Risk Management and Capital Adequacy Report

Pillar III 2019

Inbank AS

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1. Introduction

This document presents the consolidated Risk Management and Capital Adequacy Report 2019 (Pillar III report) of Inbank AS as of 31 December 2019, if not otherwise stated.

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

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

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

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

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

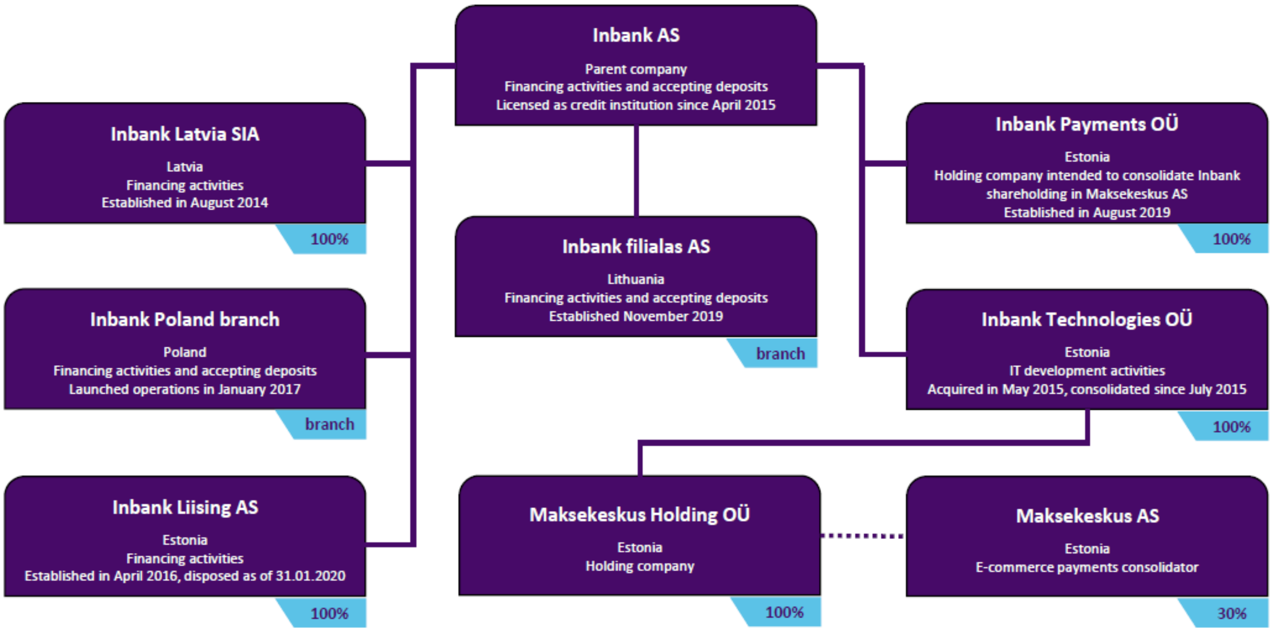
Pillar III disclosure framework seeks to promote market discipline through regulatory disclosure requirements. Pursuant to Part Eight of the CRR, Inbank is required to publicly disclose information regarding, amongst others, its risk profile, risk management and capital adequacy. The disclosure is made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

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

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

2. Scope of consolidation

As an EU parent institution, Inbank AS is required to publish a consolidated Pillar III report. Inbank reports its prudent requirements on a consolidated basis together with its subsidiaries (Inbank). The legal structure of Inbank as of 31 December 2019 is shown in the figure below.



Organisational structure of Inbank

Inbank AS is a registered credit institution under the supervision of the Estonian Financial Supervision Authority (Finantsinspektsioon).

In Table 1, the disclosures within this Pillar III report and Annual Report are linked to the respective provisions of Part Eight CRR.

Disclosure requirement with reference to CRR Article	Primary location in our Annual Report	Primary location in our Pillar 3 report
Article 435. Risk management objectives and policies	pp.28-32, 50-63	pp. 4-5, 8-20
Article 436. Scope of application	pp. 39-40	p. 3
Article 437. Own funds	pp. 62-63	pp. 5-7, 21-25
Article 438. Capital requirements		p. 7
Article 439. Exposure to counterparty credit risk		p. 14
Article 440. Capital buffers	p. 62	p. 26
Article 441. Indicators of global systemic importance	N/A	N/A
Article 442. Credit risk adjustments	pp. 42-44, 50, 54-59	
Article 443. Unencumbered assets		pp. 27-28
Article 444. Use of ECAIs		pp. 14-15
Article 445. Exposure to market risk	pp. 59-60	pp. 15-17
Article 446. Operational risk	p. 60	p. 19
Article 447. Exposures in equities not included in the trading book	p. 74	
Article 448. Exposure to interest rate risk on positions not included in the trading book	pp. 59-60	pp. 15-16
Article 449. Exposure to securitisation positions	N/A	N/A
Article 450. Remuneration policy	pp. 29-32, 68, 80, 84	
Article 451. Leverage		pp. 7, 29-30
Article 452. Use of the IRB Approach to credit risk	N/A	N/A
Article 453. Use of credit risk mitigation techniques	N/A	N/A
Article 454. Use of the Advanced Measurement Approaches to operational risk	N/A	N/A
Article 455. Use of Internal Market Risk Models	N/A	N/A
Article 473a. Introduction of IFRS 9		p. 31

Table 1. Disclosure requirements with reference to CRR Article

3. Risk Management

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

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

Principles of risk management

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

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

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

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

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

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

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

Risk management structure

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

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

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

4. Capital adequacy and leverage ratio

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

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

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

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

In addition to the capital required by Pillar I and Pillar II, Inbank is required to maintain a capital conservation buffer of 2.5% of the total risk exposure, a countercyclical capital buffer of 0.29% as well as systemic risk buffer of 0.44%. For more information regarding Inbank's countercyclical buffer requirements, see Appendix 5.

In thousands of euros	31.12.2019	31.12.2018
Common Equity Tier 1: instruments and reserves		
Capital instruments and the related share premium accounts	16,811	15,926
of which: share capital	903	874
Retained earnings	25,514	13,641
Accumulated other comprehensive income (and other reserves)	1,551	1,446
Common Equity Tier 1 (CET1) capital before regulatory adjustments	43,876	31,013
Common Equity Tier 1: regulatory adjustments		
Intangible assets	-11,721	-7,697
Adjustments due to IFRS 9 transitional arrangements	4,354	2,308
Additional value adjustments	-60	-2,365
Total regulatory adjustments to Common Equity Tier 1 capital	-7,427	-7,754
Common Equity Tier 1 (CET1) capital	36,449	23,259
Tier 1 capital		
Additional Tier 1 (AT1) capital	3,150	3,150
Tier 1 capital (T1 = CET1 + AT1)	39,599	26,409
Total capital		
Tier 2 (T2) capital	14,503	6,503
Total capital (TC = T1 + T2)	54,102	32,912
Total risk exposure amount	318,541	209,209
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of total risk exposure amount)	11.44%	11.12%
Tier 1 (as a percentage of total risk exposure amount)	12.43%	12.62%
Total capital (as a percentage of total risk exposure amount)	16.98%	15.73%
Institution-specific buffer requirement (as a percentage of total risk exposure amount)	3.23%	3.13%
of which: capital conservation buffer requirement	2.50%	2.50%
of which: countercyclical buffer requirement	0.29%	0.15%
of which: systemic risk buffer	0.44%	0.48%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.94%	6.62%

Table 2. Capital base for own funds calculation

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

In addition to the risk-sensitive capital measures discussed above, Inbank regularly monitors its leverage ratio, i.e. capitalisation in relation to total assets, and off-balance sheet commitments. However, Inbank's business model results in a well-capitalised balance sheet, where excessive debt in relation to capital does not constitute a significant risk. Table 3 shows Inbank's leverage ratio in 2019 and 2018, with further information available in Appendix 7.

In thousands of euros	31.12.2019	31.12.2018
Risk exposure amount		
Credit risk according to standardised method	278,455	183,561
Market risk according to standardised method	0	0
Operational risk according to basic indicator approach	40,086	25,648
Total risk exposure amount	318,541	209,209
Exposure amount for credit risk according to standardised method		
Institutional exposure	4,471	3,401
Corporate exposure	6,466	1,706
Retail exposure	245,451	167,208
Exposures in default	3,968	3,297
Items associated with particular high risk	0	3,497
Equity exposure	8,039	0
Other items	10,060	4,452
Total credit risk according to standardised method	278,455	183,561
Market risk exposure amounts according to standardised method		
Foreign exchange risk	0	0
Total market risk according to standardised method	0	0
Minimum capital requirement		
Credit risk according to standardised method	22,276	14,685
Market risk according to standardised method	0	0
Operational risk according to basic indicator approach	3,207	2,052
Total minimum capital requirement	25,483	16,737
Leverage ratio		
Tier 1 capital	39,598	26,410
Total leverage ratio exposure	450,534	310,293
Leverage ratio	8.79%	8.51%

Table 3. Risk exposure amounts and capital requirement

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

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

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

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

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

5. Individual risk categories

5.1. Credit risk

Credit risk reflects the potential loss, which arises from the counterparty's inability or unwillingness to meet its contractual obligations towards Inbank. Credit risk arises primarily from the receivables to households and for lesser extent from the receivables to corporates and credit institutions. The geographical distribution of all receivables is shown in Table 4. Inbank issues loans in four countries: Estonia, Latvia, Lithuania and Poland.

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

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

Table 4. Geographical breakdown of receivables

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

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

- loans issued with below average contract maturity;
- loans issued with significantly below average contract amount;
- well diversified portfolio and limited risk exposures;
- the optimal risk-reward ratio for lending;
- taking controlled risks and continuous monitoring of those risks;
- regular stress-testing and scenario analysis.

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

- Loan portfolio diversification: According to the current product strategy, the maximum risk limit of retail product per customer that is provided by Inbank is EUR 30,000.

- Low average loan amount. As at 31.12.2019, Inbank's average contractual product balance of Inbank's retail product is 552 EUR (as at 31.12.2018: 511 EUR).
- Continuous monitoring of the quality of the loan portfolio both on the operational level as well as the level of the Management and Supervisory Boards.

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

Distribution of Receivables

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

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

Receivables from households

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

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

Most of the household receivables are classified as retail receivables. However, Inbank has also provided small volume of loans to households which are treated as non-retail receivables. Table 5 shows a product breakdown of all household receivables and Table 6 illustrates Inbank's overdue portfolio for household receivables.

In thousands of euros	31.12.2019	31.12.2018
Sales finance	140,080	98,402
Car financing	97,150	58,879
Personal loan	87,586	58,771
Total volume of household portfolio	324,816	216,052

Table 5. Household portfolio by product groups

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

In thousands of euros 31.12.2018	Gross receivables	Stage 1	Stage 2	Stage 3	Net receivables	Impairment coverage
Distribution of receivables						
0-3 days	195,675	-1,432	-18	-51	194,174	0.8%
4-30 days	15,212	-641	-4	-32	14,535	4.5%
31-89 days	6,231	-5	-829	-47	5,350	14.1%
90-179 days	1,525	0	0	-608	917	39.9%
180+ days	2,948	0	0	-1,870	1,078	63.4%
Total receivables	221,591	-2,078	-851	-2,608	216,054	2.5%

Table 6. Distribution of household receivables by overdue days

Receivables from non-financial and financial corporates

Inbank has issued small volume of loans to corporates which are primarily hedged with various collaterals. The Credit Committee makes decisions regarding issuance of loans to corporates on an individual basis. For making the credit decision, thorough analysis of the financial strength of a counterparty, collaterals available and profitability calculations is performed. An exception is related to the retail receivables issued to small companies by AS Inbank Liising and the Lithuanian branch of Inbank where credit decisions are made in a similar process as retail loans to households. Table 7 shows Inbank's overdue portfolio for corporates.

In thousands of euros 31.12.2019	Gross receivables	Stage 1	Stage 2	Stage 3	Net receivables	Impairment coverage
Distribution of receivables						
0-3 days	12,788	-30	0	0	12,758	0.2%
4-30 days	375	-7	0	0	368	1.9%
31-89 days	154	0	-9	-2	143	7.1%
90-179 days	13	0	0	-5	8	38.5%
180+ days	108	0	0	-44	64	40.7%
Total receivables	13,438	-37	-9	-51	13,341	0.7%
31.12.2018	Gross receivables	Stage 1	Stage 2	Stage 3	Net receivables	Impairment coverage
Distribution of receivables						
0-3 days	8,974	-10	0	-8	8,956	0.2%
4-30 days	395	-7	0	0	388	1.8%
31-89 days	164	0	-16	0	148	9.8%
90-179 days	42	0	0	-16	26	38.1%
180+ days	77	0	0	-10	67	13.0%
Total receivables	9,652	-17	-16	-34	9,585	0.7%

Table 7. Distribution of receivables of non-financial and financial corporates by overdue days

Receivables from central banks and credit institutions

According to the Management Board's estimate, the exposure of cash and cash equivalents held at central banks and other credit institutions has low credit risk. For depositing liquid funds, Inbank's risk management policy prefers credit institutions that have higher equity and better external credit rating. The unrated counterparties mainly include credit institutions with Scandinavian background that have a parent company's credit rating available but are missing assigned rating for the subsidiary which is Inbank's counterparty. Based on the information from the market, Inbank assesses that these credit institutions have good credit quality. Receivables are either on demand or with a contractual term of up to three months.

In thousands of euros	31.12.2019	31.12.2018
P-1	93,197	68,840
P-2	899	1,913
P-3	88	0
Not rated	9,551	7,567
Total receivables from central banks and credit institutions	103,735	78,320

Table 8. Receivables from credit institutions according to Moody's short-term credit rating classes

Assessing the credit impairment of financial instruments

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

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

Significant increase in credit risk (SICR). Inbank assesses at the end of each reporting date whether the credit risk of a financial instrument has increased significantly since initial recognition. The significant increase in credit risk is assumed to occur at 30 days past due. Considering Inbank's usual business practise, the ability to collect information concerning customer financial behaviour is limited, which makes it difficult to apply other criteria with reasonable effort.

Definition of default. Inbank considers the financial instrument as defaulted when the instrument is more than 90 days past due or the financial instrument in which borrower is in significant financial difficulty and thus meets the unlikeliness to pay criteria, including the borrower being in bankruptcy, deceased, in court or classified as fraudulent.

The assessment of macroeconomic impact. To assess the macroeconomic impact Inbank has developed a model which incorporates developments of the future economic environment in the expected credit loss calculation. Several economic indicators were analysed to test the significance of the parameters included in the model. The analysis was done for all countries in the portfolio for finding the combination of macroeconomic factors that would predict the PD rate of the portfolio for the best way. For objective estimation of the credit loss, Inbank uses three scenarios which include forward looking information – baseline, positive and negative scenario. Inbank AS estimates that the baseline scenario is the most probable and relevant, the weights of negative and positive scenario probabilities are less significant. Economic development perspective and previous experience in countries where Inbank operates are considered when assigning weights to the scenarios. As at 31.12.2019 probability for baseline scenario was estimated to be 80%, positive scenario probability 10% and negative scenario probability 10%.

Debt management. Inbank has regularly sold past due loans (more than 90 days past due). More attention has been paid to the development of the practise of inhouse collection in line with increase in business volumes.

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

Inbank has carried out a sensitivity analysis on key assumptions, which according to Inbank AS assessment have the most impact on the expected credit loss. The result of the analysis shows that if PD rates increase by 10%, the impact to the ECL is EUR 395 thousand. If LGD rates increase by 10%, the impact to the ECL is EUR 750 thousand.

Table 9 and Table 10 illustrate how Inbank's provisions for loan losses changed during 2019 and Table 11 and Table 12 show the movement of portfolio between stages during 2019.

In thousands of euros	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Impairment allowance, 31.12.2018	2,078	852	2,608	5,538
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-771	771	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-1,360	-184	1,543	-1
to 12-months ECL (from Stages 2 and 3 to Stage 1)	433	-199	-234	0
From Stage 3 to Stage 2	0	13	-13	0
New originated or purchased	4,385	0	0	4,385
Derecognised during the period	2,435	947	2,772	6,154
Changes to ECL measurement model assumption	-1,220	217	1,090	87
Changes in accrued interest	0	0	0	0
Total movements with impact on credit loss allowance charge for the period	3,902	1,565	5,158	10,625
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-2,812	-1,348	-3,801	-7,961
Impairment allowance, 31.12.2019	3,168	1,068	3,962	8,198

Table 9. Changes in loss allowance of household portfolio

In thousands of euros	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Impairment allowance, 31.12.2018	25	17	26	68
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-5	5	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-3	0	3	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	5	-10	5	0
From Stage 3 to Stage 2	2	0	-2	0
New originated or purchased	14	-1	-2	11
Derecognised during the period	-1	-1	-7	-9
Changes to ECL measurement model assumption	-9	2	32	25
Unwinding of discounted	0	0	0	0
Changes in accrued interest	0	0	0	0
Total movements with impact on credit loss allowance charge for the period	3	-5	29	27
Movements without impact on credit loss allowance charge for the period:				
Write-offs	0	0	0	0
Impairment allowance, 31.12.2019	28	12	55	95

Table 10. Changes in loss allowance of corporates portfolio

In thousands of euros	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Carrying amount, 31.12.2018	208,955	7,699	4,937	221,591
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-11,855	11,855	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-4,171	-643	4,814	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	2,611	-2,145	-466	0
From Stage 3 to Stage 2	0	23	-23	0
New originated or purchased	227,416	0	0	227,416
Derecognised during the period	-45,247	-1,152	-163	-46,562
Changes to ECL measurement model assumption	-56,548	-2,489	-587	-59,624
Changes in accrued interest	0	0	0	0
Total movements with impact on credit loss allowance charge for the period	112,206	5,449	3,575	121,230
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-5,016	-2,454	-2,336	-9,806
Carrying amount, 31.12.2019	316,145	10,694	6,176	333,014

Table 11. Movement of household portfolio between stages

In thousands of euros	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Carrying amount, 31.12.2018	4,999	157	107	5,263
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-95	95	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-43	-3	46	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	51	-91	40	0
From Stage 3 to Stage 2	5	0	-5	0
New originated or purchased	2,719	21	6	2,746
Derecognised during the period	-159	-8	-19	-186
Changes to ECL measurement model assumption	-610	-38	-71	-719
Unwinding of discounted	0	0	0	0
Changes in accrued interest	0	0	0	0
Total movements with impact on credit loss allowance charge for the period	1,868	-24	-3	1,841
Movements without impact on credit loss allowance charge for the period:				
Write-offs	0	0	0	0
Carrying amount, 31.12.2019	6,867	133	104	7,104

Table 12. Movement of corporate portfolio between stages

Impairment of restructured financial instruments

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

Impairment of receivables from central banks and credit institutions

According to Inbank's credit risk management principles, the liquid assets are placed to credit institutions with strong credit rating. The credit ratings of credit institutions provided by internationally recognised rating agencies are considered when calculating the expected credit loss of the receivables. As at 31.12.2018 and 31.12.2019 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 recognised in the statement of financial position.

Considering collateral when estimating impairment of receivables

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

Counterparty credit risk

As at 31.12.2019, Inbank did not have any counterparty credit risk exposures within the meaning of CRR article 272. Therefore, Inbank is not subject to the disclosure requirements of CRR article 439.

Concentration risk management

Concentration risk is an important part of credit risk. It is a risk which arises from the risk exposure of one counterparty or related counterparties or counterparties whose risk is impacted by a common risk factor. Under concentration risk, Inbank views the assets of one party, related parties as well as those associated with one industry, geographical territory or risk factor. In its daily activities, Inbank avoids taking concentration risk by focusing primarily on medium or small-sized loans. Inbank does not preclude lending larger amounts in case there is sufficient collateral available or other required conditions are met. As at 31.12.2019 and 31.12.2018, Inbank did not have any receivables greater than 10% of Inbank's own funds.

Capital requirements for credit risk

Inbank calculates capital requirement arising from credit risk exposures according to the standardised approach. For calculation of capital requirements in order to determine the levels of credit quality for institute exposures and central authorities, Inbank uses the credit quality estimates of the external rating agency Moody's in accordance with the rules in CRR. Inbank regularly updates its counterparty register with short and long-term ratings. Should there be no rating available, the assigned risk weight is the same as that of exposures to the national government in the jurisdiction to which the institution belongs. Inbank's credit exposure, risk-weighted exposure and capital requirements per exposure class according to the standard method can be found in Table 13.

In thousands of euros

Exposure class	Net exposure	Risk-weighted exposure amount	Capital requirement
Central governments or central banks	83,080	0	0
Institutions	20,655	4,471	358
Corporates	6,466	6,466	517
Retail	327,268	245,451	19,636
Exposures in default	3,968	3,968	317
Equity	3,215	8,039	643
Other items	15,869	8,856	708
Total	460,521	277,251	22,180

Table 13. Capital requirements and exposure amounts by counterparty type

5.2. Market risk

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

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

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

Interest rate risk

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

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 Inbank has no risk positions in the trading book, the only important interest rate risk is interest rate risk in banking book.

The purpose of Inbank is to assure low interest rate risk through limiting and matching the structure and maturities of interest-sensitive assets and liabilities. See Table 14 below for details on Inbank's interest-earning assets and interest-bearing liabilities. The interest income from the loans issued exceeds significantly the interest expense for deposits attracted, which allows covering the potential negative impact of interest rate risk of Inbank.

Inbank monitors and manages interest rate risk based on internal limits set by the Supervisory Board. To comply with the internal limits Inbank can adjust rates on its lending or enter into hedging instruments such as interest rate swaps. Inbank calculates and monitors interest rate risk on a continuous basis. As at the end of 2019 and 2018, Inbank had not entered into any financial instruments to mitigate interest rate risk.

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

As at 31 December 2019, a 1 percentage point increase in market interest rates would raise Inbank's equity, i.e. economic value, by EUR +197 thousand (2018: by EUR +2 thousand) and annual profit by EUR +891 thousand (2018: by EUR +589 thousand). In the same time, a decrease of 1 percentage point in interest rates would affect Inbank's equity by EUR -15 thousand (2018: by EUR +24 thousand) and annual profit by EUR -15 thousand (2018: by EUR +49 thousand).

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

In thousands of euros 31.12.2018	Up to 1 month	> 1 to 3 months	> 3 to 12 months	> 1 to 5 years	> 5 years	Total
Financial assets						
Due from central banks and credit institutions	76,492	2,000	0	0	0	78,492
Loans and advances	9,836	18,827	69,916	115,568	5,808	219,955
Total financial assets	86,328	20,827	69,916	115,568	5,808	298,447
Financial liabilities						
Loan from credit institution	2,083	8,333	0	0	0	10,416
Customer deposits	7,215	7,441	109,463	115,275	0	239,394
Debt securities issued	3,333	6,667	0	0	0	10,000
Subordinated debt securities	0	0	0	9,653	0	9,653
Total financial liabilities	10,548	14,108	109,463	124,928	0	259,047
Difference in interest rate repricing maturity	75,780	6,719	-39,547	-9,360	5,808	39,400

Table 14. Interest-earning assets and interest-bearing liabilities by repricing dates of interest rates

Currency risk

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

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

The Treasurer is responsible for the operational management of currency risk which is monitored on a daily basis. Table 15 shows the foreign currency exposures of Inbank at the end of 2019 and 2018.

In thousands of euros Polish zloty	31.12.2019	31.12.2018
Assets exposed to currency risk	51,353	17,729
Liabilities exposed to currency risk	51,581	17,924
Net open position	228	194
Effect of 10% change in FX rate	-23	-19

Table 15. Currency exposure

A 10% change in the currency exchange rate of the functional currency (EUR) versus foreign currency would entail an effect of 0.23% (2018: 0.21%) on net income and 0.05% (2018: 0.05%) on equity of Inbank. Inbank's open foreign currency risk is low and the foreign currency risk position is well managed.

5.3. Liquidity risk

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

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

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

Management of Inbank's liquidity and funding is centralised at the group level and funding of the subsidiaries and branches shall be provided also at the group level. The Chief Financial Officer and the Treasurer are responsible for the daily and intraday monitoring and management of Inbank's liquidity situation. Risk Management function is responsible for upholding principles and framework and ensuring independent monitoring and reporting of liquidity risk and Internal Audit function carries out independent oversight of the entire organisation.

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

The inherent liquidity risk of the funding is managed by strive to match the duration of the assets with the duration of the liabilities. Additionally, it is mitigated by maintaining conservative and highly liquid liquidity reserves in order to manage any durational imbalances. Keeping survival period in accordance with regulatory requirements and Inbank's strategy, ensures Inbank has sufficient liquidity to withstand a severely stressed situation. An overview of the distribution of assets and liabilities by contractual maturities can be found in Table 16 below. Within the framework of the model, the key liquidity ratios and the maturity proportions of assets and liabilities are also determined, and regular liquidity stress tests are conducted.

In thousands of euros 31.12.2019	Up to 1 month	> 1 to 3 months	> 3 to 12 months	> 1 to 5 years	> 5 years	Total	Carrying amount
Assets							
Due from central banks and credit institutions	103,735	0	0	0	0	103,735	103,735
Loans and advances	15,816	36,965	124,229	228,440	13,049	418,499	338,157
Other assets	513	1,637	62	69	18,594	20,875	20,875
Total Assets	120,064	38,602	124,291	228,509	31,643	543,109	462,767
Liabilities							
Loan from credit institution	0	0	0	0	0	0	0
Customer deposits	17,390	17,832	182,852	168,634	0	386,708	377,518
Debt securities issued	0	27	81	4,027	0	4,135	4,010
Subordinated debt securities	0	313	902	20,595	0	21,810	17,537
Other liabilities	12,066	2,920	573	585	238	16,382	16,382
Total Liabilities	29,456	21,092	184,408	193,841	238	429,035	415,447
Maturity gap of assets and liabilities	90,608	17,510	-60,117	34,668	31,405	114,074	47,320

In thousands of euros 31.12.2018	Up to 1 month	> 1 to 3 months	> 3 to 12 months	> 1 to 5 years	> 5 years	Total	Carrying amount
Assets							
Due from central banks and credit institutions	76,320	2,002	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	76,585	40,607	86,669	144,539	18,314	366,714	318,040
Liabilities							
Loan from credit institution	0	10,495	0	0	0	10,495	10,429
Customer deposits	7,388	7,557	111,088	119,702	0	245,735	240,175
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
Other liabilities	200	10,470	760	0	0	11,430	11,430
Total Liabilities	4,652	41,673	112,390	132,133	0	290,848	281,579
Maturity gap of assets and liabilities	71,933	-1,066	-25,721	12,406	18,314	75,866	36,461

Table 16. Assets and liabilities by contractual maturities

To ensure that Inbank covers operational needs and complies with regulatory requirements regarding liquidity coverage, a sufficiently high Liquidity Coverage Ratio (LCR) shall be maintained at all times. Inbank has a regulatory requirement to maintain sufficient reserves of liquid assets to support a share (100% as of 31 December 2019) of estimated stressed liquidity outflows over 30 days on a consolidated level. The current LCR and its components are disclosed in accordance with the EBA guideline EBA/GL/2017/01 in Table 17 below. The Net Stable Funding Ratio (NSFR) is at 144% for Inbank as of 31 December 2019 (2018: 139%).

In thousands of euros	31.12.2019	31.12.2018
Liquidity buffer	78,515	62,672
Total net cash outflows	1,009	3,893
LCR (%)	7782%	1610%

Table 17. Liquidity Coverage Ratio

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

Based on assessment made by the Management Board, as of 31 December 2019 the actual risk profile of Inbank's liquidity risk is in accordance with the risk appetite set by the Supervisory Board and liquidity risk management and risk management systems are sufficient and appropriate taking into account Inbank's profile and strategy.

5.4. Operational risk

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

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

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

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

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

The actual risk profile of Inbank's operational risk during 2019 has been in accordance with the risk appetite set by the Supervisory Board, the real losses from operational risk have remained low. In 2019, the real losses to own funds constituted of 0.6% (31.12.2018: 0.2%).

5.5. Business risk

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

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

The overall reputation and public image of Inbank has remained good during 2019, competitive and regulative environment has not significantly changed.

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

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

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

Key risk indicators

In thousands of euros	31.12.2019	31.12.2018	31.12.2017
Total Assets	462,767	318,044	125,981
Loan portfolio	338,158	225,639	92,895
Loss rate (% of average loan portfolio)	2.1%	1.7%	4.5%
Operational risk loss (% of own funds)	0.6%	0.2%	0.3%
Liquidity reserves (% of total assets)	17.0%	19.7%	11.2%
Liquidity coverage ratio (%)	7782%	1610%	1061%
Total capital ratio (% of risk exposure)	17.0%	15.7%	19.9%

Appendix 2. Own funds balance sheet reconciliation

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

Full reconciliation of own funds items to audited financial statements

In thousands of euros	Carrying values as reported in financial statement	Adjustments under the scope of regulatory framework	Carrying values under the scope of regulatory framework
Common Equity Tier 1 (CET 1) capital: instruments and reserves			
Paid-in share capital	903		903
Share premium	15,908		15,908
Statutory and other reserves	1,551		1,551
Retained earnings	18,948		18,948
Profit for reporting period	10,010	-3,444	6,566
Common Equity Tier 1 capital before regulatory adjustments	47,320	-3,444	43,876
Common Equity Tier 1: regulatory adjustments			
Goodwill	-6,157		-6,157
Other intangible assets	-5,564		-5,564
IFRS 9 transitional adjustments	-	4,354	4,354
Additional value adjustments	-	-60	-60
Total regulatory adjustments to Common Equity Tier 1	-11,721	4,294	-7,427
Common Equity Tier 1 capital	35,599	850	36,449
Additional Tier 1 (AT1) capital: instruments			
Additional Tier 1 instruments	3,150		3,150
Additional Tier 1 capital	3,150	0	3,150
Tier 1 capital	38,749	850	39,599
Tier 2 (T2) capital: instruments and provisions			
Subordinated liabilities	14,503		14,503
Tier 2 capital	14,503	0	14,503
Own funds	53,252	850	54,102

Appendix 3. Capital instruments' main features

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

Description of the main features of capital instruments

1	Issuer	Inbank AS	Inbank AS	Inbank AS	Inbank AS
2	Unique identifier (eg. CUSIP, ISIN or Bloomberg identifier for private placement)	EE3100109232	EE3300111590	EE3300110964	EE3300001544
3	Governing law(s) of the instrument	Estonian law	Estonian law	Estonian law	Estonian law
	Regulatory treatment				
4	Transitional CCR rules	Common Equity Tier 1	Additional Tier 1	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Tier 2	Tier 2
6	Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Share capital	Additional Tier 1	Tier 2	Tier 2
8	Amount recognised in regulatory capital (as of most recent reporting date)	EUR 873,940	EUR 3,150,000	EUR 6,503,000	EUR 8,000,000
9	Nominal amount of instrument	EUR 10	EUR 10,000	EUR 1,000	EUR 1,000
9a	Issue price	Various	EUR 10,000	EUR 1,000	EUR 1,000
9b	Redemption price	N/A	100% of nominal amount	100% of nominal amount	100% of nominal amount
10	Accounting classification	Share capital	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	Various	21.12.2018	28.09.2016	19.12.2019
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	No maturity	No maturity	28.09.2026	19.12.2029
14	Issuer call subject to prior supervisory approval	No	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	21.12.2023 100% of nominal amount In addition Tax/Regulatory call at any time	28.09.2021 100% of nominal amount In addition Tax/Regulatory call at any time	19.12.2024 100% of nominal amount In addition Tax/Regulatory call at any time
16	Subsequent call dates, if applicable	N/A	Any time after 21.12.2023 by notifying at least 30 days in advance	Any time after 28.09.2021 by notifying at least 30 days in advance	Any time after 19.12.2024 by notifying at least 30 days in advance

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

Appendix 4. Own funds disclosure template

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

Disclosure of nature and amounts of specific items on own funds

In thousands of euros		31.12.2019
	Common Equity Tier 1 capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	16,811
	of which: Instrument type 1	16,811
2	Retained earnings	18,948
3	Accumulated other comprehensive income (and other reserves)	1,551
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	6,566
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	43,876
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	
8	Intangible assets (net of related tax liability) (negative amount)	-11,721
12a	IFRS 9 transitional arrangements	4,354
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-60
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-7,427
29	Common Equity Tier 1 (CET1) capital	36,449
	Additional Tier 1 (AT1) capital: instruments	
30	Capital instruments and the related share premium accounts	3,150
32	of which: classified as liabilities under applicable accounting standards	3,150
36	Additional Tier 1 (AT1) capital before regulatory adjustments	3,150
	Additional Tier 1 (AT1) capital: regulatory adjustments	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0
44	Additional Tier 1 (AT1) capital	3,150
45	Tier 1 capital (T1 = CET1 + AT1)	39,599

In thousands of euros		31.12.2019
	Tier 2 (T2) capital: instruments and provisions	
46	Capital instruments and the related share premium accounts	14,503
51	Tier 2 (T2) capital before regulatory adjustments	14,503
	Tier 2 (T2) capital: regulatory adjustments	
57	Total regulatory adjustments to Tier 2 (T2) capital	0
58	Tier 2 (T2) capital	14,503
59	Total capital (TC = T1 + T2)	54,102
60	Total risk-weighted assets	318,541
	Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	11.44%
62	Tier 1 (as a percentage of total risk exposure amount)	12.43%
63	Total capital (as a percentage of total risk exposure amount)	16.98%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	7.73%
65	of which: capital conservation buffer requirement	2.50%
66	of which: countercyclical buffer requirement	0.29%
67	of which: systemic risk buffer requirement	0.44%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.00%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.94%
	Amounts below the thresholds for deduction (before risk weighting)	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	3,215

Appendix 5. Macroprudential supervisory measures

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

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

In thousands of euros		General credit exposures		Trading book exposures		Securitisation positions		Own funds requirements					
		Exposure value for SA	Exposure value IRB	Sum of long and short positions of trading book	Value of trading book exposures for internal models	Exposure value for SA	Exposure value IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirements weights	Countercyclical capital buffer rate
		010	020	030	040	050	060	070	080	090	100	110	120
010	Breakdown by country												
	Estonia	145,736	n/a	n/a	n/a	n/a	n/a	9,260	n/a	n/a	9,260	0.42	0.00
	Latvia	57,908	n/a	n/a	n/a	n/a	n/a	3,486	n/a	n/a	3,486	0.16	0.00
	Poland	43,432	n/a	n/a	n/a	n/a	n/a	2,807	n/a	n/a	2,807	0.13	0.00
	Lithuania	113,713	n/a	n/a	n/a	n/a	n/a	6,282	n/a	n/a	6,282	0.29	0.01
020	Total	360,789	n/a	n/a	n/a	n/a	n/a	21,835	n/a	n/a	21,835	1.00	0.01

Table 2. Amount of institution-specific countercyclical capital buffer

In thousands of euros		010
010	Total risk exposure amount	317,487
020	Institution specific countercyclical buffer rate	0.29%
030	Institution specific countercyclical buffer requirement	913

Appendix 6. Disclosure on asset encumbrance

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

Template A. Encumbered and unencumbered assets

In thousands of euros		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	Assets of the reporting institution	n/a		462,767	
030	Equity instruments			0	
040	Debt securities			0	
120	Other assets			462,767	
121	of which: loans on demand			103,735	
122	of which: loans and advances other than loans on demand			338,158	
123	of which: other			20,874	

Template B. Collateral received

In thousands of euros			Unencumbered	
		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	of which EHQLA and HQLA
		010	040	060
130	Collateral received by the reporting institution	n/a	26,650	n/a
140	Loans on demand		0	
150	Equity instruments		0	
160	Debt securities		0	
220	Loans and advances other than loans on demand		0	
230	Other collateral received		26,650	
231	of which: other financial corporations		2,722	
232	of which: non-financial corporations		1,185	
233	of which: households		22,743	
240	Own debt securities issued other than own covered bonds or asset-backed securities	n/a	n/a	
241	Own covered bonds and asset-backed securities issued and not yet pledged		n/a	
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	n/a		

Template C. Sources of encumbrance

In thousands of euros		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	n/a	26,650

Template D. Accompanying narrative information

As of reporting date, all Inbank’s assets are unencumbered.

Appendix 7. Disclosure on leverage ratio

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

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

In thousands of euros		Applicable amount
1	Total assets as per published financial statements	462,767
7	Other adjustments	-7,427
8	Leverage ratio total exposure measure	455,340

Table LRCom. Leverage ratio common disclosure

In thousands of euros		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	450,531
2	(Asset amounts deducted in determining Tier 1 capital)	-7,427
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (lines 1 and 2)	443,104
Derivative exposures		
11	Total derivative exposures (lines 4 to 10)	0
Securities financing transaction exposures		
16	Total securities financing transaction exposures (lines 12 to 15a)	0
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	3
19	Other off-balance sheet exposures (lines 17 to 18)	3
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposures		
20	Tier 1 capital	39,598
21	Total leverage ratio exposures (lines 3, 11, 16, 19, EU-19a and EU-19b)	450,534
Leverage ratio		
22	Leverage ratio	8.79%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	fully phased
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	0

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

	In thousands of euros	CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	450,531
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	450,531
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	83,081
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	0
EU-7	Institutions	20,655
EU-8	Secured by mortgages of immovable properties	0
EU-9	Retail exposures	327,268
EU-10	Corporate	6,466
EU-11	Exposures in default	3,968
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	9,093

Table LRQua. Disclosure on qualitative items

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

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

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

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

The leverage ratio for Inbank consolidated situation has increased during the year from 8.51% to 8.79%. The increase of leverage ratio is mainly attributable to the increase of Tier 1 capital (denominator) to a greater extent than the period's balance sheet expansion which in turn increased the total leverage ratio exposures (numerator). There were no exact external factors that would have had a significant impact on the leverage ratio.

Appendix 8. IFRS 9 transitional disclosure

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

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

	In thousands of euros	31.12.2019	31.12.2018
		T	T-4
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	36,448	23,260
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	32,095	20,951
3	Tier 1 capital	39,598	26,410
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	35,245	24,101
5	Total capital	54,101	32,913
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	49,748	30,604
	Risk-weighted assets (amounts)		
7	Total risk-weighted assets	318,541	209,209
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	314,766	207,194
	Capital ratios		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	11.44%	11.12%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	10.20%	10.11%
11	Tier 1 (as a percentage of risk exposure amount)	12.43%	12.62%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11.20%	11.63%
13	Total capital (as a percentage of risk exposure amount)	16.98%	15.73%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.80%	14.77%
	Leverage ratio		
15	Leverage ratio total exposure measure	450,534	310,293
16	Leverage ratio	8.79%	8.51%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7.90%	7.83%

Appendix 9. Non-performing and forborne exposures

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

Template 1. Credit quality of forborne exposures

	In thousands of euros	a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
1	Loans and advances	443,989	6,656	6,656	6,656	-4,384	-4,367	0	
2	*Central banks*	83,080	0			0	0		
3	*General governments*	0	0			0	0		
4	*Credit institutions*	20,655	0			0	0		
5	*Other financial corporations*	2,735	0			-7	0		
6	*Non-financial corporations*	10,582	152	152	152	-39	-81		
7	*Households*	326,937	6,504	6,504	6,504	-4,338	-4,286		
8	Debt securities	0	0			0	0	0	
9	Loan commitments given	9,992	0			0	0	0	
10	Total	453,981	6,656	6,656	6,656	-4,384	-4,367	0	

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

	In thousands of euros	a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1	Loans and advances	443,989	433,116	10,873	6,656	863	2,075	1,316	1,335	1,039	28	0	6,656
2	*Central banks*	83,080	83,080		0								
3	*General governments*	0			0								
4	*Credit institutions*	20,655	20,655		0								
5	*Other financial corporations*	2,735	2,735		0								
6	*Non-financial corporations*	10,582	10,442	140	152	2	12	9	112	17			152
7	*Of which SMEs*	6,704	6,704		0								
8	*Households*	326,937	316,204	10,733	6,504	861	2,063	1,307	1,223	1,022	28	0	6,504
9	Debt securities	0			0								
15	Off-balance-sheet exposures	9,992			0								
21	*Households*	9,992			0								
22	Total	453,981	433,116	10,873	6,656	863	2,075	1,316	1,335	1,039	28	0	6,656

Gross NPL ratio: 1.5%

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

In thousands of euros		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
1	Loans and advances	443,989	433,116	10,873	6,656	0	6,656	4,377	3,261	1,116	4,367	0	4,367	0	0	0
2	Central banks	83,080	83,080		0			0			0					
3	General governments	0			0			0			0					
4	Credit institutions	20,655	20,655		0			0			0					
5	Other financial corporations	2,735	2,735		0			0			0					
6	Non-financial corporations	10,582	10,442	140	152		152	39	29	10	81		81			
7	Of which SMEs															
8	Households	326,937	316,204	10,733	6,504		6,504	4,338	3,232	1,106	4,286		4,286			
9	Debt securities	0			0			0			0			0		
15	Off-balance-sheet exposures	9,992	9,992		0			0			0					
21	Households	9,992	9,992													
22	Total	453,981	443,108	10,873	6,656	0	6,656	4,377	3,261	1,116	4,367	0	4,367	0	0	0

Template 9. Collateral obtained by taking possession and execution processes

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

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