

Inbank AS consolidated annual report 2018

Inbank AS general information

Business name	Inbank AS	Members of the Supervisory Board	Members of the Management Board
Address	Niine 11, 10414 Tallinn		
Registration date	05.10.2010		
Registry code	12001988 (Commercial Register of the Republic of Estonia)	Priit Põldoja, Chairman of the Supervisory Board	Jan Andresoo, Chairman of the Management Board
Legal entity identifier	2138005M92IEIQVEL297 (LEI code)	Roberto De Silvestri	Liina Sadrak
VAT number	EE101400240	Triinu Reinold	Marko Varik
Telephone	+372 640 8080	Raino Paron	Piret Paulus
E-mail	info@inbank.ee	Rain Rannu	Ivar Kallast
Website	www.inbank.ee		
Balance sheet date of report	31 December 2018		
Reporting period	01.01.2018-31.12.2018		

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.

Table of contents

Facts and figures.....	4	Note 12 Finance lease	97
Statement of the Chairman of Supervisory Board	7	Note 13 Business combinations	98
Management report	10	Note 14 Shares of associates	99
Values of Inbank through the eyes of its employees	17	Note 15 Intangible assets	100
Economic environment.....	20	Note 16 Other assets.....	101
Overview of financial results	24	Note 17 Loans from credit institution.....	102
Risk overview	26	Note 18 Customer deposits.....	103
Overview of Inbank in 2018	33	Note 19 Debt securities	104
Governance.....	38	Note 20 Subordinated debt securities.....	105
Corporate Governance report.....	40	Note 21 Other liabilities.....	106
Consolidated financial statements	44	Note 22 Contingent liabilities	107
Consolidated statement of financial position.....	44	Note 23 Basic and diluted earnings per share.....	108
Consolidated statement of profit and loss and other comprehensive income	45	Note 24 Share capital	109
Consolidated statement of cash flows	46	Note 25 Share-based payments	110
Consolidated statement of changes in equity	47	Note 26 Reserves	111
Note 1 Summary of significant accounting policies.....	48	Note 27 Fair value of financial assets and liabilities.....	112
Note 2 Significant accounting estimates.....	64	Note 28 Related parties	113
Note 3 Risk management.....	65	Note 29 Events after the balance sheet date	114
Note 4 Business segments	84	Note 30 Parent company's separate statement of financial position.....	115
Note 5 Net interest income.....	88	Note 31 Parent company's separate statement of profit and loss and comprehensive income.....	116
Note 6 Net fee income	89	Note 32 Parent company's separate condensed statement of cash flows	117
Note 7 Operating expenses	90	Note 33 Parent company's separate statement of changes in equity.....	118
Note 8 Operating lease	91	Signatures of the management board to the consolidated annual report.....	119
Note 9 Loans and advances to customers	92	Independent auditor's report	120
Note 10 Income tax	93	Profit allocation proposal	126
Note 11 Due from central banks and credit institutions	96		

Facts and figures

People

Offices and Number of Employees



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%

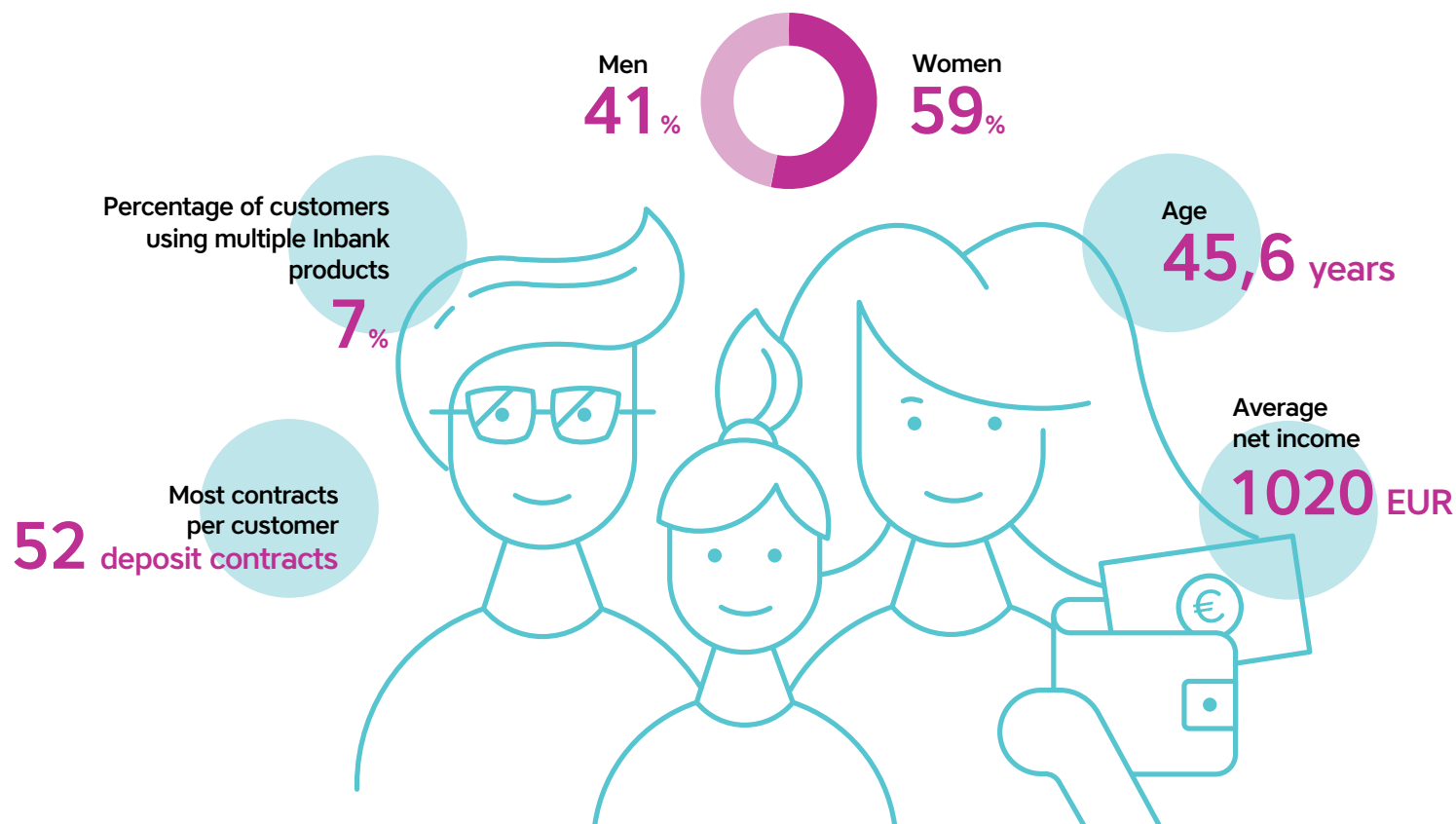
Share of private person
term deposit market in
Estonia

25%

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

Clients

Average customer of Inbank in Estonia



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

Open organisation

Transactions with Inbank Bonds

85

amounting to **408 476** EUR

Stock exchange announcements published

19

Reports to the European Central Bank

841 p

Key financial indicators

EURt

Key financial indicators	12 months 2018	12 months 2017
Total assets	318 044	125 981
Total equity attributable to shareholders of the parent	36 425	22 020
Total comprehensive income attributable to owners of the parent	9 335	7 458
Loan portfolio	225 639	92 895
Deposit portfolio	240 175	95 056

152,5%

65,4%

25,2%

142,9%

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

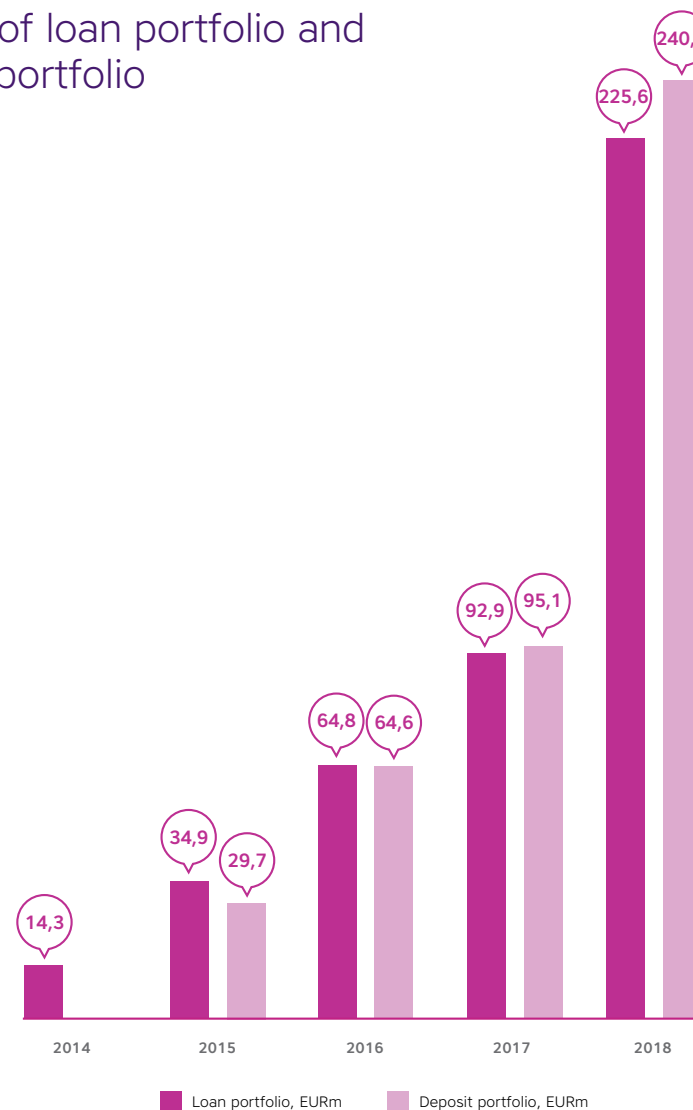
Net interest margin: net interest income / interest-bearing assets (average over the period) annualised

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 breakeven 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

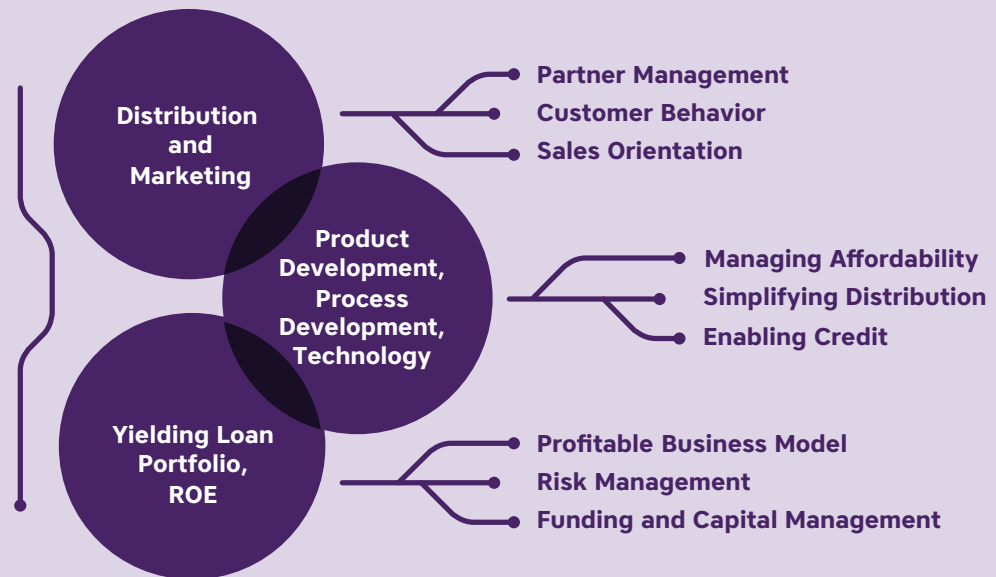
and maintained an excellent ROE of 31,9%. For the first time in the history of Inbank we are able to meet our growth expectations without a need to issue new equity capital. Our business model is working operationally and financially. 2019 will be an exciting and challenging year. We will continue investing 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.

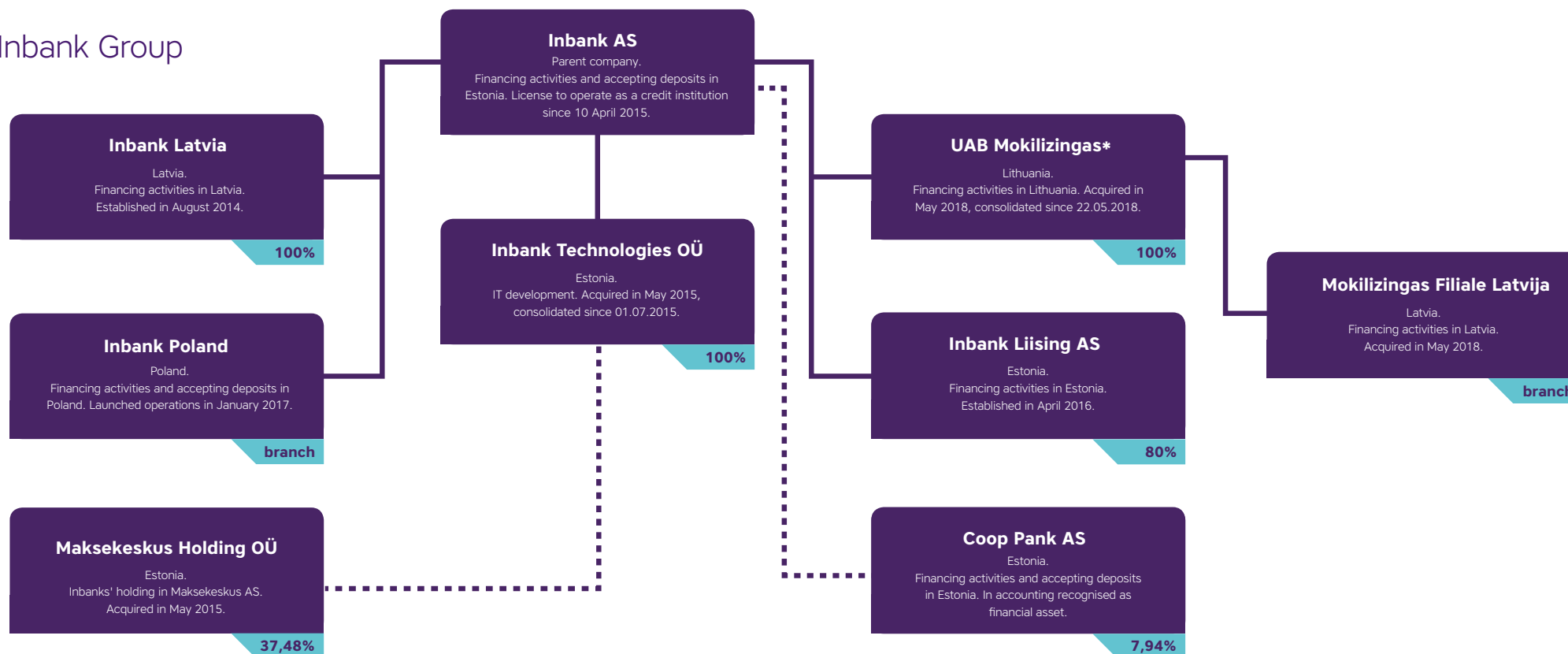
Key events

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 we 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.

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.

<i>Name of shareholder</i>	<i>Ownership interest (%)</i>
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%

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 develop 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

Growth of partner-based business in the Polish market and significant increase of the share of the international portfolio.

Stable growth of business volumes and profitability in Estonia.

Exporting of Inbanks' business model: successful implementation of common technology, business and product development processes.

Strengthening of the international organisation and bringing the values of Inbank throughout the Group.

Evaluation of fulfilment of priorities

→ 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.

→ 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.

→ 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.

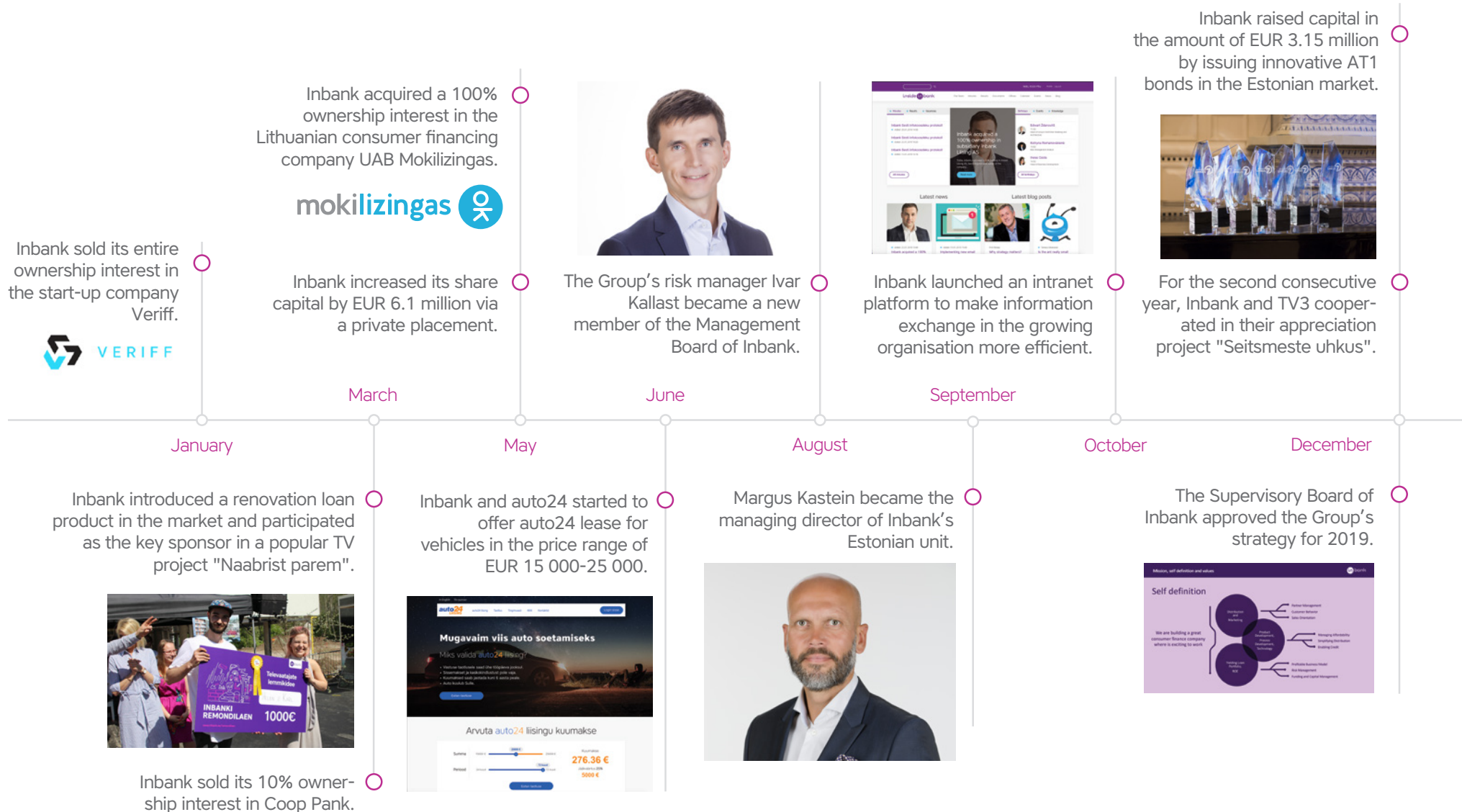
→ We implemented a new organisational model where the central units include business development, risk, finance and IT. In addition, we established the Estonian unit of Inbank.

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



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

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

Tomas Zilinskas

*Regional Sales Manager,
Mokilizingas*



Smart

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

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 Ždanovičs

*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

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 ideas, 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*



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

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*

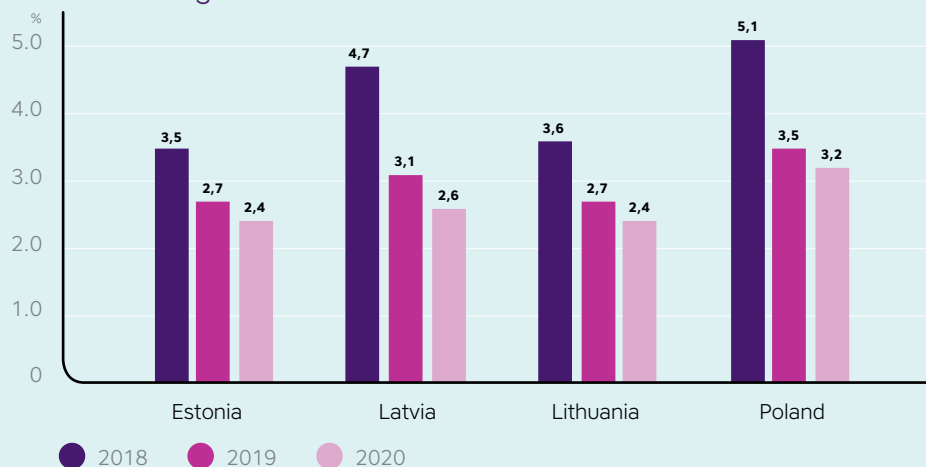
For me, openness means that people can share their ideas with the others despite the hierarchy. In addition it means that the management board treats us like equals, sharing information about its plans and directions where our company is moving.

Julius Kviecinskas

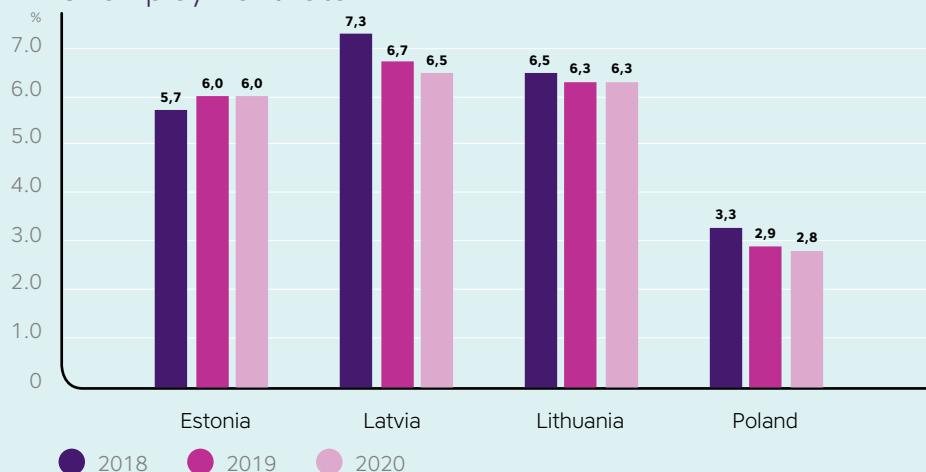
Data Analyst, Mokilizingas

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 con-

sumption. 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).

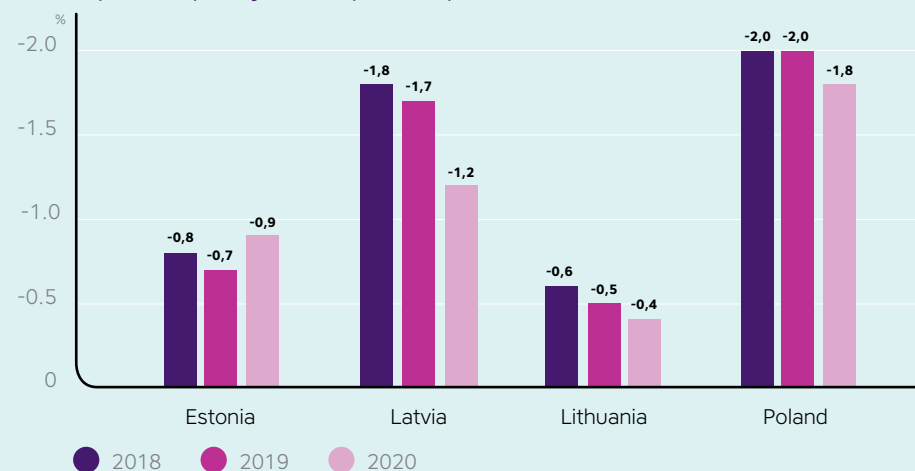
Lithuania

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.

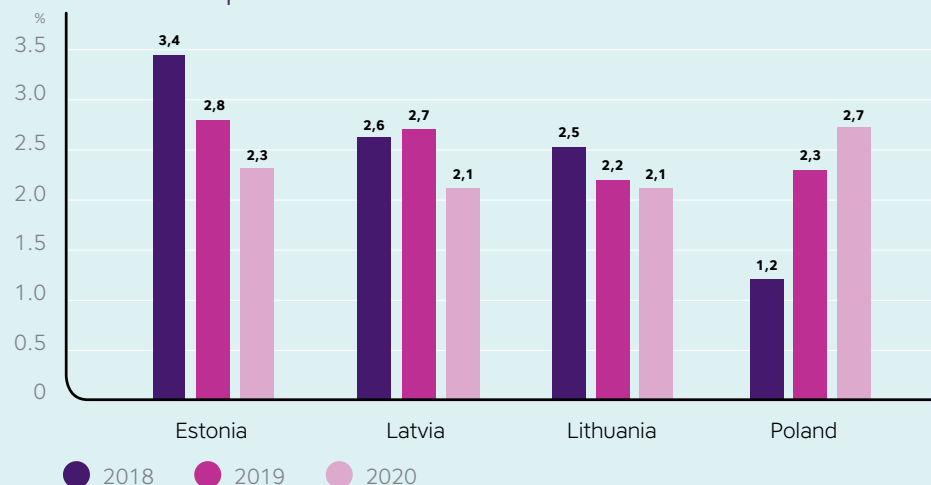
Private consumption will be aided by low unemployment, high employment and rapid salary growth which are characteristic of Lithuania. In 2019, a new income and social tax system was enacted in Lithuania, leading to major changes in tax accounting, but the final impact for people will not be that significant. 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 cyclicalities. Lithuania's state debt is modest as compared to the average level in the European Union (35% of GDP) and a major increase is not expected in the upcoming years.

Poland

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

will be accompanied by strong salary growth.

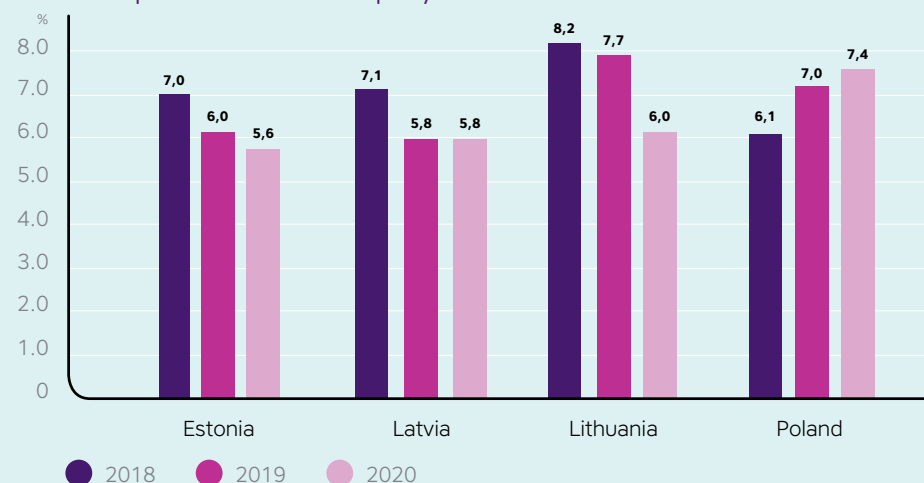
Poland's labour shortage has so far been alleviated by a large-scale inflow of migrant workers from Ukraine. This year and in the upcoming years, the Ukrainian labour will no longer be an easy solution for Poland, because the other Visegrad countries and Germany have made it easier for their companies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

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

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

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

Compensation of employees *



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

The Polish public finance situation is in a relatively good state due to low unemployment and rapid wage growth (but also due to improvement of tax collection besides labour

taxes). Poland's cyclical budgetary deficit equals about two per cent of the GDP. The state debt is also low in comparison with the other European Union countries (49% of GDP) and it has been declining over the last years.

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

Summary

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

Last year and in the year before last all governments used miscellaneous measures to reduce poverty and inequality. In the upcoming years, this trend may subside when the economic growth of the European Union decelerates, leaving a mark on the economic growth of the Baltic States

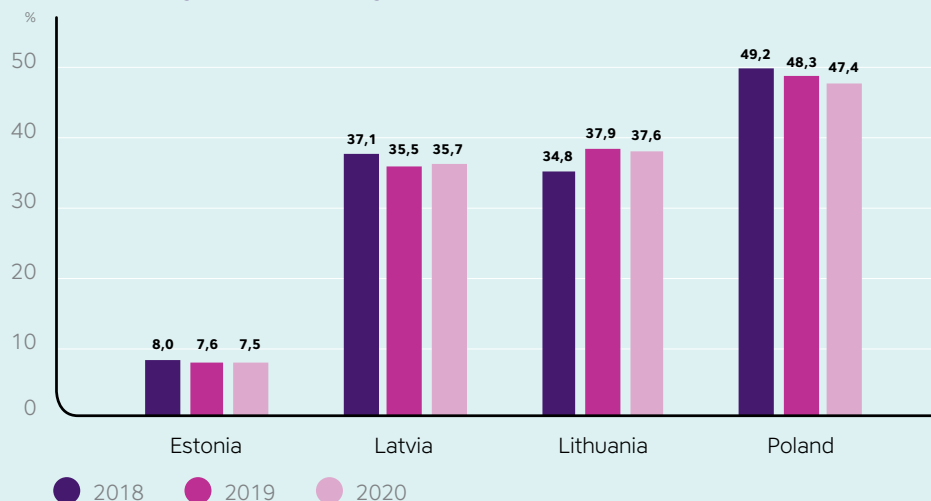
and Poland as is forecasted. In state budgets, it is more difficult to find resources for such policies.

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

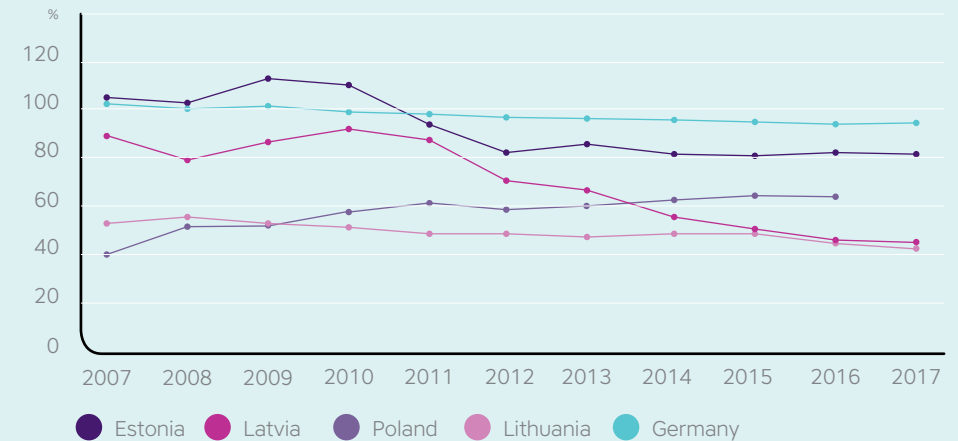
Villu Zirnask

Economics journalist and analyst

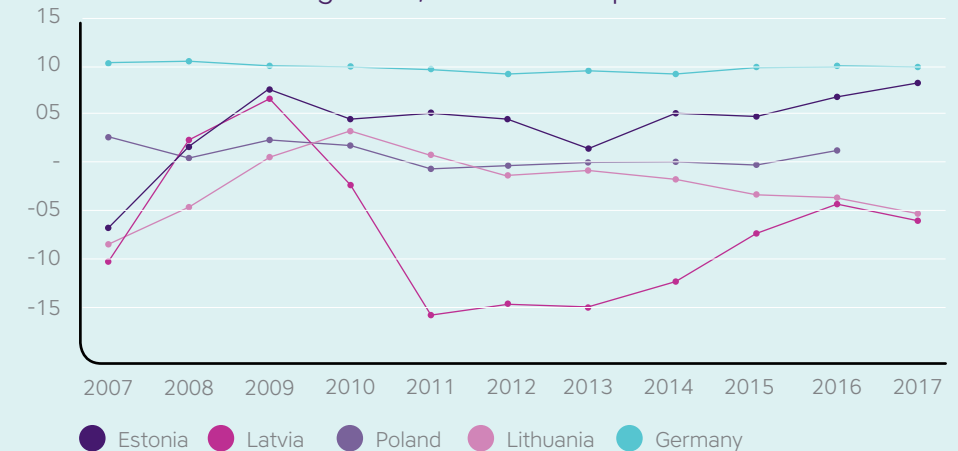
General government gross debt, % of GDP*



Household debt, % of net disposable income**



Household savings rate, % of net disposable income**



* Source: European Commission forecasts

** Source: OECD



Overview of financial results

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

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

in the amount of EUR 1.34 million during the seven-month period.

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

The comprehensive income from regular operations exceeded the expectations of the Management Board in 2018, primarily with regard to impairment losses of loans. Although the credit portfolio increa-

sed 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 expecta-

tions 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 commission 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 extraordinarily 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 port-

folio 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.

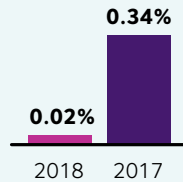
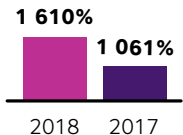
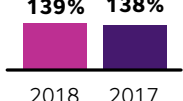
The bank's capital ratios are good. The Management Board estimates that the level of capital-related risk at the end of 2018 is average. The amount of equity has increased from EUR 22 million to EUR 36 million. We are able to finance growth through earned

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 <p>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.).</p> <p>Within credit risk, the Group also includes concentration risk, country risk and foreign currency lending risk.</p>	<ul style="list-style-type: none">• 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:<ul style="list-style-type: none">• 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.	<table><tr><th colspan="2">Share of portfolio in 90+ days overdue</th></tr><tr><th>2018</th><th>2017</th></tr><tr><td>0.9%</td><td>1.1%</td></tr></table> <table><tr><th colspan="2">Impairment allowance to loan portfolio</th></tr><tr><th>2018</th><th>2017</th></tr><tr><td>1.7%</td><td>4.5%</td></tr></table>	Share of portfolio in 90+ days overdue		2018	2017	0.9%	1.1%	Impairment allowance to loan portfolio		2018	2017	1.7%	4.5%	<p>The credit risk position has improved and is in line with the defined risk appetite.</p> <p>We will continue investing in credit decision making and credit quality monitoring systems.</p>										
Share of portfolio in 90+ days overdue																									
2018	2017																								
0.9%	1.1%																								
Impairment allowance to loan portfolio																									
2018	2017																								
1.7%	4.5%																								
Market risk <p>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.</p> <p>Market risks arise from the Group's core business, taking market risk is not the main activity of the Group.</p> <p>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.</p> <p>The Group has a conservative market risk strategy.</p>	<ul style="list-style-type: none">• 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:<ul style="list-style-type: none">• 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.	<table><tr><th colspan="2">Open net foreign currency position (% of net own funds)</th></tr><tr><th>2018</th><th>2017</th></tr><tr><td>0.59%</td><td>0.60%</td></tr></table> <table><tr><th colspan="2">Impact of interest rate change on net interest income (% of net own funds)</th></tr><tr><th>2018</th><th>2017</th></tr><tr><td>+200 basis points</td><td>0.17%</td></tr><tr><td>-200 basis points</td><td>-1.39%</td></tr></table> <table><tr><th colspan="2">Impact of the change in interest rate on the economic value of equity (% of net own funds)</th></tr><tr><th>2018</th><th>2017</th></tr><tr><td>+200 basis points</td><td>-0.30%</td></tr><tr><td>-200 basis points</td><td>1.28%</td></tr></table>	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%	-200 basis points	-1.39%	Impact of the change in interest rate on the economic value of equity (% of net own funds)		2018	2017	+200 basis points	-0.30%	-200 basis points	1.28%	<p>The market risk position remained stable and the actual risk profile was below average.</p> <p>The interest rate risk position remains within safe limits. We will continue to maintain a stable and balanced risk profile.</p> <p>The systems and calculations of interest rate risk management have been improved significantly to meet changing legal requirements.</p>
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%																								
-200 basis points	-1.39%																								
Impact of the change in interest rate on the economic value of equity (% of net own funds)																									
2018	2017																								
+200 basis points	-0.30%																								
-200 basis points	1.28%																								

Risks	Main hedging activities	Risk factors	Situation												
<p>Operational risk</p> <p>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.</p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none">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.	<p>Operating loss as % of net own funds</p>  <table><tr><th>Year</th><th>Operating loss as % of net own funds</th></tr><tr><td>2018</td><td>0.02%</td></tr><tr><td>2017</td><td>0.34%</td></tr></table>	Year	Operating loss as % of net own funds	2018	0.02%	2017	0.34%	<p>Operational risk losses have remained stable and low.</p> <p>We will continue investing in our activities and ICT infrastructure.</p>						
Year	Operating loss as % of net own funds														
2018	0.02%														
2017	0.34%														
<p>Liquidity risk</p> <p>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.</p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none">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:<ul style="list-style-type: none">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.	<p>Regulatory liquidity ratios</p> <p>Liquidity coverage ratio</p>  <table><tr><th>Year</th><th>Liquidity coverage ratio</th></tr><tr><td>2018</td><td>1 610%</td></tr><tr><td>2017</td><td>1 061%</td></tr></table> <p>Net stable funding ratio</p>  <table><tr><th>Year</th><th>Net stable funding ratio</th></tr><tr><td>2018</td><td>139%</td></tr><tr><td>2017</td><td>138%</td></tr></table>	Year	Liquidity coverage ratio	2018	1 610%	2017	1 061%	Year	Net stable funding ratio	2018	139%	2017	138%	<p>Our liquidity and funding position have remained stable and actual risk profile is below average.</p> <p>We will continue to make our financial position more reliable through diversifying sources of funding and management of liquidity.</p>
Year	Liquidity coverage ratio														
2018	1 610%														
2017	1 061%														
Year	Net stable funding ratio														
2018	139%														
2017	138%														

Risks	Main hedging activities	Risk factors	Situation															
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.	<ul style="list-style-type: none">• The Management Board focuses on ensuring that business development and planning would conform to risk appetite.• Strategic risk and reputational risk are analyzed as part of strategic planning.• Mitigation and management of strategic risk covers comprehensive planning process as well as reacting to changes in adequate and timely manner.• The Group's strategy to manage reputational risk is to avoid exposure and situations that could have a negative impact on reputation and thereby lead to decrease of revenue or loss of confidence.• The basis for managing reputational risk is the principle that reputation is an important asset, its development starts with customer service and public opinion is important for the Group.																	
Capital risk Capital risk is the risk that the Group's capital adequacy or quality is below the optimum level. Excessive leverage risk is risk that is caused by too rapid increase of liabilities by the institution (amount of financial leverage).	<ul style="list-style-type: none">• 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.	<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>	Regulatory capital ratios	2018	2017	Common Equity Tier 1 (CET 1) capital ratio	11.12%	12.75%	Tier 1 capital ratio	12.62%	12.75%	Total capital ratio	15.73%	19.86%	Leverage ratio	8.51%	9.94%	<p>Our total capital and leverage ratios are stable and conservative.</p> <p>We will continue to hold a high quality capital base, which exceeds the regulatory requirements.</p>
Regulatory capital ratios	2018	2017																
Common Equity Tier 1 (CET 1) capital ratio	11.12%	12.75%																
Tier 1 capital ratio	12.62%	12.75%																
Total capital ratio	15.73%	19.86%																
Leverage ratio	8.51%	9.94%																

Capital adequacy

<i>EURt</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
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:

	<i>Common Equity Tier 1 capital ratio</i>	<i>Tier 1 capital ratio</i>	<i>Total capital ratio</i>
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

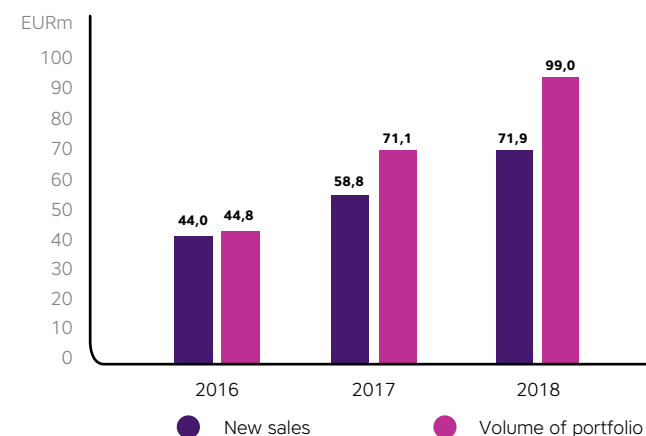
loan and auto24 leasing increased by 53% in annual comparison.

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.

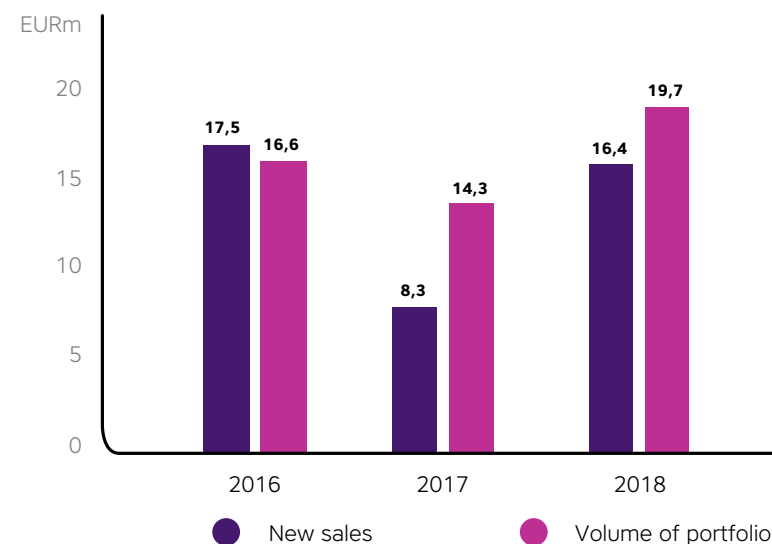
In 2018, we changed the name of Inbank Lizings to Inbank Latvia, which was one of the strategic decisions to change the brand identity and positioning in the market.

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

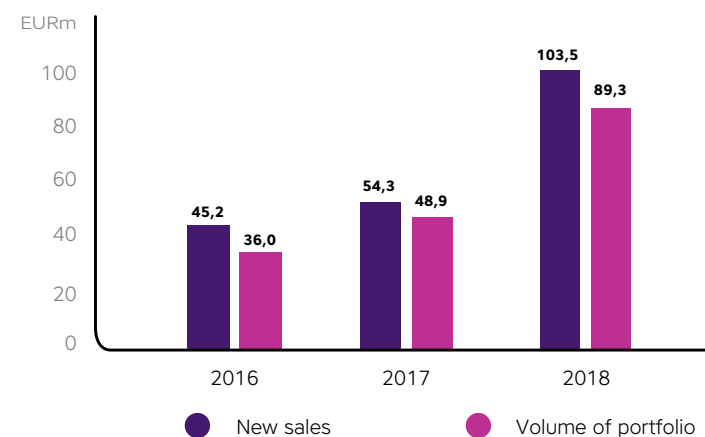
us to improve risk parameters and keep the expected growth rate.

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%



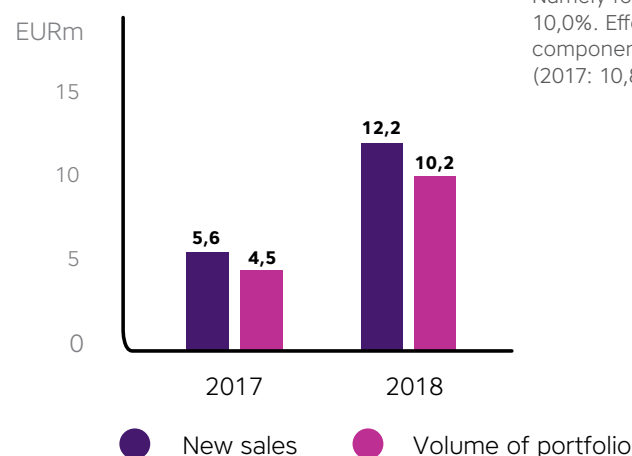
Poland

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



<i>EURt</i>	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			
<i>Raising of deposits</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
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			
<i>Raising of deposits</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
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.

<i>Member of the Management Board</i>	<i>Number of shares</i>		<i>Issued share options</i>
	<i>Belonging to the member</i>	<i>Belonging to related party</i>	
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.

<i>Member of the Supervisory Board</i>	<i>Number of shares</i>		<i>Issued share options</i>
	<i>Belonging to the member</i>	<i>Belonging to related party</i>	
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

<i>EURt</i>	<i>Note</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
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

<i>EURt</i>	<i>Note</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
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			
<i>Items that may be reclassified subsequently to profit or loss</i>			
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

<i>EURt</i>	<i>Note</i>	<i>2018</i>	<i>2017</i>
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

<i>EURt</i>	<i>Note</i>	<i>2018</i>	<i>2017</i>
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

	<i>Note</i>	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve capital</i>	<i>Other reserves</i>	<i>Retained earnings/ accumulated loss</i>	<i>Total attributable to owners of the parent</i>	<i>Non-controlling interest</i>	<i>Total equity</i>
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.

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

<i>Company Name</i>	<i>Registry code</i>	<i>Date of purchase/founded</i>	<i>Address</i>	<i>Activity</i>	<i>Holding (%)</i>	<i>Cost EURt</i>
Maksekeskus Holding OÜ*	12257075	05.06.2015	Niine 11, Tallinn	Investment management	37,48	97
Inbank Latvia SIA**	40103821436	21.08.2014	Akmene 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.

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 conso-

liquidation 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 recogni-

tion 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 judge-

ment, 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 con-

tract 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. Restructured 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 capi-

tal. 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 ser-

vice 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 institu-

tions 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	Reclassi- fication	Remeasure- ment	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 amend-

ments 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 mea-

surements used by that investment entity associate or joint venture when applying the equity method. Implementation 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 disclo-

sure 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



● High
 ● Above average
 ● Average
 ● Below average
 ○ Low

- 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-

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

larly monitored.

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

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

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

- Loan portfolio diversification. According to the current product strategy, the maximum risk limit of retail product per customer that is provided by the Group is 40 000 EUR.
- Low average loan amount. As at 31.12.2018, the Group's average contractual product balance of the Group's retail product together with

the Lithuanian subsidiary UAB Moki-lizingas is 511 EUR and 1 315 EUR without the Lithuanian subsidiary (as at 31.12.2017: 1 154 EUR).

- Continuous monitoring of the quality of the loan portfolio both on the operational level as well as the level of the Management and Supervisory Boards.

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

**Geographical distribution of assets
31.12.2018 (EURt)**

	<i>Estonia</i>	<i>Latvia</i>	<i>Lithuania</i>	<i>Poland</i>	<i>Total</i>
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)**

	<i>Estonia</i>	<i>Latvia</i>	<i>Poland</i>	<i>Total</i>
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

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

See also Note 9.

Receivables from central banks and credit institutions

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

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

As at 31.12.2017 and 31.12.2018, the Group's receivables from central banks and credit institutions are not overdue, these receivables are either on demand or have a 3 month maturity

date. Taking this into account, the expected credit loss on the receivables from central banks and credit institutions is immaterial and therefore no allowances for them have been recorded on the balance sheet.

Receivables from households

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

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

In May 2018, the Group entered the Lithuanian market by acquiring UAB

Mokilizingas, one of Lithuania's largest hire purchase providers. In addition to the hire purchase, the product range also includes consumer loans and credit cards.

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

<i>Receivables from credit institutions according to Moody's short-term credit rating classes (EURt)</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
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

<i>Distribution of receivables 31.12.2018 (EURt)</i>	<i>Estonia</i>	<i>Latvia</i>	<i>Lithuania</i>	<i>Poland</i>	<i>Total</i>
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

<i>Distribution of receivables 31.12.2017 (EURt)</i>	<i>Estonia</i>	<i>Latvia</i>	<i>Lithuania</i>	<i>Poland</i>	<i>Total</i>
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 receivab-

les, 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.

<i>Distribution of receivables 31.12.2018 (EURt)</i>	<i>Gross receivables from households</i>	<i>Stage 1 and 2</i>	<i>Stage 3</i>	<i>Net receivables from households</i>	<i>Allowance coverage</i>
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%

<i>Distribution of receivables 31.12.2017 (EURt)</i>	<i>Gross receivables from households</i>	<i>Collective allowance</i>	<i>Specific allowance</i>	<i>Net receivables from households</i>	<i>Allowance coverage</i>
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.

<i>Distribution of receivables 31.12.2018 (EURt)</i>	<i>Gross receivables from corporates</i>	<i>Stage 1 and 2</i>	<i>Stage 3</i>	<i>Net receivables from corporates</i>	<i>Allowance coverage</i>
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%

<i>Distribution of receivables 31.12.2017 (EURt)</i>	<i>Gross receivables from corporates</i>	<i>Collective allowance</i>	<i>Specific allowance</i>	<i>Net receivables from corporates</i>	<i>Allowance coverage</i>
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

Credit risk exposure - Financial instruments subject to impairment

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

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.

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

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
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
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
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:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
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

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
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 unlikelihood 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“.

<i>EURt</i>	<i>Impact on expected credit loss</i>
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 determining 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 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 Liability 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

<i>Assets exposed to foreign currency risk 31.12.2018 (EURt)</i>	<i>EUR</i>	<i>PLN</i>
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

<i>Liabilities exposed to foreign currency risk 31.12.2018 (EURt)</i>	<i>EUR</i>	<i>PLN</i>
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

<i>Assets exposed to foreign currency risk 31.12.2017 (EURt)</i>	<i>EUR</i>	<i>PLN</i>
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

<i>Liabilities exposed to foreign currency risk 31.12.2017 (EURt)</i>	<i>EUR</i>	<i>PLN</i>
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

<i>EURt</i>	<i>2018</i>	<i>2017</i>
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

<i>EURt</i>	<i>2018</i>	<i>2017</i>
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

<i>EURt</i>	<i>2018</i>	<i>2017</i>
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

	<i>2018</i>	<i>2017</i>
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

<i>EURt</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
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

<i>EURt</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
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

<i>EURt</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
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

<i>EURt</i>	<i>2018</i>					<i>2017</i>			
<i>Income tax</i>	<i>Estonia</i>	<i>Latvia</i>	<i>Poland</i>	<i>Lithuania</i>	<i>Total</i>	<i>Estonia</i>	<i>Latvia</i>	<i>Poland</i>	<i>Total</i>
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.

<i>EURt</i>	<i>2018</i>					<i>2017</i>			
<i>Income tax assets</i>	<i>Estonia</i>	<i>Latvia</i>	<i>Poland</i>	<i>Lithuania</i>	<i>Total</i>	<i>Estonia</i>	<i>Latvia</i>	<i>Poland</i>	<i>Total</i>
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

<i>Net and gross investments on finance leases according to the remaining maturity</i>	<i>Gross investment</i>	<i>Unearned future interest periods</i>	<i>Allowance</i>	<i>Principal payments for future periods</i>
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 interests 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

<i>EURt</i>	<i>Note</i>	<i>Licences</i>	<i>Software</i>	<i>Goodwill</i>	<i>Total</i>
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:

<i>EURt</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
Business segment		
Estonia	238	238
Lithuania	5 919	0

<i>EURt</i>	<i>Note</i>	<i>Licences</i>	<i>Software</i>	<i>Goodwill</i>	<i>Total</i>
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

<i>EURt</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
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

<i>EURt</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
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

<i>EURt</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
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		
<i>31.12.2018</i>	<i>31.12.2017</i>	
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

<i>EURt</i>	<i>2018</i>
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.

<i>Nominal value</i>	<i>Amount</i>	<i>Maturity</i>
250 000	40	14.03.2019

The investment has been made by Swedbank Investment Funds' pension funds via a private placement.
 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

<i>Subordinated debt securities</i>	<i>Nominal price</i>	<i>Amount</i>	<i>Interest rate</i>	<i>Maturity</i>
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

<i>EURt</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
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.

	<i>No of shares</i>	<i>Unit subscription price</i>	<i>Option issuing year</i>	<i>The year in which the right to realize the option arises</i>	<i>Number of people to whom the option was issued</i>
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

<i>EURt</i>	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

<i>EURt</i>	<i>31.12.2018</i>			<i>31.12.2017</i>		
<i>Assets</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Level</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Level</i>
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	

<i>EURt</i>	<i>31.12.2018</i>			<i>31.12.2017</i>		
<i>Liabilities</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Level</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Level</i>
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

<i>EURt</i>	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

<i>EURt</i>		
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

<i>EURt</i>		
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

<i>EURt</i>	<i>Note</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
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

<i>EURt</i>	<i>Note</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
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

<i>EURt</i>	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

<i>EURt</i>	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		
<i>Items that may be reclassified subsequently to profit or loss</i>		
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

<i>EURt</i>	<i>Note</i>	<i>2018</i>	<i>2017</i>
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

<i>EURt</i>	<i>Note</i>	<i>2018</i>	<i>2017</i>
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

<i>EURt</i>	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve capital</i>	<i>Other reserves</i>	<i>Retained earnings /accumulated loss</i>	<i>Total equity</i>
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

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

Signatures of the management board to the consolidated annual report

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

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

Jan Andresoo
Chairman of the
Management Board
/digitally signed/

Liina Sadrak
Member of the
Management Board
/digitally signed/

Marko Varik
Member of the
Management Board
/digitally signed/

Piret Paulus
Member of the
Management Board
/digitally signed/

Ivar Kallast
Member of the
Management Board
/digitally signed/

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
<p>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).</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>We focused on this area because management uses complex models with subjective inputs to assess the timing and the amount of expected credit losses.</p>	<p>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).</p> <p>We assessed the design and operating effectiveness of the controls over expected credit loss data and calculations.</p> <p>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).</p> <p>We performed detailed audit procedures in the following areas:</p> <ul style="list-style-type: none"> • 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). <p>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.</p> <p>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.</p>

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.

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 state-

ments, 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.

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 deter-

mine 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.



Inbank AS

Niine 11, 10414 Tallinn

info@inbank.ee

+372 640 8080

www.inbank.ee
