Interim Report of Inbank AS

6 months 2018

Inbank AS general information

Business name	Inbank AS
Address	Niine 11, 10414 Tallinn
Registration date	05.10.2010
Registry code	12001988 (Commercial Register of the Republic of Estonia)
Legal entity identifier	2138005M92IEIQVEL297 (LEI code)
VAT number	EE101400240
Telephone	+372 640 8080
E-mail	info@inbank.ee
Website	www.inbank.ee
Balance sheet date of report	30 June 2018
Reporting period	From 1 January 2018 to 30 June 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

The reporting currency is the euro (EUR), with units presented in thousands.
Inbank AS' interim report for six months 2018 is unaudited.
The bank does not hold any ratings provided by international rating agencies.

Declaration of the Management Board

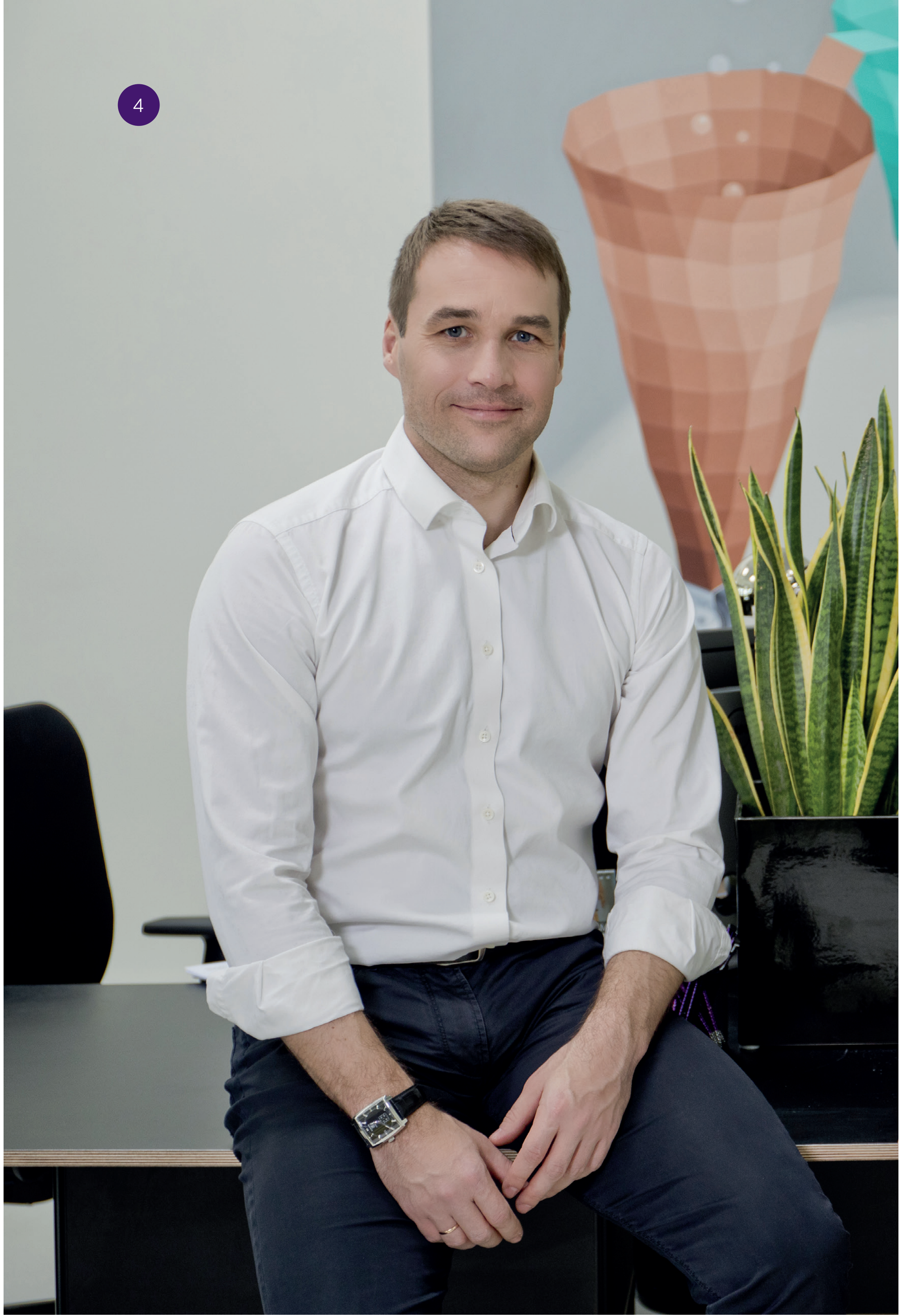
The Management Board of Inbank AS is of the opinion that:

- the data and information presented in this interim report for six months of 2018, consisting of the management report and financial statements as at 30 June 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 30 June 2018, its financial performance and cash flows for the six 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, 6 August 2018

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



Management report

For Inbank, the first six months of 2018 were all about important strategic initatives and focusing on delivering results.

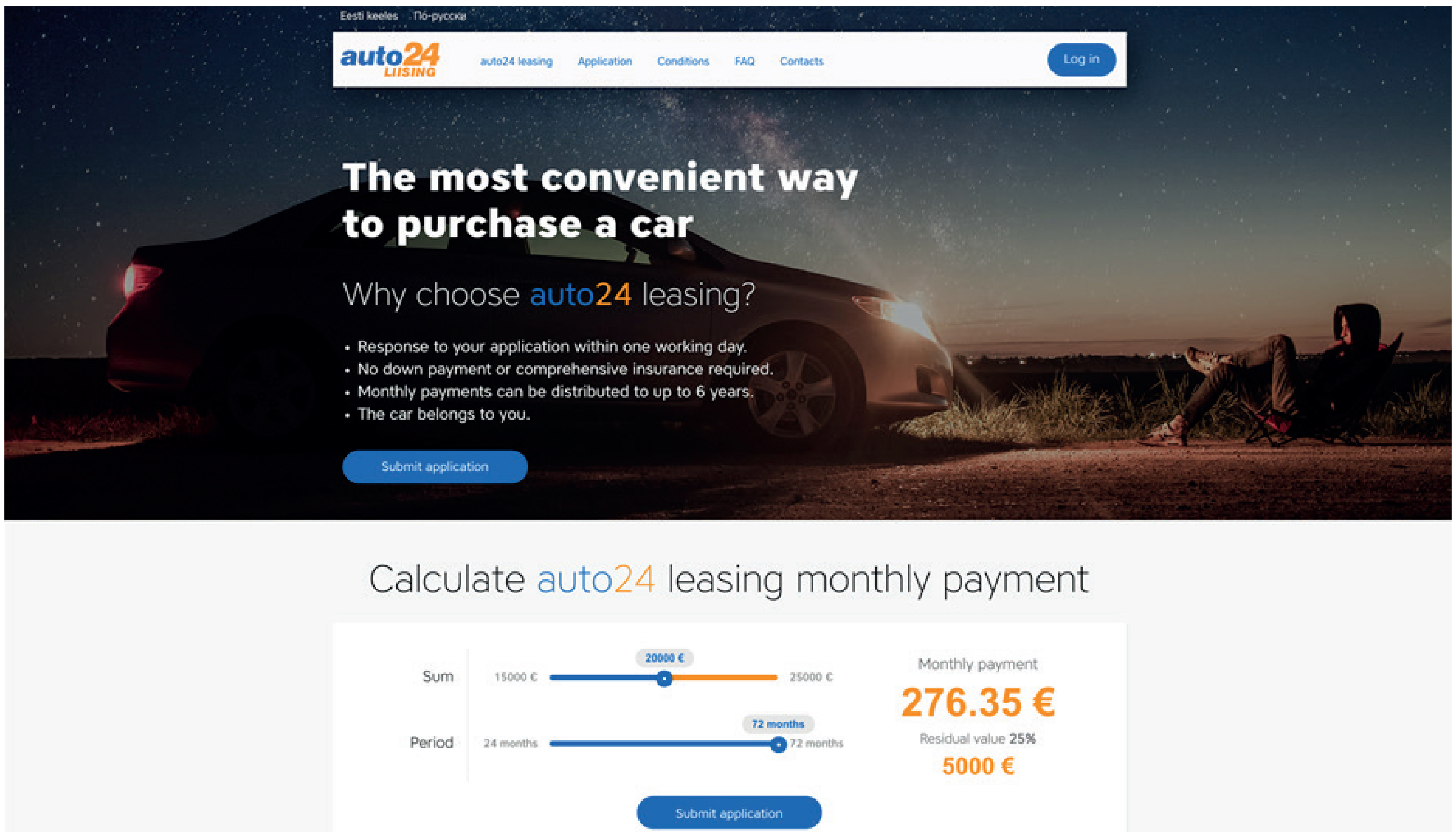
Key events

The most significant event in Q2 took place on 22 May, when Inbank acquired the Lithuanian consumer financing company UAB Mokilizingas. The price of the transaction was 15 million euros. Inbank acquired 100% of the company's shares. As a result of the transaction, Inbank's consolidated credit portfolio volume grew by 67.4 million euros, reaching 178.1 million by the end of the quarter. Furthermore, 51 new employees joined the organization. As of the end of Q2, over half of Inbank's business was beyond Estonia's borders – measured by business volumes and number of employees.

To finance the transaction, we sold a 10 percent stake in Coop Pank and made an additional capital issue in the amount of 6 million euros. As of the end of the quarter, Inbank's equity amounted to 31.9 million euros.

Buying Mokilizingas was in accordance with Inbank's international growth strategy. We were able to quickly and successfully enter a new market as a result of the transac-

Buying Mokilizingas was in lockstep with Inbank’s international growth strategy. We were able to quickly and successfully enter the new market through the transaction, as Mokilizingas is Lithuania's second-largest hire-purchase supplier.



tion, as Mokilizingas is Lithuania's second-largest hire-purchase supplier. Entering the Lithuanian market as a newcomer would have required significant effort. Mokilizingas’s existing customer portfolio gives a great base for further expansion, allowing us to offer new products to its existing customer base.

The second significant development was related to the cooperation with auto24.ee portal where we introduced a new car financing product, auto24 leasing. It’s a financing solution meant for buying vehicles up to 25,000 euros in value. Through auto24 leasing, the process of buying a car is much more simple than with traditional leasing. Comprehensive

In the middle of June, we launched a new product auto24 leasing to the market in conjunction with the portal auto24.ee. Conditions of the product can be found at www.auto24liising.ee.

insurance and down payment are not compulsory and the car becomes the property of the purchaser after the transaction. We believe that the simplicity and speed with which contracts can be signed will lay a good groundwork for the product's growth on the Estonian market.

In addition, in spring we started offering Inbank renovation loan, which can be used to finance costs related to renovation and refurnishing up to 10,000 euros in value. To increase our brand's recognition among home improvement target segment, we supported the production of an exciting TV project, called "Naabrist parem". In the course of the programme, we gave advice to the competing couples in regard to their renovation budget, took part in an open house event related to the project and awarded prizes for the audience's favourite idea and the smartest home.

In Latvia and Poland, everyday activities continued as usual. The Latvian enterprise showed stable growth in sales figures and earned a considerable profit (409 thousand euros). In Poland, efforts continued to grow the business volumes through new partners. We hope that the work we have put in will soon also be reflected in the sales results.

Internal Capital Adequacy Assessment Process (ICAAP) also took place in second quarter. Depending on the assessed risk level, the Financial Supervision Authority sets a compulsory minimum capital requirement for the bank for one year period. As positive news, the Financial Supervision Authority found that the general risk level has decreased since last year, and we were assigned a lower compulsory minimum capital requirement.

Due to rapid growth and adding another foreign market to our portfolio, we also devoted attention to support organizational development. In May, a Group-wide business development unit was launched. Its primary goal is to manage and develop the bank's product portfolio in all of our markets. We believe that this will lay a better basis for ongoing growth and ensure that our activities are more efficient.

Business volumes

Due to adding Mokilizingas to our portfolio, the Group's sales volumes jumped. In Q1 of 2018, we sold 18.9 million euros worth of credit products, but in June alone, sales totaled 17.5 million euros. In Estonia, sales in June were 6.7 million euros; Latvia posted 3.1 million; Lithuania, 7.1 million; and Poland, 0.6 million euros. The total quarterly sales volume was 49 million euros – which was a very good result. In the one-year period, the comparable growth figure was 61.4%. In the interests of comparability, we also took into account Mokilizingas's sales for last year.

Due to the need to partially refinance Mokilizingas's obligations, in Q2, Inbank raised a significantly greater volume of deposits. The total volume of deposits added in the quarter was 57.9 million euros. The greatest contributors to this figure were contracts that were concluded in Germany and Austria using Raisin deposit marketplace. In addition, we issued unsecured debt securities via a private placement to Swedbank Investeerimisfondid AS in the amount of 10 million euros.

Profit

The Inbank Group's profit in Q2 was 840 thousand euros. Mokilizingas's profit was also recognized in this figure starting from the moment of acquisition. Including the profit earned by Mokilizingas prior to the moment of acquisition, the Group's Q2 profit would have been 1 million euros.

Jan Andresoo
Chairman of the Management Board

Key financial indicators and ratios

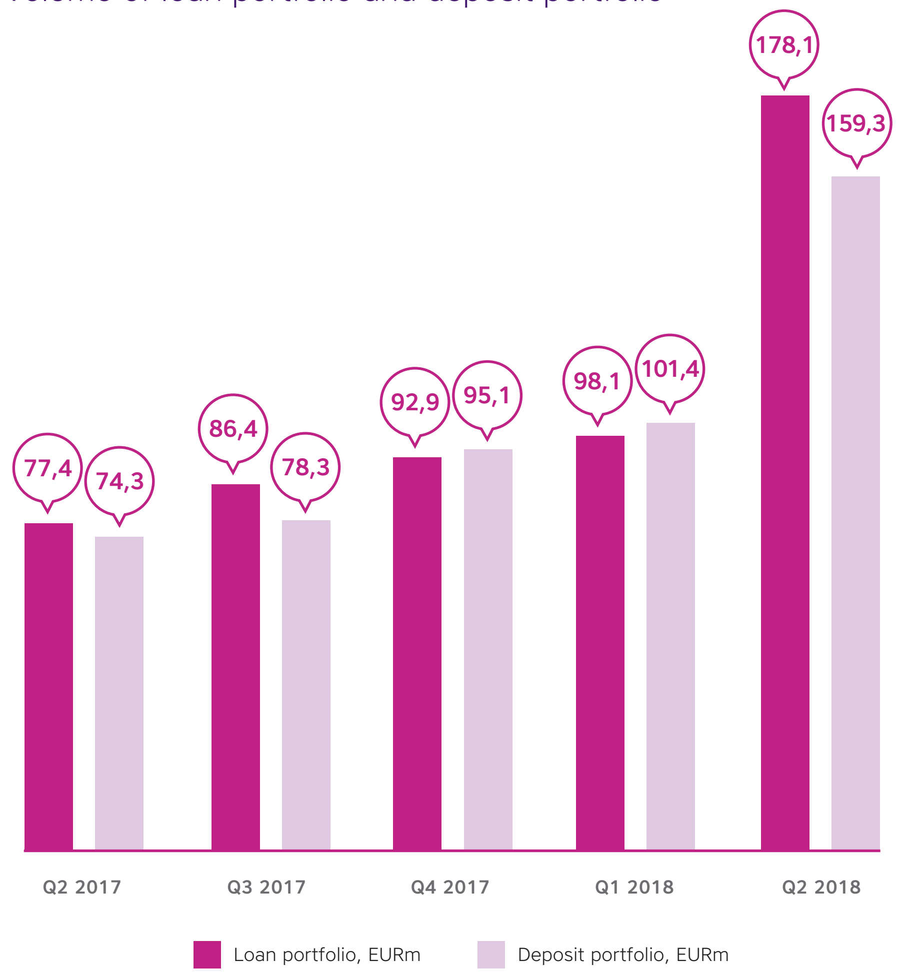
EURt

Key financial indicators	6 months 2018	6 months 2017	
Total assets	238 240	102 990	131.3%
Total equity attributable to shareholders of the parent	31 864	20 253	57.3%
Total comprehensive income attributable to owners of the parent (6 months)	4 783	5 706	-16.2%
Loan portfolio	178 100	77 439	130.0%
Deposit portfolio	159 264	74 345	114.2%

Ratios	6 months 2018	6 months 2017
Net return on equity	35.8%	71.8%
Net return on total assets	5.3%	12.2%
Net interest margin	8.7%	11.6%
Loan losses to loan portfolio	2.7%	4.9%
Cost/income ratio	48.3%	59.0%
Equity to total assets (30.06.2018; 30.06.2017)	13.4%	19.7%

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

Volume of loan portfolio and deposit portfolio



Capital adequacy

EURt	***30.06.2018***	***31.12.2017***
Capital base		
Paid-in share capital	874	782
Share premium	15 053	9 068
Statutory and other reserves	1 479	1 431
Retained earnings	9 713	3 243
Intangible assets (subtracted)	-6 938	-816
Profit for reporting period*	4 673	7 496
Other comprehensive income*	72	0
Other deductions	-2 290	-7 763
Adjustments due to IFRS 9 transitional arrangements	2 121	0
Total Tier 1 capital	**24 757**	**13 441**
Subordinated debt at nominal value	6 503	6 503
Total Tier 2 capital	**6 503**	**6 503**
Net own funds for capital adequacy calculation	**31 260**	**19 944**
Risk-weighted assets		
Credit institutions, standardised approach	2 546	2 216
Non-financial customers, standardised approach	1 556	1 595
Retail claims, standardised approach**	131 580	67 499
Claims past due, standardised approach**	3 225	1 301
Other assets, standardised approach	7 096	1 494
Total credit risk and counterparty credit risk	**146 003**	**74 105**
Operational risk, basic indicator approach	15 584	15 584
Total risk-weighted assets	**161 587**	**89 689**

Capital adequacy (%)	19.35%	22.24%
Regulative capital adequacy (%)	18.70%	19.86%
Tier 1 capital ratio (%)	15.32%	14.99%
Regulative Tier 1 capital ratio (%)	14.70%	12.75%

*In accordance with EU regulation, audited profit for the period may be included in retained earnings upon prior approval by competent authority. The calculations made in accordance with EU regulation do not include the profit earned during Q2 in the amount of 788 EURt, (2017: does not include profit for H2 in the amount of 1 777 EURt).

**In the reports submitted to the regulator as of 30.06.2018, the risk exposures take account of the credit portfolio impairment losses made in the reporting period in the amount of 987 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 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. Inbank AS adheres to these requirements both as of the balance sheet date and as at the publication of the interim report.

	Common equity Tier 1 capital ratio	***Tier 1 capital ratio***	***Total capital ratio***
Basic requirement	4.50%	6.00%	8.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Systemic risk buffer	0.53%	0.53%	0.53%
Minimum regulative capital requirement	**7.53%**	**9.03%**	**11.03%**

Condensed consolidated interim financial statement

Condensed consolidated statement of financial position

EURt	Note	30.06.2018	31.12.2017
Assets			
Cash in hand		4	4
Due from central banks, including mandatory reserve	8	36 135	14 767
Due from credit institutions	8	9 709	8 530
Financial assets at fair value through profit and loss		4 600	0
Loans and advances to customers	7;17	178 100	92 895
Investments in associates	10	97	7 806
Tangible assets		537	279
Intangible assets		6 938	816
Other financial assets	17	44	61
Other assets		1 521	459
Deferred tax asset		555	364
Total assets	**3**	**238 240**	**125 981**

EURt	Note	30.06.2018	31.12.2017
Liabilities			
Loan from credit institution	11	22 942	0
Customer deposits	12;17	159 264	95 056
Other financial liabilities	17	6 096	1 263
Other liabilities	17	1 539	1 136
Debt securities issued	13	10 018	0
Subordinated debt securities		6 485	6 480
Total liabilities	**3**	**206 344**	**103 935**
Equity			
Share capital	16	874	782
Share premium	16	15 053	9 068
Statutory reserve capital		79	79
Other reserves		1 472	1 352
Retained earnings		14 386	10 739
Total equity attributable to the share-holders of parent company		**31 864**	**22 020**
Non-controlling interest		32	26
Total equity		**31 896**	**22 046**
Total liabilities and equity		**238 240**	**125 981**

Notes set out on pages 14-41 form an integral part of the interim financial statements.

Condensed consolidated statement of profit and loss and other comprehensive income

EURt	Note	Q2 2018	6 months 2018	Q2 2017	6 months 2017
Interest income	4	4 909	8 706	3 061	5 996
Interest expense	4	-827	-1 398	-492	-976
Net interest income		**4 082**	**7 308**	**2 569**	**5 020**
Fee income	5	174	335	129	254
Fee expense	5	-196	-350	-144	-284
Net fee and commission income		**-22**	**-15**	**-15**	**-30**
Net gains from financial assets measured at fair value		0	1 204	0	0
Other operating income		91	175	179	395
Total net interest, fee and other income		**4 151**	**8 672**	**2 733**	**5 385**
Personnel expenses	6	-1 314	-2 525	-994	-1 879
Marketing expenses	6	-345	-471	-380	-488
Administrative expenses	6	-566	-1 032	-354	-708
Depreciations, amortisation		-93	-160	-55	-104
Total operating expenses		**-2 318**	**-4 188**	**-1 783**	**-3 179**
Profit before impairment losses on loans		**1 833**	**4 484**	**950**	**2 206**
Share of profit from associates	10	0	1 986	4 797	5 065
Impairment losses on loans and advances	7	-987	-1 839	-805	-1 731
Profit before income tax		**846**	**4 631**	**4 942**	**5 540**

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	Note	Q2 2018	6 months 2018	Q2 2017	6 months 2017
Income tax		-55	48	93	151
Profit for the period		**791**	**4 679**	**5 035**	**5 691**
Other comprehensive income/loss					
Items that may be reclassified subsequently to profit or loss					
Unrealised foreign exchange gains/losses		90	110	3	-13
Total comprehensive income for the period		**881**	**4 789**	**5 038**	**5 678**
Profit is attributable to					
Owners of the parent		788	4 673	5 050	5 718
Non-controlling interest		3	6	-16	-28
Profit for the reporting period		**791**	**4 679**	**5 034**	**5 690**
Total comprehensive income/loss is attributable to					
Owners of the parent		878	4 783	5 054	5 706
Non-controlling interest		3	6	-16	-28
Total comprehensive income for the reporting period		**881**	**4 789**	**5 038**	**5 678**
Basic earnings per share	15	9.52	56.43	64.57	77.75
Diluted earnings per share	15	8.99	53.31	60.74	72.86

Notes set out on pages 14-41 form an integral part of the interim financial statements.

Condensed consolidated statement of cash flows

EURt	*Note*	*6 months 2018*	*6 months 2017*
Cash flows from operating activities			
Interest received	4	8 898	6 232
Interest paid	4	-1 100	-726
Fees received	5	339	254
Fees paid	5	-350	-284
Other income received		175	371
Personnel expenses		-2 490	-1 819
Administrative and marketing expenses		-1 421	-1 189
Returned tax prepayments		285	0
Corporate income tax paid		-39	-80
Cash flows from operating activities before changes in the operating assets and liabilities		**4 297**	**2 759**
Changes in operating assets:			
Loans and advances to customers		-20 585	-15 082
Mandatory reserve in central bank		-386	-89
Other assets		-212	-19
Changes of operating liabilities:			
Loan from credit institution		-33 283	0
Customer deposits		63 644	9 508
Other liabilities		-123	9
Net cash from operating activities		**13 352**	**-2 914**
Cash flows from investing activities			
Acquisition of tangible and intangible assets		-386	-110
Acquisition of subsidiaries and associates	9;10	-13 134	-10 697
Proceeds from disposal of associates	10	6 269	10 402
Net cash used in investing activities		**-7 251**	**-405**

EURt	*Note*	*6 months 2018*	*6 months 2017*
Cash flows from financing activities			
Share capital contribution (including share premium)		6 077	2 800
Debt securities issued		10 000	0
Net cash from financing activities		**16 077**	**2 800**
Effect of exchange rate changes		-17	24
Net increase/decrease in cash and cash equivalents	**8**	**22 161**	**-495**
Cash and cash equivalents at the beginning of the reporting period		22 600	16 167
Cash and cash equivalents at the end of the reporting period	**8**	**44 761**	**15 672**

Notes set out on pages 14-41 form an integral part of the interim financial statements.

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 1 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	15	0	15	0	15
Purchase of non-controlling interest in subsidiaries		0	0	0	0	-65	-65	46	-19
Total profit/-loss and other comprehensive income for the reporting period		0	0	0	-13	5 718	5 705	-28	5 677
Balance as of 30 June 2017		**782**	**9 068**	**57**	**1 363**	**8 983**	**20 253**	**24**	**20 277**
Balance as of 1 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 of 1 January 2018		**782**	**9 068**	**79**	**1 352**	**9 713**	**20 994**	**26**	**21 020**
Paid in share capital	16	92	5 985	0	0	0	6 077		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 of 30 June 2018		**874**	**15 053**	**79**	**1 472**	**14 386**	**31 864**	**32**	**31 896**

Notes set out on pages 14-41 form an integral part of the interim 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 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 conjunction 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).

The amended standards that became effective since 1 January 2018 have had no impact on the 6-month interim financial report of Inbank.

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 (30.06.2018) EURt***
Maksekeskus Holding OÜ*	12257075	05.06.2015	Niine 11, Tallinn	Investment management	37,48	97
Inbank Lizings SIA	40103821436	21.08.2014	Akmenu iela 14, Riga	Financing	100	519
Inbank Technologies OÜ	12104213	05.06.2015	Niine 11, Tallinn	IT development	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		

*Associates

Inbank acquired 100% of the shares of financing company UAB Mokilizingas.

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

(i) 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, revenue/cost ratio, 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. These intercompany transactions are accounted for at market prices.

Income of reportable segments

EURt

6 months 2018	*Inbank AS (Estonia)*	*Inbank Lizings SIA (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)*	*Inbank Lizings SIA (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*TOTAL*
Profit before 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**

EURt

Q2 2018	*Inbank AS (Estonia)*	*Inbank Lizings SIA (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)*	*Inbank Lizings SIA (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*TOTAL*
Profit before 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**

EURt

6 months 2017	*Inbank AS (Estonia)*	*Inbank Lizings SIA (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*TOTAL*
Interest income	4 612	1 841	0	58	19	3	**6 533**
Fee income	257	138	0	1	0	0	**396**
Other operating income	146	1	0	0	24	138	**309**
Inter-segment eliminations	-536	0	0	0	0	-57	**-593**
Revenue from external customers	**4 479**	**1 980**	**0**	**59**	**43**	**84**	**6 645**
Interest expense	-957	-492	0	-31	-19	-12	**-1 511**
Fee expense	-148	-52	0	0	-89	0	**-289**
Inter-segment eliminations	5	492	0	31	0	12	**540**
Total expenses	**-1 100**	**-52**	**0**	**0**	**-108**	**0**	**-1 260**
Total net interest, fee and commission income and other income	**3 379**	**1 928**	**0**	**59**	**-65**	**84**	**5 385**

Net profit structure

EURt

6 months 2017	*Inbank AS (Estonia)*	*Inbank Lizings SIA (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*TOTAL*
Profit before impairment losses on loans	**2 096**	**972**	**0**	**24**	**-758**	**-128**	**2 206**
Profit from affiliates	5 065	0	0	0	0	0	**5 065**
Impairment losses on loans	-680	-1 002	0	-17	-32	0	**-1 731**
Deferred income tax	0	-7	0	0	158	0	**151**
Net profit/loss	**6 481**	**-37**	**0**	**7**	**-632**	**-128**	**5 691**

EURt

Q2 2017	***Inbank AS (Estonia)***	***Inbank Lizings SIA (Latvia)***	***UAB Mokilizingas (Lithuania)***	***Inbank Liising AS (Estonia)***	***Inbank AS Poland branch***	***Inbank Technologies OÜ (Estonia)***	***TOTAL***
Interest income	2 413	863	0	33	19	2	**3 330**
Fee income	137	66	0	1	0	0	**204**
Other operating income	63	0	0	0	-1	70	**132**
Inter-segment eliminations	-269	0	0	0	0	-28	**-297**
Revenue from external customers	**2 344**	**929**	**0**	**34**	**18**	**44**	3 369
Interest expense	-474	-242	0	-19	-19	-7	**-761**
Fee expense	-79	-22	0	0	-44	0	**-145**
Inter-segment eliminations	2	242	0	19	0	7	**270**
Total expenses	**-551**	**-22**	**0**	**0**	**-63**	**0**	-636
Total net interest, fee and commission income and other income	**1 793**	**907**	**0**	**34**	**-45**	**44**	**2 733**

Net profit structure

EURt

Q2 2017	***Inbank AS (Estonia)***	***Inbank Lizings SIA (Latvia)***	***UAB Mokilizingas (Lithuania)***	***Inbank Liising AS (Estonia)***	***Inbank AS Poland branch***	***Inbank Technologies OÜ (Estonia)***	***TOTAL***
Profit before impairment losses on loans	**1 098**	**418**	**0**	**11**	**-501**	**-76**	**950**
Profit from affiliates	4 797	0	0	0	0	0	**4 797**
Impairment losses on loans	-362	-398	0	-13	-32	0	**-805**
Deferred income tax	0	-16	0	0	109	0	**93**
Net profit/loss	**5 533**	**4**	**0**	**-2**	**-424**	**-76**	5 035

Assets and liabilities of reportable segments

EURt

30.06.2018	*Inbank AS (Estonia)*	*Inbank Lizings SIA (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising (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	35 678	0	0	0	457	0	0	**36 135**
Due from credit institutions	2 977	222	1 372	102	4 179	857	0	**9 709**
Financial assets at fair value through profit and loss	4 600	0	0	0	0	0	0	**4 600**
Loans and receivables	142 460	15 753	70 670	1 635	5 019	5	-57 442	**178 100**
Investments in subsidiaries	16 122	0	0	0	0	0	-16 122	**0**
Investments in affiliates	0	0	0	0	0	97	0	**97**
Tangible assets	126	87	155	0	47	122	0	**537**
Intangible assets	6 807	107	45	0	19	0	-40	**6 938**
Other financial assets	10	32	0	0	0	2	0	**44**
Other assets	169	13	1 226	37	75	7	-6	**1 521**
Deferred tax assets	0	0	0	0	555	0	0	**555**
Total assets	**208 953**	**16 214**	**73 468**	**1 774**	**10 351**	**1 090**	**-73 610**	**238 240**
Loan from credit institution	0	16 294	58 880	1 576	3 204	417	-57 429	**22 942**
Customer deposits	149 538	0	0	0	9 726	0	0	**159 264**
Debt securities issued	10 018	0	0	0	0	0	0	**10 018**
Subordinated debt securities	6 485	0	0	0	0	0	0	**6 485**
Other financial liabilities	1 237	75	4 759	26	5	5	-11	**6 096**
Other liabilities	797	155	492	1	92	9	-7	**1 539**
Total liabilities	**168 075**	**16 524**	**64 131**	**1 603**	**13 027**	**431**	**-57 447**	**206 344**

Assets and liabilities of reportable segments

EURt								
31.12.2017	***Inbank AS (Estonia)***	***Inbank Lizings SIA (Latvia)***	***UAB Mokilizingas (Lithuania)***	***Inbank Liising (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 to customers	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**
Loan from credit institution	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**

Inbank Lizings SIA equity as at 30.06.2018 was -311 EURt (31.12.2017: -378 EURt).

Note 4 Net interest income

EURt	*Q2 2018*	*6 months 2018*	*Q2 2017*	*6 months 2017*
Interest income				
Loans to households	4 796	8 518	2 993	5 865
Loans to corporates	116	170	39	69
Due from financial and credit institutions	-3	18	29	62
Total	**4 909**	**8 706**	**3 061**	**5 996**
Interest expense				
Deposits received	-694	-1 149	-376	-743
Debt securities sold	-133	-249	-116	-233
Total	**-827**	**-1 398**	**-492**	**-976**
Net interest income	**4 082**	**7 308**	**2 569**	**5 020**
Interest income by customer location				
Estonia	3 100	5 924	2 179	4 136
Latvia	947	1 785	863	1 841
Lithuania	703	703	0	0
Poland	159	294	19	19
Total	**4 909**	**8 706**	**3 061**	**5 996**

Interest income on impaired loans in Q2 2018 was 20 EURt; 6 months 2018: 172 EURt (Q2 2017: 15 EURt; 6 months 2017: 113 EURt)

Note 5 Net fee income

EURt	Q2 2018	6 months 2018	Q2 2017	6 months 2017
Fee income				
Households	174	335	129	253
Corporates	0	0	0	1
Total	**174**	**335**	**129**	**254**
Fee expense				
Loan administration costs	-196	-350	-144	-284
Total	**-196**	**-350**	**-144**	**-284**
Net fee income	**-22**	**-15**	**-15**	**-30**
Fee income by customer location				
Estonia	128	245	37	116
Latvia	43	86	92	138
Lithuania	3	3	0	0
Poland	0	1	0	0
Total	**174**	**335**	**129**	**254**

Note 6 Operating expenses

Personnel expenses	***Q2 2018***	***6 months 2018***	***Q2 2017***	***6 months 2017***
Personnel expense	1 076	2 062	784	1 516
Social and other taxes	238	463	210	363
Total personnel expenses	**1 314**	**2 525**	**994**	**1 879**

Marketing Expenses				
Advertising and marketing	253	328	306	361
Sales costs	92	143	74	127
Total marketing expenses	**345**	**471**	**380**	**488**

Administrative expenses				
Rental and maintenance expenses	112	204	54	110
IT expenses	131	222	60	142
Legal expenses	12	24	34	79
Office expenses	43	90	34	57
Training and business trip expenses	11	39	32	53
Other tax expenses	41	58	29	41
Supervision expenses	29	61	14	33
Recovery proceeding expenses	26	49	18	28
Consultation expenses	27	42	8	22
Other administrative expenses	134	243	71	143
Total administrative expenses	**566**	**1 032**	**354**	**708**

Note 7 Loans and advances to customers

EURt

Distribution of receivables as of 30.06.2018	***Due from households - gross basis***	***Portfolio provision***	***Special provision***	***Due from households - net basis***	***Coverage ratio***
Overdue 0-3 days	157 688	-1 541	-37	156 110	1.0%
Overdue 4-89 days	14 311	-790	-59	13 462	5.9%
Overdue 90-179 days	1 752	-8	-927	817	53.4%
Overdue more than 180 days	3 078	0	-1 998	1 080	64.9%
Total receivables	**176 829**	**-2 339**	**-3 021**	**171 469**	**3.0%**

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	82 307	-505	-22	81 780	0.6%
Overdue 4-89 days	6 762	-783	-29	5 950	12.0%
Overdue 90-179 days	1 518	0	-704	814	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 30.06.2018	***Due from corporates - gross basis***	***Portfolio provision***	***Special provision***	***Due from corporates - net basis***	***Coverage ratio***
Overdue 0-3 days	6 099	-5	-9	6 085	0.2%
Overdue 4-89 days	534	-17	0	517	3.2%
Overdue 90-179 days	30	0	-10	20	33.3%
Overdue more than 180 days	14	0	-5	9	35.7%
Total receivables	**6 677**	**-22**	**-24**	**6 631**	**0.7%**

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 4-89 days	363	-6	0	357	1.7%
Overdue 90-179 days	10	0	-4	6	40.1%
Overdue more than 180 days	5	0	-3	2	66.4%
Total receivables	**3 939**	**-22**	**-24**	**3 893**	**1.2%**

By the view of management, overdues up to 3 days don't objectively reflect quality of customer receivables as overdues of that tenure often are result of interbank payments processing rules.

Distribution of receivables according to customer sector

	30.06.2018	31.12.2017
Households	176 829	92 129
Non-financial companies	2 722	2 241
Other financial companies	1 558	1 606
Other advances	2 397	92
Total	**183 506**	**96 068**
Impairment allowance	-5 406	-3 173
Total	**178 100**	**92 895**

Impairment losses on loans and advances	6 months 2018	2017	6 months 2017
Impairment losses of reporting period	-2 369	-4 578	-1 912
Recoveries from written off from financial position	530	1 046	181
Total	**-1 839**	**-3 532**	**-1 731**

Changes in impairments	6 months 2018	2017	6 months 2017
As of January 1	-3 173	-4 396	-4 396
Impact of IFRS 9	-901	0	0
Impairment provisions set up during reporting period	-2 369	-4 578	-1 912
Impairment provisions set up for interests and commissions	0	-414	-270
Written off from financial position during the period	1 037	6 215	940
Total	**-5 406**	**-3 173**	**-5 638**

Note 8 Due from central banks and credit institutions

EURt	*30.06.2018*	*31.12.2017*
Due from central banks	35 048	14 066
Mandatory reserve in central bank	1 087	701
Due from credit institutions	9 709	8 530
Total	**45 844**	**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 Shares of subsidiaries

On May 22, 2018 Inbank AS acquired a consumer credit 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 following to the transaction 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 the purchase price allocation, the value of assets of UAB Mokilizingas were assessed and the assets were recognised at the fair value as of 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 Shares of associates

Carrying amount of associates

EURt	***30.06.2018***	***31.12.2017***
Name of associates		
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 (6 months 2017: 255 EURt) and proceeds from disposal of associates in the amount of 1 950 EURt (6 months 2017: 0 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**
Proceed from disposal of associate	476
Proceed from partly disposal of associate	5 793
Total	**6 269**

Note 11 Loan from credit institution

EURt	*30.06.2018*	*31.12.2017*
Loan received		
Loan from credit institution	22 942	0
Total	**22 942**	**0**

In May 2018 LHV issued a loan in the amount of 25 million euros to UAB Mokilizingas with the maturity of 1 year.

Accrued interest liability is 25 EURt (31.12.2017: 0 EURt).

Note 12 Customer deposits

EURt		
Customer deposits	***30.06.2018***	***31.12.2017***
Deposits	159 264	93 900
Total	**159 264**	**93 900**

Deposits include accrued interest liabilities in the amount of 1 242 EURt. (31.12.2017: 864 EURt).

EURt		
Customer deposits	***30.06.2018***	***31.12.2017***
Deposits from households	147 954	84 450
Deposits from non-financial corporations	10 148	9 450
Deposits from other financial corporations	1 162	1 156
Total	**159 264**	**95 056**

Deposits by clients' residence	***30.06.2018***	***31.12.2017***
Estonia	69 899	67 483
Germany	77 334	17 666
Poland	9 722	8 677
Other residence	2 309	1 230
Total	**159 264**	**95 056**

Deposits by contractual maturity

EURt					
30.06.2018	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***Total***
Customer deposits	2 839	10 402	67 475	78 548	**159 264**

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 13 Debt securities

EURt

Transactions with debt securities	2018
Issued debt securities	10 000
Accrued interest	18
Closing balance 30.06.2018	**10 018**

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's pension funds via a private placement. 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 14 Contingent liabilities and loan commitments

Inbank had the following loan commitments:

EURt	
Revocable commitments	
Liability in contractual amount as of 30 June 2018	14 037
incl unused credit card limits	13 887
Liability in contractual amount as of 31 December 2017	0
Irrevocable commitments	
Liability in contractual amount as of 30 June 2018	526
Liability in contractual amount as of 31 December 2017	635

Note 15 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 2018	*6 months 2018*	*Q2 2017*	*6 months 2017*
Total profit attributable to owners of the parent (EUR thousand)	788	4 673	5 050	5 718
Weighted average number of shares	82 805	82 805	78 215	73 548
Basic earnings per share (EUR)	9.52	56.43	64.57	77.75
Weighted average number of shares used for calculating the diluted earnings per shares	87 655	87 655	83 145	78 478
Diluted earnings per share (EUR)	8.99	53.31	60.74	72.86

Note 16 Share capital

	30.06.2018	*31.12.2017*
Share capital	874	782
Number of shares outstanding	87 394	78 215
Nominal share value (EUR)	10	10

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

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

The share capital increase was registered in the commercial register on 16 May 2018.

Note 17 Fair value of financial assets and liabilities

EURt	30.06.2018			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	36 135	36 135	2	14 767	14 767	2
Due from credit institutions	9 709	9 709	2	8 530	8 530	2
Financial assets at fair value through profit and loss	4 600	4 600	3	0	0	
Loans to and receivables from customers	178 100	178 100	3	92 895	92 895	3
Other financial assets	44	44	3	61	61	3
Total	**228 592**	**228 592**		**116 257**	**116 257**	

	30.06.2018			31.12.2017		
Liabilities	**Fair value**	**Carrying amount**	**Level**	**Fair value**	**Carrying amount**	**Level**
Loan from credit institution	22 942	22 942	2	0	0	
Customer deposits	159 264	159 264	2	95 056	95 056	2
Debt securities issued	10 018	10 018	3	0	0	
Subordinated debt securities	6 958	6 485	2	6 952	6 480	2
Other financial liabilities	6 096	6 096	3	1 263	1 263	3
Total	**205 278**	**204 805**		**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 debt securities are short-term and issued with the interest rate which is at the market level.

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 the issue of loans. In the management's opinion, their fair value 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 18 Related parties

EURt	6 months 2018	6 months 2017
Remuneration of the Management Board and Supervisory Board	448	330

The following are considered to be the Group's related parties:

- members of the Management Board and Supervisory Board, their family members and related companies (hereinafter the management),
- associates
- parent company or owners the parent company that have control or significant influence over the Parent company

Balances	30.06.2018	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	**232**	**265**
management	232	265

Transactions	6 months 2018	6 months 2017
Interest income	**7**	**30**
management	0	0
associates	7	30
Interest expenses	**5**	**7**
management	5	7
associates	0	0
Services purchased	**14**	**20**
management	14	20
associates	0	0
Services sold	**44**	**184**
management	0	0
associates	44	184

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% and 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. 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