INBANK AS

Consolidated Annual Report 2016

INBANK AS GENERAL INFORMATION

Business name	Inbank AS
Address	Niine 11, 10414 Tallinn
Registration date	5 October 2010
Registry code	12001988 (Commercial Register of the Republic of Estonia)
Legal entity identifier	2138005M92IEIQVEL297 (LEI code)
VAT number	EE101400240
Telephone	+372 640 8080
E-mail	info@inbank.ee
Website	www.inbank.ee
Balance sheet date of report	31 December 2016
Reporting period	01.01.2016 – 31.12.2016

The reporting currency is the euro (EUR), with units presented in thousands.
Inbank AS' Annual Report 2016 has been audited.
Annual report for 2016 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.

Members of the Supervisory Board

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

Members of the Management Board

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

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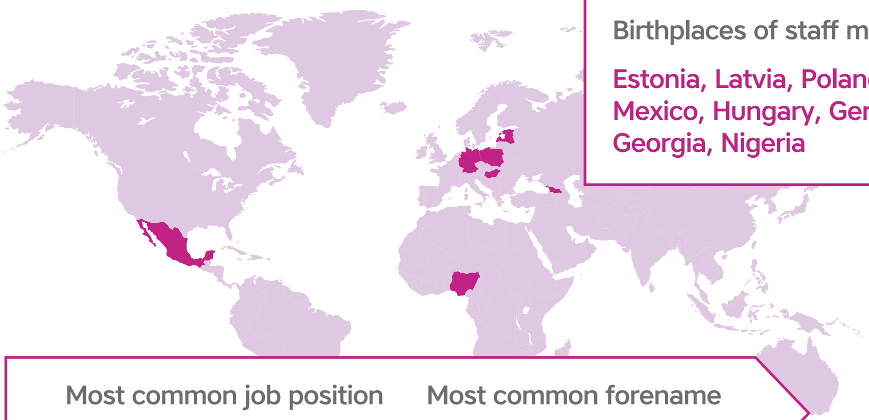
FACTS AND NUMBERS

The Group's average number of employees*

60
January 2016

66,7%
Annual growth

100
December 2016



Birthplaces of staff members:
Estonia, Latvia, Poland, Mexico, Hungary, Germany, Georgia, Nigeria

Most common job position
Software developer

Most common forename
Maciej

* Number of employees with affiliates Coop Finants AS and Krediidipank Finants AS. The numbers for the consolidated group are 39 and 69.

Website views
2015
685 815
2016
1 514 775

121%
Annual growth

Website views from mobile devices
27%

Calls placed to customer service
15 749

5 seconds
Average time of loan decision

99%
Share of loan applications served in less than one minute

11 089 EURt
Total bond subscription

6 503 EURt
Capital raised via bond issue

698
Number of subordinated bond investors

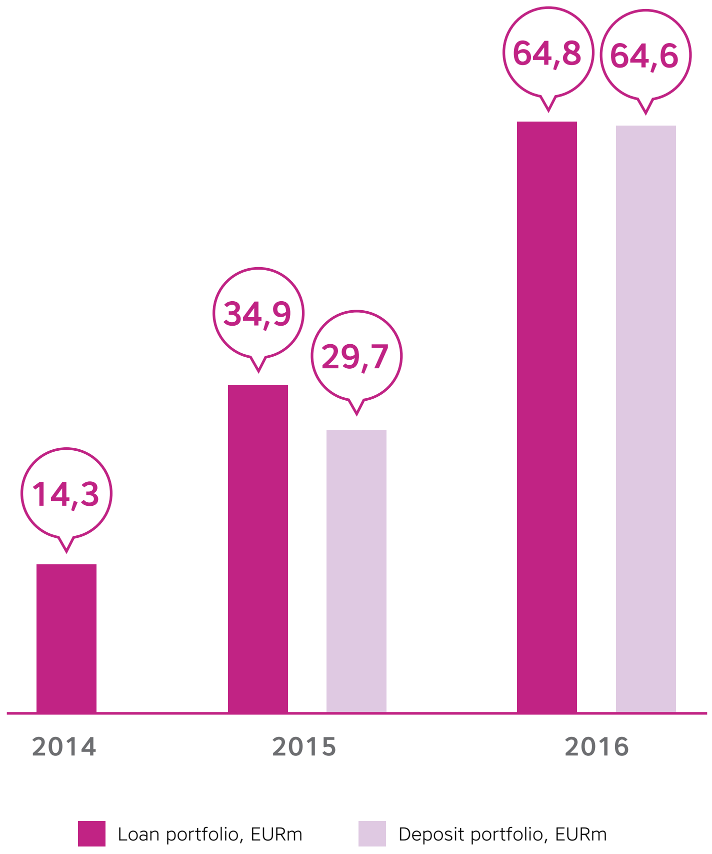
Key financial indicators and ratios

EURt

Key financial indicators	31.12.2016	31.12.2015	
Balance sheet total	84 943	42 324	100.7%
Equity held by shareholders of the parent company	11 798	8 030	46.9%
Profit attributable to the parent company	2 649	987	168.4%
Loan portfolio	64 839	34 931	85.6%
Deposit portfolio	64 587	29 711	117.4%

Ratios	2016	2015
Net return on equity (ROE)	26.6%	14.5%
Net return on total assets (ROA)	4.2%	3.4%
Net interest margin	13.7%	12.3%
Ratio of loan losses to loan portfolio	6.4%	4.0%
Cost-income ratio	45.7%	63.2%
Ratio of equity in balance sheet total	13.9%	19.0%

Volume of loan portfolio and deposit portfolio



Net return on equity: profit attributable to the parent company / equity held by shareholders of the parent company (average over the period) annualised
Net return on total assets: profit attributable to the parent company / balance sheet total (average over the period) annualised
Net interest margin: net interest income / interest-bearing assets (average over the period) annualised
Rate of loan losses to loan portfolio: loan losses / loan portfolio (average over the period) annualised
Cost-income ratio: total cost / total income
Ratio of equity in balance sheet total: equity held by shareholders of the parent company / balance sheet total

FOUNDERS’ STATEMENT

“Change is the only constant in life”, the Greek philosopher Heraclitos once said. The same can be said with regard to Inbank’s development in 2016. As the founders of Inbank, we believe that, in order to advance as an organisation and as human beings, we must always take on new challenges and test our limits.

While 2015 was a landmark year in terms of receiving the banking licence, in October 2016, Inbank became a publicly traded company, with its securities listed on the Nasdaq Tallinn Stock Exchange. Nearly 700 new investors contributed to our growth, subscribing 6.5 million euros worth of Inbank’s subordinated bonds. We are very proud of the huge investor interest and the fact that the issue was oversubscribed by more than two times.

The listing of the shares on the stock exchange and expansion of the investor base marks an important step towards becoming an even more open company. The banking licence as well as the status of a publicly traded company will serve Inbank with stable, sustainable financing for pursuing its ambitions of growth. We sincerely believe that the more open and transparent we are as a bank, the more successful our development as a company will be.

By focusing on customers, partners and technology, we have, within a short period of time, gained more than a 20% market share in new sales of consumer financing in Estonia.

As evident in this Annual Report, 2016 was a year of rapid growth for Inbank, in terms of both business volumes and organisational development. Inbank's loan portfolio grew by 86% and deposit volume by 117%. We have strengthened our organisation and the Inbank Group is currently employing 100 people. Alongside pursuit of growth on the domestic market, we also decided to enter new markets. Inbank's team in Warsaw launched its activities in the summer of 2016. In January 2017, the Financial Supervision Authority gave us permission to launch the operations of the Inbank branch in Poland. Furthermore, Inbank started

Inbank's team in Warsaw launched its activities in the summer of 2016. Photo: the chairman Maciej Pieczkowski and vice-chairman Tomasz Rzeski of the management board of Inbank Poland branch.

cooperating with the next-generation deposit platform Raisin, which allows to offer deposits to customers in Germany and Austria.

Focus, strategic clarity and successful execution of set objectives has served Inbank well. By focusing on customers, partners and technology, we have, within a short period of time, gained more than a 20% market share in new sales of consumer financing in Estonia. Our next challenge is to successfully export the strategy and operating principles to new markets. With nearly a third of Inbank’s staff members located outside Estonia, our organisation must inevitably become more international. While pursuing internationalisation, we must bear in mind that banking is a local business and that the best people will achieve the best results, if they are provided with sufficient freedom and responsibility.

It will be quite educating and exciting to see how an Estonian company will be able to utilise its experience and repeat its success story in a much more competitive environment on foreign markets. In addition to technology and business focus, international success requires adjustment of corporate management with the aim of ensuring export of the corporate culture characteristic to Inbank. The year 2016 provided us with a good insight into what it truly means to “do it the Inbank way”. Based on these principles, we strive to design our own business processes, seek similar business models and continue creating innovative solutions.

Growth in organisation and business volumes as well as geographical expansion will also be the keywords for the upcoming years. Inbank will be characterised by continuous development and the ability to learn from experience. However, in order to remain successful during continuous change, there must be something that remains constant. We formulated Inbank’s operating principles in the Annual Report 2015. The same values and principles will help our people to make strategic choices, while allowing all business units to remain creative and operate independently. We are glad to recognize that these operating principles are still as relevant today as they were year ago. We believe it is worth the effort to recap these principles for our customers, investors and employees once more.

Inbank has done well, but we understand that we are entering a new, higher-level playing field. This requires a lot of effort and work. How to cement the success achieved, whilst keeping an open mind to new developments? This would be a true challenge for everyone. We are proud that Inbank maintains its positive mind-set as an organisation, and of our ability to enjoy complicated situations. The next few years will show how successful we will be in exporting our Estonian business model to new European markets. Indeed, we look at the future with great excitement.

Operating principles

- Clear focus and product-based approach
- Ability to engage and motivate talents
- Access to financing with EU banking licence
- Flexibility and successful cooperation with the partners
- Proprietary technology which is developed centrally
- Growth through export of existing products to new markets

INTERVIEW

with Chairman of the Supervisory Board Priit Põldoja and Chairman of the Management Board Jan Andresoo

Watch the interview here

2016 has been an eventful year. What is the greatest difference between 2015 and 2016 for Inbank?

Priit: 2015 was the year when Inbank became a bank. This marked a significant change in our organisational structure. The key accomplishment for 2016 was the listing of our bonds on the stock exchange. I believe this is quite fitting for a bank: not only to be regulated but to also serve as a publicly traded company. 2016 was also a year of remarkable growth: our balance sheet doubled, the loan portfolio almost doubled, deposits grew by more than 100% and profit nearly tripled.

What was the greatest challenge of the year in your opinion?

Jan: We've had a year of growth. Growth, in itself, is a kind of a positive crisis. We are now operating in three countries and are building up an international organisation. It is not a walk in the park. The expansion was highly labour-intensive for our staff members. They have truly exerted themselves this year.

Inbank's staff numbers have grown remarkably in 2016. How has this affected the organisation?

Jan: lot, indeed. The more people we have, the more coordination and structure we need in our activities. Organisational culture is the glue that holds the strategy together. Inbank's culture must be conferred upon new people and countries, ensuring the correct interpretation of it. We call this "doing it the Inbank way".
Priit: After six years of operating in Estonia, it is easier to communicate our principles in Estonia, but it is a true challenge to export the principles to new destinations. On

At the time of Inbank's ongoing growth, we need to diversify the availability of financing. Raising deposits from Germany and Austria allows us to optimise maturities and deposit interest rates. Nonetheless, we have all the intention of remaining an attractive deposit provider in Estonia.

the one hand, we want the local management to be independent and take responsibility; on the other hand, we want them to be governed by Inbank's strategy and culture. It is a careful balancing act and a true management challenge.

Inbank pursued several major projects in 2016. What was the highlight of the year in your opinion?

Priit: The highlight of the year was the listing of the bonds on the stock exchange. Above all, it delivers a message regarding our organisation: we do things openly and transparently. But the bank also needs capital for growth. The banking licence gave us access to deposits but the stock market provides us with the opportunity to raise equity and subordinated loans. We have gained nearly 700 new investors who have contributed to our growth and will become a part of our story, partaking in the profit-sharing.
Jan: The listing on the stock exchange is rooted within our DNA. We have always considered open communication and high-quality reporting the cornerstone of our business.

Inbank's subsidiary Veriff launched its activities in 2016. Is Veriff's success a motivation to invest in other start-ups?

Priit: Our investments in financial technology are currently characterised by two factors. First of all, the investment must be linked to our business. Secondly, the business prospects of the investment must be wider than the merely fulfilling our own corporate needs. The company must have a great potential for growth and a strong business model. We believe Veriff to be such a company. We will continue to seek further investment opportunities in this respect.
Jan: Many once-innovative solutions have become normality by today. Innovation is not necessarily a revolutionary gadget with bells and whistles. It must simply confer an important advantage in front of competitors. Every day we seek opportunities to take a leap towards convenience and to gain a competitive advantage.

Inbank will launch its operations in Poland in 2017. Why choose the Polish market against other potential destinations closer to home?

Priit: Poland is the largest market in Eastern Europe, with more than 40 million people and a consumer financing market of more than 35 billion euros. When seeking new business opportunities after Latvia, we faced a choice of whether to expand to Western Europe or Eastern Europe. The banking market is less mature in Eastern Europe, and is better suited to our needs. We have not embarked on conquering the market of Poland – we merely wish to offer high-quality services and are happy with a 1% market share. To achieve our objectives, we will focus on niches, similar to our activities in Estonia.

How has internationalisation changed Inbank?

Jan: Nearly a third of the group's employees reside outside Estonia. Quite a lot of functions have been centralised, e.g. IT, product development, financing. Staff members currently focusing on the domestic market must now take responsibility and function across borders, in three countries. Leaving one's comfort zone is clearly a challenge.

In 2016 Inbank joined forces with the deposit platform Raisin, starting to offer deposits on the German and Austrian markets. How is the cooperation working out so far? Do you still intend to make attractive offers in Estonia?

Jan: The cooperation is working out very well. However, we have taken quite a leap in terms of brand recog-

nition in Estonia. Even without an active campaign, our deposit volumes have been considerable. Therefore, we have yet to test the true limits of our partnership with Raisin. We are likely to do so as soon as we launch our operations in Poland.
Priit: At this stage of growth, we need to diversify the availability of financing. Raising deposits from Germany and Austria allows us to optimise maturities and deposit interest rates. Nonetheless, we have all the intention of remaining an attractive deposit provider in Estonia.

One of the projects launched in 2016 was the preparatory work for the purchase of Krediidipank, together with Coop Eesti. How did you come up with the idea of establishing a bank with a brand new strategy?

Priit: Krediidipank was on sale at the time, and Coop was pursuing the strategy to expand within the financial sector. We had had a previous positive experience with both Coop and Krediidipank. It thus seemed logical to purchase a profitable, well-capitalised and conservatively managed bank. Krediidipank had not shown much growth in the previous three years due to its special circumstances. Together with Coop, we have the opportunity to offer banking services to 600 thousand loyal customers of Coop and greatly improve products and distribution. Our 49% shareholdings in the affiliated companies Coop Finants and Krediidipank Finants can now be merged with the new bank, granting us a 25% stake in it. Nonetheless, we intend to exit the investment within three or four years, using the free capital to support Inbank's growth.

Inbank has posted a significant profit in 2016? Are you satisfied with the results?

Jan: The fact that our profit has tripled, year-over-year, is an indication that we have done the right thing and our business model is working. Alongside boosting the profit, we have also succeeded in enhancing business volumes, investing in development and entering new markets.

Inbank's staff members from three countries at a team event held in the summer of 2016.

A lot of dedication has gone to risk management in 2016. What are the key changes introduced by Inbank for enhancing risk management?

Jan: We have become more complex as a bank, and risk management is becoming multi-layered. We need to enhance our investments in risk management and have recruited new staff for the purpose. Inbank has recruited a new risk manager, a credit risk manager as well as credit risk specialists operating in Poland and Latvia. We have built up a systematic risk organisation and are now better at the management of risks.
Priit: The greatest challenge for 2016 was the Latvian subsidiary where credit losses exceeded the tolerated limit. This can partially be attributed to the choice of sales channels. This incurred the need to strengthen the organisation of risks and change the sales strategy of the Latvian company.

You have launched several new products and set your sights towards expansion to foreign markets. What about hire-purchase, Inbank's oldest product area?

Priit: Hire-purchase has remained the cornerstone of our business. We posted excellent results in the area in 2016. Hire-purchase volumes increased and we also started co-operation with a new and valuable partner Klick Eesti, bound to support our hire-purchase sales in the future.

What are your expectations of 2017?

Priit: Our main objective for 2017 is to launch operations in Poland, where we have already set up a team of 10. We will also focus on changing our business strategy in Latvia. Against the backdrop of internationalisation and ever-increasing regulation, Inbank as an organisation is becoming increasingly complex. Thus focusing on overall execution capability of our organization is critical as well.

Inbank launched the provision of hire-purchase in Klick Eesti's electronics stores at the end of 2016.

ECONOMIC ENVIRONMENT

As at the end of 2016, Inbank operated in three countries: Estonia, Latvia and Poland. Loans issued in Estonia made up nearly 75% and loans issued in Latvia 25% of the total volume of the loan portfolio as at the end of the year. In Poland, the company only made preparations for launch of business operations.

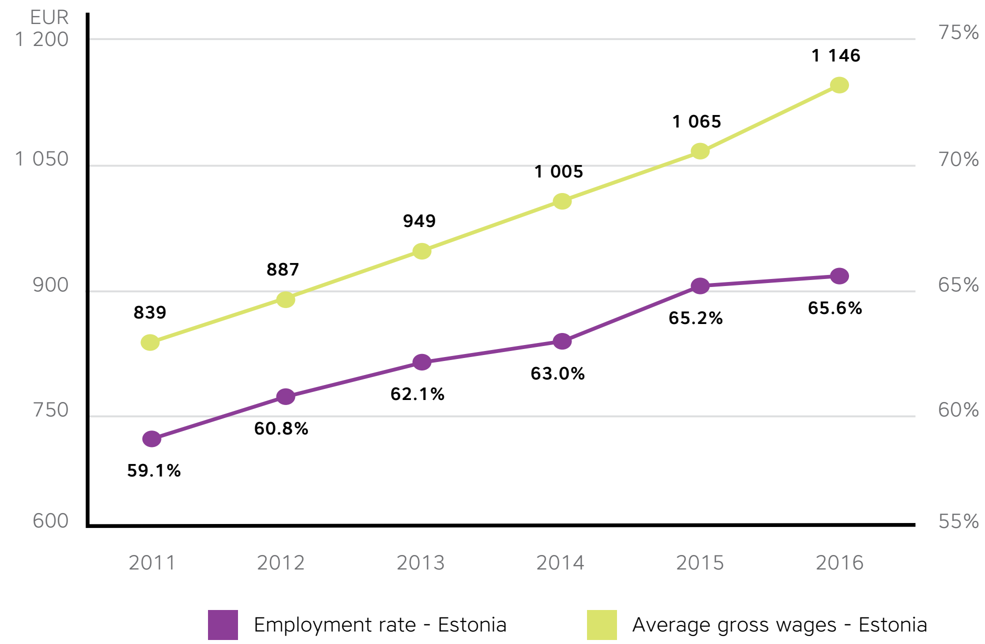
More than 94% of Inbank's loan portfolio consists of retail claims to households. Therefore, Inbank's success has much to do with the well-being of Estonian and Latvian households.

Estonia

2016 was a stable year for the Estonian economy. Economy grew by 1.6%, compared to 2015.

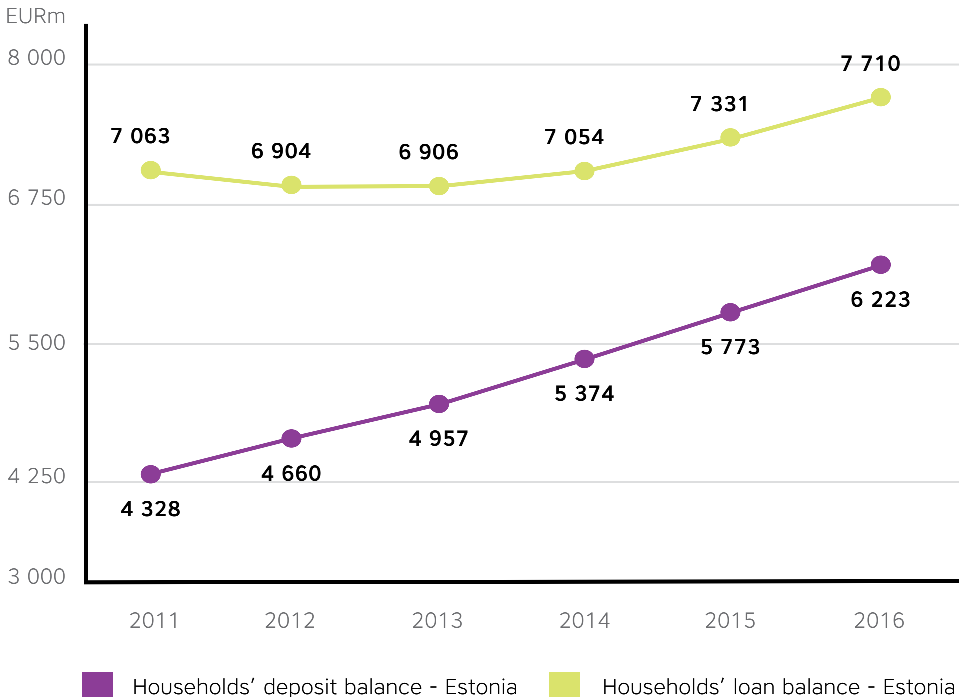
Employment continued to increase in Estonia for the severalth year in a row. By the end of the year, the employment indicator reached 65.6% (65.2% in 2015). Unemployment grew by nearly 0.6% in 2016, year-over-year, amounting to 6.8%. The rise in this indicator is not entirely an objective reflection of the change. The work ability reform carried out in 2016 had its impact on the rise in unemployment, triggering a decrease in the number of non-active people and their classification among the unemployed.

High employment rate and a relatively low unemployment fuelled a strong growth in average gross wages, which increased by 7.6%, compared to 2015. This was the biggest annual increase over a ten-year period. High employment and wage increase has contributed to the rise in the quality of life for households, as well as a rise in consumer confidence.



The stable trend evident in consumer prices in previous periods continued in 2016: the consumer price index only grew by 0.1%, compared to 2015. This can be mainly attributed to consistently favourable raw material prices. Based on the statistics published at the beginning of the year as well as the fuel prices which started to rise at the end of 2016 and beginning of 2017, we forecast an acceleration in the rise of consumer prices in 2017.

The balance of household deposits as well as consumption of loan products has increased in 2016, against the backdrop of rising wages and stable prices. The balance of household deposits has increased by nearly 450 million euros or 7.8%, compared to 2015 (2015: 7.4%). As at the end of the year, the total balance of deposits is thus 6.2 billion euros. The growth in the balance of loans granted to household accelerated in 2016, compared to previous periods. The growth in the loan portfolio amounted to 5.1% (2015: 3.9%) and the growth in consumer loans to 7.4% (2015: 5%). These dynamics have lowered the loan-to-deposit ratio of Estonian households to 1.23 by the end of 2016 (2015: 1.26). The loan-to-deposit ratio achieved its maximum at the end of 2007, at 2.13.



The quick growth in wages has contributed to the rise in total domestic demand. At the same time, we expect the rise in real wages to decelerate in 2017 against rising inflation expectations. Indeed, this should not be considered a negative development, since any rise in inflation is welcome from a business perspective. It will help to alleviate the pressure exerted by a quick growth in wages on profitability, and to enhance confidence with regard to new investments. Corporate investment appetite contributes to the growth in the additional value to be created, and helps to maintain the real wage level achieved, or even rise in future period.

The Estonian economy in 2016 favoured the business activities of Inbank. In the short-term perspective, we can expect the year 2017 to bring some changes in the current trends. These changes may have a somewhat negative bearing on Estonian households. Nonetheless, in general, the changes will serve the economy and will help to enhance the quality of life in Estonia in the long-term perspective.

Latvia

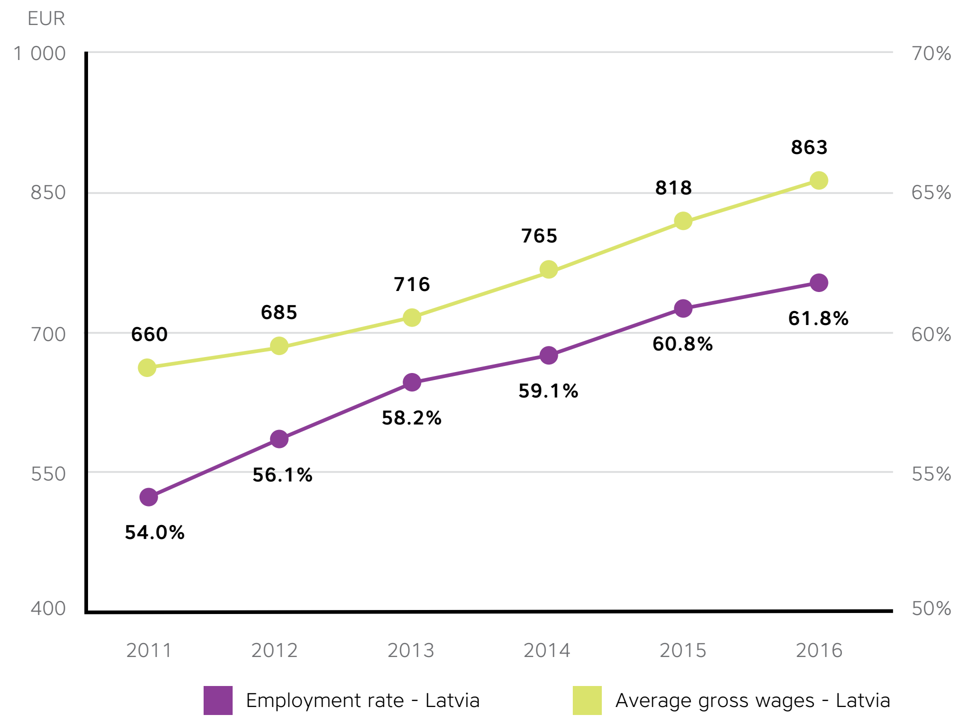
The situation for the households on the other major market for Inbank – Latvia – is somewhat different from Estonia, regardless of the geographic proximity. This is mainly evident in long-term loan product consumption.

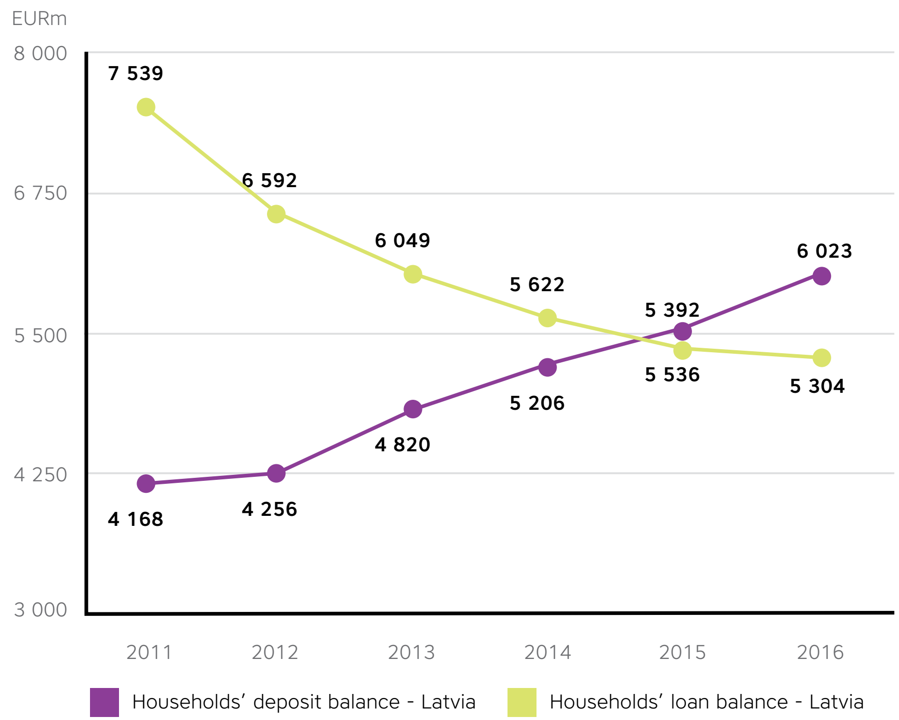
The overall situation in Latvia and household income resembles Estonia in various aspects. The Latvian economy is fuelled by a growth in domestic consumption, supported by a rising employment and falling unemployment. This has been accompanied by a 5.5% rise in wages, compared to 2015. The rise in consumer prices remained on par with that of Estonia – around 0.1%.

The economic growth in Latvia was 2.8% in 2016, surpassing the indicator for Estonia. At the same time, the Latvian economy grew by 3.1% in 2015, indicating a year-over-year deceleration. The small drop can mainly be attributed to the decrease in the inflow of EU assistance, which had a significant impact on investments in the real estate sector.

The deposit volumes of Latvian households grew by 8.8% in 2016, standing at 6.0 billion euros as at the end of the year. The principal differences in the financial well-being of Latvian and Estonian households are evident in the balance of loans. The total loan balance of households dropped by nearly 1.6% in 2016 (2015: a drop of 4.1%). This was conditioned mainly by the decrease in the balance of home loans. The Latvian recovery from the economic crisis of the last decade has been much more sluggish than expected, with many households still restructuring the home loans taken during the period of quick economic growth. The balance of consumer loans grew by nearly 7.6%, amounting to 487 million euros as at the end of the year. The dynamics of 2016 have lowered the household loan-to-deposit ratio in Latvia to 0.88 (2015: 0.97) / quite a reassuring indicator for the future.

In general, we can claim that, even though the Latvian economy and the household income position has permanently improved, the loans taken in the period prior to 2008 still remain a topical issue for many. We can assume that the trend change in household loan volumes, which occurred in Estonia in 2013-2014, will not materialise in Latvia before 2017 or 2018.

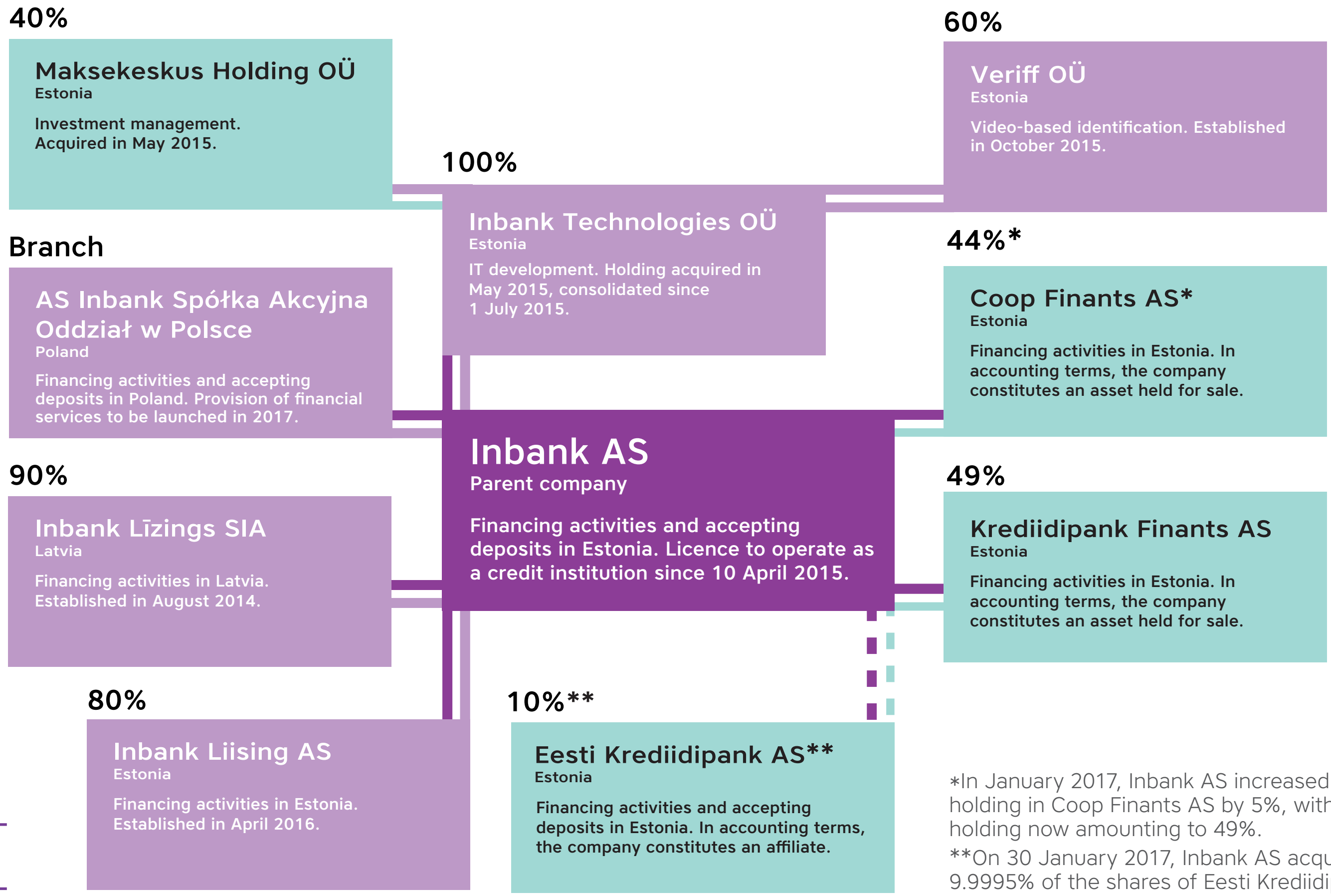




MANAGEMENT REPORT

Legal structure and brief description of Inbank AS

Inbank was established in Estonia on 5 October 2010 under the name of Cofi AS. On 10 April 2015, the Financial Supervision Authority issued the activity licence required for operating as a credit institution. The bank mainly focuses on consumer credit products and deposits. Alongside its key business lines, Inbank is also engaged in developing financial software and technology. The Inbank consolidation group employs 100 people. The consolidation group has more than 60,000 active consumer credit agreements and, along with affiliated companies, the total number of agreements is exceeding 165,000.



*In January 2017, Inbank AS increased its holding in Coop Finants AS by 5%, with the holding now amounting to 49%.
**On 30 January 2017, Inbank AS acquired 9.9995% of the shares of Eesti Krediidipank AS.

The group's legal structure

In 2016, we succeeded in boosting the bank's business volumes in all product lines. The total volume of the credit portfolio as at the end of the year stood at 64.8 million euros, growing by 85.6%, year-over-year.

Developments in business activity

For Inbank, 2016 was the first full year of operating as a bank. We gained a lot of first-time experience: auditing of the bank, internal capital adequacy assessment, conduct of the supervisory assessment process, applying for the licence required for operating as a branch, and the licence for cross-border activity licence. These activities required a major effort from the entire organisation. In hindsight, we must admit we did very well.

The greatest accomplishment for the year was the listing of our subordinated bonds on the stock exchange. We became a publicly traded company and earned the trust of 698 investors. The status as a publicly traded company gives Inbank further reason to pursue transparency and openness within the organisation.

In addition to successful achievement of the objectives, two new important projects were launched in 2016:

- Inbank's Poland branch received the activity licence at the beginning of 2017. Preparations are currently ongoing for launch of business activities. The branch's business activities are scheduled to be launched in the first quarter of 2017.
- We worked out a new business strategy for the Latvian subsidiary in 2016 and have now started to implement the strategy. The loan losses of the Latvian company exceeded the initial forecasts last year. Consequently, a comprehensive analysis of risks was carried out, and the action plan determined. We understood that the higher credit risk stemmed from the use of credit intermediaries as the sales channel. The new business strategy of the Latvian company will focus, above all, on increasing the number of hire-purchase partners and developing own channels.

Business volumes

In 2016, we succeeded in boosting the bank's business volumes in all product lines. The total volume of the credit portfolio as at the end of the year stood at 64.8 million euros, growing by 85.6%, year-over-year.

The bank's balance sheet volume doubled, amounting to 84.9 million euros (2015: 42.3 million euros). Deposit volume amounted to 64.6 million euros, growing by 117%, year-over-year.

Financial performance

As expected, the growth of the credit portfolio resulted in an increase in revenue. The bank's total revenue for 2016 amounted to 9.2 million euros, growing by 127% during the year. Total expenses amounted to 4.2 million euros, growing by 64.7%. Operating profit before loan losses amounted to 5 million euros. Loan losses totalled 3.2 million euros, having increased by 230% from last year. Return on investments amounted to 773 thousand euros, growing by 112%. The bank posted a net profit of 2.6 million euros in 2016. This constitutes a 176% increase from last year.

Organisational development

Against the backdrop of growing business volumes and geographical expansion, we had to pay special attention to recruitment. The decision to enter the Polish market triggered the need to set up a strong team, engaging top specialists in the Warsaw and Gdansk offices. As at the end of the year, Inbank had a total of 69 employees, with the total staff number, affiliated companies included, amounting to 100.

The bank's priorities for 2016 included development of the central risk organisation. Inbank recruited a credit risk manager in Estonia and credit risk specialists in Latvia and Poland during the year. Against the backdrop of internationalisation, a new system for reporting and monitoring risks was set up, providing a better overview and analysis of the risk behaviour of the portfolios.

Affiliated companies

Inbank is planning to sell the affiliated companies Coop Finants AS and Krediidipank Finants AS in the first half of 2017. As at 31 December 2016, these investments have been recognised as non-current assets held for sale.

Coop Finants AS (Inbank AS holds 44%*)

Coop Finants AS is mainly involved in the offer of financial products to the regular customers of Coop Group. The main products offered by the company include the payment and credit card Säästukaart Pluss and the consumption loan to private customers. The number of the company's active customers reached 105 thousand. As at the end of the year, the loan portfolio amounted to 19.5 million euros (YoY growth: +34%) and the unaudited 12M profit to 1.56 million euros.

Krediidipank Finants AS (Inbank AS holds 49%)

Krediidipank Finants AS is mainly involved in the offer of unsecured consumer loan to private persons (www.sihtlaen.ee). The number of the company's active customers reached 9,400 by the end of the year. The loan portfolio amounted to 13.3 million euros (YoY growth: +18%) and the unaudited 12M profit to 435 thousand euros.

The Inbank team participated at the Capital Cup football tournament held for financial companies in 2016.

*In January 2017, Inbank AS increased its holding in Coop Finants AS by 5%, with the holding now amounting to 49%.

Highlights in 2016

February

- Inbank was included in Äripäev's list of Top Gazelles with regard to Turnover Growth and Profit Growth.

April

- Inbank was among the finalists in the Marketing Achievement of the Year and Marketing Team of the Year competitions.

- Inbank launched a small loan product with an automatic decision-making algorithm.

June

- Inbank implemented the web-based identification solution Veriff.

- Inbank posted 1.11 million euros in profit in the first half of the year.

August

- The Inbank team in Poland launched its activities.
- Inbank's subsidiary Inbank Liising AS was launched, offering full-service leasing to corporate customers.

inbank liising

September

- Inbank announced the issue of subordinated bonds. The bonds were oversubscribed by 2.2 times, with the total issue volume amounting to 6.5 million euros.

October

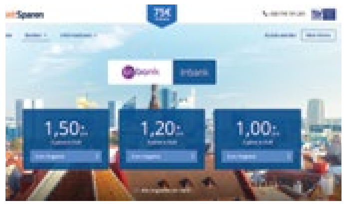
- Inbank's bonds were listed on the Nasdaq Tallinn Stock Exchange, with the bonds becoming freely tradable.

November

- Inbank launched the car loan product under its own brand.
- The electronics chain Klick Eesti AS started offering Inbank's hire-purchase service.

December

- Inbank started cooperating with the deposit platform Raising, engaging deposits from the German and Austrian markets.



Inbank's international profile has triggered the need to reinforce cross-border management capacity.

Priorities for 2017

Inbank's international profile has triggered the need to reinforce cross-border management capacity. The bank's strategy workgroup gathered in the fourth quarter, defining the primary goals for 2017:

- launch of activities on the Polish market
- implementation of the new strategy in the Latvian subsidiary
- growth of business volumes in Estonia
- development of the international organisation

The first three goals require ability and consistency in the pursuit of the established objectives. The fourth goal reflects the extent of adherence to the same operating principles on the different markets, i.e. the work stages to be centralised and the work stages to be performed locally. The strategy workgroup thus defined the principles to be followed in international expansion.

We will centralise the following areas:

- capital management and financing
- product development and technology
- distribution strategy and the key business principles

The strategy serves to ensure efficient use of resources and a uniform business logic on all markets. We believe the established principles to be the cornerstone of Inbank's unique business strategy.

Inbank's shareholders

As at the end of 2016, Inbank had two shareholders whose holding exceeded 10%.

Inbank's founders and persons related to them held 21,690 shares as at 31 December 2016. This makes up 31.49% of all shares issued.

Members of the Management Board and Supervisory Board of Inbank and persons related to them held 51,651 shares as at 31 December 2016. This makes up 74.99% of all shares issued.

Name of shareholder	Number of shares	Holding
Pershing Hall Holding Limited	21 676	31,47%
Cofi Investeeringud OÜ	21 371	31,03%

FINANCIAL RESULTS

Inbank's net profit before investments amounted to 1.85 million euros and net profit to 2.62 million euros, which is a 176% increase from 2015 (949 thousand euros). The main contributors to the profit growth included the 128% increase in total revenue and the 112% increase in return on investments. Total expenses increased by 65% during the period, with major costs incurred in connection with the opening of the branch in Poland. The rise in profitability was in line with our expectations, with the foundations for growth established already in 2015. The bank's business volumes were in better correlation with the size of the organisation in 2016, as evidenced by the change in the cost-income ratio.

Inbank's net interest income and net fee and commission income grew by a total of 154%. Other net income related to operations decreased by 11% to 571 thousand euros. The decrease in other income was conditioned by the fact that a bulk of the labour resources of Inbank Technologies OÜ was directed into the development of group companies. As at the end of the year, Inbank's loan portfolio volume amounted to 64.8 million euros, i.e. a total growth of nearly 86%. A majority of the loans issued (nearly 95%) were retail claims. Car loan and small loan products were the main contributors to portfolio growth.

In 2016, Inbank continued offering the best deposit interest rate in Estonia. With the brand recognition continuing to grow, the bank was able to significantly expand on its deposit portfolio. By the end of the year, Inbank's deposit volume had grown to 64.6 million euros, i.e. a 117% growth from the end of 2015.

Having increased by 64% year-over-year, personnel expenses made up 58% of the bank's total expenses in 2016.

Summary of the balance sheet		
EURt	**31.12.2016**	**31.12.2015**
Loans granted	64 839	34 931
including retail claims	61 459	31 616
Deposits accepted	64 587	29 711
Equity	11 804	8 008

Summary of the income statement		
EURt	**2016**	**2015**
Net interest income	8 384	3 377
Net fee and commission income	265	27
Other net income related to operations	571	644
Total revenue	**9 220**	**4 048**
Personnel expenses	-2 461	-1 505
Sales and marketing expenses	-566	-222
Other expenses	-1 188	-832
Total expenses	**-4 215**	**-2 559**
Operating profit	**5 005**	**1 489**
Profit/loss from investments	773	365
Profit before loan losses	**5 778**	**1 854**
Gains/losses from revaluation of loans	-3 219	-976
Profit before income tax	**2 559**	**878**
Deferred income tax	57	71
Net income for the accounting period	**2 616**	**949**
Unrealised exchange rate differences	2	
Net comprehensive income for the accounting period	**2 618**	**949**
including the portion attributable to shareholders of the parent company	2 649	987

RISK MANAGEMENT

The objective of risk management is to identify, assess, monitor and control the risks related to the business operations of Inbank and its subsidiaries. Business and risk management departments are responsible for the daily management of risks. A broader objective of risk management is to ensure the stability, credible reputation of Inbank and the sustainable growth of the value of the company.

Risk management is based on robust risk culture and has been built on the principle of three lines of defence. The first line of defence, i.e. business divisions are responsible for risk taking and their daily management. The second line of defence, i.e. independent risk management department is responsible for developing risk management methods and reporting on risks. The third line of defence, i.e. internal audit exercises independent supervision over the entire organisation, including the risk management function. The processes and rules of risk management are reviewed on a regular basis and updated as applicable.

A detailed overview of the risks taken by Inbank has been presented in Note 3 to the financial statements.

EURt

Capital base	**31.12.2016**	**31.12.2015 (restated)**
Share capital	689	569
Share premium	6 361	5 393
Statutory reserve capital	1 418	1 360
Retained earnings	681	-279
Intangible assets (subtracted)	-902	-760
Profit for the financial year*	2 647	987
Shares in affiliates*	-1 673	-868
Total Tier 1 own funds	**9 221**	**6 402**
Subordinated liabilities at nominal value	6 503	0
Total Tier 2 own funds	**6 503**	**0**
Net own funds for calculation of capital adequacy	**15 724**	**6 402**
Risk-weighted assets		
Credit institutions, standardised approach	391	976
Non-financial customers, standardised approach	3 037	1 379
Claims secured by mortgage, standardised approach	0	1 148
Retail claims, standardised approach*	44 818	23 787
Claims past due, standardised approach*	1 095	156
Other assets, standardised approach	1 562	381
Total credit risk and counterparty credit risk	**50 903**	**27 827**
Operational risk, basic indicator approach	4 701	2 462
Total risk-weighted assets	**55 604**	**30 289**
Capital adequacy (%)	28.28%	21.14%
Regulatory capital adequacy (%)*	26.69%	18.63%
Tier 1 capital ratio (%)	16.58%	21.14%
Regulatory Tier 1 capital ratio (%)*	15.15%	18.63%

*A detailed overview of Inbank's capital adequacy calculations has been presented in Note 22 to the financial statements.

OVERVIEW OF THE SUBSIDIARIES AND AFFILIATES OF INBANK IN 2016

Estonia

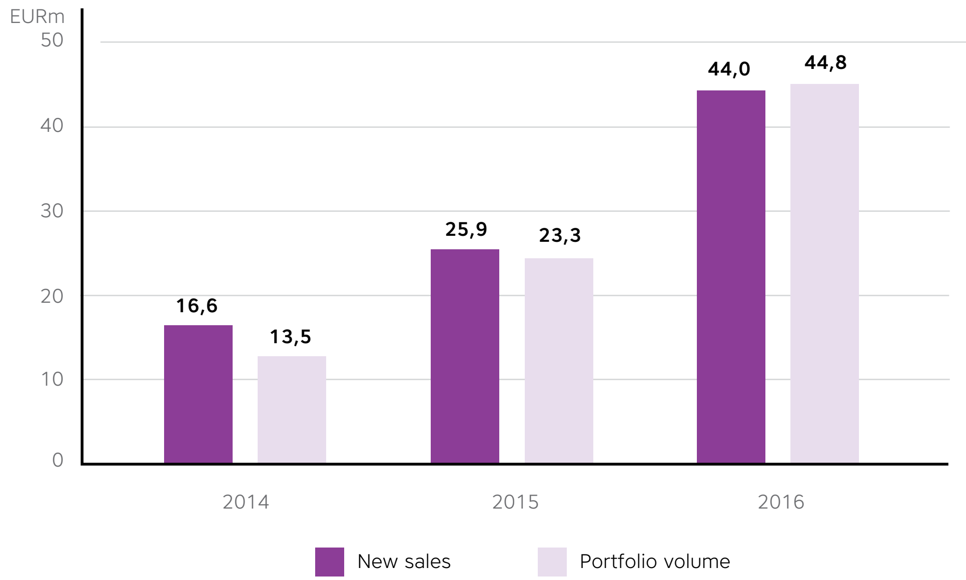
The trends evident in Inbank's Estonian activities in 2015 continued in 2016. In addition to the hire-purchase product, Inbank also launched the unsecured consumer loan product line in 2015, launching the highly successful car loan in co-operation with the auto24.ee car sales portal. The general-purpose small loan product was added to the product portfolio in 2016.

This change in the portfolio of the products offered is also evident in the fact sheet describing the Estonian loan business. The average amount of loan issued has increased significantly, along with the loan period. The entry into the small loan product segment has triggered a drop in the average interest rate, as expected.

The addition of new products has significantly enhanced new sales volumes and expanded the credit portfolio. In 2016, new sales volu-

Retail credit sales and volume of portfolio, EURt	2014	2015	2016
Volume of new sales	16 647	25 915	43 958
New sales of products (items)	37 419	40 522	45 611
Average value of new sales contracts (EUR)	445	640	964
Average interest rate of new sales	23.5%	20.8%	20.2%
Average period of new sales (months)	20	30	37
Volume of credit portfolio	13 538	23 349	44 812
Number of credit products in portfolio (items)	35 798	41 846	50 878
Average value of contracts in portfolio (EUR)	378	558	881
Average interest rate of portfolio	21.5%	20.4%	19.7%
Share of portfolio in 90+ days overdue	0.7%	0.4%	0.9%
Share of portfolio in 180+ days overdue	0.0%	0.1%	0.3%
The ratio of loan losses to average credit portfolio	2.1%	2.4%	2.2%

Volume of retail credit sales and portfolio



mes rose by 70%, compared to 2015. The growth rate was 56% the year before. The portfolio grew by 92% in 2016, with a 72% growth the year before. The trends are expected to continue in 2017 with regard to both new sales volumes and the size of the portfolio.

As regards deposit sales, mention must be made of the fact that 2016 was the first full year of operation for Inbank's deposit offer. Consequently, the volume of new deposit sales have significantly increase, year-over-year, amounting to 78%. Inbank's growing reputation on the Estonian market has contributed to the increase in sales volumes against a slight drop in the average interest rate. As at the end of 2016, more than 5,300 term deposit customers had placed their trust with Inbank.

Attraction of deposits and volume of portfolio, EURt	2014	2015	2016
Volume of new deposit contracts entered into	-	30 769	54 638
Number of new deposit contracts entered into	-	2 533	3 767
Value of average deposit contract (EUR)	-	12 147	14 504
Average interest rate of contracts entered into	-	2.5%	1.9%
Average period of contracts entered into (months)	-	21	16
Volume of deposit portfolio	-	29 712	64 587
Number of deposit contracts	-	2 506	5 321
Average interest rate of portfolio	-	2.6%	2.2%

In the autumn of 2016, Inbank's staff members made presentations in several events targeted at senior citizens, with the aim of sharing money wisdom in the field of investment and savings.

Latvia

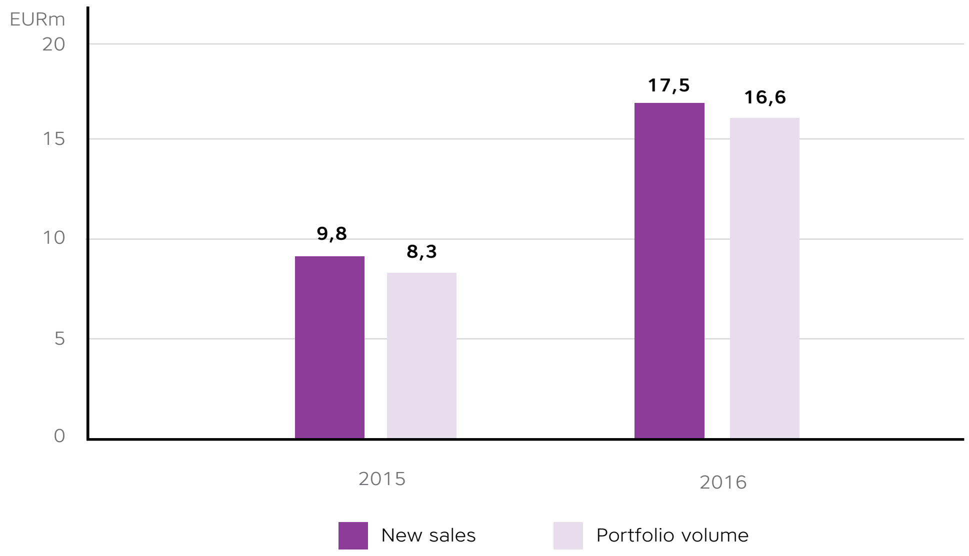
In Latvia, the year 2016 was full of changes for Inbank. The year started out with a good sale of unsecured consumption loan. The sales volume increased, above all, at the expense of sales partner channels. We soon found out, however, that sales of small loans through partner channels fail to meet Inbank's quality expectations. This was evident in the higher ratio of loan losses to portfolio volume, compared to Inbank's Estonian retail business. After careful examination of Latvian sales channels, we decided to re-focus on loan sales through own channels. The decision triggered a significant drop in sales volumes in the second half of the year, as expected.

With a change introduced in the sales strategy, the forecast for sales volumes in Latvia in 2017 is lateral. We have a justified expectation of the new sales being of significantly higher quality, generating a much better result for the bank, compared to 2016. We have received the first clear signals that the sales strategy has improved after the change in strategy.

Nonetheless, despite changes in the Latvian market, Inbank as a group succeeded in posting a profit from the Latvian business in 2016. This can be attributed to the somewhat higher contract pricing policy, compared to the Estonian market.

Retail credit sales and volume of portfolio, EURt	2015	2016
Volume of new sales	9 795	17 548
New sales of products (items)	7 581	9 147
Average value of new sales contract (EUR)	1 292	1 918
Average interest rate of new sales	23.6%	24.2%
Average period of new sales (months)	43	40
Volume of credit portfolio	8 267	16 647
Number of credit products in portfolio (items)	6 289	10 313
Average value of contracts in portfolio (EUR)	1 315	1 614
Average interest rate of portfolio	22.5%	23.1%
Share of portfolio in 90+ days overdue	0.7%	4.2%
Share of portfolio in 180+ days overdue	0.1%	2.2%
The ratio of loan losses to average credit portfolio	3.6%	13.3%

Volume of retail credit sales and portfolio



Affiliates

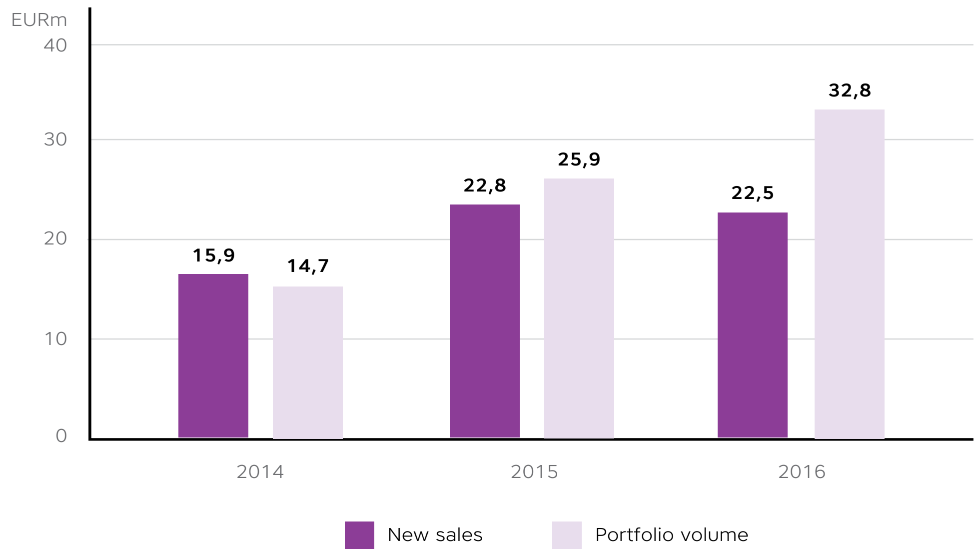
Coop Finants AS and Krediidipank Finants AS have shown an aggressive growth ever since their establishment. Both companies serve as a good indication of how Inbank has succeeded in combining its knowledge of the consumer credit market with the existing customer bases of partner companies. The synergy is evident in the size of the credit portfolio, which has shown a consistent growth throughout 2016, amounting to 32.8 million euros by the end of the year. This constitutes a 26.8% growth, year-over-year.

The growth in Inbank's loan portfolio can be attributed to successful sale of small loans. This triggered a rise in the average interest rate of sales contracts (18.2% in 2015 vs 18.8% in 2016). The growth in the share of consumer loans conditioned a rise in the average interest rate of the portfolio as well as an increase in loan losses in relation to the portfolio.

The bank is planning to sell the affiliates Coop Finants AS and Krediidipank Finants AS in the first half of 2017. Both companies are to be merged with Eesti Krediidipank, in which Inbank has a 10% holding as at the moment of the publication of the report. Consequently, the products developed by both Coop Finants AS and Krediidipank Finants AS can continue to grow in the portfolio of the soon-to-be-established Coop Bank.

Retail credit sales and volume of portfolio, EURt	2014	2015	2016
Volume of new sales	15 915	22 838	22 459
New sales of products (items)	27 090	31 693	27 487
Average value of new sales contract (EUR)	587	721	817
Average interest rate of new sales	17.4%	18.2%	18.8%
Average period of new sales (months)	39	39	39
Volume of credit portfolio	14 741	25 873	32 818
Number of credit products in portfolio (items)	65 021	87 610	106 664
Average value of contracts in portfolio (EUR)	227	295	308
Average interest rate of portfolio	16.9%	18.0%	18.4%
Share of portfolio in 90+ days overdue	0.9%	0.9%	2.1%
Share of portfolio in 180+ days overdue	0.1%	0.2%	1.2%
The ratio of loan losses to average credit portfolio	2.5%	4.1%	4.4%

Volume of retail credit sales and portfolio



CORPORATE GOVERNANCE

Supervisory Board

The Supervisory Board of Inbank consists of five members.

Priit Põldoja
Chairman of the Supervisory Board

Rain Rannu
Member of the Supervisory Board

Roberto de Silvestri
Member of the Supervisory Board

Triinu Reinold
Member of the Supervisory Board

Raino Paron
Member of the Supervisory Board

Management Board

The Management Board of Inbank consists of three members

Jan Andresoo
Chairman of the Management Board

Liina Sadrak
Member of the Management Board

Marko Varik
Member of the Management Board

Inbank structures its activities on the principle of consolidation, meaning that the governance bodies established at the parent company Inbank make the most important management and strategic decisions for the companies in the consolidated group.

Description of general management principles

Inbank structures its activities on the principle of consolidation, meaning that the governance bodies established at the parent company Inbank make the most important management and strategic decisions for the companies in the consolidated group. Inbank's general meeting, supervisory board and, for some decisions related to credit, the Inbank credit committee, are thus involved in decision-making. This allows Inbank as a consolidated group to proceed from a unified set of objectives and operating principles.

Remuneration principles

In remunerating its personnel, Inbank proceeds from the principles arising from the Credit Institutions Act and Inbank's recruitment and remuneration policy. The principles for remunerating personnel stimulate sustainable growth and customer satisfaction, and are relying on trustworthy and effective risk management. The staff remuneration mechanism serves to support Inbank's business strategy, objectives, core values and long-term interests. In remuneration, Inbank considers its employees' personal contribution and job performance as well as the company's economic results.

The structure of employee remuneration consists of two parts:

1. Basic salary (fixed)
2. Performance pay (decided separately for each employee)

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

Outside consultants are not involved in determining remuneration principles.

One option agreement concluded with a management board member was realised in 2016, with the option holder acquiring 167 shares against a monetary contribution equalling the nominal value of the shares. Inbank's share capital was increased as a result.

Option agreements were concluded with key staff (including management) in 2016, granting employees the right to acquire a total of 4,750 shares at a price of 300 euros per share. The option agreements are set to expire in 2019.

In total, Inbank has issued options for acquiring 4,930 shares, with 1,000 options issued to members of the management board and 580 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 2015.

CORPORATE GOVERNANCE REPORT

Inbank adheres to the Corporate Governance Code (hereinafter "Code"), a set of advisory guidelines adopted by the Financial Supervisory Authority. The Code is above all designed for companies with a wide ownership and Inbank has thus adapted the Code to its own specifics. The following is an overview of compliance with the Code and of the recommendations that Inbank does not fulfil, along with the reasons.

General meeting

The general meeting of shareholders is the highest management body of Inbank. The competence of the general meeting stems from legal acts. Each shareholder has the right to take part in the general meeting, speak at the general meeting on the topics on the agenda, and submit reasoned questions and make proposals. Under Inbank's articles of association, specific types of shares do not confer specific control or voting rights.

The general meeting is called by the management board. Ordinary general meetings are announced to shareholders at least three weeks before the general meeting is to take place, and extraordinary general meetings are announced at least one week before.

The notice regarding the general meeting is sent to shareholders by registered post to the address entered in the share register. The notice of general meeting may also be sent by ordinary mail, electronically or by fax, if accompanied by a note regarding the obligation of immediately sending a confirmation of receipt of the document. Inbank also has the possibility of adopting decisions without calling a general meeting.

In 2016, one ordinary and one extraordinary general meeting of shareholders took place. The ordinary general meeting approved the annual report 2015, decided to transfer a portion of the retained earnings to the legal reserve, cover the accumulated loss at the expense of the net profit posted in 2015, and transfer the remaining net profit to retained earnings, appointed the auditor of the annual report 2016, replaced a member of the supervisory board and approved the remuneration of the chairman of the supervisory board. The extraordinary general meeting resolved to increase the share capital.

Inbank does not comply with clause 1.1.1 of the Code, which advises a company to include in the notice calling the general meeting the address to which the shareholders can send questions regarding agenda items. Nor does it comply with clause 1.2.2 of the Code, under which reasons and explanations are provided upon calling the general meeting on agenda items concerning material changes. In practice, interaction between Inbank and its shareholders takes place efficiently and directly, and this guarantees that any and all shareholder questions are answered and agenda items explained either directly to shareholders or at the general meeting.

Inbank does not comply with clauses 1.2.1, 1.2.3 and 1.2.4 of the Code, which recommend that information related to general meeting be disclosed on the website. This is because effective e-mail communication takes place with Inbank shareholders and all of the required information is made available to shareholders via e-mail. The notice calling the general meeting is not published in a daily newspaper with national circulation, due to the small number of shareholders.

Inbank complies with clause 1.2.2 (information is to be presented to shareholders in Estonian) and 1.3.1 (the general meeting is to be conducted in Estonian) of the Code depending on the circumstances. At Inbank, information is presented and the general meeting takes place above all in English, as some shareholders are from foreign countries and the local shareholders are willing to communicate in English. If the meeting or information is presented in Estonian, shareholders are given the opportunity for a translation into English and vice versa - if the meeting or information is presented in English, shareholders are given the opportunity for a translation into Estonian.

In addition, Inbank is not in compliance with the recommendation in clause 1.3.1 of the Code that the chairman of the supervisory board cannot be elected as chair of the general meeting. As the supervisory board chairman is also a representative of a shareholder and, being the chairman of the supervisory board, is well informed regarding the activity of Inbank, it has not been deemed necessary, given Inbank's current organizational and shareholder structure, to elect someone from outside the organization as chair of the general meeting. The chair of the general meeting has always been elected unanimously.

Inbank is in partial compliance with clause 1.3.2 of the Code, in accordance with which the management board members, supervisory board chairman and, if possible, the supervisory board members and at least one of the auditors shall take

part in the general meeting. The participation of all of the management board members depends on the topics covered at the meeting. The chairman of the management board and the member of the management board responsible for financial affairs are always present at the meeting. It is not necessary for all of the supervisory board members to take part in the meeting, as the supervisory board is represented at the meeting by the chairman of the supervisory board. The auditor did not participate in the meetings, since the audit firm appointed as the auditor at the annual general meeting was the same audit firm who audited Inbank's previous annual report, and the extraordinary general meeting did not cover issues which would have required the participation of the auditor.

Inbank does not enable watching or participating in the general meeting (clause 1.3.3 of the Code) via telecommunication solutions as all shareholders have been represented at the general meetings and there has been no need for remote solutions. All shareholders have the option of casting their vote on the agenda items electronically.

Management board

The functions of Inbank's management board are governed by the articles of association, the Commercial Code and the Credit Institutions Act.

Inbank's management board consists of three members (three to seven members according to the articles of association) who are elected by the supervisory board for three years. The members of the management board 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.

Inbank does not adhere to the recommendation in clause 2.2.7 of the Code that management board members' benefits and bonus schemes be published on the website, as the remuneration paid to the management board is disclosed in Note 27 as a part of the total amount of benefits paid to the management board and higher management. This is also personal information that is not indispensably essential in order to assess the activity of Inbank. Inbank has not complied with clause 2.2.7 – which recommends that essential aspects of management board remuneration and changes in it be presented to the general meeting – as there were no changes in 2016 in relation to remuneration of the management board.

Once a year, management board members file a declaration on economic interests and conflict of interest. Transactions executed with management board members are provided in Note 27 and are entered into on market terms. The management board members are not members of the management board or supervisory board in other companies not associated with Inbank. Marko Varik serves as a management board member in Inbank's subsidiaries Inbank Līzings SIA and Inbank Liising AS, and Liina Sadrak and Jan Andresoo as members of the Supervisory Board of Inbank Liising AS.

Management board members have not been paid severance compensation as none of the members have left.

Supervisory board

Inbank's supervisory board plans the activities of Inbank, issues operating guidelines for the management board in organizing management of Inbank, performs oversight regarding the activities of Inbank and its management board, and takes decisions on matters set forth in legislation or the articles of association.

Inbank's supervisory board consists of five members (five to seven members according to the articles of association) who are elected by the general meeting for three years:
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 2016, Reimo Hammerberg was removed and Raino Paron appointed as a new member of the supervisory board.

All of the supervisory board members participated in at least half of the meetings in 2016.

Seven meetings of the supervisory board took place in 2016 and

The management board and supervisory board work together closely for the purpose of optimum protection of the interests of Inbank. The basis of the cooperation is open communication between the management board and the supervisory board as well as within the management board and supervisory board.

on eight occasions, the necessary decisions were taken without calling a meeting. The supervisory board continued to actively pursue its role of managing the strategy of the public limited company and supervising the activities of the management board. At the meetings, the supervisory board received an overview of the financial results and activities of Inbank, its subsidiaries and affiliates. The supervisory board also approved strategic decisions of Inbank, including the establishment of the subsidiary Inbank Liising AS, issue of subordinated bonds, the process of and documents related to the acquisition of the shares of Krediidipank, the sale of 49% stake in Coop Finants AS and 49% stake in Krediidipank Finants AS to Eesti Krediidipank, the establishment of the Poland branch and raising deposits as a cross-border service provided in Germany and Austria. Among other things, the supervisory board set up the remuneration committee and decided on the establishment of the risk and capital committee, determined the agenda of general meetings and made proposals with regard to the agenda items, and decided on the replacement of the head of the internal audit unit.

The 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 over the management board and support the supervisory board in strategic decision-making and conduct of financial supervision and risk monitoring. The function of the committee is to verify and analyse the processing of financial information, efficiency of risk management and internal control, the process of auditing the financial statements and consolidated reports, and the independence of external auditor. No remuneration is paid to the members of the committee. Information on the audit committee is not disclosed on the website (as urged by clause 3.1.3 of the Code) as Inbank does not consider this necessary for ensuring the work of the committee and shareholders' interests.

The remuneration committee, consisting of three members, has been formed of the members of the supervisory board. The chairman of the remuneration committee is Priit Põldoja and members are Roberto de Silvestri and Rain Rannu. The remuneration committee is charged with the task of evaluating the principles of remuneration within Inbank, and the impact of any remuneration-related decision on the achievement of the bank's strategic goals and adherence to the requirements established for the management of risks, own funds and liquidity. No remuneration is paid to the members of the committee. Information on the remuneration committee is not disclosed on the website (as urged by clause 3.1.3 of the Code), as Inbank does not consider this necessary for ensuring the work of the committee and shareholders' interests.

Of the supervisory board members, Priit Põldoja and Triinu Reinold receive remuneration. Inbank does not deem it necessary to publish the amount of remuneration of members of the supervisory board in detail as recommended in clause 3.2.5 of the Code, as the remuneration exerts an insignificant impact on the financial results of Inbank. The remuneration paid to the supervisory board is included in the total amount of benefits paid to the management board and higher management, as disclosed in Note 27.

Once a year, the supervisory board members file a declaration of economic interests and economic conflicts of interest. The transactions entered into with supervisory board members are listed in Note 27 and were entered into at market conditions.

Cooperation between management board and supervisory board

The management board and supervisory board work together closely for the purpose of optimum protection of the interests of Inbank. The basis of the cooperation is open communication between the management board and the supervisory board as well as within the management board and supervisory board. The management board ensures the availability of the latest updated management information to the supervisory board. The management board and supervisory board jointly develop the activity objectives and strategy of Inbank. The management board proceeds from the strategic guidelines issued by the supervisory board and discuss strategic management issues with the supervisory board at a set interval.

Disclosure of information

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

Inbank has not prepared a separate website for shareholders, but has designed a page for investors, a page containing the reports (both the annual report and the corporate governance report as well as interim reports), notices and overview of the Inbank team members (including the management board and supervisory board). The financial calendar (clause 5.2 of the Code), information in response to questions presented by analysts and shareholders (clause 5.5 of the Code) and the dates of meetings with analysts, investors and the press (clause 5.6 of the Code) are not disclosed, as these are not necessary considering Inbank's current activities and the substantial emphasis on keeping shareholders notified through other channels.

Financial reporting and auditing

Inbank prepares and publishes the annual report and quarterly reports for each year. The annual report is audited.

The general meeting appointed AS Deloitte Audit Eesti (registry code: 10687819), as the auditor of the financial year 1 January 2016 – 31 December 2016. The same audit firm also audited Inbank's annual report for the previous year.

CONSOLIDATED ANNUAL REPORT

Consolidated statement of financial position

EURt	Note	31.12.2016	31.12.2015 (restated)	01.01.2015 (restated)
Assets				
Cash in hand		4	3	0
Due from central banks, reserve requirement		14 680	499	0
Due from credit institutions		1 956	4 882	376
Loans and receivables	5	64 839	34 931	14 203
Investments in affiliates	14	1	868	444
Tangible assets	15	183	95	30
Intangible assets	16	902	760	189
Other assets	17	706	286	167
Assets held for sale	14	1 672	0	0
Total assets		**84 943**	**42 324**	**15 409**

EURt	Note	31.12.2016	31.12.2015 (restated)	01.01.2015 (restated)
Liabilities				
Loans raised	4	0	110	4 543
Deposits	18	64 587	29 711	0
Debt securities	19	0	3 114	4 770
Other liabilities	20	2 077	1 381	520
Subordinated debt securities	19	6 475	0	0
Total liabilities		**73 139**	**34 316**	**9 833**
Equity				
Share capital	24	689	569	500
Share premium	24	6 361	5 393	4 002
Retained earnings/accumulated loss		681	-279	1 051
Reserves	25	1 387	1 360	30
Other reserves	25	31	0	0
Total comprehensive income		2 649	987	0
Total equity attributable to the shareholders of parent company		**11 798**	**8 030**	**5 583**
Non-controlling interest		6	-22	-7
Total equity		**11 804**	**8 008**	**5 576**
Total liabilities and equity		**84 943**	**42 324**	**15 409**

Consolidated statement of comprehensive income

EURt	Note	2016	2015 (restated)
Continuing operations			
Interest income	6	9 788	4 082
Interest expenses	6	-1 404	-705
Net interest income		**8 384**	**3 377**
Fee and commission income	7	599	273
Fee and commission expense	7	-334	-246
Net fee and commission income		**265**	**27**
Other income related to operations		571	644
Total income		**9 220**	**4 048**
Personnel costs	8	-2 461	-1 505
Marketing expenses		-566	-222
Administrative expenses		-1 014	-675
Depreciation, amortisation	15;16	-174	-157
Total operating expenses		**-4 215**	**-2 559**
Operating profit		**5 005**	**1 489**
Profit from affiliates	14	773	365
Profit before loan losses		**5 778**	**1 854**
Credit losses	5	-3 219	-976
Profit before income tax		**2 559**	**878**
Deferred income tax	10	57	71
Net income		**2 616**	**949**
Unrealised foreign exchange gains/losses		2	0
Total comprehensive income		**2 618**	**949**
Profit (loss) attributable to the parent company		2 649	987
Profit (loss) attributable to non-controlling interest		-31	-38
Total comprehensive income		**2 618**	**949**

Consolidated cash flow statement

EURt	Note	2016	2015 (restated)
Cash flows from operating activities			
Operating profit		5 005	1 489
Interest income	6	-9 788	-4 082
Interest expense	6	1 404	705
Credit losses	5	-3 219	-976
Depreciation, amortisation	15;16	174	157
Cash flows from operating activities before change in operating assets and liabilities		**-6 424**	**-2 707**
Net increase/decrease in operating assets			
Loans to customers		-29 539	-20 593
Required reserve in central banks		-319	-154
Other assets		-420	-120
Net increase/decrease in operating liabilities			
Customer deposits		34 197	29 423
Other liabilities		696	859
Cash flows from operating activities		**-1 809**	**6 708**
Adjustments to current assets and liabilities			
Interest received		9 419	3 948
Interest paid		-725	-417
Other adjustments		151	71
Net adjustments to current assets and current liabilities		**8 845**	**3 602**
Net cash flow from operating activities		**7 036**	**10 310**

EURt	Note	2016	2015 (restated)
Cash flows from investing activities			
Acquisition of non-current assets	15;16	-402	-794
Investment in affiliates		-31	-59
Net cash flow from investing activities		**-433**	**-853**
Cash flows from financing activities			
Debt securities sold	19	-3 114	-1 651
Debt securities issued	19	6 471	0
Loans received and repayments		-110	-4 433
Proceeds from issue of share capital	24	120	69
Proceeds from share premium	24	967	1 391
Net cash flow from financing activities		**4 334**	**-4 624**
Change in cash and cash equivalents	**11**	**10 937**	**4 833**
Cash and cash equivalents at the beginning of the year		5 230	397
Cash and cash equivalents at the end of the year	**11**	**16 167**	**5 230**

Consolidated statement of changes in equity

EURt	Share capital	Share premium	Statutory reserve	Other reserves	Retained earnings/ accumulated losses	Total equity attributable to shareholders of parent company	Non-controlling interest	Total equity
Balance as at 01.01.2015	**500**	**4 002**	**30**	**0**	**1 051**	**5 583**	**-7**	**5 576**
Share capital issued	69	1 391	0	0	0	1 460	0	1 460
Statutory reserve	0	0	0	1 330	-1 330	0	0	0
Comprehensive income for the period	0	0	0	0	1 207	1 207	-11	1 196
Balance as at 31.12.2015	**569**	**5 393**	**30**	**1 330**	**928**	**8 250**	**-11**	**8 239**
Restatement	0	0	0	0	-220	-220	-11	-231
Restated balance as at 31.12.2015	**569**	**5 393**	**30**	**1 330**	**708**	**8 030**	**-22**	**8 008**
Contributions to share capital	120	968	0	0	0	1 088	0	1 088
Share-based payment reserve	0	0	0	31	0	31	0	31
Statutory reserve	0	0	27	0	-27	0	0	0
Contribution of non-controlling interest to share capital of subsidiary	0	0	0	0	0	0	59	59
Comprehensive income for the period	0	0	0	0	2 649	2 649	-31	2 618
Balance as at 31.12.2016	**689**	**6 361**	**57**	**1 361**	**3 330**	**11 798**	**6**	**11 804**

NOTE 1 Accounting policies and procedures

General information

The consolidated financial statements of Inbank AS (hereinafter: the Parent Company) for 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union and the interpretations of these standards (IFRIC).

In addition to Inbank AS, the Inbank AS consolidation group (hereinafter the Group) also includes the subsidiary Inbank Lizings SIA (holding 90%), which is established in Latvia and provides financial services; subsidiary Inbank Technologies AS (holding 100%, acquired), which develops software, and the latter's subsidiary Veriff OÜ (holding 60%). Inbank Liising AS (holding 80%), which was established in April 2016, started providing comprehensive leasing services to corporate customers in Q3 2016.

A branch of Inbank was registered in Poland in Q3 2016. The bank is planning to start operating on the Polish deposit and consumer financing market in Q1 2017. The performance results of the branch are recognised in the financial statements of Inbank. After the registration of the licence, the branch is obliged to submit regulative reporting to the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego).

The bank has investments in affiliates Coop Finants AS (44% holding as at 31 December 2016, 49% as at the publication of the report) and Krediidipank Finants AS (holding 49%).

The financial year starts on 1 January and ends on 31 December, the amounts are presented in thousand euros unless otherwise indicated.

The consolidated financial statements of Inbank have been approved by the management board and will be submitted to the shareholders for approval on 29 March 2017.

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.

Signifcant accounting principles

Presentation of the financial statements

The consolidated financial statements consist of the following reports:

- Consolidated statement of financial position as at the end of the financial period;
- Consolidated statement of comprehensive income for the period;
- Consolidated statement of changes in equity for the period;
- Consolidated cash flow statement for the period; and
- explanatory notes, which include a summary of significant accounting policies and other explanatory information.

The purpose of the consolidated financial statements is to give their users information about the Group's financial position and results, and cash flows, which can be used as the basis for making economic decisions.

Consolidated financial statements

The consolidated financial statements are comprised of the financial statements of the Parent Company and the subsidiaries controlled by the Parent Company. Inbank AS controls an investment if it is entitled to the variable profit arising from its participation in the investment and if it can influence the decision making process of the investment. The general assumption is that the majority voting rights give control. In order to support this assumption and in the cases where Inbank AS does not have the majority of votes or similar rights in an investment, Inbank considers all of the circumstances to assess whether the bank controls the investment, including:

- contractual agreements with other voting right holders in the investment;
- the rights arising from other contractual agreements;
- the Group's voting rights and possible voting rights.

If the facts suggest that one or more of the three elements of control has changed, the Group will give a new estimate of its control of the investment. The consolidation of a subsidiary starts when the Group gains control over the subsidiary and ends when the Group loses control over the subsidiary.

Subsidiaries have been consolidated line-by-line in the consolidated financial statements. If necessary, the financial statements of subsidiaries have been adjusted in order to bring their accounting principles in line with the accounting principles of the Group. The financial years of the subsidiaries are the same as the financial year of the Parent Company. All intra group receivables and liabilities, transactions between the companies and the unrealised profits and losses, which have arisen as a result thereof, have been eliminated upon consolidation. The share of minority holders in the results and equity of a subsidiary has been indicated in the consolidated statement of comprehensive income on a separate line, and recognised in the consolidated financial position statement as part of equity separately from the equity capital held by shareholders of parent company. The financial statements of foreign subsidiaries and other business units (incl. branches) are converted from their accounting currency to the parent company's functional currency for consolidation purposes. All entries of assets and liabilities have been restated on the basis of the exchange rate of the European Central Bank as of the balance sheet date; income, expenses and other changes in equity at the exchange rate of the date of the relevant transactions (the weighted average rate of the period has been used for practical considerations). The exchange difference is recognised under "Unrealised foreign exchange gains/losses" in the consolidated statement of comprehensive income.

The acquisition of a subsidiary is recognised using the purchase method on the date when control was gained. According to the purchase method, the assets, liabilities and contingent liabilities of an acquired subsidiary are recognised at their fair value and the difference between the acquisition cost of the acquired shareholding and the fair value of the acquired net assets is recognised as goodwill. The acquired assets, liabilities and contingent liabilities of subsidiaries, and the accrued positive goodwill are recognised as of the date of acquisition in the consolidated financial position statement and the share in the revenue and expenditure of the acquired subsidiary is recognised in the consolidated statement of comprehensive income.

In the case of transactions with minority holdings, the difference between the cost of the transaction and the change in minority holding is recognised in equity.

The separate unconsolidated principal statements of the consolidating unit (the Parent Company) must be presented in the notes to the consolidated financial statements. The principal statements of the parent company were prepared according to the same accounting principles that are applied to the preparation of the consolidated financial statements, except for investments in subsidiaries, which have been recognised in the unconsolidated statements using the equity method.

Adjustment of previous periods

The value of affiliates has been adjusted with the impact of the application of the effective interest rate and the write-down formed for incurred but not reported (IBNR) credit losses.

The application of the effective interest rate has been adjusted in this annual report in comparison with the financial statements for the financial year that ended on 31 December 2015.

The past experience was relied on when the write-downs were formed during the preparation of the annual report for 2015. Additional information has become known to the management board after the approval of the annual report, based on which the management board finds that recognising some of the write-down formed in Q2 2016 as at 31 December 2015 is justified. Said change also has an impact on income tax accounting.

The respective rows in the report have been adjusted in accordance with IAS 1 and IAS 8. See Note 29.

Cash and cash equivalents

Short-term highly liquid investments (generally with a term of up to three months) that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in market value, are recognised as cash equivalents. The indirect method has been used to recognise cash flows in which the profit for the financial year is adjusted with the impact of non-monetary economic transactions, changes in the balance of assets and liabilities related to business operations, and the income and expenses related to investing or financing activities.

Financial assets and liabilities denominated in foreign currencies

The euro is the accounting currency of the company and also the functional currency of the statements. Other currencies are deemed to be foreign currencies.

Monetary assets and liabilities denominated in foreign currencies are restated in euros using the official exchange rates of the European Central Bank as of the balance sheet date. Gains and losses arising from revaluation of foreign currency transactions are recognised in the consolidated income statement for the period, and the other gains and losses from foreign currency transactions are recognised in the consolidated income statement as financial income and expenses.

The average exchange rate for the period has been used for the conversion of the income statement.

Financial instruments

Loans and receivables

Loans and receivables are recognised in the financial position statement as of the day when the Group gives money to the debtor or enters into the financing agreement for financing goods or services until the day when these liabilities are repaid or written off. After registering the loan receivables for the first time, the Group recognised them at their amortised cost (less principal repayments and any potential credit losses).

Impairments

If there is objective evidence that loans and receivables measured at amortised cost have been impaired, the amount of the impairment loss is measured as the difference of the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of an asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in the income statement. The amount of the loss arising from impairment is recognised under "Credit losses" in the consolidated statement of comprehensive income. First of all, the Group assesses whether there is any objective evidence of impairment of assets about the financial assets that are individually important, and jointly about the financial assets that are not individually important.

When impairment arising from the potential credit 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 discipline, 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 payment delay (debt exceeds 90 days), loss rate in the case of the given payment delay and the amount of the loan at the moment of the payment delay are found.

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 cancelled via an adjustment of the allowance account. The amount of the cancellation is recognised under "Credit losses" in the consolidated statement of comprehensive income during the period when the relevant event is identified.

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 will be recognised at their adjusted acquisition cost, which is adjusted with principal repayments, if necessary with the possible write-down caused by impairment and in the case of bonds with the cumulative depreciation of the possible difference between the initial acquisition cost and the redemption cost. The interest expenses relating to financial liabilities are recognised according to the effective interest rate of the instrument on accrual basis as periodic expenses in the income statement under "Interest expenses". A financial liability is derecognised when it is discharged, cancelled or it expires.

Fair values of financial instruments
Financial assets and liabilities are recognised by the acquisition cost method and their fair values are disclosed in Note 26. 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 conditions of the main market of the asset or liability; or
- if there is no main market, in the conditions of the most favourable market for the asset or liability.

The Group must have access to the main and the most favourable 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-tier input that is important for the measurement of fair value as a whole:

Tier 1 - quoted (unadjusted) price on the active market for identical assets and liabilities;

Tier 2 - assessment methods whereby the significant inputs of the lowest tier are directly or indirectly observable;

Tier 3 - assessment methods whereby the significant inputs of the lowest tier are not directly or indirectly observable;

At the end of each financial year, the Group evaluates whether the assets and liabilities recognised in financial reports at fair value require reclassification between tiers (based on the lowest input important for the assessment of fair value as a whole).

Leases

The Group's lease activities cover capital lease and is therefore recognised under loans and receivables in the amount of the net investment made in capital lease. Guaranteed residual values that remain below 1% have not been taken into account when the residual value of the lease receivable is calculated. Lease receivables are partially recognised via interest income in the income statement and partially as principal repayments in the financial position report, so that the financial income corresponds to even income in respect of the net investment. The significant economic risks and benefits related to the ownership of the property in the case of capital lease have been transferred to the third party who provided the repurchase guarantee. A lease is classified as an operating lease if the economic risks and benefits remain the lessor's. The Group mainly uses operating lease for leasing premises. The lease payments arising from such contracts are recognised during the lease period as expenses using the linear method. The methodology applied in the case of write-downs is similar to the one applied to loans and receivables, for detailed information see the subdivision "Financial instruments. Write-downs" of the Accounting Policies and Procedures.

Investment in affiliates

The investments in which the Group has significant influence but not control are deemed to be affiliates. The equity method is used to recognise affiliates. The equity method means that holdings in companies are recognised at acquisition cost at the time of acquisition and then adjusted with the Group's share in the changes that have occurred in the affiliate's net assets. The reporting dates of affiliates correspond to those of the Group and the relevant adjustments have been made in the case of the differences arising from accounting policies and procedures.

Tangible and intangible fixed assets

Tangible an intangible fixed assets are initially recognised at their acquisition cost which consists of the purchase price and the expenses directly attributable to acquisition. The assets are then measured 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 valuated final value is zero.

Tangible assets are comprised of significant assets that have useful lives in excess of one year. Immaterial items and assets with a shorter useful life are expensed as incurred.

The intangible fixed assets of the Group have a specific useful life and primarily encompasses the capitalised computer software development expenses. Capitalised expenses include the salaries and wages incurred in software development and outsourced development expenses. All other expenses related to software, e.g. maintenance expenses, are recognised in the consolidated income statement for the period. Capitalised expenses are depreciated during the estimated useful life of the software, but not for a period longer than ten years.

The useful life of goodwill is indefinite.

On every balance sheet date, the Group carries out an impairment test of tangible and intangible assets if any circumstances have appeared that could suggest that the recoverable amount of the asset could have decreased below the residual book value. If the residual book value of the asset is the higher of the two indicators (the fair value of the assets minus the cost of sales or the value in use of the assets), then the fixed asset items are immediately written down to their recoverable amount and the cost of impairment is recognised in the consolidated statement of comprehensive income for the period. The impairment test of goodwill is carried out on every balance sheet date.

Provisions and contingent liabilities

A provision is recognised on the balance sheet if the Group has a legal or factual liability, which arose from an obligating event that occurred prior to the balance sheet date, the materialisation of the obligation is likely and its amount can be reliably 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

Legal reserve

According to the Articles of Association of Inbank AS, at least one-twentieth of net profit must be entered in the legal reserve in each financial year, until the legal reserve accounts for one-tenth of share capital. The legal reserve may be used to cover a loss or to increase share capital. Payments may not be made to shareholders from the legal reserve.

Other reserves

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

Income and expense accounting

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 rate method is the method of calculation of the adjusted acquisition cost of financial assets or liabilities and distribution of the interest income or expenses over the respective period. Effective interest rate is the rate which discounts exactly the expected future cash flow through the expected life of the financial instrument to the balance sheet value of the financial assets or liabilities. When the company calculates the effective interest rate, it evaluates its cash flows considering all the contractual terms and conditions of the financial instrument, but it does not consider future credit losses. All of the important charges that have been paid by contractual partners and are an integral part of the internal rate are taken into account in the calculation. The channel fee paid to the sales channel in association with a specific contract is paid in full when the contract is entered into and thereafter periodised during the term of the contract and recognised in the income statement, considering the internal interest rate methodology. The contract fee received from the customer, which is paid by the customer in full during the first periods of the contract, is periodised during the term of the contract and recognised in the income statement under interest income, considering the internal interest rate methodology.

If a financial asset or a group of similar financial assets have been written-down due to impairment, the interest income generated by them is recognised using the same interest rate that is used for discounting future cash flows in order to find the loss caused by impairment.

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

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

The income and expenses generated by other fees are recognised on accrual basis at the moment the service was provided.

Dividend income is recognised when a right of claim is obtained with respect to the dividends.

Supervisory fees

Inbank pays various supervisory fees after receiving its banking licence in 2015. The amounts of supervisory fees are calculated in accordance with the relevant regulations and recognised as expenses for the period under administrative expenses in the consolidated statement of comprehensive income.

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 labour 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

Pursuant to the Income Tax Act effective in Estonia, legal entities do not pay income tax on the profit they have earned. Income tax is paid on fringe benefits, gifts, donations, costs of entertaining guests, dividends and payments not associated with business activities.There are no differences in Estonia between the tax bases and residual book values of assets that could entail deferred income tax.

Inbank pays income tax on dividends upon the distribution of such dividends in cash or in kind. Pursuant to the Income Tax Act currently in effect, profit distributed as dividends is taxed at the rate of 20/80 on the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is recognised as income tax expense in the income statement of the period in which dividends are declared, regardless of the period for which the dividends are declared or the actual payment date.

According to the local Income Tax Act, the profit earned by the branch in Poland and the Latvian subsidiary is taxed with income tax after it has been adjusted with the permanent and temporary differences stipulated by law. The main temporary differences arise from loan losses, depreciation of fixed assets and the tax losses that can be carried forward. Deferred income tax is calculated with the valid or presumably valid tax rates (19% in Poland, 15% in Latvia) applicable in the periods when the temporary differences or tax losses materialise. The deferred tax assets on temporary differences and tax losses have been recognised in the financial position report, as they will probably materialise through the emergence of taxable profit in the future.

Conditional income tax liability is not recognised in the financial position report, because the subsidiary is not planning to pay dividends from retained earnings.

Assets held for sale

A fixed asset or disposal group (incl. affiliates) are classified as assets held for sale if its residual book value is mainly covered with a sale transaction, discontinued use, and the sale is highly probable. Fixed assets for resale are recognised either at residual book value or fair value less the costs of sale, whichever is the lowest.

Related parties

The related parties of the company are:

- owners with significant ownership stake who are legal entities and companies under their control;
- owners with significant ownership stake who are private persons;
- other companies belonging to the same consolidation group (incl. the other subsidiaries of the Parent Company);
- affiliated companies;
- executive management and senior management;
- close family members of the persons listed above and the companies that are controlled by them or under their dominant influence.

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.

Events after the balance sheet date

Material events that have an effect on the evaluation of assets and liabilities and that became evident between the balance sheet date and the date of authorising the financial statements for issue but that are related to transactions in the reporting period or earlier periods, are reported in the financial statements. Events after the balance sheet date that have not been taken into account for evaluating assets and liabilities but have a material impact on the results of the next financial year are disclosed in the financial statements.

Introduction of new standards

The International Accounting Standards Board (IASB) and the International Financial Reporting Standards Interpretation Committee (IFRIC) has published the following standards, amendments to standards and interpretations that will enter into force in 2016 or later. Earlier application is also permitted by the IASB.

Implementation of new and/or amended IFRS standards and IFIC interpretations

The new and/or amended standards that entered into force as of 1 January 2016 did not have any impact on the annual report 2016 of Inbank.

Adopted but not enforced standards

IFRS 9 Financial Instruments

(effective for financial years beginning on or after 1 January 2018)

IFRS 9 will replace the standard IAS 39. The standard establishes the new requirements for recognition and measurement of financial assets, rules for impairment of financial assets, and the special rules of hedge accounting. The management board of Inbank has not yet evaluated the impact of the implementation of this standard.

IFRS 15 Revenue from Contracts with Customers

(effective for financial years beginning on or after 1 January 2018)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Inbank assesses the impact of the standard on service charge revenue as insignificant.

IFRS 16 Leases

(effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

IFRS 16 replaces IAS 17 and specifies how to recognise, measure, present and disclose leases, and described the requirements of disclosure in financial statements. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. The implementation of the standard may influence the Group's accounting policies and the information to be disclosed as well as its financial position and performance.

IAS 7 Statement of Cash Flows: Disclosure Initiative

(effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the Group's financial position or performance, but may result in changes in the Group's disclosures.

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses.

(effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments clarify how to account for deferred tax assets for unrealised losses on debt instruments measured at fair value. The management board has not yet assessed the impact of the implementation of the standard.

New or amended standards and interpretations that have been issued and will become mandatory for the Group as of January 2017 or in later periods and that have not been prematurely implemented by the Group

Amendments to **IFRS 2** - Share-based Payment: Classification and Measurement

(effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. This amendment will not have a significant impact on the financial performance of the Group in the opinion of the management.

Amendments to **IFRS 10 ja IAS 28:** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

(effective date postponed for an unspecified time)

The amendments address an acknowledged 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 and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The management board has not yet assessed the impact of the implementation of the standard.

Amendments to **IFRS 4** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

(effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 (deferral option) and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 9 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. The implementation of this standard has no impact.

Amendments to **IAS 40** - Transfers to Investment Property

(effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. In the opinion of the management, this amendment will not have an impact on the Group's financial results.

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration

(effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency and covers foreign currency transactions when an entity recognises a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The amendments states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The management board has not yet assessed the impact of the implementation of the interpretation.

NOTE 2 Important accounting estimates and forecasts

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 statement as at the balance sheet date and on the income and expenses of the subsequent financial years. Although these estimates are based on the best knowledge of the management and conclusions from ongoing events, the actual result may not coincide with them in the end and differ significantly from these estimates.

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

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

The impact of the management's estimates is the most significant in the case of credit losses. The principles for the evaluation of loans are described in detail in the subdivision "Impairments". In the opinion of the management, the Group has no important provisions other than credit losses, see also Note 5.

The Group purchased a lease portfolio without payment defaults at its contractual residual value, which is why the management estimates the probability of these contracts being repaid as similar to that of new contracts. The age of the lease portfolio is very short (less than four months) and the estimates of the management have therefore been used upon the implementation of credit losses. The lease portfolio has been classified as capital lease, as the risks and benefits related to ownership of the assets transfer to a third party. See Note 12.

The Group did not have any significant investments or receivables in the case of which a management estimate should or could be applied. See Notes 13 and 14.

The management board has estimated the useful life of the intangible fixed assets recognised in the financial position report as 10 years. The value of intangible fixed assets is calculated on the basis of the established depreciation rate, see also the subsection "Tangible and intangible fixed assets" and Note 16.

When financial instruments are assessed at fair value using valuation models, then the market data that must be used in these models are determined. The premise is that the quoted price of financial instruments with similar turnovers are used. If such prices or price components cannot be used, the management must make its own assumptions. See Note 26 about fair value.

Issued debt securities are recognised in the financial position report at adjusted acquisition cost. See the subsection "Financial liabilities" in Note 1 and Notes 19 and 26.

The Group's employees (senior managers and certain key persons) are entitled to receive remuneration in the form of share-based payments settled with equity, which means that these employees provide services to the Group and receive equity instruments in return. The cost of transactions settled with equity is determined on the basis of the fair value as at the date the equity instruments were given, using the appropriate valuation model. The cost is recognised as the cost of employee benefits (Note 23) with the increase in equity (share-based payment reserve) during the period when the service and the goal related to the result of the activity (if any) is achieved (ownership transfer period). The total cost accumulated in relation to share-based payments until the date when the equity instruments are given is based on the time left until the end of the ownership transfer period and the Group's best estimate of the quantity of the equity instruments to be actually transferred. The conditions of services or the conditions based on the performance result are not taken into account upon the measurement of the fair value of the instrument on the day that benefits are granted, but the probability of compliance with the conditions is assessed as a part of the process as a result of which the Group's best estimate of the quantity of the equity instruments to be actually transferred is given.

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

NOTE 3 Risk management

Definition of risk and purpose of risk management

Risk is defined as a possible negative deviation from the expected performance results. The Bank faces several risks in its everyday operations. The purpose of risk management in the Bank is to recognise risks and to measure and manage them correctly. The purpose of risk management on a broader scale is to increase the company's value by minimising losses and reducing the volatility of results. Risk management in the Bank is based on a strong risk culture and is built by the principle of three lines of defence, where the first line of defence or business fields are responsible for taking risks and managing them on a daily basis. The second line of defence or the field of risk management is responsible for the development of risk management methodologies and for risk reporting. The third line of defence or internal audit carries out independent supervision for the entire organisation, including the risk management function. The principles, requirements and areas of responsibility of risk management have been described in the internal rules of procedure. According to the established capital management principles, the Group must have enough capital to cover risks. In the opinion of the management board of Inbank AS, the established risk management systems are adequate considering the profile and strategy of Inbank AS.

Principles of risk management

The risk management system of Inbank is centralised. The same risk management principles are used in the Parent Company and subsidiaries of Inbank and the risk management and risk control function is performed across the Group by the risk management unit in the Parent Company and the various committees established by the Parent Company.

- Risk management covers all of the activities aimed at the identification, measurement, assessment, monitoring and control of risks, and the measures taken to limit and manage the consequences of the materialisation of risks.
- Risk management is forward-looking, puts the emphasis on risk awareness and covers the selection, awareness and training of staff.
- The Bank maintains the highest level of the risk management process by only implementing the respective processes, techniques and methods in a cost-effective manner according to its needs. The risk management process is regarded as a natural part and expense of business.
- All of the Bank's risks are included in the planning, monitoring and resource distribution process and they are monitored by the supervisory board.

Structure of risk management

The management board of the Bank is responsible for the management and control of the risks associated with the Group's activities, the implementation of risk management principles, processes and methods, and the effectiveness of risk management. According to the risk management policy approved by the management board and the risk appetite statement, the risk management and risk control function is performed on a daily basis by the structural units and committees established by the Bank:

- The supervisory board makes sure that adequate risk assessment and management activities are carried out in the Bank, guaranteeing that the structure of the Bank's credit organisation, credit monitoring organisation and risk management organisation is appropriate and effective, and that it has sufficient and independent resources for adequate risk assessment and management.
- The main functions of the risk management unit include the identification and assessment of risks, carrying out regular stress tests in respect of liquidity, credit and main market risks and preparation of the relevant risk reports for the management board and supervisory board of the Bank, development of the risk control methodology, assessment of the credit risk of credit projects, and monitoring and analysis of the credit portfolio.
- The Credit Committee is the highest credit risk management body in the Group. The Credit Risk Committee is responsible for the development of the credit risk policy and for keeping it in effect. Through the credit risk policy, the

Credit Committee ensures that the Bank's activities in issuing credit comply with the requirements set out by law and the Bank's risk appetite statement, and that these activities are profitable.
- The audit committee advises the supervisory board in issues related to risk management. In order to do this, the audit committee monitors and analyses the efficiency of the risk management process in the Bank.
- One of the objectives of internal audits is to give the management board and the supervisory board the reassurance that the Bank's internal control and risk management policy are adequate and effective for risk management and guaranteeing the achievement of the Bank's strategy and goals.
- Compliance is responsible for monitoring the compliance of risk assessment in the Bank and for guaranteeing the effective management of the risk of compliance with activity requirements and legislation as well as the legal risk.

Capital management

The Bank uses risk-based capital planning, guaranteeing that all of the risks arising from the Bank's economic activities are sufficiently covered with own funds at all times. Capital planning is carried out on the basis of the balance sheet and profit forecasts that consider the Group's strategy, future expectations, risk profile and risk appetite. Capital means the Group's own funds that may consist of first-tier and second-tier own funds.

The Bank discloses detailed information about its own funds, including the deductions applied to the own funds and the full terms and conditions of the instruments belonging to the second-tier own funds according to Regulation (EU) No 1423/2013 on the website of Inbank AS at www.inbank.ee.

The own funds of a credit institution must at all times be equal to or exceed the minimum amount of share capital stipulated in the Credit Institutions Act (5 million euros). A new legal framework concerning the capital of banks and investment firms (CRD IV/CRR) entered into force in the European Union at the start of 2014, which is largely based on the Basel III framework agreed in the Basel Committee on Banking Supervision. The purpose of the new rules is to strengthen the resilience of the financial sector to economic shocks and thereby guarantee adequate and sustainable financing of the economy. The important changes resulting from the new rules include the requirement that banks must maintain more and better quality capital than before, and a harmonised framework for the development of liquidity buffers. The new capital requirements directive also determines the measures of macro financial supervision that the Member States can use to curb the behaviour of credit institutions that amplify the cycle and to manage the risks arising from the market structure.

The directly applicable regulation requires all credit institutions (and the holding companies that consolidate them) and investment firms operating in the European Union to maintain 4.5% CET 1 (common equity tier 1) and 6.0% Tier 1 capital. The total capital adequacy requirement (CAD), which includes both Tier 1 and Tier 2 capital, is 8.0%.

Own funds (EURt)	31.12.2016	31.12.2015 (restated)
Paid up share capital	689	569
Share premium	6 361	5 393
Statutory reserve	1 418	1 360
Retained earnings/accumulated losses	681	-279
Intangible fixed assets (minus)	-902	-760
Profit for the financial year	2 647	987
Shares of affiliates	-1 673	-868
Total Tier 1 capital	**9 221**	**6 402**
Subordinated liabilities at nominal value	6 503	0
Total second tier own funds	**6 503**	**0**
Net own funds for calculating capital adequacy	**15 724**	**6 402**

In addition to the main requirements arising from common rules, the principles of forming capital buffers have also been defined in the directive. In Estonia, buffers for capital conservation and systemic risk buffers, which are 2.5% and 1.0% respectively (determined by Eesti Pank), have been established for credit institutions in addition to the basic requirements for own funds. As these buffers are added to the basic Tier 1 and total capital requirements, the minimal Tier 1 requirement in Estonia is 9.5% and the total capital requirement 11.5%. The specific additional Pillar 2 requirement of a credit institution is added to the latter.

The Bank discloses the geographical division of the credit risk exposures, which is relevant for the calculation of the countercyclical capital buffer and the amount of the countercyclical capital buffer according to the requirements of Regulation (EC) No 2015/1555 on the website of Inbank at www.inbank.ee. The rate of the countercyclical capital buffer of the Bank as at 31 December 2016 is 0%.

The Bank complies with all regulative capital requirements as at 31 December 2016. The profit for the financial year that has been audited by the time of disclosure of the report has also been included in the capital base in this report.

Guaranteeing the internal capital adequacy (ICAAP) is a constant process aimed at assessing the Bank's risk profile and the corresponding capital requirement. The Bank guarantees that its aggregated risks are adequately covered with capital at all times.

The management board of the Bank is responsible for capital planning. ICCAP is the basis for regular capital planning in the Bank. Planning and forecasting the capital requirement takes place on the basis of the regulative capital calculation, to which capital requirements for covering additional risks, which have not been considered within the scope of regulative capital requirements, are added.

The risk profile of the Group is primarily assessed in terms of the following risks: credit risk, market risk, concentration risk, liquidity risk, interest risk of the bank's portfolio, operational risk, strategic risk.

The minimal recommended level of capital adequacy is the minimal required level of capital adequacy calculated in the supervisory opinion, to which the reserve necessary for increasing business volumes or any other implementation of the strategic plan are added as necessary.according to the Group's effective business strategy and balance sheet forecasts The Bank's option to receive additional capital from the market, primarily by issuing new shares or subordinated bonds, is taken into account when capital plans are prepared.

Balance sheet positions are forecast for the calculation of the capital requirement on the basis of changes in various risk-weighted assets and equity entries. The necessary equity buffer is also calculated to guarantee the internally recommended capital adequacy level upon the realisation of alternative and risk scenarios. The Group guarantees that all risks are guaranteed with adequate capital at all times.

An overview of the development of the capital requirement is given in the table below:

	Ratio of Common Equity Tier 1	Ratio of Tier 1 capital	Total capital ratio
Basic requirement	4.50%	6.00%	8.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Systemic risk buffer	1.00%	1.00%	1.00%
Minimal regulative capital requirement	**8.00%**	**9.50%**	**11.50%**

Credit risk

Credit risk is the probable loss that may arise if the counterparty of a contract fails to perform their obligations appropriately and the pledged collateral, provided guarantees or other manners of collection are inadequate for covering the Bank's claims in the event of insolvency. Credit risk arises mainly from issued loans and receivables from credit institutions. The Bank analyses the economic activities and financial position of transaction counterparties in order to reduce credit risks. The counterparty's compliance with the terms and conditions of the contract is regularly monitored after the issue of the loan.

The responsibility for taking and managing credit risks rests at the level of the management board of the Parent Company and the Credit Committee established by the Parent Company. Subsidiaries, branches and the business lines under the Parent Company make proposals to the Credit Committee of the Parent Company for the establishment or principles and rules concerning credit risk, which concern the operations of the specific subsidiary or business line. The decisions on the principles of taking risks are made in the Credit Committee.

Credit risk is managed according to the provisions of the Credit Institutions Act, the Law of Obligations Act, the Creditors and Credit Intermediaries Act, the FSA Guideline "Requirements for Responsible Lending", the regulations of the Governor of Eesti Pank and the local regulations of the business units located abroad, and the principles set forth in the credit risk policy of the Group. The principles of the credit risk policy, loan analysis and lending are periodically reviewed by checking their compliance with the economic situation and the actual payment discipline.

The following principles set forth in the risk appetite statement that the Bank uses for credit risk management are important in the Group's credit policy:

- dispersion of the loan portfolio;
- low average loan amount;
- constant monitoring of the quality of the loan portfolio.

Allocation of credit risks

Exposure to credit risk (EURt)	31.12.2016	31.12.2015
Central Bank	14 680	499
Credit institutions	1 956	4 882
Households	60 852	31 616
Non-financial companies	1 419	773
Other financial enterprises	2 568	2 542
Other receivables	65	112
Total assets	**81 540**	**40 424**

Geographic division of receivables 31.12.2016 (EURt)	Estonia	Latvia	Poland	Total
Central Bank	14 680	0	0	14 680
Credit institutions	968	900	88	1 956
Households	44 205	16 647	0	60 852
Non-financial companies	1 389	30	0	1 419
Other financial enterprises	2 568	0	0	2 568
Other receivables	39	6	20	65
Total receivables	**63 849**	**17 583**	**108**	**81 540**

Geographic division of receivables 31.12.2015 (EURt)	Estonia	Latvia	Poland	Total
Central Bank	499	0	0	499
Credit institutions	4 437	445	0	4 882
Households	23 349	8 267	0	31 616
Non-financial companies	734	39	0	773
Other financial enterprises	2 542	0	0	2 542
Other receivables	76	36	0	112
Total receivables	**31 637**	**8 787**	**0**	**40 424**

Due from households

The Bank has been providing the hire-purchase service in Estonia since 2011. It also started issuing small consumer loans via a partner in Estonia in 2013. The Bank entered the Latvian consumer financing market in late 2014 by offering special-purpose consumer loans, which in its nature is similar to the hire-purchase product offered in Estonia. The Bank started offering unsecured car loans in 2015 and consumer loans without a special purpose in 2016. The product of consumer loan without a special purpose was also added to the Latvian product portfolio in 2016.

The Bank's operations on the Polish market had not started by the end of the financial year.

Issuing consumer loans to households is the core business of the Bank. The Bank's loan portfolio is highly diversified and the average loan amount is low due to its focus on this area of activity.

The credit scoring model is used to evaluate the creditworthiness of customers. In addition to evaluating the customer's previous payment history, income and existing loans, the aforementioned model also takes into account other statistical parameters, which have previously been collected by types of customer and which have proved to have a strong link to customer payment performance.

The Bank's credit scoring model is constantly changing over time and adjusted to reflect changes in the volume of information used to make credit decisions and in the economic environment.

As the consumer loans provided to households are homogeneous loans, the provisions for the potential credit loss level are calculated on the basis of the historical performance of these homogeneous loans and applied to the current portfolio on the balance sheet date. In order to determine the most accurate loan loss provisions, receivables are divided into subcategories by product type, geographical distribution, customer payment history and overdue days. For the receivables that have been grouped, the amount of the impairment loss is the multiple of the carrying amount of the receivables in the group and the percentage rate of impairment loss. The framework is based on the classic method of calculating the probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Allocation of receivables 31.12.2016 (EURt)	Estonia	Latvia	Poland	Total
Hire-purchase receivables	20 108	0	0	20 108
Special-purpose consumer loan receivables	19 520	11 244	0	30 764
Consumer loan receivables	4 577	5 403	0	9 980
Total due from households	**44 205**	**16 647**	**0**	**60 852**

Allocation of receivables 31.12.2015 (EURt)	Estonia	Latvia	Poland	Total
Hire-purchase receivables	17 152	0	0	17 152
Special-purpose consumer loan receivables	5 992	8 267	0	14 259
Consumer loan receivables	205	0	0	205
Total due from households	**23 349**	**8 267**	**0**	**31 616**

Due from households 31.12.2016 (EURt)	Gross receivables	Portfolio provision	Specific provision	Net receivables	Provision coverage
Overdue 0-89 days	60 944	-1 176	-20	59 748	2,0%
Overdue 90-179 days	1 591	0	-1 012	579	63,6%
Overdue more than 180 days	2 608	0	-2 083	525	79,9%
Total due from households	**65 143**	**-1 176**	**-3 115**	**60 852**	**6,6%**

Due from households 31.12.2015 (EURt)	Gross receivables	Portfolio provision	Specific provision	Net receivables	Provision coverage
Overdue 0-89 days	32 054	-567	-27	31 460	1,9%
Overdue 90-179 days	296	0	-182	114	61,5%
Overdue more than 180 days	422	0	-380	42	90,0%
Total due from households	**32 772**	**-567**	**-589**	**31 616**	**3,5%**

Receivables from non-financial companies and financial companies

The issue of loans is regulated by the Bank's credit risk policy and other internal rules and regulations. The maximum limit of a loan issued to a single customer is 25% of the Bank's net own funds.

The credit decisions for issuing loans to businesses are made on an individual basis in the Credit Committee. The retail receivables issued by Inbank Liising AS are an exception, as the process of making credit decisions about them is similar to that of the loans granted to households.

Issued business loans can be divided in three main groups:
- loans to the Bank's business partners;
- loans to affiliated companies;
- loans to third parties.

Depending on the purpose for which a loan is granted, the following criteria are analysed when credit decisions are made:
- financial strength of the counterparty;
- security of the claim;
- counterparty's business volume with the Bank;
- period of the contract to be entered into,
- volume of the contract to be entered into,
- rate of return of the contract to be entered into.

Business loans are written down in the Bank individually, depending on the delay in payment of the counterparty and its reasons and financial strength. The retail receivables issued by Inbank Liising AS are an exception, as the process of writing them down is similar to that of the loans granted to households.

Receivables from non-financial companies 31.12.2016 (EURt)	Gross receivables	Portfolio provision	Specific provision	Net receivables	Provision coverage
Overdue 0-89 days	1 430	-11	0	1 419	0,8%
Overdue 90-179 days	0	0	0	0	0,0%
Overdue more than 180 days	94	0	-94	0	100,0%
Total receivables from non-financial companies	**1 524**	**-11**	**-94**	**1 419**	**6,9%**

Receivables from non-financial companies 31.12.2015 (EURt)	Gross receivables	Portfolio provision	Specific provision	Net receivables	Provision coverage
Overdue 0-89 days	773	0	0	773	0,0%
Overdue 90-179 days	0	0	0	0	0,0%
Overdue more than 180 days	0	0	0	0	0,0%
Total receivables from non-financial companies	**773**	**0**	**0**	**773**	**0,0%**

Receivables from other financial companies 31.12.2016 (EURt)	Gross receivables	Portfolio provision	Specific provision	Net receivables	Provision coverage
Overdue 0-89 days	2 568	0	0	2 568	0,0%
Overdue 90-179 days	0	0	0	0	0,0%
Overdue more than 180 days	0	0	0	0	0,0%
Total receivables from other financial companies	**2 568**	**0**	**0**	**2 568**	**0,0%**

Receivables from other financial companies 31.12.2015 (EURt)	Gross receivables	Portfolio provision	Specific provision	Net receivables	Provision coverage
Overdue 0-89 days	2 542	0	0	2 542	0,0%
Overdue 90-179 days	0	0	0	0	0,0%
Overdue more than 180 days	0	0	0	0	0,0%
Total receivables from other financial companies	**2 542**	**0**	**0**	**2 542**	**0,0%**

Receivables from central banks and credit institutions

The position of cash and cash equivalents open to credit risks, which is held in the central bank and in other correspondent banks, carries a low credit risk in the opinion of the management. All loans and receivables from the central bank and credit institutions paid on time and no payments are overdue. The Bank's risk management policy prefers credit institutions with large equity and, if possible, a strong credit rating when investing its liquid assets. The Bank's receivables from credit banks and credit institutions are not overdue or covered with provisions as at 31 December 2015 and 31 December 2016.

Counterparty credit risk

As at 31 December 2016 the Bank had no counterparty credit risk exposure for the purposes of Regulation (EU) No 575/2013 of the European Parliament and of the Council.

Concentration risk

Concentration risk is the risk arising from the large risk exposure to one counterparty or related counterparty or multiple counterparties impacted by a single risk factor. The Bank addresses the assets associated with one counterparty, related counterparties and one industry, region or risk factor as part of the concentration risk.

In its business operations the Bank avoids the assumption of concentration risk by focusing primarily on medium-sized and smaller loans in order to prevent high risk concentration levels. However, the bank does not exclude the issue of larger loan amounts in the case of adequate collateral or if the other required conditions are met. In the case of collateral requirements applicable to large loans, the liquid funds deposited with credit institutions for a term of up to three months are an exception. In such cases the Bank relies in its risk management on information about the financial strength of the counterparty and the credit ratings assigned by international credit rating agencies to the counterparty.

As at 31 December 2016, the Bank had no receivables that exceeded 10% of the Bank's net own funds.

Receivables exceeding 10% of net own funds	Total amounts of receivables (net) 31.12.2016	Total number of receivables 31.12.2016	Total amounts of receivables (net) 31.12.2015	Total number of receivables 31.12.2015
Credit institutions	0	0	4 881	3
Non-financial enterprises	0	0	0	0
Other financial enterprises	0	0	2 476	2
Total receivables	**0**	**0**	**7 357**	**5**

Market risk

Market risk is defined as risk arising from an adverse change in market prices. The bank's business was geographically limited to eurozone countries until the middle of 2016. Preparations for entering the consumer financing business in Poland started in the second half of 2016. Only expenses for launching operations were incurred in the region during the financial year and structuring the credit portfolio has not started yet. This is why the Bank's assets and liabilities are predominantly in euros as at 31 December 2016. The Bank does also not have a tradable share and/or bond portfolio. Consequently, the only significant market risk to which the Bank's operations are exposed so far is the interest rate risk.

Foreign exchange risk

The Bank's risk appetite in terms of foreign exchange risk is very small. The only expenses incurred outside of the eurozone during the Bank's period of operations relate to the launch of operations and there are no positions exposed to foreign exchange risk in the Bank's balance sheet as at the reporting date. In order to avoid becoming exposed to foreign exchange risk whilst increasing the credit portfolio outside of the eurozone in the future, the Bank plans to find financing for the credit portfolio from the same market in a volume that is as similar as possible. The capability to receive term deposits was therefore created on entering the Polish market in addition to the provision of consumer credit. Using foreign exchange risk management tools is also an alternative.

Assets bearing foreign exchange risk 31.12.2016	**EUR**	**PLN**
Central Bank, credit institutions, cash	16 552	88
Households	60 852	0
Non-financial companies	1 419	0
Other financial enterprises	2 568	0
Other assets	2 291	87
Total	**83 682**	**175**

Liabilities bearing foreign exchange risk 31.12.2016	**EUR**	**PLN**
Customer deposits and loans received	64 587	0
Other liabilities	1 958	119
Subordinated liabilities	6 475	0
Total	**73 020**	**119**

All of the Bank's assets and liabilities were in euros as at 31 December 2015.

Interest rate risk

Interest rate risk is the risk that the income generated by the Bank could be influenced by unexpected adverse changes in interest rates. The Bank is exposed to the interest rate risk if the terms of its main assets and liabilities are different or if the interest rates of assets and liabilities can be adjusted after different periods of time.

In general, the interest risk included in the Bank's balance sheet is low in the opinion of the Bank's management board for the following reasons:

- The Bank's interest-earning assets and liabilities alike have a fully fixed interest rate and their terms are mainly similarly short.
- The focus of the Bank's operations is aimed at issuing unsecured consumer loans. This is why the rate of return of the Bank's assets is relatively high. This gives an adequate buffer for sustaining possible changes in interest rates with regard to the Bank's liabilities as well as assets.
- The Bank's deposit portfolio consists fully of term deposits whose interest rate is fixed until the end of the deposit period.

The management of the interest rate risk of subsidiaries is organised by the Parent Company. Interest risk is managed generally by the management board of the Group and directly by the Group Risk Manager. Interest risk is managed via impact analysis, which assesses how a shift in the interest curve would influence the net interest income of the Bank and consequently the economic value of the Bank.

Interest-earning assets and liabilities by contractual terms

Assets 31.12.2016	1-90 days	91-365 days	1-5 years	5+ years	Incl. accrued interest	Incl. impairment
Cash and receivables from credit institutions	0	0	0	0	0	0
Loans and receivables	7 672	18 486	37 591	302	645	-1 870
Total assets	**7 672**	**18 486**	**37 591**	**302**	**645**	**-1 870**

Liabilities 31.12.2016	1-90 days	91-365 days	1-5 years	5+ years	Incl. accrued interest	Incl. impairment
Deposits/loans	3 826	32 303	27 489	0	987	0
Subordinated loans	4	0	0	6 471	4	0
Total liabilities	**3 830**	**32 303**	**27 489**	**6 471**	**991**	**0**

Assets 31.12.2015	1-90 days	91-365 days	1-5 years	5+ years	Incl. accrued interest	Incl. impairment
Cash and receivables from credit institutions	0	0	0	0	0	0
Loans and receivables	4 742	10 446	19 082	818	323	-646
Total assets	**4 742**	**10 446**	**19 082**	**818**	**323**	**-646**

Liabilities 31.12.2015	1-90 days	91-365 days	1-5 years	5+ years	Incl. accrued interest	Incl. impairment
Deposits/loans	372	13 539	18 852	0	316	0
Subordinated loans	0	0	0	0	0	0
Total liabilities	**372**	**13 539**	**18 852**	**0**	**316**	**0**

Liquidity risk

Liquidity risk is defined as the risk of insufficient solvency on behalf of the Bank to perform its contractual obligations on a timely basis, which means that the Bank's companies are unable to timely and sustainably finance various assets, or to liquidate their positions in order to perform contractual obligations.
The management of liquidity risk is based on the liquidity risk strategy and the internal rules and regulations that address liquidity management. The objective of liquidity management in the Group is to guarantee, at any given moment, the timely and complete performance of the obligations assumed by the Group while optimising the liquidity risk in such a manner as to achieve maximum and stable profitability on investments with different maturities.

The long-term liquidity of the Bank is managed by the management board and liquidity risk management is overseen by the management board. The Finance Manager is responsible for the day-to-day and short-term management of liquidity risk at the Bank.

The primary measure employed for the management of the Bank's liquidity exposure is an approach based on the maturity gap analysis of assets and liabilities. An overview of the division of assets and liabilities by maturity has been provided in the table. This model is also used for determining the main observable liquidity ratios and term proportions of assets and liabilities, as well as for conducting stress tests. Internal limits have been established for all major liquidity indicators.

The Bank has established a liquidity business continuity plan for conduct in a liquidity crisis, specifying the actions to be taken for covering a cash flow deficit even in extraordinary circumstances.

Due to the current business model of the Bank, the maturity gap of the bank in total for the period of up to 30 day and up to 90 days is positive. This means that the Bank has fewer liabilities compared to receivables in the period of up to 30 days or up to 90 days. This is due to the fact that a very substantial portion of the Bank's assets are consumer finance receivables that are of a short-term duration by nature. Liabilities, however, are almost entirely comprised of term deposits and the Bank's pricing on deposits has been set in a manner that customers prefer periods longer than 12 months. The primary focus on term deposits also improves the bank's ability to forecast its cash flows.

Regulative liquidity ratios	31.12.2015	31.12.2016
LCR	177%	2482%
NSFR	124%	137%

Assets and liabilities by contractual terms

Liabilities 31.12.2016	On demand	1-90 days	91-365 days	1-5 years	5+ years	Book value as at 31.12.2016
Deposits/loans	970	3 853	32 703	28 788	0	64 587
Other liabilities	0	2 077	0	0	0	2 077
Subordinated loans	0	114	341	1 821	8 779	6 475
Total liabilities	**970**	**6 044**	**33 044**	**30 609**	**8 779**	**73 139**

Assets 31.12.2016	On demand	1-90 days	91-365 days	1-5 years	5+ years	Book value as at 31.12.2016
Cash and receivables from credit institutions	16 640	0	0	0	0	16 640
Loans and receivables	324	10 723	25 580	48 940	729	64 839
Other assets	0	256	1 672	0	1 536	3 464
Total assets	**16 964**	**10 979**	**27 252**	**48 940**	**2 265**	**84 943**
Maturity gap of liabilities and assets	**15 994**	**4 935**	**-5 792**	**18 331**	**-6 514**	**11 804**

Liabilities 31.12.2015	On demand	1-90 days	91-365 days	1-5 years	5+ years	Book value as at 31.12.2015
Deposits/loans	172	249	14 425	19 675	0	32 935
Other liabilities	0	1 382	0	0	0	1 381
Subordinated loans	0	0	0	0	0	0
Total liabilities	**172**	**1 631**	**14 425**	**19 675**	**0**	**34 316**

Assets 31.12.2015	On demand	1-90 days	91-365 days	1-5 years	5+ years	Book value as at 31.12.2015
Cash and receivables from credit institutions	5 384	0	0	0	0	5 384
Loans and receivables	-157	6 410	13 346	24 960	826	34 931
Other assets	286	0	0	0	1 723	2 009
Total assets	**5 513**	**6 410**	**13 346**	**24 960**	**2 585**	**42 324**
Maturity gap of liabilities and assets	**5 341**	**4 779**	**-1 079**	**5 285**	**2 585**	**8 008**

Operational risk

Operational risk is the risk arising from malfunctions or deficiencies in the Bank's information systems, errors in the personnel policy, negligence or wrongful behaviour of staff members, inadequate rules of procedure or external factors that cause damage to or disturb the Bank's daily business activities. Operational risk encompasses the information technology risk, control and management risk, model risk, procedural risk, personnel risk, legal risk and regulatory risk. The Bank manages operational risk on the basis of the established operational risk policy.

Operational risk is viewed and managed at the Bank as a separate area of risk management within the group, with the required resources allocated and an adequate amount of own funds provided for covering potential losses. The management of operational risk is integrated in the Bank's day-to-day activities and the nature, impact and need to control the operational risk must be acknowledged by all employees in the Bank.

The evaluation of operational risk is primarily carried out qualitatively at the Bank, as the organisation is relatively small and simple, which is why actual loss events are rarely experienced. Operational risk loss events are recorded in the operational risk database, specifying the amount of loss that was incurred. The Bank monitors the dynamics of operational risk by analysing the main risk indicators on a quarterly basis. Reports on the loss events related to operational risk events and the main risk indicators are submitted to the management board on a regular basis at least once a quarter. The Bank uses the basic indicator approach for the calculation of operational risk capital requirements.

Risk of excessive leverage

The risk of excessive leverage arises from an increase in liabilities that is too fast. The Bank's financial leverage ratio as at 31 December 2016 was 11.22% (14.53% as at 31 December 2015). The Bank discloses its financial leverage rate according to Regulation (EU) No 2016/200 on the website of Inbank AS at www.inbank.ee.

Total risk exposure

The methods employed by the Bank for the calculation of the total risk exposure and individual risk exposures are set forth in Regulation No 575/2013 of the European Parliament and of the Council. The Group uses the standardised approach for the calculation of risk-weighted assets and risk exposure applicable to credit risk.

Use of rating agencies

The Bank uses the credit quality ratings of Moody's Investors Service for determining the credit quality steps when capital requirements are calculated according to the rules stipulated in Regulation (EU) No 575/2013 of the European Parliament and of the Council. The Bank uses estimates upon the calculation of the capital requirements of the following credit risk exposure classes: receivables from credit institution and investment firms, and (ii) receivables from credit institutions and investment firms with short-term credit quality estimate.

Risk-weighted assets (unaudited)	31.12.2016	31.12.2015
Credit institutions by standard method	391	976
Commercial undertakings by standard method	3 037	1 379
Claims secured with mortgaged properties by standard method	0	1 148
Retail claims by standard method	44 818	23 787
Retail claims by standard method	1 095	156
Other assets by standard method	1 562	381
Total credit risk and counterparty credit risk	**50 903**	**27 827**
Operational risks	4 701	2 462
Total risk-weighted exposure amounts	**55 604**	**30 289**
Capital adequacy (%)	28.28%	21.14%
Regulative capital adequacy (%)	26.69%	18.63%
Tier 1 capital ratio (%)	16.58%	21.14%
Regulative Tier 1 capital ratio (%)	15.15%	18.63%

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 inter-segment transactions. Business segments form a part of Inbank but have separate financial data and the financial performance of the segments is being regularly reviewed by Inbank's Management Board.

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

Inbank AS' (Estonia) "other income" mainly includes consultancy services offered to the bank`s affiliates. Intersegment transactions constitute mainly of loan interests on loans given to subsidiaries. All named intercompany transactions are accounted for at market prices, including IT services.

EURt	31.12.2016							31.12.2015 (restated)						
Income of reportable segments	**Interest income**	**Fee and commission income**	**Interest expenses**	**Fee and commission expense**	**Other income**	**Inter-segment income**	**Income from external customers**	**Interest income**	**Fee and commission income**	**Interest expenses**	**Fee and commission expense**	**Other income**	**Inter-segment income**	**Income from external customers**
Inbank AS (Estonia)	6 976	395	-1 402	-261	328	-940	5 096	3 555	273	-693	-205	163	-142	2 951
Inbank Lizings SIA (Latvia)	3 735	204	-928	-77	1	924	3 859	667	0	-149	-41	0	141	618
Inbank Liising AS (Estonia)	15	0	-6	0	0	6	15	0	0	0	0	0	0	0
Inbank AS Poland branch	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Inbank Technologies OÜ (Estonia)	6	0	-12	0	377	-121	250	3	0	-5	0	481	0	479
Total	**10 732**	**599**	**-2 348**	**-338**	**706**	**-131**	**9 220**	**4 225**	**273**	**-847**	**-246**	**644**	**-1**	**4 048**

EURt	31.12.2016					31.12.2015 (restated)				
Operating and net profit development	**Operating profit**	**Credit losses**	**Profit from investments**	**Deferred income tax**	**Net profit/loss**	**Operating profit**	**Credit losses**	**Profit from investments**	**Deferred income tax**	**Net profit/loss**
Inbank AS (Estonia)	3 277	-988	773	0	3 062	1 473	-552	0	365	1 286
Inbank Lizings SIA (Latvia)	2 214	-2 220	0	-2	-8	15	-424	71	0	-338
Inbank Liising AS (Estonia)	5	-11	0	0	-6	0	0	0	0	0
Inbank AS Poland branch	-358	0	0	59	-299	0	0	0	0	0
Inbank Technologies OÜ (Estonia)	-133	0	0	0	-133	1	0	0	0	1
Total	**5 005**	**-3 219**	**773**	**57**	**2 616**	**1 489**	**-976**	**71**	**365**	**949**

EURt

31.12.2016	Inbank AS (Estonia)	Inbank Lizings SIA (Latvia)	Inbank Liising AS (Estonia)	Inbank AS Poland branch	Inbank Technologies AS (Estonia)	Intersegment eliminations	TOTAL
Cash in hand	4	0	0	0	0	0	**4**
Due from central banks, incl reserve required	14 680	0	0	0	0	0	**14 680**
Due from credit institutions	875	900	23	88	70	0	**1 956**
Loans and receivables	66 391	16 687	606	0	92	-18 937	**64 839**
Investments in subsidiaries	1 033	0	0	0	0	-1 033	**0**
Investments in affiliates	0	0	0	0	1	0	**1**
Tangible assets	84	15	0	37	47	0	**183**
Intangible assets	425	122	0	3	401	-49	**902**
Income tax assets	0	390	0	59	0	0	**449**
Other assets	100	7	104	28	28	-10	**257**
Assets held for sale	1 672	0	0	0	0	0	**1 672**
Total assets	**85 264**	**18 121**	**733**	**215**	**639**	**-20 029**	**84 943**
Loans raised	0	17 600	600	395	342	-18 937	**0**
Deposits	64 587	0	0	0	0	0	**64 587**
Subordinated debt securities	6 475	0	0	0	0	0	**6 475**
Other liabilities	1 380	445	40	119	102	-9	**2 077**
Total liabilities	**72 442**	**18 045**	**640**	**514**	**444**	**-18 946**	**73 139**

For additional information about distribution of balances between business segments please see Note 3.

EURt

31.12.2015 (restated)	Inbank AS (Estonia)	Inbank Lizings SIA (Latvia)	Inbank Liising AS (Estonia)	Inbank AS Poland branch	Inbank Technologies AS (Estonia)	Intersegment eliminations	TOTAL
Cash in hand	0	0	0	0	3	0	**3**
Due from central banks, incl reserve required	499	0	0	0	0	0	**499**
Due from credit institutions	4 370	445	0	0	67	0	**4 882**
Loans and receivables	34 882	8 305	0	0	66	-8 322	**34 931**
Investments in subsidiaries	953	0	0	0	0	-953	**0**
Investments in affiliates	867	0	0	0	1	0	**868**
Tangible assets	59	16	0	0	20	0	**95**
Intangible assets	451	71	0	0	238	0	**760**
Other assets	158	107	0	0	34	-13	**286**
Total assets	**42 239**	**8 944**	**0**	**0**	**429**	**-9 288**	**42 324**
Loans raised	0	8 214	0	0	90	-8 194	**110**
Deposits	29 711	0	0	0	0	0	**29 711**
Subordinated debt securities	2 111	1 003	0	0	0	0	**3 114**
Other liabilities	709	645	0	0	40	-13	**1 381**
Total liabilities	**32 531**	**9 862**	**0**	**0**	**130**	**-8 207**	**34 316**

For additional information about distribution of balances between business segments please see Note 3.

NOTE 5 Distribution of portfolio by overdue days

EURt

Distribution of receivables as at 31.12.2016	Due from households - gross basis	Portfolio provision	Specific provision	Due from households - net basis	Coverage ratio
Overdue 0-89 days	60 944	-1 176	-20	59 748	2.0%
Overdue 90-179 days	1 591	0	-1 012	579	63.6%
Overdue more than 180 days	2 608	0	-2 083	525	79.9%
Total receivables	**65 143**	**-1 176**	**-3 115**	**60 852**	**6.6%**

Distribution of receivables as at 31.12.2015 (adjusted)	Due from households - gross basis	Portfolio provision	Specific provision	Due from households - net basis	Coverage ratio
Overdue 0-89 days	32 054	-567	-27	31 460	1.9%
Overdue 90-179 days	296	0	-182	114	61.5%
Overdue more than 180 days	422	0	-380	42	90.0%
Total receivables	**32 772**	**-567**	**-589**	**31 616**	**3.5%**

Distribution of receivables as at 31.12.2016	Due from households - gross basis	Portfolio provision	Specific provision	Due from households - net basis	Coverage ratio
Overdue 0-89 days	3 998	-11	0	3 987	0.3%
Overdue 90-179 days	0	0	0	0	0.0%
Overdue more than 180 days	94	0	-94	0	100.0%
Total receivables	**4 092**	**-11**	**-94**	**3 987**	**2.6%**

Distribution of receivables as at 31.12.2015 (adjusted)	Due from households - gross basis	Portfolio provision	Specific provision	Due from households - net basis	Coverage ratio
Overdue 0-89 days	3 315	0	0	3 315	0.0%
Overdue 90-179 days	0	0	0	0	0.0%
Overdue more than 180 days	0	0	0	0	0.0%
Total receivables	**3 315**	**0**	**0**	**3 315**	**0.0%**

The credit products offered by the bank are largely very young, as sales of the products started in 2015 or 2016. The only exception is the hire-purchase product offered in Estonia, which became available in 2011. Because of this, the information describing the payment behaviour of portfolios is partially incomplete. The statistical basis for recalculation of agreement provisioning rates will improve via recalculations in the subsequent periods. Market information, management estimates and information from similar products of the products offered by the bank have been used in places where information about payment behaviour is incomplete as at 31 December 2016.

Change in credit impairment	2016	2015
As at January 1	-1 156	-294
Recognised write-downs during the period	-3 400	-976
Written off from financial position during the period	21	7
Recoveries	181	121
As at 31.12.2016	**-4 396**	**-1 156**

NOTE 6 Net interest income

EURt		
Interest income	**31.12.2016**	**31.12.2015**
Loans to households	9 520	3 886
Loans to businesses	86	35
Due from financial and credit institutions	182	161
Total	**9 788**	**4 082**
Interest expense		
Deposits received	-1 136	-349
Debt securities sold	-267	-265
Loans received	-1	-91
Total	**-1 404**	**-705**
Net interest income	**8 384**	**3 377**
Interest income by customer location		
Estonia	6 053	3 414
Latvia	3 735	668
Total	**9 788**	**4 082**

NOTE 7 Net fee and commission income

EURt

Fee and commission income	31.12.2016	31.12.2015
Loans to households	594	273
Loans to businesses	5	0
Total	**599**	**273**
Fee and commission expense		
Loan administration costs	-302	-204
Security brokerage	-32	-42
Total	**-334**	**-246**
Net fee and commission income	**265**	**27**
Fee and commission income by customer location		
Estonia	395	273
Latvia	204	0
Total	**599**	**273**

NOTE 8 Personnel costs

EURt	2016	2015
Salaries and wages	2 461	1 505
incl. social tax	487	294
incl. unemployment insurance	7	5
	31.12.2016	**31.12.2015**
Number of employees	69	39

NOTE 9 Operating lease

EURt

Non-cancellable operating lease agreements	31.12.2016	31.12.2015
up to 1 year	112	57
1 year to 5 years	230	134
over 5 years	0	0
Total	**342**	**191**

The Group rents office space under operating lease.

NOTE 10 Income tax

EURt	2016				2015		
	Estonia	Latvia	Poland	Total	Estonia	Latvia	Total
Tax rates	25%	15%	19%		25%	15%	
Profit before income tax	2 923	-6	-358	2 559	1 362	-484	878
Allocations to retained earnings	-2 923	0	0	-2 923	0	0	0
Non-deductible expenses	0	2 205	43	2 248	0	426	426
Deferred retained loss	0	-58	0	-58	0	0	0
Change in tax losses carried forward	0	-2 147	-315	-2 462	0	-472	-472
Taxable income	0	958	0	958	0	0	0
Income tax	**0**	**-2**	**59**	**57**	**0**	**71**	**71**

EURt	2016				2015		
	Estonia	Latvia	Poland	Total	Estonia	Latvia	Total
Deferred income tax asset	0	71	0	71	0	0	0
Deferred taxable losses	0	2 598	315	2 913	0	472	472
Total deferred income tax asset	**0**	**390**	**59**	**449**	**0**	**71**	**71**
Income tax deductions reported in the income statement	**0**	**319**	**59**	**378**	**0**	**71**	**71**

Pursuant to the Income Tax Act of the Republic of Estonia, legal persons are not obliged to pay income tax on profit earned. Income tax is paid on fringe benefits, gifts, donations, costs of entertaining guests, dividends and non-business disbursements. Dividend is a disbursement made on the basis of the corresponding resolution of the shareholders of Inbank AS from net profit or retained earnings, in accordance with the dividend recipient's holding in Inbank AS. Inbank pays income tax on dividends upon their disbursement in monetary or non-monetary form. Pursuant to the Income Tax Act, the profit to be allocated as dividends is taxed at a rate of 20/80 of the net dividend to be paid. Corporate income tax on dividends is charged to income tax expenses in the profit or loss over the period of their announcement, regardless of the dividend announcement period or dividend payment period.
As at 31 December 2016, the bank's retained earnings amounted to 3,330 EURt (31.12.2015: 681 EURt). The potential income tax expenses related to the payment of dividends would amount to 833 EURt (31.12.2015: 170 EURt).

NOTE 11 Cash and cash equivalents

EURt

	31.12.2016	31.12.2015
Cash in hand	4	3
Demand deposits	1 956	4 882
Demand deposits in central banks	14 207	345
Total	**16 167**	**5 230**

Cash and cash equivalents include cash in hand, receivables from central banks (excluding the reserve requirement) and accounts in other credit institutions.

NOTE 12 Finance lease

EURt

Leasing gross and net investment by maturity dates	Gross investment	Unearned interest income for future periods	Impairment losses	Principal payments for future periods
up to 1 year	83	-69	0	14
1 year to 5 years	619	-78	-10	531
over 5 years	66	-1	-1	62
Total as at 31.12.2016	**766**	**-148**	**-11**	**607**

The bank started offering leasing products in September 2016.

NOTE 13 Shares of subsidiaries

Consolidated subsidiaries as at 31.12.2016:

Commercial register number	Company name	Domicile	Main activity	Ownership interest % 31.12.2016	Ownership interest % 31.12.2015
40103821436	Inbank Lizings SIA	Latvia	Finance activities in Latvia	90	90
12104213	Inbank Technologies OÜ	Estonia	Information technology development	100	100
12932944	Veriff OÜ	Estonia	Information technology development	60	60
14028999	Inbank Liising AS	Estonia	Leasing product	80	0
0000635086	AS Inbank Poland branch	Poland	Credit institution		

Investments acquired and established

Name of subsidiary	Ownership interest %	Date	Cost
Inbank Lizings SIA (established)	90	21.08.2014	499
Inbank Technologies OÜ (acquired)	100	5.06.2015	454
Veriff OÜ (established)	60	20.10.2015	100
Inbank Liising AS (established)	80	8.04.2016	80
Total			**1 133**

In 2014, AS Inbank established the subsidiary Inbank Lizings SIA by making a monetary contribution of EUR 499 thousand for the 90% holding and a monetary contribution of EUR 1 thousand for a non-controlling interest of 10%.

In 2015, Inbank acquired a 100% stake in the software development company Desk Rock OÜ. Upon acquisition, the company was renamed Inbank Technologies OÜ. The goodwill generated by the purchase is the difference between the equity acquired and the net present value of future cash flows.

The value in use test is based on the estimation of future revenue and expenditure. The profit has been discounted in line with the estimations as at the balance sheet date. The value in use, as determined based on the calculations, is measured against the goodwill that arose upon the acquisition of Inbank Technologies OÜ and the company's equity, and adjusted where necessary.

The goodwill test was conducted as at 31.12.2015 and 31.12.2016. The recoverable amount does not significantly differ from its carrying amount (including goodwill). Therefore, no adjustments have been made in the consolidated statement of financial position.

In the autumn of 2015, Inbank Technologies OÜ established the subsidiary Veriff OÜ by making a monetary contribution of EUR 100 thousand for a 60% stake. The objective of Veriff OÜ is to develop the technical solution for video banking and identification.

In 2016, the subsidiary Inbank Liising AS was established by making a monetary contribution of EUR 80 thousand for an 80% stake and a monetary contribution of EUR 20 thousand for a minority interest of 20%. The established company will be used for offering full service leasing to the company's customers. The provision of services was launched in Q3 last year.

Inbank's Poland branch was registered on 8 September 2016. The Polish financial supervision authority granted the activity licence on 10 January 2017. The branch will start offering consumer financing and deposit products on the Polish market. The legal form was chosen based on the principle of offering the entire product portfolio if Inbank, including term deposits.

NOTE 14 Shares of affiliates

Shares of affiliates, general information					Ownership interest %	
Commercial register number	Company name	Date of acquisition	Domicile	Main activity	31.12.2016	31.12.2015
12257075	Maksekeskus Holding OÜ	28.02.2012	Estonia	Investment management	40	40
12087992	Coop Finants AS	30.04.2011	Estonia	Finance activities in Estonia	44	44
12546980	Krediidipank Finants AS	24.09.2013	Estonia	Finance activities in Estonia	49	49

Balance sheet value of affiliates		
EURt		
Name of affiliate	**31.12.2016**	**31.12.2015**
Maksekeskus Holding OÜ	1	0
Coop Finants AS	1 387	783
Krediidipank Finants AS	285	85
Total	**1 673**	**868**

Affiliates have been accounted for using the equity method of accounting. In January 2017, Inbank AS increased its participation in Coop Finants AS by 5%, with the bank now holding 49%. The bank is planning to dispose of the affiliates Coop Finants AS and Krediidipank Finants AS in the first half of 2017. As at 31 December 2016, the investments have been recognised as non-current assets held for sale. See also Note 28.

NOTE 15 Property, plant and equipment

EURt	31.12.2015			Change				31.12.2016		
	Cost	Depreciation	Carrying amount	Acquisition	Sale/ retirement	Depreciation on sale/retirement	Depreciation in 2016	Cost	Depreciation	Carrying amount
Computers and office equipment	118	-41	77	135	0	0	-45	253	-86	167
Art	12	0	12	0	0	0	0	12	0	12
Vehicles	10	-4	6	0	0	0	-2	10	-6	4
Total	**140**	**-45**	**95**	**135**	**0**	**0**	**-47**	**275**	**-92**	**183**

EURt	31.12.2014			Change				31.12.2015		
	Cost	Depreciation	Carrying amount	Acquisition	Sale/ retirement	Depreciation on sale/retirement	Depreciation in 2015	Cost	Depreciation	Carrying amount
Computers and office equipment	50	-29	21	117	-49	49	-61	118	-41	77
Art	0	0	0	12	0	0	0	12	0	12
Vehicles	9	0	9	1	0	0	-4	10	-4	6
Total	**59**	**-29**	**30**	**130**	**-49**	**49**	**-65**	**140**	**-45**	**95**

NOTE 16 Intangible assets

EURt	31.12.2015			Change				31.12.2016		
	Cost	Depreciation	Carrying amount	Acquisition	Sale/ retirement	Depreciation on sale/retirement	Depreciation in 2016	Cost	Depreciation	Carrying amount
Licences	168	-49	119	1	-57	57	-64	112	-56	56
Software	492	-89	403	267	0	0	-62	759	-151	608
Goodwill	238	0	238	0	0	0	0	238	0	238
Total	**898**	**-138**	**760**	**268**	**-57**	**57**	**-126**	**1109**	**-207**	**902**

EURt	31.12.2014			Change				31.12.2015		
	Cost	Depreciation	Carrying amount	Acquisition	Sale	Depreciation on sale/retirement	Depreciation in 2015	Cost	Depreciation	Carrying amount
Licences	2	-1	1	166	0	0	-48	168	-49	119
Software	236	-48	188	256	0	0	-41	492	-89	403
Goodwill	0	0	0	238	0	0	0	238	0	238
Total	**238**	**-49**	**189**	**660**	**0**	**0**	**-89**	**898**	**-138**	**760**

NOTE 17 Other assets

EURt	31.12.2016	31.12.2015
Accounts receivable	14	93
Deferred expenses	88	91
Costs for resale	0	10
Prepaid taxes	104	2
Deferred income tax asset	450	72
Paid guarantee amounts	30	3
Other assets	20	15
Total	**706**	**286**

Deferred expenses mainly consist of a prepayment to the Financial Supervision Authority.
Deferred income tax assets have been generated by the Latvian subsidiary and the Poland branch.

NOTE 18 Deposits

EURt

Deposits	31.12.2016	31.12.2015
Deposits from households	51 572	25 993
Deposits from non-financial corporations	8 054	3 178
Deposits from other financial corporations	4 961	540
Total	**64 587**	**29 711**

Deposits	31.12.2016	31.12.2015
Estonia	64 587	29 711
Total	**64 587**	**29 711**

Deposits include accrued interest liabilities in the amount of 985 EURt. (2015: 308 EURt).

NOTE 19 Debt securities

Debt securities	Nominal price	Amount	Interest rate	Maturity
Debt securities issued EE3300110584	1 000 EUR	3 105	7%	16.09.2018

Transactions with bonds	2016
Opening balance as at 31.12.2015	3 114
Debt securities redeemed	-3 114
Closing balance 31.12.2016	**-3 114**

Transactions with subordinated bonds	2016
Opening balance as at 31.12.2015	0
Debt securities issued	6 503
Adjustments	-28
Closing balance 31.12.2016	**6 475**

Subordinated bonds	Nominal price	Amount	Interest rate	Maturity
Inbank subordinated bond INBB070026A	1 000 EUR	6 503	7%	28.09.2026

The debt securities issued were redeemed in January 2016, in the total amount of EUR 140 thousand.
On June 6, the bank notified the investors of premature redemption of the bonds on 15 September 2016.

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

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

No restrictions have been established for the bonds.

NOTE 20 Other liabilities

EURt

	31.12.2016	31.12.2015
Outstanding amounts to vendors	717	482
Client prepayments	197	35
Prepayments for future period income	87	508
Tax liabilities	561	118
Payables to employees	481	227
Other liabilities	34	11
Total	**2 077**	**1 381**

Tax liabilities include income tax payable in Latvia in the amount of 321 EURt.

NOTE 21 Contingent liabilities and loan commitments

The group has entered into a contract with a member of the Management Board, stipulating a severance pay upon termination of the contract equalling six times the monthly remuneration. The contracts entered into with the remaining members of the Management Board do not stipulate a severance pay upon termination of the contract. The parties have agreed to proceed from the legislation effective in the Republic of Estonia in the event of disputes concerning areas that have not been regulated in the contract. The Management Board is of the opinion that the occurrence of such a situation is highly unlikely.

The group has no contingent loan commitments as at 31 December 2016.

NOTE 22 Capital adequacy

EURt

Capital base	31.12.2016	31.12.2015 (restated)
Paid-in share capital	689	569
Share premium	6 361	5 393
Statutory and other reserves	1 418	1 360
Retained earnings/accumulated losses	681	-279
Intangible assets (subtracted)	-902	-760
Profit for financial year*	2 647	987
Shares in affiliates**	-1 673	-868
Total Tier 1 capital	**9 221**	**6 402**
Subordinated debt at nominal value	6 503	0
Total Tier 2 capital	**6 503**	**0**
Net own funds for capital adequacy calculation	**15 724**	**6 402**
Risk-weighted assets		
Credit institutions, standardised approach	391	976
Non-financial customers, standardised approach	3 037	1 379
Claims secured by mortgage, standardised approach	0	1 148
Retail claims, standardised approach***	44 818	23 787
Claims past due, standardised approach***	1 095	156
Other assets, standardised approach	1 562	381
Total credit risk and counterparty credit risk	**50 903**	**27 827**
Operational risk, basic indicator approach	4 701	2 462
Total risk-weighted assets	**55 604**	**30 289**
Capital adequacy (%)	28.28%	21.14%
Regulative capital adequacy (%)**	26.69%	18.63%
Tier 1 capital ratio (%)	16.58%	21.14%
Regulative Tier 1 capital ratio (%)	15.15%	18.63%

*In accordance with EU regulation, audited profit for the period may be included in retained earnings upon prior approval by competent authority. The profit for 4th quarter 2016 in the amount of 936 EURt (2015: full year 987 EURt) was unaudited in the calculations made in accordance with EU regulation upon prior approval by competent authorities, including the profit from affiliates using the equity method of accounting in the amount of 261 EURt (2015: full year 423 EURt), and such profit was not included in the capital base.

**According to the reports submitted to the regulator, the capital adequacy ratio is 26.69% (31.12.2015: 18.63%) and the subtracted balance sheet value of "Shares in affiliates" is 1411 EURt (31.12.2015: 868 EURt). The value of the "Shares in affiliates", as submitted to the regulator, has been determined on the basis of the audited profit of the affiliates.

***In the reports submitted to the regulator as at 31.12.2016, the risk exposures take account of the credit portfolio write-downs made in the reporting period in the amount of 759 EURt and yet to be confirmed by the external auditor.

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

In addition to the principal requirements arising from the harmonised rules, the principles for establishing capital buffers are established with the corresponding directive. In addition to basic own funds requirement, Estonia has established capital preservation and systemic risk buffers for credit institutions at the respective level of 2.5% (established by the Financial Supervision Authority) and 1.0% (established by the Bank of Estonia). Since these buffers shall be added to both Tier 1 and total capital requirement, the minimum Tier 1 requirement in Estonia is 9.5% and the total capital requirement 11.5%. The credit-institution-specific Pillar 2 requirement shall be added. Inbank AS adheres to these requirements both as at the balance sheet date and as at the publication of the interim report.

An overview of the fulfilment of the capital requirements is provided in the table below:

	Common equity Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Basic requirement	4.50%	6.00%	8.00%
Capital preservation buffer	2.50%	2.50%	2.50%
Systemic risk buffer	1.00%	1.00%	1.00%
Minimum regulative capital requirement	**8.00%**	**9.50%**	**11.50%**

NOTE 23 Share based remuneration

Share options issued	31.12.2016	31.12.2015
Management Board	1 000	167
Supervisory Board	580	180
Employees	3 350	0
Total	**4 930**	**347**

Share options realised	31.12.2016	31.12.2015
Management Board	167	0
Total	**167**	**0**

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. The options granted to management and staff members in 2016 grant the right to acquire shares with a nominal value of EUR 10 at a price of EUR 300 per share. The previously issued options grant the right to acquire shares at a price of EUR 10 per share. 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. No employees with whom the company has entered into an option agreement, left the company in 2016.

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

The share-based payment reserve is recorded under other reserves in equity over a period of three years. At the end of each reporting period, the bank will estimate how many shares will be realised at non-market prices and adjust the reserve accordingly. As at 31.12.2016, the reserve amounted to 31 EURt.

Personnel expenses related to the option agreements in 2016 amounted to a total of 32 EURt.

The options were realised via the issue of shares, with a monetary contribution made for the nominal price of the shares (EUR 10 per share). The difference between the nominal price and the transaction value is recorded in the statement of financial position as a share premium of 1 EURt.

NOTE 24 Share capital

EURt	31.12.2016	31.12.2015
Share capital	689	569
Number of shares outstanding	68 881	56 880
Nominal share value (EUR)	10	10

Inbank's share capital increase was registered in the Commercial Register on 22 July 2016, with Inbank's total number of shares amounting to 68 881 (previously 56 880) at a nominal value of EUR 10. The share capital was increased by EUR 120 010, with the share premium amounting to EUR 966 860.

On 11 January 2017 the shareholders of Inbank resolved to increase the share capital by 9 334 shares. The share capital was thus increased by EUR 93 340, with the share premium amounting to EUR 2 706 860.

Contributions to the share capital were made between January 11 and January 18, 2017. The share capital increase was registered in the commercial register on 9 February 2017.

NOTE 25 Reserves

EURt	31.12.2016	31.12.2015
Statutory reserve	57	30
Voluntary reserve	1 330	1 330
Share based payment	31	0
Total	**1 418**	**1 360**

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 26 Fair value of financial and non-financial instruments

EURt		31.12.2016			31.12.2015 (adjusted)	
Assets	**Fair value**	**Carrying amount**	**Difference**	**Fair value**	**Carrying amount**	**Difference**
Cash in hand	4	4	0	3	3	0
Due from central banks, reserve requirement	14 680	14 680	0	499	499	0
Due from credit institutions	1 956	1 956	0	4 882	4 882	0
Loans and receivables	64 839	64 839	0	34 931	34 931	0
Investments in affiliates	1	1	0	868	868	0
Assets held for sale		1 672	0	0	0	0
Total	**81 480**	**83 152**	**0**	**41 183**	**41 183**	**0**
Non-financial instruments	1 791	1 791	0	1 141	1 141	0
Total	**83 271**	**84 943**	**0**	**42 324**	**42 324**	**0**

		31.12.2016			31.12.2015 (adjusted)	
Liabilities	**Fair value**	**Carrying amount**	**Difference**	**Fair value**	**Carrying amount**	**Difference**
Deposits and loans raised	64 587	64 587	0	29 828	29 821	7
Debt securities	6 503	6 475	28	3 109	3 114	-5
Other financial liabilities	1 341	1 341	0	471	471	0
Total	**72 431**	**72 403**	**28**	**33 408**	**33 406**	**2**
Non-financial instruments	736	736	0	910	910	0
Total	**73 167**	**73 139**	**28**	**34 318**	**34 316**	**2**

The fair value measurement of financial instruments
Various methods are employed for the fair value measurement of financial instruments, with the fair value hierarchy divided into three levels. Level 1 includes financial instruments where fair value can be determined on the basis of prices quoted on an active market. At Inbank, financial instruments on this level are deposits with other credit institutions and customer deposits. Level 2 is made up of such financial instruments where valuation models based upon observable market inputs are used for the determination of fair value. Observable market inputs are market prices for financial instruments as similar as possible in actually executed transactions. Inbank does not have any such financial instruments. Level 3 is comprised of financial instruments where fair value is determined through the use of valuation models based on market inputs that are supplemented by the company's own estimates. Such financial instruments are loans and securities issued.

Bonds issued were listed on the Nasdaq Baltic Stock Exchange on 3 October 2016, and their fair value can be determined based on the transaction history. The Inbank securities transaction market was not very active. A total of 35 transactions were carried out, involving 128 securities. A further 21 transactions have been concluded with 61 securities from the beginning of the year until publication of the report. The small number of transactions is thus not an accurate reflection of the fair value of the security. The fair value of the security equals the quoted value.

Loans and receivables are measured at cost based on the effective interest rate method, by reducing the amortised cost in the amount of write-downs made on the basis of the management's estimation of the fair value of the financial assets.

Corporate loans are sufficiently short-term for the management to believe that their fair value does not materially differ from their carrying amount.

Small loan and hire-purchase products offered to customers have a relatively short term and have been issued on market conditions, meaning that the fair market interest and the fair value of the loan will not change significantly over the loan period. The effective interest rate of the issued consumer loans is at the same tier as the interest rate offered to similar loan products on the market. As a result, the book value of the loans does not differ significantly from their fair value.

Fixed-interest customer deposits and loans usually have a short term, with the deposit pricing depending on the market conditions. The pricing of the deposit products offered has not changed significantly during the period of operation. Interest rates differ for campaign periods and non-campaign periods. The interest rates offered for campaign periods have remained on the same level during the period of operation. The same applies to the interest rates offered during non-campaign periods. The fair value of the deposit portfolio, determined by discounting future cash flows, does not thus significantly differ from the carrying amount.

EURt

Fair value	**31.12.2016**				**31.12.2015 (adjusted)**			
Assets	**Fair value**	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Cash in hand	4	4	0	0	3	3	0	0
Due from central banks, reserve requirement	14 680	14 680	0	0	499	499	0	0
Due from credit institutions	1 956	1 956	0	0	4 882	4 882	0	0
Loans and receivables	64 839	0	0	64 839	34 931	0	0	34 931
Investments in affiliates	1	0	0	1	868	0	0	868
Assets held for sale		0	0		0	0	0	0
Total	**81 480**	**16 640**	**0**	**64 840**	**41 183**	**5 384**	**0**	**35 799**

EURt

Fair value	**31.12.2016**				**31.12.2015 (adjusted)**			
Liabilities	**Fair value**	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Deposits and loans raised	64 587	64 587	0	0	29 828	29 828	0	0
Debt securities	6 503	0	0	6 503	3 109	0	0	3 109
Other financial liabilities	1 341	0	0	1 341	471	0	0	471
Total	**72 431**	**64 587**	**0**	**7 844**	**33 408**	**29 828**	**0**	**3 580**

*The fair value of affiliates held for sale is confidential.

NOTE 27 Related parties

EURt	
Parent company of reporting entity	Pershing Hall Holding Ltd
Country of registration of the parent company of reporting entity	Malta

Management remuneration and other significant benefits	**2016**	**2015**
Remuneration	404	291

The following are considered the group's related parties members of the Management Board and their family members and companies (hereinafter the management) shareholders and their family members and companies.

Balances	**2016**	**2015**
Loans and receivables as at end of year	**1 027**	**1 036**
management	1	0
shareholders and their companies and family members	1 026	1 036
Deposits and bonds as at end of year	**249**	**349**
management	180	136
shareholders and their companies and family members	69	213

Transactions	**2016**	**2015**
Interest income	**82**	**24**
management	0	0
shareholders and their companies and family members	82	24
Interest expenses	**6**	**13**
management	4	1
shareholders and their companies and family members	2	12
Services purchased	**24**	**32**
management	7	0
shareholders and their companies and family members	17	32
Services sold	**531**	**233**
management	0	0
shareholders and their companies and family members	531	233

The table provides an overview of the significant transactions and balances with related parties.
Loans to related parties have been granted on market terms. The interest rate of deposits engaged from related parties equals the interest rate offered to customers.

Bonds outstanding as at 31.12.2015 were redeemed in 2016, at an interest rate of 7%. The interest rate of subordinated bonds issued in September 2016 is 7%. The Management Board and the related companies and family members had the right to acquire bonds on the same conditions as those established for other investors.

As at 31.12.2015 the Group had entered into 8,500 share option agreements, allowing shareholders to acquire shares at a price of EUR 10 per share. All of the options were realised during the issue of 2016, with 85 EURt transferred to the share capital. As at 31.12.2016 the Group had not entered into any share option agreement with shareholders. Information on options issued to members of the Management Board and Supervisory Board has been provided in Note 23.

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 28 Events after the balance sheet date

In January 2017, Inbank AS increased its participation in Coop Finants AS by 5%, with the bank now holding 49%. The bank is planning to dispose of the affiliates Coop Finants AS and Krediidipank Finants AS in the first half of 2017. As at 31 December 2016, the investments have been recognised as affiliates held for sale.

On January 30, Inbank acquired 9.9995% of the shares of Eesti Krediidipank.

In order for the transaction to be concluded, the general meeting of the shareholders of Inbank resolved, on 11 January 2017, to increase the share capital by 2.8 EURm.

NOTE 29 Consolidated statement of financial position (restated)

EURt	31.12.2015 (restated)	31.12.2015	01.01.2015 (restated)	01.01.2015
Assets				
Cash in hand	3	3	0	0
Due from central banks, reserve requirement	499	499	0	0
Due from credit institutions	4 882	4 882	376	376
Loans and receivables	34 931	35 188	14 203	14 343
Investments in affiliates	868	868	444	444
Tangible assets	95	95	30	30
Intangible assets	760	760	189	189
Other assets	286	260	167	326
Total assets	**42 324**	**42 555**	**15 409**	**15 708**
Liabilities				
Loans received	110	110	4 543	4 543
Deposits	29 711	29 711	0	0
Debt securities	3 114	3 114	4 770	4 770
Other liabilities	1 381	1 381	520	819
Total liabilities	**34 316**	**34 316**	**9 833**	**10 132**
Equity				
Share capital	569	569	500	500
Share premium	5 393	5 393	4 002	4 002
Retained earnings/accumulated loss	-279	-279	1 051	1 051
Other reserves	1 360	1 360	30	30
Consolidated profit for reporting period	987	1 207	0	0
Total equity capital held by shareholders of parent company	**8 030**	**8 250**	**5 583**	**5 583**
Non-controlling interest	-22	-11	-7	-7
Total equity	**8 008**	**8 239**	**5 576**	**5 576**
Total liabilities and equity	**42 324**	**42 555**	**15 409**	**15 708**

Write-downs were recognised in the Annual Report of 31.12.2015 on the basis of experience of previous periods. Having received additional information after approval of the Annual Report, the Management Board sees the need for recognising a portion of the write-down for Q2 2016 as at 31.12.2015. The corresponding restatement also affects income tax calculation. The principle for accounting for the effective interest rate has been adjusted in this interim report, compared to the financial statements for the year ended 31.12.2015.

The adjustment of the financial positions of 31.12.2015 is presented below:

EURt	31.12.2015 (restated)	31.12.2015
Loans and receivables	34 931	35 188
Other assets	286	260
Profit for the reporting period	987	1 207
Non-controlling interest	-22	-11

NOTE 30 Consolidated statement of comprehensive income (restated)

EURt	Note	2015 (restated)	2015
Continuing operations			
Interest income	4	4 082	4 210
Interest expenses	4	-705	-705
Net interest income		**3 377**	**3 505**
Fee and commission income	5	273	273
Fee and commission expense	5	-246	-246
Net fee and commission income		**27**	**27**
Other income related to operations		644	644
Total income		**4 048**	**4 176**
Personnel costs		-1 505	-1 505
Marketing expenses		-222	-222
Administrative expenses		-675	-676
Depreciation, amortisation		-157	-157
Total operating expenses		**-2 559**	**-2 560**
Operating profit		**1 489**	**1 616**
Profit from affiliates		365	365
Profit before loan losses		**1 854**	**1 981**
Credit losses		-976	-846
Profit before income tax		**878**	**1 135**
Deffered income tax income		71	45
Corporate income tax		0	0
Net income		**949**	**1 180**
Share based payment reserve		0	0
Total comprehensive income		**949**	**1 180**
Profit (loss) attributable to the parent company		987	1 207
Profit (loss) attributable to non-controlling interest		-38	-27
Total comprehensive income		**949**	**1 180**

This statement of comprehensive income as at 31.12.2015 has been adjusted, compared to the previous version, with the following changes introduced:

EURt	2015 (restated)	2015	Restatement
Interest income	4 082	4 210	-128
Impairment losses on loans	-976	-846	-130
Deferred income tax	0	0	0
Profit/loss attributable to non-controlling interest	-38	-27	-11
Total comprehensive income for the period	949	1 180	-231

NOTE 31 Parent company's separate statement of financial position

EURt	Note	31.12.2016	31.12.2015 (restated)	01.01.2015 (restated)
Assets				
Cash in hand		4	0	0
Due from central banks, reserve requirement		14 680	499	0
Due from credit institutions		963	4 369	50
Loans and receivables		65 995	34 755	14 273
Investments in subsidiaries		1 033	949	499
Investments in affiliates		0	868	444
Tangible assets		121	59	16
Intangible assets		191	221	119
Other assets		187	158	80
Assets held for sale		1 672	0	0
Total assets		**84 846**	**41 878**	**15 481**
Liabilities				
Loans raised		0	0	4 542
Deposits		64 587	29 660	0
Debt securities		0	3 114	4 770
Other liabilities		1 500	706	515
Subordinated debt securities		6 475	0	0
Total liabilities		**72 562**	**33 480**	**9 827**
Equity				
Share capital	23	689	569	500
Share premium	23	6 361	5 393	4 002
Retained earnings/accumulated loss		1 050	-210	1 344
Other reserves	24	1 420	1 360	30
Consolidated profit for reporting period		2 764	1 286	-222
Total equity		**12 284**	**8 398**	**5 654**
Total liabilities and equity		**84 846**	**41 878**	**15 481**

NOTE 32 Parent company's separate statement of comprehensive income

EURt	2016	2015 (restated)
Continuing operations		
Interest income	6 977	3 555
Interest expenses	-1 400	-694
Net interest income	**5 577**	**2 861**
Fee and commission income	395	271
Fee and commission expense	-261	-204
Net fee and commission income	**134**	**67**
Other income related to operations	328	167
Net income from other operations	**328**	**167**
Total income	**6 039**	**3 095**
Other income and expenses	-400	-340
Personnel costs	-1 822	-996
Marketing expenses	-510	-219
Administrative expenses	-325	-73
Depreciation, amortisation	-62	-51
Total operating expenses	**-3 119**	**-1 679**
Operating profit	**2 920**	**1 416**
Profit from affiliates	722	423
Profit before loan losses	**3 692**	**1 839**
Credit losses	-988	-553
Profit before income tax	**2 704**	**1 286**
Deferred income tax income	60	0
Comprehensive income	**2 764**	**1 286**

NOTE 33 Parent company's separate statement of cash flows

EURt	2016	2015 (restated)
Cash flows from operating activities		
Operating profit	**2 920**	**1 416**
Interest income	-6 977	-3 555
Interest expense	1 400	694
Credit losses	-988	-553
Depreciation, amortisation	62	51
Cash flows from operating activities before change in operating assets and liabilities	**-3 583**	**-1 947**
Net increase/decrease in operating assets		
Loans to customers	-30 928	-20 387
Required reserve in central banks	-319	-154
Other assets	-29	8
Net increase/decrease in operating liabilities		
Customer deposits	34 248	29 372
Other liabilities	794	187
Other adjustments	88	7
Cash flows from operating activities	**3854**	**9033**

EURt	2016	2015 (restated)
Adjustments to current assets and liabilities		
Interest received	6 669	3 391
Interest paid	-721	-406
Net adjustments to current assets and current liabilities	**5 948**	**2 985**
Cash flows from investing activities		
Acquisition of non-current assets	-93	-196
Investment in affiliates	-111	-451
Net cash flow from investing activities	**-204**	**-647**
Cash flows from financing activities		
Debt securities sold	-3 114	-1 656
Debt securities issued	6 471	0
Loans received and repayments	0	-4 542
Proceeds from issue of share capital	120	69
Proceeds from share premium	968	1 391
Net cash flow from financing activities	**4 445**	**-4 738**
Change in cash and cash equivalents	**10 460**	**4 686**
Cash and cash equivalents at the beginning of the year	4 714	28
Cash and cash equivalents at the end of the year	**15 174**	**4 714**

NOTE 34 Parent company's separate statement of changes in equity

EURt	Share capital	Share premium	Statutory reserve	Other reserves	Retained earnings/ accumulated loss	Total equity
Balance as at 01.01.2016	**569**	**5 393**	**30**	**1 330**	**708**	**8 030**
Contributions to share capital	120	968	0	0	0	**1 088**
Share-based payment reserve	0	0	0	31	0	**31**
Unrealised foreign exchange reserve	0	0	0	2	0	**2**
Statutory reserve	0	0	27	0	-27	**0**
Comprehensive income for the period	0	0	0	0	2 649	**2 649**
Balance as at 31.12.2016	**689**	**6 361**	**57**	**1 363**	**3 330**	**11 800**
Carrying amount of holdings under control and significant influence					**-2 706**	**-2 706**
Value of holdings under control and significant influence under equity method					**1 933**	**1 933**
Adjusted unconsolidated equity 31.12.2016	**689**	**6 361**	**57**	**1 363**	**2 557**	**11 027**

SIGNATURES OF THE MANAGEMENT BOARD TO THE CONSOLIDATED ANNUAL REPORT

The Management Board has prepared the management report and the consolidated financial statements of Inbank AS for the financial year ended on 31 December 2016. The consolidated financial statements give a true and fair view of the financial position of the Bank, and the results of its operations and cash flows.

29 March 2017

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/

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INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholders of Inbank AS

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Inbank AS and its subsidiaries (hereinafter the "Group") set out on pages 34 to 94, which comprise the consolidated statement of financial position as of 31 December 2016, the consolidated statement of other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Inbank AS as of 31 December 2016, its consolidated financial performance and consolidated cash flows for the year then ended in accordance with Estonian Accounting Act and International Financial Reporting Standards, as adopted by European Commission.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). 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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (parts A and B), together with other ethical requirements that are relevant to our audit of the consolidated financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 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
Judgements and estimates with respect to impairment losses on loans to the public Recognition and measurement of financial instruments as regulated in IAS 39 is a complex and significant area with large impact on the Bank's business and financial reporting. Management exercises significant judgment when determining identification of impairment event and assessing the value of loan impairment provisions. Example of various assumptions and judgments includes the financial condition of the counterparty, expected future cash flow, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different loan loss provisions. The associated risk disclosures are complex and dependent on high quality data. As of 31 December 2016, gross loans to the public amount to 69.2 MEUR against which credit loss provisions in the amount of 4.4 MEUR have been recognized. Given the significance of loans to the public (representing 76% of total assets) and given the impact of inherent uncertainty of the credit loss provision and the subjectivity involved in the judgments made, we consider this to be a key audit matter for our audit. Refer to Critical Accounting Estimates and Judgments section in Note 1 to the consolidated financial statements, related disclosures about credit risk in Note 3, and about credit losses of loans and receivables in Note 5.	Our procedures included, but were not limited to: 1. The assessment of key controls over the approval, recording and monitoring of loans and receivables, and evaluating the methodologies, inputs and assumptions used in determining and calculating the impairment for credit losses. 2. We examined, supported by our specialists, the sufficiency of the underlying models, assumptions and data used to measure credit loss provisions for portfolios of loans with similar credit characteristics. Likewise we have examined the models, assumptions and data used for collective impairment for incurred but not reported loss events. 3. Finally, we addressed the completeness and accuracy of the disclosures relating to credit loss provision to assess compliance with disclosure requirements established by IFRSs (EU).
Application of Uniform Accounting Policies As disclosed in Note 1 to the consolidated financial statements, the Group comprises a parent, a branch and a number of subsidiaries and associates. Under IFRS 10 Consolidated Financial Statements, when preparing consolidated financial statements, a parent must use uniform accounting policies for reporting like transactions and other events in similar circumstances. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.	Our procedures included, but were not limited to: 1. The assessment of process of unification of accounting policies established by the Group, related calculations and adjustments. 2. The assessment of accounting policies applied by the components, and consolidation adjustments for unification, if any, in the following key areas: a) Revenue recognition, and b) Recognition of credit losses.

Other information

The management Board is responsible for the other information. The other information comprises the Management Report on pages 16 to 26, as required by the Estonian Accounting Act, Corporate Governance Report on pages 27 to 33, and other information on pages 4 to 15, which we obtained prior to the date of this certified auditor's report. The other information does not include the consolidated financial statements and our certified 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 and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditor's report, 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 for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Estonian Accounting Act and International Financial Reporting Standards as adopted by European Commission, and for such internal control as the Management Board determine 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 intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Certified 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 a certified auditor's report that includes our opinion. Reasonable assurance is a high level assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) 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 our audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than 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 certified 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 audit evidence obtained up to the date of our certified 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 the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with the 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 to the Audit Committee, we determine those matters that were of most significance in the audit of consolidated financial statements of the current period and are therefore the key audit matters.

/signed digitally/
Monika Peetson
Certified Auditor No 555
AS Deloitte Audit Eesti
License No 27
2 Roosikrantsi Street
10119 Tallinn

PROFIT ALLOCATION PROPOSAL

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

- to allocate 21 thousand euros to statutory legal reserve;
- to allocate 2,626 thousand euros to retained earnings.

STATEMENT BY THE SUPERVISORY BOARD

The Management Board has prepared the management report and the consolidated financial statements of Inbank AS for the financial year ended on 31 December 2016.

The Supervisory Board has reviewed the annual report, which consists of the management report and the financial statements, the authorised auditor's report and the profit allocation proposal, and approved it for presentation to the general meeting of the shareholders. All members of the Supervisory Board have signed the annual report.

Priit Põldoja
Chairman of the
Supervisory Board

Triinu Reinold
Member of the
Supervisory Board

Roberto De Silvestri
Member of the
Supervisory Board

Raino Paron
Member of the
Supervisory Board

Rain Rannu
Member of the
Supervisory Board

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