Risk Management and Capital Adequacy Report

Pillar III 2020

Inbank AS

Table of contents

Table of figures

1. Introduction

This document presents the consolidated Risk Management and Capital Adequacy Report 2020 (Pillar III report) of Inbank AS as of 31 December 2020, if not otherwise stated.

Inbank operates under the Capital Requirements Directive IV (CRD IV) (European Parliament and Council Directive 2013/36/EU) and Capital Requirements Regulation (CRR) (European Parliament and Council Regulation (EU) No 575/2013). These regulations are based on the global capital adequacy standards Basel II and III and the framework is based on a three-pillars concept:

- Pillar I – Minimum capital requirements
- Pillar II – Supervisory review
- Pillar III – Market disclosures

In Pillar I, the capital requirements are calculated on the basis of three categories of risk that an institution faces: credit risk, market risk and operational risk. These capital requirements need to be covered by sufficient own funds. Inbank uses the standardised approach for credit and market risk, and the basic indicator approach for operational risk to determine its capital requirements.

In Pillar II, the supervisor reviews the viability of Inbank and its ability to meet the reporting requirements. This Supervisory Review and Evaluation Process (SREP) comprises four components:

- Business Model Assessment (BMA)
- Internal Capital Adequacy Assessment Process (ICAAP)
- Internal Liquidity Adequacy Assessment Process (ILAAP)
- Internal governance and institution-wide control assessment

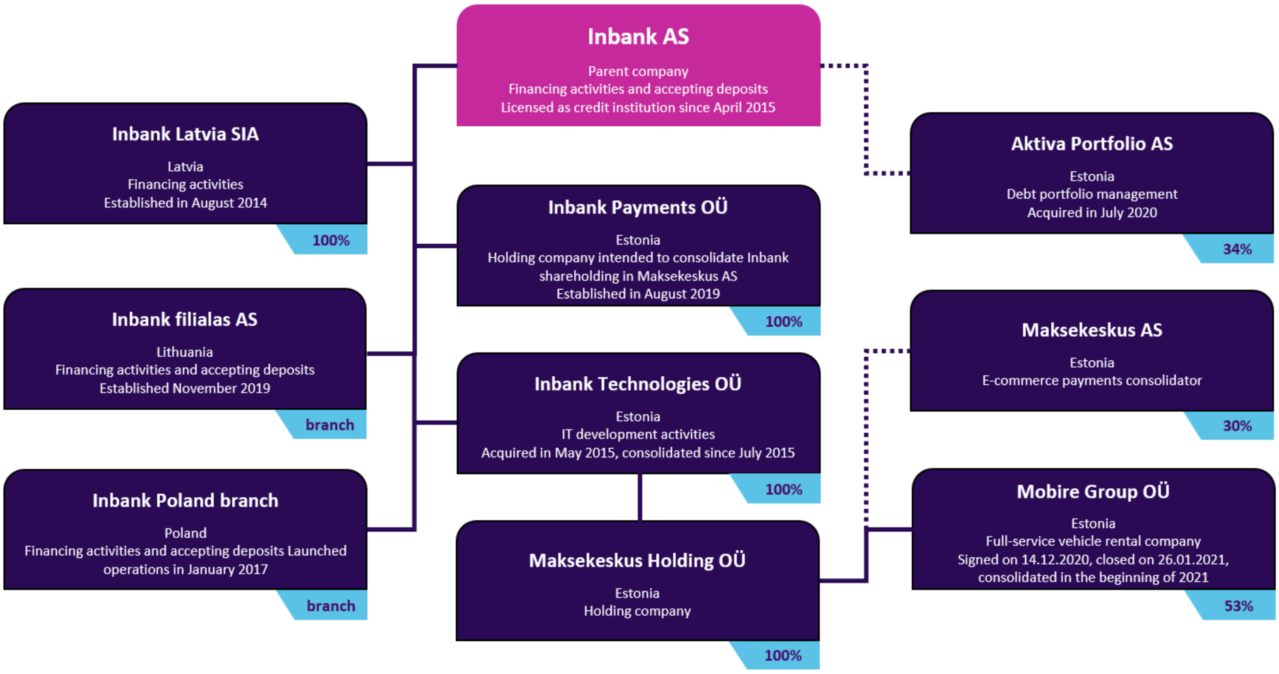
Pillar III disclosure framework seeks to promote market discipline through regulatory disclosure requirements. Pursuant to Part Eight of the CRR, Inbank is required to publicly disclose information regarding, amongst others, its risk profile, risk management and capital adequacy. The disclosure is made annually by means of this Pillar III report in conjunction with the publication of Inbank's Annual Report on Inbank's website (www.inbank.ee).

The content of this Pillar III report meets all the requirements laid down in CRR and corresponding delegated regulations and guidelines. Key information related to Inbank's capital and risk exposures is disclosed in order to increase transparency and confidence about Inbank's exposure to risk and the overall adequacy of its capital.

All figures are denominated in thousands of euros unless otherwise stated.

2. Scope of consolidation

As an EU parent institution, Inbank AS is required to publish a consolidated Pillar III report. Inbank reports its prudent requirements on a consolidated basis together with its subsidiaries. The legal structure of Inbank as of 31 December 2020 is shown in the figure below. Mobire Group OÜ is not included in the consolidation group of Inbank AS as of 31 December 2020.



Organisational structure of Inbank

Inbank AS is a registered credit institution under the supervision of the Estonian Financial Supervision Authority (Finantsinspektsioon). In Table 1, the disclosures within this Pillar III report and Annual Report are linked to the respective provisions of Part Eight CRR.

Disclosure requirement with reference to CRR Article	Primary location in our Annual Report	Primary location in our Pillar 3 report
Article 435. Risk management objectives and policies	pp. 25-32, 59-78	pp. 4-5, 8-24
Article 436. Scope of application	pp. 39-41	p. 3
Article 437. Own funds	pp. 77-78	pp. 5-8, 25-29
Article 438. Capital requirements		p. 8
Article 439. Exposure to counterparty credit risk		p. 18
Article 440. Capital buffers	p. 78	p. 30
Article 441. Indicators of global systemic importance	N/A	N/A
Article 442. Credit risk adjustments	pp. 45-47, 58, 65-72	
Article 443. Unencumbered assets		pp. 31-32
Article 444. Use of ECAIs		p. 18
Article 445. Exposure to market risk	pp. 73-74	pp. 19-21
Article 446. Operational risk	p. 77	p. 23
Article 447. Exposures in equities not included in the trading book	pp. 89-90	
Article 448. Exposure to interest rate risk on positions not included in the trading book	p. 73	pp. 19-20
Article 449. Exposure to securitisation positions	N/A	N/A
Article 450. Remuneration policy	pp. 26-31, 84, 100, 104	
Article 451. Leverage		pp. 7, 33-34
Article 452. Use of the IRB Approach to credit risk	N/A	N/A
Article 453. Use of credit risk mitigation techniques	N/A	N/A
Article 454. Use of the Advanced Measurement Approaches to operational risk	N/A	N/A
Article 455. Use of Internal Market Risk Models	N/A	N/A
Article 473a. Introduction of IFRS 9		p. 35

Table 1. Disclosure requirements with reference to CRR Article

3. Risk management

The purpose of risk management is to safeguard Inbank's long-term survival and increase value for shareholders by ensuring a prudent capital management. Risk management within Inbank includes components such as risk identification, risk assessment, stress testing, capital and liquidity assessment, limit structures and escalation procedures upon limit breaches.

Risk management unit is responsible for coordinating the monitoring and escalation processes related to the set risk appetite. The Supervisory Board of Inbank AS (Supervisory Board), the Management Board of Inbank AS (Management Board) and various committees receive regular reports on the status of risk exposures and the risk management to ensure that Inbank's risk management and control is satisfactory. Any breach of the risk appetite limits is escalated and reported according to the respective policy.

Principles of risk management

Uniform risk management system has been applied throughout the organisation. The same risk management principles are used at the parent company as well as at the branches and subsidiaries of Inbank. The risk management and risk control functions are performed throughout Inbank by the unit responsible for risk management and by various committees at the parent company level. The key principles for managing Inbank's risk exposure are:

- The three lines of defence model, as described below
- Independency, meaning that the activities should be independent of the business they control
- Risk based approach, meaning that the activities should be aligned to the nature, size and complexity of Inbank's business, ensuring that efforts undertaken are proportional to the risks in question

The first line of defence refers to all business and risk management activities. All managers are fully responsible for the risks, and the management of these, within their respective area of responsibility. Hence, they are responsible for ensuring that the appropriate organisation, procedures and support systems are implemented to ensure a sufficient system of internal controls.

The second line of defence refers to the risk management unit responsible for risk control at Inbank, and compliance unit. Risk management unit is responsible for setting the principles and framework for risk management, facilitating risk assessment and performing independent follow-up of risks and risk management. Risk management unit also promotes a sound risk management culture by supporting and educating business line managers and staff.

The compliance unit is responsible for monitoring changes in applicable law and reviewing the policies of Inbank accordingly. Key areas of responsibility are:

- Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF)
- Anti-corruption
- Conflicts of interest
- Outsourcing
- Business conduct/ethics
- Compliance monitoring and testing
- Point of contact with Financial Regulators

The third line of defence refers to the internal audit unit, which performs independent periodic reviews of the governance structure and the system of internal controls. These audits can be both mandatory out of regulatory perspective or risk based.

Risk management structure

The Management Board is responsible for managing all the risks that are accompanied with Inbank's activities, that also includes introducing risk management principles and methods as well as achieving effectiveness in risk controlling and risk management as a whole. In accordance with Risk Appetite Statement approved by the Supervisory Board, the following organisation-wide structural units and committees are responsible for the implementation of daily risk management and risk control:

- The Supervisory Board oversees that there are adequate risk assessment and management activities in place at Inbank, ensuring Inbank's risk management organisation has an appropriate and efficient structure, and sufficient and independent resources for adequate risk assessment and management.

- The key roles of the risk management unit include independent identification, evaluation and control of risks as well as preparation of respective risk reports to the Management and Supervisory Board.
- The Credit Committee is the highest operational body responsible for Inbank's credit risk management. The Credit Committee is responsible for development and updating the Credit Risk Policy. Through Credit Risk Policy, the Credit Committee ensures that the activities of Inbank in providing credit would meet the requirements laid down in legislation, they are in compliance with Risk Appetite Statement and are profitable.
- The Asset and Liability Management Committee is the main body responsible for Inbank's liquidity and market risk management, and capital adequacy. The main functions of the Asset and Liability Management Committee are to establish the desired structure and ratios of the balance sheet and income statement; management of liquidity and market risks and development of corresponding policies; deciding upon the size, instrument types, and terms of the borrowed resources; and supervising the tolerance limits set by Risk Appetite Statement.
- The Audit Committee advises the Supervisory Board on risk management issues. For this purpose, the Audit Committee monitors and analyses the efficiency of the risk management process at Inbank.
- One of the objectives of internal audit unit is to provide assurance to the Management and Supervisory Board that Inbank's internal control and risk management policies are sufficient and effective for risk management and fulfilment of Inbank's strategy and objectives.

The Management Board assesses that the risk management organisation and systems are adequate and relevant considering Inbank's profile and strategy and comply with the risk appetite and business strategy set by the Supervisory Board.

4. Capital adequacy and leverage ratio

Inbank's own funds provide the capacity to absorb unexpected losses that are not possible to avoid or mitigate and ensure that at all times a sufficient buffer of financial resources exist to meet obligations to stakeholders. In this way, Inbank's capital functions as a last resort protection against risk.

The Supervisory Board is responsible for the overall planning of the capital structure. Relevant capital planning contributes to the company being well-equipped to meet a situation that requires additional capital, and to provide an adequate buffer to support growth in existing markets as well as to enter new markets. The following factors are taken into consideration:

- The minimum capital required by laws and regulations, including buffers
- The level of capital required to manage contingencies and stress situations
- The owners' required rate of return and effective capital management
- The level of capital required for counterparties to consider Inbank a reliable partner and to provide efficient access to the funding market.

Inbank is obliged to maintain a minimum level of capital in relation to credit, market and operational risk (Pillar I) but also to carry out an internal evaluation of additional capital required for risk not covered elsewhere (Pillar II). See Table 2, Table 3 and Table 4 below for details on Inbank's capital requirements according to Pillar I and Pillar II as well as Inbank's capital adequacy. Further information on the composition of Inbank's capital base can be found in Appendix 2-4. The internal risk appetite limit is set at the current capital requirement ratio plus 0.5% for each of the three capital ratios (Common Equity Tier 1, Tier 1 and Total Capital).

In addition to the capital required by Pillar I and Pillar II, Inbank is required to maintain an additional capital conservation buffer of 2.5% of the total risk exposure. A countercyclical capital buffer requirement of 0.29% and systemic risk buffer requirement of 0.44% as of 31.12.2019 were both decreased to 0% within Q2 2020 due to COVID-19 outbreak. For more information regarding Inbank's countercyclical buffer requirements, see Appendix 5.

In thousands of euros	31.12.2020	31.12.2019
Common Equity Tier 1: instruments and reserves		
Capital instruments and the related share premium accounts	24,826	16,811
of which: share capital	961	903
Retained earnings	34,871	28,958
Accumulated other comprehensive income (and other reserves)	1,528	1,551
Common Equity Tier 1 (CET1) capital before regulatory adjustments	61,225	47,320
Common Equity Tier 1: regulatory adjustments		
Intangible assets	-8,923	-11,721
Adjustments due to IFRS 9 transitional arrangements	4,167	4,354
Total regulatory adjustments to Common Equity Tier 1 capital	-4,756	-7,367
Common Equity Tier 1 (CET1) capital	56,469	39,953
Tier 1 capital		
Additional Tier 1 (AT1) capital	3,150	3,150
Tier 1 capital (T1 = CET1 + AT1)	59,619	43,103
Total capital		
Tier 2 (T2) capital	14,503	14,503
Total capital (TC = T1 + T2)	74,122	57,606
Total risk exposure amount	399,197	317,487
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.15%	12.58%
Tier 1 (as a percentage of total risk exposure amount)	14.93%	13.58%
Total capital (as a percentage of total risk exposure amount)	18.57%	18.14%
Institution-specific buffer requirement (as a percentage of total risk exposure amount)	2.50%	3.24%
of which: capital conservation buffer requirement	2.50%	2.50%
of which: countercyclical buffer requirement	0.00%	0.29%
of which: systemic risk buffer	0.00%	0.45%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	9.65%	8.08%

Table 2. Capital base for own funds calculation

In accordance with EU regulation, audited profit for the reporting period may be included in retained earnings upon prior approval by the competent authorities. The above calculations include the unaudited net profit earned in the fourth quarter in the amount of EUR 1,714 thousand (2019: EUR 3,444 thousand). Table 3 shows Inbank's capital base excluding the profit which is unaudited as of the date of publication of this Pillar 3 report.

In thousands of euros	31.12.2020	31.12.2019
Equity as reported in consolidated balance sheet	61,225	47,320
Regulatory adjustments	-4,756	-7,367
Intangible assets	-8,923	-11,721
Adjustments due to IFRS 9 transitional arrangements	4,167	4,354
Common Equity Tier 1 capital	56,469	39,953
Additional Tier 1 capital	3,150	3,150
Tier 1 capital	59,619	43,103
Tier 2 capital	14,503	14,503
Own funds	74,122	57,606

	31.12.2020	31.12.2019
Institution-specific buffer requirement (as a percentage of total risk exposure amount)	2.50%	3.24%
of which: capital conservation buffer requirement	2.50%	2.50%
of which: countercyclical buffer requirement	0.00%	0.29%
of which: systemic risk buffer	0.00%	0.45%

Table 3. Regulatory capital base for own funds calculation

Inbank's finance and risk management units monitor capital adequacy on an on-going basis to ensure that requirements and risk appetite limits on capitalisation are not breached. Any breaches are escalated, and Inbank's Recovery Plan provides executive management with a wide range of actions to deploy in case of capital stress.

In addition to the risk-sensitive capital measures discussed above, Inbank regularly monitors its leverage ratio, i.e. capitalisation in relation to total assets, and off-balance sheet commitments. However, Inbank's business model results in a well-capitalised balance sheet, where excessive debt in relation to capital does not constitute a significant risk. Table 4 shows Inbank's leverage ratio in 2020 and 2019, with further information available in Appendix 7.

In thousands of euros	31.12.2020	31.12.2019
Risk exposure amount		
Credit risk according to standardised method	344,233	277,401
Market risk according to standardised method	0	0
Operational risk according to basic indicator approach	54,964	40,086
Total risk exposure amount	399,197	317,487
Exposure amount for credit risk according to standardised method		
Institutional exposure	4,323	4,471
Corporate exposure	11,444	6,466
Retail exposure	299,509	245,451
Exposures in default	2,198	3,968
Equity exposure	9,560	8,189
Other items	17,199	8,856
Total credit risk according to standardised method	344,233	277,401
Market risk exposure amounts according to standardised method		
Foreign exchange risk	0	0
Total market risk according to standardised method	0	0
Minimum capital requirement		
Credit risk according to standardised method	27,539	22,192
Market risk according to standardised method	0	0
Operational risk according to basic indicator approach	4,397	3,207
Total minimum capital requirement	31,936	25,399
Leverage ratio		
Tier 1 capital	55,452	43,102
Total leverage ratio exposure	483,520	450,594
Leverage ratio	11.47%	9.57%

Table 4. Risk exposure amounts and capital requirement

The Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process (ICAAP/ILAAP)

One of the major absorbers of the likely loss is a strong capital base, therefore Inbank seeks to have an adequate capital reserve which would cover the assumed level of risks. Inbank's additional capital required under Pillar II and the resulting total capital requirement is assessed through ICAAP/ILAAP.

The objective of ICAAP/ILAAP is to ensure that Inbank clearly and correctly identifies, assesses, manages and monitors all risks to which it is exposed or may be exposed. The process considers the financial resources required to cover such risks. ICAAP/ILAAP includes Inbank's self-assessment, stress testing and establishment of the internal capital requirement. During the internal self-assessment, the risk characteristics to Inbank's activities are identified and evaluated applying selected methods of assessment. An impact of risk on Inbank's income and capital is assessed while determining the level of risk. When the risk structure and the individual risk levels are determined, testing is performed to assess the potential impact on Inbank's financial position in the event of a certain adverse event or a change in the financial or economic environment. The main purpose of stress testing is to determine whether Inbank's capital and liquidity are sufficient to cover potential losses caused by unfavourable macroeconomic and financial conditions over the coming planning horizon.

The main governing document for the ICAAP/ILAAP is the ICAAP/ILAAP Procedure. In this document, the Management Board defines the responsibilities, processes and rules of the ICAAP/ILAAP. According to the ICAAP/ILAAP Procedure, the ICAAP/ILAAP is a continuous process as it aims at evaluating the individual risk profile and the respective capital and liquidity need of Inbank on a continuous basis.

The continuous ICAAP/ILAAP is an integral part of the daily risk management process as well as strategic decision making and daily business decision making process of Inbank.

5. Individual risk categories

5.1. Credit risk

Credit risk reflects the potential loss, which arises from the counterparty's inability or unwillingness to meet its contractual obligations towards Inbank. Credit risk arises primarily from the receivables from households and for lesser extent from the receivables from corporates, credit institutions, central banks and central governments. Inbank issues loans in four countries: Estonia, Latvia, Lithuania and Poland. It is important for Inbank to monitor credit risk by country, as credit risk is strongly related to what is happening in the economic environment, including legislation, which may differ in the markets of the portfolio countries. The geographical distribution of all receivables is shown in Table 5.

In thousands of euros 31.12.2020	Estonia	Latvia	Lithuania	Poland	Total
Receivables from central banks	16,973	0	0	10,472	27,445
Receivables from credit institutions	4,336	40	3,954	11,454	19,784
Receivables from investments in debt securities	13,618	0	0	0	13,618
Receivables from households	140,160	28,020	132,588	89,889	390,657
Receivables from non-financial corporates	2,489	0	179	0	2,668
Receivables from other financial corporates	4,680	0	0	0	4,680
Other advances	144	46	3,896	121	4,207
Other financial assets	19	29	1,275	27	1,350
Total receivables	182,419	28,135	141,892	111,963	464,409

In thousands of euros 31.12.2019	Estonia	Latvia	Lithuania	Poland	Total
Receivables from central banks	81,729	0	0	1,351	83,080
Receivables from credit institutions	7,665	323	2,550	10,117	20,655
Receivables from investments in debt securities	0	0	0	0	0
Receivables from households	131,699	28,932	124,678	39,507	324,816
Receivables from non-financial corporates	4,184	1	191	0	4,376
Receivables from other financial corporates	2,728	0	0	0	2,728
Other advances	109	0	5,977	151	6,237
Other financial assets	1,634	29	0	29	1,692
Total receivables	229,748	29,285	133,396	51,155	443,584

Table 5. Geographical breakdown of receivables

Credit risk management in the countries where Inbank operates is governed primarily by the various laws and guidelines established under the European Consumer Credit Directive and by the respective Inbank internal regulations, the core principle of which is responsible lending.

Within credit risk, Inbank also includes concentration risk, country risk and foreign currency lending risk. In order to avoid and mitigate the credit risk, Inbank uses the following methods:

- Loans issued with below average contract maturity
- Loans issued with significantly below average contract amount
- Well diversified portfolio and limited risk exposures
- The optimal risk-reward ratio for lending
- Taking controlled risks and continuous monitoring of those risks
- Regular stress-testing and scenario analysis.

According to Inbank's credit policy, the following important principles defined in the risk appetite statement are used for the credit risk management:

- Loan portfolio diversification: according to the current product strategy, the maximum risk limit of retail product per customer that is provided by Inbank is EUR 30,000.
- Low average loan amount. As at 31.12.2020, Inbank's average contractual product balance of Inbank's retail product is 563 EUR (2019: 552 EUR).
- Continuous monitoring of the quality of the loan portfolio both on the operational level as well as the level of the Management and Supervisory Boards.

Inbank does not use credit risk hedging techniques for credit risk management within the meaning of CRR.

Distribution of receivables

The receivables of Inbank are classified as retail and non-retail receivables according to the credit decision making and issuance processes. Retail receivables are the receivables issued to individuals or small and medium-sized companies which are in most cases unsecured. For credit decision making and issuance of loans, automated IT solutions, standardised processes and standard contract terms are used. Retail receivables are individually insignificant but have a large volume in the portfolio as a whole and have similar characteristics. This significantly reduces the risks associated with such type of lending.

Non-retail receivables are the receivables that do not qualify as retail and therefore the credit decision is made individually by the Credit Committee and the risks are mostly hedged with various collaterals.

Receivables from households

Consumer lending solutions to households is Inbank's key activity. High diversification and low average loan amount of the loan portfolio have been achieved through focusing on this business line.

The credit behaviour model is used for assessment of the customer's solvency. In addition to the customer's previous payment behaviour, income and liabilities, this model also assesses other parameters which correlate to the customer's payment discipline. Inbank's credit behaviour model is changing constantly in time and it follows the changes in the composition of information used for making credit decisions and changes in the economic environment.

Most of the household receivables are classified as retail receivables. However, Inbank has also provided small volume of loans to households which are treated as non-retail receivables. Table 6 shows a product breakdown of all household receivables and Table 7 illustrates Inbank's overdue portfolio for household receivables.

In thousands of euros	31.12.2020	31.12.2019
Sales finance	197,746	140,080
Car finance	115,514	97,150
Loans and cards	77,397	87,586
Total volume of household portfolio	390,657	324,816

Table 6. Household portfolio by product groups

In thousands of euros 31.12.2020 Distribution of receivables	Gross receivables	Impairment allowance Stage 1	Stage 2	Stage 3	Net receivables	Impairment coverage
0-3 days	360,075	-3,286	-49	-126	356,614	1.0%
4-30 days	27,698	-1,722	-51	-124	25,801	6.8%
31-89 days	8,173	-5	-1,640	-201	6,327	22.6%
90-179 days	1,238	0	0	-711	527	57.4%
180+ days	6,677	0	0	-5,289	1,388	79.2%
Total receivables	403,861	-5,013	-1,740	-6,451	390,657	3.3%

In thousands of euros 31.12.2019 Distribution of receivables	Gross receivables	Impairment allowance Stage 1	Stage 2	Stage 3	Net receivables	Impairment coverage
0-3 days	294,981	-2,206	-25	-117	292,633	0.8%
4-30 days	23,874	-957	-17	-65	22,835	4.4%
31-89 days	8,781	-5	-1,026	-105	7,645	12.9%
90-179 days	2,018	0	0	-1,079	939	53.5%
180+ days	3,360	0	0	-2,596	764	77.3%
Total receivables	333,014	-3,168	-1,068	-3,962	324,816	2.5%

Table 7. Distribution of household receivables by overdue days

Receivables from non-financial and financial corporates

Inbank has issued loans also to corporates which are primarily hedged with various collaterals. The Credit Committee makes decisions regarding issuance of loans to corporates on an individual basis. For making the credit decision, thorough analysis of the financial strength of a counterparty, collaterals available and profitability calculations is performed. Table 8 shows Inbank's overdue portfolio for corporates.

In thousands of euros 31.12.2020 Distribution of receivables	Gross receivables	Impairment allowance Stage 1	Stage 2	Stage 3	Net receivables	Impairment coverage
0-3 days	11,544	-33	0	0	11,511	0.3%
4-30 days	4	0	0	0	4	0.0%
31-89 days	1	0	0	0	1	0.0%
90-179 days	9	0	0	-2	7	22.2%
180+ days	35	0	0	-3	32	8.6%
Total receivables	11,593	-33	0	-5	11,555	0.3%

In thousands of euros 31.12.2019 Distribution of receivables	Gross receivables	Impairment allowance Stage 1	Stage 2	Stage 3	Net receivables	Impairment coverage
0-3 days	12,788	-30	0	0	12,758	0.2%
4-30 days	375	-7	0	0	368	1.9%
31-89 days	154	0	-9	-2	143	7.1%
90-179 days	13	0	0	-5	8	38.5%
180+ days	108	0	0	-44	64	40.7%
Total receivables	13,438	-37	-9	-51	13,341	0.7%

Table 8. Distribution of receivables of non-financial and financial corporates by overdue days

Investments in debt securities

Limits on the credit risk of the debt securities are set according to the issuer in the Credit Committee. The principal and accrued interest receivables arising from the debt securities are not in arrears.

As at 31.12.2020, Inbank has invested in debt securities in the amount of 13.6 million euros (2019: there were no investments made in the debt securities). According to Moody's short-term credit ratings, Inbank's debt portfolio measured at amortised cost is allocated accordingly:

In thousands of euros			
Counterparty type	Credit rating	31.12.2020	31.12.2019
Central government	P-1	10,009	0
Corporate	Not rated	3,609	0
Total investments in debt securities		13,618	0

Table 9. Investments in debt securities

Central government debt securities are high-quality liquid securities of the Republic of Estonia that can be easily sold or used as a collateral in the European Central Bank's open market operations, which is why Inbank classifies them as liquid reserves.

Receivables from central banks and credit institutions

According to the Management Board's estimate, the exposure of cash and cash equivalents held at central banks and other credit institutions carries a low credit risk. For depositing liquid funds, Inbank's risk management policy prefers credit institutions that have higher equity and higher external credit rating. Based on available market information, Inbank considers the credit quality of those financial institutions to be good.

In thousands of euros	31.12.2020	31.12.2019
P-1	46,009	98,248
P-2	1,220	899
P-3	0	88
Not rated	0	4,500
Total receivables from central banks and credit institutions	47,229	103,735

Table 10. Receivables from central banks and credit institutions by Moody's credit ratings

Impairment of financial instruments

When calculating impairment of financial instruments, Inbank follows IFRS 9, which is based on the expected credit loss model. According to the model, financial instruments are divided between three stages depending on whether the credit risk of the financial instrument has not significantly increased since the initial recognition (Stage 1), has significantly increased (Stage 2) or the financial instrument is in default (Stage 3). Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3). The amount of impairment of financial instruments in the first stage is the expected 12-month credit loss. The amount of impairment of financial instruments in stage 2 and 3 is measured based on their expected credit loss for lifetime.

For estimating credit losses Inbank analyses historical data, considers overall economic environment and makes predictions for the future economic development. From the latter, Inbank AS has provided estimates for the key inputs which are required to assess the expected credit loss, and which are described below.

- *Significant increase in credit risk (SICR).* Inbank assesses at the end of each reporting date whether the credit risk of a financial instrument has increased significantly since initial recognition. For retail receivables, the significant increase in credit risk is assumed to occur at 30 days past due. Considering Inbank's usual business practise, the ability to collect information concerning customer financial behaviour is limited, which makes it difficult to apply other criteria with reasonable effort. For non-retail receivables, the significant increase in credit risk is also assessed qualitatively, based on the financial statements submitted by counterparties on regular basis.

- *Definition of default.* Inbank considers the financial instrument as defaulted when the instrument is more than 90 days past due or the financial instrument in which borrower is in significant financial difficulty and thus meets the unlikeliness to pay criteria, including the borrower being in bankruptcy, deceased, in court or classified as fraudulent.
- *The assessment of macroeconomic impact.* To assess the macroeconomic impact Inbank has developed a model which incorporates developments of the future economic environment in the expected credit loss calculation. Several economic indicators were analysed to test the significance of the parameters included in the model. The analysis was done for all countries in the portfolio for finding the combination of macroeconomic factors that would predict the PD rate of the portfolio for the best way. For objective estimation of the credit loss, Inbank uses three scenarios which include forward looking information – baseline, positive and negative scenario. Inbank AS estimates that the baseline scenario is the most probable and relevant, the weights of negative and positive scenario probabilities are less significant. Economic development perspective and previous experience in countries where Inbank operates are considered when assigning weights to the scenarios. As at 31.12.2020 probability for baseline scenario was estimated to be 60%, positive scenario probability 20% and negative scenario probability 20%.
  Inbank has carried out a sensitivity analysis on key assumptions, which according to Inbank AS assessment have the most impact on the expected credit loss. The result of the analysis shows that if PD rates increase by 10%, the impact to the ECL is EUR 0.6 million. If LGD rates increase by 10p.p, the impact to the ECL is EUR 2.0 million.
  The economic uncertainty caused by the spread of the COVID-19 virus affected the debt claim sales (LGD) environment, leading to lower debt sale prices in the market. Therefore, a model was developed to assess the movements of LGD levels, taking into account historical data and the changed environment, so that the LGD rates used to estimate expected credit loss would be in line with current market conditions.
- *Debt management.* Inbank offers its customers a flexible approach in dealing with debts, the main supporting activity is the possibility to change the payment schedule, which would correspond to the changed solvency of the customer. More attention is continually paid to the development of the practise of inhouse collection. New reports and views have been created to monitor the quality of the portfolio and movements between overdue groups. Inbank regularly sells past due loans, the internal processing of which is no longer expedient.

The expected credit loss (ECL) for retail receivables is calculated as a product of the key inputs: probability of default (PD), loss given default (LGD) and the outstanding balance discounted with the effective interest rate (EIR). These parameters are derived from internal historical data. As retail loans are homogeneous, the expected credit loss is calculated based on the historical payment behaviour of these homogeneous loans considering the forward-looking information. In case of non-retail loans, the expected credit loss is calculated individually using forward-looking information and considering the counterparty's overdues, financial strength and collateral value. When calculating the expected credit losses, Inbank takes into account the movements between stages as at the end of the reporting period.

During the reporting period, Inbank’s loan portfolio increased by 19%, with the largest contribution coming from Poland, where the portfolio more than doubled within a year. In 2020 the economic environment has been significantly affected by the spread of the COVID-19 virus, the potential negative impact of which, however, has turned out to be smaller than expected. In order to manage the health crisis, various economic restrictions were imposed in the countries, which also affected Inbank’s daily operations. The months most affected during the reporting period were March and April, when sales volumes decreased significantly in all product lines. The product that got mostly affected was small loan which has higher risk as the sales was limited and more conservative approach was used in assessing the creditworthiness. As the restrictions were eased in May, sales volumes also started to recover, which, during the second half of the year, showed a growth trend that was better than expected.

Despite the significant growth of the portfolio and the impact of COVID-19, the quality of the portfolio has been in general good during the reporting period. The share of non-performing loans in the portfolio as of 31.12.2020 was 0.6% (2019: 0.7%). The main reason could be that customers had the possibility to make changes in payment schedule, which was supported by the conditions for private moratoria initiated by the European Banking Authority with which Inbank joined. After the declaration of state of emergency, Inbank’s customers used the opportunity to change the payment schedules more often than before, the total portfolio reaching the amount of 18 million euros as end of 2020, which is still a smaller amount than expected. During the reporting period, Inbank has regularly monitored the credit behaviour of the customers who have taken the payment holiday. A large part of Inbank’s customers who used the payment holiday option in the spring preferred a three-month period, which is why the first payment days have arrived in the third quarter, providing the opportunity to see how many customers started to pay on time. As a positive result, after the end of the payment holiday, 83% of the customers continued to service the contract as usual, 11% of the customers have been in need to extend the payment holiday and 6% have failed to make payments.

At the same time, the uncertainty in the economic environment created a difficult situation in the market of the sale of debt claims, which lead to a decrease in the sales price of debt claims. Despite the fact, Inbank entered into a new debt claim sales agreement in the third quarter, which fixed the terms of the debt sales in the Baltics for two years period. Based on this, Inbank aligned the book values of the loan portfolio with the new conditions, which resulted in an extraordinary credit loss. Inbank’s impairment allowance recognised in statement of financial position increased during the reporting period in the amount of EUR 5.0 million that is mainly due to the increase in new loans issued during the reporting period, alignment of the book value of the portfolio with new conditions of sale of debt claims and additional buffer to cover potential macroeconomic credit costs. Loan loss for the reporting period accounted for 3.1% of the loan portfolio (2019: 2.1%).

Table 11 and Table 12 illustrate how Inbank's provisions for loan losses changed during 2020 and Table 13 and Table 14 show the movement of portfolio between stages during 2020.

In thousands of euros	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Impairment allowance, 31.12.2018	2,078	852	2,608	5,537
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-771	771	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-1,360	-184	1,543	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	433	-199	-234	0
From Stage 3 to Stage 2	0	13	-13	0
New originated or purchased	4,385	0	0	4,385
Derecognised during the period	2,435	947	2,772	6,154
Changes to ECL measurement model assumption	-1,220	217	1,090	87
Total movements with impact on credit loss allowance charge for the period	3,902	1,565	5,158	10,625
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-2,812	-1,348	-3,801	-7,961
Impairment allowance, 31.12.2019	3,168	1,068	3,962	8,198
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-1,121	1,121	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-831	-254	1,085	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	244	-191	-53	0
From Stage 3 to Stage 2	0	11	-11	0
New originated or purchased	4,948	0	0	4,948
Derecognised during the period	5,506	2,284	3,631	11,421
Changes to ECL measurement model assumption	-448	533	2,313	2,398
Total movements with impact on credit loss allowance charge for the period	8,298	3,504	6,965	18,767
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-6,453	-2,832	-4,476	-13,761
Impairment allowance, 31.12.2020	5,013	1,740	6,451	13,204

Table 11. Changes in loss allowance of household portfolio

In thousands of euros	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Impairment allowance, 31.12.2018	17	16	34	67
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-2	2	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-1	0	1	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	5	-10	5	0
From Stage 3 to Stage 2	2	0	-2	0
New originated or purchased	26	0	0	26
Derecognised during the period	-1	-1	-7	-9
Changes to ECL measurement model assumption	-9	2	20	13
Total movements with impact on credit loss allowance charge for the period	20	-7	17	30
Movements without impact on credit loss allowance charge for the period:				
Write-offs	0	0	0	0
Impairment allowance, 31.12.2019	37	9	51	97
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	0	0	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	0	0	0	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	0	0	0	0
From Stage 3 to Stage 2	0	0	0	0
New originated or purchased	22	0	0	22
Derecognised during the period	-21	-9	-44	-74
Changes to ECL measurement model assumption	-4	0	2	-2
Total movements with impact on credit loss allowance charge for the period	-3	-9	-42	-54
Movements without impact on credit loss allowance charge for the period:				
Write-offs	0	0	-5	-5
Impairment allowance, 31.12.2020	34	0	4	38

Table 12. Changes in loss allowance of corporates portfolio

In thousands of euros	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Carrying amount, 31.12.2018	208,955	7,699	4,937	221,591
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-11,855	11,855	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-4,171	-643	4,814	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	2,611	-2,145	-466	0
From Stage 3 to Stage 2	0	23	-23	0
New originated or purchased	227,416	0	0	227,416
Derecognised during the period	-45,247	-1,152	-163	-46,562
Changes to ECL measurement model assumption	-56,548	-2,489	-587	-59,624
Total movements with impact on credit loss allowance charge for the period	112,206	5,449	3,575	121,230
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-5,016	-2,454	-2,336	-9,806
Carrying amount, 31.12.2019	316,145	10,694	6,176	333,014
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-10,729	10,729	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-4,771	-1,483	6,254	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	3,171	-2,976	-195	0
From Stage 3 to Stage 2	0	57	-57	0
New originated or purchased	245,720	0	0	245,720
Derecognised during the period	-81,076	-1,736	-371	-83,183
Changes to ECL measurement model assumption	-76,449	-2,167	-1,387	-80,003
Total movements with impact on credit loss allowance charge for the period	75,866	2,423	4,244	82,534
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-6,980	-3,009	-1,698	-11,687
Carrying amount, 31.12.2020	385,031	10,108	8,722	403,861

Table 13. Movement of household portfolio between stages

In thousands of euros	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Carrying amount, 31.12.2018	9,388	157	107	9,652
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-116	116	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-49	-3	52	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	51	-91	40	0
From Stage 3 to Stage 2				
New originated or purchased	4,691	0	0	4,691
Derecognised during the period	-159	-8	-19	-186
Changes to ECL measurement model assumption	-610	-38	-71	-719
Total movements with impact on credit loss allowance charge for the period	3,808	-24	2	3,786
Movements without impact on credit loss allowance charge for the period:				
Write-offs	0	0	0	0
Carrying amount, 31.12.2019	13,201	133	104	13,438
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-1	1	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	0	-14	14	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	4	-4	0	0
From Stage 3 to Stage 2	0	0	0	0
New originated or purchased	1,959	0	0	1,959
Derecognised during the period	-3,386	-116	-118	-3,620
Changes to ECL measurement model assumption	-227	0	48	-179
Total movements with impact on credit loss allowance charge for the period	-1,651	-133	-56	-1,840
Movements without impact on credit loss allowance charge for the period:				
Write-offs	0	0	-5	-5
Carrying amount, 31.12.2020	11,550	0	43	11,593

Table 14. Movement of corporate portfolio between stages

Impairment of investments in debt securities

Credit ratings from external credit rating agencies, which are published, monitored, and updated on a regular basis, and/or possible payment delays are considered for debt securities in the bond portfolio. As at 31.12.2020, the principal and accrued interest receivables arising from the debt securities are not in arrears (2019: there were no investments made in the debt securities). Considering the latter, the expected credit loss from the investments in debt securities is immaterial and therefore, no allowance has been recognised in the statement of financial position.

Impairment of receivables from central banks and credit institutions

According to Inbank's credit risk management principles, the funds are deposited in central banks and credit institutions with strong credit ratings. The credit ratings of the countries and credit institutions provided by internationally recognised rating agencies and possible payment delays are considered when calculating the expected credit loss of the receivables. As at 31.12.2020 and 31.12.2019, the receivables from central banks and credit institutions were not overdue. Considering the latter, the expected credit loss of the receivables from central banks and credit institutions is immaterial and therefore, no allowance has been recognised in the statement of financial position.

Impairment of restructured financial instruments

Inbank always seeks to restructure impaired loans by providing customer amended loan repayment schedules that align with the creditworthiness of the customer and new loan terms (e.g. reduced principal payment and prolonged contract period). After the restructure, the loan is not considered as defaulted during the time when customer complies with the new loan terms. Restructured loans are monitored continuously to ensure that all loan contract criteria are met. At every balance sheet date, the restructured loans are assessed for impairment similarly to non-restructured loans. However, the risk parameters are derived using the historical data of restructured loans taking account the forward-looking information.

Considering collateral when estimating impairment of receivables

Inbank assesses that the collateral portfolio is insignificant as the majority of the loans in the portfolio are uncollateralised retail loans (hire purchase, consumer loans, credit cards), which are issued based on the solvency analysis of the customer. However, Inbank has also provided loans to companies and individuals, which are hedged with various collaterals.

Counterparty credit risk

As at 31.12.2020, Inbank did not have any counterparty credit risk exposures within the meaning of CRR article 272. Therefore, Inbank is not subject to the disclosure requirements of CRR article 439.

Concentration risk

Concentration risk is an important part of credit risk. It is a risk which arises from the risk exposure of one counterparty or related counterparties or counterparties whose risk is impacted by a common risk factor. Under concentration risk, Inbank views the assets of one party, related parties as well as those associated with one industry, geographical territory or risk factor. In its daily activities, Inbank avoids taking concentration risk by focusing primarily on medium or small-sized loans. Inbank does not preclude lending larger amounts in case there is sufficient collateral available or other required conditions are met. As at 31.12.2020 and 31.12.2019, Inbank did not have any receivables greater than 10% of Inbank's own funds.

Capital requirements for credit risk

Inbank calculates capital requirement arising from credit risk exposures according to the standardised approach. For calculation of capital requirements in order to determine the levels of credit quality for institute exposures and central authorities, Inbank uses the credit quality estimates of the external rating agency Moody's in accordance with the rules in CRR. Inbank regularly updates its counterparty register with short and long-term ratings. Should there be no rating available, the assigned risk weight is the same as that of exposures to the national government in the jurisdiction to which the institution belongs. Inbank's credit exposure, risk-weighted exposure and capital requirements per exposure class according to the standard method can be found in Table 15.

In thousands of euros

Exposure class	Net exposure	Risk-weighted exposure amount	Capital requirement
Central governments or central banks	37,454	0	0
Institutions	19,784	4,323	346
Corporates	11,444	11,444	916
Retail	399,345	299,509	23,961
Exposures in default	2,198	2,198	176
Equity	4,026	9,560	765
Other items	21,471	17,199	1,376
Total	495,722	344,233	27,539

Table 15. Capital requirements and exposure amounts by counterparty type

5.2. Market risk

Market risk is defined as the risk that the value of or the expected future cash flow from Inbank's assets and liabilities will be negatively impacted as a result of changes in market conditions.

Market risk arises from Inbank's core business, taking market risk is not the main activity of the bank. The nature of Inbank's business implies that there are no exposures to commodity or equity risk. Interest and currency risk do however exist as part of the business. The management of these risks is further described in the sections below.

Inbank calculates capital requirement arising from market risk exposures according to the standardised approach. Inbank does not use internal market risk models within the definition of CRR.

Interest rate risk

Interest rate risk is the current or future risk that unfavourable changes in the interest rates on Inbank's assets and liabilities may have a negative impact on Inbank's profit and equity.

Inbank is exposed to interest rate risk if the timings of revaluation and maturity of principal assets and liabilities are different, if the interest rates of assets and liabilities can be adjusted at different intervals or when the structure of assets and liabilities differs in currencies. As Inbank has no risk positions in the trading book, the only important interest rate risk is interest rate risk in banking book.

The purpose of Inbank is to assure low interest rate risk through limiting and matching the structure and maturities of interest-sensitive assets and liabilities. See Table 16 below for details on Inbank's interest-earning assets and interest-bearing liabilities. The interest income from the loans issued exceeds significantly the interest expense for deposits attracted, which allows covering the potential negative impact of interest rate risk of Inbank.

Inbank monitors and manages interest rate risk based on internal limits set by the Supervisory Board. To comply with the internal limits Inbank can adjust rates on its lending or enter into hedging instruments such as interest rate swaps. Inbank calculates and monitors interest rate risk on a continuous basis. As at the end of 2020 and 2019, Inbank had not entered into any financial derivatives to mitigate interest rate risk.

Uniform rules and limits for interest rate risk management shall apply throughout the organisation. The Management Board is responsible for managing interest rate risk. Regular interest rate risk assessment and control is performed by the Asset and Liability Management Committee. The Chief Financial Officer and the Treasurer are responsible for the daily management of Inbank's interest rate risk. Interest rate risk is managed through scenario analysis which is performed at least on a monthly basis by analysing how a shift in the yield curve would impact both Inbank's net interest income and economic value of equity.

Inbank changed the methodology for calculating interest rate risk in December 2020 to align it with the low interest rate environment, which resulted in a significant change in the results of interest rate risk sensitivity analysis. As at 31 December 2020, a 1 percentage point increase in market interest rates would raise Inbank's equity, i.e. economic value, by EUR +410 thousand (2019: by EUR +197 thousand) and the annual profit by EUR +822 thousand (2019: by EUR +891 thousand). At the same time, a 1 percentage point decrease in market interest rates would affect Inbank's equity (economic value) by EUR -133 thousand (2019: as a result of the new methodology by EUR -160 thousand, as a result of the previous methodology by EUR -15 thousand) and the annual profit by EUR -577 thousand (2019: as a result of the new methodology by EUR -296 thousand, as a result of the previous methodology by EUR -15 thousand).

In thousands of euros 31.12.2020	Up to 1 month	> 1 to 3 months	> 3 to 12 months	> 1 to 5 years	> 5 years	Total
Financial assets						
Due from central banks and credit institutions	47,261	0	0	0	0	47,261
Investments in debt securities	3,582	0	10,000	0	0	13,582
Loans and advances	35,607	44,115	132,107	186,382	7,515	405,726
Total financial assets	86,451	44,115	142,107	186,382	7,515	466,569
Financial liabilities						
Customer deposits	14,621	27,274	158,615	185,568	0	386,079
Debt securities issued	0	4,000	0	0	0	4,000
Subordinated debt securities	0	0	6,503	11,150	0	17,653
Total financial liabilities	14,621	31,274	165,118	196,718	0	407,732
Difference in interest rate repricing maturity	71,829	12,840	-23,011	-10,336	7,515	58,837

In thousands of euros 31.12.2019	Up to 1 month	> 1 to 3 months	> 3 to 12 months	> 1 to 5 years	> 5 years	Total
Financial assets						
Due from central banks and credit institutions	103,735	0	0	0	0	103,735
Investments in debt securities	0	0	0	0	0	0
Loans and advances	15,618	29,821	101,695	177,271	10,303	334,707
Total financial assets	119,353	29,821	101,695	177,271	10,303	438,442
Financial liabilities						
Customer deposits	17,744	16,959	179,918	159,619	0	374,240
Debt securities issued	0	0	0	4,000	0	4,000
Subordinated debt securities	0	0	0	17,653	0	17,653
Total financial liabilities	17,744	16,959	179,918	181,272	0	395,893
Difference in interest rate repricing maturity	101,608	12,862	-78,223	-4,001	10,303	42,548

Table 16. Interest-earning assets and interest-bearing liabilities by repricing dates of interest rates

Currency risk

Currency risk is the risk arising from the different currency structure of Inbank's assets and liabilities. As the exchange rates change, the value of assets and liabilities and the amount of income and expenses in the functional currency also change.

Currency risk arises from Inbank's operations in Poland and Inbank generally maintains the minimum foreign exchange position required for the provision of services to customers. For measuring and assessing currency risk, Inbank uses the monitoring of the net open currency position, sensitivity analysis of the open net position and stress testing by assessing the impact of unfavourable exchange rate fluctuations. The scenario for testing includes a simultaneous 10% change in an unfavourable direction of all foreign currencies where Inbank has an open currency position (euro positions are not considered as foreign currency positions).

The Treasurer is responsible for the operational management of currency risk which is monitored on a daily basis. Table 17 shows the foreign currency exposures of Inbank at the end of 2020 and 2019.

In thousands of euros Polish zloty	31.12.2020	31.12.2019
Assets exposed to currency risk	107,699	51,353
Liabilities exposed to currency risk	107,487	51,581
Net open position	212	228
Effect of 10% change in FX rate	-21	-23

Table 17. Currency exposure

A 10% change in the currency exchange rate of the functional currency (EUR) versus foreign currency would entail an effect of 0.35% (2019: 0.23%) on net income and 0.03% (2019: 0.05%) on equity of Inbank. Inbank's open foreign currency risk is low, and the foreign currency risk position is well managed.

5.3. Liquidity risk

Liquidity risk is defined as the risk of Inbank not being able to fund the growth of lending assets and not being able to meet obligations as they become due without incurring significantly increased cost. Liquidity risk is inherent in basic banking activities such as accepting deposits and providing loans hence it cannot be eliminated but Inbank strives to keep this risk at reasonably low levels.

Liquidity risk is one of the most significant risks for Inbank. The Supervisory Board establishes maximum levels of liquidity risk that Inbank is willing to take to achieve its strategic objectives within risk appetite. According to risk appetite, Inbank shall maintain low risk appetite for liquidity perspective, and shall preserve a strong liquidity position and sufficient, rather larger liquidity reserves at all times. The main objective of Inbank's liquidity risk appetite is to ensure sufficient and stable funding of Inbank's lending activities. Secondary objective of the funding management is optimisation of the costs, size and composition of external resources involved, but cost effectiveness and cost-competitiveness shall never override sufficient, stable and conservative funding requirements.

Inbank's liquidity risk management and strategy is based on Liquidity Risk Policy which is approved by the Supervisory Board, and other internal regulations. The purpose of internal policies and procedures is to establish liquidity risk management principles, framework and accountability to ensure the capability to adequately assess and manage liquidity and funding risk as part of general risk management framework within Inbank. Internal regulations also establish general requirements, including content and frequency, for liquidity risk reporting and measurement systems according to regulatory requirements and Inbank needs. Measurement systems include requirements and limits for HQLA quality and structure, risk indicators and measures for funding risk measurement. The follow-up of all defined tolerance limits for liquidity is reported at least quarterly to the Supervisory Board by the risk management unit. Any limit breaches are escalated immediately.

The Chief Financial Officer and the Treasurer are responsible for the daily and intraday monitoring and management of Inbank's liquidity situation. Risk management unit is responsible for upholding principles and framework and ensuring independent monitoring and reporting of liquidity risk and internal audit unit carries out independent oversight of the entire organisation.

General strategy, risk appetite, general requirements, authorities and limits shall be approved by the Supervisory Board. Based on the Liquidity Risk Policy, the Management Board shall design appropriate liquidity and funding management framework and procedures and shall regularly oversee liquidity risk exposure and liquidity risk interdependence with other risk categories. In 2018, Inbank formed Asset and Liability Management Committee for regular liquidity planning and control.

The inherent liquidity risk of the funding is managed by strive to match the duration of the assets with the duration of the liabilities. Additionally, it is mitigated by maintaining conservative and highly liquid liquidity reserves in order to manage any durational imbalances. Keeping survival period in accordance with regulatory requirements and Inbank's strategy, ensures Inbank has sufficient liquidity to withstand a severely stressed situation. An overview of the distribution of assets and liabilities by contractual maturities on the basis of undiscounted cash flows can be found in Table 18 below. Within the framework of the model, the key liquidity ratios and the maturity proportions of assets and liabilities are also determined, and regular liquidity stress tests are conducted.

In thousands of euros							
31.12.2020	Up to 1 month	> 1 to 3 months	> 3 to 12 months	> 1 to 5 years	> 5 years	Total	Carrying amount
Assets							
Due from central banks and credit institutions	47,229	0	0	0	0	47,229	47,229
Investments in debt securities	53	105	10,466	2,337	984	13,945	13,618
Loans and advances	18,610	42,609	142,809	263,354	31,294	498,676	402,212
Other assets	1,575	206	747	1,209	23,235	26,972	26,972
Total assets	67,467	42,920	154,022	266,900	55,513	586,822	490,031
Liabilities							
Customer deposits	14,373	28,035	162,333	196,087	0	400,828	391,341
Debt securities issued	0	4,027	0	0	0	4,027	4,010
Subordinated debt securities	0	301	7,291	13,006	0	20,598	17,563
Other liabilities	11,044	1,970	1,639	749	490	15,892	15,892
Total liabilities	25,417	34,333	171,263	209,842	490	441,345	428,806
Maturity gap of assets and liabilities	42,050	8,587	-17,241	57,058	55,023	145,477	61,225
31.12.2019	Up to 1 month	> 1 to 3 months	> 3 to 12 months	> 1 to 5 years	> 5 years	Total	Carrying amount
Assets							
Due from central banks and credit institutions	103,735	0	0	0	0	103,735	103,735
Investments in debt securities	0	0	0	0	0	0	0
Loans and advances	18,503	34,869	125,025	232,092	13,049	423,538	338,157
Other assets	513	1,637	62	69	18,594	20,875	20,875
Total assets	122,751	36,506	125,087	232,161	31,643	548,148	462,767
Liabilities							
Customer deposits	17,390	17,832	182,852	168,634	0	386,708	377,518
Debt securities issued	0	27	81	4,027	0	4,135	4,010
Subordinated debt securities	0	313	902	20,595	0	21,810	17,537
Other liabilities	12,066	2,920	573	585	238	16,382	16,382
Total liabilities	29,456	21,092	184,408	193,841	238	429,035	415,447
Maturity gap of assets and liabilities	93,295	15,414	-59,321	38,320	31,405	119,113	47,320

Table 18. Assets and liabilities by contractual maturities

To ensure that Inbank covers operational needs and complies with regulatory requirements regarding liquidity coverage, a sufficiently high Liquidity Coverage Ratio (LCR) shall be maintained at all times. Inbank has a regulatory requirement to maintain sufficient reserves of liquid assets to support a share (100% as of 31 December 2020) of estimated stressed liquidity outflows over 30 days on a consolidated level. The current LCR and its components are disclosed in accordance with the EBA guideline EBA/GL/2017/01 in Table 19 below. The Net Stable Funding Ratio (NSFR) is at 127% for Inbank as of 31 December 2020 (2019: 144%).

In thousands of euros	31.12.2020	31.12.2019
Liquidity buffer	34,701	78,515
Total net cash outflows	1,551	1,009
LCR (%)	2237%	7782%

Table 19. Liquidity Coverage Ratio

By using primarily term deposits from retail customers for funding, Inbank's cash flows are easier to forecast. A well-diversified funding portfolio where concentrations by customers and maturities are avoided, and balanced growth of funding and lending portfolios are key components of long-term liquidity risk strategy. Inbank uses a flexible and attractive funding strategy and pricing is set above market average if necessary, in each of the funding sources Inbank uses. Inbank has established a liquidity contingency plan for determining the actions in a situation of a liquidity crisis and defining the sources to be used.

Based on assessment made by the Management Board, as of 31 December 2020 the actual risk profile of Inbank's liquidity risk is in accordance with the risk appetite set by the Supervisory Board and liquidity risk management and risk management systems are sufficient and appropriate taking into account Inbank's profile and strategy.

5.4. Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, from people and systems, or from external events. Operational risk exposure exists in all processes, markets, systems and products. Inbank shall take the operational risk that is naturally inherent in the business processes to achieve the growth and development of the company. Operational risk includes legal and compliance risk, HR risk and information technology risk. The operational risk effects could be in the form of direct or indirect financial losses or reputational damage.

The main operational risks concerning Inbank are related to the significant growth of the company. The increasing number of employees, the growing volume of transactions and the launch of new products mean a constant need for new structures and processes as well as development of systems. Inbank is dependent on competent and motivated employees and therefore is exposed to HR risk which means being able to keep and to recruit the right staff. Inbank is also dependent on well-functioning, secure and resilient IT-systems and communication solutions to run its business. At the same time Inbank is exposed to cyber risks, risks in IT development and other IT disturbances. Although, many processes are automated, Inbank is exposed to risks related to faulty or manual processes. Conducting the business in specific industry, Inbank is exposed to the risk of external changes in regulations, politics and government decisions of the markets of operations.

Inbank's operational risk management and strategy is based on Operational Risk Policy which is approved by the Supervisory Board, and other internal regulations. The management of operational risks includes mapping of all major processes in the business, identifying the main risks in each process, implementation of adequate controls and the final follow-up of the controls. Inbank has processes in place for incident management and approval of new products (NPA Process) as well as the business continuity plan has been established. Operational risk loss events are registered in the operational risk database together with the amount of the loss which are regularly analysed and reported.

All business units with significant risk incorporated into their operations shall regularly complete Risk and Control Self-Assessment (RCSA) to identify and mitigate those risks according to the methodology described in Operational Risk Policy. The RCSA framework is used to analyse Inbank's operational risk profile and to manage risks more consciously. Inbank conducts regular trainings for employees concerning the operational risk key areas, including information security, fraud prevention, anti-money laundering, KYC procedures and GDPR.

The basic indicator approach for operational risk is used for calculating capital requirement for operational risk. Inbank does not use any methods based on advanced measurement model for operational risk within the definition of CRR.

The actual risk profile of Inbank's operational risk during 2020 has been in accordance with the risk appetite set by the Supervisory Board, the real losses from operational risk have remained low. In 2020, the real losses to own funds constituted of 1.0% (2019: 0.6%).

5.5. Business risk

Inbank considers under business risk both strategic risk and reputational risk. Strategic risk is the risk that business and competitive environment, impact of regulation on the Inbank's activities, inadequate implementation of strategy, changes in customer expectations or inadequate implementation of new technologies may cause losses or significantly reduce revenues. Reputational risk is the risk to Inbank's income, own funds or liquidity, that is caused by an event harming Inbank's reputation.

The Management Board focuses on ensuring that business development and planning processes would be comprehensive and conform to the risk appetite. Proper planning allows to react to changes in adequate and timely manner. As reputation is an important asset in the field where Inbank is operating, Inbank's strategy is to manage reputational risk by avoiding exposure and situations that could have a negative impact and thereby lead to decrease of revenue or loss of confidence.

The overall reputation and public image of Inbank has remained good during 2020, competitive and regulatory environment has not significantly changed.

Appendix 1. Risk declaration pursuant to CRR Art 435(1) (f)

Inbank pursues a strategy characterised by growth through distribution and product innovation in new and current markets. As a consequence, Inbank's risk profile is determined both by reduction of risk driven by improvements in underwriting and operations in its existing markets, and by increase of risk exposure through new markets and products. Inbank strives at all times to be sufficiently capitalised in order to support its growth strategy and absorb losses.

To support this strategy, the risk tolerances approved by the Supervisory Board support risk taking in core business activities, specifically in credit risk where the high volume of originated loans require a high tolerance of losses in relation to the stock of loans outstanding at any given moment. Parallel to this, Inbank strives to optimise non-core risk taking in supporting functions and processes.

Key risk indicators

In thousands of euros	31.12.2020	31.12.2019	31.12.2018
Total assets	490,031	462,767	318,044
Loan portfolio	402,212	338,158	225,639
Loss rate (% of average loan portfolio)	3.1%	2.1%	1.7%
Operational risk loss (% of own funds)	1.0%	0.6%	0.2%
Liquidity reserves (% of total assets)	11.7%	22.4%	24.6%
Liquidity coverage ratio (%)	2237%	7782%	1610%
Total capital ratio (% of risk exposure)	18.6%	18.1%	18.7%

Appendix 2. Own funds balance sheet reconciliation

Disclosure according to Regulation (EU) No 1423/2013 Annex I

Full reconciliation of own funds items to audited financial statements

In thousands of euros	Carrying values as reported in financial statement	Adjustments under the scope of regulatory framework	Carrying values under the scope of regulatory framework
Common Equity Tier 1 (CET 1) capital: instruments and reserves			
Paid-in share capital	961		961
Share premium	23,865		23,865
Statutory and other reserves	1,528		1,528
Retained earnings	28,969		28,969
Profit for reporting period	5,902	-1,714	4,188
Common Equity Tier 1 capital before regulatory adjustments	61,225	-1,714	59,511
Common Equity Tier 1: regulatory adjustments			
Goodwill	-6,157		-6,157
Other intangible assets	-2,766		-2,766
IFRS 9 transitional adjustments	-	4,167	4,167
Total regulatory adjustments to Common Equity Tier 1	-8,923	4,167	-4,756
Common Equity Tier 1 capital	52,302	2,453	54,755
Additional Tier 1 (AT1) capital: instruments			
Additional Tier 1 instruments	3,150		3,150
Additional Tier 1 capital	3,150	0	3,150
Tier 1 capital	55,452	2,453	57,905
Tier 2 (T2) capital: instruments and provisions			
Subordinated liabilities	14,503		14,503
Tier 2 capital	14,503	0	14,503
Own funds	69,955	2,453	72,408

Appendix 3. Main features of capital instruments

Disclosure according to Regulation (EU) No 1423/2013 Annex II

Capital instruments' main features template

1	Issuer	Inbank AS	Inbank AS	Inbank AS	Inbank AS
2	Unique identifier (eg. CUSIP, ISIN or Bloomberg identifier for private placement)	EE3100008574	EE3300111590	EE3300110964	EE3300001544
3	Governing law(s) of the instrument	Estonian law	Estonian law	Estonian law	Estonian law
	Regulatory treatment				
4	Transitional CCR rules	Common Equity Tier 1	Additional Tier 1	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Tier 2	Tier 2
6	Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Share capital	Additional Tier 1	Tier 2	Tier 2
8	Amount recognised in regulatory capital (as of most recent reporting date)	EUR 961,053	EUR 3,150,000	EUR 6,503,000	EUR 8,000,000
9	Nominal amount of instrument	EUR 0.1	EUR 10,000	EUR 1,000	EUR 1,000
9a	Issue price	Various	EUR 10,000	EUR 1,000	EUR 1,000
9b	Redemption price	N/A	100% of nominal amount	100% of nominal amount	100% of nominal amount
10	Accounting classification	Share capital	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	Various	21.12.2018	28.09.2016	19.12.2019
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	No maturity	No maturity	28.09.2026	19.12.2029
14	Issuer call subject to prior supervisory approval	No	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	21.12.2023 100% of nominal amount In addition Tax/Regulatory call at any time	28.09.2021 100% of nominal amount In addition Tax/Regulatory call at any time	19.12.2024 100% of nominal amount In addition Tax/Regulatory call at any time
16	Subsequent call dates, if applicable	N/A	Any time after 21.12.2023 by notifying at least 30 days in advance	Any time after 28.09.2021 by notifying at least 30 days in advance	Any time after 19.12.2024 by notifying at least 30 days in advance

	Coupons / dividends				
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed	Fixed
18	Coupon rate and any related index	N/A	8.5% p.a.	7% p.a.	6% p.a.
19	Existence of a dividend stopper	N/A	No	No	No
20a	Fully discretionary, partially or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	N/A	No	No	No
22	Noncumulative or cumulative	N/A	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	N/A	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A
30	Write-down features	N/A	Yes	No	No
31	If write-down, features, write down trigger(s)	N/A	5.125% CET1 on a consolidated level	N/A	N/A
32	If write-down, full or partial	N/A	Fully or partially	N/A	N/A
33	If write-down, permanent or temporary	N/A	Temporary	N/A	N/A
34	If temporary write-down, description of write-down mechanism	N/A	A write down notice shall be given not more than 5 business days after determining a trigger event. Outstanding principal amount is written down on a pro rata basis with the outstanding nominal value of each AT1 temporary write-down note.	N/A	N/A
35	Positioning subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1	Tier 2	Unsubordinated recognised claims	Unsubordinated recognised claims
36	Non-compliant transitioned features	No	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A

Appendix 4. Own funds

Disclosure according to Regulation (EU) No 1423/2013 Annex IV

Own funds disclosure template

In thousands of euros		31.12.2020
	Common Equity Tier 1 capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	24,826
	of which: Instrument type 1	24,826
2	Retained earnings	28,969
3	Accumulated other comprehensive income (and other reserves)	1,528
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	5,902
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	61,225
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	
8	Intangible assets (net of related tax liability) (negative amount)	-8,923
12a	IFRS 9 transitional arrangements	4,167
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-4,756
29	Common Equity Tier 1 (CET1) capital	56,469
	Additional Tier 1 (AT1) capital: instruments	
30	Capital instruments and the related share premium accounts	3,150
32	of which: classified as liabilities under applicable accounting standards	3,150
36	Additional Tier 1 (AT1) capital before regulatory adjustments	3,150
	Additional Tier 1 (AT1) capital: regulatory adjustments	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0
44	Additional Tier 1 (AT1) capital	3,150
45	Tier 1 capital (T1 = CET1 + AT1)	59,619

In thousands of euros		31.12.2020
	Tier 2 (T2) capital: instruments and provisions	
46	Capital instruments and the related share premium accounts	14,503
51	Tier 2 (T2) capital before regulatory adjustments	14,503
	Tier 2 (T2) capital: regulatory adjustments	
57	Total regulatory adjustments to Tier 2 (T2) capital	0
58	Tier 2 (T2) capital	14,503
59	Total capital (TC = T1 + T2)	74,122
60	Total risk-weighted assets	399,197
	Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.15%
62	Tier 1 (as a percentage of total risk exposure amount)	14.93%
63	Total capital (as a percentage of total risk exposure amount)	18.57%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	7.00%
65	of which: capital conservation buffer requirement	2.50%
66	of which: countercyclical buffer requirement	0.00%
67	of which: systemic risk buffer requirement	0.00%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.00%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	9.65%
	Amounts below the thresholds for deduction (before risk weighting)	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	3,689

Appendix 5. Macroprudential supervisory measures

Disclosure according to Regulation (EU) No 2015/1555 Annex I

Table 1. Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

In thousands of euros		General credit exposures		Trading book exposures		Securitisation positions		Own funds requirements					
		Exposure value for SA	Exposure value IRB	Sum of long and short positions of trading book	Value of trading book exposures for internal models	Exposure value for SA	Exposure value IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirements weights	Countercyclical capital buffer rate
		010	020	030	040	050	060	070	080	090	100	110	120
010	Breakdown by country												
	Estonia	0	n/a	n/a	n/a	n/a	n/a	0	n/a	n/a	0	0	0
	Latvia	0	n/a	n/a	n/a	n/a	n/a	0	n/a	n/a	0	0	0
	Poland	0	n/a	n/a	n/a	n/a	n/a	0	n/a	n/a	0	0	0
	Lithuania	0	n/a	n/a	n/a	n/a	n/a	0	n/a	n/a	0	0	0
020	Total	0	n/a	n/a	n/a	n/a	n/a	0	n/a	n/a	0	0	0

Table 2. Amount of institution-specific countercyclical capital buffer

In thousands of euros		010
010	Total risk exposure amount	0
020	Institution specific countercyclical buffer rate	0%
030	Institution specific countercyclical buffer requirement	0

Appendix 6. Asset encumbrance

Disclosure according to Regulation (EU) No 2017/2295 Annex I

Template A. Encumbered and unencumbered assets

	In thousands of euros	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	Assets of the reporting institution	337		489,694	
030	Equity instruments	0		0	
040	Debt securities	0		13,618	
070	of which: issued by general governments	0		10,009	
090	of which: issued by non-financial corporations	0		3,609	
120	Other assets	337		476,076	
121	of which: loans on demand	0		47,229	
122	of which: loans and advances other than loans on demand	0		402,212	
123	of which: other	337		26,635	

Template B. Collateral received

In thousands of euros		Encumbered	Unencumbered	
		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	of which EHQLA and HQLA
		010	040	060
130	Collateral received by the reporting institution	n/a	22,915	n/a
140	Loans on demand		0	
150	Equity instruments		0	
160	Debt securities		0	
220	Loans and advances other than loans on demand		0	
230	Other collateral received		22,915	
231	of which: other financial corporations		4,670	
232	of which: non-financial corporations		2,397	
233	of which: households		15,848	
240	Own debt securities issued other than own covered bonds or asset-backed securities	n/a	n/a	
241	Own covered bonds and asset-backed securities issued and not yet pledged		n/a	
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	n/a		

Template C. Sources of encumbrance

In thousands of euros		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	n/a	n/a

Template D. Accompanying narrative information

As of reporting date, most of Inbank's assets are unencumbered, except the investment in Aktiva Portfolio AS in the amount of 337 thousand euros. Aktiva Portfolio AS has been established in July, 2020 for more efficient management of the debt portfolio of Inbank.

Appendix 7. CRR Leverage Ratio

Disclosure according to Regulation (EU) No 2016/200 Annex I

Table LRSum. Summary reconciliation of accounting assets and leverage ratio exposures

In thousands of euros		Applicable amount
1	Total assets as per published financial statements	490,031
7	Other adjustments	-4,756
8	Leverage ratio total exposure measure	485,275

Table LRCom. Leverage ratio common disclosure

In thousands of euros		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	488,274
2	(Asset amounts deducted in determining Tier 1 capital)	-4,756
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (lines 1 and 2)	483,518
Derivative exposures		
11	Total derivative exposures (lines 4 to 10)	0
Securities financing transaction exposures		
16	Total securities financing transaction exposures (lines 12 to 15a)	0
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	2
19	Other off-balance sheet exposures (lines 17 to 18)	2
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposures		
20	Tier 1 capital	55,452
21	Total leverage ratio exposures (lines 3, 11, 16, 19, EU-19a and EU-19b)	483,520
Leverage ratio		
22	Leverage ratio	11.47%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	fully phased
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	0

Table LRSpl. Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	In thousands of euros	CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	488,274
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	488,274
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	37,454
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	0
EU-7	Institutions	19,784
EU-8	Secured by mortgages of immovable properties	0
EU-9	Retail exposures	399,345
EU-10	Corporate	11,444
EU-11	Exposures in default	2,198
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	18,049

Table LRQua. Disclosure on qualitative items

1 Description of the processes used to manage the risk of excessive leverage

Inbank has adopted a uniform and systemic company-wide framework for managing risks, including the risk of excessive leverage. The leverage ratio is frequently monitored and regularly reported to the Asset and Liability Management Committee, the Management Board and the Supervisory Board.

Inbank's business model is not strongly leveraged, and the growth of transactions is monitored closely. As a result, Inbank's leverage ratio is stable and has remained well in excess of the minimum 3% regulatory level since the bank's authorisation. This positive position shall be maintained during the period covered by the business planning process which will take account of stress testing impacts on the ratio.

2 Description of the factors that had an impact on the Leverage Ratio during the period to which the disclosed Leverage Ratio refers

The leverage ratio for Inbank consolidated situation has increased during the year from 9.57% to 11.47%. The increase of leverage ratio is mainly attributable to the increase of Tier 1 capital (denominator) to a greater extent than the period's balance sheet expansion which in turn increased the total leverage ratio exposures (numerator). There were no exact external factors that would have had a significant impact on the leverage ratio.

Appendix 8. IFRS 9 transitional arrangements

Disclosure according to Guidelines (EBA) EBA/GL/2018/01 Annex I

Template IFRS 9-FL. Comparison of own funds, capital and leverage ratios with and without the application of transitional arrangements for IFRS 9

	In thousands of euros	31.12.2020	31.12.2019
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	56,469	39,952
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	52,302	35,598
3	Tier 1 capital	59,619	43,102
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	55,452	38,748
5	Total capital	74,122	57,605
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	69,955	53,251
	Risk-weighted assets (amounts)		
7	Total risk-weighted assets	399,197	317,487
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	399,197	313,711
	Capital ratios		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	14.15%	12.58%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.10%	11.35%
11	Tier 1 (as a percentage of risk exposure amount)	14.93%	13.58%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.89%	12.35%
13	Total capital (as a percentage of risk exposure amount)	18.57%	18.14%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.52%	16.97%
	Leverage ratio		
15	Leverage ratio total exposure measure	483,520	450,594
16	Leverage ratio	11.47%	9.57%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	10.70%	8.68%

Appendix 9. Non-performing and forborne exposures

Disclosure according to Guidelines (EBA) EBA/GL/2018/10 Annex I, II and V

Template 1. Credit quality of forborne exposures

	In thousands of euros	a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1	Loans and advances	1,894	280	280	280	-288	-207	255	51
2	Central banks	0	0			0	0	0	
3	General governments	0	0			0	0	0	
4	Credit institutions	0	0			0	0	0	
5	Other financial corporations	0	0			0	0	0	
6	Non-financial corporations	0	0			0	0	0	
7	Households	1,894	280	280	280	-288	-207	255	51
8	Debt securities	0	0			0	0	0	
9	Loan commitments given	0	0			0	0	0	
10	Total	1,894	280	280	280	-288	-207	255	51

Template 3. Credit quality of performing and non-performing exposures by past due days

In thousands of euros		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1	Loans and advances	406,700	396,567	10,133	9,132	963	1,248	1,875	3,303	1,638	101	4	9,132
5	Other financial corporations	4,689	4,689		0								
6	Non-financial corporations	6,861	6,859	2	74	0	7	0	9	58	0	0	74
7	of which SMEs	3,716	3,714	2	0								
8	Households	395,150	385,019	10,131	9,058	963	1,241	1,875	3,294	1,580	101	4	9,058
9	Debt securities	13,618	13,618		0								
11	General governments	10,009	10,009		0								
14	Non-financial corporations	3,609	3,609		0								
15	Off-balance-sheet exposures	7,448			0								
20	Non-financial corporations	2,325			0								
21	Households	5,123			0								
22	Total	427,766	410,185	10,133	9,132	963	1,248	1,875	3,303	1,638	101	4	9,132

Gross NPL ratio: 2.2%

Template 4. Performing and non-performing exposures and related provisions

	In thousands of euros	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
1	Loans and advances	406,700	396,569	10,131	9,132	0	9,132	6,849	5,086	1,763	6,772	0	6,772	0	22,087	828
5	Other financial corporations	4,689	4,689	0	0			10	10	0	0				4,670	0
6	Non-financial corporations	6,861	6,861	0	74	0	74	24	24	0	36	0	36		2,397	0
7	of which SMEs	3,716	3,716	0	74	0	74	24	24	0	36	0	36		2,397	0
8	Households	395,150	385,019	10,131	9,058	0	9,058	6,815	5,052	1,763	6,736	0	6,736		15,020	828
9	Debt securities	13,618	13,618	0	0			0			0			0	0	0
11	General governments	10,009	10,009	0												
14	Non-financial corporations	3,609	3,609	0												
15	Off-balance-sheet exposures	7,448	7,448	0	0			0			0			0	0	0
20	Non-financial corporations	2,325	2,325	0												
21	Households	5,123	5,123	0												
22	Total	427,766	417,635	10,131	9,132	0	9,132	6,849	5,086	1,763	6,772	0	6,772	0	22,087	828

Template 9. Collateral obtained by taking possession and execution processes

In thousands of euros		a	b
		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
1	Property, plant and equipment (PP&E)	0	0
2	Other than PP&E	0	0
3	Residential immovable property		
4	Commercial Immovable property		
5	Movable property (auto, shipping, etc.)		
6	Equity and debt instruments		
7	Other		
8	Total	0	0

Appendix 10. Exposures subject to legislative and non-legislative moratoria

Disclosure according to Guidelines (EBA) EBA/GL/2020/07 Annex III

Template 1. Information on loans and advances subject to legislative and non-legislative moratoria

In thousands of euros	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
		Performing			Non performing				Performing			Non performing			
			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
1 Loans and advances subject to moratorium	1,517	1,516	0	105	1	0	0	79	78	0	34	1	0	0	0
2 of which: Households	1,517	1,516	0	105	1	0	0	79	78	0	34	1	0	0	0

Template 2. Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

In thousands of euros	a	b	c	d	e	f	g	h	i
	Number of obligors	Gross carrying amount							
			Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1 Loans and advances for which moratorium was offered	304	1,517	0	1,517	0	0	0	0	0
2 Loans and advances subject to moratorium (granted)	304	1,517	0	1,517	0	0	0	0	0
3 of which: Households	304	1,517	0	1,517	0	0	0	0	0

Appendix 11. Newly originated exposures subject to public guarantee schemes

Disclosure according to Guidelines (EBA) EBA/GL/2020/07 Annex III

Template 3. Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

In thousands of euros	a	b	c	d
	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		of which: forborne	Public guarantees received	Inflows to non-performing exposures
1 Newly originated loans and advances subject to public guarantee schemes	0	0	0	0

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