Annual Report

2019

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Management report

Inbank AS general information

Business name	Inbank AS
Address	Niine 11, 10414 Tallinn
Registration date	05.10.2010
Registry code	12001988 (Commercial Register of the Republic of Estonia)
Legal entity identifier	2138005M92IEIQVEL297 (LEI-code)
VAT number	EE101400240
Telephone	+372 640 8080
E-mail	info@inbank.ee
Website	www.inbank.ee
Reporting period	01.01.2019 - 31.12.2019

Members of the Supervisory Board:

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

Members of the Management Board:

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

The reporting currency is the euro (EUR), with units presented in thousands.

Inbank AS Annual Report 2019 has been audited.

This is an unofficial translation into English.

The bank does not hold any ratings provided by international rating agencies.

We are building the shopping experience of tomorrow

Inbank helps merchants sell better by integrating consumer financing solutions into the shopping experience. Thanks to our proprietary digital technology and easily integrated financing solutions we are enabling customers to have a frictionless end-to-end shopping journey.

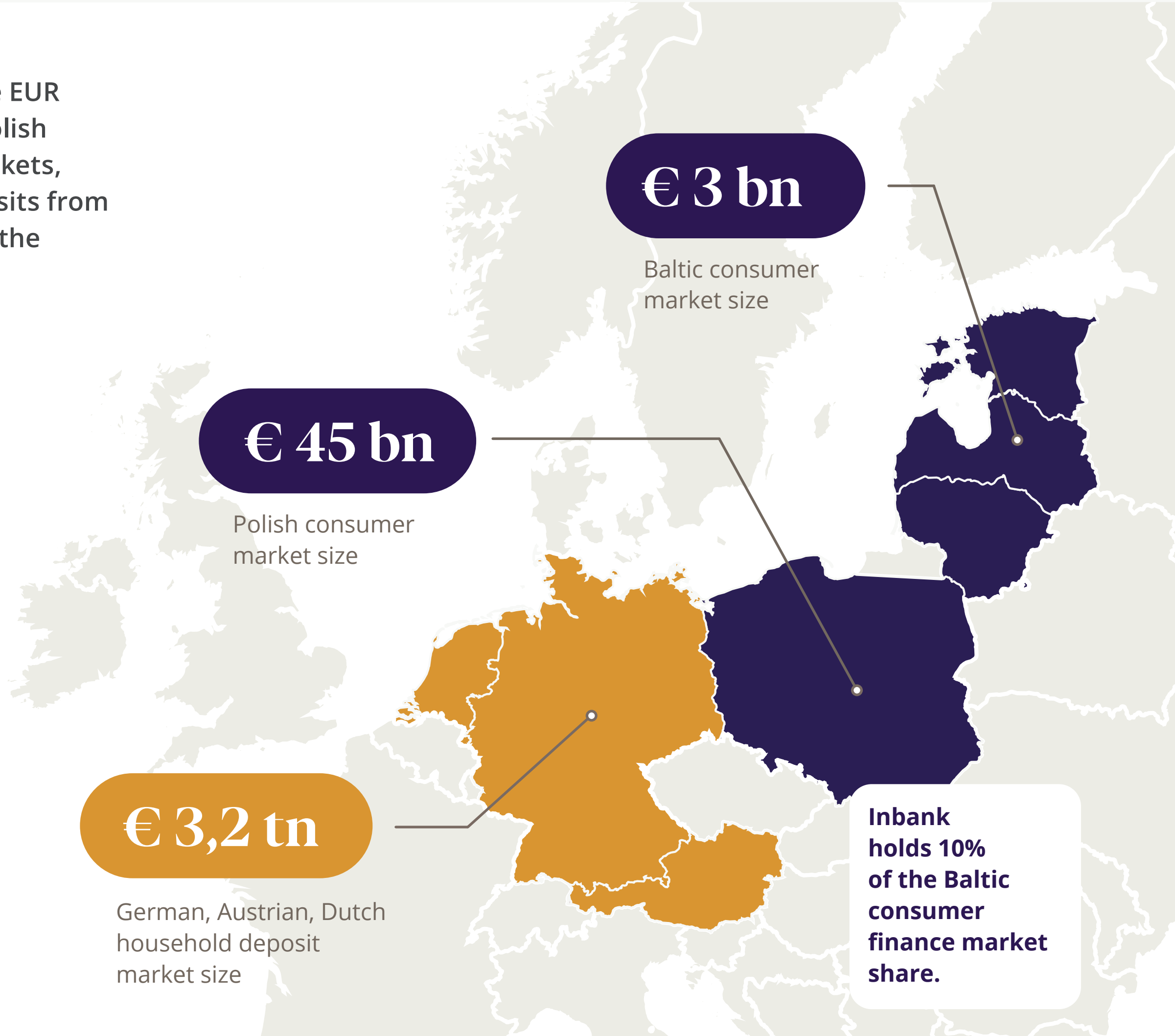
€ 800 m
Volume financed

550,000 +
Active contacts

2,000 +
Partners

Inbank operates in the EUR 48 billion Baltic and Polish consumer finance markets, and also accepts deposits from Germany, Austria and the Netherlands.

We are a team of 215 people working across our offices in Tallinn, Riga, Vilnius, Kaunas, Klaipeda, Warsaw and Gdansk.



4 Countries

7 Offices

215 People

46% Annual sales

Key financial indicators and ratios

(In thousands of euros)

Key financial indicators	2018	2019		
Total income	21 355	32 031	↑	50%
Net profit	9 276	10 010	↑	8%
Total assets	318 044	462 767	↑	46%
Equity	36 465	47 320	↑	30%
Loan portfolio	225 639	338 157	↑	50%
Deposit portfolio	240 175	377 518	↑	57%

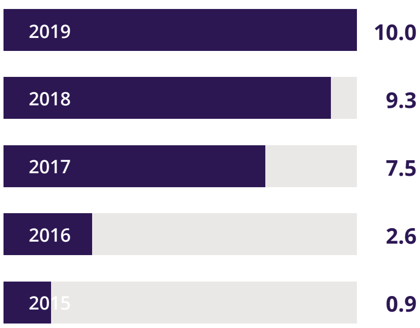
Ratios	2018	2019
Return on equity	31.9%	23.9%
Return on total assets	4.2%	2.6%
Net interest margin	9.5%	8.4%
Impairment losses to loan portfolio	1.7%	2.1%
Cost/income ratio	49.9%	49.9%
Equity to total assets	11.5%	10.2%

Net profit

(Millions of euros)

€ 10 m

+8% year-on-year

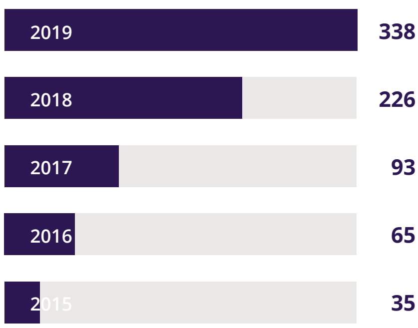


Loan portfolio

(Millions of euros)

€ 338 m

+50% year-on-year

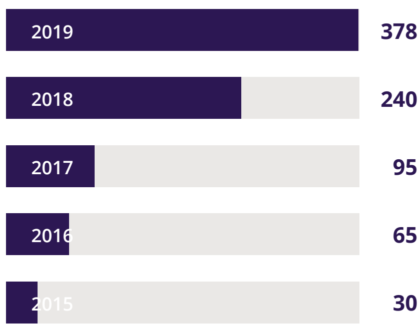


Deposit portfolio

(Millions of euros)

€ 378 m

+57% year-on-year



Scan QR code or click to watch the interview

Interview with the Chairman

Priit Põldoja, Chairman of the Supervisory Board talks about Inbank and the future of banking.

How would you characterise 2019 for Inbank?

2019 was another year of good growth for Inbank. We grew our loan portfolio by 50%, made close to 10 million euros profit and return on equity was 24%. We are very happy with our financial performance, but it was also a year of hard work – we added a third of our workforce, and significantly increased our technology investments. As a result, our expenses went up exactly as much as our revenues, by 50%. Therefore, I would say we laid good ground for 2020 and beyond.

What were the key milestones of growth?

Inbank has at the end of 2019 more than 2,000 partners in the four countries that we are operating in. Through those partners we sold nearly 400,000 contracts last year, amounting to a total of over 550,000 active contracts. This is the basis of our growth – working with our retail partners and platforms. That's where we were really successful in 2019.

Where did that growth come from, when you look at the markets Inbank is operating in?

The growth came from all our markets, especially from the largest market we operate in – Poland, who did a very good job in the second half of 2019 by growing our sales from 12 million to 55 million by the end of 2019 – nearly five times the year before. Most of the growth came through our cooperation with PayU, the largest payment service provider in Poland. We are looking forward to strong continued of growth in Poland in 2020.

You spoke about good sales figures last year, what about funding?

As a bank we fund our operations through deposits and continued to have good cooperation with the Raisin platform which increased our deposits portfolio throughout the year with total deposits growing 57%. At the end of the year we also launched a branch in Lithuania, and started to gather deposits in Lithuania as well as expanding our offering on the Dutch market through Raisin. So we are diversifying our deposit base to continue to fund growth.

Inbank's workforce grew by a third. What was last year like for Inbank as an organisation?

We employ 215 people today and are operating in four markets. On one hand that's a lot of markets, but on the other hand not enough. Nevertheless, we had to really start adding people to group functions and also invested a lot in technology as well as hiring a new CTO and Head of E-commerce. There are also changes in the market – digital is winning and our retail partners want more and more services interlinked between financing and payments.

Unfortunately, our investments in 2019 didn't bear much fruit yet. However, we did come out with a new product called Slice, that helps customers to make purchases in three easy instalments. This new payment product was launched with our partner Maksekeskus, the largest payment service provider in Estonia. So we are slowly showing progress, but really hope that these efforts will bear fruit in 2020 and beyond.

From which market does Inbank's growth come from and where do you see the most potential?

Inbank was founded in Estonia and that is obviously our home market, where we have been growing the best. The second largest market is currently Lithuania, where we acquired Mokilizingas in 2018.

From our 338 million euro portfolio, close to 300 million is in the Baltics. This is close to 10% of the 3 billion euro Baltic consumer finance market. We are growing faster than our competition, but one must assume that the Baltic market will at some point reach saturation for us and we may reach 20 per cent market share growing at the pace that we are; however, that's only doubling our size.

At the same time, Poland has a 45 billion euro consumer finance market and we currently have a portfolio of 40 million plus, which is 0.1% of the market. So obviously there is a lot of growth potential there. But we have to be smart and really target where we want to grow because this is also a very competitive market.

How does Inbank ensure the continuation of such remarkable growth?

I think the key here continues to be very good work with our merchant partners as well as acquiring new partners. We see the largest potential for growth through cooperation with large partners like PayU in Poland and Auto24 in Estonia. Getting into a partnership with a good platform or e-commerce player, solving their problems, building technology that helps them sell more – this is how we can actually grow as a company.

The second area of growth is the acquisition of new customers. Today, we have over 400,000 unique customers with an active contract to whom we can cross sell our other products, mostly personal loans.

Market-wise – where do you expect that growth to come from?

In order to grow further at the pace we've been growing, – 50 per cent or more – we obviously need to enter into new markets. However, this is something we've also learned in 2019 that we don't necessarily need to pick a new market. If you really focus where our growth is coming from, then it's actually from large partners.

For example, we should really look out for other car sales portals in Europe, with whom we can cooperate with like Auto24 in Estonia. At the end of 2019, we already started working with the largest car sales portal in Poland. So rather than looking for a new market, we are really looking for a partner operating in any European market.

How can Inbank as an organisation sustain such growth?

We have identified that growth can mostly be achieved through the tailormade technology we offer to our partners as well as best in class products. So far, our organisation has been built based on markets - Estonia, Latvia, Lithuania and Poland. I believe we now need to refocus our organisation around product capabilities and implement a product first philosophy. This is what we are trying to achieve in 2020. Of course, there are some challenges ahead when changing our management and organisational model, but if you look at the potential for growth at Inbank – especially outside of our current markets – this is the right way to go.

Rather than looking for a new market, we are really looking for a partner operating in any European market.

In addition to business development, what have been the other notable milestones?

In 2019 we eventually sold our remaining shareholding in Coop Pank bringing an end to a very fruitful cooperation that started in 2011 when we built a joint venture offering credit cards and loans to Coop customers. After jointly acquiring Krediidipank, we gained an 18% shareholding from which we have been exiting step-by-step to reinvest that capital in Inbank's growth.

We also had a very successful Tier 2 bond issue and listing on Nasdaq Tallinn. To our own surprise the 6.5 million euro issue was oversubscribed nearly six times the highest ever in the history of Tallinn Stock Exchange. It is really exciting to see there is a lot of interest in investing in Inbank. In response to demand we increased the bond issue to 8 million euros.

At the same time we need to balance growth and investment while retaining our strong profitability and moderate credit risk profile.

Inbank also increased its shareholding in leading Estonian PSP Maksekeskus. Where do you see the potential in this investment?

We used part of the money from the Coop Pank exit to increase our shareholding in Maksekeskus, a company that actually myself and Jan (Jan Andresoo, Chairman of the Management Board) founded. Seeing that payments and financing continue to integrate, we think that working closely with payment service providers will actually be strategically very important. Maksekeskus is itself also investing in growth in Latvia and Lithuania, where we also have a strong position and hope to cooperate.

What are the expectations for 2020?

I think the challenge for Inbank in 2020 is to execute our strategy and improve the organisation. We want to become a product first company. We will definitely bring a couple of new exciting products to market. We are also looking forward to entering a new market in Europe in 2020 or soon after. So, we are looking at another year of growth, but also at some organisational changes which we need to execute well. At the same time we need to balance growth and investment while retaining our strong profitability and moderate credit risk profile.

What characterises the overall financial sector and the environment Inbank is operating in today?

What is really exciting today are the changes in digitisation, changes in customer behaviour. More and more buying is moving online, and buying needs to be executed through payments and financing. We see those two merging.

I also think that banking itself is moving outside banking. This is what we have been trying to say for a while and we are seeing it happening more and more. The customer is not going to the bank anymore, the bank needs to go where the customer is.

We also see that the definition of banking itself is changing because financial services are merging with other services. There are retailers who require certain services from financial institutions like us and we need to look at their total needs and how we can bring our technology, processes and knowledge inside the retailer's business processes. So instead of retailers having to go to a bank, we actually need to go to the retailer. The challenge for us is to do it scalably. To build something which can actually be moved from one partner to another, one market to another without significant investment.

Looking ahead, what are you most excited about?

2020 will be ten years since we started out, and five years since we received our banking license. And it's been an amazing ride! We have been growing and our organisation has become stronger. We have been gaining market share, growing internationally and added so many talented people. I think 2020 will be another challenging year, but one thing I'm certain of – we are going to invest in growth, cooperation with our partners and new products. And most of all – we are hoping to bring another group of talented people into the company to drive the growth. I'm really looking forward to the year ahead.

We have been gaining market share, growing internationally and added so many talented people. I think 2020 will be another challenging year, but one thing I'm certain of – we are going to invest in growth, cooperation with our partners and new products.


Moneyless

Management report

The 2019 financial year was busy and multifaceted for Inbank – our results were good, our team increased, and we celebrated several significant victories. At the same time we faced a number of challenges that will help us become stronger and more attractive as an organisation.

An eventful year

Several important and influential events took place for us in 2019. First, we issued subordinated bonds, which turned out to be successful beyond our expectations, as 1,348 investors subscribed to bonds worth 38 million euros, meaning that the initial volume of the issue was oversubscribed 5.8 times.

The Coop Pank IPO took place in December, during which we sold all our remaining shares in Coop Pank in order to invest in our own business growth. This ended our exciting and successful cooperation with Coop, which began in 2011. We are honoured to have been involved in such a collaboration. We used part of the released capital to increase our shareholding in Maksekeskus and to continue our strategic cooperation with the largest payment solution provider in Estonia. Inbank is also one of the founders of Maksekeskus, and now we own a 29.8% share in the company.

Helping our partners sell better

Inbank has shown very strong growth for several years in a row, both business volumes and the organisation have increased. When we developed a new strategy at the end of 2018, we thoroughly analysed what was going on in the world, where the banking sector was heading, what were the trends in retail business, and what kind of role we wanted to take in that value chain. We realised that the changes are fast and have high impact.

The rapid growth of e-commerce and the rise of the platform-based business model will set the pace for banking trends in the commercial sector. Products and services are changing and the importance of technology is increasing. Bank centricity gives place to merchant centricity, which in turn is shaped by the changing customer behaviour. What does this mean for Inbank? We recognise that we too have to modify our products and services and define our focus: what is the problem we are trying to solve and what can we offer to the society? While in the early days of Inbank we focused solely on sales finance, in the future we have to widen our offering significantly: our role is to support merchants so that they can grow their business. The success of Inbank can be measured by how well our activities support this goal. In such a value chain, a model based on only providing credit would be too narrow and shallow.

Accordingly, in 2019 we reformulated our strategic mission, which now states – we help our partners sell more and better. This means that we focus more on topics related to our partners' sales growth, including conversion rates, higher average purchases, loyalty, diversity of payment methods, channel specificity, etc. Our new product strategy, which has been at the centre of our activities, emerged from these keywords in 2019. In practice this meant that we had to bring our technological capabilities to a new, much higher level, which in turn doubled our tech team. Over the year, 59 new employees joined us and by the end of the year a total of 215 talents were working at Inbank.

In addition to strengthening the capability of our team and technologies, increasing our investment in Maksekeskus supported our strategic direction. Taking into account the trends in a changing world and our focus on product development, we saw that the "pay now" type of services are also part of our territory, so we wanted to strengthen our position in this area. Closer cooperation with Maksekeskus allows us to expand our own value proposal and to offer our products to the customers of Maksekeskus. The cooperation is already starting to pay off after we launched Inbank's first payment solution Slice via Maksekeskus at the end of 2019.

In 2019 we reformulated our strategic mission, which now states – we help our partners sell more and better.

Growth in all markets

We launched new financing solutions on the Polish market, raising our sales volumes there by almost five times, from 12 million to 55 million euros. It is also worth noting that the sales finance business rocketed by growing over six times, from 6 million to 43 million euros. In this regard, the importance of the Polish market in our total sales increased from 6% to 18%. I firmly believe that the effectiveness of product development played an important role in that success. Our Partner Portal and e-POS became very popular among our sales finance partners and were ahead of the competitors by the whole generation. This is also confirmed by our ongoing cooperation with the leading Polish payment services provider PayU. Moreover, when taking into account the company's market leading position, the fact of the co-operation itself is very significant. This is a good example of how innovation is key in a competitive marketplace.

We also experienced good progress in the Baltics. In Latvia, our sales finance product line almost tripled, from 3.4 million to 9.4 million euros compared to the previous year. Furthermore, we started cooperating with several prominent partners. The Lithuanian personal loan business also showed strong growth. Personal loan volumes increased from 18.7 million to 26.9 million euros, or 44%. The successful transfer of business expertise from Estonia to Lithuania is certainly one of the reasons behind the good result. In Estonia, excellent cooperation with the auto24.ee portal continued with growth of 56% driven by an innovative leasing product. These are only a few examples that illustrate the previous year and are primarily related to product innovation.

In conclusion, it can be said that we grew in all markets and all business lines. Compared to the previous year, we raised sales volumes in all markets by 46% in total, or up to 305 million euros. Our portfolio increased 50% and reached 338 million euros by the end of the year. In other words, we helped to finance the purchases of approximately 400,000 customers. Inbank has 411,000 active clients in total as of the end of the year. This is an awesome number! It is also worth mentioning that 215 employees are operating the entire infrastructure. Such efficiency is only possible thanks to the unique business model and technology.

Strong and profitable business model

During the turmoil of all this development we were able to maintain the ability to generate strong financial results. This shows that the activities of Inbank are grounded on a strong and profitable business model. We have established ourselves in an attractive market segment and found a successful way to compete there. Our income kept pace with the growth of sales volumes – with sales growing at a rate of 46%, our portfolio rose 50% and revenues likewise by 50%.

As we made large investments in technology and people, the expenses grew rapidly as well. However, the 50% increase in expenses did not exceed the increase in income. On the one hand, this figure is large, but on the other hand it shows the strength of our business model. We were able to invest heavily without significantly losing in profitability. The investments made today will guarantee the ability to secure several times higher business volumes in the future.

In addition, we have successfully managed credit risk. The rapid increase in sales volumes has not changed our risk profile. We are happy to see that the sales finance business line, where the customer risk behaviour has always been excellent, has generated the majority of the sales growth. In absolute numbers, the cost of risk has naturally increased; however, in relation to the average annual portfolio, the cost of credit at 2.1% is acceptable and corresponds to our risk appetite. Our risk management capability has also taken a great step forward during the year. As our new CFO, Jaanus Kõusaar, joined the team, the former CFO, Marko Varik, commenced work as head of the risk department. Marko has been working at Inbank since the early days of the bank and has participated in the development of the whole risk management logic. Thanks to this we have much more thoroughly set out to improve the automated risk assessment models. Several strong experts have joined the risk management team in all countries. We have harmonised risk management monitoring and control tools, and created a fraud risk management unit. We also took debt management to the next level. Most certainly, the favourable economic environment also supports the current dynamics of risk cost, but we have definitely raised our internal capabilities during the year.

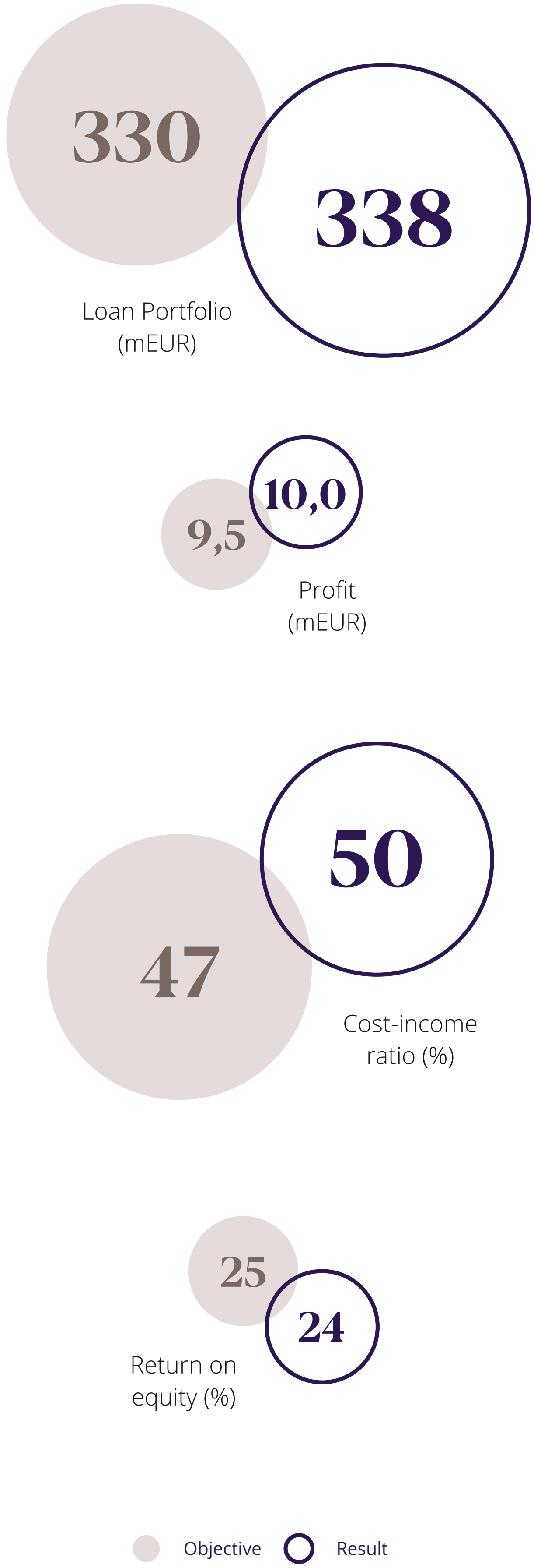
We were able to invest heavily without significantly losing in profitability. The investments made today will guarantee the ability to secure several times higher business volumes in the future.

In light of the above, we earned an excellent net profit of 10 million euros, 8% more than in the previous year. It is quite difficult to compare the profits of 2018 and 2019 due to several extraordinary events influencing both figures. However, the profit generated by stable core activities has increased steadily and the share of non-recurring profit in 2019 was significantly more modest. Therefore, we can consider the result to be a huge success. Inbank's equity was 47.3 million euros as of the end of the year and the return on equity 24%.

Celebrating our entrepreneurial spirit

Many new employees and a relatively aggressive plan of development projects complicated our everyday life and put many organisational topics on the table for our managers. It has been said that rapid growth is also a crisis, but a positive one. Therefore, 2019 also meant several important development activities for us: we specified the principles of the functioning of the organisation, implemented a group wide system of performance management, and launched several training and development projects. The goal of all this was and is to support ambitious business targets. For the first time, our strategy voiced our values – active, smart, open – based on which we have already intuitively acted.

Financial objectives 2019



The rapid growth of our team brought the understanding that merely having business objectives is not enough for teamwork; we also need a culture to bring people together. We have always appreciated the professionalism, courage, and entrepreneurial spirit of individuals. In a rapidly growing organisation, simply setting an example is not enough, it is important to create a wider cultural context: to tell stories, highlight achievements, and win and lose together. This creates trust and pride in one's personal role in the company. I believe that 2019 provided a much clearer look and character to the organisation – now it is easier for new employees to understand us and to compare the suitability of Inbank to their own ambitions.

We like to achieve new heights, to be the driving force of innovation, and to take good care that our knowledge is sustainable and development continuous. We have humbly thought that those young people who would like to take part in building the new consumer-focused banking, simply have to work here, because Inbank is the best place to gain such high level professional knowledge and put it into action! In addition to emerging talents, several successful top specialists joined our team: Jaanus Kõusaar became the new CFO and board member at Inbank, Rain Pikand with extensive experience took the lead in the area of e-commerce, and Aet Toose started leading the technology team.

The rapid growth of our team brought the understanding that merely having business objectives is not enough for teamwork; we also need a culture to bring people together.

Well done

Year 2019 – difficult, diverse, and full of intellectual challenges – was successful for Inbank. We are glad to see that we are in a very good position at the beginning of 2020 – we have a strong team, a clear strategic focus and vision, as well as a strong business model. Well done!

Jan Andresoo
Chairman of the Management Board

Priorities 2019	Performance
Developing a new generation product offer for merchants; offering our own payment solution.	We launched two next generation sales financing solutions Partner Portal and e-POS in Poland and introduced our first payment solution Slice, brought to the Estonian market via Maksekeskus.
Increasing business capacity on the Polish market and achieving current profit targets.	We grew our Polish business volumes almost five times from 12 million to 55 million euros. With that, the share of the Polish volumes in our total sales increased from 6% to 18%. In December, our Polish branch also reached operating profitability.
Merging the legal structures of Mokilizingas and Inbank and opening a branch in Lithuania.	In November, the Lithuanian Central Bank gave Inbank permission to establish a branch and start banking activities. After this we expanded our business to the 4 billion euro Lithuanian term deposit market. In addition, we completed the merger with Mokilizingas AB.
Strengthening the size and capability of our technology team.	In the course of the year, we doubled our technology and business development teams that now consist of 54 people. We also hired a new CTO to take our technological innovation and product development to the next level.

Highlights

March

Inbank enters Dutch deposits market

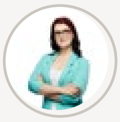
Inbank starts collecting deposits via the Raisin platform that already facilitates our deposits business in Germany and Austria.

raisin.

May

CTO Aet Toose joins Inbank

The new CTO plays a vital part in taking our technological innovation and product development to the next level.



June

Welcoming our 200th employee

Inbank started out with 6 employees in 2011 and has doubled its team since 2016.

Inbank signs PayU, leading Polish online payment services provider

Inbank and PayU signed a cooperation agreement making Inbank's payment solutions available to thousands of online stores in Poland.

PayU

July

Half a million active contracts

Our partner-focused business has grown **240%** from **165,000** to **550,000** contracts in the past 3 years.

August

Jaan
Inba
the b

Former
the risk
continu
membe

October

Launches pay later solution Slice

Inbank brings a unique payment method to the Estonian market in cooperation with Maksekeskus.

Rain Pikand hired as Head of E-Commerce

Rain brings a fresh perspective to the development of cutting-edge e-commerce solutions for merchants.

us Kõusaar joins nk as a member of oard and CFO

CFO Marko Varik starts heading department as CRO and es to fulfil his duties as a r of the board.

November

Establishes Lithuanian branch and enters deposits market

The Bank of Lithuania granted a license to establish a branch in Lithuania and Inbank expands its business to the 4 billion euro Lithuanian term deposits market.

December

Inbank raises 8 million euros by issuing subordinated bonds

The initial issue of 6.5 million euros was oversubscribed 5.8 times and Inbank used its right to increase the volume to 8 million euros. The bonds were listed on the Nasdaq Tallinn Stock Exchange Baltic Bond List.

Inbank and Mokilizingas complete merger

As the legal successor of Mokilizingas AB, Inbank continues its operations in Lithuania under the business name Inbank filialas AS.

Coop Pank IPO and exit

Inbank sells its last remaining 3.49% shareholding in Coop Pank during its IPO.

Increased shareholding in Maksekeskus to 29.8%

Making a strategic investment in the largest PSP in Estonia lays good ground for further integration of payments and financing.

Financial results

Inbank continued to grow – both volume of assets and total income increased.

Operating income and expenses

Inbank's first full year with complete results from activities on the Lithuanian market was in 2019. We acquired the leading consumer financing company AB Mokilizingas in May 2018, which only influenced the results of seven months in the previous period.

On a comparative basis, both income and expenses for the bank have increased. At the same time, we have succeeded in maintaining our effectiveness, and the cost-income ratio has remained exactly at the same level as in the previous year (49.9% both in 2018 and 2019).

A decrease in the net interest margin from 9.5% to 8.4% primarily results from the change in geographical and product structure of the portfolio, as we have expanded our activities in countries with tougher competition.

We started investing in the first half of the year to support the international growth of the bank. In an organisation like ours, this means primarily investments in competent team and technologies. By the end of the year we achieved a strong foundation in terms of expenses, allowing us to continue implementing our further plans for expansion.

Asset volume and loan portfolio

Inbank's total balance sheet value increased 46% in 2019, reaching 463 million euros (318 million euros in 2018). The annual 50% increase in loan portfolio to 338 million euros (226 million euros in 2018) contributed the most to the increase in asset volume. All segments showed considerable growth, but the largest increase (by 43 million euros) was in the hire- purchase portfolio, influenced by the growth of the Polish portfolio.

Consequently, portfolio quality indicators have remained strong – the ratio of loan losses to average annual loan portfolio was 2.1% in 2019 (1.7% in 2018).

Investments

Inbank finally exited from Coop Pank AS during the reporting period by selling the last of its holding of 7.94% during the Coop Pank IPO. Utilising the capital regained from this investment, we increased our holding in the largest provider of payment solutions in Estonia, Maksekeskus AS, to 29.8% (7.6% in 2018). As a result of the sale of the shares in Coop Pank and the revaluation of the investment in Maksekeskus, Inbank earned 1.5 million euros non-recurring profit.

Financing

Our deposit portfolio amounted to 378 million euros at the end of the year (240 million euros in 2018), where the deposits of German depositors amounted to almost 2/3 of the total portfolio. The average interest rate of deposits has remained at the same level as in 2018. The main channel for attracting deposits is the Raisin platform, through which we started taking deposits in the Netherlands in March. We established an Inbank branch in Lithuania in November, and thereby expanded our activities to the term deposit market of Lithuania.

In December 2019, Inbank issued subordinated bonds in the amount of 8 million euros, which were listed on the Nasdaq Tallinn Stock Exchange. In total, 1,348 investors subscribed 38 million euros, oversubscribing the initial 6.5 million issue 5.8 times.

Jaanus Kõusaar
CFO, Member of the Management Board

Summary of balance sheet and income statement

(In thousands of euros)

Summary of the balance sheet	31.12.2019	31.12.2018	Annual change
Loans and advances	338 157	225 639	49.9%
including loans to households	324 817	216 053	
Customer deposits Equity	377 518	240 175	57.2%
Equity	47 320	36 465	29.8%

Summary of the income statement	2019	2018	Annual change
Total net interest, fee and other income	32 031	21 355	50.0%
Total operating expenses	-15 994	-10 646	50.2%
Profit before profit from associates and impairment losses on loans	16 037	10 709	49.8%
Share of profit from associates	720	1 986	-63.7%
Impairment losses on loans and advances	-6 049	-2 686	125.2%
Profit before income tax	10 708	10 009	7.0%
Income tax	-698	-733	-4.8%
Profit for the period	10 010	9 276	7.9%

Overview of business volumes

Inbank helps merchants sell better by integrating digital consumer financing solutions into the shopping experience.

We offer sales and car financing through a wide distribution network of merchants and platforms. Our competitive advantage centers on easily integrated merchant-focused financing solutions. Thanks to our proprietary technology and unique process know-how, we help merchants increase conversion and enable their customers to have a frictionless shopping journey.

On top of our specialised merchant-based products, we also operate in the highly profitable and scalable personal loan business by offering consumers accessible and competitively priced financing.

Inbank business model

Our key success factors

Value adding

We operate through an effective B2B distribution network that enables us to be part of the end-to-end consumer journey and utilise B2C retention and cross-sales.

Scalable

Thanks to our scalable proprietary technology and agile organisation, we can grow fast within our home markets as well as expand to new markets in Europe through partnerships with leading local merchants.

Profitable

We have built a profitable business model since inception. Over the past five years our profit has grown from 0.9 million to 10 million euros. We have maintained a solid 24% ROE in 2019.

Sustainable

EU banking license and strong international investor base ensure sustainable funding to support growth. Our bonds are listed on Nasdaq Tallinn Stock Exchange.

Sales finance

Sales financing forms the foundation of our successful merchant-focused business.

2000+ partners
349,000 new contracts
41% sales growth

Inbank operates through more than 2,000 active merchants and platforms that bring in the largest number of new contracts each year - in 2019 we sold 349,000 new sales finance contracts.

In 2019, we were able to grow our sales finance volumes by 41% across the group while Poland increased its sales over six times from 6 to 43 million euros, making it the largest sales finance market in the Inbank group. Through strategic partnership with the leading Polish online payment services provider PayU, Inbank's sales financing is now available to thousands of online stores in Poland including the biggest marketplace and the largest car portal. In Latvia, our sales almost tripled, from 3.4 to 9.4 million euros.

"Inbank Poland now cooperates with over 800 merchants. Thanks to our innovative, user friendly and efficient front-end applications that are well placed to support our partners' sales via multiple distribution channels, we were able to quadruple our credit portfolio by the end of 2019.

Maciej Pieczkowski
CEO, Inbank Poland

Sales finance	2018	2019
Volume of new sales (thousands)	120 360	170 001
Number of new sales contracts	303 772	349 263
Average new sales contract amount	396	487
Average new sales effective interest rate	13.2%	11.8%
Average new sales period (months)	25	26
Volume of credit portfolio (thousands, net)	98 402	140 080
Number of credit contracts in credit portfolio	361 995	519 185
Average contract amount in portfolio	272	270
Average weighted effective interest rate in portfolio	13.0%	11.5%
Share of portfolio in 90+ days overdue	0.7%	0.5%
Share of portfolio in 180+ days overdue	0.4%	0.2%

Car financing

Our seamless car loan products have considerable potential for growth across all regions.

69% sales growth
Partnerships with leading Baltic and Polish car portals

Like sales finance, our competitive edge in car financing is offering frictionless digital financing solutions through partners. An important contributor to the growth of car financing in 2019 was our auto24 loan and the launch of auto24 leasing in Q3 2018. Our car financing products are a good example of how focusing on a higher income target group is increasing the average purchase value.

Following cooperation with the largest car sales portal in Estonia, auto24 in 2016, Inbank has extended its profitable car financing business to the Polish market. Cooperation with Poland's largest car portal is currently going through a limited test phase and is expected to reveal its true potential in 2020. Car loans have also begun to thrive in Lithuania where sales increased close to four times from 1.8 million euros to 7.1 million euros.

Cooperation with car portals is another excellent example of Inbank's strategy to offer financing right where it's needed. Auto24 leasing sales have played an important role in the growth of car financing in Estonia, sales of our auto24 loan and auto24 leasing products increased by 55% year-on-year.

Margus Kastein
CEO, Inbank Estonia

Car financing	2018	2019
Volume of new sales (thousands)	38 149	64 643
Number of new sales contracts	6 299	10 207
Average new sales contract amount	6 056	6 333
Average new sales effective interest rate	12.1%	11.5%
Average new sales period (months)	59	61
Volume of credit portfolio (thousands, net)	58 879	97 150
Number of credit contracts in credit portfolio	15 532	24 721
Average contract amount in portfolio	3 791	3 930
Average weighted effective interest rate in portfolio	12.6%	11.7%
Share of portfolio in 90+ days overdue	0.6%	0.3%
Share of portfolio in 180+ days overdue	0.4%	0.1%

Personal loans

Personal loans are our key cross-sell drivers and main B2C products.

+39% sales growth
+26% average contract value

Inbank offers competitively priced and accessible personal loans for financing home improvements, travel and other larger purchases that help customers access better quality. In 2019, we launched our renovation loan in Estonia and Latvia at lower interest rates targeting higher-income customers. The renovation loan has already proven successful by tapping into the right target group – more focused segmenting contributed to our overall personal loan sales figures, which grew 39% in 2019.

In 2019, Inbank started cooperating with two major Estonian real estate portals – kinnisvara24.ee and kv.ee allowing visitors to apply for a renovation loan right next to the listings. Thanks to our fast and convenient web-based loan application process, the customers generally receive a credit decision within a few seconds.

By successfully implementing the extensive consumer financing business know-how at Inbank Estonia, Lithuania has also shown excellent results in selling small loans, where volumes have grown 44%, from 18.7 to 26.9 million euros.

In 2019 we focused on cross-sell and upsell activities that ended up bringing in 8.3 million euros in sales. That is 9 times more than in 2018 and clearly implies where the potential for 2020 lies.

Benas Pavlauskas
CEO, Inbank Lithuania

Personal loans	2018	2019
Volume of new sales (thousands)	49 362	68 764
Number of new sales contracts	27 295	30 204
Average new sales contract amount	1 808	2 277
Average new sales effective interest rate	21.0%	19.0%
Average new sales period (months)	51	55
Volume of credit portfolio (thousands, net)	58 771	87 586
Number of credit contracts in credit portfolio	36 183	44 132
Average contract amount in portfolio	1 624	1 985
Average weighted effective interest rate in portfolio	21.3%	19.7%
Share of portfolio in 90+ days overdue	1.6%	0.9%
Share of portfolio in 180+ days overdue	0.8%	0.4%

Governance

Supervisory Board

The Inbank Supervisory Board consists of five members.

Priit Põldoja
Chairman of the Supervisory Board

Rain Rannu
Member of the Supervisory Board

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 five members.

Jan Andresoo
Chairman of the Management Board

Liina Sadrak
Member of the Management Board

Marko Varik
Member of the Management Board

Piret Paulus
Member of the Management Board

Jaanus Kõusaar
Member of the Management Board

Description of general governance principles

Inbank applies the principle of consolidation in its activities, which means that the key management and strategic decisions of the companies belonging to the Group are taken by the management bodies of Inbank. Thus, Inbank's general meeting, the Supervisory Board and, for the most important credit decisions, Credit Committee are involved in the decision making process. This allows Inbank to proceed from a unified set of objectives and operating policies as a consolidated group.

Remuneration principles

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

The structure of employee remuneration consists of two parts:

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

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

External consultants are not involved in determining remuneration policies.

Option contracts were realised 11 times in 2019 and option contracts were signed with 18 key employees, enabling them to acquire 3,050 shares at a price of 300 or 675 euros per share. The option contracts will be realised in 2022.

Options for acquiring a total of 4,550 shares have been issued, of which 1,050 are issued to the members of the Management Board and 500 to the members of the Supervisory Board (see Note 24).

Inbank proceeds from the provisions of the Credit Institutions Act in determining severance payments. No severance payments were paid in 2019.

Corporate Governance report

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

General meeting

The general meeting of the shareholders is the highest governing body of Inbank. The competence of the general meeting is laid down in legislation. Each shareholder has the right to participate in the general meeting, to speak out at the general meeting on the topics presented on the agenda, to submit substantiated questions and make recommendations. The Inbank's articles of association do not grant specific controlling or voting rights to different types of shares.

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

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

One ordinary and one extraordinary general meetings of the shareholders were held in 2019.

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

Inbank does not comply with clauses 1.2.1, 1.2.3 and 1.2.4 of the Code recommending the disclosure of information related to the general meeting on the website, as Inbank communicates efficiently by e-mail and all the information required is made available to all shareholders by e-mail.

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

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

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

Inbank does not enable participation in the general meeting through means of telecommunication (clause 1.3.3 of the Code), since all the shareholders have the option to cast their vote electronically on the draft agenda.

Management Board

The articles of association, the Commercial Code and the Credit Institutions Act regulate the functions of the Management Board of Inbank. The Management Board of Inbank consists of five members (three to seven members according to the articles of association), elected by the Supervisory Board for a period of three years. Management Board members are:

- Jan Andresoo – Chairman of the Management Board;
- Liina Sadrak – Member of the Management Board;
- Marko Varik – Member of the Management Board;
- Piret Paulus – Member of the Management Board;
- Jaanus Kõusaar – Member of the Management Board.

Jaanus Kõusaar became a member of Management Board in 2019.

Number of shares and share options owned by the members of Management Board:

Member of the Management	Number of Shares		Issued share options
	Belonging to the member	Belonging to related party	
Jan Andresoo	-	10 354	250
Liina Sadrak	550	-	200
Marko Varik	-	1 231	200
Piret Paulus	-	1 240	200
Jaanus Kõusaar	-	80	200

Inbank does not comply with clause 2.2.7 of the Code recommending to disclose the information about benefits and bonus principles of members of the Management Board on their website, because the remuneration paid to the Management Board members is disclosed in Note 27 in the total amount of remuneration paid to senior management, Management and Supervisory Board members. In addition, this is personal information and disclosing it is not inevitably necessary in order to assess the activities of Inbank. Inbank does not comply with clause 2.2.7 of the Code recommending to introduce more important aspects and changes made in management remunerations at the general meeting, because there have been no significant changes in remuneration of the Management Board during 2019.

The Management Board members present a declaration of economic interests and conflict of economic interests once a year. Transactions with the members of the Management Board are disclosed in Note 27 and are entered into on market conditions. The members of the Management Board are the members of the management bodies in the following companies belonging to the consolidation group of Inbank:

- Liina Sadrak: Member of the Supervisory Board in Inbank Liising AS;
- Piret Paulus: Member of the Management Board in SIA Inbank Latvia;
- Jan Andresoo: Member of the Supervisory Board in SIA Inbank Latvia;
- Jaanus Kõusaar: Member of the Management Board in Inbank Payments OÜ.

The members of the Management Board have not received any severance.

Supervisory Board

Inbank's Supervisory Board plans the activities of Inbank, gives instructions to the Management Board for organisation of the management of Inbank, supervises the activities of Inbank and its Management Board, and takes decisions on matters set forth in legislation or the articles of association.

Inbank's Supervisory Board consists of five members (according to the articles of association five to seven members), who are elected for three years by the general meeting:

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

In 2019, there were five Supervisory Board meetings and in nine cases, the necessary decisions were taken without calling a meeting. All the Supervisory Board members have attended at least half of the meetings held in 2019.

Inbank's 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 established to supervise the activities of the Management Board. The responsibilities of the Committee include monitoring and analysing financial data processing, effectiveness and efficiency of risk management and internal control, the process of auditing the annual report and consolidated financial statements and the independence of external auditor. The members of the Committee do not receive any remuneration. There is no information disclosed about the Audit Committee on the website (clause 3.1.3 of the Code), as Inbank does not consider it necessary in respect of the work performed by the Committee and ensuring the interests of the shareholders.

Remuneration Committee consisting of three members has been established on the basis 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 responsibilities of the Committee include evaluating the implementation of remuneration principles of Inbank and the impact of decisions related to remuneration on compliance with the requirements of risk management, own funds and liquidity. The members of the Committee do not receive any remuneration. There is no information disclosed about the Remuneration Committee on the website (clause 3.1.3 of the Code), as Inbank does not consider it necessary in respect of the work performed by the Committee and ensuring the interests of Inbank.

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

Member of the Supervisory	Number of Shares		Issued share options
	Belonging to the member	Belonging to related party	
Priit Põldoja	250	11 531	250
Roberto de Silvestri	5 928	1 985	150
Rain Rannu	180	565	-
Triinu Reinold	-	189	100
Raino Paron	-	5 819	-

Priit Põldoja, Rain Rannu and Triinu Reinold are the members of the Supervisory Board who receive remuneration. Inbank does not consider necessary to disclose detailed information about the remuneration paid to each member of the Supervisory Board recommended by clause 3.2.5 of the Code, because the impact of the remuneration of Supervisory Board is not significant to Inbank's financial results. The remuneration paid to the members of the Supervisory Board is disclosed in Note 27 in the total amount of remuneration paid to senior management, Management and Supervisory Board members. The members of the Supervisory Board present a declaration of economic interests and conflict of economic interests once a year. Transactions with the members of the Supervisory Board are disclosed in Note 27 and are entered into on market conditions.

Cooperation between the Management Board and the Supervisory Board

The Management Board and the Supervisory Board work in close cooperation to protect Inbank's best interests. The basis of the cooperation is open communication between the Management and the Supervisory Boards as well as within the Management and the Supervisory Boards. The Management Board ensures the availability of timely management information for the Supervisory Board. The Management Board and the Supervisory Board develop Inbank's operational objectives and strategy jointly. The Management Board considers strategical guidance from the Supervisory Board in decision-making process of Inbank and discusses the strategic management issues with the Supervisory Board periodically.

Recruitment principles for selecting a member of the management body and the principles of diversity

Recruitment of the members of the management bodies complies with the requirements and procedures set out in the Credit Institutions Act. In determining the suitability of the members of the management body Inbank relies on the relevant internal procedure.

The recruiting body evaluates the suitability of the member. The candidate shall meet the requirements arising from laws and regulations, complement the management body by its knowledge, skills and experience, and be competent to fulfil the responsibilities of a member of the management body. When assessing suitability, the reputation, experience, expertise, skills, management experience, and other criteria related to management (e.g. risk of conflict of interests, independence) as well as other important and available circumstances are considered. At the moment, there are no changes expected in the management bodies.

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

Disclosing information

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

The annual reports and interim reports are published also in English.

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

Financial reporting and auditing

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

Inbank presents an annual report signed by the Management Board to shareholders at the general meeting (therefore Inbank does not comply with the requirement to present a report, signed by the members of Management and the Supervisory Board, to the shareholders – clause 6.1.1 of the Code), however, the Supervisory Board presents a proposal regarding approval of the annual report to the general meeting. The general meeting has selected AS PricewaterhouseCoopers (registry code 10142876) as the auditor for the financial year 01.01.2019–31.12.2019. Inbank follows the auditor rotation principle.

The auditor has provided other assurance services to Inbank in 2019, as required by the Credit Institutions Act and the Securities Markets Act, and has provided other services in compliance with the requirements of the Auditors Activities Act.

Consolidated financial statements

Consolidated statement of financial position

In thousands of euros	Note	31.12.2019	31.12.2018
Assets			
Cash in hand		0	4
Due from central banks	11	83 080	64 620
Due from credit institutions	11	20 655	13 700
Financial assets at fair value through profit and loss		0	4 600
Loans and advances	4; 9; 27	338 157	225 639
Investments in associates	14	3 276	97
Tangible assets		840	545
Right of use asset	8	773	0
Intangible assets	15	11 721	7 697
Other financial assets	16	1 692	64
Other assets	16	588	514
Deferred tax asset	10	1 985	564
Total assets	4	462 767	318 044
Liabilities			
Loan from credit institution	17	0	10 429
Customer deposits	18; 27	377 518	240 175
Other financial liabilities	21; 27	13 545	8 776
Current income tax liability	21	269	476
Deferred income tax liability		7	20
Other liabilities	21	2 561	2 158
Debt securities issued	19	4 010	10 017
Subordinated debt securities	20	17 537	9 528
Total liabilities	4	415 447	281 579
Equity			
Share capital	24; 25	903	874
Share premium	24	15 908	15 053
Statutory reserve capital	26	88	79
Other reserves	25; 26	1 463	1 401
Retained earnings		28 958	19 018
Non-controlling interest		0	40
Total equity		47 320	36 465
Total liabilities and equity		462 767	318 044

Notes set out on pages 39–88 form an integral part of the consolidated annual report.

Consolidated statement of profit and loss and other comprehensive income

In thousands of euros	Note	2019	2018
Interest income	5	37 560	23 633
Interest expense	5	-6 380	-3 760
Net interest income		31 180	19 873
Fee income	6	965	703
Fee expense	6	-1 742	-1 091
Net fee and commission income		-777	-388
Net gains from financial assets measured at fair value		743	1 204
Other operating income		885	666
Total net interest, fee and other income		32 031	21 355
Personnel expenses	7	-8 026	-5 795
Marketing expenses	7	-2 583	-1 592
Administrative expenses	7	-4 084	-2 814
Depreciations, amortisation	15	-1 301	-445
Total operating expenses		-15 994	-10 646
Profit before profit from associates and impairment losses on loans		16 037	10 709
Share of profit from associates	14	720	1 986
Impairment losses on loans and advances	9	-6 049	-2 686
Profit before income tax		10 708	10 009
Income tax	10	-698	-733
Profit for the period		10 010	9 276
incl. Shareholders of parent company		10 010	9 262
incl. Non-controlling interest		0	14
Other comprehensive income that may be reclassified subsequently to profit or loss			
Currency translation differences		-53	73
Total comprehensive income for the period		9 957	9 349
incl. Shareholders of parent company		9 957	9 335
incl. Non-controlling interest		0	14

Notes set out on pages 39–88 form an integral part of the consolidated annual report.

Consolidated statement of cash flows

In thousands of euros	Note	2019	2018
Cash flows from operating activities			
Interest received	5	37 316	22 940
Interest paid	5	-4 481	-2 245
Fees received	6	965	703
Fees paid	6	-1 742	-1 091
Other income received		885	666
Personnel expenses	7	-7 172	-5 686
Administrative and marketing expenses	7	-6 365	-3 811
Prepayment of returned corporate income tax		0	285
Corporate income tax paid		-3 296	-512
Cash flows from operating activities before changes in the operating assets and liabilities		16 110	11 249
Changes in operating assets			
Loans and advances		-114 999	-69 827
Mandatory reserve in central banks		-2 613	-1 251
Other assets		-3 123	-716
Changes of operating liabilities			
Loan from credit institution	17	-10 429	-45 783
Customer deposits		135 047	143 604
Other liabilities		3 797	5 645
Net cash from operating activities		23 790	42 921

Continues on the next page.

	Note	2019	2018
Cash flows from investing activities			
Acquisition of tangible and intangible assets	15	-5 179	-1 325
Acquisition of subsidiaries	13; 14	-121	-13 134
Acquisition of associates	14	-2 351	0
Net change of investments at fair value through profit or loss		3 819	0
Proceeds from disposal of associates	14	0	6 269
Net cash used in investing activities		-3 832	-8 190
Cash flows from financing activities			
Share capital contribution (including share premium)		884	6 077
Subordinated debt securities issued		8 000	3 033
Debt securities issued		4 000	10 000
Repayments of debt securities		-10 000	0
Net cash from financing activities		2 884	19 110
Effect of exchange rate changes		-46	-69
Cash and cash equivalents at the beginning of the reporting period	11	76 372	22 600
Net increase/decrease in cash and cash equivalents		22 796	53 772
Cash and cash equivalents at the end of the reporting period	11	99 168	76 372

Notes set out on pages 39–88 form an integral part of the consolidated annual report.

Consolidated statement of changes in equity

In thousands of euros	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings/ accumulated loss	Total attribut-able to owners of the parent	Non-controlling interest	Total equity
Balance, 01.01.2018	782	9 068	79	1 352	9 713	20 994	26	21 020
Paid in share capital	92	5 985	0	0	0	6 077	0	6 077
Share-based payment reserve	0	0	0	-24	43	19	0	19
Total profit for the reporting period	0	0	0	0	9 262	9 262	0	9 262
Other comprehensive income	0	0	0	73	0	73	14	87
Balance, 31.12.2018	874	15 053	79	1 401	19 018	36 425	40	36 465
Balance, 01.01.2019	874	15 053	79	1 401	19 018	36 425	40	36 465
Paid in share capital	29	855	0	0	0	884	0	884
Share-based payment reserve	0	0	0	115	17	132	0	132
Statutory reserve capital	0	0	9	0	-9	0	0	0
Purchase of non-controlling interest in subsidiaries	0	0	0	0	-78	-78	-40	-118
Total profit for the reporting period	0	0	0	0	10 010	10 010	0	10 010
Other comprehensive income	0	0	0	-53	0	-53	0	-53
Balance, 31.12.2019	903	15 908	88	1 463	28 958	47 320	0	47 320

Notes set out on pages 39–88 form an integral part of the consolidated annual report.

Note 1 — Summary of significant accounting policies

General information

Inbank AS (registry code 12001988) is a credit institution registered in Estonia. The registered address is Niine 11, Tallinn, Estonia

In addition to Inbank AS, the Inbank AS consolidation group (also: Inbank) includes following companies:

Company name	Date of purchase/ founded	Location	Activity	Holding (%)	Cost (EURt)
Maksekeskus Holding OÜ *	05.06.2015	Estonia	Holding company	100	3 167
Inbank Technologies OÜ	05.06.2015	Estonia	Hardware rental	100	2 915
Inbank Liising AS	08.04.2016	Estonia	Leasing	100	198
Inbank Payments OÜ	27.08.2019	Estonia	Holding company	100	3
SIA Inbank Latvia	21.08.2014	Latvia	Financing	100	519
AS Inbank filialas	15.11.2019	Lithuania	Banking, branch		
AS Inbank Spółka Akcyjna Oddział w Polsce	08.09.2016	Poland	Banking, branch		

* Maksekeskus Holding OÜ has 29.8% shareholding in Maksekeskus AS.

Inbank acquired in 2019 a remaining minority shareholding in its subsidiary Inbank Liising and increased its shareholding from 80% to 100%. In December 2019 the merger of Inbank and its Lithuanian subsidiary Mokilizingas AB was completed. Consequently, Inbank is the legal successor of Mokilizingas AB and will continue its operations in Lithuania under the business name of AS Inbank filialas.

Inbank consolidated annual report has been signed by the Management Board and will be presented to shareholders for approval at the general meeting on 28 March 2020. The shareholders have the right not to approve the consolidated annual report.

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

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

Significant accounting principles

Basis of preparation

Inbank AS (hereinafter: the parent company) consolidated annual report for the year 2019 has been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union.

The annual report has been prepared under the acquisition cost model, except for financial investments into equity instruments, which are recognised at fair value as disclosed in the respective accounting principles.

Consolidated financial statements

Subsidiaries

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

Subsidiaries are consolidated from the date on which control is transferred to Inbank and are de-consolidated from the date that control ceases. Intergroup receivables and liabilities, transactions and unrealised gains and losses on transactions between Group companies are eliminated upon consolidation. For the consolidation of foreign subsidiaries and other business units (including the bank branch), their financial reports are converted into the presentation currency of the parent company. All assets and liabilities have been revalued based on the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date. All income, expenses and other changes in equity are revalued based on weighted average exchange rate of the period. Differences resulting from revaluation are recognised in the comprehensive income statement as "Currency translation differences". Financial statements of subsidiaries have been amended, where necessary, to bring their accounting principles into conformity with the accounting principles adopted by Inbank. The financial years of the subsidiaries coincide with the parent company's financial year.

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

The transactions with non-controlling interest are recognised in equity. The difference between carrying amount of net assets of share acquired from non-controlling interests and the purchase price of the acquisition is recognised in equity. Profit or loss from the sale of non-controlling interest is also recognised in equity.

In consolidated comprehensive income statement, non-controlling interest share of profit is disclosed separately from owners of the parent. Non-controlling interests' share in subsidiary's results and equity is recognised in consolidated statement of financial position separately from the equity attributable to the shareholders of the parent company.

Investments in associates

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

Under equity method, cost is adjusted for post-acquisition changes in the investor's share of the investee's income statement and comprehensive income statement and with elimination or amortisation of differences between fair values and carrying amounts of the investee's assets, liabilities and contingent liabilities as determined in the purchase analysis.
Unrealized gains on transactions between Inbank and its associates are eliminated to the extent of Inbank's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the assets. If Inbank's share of losses in the investment object accounted under the equity method exceeds the carrying amount of the investment object, the carrying amount of the investment is reduced to zero and such long term receivables that in substance form a part of the investment are written down. Any further losses are carried off-balance sheet. If the investor has guaranteed or incurred obligations on behalf of the investment object, the respective liability is recorded in the balance sheet.

Parent company's separate reports presented in the notes of the consolidated annual report

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

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

The functional and presentation currency of Inbank is Euro with the exception of the branch in Poland which uses Polish zloty as its functional currency.

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

Cash and cash equivalents

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

Accounting principles of financial assets and financial liabilities

Initial recognition

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

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

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

Financial assets

Classification and subsequent measurement

Debt instruments

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

- Inbank's business model for managing financial assets; and
- the contractual cash flow characteristics of the financial asset.

Business model: the business model reflects how Inbank manages the financial assets in order to generate cash flows. That is, whether Inbank's objective is solely to collect the contractual cash flows from the assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at fair value through profit or loss. Factors considered by Inbank in determining the business model for management of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers of Inbank are compensated. For example: Inbank's business model for unsecured consumer loans is to collect contractual cash flows, sales only occur when there has been a significant increase in credit risk. Therefore, the business model for the portfolio is to hold assets to collect contractual cash flows.

Cash flow characteristics of the asset: where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell the assets, Inbank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, Inbank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to additional risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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

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

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

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

There were no changes in the classification and measurement of financial liabilities.

Amortised cost and effective interest rate

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

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

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets or assets after deducting all the liabilities. Inbank has decided to measure all equity investments at fair value through profit or loss.

Gains and losses on equity investments at fair value are included in the "Net gains from financial assets measured at fair value" line in the income statement.

Modification of loans

Inbank sometimes renegotiates or otherwise modifies the contractual terms and conditions of issued loans. If the new terms are substantially different, Inbank derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. Inbank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition. Differences in the carrying amount are also recognised in income statement.

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

Derecognition other than a modification

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

1. Inbank transfers substantially all the risks and rewards of ownership, or
2. Inbank neither transfers nor retains substantially all the risks and rewards of ownership and Inbank has not retained control.

Write-off policy

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

Financial liabilities

In both the current and prior period, financial liabilities of Inbank are classified at amortised cost.

Financial liabilities (or part of a financial liability) are removed from the statement of financial position when and only when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Impairment

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

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

Expected credit loss measurement

IFRS 9 provides a three-phase model for measuring credit losses that takes into account changes in credit quality since initial recognition as follows:

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

Significant increase in credit risk

Inbank considers a financial instrument to have experienced a significant increase in credit risk when there have been adverse changes in the economic environment, which might affect the borrowers' performance (e.g. adverse changes in regional unemployment rate, in inflation, in income).

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

Definition of default and credit-impaired assets

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

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

Measuring ECL – inputs, assumptions and estimation techniques

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. The PD component is segmented by geographical region, product type, overdue days and by months since origination. PD is estimated using a Markov chain framework, where transition matrices from maximum last 24 available periods are used to extrapolate the cumulative transition probabilities forward in time.
- EAD is expressed by Inbank's assessment of the amounts Inbank expects to be owed at the time of default. For off-balance-sheet items, the EAD shall include an estimate of what amounts will be taking into account at the time of the default.
- Loss Given Default (LGD) represents Inbank's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). The LGDs are determined based on the factors which impact the recoveries made post default. The LGD component is segmented by geographical region, product type and collection strategy. LGD's are influenced by collection strategies, including contracted debt sales and price.

The ECL is calculated as a product of the main inputs - PD, LGD and EAD, discounted by effective interest rate (EIR). Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD.

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

Forward-looking information incorporated in the ECL models

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

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

In addition to the base economic scenario, Inbank also provides other possible scenarios along with scenario weightings. The scenario weightings are determined by a combination of statistical analysis and expert judgement, taking into account the range of possible outcomes each chosen scenario represents.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. Inbank considers these forecasts to represent its best estimate of the possible outcomes.

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

Grouping of instruments for losses measured on a collective basis

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

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

Leasing receivables

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

Tangible and intangible assets

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

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

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

- the asset is controlled by Inbank;
- it is probable that the future economic benefits that are attributable to the asset will be collected by Inbank;
- the acquisition cost of the asset can be measured reliably.

Intangible assets (except for goodwill) are amortised using the straight-line method over the useful life of the asset.

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

a. Goodwill - Goodwill acquired in a business combination is not subject to amortisation. Instead, for the purpose of impairment testing, goodwill is allocated to cash-generating units and an impairment test is performed at the end of each reporting period (or more frequently if an event or change in circumstances demands it). The allocation is made to those cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose. Goodwill is allocated to a cash-generating unit or a group of units, not larger than a business segment. Goodwill is written down to its recoverable amount when this is lower than the carrying amount. Impairment losses on goodwill are not subsequently reversed. Goodwill is reported in the statement of financial position at the carrying amount (acquisition cost less any impairment losses). When determining gains and losses on the disposal of a subsidiary, the carrying amount of goodwill relating to the entity sold is regarded as part of the carrying amount of the subsidiary.
b. Software - Costs associated with the ongoing maintenance of computer software are recognised as an expense as incurred. Acquired computer software, which is not an integral part of the related hardware, is recognised as an intangible asset. Development costs that are directly attributable to the design and testing of identifiable software products controlled by Inbank are recognised as intangible assets when the following criteria are met:
    - it is technically feasible to complete the software product so that it will be available for use;
    - management intends to complete the software product and use it;
    - there is an ability to use the software product;
    - it can be demonstrated how the software product will generate probable future economic benefits;
    - adequate technical, financial and other resources for completing the development and using the software product are available;
    - the expenditure attributable to the software product during its development can be reliably measured.

Capitalised software development costs include payroll expenses and other expenses directly related to development. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs are amortised over their estimated useful lives (5-8 years) using the straight-line method.

Provisions and contingent liabilities

A provision is recognised if Inbank has a legal or factual liability, which arose from an obligating event that occurred prior to the balance sheet date, the realisation of which is probable and the amount of which can reliably be measured. A provision is recognised in the statement of financial position 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 (i.e. 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 consolidated annual report as contingent liabilities.

Reserves

Statutory reserve

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

Other reserves

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

Accounting of income and expenses

Interest income and expenses

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

1. Purchased or originated credit-impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
2. Financial assets that are not POCI but have subsequently become credit-impaired (Stage 3), for which the effective interest rate is applied to the amortised cost of the financial asset on subsequent reporting periods.

See further details in accounting principles note section “Amortised cost”.

Fee and commission income and expenses

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

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

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

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

Other income

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

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

Share-based payment

Inbank 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 payroll expense and a change in equity (share-based payments reserve) during the period of the option contract. The total amount of expenses is determined at the moment the option is issued by assessing the fair value of the options.

Corporate income tax

Corporate income tax in Estonia

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

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. Pursuant to the Income Tax Act currently in effect, profit distributed as dividends is taxed at the rate of 20/80 on the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is recognised as income tax expense in the income statement of the period in which dividends are declared, regardless of the period for which the dividends are declared or the actual payment date. The maximum amount of income tax payable, which would arise from paying out the retained earnings as dividends, is disclosed in Note 10 to the financial statements.

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

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

Corporate income tax in other countries

Corporate income tax in Poland

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

Corporate income tax in Latvia

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

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

Corporate income tax in Lithuania

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

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

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

Business segments

Inbank divides its operating activities into segments according to its geographic division.

The business segments comprise a part of Inbank with separate access to financial data, which is also the basis upon the regular monitoring of business results by the Management Board and the Supervisory Board.

Lease accounting from 1 January 2019

Inbank has adopted from 1 January 2019 IFRS 16 - Leases.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model

Lessees will be required to recognise:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Inbank has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard.

On adoption of IFRS 16, Inbank recognized fixed assets and lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.

Inbank leases various properties. Rental contracts are typically made for fixed periods of up to 3 years but include, as a rule extension and termination options. Lease terms are negotiated on an individual basis and may contain a wide range of different terms and conditions.

Inbank recognises leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities were recognised in the balance sheet at net present value of lease payments. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis (except for exceptions). Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable;
- variable lease payment that are based on some kind an index (for example inflation, Euribor);
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

The lease payments are discounted using the interest rate implicit in the lease or the Inbank's incremental borrowing rate. The alternative interest rate is the interest rate that Inbank would have to pay if it financed the purchase of a similar right to use the asset with a loan.

Short-term leases are leases with a lease term of 12 months or less. Low value assets comprise IT-equipment and small items of office furniture. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The management reviews the assessment if a significant event or a significant change in circumstances occurs which affects the probability of using options and that is within the control of the management. Alternatively, the extension period of the contract has changed (for example, Inbank has exercised an option, which initially was considered reasonably uncertain or has not exercised an option, which was initially considered reasonably certain).

According to the contracts, Inbank has not granted any carrying value of the rental assets in the end of the contract.

On applying the standard as at 01.01.2019, the lease payments were discounted at Inbank's incremental borrowing rate of 3.21% on average.

Inbank has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- lease agreements for low value assets are excluded;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

Inbank has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Lease accounting until 31 December 2018

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

Operating lease payments are recognised in income statement as expense over the rental period on straight-line basis. Inbank uses an operating lease primarily for renting the premises. A rental expense is recognised in the income statement as "Administrative expenses".

Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became effective for Inbank from 1 January 2019:

IFRS 16 Leases (effective for reporting periods beginning on or after 1 January 2019).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

Lessees will be required to recognise:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

On applying the standard as at 01.01.2019, the lease payments were discounted at Inbank's incremental borrowing rate of 3.21% on average.

Inbank has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- lease agreements for low value assets are excluded;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

Inbank has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease. As the result of application, Inbank's total assets in the balance sheet as at 01.01.2019 increased EUR 1,070 thousand and liabilities increased EUR 1,070 thousand.

In thousands of euros	01.01.2019
IFRS 16 initial application	
Borrowings due within 1 year	401
Borrowings due after 1 year	669
Borrowings total	1 070

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

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

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

The new standard has no significant impact on Inbank's financial position, financial result or cash flows.

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019).
The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in a gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification.

Implementation does not have a material impact on Inbank's financial reporting.

Long-term Interests in Associates and Joint Ventures – amendments to IAS 28 (effective for annual periods beginning on or after 1 January 2019).

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

Implementation does not have a material impact on Inbank's financial position, financial results or cash flows.

Improvements to IFRSs 2015–2017 Cycle (effective for annual periods beginning on or after 1 January 2019).

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

Implementation does not have a material impact on Inbank's financial position, financial results or cash flows.

New accounting pronouncements

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

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

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

Inbank is analysing the impact of the amendment on the financial statements.

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020).

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

Implementation is assumed not have a material impact on Inbank's financial position, financial results or cash flows.

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

Note 2 — Significant accounting estimates

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

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

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

Measurement of the expected credit loss allowance

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

The inputs, assumptions and estimation techniques used in measuring ECL are further described in detail in the note "Accounting principles". A number of significant judgements are also required in applying the accounting requirements, such as:

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

Note 3 — Risk management

General information

Risk is defined as the possibility of a negative deviation from the expected financial results. Through its business activities, Inbank is associated with a wide range of different risks, predominantly credit risk, market risk, liquidity risk, and operational risk. Other risks include concentration risk and business risk, including strategic risk and reputational risk.

Acceptable risks, their levels and nature, as well as their consistency with both the bank's business model and strategic goals are defined as part of the risk appetite statement established by the Supervisory Board of Inbank AS. Risk management principles, requirements and areas of responsibility are described in the respective internal regulations. In accordance with the established capital management principles, Inbank must have a sufficient amount of eligible own funds to cover the risks.

The purpose of Inbank's risk management framework is to identify risks and to measure and manage them appropriately. In a wider scale, the objective of the risk management is to increase the value of the company through minimisation of losses and reduction of the volatility of results. Inbank's risk management framework is based on a solid risk culture and built on the principles of the three lines of defence. The first line of defence is business lines, responsible for taking risks and managing them on a daily basis. The second line of defence is the risk management function, responsible for establishing risk management methodologies and risk reporting. The third line of defence is the internal audit, performing independent oversight for the entire organisation, including the risk management function.

A more detailed overview of the risks is available on Inbank's homepage www.inbank.ee in the Risk Management and Capital Adequacy Report.

Credit risk

Credit risk reflects the potential loss, which arises from the counterparty's inability or unwillingness to meet its contractual obligations towards Inbank. Credit risk arises primarily from the loans and receivables issued to households, and to some extent, also to corporates and credit institutions.

Inbank issues loans in four countries: Estonia, Latvia, Lithuania and Poland. The allocation of Inbank's receivables portfolio by assets and countries is outlined in the following table.

Credit risk management of Inbank in all its countries of operation is primarily governed by the various legal acts and guidelines established in accordance to the EU Consumer Credit Directive, as well as the corresponding internal provisions of Inbank, the core principle of which is responsible lending.

Inbank also considers concentration risk, country credit risk, and foreign currency loan risk as part of credit risk. Inbank's credit risk management focuses on the avoidance of excessive risk and risk mitigation, using the following measures:

- below average contract maturity of issued loans;
- significantly below average amounts of issued loans;
- well diversified portfolio and limited risk exposures;
- optimal risk/return ratio for issued loans;
- taking of controlled risks and continuous risk profile monitoring;
- regularly carried out stress tests and scenario analyses.

Risk management function provides the Supervisory Board of Inbank AS with at least quarterly reviews of compliance with credit risk limits. Any limit breaches are escalated immediately.

Allocation of assets exposed to credit risk by country

In thousands of euros

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

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

Classification of receivables

Inbank's receivables are classified according to the credit decision and issuing process into retail and non-retail receivables.

In Inbank, an exposure is classified as a retail exposure if the credit is issued to individuals or small and medium-sized enterprises. In most cases, retail exposures are unsecured. Credit decisions are made, and loans are issued by using automated IT solutions, standardised processes and standard contractual terms. Individually, the retail exposures are immaterial but as a whole, constitute a large part of the portfolio and possess inherently similar characteristics. It significantly reduces the risks associated with granting such loans.

Exposures that do not comply with the requirements for retail exposures are considered as non-retail exposures, the credit decisions of which are, therefore, made individually by the credit committee and the risks of which are predominately hedged by a various collateral.

Due from households

The core business of Inbank involves offering consumer finance solutions to households. In assessing private customers' credit solvency, credit behaviour modelling is used that, in addition to customer's previous payment behaviour, income and obligations, takes into account also other parameters associated with the customer's payment discipline. Inbank's credit behaviour models are constantly changing in time and are updated according to the changes in the composition of the information used to make credit decisions and according to the changes in the economic environment.

Most credits issued to households constitute retail exposures, at the same time, Inbank has also issued small volumes of loans to households that are considered as non-retail exposures.

Allocation of receivables from households in arrears by days is outlined in the following table.

Receivables from households

In thousands of euros

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

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

Due from non-financial corporates and financial corporates

Inbank has issued small volume of loans to corporates. Concerning loans to corporates, credit decisions are in each case made individually by the Credit Committee based on customer's solvency assessment. Additionally, loans to corporates are mitigated by various collaterals. The exception is retail exposures to small businesses issued by AS Inbank Liising and the Lithuanian branch of Inbank where the credit decision process is similar to the household loans' decision process.

Allocation of receivables from corporates in arrears by days is outlined in the following table.

Receivables from non-financial and financial corporates

In thousands of euros

31.12.2019 Distribution of receivables	Gross receivables	Stage 1	Stage 2	Stage 3	Net receivables	Impairment coverage
0-3 days	12 788	-30	0	0	12 758	0.2%
4-30 days	375	-7	0	0	368	1.9%
31-89 days	154	0	-9	-2	143	7.1%
90-179 days	13	0	0	-5	8	38.5%
180+ days	108	0	0	-44	64	40.7%
Total receivables	13 438	-37	-9	-51	13 341	0.7%

31.12.2018 Distribution of receivables	Gross receivables	Stage 1	Stage 2	Stage 3	Net receivables	Impairment coverage
0-3 days	8 974	-10	0	-8	8 956	0.2%
4-30 days	395	-7	0	0	388	1.8%
31-89 days	164	0	-16	0	148	9.8%
90-179 days	42	0	0	-16	26	38.1%
180+ days	77	0	0	-10	67	13.0%
Total receivables	9 652	-17	-16	-34	9 585	0.7%

Due from central banks and credit institutions

The management estimates that exposure to cash and cash equivalents, held at central banks and other credit institutions, inherently carries a low credit risk. This is achieved through the risk management policies of Inbank, which favour credit institutions with higher level of equity and strong credit rating for the placement of its liquid assets. The unrated counterparties mainly include credit institutions with Scandinavian background that have a parent company's credit rating available but are missing assigned rating for the subsidiary which is Inbank's counterparty. Based on available market information, Inbank AS considers the credit quality of those financial institutions to be good.

As at 31 December 2019 and 31 December 2018, the Inbank balances with central banks and credit institutions are not in arrears. The receivables are either repayable on demand or with a contractual maturity of up to three months.

Balances with central banks and credit institutions according to Moody's short-term credit rating classes are outlined in the following table.

Receivables from central banks and credit institutions by credit ratings

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

Calculation of the impairment of financial instruments

Inbank calculates the impairment of financial instruments according to the IFRS 9 standard, based on the expected credit loss model. According to the model, financial instruments are divided between 3 stages, depending on whether the financial instrument's credit risk since initial recognition has not increased significantly (stage 1), has increased significantly (stage 2) or the asset is 'credit impaired' (stage 3). Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3). The allowance for stage 1 financial instruments is based on 12 months' expected losses. The allowance for stage 2 and 3 financial instruments is based on lifetime expected losses. In calculating the expected credit loss, Inbank incorporates all re-classifications between stages at the end of the reporting period.

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

- *Significant increase in credit risk (SICR)*. Inbank assesses at the end of each reporting date whether the credit risk of a financial instrument has increased significantly since initial recognition. The significant increase in credit risk is assumed to occur at 30 days past due. Considering Inbank's usual business practise, the ability to collect information concerning customer financial behaviour is limited, which makes it difficult to apply other criteria with reasonable effort.
- *Definition of default*. Inbank considers the financial instrument as defaulted when the instrument is more than 90 days past due or the financial instrument in which borrower is in significant financial difficulty and thus meets the unlikeliness to pay criteria, including the borrower being in bankruptcy, deceased, in court proceedings or classified as fraudulent.
- *The assessment of macroeconomic impact.* To assess the macroeconomic impact Inbank has developed a model which incorporates developments of the future economic environment in the expected credit loss calculation. The impact of different economic variables on portfolio PD was analysed across countries in the portfolio. For objective estimation of the credit loss, Inbank uses three scenarios which include forward looking information – baseline, positive and negative scenario. Inbank AS estimates that the baseline scenario is the most probable and relevant, the weights of negative and positive scenario probabilities are less significant. Economic development perspective and previous experience in countries where Inbank operates are considered when assigning weights to the scenarios. As at 31.12.2019 probability for baseline scenario was estimated to be 80%, positive scenario probability 10% and negative scenario probability 10%.
- *Debt management*. Inbank has regularly sold past due loans (more than 90 days past due). More attention has been paid to the development of the practise of inhouse collection in line with increase in business volumes.
- Inbank has carried out a sensitivity analysis on key assumptions, which according to Inbank AS assessment have the most impact on the expected credit loss. The result of the analysis shows that if PD rates increase by 10%, the impact to the ECL is EUR 395 thousand. If LGD rates increase by 10%, the impact to the ECL is EUR 750 thousand.

The components of expected credit loss calculations (PD, LGD and EAD) for retail exposures are derived from the internal historical data. Due to retail exposures being homogeneous, allowances resulting from expected credit loss are calculated on the basis of historical payment behaviour of those homogeneous loans and based on forward looking information. Allowances for non-retail exposures are calculated on the basis of forward-looking information individually, depending on the probability of default and financial strength of the counterparty as well as the value of the offered collateral.

During the reporting period, Inbank's loan portfolio increased by 50%, with Poland and Lithuania contributing the most. Despite the significant growth of the portfolio, the quality of the portfolio has been good during the reporting period, as shown by the low figure of actual loan losses, which make up 2.1% of the loan portfolio (2018: 1.7%). Inbank' impairment allowance recognised in statement of financial position increased during the reporting period in the amount of 2.7 million EUR that is mainly due to the increase in new loans issued during the reporting period and the changes in quarterly revaluation of provisioning rates.

The division of portfolio between stages and the changes in the loss allowance are outlined in the following tables.

Changes in loss allowance of household portfolio

In thousands of euros	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Impairment allowance, 01.01.2018	1 591	1 183	1 264	4 038
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-375	375	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-518	-422	940	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	139	-139	0	0
New originated or purchased	2 304	236	120	2 660
Derecognised during the period	1 998	339	131	2 468
Changes to ECL measurement model assumption	-583	171	935	523
Changes in accrued interest	0	0	0	0
Total movements with impact on credit loss allowance charge for the period	2 966	559	2 126	5 650
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-2 479	-890	-782	-4 151
Impairment allowance, 31.12.2018	2 078	852	2 608	5 537
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-771	771	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-1 360	-184	1 543	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	433	-199	-234	0
From Stage 3 to Stage 2	0	13	-13	0
New originated or purchased	4 385	0	0	4 385
Derecognised during the period	2 435	947	2 772	6 154
Changes to ECL measurement model assumption	-1 220	217	1 090	87
Changes in accrued interest	0	0	0	0
Total movements with impact on credit loss allowance charge for the period	3 902	1 565	5 158	10 625
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-2 812	-1 348	-3 801	-7 961
Impairment allowance, 31.12.2019	3 168	1 068	3 962	8 198

Movement of household portfolio between stages

In thousands of euros	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Carrying amount, 01.01.2018	86 758	3 036	2 336	92 130
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-4 605	4 605	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-2 550	-824	3 374	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	500	-500	0	0
New originated or purchased	195 434	3 289	1 063	199 786
Derecognised during the period	-63 519	-458	-466	-64 443
Changes to ECL measurement model assumption	-162	-383	-428	-973
Changes in accrued interest	281	-10	-6	265
Total movements with impact on credit loss allowance charge for the period	212 137	8 755	5 873	226 765
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-3 181	-1 056	-936	-5 173
Carrying amount, 31.12.2018	208 955	7 699	4 937	221 591
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-11 855	11 855	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-4 171	-643	4 814	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	2 611	-2 145	-466	0
From Stage 3 to Stage 2	0	23	-23	0
New originated or purchased	227 416	0	0	227 416
Derecognised during the period	-45 247	-1 152	-163	-46 562
Changes to ECL measurement model assumption	-56 548	-2 489	-587	-59 624
Changes in accrued interest	0	0	0	0
Total movements with impact on credit loss allowance charge for the period	112 206	5 449	3 575	121 230
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-5 016	-2 454	-2 336	-9 806
Carrying amount, 31.12.2019	316 145	10 694	6 176	333 014

Changes in loss allowance of corporates portfolio

In thousands of euros	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Impairment allowance, 01.01.2018	26	8	3	37
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-1	1	0	0
to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-1	-7	8	0
to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	0	0	0	0
New originated or purchased	9	7	0	16
Derecognised during the period	0	0	0	0
Changes to ECL measurement model assumption	-8	8	15	15
Changes in accrued interest	0	0	0	0
Total movements with impact on credit loss allowance charge for the period	-1	9	23	31
Movements without impact on credit loss allowance charge for the period:				
Write-offs	0	0	0	0
Impairment allowance, 31.12.2018	25	17	26	68
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-176	176	0	0
to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-75	-39	114	0
to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	4	-4	0	0
From Stage 3 to Stage 2	1 798	0	0	1 798
New originated or purchased	-412	-2	0	-414
Derecognised during the period	-17	-22	-12	-51
Changes to ECL measurement model assumption	-9	2	32	25
Changes in accrued interest	0	0	0	0
Total movements with impact on credit loss allowance charge for the period	3	-5	29	27
Movements without impact on credit loss allowance charge for the period:				
Write-offs	0	0	0	0
Impairment allowance, 31.12.2019	28	12	55	95

Movement of corporates portfolio between stages

In thousands of euros	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Carrying amount, 01.01.2018	3 877	48	5	3 930
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-176	176	0	0
to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-75	-39	114	0
to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	4	-4	0	0
From Stage 3 to Stage 2	1 798	0	0	1 798
New originated or purchased	-412	-2	0	-414
Derecognised during the period	-17	-22	-12	-51
Changes to ECL measurement model assumption	-610	-38	-71	-719
Changes in accrued interest	0	0	0	0
Total movements with impact on credit loss allowance charge for the period	1 122	109	102	1 333
Movements without impact on credit loss allowance charge for the period:				
Write-offs	0	0	0	0
Carrying amount, 31.12.2018	4 999	157	107	5 263
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-95	95	0	0
to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-43	-3	46	0
to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	51	-91	40	0
From Stage 3 to Stage 1 and Stage 2	5	0	-5	0
New originated or purchased	2 719	21	6	2 746
Derecognised during the period	-159	-8	-19	-186
Changes to ECL measurement model assumption	-610	-38	-71	-719
Changes in accrued interest	0	0	0	0
Total movements with impact on credit loss allowance charge for the period	1 868	-24	-3	1 841
Movements without impact on credit loss allowance charge for the period:				
Write-offs	0	0	0	0
Carrying amount, 31.12.2019	6 867	133	104	7 104

Impairment of the receivables from central banks and credit institutions

According to Inbank's credit risk management principles, the liquid assets are placed to credit institutions with strong credit rating. The credit ratings of credit institutions provided by internationally recognised rating agencies are considered when calculating the expected credit loss of the receivables. As at 31.12.2019 and 31.12.2018, the receivables from central banks and credit institutions were not overdue. Considering the latter, the expected credit loss of the receivables from central banks and credit institutions is immaterial and therefore, no allowance has been recognised in the statement of financial position.

Impairment of restructured financial instruments

In case of non-performing loans, Inbank always tries to restructure the loan, offering to change the borrower's payment schedule, into a form (reduced principal amount, extension of payment, etc.) better matching the borrower's ability to pay and the new credit conditions. Such a loan is no longer considered as non-performing, as long as the borrower meets all the new requirements. Restructured loans are monitored continuously to ensure that all the contract criteria are met. At every balance sheet date, the restructured loans are assessed for impairment similarly to non-restructured loans. However, the risk parameters are derived using the historical data of restructured loans taking into account the forward-looking information.

Considering collateral when estimating impairment of receivables

Inbank's collaterals portfolio is immaterial because the majority of Inbank's loan portfolio is represented by unsecured retail exposures (hire-purchase, loans, credit cards), issued on the basis of an analysis of the customer's solvency. However, Inbank has issued a small volume of loans also to corporates and private persons, in case of which the risk is hedged by various collaterals. As at 31.12.2019 the volume of secured loans was EUR 4 million which makes 1.2% out of total portfolio.

Concentration risk

Concentration risk, as an integral part of credit risk, arises from large exposures to individual counterparty, to groups of connected counterparties or groups of unrelated counterparties, whose risk is affected by a common risk factor. Under concentration risk, Inbank considers the assets of one counterparty, related counterparties as well as those associated with one industry, geographical territory or risk factor.

In its everyday business activities, Inbank avoids taking a concentration risk, focusing mainly on small and medium loans to avoid large exposure. Inbank does not rule out issuing large loans in the existence of sufficient collateral or compliance with other required conditions. As at 31 December 2019 and 31 December 2018, Inbank had no receivables greater than 10% of its own funds.

Market risk

Market risk is defined as the possibility of the value of Inbank's assets and liabilities or the value of their expected future cash flows to change adversely as a result of changes in market conditions.

In general, market risk arises from the core business activities of Inbank, taking market risks is not a core activity of Inbank. The nature of Inbank's business activities implies that it has no commodity risk and equity risk exposures. Thus, the only types of market risk that Inbank is exposed to as a result of its current business activities, are the interest rate risk and currency risk. The management of these risks is described in the sections below.

The follow-up of all defined tolerance limits for market risk is reported at least quarterly to the Supervisory Board of Inbank AS by the risk management function. Any limit breaches are escalated immediately.

Interest rate risk

Interest rate risk is a current or potential risk that unfavourable changes in the interest rates of Inbank's assets and liabilities may negatively affect its profit and equity.

Inbank is exposed to interest rate risk if the timings of revaluation of its main assets and liabilities as well as the maturity dates are different, if the interest rates of assets and liabilities can be adjusted at different time intervals or if the structure of assets and liabilities differs in currencies.

Inbank strives to secure low interest rate risk through limiting and matching the structure and maturities of interest-sensitive assets and liabilities. Interest income from issued loans significantly exceeds the interest expense paid for deposits, which allows to offset the potential adverse effect of interest rate risk to Inbank.

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

As at 31 December 2019, a 1 percentage point increase in market interest rates would raise Inbank's equity, i.e. economic value, by EUR +197 thousand (31.12.2018: by EUR +2 thousand) and the annual profit by EUR +891 thousand (31.12.2018: by EUR +589 thousand). At the same time, a 1 percentage point decrease in market interest rates would affect Inbank's equity (economic value) by EUR +15 thousand (31.12.2018: by EUR +24 thousand) and the annual profit by EUR +15 thousand (31.12.2018: by EUR +49 thousand).

Currency risk

Currency risk is a risk arising from the different currency structures of Inbank's assets and liabilities. Changes in foreign exchange rates will change the value of assets and liabilities, as well as the value of income and expenses, calculated in the functional currency.

Currency risk arises from Inbank's activities in Poland and Inbank generally holds minimum foreign currency positions necessary for rendering services to customers. Inbank holds no assets or liabilities in currencies other than euro and the Polish zloty. Inbank avoids currency risk and mitigates it by maintaining the necessary balance between loans and deposits in Polish zloty. Inbank uses foreign currency net open position monitoring, sensitivity analysis and stress testing to assess the impact of unfavourable changes of exchange rates, as well as measure and evaluate currency risk. The test scenario contains a simultaneous 10% adverse change of all foreign currencies in which Inbank holds a net open currency position (euro is not considered as foreign currency position).

As at 31 December 2019, the net open currency position of Inbank was EUR 228 thousand (31.12.2018: EUR 194 thousand), representing 0.44% of Inbank's own funds (31.12.2018: 0.59%). According to the scenario of a simultaneous 10% adverse change of all currencies in which Inbank holds a net open foreign position, the impact would be EUR 23 thousand (31.12.2018: EUR 18 thousand).

Inbank's currency risk exposure is low, and currency risk position is well controlled.

Operational risk

Operational risk is a risk of incurring a loss from the inadequacy of internal processes, people or systems not operating in the manner expected or from external events. Operational risk includes additionally legal risk, compliance risk and personnel risk.

The main operational risks that Inbank faces are associated with the company's significant growth. An increasing number of employees, growing volume of transactions and introduction of new products mean a constant need for new structures and processes as well as development of systems.

Operational risk management includes the identification of key business processes and the key risks in each process, the implementation of adequate controls and their follow-up checks. Inbank has implemented processes to manage incidents and approve new products as well as established a business continuity plan for crisis situations.

Risk management function provides the Supervisory Board of Inbank AS with at least quarterly reviews of compliance with operational risk limits. Any limit breaches are escalated immediately.

Liquidity risk

Liquidity risk is defined as a risk that Inbank's solvency is not sufficient to meet the contractual obligations within the time limit set without incurring significant costs, i.e. Inbank's companies cannot finance their activities sustainably and in a timely manner or they cannot liquidate their positions for fulfilment of their contractual obligations.

Inbank has three main funding sources: retail deposits, bank financing and subordinated bonds. The key measure used to manage Inbank's liquidity position is the approach based on the analysis of maturity mismatch of assets and liabilities. In addition, liquidity risk is mitigated by maintaining liquidity reserves in order to be able to manage imbalances in the duration. Within the liquidity risk management framework, also the main liquidity ratios as well as the proportions of assets and liabilities maturity dates are regularly fixed. Inbank conducts stress tests on a regular basis and has established an effective contingency plan for addressing liquidity shortfalls in crisis situations. Liquidity risk management methodologies are based on liquidity risk policy and other internal regulations. The bank has established internal limits for all key liquidity indicators.

Risk management function provides the Supervisory Board of Inbank AS with at least quarterly reviews of compliance with liquidity risk limits. Any limit breaches are escalated immediately. The distribution of Inbank assets and liabilities by contractual maturities on the basis of undiscounted cash flows is outlined in the following table.

Allocation of assets and liabilities by contractual maturity dates

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

In thousands of euros 31.12.2018	Up to 1 month	> 1 to 3 months	> 3 to 12 months	> 1 to 5 years	> 5 years	Total	Carrying amount
Assets							
Due from central banks and credit institutions	75 320	3 002	0	0	0	78 322	78 320
Loans and advances	265	38 227	86 535	144 477	4 807	274 311	225 639
Other assets	0	378	134	62	13 507	14 081	14 081
Total assets	75 585	41 607	86 669	144 539	18 314	366 714	318 040
Liabilities							
Loan from credit institution	0	10 495	0	0	0	10 495	10 429
Customer deposits	4 452	10 493	111 088	119 702	0	245 735	240 175
Debt securities issued	0	10 034	0	0	0	10 034	10 017
Subordinated debt securities	0	181	542	12 431	0	13 154	9 528
Other liabilities	200	10 470	760	0	0	11 430	11 430
Total liabilities	4 652	41 673	112 390	132 133	0	290 848	281 579
Maturity gap of assets and liabilities	70 933	-66	-25 721	12 406	18 314	75 866	36 461

Capital

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

The following tables outline Inbank's regulatory constitution of own funds and the minimum requirements for bank-specific capital buffers as at 31 December 2019.

Own funds

In thousands of euros	31.12.2019	31.12.2018
Equity as reported in consolidated balance sheet	47 320	36 425
Part of profit not eligible*	-3 444	-5 411
Regulatory adjustments	-7 427	-7 754
Intangible assets	-11 721	-7 697
Adjustments due to IFRS 9 transitional arrangements	4 354	2 308
Additional value adjustments	-60	-2 365
Common Equity Tier 1 capital	36 449	23 260
Additional Tier 1 capital	3 150	3 150
Tier 1 capital	39 599	26 410
Tier 2 capital	14 503	6 503
Own funds	54 102	32 913

* In accordance with EU regulation, audited profit for the reporting period may be included in retained earnings upon prior approval by the competent authorities. The above calculations exclude the net profit earned in the fourth quarter of 2019 in the amount of EUR 3,444 thousand (31.12.2018: profit for the second, third and fourth quarters of 2018 in the amount of EUR 5,411 thousand was excluded). Should both audited and unaudited profit be included in Inbank's own funds, it would increase the total own funds to EUR 57,606 thousand (31.12.2018: to EUR 38,865 thousand).

Capital buffers

	31.12.2019	31.12.2018
Institution-specific buffer requirement (as a percentage of total risk exposure amount)	3.23%	3.13%
of which: capital conservation buffer requirement	2.50%	2.50%
of which: countercyclical buffer requirement	0.29%	0.15%
of which: systemic risk buffer	0.44%	0.48%

Other information required under the Pillar III framework is available on Inbank's homepage www.inbank.ee in the Risk Management and Capital Adequacy Report.

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

- the minimum capital required by laws and regulations, including buffers;
- the level of capital that is needed to cope with contingencies and stress situations;
- the shareholders' required rate of return and effective capital management;
- the level of capital required for counterparts to consider Inbank a reliable partner and to ensure a more efficient access to the funding market.

Inbank's financial and risk management functions constantly monitor capital adequacy to ensure that the regulatory capital requirements and the capital threshold established by the Supervisory Board of Inbank AS are complied with. Risk management function provides the Supervisory Board of Inbank AS with at least quarterly reviews of compliance with capital adequacy limits. Any limit breaches are escalated immediately. In addition, Inbank's financial recovery plan provides Inbank's management with wide range of actions to implement in case of capital stress.

During the financial year and the comparative period, Inbank has complied with all capital requirements.

Note 4 — Business segments

Inbank divides its business activities into segments according to the geographical location of activities in Estonia, Latvia, Lithuania and Poland. Business segments are Inbank companies with separate financial data, which is also the basis upon the regular monitoring of business results by the decision makers of Inbank. Inbank monitors profitability, cost/benefit ratio, growth and quality of credit portfolio and impairment losses for each operating segment.

The revenues of the reported segments contain revenues from transactions between the segments. Such transactions include loans given by Inbank, as well as services provided to the companies of the consolidation group by Inbank Technologies. The above transactions are accounted for at market prices.

Inbank does not have any customers, whose income accounts for more than 10% of the respective type of Inbank consolidated income.

Income of reported segments and net profit structure

In thousands of euros 2019	Estonia	Latvia	Lithuania	Poland	Inter-segment eliminations	Total
Interest income	20 556	4 789	13 891	2 934	-4 610	37 560
incl. interest income from external customers	15 946	4 789	13 891	2 934	0	37 560
incl. internal interest income	4 610	0	0	0	-4 610	0
Fee income	737	220	0	8	0	965
Net gains from financial assets measured at fair value	743	0	0	0	0	743
Other operating income	505	87	430	52	-189	885
Total income	22 541	5 096	14 321	2 994	-4 799	40 153
Interest expense	-5 366	-780	-3 805	-1 039	4 610	-6 380
Fee expense	-411	-161	-757	-413	0	-1 742
Total expenses	-5 777	-941	-4 562	-1 452	4 610	-8 122
Total net interest, fee and commission income and other income	16 764	4 155	9 759	1 542	-189	32 031
Operating expenses	-8 225	-1 654	-4 765	-1 545	195	-15 994
incl. depreciations, amortisation	-683	-150	-394	-74	0	-1 301
Profit before profit from associates and impairment losses on loans	8 539	2 507	4 994	-3	0	16 037
Profit of associates	720	0	0	0	0	720
Impairment losses on loans and advances	-1 894	-683	-1 491	-1 981	0	-6 049
Income tax	-920	0	-360	582	0	-698
Net profit/loss	6 445	1 824	3 143	-1 402	0	10 010
Total assets	396 332	29 540	135 115	53 250	-151 470	462 767
Total liabilities	356 252	27 039	121 482	58 480	-147 806	415 447

In thousands of euros 2018	Estonia	Latvia	Lithuania	Poland	Inter-segment eliminations	Total
Interest income	14 553	3 644	6 430	826	-1 820	23 633
incl. interest income from external customers	12 733	3 644	6 430	826	0	23 633
incl. internal interest income	1 820	0	0	0	-1 820	0
Fee income	533	169	0	1	0	703
Other operating income	1 709	60	300	-68	-70	1 931
Total income	16 795	3 873	6 730	759	-1 890	26 267
Interest expense	-3 096	-556	-1 637	-291	1 820	-3 760
Fee expense	-369	-134	-378	-210	0	-1 091
Total expenses	-3 465	-690	-2 015	-501	1 820	-4 851
Total net interest, fee and commission income and other income	13 330	3 183	4 715	258	-70	21 416
Operating expenses	-5 692	-1 338	-2 287	-1 460	68	-10 709
incl. depreciations, amortisation	-250	-71	-100	-24	0	-445
Profit before profit from associates and impairment losses on loans	7 638	1 845	2 428	-1 202	0	10 709
Profit of associates	1 986	0	0	0	0	1 986
Impairment losses on loans and advances	-409	-435	-857	-985	0	-2 686
Income tax	-715	0	-232	214	0	-733
Net profit/loss	8 500	1 410	1 339	-1 973	0	9 276
Total assets	291 896	20 415	95 935	18 305	-108 507	318 044
Total liabilities	246 661	19 741	85 446	22 078	-92 347	281 579

Equity of major subsidiaries

In thousands of euros	31.12.2019	31.12.2018
SIA Inbank Latvia	2 501	683
AB Mokilizingas *	-	10 489

* AB Mokilizingas became Inbank Lithuanian branch in 2019.

Note 5 — Net interest income

In thousands of euros	2019	2018
Interest income		
Loans to households	36 989	23 325
Loans to corporates	533	259
Due from financial and credit institutions	38	49
Total interest income	37 560	23 633
Interest expense		
Deposits received	-5 489	-3 204
Debt securities sold	-875	-556
Lease liability	-16	0
Total interest expense	-6 380	-3 760
Net interest income	31 180	19 873

Interest income by customer location	2019	2018
Estonia	15 946	12 733
Latvia	6 968	4 592
Lithuania	11 712	5 482
Poland	2 934	826
Total interest income by customer location	37 560	23 633

Note 6 — Net fee and commission income

In thousands of euros	2019	2018
Fee income		
Households	953	698
Corporates	12	5
Total fee income	965	703
Fee expense		
Loan administration expenses	-1 742	-1 091
Total fee expense	-1 742	-1 091
Net fee income	-777	-388

Fee income by customer location	2019	2018
Estonia	737	534
Latvia	220	168
Lithuania	0	0
Poland	8	1
Total fee income by customer location	965	703

Loan administration expenses comprise of loan issuance and loan management costs, e.g. costs related to customer identification, sending of notifications etc.

Note 7 — Operating expenses

In thousands of euros	2019	2018
Personnel expenses		
Personnel expense	6 639	4 725
Social and other taxes	1 387	1 070
Total personnel expenses	8 026	5 795
Marketing expenses		
Advertising and marketing	2 240	1 134
Sales costs	343	458
Total marketing expenses	2 583	1 592
Administrative expenses		
Rental and maintenance expenses	316	537
IT expenses	1 135	596
Legal and recovery proceeding expenses	156	263
Office expenses	348	216
Training and business trip expenses	429	222
Supervision expenses	296	143
Consultation expenses	158	82
Transportation expenses	196	116
Other purchased services	120	114
Other tax expenses	400	190
Other administrative expenses	530	335
Total administrative expenses	4 084	2 814

Average number of employees	2019	2018
Estonia	81	53
Lithuania *	60	54
Latvia	22	21
Poland	21	19
Total	184	147

* The Lithuanian company was acquired on 22 May 2018 and the average number of employees is calculated for the period 22 May to 31 December 2018. The average number of employees converted to the period 1 January to 31 December 2018 would be 32.

Personnel expenses include the bonus reserve for amount of EUR 1,280 thousand (2018: EUR 760 thousand) which makes 16% from total personnel expenses (2018: 13%).

Note 8 — Right of use asset

Inbank rents different office spaces. Leases have been entered into for a fixed period of 1 to 5 years. Renting of office space and vehicles were classified as operating leases until 31 December 2018. From 1 January 2019 leases are recognised under assets as right of use of the asset and under liabilities as lease liability from the time Inbank obtains the right to use the asset.

Right to use an asset is divided as follows:

In thousands of euros	Buildings	Vehicles	Total
Recognised on initial application of IFRS 16	912	99	1 011
Carrying amount, 01.01.2019	912	99	1 011
Additions	118	0	118
Disposals	0	0	0
Depreciation charge	-400	-99	-499
Effect of translation to presentation currency	1	0	1
Corrections	142	0	142
Carrying amount, 31.12.2019	773	0	773

Interest expense from lease liability of the financial year was EUR 16 thousand and lease payments paid EUR 418 thousand. Rental expenses related to short-term leases are recognised under operating expenses and were EUR 92 thousand in 2019. Rental expenses related to short-term leases and low value items are recognised under operational expenses.

In thousands of euros	2019
Expense relating to short-term leases	84
Expense relating to leases of low-value assets that are not shown above as short-term leases	8
Total	92

Note 9 — Loans and advances

In thousands of euros	31.12.2019	31.12.2018
Distribution of receivables by customer sector		
Households	333 014	221 591
Non-financial corporates	4 466	3 470
Other financial corporates	2 735	1 709
Other advances	6 237	4 473
Loans and advances before impairment allowance	346 452	231 243
Impairment allowance	-8 295	-5 604
Total loans and advances	338 157	225 639

In thousands of euros	2019	2018
Impairment losses on loans and advances		
Impairment losses of reporting period	-10 652	-5 681
Recoveries	4 603	2 995
Total impairment losses on loans and advances	-6 049	-2 686

In thousands of euros	31.12.2019	31.12.2018
Changes in impairments		
Impairment allowance balance in the beginning of the period	-5 604	-3 173
Impact of IFRS 9	-	-901
Impairment provisions set up during reporting period	-10 652	-5 681
Written off from financial position during the period	7 961	4 151
Total changes in impairments	-8 295	-5 604

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

Note 10 — Income tax

In thousands of euros	2019	2018
Income tax recognized in income statement	-2 005	-936
Deferred tax assets	1 307	203
Total	-698	-733

In thousands of euros	2019	2018
Profit before taxes	10 708	10 009
Theoretical tax charge at statutory rate (14%)	-1 499	-1 401
Tax effect on items which are non deductible or assessable for taxation:		
Non-taxable profit of parent company	0	532
Non-taxable profit of subsidiaries	491	299
Non-deductible expenses	-227	-60
Effects of different tax rates in other countries	-198	-103
Accumulated tax loss	723	0
Unrecognised other potential deferred tax assets	12	0
Income tax expense for the year	-698	-733

In thousands of euros	2019	2018
Deferred taxes analysed by type of temporary difference		
Tax effect of deductible / (taxable) differences and tax loss carry forwards		
Credit loss allowance of loans and advances	478	312
Deferred income	1 371	0
Tax loss carry forward	106	224
Other	30	28
Deferred tax asset	1 985	564

Inbank started its operations in Poland in the second half of 2017 and as at 31 December 2019 had not yet made a profit. The resulting tax asset can be used to reduce future tax liability.

Latvian income tax expense results from the merger of Mokilizingas AB and its Latvian branch, and the correction of previous periods. As at 31 December 2019, Inbank's retained earnings amounted to EUR 28,958 thousand, from which EUR 4,007 thousand would be possible to distribute as dividends, taking into account the capital requirements. The income tax payable that would arise from this payment can be fully deducted by the income tax paid in Lithuania.

In the year of 2018, Latvian Tax Authority returned income tax pre-payments in the amount of EUR 285 thousand, given prepayments were allocated in the financial position of 31 December 2017 as other assets.

Note 11 — Due from central banks and credit institutions

In thousands of euros	31.12.2019	31.12.2018
Due from central banks	78 515	62 668
Mandatory reserve in central banks	4 565	1 952
Due from credit institutions	20 653	13 700
Total due from central banks and credit institutions	103 733	78 320

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

Note 12 — Leasing

Net and gross investments on finance leases according to the remaining maturity

In thousands of euros	Gross investment	Unearned interest income for future periods	Allowance	Principal payments for future periods
31.12.2019				
Not later than 1 year	1 393	-257	-22	1 114
Later than 1 year and not later than 2 years	887	-141	-25	721
Later than 2 year and not later than 3 years	555	-68	-15	472
Later than 3 year and not later than 4 years	302	-26	-8	268
Later than 4 year and not later than 5 years	117	-5	-3	109
Later than 5 years	0	0	0	0
Total	3 254	-497	-73	2 684
31.12.2018				
Not later than 1 year	362	-189	-5	168
Later than 1 year and not later than 2 years	1 265	-103	-30	1 132
Later than 2 year and not later than 3 years	337	-50	-11	276
Later than 3 year and not later than 4 years	221	-20	-6	195
Later than 4 year and not later than 5 years	92	-4	-3	85
Later than 5 years	0	0	0	0
Total	2 277	-366	-55	1 856

Note 13 — Business combinations

Additional information about Inbank consolidation group is available in Note 1.

Maksekeskus Holding OÜ

Inbank increased its holding in Maksekeskus Holding OÜ which has a holding in Maksekeskus. Closer cooperation with Maksekeskus allows Inbank offer our products to the customers of Maksekeskus. Inbank paid EUR 1,361 thousand for the additional shareholding.

Inbank recognised the acquisition of Maksekeskus Holding OÜ in accordance with the requirements of IFRS 3 by carrying out a purchase price analysis. In the course of the purchase price analysis, the value of assets of Maksekeskus Holding OÜ was assessed and the assets were recognised in the fair value on the transaction date.

Maksekeskus Holding OÜ purchase price analysis

Name of acquired company	Maksekeskus Holding OÜ
Share %	100
Acquisition date	21.12.2019

In thousands of euros	Fair value acquired
Cash and cash equivalents	2
Investments	1 278
Liabilities	-110
Total net assets acquired	1 170
Carried amount	3 167
Goodwill	1 997

Veriff OÜ

On 5 January 2018 Inbank's subsidiary Inbank Technologies sold its entire holding of 21.68% in the start-up Veriff OÜ.

Inbank Liising AS

Inbank AS became the sole owner of Inbank Liising AS, a company, which offers full service operating lease, acquiring the 20% holding from Fairown Finance OÜ on 22 January 2019 (see also Note 28).

Inbank Payments OÜ

On 27 August 2019 Inbank established a 100% subsidiary Inbank Payments OÜ for investment management.

Note 14 — Investment-related acquisitions and disposals

Additional information about Inbank consolidation group is available in Note 1.

Maksekeskus AS

Inbank's subsidiary Inbank Technologies acquired a 100% shareholding in Maksekeskus Holding which has a 29.8% share in AS Maksekeskus.

Income from revaluation of the investment in the amount of EUR 720 thousand is recognised in income statement as "Share of profit from associates".

Name of acquired company	Maksekeskus AS
Share %	29.8
Acquisition date	20.12.2019

In thousands of euros	
Summarised financial information	
Cash and cash equivalents	2 018
Loans and advances	69
Non-current asset	502
Other financial and non-financial liabilities	850
Retained earnings	692

Coop Pank AS

On 29 March 2018, Inbank disposed 10% of the shares in Coop Pank AS, 5% of the shares were acquired by current shareholders of Coop Pank and 5% of the shares were acquired by TÜ Eesti Ühistukapital. Inbank holds 7.94% of the shares of Coop Pank after the transaction. Subsequently, the investment will be recognised as financial investment at fair value.

On 27 June 2019 Inbank participated in the share issue of Coop Pank, maintaining the size of its holding.

Inbank sold the 4.45% holding in Coop Pank in September 2019 and the rest of the 3.49% holding in December. Income from revaluation and sale of the investment in the amount of EUR 743 thousand is recognised in income statement as "Net gains from financial assets measured at fair value" (in 2018: EUR 1,204 thousand).

Acquisitions and disposals of associates

In thousands of euros	2019	2018
Acquisitions		
Equity contribution, financial assets at fair value through profit and loss	321	0
Equity contribution, associates	2 351	96
Total acquisitions	2 672	96
Disposals		
Proceeds from disposals in financial investment	3 320	0
Proceeds from disposals of associates	0	6 269
Total disposals	3 320	6 269

Inbank has not received dividends from associates.

Note 15 — Intangible assets

In thousands of euros	Licences	Software	Goodwill	Total
Cost, 01.01.2019	133	1 846	6 157	8 136
Accumulated amortisation	-83	-356	0	-439
Opening carrying value	50	1 490	6 157	7 697
Additions	10	4 666	0	4 676
Amortisation charge	-19	-633	0	-652
Closing carrying value	41	5 523	6 157	11 721
Cost, 31.12.2019	143	6 512	6 157	12 812
Accumulated amortisation	-102	-989	0	-1 091
Carrying value	41	5 523	6 157	11 721

Management has carried out tests of recoverable amount of goodwill as at 31 December 2019 and 31 December 2018. The cash-generating units of goodwill are segments, which are entities of Inbank group. The breakdown of goodwill between segments is as follows:

In thousands of euros	31.12.2019	31.12.2018
Business segment		
Estonia	238	238
Lithuania	5 919	5 919
Total	6 157	6 157

The majority of goodwill is from the purchase of Mokilizingas. The recoverable amount of goodwill was identified by value in use which was determined using detailed pre-tax operating cash flow estimates for the next three years. Discounted cash flow method (DCF) was used for the value in use assessment. The weighted average cost of capital used (9.07%) was pre-tax and reflects specific risks applicable to the specific market and industry. The growth rates used for projections have been derived from the past experience of the growth in respective industry and the management's expectations of the respective growth rates in the projected future years in the respective region.

The recoverable amount of the unit does not significantly differ from its carrying amount (including goodwill), therefore, no adjustments have been made to the consolidated statement of financial position.

Note 16 — Other assets

In thousands of euros	31.12.2019	31.12.2018
Financial assets		
Prepaid guarantee amounts	70	64
Accrued receivables	1 622	0
Total financial assets	1 692	64
Non-financial assets		
Prepaid expenses	527	444
Prepaid taxes	61	66
Income tax liabilities due to be paid	0	4
Total non-financial assets	588	514

Prepaid taxes includes prepaid VAT. Accrued receivables are of short-term nature (1 – 30 days).

Note 17 — Loan from credit institution

In thousands of euros	31.12.2019	31.12.2018
Balance in the beginning of reporting period	10 429	0
Additions through business combinations	0	56 200
Additions during the reporting period	0	25 000
Repayments during the reporting period	-10 429	-70 771
Total loan received	0	10 429

In May 2018 LHV Pank issued a loan of EUR 25 million to AB Mokilizingas with the maturity of 1 year. Inbank returned the loan prematurely in March 2019.

Note 18 — Customer deposits

In thousands of euros	31.12.2019	31.12.2018
Customer deposits		
Deposits from households	360 125	226 544
Deposits from non-financial corporates	11 997	10 834
Deposits from financial corporates	5 396	2 797
Total customer deposits	377 518	240 175

In thousands of euros	31.12.2019	31.12.2018
Deposits by clients' residency		
Estonia	76 624	73 300
Germany	225 229	145 409
Poland	49 537	17 563
Austria	9 033	3 832
Netherlands	16 586	0
Other residence	509	71
Total deposits by clients' residency	377 518	240 175

Deposits include accrued interest liabilities in the amount of EUR 3,718 thousand (31.12.2018: EUR 1,821 thousand).

Note 19 — Debt securities

In thousands of euros	31.12.2019	31.12.2018
Debt securities issued	4 000	10 000
Corrections	10	17
Total debt securities	4 010	10 017

Debt securities	Nominal value	Amount	Issue date	Maturity date
EE3300111483	250 000 EUR	40	14.05.2018	14.03.2019
EE3300111673	250 000 EUR	16	28.02.2019	01.03.2021

The investment into debt securities has been made by Swedbank Investeerimisfond AS's pension funds via a private placement. The issue of new debt securities does not affect the terms of previously issued debt securities.

The debt securities issued are recorded in the balance sheet at amortised cost.

Note 20 — Subordinated debt securities

In thousands of euros	31.12.2019	31.12.2018
Subordinated debt securities issued	17 653	9 653
Adjustments	-116	-125
Total subordinated debt securities	17 537	9 528

Subordinated debt securities	Nominal price	Amount	Interest rate	Issue date	Maturity date
EE3300110964	1 000 EUR	6 503	7.0%	28.09.2016	28.09.2026
EE3300111590	10 000 EUR	315	8.5%	19.12.2018	perpetual
EE3300001544	1 000 EUR	8 000	6.0%	19.12.2019	19.12.2029

Inbank issued 10-year subordinated debt securities with fixed interest rate of 7% on 28 September 2016. The debt securities are listed on Nasdaq Tallinn Stock Exchange. On the prior approval of the Financial Supervision Authority Inbank has the right to redeem the debt securities in five years from the date of issue (28 September 2021).

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

Inbank issued 10-year subordinated debt securities with fixed interest rate of 6% on 19 December 2019. The debt securities are listed on Nasdaq Tallinn Stock Exchange. On the prior approval of the Financial Supervision Authority Inbank has the right to redeem the debt securities in five years from the date of issue (19 December 2024).

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

Note 21 — Other liabilities

In thousands of euros	31.12.2019	31.12.2018
Financial liabilities		
Accounts payable	11 516	8 072
Lease liability	757	0
Client prepayments	1 272	704
Total financial liabilities	13 545	8 776
Other liabilities		
Payables to employees	1 978	1 124
Payroll taxes	482	443
Tax liability	277	496
Other liabilities	100	591
Total other liabilities	2 837	2 654

The accounts payable includes liabilities to customers and partners related loan granting activities and payments for operating expenses. Of the amount, EUR 6,810 thousand is Mokilizingas liability to partners for loan granting activities (31.12.2018: EUR 6,403 thousand).

Note 22 — Contingent liabilities

Inbank had the following loan commitments:

In thousands of euros	31.12.2019	31.12.2018
Revocable commitments		
Liability in contractual amount	9 992	13 826
incl. unused credit card limits	9 975	13 326

Tax authorities in Estonia have the right to review the company's tax records for up to 5 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The tax authorities have not performed any tax audits at Inbank during 2018 and 2019.

Inbank's management estimates that in 2019 there are no such circumstances that may lead the tax authorities to impose significant additional taxes on Inbank.

Note 23 — Share capital

	31.12.2019	31.12.2018
Share capital	903	874
Number of shares issued	90 344	87 394
Nominal share value (EUR)	10	10

In September 2019 share options were exercised for the purchase of 2,950 shares, as a result share capital was increased by EUR 29,500 and share premium paid was EUR 855,500.

The share capital increase was registered in the Commercial Register on 20 September 2019.

Note 24 — Share-based payments

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

	No of shares	Unit subscription price (EUR)	Option issuing year	The year in which the right to realize the option arises	Number of people to whom the option was issued
Employees	600	300	2016	2019	3
Employees	900	675	2018	2021	3
Supervisory Board	250	300	2019	2022	1
Supervisory Board	250	675	2019	2022	2
Management	850	300	2019	2022	4
Employees	350	300	2019	2022	3
Employees	1 150	675	2019	2022	7
Management	200	675	2019	2022	1
Total	4 550				

The precondition for the exercising 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 Inbank. The share options cannot be redeemed for cash.

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

The share-based payment reserve is recorded under other reserves in equity over a period of three years. At the end of each reporting period, Inbank estimates how many shares will be realised at non-market prices and adjusts the reserve accordingly. As at 31 December 2019, the reserve amounted to EUR 151 thousand (31.12.2018: EUR 19 thousand).

Personnel expenses related to the option agreements in 2019 amounted to a total of EUR 132 thousand (2018: EUR 19 thousand).

In September 2019 the option was exercised for the purchase of 2 950 shares (see Note 23).

Note 25 — Reserves

In thousands of euros	31.12.2019	31.12.2018
Statutory reserve	88	79
Voluntary reserve	1 330	1 330
Share based payments reserve	151	37
Other accumulated comprehensive income	-18	34
Total reserves	1 551	1 480

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

The general meeting of Inbank AS has previously decided to increase the reserves through voluntary increase of reserves. The voluntary reserve may also be used for increasing the share capital, but not for making payouts to shareholders.

The fair value of share options issued to employees is recognised as a payroll expense over the term of the option programme, and in equity as share-based payments reserve.

Note 26 — Fair value of financial assets and liabilities

In thousands of euros	31.12.2019			31.12.2018		
Assets	Fair value	Carrying amount	Level	Fair value	Carrying amount	Level
Cash in hand	0	0	1	4	4	1
Due from central banks	83 080	83 080	2	64 620	64 620	2
Due from credit institutions	20 655	20 655	2	13 700	13 700	2
Financial assets at fair value through profit and loss	0	0	3	4 600	4 600	3
Loans and advances	338 157	338 157	3	225 639	225 639	3
Other financial assets	1 692	1 692	3	64	64	3
Total assets	443 584	443 584		308 627	308 627	
Liabilities						
Loans from credit institutions	0	0	2	10 429	10 429	2
Customer deposits	377 518	377 518	2	240 175	240 175	2
Debt securities issued	4 010	4 010	3	10 017	10 017	3
Subordinated debt securities	15 403	14 474	2	6 954	6 489	2
Subordinated debt securities (AT1)	3 063	3 063	3	3 039	3 039	3
Other financial liabilities	13 545	13 545	3	8 776	8 776	3
Total liabilities	413 539	412 610		279 390	278 925	

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

Subordinated debt securities are listed on the Nasdaq Baltic Stock Exchange and their fair value can be determined based on the transaction history. As a result the debt security is classified as level 2 in fair value hierarchy.

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

In February 2019 **debt securities** were issued at market terms, maturity of these securities is 01.03.2021. Management estimates that the interest rates today are comparable therefore fair value of the securities equals carrying amount, classified as level 3 in fair value hierarchy.

To measure the fair value of **investments not actively traded on the market (financial assets at fair value through profit or loss)**, transaction price between independent parties has been used. Financial assets are classified as level 3 in fair value hierarchy.

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

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

Fixed-term customer deposits are short-term and its interest rate is subject to market conditions. The carrying amount of deposits using the discounted cash flow method does not therefore significantly differ from their fair value. These are classified as level 2 in fair value hierarchy.

Note 27 — Related parties

In thousands of euros	2019	2018
Remuneration of the Management Board and Supervisory Board	954	771

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

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

In thousands of euros	31.12.2019			31.12.2018		
Balances as of end of reporting period	Management	Associates	Total	Management	Associates	Total
Loans and advances	1	0	1	475	0	475
Deposits and subordinated debt securities	2 096	0	2 096	742	0	742

In thousands of euros	2019			2018		
Transactions	Management	Associates	Total	Management	Associates	Total
Interest income	12	1	13	18	7	25
Interest expenses	53	0	53	23	0	23
Services purchased	44	0	44	45	0	45
Services sold	0	0	0	0	44	44

The table provides an overview of the significant transactions and balances with related parties. Inbank finances its subsidiaries and branches with short- and long-term loans issued under market conditions. Interest rates are in between 3.31% and 7% (2018: 3.31 and 7%). Such loans are eliminated from the consolidated financial statements. Loans given to management (incl. hire-purchase) are issued under market conditions, interest rates between 0 and 5% (2018: 5 and 14.65%). The interest rate of deposits received from related parties matches with the interest rate offered to customers, interest rates are in between 0.5% and 3.25% (2018: 1.05 and 3%).

In September 2019 members of the Management Board and Supervisory Board exercised options for the purchase of 1,400 shares (in 2018: 180 shares).

Inbank has concluded a contract with a member of the Management Board, stipulating a severance compensation equalling to a six-month monthly remuneration upon termination of the contract. The contracts with other members of the Management Board do not stipulate any severance compensation upon termination of the contract. In issues not regulated in the contract, 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 reporting period

Inbank sold its shareholding in Inbank Liising AS on 31 January 2020.

Note 29 — Parent company's separate statement of financial position

IFRS do not prescribe method of accounting for transactions under common control. Pursuant to IAS 8, management has determined that the merger is accounted for using the predecessor method of accounting. Under this method the financial statements are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the banks transferred under common control are recognised at their predecessor values, i.e at their carrying values from the financial statements at the highest level of consolidation. No new goodwill arises under predecessor method.

In thousands of euros	Note	31.12.2019	31.12.2018
Assets			
Cash in hand		0	4
Due from central banks		83 080	64 620
Due from credit institutions		19 838	12 864
Financial assets at fair value through profit and loss		0	4 600
Loans and advances		335 668	225 130
Investments in subsidiaries		3 634	1 053
Tangible assets		451	319
Right of use asset		660	0
Intangible assets		11 675	7 632
Other financial assets		38	33
Other assets		2 132	467
Deferred tax assets		1 985	564
Total assets		459 161	317 286
Liabilities			
Customer deposits		377 518	250 604
Other financial liabilities		12 972	8 615
Other liabilities		2 676	2 430
Debt securities		7 073	10 017
Subordinated debt securities		14 474	9 528
Total liabilities		414 713	281 194
Equity			
Share capital	23; 24	903	874
Share premium	23; 24	15 908	15 053
Statutory reserve capital	25; 26	88	79
Other reserves	25; 26	1 463	1 402
Retained earnings		26 086	18 684
Total equity		44 448	36 092
Total liabilities and equity		459 161	317 286

Note 30 — Parent company's separate comprehensive income statement

In thousands of euros	2019	2018
Interest income	33 352	20 447
Interest expense	-6 380	-3 761
Net interest income	26 972	16 686
Fee income	737	529
Fee expense	-1 577	-957
Net fee and commission income	-840	-428
Net gains from financial assets measured at fair value	743	1 204
Other operating income	891	651
Total net interest, fee and other income	27 766	18 113
Personnel expenses	-7 058	-4 950
Marketing expenses	-2 353	-1 468
Administrative expenses	-3 784	-2 409
Depreciations, amortisation	-1 126	-320
Total operating expenses	-14 321	-9 147
Profit before profit from associates and impairment losses on loans	13 445	8 966
Share of profit from associates	0	1 552
Impairment losses on loans and advances	-5 354	-2 224
Profit before income tax	8 091	8 294
Income tax	-698	-733
Profit for the period	7 393	7 561
Other comprehensive income that may be reclassified subsequently to profit or loss		
Currency translation differences	-53	74
Total comprehensive income for the period	7 340	7 635

Note 31 — Parent company's separate statement of cash flows

In thousands of euros	Note	2019	2018
Cash flows from operating activities			
Interest received	5	33 123	20 167
Interest paid	5	-4 481	-3 761
Fees received	6	737	529
Fees paid	6	-1 577	-957
Other income received		891	651
Personnel expenses		-6 211	-4 761
Administrative and marketing expenses		-5 450	-3 640
Corporate income tax paid		-2 361	-328
Cash flows from operating activities before changes in the operating assets and liabilities		14 671	8 856
Changes in operating assets			
Loans and advances		-115 074	-66 070
Mandatory reserve in central banks		-2 613	-1 251
Other assets		-3 091	679
Changes of operating liabilities			
Loan from credit institution		-10 429	-45 783
Customer deposits		135 047	143 604
Other liabilities		3 070	3 168
Net cash from operating activities		21 581	43 346
Cash flows from investing activities			
Acquisition of tangible and intangible assets		-4 890	-1 433
Acquisition of subsidiaries and associates	13; 14	-121	-13 134
Net change of investments at fair value through profit or loss		3 819	0
Proceeds from disposal of associates		0	6 269
Net cash used in investing activities		-1 192	-8 298

Continues on the next page.

	Note	2019	2018
Cash flows from financing activities			
Share capital contribution (including share premium)		884	6 077
Subordinated debt securities issued		8 000	3 033
Debt securities issued		4 000	10 000
Repayments of debt securities		-10 000	0
Net cash from financing activities		2 884	19 110
Effect of exchange rate changes		-46	-69
Cash and cash equivalents at the beginning of the reporting period		75 536	21 447
Net increase/decrease in cash and cash equivalents		23 227	54 089
Cash and cash equivalents at the end of the reporting period		98 763	75 536

Note 32 — Parent company's separate statement of changes in equity

In thousands of euros	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings/ accumulated loss	Total equity
Balance, 01.01.2018	782	9 068	79	1 352	10 844	22 125
Paid in share capital	92	5 985	0	0	0	6 077
Share-based payment reserve	0	0	0	-24	43	19
Purchase of business line	0	0	0	0	236	236
Total profit/-loss and other comprehensive income for the reporting period	0	0	0	74	7 561	7 635
Balance, 31.12.2018	874	15 053	79	1 402	18 684	36 092
Carrying amount of holdings under control and significant influence					-16 121	-16 121
Value of holdings under control and significant influence under equity method					16 494	16 494
Adjusted unconsolidated equity, 31.12.2018					19 057	36 465
Balance, 01.01.2019	874	15 053	79	1 402	18 684	36 092
Paid in share capital	29	855	0	0	0	884
Share-based payment reserve	0	0	0	114	18	132
Statutory reserve capital	0	0	9	0	-9	0
Total profit/-loss and other comprehensive income for the reporting period	0	0	0	-53	7 393	7 340
Balance, 31.12.2019	903	15 908	88	1 463	26 086	44 448
Carrying amount of holdings under control and significant influence					-3 635	-3 635
Value of holdings under control and significant influence under equity method					6 507	6 507
Adjusted unconsolidated equity, 31.12.2019					28 958	47 320

Signatures of the management board to the consolidated annual report

The Management Board of Inbank AS declares its responsibility for preparing the Consolidated Annual Report for Inbank for the financial year of 2019 and confirms that:

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

Members of the Management Board

Jan Andresoo

Chairman of the Management Board
/digitally signed/

Liina Sadrak

Member of the Management Board
/digitally signed/

Marko Varik

Member of the Management Board
/digitally signed/

Piret Paulus

Member of the Management Board
/digitally signed/

Jaanus Kõusaar

Member of the Management Board
/digitally signed/

Independent auditor's report

To the Shareholders of AS Inbank

(Translation of the Estonian original)*

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Inbank and its subsidiaries (together – "the Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 6 March 2020.

What we have audited

The Group's consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^1 of the Auditors Activities Act of the Republic of Estonia. The non-audit services that we have provided to the Group in 2019 are disclosed in the management report.

AS PricewaterhouseCoopers
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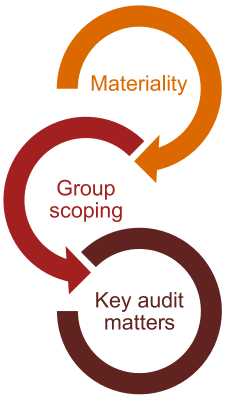
Our audit approach

Overview



Overall group audit materiality is EUR 780 thousand, which represents 2,5% of the Group's net interest income.

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

- Valuation of loans and advances to retail customers

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

Materiality

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

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

Overall Group audit materiality	EUR 780 thousand
How we determined it	2,5% of net interest income
Rationale for the materiality benchmark applied	We have applied this benchmark, as the Group is going through significant growth and has made significant investments in the subsidiary in Latvia and the branches in Lithuania and Poland. Therefore, the key performance measure for the Group is net interest income.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of loans and advances to retail customers (refer to Note 1 "Significant accounting policies", Note 3 "Risk Management" and Note 9 "Impairment of loans and advances to customers" for further details). As of 31 December 2019, gross loans and advances to the retail customers amount to EUR 333,014 thousand against which credit loss allowance in the amount of EUR 8,198 thousand has been recognized. We focused on this area because application of IFRS 9 "Financial instruments" 3-stage expected credit loss (ECL) model requires management to use complex calculations with subjective inputs to assess the timing and the amount of expected credit losses. The key features of the ECL model include: • classification of loans to 3 stages based on the assessment of significant increase in credit risk • assessment of credit risk parameters such as probability of default (PD), loss given default (LGD) and exposure at default (EAD) based on complex modelling techniques and estimates determined by the management • application of forward looking and probability-weighted information in the ECL assessment	We assessed whether the Group's accounting policies in relation to assessing the impairment of loans and advances to retail customers complied with International Financial Reporting Standards as adopted by European Union. We assessed the design and operating effectiveness of the controls over expected credit loss data and calculations. We performed procedures to test the significant inputs used in the expected credit loss (ECL) model, such as probability of default (PD), exposure at default (EAD) and loss given default (LGD). We performed detailed audit procedures in the following areas: • the completeness and accuracy of data used in the ECL calculation; • the compliance of key inputs used in ECL calculation system with ECL methodology; • the accuracy and compliance of 12-month and lifetime ECL calculations with the Group ECL methodology; • the accuracy of discounting in the ECL calculations; • the accuracy and completeness of data used for staging of loans (including applying the criteria for determining significant increase in credit risk and definition of default). We have assessed the reasonableness of key assumptions made by management, which serve as critical inputs in the allowance model, such as weights of different scenarios and forecasts of key macroeconomic information.

How we tailored our Group audit scope

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

In order to achieve this objective, based on the size and risk characteristics, we performed a full scope audit of the financial information for the following entities within the Group: AS Inbank (Estonia), Inbank Latvia SIA (Latvia) and Mokilizingas AB (Lithuania), which was merged with AS Inbank as at 31 December 2019. Additionally, we performed an audit of specific balance sheet and income statement line items for AS Inbank Polish branch, Inbank Technologies OÜ, Maksekeskus Holding OÜ and Inbank Liising AS.

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

Other information

The Management Board is responsible for the other information. The other information comprises Management report and Profit allocation proposal (but does not include the consolidated financial statements and our auditor's report thereon).

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

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

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

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

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

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

Auditor’s responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of AS Inbank on 29 March 2017 for the financial year ended 31 December 2017. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for AS Inbank of 3 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of AS Inbank can be extended for up to the financial year ending 31 December 2036.

AS PricewaterhouseCoopers

/signed/

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

/signed/

Evelin Lindvers
Auditor's certificate no.622

6 March 2020

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

* *This independent auditor's report (translation of the Estonian original) should only be used with an annual report initialled for identification purposes by AS PricewaterhouseCoopers.*

Profit allocation proposal

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

- EUR 10 007 thousand to retained earnings;
- EUR 3 thousand to statutory reserve.