coop Eesti Keskühistu member stores.

Coop Finants holds an authorisation of a payment institution in accordance with the Payment Institutions and E-money Institutions Act (**PIEMIA**) since 2011. The authorisation of Coop Finants is limited to the following activities: (i) services which enable to withdraw cash from payment accounts and make all acts required for the holding of payment accounts; (ii) execution of payment transactions, including transfer of funds to a payment account opened with a payment service provider; (iii) execution of payment transactions if the funds have been granted as a loan to the client of the payment institution; (iv) issue of payment instruments specified in § 709 (8) of the Law of Obligations Act and acceptance of payment transactions. Coop Finants also held an authorisation of a creditor under the CCIA since 8 February 2016 which was terminated at the same time Coop Finants became a Subsidiary of the Bank and was, therefore, from 14 August 2017 added to the list of creditors operating under the exception provided in § 2 (8) of the CCIA. Hence, Coop Finants has the right to provide consumer credit on the Estonian market.

In October 2017, Coop Finants acquired the small loan portfolio of Krediidipank Finants AS in the gross sum of 16.8 million euros (as of 30 September 2017) with carrying value. As of 30 September 2019, the net loan portfolio of Coop Finants was 56.0 million euros and as of 31 December 2018 46.6 million euros (38.2 million euros in 2017, in 2016 only Krediidipank Finants AS with a portfolio of 13.3 million euros was in the group). Coop Finants has over 100,000 customers.

AS Martinoza. AS Martinoza (Martinoza) was founded in October 1996 for the management and sale of problem credit collateral. As of the date of this Prospectus, Martinoza owns seven different real estate objects, the biggest of which is a set of development plots in Viimsi municipality, Äigrumäe, as well as three commercial premises/apartment ownerships in Tallinn and three land objects elsewhere in Estonia. Martinoza is actively trying to find buyers for the real estate objects and is aiming to decrease the portfolio to a minimum by the end of 2019. Martinoza suffered losses in the sum of 391,000 euros mainly due to impairment losses on real estate objects (in 2017 profit of 649,000 euros, in 2016 profit of 31,000 euros).

SIA Prana Property. SIA Prana Property (Prana Property) is a Subsidiary of the Bank founded in May 2017 which deals with the managing and realisation of real estate held as collateral for problem credit of the former Latvian branch of the Bank. On the date of the Prospectus Prana Property owns one real estate object which is an unfinished apartment building in Riga. The apartment building was connected to the Maxima shopping centre where in 2013 a collapse with human casualties took place and therefore, the building permit of the apartment building has been revoked. The Bank is actively working on restoring the building right of the apartment building to enable the sale of the object. Prana Property has no turnover as of 31 December 2018, a member of the management board works in the company under a contract. The loss of Prana Property in 2018 was 307,000 euros (115,000 euros in 2017).

Coop Kindlustusmaakler AS. Coop Kindlustusmaakler AS (Coop Kindlustusmaakler) is a subsidiary of the Bank founded in August 2019 which does not carry out independent economic activity, as of the date of registration of this Prospectus. On 5 September 2019, Coop Kindlustusmaakler submitted an application to the Financial Supervision Authority for entering Coop Kindlustusmaakler into the list of insurance intermediaries. According to the Insurance Activities Act, the Financial Supervision Authority shall make a decision to enter or refuse to enter an insurance broker in the list of intermediaries within three months after submission of all the required data and documents. As at the date of this Prospect, the procedure is pending and also, preparations are under way for signing cooperation agreements with the insurers. Coop Kindlustusmaakler hopes to start its operations at the end of this year, after entering into the list of intermediaries and conclusion of liability insurance contract. As a matter of priority, the customers of the Subsidiary Coop Liising will be offered offer motor third party liability insurance and optional motor vehicle insurance, later also mediation of travel insurance and home insurance will be included in the product portfolio.

CP Vara AS is a former subsidiary of the Bank (former name AS Krediidipank AS) which was founded in October 2013 and operated until October 2017 in the field of issuing small loans. The small loan portfolio of 16.8 million euros of CP Vara AS was transferred to Coop Finants AS to reorganize the activities of the Group. On 4 September 2018 the sole shareholder of CP Vara AS (Bank) adopted the decision to terminate CP Vara AS through voluntary liquidation and CP Vara AS was deleted from the Commercial Register on 14 August 2019.

11.4. Business Segments

The Group's business segments and financial results per segment have been explained in detail in Note 4 to the Audited Financial Statements of the Group. The Group divides its business activity into four main segments: (i) retail banking segment; (ii) corporate banking segment; (iii) consumer financing segment; and (iv) leasing segment. As a separate part of the segment report "other segments" have been indicated in the financial statements, including Treasury of the Bank (management of monetary assets) and subsidiaries Martinoza and Prana Property, none of which independently exceed the materiality criteria for measuring and have, therefore, been indicated as an aggregate. The division is based on both the legal structure of the Group and the customer-specific distribution within the Bank.

According to the legal structure, the Group has a consumer loan and leasing segment that provide consumer loans to private customers and leasing products to both private and legal persons. Consumer financing segment earns interest income and fees and commissions from issuing hire-purchase cards. Leasing segment earns interest income from lending.

Based on the customer-based division, the Group has corporate banking (legal persons) and retail banking (private individuals) segments. Both segments offer payment products and loan products to customers, and take deposits. The segments earn interest income from lending and commission fees from settlement of payments and bank card transactions. The Group does not have any customers whose income would account for more than 10% of the respective type of income.

11.5. Geographical Markets

As of the date of this Prospectus, the Group only operates and generates revenue on the Estonian market. The Group closed the Latvian branch of the Bank in August 2017 due to which in 2016 and 2017 interest income and commission fees in small amounts were received from Latvia (2% of the interest income and 4% of fee and commission income in 2016 and in 2017 1% of the interest income and 2% of the fee and commission income). Rest of the revenue was earned in Estonia.

To take deposits from foreign markets through the deposit marketplace Raisin, the Bank has the right to receive deposits and other refundable funds in the Republic of Austria and the Federal Republic of Germany since 12 September 2017, and since 6 August 2019 also in the Kingdom of the Netherlands and the Kingdom of Spain. No revenue is generated on these markets. The Bank aims to further focus on the local Estonian depositors and decrease the deposits taken through the Raisin platform.

11.6. Strategy of Bank

The Bank´s strategy for the period 2019–2022 is to be a fast-growing bank on the Estonian market. To improve the performance indicators of the Group, the Bank has set a goal to achieve a so-called economies of scale effect which requires an increase in the number of customers to at least 100,000 everyday banking customers, an increase in the loan portfolio to at least one billion euros, decreasing the financing cost to below 0.7% and maintaining the proportion of fees and commissions over 10% of the net income. By achieving these results, the Bank hopes to achieve a cost/income ratio below 50% and raise the return on equity to 15%. By achieving the strategic goals, the Bank hopes to achieve an increase in value to Shareholders.

The objectives of the Bank to achieve the strategic goals are as follows.

<u>Making efforts for customers</u>. The Bank is small but has a big growth ambition. The Bank sees as its strengths supporting the growth strategy the willingness and ability to delve into the customers' wishes, having personal approach to customers and finding a solution suitable to the customers' wishes. The Bank has package-based pricing for the everyday banking services enabling the use of all the banking services the respective customer needs in everyday banking. The Bank pays higher interest to customers on demand deposits and term deposits compared to other competing universal banks.

<u>Courage to be different</u>. The Bank was launched in 2017 to bring onto the market the first bank in Estonia which creates synergy between commerce and banking. Private customers (Estonian residents, with an ID-card or mobile-ID) can open a bank account on the website of the Bank. A bank card of the Bank functions as a membership card in Coop retail stores. The Bank does not have its own ATMs, instead, cash handling takes place through the cash registers of the Coop retail stores. Customers of the Bank can also use the ATMs of other banks.

<u>Promoting new reality where the customer chooses different financial products from various financial institutions</u>. Everyday banking and financing are the main services of the Bank. The Group does not engage in asset management, private banking or investment services and does not presume the customer to be the customer of the Bank or the Group 100%. The Group plans to develop a modular technological platform to integrate third-party services into customer offers (which could include property insurance, life insurance, an investment account, pension funds). As a first step on the way to integrating the new strategy, the Group has founded the Subsidiary Coop Kindlustusmaakler AS in August 2019 which plans to broker property insurance to the home loan and car leasing customers of the Group (additional information on Coop Kindlustusmaakler AS has been provided under section 11.3 "Group members" of Chapter "Main areas of activity and markets".

<u>Estonian company</u>. All the Group decisions are adopted in Estonia. The employees, management board and supervisory board of the Group sit behind one desk, every week, if necessary. In the light of the recent developments in the sector, the support for domestically-owned banks is evident in the society. The Bank wishes to contribute to the development of Estonian entrepreneurship through its activities and thereby support the development of Estonian economy. To fulfil this mission, there is proactive cooperation with Estonian entrepreneurs, who need financing assistance to realise their business plans in both rural regions and bigger towns such as Tallinn and Tartu, but also in other regions of Estonia. By supporting the development of companies, the Bank contributes to regional development in Estonia and creates the possibility for the people to live in the Estonian places of their choice.

<u>Integration of banking and commerce – maintaining life in every corner of Estonia</u>. Due to strategic partnership with Coop Eesti Keskühistu and its 19 member co-operatives, the Group can offer financial services in 330

stores of Coop Eesti Keskühistu member co-operatives across Estonia, in addition to the usual sales and service channels (offices, internet bank, mobile bank). This manifests above all in the Coop Sula service, i.e. the possibility to withdraw cash from the bank account or deposit cash to the bank account in cash registers of Coop stores. Consequently, the Bank can offer services to customers across Estonia as is promised by the slogan of Coop Eesti Keskühistu member co-operatives “Maintaining life in every corner of Estonia”.

The achievement of strategic objectives includes forward-looking statements which entail risks and uncertainties. Actual results may differ significantly from the outcome set out in such statements for several important reasons, including the factors brought out in Chapter 4 “Risks” and under “Forward-Looking Information” and “Alternative Performance Measures” of Chapter 2.

11.7. Investments

Group’s operations require regular investments in information technology to improve the services offered to customers, develop new products and services and to establish compliance with the regulatory requirements. Group continuously searches for possibilities to increase the business volume through organic growth but does not preclude acquisition transactions to achieve the objectives. As of the date of this Prospectus, the Group has not undertaken any obligations to make further investments.

During the reporting period of the Financial Statements, the Group has increased its market share in the consumer financing segment by acquiring 100% shares of Coop Finants in 2017 with the transaction price of 11 million euros and a 49% minority interest in Krediidipank Finants AS with the transaction price of 2.1 million euros. As the Bank previously owned 51% of the shares of Krediidpank Finants AS, the Bank became the sole shareholder of Coop Finants as a result of the transaction. Details of the terms and conditions of the transaction have been provided in Note 3 of the Audited Financial Statements. During the period covered by the Financial Statements, the Group has made no other material investments beyond the scope of everyday economic activities in the period covered in the Financial Statements.

11.8. Employees and Relations with Employees

In 2018 the average number of Group employees in full time equivalent units was 211 (174 in 2017, 166 in 2016). The number of employees per business segment has been given in the table below. “Other activities” includes the employees of Martinoza and the Latvian branch which was closed. Currently all the employees work in Estonia.

Business segment	31.12.2016	31.12.2017	31.12.2018	30.09.2019
Retail banking	72	76	97	112
Corporate banking	38	42	49	53
Leasing	11	12	18	21
Consumer financing	17	30	45	44
Other activities	28	14	2	1
Average number of employees	166	174	211	230

11.9. Intellectual Property

Group uses the exclusive licence of the trade mark “Coop Pank” and trade marks “Coop”, “Säästukaart+” based on a non-exclusive licence granted by Coop Eesti Keskühistu. Terms and conditions of the non-exclusive licence have been provided under section 11.10 “Material Agreements” of this Chapter. The domains cooppank.ee and martonoza.ee are registered in the Group´s name. The Bank also owns valid registrations for domains connected to the previous business names which are not used anymore and will not be extended after the maturity date of the registration.

11.10. Material Agreements

Generally, the Group members have not concluded agreements beyond the everyday economic activities with the exception of the licence agreement concluded with Coop Eesti Keskühistu for the use of the trademark "Coop" which forms the basis for the corporate identity of the Group, and the cooperation agreements between the Bank and Coop Finants on the one side and Coop Keskühistu and its member co-operatives on the other.

The level of detail in this section is limited to ensure the protection of the business secret of the Group and adhere to the non-disclosure agreements in the agreements. However, members of the Management Board find that the information provided here enables to understand the general nature of the agreements.

Licence Agreement concluded between Coop Eesti Keskühistu and the Bank on 3 October 2017. Under the licence agreement Coop Eesti Keskühistu grants the Bank an exclusive licence of the trade mark "Coop Pank" and non-exclusive licences of trade marks "Coop" and "Säästukaart+". The agreement has been entered into for an indefinite term. Parties to the agreement have the right to cancel the agreement ordinarily at any time by notifying the other party at least 12 months in advance. According to the agreement, if the holding of subsidiaries of Coop Eesti Keskühistu and the member co-operatives in the Bank's share capital falls under 51%, the parties may agree on faster terms for cancelling the agreement. Also, under certain limited circumstances, both parties to the agreement may cancel the agreement extraordinarily without adhering to the 12-month advance notice requirement. Such situations are intentional non-performance of the agreement which hinders the economic activities of the other party, or extraordinary circumstances beyond the control of the party.

Cooperation Agreement concluded between the Bank and Coop Eesti Keskühistu on 6 October 2017 joined by all the Coop Estonian member co-operatives. The agreement sets out the principles for offering financial services of the Bank in the Coop Eesti sales network and cooperation for development of additional financial services and entry into the market. The Cooperation Agreement is a framework agreement for the following products and services of the Bank, among others: (i) Coop debit card, i.e. a bank card which also functions as Coop Eesti customer loyalty card; (ii) banking services in the stores of Coop Eesti Keskühistu member co-operatives (stores as bank points, opening of current accounts, cash withdrawal and depositing) The agreement is entered into for an indefinite term, however the Bank as well as the Coop Eesti Keskühistu may cancel the agreement at any time, by notifying the other party and all member co-operatives at least three (3) months in advance thereof, also, the member co-operatives have a right to terminate and/or waive the service level chosen for the current point of service, by notifying the Bank at least two months in advance.

Cooperation Agreement concluded between Coop Finants, Coop Eesti Keskühistu and member co-operatives on 8 April 2011. This agreement is a framework agreement which regulates cooperation for offering financial services in the stores of Coop Eesti Keskühistu member co-operatives by Coop Finants. Either Party has a right to ordinarily cancel the agreement at any time by informing the other Party at least three months in advance thereof.

Agreement for Payment Card Services concluded between Coop Finants, Coop Eesti Keskühistu and member co-operatives on 27 October 2011. The objective of the agreement is to offer payment card services to the customers of Coop Eesti Keskühistu member co-operatives ("Säästukaart+"). The payment card "Säästukaart+" is a customer loyalty card with a payment function (including payment and prepayment function). The Agreement remains valid until the expiry of the Cooperation agreement signed between Coop Finants, Coop Eesti Keskühistu and the member co-operatives on 08.04.2011.

Service Agreement concluded between Coop Finants, Coop Eesti Keskühistu and member co-operatives on 27 March 2013. The agreement sets out the principles for offering Coop Finants small loan services in the Coop Eesti sales network of the member co-operatives of Keskühistu. The Agreement remains valid until the expiry of the Cooperation agreement signed between Coop Finants, Coop Eesti Keskühistu and the member co-operatives on 08.04.2011.

11.11. Assets

The Group members do not own significant tangible assets due to the nature of the activities. Upon initial application of IFRS 16, rented property was registered in the places of business of the Bank on 1 January 2019 in the value of EUR 1.7 million. In addition, repair costs have been capitalised and information technology has been accounted for. The Bank owned an office building in the registered place of business in Tallinn until 2017 which the Bank sold in 2017 and the Bank rents the same building (contract is valid until 01.09.2022). Group's assets have not been encumbered and there are no environmental factors which would affect the use of the above assets as tangible assets.

11.12. Litigation

Group members participate in several civil and administrative court proceedings in the course of everyday business. In general, Group members act as plaintiffs in the court proceedings requesting fulfilment of obligations from debtors and other customers of the Group. Considering the nature of the business of the Group, claiming debts in court proceedings as a plaintiff is part of the everyday economic activities of the Group. In addition, the Bank, Coop Finants and Coop Liising operate in heavily regulated areas of activity and the Financial Supervision Authority supervises the companies, mainly through regular administrative procedure as regards financial supervision. As at the date of the Prospectus, the Management Board is not aware of any pending or probable civil or administrative court proceedings which would have material effect on the financial situation or profitability of the Group, or which would have had such effect in the past 12 months.

Group companies are mainly in the role of plaintiffs in pending court proceedings and the proceedings mainly concern debt recovery. The following proceedings which differ from regular court proceedings can be brought out:

(i) Coop Pank is the defendant in the civil case no. 2-19-11195 adjudicated by Harju County Court. The Republic of Estonia (through Ministry of Environment) filed an action against Eleon Green OÜ, the Bank, SIA UniCredit Leasing and Lüganuse municipality in a claim to determine the obligation to grant consent for the reversion of right of superficies and substitution of consent to amend a Land Register entry, and in claims to dismantle unlawful buildings. The plaintiff requests that the court determine the Bank´s obligation to grant consent to delete the mortgage established on the right of superficies as collateral for credit issued by the Bank. As of the date of this Prospectus, the civil case is pending before the court of first instance and the result is unknown. If the court decides that the Bank is obligated to grant consent to delete the mortgage established on the right of superficies, it could bring about loan losses. Due to insufficient collateral (as a result of deletion of the mortgage on the right of superficies, the collateral of the Bank would decrease by the mortgage that is the subject of the court case, i.e. by 2,99 million euros). In order to cover the potential loan loss, the Bank has made provisions, which are disclosed in the Interim Financial Statements.

(ii) Coop Finants is the injured party in several criminal proceedings. Criminal proceedings concern loans taken from Coop Finants by abusing the means used for personal identification (using another person´s ID-card or documents). As at the date of the Prospectus, the sum of civil actions claimed by Coop Finants in the criminal proceedings is 9,760 euros. Coop Finants has assessed the probability of recovering the sum unlikely.

11.13. Related-Party Transactions

Group members have concluded several related-party agreements. Related-party agreements have been concluded as regards products and services characteristic of the area of activity of the respective Group member. Terms and conditions of the agreements do not differ from the terms of agreements concerning similar products or services concluded with third persons. Detailed information about the volume of related-party agreements is provided in Note 23 of the Audited Financial Statements.

12. FINANCIAL INFORMATION

The following overview should be read together with the Financial Statements, including the notes contained therein and other information included in the Prospectus. This Chapter includes forward-looking statements, which are subject to risks and uncertainties. The actual results may differ materially from the outcome presented in such statements for several important reasons, including due to the factors indicated in Chapter 4 "Risks" and in under "Forward-Looking Statements" and "Alternative Performance Measures" of Chapter 2 "Introductory Information".

*This Chapter contains certain data, which the Bank considers as alternative performance measures (**APM**) within the meaning of the ESMA Guidelines on Alternative Performance Measures. APM is not defined in IFRS and these are not calculated in accordance with IFRS: Nevertheless, the bank believes that APMs provide useful information for the investors for the assessment of the Bank's financial position and results, and assets. Use of the APMs by the bank and their calculation methods may still differ from the use and calculation of APMs by other companies.*

12.1. Selected Historical Financial Information

The below information presents a selected summary of the Group's consolidated financial information and this should be read in conjunction with the Financial Statements, including the notes to the Financial Statements. The below tables present only a selection of the financial information for the financial years ended on 31 December 2018, 31 December 2017 and 31 December 2016 and for the 9-month period ended on 30 September 2019 and 30 September 2018.

The Audited Financial Statements enclosed to the Prospectus have been drafted for the purposes of enclosing to this Prospectus and are not a substitute for the statutory audited consolidated financial statements of the Group for the financial years ended on 31 December 2016, 31 December 2017 and 31 December 2018. The primary reason for drafting the Audited Financial Statements is the aim of presenting the financial information more compactly and legibly for the reader and providing better comparability of financial information between periods. Furthermore, the Audited Financial Statements have been supplemented with additional information in accordance with the requirements applicable to companies, the shares of which have been listed and admitted to trading on a regulated market, and which has not been previously presented by the Group as it was not required. To this end, the Consolidated Statement of Comprehensive Income of the Group has been supplemented with items basic and diluted earnings per share (presented also in note 24 to the Audited Financial Statements) and information on business segments for financial years 2016 and 2017 has been included (note 4 to the Audited Financial Statements).

Compared to the statutory audited consolidated annual report for the financial year ended on 31 December 2018, the Audited Financial Statements have been partially supplemented with information presented in the section on management of credit risk, including information on the categories and monitoring method of credit risk, used in the Group, probability of default correlations, and in terms of allocation of loan receivables into stages, a monitoring method is used instead of grouping on the basis of risk-classification (note 2 to the Audited Financial Statements).

Consolidated Statement of Financial Position (in TEUR)

	30.09.2019 *unaudited*	31.12.2018 *audited*	31.12.2017 *audited*	31.12.2016 *unaudited*
Assets				
Cash and cash equivalents	105,533	88,030	98,873	105,549
Financial assets at fair value through profit or loss	0	0	11,060	11,421
Held-to-maturity financial assets	0	0	503	503
Debt instruments at fair value through other comprehensive income	4,114	9,130	0	0
Available-for-sale financial assets	0	0	13	13
Equity instruments at fair value through profit or loss	13	13	0	0
Loans and advances to customers	417,907	328,723	238,282	153,133
Other financial assets	898	333	477	714
Assets held for sale	6,774	6,697	7,323	4,279
Goodwill	6,757	6,757	6,757	0
Leased assets	1,595	0	0	0
Property, plant and equipment	2,494	2,465	2,434	4,512
Intangible assets	3,084	2,289	1,166	687
Investment property	594	904	2,398	9,105
Other assets	1,535	937	2,092	254
Total assets	551,298	446,278	371,378	290,170
Liabilities				
Customer deposits and loans received	477,826	385,118	315,970	253,997
Financial liabilities from leased assets	1,598	0	0	0
Other financial liabilities	5,156	4,126	3,216	1,433
Other liabilities	2,261	2,845	1,990	1,124
Subordinated debt	7,111	5,026	5,026	4,039
Total liabilities	493,952	397,115	326,202	260,593
Shareholders' equity				
Share capital	42,400	38,199	38,199	25,001
Share premium	0	175	175	174
Legal reserve	2,526	2,288	2,070	1,970
Retained earnings	12,258	8,552	4,732	2,146
Other reserves	162	51	0	0
Shareholders' equity attributable to owners of the parent	57,346	49,163	45,176	29,291
Non-controlling interest	0	0	0	286
Total equity	57,346	49,163	45,176	29,577
Total liabilities and shareholders' equity	551,298	446,278	371,378	290,170

*Cash and cash equivalents include the legal reserve at the central bank and term deposits with other credit institutions, which have been eliminated in the statement of cash flows from the balance of cash and cash equivalents.

Consolidated Statement of Comprehensive Income (in TEUR)

	9 months 2019 *unaudited*	9 months 2018 *unaudited*	2018 *audited*	2017 *audited*	2016 *audited*
Interest income calculated using the effective interest method	16,295	12,736	17,561	12,367	8,091
Other similar interest income	2,003	1,284	2,294	1,076	1,028
Interest and similar expenses	-3,428	-2,224	-3,076	-1,924	-1,721
Net interest income	14,870	11,796	16,779	11,519	7,398
Fee and commission income	2,686	2,807	3,669	3,190	3,488
Fee and commission expense	-989	-968	-1,367	-1,020	-751
Net fee and commission income	1,697	1,839	2,302	2,170	2,737
Revenue from sale of assets	140	473	648	1,141	975
Cost of assets sold	-134	-461	-662	-1,389	-809
Rental income from investment properties	27	62	77	523	753
Property management expenses	-67	-90	-127	-302	-304
Change in fair value of investment property	-20	75	-187	262	108
Net gains/losses from non-financial asset realisation	0	-8	-6	3,185	-12
Net gains/losses from financial assets measured at fair value	7	-32	-12	-341	-32
Revenue from claims handling	391	449	599	250	29
Other income	52	95	357	271	117
Other income (net)	396	563	687	3,600	825
Payroll expenses	-7,169	-6,046	-8,177	-6,962	-5,160
Operating expenses	-3,197	-3,396	-4,628	-4,110	-2,474
Depreciation	-1,260	-566	-796	-446	-454
Total operating expenses	-11,626	-10,008	-13,601	-11,518	-8,088
Profit before impairment losses on loans and advances	5,337	4,190	6,167	5,771	2,872
Impairment losses on loans and advances	-1,393	-1,080	-1,392	-1,313	-1,009
Profit/loss before income tax	3,944	3,110	4,775	4,458	1,863
Income tax expense	0	0	-22	0	-120
Net profit for the reporting period	3,944	3,110	4,753	4,458	1,743
Other comprehensive income / loss					
Items that may be reclassified subsequently to statement of income:					
Financial assets at fair value through other comprehensive income	121	-151	-239	-	-
Comprehensive income for the reporting period	4,065	2,959	4,514	4,458	1,743
Net profit attributable to:					
The owners of the parent company	3,944	3,110	4,753	4,345	1,529
Non-controlling interest	0	0	0	113	214
Net profit for the reporting period	3,944	3,110	4,753	4,458	1,743
Comprehensive income attributable to:					
The owners of the parent company	4,065	2,959	4,514	4,345	1,529
Non-controlling interest	0	0	0	113	214

Comprehensive income for the reporting period	4,065	2,959	4,514	4,458	1,743
Basic earnings per share (in euros)	0.07	0.05	0.08	0.09	0.04
Diluted earnings per share (in euros)	0.06	0.05	0.08	0.09	0.04

Consolidated Statement of Cash Flows (in TEUR)

	9 months 2019 *unaudited*	9 months 2018 *unaudited*	2018 *audited*	2017 *audited*	2016 *audited*
Cash flows from operating activities					
Interest received	18,097	14,051	19,790	12,361	8,571
Interest paid	-2,916	-1,534	-2,239	-1,761	-2,293
Fees and commissions received	2,686	2,807	3,669	3,190	3,488
Fees and commissions paid	-989	-968	-1,367	-1,020	-751
Other received income	414	484	882	232	754
Salaries paid	-7,265	-6,024	-8,042	-6,481	-4,995
Other operating expenses paid	-3,197	-3,206	-4,665	-4,170	-3,945
Total cash flows from operating activities before changes in operating assets and liabilities	6,830	5,610	8,028	2,351	829
Change in operating assets					
Loans and advances to customers	-90,289	-68,452	-92,315	-85,900	-1,462
Change of mandatory reserve in central bank	-609	-434	-135	-688	-302
Other assets	-1,149	564	1,731	-1,601	1,909
Change in operating liabilities:					
Change in customer deposits and loans received	92,281	50,604	68,311	61,797	-12,940
Other liabilities	365	2,244	1,543	3,475	-2,381
Net cash flows from operating activities	7,429	-9,864	-12,837	-20,566	-14,347
Cash flows from investing activities					
Acquisition of property, plant and equipment	-1,707	-1,622	-2,476	-2,249	-144
Sale of property, plant and equipment and investment property	226	1,871	2,232	13,484	37
Acquisition of debt instruments	0	-2,544	-2,632	-6,286	-8,578
Sale and redemption of debt investments	4,930	4,216	4,738	6,807	2,538
Acquisition of subsidiaries, net of cash acquired	0	0	0	-10,672	0
Total cash flows from investing activities	3,449	1,921	1,862	1,084	-6,147
Cash flows from financing activities					
Contribution to share capital	4,026	0	0	13,198	0
Contributions of non-controlling interest into the share capital of subsidiary	0	0	0	0	31
Acquisition of a non-controlling interest in subsidiary	0	0	0	-2,058	0
Dividends paid	0	0	0	0	-1,095
Repayment of subordinated debt	0	0	0	-4,000	0
Issue of subordinated bonds	2,000	0	0	5,000	0
Total cash flows from financing activities	6,026	0	0	12,140	-1,064
Effect of exchange rate differences to cash and cash equivalents	-5	4	4	-11	-5
Change in cash and cash equivalents	16,889	-7,939	-10,971	-7,353	-21,563

Cash and cash equivalents at the beginning of period	84,797	95,768	95,768	103,121	124,684
Cash and cash equivalents at the end of period	101,696	87,829	84,797	95,768	103,121
Cash and cash equivalents balance is comprised of:					
Cash at hand	22,154	22,525	21,721	22,771	22,337
Demand deposits in central banks	76,916	46,978	49,321	42,208	42,000
Demand and short-term deposits in credit institutions	2,626	18,326	13,755	30,789	38,784

Consolidated Statement of Changes in Equity (audited)

	Share capital	Share premium	Legal reserve	Other reserves	Re-valuation reserve	Retained earnings	Total share of owners of parent	Non-controlling interest	Total equity
Shareholders' equity Balance as at 31.12.2015	25,001	174	1,844	0	0	1,838	28,857	41	28,898
Dividends paid	0	0	0	0	0	-1,095	-1,095	0	-1,095
Change in reserves	0	0	126	0	0	-126	0	0	0
Contributions of non-controlling interest into the share capital of subsidiary	0	0	0	0	0	0	0	31	31
Net profit	0	0	0	0	0	1,529	1,529	214	1,743
Comprehensive income for the reporting period	0	0	0	0	0	1,529	1,529	214	1,743
Shareholders' equity Balance as at 31.12.2016	25,001	174	1,970	0	0	2,146	29,291	286	29,577
Increase of share capital	13,198	1	0	0	0	0	13,199	0	13,199
Acquisition of non-controlling interest	0	0	0	0	0	-1,659	-1,659	-399	-2,058
Change in reserves	0	0	100	0	0	-100	0	0	0
Net profit	0	0	0	0	0	4,345	4,345	113	4,458
Comprehensive income for the reporting period	0	0	0	0	0	4,345	4,345	113	4,458
Shareholders' equity Balance as at 31.12.2017	38,199	175	2,070	0	0	4,732	45,176	0	45,176
Impact from the first-time adoption of IFRS 9:									
Loan portfolio, loan liabilities	0	0	0	0	0	-630	-630	0	-630
Bond portfolio	0	0	0	0	105	-85	20	0	20
Shareholders' equity Balance as at 01.01.2018	38,199	175	2,070	0	105	4,017	44,566	0	44,566
Change in reserves	0	0	218	0	0	-218	0	0	0
Share options	0	0	0	103	0	0	103	0	103
Net profit	0	0	0	0	0	4,753	4,753	0	4,753
Other comprehensive income	0	0	0	0	-259	0	-259	0	-259
Comprehensive income for the reporting period	0	0	0	0	-259	4,753	4,494	0	4,494
Shareholders' equity Balance as at 31.12.2018	38,199	175	2,288	103	-154	8,552	49,163	0	49,163

Consolidated Statement of Changes in Equity 2019 (unaudited)

Shareholders' equity Balance as at 01.01.2019	38,199	175	2,288	103	-154	8,552	49,163	0	49,163
Increase of share capital from share premium	175	-175	0	0	0	0	0	0	0

Contributions into share capital	4,026	0	0	0	0	0	4,026	0	4,026
Change in reserves	0	0	238	0	0	-238	0	0	0
Share options	0	0	0	92	0	0	92	0	92
Net profit	0	0	0	0	0	3,944	3,944	0	3,944
Other comprehensive income	0	0	0	0	121	0	121	0	121
Comprehensive income for the reporting period	0	0	0	0	121	3,944	4,065	0	4,065
Shareholders' equity Balance as at 30.09.2019	42,400	0	2,526	195	-33	12,258	57,346	0	57,346

12.2. Financial Position and Results of Operations

Over the last three years, the Group has exercised active growth-oriented strategy, based on the expectations of shareholders who changed at the beginning of 2017. In particular, the size of growth is demonstrated by the annual growth rates of the Bank's loan portfolios. As at 9 months of 2019, the loan portfolio has grown by 27%, reaching EUR 418 million. In 2018, the loan portfolio increased 38% year on year (YoY), to EUR 329 million, from EUR 238 million. In 2017, the loan portfolio growth was 55.7% YoY, as the portfolio volume as at the end of 2016 as small – the portfolio increased to EUR 238 million, from EUR 153 million.

As at 30 September 2019, the Group provides financial services to 56 thousand customers of the Bank, to 3 thousand lease customers and 106 consumer financing customers. Out of the bank's 56 thousand customers, 51 thousand are retail and 5 thousand business customers. Over the nine months of 2019, the number of Bank's customers has grown by 25% (to 56 thousand, from 45 thousand), in 2018 by 25% (to 45 thousand, from 36 thousand) and in 2017 by 15% (to 36 thousand, from 31 thousand). A sharp increase in the number of customers began in Q4 2017, after introducing the new trademark Coop Pank.

Out of the 106 thousand customers of the Group's Subsidiary Coop Finants, 19 thousand use small loan products and 87 thousand the services of the client loyalty card Säästukaart+ with hire-purchase function at the cooperative stores of Coop Eesti Keskühistu. As at 31.12.2018, Coop Finants had altogether 102 thousand loan customers and Säästukaart+ users (as at 31.12.2017, 97 thousand and 31.12.2016, 86 thousand, respectively).

The deposit base of the bank increased 24% as at 9 months of 2019, 22% in 2018 and 24% in 2017 YoY. As at 30.09.2019 the Bank's base of deposits and received loans and issued bonds is EUR 478 million (as at 31.12.2018, EUR 385 million, 31.12.2017, EUR 316 million, 31.12.2016, EUR 254 million). However, an important shift has taken place in the deposit structure – the Bank has exited the business of servicing non-residents and increased the deposit base necessary for growth besides domestic market also by attracting retail deposits from Germany and Austria (since 2017) and from Spain and the Netherlands (since 2019). The Bank aims at increasing the deposit volume attracted from domestic market and therefore, the bank pays also interest on the money in the current accounts.

As at 9 months of 2019, the Group's net interest income reached EUR 14.9 million. Total net interest income in 2018 was EUR 16.8 million, while in 2017, the net interest income was EUR 11.5 million and in 2016, EUR 7.4 million, demonstrating a 46% growth in 2018 and 56% in 2017 YoY. As at 9 months of 2019, the Group's net fee and commission income reached EUR 1.7 million. Total net fee and commission income in 2018 was EUR 2.3 million and in 2017, EUR 2.2 million, having declined compared to EUR 2.7 million in 2016 as a result of exiting the non-resident business.

By operating segments, the net interest income and net fee and commission income was divided as follows:

(in millions of euros)	Net interest income				Net fee and commission income			
	9M 2019	2018	2017	2016	9M 2019	2018	2017	2016
Corporate Banking	4.1	4.6	2.1	1.7	0.2	0.7	0.9	1.0
Retail Banking	2.9	3.4	3.0	2.8	0.3	0.3	0.3	0.3
Consumer financing	6.6	7.4	5.2	2.4	1.0	1.1	0.7	0.4
Leasing	1.0	0.9	0.4	0.2	0.1	0.0	0.0	0.0
Other	0.3	0.5	0.8	0.3	0.1	0.2	0.3	1.0

The Group has increased its net profit from the level of EUR 1.7 million in 2016 to EUR 4.5 million in 2017 and to EUR 4.8 million in 2018 (in 2017, the growth of profit totalled 156% and in 2018, 7%). The profit for 2017 also includes extraordinary profit of EUR 3 million from the sale of real estate. The profit of 2018 comprises entirely banking profit. The Group will continue to seek efficiency, expressed in the cost/income ratio, as an important indicator, and this has dropped from the level of 74% in 2016 to 69% by the end of 2018 (in 2017, it decreased altogether 7% as a result of extraordinary income from the sale of real estate, and in 2018 increased by 2%). As at 9 months of 2019, the Group earned EUR 3.9 million in net profit. More detailed overview of the Group's key financial indicators is presented in the Financial Statements.

Summary of Key Financial Indicators

Profit & Loss Account, TEUR	9 months 2019 *unaudited*	9 months 2018 *unaudited*	31.12.2018 *audited*	31.12.2017 *audited*	31.12.2016 *audited*
Net interest income	14,870	11,796	16,779	11,519	7,398
Net fee and commission income	1,697	1,839	2,302	2,170	2,737
Other net income	396	563	687	3600	825
Incl. Net gains/losses from financial assets measured at fair value	7	-32	-12	-341	-32
Total net operating profit	16,963	14,198	19,768	17,289	10,960
Total operating expenses	-11,626	-10,008	-13,601	-11,518	-8,088
Net profit before impairment losses on loans and advances	5,337	4,190	6,167	5,771	2,872
Impairment losses on loans and advances	-1,393	-1,080	-1,392	-1,313	-1,009
Income tax expense	0	0	-22	0	-120
Net profit for the reporting period	3,944	3,110	4,753	4,458	1,743
incl. attributable to the owners of the parent	3,944	3,110	4,753	4,345	1,529

Business volumes, TEUR	30.09.2019 *unaudited*	30.09.2018 *unaudited*	31.12.2018 *audited*	31.12.2017 *audited*	31.12.2016 *audited*
Loans and advances to customers (net)	417,907	305,710	328,723	238,282	153,133
incl. proportion of loans past due more than 90 days	1.18%	0.63%	0.45%	1.82%	4.07%
Customer deposits and loans received	477,826	367,178	385,118	315,970	253,997
Total equity	57,346	47,579	49,163	45,176	29,577

Ratios *(unaudited)*	9 months 2019	2018	2017	2016
Average shareholders' equity (attributable to owners of the parent company), Th EUR	53,254	47,169	37,234	29,074
Return on equity (ROE), %	9.9	10.1	11.7	5.3
(net profit / average shareholders' equity)				
Total assets, average, Th EUR	498,788	408,828	330,774	297,760
Return on assets (ROA), %	1.1	1.2	1.3	0.6
(net profit / total assets, average)				
Cash and interest-bearing assets*, average, Th EUR	470,158	393,073	314,933	282,711
Net interest margin (NIM), %	4.2	4.3	3.7	2.6
(net interest income / interest-bearing assets, average)				
Cost / income ratio, %	68.5	68.8	66.6	73.8
(total operating costs / total net operating income)				
Tier 1 CAD %**	14.72%	16.03%	17.32%	18.84%
Total Tier 1 CAD %**	16.97%	18.06%	19.90%	21.22%
LCR %**	965%	1,375%	728%	1,164%

*Cash and interest-bearing assets include cash at hand, deposits in central bank and other credit institutions, bond investments and loans granted to customers.

**Tier 1, CAD and LCR are calculated pursuant to CRD IV

The Group is aiming at an even more robust growth of the market share and business volumes in the coming years to achieve efficiency and better return on equity. For ensuring a more diversified income, the Group founded in 2019 a Subsidiary Coop Kindlustusmaakler OÜ, which has not started its activity yet as at the date of Prospectus, however through which the Bank aims to offer motor third party liability insurance and optional motor vehicle insurance to the customers of Coop Liising (described in more detail under section "Group Structure and Group members" of Chapter 11 "Principal Activities and Markets"). During the period of 2016–2018, the Group has increased the number of employees (from 163 employees in 2016 to 220 employees in 2018) to achieve the strategic goals, and made investments in information technology, as well as searched for possibilities to improve internal processes and focused on improving the recognition of the Group's trade mark. In June 2019, the Bank increased the share capital by EUR 4 million to support the achievement of the growth targets.

No material changes. There have been no material changes in the Group's financial position after 30 September 2019.

12.3. Factors Affecting the Operating Results

The operations and financial position of the Group are affected by numerous factors. The factors of particular importance, in the opinion of the Management, are outlined below. However, the impact of these and other factors may vary significantly in the future.

Macroeconomic factors. The operations of the Group are materially affected by the macroeconomic environment in Estonia, including, but not limited to such factors as GDP growth, inflation rates, interest rates, unemployment rates, income levels and the general financial position of consumers and undertakings.

Although the current economic environment may be described as stable, we can expect slight cooldown in the economy based on the forecasts of Eesti Pank. In 2018, the GDP increased 3.9%, while in 2017 the growth was 4.9% and in 2016 4.9%. The growth of labour costs in Estonia has been rapid and the unemployment rate has dropped to nearly 5%. Although so far, the environment has been favourable to the Group's operations, further developments may cause fluctuations in the Group's results. The Group's activity is also affected by changes in international financial markets. As a result of the monetary policy of the European Central Bank, the interest rates in the Eurozone are low, having major effect on the Bank's net interest margin. Changes in the current monetary policy of the European Central Bank may cause increased interest expenses – funding may become more expensive for the Group, while increasing the interest margins of loan customers is not possible at once. Given the low interest rate environment, one of the major factors affecting the profitability of the banking sector is potential loan allowances. See more under "Political and economic risks" of Chapter 3 "Risks".

<u>Changes in regulatory environment.</u> The operations of the Group are subject to the legal regulation of both, Estonia as well as the European Union. Material changes in such regulations may have a significant impact on the results of operations of the Group companies. The Bank is subject to specific capital requirements, discussed in more detail in under "Legal and regulatory risks" of Chapter 3 "Risks". The operations of the Group are also influenced by other legislative changes either through the Group companies, or the customers, or co-operation partners of the Group companies. Also, the tax policy established in Estonia is among the most important factors. Generally, corporate tax is imposed on distributed profit of the companies, however, in the banking sector, income tax is applied already to retained earnings.

<u>Changes in competitive situation.</u> The competitive situation has major impact on the Group's activity. There are nine licensed credit institutions in Estonia and eight branches of foreign credit institutions, one of which is winding up its business. As at 31 December 2018, the assets of credit institutions totalled at EUR 26 billion, equalling to the Estonia's GDP level and being among the lowest in the European Union. The banking sector in Estonia is highly concentrated – 2/3 of the market is divided between two major banks. The Group's market share in loans and deposits is ca 2%. The Group has increased its market from the level of 1% in 2016 twice and believes in continued increase of the market share also in the coming years. At the same time, the competitive situation may have significant impact on the Group's performance.

<u>Quality of credit portfolio and amount of impairment.</u> The amount of loan impairment and loan losses depend on the expected recovery ratios and the available collateral. The Group follows the general insolvency definitions stipulated in the international financial reporting standards, which have been discussed in more detail in under "Risk management" in the Audited Financial Statements. The new standard IFRS 9, which entered into force from 1 January 2018, requires consideration of also forward-looking information in the impairment models. Additional information about the impact of initial application of the IFRS 9 standard has been reflected in clause 1.18 of note 1 "Accounting Principles" to the Audited Financial Statements and in note 1 to the Interim Financial Statements. Still, upon significant deterioration of the economic environment, also the forward-looking information may change, as a result of which additional loan impairment buffer may be required.

12.4. Changes in Operating Results

During the period reported in the Financial Statements, the growth is indicated in the Group's income and business volumes. In 2016, the former major shareholder of the Bank announced its intention to sell its holding in the Bank and therefore, also the business activity remained relatively static – profitability was marginal and total loan portfolio volume stayed on the same level with previous year. The Group started a more vigorous increasing of income at the beginning of 2017, when the strategic owner of the group changed. The new management took up new strategy, integrating banking and retail trade. The Group increased the number of employees in the organisation and launched active loan and everyday banking product sale. The Bank was the first in Estonia to offer the customers a possibility to open the bank account via Internet. To support the growth of business volumes, the Bank's shareholders made a EUR 13 million contribution into the Bank's share capital. In a year, the Group's loan portfolio increased by EUR 85 million, to EUR 238 million in 2017, from EUR 153 million in 2016. Group's net interest income grew by 55.7% in a year, to EUR 11.5 million in 2017, from EUR 7.4 million in 2016.

Additional effect to the results of 2017 came from one-off sales proceeds of real estate (EUR 3 million). The Bank sold its head office at Narva mnt 4, Tallinn and is now using the same premises under a lease contract.

In spring 2017, the Bank acquired 100% shares in the Subsidiary Coop Finants, dealing with consumer loans. The financial performance of Coop Finants has been consolidated into the Group's Financial Statements after the acquisition transaction from 01 June 2017 and accordingly, the results of Coop Finants are not included in the financial results for the previous periods of the Group. During the period of 01 June 2017 to 31 December 2017, the separate net income of Coop Finants, consisting of net interest income, net fee and commission income and net other income, was EUR 2.9 million and net profit EUR 1.6 million. In addition, the Bank bought a 49% minority interest in the Subsidiary Krediidipank Finants AS, as a result of which the Bank will hold 100% of the shares in Krediidipank Finants AS. As a consequence of the transactions, the Group expanded significantly its market share in the consumer loan segment. Further information on the impact of transactions on the group's financial result is given in explanations in note 3 to the Audited Financial Statements.

The Group's operating results were affected in summer 2017 also by closure of the Bank's Latvia branch, related to the strategy of focussing on the Estonian market.

in October 2017, the Group introduced the trade mark "Coop" and launching of the "Coop Pank" was awarded the title "Marketing Deed of the Year".

In 2018, the Group continued the strategy commenced in the year before. The Group contributed more to the improvement of technological solutions and besides private customers put also businesses in focus, offering interest to current account deposits. One of the building blocks of the Bank is the skills and ability to offer flexible solutions, seeing the customer's needs more clearly and this in terms of various products in both directions - private as well as business customers and providing fast and convenient solutions. The Group's net interest income continued to grow – 46% a year and reached EUR 16.8 million. In a year, the Group's loan portfolio increased by EUR 91 million (to EUR 329 million, from EUR 238 million).

The operating result of the Group in 2018 was affected by exiting the non-resident business based on the new strategy of the Bank, leading to decreased commission fee income earned on the respective segment. Furthermore, the commission fee income declined due to ending the disbursements in US dollars and reduced FX income, related to the current market situation where it is difficult to establish cooperation relationships with correspondent banks that mediate US dollar payments. The Group's total net fee and commission income in 2018 was EUR 2.3 million, while being EUR 2.17 million in 2017.

In spring 2018, the Bank launched the Pank Coop Sula service, and in spring 2019 an extension to the service, enabling to withdraw as well as deposit cash in the Coop retail stores. According to the Bank, the service was well received by the customers. In addition, the Bank started to pay interest to the private customer's current account within the Rändrahn package.

From summer 2019, the Group started the development of insurance business line, aimed at increasing the Group's fee and commission income and offering better solutions to customers through increasing the service portfolio. The Subsidiary Coop Kindlustusmaakler AS was registered in the Commercial Register in August 2019. On 5 September 2019, Coop Kindlustusmaakler submitted to the Financial Supervision Authority an application for entering Coop Kindlustusmaakler AS into the list of insurance intermediaries and intends to start operations at the year-end. According to plans, the activity of Coop Kindlustusmaakler will be insurance brokerage services. As a matter of priority, the customers of the Subsidiary Coop Liising will be offered motor third party liability insurance and optional motor vehicle insurance; later also mediation of travel insurance and home insurance will be included in the product portfolio.

The Group offers basic everyday banking services and loan products to private as well as business customers. During the period covered by the Financial Statements, the Group's loan interest income has increased in all loan products – private customers are offered housing loan, mortgage loan, consumer loan and leasing, while business customers are offered investment loans, working capital loans, leasing and warehouse receipt financing.

12.5. Capital Resources

As at the date of this Prospectus, the Group is well capitalised; the level of capital adequacy as at 31 December 2018 and 30 September 2019 was 18.06% and 16.97%, respectively. During the period covered by the Financial Statements enclosed to the Prospectus, the Group has fulfilled all capital requirements. Each year, the Group carries out the process of internal capital adequacy assessment (ICAAP), which aims to assess the possible capital need in addition to statutory capital requirements. As at 30 September 2019, The Group's leverage ratio was 7.88%and as at 31 December 2018, 8.33% (31.12.2017: 8.47% and 31.12.2016: 8.84%). Financial leverage reflects the ratio of the Group's Tier 1 capital and total risk exposure (credits-risk bearing on-balance sheet asserts and off-balance sheet liabilities).

Capital base, TEUR	30.09.2019	31.12.2018
Contributions into share capital	42,400	38,374
Legal reserve	2,526	2,288
Retained earnings	12,258	8,552
Other reserves	162	-51
Total equity	57,346	49,163
Subordinated debt	7,000	5,000
Deposits from customers	477,826	385,118
Other liabilities	9,126	6,997
Total liabilities	493,952	397,115

A precondition for the growth of the Group's business volumes is meeting the requirements of Tier 1 capital applicable to credit institutions, the core source of which is share capital. In order to finance the loan growth of the second half of 2019, the Bank increased in June 2019 the share capital by EUR 4 million (additional information on changes to the Bank's share capital is provided under section 9.1 "Share Capital and Shares" of Chapter "Share Capital, Shares and Ownership Structure"). The Bank carries out this Offering to ensure the capital level needed to support its future growth. The Group may include the profit for the reporting period in its Tier 1 capital only upon fulfilment of the conditions set out in CRR, which inter alia include the consent of the Financial Supervision Authority and auditing of the profit.

In order to meet the Tier 2 capital needs of the Group, the Bank has issued subordinated bonds; the raised subordinated funds amount to EUR 7 million as at 30 September 2019. The interest level of subordinated bonds is notably higher compared to deposits and similar sources of funding, and is ranging from 6.75% to 7.58% (additional information on subordinated bonds issued by the Bank is provided under section 9.6 "Other Instruments" of Chapter "Share Capital, Shares and Ownership Structure"). The extent of using subordinated bonds as Tier 2 capital is restricted by regulatory requirements, according to which the extent of using subordinated bonds as Tier 2 capital is reduced by 5% in each quarter as of the moment when 5 years are remaining to maturity of the bonds.

The financing of the Group's business operations is arranged by the Bank and the main source of the Group's cash flow in financing the underwriting of loans is customers' deposits (as at 30 December 2019 in amount of EUR 451 million), which amount to approximately 95% of all financing sources. The rest of the financing sources consist of loans from the European Investment Fond and the Rural Development Foundation and the funds raised by way of issuing senior bonds to Estonian pension funds. Contrary to bigger banks in Estonia, the Bank pays interest on current accounts and the interest offered by the Bank on term deposits is one of the best on the Estonian market. The interest level of loans received and issued bonds is similar to the interest level of term deposits. For the purposes of ensuring a stable financing base, the Bank has concluded agreements with Raisin Platform for the taking of deposits outside of Estonia and relies considerably on the deposits taken through the Raisin platform, which make up 25% of all deposits as at 30 September 2019. The funding costs of the Bank are 1% this year, while in 2018 these were 0.8%. Increase in the costs is related to the financing need of fast-growing loan portfolio – increase in the demand deposits of customers has not been sufficient and more term deposits have been used as source of funding, the interest payable for which is higher compared to demand deposits.

Use of the Group's capital resources may be restricted due to the concentration of deposits of one customer; therefore, the Group has assigned internal limits to the extent of using the resources. Relending of the loan in amount of EUR 8 million, received from the European Investment Fund, is restricted with certain sectors and the Bank is committed to finance at least 50% of the loan to be disbursed. There are no binding financial covenants for the Group in other received loan or deposit agreements. As at the date of the Prospectus, the Group has no additional unused liquidity resources, which would provide for an obligation to take the funds into use. According to the Management Board, the Group's liquidity buffer, that is the ratio of liquid assets and total assets is optimal and the Group takes deposits pursuant to need. Group's liquidity risk management is asset-based, following the volumes of assets and liabilities in different currencies. 99% of the Group's assets are denominated in the euro and 1% in other currencies. The Group gets funds for the fulfilment of its liabilities from loan repayments of customers, also denominated in the euro. In fulfilling the repayment obligation of customer deposits in dollars, the Bank uses the sales proceeds of bonds denominated in dollars. The Bank's liquidity risk and interest risk are managed by the Treasury Department and ALCO. More detailed information on the Group's liquidity and interest risks is provided in section "Risks related to the financial position of the Issuer" of Chapter 4 "Risks" of the Prospectus.

The Group's operating cash flow was negative in 2018, as the Group issued more loans than involved resources for financing. During the first 9 months of this year, the operating cash flow has been positive, meaning that loans were granted less than resources involved. Cash flows from investing activities reflect mainly redemption or sale of bond investments in 2018–2019.

Cash flows Th EUR	9 months 2019	2018
Net cash flows from operating activities	7,429	-12,837
Cash flows from investing activities	3,449	1,862
Cash flows from financing activities	6,026	0
Effect of exchange rate differences	-5	4
Change in cash and cash equivalents	16,899	-10,971

12.6. Capitalisation and Debt

The below tables show the Group's capitalisation and liabilities as at 30 September 2019, which is based on the Interim Financial Statements enclosed to the Prospectus. The presented information does not account for the Offering, which impacts the Group's capitalisation and liabilities significantly. The investors should read this section in conjunction with Chapter 12 "Selected Financial Information" of the Prospectus.

Capitalisation, TEUR	30.09.2019
Short-term liabilities	400,388
incl. guaranteed (by Guarantee Fund)	296,468
incl. secured	0
incl. unsecured and not guaranteed	103,920
Long-term liabilities	93,564
incl. guaranteed (by Guarantee Fund)	66,213
incl. secured	0
incl. unsecured and not guaranteed	20,351
incl. subordinated, unsecured and not guaranteed	7,000
Total liabilities	493,952
Contributions into share capital	42,400
Legal reserve	2,526
Retained earnings	12,258
Other reserves	162
Total equity	57,346
Total capitalisation	551,298

Net debt obligations, TEUR		30.09.2019
A.	Cash at hand	22,154
B.	Cash equivalents	83,379
C.	Traded securities	4,114
D.	**Total liquid assets (A)+ (B) + (C)**	**109,647**
E.	**Short-term financial receivables**	**87,107**
F.	Borrowings from banks	10,453
G.	Current portion of long-term borrowings	169
H.	Other short-term liabilities	389,766
I.	**Short-term financial liabilities (F)+(G)+(H)**	**400,388**
J.	**Net short-term financial liabilities (I)-(E)-(D)**	**203,634**
K.	Long-term bank loans	0
L.	Issued bonds	21,000
M.	Other long-term loans	72,564
N.	**Long-term financial liabilities (K)+(L)+(M)**	**93,564**
O.	**Total net financial liabilities (J)+(N)**	**297,198**

Indirect and contingent liabilities	
Financial guarantees	3,901
Committed facility and overdraft	35,548
Total indirect and contingent liabilities	**39,449**

Working capital statement. The Management Board believes that considering the Group's existing assets, financial position, plans and positive income from everyday business activity, the Group's working capital is sufficient to cover all liabilities within 12 months after the date of this Prospectus and that there is no need to involve additional external funds to cover the working capital need.

The working capital reflects the difference between short-term assets and liabilities and as at 30 September 2019, the working capital is negative by -203.6 million euros. The working capital statement does not provide an overview of the actual liquidity position of a credit institution, which results from the fact that the main business of a credit institution is involving short-term deposits and long-term lending of these funds. Likewise, the Bank finances its activities mainly with customers' deposits and the money in the current accounts of customers as at 30 September 2019 in the amount of EUR 127 million, is considered as short-term liabilities, while in its nature this is a stable source of funding. When choosing the term deposits, the customers mainly prefer 1-year deposits, the amount of which held by the Group as at 30 September 2019 was EUR 256 million and which is also included in short-term liabilities. Based on the previous experience, the Group considers it likely that the terms of a large part of deposits are extended for the next period. As at 30.09.2019, the Group's loan-to-deposit ratio was 87% and liquidity buffer made 20% of total assets. The Group's liquidity management is based on the risk policy, which establishes several liquidity management methods and restrictions. Liquidity management involves regular stress testing and establishment of business continuity plans. Besides internal measures, the group also follows regulatory ratios – liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) to be adopted in the future. The purpose of the LCR standard is to ensure that the Group has sufficient funds and other unencumbered liquid assets which can be converted into cash without bearing major losses in order to meet the liquidity need for a 30 calendar day liquidity stress scenario. The Group fulfils the minimum liquidity coverage ratio (LCR) requirement (100%) with a significant overlap - as at 30.09.2019 the ratio was 965%. The purpose of the net stable funding ratio is to ensure that the Group has sufficient stable sources of funding, to finance long-term assets. The Group's net stable funding ratio (NSFR), calculated on the basis of the proposals of the Basel Committee on Banking Supervision as at 30.09.2019 was 136% (minimum is 100%).

In the Audited Financial Statements and the Interim Report, the Group does not make a distinction between short- and long-term assets and liabilities, but presents the assets and liabilities in the order of their liquidity, insofar as for credit institutions, such presentation is more reliable and relevant. More detailed information on the Group's financial assets and liabilities by remaining maturity is available in subsection "Liquidity management" of Note 2 "Risk management" to the Audited Financial Statements. The same information is presented in Note 10 of the Interim Report.

13. TAXATION

Introduction. This Chapter is meant to give an overview of the tax regime applicable to the shareholders and the Bank. The below summary is in no way exhaustive and is not meant to constitute professional advice to any person. In order to assess particular tax consequences of the Offering or the acquisition of the Shares to the investor, each individual investor is strongly encouraged to seek specialist assistance. The law of the member state of the investor and the law of incorporation of the Bank may have an impact on the income earned on securities.

Corporate Income Tax. The system of taxation of corporate income currently in force in Estonia differs from the traditional model of corporate income taxation in that it shifts the point of corporate taxation from the moment of accrual to the moment of distribution. Therefore, in Estonia corporate income tax is charged only on the distributed profit with the reinvested profits remaining untaxed until distribution. Corporate income tax is charged on profit distributions such as dividends, payments in the course of the reduction of share capital and redemption of own shares (if this is done on the account of retained earnings), as well as on implicit distributions such as fringe benefits, gifts and donations, expenditures and payments not related to the business activities o fa company. The profit distributions of companies are taxed at the rate of 20/80 (25%) of the net amount of the distribution, i.e. 20% of the gross amount of the distribution. The corporate income tax charged on above profit distributions is payable only at the level of the company distributing profit with the company being responsible for calculating, declaring and paying of the respective corporate income tax. Corporate income tax imposed on distributed profit is not a withholding tax and thus is not influenced by the provisions of international tax treaties applicable to the taxation of dividends. Payments made in the course of the reduction of share capital and redemption of shares are taxable at the company level only to the extent such payments exceed the monetary and non-monetary contributions previously made by the shareholders into the company.

Dividend tax. According to the Income Tax Act, dividends paid by an Estonian resident legal person are exempt from taxation at the level of the recipient, regardless of whether the recipient is a natural or a legal person, an Estonian resident or a non-resident person (no classical dividend tax). Accordingly, as a rule, no income tax is withheld on dividends paid to the recipients of the dividends and dividends are subject to taxation only on the level of Estonian company who distributed profit. Nevertheless, the non-resident recipients of dividend may be subject to report and pay income tax in their country of residence. In order to establish particular tax consequences arising in the non-resident person’s country of residence, investors are advised to seek specialist tax assistance.

As a result of the amendments to the Income Tax Act that entered into force from 1 January 2018, income tax will be still withheld also on the level of a natural person (both, for residents as well as non-residents) where an Estonian company has made regular dividend payments or other profit distributions which are subject to a reduced income tax rate of 14%. If an Estonian company has made regular dividend payments, an additional 7% must be withheld on the dividends payable to shareholders who are natural persons. Regular profit distribution is understood as an amount smaller than or equal to the average distributed profit of the company for the previous three calendar years, subject to taxation in Estonia. Since the first reporting year is 2018, then for the first time, the reduced 14% tax rate and withholding of 7% income tax can be applied on dividend payments made in 2019.

Capital Gains from Sale or Exchange of Shares. Gains realised by an Estonian resident individual upon the sale or exchange of securities (including the Shares) are subject to income tax at the rate of 20%. Payments received by an Estonian resident individual in the course of the reduction of share capital or redemption of shares are also taxable as capital gains, if the amount of the received payment exceeds the acquisition cost of the relevant shareholding, except to the extent such payment has been already taxed at the company level. Capital gains of resident legal persons are not taxed immediately upon receipt but upon payment, due to the fact that the entire profit earned by a legal person, incl. capital gains are only taxed upon distribution. As a rule, capital gains received by non-residents from the sale or exchange of securities are not taxed in Estonia (except for certain securities related to the Estonian real estate). Non-resident shareholders receiving capital gains from the sale or exchange of the Shares may be subject to declaring and paying income tax in their respective countries of residence. For the purposes of capital gains taxation, the gain derived from the sale of securities (including the Shares) is the difference between the acquisition cost and the sales price of such securities. The gain derived from the exchange of securities is the difference between the acquisition cost of securities subject to exchange and the market price of the property received as a result of the exchange. The expenses directly related to the sale or exchange of shares may be deducted from the gains.

Investment Account. Estonian resident individuals may postpone the taxation of their investment income by using a special investment account for carrying out transactions with certain financial instruments (including the Shares). An investment account is a monetary account opened with a European Economic Area or the Organisation for Economic Co-operation and Development (OECD) member state credit institution, through which the taxation of income arising from trading certain financial instruments (e.g. on capital gains, etc.) can be postponed. The moment of taxation of the financial income held on an investment account is postponed until such income is withdrawn from the investment account (i.e. up to the amount withdrawn from the account exceeds the amount which had been previously paid in to the account). Therefore, financial income held at the investment account may be reinvested tax-free until it is withdrawn from the account.

14. GLOSSARY

Term	Definition
Annual reports	shall mean the Group's audited consolidated annual reports for the financial years ended on 31 December 2018, 31 December 2017 and 31 December 2016, respectively, which are incorporated as references to the Prospectus pursuant to section 2.8.
Articles of Association	shall mean the Articles of Association of the Bank effective as at the date of this Prospectus.
Audited Financial Statements	shall mean the audited consolidated financial statements as of and for the three years ended on 31 December 2018, 31 December 2017 and 31 December 2016 of the Group (compiled for the purposes of this Prospectus and audited by the statutory auditor) included in this Prospectus together with the audit report thereon as Schedule 1.
Bank	shall mean Coop Pank aktsiaselts, an Estonian public limited company, registered in the Estonian Commercial Register under register code 10237832, having its registered address at Narva mnt 4, 15014 Tallinn, Estonia.
BRRD	shall mean Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.
CIA	shall mean the Estonian Credit Institutions Act (in Estonian: *krediidiasutuste seadus*) in force at the date of this Prospectus.
Chapter	shall mean a chapter of this Prospectus.
Commercial Register	shall mean the commercial register of the Republic of Estonia.
Coop Finants	shall mean Coop Finants AS, an Estonian public limited company, registered in the Estonian Commercial Register under register code 12087992, having its registered address at Narva mnt 4, 15014 Tallinn, Estonia.
Coop Kindlustusmaakler	shall mean Coop Kindlustusmaakler AS, an Estonian public limited company, registered in the Estonian Commercial Register under register code 14790046, having its registered address at Narva mnt 4, 15014 Tallinn, Estonia.
Coop Liising	shall mean Coop Liising AS, an Estonian public limited company, registered in the Estonian Commercial Register under register code 10079244, having its registered address at Narva mnt 4, 15014 Tallinn, Estonia.

Coop Co-operatives	shall mean Antsla Tarbijate Ühistu (registry code 10240840), Elva Tarbijate Ühistu (registry code 10023216), Järva Tarbijate Ühistu (registry code 10097762), Viljandi Tarbijate Ühistu (registry code 10249309), Harju Tarbijate Ühistu (registry code 10347236), Tartu Tarbijate Kooperatiiv (registry code 10151355), Saaremaa Tarbijate Ühistu (registry code 10044010), Haapsalu Tarbijate Ühistu (registry code 10202590), Rapla Tarbijate Ühistu (registry code 10359831), Lihula Tarbijate Ühistu (registry code 10048611), Jõgeva Majandusühistu (registry code 10136232), Vändra Tarbijate Ühistu (registry code 10374019).
CRD IV	shall mean an EU legislative package covering prudential rules for banks, building societies and investment firms. CRD IV includes the following legislative acts - the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRD) and the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR).
CRR	shall mean Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.
Delegated Regulation	shall mean Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004
EBA	shall mean the European Banking Authority, an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector established by the Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC.

Financial Supervision Authority	shall mean the Estonian Financial Supervision Authority, a financial supervision institution with autonomous competence and a separate budget which conducts supervision over credit institutions, insurance companies, insurance intermediaries, investment firms, management companies, investment and pension funds as well as the payment service providers, e-money institutions and the securities markets that have been authorised by the Financial Supervision Authority in the name of the state and which is independent in its activities and decisions.
ERS	shall mean the Estonian Register of Securities, operated by Nasdaq CSD SE Estonia branch, registered in the Estonian Commercial Register under register code 14306553, having its registered address at Maakri 19/1, 10145 Tallinn, Estonia.
Euro	shall mean the official currency of Eurozone countries, including Estonia, Latvia and Lithuania.
Eurozone	shall mean the economic and monetary union of the European Union member states, which have adopted euro as their single official currency.
Existing Shares	shall mean up to 8,102,578 Shares of the Bank belonging to Selling Shareholders that are offered by the Selling Shareholders in the course of the Offering.
FCPRA	shall mean the Estonian Financial Crisis Prevention and Resolution Act (in Estonian: *finantskriisi ennetamise ja lahendamise seadus*) in force at the date of this Prospectus.
Financial Statements	shall mean the Audited Financial Statements and the Interim Financial Statements.
GDP	shall mean gross domestic product, the market value of all officially recognised final goods and services produced within a country in a year, or another given period of time.
General Meeting	shall mean the general meeting of shareholders of the Bank, the highest governing body of the Bank.
Global Lead Manager	shall mean AS LHV Pank, an Estonian public limited company, registered in the Estonian Commercial Register under register code 10539549, having its registered address at Tartu mnt 2, 10145, Tallinn, Estonia.
Group	shall mean the Bank and its Subsidiaries.
IFRS	shall mean the International Financial Reporting Standards as adopted by the European Union.
Institutional Offering	shall mean the non-public offering of the Offer Shares in Estonia and in selected member states of the European Economic Area to qualified investors within the meaning of Article 2(e) of the Prospectus Regulation and other types of investors in reliance on certain exemptions available under the laws of each jurisdiction where the Offering is being made.
Interim Financial Statements	shall mean the unaudited consolidated interim financial statements as of and for the nine months ended on 30 September 2019 of the Group, included in this Prospectus as Schedule 2.
Key Personnel	shall mean Kaarel Loigu, Karin Ossipova, Rasmus Heinla, Martin Ilves, Helo Koskinen, Teet Kerem, Mari-Liis Stalde, Madis Tapupere, Paavo Truu, Roman Migunov, Martin Kuustik.

Management	shall mean the Management Board and the Supervisory Board of the Bank.
Management Board	shall mean the Management Board of the Bank.
Martinoza	shall mean aktsiaselts Martinoza, an Estonian public limited company, registered in the Estonian Commercial Register under register code 10078109, having its registered address at Narva mnt 4, 15014 Tallinn, Estonia.
Nasdaq Tallinn Stock Exchange	shall mean the regulated market in Estonia operated by Nasdaq Tallinn AS (register code 10359206).
New Shares	shall mean up to 32,180,155 newly issued ordinary no-par-value Shares of Bank, offered by the Bank in the course of the Offering.
Offer Price	shall mean the final price per each Offer Share, which is estimated to be published by the Bank on 2 December 2019 or around that date.
Offer Shares	shall mean up to 40,195,777 Shares, consisting of up to 32,180,155 New Shares and up to 8,102,578 Existing Shares, which will be offered to the investors in the course of the Offering.
Offering	shall mean the Retail Offering and the Institutional Offering.
Offer Period	shall mean the period within which investors will have the opportunity to submit Subscription Undertakings in the course of Retail Offering, starting on 18 November 2019 at 10:00 Estonian time and ending on 29 November 2019 at 15:30 Estonian time.
Option Plan	shall mean the Option Plan for the Shares of the Bank approved by the Supervisory Board of the Bank, submitted to the agenda of the 8 November 2019 General Meeting for approval.
Prana Property	shall mean SIA Prana Property, a Latvian company, registered in the Latvian Register of Enterprises under register code 40203072018, having its registered address at Alauksta iela 9 - 6, LV-1009, Rīga, Latvia.
Prospectus	shall mean this document, registered with the resolution of the management board of the Financial Supervision Authority of 11 November 2019, under the registration number 4.3-4.1/3973.
Prospectus Regulation	shall mean Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.
Raisin Platform	shall mean a deposits marketplace, operated by Raisin GmbH (a German company, registered in the district court Berlin-Charlottenburg commercial register under register code HRB 146726 B, having its registered address at Immanuelkirchstr. 14A, 10405, Berlin, Germany) whose website is www.weltsparen.de.
Retail Offering	shall mean the public offering of the Offer Shares to retail investors of Estonia, Latvia and Lithuania.

Selling Shareholders	shall mean Inbank AS (an Estonian public limited company, registered in the Estonian Commercial Register under register code 12001988, having its registered address at Niine tn 11, 10414, Tallinn, Estonia), Andres Sonn (date of birth 07.04.1972), Roberto de Silvestri (date of birth 30.04.1977) and Luciano Orsero (date of birth 23.03.1940) jointly.
Share	shall mean the ordinary no-par-value share of the Bank, registered in the ERS with an ISIN code EE3100007857.
Shareholder	shall mean natural or legal person(s) who at any given time owns the Bank's Share(s).
Subscription Undertaking	shall mean the order submitted by an investor for the purchase of Offer Shares in accordance with the terms and conditions of the Offering.
Subsidiaries	shall mean Coop Finants, Coop Liising, Martinoza, Coop Kindlustusmaakler and Prana Property.
Summary	shall mean the summary of this Prospectus.
Supervisory Board	shall mean the supervisory board of the Bank.
Tier 1	shall mean Tier 1 capital, core capital of a bank that includes equity capital and disclosed reserves, as further specified in the CRR.
Tier 2	shall mean Tier 2 capital, supplementary capital of a bank that includes items such as revaluation reserves, undisclosed reserves, general provisions, hybrid instruments and subordinated term debt, as further specified in the CRR.

15. SCHEDULES

Schedule 1 – The consolidated audited financial statements of and for the three financial years ended on 31 December 2018, 31 December 2017 and 31 December 2016 of the Group.

Schedule 2 – The consolidated unaudited interim financial statements of and for the 9 months ended on 30 September 2019 of the Group.

The BANK

Coop Bank aktsiaselts

(Narva mnt 4, 15014 Tallinn, Estonia)

GLOBAL LEAD MANAGER

AS LHV Group

(Tartu mnt 2, 10145 Tallinn, Estonia)

LEGAL COUNSEL TO BANK

Advokaadibüroo Ellex Raidla Advokaadibüroo OÜ

(Roosikrantsi 2, 10119 Tallinn, Estonia)

AUDITORS

Aktsiaselts PricewaterhouseCoopers

(Pärnu mnt 15, 10141 Tallinn, Estonia)

Consolidated Financial Statements

2016-2018

General information

Business name	Public Limited Company (AS) Coop Pank
Registered	15.03.1992 in Tallinn
Legal address	Narva road 4, Tallinn 15014, Republic of Estonia
Commercial register number	10237832 (Commercial Register of the Republic of Estonia)
Date of first entry	19.08.1997
Phone	+ 372 669 0900
Fax	+ 372 661 6037
SWIFT/BIC	EKRDEE22
E-mail	info@cooppank.ee
Website	www.cooppank.ee
Auditor	AS PricewaterhouseCoopers
Commercial register number of the auditor	10142876 (Commercial Register of the Republic of Estonia)
Auditor's address	Pärnu road 15, Tallinn 10141
Balance sheet date of the financial statements	31.12.2018
Beginning and end of the financial year	01.01.2018- 31.12.2018
Reporting currency	euro (EUR), in thousands

Members of the Supervisory board: Jaanus Vihand (Chairman), Priit Põldoja, Jaan Marjundi, Roman Provotorov, Märt Meerits

Members of the Management board: Margus Rink (Chairman), Hans Pajoma, Janek Uiboupin, Kerli Lõhmus

Table of contents

Management Board declaration

All data and supplementary information presented in the 2016- 2018 consolidated financial statements of AS Coop Pank is true and complete, no omissions have been made with regard to data or information that would affect the content or meaning of the information. The consolidated financial statements give a true and fair view of the financial position, performance and cash flows of AS Coop Pank Group.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and referred to in § 17 of the Accounting Act of Estonia. These 2016- 2018 consolidated financial statements of AS Coop Pank are in compliance with the laws of the Republic of Estonia. The Group is going concern.

The 2018 consolidated annual report of AS Coop Pank was approved by the general meeting of shareholders at 29.04.2019. The previous 2017 consolidated annual report was approved by the general meeting of shareholders at 18.04.2018. 2016 consolidated annual report was approved by the general meeting of shareholders at 26.04.2017.

The consolidated financial statements for the period 2016-2018 have been prepared for the purpose of including the financial statements for the three periods in the prospectus of the initial public offering of the shares. The three-period report presents the financial information to the reader in a much more compact and easy-to-follow manner, and ensures greater comparability between periods. Also, additional information based on the requirements of a listed company, not included in the previous approved annual reports as it was not required then, has been included in these 2016-2018 financial statements by supplementing the income statement with basic and diluted earnings per share (also disclosed in Note 24). Information on operating segments was not presented in the 2016 and 2017 annual reports and is included in these financial statements (Note 4). Compared to the approved annual report for the year ended 31 December 2018, the information in credit risk management paragagraph has been partially supplemented, including additional information on correlation between monitoring methods and probability of default and credit risk classes used in Group, also loan division between stages is now based on grouping by monitoring methods while previously it was based on grouping by risk classes. (Note 2).

/signed digitally/
Margus Rink
Chairman of the Management Board

/signed digitally/
Hans Pajoma
Member of the Management Board

/signed digitally/
Janek Uiboupin
Member of the Management Board

/signed digitally/
Kerli Lõhmus
Member of the Management Board

04.11.2019

Consolidated Financial Statements

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Note	2018	2017	2016
Interest income calculated using the effective interest method		17 561	12 367	8 091
Other similar income		2 294	1 076	1 028
Interest and similar expense		-3 076	-1 924	-1 721
Net interest income	5	16 779	11 519	7 398
Fee and commission income		3 669	3 190	3 488
Fee and commission expense		-1 367	-1 020	-751
Net fee and commission income	6	2 302	2 170	2 737
Sale of assets		648	1 141	975
Cost of assets sold		-662	-1 389	-809
Rental income from investment properties		77	523	753
Direct property operating expenses		-127	-302	-304
Change in fair value of investment property	14	-187	262	108
Net gains/losses from non-financial asset realization	15	-6	3 185	-12
Net gains/losses from financial assets measured at fair value		-12	-341	-32
Handling of overdue receivables		599	250	29
Other income		357	271	117
Net other income		687	3 600	825
Payroll expenses	7	-8 177	-6 962	-5 160
Operating expenses	8	-4 628	-4 110	-2 474
Depreciation	15	-796	-446	-454
Total operating expenses		-13 601	-11 518	-8 088
Net profit before impairment losses on loans and advances		6 167	5 771	2 872
Impairment losses on loans and advances	12	-1 392	-1 313	-1 009
Net profit before income tax		4 775	4 458	1 863
Income tax expenses		-22	0	-120
Net profit for the financial year	4	4 753	4 458	1 743
Other comprehensive income / loss				
Items that may be reclassified subsequently to profit or loss:				
Financial assets at fair value through other comprehensive income		-239	-	-
Other comprehensive income / loss		-239	-	-
Comprehensive income for the financial year		4 514	4 458	1 743
Net profit attributable to:				
The owners of the parent company		4 753	4 345	1 529
Non-controlling interest		0	113	214
Net profit for the financial year		4 753	4 458	1 743
Comprehensive income attributable to:				
The owners of the parent company		4 514	4 345	1 529
Non-controlling interest		0	113	214
Comprehensive income for the financial year		4 514	4 458	1 743
Basic earnings per share (in euros)	24	0,08	0,09	0,04
Diluted earnings per share (in euros)	24	0,08	0,09	0,04

Notes to the financial statements on pages 9 to 77 are an integral part of the consolidated financial statements.

Consolidated Statements of Financial Position

	Note	31.12.2018	31.12.2017	31.12.2016
Assets				
Cash and cash equivalents	9	88 030	98 873	105 549
Financial assets at fair value through profit or loss	10	0	11 060	11 421
Held-to-maturity financial assets	10	0	503	503
Debt securities at fair value through other comprehensive income	10	9 130	0	0
Available-for-sale financial assets	10	0	13	13
Equity instruments at fair value through profit or loss	10	13	0	0
Loans and advances to customers	11,12	328 723	238 282	153 133
Other financial assets	13	333	477	714
Assets held for sale	13	6 697	7 323	4 279
Goodwill	3	6 757	6 757	0
Tangible assets	15	2 465	2 434	4 512
Intangible assets	15	2 289	1 116	687
Investment property	13,14	904	2 398	9 105
Other assets	13	937	2 092	254
Total assets		446 278	371 378	290 170
Liabilities				
Customer deposits and loans received	16	385 118	315 970	253 997
Other financial liabilities	17	4 126	3 216	1 433
Other liabilities	17	2 845	1 990	1 124
Subordinated debt	18	5 026	5 026	4 039
Total liabilities		397 115	326 202	260 593
Shareholders' equity	19			
Share capital		38 199	38 199	25 001
Share premium		175	175	174
Statutory reserve capital		2 288	2 070	1 970
Retained earnings		8 552	4 732	2 146
Other reserves		-51	0	0
Shareholders' equity attributable to owners of the parent company		49 163	45 176	29 291
Non-controlling interest		0	0	286
Total shareholder's equity		49 163	45 176	29 577
Total liabilities and shareholders' equity		446 278	371 378	290 170

Notes to the financial statements on pages 9 to 77 are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

	Note	2018	2017	2016
Cash flows from operating activities				
Interest received		19 790	12 361	8 571
Interest paid		-2 239	-1 761	-2 293
Fee and commissions received		3 669	3 190	3 488
Fees and commissions paid		-1 367	-1 020	-751
Other received income		882	232	754
Salaries paid		-8 042	-6 481	-4 995
Other operating expenses paid		-4 665	-4 170	-3 945
Total cash flows from operating activities before changes in operating assets and liabilities		8 028	2 351	829
Change in operating assets:				
Loans and advances to customers		-92 315	-85 900	-1 462
Change of mandatory reserve in central bank	9	-135	-688	-302
Other assets		1 731	-1 601	1 909
Change in operating liabilities:				
Change in customer deposits and loans received		68 311	61 797	-12 940
Other liabilities		1 543	3 475	-2 381
Net cash flows from operating activities		-12 837	-20 566	-14 347
Cash flows from investing activities				
Acquisition of property, plant and equipment		-2 476	-2 249	-144
Sale of property, plant and equipment and investment properties		2 232	13 484	37
Acquisition of debt investments		-2 632	-6 286	-8 578
Sale and redemption of debt investments		4 738	6 807	2 538
Acquisition of subsidiaries, net of cash acquired	3	0	-10 672	0
Total cash flows from investing activities		1 862	1 084	-6 147
Cash flows from financing activities				
Contribution to share capital	19	0	13 198	0
Capital contribution of a non-controlling stake in the share capital of the subsidiary		0	0	31
Acquisition of a non-controlling interest in subsidiary	3	0	-2 058	0
Dividends paid		0	0	-1 095
Repayments of a subordinated loan	18	0	-4 000	0
Issue of subordinated bonds	18	0	5 000	0
Total cash flows from financing activities		0	12 140	-1 064
Effect on exchange rate changes on cash and cash equivalents		4	-11	-5
Change in cash and cash equivalents		-10 971	-7 353	-21 563
Cash and cash equivalents at beginning of the period		95 768	103 121	124 684
Cash and cash equivalents at the end of the period		84 797	95 768	103 121
Cash and cash equivalents balance is comprised of:		84 797	95 768	103 121
Cash on hand		21 721	22 771	22 337
Demand deposits in central banks	9	49 321	42 208	42 000
Demand and short-term deposits in credit institutions	9	13 755	30 789	38 784

Notes to the financial statements on pages 9 to 77 are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Equity

	Share capital	Share premium	Statutory reserve capital	Other reserves	Re-valuation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 31.12.2015	25 001	174	1 844	0	0	1 838	28 857	41	28 898
Dividends paid	0	0	0	0	0	-1 095	-1 095	0	-1 095
Changes in reserves	0	0	126	0	0	-126	0	0	0
Contribution of a noncontrolling stake in the share capital of the subsidiary	0	0	0	0	0	0	0	31	31
Net profit	0	0	0	0	0	1 529	1 529	214	1 743
Total comprehensive income	0	0	0	0	0	1 529	1 529	214	1 743
Balance as at 31.12.2016	25 001	174	1 970	0	0	2 146	29 291	286	29 577
Increase of share capital	13 198	1	0	0	0	0	13 199	0	13 199
Acquisition of the non-controlling interest in subsidiary	0	0	0	0	0	-1 659	-1 659	-399	-2 058
Changes in reserves	0	0	100	0	0	-100	0	0	0
Net profit	0	0	0	0	0	4 345	4 345	113	4 458
Total comprehensive income	0	0	0	0	0	4 345	4 345	113	4 458
Balance as at 31.12.2017	38 199	175	2 070	0	0	4 732	45 176	0	45 176
Change on initial application of IFRS9:									
Loan portfolio, loan commitments	0	0	0	0	0	-630	-630	0	-630
Debt securities	0	0	0	0	105	-85	20	0	20
Balance as at 01.01.2018	38 199	175	2 070	0	105	4 017	44 566	0	44 566
Change in reserves	0	0	218	0	0	-218	0	0	0
Share options*	0	0	0	103	0	0	103	0	103
Net profit	0	0	0	0	0	4 753	4 753	0	4 753
Other comprehensive income	0	0	0	0	-259	0	-259	0	-259
Total comprehensive income	0	0	0	0	-259	4 753	4 494	0	4 494
Balance as at 31.12.2018	38 199	175	2 288	103	-154	8 552	49 163	0	49 163

*See Note 19

Notes to the financial statements on pages 9 to 77 are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1 Accounting principles

Coop Pank AS (Reg. No. 10237832, previous business name AS Eesti Krediidipank) is a credit institution registered in Tallinn (Estonia) Narva road 4. The consolidated financial statements of AS Coop Pank for the years 2016-2018 have been approved by the Management Board of AS Coop Pank at 04.11.2019.

Functional and presentation currency

The functional currency of the AS Coop Pank Group is euro. These 2016- 2018 consolidated financial statements have been presented in thousands of euros, unless stated otherwise.

1.1 Basis of preparation

These consolidated financial statements have been prepared for inclusion in the Prospectus, in accordance with the Annex 1 item 18.1 to the Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004 (hereinafter called "Delegated Regulation 2019/980").

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

Changes in presentation. In 2018. annual report the cashflows from loans received and bonds issued in total amount of 9 000 euros were presented as cash flows from financing activities in the Consolidated Statement of Cash Flows. In current report this amount is presented as cash flows from operating acitivities, due to the reason that it better shows the nature of funds received. The Group presents as financing cashflows only those loans and bonds, that are subordinated and included in the Group´s own funds.

1.2 Critical accounting estimates and judgements

The preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the EU requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Although these estimates are based on best knowledge and judgement of current events and

actions, the actual outcome and the results ultimately may significantly differ from those estimates. More detailed overview of the estimates made is provided under accounting principles or disclosures set out below.
Critical estimates and judgements are primarily used in the following areas:

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

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

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

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

1.3 Consolidation

These consolidated financial statements of the AS Coop Pank Group are comprised of the financial statements of the parent company AS Coop Pank and all of its subsidiaries Coop Liising AS, Coop Finants AS, CP Vara AS (previously AS Krediidipank Finants, being liquidated), AS Martinoza and SIA Prana Property as at 31 December 2018, 31 December 2017 and 31 December 2016. Group entities use uniform accounting policies. The definition of group according to the Regulation (EU) No 575/2013 of the European Parliament and of the Council matches that of IFRS. The statements of financial position and income statements of the bank and its subsidiaries are consolidated on a line-by-line basis, eliminating the intercompany balances, revenues, income- expenses and unrealized gains/losses on transactions between group companies

Subsidiaries

Subsidiaries are all economic entities in which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated in the financial statements from the time control arises until it ceases.
In parent company's separate financial statements investments in subsidiaries are accounted for at cost less any impairment recognized.

Non-controlling interest

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

1.4. Foreign currency transactions and assets and liabilities denominated in a foreign currency

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

1.6. Financial assets

1.6.1 Accounting policies from 1 January 2018

Classification

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

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

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

Recognition and derecognition

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

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

Measurement

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

Debt instruments

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

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

- Amortised cost (AC): Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/(expenses). Foreign exchange gains and losses and impairment losses are presented as separate line items in the statement of profit or loss.
  As at 1 January 2018 and 31 December 2018, the following financial assets of the Group were classified in this category:
    - Cash;
    - Balances with central banks;
    - Loans and advances to credit institutions;
    - Loans and advances to customers;
    - Other financial assets.

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

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other income/(expenses) in the period in which it arises. Such fair value gain or loss includes any contractual interest received on debt instruments classified to this category. As at 1 January 2018 and 31 December 2018, the Group had no debt financial assets measured FVPL.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has made an irrevocable election to present in OCI the fair value gains and losses on equity investments that are not held for trading, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other income/(expenses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

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 at amortised cost or FVOCI, the Group follows a three-stage model based on changes in credit quality since initial recognition.

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

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

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

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement in "'Impairment losses on loans and advances".

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

Cash and cash equivalents

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

Lease receivables

Finance lease transactions are lease transactions under which all significant risks and rights from using the assets are transferred from the Group to the lessee. Legal ownership of assets is transferred to the customer at the end of the lease term. The receivables from the financial lease agreements are recognized at net present value of the minimum lease payments, from which the payments of principal received have been deducted, plus unguaranteed residual value at the end of contract. Lease payments collected are allocated between repayment of principal and finance income. Finance income is recognized over the rental period based on the pattern reflecting a constant periodic rate of return on the lessor's net investment in the financial lease. The lessor's direct expenses related to the contract are part of effective interest rate and are booked as decrease of income from lease over the period of lease contract. Allowances for lease receivables are presented on the respective line of the statement of financial position at negative value. A lease receivable from a client is recognized in the statement of financial position as of the moment of delivering the assets being the subject of the agreement to the client. In case of transactions, in which the assets being the object of the agreement having a long delivery term have not yet been delivered to the client, the payments received from the lessees under these agreements are recognized in the statement of financial position as prepayments of buyers in line "Other financial liabilities". The amounts paid by the Group for the assets under lease agreements not yet delivered are recognize in the statement of financial position as prepayments to suppliers in line "Other financial assets".

Factoring and warehouse financing receivables

Factoring transactions are considered to be financing transactions where the Group provides the financial resources to its selling partners through transfer of the rights to the receivables from these sales transactions. The Group acquires the right for the receivables payable by the buyer subject to the sales contract. Factoring is the transfer of receivables. Depending on the terms of the factoring contract the buyer either accepts the transfer of substantially all the risks and rewards of the ownership of the receivable (non-recourse factoring) or retains the right to transfer the risks and rewards back to the seller during a pre- specified term (recourse factoring). Transaction is booked as financing in case the leasing company does not own all the rights related to the receivable. The receivable is included in statement of financial position until payment is received or recourse is expired. If a contract does not include the seller's guarantee and the leasing company acquires control of all rights at the moment of selling the receivable, the transaction is accounted for as an acquisition of a receivable at fair value. Subsequently receivables are measured at acquisition cost. The receivable from the client is recognized as of the moment of factoring the purchase-sale agreement, i.e. as of acquisition of the receivable.

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

1.6.2 Accounting policies until 31.12.2017

AS Coop Pank Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

<table>
<tr><th colspan="2">Category as defined by IAS 39</th><th colspan="2">Category as determined by the Group</th></tr>
<tr><td rowspan="8">Financial assets</td><td rowspan="4">Loans and receivables</td><td colspan="2">Loand and advances to credit institutions</td></tr>
<tr><td rowspan="2">Loans and advances to clients</td><td>Loans and advances to private individuals</td></tr>
<tr><td>Loans and advances to legal entities</td></tr>
<tr><td colspan="2">Other financial assets</td></tr>
<tr><td rowspan="2">Financial assets at fair value through profit or loss</td><td colspan="2">Helt-for-trading interest rate swaps – derivatives</td></tr>
<tr><td colspan="2">Debt securities designated at fair value through profit or loss</td></tr>
<tr><td>Held-to-maturity financial assets</td><td colspan="2">Debt securities held-to-maturity</td></tr>
<tr><td>Available-for-sale financial assets</td><td colspan="2">Investment securities – equity securities</td></tr>
</table>

Loans and advances to customers

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the resulting receivable.

Loans and advances are initially recognized in the consolidated statement of financial position at fair value including any transaction costs, when the cash is paid to the borrower or right to demand payment has arisen and are derecognized only when they are repaid or written-off, regardless of the fact that part of them may be recognized as costs through providing allowances for loans. The loan allowances are presented on the respective line of statement of financial position at negative value. Loans have been recognized in the statement of financial position at amortized cost, using effective interest rate method. Accrued interest on the loans is recorded in the respective line of statement of financial position. For overdrafts and credit cards, the actual use of the limit by the borrower is stated in the statement of financial position. The unused credit limit is recognized as contingent liability. Loan restructuring constitutes a change in the terms of the loan (maturity, payment schedule, interest rate) resulting from a change in the risk level of the borrower. The policies for the accounting and presentation of restructured loans do not differ from other loans.

Factoring and warehouse financing receivables

Factoring transactions are considered to be financing transactions where the Group provides the financial resources to its selling partners through transfer of the rights to the receivables from these sales transactions. The Group acquires the right for the receivables payable by the buyer subject to the sales contract. Factoring is the transfer of receivables. Depending on the terms of the factoring contract the buyer either accepts the transfer of substantially all the risks and rewards of the ownership of the receivable (non-recourse factoring) or retains the right to transfer the risks and rewards back to the seller during a pre- specified term (recourse factoring). Transaction is booked as financing in case the leasing company does not own all the rights related to the receivable. The receivable is included in statement of financial position until payment is received or recourse is expired. If a contract does not include the seller's guarantee and the leasing company acquires control of all rights at the moment of selling the receivable, the transaction is accounted for as an acquisition of a receivable at fair value. Subsequently receivables are measured at amortised cost. The receivable from the client is recognized as of the moment of factoring the purchase-sale agreement, i.e. as of acquisition of the receivable.

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

Impairment of loans and receivables

The Group assesses consistently whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For valuation of loans and receivables several risks are prudently considered. The Group uses a customer rating system for evaluating corporate loans, in accordance of which the valuation of the customer receivables is based on the legal entities financial position, trustworthiness of the borrower, timely fulfilment of contractual obligations and other factors, all of which together help to assess the value of the receivable and the amount of incurred loss in the portfolio of loans.

Valuation of loans to private individuals is based on timely fulfilment of contractual obligations, solvency and collateral and other factors, affecting the credit risk. Valuation of loans to private individuals is based on timely fulfilment of contractual obligations, solvency and collateral and other factors, affecting the credit risk.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical probabilities of default and historical rates of losses experienced on the assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future receivables are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

For assessment of loan losses, the expected collections from the loan and interest payments over the coming periods are considered, as well as expected collections and anticipated proceeds from the realization of collateral, discounted at the financial asset's original effective interest rate, which together form a recoverable amount of the loan and help to assess the amount of loss incurred of the loan. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. For these assessed incurred loan losses, the relevant allowance has been established. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Individual allowances are provided for individually assessed loans, and group based allowances for homogenous loan groups.

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement in "'Impairment losses on loans and advances".

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets designated at fair value through profit or loss and assets held for trading (incl. derivatives).

Securities at fair value through profit or loss are designated irrevocably, at initial recognition, into this category. This class of securities is included the portfolio of liquid bonds. The intention of the investment is to keep local liquidity reserves in liquid securities, which can be pledged to the central bank or sold in order to raise liquidity whenever necessary.

Securities carried at fair value through profit of loss are measured at fair value, which is based on the bid price of the security. If the listing of a security does not indicate a price or quotations are not sufficiently regular, the financial instruments are revalued to fair value by using as a basis all of the available information concerning the issuer in order to determine the fair value of the financial instrument by using the prices of similar quoted securities that are available on the market.

Interest income on these instruments is recognized in income statement under "Interest income". The realized and unrealized gains or losses from the revaluation of these securities are presented in the income statement under "Net profit/loss change in fair value of financial assets designated at fair value through profit or loss".

Securities held for trading are securities that have been acquired mainly for the purposes of resale or redemption in the near term or if such securities form a part of an independent portfolio of financial securities that are collectively managed and where proof of recently realized short-term gain exists, and derivative securities. The Group does not own any securities acquired for the purposes of resale or redemption.

Derivative financial instruments (SWAP transactions) are initially recognized in the balance sheet at the fair value and are subsequently valued at fair value through profit or loss. If derivatives are quoted on an active market, market value is used as the fair value. Otherwise, the valuation techniques are used to find the fair value. Profits and losses from derivatives are recognized as income or expense of the period in the statement of comprehensive income under "Net gains/losses from financial assets measured at fair value".

Derivatives are carried in the statement of financial position as assets, if their market value is positive and as liabilities, if the market value is negative. The fair values of derivative assets and liabilities recorded in the balance sheet are not netted. The Group does not use hedge accounting to account for its derivative financial instruments.

Available-for-sale financial assets

Investment securities are classified as available-for-sale financial assets. Available-for-sale investments are investments that the group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices

Available-for-sale financial assets are recorded at fair value. Subsequently they are carried at fair value. If the assessment of fair value is not reliable, the securities will be presented at cost. The gains and losses arising from changes in the fair value of available for sale financial assets are recognised in other comprehensive income on line "revaluation of available-for-sale financial assets".

The Group assesses consistently whether there is objective evidence that a financial asset available-for-sale is impaired. In the case of equity investments classified as available-for- sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. A debt instrument is considered to be impaired when there is a change in expected cash flows to be collected from the instrument. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from other comprehensive income and recognized in the statements of profit or loss and other comprehensive income . Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. In a subsequent period, if the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

When a financial asset is sold, the cumulative gain previously recognized in statement of comprehensive income on that specific instrument is to the extent reversed from the statement of comprehensive income and the remaining portion is recognized in income statement.

Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the entity's right to receive payment is established.

Held-to-maturity financial assets

Held-to-maturity financial assets are financial instruments quoted in an active market with a fixed due date and which the Management Board of the bank has an intention and opportunity to hold until their maturity. They do not include:

- investments designated as fair value through profit or loss upon their initial recognition;
- investments classified as available-for-sale assets; and
- investments which meet the criteria of loans and receivables.

These investments are initially recognized at fair value, plus all directly attributable transaction costs incremental to such acquisitions and they are subsequently measured at amortized cost using the effective interest rate method. Interest income on held-to-maturity investments is included within interest income in the statement of comprehensive income. Impairment losses are deducted from the carrying amount of the investments and the impairment charge is recorded in the line "Other expenses" in the statement of comprehensive income.

1.7. Property, plant and equipment and intangible assets

Land, buildings, IT equipment, office equipment and other assets of long-term use are recognized in the statement of financial position as property, plant and equipment. Intangible assets are identifiable, non-monetary assets without physical substance and as at balance sheet date comprise acquired software.

Property, plant and equipment and intangible assets are initially recognized at acquisition cost, consisting of the purchase price, non-refundable taxes and other direct costs related to taking the asset into use. Subsequent expenditures related to an item of property, plant and equipment are recognized as an asset if these are in accordance with definition of property, plant and equipment and meet the criteria for recognition in the statement of financial position (including if it is probable that future economic benefits associated with the item will flow to the entity). Ongoing repairs and maintenance expenditures are expensed during the reporting period in which they are incurred.

Property, plant and equipment and intangible assets with finite useful lives are subsequently stated at historical cost less depreciation / amortization and any impairment losses. Depreciation / amortization is calculated starting from the month of acquisition until the asset is fully depreciated. Assets are depreciated / amortized on a straight-line basis. Depreciation / amortization calculation is based on the useful life of the asset, which serves as basis for forming the depreciation / amortization rates. Depreciation of property, plant and equipment is charged in accordance with the estimated useful life of the asset from the month following the month it is taken into use:

- buildings 2-5% per annum,
- vehicles 15% per annum,
- fixtures 12.5% per annum,
- office equipment 25% per annum,
- computer hardware and software 10-25% per annum.

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

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

Capitalization of expenses

Reconstruction expenses related to the leased space used by the Group are capitalized as property, plant and equipment and expensed on a straight-line basis in accordance with the duration of the lease agreement.

Development costs

If software development expenses result in additional functionality and if they meet the definition of intangible assets and criteria for inclusion in the statement of financial position (incl. expected participation in the generation of future economic benefits), such expenses are recognized as intangible assets. Expenses related to the use of software are expensed as incurred.

Expenditures incurred on advertising and the launch of new products, services and processes are expensed as incurred. Expenditures associated with internally developed trademarks and other such items are expensed as incurred.

Goodwill

Goodwill is recognized in acquisition value, minus accumalated impairment losses. The Group is testing the value of goodwill at least once a year or immediately if there is any indication that it might be impaired. Goodwill is distributed among cash-generating units or cash-generating unit groups, which are benefiting from the synergy of the business combination. Profit or loss from the termination or sale of cash-generating unit where goodwill is allocated, is consisting of the carrying amount of the goodwill allocated to the unit.

1.8 Investment property

Investment property is a real estate property which is primarily held for the purpose of earning rental income or for capital appreciation or for both purposes but not for the use in the ordinary course of business.

An investment property is initially recognized in the balance sheet at cost, including the purchase price and any expenditure directly attributable to the acquisition. After initial recognition, investment property is measured at fair value at each balance sheet date. Independent expert valuation is used for determining the fair value of investment property, which is based on either the income approach (the value is determined by calculating the present value of future cash flows generated by the asset) or market approach (comparable market transactions involving similar properties are analysed) or a combination of the two aforementioned approaches is used.
Gains and losses arising from a change in the fair value of investment property are recognized in the line item "Change in fair value of investment property" in the income statement of the reporting period in which they are incurred.

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

If a change occurs in the use of an investment property, as evidenced by starting development for the purposes of preparation of the property for sale, the property is reclassified as inventory and the cost of the item of inventory is the fair value at the reclassification date.

1.9 Assets held for sale

Assets held for sale are assets that are held for sale in the course of ordinary business and are recognized at cost. Cost is either cash or the fair value of non-monetary consideration given to acquire an asset at the time of its acquisition or processing. Assets held for sale are measured at the balance sheet date and are carried in the balance sheet at the lower of cost and net realizable value. The net realizable value is the sales price less estimated costs to sell.

1.10 Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortization and are tested annually for impairment, comparing the carrying value of the asset to its recoverable value. Assets that are subject to amortization / depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In such circumstances, the recoverable value of the asset is assessed and compared to its carrying value. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1.11 Leases – the Group as the lessee

Leases of assets where the lessee acquires substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

The Group has not leased any assets under finance leases during the reporting period or the previous reporting period. Operating lease payments are recognized in the income statement as expenses over the rental period on straight line basis. The Group uses operating leases mainly for renting buildings / premises. Rental expense is recognized in income statement as "General and administrative expenses".
As of 01.01.2019 IFRS 16 „Leases“, applied that all leases are classified as finance leases and recognized in the balance sheet in accordance with IFRS 16.
The Group has not applied this standard in previous reporting periods. The Group applied the standard from 01.01.2019. Amendments related to the implementation of IFRS 16 are described in this note, section 1.18.

1.12 Financial liabilities

The classification made can be seen in the table below:

Category by IFRS9 Category as determined by the Group

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

Deposits from customers

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

Loans received

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

Payables to employees

Payables to employees include unpaid salary accruals, accruals for bonuses together with social security and unemployment insurance tax and a vacation pay accrual calculated in accordance with employment contracts and the laws of the Republic of Estonia in force as at the balance sheet date. The liability related to the payment of a vacation pay accrual together with social security and unemployment insurance premiums is included within current liabilities in the balance sheet and as wages and salaries expense in the statement of comprehensive income. Social tax includes payments to the state pension fund.

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

Loan commitments

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

1.13 Financial guarantee contracts

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

Financial guarantees are initially recognized in the financial statements at fair value (contract value) on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are recognized at the outstanding value of guarantee. In the income statement the fee income earned on a guarantee is recognized straight-line basis over the life of the guarantee. In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognized as revenue on a time proportion basis over the respective commitment period. At the end of each reporting period, the commitments are reflected either contract value at the time of reporting or contract value and in addition provision in balance sheet. The amounts disbursed to settle the guarantee obligation are recognized in the statement of financial position on the date it is disbursed.

1.14 Revenue and expense recognition

Accounting policies from 01.012018

Interest income and expense is recognized in income statement for all interest-earning financial assets and interest-bearing financial liabilities carried at amortized cost using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all significant fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.
Interest income also includes similar income on interest bearing financial instruments classified at fair value through profit or loss.

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

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

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

Revenue from sale of assets

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

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

Accounting policies until 31.12.2017
Interest income and expense is recognized in income statement for all interest-earning financial assets and interest-bearing financial liabilities carried at amortized cost using the effective interest rate method. Interest income also includes similar income on interest bearing financial instruments classified at fair value through profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all significant fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income
Revenue is recognized in the fair value of the consideration received or receivable for the services provided in the ordinary course of the Group's activities. Fees and commissions are generally recognized on an accrual basis when the service has been provided (e.g. charges related to credit and debit cards). Credit issuance fees for loans / leases are deferred and recognised as an adjustment to the effective interest rate on the credit.
Fees from the custodial services of securities are recognized on an accrual basis.

Other transaction fee income and other income are recognized on accrual basis at the moment of executing the respective transactions.

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

1.15 Taxation

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

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

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

1.16 Statutory reserve capital

Statutory reserve capital is formed from annual net profit allocations to comply with the requirements of the Commercial Code. During each financial year, at least one-twentieth of the net profit shall be transferred to the statutory reserve, until reserve reaches one-tenth of share capital. Statutory reserve may be used to cover a loss, or to increase share capital. Payments to shareholders from statutory reserve are not allowed.

1.17 Events after the balance sheet date

Material events that have an effect on the evaluation of assets and liabilities and that became evident between the balance sheet date and the date of preparation of the financial statements by the management board but that are related to transactions in the reporting period or earlier periods, are reported in the financial statements.

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

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on 01.01.2018:

IFRS 9, "Financial Instruments": Classification and Measurement (effective for annual periods beginning on 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Following the initial application of IFRS 9, the Group used an exemption in 2018 for not adjusting its comparative information for 2017.

The effect of the difference in the measurement of financial assets according to the regulations in force until 31.12.2017 and in force as at 01.01.2018 is described in the table:

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

Explanations of abbreviations:

AC – financial assets measured at amortized cost

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

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

HTM – held-to-maturity financial assets

AFS – available-for–sale financial assets

L&R – loans and receivables

The first application of the standard in 01.01.2018 had a negative impact on equity due to the revaluation of the opening balances. More detailed impacts on the implementation of IFRS 9 are presented in these consolidated financial statements and in the notes to the financial statements. With a goal to avoid negative impact on capital adequacy in relation to the implementation of IFRS 9, the Group used the transitional period allowed by Article 473a of Regulation 575/2013 (CRR) in order to mitigate the effect of the write-down on loans due to the transition to IFRS 9, the amount of discounts may be partially deducted from own funds over a period of 5 years.

Amendments to **IAS 40** - "Transfers of Investment Property" (effective for annual periods beginning on or after 1 January 2018):
The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. The amendment has not made an impact on financial statements.

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

The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortised over the period when the benefits of the contract are consumed.

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

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

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

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

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

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

IFRS 16, "Leases" (effective starting from 1 January 2019):

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Following the initial application of IFRS 16, the Group intends to use the exemption in 2019 to not adjust the comparative information for 2018. The effect of the standard is reflected in the income statement by the fact that the costs incurred in the first year of the lease are higher, while the costs in the last year of the lease are lower. The impact on expenses recognized in the statement of profit or loss and other comprehensive income of income in 2019 is 12 thousand euros (difference what would have been under IAS 17). As of 01.01.2019, EUR

1.8 million was recognized on the Group's statement of financial position as assets and liabilities, thus increasing the total of the statement of financial position of the Group.

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

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

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

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

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

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

The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where

it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete.
The Group is currently assessing the impact of the new amendments on financial statements.

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

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

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

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

Note 2 Risk management

Principles of risk management

The Group defines risk as possible negative deviation from the expected result. Risk management is a process aimed at efficiency and profitability of operations that would meet the expectations of shareholders identified in the strategy. As risks are associated with all business activities and on all levels of activity, in addition to the management, risk management involves also all the Group's employees through the internal control system. The tasks of risk management is the identification and measurement of business-related risks, implementation of measures necessary for controlling risks and reporting on risk management performance.

Structure and responsibility of risk management

The Group's risk management system is centralized on the management level - policies and principles of risk management are established at Group level by the Bank's Supervisory Board or Management Board to ensure implementation of common risk management principles in AS Coop Pank and its subsidiaries as well as rapid and effective response to changes in the economic environment or in the Group's business model. Risk management procedures must comply with existing legislative regulations and standards.

The Bank's Management Board is responsible for implementation of risk management, control and risk management policies and methods and effectiveness of risk management. In organizing risk management, the Management Board may in limited degree delegate risk taking, control and monitoring to collegial decision-making bodies with limited decision-making competence set up by the Management Board.

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

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

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

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

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

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

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

Structural units with direct risk control function:

First line of defence

The first level constitutes sales and support divisions and subsidiaries. The first line of defence is to ensure that risks related to the activities, products, and processes in its area of responsibility are identified, assessed and that implementation of measures necessary for controlling risks.

Second line of defence

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

The main functions of the second line of defence are:

- group wide view of regular identification, assessment and monitoring of risks;
- stress testing for liquidity, credit and market risks and drawing up relevant risk reports;
- the notification of the Management and Supervisory Board of risks;
- development of risk management methodology, first line of defence counselling in risk management;
- conducting training in the field of risk management;
- control and monitoring of compliance with internal rules and legislation;
- conducting scheduled and emergency internal controls within the organization.

Third line of defence

Internal Audit Unit

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

Capital management

The Group uses risk-based capital planning which ensures that all risks are adequately covered by own funds at any given time. Capital is defined as the Group's equity which consist of Tier 1 and Tier 2 capital. Overview of regulatory capital is provided in the following table:

Capital base	31.12.2018	31.12.2017	31.12.2016
Tier 1 capital			
Paid-in share capital and share premium	38 374	38 374	25 175
Statutory reserve capital	2 288	2 070	1 970
Accumulated profit/loss	3 799	387	617
The accepted profit of the reporting period	3 989	1 932	0
Other accumulated comprehensive income	-154	0	0
Goodwill as intangible asset (-)	-6 757	-6 757	0
Intangible assets (-)	-2 290	-1 166	-687
Deferred tax asset depending on future taxable profits (-)	0	0	-1
Adjustment of value arising from requirements of reliable measurement (-)	-10	-14	-21
Other deductions from Tier 1 Capital (-)	-313	-1 388	-1 019
Other adjustments of own funds resulting from transitional provisions	598	0	0
Total Tier 1 capital	39 524	33 438	26 034
Subordinated debt	5 000	5 000	3 299
Tier 2 capital	5 000	5 000	3 299
Eligible capital for capital adequacy calculation	44 524	38 438	29 333
Capital adequacy (%)	18.06%	19.90%	21 .22%
Tier 1 capital ratio (%)	16.03%	17.32%	18.84%

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

As at 31.12.2018, 31.12.2017 and 31.12.2016, the Group complies with all regulatory capital requirements.

The Group is using risk-based approach to capital management, ensuring that all risks would be sufficiently covered by capital at all times. Capital planning is conducted on the basis of financial position and profit and loss forecasts that take into account the Group's strategy, future expectations, risk profile and risk appetite. Capital planning is the responsibility of the Bank's Management Board.

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

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

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

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

For determining the capital requirement, the financial position is forecast, taking into account changes by items of the risk position and equity. The financial position and profit and loss forecasts are reviewed regularly and approved by the Bank's Management Board. It also takes into account the possible impact of strategic and reputation risk to the Group's business success, and determines the necessary equity buffer to ensure that desired internal capital adequacy level if alternative and risk scenarios materialize. Overview of the development of capital adequacy including the capital requirements arising from the SREP assessment are presented to the Bank's Management Board and the Supervisory Board on a quarterly basis.

The Group ensures that all risks are covered by adequate capital at any time.

Credit risk management

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

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

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

Credit risk arises from the following financial instruments:

- Cash and cash equivalents (including cash in Central Banks and credit institutions, Note 9);
- Debt securities (bonds) (Note 10);
- Loans and advances to customers (Note 11);
- Other financial assets (Note 13).

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

Credit risk measurement

The Group uses internal credit risk gradings that reflects its assessment of the probability of default of the individual counterparties.

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

- A – there are no circumstances that could cause the loan to fail according to the terms and conditions of the loan agreement, i.e., the loan is outstanding, there are no overdue principal and interest payments or are up to 14 days past due;
- B – contains potential weaknesses, the non-elimination of which may affect the borrower's creditworthiness in the future, principal or interest payments are past due by 15-30 days.
- C – contains clearly identifiable shortcomings that suggest that the loan won't be fully repaid or that the loan has been restructured due to a solvency problem, with a past due of 31-60 days.
- D – insufficient creditworthiness of the borrower, on the basis on which it can be assumed that the repayment of the loan under the contract is unlikely if the situation does not change significantly, i.e. a suspicious loan, a past due of 61-90 days;
- E – the borrower is not able to permanently execute the loan according to contractual terms, i.e. defaulted loan, past due 91-180 days;
- F – loan servicing has ended and there is no prospect of recovery, and/or the contract is extraordinarily terminated i.e. non-collectible loan, 181 days overdue or 91 days or more, and the repayments during 3 months have been 0 euros.

A debt of more than three (3) euros per contract is considered to be a debt in the principal or interest payments of the loan.

The group allocates loans to credit quality classes as follows:

Risk class	Monitoring	PD%	Moody´s	S&P
A	Standard monitoring	0.01%- 1%	Baa1, Baa2, Baa3	BBB, BBB+, BBB-
B		1%-2%	Ba1, Ba2, Ba3	BB+, BB, BB-
C	Special monitoring	2%-5%	B1, B2	B+, B
D		5%-40%	B3	B-
E	Default	40%-80%	Caa, Ca	CCC, C
F		100%	C	D

Probability of Default (PD) ratios are calculated based on weighted average loan product mix of the Group and may vary with different product mix. S&P or Moody´s A rating classes are only applied to bonds traded on active market, therefore not shown in previous table for loans.

Measurement of expected credit loss (ECL)

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

In accorance with IFRS 9 the financial instruments are classified into three stages based on the number of days of past due, financial position of the legal entity and other changes in the quality of the receivable, either as a performing receivable (stage 1), an under-performing receivable (significant increase in credit risk, stage 2) or a non-performing receivable (default, stage 3). The allowance rate for Stage 1 receivables is based on the 12-month expected credit loss. The allowance rate for Stage 2 and Stage 3 requirements is determined on the basis of lifetime expected credit losses, the latter assumes default of the financial instruments.

Expected credit loss is result probability of default (PD), loss given default (LGD) and exposure at default (EAD) discounted to present day. For assessment of loan losses, the expected collections from the loan and interest payments over the coming periods are considered, as well as expected collections and anticipated proceeds from the realization of collateral, sale of the loan or future payments arising from the solvency, discounted at the financial asset's original effective interest rate, which together form a recoverable amount of the loan.

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

For all products, the choice of macroeconomic scenarios used to correct PD’s is based on expert judgement and qualitative analysis. Of the macro indicators, the bank uses the rate of unemployment and the change in GDP. The regression analysis was made between Estonia’s overdue loans and macro indicators. The weighted impact on the probability of default is calculated using a weighting of 80% for the baseline scenario and 10% for a positive and negative baseline scenario for all products. Expert opinions have been used to determine the weights. Based on the prudence principle, macro-scenarios assume that the expected EAD, LGD and PD are unchanged until the economic growth is positive.

<u>Individual and collective assessment, grouping</u>
Loans to legal entities are individually assessed where the total risk of the client (total amount of receivables, if the risk is subject to consolidation in the sense of regulatory concentration risk) exceeds the risk limit of 500 thousand euros set by the credit committee or the receivable has raiting of D, E and F and exceeds 50 thousand euros.
Loans to private individuals are assessed individually if the receivable has a risk rating of E or F and exceeds 50 thousand euros.

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

Frequency of receivable assessments:

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

Significant increase in credit risk

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

- the customer's contractual payments have been past due over 30-days at least once in the past three months;
- significant increase in probability of default since issuing the loan – increase by 1,2% and 2,5x at the same time;
- one of the customer's receivables is restructured due to payment difficulties or contains grace period or interest rate rescheduling;
- the customer is under watch list.

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

Definition of default and credit-impaired assets

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

- at least one of the loans issued to customer is more than 90 days past due on its contractual payments (principal or interest) and
- overdue debt exceeds 3 euros.

Qualitative criteria:

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

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

Sensitivity analysis

When conducting sensitivity analysis, the Group uses macro indicators - the change of unemployment rate for loans to private individuals and the change in GDP for loans to legal entities.

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

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

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

2018	Impact on loan portfolio
Legal entities' loans: GDP change -2%	-16
Private individual's loans: unemployment rate +2%	-61

Maximum exposure to credit risk

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

31.12.2018	Stage 1	Stage 2	Stage 3	2018 total
Cash and cash equivalents	88 030	-	-	88 030
Debt securities at fair value through other comprehensive income	9 130	-	-	9 130
Loans to private individuals				
Consumer loans	57 606	1 780	615	60 001
Lease financing	16 625	245	5	16 875
Mortgage loans and other loans	123 232	3 541	354	127 127
Loans to legal entities				
Lease financing	20 645	2 986	4	23 635
Other loans to legal entities	98 864	5 797	262	104 923
Total	316 972	14 349	1 240	332 561
Loss allowance	-2 112	-1 109	-617	-3 838
Total net loans	314 860	13 240	623	328 723
Exposures related to off-balance sheet items				
Financial guarantees	2 186	-	-	2 186
Unused credit limits	18 075	-	-	18 075
Unused overdrafts	16 842	-	-	16 842
Total off-balance sheet exposures	37 103	-	-	37 103

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

31.12.2017	Not past due		Past due		Impairments		Total
	Individual impairement	Not impaired	Individual impairment	Not impaired	Indivi-dual	Collec-tive	
Cash and cash equivalents	0	98 873	0	0	0	0	98 873
Financial assets designated at fair value through profit or loss	0	11 060	0	0	0	0	11 060
Loans to private individuals							
Consumer loans	0	42 633	266	8 246			51 145
Lease financing	54	8 225	0	347			8 626
Mortgage and other loans	69	98 817	464	4 603			103 953
Loans to legal entities							
Lease financing	0	9 292	178	543			10 013
Other loans	0	67 153	580	456			68 189
Total	123	226 120	1 488	14 195			241 926
Loss allowance					-260	-3 384	-3 644
Total net loans	123	226 120	1 488	14 195	-260	-3 384	238 282
Held-to-maturity financial assets	0	503	0	0	0	0	503
Available-for-sale financial assets	0	13	0	0	0	0	13
Other financial assets	0	477	0	0	0	0	477
Total financial assets	123	337 046	1 488	14 195	-260	-3 384	349 208
Financial guarantees	0	1 187	0	0	0	0	1 187
Loan commitments	0	18 529	0	0	0	0	18 529
Unused overdrafts	0	11 690	0	0	0	0	11 690
Total off-balance sheet exposures	0	31 406	0	0	0	0	31 406
Total exposure to credit risk	123	368 452	1 488	14 195	-260	-3 384	380 614

31.12.2016	Not past due		Past due		Impairments		Total
	Individual impairment	Not impaired	Individual impairment	Not impaired	Indivi-dual	Collec-tive	
Cash and cash equivalents	0	105 549	0	0	0	0	105 549
Financial assets designated at fair value through profit or loss	0	11 421	0	0	0	0	11 421
Loans to private individuals							
Consumer loans	1 629	20 063	6	3 468			25 166
Lease financing	0	4 784	0	350			5 134
Mortgage and other loans	358	83 847	417	4 339			88 961
Loans to legal entities							
Lease financing	0	4 079	0	229			4 308
Other loans	857	24 074	4 195	2 691			31 817
Total	2 844	136 847	4 618	11 077			155 386
Loss allowance					-763	-1 490	-2 253
Total net loans	2 844	136 847	4 618	11 077	-763	-1 490	153 133
Held-to-maturity financial assets	0	503	0	0	0	0	503
Available-for-sale financial assets	0	13	0	0	0	0	13
Other financial assets	0	714	0	0	0	0	714
Total financial assets	2 844	255 047	4 618	11 077	-763	-1 490	271 333
Financial guarantees	0	1 354	0	0	0	0	1 354
Loan commitments	0	539	0	0	0	0	539
Unused overdrafts	0	3 169	0	0	0	0	3 169
Total off-balance sheet exposures	0	5 062	0	0	0	0	5 062
Total exposure to credit risk	2 844	260 109	4 618	11 077	-763	-1 490	276 395

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

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

31.12.2017	AA- and higher	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Not rated	Total
Cash and cash equivalents	5 048	21 633	4 604	2	0	67 586	98 873
Financial assets designated at fair value through profit or loss	0	2 093	3 956	2 224	1 432	1 355	11 060
Held-to-maturity financial assets	0	0	0	0	0	503	503

31.12.2016	AA- and higher	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Not rated	Total
Cash and cash equivalents	20 321	10 595	7 725	607	0	66 301	105 549
Financial assets designated at fair value through profit or loss	0	2 188	5 977	433	1 732	1 091	11 421
Held-to-maturity financial assets	0	0	0	0	0	503	503

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

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

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

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

Consumer loans to private individuals	Stage 1	Stage 2	Stage 3	2018 total
Standard monitoring	57 606	219	0	57 825
Special monitoring	0	1 561	0	1 561
Default	0	0	615	615
Total	57 606	1 780	615	60 001
Loss allowances	-1 138	-367	-458	-1 963
Carrying amount	56 468	1 413	157	58 038

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

Lease financing to private individuals	Stage 1	Stage 2	Stage 3	2018 total
Standard monitoring	16 625	2	0	16 627
Special monitoring	0	243	0	243
Default	0	0	5	5
Total	16 625	245	5	16 875
Loss allowances	-43	-16	-1	-60
Carrying amount	16 582	229	4	16 815

Mortgage loans and other private loans	Stage 1	Stage 2	Stage 3	2018 total
Standard monitoring	123 232	983	0	124 215
Special monitoring	0	2 558	0	2 558
Default	0	0	354	354
Total	123 232	3 541	354	127 127
Loss allowances	-225	-175	-85	-485
Carrying amount	123 007	3 366	269	126 642

Lease financing to legal entities	Stage 1	Stage 2	Stage 3	2018 total
Standard monitoring	20 645	1 533	0	22 178
Special monitoring	0	1 453	0	1 453
Default	0	0	4	4
Total	20 645	2 986	4	23 635
Loss allowances	-117	-44	-1	-162
Carrying amount	20 528	2 942	3	23 473

Other loans to legal entities	Stage 1	Stage 2	Stage 3	2018 total
Standard monitoring	98 864	0	0	98 864
Special monitoring	0	5 797	0	5 797
Default	0	0	262	262
Total	98 864	5 797	262	104 923
Loss allowances	-589	-507	-72	-1 168
Carrying amount	98 275	5 290	190	103 755

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

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

	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
Loans to private individuals						
Consumer loans	291	241	234	2	83	17
Lease financing	1 031	175	10	27	75	7
Mortgage loans and other loans	3 154	1 115	9	36	72	83
Total	4 476	1 531	253	65	230	107
Loans to legal entities						
Lease financing	639	58	0	43	4	0
Other loans	3 966	1 142	120	0	0	0
Total	4 605	1 200	120	43	4	0

Loans and receivables by risk categories as at 31.12.2017

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

Loans and receivables by risk categories as at 31.12.2016

	Not past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
Loans to individuals							
A and B	106 343	4 492	1 369	112 204	-1 182	-2	111 020
C and D	2 221	2 036	748	5 005	-112	-79	4 814
E and F	130	1 629	293	2 052	-85	-116	1 851
Total	108 694	8 157	2 410	119 261	-1 379	-197	117 685
Loans to legal entities							
A and B	24 713	114	810	25 637	-108	-40	25 489
C and D	3 440	2 578	398	6 416	-3	-50	6 363
E and F	0	228	3 844	4 072	0	-476	3 596
Total	28 153	2 920	5 052	36 125	-111	-566	35 448

Allocation of past due loans (gross carrying amount)

31.12.2018	Unsecured loans to private individuals	Secured loans to private individuals	Loans to legal entities	Total
1-30 days	3 925	4 375	2 120	10 420
31-60 days	974	631	3 649	5 254
61-90 days	439	252	37	728
over 90 days	703	437	367	1 507
Total	6 041	5 695	6 173	17 909

31.12.2017	Unsecured loans to private individuals	Secured loans to private individuals	Loans to legal entities	Total
1-30 days	3 296	3 870	1 121	8 287
31-60 days	1 020	1 057	162	2 239
61-90 days	385	322	125	832
over 90 days	2 905	1 071	349	4 325
Total	7 606	6 320	1 757	15 683

31.12.2016	Unsecured loans to private individuals	Secured loans to private individuals	Loans to legal entities	Total
1-30 days	1 223	3 495	282	5 000
31-60 days	477	893	43	1 413
61-90 days	199	380	2 467	3 046
over 90 days	1 007	907	4 322	6 236
Total	2 906	5 675	7 114	15 695

Non-performing loans (stage 3)

31.12.2018	Gross carrying amount	Loss allowance	Carrying amount	Fair value of the collateral
Loans to private individuals				
Consumer loans	615	-458	157	0
Lease financing	5	-1	4	16
Mortgage loans and other loans	354	-85	269	1 020
Total	974	-544	430	1 036
Loans to legal entities				
Lease financing	4	-1	3	72
Other loans	262	-72	190	403
Total	266	-73	193	475

Structure of individually impaired loans to private individuals and legal entities according to past due time

31.12.2017	Not past due	1-30 days	31-60 days	61-90 days	91-180 days	over 180 days	Total	Individual impairment	Net
Loans to private individuals									
C	90	12	38	0	0	0	140	-29	111
D	0	0	54	11	0	0	65	-1	64
E	0	0	0	0	79	0	79	-9	70
F	33	0	0	0	0	536	569	-153	416
Total	123	12	92	11	79	536	853	-192	661
Loans to legal entities									
B	0	27	0	0	0	0	27	0	27
C	0	443	0	0	0	0	443	-17	426
D	0	17	0	0	0	0	17	-2	15
F	0	0	0	0	0	271	271	-49	222
Total	0	487	0	0	0	271	758	-68	690

31.12.2016	Not past due	1-30 days	31-60 days	61-90 days	91-180 days	over 180 days	Total	Individual impairment	Net
Loans to private individuals									
A	1 362	0	0	0	0	0	1 362	-2	1 360
B	7	0	0	0	0	0	7	0	7
C	619	0	0	0	0	0	619	-76	543
D	0	0	0	129	0	0	129	-3	126
F	0	0	0	0	6	287	293	-116	177
Total	1 988	0	0	129	6	287	2 410	-197	2 213
Loans to legal entities									
A	0	0	0	0	0	0	0	0	0
B	810	0	0	0	0	0	810	-40	770
C	46	101	0	0	0	0	147	-13	134
D	0	0	0	1	0	249	250	-37	213
F	0	0	0	0	0	3 845	3 845	-476	3 369
Total	856	101	0	1	0	4 094	5 052	-566	4 486

Collaterals of financial assets

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

The main types of loan collaterals are:

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

- bank deposit;
- pledge of shares;
- traded securities.

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

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

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

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

Non-performing (stage 3) loans, loan and collateral ratio (LTV), gross, as at 31.12.2018:

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

Loans and advances to customers by collateralization, as at 31.12.2017 and 31.12.2016

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

31.12.2016	Loans without collateral		Under-collateralized loans		Over-collateralized loans	
	Carrying value	Fair value of collateral	Carrying value	Fair value of collateral	Carrying value	Fair value of collateral
Inc not past due	13 014	0	7 149	3 526	119 528	435 912
Inc past due	2 981	0	464	355	12 250	40 015
Total loans to customers	15 995	0	7 613	3 881	131 778	475 927

Loans and advances to customers by types of collateral

Private individuals	31.12.2018	31.12.2017	31.12.2016
Real estate	137 530	112 986	98 479
Leased assets	16 875	8 626	5 134
Unsecured loans	49 373	41 745	15 147
Personal sureties, guarantees	224	367	500
Other	1	0	1
Total	204 003	163 724	119 261
Loss allowance	-2 508	-3 276	-1 576
Total of net loans	201 495	160 448	117 685

Legal entities	31.12.2018	31.12.2017	31.12.2016
Real estate	85 698	52 199	30 379
Leased assets	23 635	10 013	4 308
Unsecured loans	780	817	848
Personal sureties, guarantees	1 948	1 218	424
Other	16 497	13 955	166
Total	128 558	78 202	36 125
Loss allowance	-1 330	-368	-677
Total of net loans	127 228	77 834	35 448

Impairment losses on financial assets

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

- Movement from stage 1 to stage 2 or 3 due to signficant increase (or decrease) in the credit risk of a financial instrument or due to default, followed by moving from 12-month to lifetime expected credit loss model (or vice versa);
- Impairment allowance on new financial instruments recognized in the reporting period, as well as decrease in impairment due to derecognition;
- Regular review of risk parameters and resulting changes in ECL due to changes in probability of default (PD), exposure at default (EAD) and loss given default (LGD);
- Effects of model and assumption changes on the ECL model;
- The effect of discounting on the ECL model as the ECL is measured at present value;
- Effects of exchange rate fluctuations on financial assets denominated in foreign currencies;
- Loans and related write-downs written off during the reporting period.

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

Total of loss allowances	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-1 466	-589	-2 219	-4 274
Transfer to stage 1	-68	58	10	0
Transfer to stage 2	184	-189	5	0
Transfer to stage 3	110	42	-152	0
Recalculations of allowances	-384	-431	-295	-1 110
New financial assets originated or purchased	-488	0	0	-488
Total net P&L charge during the period	-646	-520	-432	-1 598
Other movements with no P&L impact				
Write-offs	0	0	30	30
Financial assets derecognized during the period	0	0	2 004	2 004
Balance as at 31.12.2018	-2 112	-1 109	-617	-3 838

Net impact from movements between states is included in the line “Recalculations of allowances”.

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

Loss allowance of consumer loans	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-878	-372	-1 888	-3 138
Transfer to stage 1	-24	22	2	0
Transfer to stage 2	69	-69	0	0
Transfer to stage 3	108	15	-123	0
Recalculations of allowances	-245	37	-453	-661
New financial assets originated or purchased	-168	0	0	-168
Total net P&L charge	-260	5	-574	-829
Other movements with no P&L impact				
Write-offs	0	0	0	0
Financial assets derecognised during the period	0	0	2 004	2 004
Balance as at 31.12.2018	-1 138	-367	-458	-1 963

Loss allowance of lease financing to private individuals	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-49	-2	-2	-53
Transfer to stage 1	-2	2	0	0
Transfer to stage 2	8	-8	0	0
Transfer to stage 3	0	4	-4	0
Recalculations of allowances	11	-12	4	3
New financial assets originated or purchased	-11	0	0	-11
Total net P&L charge	6	-14	0	-8
Other movements with no P&L impact				
Write-offs	0	0	1	1
Financial assets derecognised during the period	0	0	0	0
Balance as at 31.12.2018	-43	-16	-1	-60

Loss allowance of mortgage and other private loans	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-94	-185	-257	-536
Transfer to stage 1	-12	4	8	0
Transfer to stage 2	45	-45	0	0
Transfer to stage 3	2	0	-2	0
Recalculations of allowances	-137	51	162	76
New financial assets originated or purchased	-29	0	0	-29
Total net P&L charge	-131	10	168	47
Other movements with no P&L impact				
Write-offs	0	0	4	4
Financial assets derecognised during the period	0	0	0	0
Balance as at 31.12.2018	-225	-175	-85	-485

Loss allowance of lease financing to legal entities	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-70	-11	-7	-88
Transfer to stage 1	0	0	0	0
Transfer to stage 2	4	-9	5	0
Transfer to stage 3	0	0	0	0
Recalculations of allowances	12	-24	1	-11
New financial assets originated or purchased	-63	0	0	-63
Total net P&L charge	-47	-33	6	-74
Other movements with no P&L impact				
Write-offs	0	0	0	0
Financial assets derecognised during the period	0	0	0	0
Balance as at 31.12.2018	-117	-44	-1	-162

Loss allowance of other loans to legal entities	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
Loss allowance at 01.01.2018	-375	-19	-65	-459
Transfer to stage 1	-30	30	0	0
Transfer to stage 2	58	-58	0	0
Transfer to stage 3	0	23	-23	0
Recalculations of allowances	-25	-483	-9	-517
New financial assets originated or purchased	-217	0	0	-217
Total net P&L charge	-214	-488	-32	-734
Other movements with no P&L impact				
Write-offs	0	0	25	25
Financial assets derecognised during the period	0	0	0	0
Balance as at 31.12.2018	-589	-507	-72	-1 168

Write-offs of financial assets

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

Modification of financial assets

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

In order to modify financial assets, loan agreements are restructured either due to commercial negotiations or payment difficulties, during which the payment term is extended or payment holidays are granted, including sometimes retrospectively. Restructuring practices are based on management estimates that payments by the customer are expected to continue. The risk of default on such loans is measured at the following reporting date and compared to the risk that existed at initial recognition under the original terms, unless the modification is significant and does not result in derecognition of the original asset. The Group monitors the subsequent operation of the modified assets. The Group may decide that, after the restructuring, the credit risk has significantly improved so that the assets are moved from Stage 3 to Stage 2 or Stage 1. This applies only to assets that have operated under the new terms for at least six consecutive months.

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

Concentration of risks

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

Financial assets by economic sector classification

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

31.12.2017	E	K	L	S	G	C	I	Other	Total
Cash and cash equivalents	0	98 873	0	0	0	0	0	0	98 873
Financial assets designated at fair value through profit or loss	0	0	0	1 586	0	2 785	0	6 689	11 060
Loans and advances to customers	160 448	8 567	29 906	3 768	8 096	6 440	5 499	15 558	238 282
Held-to- maturity financial assets	0	0	0	0	0	0	0	503	503
Available-for-sale financial assets	0	0	0	0	0	0	0	13	13
Other financial assets	0	245	0	0	0	0	0	232	477
Total	160 448	107 685	29 906	5 354	8 096	9 225	5 499	22 995	349 208

31.12.2016	E	K	L	S	G	D	I	Other	Total
Cash and cash equivalents	0	105 549	0	0	0	0	0	0	105 549
Financial assets designated at fair value through profit or loss	0	3 073	0	1 091	0	2 188	0	5 069	11 421
Loans and advances to customers	117 685	0	11 976	267	7 860	1 880	5 464	8 001	153 133
Held-to- maturity financial assets	0	0	0	0	0	503	0	0	503
Available-for-sale financial assets	0	0	0	0	0	0	0	13	13
Other financial assets	0	621	0	0	0	0	0	93	714
Total	117 685	109 243	11 976	1 358	7 860	4 571	5 464	13 176	271 333

E-private individuals, K - finance and insurance activities, L - activities related to real estate, S- other services G- wholesale and retail, D - power and heat generation, I - hospitality, food service, C- manufacturing

61% of loans and advances to customers are granted to private individuals (31.12.2017: 68%; 31.12.2016:77%). The portfolio of loans granted to legal entities is diversified between various economic sectors to avoid high levels of concentration. 37% (31.12.2017: 38%; 31.12.2016: 34%) of loans to corporates are granted to companies engaged in the real estate sector and 10% (31.12.2017: 10%; 31.12.2016:22%) are attributable to wholesale and retail entities. The lending activity of the Group is focused on providing financing to local market. The distribution of loans and advances to customers according to credit product is provided in Note 11.

Financial assets by geographical classification

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

31.12.2017	EE	LV	AT	FR	BE	DE	Other	Total
Cash and cash equivalents	72 670	0	6 677	4 109	7 962	4 171	3 284	98 873
Financial assets designated at fair value through profit or loss	2 398	0	0	0	0	0	8 662	11 060
Loans and advances to customers	234 986	2 525	0	0	0	0	771	238 282
Held-to-maturity financial assets	503	0	0	0	0	0	0	503
Available-for-sale financial assets	0	0	0	0	13	0	0	13
Other financial assets	477	0	0	0	0	0	0	477
Total	311 034	2 525	6 677	4 109	7 975	4 171	12 717	349 208

31.12.2016	EE	LV	AT	FR	BE	DE	Other	Total
Cash and cash equivalents	86 128	295	0	0	1 252	6 644	11 230	105 549
Financial assets designated at fair value through profit or loss	2 188	0	2 904	1 839	0	0	4 490	11 421
Loans and advances to customers	143 208	8 874	0	654	0	0	397	153 133
Held-to-maturity financial assets	503	0	0	0	0	0	0	503
Available-for-sale financial assets	0	0	0	0	13	0	0	13
Other financial assets	706	8	0	0	0	0	0	714
Total	232 733	9 177	2 904	2 493	1 265	6 644	16 117	271 333

Liquidity risk management

Liquidity risk is defined as the risk of insufficient solvency on behalf of AS Coop Pank to perform its contractual obligations on a timely basis - i.e. the bank's failure to timely and sustainably finance various assets, or to liquidate its positions in order to perform contractual obligations. Liquidity risk is managed based on the liquidity management policy. The objective of liquidity management in AS Coop Pank is to guarantee, at any given moment, the timely and complete performance of the obligations assumed by the Group while optimizing the liquidity risk in such a manner as to achieve maximum and stable profitability on investments with different maturities.

The Bank's main liquidity management body is the Assets and Liabilities Committee (ALCO). The functions and areas of responsibility of ALCO in the management of liquidity are:

- to plan short-term and long-term liquidity of the Group, and to design and implement the measures to be used;
- to analyse and summarize the information concerning the Group's assets and liabilities, interest income and expenses, management of liquidity and investments, and, if necessary, to prepare the adoption of strategic decisions by the Board;
- to optimize the ratio of the maturities, profitability and instruments of the Group's assets and liabilities in order to achieve the bank's strategic objectives;
- to regulate the Group's required liquidity level as well the level of the risk of change in the acceptable interest rate risk and the acceptable value of assets and liabilities.

The following bodies are regularly informed of the bank's liquidity position: the Management Board, ALCO and Credit Committee. The bank maintains a sufficient level of liquidity in order to ensure timely performance of its obligations.

Coop Pank group uses an approach based on the analysis of the duration gap between the maturities of assets and liabilities for the management of AS Coop Pank group's liquidity position. An overview of the division of assets and liabilities by maturities has been provided in following table. Limits have been established for all major liquidity indicators. The following indicators are used for the measurement of liquidity risk:

- liquidity Coverage Ratio (LCR);
- maintenance period in a liquidity crisis situation;
- financing concentration;
- ratio of liquid assets to demand deposits;
- ratio of non-current liabilities to investments requiring stable funding.

The Group's total duration gap in the period of up to 12 months is negative. This indicates that the Group has more liabilities with a duration of up to 12 months compared to receivables with the corresponding duration. The management of the duration gap risk is based on estimates concerning forecast cash flows arising from liabilities – demand deposits are usually rather stable source of funding and up to 12-month term deposits are often prolonged – therefore the 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.

The overview of the Group's financial assets and financial liabilities by residual maturity (undiscounted cash flows) is provided in the table below.

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

31.12.2017	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	98 211	664	0	0	98 875
Financial assets designated at fair value through profit or loss	0	3 143	7 917	0	11 060
Loans and advances to customers	22 418	41 797	100 951	144 620	309 786
Held-to-maturity financial assets	0	0	503	0	503
Available-for-sale financial assets	0	0	0	13	13
Other financial assets	304	0	0	173	477
Total financial assets	120 933	45 604	109 371	144 806	420 714
Liabilities					
Customer deposits and loans received	182 859	82 076	50 102	2 640	317 677
Other financial liabilities	3 216	0	0	0	3 216
Subordinated debt	84	253	1 350	6 660	8 347
Total financial liabilities	186 159	82 329	51 452	9 300	329 240
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	30 219	0	0	0	30 219
Financial guarantees	1 187	0	0	0	1 187
Total on-balance-sheet and off-balance-sheet liabilities	217 565	82 329	51 452	9 300	360 646
Duration gap of financial assets and financial liabilities	-96 632	-36 725	57 919	135 506	60 068

31.12.2016	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	105 049	500	0	0	105 549
Financial assets designated at fair value through profit or loss	1 037	5 457	4 927	0	11 421
Loans and advances to customers	15 220	21 271	73 399	92 503	202 393
Held-to-maturity financial assets	0	0	503	0	503
Available-for-sale financial assets	0	0	0	13	13
Other financial assets	431	0	0	283	714
Total financial assets	121 737	27 228	78 829	92 799	320 593
Liabilities					
Customer deposits and loans received	170 221	55 902	26 229	2 493	254 845
Other financial liabilities	1 433	0	0	0	1 433
Subordinated debt	76	234	4 969	0	5 279
Total financial liabilities	171 730	56 136	31 198	2 493	261 557
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	3 708	0	0	0	3 708
Financial guarantees	1 355	0	0	0	1 355
Total on-balance-sheet and off-balance-sheet liabilities	176 793	56 136	31 198	2 493	266 620
Duration gap of financial assets and financial liabilities	-55 056	-28 908	47 631	90 306	53 973

Market risk management

Market risk arises from the Group's trading and investment activities in the interest, currency and equity markets. Market risk arises from changes in interest rates, currency exchange rates and prices of financial assets. The acceptance of market risk is controlled by using risk limits. Different factors influencing market risks are monitored on a daily basis. The primary market risk bearing assets in the Group are investments in bonds. The volume of the bond portfolio decreased in total by 2018, a more detailed overview is given in Note 10. The average maturity of the portfolio has increased, but the total market risk has decreased, the risk arises primarily from bonds quoted in USD.

The market risk of the portfolio of bonds is mainly caused by the maturity date and possible change in the interest rates. The interest rate sensitivityof the financial investments portfolio is calculated regularly. The sensitivity of the debt securities portfolio given a 100 bp increase in interest rates as at 31.12.2018 was 128 thousand euros (31.12.2017: 179 th.euros, 31.12.2016: 87 th.euros).

Currency risk is defined as a risk arising from the differences in the currency structure of the Group's assets and liabilities. Changes in currency exchange rates cause changes in the value of assets and liabilities, as well as the amount of income and expenses measured in the functional currency. The group generally maintains minimum foreign currency positions required for the provision of services to customers. All foreign currency positions are continually monitored and marked to market. The Group covers open foreign currency positions using swap and forward transactions. The total amount of open currency positions as at 31.12.2018 was 164 thousand euros (2017: 313 th.euros, 2016: 57 th.euros). The sensitivity analysis has been carried out with the justified effects of possible exchange rate changes (10% on average) on the statement of comprehensive income, remaining constant for all other variables, the impact amount is 16 thousand euros (2017: 31 th.euros, 2016: 6 th.euros).

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

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

31.12.2017	EUR	USD	Other	Total
Assets				
Cash and cash equivalents	81 262	13 572	4 039	98 873
Financial assets at fair value through profit or loss	4 895	6 165	0	11 060
Loans and advances to customers	238 282	0	0	238 282
Held-to-maturity financial assets	503	0	0	503
Available-for-sale financial assets	13	0	0	13
Other financial assets	305	169	3	477
Total financial assets	325 260	19 906	4 042	349 208
Liabilities				
Customer deposits and loans received	292 335	19 806	3 829	315 970
Subordinated debt	5 026	0	0	5 026
Other financial liabilities	3 216	0	0	3 216
Total financial liabilities	300 577	19 806	3 829	324 212
Off-balance sheet liabilities				
Undrawn lines of credit and overdraft facilities	30 219	0	0	30 219
Financial guarantees	1 187	0	0	1 187
Total on-balance-sheet and off-balance sheet liabilities	331 983	19 806	3 829	355 618
Net position	-6 723	100	213	-6 410

31.12.2016	EUR	USD	Other	Total
Assets				
Cash and cash equivalents	70 374	29 038	6 137	105 549
Financial assets at fair value through profit or loss	5 964	5 457	0	11 421
Loans and advances to customers	152 922	211	0	153 133
Held-to-maturity financial assets	503	0	0	503
Available-for-sale financial assets	13	0	0	13
Other financial assets	376	220	118	714
Total financial assets	230 152	34 926	6 255	271 333
Liabilities				
Customer deposits and loans received	213 294	34 485	6 218	253 997
Subordinated debt	4 039	0	0	4 039
Other financial liabilities	1 012	404	17	1 433
Total financial liabilities	218 345	34 889	6 235	259 469
Off-balance sheet liabilities				
Undrawn lines of credit and overdraft facilities	3 708	0	0	3 708
Financial guarantees	1 354	0	0	1 354
Total on-balance-sheet and off-balance sheet liabilities	223 407	34 889	6 235	264 531
Net position	6 745	37	20	6 802

Interest rate risk is defined as a risk of unexpected unfavourable changes in interest rates that might affect the revenue generated by the group. The Group is exposed to interest rate risk if the due payment dates of its main assets and liabilities are different, if the structure of assets and liabilities varies in different currencies or if the interest rates of assets and liabilities can be adjusted at different time intervals.

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

31.12.2018	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest-earning assets					
Balances with central banks	52 063	0	0	0	52 063
Loans and advances to credit institutions	13 746	500	0	0	14 246
Debt securities at fair value through other comprehensive income	514	1 371	7 245	0	9 130
Loans and advances to customers, gross	203 428	131 120	19	0	334 567
Total interest-earning assets	269 751	132 991	7 264	0	410 006
Interest-bearing liabilities					
Customer deposits and loans received	378 438	0	0	0	378 438
Subordinated debt	0	0		5 000	5 000
Total interest-bearing liabilities	378 438	0	0	5 000	383 438
Exposure to interest rate risk duration gap	-108 687	132 991	7 264	-5000	26 568

31.12.2017	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest-earning assets					
Balances with central banks	44 815	0	0	0	44 815
Loans and advances to credit institutions	30 627	662	0	0	31 289
Financial assets designated at fair value through profit or loss	0	3 143	7 917	0	11 060
Loans and advances to customers, gross	151 220	92 723	30	0	243 973
Held-to-maturity financial assets	0	503	0	0	503
Total interest-earning assets	226 662	97 031	7 947	0	331 640
Interest bearing liabilities					
Customer deposits and loans received	315 126	0	0	0	315 126
Subordinated debt	0	0	0	5 000	5 000
Total interest-bearing liabilities	315 126	0	0	5 000	320 126
Exposure to interest rate risk duration gap	-88 464	97 031	7 947	-5 000	11 514

31.12.2016	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest-earning assets					
Balances with central banks	43 919	0	0	0	43 919
Loans and advances to credit institutions	39 284	0	0	0	39 284
Financial assets designated at fair value through profit or loss	1 037	5 457	4 927	0	11 421
Loans and advances to customers, gross	94 176	63 793	23	0	157 992
Held-to-maturity financial assets	0	503	0	0	503
Total interest-earning assets	178 416	69 753	4 950	0	253 119
Interest bearing liabilities					
Customer deposits and loans received	245 142	2 737	5 434	17	253 330
Subordinated debt	0	0	4 000	0	4 000
Total interest-bearing liabilities	245 142	2 737	9 434	17	257 330
Exposure to interest rate risk duration gap	-66 726	67 016	-4 484	-17	-4 211

Interest rate risk management entails the analysis of the interest rate risk of all the Group's assets and liabilities and the management of duration. At least once a year the assessment of interest risk of the bank portfolio is done. The next tables give estimates of the annual impact of the parallel shift of the interest rate curve on interest income and interest expense by currencies.

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

31.12.2018	EUR	USD	Other	Total
Change in interest income	1 631	0	0	1 631
Change in interest expense	935	20	0	955
Change in net interest income	696	-20	0	676

31.12.2017	EUR	USD	Other	Total
Change in interest income	1 077	0	0	1 077
Change in interest expense	661	20	0	681
Change in net interest income	416	-20	0	396

31.12.2016	EUR	USD	Other	Total
Change in interest income	661	2	0	663
Change in interest expense	373	22	0	395
Change in net interest income	288	-20	0	268

The total impact of the 100 bp increase in the interest rate curve on net interest income over one year and corresponding impact on equity was 676 thousand euros (396 thousand euros 31.12.2017 and 268 thousand euros 31.12.2016) at the balance sheet date, while the impact of the 100 bp interest rate decrease was 275 thousand euros (186 thousand euros 31.12.2017 and -164 thousand euros 31.12.2016). Sensitivity to interest rates is impacted by the transfer of interest rate risk arising from the established contractual minimum rate on loans and floating interest rates. The interest rate risk scenario assumes the impact of derivative instruments and decrease of interest rates to a minimum level of 0%.

The impact of a 100 basis points increase in interest rates of the Group's economic value of equity, while discounting assets and liabilities through lifetime, as at 31.12.2018 was 210 thousand euros and the impact of a decrease of 100 basis points was 2 836 thousand euros, corresponding figures as at 31.12.2017 were 333 thousand euros and 8 104 thousand euros; as at 31.12.2016 were 1 509 and 10 832 thousand euros. The positive impact on the Group's equity from the decline of interest rates comes from the contracts with minimum interest levels that the Group has signed which are not affected by the deadline in interest rate. The change of interest rate date equals with the due date for these loans.

Interest risk management is made through limiting due dates of assets and liabilities of different currencies that are open to interest risk, balancing the structure of due dates of assets and liabilities and the use of derivative instruments when needed.

Operational risk management

Operational risk is risk arising from malfunctions or deficiencies in the Group's information systems, errors in personnel policy, negligence or wrongful behaviour of staff members, inadequate rules of procedure or external factors that cause damage to or disturb the Group's daily business activities. Operational risk includes informational technology risk, procedural risk, personnel risk, legal risk, security systems risk and discovery risk. The Group manages operational risk on the basis of established operational risk policy.

Operational risk is viewed and managed as a separate risk management area within the Group, with the required resources allocated and an adequate amount of own funds provided for covering potential losses. The management of operational risk is integrated within the Group's day-to-day activities. The nature, impact and need to control the operational risk must be acknowledged by all employees within the Group.

The evaluation of operational risk is, above all, carried out qualitatively, as the organization is relatively small and simple and actual loss events are a rare. The loss events are registered in the loss database, specifying the amount of loss that was incurred. The Group monitors the dynamics of operational risk by analysing the main risk indicators on a quarterly basis. Reports about the loss events related to the operational risk by analysing the main risk indicators are submitted to the Management Board on a regular basis at least once a quarter. The Group carries out operational risk self-evaluation on a regular basis. The Group uses the Basic Indicator Approach to calculate the operational risk capital requirement.

Fair value of assets and liabilities

The Group estimates the fair value of such financial assets and financial liabilities that are not measured at fair value in the statement of financial position of the Group. Assets not measured at fair value are primarily loans and advances to customers and liabilities not measured at fair value are mainly deposits. The Group discounts cash flows using the market yield curve as a basis in order to estimate the fair value of financial assets and financial liabilities.

31.12.2018	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial assets at fair value through other comprehensive income					
Debt securities at fair value through other comprehensive income	9 130	-	-	9 130	9 130
Equity instruments at fair value through other comprehensive income	-	13	-	13	13
Total of financial assets at fair value through other comprehensive income	9 130	13	-	9 143	9 143
Investment property	-	-	904	904	904
Financial assets at amortized cost					
Cash and cash equivalents	88 030	-	-	88 030	88 030
Loans and advances to customers	-	-	328 723	328 723	326 200
incl. private individuals	-	-	202 177	202 177	199 853
incl. legal entities	-	-	126 546	126 546	126 347
Other financial assets	333	-	-	333	333
Total of financial assets at amortized cost	88 363	-	328 723	417 086	414 563
Financial liabilities at amortized cost					
Customer deposits and loans received	-	-	385 118	385 118	385 118
incl. private individuals	-	-	237 279	237 279	237 279
incl. legal entities	-	-	137 837	137 837	137 837
incl. credit institutions	-	-	10 002	10 002	10 002
Other financial liabilities	-	-	4 126	4 126	4 126
Subordinated debt	-	-	5 026	5 026	5 026
Total of financial liabilities at amortized cost	-		394 270	394 270	394 270

31.12.2017	Level 1	Level 2	Level 3	Carrying value	Fair value
Debt instruments – at fair value through profit or loss	11 060	-	-	11 060	11 060
Equity instruments – assets held for sale	-	13	-	13	13
Investment property – at fair value through profit or loss	-	-	2 398	2 398	2 398
Financial assets at amortized cost					
Cash and cash equivalents	98 873	-	-	98 873	98 873
Loans and advances to customers	-	-	238 282	238 282	240 943
incl. private individuals	-	-	160 448	160 448	162 770
incl. legal entities	-	-	77 834	77 834	78 173
Held.to-maturity financial assets	-	-	503	503	523
Other financial assets	477	-	-	477	477
Total of financial assets at amortized cost	99 350	-	238 785	338 135	340 816
Financial liabilities at amortized cost					
Customer deposits and loans received	-	-	315 970	315 970	316 058
incl. private invididuals	-	-	151 787	151 787	152 121
incl. legal entities	-	-	159 181	159 181	158 935
incl. credit institutions	-	-	5 002	5 002	5 002
Other financial liabilities	-	-	3 216	3 216	3 216
Subordinated debt	-	-	5 026	5 026	5 026
Total of financial liabilities at amortized cost	-	-	324 212	324 212	324 300

31.12.2016	Level 1	Level 2	Level 3	Carrying value	Fair value
Debt instruments – at fair value through profit or loss	11 421	-	-	11 421	11 421
Equity instruments – assets held for sale	-	13	-	13	13
Investment property – at fair value through profit or loss	-	-	9 105	9 105	9 105
Financial assets at amortized cost					
Cash and cash equivalents	105 549	-	-	105 549	105 549
Loans and advances to customers	-	-	153 133	153 133	153 866
incl. private individuals	-	-	117 685	117 685	118 418
incl. legal entities	-	-	35 448	35 448	35 448
Held.to-maturity financial assets	-	-	503	503	510
Other financial assets	714	-	-	714	714
Total of financial assets at amortized cost	106 263	-	153 636	259 899	260 639
Financial liabilities at amortized cost					
Customer deposits and loans received	-	-	253 997	253 997	253 976
incl. private invididuals	-	-	136 686	136 686	136 896
incl. legal entities	-	-	117 126	117 126	116 895
incl. credit institutions	-	-	185	185	185
Other financial liabilities	-	-	1 433	1 433	1 433
Subordinated debt	-	-	4 039	4 039	4 039
Total of financial liabilities at amortized cost	-	-	259 469	259 469	259 448

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

IFRS 13 determines a hierarchy for fair value measurements, which is based on whether inputs are observable or unobservable. Observable inputs reflect market information obtained from independent sources; unobservable inputs reflect assumptions that are available for a market. The following hierarchy for fair value measurement has been established on the basis of these two categories of inputs:

Level 1 – (unadjusted) quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. This level includes publicly quoted equity-related securities and debt instruments listed on exchanges, as well as instruments quoted by market participants.

Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (in the form of prices) or indirectly (are derived from prices). Sources for input parameters (for example euro bond yield curve or counterparty credit risk) are Bloomberg and Reuters.

Level 3 – inputs for the asset or liability that are not based on observable market information (unobservable inputs). Investment property is classified as Level 3 in the fair value hierarchy.

When determining the fair value of the deposits current deposit balances are discounted using the deposit interest rates offered to new deposits included in the analysis. When calculating the fair value of variable interest and fixed interest rate loans, future cash flows are discounted based on market interest rates, in addition margins applied to new loans are added.

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

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

As at 31.12.2016 the fair value of loans and advances was 0,5% higher (733 thousand euros) than the carrying amount and the fair value of deposits was 21 thousand euros higher than the carrying amount.

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

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

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

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

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

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

31.12.2018	Fair value	Rent income per year	Medium rent price (eur/m2)	Discount rate	Capitalization rate	Possible change in rent price	Maximum impact to value
Valued according to market approach:							
-commercial real estate	381	24	6.21-7.95	-	-	3-8%	+/-7%
-residential property	213	11	-	-	-	5%	+/-5%
Income approach:							
-commercial real estate	310	23	3.61-10.99	13%	11%	3-10%	+/-8%
Total investment property	904	58	-	-	-	-	-

31.12.2017	Fair value	Rent income per year	Medium rent price (eur/m2)	Discount rate	Capitaliza-tion rate	Possible change in rent price	Maximum impact to value
Valued according to market approach:							
-commercial real estate	481	27	3.45-7.62	-	-	-	+/-10%
-residential property	258	2	-	-	-	-	+/-10%
Income approach:							
-office premises	649	20	2.95-9.99	11%	10%	3-10%	+/-10%
Combined method							
-commercial real estate	1 010	21	-	9.50%	8.50%	0	+/-20%
Total investment property	2 398	70	-	-	-	-	-

31.12.2016	Fair value	Rent income per year	Medium rent price (eur/m2)	Discount rate	Capitaliza-tion rate	Possible change in rent price	Maximum impact to value
Valued according to market approach:							
-commercial real estate	4 071	153	1.81-7.26	-	-	5-10%	+/-20%
-residential property	388	6	1.39-8.98	-	-	0-6%	+/-5%
-land	27	0	0	-	-	0-5%	+/-25%
Income approach:							
-office premises	4 619	373	5,70-9,86	9,5 -11,0%	7,70 -9,0%	kuni 8%	+/-15%
Total investment property	9 105	532	-	-	-	-	-

Note 3 Subsidiaries and goodwill

In May 2017 the Group acquired 100% of the shares of Coop Finants AS in order to grow its market share in consumer loans segment. Purchase price analysis was carried out at 31.05.2017, in the process the fair value of Coop Finants AS assets and lisabilities were assessed. The carrying value of receivables substantially matched their fair value, which was 21 940 thousand euros. The gross contractual amounts of loans and advances to customers was 21 961 thousand euros and the estimated contractual cash flows not expected to be collected was 1 050 thousand euros. The fair value of liabilities was 17 697 thousand euros. Acquisition related costs of 2 thousand euros were recognized as operating expenses.

The acquired subsidiary's separate net revenue (net interest income, net fee income and net other income) and profit for the period of 1.06.2017-31.12.2017 was 2.9 million euros and 1.6 million euros respectively. Separate net revenue and net profit for 2017 were in total 5.0 million euros and 2.5 million euros respectively. If the acquisition had occured on 1 January 2017, Group net revenue for 2017 would have been EUR 19.1 million and profit for 2017 would have been 5.4 million euros. Coop Finants AS net revenue and profit in 2016 were 3.3 mln euros and 1.6 mln euros respectively.

	Fair value at acquisition
Cash and cash equivalents	328
Loans and advances to customers	20 911
Other assets	701
Due to credit institutions	-16 599
Other liabilities	-1 098
Total identified net assets	4 243
Total consideration paid in cash by Coop Pank	11 000
Goodwill	6 757

From the acquisition of subsidiary goodwill was recognized, which includes synergies and intangible assets that were not separately identified. The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined cost savings expected to arise. Goodwill as at 31.12.2018 was 6 757 thousand euros (31.12.2017: 6 757 thousand euros). As at 31.12.2018 and 31.12.2017 goodwill was tested for impairment. Value-in-use calculations are based on following assumptions:

- estimated growth in the volume of loan portfolio is 10-15% per year (2017: 10-13%)
- average increase in net income is 10-12% per year (2017: 7-10%)
- increase in expenses is 10% (2017: 7%)
- average loan impairment loss is 3,3-3,5% per year (2017: 5,4-5,7%)
- cost of capital of 15% is used as cash flows discount rate (2017: 15%)

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

- loan portfolio and net interest income growth up to 3%
- increase in expenses 15%
- loan impairment losses 4-5%
- cost of capital 15%

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

In June 2017 the bank acquired 49% minority share in subsidiary Krediidipank Finants AS, becoming therefore owner of 100% of the shares, amount of the transaction was 2 058 thousand euros. 2 October 2017 AS Krediidipank Finants transferred all its assets and liabilities to Coop Finants AS, the business activities continue under the name of Coop Finants AS. In January 2018 Krediidipank Finants name was changed to CP Vara AS, the company will be liquidated.

Note 4 Operating segments

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

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

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

Segments are the basis for regular monitoring of business results by the Group's management and supervisory boards, and separate financial data is available for the segments. According to the group's structure, the group also divides the corporate banking and retail banking segments into more detailed business lines of loans and everyday banking (deposits, settlements). The Group also uses business lines for planning and budgeting, but business lines are not defined as separate segments.

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

Segment profits in 2018, in th.euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Interest income	5 680	4 952	7 883	1 253	1 371	-1 284	19 855
Incl. external income	5 680	4 952	7 883	1 253	87	0	19 855
Incl. internal income	0	0	0	0	1 284	-1 284	0
Interest expenses	-1 097	-1 536	-530	-369	-828	1 284	-3 076
Net interest income	4 583	3 416	7 353	884	543	0	16 779
Commission income	1 216	888	1 364	33	168	0	3 669
Commission expense	-517	-585	-259	-6	0	0	-1 367
Net commission income	699	303	1 105	27	168	0	2 302
Other operating income	124	140	396	62	-35	0	687
Net income	5 406	3 859	8 854	973	676	0	19 768
Operating expenses	-2 954	-5 030	-3 794	-1 173	-650	0	-13 601
Profit before credit losses and income tax	2 452	-1 171	5 060	-200	26	0	6 167
Impairment losses (-) or reversals (+)on loans	-701	159	-761	-89	0	0	-1 392
Income tax expense	-14	-8	0	0	0	0	-22
Profit of the year	1 737	-1 020	4 299	-289	26	0	4 753

*Other includes treasury, subsidiaries Martinoza and Prana Property and Latvian branch in 2017 and 2016.

Assets and liabilitites as at 31.12.2018, in millions euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Loan portfolio	104	161	46	41	86	-109	329
Other assets	47	29	16	8	17	0	117
Total assets	151	190	62	49	103	-109	446
Total liabilitites	137	174	60	41	94	-109	397

Fee and commission income allocation

	Corporate banking	Retail banking	Consumer financing	Leasing	Other	Elimina-tion	Total
Fees on card transactions	201	308	525	0	0	0	1 034
Monthly fees on cards	1	9	827	0	0	0	837
Account opening and management fees	309	350	0	0	0	0	659
Bank transfer fees	469	140	0	0	0	0	609
Gains from foreign exchange transactions	156	10	0	0	167	0	333
Other fee and commission income	80	71	12	33	1	0	197
Total fee and commission income	1 216	888	1 364	33	168	0	3 669

Segment profits in 2017, in th. euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Interest income	2 655	4 204	5 535	481	1 097	-489	13 483
Incl. external income	2 655	4 204	5 535	481	608	0	13 483
Incl. internal income	0	0	0	0	489	-489	0
Interest expenses	-534	-1 182	-314	-138	-285	489	-1 964
Net interest income	2 121	3 022	5 221	343	812	0	11 519
Commission income	1 324	698	814	17	338	0	3 191
Commission expense	-417	-453	-132	-3	-16	0	-1 021
Net commission income	907	245	682	14	322	0	2 170
Other operating income	84	61	264	43	3 148	0	3 600
Net income	3 112	3 328	6 167	400	4 282	0	17 289
Operating expenses	-2 369	-3 769	-3 189	-722	-1 469	0	-11 518
Profit before credit losses and income tax	743	-441	2 978	-322	2 813	0	5 771
Impairment losses (-) or reversals (+) on loans	-16	103	-1 366	-34	0	0	-1 313
Income tax expense	0	0	0	0	0	0	0
Profit of the year	727	-338	1 612	-356	2 813	0	4 458

Assets and liabilitites as at 31.12.2017, in millions euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Loan portfolio	93	141	38	18	6	-58	238
Other assets	78	18	13	2	22	0	133
Total assets	171	159	51	20	28	-58	371
Total liabilitites	155	141	46	15	27	-58	326

Fee and commission income allocation

	Corporate banking	Retail banking	Consumer financing	Leasing	Other	Elimina-tion	Total
Fees on card transactions	126	85	270	0	0	0	481
Monthly fees on cards	1	9	450	0	0	0	460
Account opening and management fees	260	232	0	0	14	0	506
Bank transfer fees	554	180	0	0	37	0	771
Gains from foreign exchange transactions	232	14	0	0	260	0	506
Other fee and commission income	151	177	94	17	27	0	466
Total fee and commission income	1 324	697	814	17	338	0	3 190

Segment profits in 2016, in th. euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Interest income	2 053	3 791	2 602	336	899	-562	9 119
Incl. external income	2 053	3 791	2 602	336	337	0	9 119
Incl. internal income	0	0	0	0	562	-562	0
Interest expenses	-358	-986	-180	-149	-610	562	-1 721
Net interest income	1 695	2 805	2 422	187	289	0	7 398
Commission income	1 333	654	365	19	1 117	0	3 488
Commission expense	-320	-344	-2	-8	-77	0	-751
Net commission income	1 013	310	363	11	1 040	0	2 737
Other operating income	183	19	0	0	623	0	825
Net income	2 891	3 134	2 785	198	1 952	0	10 960
Operating expenses	-1 893	-2 951	-1 416	-361	-1 467	0	-8 088
Profit before credit losses and income tax	998	183	1 369	-163	485	0	2 872
Impairment losses (-) or reversals (+) on loans	264	-12	-793	-8	-460	0	-1 009
Income tax expense	-8	0	0	0	-112	0	-120
Profit of the year	1 254	171	576	-171	-87	0	1 743

Assets and liabilitites as at 31.12.2016, in millions euros	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimina-tion	Total
Loan portfolio	42	145	14	10	0	-53	158
Other assets	85	13	2	2	30	0	132
Total assets	127	158	16	12	30	-53	290
Total liabilitites	121	139	14	11	29	-53	261

Fee and commission income allocation

	Corporate banking	Retail banking	Consumer financing	Leasing	Other	Elimina-tion	Total
Fees on card transactions	151	100	0	0	0	0	251
Monthly fees on cards	19	44	0	0	0	0	63
Account opening and management fees	265	143	0	0	30	0	438
Bank transfer fees	638	213	0	0	264	0	1 115
Gains from foreign exchange transactions	198	85	0	0	659	0	942
Other fee and commission income	62	70	365	19	163	0	679
Total fee and commission income	1 333	654	365	19	1 117	0	3 488

Note 5 Net interest income

	2018	2017	2016
Interest income calculated using effective interest method:			
Consumer loans and hire-purchase loans	7 882	5 530	2 602
Loans to entities	4 825	2 288	1 465
Loans to private individuals	4 161	3 531	3 237
Bonds	406	587	544
Other assets	94	162	114
Interest income on liabilities	193	269	130
Other similar interest income:			
Leasing	2 294	1 076	1 027
Total interest income	19 855	13 443	9 119
Interest expense			
Demand deposits of customers	-2 484	-1 394	-1 244
Subordinated debt	-342	-311	-310
Interest expense on assets	-250	-219	-167
Total interest expenses	-3 076	-1 924	-1 721
Net interest income	16 779	11 519	7 398

Note 6 Fee and commission income

	2018	2017	2016
Fees on card transactions	1 034	481	251
Monthly fees on cards	837	460	63
Account opening and management fees	659	506	438
Bank transfer fees	609	771	1 115
Gains from foreign exchange transactions	333	506	942
Other fee and commission income	197	466	679
Total fee and commission income	3 669	3 190	3 488
Charges on card transactions	-879	-587	-437
Bank transfer fees	-263	-279	-266
Other fee and commission expense	-225	-154	-48
Total fee and commission expense	-1 367	-1 020	-751
Net fee and commission income	2 302	2 170	2 737

In 2018, the Group earned 79% of fee and commission income from Estonian residents and 21% from residents of other countries (Latvia, Finland and other EU countries). In 2017, 67% of fee and commission income was earned from Estonian residents and 33% from residents of other countries (incl. Latvian branch of the bank and residents of other EU countries). In 2016, 41% of fee and commission income was earned from Estonian residents and 59% from residents of other countries (incl. Latvian branch of the bank and residents of other EU countries). All fee and commission income is recognised point in time.

Note 7 Payroll expenses

	2018	2017	2016
Wages and salaries	-6 137	-5 287	-3 894
Social tax, unemployment insurance premiums	-2 040	-1 675	-1 266
Total	-8 177	-6 962	-5 160

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

Note 8 Operating expenses

	2018	2017	2016
Advertising expenses	-1 122	-1 085	-349
Rent of buildings	-743	-491	-401
Administration of information systems	-653	-668	-367
Office expenses	-463	-400	-292
Services purchased	-420	-290	-457
Contributions to Deposit Guarantee Fund	-187	-195	-85
Training and travel expenses	-179	-109	-48
Financial supervision fee instalments	-111	-95	-86
Legal services, state fees	-63	-143	-80
Transport expenses	-47	-50	-28
Membership fees	-18	-36	-30
Property and casualty insurance	-7	-7	-9
Other operating expenses	-615	-541	-242
Total	-4 628	-4 110	-2 474

Note 9 Cash and cash equivalents

	31.12.2018	31.12.2017	31.12.2016
Cash	21 721	22 771	22 337
Mandatory reserve at the central bank *	2 742	2 607	1 919
Demand deposits at central bank	49 321	42 208	42 000
Demand deposits at credit institutions	13 755	30 789	38 793
Term deposits at credit institutions *	491	498	500
Total	88 030	98 873	105 549

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

Term deposits with credit institutions are pledged as collateral. Mandatory reserve in the central bank is the minimum amount that the bank has to hold in the central bank and this amount is not freely usable. Mandatory reserve requirement as of 31.12.2018 was 1% (31.12.2017: 1%) from all financing sources (deposits from customers and loans received). The reserve requirement is to be fulfilled as a monthly average in euros or in foreign securities preapproved by central bank.

Note 10 Financial investments

	31.12.2018	31.12.2017	31.12.2016
Government debt securities	1 929	2 848	2 904
Debt securities of credit and financing institutions	0	0	3 073
Debt securities of other non-financial companies	7 201	8 715	5 947
Total of debt securities	9 130	11 563	11 924
Shares of other non-financial corporations	13	13	13
Total of equity instruments	13	13	13
Total of financial investments	9 143	11 576	11 937

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

Note 11 Loans and advances to customers

	31.12.2018	31.12.2017	31.12.2016
Total receivables from private individuals	204 003	163 724	119 261
incl. consumers loans	60 001	51 145	25 166
incl. lease financing	16 875	8 626	5 134
incl. mortgage loans and other loans	127 127	103 953	88 961
Total receivables from legal entities	128 558	78 202	36 125
incl. lease financing	23 635	10 013	4 308
incl. other loans to legal entities	104 923	68 189	31 817
Total receivables	332 561	241 926	155 386
Loss allowances of loans and advances	-3 838	-3 644	-2 253
Total	328 723	238 282	153 133

Finance lease receivables	31.12.2018	31.12.2017	31.12.2016
Gross investment – lease payments receivable, incl	44 584	20 198	9 988
up to 1 year	13 280	7 552	4 541
1-5 years	29 808	11 898	5 278
over 5 years	1 496	748	169
Interest income not received	-3 836	-1 525	-487
up to 1 year	-1 436	-621	-220
1-5 years	-2 375	-887	-259
over 5 years	-25	-17	-8
Finance lease net investment	40 748	18 673	9 501
up to 1 year	11 844	6 931	4 321
1-5 years	27 433	11 011	5 019
over 5 years	1 471	731	161

Note 12 Loan allowances and loan losses

Loan allowances	31.12.2018	31.12.2017	31.12.2016
Balance at the beginning of the reporting period	-3 644	-2 253	-2 494
IFRS 9 first day effect	-630	0	0
Allowances during the reporting period	-1 598	-2 600	-1 165
Derecognized during reporting period	2 034	1 209	1 406
Balance of allowance at the end of the reporting period	-3 838	-3 644	-2 253

Loan losses	31.12.2018	31.12.2017	31.12.2016
Allowances during the reporting period	-1 598	-1 550	-1 165
Receiving written off loans	206	237	156
Loan losses or reduction of loan losses	-1 392	-1 313	-1 009

Note 13 Other financial assets and other assets

	31.12.2018	31.12.2017	31.12.2016
Financial assets			
Cash in transit	1	72	431
Security deposits	178	173	190
Other receivables	154	232	93
Total financial assets	333	477	714
Other assets			
Properties under construction	2 649	3 133	3 563
Real estate acquired for sale	4 019	4 180	716
Other assets	29	10	0
Total assets held for sale	6 697	7 323	4 279
Prepayment for financial supervision	131	115	101
Settlements with the Tax and Customs Board	193	1 150	3
Other prepayments	613	827	150
Total other assets	937	2 092	254
Investment property	904	2 398	9 105
Total	8 871	12 290	14 352

Note 14 Investment property

	31.12.2018	31.12.2017	31.12.2016
Carrying amount at the beginning of the period	2 398	9 105	11 220
Sold during period	-1 307	-7 155	0
Reclassification from property, plant and equipment	0	839	288
Reclassification from inventories	0	-653	-2 511
Change in fair value	-187	262	108
Carrying amount at the end of the period	904	2 398	9 105
incl. investment property earning rental income	904	2 353	9 105

Note 15 Tangible and intangible assets

	Land and properties	Other assets	Intangible assets	Total
Carrying amount at 31.12.2015				
incl. cost	5 446	2 400	2 014	9 860
incl. depreciation	-1 241	-1 517	-1 253	-4 011
Carrying amount	4 205	883	761	5 849
Acquisition	0	53	91	144
Sale at carrying amount	0	-49	0	-49
Write-off at carrying amount	0	-12	0	-12
Reclassification as investment property	-288	9	0	-279
Depreciation charged	-93	-196	-165	-454
Carrying amount at 31.12.2016				
incl. cost	5 092	2 237	2 104	9 433
incl. depreciation	-1 268	-1 549	-1 417	-4 234
Carrying amount	3 824	688	687	5 199
Acquisition	136	1 462	470	2 068
Assets acquired through acquisition of a subsidiary	0	147	215	362
Sale at carrying amount	-2 320	-27	0	-2 347
Write-off at carrying amount	-306	-61	-30	-397
Reclassification as investment property	-839	0	0	-839
Depreciation charged	-66	-204	-176	-446
Carrying amount at 31.12.2017				
incl. cost	565	2 949	2 662	6 176
incl. depreciation	-136	-944	-1 496	-2 576
Carrying amount	429	2 005	1 166	3 600
Acquisition	0	797	1 452	2 249
Sale at carrying amount	-290	-9	0	-299
Depreciation charged	-7	-460	-329	-796
Carrying amount at 31.12.2018				
Incl. cost	136	3 608	4 113	7 857
Incl. depreciation	-4	-1 275	-1 824	-3 103
Carrying amount	132	2 333	2 289	4 754

Note 16 Customer deposits and loans received

	31.12.2018	31.12.2017	31.12.2016
Private individuals	237 279	151 787	136 686
Legal entities	137 837	159 181	117 126
Credit institutions	10 002	5 002	185
Total	385 112	315 970	253 997
Demand deposits	120 544	153 031	141 273
Term deposits	249 864	159 290	109 745
Issued debt securities	5 052	0	0
Special purpose loans	9 658	3 649	2 979
Total	385 118	315 970	253 997

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

Note 17 Other financial liabilities and other liabilities

	31.12.2018	31.12.2017	31.12.2016
Financial liabilities			
Cash in transit	2 966	1 339	1 061
Trade payables	289	326	100
Other financial liabilities	871	1 551	272
Total financial liabilities	4 126	3 216	1 433
Other liabilities			
Payables to employees	1 270	1 033	668
Tax liabilities	311	250	186
Other liabilities	1 264	707	270
Total other liabilities	2 845	1 990	1 124
Total	6 971	5 206	2 557

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

Note 18 Subordinated debt

	Year of issue	Interest rate	Maturity date	Amount
Subordinated debt	2011	7.75%	15.02.2021	4 000
Liabilities as at 31.12.2016				4 000
Repaid before the deadline on 01.12.2017				-4 000
Subordinated debt	2017	6.75%	04.12.2027	5 000
Liabilities as at 31.12.2017				5 000
Liabilities as at 31.12.2018				5 000
Accrued interest liability as at 31.12.2017				26
Interest expense calculated during 2018				338
Paid out interest expense during 2018				-338
Accrued interest liability as at 31.12.2018				26

Note 19 Equity

AS at 31.12.2016 the share capital of the bank was 25 001 thousand euros, which was dividend into 39 117 600 ordinary shares of no par value. In 2017 the share capital of the bank was increased twice, in May in the amount of 11 118 thousand euros which consisted of 16 230 934 shares and in June by 2 080 thousand euros which consisted of 3 036 661 shares. The shares were fully paid in cash.

The share capital of the bank as at 31.12.2018 amounts to 38 199 thousand euros, which is divided into 58 385 195 ordinary shares of no par value. According to the articles of association, share capital can be increased to 80 million euros without any amendment to the articles of association. As at 31.12.2018 the carrying value of one share is 0.65 euros (31.12.2017: the same).

The shareholders have approved a share option program, which allows issuing share options to management team of the Group up to 3.5% of the number of shares outstanding on the date of approving the share option program (2 043 480 shares). Based on the share option program, options can be granted up to April 30, 2019. Vesting period of the options is 3 years and issue of shares will be decided on the Annual General Meeting of Shareholders or Meeting of the Shareholders close to the vesting date. Reserve of options granted and related expenses in statement of profit and loss as of 31.12.2018 amounted to 103 thousand euros. Employees do not have the possibility to take the specified amount in cash in lieu of the share options. Share options cannot be exchanged, sold, pledged or encumbered. Share options can be inherited. The contract of share options will expire if employee is leaving the company one year before vesting period.

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

According to the requirements of § 336 of the Commercial Code, during each financial year, at least 1/20 of the net profit shall be transferred to the statutory reserve, until the statutory reserve reached 1/10 of the share capital. Once the statutory reserve capital reaches the amount specified in the Commercial Code, no more transfers on account of the net profit will be made to the statutory reserve capital. On a basis of a decision of the general meetings of shareholders, statutory reserve capital may be used to cover losses, as well as to increase share capital. Distributions to shareholders from the statutory reserve capital are not permitted.

Note 20 Contingent assets and liabilities

	31.12.2018	31.12.2017	31.12.2016
Financial guarantees	2 186	1 187	1 354
Lines of credit and overdraft facilities	34 917	30 219	3 708
Total	37 103	31 406	5 062

The Group applies the expected credit loss model for contingent liabilities, see Note 2.

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

Note 21 Litigations

In 2018, there were 5 claims against the Group (the Group company is in the role of defendant). Porpability of realization of the claims is very low and perspective of the claims is in benefit for the Group. 4 claims make total of 550 thousand euros and one is related to challenging the right of superficies taken as collateral of a loan.

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

Note 22 Leased assets

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

	2018	2017	2016
Up to 1 year	147	556	171
1-5 years	1 437	1 649	390
Over 5 years	353	77	100
Total	1 937	2 282	661

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

Due to realization of the real estate previously belonged and used by the Group, there has been a noticeable increase in the payments for office premise rent.

Note 23 Related parties

The following have been considered as related parties:

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

The terms of the loans granted to related parties do not differ from the loans granted to other customers with regard to interest rates. Transactions with related parties are based on the price list and/or are carried out at market value.

Balances	31.12.2018	31.12.2017	31.12.2016
Shareholders:			
Subordinated debt	0	0	4 000
Deposits	5 280	1 502	28
Members of the management board and supervisory board and their close relatives and related entities:			
Loans	114	133	128
Deposits	1 567	1 865	236

Transactions	31.12.2018	31.12.2017	31.12.2016
Shareholders:			
Interest expenses	7	1	310
Members of the management board and supervisory board and their close relatives and related entities:			
Interest income of the reporting period	3	3	3
Interest expenses of the reporting period	1	2	0
Sale of other goods and services	2	2	2
Purchase of other goods and services	104	330	0
Salaries to members of the Management Board and Supervisory Board	521	516	469
Maximum termination benefits payable to members of the management board on a contingent basis	175	175	30

Note 24 Basic earnings and diluted earnings per share

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

	31.12.2018	31.12.2017	31.12.2016
Profit attributable to the owners of the parent (in th.euros)	4 753	4 345	1 529
Weighted average number of shares (in th.of units)	58 385	48 751	39 118
Basic earnings per share (euros)	0,08	0,09	0,04
Adjustments for calculation of diluted earnings per share – share options (in th.of units)	1 556	584	0
Weighted average number of shares used for calculating the diluted earnings per share (in th.of units)	59 941	49 335	39 118
Diluted earnings per share (euros)	0,08	0,09	0,04

Independent auditor's report

To the Management Board of AS Coop Pank

(Translation of the Estonian original)*

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements included in the Prospectus present fairly, for the purpose of the Prospectus, in all material respects, the consolidated financial position of AS Coop Pank (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2016, 31 December 2017 and 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the years 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 27 March 2018.

What we have audited

The Group's consolidated financial statements included in the Prospectus (the "consolidated financial statements") comprise:

- the consolidated statements of financial position as at 31 December 2016, 31 December 2017 and 31 December 2018;
- the consolidated statements of profit or loss and comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.
-

The consolidated financial statements have been prepared by the Bank for inclusion in the Prospectus, in accordance with the Annex 1 item 18.1 to the Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004 (hereinafter called "Delegated Regulation 2019/980").

Basis for opinion

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

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

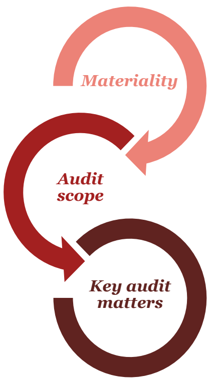
Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

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

Our audit approach

Overview



Materiality

Overall group materiality is EUR 492 thousand, which represents approximately 1% of net assets of the Group as at 31.12.2018.

Audit scope

A full scope audit was performed by PwC Estonia for all Group entities covering substantially all of the Group's consolidated assets, liabilities, revenues and expenses.

Key audit matters

- Valuation of loans and advances to customers

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

Materiality

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

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

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

Key audit matters

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

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

- evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1, 2 or 3;
- assessing accounting interpretations and modelling assumptions used to build the models that calculate ECL;
- the modelling and calculation of key parameters of ECL model, including probability of default (PD), loss given default (LGD) and exposure at default (EAD);
- determining the macro-economic indicators and incorporating forward-looking information into the ECL model;
- estimating the above mentioned indicators for reliable future period and for three different scenarios (base scenario, negative and positive scenario) and assigning probabilities to those scenarios; and
- estimating ECL for stage 3 loans (individual assessment).

input into the ECL model; and

- the completeness of loans subject to stage 3 assessment and related ECL calculations.

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

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In order to achieve this objective, based on the size and risk characteristics, we performed a full scope audit of the financial information for the following entities within the Group: Coop Pank AS (Estonia), Coop Finants AS (Estonia) and Coop Liising AS (Estonia). Additionally we performed an audit of specific balance sheet and income statement line items for AS Martinoza (Estonia) and SIA Prana Property (Latvia).

At the Group level we tested the consolidation process and performed additional analytical procedures over the components in scope to confirm our conclusion that no material misstatements exist that may affect the consolidated financial statements. Information describing the structure of the Group is included in Note 1 of the consolidated financial statements.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Declaration

For the purpose of Annex 1 item 1.2 to the Delegated Regulation 2019/980, we accept responsibility for this auditor's report, constituting a part of the Prospectus, and declare that we have applied due diligence in order to ensure that the information contained in the auditor's report is, to our best knowledge, true, fair and consistent with the actual state, and that nothing was omitted that might affect its significance. This declaration has been included in this Prospectus in accordance with the requirements of Annex 1 item 1.2 to the Delegated Regulation 2019/980.

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of AS Coop Pank on 22 April 2014 for the financial year ended 31 December 2014. The total period of our uninterrupted engagement appointment for AS Coop Pank is 5 years.

AS PricewaterhouseCoopers

/signed/	/signed/
Tiit Raimla Certified auditor in charge, auditor's certificate no.287	Evelin Lindvers Auditor's certificate no.622

4 November 2019

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

Contacts
372 669 0966
klienditugi@cooppank.ee
www.cooppank.ee
COOP | Pank

Interim Report

Quarter III 2019

Table of Contents

Management report

Structure of the group as at 30.09.2019. First five companies are registered in Estonian Commercial Register and the last company in Latvian Commercial Register:

Company name	Activity	Holding
Coop Pank AS	banking	parent company
Coop Liising AS	leasing	100%
Coop Finants AS	other lending activities	100%
Coop Kindlustusmaakler AS	insurance mediation	100%
AS Martinoza	real estate management	100%
SIA Prana Property	real estate management	100%

In august, the liquidation process of Bank's subsidiary CP Vara AS was concluded, and the company was deleted from the commercial register on 14 August 2019. However, on 8 August 2019, Bank's new subsidiary was listed in the register - Coop Kindlustusmaakler AS - whose main field of activity is offering insurance mediation services.

At the end of September Coop Pank had 56,300 daily banking clients, thus, the bank's client portfolio has increased by 33% compared to the same period last year. The growth of customer base is backed by healthy economic environment, reliability as well as the overall attitude of favouring domestically-owned banks. Several product innovations have also had a positive impact to the increase of client numbers. This spring Coop Pank joined the interbank instant payment system that allows customers to make and receive up to EUR 15 000 interbank money transfers in seconds. At the same time Coop Pank set the annual interest rate paid to private customers' current account balance to 1%. In spring, the bank provided the clients with the additional opportunity to pay cash to their bank accounts at the cashier of Coop stores. From July, Coop Bank adds free loan insurance to home loan agreements, providing the home borrower with an additional sense of security.

Group's net loan portfolio increased by EUR 89 million in nine months and reached EUR 418 million by the end of Q3. All financing business lines invested in the growth - home loan, consumer loan, business loan and leasing. In nine months, the volume of Bank's deposits increased by EUR 93 million and was EUR 478 million by the end of September. Term deposits showed the fastest growth. In nine months the banking group earned the profit of EUR 3,9 million, which is about 30% more than in the same period last year. Interest income contributed most to the increased profit.

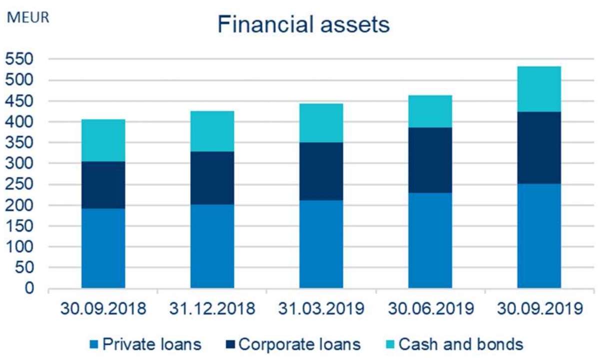
Continuous growth of business volumes is the core objective of Coop Pank in 2019. To support the company's growth strategy, in spring Coop Pank issued subordinated bonds worth EUR 2 million, with a maturity of 10 years, to LHV Pension Funds. The June special general meeting of shareholders decided to increase bank's share capital by EUR 4 million.

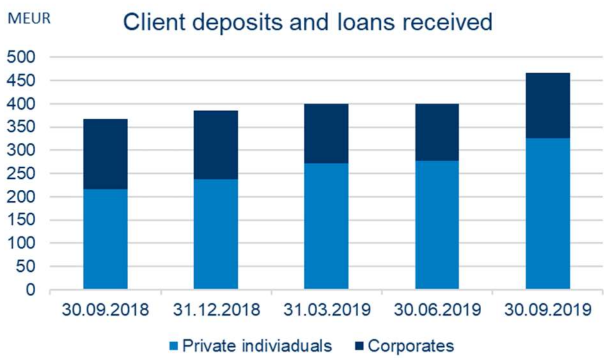
Preparatory activities for the public listing of Coop Pank shares began in the spring and have proceeded according to plan. Coop Pank shares are expected to reach the Nasdaq Tallinn Stock Exchange later this year. However, the timing of the issue may be affected by the situation of the world economy and its reflection on stock markets.

Overview of financial results

Income statement EUR thousand	Q3 2019	Q2 2019	quarterly change	Q3 2018	annual change
Net interest income	5 431	4 939	10%	4 315	26%
Net fee and commissions income	540	606	-11%	601	-10%
Other income	159	77	106%	116	37%
Total net operating income	6 130	5 622	9%	5 032	22%
Operating expenses	-4 039	-3 921	3%	-3 399	19%
Loan losses	-572	-448	28%	-473	21%
Income tax	0	-2	100%	0	0%
Net profit	1 519	1 251	21%	1 160	31%

Business volumes, EUR thousand	Q3 2019	Q2 2019	quarterly change	Q3 2018	annual change
Loan portfolio	417 907	380 642	10%	305 710	37%
Cash and bonds	109 647	78 356	40%	101 030	9%
Customer deposits and loans received	477 826	409 036	17%	367 178	30%
Equity	57 346	55 807	3%	47 579	21%





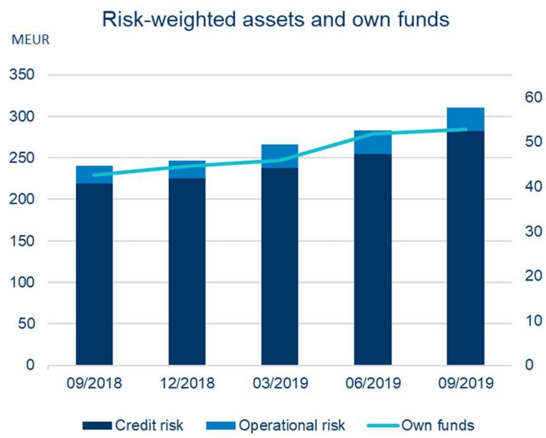
Ratios (quarterly ratios, expressed on annualised basis)	Q3 2019	Q2 2019	quarterly change	Q3 2018	annual change
Average equity (attributable to parent company), EUR thousand	56 576	53 130	3 446	46 978	9 598
Return on equity ROE %	10.7	9.4	1.3	9.9	0.8
(net profit / average equity)					
Average total assets, EUR thousand	516 417	473 494	42 923	213 786	302 631
Return on assets ROA %	1.2	1.1	0.1	2.2	-1.0
(net profit / average total assets)					
Cash and interest-bearing assets, average, EUR thousand	499 985	457 196	42 789	412 076	87 909
Net interest margin NIM %	4.3	4.3	0.0	4.2	0.2
(net interest income / interest-bearing assets, average)					
Cost / income ratio %	65.9	69.7	-3.8	67.5	-1.6
(total operating costs / total net operating income)					

Capitalisation

Capital base, EUR thousand	30.09.2019	31.12.2018
Tier 1 capital		
Paid-in share capital and share premium	42 400	38 374
Statutory reserve capital	2 526	2 288
Retained earnings	8 313	3 799
Eligible profit of the reporting period	2 425	3 989
Other accumulated comprehensive loss	-33	-154
Goodwill accounted for as intangible asset (-)	-6 757	-6 757
Intangible assets (-)	-3 084	-2 290
Adjustment of value arising from requirements of reliable measurement (-)	-4	-10
Other deductions from Tier 1 capital (-)	-572	-313
Other transitional adjustments of own funds	535	598
Total Tier 1 capital	45 749	39 524
Subordinated debt	7 000	5 000
Tier 2 capital	7 000	5 000
Eligible capital for capital adequacy calculation	52 749	44 524
Risk-weighted assets RWA		
Central government and central banks using standardised approach	714	965
Credit institutions, investment companies and local governments using standardised approach	683	2 915
Companies using standardised approach	31 947	28 245
Retail claims using standardised approach	80 634	62 038
Claims secured by mortgage on real estate using standardised approach	125 479	100 004
Claims past due using standardised approach	4 295	959
Items subject to particularly high risk using standardised approach	26 680	19 626
Other assets using standardised approach	11 920	10 330
Total credit risk and counter-party credit risk	282 352	225 082
Operational risk using basic indicator approach	28 414	21 509
Total risk-weighted assets (total risk exposure)	310 766	246 591
Capital adequacy ratio %	16.97%	18.06%
Tier 1 capital ratio %	14.72%	16.03%

Requirements to own funds:		
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 (capital adequacy)	8.00%	total capital / total risk exposure
Systemic risk buffer	1.00%	of total risk exposure
Capital conservation buffer	2.50%	of total risk exposure

By the end of the reporting period, the Group is in conformity with all regulative capital requirements. Compared to the end of 2018, the capital adequacy ratio has decreased by 1,09 pp. In Q1, to support the growth of business volumes the Bank included subordinated debt in the amount of EUR 2 million in Tier 2 capital, and in Q2, EUR 4 million share capital in Tier 1 capital.



Coop | Pank

Consolidated financial statements

Consolidated statement of comprehensive income

EUR thousand	Note	Q3 2019	9 M 2019	Q3 2018	9 M 2018
Interest income calculated using the effective interest method		5 950	16 295	4 628	12 736
Other similar income		737	2 003	506	1 284
Interest expense		-1 256	-3 428	-819	-2 224
Net interest income	3	5 431	14 870	4 315	11 796
Fee and commission income		928	2 686	939	2 807
Fee and commission expense		-388	-989	-338	-968
Net fee and commission income	4	540	1 697	601	1 839
Revenue from sale of assets		40	140	148	473
Cost of assets sold		-41	-134	-171	-461
Rental income from investment properties		5	27	14	62
Direct property operating expenses		-14	-67	-23	-90
Change in fair value of investment property		0	-20	-7	75
Net gains/losses from non-financial asset realization		0	0	-2	-8
Net gains/losses from financial assets measured at fair value		12	7	-31	-32
Revenue from claims handling		139	391	158	449
Other income		18	52	30	95
Other net income		159	396	116	563
Payroll expense		-2 567	-7 169	-2 073	-6 046
Operating expense		-1 025	-3 197	-1 115	-3 396
Depreciation		-447	-1 260	-211	-566
Total operating expense		-4 039	-11 626	-3 399	-10 008
Net profit before impairment losses on loans and advances		2 091	5 337	1 633	4 190
Impairment losses on loans and advances		-572	-1 393	-473	-1 080
Profit before income tax		1 519	3 944	1 160	3 110
Income tax		0	0	0	0
Net profit for the reporting period	2	1 519	3 944	1 160	3 110
Items that may subsequently be reclassified to income statement:					
Financial assets at fair value through other comprehensive income		-11	121	15	-151
Comprehensive income for the reporting period		1 508	4 065	1 175	2 959
Net profit attributable to:					
Owners of parent company		1 519	3 944	1 160	3 110
Non-controlling interest		0	0	0	0
Net profit for the reporting period		1 519	3 944	1 160	3 110
Comprehensive income attributable to:					
Owners of parent company		1 508	4 065	1 175	2 959
Non-controlling interest		0	0	0	0
Comprehensive income for the reporting period		1 508	4 065	1 175	2 959
Basic earnings per share		0,02	0,07	0,02	0,05
Diluted earnings per share		0,02	0,06	0,02	0,05

Consolidated statement of financial position

EUR thousand	Note	30.09.2019	31.12.2018
Assets			
Cash and cash equivalents	5	105 533	88 030
Debt securities at fair value through other comprehensive income	6	4 114	9 130
Equity instruments at fair value through profit or loss		13	13
Loans and advances to customers	7,8,9,10	417 907	328 723
Other financial assets		898	333
Assets held for sale		6 774	6 697
Goodwill		6 757	6 757
Right-of-use assets		1 595	0
Other property, plant and equipment		2 494	2 465
Intangible assets		3 084	2 289
Investment property		594	904
Other assets		1 535	937
Total assets		551 298	446 278
Liabilities			
Customer deposits and loans received	11	477 826	385 118
Lease liabilities		1 598	0
Other financial liabilities		5 156	4 126
Other liabilities		2 261	2 845
Subordinated debt		7 111	5 026
Total liabilities		493 952	397 115
Shareholder's equity			
Share capital		42 400	38 199
Share premium		0	175
Statutory reserve capital		2 526	2 288
Retained earnings		12 258	8 552
Other reserves		162	-51
Total equity		57 346	49 163
Total liabilities and equity		551 298	446 278

Consolidated statement of cash flows

EUR thousand	Note	9 M 2019	9 M 2018
Cash flows from operating activities			
Interest received		18 097	14 051
Interest paid		-2 916	-1 534
Service fee and commission received		2 686	2 807
Service fee and commission paid		-989	-968
Other received income		414	484
Salaries paid		-7 265	-6 024
Other operating expenses paid		-3 197	-3 206
Cash flows from operating activities before the change in assets and liabilities related to operating activities		6 830	5 610
Change in operating assets:			
Loan receivables from customers		-90 289	-68 452
Change of statutory reserve in central bank		-609	-434
Other assets		-1 149	564
Change in operating liabilities:			
Change in client deposits and loans received		92 281	50 604
Other liabilities		365	2 244
Net cash flows from operating activities		7 429	-9 864
Cash flows from investment activities			
Acquisition of property, plant and equipment		-1 707	-1 622
Sale of property, plant and equipment		226	1 871
Acquisition of debt instruments		0	-2 544
Sale and redemption of debt instruments		4 930	4 216
Total cash flows from investment activities		3 449	1 921
Cash flows from financing activities*			
Issue of subordinated bonds		2 000	0
Contribution to share capital		4 026	0
Total cash flows from financing activities		6 026	0
Effect of exchange rate fluctuations to cash and cash equivalents		-5	4
Change in cash and cash equivalents		16 899	-7 939
Cash and cash equivalents at the beginning of period		84 797	95 768
Cash and cash equivalents at the end of period	5	101 696	87 829
Cash and cash equivalents balance is comprised of:		101 696	87 829
Cash on hand		22 154	22 525
Demand deposits in central banks		76 916	46 978
Demand and short-term deposits in credit institutions		2 626	18 326

* The Bank has changed the presentation of cash flow statement. The „Loans received" and „Issue of bonds (unsubordinated)", reported earlier as cash flows from financing activities, are now recorded under cash flows from operating activities.

Consolidated statement of changes in equity

EUR thousand	Share capital	Share premium	Statutory reserve capital	Other reserves	Revalu-ation reserve	Retained earnings	Total equity
Equity as at 31.12.2017	38 199	175	2 070	0	0	4 732	45 176
IFRS9 first day effect:							
Loan portfolio	0	0	0	0	0	-630	-630
Debt securities	0	0	0	0	85	-85	0
Change in reserves	0	0	218	0	0	-218	0
Share options	0	0	0	74	0	0	74
Net profit 01.01.-30.09.3018	0	0	0	0	0	3 110	3 110
Other comprehensive income 01.01.-30.09.2018	0	0	0	0	-151	0	-151
Total comprehensive income for the reporting period	0	0	0	0	-151	3 110	2 959
Equity as at 30.09.2018	38 199	175	2 288	74	-66	6 909	47 579
Share options	0	0	0	29	0	0	29
Net profit 01.10.-31.12.2018	0	0	0	0	0	1 643	1 643
Other comprehensive income 01.10.-31.12.2018	0	0	0	0	-88	0	-88
Total comprehensive income for the reporting period	0	0	0	0	-88	1 643	1 555
Equity as at 31.12.2018	38 199	175	2 288	103	-154	8 552	49 163
Increase of share capital at the expense of share premium	175	-175	0	0	0	0	0
Contribution to share capital	4 026	0	0	0	0	0	4 026
Change in reserves	0	0	238	0	0	-238	0
Share options	0	0	0	92	0	0	92
Net profit 01.01.-30.09.2019	0	0	0	0	0	3 944	3 944
Other comprehensive income 01.01.-30.09.2019	0	0	0	0	121	0	121
Total comprehensive income for the reporting period	0	0	0	0	121	3 944	4 065
Equity as at 30.09.2019	42 400	0	2 526	195	-33	12 258	57 346

Notes to consolidated financial statements

Note 1 Accounting principles

The interim report has been prepared in conformity with International Accounting Standard IAS 34 "Interim Financial Reporting" as approved by the EU. The interim report should be read parallel to the Annual Report 2018, prepared in conformity with International Financial Reporting Standards (IFRS).

Subsidiaries are consolidated on a line-by-line basis, eliminating the intercompany transactions, receivables and liabilities, income and expense. The definition of group according to the Regulation (EU) No 575/2013 of the European Parliament and of the Council matches that of IFRS.

All figures in financial statements are in thousands of euros unless noted otherwise.

The accounting principles used in Q3 Interim Report 2019 are generally in conformity with accounting principles used in Annual Report 2018, the accounting of leases changed according to changes in IFRS 16 "Leases", applied from 01.01.2019. The effect of implementing the standard is recognised in the statement of financial position and comprehensive income statement, and in notes to financial statements. The Group has not applied this standard in previous reporting periods. Details of the effect of implementing IFRS 16 standard are described in Note 1, section 1.18 of the Annual Report 2018.

Note 2 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the main operating decision-maker. The main decision-maker, responsible for resource distribution and evaluation of the activities of the segments, is the management board of the bank.

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

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

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

Revenue reported by a segment consists of revenue from external customers and additional interest income or interest expense on inter-segment borrowing, which is based on the internal transfer pricing model in the Group and is shown as elimination in the tables below. The Group does not have any customers whose income would account for more than 10% of the respective type of income. All interest income is earned in Estonia. The geographical breakdown of commission fees is shown in Note 4.

Segment profits, Q3 2019, EUR thousand	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimi-nation	Total
Interest income	2 026	1 683	2 620	617	460	-719	6 687
Interest expense	-517	-637	-222	-221	-378	719	-1 256
Net interest income	1 509	1 046	2 398	396	82	0	5 431
Commission income	148	303	413	40	24	0	928
Commission expense	-118	-195	-72	-3	0	0	-388
Net commission income	30	108	341	37	24	0	540
Other net income	12	21	84	42	0	0	159
Net income	1 551	1 175	2 823	475	106	0	6 130
Total operating expense	-941	-1 534	-1 004	-405	-155	0	-4 039
Profit before credit losses and income tax	610	-359	1 819	70	-49	0	2 091
Impairment losses	-67	73	-499	-79	0	0	-572
Income tax expense	0	0	0	0	0	0	0
Net profit	543	-286	1 320	-9	-49	0	1 519

Segment profits, 9m 2019, EUR thousand	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimi-nation	Total
Interest income	5 486	4 677	7 183	1 609	1 210	-1 867	18 298
Interest expense	-1 386	-1 772	-615	-584	-938	1 867	-3 428
Net interest income	4 100	2 905	6 568	1 025	272	0	14 870
Commission income	504	840	1 206	71	65	0	2 686
Commission expense	-302	-484	-195	-8	0	0	-989
Net commission income	202	356	1 011	63	65	0	1 697
Other net income	62	77	230	82	-55	0	396
Net income	4 364	3 338	7 809	1 170	282	0	16 963
Total operating expense	-2 672	-4 483	-2 897	-1 147	-427	0	-11 626
Profit before credit losses and income tax	1 692	-1 145	4 912	23	-145	0	5 337
Impairment losses	-422	417	-1 155	-233	0	0	-1 393
Income tax expense	5	-5	0	0	0	0	0
Net profit	1 275	-733	3 757	-210	-145	0	3 944

Assets and liabilities as at 30.09.2019, EUR million	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimi-nation	Total
Total assets	174	234	81	72	183	-193	551
Total liabilities	154	212	73	64	184	-193	494

* "Other" includes treasury, subsidiaries Martinoza and Prana Property.

Segment profits, Q3 2018, EUR thousand	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimi-nation	Total
Interest income	1 396	1 277	2 088	352	376	-355	5 134
Interest expense	-284	-387	-139	-105	-259	355	-819
Net interest income	1 112	890	1 949	247	117	0	4 315
Commission income	295	247	345	7	45	0	939
Commission expense	-135	-142	-59	-2	0	0	-338
Net commission income	160	105	286	5	45	0	601
Other net income	26	44	99	14	-67	0	116
Net income	1 298	1 039	2 334	266	95	0	5 032
Total operating expense	-746	-1 276	-890	-275	-212	0	-3 399
Profit before credit losses and income tax	552	-237	1 444	-9	-117	0	1 633
Impairment losses	-184	17	-294	-12	0	0	-473
Income tax expense	0	0	0	0	0	0	0
Net profit	368	-220	1 150	-21	-117	0	1 160

Segment profits, 9m 2018, EUR thousand	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimi-nation	Total
Interest income	3 711	3 627	5 762	850	973	-902	14 021
Interest expense	-802	-1 138	-389	-253	-543	902	-2 223
Net interest income	2 909	2 489	5 373	597	430	0	11 798
Commission income	962	685	1 008	22	130	0	2 807
Commission expense	-374	-417	-171	-5	0	0	-967
Net commission income	588	268	837	17	130	0	1 840
Other net income	105	85	299	42	31	0	562
Net income	3 602	2 842	6 509	656	591	0	14 200
Total operating expense	-2 168	-3 660	-2 839	-851	-492	0	-10 010
Profit before credit losses and income tax	1 434	-818	3 670	-195	99	0	4 190
Impairment losses	-446	69	-552	-151	0	0	-1 080
Income tax expense	0	0	0	0	0	0	0
Net profit	988	-749	3 118	-346	99	0	3 110

Assets and liabilities as at 30.09.2018, EUR million	Corporate banking	Retail banking	Consumer financing	Leasing	Other*	Elimi-nation	Total
Total assets	158	182	58	39	84	-93	428
Total liabilities	145	164	53	35	76	-93	380

* "Other" includes treasury, subsidiaries Martinoza and Prana Property.

Note 3 Net interest income

Interest income	Q3 2019	9 M 2019	Q3 2018	9 M 2018
Consumer loans and hire-purchase loans	2 620	7 183	2 087	5 760
Loans to entities	1 884	5 053	1 347	3 396
Loans to private individuals	1 394	3 835	1 035	3 010
Leasing	737	2 003	506	1 284
Bonds	50	186	97	311
Interest income on liabilities	2	36	55	165
Other assets	0	2	7	94
Total	6 687	18 298	5 134	14 020
Interest expense				
Customer deposits and loans received	-1 064	-2 899	-654	-1 773
Subordinated debt	-124	-333	-86	-256
Interest expense on assets	-63	-180	-79	-195
Other expense	-5	-16	0	0
Total	-1 256	-3 428	-819	-2 224
Net interest income	5 431	14 870	4 315	11 796

Note 4 Net fee and commission income

Fee and commission income	Q3 2019	9 M 2019	Q3 2018	9 M 2018
Fees on card transactions	350	977	479	826
Account opening and management fees	144	438	180	538
Bank transfer fees	84	275	147	481
Gains from foreign exchange transactions	47	128	89	259
Other fee and commission income	303	868	44	703
Total	928	2 686	939	2 807
Fee and commission expense				
Charges on card transactions	-241	-638	-209	-600
Bank transfer fees	-88	-181	-23	-202
Other fee and commission expense	-59	-170	-106	-166
Total	-388	-989	-338	-968
Net fee and commission income	540	1 697	601	1 839

In Q3 2019, the Group earned 89% of fee and commission income from Estonian residents and 11% from residents of other countries (Latvia, Finland, other EU countries and Ukraine); in Q3 2018, 76% of fee and commission income was earned from Estonian residents and 24% from residents of other countries (Latvia, Finland and other EU countries).

Note 5 Cash and cash equivalents

	30.09.2019	31.12.2018
Cash	22 154	21 721
Mandatory reserve at the central bank *	3 351	2 742
Demand deposits at central bank	76 904	49 321
Demand deposits at credit institutions	2 626	13 755
Term deposits at credit institutions *	498	491
Total **	105 533	88 030

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

** Negative interest in the amount of 14 thousand euros included in the “Total” are not included in cash and cash equivalents in the consolidated statement of cash flows.

Note 6 Debt securities at fair value through other comprehensive income

	30.09.2019	31.12.2018
Government debt securities	1 429	1 929
Debt securities of other non-financial companies	2 685	7 201
Total	4 114	9 130

Note 7 Loans and advances to customers

	30.09.2019	31.12.2018
Total receivables from private individuals	249 870	204 003
incl. consumers loans	73 369	60 001
incl. lease financing	23 986	16 875
incl. mortgage loans and other loans	152 515	127 127
Total receivables from legal entities	173 081	128 558
incl. lease financing	33 737	23 635
incl. other loans to legal entities	139 344	104 923
Total receivables	422 951	332 561
Loss allowances of loans and advances	-5 044	-3 838
Total	417 907	328 723

Note 8 Loss allowances of loans and advances

	30.09.2019	31.12.2018
Balance at the beginning of the reporting period	-3 838	-3 644
IFRS 9 first day effect	0	-630
Allowances during the reporting period	-1 781	-1 598
Derecognized during reporting period	575	2 034
Balance of allowance at the end of the reporting period	-5 044	-3 838

Note 9 Allocation of past due loans

	30.09.2019			31.12.2018		
	Unsecured loans to private individuals	Secured loans to private individuals	Loans to legal entities	Unsecured loans to private individuals	Secured loans to private individuals	Loans to legal entities
1-30 days	3 361	7 550	9 473	3 925	4 375	2 120
31-60 days	869	857	2 231	974	631	3 649
61-90 days	485	421	343	439	252	37
over 90 days	1 168	508	3 276	703	437	367
Total	5 883	9 336	15 323	6 041	5 695	6 173

Note 10 Financial assets and liabilities by residual maturity

Undiscounted cash flows by residual maturity

30.09.2019	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	105 533	0	0	0	105 533
Debt securities at fair value	0	465	3 649	0	4 114
Loans and advances to customers	38 831	71 035	249 506	178 786	538 158
Other financial assets	578	0	0	333	911
Total financial liabilities	144 942	71 500	253 155	179 119	648 716
Liabilities					
Customer deposits and loans received	196 245	186 941	71 558	16 570	471 314
Other financial liabilities	4 552	1 929	273	0	6 754
Subordinated debt	233	367	1 956	8 644	11 200
Total financial liabilities	201 030	189 237	73 787	25 214	489 268
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	35 548	0	0	0	35 548
Financial guarantees	3 901	0	0	0	3 901
Total on-balance-sheet and off-balance-sheet liabilities	240 479	189 237	73 787	25 214	528 717
Duration gap of financial assets and financial liabilities	-95 537	-117 737	179 368	153 905	119 999

31.12.2018	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	87 538	500	0	0	88 038
Debt securities at fair value	514	1 371	7 245	0	9 130
Loans and advances to customers	26 300	59 794	203 403	132 670	422 167
Other financial assets	155	0	0	191	346
Total financial assets	114 507	61 665	210 648	132 861	519 681
Liabilities					
Customer deposits and loans received	166 137	158 391	55 034	7 645	387 207
Other financial liabilities	4 126	0	0	0	4 126
Subordinated debt	0	337	1 350	6 325	8 012
Total financial liabilities	170 263	158 728	56 384	13 970	399 345
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	34 917	0	0	0	34 917
Financial guarantees	2 186	0	0	0	2 186
Total on-balance-sheet and off-balance-sheet liabilities	207 366	158 728	56 384	13 970	436 448
Duration gap of financial assets and financial liabilities	-92 859	-97 063	154 264	118 891	83 233

Note 11 Customer deposits and loans received

Due to customers	30.09.2019	31.12.2018
Private individuals	326 796	237 279
Legal entities	140 577	137 837
Credit institutions	10 453	10 002
Total	477 826	385 118
Demand deposits	127 018	120 544
Term deposits	323 999	249 864
Issued debt securities	14 058	5 052
Special purpose loans	12 751	9 658
Total	477 826	385 118

Note 12 Contingent liabilities

	30.09.2019	31.12.2018
Financial guarantees	3 901	2 186
Credit lines and overdrafts	35 548	34 917
Total	39 449	37 103

Note 13 Related parties

Related parties are:

- a shareholder of significant influence and companies that are part of its group;
- management of the group: i.e. members of the Management Board and the Supervisory Board of parent company, head of internal audit and entities controlled by them;
- individuals, who have equal economic interest as management, and entities associated to them.

The terms of the loans issued to related parties do not differ from the loans issued to other customers regarding interest rates. Transactions with related parties are based on the price list and/or are carried out at market value.

Balances	30.09.2019	31.12.2018
Shareholders:		
Deposits	7 315	5 280
Members of the Management Board and Supervisory Board, and persons and entities associated with them:		
Loans	138	114
Deposits	557	1 567

Transactions	30.09.2019	31.12.2018
Shareholders:		
Interest expense	6	7
Members of the Management Board and Supervisory Board, and persons and entities associated with them:		
Interest income of the reporting period	2	3
Interest expense of the reporting period	3	1
Other goods and services sold	2	2
Other goods and services purchased	23	104
Compensation paid to members of the Management Board and Supervisory Board	429	521
Maximum termination benefits payable to members of the management board, on a contingent basis	0	175

Note 14 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. Diluted earnings per share comes from the share options granted to key employees.

	Q3 2019	9 M 2019	Q3 2018	9 M 2018
Profit attributable to the owners of the parent (in th.euros)	1 519	3 944	1 160	3 110
Weighted average number of shares (in th.of units)	62 220	59 663	58 385	58 385
Basic earnings per share (euros)	0,02	0,07	0,02	0,05
Adjustments for calculation of diluted earnings per share – share options (in th.of units)	2 015	2 015	1 885	1 556
Weighted average number of shares used for calculating the diluted earnings per share (in th.of units)	64 235	61 678	60 270	59 941
Diluted earnings per share (euros)	0,02	0,06	0,02	0,05

Shareholders, Supervisory Board and Management Board of Coop Pank AS

Shareholders with over 10% holding as at 30.09.2019:

- Coop Investeeringud OÜ 36.82%
- Andres Sonn 13.42%

In addition, the member cooperatives of Coop Eesti Keskühistu hold the total of 23.6% of the share capital, however, separately none of them holds over 10%.

Members of Supervisory Board do not hold shares of Coop Pank, Members of Management Board hold 7 thousand shares of Coop Pank, which accounts for 0.01% of the share capital.

Chairman of the Supervisory Board: Jaanus Vihand
Members of the Supervisory Board: Priit Põldoja, Jaan Marjundi, Roman Provotorov, Märt Meerits

Chairman of the Management Board: Margus Rink
Members of the Management Board: Hans Pajoma, Kerli Lõhmus, Janek Uiboupin

Statement of the Management Board of Coop Pank AS

The Management Board of Coop Pank is of the opinion, that information in this interim report, consisting of the management report and financial reports, is in conformity with requirements to interim reports and gives a true and fair view of the financial condition and economic results of Coop Pank Group, the presented data and additional information is true and comprehensive. Current interim report is not audited.

16.10.2019

Margus Rink Chairman of the Management Board	Hans Pajoma Member of the Management Board
Kerli Lõhmus Member of the Management Board	Janek Uiboupin Member of the Management Board

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

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