# 2020 Annual Report

inbank

GENERAL INFORMATION

# Consolidated Annual Report

01.01.2020 – 31.12.2020

| | |
|---|---|
| Business name | Inbank AS |
| Address | Niine 11, 10414 Tallinn, Estonia |
| Registration date | 05.10.2010 |
| Registration code | 12001988 (Commercial Register of the Republic of Estonia) |
| Legal entity identifier | 2138005M92IEIQVEL297 (LEI-code) |
| VAT number | EE101400240 |
| Phone | +372 640 8080 |
| Email | info@inbank.ee |
| Website | www.inbank.ee |
| Auditor | PricewaterhouseCoopers AS |

## Supervisory Board

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

## Management Board

Jan Andresoo, Chairman of the Management Board
Benas Pavlauskas
Piret Paulus
Margus Kastein
Maciej Pieczkowski
Marko Varik
Jaanus Kõusaar

This is an unofficial translation into English.
The bank does not hold any ratings provided by international rating agencies.

# Contents

# Simplifying everyday life by seamlessly merging financing with shopping

Inbank designs digital financial products that seamlessly merge financing and payments with shopping ultimately empowering people to improve their quality of life.

Our unparalleled knowledge in credit underwriting, regulatory environment and technology, enable us to design digital financial products that are fully integrated into the merchants' business processes. This helps our merchant partners to grow their business while end customers get to benefit from a frictionless shopping experience with individual payment methods to choose from.

**€980m**
VOLUME FINANCED

**690,000+**
ACTIVE CONTRACTS

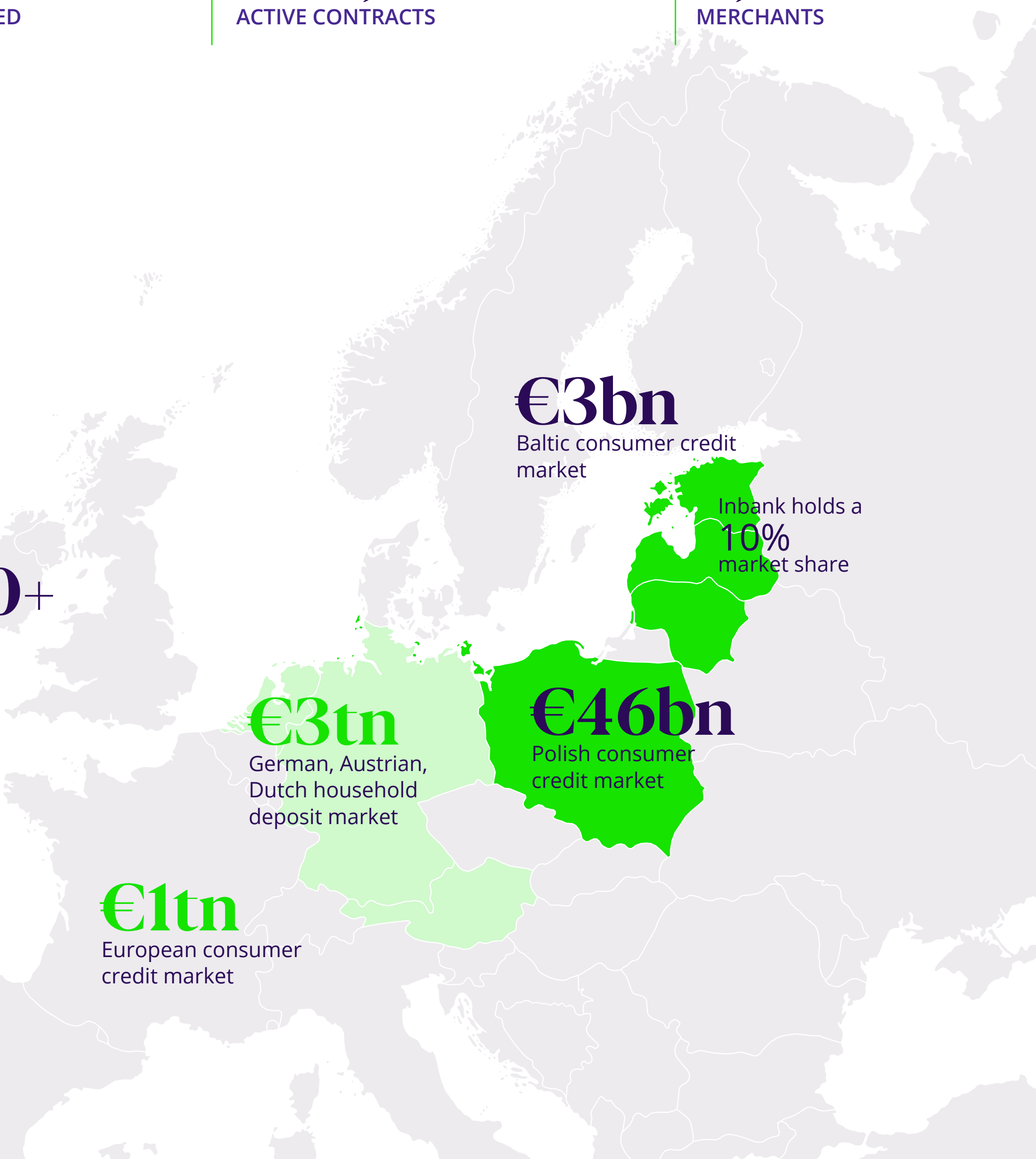
**3,800+**
MERCHANTS

Inbank operates in the Baltic and Polish consumer finance markets and accepts deposits from Germany, Austria and the Netherlands. We are a team of 240+ people working across our offices in Tallinn, Riga, Vilnius, Kaunas, Klaipeda, Warsaw and Gdansk.

**240+**
people

**7**
offices

**4**
countries



# Key financial indicators and ratios

In millions of euros (€)

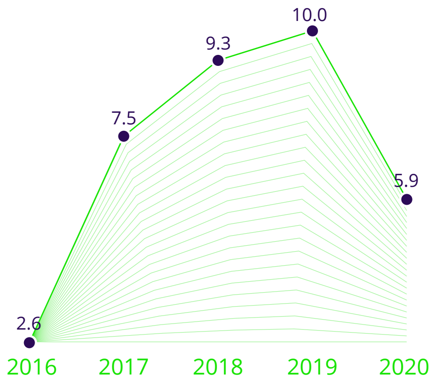
| Key financial indicators | 2018 | 2019 | 2020 | |
|---|---|---|---|---|
| Total income | 21.4 | 32.0 | 34.8 | +9% |
| Net profit | 9.3 | 10.0 | 5.9 | -41% |
| Total assets | 318.0 | 462.8 | 490.0 | +6% |
| Equity | 36.5 | 47.3 | 61.2 | +30% |
| Loan portfolio | 225.6 | 338.2 | 402.2 | +19% |
| Deposit portfolio | 240.2 | 377.5 | 391.3 | +4% |

| Ratios | 2018 | 2019 | 2020 |
|---|---|---|---|
| Return on equity | 31.9% | 23.9% | 10.8% |
| Return on total assets | 4.2% | 2.6% | 1.2% |
| Net interest margin | 9.5% | 8.4% | 7.8% |
| Impairment losses to loan portfolio | 1.7% | 2.1% | 3.1% |
| Cost/income ratio | 49.9% | 49.9% | 49.7% |
| Equity to total assets | 11.5% | 10.2% | 12.5% |

Net profit

**€5.9m**

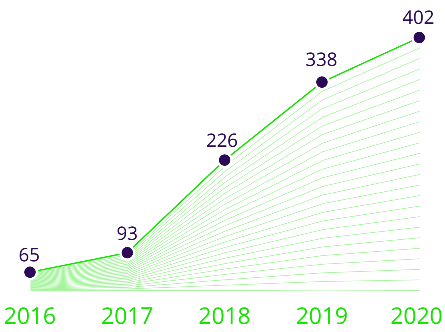
-41% year-on-year




Loan portfolio

**€402m**

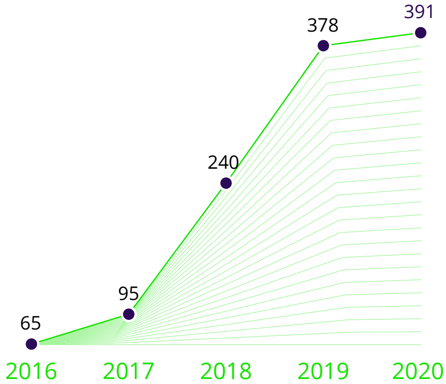
+19% year-on-year




Deposit portfolio

**€391m**

+4% year-on-year



# Message from the Chairman

> Looking back at 2020, we have many reasons to be proud. We have navigated the crisis well.

2020 was a significant year for Inbank in many ways. While we celebrated our 10th anniversary, Inbank also had to deal with the first crisis since inception. With a challenging but highly productive last year behind us, we are looking forward to more accelerated international growth in years to come.

The global pandemic and subsequent lockdowns have severely hit some sectors of the economy in our home markets. As partner to more than 3,800 merchants and to nearly 500 000 customers, Inbank has felt the impact of COVID-19 across all our operations. With the first shock from mid-March till mid-May we lost a significant amount of our sales and with unemployment rising by more than 50% in the Baltics, we suffered our first year of increasing credit costs as a share of credit portfolio since 2016. Nevertheless, unprecedented and co-ordinated responses from governments and central banks have kept the global economy and trade afloat. Ingenuity and agility among entrepreneurs has in fact secured a rapid response to the new situation and e-commerce has flourished in all corners of the world. Despite a challenging year, the Inbank loan portfolio grew by nearly 20% and we made 5.9 million euros profit in 2020. Our sales finance and e-commerce business drove growth during the second half of the year.

Looking back at 2020, we have many reasons to be proud. We have navigated the crisis well. We launched Inpay, a new generation payment app with credit card, and Indivy, a Buy Now Pay Later solution to meet the expectations of future merchants and consumers alike. We were able to raise 8 million euros in new equity during turbulent times and adjusted our organisation for product-focused international growth.

These were all solid achievements. But 2020 was also a year of meaningful milestones. On 5 October Inbank celebrated its 10th birthday and we also marked our 5th anniversary as an EU licensed bank. Looking back at those times, we started with 7 people in a small office in Tallinn. By the time we received our banking license on 11 April 2015, we had a loan portfolio of 17 million euros. Today, we operate in 7 offices in Estonia, Latvia, Lithuania and Poland, and Inbank is present in 7 European countries. Our loan portfolio at the end of 2020 reached 402 million euros. In the last 10 years we have financed nearly 1 billion euros worth of purchases.

But as always, we prefer to look forward. These last 10 years as entrepreneurs have taught us to position Inbank for the future. To become even more relevant in more markets, we need to understand how retail financial services will be best delivered to customers. And then position our capabilities and organizational focus at the crossroads of these trends. So what are we betting on?

- Banking is unbundling and financial services are moving outside banks: Inbank is enabling financing and payments for customers where and when they need it in shops or online with a seamless and automatic solution.
- Financing and payments are merging, with the adoption of new Buy Now Pay Later services soaring: Inbank is well-positioned to take advantage of this trend through the Indivy and Inpay platforms and our 30% stake in a leading Baltic PSP, Maksekeskus.
- Growth of digitalisation and e-commerce is accelerating in a post-covid era: building on the Estonian digital infrastructure, Inbank is taking advantage of our experience in designing digital processes to help our merchants sell more and our customers to buy more conveniently.

> We believe that secular trends in our industry are clearly in Inbank's favour.

With these trends in the back of our mind, Inbank is ready to take the next step in our growth through 2021 and beyond. While there is still some uncertainty in beating the virus and the consequent macroeconomic development, we believe that secular trends in our industry are clearly in Inbank's favour. As a result, we continue to invest in rolling out our latest products to more partners and customers in existing and new markets. Our current and future success would not be possible without all the hard-working Inbankers, who have helped to build this company. We remain committed to motivating and hiring the best talent to drive the vision of Inbank forward.

If 2020 was a year of laying foundations for international growth, then 2021 will be a defining year of broadening Inbank's footprint in retail financial services in Europe. This growth will be challenging and it will take some time, but we believe in the value of our offering and are excited about taking our products to many more merchants and customers. As a company we love to be part of writing a new chapter in retail banking and developing better financial services for an emerging society.

Priit Põldoja
*Chairman of the Supervisory Board, Founder*

MANAGEMENT REPORT

# Statement of the CEO

2020 was an extraordinary year for the whole world. The global health crisis has left a huge mark and will affect the lives of all of us for a long time to come. The coronavirus crisis certainly had a major impact on Inbank's operations.

Inbank has always been fast growing and development oriented. Rapid growth itself is a positive source of tension that keeps the entire organisation under pressure and requires dedicated and focused leadership. The more the organisation grows, the more complex it becomes. The coronavirus added a high-impact and unpredictable variable to the equation. Considering all this, it must be said that we did well in this difficult year.

> "At times like these, it becomes very clear that our business model is indeed digital and allows us to operate in a completely new situation without problems.

### The coronavirus brought about a new reality

I well remember the moment when the first coronavirus wave arrived in Europe. Events developed very fast and, at the beginning of March, almost all countries declared a state of emergency. We, too, quickly reorganised our operations and switched completely to remote mode. I was proud to see how we were able to mobilise our forces and change the way the whole organisation works in a very short time. At times like these, it becomes very clear that our business model is indeed digital and allows us to operate in a completely new situation without problems.

Initially, we did not know how the economic closure would affect our business. As all physical stores were closed, sales volumes in all product lines fell sharply from mid-March to mid-May. However, the new reality brought about a powerful change – soaring growth in e-commerce. The closure of physical

stores gave many merchants the last impetus to develop their online stores rapidly. The sales growth in digital channels was impressive, but unfortunately it did not compensate for the decrease in total turnover. However, the change in consumer behaviour is here to stay – we will certainly continue to see strong growth in e-commerce around the world.

## Poland continues to drive sales growth

Given the context, we can say that we reached a decent sales result. Our credit product sales reached above 300 million euros in 2020, which is 4% more than in 2019. The fact that we were able to increase sales in such a difficult year is a very good result in itself. Going into more detail, the Polish business unit played a major role in the good results, as sales in Poland went up by as much as 105% compared to the previous year - total sales volume in Poland was 92 million euros. I consider 2020 to be a breakthrough year for the Polish unit, and it can be said that we have finally found the right strategy and our niche: we compete in terms of products and innovation. In other markets, we were unable to exceed the previous year's sales volumes.

The second significant change compared to 2019 was the sales structure of the products. Sales finance continued to grow, and green financing emerged strongly as a new segment. As a result of the crisis, personal loan and car loan products fell sharply. We anticipated this, because an uncertain environment does not encourage taking on new liabilities and, consequently, people are more cautious in their decisions. We also adjusted the risk model of our loan products in the spring to be more conservative. In all markets, our sales finance business grew by 38% to 206 million euros. At the same time, the sales volume of personal loans decreased by 51% to 36 million euros, while car financing decreased in sales volume by 11% to 58 million euros.

### Credit risk

Due to the restrictions on economic activity, it is difficult to predict how companies will cope in the new circumstances. From our point of view, the labour market situation and unemployment indicators are very important. If companies go out of business, this should presumably be followed by an increase in unemployment, which in turn means an increase in credit losses for banks. The coronavirus crisis is so all-encompassing that it cannot be seen as a challenge concerning only individual companies. Governments also realised the need to support the economy during this exceptional period and quickly put in place aid packages to alleviate the impact of the crisis on businesses and individuals. I believe that the measures taken so far have been effective and appropriate. Nevertheless, the unemployment rate has risen to 8.4% in the Baltics and 6.2% in Poland. These levels are clearly higher than before the crisis. At the same time, current data suggest that the coronavirus crisis had a larger impact on employment during the spring wave. The impact of the winter wave has so far been more limited.

Inbank joined the moratoria on loan repayments initiated by the European Banking Authority in the spring. At Inbank, customers took the opportunity to change their repayment schedules for a total of 18 million euros following the announcement of a state of emergency. However, given our 402 million euro loan portfolio, this amount was lower than expected. A large share of the customers that took a repayment holiday preferred a three-month period. Today, we can state that at the beginning of 2021, 83% of the customers that changed their repayment schedules returned to servicing their loans as usual; 11% of customers have had to extend the repayment holiday and 6% have failed to make payments. The latter is also the reason why we had to report higher than long-term average loan losses in the fourth quarter.

> Even in a difficult year like 2020, the probability of default on our performing portfolio has been showing a declining trend.

However, if we look at payment behaviour statistics for the whole portfolio, it must be said that the situation is rather good. Even in a difficult year like 2020, the probability of default on our performing portfolio has been showing a declining trend. This has also been positively affected by the change in the sales structure – during the crisis, the share of personal loans in the portfolio decreased, while the share of lower-risk sales finance increased.

Another important area in terms of credit costs is the sale of past due claims. We saw that the coronavirus crisis caused a difficult situation in this market and some companies specialising in purchasing past due portfolios were unable to fund themselves. The changed circumstances  in turn led to a decline in the price of past due claims in the market. This was important for Inbank because we have not considered this area of competence to be strategically important, and therefore we have sold our non-performing portfolios to specialised companies throughout our operations. However, in the situation of reduced competition and the declined price of past due claims, we were able to enter into a new agreement, which fixed the terms and conditions of past due portfolio sales in the Baltic countries for the next two years. Although at prices lower than in previous transactions, this agreement is an important guarantee of stability for us in periods to come. In light of this transaction, we reported remarkably higher credit losses in the second and third quarters. This was due to the need to align the value of the performing credit portfolio with new market conditions.

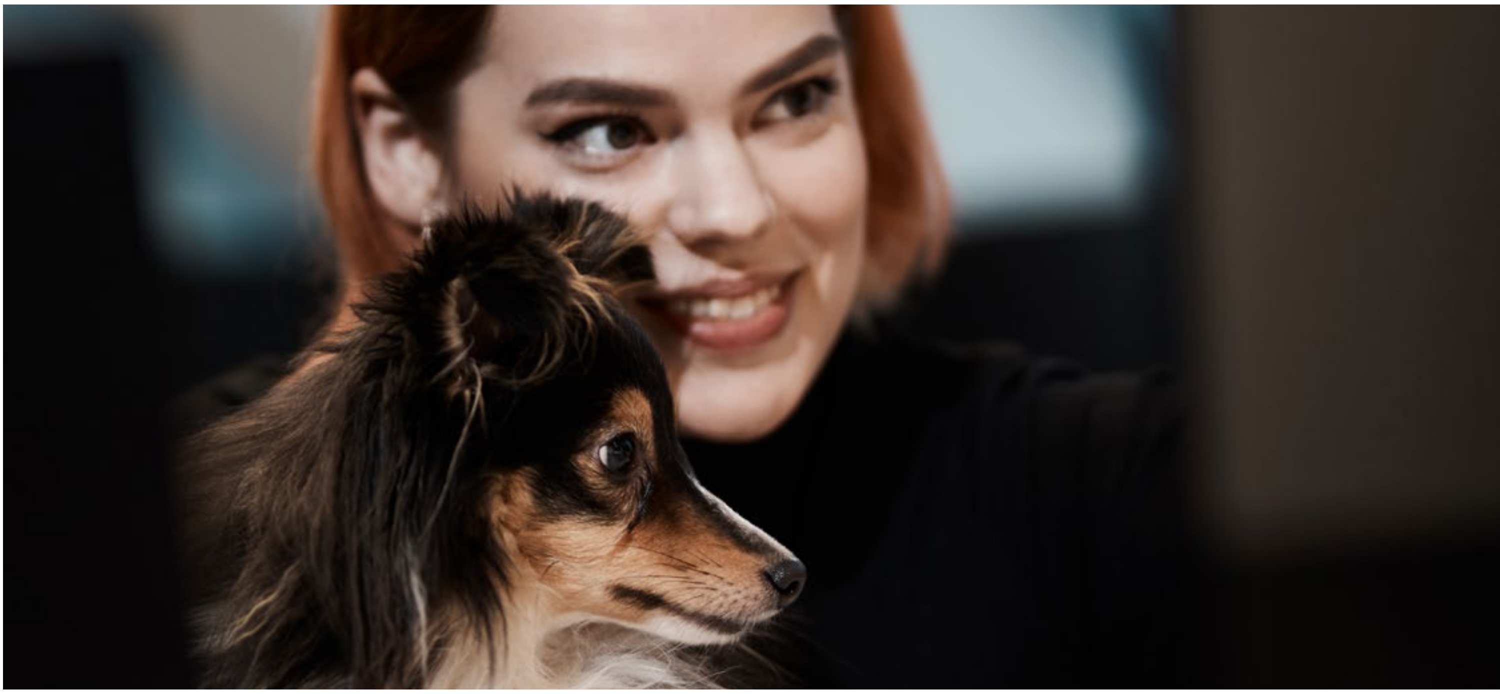
We remain somewhat cautious in our outlook for the future. The performing portfolio (not in past due or past due up to 30 days) provision coverage for expected loan losses has increased from 1.02% to 1.31% in 2020. This means additional provisions of 1.1 million euros calculated on the portfolio size as of 31 December 2020. The increase in provisions is due, on the one hand, to changes in the past due claims market described above. On the other hand, it is also due to the creation of a macroeconomic overlay aimed at mitigating the effects of a possible deterioration of the environment and portfolio quality during forthcoming periods. Overall, this means that we have included further deterioration of the loan portfolio in our 2020 financial results. However, the information collected on the portfolio does not currently reflect this tendency.

"This means additional provisions of 1.1 million euros calculated on the portfolio size as of 31 December 2020.

## Product development

At the beginning of 2020, we set the goal of further developing the Buy Now, Pay Later solutions, and in the spring we launched the Indivy product family in Estonia, which includes two payment methods free of charge for customers. The timing could not have been better – the rapid growth of e-commerce during the crisis certainly justified the investments made in product development. We will continue to contribute to the growth of e-commerce in 2021, and our main task is to ensure convenient plug-in integration, which will allow merchants to start using the new solution with little effort and thereby boost their sales. We also plan to launch the Indivy product family in our other home markets in 2021 and, if the expansion is successful, enter new markets.

In addition, in the third quarter we launched the credit card product Inpay, a payment app and card especially designed for everyday purchases. Nothing innovative has been done in the Estonian credit card market for the last ten years and we found that the market was ripe for a new and significantly better product. Inpay is the first product in Estonia to give the customer cash back on purchases. Along with the new payment solution, we also launched a 14-gram metal card. As the functionality of the app is constantly evolving, we can continue to introduce new and unique features. Currently, we offer Inpay only in Estonia, while we plan to extend it to other Baltic markets.



## A new and more international organisation

Since its foundation, Inbank has been product-based, in other words, we have focused on offering specialised products. As we expanded to new markets, a country dimension was added to the formula. Since our ambition is to continue to expand to new markets, we realised that country-centric operations hamper rapid growth. Even though our activities and products were the same in all countries, it was still difficult to use the knowledge and experience to expand into new markets. We saw a solution in the introduction of a new, product-based organisation.

In the new organisational model, product unit managers are responsible for performance in all markets. From 1 July, the new organisation has three core cross-border business units: sales finance, now led by Benas Pavlauskas; car financing, led by Margus Kastein; and consumer loans and cards, led by Piret Paulus. As an exception, we maintained separately the fast-growing Polish business unit, which will continue to be headed by Maciej Pieczkowski.

## Financial results

Although sales of credit products increased by only 4% in 2020, the loan portfolio grew by 19% over the year. The growth was mainly driven by the green sales finance in Poland, which has a longer-than-average repayment term and a higher amount of financing. Although new sales of loan and car products declined, it was sufficient to cover portfolio depreciation.

The change in the structure of Inbank's loan portfolio also led to a decrease in the margin. As a result, Inbank's revenue increased by 9% year-on-year, which is slower than portfolio growth. The effective interest rate of the portfolio decreased from 13.3% to 11.6% during the year. The main reason for this was the change in the sales structure – the sales finance sector increased and the share of loans decreased (historically, loan products have had a higher margin). In addition, the strong emergence of the Polish market had an impact. Poland has the strongest competition of all our markets, which is also reflected in our product pricing. Of course, we were familiar with the economics of the Polish market, and therefore a decrease in the margin was expected as sales volumes have increased. We see this trend continuing in the near future, but expect the margins to stabilise in the second half of 2021. On the other hand, the change in the sales structure should have a positive effect on credit costs, as sales finance has historically been a lower risk product. Unfortunately, in 2020 this effect was eliminated by the extraordinary cost of credit resulting from the corona crisis (the share of loan losses in the portfolio was 3.1%).

Our expenses to revenues ratio remained at the same level (49.7%); the 8% increase in expenses correlated with our revenue growth. In total, we earned a profit of 5.9 million euros in 2020 and the return on equity was 10.8%. Inbank's profitability has decreased compared to previous years, but given the current situation, it can be considered a very good result.

### Strong equity position

We can certainly be satisfied with the capital raising project – after the 8 million euro share issue in November, Inbank's equity amounted to 61.2 million euros. Our capitalisation, which was 18.6% as of 31 December 2020, is at its highest level for the past two years. As a fast-growing company with good growth potential, a strong equity position is an inevitable prerequisite for continued growth and entry into new markets.

### Goals for 2020 and their achievement

The main goals for 2020 were related to two major areas: product development and the new organisation. It must be admitted that we were not able to achieve everything we planned. In particular, international activities, which were hampered by the coronavirus pandemic, suffered a setback. We were able to technologically develop the Indivy platform and Inpay payment app, but we introduced them only to the Estonian market. The car financing unit was set up as part of the new organisational structure, but the desired growth was not achieved due to the shrinking car sales market and the travel restrictions due to the pandemic.

| Strategic priorities for 2020 | Assessment of achievement |
|---|---|
| New Buy Now, Pay Later solutions complement sales finance offers | In the first half of 2020, we launched the Buy Now, Pay Later product category under the Indivy brand. The product range includes two free payment methods for the customer: one that allows you to pay in three equal instalments, and another one that allows you to pay for the goods next month. Therefore, Indivy has the necessary infrastructure (self-service environment in the online store, a portal for physical transactions and a notification engine) and functionality (individual payment methods) to successfully scale these products. |
| Payment card and app launches | In the second half of the year we launched the payment app and card Inpay with a cashback based loyalty programme and a metal card. We plan to continue developing the app and introducing new and unique features. Currently, we offer Inpay only in Estonia, but plan to extend it to other Baltic markets. |
| Develop a car financing product and grow beyond home markets | Due to the global pandemic, we did not expand into new markets in 2020, but expanded by way of a strategic investment. In order to strengthen our position in the car financing market and to enter the innovative business model of subscription based car rental, we decided to acquire a 53% stake in Mobire, a full-service vehicle rental company. The transaction was completed in January 2021. |
| Move to a product-centric organisational model that supports a scalable business model and international growth | The new organisational structure was launched in July and the project was implemented as planned. It was a major change, but the new way of operating has united the organisation and significantly improved communication. This creates a very good basis for further growth and expansion into new markets. |
| Involve new investors and increase the company's market value | In November, we issued 516,130 new shares to 28 existing shareholders and new investors for a total of 8 million euros. The issue share price was 15.50 euros, and the market value of Inbank's equity after the issue was 149 million euros. |

## Inbank 10

This year marks the 10th anniversary of our organisation. Looking back on that time, we must admit that we could not have predicted our achievements even in our boldest dreams. More importantly, we have been able to create a viable and development-oriented organisational culture. Every year, dozens of talented Inbankers join us and carry our values. Being result-oriented, smart and open is the foundation of our culture.

In addition to people, we have always maintained our strategic focus on building solutions that help our partners sell more and people to buy flexibly and conveniently. We are pleased to see that even in difficult times, we can grow our business and gain market share. This shows that our solutions add value. From designing business processes to technological implementation, plus innovative sales and marketing – this is the key to our success.

Thank you to all our people and partners for being with us during this journey.

**Jan Andresoo**
*Chairman of the Management Board, Founder*


# Products and business volumes

Inbank provides digital financing solutions that are fully integrated into the shopping experience be it online or in stores. By simplifying transactions, we drive merchants' revenue growth and empower customers to improve their quality of life.

### Sales finance and pay later

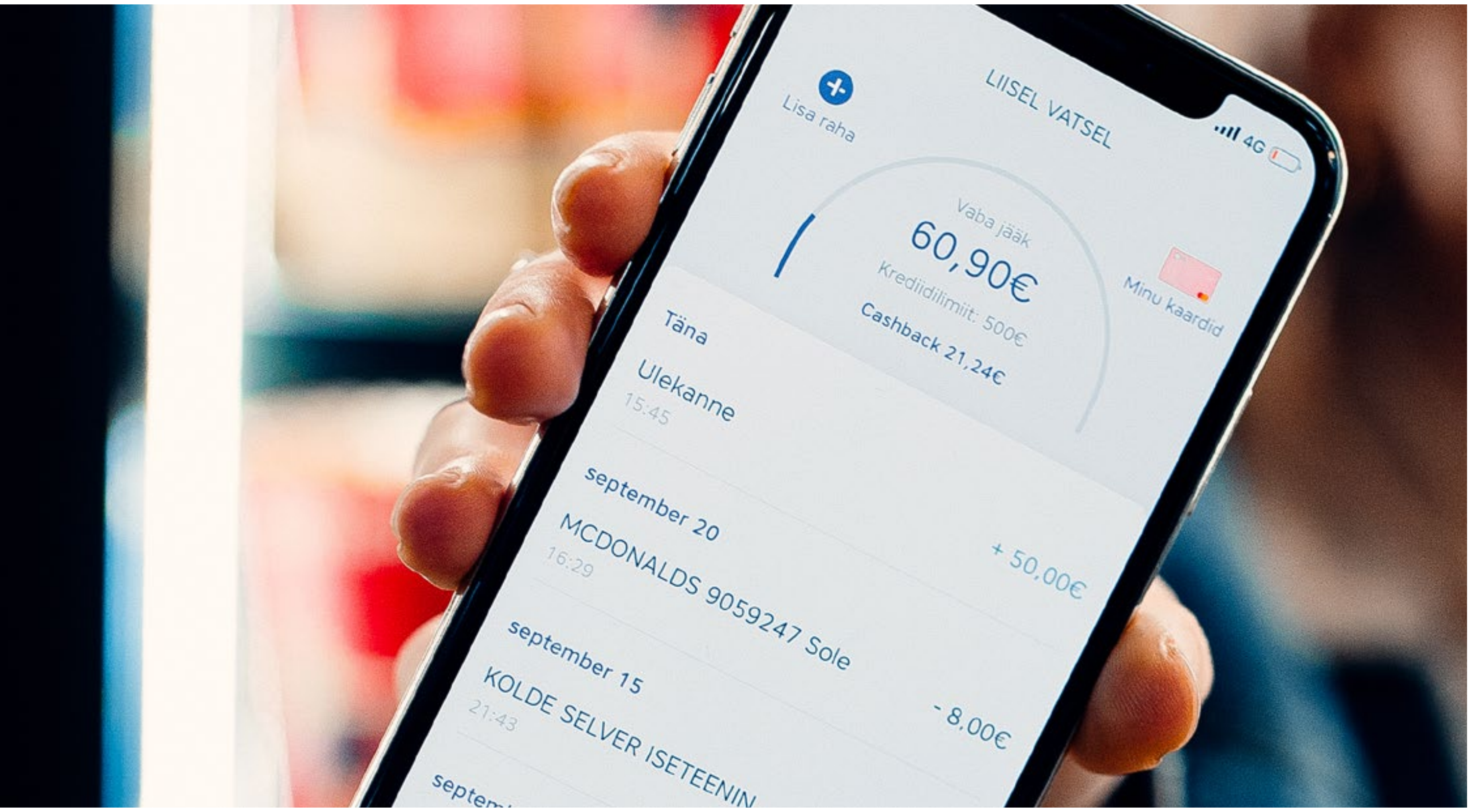
Offering sales finance and new generation pay later products through a unique distribution network of more than 3,800 merchants and platforms have been in the core of our business since inception. Sales finance solutions remain our key customer acquisition drivers and fastest-growing business segment with 370,000 new contracts sold in 2020.

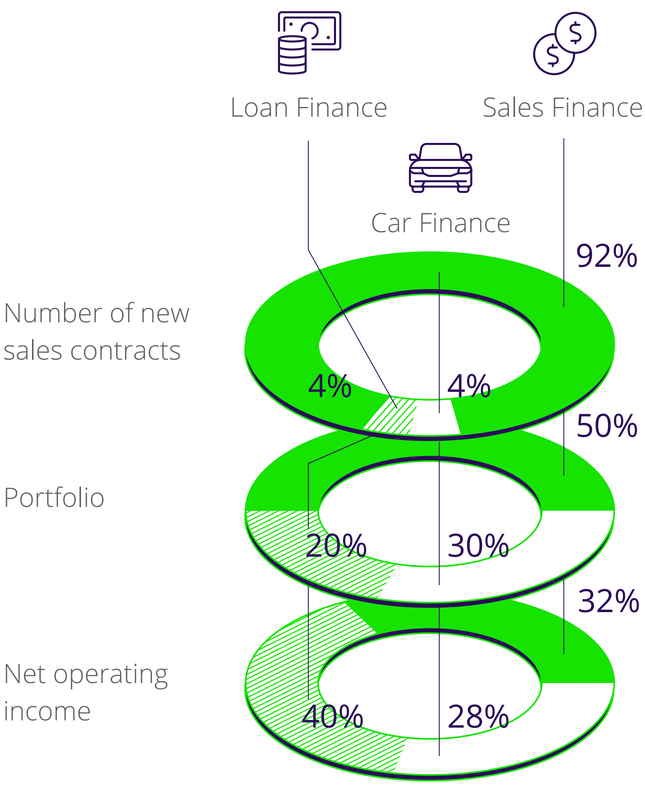
With the launch of Indivy Buy Now Pay Later platform in Q2 2020, we are well positioned to capitalise on the surge in e-commerce following the changes in consumer behaviour brought on by the COVID pandemic.

### Car finance

Our digital car financing solutions are offered through exclusive partnerships with leading Baltic and Polish car sales portals. With this highly scalable platform, we see an opportunity to partner with car classified sites all across Europe.

We also see considerable potential in the subscription-based business model. To tap into this opportunity and to strengthen our position in the Baltic car financing market, Inbank entered



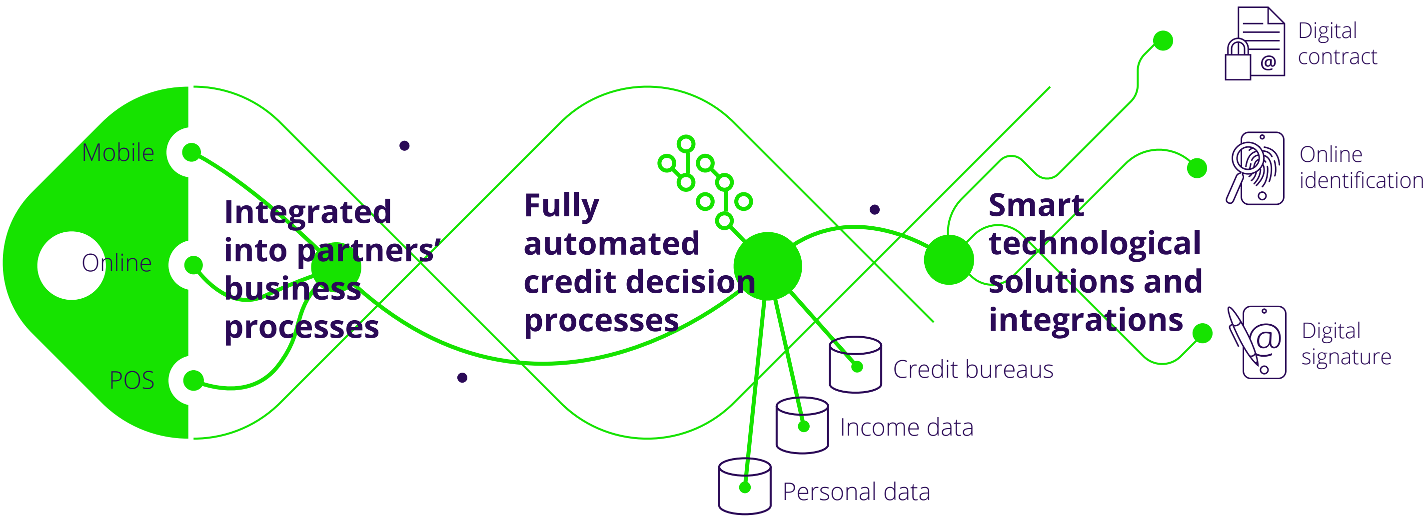

into an agreement to acquire a majority stake in full-service vehicle rental company Mobire in Q4 2020. With over 2,300 vehicles in its portfolio, Mobire is a good fit to the portfolio supplementing our offering in our home markets Estonia, Latvia and Lithuania.

## Personal loans and cards

The multi-purpose personal loans are important profit drivers via cross-selling and until recently, our main B2C products. In Q3 2020, Inbank launched its mobile-first credit card and app Inpay that offers cashback as its core feature.

Inpay is targeted to capture the digital payments trend with its contemporary mobile app complete with Apple Pay and Google Pay. In addition to its unique cashback loyalty program, Inpay boasts a 14-gram contactless

# Tech-enabled automated platform




At Inbank, we develop highly scalable technology by combining world-class cloud computing and third-party solutions with our own proprietary core technology. Our credit decisions are made in seconds with around 90% of customer contracts concluded automatically online or at stores.

# Business volumes

In thousands of euros (€)

| | Sales Finance | | | Car Finance | | | Loan Finance | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2018 | 2019 | 2020 | 2018 | 2019 | 2020 |
| Volume of new sales | 108,567 | 149,747 | 206,323 | 29,074 | 51,135 | 45,190 | 64,937 | 87,090 | 48,723 |
| New sales of contracts (number) | 303,772 | 349,263 | 380,351 | 6,299 | 10,207 | 8,324 | 27,295 | 30,204 | 14,991 |
| Average new sales contract amount | 389 | 466 | 568 | 5,750 | 6,293 | 6,790 | 1,855 | 2,255 | 2,289 |
| Average effective interest rate of new sales | 13.2% | 11.8% | 8.3% | 12.1% | 11.5% | 10.2% | 21.0% | 19.0% | 18.9% |
| Average period of new sales (months) | 25 | 26 | 41 | 59 | 61 | 62 | 51 | 55 | 53 |
| Volume of credit portfolio | 98,402 | 140,080 | 197,746 | 58,879 | 97,150 | 115,514 | 58,771 | 87,586 | 77,397 |
| Number of credit contracts in portfolio (items) | 361,995 | 519,185 | 626,232 | 15,532 | 24,721 | 24,863 | 36,183 | 44,132 | 42,270 |
| Average value of contracts in portfolio | 272 | 270 | 316 | 3,791 | 3,930 | 4,646 | 1,624 | 1,985 | 1,831 |
| Average effective interest rate of portfolio | 13.0% | 11.5% | 7.6% | 12.6% | 11.7% | 10.6% | 21.3% | 19.7% | 17.7% |
| Share of portfolio in 90+ days overdue | 0.7% | 0.5% | 0.5% | 0.6% | 0.3% | 0.2% | 1.6% | 0.9% | 0.9% |
| Share of portfolio in 180+ days overdue | 0.4% | 0.2% | 0.3% | 0.4% | 0.1% | 0.2% | 0.8% | 0.4% | 0.6% |

* VOLUMES ADJUSTED FOR 2018 AND 2019

# Governance

## Supervisory Board

The Inbank Supervisory Board consists of five members.

Priit Põldoja
CHAIRMAN

Rain Rannu

Roberto de Silvestri

Triinu Reinold

Raino Paron

## Management Board

The Inbank Management Board consists of seven members.

Jan Andresoo
CHAIRMAN

Benas Pavlauskas

Piret Paulus

Margus Kastein

Maciej Pieczkowski

Marko Varik

Jaanus Kõusaar

## 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, Management 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 for Inbank and customer satisfaction and rely on prudentially sound and efficient risk management. The personnel remuneration mechanism supports the business strategy, goals, values and long-term interests of Inbank. The remuneration is based on the individual contribution of Inbank employees, their 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 the non-payment of performance pay, if necessary. The performance pay is based on the combination of the performance of employees and the business unit and the overall performance of Inbank.

External consultants are not involved in determining remuneration policies. Options for acquiring a total of 375,000 shares have been issued, of which 145,000 are issued to members of the Management Board and 50,000 to members of the Supervisory Board (see Note 22). These Option contracts will be realised in 2021 and 2022. In 2020 there were 3 occasions when Option contracts were realised.
Inbank proceeds from the provisions of the Credit Institutions Act in determining severance payments. No severance payments were paid in 2020.

## 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. Inbank's articles of association do not grant specific controlling or voting rights to different types of shares.

The General Meeting of Inbank is called by the Management Board. Ordinary General meetings are announced to the shareholders at least three weeks before and an extraordinary General Meeting – at least one week before.

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 acknowledgement of receipt has been attached to the letter, e-mail or fax. Inbank can also make decisions without calling a General Meeting.

One ordinary and one extraordinary General Meeting of the shareholders was held in 2020.

Inbank does not implement clause 1.2.2 of the Code 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 from 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 implement 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 email and all the information required is made available to all shareholders by email.

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, shareholders will be given an English translation on request.

In addition, Inbank has not implemented 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 shareholders and is well informed as the Chairman of the Supervisory Board of Inbank, it is not necessary for 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 Supervisory Board depends on the topics covered in the meeting; the Chairman of the Management Board and the Management 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 the meetings did not address issues that would require the auditor to attend.

Inbank is able to ensure participation in the General Meeting through means of telecommunication (clause 1.3.3 of the Code).

### 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 has changed in 2020 from five to seven and currently consists of seven members (three to seven members according to the articles of association), elected by the Supervisory Board for a period of three years. The Management Board members are:

- Jan Andresoo – Chairman 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;
- Benas Pavlauskas - Member of the Management Board;
- Margus Kastein - Member of the Management Board;
- Maciej Pieczkowski - Member of the Management Board;

Liina Sadrak left the Management Board in 2020. Benas Pavlauskas, Margus Kastein and Maciej Pieczkowski became members of the Management Board in 2020. Number of shares and share options held 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 | 0 | 1,041,875 | 25,000 |
| Marko Varik | 0 | 119,570 | 20,000 |
| Piret Paulus | 0 | 124,000 | 20,000 |
| Jaanus Kõusaar | 0 | 9,750 | 20,000 |
| Benas Pavlauskas | 0 | 0 | 30,000 |
| Margus Kastein | 0 | 1,750 | 30,000 |
| Maciej Pieczkowski | 81,000 | 0 | 0 |

Inbank does not implement clause 2.2.7 of the Code recommending to disclose 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 25 in the total amount of remuneration paid to members of the senior management, Management and Supervisory boards' members. In addition, this is private information and disclosing it is not inevitably necessary in order to assess the activities of Inbank. Inbank does not implement 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 the remuneration of the Management Board during 2020.

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 25 and are entered into under 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:

- Piret Paulus: Member of the Supervisory Board of Inbank Latvia SIA;
- Benas Pavlauskas: Member of the Supervisory Board of Inbank Latvia SIA;
- Jaanus Kõusaar: Member of the Management Board of Inbank Latvia SIA and Inbank Payments OÜ, Maksekeskus Holding OÜ.

The members of the Management Board have not received any severance payments in 2020.

## Supervisory Board

Inbank's Supervisory Board plans the activities of Inbank, gives instructions to the Management Board for the organisation of the management of Inbank, supervises the activities of Inbank and its Management Board as well as takes decisions on matters set forth in the 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 2020, there were 17 Supervisory Board meetings and in 10 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 2020.

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 the 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.

A 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 the 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 | 25,000 | 1,160,359 | 25,000 |
| Roberto de Silvestri | 794,800 | 0 | 15,000 |
| Rain Rannu | 18,000 | 88,500 | 0 |
| Triinu Reinold | 0 | 38,400 | 0 |
| Raino Paron | 0 | 0 | 10,000 |

Priit Põldoja, Rain Rannu and Triinu Reinold are the members of the Supervisory Board who receive remuneration. Inbank does not consider it 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 the Supervisory Board is not significant to Inbank's financial results. The remuneration paid to the members of the Supervisory Board is disclosed in Note 25 in the total amount of remuneration paid to senior management, and members of the Management and Supervisory boards. 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 25 and are entered into under 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 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 strategic guidance from the Supervisory Board in the decision-making process at Inbank and periodically discusses strategic management issues with the Supervisory Board.

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

Recruitment of the members of 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, Inbank relies on the relevant internal procedures.

The recruiting body evaluates the suitability of the new member. The candidate shall meet the requirements arising from laws and regulations, complement the management body in terms of knowledge, skills and experience, have sufficient time to perform his or her duties and be competent to fulfil the responsibilities of a member of the management body. The suitability of new members of the management is considered by examining their reputation, experience and expertise, skills, managerial suitability in terms of risk, conflicts of interest and unbiasedness, and any other factors that might be relevant at the time.

Inbank relies on the principle of diversity in selecting the members of management bodies, which ensures that the management 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 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 also published in Estonian. 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 an overview of Inbank's team (incl. Management and Supervisory boards). 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 its 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). The 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 to the shareholders signed by the members of Management and the Supervisory boards – clause 6.1.1 of the Code). The General Meeting has selected PricewaterhouseCoopers AS (registry code 10142876) as the auditor for the financial year 01.01.2020 – 31.12.2020. Inbank follows the auditor rotation principle.

The auditor has provided other assurance services to Inbank in 2020, 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.

# Explanations of ratios and terms

| | |
|---|---|
| Return on equity | Net profit attributable to owners of the parent / total equity attributable to owners of the parent (average over the period) |
| Return on total assets | Net profit attributable to owners of the parent / total assets (average over the period) |
| Net interest margin | Net interest income / interest-bearing assets (average over the period) |
| Impairment losses to loan portfolio | Impairment losses on loans / loan portfolio (average over the period) |
| Total income | Total net interest, fee and other income |
| Cost/income ratio | Total operating expenses / total income |
| Equity to total assets | total equity attributable to shareholders of parent company / total assets |

# Consolidated financial statements

# Consolidated statement of financial position

| In thousands of euros | Note | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| **Assets** | | | |
| Due from central banks | 10 | 27,445 | 83,080 |
| Due from credit institutions | 10 | 19,784 | 20,655 |
| Investments in debt securities | 11 | 13,618 | 0 |
| Loans and advances | 4; 8; 24 | 402,212 | 338,157 |
| Investments in associates | 12 | 4,026 | 3,276 |
| Tangible assets | | 833 | 840 |
| Right of use asset | 13 | 1,157 | 773 |
| Intangible assets | 14 | 16,139 | 11,721 |
| Other financial assets | 15 | 1,350 | 1,692 |
| Other assets | 15 | 1,297 | 588 |
| Deferred tax asset | 9 | 2,170 | 1,985 |
| **Total assets** | 4 | 490,031 | 462,767 |
| | | | |
| **Liabilities** | | | |
| Customer deposits | 16; 24 | 391,341 | 377,518 |
| Other financial liabilities | 19; 24 | 12,218 | 13,545 |
| Current Income tax liability | 19 | 864 | 269 |
| Other liabilities | 19 | 2,810 | 2,568 |
| Debt securities issued | 17 | 4,010 | 4,010 |
| Subordinated debt securities | 18 | 17,563 | 17,537 |
| **Total liabilities** | 4 | 428,806 | 415,447 |
| | | | |
| **Equity** | | | |
| Share capital | 21; 22 | 961 | 903 |
| Share premium | 21 | 23,865 | 15,908 |
| Statutory reserve capital | 23 | 90 | 88 |
| Other reserves | 23 | 1,438 | 1,463 |
| Retained earnings | | 34,871 | 28,958 |
| **Total equity** | | 61,225 | 47,320 |
| | | | |
| **Total liabilities and equity** | | 490,031 | 462,767 |

Notes set out on pages 39-110 form an integral part of the consolidated annual report.

# Consolidated statement of profit and loss and other comprehensive income

| In thousands of euros | Note | 2020 | 2019 |
|---|---|---|---|
| Interest income based on EIR | 5 | 43,035 | 37,560 |
| Interest expense | 5 | -7,855 | -6,380 |
| Net interest income | | 35,180 | 31,180 |
| | | | |
| Fee income | 6 | 1,362 | 965 |
| Fee expense | 6 | -2,463 | -1,742 |
| Net fee and commission income | | -1,101 | -777 |
| | | | |
| Net gains from financial assets measured at fair value | | 0 | 743 |
| Other operating income | | 768 | 885 |
| Total net interest, fee and other income | | 34,847 | 32,031 |
| | | | |
| Personnel expenses | 7 | -9,207 | -8,026 |
| Marketing expenses | 7 | -1,557 | -2,583 |
| Administrative expenses | 7 | -4,223 | -4,084 |
| Depreciations, amortisation | 13; 14 | -2,334 | -1,301 |
| Total operating expenses | | -17,321 | -15,994 |
| | | | |
| Profit before profit from associates and impairment losses on loans | | 17,526 | 16,037 |
| | | | |
| Share of profit from subsidiaries and associates | 12 | 789 | 720 |
| Impairment losses on loans and advances | 8 | -11,546 | -6,049 |
| Profit before income tax | | 6,769 | 10,708 |
| | | | |
| Income tax | 9 | -867 | -698 |
| Profit for the period | | 5,902 | 10,010 |
| incl. Shareholders of parent company | | 5,902 | 10,010 |
| | | | |
| Other comprehensive income that may be reclassified subsequently to profit or loss | | | |
| Currency translation differences | | -219 | -53 |
| Total comprehensive income for the period | | 5,683 | 9,957 |
| incl. Shareholders of parent company | | 5,683 | 9,957 |

Notes set out on pages 39-110 form an integral part of the consolidated annual report.

# Consolidated statement of cash flows

| In thousands of euros | Note | 2020 | 2019 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | 5 | 43,258 | 37,316 |
| Interest paid | 5 | -5,938 | -4,481 |
| Fees received | 6 | 1,362 | 965 |
| Fees paid | 6 | -2,463 | -1,742 |
| Other income received | | 768 | 885 |
| Personnel expenses | 7 | -9,190 | -7,172 |
| Administrative and marketing expenses | 7 | -6,878 | -6,365 |
| Corporate income tax paid | | -693 | -3,296 |
| **Cash flows from operating activities before changes in the operating assets and liabilities** | | **20,226** | **16,110** |
| **Changes in operating assets** | | | |
| Loans and advances | | -77,416 | -114,999 |
| Mandatory reserve in central banks | | 1,812 | -2,613 |
| Other assets | | -552 | -3,123 |
| **Changes of operating liabilities** | | | |
| Loan from credit institution | | 0 | -10,429 |
| Customer deposits | | 11,905 | 135,047 |
| Other liabilities | | 287 | 3,797 |
| **Net cash from operating activities** | | **-43,738** | **23,790** |
| **Cash flows from investing activities** | | | |
| Investments in debt securities | | -13,627 | 0 |
| Acquisition of tangible and intangible assets | 14 | -6,142 | -5,179 |
| Acquisition of subsidiaries and associates | 12 | 334 | -2,472 |
| Net change of investments at fair value through profit or loss | | 0 | 3,819 |
| **Net cash used in investing activities** | | **-19,435** | **-3,832** |
| **Cash flows from financing activities** | | | |
| Share capital contribution (including share premium) | | 8,180 | 884 |
| Subordinated debt securities issued | | 0 | 8,000 |
| Debt securities issued | | 0 | 4,000 |
| Repayments of debt securities | | 0 | -10,000 |
| **Net cash used in financing activities** | | **8,180** | **2,884** |
| Effect of exchange rate changes | | 301 | -46 |
| **Cash and cash equivalents at the beginning of the reporting period** | 10 | **99,168** | **76,372** |
| Net increase/decrease in cash and cash equivalents | | -54,692 | 22,796 |
| **Cash and cash equivalents at the end of the reporting period** | 10 | **44,476** | **99,168** |

Notes set out on pages 39-110 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, 01.01.2019 | 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-con-trolling 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 |
| | | | | | | | | |
| Balance, 01.01.2020 | 903 | 15,908 | 88 | 1,463 | 28,958 | 47,320 | 0 | 47,320 |
| Paid in share capital | 58 | 7,957 | 0 | 0 | 0 | 8,015 | 0 | 8,015 |
| Share-based payment reserve | 0 | 0 | 0 | 194 | 13 | 207 | 0 | 207 |
| Statutory reserve capital | 0 | 0 | 2 | 0 | -2 | 0 | 0 | 0 |
| Total profit for the reporting period | 0 | 0 | 0 | 0 | 5,902 | 5,902 | 0 | 5,902 |
| Other comprehensive income | 0 | 0 | 0 | -219 | 0 | -219 | 0 | -219 |
| Balance, 31.12.2020 | 961 | 23,865 | 90 | 1,438 | 34,871 | 61,225 | 0 | 61,225 |

Notes set out on pages 39-110 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.

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) |
|---|---|---|---|---|---|
| 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 | | |
| Inbank Technologies OÜ | 05.06.2015 | Estonia | Hardware rental | 100 | 2,915 |
| Maksekeskus Holding OÜ * | 05.06.2015 | Estonia | Holding company | 100 | 3,276 |
| Inbank Payments OÜ | 27.08.2019 | Estonia | Holding company | 100 | 3 |
| AS Aktiva Portfolio | 21.07.2020 | Estonia | Debt collection management | 34 | 337 |
| Maksekeskus AS | 12.05.2016 | Estonia | Payment services | 30 | 3,689 |

* Maksekeskus Holding OÜ has 29.8% shareholding in Maksekeskus AS (associate). The associated companies Maksekeskus AS and AS Aktiva Portfolio are accounted for using the equity method.

In 2020 Inbank sold 100% of its subsidiary Inbank Liising AS. The transfer of ownership in Inbank Liising AS does not have a significant impact on the economic activities of Inbank AS.

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

# Significant accounting principles
## Basis of preparation
Inbank AS (hereinafter: the parent company) consolidated annual report for the year 2020 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.

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.

# 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 (LOANS AND DEBT SECURITIES)

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:

- 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.
- 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.
- 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

Inbank transfers substantially all the risks and rewards of ownership, or

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 is considered to be unbiased and probability weighted and takes into account:

- 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. Due to the economic uncertainty caused by the spread of COVID-19, the LGD assumptions have been changed during the reporting period based on the changed market environment for the sale of debt claims.

### 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, both acquired and internally generated, are amortised over their estimated useful lives (5-8 years) using the straight-line method. The amortization period for property and equipment is 2-5 years.

## 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:

- 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.
- 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 9 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%. Credit institutions pay 20% income tax on the part of the profit that exceeds 2 million euros. 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

All leases result in the lessee obtaining the right to use an asset at the start of the lease

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.

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.

## Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became effective for Inbank from 1 January 2020:

**Amendments to the Conceptual Framework for Financial Reporting** (effective for annual periods beginning on or after 1 January 2020).

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.

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

**Definition of a business – Amendments to IFRS 3** (effective for annual periods beginning on or after 1 January 2020).

The amendments revise the definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

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

**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.

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

Certain new or revised standards and interpretations have been issued that are mandatory for Inbank's annual periods beginning on or after 1 January 2020, and which Inbank has not early adopted.

**Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28** (effective date to be determined by the IASB; not yet adopted by the EU).

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction.

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

**Classification of liabilities as current or non-current – Amendments to IAS 1** (effective for annual periods beginning on or after 1 January 2022; not yet adopted by the EU).

These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

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

**Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1** (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU).

The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

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

Other new or amended standards or interpretations that are not yet effective are not expected to have a material impact on 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 includes business lines who are responsible for taking risks and managing them on a daily basis. The second line of defence is the risk management unit, 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 unit.

The compliance of all defined risk tolerance limits is reported at least quarterly to the Supervisory Board of Inbank AS by the risk management unit. Any limit breaches are escalated immediately.

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, credit institutions, central banks and central governments.

Inbank issues loans in four countries: Estonia, Latvia, Lithuania and Poland. It is important for Inbank to monitor credit risk by country, as credit risk is strongly related to what is happening in the economic environment, including legislation, which may differ in the markets of the portfolio countries. The allocation of Inbank's receivables portfolio by assets and countries is outlined in the following table.

## Allocation of assets exposed to credit risk by country

In thousands of euros

| 31.12.2020 | Estonia | Latvia | Lithuania | Poland | Total |
|---|---|---|---|---|---|
| Receivables from central banks | 16,973 | 0 | 0 | 10,472 | 27,445 |
| Receivables from credit institutions | 4,336 | 40 | 3,954 | 11,454 | 19,784 |
| Receivables from investments in debt securities | 13,618 | 0 | 0 | 0 | 13,618 |
| Receivables from households | 140,160 | 28,020 | 132,588 | 89,889 | 390,657 |
| Receivables from non-financial corporates | 2,489 | 0 | 179 | 0 | 2,668 |
| Receivables from other financial corporates | 4,680 | 0 | 0 | 0 | 4,680 |
| Other advances | 144 | 46 | 3,896 | 121 | 4,207 |
| Other financial assets | 19 | 29 | 1,275 | 27 | 1,350 |
| Total receivables | 182,419 | 28,135 | 141,892 | 111,963 | 464,409 |

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 investments in debt securities | 0 | 0 | 0 | 0 | 0 |
| 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 |

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.

## 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. By focusing on this, a high diversification of the loan portfolio and a low average loan amount have been achieved. 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

| 31.12.2020<br>Distribution of receivables | Gross receivables | Impairment allowance<br>Stage 1 | <br>Stage 2 | <br>Stage 3 | Net receivables | Impairment coverage |
|---|---|---|---|---|---|---|
| 0-3 days | 360,075 | -3,286 | -49 | -126 | 356,614 | 1.0% |
| 4-30 days | 27,698 | -1,722 | -51 | -124 | 25,801 | 6.8% |
| 31-89 days | 8,173 | -5 | -1,640 | -201 | 6,327 | 22.6% |
| 90-179 days | 1,238 | 0 | 0 | -711 | 527 | 57.4% |
| 180+ days | 6,677 | 0 | 0 | -5,289 | 1,388 | 79.2% |
| Total receivables | 403,861 | -5,013 | -1,740 | -6,451 | 390,657 | 3.3% |

In thousands of euros

| 31.12.2019<br>Distribution of receivables | Gross receivables | Impairment allowance<br>Stage 1 | <br>Stage 2 | <br>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% |

## Due from non-financial corporates and financial corporates

Inbank has issued also 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, risks related to the loans to corporates are mitigated by various collaterals.

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

| 31.12.2020 Distribution of receivables | Gross receivables | Impairment allowance Stage 1 | Stage 2 | Stage 3 | Net receivables | Impairment coverage |
|---|---|---|---|---|---|---|
| 0-3 days | 11,544 | -33 | 0 | 0 | 11,511 | 0.3% |
| 4-30 days | 4 | 0 | 0 | 0 | 4 | 0.0% |
| 31-89 days | 1 | 0 | 0 | 0 | 1 | 0.0% |
| 90-179 days | 9 | 0 | 0 | -2 | 7 | 22.2% |
| 180+ days | 35 | 0 | 0 | -3 | 32 | 8.6% |
| Total receivables | 11,593 | -33 | 0 | -5 | 11,555 | 0.3% |

In thousands of euros

| 31.12.2019 Distribution of receivables | Gross receivables | Impairment allowance 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% |

## Investments in debt securities

Limits on the credit risk of the debt securities are set according to the issuer in the Credit Committee. The principal and accrued interest receivables arising from the debt securities are not in arrears.

As at 31.12.2020, Inbank has invested in debt securities in the amount of 13.6 million euros (as at 31.12.2019, there were no investments made in the debt securities). According to Moody's short-term credit ratings, Inbank's debt portfolio measured at amortised cost is allocated accordingly:

# Investments in debt securities

| In thousands of euros | | | |
|---|---|---|---|
| Counterparty type | Credit rating | 31.12.2020 | 31.12.2019 |
| Central government | P-1 | 10,009 | 0 |
| Corporate | Not rated | 3,609 | 0 |
| Total investments in debt securities | | 13,618 | 0 |

Central government debt securities are high-quality liquid securities of the Republic of Estonia that can be easily sold or used as a collateral in the European Central Bank's open market operations, which is why Inbank classifies them as liquid reserves.

## 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. Based on available market information, Inbank AS considers the credit quality of those financial institutions to be good.

As at 31 December 2020 and 31 December 2019, the balances with central banks and credit institutions of Inbank are not in arrears.

Exposures to 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 | 31.12.2020 | 31.12.2019 |
|---|---|---|
| P-1 | 46,009 | 98,248 |
| P-2 | 1,220 | 899 |
| P-3 | 0 | 88 |
| Not rated | 0 | 4,500 |
| Total receivables from central banks and credit institutions | 47,229 | 103,735 |

## 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 (ECL) 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 loss. The allowance for stage 2 and 3 financial instruments is based on lifetime expected loss. In calculating the expected credit loss, Inbank incorporates all re-classifications between stages at the end of the reporting period.

For estimating credit loss 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. For retail receivables, 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. For non-retail receivables, the significant increase in credit risk is also assessed qualitatively, based on the financial statements submitted by counterparties on regular basis.
- *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 31.12.2020 probability for baseline scenario was estimated to be 60%, positive scenario probability 20% and negative scenario probability 20%.

  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 0.6 million. If LGD rates increase

by 10 p.p., the impact to the ECL is EUR 2.0 million.
The economic uncertainty caused by the spread of the COVID-19 virus affected the debt claim sales (LGD) environment, leading to lower debt sale prices in the market. Therefore, a model was developed to assess the movements of LGD levels, taking into account historical data and the changed environment, so that the LGD rates used to estimate expected credit loss would be in line with current market conditions.

- *Debt management.* Inbank offers its customers a flexible approach in dealing with debts, the main supporting activity is the possibility to change the payment schedule, which would correspond to the changed solvency of the customer. More attention is continually paid to the development of the practise of inhouse collection. New reports and views have been created to monitor the quality of the portfolio and movements between overdue groups. Inbank regularly sells past due loans, the internal processing of which is no longer expedient.

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 based on historical payment behaviour of those homogeneous loans and based on forward looking information. Allowances for non-retail exposures are calculated based on forward-looking information individually, depending on the probability of default and financial strength of the counterparty as well as the value of the collateral.

During the reporting period, Inbank's loan portfolio increased by 19%, with the largest contribution coming from Poland, where the portfolio more than doubled within a year. In 2020 the economic environment has been significantly affected by the spread of the COVID-19 virus, the potential negative impact of which, however, has turned out to be smaller than expected. In order to manage the health crisis, various economic restrictions were imposed in the countries, which also affected Inbank's daily operations. The months most affected during the reporting period were March and April, when sales volumes decreased significantly in all product lines. The product that got mostly affected was small loan which has higher risk as the sales was limited and more conservative approach was used in assessing the creditworthiness. As the restrictions were eased in May, sales volumes also started to recover, which, during the second half of the year, showed a growth trend that was better than expected.

Despite the significant growth of the portfolio and the impact of COVID-19, the quality of the portfolio has been in general good during the reporting period. The share of non-performing loans in the portfolio as of 31.12.2020 was 0.6% (31.12.2019: 0.7%). The main reason could be that customers had the possibility to make changes in payment schedule, which was supported by the conditions for private moratoria initiated by the European Banking Authority with which Inbank joined. After the declaration of state of emergency, Inbank's customers used the opportunity to change the payment schedules in total amount of 18 million euros, which is still a smaller amount than expected. During the reporting period, Inbank has regularly monitored the credit behaviour of the customers who have taken the payment holiday. A large part of Inbank's customers who used the payment holiday option in the spring preferred a three-month period, which is why the first payment days have arrived in the third quarter, providing the opportunity to see how many customers started to pay on time. As a positive result, after the end of the payment holiday, 83% of the customers continued to service the contract as usual, 11% of the customers have been in need to extend the payment holiday and 6% have failed to make payments.

At the same time, the uncertainty in the economic environment created a difficult situation in the market of the sale of debt claims, which lead to a decrease in the sales price of debt claims. Despite the fact, Inbank entered into a new debt claim sales agreement in the third quarter, which fixed the terms of the debt sales in the Baltics for two years period. Based on this, Inbank aligned the book values of the loan portfolio with the new conditions, which resulted in an extraordinary credit loss. Inbank's impairment allowance recognised in statement of financial position increased during the reporting period in the amount of EUR 5.0 million that is mainly due to the increase in new loans issued during the reporting period, alignment of the book value of the portfolio with new conditions of sale of debt claims and additional buffer to cover potential macroeconomic credit costs. Loan loss for the reporting period accounted for 3.1% of the loan portfolio (31.12.2019: 2.1%).

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

# Movement of household portfolio between stages

| In thousands of euros | Stage 1 (12-months ECL) | Stage 2 (lifetime ECL for SICR) | Stage 3 (lifetime ECL for credit impaired) | Total |
|---|---|---|---|---|
| Carrying amount, 31.12.2018 | 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 |
| 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 |
| Movements with impact on credit loss allowance charge for the period: | | | | |
| Transfers: | | | | |
| to lifetime (from Stage 1 to Stage 2) | -10,729 | 10,729 | 0 | 0 |
| to credit-impaired (from Stages 1 and 2 to Stage 3) | -4,771 | -1,483 | 6,254 | 0 |
| to 12-months ECL (from Stages 2 and 3 to Stage 1) | 3,171 | -2,976 | -195 | 0 |
| From Stage 3 to Stage 2 | 0 | 57 | -57 | 0 |
| New originated or purchased | 245,720 | 0 | 0 | 245,720 |
| Derecognised during the period | -81,076 | -1,736 | -371 | -83,183 |
| Changes to ECL measurement model assumption | -76,449 | -2,167 | -1,387 | -80,003 |
| Total movements with impact on credit loss allowance charge for the period | 75,866 | 2,423 | 4,244 | 82,534 |
| Movements without impact on credit loss allowance charge for the period: | | | | |
| Write-offs | -6,980 | -3,009 | -1,698 | -11,687 |
| Carrying amount, 31.12.2020 | 385,031 | 10,108 | 8,722 | 403,861 |

# Changes in loss allowance of household portfolio

| In thousands of euros | Stage 1 (12-months ECL) | Stage 2 (lifetime ECL for SICR) | Stage 3 (lifetime ECL for credit impaired) | Total |
|---|---|---|---|---|
| Impairment allowance, 31.12.2018 | 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 |
| 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 |
| | | | | |
| Movements with impact on credit loss allowance charge for the period: | | | | |
| Transfers: | | | | |
| to lifetime (from Stage 1 to Stage 2) | -1,121 | 1,121 | 0 | 0 |
| to credit-impaired (from Stages 1 and 2 to Stage 3) | -831 | -254 | 1,085 | 0 |
| to 12-months ECL (from Stages 2 and 3 to Stage 1) | 244 | -191 | -53 | 0 |
| From Stage 3 to Stage 2 | 0 | 11 | -11 | 0 |
| New originated or purchased | 4,948 | 0 | 0 | 4,948 |
| Derecognised during the period | 5,506 | 2,284 | 3,631 | 11,421 |
| Changes to ECL measurement model assumption | -448 | 533 | 2,313 | 2,398 |
| Total movements with impact on credit loss allowance charge for the period | 8,298 | 3,504 | 6,965 | 18,767 |
| Movements without impact on credit loss allowance charge for the period: | | | | |
| Write-offs | -6,453 | -2,832 | -4,476 | -13,761 |
| Impairment allowance, 31.12.2020 | 5,013 | 1,740 | 6,451 | 13,204 |

# 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, 31.12.2018 | 9,388 | 157 | 107 | 9,652 |
| Movements with impact on credit loss allowance charge for the period: | | | | |
| Transfers: | | | | |
| to lifetime (from Stage 1 to Stage 2) | -116 | 116 | 0 | 0 |
| to credit-impaired (from Stages 1 and 2 to Stage 3) | -49 | -3 | 52 | 0 |
| to 12-months ECL (from Stages 2 and 3 to Stage 1) | 51 | -91 | 40 | 0 |
| From Stage 3 to Stage 2 | 5 | 0 | -5 | 0 |
| New originated or purchased | 4,691 | 0 | 0 | 4,691 |
| Derecognised during the period | -159 | -8 | -19 | -186 |
| Changes to ECL measurement model assumption | -610 | -38 | -71 | -719 |
| Total movements with impact on credit loss allowance charge for the period | 3,813 | -24 | -3 | 3,786 |
| Movements without impact on credit loss allowance charge for the period: | | | | |
| Write-offs | 0 | 0 | 0 | 0 |
| Carrying amount, 31.12.2019 | 13,201 | 133 | 104 | 13,438 |
| | | | | |
| 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 Stages 1 and 2 to Stage 3) | 0 | -14 | 14 | 0 |
| to 12-months ECL (from Stages 2 and 3 to Stage 1) | 4 | -4 | 0 | 0 |
| From Stage 3 to Stage 2 | 0 | 0 | 0 | 0 |
| New originated or purchased | 1,959 | 0 | 0 | 1,959 |
| Derecognised during the period | -3,386 | -116 | -118 | -3,620 |
| Changes to ECL measurement model assumption | -227 | 0 | 48 | -179 |
| Total movements with impact on credit loss allowance charge for the period | -1,651 | -133 | -56 | -1,840 |
| Movements without impact on credit loss allowance charge for the period: | | | | |
| Write-offs | 0 | 0 | -5 | -5 |
| Carrying amount, 31.12.2020 | 11,550 | 0 | 43 | 11,593 |

# 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, 31.12.2018 | 17 | 16 | 34 | 67 |
| Movements with impact on credit loss allowance charge for the period: | | | | |
| Transfers: | | | | |
| to lifetime (from Stage 1 to Stage 2) | -2 | 2 | 0 | 0 |
| to credit-impaired (from Stages 1 and 2 to Stage 3) | -1 | 0 | 1 | 0 |
| to 12-months ECL (from Stages 2 and 3 to Stage 1) | 5 | -10 | 5 | 0 |
| From Stage 3 to Stage 2 | 2 | 0 | -2 | 0 |
| New originated or purchased | 26 | 0 | 0 | 26 |
| Derecognised during the period | -1 | -1 | -7 | -9 |
| Changes to ECL measurement model assumption | -9 | 2 | 20 | 13 |
| Total movements with impact on credit loss allowance charge for the period | 20 | -7 | 17 | 30 |
| Movements without impact on credit loss allowance charge for the period: | | | | |
| Write-offs | 0 | 0 | 0 | 0 |
| Impairment allowance, 31.12.2019 | 37 | 9 | 51 | 97 |
| | | | | |
| Movements with impact on credit loss allowance charge for the period: | | | | |
| Transfers: | | | | |
| to lifetime (from Stage 1 to Stage 2) | 0 | 0 | 0 | 0 |
| to credit-impaired (from Stages 1 and 2 to Stage 3) | 0 | 0 | 0 | 0 |
| to 12-months ECL (from Stages 2 and 3 to Stage 1) | 0 | 0 | 0 | 0 |
| From Stage 3 to Stage 2 | 0 | 0 | 0 | 0 |
| New originated or purchased | 22 | 0 | 0 | 22 |
| Derecognised during the period | -21 | -9 | -44 | -74 |
| Changes to ECL measurement model assumption | -4 | 0 | 2 | -2 |
| Total movements with impact on credit loss allowance charge for the period | -3 | -9 | -42 | -54 |
| Movements without impact on credit loss allowance charge for the period: | | | | |
| Write-offs | 0 | 0 | -5 | -5 |
| Impairment allowance, 31.12.2020 | 34 | 0 | 4 | 38 |

## Impairment of investments in debt securities

Credit ratings from external credit rating agencies, which are published, monitored, and updated on a regular basis, and/or possible payment delays are considered for debt securities in the bond portfolio. As at 31.12.2020, the principal and accrued interest receivables arising from the debt securities are not in arrears (as at 31.12.2019, there were no investments made in the debt securities). Considering the latter, the expected credit loss from the investments in debt securities is immaterial and therefore, no allowance has been recognised in the statement of financial position.

## Impairment of the receivables from central banks and credit institutions

According to Inbank's credit risk management principles, the funds are deposited in central banks and credit institutions with strong credit ratings. The credit ratings of the countries and credit institutions provided by internationally recognised rating agencies and possible payment delays are considered when calculating the expected credit loss of the receivables. As at 31.12.2020 and 31.12.2019, 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.) that would better match the borrower's ability to pay and 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 based on 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 31.12.2020 the volume of secured loans was EUR 7 million which makes 1.8% 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 2020 and 31 December 2019, 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.

## 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 2019 and 2020, Inbank had not entered into any financial instruments to mitigate interest rate risk.

Inbank changed the methodology for calculating interest rate risk in December 2020 to align it with the low interest rate environment, which resulted in a significant change in the results of interest rate risk sensitivity analysis. As at 31 December 2020, a 1 percentage point increase in market interest rates would raise Inbank's equity, i.e. economic value, by EUR +410 thousand (31.12.2019: by EUR +197 thousand) and the annual profit by EUR +822 thousand (31.12.2019: by EUR +891 thousand). At the same time, a 1 percentage point decrease in market interest rates would affect Inbank's equity (economic value) by EUR -133 thousand (31.12.2019: as a result of the new methodology by EUR -160 thousand, as a result of the previous methodology by EUR -15 thousand) and the annual profit by EUR -577 thousand (31.12.2019: as a result of the new methodology by EUR -296 thousand, as a result of the previous methodology by EUR -15 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 2020, the net open currency position of Inbank was EUR 212 thousand (31.12.2019: EUR 228 thousand), representing 0.29% of Inbank's own funds (31.12.2019: 0.44%). 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 21 thousand (31.12.2019: EUR 23 thousand).

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

# 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 considers within liquidity reserves the balances with central banks and credit institutions, and debt securities of high quality and liquidity, which as at 31.12.2020 accounted for a total of 12% of the balance sheet size (31.12.2019: 22%). Inbank's main funding source is retail deposits, which are attracted from the home markets of the parent company and branches, and through a deposit gathering platform from Germany, Austria and the Netherlands, to diversity risks. To a lesser extent, bank financing and subordinated bonds are used for funding.

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.

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 undiscounted cash flows from assets and liabilities by contractual maturity

In thousands of euros

| 31.12.2020 | 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 | 47,229 | 0 | 0 | 0 | 0 | 47,229 | 47,229 |
| Investments in debt securities | 53 | 105 | 10,466 | 2,337 | 984 | 13,945 | 13,618 |
| Loans and advances | 18,610 | 42,609 | 142,809 | 263,354 | 31,294 | 498,676 | 402,212 |
| Other assets | 1,575 | 206 | 747 | 1,209 | 23,235 | 26,972 | 26,972 |
| **Total assets** | 67,467 | 42,920 | 154,022 | 266,900 | 55,513 | 586,822 | 490,031 |
| **Liabilities** | | | | | | | |
| Customer deposits | 14,373 | 28,035 | 162,333 | 196,087 | 0 | 400,828 | 391,341 |
| Debt securities issued | 0 | 4,027 | 0 | 0 | 0 | 4,027 | 4,010 |
| Subordinated debt securities | 0 | 301 | 7,291 | 13,006 | 0 | 20,598 | 17,563 |
| Other liabilities | 11,044 | 1,970 | 1,639 | 749 | 490 | 15,892 | 15,892 |
| **Total liabilities** | 25,417 | 34,333 | 171,263 | 209,842 | 490 | 441,345 | 428,806 |
| **Maturity gap of assets and liabilities** | 42,050 | 8,587 | -17,241 | 57,058 | 55,023 | 145,477 | 61,225 |

| 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 |
| Investments in debt securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans and advances | 18,503 | 34,869 | 125,025 | 232,092 | 13,049 | 423,538 | 338,157 |
| Other assets | 513 | 1,637 | 62 | 69 | 18,594 | 20,875 | 20,875 |
| **Total assets** | 122,751 | 36,506 | 125,087 | 232,161 | 31,643 | 548,148 | 462,767 |
| **Liabilities** | | | | | | | |
| 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** | 93,295 | 15,414 | -59,321 | 38,320 | 31,405 | 119,113 | 47,320 |

# 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 legal and compliance risk, personnel risk and information technology 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.

# 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 2020.

# Own funds

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Equity as reported in consolidated balance sheet | 61,225 | 47,320 |
| Regulatory adjustments | -4,756 | -7,367 |
| Intangible assets | -8,923 | -11,721 |
| Adjustments due to IFRS 9 transitional arrangements | 4,167 | 4,354 |
| Common Equity Tier 1 capital | 56,469 | 39,953 |
| Additional Tier 1 capital | 3,150 | 3,150 |
| Tier 1 capital | 59,619 | 43,103 |
| Tier 2 capital | 14,503 | 14,503 |
| Own funds | 74,122 | 57,606 |

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 include the net profit earned but not yet approved by the competent authorities in the fourth quarter in the amount of EUR 1,714 thousand (31.12.2019: EUR 3,444 thousand). Should the aforementioned profit be excluded from Inbank's own funds, it would decrease the own funds to EUR 72,407 thousand (31.12.2019: to EUR 54,102 thousand).

# Capital buffers

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Institution-specific buffer requirement (as a percentage of total risk exposure amount) | 2.50% | 3.24% |
| of which: capital conservation buffer requirement | 2.50% | 2.50% |
| of which: countercyclical buffer requirement | 0.00% | 0.29% |
| of which: systemic risk buffer | 0.00% | 0.45% |

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 to support growth in existing markets as well as to enter 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 units 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. 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.

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.

# 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

| 2020 | Estonia | Latvia | Lithuania | Poland | Inter-segment eliminations | Total |
|---|---|---|---|---|---|---|
| Interest income based on EIR | 21,892 | 4,828 | 15,953 | 4,665 | -4,303 | 43,035 |
| incl. interest income from external customers | 17,589 | 4,828 | 15,953 | 4,665 | 0 | 43,035 |
| incl. internal interest income | 4,303 | 0 | 0 | 0 | 0 | 4,303 |
| Fee income | 1,052 | 242 | 0 | 68 | 0 | 1,362 |
| Net gains from financial assets measured at fair value | 0 | 0 | 0 | 0 | 0 | 0 |
| Other operating income | 1,954 | 69 | 143 | 80 | -1,478 | 768 |
| **Total income** | **24,898** | **5,139** | **16,096** | **4,813** | **-5,781** | **45,165** |
| | | | | | | |
| Interest expense | -6,315 | -698 | -3,644 | -1,501 | 4,303 | -7,855 |
| Fee expense | -769 | -159 | -976 | -559 | 0 | -2,463 |
| **Total expenses** | **-7,084** | **-857** | **-4,620** | **-2,060** | **4,303** | **-10,318** |
| | | | | | | |
| **Total net interest, fee and commission income and other income** | **17,814** | **4,282** | **11,476** | **2,753** | **-1,478** | **34,847** |
| | | | | | | |
| Operating expenses | -10,100 | -1,908 | -5,060 | -1,731 | 1,478 | -17,321 |
| incl. depreciations, amortisation | -1,513 | -151 | -567 | -103 | 0 | -2,334 |
| **Profit before profit from associates and impairment losses on loans** | **7,714** | **2,374** | **6,416** | **1,022** | **0** | **17,526** |
| Profit of subsidiaries and associates | 789 | 0 | 0 | 0 | 0 | 789 |
| Impairment losses on loans and advances | -5,452 | -885 | -3,170 | -2,039 | 0 | -11,546 |
| Income tax | -496 | 0 | -552 | 181 | 0 | -867 |
| **Net profit/loss** | **2,555** | **1,489** | **2,694** | **-836** | **0** | **5,902** |
| | | | | | | |
| **Total assets** | **360,289** | **28,573** | **144,238** | **114,099** | **-157,168** | **490,031** |
| **Total liabilities** | **308,350** | **24,582** | **127,913** | **120,384** | **-152,423** | **428,806** |

In thousands of euros

| 2019 | Estonia | Latvia | Lithuania | Poland | Inter-segment eliminations | Total |
|---|---|---|---|---|---|---|
| Interest income based on EIR | 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 | 2,501 | 4,994 | -3 | 6 | 16,037 |
| Profit of subsidiaries and 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 | 1,818 | 3,143 | -1,402 | 6 | 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 |

# Equity of major subsidiary

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| SIA Inbank Latvia | 3,991 | 2,501 |

# Note 5 Net interest income

## Net interest income

| In thousands of euros | 2020 | 2019 |
|---|---|---|
| Interest income based on EIR | | |
| Loans to households | 42,640 | 36,989 |
| Debt securities, loans to corporates | 522 | 533 |
| Due from financial and credit institutions | -127 | 38 |
| Total interest income | 43,035 | 37,560 |
| | | |
| Interest expense | | |
| Deposits received | -6,458 | -5,489 |
| Debt securities sold | -1,372 | -875 |
| Lease liability | -25 | -16 |
| Total interest expense | -7,855 | -6,380 |
| | | |
| Net interest income | 35,180 | 31,180 |

## Interest income by customer location

| In thousands of euros | 2020 | 2019 |
|---|---|---|
| Interest income by customer location | | |
| Estonia | 17,589 | 15,946 |
| Latvia | 4,828 | 6,968 |
| Lithuania | 15,953 | 11,712 |
| Poland | 4,665 | 2,934 |
| Total interest income by customer location | 43,035 | 37,560 |

# Note 6 Net fee and commission income

## Net fee and commission income

| In thousands of euros | 2020 | 2019 |
|---|---|---|
| Fee income | | |
| Households | 1,358 | 953 |
| Corporates | 4 | 12 |
| Total fee income | 1,362 | 965 |
| | | |
| Fee expense | | |
| Loan administration expenses | -2,463 | -1,742 |
| Total fee expense | -2,463 | -1,742 |
| | | |
| Net fee income | -1,101 | -777 |

## Fee income by customer location

| In thousands of euros | 2020 | 2019 |
|---|---|---|
| Fee income by customer location | | |
| Estonia | 1,052 | 737 |
| Latvia | 243 | 220 |
| Lithuania | 0 | 0 |
| Poland | 67 | 8 |
| Total fee income by customer location | 1,362 | 965 |

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

# Note 7 Operating expenses

## Operating expenses

| In thousands of euros | 2020 | 2019 |
|---|---|---|
| Personnel expenses | | |
| Personnel expense | 7,448 | 6,639 |
| Social and other taxes | 1,759 | 1,387 |
| Total personnel expenses | 9,207 | 8,026 |
| | | |
| Marketing expenses | | |
| Advertising and marketing | 1,136 | 2,240 |
| Sales costs | 421 | 343 |
| Total marketing expenses | 1,557 | 2,583 |
| | | |
| Administrative expenses | | |
| IT expenses | 1,534 | 1,135 |
| Rental and maintenance expenses | 398 | 316 |
| Legal and recovery proceeding expenses | 204 | 156 |
| Office expenses | 295 | 348 |
| Training and business trip expenses | 207 | 429 |
| Supervision expenses | 341 | 296 |
| Consultation expenses | 109 | 158 |
| Transportation expenses | 168 | 196 |
| Other purchased services | 195 | 120 |
| Other tax expenses | 374 | 400 |
| Other administrative expenses | 398 | 530 |
| Total administrative expenses | 4,223 | 4,084 |

## Average number of employees

| Average number of employees | 2020 | 2019 |
|---|---|---|
| Estonia | 105 | 81 |
| Lithuania | 64 | 60 |
| Latvia | 25 | 22 |
| Poland | 31 | 21 |
| Total | 225 | 184 |

Personnel expenses include the bonus reserve for amount of EUR 1,151 thousand (2019: EUR 1,280 thousand) which makes 12% from total personnel expenses (2019: 16%).

# Note 8 Loans and advances

## Distribution of receivables by customer sector

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Distribution of receivables by customer sector | | |
| Households | 403,861 | 333,014 |
| Corporates | 11,593 | 13,438 |
| Loans and advances before impairment allowance | 415,454 | 346,452 |
| Impairment allowance | -13,242 | -8,295 |
| Total loans and advances | 402,212 | 338,157 |

## Impairment losses on loans and advances

| In thousands of euros | 2020 | 2019 |
|---|---|---|
| Impairment losses on loans and advances | | |
| Impairment losses of reporting period | -18,713 | -10,652 |
| Recoveries from written off from financial position | 7,167 | 4,603 |
| Total impairment losses on loans and advances | -11,546 | -6,049 |

## Changes in impairments

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Changes in impairments | | |
| Impairment allowance balance in the beginning of the period | -8,295 | -5,604 |
| Impairment provisions set up during reporting period | -18,713 | -10,652 |
| Written off from financial position during the period | 13,766 | 7,961 |
| Total impairment | -13,242 | -8,295 |

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 9 Income tax

## Income tax

| In thousands of euros | 2020 | 2019 |
|---|---|---|
| Income tax recognized in income statement | -1,296 | -2,005 |
| Deferred tax assets | 429 | 1,307 |
| Total | -867 | -698 |

## Income tax expense for the year

| In thousands of euros | 2020 | 2019 |
|---|---|---|
| Profit before taxes | 6,769 | 10,708 |
| Theoretical tax charge at statutory rate (14%) | -948 | -1,499 |
| Tax effect on items which are non deductible or assessable for taxation: | | |
| Non-taxable profit of parent company | 0 | 0 |
| Non taxable profit of subsidiaries | 231 | 491 |
| Non-deductible expenses | 68 | -227 |
| Effects of different tax rates in other countries | -147 | -198 |
| Accumulated tax loss | 0 | 723 |
| Unrecognised other potential deferred tax assets | -71 | 12 |
| Income tax expense for the year | -867 | -698 |

## Deferred tax asset

| In thousands of euros | 2020 | 2019 |
|---|---|---|
| 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 | 725 | 478 |
| Deferred income | 1,178 | 1,371 |
| Tax loss carry forward | 0 | 106 |
| Other | 267 | 30 |
| Deferred tax asset | 2,170 | 1,985 |

Inbank started its operations in Poland in the second half of 2017 and as at 31 December 2020 had not yet made a profit. The resulting tax asset can be used to reduce future tax liability.

As at 31 December 2020, Inbank's retained earnings amounted to EUR 34,871 thousand, from which EUR 16,933 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 deducted by the income tax paid in Lithuania.

# Note 10 Due from central banks and credit institutions

## Due from central banks and credit institutions

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Due from central banks | 24,692 | 78,515 |
| Mandatory reserve in central banks | 2,753 | 4,565 |
| Due from credit institutions | 19,784 | 20,655 |
| Total due from central banks and credit institutions | 47,229 | 103,735 |

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 11 Investments in debt securities

## Investments in debt securities

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Investments in debt securities | 13,582 | 0 |
| incl. investments in central governement debt securities | 10,009 | 0 |
| incl. investments in corporate debt securities | 3,537 | 0 |
| Corrections | 36 | 0 |
| Total investments in debt securities | 13,618 | 0 |

As of 31.12.2020, Inbank's debt securities portfolio consists of treasury bills of Republic of Estonia with a maturity of 07.05.2021 with an average yield of -0.24 p.a. and Aktiva Portfolio AS long-term securities with different maturities between 29.09.2027 and 28.12.2027 with an interest rate of 3% p.a.

# Note 12 Business combinations and investments in associates

Inbank has 29.8% holding in AS Maksekeskus and 34% holding in AS Aktiva portfolio. Inbank increased its holding in Maksekeskus on 20 December 2019. Maksekeskus AS is one of the largest payment services providers in Estonia, also operating in Latvia and Lithuania. AS Aktiva Portfolio has been established for more efficient management of debt portfolio. Investments are accounted for using the equity method. In 2020, income from equity investments was calculated in the amount of 414 thousand euros (2019: 0 euros).

## Balance sheet values of associates

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Maksekeskus AS | 3,689 | 3,276 |
| AS Aktiva Portfolio | 337 | 0 |
| Total value of associates in the balance sheet | 4,026 | 3,276 |

## Maksekeskus AS overview

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Summarised financial information | | |
| Cash and cash equivalents | 3,770 | 2,086 |
| Non-current asset | 782 | 502 |
| Other financial and non-financial liabilities | 1,423 | 850 |
| Equity | 3,128 | 1,739 |
| Revenue | 4,849 | 2,731 |
| Profit/loss for the year | 1,389 | 635 |

## AS Aktiva Portfolio overview

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Summarised financial information | | |
| Cash and cash equivalents | 1,498 | 0 |
| Non-current asset | 3,012 | 0 |
| Short-term liabilities | 1,003 | 0 |
| Long-term liabilities | 2,585 | 0 |
| Equity | 922 | 0 |
| Revenue | 67 | 0 |
| Profit/loss for the year | -69 | 0 |

In 2020, Inbank sold its 100% share in the full-service leasing company Inbank Liising AS (now called Täisteenusliisingu AS). The price of the sale transaction was 780 thousand euros, of which the income received in the amount of 375 thousand euros is recognised in the income statement under "Share of profit from subsidiaries and associates".

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

## Acquisitions and disposals of associates

| In thousands of euros | 2020 | 2019 |
|---|---|---|
| Acquisitions | | |
| Equity contribution, financial assets at fair value through profit and loss | 0 | 321 |
| Equity contribution, associates | 305 | 2,351 |
| Total acquisitions | 305 | 2,672 |
| | | |
| Disposals | | |
| Proceeds from disposals in financial investment | 0 | 3,320 |
| Received from disposals of subsidiary | 780 | 0 |
| Total disposals | 780 | 3,320 |

Inbank has not received dividends from associates.

# Note 13 Right of use asset

Inbank rents different office spaces. Leases have been entered into for a fixed period of 1 to 5 years.

## Distribution of right to use asset

| In thousands of euros | Buldings | 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 |
| 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 |
| | | | |
| Carrying amount, 01.01.2020 | 773 | 0 | 773 |
| Additions | 733 | 137 | 870 |
| Depreciation charge | -476 | -2 | -478 |
| Effect of translation to presentation currency | -8 | 0 | -8 |
| Carrying amount, 31.12.2020 | 1,022 | 135 | 1,157 |

Interest expense from lease liability of the financial year was EUR 25 thousand (2019: EUR 16 thousand) and lease payments paid EUR 592 thousand (2019: EUR 418 thousand). Rental expenses related to short-term leases are recognised under operating expenses and were EUR 188 thousand in 2020 (2019: EUR 92 thousand).

# Note 14 Intangible assets

## Intangible assets

| In thousands of euros | Licences | Software | Internally generated software* | Goodwill | Total |
|---|---|---|---|---|---|
| Cost, 01.01.2020 | 143 | 5,319 | 1,193 | 6,157 | 12,812 |
| Accumulated amortisation | -102 | -641 | -348 | 0 | -1,091 |
| Opening carrying value | 41 | 4,678 | 845 | 6,157 | 11,721 |
| | | | | | |
| Additions | 21 | 3,956 | 1,908 | 0 | 5,885 |
| Amortisation charge | -12 | -1,130 | -325 | 0 | -1,467 |
| Closing carrying value | 50 | 7,504 | 2,428 | 6,157 | 16,139 |
| | | | | | |
| Cost, 31.12.2020 | 164 | 9,275 | 3,101 | 6,157 | 18,697 |
| Accumulated amortisation | -114 | -1,771 | -673 | 0 | -2,558 |
| Carrying value | 50 | 7,504 | 2,428 | 6,157 | 16,139 |

* Internally generated software consists of capitalised development costs.

Management has carried out tests of recoverable amount of goodwill as at 31 December 2020 and 31 December 2019. The cash-generating units of goodwill are segments, which are entities of Inbank group. The breakdown of goodwill between segments is as follows:

## The breakdown of goodwill between segments

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Business segment | | |
| Estonia | 238 | 238 |
| Lithuania | 5,919 | 5,919 |
| Total | 6,157 | 6,157 |

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 (8.93%) 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 15 Other assets

## Other assets

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Financial assets | | |
| Prepaid guarantee amounts | 149 | 70 |
| Accrued receivables | 1,201 | 1,622 |
| Total financial assets | 1,350 | 1,692 |
| | | |
| Non-financial assets | | |
| Prepaid expenses | 772 | 527 |
| Prepaid taxes | 182 | 61 |
| Other assets | 343 | 0 |
| Total non-financial assets | 1,297 | 588 |

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

# Note 16 Customer deposits

## Deposits

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Customer deposits | | |
| Deposits from households | 377,757 | 360,125 |
| Deposits from non-financial corporates | 9,357 | 11,997 |
| Deposits from financial corporates | 4,227 | 5,396 |
| Total customer deposits | 391,341 | 377,518 |

## Deposits by clients' residency

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Deposits by clients' residency | | |
| Estonia | 66,900 | 76,624 |
| Germany | 186,587 | 225,229 |
| Poland | 106,365 | 49,537 |
| Austria | 10,072 | 9,033 |
| Netherlands | 18,687 | 16,586 |
| Lithuania | 2,523 | 339 |
| Other residence | 207 | 170 |
| Total deposits by clients' residency | 391,341 | 377,518 |

# Note 17 Debt securities

## Debt securities

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Debt securities issued | 4,000 | 4,000 |
| Corrections | 10 | 10 |
| Total debt securities | 4,010 | 4,010 |

## Debt securities detailed information

| Debt securities | Nominal value | Amount | Issue date | Maturity date |
|---|---|---|---|---|
| EE3300111483 | 250,000 EUR | 40 | 15.05.2018 | 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 18 Subordinated debt securities

## Subordinated debt securities

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Subordinated debt securities issued | 17,653 | 17,653 |
| Adjustments | -90 | -116 |
| Total subordinated debt securities | 17,563 | 17,537 |

## Subordinated debt securities detailed information

| 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 19 Other liabilities

## Other liabilities

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Financial liabilities | | |
| Accounts payable | 10,068 | 11,516 |
| Lease liability | 1,168 | 757 |
| Client prepayments | 982 | 1,272 |
| Total financial liabilities | 12,218 | 13,545 |
| | | |
| Other liabilities | | |
| Payables to employees | 1,964 | 1,978 |
| Payroll taxes | 480 | 482 |
| Tax liability | 864 | 277 |
| Other liabilities | 366 | 100 |
| Total other liabilities | 3,674 | 2,837 |

The accounts payable includes liabilities to customers and partners related loan granting activities and payments for operating expenses. Of the amount, EUR 6,484 thousand is the Lithuanian branch’s liability to partners for loan granting activities (31.12.2019: EUR 6,810 thousand). The lease liability includes short-term payments in the amount of 401 thousand euros (2019: 409 thousand euros).

# Note 20 Contingent liabilities

## Contingent liabilities

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Revocable commitments | | |
| Liability in contractual amount | 7,448 | 9,992 |
| incl. unused credit card limits | 5,111 | 9,975 |

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 2019 and 2020.

Inbank's management estimates that in 2020 there are no such circumstances that may lead the tax authorities to impose significant additional taxes on Inbank.

# Note 21 Share capital

## Share capital

| | № of shares | Nominal value (EURt) | Share premium (EURt) | Total |
|---|---|---|---|---|
| Balance, 01.01.2019 | 87,394 | 874 | 15,053 | 15,927 |
| Share based payment | 2,950 | 29 | 855 | 884 |
| Balance, 31.12.2019 | 90,344 | 903 | 15,908 | 16,811 |
| Share based payment | 600 | 6 | 174 | 180 |
| Total before share issue | 90,944 | 909 | 16,082 | 16,991 |
| Change in nominal value of shares, 17.07.2020 | 9,094,400 | 909 | 0 | 909 |
| Share issue | 516,130 | 52 | 7,948 | 8,000 |
| Less: Transaction costs arising on share issues | - | - | -165 | -165 |
| Balance, 31.12.2020 | 9,610,530 | 961 | 23,865 | 24,826 |

## Biggest shareholders who hold more than 5% of company shares

| Shareholder name | Holding amount 31.12.2020 |
|---|---|
| Cofi Investeeringud OÜ | 25.80% |
| Luciano Orsero | 8.74% |
| Roberto de Silvestri | 8.27% |
| Elio Tomaso Giovanni Cravero | 7.44% |
| Andrea Agostinone | 7.20% |
| SCI IN Holding 20 | 5.38% |

On 17 July 2020, the nominal value of Inbank's share was changed from 10 euros to 0.10 euros without changing the share capital. Each share with a nominal value of 10 euros was replaced by 100 shares with a nominal value of 0.10 euros.

Inbank's share capital consists of 9,611 thousand shares (2019: 903 thousand shares) with a nominal value of 0.10 euros (2019: nominal value of a share of 10 euros). All issued shares have been paid. The share premium reflects the difference between the nominal value of the shares and the contributions received.

# Note 22 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.

## Share-based payments

| | № 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 |
|---|---|---|---|---|---|
| Issued options | 90,000 | 6.75 | 2018 | 2021 | 3 |
| Issued options | 285,000 | 3-6.75 | 2019 | 2022 | 17 |
| Total | 375,000 | | | | |

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 2020, the reserve amounted to EUR 346 thousand (31.12.2019: EUR 151 thousand).

Personnel expenses related to the option agreements in 2020 amounted to a total of EUR 208 thousand (2019: EUR 132 thousand).

In 2020, share options were exercised for the purchase of 60,000 shares, thereby increasing the share capital by 6,000 euros and the paid premium was 174,000 euros.

# Note 23 Reserves

## Reserves

| In thousands of euros | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Statutory reserve | 90 | 88 |
| Voluntary reserve | 1,330 | 1,330 |
| Share based payments reserve | 346 | 151 |
| Other accumulated comprehensive income | -238 | -18 |
| Total reserves | 1,528 | 1,551 |

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 24 Fair value of financial assets and liabilities

## Fair value of financial assets and liabilities

| In thousands of euros | 31.12.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| Assets | Fair value | Carrying amount | Level | Fair value | Carrying amount | Level |
| Due from central banks | 27,445 | 27,445 | 2 | 83,080 | 83,080 | 2 |
| Due from credit institutions | 19,784 | 19,784 | 2 | 20,655 | 20,655 | 2 |
| Investments in debt securities | 13,618 | 13,618 | 3 | 0 | 0 | |
| Loans and advances | 402,212 | 402,212 | 3 | 338,157 | 338,157 | 3 |
| Other financial assets | 1,350 | 1,350 | 3 | 1,692 | 1,692 | 3 |
| **Total assets** | **464,409** | **464,409** | | **443,584** | **443,584** | |
| | | | | | | |
| Liabilities | | | | | | |
| Customer deposits | 391,341 | 391,341 | 2 | 377,518 | 377,518 | 2 |
| Debt securities issued | 4,010 | 4,010 | 3 | 4,010 | 4,010 | 3 |
| Subordinated debt securities | 14,954 | 14,476 | 2 | 15,403 | 14,474 | 2 |
| Subordinated debt securities (AT1) | 3,087 | 3,087 | 3 | 3,063 | 3,063 | 3 |
| Other financial liabilities | 12,218 | 12,218 | 3 | 13,545 | 13,545 | 3 |
| **Total liabilities** | **425,610** | **425,132** | | **413,539** | **412,610** | |

Level 2 fair value is estimated using market information (rates and interest rate curves for similar transactions).

The fair value in 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.

**The investments in debt securities** fair value does not differ significantly from the book value, classified as level 3 in fair value hierarchy.

**The small loans and hire-purchase products** granted to customers are short-term. The effective interest rate of consumer loans granted by Inbank is comparable to the interest rates of comparable loan products offered on the market. In general, the fair market interest and the fair value of loans 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.

**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.

**Fixed-interest customer deposits** are mostly short-term. The interest rate of term deposits accepted and loans received by Inbank are comparable to the comparable contract interest rates on the market. In general, the fair market interest and the fair value of deposits have not significantly changed over the deposit period. The carrying amount of deposits does not therefore significantly differ from their fair value. These are classified as level 2 in fair value hierarchy.

**Debt securities** were issued at market terms. 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.

**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 at market terms and considering that the interest rate environment has been relatively stable, consequently the fair value is close to the carrying value, classified as level 3 in fair value hierarchy.

# Note 25 Related parties

## Remuneration of the Management Board and Supervisory Board

| In thousands of euros | 2020 | 2019 |
|---|---|---|
| Remuneration of the Management Board and Supervisory Board | 897 | 954 |

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.

## Balances as of end of reporting period

| In thousands of euros | 31.12.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Management | Associates | Total | Management | Associates | Total |
| Investments in debt securities | 0 | 3,537 | 3,537 | 0 | 0 | 0 |
| Loans and advances | 17 | 0 | 17 | 1 | 0 | 1 |
| Deposits and subordinated debt securities | 1,266 | 0 | 1,266 | 2,096 | 0 | 2,096 |

## Transactions

| In thousands of euros | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Management | Associates | Total | Management | Associates | Total |
| Interest income | 0 | 28 | 28 | 12 | 1 | 13 |
| Interest expenses | 83 | 0 | 83 | 53 | 0 | 53 |
| Services purchased | 754 | 0 | 754 | 44 | 0 | 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 1.85 and 5% and 7% (2019: 3.31 and 7%). Such loans are eliminated from the consolidated financial statements. Loans given to management members are issued on market terms, with an interest rate between 0 and 10.9% (2019: 0 and 5%). Debt claims in the amount of 3,958 thousand euros have been sold to associate. The interest rate of deposits received from related parties matches with the interest rate offered to customers, interest rates are in between 0.6% and 2.6% (2019: 0.5 and 3.25%).

In 2020 members of the Management Board and Supervisory Board exercised options for the purchase of 20,000 shares (in 2019: 140,000 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 26 Events after the reporting period

On 14 December 2020, Inbank signed an agreement to acquire 53% of the full-service vehicle lease in Mobire Group OÜ. The transaction was completed on 26 January 2021. The purpose of the transaction is to strengthen Inbank's position in the car financing market and enter into an innovative subscription-based business model. The acquisition of a stake in the Mobire Group OÜ will not have a significant impact on the economic activities of Inbank.

# Note 27 Parent company’s separate statement of financial position

| In thousands of euros | Note | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| Assets | | | |
| Due from central banks | | 27,445 | 83,080 |
| Due from credit institutions | | 19,706 | 19,838 |
| Investments in debt securities | | 13,618 | 0 |
| Loans and advances | | 397,680 | 335,668 |
| Investments in subsidiaries | | 3,773 | 3,634 |
| Tangible assets | | 406 | 451 |
| Right of use asset | | 892 | 660 |
| Intangible assets | | 16,112 | 11,675 |
| Other financial assets | | 143 | 38 |
| Other assets | | 3,158 | 2,132 |
| Deferred tax assets | | 2,170 | 1,985 |
| Total assets | | 485,103 | 459,161 |
| | | | |
| Liabilities | | | |
| Customer deposits | | 391,341 | 377,518 |
| Other financial liabilities | | 12,061 | 12,972 |
| Other liabilities | | 3,386 | 2,676 |
| Debt securities | | 4,010 | 7,073 |
| Subordinated debt securities | | 17,563 | 14,474 |
| Total liabilities | | 428,361 | 414,713 |
| | | | |
| Equity | | | |
| Share capital | 23; 24 | 961 | 903 |
| Share premium | 23; 24 | 23,865 | 15,908 |
| Statutory reserve capital | 25; 26 | 90 | 88 |
| Other reserves | 25; 26 | 1,438 | 1,463 |
| Retained earnings | | 30,388 | 26,086 |
| Total equity | | 56,742 | 44,448 |
| | | | |
| Total liabilities and equity | | 485,103 | 459,161 |

# Note 28 Parent company's separate comprehensive income statement

| In thousands of euros | 2020 | 2019 |
|---|---|---|
| Interest income based on EIR | 38,881 | 33,352 |
| Interest expense | -7,848 | -6,380 |
| Net interest income | 31,033 | 26,972 |
| | | |
| Fee income | 1,119 | 737 |
| Fee expense | -2,304 | -1,577 |
| Net fee and commission income | -1,185 | -840 |
| | | |
| Net gains from financial assets measured at fair value | 0 | 743 |
| Other operating income | 1,676 | 891 |
| Total net interest, fee and other income | 31,524 | 27,766 |
| | | |
| Personnel expenses | -8,341 | -7,058 |
| Marketing expenses | -1,453 | -2,353 |
| Administrative expenses | -3,964 | -3,784 |
| Depreciations, amortisation | -2,048 | -1,126 |
| Total operating expenses | -15,806 | -14,321 |
| | | |
| Profit before profit from associates and impairment losses on loans | 15,718 | 13,445 |
| | | |
| Impairment losses on loans and advances | -10,660 | -5,354 |
| Profit before income tax | 5,058 | 8,091 |
| | | |
| Income tax | -767 | -698 |
| Profit for the period | 4,291 | 7,393 |
| | | |
| Other comprehensive income that may be reclassified subsequently to profit or loss | | |
| Currency translation differences | -219 | -53 |
| Total comprehensive income for the period | 4,072 | 7,340 |

# Note 29 Parent company's separate statement of cash flows

| In thousands of euros | Note | 2020 | 2019 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Interest received | 5 | 38,972 | 33,123 |
| Interest paid | 5 | -5,931 | -4,481 |
| Fees received | 6 | 1,119 | 737 |
| Fees paid | 6 | -2,304 | -1,577 |
| Other income received | | 1,676 | 891 |
| Personnel expenses | | -8,303 | -6,211 |
| Administrative and marketing expenses | | -6,764 | -5,450 |
| Corporate income tax paid | | -693 | -2,361 |
| Cash flows from operating activities before changes in the operating assets and liabilities | | 17,772 | 14,671 |
| Changes in operating assets | | | |
| Loans and advances | | -74,557 | -115,074 |
| Mandatory reserve in central banks | | 1,812 | -2,613 |
| Other assets | | -1,316 | -3,091 |
| Changes of operating liabilities | | | |
| Loan from credit institution | | 0 | -10,429 |
| Customer deposits | | 11,905 | 135,047 |
| Other liabilities | | 807 | 3,070 |
| Net cash from operating activities | | -43,577 | 21,581 |
| Cash flows from investing activities | | | |
| Investments in debt securities | | -13,627 | 0 |
| Acquisition of tangible and intangible assets | | -5,976 | -4,890 |
| Acquisition of subsidiaries and associates | 13; 14 | 334 | -121 |
| Net change of investments at fair value through profit or loss | | 0 | 3,819 |
| Net cash used in investing activities | | -19,269 | -1,192 |
| Cash flows from financing activities | | | |
| Share capital contribution (including share premium) | | 8,180 | 884 |
| Subordinated debt securities issued | | 0 | 8,000 |
| Debt securities issued | | 0 | 4,000 |
| Repayments of debt securities | | 0 | -10,000 |
| Net cash used in financing activities | | 8,180 | 2,884 |
| Effect of exchange rate changes | | 301 | -46 |
| Cash and cash equivalents at the beginning of the reporting period | | 98,763 | 75,536 |
| Net increase/decrease in cash and cash equivalents | | -54,365 | 23,227 |
| Cash and cash equivalents at the end of the reporting period | | 44,398 | 98,763 |

# Note 30 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, 01.01.2019 | 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 |
| | | | | | | |
| Balance, 01.01.2020 | 903 | 15,908 | 88 | 1,463 | 26,086 | 44,448 |
| Paid in share capital | 58 | 8,122 | 0 | 0 | 0 | 8,180 |
| Share-based payment reserve | 0 | 0 | 0 | 194 | 13 | 207 |
| Statutory reserve capital | 0 | 0 | 2 | 0 | -2 | 0 |
| Total profit/-loss and other comprehensive income for the reporting period | 0 | 0 | 0 | -219 | 4,291 | 4,072 |
| Total | 961 | 24,030 | 90 | 1,438 | 30,388 | 56,907 |
| Less: Transaction costs arising on share issues | 0 | -165 | 0 | 0 | 0 | -165 |
| Balance, 31.12.2020 | 961 | 23,865 | 90 | 1,438 | 30,388 | 56,742 |
| Carrying amount of holdings under control and significant influence | | | | | -3,774 | -3,774 |
| Value of holdings under control and significant influence under equity method | | | | | 9,743 | 9,743 |
| Adjusted unconsolidated equity, 31.12.2020 | | | | | 36,357 | 62,711 |

# Management Board declaration

The Management Board of Inbank AS declares its responsibility for preparing the Consolidated Annual Report for Inbank for the financial year of 2020 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.

Jan Andresoo

Chairman of the Management Board

# Independent auditor's report

To the Shareholders of AS Inbank

## 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 ("the Company") and its subsidiaries (together – "the Group") as at 31 December 2020, and the Group´s consolidated financial performance and 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 5 March 2021.

**What we have audited**

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- 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**

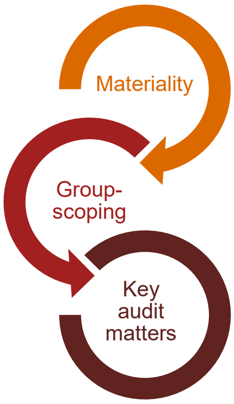
We are independent of the Company and of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiaries 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 Company and its subsidiaries in 2020 are disclosed in the management report.

## Our audit approach

**Overview**




Overall group audit materiality is EUR 610 thousand, which represents 1% of the Group's net assets.

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 610 thousand |
| **How we determined it** | 1% of net assets |
| **Rationale for the materiality benchmark applied** | We have applied this benchmark, as the Group is going through rapid growth. Therefore, net assets is a relevant measure used by investors, regulators and other stakeholders when assessing the performance of the Group. We chose 1%, which is consistent with quantitative materiality thresholds used for this benchmark. |

## 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.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

*Valuation of loans and advances to retail customers (refer to Note 1 “Significant accounting policies”, Note 3 “Risk Management” and Note 8 “Impairment of loans and advances” for further details).*

As of 31 December 2020, gross loans and advances to the retail customers amount to EUR 403,861 thousand against which credit loss allowance in the amount of EUR 13,204 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

</td><td>

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.

</td></tr>
</table>

**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 head quarter and branches in Lithuania and Poland) and Inbank Latvia SIA (Latvia). Additionally, we performed an audit of specific balance sheet and income statement line items for Inbank Technologies OÜ and Maksekeskus Holding OÜ.

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 General information and Management report (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, actions taken to eliminate threats or safeguards applied.

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, as a public interest entity, 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 4 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

5 March 2021
Tallinn, Estonia

Translation note:

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 5,896 thousand to retained earnings;
- EUR 6 thousand to statutory reserve.

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