Inbank AS

Interim Report

12 months 2019

Inbank AS General Information

Business name	Inbank AS
Address	Niine 11, 10414 Tallinn
Registration date	05 October 2010
Registry code	12001988 (Commercial Register of the Republic of Estonia)
Legal entity identifier	2138005M92IEIQVEL297 (LEI-code)
VAT number	EE101400240
Telephone	+372 640 8080
E-mail	info@inbank.ee
Website	www.inbank.ee
Reporting period	01.01.2019-31.12.2019

Members of the Supervisory Board:	Members of the Management Board:
Priit Põldoja, Chairman	Jan Andresoo, Chairman
Roberto de Silvestri	Liina Sadrak
Triinu Reinold	Marko Varik
Raino Paron	Piret Paulus
Rain Rannu	Jaanus Kõusaar

The reporting currency is the euro (EUR), with units presented in thousands.

Inbank AS' interim report for twelve months 2019 is unaudited.

The bank does not hold any ratings assigned by international rating agencies.

Declaration of the Management Board

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

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

Inbank AS is a going concern.

Tallinn, 20 February 2020

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
Jaanus Kõusaar	Member of the Management Board

Management report

The fourth quarter was busy and eventful for Inbank. The year-end and Christmas are a commercial high season clearly reflected in the growth of sales finance volumes. In addition, many strategic projects were realised both in product development and other areas: we launched a new payment method, simplified the legal structure of Inbank, listed bonds on the stock exchange and opened a branch in Lithuania. We also actively participated in organising the IPO of Coop Pank.

Sales results

The sales results for Q4 were good and we achieved solid growth once again. Total sales for the quarter was 85 million euros and the increase was 39% compared to Q4 of the previous year. Our sales finance business continues its strong growth. In total, we sold sales financing worth 34 million euros in Q4, making the annual growth rate 75%.

By growth, the largest market continues to be Poland with 18 million euros (+173%), followed by Lithuania with 29 million (+28%), Estonia with 24 million (+22%) and Latvia with 14 million euros (+17%).

In total, we sold credit products worth 305 million euros in 2019; that is, 46% more year-on-year. The division of sales figures was as follows: Estonia 94 million, Latvia 53 million, Lithuania 102 million and Poland 55 million euros. Inbank thrived in all markets last year but especially in Poland, where business volumes increased by an outstanding 355%.

Business development

In October in collaboration with Maksekeskus, we launched Slice, a unique payment solution in Estonia, enabling consumers to make purchases of up to 800 euros and pay over three months without any additional fees. Similar to other payment solutions, Inbank receives income directly from the merchant. Slice also clearly illustrates our 2019 strategy, according to which we invest a large proportion of our resources in the development of innovative products.

The Lithuanian Central Bank gave Inbank permission to establish a branch and start banking activities in November. After this we expanded our business to the 4 billion euro Lithuanian term deposit market in order to diversify the bank's channels for taking deposits and thus improve the financing conditions of our activities. In addition, we completed the merger with Mokilizingas AB in December, making Inbank the legal successor of Mokilizingas and all assets, rights and obligations of Mokilizingas were transferred to Inbank's Lithuanian branch. The objective of the merger was to simplify and harmonise the legal structure of the group and create a more cost efficient governance system.

Other news

In December we announced the public offering of subordinated bonds aimed at strengthening the capital structure and diversifying the investor base. The initial volume of the bond issue, 6.5 million euros, was oversubscribed 5.8 times and Inbank exercised its right to increase the volume of the issue to 8 million euros –– the maximum extent allowed. In total, 1,348 investors participated in the Inbank bond subscription to a value of 38 million euros. I am happy to announce that this time almost twice as many local retail investors and most of the local investment funds subscribed, showing strong confidence in Inbank and our innovative business model.

The IPO of Coop Pank closed in December during which Inbank sold its remaining 3.49% shareholding earning 204,000 euros as a result.

Financial results

The loan portfolio of Inbank increased 50% compared to the previous year reaching 338 million euros. At the same time, our deposit portfolio grew 57%, reaching 378 million euros at year end. Looking at these figures, it can be said that the growth of deposits is in line with the growth of the loan portfolio. As the main source of financing for the bank is retail deposits, we can be satisfied with this result. We have been able to manage the balanced growth of our assets and liabilities.

Compared to Q4 of the previous year, the bank's income increased 35% and expenses 34%. The effectiveness of our operations has improved compared to Q3. When looking at the annual result, the growth of portfolio was 50%, the growth of income 50% and the growth of expenses 50%. From these figures we conclude that we have been able to maintain our ability to earn income. The growth of expenses is definitely not the expected result in the long term, our aim is to improve the effectiveness of our operations and to show a slow-down in expenses while increasing income in the future. At the moment we are making large investments in our team and technology, affecting our effectiveness ratios in the short term. Since this is an investment, we estimate improvement in effectiveness in the near future.

Inbank continues to be a profitable and successful company. The profit in Q4 was 3.4 million euros and annual profit 10.0 million euros. Compared to last year, Inbank profits increased 8%, which, taking into account the significantly larger proportion of non-recurring profit in 2018, we consider a good result. With this profit we earned a 23.9% return on equity, which corresponds to this year's targets.

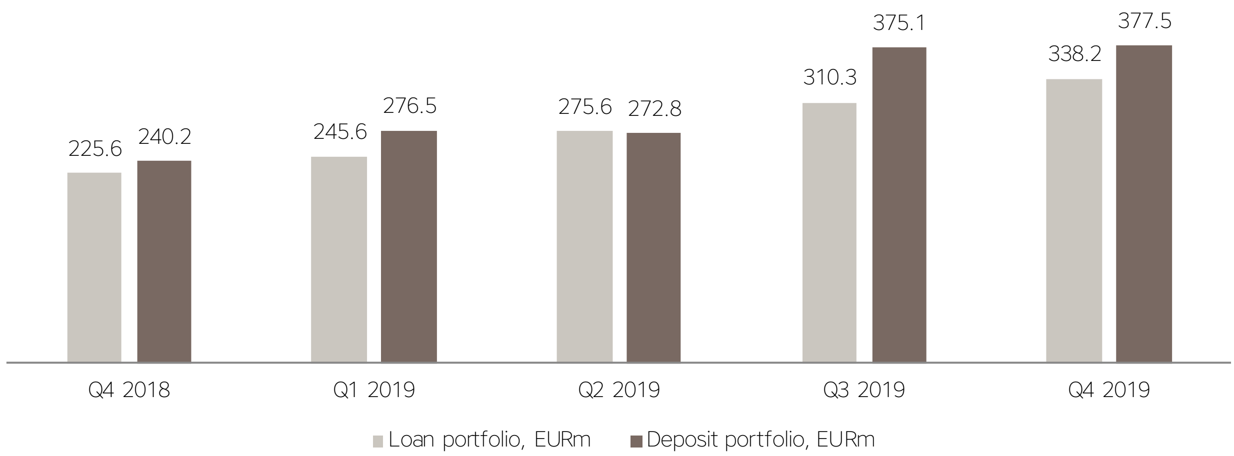
Jan Andresoo
Chairman of the Management Board

Key financial indicators

Key financial indicators and ratios

In millions of euros	31.12.2019	31.12.2018	% change
Total assets	462.8	318.0	45.5%
Total equity attributable to owners of the parent	47.3	36.4	29.9%
Net profit attributable to owners of the parent	10.0	9.3	7.5%
Loan portfolio	338.2	225.6	49.9%
Deposit portfolio	377.5	240.2	57.2%

Loan and deposit portfolio development



Ratios

	12 months 2019	12 months 2018
Return on equity	23.9%	31.7%
Return on total assets	2.6%	4.2%
Net interest margin	8.4%	9.5%
Impairment losses to loan portfolio	2.1%	1.7%
Cost/income ratio	49.9%	49.9%
Equity to total assets	10.2%	11.5%

Explanations (key ratios are annualized):

Return on equity: net profit attributable to owners of the parent / total equity attributable to owners of the parent (average over the period)

Return on total assets: net profit attributable to owners of the parent / total assets (average over the period)

Net interest margin: net interest income / interest-bearing assets (average over the period)

Impairment losses to loan portfolio: impairment losses on loans / loan portfolio (average over the period)

Cost/income ratio: total operating expenses / total income

Equity to total assets: total equity attributable to shareholders of parent company / total assets

Capital adequacy

The following table illustrates the composition of Inbank's own funds, risk-weighted assets and capital adequacy ratios as at 31.12.2019, including the comparative period. Own funds include full profit for 2019 and therefore risk-weighted assets do not include unaudited allowances.

In thousands of euros	31.12.2019	31.12.2018
Capital base		
Paid-in share capital	903	874
Share premium	15,908	15,053
Statutory and other reserves	1,569	1,446
Retained earnings	18,948	9,756
Intangible assets (subtracted)	-11,721	-7,697
Profit for reporting period *	10,010	9,261
Other comprehensive income *	-18	35
Other deductions	0	-1,824
Adjustments due to IFRS 9 transitional arrangements	4,354	2,308
Common Equity Tier 1 capital	39,953	29,212
Additional Tier 1 capital	3,150	3,150
Tier 1 capital	43,103	32,362
Tier 2 capital	14,503	6,503
Own funds	57,606	38,865
Risk-weighted assets		
Credit institutions, standardised approach	4,471	3,401
Non-financial customers, standardised approach **	6,466	1,706
Retail claims, standardised approach **	245,451	167,208
Claims past due, standardised approach **	3,968	3,297
Other assets, standardised approach	17,044	6,844
Credit risk and counterparty credit risk	277,400	182,456
Operational risk, basic indicator approach	40,086	25,648
Risk weighted assets	317,486	208,104
Capital ratios	31.12.2019	31.12.2018
Capital adequacy (%)	18.14%	18.68%
Regulative capital adequacy (%)	16.98%	15.73%
Tier 1 capital ratio (%)	13.58%	15.55%
Regulative Tier 1 capital ratio (%)	12.43%	12.62%

* In accordance with EU regulation, audited profit for the reporting period may be included in retained earnings upon prior approval by the competent authorities. If only audited profit were included in Inbank's own funds, as at 31.12.2019 it would reduce the own funds to EUR 54,101 thousand (31.12.2018: to EUR 32,947 thousand). These calculations exclude the profit earned in the fourth quarter of 2019 in the amount of EUR 3,444 thousand (31.12.2018: profit for the second, third and fourth quarters of 2018 in the amount of EUR 5,376 thousand was excluded).

** In accordance with EU regulation, credit portfolio impairment losses incurred in the reporting period which are yet to be confirmed by the competent authorities may be included in the calculation of risk-weighted assets in the amount of EUR 1,204 thousand (31.12.2018: EUR 1,917 thousand). As at 31.12.2019 it would increase the risk-weighted assets to EUR 318,541 thousand (31.12.2018: EUR 209,209 thousand).

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 level of 2.5% and systemic risk buffer of 1% (in relation to risk exposure located in Estonia). The total amount of the systemic risk buffer depends on the ratio between the Estonian and whole Inbank exposures.

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

These buffers are added to both Tier 1 and the total own funds requirements.

Overview of the capital requirement as at 31.12.2019 is shown in the table below:

	Common Equity Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Base requirement	4.50%	6.00%	8.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Countercyclical capital buffer	0.29%	0.29%	0.29%
Systemic risk buffer	0.45%	0.45%	0.45%
Minimum regulative capital requirement	7.74%	9.24%	11.24%

Condensed consolidated interim financial statements

Condensed consolidated statement of financial position

In thousands of euros	Note	31.12.2019	31.12.2018
Assets			
Cash in hand		0	4
Due from central banks	9	83,080	64,620
Due from credit institutions	9	20,655	13,700
Financial assets at fair value through profit and loss		0	4,600
Loans and advances	3; 7; 24	338,157	225,639
Investments in associates	11	3,276	97
Tangible assets		840	545
Right of use asset		773	0
Intangible assets	12	11,721	7,697
Other financial assets	13	1,692	64
Other assets	13	588	514
Deferred tax asset		1,985	564
Total Assets	4	462,767	318,044
Liabilities			
Loan from credit institution	14	0	10,429
Customer deposits	15; 24	377,518	240,175
Other financial liabilities	18; 24	13,545	8,776
Other liabilities	18	2,837	2,654
Debt securities issued	16	4,010	10,017
Subordinated debt securities	17	17,537	9,528
Total Liabilities	4	415,447	281,579
Equity			
Share capital	20; 21	903	874
Share premium	21	15,908	15,053
Statutory reserve capital	23	88	79
Other reserves	22; 23	1,463	1,401
Retained earnings		28,958	19,018
Non-controlling interest		0	40
Total Equity		47,320	36,465
Total Liabilities and equity		462,767	318,044

Notes set out on pages 12-31 form an integral part of the consolidated financial statements.

Condensed consolidated statement of profit and loss and other comprehensive income

In thousands of euros	Note	Q4 2019	2019	Q4 2018	2018
Interest income	4	10,577	37,560	7,848	23,633
Interest expense	4	-1,909	-6,380	-1,211	-3,760
Net interest income		8,668	31,180	6,637	19,873
Fee income	5	278	965	180	703
Fee expense	5	-481	-1,742	-371	-1,091
Net fee and commission income		-203	-777	-191	-388
Net gains from financial assets measured at fair value		204	743	0	1,204
Other operating income		307	885	214	666
Total net interest, fee and other income		8,976	32,031	6,660	21,355
Personnel expenses	6	-2,128	-8,026	-1,761	-5,795
Marketing expenses	6	-896	-2,583	-647	-1,592
Administrative expenses	6	-1,345	-4,084	-982	-2,814
Depreciations, amortisation	12	-389	-1,301	-161	-445
Total operating expenses		-4,758	-15,994	-3,551	-10,646
Profit before profit from associates and impairment losses on loans		4,218	16,037	3,109	10,709
Share of profit from associates		720	720	0	1,986
Impairment losses on loans and advances	7	-1,204	-6,049	401	-2,686
Profit before income tax		3,734	10,708	3,510	10,009
Income tax	8	-290	-698	-459	-733
Profit for the period		3,444	10,010	3,051	9,276
incl. Shareholders of parent company		3,444	10,010	3,048	9,262
incl. Non-controlling interest		0	0	3	14
Other comprehensive income that may be reclassified subsequently to profit or loss					
Currency translation differences		-135	-53	21	73
Total comprehensive income for the period		3,309	9,957	3,072	9,349
incl. Shareholders of parent company		3,309	9,957	3,069	9,335
incl. Non-controlling interest		0	0	3	14
Basic earnings per share (EUR)	20	38.12	112.64	34.88	111.85
Diluted earnings per share (EUR)	20	36.10	106.24	32.86	105.06

Notes set out on pages 12-31 form an integral part of the consolidated financial statements.

Condensed consolidated statement of cash flows

In thousands of euros	Note	2019	2018
Cash flows from operating activities			
Interest received	4	37,316	22,940
Interest paid	4	-4,481	-2,245
Fees received	5	965	703
Fees paid	5	-1,742	-1,091
Other income received		885	666
Personnel expenses	6	-7,172	-5,686
Administrative and marketing expenses	6	-6,365	-3,811
Prepayment of returned corporate income tax		0	285
Corporate income tax paid		-3,296	-512
Cash flows from operating activities before changes in the operating assets and liabilities		16,110	11,249
Changes in operating assets			
Loans and advances		-117,350	-69,827
Mandatory reserve in central banks		-2,613	-1,251
Other assets		-3,123	-716
Changes of operating liabilities			
Loan from credit institution		-10,429	-45,783
Customer deposits		135,047	143,604
Other liabilities		3,797	5,645
Net cash from operating activities		21,439	42,921
Cash flows from investing activities			
Acquisition of tangible and intangible assets	12	-5,179	-1,325
Acquisition of subsidiaries and associates	13; 14	-121	-13,134
Net change of investments at fair value through profit or loss		3,819	0
Proceeds from disposal of associates	11	0	6,269
Net cash used in investing activities		-1,481	-8,190
Cash flows from financing activities			
Share capital contribution (including share premium)		884	6,077
Subordinated debt securities issued		8,000	3,033
Debt securities issued		4,000	10,000
Repayments of debt securities		-10,000	0
Net cash used in financing activities		2,884	19,110
Effect of exchange rate changes		-46	-69
Cash and cash equivalents at the beginning of the reporting period	9	76,372	22,600
Net increase/decrease in cash and cash equivalents		22,796	53,772
Cash and cash equivalents at the end of the reporting period	9	99,168	76,372

Notes set out on pages 12-31 form an integral part of the consolidated financial statements.

Condensed consolidated statement of changes in equity

In thousands of euros	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings/ accumulated loss	Total attribut-able to owners of the parent	Non-controlling interest	Total equity
Balance, 01.01.2018	782	9,068	79	1,352	10,739	22,020	26	22,046
Changes on initial application of IFRS 9	0	0	0	0	-1,026	-1,026	0	-1,026
Adjusted balance, 01.01.2018	782	9,068	79	1,352	9,713	20,994	26	21,020
Paid in share capital	92	5,985	0	0	0	6,077	0	6,077
Share-based payment reserve	0	0	0	-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, 31.12.2018	874	15,053	79	1,401	19,018	36,425	40	36,465
Balance, 01.01.2019	874	15,053	79	1,401	19,018	36,425	40	36,465
Paid in share capital	29	855	0	0	0	884	0	884
Share-based payment reserve	0	0	0	115	17	132	0	132
Statutory reserve capital	0	0	9	0	-9	0	0	0
Purchase of non-controlling interest in subsidiaries	0	0	0	0	-78	-78	-40	-118
Total profit/-loss and other comprehensive income for the reporting period	0	0	0	-53	10,010	9,957	0	9,957
Balance, 31.12.2019	903	15,908	88	1,463	28,958	47,320	0	47,320

Notes set out on pages 12-31 form an integral part of the consolidated financial statements.

Note 1 Accounting policies

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

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

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

Company name	Date of purchase/founded	Location	Activity	Holding (%)	Cost (EURt)
Maksekeskus Holding OÜ *	05.06.2015	Estonia	Holding company	100	3,167
Inbank Technologies OÜ	05.06.2015	Estonia	Hardware rental	100	2,915
Inbank Liising AS	08.04.2016	Estonia	Leasing	100	198
Inbank Payments OÜ	27.08.2019	Estonia	Holding company	100	3
SIA Inbank Latvia	21.08.2014	Latvia	Financing	100	519
AS Inbank filialas	15.11.2019	Lithuania	Banking		
AS Inbank Spółka Akcyjna Oddział w Polsce	08.09.2016	Poland	Banking		

* Maksekeskus Holding OÜ has 29.8% shareholding in Maksekeskus AS.

Changes in accounting policies

Inbank has adopted IFRS 16 "Leases" for the first time starting from 1 January 2019. The other new standards that have become effective since 1 January 2019 have had no impact on the 12-month interim financial report of Inbank.

IFRS 16 "Leases"

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

Lessees will be required to recognise:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

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

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

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

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

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

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

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

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

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

On applying the standard as at 1 January 2019, the lease payments were discounted at Inbank's incremental borrowing rate of 3.21% on average. Inbank has used the following practical expedients permitted by the standard:

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

Inbank has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease". As the result of application, the Group's total assets in the balance sheet as at 1 January 2019 increased EUR 1,070 thousand and liabilities increased EUR 1,070 thousand.

In thousands of euros	01.01.2019
IFRS 16 initial application	
Borrowings due within 1 year	401
Borrowings due after 1 year	669
Borrowings total	1,070

Note 2 Significant accounting estimates

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

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

The management relies on past experience and 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 (ECL) allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Inbank Consolidated Annual Report 2018 Note 1 “Summary of significant accounting policies”. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

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

Note 3 Business segments

Inbank divides its business activities into segments according to the geographical location of activities in Estonia, Latvia, Lithuania and Poland. Business segments are Inbank companies with separate financial data, which is also the basis upon the regular monitoring of business results by the decision makers of Inbank. Inbank monitors profitability, cost/benefit ratio, growth and quality of credit portfolio and impairment losses for each operating segment.

The revenues of the reported segments contain revenues from transactions between the segments. Such transactions include loans given by Inbank, as well as services provided to the companies of the consolidation group by Inbank Technologies. The above transactions are accounted for at market prices.

Inbank does not have any customers, whose income accounts for more than 10% of the respective type of Inbank consolidated income.

Income of reported segments

In thousands of euros	Estonia	Latvia	Lithuania	Poland	Inter-segment eliminations	Total
12 months 2019						
Interest income	20,556	4,789	13,891	2,934	-4,610	37,560
Fee income	737	220	0	8	0	965
Net gains from financial assets measured at fair value	743	0	0	0	0	743
Other operating income	505	87	430	52	-189	885
Revenue from external customers	22,541	5,096	14,321	2,994	-4,799	40,153
Interest expense	-5,366	-780	-3,805	-1,039	4,610	-6,380
Fee expense	-411	-161	-757	-413	0	-1,742
Total expenses	-5,777	-941	-4,562	-1,452	4,610	-8,122
Total net interest, fee and commission income and other income	16,764	4,155	9,759	1,542	-189	32,031

Net profit structure

In thousands of euros	Estonia	Latvia	Lithuania	Poland	Inter-segment eliminations	Total
12 months 2019						
Profit before profit from associates and impairment losses on loans	8,539	2,507	4,994	-3	0	16,037
Profit of associates	720	0	0	0	0	720
Impairment losses on loans and advances	-1,894	-683	-1,491	-1,981	0	-6,049
Income tax	-920	0	-360	582	0	-698
Net profit/loss	6,445	1,824	3,143	-1,402	0	10,010
Total Assets	396,332	29,540	135,115	53,250	-151,470	462,767
Total Liabilities	356,252	27,039	121,482	58,480	-147,806	415,447

Income of reported segments

In thousands of euros	Estonia	Latvia	Lithuania	Poland	Inter-segment eliminations	Total
Q4 2019						
Interest income	5,713	1,292	3,792	1,106	-1,326	10,577
Fee income	213	62	0	3	0	278
Net gains from financial assets measured at fair value	204	0	0	0	0	204
Other operating income	134	27	65	136	-55	307
Revenue from external customers	6,264	1,381	3,857	1,245	-1,381	11,366
Interest expense	-1,574	-221	-1,088	-352	1,326	-1,909
Fee expense	-107	-41	-200	-133	0	-481
Total expenses	-1,681	-262	-1,288	-485	1,326	-2,390
Total net interest, fee and commission income and other income	4,583	1,119	2,569	760	-55	8,976

Net profit structure

In thousands of euros	Estonia	Latvia	Lithuania	Poland	Inter-segment eliminations	Total
Q4 2019						
Profit before profit from associates and impairment losses on loans	2,011	739	1,140	328	0	4,218
Profit of associates	720	0	0	0	0	720
Impairment losses on loans and advances	-439	-173	-219	-373	0	-1,204
Income tax	-212	0	-101	23	0	-290
Net profit/loss	2,080	566	820	-22	0	3,444

Income of reported segments

In thousands of euros	Estonia	Latvia	Lithuania	Poland	Inter-segment eliminations	Total
12 months 2018						
Interest income	14,553	3,644	6,430	826	-1,820	23,633
Fee income	533	169	0	1	0	703
Other operating income	1,709	60	300	-68	-70	1,931
Revenue from external customers	16,795	3,873	6,730	759	-1,890	26,267
Interest expense	-3,096	-556	-1,637	-291	1,820	-3,760
Fee expense	-369	-134	-378	-210	0	-1,091
Total expenses	-3,465	-690	-2,015	-501	1,820	-4,851
Total net interest, fee and commission income and other income	13,330	3,183	4,715	258	-70	21,416

Net profit structure

In thousands of euros 12 months 2018	Estonia	Latvia	Lithuania	Poland	Inter-segment eliminations	Total
Profit before profit from associates and impairment losses on loans	7,638	1,845	2,428	-1,202	0	10,709
	1,986	0	0	0	0	1,986
Impairment losses on loans and advances	-409	-435	-857	-985	0	-2,686
Income tax	-715	0	-232	214	0	-733
Net profit/loss	8,500	1,410	1,339	-1,973	0	9,276
Total Assets	291,896	20,415	95,935	18,305	-108,507	318,044
Total Liabilities	246,661	19,741	85,446	22,078	-92,347	281,579

Income of reported segments

In thousands of euros Q4 2018	Estonia	Latvia	Lithuania	Poland	Inter-segment eliminations	Total
Interest income	4,318	1,046	2,939	326	-782	7,847
Fee income	149	42	-11	0	0	180
Other operating income	128	13	130	-22	-34	215
Revenue from external customers	4,595	1,101	3,058	304	-816	8,242
Interest expense	-978	-156	-762	-97	782	-1,211
Fee expense	-88	-34	-170	-79	0	-371
Total expenses	-1,066	-190	-932	-176	782	-1,582
Total net interest, fee and commission income and other income	3,529	911	2,126	128	-34	6,660

Net profit structure

In thousands of euros Q4 2018	Estonia	Latvia	Lithuania	Poland	Inter-segment eliminations	Total
Profit before profit from associates and impairment losses on loans	1,799	548	998	-236	0	3,109
Profit of associates	0	0	0	0	0	0
Impairment losses on loans and advances	931	27	-181	-376	0	401
Income tax	-387	0	-72	0	0	-459
Net profit/loss	2,343	575	745	-612	0	3,051

Equity of major subsidiaries

In thousands of euros	31.12.2019	31.12.2018
SIA Inbank Latvia	1,938	683
AB Mokilizingas *	-	10,489

* AB Mokilizingas became Inbank Lithuanian branch in 2019.

Note 4 Net interest income

In thousands of euros	Q4 2019	12 months 2019	Q4 2018	12 months 2018
Interest income				
Loans to households	10,290	36,989	7,727	23,325
Loans to corporates	221	533	72	259
Due from financial and credit institutions	66	38	49	49
Total Interest income	10,577	37,560	7,848	23,633
Interest expense				
Deposits received	-1,673	-5,489	-1,053	-3,204
Debt securities sold	-230	-875	-158	-556
Lease liability	-6	-16	0	0
Total Interest expense	-1,909	-6,380	-1,211	-3,760
Net interest income	8,668	31,180	6,637	19,873

In thousands of euros	Q4 2019	12 months 2019	Q4 2018	12 months 2018
Interest income by customer location				
Estonia	4,388	15,946	3,537	12,733
Latvia	1,778	6,968	1,508	4,592
Lithuania	3,306	11,712	2,476	5,482
Poland	1,105	2,934	327	826
Total Interest income by customer location	10,577	37,560	7,848	23,633

Interest income on Stage 3 loans in Q4 2019 was EUR 201 thousand and in 12 months EUR 533 thousand (Q4 2018: EUR 45 thousand and in 12 months 2018: EUR 392 thousand).

Note 5 Net fee and commission income

In thousands of euros	Q4 2019	12 months 2019	Q4 2018	12 months 2018
Fee income				
Households	275	953	186	698
Corporates	3	12	-6	5
Total Fee income	278	965	180	703
Fee expense				
Loan administration expenses	-481	-1,742	-371	-1,091
Total Fee expense	-481	-1,742	-371	-1,091
Net fee income	-203	-777	-191	-388

In thousands of euros	Q4 2019	12 months 2019	Q4 2018	12 months 2018
Fee income by customer location				
Estonia	213	737	150	534
Latvia	62	220	41	168
Lithuania	0	0	-11	0
Poland	3	8	0	1
Total Fee income by customer location	278	965	180	703

Note 6 Operating expenses

In thousands of euros	Q4 2019	12 months 2019	Q4 2018	12 months 2018
Personnel expenses				
Personnel expense	1,731	6,639	1,433	4,725
Social and other taxes	397	1,387	328	1,070
Total Personnel expenses	2,128	8,026	1,761	5,795
Marketing expenses				
Advertising and marketing	853	2,240	429	1,134
Sales costs	43	343	218	458
Total Marketing expenses	896	2,583	647	1,592
Administrative expenses				
Rental and maintenance expenses	106	316	184	537
IT expenses	376	1,135	179	596
Legal and recovery proceeding expenses	33	156	146	263
Office expenses	109	348	72	216
Training and business trip expenses	144	429	127	222
Supervision expenses	100	296	43	143
Consultation expenses	22	158	21	82
Transportation expenses	50	196	57	116
Other purchased services	40	120	40	114
Other tax expenses	207	400	70	190
Other administrative expenses	158	530	43	335
Total Administrative expenses	1,345	4,084	982	2,814

Average number of employees	2019	2018
Estonia	81	53
Lithuania *	60	54
Latvia	22	21
Poland	21	19
Total	184	147

* The Lithuanian company was acquired on 22 May 2018 and the average number of employees is calculated for the period 22 May to 31 December 2018. The average number of employees converted to the period 1 January to 31 December 2018 would be 32.

Note 7 Loans and advances

Distribution of receivables from households

In thousands of euros

31.12.2019	Gross receivables	Stage 1 and 2	Stage 3	Net receivables	Impairment coverage
Distribution of receivables					
0-3 days	294,981	-2,231	-117	292,633	0.8%
4-30 days	23,874	-974	-65	22,835	4.4%
31-89 days	8,781	-1,031	-105	7,645	12.9%
90-179 days	2,018	0	-1,079	939	53.5%
180+ days	3,360	0	-2,596	764	77.3%
Total receivables	333,014	-4,236	-3,962	324,816	2.5%

31.12.2018	Gross receivables	Stage 1 and 2	Stage 3	Net receivables	Impairment coverage
Distribution of receivables					
0-3 days	195,675	-1,450	-51	194,174	0.8%
4-30 days	15,212	-645	-32	14,535	4.5%
31-89 days	6,231	-834	-47	5,350	14.1%
90-179 days	1,525	0	-608	917	39.9%
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 from corporates

In thousands of euros

31.12.2019	Gross receivables	Stage 1 and 2	Stage 3	Net receivables	Impairment coverage
Distribution of receivables					
0-3 days	12,788	-30	0	12,758	0.2%
4-30 days	375	-7	0	368	1.9%
31-89 days	154	-9	-2	143	7.1%
90-179 days	13	0	-5	8	38.5%
180+ days	108	0	-44	64	40.7%
Total receivables	13,438	-46	-51	13,341	0.7%

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

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

In thousands of euros	31.12.2019	31.12.2018
Distribution of receivables by customer sector		
Households	333,014	221,591
Non-financial corporates	4,466	3,470
Other financial corporates	2,735	1,709
Other advances	6,237	4,473
Loans and advances before impairment allowance	346,452	231,243
Impairment allowance	-8,295	-5,604
Total Loans and advances	338,157	225,639

In thousands of euros	12 months 2019	12 months 2018
Impairment losses on loans and advances		
Impairment losses of reporting period	-10,652	-5,681
Recoveries from written off from financial position	4,603	2,995
Total Impairment losses on loans and advances	-6,049	-2,686

In thousands of euros	31.12.2019	31.12.2018
Changes in impairments		
Impairment allowance balance in the beginning of the period	-5,604	-3,173
Impact of IFRS 9	-	-901
Impairment provisions set up during reporting period	-10,652	-5,681
Written off from financial position during the period	7,961	4,151
Total Changes in impairments	-8,295	-5,604

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

Note 8 Income tax

In thousands of euros	Q4 2019	12 months 2019	Q4 2018	12 months 2018
Income tax recognized in income statement				
Deferred tax assets, Poland	253	1,294	0	214
Income tax, Estonia	-212	-920	-387	-715
Income tax, Lithuania	-101	-360	-102	-242
Income tax, Poland	-230	-712	0	0
Income tax, Latvia (correction)	0	0	30	10
Total Income tax recognized in income statement	-290	-698	-459	-733

Note 9 Due from central banks and credit institutions

In thousands of euros	31.12.2019	31.12.2018
Due from central banks	78,515	62,668
Mandatory reserve in central banks	4,565	1,952
Due from credit institutions	20,653	13,700
Total Due from central banks and credit institutions	103,733	78,320

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

Note 10 Business combinations

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

AB Mokilizingas

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

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

AB Mokilizingas purchase price analysis

Name of acquired company	AB Mokilizingas
Share %	100
Acquisition date	22.05.2018
	Fair value acquired
Cash and cash equivalents	2,030
Loans and advances	67,370
Other assets	1,040
Non-current asset	210
Other financial and non-financial liabilities	-5,241
Loans received	-56,259
Total net assets acquired	9,150
Total consideration paid	15,068
Goodwill	5,918

The goodwill is primarily attributable to the profitability of the acquired business, significant synergies and expected cost savings.

The following table provides an overview of contractual receivables and made impairment allowances for the contractual cash flows:

In thousands of euros	Gross contractual amounts receivable	Impairment allowance made
Loans and advances		
Households	63,314	-1,365
Corporates	129	-14
Credit cards	3,642	-291
Other advances	1,955	0
Total Loans and advances	69,040	-1,670

The acquired subsidiary contributed to the Group's net interest and fee and commission income in the amount of EUR 4,794 thousand and to the profit in the amount of EUR 1,339 thousand from the date of acquisition to 31 December 2018. If the acquisition had occurred on 1 January 2018, impact to the Inbank's net interest and fee and commission income for 2018 would have been EUR 7,118 thousand, and profit for 2018 would have been EUR 1,858 thousand.

The merger of AS Inbank and Mokilizingas was completed on 31 December 2019. With that Inbank became the legal successor of Mokilizingas AB. All assets, rights and obligations of Mokilizingas were transferred to the Inbank's Lithuanian branch on 31 December 2019, when the merger was registered in the Estonian Commercial Register. Inbank will continue its activities in Lithuania under the business name AS Inbank filialas. The objective of the merger is to simplify and harmonise the legal structure of the Group and create more cost efficient governance system

Maksekeskus Holding OÜ

Inbank increased its shareholding in Maksekeskus AS from 7.4% to 29.8% in December 2019. The investment in an associate is accounted for at fair value.

Veriff OÜ

On 5 January 2018 Inbank's subsidiary Inbank Technologies sold its entire holding of 21.68% in the start-up Veriff OÜ.

Inbank Liising AS

Inbank AS became the sole owner of Inbank Liising AS, a company, which offers full service operating lease, acquiring the 20% holding from Fairown Finance OÜ on 22 January 2019 (see also Note 26).

Inbank Payments OÜ

On 27 August 2019 Inbank established a 100% subsidiary Inbank Payments OÜ for investment management.

Note 11 Acquisitions and disposals of investments

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

Coop Pank AS

On 29 March 2018, Inbank disposed 10% of the shares in Coop Pank AS, 5% of the shares were acquired by current shareholders of Coop Pank and 5% of the shares were acquired by TÜ Eesti Ühistukapital. Inbank holds 7.94% of the shares of Coop Pank after the transaction. Subsequently, the investment will be recognised as financial investment at fair value.

On 27 June 2019 Inbank participated in the IPO of Coop Pank, maintaining the size of its holding.

Inbank sold the 4.45% holding in Coop Pank in September 2019 and the rest of the 3.49% holding in December. Income from revaluation and sale of the investment in the amount of EUR 743 thousand is recognised in income statement as “Net gains from financial assets measured at fair value” (in 2018: EUR 1,204 thousand).

Acquisitions and disposals of associates

In thousands of euros	2019	2018
Acquisitions		
Equity contribution, financial assets at fair value through profit and loss	321	0
Equity contribution, associates	2,351	96
Total Acquisitions	2,672	96
Disposals		
Proceeds from disposals in financial investment	3,320	0
Proceeds from disposals of associates	0	6,269
Total Disposals	3,320	6,269

Inbank has not received dividends from its associates.

Note 12 Intangible assets

In thousands of euros	Licences	Software	Goodwill	Total
Cost, 01.01.2019	133	1,846	6,157	8,136
Accumulated amortisation	-83	-356	0	-439
Opening carrying value	50	1,490	6,157	7,697
Additions	23	4,705	0	4,728
Amortisation charge	-19	-685	0	-704
Closing carrying value	39	5,510	6,157	11,721
Cost, 31.12.2019	156	6,507	6,157	12,820
Accumulated amortisation	-102	-997	0	-1,099
Carrying value	54	5,510	6,157	11,721

Management has carried out tests of recoverable amount of goodwill as at 31 December 2019 and 31 December 2018. The cash-generating units of goodwill are segments, which are entities of Inbank group. The breakdown of goodwill between segments is as follows:

In thousands of euros	31.12.2019	31.12.2018
Business segment		
Estonia	6,157	238
Lithuania	0	5,919
Total	6,157	6,157

The majority of goodwill is from the purchase of Mokilizingas see also Note 10. The recoverable amount of goodwill was identified by value in use, which was determined using detailed pre-tax operating cash flow estimates for the next three years. Discounted cash flow method (DCF) was used for the value in use assessment. The growth rates used for estimates have been derived from the past experience of the growth in respective industry and the management's expectations of the respective growth rates in the estimated future periods in the respective region.

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

Note 13 Other assets

In thousands of euros	31.12.2019	31.12.2018
Financial assets		
Prepaid guarantee amounts	70	64
Accrued receivables	1,622	0
Total Financial assets	1,692	64
Non-financial assets		
Prepaid expenses	527	444
Prepaid taxes	61	66
Income tax liabilities due to be paid	0	4
Total Non-financial assets	588	514

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

Note 14 Loan from credit institution

In thousands of euros	31.12.2019	31.12.2018
Loan from credit institution	0	10,429
Total Loan received	0	10,429

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

Note 15 Customer deposits

In thousands of euros	31.12.2019	31.12.2018
Customer deposits		
Deposits from households	360,125	226,544
Deposits from non-financial corporates	11,997	10,834
Deposits from financial corporates	5,396	2,797
Total Customer deposits	377,518	240,175

In thousands of euros	31.12.2019	31.12.2018
Deposits by clients' residency		
Estonia	76,624	73,300
Germany	225,229	145,409
Poland	49,537	17,563
Austria	9,033	3,832
Netherlands	16,586	0
Other residence	509	71
Total Deposits by clients' residency	377,518	240,175

In thousands of euros	31.12.2019	31.12.2018
Deposits by contractual maturity		
On demand	4,242	4,452
1-90 days	30,828	10,427
91-365 days	181,093	110,043
1-5 years	161,355	115,253
Total Deposits by contractual maturity	377,518	240,175

Deposits include accrued interest liabilities in the amount of EUR 3 719 thousand (31.12.2018: EUR 1 821 thousand).

Note 16 Debt securities

In thousands of euros	31.12.2019	31.12.2018
Debt securities issued	4,000	10,000
Corrections	10	17
Total Debt securities	4,010	10,017

Debt securities	Nominal value	Amount	Issue date	Maturity
EE3300111483	250,000 EUR	40	14.05.2018	14.03.2019
EE3300111673	250,000 EUR	16	28.02.2019	01.03.2021

The investment into debt securities has been made by Swedbank Investeerimisfond AS's pension funds via a private placement. The issue of new debt securities does not affect the terms of previously issued debt securities.

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

Note 17 Subordinated debt securities

In thousands of euros	31.12.2019	31.12.2018
Subordinated debt securities issued	17,653	9,653
Adjustments	-116	-125
Total Subordinated debt securities	17,537	9,528

Subordinated debt securities	Nominal price	Amount	Interest rate	Issue date	Maturity date
EE3300110964	1 000 EUR	6,503	7.0%	28.09.2016	28.09.2026
EE3300111590	10 000 EUR	315	8.5%	19.12.2018	perpetual
EE3300001544	1000 EUR	8,000	6.0%	19.12.2019	19.12.2029

Inbank issued 10-year subordinated debt securities with fixed interest rate of 7% on 28 September 2016. The debt securities are listed on Nasdaq Tallinn Stock Exchange. On the prior approval of the Financial Supervision Authority Inbank has the right to redeem the debt securities in five years from the date of issue (28 September 2021).

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

Inbank issued 10-year subordinated debt securities with fixed interest rate of 6% on 19 December 2019. The debt securities are listed on Nasdaq Tallinn Stock Exchange. On the prior approval of the Financial Supervision Authority Inbank has the right to redeem the debt securities in five years from the date of issue (19 December 2024).

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

Note 18 Other liabilities

In thousands of euros	31.12.2019	31.12.2018
Financial liabilities		
Accounts payable	11,900	8,072
Lease liability	373	0
Client prepayments	1,272	704
Total Financial liabilities	13,545	8,776
Other liabilities		
Payables to employees	1,978	1,124
Payroll taxes	482	443
Other liabilities	377	1,087
Total Other liabilities	2,837	2,654

The accounts payable includes liabilities to customers and partners related loan granting activities and payments for operating expenses. Of the amount, EUR 6 810 thousand is Mokilizingas liability to partners for loan granting activities (2018: EUR 6 403 thousand).

Other liabilities include income tax liabilities in the amount of EUR 277 thousand (31.12.2018: EUR 496 thousand).

Note 19 Contingent liabilities

Inbank had the following loan commitments:

In thousands of euros	31.12.2019	31.12.2018
Revocable commitments		
Liability in contractual amount	9,992	13,826
incl. unused credit card limits	9,975	13,326

Note 20 Basic and diluted earnings per share

	Q4 2019	12 months 2019	Q4 2018	12 months 2018
Net profit attributable to owners of the parent (EURt)	3,444	10,010	3,048	9,262
Weighted average number of shares	90,344	88,869	87,394	82,805
Basic earnings per share (EUR)	38.12	112.64	34.88	111.85
Weighted average number of shares used for calculating the diluted earnings per shares	95,394	94,219	92,744	88,155
Diluted earnings per share (EUR)	36.10	106.24	32.86	105.06

Basic earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding.

Note 21 Share capital

	31.12.2019	31.12.2018
Share capital	903	874
Number of shares issued	90,344	87,394
Nominal share value (EUR)	10	10

In September 2019 share options were realised for the purchase of 2,950 shares, as a result share capital was increased by EUR 29,500 and share premium paid was EUR 855,500.

The share capital increase was registered in the Commercial Register on 20 September 2019.

Note 22 Share-based payments

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

	No of shares	Unit subscription price (EUR)	Option issuing year	The year in which the right to realize the option arises	Number of people to whom the option was issued
Employees	600	300	2016	2019	3
Employees	500	300	2016	2020	2
Employees	900	675	2018	2021	3
Supervisory Board	250	300	2019	2022	1
Supervisory Board	250	675	2019	2022	2
Management	850	300	2019	2022	4
Employees	350	300	2019	2022	3
Employees	1,150	675	2019	2022	7
Management	200	675	2019	2022	1
Total	5,050				

The precondition for the realisation of the share options is an ongoing employment relationship after a period of three years has elapsed and the achievement of certain financial targets established by Inbank. The share options cannot be redeemed for cash.

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

The share-based payment reserve is recorded under other reserves in equity over a period of three years. At the end of each reporting period, Inbank estimates how many shares will be realised at non-market prices and adjusts the reserve accordingly. As at 30 December 2019, the reserve amounted to EUR 151 thousand (31.12.2018: EUR 37 thousand).

Personnel expenses related to the option agreements in Q4 2019 amounted to a total of EUR 62 thousand, 12 months 2019 EUR 132 thousand (Q4 2018: EUR 8 thousand, 12 months 2018: EUR 37 thousand).

In September 2019 the option was realised for the purchase of 2 950 shares (see Note 21).

Note 23 Reserves

In thousands of euros	31.12.2019	31.12.2018
Statutory reserve	88	79
Voluntary reserve	1,330	1,330
Share based payments reserve	151	37
Other accumulated comprehensive income	-18	34
Total Reserves	1,551	1,480

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

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

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

Note 24 Fair value of financial assets and liabilities

In thousands of euros		31.12.2019			31.12.2018	
Assets	Fair value	Carrying amount	Level	Fair value	Carrying amount	Level
Cash in hand	0	0	1	4	4	1
Due from central banks	83,080	83,080	2	64,620	64,620	2
Due from credit institutions	20,655	20,655	2	13,700	13,700	2
Financial assets at fair value through profit and loss	0	0	3	4,600	4,600	3
Loans and advances	338,157	338,157	3	225,639	225,639	3
Other financial assets	1,692	1,692	3	64	64	3
Total Assets	443,584	443,584	0	308,627	308,627	0
Liabilities						
Loans from credit institutions	0	0	2	10,429	10,429	2
Customer deposits	377,518	377,518	2	240,175	240,175	2
Debt securities issued	4,010	4,010	3	10,017	10,017	3
Subordinated debt securities	15,403	14,474	2	6,954	6,489	2
Subordinated debt securities (AT1)	3,063	3,063	3	3,039	3,039	3
Other financial liabilities	13,545	13,545	3	8,776	8,776	3
Total Liabilities	413,539	412,610	0	279,390	278,925	0

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

Subordinated debt securities are listed on the Nasdaq Baltic Stock Exchange and their fair value can be determined based on the transaction history. As a result the debt security is classified as level 2 in fair value hierarchy.

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

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

To measure the fair value of investments not actively traded on the market (financial assets at fair value through profit or loss), transaction price between independent parties has been used. Financial assets are classified as level 3 in fair value hierarchy.

Loans granted to corporates are sufficiently short-term and the interest environment has remained stable ever since the issue of loans. In the management's opinion, their fair value does not therefore significantly differ from the net book value. Loans to corporates are classified as level 3.

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

Fixed-interest customer deposits are mostly short-term. The interest rate of term deposits accepted and loans received by Inbank are comparable to the comparable contract interest rates on the market. In general, the fair market interest and the fair value of deposits have not significantly changed over the deposit period. The carrying amount of deposits does not therefore significantly differ from their fair value. These are classified as level 2 in fair value hierarchy.

Note 25 Related parties

In thousands of euros	12 months 2019	12 months 2018
Remuneration of the Management Board and Supervisory Board	954	771

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

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

In thousands of euros	31.12.2019			31.12.2018		
Balances as of end of reporting period	Management	Associates	Total	Management	Associates	Total
Loans and advances	1	0	1	475	0	475
Deposits and subordinated debt securities	2,595	0	2,595	742	0	742

In thousands of euros	2019			2018		
Transactions	Management	Associates	Total	Management	Associates	Total
Interest income	12	1	13	18	7	25
Interest expenses	53	0	53	23	0	23
Services purchased	44	0	44	45	0	45
Services sold	0	0	0	0	44	44

The table provides an overview of the significant transactions and balances with related parties. Inbank finances the Group's subsidiaries and branches with short- and long-term loans issued under market conditions. Interest rates are in between 3.31% and 7% (2018: 3.31 and 7%). Such loans are eliminated from the consolidated financial statements. Loans given to management (incl. hire-purchase) are issued under market conditions, interest rates between 0 and 5% (2018: 5 and 14.65%). The interest rate of deposits received from related parties matches with the interest rate offered to customers, interest rates are in between 0.5% and 3.25% (2018: 1.05 and 3%).

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

Note 26 Events after the reporting period

Inbank sold its shareholding in Inbank Liising AS on 31 January 2020.

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