Public Offering, Listing and Admission to Trading Prospectus of up to 6,500 Unsecured Subordinated Bonds of AS Inbank with Nominal Value of EUR 1,000, Interest Rate 6% per annum and Maturity Date 19 December 2029

This Public Offering, Listing and Admission to Trading Prospectus has been drawn up and published by AS Inbank (an Estonian public limited company, registered in the Estonian Commercial Register under register code 12001988, having its registered address at Niine 11, 10414 Tallinn, Estonia; the **Company**) in connection with the public offering, listing and the admission to trading of the Bonds issued by the Company on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange (the **Prospectus**).

The Company is publicly offering up to 6,500 bonds with the nominal value of EUR 1,000 (the **Bonds**) to institutional and retail investors in Estonia (the **Offering**). In case of over-subscription of the Bonds in the course of the Offering, the Company has the right to increase the Offering volume and issue up to 1,500 additional Bonds as a result of which the total number of the Bonds offered in the course of the Offering may be up to 8,000 and the total volume of the Offering up to EUR 8,000,000.

The Bonds are offered for the price of EUR 1,000 per one Bond (the **Offer Price**). The Bonds may be subscribed for during the period commencing on 3 December 2019 and ending on 13 December 2019 (the **Offering Period**) in accordance with the terms and conditions described in this Prospectus. The Company will, simultaneously with the Offering, apply for the listing and the admission to trading of the Bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange.

The Bonds will be publicly offered in Estonia and there will not be any public offering of the Bonds in any other jurisdiction. The Bonds may be offered to qualified investors or by private placement in compliance with Article 1(4)(a) and (b) of Regulation No 2017/1129/EU of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and repealing Directive 2003/71/EC (the **Prospectus Regulation**) also in other jurisdictions. This Prospectus has been compiled in accordance with the requirements of the Prospectus Regulation and in accordance with Commission Delegated Regulation No 2019/980/EU of 14 March 2019 supplementing Regulation No 2017/1129/EU of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation No 809/2004/EC (the **Delegated Regulation**), in particular the Annexes 6 and 14 thereof.

The Company reserves the right to cancel the Offering or change the terms and conditions thereof as described in this Prospectus.

It is estimated that trading with the Bonds will commence on or about 20 December 2019.

This Prospectus has been approved by the Estonian Financial Supervision Authority (the **EFSA**), as competent authority under the Prospectus Regulation, on 2 December 2019 under registration number 4.3-4.9/5016. The EFSA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation and should not be considered as an endorsement of the Company and the quality of the Bonds that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the securities.

The Bonds are subordinated to all unsubordinated claims against the Company. The subordination of the Bonds means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds shall fall due in accordance with the terms of the Bonds and shall be satisfied only after the full satisfaction of

all unsubordinated recognised claims against the Company in accordance with the applicable law. Consent of the bondholders is not necessary for effecting bail-in measures by the EFSA. The Bonds may be redeemed prematurely by the Company on the grounds set forth in the terms of the Bonds only if the EFSA has granted its consent to the early redemption. The decision on granting the consent involves certain amount of discretion by the competent authority and the early redemption is therefore beyond the control of the Company.

Investing into the Bonds involves risks. While every care has been taken to ensure that this Prospectus presents a fair and complete overview of the material risks related to the Company, the operations of the Company and its subsidiaries (the Group) and to the Bonds, the value of any investment in the Bonds may be adversely affected by circumstances that are either not evident at the date hereof or not reflected in this Prospectus.

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

The date of this Prospectus is 2 December 2019

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1. INTRODUCTORY INFORMATION

1.1. Applicable Law

The Prospectus has been drawn up in accordance with the Prospectus Regulation and in accordance with the Delegated Regulation. The Prospectus comprises of a summary of the Prospectus drawn up in accordance with Article 7 of the Prospectus Regulation, a registration document of the Company drawn up in accordance with Annex 6 of the Delegated Regulation and a securities note of the Bonds drawn up in accordance with Annex 14 of the Delegated Regulation.

This Prospectus is governed by Estonian law. Any disputes arising in connection with the Offering shall be settled by Harju County Court (*Harju maakohus*) in Estonia unless the exclusive jurisdiction of any other court is provided for by the provisions of law, which cannot be derogated from by an agreement of the parties. The investor may be required under national law to bear the costs of translating the Prospectus before being able to bring a claim to the court in relation to this Prospectus.

Before reading this Prospectus, please take notice of the following important introductory information.

1.2. Persons Responsible

The person responsible for the information given in this Prospectus is the Company. The Company accepts responsibility for the fullness and correctness of the information contained in this Prospectus as of the date hereof. Having taken all reasonable care to ensure that such is the case, the Company believes that the information contained in this Prospectus is, to the best of the Company's knowledge, in accordance with the facts, and contains no omission likely to affect its import.

AS Inbank **Jan Andresoo** Chairman of the Management Board *[signed electronically]*	**AS Inbank** **Marko Varik** Member of the Management Board *[signed electronically]*	**AS Inbank** **Liina Sadrak** Member of the Management Board *[signed electronically]*	**AS Inbank** **Piret Paulus** Member of the Management Board *[signed electronically]*	**AS Inbank** **Jaanus Kõusaar** Member of the Management Board *[signed electronically]*

Without prejudice to the above, no responsibility is accepted by the persons responsible for the information given in this Prospectus solely on the basis of the summary of this Prospectus, including any translation thereof, unless such summary is misleading, inaccurate or inconsistent, when read together with the other parts of the Prospectus, or where it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in Bonds.

1.3. Presentation of Information

Approximation of Numbers. Numerical and quantitative values in this Prospectus (e.g. monetary values, percentage values, etc.) are presented with such precision which is deemed by the Company to be sufficient in order to convey adequate and appropriate information on the relevant matter. From time to time, quantitative values have been rounded up to the nearest reasonable decimal or whole value in order to avoid excessive level of detail. As a result, certain values presented as percentages do not necessarily add up to 100% due to the effects of approximation. Exact numbers may be derived from the Financial Statements, to the extent that the relevant information is reflected therein.

Currencies. In this Prospectus, financial information is presented in euro (EUR), the official currency of the European Union Member States in the Eurozone.

Date of Information. This Prospectus is drawn up based on information which was valid as of the date of the Prospectus. Where not expressly indicated otherwise, all information presented in this Prospectus (including the consolidated financial information of the Company, the facts concerning its operations and any information on the markets in which it operates) must be understood to refer to the state of affairs as of the aforementioned date. Where information is presented as of a date other than the date of the Prospectus, this is identified by specifying the relevant date.

Third Party Information and Market Information. For portions of this Prospectus, certain information may have been sourced from third parties. Such information is accurately reproduced and as far as the Company is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where information has been sourced from third parties, a reference to the respective source has been provided together with such information where presented in this Prospectus. Certain information with respect to the markets in which the Company and its Subsidiaries (as defined in Section "Glossary") operate is based on the best assessment made by the Management (as defined in Section "Glossary"). With respect to the industry in which the Company and its Subsidiaries are active and certain jurisdictions in which they conduct their operations, reliable market information is often not available or is incomplete. While every reasonable care was taken to provide best possible assessments of the relevant market situation and the information on the relevant industry, such information may not be relied upon as final and conclusive. Investors are encouraged to conduct their own investigation of the relevant markets or employ a professional consultant.

Updates. The Company will update the information contained in this Prospectus only to such extent and at such intervals and by such means as required by the applicable law or considered necessary and appropriate by the Management. The Company is under no obligation to update or modify forward-looking statements included in this Prospectus (please see Section "Forward-Looking Statements" below).

Definitions of Terms. In this Prospectus, capitalized terms have the meaning ascribed to them in Section "Glossary", with the exception of such cases where the context evidently requires to the contrary, whereas the singular shall include plural and vice versa. Other terms may be defined elsewhere in the Prospectus.

Hyperlinks to Websites. This Prospectus contains hyperlinks to websites. The information on the websites does not form part of the Prospectus and has not been scrutinised or approved by the EFSA, except for hyperlinks to information that is incorporated by reference.

1.4. Documents Available

In addition to this Prospectus, certain additional documents and information on the Group, such as the up to date Articles of Association and historic financial data of the Company and the Subsidiaries may be obtained from the website of the Company at https://www.inbank.ee/en/inside/investor/forinvestor/. All information presented on the Company's website which has not been incorporated by reference into this Prospectus does not form part of the Prospectus.

1.5. Accounting Principles

The annual financial information included in this Prospectus has been extracted or derived from the consolidated audited financial statements of and for the year ended 31 December 2018 (Schedule 3), and the consolidated audited financial statement of and for the year ended 31 December 2017 (Schedule 2) (the **Audited Financial Statements**) of the Company prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the European Union. The interim financial information included in this Prospectus as of and for the nine months ended 30 September 2019, including the comparative financial information as of and for the nine months ended on 30 September 2018, has been extracted and derived from the unaudited consolidated interim financial statements as of and for the period ended 30 September 2019 (Schedule 4) (the **Interim Financial Statements**) of the Company prepared in accordance with International Accounting Standards (**IAS**) 34, Interim Financial Reporting. The Audited Financial Statements are audited by AS PricewaterhouseCoopers.

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 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 Financial Statements of the Company is Estonian. The Estonian version must be proceeded from in the event of a conflict with English or any other language.

The Financial Statements include the financial performance indicators of Inbank AS (including its Poland branch), its subsidiaries SIA Inbank Lizings (as of 28 August 2018 SIA Inbank Latvia), AB Mokilizingas (starting from the financial year 2018), Inbank Liising AS, Inbank Payments OÜ (starting from the period ended 30 September 2019) and Inbank Technologies OÜ.

Consolidated financial statements

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.

Changes in accounting policies

The Group has adopted IFRS 16, Leases for the first time starting from 1 January 2019. The other new standards that became effective since 1 January 2019 have had no impact on the Interim Financial Statements of the Company.

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.

The Group leases various properties. Rental contracts are typically made for fixed periods of up to 3 years but include, as a rule, extension and termination options. Lease terms are negotiated on an individual basis and may contain a wide range of different terms and conditions. The details of the measurement process of the lease contracts according to IFRS 16 are described in the Interim Financial Statements included in this Prospectus.

The separate primary financial statements of the consolidating entity (the Company) are disclosed in the notes to the consolidated Financial Statements. In preparing the primary financial statements of the Company, the same accounting policies have been used as in preparing the consolidated Financial Statements.

1.6. Forward-Looking Statements

This Prospectus includes forward-looking statements (notably under Sections "Summary", "Risk Factors", "Business Overview", “Planned Growth Projects” and "Reasons for Offering and Use of Proceeds"). Such forward-looking statements are based on current expectations and projections about future events, which are in turn made on the basis of the best judgment of the Management. Certain statements are based on the beliefs of the Management as well as assumptions made by and information currently available to the Management. Any forward-looking statements included in this Prospectus are subject to risks, uncertainties and assumptions about the future operations of the Group, the macro-economic environment and other similar factors.

In particular, such forward-looking statements may be identified by use of words such as "strategy", "expect", "plan", "anticipate", "believe", "will", "continue", "estimate", "intend", "project", "goals", "targets" and other words and expressions of similar meaning. Forward-looking statements can also be identified by the fact that they do not relate strictly to historical or current facts. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements contained in this Prospectus whether as a result of such changes, new information, subsequent events or otherwise.

The validity and accuracy of any forward-looking statements is affected by the fact that the Group operates in a highly competitive business. This business is affected by changes in domestic and foreign laws and regulations (including those of the European Union), taxes, developments in competition, economic, strategic, political and social conditions, consumer response to new and existing products and technological developments and other factors. The Group's actual results may differ materially from the Management's expectations because of the changes in such factors. Other factors and risks could adversely affect the operations, business or financial results of the Group (please see "Risk Factors" for a discussion of the risks which are identifiable and deemed material at the date hereof).

1.7. Use of Prospectus

This Prospectus is prepared solely for the purposes of the Offering of the Bonds and listing and the admission to trading of the Bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange. The Prospectus in not published in any jurisdiction other than Estonia and consequently the dissemination of this Prospectus in other countries may be restricted or prohibited by law. This Prospectus may not be used for any other purpose than for making the decision of participating in the Offering or investing into the Bonds. You may not copy, reproduce (other than for private and non-commercial use) or disseminate this Prospectus without express written permission from the Company.

1.8. Approval of Prospectus

This Prospectus has been approved by the EFSA, as competent authority under the Prospectus Regulation, on 2 December 2019 under registration number 4.3-4.9/5016. The EFSA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation and should not be considered as an endorsement of the Company and the quality of the Bonds that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Bonds.

1.9. Availability of Prospectus

This Prospectus and its Estonian language summary will be published by means of a stock exchange release through the information system of Nasdaq Tallinn Stock Exchange. The Prospectus and its Estonian language summary are also available as of 2 December 2019 in an electronic format on the website of the EFSA (https://www.fi.ee) and on the website of the Company (https://www.inbank.ee/en/inside/investor/forinvestor/). Any interested party may request delivery of an electronic copy of the Prospectus and its Estonian language summary from the Company without charge. Paper copy of the Prospectus can be obtained at the premises of the Company (address Niine tn 11, Tallinn 10414, Estonia) by any interested party upon request. Delivery of the Prospectus is limited to the jurisdictions in which the offering to the public is being made, i.e. to Estonia.

2. SUMMARY

Introduction and warnings

This Summary (**Summary**) should be read as an introduction to Prospectus and any decision to invest in the Bonds should be based on consideration of the Prospectus as a whole by the investor. The information in the Summary is presented as of the Prospectus registration date, unless indicated otherwise. Civil liability in relation to this Summary attaches only to those persons who have tabled the Summary, including any translation thereof, and only where the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus, or where it does not provide, when read together with the other parts of the prospectus, key information in order to aid investors when considering whether to invest in the Bonds. Investment into the Bonds involves risks and the investor may lose all or part of the investment. The investor may be required under national law to bear the costs of translating the Prospectus before being able to bring a claim to the court in relation to this Prospectus.

Name and international securities identification number (ISIN) of the Bonds	Inbank subordinated bond 19.12.2029, ISIN EE3300001544 (the **Bonds**)
The identity and contact details of the issuer, including its legal entity identifier (LEI)	The business name of the issuer is AS Inbank (the **Company**). The Company is registered in the Estonian Commercial Register under the register code 12001988 and its LEI code is 2138005M92IEIQVEL297. The contact details of the Company are the following: address Niine tn 11, Tallinn 10414, Estonia, phone +372 640 8080, e-mail info@inbank.ee.
The identity and contact details of the competent authority approving the prospectus, date of approval of the prospectus	This Prospectus has been approved by the Estonian Financial Supervision Authority (the **EFSA**) under registration number 4.3-4.9/5016 on 2 December 2019. The contact details of the EFSA are the following: address Sakala 4, Tallinn 15030, Estonia, phone +372 668 0500, e-mail info@fi.ee.

Key information on the issuer

Who is the issuer of the securities?

The business name of the Company is AS Inbank (formerly Cofi AS). The Company was registered in the Estonian Commercial Register on 5 October 2010 under the register code 12001988 and its LEI code is 2138005M92IEIQVEL297. The Company has been established and is currently operating under the laws of the Republic of Estonia in the form of a public limited company (in Estonian: *aktsiaselts* or AS) and is established for an indefinite term. The Company's group includes the following consolidated subsidiaries (the **Group**): Inbank Latvia SIA, Inbank Liising AS, Mokilizingas AB, Inbank Payments OÜ and Inbank Technologies OÜ. Furthermore, the Company has branches in Lithuania and Poland. The Company is the holding company of the Group. As at the date of this Prospectus, the Group is operating in seven geographical markets, including in the three Baltic countries – Estonia, Latvia and Lithuania. In Estonia, the Group is engaged in providing consumer financing and accepting public deposits. In Latvia, the Group operates through Inbank Latvia SIA which offers consumer financing services. In Poland and Lithuania, the Group operates through branches which offer consumer financing and accept public deposits. The Group operates in Lithuania also through Mokilizingas AB, which is expected to be merged into the Company's Lithuanian branch. In addition to the abovementioned geographical markets and business segments, the Group accepts public deposits from Germany, Austria and the Netherlands. The Company itself is an Estonian licensed credit institution with a main focus of issuing consumer credit products and collecting deposits. The Company's activities are concentrated on certain market and product segments – deposits, consumer loans, hire-purchase, factoring – where the Company has a strong technological advantage over competitors. The banking services business segment can be further broken down into retail banking and corporate banking. The retail banking services are offered to private individuals, whereas the clients of the corporate banking services are small and medium-sized companies.

As at the date of this Prospectus, the shareholders holding directly over 5% of all shares in the Company are the following:

Name of shareholder	Number of shares	Proportion
Cofi Investeeringud OÜ	24,635	27.27%
Pershing Hall Holding Limited	23,858	26.41%
Roberto de Silvestri	5,928	6.56%
Elio Tomaso Giovanni Cravero	5,164	5.72%
Baltic Holdings Limited	4,909	5.43%

There are no persons who have an indirect qualifying holding in the Company.

The Company has a three-layer management. The Management Board is responsible for the day-to-day management of the Company and each of its member is eligible to represent the Company in keeping with the law and the Articles of Association. The Supervisory Board of the Company is responsible for the strategic planning of the activities of the Company and for supervising the activities of the Management Board. The highest governing body of the Company is the general meeting of shareholders.

As of the date of this Prospectus, the Company has five members of the Management Board – Mr Jan Andresoo (Chairman of the Management Board, the authorities remain valid until 21 December 2021), Ms Liina Sadrak (the authorities remain valid until 18 March 2021), Ms Piret Paulus (the authorities remain valid until 5 May 2020), Jaanus Kõusaar (the authorities remain valid until 11 August 2022) and Mr Marko Varik (the authorities remain valid until 18 March 2021). The Supervisory Board of the Company includes five members – Mr Priit Põldoja (the Chairman of the Supervisory Board), Ms Triinu Reinold, Mr Raino Paron, Mr Rain Rannu and Mr Roberto De Silvestri. The authorities of all the above-mentioned persons as the members of the Supervisory Board will remain valid until 23 March 2021.

The statutory auditor of the Group for the financial years 2017–2019 is Aktsiaselts PricewaterhouseCoopers (registry code 10142876; having its registered address at Pärnu mnt 15, 10141 Tallinn, Estonia). Aktsiaselts PricewaterhouseCoopers is a member of the Estonian Auditing Board.

What is the key financial information regarding the issuer?

The Table 1 and Table 2 set forth the key financial information as at the end of each of the financial years ended 31 December 2018 and 31 December 2017 and the nine months ended 30 September 2019 and 30 September 2018 which have been extracted or derived from the Audited Financial Statements and Interim Financial Statements included in this Prospectus respectively. The information has been presented in accordance with Annex III of European Commission Delegated Regulation (EU) 2019/979 as deemed most appropriate in relation to the Bonds by the Company.

Table 1. Consolidated income statement (in thousands of euros)

Year	2018 Audited	2017 Audited	9M '19 Unaudited	9M '18 Unaudited
Net interest income	19,873	11,014	22,512	13,236
Net fee and commission income	-388	-56	-574	-197
Impairment losses on loans and advances	-2,686	-3,532	-4,845	-3,087
Net trading income	0	0	0	0
Total comprehensive income for the period	9,349	7,461	6,648	6,277
Profit for the period	9,276	7,499	6,566	6,225

Table 2. Consolidated balance sheet (in thousands of euros)

Year	30.09.2019 Unaudited	31.12.2018 Audited	31.12.2017 Audited
Total assets	445,968	318,044	125,981
Senior debt	0	10,429	0
Subordinated debt	9,551	9,528	6,480
Loans and advances	310,341	225,639	92,895
Deposits from customers	375,133	240,175	95,056
Total equity	43,949	36,465	22,046
Tier 1 capital ratio (%)	14.72%	15.55%	14.99%
Capital adequacy (%)	17.06%	18.68%	22.24%

There are no qualifications in the audit report pertaining to the Audited Financial Statements.

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

Counterparty Credit Risk. As uncollateralized consumer lending to households is the Group's key activity, counterparty credit risk is inherent to the core operations of the Group, making the Group exposed to changes in the solvency of households that is impacted by the unemployment rate, level of wages etc. The Group considers credit risk as the risk of potential loss which may arise from counterparty's inability to meet its obligations to the Group companies. The Group makes provisions for potential credit losses in accordance with the applicable requirements; however, such provisions are made based on the available information, estimates and assumptions, which by definition are subject to certain amount of uncertainty. Therefore, there can be no assurance that provisions are sufficient to cover potential losses.

Market Risk. Market risk, the risk of potential loss which may arise from unfavourable changes in interest rates, foreign exchange rates or price of securities, arises primarily from the Group's mismatched interest rate exposures between loans and deposits, open foreign currency positions and shares of Coop Pank AS that are held for investment purposes.

Foreign Currency Risk. Foreign currency risk arises from the Group's activities through the Polish branch by offering consumer financing and accepting public deposits denominated in Polish zloty.

Interest Rate Risk. Interest rate risk is inherent to the operations of the Group, and foremost the operations of the Company, and arises due to the fluctuations of market interest rates over time, while the Group's business involves intermediation activity that produces exposures to both maturity mismatch and rate mismatch.

Liquidity Risk and Dependence on Access to Funding Resources. The Group's risk policies and internal procedures may not be adequate or sufficient in order to ensure the Group's access to funding resources when needed, to the extent needed or on favourable terms in order to ensure sufficient liquidity, which may affect the ability of the Group to realise its strategic plans, finance its capital needs and meet its contractual obligations on time.

Operational Risk. Operational risk is a risk of potential loss caused by human, process or information system failures and flaws. In addition, the operational risk also embraces risk of corporate fraud and misconduct. For the Group, the realisation of such risks could lead to a disruption in provision of services, non-conformity with applicable requirements and financial losses. The prior is true especially due to the Group relying strongly on the effective functioning of its processes and systems.

Dependency on Information Technology Systems and Risk of Cyber-Attacks. The Group has developed and uses a variety of custom-made information technology systems and web-based solutions in carrying out its everyday business operations and providing services to its clients. The business model of the Group is specifically built upon providing its services with the help of innovative information technology solutions. Hence, any malfunctioning of the systems could potentially harm the operations of the Group and may lead to financial losses.

Dependency on Qualified Staff. The results of operations of the Group depend highly on the ability to engage and retain qualified, skilled and experienced staff. In the highly competitive environment where the Group companies operate and considering the Group's expansion targets, the Group companies must make continuous efforts to attract new qualified personnel and motivate existing management and employees. Any loss of the services of key employees, particularly to competitors, or the inability to attract and retain highly skilled personnel may have material adverse effect on the Group's operations, financial condition and results of operations.

Strategic Risk. For reasons of corporate growth, the Group's strategic risk is estimated to exceed the strategic risk of a bank positioned in a stable stage, which may result in losses arising from the pursuit of wrong strategic decisions.

Reputational Risk. In the banking sector, where the Group companies and most notably the Company operate, a good reputation is paramount. It affects the trustworthiness of the bank which is the basis for conducting the business in the sector. As the Company obtained a banking license and started operating under a new business name (Inbank) only four years ago, the development of a strong brand and good reputation is especially important for the Company, and thus the Company is more susceptible to reputational risk than older and well-established brands in the financial sector.

Maintaining Capital Adequacy Ratios. The Company and the Group must adhere to strict capital adequacy requirements subject to frequent reforms and changes, which may result in the need to increase capital, reduce leverage and risk weighted assets, modify the Group's legal structure or even change the Group's business model.

Exposure to Regulative Changes. The Group operates in highly regulated fields of business and its operations are subject to a number of laws, regulations, policies, guidance and voluntary codes of practice, which are subject to changes. The increased requirements and expectations, enhanced supervisory standards and uncertainty with regard to further changes may result in limitations of operating flexibility and certain lines of business, additional costs and liabilities, a necessity to change legal, capital or funding structures, and decisions to exit or not to engage in certain business activities.

Exposure to Regulatory Actions and Investigations. Several local and European authorities, including financial supervision, consumer protection, data protection, tax and other authorities regularly perform investigations, examinations, inspections and audits of the Group's business, including, but not limited to, regarding capital requirements, standards of consumer lending, anti-money laundering (the "**AML**"), payments, reporting, corporate governance, etc. Any determination by the authorities that the Company or any Group entities have not acted in compliance with all the applicable laws and regulations could have serious legal and reputational consequences for the Group, including exposure to fines, criminal and civil penalties and other damages, increased prudential requirements or even lead to business disruption in the respective fields.

*Exposure to Money Laundering and Terrorist Financing (the "**ML/TF**") Risks*. The target customers, operating regions as well as the offered products and services of the Group include modest ML/TF risks compared to the majority in the banking sector. Nevertheless, failure to comply with AML requirements would most likely lead to implementation of strict supervisory measures, reputational damage and could result in business disruption.

Changes in Economic Environment. Each of the Group's operating segments is affected by general economic and geopolitical conditions. The general economic environment on the one hand affects the demand for the services of the Group, but on the other hand negative trends in the economy increase the credit risks. Although the Group constantly monitors developments on both domestic and international markets, it is not possible to forecast the timing or extent of changes in the economic environment.

Key information on the securities

What are the main features of the securities?

The Bonds are subordinated bonds with the nominal value of EUR 1,000, denominated in euro. The Bonds represent unsecured debt obligation of the Company before the bondholder. The Bonds are in dematerialised book-entry form and are not numbered. The Bonds are registered in Nasdaq CSD under ISIN code EE3300001544.

The rights attached to the Bonds have been established by the Terms of the Bonds. The main rights of bondholders arising from the Bonds and the Terms of the Bonds are the right to the redemption of the Bonds and the right to receive payment of interest. In addition to the right to the redemption of the Bonds and the right to receive payment of interest, upon a delay in making any payments due under the Terms of the Bonds, the bondholders are entitled to a delay interest at the rate of 0.025% per each day in delay.

Interest and Yield

The Bonds carry an annual coupon interest at the rate of 6% per annum, calculated from the date of issue of the Bonds, i.e. 19 December 2019, until the date of redemption. The interest is paid quarterly on the following dates (starting from year 2020): 28 March, 28 June, 28 September and 28 December. The interest on the Bonds is calculated based on 30-day calendar month and 360-day calendar year (30/360).

Maturity Date

The maturity date of the Bonds is 19 December 2029.

According to the Terms of the Bonds, the Company is entitled to redeem the Bonds prematurely at any time after the lapse of 5 years as from the date of issue, i.e. at any time after 19 December 2024, by notifying the bondholders at least 30 days in advance. The Company is further entitled to redeem the Bonds prematurely before the lapse of the 5-year term if there is a change in the regulative classification of the Bonds resulting in the Bonds being, in the opinion of the Company, excluded from the classification as own funds of a credit institution or if there is a significant change in the taxation regime applicable in respect of the Bonds, provided that the Company was not in a position to foresee such changes upon the issue of the Bonds.

The Bonds may be redeemed prematurely by the Company on the above-described grounds only if the EFSA has granted its consent to the early redemption. The EFSA may grant its consent for the early redemption of the Bonds as from 19 December 2024 only if the conditions of Article 78(1) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (the **CRR**) are met. The EFSA may grant its consent for the early redemption of the Bonds before 19 December 2024 only if the conditions of Article 78(4) of the CRR are met.

The bondholders are not entitled to claim early redemption of the Bonds under any circumstances.

Ranking and Subordination

The Bonds are subordinated to all unsubordinated claims against the Company. For the avoidance of doubt, the Bonds are not subordinated to the claims, which are subordinated to the Bonds or which rank *pari passu* with the Bonds. The subordination of the Bonds means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds shall fall due in accordance with the Terms of the Bonds and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law. Therefore, upon the liquidation or bankruptcy of the Company, the bondholders of the Bonds are not entitled to any payments due under the Terms of the Bonds until the full and due satisfaction of all the unsubordinated claims against the Company.

Furthermore, any liability arising under the Bonds may be subject to the exercise of Bail-In Powers by the relevant Resolution Authority in cases where a Group company meets the conditions for the initiation of resolution proceedings (i.e. fails or is likely to fail and certain other conditions are met). Exercising the Bail-in Powers is subject to numerous preconditions and will only be used as a last resort; however, if the powers are exercised, it is possible that: (a) the amount outstanding of the Bonds is reduced, including to zero; (b) the Bonds are converted into shares, other securities or other instruments of the Company or another person; (c) the Bonds or the outstanding amounts of the Bonds are cancelled; and/or (d) the terms of the Bonds are altered (e.g. the maturity date or interest rate of the Bonds could be changed). Therefore, if a Group company meets the conditions for the initiation of resolution proceedings, the exercising of the Bail-in Powers by the relevant Resolution Authority may result in material losses for the bondholders. Financial public support will only be used as a last resort after having assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool. Consent of the bondholders is not necessary for affecting bail-in measures by the Resolution Authority.

As long as there are no resolution, liquidation or bankruptcy proceedings initiated against the Company (or, as the case may be, Group company), all claims arising from the Bonds shall be satisfied in accordance with the Terms of the Bonds and the applicable law.

Transferability

The Bonds are freely transferrable; however, any bondholder wishing to transfer the Bonds must ensure that any offering related to such a transfer would not be qualified as requiring the publication of a prospectus in accordance with applicable law. According to the Terms of the Bonds, ensuring that any offering of the Bonds does not require the publication of a prospectus in accordance with the applicable law is the obligation and liability of the bondholder.

Where will the securities be traded?

The Company intends to apply for the listing and admission to trading of the Bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange. The expected date of listing and the admission to trading of the Bonds is on or about 20 December 2019. While every effort will be made and due care will be taken in order to ensure the listing and the admission to trading of the Bonds by the Company, the Company cannot ensure that the Bonds are listed and admitted to trading on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange.

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

Credit Risk. An investment into the Bonds is subject to credit risk, which means that the Company may fail to meet its obligations arising from the Bonds in a duly and timely manner.

Subordination Risk. The Bonds are subordinated to all unsubordinated claims against the Company, meaning that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds shall fall due but shall be satisfied only after the full satisfaction of all recognised claims against the Company which do not qualify as own funds' instruments in accordance with the applicable law.

Early Redemption Risk. The Bonds may be redeemed prematurely on the initiative of the Company. The Bonds may, however, be redeemed prematurely by the Company only if the EFSA (or the European Central Bank if it is in the competence thereof) has granted its consent to the early redemption.

No Ownership Rights. An investment into the Bonds is an investment into debt instruments, which does not confer any legal or beneficial interest in the equity of the Company or any of the Subsidiaries thereof or any voting rights or rights to receive dividends or other rights which may arise from equity instruments.

Tax Regime Risks. Adverse changes in the tax regime applicable in respect of transacting with the Bonds or receiving interest or principal payments based on the Bonds may result in an increased tax burden of the bondholders and may therefore have adverse effect on the rate of return from the investment into the Bonds.

Cancellation of Offering. Although best efforts will be made by the Company to ensure that the Offering is successful, the Company cannot provide any assurance that the Offering will be successful and that the investors will receive the Bonds they subscribed for.

Bail-In Risk. If a Group company meets the conditions for the initiation of resolution proceedings (i.e. fails or is likely to fail and certain other conditions are met), the Bail-In Powers may be exercised by the relevant Resolution Authority, through which: (i) the amount outstanding of the Bonds could be reduced, including to zero; (ii) the Bonds could be converted into shares, other securities or other instruments of the Company or another person; (iii) the Bonds could be cancelled; and/or (iv) the terms of the Bonds could be varied (e.g. the maturity date or interest rate of the Bonds could be changed).

Bond Price and Limited Liquidity of Bonds. Although every effort will be made to ensure that the admission of the Bonds to trading on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange will occur, the Company cannot provide any assurance in that respect. Further, the Estonian market has limited liquidity and the bondholders may not be able to sell their Bonds at the desired price, or at all. The value of the Bonds can fluctuate on the securities market due to events and the materialisation of risks related to the Group, but also because of events outside the Group's control.

Negative or Insufficient Analyst Coverage. There is no guarantee of continued (or any) analyst research coverage for the Company. Negative or insufficient third-party reports would be likely to have an adverse effect on the market price and the trading.

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

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

In the course of the Offering, up to 6,500 Bonds may be offered to retail and institutional investors in Estonia (the **Retail Offering**). In addition to the Retail Offering the Bonds may be offered in or outside Estonia to qualified investors or by private placement in accordance with Article 1(4)(a) and (b) of the Prospectus Regulation (the **Institutional Offering**); however, this Prospectus relates only to the Retail Offering. The Bonds are offered for the price of EUR 1,000 per one Bond. In case of over-subscription of the Bonds in the course of the Offering, the Company has the right to increase the Offering volume and issue up to 1,500 additional Bonds as a result of which the total number of the Bonds offered in the course of the Offering may be up to 8,000 and the total volume of the Offering up to EUR 8,000,000.

The Retail Offering is directed to all retail and institutional investors in Estonia. For the purposes of the Offering, a natural person is considered to be "in Estonia" if such person has a securities account with the Nasdaq CSD and such person's address recorded in Nasdaq CSD records in connection with such person's securities account is located in Estonia. A legal person is considered to be "in Estonia" if such person has a securities account with Nasdaq CSD and such person's address recorded in Nasdaq CSD records in connection with such person's securities account is located in Estonia or its registration code recorded in Nasdaq CSD records is the registration code of the Estonian Commercial Register.

Indicative timetable of the Offering

3 December 2019	Start of Offering Period
13 December 2019	End of Offering Period
No later than 17 December 2019	Announcement of the results of the Offering
On or about 19 December 2019	Settlement of the Offering
On or about 20 December 2019	First trading day of the Bonds on Nasdaq Tallinn Stock Exchange

Offering Period

The Offering Period is the period during which the persons who have the right to participate in the Retail Offering may submit Subscription Undertakings (please see Section "Subscription Undertakings" for further details) for the Bonds. The Offering Period commences on 3 December 2019 at 10:00 local time in Estonia and terminates on 13 December 2019 at 16:00 local time in Estonia (the **Offering Period**).

Subscription Undertakings

The Subscription Undertakings may be submitted only during the Offering Period. An investor participating in the Retail Offering may apply to subscribe for the Bonds only for the Offer Price. Multiple Subscription Undertakings by one investor, if submitted, shall be merged for the purposes of allocation. All investors participating in the Retail Offering can submit Subscription Undertakings denominated only in euro. An investor shall bear all costs and fees charged by the respective account operator of Nasdaq CSD accepting the Subscription Undertaking in connection with the submission, cancellation or amendment of a Subscription Undertaking.

In order to subscribe for the Bonds, an investor must have a securities account with Nasdaq CSD Estonian settlement system. Such securities account may be opened through any account operator of Nasdaq CSD.

An investor wishing to subscribe for the Bonds should contact an account operator that operates such investor's Nasdaq CSD securities account and submit a Subscription Undertaking for the purchase of Bonds in the form set out below. The Subscription Undertaking must be submitted to the account operator by the end of the Offering Period. The investor may use any method that such investor's account operator offers to submit the Subscription Undertaking (e.g. physically at the client service venue of the account operator, over the internet or by other means). The Subscription Undertaking must include the following information:

Owner of the securities account:	name of the investor
Securities account:	number of the investor's securities account
Account operator:	name of the investor's account operator
Security:	Inbank subordinated bond 19.12.2029
ISIN code:	EE3300001544
Amount of securities:	the nominal value of Bonds for which the investor wishes to subscribe (the number of Bonds multiplied by the Offer Price)
Price (per one offer Bond):	EUR 1,000
Transaction amount:	the number of Bonds for which the investor wishes to subscribe multiplied by the Offer Price
Counterparty:	Inbank AS
Securities account of counterparty:	99102014361
Account operator of the counterparty:	AS LHV Pank
Date of the transaction	the date when the Subscription Undertaking was submitted by the investor
Value date of the transaction:	19 December 2019
Type of transaction:	"purchase"
Type of settlement:	"delivery versus payment"

A Subscription Undertaking is deemed submitted from the moment Nasdaq CSD receives a duly completed transaction instruction from the account operator of the respective investor. Investors have the right to amend or cancel their Subscription Undertakings at any time until the end of the Offering Period. To do so, the investor must contact its/his/her account operator through whom the Subscription Undertaking in question has been made and carry out the procedures required by the account operator for amending or cancelling a Subscription Undertaking (such procedures may differ between different account operators). This may result in costs and fees charged by the account operator through which the Subscription Undertaking is submitted.

An investor may submit a Subscription Undertaking through a nominee account only if such an investor authorises the owner of the nominee account to disclose the investor's identity, personal ID number or registration number, and address to the Company and Nasdaq CSD. Subscription Undertakings submitted through nominee accounts without the disclosure of the above information will be disregarded.

An investor must ensure that all information contained in the Subscription Undertaking is correct, complete and legible. The Company reserves the right to reject any Subscription Undertakings, which are incomplete, incorrect, unclear or illegible, or which have not been completed and submitted during the Offering Period in accordance with all requirements set out in these terms and conditions.

Payment

By submitting a Subscription Undertaking, an investor authorises and instructs the institution operating the investor's cash account connected to its/his/her securities account (which may or may not also be the investor's account operator) to immediately block the whole transaction amount on the investor's cash account until the settlement is completed or funds are released in accordance with these terms and conditions. The transaction amount to be blocked will be equal to the Offer Price multiplied by the number of Bonds for which the investor subscribed. An investor may submit a Subscription Undertaking only when there are sufficient funds on the cash account connected to its/his/her Nasdaq CSD securities account or its/his/her securities account to cover the whole transaction amount for that particular Subscription Undertaking.

Distribution and Allocation

The Company will decide on the allocation of the Bonds after the expiry of the Offering Period, and no later than on 17 December 2019. The Bonds will be allocated to the investors participating in the Offering in accordance with the following principles: (i) under the same circumstances, all investors shall be treated equally, whereas dependent on the number of investors and interest towards the Offering, the Company may set minimum and maximum number of the Bonds allocated to one investor; (ii) the Company shall be entitled to use different allocation principles between the groups of retail investors and institutional investors; (iii) the allocation shall be aimed to create a solid and reliable investor base for the Company; (iv) the Company shall be entitled to prefer Estonian investors to foreign investors who may participate in the Institutional Offering; (v) the Company shall be entitled to prefer its existing shareholders and bondholders of the Company to other investors; and (vi) the Company shall be entitled to prefer the clients of the Company to other investors.

The results of the allocation process of the Offering will be announced through the information system of the Nasdaq Tallinn Stock Exchange and through the Company's website https://www.inbank.ee/en/inside/investor/forinvestor/ no later than on 17 December 2019, but in any case, before the Bonds are transferred to the investors' securities accounts. Therefore, dealing with the Bonds shall not begin before the allocation process has been announced.

Settlement and Trading

The Bonds allocated to investors will be transferred to their securities accounts on or about 19 December 2019 through the "delivery versus payment" method simultaneously with the transfer of payment for such Bonds. The title to the Bonds will pass to the relevant investors when the Bonds are transferred to their securities accounts. If an investor has submitted several Subscription Undertakings through several securities accounts, the Bonds allocated to such investor will be transferred to all such securities accounts proportionally to the number of the Bonds indicated in the Subscription Undertakings submitted for each account, rounded up or down as necessary. Trading with the Bonds is expected to commence on the Nasdaq Tallinn Stock Exchange on or about 20 December 2019.

Return of Funds

If the Offering or a part thereof is cancelled in accordance with the terms and conditions described in this Prospectus, if the investor's Subscription Undertaking is rejected or if the allocation is less than the amount of Bonds applied for, the funds blocked on the investor's cash account, or the excess part thereof (the amount in excess of payment for the allocated Bonds), will be released by the respective financial institution. Regardless of the reason for which funds are released, the Company shall never be liable for the release of the respective funds and for the payment of interest on the released funds for the time they were blocked (if any).

Cancellation of Offering

The Company has the right to cancel the Offering in full or in part in its sole discretion, at any time until the end of the Offering Period. In particular, the Company may decide to cancel the Offering in the part not subscribed for. Any cancellation of the Offering will be announced through the information system of the Nasdaq Tallinn Stock Exchange and through the Company's website https://www.inbank.ee/en/inside/investor/forinvestor/. All rights and obligations of the parties in relation to the cancelled part of the Offering will be considered terminated as of the moment when such announcement is made public.

Why is this Prospectus being produced?

The primary purpose of the Offering is to strengthen the capital structure of the Group to retain a strong capital base in light of a growing risk weighted asset base. The Company is looking to engage additional capital in the amount of up to EUR 6,500,000 and should the Company choose to exercise the right to increase the number of Bonds and the volume of the Offering, in the amount of up to EUR 8,000,000. The proceeds from the Offering will be entirely used for strengthening the Tier 2 regulative capital base. Conservative capital buffers are needed in advance to support the general corporate purposes, further growth, strengthen the market position of the Group, finance launch of new products and increase the business volumes of the Group. The total amount of costs related to the Offering is estimated to be up to EUR 50,000, which will be deducted from the proceeds of the Offering before using the proceeds as described above.

According to the knowledge of the Management, there are no personal interests of the persons involved in the Offering material to the Offering. The Management is unaware of any conflicts of interests related to the Offering.

The Offering is not subject to an underwriting agreement on a firm commitment basis.

3. RISK FACTORS

3.1. Introduction

Investing into the Bonds issued by the Company entails various risks. Each prospective investor in the Bonds should thoroughly consider all the information in this Prospectus, including the risk factors described below. Any of the risk factors described below, or additional risks not currently known to the Management or not considered significant by the Management, could have a material adverse effect on the business, financial condition, operations or prospects of the Company and its Group and result in a corresponding decline in the value of the Bonds or the ability of the Company to redeem the Bonds. As a result, investors could lose a part or all of the value of their investments. The Management believes that the factors described below present the principal risks inherent in investing into the Bonds. The risk factors are presented in categories and where a risk factor may be categorised in more than one category, such risk factor appears only once and in the most relevant category for such risk factor. The most material risk factor in a category is presented first under that category, the assessment of materiality of each risk factor is based on the probability of their occurrence and the expected magnitude of their negative impact, disclosed by rating the relevant risk as low, medium or high. Subsequent risk factors in the same category are not ranked in order of materiality or probability of occurrence.

This Prospectus is not, and does not purport to be, investment advice or an investment recommendation to acquire the Bonds. Each prospective investor in the Bonds must determine, based on its own independent review and analysis and such professional advice as it deems necessary and appropriate, whether an investment into the Bonds is consistent with its financial needs and investment objectives and whether such investment is consistent with any rules, requirements and restrictions as may be applicable to that investor, such as investment policies and guidelines, laws and regulations of the relevant authorities, etc.

3.2. Risks Related to the Company's Financial Situation

Counterparty Credit Risk. Counterparty credit risk is inherent to the core operations of the Group. Uncollateralized consumer lending to households is the Group's key activity, accounting for 97% of total loan portfolio as of 30 September 2019. The Group considers credit risk as the risk of potential loss which may arise from counterparty's inability to meet its obligations to the Group companies. Credit risk affects cash and cash equivalents held with third parties (such as deposits with banks and other financial institutions) but mostly credit exposures to customers, including outstanding loans, as well as other receivables and commitments. Group may also be exposed to credit risk through potential investments in bonds, transactions with derivatives etc. The Group makes provisions for potential credit losses in accordance with the applicable requirements, including the IFRS requirements; however, such provisions are made based on the available information, estimates and assumptions, which by definition are subject to certain amount of uncertainty. Therefore, there can be no assurance that provisions are sufficient to cover potential losses. As of 30 September 2019, the Group's gross loan portfolio was EUR 318.3 million, whereas impairment allowances constituted EUR 8.0 million. In addition, the recoverability of the credit provided to customers may be adversely affected by negative changes in the overall economic, political or regulatory environment, decrease in collateral values and other circumstances beyond the control of the Group. Materialisation of credit risk may have material adverse effect on the Group's operations, financial condition and results of operations. The Group's risk profile for counterparty credit risk is considered as medium.

Concentration Risk. The Group considers concentration risk as part of counterparty credit risk, to which the Group is subject due to the operations of the Group. Concentration risk is a risk arising from a large risk exposure to one counterparty or related counterparties or multiple counterparties impacted by a single risk factor. The Group addresses assets associated with one counterparty, related counterparties and one industry, region or risk factor as part of concentration risk. As the Group's main business involves uncollateralized consumer lending to households, it makes the Group exposed to the changes in the solvency of households that is impacted by the unemployment rate, level of wages etc. Furthermore, as of 30 September 2019, the Group had two receivables that exceeded 10% of the Group's net own funds, both from credit institutions. The materialisation of concentration risk may have a material adverse effect on the Group's operations, financial condition and results of operations. The Group's risk profile for concentration risk is considered as low.

Geographical Markets Risk. The Group offers loans on four geographical markets – Estonia, Latvia, Lithuania and Poland. As of 30 September 2019, the Group's loan portfolio attributable to the Estonian market was the highest accounting for 42.9% of the Group's total loan portfolio, followed by Lithuanian market with 30.2%, Latvian market with 17.2% and Polish market with 9.7%. Therefore, any adverse event or development especially in Estonia and Lithuania may have material adverse effect on the Group's operations, financial condition and results of operations. The Group's risk profile for geographical markets risk is considered as low.

Market Risk. Market risk arises primarily from the Group's mismatched interest rate exposures between loans and deposits, open foreign currency positions and shares of Coop Pank AS that are held for investment purposes. Market risk is the risk of potential loss which may arise from unfavourable changes in interest rates, foreign exchange rates or prices of securities. The Group is naturally exposed to the interest rate risk due to changes in the maturities and interest rates of loans and/or deposits. Within the Group, internal judgement and know-how is used to assess and avoid potential market losses; however, such internal judgement may turn out to be inaccurate due to changes in the financial markets not foreseen at the time of making the judgement. In order to mitigate the market risk, conservative limits have been established for open market risk and foreign currency exposures of the Group, but despite the measures taken by the Group, the market risk may have material adverse effect on the Group's operations, financial condition and results of operations. Further description of the types of market risk is provided below. The Group's risk profile for market risk is considered as medium.

Foreign Currency Risk. The Group operates in an international environment and, accordingly, is exposed to foreign currency risk. It arises from the Group's activities through the Polish branch by offering consumer financing and accepting public deposits denominated in Polish zloty. Foreign exchange rates may be affected by complex political and economic factors, including relative rates of inflation, interest rate levels, the balance of payments between countries, the extent of any governmental surplus or deficit, and from the monetary, fiscal and trade policies pursued by the governments of the relevant currencies. Devaluation, depreciation or appreciation of foreign currency may have significant adverse effect on the value of the Group's assets denominated in foreign currency or increase the euro value of the Group's foreign currency liabilities. Although the Group's foreign currency risk management is based on risk policies, limits and internal procedures, it may turn out to be inadequate and therefore, foreign currency risk may have material adverse effect on the Group's operations, financial condition and results of operations. According to the scenario analysis, as of 30 September 2019, the impact of a 10% exchange rate change in an unfavourable direction on all the Group's foreign currency positions would be EUR 25 thousand. The Group's risk profile for foreign currency risk is considered as low.

Interest Rate Risk. The operations of the Group and foremost the operations of the Company are inherently exposed to interest rate risk. Interest rate risk arises due to the fluctuations of market interest rates over time, while the Group's business involves intermediation activity that produces exposures to both maturity mismatch (e.g. long-maturity assets funded by short-maturity liabilities) and rate mismatch (e.g. variable rate loans funded by fixed rate deposits). The Company is responsible for the management of interest rate risk of the Subsidiaries. The profitability of the Group depends on the difference between the interest it charges from its debtors and the interest it pays to its creditors (net interest). The amount of net interest income earned by the Group companies materially affects the revenues and the profitability of the operations of the Group. Interest rates are affected by numerous factors beyond the control of the Group companies, which may not be estimated adequately. Such factors include the changes in the overall economic environment, level of inflation, monetary policies of states, etc. Therefore, interest rate risk may have material adverse effect on the Group's operations, financial condition and results of operations. As of 30 September 2019, a 1 percentage point decrease in market interest rates would raise the Group's economic value, i.e. equity, by EUR +3 thousand. In the same time, an increase of 1 percentage point in market interest rates would affect the Group's economic value (equity) by EUR -133 thousand. A decrease of 1 percentage point in interest rates would affect the Group's annual net interest income and profit by EUR -44 thousand while an increase of 1 percentage point in interest rates would affect the

Group's annual net interest income (profit) by EUR +992 thousand. The Group's risk profile for interest rate risk is considered as medium.

Price risk. Financial instruments bearing price risk at Group are securities held in investment portfolio. As of 30 September 2019, the Company holds 3.49% of Coop Pank AS shares with the total value of EUR 2.4 million for investment purposes which are subject to fluctuations in market price arising from various circumstances beyond the control of the Group. The price risk may have material adverse effect on the Group's operations, financial condition and results of operations. In line with the Group's strategy, the Group plans to completely liquidate Coop Pank AS's holding during 2019 by selling all Coop Pank AS shares in its investment portfolio. This, however, may turn out not to be successful (please refer to "Group Structure, Group Companies and Affiliated Companies of the Company" for further information). The Group's risk profile for price risk is considered as medium.

Liquidity Risk and Dependence on Access to Funding Resources. Liquidity risk relates to the ability of the Group to meet its contractual obligations on time and it arises from differences between maturities of assets and liabilities. Due to its business activities, the maturity of the assets of the Group (*e.g.* loans to its customers) tend to be longer than the maturity of its liabilities (*e.g.* term deposits). The Group's liquidity management and strategy is based on risk policies, resulting in various liquidity risk measures, limits and internal procedures. As per policy statements, the Group's liquidity management reflects a conservative approach towards liquidity risk. Such risk policies and internal procedures may, however, not be adequate or sufficient in order to ensure the Group's access to funding resources when needed, to the extent needed or on favourable terms in order to ensure sufficient liquidity. The Group is fully compliant with the Basel III metrics – the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The aim of the LCR standard is to ensure that the Group has an adequate amount of unencumbered assets of high quality and liquidity that could be monetised without incurring material losses to meet a liquidity requirement in a 30-day stress scenario while NSFR ensures adequate stable funding sources to finance longer-term assets. The Group's LCR and NSFR as of 30 September 2019 were respectively 3352% and 154% while the regulatory minimum requirement for both metrics is set at 100%. The Company's outstanding Tier 2 subordinated bonds (ISIN EE3300110964) with the total volume of EUR 6.5 million are about to mature on 28 September 2026. In order to meet its obligations before the holders of the bonds and to continue the growth and development in accordance with current strategy and business plan, the Group needs to raise additional funding, which may turn out not to be successful. Materialisation of the risks related to liquidity and failure to obtain sufficient funding for operations or the increased costs or unfavourable terms of financing or refinancing could have a material adverse effect on the Group's business, financial condition and results of operations. Furthermore, the Group may encounter difficulties in financing its capital needs, which may prevent the realisation of its strategic plans and could result in the Group having to forgo opportunities that may arise in the future. This, in turn, could have a material adverse effect on the Group's competitive position. The Group's risk profile for liquidity risk is considered as low.

3.3. Risks Related to the Company's and Subsidiaries' Business Activities and the Group's Industry

Operational Risk. Operational risk is a risk of potential loss caused by human, process or information system failures and flaws. In addition, the operational risk also embraces risk of corporate fraud and misconduct. For the Group the realisation of such risks could lead to a disruption in provision of services, non-conformity with applicable requirements and financial losses. The prior is true especially due to the Group relying strongly on the effective functioning of its processes and systems. The Group manages operational risk based on an established operational risk policy. The Group's working procedures are reviewed periodically to ensure minimising human and process flaws, and the information systems and operations are monitored constantly in order to identify risks, flaws or fraud, to minimise the potential loss arising therefrom; however, the risk of such losses cannot be eliminated altogether. The Group may, despite its efforts, fail to mitigate all risks and the operational risk may have material adverse effect on the Group's operations, financial condition and results of operations. As of 30 September 2019, the Group's year-to-date operational risk losses accounted for 0.52% of the Group's own funds. The Group's risk profile for operational risk is considered as medium.

Dependency on Information Technology Systems and Risk of Cyber-Attacks. The Group has developed and uses a variety of custom-made information technology systems and web-based solutions in carrying out its everyday business operations and providing services to its clients. The business model of the Group is specifically built upon providing its services with the help of innovative information technology solutions. The dependency on such systems is further increasing in time with the spread of online and mobile banking services and the development of cloud computing. This means that the Group is exceedingly open to risks over which it has no control, including system-wide failures of communication infrastructure, quality and reliability of equipment and software supplied by third parties and other similar risks. Furthermore, should the Group experience a significant security breakdown or other significant disruption to its information technology systems, sensitive information could be compromised, which in turn could result in civil and administrative liability of the Group companies before its customers, counterparties and state authorities, as well as in a general decrease in the trustworthiness of the Group and consequently in the demand for its services. The Group has made significant investments into developing well-functioning and secure information technology systems and is constantly working on improving such systems and developing adequate contingency procedures; however, the Group may, despite its efforts, fail to mitigate all risks or fail to take appropriate and effective countermeasures if its information technology systems fall under attack, which in turn may have material adverse effect on the Group's operations, financial condition and results of operations. The Group's risk profile for information technology systems risk is considered as medium.

Dependency on Qualified Staff. The results of operations of the Group depend highly on the ability to engage and retain qualified, skilled and experienced staff. Aside from the information technological systems, the qualified, skilled and experienced staff is one of the other key factors enabling the Group companies to operate profitably and to grow further. In the highly competitive environment of the financial sector in which the Group companies compete and considering the Group's expansion targets, the Group companies must make continuous efforts to attract new qualified personnel and motivate existing management and employees. Regulatory restrictions applicable to the Company, such as the limits on certain types of remuneration paid by credit institutions and investment firms set forth in CRD IV[1] and further developed in CRD V[2], could adversely affect the Group's ability to attract new qualified personnel and retain and motivate existing employees. Each of the Group's employee has one's own responsibility area and speciality which only slightly overlap with other colleagues. Any loss of the services of key employees, particularly to competitors, or the inability to attract and retain highly skilled personnel may have material adverse effect on the Group's operations, financial condition and results of operations. The Group's risk profile for dependency on qualified staff is considered as medium.

Strategic Risk. Strategic risk is a possible source of loss that might arise from the pursuit of wrong strategic decisions. For reasons of corporate growth, the Group's strategic risk is estimated to exceed the strategic risk of a bank positioned in a stable stage. The Group's strategic risk is mitigated through well-considered business plans and analyses, as well as engaging professionals with long-term experience in the banking sector and/or entrepreneurship as the members of management and supervisory boards of the Group companies. Further, entries into new markets and sectors are always preceded by an in-depth analysis and engaging experts in the particular field, where necessary. However, despite the measures taken by the Group, the materialisation of strategic risk may have material adverse effect on the Group's operations, financial condition and results of operations. The Group's risk profile for strategic risk is considered as medium.

Reputational Risk. Reputational risk is a risk of loss resulting from any deterioration of the Group's reputation. In the banking sector, where the Group companies and most notably the Company operate, a good reputation is paramount. As the Company obtained a banking license and started operating under a new business name (Inbank) only four years ago, the development of a strong brand and good reputation is especially important for

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[1] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (the **CRD IV**).

[2] Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (the **CRD V**).

the Company, and thus the Company is more susceptible to reputational risk than older and well-established brands in the financial sector. The reputation affects the trustworthiness of the Company which is the principal basis for conducting the business in the sector. Reputational risk can, above all, be attributed to the materialisation of other risks, such as operational, strategic, compliance risks or exposure to civil liability. The Group mitigates the reputational risk by carrying out regular risk management trainings as well as by continually improving the Group-wide risk management framework, thus ensuring a strong risk culture. However, the measures taken by the Group may prove to be ineffective or insufficient and further, in addition to factors directly attributable to the Group companies and their employees, the reputation of the Group is affected by circumstances beyond the control of the Group, such as the conduct of its business partners, whom the Group has over 2000, or information circulating in the media. Any deterioration of the Group's reputation in the eyes of customers, business partners, owners, employees, investors or supervisory authorities may have material adverse effect on the Group's operations, financial condition and results of operations, including the Company's ability to grow deposits and secure funding on favourable terms. The Group's risk profile for reputational risk is considered as low.

Competitive Market. The Group operates in the financial sector, which is on the four geographical markets where the Group is present – Estonia, Latvia, Lithuania and Poland – a highly competitive market. In addition to the licenced credit institutions and branches of foreign banks present in the geographical markets where the Group operates, there are market participants (financial institutions, e.g. creditors) who are not subject to regulatory and capital requirements as burdensome as the Group companies, and who therefore may have a competitive advantage over the Group companies on the relevant market. There are altogether 15 credit institutions (incl. branches) and 63 consumer credit providers on the Estonian market; 19 credit institutions (incl. branches) and 62 consumer credit providers on the Latvian market; 15 credit institutions (incl. branches) and 56 consumer credit providers on the Lithuanian market; and 606 credit institutions (incl. branches) and 471 consumer credit providers on the Polish market. Furthermore, recent trends in the crediting and lending market may be characterised by the development of new products and solutions, which compete with the more conservative and traditional products and services offered by the Group. Often such alternative service providers are able to offer more favourable terms than the Group companies, which may result in price pressure on the products and services offered by the Group. If the Group fails to respond to the competitive environment in its highly competitive target markets by offering attractive and profitable product and service solutions, it may face the decrease of its market shares or the overall profitability of the Group may suffer. The Group's risk profile for the risk stemming from competitive market is considered as low.

Exposure to Conduct of Other Market Participants. The Group's access to financing, investment and derivative transactions may be adversely affected by market practices of other market participants. Unfettered access to the financial markets is needed to ensure that the Group is able to finance it activities, when needed. Financial and securities markets are interrelated and defaults and failures to conduct sound business by other market players could lead to market-wide liquidity problems or other market-wide issues, which could adversely affect the Group's access to capital resources. Further, the Group companies have exposure to many counterparties arising from clearing, funding or other relationships with them. Failure of such market participants to meet their obligations may result in the default of the Group companies before other counterparties and clients, which in turn may have material adverse effect on the Group's operations, financial condition and results of operations. The Group's risk profile for the risk arising from the conduct of other market participants is considered as low.

Subsidiaries and Affiliated Companies. As of 30 September 2019, the Company holds indirect shareholding of 7,6% at Maksekeskus AS. The operations of this joint venture may be adversely affected by the other shareholders of the company. Despite the shareholders' agreement, it cannot be excluded that the joint venture partner exercises its voting rights for influencing management decisions in a direction with which the Company disagrees, or fails to exercise its voting rights to adopt management decisions that in the view of the Company are necessary in the interest of those companies. Furthermore, the joint venture partner may understand the terms of the shareholders' agreement differently from the Company or fail to perform the shareholders' agreement. Although the Management considers the materialisation of the above-described risks unlikely and has high confidence and trust in its joint venture partners, such behaviour by other shareholders, in theory, cannot be excluded or prevented, and may have adverse effect on the financial position and results of operations of the subsidiaries and affiliated companies. Given that the financial results and the operations of the Group depend to an extent on the performance and the sound management of the subsidiaries and the affiliated companies, then this may have material adverse effect on the Group's operations, financial condition and results of operations. The Group's risk profile for the risk stemming from subsidiaries and affiliated companies is considered as low.

3.4. Legal and Regulatory Risks

Maintaining Capital Adequacy Ratios. Credit institutions and investment firms must adhere to strict capital adequacy requirements subject to frequent reforms and changes. Currently, the capital of banks and investment firms in the EU is subject to the legal framework of CRR[3]/CRD IV. These requirements are largely based on the Basel III framework that was agreed in the Basel Committee on Banking Supervision with the objective to strengthen the resilience of the financial sector to economic shocks and thereby ensure the adequate and sustainable financing of the economy, and are still subject to transitional arrangements (phase-in of deductions and capital buffers and phase-out of capital elements). In addition, the Council of the European Union has adopted, among others, reforms for both the CRR and CRD IV. 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 Group is obliged to keep an additional institution-specific countercyclical capital buffer: the corresponding rate currently applied in Lithuania is 1% and 0% in other countries where the Group operates. So far, the Group has complied with all applicable capital requirements. However, the capital requirements adopted in Estonia and the European Union may change, whether as a result of further changes of the EU or Estonian legislation, global standards or interpretation thereof. Such changes, either individually or in combination, may lead to unexpected increased requirements and have a material adverse effect on the business of the Company and the Group as a whole. This may result in the need to increase capital, reduce leverage and risk weighted assets, modify the Group's legal structure or even change the Group's business model. The Group's risk profile for the risk that stems from maintaining capital adequacy ratios is considered as medium.

Exposure to Regulative Changes. The Group operates in highly regulated fields of business and its operations are subject to a number of laws, regulations, policies, guidance and voluntary codes of practice. The regulatory framework that was introduced after the global financial and economic crises of 2007-2009 (CRR, CRD IV, BRRD[4], SRMR[5]) is currently being revised. The revised package on capital requirements (CRR II[6] and CRD V[7]) and resolution (BRRD II[8] and SRMR II[9]) has been adopted by the Council of the European Union. The proposed changes are awaiting to be implemented by national legal acts. As an example, the proposed changes introduce additional or amended capital and liquidity ratios that place further limitations to the flexibility of the funding of the Group. Although the Group does not offer products or services that are generally considered to entail high money

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[3] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (the **CRR**).

[4] Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (the **BRRD**).

[5] Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (the **SRMR**).

[6] Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (the **CRR II**).

[7] Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (the **CRD V**).

[8] Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending the Bank Recovery and Resolution Directive as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC (the **BRRD II**).

[9] Regulation (EU) 2019/877 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 806/2014 as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms (the **SRMR II**).

laundering and terrorist financing risks, the recent developments in this area are likely to place additional strain to the operating processes of the Group. As the business model of the Group is centred around automated IT processes and is thus very dependent on data processing, the regulatory changes (e.g. GDPR[10] that came into effect in 2018) related to data processing have a significant impact on the activities of the Group. One of the most important regulative changes that the Group is exposed to due to its customer target group may arise from the review of the Consumer Credit Directive[11] which is expected to be concluded by the end of 2019. At this time, it is still unclear what kind of new requirements may arise out of this review. Therefore, the increased requirements and expectations, enhanced supervisory standards and uncertainty with regard to further changes may result in limitations of operating flexibility and certain lines of business, additional costs and liabilities, a necessity to change legal, capital or funding structures, and decisions to exit or not to engage in certain business activities. The Group's risk profile for compliance risk is considered as low.

Tax Regime Risks. Tax regimes of the geographical markets where the Group operates are from time to time subject to change, some of which may be dictated by short-term political needs and may therefore be unexpected and unpredictable. Any changes in the tax regimes in the jurisdictions where the Group companies operate or in the interpretation of such tax laws, regulations or treaties may have material adverse effect on the Group's operations, financial condition and results of operations. The Group's risk profile for tax regime risk is considered as low.

<u>Exposure to Regulatory Actions and Investigations</u>. The Group offers various financial services and products and is therefore subject to extensive and comprehensive regulations imposed both through local and through European legal acts. Such risk arises mostly due to the sector in which the Company operates. Several local and European authorities, including financial supervision, consumer protection, data protection, tax and other authorities regularly perform investigations, examinations, inspections and audits of companies acting in the same sector as the Group. Such proceedings include, but are not limited to topics like capital requirements, standards of consumer lending, anti-money laundering ("**AML**"), anti-bribery, payments, reporting, corporate governance, data protection, etc. Any determination by the authorities that the Company or any Group entities have not acted in compliance with all the applicable laws and regulations could have serious legal and reputational consequences for the Group, including exposure to fines, criminal and civil penalties and other damages, increased prudential requirements or even lead to business disruption in the respective fields. Any of these consequences may have material adverse effect on the Company's operations, financial condition and results of operations. The Group's risk profile for the risk arising from regulatory actions and investigations is considered as medium.

*Exposure to Money Laundering and Terrorist Financing ("**ML/TF**") risks.* The recent discoveries of the vulnerability of banks with regard to ML/TF, the regulatory environment as well as the supervisory approach have become very strict and focused on ML/TF risks. The target customers, operating regions as well as the offered products and services of the Group include modest ML/TF risks compared to the majority in the banking sector. Nevertheless, a significant portion of attention have to be put on these risks by the Group in order to meet its low risk appetite for ML/TF risk. Therefore, the Group must put significant effort to complying with AML requirements. Failure to do so would most likely lead to implementation of strict supervisory measures, reputational damage and could result in business disruption. The Group's risk profile for ML/TF risk is considered as low.

<u>Contractual Risk</u>. The operations of the Company are materially dependent on the validity and enforceability of the transactions and agreements entered into by it. These transactions and agreements may be subject to the laws of Estonia or foreign laws. While due care is taken to ensure that the terms of these transactions and agreements are fully enforceable under the laws applicable to them, occasional contradictions and variations of

[10] Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (the "**GDPR**").
[11] Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC.

interpretation may occur. Consequently, the Company may not be able to always enforce their contractual rights. Moreover, the legal environment where such transactions are affected and agreements are entered into, which is primarily that of the Baltic states, is subject to changes, both through the enactment of new laws and regulations and through changes in interpretation by the competent authorities and courts. Therefore, it cannot be fully excluded that certain terms of the transactions and agreements entered into by the Company turn out to be unenforceable, which in turn may have material adverse effect on the Company's operations, financial condition and results of operations. Risk is magnified by the fact that most of the agreements the Company concludes with its customers are based on standard terms and conditions. Hence, any change in law or interpretation could affect a large number of agreements concluded with the customers. The Group's risk profile for contractual risk is considered as low.

Exposure to Civil Liability. The Company operates in a legal and regulatory environment that exposes it to significant risk of claims, disputes and legal proceedings. Due to the nature of its business (provision of consumer credit) use of court system for enforcing claims in arrears is a part of the day-to day activity of the Company. The results of such disputes are inherently difficult to predict and even the disputes themselves, not only unfavourable outcomes, may result in the Company incurring significant expenses and damages, and have negative effects on the Company's reputation, which in turn may have material adverse effect on the Company's operations, financial condition and results of operations. The Group's risk profile for the risk stemming from civil liability is considered as low.

3.5. Political and Economic Risks

Changes in Economic Environment. Each of the Group's operating segments is affected by general economic and geopolitical conditions. The general economic environment on the one hand affects the demand for the services, but on the other hand negative trends in the economy increase the credit risks. Similarly, adverse changes in the economic environment, especially of countries where the Group companies operate, could negatively affect the operations of the Group in several ways, including significantly increase the credit risk stemming from the Group's loan portfolio and decrease the demand for the Group's services. According to IMF World Economic Outlook Update in October 2019, the global economy is expected to grow at 3.5% in 2019 and 3.6% in 2020. OECD Economic Outlook in September 2019 has stated that escalating trade policy tensions are taking an increasing toll of confidence and investment, adding to policy uncertainty, weighing on risk sentiment in financial markets, and endangering future growth prospects. Financial markets tend to behave unpredictably. Europe is struggling with the weakening of the euro, and uncertainties about the decision of the United Kingdom to leave the European Union can have a significant negative effect on the general economic situation in Europe, where the Group's business is concentrated. These or other, yet unknown, adverse developments of the global and local economies and of financial markets could have a degrading effect on the financial position of the Group. Any deterioration in the economic environment of the countries where the Group operates could have a direct negative impact on the financial position and profitability of the Group. The Baltic region is a small open economy that is closely linked to the global economy and especially to the macroeconomic conditions in the Eurozone countries and Russia. Over the recent years, the Eurozone debt crisis has had an adverse effect on the Estonian economy. Due to economic downturn, households' capability to fulfil their obligations towards the Group may deteriorate, which may lead to increase in the Group's overdue loan portfolio. This in turn causes higher provisioning levels and loan losses to the Group. Although the Group constantly monitors developments on both domestic and international markets, it is not possible to forecast the timing or extent of changes in the economic environment. The Group's risk profile for the risk stemming from the changes in economic environment is considered as high.

3.6. Risks Related to Bonds

Credit Risk. An investment into the Bonds is subject to credit risk, which means that the Company may fail to meet its obligations arising from the Bonds in a duly and timely manner. The Company's ability to meet its obligations arising from the Bonds and the ability of the bondholders to receive payments arising from the Bonds depend on the financial position and the results of operations of the Company and the Group, which are subject to other risks described in this Prospectus. The Bonds are not bank deposits in the Company and are not guaranteed by the Guarantee Fund (in Estonian: *Tagatisfond*). The risk profile of the Bonds for credit risk is considered as medium.

Subordination Risk. The Bonds are subordinated to all unsubordinated claims against the Company; however, not to the claims, which are subordinated to the Bonds or which rank *pari passu* with the Bonds. The subordination of the Bonds means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds shall fall due in accordance with the Terms of the Bonds and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law. Therefore, upon the liquidation or bankruptcy of the Company, the holders of the Bonds are not entitled to any payments due under the Terms of the Bonds until the full and due satisfaction of all the unsubordinated claims against the Company. The subordination may have adverse effect on the Company's ability to meet all its obligations arising from the Bonds. The risk profile of the Bonds for subordination risk is considered as medium.

Early Redemption Risk. According to the Terms of the Bonds, the Bonds may be redeemed prematurely on the initiative of the Company, at any time after the lapse of 5 years as from the date of issue of the Bonds as described in Section "Bonds". Further, according to the Terms of the Bonds, the Bonds may be redeemed by the Company even earlier than after the lapse of 5 years as from the date of issue of the Bonds as described in Section "Bonds" if amendments are made to the tax regulation that cause the Company to bear increased tax liability in regards of the Bonds, or if the Bonds seize or are likely to seize to be included in the Company's Tier 2 capital. If any of these early redemption rights is exercised by the Company, the rate of return from an investment into the Bonds may be lower than initially anticipated. Also, the investors might not have an option to invest in financial instruments offering the similar risk/return characteristics at the time of the early redemption or could face additional costs in selecting a new investment. The Bonds may, however, be redeemed prematurely by the Company only if the EFSA (or the European Central Bank if it is in the competence thereof) has granted its consent to the early redemption. The decision on granting the consent involves certain amount of discretion by the competent authority and the early redemption is therefore beyond the control of the Company. The risk profile of the Bonds for early redemption risk is considered as low.

No Ownership Rights. An investment into the Bonds is an investment into debt instruments, which does not confer any legal or beneficial interest in the equity of the Company or any of the Subsidiaries thereof or any voting rights or rights to receive dividends or other rights which may arise from equity instruments. The Bonds represent an unsecured debt obligation of the Company, granting the bondholders only such rights as set forth in the Terms of the Bonds. The value of the Bonds might be affected by the actions of the shareholder of the Company over which the investors do not have control. The risk profile of the Bonds for the risk stemming from not having ownership rights is considered as low.

Tax Regime Risks. Adverse changes in the tax regime applicable in respect of transacting with the Bonds or receiving interest or principal payments based on the Bonds may result in an increased tax burden of the bondholders and may therefore have adverse effect on the rate of return from the investment into the Bonds. The risk profile of the Bonds for tax regime risk is considered as low.

Cancellation of Offering. Although best efforts will be made by the Company to ensure that the Offering is successful, the Company cannot provide any assurance that the Offering will be successful and that the investors will receive the Bonds they subscribed for. The Company is entitled to cancel the Offering on the terms and conditions described in the Section "Cancellation of Offering". The risk profile of the Bonds for the risk stemming from cancellation of Offering is considered as low.

Bail-In Risk. Any liability arising under the Bonds may be subject to the exercise of Bail-In Powers by the relevant Resolution Authority in cases where a Group company meets the conditions for the initiation of resolution proceedings (i.e. fails or is likely to fail and certain other conditions are met). Exercising the Bail-In Powers is subject to numerous preconditions and will only be used as a last resort; however, if the powers are exercised, it is possible that: (a) the amount outstanding of the Bonds is reduced, including to zero; (b) the Bonds are converted into shares, other securities or other instruments of the Company or another person; (c) the Bonds are cancelled; and/or (d) the terms of the Bonds are altered (e.g. the maturity date or interest rate of the Bonds could be changed). Therefore, if a Group company meets the conditions for the initiation of resolution proceedings, the exercising of the Bail-in Powers by the relevant Resolution Authority may result in material losses for the bondholders. Financial public support will only be used as a last resort after having assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool. Consent of the bondholders is not necessary for affecting bail-in measures by the Resolution Authority. The risk profile of the Bonds for bail-in risk is considered as medium.

3.7. Risks Related to Offering, Listing and Admission to Trading

Bond Price and Limited Liquidity of Bonds. The Company will apply for the listing of the Bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange; however, although every effort will be made by the Company to ensure the listing of the Bonds as anticipated by the Company, no assurance can be provided that the Bonds will be listed and admitted to trading. Further, the Nasdaq Tallinn Stock Exchange is substantially less liquid and more volatile than established markets in other jurisdictions. The YTD turnover of bonds admitted to trading on Nasdaq Tallinn Stock Exchange is EUR 23,758,566, with 1,351 trades in total (as of 26 November 2019). The relatively small market capitalisation and low liquidity of the Nasdaq Tallinn Stock Exchange may impair the ability of the bondholders to sell their Bonds on the open market, use them as a collateral for other obligations or engage in other transactions requiring the existence of an active market, or could increase the volatility of the price of the Bonds. The value of the Bonds can fluctuate on the securities market due to events and the materialisation of risks related to the Group, but also because of events outside the Group’s control, such as economic, financial or political events, changes of interest rate levels or currency exchange rates, policy of central banks, changes in the demand or supply of securities of the same type in general or of the Bonds. For instance, if at any point a person holding a large block of Bonds decided to sell such Bonds, the demand on the Nasdaq Tallinn Stock Exchange may not be sufficient to accommodate such a sale or issue and any sale may take longer than originally expected or a sale may take place at a lower price than expected. The risk profile of the Bonds for the risk stemming from bond price and limited liquidity of Bonds is considered as medium.

Negative or Insufficient Analyst Coverage. There is no guarantee of continued (or any) analyst research coverage for the Company. Over time, the amount of third-party research available in respect of the Company may increase or decrease with little or no correlation with the actual results of its operations, as the Company has no influence on the analysts who prepare such reports. Negative or insufficient third-party reports would be likely to have an adverse effect on the market price and the trading volume of the Bonds. The risk profile of the Bonds for the risk stemming from negative or insufficient analyst coverage is considered as low.

4. TERMS AND CONDITIONS OF OFFERING

4.1. Offering

In the course of the Offering, up to 6,500 Bonds may be offered to retail and institutional investors in Estonia (the **Retail Offering**). In case of over-subscription of the Bonds in the course of the Offering, the Company has the right to increase the Offering volume and issue up to 1,500 additional Bonds as a result of which the total number of the Bonds offered in the course of the Offering may be up to 8,000 and the total volume of the Offering up to EUR 8,000,000. The additional Bonds will be allocated to the investors participating in the Offering in accordance with the principles described in Section "Distribution and Allocation".

In addition to the Retail Offering the Bonds may be offered in or outside Estonia to qualified investors or by private placement in accordance with Article 1(4)(a) and (b) of the Prospectus Regulation (the **Institutional Offering**); however, this Prospectus relates only to the Retail Offering. The division of the Bonds between the Institutional Offering and the Retail Offering has not been predetermined and will be determined by the Company in accordance with the principles described in Section "Distribution and Allocation" below. The total amount of Bonds may decrease in case any part of the Offering is cancelled – please see the Section "Cancellation of Offering" for further details.

4.2. Right to Participate in Offering

The Retail Offering is directed to all retail and institutional investors in Estonia. For the purposes of the Offering, a natural person is considered to be "in Estonia" if such person has a securities account with the Nasdaq CSD SE Estonian branch (register code 14306553, address Maakri tn 19/1, 10145 Tallinn, Estonia) acting as the operator of the Estonian securities register (**Nasdaq CSD**) and such person's address recorded in Nasdaq CSD records in connection with such person's securities account is located in Estonia. A legal person is considered to be "in Estonia" if such person has a securities account with Nasdaq CSD and such person's address recorded in Nasdaq CSD records in connection with such person's securities account is located in Estonia or its registration code recorded in Nasdaq CSD records is the registration code of the Estonian Commercial Register.

4.3. Offer Price

The Offer Price is EUR 1,000 per one Bond. The Offer Price will be the same in the Institutional Offering and in the Retail Offering.

4.4. Offering Period

The Offering Period is the period during which the persons who have the right to participate in the Retail Offering may submit Subscription Undertakings (please see Section "Subscription Undertakings" for further details) for the Bonds. The Offering Period commences on 3 December 2019 at 10:00 local time in Estonia and terminates on 13 December 2019 at 16:00 local time in Estonia.

4.5. Subscription Undertakings

Submitting Subscription Undertakings

The Subscription Undertakings may be submitted only during the Offering Period. An investor participating in the Retail Offering may apply to subscribe for the Bonds only for the Offer Price. Multiple Subscription Undertakings by one investor, if submitted, shall be merged for the purposes of allocation. All investors participating in the Retail Offering can submit Subscription Undertakings denominated only in euro. An investor shall bear all costs and fees charged by the respective account operator of Nasdaq CSD accepting the Subscription Undertaking in connection with the submission, cancellation or amendment of a Subscription Undertaking.

In order to subscribe for the Bonds, an investor must have a securities account with Nasdaq CSD Estonian settlement system. Such securities account may be opened through any account operator of Nasdaq CSD. A complete and up to date table of account operators of Nasdaq CSD can be found at the following address: https://nasdaqcsd.com/services/services-to-account-operators/list-of-account-operators/.

Content of and Requirements for Subscription Undertakings

An investor wishing to subscribe for the Bonds should contact an account operator that operates such investor's Nasdaq CSD securities account and submit a Subscription Undertaking for the purchase of Bonds in the form set out below. The Subscription Undertaking must be submitted to the account operator by the end of the Offering Period. The investor may use any method that such investor's account operator offers to submit the Subscription Undertaking (e.g. physically at the client service venue of the account operator, over the internet or by other means). The Subscription Undertaking must include the following information:

Owner of the securities account:	name of the investor
Securities account:	number of the investor's securities account
Account operator:	name of the investor's account operator
Security:	Inbank subordinated bond 19.12.2029
ISIN code:	EE3300001544
Amount of securities:	the nominal value of Bonds for which the investor wishes to subscribe (the number of Bonds multiplied by the Offer Price)
Price (per one offer Bond):	EUR 1,000
Transaction amount:	the number of Bonds for which the investor wishes to subscribe multiplied by the Offer Price
Counterparty:	Inbank AS
Securities account of counterparty:	99102014361
Account operator of the counterparty:	AS LHV Pank
Date of the transaction	the date when the Subscription Undertaking was submitted by the investor
Value date of the transaction:	19 December 2019
Type of transaction:	"purchase"
Type of settlement:	"delivery versus payment"

A Subscription Undertaking is deemed submitted from the moment Nasdaq CSD receives a duly completed transaction instruction from the account operator of the respective investor.

Submission of Subscription Undertakings through Nominee Accounts

An investor may submit a Subscription Undertaking through a nominee account only if such an investor authorises the owner of the nominee account to disclose the investor's identity, personal ID number or registration number, and address to the Company and Nasdaq CSD. Subscription Undertakings submitted through nominee accounts without the disclosure of the above information will be disregarded.

Amendment and Cancellation of Subscription Undertakings

Investors have the right to amend or cancel their Subscription Undertakings at any time until the end of the Offering Period. To do so, the investor must contact its/his/her account operator through whom the Subscription Undertaking in question has been made and carry out the procedures required by the account operator for amending or cancelling a Subscription Undertaking (such procedures may differ between different account operators). This may result in costs and fees charged by the account operator through which the Subscription Undertaking is submitted.

Legal Effect of Subscription Undertakings

An investor must ensure that all information contained in the Subscription Undertaking is correct, complete and legible. The Company reserves the right to reject any Subscription Undertakings, which are incomplete, incorrect, unclear or illegible, or which have not been completed and submitted during the Offering Period in accordance with all requirements set out in these terms and conditions.

By submitting a Subscription Undertaking, every investor:

(i) accepts the terms and conditions of the Offering set out in this Section and elsewhere in this Prospectus and agrees with the Company that such terms will be applicable to the investor's acquisition of any Bonds;
(ii) confirms that it/he/she has read the Terms of the Bonds and that the Terms of the Bonds are fully understandable and acceptable to it/him/her;
(iii) accepts that the number of the Bonds indicated by the investor in the Subscription Undertaking will be regarded as the maximum number of the Bonds which the investor wishes to acquire (the **Maximum Amount**) and that the investor may receive less (but not more) Bonds than the Maximum Amount subscribed for (please see Section "Distribution and Allocation");
(iv) undertakes to acquire and pay for any number of Bonds allocated to them in accordance with these terms and conditions, up to the Maximum Amount;
(v) authorises and instructs the account operator through which the Subscription Undertaking is submitted to arrange the settlement of the transaction on their behalf (taking such steps as are legally required to do so) and to forward the necessary information to the extent necessary for the completion of the transaction;
(vi) authorises the account operator through which the Subscription Undertaking is submitted, and Nasdaq CSD, to amend the information contained in the Subscription Undertaking to (a) specify the value date of the transaction, (b) specify the number of Bonds to be purchased by the investor and the total amount of the transaction, up to the Maximum Amount times the Offer Price; (c) correct or clarify obvious mistakes or irregularities in the Subscription Undertakings, if any;
(vii) acknowledges that the Retail Offering does not constitute an offer (in Estonian: *pakkumus*) of the Bonds by the Company in legal terms or otherwise, and that the submission of a Subscription Undertaking does not constitute the acceptance of an offer, and therefore does not in itself entitle the investor to acquire the Bonds, nor result in a contract for the sale of the Bonds between the Company and the investor.

4.6. Payment

By submitting a Subscription Undertaking, an investor authorises and instructs the institution operating the investor's cash account connected to its/his/her securities account (which may or may not also be the investor's account operator) to immediately block the whole transaction amount on the investor's cash account until the settlement is completed or funds are released in accordance with these terms and conditions. The transaction amount to be blocked will be equal to the Offer Price multiplied by the Maximum Amount. An investor may submit a Subscription Undertaking only when there are sufficient funds on the cash account connected to its/his/her Nasdaq CSD securities account or its/his/her securities account to cover the whole transaction amount for that particular Subscription Undertaking.

4.7. Distribution and Allocation

The Company will decide on the allocation of the Offer Bonds after the expiry of the Offering Period, and no later than on 17 December 2019. The Bonds will be allocated to the investors participating in the Offering in accordance with the following principles:

(i) under the same circumstances, all investors shall be treated equally, whereas dependent on the number of investors and interest towards the Offering, the Company may set minimum and maximum number of the Bonds allocated to one investor;
(ii) the Company shall be entitled to use different allocation principles between the groups of retail investors and institutional investors;
(iii) the allocation shall be aimed to create a solid and reliable investor base for the Company;

(iv) the Company shall be entitled to prefer Estonian investors to foreign investors who may participate in the Institutional Offering;

(v) the Company shall be entitled to prefer its existing shareholders and bondholders of the Company to other investors; and

(vi) the Company shall be entitled to prefer the clients of the Company to other investors.

The results of the allocation process of the Offering will be announced through the information system of the Nasdaq Tallinn Stock Exchange and through the Company's website https://www.inbank.ee/en/inside/investor/forinvestor/ no later than on 17 December 2019, but in any case, before the Bonds are transferred to the investors' securities accounts. Therefore, dealing with the Bonds shall not begin before the allocation process has been announced.

4.8. Option to Increase Offering Volume

In case of over-subscription of the Bonds in the course of the Offering, the Company has the right to increase the Offering volume and issue up to 1,500 additional Bonds as a result of which the total number of the Bonds offered in the course of the Offering may be up to 8,000 and the total volume of the Offering up to EUR 8,000,000. The additional Bonds will be allocated to the investors participating in the Offering in accordance with the principles described in Section "Distribution and Allocation".

The final total Offering volume will be announced through the information system of the Nasdaq Tallinn Stock Exchange and through the Company's website https://www.inbank.ee/en/inside/investor/forinvestor/ no later than on 17 December 2019.

4.9. Settlement and Trading

The Bonds allocated to investors will be transferred to their securities accounts on or about 19 December 2019 through the "delivery versus payment" method simultaneously with the transfer of payment for such Bonds. The title to the Bonds will pass to the relevant investors when the Bonds are transferred to their securities accounts. If an investor has submitted several Subscription Undertakings through several securities accounts, the Bonds allocated to such investor will be transferred to all such securities accounts proportionally to the number of the Bonds indicated in the Subscription Undertakings submitted for each account, rounded up or down as necessary. Trading with the Bonds is expected to commence on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange on or about 20 December 2019.

4.10. Return of Funds

If the Offering or a part thereof is cancelled in accordance with the terms and conditions described in this Prospectus, if the investor's Subscription Undertaking is rejected or if the allocation is less than the amount of Bonds applied for, the funds blocked on the investor's cash account, or the excess part thereof (the amount in excess of payment for the allocated Bonds), will be released by the respective financial institution. Regardless of the reason for which funds are released, the Company shall never be liable for the release of the respective funds and for the payment of interest on the released funds for the time they were blocked (if any).

4.11. Cancellation of Offering

The Company has the right to cancel the Offering in full or in part in its sole discretion, at any time until the end of the Offering Period. In particular, the Company may decide to cancel the Offering in the part not subscribed for. Any cancellation of the Offering will be announced through the information system of the Nasdaq Tallinn Stock Exchange and through the Company's website https://www.inbank.ee/en/inside/investor/forinvestor/. All rights and obligations of the parties in relation to the cancelled part of the Offering will be considered terminated as of the moment when such announcement is made public.

4.12. Conflicts of Interests

According to the knowledge of the Management, there are no personal interests of the persons involved in the Offering material to the Offering. The Management is unaware of any conflicts of interests related to the Offering.

5. REASONS FOR OFFERING AND USE OF PROCEEDS

The primary purpose of the Offering is to strengthen the capital structure of the Group to retain a strong capital base in light of a growing risk weighted asset base. The proceeds from the Offering will be entirely used for strengthening the Tier 2 regulative capital base. Conservative capital buffers are needed in advance to support the general corporate purposes, further growth, strengthen the market position of the Group, finance launch of new products and increase the business volumes of the Group. During the first six months of 2019 the risk weighted assets of the Company have increased by nearly 33,3% from EUR 208 million to EUR 277 million[12]. According to the EU legislation applicable to credit institutions the increase in risk weighted assets need to be covered by regulative capital.

The Company is looking to engage additional capital in the amount of up to EUR 6,500,000 and should the Company choose to exercise the right to increase the number of Offer Bonds and the volume of the Offering as described in Section "Option to Increase Offering Volume" in the amount of up to EUR 8,000,000. The total amount of costs related to the Offering is estimated to be up to EUR 50,000, which will be deducted from the proceeds of the Offering before using the proceeds as described above.

[12] These figures are based on Capital Adequacy Calculation in the Audited Financial Statements and the Interim Financial Statements.

6. BONDS

6.1. Bonds

Type and Class of Bonds
The Bonds are subordinated bonds with the nominal value of EUR 1,000. The Bonds represent unsecured debt obligation of the Company before the bondholder.

The Bonds will be issued by the relevant resolutions of the Management Board dated 29 November 2019 and of the Supervisory Board dated 8 August 2019. The issue date of the Bonds will be 19 December 2019.

Applicable Law
The Bonds will be issued in accordance with and are governed by the laws of the Republic of Estonia unless the exclusive jurisdiction of any other court is provided for by the provisions of law, which cannot be derogated from by an agreement of the parties.

Form and Registration
The Bonds are in dematerialised book-entry form and are not numbered. The Bonds are registered in Nasdaq CSD under ISIN code EE3300001544.

Currency
The Bonds are denominated in euro.

Ranking and Subordination
The Bonds have not been rated by any credit rating agencies.

The Bonds are subordinated to all unsubordinated claims against the Company. For the avoidance of doubt, the Bonds are not subordinated to the claims, which are subordinated to the Bonds or which rank *pari passu* with the Bonds. The subordination of the Bonds means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds shall fall due in accordance with the Terms of the Bonds and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law. Therefore, upon the liquidation or bankruptcy of the Company, the bondholders of the Bonds are not entitled to any payments due under the Terms of the Bonds until the full and due satisfaction of all the unsubordinated claims against the Company. As long as there are no liquidation or bankruptcy proceedings initiated against the Company, all claims arising from the Bonds shall be satisfied in accordance with the Terms of the Bonds and the applicable law.

Rights Attached to Bonds
The rights attached to the Bonds have been established by the Terms of the Bonds, which are included in this Prospectus as Annex 1. The main rights of bondholders arising from the Bonds and the Terms of the Bonds are the right to the redemption of the Bonds and the right to receive payment of interest.

In addition to the right to the redemption of the Bonds and the right to receive payment of interest, upon a delay in making any payments due under the Terms of the Bonds, the bondholders are entitled to a delay interest at the rate of 0.025% per each day in delay.

The rights arising from the Bonds can be exercised by the bondholders in accordance with the Terms of the Bonds and the applicable law. According to the Terms of the Bonds any dispute between the Company and a bondholder shall be solved by amicable negotiations and if the amicable negotiations have no outcome during a reasonable period of time, the dispute shall be settled by Estonian courts, whereas Harju County Court shall be the court of first instance. Claims arising from the Bonds shall expire in accordance with the statutory terms arising from applicable law.

After the contemplated listing of the Bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange, information on the Company and the operations of the Group required to be disclosed in accordance with applicable law and the Rules of the Nasdaq Tallinn Stock Exchange, including required financial statements, will be disclosed via the information system of the Nasdaq Tallinn Stock Exchange.

Interest and Yield
The Bonds carry an annual coupon interest at the rate of 6% per annum, calculated from the date of issue of the Bonds, i.e. 19 December 2019, until the date of redemption. The interest is paid quarterly on the following dates (starting from year 2020): 28 March, 28 June, 28 September and 28 December. The interest on the Bonds is calculated based on 30-day calendar month and 360-day calendar year (30/360).

Maturity Date
The maturity date of the Bonds is 19 December 2029.

According to the Terms of the Bonds, the Company is entitled to redeem the Bonds prematurely at any time after the lapse of 5 years as from the date of issue, i.e. at any time after 19 December 2024, by notifying the bondholders at least 30 days in advance. The Company is further entitled to redeem the Bonds prematurely before the lapse of the 5-year term if there is a change in the regulative classification of the Bonds resulting in the Bonds being, in the opinion of the Company, excluded from the classification as own funds of a credit institution or if there is a significant change in the taxation regime applicable in respect of the Bonds, provided that the Company was not in a position to foresee such changes upon the issue of the Bonds.

The Bonds may be redeemed prematurely by the Company on the above-described grounds only if the EFSA has granted its consent to the early redemption. The EFSA may grant its consent for the early redemption of the Bonds as from 19 December 2024 only if the conditions of Article 78(1) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 are met. The EFSA may grant its consent for the early redemption of the Bonds before 19 December 2024 only if the conditions of Article 78(4) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 are met.[13]

The bondholders are not entitled to claim early redemption of the Bonds under any circumstances.

Transferability
The Bonds are freely transferrable; however, any bondholder wishing to transfer the Bonds must ensure that any offering related to such a transfer would not be qualified as requiring the publication of a prospectus in accordance with the applicable law. According to the Terms of the Bonds, ensuring that any offering of the Bonds does require the publication of a prospectus in accordance with the applicable law is the obligation and liability of the bondholder.

6.2. Taxation

Introductory Remarks. The purpose of this section is to give an overview of the tax regime applicable to the bondholders and the Company. The below summary is in no way exhaustive and is not meant to constitute professional advice to any person. Tax legislation of the investor's member state and of the Company's country of incorporation may have an impact on the income received from the Bonds. In order to establish particular tax consequences of the Offering or the ownership of the Bonds, each individual investor is advised and strongly encouraged to seek specialist assistance.

Capital Gains from Sale or Exchange of Bonds. Gains realised by an Estonian resident individual are taxable on a cash-basis. Upon the sale or exchange of securities (including the Bonds) gains are subject to income tax at the rate of 20%. Since all earnings of resident legal persons, including capital gains, are taxed only upon distribution

[13] Article 78 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 regulates the conditions of granting supervisory permission for reducing own funds, whereas the aim of the regulation as a whole is to ensure due compliance with the capital adequacy requirements applicable in respect of credit institutions and investment firms.

of profits, capital gains realised by resident legal persons are not subject to immediate taxation. As a rule, capital gains received by non-residents from the sale or exchange of securities are not taxed in Estonia (except for certain securities related to Estonian real estate). The non-resident bondholders receiving capital gains from the sale or exchange of the Bonds may be subject to declaring and paying income tax in their respective countries of residence. For the purposes of capital gains taxation, the gain derived from the sale of securities (including the Bonds) is the difference between the acquisition cost and the sales price of such securities. The gain derived from the exchange of securities is the difference between the acquisition cost of securities subject to exchange and the market price of the property received as the result of the exchange. The expenses directly related to the sale or exchange of shares may be deducted from the gains but are generally rather limited.

Taxation of Interest. Estonian resident individuals are subject to paying income tax (20%) on the interest received from loans, securities (including the Bonds) and other debt obligations. Therefore, interest (coupon payments) received by Estonian resident individuals from the Bonds is subject to income tax in Estonia. Income tax is withheld by the payor unless the resident individual notifies the Company that Bonds were acquired from funds held in the Investment Account. Since all earnings of resident legal persons are taxed only upon distribution (as described below), interest received by Estonian resident legal persons is not subject to immediate taxation. As a rule, interest payments received by non-residents are exempt in Estonia (i.e. no withholdings are made). Note, however, that non-resident bondholders receiving interest from the Bonds may be subject to declaring and paying income tax in their respective countries of residence.

Investment Account. Individuals may defer the taxation of their investment income by using an investment account (in Estonian: *investeerimiskonto*) for the purposes of making transactions with financial assets (including the Bonds). An investment account is a monetary account opened with an European Economic Area or the Organisation for Economic Co-operation and Development (OECD) member state credit institution, through which the transactions with the financial assets, taxation of income from which (e.g. capital gains, interest, etc.) a person wants to defer, shall be made. The moment of taxation of the financial income held on an investment account is postponed until such income is withdrawn from the investment account (i.e. the amount withdrawn from the account exceeds the amount which had been previously paid in to the account). Therefore, financial income held at the investment account may be reinvested tax-free until it is withdrawn from the account.

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

6.3. Listing and Admission to Trading

The Company intends to apply for the listing and admission to trading of the Bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange. The expected date of listing and the admission to trading of the Bonds is on or about 20 December 2019. While every effort will be made and due care will be taken in order to ensure the listing and the admission to trading of the Bonds by the Company, the Company cannot ensure that the Bonds are listed and admitted to trading on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange.

In addition to the Bonds, the Company's subordinated bonds with an interest rate of 7% and maturity date 28 September 2026 (ISIN EE3300110964) have been listed and admitted to trading on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange.

7. GENERAL CORPORATE INFORMATION AND ARTICLES OF ASSOCIATION

7.1. General Corporate Information

The business name of the Company is AS Inbank (formerly Cofi AS). The Company was registered in the Estonian Commercial Register on 5 October 2010 under the register code 12001988 and its legal entity identifier (LEI) code is 2138005M92IEIQVEL297. The Company has been established and is currently operating under the laws of the Republic of Estonia in the form of a public limited company (in Estonian: aktsiaselts or AS) and is established for an indefinite term.

The contact details of the Company are the following:

Address: Niine tn 11, Tallinn 10414, Estonia

Phone: +372 640 8080

Fax: +372 640 8081

E-mail: info@inbank.ee

Website: https://www.inbank.ee

The information on the website does not form part of the prospectus unless that information is incorporated by reference into the Prospectus.

According to the latest available annual report of the Company, i.e. the annual report for the financial year ended on 31 December 2018, the field of activity of the Company was "credit institutions (banks)" (EMTAK[14] 64191).

7.2. Articles of Association

The latest version of the Articles of Association of the Company was adopted by the resolution of the General Meeting of shareholders of the Company, dated 28 March 2019, which is included in this Prospectus as Schedule 5. The main terms of the Articles of Association of the Company are the following:

i. the minimum amount of the share capital of the Company is EUR 500,000 and the maximum amount of the share capital of the Company is EUR 2,000,000;
ii. the Company has only one type of shares. The nominal value of the ordinary share of the Company is EUR 10 and each share grants the shareholder one vote at the General Meeting of shareholders;
iii. the Shares may be paid in by monetary contribution and in non-monetary contribution only if allowed by the applicable law;
iv. the Shares are freely transferrable and may be pledged in accordance with applicable law;
v. the Company may issue convertible bonds the aggregate nominal value of which may not be more than 1/10 of the share capital of the Company;
vi. the highest management body of the Company is the General Meeting of the shareholders of the Company. Annual General Meeting is convened during the first three months of the financial year. The annual General Meeting of the shareholders is operational if at least 2/3 of the votes represented by shares of the Company are present at the meeting. If the quorum is not met then the management convenes a new meeting, which is operational regardless of the number of votes present. A resolution of the General Meeting of the shareholders of the Company is adopted if 2/3 of the votes present at the

[14] EMTAK (the Estonian Classification of Economic Activities) is the basis for determining the fields of activity of Estonian companies. EMTAK is the national version of the international harmonised NACE classification. As of 1 January 2007, the Estonian companies are, instead of providing their fields of activity in the Articles of Association, required to report them in their annual reports using EMTAK classification.

General Meeting vote in favour of it, unless the law or the Article of Association specify otherwise. The persons are elected by a plurality of votes;

vii. the Supervisory Board comprises of five to seven members elected by the Annual Meeting of the shareholder of the Company for a period of three years. The members of the Supervisory Board elect a chairman for the Supervisory Board. The Supervisory Board meets at least once per three months. The Supervisory Board meeting is operational if at least half of the members of the Supervisory Board are present. A member of the Supervisory Board may take part in the meeting via electronical means of communication. A resolution of the Supervisory Board is adopted if at least half of the members of the Supervisory Board taking part that at the voting voted in favour of the resolution. The Supervisory Board may adopt resolutions without convening a meeting;

viii. the Supervisory Board approves the strategy, general activity plan, credit and investment policy, principles of remuneration of the members of the Management Board and employees of the Company, risk management principles and strategy, structure of the Company and its general principles, principles of compliance of the Company, annual budget and investment plan of the Company, general order of the internal audit department and the appointment and recalling of the head of the audit department; the Supervisory Board also approves the opening and closing of foreign branches and acquisition and disposal of stakes in other corporations, if the amount of the transaction is in excess of 10% of the own capital of the Company or via a transaction this level of ownership is reached in another company; the Supervisory Board adopts resolutions in matters placed into its competence on the basis of the law and the Articles of Association (including the right to increase the share capital of the Company if so delegated by the General Meeting of shareholders of the Company); the Supervisory Board resolves the appointment and recalling the members of the Management Board;

ix. the Management Board comprises of three to seven members elected by the Supervisory Board for a period of three years, any member of the Management Board may represent the Company alone; Management Board organizes the everyday activities of the Company and prepares a report of its activities and the financial situation of the Company to the Supervisory Board at least once per three months;

x. the financial year of the Company is the calendar year.

8. SHARE CAPITAL, SHARES AND OWNERSHIP STRUCTURE

8.1. Share Capital and Shares

The current registered and fully paid-in share capital of the Company is EUR 903,340, which is divided into 90,334 ordinary shares of the Company (the **Shares**) with the nominal value of EUR 10. The Shares are registered in the Estonian securities register (the **ERS**) under ISIN code EE3100109232. The Shares are not admitted to trading on any regulated market.

For information on the management and employees share option program, please see Section "Management and Key Employees Share Option Program".

8.2. Shareholders of Company

As at the date of this Prospectus, the Shareholders holding directly over 5% of all Shares in the Company are the following:

Name of Shareholder	Number of Shares	Proportion
Cofi Investeeringud OÜ	24,635	27.27%
Pershing Hall Holding Limited	23,858	26.41%
Roberto de Silvestri	5,928	6.56%
Elio Tomaso Giovanni Cravero	5,164	5.72%
Baltic Holdings Limited	4,909	5.43%

There are no persons who have an indirect qualifying holding in the Company.

The Management Board members and their related persons[15] held Shares and options as of the date of this Prospectus as follows:

Management Board Member	Number of Shares		Share Options
	Held by Member	Held by Related Persons	
Jan Andresoo	-	10,354	250
Liina Sadrak	550	-	200
Marko Varik	-	1,231	200
Piret Paulus	-	1,240	200
Jaanus Kõusaar	-	80	200

The Supervisory Board members and their related persons held Shares and options as of the date of this Prospectus as follows:

Supervisory Board Member	Number of Shares		Share Options
	Held by Member	Held by Related Persons	
Priit Põldoja	250	11,531	250
Roberto de Silvestri	5,928	1,985	150
Rain Rannu	180	565	-
Raino Paron	-	5,669	100
Triinu Reinold	-	189	-

In addition to the Management Board and Supervisory Board members, including the founders of the Company

[15] Related persons include the member's spouse, underage child, persons sharing a household with the member for at least the past year and companies controlled by the member.

(Mr Jan Andersoo and Mr Priit Põldoja), and their related persons, the Company is owned by a number of foreign investors, of whom no one has an indirect qualifying holding in the Company.

The Company is as at the date of this Prospectus not aware of any person, directly or indirectly, controlling the Company or of any arrangements or circumstances, which may at a subsequent date result in a change in control over the Company.

8.3. Rights of Shareholders

General Remarks. This Section "Rights of Shareholders" aims to provide general overview of the rights of shareholders arising from Estonian law applicable in respect of the Shareholders of the Company.

Right to Participate in Corporate Governance. The shareholders of a public limited company are entitled to take part in the corporate governance of such company through the general meeting of shareholders, where they can exercise their powers to decide on certain important corporate matters, such as the amendment of the articles of association, the increase and decrease of the share capital, the issue of convertible bonds, the election and removal of the members of the supervisory board and the auditor, the approval of annual reports and the distribution of profit, the dissolution, merger, division or transformation of the company, and certain other matters. The general meeting of shareholders is the highest governing body of a public limited company.

The ordinary general meeting of shareholders must be held once a year pursuant to the procedure and at the time set forth by the law and the articles of association. Pursuant to the Estonian Commercial Code the ordinary general meeting of shareholders must be held within six months as from the end of a financial year. However, the Estonian Credit Institutions Act specifies that the audited annual report of a credit institution must be made public within four months as from the end of a financial year. According to the Estonian Commercial Code, before the ordinary general meeting of shareholders is held, supervisory board must review the annual report and provide the general meeting of shareholders with a written report on the annual report, indicating whether the supervisory board approves the report and providing information on how the supervisory board has organised and supervised the activities of the management of a public limited company in the respective year. In practice, the abovementioned report is made available together with the notice on convening the general meeting of shareholders.

An extraordinary general meeting of shareholders must be convened in the cases set forth in the articles of association of a public limited company but also: (i) in the event that the Company has insufficient own funds and the Company has not increased its own funds to the level required by the EFSA within the time period nominated by the EFSA; (ii) in the event where the net equity of the company decreases below the legally required minimum level, or (iii) if shareholders representing at least 1/10 of the share capital, the supervisory board, or the auditor request that a meeting is convened or (iii) if the meeting is required in the interests of the company. The Articles of Association of the Company do not include any deviation from the applicable law with respect to when the General Meeting of shareholders needs to be convened. Pursuant to applicable law, if the management board of a public limited company fails to convene the extraordinary general meeting within one month after the receipt of the relevant request from shareholders (or from the supervisory board or from the auditor), the shareholders (or, respectively, the supervisory board or the auditor) have the right to convene the meeting themselves.

The notice of an upcoming ordinary general meeting of shareholders must be sent to shareholders three weeks in advance. The notice of an upcoming extraordinary general meeting of shareholders must be sent to shareholders one week in advance. If in the future the Company will have more than 50 shareholders, notices of upcoming general meeting will not have to be sent to each shareholder, but such notice must be published in at least one national daily newspaper in Estonia. If there is a material breach of the requirements of convening a general meeting of shareholders, such meeting does not have the capacity to adopt resolutions, except if all the shareholders participate at the meeting. If the notice includes a proposal to amend the articles of association of the Company, a project of the planned amendments to the articles of association must be published through the information system of the Nasdaq Tallinn Stock Exchange simultaneously with sending the notice of convening the general meeting to the shareholders.

As a rule, the agenda of a general meeting of shareholders is determined by the supervisory board. However, if the meeting is convened by the shareholders or by the auditor, the agenda is determined by them. Furthermore, the management board or the shareholders whose shares represent at least 1/10 of the share capital of a public limited company may demand the inclusion of a certain item into the agenda. An item which is initially not on the agenda of a general meeting of shareholders may be included in the agenda upon the consent of at least 9/10 of the shareholders who participate at the meeting if their shares represent at least 2/3 of the share capital of such company.

Under Estonian law a general meeting of shareholders of a public limited company is capable of passing resolutions if more than 1/2 of the votes represented by all shares held by shareholders are present at the meeting. The Company's articles of association have increased that threshold to 2/3. If this quorum requirement is not met, the management board is required to convene a new meeting not more than three weeks but not less than seven days after the date of the initial meeting. There are no quorum requirements for the newly convened general meetings of shareholders convened in such a manner.

Only those shareholders are eligible to attend and vote at a general meeting of shareholders who were on the list of shareholders as of the date falling seven calendar days before the meeting.

As a rule, under Estonian law, the resolutions of a general meeting of shareholders require the affirmative vote of the majority of the votes represented at the meeting. Certain resolutions, such as amending the articles of association, increasing or decreasing the share capital, resolutions relating to a merger or liquidation of the company, etc., require a qualified majority of 2/3 of the votes represented at the meeting of shareholders. According to the Company's articles of association an affirmative vote in all matters requires the votes of at least 2/3 of the votes represented at the meeting, unless prescribed otherwise by law. Under the law there are resolutions which require an even higher rate of affirmative votes of shareholders, such as excluding the shareholders' preferential right to subscribe for new shares upon an increase of the share capital, which requires the affirmative vote of 3/4 of the votes represented at the general meeting of shareholders, and squeeze-out of minority shares, which requires the affirmative vote of 95/100 of the votes represented at the general meeting of shareholders.

Right to Information. Pursuant to the Estonian Commercial Code, the shareholders of a public limited company have the right to receive information on the activities of the company from the management board at the general meetings of shareholders. However, management board may refuse to give information if there is a reason to presume that this may cause significant damage to the interests of the company. In the event the management board refuses to give information, shareholders may require the general meeting of shareholders to decide on the legality of such refusal or submit a respective claim to the competent court.

Right to Subscribe for New Shares. Pursuant to the Estonian Commercial Code, existing shareholders of a public limited company have, upon the increase of the share capital of the company and the issue of the new shares of the company, the preferential right to subscribe for such new shares of the company proportionally to their existing shareholding in the company. Such preferential right can be excluded by the respective resolution of the general meeting of shareholders, which requires the affirmative vote of 3/4 of the votes represented at the general meeting of shareholders.

Right to Dividends. All shareholders of a public limited company have the right to participate in the distribution of profit of the company and have the right to receive dividends proportionally to their shareholding in the company. Resolving the distribution of profit and the payment of dividends is in the competence of the general meeting of shareholders. The resolution of the distribution of profit and the payment of dividends is adopted on the basis of the approved annual report for the preceding financial year, whereas the management board is under the obligation to make a proposal for the distribution of profit and the payment of dividends in the annual report or in a separate document accompanying the annual report, whereas such a proposal of the management board is subject to a review by supervisory board, which is in turn entitled to introduce amendments to the proposal. The resolution on the distribution of profit and on the payment of dividends must include the following information - (i) the amount of net profit; (ii) the payments into statutory capital reserve; (iii) the payments into other reserves if such exist according to the applicable law or the articles of association (which is not the case for the Company); (iv) the amount of profit being distributed among shareholders; and (v) using the profit for other purposes, if applicable. Shareholders who are entitled to participate in the distribution of profit and receive dividends shall be determined on the basis of the list of shareholders as maintained by the ERS, which is fixed on the date determined by the general meeting of shareholders resolving the distribution of profit, whereas in respect of companies listed on the Nasdaq Tallinn Stock Exchange, such date may not occur earlier than on the tenth trading day after the general meeting of shareholders. While distributing profit and making dividend payments to shareholders, a public limited company is under the obligation to treat all shareholders equally.

8.4. Shareholders' Agreements

The Company and its shareholders Cofi Investeeringud OÜ and Pershing Hall Holding Limited have on 8 September 2014 entered into a shareholders' agreement and on 9 December 2014 and 17 March 2015 amended the shareholders' agreement. The shareholders' agreement, as amended, provides, most importantly, the following:

- 80% quorum threshold for adopting resolutions at the Company's shareholders' meeting;
- each Cofi Investeeringud OÜ and Pershing Hall Holding Limited have a right to appoint one member of the Supervisory Board. As of the date of this Prospectus, members of the Supervisory Board Mr Priit Põldoja and Mr Roberto de Silvestri have been appointed under the shareholders' agreement. The other 3-4 members of the Supervisory Board are independent members;
- right of first refusal and tag-along right of other shareholders in case of sale of the shares in the Company by one shareholder. If one shareholder wishes to transfer its Shares, it shall notify the other shareholders of this intention, after which the other shareholders may (i) exercise their right of first refusal, upon which such shareholder who exercised its right of first refusal has a right and obligation to purchase the Shares from the shareholder wishing to sell its Shares; (ii) exercise the tag-along right, in which case such shareholder who exercised the tag-along right is entitled to sell also their Shares in such transaction on the same terms and conditions; or (iii) decide not to act to the notice.

8.5. Management and Key Employees' Share Option Program

In order to successfully carry out its expansion plans and implement the strategy for 2019-2022, the Company's Supervisory Board has decided to implement a management and key employees' option program to retain and motivate key people within the organisation and have the incentives to recruit new people for key functions. The options have been issued as follows:

- total number of options – 3,800;
- period for issuing of options and signing of option agreements – May 2019;
- issue price per option – options were issued for free;
- strike price per option (price for which shares of the Company would be purchased) – EUR 300 and EUR 675 per share;
- time when options can be exercised – starting three years from the date of the issue of the option and during six months thereafter;
- condition of the right to exercise an option is continued employment/service agreement with the Company or its subsidiary at the date of exercise;
- the specific terms and conditions for exercise of options would be determined by the Management Board of the Company.

The Company's Supervisory Board has also decided to implement a management option program for the managers of the Company's Lithuanian branch and Estonian business unit. The options to the three managers have been issued as follows:

- total number of options – 900;
- period for issuing of options and signing of option agreements – May 2018 until September 2019;
- issue price per option – options were issued for free;
- strike price per option (price for which shares of the Company would be purchased) – EUR 675 per share;
- time when options can be exercised – starting three years from the date of the issue of the option and during six months thereafter;
- condition of the right to exercise an option is continued employment/service agreement with the Company or its subsidiary at the date of exercise;
- the specific terms and conditions for exercise of options would be determined by the Management Board of the Company.

By the date of this Prospectus, the Company has granted options to altogether 5,050 Shares.

9. MANAGEMENT

9.1. Management Structure

The Company has a three-layer management. The Management Board is responsible for the day-to-day management of the Company and each of its member is eligible to represent the Company in keeping with the law and the Articles of Association. The Supervisory Board of the Company is responsible for the strategic planning of the activities of the Company and for supervising the activities of the Management Board. The highest governing body of the Company is the general meeting of shareholders.

The address of operations of the Management Board and the Supervisory Board is Niine 11, 10414 Tallinn, Estonia (the registered address of the Company).

9.2. Management Board

Role. The Management Board of the Company is responsible for the day-to-day management of the Company's operations, representing the Company and for organising its accounting. Under the Credit Institutions Act the Management Board is, *inter alia*, responsible for:

i. developing a business plan for implementation of the strategy approved by the Supervisory Board;
ii. establishing and reviewing risk taking, management, monitoring and risk management principles and procedures which comprise both the current and also potential risks, including risks from macroeconomic environment;
iii. determining the risk tolerance for each relevant business line and unit;
iv. establishing the principles and procedures for the trading portfolio management;
v. approving and submitting to the EFSA the financial position recovery plan prepared on the basis of the Financial Crisis Prevention and Resolution Act;
vi. identifying and assessing regularly all risks involved in the activities of the credit institution and ensure the monitoring and control of the extent of such risks;
vii. ensuring the existence of adequate financial instruments and members of staff or third persons for management of all the significant risks of the credit institution and for evaluation of the assets related to these risks, and for implementation of external credit quality assessments and internal models;
viii. developing and approving the organisational structure on the basis of the principles provided for in the articles of association;
ix. developing and implementing systems for monitoring the activities of the Company, ensuring adherence to such systems, assess the adequacy thereof regularly and improving them if necessary pursuant to the principles established by the Supervisory Board;
x. ensuring that all members of staff of the credit institution are aware of the provisions of legislation relating to their duties of employment and of the principles provided for in the documents approved by the directing bodies of the Company;
xi. organising the effective functioning of the internal control system and ensuring monitoring of the compliance of the activities of the Company and its managers and staff members with legislation and the documents approved by the directing bodies and with the principles of sound banking management;
xii. ensuring the existence and functioning of systems to guarantee that information necessary for members of staff to perform their duties is communicated thereto in a timely manner;
xiii. ensuring the safety and regular monitoring of information technology systems used by the Company and systems used for the safekeeping of assets of clients;
xiv. informing the Supervisory Board to the extent and pursuant to the procedure established of all discovered violations of legislation or of internal rules or other rules established in the Company;

xv. monitoring that adequate separation of functions is guaranteed in all the activities, and avoiding the creation of conflict of interests;
xvi. arranging the disclosure of the required data by the Company;
xvii. guaranteeing that the organisational structure of the Company is transparent, the areas of responsibility are clearly delineated and procedures for the identifying, measurement, management, constant monitoring and reporting of risks have been established and that such procedures are proportional to the nature, extent and level of complexity of the operation of the credit institution;
xviii. in the case the standard approach to operational risk is used, approving of the general principles of mapping business lines;
xix. ensuring the conforming functioning of the organisation of the management of the operational risk of the credit institution and to regularly appraise of the corresponding information;
xx. ensuring the conforming functioning of the organisation of the liquidity risk management of the credit institution, including approval of the business continuity plan specified in subsection.

Further, according to the Commercial Code, it is the obligation of the Management Board to coordinate preparation of the annual reports and submit the reports to the Supervisory Board for review and to the General Meeting of shareholders for approval. The Management Board is accountable to the Supervisory Board and must adhere to its lawful instructions and to the strategy of the Company approved by the Supervisory Board.

Duties. The Management Board must present an overview of the economic activities and economic situation of the Company to the Supervisory Board at least once every three months and is under the obligation to give immediate notice of any material deterioration of the economic condition of the Company or of any other material circumstances related to its operations. If the Company is insolvent and the insolvency, due to the Company's financial situation, is not temporary, the Management Board must immediately submit a voluntary bankruptcy petition in respect of the Company.

The Management Board may only enter into transactions that lie outside the Company's ordinary scope of business with the consent of the Supervisory Board.

Members of Management Board. According to the Articles of Association, the Management Board comprises of three to seven members who are appointed by the Supervisory Board for a term of three years.

The Supervisory Board has appointed five members to the Management Board – Mr Jan Andresoo (Chairman of the Management Board, the authorities remain valid until 21 December 2021), Ms Liina Sadrak (the authorities remain valid until 18 March 2021), Ms Piret Paulus (the authorities remain valid until 5 May 2020), Jaanus Kõusaar (the authorities remain valid until 11 August 2022) and Mr Marko Varik (the authorities remain valid until 18 March 2021).

Mr Jan Andresoo. Mr Andresoo is the chairman of the Management Board, who is responsible for the strategic management of the company and implementation of the short- and long-term plans. Mr Andresoo was born in 1975. Mr Andresoo was awarded a bachelor’s degree in International Business Administration in 1998 and a master’s degree in International Business Administration in 2002 from the Estonian Business School. Between 1996 and 1998 he worked for Hansapanga Kindlustuse AS, between 1998 and 1999 for EstIB-Talinvest Varahaldus AS, between 1999 and 2004 for EBS Juhtimiskoolituse Keskus OÜ, between 2004 and 2006 for Estonian Business School and between 2009 and 2010 for Swedbank AS. Within the Group, in addition to holding the position of the Chairman of the Management Board, Mr Andresoo is also a member of the Supervisory Board of Inbank Liising AS, SIA “Inbank Latvia” and AB Mokilizingas. Mr Andresoo is additionally a member of the Management Board of Eesti Pangaliit.

Ms Liina Sadrak. Ms Sadrak is responsible for the fields of business operations and IT development and customer service. Ms Sadrak was born in 1976. Ms Sadrak was awarded a bachelor’s degree in Marketing and Foreign Economics from the Tallinn University of Technology in 2000. Between 1997 and 2008 she worked for Swedbank

Liising AS, between 2008 and 2010 for Swedbank AS, in 2010 for Eesti Kvaliteediühing and in 2011 for Amserv Grupi AS. Within the Group, in addition to holding the position of member of the Management Board, Ms Sadrak is also a member of the Supervisory Board of Inbank Liising AS and AB Mokilizingas.

Mr Marko Varik. Mr Varik is the CRO of the Company, responsible for risk management in the Company. Mr Varik was born in 1984. Mr Varik was awarded a bachelor's degree in Mathematical Statistics and Economics from the University of Tartu in 2009. Between 2005 and 2006 he worked for AS Lõhmus, Haavel ja Viiseman, between 2006 and 2007 for Orthoclear Inc. and between 2007 and 2010 for Swedbank AS. Within the Group, in addition to holding the position of member of the Management Board, Ms Varik is also a member of the Supervisory Board of Inbank Liising AS, SIA Inbank Latvia and AB Mokilizingas.

Mr Jaanus Kõusaar. Mr Kõusaar is the CFO of the Company, responsible for financial management of the Company. Mr Kõusaar was born in 1976. Mr Kõusaar was awarded a diploma (equivalent to master's degree) in Economics from the Tallinn University of Technology in 1999, and an MBA degree from the Alliance Manchester Business School in 2006. Between 1997 and 2001 he worked for AS PricewaterhouseCoopers, between 2001 and 2004 for Estonian Television, between 2006 and 2011 for Alvarez & Marsal Europe LLP, between 2012 and 2016 for Saku Õlletehase AS and Aldaris A/S and in 2017 for AS Eesti Meedia. Within the Group, in addition to holding the position of member of the Management Board, Mr Kõusaar is also a member of the Management Board of Inbank Payments OÜ.

Ms Piret Paulus. Ms Piret Paulus is responsible for the fields of business and product development in the Company. Ms Paulus was born in 1979. Ms Paulus was awarded a bachelor's degree in Mathematical Statistics and Economics from the University of Tartu in 2002. Between 2004 and 2010 she worked for Swedbank AS, between 2011 and 2016 for Coop Finants AS. Within the Group, in addition to holding the position of member of the Management Board, Ms Paulus is also a member of the Management Board of SIA Inbank Latvia and AB Mokilizingas.

9.3. Supervisory Board

Role. In accordance with the Commercial Code, the Supervisory Board is responsible for the strategic planning of the business activities of the Company and supervising the activities of the Management Board. The Supervisory Board is elected by and accountable to the Shareholders of the Company (acting in the form of the General Meeting).

According to the Credit Institutions Act the Supervisory Board's role includes:

i. approving the strategy and general principles of the Company's activities;
ii. approving the general principles of risk management;
iii. approving the principles of remuneration of the members of the management board and members of staff of the Company;
iv. approving the principles of the organisational structure;
v. approving the general principles of monitoring of the activities of the Company;
vi. approving the statutes of the internal audit unit;
vii. electing and remove the chairman and members of the Management Board;
viii. appointing and removing from office the head of the internal audit unit and, on the proposal of the head of the internal audit unit, appointing and removing from office members of staff of the internal audit unit;
ix. approving the budget and the investment plan;
x. deciding on the foundation or closure of foreign branches;
xi. approving the general principles of the activities and the competence of the credit committee;
xii. deciding on the conclusion of transactions with members of the Management Board, and appointing the representative of the Company in such transactions;

xiii. filing claims against members of the Management Board, and appointing the representative in such claims;
xiv. approving the financial position recovery plan prepared on the basis of the Financial Crisis Prevention and Resolution Act;
xv. deciding on other matters placed in the competence of the Supervisory Board by the articles of association.

Duties. In accordance with the Commercial Code, before the ordinary General Meeting of shareholders is held, the Supervisory Board must review the annual report and provide the General Meeting of shareholders with a written report on the annual report, indicating whether the Supervisory Board approves the report and also provide information on how the Supervisory Board has organized the supervision of the activities of the Company during the year. According to the Articles of Association the Supervisory Board is responsible for:

i. approving the strategy and general principles of the Company;
ii. approving the credit and investment policies of the Company;
iii. approving and evaluating the execution of the remuneration principles of the members of the Management Board and employees of the Company;
iv. approving the general risk management policies and strategy of the Company;
v. approving the organizational structure of the Company and its general principles;
vi. approving the general principles of supervising the activities of the Company;
vii. electing, recalling and deciding upon the remuneration of the members of the Management Board, Chairman of the Management Board, co-Chairman of the Management Board and procurator of the Company;
viii. approving the statutes of the internal audit unit, electing and recalling the head of the internal audit unit and based on the suggestion of the head of the internal audit unit, hiring and firing the members of the internal audit unit;
ix. approving the budget and the planned investments of the Company;
x. deciding the opening and closing of branches in foreign countries;
xi. approving the purchasing (also increasing) and selling (also decreasing) stakes in other corporations (also founding and liquidating corporations), if the value of the transaction increases 10% of the own funds of the Company or the share capital of the other corporation or the transaction would lead to reaching the referred holding threshold;
xii. approving the general principles of operation and authorities of the credit committee;
xiii. approving the transactions that go outside the day-to-day management of the Company;
xiv. deciding upon conducting transactions with the members of the Management Board and appointing a representative of the Company for such transactions;
xv. filing claims against the members of the Management Board and appointing a representative of the Company for such claims;
xvi. determining the agenda for the General Meeting (except when otherwise provided by law);
xvii. deciding other questions over which the Supervisory Board has authority under the law and the Articles of Association.

Members of Supervisory Board. According to the Articles of Association, the Supervisory Board consists of five to seven members who are appointed by the General Meeting of shareholders for a period of three years. The members of the Supervisory Board elect among themselves a Chairman of the Supervisory Board who is responsible for organizing the activities of the Supervisory Board. The roles of each member of the supervisory board are not specified within the Company and the supervisory board members perform their duties as supervisory board members in accordance with the Articles of Association and applicable legislation. According to the Articles of Association, meetings of the Supervisory Board are held according to the actual necessity, but at least once per three months. A meeting of the Supervisory Board has quorum if more than one half of the members of the Supervisory Board participate and a resolution of the Supervisory Board is adopted if more than one half of the members of the Supervisory Board who participate in the meeting vote in favour. A member of the Supervisory Board may participate via electronic means. In case of a tied vote, the Chairman of the Supervisory Board has a casting vote. As at the date of this Prospectus there are five members in the Supervisory Board - Mr Priit Põldoja (the Chairman of the Supervisory Board), Ms Triinu Reinold, Mr Raino Paron, Mr Rain Rannu and Mr Roberto De Silvestri. The authorities of all the above-mentioned persons as the members of the Supervisory Board will remain valid until 23 March 2021.

Mr Priit Põldoja. Mr Põldoja was born in 1969. Mr Põldoja was awarded a bachelor's degree in Business and Finance from the University Mount Saint Mary's College in 1994. Between 1995 and 1996 he worked for The Dai-Ichi Kangyo Bank, between 1996 and 1997 for Tallinna Panga Liisingu AS, between 1997 and 1998 for AS Tallinna Pank, between 1998 and 2000 for Hansabank Markets, between 2000 and 2006 for Hansapank AS and between 2008 and 2009 for Alta Capital Partners. Mr Põldoja is also a member of the Supervisory Board of AB Mokilizingas and SIA Inbank Latvia. Mr Põldoja is additionally a member of the Supervisory Board of Coop Pank aktsiaselts, AS SmartCap and Maksekeskus AS and member of the Management Board of Cofi Investeeringud OÜ, Lamu Investeeringud OÜ, Maksekeskus Holding OÜ, MTÜ Eesti Tennise Liit and MTÜ FinanceEstonia.

Ms Triinu Reinold. Ms Reinold was born in 1985. Ms Reinold was awarded in 2006 a bachelor's degree on Social Sciences (Law) and in 2009 a master's degree in Law from the University of Tartu. In addition, Ms Reinold has been awarded in 2013 a Master of Business Administration (MBA) degree from the Estonian Business School. Between 2009 and 2012 she worked for Raidla Lejins & Norcous Advokaadibüroo OÜ (currently Ellex Raidla Advokaadibüroo OÜ). Since 2012 she is working for Colonna Varahaldus OÜ. Ms Reinold is additionally a member of the Management Board of a number of Estonian holding companies managing real estate and other investments, and a member of the Supervisory Board of AS ISS Eesti, ISS Haldus OÜ and Sihtasutus Colonna Heategevusfond. In addition, Ms. Reinold is a member of the Management Board of Skantes 12 SIA, Skantes 12 Holding SIA, Sarl Segognol and Sarl Rouen.

Mr Raino Paron. Mr Paron was born in 1965. Mr Paron was awarded a BA degree in Law (equal to MA degree) from the Tartu University in 1993 and an LL.M from Georgetown University, USA in 1992. Between 1993 and 1995 he worked in the legal department of World Bank and the IMF. Since 1995 he is working in law firm Osaühing Advokaadibüroo Raidla & Partnerid (currently Ellex Raidla Advokaadibüroo OÜ) as the head of the banking and financing practice group. Mr Paron is also a member of the Management Board of MTÜ FinanceEstonia and a member of the Supervisory Board of AS Tallink Grupp.

Mr Rain Rannu. Mr Rannu was born in 1980. Mr Rannu was awarded in 2002 a bachelor's degree in Public Administration and in 2007 a master's degree in Business and Technology Management from the University of Tartu. He is co-founder and partner at Mobi Solutions since 2001 and founder and board member of Fortumo since 2007, where he also served as a CEO between 2007 and 2015. Mr Rannu is also a co-founder Garage 48 Foundation and and member of the Supervisory Board of Tulundusühistu Tuleva. Mr Rannu is a management board member of Superangels OÜ and Superange1 GP OÜ, which are focused on making investments into start-up companies.

Mr Roberto de Silvestri. Mr de Silvestri was born in 1977. Mr Silvestri was awarded a Law degree in 2002 from the Universita di Giurisprudenza di Genoa and a degree in Asset Management in 2003 from the SDA Bocconi in Milan. Between 2003 and 2005 he worked for Finter Bank Zurich, between 2005 and 2009 for Finavest Monaco SAM. Between 2009 and 2017 Mr de Silvestri was working for G&G Private Finance SAM. Since 2017 Mr. de Silvestri is working for CGM Monaco SAM. Mr Silvestri is also a member of the Management Board of a number of Estonian holding companies managing real estate and other investments, and a member of the Supervisory Board of Sihtasutus Colonna Heategevusfond. In addition, Mr. de Silvestri is a member of the Management Board of CGM Monaco SAM, Valdemara Biroji SIA, SCI Petite Maison 2013, SCI Cap d'Ail 2018, SCI Ile de France, Stabu 10 Holdings SIA, Latvian Investments Vainodes SIA.

9.4. Audit Committee

Role and Duties. The Audit Committee is an advisory body to the Supervisory Board. The Audit Committee was formed to exercise oversight over the Management Board. The function of the Audit Committee is to verify and analyse the processing of financial information, efficiency of risk management and internal control, the process of auditing the financial statements and consolidated reports, and the independence of the external auditor in the fields of accounting, audit, risk management, internal control and internal audit, supervision, budgeting and compliance with legal requirements.

Members of Audit Committee. The Audit Committee of the Company currently has three members. The members of the Audit Committee are elected for a term of 3 years by the Supervisory Board. Currently, the Audit Committee consists of Raino Paron (chairman), Priit Põldoja and Triinu Reinold.

9.5. Remuneration Committee

Role and Duties. The Remuneration Committee is a corporate governance body formed by the Supervisory Board. The Remuneration Committee is formed for the purpose of assessing the principles of remuneration applied within the Company, developing a remuneration strategy for the members of the Management Board as well as for exercising supervision over the compliance with the applicable legal requirements in respect of risk management and capital adequacy.

Members of Remuneration Committee. The Remuneration Committee comprises of three members. According to the 12 February 2016 decision of the Supervisory Board, currently, the members of the Remuneration Committee are Priit Põldoja, Rain Rannu and Roberto de Silvestri.

9.6. Credit Committee

Role and Duties. The Credit Committee is a corporate governance body formed by the Management Board. The Credit Committee is formed for the purposes of overseeing the Company's credit risk profile and framework, approve credit risk of products and of credit procedures.

Members of Credit Committee. The Credit Committee comprises of six or more members. Currently the members of the Credit Committee are Jan Andresoo, Priit Põldoja, Jaanus Kõusaar, Marko Varik, Liina Sadrak and Piret Paulus.

9.7. Asset and Liability Management Committee

Role and Duties. The Asset and Liability Management Committee is a corporate governance body formed by the Management Board of the Company. The Asset and Liability Management Committee is formed for the purpose of ensuring adequate liquidity while managing the Company's spread between the interest income and interest expense, to ensure that all assets and liability management risks remain within the Company's risk appetite approved by the Supervisory Board of the Company, and to evaluate and assess the impact of other potential drivers of earning volatility.

Members of Asset Liability Committee. The Asset and Liability Management Committee comprises of six or more members. Currently the members of the Asset and Liability Management Committee are Jan Andresoo, Priit Põldoja, Jaanus Kõusaar, Marko Varik, Tõnis Rätsep and Nataly Abel.

Mr Tõnis Rätsep. Mr Rätsep is the Head of Group Treasury of the Company, responsible for funding and liquidity management of the Company. Mr Rätsep was born in 1969. Mr Rätsep was awarded a bachelor's degree in International Business Management from the Estonian Business School. Between 1999 and 2011 he worked for AS Hansapank and Swedbank AS in Estonia as Fund Manager, Head of Portfolio Management and Head of Investments and between 2011 and 2019 for Luminor Bank AS as Head of Markets.

Ms Nataly Abel. Ms Abel is the risk analyst of the Company, responsible for the management and control of the Group's market and liquidity risk as well as capital adequacy assessment. Ms Abel was born in 1988. Ms Abel was awarded a BSc degree in Business Studies from Lancaster University in 2013. Since obtaining her degree, she has worked in risk management for State Treasury of the Ministry of Finance and SEB Pank AS until 2018 when Ms Abel joined with the Company's Risk Management team.

9.8. Remuneration and Benefits

In remunerating its personnel, the Company's decisions are based on the principles arising from the Credit Institutions Act and Company's recruitment and remuneration policy. The principles for remunerating personnel stimulate sustainable growth and customer satisfaction, and are relying on trustworthy and effective risk management. In remuneration, the Company considers its employees' personal contribution and job performance as well as the Company's economic results.

The structure of employee remuneration consists of two parts:

- basic salary (fixed);
- performance pay (decided separately for each employee).

Basic salary and performance pay are in reasonable balance and the basic salary makes up a sufficiently high share of total remuneration so to enable non-payment of the bonus if needed. The basis for determining performance pay is a combination of the results by employees and the unit and Company's overall results.

Outside consultants are not involved in determining remuneration principles.

The Company follows the provisions of the Credit Institutions Act in determining severance pay. No severance pay was paid in 2018.

The total amount of remuneration and benefits paid to the members of the supervisory and management bodies of the Company during the financial year 2017 was EUR 617,000 (including applicable taxes) and for financial year 2018 this was EUR 771,000 (including applicable taxes). In addition to monetary remuneration, several members of the management bodies have been issued share options described in detail in Section "Management and Key Employees Share Option Program".

The Company has chosen not to disclose the amounts of remuneration and benefits of each single member of the supervisory and management bodies of the Group companies in order to protect the privacy and personal rights of the relevant persons.

9.9. Share Ownership

The Management Board members and their related persons[16] held Shares and options as of the date of this Prospectus as follows:

Management Board Member	Number of Shares		Share Options
	Held by Member	Held by Related Persons	
Jan Andresoo	-	10,354	250
Liina Sadrak	550	-	200
Marko Varik	-	1,231	200
Piret Paulus	-	1,240	200
Jaanus Kõusaar	-	80	200

[16] Related persons include the member's spouse, underage child, persons sharing a household with the member for at least the past year and companies controlled by the member.

The Supervisory Board members and their related persons held Shares and options as of the date of this Prospectus as follows:

Supervisory Board Member	Number of Shares		Share Options
	Held by Member	Held by Related Persons	
Priit Põldoja	250	11,531	250
Roberto de Silvestri	5,928	1,985	150
Rain Rannu	180	565	-
Raino Paron	-	5,669	100
Triinu Reinold	-	189	-

9.10. Conflicts of Interests

According to the knowledge of the Management, there are no known actual or potential conflicts of interest between the duties of any of the members of the Management Board and the Supervisory Board to the Company or to any Group company, and their private interests or other duties.

9.11. Statement of Compliance with Corporate Governance

The Company complies with the corporate governance regime of the Republic of Estonia. The Company adheres to the Good Corporate Governance Code as approved by the EFSA. The Good Corporate Governance Code is intended mostly for publicly listed companies and is designed for companies with a wide ownership. The Company has thus adapted the Good Corporate Governance Code to its own specifics.

The Good Corporate Governance Code is binding on the basis of "comply or explain principle". The requirements, which are currently not fully followed by the Company have been described in the latest Good Corporate Governance Report made available in the audited consolidated financial statements of the Group for the year ended on 31 December 2018.

9.12. Statutory Auditors

According to the Articles of Association, the General Meeting of shareholders appoint an external auditor for up to five years. The General Meeting of shareholders held on 19 April 2018 appointed Aktsiaselts PricewaterhouseCoopers (registry code 10142876; having its registered address at Pärnu mnt 15, 10141 Tallinn, Estonia) to act as the statutory auditor of the Group for the financial years 2018–2019. Aktsiaselts PricewaterhouseCoopers has also previously been appointed as the statutory auditor of the Group for the financial year 2017. Aktsiaselts PricewaterhouseCoopers is a member of the Estonian Auditing Board.

The Audited Financial Statements have also been audited by sworn auditors Tiit Raimla (sworn auditor number 287) and Evelin Lindvers (sworn auditor number 622) from the audit company Aktsiaselts PricewaterhouseCoopers.

10. PRINCIPAL MARKETS

Introduction. As at the date of this Prospectus, the Group is operating in seven geographical markets, in the three Baltic countries – Estonia, Latvia and Lithuania, and Poland. In Estonia, the Group is engaged in providing consumer financing and accepting public deposits. In Latvia the Group operates through a Latvian subsidiary to the Company which offers consumer financing services. In Poland and Lithuania, the Group operates through a branch which offers consumer financing and accepts public deposits. In Lithuania the Group also operates through a Lithuanian subsidiary Mokilizingas AB, which is scheduled to be merged with the Company's Lithuanian branch by Q1, 2020. In addition to the above-mentioned geographical markets and business segments, the Group accepts public deposits from Germany, Austria and the Netherlands.

Estonian banking sector. There are altogether 8 licenced credit institutions in Estonia, and a further seven branches of foreign credit institutions operate in the Estonian banking market. The Estonian banking market is highly consolidated and is dominated by the credit institutions belonging to Nordic banking groups (e.g. Swedbank AS, AS SEB Pank).

The two main metrics for assessing a banking market are the total volume of loan portfolios and the total volume of deposits. In Estonia, the three largest banking groups hold a 82% combined market share in loans and 84% combined market share in deposits. The Company's main point of competition with the large retail banks is on the private deposit market. By the end of 2017, the total volume of deposits of the credit institutions operating in the Estonian market stood at EUR 17.3 billion, of which the deposits of private persons formed EUR 7.8 billion. By the end of 2018, the total volume of deposits of the credit institutions operating in the Estonian market stood at EUR 17.7 billion, of which the deposits of private persons formed EUR 8.3 billion. The total volume of deposits has been growing year by year for almost two decades, forming a very stable funding source for the credit institutions operating in the Estonian banking market.

Source: https://www.fi.ee/en/publications/estonian-financial-services-market-31-december-2018

Estonian Consumer Financing Market.

As of 31 December 2018, the public list of consumer credit providers in Estonia included 51 companies (other than credit institutions) authorised to provide consumer credit by the Bank of Estonia. In addition, there were 12 creditors related to banks, subjected to consolidated supervision, and 8 credit intermediaries on the market

The volume of consumer loans provided by those companies totalled EUR 1,036 million at the end of 2018.

Year-on-year, the credit portfolio increased by approximately 19.5%. Recent years have shown the continuous increase on the consumer credit market which is mainly a result of favourable macroeconomic conditions. GDP growth in 2017 was 5.7% and 4.8% in 2018.

Source: *Facts and data from the market statistics by the EFSA, available at https://www.fi.ee/en/publications/estonian-financial-services-market-31-december-2018*

Latvian Consumer Financing Market: There are altogether 13 licensed credit institutions in Latvia and a further 6 branches of foreign credit institutions operate in the Latvian banking market. According to the Central Bank of Latvia, in 2018 consumer loans portfolio reached EUR 730 million by +14.48% compared to 2017. In addition to the licensed credit institutions consumer financing in the Latvian market is offered also by credit providers, which are authorised to provide consumer credit by Consumer Rights Protection Centre (CRPC). As of 31 December 2018, the public list of consumer credit providers in Latvia included 62 companies, where 18 of them specialized in consumer loan lending. According to CRPC overview of "Non-Bank Consumer Lending Market 2018" the volume of loans provided by credit providers to consumers in 2018 totalled EUR 630 million, EUR 129 million of which is consumer loans. CRPC authorised credit provider consumer loans credit portfolio in 2018 increased by approximately 13% and totalled EUR 147 million.

Source:

https://www.fktk.lv/tirgus-dalibnieki/kreditiestades/;
https://www.bank.lv/statistika/dati-statistika/kr-statistika;
http://www.ptac.gov.lv/sites/default/files/2018_gada_parskats_par_nebanku_kredit_tirgu.pdf

Polish banking sector: Poland is the largest economy in Central and Eastern Europe. According to Eurostat and the European Commission, its economy has been one of the fastest growing among the EU Member States. Significant domestic demand drove economic growth to 5.1% in 2018, the fastest pace in more than a decade. Favourable labour market developments and strong consumer confidence are key factors supporting private consumption. These trends, with quite strong credit demand, makes Poland a potentially favourable destination for development of the banking sector.

Positive economic growth and improvement of the situation on the labour market has positively translated into rising wealth of the Polish households, which is shown as a systematic increase in the value of deposits in the same client segment. The retail deposit market increased by approximately EUR 18 billion (10.30% per annum), to a total of EUR 196 billion at the end of 2018, following a growth by EUR 9 billion (5.30% per annum) in 2017. The deposit value increased as well as average interest rates for newly opened deposits. In 2018, an average interest rate for new agreements increased from 1.35% to 1.39%.

In 2018, the Polish banking sector's assets totalled EUR 443 billion. The value of the total balance sheet increased by 6.7% compared to the previous year. The size of the banking sector, relative to GDP, remains quite low in comparison to other EU economies (89.6% at the end of 2018) and this ratio remained unchanged in 2018. As of the end of 2018, Polish banking sector extended the total of over EUR 303 billion worth of loans, i.e. EUR 18.5 billion more than in the preceding year.

Information disclosed regarding Polish banking sector is not directly comparable to Estonian and Lithuanian sector overviews due to market-specific characteristics.

Polish Consumer Financing Market: At the end of 2018, the Polish financial landscape was made up of 32 commercial banks, 543 cooperative banks, 31 branches of credit institutions, 25 credit unions and 471 consumer credit providers. At yearend of 2018, the consumer loans portfolio held by monetary financial institutions totalled EUR 44.5 billion and by consumer credit providers totalled EUR 1.2 billion. The value of newly granted loans in 2018 by monetary financial institutions accounted for EUR 21.7 billion and by consumer credit providers for EUR 1.7 billion. By far the top selling loan product was cash loan with sales totalling EUR 16.5 billion and representing a 6.8% growth year-over-year in 2018, compared to 2.2% growth year-over-year in 2017. Cash loan sales were followed by hire purchase products with the amount of EUR 3.1 billion in sales, representing a growth of 4% year-over-year (compared to 10.4% growth year-over-year in 2017).

Source:

https://media.bik.pl/publikacje/att/1395669
https://www.knf.gov.pl/knf/pl/komponenty/img/RAPORT_O_SYTUACJI_BANKOW_2018_65694.pdf

Lithuanian banking sector: There are altogether 7 licensed credit institutions in Lithuania, and a further 8 branches of foreign credit institutions operate in the Lithuanian banking market. The Lithuanian banking market is highly consolidated and is dominated by the credit institutions belonging to Nordic banking groups (Swedbank, SEB, Luminor Bank).

The two main metrics for assessing a banking market are the total volume of loan portfolios and the total volume of deposits. In Lithuania, the three largest banking groups hold a 60% combined market share in loans and 86% combined market share in deposits. The Company's main point of competition with the large retail banks is on the private deposit market. By the end of 2018, the total volume of deposits of the credit institutions operating in the Lithuanian market stood at EUR 21.813 million, of which the deposits of private persons was EUR 13.401

million. By the end of 2018, the total volume of deposits of the credit institutions operating in the Lithuanian market and the Lithuanian branches of foreign credit institutions stood at EUR 22.324 billion, of which the deposits of private persons formed EUR 8.89 billion. The total volume of deposits has been growing year by year for almost two decades, forming a very stable funding source for the credit institutions operating in the Lithuanian banking market.

Source: https://www.lb.lt/en/main-indicators-of-banking-sector-activities

Lithuanian Consumer Financing Market: As of 31 December 2018, the public list of consumer credit providers in Lithuania included 56 companies (other than credit institutions) authorised to provide consumer credit by the Bank of Lithuania.

The volume of consumer loans provided by those companies totalled EUR 563.51 million at the end of 2018, an increase of 10% during first 6 months in 2019. The volume of credit extended to consumers totalled EUR 571.27 million as of 31 December 2018.

Year-on-year, the credit portfolio increased by approximately 33.66%. Recent years have shown the continuous increase on the consumer credit market which is mainly a result of favourable macroeconomic conditions. GDP growth in 2017 was 4.14% and 3.49% in 2018.

Source: https://www.lb.lt/lt/vkd-veiklos-rodikliai

German, Austrian and Netherland Deposit Markets: The Company uses the German, Austrian and Netherlands deposit markets as markets where it, along Estonian, Polish and Lithuanian markets, raises deposits but it does not conduct any consumer finance activities on those markets.

The size of the German deposit market is EUR 2370 billion and the average ≤ 1-year interest rate as of June 2019 was 0.15%. The top interest rate offers in Germany on 23 August 2019 for 1 year and 3-year deposits were 0.92% and 1.14%, respectively.

The size of the Austrian deposit market is EUR 269 billion and the average ≤ 1-year interest rate as of June 2019 was 0.15%. The top interest rate offers in Austria on 23 August 2019 for 1 year and 3-year deposits were 0.90% and 1.10%, respectively.

The size of the Netherlands deposit market is EUR 458 billion and the average ≤1-year interest rate as of June 2019 was 1.29%. The top interest rate offers in Netherlands on 23 August 2019 for 1 year and 3-year deposits were 0.65% and 0.90%, respectively.

Source:

https://www.euro-area-statistics.org/banks-balance-sheet-deposits?cr=eur&lg=en
http://sdw.ecb.europa.eu/reports.do?node=1000005757
https://www.raisin.com/press/interest-rate-radar-september-2019/

11. BUSINESS OVERVIEW

11.1. History and Development of Group

The Group's history goes back to 2010, the year in which a hire-purchase financing provider Cofi AS was founded. From the outset, the Company evolved out of the idea that banking should be local and product-based and that success hinges on having a precise focus. The Company was originally established by Mr Priit Põldoja and Mr Jan Andresoo who both are continuously actively contributing to the management of the Company as the Chairman of the Supervisory Board and as the Chairman of the Management Board.

The Company launched their first hire-purchase product in 2011. Only three years later, the Company assessed itself to be a probable market leader in consumer financing in this field. As hire-purchase was ideal for implementing a technology- and partner-based business model, the Company has thereafter broadened its partner-based cooperation model.

In late 2011, in cooperation with ETK, the Estonian consumers' cooperative (now known as Coop), the Company introduced Säästukaart Pluss – the first payment/loyalty/credit card of its kind in Estonia.

In 2014 the Company introduced a loan product – Target Loan (in Estonian: *Sihtlaen*) – in cooperation with Krediidipank AS (now Coop Pank AS).

In 2014 the Company entered into its first foreign market – Latvia – by establishing Cofi Lizings (now known as Inbank Latvia). The loan portfolio of the Latvian subsidiary at 30 September 2019 was 9% of the total loan portfolio of the Group.

On 10 April 2015 the Company obtained a banking license and started operating under a business name AS Inbank. During the first campaign to collect deposits the Company collected EUR 11 million of deposits in three days.

In May 2015 the Company purchased Desk Rock OÜ and changed its name to Inbank Technologies OÜ.

In the second half of 2015, the Company partnered with Sanoma Baltics AS to offer the auto24 car loan in Estonia.

In April 2016, the Company founded Inbank Liising to provide its corporate clients with asset-based financing.

In September 2016, the Company became public by listing its subordinated bonds on Nasdaq Tallinn Stock Exchange.

In the end of 2016, the Company entered into its second foreign market – Poland – by establishing a Polish branch. The loan portfolio of the Polish branch at 30 September 2019 was 10% of the total loan portfolio of the Group.

In the beginning of 2017, the Company and Coop purchased Krediidipank AS (now Coop Pank AS) and during 2017 the Company sold its shareholdings in Coop Finants AS and Krediidipank Finants AS to Krediidipank AS (now Coop Pank AS). As a result of those transactions, the Company acquired as a financial investment a 18% shareholding in Krediidpank AS (now Coop Pank AS).

In January 2018, the Company sold its shareholding in Veriff OÜ - a video banking and video identification solution provider it had founded in 2015.

In May 2018, the Company entered into its third foreign market – Lithuania – by acquiring 100% of Mokilizingas UAB (later transformed into Mokilizingas AB) which is a consumer finance provider in Lithuania. The loan portfolio of the Lithuanian subsidiary at 30 September 2019 was 39% of the total loan portfolio of the Group.

In December 2018, the Company issued an innovative hybrid instrument for Estonian investors, AT1 or additional Tier 1 bond, in order to strengthen its capital structure and support fast growth. This bond has the features of both a subordinated loan as well as equity, but it is part of Tier 1 capital in the Company's capital management. The Company was able to raise EUR 3.15 million of additional capital with the successful issue.

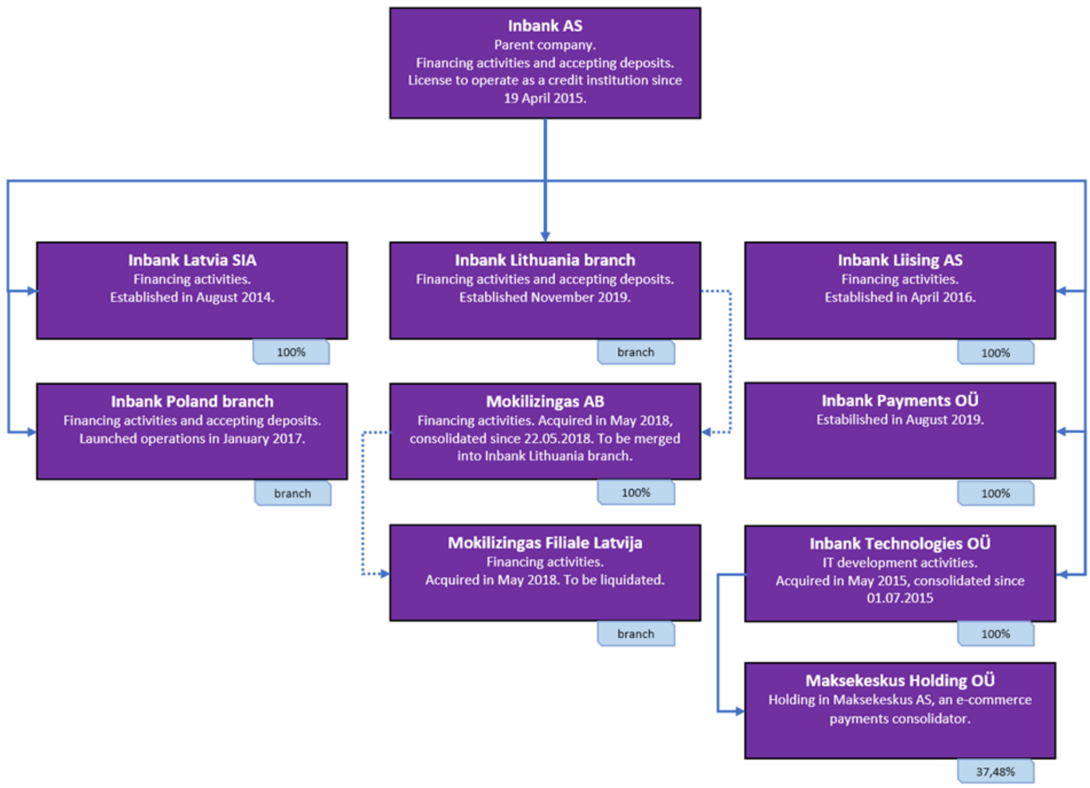
In November 2019, the Company established a branch in Lithuania and plans to merge Mokilizingas AB's assets into its Lithuanian branch by Q1, 2020.

The Group gathers deposits to finance the consumer financing business in Group companies. The deposit portfolio increased from EUR 95 million at the end of 2017 to EUR 240 million at the end of 2018 in line with the overall credit Portfolio growth within the Group. As of 30 September 2019, the deposit portfolio amounts to EUR 375 million. Deposits are offered in euro in Estonia, Germany, Austria and the Netherlands and in Polish zloty in Poland. After the establishment of a branch in Lithuania in Q4 2019 the Group will also start collecting deposits from Lithuanian market. All deposits the Group receives are guaranteed by the Deposit Guarantee Sectoral Fund up to the amount of EUR 100 thousand euros.

11.2. Group Structure, Group Companies and Affiliated Companies of the Company

Group Structure:

As at the date of this Prospectus, the Group structure is the following:



Group Companies:

<u>AS Inbank</u>. AS Inbank (the Company) is the holding company of the Group. The Company is an Estonian licensed credit institution with a main focus of issuing consumer credit products and collecting deposits. The whole Group employs 215 people. As at 30 September 2019 the consolidation group has a portfolio of nearly 520,000 active consumer credit agreements of which 70,000 have been entered into by the Company. By the end of the third quarter of 2019, the total loan portfolio of the Company's consolidation group stood at EUR 310 million and the total amount of deposits was EUR 375 million. By the end of the third quarter of 2019, the total loan portfolio of the Company on a non-consolidated basis stood at EUR 448 million.

Inbank Liising AS. The Company was founded in April 2016 and the main purpose is to provide corporate clients with asset-based financing.

Inbank Latvia SIA. Inbank Latvia SIA is a 100% held subsidiary of the Company. The main products of Inbank Latvia SIA are car loan, small loan and hire-purchase products. By the end of third quarter of 2019 the size of the company's loan portfolio was EUR 28 million. The near-term objectives of Inbank Latvia SIA are to continue its strong growth by seeking new partners for the hire-purchase and small loan product in order to increase its presence in those segments.

Mokilizingas AB. Mokilizingas AB is a 100% held subsidiary of the Company. The main products of Mokilizingas AB are hire-purchase, car loan, small loan products, claims purchase and credit card which it is offering under an e-money license. By the end of third quarter of 2019 the size of the company's loan portfolio was EUR 120 million. The near-term objectives of Mokilizingas AB is to liquidate its branch in Latvia (Mokilizingas Filijale Latvia), merge with Inbank Lithuanian branch by Q1, 2020 and to continue its strong growth by seeking new partners for the hire-purchase and small loan product in order to increase its presence in those segments.

Inbank Lithuanian branch. Inbank Lithuanian branch was established on 15 November 2019. The main products of Inbank Lithuanian branch are small loan products and deposit collection. The near-term objective of Inbank Lithuanian branch is to merge the business of Mokilizingas AB into the branch and continue to offer various consumer finance products on the Lithuanian market.

Inbank Poland branch. Inbank Poland branch was established in January 2017. The main products of Inbank Poland branch are hire-purchase, car loan and small loan products and collecting deposits. The near-term objectives of Inbank Poland are to continue its strong growth by seeking new partners for the hire-purchase, car loan and small loan products in order to increase its presence in those segments.

Inbank Technologies OÜ. Inbank Technologies OÜ (formerly known as Desk Rock OÜ) was purchased by the Company in 2015 and is providing IT hardware services for other Group entities.

Coop Pank AS. The Company has a minority shareholding of 3.49% at Coop Pank AS and it has positioned itself as a financial investor at that bank. In line with the Company's strategy, the Company has decided to divest its shareholding in Coop Pank AS, and for the purposes of this, offered its stake in Coop Pank AS to the public in the course of the initial public offering of shares of Coop Pank AS. The Company has agreed to allocate shares amounting to 1.2% into the base offer, whereas the remaining 2,29% shareholding is allocated as over-allotment shares for the purposes of stabilisation. Therefore, should the stabilising manager, at its sole discretion, deem necessary to enter into stabilisation transactions for the purposes of supporting the market price of the shares of Coop Pank AS on the Nasdaq Tallinn Stock Exchange, it may happen that a part or all of the shares allocated for the purposes of stabilisation is returned to the Company at the end of the 30-day stabilisation period. Should the remaining shareholding (if any) of the Company in Coop Pank AS exceed 1% after the end of the stabilisation period, the Company has agreed to be bound by a 180-day lock-up period, during which the Company may not offer, sell, and contract to sell, or otherwise dispose of its shares in Coop Pank AS without the prior written consent of AS LHV Pank (in its capacity as the Joint Lead Manager and Stabilising Manager for the public offering of the shares of Coop Pank AS). Where relevant, further information as to the outcome of the above will be disclosed by the Company by means of a stock exchange notice through the Nasdaq Tallinn Stock Exchange information system.

Inbank Payments OÜ. Inbank Payments OÜ is a holding company which was established in September 2019 and its purpose is to, by way of corporate restructuring, to hold the shares of Maksekeskus AS, a payment institution operating as a payment facilitator under the trade mark Make Commerce.

11.3. Business Segments

Banking Services. The Company's main business segment is the banking services business segment. The Company's activities are concentrated on certain market and product segments – deposits, consumer loans, hire-purchase, factoring – where the Company has a strong technological advantage over competitors. The Company also has a number of strategic cooperation partnerships which enable the Company to sell its products by using the sale and marketing channels of those partners. The banking services business segment can be further broken down into retail banking and corporate banking. The retail banking services are offered to private individuals, whereas the clients of the corporate banking services are small and medium-sized companies. The Company's loan portfolio as at 30 September 2019 comprised of 95% of consumer lending and 5% of corporate lending.

11.4. Geographical Markets

As described in the previous Section "Principal Markets", as at the date of this Prospectus, the Group is operating in seven geographical markets – Estonia, Latvia, Lithuania, Poland, Germany, Austria and the Netherlands.

11.5. Competitive Position and Competitive Strengths

Assessment of Competitive Position. The Group monitors and analyses its competitive position and developments on the market on the basis of publicly available data and statistics, e.g. market analysis and statistics prepared by the EFSA, Central Bank of Estonia and the local financial supervisors of the geographical markets where the Group companies operate. All statements made in this Prospectus in respect of the competitive position of the Group are based on such publicly available information.

Competitive Strengths. The Management believes the Group to have the following competitive strengths:

Focused business model – the Company clearly defines that it is a specialized digital bank, providing mainly uncollateralized credit products to private individuals. The main products are – hire purchase and consumer loans.

The Company strongly believes that being excellent specialized consumer finance bank is dependent on following aspects:

1. Business process automation
    a. Automated credit decision process
    b. Automated agreement administrations process
    c. Easy contract origination and completion process

The Company understands that in order to be able to compete in consumer finance market the Company as a bank needs to build efficient and automated business processes in order to originate and administrate a large number of relatively small credit contracts.

2. Technology
    a. In-house IT architecture competence
    b. In-house IT development competence
    c. In-house IT analysis competence

The Company understands that modern banking is a combination of banking competence, process competence and technological competence. Therefore, from the beginning Inbank made a strategic decision to build our own technological competence in-house. The company has also built a dedicated business development team with a deep knowledge of its products and processes to support product development and business growth across all existing markets.

3. Attractive to talent
    a. Strong, experienced team of professionals
    b. Entrepreneurial culture
    c. Attractive ownership-based motivation scheme

The Company understands that business is done by people. Taking into account that the Company is mainly building systems and processes, the Company needs specialised and highly professional people. The Company wants to build an organisation with purpose and wants to provide the people an interesting and development-oriented environment. The Company also wants to see that key people are also owners in the Company and therefore an option based motivational scheme has been introduced.

4. Unique distribution model
    a. Partner based distribution strategy
    b. Strategic partnerships
    c. Technological integration with partner channels

The Company understands that financing products are a tool for supporting partners' business. Therefore, the Company is constantly seeking new opportunities to help partners to succeed and sell more by looking for new and unique distribution opportunities, where the Company can integrate its automated credit origination solution in its cooperation partners' everyday business. The whole Group has more than 2000 merchants as its cooperation partners who are using its technological credit origination solution in Estonia, Latvia, Lithuania and Poland. The Company has two successful strategic partnerships with Auto24 and Bite, where in the former channel it provides consumer loans to Auto24 end-customers and in the latter, purchases Bite Latvian and Lithuanian business units' financing claims against its customers.

5. Financing capabilities
    a. Strong capital base
    b. Profitable business model
    c. Access to deposit market
    d. Strong owners

The Company understands that the capability to grow is strongly dependent on availability of financing and strength of the own capital base. European banking licence creates an opportunity to enter into European deposit market and therefore gives the Company a source to provide credit products to the clients. The ownership structure of the Company and the commitment of the shareholders give the Company comfort that our growth is supported by necessary equity. To further strengthen the capital base and ensure that the bank is sufficiently capitalized the Company is also utilising subordinated debt instruments.

6. Internationalization strategy
    a. Centralized technological solution
    b. Centralized banking licence, access to funding and capital
    c. Local professional team and risk-taking competence

The Company understands that success is dependent on the growth strategy. The Company believes that it is better to grow with existing products to new markets. Entering into Latvian, Lithuanian and Polish markets has shown that the combination of centralized financing and technology and local management has provided a working formula of success and very quick time-to-market.

11.6. Investments

The Group companies have made no significant investments since date of the last published financial statements (Q3, 2019; Interim Financial Statements). The Interim Financial Statements are incorporated into this Prospectus.

The Group companies are continuously seeking for opportunities for the expansion of their business operations by investing into organic growth or seeking possible acquisition targets.

As a general rule, the investments made by the Group companies are financed by own funds or by additional capital engaged from the shareholders or bondholders of the subordinated bonds of the Company.

11.7. Material Agreements

Introductory Remarks. The Group companies are not parties to any material agreements outside of their ordinary course of business, which may result in the Group companies being under an obligation or entitlement that is material to the Group company's ability to meet its obligations to bondholders in respect of the Bonds. Nevertheless, this Section provides a general description of most relevant agreements. The level of detail of the information provided is limited due to the confidentiality provisions included in agreements. However, the Management believes that the provided data is sufficient for comprehending the overall contents of the agreements.

Shareholders' agreement regarding Coop Pank AS. On 30 January 2017 the Company, Coop Eesti Keskühistu and Coop Investeeringud OÜ concluded a shareholders' agreement under which the governance of Coop Pank AS was agreed. The shareholders' agreement regulates, *inter alia*, the obligations of the parties with regard to the activities, decision making and financing of Coop Pank AS. In the opinion of the Management, the parties' agreements contained in the shareholders' agreement are in compliance with market practice for similar agreements. Should the shares of Coop Pank AS be successfully listed and admitted to trading on the Baltic Main List of Nasdaq Tallinn Stock Exchange, as contemplated, the shareholders' agreement shall terminate automatically as per the agreement between the parties to the shareholders' agreement.

Cooperation agreement with auto24 AS (former business name Sanoma Baltics AS). In 2015 the Company and auto24 AS concluded a cooperation agreement with regard to offering auto24 car loan. The agreement regulates the parties' obligations in connection with the cooperation, including developing obligations, compensation matters and includes confidentiality clauses. The Management finds that the agreement protects the interests of the Company as it is detailed and the obligations of the parties are in balance.

Cooperation agreement with Bite Lietuva UAB. In 2017 the Mokilizingas AB and Bite Lietuva UAB concluded a cooperation agreement with regard to purchasing Bite Lietuva UAB's claims which it has with its end-customers. The agreement regulates the parties' obligations in connection with the cooperation, including developing obligations, compensation matters and includes confidentiality clauses. The Management finds that the agreement protects the interests of the Mokilizingas AB as it is detailed and the obligations of the parties' are in balance.

The above-described agreements have not been concluded between persons acting in concert.

11.8. Planned Growth Projects

There are two noteworthy projects that in the near future will or may influence the growth of the Company going forward:

Establishment of a branch in Lithuania and transfer of the assets of Mokilizingas AB to the Lithuanian branch

The Company notified the EFSA on 30 April 2019 about its plans to establish a branch in Lithuania. The EFSA approved the establishment of a branch in Lithuania on 9 September 2019 and the branch was established on 15 November 2019.

The Lithuanian branch of Inbank will focus on consumer loans and hire purchase and will also collect term deposits. In the near term, the assets of Mokilizingas AB will be transferred to the Company's Lithuanian branch by way of cross-border merger transaction which is scheduled to be completed latest by the end of Q1, 2020.

The size of the Lithuanian branch's loan portfolio, following the merger with Mokilizingas AB, is estimated to reach approximately EUR 130 million and form 37% of the Company's total portfolio by the end of 2019. However, as the above-described transaction is an internal restructuring within the Group, it does not affect the consolidated financial statements or indicators of the size of the business of the Company.

Increase of shareholding in Maksekeskus AS

The Company is seeking to increase its shareholding in Maksekeskus AS by the end of 2020, although no binding commitments have been made as of the date of this Prospectus. Growing the shareholding in Maksekeskus AS is in line with the Company's strategy and overall market trends where the combination of payment processing and short-term financing products has become more prevalent.

The materialisation of both projects is subject to the EFSA approval. Where relevant, advances in the above-described projects (if any) will be disclosed by means of a stock exchange notice through the Nasdaq Tallinn Stock Exchange information system.

11.9. Trend Information

There has been no material adverse change in the prospects of Group since 30 September 2019.

There has been no significant change in the financial performance of the Group since 30 September 2019 to the date of the Prospectus.

As described under Section "Planned Growth Projects", during Q1, 2020 Mokilizingas AB is scheduled to merge with Inbank Lithuanian branch. The Company submitted the application for the merger between the Company and Mokilizingas AB to the EFSA on 15 August 2019. As a result, and prior to the completion of the merger, Mokilizingas AB shall also liquidate its branch in Latvia, Mokilizingas Filijale Latvia. However, as the above-described transaction is an internal restructuring within the Group, it does not affect the consolidated financial statements or indicators of the size of the business of the Company.

11.10. Legal Proceedings

In the course of its everyday business operations, the Group companies are customarily parties to legal and administrative proceedings.

In legal proceedings (court proceedings) the Group companies act, in general, as plaintiffs seeking to recover debts from customers in default. Such debt recovery proceedings are part of everyday business operations of the Group companies. As at the date of this Prospectus, in all on-going legal proceedings, Group companies involved are acting as plaintiffs and all such proceedings concern debt recovery.

Since the Group companies (most relevantly the Company) operate in the fields subject to extensive legal regulation, they are subject to numerous administrative proceedings initiated primarily by the EFSA in the course of ordinary financial supervision.

As of the date of this Prospectus, none of the legal or administrative proceedings to which a Group company is a party to (including any such proceedings which are pending or threatened of which the Management is aware) are considered likely to have any significant effects on the Group's financial position and there are no governmental, legal or administrative proceedings to which a Group company has been party to (including any such proceedings which are pending or threatened of which the Management is aware) during the 12 months preceding the date of this Prospectus which may have, or have had, significant effects on the Group's financial position or profitability.

12. SELECTED FINANCIAL INFORMATION

12.1. Introduction

The following summary of the selected consolidated financial information of the Group should be read in conjunction with the Financial Statements, included in this Prospectus as Schedules 2–4. The below tables present only certain selected audited consolidated financial data as of and for the years ended on 31 December 2017 and 31 December 2018, extracted and derived from the Audited Financial Statements, and certain selected unaudited interim consolidated financial data as of 30 September 2019 and for the nine-month period ended on 30 September 2018, extracted and derived from the Interim Financial Statements of the Company.

12.2. Selected Financial Information

Consolidated statement of profit and loss and other comprehensive income

EURt	2018 Audited	2017 Audited	9M '19 Unaudited	9M '18 Unaudited
Interest income	23,633	13,023	26,983	15,785
Interest expense	-3,760	-2,009	-4,471	-2,549
Net interest income	19,873	11,014	22,512	13,236
Fee income	703	551	687	523
Fee expense	-1,091	-607	-1,261	-720
Net fee and commission income	-388	-56	-574	-197
Net gains from financial assets measured at fair value	1,204	0	375	1,204
Other operating income	666	705	578	452
Total net interest, fee and other income	21,355	11,663	22,891	14,695
Personnel expenses	-5,795	-3,997	-5,898	-4,034
Marketing expenses	-1,592	-929	-1,687	-945
Administrative expenses	-2,814	-1,602	-2,739	-1,832
Depreciations, amortisation	-445	-215	-912	-284
Total operating expenses	-10,646	-6,743	-11,236	-7,095
Profit before impairment losses on loans	10,709	4,920	11,655	7,600
Share of profit from associates	1,986	6,203	164	1,986
Impairment losses on loans and advances	-2,686	-3,532	-4,845	-3,087
Profit before income tax	10,009	7,591	6,974	6,499
Income tax	-733	-92	-408	-274
Profit for the period	9,276	7,499	6,566	6,225
Other comprehensive income/loss				
Items that may be reclassified subsequently to profit or loss				
Currency translation differences	73	-38	82	52
Total comprehensive income for the period	9,349	7,461	6,648	6,277
Net profit attributable to				
Shareholders of parent company	9,262	7,496	6,566	6,214
Non-controlling interest	14	3	0	11
Profit for the reporting period	9,276	7,499	6,566	6,225
Total comprehensive income/loss attributable to				
Shareholders of parent company	9,335	7,458	6,648	6,266
Non-controlling interest	14	3	0	11
Total comprehensive income	9,349	7,461	6,648	6,277
Basic earnings per share	111.85	101.92	73.88	75.04
Diluted earnings per share	105.06	95.52	70.14	70.73

Consolidated statement of financial position

EURt	30.09.2019 Unaudited	31.12.2018 Audited	31.12.2017 Audited
Assets			
Cash in hand	4	4	4
Due from central banks including mandatory reserve	89,754	64,620	14,767
Due from credit institutions	29,411	13,700	8,530
Financial assets at fair value through profit and loss	2,390	4,600	0
Loans and advances	310,341	225,639	92,895
Investments in associates	97	97	7,806
Tangible assets	725	545	279
Right of use asset	764	0	0
Intangible assets	10,365	7,697	816
Other financial assets	83	64	61
Other assets	462	514	459
Deferred tax asset	1,573	564	364
Total assets	445,969	318,044	125,981
Liabilities			
Loan from credit institution	0	10,429	0
Customer deposits	375,133	240,175	95,056
Other financial liabilities	10,801	8,776	1,263
Other liabilities	2,526	2,654	1,136
Debt securities issued	4,009	10,017	0
Subordinated debt securities	9,551	9,528	6,480
Total liabilities	402,020	281,579	103,935
Equity			
Share capital	903	874	782
Share premium	15,908	15,053	9,068
Statutory reserve capital	88	79	79
Other reserves	1,536	1,444	1,352
Retained earnings	25,514	19,018	10,739
Total equity attributable to the shareholders of parent company	43,949	36,425	22,020
Non-controlling interest	0	40	26
Total equity	43,949	36,465	22,046
Total liabilities and equity	445,969	318,044	125,981

Consolidated statement of cash flows

EURt	2018 Audited	2017 Audited	9M ’19 Unaudited	9M ’18 Unaudited
Cash flows from operating activities				
Interest received	22,940	14,034	26,867	15,509
Interest paid	-2,245	-3,527	-3,342	-1,884
Fees received	703	551	687	523
Fees paid	-1,091	-607	-1,261	-720
Other income received	666	705	578	452
Personnel expenses	-5,686	-3,685	-5,427	-4,103
Administrative and marketing expenses	-3,811	-2,412	-4,179	-2,666
Returned advance income tax payments	285	0	0	285
Corporate income tax paid	-512	-602	-630	-247
Cash flows from operating activities before changes in the operating assets and liabilities	**11,249**	**4,457**	**13,293**	**7,149**
Changes in operating assets:				
Loans and advances to customers	-69,827	-31,968	-88,620	-43,436
Mandatory reserve in central bank	-1,251	-213	-1,599	-1,006
Other assets	-716	-178	-976	164
Changes of operating liabilities:				
Loan from credit institution	-45,783	0	-10,429	-39,533
Customer deposits	143,604	31,987	132,327	91,064
Other liabilities	5,645	-108	1,179	1,626
Net cash from operating activities	**42,921**	**3,977**	**45,175**	**16,028**
Cash flows from investing activities				
Acquisition of tangible and intangible assets	-1,325	-387	-3,603	-741
Acquisition of subsidiaries and associates	-13,134	-10,697	-121	-13,134
Proceeds from disposal of subsidiaries	0	300	2,999	0
Proceeds from disposal of associates	6,269	10,403	0	6,269
Net cash used in investing activities	**-8,190**	**-381**	**-725**	**-7,606**
Cash flows from financing activities				
Share capital contribution (including share premium)	6,077	2,800	884	6,077
Subordinated debt securities issued	3,033	0	0	0
Debt securities issued	10,000	0	4,000	10,000
Repayments of debt securities	0	0	-10,000	0
Net cash from financing activities	**19,110**	**2,800**	**-5,116**	**16,077**
Effect of exchange rate changes	-69	52	-88	-47
Net increase/decrease in cash and cash equivalents	53,772	6,448	39,246	24,452
Cash and cash equivalents at the beginning of the reporting period	22,600	16,152	76,372	22,600
Cash and cash equivalents at the end of the reporting period	76,372	22,600	115,618	47,052

Cash and cash equivalents are measured as the balance of cash from central bank and credit institutions less the mandatory reserve in central banks

Consolidated Statements of Changes in Equity

EURt	Share capital	Share premium	Statutory reserve	Other reserves	Retained earnings	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	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	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	9,355	14	9,349
Balance as at 31 December 2018	874	15,053	79	1,401	19,018	36,425	40	36,465
Balance as at 01 January 2019	**874**	**15,053**	**79**	**1,401**	**19,018**	**36,425**	**40**	**36,465**
Paid in share capital	29	855	0	0	0	884	0	884
Share-based payment reserve	0	0	0	53	17	70	0	70
Statutory reserve capital	0	0	9	0	-9	0	0	0
Purchase of non-controlling interest in subsidiaries	0	0	0	0	-78	-78	-40	-118
Total profit/-loss and other comprehensive income for the reporting period	0	0	0	82	6,566	6,648	0	6,648
Balance as at 30 September 2019	**903**	**15,908**	**88**	**1,536**	**25,514**	**43,949**	**0**	**43,949**

Capital adequacy

EURt **Capital base**	**30.09.2019**	**31.12.2018**	**31.12.2017**
Paid-in share capital	903	874	782
Share premium	15,908	15,053	9,068
Statutory and other reserves	1,516	1,446	1,431
Retained earnings	18,938	9,756	3,243
Intangible assets (subtracted)	-10,365	-7,697	-816
Profit for reporting period	6,566	9,261	7,496
Other comprehensive income	118	35	0
Other deductions	0	-1,824	-7,763
Adjustments due to IFRS 9 transitional arrangements	4,084	2,308	0
Total Common Equity Tier 1 capital	**37,668**	**29,212**	**13,441**
Additional Tier 1 capital	3,150	3,150	0
Total Tier 1 capital	**40,818**	**32,362**	**13,441**
Total Tier 2 capital	**6,503**	**6,503**	**6,503**
Net own funds for capital adequacy calculation	**47,321**	**38,865**	**19,944**
Risk-weighted assets			
Credit institutions standardised approach	6,615	3,401	2,216
Non-financial customers standardised approach	8,188	1,706	1,595
Retail claims standardised approach	223,151	167,208	67,499
Claims past due standardised approach	3,980	3,297	1,301
Other assets standardised approach	9,794	6,844	1,494
Total credit risk and counterparty credit risk	**251,728**	**182,456**	**74,105**
Operational risk basic indicator approach	25,648	25,648	15,584
Total risk-weighted assets	**277,376**	**208,104**	**89,689**
Capital adequacy (%)	17.06%	18.68%	22.24%
Regulative capital adequacy (%)	16.11%	15.73%	19.86%
Tier 1 capital ratio (%)	14.72%	15.55%	14.99%
Regulative Tier 1 capital ratio (%)	13.78%	12.62%	12.75%

Key financial indicators	2018 Audited	2017 Audited	9M ‘19 Unaudited	9M ‘18 Unaudited
Total assets	318,044	125,981	445,968	262,831
Total equity attributable to shareholders of the parent	36,425	22,020	43,949	33,352
Total profit attributable to shareholders of the parent	9,262	7,496	6,566	6,214
Loan portfolio	225,639	92,895	310,341	199,534
Deposit portfolio	240,175	95,056	375,133	187,209
Ratios	*(unaudited)*	*(unaudited)*		
Return on equity	31.7%	44.3%	21.8%	30.0%
Return on total assets	4.2%	7.1%	2.3%	4.3%
Net interest margin	9.5%	11.1%	8.2%	9.7%
Impairment losses to loan portfolio	1.7%	4.5%	2.4%	2.8%
Cost/income ratio	49.9%	57.8%	48.7%	48.3%
Equity to total assets	11.5%	17.5%	9.9%	12.7%

The above table “Ratios” includes certain data which the Company considers to constitute alternative performance measures (the **APMs**) as defined in the “ESMA Guidelines on Alternative Performance Measures” issued by the European Securities and Markets Authority on 5 October 2015. These APMs are not audited nor defined by, or presented in accordance with, IFRS and should not be considered as alternatives to any measures of performance under IFRS or as measures of the Group’s liquidity. The Company’s use and method of calculation of APMs may vary from other companies’ use and calculation of such measures.

Return on equity	total profit 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 profit 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 the shareholders of parent company / total assets

12.3. Changes in Financial Position

There have been no significant changes in the financial or trading position of the Group since 30 September 2019.

13. GLOSSARY

Term	Definition
Audited Financial Statements	shall mean the audited consolidated financial statements of and for the year ended 31 December 2018, and the audited consolidated financial statements of and for the year ended 31 December 2017 of the Company.
Articles of Association	shall mean the Articles of Association of the Company effective as at the date of this Prospectus.
Bail-in Powers	shall mean any loss absorption, write-down, conversion, transfer, modification, suspension or similar or related power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in the Republic of Estonia, relating to (i) the transposition of the BRRD (including but not limited to the Financial Crisis Prevention and Resolution Act (*finantskriisi ennetamise ja lahendamise seadus*) as amended or replaced from time to time and (ii) the instruments, rules and standards created thereunder, pursuant to which any obligation of the Company (or any affiliate of the Company) can be reduced, cancelled, modified, or converted into shares, other securities or other obligations of the Company or any other person (or suspended for a temporary period).
Bonds	shall mean any and all the Company's subordinated bonds offered in accordance with this Prospectus.
Coop Pank AS	shall mean Coop Pank aktsiaselts, an Estonian public limited company, registered in the Estonian Commercial Register under register code 10237832, having its registered address at Narva mnt 4, 15014 Tallinn, Estonia.
Company	shall mean AS Inbank, an Estonian public limited company, registered in the Estonian Commercial Register under register code 12001988, having its registered address at Niine 11, 10414 Tallinn, Estonia.
Coop Finants AS	shall mean Coop Finants AS, an Estonian public limited company, registered in the Estonian Commercial Register under register code 12087992, having its registered address at Narva mnt 4, 15014 Tallinn, Estonia.
ERS	shall mean the Estonian Register of Securities, operated by Nasdaq CSD SE Estonia branch, registered in the Estonian Commercial Register under register code 14306553, having its registered address at Maakri tn 19/1, 10145 Tallinn, Estonia.
EUR	shall mean the official currency of Eurozone countries, including Estonia, Latvia and Lithuania, the euro.
EURt	shall mean thousands of euro.
Eurozone	shall mean the economic and monetary union (EMU) of the European Union member states, which have adopted euro as their single official currency.
Financial Statements	shall mean the Audited Financial Statements and the Interim Financial Statements.
EFSA	shall mean the Estonian Financial Supervision Authority, a financial supervision institution with autonomous competence and a separate budget which conducts supervision over credit institutions, insurance companies, insurance intermediaries, investment firms, management companies, investment and pension funds as well as the payment service providers, e-money institutions and the securities markets that have been authorised by the Financial Supervision Authority in the name of the state and which is independent in its activities and decisions.
GDP	shall mean gross domestic product, the market value of all officially recognized final goods and services produced within a country in a year, or another given period of time.
General Meeting	shall mean the General Meeting of shareholders of the Company, the highest governing body of the Company.
Group	shall mean the Company and all its Subsidiaries.
IFRS	shall mean the International Financial Reporting Standards as adopted by the European Union.

Inbank Latvia SIA	shall mean Inbank Latvia SIA, a Latvian limited liability company, registered in the Latvian Register of Enterprises under register code 40103821436, having its registered address at Akmeņu iela 14, Rīga, LV-1048.
Inbank Liising AS	shall mean Inbank Liising AS, an Estonian public limited company, registered in the Estonian Commercial Register under register code 14028999, having its registered address at Niine 11, 10414 Tallinn, Estonia.
Inbank Lithuania branch	shall mean AS Inbank filialas, registered in the Lithuanian Commercial Register under register code 305340173, having its registered address at Kareivių g. 11B, Vilnius, 09109 Lithuania.
AB Mokilizingas	shall mean AB Mokilizingas, a Lithuanian public limited company, registered in the Lithuanian Commercial Register under register code 124926897, having its registered address at Kareivių 11B, Vilnius, 09109 Lithuania.
Inbank Payments OÜ	shall mean Inbank Payments OÜ, an Estonian private limited company, registered in the Estonian Commercial Register under register code 14790098, having its registered address at Niine 11, 10414 Tallinn, Estonia.
Inbank Poland branch	shall mean AS Inbank Spółka Akcyjna Oddział w Polsce, registered in the Polish Commerical Register under register code 0000635086, having its registered address at Fabryczna 5a, Riverside Park, 00-446 Varssav, Poland.
Inbank Technologies OÜ	shall mean Inbank Technologies OÜ, an Estonian private limited company, registered in the Estonian Commercial Register under register code 12104213, having its registered address at Niine 11, 10414 Tallinn, Estonia.
Institutional Offering	shall mean the offering of the Bonds in or outside Estonia to qualified investors or by private placement in accordance with Article 1(4)(a) and (b) of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.
Interim Financial Statements	shall mean the unaudited consolidated interim financial statements as of and for the period ended 30 September 2019, including the comparative financial information as of and for the nine months ended on 30 September 2018 of the Company.
Krediidipank Finants AS	shall mean aktsiaselts Krediidipank Finants (later CP Vara AS), an Estonian public limited company, deleted from the Estonian Commercial Register on 14 August 2019.
Management	shall mean the Management Board and the Supervisory Board of the Company.
Management Board	shall mean the Management Board of the Company.
Mokilizingas AB	shall mean Mokilizingas AB, a Lithuanian public limited company, registered in the Lithuanian register of legal persons under register code 124926897, having its registered address at Kareivių g. 11B, Vilnius, 09109 Lithuania.
Nasdaq CSD	shall mean Nasdaq CSD SE Estonian branch, registered in the Estonian Commercial register under register code 14306553, having its registered address at Maakri 19/1, 10145 Tallinn, Estonia, acting as the operator of the ERS.
Nasdaq Tallinn Stock Exchange	shall mean the only regulated market operated by Nasdaq Tallinn AS (registry code 10359206).
Offer Price	shall mean the final price per each Bond, which shall be a fixed price of EUR 1,000.
Offering	shall mean the Retail Offering and the Institutional Offering together.
Offering Period	shall mean the period within which investors will have the opportunity to submit Subscription Undertakings starting from 3 December 2019 at 10:00 Estonian time and ending on 13 December 2019 at 16:00 Estonian time.
Prospectus	shall mean this document, including the registration document of the Company and the securities notes of the Bonds.
Retail Offering	shall mean the offering of the Bonds to institutional and retail investors in Estonia, which is a public offering of securities within the meaning of the Estonian Securities Market Act and Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market,

	and repealing Directive 2003/71/EC.
Resolution Authority	shall mean the resolution authority with the ability to exercise any Bail-in Powers in relation to the Company and/or the Group.
Section	shall mean a section of this Prospectus.
Subscription Undertaking	shall mean the order submitted by an investor for the purchase of the Bonds in accordance with the terms and conditions of the Offering.
Subsidiaries	shall mean Inbank Latvia SIA, Inbank Liising AS, Mokilizingas AB, Inbank Payments OÜ and Inbank Technologies OÜ.
Supervisory Board	shall mean the Supervisory Board of the Company.
Summary	shall mean the summary of this Prospectus.

14. INDEX OF SCHEDULES

Schedule 1: Terms and Conditions of Tier 2 Subordinated Bonds

Schedule 2: Audited consolidated financial statements for the year ending at 31 December 2017

Schedule 3: Audited consolidated financial statements for the year ending at 31 December 2018

Schedule 4: Consolidated interim financial statements for the nine months ending at 30 September 2019

Schedule 5: Articles of Association of the Company

COMPANY

Inbank AS

(Niine 11, Tallinn, Harju maakond, 10414, Estonia)

LEGAL COUNSEL TO COMPANY

Ellex Raidla Advokaadibüroo OÜ

(Roosikrantsi 2, Tallinn, Harju maakond, 10119, Estonia)

AUDITORS

Aktsiaselts PricewaterhouseCoopers

(Pärnu mnt 15, Harju maakond, Tallinn 10141, Estonia)

TERMS AND CONDITIONS OF TIER 2 SUBORDINATED BONDS

AS Inbank, a limited liability company established and holding a credit institution license in Estonia, ("**Inbank**" or the "**Issuer**") has decided to issue EUR 6,500,000 in aggregate Nominal Amount of the Tier 2 subordinated bonds (the "**Bonds**"). The aggregate Nominal Amount of the Bonds may be increased and decreased by the Issuer.

The Bonds are issued in one issue.

Each Bond will be the subject of the final terms attached to these Terms and Conditions (the "**Final Terms**").

These Terms and Conditions (the "**Conditions**") apply to the Bonds.

1. Interpretation

(a) In these Terms the following expressions have the following meanings, whereas additional expressions have been defined in other parts of these Terms, where clearly marked so:

"**Applicable Banking Regulations**" means at any time the laws, regulations, delegated or implementing acts, regulatory or implementing technical standards, rules, requirements, guidelines and policies relating to capital adequacy then in effect in Estonia including, without limitation to the generality of the foregoing, CRD IV, BRRD, and those regulations, requirements, guidelines and policies relating to capital adequacy adopted by the EFSA, as replaced or amended from time to time, and then in effect (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Company or the Group).

"**Bail-in Powers**" means any loss absorption, write-down, conversion, transfer, modification, suspension or similar or related power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in the Republic of Estonia, relating to (i) the transposition of the BRRD (including but not limited to the Financial Crisis Prevention and Resolution Act (*finantskriisi ennetamise ja lahendamise seadus)* as amended or replaced from time to time and (ii) the instruments, rules and standards created thereunder, pursuant to which any obligation of the Company (or any affiliate of the Company) can be reduced, cancelled, modified, or converted into shares, other securities or other obligations of the Company or any other person (or suspended for a temporary period).

"**BRRD**" means the Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing the framework for the recovery and resolution of credit institutions and investment firms, as the same may be amended or replaced from time to time.

"**Business Day**" means a day on which commercial banks and foreign exchange markets settle inter-bank payments in euro in Tallinn and which is a settlement day of the Register.

"**Bonds**" mean tier 2 (as defined by the Applicable Banking Regulations) subordinated bonds issued by the Company in accordance with these Terms and the Final Terms, representing unsecured debt obligation of the Company before the Bondholder.

"**Bondholder**" is the owner of the Bond registered as such in the Register.

"**Capital Event**" means the determination by the Company, after consultation with the EFSA, that the Outstanding Principal Amount of the Bonds ceases or would be likely to cease to be included in whole or in any part, or count in whole or in any part, towards the Tier 2 Capital of the Company in the essence of CRR.

"**Company**" means AS Inbank, register code 12001988.

"**CRD IV**" means the legislative package consisting of the CRD IV Directive, the CRR and any CRD IV Implementing Measures.

"**CRD IV Directive**" means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, as the same may be amended or replaced from time to time.

"**CRD IV Implementing Measures**" means any regulatory capital rules or regulations, or other requirements, which are applicable to the Company or the Group and which prescribe (alone or in conjunction with any other rules or regulations) the requirements to be fulfilled by financial instruments for their inclusion in the regulatory capital of the Company or the Group (on a solo or consolidated basis, as the case may be) to the extent required by the CRD IV Directive or the CRR, including for the avoidance of doubt any regulatory technical standards released by the European Banking Authority (or any successor or replacement thereof).

"**CRR**" means Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, as the same may be amended or replaced from time to time.

"**EFSA**" means the Estonian Financial Supervisory Authority (*Finantsinspektsioon*) and any successor or replacement thereto or any other authority having primary responsibility for the prudential oversight and supervision of the Company.

"**Final Terms**" mean the terms and conditions of the Bonds appended to these Conditions, together with these Conditions forming the full set of terms and conditions of the Bonds.

"**Group**" means the Company together with its subsidiaries.

"**Interest Commencement Date**" means the Issue Date of the Bonds (as specified in the Final Terms).

"**Interest Payment Date**" means any date or dates specified as such in the relevant Final Terms.

"**Issue Date**" means the date specified in the Final Terms.

"**Issue Price**" means the price payable for one Bond upon the issue thereof as determined in the Final Terms.

"**Maturity Date**" means the date of ordinary redemption of the Bonds as determined in accordance with the Final Terms.

"**Nominal Amount**" shall mean the stated value of a Bond as specified in the Final Terms.

"**Outstanding Principal Amount**" means the principal amount of the Bond on the Issue Date as reduced by any partial redemption or repurchase from time to time.

"**Rate of Interest**" means the rate (expressed as a percentage per annum) of interest payable in respect of the Bonds specified in the relevant Final Terms.

"**Register**" means Nasdaq Central Securities Depository (CSD) operated by Nasdaq CSD SE, register code 40003242879, registered address Vaļņu iela 1, Rīga LV-1050, Latvia, Estonian branch.

"**Relevant Amounts**" means the outstanding principal amount of the Bonds, together with any accrued but unpaid interest and additional amounts due on the Bonds. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of any Bail-in Powers by the Relevant Resolution Authority.

"**Relevant Resolution Authority**" means the resolution authority with the ability to exercise any Bail-in Powers in relation to the Company and/or the Group.

"**Tax Event**" means:

(i) any amendment to, or change in, the laws or treaties (or any regulations thereunder) of the Taxing Jurisdiction affecting taxation;

(ii) any governmental action in the Taxing Jurisdiction; or

(iii) any amendment to, or change in, the official position or the interpretation of such law, treaty (or regulations thereunder) or governmental action or any interpretation, decision or pronouncement that provides for a position with respect to such law, treaty (or regulations thereunder) or governmental action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body in the Taxing Jurisdiction, irrespective of the manner in which such amendment, change, action, pronouncement, interpretation or decision is made known,

which amendment or change is effective or such governmental action, pronouncement, interpretation or decision is announced, on or after the Issue Date of the Bonds and as a result of which:

(i) the Company is, or will be, subject to additional taxes, duties or other governmental charges with respect to the Bonds or is not, or will not be, entitled to claim a deduction in respect of payments in respect of the Bonds in computing its taxation liabilities (or the value of such deduction would be materially reduced); or

(ii) the treatment of any of the Company's items of income or expense with respect to the Bonds as reflected on the tax returns (including estimated returns) filed (or to be filed) by the Company will not be respected by a taxing authority, which subjects the Company to additional taxes, duties or other governmental charges.

"**Taxing Jurisdiction**" means the Republic of Estonia or any political subdivision thereof or any authority or agency therein or thereof having power to tax or any other jurisdiction or any political subdivision thereof or any authority or agency therein or thereof, having power to tax in which the Company is treated as having a permanent establishment, under the income tax laws of such jurisdiction.

"**Terms**" mean these terms and conditions of the Bonds as established by the management board of the Company, together with the Final Terms forming an agreement between the Company and a Bondholder in respect of the issue and redemption of a Bond and rights and obligations arising from the Bond.

"**Tier 2 Capital**" means tier 2 capital for the purposes of the Applicable Banking Regulations.

(b) In these Terms references to any act or other regulatory instrument or any provision of any act or other regulatory instrument shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

2. Form, Denomination and Currency

(a) ***Form***

The Bonds are issued in dematerialised book-entry form. The Bonds are not numbered.

(b) ***Denomination***

The Bonds will be issued in such denomination as specified in the relevant Final Terms.

(c) ***Currency***

The Bonds may be denominated in the euro.

3. Title, Transfer, Delivery and Transferability

(a) ***Title***

The title to the Bonds passes by the registration in the Register. References herein to the "**Bondholders**" signify the persons in whose names such Bonds are so registered.

(b) ***Transfer***

The Bonds can be transferred from one securities account to another by the registrar of the Register by way of debiting the first securities account and crediting the other securities account in the amount of the corresponding number of securities. Ownership of a Bond is deemed to have changed in respect of the Company as from the moment a relevant entry is made in the Register, i.e. when a Bond is transferred to the securities account of the respective Bondholder.

(c) ***Delivery***

The Company organises the registration of the Bonds in the Register and their deletion from the Register upon their redemption. Only persons who have securities accounts (whether directly of via a nominee structure) with the Register can subscribe for or purchase the Bonds.

(d) ***Transferability***

The Bonds are freely transferrable; however, any Bondholder wishing to transfer the Bonds must ensure that any offering related to such transfer would not be qualified an offering requiring the publication of a prospectus in the meaning of the applicable law. Ensuring that any offering of the Bonds does not require publication of a prospectus under the applicable law is the obligation and liability of the Bondholder.
The Register may temporarily block the Bonds on a Bondholder's securities account to ensure performance of corporate actions regarding the Bonds.

4. Status

The Bonds will be subordinated to all unsubordinated claims against the Company. The subordination of the Bonds means that upon the liquidation (*likvideerimine*) or bankruptcy (*pankrot*) of the Company, all the claims arising from the Bonds shall fall due in accordance with these Terms and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law. Therefore, upon the liquidation or bankruptcy of the Company, the Bondholders are not entitled to any payments due under the Bonds until the full and due satisfaction of all the unsubordinated claims against the Company. In case of bankruptcy of the Company the Bondholders are only entitled to payments after the full and due satisfaction of all recognised claims under the Company that do not derive from instruments that qualify as own funds' instruments under Articles 26-88 of the CRR. By subscribing to the Bonds or acquiring the Bonds from a secondary market, the Bondholder unconditionally and irrecoverably agrees to such subordination of claims arising from any Bonds.

As long as there are no liquidation or bankruptcy proceedings initiated against the Company, all claims arising from the Bonds shall be satisfied in accordance with these Terms and the applicable law. Notwithstanding any rights of the Bondholder under these Terms or the law, by subscribing to Bonds or acquiring the Bonds from a secondary market the Bondholder unconditionally and irrevocably relinquishes the right to demand premature redemption of any Bonds.

No Bondholder shall be entitled to exercise any right of set-off (*tasaarvestus*) against moneys owed by the Company in respect of such Bonds.

5. Interest

The Bonds shall bear interest on its Outstanding Principal Amount from and including their Issue Date (as specified in the Final Terms) to, but excluding, the date of any final redemption at the rate *per annum* specified in the Final Terms. Such interest will be payable in arrear on each Interest Payment Date as is specified in the relevant Final Terms and on the date of any final redemption.

The determination by the Agent of all amounts of interest for the purposes of this Condition 5 shall, in the absence of manifest error, be final and binding on all parties.

6. Redemption and Purchase

(a) ***Redemption at Maturity***

Unless previously redeemed, or purchased and cancelled, the Bonds shall be redeemed at their principal amount on the Maturity Date.

(b) ***Early Redemption as a result of Tax Event***

Upon the occurrence of a Tax Event, but subject to having obtained the relevant EFSA permission if such permission is then required under the Applicable Banking Regulations, the Company may, at its option, having given not less than 30 days' notice to the Bondholders in accordance with Condition 10 (which notice shall be irrevocable) redeem all (but not some only) of the outstanding Bonds at any time at a redemption amount equal to their Outstanding Principal Amount together with interest (if any) accrued up to but excluding the date of redemption.

(c) ***Early Redemption as a result of Capital Event***

Upon the occurrence of a Capital Event, but subject to having obtained the relevant EFSA permission if such permission is then required under the Applicable Banking Regulations, the Company may, at its option, having given not less than 30 days' notice to the Bondholders in accordance with Condition 10 (which notice shall be irrevocable) at any time redeem all (but not some only) of the outstanding Bonds at a redemption amount equal to their Outstanding Principal Amount, together with interest (if any) accrued up to but excluding the date of redemption.

(d) ***Optional Early Redemption (Call)***

After 5 years have passed from the Issue Date of the Bonds and having obtained the relevant EFSA permission if such permission is then required under the Applicable Banking Regulations, the Company may, having given not less than 30 days' notice to the Bondholders in accordance with Condition 10 (which notice shall be irrevocable) redeem fully or partially the Bonds at their Outstanding Principal Amount, together with accrued interest (if any) thereon.

The appropriate notice referred to in this Condition 6(d) is a notice given by the Company to the Agent and the Bondholders, which notice shall be signed by a duly authorized officer of the Company and shall specify:

(i) whether the Bonds are to be redeemed in whole or in part only and, if in part only, the aggregate Outstanding Principal Amount of the Bonds which are to be redeemed;

(ii) the due date for such redemption, which shall be not less than 30 days after the date on which such notice is validly given; and

(iii) the amount at which such Bonds are to be redeemed, which shall be their Outstanding Principal Amount together with accrued interest thereon.

Any such notice shall be irrevocable, and the delivery thereof shall oblige the Company to make the redemption therein specified.

(e) ***Partial Redemption***

If the Bonds are to be redeemed in part only on any date in accordance with Condition 6(d), the Bonds shall be redeemed *pro rata* to their Outstanding Principal Amount, subject always to compliance with all applicable laws, and the rules of the stock exchange on which the Bonds have then been admitted to trading.

(f) ***Cancellation of Redeemed and Purchased Bonds***

All Bonds redeemed or purchased in accordance with this Condition 6 will be cancelled and may not be reissued or resold. References in this Condition 6(f) to the purchase of the Bonds by the Company shall not include the purchase of Bonds otherwise than as beneficial owner.

7. Taxation

(a) Should any amounts payable in cash or in kind (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Bonds be subject to withholding or deduction of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the Republic of Estonia or any political subdivision thereof or any authority or agency therein or thereof having power to tax, the Company shall be entitled to withhold or deduct the respective taxes or duties. For the avoidance of doubt, any such withholdings or deductions shall be made by the Company on the account of the Bondholder with the Company having no obligation to compensate the withheld or deducted tax amounts to the Bondholder.

(b) Should an applicable treaty for the avoidance of double taxation set forth lower withholding rates than those otherwise applicable to the interest payment under Estonian domestic law, the respective Bondholder shall be requested to provide the documents necessary for application of the respective treaty (including, but not limited to, residence certificate issued or attested by the tax authority of the residence state of the Bondholder) at least 15 (fifteen) days prior to the payment. If such documents are not presented to the Company, the Company shall be entitled to withhold tax at the rates set forth by the Estonian domestic legislation.

(c) Individuals may postpone the taxation of their (interest) income from the Bonds by using an investment account (*investeerimiskonto*) for making transactions with the Bonds and notifying the Company in a form reproducible in writing at least 15 (fifteen) days prior to the payment that they are entitled to benefit from the investment account special tax regime. At the date of these Terms, individuals are entitled to benefit from the investment account special tax regime if they have acquired the Bonds on account of monetary means held at the respective Bondholder’s investment account. If the relevant notice is not duly presented to the Company, the Company shall be entitled to withhold tax in accordance with the general withholding rules.

(d) Any reference in these Terms to interest in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition 7 or any undertaking given in addition thereto or in substitution therefor. For the avoidance of doubt, no additional amounts shall be payable by the Company in respect of payments of principal under the Bonds.

8. Payments

(a) Payments of amounts (whether principal, interest or otherwise, including on the final redemption) due on the Bonds will be made to the Bondholders thereof, as appearing in the Register at the close of business on the Business Day preceding the due date for such payment (the "**Record Date**"). Payment of amounts due on the final redemption of the Bonds will be made simultaneously with deletion of the Bonds, or, if so required by the Company, against delivery of the Bonds to the Company. If the due date for payment of the final redemption amount of the Bonds is not a Business Day, the Bondholder thereof will not be entitled to payment thereof until the next following Business Day and no further payment shall be due in respect of such delay save in the event that there is a subsequent failure to pay in accordance with these Terms.

(b) If the Company fails to transfer any amount payable to a Bondholder in connection with the Bond by the due date, the Company undertakes to pay delay interest to the Bondholder on the outstanding amount as from the payment deadline until actual payment at the rate specified in the Final Terms.

9. Limitation Period

Claims against the Company in respect of the Bonds will expire (*aeguvad*) unless made within 3 years after the due date for payment.

10. Notices

(a) ***To Bondholders***

Notices to Bondholders will be deemed to be validly given published through the information system of the stock exchange in which they are listed (if applicable) or in case of unlisted Bonds if sent to them at their respective addresses as recorded in the Register and will be deemed to have been validly given on the fourth Business Day after the date of sending the notice by registered mail and on the next Business Day after sending the notice by e-mail.

(b) ***To Company***

Notices to the Company will be deemed to be validly given if delivered to Niine 11, 10414 Tallinn, Estonia or it delivered by e-mail to investor@inbank.ee (or at such other addresses as may have been notified to the Holders of the Bonds in accordance with this Condition 10 or via the Issuer's website) and will be deemed to have been validly given at the opening of business on the next day on which the Issuer's principal office is open for business.

11. Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further Bonds and other debt securities having terms and conditions the same as those of the Bonds or the same except for the amount of the first payment of interest (if any), which may be consolidated and form a single issue with and bear the same ISIN code as the outstanding Bonds.

12. Law and Jurisdiction

The Bonds and all non-contractual obligations arising out of or in connection with any of them are governed by Estonian law and subjected to the jurisdiction of the courts of Estonia.

13. Acknowledgement of Bail-in Powers

Notwithstanding and to the exclusion of any other term of the Bonds or any other agreements, arrangements or understanding between the Company and any Bondholder (which, for the purposes of this Condition 13, includes each holder of a beneficial interest in the Bonds), by its acquisition of the Bonds, each Bondholder acknowledges and accepts that any liability arising under the Bonds may be subject to the exercise of Bail-in Powers by the Relevant Resolution Authority and acknowledges, accepts, consents to and agrees to be bound by:

(a) the effect of the exercise of any Bail-in Powers by the Relevant Resolution Authority, which exercise (without limitation) may include and result in any of the following, or a combination thereof:

(i) the reduction of all, or a portion, of the Relevant Amounts in respect of the Bonds;

(ii) the conversion of all, or a portion, of the Relevant Amounts in respect of the Bonds into shares, other securities or other obligations of the Company or another person, and the issue to or conferral on the Bondholder of such shares, securities or obligations, including by means of an amendment, modification or variation of the terms of the Bonds;

(iii) the cancellation of the Bonds or the Relevant Amounts in respect of the Bonds;

(iv) the amendment or alteration of the amount of interest payable on the Bonds, or the date on which interest becomes payable, including by suspending payment for a temporary period; and

(b) the variation of the terms of the Bonds, as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of any Bail-in Powers by the Relevant Resolution Authority.

FINAL TERMS OF THE BONDS

29 November 2019

AS INBANK

Issue of

EUR 6,500,000[1] Tier 2 Subordinated Bonds

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Tier 2 Subordinated Bonds (the "**Conditions**"). This document constitutes the Final Terms for the Bonds described herein and must be read in conjunction with such Conditions and with the prospectus drawn up by the Company, dated 2 December 2019 (the "**Prospectus**").

Full information on the Company and the offer of the Bonds is only available on the basis of the combination of these Final Terms, the Conditions and the Prospectus. The Prospectus is available for viewing through the Company's website (https://inbank.ee/en/investor/forinvestor/).

GENERAL

1.	Issuer	AS Inbank
2.	Issue currency	EUR
3.	Original Nominal Amount	EUR 1,000
4.	Aggregate original Nominal Amount	EUR 6,500,000, which may be increased or decreased by the Issuer
5.	Issue Price	100% of the Original Nominal Amount
6.	Issue Date and Interest Commencement Date	19 December 2019
7.	Maturity Date	19 December 2029
8.	Interest	6% *per annum* Fixed Rate
9.	Redemption/Payment Basis	Redemption at par
10.	Put/Call Options	Issuer Call *(further particulars specified in the Terms and Conditions)*
11.	Status of the Bonds	Tier 2 subordinated bonds
12.	Bail-in Powers	Applicable, as provided in the Applicable Banking Regulations

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13.	Interest Basis	Fixed rate

14.	Rate of Interest	6% *per annum* payable quarterly
15.	Interest Payment Date(s):	28 March, 28 June, 28 September and 28 December annually starting 2020. If an Interest Payment Date falls on a day that is not a Business Day, interest shall be paid on the next Business Day after the Interest Payment Date.
16.	First Interest Payment Date:	28 March 2020
17.	Interest calculation convention	30/360
18.	Record Date	Close of business on the Business Day immediately preceding the Interest Payment Date
19.	Delay interest	0.025% per day

OPERATIONAL INFORMATION

20.	ISIN Code:	EE3300001544
21.	Register	Nasdaq CSD SE Estonian branch

OTHER INFORMATION

22.	Listing and Admission to Trading	Application will be made to the Nasdaq Tallinn Stock Exchange for the Bonds to be admitted to the Baltic Bond List of the Nasdaq Tallinn Stock Exchange.
23.	Ratings:	The Bonds being issued have not been rated.

EXPECTED TIMETABLE AND ACTION REQUIRED TO APPLY FOR THE OFFER

24.	Time period for subscription to the offer:	From 3 December 2019 until 13 December 2019
25.	Description of the subscription process:	See Sections “Subscription Undertakings” and “Payment” of the Prospectus.
26.	Minimum and maximum amounts of the subscription (if any):	Not applicable.
27.	Description of publishing the results of the offer:	See Section “Distribution and Allocation” of the Prospectus.

Inbank AS Consolidated annual report 2017

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 2017
Reporting period	01.01.2017-31.12.2017

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

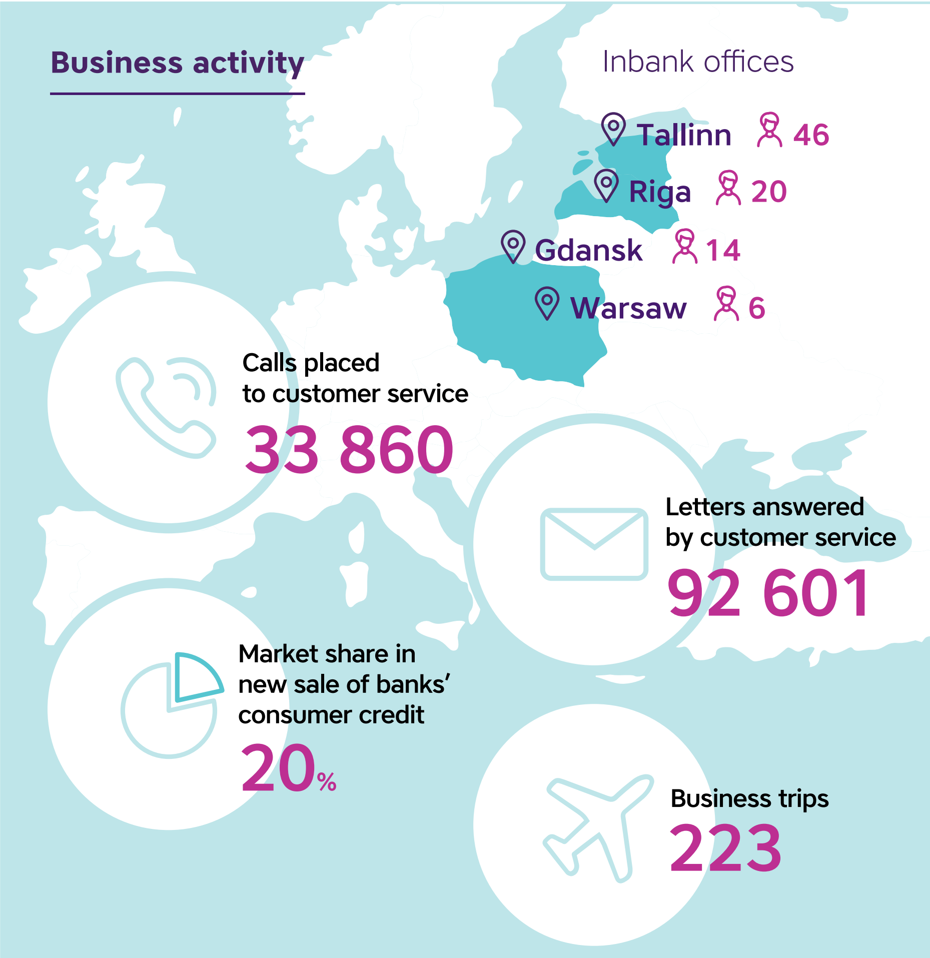
Jan Andresoo, Chairman of the Management Board
Liina Sadrak
Marko Varik
Piret Paulus

The reporting currency is the euro (EUR), with units presented in thousands.
Inbank AS' Annual Report 2017 has been audited.
Annual report for 2017 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.

Table of contents

Facts and figures

Business activity



Calls placed to customer service
33 860

Letters answered by customer service
92 601

Market share in new sale of banks' consumer credit
20%

Business trips
223

Internet banking

Website visits
2016
1 514 775
2017
2 044 180
35%
Annual growth

Website visits from mobile devices
33,2%

Average time of loan credit decision
6,6s

98%
Share of loan applications served in less than one minute

Number of partner vendors for hire purchase
2016
265
2017
303
14,3%
Annual growth

Customers

Average Inbank customer

Men: 46,7%

Women: 53,3%

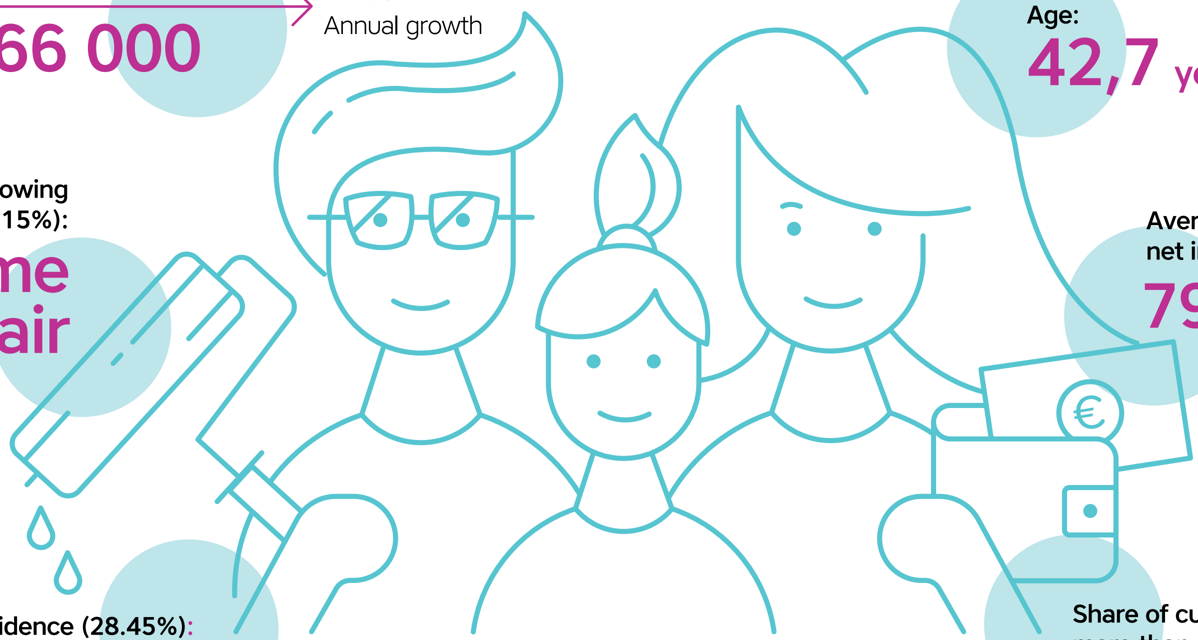
Number of customers: 166 000

22% Annual growth

Age: 42,7 years

Most popular borrowing purpose (15%): home repair

Average net income: 795 EUR



Residence (28.45%): Harju county

Share of customers who use several Inbank products: 5%

Most contracts per customer: 52 deposit contracts

Share of customers with more than one contract: 20%

Open organisation

Number of transactions with Inbank bonds: 92

Volume: 693 551 EUR

727 pages
Of reports submitted to the European Central Bank

Stock exchange announcements published: 11

Key financial indicators

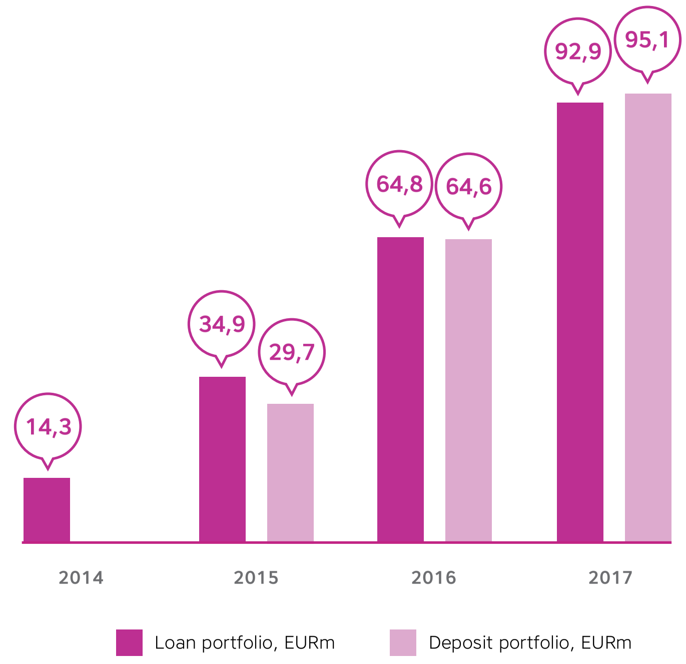
EURt

Key financial indicators	31.12.2017	31.12.2016	
Total assets	125 981	84 943	48,3%
Total equity attributable to shareholders of the parent	22 020	11 798	86,6%
Total comprehensive income attributable to owners of the parent	7 458	2 649	181,5%
Loan portfolio	92 895	64 839	43,3%
Deposit portfolio	95 056	64 587	47,2%

Ratios	31.12.2017	31.12.2016
Return on equity	44,1%	26,6%
Return on total assets	7,1%	4,2%
Net interest margin	11,1%	13,7%
Impairment losses to loan portfolio	4,5%	6,4%
Cost/income ratio	57,8%	45,7%
Equity to total assets	17,5%	13,9%

Net return on equity: comprehensive income attributable to owners of the parent / total equity attributable to shareholders of the parent (average over the period) annualised
Net 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
Loan 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 the Supervisory Board

2017 was a very busy and successful year for Inbank. For the first time in our history our consolidated assets exceeded the 100 million euro mark, we earned a record profit of 7.5 million euros and successfully expanded to the Polish market.

Similarly to last year, the keyword for 2017 was growth. In last year, Inbank's loan portfolio grew by 43% and the deposit portfolio increased by 47%. Worth mentioning is also Inbank's growth in the Estonian consumer financing market where it is now the second largest bank after Swedbank.

Growth does not simply mean growth in assets, business volumes and profit. As a start-up company, Inbank has to constantly develop as an organization. In this respect, 2017 was very challenging for us. In March, Inbank started offering loans and deposits in Poland. In May, we continued to implement a new strategy in Latvia after a new CEO took office. Inbank has become an international company, and in this light, our organizational capacity has to increase. Although in 2017 Inbank's growth and profitability was driven by the successful hire-purchase and fast-growing lending business in Estonia, in the long run the bank's success as a whole will undoubtedly

Although the Estonian market is growing and profitable, Inbank with its product-based strategy can successfully grow in the long run only internationally.

be linked to our ability to grow internationally.

How have we defined growth and development for Inbank?

We know very well that both people and organizations are evolving through new goals, testing their abilities and learning from their mistakes. We believe that people are doing the best job if they have responsibility, freedom of action and opportunity to make decisions. At the same time, as an organisation we need to learn, manage risks and implement best practices. Although we want to maximize the freedom of action of every Inbanker, this can only happen in the limits of our agreed strategy and values. In the previous annual report we called it "the Inbank way of doing things". At the beginning of 2017, we decided that it was necessary to formulate these principles more precisely and in the spring we formulated management principles of Inbank.

We believe that, just like individuals, companies develop specific skills and experiences. The development of such skills requires, firstly, awareness of these skills and, secondly, conscious efforts for cultivating competences. Since its inception, Inbank has been very successful in partner-driven business model, as well as in business process development and technology implementation. These are the areas where Inbank has competitive advantage in the banking sector. But as important as specific skills is the fact that Inbank has decided to be a focused consumer finance company, that we want to grow internationally and focus on recruiting local talent in all markets. The main challenge for Inbank is to export our skills and knowledge to new markets and motivate local staff to perform in line with Inbank's strategy and values.

International growth also requires strengthening the functional organization of Inbank and changing the focus. Increasingly, finance, risk, product development and IT must become group-wide functions. At the same time, it is necessary to ensure that Inbank remains agile and flexible in all new markets. Many international banks are struggling with this balancing act. We believe that due to our focus and product-based approach, Inbank has good potential to get it right and grow internationally.

In the coming years, we will pay more attention and invest more resources to strengthen the international organization. While the Estonian consumer finance market is estimated at around 700 million euros and in the Baltic region totalling nearly 2.5 billion euros, the Polish consumer finance market alone is worth close to 40 billion euros. Although the Estonian market is growing and profitable, Inbank with its product-based strategy can successfully grow in the long run only internationally.

We believe that there is a momentous economic upturn. The Estonian economy grew by 4.9% in 2017, wage growth is strong, unemployment is low. The European economy is showing signs of widespread growth for the first time since the financial crisis. We forecast that the positive outlook will continue for a few more years. This is definitely the time when Inbank is ready to raise and invest capital to grow its business. We have a well-functioning business model and a strong and developing organization. In 2017, we invested heavily in risk management, financial accounting and compliance control units. We will also triple our software development team in the near future. In Inbank we work daily to successfully realize the potential of international growth. At the moment, Estonian business accounts for nearly 80% of the lending portfolio of Inbank, and we see good growth to continue in Estonia. At the same time, we believe that in just a few years, at least half of our portfolio will be from the international markets.

We are well aware that rapid growth is accompanied by higher risks, especially in the banking sector. At the same time, we know that those companies that are continuing to grow and evolve are successful. In our opinion, the best strategy to hedge potential risks is to build our business in a conscious and focused way. We plan to grow in areas where we have a competitive advantage and strong organizational capability. In order for Inbank to smoothly implement the growth plan, we need to have a clear and credible strategy and proven skillset which is market-tested. We believe that in the last seven years we have developed a unique strategy and skills suitable for us. In the last couple of years, we have taken first steps in exporting the Inbank business model and have gained valuable experience. We are now ready to embark more strongly on the journey of international growth.

The next few years will have to prove the execution of our strategy and the capability of the organisation to develop internationally. To be successful, we have to work hard and make the right decisions. At the same time, we must remain ready to overcome any setbacks. All of this assumes that we have perseverance, flexibility and financial buffers to adapt our activities, because not everything will go as planned. In the past, Inbank has shown itself to be capable of learning and developing as an organisation. This gives us enough confidence and energy to come to work every day and build a new international bank called Inbank.

Priit Põldoja
Chairman of the Supervisory Board

Business model of Inbank

Inbank's competitive advantages

- Business focus: consumer financing
- Sales management and vendor channel development
- Credit skills: statistical analysis and automated credit decisions
- Business process design and software development

Inbank's key capabilities

- Trust and capitalization: access to financing
- Internationally oriented strategy and organization
- Strategically clear and replicable business model
- Attractiveness for talented employees

Interview with the members of the Management Board of Inbank

Board members Jan Andresoo, Liina Sadrak, Marko Varik and Piret Paulus speak about Inbank's most important projects and challenges in 2017.

What did you see as the biggest challenge for Inbank in 2017?

Piret Paulus: One of the biggest challenges for the organization as a whole has been internationalization. Today, Inbank has nearly 90 employees in three countries. The launch of the Polish branch and the re-launch of the Latvian unit have been quite challenging.

Jan Andresoo: We had to define for ourselves the things that we will do in the same way in all markets, and the things that we do differently. We answered these questions for the first time in Inbank context. Another significant challenge was the development of technology. We cannot implement any ideas without translating them into the language of technology.

Marko Varik: Inbank is currently in a rapid growth phase. The balance sheet total and the business volumes increased by almost 50% in 2017. In virtually every company, rapid growth creates a fair amount of positive confusion. You need to simultaneously recruit new employees and help them settle in, serve a growing customer flow, engage in recruiting partners, enter new markets and provide support to local teams. At the same time Inbank operates in a highly regulated business. Despite the fact that the business volumes are growing considerably, everything must be done in a controlled manner. This has been a challenge for the entire organization.

Liina Sadrak: The challenge has been not only to increase, but also to understand and maintain business activities in three countries, while maintaining the speed and efficiency that we are used to in one country.

In August 2017 Inbank's employees from three countries met in Estonia to participate in different teamwork activities.

What have been the most important projects of Inbank in 2017?

JA: One notable project was undoubtedly the launch of business in Poland. This is a decision that defines us as a company for a very long time. Secondly, we were able to strengthen our position in the niche of consumer finance in Estonia. It did not happen by chance, we achieved good results through conscious actions.
PP: We have been preparing for the implementation of a new operational strategy in Latvia and recruited top specialists to the local team. We are building a new platform in Latvia for Inbank's successful business. It is good to say that we have already seen results and look forward with excitement to what will happen next year. In the Estonian context, we are more systematic and efficient in our sales activities resulting in very strong sales volumes in both small loan and hire-purchase products.
MV: An important project was the sale of our affiliated companies Coop Finants and Krediidipank Finants to Coop Pank. Since Inbank has played an important role in initiating and growing these businesses, it marked the end of an era in Inbank's history.
LS: In addition to expanding our business, we have also been involved in organizing and strengthening the organization. Operating in a market that is saturated with regulations is not always easy. In this respect there was a great jump in quality during 2017, we have developed processes that support a coherent model of action across all countries.

2017 brought Inbank an operating license in Poland. How has expanding the business to Poland succeeded?

PP: Poland is a very big and competitive market, but preparations for launching work have gone nicely and today we are on the market with our product offerings. The scale of action in Poland is considerably wider in every sense, which is why the preparations have taken a little longer than initially expected. Compared to Estonia or Latvia, we compete in Poland with the most experienced and successful players on the international scene, which is very exciting.
LS: There are a lot of exciting potential partners in Poland, which gives us reason to believe that Inbank's partner-driven business can be interesting and successful there. On the one hand, we have put ideas into the Polish market that are already ordinary for us, but innovative for this market, and on the other hand, we have gotten some ideas from the market that we can implement here in Estonia.
JA: Poland really is a difficult market to enter. Even Maciej Pieczkowski, our Head of branch in Poland, said that when getting a license and entering to the market, we set the Polish record for the speed of launching a business. But since we are used to the fast pace in Estonia, we are too impatient in the Polish sense. When negotiating with a partner with 3 million customers, it is not conceivable that things would happen overnight.

How has the strategy changed in Latvia?

PP: In Latvia one of the focus areas has been credit risk, with which we have progressed very well. Secondly, we are working on starting a partner-driven business. The first improvements are visible, but in reality the implementation of changes in an operating business is even a bit more complicated than starting something completely new.
MV: In the year 2017, we laid a new solid foundation for our business in Latvia in many respects. For example, we updated our sales strategy: we left the channels through which nearly 90% of our sales came two years ago. There is a new management team, with the help of which new partnerships have been created and updates in business processes have been made. From here on, it's possible to build a credit portfolio that meets our risk appetite and expectations of return.

Inbank now operates in three countries and its employees are divided into four offices. How many changes has this brought about in leadership?

LS: We are still looking for the best-performing management model. This is one of the aspects of internationalization that we need to learn more about and continue to work on.
JA: One of the values of Inbank as an organization has always been openness. It's very easy to be open when you operate in one country. But now, we need to do new things to maintain this kind of openness.
PP: One of the values of Inbank, in addition to openness, has been productivity, and it sets new challenges: managing different markets and entities without over-regulating and maintaining efficiency at the same time.

MV: Our goal is that employees from other countries would see our business as a whole and become a part of Inbank's story.

The increase in the range of Inbank's activities also entails a greater need for employees. How has Inbank managed this?

PP: We have a lot of areas where it is difficult to find good specialists. On the labor market, we compete with absolutely everyone, and no longer only domestically. The race for talents is a daily affair and we are actively involved.

LS: Finding IT staff has been a major challenge, but we have managed to complement our forces with people from Estonia and other countries as well. Our IT team has always been international, for example, we have employees from Poland, Mexico and Sri Lanka, but we are used to being in the same office. But now, we're taking a step further: dealing with the fact that our developer may be on the other side of the globe. We're becoming an international player not only in business, but also in the development of services. At the same time, we believe that an international team brings a fresh gaze to our technology and a different worldview.

JA: As a whole it is good to say that we are an attractive employer because we were able to increase our team with tens of new mem-

Because of operations in three countries, meetings are often held by videoconferencing.

bers in 2017. It is gratifying to see such a large number of candidates as well as capable and experienced people who would be happy to work in Inbank.

What steps did you take in the area of risk management in 2017?

MV: The risk area in Inbank as a whole has been very strong in 2017. We have a new risk manager, credit risk manager, treasurer and new credit risk analysts in Latvia and Poland. We have done a lot of work on implementing a risk management culture and we are pleased to note that we have taken a big step forward.

How satisfied are you with the financial results of Inbank?

MV: The financial result was very good. An important role was played by the transaction that we made with our affiliated companies. At the same time, we are also satisfied with the result of our ordinary course of business. It is important to mention the impact of investments made in Poland on the financial performance. The Polish contribution to revenue in 2017 was modest as expected.
PP: So far, Estonia's activities and strong financial results have been the support to other countries. we are expecting a significant change in this proportion in the coming year.

The oldest product line of Inbank is hire-purchase, which, despite the product's maturity, grew by 12% year-on-year. How was this achieved?

PP: This is the place to highlight our good team, who understands what a partner-driven business means. Our mission is to help our partners sell their products and services better by supporting them with convenient financing. Our partner relations team is committed, professional and working purposefully which has yielded results. In 2017, we started to cooperate with new partners, but, of course, existing partners have grown their volumes as well.

How did the changes in regulations affect Inbank?

LS: We were really looking forward to customer identification from distance and through electronic channels, which is very relevant for Estonia as an e-state. We can now provide our customers with more convenient identification capabilities.
PP: We were preparing for the changes that would come into effect in 2018 already in 2017. For example, our clients were negatively surprised by the taxation of the interest income earned on bank deposits. We were farsighted in this area and made tax-related announcements to our clients, which resulted in a very successful campaign, in which the client was able to receive the interest earned on their deposits tax-free before the amendment came into force. We got a lot of new customers who deposited their savings in Inbank, and in addition to that, already existing customers activated as well. We keep an eye on changing regulations and participate in the talks of their creation through the Banking Association and independently.
MV: We will definitely have a positive impact from the developments that are taking place in Europe in the payment services offered by banks and where universal banks must open their infrastructure to third parties. This means that different market participants will have access to a more similar information set that will bring better offers for the customers. In addition to that, the change gives us the opportunity to offer our customers additional services.

What will 2018 bring for Inbank?

PP: Our focus is on the Polish and Latvian markets and on the growth of business volumes there. We have achieved a 20% market share in Estonia through new sales of consumer finance and hire-purchase financing which meets our ambition. There are significant growth opportunities, especially in foreign markets, and we will be working hard to achieve them during the coming year.
MV: Yes, internationalization will definitely continue. We must ensure that the seeds sown in Latvia and Poland in 2017 begin to grow and bear the first fruits.
LS: In addition to business growth, it is still important to strengthen the organization in management, processes, and also culturally.
In 2018, the focus will be on the efficiency of internal processes, finding new business opportunities and implementing them. 2018 promises to be an exciting and action-packed year.

Economic environment

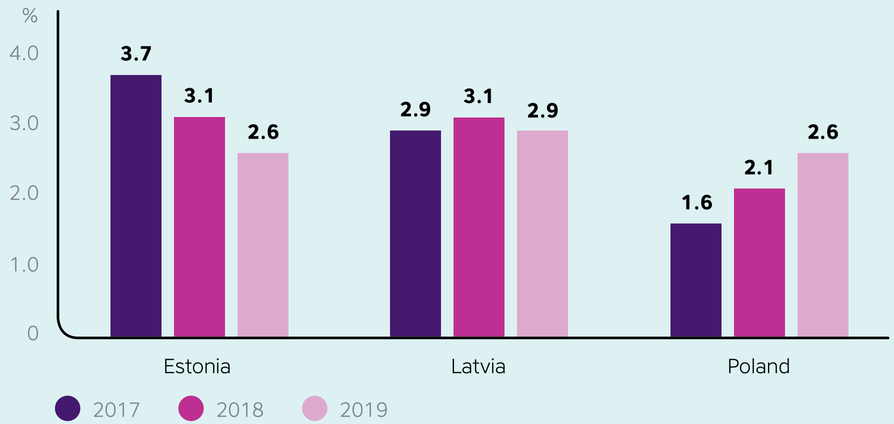
Villu Zirnask
Economics journalist and analyst

The economies of all three Inbank's target markets expanded strongly in 2017. The growth of gross domestic product in Estonia, Latvia and Poland exceeded 4%. According to forecasts, the economy of Poland will continue to grow at the same pace in 2018, whereas the momentum in the Latvian and Estonian economies will slow down slightly.

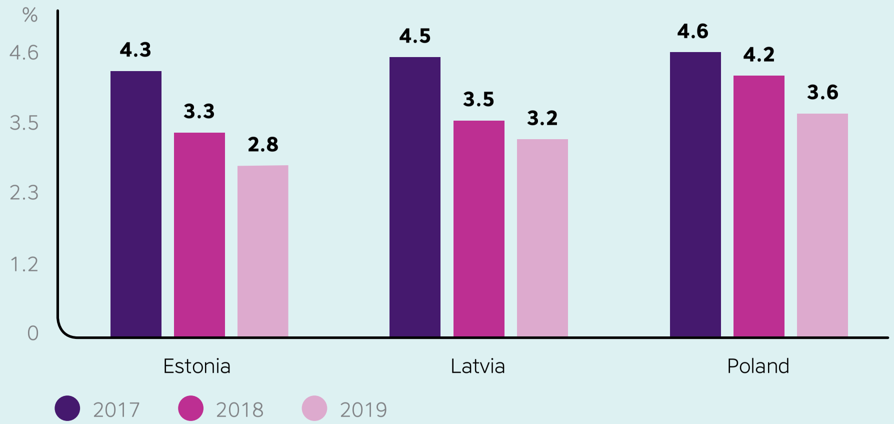
Estonia

In Estonia's strong economic growth in 2017, private consumption played a smaller role than in Poland and Latvia. More support was provided through the growth of EU-funded investments and the good performance of the oil shale and energy sector due to the rise in energy prices on the world market.

Inflation *

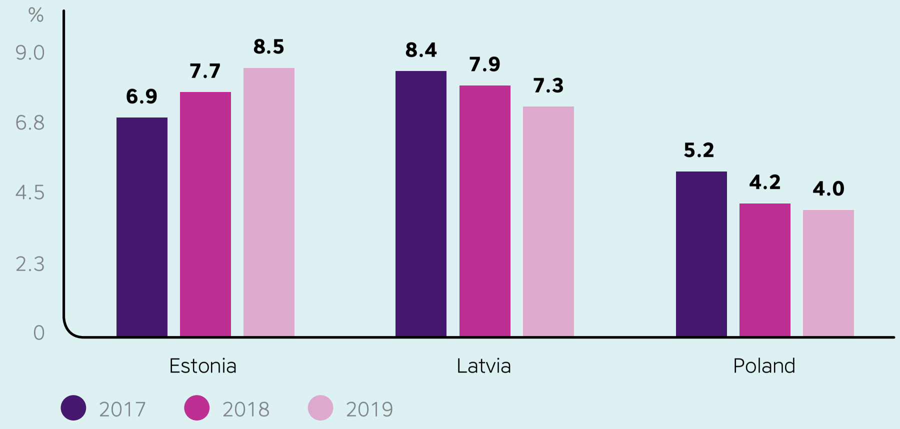


GDP real growth *

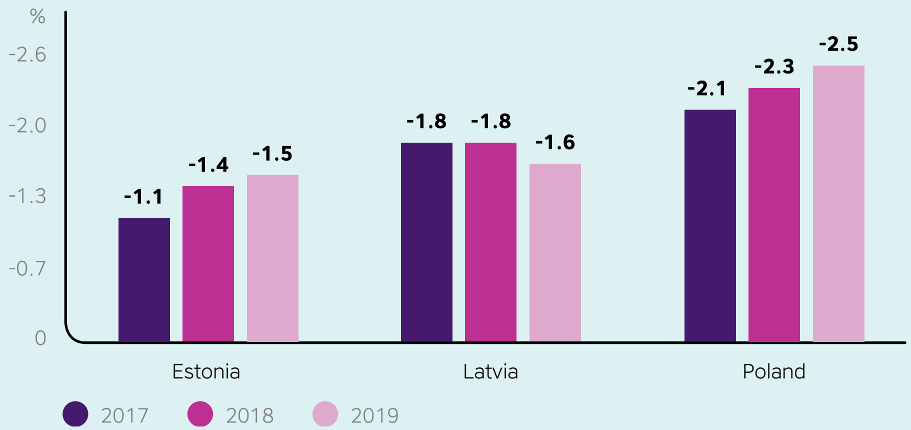


The rest of the export sector also did quite well, but further improvement is limited by the rising labor costs and the scarcity of low-wage labor force. The simultaneous increase in the unemployment rate, which is projected, is partly due to the work-capacity reform, as a result of which many people not included in the workforce before are now a part of it.
Similar to Latvia, there are problems with the gap between the qualification and location of employees and what companies are in need of.
In 2018, the greatest contribution to economic growth is expected from private consumption, since the taxation of low-paid income has significantly decreased (tax free minimum rose from 2160 euros in 2017 to 6000 euros per year in 2018). However, its impact may be reduced by the complexity of the new system compared with the earlier system, the change in the principles for accounting gross revenues and the rapid increase of excise duties.
Though the expansion of fiscal policy in 2017 was domestically widely criticized, Estonia's fiscal policy is rather moderate as compared to Latvia and Poland - the structural budget deficit is lower and the sovereign debt is almost like an unused "mineral resource".

Unemployment rate *



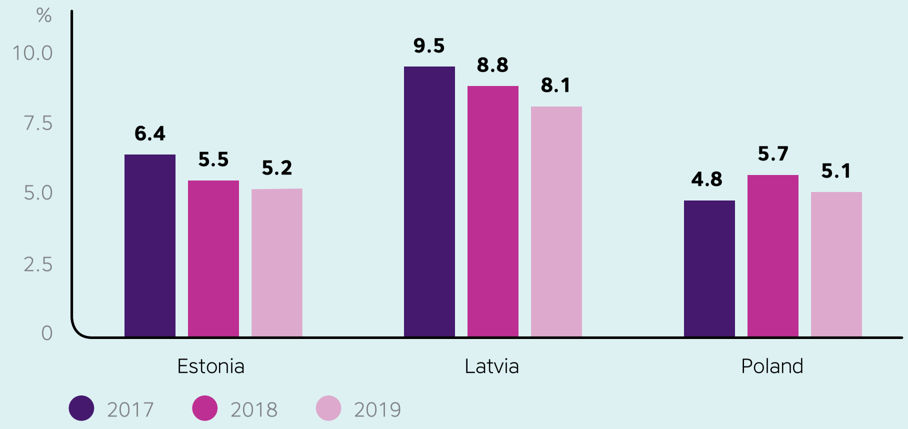
Budget deficit, adjusted to cycle, % of GDP *



Latvia

In Latvia, private consumption in 2017 was an important engine for economic growth. Investments financed by the European Union also boosted economic growth, but the share of exports was modest despite the improvement in conjuncture in the main foreign markets.
2018 is promising to be more modest than 2017, as the impact of EU investments is decreasing. Private consumption is expected to remain strong due to the rise in minimum wages (from 380 to 430 euros), but even more so because of the general wage pressures. Labor shortages and the resulting wage pressures are even higher in Latvia than in Estonia: in the year 2017, the average nominal wage rose by about 10% (partly due to regarding envelope wages as official), this year it is estimated to be around 8%. But at the same time unemployment is also high, because the needs of the economy differ from the qualifications and location of employees. This limits the possibilities for Latvian entrepreneurs to benefit from the improved economic situation in export markets.
For alleviating economic and social bottlenecks, Latvia will make wide-ranging tax amendments in

Growth of nominal wages *



2018-2019. For example, the basic personal income tax rate was reduced from 23% to 20%, the tax rate for income over 20,004 euros remained at 23%, and a tax of 31,4% has to be paid on income that exceeds 55,000 euros annually. Total social security contributions were raised by 1% (the share of employees from 10.5% to 11% and the share of employers from 23.59% to 24.09%). As far as corporate income tax is concerned, from 2018 onwards, Latvia will gradually introduce a system similar to Estonia in which the tax is to be paid on the distribution of profits rather than on an accrual basis. All in all, these changes mean expansive fiscal policies, but not so much as to increase budget deficits or public debt to a critical level.

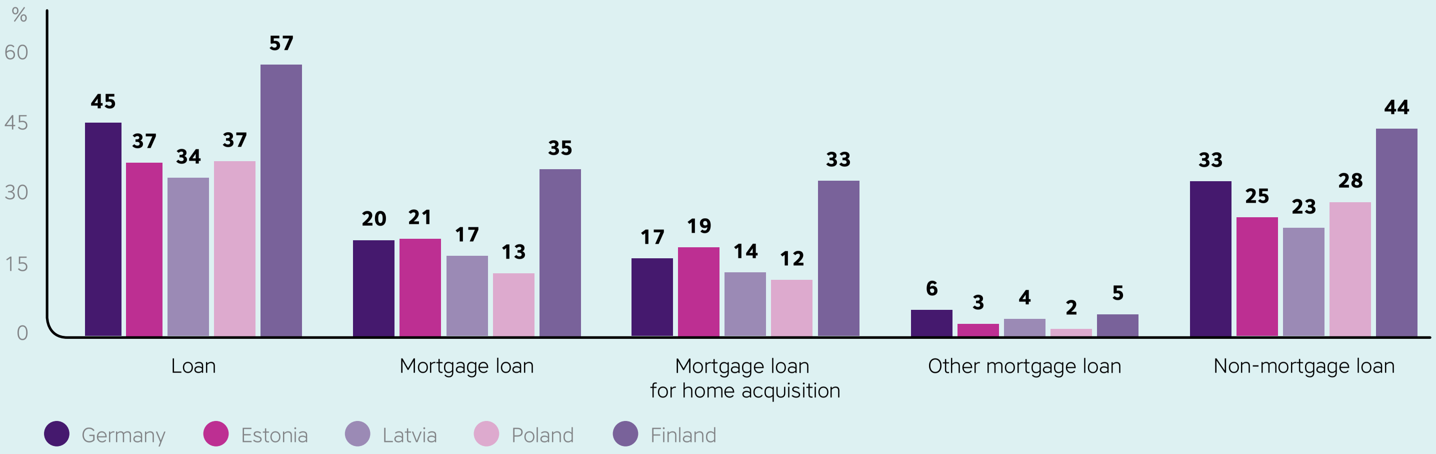
Poland

Last year, Poland's main engine of economic growth was private consumption, as the government of the Law and Justice Party (PiS), which came to power at the end of 2015, has vigorously increased social benefits. 2017 was the first full year of the child support program "500+": starting from the second child, parents receive a monthly allowance of 500 zloty (about EUR 110) per child. In addition to that, last fall the PiS-led government went in a completely different direction than the rest of Europe by lowering the retirement age to 65 years for men and 60 years for women by abolishing the previous government's decision to raise the retirement age gradually to 67 for both men and women.
Contrary to the expectations of the opposition, these decisions (including the conflict with the European Commission and other Member States in some political matters) have not affected business confidence.
The state budget is withstanding the burden due to a more efficient tax collection. The cyclical budget deficit in Poland is just over 2% of GDP, which is a low indicator compared to the country's long-term average. Public debt remains low (53% of GDP), as compared to most other European Union countries.
In addition to the expansive fiscal policy, consumer optimism is supported by a strong wage increase - almost as fast as in Estonia, on average around 5% per annum. Similar to Estonia, companies in Poland complain about labor shortage. Unemployment, which in 1990-2000 remained above 10%, has fallen to 5%. The Polish labor shortage is mitigated and the wage pressure is reduced by a large number of foreign workers arriving from the neighboring Ukraine for whom it is relatively easy to obtain a short-term work permit.
When talking about Poland's economic growth, it must be taken into account that regional disparities remain high. Quality of life and living conditions in urban areas are, as a rule, considerably better than in rural areas.

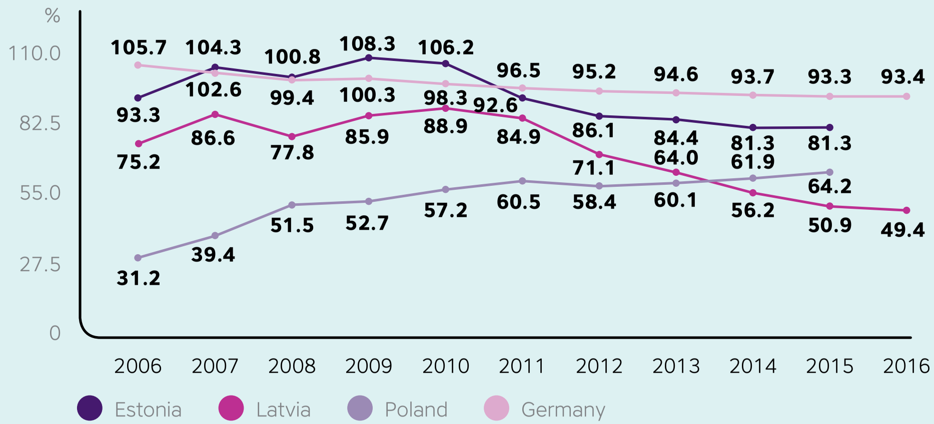
Summary

Poverty-alleviation policies, which the governments of Estonia, Latvia and Poland are now exercising more actively than usual, can have a significant impact on loan demand. This is assuming that these policies will not lead to excessive state budgeting and will not create an excessive burden on business competitiveness. The share of households who have taken home and consumer loans in all three countries is lower than in Finland or Germany. The biggest difference is in the case of households with lower incomes.

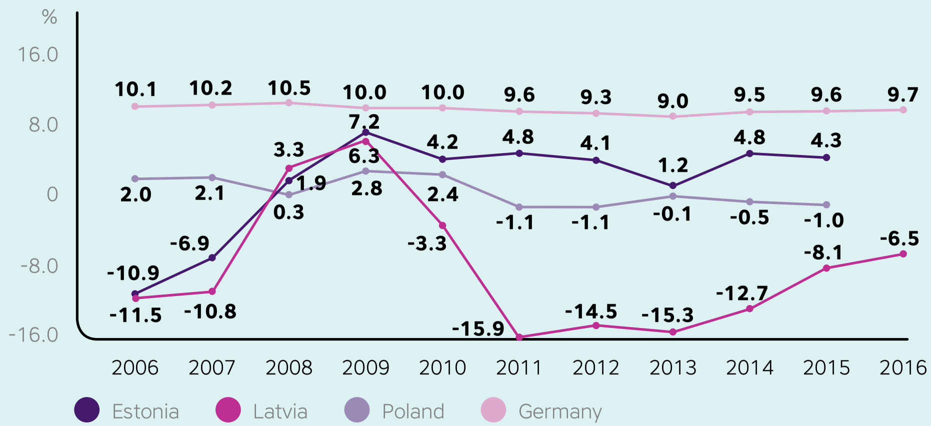
Share of households with a loan **



Household debt, % of net disposable income ***



Household savings rate, % of net disposable income ***



* Source: Euroopa Komisjoni prognoos
** Source: Household Finance and Consumption Survey
*** Source: OECD

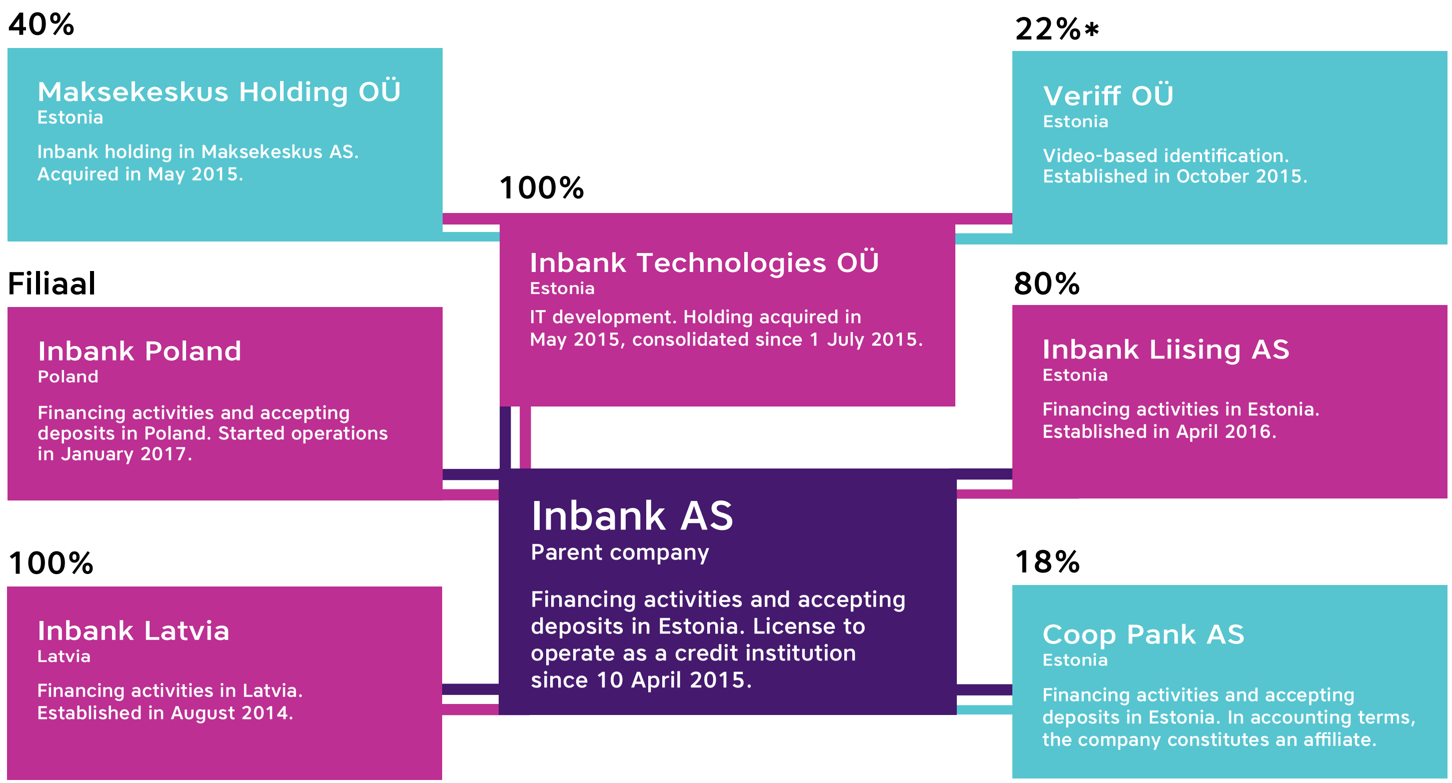
Management report

The year 2017 was of significant importance to Inbank. It marked the completion of one very important phase in the bank's development. As part of this process we formulated Inbank's new strategy, which is geographical expansion with the existing portfolio of products.

Strategic view

Our history shows that we have been successful mainly due to focusing our activities. Thanks to this approach, our ability to compete with universal banks in our field has grown constantly. The second pillar of our success is cooperation with partners. Our mission is to help retailers sell more and grow their businesses. With a clear focus, partner-oriented approach and development of technology, we have grown to become the preferred partner in Estonia for both hire-purchase and car loans.

In analysing the strengths of Inbank, we found that our knowledge and technological solutions can be successfully exported to other markets as well. This approach seems more effective and logical than the attempt to expand into new product areas in Estonia and compete with large banks. This fact is becoming the core of our strategic choices. Today, we test these principles and business model on both the Latvian and Polish markets.



* see Note 13

In addition to the geographical expansion, significant changes took place regarding our affiliated companies in 2017. Together with Coop Eesti we built Coop Finants into a successful company with a total of 100,000 customers and a profit of EUR 1.56 million in 2016. Encouraged by the success of providing financial services, Coop showed interest in expanding its business activities to the banking market. Ambitions and a suitable opportunity triggered a chain of events, which resulted in Coop Eesti acquiring a majority holding in Eesti Krediidipank. In the course of the transaction, Inbank sold its affiliates Coop Finants and Krediidipank Finants to Krediidipank and invested the received resources back into Krediidipank. In the fall of 2017, Krediidipank changed its name to Coop Pank. After the transaction, 17.94% of shares of Coop Pank are owned by Inbank.

It is important to note that the investment in Coop Pank is primarily a financial investment for us. Inbank has not taken an active part in the activities and management of Coop Pank, which is why we can redistribute our available resources to our international development. In 2017, this financial transaction brought a significant extraordinary profit to Inbank. Also, a positive change was the fact that Piret Paulus, the previous manager of Coop Finants, joined Inbank, starting to work as a member of the board and assuming responsibility for the bank's sales and marketing activities.

The third major event in 2017 was related to the launch of activities in Poland. In March, we successfully launched the loan and deposit products. Customers showed trust towards the new bank and we saw that we can successfully attract deposits. We also started selling credit products in the Internet bank,

but deliberately in a modest amount. Our goal was to test business processes and the functioning of the credit decision. In the fourth quarter, we started offering partner-based financing in Poland, which is the cornerstone of Inbank's strategy. The first product we brought to the Polish market was insurance-financing through partners. As an interesting solution, we offer monthly payment for insurance, which is a new and innovative way to pay for insurance in the Polish market. We see great potential in the product and are already in active negotiations with several large insurance companies.

At a press conference, the Chairman of the Supervisory Board of Inbank Priit Põldoja, Head of Coop Eesti Jaanus Vihand and Chairman of the Management Board of Coop Pank, Margus Rink, explain the strategy of Coop Pank, which is to provide services outside of large cities.

Organization development

For Inbank as an organization, 2017 was a year of increase in growth and complexity. At the end of the year, nearly 90 people worked at Inbank (not considering affiliated companies). There were 46 employees in Estonia, 20 in Latvia and 20 in Poland.

In our strategy we said we wanted to export our product knowledge to other countries. Our know-how is not merely technology, but contains a much more detailed commercial knowledge that defines the competitive advantages of Inbank. Successful transfer of these ideas requires our current top specialists to reorganize their activities from local to international. This is a complex management task. In 2017, we formulated much clearly the company's core functions and invested more into developing communication and collaboration. We continued the group management quarterly meetings and improved information flow.

It is still a pleasure to admit that we are an attractive employer to the best workers in our line of business. In 2017, our team was joined by strong professionals, such as Priit Piile who became the Head of IT, Ago Haabpiht as Chief Risk Officer. We also recruited several software developers with great experience.

In 2017, significant progress was made in the work organization as well. Banking is highly regulated and sets high standards for the organization, which requires a lot of attention to the company's internal procedures. We went a long way in regulating the organization of work and today we can say that bureaucracy is becoming, in a good sense, part of our day-to-day operations.

Business activity and market

In terms of business volumes, Inbank's largest market is still Estonia. In total, we sold credit products in three countries for 72.8 million euros, of which 80.8% came from Estonia, 11.4% from Latvia and 7.8% from Poland. In the home market, Inbank's position gives plenty of reason to rejoice. According to the Financial Supervision Authority statistics, Inbank is the second largest consumer finance provider on the Estonian market after Swedbank and in front of SEB. This is an excellent result and confirms that our marketing and sales activities have been successful and, as a result, we have been able to grow our market share. In the area of hire-purchase, we have been able to maintain our partners, but also win new ones: new sales increased by as much as 12.3% year-on-year. This is a strong result and far exceeded our forecasts.

In Latvia, Inbank subsidiary reached the goals set for the unit. The portfolio has started to grow again and credit quality has been very good, even exemplary. In 2018, we expect a stable growth in business volumes and a decent profit from Latvia.

Credit is due also to the Polish team, who built up a bank branch and launched business activities at an extraordinary speed, considering the country's size. In the fourth quarter of 2017, we also laid the foundation for partner-based financing, which will be the main focus of our activity. Next year, Poland's main goal will be a strong increase in business volumes, especially in partner-based financing.

Our ability to gather deposits in 2017 matched the growth of our business volumes. Diversified sales channels give us enough assurance that we will be able to ensure effective financing to cover our loan volumes also in the future. In particular,

Inbank's Latvian team moved into a modern office building in 2017 near the National Library of Latvia, which was decorated with a large Inbank logo.

I would like to highlight the campaign in late 2017, where we offered Inbank's deposit product to Estonian customers in a new way. In the light of the amendments of the Income Tax Act, we offered customers an opportunity to receive earned interest during the year 2017 and tax-free. The offer exceeded expectations and attracted both existing and new customers of Inbank. We received a lot of positive feedback from the market and our customers for reacting to the new situation in a timely manner while keeping the well-being of our customers in mind.

At the end of 2017, Inbank's deposit portfolio amounted to 95.1 million euros, an increase of 47.2% over the year.

Shareholders

At the end of 2017, Inbank had 5 shareholders, whose holding in the company exceeded 5%.

Name of shareholder	***Holding***
Pershing Hall Holding Limited	30.50%
Cofi Investeeringud OÜ	30.07%
Elio Tomaso Giovanni Cravero	6.60%
Roberto De Silvestri	6.60%
Baltic Holdings Limited	5.80%

Financial results

Mainly two important factors influenced the economic results in 2017: the extraordinary profit earned from the sale of affiliates and the increase in the overhead costs associated with the launch in Poland. Overall, the financial results were very good. Inbank's profit was 7.5 million euros, which translates into a return on equity of 44.1%. At the same time, the growth in expenses in Poland influenced the Bank's cost ratio, which at the end of the year was 57.8% (45.7% in 2016). Considering the specific features of Inbank's operations, this expense can also be categorized as an investment in the future.

The financial result was also positively influenced by the decrease in the average financing cost (average deposit interest rate 1.95%) and lower credit costs. The latter, in turn, shows that our ability to manage risks has improved.

Summary

2017 was of great significance for Inbank in a number of ways. We formulated our strategic focus and the source of growth. This decision triggered a series of internal changes that were necessary to turn a local company into an international organization. Inbank is growing well and this is very positive, but it also requires the strengthening of management and execution capacity.

In 2018, we hope to see success on the Polish market. Inbank is always ready to take advantage of new and interesting business opportunities, so we are looking forward to expanding to new markets with open eyes and excitement. In both business and organizational development, 2018 will be the year of international growth for Inbank.

Jan Andresoo

Chairman of the Management Board

Priorities for 2017 and 2018

In the previous annual report we set Inbank's priorities for 2017. Today, we are pleased to note that progress has been made in all focus areas.

Priorities in 2017		Assessment of fulfilment of priorities
Launch in Poland	→	The Polish branch has started financing operations and accepting deposits. First partner-based offers have been introduced in the market.
Introduction of a new strategy in the Latvian company	→	A new CEO and several top specialists joined the Latvian subsidiary. Sales strategy has undergone a change and credit risk has improved.
Growing business volumes in Estonia	→	Both the deposit and loan portfolios have shown strong growth.
Development of an international organization	→	We established local and group-wide business functions.

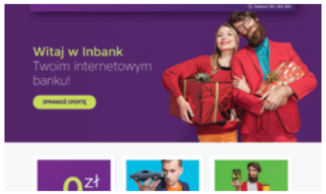
Priorities for 2018

- The growth of partner-based business in Poland and a significant increase in the share of international portfolio.
- Stable growth of business volumes and profitability in Estonia.
- Exporting Inbank's business model: successful implementation of similar technology, business and product development processes.
- Strengthening the international organization and disseminating Inbank's values in the whole Group.

Significant events in 2017

January

The Polish branch of Inbank received an operating license from the Financial Supervision Authority and started to accept deposits and issue consumer credit on the Polish market.



We acquired a holding in Eesti Krediidipank and made our contribution to creating a bank with a new strategy in the Estonian market.

March

We started accepting deposits and the offering loans in Poland.

April

In cooperation with Hansapost and Bauhof, we launched Hansapost's small loan and Bauhof's renovation loan.

May

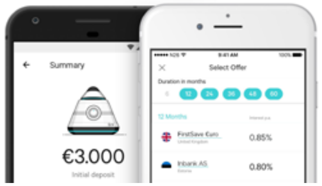
Piret Paulus joined the Management Board of Inbank as the Head of Sales and Marketing.

Girts Lediņš started working as the CEO of Inbank's Latvian subsidiary.

Inbank began to accept deposits from clients of N26, an innovative European mobile bank.

Inbank bought back a 10% share in Inbank Līzings, becoming the sole owner of the company.

Inbank sold its associate Coop Finants to Eesti Krediidipank.



June

Inbank sold its affiliate Krediidipank Finants to Eesti Krediidipank

August

Inbank sold a 30% share in subsidiary Veriff.

November

In the wake of the new Income Tax Act, Inbank launched a deposit campaign which allowed customers to receive earned interest from deposit in 2017 and tax-free.

Inbank started offering first partner-based financing products in Poland.

December

In partnership with TV3, Inbank sponsored a gratitude project "Seitsmeste Uhkus".

Welcome to Inbank

Inbank has defined itself as a bank of the new era. Let's take a closer look at how Inbank developed from a company offering hire-purchase to a bank with international reach and the team who made it happen.

The Inbank story

The story of Inbank began in 2011 when hire-purchase company Cofi AS started operating. The name Cofi was inspired by the name of the company's field of business: consumer finance. In three years, we became the market leader in the hire-purchase sales, and in the spring of 2015 we received a banking license and adopted a new name: Inbank. We started our business as the youngest bank in Estonia. The name Inbank symbolizes the qualities that we carry: innovation, intellectuality, individuality, initiative.

Business culture and people

The development of Inbank is a result of our talented employees whose number already reached 90 by the end of 2017. In Inbank we highly value every employee and their contribution, transparent communication and good humour, flexibility and freedom of action and, of course, performance.

Inbank team

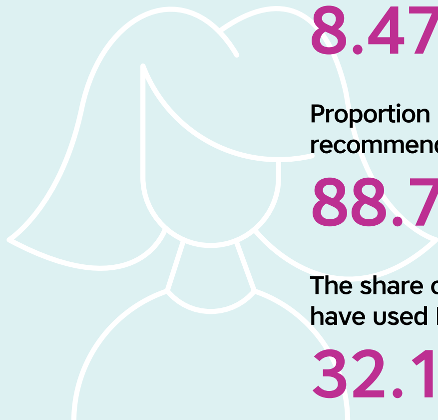
During its seven years of operation, Inbank has grown into an increasingly complex and versatile organization. As of 2017, nearly half of our employees work outside Estonia. Growth in the number and geographical location of our employees has made transfer of company values and planned internal communication even more important.

The involvement and motivation of the team is and will remain a priority for Inbank. Continuous work has also shown results in a fast growing team. For example, on a 10-point scale employees gave Inbank 8.47 points as an employer. The most popular rating given was 10 points, which was given by almost 39.6% of employees.

Our team is characterized by diversity and activity. Inbank employs people from 7 nationalities, we have offices in three countries and four cities: Tallinn, Riga, Warsaw and Gdansk. The average Inbank team member is 34 years and 8 months old and the share of female and male employees is approximately equal. It is customary in our offices to use more than one language every day as a working language, and it's common to use English as a language for work.

The divisions of Inbank are finance, risk, IT, marketing, sales, customer service and business processes. Good co-operation between people in different divisions is encouraged by our open office that is also shared by the Management Board members. The Polish unit of Inbank has begun work in a new, modern office, the Latvian unit moved to a newly built office building next to the National Library of Latvia, and the rapid growth in Estonia and in the group

Here are the first words that our employees associate with Inbank:



Employee ranking of Inbank as an employer on a scale of 10:

8.47

Proportion of employees who would recommend working in Inbank to a friend:

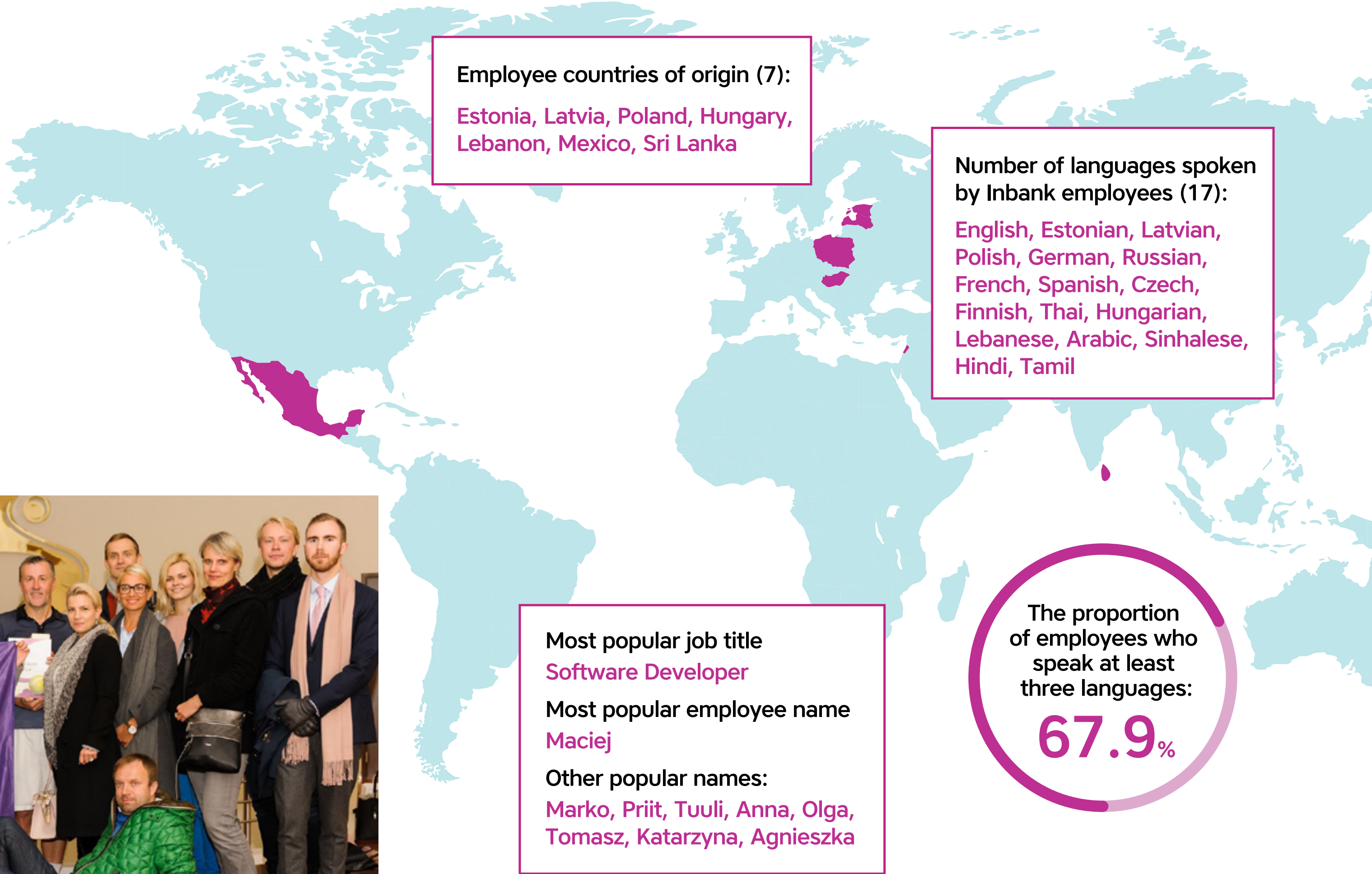
88.7 %

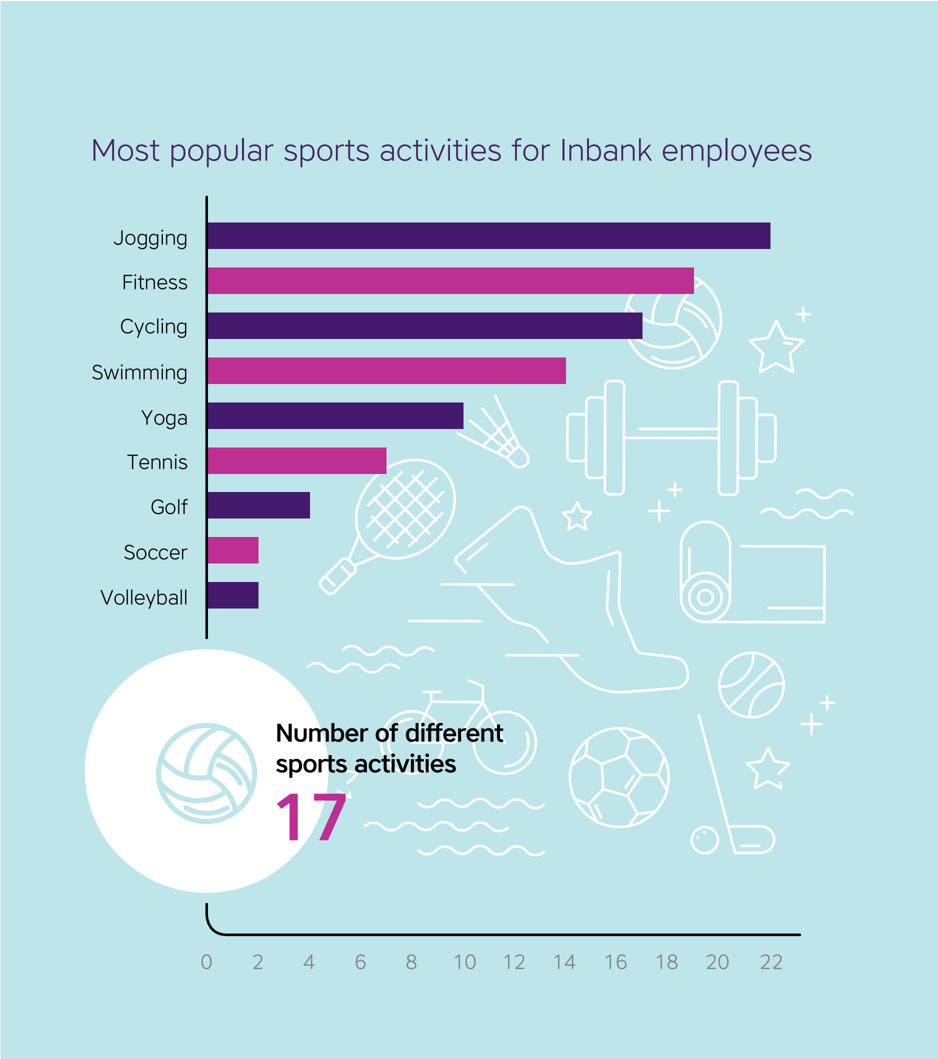
The share of employees who have used Inbank's products:

32.1 %

has necessitated expansion in Estonia as well. In our cosy office building in Kalamaja, we have occupied two floors instead of one. Our entire international team meets at least once a year - on summer days.

In addition to traditional events, Inbank also hosts spontaneous meetings. For example, at the end of 2017, Inbank employees held a doubles tournament in tennis.





Inbank as an employer

Motivated and talented employees are the cornerstone of our success, which is why Inbank's priority is to recruit new professional team members as well as maintain the satisfaction of existing employees.
The advantages of Inbank as an employer are as follows:

- **Good team**
81.1% of our employees believe that the existing staff and team spirit make Inbank a special place to work at. In addition to that, 60.4% of employees believe that it is worth noting that Inbank's people have a special sense of humour reflecting a competitive spirit.

- **Flexibility in the choice of working time and workplace**
We empower workers to choose when and where they will do their day-to-day work. Performance is more important than the specific time and place of work.

- **Exciting work in a growing and international company**
58.5% of Inbank employees appreciate the opportunity to work in a fast growing and multinational enterprise. The rapid growth, in turn, creates new development opportunities for employees, of whom 35.8% consider it to be an important strength of Inbank.

- **Performance-friendly office**
The open office of Inbank expresses the desire of the company to be as transparent as possible for its employees, customers, partners and other stakeholders. In addition to the office that promotes the sharing of information, every employee has the opportunity to choose the most suitable tools for work. For example, 53.8% of Inbank employees prefer PCs while 46.2% prefer Mac computers. Inbank offices also offer refreshments, and during breaks, one can play minigolf, table tennis or Playstation games.

- **Team events**
To strengthen team spirit, Inbank hosts both traditional and spontaneous events. Traditional get-togethers include Christmas, Inbank's birthday and annual summer days. In addition to that, different team events and sports events are held.

Watch the video of Inbank's summer days

Financial results

The year of 2017 was successful for Inbank in financial terms. The total profit increased 185% year-on-year to 7.46 million euros.

There were several one-off transactions behind the very strong profit growth. This was due to our exit from our affiliated companies Coop Finants and Krediidipank Finants in 2017. In addition to that, Inbank's subsidiary Inbank Technologies reduced its holding in Veriff that specialises in web-based customer identification. In 2017 the combined effect of these transactions to comprehensive income was in total 5.2 million euros.

Negative shadow on the financial result of Inbank in 2017 was cast by the tax amendment in Latvia. Namely, the corporate income tax legislation changed, whereby tax calculation based on accruals basis was replaced with tax on dividends. As a result, we wrote off the income tax asset generated in earlier periods in Latvia in the amount of 389 thousand euros from consolidated statement of financial position.

As a result, the impact of one-off transaction on Inbank's financial results for 2017 totalled 4.81 million euros. Total operating profit, excluding one-off transactions, was 2.65 million euros, or 1.5% more than in 2016.

The result from ordinary business

activities was in line with our plans and expectations. For Inbank, 2017 was dominated by various investments. We built up our Polish organization and implemented a strategy change in our Latvian subsidiary. The launch in Poland significantly increased the volume of Inbank's expenses, while the Polish business started to have a small effect on the income side only in the second half of the year. In total, loss before tax in Poland totalled 1.55 million euros and the comprehensive loss for the year was 1.29 million euros. The loss before tax of the Latvian subsidiary in 2017 essentially remained unchanged from the previous year, amounting to 66 thousand euros (loss before tax of 6 thousand euros in 2016). In 2017 the total comprehensive loss in Latvia totalled 454 thousand euros (2016 total loss: 8 thousand euros).

Looking at the Inbank consolidation group as a whole, there was a 43.3% increase in the credit portfolio and by the end of 2017 the portfolio amount was 92.5 million euros, and a 26.5% increase in net income, which amounted to 11.7 million euros in 2017. Revenue growth has been somewhat lower than portfolio growth mainly due to two main reasons: firstly, Inbank is successfully entering the small loans segment, the yield of which is lower than the hire-purchase business, but has a significantly higher market volume. The second was the change in the Latvian strategy, which has lowered the margin earned on the portfolio as expected.

As a positive development, it is important to highlight the change in loan losses, which were significantly more modest, compared to the growth of the credit portfolio, rising only 10% in comparison with 2016 to 3.53 million euros. At the same time, in 2017, loan losses in the second half of the year have fallen in comparison with the second half of 2016. This confirms that we have left the problems that arose in 2016 as a result of higher credit losses in Latvia behind us.

All in all, Inbank's financial results for 2017 give reason for satisfaction. We have put a greater focus on building an international organization, and this is also influencing our financial performance. Moreover, we see a number of important activities carried out by Inbank in 2017 as investments, which will enable to continue strong growth in the near future.

Marko Varik
Chief Financial Officer

Summary of the balance sheet

EURt	***31.12.2017***	***31.12.2016***	
Loans granted	92 895	64 839	43.3%
including loans to households	89 002	60 852	
Deposits received	95 056	64 587	47.2%
Equity	22 046	11 804	86.8%

Summary of the income statement

EURt	***2017***	***2016***	
Net interest income	11 014	8 384	31.4%
Net fee and commission income	-56	60	-193.3%
Other operating income	705	776	-9.1%
Total net interest, fee and other income	**11 663**	**9 220**	**26.5%**
Personnel expenses	-3 997	-2 461	62.4%
Marketing expenses	-929	-566	64.1%
Other expenses	-1 817	-1 188	52.9%
Total operating expenses	**-6 743**	**-4 215**	**60.0%**
Profit before impairment losses on loans and advances	**4 920**	**5 005**	**-1.7%**
Share of profit of associates	6 203	773	702.5%
Impairment losses on loans and advances	-3 532	-3 219	9.7%
Profit before income tax	**7 591**	**2 559**	**196.6%**
Income tax	-92	57	-261.4%
Profit for the period	**7 499**	**2 616**	**186.7%**
Currency translation differences	-38	2	-2000.0%
Total comprehensive income for the period	**7 461**	**2 618**	**185.0%**
including attributable to shareholders of parent company	7 458	2 649	181.5%

Risk overview

The objective of risk management is to identify, assess, monitor and control all risks related to Inbank business activities. The wider objective of risk management is to ensure stability, credibility and sustainable growth of the company's value.

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. Inbank'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 analyzed 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.
- There must be a balance between the risk and the expected benefits.
- Risk management is part of all activities.

Risk appetite

Inbank's risk appetite statement transforms the Group's overall strategy into measurable goals and thresholds in all significant risk categories to ensure that strategic, business and risk objectives are attained, and to monitor potential abnormalities.

Inbank's risk appetite is based on our core business of issuing consumer credit. Regarding the credit risk of the loan portfolio, we consciously accept a higher than average risk level without taking excessive risk. Our risk appetite in all other risk categories is rather conservative and lower than the 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 our overall risk position, shall be avoided or properly managed.

Achievements in 2017

The biggest source of risk in Inbank is credit risk arising from the loan portfolio. The profitability of the credit portfolio was well-balanced in 2017. The quality of the portfolio was better than expected in Estonia and improved significantly in Latvia. An important commercial change in 2017 was the entry into the Polish market. In our opinion, there are no changes that would indicate a significant deterioration of the economic environment in Inbank's areas of activity that would lead to a sharp decline in the quality of the loan portfolio.

The liquidity position of Inbank is strong, the liquidity buffer is at a conservative level, and the survival period is sufficient. We have significantly diversified our financing sources in 2017 and the market situation continues to be favorable.

We have not detected significant operational risks, and the number of loss cases and other key indicators are low. The organizational structure and management structure of Inbank is clear and in line with the company's operations.

Our capital indicators are on a good level. According to the Management Board, the risk related to capital as at 31.12.2017 is moderate. We are able to finance the growth through profit and raising additional capital.

According to the Management Board, the actual risk profile of Inbank as at 31.12.2017 is in line with the risk level approved by the Supervisory Board. Inbank's risk strategy and the desired risk profile are in line with our overall strategy and business model.

Ago Haabpiht
Chief Risk Officer

Risks | **Main hedging activities** | **Risk factors** | **Situation**

Credit risk

Risks

Credit risk arises from Inbank's lending, financing, investment and trading activities, in which counterparties have repayment or other obligations to the bank. Inbank distinguishes credit risk from the loan portfolio (including off-balance sheet items), counterparties and other assets (investments, fixed assets, etc.).

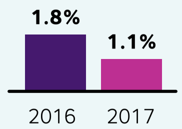
Within credit risk, Inbank also includes concentration risk, country risk and foreign currency lending risk.

Main hedging activities

- Credit risk is managed through approved risk appetite and risk limits.
- The Bank's essential components of credit risk management are the prevention of excessive risk and risk mitigation with the following measures:
  - optimal balance of risk and reward;
  - above the average interest rates;
  - below the average contractual maturity;
  - significantly below the average contractual amount;
  - well-distributed portfolio; risk concentrations are limited;
  - adequate and conservative provisions;
  - well-controlled risk taking and risk profile.
- Stress and scenario tests allow us to make sure the portfolio is durable.

Risk factors

Share of portfolio in 90+ days overdue



Situation

The credit risk position has improved and is in line with the defined risk appetite. We will continue investing in credit decision making and credit quality monitoring systems.

Market risk

Risks

Market risk is the risk of losses resulting from adverse changes in market prices and rates, their correlations and volatility. The market risk is reduced by Inbank's foreign exchange risk, trading portfolio risk (position risk), equity risk and interest rate risk in banking book (IRRBB).

Market risks arise from the Group's core business, taking market risk is not the main activity of Inbank.

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.

The Group has a conservative market risk strategy.

Main hedging activities

- The market risk is managed through risk appetite limits and policies approved by the Management Board.
- Foreign exchange risk arises from Inbank's activities on the Polish market. The Bank's overall foreign currency risk strategy is conservative. Currency risk arises from lending (loans and deposits in Polish zloty) (PLN) and the Bank avoids and mitigates excessive risk, maintaining the necessary balance between loans and deposits in zloty.
- The Bank does not accept commodity risk or equity risk in its trading portfolio.
- Interest rate risk in 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, usually based on customer preferences.
- The Bank's essential components of interest rate risk management are the prevention of excessive risk and risk mitigation with the following measures:
  - above the average spread between loan and deposit interest rates;
  - below the average loan term;
  - use of fixed interest on loans;
  - active management of interest bearing assets and liabilities structure and maturities;
  - Measuring and limiting the impact of IRRBB on net interest income (NII) and on the economic value of equity (EVE);
  - mitigation of the IRRBB risk, if necessary.
- Stress and scenario tests focus on the impacts of different interest environments.

Risk factors

Open net foreign currency position (% of net own funds)

	2017	2016
	0.60%	0.61%

Impact of interest rate change on net interest income (% of net own funds)

	2017	2016
+200 basis points	1.71%	0.83%
-200 basis points	-0.02%	-0.83%

Impact of the change in interest rate on the economic value of equity (% of net own funds)

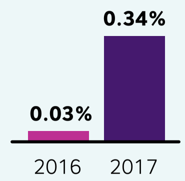
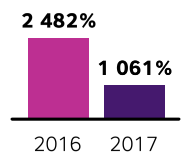
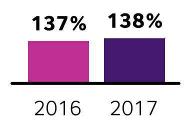
	2017	2016
+200 basis points	1.41%	0.39%
-200 basis points	-0.18%	-0.39%

Situation

The market risk position remained stable and the actual risk profile was below average.

The interest rate risk position remains within safe limits. We will continue to maintain a stable and balanced risk profile.

We plan to improve interest rate risk management systems and approaches to meet changing legal requirements.

Risks	*Main hedging activities*	*Risk factors*	*Situation*
Operational risk **Operational risk** is the risk of incurring loss from internal processes, human errors or systems inadequate or ineffective in the way expected or due to external events. The term includes legal risk, but does not include a strategic and reputation 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 malfunctions of technical infrastructures that may affect the availability, integrity and security of the data.	• The operational risk is managed through risk appetite limits and policies approved by the Management 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.	Operating loss as % of net own funds 	Operational risk losses have remained stable and low. We will continue investing in our activities and ICT infrastructure.
Liquidity risk **Liquidity risk** is a risk that the bank will not be able to fulfill its obligations in a timely manner or in full without significant loss. **Risk of financing** is a risk that the bank will not be able to use resources without affecting adversely its daily operations or financial position.	• The risk appetite, as well as financing and liquidity policies approved by the Board, define the structure of the limit. • 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 finance risk are: • Retail deposits as primary source of funding • Suitable structure of due dates of funding; • Highly diversified financing portfolio; • Avoidance of concentration; • Diversity of sources of funding by country and channel; • Flexible and attractive financing strategy, pricing above the market average; • Balanced growth of financing and loan portfolios; • The bank has sufficient liquidity resources of sufficient quality to cover the outflow of assets in a stress scenario. • Stress and scenario tests to ensure that liquidity reserves and funding are sufficient.	Liquidity coverage ratio  Net stable funding ratio 	Our liquidity and funding position remains stable and the actual risk profile is below the average. We will continue to make our balance sheet more efficient and resilient, using sound financing diversification and liquidity management.

<table>
<tr><th>Risks</th><th>Main hedging activities</th><th>Risk factors</th><th>Situation</th></tr>
<tr><td>Business risks

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

Reputation risk is the risk to the bank's income, own funds or liquidity, which is a loss to the reputation of the bank.</td><td>• The Management Board focuses on ensuring that business development and planning conform to risk appetite.
• Strategic risk and reputation risk are analyzed as part of strategic planning.
• Strategic risk strategy is to control and mitigate the risk, which involves a strategy based on thorough planning process, as well as sufficient and timely response to the changes.
• The Bank's strategy to manage reputation risk is to avoid significant risks and situations that could have a negative impact on reputation and thereby lead to loss of revenue or loss of confidence.
• The basis for the management of the reputation risk is the principle that reputation is an important asset, its development starts with customer service and public opinion is important for the Bank.</td><td></td><td></td></tr>
<tr><td>Capital risk

Capital risk is the risk that Inbank's capital adequacy or quality is below the optimum level</td><td>• The risk appetite approved by the Management Board ensures that we have enough capital to respond to legal and internal demands.
• Capital policies define minimum standards for capital management.
• The Group's capital must at any time exceed the total risk and comply with legal requirements and ICAAP/SREP minimum requirements.
• ICAAP and capital management work continuously.
• Capital adequacy management is an integral part of strategic decision and business decision making and risk management.
• The Bank continuously assesses the individual risk profile and the corresponding capital requirement for all risk categories that are identified by the Bank.
• Stress and scenario tests assess capital adequacy across a range of serious, cross-market stress scenarios and events.</td><td><table><tr><th>Capital ratios</th><th>2017</th><th>2016</th></tr><tr><td>CET 1</td><td>12.75%</td><td>13.90%</td></tr><tr><td>Total capital ratio</td><td>19.86%</td><td>24.49%</td></tr><tr><td>Leverage ratio</td><td>11.45%</td><td>10.40%</td></tr></table></td><td>Our total capital and leverage ratios are stable and conservative. We will continue to hold a high-quality capital base, which exceeds the regulatory rates.</td></tr>
</table>

Capital adequacy

EURt	***31.12.2017***	***31.12.2016***
Capital base		
Paid-in share capital	782	689
Share premium	9 068	6 361
Statutory and other reserves	1 431	1 418
Retained earnings	3 243	681
Intangible assets (subtracted)	-816	-902
Profit for reporting period*	7 496	2 647
Shares in associates**	-7 763	-1 673
Total Tier 1 capital	**13 441**	**9 221**
Subordinated debt securities	6 503	6 503
Total Tier 2 capital	**6 503**	**6 503**
Net own funds for capital adequacy calculation	**19 944**	**15 724**
Risk-weighted assets		
Credit institutions, standardised approach	2 216	391
Non-financial customers, standardised approach	1 595	3 037
Retail claims, standardised approach***	67 499	44 818
Claims past due, standardised approach***	1 301	1 095
Other assets, standardised approach	1 494	1 562
Total credit risk and counterparty credit risk	**74 105**	**50 903**
Operational risk, basic indicator approach	15 584	9 765
Total risk-weighted assets	**89 689**	**60 668**
Capital adequacy (%)	22.24%	25.92%
Regulative capital adequacy (%)**	19.86%	24.49%
Tier 1 capital ratio (%)	14.99%	15.20%
Regulative Tier 1 capital ratio (%)	12.75%	13.90%

*In accordance with EU regulation, audited profit for the period may be included in retained earnings upon prior approval by competent authority. The calculations made in accordance with EU regulation include the profit earned during 2017 in the amount of 7 496 EURt, and do not include the profit for H2 in the amount of 1 777 EURt (2016: does not include profit for Q4 in the amount of 936 EURt, including the profit from associates using the equity method of 261 EURt).

**According to the reports submitted to the regulator, the capital adequacy ratio is 19,86% and the subtracted balance sheet value of "Shares in associates" is 7 763 EURt (31.12.2016: 1 411 EURt). The value of the "Shares in associates", as submitted to the regulator, has been determined on the basis of the audited profit of the associates.

***In the reports submitted to the regulator as of 31.12.2017, the risk exposures take account of the credit portfolio impairment losses made in the reporting period in the amount of 1 081 EURt (31.12.2016: 759 EURt) and are yet to be confirmed by the external auditor. The external auditor has confirmed the 6-month profit, 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 and systemic risk buffers for credit institutions at the respective level of 2.5% (in accordance with the law) and 1.0% (established by the Bank of Estonia). The Bank's Polish assets were subject to a systemic risk buffer rate of 0% in 2017 (new rate of 3% as of 01.01.2018). Therefore, the total amount of the systemic risk buffer depends on the ratio between the Bank's exposures to Estonia, Latvia and Poland. These buffers are added to both Tier 1 and the total own funds requirements. Inbank AS adheres to these requirements both as of the balance sheet date and as at the publication of the interim report.

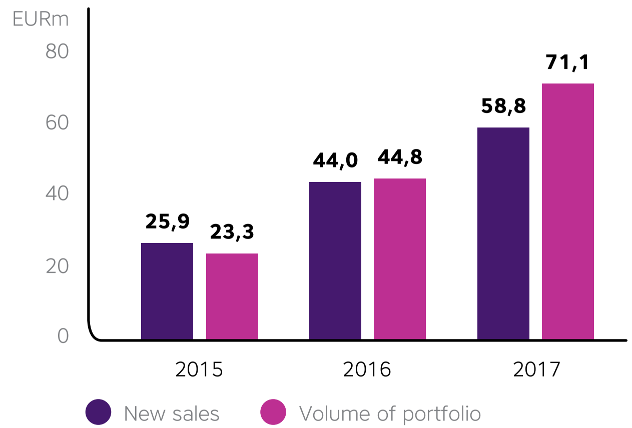
	Common equity Tier 1 capital ratio	***Tier 1 capital ratio***	***Total capital ratio***
Basic requirement	4.50%	6.00%	8.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Systemic risk buffer	0.82%	0.82%	0.82%
Minimum regulative capital requirement	**7.82%**	**9.32%**	**11.32%**

Overview of Inbank in 2017

Estonia

- Inbank's Estonian consumer finance business was a success in 2017.
- The main source of growth for portfolio and new sales was the successful product offering in category of small loans.
- The increased share of sales of loan products to total sales has led to a decrease in the average interest rate and increased the contract period and average contract amount.
- The quality of the credit portfolio has remained comparable to the previous year.

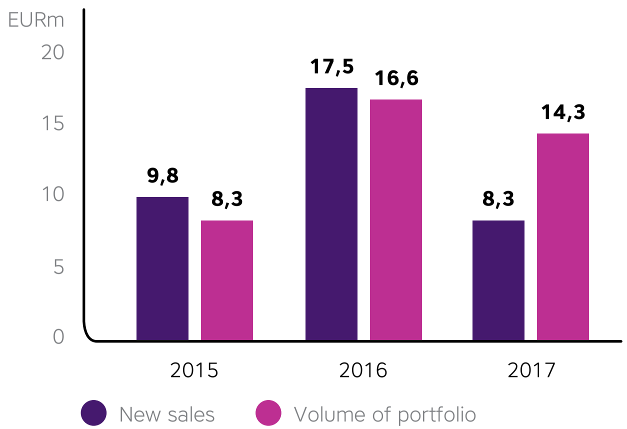
EURt	2015	2016	2017
Volume of new sales	25 915	43 958	58 834
New sales of contracts (number)	40 522	45 611	53 721
Average new sales contract amount	640	964	1 095
Average interest rate of new sales	20.8%	20.2%	18.9%
Average period of new sales (months)	30	37	41
Volume of credit portfolio	23 349	44 812	71 062
Number of credit contracts in portfolio (items)	41 846	50 878	65 269
Average value of contracts in portfolio	558	881	1 089
Average interest rate of portfolio	20.4%	19.7%	18.0%
Share of portfolio in 90+ days overdue	0.4%	0.9%	1.1%
Share of portfolio in 180+ days overdue	0.1%	0.3%	0.6%
The ratio of loan losses to period end credit portfolio	2.4%	2.2%	2.2%



Latvia

- In Latvia, Inbank's business in 2017 was dominated by a change of strategy.
- Changes to the selected sales strategy caused a significant decrease in sales volume in the annual comparison.
- The focus on partner-oriented sales and the supply of the credit product has led to a decrease in the average loan amount and the average interest rate.
- As expected, the change in strategy has had a positive impact on portfolio quality.
- The ratio of relatively high loan losses to the portfolio is due to the fact that in 2017, the lower quality loans sold in earlier periods still have an impact on the financial statements.

EURt	2015	2016	2017
Volume of new sales	9 795	17 548	8 333
New sales of contracts (number)	7 581	9 147	6 578
Average new sales contract amount	1 292	1 918	1 267
Average interest rate of new sales	23.6%	24.2%	16.8%
Average period of new sales (months)	43	40	38
Volume of credit portfolio	8 267	16 647	14 320
Number of credit contracts in portfolio (items)	6 289	10 313	10 389
Average value of contracts in portfolio	1 315	1 614	1 378
Average interest rate of portfolio	22.5%	23.1%	21.0%
Share of portfolio in 90+ days overdue	0.7%	4.2%	0.2%
Share of portfolio in 180+ days overdue	0.1%	2.2%	0.0%
The ratio of loan losses to period end credit portfolio	3.6%	13.3%	11.9%



Poland

- In March 2017 Inbank took its first steps in offering consumer finance products in Poland.
- The first products launched on the market were small loan and car loan.
- The product offering in the partner channels began in December 2017.
- Interest rates are lower on the Polish market due to regulatory requirements, offset by higher fees on services.
- In Poland, 2017 was marked by testing the quality of credit decisions. As expected, this has led to somewhat higher credit losses.

EURt	2015	2016	2017
Volume of new sales	-	-	5 644
New sales of contracts (number)	-	-	2 523
Average new sales contract amount	-	-	2 237
Average interest rate of new sales	-	-	8.6%
Average period of new sales (months)	-	-	50
Volume of credit portfolio	-	-	4 483
Number of credit contracts in portfolio (items)	-	-	2 293
Average value of contracts in portfolio	-	-	1 955
Average interest rate of portfolio	-	-	8.6%
Share of portfolio in 90+ days overdue	-	-	0.6%
Share of portfolio in 180+ days overdue	-	-	0.0%
The ratio of loan losses to period end credit portfolio	-	-	5.7%

Deposit

- The growth of the deposit portfolio has been at the same rate as the growth of loan portfolios.
- The growth of the Bank's reputation in Estonia contributed to reducing the interest rate on the deposit portfolio.
- The German, Austrian and also Polish depositors have received Inbank's offer well which has helped to diversify the choice of Inbank's sources of financing significantly.
- Deposits through the Raisin deposit platform are characterized by a longer average deposit period in the price level that is comparable to Estonia.
- The Polish depositor prefers a shorter deposit period and the interest rate differs significantly from that of other channels, mainly due to different currencies.

Estonia

Raising of deposits	***2015***	***2016***	***2017***
The volume of new deposit agreements entered	30 769	54 573	51 917
Number of new concluded deposit agreements	2 533	3 753	4 119
Amount of average deposit agreement	12 147	14 541	12 604
Average interest on concluded contracts	2.5%	1.9%	1.7%
Average period of concluded contracts (in months)	21	16	25
Deposit portfolio volume	29 712	64 522	67 782
Number of deposit contracts	2 506	5 307	5 713
Average interest rate of portfolio	2.6%	2.2%	1.8%

Raisin

Raising of deposits	***2015***	***2016***	***2017***
The volume of new deposit agreements entered	-	65	18 517
Number of new concluded deposit agreements	-	14	1 284
Amount of average deposit agreement	-	4 657	14 421
Average interest on concluded contracts	-	1.6%	1.7%
Average period of concluded contracts (in months)	-	40	40
Deposit portfolio volume	-	65	18 597
Number of deposit contracts	-	14	1 292
Average interest rate of portfolio	-	1.6%	1.7%

Poland

Raising of deposits	***2015***	***2016***	***2017***
The volume of new deposit agreements entered	-	-	10 672
Number of new concluded deposit agreements	-	-	1 931
Amount of average deposit agreement	-	-	5 527
Average interest on concluded contracts	-	-	2.6%
Average period of concluded contracts (in months)	-	-	13
Deposit portfolio volume	-	-	8 677
Number of deposit contracts	-	-	1 505
Average interest rate of portfolio	-	-	2.7%

Governance

Supervisory Board

The Inbank Supervisory Board consists of five members.

Priit Põldoja
Chairman of the Supervisory Board of Inbank

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 four members.

Jan Andresoo
Chairman of the Management Board of Inbank

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

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 Inbank's 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 Inbank's governance bodies.

Thus, Inbank's 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 Inbank's 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 Inbank's 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 Inbank's overall performance.

External consultants are not involved in determining remuneration policies.

Share option contracts were not realized in 2017.

In 2017, a share option agreement was concluded with one key employee, according to which the employee was able to acquire 100 shares at a price of 300 euros per share. Share option agreement will realize in 2020.

In total, 4930 shares options have been issued, of which 1000 have been issued to members of the Management Board and 580 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 2017.

Corporate Governance report

Inbank adheres to the Corporate Governance Code (hereinafter "Code"), a set of 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 complete, 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 Inbank's 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 meeting 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 one extraordinary general meeting of the shareholders was held in 2017.

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 the 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 Inbank's 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 four 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.

Piret Paulus was elected to the Management Board in 2017.

The Management Board of Inbank has number of shares and issued share options:

Member of the Management Board	Number of shares		Issued share options
	Belonging to the member	Belonging to related party	
Jan Andresoo	-	9 497	400
Liina Sadrak	200	-	300
Marko Varik	-	1 351	300
Piret Paulus	-	1 300	-

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 25 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 2017.

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 25 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 Inbank's consolidation group:

- Marko Varik – Member of the Management Board in Inbank Liising AS;
- Liina Sadrak – Member of the Supervisory Board in Inbank Liising AS;
- Piret Paulus – Member of the Management Board in Inbank Lizings SIA;
- Jan Andersoo – Member of the Supervisory Board in Inbank Lizings SIA.

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

Supervisory Board

Inbank's Supervisory Board plans 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.

Inbank's 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 2017 there was six Supervisory Board meetings and in seven cases the necessary decisions were taken without calling a meeting. All the Supervisory Board members have attended in at least half of the meetings held in 2017.

Inbank's Audit Committee has three members. The chairman of the audit committee is Raino Paron and members are Priit Põldoja and Triinu Reinold. 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 Audit Committee on the website (clause 3.1.3 of the Code), as Inbank does not consider it necessary in respect of work performed by the committee and ensuring the interests of the shareholders.

Number of share and share options belonging to Supervisory Board members:

Member of the Supervisory Board	Number of shares		Issued share options
	Belonging to the member	Belonging to related party	
Priit Põldoja	-	10 848	400
Roberto De Silvestri	-	6 747	-
Rain Rannu	-	565	180
Raino Paron	-	5 202	-
Triinu Reinold	-	765	-

Priit Põldoja 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 the clause 3.2.5 of the Code, because the impact of the remunerations of Supervisory Board is not significant to Inbank's financial results. The remunerations paid to members of the Supervisory Board are disclosed in Note 25 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 25 and are entered into on market conditions.

Cooperation between the Management and Supervisory Board

The Management and Supervisory Board work in collaboration to protect Inbank's best interest. The basis of the collaboration is open communication between Management and Supervisory Board as well as within Management and Supervisory Board. The Management Board ensures the availability of timely management information for the Supervisory Board. Inbank's 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 European Banking Authority's guidelines about evaluating the suitability of members of the management body (EBA/GL/2012/06). The suitability of the member is evaluated by the member of 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 fulfill 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. In 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 fulfill his obligations. Inbank also means 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 Inbank's 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 of 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 an auditor for the financial year 01.01.2017-31.12.2017 (reg.nr: 10142876). Inbank follows the auditor rotation principle.

During 2017 auditor of the Group has provided other assurance services, which are required to be performed by auditors according to Credit Institutions Act and Securities Market Act and tax advice and some other advisory services that are permissible in accordance with the Auditors Activities Act of the Republic of Estonia.

Consolidated financial statements

Consolidated statement of financial position

EURt	Note	31.12.2017	31.12.2016
Assets			
Cash in hand		4	4
Due from central banks, including mandatory reserve	11	14 767	14 680
Due from credit institutions	11	8 530	1 956
Loans and advances to customers	3; 9	92 895	64 839
Investments in associates	13	7 806	1
Tangible assets		279	183
Intangible assets	14	816	902
Other financial assets	15	61	43
Other assets	15	459	214
Deferred tax asset	10; 15	364	449
Assets held for sale	13	0	1 672
Total assets		**125 981**	**84 943**

EURt	Note	31.12.2017	31.12.2016
Liabilities			
Customer deposits	16	95 056	64 587
Other financial liabilities	18	1 263	1 034
Other liabilities	18	1 136	722
Income tax liability	10	0	321
Subordinated debt securities	17	6 480	6 475
Total liabilities	**3**	**103 935**	**73 139**
Equity			
Share capital	21	782	689
Share premium	21	9 068	6 361
Statutory reserve capital		79	57
Other reserves	23	1 352	1 361
Retained earnings		10 739	3 330
Total equity attributable to the share-holders of parent company		**22 020**	**11 798**
Non-controlling interest		26	6
Total equity		**22 046**	**11 804**
Total liabilities and equity		**125 981**	**84 943**

Notes set out on pages 52-107 form an integral part of the consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

EURt	Note	2017	2016
Interest income	5	13 023	9 788
Interest expense	5	-2 009	-1 404
Net interest income		**11 014**	**8 384**
Fee income	6	551	394
Fee expense	6	-607	-334
Net fee and commission income		**-56**	**60**
Other operating income		705	776
Total net interest, fee and other income		**11 663**	**9 220**
Personnel expenses	7	-3 997	-2 461
Marketing expenses	7	-929	-566
Administrative expenses	7	-1 602	-1 014
Depreciation, amortisation	14	-215	-174
Total operating expenses		**-6 743**	**-4 215**
Profit before impairment losses on loans and advances		**4 920**	**5 005**
Share of profit of associates	13	6 203	773
Impairment losses on loans and advances	9	-3 532	-3 219
Profit before income tax		**7 591**	**2 559**
Income tax	10	-92	57
Profit for the period		**7 499**	**2 616**

	Note	2017	2016
Other comprehensive income/loss			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		-38	2
Total comprehensive income for the period		**7 461**	**2 618**
Net profit attributable to:			
Shareholders of parent company		7 496	2 646
Non-controlling interest		3	-30
Profit for the reporting period		**7 499**	**2 616**
Total comprehensive income attributable to:			
Shareholders of parent company		7 458	2 649
Non-controlling interest		3	-31
Total comprehensive income for the reporting period		**7 461**	**2 618**
Basic earnings per share	20	101.92	42.08
Diluted earnings per share	20	95.52	39.02

Notes set out on pages 52-107 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows

EURt	*Note*	*2017*	*2016*
Cash flows from operating activities			
Interest received	5	14 034	10 267
Interest paid	5	-3 527	-2 083
Fees received	6	551	394
Fees paid	6	-607	-334
Other income received		705	776
Personnel expenses		-3 685	-2 102
Administrative and marketing expenses		-2 412	-1 418
Corporate income tax paid		-602	0
Cash flows from operating activities before changes in the operating assets and liabilities		**4 457**	**5 500**
Changes in operating assets:			
Loans and advances to customers		-31 968	-33 344
Mandatory reserve in central bank		-213	-334
Other assets		-178	-420
Changes of operating liabilities:			
Customer deposits		31 987	35 444
Other liabilities		-108	173
Net cash from operating activities		**3 977**	**7 019**
Cash flows from investing activities			
Acquisition of tangible and intangible assets		-387	-402
Acquisition of subsidiaries and associates	13	-10 697	-31
Proceeds from disposal of subsidiaries	13	300	0
Proceeds from disposal of associates	13	10 403	0
Net cash used in investing activities		**-381**	**-433**

EURt	*Note*	*2017*	*2016*
Cash flows from financing activities			
Repayment of debt securities		0	-3 114
Proceeds from subordinated debt securities issued	17	0	6 473
Repayments of loans received		0	-110
Share capital contribution (including share premium)	21	2 800	1 087
Net cash from financing activities		**2 800**	**4 336**
Effect of exchange rate changes		52	0
Net increase/decrease in cash and cash equivalents	**11**	**6 448**	**10 922**
Cash and cash equivalents at the beginning of the reporting period		16 152	5 230
Cash and cash equivalents at the end of the reporting period	**11**	**22 600**	**16 152**

Notes set out on pages 52-107 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

EURt	Note	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings/ accumulated loss	Total attributable to the owners of the parent	Non-controlling interest	Total equity
Balance as of 01 January 2016		**569**	**5 393**	**30**	**1 330**	**708**	**8 030**	**-22**	**8 008**
Paid in share capital		120	968	0	0	0	1 088	0	1 088
Share-based payment reserve		0	0	0	31	0	31	0	31
Statutory reserve capital		0	0	27	0	-27	0	0	0
Acquisition of non-controlling interest in subsidiaries		0	0	0	0	0	0	59	59
Total profit/-loss and other comprehensive income for the reporting period		0	0	0	0	2 649	2 649	-31	2 618
Balance as of 31 December 2016		**689**	**6 361**	**57**	**1 361**	**3 330**	**11 798**	**6**	**11 804**
Balance as of 01 January 2017		**689**	**6 361**	**57**	**1 361**	**3 330**	**11 798**	**6**	**11 804**
Paid in share capital	21	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 of 31 December 2017		**782**	**9 068**	**79**	**1 352**	**10 739**	**22 020**	**26**	**22 046**

Notes set out on pages 52-107 form an integral part of the consolidated financial statements.

Note 1 Significant accounting principles

General information

Inbank AS (Reg. No. 12001988) is a credit institution registered in Estonia. The registered address is Niine 11, Tallinn, Estonia (general information on page 2). In Inbank AS consolidation group are the following entities:

In May 2017 Inbank AS increased the shareholding in Latvian subsidiary from 80% to 100%.

Inbank technologies sold part of the investment in Veriff in august 2017 and is since recognised as an associate (Holding 21.68%).

Inbank consolidation group annual report has been approved by Management Board and is presented to shareholders for approval on March 23, 2018. Shareholders have the right not to approve the annual report.

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.

Company Name	***Registry code***	***Date of purchase/ founded***	***Address***	***Activity***	***Holding (%)***	***Cost (31.12.2017)***
Maksekeskus Holding OÜ*	12257075	05.06.2015	Niine 11, Tallinn	Investment management	40	1
Inbank Lizings SIA	40103821436	21.08.2014	Akmenu iela 14, Riga	Financing	100	519
Inbank Technologies OÜ	12104213	05.06.2015	Niine 11, Tallinn	IT develoment	100	454
Veriff OÜ*	12932944	20.10.2015	Niine 11, Tallinn	Video identification	21,68	42
Inbank Liising AS	14028999	08.04.2016	Niine 11, Tallinn	Leasing	80	80
AS Inbank Spółka Akcyjna Oddział w Polsce	0000635086	08.09.2016	Riverside Park, Ul. Fabryczna 5A, Warszawa	Banking		
Coop Pank AS*	10237832	30.01.2017	Narva mnt. 4, Tallinn	Banking	17,935	7 762

*Associates

Significant accounting principles

Basis of preparation

Inbank AS (hereafter: parent company) consolidated financial statements for the year 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union.

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 the Accounting Act of the Republic of Estonia, 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

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 24. 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

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 expense".

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

Pursuant to the Income Tax Act effective in Estonia, legal entities do not pay income tax on the profit they have earned. 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. Inbank pays income tax on dividends upon the distribution of such dividends in cash or in kind. Pursuant to the Income Tax Act currently in effect, profit distributed as dividends is taxed at the rate of 20/80 on the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is recognised as income tax expense in the income statement of the period in which dividends are declared, regardless of the period for which the dividends are declared or the actual payment date. The maximum amount of income tax payable, which would arise from paying out the retained earnings as dividends, is disclosed in the Note 10 to the financial statements.

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

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 tax law effective until 2017, profits of entities in Latvia were taxable with income tax. Therefore, until that, deferred tax was provided for on all temporary differences arising between the tax bases of assets and liabilities of Latvian subsidiaries and their carrying amounts in the consolidated financial statements. In accordance with the new Corporate Income Tax Law, starting from 1 January 2018, corporate income tax with a rate of 20/80 is levied 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.

Assets held for sale

A fixed asset or disposal group (incl. associates) is classified as assets held for sale if its residual carrying value is mainly covered with a sale transaction, not with usage, and the sale is highly probable. Fixed assets for resale are recognised either at residual carrying value or fair value less the costs of sale, whichever is the lowest.

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 2017.

Disclosure Initiative - Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017).
The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The implementation of the standard may influence the information to be disclosed by the Group, but will not influence its financial position and performance.

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 2018, and which the Group has not early adopted.

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.

Measurement categories and carrying amount of the financial assets in accordance with IAS 39 and IFRS 9 on 01.01.2018 are in the following table:

EURt	*IAS 39*	*31.12.2017*	*IFRS 9*	*01.01.2018*	
Financial assets	**Measurement category**	**Balance**	**Measurement category**	**Balance**	**Difference**
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

IFRS 9 has impact on associates' equity. According to IAS 28, the investments are accounted for under the equity method, impact of the new standard to Inbank AS equity as at 01.01.2018 is in the amount of -125 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. The adoption will not have a material impact on Groups' financial position, performance nor 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. The adoption will not have a material impact on Groups' financial position, performance nor cash flows.

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. The Group is currently evaluating the nature and impact of the change and plans to adopt it, when required.

Classification and Measurement of Share-based Payment Transactions -Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU).

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 does not have significant impact on Groups' financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

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 currently evaluating the nature and impact of the interpretation to the financial statements of the Group.

Prepayment Features with Negative Compensation - Amendments to IFRS 9 - (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

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

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 has not yet evaluated the impact of the change to the financial statements of the Group.

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 evaluated the impact of the changes to the financial statements of the Group.

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

Note 2 Critical Accounting Estimates and Judgements in Applying Accounting Policies

According to the IFRS, many of the financial indicators given in the report are strictly based on accounting-related management estimates and opinions, which have an impact on the value of the assets and liabilities presented in the financial statement as at 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 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, share-based payments and business combinations.

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

The impact of the management's estimates is the most significant in the case of credit losses. The principles for the evaluation of loans are described in detail in the note "Loans and advances to customers". The management believes that the Group has no other significant provisions other than credit allowances, see also Note 9.

The Group did not have any significant investments or receivables in the case of which a management estimate should or could be applied. See Note 13.

The useful life of the intangible fixed assets recognised in the financial position report has been re-assessed from the earlier 10 years to 5 years. The value of intangible fixed assets is calculated on the basis of the established depreciation rate, see also the subsection "Tangible and intangible fixed assets" and Note 14.

When financial instruments are assessed at fair value using valuation models, then the market data that must be used in these models are determined. The premise is that the quoted price of financial instruments with similar turnovers are used. If such prices or price components cannot be used, the management must make its own assumptions. See Note 24 about fair value.

Issued subordinated debt securities are recognised in the Consolidated statement of financial position at amortised acquisition cost. See the subsection "Financial liabilities" in Note 1 and Notes 17 and 24.

The Group's employees (senior managers and certain key persons) are entitled to receive remuneration in the form of share-based payments settled with equity, which means that these employees provide services to the Group and receive equity instruments in return. The cost of transactions settled with equity is determined on the basis of the fair value as at the date the equity instruments were given, using the appropriate valuation model.

The cost is recognised as the cost of employee benefits (Note 22) with the increase in equity (share-based payment reserve) during the period when the service is performed and targets related to the activities (if any) are achieved (ownership transfer period). The total cost accumulated in relation to share-based payments until the date when the equity instruments are given is based on the time left until the end of the ownership transfer period and the Group's best estimate of the quantity of the equity instruments to be actually transferred. The conditions of services or the conditions based on the performance result are not taken into account upon the measurement of the fair value of the instrument on the day that benefits are granted, but the probability of compliance with the conditions is assessed as a part of the process as a result of which the Group's best estimate of the quantity of the equity instruments to be actually transferred is given.

The Management Board believes that Inbank is a going concern and it has adequate funds to continue its business operations in the near future. The management board is also unaware of any circumstances that could cast doubt on Inbank's capability to continue its operations. The financial statements have therefore been prepared on the assumption that Inbank is a going concern.

Note 3 Risk management

Definition of risk and objective of risk management

Risk is defined as a potential negative deviation from expected financial results. In its daily activities, the Group encounters several risks. The objective of the Group's risk management is to identify risks, measure them correctly and manage them. 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 area 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 prescribed in internal rules and regulations. Adequate capital needs to be available for covering the Group's risks in accordance with the principles of capital management.

Management Board of Inbank AS assesses that the organisation of risk management and risk management 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 the Group.

Principles of risk management

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

- Risk management covers all activities whose purpose is risk identification, measurement, evaluation and control, and measures for minimising and hedging the consequences of realised risks.
- Risk management is forward-looking, it emphasises risk awareness and covers 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 regarded as an integral part and cost of running a 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 the Group analyses risk positions on a regular basis and presents at least once a quarter a risk report to the Supervisory Board of the Group that includes information specified by the Supervisory Board of the Group, 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 the Inbank is responsible for the implementation of risk management, control, risk management principles, processes and methods related to all activities of the Group as well as the effectiveness of risk management. In accordance with the risk management policy and risk appetite statement as laid down 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 Super-

visory Boards of the Group.

- 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's risk appetite statement and are profitable.
- 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 fulfilment of the Group's strategies and objectives.
- Compliance is responsible for monitoring risk assessment compliance at the Group and ensuring efficient management compliance risk related to performance requirements and legislation as well as legal risk at the Group.

EURt	***31.12.2017***	***31.12.2016***
Own funds		
Paid-in share capital	782	689
Share premium	9 068	6 361
Reserve capital	1 431	1 418
Retained earnings	3 243	681
Intangible assets (negative)	-816	-902
Net profit for reporting period	7 496	2 647
Shares of associates	-7 763	-1 673
Total Tier 1 capital	**13 441**	**9 221**
Subordinated debt securities	6 503	6 503
Total Tier 2 capital	**6 503**	**6 503**
Net own funds for calculation of capital adequacy	**19 944**	**15 724**

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 comprise Tier 1 and 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 principles for setting up capital buffers are also laid down in the directive. In addition to the basic requirements for own funds, capital conservation and systemic risk buffers have been set for credit institutions in Estonia at 2.5% and 1.0%, respectively. For the Group's assets in Poland, the systemic risk buffer was 0% in 2017 (new rate of 3% starting from 01.01.2018). Thus, the total systemic risk buffer rate of the Group depends on the mutual relations of risk exposures in Estonia, Latvia and Poland. The table below provides an overview of the formation of the capital requirement as of 31.12.2017:

	CET 1 ratio	***Tier 1 capital***	***Total capital ratio***
Basic requirement	4.50%	6.00%	8.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Systemic risk buffer	0.82%	0.82%	0.82%
Minimum regulatory capital requirement	**7.82%**	**9.32%**	**11.32%**

An additional specific Pillar 2 requirement is added to the minimum regulatory capital requirement.

The Group discloses the geographical distribution of the credit risk exposure which is relevant from the point of view of calculating the countercyclical capital buffer and the amount of the countercyclical capital buffer in accordance with the requirements of Regulation (EU) No 2015/1555 on the website of Inbank AS www.inbank.ee.

As of 31.12.2017, the Group is in compliance with all regulatory capital requirements. In this report, the capital base also includes the net profit for the reporting period which has been audited by the time of authorisation of the report for issue.

The internal capital adequacy and assessment process (ICAAP) is a continuous process which aims to assess the Group's risk profile and the corresponding capital need. The Group ensures that aggregated risks are covered by capital at any given time.

The Management Board of the Inbank is responsible for capital planning. The ICAAP forms the basis for regular capital planning at the Group. The planning and estimation of capital needs is based on the calculation of regulatory capital adequacy plus capital requirements for coverage of additional risks which have not been taken into account within the framework of regulatory capital requirements.

The Group's risk profile is evaluated primarily by the following risks: credit risk, operational risk, market risks (incl. interest rate risk in the banking book), liquidity risk, strategic risk and capital related risks.

The desired capital adequacy level is the minimum desired capital adequacy level determined in supervisory assessment plus a necessary buffer in accordance with the Group's current operating strategy and balance sheet forecasts that would be necessary for the growth of operating volumes or other implementation of a strategic plan. When preparing a capital plan, the option of the Group to raise additional capital in the market is taken into consideration, primarily through issue of new shares or subordinated debt securities.

For determining the capital need, the balance sheet positions are forecast, taking into account changes in various risk-weighted assets and equity items. In addition, the required capital buffer is calculated in order to ensure an internally desired capital adequacy level in case of realisation of alternative and risk scenarios. The Group ensures that all risks are covered by sufficient capital at any given time.

Credit risk

Credit risk is a potential loss which may arise when the counterparty to the contract cannot fulfil the obligations assumed as required and in case of insolvency, the pledged securities, loans granted or other recovery measures are not sufficient to cover the claims of the Group. Credit risk arises primarily from the loans granted to and receivables due from credit institutions. For lowering 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 regularly monitored.

Distribution of credit risk

Exposure of assets to credit risk (EURt)	***31.12.2017***	***31.12.2016***
Central banks	14 767	14 680
Credit institutions	8 530	1 956
Households	89 002	60 852
Non-financial companies	2 206	1 419
Other financial companies	1 595	2 568
Other receivables	92	65
Other financial assets	61	43
Total assets	**116 253**	**81 583**

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 set up at the parent company make proposals to the Credit Committee for establishing credit risk principles and rules that relate 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.

The following principles established in the risk appetite statement that the Group uses for credit risk management are of importance in the Group's credit policy:

- Loan portfolio diversification. According to the current product strategy, the maximum risk limit per customer that is provided by the Group is EUR 30,000.
- Low average loan amount. As of 31.12.2017, the average contractual balance of the Group's retail product is EUR 1,154 (As of 31.12.2016: EUR 1,004)
- 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 31.12.2017 (EURt)	***Estonia***	***Latvia***	***Poland***	***Total***
Central banks	14 288	0	479	14 767
Credit institutions	4 129	794	3 608	8 503
Households	70 199	14 320	4 483	89 002
Non-financial companies	2 126	80	0	2 206
Other financial companies	1 595	0	0	1 595
Other receivables	59	0	33	92
Other financial assets	3	58	0	61
Total receivables	**92 398**	**15 252**	**8 603**	**116 253**

Geographical distribution of receivables 31.12.2016 (EURt)	***Estonia***	***Latvia***	***Poland***	***Total***
Central banks	14 680	0	0	14 680
Credit institutions	968	900	88	1 956
Households	44 205	16 647	0	60 852
Non-financial companies	1 389	30	0	1 419
Other financial companies	2 568	0	0	2 568
Other receivables	39	6	20	65
Other financial assets	17	6	20	43
Total receivables	**63 866**	**17 589**	**128**	**81 583**

Receivables from central banks and credit institutions

According to the management's estimate, the exposure of cash and cash equivalents held at the central banks and other correspondent banks to credit risk is low. All loans to and receivables from the central banks and credit institutions are on time and are not overdue. For depositing liquid funds, the Group's risk management policy prefers credit institutions that have higher equity and if possible, a higher credit rating.

The Group's receivables from the central banks and credit institutions are not in overdue or been impaired as of 31.12.2016 and 31.12.2017.

Receivables from credit institutions according to Moody's short-term credit rating classes (EURt)	***31.12.2017***	***31.12.2016***
P-1	19 882	16 432
P-2	1 701	9
Not rated	1 714	195
Total receivables from credit institutions	**23 297**	**16 636**

Receivables from households

Since 2011, Inbank has been issuing hire-purchase loans in Estonia. In 2013, Inbank also started to issue consumer loans in small volumes through its partner. In 2014, Inbank entered the Latvian consumer financing market, offering consumer loans designated for specific purposes which are similar to the instalment product offered in Estonia.
In 2015, Inbank started to provide 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 to offer 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 product range in Poland. Since November 2017, the funding solution for paying the annual traffic insurance fee was offered, which in essence is an instalment loan.

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

Distribution of receivables 31.12.2017 (EURt)	***Estonia***	***Latvia***	***Poland***	***Total***
Hire-purchase receivables	21 494	0	38	21 532
Consumer loan receivables designated for specific purposes	48 484	7 428	411	56 323
Consumer loan receivables	221	6 892	4 034	11 147
Total receivables from households	**70 199**	**14 320**	**4 483**	**89 002**

Distribution of receivables 31.12.2016 (EURt)	***Estonia***	***Latvia***	***Poland***	***Total***
Hire-purchase receivables	20 108	0	0	20 108
Consumer loan receivables designated for specific purposes	19 520	11 244	0	30 764
Consumer loan receivables	4 577	5 403	0	9 980
Total receivables from households	**44 205**	**16 647**	**0**	**60 852**

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 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 the historical payment behaviour of these homogenous loans 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.

EURt

Distribution of receivables 31.12.2017	*Gross receivables from households*	*Collective allowance*	*Specific allowance*	*Net receivables from households*	*Allowance coverage*
Portfolio in overdue 0-3 days	82 307	-505	-22	81 780	0.6%
Portfolio in overdue 4-89 days	6 762	-783	-29	5 950	12.0%
Portfolio in overdue 90-179 days	1 518	0	-704	814	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%**

Distribution of receivables 31.12.2016	*Gross receivables from households*	*Collective allowance*	*Specific allowance*	*Net receivables from households*	*Allowance coverage*
Portfolio in overdue 0-3 days	56 925	-1 131	-13	55 781	2.0%
Portfolio in overdue 4-89 days	4 020	-46	-7	3 967	1.3%
Portfolio in overdue 90-179 days	1 591	0	-1 012	579	63.6%
Portfolio in overdue 180+ days	2 608	0	-2 083	525	79.9%
Total receivables	**65 144**	**-1 177**	**-3 115**	**60 852**	**6.6%**

Receivables from non-financial companies and financial companies

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.

EURt

Distribution of receivables 31.12.2017	*Gross receivables from non-financial companies*	*Collective allowance*	*Specific allowance*	*Net receivables from other non-financial companies*	*Allowance coverage*
Portfolio in overdue 0-3 days	1 955	-16	-6	1 933	1.1%
Portfolio in overdue 4-89 days	363	-6	0	357	1.7%
Portfolio in overdue 90-179 days	10	0	-4	6	40.1%
Portfolio in overdue 180+ days	5	0	-3	2	66.4%
Total receivables from non-financial companies	**2 333**	**-22**	**-13**	**2 298**	**1.5%**

Distribution of receivables 31.12.2016	*Gross receivables from non-financial companies*	*Collective allowance*	*Specific allowance*	*Net receivables from other non-financial companies*	*Allowance coverage*
Portfolio in overdue 0-3 days	1 254	-8	0	1 246	0.6%
Portfolio in overdue 4-89 days	176	-3	0	173	1.7%
Portfolio in overdue 90-179 days	0	0	0	0	0.0%
Portfolio in overdue 180+ days	94	0	-94	0	100.0%
Total receivables from non-financial companies	**1 524**	**-11**	**-94**	**1 419**	**6.9%**

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
- Performance 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 overdue, its causes and the financial strength. The retail loans issued by Inbank Liising AS are an exception where impairment allowances are made in a process similar to the loans granted to households.

Distribution of receivables 31.12.2017	Gross receivables from other financial companies	Collective allowance	Specific allowance	Net receivables from other financial companies	Allowance coverage
Portfolio in overdue 0-3 days	1 606	0	-11	1 595	0.7%
Portfolio in overdue 4-89 days	0	0	0	0	0.0%
Portfolio in overdue 90-179 days	0	0	0	0	0.0%
Portfolio in overdue 180+ days	0	0	0	0	0.0%
Total receivables from other financial companies	**1 606**	**0**	**-11**	**1 595**	**0.7%**

Distribution of receivables 31.12.2016	Gross receivables from other financial companies	Collective allowance	Specific allowance	Net receivables from other financial companies	Allowance coverage
Portfolio in overdue 0-3 days	2 568	0	0	2 568	0.0%
Portfolio in overdue 4-89 days	0	0	0	0	0.0%
Portfolio in overdue 90-179 days	0	0	0	0	0.0%
Portfolio in overdue 180+ days	0	0	0	0	0.0%
Total receivables from other financial companies	**2 568**	**0**	**0**	**2 568**	**0.0%**

Counterparty credit risk

As of 31.12.2017, the Group did not have any counterparty credit risk exposures within the meaning of European Parliament and Council Regulation (EU) No 575/2013.

Concentration risk

Concentration risk is a risk which arises from the risk exposure of one counterparty or a related counterparty 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-sized or small loans in order the avoid large concentration risk. The Group does not preclude lending larger amounts if there is sufficient security or in case of fulfilment of other required conditions. For large loans where a collateral is required, one exception is the liquid funds with the term of up to three months that are held at credit institutions. In such cases, in order 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 of 31.12.2017 and 31.12.2016, the Group did not have any receivables greater than 10% of the Group's net own funds.

Market risk

Market risk is defined as a risk that arises from the changes of interest in an unfavourable direction. Until mid-2016, the Group's activities were geographically solely limited to the Euro zone countries. In the second half of 2016, the Group started to prepare its business activities related to consumer financing in Poland. In this period, costs were incurred in Poland to launch the activities and the credit portfolio development was launched in March 2017. As a result, the Group's assets and liabilities are mostly denominated in euros as of 31.12.2016. The lending activities launched in 2017 and receipt of deposits in Poland have led to a situation where the assets and liabilities denominated in Polish zlotys make up a significant share of the total assets (over 5%) as of 31.12.2017.

The Group does not have a stock and/or bond portfolio that is traded in the market. The Group does not have any risk exposures arising from securitisation positions. Hence, the only significant market risk types which the Group is exposed to as a result of its current activities are the interest rate risk and foreign currency risk.

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

Foreign currency risk

The Group's risk appetite towards foreign currency risk is very low. The purpose of currency risk management is to balance currency positions.

For measurement and evaluation of currency risk, the Group monitors the foreign currency net open position, sensitivity analysis of the net open position and stress testing by evaluating unfavourable changes in exchange rates. 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 currency positions).

As of 31.12.2017, the Group's net open currency position was 108 EURt (as of 31.12.2016: 92 EURt) which made up 0.60% of the Group's own funds (as of 31.12.2016: 0.61%). According to the scenario analysis, the effect of a 10% change of all Group's currency positions in an unfavourable direction would be 10 EURt. The Group's open currency risk is low and the currency risk position is well managed.

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 companies	2 265	33
Other financial companies	1 595	0
Other assets	8 306	384
Total	**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 liabilities	6 480	0
Total	**95 118**	**8 817**

Assets exposed to foreign currency risk 31.12.2016 (EURt)	***EUR***	***PLN***
Central banks, credit institutions, cash	16 552	88
Households	60 852	0
Non-financial companies	1 419	0
Other financial companies	2 568	0
Other assets	2 291	87
Total	**83 682**	**175**

Liabilities exposed to foreign currency risk 31.12.2016 (EURt)	***EUR***	***PLN***
Customer deposits and loans received	64 587	0
Other liabilities	1 958	119
Subordinated liabilities	6 475	0
Total	**73 020**	**119**

Interest rate risk

Interest rate risk is a risk that the revenue generated by the Group may be impacted by unexpected unfavourable changes in interest rates. The Group is open to interest rate risk when the maturities of key assets and liabilities are different or when it is possible to adjust the interest rates on assets and liabilities after a certain period of time.

According to the estimate of the Management Board, the interest rate risk is low due to the following reasons:

- Limiting the structure and maturities of interest-sensitive assets and liabilities and their mutual matching – both the Group's interest-earning assets and liabilities have fixed interest and to a great extent similar short durations.
- Holding a fixed interest rate and high price spread – the Group issues loans and raises deposits only with fixed interest rates which enable to manage the price spread (interest income / interest-earning assets – interest expense / interest-bearing liabilities). The interest rates on issued loans exceed significantly the interest rates paid for deposits.
- The focus of the Group's activities is targeted at issuing unsecured consumer loans. Hence, the Group's assets have a relatively high rate of return. This provides a sufficient buffer to deal with a possible change in interest rates both on the Group's liabilities as well as assets.
- The Group's portfolio of deposits consists fully of term deposits whose interest rates have been fixed until the end of the deposit period.

The parent company organises management of interest rate risk. Interest rate risk is generally managed by the Management Board of the Group, and the Finance Director and the Treasurer of the

Interest earning assets and liabilities by contractual maturities

EURt

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 receivables	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**
Assets 31.12.2016	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***5+ years***	***Total***
Central banks, credit institutions, cash	16 640	0	0	0	0	16 640
Loans and receivables	788	7 672	18 486	37 591	302	64 839
Total assets	**17 428**	**7 672**	**18 486**	**37 591**	**302**	**81 479**
Liabilities 31.12.2016	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***5+ years***	***Total***
Deposits	970	3 826	32 303	27 488	0	64 587
Subordinated debt securities	0	4	0	0	6 471	6 475
Total liabilities	**970**	**3 830**	**32 303**	**27 488**	**6 471**	**71 062**
Spread between maturities of assets and liabilities	**16 458**	**3 842**	**-13 817**	**10 103**	**-6 169**	**10 417**

Group. Interest rate risk is managed through impact analysis by analysing how a shift in the interest rate curve would impact the Group's net interest income and economic value.

For hedging interest rate risk and for avoiding excess 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 to better manage 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 and future revenue caused by the changes in the level of interest rates on its capital;
- the Group is willing to use other interest rate risk hedging techniques if it is necessary.

Liquidity risk

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. For managing liquidity risk, the Group follows the liquidity risk strategy and the internal rules and regulations on management. The objective of the Group's liquidity management 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 a way that maximum and stable profitability is achieved on investments with different durations.

The Management Board plans the Group's long-term liquidity and manages liquidity risk. The Chief Financial Officer and Treasurer are responsible for the daily and short-term management of liquidity risk.

For managing the Group's liquidity position, the key measure used is the approach based on the maturity spread of assets and liabilities. An overview of the distribution of maturities of assets and liabilities is presented in the table below. Within the framework of the model, the key liquidity ratios and the maturity pro-

Assets and liabilities by contractual maturities (EURt)

Liabilities 31.12.2017	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***5+ years***	***Carrying amount 31.12.2017***
Deposits	0	7 275	31 467	56 940	0	95 056
Other liabilities	0	2 399	0	0	0	2 399
Subordinated debt securities	0	114	341	1 821	8 324	6 480
Total liabilities	**0**	**9 788**	**31 808**	**58 761**	**8 324**	**103 935**

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

Liabilities 31.12.2016	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***5+ years***	***Carrying amount 31.12.2016***
Deposits	970	3 853	32 703	28 788	0	64 587
Other liabilities	0	2 077	0	0	0	2 077
Subordinated debt securities	0	114	341	1 821	8 779	6 475
Total liabilities	**970**	**6 044**	**33 044**	**30 609**	**8 779**	**73 139**

Assets 31.12.2016	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***5+ years***	***Carrying amount 31.12.2016***
Cash and receivables from credit institutions	16 640	0	0	0	0	16 640
Loans and receivables	324	10 723	25 580	48 940	729	64 839
Other assets	0	256	1 672	0	1 536	3 464
Total assets	**16 964**	**10 979**	**27 252**	**48 940**	**2 265**	**84 943**
Maturity spread between assets and liabilities	**15 994**	**4 935**	**-5 792**	**18 331**	**-6 514**	**11 804**

portions of assets and liabilities are also determined and liquidity stress tests are conducted. Internal limits have been set for all key liquidity indicators.

The Group has established a business continuity plan for the behaviour in a situation of a liquidity crisis.

Arising from the Group's current operational model, the maturity spread of the Group is positive in the period of up to 90 days. This means that in a period of up to 90 days, the Bank has fewer liabilities than receivables. This is due to the fact that a great majority of the Group's assets are consumer financing receivables which are short-term by nature. On the other hand, liabilities consist almost entirely of term deposits and the pricing of the Group's deposits has been set in such a way that the customers prefer periods longer than 12 months. Using primarily term deposits, the Group's cash flows are easier to be forecast.

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

Operational risk

Operational risk is a risk of incurring a loss from the inadequacy of internal processes, activities of people or systems, not working in the manner intended or due external events. The definition includes legal risk, but not strategy 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 of an advanced measurement model for operational risk within the meaning of the European Parliament and Council Regulation (EU) No 575/2013.

Risk of excessive leverage

Risk of excessive leverage is risk that arises from the growth of liabilities that is too fast. The Group's leverage ratio was 11.45% as of 31.12.2017 (as of 31.12.2016: 10.40%). The Group discloses the leverage rate in accordance with Regulation (EU) No 2016/200 on the website of Inbank AS www.inbank.ee.

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 financial activity 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 technological solutions and services provided by Inbank Technologies to group companies to manage deposit and loan portfolios. None of Inbank AS counterparties has income over 10% of its respective income of the consolidation group.

Inbank AS' (Estonia) "other operating income" mainly includes consulting services offered to the bank`s associates. Intersegment transactions constitute mainly of loan interests on loans given to subsidiaries. These intercompany transactions are accounted for at market prices, including IT services. See also Note 25.

Income of reportable segments

EURt

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

Net profit structure

EURt

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

Income of reportable segments

EURt

2016	*Inbank AS (Estonia)*	*Inbank Lizings SIA (Latvia)*	*Inbank Liising AS (Estonia)*	*Inbank AS Polish branch*	*Inbank Technologies OÜ (Estonia)*	*TOTAL*
Interest income	6 976	3 735	15	0	6	**10 732**
Fee income	240	154	0	0	0	**394**
Other operating income	483	51	0	0	376	**910**
Inter-segment eliminations	-944	-2	0	0	-132	**-1 078**
Revenue from external customers	**6 755**	**3 938**	**15**	**0**	**250**	**10 958**
Interest expense	-1 401	-928	-6	0	-13	**-2 348**
Fee expense	-261	-76	0	0	0	**-337**
Inter-segment eliminations	3	926	6	0	12	**947**
Total expenses	**-1 659**	**-78**	**0**	**0**	**-1**	**-1 738**
Total net interest, fee and commission income and other income	**5 096**	**3 860**	**15**	**0**	**249**	**9 220**

Net profit structure

EURt

2016	*Inbank AS (Estonia)*	*Inbank Lizings SIA (Latvia)*	*Inbank Liising AS (Estonia)*	*Inbank AS Polish branch*	*Inbank Technologies OÜ (Estonia)*	*TOTAL*
Profit before impairment losses on loans and advances	**3 281**	**2 213**	**5**	**-361**	**-133**	**5 005**
Profit of associates	773	0	0	0	0	**773**
Impairment losses on loans and advances	-987	-2 221	-11	0	0	**-3 219**
Income tax	0	-2	0	59	0	**57**
Net profit/loss	**3 067**	**-10**	**-6**	**-302**	**-133**	**2 616**

Assets and liabilities of reportable segments

EURt

31.12.2017	*Inbank AS (Estonia)*	*Inbank Lizings SIA (Latvia)*	*Inbank Liising AS (Estonia)*	*Inbank AS Polish branch*	*Inbank Technologies OÜ (Estonia)*	*Intersegment eliminations*
Cash in hand	4	0	0	0	0	**0**
Due from central banks, including mandatory reserve	14 289	0	0	478	0	**0**
Due from credit institutions	3 769	794	89	3 608	270	**0**
Loans and advances to customers	91 860	14 400	1 266	4 516	104	**-19 251**
Investments in subsidiaries	1 053	0	0	0	0	**-1 053**
Investments in associates	7 763	0	0	0	43	**0**
Tangible assets	111	43	0	58	67	**0**
Intangible assets	161	113	0	23	322	**197**
Other financial assets	2	66	0	7	2	**-16**
Other assets	126	283	23	20	7	**0**
Deferred tax assets	0	0	0	364	0	**0**
Assets held for sale	0	0	0	0	0	**0**
Total assets	**119 138**	**15 699**	**1 378**	**9 074**	**815**	**-20 123**
Loans received	0	15 770	1 221	1 839	418	**-19 248**
Customer deposits	86 379	0	0	8 677	0	**0**
Subordinated debt securities	6 480	0	0	0	0	**0**
Other financial liabilities	1 067	118	25	58	14	**-19**
Other liabilities	807	189	0	89	51	**0**
Income tax liability	0	0	0	0	0	**0**
Total liabilities	**94 733**	**16 077**	**1 246**	**10 663**	**483**	**-19 267**

Assets and liabilities of reportable segments

EURt ***31.12.2016***	***Inbank AS (Estonia)***	***Inbank Lizings SIA (Latvia)***	***Inbank Liising AS (Estonia)***	***Inbank AS Polish branch***	***Inbank Technologies OÜ (Estonia)***	***Intersegment eliminations***
Cash in hand	4	0	0	0	0	**0**
Due from central banks, including mandatory reserve	14 680	0	0	0	0	**0**
Due from credit institutions	875	900	23	88	70	**0**
Loans and advances to customers	66 391	16 687	606	0	92	**-18 937**
Investments in subsidiaries	1 033	0	0	0	0	**-1 033**
Investments in associates	0	0	0	0	1	**0**
Tangible assets	84	15	0	37	47	**0**
Intangible assets	187	122	0	3	401	**189**
Other financial assets	2	7	0	19	25	**-10**
Other assets	98	0	104	9	3	**0**
Deferred tax assets	0	390	0	59	0	**0**
Assets held for sale	1 672	0	0	0	0	**0**
Total assets	**85 026**	**18 121**	**733**	**215**	**639**	**-19 791**
Loans received	0	17 600	600	395	342	**-18 937**
Customer deposits	64 587	0	0	0	0	**0**
Subordinated debt securities	6 475	0	0	0	0	**0**
Other financial liabilities	865	74	40	55	9	**-9**
Other liabilities	515	50	0	64	93	**0**
Income tax liability	0	321	0	0	0	**0**
Total liabilities	**72 442**	**18 045**	**640**	**514**	**444**	**-18 946**

Inbank Lizings SIA equity as at 31.12.2017 was -378 EURt (31.12.2016: 77 EURt)

Note 5 Net interest income

EURt	***2017***	***2016***
Interest income		
Loans to households	12 753	9 520
Loans to corporates	164	86
Due from financial and credit institutions	106	182
Total	**13 023**	**9 788**
Interest expense		
Deposits received	-1 544	-1 136
Debt securities sold	-465	-267
Loans received	0	-1
Total	**-2 009**	**-1 404**
Net interest income	**11 014**	**8 384**
Interest income by customer location		
Estonia	9 275	6 053
Latvia	3 535	3 735
Poland	213	0
Total	**13 023**	**9 788**

Interest income from impaired loans in 2017 is 248 EURt (2016: 403 EURt).

Note 6 Net fee income

EURt	*2017*	*2016*
Fee income		
Loans to households	548	389
Loans to corporates	3	5
Total	**551**	**394**
Fee expense		
Loan administration expenses	-607	-302
Security brokerage	0	-32
Total	**-607**	**-334**
Net fee income	**-56**	**60**
Fee income by customer location		
Estonia	282	190
Latvia	267	204
Poland	2	0
Total	**551**	**394**

Note 7 Operating expenses

EURt

Personnel expenses	**2017**	**2016**
Personnel expense	3 270	1 967
Social and other taxes	727	494
Total personnel expenses	**3 997**	**2 461**

Marketing Expenses	**2017**	**2016**
Advertising and marketing	605	297
Sales costs	324	269
Total marketing expenses	**929**	**566**

Administrative expenses	**2017**	**2016**
Rental and maintenance expenses	221	146
IT expenses	288	143
Legal expenses	115	156
Office expenses	135	72
Training and business trip expenses	173	76
Other tax expenses	133	79
Supervision expenses	86	50
Recovery proceeding expenses	67	25
Consultation expenses	53	26
Other administrative expenses	331	241
Total administrative expenses	**1 602**	**1 014**

Average number of employees	***2017***	***2016***
Estonia	50	39
Latvia	18	13
Poland	15	3
Total	**83**	**55**

Note 8 Operating lease

EURt	***31.12.2017***	***31.12.2016***
Non-cancellable operating lease agreements		
Not later than 1 year	139	112
Later than 1 year and not later than 5 years	138	230
Later than 5 years	0	0
Total	**277**	**342**

The Group rents office space under operating lease.
Operating lease expenses accounted for 147 EURt in 2017 (2016: 101 EURt).

Note 9 Impairment losses on loans and advances

Loans and advances to customers

EURt	***31.12.2017***	***31.12.2016***
Households	92 129	65 144
Non-financial companies	2 241	1 363
Other financial companies	1 606	2 568
Other advances	92	161
Total	**96 068**	**69 236**
Impairment allowance	-3 173	-4 397
Total	**92 895**	**64 839**

"Loans and advances to households" includes loan receivables in net amount of 402 EURt, which were issued by the Latvian subsidiary in gross amount 2 318 EURt. As a result of reorganisation in the Latvian subsidiary the loan portfolio and respective loan allowance in the amount of 1 916 EURt has been written off.

EURt	***2017***	***2016***
Impairment losses on loans and advances		
Impairment losses for reporting period	-4 578	-3 400
Recoveries from loans written off from financial position	1 046	181
Total	**-3 532**	**-3 219**
Changes in impairments		
As at 1 January	-4 396	-1 156
Impairment allowances made during reporting period	-4 578	-3 400
Impairment allowances for interest and commissions	-414	-426
Written off from financial position during the reporting period	6 215	585
Total	**-3 173**	**-4 397**

Note 10 Income tax

EURt	2017				2016			
	Estonia	***Latvia***	***Poland***	***Total***	***Estonia***	***Latvia***	***Poland***	***Total***
Tax rates	25%	15%	19%		25%	15%	19%	
Profit before income tax	9 196	-66	-1 547	7 583	2 923	-6	-358	2 559
Allocations to retained earnings	-3 068	0	0	-3 068	-2 923	0	0	-2 923
Non-deductible expenses	0	375	-14	361	0	-130	43	-87
Impairment allowance of loans and advances that are not tax deductible	0	-2 297	0	-2 297	0	2 335	0	2 335
Accumulated deferred loss	0	0	0	0	0	-58	0	-58
Taxable income	0	-1 988	-1 561	-3 549	0	2 141	-315	1 826
Total income tax*	**0**	**-298**	**0**	**-298**	**0**	**321**	**0**	**321**

	2017				2016			
	Estonia	***Latvia***	***Poland***	***Total***	***Estonia***	***Latvia***	***Poland***	***Total***
Deferred tax assets	0	390	59	449	0	71	0	71
Non-current asset in tax accounting	0	117	0	117	0	93	0	93
Non-current asset in financial accounting	0	-157	0	-157	0	-123	0	-123
Deferred taxable losses	0	462	1 876	2 338	0	2 620	315	2 935
Unused annual leave and bonus reserves	0	109	0	109	0	8	0	8
Impairment losses of loans and advances to customers	0	1 988	0	1 988	0	0	0	0
Other adjustments	0	0	39	39	0	0	0	0
Total	**0**	**2 519**	**1 915**	**4 434**	**0**	**2 598**	**0**	**2 598**
Total deferred tax assets	**0**	**378**	**364**	**742**	**0**	**390**	**59**	**449**
Change in tax assets (through profit and loss)	**0**	**-12**	**296**	**284**	**0**	**319**	**59**	**378**
Write-off of tax assets	**0**	**-378**	**0**	**-378**	**0**	**0**	**0**	**0**

*Income tax gain in Latvia during 2017 is in significant extent a result of the sale of impaired credit portfolio.

	2017	2016
Income tax recognized in income statement	**-92**	**57**
Deferred tax assets, Poland	298	59
Deferred tax assets, Latvia	-12	319
Write-off of tax assets in Latvia	-378	0
Income tax, Latvia	0	-321
Total	**-92**	**57**

Pursuant to the Income Tax Act of the Republic of Estonia, legal entities are not obliged to pay income tax on profit earned. Income tax is paid on fringe benefits, gifts, donations, costs of entertaining guests, dividends and non-business disbursements. Dividend is a disbursement made on the basis of the corresponding resolution of the shareholders of Inbank AS from net profit or retained earnings, in accordance with the dividend recipient's holding in Inbank AS. Inbank pays income tax on dividends upon their disbursement in monetary or non-monetary form. Pursuant to the Income Tax Act, the profit to be allocated as dividends is taxed at a rate of 20/80 of the net dividend to be paid. Corporate income tax on dividends is charged to income tax expenses in the profit or loss over the period of their announcement, regardless of the dividend announcement period or dividend payment period.

As at 31 December 2017, the bank's retained earnings amounted to 10 739 EURt (31.12.2016: 3 330 EURt). The potential income tax expenses related to the payment of dividends would amount to 2 147 EURt (31.12.2016: 666 EURt).

In Latvia, the company made advance income tax payments in the total amount of 281 EURt during 2017. The advance payments are recognised under other assets in the balance sheet.
Due to amendments to the Income Tax Act from 01.01.2018, prepayments of income tax already paid can be reclaimed. The Latvian subsidiary has already submitted a corresponding application.

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

Note 11 Due from central banks and credit institutions

EURt	*31.12.2017*	*31.12.2016*
Due from central banks	14 066	14 192
Mandatory reserve in central bank	701	488
Due from credit institutions	8 530	1 956
Total	**23 297**	**16 636**

Note 12 Finance lease

EURt	*Gross investment*	*Unearned future interest income*	*Allowance*	*Principal payments for future periods*
Net and gross investments on finance leases according to the remaining maturity				
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**

The bank started offering finance lease products in September 2016.

Note 13 Investments in associates

Carrying amount of associates

EURt	***31.12.2017***	***31.12.2016***
Name of associates		
Maksekeskus Holding OÜ	1	1
Coop Pank AS	7 762	0
Coop Finants AS	0	1 387
Krediidipank Finants AS	0	285
Veriff OÜ	43	0
Total	**7 806**	**1 673**

Further information on associates has been disclosed in Note 1.

Associates have been accounted for using the equity method and is recorded in income statement line "Share of profit of associates" in the amount of 999 EURt, (2016: 772 EURt).

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. From 31 December 2016 up until the transaction, the investments were recognised as non-current assets held for sale.

On 30 January, Inbank acquired 9.9995% of the shares of AS Eesti Krediidipank. After this transaction Eesti Krediidipank has been 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 holds 17.935% of Eesti Krediidipank. Unrealised profit from the disposal of associates has been eliminated, profit 4 810 EURt was realised. Starting from 2 October 2017 the company was renamed as Coop Pank AS. Inbank has not received dividends from the associate.

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, profit 394 EURt was realised. Then, in August, the process to first increase the share capital and then to decrease the share capital was started, after which Inbank share should have been 21.68%. As at 31.12.2017 the process had not been completed and therefore, Inbank share of associate remained 25.88%. The company lost control, but maintained significant influence, therefore, Veriff is subsequently recognised as associate. The associate was initially recognised at fair value. The fair value was determined on the basis of net book value of the investment, as there is no reliable information to estimate the fair value. Hereafter the investment is accounted for using the equity method in the consolidated financial statements.

Disposal and acquisition of associates and disposal of subsidiary in 2017

EURt	
Acquisition of holdings in associates	3 229
Proceeds from disposals of associates, and reinvestment	7 448
Purchase of non-controlling interest in the share capital of subsidiary	20
Total	**10 697**
Proceeds from disposals of subsidiary	300
Proceeds from disposals of associates	7 448
Proceeds from re-sale of holdings in associates	2 955
Total	**10 703**

In 2016, a contribution to increase the shareholding of associate was made in the amount of 31 EURt and the ownership in a subsidiary increased by 80 EURt.

Overview of Coop Pank AS

EURt	***2017***	***2016***
Net interest income	11 519	7 398
Net fee income	2 170	2 737
Other operating income	3 600	825
Operating expenses	-11 518	-8 088
Impairment losses on loans	-1 313	-1 009
Income tax	0	-120
Net profit	**4 458**	**1 743**

	31.12.2017	***31.12.2016***
Cash	98 873	105 549
Debt securities	11 576	11 937
Loan and advances to customers	238 282	153 133
Goodwill	6 757	0
Other assets	15 890	19 551
Total assets	**371 378**	**290 170**
Due to credit institutions	5 002	185
Due to customers	310 968	253 812
Subordinated loans	5 026	4 039
Other liabilities	5 206	2 557
Equity	**45 176**	**29 577**
Total liabilities and equity	**371 378**	**290 170**

Note 14 Intangible assets

EURt	*Licences*	*Software*	*Goodwill*	*Total*
At the beginning of period (01.01.2016)				
Cost	168	492	238	898
Accumulated amortisation	-49	-89	0	-138
Carrying value	**119**	**403**	**238**	**760**
Opening carrying value	**119**	**403**	**238**	**760**
Additions	1	267	0	268
Acquisition cost of sold assets	-57	0	0	-57
Amortisation charge	-7	-62	0	-69
Closing carrying value	**56**	**608**	**238**	**902**
At the end of period (31.12.2016)				
Cost	112	759	238	1 109
Accumulated amortisation	-56	-151	0	-207
Carrying value	**56**	**608**	**238**	**902**

At the beginning of period (01.01.2017)	*Licences*	*Software*	*Goodwill*	*Total*
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 amortisations)	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**

Impairment tests of goodwill were performed as at 31.12.2017 and as at 31.12.2017. The recoverable amount of the unit does not significantly differ from its carrying amount (incl. Goodwill), therefore no adjustments have been made to consolidated financial position statement.

Note 15 Deferred income tax asset and other assets

EURt	*31.12.2017*	*31.12.2016*
Accounts receivable	8	14
Prepaid expenses	128	88
Prepaid taxes	305	104
Prepaid guarantees	53	30
Other assets	26	20
Total	**520**	**256**
Deferred income tax asset	**364**	**450**

Prepaid expenses mainly consist of a prepayment to the Financial Supervision Authority. Deferred income tax assets have been generated by the Polish branch in the amount of 364 EURt (2016: 290 EURt in Latvian subsidiary and 60 EURt in Polish branch). Prepaid taxes includes income tax prepayments by Latvian subsidiary in the amount of 281 EURt during 2017 (2016: 0 EURt). See also Note 10.

Note 16 Customer deposits

EURt

Customer deposits	***31.12.2017***	***31.12.2016***
Deposits from households	84 450	51 572
Deposits from non-financial companies	9 450	8 054
Deposits from other financial companies	1 156	4 961
Total	**95 056**	**64 587**

Deposits by clients' residence	***31.12.2017***	***31.12.2016***
Estonia	67 483	64 111
Germany	17 666	56
Poland	8 677	0
Other residence	1 230	420
Total	**95 056**	**64 587**

Deposits include accrued interest liabilities in the amount of 864 EURt (31.12.2016: 985 EURt).

Deposits by contractual maturity

EURt

31.12.2017	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***Total***
Customer deposits	2 541	7 210	31 098	54 207	95 056

31.12.2016	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***Total***
Customer deposits	970	3 826	32 303	27 488	64 587

Note 17 Subordinated debt securities

EURt	
Transactions with subordinated debt securities	
Opening balance as at 01.01.2017	6 475
Adjustments	5
Closing balance 31.12.2017	**6 480**

Adjustments in 2017 were in the amount 5 EURt (2016: -28 EURt).

Subordinated debt securities	***Nominal price***	***Amount***	***Interest rate***	***Maturity***
Inbank subordinated bond INBB070026A	1 000 EUR	6 503	7%	28.09.2026

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 issue 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).

The bonds issued are recorded in the balance sheet at amortised cost, by using the effective interest rate. 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.

In 2017, 92 bids transactions were carried out with Inbank debt securities with a value of 694 EURt (2016: 35 transactions in the amount of 138 EURt).

Note 18 Other liabilities

EURt	***31.12.2017***	***31.12.2016***
Financial liabilities		
Accounts payable	780	717
Client prepayments	316	197
Deferred income	167	120
Total financial liabilities	**1 263**	**1 034**
Other liabilities		
Payables to employees	783	481
Tax debts	234	223
Other liabilities	119	18
Total	**1 136**	**722**
Income tax liability	**0**	**321**

As of 31 December 2016, tax liabilities include income tax payable in Latvia in the amount of 321 EURt.

Note 19 Contingent liabilities and loan commitments

For information regarding the Group's contingent liabilities arising from management contracts see Note 25.

Inbank had the following loan commitments:

EURt	
Irrevocable transactions	
Liability in contractual amount 31.12.2017	635
Liability in contractual amount 31.12.2016	432

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 2016 and 2017. The Group's management estimates that in 2017 there are no such circumstances which may lead the tax authorities to impose significant additional taxes on the Group.

Note 20 Basic and diluted earnings per share

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

	2017	***2016***
Total profit attributable to owners of the parent (EUR thousand)	7 496	2 646
Weighted average number of shares	73 548	62 881
Basic earnings per share (EUR)	101.92	42.08
Weighted average number of shares used for calculating the diluted earnings per shares	78 478	67 811
Diluted earnings per share (EUR)	95.52	39.02

Note 21 Share capital

	31.12.2017	*31.12.2016*
Share capital	782	689
Number of shares issued	78 215	68 881
Nominal share value (EUR)	10	10

On 11 January 2017 the shareholders of Inbank agreed to increase the share capital by 9 334 shares. The share capital was thus increased by EUR 93 340, with the share premium amounting to EUR 2 706 860.

Contributions to the share capital were made between January 11 and January 18, 2017. The share capital increase was registered in the commercial register on 9 February 2017.

Note 22 Share-based payments

Inbank has entered into share 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 EUR	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	180	10	2015	2018	1
Supervisory Board	400	300	2016	2019	1
Management	1000	300	2016	2019	3
Employees	2250	300	2016	2019	9
Employees	1000	300	2016	2020	2
Employees	100	300	2017	2020	1
Total	**4930**				

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, who had the share based option, left.

The fair value of the share options is determined on the date of issue of the option. The date of issue of the option is the date on which the parties mutually agree 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 issue 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 31.12.2017, the reserve amounted to 61 EURt.

Personnel expenses related to the option agreements in 2017 amounted to a total of 29 EURt (2016: 31 EURt).

Note 23 Reserves

EURt	*31.12.2017*	*31.12.2016*
Statutory reserve	79	57
Voluntary reserve	1 330	1 330
Share based payment	60	31
Other reserves	-38	0
Total	**1 431**	**1 418**

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

In previous years the Inbank AS general meeting has decided to increase the reserves by increasing voluntary reserve. The reserve may also be used to increase the share capital, but not to make 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 24 Fair value of financial assets and liabilities

EURt		***31.12.2017***			***31.12.2016***	
Assets	***Fair value***	***Carrying amount***	***Level***	***Fair value***	***Carrying amount***	***Level***
Cash in hand	4	4	1	4	4	1
Due from central banks, including mandatory reserve	14 767	14 767	2	14 680	14 680	2
Due from credit institutions	8 530	8 530	2	1 956	1 956	2
Loans and advances to customers	92 895	92 895	3	64 839	64 839	3
Other financial assets	61	61	3	43	43	3
Total	**116 257**	**116 257**		**81 522**	**81 522**	

		31.12.2017			***31.12.2016***	
Liabilities	***Fair value***	***Carrying amount***	***Level***	***Fair value***	***Carrying amount***	***Level***
Customer deposits	95 056	95 056	2	64 587	64 587	2
Subordinated debt securities	6 952	6 480	2	6 503	6 475	3
Other financial liabilities	1 263	1 263	3	1 034	1 034	3
Total	**103 271**	**102 799**		**72 124**	**72 096**	

Bonds issued were listed on the Nasdaq Baltic Stock Exchange on 3 October 2016, and their fair value can be determined based on the transaction history. Previously, the bonds issued by Inbank were classified as level 3, as the transaction history was brief and insufficient to use this as a basis for fair value estimate. As at 31 December 2017, the weighted average purchase price and sales transactions are used for estimating the fair value of debt securities. The debt securities are classified as Level 2 in the fair value hierarchy starting from Q2 2017.

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 carrying amount.

The small loans and hire-purchase products granted to customers are short-term. The average term of the hire-purchase product is 18-23 months and that of loan products 49-53 months. Inbank started offering loan products in April 2015. According to the Bank of Estonia, the average interest rates of unsecured consumer loans ranged from 14,44 to 15.46% in 2015-2017. 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 market interest rate 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 the fair value.

Fixed-interest customer deposits are mostly short-term. The average term of deposits is in the range from 16 to 27 months. Inbank started offering the deposit product in April 2015. According to the Bank of Estonia, the average interest rate of new term deposits ranged from 0.55 to 0.72% in 2015-2017. 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 market interest rate 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 the fair value.

Note 25 Related parties

EURt	*2017*	*2016*
Remuneration of the Management Board and Supervisory Board	617	404

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

Balances	*31.12.2017*	*31.12.2016*
Loans and advances as of end of reporting period	**191**	**1 027**
management	1	1
associates	190	1026
Deposits and subordinated debt securities as of end of reporting period	**265**	**249**
management	265	249

Transactions	*2017*	*2016*
Interest income	**9**	**82**
management	1	0
associates	8	82
Interest expenses	**12**	**6**
management	12	6
associates		
Services purchased	**48**	**24**
management	44	24
associates	4	0
Services sold	**287**	**531**
management	0	0
associates	287	531

The table provides an overview of the significant transactions and balances with related parties. The Group finances the Group's subsidiaries and branches with long-term loans issued under market conditions, interest rates are in between 5% and 7% (2016: 5-8%). Such loans are eliminated from the consolidated financial statements. The interest rate of deposits received from related parties matches with the interest rate offered to the client, interest rates are in between 0.6% and 3% (2016: 2,1-3,5%)

A share option programme has been established for the management, see Note 22.

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 low.

Note 26 Events after the balance sheet date

Inbank Technologies had an investment in Veriff OÜ, which book value as at 31.12.2017 was 43 EURt.

In the beginning of 2018 the management decided to sell their 21.68% share in Veriff.

Note 27 Parent company's separate statement of financial position

EURt	*Note*	*31.12.2017*	*31.12.2016*
Assets			
Cash in hand		4	4
Due from central banks, including mandatory reserve		14 767	14 680
Due from credit institutions		7 377	963
Loans and advances to customers		94 538	65 995
Investments in subsidiaries		1 053	1 033
Investments in associates		7 762	0
Tangible assets		169	121
Intangible assets		183	191
Other financial assets		1	19
Other assets		146	109
Deferred tax assets		364	59
Assets held for sale		0	1 672
Total assets		**126 364**	**84 846**

EURt	*Note*	*31.12.2017*	*31.12.2016*
Liabilities			
Customer deposits		95 055	64 587
Other financial liabilities		1 118	920
Other liabilities		893	580
Subordinated debt securities		6 482	6 475
Total liabilities		**103 548**	**72 562**
Equity			
Share capital	30	782	689
Share premium	30	9 068	6 361
Statutory reserve capital		79	57
Other reserves	30	1 352	1 361
Retained earnings		11 535	3 816
Total equity		**22 816**	**12 284**
Total liabilities and equity		**126 364**	**84 846**

Note 28 Parent company's separate statement of profit or loss and other comprehensive income

EURt	***2017***	***2016***
Continuing operations		
Interest income	10 342	6 977
Interest expenses	-1 936	-1 400
Net interest income	**8 406**	**5 577**
Fee income	373	244
Fee expense	-480	-261
Net fee and commission income	**-107**	**-17**
Other operating income	440	479
Total net interest, fee and other income	**8 739**	**6 039**
Personnel expenses	-3 152	-1 822
Marketing expenses	-808	-510
Administrative expenses	-1 253	-725
Depreciations, amortisation	-101	-62
Total operating expenses	**-5 314**	**-3 119**
Profit before impairment losses on loans and advances	**3 425**	**2 920**

EURt	***2017***	***2016***
Share of profit of associates	5 816	773
Impairment losses on loans and advances	-1 796	-987
Profit before income tax	**7 445**	**2 706**
Income tax	296	60
Profit for the reporting period	**7 741**	**2 766**
Other comprehensive income/loss		
Items that may be reclassified subsequently to profit or loss		
Unrealised foreign exchange gains/losses	-38	0
Total comprehensive income for the reporting period	**7 703**	**2 766**

Note 29 Parent company's separate statement of cash flows

EURt	***Note***	***2017***	***2016***
Cash flows from operating activities			
Interest received	5	11 624	8 212
Interest paid	5	-3 454	-717
Fees received	6	373	244
Fees paid	6	-480	-261
Other income received		440	479
Personnel expenses		-3 116	-1 449
Administrative and marketing expenses		-2 016	-1 015
Cash flows from operating activities before changes in operating assets and liabilities		**3 371**	**5 493**
Changes in operating assets:			
Loans and advances to customers		-31 366	-33 372
Mandatory reserve in central bank		-213	-334
Other assets		-332	-29
Changes of operating liabilities:			
Customer deposits		31 985	34 248
Other liabilities		438	198
Net cash from operating activities		**3 883**	**6 204**
Cash flows from investing activities			
Acquisition of tangible and intangible assets		-153	-93
Acquisition of subsidiaries and associates	13	-10 697	-111
Proceeds from disposal of associates	13	10 403	0
Net cash used in investing activities		**-447**	**-204**

EURt	***Note***	***2017***	***2016***
Cash flows from financing activities			
Repayment of debt securities		0	-3 114
Subordinated debt securities issued	17	0	6 471
Share capital contribution (including share premium)	21	2 800	1 087
Net cash from financing activities		**2 800**	**4 444**
Effect of exchange rate changes		52	0
Net increase/decrease in cash and cash equivalents	**11**	**6 288**	**10 444**
Cash and cash equivalents at the beginning of the reporting period		15 159	4 715
Cash and cash equivalents at the end of the reporting period	**11**	**21 447**	**15 159**

Note 30 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 at 01.01.2016	**569**	**5 393**	**30**	**1 330**	**1 077**	**8 399**
Paid in share capital	120	968	0	0	0	1 088
Share-based payment reserve	0	0	0	31	0	31
Statutory reserve capital	0	0	27	0	-27	0
Total profit/-loss and other comprehensive income for the reporting period	0	0	0	0	2 766	2 766
Balance as at 31.12.2016	**689**	**6 361**	**57**	**1 361**	**3 816**	**12 284**
Carrying amount of holdings under control and significant influence					-2 706	-2 706
Value of holdings under control and significant influence under equity method					1 933	1 933
Adjusted unconsolidated equity as at 31.12.2016	**689**	**6 361**	**57**	**1 361**	**3 043**	**11 511**
Balance as at 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 at 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 as at 31.12.2017	**782**	**9 068**	**79**	**1 352**	**10 541**	**21 822**

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 2017 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	**Liina Sadrak**	**Marko Varik**	**Piret Paulus**
Chairman of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board
/digitally signed/	/digitally signed/	/digitally signed/	/digitally signed/

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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 AS Inbank and its subsidiaries (together the Group) as at 31 December 2017, 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 2017;
- 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.

Our audit approach

Overview

Materiality
Overall group materiality is EUR 275 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 receivables to retail customers
- Accounting treatment of acquisition of associate AS Coop Pank

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 275 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 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 receivables to retail customers (refer to Note 1 "Significant accounting principles", Note 3 "Risk Management" and Note 9 "Impairment losses on loans and advances" for further details). As of 31 December 2017, gross loans to the retail customers amount to EUR 92.1 million against which loan impairment allowance in the amount of EUR 3.1 million has been recognized. We focused on this area because management makes complex judgments over both timing of recognition of impairment and the estimation of the size of any such impairment. Loans and advances to retail customers are grouped for impairment calculation purposes into sub-classes on the basis of homogeneous credit risk features and are assessed on a collective bases, taking into account product type, geographical location, customer payment discipline and number of overdue days.	We assessed whether the Group's accounting policies in relation to the impairment of loans and advances to retail customers complied with IFRS. We assessed the design and operating effectiveness of the controls over impairment data and calculations. We performed detailed procedures over the critical assumptions used for inputs in the collective impairment model, such as probability of default, loss identification period and loss given default. We assessed the valuation of loans and receivables to retail customers as at the balance sheet date, taking into account the aforementioned inputs. 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.

Key audit matter	How our audit addressed the key audit matter
Accounting treatment of acquisition of associate AS Coop Pank (refer to Note 1 "Significant accounting principles" and Note 13 "Investments in associates" for further details). In 2017 the Group sold the investments into associates AS Coop Finants and AS Krediidipank Finants and acquired interest in AS Coop Pank as it is disclosed in detail in note 13. This was a complex transaction, where the proceeds from aforementioned sales of associates were used to purchase interest in AS Coop Pank and as a result only a fraction of the profit from the sale of AS Coop Finants and AS Krediidipank Finants was realised. We focused on this area due to the complexity of the transactions involved and the uncertainties surrounding the estimates.	We assessed whether the Group's accounting policy in relation to accounting for the business combinations were in compliance with IFRS. We performed detailed testing of the transactions: • We checked whether the accounting treatment of the sales of associates AS Coop Finants and AS Krediidipank Finants has been correct. • We assessed whether assets acquired and liabilities assumed are correctly identified in purchase price allocation calculations and whether management has performed fair value assessments. • We checked whether the investment in associate AS Coop Pank had been initially recognised and subsequently accounted for correctly. Furthermore, we assessed the adequacy of the disclosures related to the transactions with associates. 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) and SIA Inbank Lizings (Latvia). 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.

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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 AS Inbank 29 March 2017 for the financial year ended 31 December 2017. The total period of our uninterrupted engagement appointment for AS Inbank, is 1 year.

AS PricewaterhouseCoopers

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

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

*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 7.496 thousand euros to retained earnings.

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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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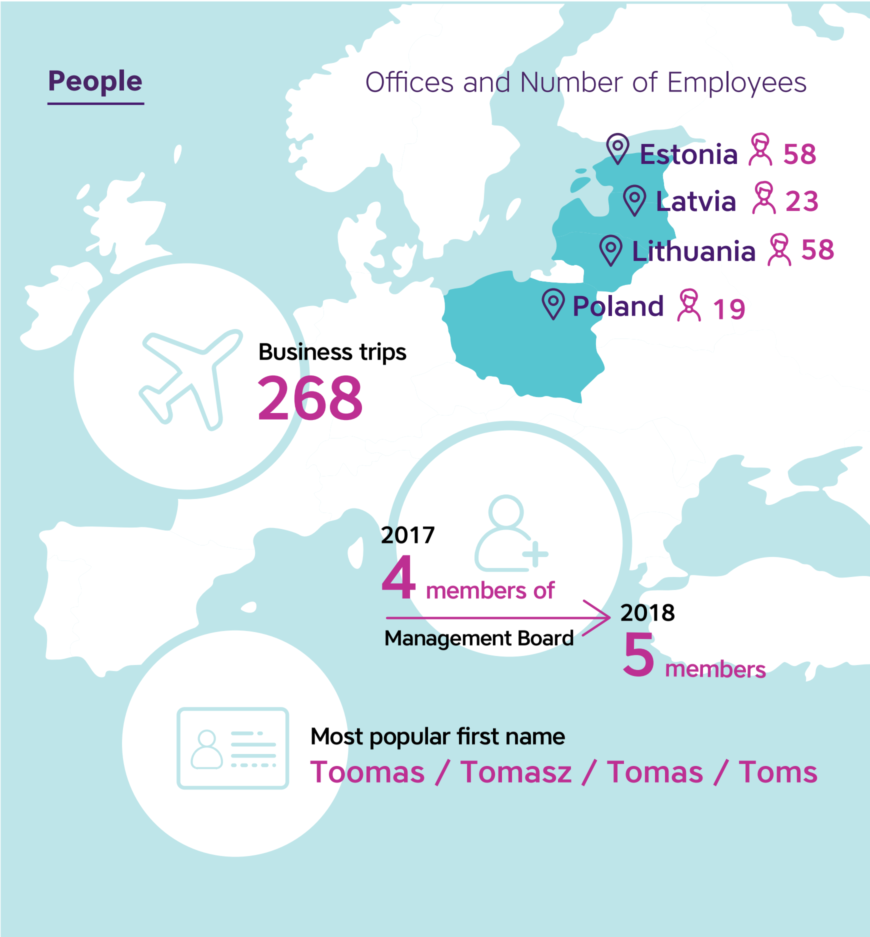
Facts and figures

People



Offices and Number of Employees

- Estonia 58
- Latvia 23
- Lithuania 58
- Poland 19

Business trips
268

2017
4 members of Management Board
2018
5 members

Most popular first name
Toomas / Tomasz / Tomas / Toms

Business

Number of contracts in portfolio
445 963

Personal identification with webcam
23%

Website visits from mobile devices
44%

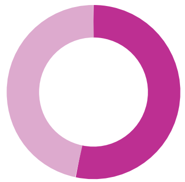
Calls placed to customer service
42 284

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)

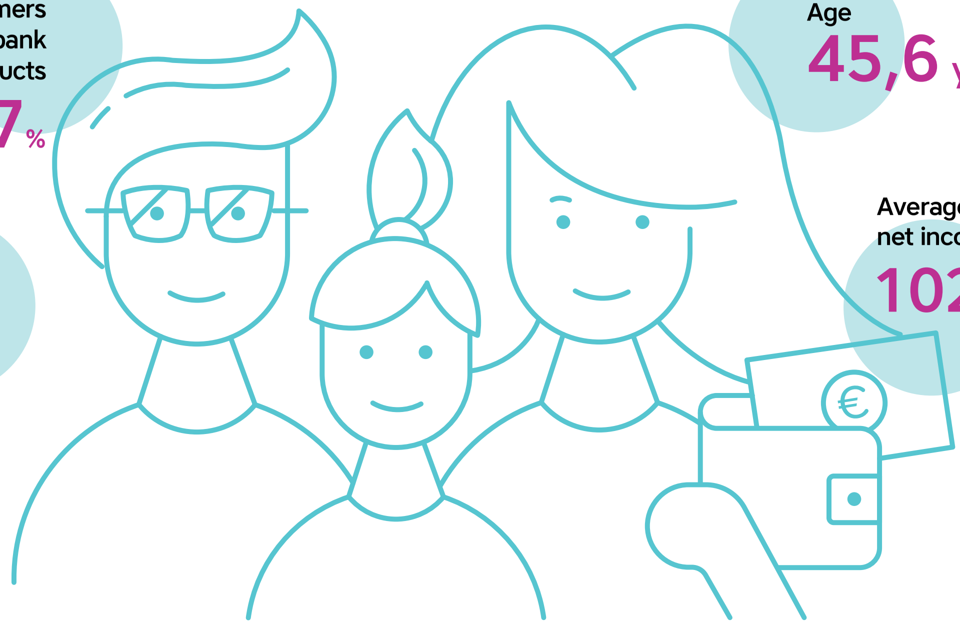
Clients

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

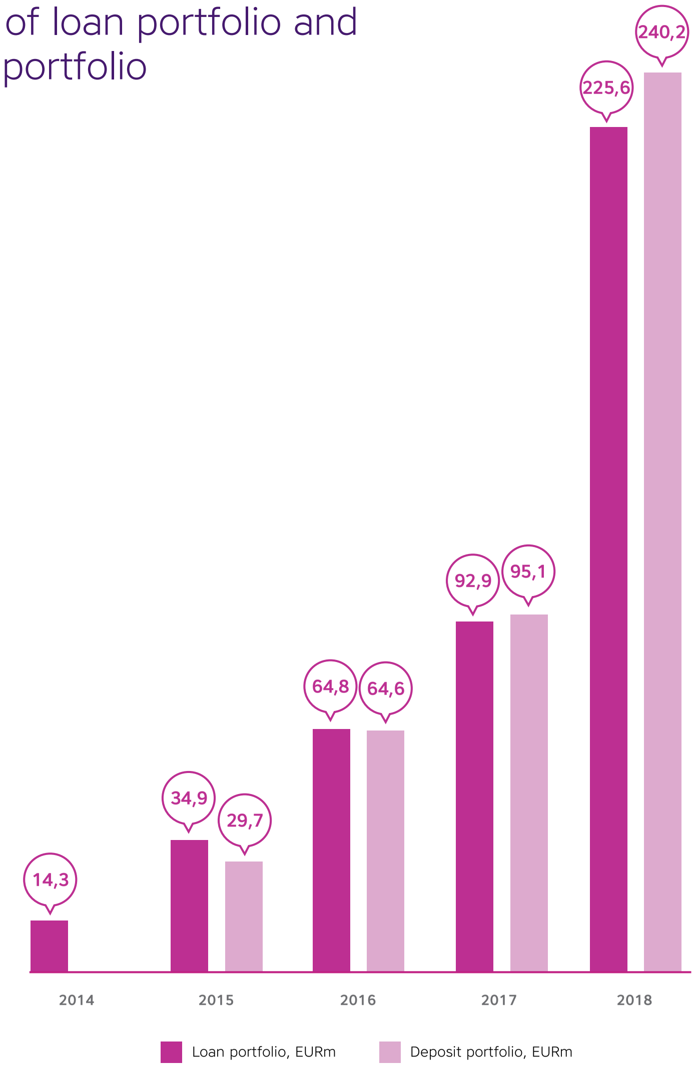
EURt

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.

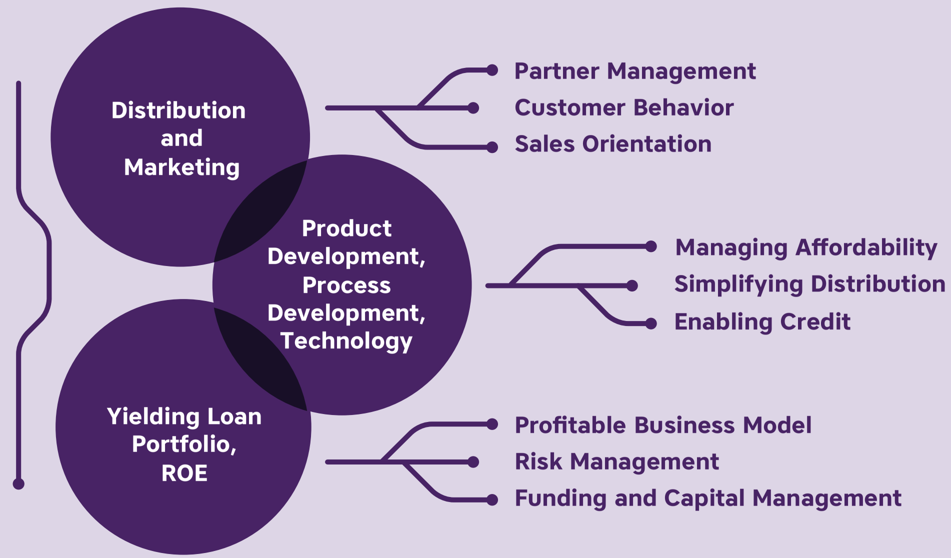
While focused on growth, we need to be aware that economic conditions going forward might not be as benign and stable as they have been over last few years. For coming year we continue to predict a good economic growth in all our markets, especially with low unemployment and strong wage growth supporting 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

We help our partners sell more by simplifying purchases and making financing more accessible to our customers



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.

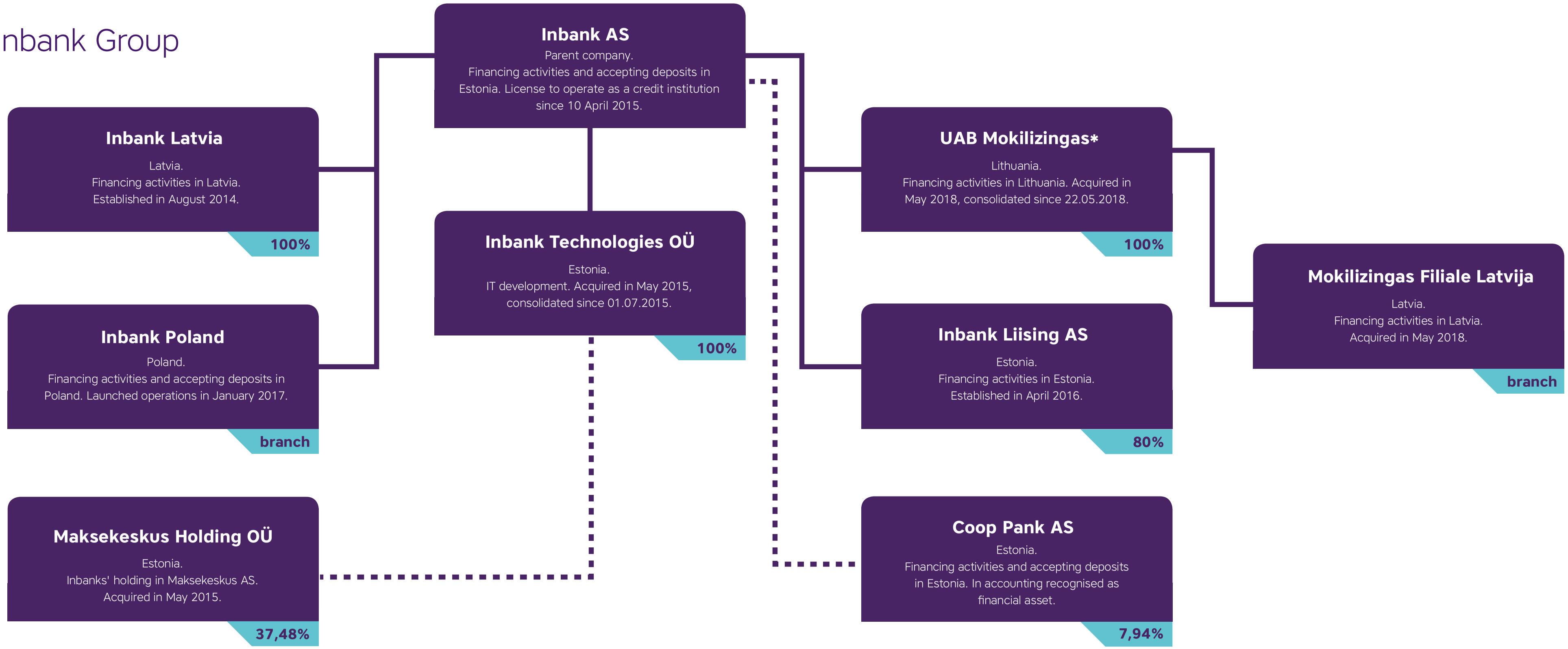
Key events

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.

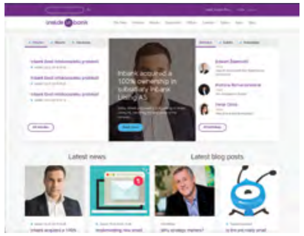
August

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.

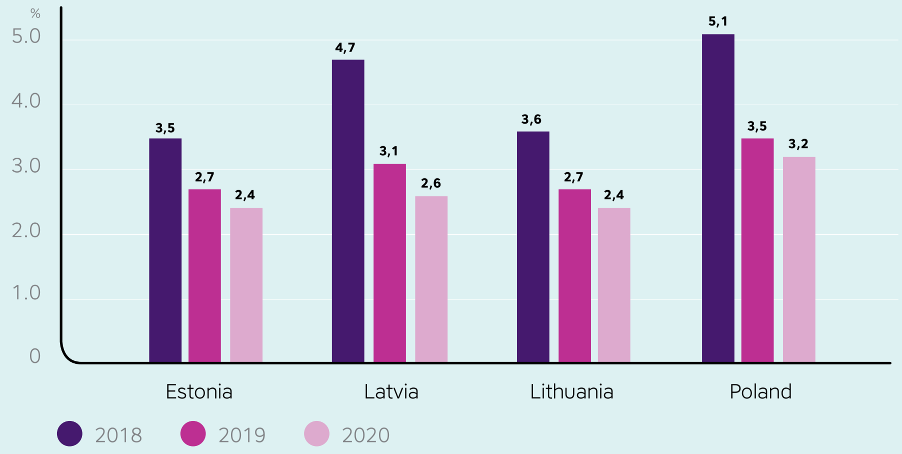
Davis Zeps
Chief Marketing Officer, Inbank Latvia

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.

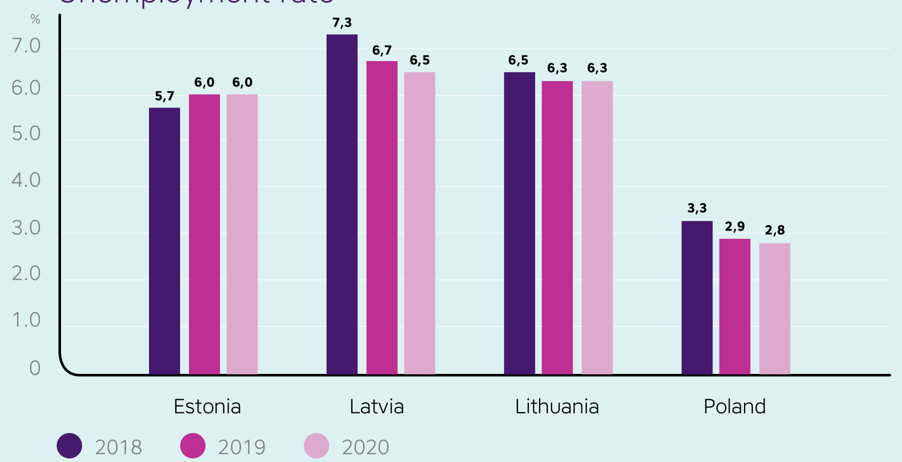
Julius Kviecinskas
Data Analyst, Mokilizingas

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).

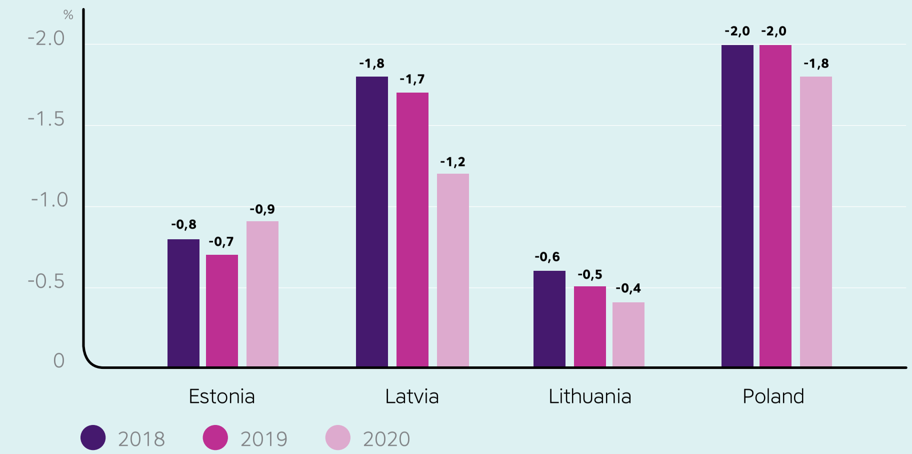
Lithuania

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.

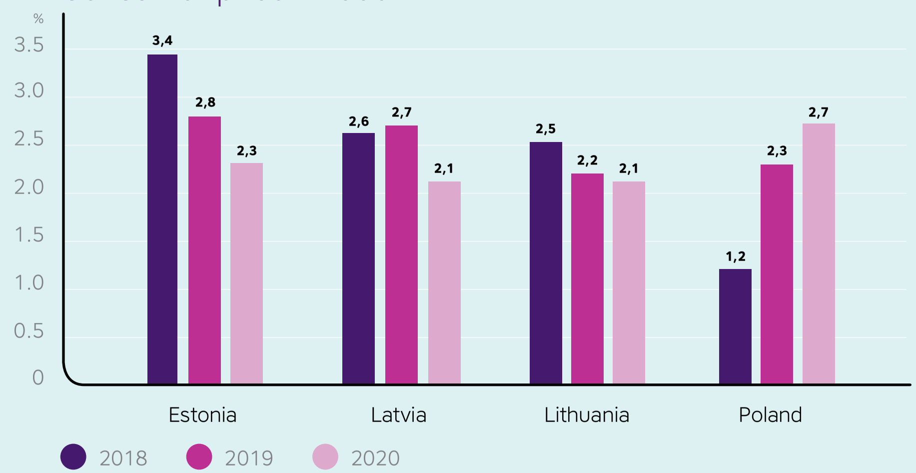
Private consumption will be aided by low unemployment, high employment and rapid salary growth which are characteristic of Lithuania. In 2019, a new income and social tax system was enacted in Lithuania, leading to major changes in tax accounting, but the final impact for people will not be that significant. 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

Cyclically-adjusted primary balance, % of GDP*



Consumer price inflation *



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.

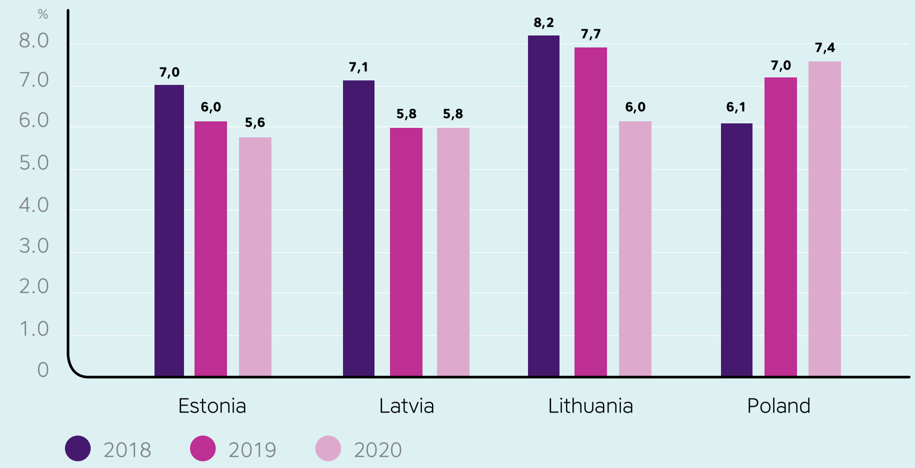
To ensure that inflation will not increase too much, the Polish Central Bank may adjust its monetary policy which has been quite lenient over the last several years (the Central Bank's central monetary policy interest rate has been 1.5% since March 2015 when the bank lowered it by 0.5 percentage points).

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 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.

Compensation of employees *



Summary

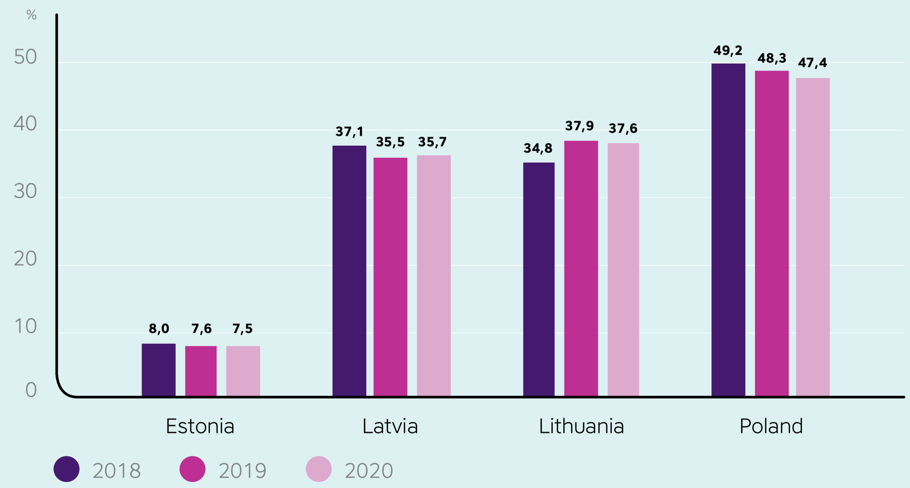
In summary, Estonia, Latvia, Lithuania and Poland are characterised by rapid growth of the purchasing power of consumers. However, consumers are generally more cautious when evaluating their purchasing and borrowing power than during the previous major economic boom.

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.

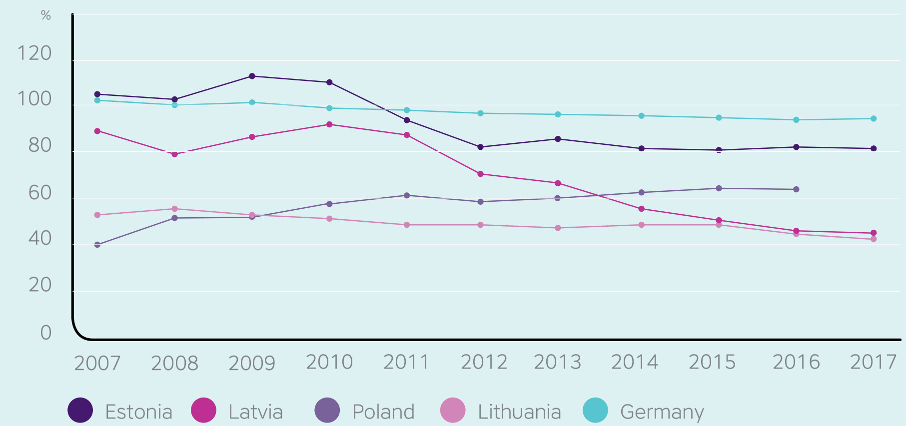
The economic situation globally and in the European Union will impact the Baltic States more as due to their small size, they depend more on the export demand than the somewhat larger Poland. The external environment also impacts the security of consumers and businesses in the Baltic States more than 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

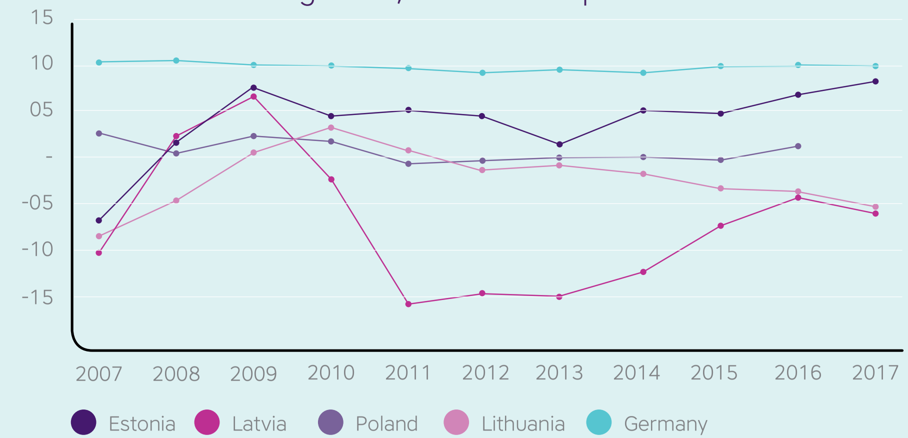
General government gross debt, % of GDP*



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

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.).

Within credit risk, the Group also includes concentration risk, country risk and foreign currency lending risk.

Main hedging activities

- Credit risk is managed through risk appetite limits and credit risk policies approved by the Supervisory Board.
- The Group's essential components of credit risk management are the prevention of excessive risk and risk mitigation with the following measures:
  - optimal balance of risk and reward;
  - above the average interest rates;
  - below the average contractual maturity;
  - significantly below the average contractual amount;
  - well-distributed portfolio, risk concentrations are limited;
  - adequate and conservative provisions;
  - well-controlled risk taking and risk profile.
- Stress and scenario tests allow us to make sure the portfolio is durable.

Risk factors

Share of portfolio in 90+ days overdue	2018	2017
	0.9%	1.1%

Impairment allowance to loan portfolio	2018	2017
	1.7%	4.5%

Situation

The credit risk position has improved and is in line with the defined risk appetite.

We will continue investing in credit decision making and credit quality monitoring systems.

Market risk

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.

Market risks arise from the Group's core business, taking market risk is not the main activity of the Group.

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.

The Group has a conservative market risk strategy.

Main hedging activities

- Market risk is managed through risk appetite limits and policies approved by the Supervisory Board.
- 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).
- 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.
- 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.
- The Group's essential components of IRRBB are the prevention of excessive risk and risk mitigation with the following measures:
  - above the average spread between loan and deposit interest rates;
  - below the average loan term;
  - use of fixed interest on loans;
  - active management of interest bearing assets and liabilities structure and maturities;
  - measuring and limiting the impact of IRRBB on net interest income (NII) and on the economic value of equity (EVE);
  - mitigation of the IRRBB risk, if necessary.
- Stress and scenario tests focus on the impacts of different interest environments.
- The Group does not accept commodity risk or equity risk in its trading book.

Risk factors

Open net foreign currency position (% of net own funds)	2018	2017
	0.59%	0.60%

Impact of interest rate change on net interest income (%of net own funds)	2018	2017
+200 basis points	0.17%	1.71%
-200 basis points	-1.39%	-0.02%

Impact of the change in interest rate on the economic value of equity (% of net own funds)	2018	2017
+200 basis points	-0.30%	1.41%
-200 basis points	1.28%	-0.18%

Situation

The market risk position remained stable and the actual risk profile was below average.

The interest rate risk position remains within safe limits. We will continue to maintain a stable and balanced risk profile.

The systems and calculations of interest rate risk management have been improved significantly to meet changing legal requirements.

Risks	Main hedging activities	Risk factors	Situation

Operational risk

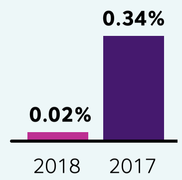
Operational risk is the risk of incurring loss from internal processes, human errors or systems not working as expected or due to external events. The term includes legal risk, but does not include strategic and reputational risk.

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.

- 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.

Operating loss as % of net own funds



Operational risk losses have remained stable and low.

We will continue investing in our activities and ICT infrastructure.

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.

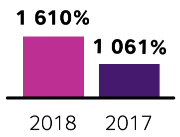
Risk of financing is a risk that the Group will not be able to use resources without affecting adversely its daily operations or financial position.

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.

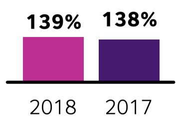
- Liquidity risk is managed through risk appetite limits as well as funding and liquidity risk management policies approved by Inbanks' Supervisory Board.
- The Group's liquidity management arrangements ensure a low and conservative liquidity risk profile and sufficient liquidity reserves.
- The Group 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.

Regulatory liquidity ratios

Liquidity coverage ratio



Net stable funding ratio



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.

<table>
<tr><th>Risks</th><th>Main hedging activities</th><th>Risk factors</th><th>Situation</th></tr>
<tr><td>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.</td><td>• 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.</td><td></td><td></td></tr>
<tr><td>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).</td><td>• 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.</td><td><table><tr><th>Regulatory capital ratios</th><th>2018</th><th>2017</th></tr><tr><td>Common Equity Tier 1 (CET 1) capital ratio</td><td>11.12%</td><td>12.75%</td></tr><tr><td>Tier 1 capital ratio</td><td>12.62%</td><td>12.75%</td></tr><tr><td>Total capital ratio</td><td>15.73%</td><td>19.86%</td></tr><tr><td>Leverage ratio</td><td>8.51%</td><td>9.94%</td></tr></table></td><td>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.</td></tr>
</table>

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%.

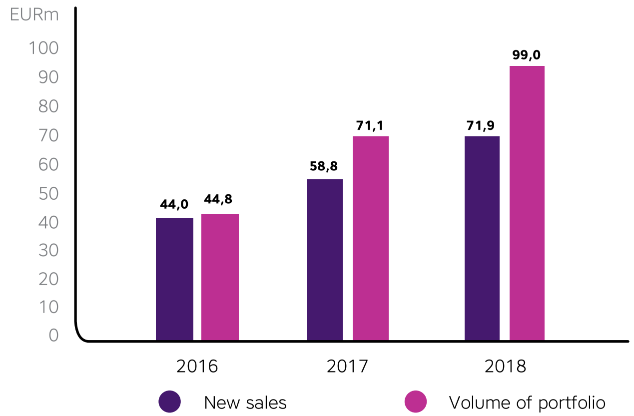
In 2018, the sales volumes of all product segments increased and the biggest contribution was made by car financing. The volume of sales of small loans increased by 24%, the volume of hire-purchase by 3.2%.

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.

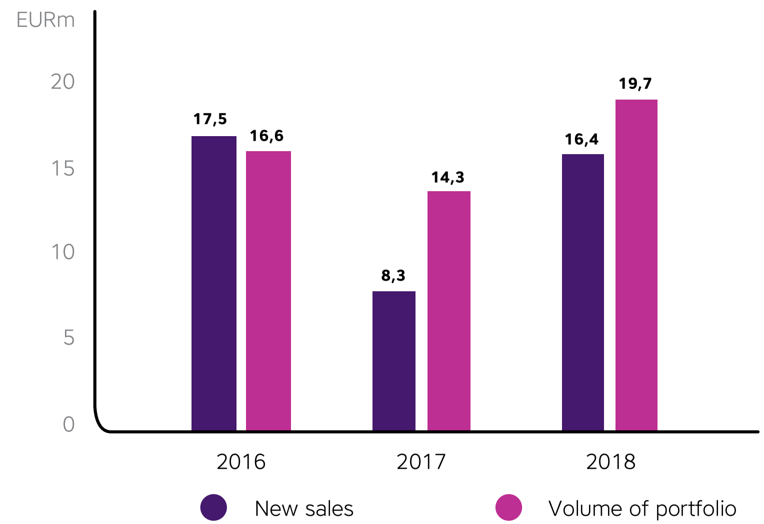
Due to good sales results, Inbanks' Latvian loan portfolio increased to nearly 20 million euros, which exceeded the annual target. The number of active partner companies increased by 69%, from 58 active partners at the end of 2017 to 98 active partners in December 2018.

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.

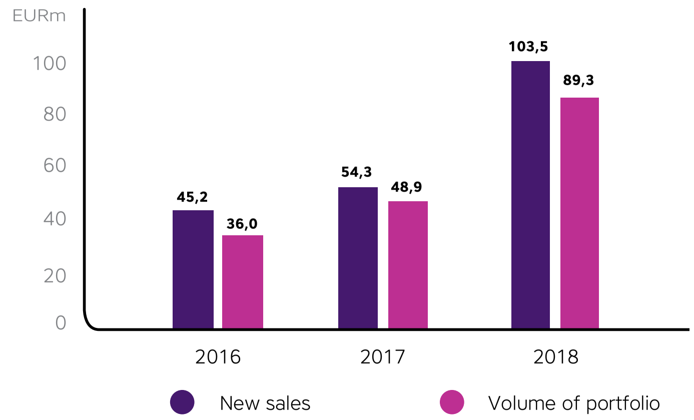
The consumer loan portfolio grew by 190% in 2018. We achieved significant growth due to improving our digital customer experience, getting to know the needs of consumers, and adapting internal processes and more efficient marketing campaigns.

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%



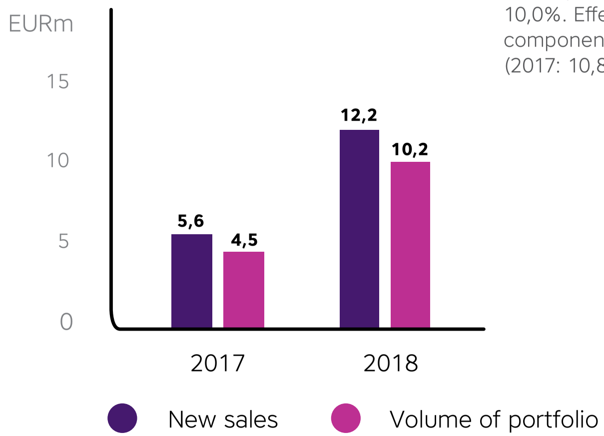
Poland

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 Mokilizingas 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 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**

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.

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	**Liina Sadrak**	**Marko Varik**	**Piret Paulus**	**Ivar Kallast**
Chairman of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board
/digitally signed/	/digitally signed/	/digitally signed/	/digitally signed/	/digitally signed/

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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.

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 (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). 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. 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. 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. 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). We assessed the design and operating effectiveness of the controls over expected credit loss data and calculations. 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). We performed detailed audit procedures in the following areas: • the completeness and accuracy of data used in the ECL calculation; • the compliance of key inputs used in ECL calculation system with ECL methodology; • the accuracy and compliance of 12-month and lifetime ECL calculations with the Group ECL methodology; • the accuracy of discounting in the ECL calculations; • 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). 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. 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.

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).

In 2018 the Group bought 100% of the ownership of UAB Mokilizingas as it is disclosed in detail in note 13.

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.

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.

We performed detailed testing of the transactions:

- assessed the list of separately identified assets and liabilities for their reasonableness and compliance with IFRS requirements;
- evaluated the management's assessment of the fair values of identifiable assets acquired and liabilities assumed;
- checked the correctness of calculation of arising goodwill.

Furthermore, we assessed the adequacy of the disclosures related to the purchase of UAB Mokilizingas.

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.

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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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Interim Report Inbank AS

9 months 2019

Inbank AS General Information

Business name	Inbank AS
Address	Niine 11, 10414 Tallinn
Registration date	05 October 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	30.09.2019
Reporting period	01.01.2019-30.09.2019

Members of the Supervisory Board

Priit Põldoja, Chairman
Roberto De Silvestri
Triinu Reinold
Raino Paron
Rain Rannu

Members of the Management Board

Jan Andresoo, Chairman
Liina Sadrak
Marko Varik
Piret Paulus
Jaanus Kõusaar

The reporting currency is the euro (EUR), with units presented in thousands.
Inbank AS' interim report for nine months 2019 is unaudited.
The bank does not hold any ratings provided by international rating agencies.

Declaration of the Management Board

The Management Board of Inbank AS is of the opinion that:

- the data and information presented in this interim report for the first nine months of 2019 consisting of the management report and financial statements as at 30 September 2019 are correct and complete;
- this interim report gives a true and fair view of the financial position of the Inbank AS consolidation group as at 30 September 2019, its financial performance and cash flows for the first nine months of 2019;
- the accounting policies and procedures used in preparing the interim report comply with IAS 34;
- the interim report has been prepared using the policies and procedures of the financial statements for the year concluded on 31 December 2018.

Inbank AS is a going concern.

Tallinn, 31 October 2019

Jan Andresoo	Chairman of the Management Board
Liina Sadrak	Member of the Management Board
Marko Varik	Member of the Management Board
Piret Paulus	Member of the Management Board
Jaanus Kõusaar	Member of the Management Board

Management report

Q3 2019 saw us move a big step closer towards completing our strategic goals for the year.

Sales results

Looking at the numbers we can say that our sales have continued to be strong. The pattern remains the same - excellent growth numbers in Poland and solid performance in all other countries. As Inbank Group we can report the 9-month overall sales number having been 220 EURm, which is 49% more compared to the year before. The overall sales figure, year-on-year, is split by countries as follows:

- Estonia 70.7 EURm (+35%)
- Latvia 38.7 EURm (+29%)
- Lithuania 73.1 EURm (+22%)
- Poland 37.8 EURm (+562%)

From the product point of view, the two main drivers of growth were the small loan and hire purchase products. Growth from small loan products was 41% compared to the year before whilst our hire purchase product grew by 75%. Adding another layer to the analysis and comparing the different markets, it is the outstanding performance of the hire purchase product in Poland that particularly stands out. The sales were close to 29 EURm so in the hire purchase category it is the best-performing market for Inbank Group. An excellent achievement!

Business Development

Inbank's strategy for 2019 was to mainly focus on product development and improve the overall competitiveness of our offering. Throughout the last three quarters we have invested heavily into our technology team and will continue doing so in the future. Whilst it is still too early to report the launch of new products and services, I can confirm that in the near future we will be surprising the markets with some new and innovative products. At the same time, we are all set to launch the Inbank branch in Lithuania and are currently waiting for the final permission from the Bank of Lithuania. According to the initial timeline we are planning to start our activities in the Lithuanian market as a bank in Q4 2019.

The last quarter also saw us make some excellent additions to our team. We are happy to announce that one of Estonia's true leaders in brand and marketing agreed to join our team – Rain Pikand will be in charge of building the new team that will work on developing a new innovative e-commerce solution for merchants. Martin Lingvide will join him and take the lead as Payment Solutions Area Manager. Last but not least, Mari-Liis Küppar has joined the Inbank family as Group Card Area Manager.

Other news

The Coop Pank IPO is expected to take place as scheduled and we can confirm that Inbank will prepare to exit from that investment, reinvesting the capital to support our own growth. In order to do this most efficiently we made a decision to sell some of our shares pre-IPO. The transaction took place in September whereby Inbank sold 4% of its Coop Pank shares. We are planning to sell the remaining shares in the IPO process.

Last quarter also saw our capital increase. The three years vesting time passed in the Inbank options program for employees, meaning there was an opportunity to exercise the right to buy shares. We are very pleased to announce that all persons in the program used this right with the total investment of 884 EURt into Inbank equity.

Financial results

Compared to Q3 2018, the Inbank loan portfolio increased by 56%, reaching 310 EURm. Our deposit portfolio doubled, reaching 375 EURm. Inbank activities continue to be financed mainly from our retail deposits. We are able to say that our assets and liabilities are well matched. Furthermore, by establishing a branch in Lithuania, Inbank will be adding a new source for deposits and thus diversifying our financing channels even more.

In correlation with our portfolio growth, our income growth has also been strong with net income growing 57% year-on-year. At the same time, our costs have also been increasing (+56%) and alas, the scalability effect is not yet evident. The cost increase has been driven by our defined strategy whereby we are investing heavily into technology and developing new generation products that will drive our future international growth. Traditionally, investment in our type of organisation tends to mean a bigger team. We are confident that we will be able to increase efficiency and scalability in the future but also believe that now is the time to invest.
At the same time our ability to produce acceptable return on equity (ROE 22%) demonstrates the solidity and profitability of our business model. Inbank's Q3 2019 net profit was 2.22 EURm and the 9-month result was 6.57 EURm. Our risk cost was stable and its growth in accordance with the growth of our portfolio.

Jan Andresoo
Chairman of the Management Board

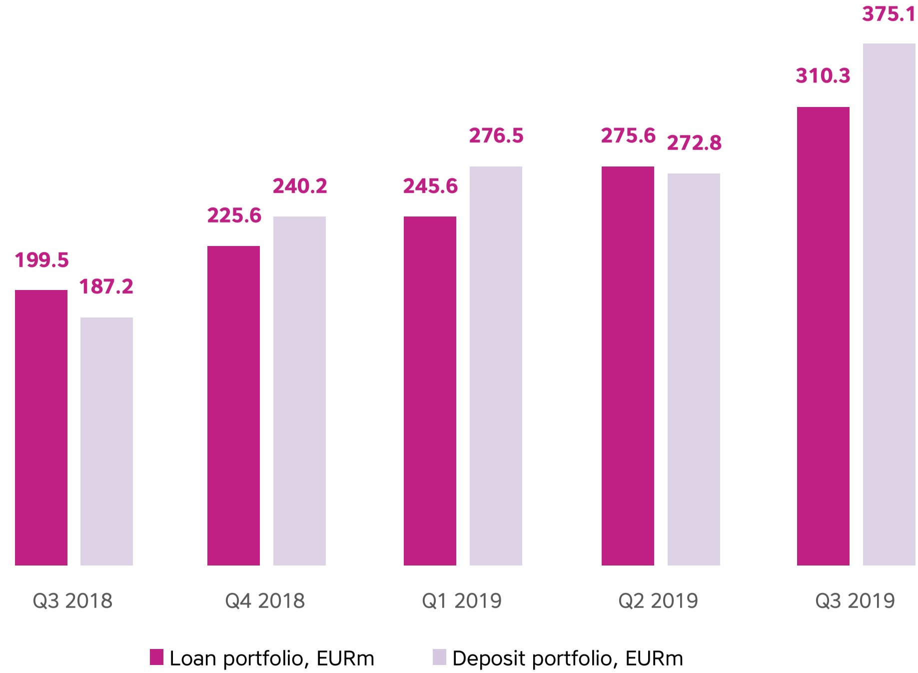
Key financial indicators

EURm

Key financial indicators	30.09.2019	30.09.2018	
Total assets	446.0	262.8	69.7%
Total equity attributable to shareholders of the parent	43.9	33.4	31.8%
Total profit attributable to owners of the parent	6.6	6.2	5.7%
Loan portfolio	310.3	199.5	55.5%
Deposit portfolio	375.1	187.2	100.4%

Ratios	9 months 2019	9 months 2018
Return on equity	21.8%	30.0%
Return on total assets	2.3%	4.3%
Net interest margin	8.2%	9.7%
Impairment losses to loan portfolio	2.4%	2.8%
Cost/income ratio	48.7%	48.3%
Equity to total assets	9.9%	12.7%

Volume of loan and deposit portfolio



Return on equity: total profit 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 profit 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 parent company / total assets

Capital adequacy

EURt	***30.09.2019***	***31.12.2018***
Capital base		
Paid-in share capital	903	874
Share premium	15 908	15 053
Statutory and other reserves	1 506	1 446
Retained earnings	18 948	9 756
Intangible assets (subtracted)	-10 365	-7 697
Profit for reporting period *	6 566	9 261
Other comprehensive income *	118	35
Other deductions	0	-1 824
Adjustments due to IFRS 9 transitional arrangements	4 084	2 308
Total Common Equity Tier 1 capital	**37 668**	**29 212**
Additional Tier 1 capital	3 150	3 150
Total Tier 1 capital	**40 818**	**32 362**
Total Tier 2 capital	6 503	6 503
Net own funds for capital adequacy calculation	**47 321**	**38 865**
Risk-weighted assets		
Credit institutions, standardised approach	6 615	3 401
Non-financial customers, standardised approach **	8 188	1 706
Retail claims, standardised approach **	223 151	167 208
Claims past due, standardised approach **	3 980	3 297
Other assets, standardised approach	9 794	6 844
Total credit risk and counterparty credit risk	**251 728**	**182 456**
Operational risk, basic indicator approach	25 648	25 648
Total risk-weighted assets	**277 376**	**208 104**
Capital adequacy (%)	17.06%	18.68%
Regulative capital adequacy (%)	16.11%	15.73%
Tier 1 capital ratio (%)	14.72%	15.55%
Regulative Tier 1 capital ratio (%)	13.78%	12.62%

* 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 Q3 in the amount of 2 221 EURt (31.12.2018: Q2, Q3 and Q4 in the amount of 5 376 EURt).

** In the reports submitted to the regulator as of 30.09.2019, the risk exposures take account of the credit portfolio impairment losses made in the reporting period in the amount of 1 898 EURt and are yet to be confirmed by the external auditor (31.12.2018: 1 917 EURt).
The external auditor has confirmed the profit of the 6 months of 2019, 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.

The Group is obliged to keep the additional institution-specific countercyclical capital buffer which rate is the weighted average of the countercyclical capital buffer rates that apply in the jurisdictions where the relevant credit exposures of the institution are located. The countercyclical capital buffer rate currently applied in Lithuania is 1%. In other countries where the Group operates, the corresponding capital buffer rate is 0%.

These buffers are added to both Tier 1 and the total own funds requirements.

Overview of the capital requirement as at 30.09.2019 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%
Countercyclical capital buffer	0.29%	0.29%	0.29%
Systemic risk buffer	0.45%	0.45%	0.45%
Minimum regulative capital requirement	***7.74%***	***9.24%***	***11.24%***

Condensed consolidated interim financial statements

Condensed consolidated statement of financial position

EURt	*Note*	*30.09.2019*	*31.12.2018*
Assets			
Cash in hand		4	4
Due from central banks	9	89 754	64 620
Due from credit institutions	9	29 411	13 700
Financial assets at fair value through profit and loss	23	2 390	4 600
Loans and advances	3;7;23	310 341	225 639
Investments in associates	10	97	97
Tangible assets		725	545
Right of use asset		764	0
Intangible assets	11	10 365	7 697
Other financial assets	12	83	64
Other assets	12	462	514
Deferred tax asset		1 573	564
Total assets	**3**	**445 969**	**318 044**

EURt	*Note*	*30.09.2019*	*31.12.2018*
Liabilities			
Loan from credit institution	13	0	10 429
Customer deposits	14;23	375 133	240 175
Other financial liabilities	17;23	10 801	8 776
Other liabilities	17	2 526	2 654
Debt securities issued	15	4 009	10 017
Subordinated debt securities	16	9 551	9 528
Total liabilities	**3**	**402 020**	**281 579**
Equity			
Share capital	19;20	903	874
Share premium	20	15 908	15 053
Statutory reserve capital	22	88	79
Other reserves	21;22	1 536	1 401
Retained earnings		25 514	19 018
Total equity attributable to the share-holders of parent company		**43 949**	**36 425**
Non-controlling interest		0	40
Total equity		**43 949**	**36 465**
Total liabilities and equity		**445 969**	**318 044**

Notes set out on pages 13-43 form an integral part of the consolidated financial statements.

Condensed consolidated statement of profit and loss and other comprehensive income

EURt	*Note*	*Q3 2019*	*9 months 2019*	*Q3 2018*	*9 months 2018*
Interest income	4	9 854	26 983	7 079	15 785
Interest expense	4	-1 685	-4 471	-1 151	-2 549
Net interest income		**8 169**	**22 512**	**5 928**	**13 236**
Fee income	5	255	687	188	523
Fee expense	5	-459	-1 261	-370	-720
Net fee and commission income		**-204**	**-574**	**-182**	**-197**
Net gains from financial assets measured at fair value		273	539	0	1 204
Other operating income		25	578	277	452
Total net interest, fee and other income		**8 263**	**23 055**	**6 023**	**14 695**
Personnel expenses	6	-2 001	-5 898	-1 509	-4 034
Marketing expenses	6	-518	-1 687	-474	-945
Administrative expenses	6	-1 009	-2 739	-800	-1 832
Depreciations, amortisation	11	-333	-912	-124	-284
Total operating expenses		**-3 861**	**-11 236**	**-2 907**	**-7 095**
Profit before profit from associates and impairment losses on loans		**4 402**	**11 819**	**3 116**	**7 600**
Share of profit from associates	10	0	0	0	1 986
Impairment losses on loans and advances	7	-1 898	-4 845	-1 248	-3 087
Profit before income tax		**2 504**	**6 974**	**1 868**	**6 499**
Income tax	8	-283	-408	-322	-274
Profit for the period		**2 221**	**6 566**	**1 546**	**6 225**

Continues on the next page

EURt	***Note***	***Q3 2019***	***9 months 2019***	***Q3 2018***	***9 months 2018***
Other comprehensive income/loss					
Items that may be reclassified subsequently to profit or loss					
Currency translation differences		133	82	-58	52
Total comprehensive income for the period		**2 354**	**6 648**	**1 488**	**6 277**
Net profit attributable to					
Shareholders of parent company		2 221	6 566	1 541	6 214
Non-controlling interest		0	0	4	11
Profit for the reporting period		**2 221**	**6 566**	**1 545**	**6 225**
Total comprehensive income/loss is attributable to					
Shareholders of parent company		2 354	6 648	1 483	6 266
Non-controlling interest		0	0	5	11
Total comprehensive income for the reporting period		**2 354**	**6 648**	**1 488**	**6 277**
Basic earnings per share	19	24.99	73.88	17.63	75.04
Diluted earnings per share	19	23.72	70.14	16.67	70.73

Notes set out on pages 13-43 form an integral part of the consolidated financial statements.

Condensed consolidated statement of cash flows

EURt	Note	9 months 2019	9 months 2018
Cash flows from operating activities			
Interest received	4	26 867	15 509
Interest paid	4	-3 342	-1 884
Fees received	5	687	523
Fees paid	5	-1 261	-720
Other income received		578	452
Personnel expenses	6	-5 427	-4 103
Administrative and marketing expenses	6	-4 179	-2 666
Prepayment of returned corporate income tax		0	285
Corporate income tax paid		-630	-247
Cash flows from operating activities before changes in the operating assets and liabilities		**13 293**	**7 149**
Changes in operating assets:			
Loans and advances		-88 620	-43 436
Mandatory reserve in central banks		-1 599	-1 006
Other assets		-976	164
Changes of operating liabilities:			
Loan from credit institution		-10 429	-39 533
Customer deposits		132 327	91 064
Other liabilities		1 179	1 626
Net cash from operating activities		**45 175**	**16 028**

EURt	Note	9 months 2019	9 months 2018
Cash flows from investing activities			
Acquisition of tangible and intangible assets	10	-3 603	-741
Acquisition of subsidiaries and associates	9	-121	-13 134
Net change of investments at fair value through profit or loss		2 999	0
Proceeds from disposal of associates	9	0	6 269
Net cash used in investing activities		**-725**	**-7 606**
Cash flows from financing activities			
Share capital contribution (including share premium)		884	6 077
Debt securities issued		4 000	10 000
Repayments of debt securities		-10 000	0
Net cash used in financing activities		**-5 116**	**16 077**
Effect of exchange rate changes		-88	-47
Cash and cash equivalents at the beginning of the reporting period		**76 372**	**22 600**
Net increase/decrease in cash and cash equivalents	8	39 246	24 452
Cash and cash equivalents at the end of the reporting period	**8**	**115 618**	**47 052**

Notes set out on pages 13-43 form an integral part of the consolidated financial report.

Condensed consolidated statement of changes in equity

EURt	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 of 01 January 2018	**782**	**9 068**	**79**	**1 352**	**10 739**	**22 020**	**26**	**22 046**
Changes on initial application of IFRS 9	0	0	0	0	-1 026	-1 026	0	-1 026
Adjusted balance as at 01 January 2018	**782**	**9 068**	**79**	**1 352**	**9 713**	**20 994**	**26**	**21 020**
Paid in share capital	92	5 985	0	0	0	6 077	0	6 077
Share-based payment reserve	0	0	0	15	0	15	0	15
Total profit/-loss and other comprehensive income for the reporting period	0	0	0	52	6 214	6 266	11	6 277
Balance as at 30 September 2018	**874**	**15 053**	**79**	**1 419**	**15 927**	**33 352**	**37**	**33 389**
Balance as at 01 January 2019	**874**	**15 053**	**79**	**1 401**	**19 018**	**36 425**	**40**	**36 465**
Paid in share capital	29	855	0	0	0	884	0	884
Share-based payment reserve	0	0	0	53	17	70	0	70
Statutory reserve capital	0	0	9	0	-9	0	0	0
Purchase of non-controlling interest in subsidiaries	0	0	0	0	-78	-78	-40	-118
Total profit/-loss and other comprehensive income for the reporting period	0	0	0	82	6 566	6 648	0	6 648
Balance as at 30 September 2019	**903**	**15 908**	**88**	**1 536**	**25 514**	**43 949**	**0**	**43 949**

Notes set out on pages 13-43 form an integral part of the consolidated financial statements.

Note 1 Accounting policies

The interim financial report has been prepared in accordance with the International Accounting Standard IAS 34 "Interim Financial Reporting", as adopted by the EU, and consists of condensed financial statements and selected explanatory notes. The accounting policies used in the preparation of the interim report are the same as the accounting policies used in the annual report for the year ended 31 December 2018, which comply with the International Financial Reporting Standards, as adopted by the European Commission (IFRS EU), with the exception of accounting principles changed as of 1 January 2019 in related to newly enforced IFRS EU standards. The changes in accounting principles are disclosed in Note 1, subsection "Changes in accounting policies". The interim financial report is not audited, and does not contain the entire range of information required for the preparation of complete financial statements. The interim financial report should be read in conjunction with the Annual Report prepared for the year ended 31 December 2018, which has been prepared in accordance with the International Financial Reporting Standards (IFRS).

In addition to Inbank AS, the Inbank AS consolidation group includes the following companies:

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
SIA Inbank Latvia	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	100	198
UAB Mokilizingas **	124926897	22.05.2018	Kareiviu 11B, Vilnius	Financing	100	15 068
Inbank Payments OÜ	14790098	27.08.2019	Niine 11, Tallinn	Investment management	100	3
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 7.4% shareholder in the payment consolidator.
** UAB Mokilizingas has branch in Latvia.

Changes in accounting policies

The Group has adopted IFRS 16, Leases for the first time starting from 01 January 2019. The other new standards that have become effective since 1 January 2019 have had no impact on the 9-month interim financial report of Inbank.

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.

The Group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard.
On adoption of IFRS 16, the Group recognized fixed assets and lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.
The Group leases various properties. Rental contracts are typically made for fixed periods of up to 3 years but include, as a rule, extension and termination options. Lease terms are negotiated on an individual basis and may contain a wide range of different terms and conditions.
The Group recognises leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities were recognised in the balance sheet at net present value of lease payments. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis.
Assets and liabilities arising from a lease are initially measured on a present value basis (except for exceptions). Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable;
- variable lease payment that are based on some kind an index (for example inflation, Euribor);
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

The lease payments are discounted using the interest rate implicit in the lease or the Group's incremental borrowing rate. The alternative interest rate is the interest rate that the Group would have to pay if it financed the purchase of a similar right to use the asset with a loan.

Short-term leases are leases with a lease term of 12 months or less. Low value assets comprise IT-equipment and small items of office furniture. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The management reviews the assessment if a significant event or a significant change in circumstances occurs which affects the probability of using options and that is within the control of the management. Alternatively, the extension period of the contract has changed (for example, Group has exercised an option, which initially was considered reasonably uncertain or has not exercised an option, which was initially considered reasonably certain).

According to the contracts, Group has not granted any carrying value of the rental assets in the end of the contract.

On applying the standard as at 01.01.2019, the lease payments were discounted at the Group's incremental borrowing rate of 3.21% on average.

EURt	Borrowings due within 1 year	Borrowings due after 1 year	Total
IFRS 16 initial application	401	669	1 070

The Group has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- lease agreements for low value assets are excluded;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease. As the result of application, the Group's total assets in the balance sheet as at 01.01.2019 increased 1 070 thousand euros and liabilities increased 1 070 thousand euros.

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 the other factors it considers 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 (ECL) 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 detailed in Inbank Consolidated Annual Report 2018 Note 1 "Summary of significant 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.

Note 3 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 financial activity segment. Revenue and expenditure are monitored in the information technology sector.

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. These intercompany transactions are accounted for at market prices. Inbank does not have clients whose income exceeds 10% of the respective type of Group's consolidated income.

Income of reportable segments

EURt

9 months 2019	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Inbank Payments OÜ (Estonia)*	*Total*
Interest income	14 624	3 497	10 099	219	1 828	0	0	**30 267**
Fee income	518	158	0	6	5	0	0	**687**
Other operating income	846	60	365	0	-84	64	0	**1 251**
Inter-segment eliminations	-3 354	0	0	0	0	-64	0	**-3 418**
Revenue from external customers	**12 634**	**3 715**	**10 464**	**225**	**1 749**	**0**	**0**	**28 787**
Interest expense	-3 714	-559	-2 717	-77	-687	-1	0	**-7 755**
Fee expense	-301	-120	-557	-3	-280	0	0	**-1 261**
Inter-segment eliminations	0	559	2 648	77	0	0	0	**3 284**
Total expenses	**-4 015**	**-120**	**-626**	**-3**	**-967**	**-1**	**0**	**-5 732**
Total net interest, fee and commission income and other income	**8 619**	**3 595**	**9 838**	**222**	**782**	**-1**	**0**	**23 055**

Net profit structure

EURt

9 months 2019	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Inbank Payments OÜ (Estonia)*	*Total*
Profit before profit from associates and impairment losses on loans	**6 496**	**1 768**	**3 854**	**132**	**-331**	**-100**	**0**	**11 819**
Profit of associates	0	0	0	0	0	0	0	**0**
Impairment losses on loans and advances	-1 436	-510	-1 272	-19	-1 608	0	0	**-4 845**
Income tax	-708	0	-259	0	559	0	0	**-408**
Net profit/loss	**4 352**	**1 258**	**2 323**	**113**	**-1 380**	**-100**	**0**	**6 566**

Income of reportable segments

EURt Q3 2019	Inbank AS (Estonia)	SIA Inbank Latvia (Latvia)	UAB Mokilizingas (Lithuania)	Inbank Liising AS (Estonia)	Inbank AS Poland branch	Inbank Technologies OÜ (Estonia)	Inbank Payments OÜ (Estonia)	Total
Interest income	5 329	1 256	3 588	76	834	0	0	**11 083**
Fee income	192	60	0	2	1	0	0	**255**
Other operating income	368	20	67	0	-133	28	0	**350**
Inter-segment eliminations	-1 253	0	0	0	0	-28	0	**-1 281**
Revenue from external customers	**4 636**	**1 336**	**3 655**	**78**	**702**	**0**	**0**	**10 407**
Interest expense	-1 356	-210	-996	-23	-328	-1	0	**-2 914**
Fee expense	-106	-42	-185	-2	-124	0	0	**-459**
Inter-segment eliminations	0	210	996	23	0	0	0	**1 229**
Total expenses	**-1 462**	**-42**	**-185**	**-2**	**-452**	**-1**	**0**	**-2 144**
Total net interest, fee and commission income and other income	**3 174**	**1 294**	**3 470**	**76**	**250**	**-1**	**0**	**8 263**

Net profit structure

EURt Q3 2019	Inbank AS (Estonia)	SIA Inbank Latvia (Latvia)	UAB Mokilizingas (Lithuania)	Inbank Liising AS (Estonia)	Inbank AS Poland branch	Inbank Technologies OÜ (Estonia)	Inbank Payments OÜ (Estonia)	Total
Profit before profit from associates and impairment losses on loans	**2 493**	**658**	**1 317**	**48**	**-100**	**-14**	**0**	**4 402**
Profit of associates	0	0	0	0	0	0	0	**0**
Impairment losses on loans and advances	-376	-306	-572	14	-658	0	0	**-1 898**
Income tax	-295	0	-95	0	107	0	0	**-283**
Net profit/loss	**1 822**	**352**	**650**	**62**	**-651**	**-14**	**0**	**2 221**

Income of reportable segments

EURt

9 months 2018	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Inbank Payments OÜ (Estonia)*	*Total*
Interest income	10 070	2 598	3 491	158	500	7	0	**16 824**
Fee income	380	127	11	4	1	0	0	**523**
Other operating income	1 509	47	170	0	-46	72	0	**1 752**
Inter-segment eliminations	-1 086	0	0	0	0	-49	0	**-1 135**
Revenue from external customers	**10 873**	**2 772**	**3 672**	**162**	**455**	**30**	**0**	**17 964**
Interest expense	-2 027	-400	-875	-76	-194	-15	0	**-3 587**
Fee expense	-281	-100	-208	0	-131	0	0	**-720**
Inter-segment eliminations	0	400	547	76	0	15	0	**1 038**
Total expenses	**-2 308**	**-100**	**-536**	**0**	**-325**	**0**	**0**	**-3 269**
Total net interest, fee and commission income and other income	**8 565**	**2 672**	**3 136**	**162**	**130**	**30**	**0**	**14 695**

Net profit structure

EURt

9 months 2018	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Inbank Payments OÜ (Estonia)*	*Total*
Profit before profit from associates and impairment losses on loans	**5 922**	**1 297**	**1 430**	**75**	**-966**	**-158**	**0**	**7 600**
Profit of associates	1 552	0	0	0	0	434	0	**1 986**
Impairment losses on loans and advances	-1 327	-462	-676	-21	-609	8	0	**-3 087**
Income tax	-328	0	-160	0	214	0	0	**-274**
Net profit/loss	**5 819**	**835**	**594**	**54**	**-1 361**	**284**	**0**	**6 225**

Income of reportable segments

EURt

Q3 2018	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Inbank Payments OÜ (Estonia)*	*Total*
Interest income	3 826	913	2 688	59	206	0	0	**7 692**
Fee income	137	41	8	2	0	0	0	**188**
Other operating income	129	15	100	0	57	8	0	**309**
Inter-segment eliminations	-636	0	0	0	0	-9	0	**-645**
Revenue from external customers	**3 456**	**969**	**2 796**	**61**	**263**	**-1**	**0**	**7 544**
Interest expense	-841	-140	-678	-28	-72	-5	0	**-1 764**
Fee expense	-104	-34	-181	0	-51	0	0	**-370**
Inter-segment eliminations	0	140	440	28	0	5	0	**613**
Total expenses	**-945**	**-34**	**-419**	**0**	**-123**	**0**	**0**	**-1 521**
Total net interest, fee and commission income and other income	**2 511**	**935**	**2 377**	**61**	**140**	**-1**	**0**	**6 023**

Net profit structure

EURt

Q3 2018	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Inbank Payments OÜ (Estonia)*	*Total*
Profit before profit from associates and impairment losses on loans	**1 794**	**479**	**1 086**	**30**	**-229**	**-44**	**0**	**3 116**
Profit of associates	0	0	0	0	0	0	0	**0**
Impairment losses on loans and advances	-418	-53	-550	-5	-222	0	0	**-1 248**
Income tax	-192	0	-130	0	0	0	0	**-322**
Net profit/loss	**1 184**	**426**	**406**	**25**	**-451**	**-44**	**0**	**1 546**

Assets and liabilities of reportable segments

EURt

30.09.2019	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Inbank Payments OÜ (Estonia)*	*Intersegment eliminations*	*Total*
Cash in hand	4	0	0	0	0	0	0	0	**4**
Due from central banks	88 681	0	0	0	1 073	0	0	0	**89 754**
Due from credit institutions	6 914	510	1 521	395	20 002	66	3	0	**29 411**
Financial assets at fair value through profit and loss	2 390	0	0	0	0	0	0	0	**2 390**
Loans and advances	268 052	27 528	119 707	2 371	30 126	0	0	-137 443	**310 341**
Investments in subsidiaries	16 242	0	0	0	0	0	0	-16 242	**0**
Investments in associates	0	0	0	0	0	97	0	0	**97**
Tangible assets	102	103	217	0	26	277	0	0	**725**
Right of use asset	121	108	421	0	83	31	0	0	**764**
Intangible assets	9 684	71	629	0	13	0	0	-32	**10 365**
Other financial assets	10	43	0	0	28	2	0	0	**83**
Other assets	132	12	308	46	47	57	0	-140	**462**
Deferred tax assets	0	0	0	0	1 573	0	0	0	**1 573**
Total assets	**392 332**	**28 375**	**122 803**	**2 812**	**52 971**	**530**	**3**	**-153 857**	**445 969**
Loans received	0	25 612	103 016	2 401	6 414	0	0	-137 443	**0**
Customer deposits	324 968	0	0	0	50 165	0	0	0	**375 133**
Debt securities issued	4 009	0	0	0	0	0	0	0	**4 009**
Subordinated debt securities	9 551	0	0	0	0	0	0	0	**9 551**
Other financial liabilities	2 313	661	6 554	88	1 265	61	0	-141	**10 801**
Other liabilities	1 740	165	421	0	198	2	0	0	**2 526**
Total liabilities	**342 581**	**26 438**	**109 991**	**2 489**	**58 042**	**63**	**0**	**-137 584**	**402 020**

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

Equity	***30.09.2019***	***31.12.2018***
SIA Inbank Latvia	1 938	683
UAB Mokilizingas *	12 812	10 489

* Inbank acquired UAB Mokilizingas on 22.05.2018.

Note 4 Net interest income

EURt	*Q3 2019*	*9 months 2019*	*Q3 2018*	*9 months 2018*
Interest income				
Loans to households	9 735	26 699	7 080	15 598
Loans to corporates	131	312	17	187
Due from financial and credit institutions	-12	-28	-18	0
Total	**9 854**	**26 983**	**7 079**	**15 785**
Interest expense				
Deposits received	-1 464	-3 816	-1 002	-2 151
Debt securities sold	-216	-645	-149	-398
Lease liability	-5	-10	0	0
Total	**-1 685**	**-4 471**	**-1 151**	**-2 549**
Net interest income	**8 169**	**22 512**	**5 928**	**13 236**
Interest income by customer location				
Estonia	4 175	11 558	3 272	9 196
Latvia	1 874	5 190	1 299	3 084
Lithuania	2 970	8 406	2 303	3 006
Poland	835	1 829	205	499
Total	**9 854**	**26 983**	**7 079**	**15 785**

Interest income from stage 3 loans in Q3 2019 was 245 EURt and 9 months 2019 332 EURt (Q3 2018: 28 EURt and 9 months 2018: 264 EURt).

Note 5 Net fee income

EURt	*Q3 2019*	*9 months 2019*	*Q3 2018*	*9 months 2018*
Fee income				
Households	252	678	177	512
Corporates	3	9	11	11
Total	**255**	**687**	**188**	**523**
Fee expense				
Loan administration expenses	-459	-1 261	-370	-720
Total	**-459**	**-1 261**	**-370**	**-720**
Net fee income	**-204**	**-574**	**-182**	**-197**
Fee income by customer location				
Estonia	194	524	139	384
Latvia	60	158	41	127
Lithuania	0	0	8	11
Poland	1	5	0	1
Total	**255**	**687**	**188**	**523**

Note 6 Operating expenses

EURt	*Q3 2018*	*9 months 2018*	*Q3 2018*	*9 months 2018*
Personnel expenses				
Personnel expense	1 631	4 908	1 230	3 292
Social and other taxes	370	990	279	742
Total personnel expenses	**2 001**	**5 898**	**1 509**	**4 034**
Marketing expenses				
Advertising and marketing	417	1 387	377	705
Sales costs	101	300	97	240
Total marketing expenses	**518**	**1 687**	**474**	**945**
Administrative expenses				
Rental and maintenance expenses	67	210	149	353
IT expenses	295	759	195	417
Legal and recovery proceeding expenses	42	123	44	117
Office expenses	80	239	54	144
Training and business trip expenses	105	285	56	95
Other tax expenses	79	193	62	120
Supervision expenses	105	196	39	100
Consultation expenses	44	136	19	61
Transportation expenses	57	146	35	59
Other bought services	22	80	11	74
Other administrative expenses	113	372	136	292
Total administrative expenses	**1 009**	**2 739**	**800**	**1 832**

Note 7 Loans and advances

EURt

Distribution of receivables as of 30.09.2019	Gross receivables from households	Stage 1 and 2	Stage 3	Net receivables from households	Allowance coverage
Portfolio in overdue 0-3 days	270 076	-2 365	-69	267 642	0.9%
Portfolio in overdue 4-30 days	20 594	-1 053	-71	19 470	5.5%
Portfolio in overdue 31-89 days	7 930	-1 046	-168	6 716	15.3%
Portfolio in overdue 90-179 days	2 000	0	-936	1 064	46.8%
Portfolio in overdue 180+ days	3 110	0	-2 164	946	69.6%
Total receivables	**303 710**	**-4 464**	**-3 408**	**295 838**	**2.6%**

Distribution of receivables as of 31.12.2018	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 as of 30.09.2019	Gross receivables from corporates	Stage 1 and 2	Stage 3	Net receivables from corporates	Allowance coverage
Portfolio in overdue 0-3 days	14 025	-34	0	13 991	0.2%
Portfolio in overdue 4-30 days	289	-7	0	282	2.4%
Portfolio in overdue 31-89 days	142	-13	0	129	9.2%
Portfolio in overdue 90-179 days	7	0	-2	5	28.6%
Portfolio in overdue 180+ days	146	0	-50	96	34.2%
Total receivables	**14 609**	**-54**	**-52**	**14 503**	**0.7%**

EURt

Distribution of receivables as of 31.12.2018	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%**

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.

Distribution of receivables by customer sector	*30.09.2019*	*31.12.2018*
Households	303 710	221 591
Non-financial corporates	4 092	3 470
Other financial corporates	4 736	1 709
Other advances	5 781	4 473
Total	**318 319**	**231 243**
Impairment allowance	-7 978	-5 604
Total	**310 341**	**225 639**

Impairment losses on loans and advances	*9 months 2019*	*2018*
Impairment losses of reporting period	-8 320	-5 681
Recoveries from written off from financial position	3 475	2 995
Total	**-4 845**	**-2 686**

Changes in impairments	*30.09.2019*	*2018*
Impairment allowance balance in the beginning of the period	-5 604	-3 173
Impact of IFRS 9	-	-901
Impairment provisions set up during reporting period	-8 320	-5 681
Written off from financial position during the period	5 946	4 151
Total	**-7 978**	**-5 604**

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 8 Income tax

EURt	*Q3 2019*	*9 months 2019*	*Q3 2018*	*9 months 2018*
Income tax recognized in income statement				
Deferred tax assets, Poland	379	1 041	0	214
Income tax, Estonia	-295	-708	-192	-328
Income tax, Lithuania	-95	-259	-105	-140
Income tax, Poland	-272	-482	0	0
Income tax, Latvia (correction)	0	0	-25	-20
Total	**-283**	**-408**	**-322**	**-274**

Note 9 Due from central banks and credit institutions

EURt	***30.09.2019***	***31.12.2018***
Due from central banks	86 449	62 668
Mandatory reserve in central banks	3 551	1 952
Due from credit institutions	29 165	13 700
Total	**119 165**	**78 320**

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 10 Disposal and acquisition of associates and subsidiaries

Further information on Inbank consolidation group has been disclosed in Note 1.

On August 27th, 2019 Inbank established 100% subsidiary Inbank Payments OÜ.

Inbank has gradually sold its stake in Coop Pank.

On March 29th, 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 Ühistukapital. After the transaction Inbank holds 7.94% of the shares in Coop Pank. Remaining investment subsequent to the sale is recognized at fair value.
On June 27th, 2019 Inbank participated in Coop Pank share capital issue maintaining the size of the holding. In September 2019 Inbank sold its 4.45% share in Coop Pank, the remaining share in Coop Pank is 3.49%. Profit from the revaluation of the investment and the sale of the shares in the amount of 539 EURt is recognised in income statement as "Net gains from financial assets measured at fair value" (Q3 2018: 0 EURt and 9 months 2018: 1 204 EURt).

On 22 January 2019 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.

On May 22nd, 2018 Inbank AS acquired a consumer finance company UAB Mokilizingas in Lithuania, with a purchase price of EUR 15 million. At acquisition, assets and liabilities were acquired at their fair value. Further information has been disclosed in Note 13 of the Annual report for the year ended 31 December 2018. On May 15th, 2019 AS Inbank and Mokilizingas signed a cross-border merger agreement. All the assets, rights and obligations of Mokilizingas shall be transferred to Inbank on the date of entry of the merger in the Estonian Commercial Register.

On January 5th, 2018 Inbank Technologies sold its entire 21.68% holding in start-up entity Veriff OÜ.

Inbank has not received dividends from its associates.

Disposal and acquisition of associates

EURt	***9 months 2019***	***2018***
Equity contribution, financial assets at fair value through profit and loss	321	0
Equity contribution, associates	0	96
Proceeds from disposals of associates, and reinvestment	3	13 038
Purchase of non-controlling interest in the share capital of subsidiary	118	0
Total purchases	**442**	**13 134**
Proceeds from disposals in financial investment	3 320	0
Proceeds from disposals of associates	0	476
Proceeds from disposals of partial holdings in associates	0	5 793
Total proceeds	**3 320**	**6 269**

Note 11 Intangible assets

EURt	***Licences***	***Software***	***Goodwill***	***Total***
At the beginning of period (01.01.2019)				
Cost	133	1 846	6 157	8 136
Accumulated amortisation	-83	-356	0	-439
Net book amount	**50**	**1 490**	**6 157**	**7 697**
Opening carrying value	**50**	**1 490**	**6 157**	**7 697**
Additions	0	3 144	0	3 144
Amortisation charge	-26	-450	0	-476
Closing carrying value	**24**	**4 184**	**6 157**	**10 365**
At the end of period (30.09.2019)				
Cost	133	4 990	6 157	11 280
Accumulated amortisation	-109	-806	0	-915
Carrying value	**24**	**4 184**	**6 157**	**10 365**

Management has carried through goodwill impairment tests as at 30.09.2019 and as at 31.12.2018. The cash-generating units of goodwill are segments, which are entities of Inbank group. The break-down of goodwill between segments is as follows:

Business segment	***30.09.2019***	***31.12.2018***
Estonia	238	238
Lithuania	5 919	5 919
Total	**6 157**	**6 157**

The majority of goodwill is from the purchase of Mokilizingas see also Note 10. 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. Growth rates used in the forecast are based on management's expectations and past experience 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 12 Other assets

EURt	***30.09.2019***	***31.12.2018***
Financial assets		
Prepaid guarantee amounts	83	64
Total	**83**	**64**
Non-financial assets		
Prepaid expenses	304	444
Prepaid taxes	154	66
Income tax liabilities due to be paid	4	4
Total	**462**	**514**

Prepaid taxes includes prepaid VAT.

Note 13 Loan from credit institution

EURt	*30.09.2019*	*31.12.2018*
Loan received		
Loan from credit institution	0	10 429
Total	**0**	**10 429**

In May 2018 LHV issued a loan of 25 million euros to UAB Mokilizingas with the maturity of 1 year. Inbank returned the loan prematurely in March 2019.

Note 14 Customer deposits

EURt	***30.09.2019***	***31.12.2018***
Customer deposits		
Deposits from households	358 368	226 544
Deposits from non-financial corporates	11 870	10 834
Deposits from other financial corporates	4 895	2 797
Total	**375 133**	**240 175**

EURt	***30.09.2019***	***31.12.2018***
Deposits by clients' residency		
Estonia	77 931	73 300
Germany	224 858	145 409
Poland	50 165	17 563
Austria	8 015	3 832
Netherlands	14 020	0
Other residence	144	71
Total	**375 133**	**240 175**

Deposits include accrued interest liabilities in the amount of 2 949 EURt (31.12.2018: 1 821 EURt).

Deposits by contractual maturity

EURt					
30.09.2019	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***Total***
Customer deposits	2 807	51 738	164 555	156 033	**375 133**
31.12.2018	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***Total***
Customer deposits	4 452	10 427	110 043	115 253	**240 175**

Note 15 Debt securities

EURt	***30.09.2019***	***31.12.2018***
Debt securities issued	4 000	10 000
Accrued interest	9	17
Total	**4 009**	**10 017**

Nominal value	***Amount***	***Issue date***	***Maturity***
250 000	40	14.05.2018	14.03.2019
250 000	16	28.02.2019	1.03.2021

The investment into debt securities has been made by Swedbank Investeerimisfond AS's pension funds via a private placement.
The issue of new debt securities does not affect the terms of previously issued debt securities.
The debt securities issued are recorded in the balance sheet at amortised cost.

Note 16 Subordinated debt securities

EURt	30.09.2019	31.12.2018
Subordinated debt securities issued	9 653	9 653
Adjustments	-102	-125
Total	**9 551**	**9 528**

Subordinated debt securities	Nominal price	Amount	Interest rate	Issue date	Maturity
Inbank subordinated bond INBB070026A	1 000 EUR	6 503	7%	28.09.2016	28.09.2026
Inbank subordinated bond EE3300111590	10 000 EUR	315	8.5%	19.12.2018	perpetual

On September 28th, 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 issue 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).

On December 19th, 2018 Inbank issued AT1 bonds (part of Tier 1 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 17 Other liabilities

EURt	*30.09.2019*	*31.12.2018*
Financial liabilities		
Accounts payable	9 560	8 072
Lease liability	336	0
Client prepayments	905	704
Total financial liabilities	**10 801**	**8 776**
Other liabilities		
Payables to employees	1 596	1 124
Payroll taxes	410	443
Other liabilities	520	1 087
Total	**2 526**	**2 654**

The accounts payable includes liabilities to customers and partners for loan granting activities and payments for operating expenses. Of the amount, 4 857 EURt is Mokilizingas liability to partners for loan granting activities (2018: 6 403 EURt).
Other liabilities include income tax liabilities in the amount of 399 EURt (2018: 496 EURt).

Note 18 Contingent liabilities

Inbank had the following loan commitments:

EURt	
Revocable commitments	
Liability in contractual amount as of 30 September 2019	12 417
incl unused credit card limits	12 051
Liability in contractual amount as of 31 December 2018	13 826
incl unused credit card limits	13 326

Note 19 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.

	Q3 2019	*9 months 2019*	*Q3 2018*	*9 months 2018*
Total profit attributable to owners of the parent (EUR thousand)	2 221	6 566	1 541	6 214
Weighted average number of shares	88 869	88 869	87 394	82 805
Basic earnings per share (EUR)	24.99	73.88	17.63	75.04
Weighted average number of shares used for calculating the diluted earnings per shares	93 619	93 619	92 444	87 855
Diluted earnings per share (EUR)	23.72	70.14	16.67	70.73

Note 20 Share capital

EURt	***30.09.2019***	***31.12.2018***
Share capital	903	874
Number of shares issued	90 344	87 394
Nominal share value (EUR)	10	10

In September 2019 the option was realised for the purchase of 2 950 shares.
The share capital was thus increased by 29 500 euros, of the share premium was 855 500 euros.

The share capital increase was registered in the Commercial Register on 20 September 2019.

Note 21 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***
Employees	600	300	2016	2019	3
Employees	500	300	2016	2020	2
Employees	900	675	2018	2021	3
Supervisory Board	250	300	2019	2022	1
Supervisory Board	250	675	2019	2022	2
Management	850	300	2019	2022	4
Employees	350	300	2019	2022	3
Employees	850	675	2019	2022	6
Management	200	675	2019	2022	1
Total	**4 750**				

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.

The fair value of the share options is determined on the date of issue of the option. The date of issue 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 issue 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 30.09.2019, the reserve amounted to 89 EURt (2018: 37 EURt).

Personnel expenses related to the option agreements in Q3 2019 amounted to a total of 47 EURt, 9 months 2019: 69 EURt (Q3 2018: 5 EURt, 9 months 2018: 15 EURt).

In September 2019 the option was realised for the purchase of 2 950 shares (see Note 20).

Note 22 Reserves

EURt	***30.09.2019***	***31.12.2018***
Statutory reserve	88	79
Voluntary reserve	1 330	1 330
Share based payments reserve	88	37
Other accumulated comprehensive income	118	34
Total	**1 624**	**1 480**

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, 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 23 Fair value of financial assets and liabilities

EURt	30.09.2019			31.12.2018		
Assets	**Fair value**	**Carrying amount**	**Level**	**Fair value**	**Carrying amount**	**Level**
Cash in hand	4	4	1	4	4	1
Due from central banks	89 754	89 754	2	64 620	64 620	2
Due from credit institutions	29 411	29 411	2	13 700	13 700	2
Financial assets at fair value through profit and loss	2 390	2 390	3	4 600	4 600	3
Loans and advances	310 341	310 341	3	225 639	225 639	3
Other financial assets	83	83	3	64	64	3
Total	**431 983**	**431 983**		**308 627**	**308 627**	

	30.09.2019			31.12.2018		
Liabilities	**Fair value**	**Carrying amount**	**Level**	**Fair value**	**Carrying amount**	**Level**
Loans from credit institutions	0	0	2	10 429	10 429	2
Customer deposits	375 133	375 133	2	240 175	240 175	2
Debt securities issued	4 009	4 009	3	10 017	10 017	3
Subordinated debt securities	6 969	6 506	2	6 954	6 489	2
Subordinated debt securities (AT1)	3 045	3 045	3	3 039	3 039	3
Other financial liabilities	10 801	10 801	3	8 776	8 776	3
Total	**399 957**	**399 494**		**279 390**	**278 925**	

The fair value in level 2 and level 3 were estimated using the discounted cash flow 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 October 3rd, 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 at 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 February 2019 **debt securities** were issued at market terms, maturity of these securities is 01.03.2021. 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)** we have used the latest transaction price between non-related parties.

Loans granted to corporates 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 & 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 24 Related parties

EURt	*9 months 2019*	*9 months 2018*
Remuneration of the Management Board and Supervisory Board	772	487

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.

Balances	*30.09.2019*	*31.12.2018*
Loans and receivables as of end of reporting period	**476**	**475**
management	476	475
Deposits and subordinated debt securities as of end of reporting period	**718**	**742**
management	718	742

Transactions	*9 months 2019*	*9 months 2018*
Interest income	**12**	**19**
management	12	12
associates	0	7
Interest expenses	**38**	**14**
management	38	14
Services purchased	**33**	**34**
management	33	34
Services sold	**0**	**44**
management	0	0
associates	0	44

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 with interest rates in between 3.34% and 7% (2018: 3.31-7%). Such loans are eliminated from the consolidated financial statements. Loans to management (including hire-purchase) are issued under market conditions with interest rates between 0-5% (2018: 5-14.65%). The interest rate of deposits received from related parties matches with the interest rate offered to the client, interest rates are in between 0.6% and 3.0% (2018: 1.05-3%).

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.

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1. ÄRINIMI JA ASUKOHT

1.1. Aktsiaseltsi ärinimi on AS Inbank (edaspidi Pank).

1.2. Panga asukoht ja peakontor on Tallinnas, Eesti Vabariigis.

2. MAJANDUSAASTA

2.1. Panga majandusaasta on kalendriaasta (01. jaanuar – 31. detsember).

3. AKTSIAKAPITAL JA AKTSIAD

3.1. Panga miinimumaktsiakapital on viissada tuhat (500 000) eurot ja maksimumaktsiakapital on kaks miljonit (2 000 000) eurot.

3.2. Panga aktsia nimiväärtus on kümme (10) eurot ja iga aktsia annab üldkoosolekul ühe (1) hääle.

3.3. Pangal on vaid nimelised aktsiad. Aktsiad on ühte liiki ja annavad aktsionäridele ühesugused õigused.

3.4. Aktsiate eest tasumisel rahalise sissemaksega tuleb sissemakse tasuda kapitali suurendamise otsuses nimetatud pangakontole. Aktsiate eest võib muul viisil kui rahalise sissemaksega tasuda vaid seaduses sätestatud juhtudel.

3.5. Võimalike tulevaste kahjumite katmiseks moodustab Pank reservkapitali, mille suurus on minimaalselt üks kümnendik (1/10) aktsiakapitali suurusest. Reservkapitali kantakse igal majandusaastal vähemalt üks kahekümnendik (1/20) Panga puhaskasumist, kuni reservkapitali minimaalse suuruse saavutamiseni. Üldkoosolek võib otsustada, et reservkapitali kantakse ka muid summasid. Reservkapitali võib kasutada ka aktsiakapitali suurendamiseks.

3.6. Pank võib välja anda nimelisi vahetusvõlakirju, mille nimiväärtuste summa ei või olla suurem kui 1/10 aktsiakapitalist ning mille omanikul on õigus vahetada võlakiri aktsia vastu.

4. AKTSIONÄRI ÕIGUSED

4.1. Aktsia annab aktsionärile vastavalt tema omandis olevate aktsiate nimiväärtuste summale õiguse osaleda Panga juhtimises ja kasumi jaotamises ning õiguse Panga lõpetamisel saada vastav osa Panga varast.

4.2. Panga aktsiad on vabalt võõrandatavad.

5. ÜLDKOOSOLEK

5.1. Aktsionäride üldkoosolek on Panga kõrgeim juhtimisorgan.

5.2. Korraline üldkoosolek kutsutakse juhatuse poolt kokku hiljemalt kolme (3) kuu jooksul majandusaasta lõppemisest arvates.

5.3. Juhatus kutsub erakorralise üldkoosoleku kokku seaduses sätestatud juhtudel. Korralisest üldkoosolekust tuleb teatada aktsionäridele

Juhatuse liige

vähemalt kolm (3) nädalat enne üldkoosolekut ja erakorralisest üldkoosolekust tuleb teatada aktsionäridele vähemalt üks (1) nädal enne üldkoosolekut. Teade peab olema saadetud selliselt, et see tavalise edastamise korral jõuaks adressaadini hiljemalt nimetatud tähtpäevadeks.

5.4. Teade üldkoosolekust saadetakse aktsionäridele tähitud kirjaga aktsiaraamatusse kantud aadressile.

5.5. Üldkoosoleku teate võib edastada ka lihtkirjana, elektrooniliselt või faksi teel, kui kirjale või faksile on lisatud teatis dokumendi kättesaamise kinnituse viivitamatu tagastamise kohustuse kohta. Teade loetakse lihtkirja või faksi teel või elektrooniliselt kätte toimetatuks, kui saaja tagastab juhatusele dokumendi kättesaamise kohta kinnituse omal valikul kirjalikult, faksiga või elektrooniliselt.

5.6. Kui Pangal on üle 50 aktsionäri, ei pea aktsionäridele teateid saatma, kuid üldkoosoleku toimumise teade tuleb avaldada vähemalt ühes üleriigilise levikuga päevalehes.

5.7. Panga üldkoosolekud toimuvad Eesti Vabariigis.

5.8. Üldkoosoleku reglement on järgmine:

(1) koostatakse koosolekul osalevate aktsionäride nimekiri, millesse kantakse koosolekul osalevate aktsionäride nimed ja nende aktsiatest tulenevate häälte arv, samuti aktsionäri esindaja nimi ja allkiri;

(2) koosoleku avab Panga nõukogu või juhatuse esimees;

(3) valitakse koosoleku juhataja ja protokollija;

(4) konstateeritakse koosoleku seaduslikkus ja otsustusvõime;

(5) kinnitatakse päevakord.

5.9. Korralisel üldkoosolekul:

(1) tutvutakse eelmise aasta majandusaasta aruandega, audiitori järeldusotsusega ja juhatuse kasumi jaotamise ettepanekuga

(2) kuulatakse ära nõukogu arvamus ja tutvutakse nõukogu aruandega;

(3) otsustatakse majandusaasta aruande kinnitamine;

(4) otsustatakse kasumi jaotamine või abinõude rakendamine, kui selleks annab põhjust auditeeritud majandusaasta aruandes toodud kahjum;

(5) otsustatakse vajadusel audiitorite ja nõukogu liikmete arv ja valimine (k.a. volituste pikendamine) ning nende tasustamine;

(6) otsustatakse ja arutatakse muud seaduses sätestatud või üldkoosoleku teates nimetatud küsimusi.

5.10. Üldkoosolek on otsustusvõimeline, kui sellel on esindatud üle kahe kolmandiku (2/3) kõikide aktsiatega määratud häältest. Kui üldkoosolekul ei ole esindatud küllaldane häälte arv, kutsub juhatus kokku uue üldkoosoleku sama päevakorraga. Uus üldkoosolek on otsustusvõimeline sõltumata üldkoosolekul esindatud häälte arvust.

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Juhatuse liige

5.11. Aktsionärid võivad üldkoosoleku päevakorras olevate punktide kohta koostatud otsuste eelnõusid hääletada elektrooniliste vahendite abil enne üldkoosolekut või üldkoosoleku kestel, kui see on tehniliselt turvalisel viisil võimalik. Elektroonilise hääletamise korra määrab juhatus.

5.12. Üldkoosoleku otsus on vastu võetud, kui selle poolt on antud üle kahe kolmandiku (2/3) üldkoosolekul esindatud häältest, kui seaduses või põhikirjaga ei ole sätestatud teisiti. Isiku valimisel loetakse üldkoosolekul valituks kandidaat, kes sai teistest enam hääli. Häälte võrdsel jagunemisel heidetakse liisku.

5.13. Protokollile kirjutavad alla koosoleku juhataja ja protokollija. Koosolekul osalevate aktsionäride nimekirjale kirjutavad alla juhataja ja protokollija ning iga üldkoosolekul osalenud aktsionär või tema esindaja.

5.14. Kui Pangal on üks aktsionär või kui lisaks temale on aktsionäriks vaid Pank ise, või kui aktsionäre on rohkem, kuid tingimusel, et nad kõik otsusega nõustuvad ja selle allkirjastavad, võib otsuseid vastu võtta, järgimata seaduses toodud nõudeid üldkoosoleku päevakorrale, kokkukutsumise teatele, kohale, läbiviimisele ja protokollile. Sel juhul tuleb otsus vormistada kirjalikult ja allkirjastada aktsionäride poolt ning selles tuleb märkida muu hulgas aktsionäride nimed ja häälte arv, samuti otsuse tegemise aeg.

6. NÕUKOGU

6.1. Nõukogu planeerib Panga tegevust, annab juhatusele tegevusjuhiseid Panga juhtimise korraldamisel ja teostab järelevalvet Panga ja Panga juhatuse tegevuse üle ning võtab vastu otsuseid seadusega või põhikirjaga sätestatud küsimustes. Nõukogu esitab üldkoosolekule aruande oma tegevusest aasta jooksul. Aruanne peab sisaldama hinnangut majandusaasta aruandele.

6.2. Nõukogu pädevusse ja kohustuste hulka kuuluvad muuhulgas:

(1) Panga strateegia ja tegevuse üldpõhimõtete kinnitamine;

(2) Panga krediidi- ja investeerimispoliitika kinnitamine;

(3) Panga juhatuse liikmete ja töötajate tasustamise põhimõtete kinnitamine ja nende rakendamise hindamine;

(4) Panga üldiste riskijuhtimise põhimõtete ja strateegia kinnitamine;

(5) Panga organisatsioonilise struktuuri ja selle põhimõtete kinnitamine;

(6) Panga tegevuse kontrollimise üldpõhimõtete kinnitamine;

(7) Panga juhatuse liikmete, juhatuse esimehe, esimehe asendaja ja prokuristide valimine ning tagasikutsumine ja nende tasustamise otsustamine;

(8) Panga siseauditi üksuse põhimääruse kinnitamine, siseauditi üksuse juhi ametisse nimetamine ja vabastamine ning siseauditi üksuse juhi ettepanekul siseauditi üksuse töötajate ametisse nimetamine ja vabastamine;

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Juhatuse liige

(9) Panga eelarve ja investeeringute kava kinnitamine;

(10) välisriigis filiaalide asutamise ja sulgemise otsustamine;

(11) osaluste omandamine (k.a. suurendamine) ja võõrandamine (k.a. vähendamine) teistes ühingutes (k.a. ühingute asutamine ja likvideerimine), kui tehingu maht ületab 10 protsenti Panga omavahenditest või teise ühingu osa- või aktsiakapitalist või selle tehinguga saavutatakse vastav määr;

(12) krediidikomitee tegevuse üldpõhimõtete ja pädevuse kehtestamine;

(13) tehingute, mis väljuvad Panga igapäevase majandustegevuse raamidest, tegemise otsustamine;

(14) Panga juhatuse liikmetega tehingute tegemise otsustamine ja nendes tehingutes Panga esindaja määramine;

(15) Panga juhatuse liikme vastu nõude esitamine ja selles nõudes Panga esindaja määramine;

(16) üldkoosoleku päevakorra määramine (v.a. seaduses sätestatud juhtudel);

(17) muude seaduse ja põhikirjaga nõukogu pädevusse antud küsimuste otsustamine.

6.3. Nõukogul on alates käesoleva põhikirja redaktsiooni kehtima hakkamisest järgneva kolme (3) aasta jooksul õigus suurendada aktsiakapitali sissemaksete tegemisega kaheksakümne seitsme tuhande kolmesaja üheksakümne nelja (87 394) euro võrra, tõstes aktsiakapitali kuni üheksasaja kuuekümne ühe tuhande kolmesaja kolmekümne nelja (961 334) euroni.

6.4. Nõukogus on viis (5) kuni seitse (7) liiget, kes valitakse üldkoosoleku poolt kolmeks (3) aastaks.

6.5. Nõukogu liikmed valivad endi hulgast esimehe, kes korraldab nõukogu tööd. Juhul kui nõukogu esimees ei saa täita oma ülesandeid, võivad nõukogu ülejäänud liikmed esimehe eemalviibimise ajaks valida konsensuse alusel endi hulgast nõukogu esimeest asendava liikme.

6.6. Nõukogu koosolekud toimuvad vastavalt vajadusele, kuid vähemalt üks (1) kord kolme (3) kuu jooksul. Nõukogu koosolek kutsutakse kokku, kui seda nõuab nõukogu liige, juhatuse liige, audiitor, siseauditi üksuse juht või revisjonikomisjoni esimees või aktsionärid, kelle aktsiad esindavad vähemalt ühte kümnendikku aktsiakapitalist või muud seaduses ettenähtud isikud.

6.7. Nõukogu koosoleku toimumisest ja selle päevakorrast tuleb ette teatada vähemalt üks (1) nädal enne koosolekut.

6.8. Nõukogu koosolekud toimuva nõukogu esimehe poolt määratud kohas Eesti Vabariigis või välismaal.

6.9. Nõukogu koosoleku kutsub kokku ja koosolekut juhatab nõukogu esimees või teda asendav nõukogu liige.

6.10. Nõukogu on otsustusvõimeline, kui sellest võtab osa üle poole nõukogu liikmetest. Nõukogu liige võib nõukogu koosolekul osaleda ja teostada

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Juhatuse liige

oma õigusi elektrooniliste vahendite abil ilma koosolekul füüsiliselt kohal olemata, reaalajas toimuva kahesuunalise side abil või muul sellesarnasel elektroonilisel viisil, mis võimaldab nõukogu liikmel eemal viibides koosolekut jälgida ja sõna võtta ning otsuste vastuvõtmisel hääletada.

6.11. Nõukogu otsus on vastu võetud, kui selle poolt hääletas üle poole hääletamisel osalenud nõukogu liikmetest. Igal nõukogu liikmel on üks hääl. Nõukogu liige ei ole õigustatud volitama kedagi teist peale teise nõukogu liikme osalema ja hääletama nõukogu koosolekutel. Häälte võrdsel jagunemisel otsustab nõukogu esimehe või teda asendava liikme hääl. Nõukogu liikmel ei ole õigust hääletamisest keelduda ega erapooletuks jääda.

6.12. Kõik nõukogu koosolekud protokollitakse. Protokollile kirjutavad alla kõik koosolekul osalevad nõukogu liikmed ja protokollija.

6.13. Nõukogul on õigus võtta vastu otsuseid koosolekut kokku kutsumata. Reglement on järgmine:

(1) Nõukogu esimees saadab otsuse eelnõu kõigile nõukogu liikmetele ja teatab tähtaja, mille jooksul nõukogu liikmed peavad esitama selle kohta oma kirjaliku taasesitamist võimaldavas vormis seisukoha. Kui nõukogu liige ei teata tähtaegselt, kas ta on otsuse poolt või vastu, loetakse, et ta hääletab otsuse vastu;

(2) Otsus loetakse vastu võetuks, kui selle poolt on üle poole nõukogu liikmetest;

(3) Nõukogu esimees koostab hääletustulemuste kohta hääletusprotokolli ning saadab selle viivitamatult nõukogu liikmetele ja juhatusele.

6.14. Kui kõik nõukogu liikmed otsusega nõustuvad ja selle allkirjastavad, võib nõukogu otsuse vormistada ka etteteatamiseta ja hääletusprotokollita. Otsusesse tuleb märkida nõukogu liikmete nimed ja otsuse tegemise aeg.

6.15. Nõukogu liikmega tehingu tegemise otsustab ja tema tasu suuruse määrab üldkoosolek.

7. JUHATUS

7.1. Panka juhib seaduse ja põhikirja kohaselt ning üldkoosoleku ja nõukogu poolt antud pädevuse raames Panga juhatus. Juhatus töötab välja Panga strateegia ja eelarve, mis esitatakse nõukogule kinnitamiseks. Juhatus juhib Panga igapäevast tegevust, lähtudes nõukogu poolt kinnitatud strateegiast, eelarvest ning tegevuse üldistest põhimõtetest. Juhatus kontrollib Panga töötajate tegevust.

7.2. Juhatus esitab nõukogule vähemalt kord kolme kuu jooksul aruande oma tegevuse ning Panga majandustegevuse ja majandusliku olukorra kohta. Juhatus peab viivitamatult teavitama nõukogu liikmeid Panga majandusliku seisundi halvenemisest, selle ohust või usaldatavusnormatiividest kõrvalekaldumisest.

7.3. Juhatusse kuulub kolm (3) kuni seitse (7) liiget, kes valitakse nõukogu poolt kolmeks (3) aastaks.

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Juhatuse liige

7.4. Juhatuse esimees korraldab juhatuse tööd ning kutsub kokku ja juhatab juhatuse koosolekuid. Kui juhatuse esimees ei saa täita oma ülesandeid määrab nõukogu juhatuse liikmete hulgast talle asendaja.

7.5. Juhatuse esimees või teda asendav liige kutsub juhatuse kokku nii sageli, kui seda nõuavad Panga asjad. Juhatuse esimees või teda asendav liige peab kutsuma juhatuse koosoleku kokku juhatuse või nõukogu liikme nõudmisel. Otsused, millel on Panga seisukohalt oluline tähtsus tuleb vastu võtta juhatuse koosolekul.

7.6. Juhatuse koosolekud toimuvad juhatuse esimehe poolt määratud kohas Eesti Vabariigis või välismaal.

7.7. Juhatus on otsustusvõimeline, kui juhatuse koosolekust võtab osa üle poole juhatuse liikmetest. Juhatuse otsus on vastu võetud, kui selle poolt hääletavad kõik koosolekul osalenud juhatuse liikmed. Juhatuse liige ei ole õigustatud volitama kedagi teist peale teise juhatuse liikme osalema ja hääletama juhatuse koosolekutel. Juhatuse liikmel ei ole õigust hääletamisest keelduda ega erapooletuks jääda.

7.8. Kui kõik juhatuse liikmed otsusega nõustuvad ja selle allkirjastavad, võib juhatuse otsuse vormistada ilma koosolekut kokku kutsumata ja hääletusprotokollita. Otsusesse tuleb märkida juhatuse liikmete nimed ja otsuse tegemise aeg.

7.9. Panga nimel tegutsev isik ei või esindada Panka tehingute tegemisel ja õigusvaidluste pidamisel kolmanda isikuga, kelle suhtes Panga nimel tegutseval isikul või temaga samaväärset majanduslikku huvi omaval isikul on isiklikke majanduslikke huvisid.

8. KREDIIDIKOMITEE

8.1. Panga juhatus moodustab krediidikomitee, mis lähtub oma tegevuses nõukogu poolt kinnitatud tegevuspõhimõtetest. Krediidikomitee on aruandekohustuslik Panga juhatuse ees.

8.2. Krediidikomitee koosneb vähemalt viiest (5) liikmest. Täpse arvu määrab juhatus lähtudes Panga ja krediidikomitee vajadustest. Liikmed valivad endi hulgast esimehe, kes korraldab komitee tegevust. Krediidikomitee liikmeks on juhatuse esimees, kes ei tohi olla krediidikomitee esimees või juhtida krediidikomitee istungit.

8.3. Krediidikomitee istungid on kinnised. Krediidikomitee on otsustusvõimeline, kui sellest võtab osa üle poole komitee liikmetest. Krediidikomitee liikmel ei ole õigust hääletamisest keelduda ega erapooletuks jääda. Häälte võrdsel jagunemisel on otsustav komitee esimehe hääl.

8.4. Krediidikomitee istungid protokollitakse. Protokollile kirjutavad alla kõik istungist osa võtnud komitee liikmed ja protokollija. Protokolli kantakse liikmete seisukohad ning liikmete eriarvamused.

8.5. Krediidikomiteel ei ole õigust otsustada Panga nõukogu poolt kehtestatud piirmäärast suurema laenu andmist ja pikendamist või muu erakordse laenu andmist ilma eelneva nõukogu otsuseta.

Juhatuse liige

9. SISEAUDITI ÜKSUS

9.1. Panga sisekontrolli süsteemi osana tegutseb sõltumatu siseauditi üksus, mis jälgib Panga tegevust ning tegutseb Panga nõukogu poolt kinnitatud põhimääruses sätestatud korras.

9.2. Siseauditi üksus hindab Panga tavapärast majandustegevust ja sise-eeskirjade ja protseduurireeglite vastavust ja piisavust krediidiasutuse tegevusele ning kontrollib pidevalt nõukogu ja juhatuse kehtestatud eeskirjadest, protseduurireeglitest, limiitidest ja muudest normidest kinnipidamist ning jälgib Finantsinspektsiooni ettekirjutuste täitmist.

9.3. Siseauditi üksuse töötajatel on õigus tutvuda Panga kõikide dokumentidega, jälgida piiranguteta Panga tööd igas lõigus ning osaleda juhatuse ja Panga põhikirja alusel moodustatud komiteede koosolekutel.

9.4. Täpse arvu määrab nõukogu lähtudes Panga ja siseauditi üksuse vajadustest. Panga nõukogu nimetab ametisse ja vabastab ametist siseauditi üksuse töötajad ja juhi.

9.5. Siseauditi üksuse juht peab andma ülevaateid siseauditi üksuse tegevusest Panga nõukogule üks kord aastas ja juhatusele üks kord poolaastas.

10. AUDIITORKONTROLL

10.1. Panga raamatupidamise ja raamatupidamise aastaaruande kontrollimiseks valib üldkoosolek mitte kauemaks kui viieks aastaks audiitori.

10.2. Juhatus peab esitama majandusaasta aruande audiitori(te)le seaduses sätestatud korras. Audiitor(id) peavad juhatusele esitama järeldusotsuse ühe (1) kuu jooksul alates majandusaasta aruande saamisest.

11. KASUMI JAOTAMINE

11.1. Üldkoosolek otsustab kasumi jaotamise auditeeritud raamatupidamise aastaaruande, juhatuse kasumijaotamise ettepaneku ja nõukogu arvamuse alusel.

11.2. Dividendi maksmise viis, aeg ja kord määratakse üldkoosoleku otsusega.

12. PANGA TEGEVUSE LÕPETAMINE

12.1. Pank lõpetatakse:

(1) Panga aktsionäride üldkoosoleku otsuse alusel (vabatahtlik lõpetamine), milleks tuleb taotleda Finantsinspektsioonilt luba;

(2) kohtumääruse või- otsusega;

(3) kui Panga tegevusluba on Finantsinspektsiooni poolt kehtetuks tunnistatud või lõppenud;

(4) maksejõuetuse korral vastavalt seadusele.

12.2. Panga tegevuse vabatahtliku lõpetamise otsustab üldkoosolek.

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Juhatuse liige

Panga põhikiri on kinnitatud 2019 vastu võetud aktsionäride üldkoosoleku otsusega.

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Juhatuse liige