Interim report of Inbank AS

6 months 2019

Inbank AS General Information

Business name	Inbank AS
Address	Niine 11, 10414 Tallinn
Registration date	05 October 2010
Registry code	12001988 (Commercial Register of the Republic of Estonia)
Legal entity identifier	2138005M92IEIQVEL297 (LEI code)
VAT number	EE101400240
Telephone	+372 640 8080
E-mail	info@inbank.ee
Website	www.inbank.ee
Balance sheet date of report	30 June 2019
Reporting period	From 1 January 2019 to 30 June 2019

Members of the Supervisory Board

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

Members of the Management Board

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

The reporting currency is the euro (EUR), with units presented in thousands.
Inbank AS' interim report for six months 2019 is unaudited.
The bank does not hold any ratings provided by international rating agencies.

Declaration of the Management Board

The Management Board of Inbank AS is of the opinion that:

- the data and information presented in this interim report for the first six months of 2019 consisting of the management report and financial statements as at 30 June 2019 are correct and complete;
- this interim report gives a true and fair view of the financial position of the Inbank AS consolidation group as at 30 June 2019, its financial performance and cash flows for the first six months of 2019;
- the accounting policies and procedures used in preparing the interim report comply with IAS 34;
- the interim report has been prepared using the policies and procedures of the financial statements for the year concluded on 31 December 2018.

Inbank AS is a going concern.

Tallinn, 05 August 2019

Jan Andresoo	Chairman of the Management Board
Liina Sadrak	Member of the Management Board
Marko Varik	Member of the Management Board
Piret Paulus	Member of the Management Board
Ivar Kallast	Member of the Management Board

Management report

The strong second quarter sales results and growth of Inbank in 2019 in all our home markets were in line with our expectations. Compared to the same period last year we've achieved a stable 50% growth in sales.

Strong Business Growth

We have been particularly pleased with the pace of growth of Inbank Poland, where year-on-year sales have increased by 7 times, contributing to approximately 50% of Inbanks' overall growth. These results indicate the positive and effective dynamic that we have been working towards for a while. Quantitatively, in H1 2019 Inbank sold 134 EURm of credit products (compared to 90 EURm last year).

Strengthening the Team

Fast business growth requires a strong team. It is good to see our team constantly expanding and our employee count having recently reached 200. The highest increase in the workforce has been in the fields of technology and product development. We made a strategic decision to replace outsourcing logic and establish a stronger core technology team inside the company.
In Q2 Aet Toose, our new CTO, joined the team and together with head of IT architecture Toomas Soha are in charge of orchestrating the

aforementioned change. Of course, it is not just about technology. Kärri Brewster-Palts joined the team as our new Head of Marketing with a focus on leading the new brand strategy that supports the expected change of our overall product offering logic.

Development Focus

Our 2019 strategy defines our primary focus being product innovation and development. It is a work in progress. The whole organisation is committed to being able to introduce some new solutions at the end of this year. The main focus of product development is devoted to 'simplifying commerce and helping our partners sell more'. We are building tools that will minimize friction in the buying process and in turn lead to higher customer conversion.

Branch in Lithuania

H1 2019 saw us take a number of steps in preparation for entering the Lithuanian market as an Inbank branch. Last year we acquired Mokilizingas and established ourselves in the Lithuanian market. Preparations for phase two are now under way - launching the Inbank brand on the market. We will be operating as an Estonian bank branch and have therefore submitted all necessary notifications to the Estonian FSA for permission to expand. This step gives us an additional market for acquiring deposits and diversifying our financing channels. Our product offering is widening and we are planning to introduce new credit solutions. Upon establishing the branch, we made a decision to legally merge Mokilizingas with Inbank and operate as one legal entity thereafter.

Other News

The last quarter also saw us make a strategic decision to start the sales process of our investment in Coop Pank AS. It is a known fact that this investment by Inbank was financial and not strategic and therefore we are now planning on reinvesting that capital to support the growth of Inbank. Coop Pank have announced their plans to launch their IPO at the end of this year – a framework that works well for our agenda.

Financial Performance

The numbers indicating the strong sales performance mentioned earlier in short are: 74 EURm worth of credit products sold in Q2 and 134 EURm in H1 (49.1% increase year-on-year). The split between markets is as follows:

- Estonia 46 EURm (37%)
- Latvia 24 EURm (32%)
- Lithuania 43 EURm (23%)
- Poland 21 EURm (588%)

Our loan portfolio reached 276 EURm (compared to year-end portfolio of 226 EURm), with the split between markets as follows:

- Estonia 120 EURm
- Latvia 49 EURm
- Lithuania 86 EURm
- Poland 21 EURm

Financial results for Q2 were also strong. Bank profit for the period was 2.3 EURm. It is necessary to highlight the result have been strongly affected by one-off events (such as the revaluation of Coop Pank shares in the amount of 0.3 EURm and the effect of recognized deferred tax asset attributable to previous periods in the amount of 0.3 EURm). The H1 2019 profit was 4.3 EURm.

Commenting on our financial performance, we can say that our revenue growth is strong and credit cost is still good, growing slower compared to revenue. Two cost items which are growing fast are personnel and marketing – the former being affected by the shift from outsourcing to in-house in our operational model whilst the latter has been driven by the seasonal effect (spring/summer).

The balance sheet of the bank grew by 6% (compared to end of 2018), totalling 338 EURm at end of June. Total equity grew by 12% to 41 EURm as of 30.06.2019.

Jan Andresoo
Chairman of the Management Board

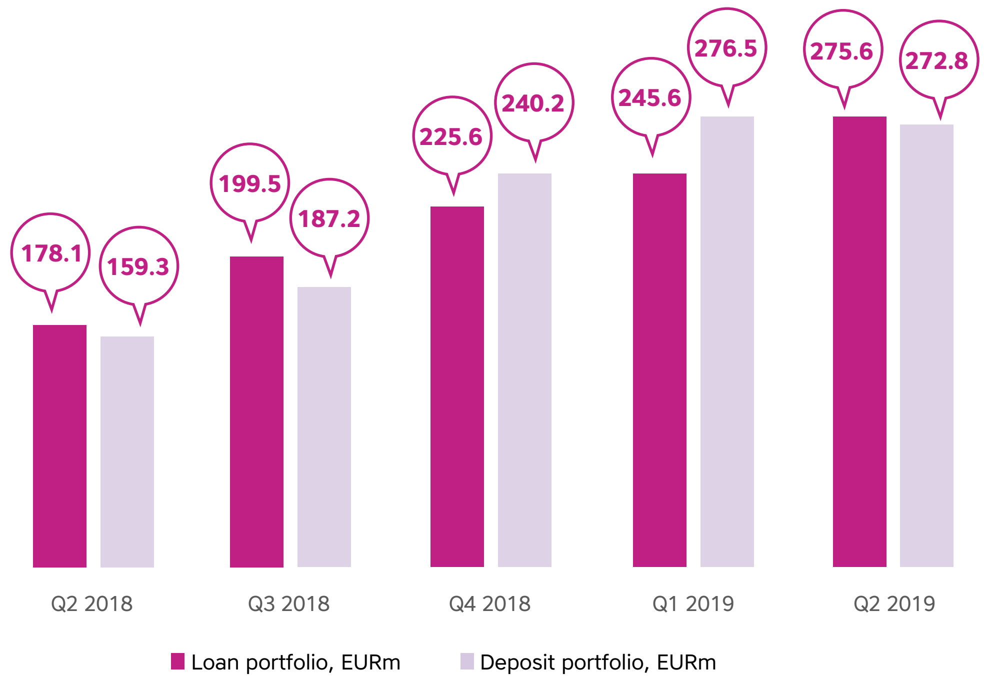
Key financial indicators

EURt

Key financial indicators	30.06.2019	30.06.2018	
Total assets	338 220	238 240	42.0%
Total equity attributable to shareholders of the parent	40 663	31 864	27.6%
Total comprehensive income attributable to owners of the parent	4 294	4 783	-10.2%
Loan portfolio	275 582	178 100	54.7%
Deposit portfolio	272 839	159 264	71.3%

Ratios	6 months 2019	6 months 2018
Return on equity	22.5%	35.8%
Return on total assets	2.6%	5.3%
Net interest margin	9.3%	8.7%
Impairment losses to loan portfolio	2.4%	2.7%
Cost/income ratio	49.9%	48.3%
Equity to total assets	12.0%	13.4%

Volume of loan portfolio and deposit portfolio



Return on equity: total comprehensive income attributable to owners of the parent / total equity attributable to the shareholders of parent company (average over the period) annualised
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
Impairment 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 parent company / total assets

Capital adequacy

EURt	***30.06.2019***	***31.12.2018***
Capital base		
Paid-in share capital	874	874
Share premium	15 053	15 053
Statutory and other reserves	1 477	1 446
Retained earnings	18 930	9 756
Intangible assets (subtracted)	-9 138	-7 697
Profit for reporting period*	4 345	9 261
Other comprehensive income*	-16	35
Other deductions	-2 131	-1 824
Adjustments due to IFRS 9 transitional arrangements	3 224	2 308
Total Common Equity Tier 1 capital	**32 618**	**29 212**
Additional Tier 1 capital	3 150	3 150
Total Tier 1 capital	**35 768**	**32 362**
Total Tier 2 capital	6 503	6 503
Net own funds for capital adequacy calculation	**42 271**	**38 865**
Risk-weighted assets		
Credit institutions, standardised approach	5 020	3 401
Non-financial customers, standardised approach**	4 825	1 706
Retail claims, standardised approach**	200 115	167 208
Claims past due, standardised approach**	3 273	3 297
Other assets, standardised approach	9 935	6 844
Total credit risk and counterparty credit risk	**223 168**	**182 456**
Operational risk, basic indicator approach	25 648	25 648
Total risk-weighted assets	**248 816**	**208 104**
Capital adequacy (%)	16.99%	18.68%
Regulative capital adequacy (%)	15.87%	15.73%
Tier 1 capital ratio (%)	14.38%	15.55%
Regulative Tier 1 capital ratio (%)	13.27%	12.62%

* In accordance with EU regulation, audited profit for the period may be included in retained earnings upon prior approval by competent authorities. The calculations made in accordance with EU regulation do not include the profit earned during Q2 in the amount of 2 323 EURt (31.12.2018: Q2, Q3 and Q4 in the amount of 5 376 EURt).

** In the reports submitted to the regulator as of 30.06.2019, the risk exposures take account of the credit portfolio impairment losses made in the reporting period in the amount of 1 752 EURt and are yet to be confirmed by the external auditor (31.12.2018: 1 917 EURt).

The external auditor has confirmed the profit of the 3 months of 2019 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 buffer at the respective level of 2.5% and systemic risk buffer 1% (to risk exposure located in Estonia).
The total amount of the systemic risk buffer depends on the ratio between the Estonia and whole Group exposures.

The Group is obliged to keep the additional institution-specific countercyclical capital buffer which rate is the weighted average of the countercyclical capital buffer rates that apply in the jurisdictions where the relevant credit exposures of the institution are located. The countercyclical capital buffer rate currently applied in Lithuania is 1%. In other countries where the Group operates, the corresponding capital buffer rate is 0%.

These buffers are added to both Tier 1 and the total own funds requirements.
Overview of the capital requirement as at 30.06.2019 shown in the table below:

	Common Equity Tier 1 capital ratio	***Tier 1 capital ratio***	***Total capital ratio***
Base requirement	4.50%	6.00%	8.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Countercyclical capital buffer	0.30%	0.30%	0.30%
Systemic risk buffer	0.46%	0.46%	0.46%
Minimum regulative capital requirement	**7.76%**	**9.26%**	**11.26%**

Condensed consolidated interim financial statements

Condensed consolidated statement of financial position

EURt	Note	30.06.2019	31.12.2018
Assets			
Cash in hand		4	4
Due from central banks	9	25 402	64 620
Due from credit institutions	9	19 458	13 700
Financial assets at fair value through profit and loss	23	5 187	4 600
Loans and advances	3;7;23	275 582	225 639
Investments in associates	10	97	97
Tangible assets		672	545
Right of use asset		862	0
Intangible assets	11	9 138	7 697
Other financial assets	12	72	64
Other assets	12	511	514
Deferred tax asset		1 235	564
Total assets	**3**	**338 220**	**318 044**

EURt	Note	30.06.2019	31.12.2018
Liabilities			
Loan from credit institution	13	0	10 429
Customer deposits	14;23	272 839	240 175
Other financial liabilities	17;23	9 020	8 776
Other liabilities	17	2 146	2 654
Debt securities issued	15	4 009	10 017
Subordinated debt securities	16	9 543	9 528
Total liabilities	**3**	**297 557**	**281 579**
Equity			
Share capital	19;20	874	874
Share premium	20	15 053	15 053
Statutory reserve capital	22	88	79
Other reserves	21;22	1 373	1 401
Retained earnings		23 275	19 018
Total equity attributable to the share-holders of parent company		**40 663**	**36 425**
Non-controlling interest		0	40
Total equity		**40 663**	**36 465**
Total liabilities and equity		**338 220**	**318 044**

Notes set out on pages 13-43 form an integral part of the consolidated financial statements.

Condensed consolidated statement of profit and loss and other comprehensive income

EURt	Note	Q2 2019	6 months 2019	Q2 2018	6 months 2018
Interest income	4	8 974	17 129	4 909	8 706
Interest expense	4	-1 396	-2 786	-827	-1 398
Net interest income		**7 578**	**14 343**	**4 082**	**7 308**
Fee income	5	228	432	174	335
Fee expense	5	-427	-802	-196	-350
Net fee and commission income		**-199**	**-370**	**-22**	**-15**
Net gains from financial assets measured at fair value		266	266	0	1 204
Other operating income		308	553	91	175
Total net interest, fee and other income		**7 953**	**14 792**	**4 151**	**8 672**
Personnel expenses	6	-2 041	-3 897	-1 314	-2 525
Marketing expenses	6	-778	-1 169	-345	-471
Administrative expenses	6	-931	-1 730	-566	-1 032
Depreciations, amortisation	11	-302	-579	-93	-160
Total operating expenses		**-4 052**	**-7 375**	**-2 318**	**-4 188**
Profit before profit from associates and impairment losses on loans		**3 901**	**7 417**	**1 833**	**4 484**
Share of profit from associates	10	0	0	0	1 986
Impairment losses on loans and advances	7	-1 752	-2 947	-987	-1 839
Profit before income tax		**2 149**	**4 470**	**846**	**4 631**
Income tax	8	174	-125	-55	48
Profit for the period		**2 323**	**4 345**	**791**	**4 679**

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EURt	*Note*	*Q2 2019*	*6 months 2019*	*Q2 2018*	*6 months 2018*
Other comprehensive income/loss					
Items that may be reclassified subsequently to profit or loss					
Currency translation differences		-50	-51	90	110
Total comprehensive income for the period		**2 273**	**4 294**	**881**	**4 789**
Net profit attributable to					
Shareholders of parent company		2 323	4 345	788	4 673
Non-controlling interest		0	0	3	6
Profit for the reporting period		**2 323**	**4 345**	**791**	**4 679**
Total comprehensive income/loss is attributable to					
Shareholders of parent company		2 273	4 294	878	4 783
Non-controlling interest		0	0	3	6
Total comprehensive income for the reporting period		**2 273**	**4 294**	**881**	**4 789**
Basic earnings per share	19	26.58	49.72	9.52	56.43
Diluted earnings per share	19	24.40	45.64	8.99	53.31

Notes set out on pages 13-43 form an integral part of the consolidated financial statements.

Condensed consolidated statement of cash flows

EURt	*Note*	*6 months 2019*	*6 months 2018*
Cash flows from operating activities			
Interest received	4	17 078	8 898
Interest paid	4	-2 507	-1 100
Fees received	5	432	339
Fees paid	5	-802	-350
Other income received		553	175
Personnel expenses	6	-3 770	-2 490
Administrative and marketing expenses	6	-3 085	-1 421
Prepayment of returned corporate income tax		0	285
Corporate income tax paid		-935	-39
Cash flows from operating activities before changes in the operating assets and liabilities		**6 964**	**4 297**
Changes in operating assets:			
Loans and advances		-52 288	-20 585
Mandatory reserve in central banks		-731	-386
Other assets		-676	-212
Changes of operating liabilities:			
Loan from credit institution		-10 429	-33 283
Customer deposits		31 500	63 644
Other liabilities		-197	-123
Net cash used in operating activities		**-25 857**	**13 352**

EURt	*Note*	*6 months 2019*	*6 months 2018*
Cash flows from investing activities			
Acquisition of tangible and intangible assets	10	-1 945	-386
Acquisition of subsidiaries and associates	9	-118	-13 134
Net change of investments at fair value through profit or loss		-321	0
Proceeds from disposal of associates	9	0	6 269
Net cash used in investing activities		**-2 384**	**-7 251**
Cash flows from financing activities			
Share capital contribution (including share premium)		0	6 077
Debt securities issued		4 000	10 000
Repayments of debt securities		-10 000	0
Net cash used in financing activities		**-6 000**	**16 077**
Effect of exchange rate changes		49	-17
Cash and cash equivalents at the beginning of the reporting period		**76 372**	**22 600**
Net increase/decrease in cash and cash equivalents	8	-34 192	22 161
Cash and cash equivalents at the end of the reporting period	**8**	**42 180**	**44 761**

Notes set out on pages 13-43 form an integral part of the consolidated financial statements.

Condensed consolidated statement of changes in equity

EURt	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings/ accumulated loss	Total attributable to owners of the parent	Non-controlling interest	Total equity
Balance as of 01 January 2018	**782**	**9 068**	**79**	**1 352**	**10 739**	**22 020**	**26**	**22 046**
Changes on initial application of IFRS 9	0	0	0	0	-1 026	-1 026	0	-1 026
Adjusted balance as at 01 January 2018	**782**	**9 068**	**79**	**1 352**	**9 713**	**20 994**	**26**	**21 020**
Paid in share capital	92	5 985	0	0	0	6 077	0	6 077
Share-based payment reserve	0	0	0	10	0	10	0	10
Total profit/-loss and other comprehensive income for the reporting period	0	0	0	110	4 673	4 783	6	4 789
Balance as at 30 June 2018	**874**	**15 053**	**79**	**1 472**	**14 386**	**31 864**	**32**	**31 896**
Balance as at 01 January 2019	**874**	**15 053**	**79**	**1 401**	**19 018**	**36 425**	**40**	**36 465**
Share-based payment reserve	0	0	0	22	0	22	0	22
Statutory reserve capital	0	0	9	0	-9	0	0	0
Purchase of non-controlling interest in subsidiaries	0	0	0	0	-78	-78	-40	-118
Total profit/-loss and other comprehensive income for the reporting period	0	0	0	-50	4 344	4 294	0	4 294
Balance as at 30 June 2019	**874**	**15 053**	**88**	**1 373**	**23 275**	**40 663**	**0**	**40 663**

Notes set out on pages 13-43 form an integral part of the consolidated financial statements.

Note 1 Accounting policies

The interim financial report has been prepared in accordance with the International Accounting Standard IAS 34 “Interim Financial Reporting”, as adopted by the EU, and consists of condensed financial statements and selected explanatory notes. The accounting policies used in the preparation of the interim report are the same as the accounting policies used in the annual report for the year ended 31 December 2018, which comply with the International Financial Reporting Standards, as adopted by the European Commission (IFRS EU), with the exception of accounting principles changed as of 1 January 2019 in related to newly enforced IFRS EU standards. The changes in accounting principles are disclosed in Note 1, subsection “Changes in accounting policies”.

The interim financial report is not audited and does not contain the entire range of information required for the preparation of complete financial statements. The interim financial report should be read in conjunction with the Annual Report prepared for the year ended 31 December 2018, which has been prepared in accordance with the International Financial Reporting Standards (IFRS).

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

Company name	*Registry code*	*Date of purchase/ founded*	*Address*	*Activity*	*Holding*	*Cost EURt*
Maksekeskus Holding OÜ*	12257075	05.06.2015	Niine 11, Tallinn	Investment management	37.48	97
SIA Inbank Latvia	40103821436	21.08.2014	Akmenu iela 14, Riga	Financing	100	519
Inbank Technologies OÜ	12104213	05.06.2015	Niine 11, Tallinn	Hardware rental	100	454
Inbank Liising AS	14028999	08.04.2016	Niine 11, Tallinn	Leasing	100	198
UAB Mokilizingas**	124926897	22.05.2018	Kareiviu 11B, Vilnius	Financing	100	15 068
AS Inbank Spółka Akcyjna Oddział w Polsce	0000635086	08.09.2016	Riverside Park, Ul. Fabryczna 5A, Warszawa	Banking		

* Associate, Maksekeskus Holding OÜ has 20.3% shareholding in Maksekeskus AS, making Inbank a 7.6% shareholder in the payment consolidator.
** UAB Mokilizingas has branch in Latvia.

Changes in accounting policies

The Group has adopted IFRS 16, Leases for the first time starting from 01.01.2019. The other new standards that became effective since 1 January 2019 have had no impact on the 6-month interim financial report of Inbank.

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

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

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

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

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

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

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

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

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

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

The Group has used the following practical expedients permitted by the standard:

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

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

EURt	Borrowings due within 1 year	Borrowings due after 1 year	Total
IFRS 16 initial application	401	669	1 070

Note 2 Significant accounting estimates

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

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

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

Measurement of the expected credit loss allowance

The measurement of the expected credit loss (ECL) allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanations of the inputs, assumptions and estimation techniques used in ECL is further detailed in Inbank Consolidated Annual Report 2018 Note 1 “Summary of significant accounting policies”.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

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

Note 3 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. Revenue and expenditure are monitored in the information technology sector.

Income of the reported segments include such inter-segment transactions as loans given by Inbank AS to its group companies and hardware rental services provided by Inbank Technologies to group companies. Inbank does not have clients whose income exceeds 10% of the respective type of group's consolidated income.

Intersegment transactions constitute mainly of interests on loans given to subsidiaries. These intercompany transactions are accounted for at market prices, including IT services.

Income of reportable segments

EURt

6 months 2019	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Total*
Interest income	9 295	2 241	6 511	143	994	0	**19 184**
Fee income	326	98	0	4	4	0	**432**
Other operating income	478	40	298	0	49	36	**901**
Inter-segment eliminations	-2 101	0	0	0	0	-36	**-2 137**
Revenue from external customers	**7 998**	**2 379**	**6 809**	**147**	**1 047**	**0**	**18 380**
Interest expense	-2 358	-349	-1 721	-54	-359	0	**-4 841**
Fee expense	-195	-78	-372	-1	-156	0	**-802**
Inter-segment eliminations	0	349	1 652	54	0	0	**2 055**
Total expenses	**-2 553**	**-78**	**-441**	**-1**	**-515**	**0**	**-3 588**
Total net interest, fee and commission income and other income	**5 445**	**2 301**	**6 368**	**146**	**532**	**0**	**14 792**

Net profit structure

EURt

6 months 2019	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Total*
Profit before profit from associates and impairment losses on loans	**4 003**	**1 110**	**2 537**	**84**	**-231**	**-86**	**7 417**
Profit of associates	0	0	0	0	0	0	**0**
Impairment losses on loans and advances	-1 060	-204	-700	-33	-950	0	**-2 947**
Income tax	-413	0	-164	0	452	0	**-125**
Net profit/loss	**2 530**	**906**	**1 673**	**51**	**-729**	**-86**	**4 345**

Income of reportable segments

EURt Q2 2019	Inbank AS (Estonia)	SIA Inbank Latvia (Latvia)	UAB Mokilizingas (Lithuania)	Inbank Liising AS (Estonia)	Inbank AS Poland branch	Inbank Technologies OÜ (Estonia)	Total
Interest income	4 880	1 169	3 409	73	549	0	**10 080**
Fee income	169	53	0	2	4	0	**228**
Other operating income	364	20	164	0	49	21	**618**
Inter-segment eliminations	-1 129	0	0	0	0	-21	**-1 150**
Revenue from external customers	**4 284**	**1 242**	**3 573**	**75**	**602**	**0**	**9 776**
Interest expense	-1 175	-185	-902	-22	-218	0	**-2 502**
Fee expense	-100	-41	-189	-1	-96	0	**-427**
Inter-segment eliminations	0	185	899	22	0	0	**1 106**
Total expenses	**-1 275**	**-41**	**-192**	**-1**	**-314**	**0**	**-1 823**
Total net interest, fee and commission income and other income	**3 009**	**1 201**	**3 381**	**74**	**288**	**0**	**7 953**

Net profit structure

EURt Q2 2019	Inbank AS (Estonia)	SIA Inbank Latvia (Latvia)	UAB Mokilizingas (Lithuania)	Inbank Liising AS (Estonia)	Inbank AS Poland branch	Inbank Technologies OÜ (Estonia)	Total
Profit before profit from associates and impairment losses on loans	**2 151**	**563**	**1 286**	**47**	**-101**	**-45**	**3 901**
Profit of associates	0	0	0	0	0	0	**0**
Impairment losses on loans and advances	-502	-108	-577	-8	-557	0	**-1 752**
Income tax	-232	0	-46	0	452	0	**174**
Net profit/loss	**1 417**	**455**	**663**	**39**	**-206**	**-45**	**2 323**

Income of reportable segments

EURt 6 months 2018	Inbank AS (Estonia)	SIA Inbank Latvia (Latvia)	UAB Mokilizingas (Lithuania)	Inbank Liising AS (Estonia)	Inbank AS Poland branch	Inbank Technologies OÜ (Estonia)	Total
Interest income	6 244	1 685	803	99	294	7	**9 132**
Fee income	243	86	3	2	1	0	**335**
Other operating income	1 380	32	70	0	-103	64	**1 443**
Inter-segment eliminations	-450	0	0	0	0	-40	**-490**
Revenue from external customers	**7 417**	**1 803**	**876**	**101**	**192**	**31**	**10 420**
Interest expense	-1 186	-260	-197	-48	-122	-10	**-1 823**
Fee expense	-177	-66	-27	0	-80	0	**-350**
Inter-segment eliminations	0	260	107	48	0	10	**425**
Total expenses	**-1 363**	**-66**	**-117**	**0**	**-202**	**0**	**-1 748**
Total net interest, fee and commission income and other income	**6 054**	**1 737**	**759**	**101**	**-10**	**31**	**8 672**

Net profit structure

EURt 6 months 2018	Inbank AS (Estonia)	SIA Inbank Latvia (Latvia)	UAB Mokilizingas (Lithuania)	Inbank Liising AS (Estonia)	Inbank AS Poland branch	Inbank Technologies OÜ (Estonia)	Total
Profit before profit from associates and impairment losses on loans	**4 128**	**818**	**344**	**45**	**-737**	**-114**	**4 484**
Profit of associates	1 552	0	0	0	0	434	**1 986**
Impairment losses on loans and advances	-909	-409	-126	-16	-387	8	**-1 839**
Income tax	-136	0	-30	0	214	0	**48**
Net profit/loss	**4 635**	**409**	**188**	**29**	**-910**	**328**	**4 679**

Income of reportable segments

EURt

Q2 2018	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Total*
Interest income	3 311	846	803	54	159	6	**5 179**
Fee income	127	43	3	1	0	0	**174**
Other operating income	113	17	70	-3	-85	9	**121**
Inter-segment eliminations	-294	0	0	0	0	-6	**-300**
Revenue from external customers	**3 257**	**906**	**876**	**52**	**74**	**9**	**5 174**
Interest expense	-674	-132	-197	-26	-63	-5	**-1 097**
Fee expense	-92	-33	-27	0	-44	0	**-196**
Inter-segment eliminations	0	132	107	26	0	5	**270**
Total expenses	**-766**	**-33**	**-117**	**0**	**-107**	**0**	**-1 023**
Total net interest, fee and commission income and other income	**2 491**	**873**	**759**	**52**	**-33**	**9**	**4 151**

Net profit structure

EURt

Q2 2018	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Total*
Profit before profit from associates and impairment losses on loans	**1 480**	**409**	**344**	**24**	**-384**	**-40**	**1 833**
Profit of associates	0	0	0	0	0	0	**0**
Impairment losses on loans and advances	-512	-155	-126	-8	-194	8	**-987**
Income tax	-136	0	-30	0	111	0	**-55**
Net profit/loss	**832**	**254**	**188**	**16**	**-467**	**-32**	**791**

Assets and liabilities of reportable segments

EURt

30.06.2019	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Intersegment eliminations*	*Total*
Cash in hand	4	0	0	0	0	0	0	**4**
Due from central banks	20 225	0	0	0	5 177	0	0	**25 402**
Due from credit institutions	4 993	187	1 458	263	12 405	152	0	**19 458**
Financial assets at fair value through profit and loss	5 187	0	0	0	0	0	0	**5 187**
Loans and advances	242 306	24 841	109 448	2 185	21 423	32	-124 653	**275 582**
Investments in subsidiaries	16 240	0	0	0	0	0	-16 240	**0**
Investments in associates	0	0	0	0	0	97	0	**97**
Tangible assets	111	72	208	0	30	251	0	**672**
Right of use asset	142	130	458	0	95	37	0	**862**
Intangible assets	8 567	81	508	0	14	0	-32	**9 138**
Other financial assets	10	40	0	0	20	2	0	**72**
Other assets	152	17	250	39	53	12	-12	**511**
Deferred tax assets	0	0	0	0	1 235	0	0	**1 235**
Total assets	**297 937**	**25 368**	**112 330**	**2 487**	**40 452**	**583**	**-140 937**	**338 220**
Loans received	0	23 110	93 910	2 200	5 311	0	-124 531	**0**
Customer deposits	234 323	0	0	0	38 516	0	0	**272 839**
Debt securities issued	4 009	0	0	0	0	0	0	**4 009**
Subordinated debt securities	9 543	0	0	0	0	0	0	**9 543**
Other financial liabilities	1 680	516	5 876	24	987	68	-131	**9 020**
Other liabilities	1 384	153	383	0	193	33	0	**2 146**
Total liabilities	**250 939**	**23 779**	**100 169**	**2 224**	**45 007**	**101**	**-124 662**	**297 557**

Assets and liabilities of reportable segments

EURt *31.12.2018*	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Intersegment eliminations*	*Total*
Cash in hand	4	0	0	0	0	0	0	**4**
Due from central banks	62 993	0	0	0	1 627	0	0	**64 620**
Due from credit institutions	5 691	448	1 427	48	5 747	339	0	**13 700**
Financial assets at fair value through profit and loss	4 600	0	0	0	0	0	0	**4 600**
Loans and advances	192 332	19 753	93 786	1 856	10 230	21	-92 339	**225 639**
Investments in subsidiaries	16 122	0	0	0	0	0	-16 122	**0**
Investments in associates	0	0	0	0	0	97	0	**97**
Tangible assets	111	78	169	0	40	147	0	**545**
Intangible assets	7 300	101	315	0	17	0	-36	**7 697**
Other financial assets	12	30	0	0	20	2	0	**64**
Other assets	179	5	238	34	60	8	-10	**514**
Deferred tax assets	0	0	0	0	564	0	0	**564**
Total assets	**289 344**	**20 415**	**95 935**	**1 938**	**18 305**	**614**	**-108 507**	**318 044**
Loans received	0	19 400	77 372	1 700	4 186	0	-92 229	**10 429**
Customer deposits	222 611	0	0	0	17 564	0	0	**240 175**
Debt securities issued	10 017	0	0	0	0	0	0	**10 017**
Subordinated debt securities	9 528	0	0	0	0	0	0	**9 528**
Other financial liabilities	1 290	144	7 314	28	11	12	-23	**8 776**
Other liabilities	1 442	197	760	0	317	33	-95	**2 654**
Total liabilities	**244 888**	**19 741**	**85 446**	**1 728**	**22 078**	**45**	**-92 347**	**281 579**

Equity

	30.06.2019	*31.12.2018*
SIA Inbank Latvia	1 587	683
UAB Mokilizingas*	12 162	10 489

* Inbank acquired UAB Mokilizingas on 22.05.2018.

Note 4 Net interest income

EURt	Q2 2019	6 months 2019	Q2 2018	6 months 2018
Interest income				
Loans to households	8 882	16 964	4 796	8 518
Loans to corporates	96	181	116	170
Due from financial and credit institutions	-4	-16	-3	18
Total	**8 974**	**17 129**	**4 909**	**8 706**
Interest expense				
Deposits received	-1 177	-2 352	-694	-1 149
Debt securities sold	-215	-429	-133	-249
Lease liability	-4	-5	0	0
Total	**-1 396**	**-2 786**	**-827**	**-1 398**
Net interest income	**7 578**	**14 343**	**4 082**	**7 308**
Interest income by customer location				
Estonia	3 847	7 383	3 100	5 924
Latvia	1 729	3 316	947	1 785
Lithuania	2 849	5 436	703	703
Poland	549	994	159	294
Total	**8 974**	**17 129**	**4 909**	**8 706**

Interest income from stage 3 loans in Q2 2019 was 77 EURt and 6 months 2019 87 EURt (Q2 2018: 20 EURt and 6 months 2018: 172 EURt).

Note 5 Net fee income

EURt	*Q2 2019*	*6 months 2019*	*Q2 2018*	*6 months 2018*
Fee income				
Households	222	426	174	335
Corporates	6	6	0	0
Total	**228**	**432**	**174**	**335**
Fee expense				
Loan administration expenses	-427	-802	-196	-350
Total	**-427**	**-802**	**-196**	**-350**
Net fee income	**-199**	**-370**	**-22**	**-15**
Fee income by customer location				
Estonia	172	330	128	245
Latvia	53	98	43	86
Lithuania	0	0	3	3
Poland	3	4	0	1
Total	**228**	**432**	**174**	**335**

Note 6 Operating expenses

EURt	*Q2 2019*	*6 months 2019*	*Q2 2018*	*6 months 2018*
Personnel expenses				
Personnel expense	1 699	3 277	1 076	2 062
Social and other taxes	342	620	238	463
Total personnel expenses	**2 041**	**3 897**	**1 314**	**2 525**
Marketing Expenses				
Advertising and marketing	700	970	253	328
Sales costs	78	199	92	143
Total marketing expenses	**778**	**1 169**	**345**	**471**
Administrative expenses				
Rental and maintenance expenses	74	143	112	204
IT expenses	248	464	131	222
Legal expenses	30	49	12	24
Office expenses	80	159	43	90
Training and business trip expenses	111	180	11	39
Other tax expenses	65	114	41	58
Supervision expenses	44	91	29	61
Recovery proceeding expenses	15	32	26	49
Consultation expenses	50	92	27	42
Transportation expenses	43	89	16	24
Other bought services	28	58	35	63
Other administrative expenses	143	259	83	156
Total administrative expenses	**931**	**1 730**	**566**	**1 032**

Note 7 Loans and advances

EURt

Distribution of receivables as of 30.06.2019	Gross receivables from households	Stage 1 and 2	Stage 3	Net receivables from households	Allowance coverage
Portfolio in overdue 0-3 days	241 726	-2 048	-74	239 604	0.9%
Portfolio in overdue 4-30 days	17 905	-870	-35	17 000	5.1%
Portfolio in overdue 31-89 days	7 746	-1 094	-52	6 600	14.8%
Portfolio in overdue 90-179 days	1 605	-5	-775	825	48.6%
Portfolio in overdue 180+ days	2 740	0	-1 899	841	69.3%
Total receivables	**271 722**	**-4 017**	**-2 835**	**264 870**	**2.5%**

Distribution of receivables as of 31.12.2018	Gross receivables from households	Stage 1 and 2	Stage 3	Net receivables from households	Allowance coverage
Portfolio in overdue 0-3 days	195 675	-1 450	-51	194 174	0.8%
Portfolio in overdue 4-30 days	15 212	-645	-32	14 535	4.5%
Portfolio in overdue 31-89 days	6 231	-834	-47	5 350	14.1%
Portfolio in overdue 90-179 days	1 525	0	-608	917	39.9%
Portfolio in overdue 180+ days	2 948	0	-1 870	1 078	63.4%
Total receivables	**221 591**	**-2 929**	**-2 608**	**216 054**	**2.5%**

Distribution of receivables as of 30.06.2019	Gross receivables from corporates	Stage 1 and 2	Stage 3	Net receivables from corporates	Allowance coverage
Portfolio in overdue 0-3 days	10 168	-28	0	10 140	0.3%
Portfolio in overdue 4-30 days	377	-11	0	366	2.9%
Portfolio in overdue 31-89 days	104	-11	0	93	10.6%
Portfolio in overdue 90-179 days	16	0	-7	9	43.8%
Portfolio in overdue 180+ days	162	0	-58	104	35.8%
Total receivables	**10 827**	**-50**	**-65**	**10 712**	**1.1%**

EURt

Distribution of receivables as of 31.12.2018	Gross receivables from corporates	Stage 1 and 2	Stage 3	Net receivables from corporates	Allowance coverage
Portfolio in overdue 0-3 days	8 974	-10	-8	8 956	0.2%
Portfolio in overdue 4-30 days	395	-7	0	388	1.8%
Portfolio in overdue 31-89 days	164	-16	0	148	9.8%
Portfolio in overdue 90-179 days	42	0	-16	26	38.1%
Portfolio in overdue 180+ days	77	0	-10	67	13.0%
Total receivables	**9 652**	**-33**	**-34**	**9 585**	**0.7%**

According to management's estimates, overdues up to 3 days do not objectively reflect the quality of customer receivables as overdues of that tenure are often the result of interbank payments processing rules.

Distribution of receivables by customer sector	*30.06.2019*	*31.12.2018*
Households	271 722	221 591
Non-financial corporates	4 020	3 470
Other financial corporates	1 709	1 709
Other advances	5 098	4 473
Total	**282 549**	**231 243**
Impairment allowance	-6 967	-5 604
Total	**275 582**	**225 639**

Impairment losses on loans and advances	*6 months 2019*	*2018*
Impairment losses of reporting period	-5 125	-5 681
Recoveries from written off from financial position	2 178	2 995
Total	**-2 947**	**-2 686**

Changes in impairments	*30.06.2019*	*2018*
Impairment allowance balance in the beginning of the period	-5 604	-3 173
Impact of IFRS 9	-	-901
Impairment provisions set up during reporting period	-5 125	-5 681
Written off from financial position during the period	3 762	4 151
Total	**-6 967**	**-5 604**

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

Note 8 Income tax

EURt	*Q2 2019*	*6 months 2019*	*Q2 2018*	*6 months 2018*
Income tax recognized in income statement	**174**	**-125**	**55**	**48**
Deferred tax assets, Poland	662	662	111	214
Income tax, Estonia	-232	-413	-136	-136
Income tax, Lithuania	-46	-164	-35	-35
Income tax, Poland	-210	-210	0	0
Income tax, Latvia (correction)	0	0	5	5
Total	**174**	**-125**	**-55**	**48**

Note 9 Due from central banks and credit institutions

EURt	*30.06.2019*	*31.12.2018*
Due from central banks	22 719	62 668
Mandatory reserve in central banks	2 683	1 952
Due from credit institutions	19 458	13 700
Total	**44 860**	**78 320**

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

Note 10 Disposal and acquisition of associates and subsidiaries

Further information on Inbank consolidation group has been disclosed in Note 1.

On January 22nd, 2019 an agreement entered into force under which Inbank AS purchased from Fairown Finance OÜ a 20% holding in Inbank Liising AS, a company which offers full service leasing, and became the sole holder of the company as a result of the transaction. The main goal of the transaction was to improve focus of Inbank Liising and standardise the product.

On May 22nd, 2018 Inbank AS acquired a consumer finance company UAB Mokilizingas in Lithuania, with a purchase price of EUR 15 million. At acquisition, assets and liabilities were acquired at their fair value. Further information has been disclosed in Note 13 in 2018 Consolidated Annual Report. On May 15th, 2019 AS Inbank and Mokilizingas signed a cross-border merger agreement. All the assets, rights and obligations of Mokilizingas shall be transferred to Inbank on the date of entry of the merger in the Estonian Commercial Register.

On March 29th, 2018 Inbank disposed 10% of the shares in Coop Pank AS. 5% of the shares were acquired by shareholders of Coop Pank and 5% of the shares were acquired by TÜ Eesti Ühistukapital. After the transaction Inbank holds 7.94% of the shares in Coop Pank. On June 27th, Inbank participated in Coop Pank share capital issue maintaining the participation size of to the holding.

The investment into Coop Pank shares is recognized as financial investment at fair value. In accordance with the share price used at the share capital issue on 27th of June Inbank revalued its holding in Coop Pank. Profit from the revaluation of the investment in amount of 266 EURt (Q2 2018: 0 EURt and 2018: 1 204 EURt) is recognised in income statement as “Net gains from financial assets measured at fair value”.

Inbank as a financial investor has decided to sell its holding in Coop Pank.

On January 5th, 2018 Inbank Technologies sold its entire 21.68% holding in start-up entity Veriff OÜ.

Inbank has not received dividends from its associates.

Disposal and acquisition of associates

EURt	***6 months 2019***	***2018***
Equity contribution, financial assets at fair value through profit and loss	321	0
Equity contribution, associates	0	96
Proceeds from disposals of associates, and reinvestment	0	13 038
Purchase of non-controlling interest in the share capital of subsidiary	118	0
Total	**439**	**13 134**
Proceeds from disposals of associates	0	476
Proceeds from disposals of partial holdings in associates	0	5 793
Total	**0**	**6 269**

Note 11 Intangible assets

EURt	*Licences*	*Software*	*Goodwill*	*Total*
At the beginning of period (01.01.2019)				
Cost	133	1 846	6 157	8 136
Accumulated amortisation	-83	-356	0	-439
Net book amount	**50**	**1 490**	**6 157**	**7 697**
Opening carrying value	**50**	**1 490**	**6 157**	**7 697**
Additions	14	1 983	0	1 997
Amortisation charge	-32	-524	0	-556
Closing carrying value	**32**	**2 949**	**6 157**	**9 138**
At the end of period (30.06.2019)				
Cost	147	3 829	6 157	10 133
Accumulated amortisation	-115	-880	0	-995
Carrying value	**32**	**2 949**	**6 157**	**9 138**

Management has carried through goodwill impairment tests as at 30.06.2019 and as at 31.12.2018. The cash-generating units of goodwill are segments, which are entities of Inbank group. The break-down of goodwill between segments is as follows:

Business segment	***30.06.2019***	***31.12.2018***
Estonia	238	238
Lithuania	5 919	5 919

The majority of goodwill is from the purchase of Mokilizingas. The recoverable amount of goodwill was identified by value in use which was determined using detailed pre-tax operating cash flow estimates for the next three years. Discounted cash flow method (DCF) was used for the value in use assessment. Growth rates used in the forecast are based on management's expectations and past experience in the respective region.

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

Note 12 Other assets

EURt	*30.06.2019*	*31.12.2018*
Financial assets		
Prepaid guarantee amounts	72	64
Total	**72**	**64**
Non-financial assets		
Prepaid expenses	365	444
Prepaid taxes	142	66
Income tax liabilities due to be paid	4	4
Total	**511**	**514**

Prepaid taxes include prepaid VAT.

Note 13 Loan from credit institution

EURt	*30.06.2019*	*31.12.2018*
Loans received		
Loan from credit institution	0	10 429
Total	**0**	**10 429**

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

Note 14 Customer deposits

EURt	*30.06.2019*	*31.12.2018*
Customer deposits		
Deposits from households	256 817	226 544
Deposits from non-financial corporates	11 391	10 834
Deposits from other financial corporates	4 631	2 797
Total	**272 839**	**240 175**

EURt	*30.06.2019*	*31.12.2018*
Deposits by clients' residency		
Estonia	79 174	73 300
Germany	147 105	145 409
Poland	38 516	17 563
Austria	5 631	3 832
Netherlands	2 285	0
Other residence	128	71
Total	**272 839**	**240 175**

Deposits include accrued interest liabilities in the amount of 2 099 EURt (31.12.2018: 1 821 EURt).

Deposits by contractual maturity

EURt					
30.06.2019	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***Total***
Customer deposits	3 475	23 262	113 951	132 151	**272 839**
31.12.2018	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***Total***
Customer deposits	4 452	10 427	110 043	115 253	**240 175**

Note 15 Debt securities

EURt	*30.06.2019*	*31.12.2018*
Debt securities issued	4 000	10 000
Accrued interest	9	17
Total	**4 009**	**10 017**

Nominal value	*Amount*	*Issue date*	*Maturity*
250 000	40	14.05.2018	14.03.2019
250 000	16	28.02.2019	1.03.2021

The investment into debt securities has been made by Swedbank Investeerimisfond AS's pension funds via a private placement.
The issue of new debt securities does not affect the terms of previously issued debt securities.
The debt securities issued are recorded in the balance sheet at amortised cost.

Note 16 Subordinated debt securities

EURt	*30.06.2019*	*31.12.2018*
Subordinated debt securities issued	9 653	9 653
Adjustments	-110	-125
Total	**9 543**	**9 528**

Subordinated debt securities	*Nominal price*	*Amount*	*Interest rate*	*Issue date*	*Maturity*
Inbank subordinated bond INBB070026A	1 000 EUR	6 503	7%	28.09.2016	28.09.2026
Inbank subordinated bond EE3300111590	10 000 EUR	315	8.5%	19.12.2018	perpetual

On September 28th, 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).

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

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

Note 17 Other liabilities

EURt	*30.06.2019*	*31.12.2018*
Financial liabilities		
Accounts payable	7 343	8 072
Lease liability	857	0
Client prepayments	820	704
Total financial liabilities	**9 020**	**8 776**
Other liabilities		
Payables to employees	1 216	1 124
Payroll taxes	506	443
Other liabilities	424	1 087
Total other liabilities	**2 146**	**2 654**

The accounts payable includes liabilities to customers and partners for loan granting activities and payments for operating expenses. Of the amount, 4 503 EURt is Mokilizingas liability to partners for loan granting activities (2018: 6 403 EURt).
Other liabilities include income tax liabilities in the amount of 253 EURt (2018: 496 EURt).

Note 18 Contingent liabilities

Inbank had the following loan commitments:

EURt	
Revocable commitments	
Liability in contractual amount as of 30 June 2019	13 403
incl unused credit card limits	13 037
Liability in contractual amount as of 31 December 2018	13 826
incl unused credit card limits	13 326

Note 19 Basic and diluted earnings per share

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

	Q2 2019	***6 months 2019***	***Q2 2018***	***6 months 2018***
Total profit attributable to owners of the parent (EUR thousand)	2 323	4 345	788	4 673
Weighted average number of shares	87 394	87 394	82 805	82 805
Basic earnings per share (EUR)	26.58	49.72	9.52	56.43
Weighted average number of shares used for calculating the diluted earnings per shares	95 194	95 194	87 655	87 655
Diluted earnings per share (EUR)	24.40	45.64	8.99	53.31

Note 20 Share capital

EURt	*30.06.2019*	*31.12.2018*
Share capital	874	874
Number of shares issued	87 394	87 394
Nominal share value (EUR)	10	10

Note 21 Share-based payments

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

	No of shares	Unit subscription price	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	400	300	2016	2019	1
Management	1 000	300	2016	2019	3
Employees	2 150	300	2016	2019	8
Employees	500	300	2016	2020	2
Employees	900	675	2018	2021	3
Management	300	675	2018	2021	1
Supervisory Board	250	300	2019	2022	1
Supervisory Board	250	675	2019	2022	2
Management	850	300	2019	2022	4
Employees	350	300	2019	2022	3
Employees	850	675	2019	2022	6
Total	**7 800**				

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.

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

The share-based payment reserve is recorded under other reserves in equity over a period of three years. At the end of each reporting period, the bank will estimate how many shares will be realised at non-market prices and adjust the reserve accordingly. As at 30.06.2019, the reserve amounted to 59 EURt (2018: 37 EURt).

Personnel expenses related to the option agreements in Q2 2019 amounted to a total of 24 EURt, 6 months 2019: 31 EURt (Q2 2018: 5 EURt, 6 months 2018: 10 EURt).

Note 22 Reserves

EURt	*30.06.2019*	*31.12.2018*
Statutory reserve	88	79
Voluntary reserve	1 330	1 330
Share-based payments reserve	59	37
Other accumulated comprehensive income	-16	34
Total	**1 461**	**1 480**

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

The general meeting of AS Inbank may decide to transfer other amounts to the reserve. The reserve may also be used for increasing the share capital, not for making disbursements to shareholders.

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

Note 23 Fair value of financial assets and liabilities

EURt	30.06.2019			31.12.2018		
Assets	**Fair value**	**Carrying amount**	**Level**	**Fair value**	**Carrying amount**	**Level**
Cash in hand	4	4	1	4	4	1
Due from central banks	25 402	25 402	2	64 620	64 620	2
Due from credit institutions	19 458	19 458	2	13 700	13 700	2
Financial assets at fair value through profit and loss	5 187	5 187	3	4 600	4 600	3
Loans and advances	275 582	275 582	3	225 639	225 639	3
Other financial assets	72	72	3	64	64	3
Total	**325 705**	**325 705**		**308 627**	**308 627**	

	30.06.2019			31.12.2018		
Liabilities	**Fair value**	**Carrying amount**	**Level**	**Fair value**	**Carrying amount**	**Level**
Loans from credit institutions	0	0	2	10 429	10 429	2
Customer deposits	272 839	272 839	2	240 175	240 175	2
Debt securities issued	4 009	4 009	3	10 017	10 017	3
Subordinated debt securities	6 957	6 498	2	6 954	6 489	2
Subordinated debt securities (AT1)	3 045	3 045	3	3 039	3 039	3
Other financial liabilities	9 020	9 020	3	8 776	8 776	3
Total	**295 870**	**295 411**		**279 390**	**278 925**	

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

Subordinated debt securities were listed on the Nasdaq Baltic Stock Exchange on October 3rd, 2016 and their fair value can be determined based on the transaction history. As a result the debt security is level 2 in fair value hierarchy.

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

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

To measure the fair value of **investments not actively traded on the market** (financial assets at fair value through profit and loss) we have used the latest transaction price between non-related parties.

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 net book value. Loans to corporates are classified as level 3.

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

Fixed-interest customer deposits are mostly short-term. 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 fair market interest 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 their fair value. These are classified as level 2 in fair value hierarchy.

Note 24 Related parties

EURt	*6 months 2019*	*6 months 2018*
Remuneration of the Management Board and Supervisory Board	579	448

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 of the parent company that have control or significant influence over the parent company

Balances	*30.06.2019*	*31.12.2018*
Loans and receivables as of end of reporting period	**477**	**475**
management	477	475
Deposits and subordinated debt securities as of end of reporting period	**851**	**742**
management	851	742

Transactions	*6 months 2019*	*6 months 2018*
Interest income	**12**	**7**
management	12	0
associates	0	7
Interest expenses	**24**	**5**
management	24	5
Services purchased	**22**	**14**
management	22	14
Services sold	**0**	**44**
management	0	0
associates	0	44

The table provides an overview of the significant transactions and balances with related parties. The Group finances the Group's subsidiaries and branches with short- and long-term loans issued under market conditions with interest rates in between 3.34% and 7% (6 months 2018: 3.31-7%). Such loans are eliminated from the consolidated financial statements. Loans to management (including hire-purchase) are issued under market conditions with interest rates between 0-5% (6 months 2018: 5-14.65%). The interest rate of deposits received from related parties matches with the interest rate offered to the client, interest rates are in between 0.85% and 2.85% (2018: 1.05-3%).

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

Inbank AS
Niine 11, 10414 Tallinn
info@inbank.ee
+372 640 8080
www.inbank.ee