

Coop Pank AS
Management report of Supervisory Board
15 March 2023

Organisation of the Supervisory Board's work

A Supervisory Board consisting of six members has been selected with a resolution of the general meeting of the Bank's shareholders. There were no changes in the composition of the Supervisory Board last year.

The Supervisory Board of the Bank organises its work in the form of regular and extraordinary meetings. In 2022, 10 meetings of the Supervisory Board took place and five resolutions of the Supervisory Board were adopted without calling a meeting. All members of the Supervisory Board attended all the meetings and voting sessions that took place, except for Viljar Arakas, who could not attend the Supervisory Board meeting held in December.

The usual activities of the Supervisory Board included monthly discussions of the achievement of the goals and the economic performance of the group and compliance with the prudential requirements established for credit institutions, and it also updated the internal guidelines required for the day-to-day work of the Bank. The risk reports and internal audit reports of the Bank were reviewed quarterly.

The Supervisory Board was supported by the Remuneration Committee and the Audit Committee.

The task of the Remuneration Committee is to assess the remuneration policies of the Bank and their compliance with the Bank's strategy and objectives. Two meetings of the Remuneration Committee were held in the year. There were no changes among the members of the Remuneration Committee last year.

The Audit Committee performs the tasks of the audit committee arising from the Credit Institutions Act and the Auditors Activities Act, as well as the tasks of the risk committee arising from the Credit Institutions Act. Six regular meetings of the Audit Committee of the Bank were held in 2022. There were two changes among the membership of the Audit Committee last year: in February, Paavo Truu was recalled from his position as Chairman of the Committee and Veiko Haavapuu was elected as the new Chairman of the Audit Committee; in May, Urmas Kaarlep was recalled from his position as a member of the Committee and Stan Nahkor was elected as a new member of the Audit Committee.

Work of the Internal Audit Unit of the Bank

The Internal Audit Unit of the Bank is a unit of the organisation subordinate to the Supervisory Board, whose tasks include contributing to the improvement of the Bank's operations and the achievement of its goals. More specifically, the internal audit focuses on assessing the effectiveness and efficiency of the Bank's risk management, internal control and governance processes and to propose improvements to these processes.

The cooperation of the Supervisory Board with the Internal Audit Unit in 2022 was successful. The Audit Committee of the Bank regularly approved the work plans and audit results of the Internal Audit Unit under the authority granted by the Supervisory Board. In February, the Supervisory Board also approved the amendments to the statutes of the Internal Audit Unit.

The Supervisory Board finds that, as at the end of 2022, the Internal Audit Unit of the Bank is adequately staffed and that its operational capacity and competencies correspond to its mandate.

Business strategy and financial plan of the Bank

The Supervisory Board of the Bank approves the business strategy, objectives and financial plan of the Bank every year.

In early autumn 2022, the Supervisory Board received an overview of the macroeconomic status and forecasts of Estonia, the competitive position of the Bank and the performance of business lines. In the last quarter of the year, the Bank's business strategy and objectives were updated and the financial plan for 2023–2026 was approved. There was also a dialogue between the Supervisory Board and the Management Board on the development of the support functions necessary for the Bank's operations. Inputs for strengthening the Bank's risk organisation and technology functions were discussed and approved. As a new area, the Supervisory Board discussed the requirements that will arise for banks in the coming years from the European Union's taxonomy regulation and Coop Bank's planned activities in this area.

General risk framework of the Bank

Considering the external environment, the Supervisory Board paid special attention last year to the quality of the credit portfolio as well as the management of client sanction risks and the liquidity risks of the Bank. The general risk management policy of the Bank was updated in August. The Management Board also provided the Supervisory Board with an overview of the guidelines of the Financial Supervision Authority for improving the area of corporate governance and risk management.

As the mandate of the Bank's current external auditor, PricewaterhouseCoopers, will expire with the audit of 2022, the Bank's Audit Committee organised a competition for a new external auditor in autumn. PriceWaterhouse Coopers, the current auditor of the Bank, was selected as the best tenderer by a decision of the Bank's general meeting of shareholders, and its contract was renewed for another five years.

The annual systemic activities of the Supervisory Board in the area of risk include the renewal and approval of the Bank's financial recovery plan.

Liquidity and capital of the Bank

Against the backdrop of the economic uncertainty prevailing in 2022, the start of the war in Ukraine and the increase of interest rates on money markets, the Supervisory Board focused on the management of the Bank's liquidity. During the year, the Bank's liquidity buffers were gradually increased, and the Bank's funding was diversified by instrument types, maturity and interest rates. The Bank closed the financial year with a liquidity ratio significantly above the regulatory level.

The increase in business volumes brought about the need to increase the capital base of Coop Bank. A public issue of Tier 2 Subordinated Bonds was carried out in March. In June, a private placement of Tier 1 Additional Tier 1 (AT1) bonds was carried out. A share capital increase was carried out with the approval of shareholders in November. All in all, Coop Pank AS raised €46.4 million of additional capital for the development of the Bank in three capital raising rounds. In the opinion of the Supervisory Board, this will ensure that Coop Bank has sufficient capital buffers to cover the increased risks in the macro-economy as well as the Bank's growth needs in 2023.

Transactions outside the everyday economic activities of the Bank

In 2022, Coop Bank had one transaction outside the scope of its everyday economic activities. In August, the Supervisory Board decided to merge Coop Pank AS and the Bank's 100% subsidiary CP Varad AS.

Management and management structure of the Bank

In 2022, the Supervisory Board made no changes to the management structure of the Bank. In the Supervisory Board's view, the current organisation of the Bank's management corresponds to the Bank's level of development and complexity. The Management Board of the Bank continued with five members. CFO Kerli Lõhmus left the Management Board and Paavo Truu was elected the new member of the Management Board/CFO. In October, the Supervisory Board extended the authorities of Heikko Mäe, member of the Management Board/CRO, for a further three-year period.

The current cooperation between the Supervisory Board and the Management Board has been good, and open discussions have covered all the most important issues related to the Bank's day-to-day operations.

Work of the Supervisory Board's towards shareholders

The shares of Coop Pank AS have been listed on the Tallinn Stock Exchange since autumn 2019. The Bank has been open to investors, sharing monthly updates on the bank's performance and conducting quarterly presentations of results. The Bank adheres to the principles of good corporate governance of the Tallinn Stock Exchange.

One regular meeting of shareholders and one extraordinary meeting of shareholders were held, with the Supervisory Board was also involved in the preparation of the draft resolutions were held in 2022. At the regular general meeting held in April, the shareholders approved the annual report for 2021, the profit distribution proposal prepared by the Management Board and the new option programme for the period from 2023 to 2025 and, in connection with the option programme, the pre-emptive right to subscribe of the existing shareholders was excluded. At the extraordinary general meeting of shareholders held in November, a conditional increase in the share capital of Coop Bank, a public offer of shares and the listing and admission to trading of new shares were approved. The auditor for the period from 2023 to 2027 was also elected.

In 2022, the Supervisory Board made two decisions relating to the option programme. In March 2022, the Supervisory Board decided to issue a total of 698,300 options to 76 employees of the bank group, exercisable in May 2025, at a price of €1.255 per share. In May 2022, the Supervisory Board decided to issue 70,000 new shares for the exercise of the options granted to employees.

Economic performance of the Bank in 2022

Coop Pank continued to implement its growth strategy successfully in 2022 and met all the targets set this year. In the last six years, the Bank has increased its market share of deposits and loans from 1% to 5.5%. The scale effect resulting from growth is improving the bank's performance indicators (net profit, cost/income ratio, return on equity) year on year.

On 15 March 2023, the Supervisory Board reviewed the annual report for the financial year 2022 (consisting of the management report, the financial statements and remuneration report), the certified auditor's report and the profit distribution proposal prepared by the Management Board and approved them for submission to the general meeting of shareholders.