Annual Report 2021

inbank

GENERAL INFORMATION

Consolidated Annual Report

01.01.2021 – 31.12.2021

Business name	AS Inbank
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

Jan Andresoo, Chairman
Roberto de Silvestri
Triinu Bucheton
Raino Paron
Rain Rannu
Taavi Kotka

Management Board

Priit Põldoja, Chairman
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.
The structure of the group is set out in Note 13.
Translation of the company’s consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups.
The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange

Contents

Key financial indicators and ratios

In millions of euros (€)

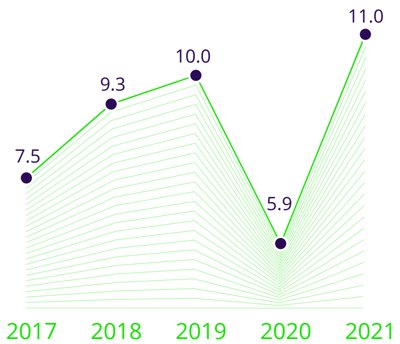
Key financial indicators	2019	2020	2021	Change 2021/2020
Total income	32.0	34.8	43.0	23.5%
Net profit	10.0	5.9	11.0	85.8%
Total assets	462.8	490.0	787.0	60.6%
Equity	47.3	61.2	79.0	29.1%
Loan portfolio	338.2	402.2	604.8	50.4%
Deposit portfolio	377.5	391.3	617.8	57.9%

Ratios	2019	2020	2021
Return on total assets	2,6%	1.2%	1.7%
Net interest margin	8.4%	7.8%	6.6%
Impairment losses to loan portfolio (risk cost)	2.1%	3.1%	1.3%
Cost/income ratio	49.9%	49.7%	56.8%
Equity to total assets	10.2%	12.5%	10.0%

Net profit

€11m

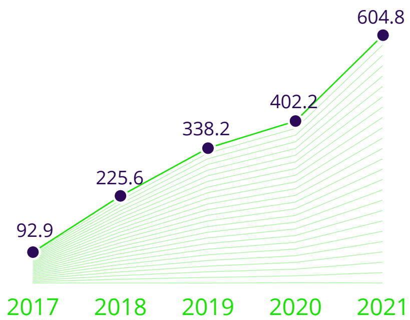
+86% year-on-year



Loan portfolio

€605m

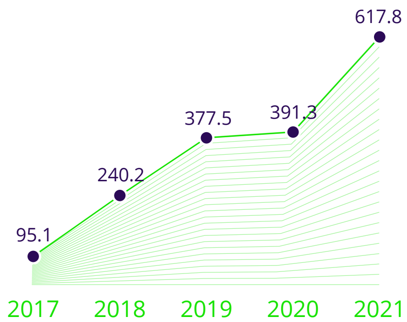
+50% year-on-year



Deposit portfolio

€618m

+58% year-on-year



Embedding financing into the shopping journey and helping merchants grow their business

Banking is moving out of banks and becoming a part of customers' daily digital lives. Inbank's financing solutions are embedded seamlessly into the shopping journey of 4,600 retailers. This helps our merchant partners to grow their businesses while end customers get to benefit from a frictionless shopping experience wherever they are.

Inbank operates in the Baltic, Polish and Czech consumer finance markets and also accepts deposits in Germany, Austria, the Netherlands and Finland. Our international team employs more than 290 people. Inbank's bonds are listed on the Nasdaq Tallinn Stock Exchange.

€1.5bn
volume financed since inception

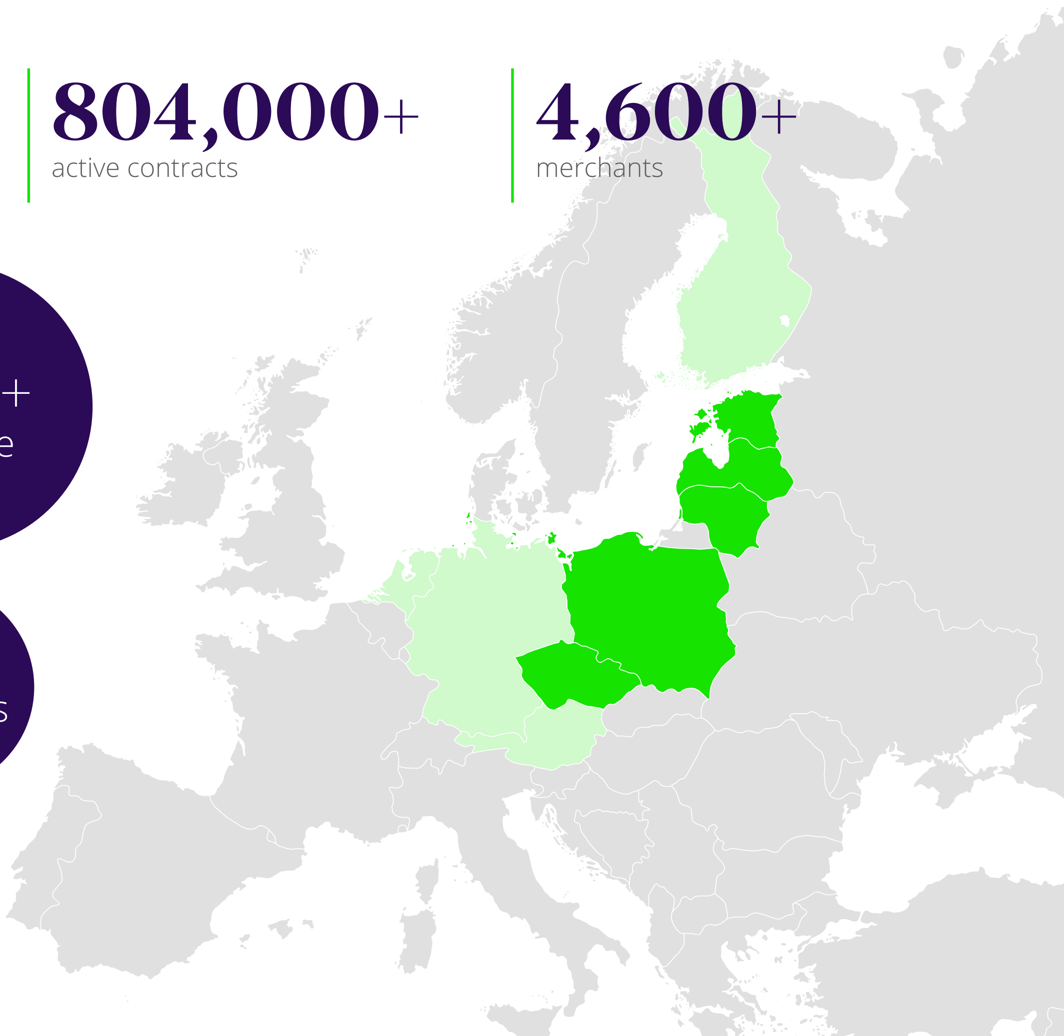
804,000+
active contracts

4,600+
merchants

290+
people

8
offices

5
countries



2021 highlights

JAN

Inbank acquired a 53% stake in full-service vehicle rental company Mobire to strengthen its position in the car financing market and enter an innovative business model for subscription-based car rental.

MAR

In order to strengthen the technological competence of Inbank's Supervisory Board, Taavi Kotka, an IT visionary, entrepreneur and start-up investor, joined the Supervisory Board.

APR

The founders of Inbank changed roles - Priit Põldoja became the new CEO and Chairman of the Management Board. Jan Andresoo started leading the bank's Supervisory Board and focused on international growth.

JUL

In order to harmonise its legal structure in all its home markets,Inbank Finance AS, a 100% subsidiary of AS Inbank, started operating on 1 July, through which the bank offers credit products on the Estonian market.

SEP

We acquired a 30% stake in the cross-border pay later technology company Paywerk, founded by Inbank founders and tech entrepreneurs.

OCT

Inbank expanded to the Czech market as part of the ambition to grow into a Central and Eastern European digital bank.

Inbank Issued €4.5 million worth of AT1 bonds through private placement.

DEC

We issued subordinated bonds on the Nasdaq Tallinn Stock Exchange worth 15 million euros with an interest rate of 5.5%. The initial volume of the issue was oversubscribed 2.7 times, 1,166 investors participated in the issue.

At the end of the year, we raised an additional 6 million euros in equity, as a result of which Inbank's market capitalisation reached nearly 225 million euros.

MESSAGE FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

A year of clarity

In some ways, the past year was anything but clear: the continuation of the Covid-19 pandemic, the extraordinary monetary policy and government assistance packages, the emergence of an inflationary environment, an economic boom on the one hand and the shake-up of several sectors on the other. Still, Inbank was able to maintain a clear focus in the turmoil and concentrate on what we are historically strongest at – supporting our partners and providing people with innovative financing solutions integrated into merchant's business processes.

> To act in complex and extraordinary circumstances, you need a focus and a basic strategy, something to stick to.

To act in complex and extraordinary circumstances, you need a focus and a basic strategy, something to stick to. Only then you can make quick decisions in line with the company's strategy. With Priit Põldoja, the co-founder of Inbank, we have thought and analysed the kind of organisational model that best suits an international fast-growing bank, the type of bank we are and what distinguishes us from the others. Last year provided answers to many of these questions and put the pieces of the puzzle in place. We realised that we have developed a clearly distinct strategy and have the skills and people to implement it.

Back to our roots

Inbank's core strength has always been its partner-based distribution network. Today, we have more than 4,600 partners with whom we share unique technological integration in addition to having strong business relationships. Such a decentralised business model is difficult to copy. Large universal banks cannot easily implement this type of model, as such integrations lie outside the normal banking ecosystem and require completely different technological capabilities and product development. Relationships with partners and embedded finance have helped us create a powerful sales machine that clearly sets us apart from many market players.

Last year we started to develop an “originate and distribute” business model which will add much needed flexibility to our business formula. This means we can use our powerful sales channel to sell products and services for which we have not had competitive financing until now.

When we learn to manage our balance sheet effectively and strategically and create significantly more flexibility, we can focus on our strength – our sales capability through technology and partnerships. We can manage our balance sheet according to our risk appetite and expected return on capital. The combined use of these elements can give rise to a new and improved business logic that allows Inbank to grow much faster and bring new and exciting solutions to market.

We have the courage and perseverance to try new things and learn from failure.

Entrepeneurshp as the Inbank DNA

In addition to its core product portfolio, Inbank has always had a variety of separate investments that are related to our operations. We participated in the establishment of Coop Pank and were the first investors in Veriff; we have led the scale-up of the leading Estonian PSP Maksekeskus; acquired a majority stake in Mobire at the beginning of 2021 and recently invested in the technology company Paywerk. In conclusion, we have been entrepreneurial and open to new opportunities throughout our history. We will continue to look out for opportunities and invest in the future, as this has always been part of our organisation and thus deserves a more strategic approach going forward.

In a way, it may sound contradictory that on the one hand, the cornerstone of our business model is focus and standard operations, and on the other hand, we are constantly undertaking new ventures that are adjacent to our business, but still separate. However, we have learned over the years that Inbank's success lies in the interaction of the two - the ability to keep our core business focused and at the same time participate in new ventures through separate companies.

Summary

Looking back at 2021, we were able to grow in difficult circumstances and strengthen our position in all markets. I am glad that Inbank is evolving and adapting to new realities and circumstances. It is also positive that, despite our rapid growth, we have not lost the agility and entrepreneurship inherent to Inbank. We have the courage and perseverance to try new things and learn from failure. Today, Inbank has a sustainable strategy and a distinct business model for rapid growth in domestic markets and beyond.

Jan Andresoo
Chairman of the Supervisory Board, Founder

MANAGEMENT REPORT

CEO Statement

It must be said that 2021 was another extraordinary year for the whole world. The coronavirus pandemic that began in 2020 continued to play havoc. The responses of the great powers and the world's leading central banks to the health crisis were unprecedented. The experiments that began after the 2008 financial crisis have become commonplace. Governments and central banks are expected to resolve even the most difficult crises with sufficient intervention, seemingly relying on pure willpower. We can still only guess the effect of these experiments, but we will probably see it unfolding before our eyes for the next several years.

"Eventually, however, the triumph of technology and new business models in the financial sector is becoming apparent and it cannot be ignored anymore.

While the impact of these macroeconomic experiments is relatively difficult to predict, except for rising inflation, the pandemic certainly exacerbated several important trends. Green thinking and a clearer awareness of the global environmental crisis is certainly an important factor that will affect our lives for decades to come. Another continuing trend is the digitisation of most industries. And while we settled in home offices in 2020, hybrid work became the norm in 2021.

All these trends strongly affected Inbank in 2021 and will continue to affect our operations in the coming years. Inbank's green financing (financing of energy-saving equipment such as solar panels, heat pumps, etc.) more than tripled last year. At the same time, the share of online sales with Inbank's more than 4,600 partners continued to grow. The sales finance product group continued to grow the fastest and now accounts for 83% of Inbank's portfolio and 91% of all customer contracts. Since the founding of Inbank, we have believed that financing

will move out of banks and will be conveniently embedded into merchant offerings. This trend has only intensified over the past two years and Inbank is in a strong position to reap the benefits of embedded finance.

All these trends are also proven by the fact that 2021 was globally the record year in financing fintech companies. Last year, venture capitalists financed fintech with 116 billion euros, which is one-fifth of all venture capital financing globally! Banking is by nature a conservative, slowly changing and inert sector. Eventually, however, the triumph of technology and new business models in the financial sector is becoming apparent and it cannot be ignored anymore. We have built Inbank step by step, profitably, investing into new technologies, and today we believe we have created a platform that is ready to sail forward supported by the winds of global megatrends.

Sales and loan portfolio growth

Inbank continued its growth-oriented strategy, focusing primarily on the needs of its partners and customers. By the end of 2021, Inbank had more than 804,000 active customer contracts in total. Last year, Inbank sold credit products worth almost 500 million euros, 66% more than a year ago. Sales growth mainly came from sales finance, which amounted to almost 360 million euros or 74% more than a year earlier. At the same time, all product groups showed good and broad-based growth. Of the markets, Poland grew the fastest as expected, with sales volumes more than doubling to 230 million euros.

In millions of euros (€)	Sales finance total			*Of which green finance*			Car finance total			Loans and cards total		
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Volume of new sales	149.9	206.6	358.7	0.8	42.7	134.7	65.2	57.8	84.5	67.7	33.0	54.5
New sales of contracts (number)	336,760	378,838	471,762	121	8,082	24,759	10,203	8,271	10,892	29,965	13,202	20,092
Average new sales contract amount	445	545	760	6,418	5,278	5,439	6,388	6,990	7,756	2,260	2,500	2,714
Average effective interest rate of new sales	11.97%	8.12%	6.96%	5.64%	5.73%	5.87%	11.41%	10.13%	9.62%	18.95%	17.63%	14.93%
Average period of new sales (months)	26	41	58	87	108	113	61	61	62	55	54	54
Volume of credit portfolio	141.4	195.8	357.3	0.7	39.9	156.0	97.1	115.5	146.2	86.4	78.1	92.5
Number of credit contracts in portfolio (items)	519,798	622,802	729,270	119	8,065	31,489	22,075	24,863	27,039	46,284	43,628	47,797
Average value of contracts in portfolio	272	314	490	6,136	4,951	4,955	4,399	4,646	5,406	1,867	1,790	1,936
Average effective interest rate of portfolio	11.69%	7.93%	6.64%	5.61%	5.73%	5.84%	11.65%	10.60%	9.87%	18.96%	17.67%	15.78%
Share of portfolio in 90+ days overdue	0.45%	0.44%	0.20%	0.00%	0.00%	0.02%	0.30%	0.24%	0.09%	0.85%	0.91%	0.41%
Share of portfolio in 180+ days overdueo	0.18%	0.26%	0.10%	0.00%	0.00%	0.01%	0.16%	0.21%	0.04%	0.31%	0.67%	0.29%

Due to strong sales growth, Inbank's loan portfolio increased by 50% in 2021 to 605 million euros by the end of the year. Based on the strong growth, green financing already accounts for 26% of Inbank's loan portfolio. Sales finance continues to be the largest product group, and by the end of the year, for the first time, Poland had become the largest market for Inbank, with 40% of the bank's total portfolio.

Inbank's deposits increased by 58% over the year to 618 million euros. Zloty deposits in Poland continued to grow the fastest, accounting for 41% of total deposits. The average total cost of Inbank's deposit portfolio was 1.45%, down by 0.26% from the previous year.

Product development and investments

While in 2020 Inbank launched several new products, such as the Pay Later solution Indivy and the Inpay app and credit card, the main focus in 2021 was on marketing and developing these products further. Both products have been positively received by customers and partners, while their volumes are not yet significantly contributing to Inbank's results. However, the second half of 2021 showed growing interest in Indivy products among merchants both in Lithuania and Estonia. Several large retail chains, such as Topo Centras, Kesko Senukai, Sportland and iDeal have successfully launched the new Pay Later payment solution to promote sales.

Throughout its history, Inbank has successfully invested in a number of start-ups and joint ventures. In 2021, we continued this tradition and made two major investments. In January 2021, Inbank acquired 53% of Mobire, a full-service vehicle rental company. We believe that in the future, more and more people and companies will prefer to rent a car rather than owning one. Mobire already showed strong growth in 2021 and made a significant contribution to Inbank's results. We believe that potential cooperation opportunities and favourable trends will help Mobire to at least double its business in the Baltics in the coming years.

In April 2021, we founded an international Pay Later technology company Paywerk with Jan Andresoo, a co-founder of Inbank. In September, Inbank acquired a 30% stake in Paywerk. Paywerk's mission is to develop a cross-border Pay Later solution in

Europe that allows merchants to offer the innovative payment solution in several European markets with a single integration. The company is still in the early stages of its development, and plans to start offering services in Germany and Poland in the second quarter of 2022. We believe that Inbank will have many synergies with Paywerk in the future, while independent capital structure and management will best allow both companies to thrive.

In February 2022, the shareholders of Maksekeskus AS signed an agreement to sell 99% of the shares to Luminor Bank AS. As part of the transaction, Maksekeskus Holding OÜ, a subsidiary of Inbank AS, sold its entire 29.8% stake in Maksekeskus AS to Luminor Bank AS. This transaction is expected to close in the first half of 2022 and is subject to approvals by the Estonian Financial Supervision Authority and the Estonian Competition Authority.

Financial results

Since the second quarter of 2020, Inbank's business model has undergone a major change. The effective interest rate of Inbank credit portfolio was 13.3% in 2019 and 11.6% in 2020, but fell to 9.5% last year. The main reasons for the margin drop were successful growth in Poland, where competition is stronger, and a significantly higher share of green financing and car leasing in new sales, where contracts have a longer maturity and lower interest rate.

Lower margins had an impact on revenue growth, which fell short of portfolio growth in 2021, but at the same time had a positive impact on credit costs, which were the lowest in Inbank's history last year. Inbank's revenue grew by 24% in 2021, a significantly faster pace than in 2020, but well below the portfolio's 50% growth. At the same time, revenue growth accelerated over the last two quarters of 2021, as evidenced by a 37% increase in revenue in the fourth quarter. Today, it can be said that the decline in margins is slowing and we expect revenue growth to be similar to portfolio growth in the coming years.

Although declining margins have put pressure on Inbank's financial results, we believe that this development is positive in the long run. Lower margins, lower risk costs and a more

efficient business model will allow Inbank to compete in more European markets and in broader product categories in the future. Therefore, Inbank continued to invest in the future last year. The bank's expenses are mainly related to people and technology, and in 2021 Inbank's expenses increased by 41%. The increase in expenses was mainly due to the relatively lower base in 2020, the consolidation of Mobire within the Inbank group, and higher marketing expenses.

> Inbank's business model has reached a new equilibrium and will enter 2022 with fast growth, lower margins and with a better risk profile.

Successful credit risk management has been critical to Inbank's business model over the years. As the coronavirus crisis of 2020 first led to a halt in economic activity in several sectors and a high degree of uncertainty, followed by an increase in unemployment, Inbank considered it necessary to significantly increase its provisions for future credit losses. In 2021, however, we witnessed the economy beginning to recover with the support of governments and central banks, and by the end of last year, unemployment in all Inbank home markets had fallen significantly. The improved behaviour of the existing credit portfolio and the entry into lower-risk products, such as solar panel financing, led Inbank's risk costs in 2021 to a record low of 1.3% of the average loan portfolio. A year ago, the figure was 3.1%. We believe that due to improved risk management experience and financing of lower-risk customers, Inbank's business model will continue to have a slightly lower risk profile in the future.

In total, Inbank made its largest ever profit of 11 million euros in 2021. Compared to the previous year, the profit increased by 86%. The return on equity was 15.6%. Trends over the past few quarters show that Inbank's business model has reached a new equilibrium and will enter 2022 with fast growth, lower margins and with a better risk profile. We believe that a net interest margin of 6.6% and a risk cost of 1.3% are a good basis for profitable growth in the future.

New growth

Inbank's business model is built on customer-centred offerings and product–based growth. Our main source of growth is the sale of credit products through a network of partners. When our partners do well, so do we. If we involve more partners, who already number more than 4,600 today, we will grow even faster. As we add new products, our growth will be further enhanced. If our business model works in one country, it's very likely that with some adjustments, it will work in other, similar countries. This is how Inbank has grown into a significant service provider in the Baltics, where our market share has already risen to 10% of the consumer finance market. We have also grown into a significant player in the Polish sales finance market over the past two years, with a market share of over 5% in 2021.

> We chose the Czech market primarily due to its reasonable profitability, low credit losses and the opportunity to create the best digital shopping experience on the market for merchants and customers.

Inbank's latest expansion into a new market was Lithuania in 2018. In the meantime, we have launched new products and have had to navigate the effects of the coronavirus crisis, which has made it more difficult to develop cross-border business. However, in summer 2021, we decided that the time was ripe to continue expanding Inbank geographically, and we started entering the Czech market, where we hope to sign the first contract in the second quarter of 2022. We chose the Czech market primarily due to its reasonable profitability, low credit losses and the opportunity to create the best digital shopping experience on the market for merchants and customers. In addition, entering the new market will give us a number of opportunities to cooperate with the Polish business and position Inbank as the next generation digital bank in Central and Eastern Europe.

Capitalisation

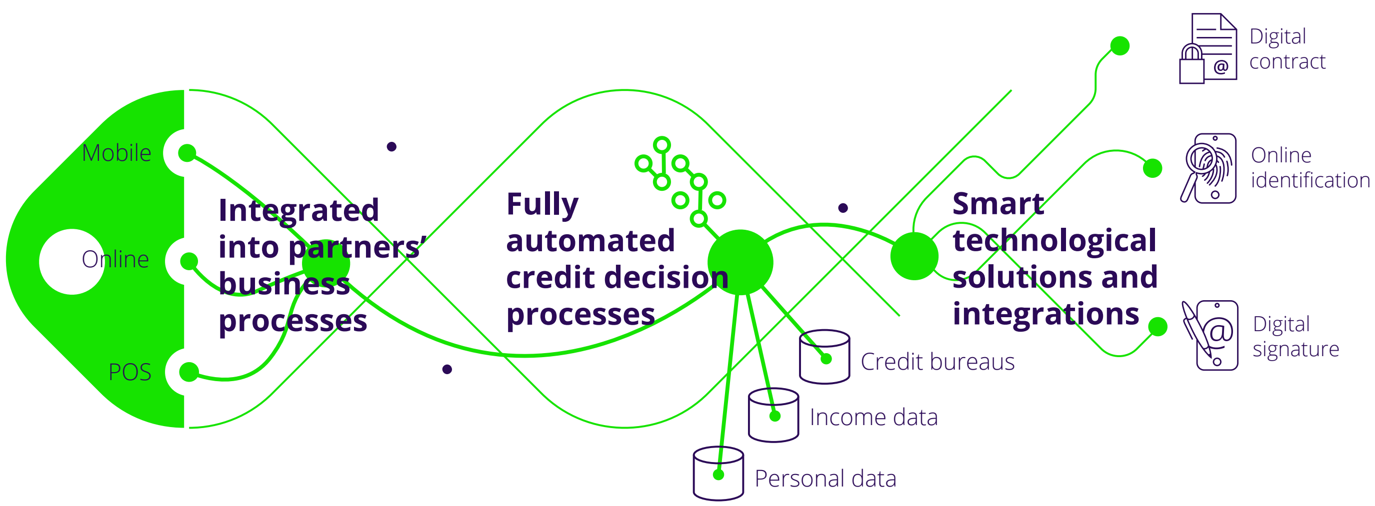
Rapid growth and new development opportunities also require Inbank to continuously raise capital. In the final quarter of last year, we were particularly active in this area, raising 25.5 million euros in new capital through three capital instruments. At the end of October, we raised 4.5 million euros of additional Tier 1 capital at 7.5% interest. In December, we issued subordinated bonds on the Nasdaq Tallinn stock exchange worth 15 million euros with an interest rate of 5.5%. We ended the year raising 6 million euros in equity, bringing the value of Inbank to almost 225 million euros.

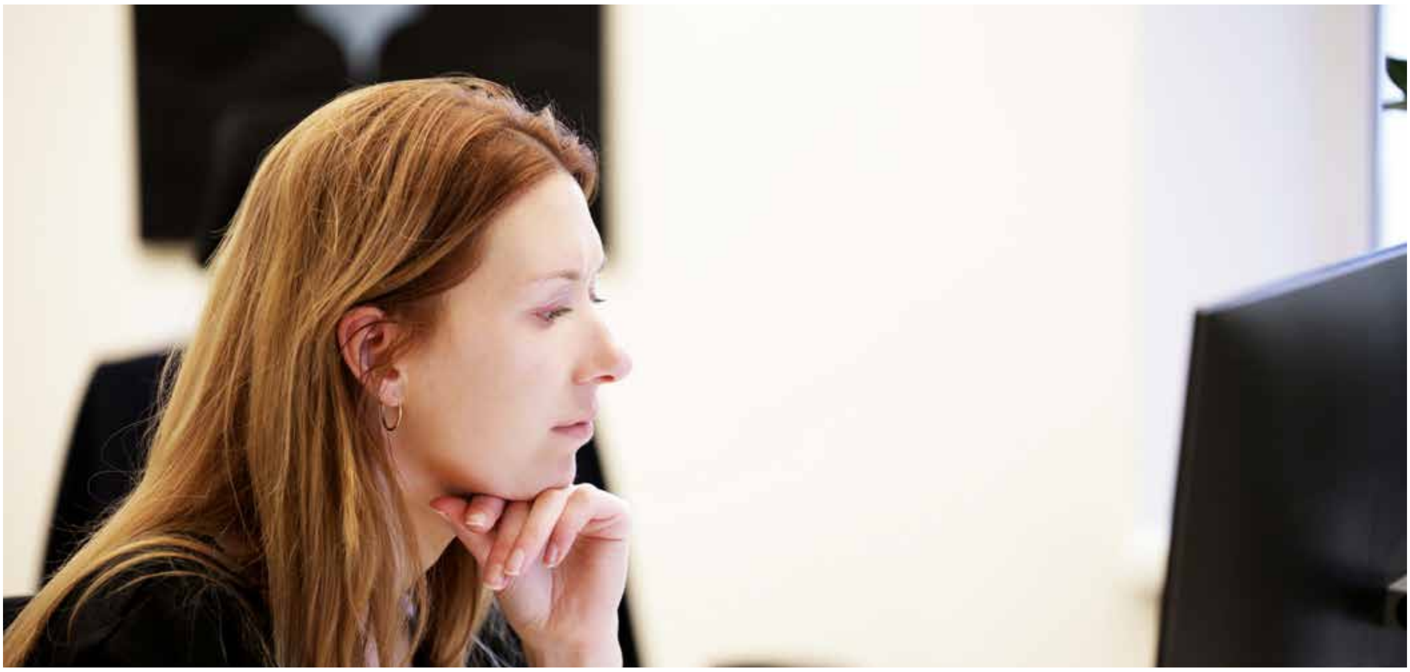
At the end of last year, Inbank's equity amounted to 79.0 million euros, 30% more than a year ago. Inbank's total capital adequacy at the end of 2021 was 17.05%. A solid capitalisation level and investor interest in Inbank shares and bonds give us good prospects for future international growth.

> We believe that banking will move out of banks and become a part of customers' daily digital lives.

Strategy

Inbank's success has always been based on focus and the ability to choose what we do and what we don't do. As a successful company, we always have opportunities to grow and invest. So far, we may have done even more than we should have, but we have always believed that it is better to experiment and learn from experience. Looking back at the beginning of Inbank and analysing our success in new markets, we realised once again that partner-based financing and everything related to it are at the core of Inbank's business. We believe that banking will move out of banks and become a part of customers' daily digital lives. Our role is to build solutions that make the lives of both merchants and customers better and more comfortable.





We will see an increase in the supply of financing and payment solutions in new digital environments and platforms in the future. Sales finance Pay Later and other partner-based financing products are Inbank's main focus for strategic growth and an area where we want to maintain and develop our competitive advantage. At the same time, we understand that there must always be room for new initiatives. This helps us to keep an open mind and gives talent a chance to test new ideas. Our experience shows, however, that we are more successful when we create new ventures adjacent to Inbank or in partnership with focused teams. We want to stick to this formula, where we focus on our partner-based core business while continuing to invest in potential growth areas.

Organisation

In mid-2020, we transformed Inbank into a product-based organisation and centralised the roles of support units throughout the bank. Looking back, it was not easy to create a cross-border structure when most people were working in home offices. Creating a coherent international team is a major challenge. The organisational change caused some complexities and temporarily higher costs. Still, Inbank is now significantly more international than ever before in terms of both structure and management, and has a wider talent base. Last year, our ambitious team in 5 countries grew by nearly 50 people of 12 different nationalities.

In order to harmonise the legal structure in all domestic markets, we transferred our Estonian loan portfolio to Inbank Finance, a subsidiary established in July. In the future, Inbank will operate in Estonia and Latvia through a subsidiary, and the bank will have branches in Lithuania, Poland and the Czech Republic. These restructurings did not result in any material changes, and Inbank's business and support units will continue to operate on the basis of the previous product-based organizational structure.

Entrepreneurship, professionalism and a willingness to invest in new markets and technologies continue to make Inbank an attractive workplace for talented professionals. In addition, we launched an employee option programme last year to motivate key people, to which we allocate up to 1.25 percent of the company’s equity every year. We believe that if an employee is an owner, it is not only good for recruiting and motivating employees, but there is also a clear benefit for all Inbank shareholders.

Summary

Overall, we are very happy with 2021 results. In another difficult year, Inbank managed to grow its business by more than half. We put our foot firmly down in the Polish market and decided to expand into the Czech market. We continued to invest in both technology and new ventures. We improved profitability, strengthened our capital base and expanded our international organisation to 290 people in five countries. We believe that Inbank is well positioned to participate in the growth of digitalisation in the banking sector and the development of a green economy in Europe. We are one of the leading banks in our niche in all the markets we operate, and we see future banking trends as the wind in our sails.

Priit Põldoja
Chairman of the Management Board, Founder


VP

Governance

Supervisory Board

The Inbank Supervisory Board consists of six members.

Jan Andresoo
CHAIRMAN OF THE SUPERVISORY BOARD

Rain Rannu

Roberto de Silvestri

Triinu Bucheton

Raino Paron

Taavi Kotka

Management Board

The Inbank Management Board consists of seven members.

Priit Põldoja
CHAIRMAN OF THE MANAGEMENT BOARD

Benas Pavlauskas

Piret Paulus

Margus Kastein

Maciej Pieczkowski

Marko Varik

Jaanus Kõusaar

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.

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.

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.

A resolution on the amendment of the Articles of Association is adopted when at least two-thirds of the votes represented at the General Meeting are in favour. A resolution on the amendment of the Articles of Association enters into force as of the making of a corresponding entry in the commercial register. The resolution of the General Meeting on the amendment of the Articles of Association, the minutes of the General Meeting and the new text of the Articles of Association are attached to the application filed with the commercial register.

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 acknowledgment 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 two extraordinary General Meetings of the shareholders were held in 2021.

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 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.

Management Board

The Articles of Association, the Commercial Code and the Credit Institutions Act regulate the functions of the Management Board of Inbank. Since 2020 The Management Board of Inbank 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:

- Priit Põldoja – 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;

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	
Priit Põldoja	21,500	1,205,484	30,000
Marko Varik	0	119,570	23,500
Piret Paulus	0	124,000	23,500
Jaanus Kõusaar	0	9,750	22,500
Benas Pavlauskas	14,500	0	3,000
Margus Kastein	30,000	1,750	2,500
Maciej Pieczkowski	81,000	0	3,500

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 2021.

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 Management Board of AS Inbank Finance
- Jaanus Kõusaar: Member of the Management Board of Inbank Latvia SIA and Inbank Payments OÜ, Maksekeskus Holding OÜ; Member of the Supervisory Board: Mobire Group OÜ;
- Margus Kastein: Member of the Management Board of AS Inbank Finance; Member of the Supervisory Board Mobire Group OÜ;
- Marko Varik: Member of the Supervisory Board Mobire Group OÜ

The members of the Management Board have not received any severance payments in 2021.

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 six members (according to the articles of association five to seven members), who are elected for three years by the General meeting:

- Jan Andresoo – Chairman of the Supervisory Board;
- Roberto de Silvestri – Member of the Supervisory Board;
- Rain Rannu – Member of the Supervisory Board;
- Triinu Bucheton– Member of the Supervisory Board;
- Raino Paron – Member of the Supervisory Board;
- Taavi Kotka - Member of the Supervisory Board.

In 2021, there were 24 Supervisory Board meetings and in 17 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 2021.

Inbank's Audit Committee has three members. The Chairman of the Audit Committee is Raino Paron and members are Jan Andresoo and Triinu Bucheton. 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 Jan Andresoo 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	
Jan Andresoo	0	1,078,875	30,000
Roberto de Silvestri	824,800	0	18,000
Rain Rannu	18,000	88,500	3,000
Triinu Bucheton	0	30,454	0
Taavi Kotka	0	3,250	5,000
Raino Paron	0	282,900	13,000

Jan Andresoo and Triinu Bucheton 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 Chairman of the Management Board, which has been previously approved by the Management Board of AS Inbank, 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 01.01.2021 – 31.12.2021. 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.

Dividend policy

Inbank is a credit institution and the most important prerequisite for the payment of dividends is both external and internal regulatory standards related to capital, which must be met in a sustainable manner. Inbank has not yet paid dividends and has used the earned profit to expand its operations. This policy will continue in the future.

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 433,400 shares have been issued, of which 108,500 are issued to members of the Management Board and 69,000 to members of the Supervisory Board (see Note 22). These Option contracts can be realised in 2022 and 2024. In 2021 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 2021.

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 (risk expense)	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	31.12.2021	31.12.2020
Assets			
Due from central banks	3; 11	77,453	27,445
Due from credit institutions	3; 11	17,870	19,784
Investments in debt securities	3; 12	7,684	13,618
Loans and advances	3; 4; 8; 26	604,848	402,212
Investments in associates	13	774	4,026
Tangible assets	14	19,147	833
Right of use asset	15	25,231	1,157
Intangible assets	16	22,423	16,139
Other financial assets	3; 17	2,151	1,350
Other assets	17	2,769	1,297
Deferred tax asset	10	2,401	2,170
Assets held for sale	28	4,203	0
Total assets	4	786,954	490,031
Liabilities			
Customer deposits	18; 26	617,857	391,341
Other financial liabilities	19; 26	49,188	12,218
Current tax liability		284	864
Deferred tax liability		125	0
Other liabilities	21	3,296	2,810
Debt securities issued	19	0	4,010
Subordinated debt securities	20	37,187	17,563
Total liabilities	4	707,937	428,806
Equity			
Share capital	23	997	961
Share premium	23	30,436	23,865
Statutory reserve capital	25	96	90
Other reserves	25	1,625	1,438
Retained earnings		45,863	34,871
Total equity		79,017	61,225
Total liabilities and equity		786,954	490,031

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	2021	2020
Interest income based on EIR	5	48,038	43,035
Interest expense	5	-9,590	-7,855
Net interest income	5	38,448	35,180
Fee income	6	2,200	1,362
Fee expense	6	-3,117	-2,463
Net fee and commission income	6	-917	-1,101
Other operating income	7	19,347	768
Other operating expense	7	-13,833	0
Total net interest, fee and other income and expenses		43,045	34,847
Personnel expenses	8	-11,623	-9,207
Marketing expenses	8	-2,829	-1,557
Administrative expenses	8	-6,627	-4,223
Depreciations, amortisation	14	-3,360	-2,334
Total operating expenses		-24,439	-17,321
Profit before profit from associates and impairment losses on loans		18,606	17,526
Share of profit from subsidiaries and associates	13	335	789
Impairment losses on loans and advances	9	-6,668	-11,546
Profit before income tax		12,273	6,769
Income tax	10	-1,310	-867
Profit for the period		10,963	5,902
Other comprehensive income that may be reclassified subsequently to profit or loss			
Currency translation differences		-59	-219
Total comprehensive income for the period		10,904	5,683

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	2021	2020
Cash flows from operating activities			
Interest received	4	47,450	43,258
Interest paid	4	-7,465	-5,938
Fees received	5	2,200	1,362
Fees paid	5	-3,117	-2,463
Other operating income received	7	19,347	768
Other operating expense paid	7	-8,011	0
Personnel expenses	8	-11,503	-9,190
Administrative and marketing expenses	8	-7,201	-6,878
Corporate income tax paid		-1,943	-693
Cash flows from operating activities before changes from the operating assets and liabilities		29,757	20,226
Changes in operating assets			
Loans and advances		-210,218	-77,416
Mandatory reserve in central banks	11	-5,151	1,812
Other assets		1,104	-552
Changes of operating liabilities			
Customer deposits		224,505	11,905
Other liabilities		10,156	287
Net cash from operating activities		50,153	-43,738
Cash flows from investing activities			
Investments in debt securities		-6,279	-13,627
Repayments of debt securities		12,236	0
Acquisition of tangible and intangible assets	14	-21,856	-6,142
Acquisition of subsidiaries and associates	13	-3,405	926
Net cash used in investing activities		-19,304	-18,843
Cash flows from financing activities			
Share capital contribution (including share premium)		6,607	8,180
Subordinated debt securities issued		19,500	0
Repayments of debt securities		-4,000	0
Lease liability payments		-9,990	-592
Net cash used in financing activities		12,117	7,588
Effect of exchange rate changes		-23	301
Cash and cash equivalents at the beginning of the reporting period	11	44,476	99,168
Net increase/decrease in cash and cash equivalents	11	42,943	-54,692
Cash and cash equivalents at the end of the reporting period	11	87,419	44,476

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 equity
Balance, 01.01.2020	903	15,908	88	1,463	28,958	47,320
Paid in share capital	58	7,957	0	0	0	8,015
Share-based payment reserve	0	0	0	194	13	207
Statutory reserve capital	0	0	2	0	-2	0
Total profit for the reporting period	0	0	0	0	5,902	5,902
Other comprehensive income	0	0	0	-219	0	-219
Balance, 31.12.2020	961	23,865	90	1,438	34,871	61,225
Balance, 01.01.2020	961	23,865	90	1,438	34,871	61,225
Paid in share capital	36	6,571	0	0	0	6,607
Share-based payment reserve	0	0	0	246	35	281
Statutory reserve capital	0	0	6	0	-6	0
Total profit for the reporting period	0	0	0	0	10,963	10,963
Other comprehensive income	0	0	0	-59	0	-59
Balance, 31.12.2021	997	30,436	96	1,625	45,863	79,017

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

AS Inbank is a credit institution registered in Estonia, which is operating in addition to Estonia also in Latvia, Lithuania, Poland, and Czech Republic.

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

AS Inbank (hereinafter: the parent company) consolidated annual report for the year 2021 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 AS Inbank 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 except for the branches in Poland and Czech Republic which use Polish zloty and Czech koruna as their functional currencies.

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 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 experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers of Inbank are compensated. For example: Inbank's business model for unsecured consumer loans is to collect contractual cash flows, sales only occur when there has been a significant increase in credit risk. Therefore, the business model for the portfolio is to hold assets to collect contractual cash flows.

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

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

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

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

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

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

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 CONTRACT TERMS

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

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

DERECOGNITION OTHER THAN A MODIFICATION

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

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

WRITE-OFF POLICY

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

Financial liabilities

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

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

Impairment of the financial instruments

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 considers:

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

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

- Stage 1 – includes balances for which the credit risk has not increased significantly since initial recognition. ECL is measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (12-month ECL).
- Stage 2 - includes balances for which there has been a significant increase in credit risk since initial recognition, but which do not have objective evidence of impairment. The expected credit losses are determined on a lifetime basis.
- Stage 3 - includes balances that are credit-impaired (i.e., which are overdue more than 90 days, if debtor is insolvent, if it is likely that the debtor will enter bankruptcy or distressed restructuring is applied). The expected credit losses are measured as lifetime expected credit losses.
- 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.

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" that is described in the paragraphs below), 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 ECL is calculated as a product of the main inputs - PD, LGD and EAD, discounted by portfolio 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.

Inbank calculates the impairment of financial instruments according to the IFRS 9 standard, based on the expected credit loss (ECL) model. For estimating credit loss Inbank analyses historical data, considers overall economic environment, and makes predictions for the future economic development. From the latter, AS Inbank has provided estimates for the key inputs which are required to assess the expected credit loss, and which are described below:

- *Definition of default*. Inbank considers the financial instrument as defaulted when the instrument is 90 or more days past due (considering the threshold of 5 EUR in case of retail receivables and 500 EUR for non-retail receivables) 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, classified as fraudulent or distressed restructuring measures have been applied.

  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.

  An instrument is no longer considered to be in default when it no longer meets any of the default criteria for at least three consecutive months. When a loan is in default due to a non-performing forbearance measure having been applied, longer probation periods are applied.

- *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. 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). For retail receivables, the significant increase in credit risk is assumed to occur at more than 30 days past due. Additionally, if forbearance measures have been applied to the receivable due to the financial difficulties and the obligation is served properly, it is also considered the increase in credit risk. For the receivables classified as performing forborne the probation period is 24 months. 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.

  Inbank has not used the low credit risk exemption for any financial instruments in the year.

- *LGD levels*. 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. 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. Although, as in 2020, the economic environment was affected by the spread of the COVID-19 virus, the economic environment was less uncertain and what was happening in the economy was more predictable. The environment for the sale of debt claims, which was strongly affected by the spread of COVID-19 in 2020 and led to a decrease in the price of debt claims in the market, was stable in 2021, showing some signs of improvement. During 2021 Inbank continued to use LGDs in line with market conditions, but as different economic forecasts point to more positive scenarios for the future, the management of Inbank believes that the situation in the debt claim sales market is improving and that LGDs are expected to decrease in 2022.

- *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 (incl. GPD change, inflation, unemployment rate) on portfolio PD was analysed using regression analysis across countries in the portfolio. The macroeconomic projections are based on the latest available macroeconomic analyzes of the national central banks of the portfolio countries, of the major commercial banks and European banking institutions. For objective estimation of the credit loss, Inbank uses three scenarios which include forward looking information – baseline, positive and negative scenario. AS Inbank 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 31.12.2021 probability for baseline scenario was estimated to be 60%, positive scenario probability 20% and negative scenario probability 20%; the scenario estimates have remained the same as in 2020. Inbank updates forecasts of economic indicators and probabilities of scenarios at least once a year. 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 considered, 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.

  Inbank has carried out a sensitivity analysis on key assumptions, which according to AS Inbank assessment have the most impact on the expected credit loss. In terms of macroeconomics, the impact of changes in the unemployment rate on the portfolio has been analyzed. The result of the analysis, which are in an unfavorable direction to Inbank, shows that if:

  - PD rates increase by 10%, the impact to the ECL is EUR 0.5 million.
  - LGD rates valid in the debt claim sales market increase by 10 p.p., the impact to the ECL is EUR 1.2 million.
  - unemployment rate increases by 5 p.p., the impact to the ECL is EUR 2.4 million.
  - scenario weights are adjusted 60%/5%/35% respectively, the impact to the ECL is EUR 0.5 million

- *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.

- *Grouping of instruments for loss measured on a collective basis.* For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed based on the shared risk characteristics, such that risk exposures within a group are homogeneous. For the 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.

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.

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 31.12.2021 the volume of secured loans was EUR 7 million which makes 1.2% (31.12.2020: 1.8%) out of total portfolio.

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 (3-10 years) using the straight-line method. The amortization period for property and equipment is 2-8 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:

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

See further details in accounting principles note section "Amortised cost and effective interest rate".

Fee and commission income and expenses

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

Revenue from the sale of goods is recognized at the fair value of the received amount or receivable amount, considering any discounts and rebates granted. Revenue from the sale of goods is recognized when all significant risks and rewards of ownership have been transferred from the seller to the buyer, the revenue and costs associated with the transaction can be measured reliably and it is probable that the future economic benefit associated with the transaction will flow to the entity. Revenue from the sale of a service is recognized in the same period as the service is incurred. Revenue from operating leases is recognized on a straight-line basis over the term of the lease.

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

In Estonia, the credit institutions pay 14% advance dividend income tax on their earnings based on the previous quarter. When distributing profits and calculating the related income tax liability, the credit institution can consider the payment made. Only companies with profits are taxed.

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.

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

According to the Income Tax Act, profits are taxed at a rate of 20/80 upon distribution.

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 and monitors the profitability of product groups across countries.

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

Inbank is acting both as a lessor and as a lessee. Inbank leases various properties and subsidiary of Inbank, Mobire leases vehicles.

Inbank as lessee

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.

Rental contracts are typically made for fixed periods of 2-5 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. Short-term leases and low value assets are recognized as expense on a straight-line basis over the lease term. 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.

Inbank as lessor

Assets subject to operating leases are recognized in the balance sheet as usual similarly, to fixed assets. Depreciation of leased assets is based on the depreciation principles applied to the same type of assets in Inbank. Operating lease payments are recognized as income on a straight-line basis over the lease term.

Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became effective for Inbank from 1 January 2021:

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (effective for annual periods beginning on or after 1 June 2020).

The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments due on or before 30 June 2021;
- and there is no substantive change to other terms and conditions of the lease.

If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8.

New standard is not expected to have a material impact on Inbank.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective for annual periods beginning on or after 1 January 2021).

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- End date for Phase 1 relief for non contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a

non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of:

  i. how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition;

  ii. quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and

  iii. a description of any changes to the risk management strategy as a result of IBOR reform.

There were no IBOR-related instruments during the reporting period, therefore the implementation will not have a material impact on Inbank's financial position, financial result or cash flows.

New or amended standards and interpretations have been issued that become mandatory for Inbank in subsequent periods and have not been adopted early.

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (effective for annual periods beginning on or after 1 April 2021)

In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022.

Implementation is not having impact on the financial statements.

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 result, 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.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU).

IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

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

Amendments to IAS 8: Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU).

The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

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 (more info is presented in Note 26), the write-down of impaired loans (Note 9), NCI redemption liability (Note 13), impairment of tangible and intangible assets (Note 16), goodwill (note 16), deferred taxes (Note 10) and share-based payments (Note 24). The management relies on experience and other factors reasonable in the given situation when making these decisions and estimates.

The significant management judgements and assumptions are related to the IFRS 9 standard and mainly concern inputs for measuring expected credit loss (ECL), including LGD, macroeconomic impact and increased credit risk (SICR) criteria. Models, estimates and inputs are regularly reviewed by the risk unit of Inbank. Expected credit loss (ECL) estimates are vague in nature and require the use of complex models and significant estimates of future economic conditions and customer behaviour. The inputs, assumptions and estimates of expected credit loss are described in more detail in “Note 1. Summary of significant accounting policies”.

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 business risk, including strategic risk and reputational risk, and capital 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 AS Inbank 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, and central banks.

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 31.12.2021	Estonia	Latvia	Lithuania	Poland	Total
Receivables from central banks	68,861	0	0	8,592	77,453
Receivables from credit institutions	12,329	499	2,966	2,076	17,870
Receivables from investments in debt securities	7,684	0	0	0	7,684
Receivables from households	165,423	45,037	142,578	242,987	596,025
Receivables from non-financial corporates	1,553	0	114	0	1,667
Receivables from other financial corporates	5,363	0	0	0	5,363
Other advances	175	362	1,028	228	1,793
Other financial assets	988	131	755	98	1,972
Total receivables	262,376	46,029	147,441	253,981	709,827

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

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

Inbank considers loan portfolio risk, concentration risk, country risk, and counterparty 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 receivables i.e., receivables from households and non-retail receivables i.e., receivables from corporates.

In Inbank, an exposure is classified as a retail exposure i.e., the exposure to households, if the credit is issued to private individuals. 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, which are issued to the corporates and the credit decisions of which are, therefore, made individually by the Credit Committee and the risks of which are predominately hedged by various collaterals.

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.

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

Receivables from households

In thousands of euros 31.12.2021	Gross	Impairment allowance			Net	Impairment
Distribution of receivables	receivables	Stage 1	Stage 2	Stage 3	receivables	coverage
0-3 days	580,325	-4,036	-113	-353	575,823	0.8%
4-30 days	13,606	-923	-116	-108	12,459	8.4%
31-89 days	8,201	-1	-1,412	-207	6,581	19.8%
90-179 days	1,341	0	0	-860	481	64.1%
180+ days	3,870	0	0	-3,189	681	82.4%
Total receivables	607,343	-4,960	-1,641	-4,717	596,025	1.9%

In thousands of euros 31.12.2020	Gross	Impairment allowance			Net	Impairment
Distribution of receivables	receivables	Stage 1	Stage 2	Stage 3	receivables	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%

Inbank continues to focus on a product-based growth strategy. Inbank's receivables from households increased by 50% compared to 31.12.2020. The main growth came from the Polish portfolio, where the product with the highest growth was green hire purchase. The year 2021 is characterized by low loan losses, as Inbank's loan portfolio continues to become less risky due to the increase in the share of financing of solar panels and leasing. The real economic situation and customers' solvency were also significantly better than in 2020 during the corona crisis.

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 31.12.2021 Distribution of receivables	Gross receivables	Impairment allowance Stage 1	 Stage 2	 Stage 3	Net receivables	Impairment coverage
0-3 days	8,801	-25	0	0	8,776	0.3%
4-30 days	47	0	0	0	47	0.0%
31-89 days	0	0	0	0	0	0.0%
90-179 days	0	0	0	0	0	0.0%
180+ days	0	0	0	0	0	0.0%
Total receivables	8,848	-25	0	0	8,823	0.3%

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%

The quality of Inbank's non-retail receivables portfolio has been at a good level during the reporting period, the portfolio has decreased compared to 2020. As this is not the company's core business, no portfolio growth has been expected.

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, 31.12.2019	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
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-16,105	16,105	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-3,594	-593	4,187	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	1,923	-1,877	-46	0
From Stage 3 to Stage 2	0	18	-18	0
New originated or purchased	407,636	0	0	407,636
Derecognised during the period	-95,174	-1,664	-690	-97,528
Changes to ECL measurement model assumption	-90,001	-3,090	-545	-93,636
Total movements with impact on credit loss allowance charge for the period	204,685	8,899	2,888	216,472
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-4,596	-3,049	-5,345	-12,990
Carrying amount, 31.12.2021	585,120	15,958	6,265	607,343

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, 31.12.2019	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
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
to lifetime (from Stage 1 to Stage 2)	-1,243	1,243	0	0
to credit-impaired (from Stages 1 and 2 to Stage 3)	-1,069	-144	1,213	0
to 12-months ECL (from Stages 2 and 3 to Stage 1)	267	-262	-5	0
From Stage 3 to Stage 2	0	3	-3	0
New originated or purchased	5,386	0	0	5,386
Derecognised during the period	1,572	953	5,127	7,652
Changes to ECL measurement model assumption	-2,076	73	1,431	-572
Total movements with impact on credit loss allowance charge for the period	2,837	1,866	7,763	12,466
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-2,890	-1,965	-9,497	-14,352
Impairment allowance, 31.12.2021	4,960	1,641	4,717	11,318

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, 31.12.2019	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				
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
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	5,746	0	0	5,746
Derecognised during the period	-7,604	0	6	-7,598
Changes to ECL measurement model assumption	-844	0	0	-844
Total movements with impact on credit loss allowance charge for the period	-2,702	0	6	-2,696
Movements without impact on credit loss allowance charge for the period:				
Write-offs	0	0	-49	-49
Carrying amount, 31.12.2021	8,848	0	0	8,848

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, 31.12.2019	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
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	12	0	0	12
Derecognised during the period	-12	0	8	-4
Changes to ECL measurement model assumption	-9	0	1	-8
Total movements with impact on credit loss allowance charge for the period	-9	0	9	0
Movements without impact on credit loss allowance charge for the period:				
Write-offs	0	0	-13	-13
Impairment allowance, 31.12.2021	25	0	0	25

Investments in debt securities

Limits on the credit risk of the debt securities are set according to the issuer in the Credit Committee. As at 31.12.2021, Inbank has invested in debt securities in the amount of 7.7 million euros (31.12.2020: 13.6 million euros). 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	31.12.2021	31.12.2020
Central government	P-1	0	10,009
Corporate	Not rated	7,684	3,609
Total investments in debt securities		7,684	13,618

As of 31.12.2021, Inbank's bond portfolio consists of long-term securities of Aktiva Porfolio AS with different maturities between 29.09.2027 and 29.12.2028 with an interest rate of 3% + 12-month Euribor. As of 31.12.2020, the bond portfolio also included treasury bills of the Republic of Estonia with a maturity date of 07.05.2021 with an average yield of -0.24%.

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 assessing the financial situation of the issuer of the debt securities in the bond portfolio. The corporate bonds in the portfolio are over-secured by consumer credit claims. The over-collateralisation of a bond investment with collateral is more than doubled. The statistical models used in Inbank indicate that the bonds can be repaid in full at the expense of the cash flow collected from the collateral. Considering the latter, the expected credit loss from the investments in debt securities as of 31.12.2021 is immaterial and therefore, no allowance has been recognised in the statement of financial position.

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, AS Inbank considers the credit quality of those financial institutions to be good.

Exposures to central banks and credit institutions according to Moody's short-term credit rating classes (credit rating of the counterparty or, failing that, the credit rating of the counterparty's parent) are outlined in the following table.

Receivables from central banks and credit institutions by credit ratings

In thousands of euros			
Counterparty type	Credit rating	31.12.2021	31.12.2020
Central government	P-1	0	10,009
Corporate	Not rated	7,684	3,609
Total investments in debt securities		7,684	13,618

In assessing the expected credit loss on the receivables from central banks and credit institutions, Inbank takes into account the credit ratings of the countries and credit institutions provided by internationally recognised rating agencies and also possible payment delays are considered. As at 31.12.2021 and 31.12.2020, 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.

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 2021 and 31 December 2020, 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.

The emergence of market risk is associated with Inbank's core business, but taking this risk is not an end in itself. 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 2021 and 2020, Inbank had not entered into any financial instruments to mitigate interest rate risk.

As at 31 December 2021, a 1 percentage point increase in market interest rates would raise Inbank's equity, i.e. economic value, by EUR +783 thousand (31.12.2020: by EUR +410 thousand) and the annual profit by EUR +1041 thousand (31.12.2020: by EUR +822 thousand). At the same time, a 1 percentage point decrease in market interest rates would affect Inbank's equity (economic value) by EUR -312 thousand (31.12.2020: by EUR -133 thousand) and the annual profit by EUR -422 thousand (31.12.2020: as a result of the new methodology by EUR -577 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 operations in Poland and Czech Republic. Inbank generally holds minimum foreign currency positions necessary for rendering services to customers. Inbank holds no assets or liabilities in currencies other than euro, the Polish zloty, and Czech koruna as at 31.12.2021. Inbank avoids excessive currency risk and mitigates it to a reasonable extent by maintaining the necessary balance between loans and deposits. 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 currency positions in which Inbank holds a net open foreign currency position (euro positions are not considered as foreign currency positions).

Inbank's open currency positions and the results of the sensitivity analysis are presented in the table below.

Open currency exposures

In thousands of euros				
31.12.2021	EUR	PLN	CZK	Total
Assets bearing currency risk	530,138	256,805	11	786,954
Liabilities bearing currency risk	453,791	254,095	51	707,937
Open currency position	76,347	2,710	-40	79,017
Impact on a 10% adverse change of FX rate		271	-4	267
31.12.2020	EUR	PLN	CZK	Total
Assets bearing currency risk	382,332	107,699	0	490,031
Liabilities bearing currency risk	321,319	107,487	0	428,806
Open currency position	61,013	212	0	61,225
Impact on a 10% adverse change of FX rate		21	0	21

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 31.12.2021 accounted for a total of 12% of the balance sheet size (31.12.2020: 12%). 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, the Netherlands, and Finland, 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 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 31.12.2021	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	90,823	4,500	0	0	0	95,323	95,323
Investments in debt securities	119	238	1,058	5,298	1,585	8,298	7,684
Loans and advances	24,267	53,597	184,415	384,549	99,102	745,930	604,848
Other financial assets	1,729	167	105	42	108	2,151	2,151
Total assets	116,938	58,502	185,578	389,889	100,795	851,702	714,983
Liabilities							
Customer deposits	86,533	78,990	224,691	237,365	0	627,579	617,857
Debt securities issued	0	0	0	0	0	0	0
Subordinated debt securities	6,617	561	1,433	5,060	31,348	45,019	37,187
Other financial liabilities	20,748	1,713	205	28	0	22,694	22,694
Lease liability	92	2,396	5,533	20,896	10	28,927	26,494
Total liabilities	113,898	81,264	226,329	242,453	31,348	724,219	704,232
Maturity gap of assets and liabilities	3,040	-22,762	-40,751	147,436	69,447	127,483	10,751

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 financial assets	1,201	15	64	70	0	1,350	1,350
Total assets	67,093	42,729	153,339	265,761	32,278	561,200	464,409
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 financial liabilities	9,821	737	323	3	166	11,050	11,050
Lease liability	45	89	368	761	0	1,263	1,168
Total liabilities	24,194	33,100	169,947	209,096	166	436,503	423,964
Maturity gap of assets and liabilities	42,899	9,629	-16,608	56,665	32,112	124,697	40,445

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. Its purpose is to create and implement a stronger control framework in the area of operational risks. The bank has an Operational Risk Board, which coordinates operational risk management with the aim of managing operational risks better and more efficiently. It develops and implements the internal processes and regulations necessary for the implementation of the policy, as well as the operational risk management processes and systems. Inbank has implemented processes to manage incidents and approve new products as well as established a business continuity plan for crisis situations. In addition, Inbank conducts annual operational risk trainings for all Inbank employees to raise awareness and mitigate and manage operational risks.

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 constitution of own funds and the minimum requirements for bank-specific capital buffers as at 31 December 2021.

Own funds

In thousands of euros	31.12.2021	31.12.2020
Equity as reported in consolidated balance sheet	79,017	61,225
Regulatory adjustments	-10,006	-4,756
Intangible assets	-13,523	-8,923
Adjustments due to IFRS 9 transitional arrangements	3,517	4,167
Common Equity Tier 1 capital	69,011	56,469
Additional Tier 1 capital	7,650	3,150
Tier 1 capital	76,661	59,619
Tier 2 capital	29,168	14,503
Own funds	**105,829**	**74,122**

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 of 2021 in the amount of EUR 2,937 thousand (31.12.2020: EUR 1,714 thousand). Should the aforementioned profit be excluded from Inbank's own funds, it would decrease the own funds to EUR 102,893 thousand (31.12.2020: to EUR 72,407 thousand).

Capital buffers

	31.12.2021	31.12.2020
Institution-specific buffer requirement (as a percentage of total risk exposure amount)	2.50%	2.50%
of which: capital conservation buffer requirement	2.50%	2.50%
of which: countercyclical buffer requirement	0.00%	0.00%
of which: systemic risk buffer	0.00%	0.00%

The Supervisory Board of AS Inbank 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 AS Inbank 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. The Estonian business segment includes Inbank and its subsidiary Inbank Finance. The financial indicators of the newly started Czech branch are insignificant; thus, they have been included in the Estonian business. Investments include companies that have investments in associates and subsidiaries, including Mobire, together with its subsidiaries in Latvia and Lithuania. 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 business of Estonia, Latvia, Lithuania, and Poland is the offering of credit products with the largest product group being hire purchase. Inbank Technologies, which is part of the investment segment, offers hardware rental to the consolidation group companies and Mobire offers full-service car rental services.

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.

The development of segment revenue and net profit is presented below, in which significant segments are presented separately.

Income of reported segments and net profit structure

In thousands of euros							
2021	Estonia	Latvia	Lithuania	Poland	Investments	Eliminations	Total
Interest income based on EIR	22,183	4,775	15,197	10,107	20	-4,244	48,038
incl. income from external customers	17,939	4,775	15,197	10,107	20	0	48,038
incl. Income from internal customers	4,244	0	0	0	0	-4,244	0
Fee income	1,313	214	19	654	0	0	2,200
Other operating income	5,936	51	220	146	19,457	-6,463	19,347
incl. income from external customers	321	41	146	24	18,815	0	19,347
incl. Income from internal customers	5,615	10	74	122	642	-6,463	0
Total income	29,432	5,040	15,436	10,907	19,477	-10,707	69,585
Interest expense	-7,622	-571	-2,220	-2,615	-806	4,244	-9,590
Fee expense	-1,129	-184	-966	-838	0	0	-3,117
Other operating expense	0	0	0	0	-13,836	3	-13,833
Total expenses	-8,751	-755	-3,186	-3,453	-14,642	4,247	-26,540
Total net interest, fee and commission income and other income	20,681	4,285	12,250	7,454	4,835	-6,460	43,045
Operating expenses	-14,198	-2,652	-7,675	-3,269	-2,617	5,972	-24,439
incl. depreciations, amortisation	-2,150	-195	-737	-90	-212	24	-3,360
Profit before profit from associates and impairment losses on loans	6,483	1,633	4,575	4,185	2,218	-488	18,606
Profit of subsidiaries and associates	-150	0	0	0	485	0	335
Impairment losses on loans and advances	-2,758	-475	-1,483	-1,952	0	0	-6,668
Profit before income tax	3,575	1,158	3,092	2,233	2,703	-488	12,273
Income tax	-143	0	-736	-457	26	0	-1,310
Net profit/loss	3,432	1,158	2,356	1,776	2,729	-488	10,963
Total assets	630,791	46,081	149,963	262,894	66,791	-369,566	786,954
Total liabilities	540,635	40,933	131,283	267,462	45,037	-317,413	707,937

In thousands of euros							
2020	Estonia	Latvia	Lithuania	Poland	Investments	Eliminations	Total
Interest income based on EIR	21,863	4,828	15,953	4,665	29	-4,303	43,035
incl. income from external customers	17,560	4,828	15,953	4,665	29	0	43,035
incl. Income from internal customers	4,303	0	0	0	0	-4,303	0
Fee income	1,051	242	0	68	1	0	1,362
Other operating income	1,461	69	143	80	493	-1,478	768
incl. income from external customers	476	69	143	80	0	0	768
incl. Income from internal customers	985	0	0	0	493	-1,478	0
Total income	24,375	5,139	16,096	4,813	523	-5,781	45,165
Interest expense	-6,315	-698	-3,644	-1,501	0	4,303	-7,855
Fee expense	-769	-159	-976	-559	0	0	-2,463
Other operating expense	0	0	0	0	0	0	0
Total expenses	-7,084	-857	-4,620	-2,060	0	4,303	-10,318
Total net interest, fee and commission income and other income	17,291	4,282	11,476	2,753	523	-1,478	34,847
Operating expenses	-9,470	-1,908	-5,060	-1,731	-630	1,478	-17,321
incl. depreciations, amortisation	-1,379	-151	-567	-103	-134	0	-2,334
Profit before profit from associates and impairment losses on loans	7,821	2,374	6,416	1,022	-107	0	17,526
Profit of subsidiaries and associates	375	0	0	0	414	0	789
Impairment losses on loans and advances	-5,451	-885	-3,170	-2,039	-1	0	-11,546
Profit before income tax	2,745	1,489	3,246	-1,017	306	0	6,769
Income tax	-396	0	-552	181	-100	0	-867
Net profit/loss	2,349	1,489	2,694	-836	206	0	5,902
Total assets	354,705	28,573	144,238	114,099	5,584	-157,168	490,031
Total liabilities	308,003	24,582	127,913	120,384	347	-152,423	428,806

Equity of major subsidiaries

In thousands of euros	31.12.2021	31.12.2020
SIA Inbank Latvia	5,148	3,991
Mobire Group OÜ	9,097	-
AS Inbank Finance	36,446	-
Inbank Technologies OÜ	7,112	3,642
Maksekeskus Holding OÜ	5,542	1,692

Note 5 Net interest income

Net interest income

In thousands of euros	2021	2020
Interest income based on EIR		
Loans to households	47,675	42,640
Loans to corporates	314	522
Due from financial and credit institutions	49	-127
Total interest income	48,038	43,035
Interest expense		
Deposits received	-7,625	-6,458
Debt securities sold	-1,356	-1,372
Lease liability	-609	-25
Total interest expense	-9,590	-7,855
Net interest income	38,448	35,180

Note 6 Net fee and commission income

Net fee and commission income

In thousands of euros	2021	2020
Fee income		
Households	2,200	1,358
Corporates	0	4
Total fee income	2,200	1,362
Fee expense		
Loan administration expenses	-2,330	-1,849
Other fee expenses	-787	-614
Total fee expense	-3,117	-2,463
Net fee income	-917	-1,101

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

Note 7 Other operating income and expenses

Other operating income and expenses

In thousands of euros	2021	2020
Other operating income		
Income from full service rent	18,713	0
Fines and penalties	484	481
Other income	150	287
Total other operating income	19,347	768
Other operating expense		
Sales, cars	7,042	0
Depreciations, cars for rental	5,822	0
Other costs, full service rent	969	0
Total other operating expense	13,833	0

Full-service rental income is generated from cars rented to customers which are both purchased and leased through capital lease or operating lease agreements. Cars rented through operating lease agreements are sold back to the merchant. Capital lease agreements also include car's repurchase obligation but these will also be sold when full-service rental period ends.

Note 8 Operating expenses

Operating expenses

In thousands of euros	2021	2020
Personnel expenses		
Personnel expense	9,367	7,448
Social and other taxes	2,256	1,759
Total personnel expenses	11,623	9,207
Marketing expenses		
Advertising and marketing	2,255	1,136
Sales costs	574	421
Total marketing expenses	2,829	1,557
Administrative expenses		
Office maintenance and workplace expenses	779	601
IT expenses	1,819	1,534
Legal and recovery proceeding expenses	631	461
Training and business trip expenses	216	207
Supervision expenses	500	341
Transportation expenses	185	168
Other	2,497	911
Total administrative expenses	6,627	4,223

Average number of employees

Average number of employees	2021	2020
Estonia	151	105
Lithuania	68	64
Latvia	29	25
Poland	45	31
Total	293	225

Personnel expenses include the bonus reserve for amount of EUR 1,169 thousand (2020: EUR 1,151 thousand) which makes 10% from total personnel expenses (2020: 12%).

Note 9 Loans and advances

Distribution of receivables by customer sector

In thousands of euros	31.12.2021	31.12.2020
Distribution of receivables by customer sector		
Households	607,343	403,861
Corporates	8,848	11,593
Loans and advances before impairment allowance	616,191	415,454
Impairment allowance	-11,343	-13,242
Total loans and advances	604,848	402,212

Impairment losses on loans and advances

In thousands of euros	2021	2020
Impairment losses on loans and advances		
Impairment losses of reporting period	-12,690	-18,713
Recoveries from written off from financial position	6,022	7,167
Total impairment losses on loans and advances	-6,668	-11,546

Changes in impairments

In thousands of euros	31.12.2021	31.12.2020
Changes in impairments		
Impairment allowance balance in the beginning of the period	-13,242	-8,295
Impairment provisions set up during reporting period	12,690	-18,713
Written off from financial position during the period	-10,791	13,766
Total impairment	-11,343	-13,242

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

Note 10 Income tax

Income tax

In thousands of euros	2021	2020
Income tax recognized in income statement	-1,513	-1,296
Deferred tax assets	203	429
Total	-1,310	-867

Income tax expense for the year

In thousands of euros	2021	2020
Profit before taxes	12,273	6,769
Theoretical tax charge at statutory rate (14%)	-1,718	-948
Non-taxable profit of subsidiaries	952	231
Non-deductible expenses	-96	68
Effects of different tax rates in other countries	-238	-147
Unrecognised other potential deferred tax assets	-210	-71
Income tax expense for the year	-1,310	-867

Deferred tax asset

In thousands of euros	2021	2020
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	753	725
Deferred income	1,357	1,178
Other	291	267
Deferred tax asset	2,401	2,170

The tax asset resulting from Poland can be used to reduce future tax liability.

As of 31 December 2021, Inbank's retained earnings amounted to EUR 45,863 thousand, from which EUR 11,853 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 11 Due from central banks and credit institutions

Due from central banks and credit institutions

In thousands of euros	31.12.2021	31.12.2020
Due from central banks	69,549	24,692
Mandatory reserve in central banks	7,904	2,753
Due from credit institutions	17,870	19,784
Total due from central banks and credit institutions	95,323	47,229

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

Note 12 Investments in debt securities

Investments in debt securities

In thousands of euros	31.12.2021	31.12.2020
Investments in debt securities	7,589	13,582
incl. investments in central government debt securities	0	10,009
incl. investments in corporate debt securities	7,589	3,537
Interest accruals	95	36
Total investments in debt securities	7,684	13,618

As of 31.12.2021, Inbank's debt securities portfolio consists of long-term securities with different maturities between 29.09.2027 and 29.12.2028 with an interest rate of 3% p.a. + 12 months Euribor.

Note 13 Business combinations and investments in associates and subsidiaries

The companies listed below belong to the consolidation group of AS Inbank:

Company name	Year of purchase/founded	Location	Activity	Holding (%)	Cost (thou. EUR)
SIA Inbank Latvia	2014	Latvia	Financing	100	519
AS Inbank filialas	2019	Lithuania	Banking, branch		
AS Inbank Spółka Akcyjna Oddział w Polsce	2016	Poland	Banking, branch		
AS Inbank, odštěpný závod	2021	Czech	Banking, branch		
Inbank Technologies OÜ	2015	Estonia	Hardware rental	100	6,360
Maksekeskus Holding OÜ	2015	Estonia	Holding company	100	6,722
Inbank Payments OÜ	2019	Estonia	Holding company	100	3
AS Aktiva Portfolio	2020	Estonia	Debt collection management	34	506
Maksekeskus AS	2016	Estonia	Payment services	30	4,203
Mobire Group OÜ	2021	Estonia	Full service rent	53	3,445
Mobire Eesti AS	2021	Estonia	Full service rent	53	
Mobire Latvija SIA	2021	Latvia	Full service rent	53	
Mobire Lietuva UAB	2021	Lithuania	Full service rent	53	
Inbank Finance AS	2021	Estonia	Financing	100	33,135
Paywerk AS	2021	Estonia	Payment services	28.5	269

Maksekeskus AS, AS Aktiva Portfolio and Paywerk AS are associates of the Inbank consolidation group and the rest of the companies are subsidiaries.

Maksekeskus AS is one of the largest payment services providers in Estonia, also operating in Latvia and Lithuania. As of 31.12.2021, the investment is classified as an asset held for sale and is reported as “Associates held for sale”. The investment has been reported in the business segment “Investments”, more information presented in Note 4.

AS Aktiva Portfolio has been established for more efficient management of debt portfolio.

Paywerk AS is a start-up company that will offer a cross-border "pay later" service. Inbank has several synergies with the new company that may support the bank's growth in both existing and new markets in the future.

Investments are accounted for using the equity method. In 2021, income from equity investments was calculated in the amount of EUR 335 thousand (2020: EUR 414 thousand).

Balance sheet values of associates

In thousands of euros	31.12.2021	31.12.2020
Maksekeskus AS	4,203	3,689
AS Aktiva Portfolio	506	337
Paywerk AS	269	0
Total value of associates in the balance sheet	4,978	4,026

Financial information of associates

In thousands of euros			
31.12.2021	Maksekeskus AS	AS Aktiva Portfolio	Paywerk AS
Current assets	5,101	2,727	744
Fixed assets	1,109	6,456	541
Current liabilities	1,483	2,110	150
Non-current liabilities	0	5,494	0
Revenue	6,090	680	0
Retained earnings	3,679	-349	-175
31.12.2020			
Current assets	3,770	1,497	0
Fixed assets	782	3,013	0
Current liabilities	1,423	1,003	0
Non-current liabilities	0	2,585	0
Revenue	4,849	67	0
Retained earnings	2,081	-69	0

Mobire Group OÜ purchase price allocation

In January 2021, Inbank acquired 53% of the shares in Mobire, a full-service rental company. The purpose of the transaction was to strengthen Inbank's position in the car financing market and to enter an innovative fixed use car business model. Joint synergies are seen in the growth opportunities in the Latvian and Lithuanian markets.

Share %	53
Acquisition date	25.01.2021
	Fair value acquired
Cash and cash equivalents	313
Loans and advances	200
Non-current asset	35,003
Other financial and non-financial liabilities	3,376
Loans received	-136
Other liabilities	-31,862
Net identified assets and liabilities	6,894
Goodwill	2,766
Redemption liability	-6,215
Net assets acquired	3,445
Purchase price	
Total consideration paid	-3,100
Consideration future payment 2022, financial liability	-345
Total price	-3,445

The goodwill is attributable to the workforce and the profitability of the acquired business. Mobire's profit from the time of purchase until the reporting date of 31.12.2021 amounted to EUR 2,202 thousand and revenue EUR 18,810 thousand. In the period 01.01.2021-31.12.2021 profit was EUR 2,375 thousand and revenue EUR 20,935 thousand. If the investment had been reflected in the consolidated financial statements since 01.01.2021, the consolidated profit would have been EUR 11,135 thousand. The purchase and sale agreement includes Inbank's option to acquire 100% of the shares of Mobire Group OÜ, therefore the non-controlling interest is recognized as a buyout obligation. Repurchase obligation has been adjusted by future profit assumptions with discount rate 13,5%, the validity of such forecasts are assessed regularly.

Acquisitions and disposals related to investments

In thousands of euros	2021	2020
Acquisitions		
Equity contribution, financial assets at fair value through profit and loss	3,100	0
Equity contribution, associates	619	305
Total acquisitions	3,719	305
Disposals		
Proceeds from disposals of subsidiary	0	780
Total disposals	0	780

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 EUR 780 thousand, of which the income received in the amount of EUR 375 thousand is recognised in the income statement under “Share of profit from subsidiaries and associates”.

Inbank has not received dividends from associates.

Note 14 Tangible assets

Tangible assets

In thousands of euros	Cars	*of which rented cars*	Other tangible assets	Total
Cost, 01.01.2021	274	*0*	1,458	1,732
Accumulated amortisation	-66	*0*	-833	-899
Opening carrying value	208	*0*	625	833
Acquired through business combinations	3,760	*3,760*	159	3,919
Additions	18,306	*17,589*	627	18,933
Write-offs	-1,925	*-1,860*	-25	-1,950
Write-offs (accumulated amortisation)	452	*424*	0	452
Amortisation charge	-41	*0*	-404	-445
Mobire amortization	-2,491	*-1,774*	-104	-2,595
Closing carrying value	18,269	*18,139*	878	19,147
Cost, 31.12.2021	20,415	*20,206*	2,219	22,634
Accumulated amortisation	-2,145	*-2,067*	-1,342	-3,487
Carrying value	18,270	*18,139*	877	19,147

In thousands of euros	Cars	*of which rented cars*	Other tangible assets	Total
Cost, 01.01.2020	247	*0*	1,253	1,500
Accumulated amortisation	-9	*0*	-652	-661
Opening carrying value	238	*0*	601	839
Acquired through business combinations	0	*0*	0	0
Additions	47	*0*	396	443
Write-offs	-20	*0*	-191	-211
Write-offs (accumulated amortisation)	-11	*0*	146	135
Amortisation charge	-46	*0*	-327	-373
Closing carrying value	208	*0*	625	833
Cost, 31.12.2020	274	*0*	1,458	1,732
Accumulated amortisation	-66	*0*	-833	-899
Carrying value	208	*0*	625	833

Depreciation of Mobire's property, plant and equipment is included in other operating expenses from the perspective of the consolidation group.

Note 15 Right of use asset and lease liability

Inbank rents different office spaces. Leases have been entered into for a fixed period of 1 to 5 years. Additions of the cars include also leases which are entered in with the acquisition of a subsidiary.

Distribution of right to use asset

In thousands of euros	Buildings	Vehicles	Total
Carrying amount, 01.01.2020	773	0	773
Additions through business combinations	0	0	0
Paid in share capital	733	137	870
Statutory reserve capital	-476	-2	-478
Total profit for the reporting period	-8	0	-8
Carrying amount, 31.12.2020	1,022	135	1,157
Carrying amount, 01.01.2021	1,022	135	1,157
Additions through business combinations	0	33,156	33,156
Paid in share capital	1,429	0	1,429
Share-based payment reserve	0	-5,945	-5,945
Statutory reserve capital	-509	-4,057	-4,566
Carrying amount, 31.12.2021	1,942	23,289	25,231

Interest expense from lease liability of the financial year was EUR 609 thousand (2020: EUR 25 thousand) and lease payments paid EUR 10 million (2020: EUR 592 thousand). Rental expenses related to short-term leases are recognised under operating expenses and were EUR 102 thousand in 2021 (2020: EUR 188 thousand).

Undiscounted lease payments expected after reporting date

In thousands of euros	31.12.2021	31.12.2020
Year 1	11,849	0
Year 2	9,214	0
Year 3	6,343	0
Year 4	3,902	0
Year 5	1,783	0
Year >5	19	0
Total undiscounted lease payments receivable	33,110	0

Note 16 Intangible assets

Intangible assets

In thousands of euros	Licences	Software	Internally generated software*	Goodwill	Total
Cost, 01.01.2021	164	9,275	3,101	6,157	18,697
Accumulated amortisation	-114	-1,771	-673	0	-2,558
Opening carrying value	50	7,504	2,428	6,157	16,139
Acquired through business combinations	0	113	0	0	113
Additions	0	3,408	2,402	2,766	8,576
Write-offs	-1	0	0	0	-1
Amortisation charge	-11	-1,948	-445	0	-2,404
Closing carrying value	38	9,077	4,385	8,923	22,424
Cost, 31.12.2021	163	12,796	5,503	8,923	27,385
Accumulated amortisation	-125	-3,719	-1,118	0	-4,962
Carrying value	38	9,077	4,385	8,923	22,423

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
Acquired through business combinations	0	0	0	0	0
Additions	21	3,956	1,908	0	5,885
Write-offs	0	0	0	0	0
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 of 31 December 2021 and 31 December 2020. 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	31.12.2021	31.12.2020
Business segment		
Estonia	3,004	238
Lithuania	5,919	5,919
Total	8,923	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 cost of equity used as discount rate (Lithuanian branch 7.77% and Mobire 13.5%) was pre-tax and reflects specific risks applicable to the specific market and industry. The growth rates used for projections have been derived based on management's expectations, which are in line with long-term economic growth expectations and based on experience in the 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 17 Other financial assets and other assets

Other assets

In thousands of euros	31.12.2021	31.12.2020
Other financial assets		
Prepaid guarantee amounts	295	149
Accrued receivables	1,856	1,201
Total other financial assets	2,151	1,350
Other assets		
Prepaid expenses	2,525	772
Prepaid taxes	6	182
Other assets	238	343
Total other assets	2,769	1,297

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

Note 18 Customer deposits

Deposits

In thousands of euros	31.12.2021	31.12.2020
Customer deposits		
Deposits from households	607,597	377,757
Deposits from non-financial corporates	8,142	9,357
Deposits from financial corporates	2,118	4,227
Total customer deposits	617,857	391,341

Deposits by clients' residency

In thousands of euros	31.12.2021	31.12.2020
Deposits by clients' residency		
Estonia	60,253	66,900
Germany	264,731	186,587
Poland	251,335	106,365
Austria	11,122	10,072
Netherlands	27,678	18,687
Lithuania	2,404	2,523
Other residence	334	207
Total deposits by clients' residency	617,857	391,341

Deposits also include an accrued interest liability in the amount of EUR 7,728 thousand (2020: EUR 5,636 thousand).

Note 19 Debt securities

Debt securities

In thousands of euros	31.12.2021	31.12.2020
Debt securities issued	0	4,000
Interest accruals	0	10
Total debt securities	0	4,010

Debt securities detailed information

Debt securities	Nominal value	Amount	Issue date	Maturity date
EE3300111673	250,000 EUR	16	28.02.2019	01.03.2021

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

Note 20 Subordinated debt securities

Subordinated debt securities

In thousands of euros	31.12.2021	31.12.2020
Subordinated debt securities issued	37,153	17,653
Interest accruals	34	-90
Total subordinated debt securities	37,187	17,563

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
EE3300002286	10,000 EUR	450	7.5%	01.11.2021	perpetual
EE3300002302	1,000 EUR	15,000	5.5%	16.12.2021	15.12.2031

Inbank's subordinated bonds include Tier 1 bonds included in Tier 1 capital. AT1 capital instrument is a perpetual subordinated financial instrument, for which AS Inbank is obliged to pay quarterly perpetual coupon payments. The coupon payments may be deferred or cancelled at the discretion of AS Inbank. The AT1 bond is accounted for as liability because in specific circumstances AS Inbank is obliged to pay back the debt instrument to investors. 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.

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

Note 21 Other liabilities

Other liabilities

In thousands of euros	31.12.2021	31.12.2020
Financial liabilities		
Accounts payable	21,292	10,068
Lease liability	26,494	1,168
Client prepayments	1,402	982
Total financial liabilities	49,188	12,218
Other liabilities		
Payables to employees	2,147	1,964
Payroll taxes	711	480
Other liabilities	438	366
Total other liabilities	3,296	2,810

The accounts payable includes liabilities to customers and partners related loan granting activities and payments for operating expenses. Of the amount, EUR 4,4664 thousand is the Lithuanian branch's liability to partners for loan granting activities (31.12.2020: EUR 6,484 thousand). Information about lease liability is presented in Note 15.

Note 22 Contingent liabilities

Contingent liabilities

In thousands of euros	31.12.2021	31.12.2020
Revocable commitments		
Liability in contractual amount	5,485	7,448
incl. unused credit card limits	3,460	5,111

In different countries where Inbank operates, the Tax authority has the right to inspect the company's tax records within 3 to 10 years after submitting the tax return and upon finding errors, impose additional taxes, interest and fines. The tax authorities have not performed any tax audits at Inbank during 2020 and 2021.

Inbank's management estimates that in 2021 there are no such circumstances that may lead the tax authorities to impose significant additional taxes on Inbank.

Note 23 Share capital

Share capital

	No of shares	Nominal value (thou. EUR)	Share premium (thou. EUR)	Total
Balance, 01.01.2020	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	0	0	-165	-165
Balance, 31.12.2020	9,610,530	961	23,865	24,826
Balance, 01.01.2021	9,610,530	961	23,865	24,826
Share based payment	90,000	9	598	607
Share issue	266,667	27	5,973	6,000
incl. transaction costs arising on share issues	0	0	166	166
Balance, 31.12.2021	9,967,197	997	30,436	31,433

More information on shares issued under employee stock options presented in Note 24.

Biggest shareholders who hold more than 5% of company shares

Shareholder name	Holding amount 31.12.2021
Cofi Investeeringud OÜ	26.62%
Luciano Orsero	9.00%
Roberto de Silvestri	8.50%
Andrea Agostinone	8.27%
Elio Tomaso Giovanni Cravero	7.68%
SCI IN Holding	5.33%

Inbank's share capital consists of 9,967 thousand shares (2020: 9,611 thousand shares) with a nominal value of 0.10 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 24 Share-based payments

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

Employee share option plan

	2021		2020	
	Average excercise price per share option (EUR)	Number of options	Average excercise price per share option	Number of options
As at 1 January	5.30	375,000	5.37	395,000
Granted during the year	12.50	150,400	-	0
Excercised during the year	6.75	-90,000	-	0
Forfeited during the year	12.90	-2,000	6.75	-20,000
As at 31 December	7.60	433,400	5.30	375,000

Expiry dates of share option plans

Grant date	Expiry date	Average excercise price per share option (EUR)	Number of options, 31.12.2021	Number of options, 31.12.2020
2018	2021	6.75	-	90,000
2019	2022	4.84	285,000	285,000
2021	2024	12.90	148,400	-
Total			433,400	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 following inputs have been used:

- Weighted-average share price: 12,90 EUR
- Assumed average volatility: 10.5% (found using last year's Nasdaq Baltic Index volatilty)
- Option lifetime: 3 years
- Average risk-free interest rate : -0.2%.

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 2021, the reserve amounted to EUR 591 thousand (31.12.2020: EUR 346 thousand).

Personnel expenses related to the option agreements in 2021 amounted to a total of EUR 281 thousand (2020: EUR 208 thousand).

In 2021, share options were exercised for the purchase of 90,000 shares, thereby increasing the share capital by 9,000 euros and the paid premium was 598,000 euros.

Note 25 Reserves

Reserves

In thousands of euros	31.12.2021	31.12.2020
Statutory reserve	96	90
Voluntary reserve	1,330	1,330
Share based payments reserve	591	346
Other accumulated comprehensive income	-296	-238
Total reserves	1,721	1,528

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

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

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

Note 26 Fair value of financial assets and liabilities

Fair value of financial assets and liabilities

In thousands of euros		31.12.2021			31.12.2020	
Assets	Fair value	Carrying amount	Level	Fair value	Carrying amount	Level
Due from central banks	77,453	77,453	2	27,445	27,445	2
Due from credit institutions	17,870	17,870	2	19,784	19,784	2
Investments in debt securities	7,684	7,684	3	13,618	13,618	3
Loans and advances	604,848	604,848	3	402,212	402,212	3
Other financial assets	2,151	2,151	3	1,350	1,350	3
Total assets	710,006	710,006		464,409	464,409	
Liabilities						
Customer deposits	617,857	617,857	2	391,341	391,341	2
Debt securities issued	0	0	3	4,010	4,010	3
Subordinated debt securities	30,382	29,524	2	14,954	14,476	2
Subordinated debt securities (AT1)	7,663	7,663	3	3,087	3,087	3
Other financial liabilities	49,188	49,188	3	12,218	12,218	3
Total liabilities	705,090	704,232		425,610	425,132	

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 27 Related parties

Remuneration of the Management Board and Supervisory Board

In thousands of euros	2021	2020
Remuneration of the Management Board and Supervisory Board	1,189	897

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	31.12.2021			31.12.2020		
Balances as of end of reporting period	Management	Associates	Total	Management	Associates	Total
Investments in debt securities	0	7,684	7,684	0	3,537	3,537
Loans and advances	84	0	84	17	0	17
Deposits and subordinated debt securities	1,100	0	1,100	1,266	0	1,266

Transactions

In thousands of euros	2021			2020		
Transactions	Management	Associates	Total	Management	Associates	Total
Interest income	1	172	173	0	0	0
Interest expenses	80	0	80	41	0	41
Services purchased	434	0	434	27	0	27

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 0.58 and 4% (2020: 1.86 and 5%). Such loans are eliminated from the consolidated financial statements. Loans given to management members are issued on market terms, with an interest rate 5.9% (2020: 0-10.9%). Debt claims in the amount of EUR 5,776 thousand have been sold to associate (2020: EUR 3,958 thousand) The interest rate of deposits received from related parties matches with the interest rate offered to customers, interest rates are in between 1.1% and 2.25% (2020: 0.6 and 2.6%).

In 2021 members of the Management Board and Supervisory Board exercised options for the purchase of 60,000 shares (in 2020: 20,000 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 28 Events after the reporting period

While harmonizing the legal structure, Inbank Technologies OÜ and Maksekeskus Holding OÜ will be merged into one company, through which Inbank's holding in Maksekeskus AS and Mobire Group OÜ will be managed. After registering the transaction in the Business Register ("*Äriregister*"), the name of the merged company will be Inbank Ventures OÜ. The accession will take place during the first half of 2022. The transaction does not affect Inbank's business.

Inbank will sell its 29.8% stake in the Maksekeskus, the sale transaction will be completed in the first half of 2022. Inbank invests the proceeds of the sale in the international expansion of the Central and Eastern European region.

Note 29 Parent company's separate statement of financial position

In thousands of euros	Note	31.12.2021	31.12.2020
Assets			
Due from central banks		77,453	27,445
Due from credit institutions		14,217	19,706
Investments in debt securities		7,684	13,618
Loans and advances		571,560	397,680
Investments in subsidiaries and affiliates		40,522	3,773
Tangible assets		360	406
Right of use asset		1,863	892
Intangible assets		19,527	16,112
Other financial assets		2,767	143
Other assets		1,493	3,158
Deferred tax assets		2,402	2,170
Total assets		739,848	485,103
Liabilities			
Customer deposits		617,834	391,341
Other financial liabilities		14,203	12,061
Current tax liability		280	756
Deferred tax liability		51	7
Other liabilities		2,472	2,623
Debt securities		0	4,010
Subordinated debt securities		37,187	17,563
Total liabilities		672,027	428,361
Equity			
Share capital	23	997	961
Share premium	23	30,437	23,865
Statutory reserve capital	25	96	90
Other reserves	25	1,625	1,438
Retained earnings		34,666	30,388
Total equity		67,821	56,742
Total liabilities and equity		739,848	485,103

On 1 July 2021, Inbank Finance AS, a 100% subsidiary of AS Inbank, started operating, through which consumer finance products are offered on the Estonian market. The restructuring affected Inbank's separate reports but has no effect on the consolidated view.

Note 30 Parent company's separate comprehensive income statement

In thousands of euros	2021	2020
Interest income based on EIR	36,670	38,881
Interest expense	-8,982	-7,848
Net interest income	27,688	31,033
Fee income	1,393	1,119
Fee expense	-2,803	-2,304
Net fee and commission income	-1,410	-1,185
Other operating income	3,458	1,676
Total net interest, fee and other income	29,736	31,524
Personnel expenses	-8,764	-8,341
Marketing expenses	-2,072	-1,453
Administrative expenses	-4,712	-3,964
Depreciations, amortisation	-2,902	-2,048
Total operating expenses	-18,450	-15,806
Profit before profit from associates and impairment losses on loans	11,286	15,718
Share of profit from associates	-150	0
Impairment losses on loans and advances	-5,551	-10,660
Profit before income tax	5,585	5,058
Income tax	-1,336	-767
Profit for the period	4,249	4,291
Other comprehensive income that may be reclassified subsequently to profit or loss		
Currency translation differences	-58	-219
Total comprehensive income for the period	4,191	4,072

Note 31 Parent company's separate statement of cash flows

In thousands of euros	Note	2021	2020
Cash flows from operating activities			
Interest received	5	37,087	38,972
Interest paid	5	-6,857	-5,931
Fees received	6	1,393	1,119
Fees paid	6	-2,803	-2,304
Other income received		3,458	1,676
Personnel expenses		-8,969	-8,303
Administrative and marketing expenses		-4,830	-6,764
Corporate income tax paid		-1,939	-693
Cash flows from operating activities before changes from the operating assets and liabilities		16,540	17,772
Changes in operating assets			
Loans and advances		-212,623	-74,557
Mandatory reserve in central banks		-5,151	1,812
Other assets		-959	-1,316
Changes of operating liabilities			
Customer deposits		224,482	11,905
Other liabilities		-657	1,399
Net cash from operating activities		21,632	-42,985
Cash flows from investing activities			
Investments in debt securities		-6,279	-13,627
Repayments of debt securities		12,236	0
Acquisition of tangible and intangible assets		-5,868	-5,976
Acquisition of subsidiaries and associates		-3,814	334
Net cash used in investing activities		-3,725	-19,269
Cash flows from financing activities			
Share capital contribution (including share premium)		6,607	8,180
Subordinated debt securities issued		19,500	0
Repayments of debt securities		-4,000	0
Lease liability payments		-623	-592
Net cash used in financing activities		21,484	7,588
Effect of exchange rate changes		-23	301
Cash and cash equivalents at the beginning of the reporting period		44,398	98,763
Net increase/decrease in cash and cash equivalents		39,368	-54,365
Cash and cash equivalents at the end of the reporting period		83,766	44,398

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

In thousands of euros	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings/ accumulated loss	Total equity
Balance, 01.01.2020	903	15,908	88	1,463	26,086	44,448
Paid in share capital	58	7,957	0	0	0	8,015
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
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

In thousands of euros	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings/ accumulated loss	Total equity
Balance, 01.01.2021	961	23,865	90	1,438	30,388	56,742
Paid in share capital	36	6,572	0	0	0	6,608
Share-based payment reserve	0	0	0	246	35	281
Statutory reserve capital	0	0	6	0	-6	0
Total profit/-loss and other comprehensive income for the reporting period	0	0	0	-59	4,249	4,190
Balance, 31.12.2021	997	30,437	96	1,625	34,666	67,821
Carrying amount of holdings under control and significant influence					-40,522	-40,522
Value of holdings under control and significant influence under equity method					51,718	51,718
Adjusted unconsolidated equity, 31.12.2021					45,862	79,017

Management Board declaration

The Management Board of AS Inbank declares its responsibility for preparing the Consolidated Annual Report for Inbank for the financial year of 2021 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 AS Inbank 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 AS Inbank and AS Inbank 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.

Priit Põldoja

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 2021, 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 7 March 2022.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the Group in accordance with the International 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 parent and subsidiaries in the period from 1 January 2021 to 31 December 2021 are disclosed in the management report.

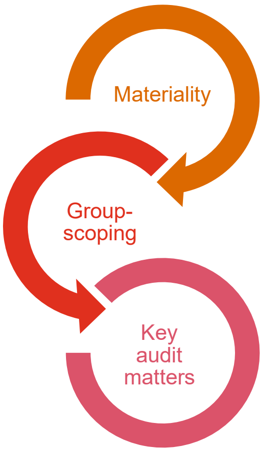
Translation note:

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 the original document submitted in machine-readable .xhtml format that is submitted to the Tallinn Stock Exchange (Link: https://www.inbank.ee/investor/aruanded).

Our audit approach

Overview



- Overall group audit materiality is EUR 790 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 790 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 investing heavily in subsidiaries and branches. Therefore, net assets is a relevant measure used by investors, regulators and other stakeholders when assessing the

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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.

Key audit matter	How our audit addressed the key audit matter
Valuation of loans and advances to retail customers (refer to Note 1 “Significant accounting policies”, Note 3 “Risk Management” and Note 9 “Impairment of loans and advances” for further details). As of 31 December 2021, gross loans and advances to the retail customers amount to EUR 607,343 thousand against which credit loss allowance in the amount of EUR 11,318 thousand has been recognised. We focused on this area because application of IFRS 9 “Financial instruments” 3-stage expected credit loss (ECL) model requires management to use complex calculations with subjective inputs to assess the timing and the amount of expected credit losses. The key features of the ECL model include: • classification of loans to 3 stages based on the assessment of significant increase in credit risk; • assessment of credit risk parameters such as probability of default (PD), loss given default (LGD) and exposure at default (EAD) based on complex modelling techniques and estimates determined by the management; • application of forward looking and probability-weighted information in the ECL assessment.	We assessed whether the Group’s accounting policies in relation to assessing the impairment of loans and advances to retail customers complied with International Financial Reporting Standards as adopted by European Union. We assessed the design and operating effectiveness of the controls over expected credit loss data and calculations. We performed procedures to test the significant inputs used in the expected credit loss (ECL) model, such as probability of default (PD), exposure at default (EAD) and loss given default (LGD). We performed detailed audit procedures in the following areas: • the completeness and accuracy of data used in the ECL calculation; • the compliance of key inputs used in ECL calculation system with ECL methodology; • the accuracy and compliance of 12-month and lifetime ECL calculations with the Group ECL methodology; • the accuracy of discounting in the ECL calculations; • the accuracy and completeness of data used for staging of loans (including applying the criteria for determining significant increase in credit risk and definition of default). We have assessed the reasonableness of key assumptions made by management, which serve as critical inputs in the allowance model, such as weights of different scenarios and forecasts of key macroeconomic information.

How we tailored our Group audit scope

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

In order to achieve this objective, based on the size and risk characteristics, we performed a full scope audit of the financial information for the following entities within the Group: AS Inbank (Estonia head quarter and branches in Lithuania and Poland), AS Inbank Finance and Inbank Latvia SIA (Latvia). Additionally, we performed an audit of specific balance sheet and income statement line items for Mobire Group OÜ, 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 13 of the consolidated financial statements.

Reporting on other information including the Management report

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, including the Management report.

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.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the consolidated financial statements; and
- the Management report has been prepared in accordance with the requirements of the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

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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.

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- 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

Report on the compliance of the presentation of consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

We have been engaged by the Management Board of the Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of AS Inbank for the year ended 31 December 2021 (the "Presentation of the Consolidated Financial Statements").

Description of a subject matter and applicable criteria

The Presentation of the Consolidated Financial Statements has been applied by the Management Board of the Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Presentation of the Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the Management Board and the Supervisory Board

The Management Board of the Company is responsible for the Presentation of the Consolidated Financial Statements that complies with the requirements of the ESEF Regulation.

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This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Presentation of the Consolidated Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation.

Members of the Supervisory Board are responsible for overseeing the financial reporting process, which should also be understood as the preparation of financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000 (R) - 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' (ISAE 3000(R)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE 3000(R) will always detect the existing material misstatement (significant non-compliance with the requirements).

Quality control requirements

We apply the provisions of the International Standard on Quality Control (Estonia) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's' use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and

- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

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

Conclusion

In our opinion, based on the procedures performed, the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

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 5 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/

Lauri Past
Certified auditor in charge, auditor’s certificate no.567

7 March 2022
Tallinn, Estonia

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Profit allocation proposal

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

- EUR 10,959 thousand to retained earnings;
- EUR 4 thousand to statutory reserve.