Interim report of Inbank AS

12 months 2018

Inbank AS General information

Business name	Inbank AS
Address	Niine 11, 10414 Tallinn
Registration date	5 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	31 December 2018
Reporting period	From 1 January 2018 to 31 December 2018

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 twelve months 2018 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 twelve months of 2018, consisting of the management report and financial statements as at 31 December 2018, 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 31 December 2018, its financial performance and cash flows for the twelve months of 2018;
- 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 ended 31 December 2017.

Inbank AS is a going concern.

Tallinn, 28 February 2019

Jan Andresoo CEO
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 last quarter of the year was marked by establishing future plans for Inbank. Namely, we developed our new strategy, involving the whole organization in the process. The strategy was approved in December at the Supervisory Board meeting.

Key events

As part of the strategy, we defined the following target activities:

- To develop a new multi-channel financing solution for supporting our partners in various sales channels;
- To increase business capacity of the Polish branch and achieve monthly break-even;
- To open a branch in Lithuania and launch banking products on the market;
- To enhance IT development capability for accelerating the product development process;
- To improve analytical capabilities for enhancing the management decision-making process.

All above mentioned target areas involve an in-depth action plan. Implementation of given action plans will provide us with a strong base to continue growth, build a long-term competitive advantage and manage risks.

In addition to developing the strategy, end of the year was, as usual, a busy time for partner relations unit. We started negotiations with several partners on next year's activities. Furthermore, end of the year is an excellent opportunity to start cooperation with new partners. We added several major partners to our portfolio, such as TopoCentras, Studio Moderna, and PlusRaty. In addition, we won the pan-Baltic tender concerning Kesko Senukai Group, which allows us to provide hire-purchase services in the Senukai, K-Rauta and 1A.ee channels in Estonia, Latvia, and Lithuania.

We also continued active recruitment in the fourth quarter and a number of top specialists joined our team both in the field of business development and IT. The rapid growth of our team is illustrated by the fact that 16 new Inbankers from four countries participated in the onboarding training that took place in December.

In the same month, we participated in an Estonian TV project called "Seitsmeste uhkus" for the second year in a row, as we consider it important to us. The goal of the acknowledgement project of "Seitsmeste uhkus" is to recognize special people, who serve as role models for society with their activities and ventures. The content of this show corresponds to our values, which include being active, smart and open.

General Manager of Inbank Estonia Margus Kastein handed over prizes to seven remarkable persons in a TV show "Seitsmeste uhkus" that took place in December.

We added several major partners to our portfolio, such as TopoCentras, Studio Moderna, and PlusRaty. In addition, we won the pan-Baltic tender concerning Kesko Senukai Group, which allows us to provide hire-purchase services in the Senukai, K-Rauta and 1A.ee channels in Estonia, Latvia, and Lithuania.

Economic activity

In the fourth quarter of 2018, our total sales amounted to 59.3 million euros (53.1 million euros in the third quarter). The annual sales volume of credit products was 202.2 million euros and the sales growth reached 61.6%. The group's sales figures were particularly strong in December, when the sales of credit products for the first time exceeded 20 million euros, reaching 20.6 million euros. The annual sales volume was divided between the countries as follows:

- In Estonia, 71.9 million euros (an increase of 22.2%);
- In Latvia, 42,3 million euros (an increase of 257.1%);
- In Lithuania, 75.9 million euros (an increase of 55.3%);
- In Poland, 12.2 million euros (an increase of 115.9%).

Mokilizingas' new sales amount generated in the period preceding to the shares purchase transaction (January 2018 – May 2018) is included among the Latvian and Lithuanian sales numbers. Mokilizingas' new sales in Latvia and Lithuania has also been taken into account in the reference period, in 2017.

By the end of the year, Inbank's loan portfolio reached 226 million euros, resulting in an annual growth rate of 143%. In the fourth quarter we gathered and prolonged deposits in the amount of 61 million euros. The total volume of deposits collected was in line with the growth and needs of our business volumes.

Along with growing sales figures, our credit quality also improved. We were able to enter into contracts to dispose our debt portfolios on favorable terms, which had a positive impact on our financial performance.

Despite rapid growth, we were able to increase cost efficiency and benefit from the scale effect. In the fourth quarter, Inbank's profit amounted to 3.1 million euros. Growth in sales volumes, improved credit quality and higher efficiency created the preconditions to achieve an excellent 12-month profit of 9.3 million euros in 2018 (7.5 million euros in 2017).

Jan Andresoo
Chairman of the Management Board

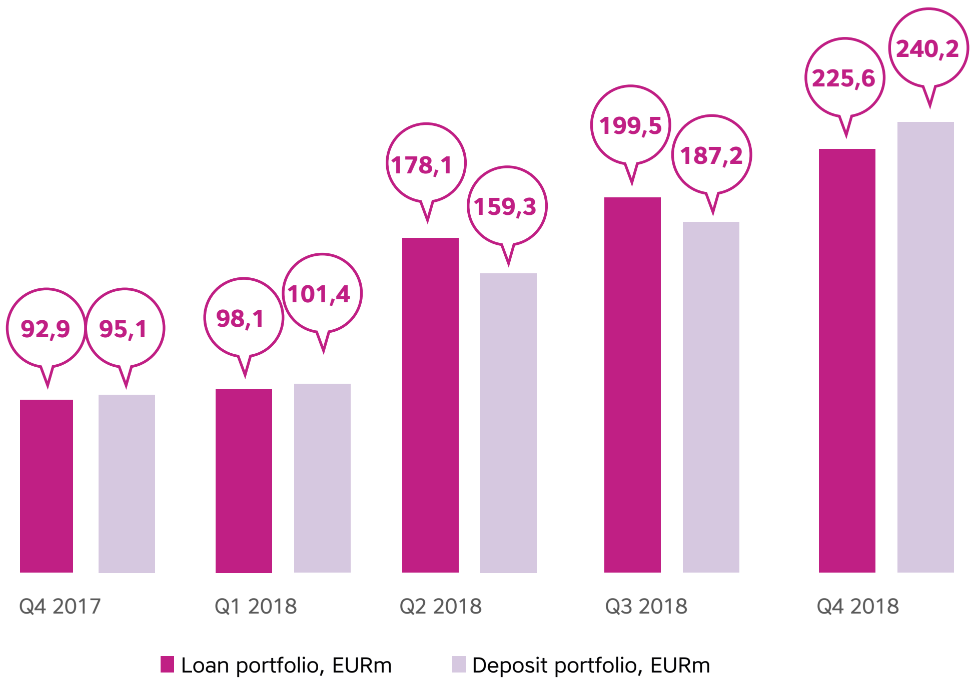
Key financial indicators and ratios

EURt

Key financial indicators	12 months 2018	12 months 2017	
Total assets	318 044	125 981	152,5%
Total equity attributable to shareholders of the parent	36 425	22 020	65,4%
Total comprehensive income attributable to owners of the parent	9 335	7 458	25,2%
Loan portfolio	225 639	92 895	142,9%
Deposit portfolio	240 175	95 056	152,7%

Ratios	12 months 2018	12 months 2017
Return on equity	31,9%	44,1%
Return on total assets	4,2%	7,1%
Net interest margin	9,5%	11,1%
Impairment losses to loan portfolio	1,7%	4,5%
Cost/income ratio	49,9%	57,8%
Equity to total assets (31.12.2018; 31.12.2017)	11,5%	17,5%

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 the parent / total assets

Capital adequacy

EURt	***31.12.2018***	***31.12.2017***
Capital base		
Paid-in share capital	874	782
Share premium	15 053	9 068
Statutory and other reserves	1 446	1 431
Retained earnings	9 756	3 243
Intangible assets (subtracted)	-7 697	-816
Profit for reporting period*	9 261	7 496
Other comprehensive income*	35	0
Other deductions	-1 824	-7 763
Adjustments due to IFRS 9 transitional arrangements	2 308	0
Total Common Equity Tier 1 capital	**29 212**	**13 441**
Additional Tier 1 capital	3 150	0
Total Tier 1 capital	**32 362**	**13 441**
Total Tier 2 capital	6 503	6 503
Net own funds for capital adequacy calculation	**38 865**	**19 944**
Risk-weighted assets		
Credit institutions, standardised approach	3 401	2 216
Non-financial customers, standardised approach	1 706	1 595
Retail claims, standardised approach**	167 208	67 499
Claims past due, standardised approach**	3 297	1 301
Other assets, standardised approach	6 844	1 494
Total credit risk and counterparty credit risk	**182 456**	**74 105**
Operational risk, basic indicator approach	25 648	15 584
Total risk-weighted assets	**208 104**	**89 689**

Capital adequacy (%)	18,68%	22,24%
Regulative capital adequacy (%)	15,73%	19,86%
Tier 1 capital ratio (%)	15,55%	14,99%
Regulative Tier 1 capital ratio (%)	12,62%	12,75%

* 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, Q3 and Q4 in the amount of 5 376 EURt, (2017: does not include profit for H2 in the amount of 1 777 EURt).

**In the reports submitted to the regulator as of 31.12.2018, the risk exposures take account of the credit portfolio impairment losses made in the reporting period in the amount of 1 917 EURt and are yet to be confirmed by the external auditor (31.12.2017: 1 801 EURt). The external auditor has confirmed the profit of the 3 months of 2018, 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 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. These buffers are added to both Tier 1 and the total own funds requirements.

An overview of the capital requirement as of 31.12.2018 is presented in the table below:

	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	0,48%	0,48%	0,48%
Minimum regulative capital requirement	**7,48%**	**8,98%**	**10,98%**

Condensed consolidated interim financial statement

Condensed consolidated statement of financial position

EURt	*Note*	*31.12.2018*	*31.12.2017*
Assets			
Cash in hand		4	4
Due from central banks	8;19	64 620	14 767
Due from credit institutions	8;19	13 700	8 530
Financial assets at fair value through profit and loss	19	4 600	0
Loans and advances	3;7;19	225 639	92 895
Investments in associates	10	97	7 806
Tangible assets		545	279
Intangible assets		7 697	816
Other financial assets	11;19	64	61
Other assets	11	514	459
Deferred tax asset	11	564	364
Total assets	**3**	**318 044**	**125 981**

EURt	*Note*	*31.12.2018*	*31.12.2017*
Liabilities			
Loan from credit institution	12;19	10 429	0
Customer deposits	13;19	240 175	95 056
Other financial liabilities	19	8 776	1 263
Other liabilities		2 654	1 136
Debt securities issued	14;19	10 017	0
Subordinated debt securities	15;19	9 528	6 480
Total liabilities	**3**	**281 579**	**103 935**
Equity			
Share capital	18	874	782
Share premium	18	15 053	9 068
Statutory reserve capital		79	79
Other reserves		1 401	1 352
Retained earnings		19 018	10 739
Total equity attributable to the shareholders of parent company		**36 425**	**22 020**
Non-controlling interest		40	26
Total equity		**36 465**	**22 046**
Total liabilities and equity		**318 044**	**125 981**

Notes set out on pages 14-44 form an integral part of the interim financial statements.

Condensed consolidated statement of profit and loss and other comprehensive income

EURt	*Note*	*Q4 2018*	*2018*	*Q4 2017*	*2017*
Interest income	4	7 848	23 633	3 645	13 023
Interest expense	4	-1 211	-3 760	-537	-2 009
Net interest income		**6 637**	**19 873**	**3 108**	**11 014**
Fee income	5	180	703	153	551
Fee expense	5	-371	-1 091	-168	-607
Net fee and commission income		**-191**	**-388**	**-15**	**-56**
Net gains from financial assets measured at fair value		0	1 204	0	0
Other operating income		214	666	162	705
Total net interest, fee and other income		**6 660**	**21 355**	**3 255**	**11 663**
Personnel expenses	6	-1 761	-5 795	-1 089	-3 997
Marketing expenses	6	-647	-1 592	-249	-929
Administrative expenses	6	-982	-2 814	-457	-1 602
Depreciations, amortisation		-161	-445	-58	-215
Total operating expenses		**-3 551**	**-10 646**	**-1 853**	**-6 743**
Profit before profit from associates and impairment losses on loans		**3 109**	**10 709**	**1 402**	**4 920**
Share of profit from associates	10	0	1 986	15	6 203
Impairment losses on loans and advances	7	401	-2 686	-877	-3 532
Profit before income tax		**3 510**	**10 009**	**540**	**7 591**
Income tax		-459	-733	-313	-92
Profit for the period		**3 051**	**9 276**	**227**	**7 499**

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	Note	Q4 2018	2018	Q4 2017	2017
Other comprehensive income/loss					
Items that may be reclassified subsequently to profit or loss					
Unrealised foreign exchange gains/losses		21	73	-44	-38
Total comprehensive income for the period		**3 072**	**9 349**	**183**	**7 461**
Profit is attributable to					
Owners of the parent		3 048	9 262	225	7 496
Non-controlling interest		3	14	2	3
Profit for the reporting period		**3 051**	**9 276**	**227**	**7 499**
Total comprehensive income/loss is attributable to					
Owners of the parent		3 069	9 335	181	7 458
Non-controlling interest		3	14	2	3
Total comprehensive income for the reporting period		**3 072**	**9 349**	**183**	**7 461**
Basic earnings per share	17	34.88	111.85	2.88	101.92
Diluted earnings per share	17	32.86	105.06	2.71	95.52

Notes set out on pages 14-44 form an integral part of the interim financial statements.

Condensed consolidated statement of cash flows

EURt	Note	2018	2017
Cash flows from operating activities			
Interest received	4	22 940	14 034
Interest paid	4	-2 245	-3 527
Fees received	5	703	551
Fees paid	5	-1 091	-607
Other income received		666	705
Personnel expenses	6	-5 686	-3 685
Administrative and marketing expenses	6	-3 811	-2 412
Returned tax prepayments		285	0
Corporate income tax paid		-512	-602
Cash flows from operating activities before changes in the operating assets and liabilities		**11 249**	**4 457**
Changes in operating assets			
Loans and advances		-69 827	-31 968
Mandatory reserve in central bank		-1 251	-213
Other assets		-716	-178
Changes of operating liabilities			
Loans from credit institution		-45 783	0
Customer deposits		143 604	31 987
Other liabilities		5 645	-108
Net cash from operating activities		**42 921**	**3 977**

EURt	Note	2018	2017
Cash flows from investing activities			
Acquisition of tangible and intangible assets		-1 325	-387
Acquisition of subsidiaries and associates	9;10	-13 134	-10 697
Proceeds from disposal of subsidiaries	9	0	300
Proceeds from disposal of associates	10	6 269	10 403
Net cash used in investing activities		**-8 190**	**-381**
Cash flows from financing activities			
Share capital contribution (including share premium)		6 077	2 800
Subordinated debt securities issued		3 033	0
Debt securities issued		10 000	0
Net cash from financing activities		**19 110**	**2 800**
Effect of exchange rate changes		-69	52
Net increase/decrease in cash and cash equivalents	**8**	**53 772**	**6 448**
Cash and cash equivalents at the beginning of the reporting period		22 600	16 152
Cash and cash equivalents at the end of the reporting period	**8**	**76 372**	**22 600**

Notes set out on pages 14-44 form an integral part of the interim financial report.

Condensed consolidated statement of changes in equity

EURt	Note	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 2017		**689**	**6 361**	**57**	**1 361**	**3 330**	**11 798**	**6**	**11 804**
Paid in share capital		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**
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	1	0	0	0	0	-1 026	-1 026	0	-1 026
Restated balance as 1 January 2018		**782**	**9 068**	**79**	**1 352**	**9 713**	**20 994**	**26**	**21 020**
Paid in share capital	18	92	5 985	0	0	0	6 077	0	6 077
Share-based payment reserve		0	0	0	-24	43	19	0	19
Total profit/-loss and other comprehensive income for the reporting period		0	0	0	73	9 262	9 335	14	9 349
Balance as of 31 December 2018		**874**	**15 053**	**79**	**1 401**	**19 018**	**36 425**	**40**	**36 465**

Notes set out on pages 14-44 form an integral part of the interim financial report.

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 accunting 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 2017, 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 2018 in related to newly enforced IFRS EU standards. The changes in accounting principles are disclosed in Note 1, subsection “Changes in accounting principles”.

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 conjuction with the Annual Report prepared for the year ended 31 December 2017, which has been prepared in accordance with the International Financial Reporting Standards (IFRS).

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

Company Name	*Registry code*	*Date of purchase/ founded*	*Address*	*Activity*	*Holding (%)*	*Cost (31.12.2018) 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	80	80
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 consoldiator.

**The new business name of Inbank Lizings is starting from August 28, 2018 SIA Inbank Latvia.

***UAB Mokilizingas has branch in Latvia.

The amended standards that became effective since 1 January 2018 have had no impact on the 12-month interim financial report of Inbank.

Changes in accounting policies

Financial assets and liabilities

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

Financial assets

Classification and subsequent measurement

Debt instruments

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

- the Group's business model for managing the asset; and
- the cash flow characteristics of the asset.

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

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

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

1) Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at fair value through profit and loss (FVPL), are measured at amortised cost.

2) Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI).

3) Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss.

During the accounting period, the Group has measured all its debt instruments at amortised cost.

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

Amortised cost and effective interest rate

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Group has decided to subsequently measure all equity investments at fair value through profit or loss. Gains and losses on equity investments at FVPL are included in the Net gains from financial assets measured at fair value line in the statement of profit or loss.

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. If the new terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

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

Derecognition other than on a modification

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

(i) the Group transfers substantially all the risks and rewards of ownership, or

(ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

Write-off policy

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

Financial liabilities

In both the current and prior period, financial liabilities of the Group are classified as subsequently measured at amortised cost. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Impairment

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

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

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.

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

Significant increase in credit risk

The Group considers a financial instrument to have experienced a significant increase in credit risk when there have been adverse changes in the economic environment, which are known to the Group and affect the specific borrower performance (eg. adverse changes in regional unemployment rate).

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

Definition of default and credit-impaired assets

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

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

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio. This is supported by historical analysis. PD is estimated using a Markov chain framework, where transition matrices from maximum last 12 available periods are used to extrapolate the cumulative transition probabilities forward in time.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). EAD is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and

Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan. The LGDs are determined based on the factors which impact the recoveries made post default. LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD.

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

Forward-looking information incorporated in the ECL models

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

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

In addition to the base economic scenario, the Group also provides other possible scenarios along with scenario weightings. The number of scenarios and their attributes are reassessed at each reporting date. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

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

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are: product type, contract type, market, number of overdue days of the contract, contract age as months in book.

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

Accounting of income and expenses

Interest income and expenses

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

(a) Purchased or originated credit-impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

See further details in accounting policy section 'Amortised cost and effective interest rate'.

Fee and commission income and expenses

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

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

Other income

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

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

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 the 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 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). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note "Changes in 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 purposes 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 revenue / cost 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 hardware rental services provided by Inbank Technologies to group companies. None of Inbank AS counterparties have income over 10% of its respective income of the consolidation group. Intersegment transactions constitute mainly of loan interests on loans given to subsidiaries, additionally Inbank Technologies offers hardware rental service. These intercompany transactions are accounted for at market prices.

Income of reportable segments

EURt

12 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	14 326	3 644	6 430	220	826	7	**25 453**
Fee income	528	169	0	5	1	0	**703**
Other operating income	1 626	60	300	0	-68	83	**2 001**
Inter-segment eliminations	-1 890	0	0	0	0	-61	**-1 951**
Revenue from external customers	**14 590**	**3 873**	**6 730**	**225**	**759**	**29**	**26 206**
Interest expense	-2 970	-556	-1 637	-106	-291	-20	**-5 580**
Fee expense	-369	-134	-378	0	-210	0	**-1 091**
Inter-segment eliminations	0	556	1 138	106	0	20	**1 820**
Total expenses	**-3 339**	**-134**	**-877**	**0**	**-501**	**0**	**-4 851**
Total net interest, fee and commission income and other income	**11 251**	**3 739**	**5 853**	**225**	**258**	**29**	**21 355**

Net profit structure

EURt

12 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 impairment losses on loans	**7 740**	**1 845**	**2 428**	**105**	**-1 202**	**-207**	**10 709**
Profit of associates	1 552	0	0	0	0	434	**1 986**
Impairment losses on loans and advances	-382	-435	-857	-35	-985	8	**-2 686**
Income tax	-715	0	-232	0	214	0	**-733**
Net profit/loss	**8 195**	**1 410**	**1 339**	**70**	**-1 973**	**235**	**9 276**

Income of reportable segments

EURt							
Q4 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	4 256	1 046	2 939	62	326	0	**8 629**
Fee income	148	42	-11	1	0	0	**180**
Other operating income	117	13	130	0	-22	11	**249**
Inter-segment eliminations	-804	0	0	0	0	-12	**-816**
Revenue from external customers	**3 717**	**1 101**	**3 058**	**63**	**304**	**-1**	**8 242**
Interest expense	-943	-156	-762	-30	-97	-5	**-1 993**
Fee expense	-88	-34	-170	0	-79	0	**-371**
Inter-segment eliminations	0	156	591	30	0	5	**782**
Total expenses	**-1 031**	**-34**	**-341**	**0**	**-176**	**0**	**-1 582**
Total net interest, fee and commission income and other income	**2 686**	**1 067**	**2 717**	**63**	**128**	**-1**	**6 660**

Net profit structure

EURt							
Q4 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 impairment losses on loans	**1 818**	**548**	**998**	**30**	**-236**	**-49**	**3 109**
Profit of associates	0	0	0	0	0	0	**0**
Impairment losses on loans and advances	945	27	-181	-14	-376	0	**401**
Income tax	-387	0	-72	0	0	0	**-459**
Net profit/loss	**2 376**	**575**	**745**	**16**	**-612**	**-49**	**3 051**

Income of reportable segments

EURt

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

Net profit structure

EURt

12 months 2017	*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 impairment losses on loans	**4 716**	**1 651**	**0**	**56**	**-1 290**	**-213**	**4 920**
Profit of associates	5 816	0	0	0	0	387	**6 203**
Impairment losses on loans and advances	-1 541	-1 709	0	-18	-256	-8	**-3 532**
Income tax	0	-388	0	0	296	0	**-92**
Net profit/loss	**8 991**	**-446**	**0**	**38**	**-1 250**	**166**	**7 499**

Income of reportable segments

EURt

Q4 2017	*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	2 910	850	0	43	112	1	**3 916**
Fee income	108	43	0	1	1	0	**153**
Other operating income	72	24	0	0	39	61	**196**
Inter-segment eliminations	-271	0	0	0	0	-34	**-305**
Revenue from external customers	**2 819**	**917**	**0**	**44**	**152**	**28**	**3 960**
Interest expense	-483	-238	0	-21	-58	-5	**-805**
Fee expense	-80	-42	0	0	-45	0	**-167**
Inter-segment eliminations	-2	238	0	21	5	5	**267**
Total expenses	**-565**	**-42**	**0**	**0**	**-98**	**0**	**-705**
Total net interest, fee and commission income and other income	**2 254**	**875**	**0**	**44**	**54**	**28**	**3 255**

Net profit structure

EURt

Q4 2017	*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 impairment losses on loans	**1 373**	**324**	**0**	**18**	**-263**	**-50**	**1 402**
Profit of associates	19	0	0	0	0	-4	**15**
Impairment losses on loans and advances	-419	-278	0	-6	-166	-8	**-877**
Income tax	0	-388	0	0	75	0	**-313**
Net profit/loss	**973**	**-342**	**0**	**12**	**-354**	**-62**	**227**

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, incl mandatory reserve	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 receivables	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**

Assets and liabilities of reportable segments

EURt 31.12.2017	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, including mandatory reserve	14 289	0	0	0	478	0	0	**14 767**
Due from credit institutions	3 769	794	0	89	3 608	270	0	**8 530**
Loans and advances	91 860	14 400	0	1 266	4 516	104	-19 251	**92 895**
Investments in subsidiaries	1 053	0	0	0	0	0	-1 053	**0**
Investments in associates	7 763	0	0	0	0	43	0	**7 806**
Tangible assets	111	43	0	0	58	67	0	**279**
Intangible assets	161	113	0	0	23	322	197	**816**
Other financial assets	2	66	0	0	7	2	-16	**61**
Other assets	126	283	0	23	20	7	0	**459**
Deferred tax assets	0	0	0	0	364	0	0	**364**
Total assets	**119 138**	**15 699**	**0**	**1 378**	**9 074**	**815**	**-20 123**	**125 981**
Loans from credit institutions	0	15 770	0	1 221	1 839	418	-19 248	**0**
Customer deposits	86 379	0	0	0	8 677	0	0	**95 056**
Subordinated debt securities	6 480	0	0	0	0	0	0	**6 480**
Other financial liabilities	1 067	118	0	25	58	14	-19	**1 263**
Other liabilities	807	189	0	0	89	51	0	**1 136**
Total liabilities	**94 733**	**16 077**	**0**	**1 246**	**10 663**	**483**	**-19 267**	**103 935**

Equity	*31.12.2018*	*31.12.2017*
SIA Inbank Latvia	683	-378
UAB Mokilizingas*	10 489	

*Inbank aquired UAB Mokilizingas on 22.05.2018.

Note 4 Net interest income

EURt	*Q4 2018*	*12 months 2018*	*Q4 2017*	*12 months 2017*
Interest income				
Loans to households	7 764	23 325	3 574	12 753
Loans to corporates	67	259	49	164
Due from financial and credit institutions	17	49	22	106
Total	**7 848**	**23 633**	**3 645**	**13 023**
Interest expense				
Deposits received	-1 053	-3 204	-421	-1 544
Debt securities sold	-158	-556	-116	-465
Total	**-1 211**	**-3 760**	**-537**	**-2 009**
Net interest income	**6 637**	**19 873**	**3 108**	**11 014**
Interest income by customer location				
Estonia	3 537	12 733	2 683	9 275
Latvia	1 508	4 592	850	3 535
Lithuania	2 476	5 482	0	0
Poland	327	826	112	213
Total	**7 848**	**23 633**	**3 645**	**13 023**

Interest income from Stage 3 loans in 2018 was 392 EURt; in Q4 2018 45 EURt (2017: 248 EURt and Q4 2017: 13 EURt).

Note 5 Net fee income

EURt	*Q4 2018*	*12 months 2018*	*Q4 2017*	*12 months 2017*
Fee expense				
Households	186	698	152	548
Corporates	-6	5	1	3
Total	**180**	**703**	**153**	**551**
Fee expense				
Loan administration costs	-371	-1 091	-168	-607
Total	**-371**	**-1 091**	**-168**	**-607**
Net fee income	**-191**	**-388**	**-15**	**-56**
Fee income by customer location				
Estonia	150	534	109	374
Latvia	41	168	43	175
Lithuania	-11	0	0	0
Poland	0	1	1	2
Total	**180**	**703**	**153**	**551**

Note 6 Operating expenses

EURt	***Q4 2018***	***12 months 2018***	***Q4 2017***	***12 months 2017***
Personnel expenses				
Personnel expense	1 433	4 725	907	3 270
Social and other taxes	328	1 070	182	727
Total personnel expenses	**1 761**	**5 795**	**1 089**	**3 997**
Marketing Expenses				
Advertising and marketing	429	1 134	134	605
Sales costs	218	458	115	324
Total marketing expenses	**647**	**1 592**	**249**	**929**
Administrative expenses				
Rental and maintenance expenses	184	537	57	221
IT expenses	179	596	74	288
Legal expenses	127	169	15	115
Office expenses	72	216	40	135
Training and business trip expenses	127	222	37	173
Other tax expenses	70	190	51	133
Supervision expenses	43	143	33	86
Recovery proceeding expenses	19	94	27	67
Consultation expenses	21	82	22	53
Other administrative expenses	140	565	101	331
Total administrative expenses	**982**	**2 814**	**457**	**1 602**

Average number of employees	**2018**	**2017**
Estonia	60	50
Latvia	22	18
Lithuania*	56	0
Poland	19	15
Total	**157**	**83**

*The Lithuanian company was acquired on 22 May 2018 and the average number of employees is calculated during the period 22.05-31.12.18. In Lithuania, the annualized average number of employees was 33 in the period of 01.01-31.12.18.

Note 7 Loans and advances

EURt

Distribution of receivables as of 31.12.2018	Due from households - gross basis	Stage 1 and 2	Stage 3	Due from households - net basis	Coverage ratio
Overdue 0-3 days	195 675	-1 450	-51	194 174	0,8%
Overdue 4-30 days	15 212	-645	-32	14 535	4,5%
Overdue 31-89 days	6 231	-834	-47	5 350	14,1%
Overdue 90-179 days	1 525	0	-608	917	39,9%
Overdue more than 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 31.12.2017	Due from households - gross basis	Portfolio provision	Special provision	Due from households - net basis	Coverage ratio
Overdue 0-3 days	79 948	-167	-22	79 759	0,2%
Overdue 4-30 days	6 875	-368	-9	6 498	5,5%
Overdue 31-89 days	2 247	-753	-20	1 474	34,4%
Overdue 90-179 days	1 517	0	-704	813	46,4%
Overdue more than 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 as of 31.12.2018	Due from corporates - gross basis	Stage 1 and 2	Stage 3	Due from corporates - net basis	Coverage ratio
Overdue 0-3 days	8 974	-10	-8	8 956	0,2%
Overdue 4-30 days	395	-7	0	388	1,8%
Overdue 31-89 days	164	-16	0	148	9,8%
Overdue 90-179 days	42	0	-16	26	38,1%
Overdue more than 180 days	77	0	-10	67	13,0%
Total receivables	**9 652**	**-33**	**-34**	**9 585**	**0,7%**

EURt

Distribution of receivables as of 31.12.2017	Due from corporates - gross basis	Portfolio provision	Special provision	Due from corporates - net basis	Coverage ratio
Overdue 0-3 days	3 561	-16	-17	3 528	0,9%
Overdue 4-30 days	307	-5	0	302	1,6%
Overdue 31-89 days	56	-1	0	55	1,8%
Overdue 90-179 days	10	0	-4	6	40,0%
Overdue more than 180 days	5	0	-3	2	60,0%
Total receivables	**3 939**	**-22**	**-24**	**3 893**	**1,2%**

By the view of management, overdues up to 3 days don't objectivly reflect quality of customer receivables as overdues of that tenure often are result of interbank payments processing rules. The credit products offered by the bank are largely relatively young, as sales of the products has started in the period 2015 - 2018. The only exception is the hire-purchase product offered in Estonia and Lithuania. Because of this, the information describing the payment behaviour of portfolios is partially incomplete. The statistical basis for recalculation of agreement provisioning rates will improve via recalculations in the subsequent periods. Market information, management estimates and information from similar products of the products offered by the bank have been used in places where information about payment behaviour is incomplete as of 31th of December 2018.

Distribution of receivables by customer sector	*31.12.2018*	*31.12.2017*
Households	221 591	92 129
Non-financial companies	3 470	2 241
Other financial companies	1 709	1 606
Other advances	4 473	92
Total	**231 243**	**96 068**
Impairment allowance	-5 604	-3 173
Total	**225 639**	**92 895**

Impairment losses on loans and advances	2018	2017
Impairment losses of reporting period	-5 681	-4 578
Recoveries from written off from financial position	2 995	1 046
Total	**-2 686**	**-3 532**

Changes in impairments	2018	2017
As at January 1	-3 173	-4 396
Impact of IFRS 9	-901	0
Impairment provisions set up during reporting period	-5 681	-4 578
Impairment provisions set up for interests and commissions	0	-414
Written off from financial position during the period	4 151	6 215
Total	**-5 604**	**-3 173**

Note 8 Due from central banks and credit institutions

EURt	*31.12.2018*	*31.12.2017*
Due from central banks	62 668	14 066
Mandatory reserve in central bank	1 952	701
Due from credit institutions	13 700	8 530
Total	**78 320**	**23 297**

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 9 Business combinations

On May 22, 2018 Inbank AS acquired a consumer loan company UAB Mokilizingas in Lithuania, with a purchase price of EUR 15 million. At acquisition, assets and liabilities were acquired at their fair value.

This purchase enabled Inbank to significantly widen its operations geographically, as more than half of Inbank's loan portfolio will be located outside of Estonia.

Inbank AS recognised the acquisition of UAB Mokilizingas in accordance with requirements of IFRS 3 by carrying out purchase price allocation. In the course of te purchase price allocation, the value of assets of UAB Mokilizingas was assessed and the assets were recognised in the fair value on the transaction date.

UAB Mokilizingas purchase price allocation

EURt

Name of acquired company	UAB Mokilizingas
Share %	100
Acquisition date	22.05.2018
Fair value of acquired assets	70 650
Fair value of acquired liabilities	-61 500
Fair value of acquired net assets	9 150
Amount paid by the Company	15 068
Goodwill	5 918

Note 10 Investments in associates

Carrying amount of associates

EURt	***31.12.2018***	***31.12.2017***
Name of associate		
Maksekeskus Holding OÜ	97	1
Coop Pank AS	0	7 762
Veriff OÜ	0	43
Total	**97**	**7 806**

Further information on associates has been disclosed in Note 1.

Associates have been accounted for using the equity method. Income from equity method was 36 EURt (12 months 2017: 999 EURt) and proceeds from the disposal of associate for amount 1 950 EURt (12 months 2017: 5 204 EURt) are recorded in income statement line “Share of profit of associates”.

Inbank has not received dividends from associates.

Disposal and acquisition of associates in 2018

EURt	
Equity contribution	96
Total	**96**
Proceeds from disposal of associate	476
Proceeds from disposals of partial holdings in associates	5 793
Total	**6 269**

Note 11 Deferred income tax asset and other assets

EURt	*31.12.2018*	*31.12.2017*
Accounts receivable	0	8
Deferred expenses	444	128
Prepaid taxes	66	24
Prepaid guarantee amounts	64	53
Other assets	0	26
Income tax liabilities due to be paid	4	281
Total	**578**	**520**
Deferred income tax assets	**564**	**364**

Deferred income tax asset has been generated by the Polish branch in the amount of 564 EURt (2017: 364 EURt). Prepaid taxes includes prepaid VAT. Income tax liabilities due to be paid have arised from Latvian subsidiary in the amount of 4 EURt during 2018 (2017: 281 EURt).

Note 12 Loans from credit institution

EURt		
Loans received	***31.12.2018***	***31.12.2017***
Loans from credit institution	10 429	0
Total	**10 429**	**0**

In May 2018 LHV issued a loan of 25 million euros to UAB Mokilizingas with the maturity of 1 year.
Inbank will return the loan prematurely in March 2019.
Accrued interest liability is in the amount of 13 EURt (31.12.2017: 0 EURt).

Note 13 Customer deposits

Customer deposits	***31.12.2018***	***31.12.2017***
Deposits from households	226 544	84 450
Deposits from non-financial corporations	10 834	9 450
Deposits from other financial corporations	2 797	1 156
Total	**240 175**	**95 056**

Deposits by clients' residency	***31.12.2018***	***31.12.2017***
Estonia	73 300	67 483
Germany	145 409	17 666
Poland	17 563	8 677
Austria	3 832	559
Other residence	71	671
Total	**240 175**	**95 056**

Deposits include accrued interest liabilities in the amount of 1 821 EURt (31.12.2017: 864 EURt).

Deposits by contractual maturity					
EURt					
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**
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**

Note 14 Debt securities

EURt

Transactions with debt securities	***2018***
Issued debt securities	10 000
Accrued interest	17
Closing balance 31.12.2018	**10 017**

Inbank issued unsecured debt securities in total amount of 10 million euros on May 14 2018.

Nominal value	***Amount***	***Maturity***
250 000	40	14.03.2019

The investment has been made by Swedbank Investeerimisfondid AS via a private palcement. The issue of new debt securities does not affect the terms of previously issued debt securities. The bonds will be redeemed in three equal installments starting from January 2019. The debt securities issued are recorded in the balance sheet at amortised cost.

Note 15 Subordinated debt securities

EURt	
Transactions with subordinated debt securities	
Opening balance as at 01.01.2018	6 480
Debt securities issued	3 150
Adjustments	-102
Closing balance 31.12.2018	**9 528**

Subordinated debt securities	***Nominal price***	***Amount***	***Interest rate***	***Maturity***
INBB070026A	1 000 EUR	6 503	7%	28.09.2026
EE3300111590	10 000 EUR	315	8,5%	perpetual

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).

In 2018, 85 transactions were done with Inbank' debt securities in total amount of 408 EURt (2017: 92 transactions in the amount of 693 EURt).

On 19 December 2018 Inbank issued AT1 bonds through private palcement in the amount of 3,15 million euros, which belongs to Tier 1 capital of the bank. Interest payments are done quarterly.

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 16 Contingent liabilities

Inbank had the following loan commitments:

Revocable commitments, EURt	
Liability in contractual amount as of 31 December 2018	13 826
incl unused credit card limits	13 326
Liability in contractual amount as of 31 December 2017	0

Note 17 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.

	Q4 2018	*2018*	*Q4 2017*	*2017*
Total profit attributable to owners of the parent (EUR thousand)	3 048	9 262	225	7 496
Weighted average number of shares	87 394	82 805	78 215	73 548
Basic earnings per share (EUR)	34.88	111.85	2.88	101.92
Weighted average number of shares used for calculating the diluted earnings per shares	92 744	88 155	83 145	78 478
Diluted earnings per share (EUR)	32.86	105.06	2.71	95.52

Note 18 Share capital

EURt		
	31.12.2018	***31.12.2017***
Share capital	874	782
Number of shares outstanding	87 394	78 215
Nominal share value (EUR)	10	10

In April the option was realised for the purchase of 180 shares with the nominal price 10 euros per share. The share capital increase was registered in the Commercial Register on 25 April 2018.

In May the share capital increased by 8 999 shares. The share capital was thus increased by 6 074 325 euros, of which the share capital increased by 89 990 euros and the share premium was 5 984 335 euros.

The share capital increase was registered in the Commercial Register on 16 May 2018.

Note 19 Fair value of financial assets and liabilities

EURt						
		31.12.2018			***31.12.2017***	
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	64 620	64 620	2	14 767	14 767	2
Due from credit institutions	13 700	13 700	2	8 530	8 530	2
Financial assets at fair value through profit and loss	4 600	4 600	3	0	0	3
Loans and advances	225 639	225 639	3	92 895	92 895	3
Other financial assets	64	64	3	61	61	3
Total	**308 627**	**308 627**		**116 257**	**116 257**	

EURt						
		31.12.2018			***31.12.2017***	
Liabilities	***Fair value***	***Carrying amount***	***Level***	***Fair value***	***Carrying amount***	***Level***
Loans from credit institution	10 429	10 429	2	0	0	
Customer deposits	240 175	240 175	2	95 056	95 056	2
Debt securities issued	10 017	10 017	3	0	0	
Subordinated debt securities	6 954	6 489	2	6 952	6 480	2
Subordinated debt securities (AT1)	3 039	3 039	3	0	0	
Other financial liabilities	8 776	8 776	3	1 263	1 263	3
Total	**279 390**	**278 925**		**103 271**	**102 799**	

Subordinated debt securities were listed on the Nasdaq Baltic Stock Exchange on 3 October 2016, and their fair value can be determined based on the transaction history. Unlisted subordinated debt securities were issued in December 2018 and their fair value is the carrying amount. The terms of post-issuance transactions are not known to Inbank.

Unlisted debt securities are short-term and issued with the interest rate which is at comparable level on the market rate.

To measure the fair value of **investments not actively traded on the market**, the latest transaction price between non-related parties is used.

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

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.

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.

Note 20 Related parties

EURt	12 months 2018	12 months 2017
Remuneration of the Management Board and Supervisory Board	771	617

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 company that have control or significant influence over the parent company

Balances	31.12.2018	31.12.2017
Loans and receivables as of end of reporting period	***475***	***191***
management	475	1
associates	0	190
Deposits and subordinated debt securities as of end of reporting period	***742***	***265***
management	742	265

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 3,31% and 7% (2017: 5-7%). Such loans are eliminated from the consolidated financial statements. Loans given to management (hire-purchase incl.) are issued under market conditions, interest rates are between 5-14,65% (2017: 0-12,5%). The interest rate of deposits received from related parties matches with the interest rate offered to the client, interest rates are in between 1,25% and 3% (2017: 0.6-3%).

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 in case of early termination of the management board member agreement. 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.

Transactions	12 months 2018	12 months 2017
Interest income	***7***	***9***
management	0	1
associates	7	8
Interest expenses	***23***	***12***
management	23	12
Services purchased	***45***	***48***
management	45	44
associates	0	4
Services sold	***21***	***287***
management	0	0
associates	21	287

Note 21 Events after the balance sheet date

On 22 January 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 the focus of Inbank Liising and standardise the product.

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