# Inbank AS consolidated annual report 2018

# Inbank AS general information

| | |
|---|---|
| **Business name** | Inbank AS |
| **Address** | Niine 11, 10414 Tallinn |
| **Registration date** | 05.10.2010 |
| **Registry code** | 12001988 (Commercial Register of the Republic of Estonia) |
| **Legal entity identifier** | 2138005M92IEIQVEL297 (LEI code) |
| **VAT number** | EE101400240 |
| **Telephone** | +372 640 8080 |
| **E-mail** | info@inbank.ee |
| **Website** | www.inbank.ee |
| **Balance sheet date of report** | 31 December 2018 |
| **Reporting period** | 01.01.2018-31.12.2018 |

## Members of the Supervisory Board

Priit Põldoja, Chairman of the Supervisory Board
Roberto De Silvestri
Triinu Reinold
Raino Paron
Rain Rannu

## Members of the Management Board

Jan Andresoo, Chairman of the Management Board
Liina Sadrak
Marko Varik
Piret Paulus
Ivar Kallast

The reporting currency is the euro (EUR), with units presented in thousands.
Inbank AS (hereinafter the "group" or "Inbank") Annual Report 2018 has been audited.
Annual report for 2018 is signed in the Estonian version.
This is an unofficial translation into English.
The bank does not hold any ratings provided by international rating agencies.

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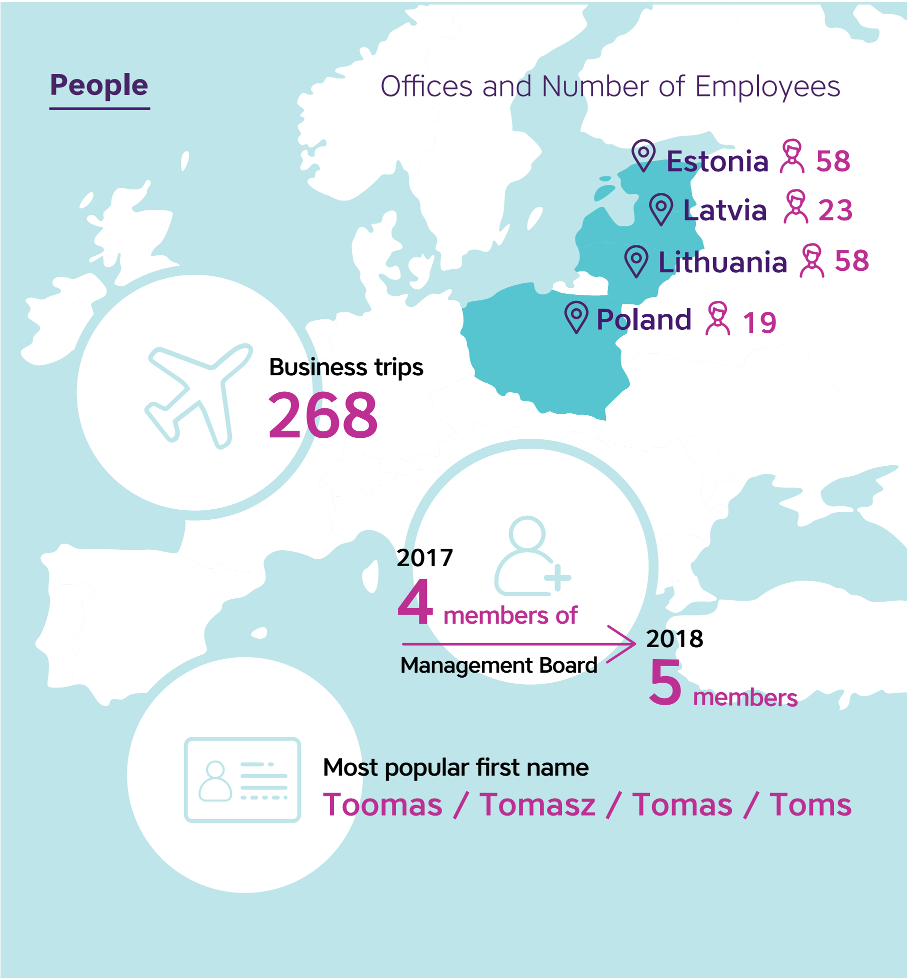
# Facts and figures




## Business

Number of contracts in portfolio
**445 963**

Personal identification with webcam
**23%**

Website visits from mobile devices
**44%**

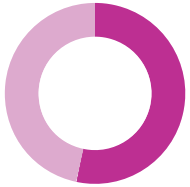
Calls placed to customer service
**42 284**

**10%** Share of private person term deposit market in Estonia

**25%** Inbanks' share of new loans issued by Estonian banks (uncollateralized or with other collateral)

## Clients

Average customer of Inbank in Estonia



Men
41%

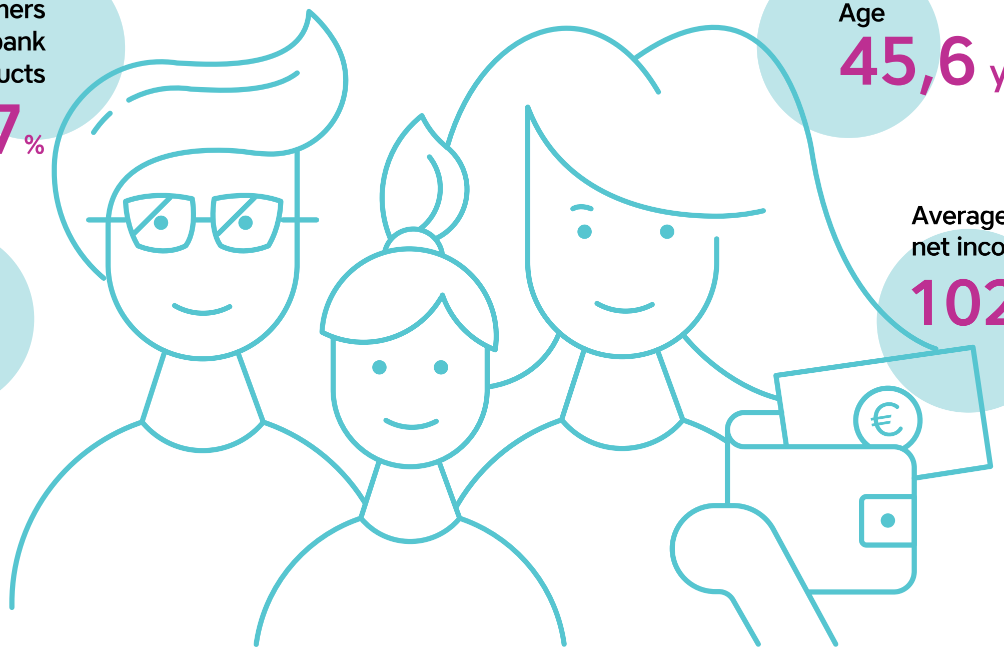
Women
59%

Percentage of customers using multiple Inbank products
7%

Age
45,6 years

Most contracts per customer
52 deposit contracts

Average net income
1020 EUR



## Open organisation

Transactions with Inbank Bonds 85 amounting to 408 476 EUR

Stock exchange announcements published 19

Reports to the European Central Bank
841p

## Capital raising

Share issue in the amount of
6,1 mEUR

AT1 bond issue in the amount of
3,15 mEUR

## Large transactions

Sale of 25,9% holding in Veriff OÜ

Sale of 10% holding in Coop Pank AS

Purchase of 100% holding in UAB Mokilizingas

## Key financial indicators

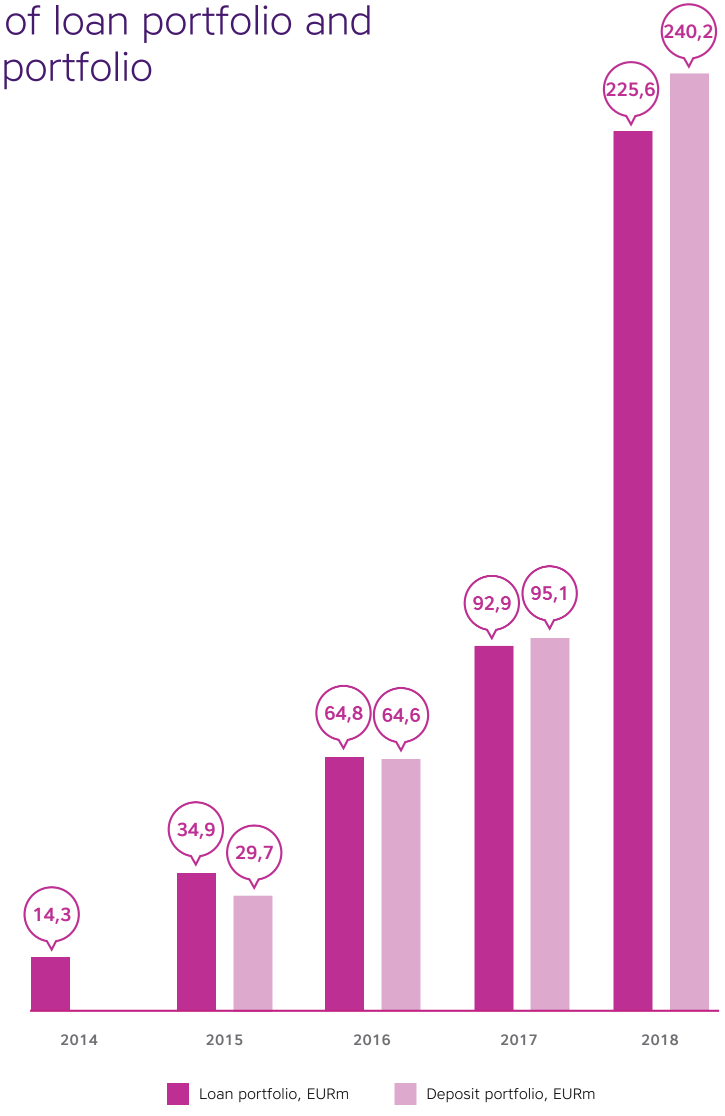
EURt

| Key financial indicators | 12 months 2018 | 12 months 2017 | |
|---|---|---|---|
| Total assets | 318 044 | 125 981 | 152,5% |
| Total equity attributable to shareholders of the parent | 36 425 | 22 020 | 65,4% |
| Total comprehensive income attributable to owners of the parent | 9 335 | 7 458 | 25,2% |
| Loan portfolio | 225 639 | 92 895 | 142,9% |
| Deposit portfolio | 240 175 | 95 056 | 152,7% |

| Ratios | 12 months 2018 | 12 months 2017 |
|---|---|---|
| Return on equity | 31,9% | 44,1% |
| Return on total assets | 4,2% | 7,1% |
| Net interest margin | 9,5% | 11,1% |
| Impairment losses to loan portfolio | 1,7% | 4,5% |
| Cost/income ratio | 49,9% | 57,8% |
| Equity to total assets | 11,5% | 17,5% |

**Return on equity:** total comprehensive income attributable to owners of the parent / total equity attributable to the shareholders of parent company (average over the period), annualised
**Return on total assets:** total comprehensive income attributable to owners of the parent / total assets (average over the period) annualised
**Net interest margin:** net interest income / interest-bearing assets (average over the period) annualised
**Impairment losses to loan portfolio:** impairment losses on loans / loan portfolio (average over the period) annualised
**Cost/income ratio:** total operating expenses / total income
**Equity to total assets:** total equity attributable to shareholders of the parent / total assets

## Volume of loan portfolio and deposit portfolio



# Statement of the Chairman of Supervisory Board

2018 was another year of fast growth for Inbank. Our loan portfolio grew by 143% to 225,6 EURm. Inbank recorded a record profit of 9,3 EURm.

This time the growth was a little different. While we continued to grow in our home markets, last year Inbank made its first acquisition. By purchasing Mokilizingas, a leading consumer financing company in Lithuania, Inbank entered into a fourth market. Now, Inbank is present in all Baltic markets and Poland, giving us opportunity to leverage cross-border partner relationships and product development.

We have stayed true to our strategy of focused product offering and international growth. In last year's annual report I highlighted that Inbanks' long-term success will be defined by our ability to grow internationally. I am glad to report that for the first time in our brief history, Inbank has less than half of loan portfolio in Estonia. During the end of the year, we also saw great growth in our business in Poland. We launched hire purchase in Polish market and onboarded couple of first large partners, who drove our portfolio growth to 127%. Obviously, an acquisition of Mokilizingas made a great impact to our portfolio

## The core of our business model is to help our partners to sell more and customers to purchase simpler by making financing more accessible.

growth. But what makes me even more happy is that Mokilizingas was able to grow its loan portfolio by more than 50% after our acquisition on April 2018.

During 2018, we continued to strengthen our international organization. Since the middle of 2017 Inbank has been focused on strengthening our group organization and streamlining product development processes. I believe we made several important steps last year in improving organizational capabilities. A more unified cross-border business development unit was launched as well as risk organization was substantially strengthened during the year. We also set up a separate Estonian business unit which helps top management to focus more on international growth.

These steps were all important to build an organization for future growth. Besides strengthening organization and doubling our workforce to 158 employees in 2018, we took time during the fourth quarter of last year to prepare a thorough strategy document for Inbank. To be honest, since our founding in 2010, Inbank has always had a relatively clear strategy. We had just never taken the time to put it more comprehensively on the paper! Management teams from all countries and group unit heads were working together to come up with the vision, values and goals for Inbank in the future.

I believe that our teamwork on strategy produced even more of sharp set of goals and operating principles for Inbank. A good strategy is a clear definition how an organization competes and differentiates itself in the market. As a bank, we buy and sell money. This is an ultimate commodity business unless we are able to do something not only better but differently than our competition. Inbanks' strategy will define how we operate, what is our business model. A great business model is one where individual pieces reinforce the whole and which is difficult to copy. A great business model is also focused and adaptable to changes in outside world. But a great business model will always have its core, something which remains in place even when the market changes. The core of our business model is to help our partners to sell more and customers to purchase simpler by making financing more accessible.

We can achieve our strategic goals only by developing more innovative products and improving our partners' sales and financing processes so that they choose to work with us. During the strategy process we realized that while growing and taking market share in all markets, Inbank has recently been slow to bring totally new products to the market. With our presence in 4 countries and with more than 2 500 partners and 400 000 customers, we have a great chance to roll out new products for our partners and customers. Also, the development of e-commerce and digital technologies is helping to reach customers more efficiently and in totally new ways. As a focused consumer finance bank, we believe we are very well positioned to take advantage of these trends in the future.

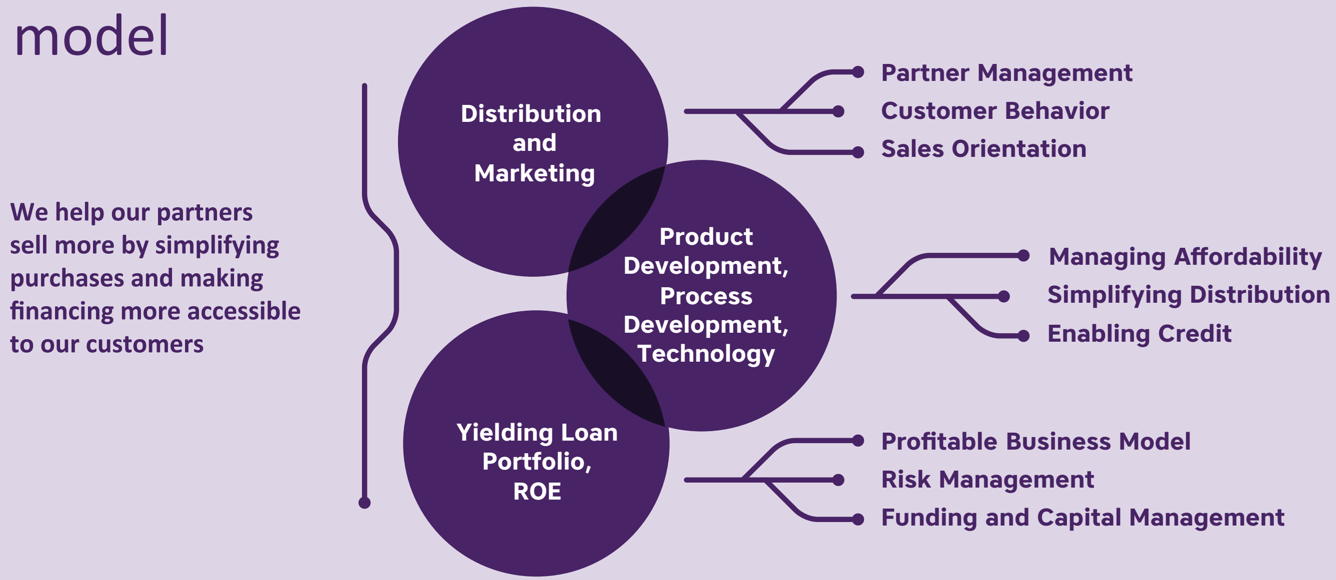
Our strong profitability allows us to invest into new products and growth and we will continue to do that. In one sentence it could be said that 2019 is a year of growth and new product development. We hope to surprise market and satisfy our partners and customers with several new products. We target to multiply our loan portfolio and reach break-even in Poland by the end of 2019.

While focused on growth, we need to be aware that economic conditions going forward might not be as benign and stable as they have been over last few years. For coming year we continue to predict a good economic growth in all our markets, especially with low unemployment and strong wage growth supporting domestic consumption and debt service. At the same time, we realize that we are beyond the peak of the credit cycle and most likely each new loan is a bit more risky than last year or the year before. Inbank showed a great improvement in credit costs during 2018 and we need to continue to do even better work in underwriting during coming years.

To sum up, 2018 was a great year for Inbank. We continued to grow internationally and learned how to execute and integrate a cross-border acquisition. We clarified our strategy and strengthened our organization. We successfully made a debut of AT1 bonds in Estonian market. Most impressively, while continuing to invest, we reached record profit and maintained an excellent ROE of 31,9%. For the first time in the history of Inbank we are able to meet our growth expectations without a need to issue new equity capital. Our business model is working operationally and financially. 2019 will be an exciting and challenging year. We will continue investing in Inbanks' growth and look execute our product innovations to further improve offering to partners and customers alike. I believe that It is not enough to be the best in what we do, it is our goal to be the only bank in doing what we do in our region.

**Priit Põldoja**
Chairman of the Supervisory Board

## Inbank business model





# Management report

The results of Inbank for 2018 mostly speak for themselves: our total assets, loan and deposit portfolios as well as the number of people more than doubled, but our credit cost decreased and the cost-to-income ratio improved. Thus, the results were very positive, and we increased both our business volumes and developed the organisation throughout the year.

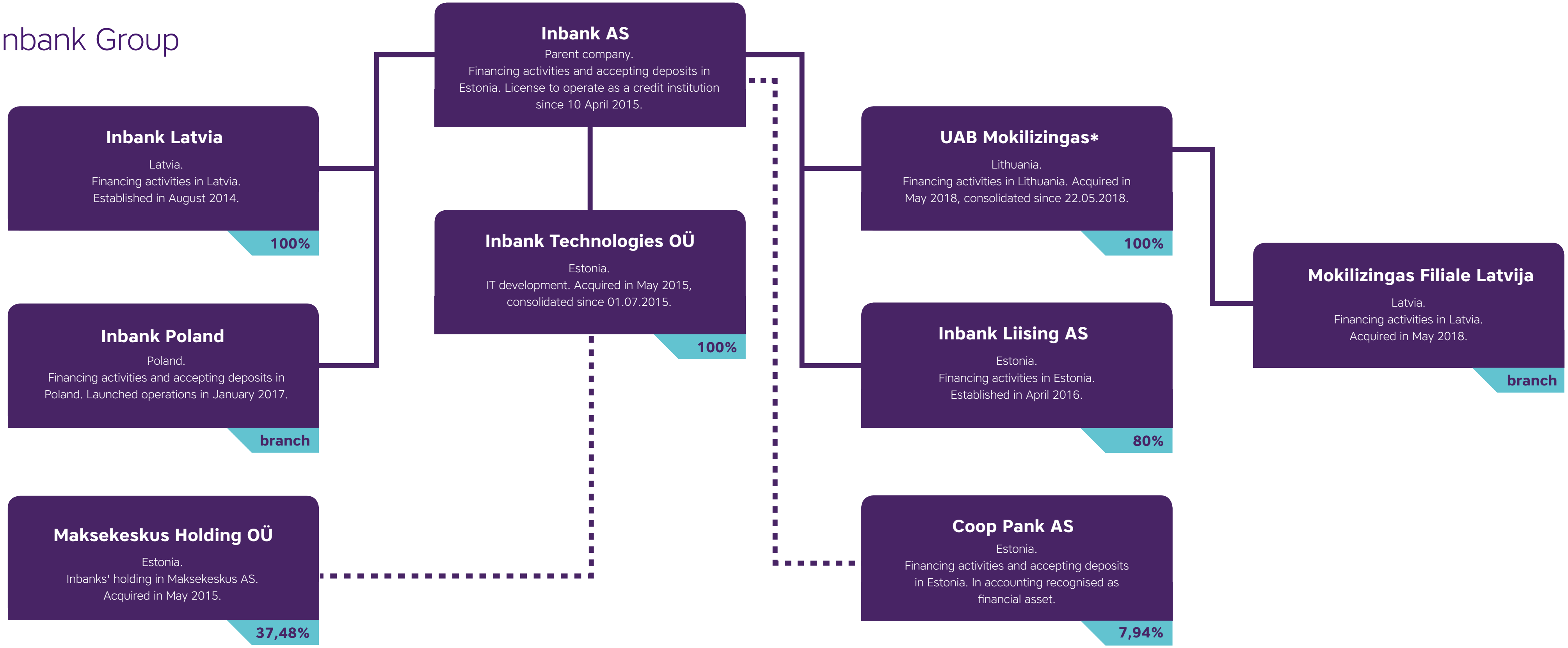
## Key events

At the end of 2017, we laid down our strategic focus – we wish to be a specialised bank and prefer to expand into the new markets with the current product portfolio. In 2018, we managed to successfully keep this agreement.

Thus, the key event in 2018 was the acquisition of the 100% holding in the Lithuanian hire-purchase company UAB Mokilizingas. The idea of entering the Lithuanian market was attractive to us; however, at the same time it raised several questions. We needed to figure out whether expansion into the new market through acquisition of an existing company was an appropriate way to grow for us, whether we had enough capability for the transaction and whether two organisations had a potential for synergy in order to attain success together.

After a thorough analysis we were convinced that our businesses were sufficiently similar to undertake this strategic integration project. To find funding sources, we sold 10% holding in Coop Pank AS in March.

## Inbank Group




*See Note 13

At the end of May we managed to successfully complete these two complex processes. To facilitate the transaction, we also issued additional shares in the amount of EUR 6.1 million. We can state with a few reservations that we exchanged the 10% ownership interest in Coop Pank for a 100% ownership interest in Mokilizingas.

The transaction price of Mokilizingas was EUR 15 million. With this investment we added the second-largest Lithuanian hire-purchase company to Inbank group. Its key figures were as follows: total assets EUR 71 million, number of employees 51, retail trade partners over 2 000 and more than 250 000 active customers in the portfolio. As a result of the transaction, Inbank has teams in four countries today: Estonia, Latvia, Lithuania and Poland.

At the beginning of 2018, we also decided to sell our ownership interest in the start-up company Veriff OÜ that provides online personal identification. There were several reasons behind it: Veriff's young and energetic team wanted to acquire a larger share in the company and Inbank needed capital for growth. Thus, we decided to focus on developing Inbank and create good preconditions for growing Veriff in the international market.

*In May 2018, 51 employees of Mokilizingas joined the Inbank team.*

## Development of the organisation

As a result of Mokilizingas transaction, the organisation of Inbank doubled in terms of volumes as well as the number of people practically overnight. Therefore, we needed to review the foundations of the entire organisation in order to adapt the current business logic to the new situation.

In order to maintain uniform business logic, we decided to create group-wide units supported by country units that implement local strategies. We set up units that provide services to all countries: business development, risk management, financial management and IT development. In country units we placed greater focus on sales and partner relations.

The outcome of this reorganisation was establishment of Inbank Estonia as a business unit. While the Estonian organisation used to carry out a dual role, according to the new logic we separated the Group's activities from the countries' business operations.

Such a structural change enabled us to bring new and talented people to the organisation. Margus Kastein became head of the Estonian unit and Ivar Kallast became head of the Group's risk organisation.

Such restructuring has led to better management quality, efficiency and collaboration in the Group. In the 4th quarter of the year, the Supervisory Board of Inbank approved the Group's strategy. This document provided a clear direction and objectives for 2019, defining opportunities to enable us to provide better services to our customers and increase our market share.

## Results of operations

Despite internal reorganisations, we were able to significantly increase our sales figures. All countries demonstrated strong growth and in combination our sales increased by slightly over 60% as compared to last year (also taking into account sales figures of Mokilizingas for last year). Inbanks' credit portfolio by country increased as follows: 39.3% in Estonia, 37.4% in Latvia, 82.7% in Lithuania and 127.7% in Poland. As a result we were able to increase our net income by 83% as compared to last year. At the same time our costs increased by 58% which shows that were able to significantly improve our efficiency.

In Estonia, we have considerably increased our market share. Based on the statistics of the Financial Supervision Authority, our credit portfolio had a 16% market share among the credit institutions operating in Estonia as at 30.06.2018, compared to 13% last year. Thus, in comparison with large banks we have been more successful in our operations and we have earned our customers' trust. As a result, we have become the second largest provider of consumer credit among banks in Estonia.

The Latvian subsidiary posted strong results and demonstrated decent risk quality, attaining all sales targets. Its solid profit in the amount of EUR 1.4 million is also worth highlighting.

We have also managed to grow in Lithuania as compared to last year. This means that the change in ownership did not have a negative impact on the company's regular operations. As Inbank is the specialist in the field of consumer credit, good collaboration will hopefully help to improve the business of Mokilizingas and make it more

*Due to the rapid growth of Inbanks' team in Estonia, we moved into the additional office space of the existing office building.*

efficient. As compared to last year, sales volumes increased by 55% and the profit from the time of acquisition reached EUR 1.3 million.

The unit in Poland made the greatest leap in terms of development in 2018. In the second half of the year, we witnessed first noteworthy results and in terms of sales volumes, the Polish branch surpassed our Latvian entity. Our sales growth in Poland was 116%.

## Risk management

The period of rapid growth may be considered as a crisis situation for any company. It is often so that at the time of realisation of its growth ambitions, an organisation is not able to maintain discipline in two important areas – managing cost and risk.

We made a huge leap forward in risk management by setting up a new group-wide risk management unit. The key focus of the new unit is appropriate and quick monitoring of risks and harmonisation of methods necessary for its attainment, in order to ensure quick feedback to risk dynamics. This enables us to monitor the quality of our credit portfolio in a proactive and unambiguous manner.

An important change was the decision to adopt the so-called forward-flow sales logic for overdue portfolios. The current favourable economic environment will create very good preconditions for it. The new debt management process improved cost efficiency and helped us to significantly reduce our cost of risk.

As a whole we are pleased to acknowledge that the overall risk culture of Inbank has consistently improved. During its annual risk assessment process, the Financial Supervision Authority lowered required capital levels for Inbank. This is a testimony of reduced risk levels and enhanced capability to monitor and manage its' risk levels.

| ***Name of shareholder*** | ***Ownership interest (%)*** |
|---|---|
| Cofi Investeeringud OÜ | 28,19% |
| Pershing Hall Holding Limited | 27,30% |
| Roberto de Silvestri | 6,55% |
| Baltic Holdings Limited | 5,97% |
| Elio Tomaso Giovanni Cravero | 5,91% |

## Capital raising

In 2018, the capital position of Inbank was impacted by significant sales and purchase transactions. To fund Mokilizingas transaction, we issued new shares in the amount of EUR 6.1 million in the 1st quarter of 2018, as a result of which 24 new domestic investors were added to the list of shareholders of Inbank. At the end of 2018, Inbank had five shareholders whose ownership interest in the company was more than 5%.

Additionally, our equity was impacted by the sale of a 25.9% ownership interest in Veriff OÜ and a 10% ownership interest in Coop Pank as well as revaluation of the remaining ownership in Coop Pank. As a result of given transactions we earned an extraordinary profit in the amount of EUR 3.2 million.

At the end of 2018, we issued an innovative hybrid instrument for Estonian investors, AT1 or additional Tier 1 bond. This bond has the features of both a subordinated loan as well as equity, but it is part of Tier 1 capital in the bank's capital management. We were able to raise EUR 3.15 million of additional capital with our successful issue. As of the year-end, Inbanks' equity totalled EUR 36.5 million.

## Financial results

The financial results of Inbank for 2018 were better than expected. We were able to sell more than budgeted but lower the cost-to-income ratio to less than 50% as well as attain a decent cost of risk of 1.7%.

As a result, we earned a profit in the amount of EUR 9.3 million, of which EUR 3.2 million was an extraordinary gain. Last year, the extraordinary gain was EUR 6.2 million out of the profit of EUR 7.5 million. Thus, our core operations posted very strong results in 2018. It is also worthwhile to mention that a new corporate income tax was enacted for banks in Estonia, which lowered our profit by EUR 715 thousand.

## Priorities for 2018 and 2019

In our last annual report we laid down the priorities for Inbank for 2018. Today, we are pleased to acknowledge that there has been progress in all specified areas.

## Summary

Growth and development in 2018 has created a good focus as well for the forthcoming periods. We are still eager to grow and we realise that we need strong organization, good strategy and financial capacity for that. I believe that today Inbank has all it needs to continue to development and offer new and innovative solutions to our partners. In our new strategy, it is defined that Inbanks' mission is to help partners sell more by making purchasing of goods easier and more accessible for the clients. We are very passionate and motivated towards that goal, through keeping in mind our core values and by being active, smart and open in what we do.

| Priorities for 2018 | | Evaluation of fulfilment of priorities |
|---|---|---|
| Growth of partner-based business in the Polish market and significant increase of the share of the international portfolio. | → | We launched a hire-purchase product in Poland. In the 4th quarter, the sales volume of the hire-purchase product made up 58.6% of the total sales in Poland. |
| Stable growth of business volumes and profitability in Estonia. | → | Estonian business volumes increased by 39.3% as compared to last year and at the year-end, the credit portfolio totalled EUR 99 million. The operating profit of Inbank in Estonia was EUR 8.2 million. |
| Exporting of Inbanks' business model: successful implementation of common technology, business and product development processes. | → | In 2018, we acquired the second-largest Lithuanian hire-purchase company Mokilizingas. As at the year-end, 54.6% of the loan portfolio of Inbank was outside Estonia. |
| Strengthening of the international organisation and bringing the values of Inbank throughout the Group. | → | We implemented a new organisational model where the central units include business development, risk, finance and IT. In addition, we established the Estonian unit of Inbank. |

### Priorities for 2019

- Develop new financing solutions to support our partners in various sales channels (multi-channel solution).
- Increase the business volumes of the Polish branch and reach monthly break-even.
- Opening of a bank branch in Lithuania and introducing banking products in the market.
- Keep growing of IT development capacity for the purpose of accelerating the product development process.

**Jan Andresoo**
Chairman of the Management Board

# Key events

January

Inbank sold its entire ownership interest in the start-up company Veriff.

March

Inbank introduced a renovation loan product in the market and participated as the key sponsor in a popular TV project "Naabrist parem".


Inbank sold its 10% ownership interest in Coop Pank.

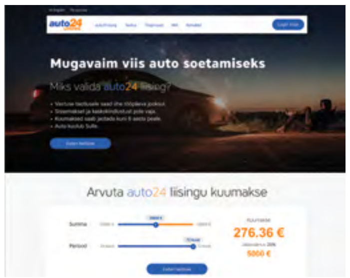
May

Inbank acquired a 100% ownership interest in the Lithuanian consumer financing company UAB Mokilizingas.

Inbank increased its share capital by EUR 6.1 million via a private placement.

June

Inbank and auto24 started to offer auto24 lease for vehicles in the price range of EUR 15 000-25 000.

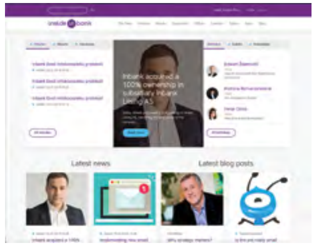



August

The Group's risk manager Ivar Kallast became a new member of the Management Board of Inbank.

September

Margus Kastein became the managing director of Inbank's Estonian unit.




October

Inbank launched an intranet platform to make information exchange in the growing organisation more efficient.

December

Inbank raised capital in the amount of EUR 3.15 million by issuing innovative AT1 bonds in the Estonian market.

For the second consecutive year, Inbank and TV3 cooperated in their appreciation project "Seitsmeste uhkus".

The Supervisory Board of Inbank approved the Group's strategy for 2019.

# Values of Inbank through the eyes of its employees

## At the end of 2018, we defined the values of Inbank, which include being active, smart and open in a way that is unique only to us.

These three words are simple and common, however, their interpretation possibilities are endless. Being active, smart and open means different things to different people and the ways for their implementation depend strongly on which professional task the employee fulfils. Therefore, we asked Inbanks' employees in four countries how they interpret our values and use them in their work.

## Active

**We are biased for action and we are always looking for opportunities. We expect results, value perseverance and learn from setbacks.**

Our people show initiative and they are entrepreneurial, we act more and talk less. We dare to take responsibility, challenge others and offer solutions. I like to look at the whole in Inbank. A specific topic that we deal with will lead to several other activities that may not be related to legal issues, for example

Merilin Kuusler
*Head of Products & Services Legal, Inbank Estonia*

For me, an active approach means progress, passion, interest and enthusiasm. I try to challenge myself, offer new ideas, be always there for my team and learn something new every day which could be useful for my future at Inbank.

Lilija Olendra
*Loan Specialist, Inbank Latvia*

To guarantee success it is necessary to act when needed and not when asked. We need to keep our eyes open to monitor new trends and actions of our competitors as well as be sufficiently brave to experiment and also make mistakes.

Piotr Czajka
*Business Development Project Manager, Inbank Poland*

Inbank is active because we are looking for new opportunities to implement things in a unique way. We want to be trendsetters and not hangers-on. Idleness is not possible in risk management because we are always looking for the best possible balance.

Artur Zamkowski
*Country Risk Leader, Inbank Poland*

# Smart

**We esteem inquisitive, curious minds not afraid to challenge the status quo. We value professionalism, attention to details and practical solutions.**

Smartness is about focusing on solutions rather than problems and that we take responsibility for our actions.

Tomas Zilinskas
*Regional Sales Manager, Mokilizingas*

For me, smartness means responsible behaviour and a practical approach. In IT, responsible behaviour and a practical approach are the key values. In case of each change, I think what could go wrong as a consequence.

Robin Ginter
*Software developer, Inbank Estonia*

I believe that a good group of people with advanced competencies is crucial. This lays a foundation for quick learning and well-planned decisions. I am trying to gradually automate routine activities and thereby create more time for new and professional solutions at Inbank.

Edwart Ždanovitš
*Head of Group Credit Risk Modelling and Architecture, Inbank Estonia*

Smartness is seeing the bigger picture and constant monitoring of what is going on around me. For me, it is learning through various sources. Be it a university, communication with colleagues or following the news in our area of activity.

Dace Sulce
*Senior Debt Recovery Specialist, Inbank Latvia*

Smartness is rationality as well as specificity and accuracy in all activities. I often remind myself that a wise person does not rush and I make sure that I have considered all details and possible consequences.

Inese Ozola
*Head of Business Development, Inbank Latvia*

For me, smart is flexibility, authenticity and quick and accurate movement. For this, one needs to be a fast learner, upgrade one's competencies on an ongoing basis, learn from mistakes, find new opportunities and make use of them.

Inga Minkeviciute
*Product manager, Mokilizingas*

# Open

**We are a team of specialists where each member matters. Diversity of opinion, intellectual argumentation and cooperation are highly encouraged.**

For me, openness is thinking outside box, because things are not always what they initially seem. At Inbank, there is always an opportunity to express oneself and present one's ides, which we use to turn into something very good. There are no problems, only situations that need to be fixed.

Kadri Lekk
*Customer service specialist, Inbank Estonia*

For me, this value is openness to all opportunities and readiness to adapt to fast changes in the market and legislation. Open thinking and seizing new opportunities may lead to real success stories. I try to find hidden market segments and new cooperation opportunities to create unique products and partnership models.

Toms Kleins
*Head of Corporate Relations Department, Inbank Latvia*

For me, openness means tolerance, honesty and positive attitude towards everything which is different, new or different from me. Openness is crucial for me at work. Good cooperation in a team whose members are not open to each other's various ideas and thoughts is impossible.

Agnieszka Galus-Bucior
*Head of Finance, Inbank Poland*

Openness is an ability to evaluate diversity of ideas, different viewpoints and arguments. Openness is related to listening and understanding, and not just hearing and judging. It is an ability to learn from the others and freedom to share one's knowledge and experience with the others.

Maciej Marchewicz
*Sales Financing Area Manager, Inbank Poland*

This value symbolises openness to new things, ideas, changes, opinions and solutions. I am open to trying out new things, because testing and failing in marketing is part of success.

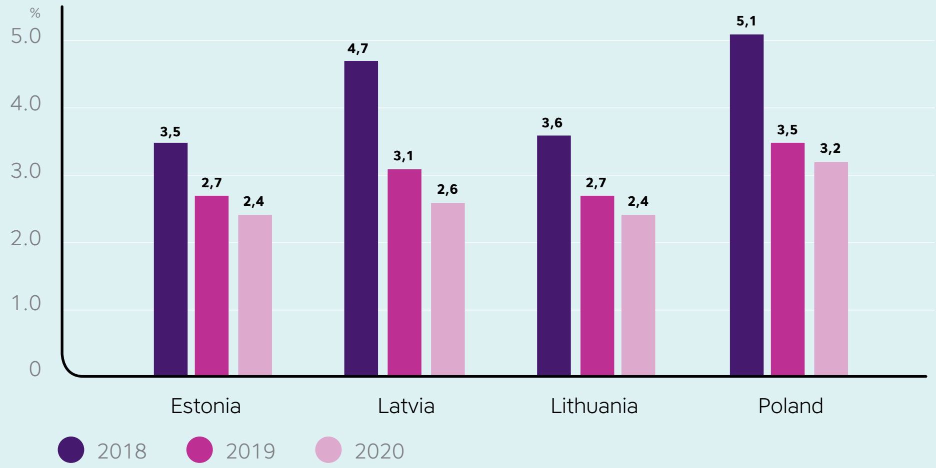
Davis Zeps
*Chief Marketing Officer, Inbank Latvia*

For me, openness means that people can share their ideas with the others despite the hierarchy. In addition it means that the management board treats us like equals, sharing information about its plans and directions where our company is moving.

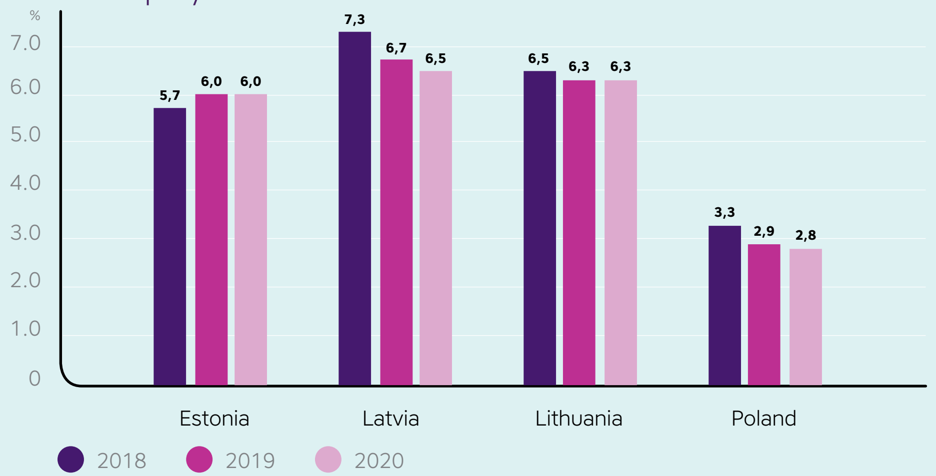
Julius Kviecinskas
*Data Analyst, Mokilizingas*

# Economic environment

GDP real growth*




Unemployment rate *




The economic growth in the target markets of Inbank decelerated slightly in 2018, but was still strong as compared to the first half of the 2010s. The GDP growth rate in Latvia and Poland was over 4 per cent and that of Estonia and Lithuania was slightly over 3 per cent. According to the forecasts, moderate slow-down is expected in these countries. The growth of private consumption was faster than the overall GDP growth in all countries.

## Estonia

In 2018, the Estonian economy grew faster than initially expected, propelled by strong exports and strong domestic demand that was supported by the labour market situation and the government's somewhat expansive budgetary policy.

The labour shortage was slightly more prominent in Estonia than in the other above-mentioned countries, but so far companies have managed to cope with it as well as with the rapid salary growth. Some sectors have looked for (and also found) ways to bypass strict foreign labour restrictions. Other sectors have managed to move upward along the value chain and get used to more expensive and scarce labour, but generally companies have not recently made many investments to increase productivity. Unless the situation changes in the upcoming years, it may start to hinder economic growth.

The year 2019 is unlikely to bring about major economic policy changes, because the first half of the year will be marked by the elections of the Estonian and European Parliament and even if the formation of a government goes smoothly, the changes, if any, will be implemented next year.

Over the last couple of years, the government's budgetary policy has slightly supported the economic cycle while not breaking the peculiarity of the Estonian fiscal policy – avoidance of state debt. Estonian state debt makes up only 8% of the GDP, and this figure is falling.

## Latvia

The Latvian economic growth was broad-based, led by private consumption. Unemployment fell, salaries increased strongly and the government increased the minimum salary from EUR 380 to EUR 430. In 2019, the minimum salary will stay the same but the employment and salaries are expected to grow, although at a slower rate than in 2018.

The key reason for salary growth is labour shortage, partly related to the fact that the qualification and residence of the unemployed do not match what and where the economy needs. In Latvia, the regional discrepancies in income and residential pricing are the largest in the Baltic States, which complicates relocation to those regions where the standard of living is higher (primarily around the capital).

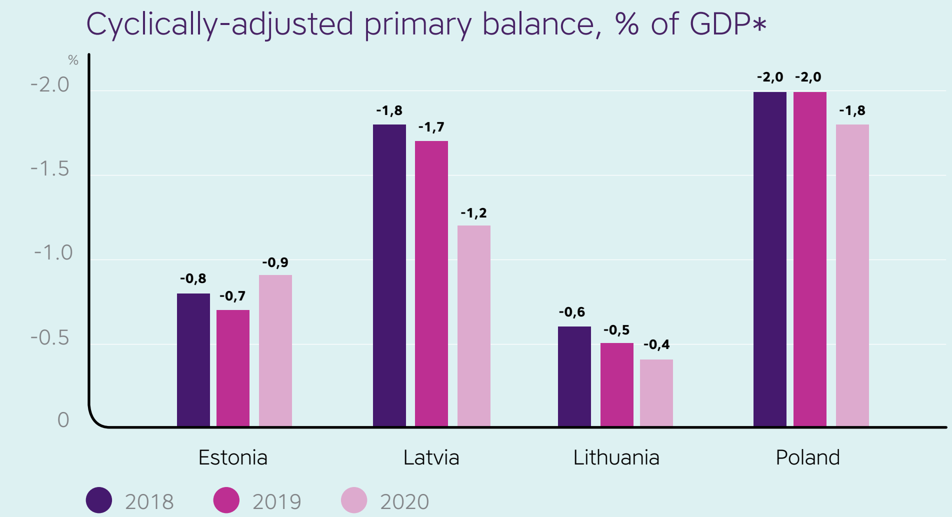
In 2018, the parliamentary elections took place in Latvia, the outcome of which was a very fragmented parliament. The government was made up of five parties and this after the third attempt following negotiations which lasted for 109 days. Therefore, it is probable that the new government will not make major economic policy changes. Latvia will continue its slightly expansive budgetary policy but as the economy is growing fast, it will not lead to higher debt for the country. As compared to Europe, it is at a low level (37% of GDP).

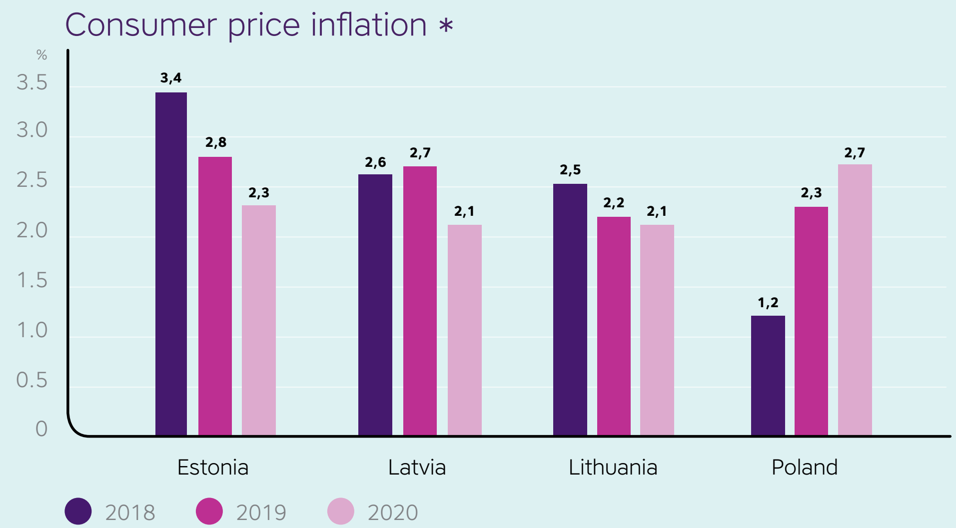
## Lithuania

An important driving force behind the Lithuanian economic growth is private consumption. Investments play as important of a role, the level of which will be maintained by the funds received from the European Structural Funds. With regard to investments, the situation is unlikely to change in 2019, but private consumption will slightly slow down.

Private consumption will be aided by low unemployment, high employment and rapid salary growth which are characteristic of Lithuania. In 2019, a new income and social tax system was enacted in Lithuania, leading to major changes in tax accounting, but the final impact for people will not be that significant. For example, the personal income tax rate was increased from 15% to 20% and a 27% tax bracket was added to income that exceeds the average annual income by more than 120 times (this limit will be gradually lowered in the following years) as well as the social tax ceiling. In addition, the minimum salary was sharply increased from EUR 400 to EUR 555, which is the highest minimum salary in the Baltic States.

The consumer price inflation remains a little higher in Lithuania than the inflation target of the



European Central Bank (2%), but as the European Central Bank sets its monetary policy according to the needs of the Euro area as a whole, its monetary policy is now more lenient than would be necessary for Lithuania (as well as for Latvia and Estonia). This is a factor which additionally helped the economy to pick up in the Baltic States, the effect of which can first and foremost be felt in the real estate market.

Lithuania's state budget is in a slight deficit after correction for cyclicality. Lithuania's state debt is modest as compared to the average level in the European Union (35% of GDP) and a major increase is not expected in the upcoming years.

## Poland

Last year, the key driving force behind Polish economic growth was still private consumption. The effect of the factor which helped accelerate the growth in 2017, i.e. higher child benefits is beginning to subside but to a large extent it is compensated by the trends in the labour market. Unemployment has fallen close to 3% which is an exceptionally low level. According to the forecasts, unemployment may even fall below 3 per cent. Inevitably this will be accompanied by strong salary growth.

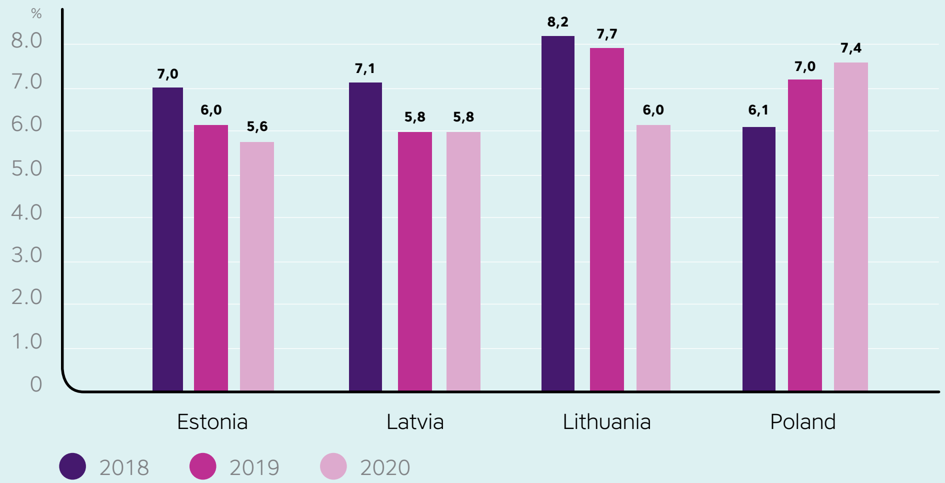
Poland's labour shortage has so far been alleviated by a large-scale inflow of migrant workers from Ukraine. This year and in the upcoming years, the Ukrainian labour will no longer be an easy solution for Poland, because the other Visegrad countries and Germany have made it easier for their companies to hire the Ukrainians.

Due to the rapid salary growth (average nominal salary will increase about 7%), a pick-up of inflation is to be expected this year, but in comparison with income growth it will be modest (less than 3%). The consumer price inflation will be curbed by intense competition in the consumer goods sector and e-commerce growth.

To ensure that inflation will not increase too much, the Polish Central Bank may adjust its monetary policy which has been quite lenient over the last several years (the Central Bank's central monetary policy interest rate has been 1.5% since March 2015 when the bank lowered it by 0.5 percentage points).

The decision of the government made in autumn 2017 to lower the pension age to 65 years for men and 60 years for women (i.e. to reverse

Compensation of employees *




the previous government's decision to gradually increase it to 67 years for both men and women) has not become a burden due to strong economic growth and demand for labour. Because retirement leads to a significant decline in the standard of living, many retired Poles continue to work regardless of how high the retirement age is according to law.

The Polish public finance situation is in a relatively good state due to low unemployment and rapid wage growth (but also due to improvement of tax collection besides labour taxes). Poland's cyclical budgetary deficit equals about two per cent of the GDP. The state debt is also low in comparison with the other European Union countries (49% of GDP) and it has been declining over the last years.

When talking about the economic growth of Poland, it should be taken into account that it is a country of large regional discrepancies. For example, the GDP per person of the poorest region is less than 50% of the GDP per person of the richest region.

## Summary

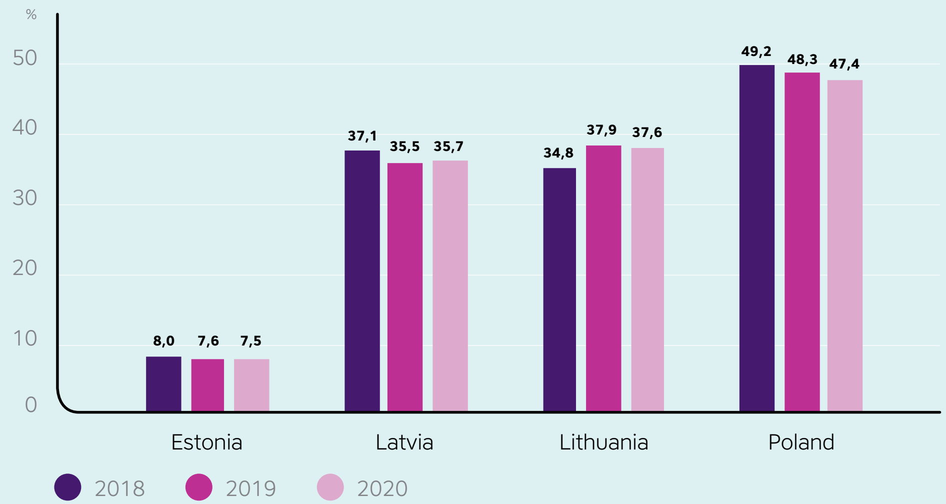
In summary, Estonia, Latvia, Lithuania and Poland are characterised by rapid growth of the purchasing power of consumers. However, consumers are generally more cautious when evaluating their purchasing and borrowing power than during the previous major economic boom.

Last year and in the year before last all governments used miscellaneous measures to reduce poverty and inequality. In the upcoming years, this trend may subside when the economic growth of the European Union decelerates, leaving a mark on the economic growth of the Baltic States and Poland as is forecasted. In state budgets, it is more difficult to find resources for such policies.

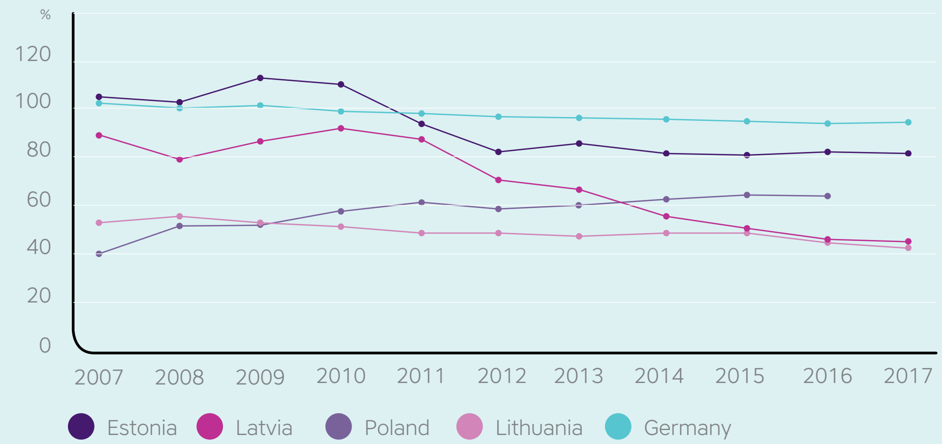
The economic situation globally and in the European Union will impact the Baltic States more as due to their small size, they depend more on the export demand than the somewhat larger Poland. The external environment also impacts the security of consumers and businesses in the Baltic States more than in Poland. At the same time, the Baltic States may still rely on the lenient monetary policy of the European Central Banks.

**Villu Zirnask**
Economics journalist and analyst

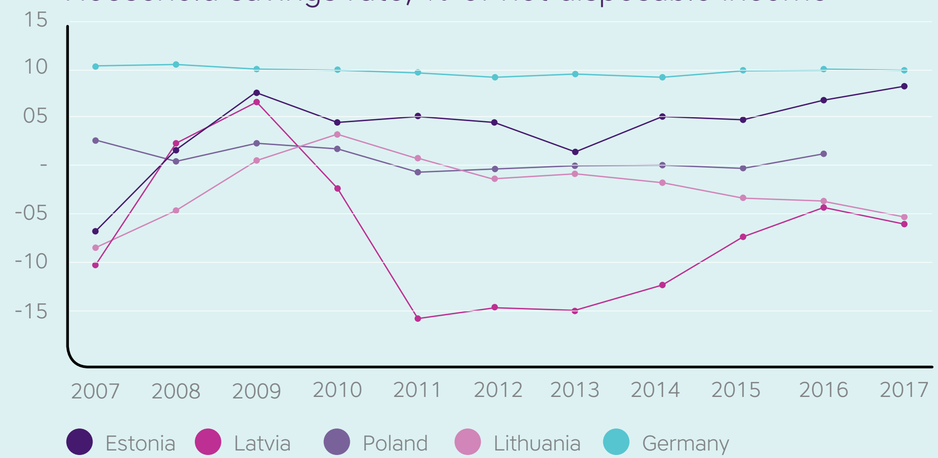
General government gross debt, % of GDP*




Household debt, % of net disposable income**




Household savings rate, % of net disposable income**




* Source: European Commission forecasts
** Source: OECD

# Overview of financial results

The year 2018 was financially successful for Inbank. This was reflected in the 25% growth of comprehensive income from EUR 7.46 million to EUR 9.35 million as well as the total asset growth of 152% from EUR 126 million to EUR 318 million.

An important event behind this growth was a transaction completed in the first half of the year where Inbank acquired a 100% ownership interest in the Lithuanian consumer finance company UAB Mokilizingas. With regard to 2018, the effect of this transaction was primarily visible in the growth of consolidated total assets. As at the year-end, the assets of Mokilizingas made up 30% of the total assets of Inbank and totalled EUR 96 million. For the first time, the full impact of the Mokilizingas transaction can be seen in the consolidated income statement in 2019. In 2018, Mokilizingas affected the consolidated profit of Inbank in the amount of EUR 1.34 million during the seven-month period.

To compare the comprehensive income of Inbank in 2017 and 2018, it is important to note the developments with the Group's associates. Namely in 2017 Inbank disposed its investments in its associates Coop Finants AS and Krediidipank Finants AS. The income on these transactions together with other income earned on associates totalled EUR 6.2 million in 2017. In 2018, Inbank reduced its ownership interest in Coop Pank AS, revalued the remaining holding of Coop Pank in accordance with the value of the transaction and completely disposed its investment in the associate Veriff OÜ. As a result of these transactions, in 2018 Inbank earned additional income in the amount of EUR 3.19 million. Thus Inbank earned EUR 3.01 million less in 2018 than in 2017 in relation to associates and financial investments.

The comprehensive income from regular operations exceeded the expectations of the Management Board in 2018, primarily with regard to impairment losses of loans. Although the credit portfolio increased by 143% year-over-year, the impairment losses of loans decreased during the same period by 24%, i.e. from EUR 3.53 million to EUR 2.69 million. There were primarily two reasons for this major improvement: firstly, the quality of loans issued by the bank in 2017 and 2018 improved significantly in Latvia and secondly, the collection of bad debt significantly improved in Latvia and Estonia. This translated into smaller impairment losses on loans granted in 2018. Also, positive effect to loan loss expense row was caused by decreasing provisions of loans issued in previous years for above mentioned reasons.

The growth of income and expenses resulting from the growth of business volumes mostly met the Management Board's expectations. In summary, Inbank was able to compensate for lower income earned on associates by the profit growth of its key business and additionally increase the comprehensive income earned during the year by EUR 1.89 million.

While reviewing the results of regular operations by country, it should be mentioned that the comprehensive income of the Lithuanian subsidiary met the expectations for 2018. The result of Mokilizingas for the seven-month period was EUR 1.34 million. The results of Estonia and Latvia exceeded the expectations due to the reasons mentioned above and their comprehensive income totalled EUR 8.2 and EUR 1.4 million, respectively. The result of Poland did not meet the expectations, and the comprehensive loss was in the amount of EUR 1.9 million.

The reason for the financial result of Poland not meeting the expectations is lower-than-expected sales volume. The sales volumes that were expected to pick up in the first half of 2018, started to increase in the last quarter of the year. Therefore, the costs of Polish operations were as planned but income was less than expected. However we are pleased to note that the sales results which picked up at the year-end make us optimistic in regards to future of the Polish financial results.

In summary, we can be pleased with the financial results for 2018. The investments made in previous years in the expansion of the key business as well as improvement of quality have yielded tangible results. At the same time, results are also expected to further improve in the upcoming periods. Investments into Polish and Lithuanian businesses are the ones on which the biggest bets have been made looking into the future.

**Marko Varik**
Chief Financial Officer

**Summary of the balance sheet**

| ***EURt*** | ***31.12.2018*** | ***31.12.2017*** | ***change*** |
|---|---|---|---|
| Loans and advances | 225 639 | 92 895 | 142,9% |
| including loans to households | 216 053 | 89 002 | 142,8% |
| Customer deposits | 240 175 | 95 056 | 152,7% |
| Equity | 36 465 | 22 046 | 65,4% |

**Summary of the income statement**

| ***EURt*** | ***2018*** | ***2017*** | ***change*** |
|---|---|---|---|
| Net interest income | 19 873 | 11 014 | 80,4% |
| Net fee and commision income | -388 | -56 | 592,9% |
| Other operating income | 1 870 | 705 | 165,2% |
| **Total net interest, fee and other income** | **21 355** | **11 663** | **83,1%** |
| | | | |
| Personnel expenses | -5 795 | -3 997 | 45,0% |
| Marketing expenses | -1 592 | -929 | 71,4% |
| Other expenses | -3 259 | -1 817 | 79,4% |
| **Total operating expenses** | **-10 646** | **-6 743** | **57,9%** |
| | | | |
| **Profit before profit from associates and impairment losses on loans** | **10 709** | **4 920** | **117,7%** |
| Share of profit from associates | 1 986 | 6 203 | -68,0% |
| Impairment losses on loans and advances | -2 686 | -3 532 | -24,0% |
| **Profit before income tax** | **10 009** | **7 591** | **31,9%** |
| Income tax | -733 | -92 | 696,7% |
| **Profit for the period** | **9 276** | **7 499** | **23,7%** |
| Currency translation differences | 73 | -38 | -292,1% |
| **Total comprehensive income for the period** | **9 349** | **7 461** | **25,3%** |
| including attributable to shareholders of parent company | 9 335 | 7 458 | 25,2% |



# Risk overview

Balanced risk management creates the prerequisite for long-term and lasting value, helping to keep business stable, profitable and reliable.

## Risk management

The Supervisory Board of Inbank has established general risk management policies that are structured to fit the Group's strategy and take into account the appetite to take different risks. Risk management is based on four principles:

- Trustworthy risk culture is one of the Group's core values;
- Risk management is business-oriented and business is focused on risk;
- Risk management is based on risk appetite and risk tolerance;
- Business needs are never more important than strong financial position, sufficient capitalization and strong liquidity position.

## Risk culture

Organisation-wide shared and individual perceptions and risk management are described by risk culture. Group's risk culture is based on the following principles:

- All employees are responsible for proper risk management.
- We only accept the risks we understand.
- We only take into account the activities that take place in the interests of our clients and ourselves.
- All risks must be properly analysed beforehand.
- Each risk taken must be duly endorsed within the established risk management framework.
- Risk-taking activities must comply with established policies, procedures and legal requirements.
- Every risk taken must have enough compensation.
- There must be a balance between the risk and the expected benefits.
- Risk management is part of all activities.

## Risk appetite

Inbanks' risk appetite defines risk levels and nature of what Inbank is ready to take and ensures that they are compatible with both the bank's business model as well as strategic objectives.

The risk appetite includes various limitations on risks that reflect the expectations of both, shareholders and regulators.

Risk appetite is based on our core business of issuing consumer credit. Regarding the credit risk of the loan portfolio, we consciously accept above average risk level without taking excessive risk. Our risk appetite in all other risk categories is rather conservative and is below average. We take such risks only to support our core business. The risk exposures to any other risks, where uncertain changes in any individual position may seriously affect Group's overall risk position, shall be avoided or properly managed.

## Achievements in 2018

In 2018, Inbank significantly strengthened its risk organisation by defining the group-wide risk management functions more precisely. A separate risk analyst position was created to manage capital, market and liquidity risks, and a credit controller position was created to monitor credit performance more efficiently. Responsibility for developing algorithms and risk models related to credit decisions has also been clearly defined at the Group level. The number of full-time employees in the risk organization has risen from the previous four to six employees compared to the end of 2017. The credit decision-making process, supported by a new, more comprehensive credit scoring model, has been improved. The quality of business analysis has also been improved, which allows to evaluate the behaviour of the credit portfolio better.

In May 2018, Inbank expanded its business operations to Lithuania, acquiring a 100% holding in UAB Mokilizingas for EUR 15 million. It is the leading provider of consumer finance products on the market, holding the second position with a market share of around 40% in the hire purchase sector. To finance the transaction, the holding in Coop Pank was reduced and Inbanks' share capital was increased by EUR 6.1 million. With this transaction, Inbank significantly reduced its business risk by gaining greater diversification across markets. Due to this transaction in May 2018 Group's credit portfolio extraordinaly increased by 71%. At the end of December 2018, Mokilizingas accounted for 41% of the Group's credit portfolio. Therefore, as at the end of 2018, the share of Estonia as the most important market in the credit portfolio has fallen from a previous 80% to 44%.

Inbank has expanded its international business operations, with the largest growth in the Lithuanian market. Polish credit portfolio has increased primarily due to new sales channels and products, hire purchase as a new product was included in the portfolio in 2018. Similarly, the product portfolio in Estonia has been expanding with Auto24 leasing being offered in cooperation with Auto24.

The overall quality and profitability of the credit portfolio was good in 2018. The share of non-performing loans (90+ days overdue) in the portfolio has declined from 1.1% to 0.9% over the year. The share of impairment losses in the loan portfolio has fallen 2.6 times over the year from 4.5% to 1.7%. There has been a significant change in the quality of the Latvian credit portfolio, which is characterized by a nearly four-fold decrease in loan losses, being EUR 0.43 million in 2018 instead of the earlier EUR 1.7 million.

Regarding the debt management process, Inbank increasingly relies on the sale of overdue receivables, which has reduced the bank's exposure to risk from overdue receivables. In countries belonging to the Group (except Poland), contracts have been concluded according to which most of the overdue receivables (over 90 days) are sold.

The Group's liquidity position as at the end of 2018 is strong, the size of the liquidity buffer is conservative and the survival period is sufficient to ensure the Group's liquidity also in stress situations. The volume of assets held by the central bank and commercial banks increased by EUR 55 million to EUR 78 million during the year and amounted to 25% of total assets as at the end of 2018 (18% at the end of 2017). In the autumn of 2018, Inbanks' Management Board formed a group-wide assets and liabilities management committee. Its purpose is to ensure that the bank's liquidity buffer and market risk positions are in line with the risk appetite while maximizing the net interest margin. The market situation for accepting deposits continued to be favourable throughout 2018.

The Management Board of Inbank has not identified any significant operational risks and the number of loss events and other key indicators is low.

The bank's capital ratios are good. The Management Board estimates that the level of capital-related risk at the end of 2018 is average. The amount of equity has increased from EUR 22 million to EUR 36 million. We are able to finance growth through earned profits and additional capital. In order to support rapid growth, a bond issue (AT1) was organized at the end of the year, raising a total of EUR 3.2 million from investors.

According to the Management Board, the group's actual risk profile as at 31.12.2018 is in line with the risk level approved by the Supervisory Board. Also, Inbanks' risk strategy and desired risk profile are consistent with the Bank's overall strategy and business model.

**Ivar Kallast**
Chief Risk Officer

| Risks | Main hedging activities | Risk factors | Situation |
|---|---|---|---|
| **Credit risk**<br><br>Credit risk reflects the potential loss, which arises from the counterparty's inability to meet its contractual obligations towards the Group. Credit risk arises from the Group's lending, financing, investment and trading activities, in which counterparties have repayment or other obligations to the Group. The Group distinguishes credit risk from the loan portfolio (including off-balance sheet items), counterparties and other assets (investments, fixed assets, etc.).<br><br>Within credit risk, the Group also includes concentration risk, country risk and foreign currency lending risk. | • Credit risk is managed through risk appetite limits and credit risk policies approved by the Supervisory Board.<br>• The Group's essential components of credit risk management are the prevention of excessive risk and risk mitigation with the following measures:<br>• optimal balance of risk and reward;<br>• above the average interest rates;<br>• below the average contractual maturity;<br>• significantly below the average contractual amount;<br>• well-distributed portfolio, risk concentrations are limited;<br>• adequate and conservative provisions;<br>• well-controlled risk taking and risk profile.<br>• Stress and scenario tests allow us to make sure the portfolio is durable. | **Share of portfolio in 90+ days overdue**<br>2018: 0.9% / 2017: 1.1%<br><br>**Impairment allowance to loan portfolio**<br>2018: 1.7% / 2017: 4.5% | The credit risk position has improved and is in line with the defined risk appetite.<br><br>We will continue investing in credit decision making and credit quality monitoring systems. |
| **Market risk**<br><br>Market risk is the risk of losses resulting from adverse changes in market prices and rates, their correlations and volatility. The Group includes within market risk interest rate risk, currency risk as well as commodity- and equity risk. Here risks arising from banking book and trading book are monitored separately.<br><br>Market risks arise from the Group's core business, taking market risk is not the main activity of the Group.<br><br>We manage and control the market risk arising from the Group's financing and investment activities through the Group's assets and liabilities management processes.<br><br>The Group has a conservative market risk strategy. | • Market risk is managed through risk appetite limits and policies approved by the Supervisory Board.<br>• Foreign exchange risk arises from the Group's activities on the Polish market. The Group's overall foreign currency risk strategy is conservative. The Group avoids and mitigates excessive risk, maintaining the necessary balance between loans and deposits in Polish zloty (PLN).<br>• The Group accepts equity risk in small amount, which at the end of the year was derived from the shares of Coop Pank that are held in the banking book for investment purposes.<br>• Interest rate risk in the banking book (IRRBB) is an important risk and is monitored continuously, as the risk naturally arises in the banking book due to changes in the maturities and interest rates of loans and/or deposits.<br>• The Group's essential components of IRRBB are the prevention of excessive risk and risk mitigation with the following measures:<br>• above the average spread between loan and deposit interest rates;<br>• below the average loan term;<br>• use of fixed interest on loans;<br>• active management of interest bearing assets and liabilities structure and maturities;<br>• measuring and limiting the impact of IRRBB on net interest income (NII) and on the economic value of equity (EVE);<br>• mitigation of the IRRBB risk, if necessary.<br>• Stress and scenario tests focus on the impacts of different interest environments.<br>• The Group does not accept commodity risk or equity risk in its trading book. | **Open net foreign currency position (% of net own funds)**<br>2018: 0.59% / 2017: 0.60%<br><br>**Impact of interest rate change on net interest income (%of net own funds)**<br>+200 basis points: 2018: 0.17% / 2017: 1.71%<br>-200 basis points: 2018: -1.39% / 2017: -0.02%<br><br>**Impact of the change in interest rate on the economic value of equity (% of net own funds)**<br>+200 basis points: 2018: -0.30% / 2017: 1.41%<br>-200 basis points: 2018: 1.28% / 2017: -0.18% | The market risk position remained stable and the actual risk profile was below average.<br><br>The interest rate risk position remains within safe limits. We will continue to maintain a stable and balanced risk profile.<br><br>The systems and calculations of interest rate risk management have been improved significantly to meet changing legal requirements. |

<table>
<tr><th>Risks</th><th>Main hedging activities</th><th>Risk factors</th><th>Situation</th></tr>
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**Operational risk**

**Operational risk** is the risk of incurring loss from internal processes, human errors or systems not working as expected or due to external events. The term includes legal risk, but does not include strategic and reputational risk.

**Compliance risk** is the risk to Group's business model, reputation and financial strength resulting from the incomplete implementation of laws, regulations, internal rules and obligations of clients, employees and other stakeholders.

**Information and communication technology risk** is the risk of loss caused by inadequacy or malfunctioning of technical infrastructure that may affect the availability, integrity and security of the data.

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- Operational risk is managed through risk appetite limits and policies approved by the Supervisory Board.
- Risk management focuses on maintaining a minimum and reasonable level of operational risk to minimize operational risk and potential losses while taking into account its strategic objectives and the principle of cost-effectiveness.
- Principles, framework and responsibility of operational risk are set by policies and procedures to ensure the Bank's ability to adequately assess and manage the operational risk.

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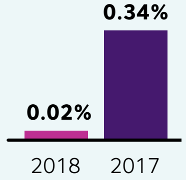
Operating loss as % of net own funds

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Operational risk losses have remained stable and low.

We will continue investing in our activities and ICT infrastructure.

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**Liquidity risk**

**Liquidity risk** is a risk that the Group will not be able to fulfil its obligations in a timely manner or in full without significant loss. Liquidity risk is divided into risk of financing and market liquidity risk.

**Risk of financing** is a risk that the Group will not be able to use resources without affecting adversely its daily operations or financial position.

**Market liquidity risk** is the risk that the Group will not be able to realise a financial instrument without incurring significant losses due to low trading activity or market disruption.

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- Liquidity risk is managed through risk appetite limits as well as funding and liquidity risk management policies approved by Inbanks' Supervisory Board.
- The Group's liquidity management arrangements ensure a low and conservative liquidity risk profile and sufficient liquidity reserves.
- The Group avoids significant liquidity risks by holding relatively conservative liquidity reserves.
- The essential elements of managing the Group's funding risk are:
  - Retail deposits;
  - Suitable maturity structure of funding;
  - Highly diversified funding portfolio;
  - Avoidance of concentration;
  - Diversity of sources of funding by country and channel;
  - Flexible and attractive financing strategy;
  - Balanced growth of funding and loan portfolios;
  - Sufficient liquidity resources of sufficient quality to cover the outflow of assets in a stress scenario.
- Market liquidity risk arises from the Coop Pank shares in the banking book, which are securities not actively traded on the market.
- Stress and scenario tests to ensure that liquidity reserves and funding are sufficient.

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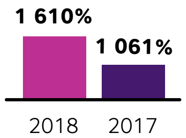
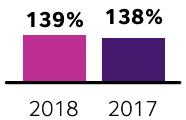
**Regulatory liquidity ratios**

Liquidity coverage ratio




Net stable funding ratio

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Our liquidity and funding position have remained stable and actual risk profile is below average.

We will continue to make our financial position more reliable through diversifying sources of funding and management of liquidity.

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## Business risk

**Strategic risk** is the risk that business and competitive environment, impact of regulation on the Group's activities, inadequate implementation of strategy, changes in customer expectations or inadequate implementation of new technologies can cause losses or significantly reduce revenues.

**Reputational risk** is the risk to Group's income, own funds or liquidity, that is caused by a event harming Groups' reputation.

- The Management Board focuses on ensuring that business development and planning would conform to risk appetite.
- Strategic risk and reputational risk are analyzed as part of strategic planning.
- Mitigation and management of strategic risk covers comprehensive planning process as well as reacting to changes in adequate and timely manner.
- The Group's strategy to manage reputational risk is to avoid exposure and situations that could have a negative impact on reputation and thereby lead to decrease of revenue or loss of confidence.
- The basis for managing reputational risk is the principle that reputation is an important asset, its development starts with customer service and public opinion is important for the Group.

## Capital risk

**Capital risk** is the risk that the Group's capital adequacy or quality is below the optimum level.

**Excessive leverage risk** is risk that is caused by too rapid increase of liabilities by the institution (amount of financial leverage).

- The risk appetite approved by the Supervisory Board ensures that we have enough capital to respond to regulative and internal demands.
- Risk and Capital Management Policy defines minimum standards for capital management.
- The Group's capital must at all times exceed the total risk exposure and be compliant with regulatory requirements as well as the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) minimum requirements.
- ICAAP and capital management are continuous processes.
- Capital adequacy management is an integral part of strategic decision making and business decision making as well as risk management.
- The Group continuously assesses the individual risk profile and corresponding capital requirement for all risk categories that are identified by the Group.
- Stress and scenario tests assess capital adequacy across a range of serious cross-market stress scenarios and events.

| Regulatory capital ratios | 2018 | 2017 |
|---|---|---|
| Common Equity Tier 1 (CET 1) capital ratio | 11.12% | 12.75% |
| Tier 1 capital ratio | 12.62% | 12.75% |
| Total capital ratio | 15.73% | 19.86% |
| Leverage ratio | 8.51% | 9.94% |

Our total capital and leverage ratios are stable and conservative.

We will continue to hold a high quality capital base, which exceeds the regulatory requirements.

## Capital adequacy

| EURt | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Capital base** | | |
| Paid-in share capital | 874 | 782 |
| Share premium | 15 053 | 9 068 |
| Statutory and other reserves | 1 446 | 1 431 |
| Retained earnings | 9 756 | 3 243 |
| Intangible assets (subtracted) | -7 697 | -816 |
| Profit for reporting period* | 9 261 | 7 496 |
| Other comprehensive income* | 35 | 0 |
| Other deductions | -1 824 | -7 763 |
| Adjustments due to IFRS 9 transitional arrangements | 2 308 | 0 |
| **Total Common Equity Tier 1 capital** | **29 212** | **13 441** |
| Additional Tier 1 capital | 3 150 | 0 |
| **Total Tier 1 capital** | **32 362** | **13 441** |
| Total Tier 2 capital | 6 503 | 6 503 |
| **Net own funds for capital adequacy calculation** | **38 865** | **19 944** |
| **Risk-weighted assets** | | |
| Credit institutions, standardised approach | 3 401 | 2 216 |
| Non-financial customers, standardised approach | 1 706 | 1 595 |
| Retail claims, standardised approach** | 167 208 | 67 499 |
| Claims past due, standardised approach** | 3 297 | 1 301 |
| Other assets, standardised approach | 6 844 | 1 494 |
| **Total credit risk and counterparty credit risk** | **182 456** | **74 105** |
| Operational risk, basic indicator approach | 25 648 | 15 584 |
| **Total risk-weighted assets** | **208 104** | **89 689** |

| | | |
|---|---|---|
| Capital adequacy (%) | 18.68% | 22.24% |
| Regulative capital adequacy (%) | 15.73% | 19.86% |
| Tier 1 capital ratio (%) | 15.55% | 14.99% |
| Regulative Tier 1 capital ratio (%) | 12.62% | 12.75% |

* In accordance with EU regulation, audited profit for the period may be included in retained earnings upon prior approval by competent authorities. The calculations made in accordance with EU regulation do not include the profit earned during Q2, Q3 and Q4 in the amount of 5 376 EURt (2017: does not include profit for H2 in the amount of 1 777 EURt).

**In the reports submitted to the regulator as of 31.12.2018, the risk exposures take account of the credit portfolio impairment losses made in the reporting period in the amount of 1 917 EURt and are yet to be confirmed by the external auditor (31.12.2017: 1 801 EURt). The external auditor has confirmed the profit of the 3 months of 2018, together with the impairment losses.

The directly applicable regulation obliges all credit institutions (and their consolidating holding companies) and investment firms operating within the European Union to maintain a 4.5% Common Equity Tier 1 (CET 1) capital and a 6.0% Tier 1 capital with respect to risk assets. The capital adequacy requirement (CAD), covering both Tier 1 and Tier 2 capital, is maintained at 8.0%.

In addition to the principal requirements arising from the harmonised rules, the principles for establishing capital buffers are established with the corresponding directive. In addition to basic own funds requirement, Estonia has established capital preservation buffer at the respective level of 2,5% and systemic risk buffer 1% (to risk exposure located in Estonia). The total amount of the systemic risk buffer depends on the ratio between the Estonia and whole Group exposures. These buffers are added to both Tier 1 and the total own funds requirements.

Overview of the capital requirement as at 31.12.2018 shown in the table below:

| | Common Equity Tier 1 capital ratio | Tier 1 capital ratio | Total capital ratio |
|---|---|---|---|
| Base requirement | 4.50% | 6.00% | 8.00% |
| Capital conservation buffer | 2.50% | 2.50% | 2.50% |
| Systemic risk buffer | 0.48% | 0.48% | 0.48% |
| **Minimum regulative capital requirement** | **7.48%** | **8.98%** | **10.98%** |

## Risk management of excessive leverage

Excessive leverage risk is risk that arises from too rapid growth of liabilities. The Group's leverage ratio was 8.51% as at 31.12.2018 (as at 31.12.2017: 9.94%). The Group discloses the leverage ratio in accordance with Regulation (EU) No 2016/200 on the website of Inbank AS www.inbank.ee.

# Overview of Inbank in 2018

## Estonia

The new sales of consumer credit for banks operating in Estonia grew from 290 million to 305 million, 5.3%, in the year 2018. At the same time we managed to increase Inbanks' volume of new sales by 22%, which increased the new sale market share from 20% to 24%. The consumer loan portfolio of Estonian credit institutions and creditors (from which we have excluded leasing portfolio) increased 17% from June 2017 to June 2018. At the same time, Inbank increased its portfolio by as much as 45%, as a result we increased our market share among credit institutions and creditors from 9% to 11%.

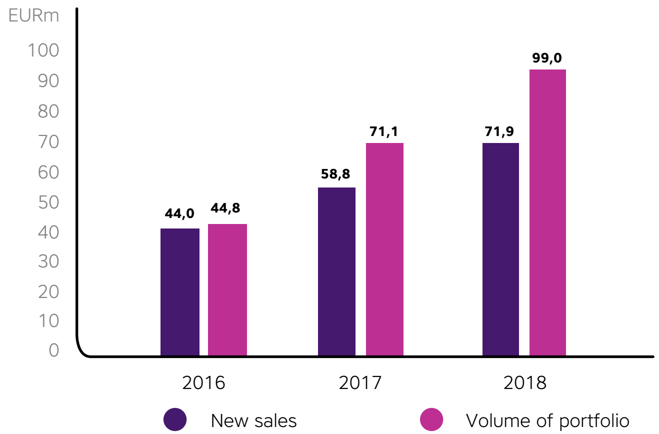
In 2018, the sales volumes of all product segments increased and the biggest contribution was made by car financing. The volume of sales of small loans increased by 24%, the volume of hire-purchase by 3.2%.

An important event is the launch of auto24 leasing in June, which offered the opportunity to finance a segment of cars costing up to 25 000 EUR. Sales of the Auto24 loan and auto24 leasing increased by 53% in annual comparison.

There was fierce competition in the hire purchase market, where several market participants tried to increase their market share through aggressive pricing. Despite increased competition, Inbank managed to keep its market share. Nordic Digital, 1A, Mobipunkt, Bauhof and Masku contributed most to the growth of the hire-purchase portfolio.

**Margus Kastein**
General Manager of Inbank Estonia

| EURt | 2016 | 2017 | 2018 |
|---|---|---|---|
| Volume of new sales | 43 958 | 58 834 | 71 894 |
| New sales of contracts (number) | 45 611 | 53 721 | 55 850 |
| Average new sales contract amount | 964 | 1 095 | 1 287 |
| Average interest rate of new sales | 20,2% | 18,9% | 17,8% |
| Average period of new sales (months) | 37 | 41 | 46 |
| | | | |
| Volume of credit portfolio | 44 812 | 71 062 | 98 969 |
| Number of credit contracts in portfolio (items) | 50 878 | 65 269 | 85 870 |
| Average value of contracts in portfolio | 881 | 1 089 | 1 153 |
| Average weighted interest rate of portfolio | 19,7% | 18,0% | 16,7% |
| | | | |
| Share of portfolio in 90+ days overdue | 0,9% | 1,1% | 0,9% |
| Share of portfolio in 180+ days overdue | 0,3% | 0,6% | 0,6% |
| The ratio of impairment losses to period end loan portfolio | 2,2% | 2,2% | 0,4% |



# Latvia

Inbank Latvia continued the implementation of the business strategy set last year, which aimed to focus more on partner-based sales and skillful cross-selling. Thanks to the focused implementation of the strategy, business performance increased significantly. Compared to 2017, sales grew by more than 97%, reaching 16.4 million euros and more than 10 000 contracts.

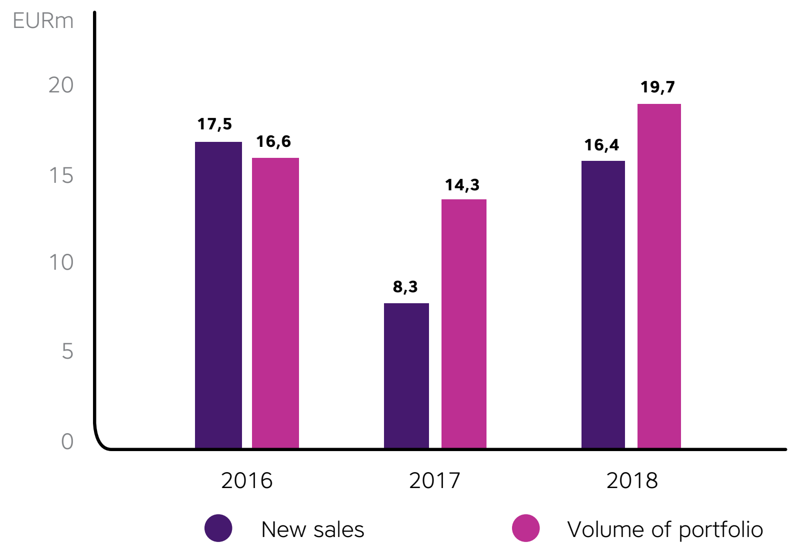
Due to good sales results, Inbanks' Latvian loan portfolio increased to nearly 20 million euros, which exceeded the annual target. The number of active partner companies increased by 69%, from 58 active partners at the end of 2017 to 98 active partners in December 2018.

Well considered credit policy and more focus on partner-based sales in 2018 also increased the quality of Inbanks' Latvian loan portfolio.

In 2018, we changed the name of Inbank Lizings to Inbank Latvia, which was one of the strategic decisions to change the brand identity and positioning in the market.

**Ģirts Lediņš**
CEO of Inbank Latvia

| EURt | 2016 | 2017 | 2018 |
|---|---|---|---|
| Volume of new sales | 17 548 | 8 333 | 16 446 |
| New sales of contracts (number) | 9 147 | 6 578 | 10 289 |
| Average new sales contract amount | 1 918 | 1 267 | 1 598 |
| Average interest rate of new sales | 24,2% | 16,8% | 17,4% |
| Average period of new sales (months) | 40 | 38 | 45 |
| | | | |
| Volume of credit portfolio | 16 647 | 14 320 | 19 681 |
| Number of credit contracts in portfolio (items) | 10 313 | 10 389 | 13 325 |
| Average value of contracts in portfolio | 1 614 | 1 378 | 1 477 |
| Average weighted interest rate of portfolio | 23,1% | 21,0% | 18,8% |
| | | | |
| Share of portfolio in 90+ days overdue | 4,2% | 0,2% | 0,2% |
| Share of portfolio in 180+ days overdue | 2,2% | 0,0% | 0,0% |
| The ratio of impairment losses to period end loan portfolio | 13,3% | 11,9% | 2,2% |



## Lithuania

2018 was productive and challenging for Mokilizingas. The goal of the year was to maintain co-operation with existing hire purchase partners, but at the same time to grow and improve our market share in the consumer loan segment, keeping the current profit level. The numbers show that we succeeded in achieving these goals in 2018.

In hire purchase sales, Mokilizingas was able to maintain all of its key partner relationships and team up with new companies for cooperation. As a result, we achieved the expected growth in this segment. In addition, we started with new projects and strategic partnerships at the end of the year which should be realized in 2019.

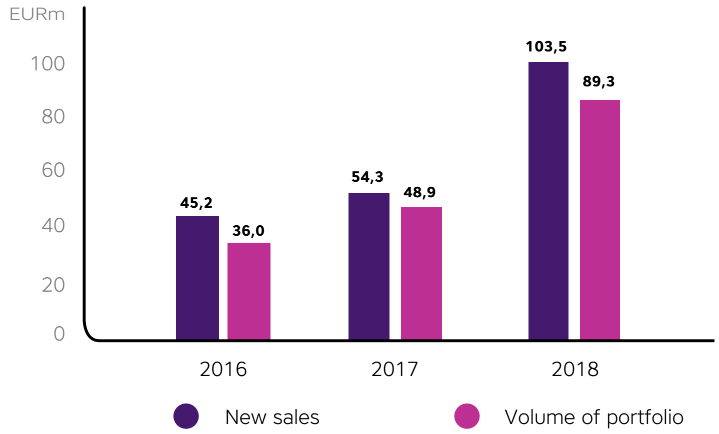
The consumer loan portfolio grew by 190% in 2018. We achieved significant growth due to improving our digital customer experience, getting to know the needs of consumers, and adapting internal processes and more efficient marketing campaigns.

At the same time, one of the 2018 priorities was quality in risk management. We developed new risk management tools and processes, which made it possible to make more informed and smarter decisions. Sharing knowledge with the group enabled us to improve risk parameters and keep the expected growth rate.

The main event in 2018 was to join Inbanks' family in May. Integration with Group risk management, reporting, business development and other areas was smooth and easy. The main reason for this was the general business culture, atmosphere and people in the whole group. Being part of the Inbank Group enables us to participate in over-the-Baltic offers and has already opened new doors to do business with partners that have so far been out of our reach.

**Benas Pavlauskas**
CEO of Mokilizingas

| ***EURt*** | ***2016*** | ***2017*** | ***2018*** |
|---|---|---|---|
| Volume of new sales | 45 230 | 54 331 | 103 492 |
| New sales of contracts (number) | 95 238 | 130 843 | 238 597 |
| Average new sales contract amount | 475 | 415 | 434 |
| Average interest rate of new sales | 8,9% | 9,0% | 8,6% |
| Average period of new sales (months) | 21 | 24 | 30 |
| | | | |
| Volume of credit portfolio | 35 989 | 48 879 | 89 304 |
| Number of credit contracts in portfolio (items) | 160 074 | 210 671 | 318 981 |
| Average value of contracts in portfolio | 225 | 232 | 280 |
| Average weighted interest rate of portfolio | 11,5% | 10,5% | 9,5% |
| | | | |
| Share of portfolio in 90+ days overdue | 1,3% | 0,5% | 1,0% |
| Share of portfolio in 180+ days overdue | 0,9% | 0,1% | 0,4% |
| The ratio of impairment losses to period end loan portfolio | -0,8% | -0,9% | 1,0% |



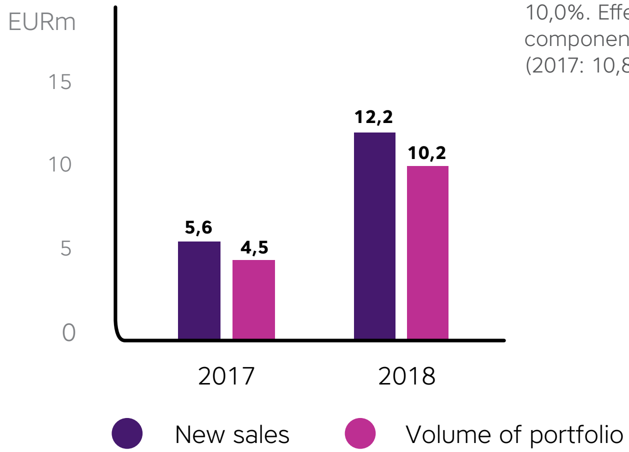
## Poland

2018 was successful for Inbank Poland. Compared to the previous year, we managed to double our sales numbers. Since July 2018, there was a dynamic increase in monthly sales volumes, reaching 10 million Polish zloty in December 2018. The Inbank Poland customer base tripled in 2018, reaching 14 000 people.

In 2018, we introduced new products to the market, increased our effort to offer hire purchase. In the fourth quarter of 2018, the hire purchase accounted for 63% of our sales volume. We laid the foundation for the first strategic partnerships in selected segments (such as door-to-door sales and e-commerce) that provide access to a broad customer base.

In March 2018, we significantly changed our credit policy and product focus, which had a positive impact on the quality of our new sales. Compared to 2017, however, the quality of the portfolio fell due to the legacy of the old portfolio. In the fourth quarter, we signed an agreement with a credit reporting company to find an anti-fraud solution, and in 2019 we want to achieve it.

**Maciej Pieczkowski**
CEO of Inbank Poland




| ***EURt*** | ***2017*** | ***2018*** |
|---|---|---|
| Volume of new sales | 5 644 | 12 187 |
| New sales of contracts (number) | 2 523 | 11 475 |
| Average new sales contract amount | 2 237 | 1 062 |
| Average interest rate of new sales* | 8,6% | 4,9% |
| Average period of new sales (months) | 50 | 48 |
| | | |
| Volume of credit portfolio | 4 483 | 10 209 |
| Number of credit contracts in portfolio (items) | 2 293 | 11 968 |
| Average value of contracts in portfolio | 1 955 | 853 |
| Average weighted interest rate of portfolio* | 8,6% | 5,8% |
| | | |
| Share of portfolio in 90+ days overdue | 0,6% | 1,5% |
| Share of portfolio in 180+ days overdue | 0,0% | 1,1% |
| The ratio of impairment losses to period end loan portfolio | 5,7% | 9,6% |

* Interest rate in Poland is low in comparison to other countries for regulative reasons. Namely for consumer credit contracts there exists interest rate ceiling in Poland at the level of 10,0%. Effective interest rate, that in addition to interest also considers other contract pricing components, was on Polish new sales in 2018 13,0% (2017: 11,1%) and on portfolio 11,9% (2017: 10,8%).

## Deposits

In 2018, environment for collecting deposits was favorable, allowing us to pace the increase of liabilities in line with the asset growth. This was reflected by the 153% growth in deposit portfolio as well as interest level that decreased from 1.85% to 1.66% in the year-on-year comparison.

In 2018, the volume of deposits from Germany and Austria significantly increased through the deposit platform Raisin. While at the end of 2017, the share of deposits collected through the platform was 19.6% of the deposit portfolio, by the end of 2018 it had increased to 62.1%. That was also the main reason for the decrease in the interest rate on the deposit portfolio.

The volume of new deposits accepted from Estonia decreased by 56.2% to 22.7 million euros in 2018, as this year we did not carry out any major deposit campaigns in Estonia. The last major deposit campaign in Estonia took place at the end of 2017, where we collected new deposits or extended the term of existing deposits in the amount of 33.3 million euros.

**Marko Varik**
Chief Financial Officer

| **Estonia** | | | |
|---|---|---|---|
| ***Raising of deposits*** | ***2016*** | ***2017*** | ***2018*** |
| The volume of new deposit agreements entered | 54 573 | 51 917 | 22 741 |
| Number of new concluded deposit agreements | 3 753 | 4 119 | 1 840 |
| Amount of average deposit agreement | 14 541 | 12 604 | 12 360 |
| Average interest on concluded contracts | 1,9% | 1,7% | 1,5% |
| Average period of concluded contracts (in months) | 16 | 25 | 17 |
| | | | |
| Deposit portfolio volume | 64 587 | 67 782 | 73 369 |
| Number of deposit contracts | 5 307 | 5 713 | 5 884 |
| Average interest rate of portfolio | 2,2% | 1,8% | 1,7% |

| **Raisin** | | | |
|---|---|---|---|
| ***Raising of deposits*** | ***2016*** | ***2017*** | ***2018*** |
| The volume of new deposit agreements entered | 65 | 18 517 | 133 012 |
| Number of new concluded deposit agreements | 14 | 1 284 | 6 223 |
| Amount of average deposit agreement | 4 657 | 14 421 | 21 374 |
| Average interest on concluded contracts | 1,6% | 1,7% | 1,5% |
| Average period of concluded contracts (in months) | 40 | 40 | 22 |
| | | | |
| Deposit portfolio volume | 65 | 18 597 | 149 242 |
| Number of deposit contracts | 14 | 1 292 | 7 141 |
| Average interest rate of portfolio | 1,6% | 1,7% | 1,5% |

| **Poland** | | | |
|---|---|---|---|
| ***Raising of deposits*** | ***2016*** | ***2017*** | ***2018*** |
| The volume of new deposit agreements entered | - | 10 672 | 12 945 |
| Number of new concluded deposit agreements | - | 1 931 | 2 043 |
| Amount of average deposit agreement | - | 5 527 | 6 337 |
| Average interest on concluded contracts | - | 2,6% | 2,8% |
| Average period of concluded contracts (in months) | - | 13 | 17 |
| | | | |
| Deposit portfolio volume | - | 8 677 | 17 564 |
| Number of deposit contracts | - | 1 505 | 2 794 |
| Average interest rate of portfolio | - | 2,7% | 2,8% |

# Governance

## Supervisory Board

The Inbank Supervisory Board consists of five members.

**Priit Põldoja**
Chairman of the Supervisory Board

**Rain Rannu**
Member of the Supervisory Board of Inbank

**Roberto De Silvestri**
Member of the Supervisory Board of Inbank

**Triinu Reinold**
Member of the Supervisory Board of Inbank

**Raino Paron**
Member of the Supervisory Board of Inbank

## Management Board

The Management Board of Inbank consists of five members.

**Jan Andresoo**
Chairman of the Management Board

**Liina Sadrak**
Member of the Management Board of Inbank

**Marko Varik**
Member of the Management Board of Inbank

**Piret Paulus**
Member of the Management Board of Inbank

**Ivar Kallast**
Member of the Management Board of Inbank

# Inbank implements the principle of consolidation in its activities, meaning that the key management and strategic decisions of the companies belonging to the Group are taken by Inbanks' governance bodies.

## Description of the general management principles

Inbank implements the principle of consolidation in its activities, meaning that the key management and strategic decisions of the companies belonging to the Group are made at Inbanks' governance bodies. Thus, Inbanks' general meeting, the Supervisory Board and, for the most important credit decisions, Inbank Credit Committee are involved in the decision making process. This allows Inbank as a consolidated group to proceed from a unified set of objectives and operating principles.

## Remuneration principles

Inbank´s remuneration of personnel is guided by Inbanks' recruitment and remuneration policy arising from the principles of the Credit Institutions Act. Principles of staff remuneration stimulate sustainable growth of Inbank and customer satisfaction, and rely on trustworthy and efficient risk management. Personnel remuneration mechanism supports Inbanks' business strategy, goals, values and long-term interests. The remuneration is based on the personal contribution of Inbank employees, the job performance and the company's financial results.

The structure of employee remuneration consists of two parts:
1. Basic salary (fixed);
2. Performance pay (decided for each employee separately).

The basic remuneration and performance pay are reasonably balanced and the basic salary represents a sufficiently large part of the total remuneration to allow for non-payment of performance pay if necessary. The performance pay is based on the performance of employees and the business unit and the combination of Inbanks' overall performance.

External consultants are not involved in determining remuneration policies.

Share option contracts were realised one time in 2018 and four share option contracts were signed with key employees, enabling them to acquire 1 200 shares at a price of 675 EUR per share. The share option contracts will be realised in 2021.

A total of 5 350 options have been issued, of which 1 300 are issued to members of the Management Board and 400 to members of the Supervisory Board.

Inbank proceeds from the provisions of the Credit Institutions Act in determining severance compensation. No severance compensation was paid in 2018.

# Corporate Governance report

Inbank adheres to the Corporate Governance Code (hereinafter “Code”), as set by recommended guidelines adopted by the Financial Supervisory Authority. The Code is based on companies with a wide range of shareholders, therefore, Inbank applies the Code according to its specific characteristics. The following is an overview of the implementation of the Code and recommendations that Inbank does not adhere to, along with the explanations.

## General meeting

The general meeting of the shareholders is the highest governing body of Inbank. The competence of the General Meeting stems from the legislation. Each shareholder has the right to participate in the general meeting, to speak out at the general meeting on the topics presented on the agenda, to submit substantiated questions and make recommendations. The Inbanks’ articles of association does not grant specific controlling or voting rights to different types of shares.

The general meeting is called by the Management Board. Ordinary general meetings are announced to the shareholders at least three weeks before the general meeting and the extraordinary general meeting at least one week before the general meeting.

A notice from the general meeting shall be sent to the shareholders by registered letter to the address entered in the share register. The notice of the general meeting may also be sent by simple mail, electronically or by fax, if an acknowledgment of receipt of the obligation to return an acknowledgment of receipt has been attached to the letter or fax. Inbank also has the opportunity to make decisions without calling the general meeting.

One ordinary and two extraordinary general meetings of the shareholders were held in 2018.

Inbank does not comply with clause 1.1.1 of the Code, which recommends that the notice of convening a general meeting indicate the address at which the shareholder can submit his question on the subject of the agenda. Also, clause 1.2.2 of the Code is not complied with, according to which at the convening of the general meeting reasons and explanations on subjects on the agenda, which are substantially amended, are presented. In practice, communication between Inbank and shareholders is carried out promptly and immediately, therefore, it is also ensured that the shareholders answer any questions and clarify the items on the agenda either directly to the shareholder or at the general meeting.

Inbank does not comply with clauses 1.2.1, 1.2.3 and 1.2.4 of the Code recommending the disclosure of information related to the general meeting on the website, as Inbank communicates efficiently by e-mail and all the information required is made available to all shareholders by e-mail. Additionally, the invitation to the general meeting is not published in a daily national newspaper due to the small circle of shareholders.

Inbank complies with clause 1.2.2 (information provided to shareholders in Estonian) when appropriate. Information is provided primarily in English, since several shareholders are from foreign countries and local shareholders agree with the English communication. Inbank executes Code section 1.3.1 (the language of the general meeting is Estonian). In this case, the shareholder will be given an English translation at his or her request.

In addition, Inbank has not complied with the recommendation in clause 1.3.1 of the Code that the chairman of the Supervisory Board cannot be elected as chairman of the general meeting. As the Chairman of the Supervisory Board is also a representative of a shareholder and is well-informed as the Chairman of the Supervisory Board of Inbank, it is not necessary for the Inbanks’ current shareholding and organization structure to elect an outside party for the general meeting. The chairman of the general meeting has always been elected unanimously.

Inbank partially complies with clause 1.3.2 of the Code, according to which the members of the Management Board, the chairman of the Supervisory Board and, if possible, members of the Supervisory Board and at least one of the auditors participate in the general meeting. The participation of all members of the board depends on the topics covered in the meeting, the Chairman of the Management Board and the board member responsible for finances are always present. The attendance of all members of the Supervisory Board has not been necessary at the meeting, as the supervisory board is represented at the meeting by the chairman of the Supervisory Board. The auditor did not attend the meetings because meetings did not address issues that would require the auditor to attend.

Inbank does not enable participation in the general meeting through means of telecommunication (clause 1.3.3 of the Code), since all the Shareholders have been represented at the general meetings and there has been no need for remote solutions. Additionally, all shareholders have the option to cast his vote electronically on the draft agenda.

## Management Board

The functions of the Management Board of Inbank are regulated by the Articles of Association, the Commercial Code and the Credit Institutions Act.

The Management Board of Inbank consists of five members (three to seven members according to the Articles of Association), elected by the Supervisory Board for a period of three years.

Board members are:

1. Jan Andresoo - Chairman of the Management Board;
2. Liina Sadrak - Member of the Management Board;
3. Marko Varik - Member of the Management Board;
4. Piret Paulus - Member of the Management Board;
5. Ivar Kallast - Member of the Management Board

Inbank does not comply with clause 2.2.7 of the Code recommending to disclose the information about remunerations paid to members of the Management Board and about bonus principles on their website, because the remunerations paid to Management Board members are disclosed in Note 28 in the total amount of remunerations paid to Management and Supervisory Board. In addition, this is a personal information and disclosing it is not inevitably necessary in order to assess the activity of Inbank. Inbank does not comply with clause 2.2.7 of the Code recommending to introduce more important aspects and changes made in management remunerations at the general meeting, because there have been no changes during 2018.

The Management Board members present a declaration of economic interest and conflict of interest once a year. Transactions with the members of Management Board are disclosed in Note 28 and are entered into on market conditions. The members of the Management Board are the members of the administrative bodies in the following entities belonging to Inbanks' consolidation group:

- Marko Varik: Member of the Supervisory Board in UAB Mokilizingas;
- Liina Sadrak: Member of the Supervisory Board in Inbank Liising AS; Member of the Supervisory Board in UAB Mokilizingas;
- Piret Paulus: Member of the Management Board in SIA Inbank Latvia; Member of the Management Board in UAB Mokilizingas;
- Jan Andersoo: Member of the Supervisory Board in SIA Inbank Latvia; Member of the Supervisory Board in UAB Mokilizingas; Member of the Supervisory Board in Inbank Liising AS.

The members of Management Board have not received any severance, because no members of the Management Board have terminated their contract.

| Member of the Management Board | Number of shares | | Issued share options |
|---|---|---|---|
| | Belonging to the member | Belonging to related party | |
| Jan Andresoo | - | 9 954 | 400 |
| Liina Sadrak | 250 | - | 300 |
| Marko Varik | - | 931 | 300 |
| Piret Paulus | - | 1 240 | - |
| Ivar Kallast | - | - | 300 |

## Supervisory Board

Inbanks' Supervisory Board plans the activities of Inbank, provides guidance for the Management Board in organizing management of Inbank, performs oversight regarding the activities of Inbank and its Management Board, and takes decisions on matters set forth in legislation or the articles of association.

Inbanks' Supervisory Board consists of five members (according to Article of Association five to seven members), who are elected for three years by the general meeting:

1. Priit Põldoja – Chairman of the Supervisory Board;
2. Roberto de Silvestri – Member of the Supervisory Board;
3. Rain Rannu – Member of the Supervisory Board;
4. Triinu Reinold – Member of the Supervisory Board;
5. Raino Paron – Member of the Supervisory Board.

In 2018 there were six Supervisory Board meetings and in twelve cases, the necessary decisions were taken without calling a meeting. All the Supervisory Board members have attended at least half of the meetings held in 2018.

Inbanks' Audit Committee has three members. The Chairman of the Audit Committee is Raino Paron and members are Priit Põldoja and Triinu Reinold. The Audit Committee has been formed to exercise oversight of the Management Board. The responsibilities of the committee include controlling and analyzing financial data processing, effectiveness of risk management and internal control, overseeing the process of audit of the consolidated financial statements and the independence of external auditor. Members of the committee do not receive remuneration. There is no information disclosed about the Audit Committee on the website (clause 3.1.3 of the Code), as Inbank does not consider it necessary in respect of the work performed by the committee and ensuring the interests of the shareholders.

Number of shares held by and share options issued to the members of the Supervisory Board of Inbank:

Priit Põldoja, Rain Rannu and Triinu Reinold are the members of the Supervisory Board who receive remuneration. Inbank does not consider necessary to disclose detailed information about the remuneration paid to each member of the Supervisory Board recommended by clause 3.2.5 of the Code, because the impact of the remunerations of Supervisory Board is not significant to Inbanks' financial results. The remunerations paid to members of the Supervisory Board are disclosed in Note 28 in the total amount of remunerations paid to Management and Supervisory Board.

The members of the Supervisory Board present a declaration of economic interest and conflict of interest once a year. Transactions with the members of Supervisory Board are disclosed in Note 28 and are entered into on market conditions.

| *Member of the Supervisory Board* | *Number of shares* | | *Issued share options* |
|---|---|---|---|
| | *Belonging to the member* | *Belonging to related party* | |
| Priit Põldoja | - | 11 386 | 400 |
| Roberto De Silvestri | 5 728 | 1 583 | - |
| Rain Rannu | 180 | 565 | - |
| Raino Paron | - | 5 669 | - |
| Triinu Reinold | - | 1 062 | - |

## Cooperation between the Management and Supervisory Board

The Management and Supervisory Board work in collaboration to protect Inbanks' best interests. The basis of the collaboration is open communication between the Management and Supervisory Boards as well as within the Management and Supervisory Boards. The Management Board ensures the availability of timely management information for the Supervisory Board. Inbanks' operating objectives and strategy are developed jointly by the Management and Supervisory Board. The Management Board considers strategical guidance from Supervisory Board in decision making process and discusses the questions relating management periodically.

## Recruitment principles for selecting a member of the Management Body and the principles of diversity

Recruitment of the members of the management complies with the requirements and procedures of Credit Institution's Act's. In determining the suitability of members of the management body Inbank relies on respective internal process. The suitability of the member is evaluated by the recruiting unit. The candidate shall meet the requirements arising from jurisdiction, complement the administrative body by its knowledge, skills and experience, and be competent to fulfil the responsibilities of a member of the management body. When assessing competency, the reputation, experience, skills, management experience, other criteria related to management (e.g. conflict of interest, independence) and other important and available circumstances are considered. At the moment, there are no changes expected in the management bodies.

Inbank relies on the principle of diversity in selecting the members of administrative bodies, which ensures that the administrative body must have sufficient knowledge, experience, competence and personal skills in order to fulfil his obligations. Inbank also focuses on the diversity on the basis of age, gender, educational background, professional background and geographical origin. Inbank has not set a target for the gender diversity.

## Disclosing information

Inbank treats all shareholders equally and informs all the shareholders of important circumstances. Inbank relies above all on e-mail to notify shareholders. Inbank published its annual report on its website which is also available in English (www.inbank.ee/en). The annual reports and interim reports are published also in English.

Inbank has not prepared a separate website for investors, but there are tabs for investors, a tab with reports (annual report with the Code as well as interim reports), announcements and overview of Inbank personnel (incl Management and Supervisory Board). Inbank does not publish a financial calendar (clause 5.2 of the Code), information on responses to questions presented by analysts and shareholders (clause 5.5 of the Code) and the dates of meetings with analysts, investors and the press (clause 5.6 of the Code) are not disclosed, as these are not necessary considering Inbanks' current activities and the substantial emphasis on keeping shareholders notified through other channels.

## Financial reporting and auditing

Every year Inbank prepares and publishes the annual report and quarterly interim reports. The annual report is audited. The Supervisory Board members do not sign the annual report with the members of Management Board (clause 6.1.1 of the Code). Supervisory Board's statement is presented as a written report and the annual report is approved by Supervisory Board's decision.

Inbank presents an annual report signed by the Management Board to Shareholders at the general meeting (therefore Inbank does not comply with the requirement to publish a report to the shareholders, which has been signed by the members of Management and Supervisory Board – clause 6.1.1 of the Code), but a proposal regarding approval of the annual report is presented to the general meeting by the Supervisory Board.

The general meeting has selected AS PricewaterhouseCoopers as the auditor for the financial year 01.01.2018-31.12.2018 (registry code: 10142876). Inbank follows the auditor rotation principle.

During 2018 auditor of the Group has provided other assurance services, which are required to be performed by auditors according to the Credit Institutions Act and the Securities Market Act.

# Consolidated financial statements

## Consolidated statement of financial position

| EURt | Note | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash in hand | | 4 | 4 |
| Due from central banks | 11 | 64 620 | 14 767 |
| Due from credit institutions | 11 | 13 700 | 8 530 |
| Financial assets at fair value through profit and loss | 27 | 4 600 | 0 |
| Loans and advances | 4;9;27 | 225 639 | 92 895 |
| Investments in associates | 14 | 97 | 7 806 |
| Tangible assets | | 545 | 279 |
| Intangible assets | 15 | 7 697 | 816 |
| Other financial assets | 16 | 64 | 61 |
| Other assets | 16 | 514 | 459 |
| Deferred tax asset | 10 | 564 | 364 |
| **Total assets** | **4** | **318 044** | **125 981** |

| EURt | Note | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| **Liabilities** | | | |
| Loan from credit institution | 17 | 10 429 | 0 |
| Customer deposits | 18;27 | 240 175 | 95 056 |
| Other financial liabilities | 21;27 | 8 776 | 1 263 |
| Other liabilities | 21 | 2 654 | 1 136 |
| Debt securities issued | 19 | 10 017 | 0 |
| Subordinated debt securities | 20 | 9 528 | 6 480 |
| **Total liabilities** | **4** | **281 579** | **103 935** |
| **Equity** | | | |
| Share capital | 23;24 | 874 | 782 |
| Share premium | 23;24 | 15 053 | 9 068 |
| Statutory reserve capital | 26 | 79 | 79 |
| Other reserves | 25;26 | 1 401 | 1 352 |
| Retained earnings | | 19 018 | 10 739 |
| **Total equity attributable to the share-holders of parent company** | | **36 425** | **22 020** |
| Non-controlling interest | | 40 | 26 |
| **Total equity** | | **36 465** | **22 046** |
| **Total liabilities and equity** | | **318 044** | **125 981** |

Notes set out on pages 48-118 form an integral part of the consolidated financial statements.

## Consolidated statement of profit and loss and other comprehensive income

| *EURt* | *Note* | *2018* | *2017* |
|---|---|---|---|
| Interest income | 5 | 23 633 | 13 023 |
| Interest expense | 5 | -3 760 | -2 009 |
| **Net interest income** | | **19 873** | **11 014** |
| Fee income | 6 | 703 | 551 |
| Fee expense | 6 | -1 091 | -607 |
| **Net fee and commission income** | | **-388** | **-56** |
| Net gains from financial assets measured at fair value | 14 | 1 204 | 0 |
| Other operating income | | 666 | 705 |
| **Total net interest, fee and other income** | | **21 355** | **11 663** |
| Personnel expenses | 7 | -5 795 | -3 997 |
| Marketing expenses | 7 | -1 592 | -929 |
| Administrative expenses | 7 | -2 814 | -1 602 |
| Depreciations, amortisation | 15 | -445 | -215 |
| **Total operating expenses** | | **-10 646** | **-6 743** |
| **Profit before profit from associates and impairment losses on loans** | | **10 709** | **4 920** |
| Share of profit from associates | 14 | 1 986 | 6 203 |
| Impairment losses on loans and advances | 9 | -2 686 | -3 532 |
| **Profit before income tax** | | **10 009** | **7 591** |
| Income tax | 10 | -733 | -92 |
| **Profit for the period** | | **9 276** | **7 499** |

| | *Note* | *2018* | *2017* |
|---|---|---|---|
| **Other comprehensive income/loss** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Currency translation differences | | 73 | -38 |
| **Total comprehensive income for the period** | | **9 349** | **7 461** |
| **Profit is attributable to** | | | |
| Shareholders of parent company | | 9 262 | 7 496 |
| Non-controlling interest | | 14 | 3 |
| **Profit for the reporting period** | | **9 276** | **7 499** |
| **Total comprehensive income/loss is attributable to** | | | |
| Shareholders of parent company | | 9 335 | 7 458 |
| Non-controlling interest | | 14 | 3 |
| **Total comprehensive income for the reporting period** | | **9 349** | **7 461** |
| **Basic earnings per share** | 23 | 111.85 | 101.92 |
| **Diluted earnings per share** | 23 | 105.06 | 95.52 |

Notes set out on pages 48-118 form an integral part of the consolidated financial statements.

# Consolidated statement of cash flows

| *EURt* | *Note* | *2018* | *2017* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | 5 | 22 940 | 14 034 |
| Interest paid | 5 | -2 245 | -3 527 |
| Fees received | 6 | 703 | 551 |
| Fees paid | 6 | -1 091 | -607 |
| Other income received | | 666 | 705 |
| Personnel expenses | 7 | -5 686 | -3 685 |
| Administrative and marketing expenses | 7 | -3 811 | -2 412 |
| Returned advance income tax payments | | 285 | 0 |
| Corporate income tax paid | | -512 | -602 |
| **Cash flows from operating activities before changes in the operating assets and liabilities** | | **11 249** | **4 457** |
| **Changes in operating assets:** | | | |
| Loans and advances | | -69 827 | -31 968 |
| Mandatory reserve in central bank | | -1 251 | -213 |
| Other assets | | -716 | -178 |
| **Changes of operating liabilities:** | | | |
| Loans from credit institution | | -45 783 | 0 |
| Customer deposits | | 143 604 | 31 987 |
| Other liabilities | | 5 645 | -108 |
| **Net cash from operating activities** | | **42 921** | **3 977** |

| *EURt* | *Note* | *2018* | *2017* |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Acquisition of tangible and intangible assets | 15 | -1 325 | -387 |
| Acquisition of subsidiaries and associates | 13;14 | -13 134 | -10 697 |
| Proceeds from disposal of subsidiaries | 14 | 0 | 300 |
| Proceeds from disposal of associates | 14 | 6 269 | 10 403 |
| **Net cash used in investing activities** | | **-8 190** | **-381** |
| **Cash flows from financing activities** | | | |
| Share capital contribution (including share premium) | | 6 077 | 2 800 |
| Subordinated debt securities issued | | 3 033 | 0 |
| Debt securities issued | | 10 000 | 0 |
| **Net cash from financing activities** | | **19 110** | **2 800** |
| Effect of exchange rate changes | | -69 | 52 |
| **Cash and cash equivalents at the beginning of the reporting period** | | **22 600** | **16 152** |
| Net increase/decrease in cash and cash equivalents | 11 | 53 772 | 6 448 |
| **Cash and cash equivalents at the end of the reporting period** | **11** | **76 372** | **22 600** |

Notes set out on pages 48-118 form an integral part of the consolidated financial statements.

# Consolidated statement of changes in equity

| | Note | Share capital | Share premium | Statutory reserve capital | Other reserves | Retained earnings/ accumulated loss | Total attributable to owners of the parent | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 01 January 2017** | | **689** | **6 361** | **57** | **1 361** | **3 330** | **11 798** | **6** | **11 804** |
| Paid in share capital | | 93 | 2 707 | 0 | 0 | 0 | 2 800 | 0 | 2 800 |
| Share-based payment reserve | | 0 | 0 | 0 | 29 | 0 | 29 | 0 | 29 |
| Statutory reserve capital | | 0 | 0 | 22 | 0 | -22 | 0 | 0 | 0 |
| Purchase of non-controlling interest in subsidiaries | | 0 | 0 | 0 | 0 | -65 | -65 | 46 | -19 |
| Sale of subsidiary | | 0 | 0 | 0 | 0 | 0 | 0 | -29 | -29 |
| Total profit/-loss and other comprehensive income for the reporting period | | 0 | 0 | 0 | -38 | 7 496 | 7 458 | 3 | 7 461 |
| **Balance as at 31 December 2017** | | **782** | **9 068** | **79** | **1 352** | **10 739** | **22 020** | **26** | **22 046** |
| **Balance as at 01 January 2018** | | **782** | **9 068** | **79** | **1 352** | **10 739** | **22 020** | **26** | **22 046** |
| Changes on initial application of IFRS 9 | 1 | 0 | 0 | 0 | 0 | -1 026 | -1 026 | 0 | -1 026 |
| **Restated balance as at 01 January 2018** | | **782** | **9 068** | **79** | **1 352** | **9 713** | **20 994** | **26** | **21 020** |
| Paid in share capital | 24 | 92 | 5 985 | 0 | 0 | 0 | 6 077 | 0 | 6 077 |
| Share-based payment reserve | | 0 | 0 | 0 | -24 | 43 | 19 | 0 | 19 |
| Total profit/-loss and other comprehensive income for the reporting period | | 0 | 0 | 0 | 73 | 9 262 | 9 335 | 14 | 9 349 |
| **Balance as at 31 December 2018** | | **874** | **15 053** | **79** | **1 401** | **19 018** | **36 425** | **40** | **36 465** |

Notes set out on pages 48-118 form an integral part of the consolidated financial statements.

## **Note 1** Summary of significant accounting policies

### General information

Inbank AS (registry code 12001988) is a credit institution registered in Estonia. The registered address is Niine 11, Tallinn, Estonia (general information on page 2). The Inbank AS consolidation group comprises the following entities:

In 2018, Inbank sold their investment in Coop Pank (the stake was 17,935% before the sale). As a result of the transaction it is not recognised as an associate, but recognised as an investment, because Inbank does not have significant control over Coop Pank.

In January 2018, the holding in Veriff OÜ was sold (21.68% before the sale). The annual report of the Inbank AS consolidation group has been approved by the Management Board and is presented to shareholders for approval on March 28, 2019. Shareholders have the right not to approve the annual report.

| *Company Name* | *Registry code* | *Date of purchase/founded* | *Address* | *Activity* | *Holding (%)* | *Cost EURt* |
|---|---|---|---|---|---|---|
| Maksekeskus Holding OÜ* | 12257075 | 05.06.2015 | Niine 11, Tallinn | Investment management | 37,48 | 97 |
| Inbank Latvia SIA** | 40103821436 | 21.08.2014 | Akmenu iela 14, Riga | Financing | 100 | 519 |
| Inbank Technologies OÜ | 12104213 | 05.06.2015 | Niine 11, Tallinn | Hardware rental | 100 | 454 |
| Inbank Liising AS | 14028999 | 08.04.2016 | Niine 11, Tallinn | Leasing | 80 | 80 |
| UAB Mokilizingas*** | 124926897 | 22.05.2018 | Kareiviu 11B, Vilnius | Financing | 100 | 15 068 |
| AS Inbank Spółka Akcyjna Oddział w Polsce | 0000635086 | 08.09.2016 | Riverside Park, Ul. Fabryczna 5A, Warszawa | Banking | | |

* Associate, Maksekeskus Holding OÜ has 20,3% shareholding in Maksekeskus AS, making Inbank a 7,6% shareholder in the payment consolidator.
** The new business name of Inbank Lizings is starting from August 28, 2018 SIA Inbank Latvia.
*** UAB Mokilizingas has branch in Latvia.

### Significant accounting principles

#### Basis of preparation

Inbank AS (hereafter: parent company) consolidated financial statements for the year 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union.

The financial statements have been prepared under the historical cost convention, except for investments into equity instruments, which are recognized at fair value as disclosed in the respective accounting principles.

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.

The financial year starts on 1 January and ends on 31 December, the amounts are presented in thousand euros unless otherwise indicated. The official language of the consolidated annual report of Inbank AS is Estonian. The Estonian version must be proceeded from in the event of a conflict with English or any other language.

## Consolidated financial statements

### Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. Intercompany balances, transactions and unrealised gains and losses on transactions between group companies are eliminated. For the consolidation of foreign subsidiaries and other business units (including branches), their financial reports are converted into the presentation currency of the parent company. All assets and liabilities have been translated based on the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date. All income, expenses and other changes in equity are translated based on weighted average exchange rate of the period. Foreign exchange gains and losses are recognised in the comprehensive income statement as "Currency translation differences". Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group. The financial years of the subsidiaries coincide with the parent company's financial year.

The acquisition method of accounting is used for business combinations. The cost of acquisition of subsidiary is measured as the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The identifiable assets, liabilities and contingent liabilities of the acquired subsidiary are recognized at their fair values at the acquisition date. Non-controlling interest in the subsidiary acquired is measured at fair value or the non-controlling interest's proportionate share of identifiable net assets of the acquiree.

The transactions with non-controlling interest are recognised in equity. The difference between carrying amount of net assets of share acquired from non-controlling interests and the purchase price of the acquisition is recognised in equity. Profit or loss from the sale of non-controlling interest is also recognised in equity. In consolidated statement of profit or loss and other comprehensive income, non-controlling interest share of profit is disclosed separately from owners of the parent. Non-controlling interests' share in subsidiary's results and equity is recognized in consolidated statement of financial position separately from the equity attributable to the shareholders of the parent company.

### Investments in associates

Associate is an entity over which the Group has significant influence, but which it does not control. Investments in associates are accounted for under the equity method of accounting. The investment is initially recognised at cost, which is fair value of the transaction cost and other costs associated with the acquisition.

Under equity method, cost is adjusted for post-acquisition changes in the investor's share of the investee's income statement and comprehensive income statement and with elimination or amortization of differences between fair values and carrying amounts of the investee's assets, liabilities and contingent liabilities as determined in the purchase analysis.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the assets. If the Group's share of losses in the associate accounted under the equity method exceeds the carrying amount of the associate, the carrying amount of the investment is reduced to zero and such long-term loans granted to the associate that in substance form a part of the investment are written down. Any further losses are carried off-balance sheet. If the Group has guaranteed or incurred obligations on behalf of the associate, the respective liability is recorded in the statement of financial position.

### Parent company´s separate reports presented in the notes of consolidated financial statements

Pursuant to IFRS, information on the separate primary financial statements of the parent of the consolidation group shall be disclosed in the notes to the financial statements. The parent company primary statements are prepared using the same accounting policies as those that have been used for preparing the consolidated financial statements except the investments in subsidiaries that are accounted for at cost less any impairment recognized.

## Foreign currency transactions and assets and liabilities denominated in a foreign currency

All other currencies except for the functional currency Euro constitute foreign currencies.

Monetary assets and liabilities denominated in a foreign currency have been translated into functional currency based on the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date. Foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank prevailing at the dates of the transactions. Foreign exchange gains and losses are recognised in the income statement as finance income or expenses of that period.

## Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits in central bank and other banks, that are available for use without any restrictions.

## Financial assets and liabilities accounting policies from 1 January 2018

### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets under normal market conditions are recognised on the trade-date, the date on which the Group commits to the purchase or sale of the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions.

Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

### Financial assets

***Classification and subsequent measurement***

**Debt instruments**

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective. Classification and subsequent measurement of debt instruments depend on:

- the Group's business model for managing the asset; and
- the cash flow characteristics of the asset.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example: the Group's business model for unsecured consumer loans is to collect contractual cash flows, sales only occur when there has been a significant increase in credit risk. Therefore, the business model for the portfolio is to hold assets to collect contractual cash flows.
Cash flow characteristics of the asset: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell the assets, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making

this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Based on these factors, the Group classifies its debt instruments into one of the three measurement categories:

1. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at fair value through profit and loss (FVPL), are measured at amortised cost.
2. Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI).
3. Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss.

During the reporting period, the group has measured all its debt instruments at amortised cost.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

**Amortised cost and effective interest rate**

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes all fees paid and received between contracting parties, transaction costs, premiums or discounts that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

**Equity instruments**

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Group has decided to subsequently measure all equity investments at fair value through profit or loss. Gains and losses on equity investments at FVPL are included in the Net gains from financial assets measured at fair value line in the statement of profit or loss.

**Modification of loans**

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. If the new terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount of the financial asset based on the revised cash flows discounted at the original effective interest rate and recognises a modification gain or loss in profit or loss.

***Derecognition other than a modification***

Financial assets are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either

i. the Group transfers substantially all the risks and rewards of ownership, or
ii. the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

***Write-off policy***

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

**Financial liabilities**

In both the current and prior period, financial liabilities of the Group are classified as subsequently measured at amortised cost. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

**Impairment**

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

***Expected credit loss measurement***

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- 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).

***Significant increase in credit risk***

The Group considers a financial instrument to have experienced a significant increase in credit risk when there have been adverse changes in the economic environment, which are known to the Group and affect the specific borrower performance (eg. adverse changes in regional unemployment rate).

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. The Group has not used the low credit risk exemption for any financial instruments in the year.

***Definition of default and credit-impaired assets***

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when the borrower is more than 90 days past due on its contractual payments or when the borrower is in significant financial difficulty. These are instances where the borrower is deceased, is insolvent or is marked as in proceeding in case of retail loans or liquidation, execution or going through reorganisation proceedings in case of non-retail loans.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.

***Measuring ECL – Explanation of inputs, assumptions and estimation techniques***
The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio. This is supported by historical analysis. PD is estimated using a Markov chain framework, where transition matrices from maximum last 12 available periods are used to extrapolate the cumulative transition probabilities forward in time.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). EAD is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan. The LGDs are determined based on the factors which impact the recoveries made post default. LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD.

The assumptions underlying the ECL calculation are monitored and reviewed on a quarterly basis. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

***Forward-looking information incorporated in the ECL models***
The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Group on a quarterly basis.

In addition to the base economic scenario, the Group also provides other possible scenarios along with scenario weightings. The number of scenarios and their attributes are reassessed at each reporting date. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

***Grouping of instruments for losses measured on a collective basis***

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are: product type, contract type, market, number of overdue days of the contract, contract age as months in book.

The appropriateness of groupings is monitored and reviewed on a periodic basis.

## Financial assets and liabilities accounting policies until 31 December 2017

**Loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are recorded in the statement of financial position from the day the Group advances money to customer or issues financing agreement for goods and services until the day loans and advances are repaid or written-off. The loans are recognised in the statement of financial position in fair value, including transaction costs. After initial recognition, the Group recognises loans and advances at amortised cost (original cost less principal repayments and any potential impairment losses) using the effective interest rate method.

**Leasing receivables**

A financial lease is a lease transaction where all major risks and rights deriving from the use of the leased assets are transferred from the leasing firm to the lessee. The finance lease is recognised in the statement of financial position in the fair value of the leased asset or the present value of the minimum lease payments. Lease payments collected are allocated between repayment of principal and financial income. Financial income is recognised over the rental period based on the pattern reflecting a constant periodic rate of return on the lessor's net investment in the financial lease.

Lessor's direct expenses, related to the contract, are part of effective interest rate and are booked as decrease of leasing income over the period of leasing contract.

**Impairment allowances**

The Group assesses consistently whether there is objective evidence that a financial asset or group of financial assets is impaired. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If there is objective evidence that the value of loans and advances recognised at amortized cost has decreased, the amount of the allowance is measured as the difference between the carrying amount of the asset and the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced by the use of allowance account. Any impairment losses are charged to statement of profit or loss line "Impairment losses on loans and advances" on the period the loss was recognised. When impairment arising from the potential impairment losses of homogeneous financial assets are made, the assets are grouped in sub-classes according to product type, the age of the customer relationship, geographic division and earlier payment behaviour, and the respective write-down allowance is implemented. The amount of impairment in the case of grouped financial assets is the multiple of the residual value of the receivables in the given group and the impairment allowance. The relevant impairment allowances have been calculated using the method where the probability of the asset to default (overdue exceeds 90 days), loss given default and exposure at default are determined. If the loss from impairment of financial assets decreases in the subsequent period and this decrease can be objectively associated with an event that takes place after the recognition of the impairment, then the loss arising from the previously recognised impairment is reversed by adjusting the allowance account. The amount of reversal is recognised under "Impairment losses on loans and advances" in the consolidated statement of comprehensive income during the period when the relevant event is identified. Uncollectible loans are written off against the related allowance for loan impairment, after all necessary procedures to recover the loan have been completed and the amount of the loss has been determined.

**Restructured loans**
The group seeks to restructure any impaired loans. For this purposes, the loan is amended to align with the creditworthiness of the customer (for example reduce the monthly payment, increase the total contract period) and the terms of the new loan. After the restructure, the loan is not considered as default during the time when customer complies with the new loan repayment terms and reschedule. Such loans are monitored continuously, to ensure all loan contract criteria's are fulfilled and payments are made; interest and commission fees are collected and recognized similarly to non-restructured loans. Restructures loans are assessed for impairment at every balance sheet date.

**Financial liabilities**
Financial liabilities are initially recognised on the balance sheet at their acquisition cost, which is the fair value of the received financial liabilities. In the future financial liabilities are recognised at amortised cost, using the effective interest method. The interest expenses relating to financial liabilities are recognised according to the effective interest rate method of the instrument on accrual basis as periodic expenses in the income statement under "Interest expense". A financial liability is derecognised when it is discharged, cancelled or it expires.

**Fair value of financial assets and liabilities**
- Fair value of financial assets and liabilities measured at amortised cost are disclosed in Note 27. Fair value is the amount for which an asset could be exchanged or a liability could be settled within the course of an ordinary business transaction between independent market participants. Fair value is assessed on the assumption that the asset is sold or the liability is paid:
- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Group must have access to the principal and the most advantageous market. The fair value of an asset or liability is assessed on the assumption that the market participants proceed from their economic interests when determining the price of the asset or liability. In order to determine fair value, the Group uses methods that are appropriate in the given conditions and for the use of which there are adequate data for the evaluation of the fair value, maximising the use of the appropriate observable inputs and minimising the use of unobservable inputs.

All assets and liabilities revaluated at fair value or disclosed in the financial statements are classified according to the hierarchy of fair value, which is described below, and based on the lowest-level input that is important for the measurement of fair value as a whole:
- Level 1 - quoted (unadjusted) price on the active market for identical assets and liabilities;
- Level 2 - assessment methods whereby the significant inputs of the lowest level are directly or indirectly observable;
- Level 3 - assessment methods whereby the significant inputs of the lowest level are not directly or indirectly observable.

## Leases - Group as the lessee

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

Operating lease payments are recognised in income statement as expense over the rental period on straight-line basis. The Group primarily uses an operating lease for renting the premises. A rental expense is recognised in the statement of profit or loss as “Administrative expenses“.

## Tangible and intangible assets

Tangible and intangible assets are initially recognised at acquisition cost, consisting of the purchase price and costs directly related to the purchase. The assets are then recognised at their acquisition cost less accumulated depreciation and accumulated losses from impairment. The linear method is used for depreciation of tangible and intangible fixed assets, the expected final value is zero.

Tangible assets are assets that have useful life more than one year. Immaterial items and assets with a shorter useful life are expensed as incurred.

Intangible assets are recognised in the statement of financial position only if the following conditions are met:

-the asset is controlled by the Group;
-it is probable that the future economic benefits that are attributable to the asset will be collected by the Group;
-the cost of the asset can be measured reliably. Intangible assets (except for goodwill) are amortised using the straight-line method over the useful life of the asset.

Tangible and intangible assets are tested for impairment if there are any impairment indicators (except for goodwill). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amount with their recoverable amount.

(a) Goodwill

Goodwill acquired in a business combination is not subject to amortisation. Instead, for the purpose of impairment testing, goodwill is allocated to cash-generating units and an impairment test is performed at the end of each reporting period (or more frequently if an event or change in circumstances demands it). The allocation is made to those cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose. Goodwill is allocated to a cash generating unit or a group of units, not larger than an operating segment. Goodwill is written down to its recoverable amount when this is lower than the carrying amount. Impairment losses on goodwill are not subsequently reversed. Goodwill is reported in the statement of financial position at the carrying amount (cost less any impairment losses). When determining gains and losses on the disposal of a subsidiary, the carrying amount of goodwill relating to the entity sold is regarded as part of the carrying amount of the subsidiary.

(b) Computer software

Costs associated with the ongoing maintenance of computer software programs are recognised as an expense as incurred. Acquired computer software which is not an integral part of the related hardware is recognised as an intangible asset. Development costs that are directly attributable to the design and testing of identifiable software products controlled by the Group are recognised as intangible assets when the following criteria are met:

-it is technically feasible to complete the software product so that it will be available for use;
-management intends to complete the software product and use it;
-there is an ability to use the software product;
-it can be demonstrated how the software product will generate probable future economic benefits;
-adequate technical, financial and other resources for completing the development and using the software product are available;
-the expenditure attributable to the software product during its development can be reliably measured.

Capitalised software development costs include payroll expenses and an appropriate portion of related overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs are amortised over their estimated useful lives (not exceeding 5 years) using the straight-line method.

## Provisions and contingent liabilities

A provision is recognised if the Group has a legal or factual liability, which arose from an obligating event that occurred prior to the balance sheet date, the realisation of which is probable and the amount of which can reliably be measured. A provision is recognised in the consolidated financial position statement in the amount, which according to the management, is necessary as at the balance sheet date for the meeting of the obligation arising from the provision. If a provision is expected to be settled later than 12 months after the balance sheet date, it is recognised at the discounted value (at the present value of payments relating to the provision) unless the effect of discounting is immaterial. Other possible or existing obligations, the settlement of which is less than likely or the related expenditures of which cannot be determined with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

## Reserves

### Statutory reserve capital

According to the article of association of Inbank AS, during each financial year, at least 1/20 of the net profit shall be transferred to the statutory reserve capital, until the reserve reaches 1/10 of share capital. Statutory reserve capital may be used to cover a loss, or to increase share capital. Payments to shareholders from reserve capital are not allowed.

### Other reserves

The general meeting of Inbank AS may decide that other amounts are also transferred to the reserve capital. Reserve capital may also be used to increase the share capital and it may not be used for making payouts to shareholders.

## Accounting of income and expenses from January 2018

**Interest income and expenses**

Interest income and expenses are calculated by applying the effective interest rate to the gross carrying amount of financial assets or liabilities, except for:

a. Purchased or originated credit-impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
b. Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

See further details in accounting policy section 'Amortised cost and effective interest rate'.

**Fee and commission income and expenses**

The recognition of revenue from contracts with customers is reported as fee and commission income. Fee and commission income is recognised to depict the transfer of promised services to the customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for the service.

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

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fee for early termination of contract, fee for confirmation letter.

Expenses that are directly related to the generation of fee and commission income are recognised as fee and commission expense.

**Other income**

Gains and losses arising from changes in fair value of financial assets and liabilities measured at fair value through profit or loss are reported under the item Net gains from financial assets measured at fair value.

Dividends are recognised when the entity's legal right to receive payment is established.

## Accounting of income and expenses until 31.12.2017

Income is recognised by the principle that the income earned by the Group is probable and can be reliably measured. Interest income and expenses are recognised on accrual basis in respect of all interest-bearing financial assets and liabilities, which are recognised at adjusted acquisition cost using the effective interest rate method.

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

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

Interest income and expenses are recognised in the consolidated statement of comprehensive income under "Interest income" or "Interest expenses".

Other fee and commission income is recognised on accrual basis at the fair value of the charges received or to be received for the services provided in the course of the Group's operations.

The income and expenses generated by other fees are recognised on accrual basis at the moment the service was provided. Dividend income is recognised when a right of claim is obtained with respect to the dividends.

Other operating income includes fines and penalties that are recognised on cash basis.

## Share-based payment

The Group receives services from its employees and pays for them by issuing options for acquiring the shares of Inbank. The fair value of the issued options is recognised as a personnel expense and a change in equity (share-based payments reserve) during the period of the option contract. The total amount of expenses is determined at the moment the option is issued by assessing the fair value of the options.

## Corporate income tax

### Corporate income tax in Estonia

Income tax is paid on fringe benefits, gifts, donations, costs of entertaining guests, dividends and payments not associated with business activities. There are no differences in Estonia between the tax bases and residual book values of assets that could entail deferred income tax.

From January 1, 2018, credit institutions in Estonia have to pay corporate income tax from profits earned in the previous quarter. The amendment has been in force since 01.01.2018, but the first payment is calculated and declared from the profit earned in the second quarter of 2018. The tax rate is 14%. When distributing profits and calculating the related income tax liability, the credit institution can take into account the payment paid. Only companies with profits are taxed.

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

### Corporate income tax in other countries

### Corporate income tax in Poland

In accordance with the local income tax law, the net profit of Polish branch that has been adjusted for the permanent and temporary differences as stipulated by law is subject to corporate income tax. The main temporary differences arise from depreciation and tax loss carry-forwards. Deferred tax balances are measured at tax rates (in Poland 19%) enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry- forwards will be utilised. Deferred tax is recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

### Corporate income tax in Latvia

In accordance with the new Corporate Income Tax Law, starting from 1 January 2018, corporate income tax with a rate of 20/80 is applied on profits arisen after 2017 only upon their distribution. Transitional provisions of the law allow for reductions in the income tax payable on dividends, if the entity has unused tax losses or certain provisions recognised by 31 December 2017.

Due to the new tax law, there are no longer differences between the tax bases and carrying amounts of assets and liabilities, and hence, deferred income tax assets and liabilities no longer arise in respect of subsidiaries in Latvia. All deferred tax assets and liabilities recognised in previous periods were derecognised in 2017 and related income tax expense/

income was recorded in the statement of profit or loss.

**Corporate income tax in Lithuania**

Income tax is calculated on the basis of annual profit and deferred tax is also taken into account. Corporate income tax rate is 15%. Tax losses may be carried forward for an indefinite period, except for losses resulting from the transfer of securities and/or derivatives that can be carried forward for five consecutive years and that can only be used to reduce similar taxable income.

Deferred income tax is calculated using the balance sheet liability method and represents a temporary difference between the tax bases of assets and liabilities and the balance sheets. Income tax assets and liabilities are determined using the tax rate that is expected to be used for deferred tax assets or for deferred tax liabilities, taking into account the tax rates adopted or actually applied at the date of the financial statements.

Deferred tax assets are recognized in the financial statements to the extent that the management of the enterprise expects to use the assets in the near future, taking into account the taxable profit forecasts. If it is probable that part of the deferred tax will not be used, this portion of the deferred tax is not recognized in the financial statements.

### Business segments

Inbank divides its operating activities in segments according to its legal structure, geographic division and the nature of the offered products (consumer financing, IT services, leasing). The business segments comprise a part of the Group with separate access to financial data, which is also the basis upon the regular monitoring of business results by the decision-makers in the Group. The revenues of the reported segments contain transactions between the segments.

## Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became effective for the Group from 1 January 2018:

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

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

The financial instrument measurement categories and balance sheets as per IAS 39 and IFRS 9 as at 31.12.2018 are presented in the table below:

| *EURt* | *IAS 39* | *31.12.2017* | *IFRS 9* | *01.01.2018* | |
|---|---|---|---|---|---|
| **Financial assets** | **Measurement category** | **Balance** | **Measurement category** | **Carrying amount** | **Change** |
| Cash and due from central banks | Amortised cost | 14 771 | Amortised cost | 14 771 | 0 |
| Due from credit institutions | Amortised cost | 8 530 | Amortised cost | 8 530 | 0 |
| Loans and advances to customers | Amortised cost | 92 895 | Amortised cost | 91 994 | -901 |
| Other financial assets | Amortised cost | 61 | Amortised cost | 61 | 0 |

Under IFRS 9, the equity of the associate changed. In accordance with IAS 28, the investment is accounted for using the equity method, the effect of the change on Inbanks' equity as at 01.01.2018 was -125 EURt. Total impact to equity from the remeasurement was 1 026 EURt.

There were no changes in the classification and measurement of financial liabilities. The table below gives an overview of classification and measurement of financial assets in accordance with IAS 39 and IFRS 9 from 01.01.2018:

| **Amortised cost** | ***IAS 39 balance as at 31.12.2017*** | ***Reclassification*** | ***Remeasurement*** | ***IFRS 9 balance as at 01.01.2018*** |
|---|---|---|---|---|
| Cash and due from central banks | 14 771 | - | 0 | 14 771 |
| Due from credit institutions | 8 530 | - | 0 | 8 530 |
| Loans and advances to customers | 92 895 | - | -901 | 91 994 |
| Other financial assets | 61 | - | 0 | 61 |
| Other financial liabilities | 1 263 | - | 0 | 1 263 |

The revaluations arising from the reconciliation of prior periods in accordance with IAS 39 with IFRS 9 are reflected in the following table:

| | IAS 39 balance as at 31.12.2017 | Reclassification | Remeasurement | IFRS 9 balance as at 01.01.2018 |
|---|---|---|---|---|
| **Loans and advances to customers (IAS 39) / Financial assets at amortised cost (IFRS 9)** | 3 173 | - | 901 | 4 074 |

The impairment allowance as at 31.12.2017 was 3 173 EURt and after the revaluation as at 01.01.2018 in the amount of 4 074 EURt.

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

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. Implementation is does not to have a material impact on the Group's financial position, financial results or cash flows.

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

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

**"Classification and Measurement of Share-based Payment Transactions" -Amendments to IFRS 2** (effective for annual periods beginning on or after 1 January 2018).

The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The new standard has no significant impact on the Group's financial statements.

**Annual Improvements to IFRSs 2014–2016 Cycle** (effective for annual periods beginning on or after 1 January 2018 (changes to IFRS 1 and IAS 28).

IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by-investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method. Implementation is does not have a material impact on the Group's financial position, financial results or cash flows.

**IFRIC 22, „Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e. the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. The new standard has no significant impact on the Group's financial statements.

**New accounting pronouncements**
Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2019, and which the Group has not early adopted.

**"Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" - Amendments to IFRS 10 and IAS 28** (effective date to be determined by the IASB; not yet adopted by the EU).

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. The Group has not yet assessed the impact of amendments to these standards on the financial statements.

**IFRS 16, "Leases"** (effective for annual periods beginning on or after 1 January 2019).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. Starting from 1 January 2019, 900 EURt will be recognised on the Groups statement of financial position as right of use asset and lease liability, thus increasing the total assets by 900 EURt.

**IFRIC 23, "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate.

Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is analysing the impact of the interpretation on the financial statements.

**"Long-term Interests in Associates and Joint Ventures" - Amendments to IAS 28** - effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The Group is analysing the impact of the interpretation on the financial statements.

**Annual Improvements to IFRSs 2015-2017 cycle** (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Group has not yet assessed the impact of amendments to these standards on the financial statements.

**Amendments to the Conceptual Framework for Financial Reporting** (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU)

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group is analysing the impact of the interpretation on the financial statements.

**Definition of materiality – Amendments to IAS 1 and IAS 8** (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is analysing the impact of the interpretation on the financial statements.

Other new or amended standards or interpretations that are not yet effective are not expected to have a material impact on the Group.

## **Note 2** Significant accounting estimates

According to the IFRS, many of the financial indicators given in the report are based on strictly accounting-related management estimates and opinions, which have an impact on the value of the assets and liabilities presented in the financial statements as of the balance sheet date and on the income and expenses of the subsequent financial years. Although these estimates are based on the best knowledge of the management and conclusions from ongoing events, the actual result may not coincide with them in the end, and may differ significantly from these estimates.

The management consistently reviews such decisions and estimates, including the ones that have an influence on the fair value of financial instruments, the write-down of impaired loans, impairment of tangible and intangible assets, deferred taxes and share-based payments.

The management relies on past experience and other factors reasonable in the given situation when making these decisions and estimates.

### Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further described in detail in note "Changes in accounting policies". A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk,
- Choosing appropriate models and assumptions for the measurement of ECL,
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

See also subchapter „Implementation of IFRS 9 in accounting for impairment of financial instruments" in Note 3 for more information.

# **Note 3** Risk management

## Definition of risk and objective of risk management

Risk is defined as a potential negative deviation from the expected financial results. The Group is exposed to several risks arising from its daily activities. The objective of the Group's risk management is to identify risks, and to measure and manage them correctly. On a wider scale, the objective of risk management is to increase the value of the company through minimisation of losses and reduction of the volatility of results. Risk management is based on a solid risk culture at the Group and it has been set up using three lines of defence where the first line, i.e. business areas, are responsible for taking risks and managing them on a daily basis. The second line of defence, i.e. the risk management function, is responsible for developing risk management methodologies and reporting risks. The third line of defence, i.e. internal audit, performs independent oversight for the entire organisation including the risk management function. The principles, requirements and areas of responsibility of risk management are described in internal rules and regulations. According to established capital management principles the Group must have enough adequate capital to cover the Group's risks.

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

## Principles of risk management

The risk management system of the Group is centralised. The same risk management principles are used at the parent company as well as at the subsidiaries of the Group. The risk management and risk control functions are performed throughout the Group by the unit responsible for risk management and by various committees at the parent company level.

- Risk management covers all activities whose purpose is risk identification, measurement, evaluation and control, as well as measures for minimising and hedging the consequences of realised risks.
- Risk management is a forward-looking process emphasizing risk awareness and covering staff selection, awareness and training.
- The Group maintains a high level risk management process by applying specific techniques and measures in a cost-efficient manner according to the needs. The risk management process is integral part of the Group business.
- All the risks of the Group have been included in the process of planning, monitoring and allocation of resources, and they are monitored by the Supervisory Board.
- The Management Board of Inbank analyses risk positions on a regular basis and at least once a quarter, it presents a risk report to the Supervisory Board of Inbank that includes information specified by the Supervisory Board of Inbank, and that provides an overview of all risk positions identified by the Group and an assessment of the correspondence of the desired risk appetite of the Group to the actual risk profile.

## Risk management structure

The Management Board of Inbank is responsible for managing all the risks that are accompanied with Groups activities, that also includes introducing risk management principles, procedures and methods as well as achieving effectiveness in risk controlling and risk management as a whole. In accordance with the risk management policy and risk appetite statement defined by the Management Board, the following structural units and committees that have set up at the Group are responsible for daily implementation of the risk management and risk control function:

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

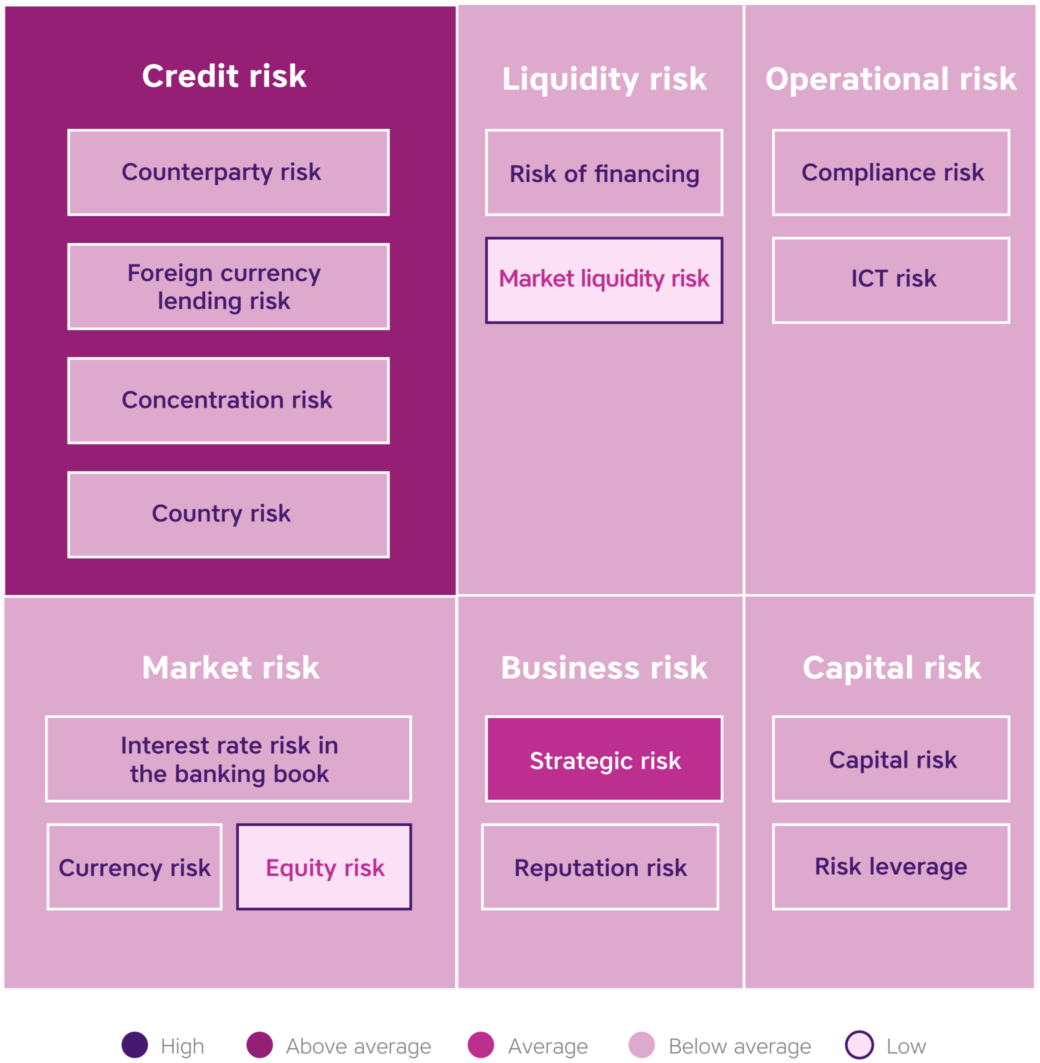
- The Credit Committee is the highest operational body responsible for the Group's credit risk management. The Credit Committee is responsible for development and updating the credit risk policy. Through the credit risk policy, the Credit Committee ensures that the activities of the Group in providing credit would meet the requirements laid down in legislation, they are in compliance with the Group Risk Appetite Statement and are profitable.
- The Asset and Liability Management Committee is the main body responsible for the Group's liquidity. 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 on the size, instrument types, and terms of the borrowed resources; and checking the limits set by the Group's 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 the Group.
- One of the objectives of internal audit is to provide assurance to the Management and Supervisory Boards that the Group's internal control and risk management policies are sufficient and effective for risk management and for fulfilment of the Group's strategy and objectives.
- Objective of compliance unit is to ensure that risk assessment and management are aligned with defined requirements in the Group as well as management of legal risks.

## Desired risk profile

The desired risk profile gives an overview of the level and types of risks the Group is willing to take in order to achieve its strategic objectives, taking into account its risk capacity and business model. Creating and updating the desired risk profile is an integral part of the annual strategic planning.
A comparison of the actual risk profile to the desired risk profile is submitted to the Supervisory Board at least quarterly.
The desired risk profile of the group is described using a five-step scale:

- High - the Group takes a significant risk that can have a significant negative impact and is prepared to accept negative impacts to achieve its strategic goals.

### Main types of risk with their sub-units



- Above average - the Group is prepared to take risks above the average level, the risk level may have a significant impact on the Group's financial results. Decisions are made on the basis of the risk-to-income ratio.
- Moderate - a balanced approach to risk taking. Moderate risk and possibly lower earnings.
- Below average - a cautious and conservative approach to risk taking, safe and proven solutions are preferred. The Group wants to accept only insignificant impact on financial performance, low risk and minimal profit.
- Low - risk level which has an insignificant impact on the Group's financial results. The aim is to avoid the risk of uncertainty.

## Capital management

The Group uses risk-based capital planning, ensuring that all risks arising from the operations of the Group are covered by own funds at any given time. Capital management is based on balance sheet and profit forecasts that take into account the Group's strategy, future expectations, risk profile and risk appetite. Capital includes Group's own funds that consist of Tier 1 and Tier 2 capital.

The Group discloses detailed information about its own funds, including complete conditions for deductions applicable to own funds and instruments that are part of Tier 2 capital in accordance with the requirements of Regulation (EU) No 1423/2013 on the website of Inbank AS www.inbank.ee.

The directly applicable European Parliament and Council Regulation (EU) No 575/2013 requires that all credit institutions (and their consolidating holding companies) and investment firms operating in the European Union need to keep Common Equity Tier 1 (CET 1) funds and Tier 1 capital at 4.5% and 6.0% of risk weighted assets, respectively. The total capital requirement which includes both Tier 1 and Tier 2 capital is 8.0%. In addition to the main requirements that are subject to common rules, the Directive also lays down the principles for capital buffers. In Estonia, in addition to the basic requirements of own funds, a capital conservation buffer of 2.5% has been set for credit institutions and 1.0% for systemic risk (from exposures in Estonia). The total systemic risk buffer rate depends on the relationship between the exposures of Estonia and the Group as a whole. These buffers are added to both the Tier 1 and the total own funds base requirements.

An overview of the capital requirement as of 31.12.2018 is shown in the table below:

| ***Capital base*** | ***31.12.2018*** | ***31.12.2017*** |
|---|---|---|
| Paid-in share capital | 874 | 782 |
| Share premium | 15 053 | 9 068 |
| Statutory and other reserves | 1 446 | 1 431 |
| Retained earnings | 9 756 | 3 243 |
| Intangible assets (subtracted) | -7 697 | -816 |
| Profit for reporting period | 9 261 | 7 496 |
| Other comprehensive income | 35 | 0 |
| Other deductions | -1 824 | -7 763 |
| Adjustments due to IFRS 9 transitional arrangements | 2 308 | 0 |
| **Total Common Equity Tier 1 capital** | **29 212** | **13 441** |
| Additional Tier 1 capital | 3 150 | 0 |
| **Total Tier 1 capital** | **32 362** | **13 441** |
| Total Tier 2 capital | 6 503 | 6 503 |
| **Net own funds for capital adequacy calculation** | **38 865** | **19 944** |

| | ***Common Equity Tier 1 capital ratio*** | ***Tier 1 capital ratio*** | ***Total capital ratio*** |
|---|---|---|---|
| Base requirement | 4.50% | 6.00% | 8.00% |
| Capital conservation buffer | 2.50% | 2.50% | 2.50% |
| Systemic risk buffer | 0.48% | 0.48% | 0.48% |
| **Minimum regulatory capital requirement** | **7.48%** | **8.98%** | **10.98%** |

The minimum regulatory capital requirement is supplemented by a specific additional Pillar 2 requirement of the credit institution.

The Group discloses the geographical distribution of credit risk positions, which is relevant for the calculation of the countercyclical capital buffer and the amount of countercyclical capital buffer in accordance with the requirements of Regulation (EU) No 2015/1555 on the Inbank website www.inbank.ee.

As at 31.12.2018, the Group fulfils all minimum regulatory capital requirements. In this report, the capital base includes the profit for the reporting period.

Internal Capital Adequacy Assessment Procedure (ICAAP) is a continuous process aimed at assessing the Group's risk profile and capital requirements. The Group ensures that at any time the total amount of risk is covered by sufficient capital.

The Management Board of Inbank is responsible for capital planning. ICAAP is the basis for regular capital planning within the Group. Capital requirement planning and forecasting is based on regulatory capital adequacy calculation, to which capital requirements are added to cover for additional risks that have not been taken into account in regulatory capital requirements.

The Group's risk profile is assessed in particular by the following risks: credit risk, operational risk, market risks (including non-trading interest rate risk and currency risk), liquidity risk, strategic risk and capital risk.

The minimum recommended level of capital adequacy is the minimum required capital adequacy level found in the supervisory review, which is combined with the required margin for growth in business volumes or other strategic plans according to the Group's current operating strategy and balance sheet forecasts. The ability of the Group to raise additional capital from the market, in particular by issuing new shares or subordinated debt securities, is also taken into account in the preparation of the capital plans.

Balance sheet positions are forecasted for identifying capital needs based on changes across different risk-weighted assets and equity items. In addition, the internally required own fund buffer is found to provide the desired level of capital adequacy for occasions where alternative and risk scenarios materialise.

## Credit risk

Credit risk is a potential loss that may arise if the counterparty to the contract cannot fulfil the obligations as required and in case of insolvency, the pledged securities, received guarantees or other recovery measures are not sufficient to cover the claims of the Group. Credit risk arises primarily from the loans granted and receivables to households and credit institutions. For legal entities loans are mainly granted for partnership purposes. For minimising the credit risk, the Group analyses the economic activities and financial position of transaction counterparties. After granting the loan, the adherence of counterparties to loan terms is regu-

| ***Exposure of assets to credit risk (EURt)*** | ***31.12.2018*** | ***31.12.2017*** |
|---|---|---|
| Receivables from central banks | 64 620 | 14 767 |
| Reveivables from credit institutions | 13 700 | 8 530 |
| Receivables from households | 216 054 | 89 002 |
| Receivables from non-financial corporates | 3 407 | 2 206 |
| Receivables from other financial corporates | 1 705 | 1 595 |
| Other advances | 4 473 | 92 |
| Other financial assets | 64 | 61 |
| **Total assets** | **304 023** | **116 253** |

larly monitored.

The Management Board of the parent company and the Credit Committee operating at the parent company are responsible for taking and managing credit risk. Subsidiaries, branches and business lines make proposals to the Credit Committee for establishing credit risk principles and rules related to the business activities of a specific subsidiary or business line. The decisions regarding the principles for risk-taking are made collectively at the Credit Committee.

Credit risk is managed using the principles laid down in the Credit Institutions Act, Law of Obligations Act, Creditors and Credit Intermediaries Act, guideline of the Estonian Financial Supervision Authority "Requirements for Responsible Lending", regulations of the President of the Bank of Estonia, local regulations of business units located abroad as well as those established in the Group's credit risk policy. The credit risk policy, loan analysis and lending principles are reviewed periodically; their correspondence to the economic situation and actual payment discipline is checked.

According to the Group'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 the Group is 40 000 EUR.
- Low average loan amount. As at 31.12.2018, the Group's average contractual product balance of the Group's retail product together with the Lithuanian subsidiary UAB Moki-lizingas is 511 EUR and 1 315 EUR without the Lithuanian subsidiary (as at 31.12.2017: 1 154 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.

For credit risk, the Group does not use internal rating methods. For credit risk management, the Group does not use credit risk hedging techniques within the meaning of the European Parliament and Council Regulation (EU) No 575/2013.

| *Geographical distribution of assets 31.12.2018 (EURt)* | Estonia | Latvia | Lithuania | Poland | Total |
|---|---|---|---|---|---|
| Receivables from central banks | 62 993 | 0 | 0 | 1 627 | 64 620 |
| Receivables from credit institutions | 6 078 | 744 | 1 131 | 5 747 | 13 700 |
| Receivables from households | 97 114 | 38 681 | 70 050 | 10 209 | 216 054 |
| Receivables from non-financial corporates | 3 093 | 60 | 254 | 0 | 3 407 |
| Receivables from other financial corporates | 1 705 | 0 | 0 | 0 | 1 705 |
| Other advances | 48 | 1 491 | 2 913 | 21 | 4 473 |
| Other financial assets | 14 | 30 | 0 | 20 | 64 |
| **Total receivables** | **171 045** | **41 006** | **74 348** | **17 624** | **304 023** |

| *Geographical distribution of assets 31.12.2017 (EURt)* | Estonia | Latvia | Poland | Total |
|---|---|---|---|---|
| Receivables from central banks | 14 288 | 0 | 479 | 14 767 |
| Receivables from credit institutions | 4 128 | 794 | 3 608 | 8 530 |
| Receivables from households | 70 199 | 14 320 | 4 483 | 89 002 |
| Receivables from non-financial corporates | 2 126 | 80 | 0 | 2 206 |
| Receivables from other financial corporates | 1 595 | 0 | 0 | 1 595 |
| Other advances | 59 | 0 | 33 | 92 |
| Other financial assets | 3 | 58 | 0 | 61 |
| **Total receivables** | **92 398** | **15 252** | **8 603** | **116 253** |

| ***Distribution of claims by industry (gross) (EURt)*** | ***31.12.2018*** | ***%*** | ***31.12.2017*** | ***%*** |
|---|---|---|---|---|
| Households | 221 591 | 95.8% | 92 129 | 95.9% |
| Other financial corporates | 1 709 | 0.7% | 1 606 | 1.7% |
| Agriculture, forestry and fishing | 172 | 0.1% | 0 | 0.0% |
| Mining industry | 3 | 0.0% | 0 | 0.0% |
| Manufacturing industry | 305 | 0.1% | 0 | 0.0% |
| Electricity, gas, steam and air conditioning supply | 10 | 0.0% | 0 | 0.0% |
| Water supply | 5 | 0.0% | 0 | 0.0% |
| Construction | 211 | 0.1% | 0 | 0.0% |
| Wholesale and retail trade | 832 | 0.4% | 1 870 | 1.9% |
| Transportation and storage | 73 | 0.0% | 0 | 0.0% |
| Accommodation and catering | 144 | 0.1% | 0 | 0.0% |
| Information and communication | 2 726 | 1.2% | 201 | 0.2% |
| Financial and insurance activities | 200 | 0.1% | 0 | 0.0% |
| Real estate activities | 44 | 0.0% | 0 | 0.0% |
| Professional, scientific and technical activities | 285 | 0.1% | 0 | 0.0% |
| Administrative and support activities | 822 | 0.4% | 170 | 0.2% |
| Public administration and defense, compulsory social security | 10 | 0.0% | 0 | 0.0% |
| Education | 24 | 0.0% | 0 | 0.0% |
| Health and social work | 84 | 0.0% | 0 | 0.0% |
| Arts, entertainment and leisure | 69 | 0.0% | 0 | 0.0% |
| Other service activities | 1 924 | 0.8% | 92 | 0.1% |
| **Total receivables** | **231 243** | **100%** | **96 068** | **100%** |

See also Note 9.

## Receivables from central banks and credit institutions

According to the management's estimate, the exposure of cash and cash equivalents held at central banks and other correspondent banks has low credit risk. All loans to and receivables from central banks and credit institutions have been serviced and paid in time. For depositing liquid funds, the Group's risk management policy prefers credit institutions that have higher equity and better credit rating.

Not rated credit institution is a local Estonian credit institution, which does not have external credit rating. Based on the information from the market, Inbank assesses that the credit institution has good credit quality.

As at 31.12.2017 and 31.12.2018, the Group's receivables from central banks and credit institutions are not overdue, these receivables are either on demand or have a 3 month maturity date. Taking this into account, the expected credit loss on the receivables from central banks and credit institutions is immaterial and therefore no allowances for them have been recorded on the balance sheet.

## Receivables from households

Since 2011, Inbank has been issuing hire purchase in Estonia. In 2013, Inbank also started to issue consumer loans in small volumes through its partner. In 2014, Inbank entered to the Latvian consumer financing market, offering consumer loans designated for specific purposes which are similar to the hire purchase product offered in Estonia. In 2015, Inbank started providing unsecured car loans and since 2016, consumer loans not designated for a specific purpose. In 2016, the consumer loan product not designated for a specific purpose was also added to the Latvian product portfolio.

In the Polish market, Inbank started offering consumer financing since March 2017. The unsecured consumer loan was the first loan introduced in the market. In June 2017, the car loan product was also added to the product range in Poland. Since November 2017, the funding solution for paying the annual traffic insurance fee was offered, which in essence is hire purchase loan and starting from September 2018, Inbank also started offering a broad-based hire purchase product in the Polish market.

In May 2018, the Group entered the Lithuanian market by acquiring UAB Mokilizingas, one of Lithuania's largest hire purchase providers. In addition to the hire purchase, the product range also includes consumer loans and credit cards.

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

| ***Receivables from credit institutions according to Moody's short-term credit rating classes (EURt)*** | ***31.12.2018*** | ***31.12.2017*** |
|---|---|---|
| P-1 | 73 339 | 19 882 |
| P-2 | 1 913 | 1 701 |
| Not rated | 3 068 | 1 714 |
| **Total receivables from credit institutions** | **78 320** | **23 297** |

| ***Distribution of receivables 31.12.2018 (EURt)*** | ***Estonia*** | ***Latvia*** | ***Lithuania*** | ***Poland*** | ***Total*** |
|---|---|---|---|---|---|
| Hire-purchase receivables | 22 399 | 19 000 | 46 381 | 4 028 | 91 808 |
| Consumer loan receivables designated for specific purposes | 52 075 | 9 400 | 0 | 600 | 62 075 |
| Consumer loan receivables | 22 640 | 10 281 | 23 669 | 5 581 | 62 171 |
| **Total receivables from households** | **97 114** | **38 681** | **70 050** | **10 209** | **216 054** |

| ***Distribution of receivables 31.12.2017 (EURt)*** | ***Estonia*** | ***Latvia*** | ***Lithuania*** | ***Poland*** | ***Total*** |
|---|---|---|---|---|---|
| Hire-purchase receivables | 21 494 | 0 | 0 | 38 | 21 532 |
| Consumer loan receivables designated for specific purposes | 34 395 | 7 428 | 0 | 411 | 42 234 |
| Consumer loan receivables | 14 310 | 6 892 | 0 | 4 034 | 25 236 |
| **Total receivables from households** | **70 199** | **14 320** | **0** | **4 483** | **89 002** |

The credit behaviour model is used for assessment of the customer's solvency. In addition to the customer's previous payment behaviour and income as well as outstanding loans, this model also assesses other statistical parameters which have been collected by customer types and which have shown strong correlation with the customer's payment discipline. The Group'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.

As the consumer loans granted to households are homogenous, the potential impairment allowances arising from credit losses are calculated on the basis of historical payment behaviour of these homogenous loans, forward-looking information and the write-down rate is applied to the portfolio at the balance sheet date. For the purpose of making as accurate allowance as possible, the receivables are grouped into subgroups, taking into consideration the type of the product, its geographical distribution, customer payment pattern and days in overdue. For grouped receivables, the amount of the impairment allowance is the multiple of the residual value of the receivables in the respective group and the percentage rate of the allowance. The framework is based on a classic method where the probability of default (PD), the loss given default (LGD) and exposure at default (EAD) are determined.

| *Distribution of receivables 31.12.2018 (EURt)* | *Gross receivables from households* | *Stage 1 and 2* | *Stage 3* | *Net receivables from households* | *Allowance coverage* |
|---|---|---|---|---|---|
| Portfolio in overdue 0-3 days | 195 675 | -1 450 | -51 | 194 174 | 0.8% |
| Portfolio in overdue 4-30 days | 15 212 | -645 | -32 | 14 535 | 4.5% |
| Portfolio in overdue 31-89 days | 6 231 | -834 | -47 | 5 350 | 14.1% |
| Portfolio in overdue 90-179 days | 1 525 | 0 | -608 | 917 | 39.9% |
| Portfolio in overdue 180+ days | 2 948 | 0 | -1 870 | 1 078 | 63.4% |
| **Total receivables** | **221 591** | **-2 929** | **-2 608** | **216 054** | **2.5%** |

| *Distribution of receivables 31.12.2017 (EURt)* | *Gross receivables from households* | *Collective allowance* | *Specific allowance* | *Net receivables from households* | *Allowance coverage* |
|---|---|---|---|---|---|
| Portfolio in overdue 0-3 days | 79 948 | -167 | -22 | 79 759 | 0.2% |
| Portfolio in overdue 4-30 days | 6 875 | -368 | -9 | 6 498 | 5.5% |
| Portfolio in overdue 31-89 days | 2 247 | -753 | -20 | 1 474 | 34.4% |
| Portfolio in overdue 90-179 days | 1 517 | 0 | -704 | 813 | 46.4% |
| Portfolio in overdue 180+ days | 1 542 | 0 | -1 084 | 458 | 70.3% |
| **Total receivables** | **92 129** | **-1 288** | **-1 839** | **89 002** | **3.4%** |

According to management's estimates, overdues up to 3 days do not objectively reflect the quality of customer receivables as overdues of that tenure are often the result of interbank payments processing rules.

## Receivables from non-financial corporates and financial corporates

The Group's credit risk policy and other internal rules and regulation regulate the issuance of loans. The Credit Committee makes decisions regarding issuance of loans to companies on an individual basis. The retail loans issued by Inbank Liising AS are an exception where credit decisions are made in a process similar to the loans granted to households. The business loans issued can be classified into three main groups depending on their purpose:

- Loans to the Inbank cooperation partners
- Loans to associates
- Loans to third parties, i.e. investment loans.

Depending on the purpose of granting a loan, the following criteria are reviewed for making credit decisions:

- Financial strength of a counterparty
- Security of receivables
- Counterparty's business volume and cooperation
- Period of the contract to be concluded
- Volume of the contract to be concluded
- Yield of the contract to be concluded

The allowances for corporate loans are made at the Group on an individual basis, depending on the counterparty's days past due, its causes and the financial strength. The retail loans issued by Inbank Liising AS and by UAB Mokilizingas are an exception where impairment allowances are made in a process similar to the loans granted to households.

| ***Distribution of receivables 31.12.2018 (EURt)*** | ***Gross receivables from corporates*** | ***Stage 1 and 2*** | ***Stage 3*** | ***Net receivables from corporates*** | ***Allowance coverage*** |
|---|---|---|---|---|---|
| Portfolio in overdue 0-3 days | 8 974 | -10 | -8 | 8 956 | 0.2% |
| Portfolio in overdue 4-30 days | 395 | -7 | 0 | 388 | 1.8% |
| Portfolio in overdue 31-89 days | 164 | -16 | 0 | 148 | 9.8% |
| Portfolio in overdue 90-179 days | 42 | 0 | -16 | 26 | 38.1% |
| Portfolio in overdue 180+ days | 77 | 0 | -10 | 67 | 13.0% |
| **Total receivables** | **9 652** | **-33** | **-34** | **9 585** | **0.7%** |

| ***Distribution of receivables 31.12.2017 (EURt)*** | ***Gross receivables from corporates*** | ***Collective allowance*** | ***Specific allowance*** | ***Net receivables from corporates*** | ***Allowance coverage*** |
|---|---|---|---|---|---|
| Portfolio in overdue 0-3 days | 3 561 | -16 | -17 | 3 528 | 0.9% |
| Portfolio in overdue 4-30 days | 307 | -5 | 0 | 302 | 1.6% |
| Portfolio in overdue 31-89 days | 56 | -1 | 0 | 55 | 1.8% |
| Portfolio in overdue 90-179 days | 10 | 0 | -4 | 6 | 40.0% |
| Portfolio in overdue 180+ days | 5 | 0 | -3 | 2 | 60.0% |
| **Total receivables** | **3 939** | **-22** | **-24** | **3 893** | **1.2%** |

According to management's estimates, overdues up to 3 days do not objectively reflect the quality of customer receivables as overdues of that tenure are often the result of interbank payments processing rules.

## Implementation of IFRS 9 in accounting for impairment of financial instruments

When calculating impairment of financial instruments, the Group 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 (Stage 1), has significantly increased (Stage 2) or the financial instrument is in default (Stage 3). The amount of impairment of financial instruments in the first stage is the expected 12-month credit loss. The expected credit loss for financial instruments in stage 2 and 3 is measured based on their expected credit loss for lifetime. When calculating the expected credit loss the Group takes into account the movement between stages as at the end of the reporting period.

During the reporting period, the Group's loan portfolio increased by 143%, of which a major part is due to the purchase of one of Lithuania's largest hire purchase providers UAB Mokilizingas in May 2018. Despite the significant growth of the portfolio, the quality of the portfolio has been good during the reporting period, as shown by the low loan losses, which make up 1,7% of the loan portfolio (2017: 4,5%).

Groups' impairment allowance recognised in statement of financial position increased during the reporting period in the amount of 1.5 million EUR. The increase was caused by new loans issued during the reporting period, including purchased ones, in the total amount of 205 million EUR.

Loss allowance increased by 3.2 million EUR due to increase in the loans issued in the reporting period and quarterly updates of the allowance rates. At the same time there was a decrease in the loss allowance in amount of 1.7 million EUR, due to the amortisation of the loan portfolio and sale of overdue receivables.

***Credit risk exposure - Financial instruments subject to impairment***

| ***EURt*** | ***Loans to households*** | | | |
|---|---|---|---|---|
| | ***2018*** | | | |
| | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** |
| | 12-month ECL | Lifetime ECL | Lifetime ECL | |
| Gross carrying amount | 208 954 | 7 701 | 4 936 | 221 591 |
| Loss allowance | -2 069 | -852 | -2 616 | -5 537 |
| **Carrying amount** | **206 885** | **6 849** | **2 320** | **216 054** |

| ***EURt*** | ***Loans to non-financial corporates*** | | | |
|---|---|---|---|---|
| | ***2018*** | | | |
| | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** |
| | 12-month ECL | Lifetime ECL | Lifetime ECL | |
| Gross carrying amount | 9 389 | 155 | 108 | 9 652 |
| Loss allowance | -25 | -16 | -26 | -67 |
| **Carrying amount** | **9 364** | **139** | **82** | **9 585** |

The following two tables explain the changes in the loss allowance between the beginning and the end of the annual period:

| | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **Households** | 12-month ECL | Lifetime ECL | Lifetime ECL | |
| **Impairment allowance as at 1 January 2018** | **1 591** | **1 183** | **1 264** | **4 038** |
| ***Movements with P&L impact*** | | | | |
| Transfers: | | | | |
| Transfer from Stage 1 to Stage 2 | -52 | 52 | 0 | **0** |
| Transfer from Stage 1 to Stage 3 | -97 | 0 | 97 | **0** |
| Transfer from Stage 2 to Stage 1 | 140 | -140 | 0 | **0** |
| Transfer from Stage 2 to Stage 3 | 0 | -423 | 423 | **0** |
| Impairment losses of reporting period (including change in credit loss allowance rate) | 950 | 738 | 1 489 | **3 177** |
| Financial assets derecognised during the period | -351 | -126 | -87 | **-564** |
| Sold contracts | -95 | -441 | -578 | **-1 114** |
| **Total impairment losses of reporting period** | **495** | **-340** | **1 344** | **1 499** |
| **Impairment allowance as at 31 December 2018** | **2 086** | **843** | **2 608** | **5 537** |

| | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **Corporates** | 12-month ECL | Lifetime ECL | Lifetime ECL | |
| **Impairment allowance as at 1 January 2018** | **26** | **8** | **3** | **37** |
| ***Movements with P&L impact*** | | | | |
| Transfers: | | | | |
| Transfer from Stage 1 to Stage 2 | -8 | 8 | 0 | **0** |
| Transfer from Stage 1 to Stage 3 | -9 | 0 | 9 | **0** |
| Transfer from Stage 2 to Stage 1 | 0 | 0 | 0 | **0** |
| Transfer from Stage 2 to Stage 3 | 0 | -6 | 6 | **0** |
| Impairment losses of reporting period (including change in credit loss allowance rate) | -1 | 15 | 16 | **30** |
| Financial assets derecognised during the period | 0 | 0 | 0 | **0** |
| Sold contracts | 0 | 0 | 0 | **0** |
| **Total impairment losses of reporting period** | **-18** | **17** | **31** | **30** |
| **Impairment allowance as at 31 December 2018** | **8** | **25** | **34** | **67** |

The following two tables explain distribution of portfolio between stages in the beginning and at the end of the reporting period:

| | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** |
|---|---|---|---|---|
| **Households** | 12-month ECL | Lifetime ECL | Lifetime ECL | |
| **Carrying amount as at 1 January 2018** | **86 758** | **3 036** | **2 336** | **92 130** |
| Transfers: | | | | |
| Transfer from Stage 1 to Stage 2 | -4 605 | 4 605 | 0 | **0** |
| Transfer from Stage 1 to Stage 3 | -2 550 | 0 | 2 550 | **0** |
| Transfer from Stage 2 to Stage 3 | 0 | -824 | 824 | **0** |
| Transfer from Stage 2 to Stage 1 | 500 | -500 | 0 | **0** |
| Transfers due to the changes in credit loss allowance rate | -162 | -383 | -428 | **-973** |
| Financial assets derognised during the period than write-offs | -63 519 | -458 | -466 | **-64 443** |
| New financial assets purchased | 195 434 | 3 289 | 1 062 | **199 786** |
| Sold contracts | -3 181 | -1 056 | -936 | **-5 173** |
| Changes in interest accrual | 281 | -10 | -6 | **266** |
| **Carrying amount as at 31 December 2018** | **208 955** | **7 700** | **4 937** | **221 592** |

| | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** |
|---|---|---|---|---|
| **Corporates** | 12-month ECL | Lifetime ECL | Lifetime ECL | |
| **Carrying amount as at 1 January 2018** | **3 886** | **48** | **5** | **3 939** |
| Transfers: | | | | |
| Transfer from Stage 1 to Stage 2 | -111 | 111 | 0 | **0** |
| Transfer from Stage 1 to Stage 3 | -74 | 0 | 74 | **0** |
| Transfer from Stage 2 to Stage 3 | 0 | -39 | 39 | **0** |
| Transfer from Stage 2 to Stage 1 | 4 | -4 | 0 | **0** |
| Transfers due to the changes in credit loss allowance rate | -16 | -23 | -12 | **-51** |
| Financial assets derognised during the period than write-offs | -411 | -2 | 0 | **-413** |
| New financial assets purchased | 6 111 | 65 | 1 | **6 177** |
| Sold contracts | 0 | 0 | 0 | **0** |
| Changes in interest accrual | 0 | 0 | 0 | **0** |
| **Carrying amount as at 31 December 2018** | **9 389** | **156** | **107** | **9 652** |

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

1. In line with IFRS 9, the significant increase in credit risk (SICR) is assumed to occur at 30 days past due. On each balance sheet date the Group estimates, whether the credit risk of the financial instrument has significantly increased since initial recognition. This approach is in accordance with Groups' usual business activities and management estimates that the days past due used is sufficient and no other additional criteria is required.
2. Definition of default is applied to financial instruments of the Group which meet the following criteria:
   - Financial instrument is 90 days past due.
   - Financial instrument for which the borrower is in significant financial difficulty and thus meets the unlikeliness to pay criteria, including the borrower is insolvent, deceased, in court proceeding, credit fraud has occurred.

   The financial instruments in default are in stage 3.
3. To assess the macroeconomic impact the Group has developed a model which incorporates developments of future economic environment in the expected credit loss calculation. Macroeconomic impact is estimated by product in all portfolios and the estimates are regularly updated. Different economic indicators were analysed to assess the macroeconomic impact, biggest weight was assigned to unemployment rate.
   The Group has assessed that the unemployment rate has the most impact on Groups' PD. Additional information regarding the macroeconomic development and country specific forecasts can be found in the chapter Economic Environment of this report. For objective estimation of the credit loss, the Group uses three scenarios which include forward looking information – baseline, positive and negative scenario. Management 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 Group operates are considered when assigning weights to the scenarios. As at 31.12.2018 probability for baseline scenario was estimated to be 65-80%, positive scenario probability 0-15% and negative scenario probability 20-25%.
4. The Group relies more and more on the sale of overdue loans, loans overdue (more than 90 days overdue) are sold regularly. The sale process has impacted the LGD rate, which has decreased based on the assumptions. According to management assessment, the Group's expected credit loss model is conservative to ensure sufficient loan allowance even if the terms of selling overdue loans change to less favourable for the Group or the sales of overdue loans stop. Please see further information in note 9.
5. The Group has carried out a sensitivity analysis on key assumptions, which according to management assessment have the most impact on the expected credit loss. The result of the analysis is in the table „Impact on the expected credit loss".

| ***EURt*** | ***Impact on expected credit loss*** |
|---|---|
| Unemployment rate +1% p.p. | 462 |
| PD rate +10% | 348 |
| LGD rate +10% | 535 |

## Assessing the credit impairment of restructured loans

The group 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 (for example reduce the monthly payment, increase the total contract period). After the restructure, the loan is not considered as default during the time when customer complies with the new loan terms. Restructured loans are monitored continuously, to ensure that all loan contract criteria's are fulfilled. At every balance sheet date the restructured loans are assessed for loan loss allowance similarly to non-restructured loans, however, the risk parameters are derived using the data from restructured loans and considering the forward looking information.

## Assessing the credit impairment of receivables from central banks and credit institutions

According to group credit risk management policy the liquid assets are placed with credit institutions with strong credit rating.

The credit ratings of the credit institutions provided by internationally recognized rating agencies are considered when calculating the expected credit loss of the receivables.

As at 31.12.2017 and 31.12.2018 the receivables from central banks and credit institutions are not overdue. Considering the latter, the expected credit loss of the receivables from central banks and credit institutions is insignificant and therefore, no allowance has been recognized in the statement of financial position.

## Considering collateral when estimating impairment of receivables

Group assesses that the collateral portfolio is insignificant as the majority of loans in the portfolio are uncollateralized retail loans (hire-purchase, loans, credit cards), which are issued based on the credit worthiness of the customer and have received positive loan decision. Group has granted in small amount investment loans to corporates for maintaining partner relations, and the risk is reduced through different collateral.

In the collateral portfolio the group has pledged stocks, sureties, but also real-estate (mortgage) through vendor partnership, which have to comply with previously agreed conditions. As a holder of the mortgage, the Group regularly monitors the condition and market value of the collateral, but does not regularly revalue the collateral. The collateral value is only considered when assessing the credit impairment of loans given to corporates.

## Counterparty credit risk

As at 31.12.2018, the Group did not have any counterparty credit risk exposures within the meaning of European Parliament and Council Regulation (EU) No 575/2013 article 272.

## Concentration risk management

Concentration risk is a risk which arises from the risk exposure of one counterparty or a related counterparties or counterparties whose risk is impacted by a common risk factor. Under concentration risk, the Group views the assets of one party, related parties as well as those associated with one industry, territory or risk factor.

In its daily activities, the Group avoids taking concentration risk and the Group focuses primarily on medium or small-sized loans in order to avoid concentration risk. The Group does not preclude lending larger amounts in case there is sufficient security or other required conditions are fulfilled. For issuing larger amount credit, collateral is usually required. Only exception here is the receivables from and loans given to credit institutions with the aim of managing liquidity portfolio. In such cases, with the aim to hedge risk, the focus is on information about the financial strength of the counterparty and the rating given by international rating agencies to the counterparty.

As at 31.12.2018 and 31.12.2017, the Group did not have any receivables greater than 10% of the Group's net own funds.

## Liquidity risk management

Liquidity risk is defined as a risk that the Group's solvency is not sufficient to meet the contractual obligations on time, i.e. Group companies cannot fund miscellaneous activities in a sustainable manner and on time or they cannot liquidate their positions for fulfilment of contractual obligations.

The Group's liquidity risk management and strategy is based on liquidity risk policy and other internal regulations. The objective of the Group's liquidity risk policy is to ensure timely and complete fulfilment of the obligations assumed by the Group at any given time while optimising the liquidity risk in such way that maximum and stable profitability is achieved on investments with different durations.

The Management Board of Inbank is responsible for managing the Group's liquidity. Regular liquidity planning and control is carried out by the Asset and Liability Management Committee. The Chief Financial Officer and the Treasurer are responsible for the daily and intraday management of the Group's liquidity risk.

For managing the Group's liquidity position, the key measure used is the approach based on the maturity

**Assets and liabilities by contractual maturities (EURt)**

| ***Liabilities 31.12.2018*** | ***On demand*** | ***1-90 days*** | ***91-365 days*** | ***1-5 years*** | ***5+ years*** | ***Total*** | ***Carrying amount 31.12.2018*** |
|---|---|---|---|---|---|---|---|
| Loan from credit institution | 0 | 10 495 | 0 | 0 | 0 | 10 495 | 10 429 |
| Customer deposits | 4 452 | 10 493 | 111 088 | 119 702 | 0 | 245 735 | 240 175 |
| Other financial and non-financial liabilities | 200 | 10 470 | 760 | 0 | 0 | 11 430 | 11 430 |
| Debt securities issued | 0 | 10 034 | 0 | 0 | 0 | 10 034 | 10 017 |
| Subordinated debt securities | 0 | 181 | 542 | 12 431 | 0 | 13 154 | 9 528 |
| **Total liabilities** | **4 652** | **41 673** | **112 390** | **132 133** | **0** | **290 484** | **281 579** |

| ***Assets 31.12.2018*** | ***On demand*** | ***1-90 days*** | ***91-365 days*** | ***1-5 years*** | ***5+ years*** | ***Total*** | ***Carrying amount 31.12.2018*** |
|---|---|---|---|---|---|---|---|
| Receivables from credit institutions | 75 320 | 3 002 | 0 | 0 | 0 | 78 322 | 78 320 |
| Loans and advances | 265 | 38 227 | 86 535 | 144 477 | 4 807 | 274 311 | 225 639 |
| Other assets | 0 | 378 | 134 | 62 | 13 507 | 14 081 | 14 081 |
| **Total assets** | **75 585** | **41 607** | **86 669** | **144 539** | **18 314** | **366 714** | **318 040** |
| **Maturity spread of liabilities and assets** | **70 933** | **-66** | **-25 721** | **12 406** | **18 314** | **75 866** | **36 461** |

| ***Liabilities 31.12.2017*** | ***On demand*** | ***1-90 days*** | ***91-365 days*** | ***1-5 years*** | ***5+ years*** | ***Total*** | ***Carrying amount 31.12.2017*** |
|---|---|---|---|---|---|---|---|
| Customer deposits | 0 | 7 275 | 31 467 | 56 940 | 0 | 95 682 | 95 056 |
| Other financial and non-financial liabilities | 0 | 2 399 | 0 | 0 | 0 | 2 399 | 2 399 |
| Subordinated debt securities | 0 | 114 | 341 | 1 821 | 8 324 | 10 600 | 6 480 |
| **Total liabilities** | **0** | **9 788** | **31 808** | **58 761** | **8 324** | **108 681** | **103 935** |

| ***Assets 31.12.2017*** | ***On demand*** | ***1-90 days*** | ***91-365 days*** | ***1-5 years*** | ***5+ years*** | ***Total*** | ***Carrying amount 31.12.2017*** |
|---|---|---|---|---|---|---|---|
| Receivables from credit institutions | 20 751 | 2 550 | 0 | 0 | 0 | 23 301 | 23 301 |
| Loans and advances | 241 | 13 415 | 32 534 | 69 042 | 2 712 | 117 944 | 92 895 |
| Other assets | 0 | 589 | 53 | 0 | 9 546 | 10 188 | 10 188 |
| **Total assets** | **20 992** | **16 554** | **32 587** | **69 042** | **12 258** | **151 433** | **126 384** |
| **Maturity spread of liabilities and assets** | **20 992** | **6 766** | **779** | **10 281** | **3 934** | **42 752** | **22 449** |

mismatch of assets and liabilities. An overview of the distribution of assets and liabilities by contractual maturities is presented in the table above. Within the framework of the model, the key liquidity ratios and the maturity proportions of assets and liabilities are also determined and liquidity stress tests are conducted.

Internal limits have been set for all key liquidity risk indicators. The Group has established a business continuity plan for determing the actions in a situation of a liquidity crisis. Using primarily term deposits, the Group's cash flows are easier to forecast.

The Group discloses information about the liquidity coverage ratio in accordance with the EBA guideline EBA/GL/2017/01 on the website of Inbank AS www.inbank.ee.

## Market risk management

Market risk is defined as the risk arising from unfavourable changes in market prices and rates (including interest rates, foreign exchange rates, credit spreads, commodity and equity prices), correlations, or volatility levels.

The group's activities were geographically limited to Eurozone countries until mid-2016. The lending activity and the inclusion of deposits from the Polish market that began in 2017 has led to the fact that assets and liabilities denominated in PLN as at 31.12.2018 account for a significant share (over 5%) of total assets. Inbank does not have any assets and liabilities in currencies other than euro and Polish zloty.

The Group accepts small amount of equity risk which as at 31.12.2018 was derived from Coop Pank shares held in banking book for investment purposes. The Group does not have investments in bonds or any risk exposures arising from trading book positions. The Group does not accept commodity and equity price risk in its trading book. Thus, the only market risk types to which the Group's activities are exposed to as a result of the current business, are interest rate risk in banking book, foreign exchange risk and equity price risk.

The Group does not use internal market risk models within the definition of the European Parliament and Council Regulation (EU) No 575/2013.

## Interest rate risk management

Interest rate risk is the risk that the Group's generated income may be affected by unexpected adverse changes in interest rates. The Group 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 the Group has no risk positions in the trading book, the only important interest rate risk is interest rate risk in banking book.

interest rate risk in banking book risk is the current or future risk that unfavourable changes in the interest rates on banking book's assets and liabilities may have a negative impact on the Group's profit and equity. Non-trading portfolio interest rate risk is an important risk for the Group.

In general, the Group's Management Board estimates that the interest rate risk in banking book is low for the following reasons:

- Limiting and matching the structure and maturities of interest-sensitive assets and liabilities.
- Interest income from the loans issued exceeds significantly the interest expense for deposits attracted - the focus of the Group's activities is targeted at issuing unsecured consumer loans, as a result the Group's assets have a relatively high rate of return.

The parent company manages the interest rate risk of the subsidiaries. The Management Board of Inbank is responsible for managing interest rate risk. Regular interest rate risk assessment and control is performed by the Asset and Liabilty Management Committee. The Chief Financial Officer and the Treasurer are responsible for the daily management of the Group's interest rate risk. Interest rate risk is managed through scenario analysis by analysing how a shift in the yield curve would impact the Group's net interest income and economic value of equity.

For hedging interest rate risk and for avoiding excessive interest rate risk, the Group uses the following techniques:

- higher than average interest rate spread of loans issued and deposits raised;
- expected loss arising from interest rate risk is one of the components of pricing loans;
- shorter than average maturities of loans issued, enabling better management of interest rate risk by changing the interest rates and maturities of loans to be issued;
- both the loans issued as well as deposits raised have fixed interest rates;
- the Group constantly monitors and manages its interest rate risk positions;
- the Group measures and limits its interest rate risk taking into account the effect of possible changes in economic value of equity and net interest income caused by the changes in the level of interest rates on the capital;
- the Group is willing to use other interest rate risk hedging techniques if it is necessary.

**Interest earning assets and interest bearing liabilities by contractual maturities (EURt)**

| *Assets 31.12.2018* | *On demand* | *1-90 days* | *91-365 days* | *1-5 years* | *5+ years* | *Total* |
|---|---|---|---|---|---|---|
| Central banks, credit institutions, cash | 75 324 | 3 000 | 0 | 0 | 0 | 78 324 |
| Loans and advances | 265 | 32 884 | 69 985 | 116 603 | 5 902 | 225 639 |
| **Total assets** | **75 589** | **35 884** | **69 985** | **116 603** | **5 902** | **303 963** |

| *Liabilities 31.12.2018* | *On demand* | *1-90 days* | *91-365 days* | *1-5 years* | *5+ years* | *Total* |
|---|---|---|---|---|---|---|
| Loan from credit institution | 0 | 10 429 | 0 | 0 | 0 | 10 429 |
| Customer deposits | 4 452 | 10 427 | 110 043 | 115 253 | 0 | 240 175 |
| Debt securities issued | 0 | 10 017 | 0 | 0 | 0 | 10 017 |
| Subordinated debt securities | 0 | 11 | 0 | 9 517 | 0 | 9 528 |
| **Total liabilities** | **4 452** | **30 884** | **110 043** | **124 770** | **0** | **270 149** |
| **Spread between maturities of assets and liabilities** | **71 137** | **5 000** | **-40 058** | **-8 167** | **5 902** | **33 814** |

| *Assets 31.12.2017* | *On demand* | *1-90 days* | *91-365 days* | *1-5 years* | *5+ years* | *Total* |
|---|---|---|---|---|---|---|
| Central banks, credit institutions, cash | 20 751 | 2 550 | 0 | 0 | 0 | 23 301 |
| Loans and advances | 3 | 9 929 | 24 347 | 56 342 | 2 274 | 92 895 |
| **Total assets** | **20 754** | **12 479** | **24 347** | **56 342** | **2 274** | **116 196** |

| *Liabilities 31.12.2017* | *On demand* | *1-90 days* | *91-365 days* | *1-5 years* | *5+ years* | *Total* |
|---|---|---|---|---|---|---|
| Deposits | 2 541 | 7 210 | 31 098 | 54 207 | 0 | 95 056 |
| Subordinated debt securities | 0 | 114 | 0 | 0 | 6 366 | 6 480 |
| **Total liabilities** | **2 541** | **7 324** | **31 098** | **54 207** | **6 366** | **101 536** |
| **Spread between maturities of assets and liabilities** | **18 213** | **5 155** | **-6 751** | **2 135** | **-4 092** | **14 660** |

## Foreign currency risk

Foreign currency risk is the risk arising from the different currency structure of the Group'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.

Foreign currency risk arises from the Group's operations in Poland and the Group generally maintains the minimum foreign exchange position required for the provision of services to customers. For measuring and assessing foreign currency, the Group 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 included a simultaneous 10% change in an unfavourable direction of all foreign currencies where the Group has an open currency position (euro positions are not considered as foreign currency positions).

The Group's net open currency position as at 31.12.2018 was 194 EURt (108 EURt as at 31.12.2017), representing 0.53% of the Group's own funds (as at 31.12.2017: 0.60%). According to the scenario analysis, the effect of a 10% change of all

| ***Assets exposed to foreign currency risk 31.12.2018 (EURt)*** | ***EUR*** | ***PLN*** |
|---|---|---|
| Central banks, credit institutions, cash | 71 468 | 6 856 |
| Households | 205 845 | 10 209 |
| Non-financial corporates | 7 859 | 21 |
| Other financial corporates | 1 705 | 0 |
| Other assets | 5 195 | 644 |
| **Total assets exposed to foreign currency risk** | **292 072** | **17 730** |

| ***Liabilities exposed to foreign currency risk 31.12.2018 (EURt)*** | ***EUR*** | ***PLN*** |
|---|---|---|
| Loan from credit institution | 10 429 | 0 |
| Customer deposits | 222 611 | 17 564 |
| Other liabilities | 11 070 | 360 |
| Debt securities issued | 10 017 | 0 |
| Subordinated debt securities | 9 528 | 0 |
| **Total liabilities exposed to foreign currency risk** | **263 655** | **17 924** |
| **Net position exposed to foreign currency risk** | | **194** |

| ***Assets exposed to foreign currency risk 31.12.2017 (EURt)*** | ***EUR*** | ***PLN*** |
|---|---|---|
| Central banks, credit institutions, cash | 19 492 | 3 809 |
| Households | 84 519 | 4 483 |
| Non-financial corporates | 2 265 | 33 |
| Other financial corporates | 1 595 | 0 |
| Other assets | 8 306 | 384 |
| **Total assets exposed to foreign currency risk** | **116 177** | **8 709** |

| ***Liabilities exposed to foreign currency risk 31.12.2017 (EURt)*** | ***EUR*** | ***PLN*** |
|---|---|---|
| Customer deposits and loans received | 86 379 | 8 677 |
| Other liabilities | 2 259 | 140 |
| Subordinated debt securities | 6 480 | 0 |
| **Total liabilities exposed to foreign currency risk** | **95 118** | **8 817** |
| **Net position exposed to foreign currency risk** | | **108** |

Group's foreign currency positions in an unfavourable direction would be 18 EURt. The Group's open foreign currency risk is low and the foreign currency risk position is well controlled.

## Operational risk management

Operational risk is a risk of incurring a loss from the inadequacy of internal processes, people or systems not working in the manner expected or from external events. The definition includes legal risk, but not strategical and reputation risk. The Group follows the operational risk policy for managing operational risk.

Operational risk is dealt with and managed at the Group as a separate risk management area for which necessary resources and sufficient own funds for covering potential losses have been allocated. Operational risk has been integrated into daily operations of the Group and the awareness of the nature, effect and need for control of operational risk needs to take place at the level of each Group employee.

Operational risk loss events are registered in the operational risk database together with the amount of the loss. The Group monitors operational risk dynamics quantitatively using the quarterly analysis of key risk indicators. Regular overviews of operational risk cases and key risk indicators are prepared for the Management Board once a month. The basic approach for operational risk is used for calculating operational risk capital requirement.

The Group does not use any methods based on advanced measurement model for operational risk within the definition of the European Parliament and Council Regulation (EU) No 575/2013.

## Use of rating agencies

For calculation of capital requirements in order to determine the levels of credit quality, the Group uses the credit quality estimates of the rating agency Moody´s Investors Service in accordance with the rules in the European Parliament and Council Regulation (EU) No 575/2013. The Group uses the estimates for determining the requirements of the following credit risk exposures: (i) requirements for credit institutions and investment firms and (ii) requirements for exposures to credit companies and investments firms with a short-term credit quality assessment.

## **Note 4** Business segments

Inbank AS divides its business activities into segments based on its legal entities and nature of its product lines (consumer finance, IT services, leasing). Income of the reported segments include transactions between the segments. Business segments are Inbank group companies that have separate financial data, which form the basis for regular monitoring of business results by the Group's decision-makers. The Group monitors the profitability, the cost/income ratio, the growth and quality of the credit portfolio, and the allowance of the portfolio for each segment. In the information technology sector, revenue and expenditure are monitored.

Income of the reported segments include such inter-segment transactions as loans given by Inbank AS to its group companies and hardware rental services provided by Inbank Technologies to group companies. None of Inbank AS counterparties have income over 10% of its respective income of the consolidation group.

Intersegment transactions constitute mainly of loan interests on loans given to subsidiaries. These intercompany transactions are accounted for at market prices.

**Income of reportable segments**

*EURt*

| *2018* | *Inbank AS (Estonia)* | *SIA Inbank Latvia (Latvia)* | *UAB Mokilizingas (Lithuania)* | *Inbank Liising AS (Estonia)* | *Inbank AS Poland branch* | *Inbank Technologies OÜ (Estonia)* | *Total* |
|---|---|---|---|---|---|---|---|
| Interest income | 14 326 | 3 644 | 6 430 | 220 | 826 | 7 | **25 453** |
| Fee income | 528 | 169 | 0 | 5 | 1 | 0 | **703** |
| Other operating income | 1 626 | 60 | 300 | 0 | -68 | 83 | **2 001** |
| Inter-segment eliminations | -1 890 | 0 | 0 | 0 | 0 | -61 | **-1 951** |
| **Revenue from external customers** | **14 590** | **3 873** | **6 730** | **225** | **759** | **29** | **26 206** |
| Interest expense | -2 970 | -556 | -1 637 | -106 | -291 | -20 | **-5 580** |
| Fee expense | -369 | -134 | -378 | 0 | -210 | 0 | **-1 091** |
| Inter-segment eliminations | 0 | 556 | 1 138 | 106 | 0 | 20 | **1 820** |
| **Total expenses** | **-3 339** | **-134** | **-877** | **0** | **-501** | **0** | **-4 851** |
| **Total net interest, fee and commission income and other income** | **11 251** | **3 739** | **5 853** | **225** | **258** | **29** | **21 355** |

**Net profit structure**

*EURt*

| *2018* | *Inbank AS (Estonia)* | *SIA Inbank Latvia (Latvia)* | *UAB Mokilizingas (Lithuania)* | *Inbank Liising AS (Estonia)* | *Inbank AS Poland branch* | *Inbank Technologies OÜ (Estonia)* | *Total* |
|---|---|---|---|---|---|---|---|
| **Profit before profit from associates and impairment losses on loans** | **7 740** | **1 845** | **2 428** | **105** | **-1 202** | **-207** | **10 709** |
| Profit of associates | 1 552 | 0 | 0 | 0 | 0 | 434 | **1 986** |
| Impairment losses on loans and advances | -382 | -435 | -857 | -35 | -985 | 8 | **-2 686** |
| Income tax | -715 | 0 | -232 | 0 | 214 | 0 | **-733** |
| **Net profit/loss** | **8 195** | **1 410** | **1 339** | **70** | **-1 973** | **235** | **9 276** |

**Income of reportable segments**

*EURt*

| *2017* | *Inbank AS (Estonia)* | *SIA Inbank Latvia (Latvia)* | *UAB Mokilizingas (Lithuania)* | *Inbank Liising AS (Estonia)* | *Inbank AS Poland branch* | *Inbank Technologies OÜ (Estonia)* | *Total* |
|---|---|---|---|---|---|---|---|
| Interest income | 10 211 | 3 535 | 0 | 135 | 213 | 5 | **14 099** |
| Fee income | 371 | 175 | 0 | 3 | 2 | 0 | **551** |
| Other operating income | 387 | 92 | 0 | 0 | 52 | 291 | **822** |
| Inter-segment eliminations | -1 081 | 0 | 0 | 0 | 0 | -112 | **-1 193** |
| **Revenue from external customers** | **9 888** | **3 802** | **0** | **138** | **267** | **184** | **14 279** |
| Interest expense | -1 907 | -969 | 0 | -72 | -111 | -25 | **-3 084** |
| Fee expense | -303 | -130 | 0 | 0 | -178 | 0 | **-611** |
| Inter-segment eliminations | 3 | 969 | 0 | 72 | 10 | 25 | **1 079** |
| **Total expenses** | **-2 207** | **-130** | **0** | **0** | **-279** | **0** | **-2 616** |
| **Total net interest, fee and commission income and other income** | **7 681** | **3 672** | **0** | **138** | **-12** | **184** | **11 663** |

**Net profit structure**

*EURt*

| *2017* | *Inbank AS (Estonia)* | *SIA Inbank Latvia (Latvia)* | *UAB Mokilizingas (Lithuania)* | *Inbank Liising AS (Estonia)* | *Inbank AS Poland branch* | *Inbank Technologies OÜ (Estonia)* | *Total* |
|---|---|---|---|---|---|---|---|
| **Profit before profit from associates and impairment losses on loans** | **4 716** | **1 651** | **0** | **56** | **-1 290** | **-213** | **4 920** |
| Impairment losses on loans and advances | 5 816 | 0 | 0 | 0 | 0 | 387 | **6 203** |
| Profit of associates | -1 541 | -1 709 | 0 | -18 | -256 | -8 | **-3 532** |
| Income tax | 0 | -388 | 0 | 0 | 296 | 0 | **-92** |
| **Net profit/loss** | **8 991** | **-446** | **0** | **38** | **-1 250** | **166** | **7 499** |

**Assets and liabilities of reportable segments**

| *EURt* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ***31.12.2018*** | ***Inbank AS (Estonia)*** | ***SIA Inbank Latvia (Latvia)*** | ***UAB Mokilizingas (Lithuania)*** | ***Inbank Liising AS (Estonia)*** | ***Inbank AS Poland branch*** | ***Inbank Technologies OÜ (Estonia)*** | ***Intersegment eliminations*** | ***Total*** |
| Cash in hand | 4 | 0 | 0 | 0 | 0 | 0 | 0 | **4** |
| Due from central banks | 62 993 | 0 | 0 | 0 | 1 627 | 0 | 0 | **64 620** |
| Due from credit institutions | 5 691 | 448 | 1 427 | 48 | 5 747 | 339 | 0 | **13 700** |
| Financial assets at fair value through profit and loss | 4 600 | 0 | 0 | 0 | 0 | 0 | 0 | **4 600** |
| Loans and advances | 192 332 | 19 753 | 93 786 | 1 856 | 10 230 | 21 | -92 339 | **225 639** |
| Investments in subsidiaries | 16 122 | 0 | 0 | 0 | 0 | 0 | -16 122 | **0** |
| Investments in associates | 0 | 0 | 0 | 0 | 0 | 97 | 0 | **97** |
| Tangible assets | 111 | 78 | 169 | 0 | 40 | 147 | 0 | **545** |
| Intangible assets | 7 300 | 101 | 315 | 0 | 17 | 0 | -36 | **7 697** |
| Other financial assets | 12 | 30 | 0 | 0 | 20 | 2 | 0 | **64** |
| Other assets | 179 | 5 | 238 | 34 | 60 | 8 | -10 | **514** |
| Deferred tax assets | 0 | 0 | 0 | 0 | 564 | 0 | 0 | **564** |
| **Total assets** | **289 344** | **20 415** | **95 935** | **1 938** | **18 305** | **614** | **-108 507** | **318 044** |
| Loans received | 0 | 19 400 | 77 372 | 1 700 | 4 186 | 0 | -92 229 | **10 429** |
| Customer deposits | 222 611 | 0 | 0 | 0 | 17 564 | 0 | 0 | **240 175** |
| Debt securities issued | 10 017 | 0 | 0 | 0 | 0 | 0 | 0 | **10 017** |
| Subordinated debt securities | 9 528 | 0 | 0 | 0 | 0 | 0 | 0 | **9 528** |
| Other financial liabilities | 1 290 | 144 | 7 314 | 28 | 11 | 12 | -23 | **8 776** |
| Other liabilities | 1 442 | 197 | 760 | 0 | 317 | 33 | -95 | **2 654** |
| **Total liabilities** | **244 888** | **19 741** | **85 446** | **1 728** | **22 078** | **45** | **-92 347** | **281 579** |

**Assets and liabilities of reportable segments**

| *EURt* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ***31.12.2017*** | ***Inbank AS (Estonia)*** | ***SIA Inbank Latvia (Latvia)*** | ***UAB Mokilizingas (Lithuania)*** | ***Inbank Liising AS (Estonia)*** | ***Inbank AS Poland branch*** | ***Inbank Technologies OÜ (Estonia)*** | ***Intersegment eliminations*** | ***Total*** |
| Cash in hand | 4 | 0 | 0 | 0 | 0 | 0 | 0 | **4** |
| Due from central banks | 14 289 | 0 | 0 | 0 | 478 | 0 | 0 | **14 767** |
| Due from credit institutions | 3 769 | 794 | 0 | 89 | 3 608 | 270 | 0 | **8 530** |
| Loans and advances | 91 860 | 14 400 | 0 | 1 266 | 4 516 | 104 | -19 251 | **92 895** |
| Investments in subsidiaries | 1 053 | 0 | 0 | 0 | 0 | 0 | -1 053 | **0** |
| Investments in associates | 7 763 | 0 | 0 | 0 | 0 | 43 | 0 | **7 806** |
| Tangible assets | 111 | 43 | 0 | 0 | 58 | 67 | 0 | **279** |
| Intangible assets | 161 | 113 | 0 | 0 | 23 | 322 | 197 | **816** |
| Other financial assets | 2 | 66 | 0 | 0 | 7 | 2 | -16 | **61** |
| Other assets | 126 | 283 | 0 | 23 | 20 | 7 | 0 | **459** |
| Deferred tax assets | 0 | 0 | 0 | 0 | 364 | 0 | 0 | **364** |
| **Total assets** | **119 138** | **15 699** | **0** | **1 378** | **9 074** | **815** | **-20 123** | **125 981** |
| Loans from credit institutions | 0 | 15 770 | 0 | 1 221 | 1 839 | 418 | -19 248 | **0** |
| Customer deposits | 86 379 | 0 | 0 | 0 | 8 677 | 0 | 0 | **95 056** |
| Subordinated debt securities | 6 480 | 0 | 0 | 0 | 0 | 0 | 0 | **6 480** |
| Other financial liabilities | 1 067 | 118 | 0 | 25 | 58 | 14 | -19 | **1 263** |
| Other liabilities | 807 | 189 | 0 | 0 | 89 | 51 | 0 | **1 136** |
| **Total liabilities** | **94 733** | **16 077** | **0** | **1 246** | **10 663** | **483** | **-19 267** | **103 935** |

| ***Equity of major subsidiaries*** | ***31.12.2018*** | ***31.12.2017*** |
|---|---|---|
| SIA Inbank Latvia | 683 | -378 |
| UAB Mokilizingas* | 10 489 | |

*Inbank acquired UAB Mokilizingas on 22.05.2018.

## **Note 5** Net interest income

| *EURt* | *2018* | *2017* |
|---|---|---|
| **Interest income** | | |
| Loans to households | 23 325 | 12 753 |
| Loans to corporates | 259 | 164 |
| Due from financial and credit institutions | 49 | 106 |
| **Total** | **23 633** | **13 023** |
| | | |
| **Interest expense** | | |
| Deposits received | -3 204 | -1 544 |
| Debt securities sold | -556 | -465 |
| **Total** | **-3 760** | **-2 009** |
| | | |
| **Net interest income** | **19 873** | **11 014** |
| | | |
| **Interest income by customer location** | | |
| Estonia | 12 733 | 9 275 |
| Latvia | 4 592 | 3 535 |
| Lithuania | 5 482 | 0 |
| Poland | 826 | 213 |
| **Total** | **23 633** | **13 023** |

Interest income on Stage 3 loans in 2018 was 392 EURt (2017: 248 EURt).

## **Note 6** Net fee income

| *EURt* | *2018* | *2017* |
|---|---|---|
| **Fee income** | | |
| Households | 698 | 548 |
| Corporates | 5 | 3 |
| **Total** | **703** | **551** |
| | | |
| **Fee expense** | | |
| Loan administration expenses | -1 091 | -607 |
| **Total** | **-1 091** | **-607** |
| | | |
| **Net fee income** | **-388** | **-56** |
| | | |
| **Fee income by customer location** | | |
| Estonia | 534 | 374 |
| Latvia | 168 | 175 |
| Lithuania | 0 | 0 |
| Poland | 1 | 2 |
| **Total** | **703** | **551** |

## **Note 7** Operating expenses

| *EURt* | *2018* | *2017* |
|---|---|---|
| **Personnel expenses** | | |
| Personnel expense | 4 725 | 3 270 |
| Social and other taxes | 1 070 | 727 |
| **Total personnel expenses** | **5 795** | **3 997** |
| | | |
| **Marketing expenses** | | |
| Advertising and marketing | 1 134 | 605 |
| Sales costs | 458 | 324 |
| **Total marketing expenses** | **1 592** | **929** |
| | | |
| **Administrative expenses** | | |
| Rental and maintenance expenses | 537 | 221 |
| IT expenses | 596 | 288 |
| Legal expenses | 169 | 115 |
| Office expenses | 216 | 135 |
| Training and business trip expenses | 222 | 173 |
| Other tax expenses | 190 | 133 |
| Supervision expenses | 143 | 86 |
| Recovery proceeding expenses | 94 | 67 |
| Consultation expenses | 116 | 37 |
| Transportation expenses | 114 | 98 |
| Other bought services | 82 | 53 |
| Other administrative expenses | 335 | 196 |
| **Total administrative expenses** | **2 814** | **1 602** |

| | *2018* | *2017* |
|---|---|---|
| **Average number of employees** | | |
| Estonia | 53 | 50 |
| Lithuania* | 54 | 0 |
| Latvia | 21 | 18 |
| Poland | 19 | 15 |
| **Total** | **147** | **83** |

*The Lithuanian company was acquired on 22.05.2018 and the average number of employees is calculated during the period 22.05-31.12.18. The average number of employees converted to the period 01.01-31.12.18 would be 32.

Personnel expenses include contributions to the state pension insurance system, 693 EURt in 2018 (2017: 423 EURt).

## **Note 8** Operating lease

| *EURt* | *31.12.2018* | *31.12.2017* |
|---|---|---|
| **Non-cancellable operating lease agreements** | | |
| Not later than 1 year | 362 | 139 |
| Later than 1 year and not later than 5 years | 649 | 138 |
| Later than 5 years | 0 | 0 |
| **Total** | **1 011** | **277** |

The Group rents office space under operating lease. Rental costs accounted for EUR 366 in 2018 (2017: 147 EURt).

## **Note 9** Loans and advances to customers

| *EURt* | *31.12.2018* | *31.12.2017* |
|---|---|---|
| **Distribution of receivables by customer sector** | | |
| Households | 221 591 | 92 129 |
| Non-financial corporates | 3 470 | 2 241 |
| Other financial corporates | 1 709 | 1 606 |
| Other advances | 4 473 | 92 |
| **Total** | **231 243** | **96 068** |
| Impairment allowance | -5 604 | -3 173 |
| **Total** | **225 639** | **92 895** |

| *Impairment losses on loans and advances* | *2018* | *2017* |
|---|---|---|
| Impairment losses of reporting period | -5 681 | -4 578 |
| Recoveries from written off from financial position | 2 995 | 1 046 |
| **Total** | **-2 686** | **-3 532** |

| *Changes in impairments* | *2018* | *2017* |
|---|---|---|
| Impairment allowance balance in the beginning of the period | -3 173 | -4 396 |
| Impact of IFRS 9 | -901 | 0 |
| Impairment provisions set up during reporting period | -5 681 | -4 578 |
| Impairment provisions set up for interests and commissions | 0 | -414 |
| Written off from financial position during the period | 4 151 | 6 215 |
| **Total** | **-5 604** | **-3 173** |

The Group regularly sells receivables that are more than 90 days overdue, with no obligation to repurchase (except for fraud or death of the customer). The difference between pre-transaction and post transaction debt carrying amount is recognised in income statement and the total amount of debt is written off from the statement of financial position.

## **Note 10** Income tax

| *EURt* | *31.12.2018* | *31.12.2017* |
|---|---|---|
| **Income tax assets** | | |
| Income tax assets due to be paid | 4 | 281 |
| Deferred income tax assets | 564 | 364 |
| **Total** | **568** | **645** |
| | | |
| **Deferred tax liabilities** | | |
| Income tax liabilities due to be paid | 476 | 0 |
| Deferred income tax liabilities | 20 | 0 |
| **Total** | **496** | **0** |

| EURt | 2018 | | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|
| ***Income tax*** | ***Estonia*** | ***Latvia*** | ***Poland*** | ***Lithuania*** | ***Total*** | ***Estonia*** | ***Latvia*** | ***Poland*** | ***Total*** |
| Tax rates | 14% | 25% | 19% | 15% | | 25% | 15% | 19% | |
| Profit before income tax | 9 215 | 1 432 | -2 187 | 1 548 | 10 008 | 9 196 | -66 | -1 547 | 7 583 |
| Allocations to retained earnings | -9 196 | -1 432 | 0 | 0 | -10 628 | -3 068 | 0 | 0 | -3 068 |
| Non-taxable expenses | 0 | 0 | 0 | -399 | -399 | 0 | 0 | 0 | 0 |
| Non-deductible expenses | 0 | 0 | 56 | -23 | 33 | 0 | 375 | -28 | 347 |
| Impairment allowance of loans and advances that are not tax deductible | 0 | 0 | 47 | 408 | 455 | 0 | -2 297 | 15 | -2 282 |
| Prior period adjustment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Accumulated deferred loss | 0 | 0 | 960 | 0 | 960 | 0 | 0 | 0 | 0 |
| Taxable income | 9 215 | 0 | -1 124 | 1 534 | 9 625 | 0 | -1 988 | -1 560 | -3 548 |
| **Total income tax*** | **715** | **-10** | **-214** | **230** | **722** | **0** | **-298** | **-296** | **-595** |

* The negative tax expense in Latvia during 2017 is in significant extent due to the sales of impaired credit portfolio.

| EURt | 2018 | | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|
| ***Income tax assets*** | ***Estonia*** | ***Latvia*** | ***Poland*** | ***Lithuania*** | ***Total*** | ***Estonia*** | ***Latvia*** | ***Poland*** | ***Total*** |
| Deferred tax assets | 0 | 0 | 364 | 0 | 364 | 0 | 390 | 59 | 449 |
| Non-current assets in tax accounting | 0 | 0 | 0 | 0 | 0 | 0 | 117 | 0 | 117 |
| Non-current assets in financial accounting | 0 | 0 | 0 | 0 | 0 | 0 | -157 | 0 | -157 |
| Deferred taxable losses | 0 | 0 | 0 | 0 | 0 | 0 | 462 | 1 273 | 1 735 |
| Unused annual leave and bonus reserves | 0 | 0 | 74 | -51 | 23 | 0 | 109 | 0 | 109 |
| Impairment losses of loans and advances | 0 | 0 | 1 240 | 0 | 1 240 | 0 | 1 988 | 251 | 2 239 |
| Deferred administration fee | 0 | 0 | 0 | 2 138 | 2 138 | 0 | 0 | 0 | 0 |
| Other adjustments | 0 | 0 | 1 652 | 0 | 1 652 | 0 | 0 | 394 | 394 |
| **Total** | **0** | **0** | **2 966** | **2 087** | **5 053** | **0** | **2 519** | **1 918** | **4 437** |
| **Total deferred tax assets** | **0** | **0** | **564** | **313** | **877** | **0** | **378** | **364** | **742** |
| **Change in tax assets (through profit and loss)** | **0** | **0** | **214** | **-11** | **203** | **0** | **-12** | **296** | **284** |
| **Write-off of tax assets** | **0** | **0** | **0** | **0** | **0** | **0** | **-378** | **0** | **-378** |

| *EURt* | *31.12.2018* |
|---|---|
| **Deferred tax liabilities** | **Lithuania** |
| Administration fee | 1 383 |
| Deferred commission fee | 839 |
| **Total** | **2 222** |
| **Total deferred tax liability** | **333** |
| **Net deferred tax liability** | **20** |

Inbank started its operations in Poland in the second half of 2017 and as at 31.12.2018 had not yet made a profit. The resulting tax asset can be used to reduce future tax liability. Latvia's income tax expense is related to the adjustment of earlier periods.

| *EURt* | *2018* | *2017* |
|---|---|---|
| **Income tax recognized in income statement** | **-733** | **-92** |
| Deferred tax assets, Poland | 214 | 298 |
| Deferred tax assets, Latvia | 0 | -12 |
| Write-off of tax assets in Latvia | 0 | -378 |
| Income tax, Estonia | -715 | 0 |
| Income tax, Lithuania | -222 | 0 |
| Income tax, Latvia (correction) | -10 | 0 |
| **Total** | **-733** | **-92** |

Starting from second quarter of 2018 credit institutions are obliged to pay income tax of 14% on quarterly profits. The tax becomes due to the tax authorities on the 10th day of the third month following the quarter. Income tax paid is non-refundable and thus recorded as an expense, but can be used to reduce income tax payable on future dividend distributions.

As at 31 December 2018, the Groups retained earnings amounted to 19.0 million EUR, from which 3.4 million EUR would be possible to distribute as dividends, taking into account the capital requirements. The income tax payable that would arise from this payment can be fully deducted by the income tax paid in Lithuania.

In the year of 2018, Latvian Tax Authority returned income tax pre-payments in the amount of 285 EURt, given prepayments were allocated in the financial position of 31.12.2017 as other assets.

## **Note 11** Due from central banks and credit institutions

| *EURt* | *31.12.2018* | *31.12.2017* |
|---|---|---|
| Due from central banks | 62 668 | 14 066 |
| Mandatory reserve in central bank | 1 952 | 701 |
| Due from credit institutions | 13 700 | 8 530 |
| **Total** | **78 320** | **23 297** |

Cash and cash equivalents in the Statement of cash flows include cash in hand, receivables from central banks (excluding the mandatory reserve) and short-term (up to 3 months) receivables from other credit institutions.

## **Note 12** Finance lease

| *EURt* | | | | |
|---|---|---|---|---|
| ***Net and gross investments on finance leases according to the remaining maturity*** | ***Gross investment*** | ***Unearned future interest periods*** | ***Allowance*** | ***Principal payments for future periods*** |
| Not later than 1 year | 362 | -189 | -5 | 168 |
| Later than 1 year and not later than 5 years | 1 915 | -177 | -50 | 1 688 |
| Later than 5 years | 0 | 0 | 0 | 0 |
| **Total as at 31.12.2018** | **2 277** | **-366** | **-55** | **1 856** |
| | | | | |
| Not later than 1 year | 218 | -133 | -3 | 82 |
| Later than 1 year and not later than 5 years | 1 340 | -130 | -26 | 1 184 |
| Later than 5 years | 0 | 0 | 0 | 0 |
| **Total as at 31.12.2017** | **1 558** | **-263** | **-29** | **1 266** |

## **Note 13** Business combinations

On May 22, 2018 Inbank AS acquired a consumer loan company UAB Mokilizingas in Lithuania, with a purchase price of EUR 15 million. At acquisition, assets and liabilities were acquired at their fair value. This purchase enabled Inbank to significantly widen its operations geographically, as more than half of Inbanks' loan portfolio will be located outside of Estonia..

Inbank AS recognised the acquisition of UAB Mokilizingas in accordance with requirements of IFRS 3 by carrying out purchase price allocation. In the course of the purchase price allocation, the value of assets of UAB Mokilizingas were assessed and the assets were recognised in the fair value on the transaction date.

***UAB Mokilizingas purchase price allocation, EURt***

| **Name of acquired company** | **UAB Mokilizingas** |
|---|---|
| Share % | 100 |
| Acquisition date | 22.05.2018 |

| | **Fair value acquired** |
|---|---|
| Cash and cash equivalents | 2 030 |
| Loans and advances | 67 370 |
| Other assets | 1 040 |
| Non-current asset | 210 |
| Other financial and non-financial liabilities | -5 241 |
| Loans received | -56 259 |
| **Total net assets acquired** | **9 150** |
| **Total consideration paid** | **15 068** |
| **Goodwill** | **5 918** |

The goodwill is primarily attributable to the profitability of the acquired business, significant synergies and expected cost savings.

The following table provides an overview of contractual receivables and made allowances for the contractual cash flows not expected to be collect:

| ***Loans and advances*** | ***Gross contractual amounts receivable*** | ***Impairment allowance made*** |
|---|---|---|
| Households | 63 314 | -1 365 |
| Corporates | 129 | -14 |
| Credit cards | 3 642 | -291 |
| Other advances | 1 955 | 0 |
| **Total** | **69 040** | **-1 670** |

The acquired subsidiary contributed to the Group's net interets and commission income in the amount of 4 794 EURt and to the profit in the amount of 1 339 EURt respectively from the date of acquisition to 31 December 2018. If the acquisition had occurred on 1 January 2018, impact to Group's net interest and commission income for 2018 would have been 7 118 EURt, and profit for 2018 would have been 1 858 EURt.

There were no business combinations during 2017.

# **Note 14** Shares of associates

***Carrying amount of associates***

| ***EURt*** | | |
|---|---|---|
| **Name of associate** | **31.12.2018** | **31.12.2017** |
| Maksekeskus Holding OÜ | 97 | 1 |
| Coop Pank AS | 0 | 7 762 |
| Veriff OÜ | 0 | 43 |
| **Total** | **97** | **7 806** |

Further information on associates has been disclosed in Note 1.

Associates have been accounted for using the equity method. Income from equity method was 36 EURt (2017: 999 EURt) and proceeds from the disposal of associate for amount 1 950 EURt (2017: 5 204 EURt) are recorded in income statement line "Share of profit of associates". See detailed information for disposals of associates in Note 1, paragraph General Information.

In January 2017, Inbank AS increased its ownership in Coop Finants AS by 5%, after which the ownership was 49%. The bank disposed the associates Coop Finants AS and Krediidipank Finants AS in the first half of 2017. On 30 January 2017, Inbank acquired 9.9995% of the shares of AS Eesti Krediidipank. After this transaction Eesti Krediidipank was recognised as an associate. The proceeds from the disposal of associates Coop Finants AS and Krediidipank Finants AS were invested in Eesti Krediidipank, participating in the share issue conducted in Q2 2017. As a result, Inbank held 17.935% of Eesti Krediidipank. Unrealised profit from the disposal of associates were eliminated, profit 4 810 EURt was realised. Starting from 2 October 2017 the company was renamed as Coop Pank AS.

On 29 March 2018, Inbank disposed 10% of the shares in Coop Pank AS, 5% of the shares were acquired by shareholders of Coop Pank and 5% of the shares were acquired by TÜ Eesti Ühistuskapital. After the transaction Inbank holds 7.97% shares of Coop Pank. Subsequently the investment is recognised as financial investment at fair value. Profit from the remeasurement of the investment is recognised in income statement as "Net gains from financial assets measured at fair value".

On 20th October 2015, subsidiary Veriff OÜ was established, in which Inbank Technologies OÜ had ownership of 60%. In August 2017 30% of the ownership was sold. On 5 January 2018 Inbank Technologies sold its entire holding of shares 21.68% (25.88%) in start-up entity Veriff OÜ.

Inbank has not received dividends from associates.

**Disposal and acquisition of associates**

| **EURt** | **2018** | **2017** |
|---|---|---|
| Equity contribution | 96 | 3 229 |
| Proceeds from disposals of associates, and reinvestment | 0 | 7 448 |
| Purchase of non-controlling interest in the share capital of subsidiary | 0 | 20 |
| **Total** | **96** | **10 697** |
| Proceeds from disposals of subsidiary | 0 | 300 |
| Proceeds from disposals of associates | 476 | 10 403 |
| Proceeds from disposals of partial holdings in associates | 5 793 | 0 |
| **Total** | **6 269** | **10 703** |

## **Note 15** Intangible assets

| *EURt* | *Note* | *Licences* | *Software* | *Goodwill* | *Total* |
|---|---|---|---|---|---|
| **At the beginning of period (01.01.2017)** | | | | | |
| Cost | | 112 | 759 | 238 | 1 109 |
| Accumulated amortisation | | -56 | -151 | 0 | -207 |
| **Net book amount** | | **56** | **608** | **238** | **902** |
| **Opening carrying value** | | **56** | **608** | **238** | **902** |
| Additions | | 2 | 169 | 0 | 171 |
| Write-offs through sale of subsidiary | | 0 | -145 | 0 | -145 |
| Write-offs through sale of subsidiary (accumulated amortisation) | | 0 | 5 | 0 | 5 |
| Amortisation charge | | -6 | -111 | 0 | -117 |
| **Closing carrying value** | | **52** | **526** | **238** | **816** |
| **At the end of period (31.12.2017)** | | | | | |
| Cost | | 114 | 783 | 238 | 1 135 |
| Accumulated amortisation | | -62 | -257 | 0 | -319 |
| **Carrying value** | | **52** | **526** | **238** | **816** |

Management has carried through goodwill impairment tests as at 31 December 2018 and 31 December 2017. The cash-generating units of goodwill are segments, which are entities of Inbank Group.
The break-down of goodwill between segments is as follows:

| *EURt* | *31.12.2018* | *31.12.2017* |
|---|---|---|
| **Business segment** | | |
| Estonia | 238 | 238 |
| Lithuania | 5 919 | 0 |

| *EURt* | *Note* | *Licences* | *Software* | *Goodwill* | *Total* |
|---|---|---|---|---|---|
| **At the beginning of period (01.01.2018)** | | | | | |
| Cost | | 114 | 783 | 238 | 1 135 |
| Accumulated amortisation | | -62 | -257 | 0 | -319 |
| **Net book amount** | | **52** | **526** | **238** | **816** |
| **Opening carrying value** | | **52** | **526** | **238** | **816** |
| Acquisitions through business combinations | 13 | 0 | 49 | 5 919 | 5 968 |
| Additions | | 19 | 1 161 | 0 | 1 180 |
| Write-offs | | 0 | -147 | 0 | -147 |
| Write-offs (accumulated amortisation) | | 0 | 147 | 0 | 147 |
| Amortisation charge | | -21 | -246 | 0 | -267 |
| **Closing carrying value** | | **50** | **1 490** | **6 157** | **7 697** |
| **At the end of period (31.12.2018)** | | | | | |
| Cost | | 133 | 1 846 | 6 157 | 8 136 |
| Accumulated amortisation | | -83 | -356 | 0 | -439 |
| **Carrying value** | | **50** | **1 490** | **6 157** | **7 697** |

The majority of goodwill is from the purchase of Mokilizingas. The recoverable amount of goodwill was identified by value in use which was determined using detailed pre-tax operating cash flow estimates for the next three years. Discounted cash flow method (DCF) was used for the value in use assessment. The weighted average cost of capital used (11.67%) was pre-tax and reflects specific risks applicable to the specific market and industry. The growth rates used for projections have been derived from the past experience of the growth in respective industry and the management's expectations of the respective growth rates in the projected future years in the respective region. The recoverable amount of the cash generating unit does not significantly differ from carrying amount (including goodwill), therefore, no adjustments have been made to the consolidated statement of financial position.

## **Note 16** Other assets

| *EURt* | *31.12.2018* | *31.12.2017* |
|---|---|---|
| **Financial assets** | | |
| Prepaid guarantee amounts | 64 | 53 |
| Accounts receivable | 0 | 8 |
| **Total** | **64** | **61** |
| **Non-financial assets** | | |
| Prepaid expenses | 444 | 128 |
| Prepaid taxes | 66 | 24 |
| Other assets | 0 | 26 |
| Income tax liabilities due to be paid | 4 | 281 |
| **Total** | **514** | **459** |

Prepaid taxes includes prepaid VAT.

## **Note 17** Loans from credit institution

| *EURt* | *31.12.2018* | *31.12.2017* |
|---|---|---|
| **Loans received** | | |
| Loans from credit institution | 10 429 | 0 |
| **Total** | **10 429** | **0** |

In May 2018 LHV issued a loan of 25 million euros to UAB Mokilizingas with the maturity of 1 year.
Inbank will pay back the loan before maturity in March 2019.
Accrued interest liability is in the amount of 13 EURt (31.12.2017: 0 EURt).

## **Note 18** Customer deposits

| *EURt* | *31.12.2018* | *31.12.2017* |
|---|---|---|
| ***Customer deposits*** | | |
| Deposits from households | 226 544 | 84 450 |
| Deposits from non-financial corporates | 10 834 | 9 450 |
| Deposits from other financial corporates | 2 797 | 1 156 |
| **Total** | **240 175** | **95 056** |

| *Deposits by clients' residency* | *31.12.2018* | *31.12.2017* |
|---|---|---|
| Estonia | 73 300 | 67 483 |
| Germany | 145 409 | 17 666 |
| Poland | 17 563 | 8 677 |
| Austria | 3 832 | 559 |
| Other residence | 71 | 671 |
| **Total** | **240 175** | **95 056** |

Deposits include accrued interest liabilities in the amount of 1 821 EURt (31.12.2017: 864 EURt).

## **Note 19** Debt securities

| *EURt* | *2018* |
|---|---|
| **Transactions with debt securities** | |
| Debt securities issued | 10 000 |
| Accrued interest | 17 |
| **Closing balance 31.12.2018** | **10 017** |

Inbank issued unsecured debt securities in total amount of 10 million euros on May 14 2018.

| *Nominal value* | *Amount* | *Maturity* |
|---|---|---|
| 250 000 | 40 | 14.03.2019 |

The investment has been made by Swedbank Investment Funds' pension funds via a private palcement.
The issue of new debt securities does not affect the terms of previously issued debt securities.
The bonds will be redeemed in three equal installments starting from January 2019.
The debt securities issued are recorded in the balance sheet at amortised cost.

# **Note 20** Subordinated debt securities

| *EURt* | |
|---|---|
| **Transactions with subordinated debt securities** | |
| Opening balance as at 01.01.2018 | 6 480 |
| Debt securities issued | 3 150 |
| Adjustments | -102 |
| **Closing balance 31.12.2018** | **9 528** |

| *Subordinated debt securities* | *Nominal price* | *Amount* | *Interest rate* | *Maturity* |
|---|---|---|---|---|
| Inbank subordinated bond INBB070026A | 1 000 EUR | 6 503 | 7% | 28.09.2026 |
| Inbank subordinated bond EE3300111590 | 10 000 EUR | 315 | 8.5% | perpetual |

On 28 September 2016, Inbank AS issued subordinated bonds, listed on the Nasdaq Tallinn Stock Exchange as of 3rd of October 2016. The annual fixed coupon interest rate is 7%, calculated from the date of issuance of the bonds (28 September 2016). The bonds have been issued for a term of ten years, with the right to redeem the bonds, on the previous approval of the Financial Supervision Authority, in 5 years after the date of issue (28 September 2021).

In 2018, 85 bids were traded with Inbank' debt securities with a value of 408 EURt (2017: 92 transactions in the amount of 693 EURt).

On December 19, 2018, Inbank issued AT1 bonds (part of Tier 1 capital), raising capital in the amount of 3.15 million EUR. AT1 capital instrument is perpetual financial instrument, for which Inbank AS is obliged to pay perpetual coupon payments. The coupon payments may be deferred or cancelled at the discretion of Inbank AS. The AT1 bond is accounted for as liability because in specific circumstances Inbank AS is obliged to pay back the debt instrument.

The bonds issued are recorded in the balance sheet at amortised cost, by using the effective interest rate method. In addition to coupon interest rate, the effective interest rate mainly depends on transaction costs, recognised as a change in nominal value of the bonds and charged to interest expense over a term of 5 years.

## **Note 21** Other liabilities

| *EURt* | *31.12.2018* | *31.12.2017* |
|---|---|---|
| **Financial liabilities** | | |
| Accounts payable | 8 072 | 947 |
| Client prepayments | 704 | 316 |
| **Total financial liabilities** | **8 776** | **1 263** |
| | | |
| **Other liabilities** | | |
| Payables to employees | 1 124 | 783 |
| Tax debts | 443 | 234 |
| Other liabilities | 1 087 | 119 |
| **Total other liabilities** | **2 654** | **1 136** |

The accounts payable includes liabilities to customers and partners for loan granting activities and payments for operating expenses. Of the amount, 6 403 EURt is Mokilizingas liability to partners for loan granting activities (2017: 0 EURt).

Other liabilities include  income tax liabilities in the amount of 496 EURt (2017: 0 EURt).
See Note 10 for further information on income tax liabilities.

## **Note 22** Contingent liabilities

Inbank had the following loan commitments:

| *EURt* | |
|---|---|
| ***Revocable commitments*** | |
| Liability in contractual amount as at 31 December 2018 | 13 826 |
| incl unused credit card limits | 13 326 |
| Liability in contractual amount as at 31 December 2017 | 0 |

Tax authorities have the right to review the company's tax records for up to 5 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The tax authorities have not performed any tax audits at the Group during 2017 and 2018. The Group's management estimates that in 2018 there are no such circumstances which may lead the tax authorities to impose significant additional taxes on the Group.

## **Note 23** Basic and diluted earnings per share

To calculate basic earnings per share the profit attributable to owners of the parent company is divided with the weighted average number of shares outstanding.

| | *2018* | *2017* |
|---|---|---|
| Total profit attributable to owners of the parent (EUR thousand) | 9 262 | 7 496 |
| Weighted average number of shares | 82 805 | 73 548 |
| Basic earnings per share (EUR) | 111.85 | 101.92 |
| Weighted average number of shares used for calculating the diluted earnings per shares | 88 155 | 78 478 |
| Diluted earnings per share (EUR) | 105.06 | 95.52 |

## **Note 24** Share capital

| | *31.12.2018* | *31.12.2017* |
|---|---|---|
| Share capital | 874 | 782 |
| Number of shares outstanding | 87 394 | 78 215 |
| Nominal share value (EUR) | 10 | 10 |

In April a option was realised for the purchase of 180 shares with the nominal price of 10 euros per share. The share capital increase was registered in the Commercial Register on 25 April 2018.

In May the share capital was increased by 8 999 shares. The share capital was thus increased by 6 074 325 euros, of which the share capital increased for 89 990 euros and the share premium was EUR 5 984 335.

The share capital increase was registered in the Commercial Register on 16 May 2018.

## **Note 25** Share-based payments

Inbank has entered into option agreements with members of the Management Board and equivalent staff, granting the right to acquire the company's shares at the previously agreed terms and conditions.

| | No of shares | Unit subscription price | Option issuing year | The year in which the right to realize the option arises | Number of people to whom the option was issued |
|---|---|---|---|---|---|
| Supervisory Board | 400 | 300 | 2016 | 2019 | 1 |
| Board | 1 000 | 300 | 2016 | 2019 | 3 |
| Employees | 2 150 | 300 | 2016 | 2019 | 8 |
| Employees | 500 | 300 | 2016 | 2020 | 2 |
| Employees | 100 | 300 | 2017 | 2020 | 1 |
| Employees | 900 | 675 | 2018 | 2021 | 3 |
| Board | 300 | 675 | 2018 | 2021 | 1 |
| **Total** | **5 350** | | | | |

The precondition for the realisation of the share options is an ongoing employment relationship after a period of three years has elapsed and the achievement of certain financial targets established by the group. The share options cannot be redeemed for cash. During the reporting period one employee left the company, with whom option agreement was concluded.

The fair value of the share options is determined on the date of issuance of the option. The date of issuance of the option is the date on which the parties mutually agreed on the terms and conditions of the option. The bank uses the Black-Scholes model in determining the fair value of the option, considering the terms and conditions related to the issuance of the option.

The share-based payment reserve is recorded under other reserves in equity over a period of three years. At the end of each reporting period, the bank will estimate how many shares will be realised at non-market prices and adjust the reserve accordingly. As at 31.12.2018, the reserve amounted to 37 EURt (2017: 61 EURt).

Personnel expenses related to the option agreements in 2018 amounted to a total of 19 EURt (2017: 29 EURt).
In April a option was realised for the purchase of 180 shares.

## **Note 26** Reserves

| *EURt* | *31.12.2018* | *31.12.2017* |
|---|---|---|
| Statutory reserve | 79 | 79 |
| Voluntary reserve | 1 330 | 1 330 |
| Share based payment reserve | 37 | 60 |
| Other accumulated comprehensive income | 34 | -38 |
| **Total** | **1 480** | **1 431** |

A part of the annual net profit is transferred to the statutory reserve in accordance with the Commercial Code.

The general meeting of AS Inbank may decide to transfer other amounts to the reserve. The reserve may also be used for increasing the share capital, but not for making disbursements to shareholders.

The fair value of share options issued to employees is charged to personnel expenses over the term of the option programme, and to equity as an increase in the share-based payments reserve.

## **Note 27** Fair value of financial assets and liabilities

| ***EURt*** | | ***31.12.2018*** | | | ***31.12.2017*** | |
|---|---|---|---|---|---|---|
| ***Assets*** | ***Fair value*** | ***Carrying amount*** | ***Level*** | ***Fair value*** | ***Carrying amount*** | ***Level*** |
| Cash in hand | 4 | 4 | 1 | 4 | 4 | 1 |
| Due from central banks | 64 620 | 64 620 | 2 | 14 767 | 14 767 | 2 |
| Due from credit institutions | 13 700 | 13 700 | 2 | 8 530 | 8 530 | 2 |
| Financial assets at fair value through profit and loss | 4 600 | 4 600 | 3 | 0 | 0 | 3 |
| Loans and advances | 225 639 | 225 639 | 3 | 92 895 | 92 895 | 3 |
| Other financial assets | 64 | 64 | 3 | 61 | 61 | 3 |
| **Total** | **308 627** | **308 627** | | **116 257** | **116 257** | |

| ***EURt*** | | ***31.12.2018*** | | | ***31.12.2017*** | |
|---|---|---|---|---|---|---|
| ***Liabilities*** | ***Fair value*** | ***Carrying amount*** | ***Level*** | ***Fair value*** | ***Carrying amount*** | ***Level*** |
| Loan from credit institution | 10 429 | 10 429 | 2 | 0 | 0 | |
| Customer deposits | 240 175 | 240 175 | 2 | 95 056 | 95 056 | 2 |
| Debt securities issued | 10 017 | 10 017 | 3 | 0 | 0 | |
| Subordinated debt securities | 6 954 | 6 489 | 2 | 6 952 | 6 480 | 2 |
| Subordinated debt securities (AT1) | 3 039 | 3 039 | 3 | 0 | 0 | |
| Other financial liabilities | 8 776 | 8 776 | 3 | 1 263 | 1 263 | 3 |
| **Total** | **279 390** | **278 925** | | **103 271** | **102 799** | |

The fair values in level 2 and level 3 were estimated using the discounted cash flows valuation technique. The fair value of fixed rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

**Subordinated debt securities** were listed on the Nasdaq Baltic Stock Exchange on 3 October 2016, and their fair value can be determined based on the transaction history. As a result the debt security is level 2 in fair value hierarchy.

**Subordinated debt securities (AT1)** were issued in December 2018 on market terms and as a result the management estimates that the fair value is close to the carrying value, classified as level 3 in fair value hierarchy.

In May 2018 **debt securities** were issued on market terms, maturity of these securities is March 2019. Management estimates that the interest rates today are comparable, therefore fair value of the securities equals carrying amount, classified as level 3 in fair value hierarchy.

To measure the fair value of **investments not actively traded** on the market (financial assets at fair value through profit and loss) transaction price between independent parties have been used. To estimate the fair value after the transaction, key factors of the company are used rather than management estimation. Financial asset is classified as level 3 in fair value hierarchy.

**Loans granted to companies** are sufficiently short-term and the interest environment has remained stable ever since the issue of loans. In the management's opinion, their fair value does not therefore significantly differ from the net book value. Loans to corporates are classified as level 3.

**The small loans and hire-purchase** products granted to customers are short-term. The effective interest rate of consumer loans granted by Inbank is comparable to the interest rates of comparable loan products offered on the market. In general, the fair market interest and the fair value of loans has not significantly changed over the loan period. The carrying amount of loans does not therefore significantly differ from their fair value. Loans to customers are classified as level 3.

**Fixed-interest customer deposits** are mostly short-term. The interest rate of term deposits accepted and loans received by Inbank is comparable to the comparable contract interest rates on the market. In general, the fair market interest and the fair value of deposits has not significantly changed over the deposit period. The carrying amount of deposits does not therefore significantly differ from their fair value. These are classified as level 2 in fair value hierarchy.

# **Note 28** Related parties

| *EURt* | *2018* | *2017* |
|---|---|---|
| Remuneration of the Management Board and Supervisory Board | 771 | 617 |

**The following are considered to be the Group's related parties:**

- members of the Management Board and Supervisory Board, their family members and related companies (hereinafter the management),
- associates
- parent company or owners the parent company that have control or significant influence over the parent company

| *EURt* | | |
|---|---|---|
| ***Balances*** | ***31.12.2018*** | ***31.12.2017*** |
| **Loans and receivables as of end of reporting period** | **475** | **191** |
| management | 475 | 1 |
| associates | 0 | 190 |
| | | |
| **Deposits and subordinated debt securities as of end of reporting period** | **742** | **265** |
| management | 742 | 265 |

| *EURt* | | |
|---|---|---|
| ***Transactions*** | ***2018*** | ***2017*** |
| **Interest income** | **7** | **9** |
| management | 0 | 1 |
| associates | 7 | 8 |
| **Interest expenses** | **23** | **12** |
| management | 23 | 12 |
| **Services purchased** | **45** | **48** |
| management | 45 | 44 |
| associates | 0 | 4 |
| **Services sold** | **21** | **287** |
| management | 0 | 0 |
| associates | 21 | 287 |

The table provides an overview of the significant transactions and balances with related parties. The Group finances the Group's subsidiaries and branches with short- and long-term loans issued under market conditions, interest rates are in between 3,31% and 7% (2017: 5-7%). Such loans are eliminated from the consolidated financial statements. Loans given to management (hire-purchase incl.) are issued under market conditions, interest rates are between 5-14,65% (2017: 0-12,5%). The interest rate of deposits received from related parties matches with the interest rate offered to the client, interest rates are in between 1,25% and 3% (2017: 0.6-3%).

The Group has entered into an agreement with a member of the Management Board, stipulating a severance compensation equalling to a six-month monthly remuneration. The agreements with other members of the Management Board do not stipulate any severance compensation. In issues not regulated in the agreement, the related parties have agreed to be governed by the laws of the Republic of Estonia. The management estimates the probability of realisation of the contingent liability to be very low.

## **Note 29** Events after the balance sheet date

On 22 January an agreement entered into force under which Inbank AS purchased from Fairown Finance OÜ a 20% holding in Inbank Liising AS, a company which offers full service leasing, and became the sole holder of the company as a result of the transaction. The main goal of the transaction was to improve the focus of Inbank Liising and standardise the product.

## **Note 30** Parent company's separate statement of financial position

| EURt | Note | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash in hand | | 4 | 4 |
| Due from central banks | | 64 620 | 14 767 |
| Due from credit institutions | | 11 438 | 7 377 |
| Financial assets at fair value through profit and loss | | 4 600 | 0 |
| Loans and advances | | 198 375 | 94 538 |
| Investments in subsidiaries | | 16 122 | 1 053 |
| Investments in associates | | 0 | 7 762 |
| Tangible assets | | 150 | 169 |
| Intangible assets | | 1 398 | 183 |
| Other financial assets | | 33 | 1 |
| Other assets | | 229 | 146 |
| Deferred tax assets | | 564 | 364 |
| **Total assets** | | **297 533** | **126 364** |

| EURt | Note | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| **Liabilities** | | | |
| Customer deposits | | 240 175 | 95 055 |
| Other financial liabilities | | 1 301 | 1 118 |
| Other liabilities | | 1 759 | 893 |
| Debt securities | | 10 017 | 0 |
| Subordinated debt securities | | 9 528 | 6 482 |
| **Total liabilities** | | **262 780** | **103 548** |
| **Equity** | | | |
| Share capital | 22;23 | 874 | 782 |
| Share premium | 22;23 | 15 053 | 9 068 |
| Statutory reserve capital | | 79 | 79 |
| Other reserves | 24;25 | 1 402 | 1 352 |
| Retained earnings | | 17 345 | 11 535 |
| **Total equity** | | **34 753** | **22 816** |
| **Total liabilities and equity** | | **297 533** | **126 364** |

## **Note 31** Parent company's separate statement of profit and loss and comprehensive income

| *EURt* | *2018* | *2017* |
|---|---|---|
| Interest income | 15 153 | 10 342 |
| Interest expense | -3 261 | -1 936 |
| **Net interest income** | **11 892** | **8 406** |
| | | |
| Fee income | 529 | 373 |
| Fee expense | -578 | -480 |
| **Net fee and commission income** | **-49** | **-107** |
| | | |
| Net gains from financial assets measured at fair value | 1 204 | 0 |
| Other operating income | 352 | 440 |
| | | |
| **Total net interest, fee and other income** | **13 399** | **8 739** |
| | | |
| Personnel expenses | -4 038 | -3 152 |
| Marketing expenses | -818 | -808 |
| Administrative expenses | -1 785 | -1 253 |
| Depreciations, amortisation | -220 | -101 |
| **Total operating expenses** | **-6 861** | **-5 314** |
| | | |
| **Profit before profit from associates and impairment losses on loans** | **6 538** | **3 425** |

| *EURt* | *2018* | *2017* |
|---|---|---|
| Share of profit of associates | 1 552 | 5 816 |
| Impairment losses on loans and advances | -1 367 | -1 796 |
| **Profit before income tax** | **6 723** | **7 445** |
| | | |
| Income tax | -501 | 296 |
| **Profit for the reporting period** | **6 222** | **7 741** |
| | | |
| **Other comprehensive income/loss** | | |
| *Items that may be reclassified subsequently to profit or loss* | | |
| Currency translation differences | 74 | -38 |
| **Total comprehensive income for the reporting period** | **6 296** | **7 703** |

## **Note 32** Parent company's separate condensed statement of cash flows

| EURt | Note | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | 4 | 15 638 | 11 624 |
| Interest paid | 4 | -2 305 | -3 454 |
| Fees received | 5 | 529 | 373 |
| Fees paid | 5 | -578 | -480 |
| Other income received | | 352 | 440 |
| Personnel expenses | | -3 844 | -3 116 |
| Administrative and marketing expenses | | -2 561 | -2 016 |
| Corporate income tax paid | | -328 | 0 |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **6 903** | **3 371** |
| | | | |
| **Changes in operating assets** | | | |
| Loans and advances | | -107 978 | -31 366 |
| Mandatory reserve in central bank | | -1 251 | -213 |
| Other assets | | -307 | -332 |
| | | | |
| **Change in operating liabilities** | | | |
| Customer deposits | | 143 604 | 31 985 |
| Other liabilities | | 804 | 438 |
| **Net cash from operating activities** | | **41 775** | **3 883** |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of tangible and intangible assets | | -1 288 | -153 |
| Acquisition of subsidiaries and associates | 12 | -13 134 | -10 697 |
| Proceeds from disposal of associates | 13 | 6 269 | 10 403 |
| **Net cash used in investing activities** | | **-8 153** | **-447** |

| EURt | Note | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Debt securities issued | 18 | 10 000 | 0 |
| Subordinated debt securities issued | 19 | 3 033 | 0 |
| Share capital contribution (including share premium) | 23 | 6 077 | 2 800 |
| **Net cash from financing activities** | | **19 110** | **2 800** |
| Effect of exchange rate changes | | -69 | 52 |
| **Cash and cash equivalents at the beginning of the reporting period** | | **21 447** | **15 159** |
| Net increase/decrease in cash and cash equivalents | 10 | 52 663 | 6 288 |
| **Cash and cash equivalents at the end of the reporting period** | **10** | **74 110** | **21 447** |

## **Note 33** Parent company's separate statement of changes in equity

| *EURt* | *Share capital* | *Share premium* | *Statutory reserve capital* | *Other reserves* | *Retained earnings /accumulated loss* | *Total equity* |
|---|---|---|---|---|---|---|
| **Balance as of 01.01.2017** | **689** | **6 361** | **57** | **1 361** | **3 816** | **12 284** |
| Paid in share capital | 93 | 2 707 | 0 | 0 | 0 | 2 800 |
| Share-based payment reserve | 0 | 0 | 0 | 29 | 0 | 29 |
| Statutory reserve capital | 0 | 0 | 22 | 0 | -22 | 0 |
| Total profit/-loss and other comprehensive income for the reporting period | 0 | 0 | 0 | -38 | 7 741 | 7 703 |
| **Balance as of 31.12.2017** | **782** | **9 068** | **79** | **1 352** | **11 535** | **22 816** |
| Carrying amount of holdings under control and significant influence | | | | | -8 816 | -8 816 |
| Value of holdings under control and significant influence under equity method | | | | | 7 822 | 7 822 |
| **Adjusted unconsolidated equity 31.12.2017** | **782** | **9 068** | **79** | **1 352** | **10 541** | **21 822** |

| *EURt* | *Share capital* | *Share premium* | *Statutory reserve capital* | *Other reserves* | *Retained earnings /accumulated loss* | *Total equity* |
|---|---|---|---|---|---|---|
| **Balance as of 01.01.2018** | **782** | **9 068** | **79** | **1 352** | **11 535** | **22 816** |
| Changes on initial application of IFRS 9 | | | | | -691 | -691 |
| **Restated balance as 01.01.2018** | **782** | **9 068** | **79** | **1 352** | **10 844** | **22 125** |
| Paid in share capital | 92 | 5 985 | 0 | 0 | 0 | 6 077 |
| Share-based payment reserve | 0 | 0 | 0 | -24 | 43 | 19 |
| Purchase of business line | 0 | 0 | 0 | 0 | 236 | 236 |
| Total profit/-loss and other comprehensive income for the reporting period | 0 | 0 | 0 | 74 | 6 222 | 6 296 |
| **Balance as of 31.12.2018** | **874** | **15 053** | **79** | **1 402** | **17 345** | **34 753** |
| Carrying amount of holdings under control and significant influence | | | | | -16 121 | -16 121 |
| Value of holdings under control and significant influence under equity method | | | | | 17 833 | 17 833 |
| **Adjusted unconsolidated equity 31.12.2018** | **874** | **15 053** | **79** | **1 402** | **19 057** | **36 465** |

# Signatures of the management board to the consolidated annual report

The Management Board of Inbank AS declares its responsibility for preparing the Consolidated Annual Report for the Group for the financial year of 2018 and confirms that:

- According to the Management Board's best knowledge the consolidated annual report gives a true and fair view of assets, liabilities, statement of financial position and profit or loss from entities included in Inbank AS Group as a whole and the management report provides a true and fair view of the development of the business operations and results as well as financial position and includes description of main risks and uncertainties in Inbank AS and Inbank AS Group as a whole;
- The Group's Consolidated Annual Report is prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

**Jan Andresoo**
Chairman of the
Management Board
/digitally signed/

**Liina Sadrak**
Member of the
Management Board
/digitally signed/

**Marko Varik**
Member of the
Management Board
/digitally signed/

**Piret Paulus**
Member of the
Management Board
/digitally signed/

**Ivar Kallast**
Member of the
Management Board
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# Independent auditor's report

To the Shareholders of AS Inbank

(Translation of the Estonian original)*

## Report on the audit of the consolidated financial statements

### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Inbank AS and its subsidiaries (together the Group) as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee

### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 591 of the Auditors Activities Act of the Republic of Estonia.

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# Our audit approach

## Overview

**Materiality**
Overall group materiality is EUR 496 thousand, which represents approximately 2.5% of group net interest income.

**Audit scope**
We tailored our audit scope based on the risk and size of entities within the Group and performed either a full scope audit or specific audit procedures over material income statement and balance sheet line items. At the Group level, we tested the consolidation process to confirm our conclusion that no material misstatements exist that may affect the consolidated financial statements.

**Key audit matters**
- Valuation of loans and advances to retail customers
- Accounting treatment of acquisition of subsidiary UAB Mokilizingas

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

## Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| **Overall group materiality** | EUR 496 thousand |
| **How we determined it** | 2.5% of net interest income |
| **Rationale for the materiality benchmark applied** | We applied the net interest income benchmark as the Group is going through significant growth and has made significant investments in the subsidiary in Latvia, Lithuania and the Polish branch. Therefore, the key performance measure for the Group is net interest income. |

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Valuation of loans and advances to retail customers**<br>(refer to Note 1 "Summary of significant accounting policies", Note 3 "Risk Management" and Note 9 "Impairment of loans and advances to customers" for further details).<br><br>As of 31 December 2018, gross loans and advances to the retail customers amount to EUR 221,591 thousand against which credit loss allowance in the amount of EUR 5,537 thousand has been recognized.<br><br>On 1 January 2018, a new accounting standard IFRS 9 became effective that replaced the previously applied incurred loss model with a new 3-stage impairment model based on expected credit losses (ECL). ECL calculations are forward looking and probability-weighted, based on complex modelling and estimates determined by the management.<br><br>The adoption of IFRS 9 resulted in a decrease of the carrying amount of loans and advances to customers by EUR 901 thousand, which was recorded as an adjustment to retained earnings as at 1 January 2018.<br><br>We focused on this area because management uses complex models with subjective inputs to assess the timing and the amount of expected credit losses. | We assessed whether the Group's accounting policies in relation to assessing the impairment of loans and advances to retail customers complied with international financial reporting standards as adopted by European Union (IFRS).<br><br>We assessed the design and operating effectiveness of the controls over expected credit loss data and calculations.<br><br>We performed procedures to test the significant inputs used in the expected credit loss (ECL) model, such as probability of default (PD), exposure at default (EAD) and loss given default (LGD).<br><br>We performed detailed audit procedures in the following areas:<br>• the completeness and accuracy of data used in the ECL calculation;<br>• the compliance of key inputs used in ECL calculation system with ECL methodology;<br>• the accuracy and compliance of 12-month and lifetime ECL calculations with the Group ECL methodology;<br>• the accuracy of discounting in the ECL calculations;<br>• the accuracy and completeness of data used for staging of loans (including applying the criteria for determining significant increase in credit risk and definition of default).<br><br>We have assessed the reasonableness of key assumptions made by management, which serve as critical inputs in the allowance model, such as weights of different scenarios and forecasts of key macroeconomic information.<br><br>We concluded that, in the context of the size of total overall loans and advances portfolio and the uncertainties disclosed in the financial statements, assumptions used by management are reasonable. |

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| **Accounting treatment of acquisition of subsidiary UAB Mokilizingas** (refer to Note 1 "Summary of significant accounting policies" and Note 13 "Business combinations" for further details).<br><br>In 2018 the Group bought 100% of the ownership of UAB Mokilizingas as it is disclosed in detail in note 13.<br><br>Business combination accounting involves compiling purchase price analysis, during which the fair value of the purchase consideration paid is allocated to the fair values of the identifiable assets acquired, liabilities and contingent liabilities assumed, with any remaining difference recorded as goodwill. These fair values were assessed by the management and were based on judgment.<br><br>We focused on this area due to the size of the acquired business and the complexities surrounding the estimates. | We assessed whether the Group's accounting policy in relation to accounting for the business combinations were in compliance with IFRS.<br><br>We performed detailed testing of the transactions:<br>• assessed the list of separately identified assets and liabilities for their reasonableness and compliance with IFRS requirements;<br>• evaluated the management's assessment of the fair values of identifiable assets acquired and liabilities assumed;<br>• checked the correctness of calculation of arising goodwill.<br><br>Furthermore, we assessed the adequacy of the disclosures related to the purchase of UAB Mokilizingas.<br><br>We concluded that the transactions were accounted for in accordance with the requirements of IFRS. |

### How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In order to achieve this objective, based on the size and risk characteristics, we performed a full scope audit of the financial information for the following entities within the Group: Inbank AS (Estonia), Inbank Latvia SIA (Latvia) and UAB Mokilizingas (Lithuania). Additionally we performed an audit of specific balance sheet and income statement line items for Inbank AS Polish branch, Inbank Technologies OÜ and Inbank Liising AS.

At the Group level we tested the consolidation process and performed additional analytical procedures over the components in scope to confirm our conclusion that no material misstatements exist that may affect the consolidated financial statements. Information describing the structure of the Group is included in note 1 of the consolidated financial statements.

## Other information

The Management Board is responsible for the other information contained in the consolidated annual report in addition to the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

### Appointment and period of our audit engagement

We were first appointed as auditors of Inbank AS on 29 March 2017 for the financial year ended 31 December 2017. The total period of our uninterrupted engagement appointment for Inbank AS is 2 years.

In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of Inbank AS can be extended for up to the financial year ending 31 December 2036.

AS PricewaterhouseCoopers

Tiit Raimla
Certified auditor in charge,
auditor's certificate no.287
/signed/

Evelin Lindvers
Auditor's certificate no.622
/signed/

**6 March 2019**

*This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

# Profit allocation proposal

The Management Board of Inbank AS proposes to the general meeting of shareholders to allocate the profit as follows:

- to allocate 9 252 thousand euros to retained earnings;
- to statutory reserve 9 thousand euros.

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