Inbank AS Consolidated annual report 2017

Inbank AS general information

Business name	Inbank AS
Address	Niine 11, 10414 Tallinn
Registration date	05.10.2010
Registry code	12001988 (Commercial Register of the Republic of Estonia)
Legal entity identifier	2138005M92IEIQVEL297 (LEI code)
VAT number	EE101400240
Telephone	+372 640 8080
E-mail	info@inbank.ee
Website	www.inbank.ee
Balance sheet date of report	31 December 2017
Reporting period	01.01.2017-31.12.2017

Members of the Supervisory Board

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

Members of the Management Board

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

The reporting currency is the euro (EUR), with units presented in thousands.
Inbank AS' Annual Report 2017 has been audited.
Annual report for 2017 is signed in the Estonian version.
This is an unofficial translation into English.
The bank does not hold any ratings provided by international rating agencies.

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Facts and figures

Business activity

Inbank offices

Tallinn 46

Riga 20

Gdansk 14

Warsaw 6

Calls placed to customer service
33 860

Letters answered by customer service
92 601

Market share in new sale of banks' consumer credit
20%

Business trips
223

Internet banking

Website visits

2016
1 514 775

2017
2 044 180

35%
Annual growth

Website visits from mobile devices
33,2%

Average time of loan credit decision
6,6s

98%
Share of loan applications served in less than one minute

Number of partner vendors for hire purchase

2016
265

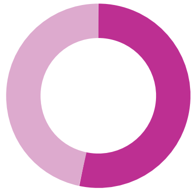
2017
303

14,3%
Annual growth

Customers

Average Inbank customer

Men: **46,7%**



Women: **53,3%**

Number of customers: **166 000**

22% Annual growth

Age: **42,7 years**

Most popular borrowing purpose (15%): **home repair**

Average net income: **795 EUR**

Residence (28.45%): **Harju county**

Share of customers with more than one contract: **20%**

Share of customers who use several Inbank products: **5%**

Most contracts per customer: **52 deposit contracts**

Open organisation

Number of transactions with Inbank bonds: **92**

Volume: **693 551 EUR**

727 pages
Of reports submitted to the European Central Bank

Stock exchange announcements published: **11**

Key financial indicators

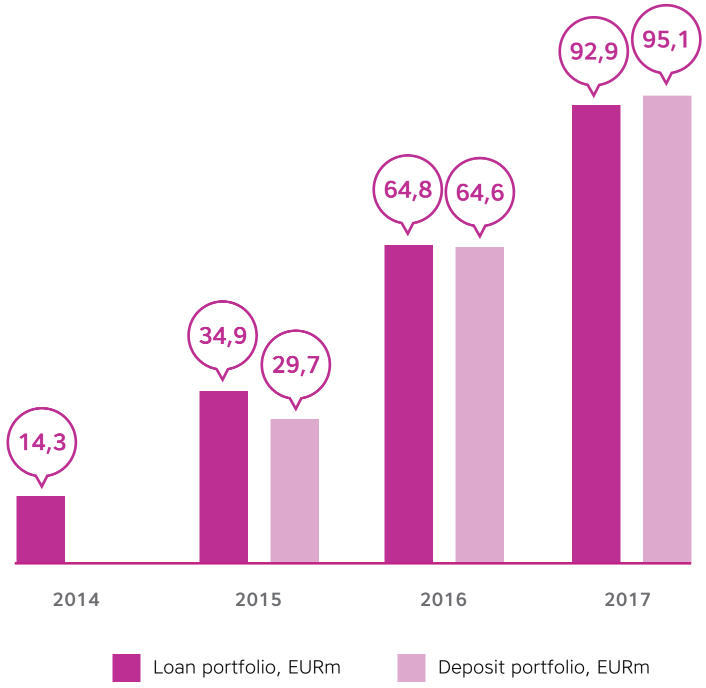
EURt

Key financial indicators	31.12.2017	31.12.2016	
Total assets	125 981	84 943	48,3%
Total equity attributable to shareholders of the parent	22 020	11 798	86,6%
Total comprehensive income attributable to owners of the parent	7 458	2 649	181,5%
Loan portfolio	92 895	64 839	43,3%
Deposit portfolio	95 056	64 587	47,2%

Ratios	31.12.2017	31.12.2016
Return on equity	44,1%	26,6%
Return on total assets	7,1%	4,2%
Net interest margin	11,1%	13,7%
Impairment losses to loan portfolio	4,5%	6,4%
Cost/income ratio	57,8%	45,7%
Equity to total assets	17,5%	13,9%

Net return on equity: comprehensive income attributable to owners of the parent / total equity attributable to shareholders of the parent (average over the period) annualised
Net return on total assets: total comprehensive income attributable to owners of the parent / total assets (average over the period) annualised
Net interest margin: net interest income / interest-bearing assets (average over the period) annualised
Loan losses to loan portfolio: impairment losses on loans / loan portfolio (average over the period) annualised
Cost/income ratio: total operating expenses / total income
Equity to total assets: total equity attributable to shareholders of the parent / total assets

Volume of loan portfolio and deposit portfolio



Statement of the Chairman of the Supervisory Board

2017 was a very busy and successful year for Inbank. For the first time in our history our consolidated assets exceeded the 100 million euro mark, we earned a record profit of 7.5 million euros and successfully expanded to the Polish market.

Similarly to last year, the keyword for 2017 was growth. In last year, Inbank's loan portfolio grew by 43% and the deposit portfolio increased by 47%. Worth mentioning is also Inbank's growth in the Estonian consumer financing market where it is now the second largest bank after Swedbank.

Growth does not simply mean growth in assets, business volumes and profit. As a start-up company, Inbank has to constantly develop as an organization. In this respect, 2017 was very challenging for us. In March, Inbank started offering loans and deposits in Poland. In May, we continued to implement a new strategy in Latvia after a new CEO took office. Inbank has become an international company, and in this light, our organizational capacity has to increase. Although in 2017 Inbank's growth and profitability was driven by the successful hire-purchase and fast-growing lending business in Estonia, in the long run the bank's success as a whole will undoubtedly

Although the Estonian market is growing and profitable, Inbank with its product-based strategy can successfully grow in the long run only internationally.

be linked to our ability to grow internationally.

How have we defined growth and development for Inbank?

We know very well that both people and organizations are evolving through new goals, testing their abilities and learning from their mistakes. We believe that people are doing the best job if they have responsibility, freedom of action and opportunity to make decisions. At the same time, as an organisation we need to learn, manage risks and implement best practices. Although we want to maximize the freedom of action of every Inbanker, this can only happen in the limits of our agreed strategy and values. In the previous annual report we called it "the Inbank way of doing things". At the beginning of 2017, we decided that it was necessary to formulate these principles more precisely and in the spring we formulated management principles of Inbank.

We believe that, just like individuals, companies develop specific skills and experiences. The development of such skills requires, firstly, awareness of these skills and, secondly, conscious efforts for cultivating competences. Since its inception, Inbank has been very successful in partner-driven business model, as well as in business process development and technology implementation. These are the areas where Inbank has competitive advantage in the banking sector. But as important as specific skills is the fact that Inbank has decided to be a focused consumer finance company, that we want to grow internationally and focus on recruiting local talent in all markets. The main challenge for Inbank is to export our skills and knowledge to new markets and motivate local staff to perform in line with Inbank's strategy and values.

International growth also requires strengthening the functional organization of Inbank and changing the focus. Increasingly, finance, risk, product development and IT must become group-wide functions. At the same time, it is necessary to ensure that Inbank remains agile and flexible in all new markets. Many international banks are struggling with this balancing act. We believe that due to our focus and product-based approach, Inbank has good potential to get it right and grow internationally.

In the coming years, we will pay more attention and invest more resources to strengthen the international organization. While the Estonian consumer finance market is estimated at around 700 million euros and in the Baltic region totalling nearly 2.5 billion euros, the Polish consumer finance market alone is worth close to 40 billion euros. Although the Estonian market is growing and profitable, Inbank with its product-based strategy can successfully grow in the long run only internationally.

We believe that there is a momentous economic upturn. The Estonian economy grew by 4.9% in 2017, wage growth is strong, unemployment is low. The European economy is showing signs of widespread growth for the first time since the financial crisis. We forecast that the positive outlook will continue for a few more years. This is definitely the time when Inbank is ready to raise and invest capital to grow its business. We have a well-functioning business model and a strong and developing organization. In 2017, we invested heavily in risk management, financial accounting and compliance control units. We will also triple our software development team in the near future. In Inbank we work daily to successfully realize the potential of international growth. At the moment, Estonian business accounts for nearly 80% of the lending portfolio of Inbank, and we see good growth to continue in Estonia. At the same time, we believe that in just a few years, at least half of our portfolio will be from the international markets.

We are well aware that rapid growth is accompanied by higher risks, especially in the banking sector. At the same time, we know that those companies that are continuing to grow and evolve are successful. In our opinion, the best strategy to hedge potential risks is to build our business in a conscious and focused way. We plan to grow in areas where we have a competitive advantage and strong organizational capability. In order for Inbank to smoothly implement the growth plan, we need to have a clear and credible strategy and proven skillset which is market-tested. We believe that in the last seven years we have developed a unique strategy and skills suitable for us. In the last couple of years, we have taken first steps in exporting the Inbank business model and have gained valuable experience. We are now ready to embark more strongly on the journey of international growth.

The next few years will have to prove the execution of our strategy and the capability of the organisation to develop internationally. To be successful, we have to work hard and make the right decisions. At the same time, we must remain ready to overcome any setbacks. All of this assumes that we have perseverance, flexibility and financial buffers to adapt our activities, because not everything will go as planned. In the past, Inbank has shown itself to be capable of learning and developing as an organisation. This gives us enough confidence and energy to come to work every day and build a new international bank called Inbank.

Priit Põldoja
Chairman of the Supervisory Board

Business model of Inbank

Inbank's competitive advantages

- Business focus: consumer financing
- Sales management and vendor channel development
- Credit skills: statistical analysis and automated credit decisions
- Business process design and software development

Inbank's key capabilities

- Trust and capitalization: access to financing
- Internationally oriented strategy and organization
- Strategically clear and replicable business model
- Attractiveness for talented employees

Interview with the members of the Management Board of Inbank

Board members Jan Andresoo, Liina Sadrak, Marko Varik and Piret Paulus speak about Inbank's most important projects and challenges in 2017.

What did you see as the biggest challenge for Inbank in 2017?

Piret Paulus: One of the biggest challenges for the organization as a whole has been internationalization. Today, Inbank has nearly 90 employees in three countries. The launch of the Polish branch and the re-launch of the Latvian unit have been quite challenging.
Jan Andresoo: We had to define for ourselves the things that we will do in the same way in all markets, and the things that we do differently. We answered these questions for the first time in Inbank context. Another significant challenge was the development of technology. We cannot implement any ideas without translating them into the language of technology.
Marko Varik: Inbank is currently in a rapid growth phase. The balance sheet total and the business volumes increased by almost 50% in 2017. In virtually every company, rapid growth creates a fair amount of positive confusion. You need to simultaneously recruit new employees and help them settle in, serve a growing customer flow, engage in recruiting partners, enter new markets and provide support to local teams. At the same time Inbank operates in a highly regulated business. Despite the fact that the business volumes are growing considerably, everything must be done in a controlled manner. This has been a challenge for the entire organization.
Liina Sadrak: The challenge has been not only to increase, but also to understand and maintain business activities in three countries, while maintaining the speed and efficiency that we are used to in one country.

In August 2017 Inbank's employees from three countries met in Estonia to participate in different teamwork activities.

What have been the most important projects of Inbank in 2017?

JA: One notable project was undoubtedly the launch of business in Poland. This is a decision that defines us as a company for a very long time. Secondly, we were able to strengthen our position in the niche of consumer finance in Estonia. It did not happen by chance, we achieved good results through conscious actions.
PP: We have been preparing for the implementation of a new operational strategy in Latvia and recruited top specialists to the local team. We are building a new platform in Latvia for Inbank's successful business. It is good to say that we have already seen results and look forward with excitement to what will happen next year. In the Estonian context, we are more systematic and efficient in our sales activities resulting in very strong sales volumes in both small loan and hire-purchase products.
MV: An important project was the sale of our affiliated companies Coop Finants and Krediidipank Finants to Coop Pank. Since Inbank has played an important role in initiating and growing these businesses, it marked the end of an era in Inbank's history.
LS: In addition to expanding our business, we have also been involved in organizing and strengthening the organization. Operating in a market that is saturated with regulations is not always easy. In this respect there was a great jump in quality during 2017, we have developed processes that support a coherent model of action across all countries.

2017 brought Inbank an operating license in Poland. How has expanding the business to Poland succeeded?

PP: Poland is a very big and competitive market, but preparations for launching work have gone nicely and today we are on the market with our product offerings. The scale of action in Poland is considerably wider in every sense, which is why the preparations have taken a little longer than initially expected. Compared to Estonia or Latvia, we compete in Poland with the most experienced and successful players on the international scene, which is very exciting.
LS: There are a lot of exciting potential partners in Poland, which gives us reason to believe that Inbank's partner-driven business can be interesting and successful there. On the one hand, we have put ideas into the Polish market that are already ordinary for us, but innovative for this market, and on the other hand, we have gotten some ideas from the market that we can implement here in Estonia.
JA: Poland really is a difficult market to enter. Even Maciej Pieczkowski, our Head of branch in Poland, said that when getting a license and entering to the market, we set the Polish record for the speed of launching a business. But since we are used to the fast pace in Estonia, we are too impatient in the Polish sense. When negotiating with a partner with 3 million customers, it is not conceivable that things would happen overnight.

How has the strategy changed in Latvia?

PP: In Latvia one of the focus areas has been credit risk, with which we have progressed very well. Secondly, we are working on starting a partner-driven business. The first improvements are visible, but in reality the implementation of changes in an operating business is even a bit more complicated than starting something completely new.
MV: In the year 2017, we laid a new solid foundation for our business in Latvia in many respects. For example, we updated our sales strategy: we left the channels through which nearly 90% of our sales came two years ago. There is a new management team, with the help of which new partnerships have been created and updates in business processes have been made. From here on, it's possible to build a credit portfolio that meets our risk appetite and expectations of return.

Inbank now operates in three countries and its employees are divided into four offices. How many changes has this brought about in leadership?

LS: We are still looking for the best-performing management model. This is one of the aspects of internationalization that we need to learn more about and continue to work on.
JA: One of the values of Inbank as an organization has always been openness. It's very easy to be open when you operate in one country. But now, we need to do new things to maintain this kind of openness.
PP: One of the values of Inbank, in addition to openness, has been productivity, and it sets new challenges: managing different markets and entities without over-regulating and maintaining efficiency at the same time.

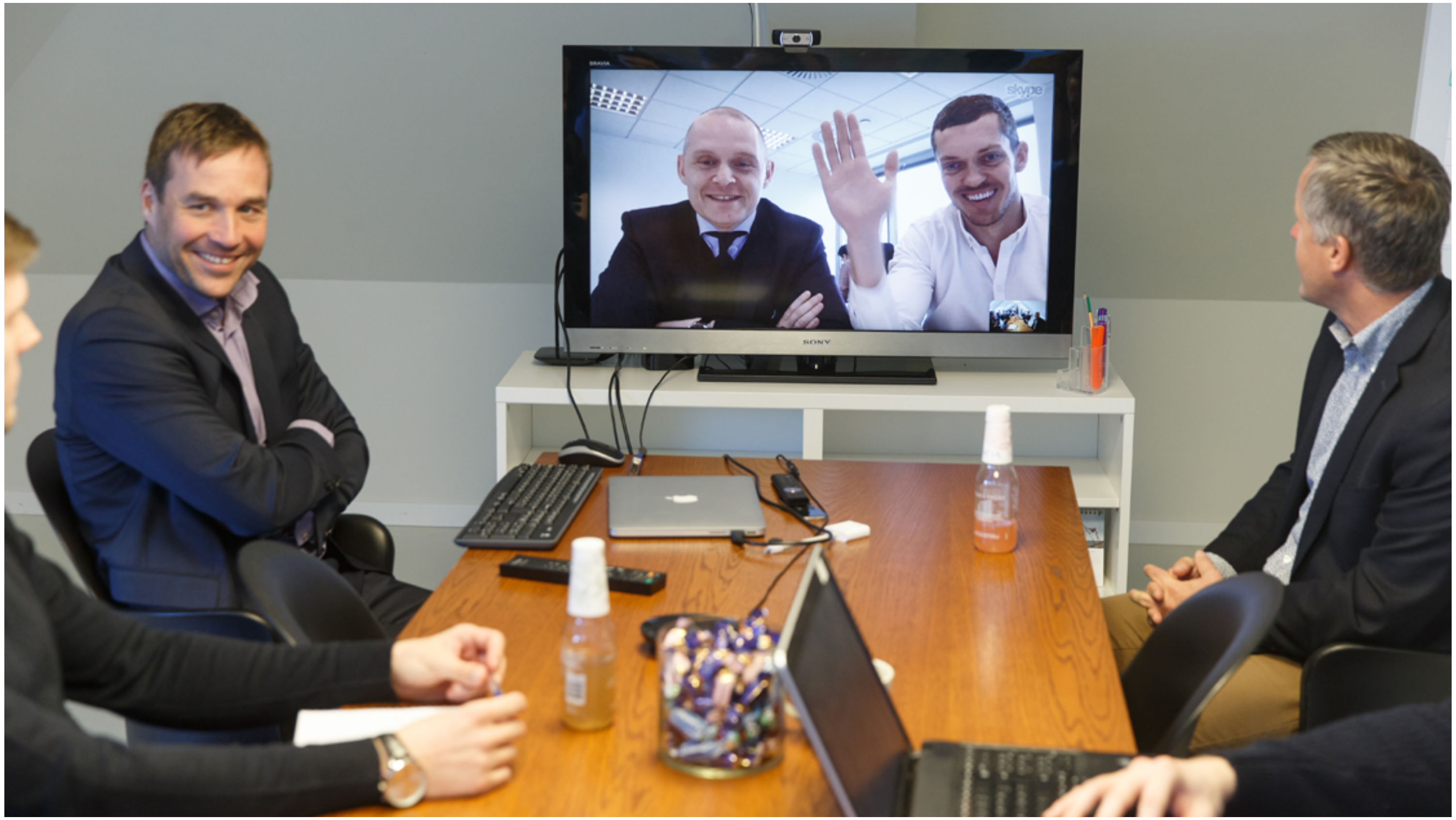
MV: Our goal is that employees from other countries would see our business as a whole and become a part of Inbank's story.

The increase in the range of Inbank's activities also entails a greater need for employees. How has Inbank managed this?

PP: We have a lot of areas where it is difficult to find good specialists. On the labor market, we compete with absolutely everyone, and no longer only domestically. The race for talents is a daily affair and we are actively involved.

LS: Finding IT staff has been a major challenge, but we have managed to complement our forces with people from Estonia and other countries as well. Our IT team has always been international, for example, we have employees from Poland, Mexico and Sri Lanka, but we are used to being in the same office. But now, we're taking a step further: dealing with the fact that our developer may be on the other side of the globe. We're becoming an international player not only in business, but also in the development of services. At the same time, we believe that an international team brings a fresh gaze to our technology and a different worldview.

JA: As a whole it is good to say that we are an attractive employer because we were able to increase our team with tens of new mem-



Because of operations in three countries, meetings are often held by videoconferencing.

bers in 2017. It is gratifying to see such a large number of candidates as well as capable and experienced people who would be happy to work in Inbank.

What steps did you take in the area of risk management in 2017?

MV: The risk area in Inbank as a whole has been very strong in 2017. We have a new risk manager, credit risk manager, treasurer and new credit risk analysts in Latvia and Poland. We have done a lot of work on implementing a risk management culture and we are pleased to note that we have taken a big step forward.

How satisfied are you with the financial results of Inbank?

MV: The financial result was very good. An important role was played by the transaction that we made with our affiliated companies. At the same time, we are also satisfied with the result of our ordinary course of business. It is important to mention the impact of investments made in Poland on the financial performance. The Polish contribution to revenue in 2017 was modest as expected.
PP: So far, Estonia's activities and strong financial results have been the support to other countries. we are expecting a significant change in this proportion in the coming year.

The oldest product line of Inbank is hire-purchase, which, despite the product's maturity, grew by 12% year-on-year. How was this achieved?

PP: This is the place to highlight our good team, who understands what a partner-driven business means. Our mission is to help our partners sell their products and services better by supporting them with convenient financing. Our partner relations team is committed, professional and working purposefully which has yielded results. In 2017, we started to cooperate with new partners, but, of course, existing partners have grown their volumes as well.

How did the changes in regulations affect Inbank?

LS: We were really looking forward to customer identification from distance and through electronic channels, which is very relevant for Estonia as an e-state. We can now provide our customers with more convenient identification capabilities.
PP: We were preparing for the changes that would come into effect in 2018 already in 2017. For example, our clients were negatively surprised by the taxation of the interest income earned on bank deposits. We were farsighted in this area and made tax-related announcements to our clients, which resulted in a very successful campaign, in which the client was able to receive the interest earned on their deposits tax-free before the amendment came into force. We got a lot of new customers who deposited their savings in Inbank, and in addition to that, already existing customers activated as well. We keep an eye on changing regulations and participate in the talks of their creation through the Banking Association and independently.
MV: We will definitely have a positive impact from the developments that are taking place in Europe in the payment services offered by banks and where universal banks must open their infrastructure to third parties. This means that different market participants will have access to a more similar information set that will bring better offers for the customers. In addition to that, the change gives us the opportunity to offer our customers additional services.

What will 2018 bring for Inbank?

PP: Our focus is on the Polish and Latvian markets and on the growth of business volumes there. We have achieved a 20% market share in Estonia through new sales of consumer finance and hire-purchase financing which meets our ambition. There are significant growth opportunities, especially in foreign markets, and we will be working hard to achieve them during the coming year.
MV: Yes, internationalization will definitely continue. We must ensure that the seeds sown in Latvia and Poland in 2017 begin to grow and bear the first fruits.
LS: In addition to business growth, it is still important to strengthen the organization in management, processes, and also culturally.
In 2018, the focus will be on the efficiency of internal processes, finding new business opportunities and implementing them. 2018 promises to be an exciting and action-packed year.

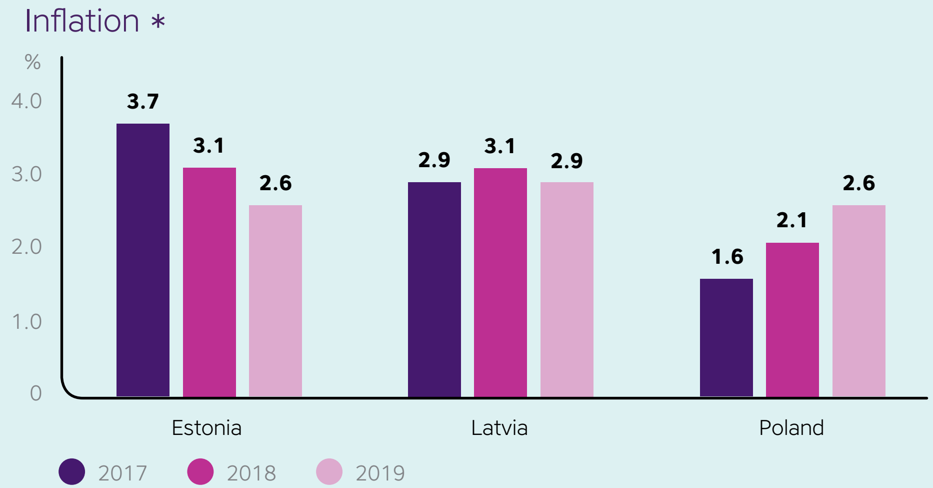
Economic environment

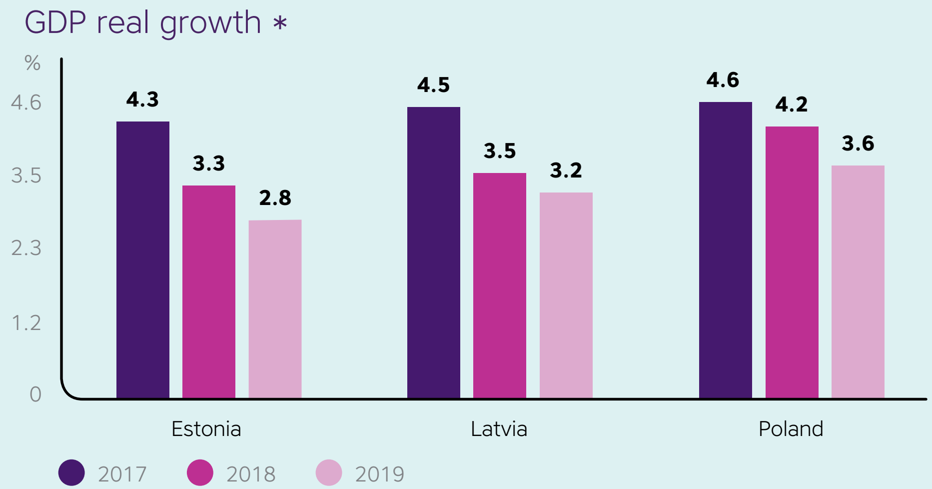
Villu Zirnask
Economics journalist and analyst

The economies of all three Inbank's target markets expanded strongly in 2017. The growth of gross domestic product in Estonia, Latvia and Poland exceeded 4%. According to forecasts, the economy of Poland will continue to grow at the same pace in 2018, whereas the momentum in the Latvian and Estonian economies will slow down slightly.

Estonia

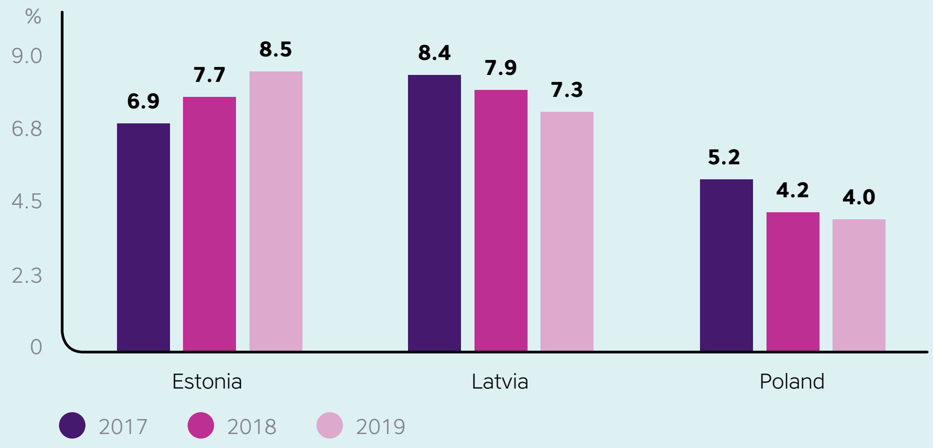
In Estonia's strong economic growth in 2017, private consumption played a smaller role than in Poland and Latvia. More support was provided through the growth of EU-funded investments and the good performance of the oil shale and energy sector due to the rise in energy prices on the world market.



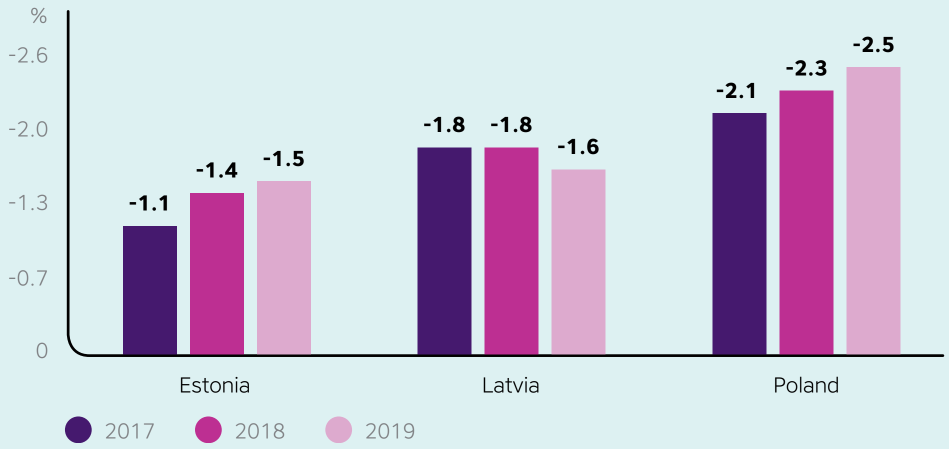


The rest of the export sector also did quite well, but further improvement is limited by the rising labor costs and the scarcity of low-wage labor force. The simultaneous increase in the unemployment rate, which is projected, is partly due to the work-capacity reform, as a result of which many people not included in the workforce before are now a part of it. Similar to Latvia, there are problems with the gap between the qualification and location of employees and what companies are in need of.
In 2018, the greatest contribution to economic growth is expected from private consumption, since the taxation of low-paid income has significantly decreased (tax free minimum rose from 2160 euros in 2017 to 6000 euros per year in 2018). However, its impact may be reduced by the complexity of the new system compared with the earlier system, the change in the principles for accounting gross revenues and the rapid increase of excise duties.
Though the expansion of fiscal policy in 2017 was domestically widely criticized, Estonia's fiscal policy is rather moderate as compared to Latvia and Poland - the structural budget deficit is lower and the sovereign debt is almost like an unused "mineral resource".

Unemployment rate *



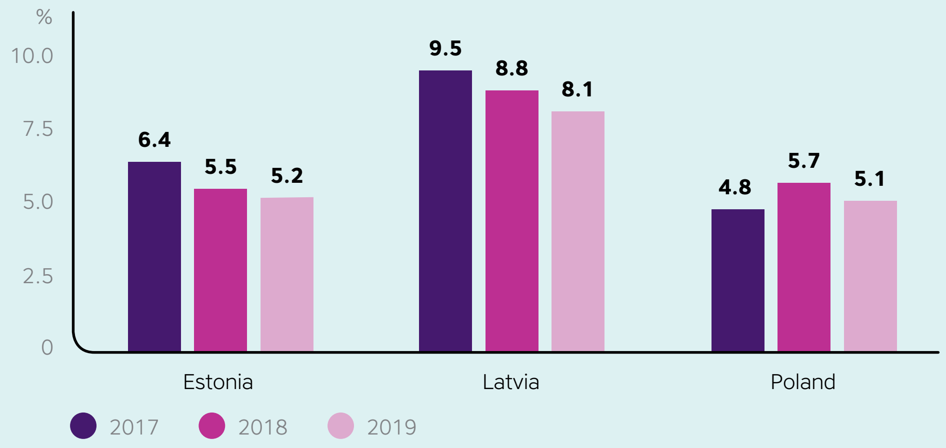
Budget deficit, adjusted to cycle, % of GDP *



Latvia

In Latvia, private consumption in 2017 was an important engine for economic growth. Investments financed by the European Union also boosted economic growth, but the share of exports was modest despite the improvement in conjuncture in the main foreign markets.
2018 is promising to be more modest than 2017, as the impact of EU investments is decreasing. Private consumption is expected to remain strong due to the rise in minimum wages (from 380 to 430 euros), but even more so because of the general wage pressures. Labor shortages and the resulting wage pressures are even higher in Latvia than in Estonia: in the year 2017, the average nominal wage rose by about 10% (partly due to regarding envelope wages as official), this year it is estimated to be around 8%. But at the same time unemployment is also high, because the needs of the economy differ from the qualifications and location of employees. This limits the possibilities for Latvian entrepreneurs to benefit from the improved economic situation in export markets.
For alleviating economic and social bottlenecks, Latvia will make wide-ranging tax amendments in

Growth of nominal wages *



2018-2019. For example, the basic personal income tax rate was reduced from 23% to 20%, the tax rate for income over 20,004 euros remained at 23%, and a tax of 31,4% has to be paid on income that exceeds 55,000 euros annually. Total social security contributions were raised by 1% (the share of employees from 10.5% to 11% and the share of employers from 23.59% to 24.09%). As far as corporate income tax is concerned, from 2018 onwards, Latvia will gradually introduce a system similar to Estonia in which the tax is to be paid on the distribution of profits rather than on an accrual basis. All in all, these changes mean expansive fiscal policies, but not so much as to increase budget deficits or public debt to a critical level.

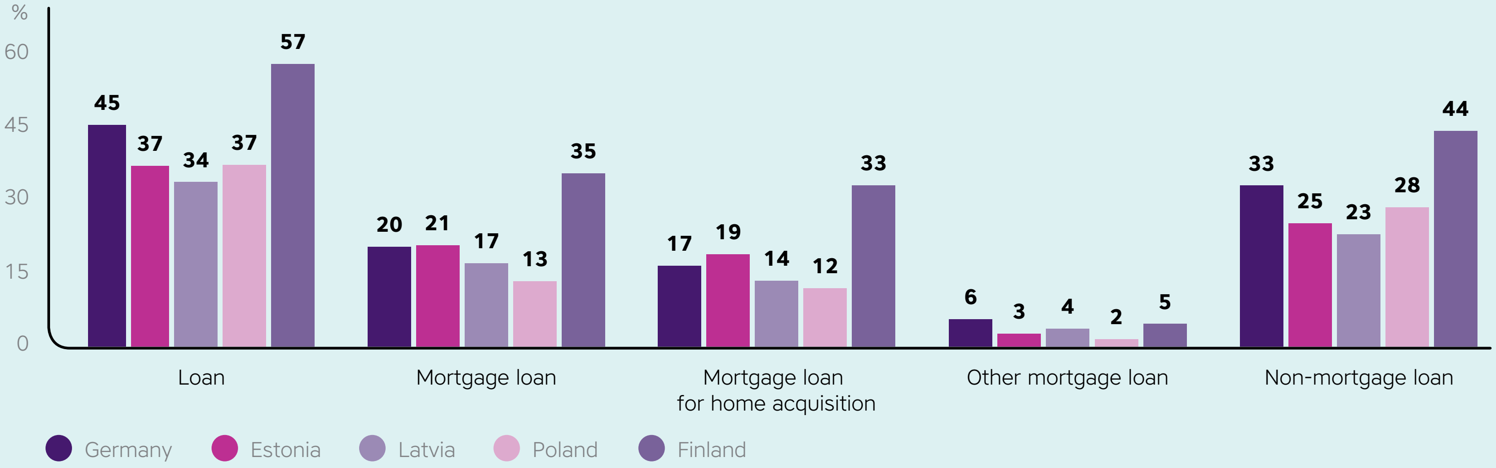
Poland

Last year, Poland's main engine of economic growth was private consumption, as the government of the Law and Justice Party (PiS), which came to power at the end of 2015, has vigorously increased social benefits. 2017 was the first full year of the child support program "500+": starting from the second child, parents receive a monthly allowance of 500 zloty (about EUR 110) per child. In addition to that, last fall the PiS-led government went in a completely different direction than the rest of Europe by lowering the retirement age to 65 years for men and 60 years for women by abolishing the previous government's decision to raise the retirement age gradually to 67 for both men and women. Contrary to the expectations of the opposition, these decisions (including the conflict with the European Commission and other Member States in some political matters) have not affected business confidence. The state budget is withstanding the burden due to a more efficient tax collection. The cyclical budget deficit in Poland is just over 2% of GDP, which is a low indicator compared to the country's long-term average. Public debt remains low (53% of GDP), as compared to most other European Union countries.
In addition to the expansive fiscal policy, consumer optimism is supported by a strong wage increase - almost as fast as in Estonia, on average around 5% per annum. Similar to Estonia, companies in Poland complain about labor shortage. Unemployment, which in 1990-2000 remained above 10%, has fallen to 5%. The Polish labor shortage is mitigated and the wage pressure is reduced by a large number of foreign workers arriving from the neighboring Ukraine for whom it is relatively easy to obtain a short-term work permit.
When talking about Poland's economic growth, it must be taken into account that regional disparities remain high. Quality of life and living conditions in urban areas are, as a rule, considerably better than in rural areas.

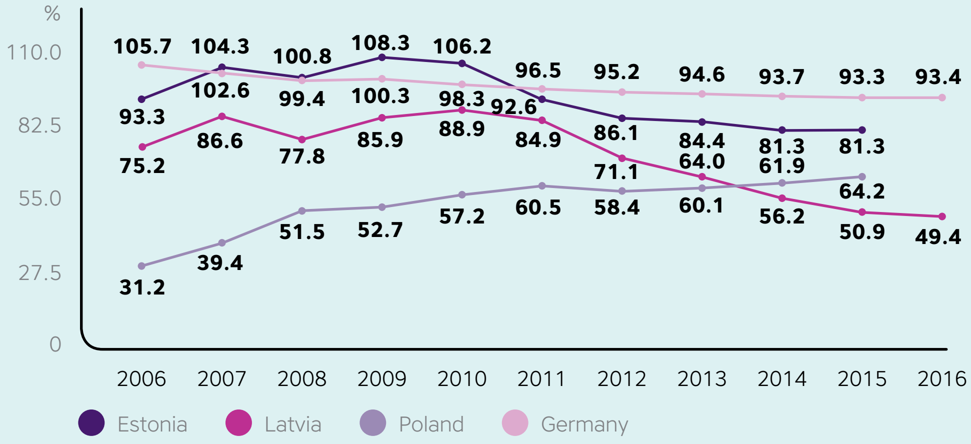
Summary

Poverty-alleviation policies, which the governments of Estonia, Latvia and Poland are now exercising more actively than usual, can have a significant impact on loan demand. This is assuming that these policies will not lead to excessive state budgeting and will not create an excessive burden on business competitiveness. The share of households who have taken home and consumer loans in all three countries is lower than in Finland or Germany. The biggest difference is in the case of households with lower incomes.

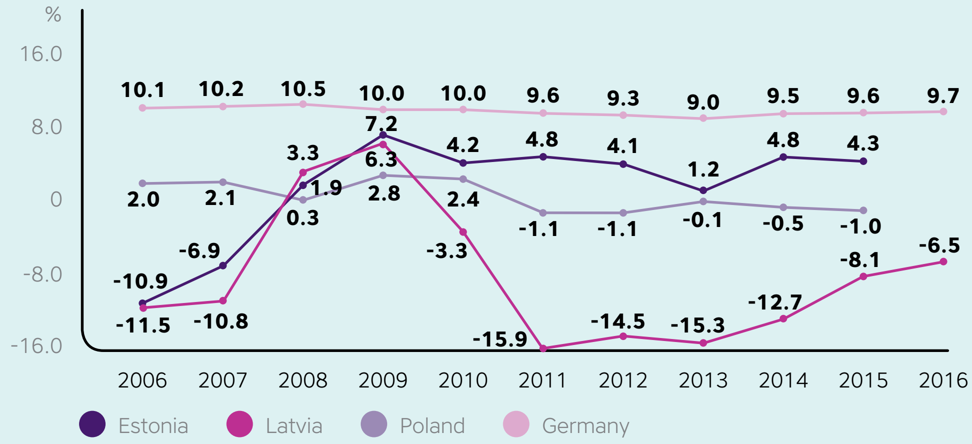
Share of households with a loan **



Household debt, % of net disposable income ***



Household savings rate, % of net disposable income ***



* Source: Euroopa Komisjoni prognoos
** Source: Household Finance and Consumption Survey
*** Source: OECD

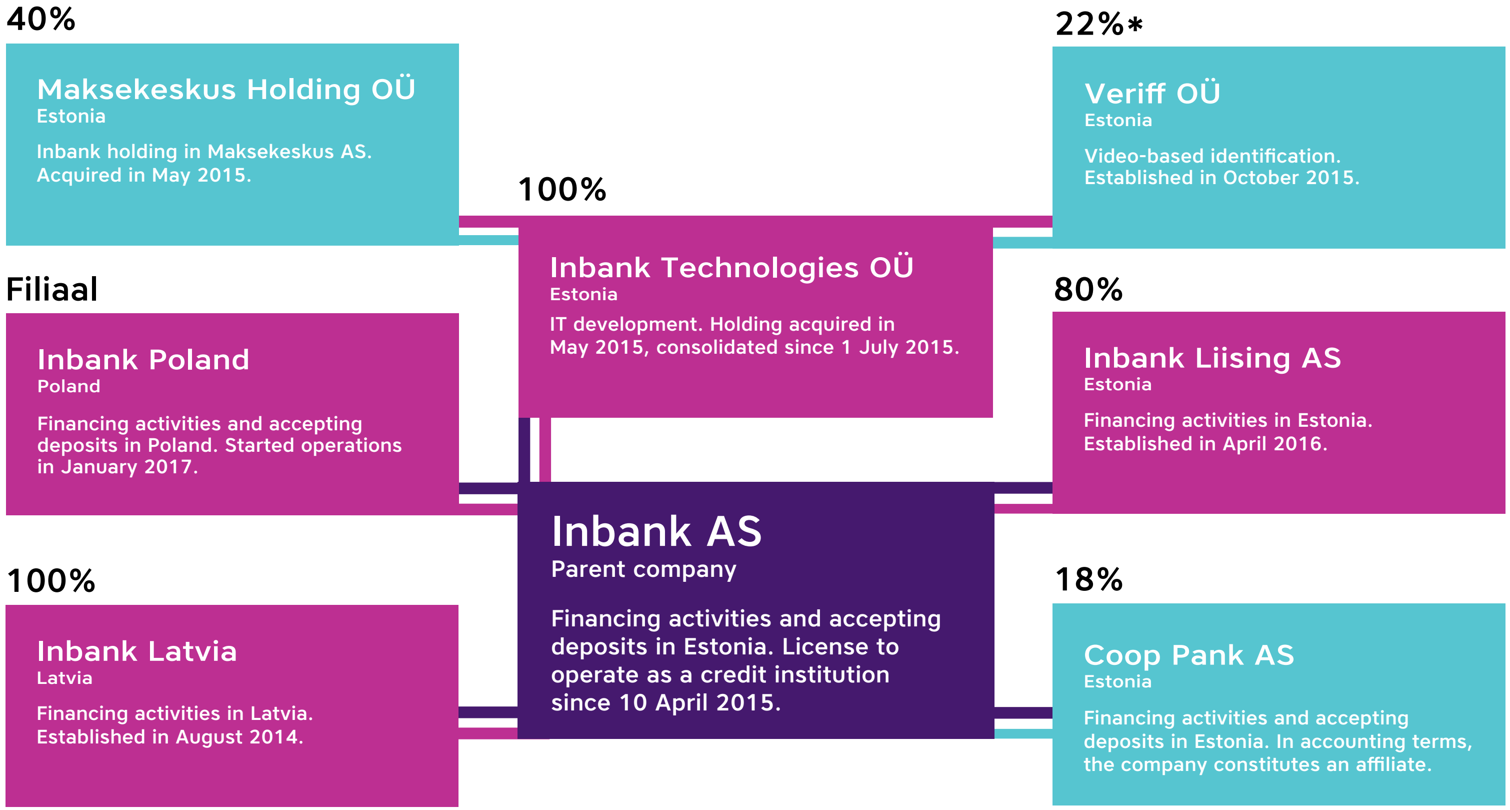
Management report

The year 2017 was of significant importance to Inbank. It marked the completion of one very important phase in the bank's development. As part of this process we formulated Inbank's new strategy, which is geographical expansion with the existing portfolio of products.

Strategic view

Our history shows that we have been successful mainly due to focusing our activities. Thanks to this approach, our ability to compete with universal banks in our field has grown constantly. The second pillar of our success is cooperation with partners. Our mission is to help retailers sell more and grow their businesses. With a clear focus, partner-oriented approach and development of technology, we have grown to become the preferred partner in Estonia for both hire-purchase and car loans.

In analysing the strengths of Inbank, we found that our knowledge and technological solutions can be successfully exported to other markets as well. This approach seems more effective and logical than the attempt to expand into new product areas in Estonia and compete with large banks. This fact is becoming the core of our strategic choices. Today, we test these principles and business model on both the Latvian and Polish markets.



* see Note 13

In addition to the geographical expansion, significant changes took place regarding our affiliated companies in 2017. Together with Coop Eesti we built Coop Finants into a successful company with a total of 100,000 customers and a profit of EUR 1.56 million in 2016. Encouraged by the success of providing financial services, Coop showed interest in expanding its business activities to the banking market. Ambitions and a suitable opportunity triggered a chain of events, which resulted in Coop Eesti acquiring a majority holding in Eesti Krediidipank. In the course of the transaction, Inbank sold its affiliates Coop Finants and Krediidipank Finants to Krediidipank and invested the received resources back into Krediidipank. In the fall of 2017, Krediidipank changed its name to Coop Pank. After the transaction, 17.94% of shares of Coop Pank are owned by Inbank.

It is important to note that the investment in Coop Pank is primarily a financial investment for us. Inbank has not taken an active part in the activities and management of Coop Pank, which is why we can redistribute our available resources to our international development. In 2017, this financial transaction brought a significant extraordinary profit to Inbank. Also, a positive change was the fact that Piret Paulus, the previous manager of Coop Finants, joined Inbank, starting to work as a member of the board and assuming responsibility for the bank's sales and marketing activities.

The third major event in 2017 was related to the launch of activities in Poland. In March, we successfully launched the loan and deposit products. Customers showed trust towards the new bank and we saw that we can successfully attract deposits. We also started selling credit products in the Internet bank,

At a press conference, the Chairman of the Supervisory Board of Inbank Priit Põldoja, Head of Coop Eesti Jaanus Vihand and Chairman of the Management Board of Coop Pank, Margus Rink, explain the strategy of Coop Pank, which is to provide services outside of large cities.

but deliberately in a modest amount. Our goal was to test business processes and the functioning of the credit decision. In the fourth quarter, we started offering partner-based financing in Poland, which is the cornerstone of Inbank's strategy. The first product we brought to the Polish market was insurance-financing through partners. As an interesting solution, we offer monthly payment for insurance, which is a new and innovative way to pay for insurance in the Polish market. We see great potential in the product and are already in active negotiations with several large insurance companies.

Organization development

For Inbank as an organization, 2017 was a year of increase in growth and complexity. At the end of the year, nearly 90 people worked at Inbank (not considering affiliated companies). There were 46 employees in Estonia, 20 in Latvia and 20 in Poland.

In our strategy we said we wanted to export our product knowledge to other countries. Our know-how is not merely technology, but contains a much more detailed commercial knowledge that defines the competitive advantages of Inbank. Successful transfer of these ideas requires our current top specialists to reorganize their activities from local to international. This is a complex management task. In 2017, we formulated much clearly the company's core functions and invested more into developing communication and collaboration. We continued the group management quarterly meetings and improved information flow.

It is still a pleasure to admit that we are an attractive employer to the best workers in our line of business. In 2017, our team was joined by strong professionals, such as Priit Piile who became the Head of IT, Ago Haabpiht as Chief Risk Officer. We also recruited several software developers with great experience.

In 2017, significant progress was made in the work organization as well. Banking is highly regulated and sets high standards for the organization, which requires a lot of attention to the company's internal procedures. We went a long way in regulating the organization of work and today we can say that bureaucracy is becoming, in a good sense, part of our day-to-day operations.

Business activity and market

In terms of business volumes, Inbank's largest market is still Estonia. In total, we sold credit products in three countries for 72.8 million euros, of which 80.8% came from Estonia, 11.4% from Latvia and 7.8% from Poland. In the home market, Inbank's position gives plenty of reason to rejoice. According to the Financial Supervision Authority statistics, Inbank is the second largest consumer finance provider on the Estonian market after Swedbank and in front of SEB. This is an excellent result and confirms that our marketing and sales activities have been successful and, as a result, we have been able to grow our market share. In the area of hire-purchase, we have been able to maintain our partners, but also win new ones: new sales increased by as much as 12.3% year-on-year. This is a strong result and far exceeded our forecasts.

In Latvia, Inbank subsidiary reached the goals set for the unit. The portfolio has started to grow again and credit quality has been very good, even exemplary. In 2018, we expect a stable growth in business volumes and a decent profit from Latvia.

Credit is due also to the Polish team, who built up a bank branch and launched business activities at an extraordinary speed, considering the country's size. In the fourth quarter of 2017, we also laid the foundation for partner-based financing, which will be the main focus of our activity. Next year, Poland's main goal will be a strong increase in business volumes, especially in partner-based financing.

Our ability to gather deposits in 2017 matched the growth of our business volumes. Diversified sales channels give us enough assurance that we will be able to ensure effective financing to cover our loan volumes also in the future. In particular,

Inbank's Latvian team moved into a modern office building in 2017 near the National Library of Latvia, which was decorated with a large Inbank logo.

I would like to highlight the campaign in late 2017, where we offered Inbank's deposit product to Estonian customers in a new way. In the light of the amendments of the Income Tax Act, we offered customers an opportunity to receive earned interest during the year 2017 and tax-free. The offer exceeded expectations and attracted both existing and new customers of Inbank. We received a lot of positive feedback from the market and our customers for reacting to the new situation in a timely manner while keeping the well-being of our customers in mind.

At the end of 2017, Inbank's deposit portfolio amounted to 95.1 million euros, an increase of 47.2% over the year.

Shareholders

At the end of 2017, Inbank had 5 shareholders, whose holding in the company exceeded 5%.

Name of shareholder	***Holding***
Pershing Hall Holding Limited	30.50%
Cofi Investeeringud OÜ	30.07%
Elio Tomaso Giovanni Cravero	6.60%
Roberto De Silvestri	6.60%
Baltic Holdings Limited	5.80%

Financial results

Mainly two important factors influenced the economic results in 2017: the extraordinary profit earned from the sale of affiliates and the increase in the overhead costs associated with the launch in Poland. Overall, the financial results were very good. Inbank's profit was 7.5 million euros, which translates into a return on equity of 44.1%. At the same time, the growth in expenses in Poland influenced the Bank's cost ratio, which at the end of the year was 57.8% (45.7% in 2016). Considering the specific features of Inbank's operations, this expense can also be categorized as an investment in the future.

The financial result was also positively influenced by the decrease in the average financing cost (average deposit interest rate 1.95%) and lower credit costs. The latter, in turn, shows that our ability to manage risks has improved.

Summary

2017 was of great significance for Inbank in a number of ways. We formulated our strategic focus and the source of growth. This decision triggered a series of internal changes that were necessary to turn a local company into an international organization. Inbank is growing well and this is very positive, but it also requires the strengthening of management and execution capacity.

In 2018, we hope to see success on the Polish market. Inbank is always ready to take advantage of new and interesting business opportunities, so we are looking forward to expanding to new markets with open eyes and excitement. In both business and organizational development, 2018 will be the year of international growth for Inbank.

Jan Andresoo

Chairman of the Management Board

Priorities for 2017 and 2018

In the previous annual report we set Inbank's priorities for 2017. Today, we are pleased to note that progress has been made in all focus areas.

Priorities in 2017		Assessment of fulfilment of priorities
Launch in Poland	→	The Polish branch has started financing operations and accepting deposits. First partner-based offers have been introduced in the market.
Introduction of a new strategy in the Latvian company	→	A new CEO and several top specialists joined the Latvian subsidiary. Sales strategy has undergone a change and credit risk has improved.
Growing business volumes in Estonia	→	Both the deposit and loan portfolios have shown strong growth.
Development of an international organization	→	We established local and group-wide business functions.

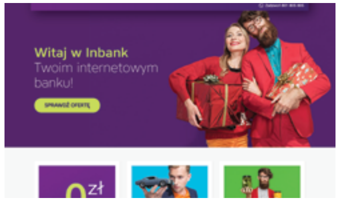
Priorities for 2018

- The growth of partner-based business in Poland and a significant increase in the share of international portfolio.
- Stable growth of business volumes and profitability in Estonia.
- Exporting Inbank's business model: successful implementation of similar technology, business and product development processes.
- Strengthening the international organization and disseminating Inbank's values in the whole Group.

Significant events in 2017

January

The Polish branch of Inbank received an operating license from the Financial Supervision Authority and started to accept deposits and issue consumer credit on the Polish market.



We acquired a holding in Eesti Krediidipank and made our contribution to creating a bank with a new strategy in the Estonian market.

coop | Pank

March

We started accepting deposits and the offering loans in Poland.

April

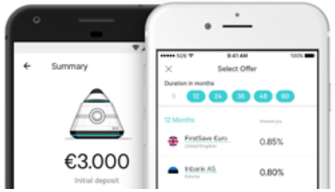
In cooperation with Hansapost and Bauhof, we launched Hansapost's small loan and Bauhof's renovation loan.

May

Piret Paulus joined the Management Board of Inbank as the Head of Sales and Marketing.

Girts Ledinš started working as the CEO of Inbank's Latvian subsidiary.

Inbank began to accept deposits from clients of N26, an innovative European mobile bank.



Inbank bought back a 10% share in Inbank Līzings, becoming the sole owner of the company.

Inbank sold its associate Coop Finants to Eesti Krediidipank.

June

Inbank sold its affiliate Krediidipank Finants to Eesti Krediidipank

August

Inbank sold a 30% share in subsidiary Veriff.

November

In the wake of the new Income Tax Act, Inbank launched a deposit campaign which allowed customers to receive earned interest from deposit in 2017 and tax-free.

Inbank started offering first partner-based financing products in Poland.

December

In partnership with TV3, Inbank sponsored a gratitude project "Seitsmeste Uhkus".

Welcome to Inbank

Inbank has defined itself as a bank of the new era. Let's take a closer look at how Inbank developed from a company offering hire-purchase to a bank with international reach and the team who made it happen.

The Inbank story

The story of Inbank began in 2011 when hire-purchase company Cofi AS started operating. The name Cofi was inspired by the name of the company's field of business: consumer finance. In three years, we became the market leader in the hire-purchase sales, and in the spring of 2015 we received a banking license and adopted a new name: Inbank. We started our business as the youngest bank in Estonia. The name Inbank symbolizes the qualities that we carry: innovation, intellectuality, individuality, initiative.

Business culture and people

The development of Inbank is a result of our talented employees whose number already reached 90 by the end of 2017. In Inbank we highly value every employee and their contribution, transparent communication and good humour, flexibility and freedom of action and, of course, performance.

Inbank team

During its seven years of operation, Inbank has grown into an increasingly complex and versatile organization. As of 2017, nearly half of our employees work outside Estonia. Growth in the number and geographical location of our employees has made transfer of company values and planned internal communication even more important.

The involvement and motivation of the team is and will remain a priority for Inbank. Continuous work has also shown results in a fast growing team. For example, on a 10-point scale employees gave Inbank 8.47 points as an employer. The most popular rating given was 10 points, which was given by almost 39.6% of employees.

Our team is characterized by diversity and activity. Inbank employs people from 7 nationalities, we have offices in three countries and four cities: Tallinn, Riga, Warsaw and Gdansk. The average Inbank team member is 34 years and 8 months old and the share of female and male employees is approximately equal. It is customary in our offices to use more than one language every day as a working language, and it's common to use English as a language for work.

The divisions of Inbank are finance, risk, IT, marketing, sales, customer service and business processes. Good co-operation between people in different divisions is encouraged by our open office that is also shared by the Management Board members. The Polish unit of Inbank has begun work in a new, modern office, the Latvian unit moved to a newly built office building next to the National Library of Latvia, and the rapid growth in Estonia and in the group

Here are the first words that our employees associate with Inbank:

Employee ranking of Inbank as an employer on a scale of 10:

8.47

Proportion of employees who would recommend working in Inbank to a friend:

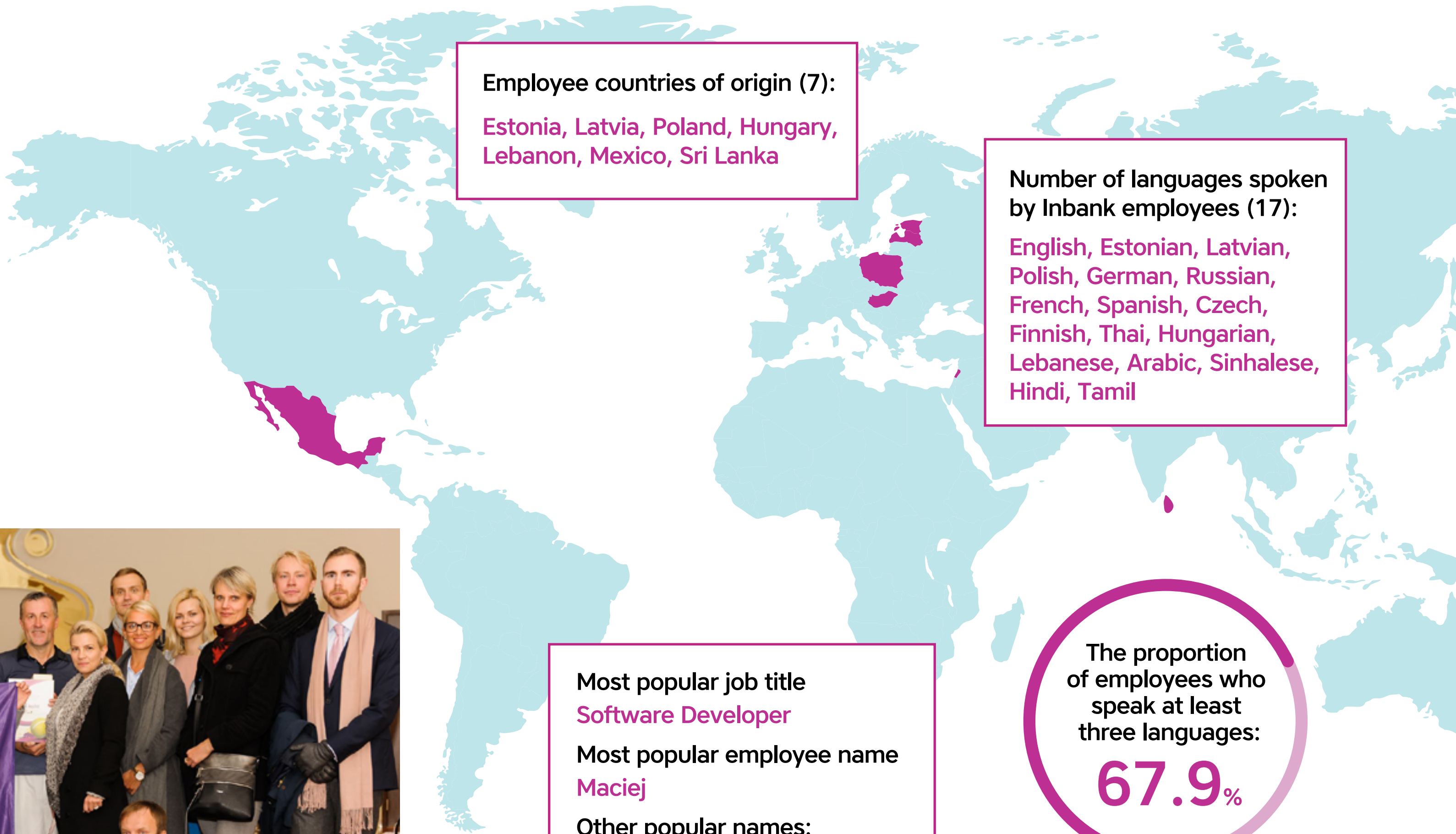
88.7%

The share of employees who have used Inbank's products:

32.1%

has necessitated expansion in Estonia as well. In our cosy office building in Kalamaja, we have occupied two floors instead of one. Our entire international team meets at least once a year - on summer days.

In addition to traditional events, Inbank also hosts spontaneous meetings. For example, at the end of 2017, Inbank employees held a doubles tournament in tennis.



Employee countries of origin (7):

Estonia, Latvia, Poland, Hungary, Lebanon, Mexico, Sri Lanka

Number of languages spoken by Inbank employees (17):

English, Estonian, Latvian, Polish, German, Russian, French, Spanish, Czech, Finnish, Thai, Hungarian, Lebanese, Arabic, Sinhalese, Hindi, Tamil

Most popular job title

Software Developer

Most popular employee name

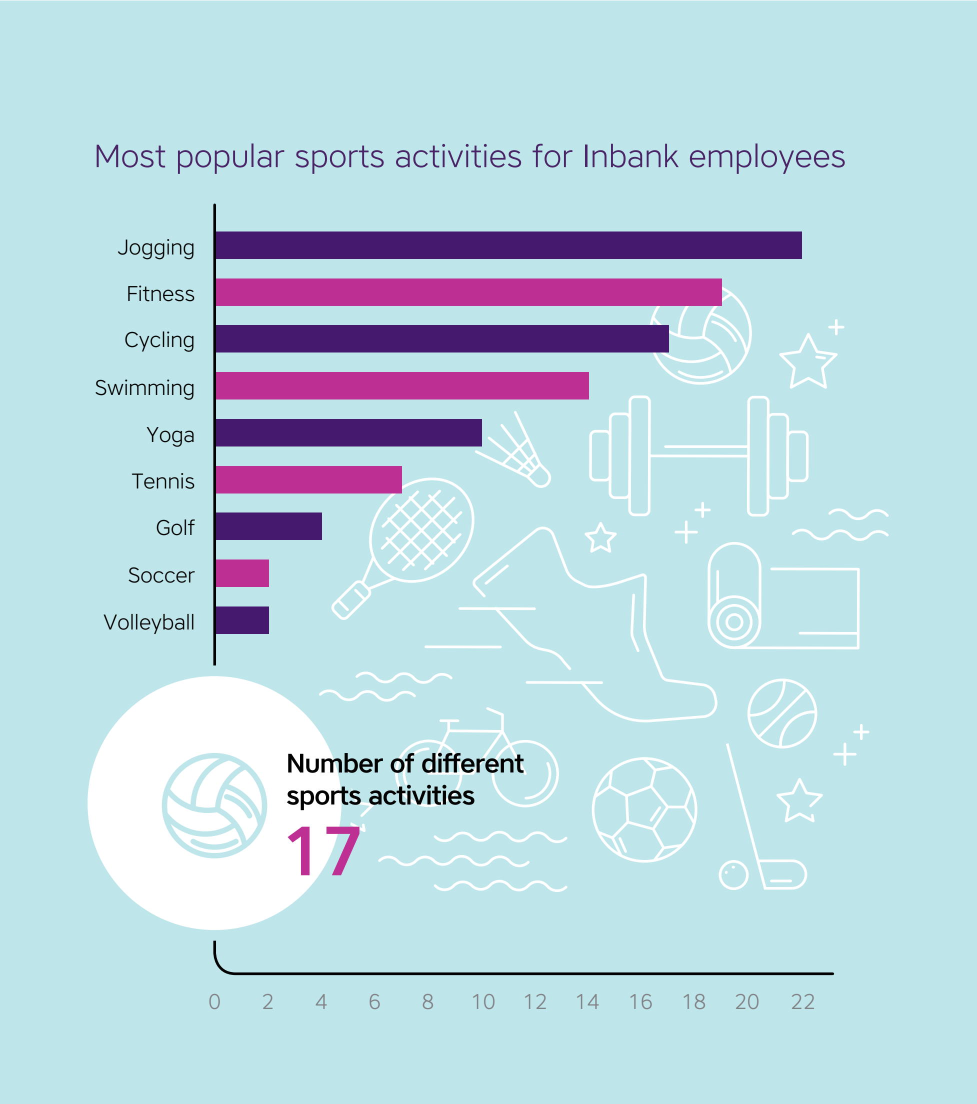
Maciej

Other popular names:

Marko, Priit, Tuuli, Anna, Olga, Tomasz, Katarzyna, Agnieszka

The proportion of employees who speak at least three languages:

67.9%



Inbank as an employer

Motivated and talented employees are the cornerstone of our success, which is why Inbank's priority is to recruit new professional team members as well as maintain the satisfaction of existing employees.
The advantages of Inbank as an employer are as follows:

- **Good team**
81.1% of our employees believe that the existing staff and team spirit make Inbank a special place to work at. In addition to that, 60.4% of employees believe that it is worth noting that Inbank's people have a special sense of humour reflecting a competitive spirit.

- **Flexibility in the choice of working time and workplace**
We empower workers to choose when and where they will do their day-to-day work. Performance is more important than the specific time and place of work.

- **Exciting work in a growing and international company**
58.5% of Inbank employees appreciate the opportunity to work in a fast growing and multinational enterprise. The rapid growth, in turn, creates new development opportunities for employees, of whom 35.8% consider it to be an important strength of Inbank.

- **Performance-friendly office**
The open office of Inbank expresses the desire of the company to be as transparent as possible for its employees, customers, partners and other stakeholders. In addition to the office that promotes the sharing of information, every employee has the opportunity to choose the most suitable tools for work. For example, 53.8% of Inbank employees prefer PCs while 46.2% prefer Mac computers. Inbank offices also offer refreshments, and during breaks, one can play minigolf, table tennis or Playstation games.

- **Team events**
To strengthen team spirit, Inbank hosts both traditional and spontaneous events. Traditional get-togethers include Christmas, Inbank's birthday and annual summer days. In addition to that, different team events and sports events are held.

Watch the video of Inbank's summer days

Financial results

The year of 2017 was successful for Inbank in financial terms. The total profit increased 185% year-on-year to 7.46 million euros.

There were several one-off transactions behind the very strong profit growth. This was due to our exit from our affiliated companies Coop Finants and Krediidipank Finants in 2017. In addition to that, Inbank's subsidiary Inbank Technologies reduced its holding in Veriff that specialises in web-based customer identification. In 2017 the combined effect of these transactions to comprehensive income was in total 5.2 million euros.

Negative shadow on the financial result of Inbank in 2017 was cast by the tax amendment in Latvia. Namely, the corporate income tax legislation changed, whereby tax calculation based on accruals basis was replaced with tax on dividends. As a result, we wrote off the income tax asset generated in earlier periods in Latvia in the amount of 389 thousand euros from consolidated statement of financial position.

As a result, the impact of one-off transaction on Inbank's financial results for 2017 totalled 4.81 million euros. Total operating profit, excluding one-off transactions, was 2.65 million euros, or 1.5% more than in 2016.

The result from ordinary business

activities was in line with our plans and expectations. For Inbank, 2017 was dominated by various investments. We built up our Polish organization and implemented a strategy change in our Latvian subsidiary. The launch in Poland significantly increased the volume of Inbank's expenses, while the Polish business started to have a small effect on the income side only in the second half of the year. In total, loss before tax in Poland totalled 1.55 million euros and the comprehensive loss for the year was 1.29 million euros. The loss before tax of the Latvian subsidiary in 2017 essentially remained unchanged from the previous year, amounting to 66 thousand euros (loss before tax of 6 thousand euros in 2016). In 2017 the total comprehensive loss in Latvia totalled 454 thousand euros (2016 total loss: 8 thousand euros).

Looking at the Inbank consolidation group as a whole, there was a 43.3% increase in the credit portfolio and by the end of 2017 the portfolio amount was 92.5 million euros, and a 26.5% increase in net income, which amounted to 11.7 million euros in 2017. Revenue growth has been somewhat lower than portfolio growth mainly due to two main reasons: firstly, Inbank is successfully entering the small loans segment, the yield of which is lower than the hire-purchase business, but has a significantly higher market volume. The second was the change in the Latvian strategy, which has lowered the margin earned on the portfolio as expected.

As a positive development, it is important to highlight the change in loan losses, which were significantly more modest, compared to the growth of the credit portfolio, rising only 10% in comparison with 2016 to 3.53 million euros. At the same time, in 2017, loan losses in the second half of the year have fallen in comparison with the second half of 2016. This confirms that we have left the problems that arose in 2016 as a result of higher credit losses in Latvia behind us.

All in all, Inbank's financial results for 2017 give reason for satisfaction. We have put a greater focus on building an international organization, and this is also influencing our financial performance. Moreover, we see a number of important activities carried out by Inbank in 2017 as investments, which will enable to continue strong growth in the near future.

Marko Varik
Chief Financial Officer

Summary of the balance sheet

EURt	***31.12.2017***	***31.12.2016***	
Loans granted	92 895	64 839	43.3%
including loans to households	89 002	60 852	
Deposits received	95 056	64 587	47.2%
Equity	22 046	11 804	86.8%

Summary of the income statement

EURt	***2017***	***2016***	
Net interest income	11 014	8 384	31.4%
Net fee and commission income	-56	60	-193.3%
Other operating income	705	776	-9.1%
Total net interest, fee and other income	**11 663**	**9 220**	**26.5%**
Personnel expenses	-3 997	-2 461	62.4%
Marketing expenses	-929	-566	64.1%
Other expenses	-1 817	-1 188	52.9%
Total operating expenses	**-6 743**	**-4 215**	**60.0%**
Profit before impairment losses on loans and advances	**4 920**	**5 005**	**-1.7%**
Share of profit of associates	6 203	773	702.5%
Impairment losses on loans and advances	-3 532	-3 219	9.7%
Profit before income tax	**7 591**	**2 559**	**196.6%**
Income tax	-92	57	-261.4%
Profit for the period	**7 499**	**2 616**	**186.7%**
Currency translation differences	-38	2	-2000.0%
Total comprehensive income for the period	**7 461**	**2 618**	**185.0%**
including attributable to shareholders of parent company	7 458	2 649	181.5%

Risk overview

The objective of risk management is to identify, assess, monitor and control all risks related to Inbank business activities. The wider objective of risk management is to ensure stability, credibility and sustainable growth of the company's value.

Risk management

The Supervisory Board of Inbank has established general risk management policies that are structured to fit the Group's strategy and take into account the appetite to take different risks. Risk management is based on four principles:

- Trustworthy risk culture is one of the Group's core values;
- Risk management is business-oriented and business is focused on risk;
- Risk management is based on risk appetite and risk tolerance;
- Business needs are never more important than strong financial position, sufficient capitalization and strong liquidity position.

Risk culture

Organisation-wide shared and individual perceptions and risk management are described by risk culture. Inbank's risk culture is based on the following principles:

- All employees are responsible for proper risk management.
- We only accept the risks we understand.
- We only take into account the activities that take place in the interests of our clients and ourselves.
- All risks must be properly analyzed beforehand.
- Each risk taken must be duly endorsed within the established risk management framework.
- Risk-taking activities must comply with established policies, procedures and legal requirements.
- There must be a balance between the risk and the expected benefits.
- Risk management is part of all activities.

Risk appetite

Inbank's risk appetite statement transforms the Group's overall strategy into measurable goals and thresholds in all significant risk categories to ensure that strategic, business and risk objectives are attained, and to monitor potential abnormalities.

Inbank's risk appetite is based on our core business of issuing consumer credit. Regarding the credit risk of the loan portfolio, we consciously accept a higher than average risk level without taking excessive risk. Our risk appetite in all other risk categories is rather conservative and lower than the average. We take such risks only to support our core business. The risk exposures to any other risks, where uncertain changes in any individual position may seriously affect our overall risk position, shall be avoided or properly managed.

Achievements in 2017

The biggest source of risk in Inbank is credit risk arising from the loan portfolio. The profitability of the credit portfolio was well-balanced in 2017. The quality of the portfolio was better than expected in Estonia and improved significantly in Latvia. An important commercial change in 2017 was the entry into the Polish market. In our opinion, there are no changes that would indicate a significant deterioration of the economic environment in Inbank's areas of activity that would lead to a sharp decline in the quality of the loan portfolio.

The liquidity position of Inbank is strong, the liquidity buffer is at a conservative level, and the survival period is sufficient. We have significantly diversified our financing sources in 2017 and the market situation continues to be favorable.

We have not detected significant operational risks, and the number of loss cases and other key indicators are low. The organizational structure and management structure of Inbank is clear and in line with the company's operations.

Our capital indicators are on a good level. According to the Management Board, the risk related to capital as at 31.12.2017 is moderate. We are able to finance the growth through profit and raising additional capital.

According to the Management Board, the actual risk profile of Inbank as at 31.12.2017 is in line with the risk level approved by the Supervisory Board. Inbank's risk strategy and the desired risk profile are in line with our overall strategy and business model.

Ago Haabpiht
Chief Risk Officer

Risks	*Main hedging activities*	*Risk factors*	*Situation*

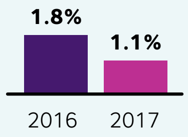
Credit risk

Credit risk arises from Inbank's lending, financing, investment and trading activities, in which counterparties have repayment or other obligations to the bank. Inbank distinguishes credit risk from the loan portfolio (including off-balance sheet items), counterparties and other assets (investments, fixed assets, etc.).

Within credit risk, Inbank also includes concentration risk, country risk and foreign currency lending risk.

- Credit risk is managed through approved risk appetite and risk limits.
- The Bank's essential components of credit risk management are the prevention of excessive risk and risk mitigation with the following measures:
  - optimal balance of risk and reward;
  - above the average interest rates;
  - below the average contractual maturity;
  - significantly below the average contractual amount;
  - well-distributed portfolio; risk concentrations are limited;
  - adequate and conservative provisions;
  - well-controlled risk taking and risk profile.
- Stress and scenario tests allow us to make sure the portfolio is durable.

Share of portfolio in 90+ days overdue



The credit risk position has improved and is in line with the defined risk appetite. We will continue investing in credit decision making and credit quality monitoring systems.

Market risk

Market risk is the risk of losses resulting from adverse changes in market prices and rates, their correlations and volatility. The market risk is reduced by Inbank's foreign exchange risk, trading portfolio risk (position risk), equity risk and interest rate risk in banking book (IRRBB).

Market risks arise from the Group's core business, taking market risk is not the main activity of Inbank.

We manage and control the market risk arising from the Group's financing and investment activities through the Group's assets and liabilities management processes.

The Group has a conservative market risk strategy.

- The market risk is managed through risk appetite limits and policies approved by the Management Board.
- Foreign exchange risk arises from Inbank's activities on the Polish market. The Bank's overall foreign currency risk strategy is conservative. Currency risk arises from lending (loans and deposits in Polish zloty) (PLN) and the Bank avoids and mitigates excessive risk, maintaining the necessary balance between loans and deposits in zloty.
- The Bank does not accept commodity risk or equity risk in its trading portfolio.
- Interest rate risk in banking book (IRRBB) is an important risk and is monitored continuously, as the risk naturally arises in the banking book due to changes in the maturities and interest rates of loans and/or deposits, usually based on customer preferences.
- The Bank's essential components of interest rate risk management are the prevention of excessive risk and risk mitigation with the following measures:
  - above the average spread between loan and deposit interest rates;
  - below the average loan term;
  - use of fixed interest on loans;
  - active management of interest bearing assets and liabilities structure and maturities;
  - Measuring and limiting the impact of IRRBB on net interest income (NII) and on the economic value of equity (EVE);
  - mitigation of the IRRBB risk, if necessary.
- Stress and scenario tests focus on the impacts of different interest environments.

Open net foreign currency position (% of net own funds)		
	2017	***2016***
	0.60%	0.61%

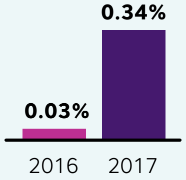
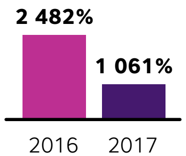
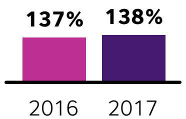
Impact of interest rate change on net interest income (% of net own funds)		
	2017	***2016***
+200 basis points	1.71%	0.83%
-200 basis points	-0.02%	-0.83%

Impact of the change in interest rate on the economic value of equity (% of net own funds)		
	2017	***2016***
+200 basis points	1.41%	0.39%
-200 basis points	-0.18%	-0.39%

The market risk position remained stable and the actual risk profile was below average.

The interest rate risk position remains within safe limits. We will continue to maintain a stable and balanced risk profile.

We plan to improve interest rate risk management systems and approaches to meet changing legal requirements.

Risks	***Main hedging activities***	***Risk factors***	***Situation***
Operational risk **Operational risk** is the risk of incurring loss from internal processes, human errors or systems inadequate or ineffective in the way expected or due to external events. The term includes legal risk, but does not include a strategic and reputation risk. **Compliance risk** is the risk to Group's business model, reputation and financial strength resulting from the incomplete implementation of laws, regulations, internal rules and obligations of clients, employees and other stakeholders. **Information and communication technology risk** is the risk of loss caused by inadequacy or malfunctions of technical infrastructures that may affect the availability, integrity and security of the data.	• The operational risk is managed through risk appetite limits and policies approved by the Management Board. • Risk management focuses on maintaining a minimum and reasonable level of operational risk to minimize operational risk and potential losses while taking into account its strategic objectives and the principle of cost-effectiveness. • Principles, framework and responsibility of operational risk are set by policies and procedures to ensure the Bank's ability to adequately assess and manage the operational risk.	Operating loss as % of net own funds  	Operational risk losses have remained stable and low. We will continue investing in our activities and ICT infrastructure.
Liquidity risk **Liquidity risk** is a risk that the bank will not be able to fulfill its obligations in a timely manner or in full without significant loss. **Risk of financing** is a risk that the bank will not be able to use resources without affecting adversely its daily operations or financial position.	• The risk appetite, as well as financing and liquidity policies approved by the Board, define the structure of the limit. • The Group's liquidity management arrangements ensure a low and conservative liquidity risk profile and sufficient liquidity reserves. • The Group avoids significant liquidity risks by holding relatively conservative liquidity reserves. • The essential elements of managing the Group's finance risk are: • Retail deposits as primary source of funding • Suitable structure of due dates of funding; • Highly diversified financing portfolio; • Avoidance of concentration; • Diversity of sources of funding by country and channel; • Flexible and attractive financing strategy, pricing above the market average; • Balanced growth of financing and loan portfolios; • The bank has sufficient liquidity resources of sufficient quality to cover the outflow of assets in a stress scenario. • Stress and scenario tests to ensure that liquidity reserves and funding are sufficient.	Liquidity coverage ratio  Net stable funding ratio  	Our liquidity and funding position remains stable and the actual risk profile is below the average. We will continue to make our balance sheet more efficient and resilient, using sound financing diversification and liquidity management.

<table>
<tr><th>Risks</th><th>Main hedging activities</th><th>Risk factors</th><th>Situation</th></tr>
<tr>
<td>Business risks

Strategic risk is a risk that the business and competitive environment, the impact of regulation on bank activities, inadequate implementation of the strategy, changes in customer expectations or inadequate implementation of new technologies can cause losses or significantly reduce revenues.

Reputation risk is the risk to the bank's income, own funds or liquidity, which is a loss to the reputation of the bank.</td>
<td>• The Management Board focuses on ensuring that business development and planning conform to risk appetite.
• Strategic risk and reputation risk are analyzed as part of strategic planning.
• Strategic risk strategy is to control and mitigate the risk, which involves a strategy based on thorough planning process, as well as sufficient and timely response to the changes.
• The Bank's strategy to manage reputation risk is to avoid significant risks and situations that could have a negative impact on reputation and thereby lead to loss of revenue or loss of confidence.
• The basis for the management of the reputation risk is the principle that reputation is an important asset, its development starts with customer service and public opinion is important for the Bank.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital risk

Capital risk is the risk that Inbank's capital adequacy or quality is below the optimum level</td>
<td>• The risk appetite approved by the Management Board ensures that we have enough capital to respond to legal and internal demands.
• Capital policies define minimum standards for capital management.
• The Group's capital must at any time exceed the total risk and comply with legal requirements and ICAAP/SREP minimum requirements.
• ICAAP and capital management work continuously.
• Capital adequacy management is an integral part of strategic decision and business decision making and risk management.
• The Bank continuously assesses the individual risk profile and the corresponding capital requirement for all risk categories that are identified by the Bank.
• Stress and scenario tests assess capital adequacy across a range of serious, cross-market stress scenarios and events.</td>
<td><table>
<tr><th>Capital ratios</th><th>2017</th><th>2016</th></tr>
<tr><td>CET 1</td><td>12.75%</td><td>13.90%</td></tr>
<tr><td>Total capital ratio</td><td>19.86%</td><td>24.49%</td></tr>
<tr><td>Leverage ratio</td><td>11.45%</td><td>10.40%</td></tr>
</table></td>
<td>Our total capital and leverage ratios are stable and conservative. We will continue to hold a high-quality capital base, which exceeds the regulatory rates.</td>
</tr>
</table>

Capital adequacy

EURt	***31.12.2017***	***31.12.2016***
Capital base		
Paid-in share capital	782	689
Share premium	9 068	6 361
Statutory and other reserves	1 431	1 418
Retained earnings	3 243	681
Intangible assets (subtracted)	-816	-902
Profit for reporting period*	7 496	2 647
Shares in associates**	-7 763	-1 673
Total Tier 1 capital	**13 441**	**9 221**
Subordinated debt securities	6 503	6 503
Total Tier 2 capital	**6 503**	**6 503**
Net own funds for capital adequacy calculation	**19 944**	**15 724**
Risk-weighted assets		
Credit institutions, standardised approach	2 216	391
Non-financial customers, standardised approach	1 595	3 037
Retail claims, standardised approach***	67 499	44 818
Claims past due, standardised approach***	1 301	1 095
Other assets, standardised approach	1 494	1 562
Total credit risk and counterparty credit risk	**74 105**	**50 903**
Operational risk, basic indicator approach	15 584	9 765
Total risk-weighted assets	**89 689**	**60 668**
Capital adequacy (%)	22.24%	25.92%
Regulative capital adequacy (%)**	19.86%	24.49%
Tier 1 capital ratio (%)	14.99%	15.20%
Regulative Tier 1 capital ratio (%)	12.75%	13.90%

*In accordance with EU regulation, audited profit for the period may be included in retained earnings upon prior approval by competent authority. The calculations made in accordance with EU regulation include the profit earned during 2017 in the amount of 7 496 EURt, and do not include the profit for H2 in the amount of 1 777 EURt (2016: does not include profit for Q4 in the amount of 936 EURt, including the profit from associates using the equity method of 261 EURt).

**According to the reports submitted to the regulator, the capital adequacy ratio is 19,86% and the subtracted balance sheet value of "Shares in associates" is 7 763 EURt (31.12.2016: 1 411 EURt). The value of the "Shares in associates", as submitted to the regulator, has been determined on the basis of the audited profit of the associates.

***In the reports submitted to the regulator as of 31.12.2017, the risk exposures take account of the credit portfolio impairment losses made in the reporting period in the amount of 1 081 EURt (31.12.2016: 759 EURt) and are yet to be confirmed by the external auditor. The external auditor has confirmed the 6-month profit, together with the impairment losses.

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

In addition to the principal requirements arising from the harmonised rules, the principles for establishing capital buffers are established with the corresponding directive. In addition to basic own funds requirement, Estonia has established capital preservation and systemic risk buffers for credit institutions at the respective level of 2.5% (in accordance with the law) and 1.0% (established by the Bank of Estonia). The Bank's Polish assets were subject to a systemic risk buffer rate of 0% in 2017 (new rate of 3% as of 01.01.2018). Therefore, the total amount of the systemic risk buffer depends on the ratio between the Bank's exposures to Estonia, Latvia and Poland. These buffers are added to both Tier 1 and the total own funds requirements. Inbank AS adheres to these requirements both as of the balance sheet date and as at the publication of the interim report.

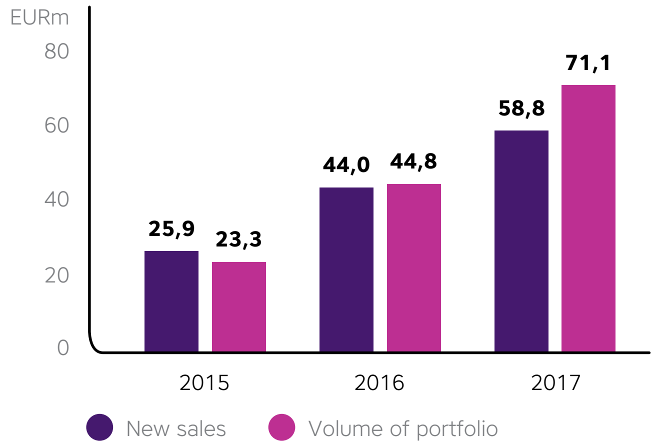
	Common equity Tier 1 capital ratio	***Tier 1 capital ratio***	***Total capital ratio***
Basic requirement	4.50%	6.00%	8.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Systemic risk buffer	0.82%	0.82%	0.82%
Minimum regulative capital requirement	**7.82%**	**9.32%**	**11.32%**

Overview of Inbank in 2017

Estonia

- Inbank's Estonian consumer finance business was a success in 2017.
- The main source of growth for portfolio and new sales was the successful product offering in category of small loans.
- The increased share of sales of loan products to total sales has led to a decrease in the average interest rate and increased the contract period and average contract amount.
- The quality of the credit portfolio has remained comparable to the previous year.

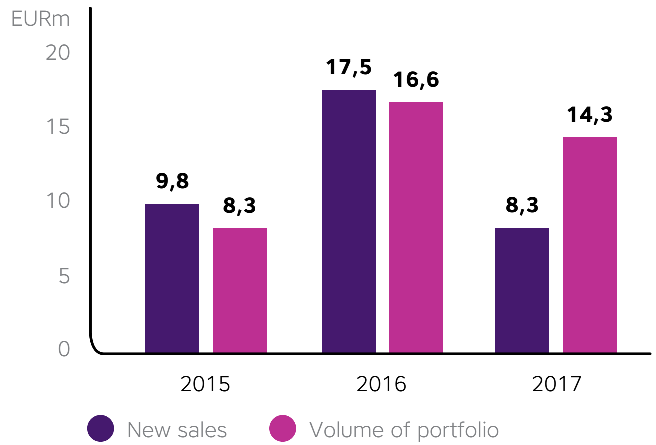
EURt	***2015***	***2016***	***2017***
Volume of new sales	25 915	43 958	58 834
New sales of contracts (number)	40 522	45 611	53 721
Average new sales contract amount	640	964	1 095
Average interest rate of new sales	20.8%	20.2%	18.9%
Average period of new sales (months)	30	37	41
Volume of credit portfolio	23 349	44 812	71 062
Number of credit contracts in portfolio (items)	41 846	50 878	65 269
Average value of contracts in portfolio	558	881	1 089
Average interest rate of portfolio	20.4%	19.7%	18.0%
Share of portfolio in 90+ days overdue	0.4%	0.9%	1.1%
Share of portfolio in 180+ days overdue	0.1%	0.3%	0.6%
The ratio of loan losses to period end credit portfolio	2.4%	2.2%	2.2%



Latvia

- In Latvia, Inbank's business in 2017 was dominated by a change of strategy.
- Changes to the selected sales strategy caused a significant decrease in sales volume in the annual comparison.
- The focus on partner-oriented sales and the supply of the credit product has led to a decrease in the average loan amount and the average interest rate.
- As expected, the change in strategy has had a positive impact on portfolio quality.
- The ratio of relatively high loan losses to the portfolio is due to the fact that in 2017, the lower quality loans sold in earlier periods still have an impact on the financial statements.

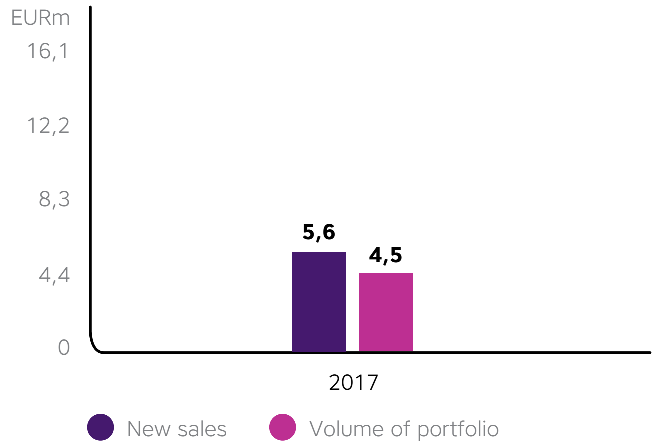
EURt	***2015***	***2016***	***2017***
Volume of new sales	9 795	17 548	8 333
New sales of contracts (number)	7 581	9 147	6 578
Average new sales contract amount	1 292	1 918	1 267
Average interest rate of new sales	23.6%	24.2%	16.8%
Average period of new sales (months)	43	40	38
Volume of credit portfolio	8 267	16 647	14 320
Number of credit contracts in portfolio (items)	6 289	10 313	10 389
Average value of contracts in portfolio	1 315	1 614	1 378
Average interest rate of portfolio	22.5%	23.1%	21.0%
Share of portfolio in 90+ days overdue	0.7%	4.2%	0.2%
Share of portfolio in 180+ days overdue	0.1%	2.2%	0.0%
The ratio of loan losses to period end credit portfolio	3.6%	13.3%	11.9%



Poland

- In March 2017 Inbank took its first steps in offering consumer finance products in Poland.
- The first products launched on the market were small loan and car loan.
- The product offering in the partner channels began in December 2017.
- Interest rates are lower on the Polish market due to regulatory requirements, offset by higher fees on services.
- In Poland, 2017 was marked by testing the quality of credit decisions. As expected, this has led to somewhat higher credit losses.

EURt	***2015***	***2016***	***2017***
Volume of new sales	-	-	5 644
New sales of contracts (number)	-	-	2 523
Average new sales contract amount	-	-	2 237
Average interest rate of new sales	-	-	8.6%
Average period of new sales (months)	-	-	50
Volume of credit portfolio	-	-	4 483
Number of credit contracts in portfolio (items)	-	-	2 293
Average value of contracts in portfolio	-	-	1 955
Average interest rate of portfolio	-	-	8.6%
Share of portfolio in 90+ days overdue	-	-	0.6%
Share of portfolio in 180+ days overdue	-	-	0.0%
The ratio of loan losses to period end credit portfolio	-	-	5.7%



Deposit

- The growth of the deposit portfolio has been at the same rate as the growth of loan portfolios.
- The growth of the Bank's reputation in Estonia contributed to reducing the interest rate on the deposit portfolio.
- The German, Austrian and also Polish depositors have received Inbank's offer well which has helped to diversify the choice of Inbank's sources of financing significantly.
- Deposits through the Raisin deposit platform are characterized by a longer average deposit period in the price level that is comparable to Estonia.
- The Polish depositor prefers a shorter deposit period and the interest rate differs significantly from that of other channels, mainly due to different currencies.

Estonia			
Raising of deposits	***2015***	***2016***	***2017***
The volume of new deposit agreements entered	30 769	54 573	51 917
Number of new concluded deposit agreements	2 533	3 753	4 119
Amount of average deposit agreement	12 147	14 541	12 604
Average interest on concluded contracts	2.5%	1.9%	1.7%
Average period of concluded contracts (in months)	21	16	25
Deposit portfolio volume	29 712	64 522	67 782
Number of deposit contracts	2 506	5 307	5 713
Average interest rate of portfolio	2.6%	2.2%	1.8%

Raisin			
Raising of deposits	***2015***	***2016***	***2017***
The volume of new deposit agreements entered	-	65	18 517
Number of new concluded deposit agreements	-	14	1 284
Amount of average deposit agreement	-	4 657	14 421
Average interest on concluded contracts	-	1.6%	1.7%
Average period of concluded contracts (in months)	-	40	40
Deposit portfolio volume	-	65	18 597
Number of deposit contracts	-	14	1 292
Average interest rate of portfolio	-	1.6%	1.7%

Poland			
Raising of deposits	***2015***	***2016***	***2017***
The volume of new deposit agreements entered	-	-	10 672
Number of new concluded deposit agreements	-	-	1 931
Amount of average deposit agreement	-	-	5 527
Average interest on concluded contracts	-	-	2.6%
Average period of concluded contracts (in months)	-	-	13
Deposit portfolio volume	-	-	8 677
Number of deposit contracts	-	-	1 505
Average interest rate of portfolio	-	-	2.7%

Governance

Supervisory Board

The Inbank Supervisory Board consists of five members.

Priit Põldoja
Chairman of the Supervisory Board of Inbank

Rain Rannu
Member of the Supervisory Board of Inbank

Roberto De Silvestri
Member of the Supervisory Board of Inbank

Triinu Reinold
Member of the Supervisory Board of Inbank

Raino Paron
Member of the Supervisory Board of Inbank

Management Board

The Management Board of Inbank consists of four members.

Jan Andresoo
Chairman of the Management Board of Inbank

Liina Sadrak
Member of the Management Board of Inbank

Marko Varik
Member of the Management Board of Inbank

Piret Paulus
Member of the Management Board of Inbank

Inbank implements the principle of consolidation in its activities, meaning that the key management and strategic decisions of the companies belonging to the Group are taken by Inbank's governance bodies.

Description of the general management principles

Inbank implements the principle of consolidation in its activities, meaning that the key management and strategic decisions of the companies belonging to the Group are made at Inbank's governance bodies.

Thus, Inbank's general meeting, the Supervisory Board and, for the most important credit decisions, Inbank Credit Committee are involved in the decision making process. This allows Inbank as a consolidated group to proceed from a unified set of objectives and operating principles.

Remuneration principles

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

The structure of employee remuneration consists of two parts:

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

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

External consultants are not involved in determining remuneration policies.

Share option contracts were not realized in 2017.

In 2017, a share option agreement was concluded with one key employee, according to which the employee was able to acquire 100 shares at a price of 300 euros per share. Share option agreement will realize in 2020.

In total, 4930 shares options have been issued, of which 1000 have been issued to members of the Management Board and 580 members of the Supervisory Board.

Inbank proceeds from the provisions of the Credit Institutions Act in determining severance compensation. No severance compensation was paid in 2017.

Corporate Governance report

Inbank adheres to the Corporate Governance Code (hereinafter “Code”), a set of recommended 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 complete, along with the explanations.

General meeting

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

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

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

One ordinary and one extraordinary general meeting of the shareholders was held in 2017.

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

Inbank does not comply with clauses 1.2.1, 1.2.3 and 1.2.4 of the Code recommending the disclosure of information related to the general meeting on the website, as the Inbank communicates efficiently by e-mail and all the information required is made available to all shareholders by e-mail. Additionally, the invitation to the general meeting is not published in a daily national newspaper due to the small circle of shareholders.

Inbank complies with clause 1.2.2 (information 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 Code section 1.3.1 (the language of the general meeting is Estonian). In this case, the shareholder will be given an English translation at his or her request.

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

Inbank partially complies with clause 1.3.2 of the Code, according to which the members of the Management Board, the chairman of the Supervisory Board and, if possible, members of the Supervisory Board and at least one of the auditors participate in the general meeting.

The participation of all members of the board depends on the topics covered in the meeting, the Chairman of the Management Board and the board member responsible for finances are always present. The attendance of all members of the Supervisory Board has not been necessary at the meeting, as the supervisory board is represented at the meeting by the chairman of the Supervisory Board. The auditor did not attend the meetings because meetings did not address issues that would require the auditor to attend.

Inbank does not enable participation in the general meeting through means of telecommunication (clause 1.3.3 of the Code), since all the Shareholders have been represented at the general meetings and there has been no need for remote solutions. Additionally, all shareholders have the option to cast his vote electronically on the draft agenda.

Management Board

The functions of the Management Board of Inbank are regulated by the Articles of Association, the Commercial Code and the Credit Institutions Act.

The Management Board of Inbank consists of four members (three to seven members according to the Articles of Association), elected by the Supervisory Board for a period of three years.

Board members are:

1. Jan Andresoo - Chairman of the Management Board;
2. Liina Sadrak - Member of the Management Board;
3. Marko Varik - Member of the Management Board;
4. Piret Paulus - Member of the Management Board.

Piret Paulus was elected to the Management Board in 2017.

The Management Board of Inbank has number of shares and issued share options:

Member of the Management Board	*Number of shares*		*Issued share options*
	Belonging to the member	*Belonging to related party*	
Jan Andresoo	-	9 497	400
Liina Sadrak	200	-	300
Marko Varik	-	1 351	300
Piret Paulus	-	1 300	-

Inbank does not comply with clause 2.2.7 of the Code recommending to disclose the information about remunerations paid to members of the Management Board and about bonus principles on their website, because the remunerations paid to Management Board members are disclosed in Note 25 in the total amount of remunerations paid to Management and Supervisory Board. In addition, this is a personal information and disclosing it is not inevitably necessary in order to assess the activity of Inbank. Inbank does not comply with clause 2.2.7 of the Code recommending to introduce more important aspects and changes made in management remunerations at the general meeting, because there have been no changes during 2017.

The Management Board members present a declaration of economic interest and conflict of interest once a year. Transactions with the members of Management Board are disclosed in Note 25 and are entered into on market conditions. The members of the Management Board are the members of the administrative bodies in the following entities belonging to Inbank's consolidation group:

- Marko Varik – Member of the Management Board in Inbank Liising AS;
- Liina Sadrak – Member of the Supervisory Board in Inbank Liising AS;
- Piret Paulus – Member of the Management Board in Inbank Lizings SIA;
- Jan Andersoo – Member of the Supervisory Board in Inbank Lizings SIA.

The members of Management Board have not received any severance, because no members of the Management Board have terminated their contract.

Supervisory Board

Inbank's Supervisory Board plans activities of Inbank, provides guidance for the Management Board in organizing management of Inbank, performs oversight regarding the activities of Inbank and its Management Board, and takes decisions on matters set forth in legislation or the articles of association.

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

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

In 2017 there was six Supervisory Board meetings and in seven cases the necessary decisions were taken without calling a meeting. All the Supervisory Board members have attended in at least half of the meetings held in 2017.

Inbank's Audit Committee has three members. The chairman of the audit committee is Raino Paron and members are Priit Põldoja and Triinu Reinold. Audit Committee has been formed to exercise oversight of the Management Board. The responsibilities of the committee include controlling and analyzing financial data processing, effectiveness of risk management and internal control, overseeing the process of audit of the consolidated financial statements and the independence of external auditor. Members of the committee do not receive remuneration. There is no information disclosed about Audit Committee on the website (clause 3.1.3 of the Code), as Inbank does not consider it necessary in respect of work performed by the committee and ensuring the interests of the shareholders.

Number of share and share options belonging to Supervisory Board members:

Member of the Supervisory Board	*Number of shares*		*Issued share options*
	Belonging to the member	*Belonging to related party*	
Priit Põldoja	-	10 848	400
Roberto De Silvestri	-	6 747	-
Rain Rannu	-	565	180
Raino Paron	-	5 202	-
Triinu Reinold	-	765	-

Priit Põldoja and Triinu Reinold are the members of the Supervisory Board who receive remuneration. Inbank does not consider necessary to disclose detailed information about the remuneration paid to each member of the Supervisory Board recommended by the clause 3.2.5 of the Code, because the impact of the remunerations of Supervisory Board is not significant to Inbank's financial results. The remunerations paid to members of the Supervisory Board are disclosed in Note 25 in the total amount of remunerations paid to Management and Supervisory Board.

The members of the Supervisory Board present a declaration of economic interest and conflict of interest once a year. Transactions with the members of Supervisory Board are disclosed in Note 25 and are entered into on market conditions.

Cooperation between the Management and Supervisory Board

The Management and Supervisory Board work in collaboration to protect Inbank's best interest. The basis of the collaboration is open communication between Management and Supervisory Board as well as within Management and Supervisory Board. The Management Board ensures the availability of timely management information for the Supervisory Board. Inbank's operating objectives and strategy are developed jointly by the Management and Supervisory Board. The Management Board considers strategical guidance from Supervisory Board in decision making process and discusses the questions relating management periodically.

Recruitment principles for selecting a member of the Management Body and the principles of diversity

Recruitment of the members of the management complies with the requirements and procedures of Credit Institution's Act's. In determining the suitability of members of the management body Inbank relies on European Banking Authority's guidelines about evaluating the suitability of members of the management body (EBA/GL/2012/06). The suitability of the member is evaluated by the member of the recruiting unit. The candidate shall meet the requirements arising from jurisdiction, complement the administrative body by its knowledge, skills and experience, and be competent to fulfill the responsibilities of a member of the management body. When assessing competency, the reputation, experience, skills, management experience, other criteria related to management (e.g. conflict of interest, independence) and other important and available circumstances are considered. In the moment, there are no changes expected in the management bodies.

Inbank relies on the principle of diversity in selecting the members of administrative bodies, which ensures that the administrative body must have sufficient knowledge, experience, competence and personal skills in order to fulfill his obligations. Inbank also means the diversity on the basis of age, gender, educational background, professional background and geographical origin. Inbank has not set a target for the gender diversity.

Disclosing information

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

Inbank has not prepared a separate website for investors, but there are tabs for investors, a tab with reports (annual report with the Code as well as interim reports), announcements and overview of Inbank personnel (incl Management and Supervisory Board). Inbank does not publish 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) are not disclosed, as these are not necessary considering Inbank's current activities and the substantial emphasis on keeping shareholders notified through other channels.

Financial reporting and auditing

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

Inbank presents an annual report signed by the Management Board to Shareholders at the general meeting (therefore Inbank does not comply with the requirement to publish a report to the shareholders, which has been signed by the members of Management and Supervisory Board – clause 6.1.1 of the Code), but a proposal regarding approval of the annual report is presented to the general meeting by the Supervisory Board.

The general meeting has selected AS PricewaterhouseCoopers as an auditor for the financial year 01.01.2017-31.12.2017 (reg.nr: 10142876). Inbank follows the auditor rotation principle.

During 2017 auditor of the Group has provided other assurance services, which are required to be performed by auditors according to Credit Institutions Act and Securities Market Act and tax advice and some other advisory services that are permissible in accordance with the Auditors Activities Act of the Republic of Estonia.

Consolidated financial statements

Consolidated statement of financial position

EURt	***Note***	***31.12.2017***	***31.12.2016***
Assets			
Cash in hand		4	4
Due from central banks, including mandatory reserve	11	14 767	14 680
Due from credit institutions	11	8 530	1 956
Loans and advances to customers	3; 9	92 895	64 839
Investments in associates	13	7 806	1
Tangible assets		279	183
Intangible assets	14	816	902
Other financial assets	15	61	43
Other assets	15	459	214
Deferred tax asset	10; 15	364	449
Assets held for sale	13	0	1 672
Total assets		**125 981**	**84 943**

EURt	***Note***	***31.12.2017***	***31.12.2016***
Liabilities			
Customer deposits	16	95 056	64 587
Other financial liabilities	18	1 263	1 034
Other liabilities	18	1 136	722
Income tax liability	10	0	321
Subordinated debt securities	17	6 480	6 475
Total liabilities	**3**	**103 935**	**73 139**
Equity			
Share capital	21	782	689
Share premium	21	9 068	6 361
Statutory reserve capital		79	57
Other reserves	23	1 352	1 361
Retained earnings		10 739	3 330
Total equity attributable to the share-holders of parent company		**22 020**	**11 798**
Non-controlling interest		26	6
Total equity		**22 046**	**11 804**
Total liabilities and equity		**125 981**	**84 943**

Notes set out on pages 52-107 form an integral part of the consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

EURt	***Note***	***2017***	***2016***
Interest income	5	13 023	9 788
Interest expense	5	-2 009	-1 404
Net interest income		**11 014**	**8 384**
Fee income	6	551	394
Fee expense	6	-607	-334
Net fee and commission income		**-56**	**60**
Other operating income		705	776
Total net interest, fee and other income		**11 663**	**9 220**
Personnel expenses	7	-3 997	-2 461
Marketing expenses	7	-929	-566
Administrative expenses	7	-1 602	-1 014
Depreciation, amortisation	14	-215	-174
Total operating expenses		**-6 743**	**-4 215**
Profit before impairment losses on loans and advances		**4 920**	**5 005**
Share of profit of associates	13	6 203	773
Impairment losses on loans and advances	9	-3 532	-3 219
Profit before income tax		**7 591**	**2 559**
Income tax	10	-92	57
Profit for the period		**7 499**	**2 616**

	Note	***2017***	***2016***
Other comprehensive income/loss			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		-38	2
Total comprehensive income for the period		**7 461**	**2 618**
Net profit attributable to:			
Shareholders of parent company		7 496	2 646
Non-controlling interest		3	-30
Profit for the reporting period		**7 499**	**2 616**
Total comprehensive income attributable to:			
Shareholders of parent company		7 458	2 649
Non-controlling interest		3	-31
Total comprehensive income for the reporting period		**7 461**	**2 618**
Basic earnings per share	20	101.92	42.08
Diluted earnings per share	20	95.52	39.02

Notes set out on pages 52-107 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows

EURt	Note	2017	2016
Cash flows from operating activities			
Interest received	5	14 034	10 267
Interest paid	5	-3 527	-2 083
Fees received	6	551	394
Fees paid	6	-607	-334
Other income received		705	776
Personnel expenses		-3 685	-2 102
Administrative and marketing expenses		-2 412	-1 418
Corporate income tax paid		-602	0
Cash flows from operating activities before changes in the operating assets and liabilities		**4 457**	**5 500**
Changes in operating assets:			
Loans and advances to customers		-31 968	-33 344
Mandatory reserve in central bank		-213	-334
Other assets		-178	-420
Changes of operating liabilities:			
Customer deposits		31 987	35 444
Other liabilities		-108	173
Net cash from operating activities		**3 977**	**7 019**
Cash flows from investing activities			
Acquisition of tangible and intangible assets		-387	-402
Acquisition of subsidiaries and associates	13	-10 697	-31
Proceeds from disposal of subsidiaries	13	300	0
Proceeds from disposal of associates	13	10 403	0
Net cash used in investing activities		**-381**	**-433**

EURt	Note	2017	2016
Cash flows from financing activities			
Repayment of debt securities		0	-3 114
Proceeds from subordinated debt securities issued	17	0	6 473
Repayments of loans received		0	-110
Share capital contribution (including share premium)	21	2 800	1 087
Net cash from financing activities		**2 800**	**4 336**
Effect of exchange rate changes		52	0
Net increase/decrease in cash and cash equivalents	**11**	**6 448**	**10 922**
Cash and cash equivalents at the beginning of the reporting period		16 152	5 230
Cash and cash equivalents at the end of the reporting period	**11**	**22 600**	**16 152**

Notes set out on pages 52-107 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

EURt	Note	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings/ accumulated loss	Total attributable to the owners of the parent	Non-controlling interest	Total equity
Balance as of 01 January 2016		**569**	**5 393**	**30**	**1 330**	**708**	**8 030**	**-22**	**8 008**
Paid in share capital		120	968	0	0	0	1 088	0	1 088
Share-based payment reserve		0	0	0	31	0	31	0	31
Statutory reserve capital		0	0	27	0	-27	0	0	0
Acquisition of non-controlling interest in subsidiaries		0	0	0	0	0	0	59	59
Total profit/-loss and other comprehensive income for the reporting period		0	0	0	0	2 649	2 649	-31	2 618
Balance as of 31 December 2016		**689**	**6 361**	**57**	**1 361**	**3 330**	**11 798**	**6**	**11 804**
Balance as of 01 January 2017		**689**	**6 361**	**57**	**1 361**	**3 330**	**11 798**	**6**	**11 804**
Paid in share capital	21	93	2 707	0	0	0	2 800	0	2 800
Share-based payment reserve		0	0	0	29	0	29	0	29
Statutory reserve capital		0	0	22	0	-22	0	0	0
Purchase of non-controlling interest in subsidiaries		0	0	0	0	-65	-65	46	-19
Sale of subsidiary		0	0	0	0	0	0	-29	-29
Total profit/-loss and other comprehensive income for the reporting period		0	0	0	-38	7 496	7 458	3	7 461
Balance as of 31 December 2017		**782**	**9 068**	**79**	**1 352**	**10 739**	**22 020**	**26**	**22 046**

Notes set out on pages 52-107 form an integral part of the consolidated financial statements.

Note 1 Significant accounting principles

General information

Inbank AS (Reg. No. 12001988) is a credit institution registered in Estonia. The registered address is Niine 11, Tallinn, Estonia (general information on page 2). In Inbank AS consolidation group are the following entities:

In May 2017 Inbank AS increased the shareholding in Latvian subsidiary from 80% to 100%.

Inbank technologies sold part of the investment in Veriff in august 2017 and is since recognised as an associate (Holding 21.68%).

Inbank consolidation group annual report has been approved by Management Board and is presented to shareholders for approval on March 23, 2018. Shareholders have the right not to approve the annual report.

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

The official language of the consolidated annual report of Inbank AS is Estonian. The Estonian version must be proceeded from in the event of a conflict with English or any other language.

Company Name	*Registry code*	*Date of purchase/ founded*	*Address*	*Activity*	*Holding (%)*	*Cost (31.12.2017)*
Maksekeskus Holding OÜ*	12257075	05.06.2015	Niine 11, Tallinn	Investment management	40	1
Inbank Lizings SIA	40103821436	21.08.2014	Akmenu iela 14, Riga	Financing	100	519
Inbank Technologies OÜ	12104213	05.06.2015	Niine 11, Tallinn	IT develoment	100	454
Veriff OÜ*	12932944	20.10.2015	Niine 11, Tallinn	Video identification	21,68	42
Inbank Liising AS	14028999	08.04.2016	Niine 11, Tallinn	Leasing	80	80
AS Inbank Spółka Akcyjna Oddział w Polsce	0000635086	08.09.2016	Riverside Park, Ul. Fabryczna 5A, Warszawa	Banking		
Coop Pank AS*	10237832	30.01.2017	Narva mnt. 4, Tallinn	Banking	17,935	7 762

*Associates

Significant accounting principles

Basis of preparation

Inbank AS (hereafter: parent company) consolidated financial statements for the year 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union.

Consolidated financial statements

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group 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 fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. Intercompany balances, transactions and unrealised gains and losses on transactions between group companies are eliminated. For the consolidation of foreign subsidiaries and other business units (including branches), their financial reports are converted into the presentation currency of the parent company. All assets and liabilities have been translated 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 translated based on weighted average exchange rate of the period.

Foreign exchange gains and losses are recognised in the comprehensive income statement as "Currency translation differences". Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group. The financial years of the subsidiaries coincide with the parent company's financial year.

The acquisition method of accounting is used for business combinations. The cost of acquisition of subsidiary is measured as the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. 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 recognized at their fair values at the acquisition date. 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 statement of profit or loss and other comprehensive income, 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 recognized in consolidated statement of financial position separately from the equity attributable to the shareholders of the parent company.

Investments in associates

Associate is an entity over which the Group 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 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 amortization 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 the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the assets.

If the Group's share of losses in the associate accounted under the equity method exceeds the carrying amount of the associate, the carrying amount of the investment is reduced to zero and such long-term loans granted to the associate that in substance form a part of the investment are written down. Any further losses are carried off-balance sheet. If the Group has guaranteed or incurred obligations on behalf of the associate, the respective liability is recorded in the statement of financial position.

Parent company´s separate reports presented in the notes of consolidated financial statements

Pursuant to the Accounting Act of the Republic of Estonia, information on the separate primary financial statements of the parent of the consolidation group shall be disclosed in the notes to the financial statements. The parent company primary statements are prepared using the same accounting policies as those that have been used for preparing the consolidated financial statements except the investments in subsidiaries that are accounted for at cost less any impairment recognized.

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

All other currencies except for the functional currency Euro constitute foreign currencies.

Monetary assets and liabilities denominated in a foreign currency have been translated into functional currency 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 are recognised in the income statement as finance income or expenses of that period.

Cash and cash equivalents

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

Financial assets

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are recorded in the statement of financial position from the day the Group advances money to customer or issues financing agreement for goods and services until the day loans and advances are repaid or written-off. The loans are recognised in the statement of financial position in fair value, including transaction costs. After initial recognition, the Group recognises loans and advances at amortised cost (original cost less principal repayments and any potential impairment losses) using the effective interest rate method.

Leasing receivables

A financial 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 financial lease. Lessor's direct expenses, related to the contract, are part of effective interest rate and are booked as decrease of leasing income over the period of leasing contract.

Impairment allowances

The Group assesses consistently whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If there is objective evidence that the value of loans and advances recognised at amortized cost has decreased, the amount of the allowance is measured as the difference between the carrying amount of the asset and the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced by the use of allowance account. Any impairment losses are charged to statement of profit or loss line "Impairment losses on loans and advances" on the period the loss was recognised.

When impairment arising from the potential impairment losses of homogeneous financial assets are made, the assets are grouped in sub-classes according to product type, the age of the customer relationship, geographic division and earlier payment behaviour, and the respective write-down allowance is implemented. The amount of impairment in the case of grouped financial assets is the multiple of the residual value of the receivables in the given group and the impairment allowance. The relevant impairment allowances have been calculated using the method where the probability of the asset to default (overdue exceeds 90 days), loss given default and exposure at default are determined.

If the loss from impairment of financial assets decreases in the subsequent period and this decrease can be objectively associated with an event that takes place after the recognition of the impairment, then the loss arising from the previously recognised impairment is reversed by adjusting the allowance account. The amount of reversal is recognised under "Impairment losses on loans and advances" in the consolidated statement of comprehensive income during the period when the relevant event is identified.

Uncollectible loans are written off against the related allowance for loan impairment, after all necessary procedures to recover the loan have been completed and the amount of the loss has been determined.

Restructured loans

The group seeks to restructure any impaired loans. For this purposes, the loan is amended to align with the creditworthiness of the customer (for example reduce the monthly payment, increase the total contract period) and the terms of the new loan. After the restructure, the loan is not considered as default during the time when customer complies with the new loan repayment terms and reschedule. Such loans are monitored continuously, to ensure all loan contract criteria's are fulfilled and payments are made; interest and commission fees are collected and recognized similarly to non-restructured loans. Restructures loans are assessed for impairment at every balance sheet date.

Financial liabilities

Financial liabilities are initially recognised on the balance sheet at their acquisition cost, which is the fair value of the received financial liabilities. In the future financial liabilities are recognised at amortised cost, using the effective interest method. The interest expenses relating to financial liabilities are recognised according to the effective interest rate method of the instrument on accrual basis as periodic expenses in the income statement under "Interest expense". A financial liability is derecognised when it is discharged, cancelled or it expires.

Fair value of financial assets and liabilities

Fair value of financial assets and liabilities measured at amortised cost are disclosed in Note 24. Fair value is the amount for which an asset could be exchanged or a liability could be settled within the course of an ordinary business transaction between independent market participants. Fair value is assessed on the assumption that the asset is sold or the liability is paid:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Group must have access to the principal and the most advantageous market. The fair value of an asset or liability is assessed on the assumption that the market participants proceed from their economic interests when determining the price of the asset or liability. In order to determine fair value, the Group uses methods that are appropriate in the given conditions and for the use of which there are adequate data for the evaluation of the fair value, maximising the use of the appropriate observable inputs and minimising the use of unobservable inputs. All assets and liabilities revaluated at fair value or disclosed in the financial statements are classified according to the hierarchy of fair value, which is described below, and based on the lowest-level input that is important for the measurement of fair value as a whole:

- Level 1 - quoted (unadjusted) price on the active market for identical assets and liabilities;
- Level 2 - assessment methods whereby the significant inputs of the lowest level are directly or indirectly observable;
- Level 3 - assessment methods whereby the significant inputs of the lowest level are not directly or indirectly observable.

Leases - Group as the lessee

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

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

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 assets that have useful life 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 the Group;
- it is probable that the future economic benefits that are attributable to the asset will be collected by the Group;
- the 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 an operating 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 (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) Computer software

Costs associated with the ongoing maintenance of computer software programs 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 the Group 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 an appropriate portion of related overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs are amortised over their estimated useful lives (not exceeding 5 years) using the straight-line method.

Provisions and contingent liabilities

A provision is recognised if the Group 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 consolidated financial position statement in the amount, which according to the management, is necessary as at the balance sheet date for the meeting of the obligation arising from the provision. If a provision is expected to be settled later than 12 months after the balance sheet date, it is recognised at the discounted value (at the present value of payments relating to the provision) unless the effect of discounting is immaterial. Other possible or existing obligations, the settlement of which is less than likely or the related expenditures of which cannot be determined with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

Reserves

Statutory reserve capital

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

Other reserves

The general meeting of Inbank AS may decide that other amounts are also transferred to the reserve capital. Reserve capital 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

Income is recognised by the principle that the income earned by the Group is probable and can be reliably measured. Interest income and expenses are recognised on accrual basis in respect of all interest-bearing financial assets and liabilities, which are recognised at adjusted acquisition cost using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future impairment losses. The calculation includes all significant fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expenses are recognised in the consolidated statement of comprehensive income under “Interest income” or “Interest expense”.

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

The income and expenses generated by other fees are recognised on accrual basis at the moment the service was provided. Dividend income is recognised when a right of claim is obtained with respect to the dividends.

Other operating income includes fines and penalties that are recognised on cash basis.

Share-based payment

The Group receives services from its employees and pays for them by issuing options for acquiring the shares of Inbank. The fair value of the issued options is recognised as a personnel 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

Pursuant to the Income Tax Act effective in Estonia, legal entities do not pay income tax on the profit they have earned. Income tax is paid on fringe benefits, gifts, donations, costs of entertaining guests, dividends and payments not associated with business activities. There are no differences in Estonia between the tax bases and residual book values of assets that could entail deferred income tax. Inbank pays income tax on dividends upon the distribution of such dividends in cash or in kind. Pursuant to the Income Tax Act currently in effect, profit distributed as dividends is taxed at the rate of 20/80 on the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is recognised as income tax expense in the income statement of the period in which dividends are declared, regardless of the period for which the dividends are declared or the actual payment date. The maximum amount of income tax payable, which would arise from paying out the retained earnings as dividends, is disclosed in the Note 10 to the financial statements.

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

Corporate income tax in other countries

Corporate income tax in Poland

In accordance with the local income tax law, the net profit of Polish branch, that has been adjusted for the permanent and temporary differences as stipulated by law is subject to corporate income tax. The main temporary differences arise from depreciation 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 only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Corporate income tax in Latvia

In accordance with the tax law effective until 2017, profits of entities in Latvia were taxable with income tax. Therefore, until that, deferred tax was provided for on all temporary differences arising between the tax bases of assets and liabilities of Latvian subsidiaries and their carrying amounts in the consolidated financial statements. In accordance with the new Corporate Income Tax Law, starting from 1 January 2018, corporate income tax with a rate of 20/80 is levied on profits arisen after 2017 only upon their distribution. Transitional provisions of the law allow for reductions in the income tax payable on dividends, if the entity has unused tax losses or certain provisions recognised by 31 December 2017. Due to the new tax law, there are no longer differences between the tax bases and carrying amounts of assets and liabilities, and hence, deferred income tax assets and liabilities no longer arise in respect of subsidiaries in Latvia. All deferred tax assets and liabilities recognised in previous periods were derecognised in 2017 and related income tax expense/income was recorded in the statement of profit or loss.

Assets held for sale

A fixed asset or disposal group (incl. associates) is classified as assets held for sale if its residual carrying value is mainly covered with a sale transaction, not with usage, and the sale is highly probable. Fixed assets for resale are recognised either at residual carrying value or fair value less the costs of sale, whichever is the lowest.

Business segments

Inbank divides its operating activities in segments according to its legal structure, geographic division and the nature of the offered products (consumer financing, IT services, leasing). The business segments comprise a part of the Group with separate access to financial data, which is also the basis upon the regular monitoring of business results by the decision-makers in the Group. The revenues of the reported segments contain transactions between the segments.

Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became effective for the Group from 1 January 2017.

Disclosure Initiative - Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The implementation of the standard may influence the information to be disclosed by the Group, but will not influence its financial position and performance.

New accounting pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2018, and which the Group has not early adopted.

IFRS 9, Financial Instruments (effective for annual periods beginning on or after 1 January 2018).

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make

an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.·

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Measurement categories and carrying amount of the financial assets in accordance with IAS 39 and IFRS 9 on 01.01.2018 are in the following table:

EURt	*IAS 39*	*31.12.2017*	*IFRS 9*	*01.01.2018*	
Financial assets	**Measurement category**	**Balance**	**Measurement category**	**Balance**	**Difference**
Cash and due from central banks	Amortised cost	14 771	Amortised cost	14 771	0
Due from credit institutions	Amortised cost	8 530	Amortised cost	8 530	0
Loans and advances to customers	Amortised cost	92 895	Amortised cost	91 994	-901

IFRS 9 has impact on associates' equity. According to IAS 28, the investments are accounted for under the equity method, impact of the new standard to Inbank AS equity as at 01.01.2018 is in the amount of -125 EURt.

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018).

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The adoption will not have a material impact on Groups' financial position, performance nor cash flows.

Amendments to IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018).

The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. The adoption will not have a material impact on Groups' financial position, performance nor cash flows.

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

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently evaluating the nature and impact of the change and plans to adopt it, when required.

Classification and Measurement of Share-based Payment Transactions -Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU).

The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The new standard does not have significant impact on Groups' financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently evaluating the nature and impact of the interpretation to the financial statements of the Group.

Prepayment Features with Negative Compensation - Amendments to IFRS 9 - (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Group is currently evaluating the nature and impact of the change to the financial statements of the Group.

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The Group has not yet evaluated the impact of the change to the financial statements of the Group.

Annual Improvements to IFRSs 2015-2017 cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

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

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

Note 2 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

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

The impact of the management's estimates is the most significant in the case of credit losses. The principles for the evaluation of loans are described in detail in the note "Loans and advances to customers". The management believes that the Group has no other significant provisions other than credit allowances, see also Note 9.

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

The useful life of the intangible fixed assets recognised in the financial position report has been re-assessed from the earlier 10 years to 5 years. The value of intangible fixed assets is calculated on the basis of the established depreciation rate, see also the subsection "Tangible and intangible fixed assets" and Note 14.

When financial instruments are assessed at fair value using valuation models, then the market data that must be used in these models are determined. The premise is that the quoted price of financial instruments with similar turnovers are used. If such prices or price components cannot be used, the management must make its own assumptions. See Note 24 about fair value.

Issued subordinated debt securities are recognised in the Consolidated statement of financial position at amortised acquisition cost. See the subsection "Financial liabilities" in Note 1 and Notes 17 and 24.

The Group's employees (senior managers and certain key persons) are entitled to receive remuneration in the form of share-based payments settled with equity, which means that these employees provide services to the Group and receive equity instruments in return. The cost of transactions settled with equity is determined on the basis of the fair value as at the date the equity instruments were given, using the appropriate valuation model.

The cost is recognised as the cost of employee benefits (Note 22) with the increase in equity (share-based payment reserve) during the period when the service is performed and targets related to the activities (if any) are achieved (ownership transfer period). The total cost accumulated in relation to share-based payments until the date when the equity instruments are given is based on the time left until the end of the ownership transfer period and the Group's best estimate of the quantity of the equity instruments to be actually transferred. The conditions of services or the conditions based on the performance result are not taken into account upon the measurement of the fair value of the instrument on the day that benefits are granted, but the probability of compliance with the conditions is assessed as a part of the process as a result of which the Group's best estimate of the quantity of the equity instruments to be actually transferred is given.

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

Note 3 Risk management

Definition of risk and objective of risk management

Risk is defined as a potential negative deviation from expected financial results. In its daily activities, the Group encounters several risks. The objective of the Group's risk management is to identify risks, measure them correctly and manage them. On a wider scale, the objective of risk management is to increase the value of the company through minimisation of losses and reduction of the volatility of results. Risk management is based on a solid risk culture at the Group and it has been set up using three lines of defence where the first line, i.e. business areas are responsible for taking risks and managing them on a daily basis. The second line of defence, i.e. the risk management area is responsible for developing risk management methodologies and reporting risks. The third line of defence, i.e. internal audit performs independent oversight for the entire organisation including the risk management function. The principles, requirements and areas of responsibility of risk management are prescribed in internal rules and regulations. Adequate capital needs to be available for covering the Group's risks in accordance with the principles of capital management.

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

Principles of risk management

The risk management system of Inbank is centralised. The same risk management principles are used at the parent company as at the subsidiaries of Inbank, and risk management and risk control functions are performed throughout the Group by the unit set up at the parent company that is responsible for risk management as well as by various committees established at the parent company.

- Risk management covers all activities whose purpose is risk identification, measurement, evaluation and control, and measures for minimising and hedging the consequences of realised risks.
- Risk management is forward-looking, it emphasises risk awareness and covers staff selection, awareness and training.
- The Group maintains a high level risk management process by applying specific techniques and measures in a cost-efficient manner according to the needs. The risk management process is regarded as an integral part and cost of running a business.
- All the risks of the Group have been included in the process of planning, monitoring and allocation of resources, and they are monitored by the Supervisory Board.
- The Management Board of the Group analyses risk positions on a regular basis and presents at least once a quarter a risk report to the Supervisory Board of the Group that includes information specified by the Supervisory Board of the Group, and that provides an overview of all risk positions identified by the Group and an assessment of the correspondence of the desired risk appetite of the Group to the actual risk profile.

Risk management structure

The Management Board of the Inbank is responsible for the implementation of risk management, control, risk management principles, processes and methods related to all activities of the Group as well as the effectiveness of risk management. In accordance with the risk management policy and risk appetite statement as laid down by the Management Board, the following structural units and committees that have set up at the Group are responsible for daily implementation of the risk management and risk control function:

- The Supervisory Board oversees that there are adequate risk assessment and management activities in place at the Group ensuring that the Group's risk management organisation has an appropriate and efficient structure, sufficient and independent resources for adequate risk assessment and management.
- The key functions of the risk management unit include independent identification, evaluation and control of risks as well as preparation of respective risk reports to the Management and Super-

visory Boards of the Group.
- The Credit Committee is the highest operational body responsible for the Group's credit risk management. The Credit Committee is responsible for development and updating the credit risk policy. Through the credit risk policy, the Credit Committee ensures that the activities of the Group in providing credit would meet the requirements laid down in legislation, they are in compliance with the Group's risk appetite statement and are profitable.
- The Audit Committee advises the Supervisory Board on risk management issues. For this purpose, the Audit Committee monitors and analyses the efficiency of the risk management process at the Group.
- One of the objectives of internal audit is to provide assurance to the Management and Supervisory Boards that the Group's internal control and risk management policies are sufficient and effective for risk management and fulfilment of the Group's strategies and objectives.
- Compliance is responsible for monitoring risk assessment compliance at the Group and ensuring efficient management compliance risk related to performance requirements and legislation as well as legal risk at the Group.

EURt	*31.12.2017*	*31.12.2016*
Own funds		
Paid-in share capital	782	689
Share premium	9 068	6 361
Reserve capital	1 431	1 418
Retained earnings	3 243	681
Intangible assets (negative)	-816	-902
Net profit for reporting period	7 496	2 647
Shares of associates	-7 763	-1 673
Total Tier 1 capital	**13 441**	**9 221**
Subordinated debt securities	6 503	6 503
Total Tier 2 capital	**6 503**	**6 503**
Net own funds for calculation of capital adequacy	**19 944**	**15 724**

Capital management

The Group uses risk-based capital planning, ensuring that all risks arising from the operations of the Group are covered by own funds at any given time. Capital management is based on balance sheet and profit forecasts that take into account the Group's strategy, future expectations, risk profile and risk appetite. Capital includes Group's own funds that comprise Tier 1 and 2 capital.

The Group discloses detailed information about its own funds, including complete conditions for deductions applicable to own funds and instruments that are part of Tier 2 capital in accordance with the requirements of Regulation (EU) No 1423/2013 on the website of Inbank AS www.inbank.ee.

The directly applicable European Parliament and Council Regulation (EU) No 575/2013 requires that all credit institutions (and their consolidating holding companies) and investment firms operating in the European Union need to keep common equity Tier 1 (CET 1) funds and Tier 1 capital at 4.5% and 6.0% of risk weighted assets, respectively. The total capital requirement which includes both Tier 1 and Tier 2 capital is 8.0%. In addition to the main requirements that are subject to common rules, the principles for setting up capital buffers are also laid down in the directive. In addition to the basic requirements for own funds, capital conservation and systemic risk buffers have been set for credit institutions in Estonia at 2.5% and 1.0%, respectively. For the Group's assets in Poland, the systemic risk buffer was 0% in 2017 (new rate of 3% starting from 01.01.2018). Thus, the total systemic risk buffer rate of the Group depends on the mutual relations of risk exposures in Estonia, Latvia and Poland. The table below provides an overview of the formation of the capital requirement as of 31.12.2017:

	CET 1 ratio	*Tier 1 capital*	*Total capital ratio*
Basic requirement	4.50%	6.00%	8.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Systemic risk buffer	0.82%	0.82%	0.82%
Minimum regulatory capital requirement	**7.82%**	**9.32%**	**11.32%**

An additional specific Pillar 2 requirement is added to the minimum regulatory capital requirement.

The Group discloses the geographical distribution of the credit risk exposure which is relevant from the point of view of calculating the countercyclical capital buffer and the amount of the countercyclical capital buffer in accordance with the requirements of Regulation (EU) No 2015/1555 on the website of Inbank AS www.inbank.ee.

As of 31.12.2017, the Group is in compliance with all regulatory capital requirements. In this report, the capital base also includes the net profit for the reporting period which has been audited by the time of authorisation of the report for issue.

The internal capital adequacy and assessment process (ICAAP) is a continuous process which aims to assess the Group's risk profile and the corresponding capital need. The Group ensures that aggregated risks are covered by capital at any given time.

The Management Board of the Inbank is responsible for capital planning. The ICAAP forms the basis for regular capital planning at the Group. The planning and estimation of capital needs is based on the calculation of regulatory capital adequacy plus capital requirements for coverage of additional risks which have not been taken into account within the framework of regulatory capital requirements.

The Group's risk profile is evaluated primarily by the following risks: credit risk, operational risk, market risks (incl. interest rate risk in the banking book), liquidity risk, strategic risk and capital related risks.

The desired capital adequacy level is the minimum desired capital adequacy level determined in supervisory assessment plus a necessary buffer in accordance with the Group's current operating strategy and balance sheet forecasts that would be necessary for the growth of operating volumes or other implementation of a strategic plan. When preparing a capital plan, the option of the Group to raise additional capital in the market is taken into consideration, primarily through issue of new shares or subordinated debt securities.

For determining the capital need, the balance sheet positions are forecast, taking into account changes in various risk-weighted assets and equity items. In addition, the required capital buffer is calculated in order to ensure an internally desired capital adequacy level in case of realisation of alternative and risk scenarios. The Group ensures that all risks are covered by sufficient capital at any given time.

Credit risk

Credit risk is a potential loss which may arise when the counterparty to the contract cannot fulfil the obligations assumed as required and in case of insolvency, the pledged securities, loans granted or other recovery measures are not sufficient to cover the claims of the Group. Credit risk arises primarily from the loans granted to and receivables due from credit institutions. For lowering credit risk, the Group analyses the economic activities and financial position of transaction counterparties. After granting the loan, the adherence of counterparties to loan terms is regularly monitored.

Distribution of credit risk

Exposure of assets to credit risk (EURt)	***31.12.2017***	***31.12.2016***
Central banks	14 767	14 680
Credit institutions	8 530	1 956
Households	89 002	60 852
Non-financial companies	2 206	1 419
Other financial companies	1 595	2 568
Other receivables	92	65
Other financial assets	61	43
Total assets	**116 253**	**81 583**

The Management Board of the parent company and the Credit Committee operating at the parent company are responsible for taking and managing credit risk. Subsidiaries, branches and business lines set up at the parent company make proposals to the Credit Committee for establishing credit risk principles and rules that relate to the business activities of a specific subsidiary or business line. The decisions regarding the principles for risk-taking are made collectively at the Credit Committee.

Credit risk is managed using the principles laid down in the Credit Institutions Act, Law of Obligations Act, Creditors and Credit Intermediaries Act, guideline of the Estonian Financial Supervision Authority "Requirements for Responsible Lending", regulations of the President of the Bank of Estonia, local regulations of business units located abroad as well as those established in the Group's credit risk policy. The credit risk policy, loan analysis and lending principles are reviewed periodically; their correspondence to the economic situation and actual payment discipline is checked.

The following principles established in the risk appetite statement that the Group uses for credit risk management are of importance in the Group's credit policy:

- Loan portfolio diversification. According to the current product strategy, the maximum risk limit per customer that is provided by the Group is EUR 30,000.
- Low average loan amount. As of 31.12.2017, the average contractual balance of the Group's retail product is EUR 1,154 (As of 31.12.2016: EUR 1,004)
- Continuous monitoring of the quality of the loan portfolio both on the operational level as well as the level of the Management and Supervisory Boards.

For credit risk, the Group does not use internal rating methods. For credit risk management, the Group does not use credit risk hedging techniques within the meaning of the European Parliament and Council Regulation (EU) No 575/2013.

Geographical distribution of assets 31.12.2017 (EURt)	***Estonia***	***Latvia***	***Poland***	***Total***
Central banks	14 288	0	479	14 767
Credit institutions	4 129	794	3 608	8 503
Households	70 199	14 320	4 483	89 002
Non-financial companies	2 126	80	0	2 206
Other financial companies	1 595	0	0	1 595
Other receivables	59	0	33	92
Other financial assets	3	58	0	61
Total receivables	**92 398**	**15 252**	**8 603**	**116 253**

Geographical distribution of receivables 31.12.2016 (EURt)	***Estonia***	***Latvia***	***Poland***	***Total***
Central banks	14 680	0	0	14 680
Credit institutions	968	900	88	1 956
Households	44 205	16 647	0	60 852
Non-financial companies	1 389	30	0	1 419
Other financial companies	2 568	0	0	2 568
Other receivables	39	6	20	65
Other financial assets	17	6	20	43
Total receivables	**63 866**	**17 589**	**128**	**81 583**

Receivables from central banks and credit institutions

According to the management's estimate, the exposure of cash and cash equivalents held at the central banks and other correspondent banks to credit risk is low. All loans to and receivables from the central banks and credit institutions are on time and are not overdue. For depositing liquid funds, the Group's risk management policy prefers credit institutions that have higher equity and if possible, a higher credit rating.

The Group's receivables from the central banks and credit institutions are not in overdue or been impaired as of 31.12.2016 and 31.12.2017.

Receivables from credit institutions according to Moody's short-term credit rating classes (EURt)	*31.12.2017*	*31.12.2016*
P-1	19 882	16 432
P-2	1 701	9
Not rated	1 714	195
Total receivables from credit institutions	**23 297**	**16 636**

Receivables from households

Since 2011, Inbank has been issuing hire-purchase loans in Estonia. In 2013, Inbank also started to issue consumer loans in small volumes through its partner. In 2014, Inbank entered the Latvian consumer financing market, offering consumer loans designated for specific purposes which are similar to the instalment product offered in Estonia.
In 2015, Inbank started to provide unsecured car loans and since 2016, consumer loans not designated for a specific purpose. In 2016, the consumer loan product not designated for a specific purpose was also added to the Latvian product portfolio.

In the Polish market, Inbank started to offer consumer financing since March 2017. The unsecured consumer loan was the first loan introduced in the market. In June 2017, the car loan product was also added to product range in Poland. Since November 2017, the funding solution for paying the annual traffic insurance fee was offered, which in essence is an instalment loan.

Consumer loans to households is the Group's key activity. High diversification and a low average loan amount of the loan portfolio have been achieved through the focus on this business line.

Distribution of receivables 31.12.2017 (EURt)	*Estonia*	*Latvia*	*Poland*	*Total*
Hire-purchase receivables	21 494	0	38	21 532
Consumer loan receivables designated for specific purposes	48 484	7 428	411	56 323
Consumer loan receivables	221	6 892	4 034	11 147
Total receivables from households	**70 199**	**14 320**	**4 483**	**89 002**

Distribution of receivables 31.12.2016 (EURt)	*Estonia*	*Latvia*	*Poland*	*Total*
Hire-purchase receivables	20 108	0	0	20 108
Consumer loan receivables designated for specific purposes	19 520	11 244	0	30 764
Consumer loan receivables	4 577	5 403	0	9 980
Total receivables from households	**44 205**	**16 647**	**0**	**60 852**

The credit behaviour model is used for assessment of the customer's solvency. In addition to the customer's previous payment behaviour and income as well as outstanding loans, this model also assesses other statistical parameters which have been collected by customer types and which have shown strong correlation with the customer's payment discipline. The Group's credit behaviour model is changing constantly in time and it follows the changes in the composition of information used for making credit decisions and in the economic environment.

As the consumer loans granted to households are homogenous, the potential impairment allowances arising from credit losses are calculated on the basis of the historical payment behaviour of these homogenous loans and the write-down rate is applied to the portfolio at the balance sheet date. For the purpose of making as accurate allowance as possible, the receivables are grouped into subgroups, taking into consideration the type of the product, its geographical distribution, customer payment pattern and days in overdue. For grouped receivables, the amount of the impairment allowance is the multiple of the residual value of the receivables in the respective group and the percentage rate of the allowance. The framework is based on a classic method where the probability of default (PD), the loss given default (LGD) and exposure at default (EAD) are determined.

EURt

Distribution of receivables 31.12.2017	***Gross receivables from households***	***Collective allowance***	***Specific allowance***	***Net receivables from households***	***Allowance coverage***
Portfolio in overdue 0-3 days	82 307	-505	-22	81 780	0.6%
Portfolio in overdue 4-89 days	6 762	-783	-29	5 950	12.0%
Portfolio in overdue 90-179 days	1 518	0	-704	814	46.4%
Portfolio in overdue 180+ days	1 542	0	-1 084	458	70.3%
Total receivables	**92 129**	**-1 288**	**-1 839**	**89 002**	**3.4%**

Distribution of receivables 31.12.2016	***Gross receivables from households***	***Collective allowance***	***Specific allowance***	***Net receivables from households***	***Allowance coverage***
Portfolio in overdue 0-3 days	56 925	-1 131	-13	55 781	2.0%
Portfolio in overdue 4-89 days	4 020	-46	-7	3 967	1.3%
Portfolio in overdue 90-179 days	1 591	0	-1 012	579	63.6%
Portfolio in overdue 180+ days	2 608	0	-2 083	525	79.9%
Total receivables	**65 144**	**-1 177**	**-3 115**	**60 852**	**6.6%**

Receivables from non-financial companies and financial companies

The Group's credit risk policy and other internal rules and regulation regulate the issuance of loans.

The Credit Committee makes decisions regarding issuance of loans to companies on an individual basis. The retail loans issued by Inbank Liising AS are an exception where credit decisions are made in a process similar to the loans granted to households.

The business loans issued can be classified into three main groups depending on their purpose:

- Loans to the Inbank cooperation partners
- Loans to associates
- Loans to third parties, i.e. investment loans.

EURt

Distribution of receivables 31.12.2017	*Gross receivables from non-financial companies*	*Collective allowance*	*Specific allowance*	*Net receivables from other non-financial companies*	*Allowance coverage*
Portfolio in overdue 0-3 days	1 955	-16	-6	1 933	1.1%
Portfolio in overdue 4-89 days	363	-6	0	357	1.7%
Portfolio in overdue 90-179 days	10	0	-4	6	40.1%
Portfolio in overdue 180+ days	5	0	-3	2	66.4%
Total receivables from non-financial companies	**2 333**	**-22**	**-13**	**2 298**	**1.5%**

Distribution of receivables 31.12.2016	*Gross receivables from non-financial companies*	*Collective allowance*	*Specific allowance*	*Net receivables from other non-financial companies*	*Allowance coverage*
Portfolio in overdue 0-3 days	1 254	-8	0	1 246	0.6%
Portfolio in overdue 4-89 days	176	-3	0	173	1.7%
Portfolio in overdue 90-179 days	0	0	0	0	0.0%
Portfolio in overdue 180+ days	94	0	-94	0	100.0%
Total receivables from non-financial companies	**1 524**	**-11**	**-94**	**1 419**	**6.9%**

Depending on the purpose of granting a loan, the following criteria are reviewed for making credit decisions:

- Financial strength of a counterparty
- Security of receivables
- Counterparty's business volume and cooperation
- Period of the contract to be concluded
- Volume of the contract to be concluded
- Performance of the contract to be concluded

The allowances for corporate loans are made at the Group on an individual basis, depending on the counterparty's overdue, its causes and the financial strength. The retail loans issued by Inbank Liising AS are an exception where impairment allowances are made in a process similar to the loans granted to households.

Distribution of receivables 31.12.2017	*Gross receivables from other financial companies*	*Collective allowance*	*Specific allowance*	*Net receivables from other financial companies*	*Allowance coverage*
Portfolio in overdue 0-3 days	1 606	0	-11	1 595	0.7%
Portfolio in overdue 4-89 days	0	0	0	0	0.0%
Portfolio in overdue 90-179 days	0	0	0	0	0.0%
Portfolio in overdue 180+ days	0	0	0	0	0.0%
Total receivables from other financial companies	**1 606**	**0**	**-11**	**1 595**	**0.7%**

Distribution of receivables 31.12.2016	*Gross receivables from other financial companies*	*Collective allowance*	*Specific allowance*	*Net receivables from other financial companies*	*Allowance coverage*
Portfolio in overdue 0-3 days	2 568	0	0	2 568	0.0%
Portfolio in overdue 4-89 days	0	0	0	0	0.0%
Portfolio in overdue 90-179 days	0	0	0	0	0.0%
Portfolio in overdue 180+ days	0	0	0	0	0.0%
Total receivables from other financial companies	**2 568**	**0**	**0**	**2 568**	**0.0%**

Counterparty credit risk

As of 31.12.2017, the Group did not have any counterparty credit risk exposures within the meaning of European Parliament and Council Regulation (EU) No 575/2013.

Concentration risk

Concentration risk is a risk which arises from the risk exposure of one counterparty or a related counterparty or counterparties whose risk is impacted by a common risk factor. Under concentration risk, the Group views the assets of one party, related parties as well as those associated with one industry, territory or risk factor.

In its daily activities, the Group avoids taking concentration risk and the Group focuses primarily on medium-sized or small loans in order the avoid large concentration risk. The Group does not preclude lending larger amounts if there is sufficient security or in case of fulfilment of other required conditions. For large loans where a collateral is required, one exception is the liquid funds with the term of up to three months that are held at credit institutions. In such cases, in order to hedge risk, the focus is on information about the financial strength of the counterparty and the rating given by international rating agencies to the counterparty.

As of 31.12.2017 and 31.12.2016, the Group did not have any receivables greater than 10% of the Group's net own funds.

Market risk

Market risk is defined as a risk that arises from the changes of interest in an unfavourable direction. Until mid-2016, the Group's activities were geographically solely limited to the Euro zone countries. In the second half of 2016, the Group started to prepare its business activities related to consumer financing in Poland. In this period, costs were incurred in Poland to launch the activities and the credit portfolio development was launched in March 2017. As a result, the Group's assets and liabilities are mostly denominated in euros as of 31.12.2016. The lending activities launched in 2017 and receipt of deposits in Poland have led to a situation where the assets and liabilities denominated in Polish zlotys make up a significant share of the total assets (over 5%) as of 31.12.2017.

The Group does not have a stock and/or bond portfolio that is traded in the market. The Group does not have any risk exposures arising from securitisation positions. Hence, the only significant market risk types which the Group is exposed to as a result of its current activities are the interest rate risk and foreign currency risk.

The Group does not use internal market risk models within the meaning of the European Parliament and Council Regulation (EU) No 575/2013.

Foreign currency risk

The Group's risk appetite towards foreign currency risk is very low. The purpose of currency risk management is to balance currency positions.

For measurement and evaluation of currency risk, the Group monitors the foreign currency net open position, sensitivity analysis of the net open position and stress testing by evaluating unfavourable changes in exchange rates. The scenario for testing included a simultaneous 10% change in an unfavourable direction of all foreign currencies where the Group has an open currency position (euro positions are not considered as currency positions).

As of 31.12.2017, the Group's net open currency position was 108 EURt (as of 31.12.2016: 92 EURt) which made up 0.60% of the Group's own funds (as of 31.12.2016: 0.61%). According to the scenario analysis, the effect of a 10% change of all Group's currency positions in an unfavourable direction would be 10 EURt. The Group's open currency risk is low and the currency risk position is well managed.

Assets exposed to foreign currency risk 31.12.2017 (EURt)	***EUR***	***PLN***
Central banks, credit institutions, cash	19 492	3 809
Households	84 519	4 483
Non-financial companies	2 265	33
Other financial companies	1 595	0
Other assets	8 306	384
Total	**116 177**	**8 709**

Liabilities exposed to foreign currency risk 31.12.2017 (EURt)	***EUR***	***PLN***
Customer deposits and loans received	86 379	8 677
Other liabilities	2 259	140
Subordinated liabilities	6 480	0
Total	**95 118**	**8 817**

Assets exposed to foreign currency risk 31.12.2016 (EURt)	***EUR***	***PLN***
Central banks, credit institutions, cash	16 552	88
Households	60 852	0
Non-financial companies	1 419	0
Other financial companies	2 568	0
Other assets	2 291	87
Total	**83 682**	**175**

Liabilities exposed to foreign currency risk 31.12.2016 (EURt)	***EUR***	***PLN***
Customer deposits and loans received	64 587	0
Other liabilities	1 958	119
Subordinated liabilities	6 475	0
Total	**73 020**	**119**

Interest rate risk

Interest rate risk is a risk that the revenue generated by the Group may be impacted by unexpected unfavourable changes in interest rates. The Group is open to interest rate risk when the maturities of key assets and liabilities are different or when it is possible to adjust the interest rates on assets and liabilities after a certain period of time.

According to the estimate of the Management Board, the interest rate risk is low due to the following reasons:

- Limiting the structure and maturities of interest-sensitive assets and liabilities and their mutual matching – both the Group's interest-earning assets and liabilities have fixed interest and to a great extent similar short durations.
- Holding a fixed interest rate and high price spread – the Group issues loans and raises deposits only with fixed interest rates which enable to manage the price spread (interest income / interest-earning assets – interest expense / interest-bearing liabilities). The interest rates on issued loans exceed significantly the interest rates paid for deposits.
- The focus of the Group's activities is targeted at issuing unsecured consumer loans. Hence, the Group's assets have a relatively high rate of return. This provides a sufficient buffer to deal with a possible change in interest rates both on the Group's liabilities as well as assets.
- The Group's portfolio of deposits consists fully of term deposits whose interest rates have been fixed until the end of the deposit period.

The parent company organises management of interest rate risk. Interest rate risk is generally managed by the Management Board of the Group, and the Finance Director and the Treasurer of the

Interest earning assets and liabilities by contractual maturities

EURt

Assets 31.12.2017	**On demand**	**1-90 days**	**91-365 days**	**1-5 years**	**5+ years**	**Total**
Central banks, credit institutions, cash	20 751	2 550	0	0	0	23 301
Loans and receivables	3	9 929	24 347	56 342	2 274	92 895
Total assets	**20 754**	**12 479**	**24 347**	**56 342**	**2 274**	**116 196**

Liabilities 31.12.2017	**On demand**	**1-90 days**	**91-365 days**	**1-5 years**	**5+ years**	**Total**
Deposits	2 541	7 210	31 098	54 207	0	95 056
Subordinated debt securities	0	114	0	0	6 366	6 480
Total liabilities	**2 541**	**7 324**	**31 098**	**54 207**	**6 366**	**101 536**
Spread between maturities of assets and liabilities	**18 213**	**5 155**	**-6 751**	**2 135**	**-4 092**	**14 660**

Assets 31.12.2016	**On demand**	**1-90 days**	**91-365 days**	**1-5 years**	**5+ years**	**Total**
Central banks, credit institutions, cash	16 640	0	0	0	0	16 640
Loans and receivables	788	7 672	18 486	37 591	302	64 839
Total assets	**17 428**	**7 672**	**18 486**	**37 591**	**302**	**81 479**

Liabilities 31.12.2016	**On demand**	**1-90 days**	**91-365 days**	**1-5 years**	**5+ years**	**Total**
Deposits	970	3 826	32 303	27 488	0	64 587
Subordinated debt securities	0	4	0	0	6 471	6 475
Total liabilities	**970**	**3 830**	**32 303**	**27 488**	**6 471**	**71 062**
Spread between maturities of assets and liabilities	**16 458**	**3 842**	**-13 817**	**10 103**	**-6 169**	**10 417**

Group. Interest rate risk is managed through impact analysis by analysing how a shift in the interest rate curve would impact the Group's net interest income and economic value.

For hedging interest rate risk and for avoiding excess interest rate risk, the Group uses the following techniques:

- higher than average interest rate spread of loans issued and deposits raised;
- expected loss arising from interest rate risk is one of the components of pricing loans;
- shorter than average maturities of loans issued, enabling to better manage interest rate risk by changing the interest rates and maturities of loans to be issued;
- both the loans issued as well as deposits raised have fixed interest rates;
- the Group constantly monitors and manages its interest rate risk positions;
- the Group measures and limits its interest rate risk taking into account the effect of possible changes in economic value and future revenue caused by the changes in the level of interest rates on its capital;
- the Group is willing to use other interest rate risk hedging techniques if it is necessary.

Liquidity risk

Liquidity risk is defined as a risk that the Group's solvency is not sufficient to meet the contractual obligations on time, i.e. Group companies cannot fund miscellaneous activities in a sustainable manner and on time or they cannot liquidate their positions for fulfilment of contractual obligations. For managing liquidity risk, the Group follows the liquidity risk strategy and the internal rules and regulations on management. The objective of the Group's liquidity management policy is to ensure timely and complete fulfilment of the obligations assumed by the Group at any given time while optimising the liquidity risk in such a way that maximum and stable profitability is achieved on investments with different durations.

The Management Board plans the Group's long-term liquidity and manages liquidity risk. The Chief Financial Officer and Treasurer are responsible for the daily and short-term management of liquidity risk.

For managing the Group's liquidity position, the key measure used is the approach based on the maturity spread of assets and liabilities. An overview of the distribution of maturities of assets and liabilities is presented in the table below. Within the framework of the model, the key liquidity ratios and the maturity pro-

Assets and liabilities by contractual maturities (EURt)

Liabilities 31.12.2017	*On demand*	*1-90 days*	*91-365 days*	*1-5 years*	*5+ years*	*Carrying amount 31.12.2017*
Deposits	0	7 275	31 467	56 940	0	95 056
Other liabilities	0	2 399	0	0	0	2 399
Subordinated debt securities	0	114	341	1 821	8 324	6 480
Total liabilities	**0**	**9 788**	**31 808**	**58 761**	**8 324**	**103 935**

Assets 31.12.2017	*On demand*	*1-90 days*	*91-365 days*	*1-5 years*	*5+ years*	*Carrying amount 31.12.2017*
Cash and receivables from credit institutions	20 751	2 550	0	0	0	23 301
Loans and receivables	241	13 415	32 534	69 042	2 712	92 895
Other assets	0	589	53	0	9 546	10 188
Total assets	**20 992**	**16 554**	**32 587**	**69 042**	**12 258**	**126 384**
Maturity spread of liabilities and assets	**20 992**	**6 766**	**779**	**10 281**	**3 934**	**22 449**

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

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

portions of assets and liabilities are also determined and liquidity stress tests are conducted. Internal limits have been set for all key liquidity indicators.

The Group has established a business continuity plan for the behaviour in a situation of a liquidity crisis.

Arising from the Group's current operational model, the maturity spread of the Group is positive in the period of up to 90 days. This means that in a period of up to 90 days, the Bank has fewer liabilities than receivables. This is due to the fact that a great majority of the Group's assets are consumer financing receivables which are short-term by nature. On the other hand, liabilities consist almost entirely of term deposits and the pricing of the Group's deposits has been set in such a way that the customers prefer periods longer than 12 months. Using primarily term deposits, the Group's cash flows are easier to be forecast.

The Group discloses information about the liquidity coverage in accordance with the EBA guideline EBA/GL/2017/01 on the website of Inbank AS www.inbank.ee.

Operational risk

Operational risk is a risk of incurring a loss from the inadequacy of internal processes, activities of people or systems, not working in the manner intended or due external events. The definition includes legal risk, but not strategy and reputation risk. The Group follows the operational risk policy for managing operational risk.

Operational risk is dealt with and managed at the Group as a separate risk management area for which necessary resources and sufficient own funds for covering potential losses have been allocated. Operational risk has been integrated into daily operations of the Group and the awareness of the nature, effect and need for control of operational risk needs to take place at the level of each Group employee.

Operational risk loss events are registered in the operational risk database together with the amount of the loss. The Group monitors operational risk dynamics quantitatively using the quarterly analysis of key risk indicators. Regular overviews of operational risk cases and key risk indicators are prepared for the Management Board once a month. The basic approach for operational risk is used for calculating operational risk capital requirement. The Group does not use any methods based of an advanced measurement model for operational risk within the meaning of the European Parliament and Council Regulation (EU) No 575/2013.

Risk of excessive leverage

Risk of excessive leverage is risk that arises from the growth of liabilities that is too fast. The Group's leverage ratio was 11.45% as of 31.12.2017 (as of 31.12.2016: 10.40%). The Group discloses the leverage rate in accordance with Regulation (EU) No 2016/200 on the website of Inbank AS www.inbank.ee.

Use of rating agencies

For calculation of capital requirements in order to determine the levels of credit quality, the Group uses the credit quality estimates of the rating agency Moody´s Investors Service in accordance with the rules in the European Parliament and Council Regulation (EU) No 575/2013. The Group uses the estimates for determining the requirements of the following credit risk exposures: (i) requirements for credit institutions and investment firms and (ii) requirements for exposures to credit companies and investments firms with a short-term credit quality assessment.

Note 4 Business segments

Inbank AS divides its business activities into segments based on its legal entities and nature of its product lines (consumer finance, IT services, leasing). Income of the reported segments include transactions between the segments. Business segments are Inbank group companies that have separate financial data, which form the basis for regular monitoring of business results by the Group's decision-makers. The Group monitors the profitability, the cost/income ratio, the growth and quality of the credit portfolio, and the allowance of the portfolio for each financial activity segment. In the information technology sector, revenue and expenditure are monitored.

Income of the reported segments include such inter-segment transactions as loans given by Inbank AS to its group companies and technological solutions and services provided by Inbank Technologies to group companies to manage deposit and loan portfolios. None of Inbank AS counterparties has income over 10% of its respective income of the consolidation group.

Inbank AS' (Estonia) "other operating income" mainly includes consulting services offered to the bank`s associates. Intersegment transactions constitute mainly of loan interests on loans given to subsidiaries. These intercompany transactions are accounted for at market prices, including IT services. See also Note 25.

Income of reportable segments

EURt

2017	*Inbank AS (Estonia)*	*Inbank Lizings SIA (Latvia)*	*Inbank Liising AS (Estonia)*	*Inbank AS Polish branch*	*Inbank Technologies OÜ (Estonia)*	*TOTAL*
Interest income	10 211	3 535	135	213	5	**14 099**
Fee income	371	175	3	2	0	**551**
Other operating income	387	92	0	52	291	**822**
Inter-segment eliminations	-1 081	0	0	0	-112	**-1 193**
Revenue from external customers	**9 888**	**3 802**	**138**	**267**	**184**	**14 279**
Interest expense	-1 907	-969	-72	-111	-25	**-3 084**
Fee expense	-303	-130	0	-178	0	**-611**
Inter-segment eliminations	3	969	72	10	25	**1 079**
Total expenses	**-2 207**	**-130**	**0**	**-279**	**0**	**-2 616**
Total net interest, fee and commission income and other income	**7 681**	**3 672**	**138**	**-12**	**184**	**11 663**

Net profit structure

EURt

2017	*Inbank AS (Estonia)*	*Inbank Lizings SIA (Latvia)*	*Inbank Liising AS (Estonia)*	*Inbank AS Polish branch*	*Inbank Technologies OÜ (Estonia)*	*TOTAL*
Profit before impairment losses on loans and advances	**4 716**	**1 651**	**56**	**-1 290**	**-213**	**4 920**
Profit of associates	5 816	0	0	0	387	**6 203**
Impairment losses on loans and advances	-1 541	-1 709	-18	-256	-8	**-3 532**
Income tax	0	-388	0	296	0	**-92**
Net profit/-loss	**8 991**	**-446**	**38**	**-1 250**	**166**	**7 499**

Income of reportable segments

EURt

2016	*Inbank AS (Estonia)*	*Inbank Lizings SIA (Latvia)*	*Inbank Liising AS (Estonia)*	*Inbank AS Polish branch*	*Inbank Technologies OÜ (Estonia)*	*TOTAL*
Interest income	6 976	3 735	15	0	6	**10 732**
Fee income	240	154	0	0	0	**394**
Other operating income	483	51	0	0	376	**910**
Inter-segment eliminations	-944	-2	0	0	-132	**-1 078**
Revenue from external customers	**6 755**	**3 938**	**15**	**0**	**250**	**10 958**
Interest expense	-1 401	-928	-6	0	-13	**-2 348**
Fee expense	-261	-76	0	0	0	**-337**
Inter-segment eliminations	3	926	6	0	12	**947**
Total expenses	**-1 659**	**-78**	**0**	**0**	**-1**	**-1 738**
Total net interest, fee and commission income and other income	**5 096**	**3 860**	**15**	**0**	**249**	**9 220**

Net profit structure

EURt

2016	*Inbank AS (Estonia)*	*Inbank Lizings SIA (Latvia)*	*Inbank Liising AS (Estonia)*	*Inbank AS Polish branch*	*Inbank Technologies OÜ (Estonia)*	*TOTAL*
Profit before impairment losses on loans and advances	**3 281**	**2 213**	**5**	**-361**	**-133**	**5 005**
Profit of associates	773	0	0	0	0	**773**
Impairment losses on loans and advances	-987	-2 221	-11	0	0	**-3 219**
Income tax	0	-2	0	59	0	**57**
Net profit/loss	**3 067**	**-10**	**-6**	**-302**	**-133**	**2 616**

Assets and liabilities of reportable segments

EURt						
31.12.2017	***Inbank AS (Estonia)***	***Inbank Lizings SIA (Latvia)***	***Inbank Liising AS (Estonia)***	***Inbank AS Polish branch***	***Inbank Technologies OÜ (Estonia)***	***Intersegment eliminations***
Cash in hand	4	0	0	0	0	**0**
Due from central banks, including mandatory reserve	14 289	0	0	478	0	**0**
Due from credit institutions	3 769	794	89	3 608	270	**0**
Loans and advances to customers	91 860	14 400	1 266	4 516	104	**-19 251**
Investments in subsidiaries	1 053	0	0	0	0	**-1 053**
Investments in associates	7 763	0	0	0	43	**0**
Tangible assets	111	43	0	58	67	**0**
Intangible assets	161	113	0	23	322	**197**
Other financial assets	2	66	0	7	2	**-16**
Other assets	126	283	23	20	7	**0**
Deferred tax assets	0	0	0	364	0	**0**
Assets held for sale	0	0	0	0	0	**0**
Total assets	**119 138**	**15 699**	**1 378**	**9 074**	**815**	**-20 123**
Loans received	0	15 770	1 221	1 839	418	**-19 248**
Customer deposits	86 379	0	0	8 677	0	**0**
Subordinated debt securities	6 480	0	0	0	0	**0**
Other financial liabilities	1 067	118	25	58	14	**-19**
Other liabilities	807	189	0	89	51	**0**
Income tax liability	0	0	0	0	0	**0**
Total liabilities	**94 733**	**16 077**	**1 246**	**10 663**	**483**	**-19 267**

Assets and liabilities of reportable segments

EURt						
31.12.2016	***Inbank AS (Estonia)***	***Inbank Lizings SIA (Latvia)***	***Inbank Liising AS (Estonia)***	***Inbank AS Polish branch***	***Inbank Technologies OÜ (Estonia)***	***Intersegment eliminations***
Cash in hand	4	0	0	0	0	**0**
Due from central banks, including mandatory reserve	14 680	0	0	0	0	**0**
Due from credit institutions	875	900	23	88	70	**0**
Loans and advances to customers	66 391	16 687	606	0	92	**-18 937**
Investments in subsidiaries	1 033	0	0	0	0	**-1 033**
Investments in associates	0	0	0	0	1	**0**
Tangible assets	84	15	0	37	47	**0**
Intangible assets	187	122	0	3	401	**189**
Other financial assets	2	7	0	19	25	**-10**
Other assets	98	0	104	9	3	**0**
Deferred tax assets	0	390	0	59	0	**0**
Assets held for sale	1 672	0	0	0	0	**0**
Total assets	**85 026**	**18 121**	**733**	**215**	**639**	**-19 791**
Loans received	0	17 600	600	395	342	**-18 937**
Customer deposits	64 587	0	0	0	0	**0**
Subordinated debt securities	6 475	0	0	0	0	**0**
Other financial liabilities	865	74	40	55	9	**-9**
Other liabilities	515	50	0	64	93	**0**
Income tax liability	0	321	0	0	0	**0**
Total liabilities	**72 442**	**18 045**	**640**	**514**	**444**	**-18 946**

Inbank Lizings SIA equity as at 31.12.2017 was -378 EURt (31.12.2016: 77 EURt)

Note 5 Net interest income

EURt	*2017*	*2016*
Interest income		
Loans to households	12 753	9 520
Loans to corporates	164	86
Due from financial and credit institutions	106	182
Total	**13 023**	**9 788**
Interest expense		
Deposits received	-1 544	-1 136
Debt securities sold	-465	-267
Loans received	0	-1
Total	**-2 009**	**-1 404**
Net interest income	**11 014**	**8 384**
Interest income by customer location		
Estonia	9 275	6 053
Latvia	3 535	3 735
Poland	213	0
Total	**13 023**	**9 788**

Interest income from impaired loans in 2017 is 248 EURt (2016: 403 EURt).

Note 6 Net fee income

EURt	*2017*	*2016*
Fee income		
Loans to households	548	389
Loans to corporates	3	5
Total	**551**	**394**
Fee expense		
Loan administration expenses	-607	-302
Security brokerage	0	-32
Total	**-607**	**-334**
Net fee income	**-56**	**60**
Fee income by customer location		
Estonia	282	190
Latvia	267	204
Poland	2	0
Total	**551**	**394**

Note 7 Operating expenses

EURt

Personnel expenses	2017	2016
Personnel expense	3 270	1 967
Social and other taxes	727	494
Total personnel expenses	**3 997**	**2 461**

Marketing Expenses	2017	2016
Advertising and marketing	605	297
Sales costs	324	269
Total marketing expenses	**929**	**566**

Administrative expenses	2017	2016
Rental and maintenance expenses	221	146
IT expenses	288	143
Legal expenses	115	156
Office expenses	135	72
Training and business trip expenses	173	76
Other tax expenses	133	79
Supervision expenses	86	50
Recovery proceeding expenses	67	25
Consultation expenses	53	26
Other administrative expenses	331	241
Total administrative expenses	**1 602**	**1 014**

Average number of employees	*2017*	*2016*
Estonia	50	39
Latvia	18	13
Poland	15	3
Total	**83**	**55**

Note 8 Operating lease

EURt	*31.12.2017*	*31.12.2016*
Non-cancellable operating lease agreements		
Not later than 1 year	139	112
Later than 1 year and not later than 5 years	138	230
Later than 5 years	0	0
Total	**277**	**342**

The Group rents office space under operating lease.
Operating lease expenses accounted for 147 EURt in 2017 (2016: 101 EURt).

Note 9 Impairment losses on loans and advances

Loans and advances to customers

EURt	*31.12.2017*	*31.12.2016*
Households	92 129	65 144
Non-financial companies	2 241	1 363
Other financial companies	1 606	2 568
Other advances	92	161
Total	**96 068**	**69 236**
Impairment allowance	-3 173	-4 397
Total	**92 895**	**64 839**

“Loans and advances to households” includes loan receivables in net amount of 402 EURt, which were issued by the Latvian subsidiary in gross amount 2 318 EURt. As a result of reorganisation in the Latvian subsidiary the loan portfolio and respective loan allowance in the amount of 1 916 EURt has been written off.

EURt	*2017*	*2016*
Impairment losses on loans and advances		
Impairment losses for reporting period	-4 578	-3 400
Recoveries from loans written off from financial position	1 046	181
Total	**-3 532**	**-3 219**

Changes in impairments		
As at 1 January	-4 396	-1 156
Impairment allowances made during reporting period	-4 578	-3 400
Impairment allowances for interest and commissions	-414	-426
Written off from financial position during the reporting period	6 215	585
Total	**-3 173**	**-4 397**

Note 10 Income tax

EURt

	2017				2016			
	Estonia	***Latvia***	***Poland***	***Total***	***Estonia***	***Latvia***	***Poland***	***Total***
Tax rates	25%	15%	19%		25%	15%	19%	
Profit before income tax	9 196	-66	-1 547	7 583	2 923	-6	-358	2 559
Allocations to retained earnings	-3 068	0	0	-3 068	-2 923	0	0	-2 923
Non-deductible expenses	0	375	-14	361	0	-130	43	-87
Impairment allowance of loans and advances that are not tax deductible	0	-2 297	0	-2 297	0	2 335	0	2 335
Accumulated deferred loss	0	0	0	0	0	-58	0	-58
Taxable income	0	-1 988	-1 561	-3 549	0	2 141	-315	1 826
Total income tax*	**0**	**-298**	**0**	**-298**	**0**	**321**	**0**	**321**

	2017				2016			
	Estonia	***Latvia***	***Poland***	***Total***	***Estonia***	***Latvia***	***Poland***	***Total***
Deferred tax assets	0	390	59	449	0	71	0	71
Non-current asset in tax accounting	0	117	0	117	0	93	0	93
Non-current asset in financial accounting	0	-157	0	-157	0	-123	0	-123
Deferred taxable losses	0	462	1 876	2 338	0	2 620	315	2 935
Unused annual leave and bonus reserves	0	109	0	109	0	8	0	8
Impairment losses of loans and advances to customers	0	1 988	0	1 988	0	0	0	0
Other adjustments	0	0	39	39	0	0	0	0
Total	**0**	**2 519**	**1 915**	**4 434**	**0**	**2 598**	**0**	**2 598**
Total deferred tax assets	**0**	**378**	**364**	**742**	**0**	**390**	**59**	**449**
Change in tax assets (through profit and loss)	**0**	**-12**	**296**	**284**	**0**	**319**	**59**	**378**
Write-off of tax assets	**0**	**-378**	**0**	**-378**	**0**	**0**	**0**	**0**

*Income tax gain in Latvia during 2017 is in significant extent a result of the sale of impaired credit portfolio.

	2017	2016
Income tax recognized in income statement	**-92**	**57**
Deferred tax assets, Poland	298	59
Deferred tax assets, Latvia	-12	319
Write-off of tax assets in Latvia	-378	0
Income tax, Latvia	0	-321
Total	**-92**	**57**

Pursuant to the Income Tax Act of the Republic of Estonia, legal entities are not obliged to pay income tax on profit earned. Income tax is paid on fringe benefits, gifts, donations, costs of entertaining guests, dividends and non-business disbursements. Dividend is a disbursement made on the basis of the corresponding resolution of the shareholders of Inbank AS from net profit or retained earnings, in accordance with the dividend recipient's holding in Inbank AS. Inbank pays income tax on dividends upon their disbursement in monetary or non-monetary form. Pursuant to the Income Tax Act, the profit to be allocated as dividends is taxed at a rate of 20/80 of the net dividend to be paid. Corporate income tax on dividends is charged to income tax expenses in the profit or loss over the period of their announcement, regardless of the dividend announcement period or dividend payment period.

As at 31 December 2017, the bank's retained earnings amounted to 10 739 EURt (31.12.2016: 3 330 EURt). The potential income tax expenses related to the payment of dividends would amount to 2 147 EURt (31.12.2016: 666 EURt).

In Latvia, the company made advance income tax payments in the total amount of 281 EURt during 2017. The advance payments are recognised under other assets in the balance sheet.
Due to amendments to the Income Tax Act from 01.01.2018, prepayments of income tax already paid can be reclaimed. The Latvian subsidiary has already submitted a corresponding application.

*The negative tax expense in Latvia during 2017 is in significant extent due to the sales of impaired credit portfolio.

Note 11 Due from central banks and credit institutions

EURt	*31.12.2017*	*31.12.2016*
Due from central banks	14 066	14 192
Mandatory reserve in central bank	701	488
Due from credit institutions	8 530	1 956
Total	**23 297**	**16 636**

Note 12 Finance lease

EURt	*Gross investment*	*Unearned future interest income*	*Allowance*	*Principal payments for future periods*
Net and gross investments on finance leases according to the remaining maturity				
Not later than 1 year	218	-133	-3	82
Later than 1 year and not later than 5 years	1 340	-130	-26	1 184
Later than 5 years	0	0	0	0
Total as at 31.12.2017	**1 558**	**-263**	**-29**	**1 266**

The bank started offering finance lease products in September 2016.

Note 13 Investments in associates

Carrying amount of associates

EURt	***31.12.2017***	***31.12.2016***
Name of associates		
Maksekeskus Holding OÜ	1	1
Coop Pank AS	7 762	0
Coop Finants AS	0	1 387
Krediidipank Finants AS	0	285
Veriff OÜ	43	0
Total	**7 806**	**1 673**

Further information on associates has been disclosed in Note 1.

Associates have been accounted for using the equity method and is recorded in income statement line “Share of profit of associates” in the amount of 999 EURt, (2016: 772 EURt).

In January 2017, Inbank AS increased its ownership in Coop Finants AS by 5%, after which the ownership was 49%. The bank disposed the associates Coop Finants AS and Krediidipank Finants AS in the first half of 2017. From 31 December 2016 up until the transaction, the investments were recognised as non-current assets held for sale.

On 30 January, Inbank acquired 9.9995% of the shares of AS Eesti Krediidipank. After this transaction Eesti Krediidipank has been recognised as an associate. The proceeds from the disposal of associates Coop Finants AS and Krediidipank Finants AS were invested in Eesti Krediidipank, participating in the share issue conducted in Q2 2017. As a result, Inbank holds 17.935% of Eesti Krediidipank. Unrealised profit from the disposal of associates has been eliminated, profit 4 810 EURt was realised. Starting from 2 October 2017 the company was renamed as Coop Pank AS. Inbank has not received dividends from the associate.

On 20th October 2015, subsidiary Veriff OÜ was established, in which Inbank Technologies OÜ had ownership of 60%. In August 2017 30% of the ownership was sold, profit 394 EURt was realised. Then, in August, the process to first increase the share capital and then to decrease the share capital was started, after which Inbank share should have been 21.68%. As at 31.12.2017 the process had not been completed and therefore, Inbank share of associate remained 25.88%. The company lost control, but maintained significant influence, therefore, Veriff is subsequently recognised as associate. The associate was initially recognised at fair value. The fair value was determined on the basis of net book value of the investment, as there is no reliable information to estimate the fair value. Hereafter the investment is accounted for using the equity method in the consolidated financial statements.

Disposal and acquisition of associates and disposal of subsidiary in 2017

EURt	
Acquisition of holdings in associates	3 229
Proceeds from disposals of associates, and reinvestment	7 448
Purchase of non-controlling interest in the share capital of subsidiary	20
Total	**10 697**
Proceeds from disposals of subsidiary	300
Proceeds from disposals of associates	7 448
Proceeds from re-sale of holdings in associates	2 955
Total	**10 703**

In 2016, a contribution to increase the shareholding of associate was made in the amount of 31 EURt and the ownership in a subsidiary increased by 80 EURt.

Overview of Coop Pank AS

EURt	*2017*	*2016*
Net interest income	11 519	7 398
Net fee income	2 170	2 737
Other operating income	3 600	825
Operating expenses	-11 518	-8 088
Impairment losses on loans	-1 313	-1 009
Income tax	0	-120
Net profit	**4 458**	**1 743**

	31.12.2017	*31.12.2016*
Cash	98 873	105 549
Debt securities	11 576	11 937
Loan and advances to customers	238 282	153 133
Goodwill	6 757	0
Other assets	15 890	19 551
Total assets	**371 378**	**290 170**
Due to credit institutions	5 002	185
Due to customers	310 968	253 812
Subordinated loans	5 026	4 039
Other liabilities	5 206	2 557
Equity	**45 176**	**29 577**
Total liabilities and equity	**371 378**	**290 170**

Note 14 Intangible assets

EURt	*Licences*	*Software*	*Goodwill*	*Total*
At the beginning of period (01.01.2016)				
Cost	168	492	238	898
Accumulated amortisation	-49	-89	0	-138
Carrying value	**119**	**403**	**238**	**760**
Opening carrying value	**119**	**403**	**238**	**760**
Additions	1	267	0	268
Acquisition cost of sold assets	-57	0	0	-57
Amortisation charge	-7	-62	0	-69
Closing carrying value	**56**	**608**	**238**	**902**
At the end of period (31.12.2016)				
Cost	112	759	238	1 109
Accumulated amortisation	-56	-151	0	-207
Carrying value	**56**	**608**	**238**	**902**

At the beginning of period (01.01.2017)	*Licences*	*Software*	*Goodwill*	*Total*
Cost	112	759	238	1 109
Accumulated amortisation	-56	-151	0	-207
Net book amount	**56**	**608**	**238**	**902**
Opening carrying value	***56***	***608***	***238***	***902***
Additions	2	169	0	171
Write-offs through sale of subsidiary	0	-145	0	-145
Write-offs through sale of subsidiary (accumulated amortisations)	0	5	0	5
Amortisation charge	-6	-111	0	-117
Closing carrying value	**52**	**526**	**238**	**816**
At the end of period (31.12.2017)				
Cost	114	783	238	1 135
Accumulated amortisation	-62	-257	0	-319
Carrying value	**52**	**526**	**238**	**816**

Impairment tests of goodwill were performed as at 31.12.2017 and as at 31.12.2017. The recoverable amount of the unit does not significantly differ
from its carrying amount (incl. Goodwill), therefore no adjustments have been made to consolidated financial position statement.

Note 15 Deferred income tax asset and other assets

EURt	*31.12.2017*	*31.12.2016*
Accounts receivable	8	14
Prepaid expenses	128	88
Prepaid taxes	305	104
Prepaid guarantees	53	30
Other assets	26	20
Total	**520**	**256**
Deferred income tax asset	**364**	**450**

Prepaid expenses mainly consist of a prepayment to the Financial Supervision Authority. Deferred income tax assets have been generated by the Polish branch in the amount of 364 EURt (2016: 290 EURt in Latvian subsidiary and 60 EURt in Polish branch). Prepaid taxes includes income tax prepayments by Latvian subsidiary in the amount of 281 EURt during 2017 (2016: 0 EURt). See also Note 10.

Note 16 Customer deposits

EURt		
Customer deposits	***31.12.2017***	***31.12.2016***
Deposits from households	84 450	51 572
Deposits from non-financial companies	9 450	8 054
Deposits from other financial companies	1 156	4 961
Total	**95 056**	**64 587**

Deposits by clients' residence	***31.12.2017***	***31.12.2016***
Estonia	67 483	64 111
Germany	17 666	56
Poland	8 677	0
Other residence	1 230	420
Total	**95 056**	**64 587**

Deposits include accrued interest liabilities in the amount of 864 EURt (31.12.2016: 985 EURt).

Deposits by contractual maturity

EURt					
31.12.2017	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***Total***
Customer deposits	2 541	7 210	31 098	54 207	95 056

31.12.2016	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***Total***
Customer deposits	970	3 826	32 303	27 488	64 587

Note 17 Subordinated debt securities

EURt	
Transactions with subordinated debt securities	
Opening balance as at 01.01.2017	6 475
Adjustments	5
Closing balance 31.12.2017	**6 480**

Adjustments in 2017 were in the amount 5 EURt (2016: -28 EURt).

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

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

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

In 2017, 92 bids transactions were carried out with Inbank debt securities with a value of 694 EURt (2016: 35 transactions in the amount of 138 EURt).

Note 18 Other liabilities

EURt	*31.12.2017*	*31.12.2016*
Financial liabilities		
Accounts payable	780	717
Client prepayments	316	197
Deferred income	167	120
Total financial liabilities	**1 263**	**1 034**
Other liabilities		
Payables to employees	783	481
Tax debts	234	223
Other liabilities	119	18
Total	**1 136**	**722**
Income tax liability	**0**	**321**

As of 31 December 2016, tax liabilities include income tax payable in Latvia in the amount of 321 EURt.

Note 19 Contingent liabilities and loan commitments

For information regarding the Group's contingent liabilities arising from management contracts see Note 25.

Inbank had the following loan commitments:

EURt	
Irrevocable transactions	
Liability in contractual amount 31.12.2017	635
Liability in contractual amount 31.12.2016	432

Tax authorities have the right to review the company's tax records for up to 5 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The tax authorities have not performed any tax audits at the Group during 2016 and 2017. The Group's management estimates that in 2017 there are no such circumstances which may lead the tax authorities to impose significant additional taxes on the Group.

Note 20 Basic and diluted earnings per share

To calculate basic earnings per share the profit attributable to owners of the parent company is divided by the weighted average number of shares outstanding.

	2017	*2016*
Total profit attributable to owners of the parent (EUR thousand)	7 496	2 646
Weighted average number of shares	73 548	62 881
Basic earnings per share (EUR)	101.92	42.08
Weighted average number of shares used for calculating the diluted earnings per shares	78 478	67 811
Diluted earnings per share (EUR)	95.52	39.02

Note 21 Share capital

	31.12.2017	*31.12.2016*
Share capital	782	689
Number of shares issued	78 215	68 881
Nominal share value (EUR)	10	10

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

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

Note 22 Share-based payments

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

	No of shares	Unit subscription price EUR	Option issuing year	The year in which the right to realize the option arises	Number of people to whom the option was issued
Supervisory Board	180	10	2015	2018	1
Supervisory Board	400	300	2016	2019	1
Management	1000	300	2016	2019	3
Employees	2250	300	2016	2019	9
Employees	1000	300	2016	2020	2
Employees	100	300	2017	2020	1
Total	**4930**				

The precondition for the realisation of the share options is an ongoing employment relationship after a period of three years has elapsed and the achievement of certain financial targets established by the group. The share options cannot be redeemed for cash. During the reporting period one employee, who had the share based option, left.

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

The share-based payment reserve is recorded under other reserves in equity over a period of three years. At the end of each reporting period, the bank will estimate how many shares will be realised at non-market prices and adjust the reserve accordingly. As at 31.12.2017, the reserve amounted to 61 EURt.

Personnel expenses related to the option agreements in 2017 amounted to a total of 29 EURt (2016: 31 EURt).

Note 23 Reserves

EURt	*31.12.2017*	*31.12.2016*
Statutory reserve	79	57
Voluntary reserve	1 330	1 330
Share based payment	60	31
Other reserves	-38	0
Total	**1 431**	**1 418**

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

In previous years the Inbank AS general meeting has decided to increase the reserves by increasing voluntary reserve. The reserve may also be used to increase the share capital, but not to make disbursements to shareholders.

The fair value of share options issued to employees is charged to personnel expenses over the term of the option programme, and to equity as an increase in the share-based payments reserve.

Note 24 Fair value of financial assets and liabilities

EURt		***31.12.2017***			***31.12.2016***	
Assets	***Fair value***	***Carrying amount***	***Level***	***Fair value***	***Carrying amount***	***Level***
Cash in hand	4	4	1	4	4	1
Due from central banks, including mandatory reserve	14 767	14 767	2	14 680	14 680	2
Due from credit institutions	8 530	8 530	2	1 956	1 956	2
Loans and advances to customers	92 895	92 895	3	64 839	64 839	3
Other financial assets	61	61	3	43	43	3
Total	**116 257**	**116 257**		**81 522**	**81 522**	

		31.12.2017			***31.12.2016***	
Liabilities	***Fair value***	***Carrying amount***	***Level***	***Fair value***	***Carrying amount***	***Level***
Customer deposits	95 056	95 056	2	64 587	64 587	2
Subordinated debt securities	6 952	6 480	2	6 503	6 475	3
Other financial liabilities	1 263	1 263	3	1 034	1 034	3
Total	**103 271**	**102 799**		**72 124**	**72 096**	

Bonds issued were listed on the Nasdaq Baltic Stock Exchange on 3 October 2016, and their fair value can be determined based on the transaction history. Previously, the bonds issued by Inbank were classified as level 3, as the transaction history was brief and insufficient to use this as a basis for fair value estimate. As at 31 December 2017, the weighted average purchase price and sales transactions are used for estimating the fair value of debt securities. The debt securities are classified as Level 2 in the fair value hierarchy starting from Q2 2017.

Loans granted to companies 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 carrying amount.

The small loans and hire-purchase products granted to customers are short-term. The average term of the hire-purchase product is 18-23 months and that of loan products 49-53 months. Inbank started offering loan products in April 2015. According to the Bank of Estonia, the average interest rates of unsecured consumer loans ranged from 14,44 to 15.46% in 2015-2017. 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 market interest rate and the fair value of loans has not significantly changed over the loan period. The carrying amount of loans does not therefore significantly differ from the fair value.

Fixed-interest customer deposits are mostly short-term. The average term of deposits is in the range from 16 to 27 months. Inbank started offering the deposit product in April 2015. According to the Bank of Estonia, the average interest rate of new term deposits ranged from 0.55 to 0.72% in 2015-2017. The interest rate of term deposits accepted and loans received by Inbank is comparable to the comparable contract interest rates on the market. In general, the market interest rate and the fair value of deposits has not significantly changed over the deposit period. The carrying amount of deposits does not therefore significantly differ from the fair value.

Note 25 Related parties

EURt	*2017*	*2016*
Remuneration of the Management Board and Supervisory Board	617	404

The following are considered to be the Group's related parties:
- members of the Management Board and Supervisory Board, their family members and related companies (hereinafter the management),
- associates
- parent company or owners the parent company that have control or significant influence over the Parent company

Balances	*31.12.2017*	*31.12.2016*
Loans and advances as of end of reporting period	**191**	**1 027**
management	1	1
associates	190	1026
Deposits and subordinated debt securities as of end of reporting period	**265**	**249**
management	265	249

Transactions	*2017*	*2016*
Interest income	**9**	**82**
management	1	0
associates	8	82
Interest expenses	**12**	**6**
management	12	6
associates		
Services purchased	**48**	**24**
management	44	24
associates	4	0
Services sold	**287**	**531**
management	0	0
associates	287	531

The table provides an overview of the significant transactions and balances with related parties. The Group finances the Group's subsidiaries and branches with long-term loans issued under market conditions, interest rates are in between 5% and 7% (2016: 5-8%). Such loans are eliminated from the consolidated financial statements. The interest rate of deposits received from related parties matches with the interest rate offered to the client, interest rates are in between 0.6% and 3% (2016: 2,1-3,5%)

A share option programme has been established for the management, see Note 22.

The Group has entered into an agreement with a member of the Management Board, stipulating a severance compensation equalling to a six-month monthly remuneration. The agreements with other members of the Management Board do not stipulate any severance compensation. In issues not regulated in the agreement, the related parties have agreed to be governed by the laws of the Republic of Estonia. The management estimates the probability of realisation of the contingent liability to be low.

Note 26 Events after the balance sheet date

Inbank Technologies had an investment in Veriff OÜ, which book value as at 31.12.2017 was 43 EURt.

In the beginning of 2018 the management decided to sell their 21.68% share in Veriff.

Note 27 Parent company's separate statement of financial position

EURt	Note	31.12.2017	31.12.2016
Assets			
Cash in hand		4	4
Due from central banks, including mandatory reserve		14 767	14 680
Due from credit institutions		7 377	963
Loans and advances to customers		94 538	65 995
Investments in subsidiaries		1 053	1 033
Investments in associates		7 762	0
Tangible assets		169	121
Intangible assets		183	191
Other financial assets		1	19
Other assets		146	109
Deferred tax assets		364	59
Assets held for sale		0	1 672
Total assets		**126 364**	**84 846**

EURt	Note	31.12.2017	31.12.2016
Liabilities			
Customer deposits		95 055	64 587
Other financial liabilities		1 118	920
Other liabilities		893	580
Subordinated debt securities		6 482	6 475
Total liabilities		**103 548**	**72 562**
Equity			
Share capital	30	782	689
Share premium	30	9 068	6 361
Statutory reserve capital		79	57
Other reserves	30	1 352	1 361
Retained earnings		11 535	3 816
Total equity		**22 816**	**12 284**
Total liabilities and equity		**126 364**	**84 846**

Note 28 Parent company's separate statement of profit or loss and other comprehensive income

EURt	***2017***	***2016***
Continuing operations		
Interest income	10 342	6 977
Interest expenses	-1 936	-1 400
Net interest income	**8 406**	**5 577**
Fee income	373	244
Fee expense	-480	-261
Net fee and commission income	**-107**	**-17**
Other operating income	440	479
Total net interest, fee and other income	**8 739**	**6 039**
Personnel expenses	-3 152	-1 822
Marketing expenses	-808	-510
Administrative expenses	-1 253	-725
Depreciations, amortisation	-101	-62
Total operating expenses	**-5 314**	**-3 119**
Profit before impairment losses on loans and advances	**3 425**	**2 920**

EURt	***2017***	***2016***
Share of profit of associates	5 816	773
Impairment losses on loans and advances	-1 796	-987
Profit before income tax	**7 445**	**2 706**
Income tax	296	60
Profit for the reporting period	**7 741**	**2 766**
Other comprehensive income/loss		
Items that may be reclassified subsequently to profit or loss		
Unrealised foreign exchange gains/losses	-38	0
Total comprehensive income for the reporting period	**7 703**	**2 766**

Note 29 Parent company's separate statement of cash flows

EURt	*Note*	*2017*	*2016*
Cash flows from operating activities			
Interest received	5	11 624	8 212
Interest paid	5	-3 454	-717
Fees received	6	373	244
Fees paid	6	-480	-261
Other income received		440	479
Personnel expenses		-3 116	-1 449
Administrative and marketing expenses		-2 016	-1 015
Cash flows from operating activities before changes in operating assets and liabilities		**3 371**	**5 493**
Changes in operating assets:			
Loans and advances to customers		-31 366	-33 372
Mandatory reserve in central bank		-213	-334
Other assets		-332	-29
Changes of operating liabilities:			
Customer deposits		31 985	34 248
Other liabilities		438	198
Net cash from operating activities		**3 883**	**6 204**
Cash flows from investing activities			
Acquisition of tangible and intangible assets		-153	-93
Acquisition of subsidiaries and associates	13	-10 697	-111
Proceeds from disposal of associates	13	10 403	0
Net cash used in investing activities		**-447**	**-204**

EURt	*Note*	*2017*	*2016*
Cash flows from financing activities			
Repayment of debt securities		0	-3 114
Subordinated debt securities issued	17	0	6 471
Share capital contribution (including share premium)	21	2 800	1 087
Net cash from financing activities		**2 800**	**4 444**
Effect of exchange rate changes		52	0
Net increase/decrease in cash and cash equivalents	**11**	**6 288**	**10 444**
Cash and cash equivalents at the beginning of the reporting period		15 159	4 715
Cash and cash equivalents at the end of the reporting period	**11**	**21 447**	**15 159**

Note 30 Parent company's separate statement of changes in equity

EURt	***Share capital***	***Share premium***	***Statutory reserve capital***	***Other reserves***	***Retained earnings/ accumulated loss***	***Total equity***
Balance as at 01.01.2016	**569**	**5 393**	**30**	**1 330**	**1 077**	**8 399**
Paid in share capital	120	968	0	0	0	1 088
Share-based payment reserve	0	0	0	31	0	31
Statutory reserve capital	0	0	27	0	-27	0
Total profit/-loss and other comprehensive income for the reporting period	0	0	0	0	2 766	2 766
Balance as at 31.12.2016	**689**	**6 361**	**57**	**1 361**	**3 816**	**12 284**
Carrying amount of holdings under control and significant influence					-2 706	-2 706
Value of holdings under control and significant influence under equity method					1 933	1 933
Adjusted unconsolidated equity as at 31.12.2016	689	6 361	57	1 361	3 043	11 511
Balance as at 01.01.2017	**689**	**6 361**	**57**	**1 361**	**3 816**	**12 284**
Paid in share capital	93	2 707	0	0	0	2 800
Share-based payment reserve	0	0	0	29	0	29
Statutory reserve capital	0	0	22	0	-22	0
Total profit/-loss and other comprehensive income for the reporting period	0	0	0	-38	7 741	7 703
Balance as at 31.12.2017	**782**	**9 068**	**79**	**1 352**	**11 535**	**22 816**
Carrying amount of holdings under control and significant influence					-8 816	-8 816
Value of holdings under control and significant influence under equity method					7 822	7 822
Adjusted unconsolidated equity as at 31.12.2017	782	9 068	79	1 352	10 541	21 822

Signatures of the management board to the consolidated annual report

The Management Board of Inbank AS declares its responsibility for preparing the Consolidated Annual Report for the Group for the financial year of 2017 and confirms that:

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

Jan Andresoo	**Liina Sadrak**	**Marko Varik**	**Piret Paulus**
Chairman of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board
/digitally signed/	/digitally signed/	/digitally signed/	/digitally signed/

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Independent auditor's report

To the Shareholders of AS Inbank

(Translation of the Estonian original)*

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Inbank and its subsidiaries (together the Group) as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- 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 a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

Our audit approach

Overview

Materiality
Overall group materiality is EUR 275 thousand, which represents approximately 2.5% of group net interest income.

Audit scope
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.

Key audit matters
- Valuation of loans and receivables to retail customers
- Accounting treatment of acquisition of associate AS Coop Pank

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 materiality	EUR 275 thousand
How we determined it	2.5% of net interest income
Rationale for the materiality benchmark applied	We applied the net interest income benchmark as the Group is going through significant growth and has made significant investments in the subsidiary in Latvia and the Polish branch. Therefore, the key performance measure for the Group is net interest income.

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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 receivables to retail customers (refer to Note 1 "Significant accounting principles", Note 3 "Risk Management" and Note 9 "Impairment losses on loans and advances" for further details). As of 31 December 2017, gross loans to the retail customers amount to EUR 92.1 million against which loan impairment allowance in the amount of EUR 3.1 million has been recognized. We focused on this area because management makes complex judgments over both timing of recognition of impairment and the estimation of the size of any such impairment. Loans and advances to retail customers are grouped for impairment calculation purposes into sub-classes on the basis of homogeneous credit risk features and are assessed on a collective bases, taking into account product type, geographical location, customer payment discipline and number of overdue days.	We assessed whether the Group's accounting policies in relation to the impairment of loans and advances to retail customers complied with IFRS. We assessed the design and operating effectiveness of the controls over impairment data and calculations. We performed detailed procedures over the critical assumptions used for inputs in the collective impairment model, such as probability of default, loss identification period and loss given default. We assessed the valuation of loans and receivables to retail customers as at the balance sheet date, taking into account the aforementioned inputs. We concluded that, in the context of the size of total overall loans and advances portfolio and the uncertainties disclosed in the financial statements, assumptions used by management are reasonable.

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Accounting treatment of acquisition of associate AS Coop Pank (refer to Note 1 "Significant accounting principles" and Note 13 "Investments in associates" for further details). In 2017 the Group sold the investments into associates AS Coop Finants and AS Krediidipank Finants and acquired interest in AS Coop Pank as it is disclosed in detail in note 13. This was a complex transaction, where the proceeds from aforementioned sales of associates were used to purchase interest in AS Coop Pank and as a result only a fraction of the profit from the sale of AS Coop Finants and AS Krediidipank Finants was realised. We focused on this area due to the complexity of the transactions involved and the uncertainties surrounding the estimates.	We assessed whether the Group's accounting policy in relation to accounting for the business combinations were in compliance with IFRS. We performed detailed testing of the transactions: • We checked whether the accounting treatment of the sales of associates AS Coop Finants and AS Krediidipank Finants has been correct. • We assessed whether assets acquired and liabilities assumed are correctly identified in purchase price allocation calculations and whether management has performed fair value assessments. • We checked whether the investment in associate AS Coop Pank had been initially recognised and subsequently accounted for correctly. Furthermore, we assessed the adequacy of the disclosures related to the transactions with associates. We concluded that the transactions were accounted for in accordance with the requirements of IFRS.

How we tailored our 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: Inbank AS (Estonia) and SIA Inbank Lizings (Latvia). Additionally we performed an audit of specific balance sheet and income statement line items for Inbank AS Polish branch, Inbank Technologies OÜ and Inbank Liising AS.

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

Other information

The Management Board is responsible for the other information contained in the consolidated annual report in addition to the consolidated financial statements and our auditor's report thereon.

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

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

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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.
- 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.

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

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

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

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of AS Inbank 29 March 2017 for the financial year ended 31 December 2017. The total period of our uninterrupted engagement appointment for AS Inbank, is 1 year.

AS PricewaterhouseCoopers

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

Evelin Lindvers
Auditor's certificate no.622
/signed/

*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.

Profit allocation proposal

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

- to allocate 7.496 thousand euros to retained earnings.

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