

Corporate Governance Report

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

1. General Meeting

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

Every shareholder is entitled to participate in the General Meeting, to speak at the General Meeting on the topics in the agenda and to ask reasonable questions and make proposals. In 2019, no shareholders' questions on agenda topics were raised before the General Meetings. A shareholder may attend the General Meeting and vote at the meeting in person or through a duly authorized representative. The General Meetings are held on business days and have been held at the bank's headquarters at Narva mnt 4, Tallinn. Previously, the Bank has not implemented the recommendation referred to in clause 1.1.1 of the CGR, to publish the questions, submitted by the shareholders, on its website. From the listing of the bank's shares on the Tallinn Stock Exchange, the Bank will comply with this requirement.

The General Meeting is called by the Management Board. The Annual General Meeting, which approves the annual report, is held at least once a year. The Management Board shall call an Annual General Meeting not later than four months after the end of the financial year. The Management Board shall give the notice of both the annual and special General Meetings at least three weeks in advance. In 2019, the bank followed the routine provided in the Commercial Code and sent the shareholders' invitations to the General Meeting by registered mail at the address, entered in the share register. The Bank has not yet implemented the requirement set out in clause 1.2.1 of the CGR concerning the publication of a notice of calling the General Meeting on the bank's website and in the daily national newspaper, as the Bank did not comply with the CGC principles prior to becoming a listed company. From the listing of the bank's shares on the Tallinn Stock Exchange, the Bank will comply with this requirement.

The agenda of the General Meeting, the proposals of the Management Board and the Supervisory Board, the draft resolutions and other relevant materials shall be made available to the shareholders before the General Meeting. In 2019, from the announcement of the General Meetings until the day of the General Meeting, the shareholders had access to the materials and draft resolutions of the General Meetings and other by law required documents submitted to the General Meetings at the bank's headquarters on workdays from 09:00-17:00 at Narva mnt 4, Tallinn. The Bank has not yet implemented the requirement set out in clause 1.2.3 of the CGR, concerning the publication of materials on the bank's website; as well as the requirements set forth in clauses 1.2.2 and 1.2.4 regarding the proposals of the Supervisory Board and the shareholders on the topics in the agenda

and the publication of these proposals on the bank's website. The Bank will comply with these requirements from 2020.

Following and participation in the General Meeting via means of communication has not been made neither planned to make available (CGC clause 1.3.3), since there is no need, demand nor suitable solution for this.

In 2019, one annual and two special General Meetings were held. The annual General Meeting of Shareholders that took place on 29 April of 2019 approved the Annual Report 2018 and distributed the profit for the year 2018. In addition, it was decided not to pay dividend on the expense of the profit of the financial year 2019 nor the accumulated profits of previous financial years. The General Meeting was held in Estonian. The meeting was chaired by Jaanus Vihand, Chairman of the Supervisory Board, and Mariann Suik, Head of the Legal Department of the bank took minutes of the meeting. All Management Board members of the bank attended the General Meeting. The Bank has not previously implemented the recommendation in clause 1.3.1 of the CGR, providing that the chairman of the Supervisory Board shall not be elected as chairman of the General Meeting. As the chairman of the Supervisory Board also represents the strategic shareholder and, arising from this role, is well informed of the activities of the bank, it has not been considered necessary to elect another person for chairing the General Meeting in the context of the previous shareholder and organizational structure. The chairman of the General Meeting was always elected unanimously. The auditor did not attend the meetings as the issues requiring the auditor's participation were not resolved at the meetings. In the future, the Bank shall adopt the recommendations in clause 1.3.1 of the CGR.

2. Management Board

2.1. Responsibilities of the Management Board

The Management Board is the governing body of Coop Pank, that represents and manages the bank on daily basis. According to the Articles of Association, every member of the Management Board may represent the bank in all legal acts. The members of the Board are elected and removed by the Council. The consent of the Board member is required for the election. According to the Articles of Association of the bank, the Management Board comprises 3-7 members. The term of office of a Management Board member is three years. Each member of the Management Board has his or her area of responsibility, which is determined by the agreement of the Management Board member. For carrying out the duties of a Management Board member, the chairman of the Supervisory Board signs an agreement with a member of the Management Board. Bank's Management Board member shall not simultaneously participate in the work of the Management or Supervisory Board of other companies. Different from the above, the members of the Management Board participate in the work of the management bodies of the companies of the consolidation group.

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

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

As at 31.12.2019, the Management Board of the bank comprised four members: Margus Rink (chairman), Hans Pajoma, Kerli Lõhmus and Janek Uiboupin. The term of office of Janek Uiboupin expired on 12.02.2020 and from 13.02.2020 Heikko Mäe is the member of the Management Board.

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

2.2. Remuneration principles of managers

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

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

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

Gross remuneration paid to the Management Board members in 2019 in euros:

	Basic salary 2019	Performance pay in 2019
Margus Rink	108 000	31 500
Hans Pajoma	108 000	31 500
Janek Uiboupin	67 200	19 600
Kerli Lõhmus	67 200	19 600

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

The Bank has not followed the recommendation referred to in clause 2.2.7 of the CGR, to present the essential aspects of the Management Board remuneration and changes in it to the General Meeting but will comply with the recommendation in 2020.

Shares and share options owned by the Management Board members and their associated persons as at 31.12.2019:

	Shares owned by the member	Shares owned by associated persons	Holding	Share options	Share purchase price paid at subscription
Margus Rink	12 487	0,01%	583 850	0,7305	Sept.2020
Hans Pajoma	12 487	0,01%	583 850	0,7305	Sept.2020
Kerli Lõhmus	27 000	0,03%	233 540	0,7660	May 2021
Janek Uiboupin	20 000	0,02%	116 770	0,7660	May 2021

2.3. Conflict of interests

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

Transactions between the bank and the members of the Management Board, persons close or associated to them shall be subject to the prior approval of the Supervisory Board. In 2019, no such transactions took place.

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

3. Supervisory Board

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

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

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

As at 31.12.2019, the Management Board members of the bank were Jaanus Vihand (chairman), Priit Põldoja (deputy chairman), Jaan Marjundi, Roman Provotorov and Märt Meerits. The General Meeting of Shareholders has decided to set the gross monthly remuneration of the members of the Supervisory Board at EUR 1000, the chairman and deputy chairman at EUR 2000. There is no severance pay for a Members of the Supervisory Board receive no severance pay.

Gross remuneration paid to the Supervisory Board members in 2019 in euros:

	Basic wage in 2019
Jaanus Vihand	24 000
Priit Põldoja	24 000
Jaan Marjundi	12 000
Roman Provotorov	12 000
Märt Meerits	12 000

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

No significant transactions took place between the bank and the members of the Supervisory Board, and persons close or associated to them in 2019.

In 2019, 12 Supervisory Board meetings were held, and 1 Supervisory Board resolution was adopted without convening a meeting. All the Supervisory Board members attended all meetings and participated in all votes.

The members of the Supervisory Board of the bank are not independent for the purposes of the Corporate Governance Recommendations (clause 3.2.2 of CGR). The Bank has been in a rapid growth phase where the representatives of the strategic shareholders and other major shareholders, who have actively contributed to the development and shaping the strategy of the bank, were favoured as members of the Supervisory Board.

The Supervisory Board has formed two committees: the Audit Committee and the Remuneration Committee. The Committees act under the supervision of the Supervisory Board as advisory bodies to the Board.

3.1. Audit Committee

The Audit Committee is an advisory body to the Supervisory Board in the areas of accounting, auditing, risk management, internal control and audit, supervision and budgeting, and the legality of the activities. The

activities of the Audit Committee are primarily based on the Act on Auditors and the rules of procedure of the Audit Committee, approved by the Supervisory Board.

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

The Audit Committee shall comprise at least two members, elected by the Supervisory Board. The members of the Audit Committee are Paavo Truu (chairman), Priit Põldoja, Jaanus Vihand and Märt Meerits. Members of the Audit Committee shall not be remunerated for their services in the Audit Committee.

3.2. Remuneration Committee

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

The remuneration committee comprises at least two members. The Remuneration Committee members are Priit Põldoja (chairman), Jaanus Vihand and Jaan Marjundi. The members of the remuneration committee are not being remunerated.

4. Cooperation between the Management Board and the Supervisory Board

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

5. Implementation of diversity policy

In accordance with clause 4 of section 24² of the Accounting Act, a large undertaking whose securities granting voting rights have been admitted for trading on a regulated securities market of Estonia or another Contracting State shall describe in the corporate governance report the diversity policies carried out in the company's management board and senior management and the results of the implementation thereof during the accounting year. If no diversity policies have been implemented during the accounting year, the reasons for this should be explained in the corporate governance report.

In 2019, the bank did not implement the diversity policy, as it always considers the best interests of the Banking group in the selection of both executives and employees, considering the candidate's education, skills and previous work experience. At the same time, the Banking group follows the principle of non-discrimination of candidates on the grounds of gender or other status.

6. Disclosure of information

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

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

7. Financial reporting and audit

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

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

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

In 2017, the Management Board organised a competition for electing an auditor. The bank held meetings with four major internationally recognized companies and asked for submitting their offers. As a result of the competition, the offer AS PricewaterhouseCoopers was selected and the annual General Meeting of Shareholders, held on April 26, 2017, appointed the company as the auditor of the bank, and a three-year agreement for the auditing of the financial years 2017-2019 was concluded with them.

In 2019, the auditor has provided contracted services to companies of the consolidation group, including audits of Annual Reports of Group companies and quarterly reviews and other assurance services subject to obligations under the Credit Institutions Act and the Securities Market Act. Also, the auditor has provided other services permitted pursuant to the Republic of Estonia Auditors Activities Act. In addition, the auditor audited the reports required for the prospectus on public offering and listing of the shares.

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