Interim Report Inbank AS

9 months 2019

Inbank AS General Information

Business name	Inbank AS
Address	Niine 11, 10414 Tallinn
Registration date	05 October 2010
Registry code	12001988 (Commercial Register of the Republic of Estonia)
Legal entity identifier	2138005M92IEIQVEL297 (LEI-code)
VAT number	EE101400240
Telephone	+372 640 8080
E-mail	info@inbank.ee
Website	www.inbank.ee
Balance sheet date of report	30.09.2019
Reporting period	01.01.2019-30.09.2019

Members of the Supervisory Board

Priit Põldoja, Chairman
Roberto De Silvestri
Triinu Reinold
Raino Paron
Rain Rannu

Members of the Management Board

Jan Andresoo, Chairman
Liina Sadrak
Marko Varik
Piret Paulus
Jaanus Kõusaar

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

Declaration of the Management Board

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

- the data and information presented in this interim report for the first nine months of 2019 consisting of the management report and financial statements as at 30 September 2019 are correct and complete;
- this interim report gives a true and fair view of the financial position of the Inbank AS consolidation group as at 30 September 2019, its financial performance and cash flows for the first nine 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, 31 October 2019

Jan Andresoo	Chairman of the Management Board
Liina Sadrak	Member of the Management Board
Marko Varik	Member of the Management Board
Piret Paulus	Member of the Management Board
Jaanus Kõusaar	Member of the Management Board

Management report

Q3 2019 saw us move a big step closer towards completing our strategic goals for the year.

Sales results

Looking at the numbers we can say that our sales have continued to be strong. The pattern remains the same - excellent growth numbers in Poland and solid performance in all other countries. As Inbank Group we can report the 9-month overall sales number having been 220 EURm, which is 49% more compared to the year before. The overall sales figure, year-on-year, is split by countries as follows:

- Estonia 70.7 EURm (+35%)
- Latvia 38.7 EURm (+29%)
- Lithuania 73.1 EURm (+22%)
- Poland 37.8 EURm (+562%)

From the product point of view, the two main drivers of growth were the small loan and hire purchase products. Growth from small loan products was 41% compared to the year before whilst our hire purchase product grew by 75%. Adding another layer to the analysis and comparing the different markets, it is the outstanding performance of the hire purchase product in Poland that particularly stands out. The sales were close to 29 EURm so in the hire purchase category it is the best-performing market for Inbank Group. An excellent achievement!

Business Development

Inbank's strategy for 2019 was to mainly focus on product development and improve the overall competitiveness of our offering. Throughout the last three quarters we have invested heavily into our technology team and will continue doing so in the future. Whilst it is still too early to report the launch of new products and services, I can confirm that in the near future we will be surprising the markets with some new and innovative products. At the same time, we are all set to launch the Inbank branch in Lithuania and are currently waiting for the final permission from the Bank of Lithuania. According to the initial timeline we are planning to start our activities in the Lithuanian market as a bank in Q4 2019.

The last quarter also saw us make some excellent additions to our team. We are happy to announce that one of Estonia's true leaders in brand and marketing agreed to join our team – Rain Pikand will be in charge of building the new team that will work on developing a new innovative e-commerce solution for merchants. Martin Lingvide will join him and take the lead as Payment Solutions Area Manager. Last but not least, Mari-Liis Küppar has joined the Inbank family as Group Card Area Manager.

Other news

The Coop Pank IPO is expected to take place as scheduled and we can confirm that Inbank will prepare to exit from that investment, reinvesting the capital to support our own growth. In order to do this most efficiently we made a decision to sell some of our shares pre-IPO. The transaction took place in September whereby Inbank sold 4% of its Coop Pank shares. We are planning to sell the remaining shares in the IPO process.

Last quarter also saw our capital increase. The three years vesting time passed in the Inbank options program for employees, meaning there was an opportunity to exercise the right to buy shares. We are very pleased to announce that all persons in the program used this right with the total investment of 884 EURt into Inbank equity.

Financial results

Compared to Q3 2018, the Inbank loan portfolio increased by 56%, reaching 310 EURm. Our deposit portfolio doubled, reaching 375 EURm. Inbank activities continue to be financed mainly from our retail deposits. We are able to say that our assets and liabilities are well matched. Furthermore, by establishing a branch in Lithuania, Inbank will be adding a new source for deposits and thus diversifying our financing channels even more.

In correlation with our portfolio growth, our income growth has also been strong with net income growing 57% year-on-year. At the same time, our costs have also been increasing (+56%) and alas, the scalability effect is not yet evident. The cost increase has been driven by our defined strategy whereby we are investing heavily into technology and developing new generation products that will drive our future international growth. Traditionally, investment in our type of organisation tends to mean a bigger team. We are confident that we will be able to increase efficiency and scalability in the future but also believe that now is the time to invest.
At the same time our ability to produce acceptable return on equity (ROE 22%) demonstrates the solidity and profitability of our business model. Inbank's Q3 2019 net profit was 2.22 EURm and the 9-month result was 6.57 EURm. Our risk cost was stable and its growth in accordance with the growth of our portfolio.

Jan Andresoo
Chairman of the Management Board

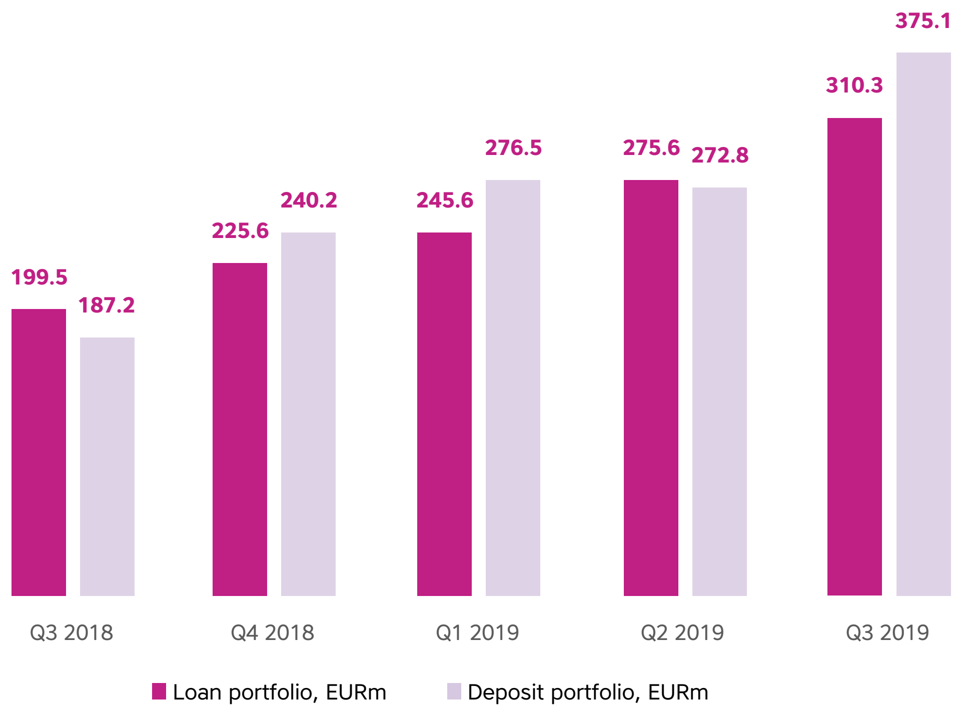
Key financial indicators

EURm

Key financial indicators	30.09.2019	30.09.2018	
Total assets	446.0	262.8	69.7%
Total equity attributable to shareholders of the parent	43.9	33.4	31.8%
Total profit attributable to owners of the parent	6.6	6.2	5.7%
Loan portfolio	310.3	199.5	55.5%
Deposit portfolio	375.1	187.2	100.4%

Ratios	9 months 2019	9 months 2018
Return on equity	21.8%	30.0%
Return on total assets	2.3%	4.3%
Net interest margin	8.2%	9.7%
Impairment losses to loan portfolio	2.4%	2.8%
Cost/income ratio	48.7%	48.3%
Equity to total assets	9.9%	12.7%

Volume of loan and deposit portfolio



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

Capital adequacy

EURt	***30.09.2019***	***31.12.2018***
Capital base		
Paid-in share capital	903	874
Share premium	15 908	15 053
Statutory and other reserves	1 506	1 446
Retained earnings	18 948	9 756
Intangible assets (subtracted)	-10 365	-7 697
Profit for reporting period *	6 566	9 261
Other comprehensive income *	118	35
Other deductions	0	-1 824
Adjustments due to IFRS 9 transitional arrangements	4 084	2 308
Total Common Equity Tier 1 capital	**37 668**	**29 212**
Additional Tier 1 capital	3 150	3 150
Total Tier 1 capital	**40 818**	**32 362**
Total Tier 2 capital	6 503	6 503
Net own funds for capital adequacy calculation	**47 321**	**38 865**
Risk-weighted assets		
Credit institutions, standardised approach	6 615	3 401
Non-financial customers, standardised approach **	8 188	1 706
Retail claims, standardised approach **	223 151	167 208
Claims past due, standardised approach **	3 980	3 297
Other assets, standardised approach	9 794	6 844
Total credit risk and counterparty credit risk	**251 728**	**182 456**
Operational risk, basic indicator approach	25 648	25 648
Total risk-weighted assets	**277 376**	**208 104**
Capital adequacy (%)	17.06%	18.68%
Regulative capital adequacy (%)	16.11%	15.73%
Tier 1 capital ratio (%)	14.72%	15.55%
Regulative Tier 1 capital ratio (%)	13.78%	12.62%

* In accordance with EU regulation, audited profit for the period may be included in retained earnings upon prior approval by competent authorities.
The calculations made in accordance with EU regulation do not include the profit earned during Q3 in the amount of 2 221 EURt (31.12.2018: Q2, Q3 and Q4 in the amount of 5 376 EURt).

** In the reports submitted to the regulator as of 30.09.2019, the risk exposures take account of the credit portfolio impairment losses made in the reporting period in the amount of 1 898 EURt and are yet to be confirmed by the external auditor (31.12.2018: 1 917 EURt).
The external auditor has confirmed the profit of the 6 months of 2019, together with the impairment losses.

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

In addition to the principal requirements arising from the harmonised rules, the principles for establishing capital buffers are established with the corresponding directive.
In addition to basic own funds requirement, Estonia has established capital preservation buffer at the respective level of 2.5% and systemic risk buffer 1% (to risk exposure located in Estonia).
The total amount of the systemic risk buffer depends on the ratio between the Estonia and whole Group exposures.

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

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

Overview of the capital requirement as at 30.09.2019 shown in the table below:

	Common Equity Tier 1 capital ratio	***Tier 1 capital ratio***	***Total capital ratio***
Base requirement	4.50%	6.00%	8.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Countercyclical capital buffer	0.29%	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

EURt	Note	30.09.2019	31.12.2018
Assets			
Cash in hand		4	4
Due from central banks	9	89 754	64 620
Due from credit institutions	9	29 411	13 700
Financial assets at fair value through profit and loss	23	2 390	4 600
Loans and advances	3;7;23	310 341	225 639
Investments in associates	10	97	97
Tangible assets		725	545
Right of use asset		764	0
Intangible assets	11	10 365	7 697
Other financial assets	12	83	64
Other assets	12	462	514
Deferred tax asset		1 573	564
Total assets	**3**	**445 969**	**318 044**

EURt	Note	30.09.2019	31.12.2018
Liabilities			
Loan from credit institution	13	0	10 429
Customer deposits	14;23	375 133	240 175
Other financial liabilities	17;23	10 801	8 776
Other liabilities	17	2 526	2 654
Debt securities issued	15	4 009	10 017
Subordinated debt securities	16	9 551	9 528
Total liabilities	**3**	**402 020**	**281 579**
Equity			
Share capital	19;20	903	874
Share premium	20	15 908	15 053
Statutory reserve capital	22	88	79
Other reserves	21;22	1 536	1 401
Retained earnings		25 514	19 018
Total equity attributable to the share-holders of parent company		**43 949**	**36 425**
Non-controlling interest		0	40
Total equity		**43 949**	**36 465**
Total liabilities and equity		**445 969**	**318 044**

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

Condensed consolidated statement of profit and loss and other comprehensive income

EURt	*Note*	*Q3 2019*	*9 months 2019*	*Q3 2018*	*9 months 2018*
Interest income	4	9 854	26 983	7 079	15 785
Interest expense	4	-1 685	-4 471	-1 151	-2 549
Net interest income		**8 169**	**22 512**	**5 928**	**13 236**
Fee income	5	255	687	188	523
Fee expense	5	-459	-1 261	-370	-720
Net fee and commission income		**-204**	**-574**	**-182**	**-197**
Net gains from financial assets measured at fair value		273	539	0	1 204
Other operating income		25	578	277	452
Total net interest, fee and other income		**8 263**	**23 055**	**6 023**	**14 695**
Personnel expenses	6	-2 001	-5 898	-1 509	-4 034
Marketing expenses	6	-518	-1 687	-474	-945
Administrative expenses	6	-1 009	-2 739	-800	-1 832
Depreciations, amortisation	11	-333	-912	-124	-284
Total operating expenses		**-3 861**	**-11 236**	**-2 907**	**-7 095**
Profit before profit from associates and impairment losses on loans		**4 402**	**11 819**	**3 116**	**7 600**
Share of profit from associates	10	0	0	0	1 986
Impairment losses on loans and advances	7	-1 898	-4 845	-1 248	-3 087
Profit before income tax		**2 504**	**6 974**	**1 868**	**6 499**
Income tax	8	-283	-408	-322	-274
Profit for the period		**2 221**	**6 566**	**1 546**	**6 225**

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EURt	*Note*	*Q3 2019*	*9 months 2019*	*Q3 2018*	*9 months 2018*
Other comprehensive income/loss					
Items that may be reclassified subsequently to profit or loss					
Currency translation differences		133	82	-58	52
Total comprehensive income for the period		**2 354**	**6 648**	**1 488**	**6 277**
Net profit attributable to					
Shareholders of parent company		2 221	6 566	1 541	6 214
Non-controlling interest		0	0	4	11
Profit for the reporting period		**2 221**	**6 566**	**1 545**	**6 225**
Total comprehensive income/loss is attributable to					
Shareholders of parent company		2 354	6 648	1 483	6 266
Non-controlling interest		0	0	5	11
Total comprehensive income for the reporting period		**2 354**	**6 648**	**1 488**	**6 277**
Basic earnings per share	19	24.99	73.88	17.63	75.04
Diluted earnings per share	19	23.72	70.14	16.67	70.73

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

Condensed consolidated statement of cash flows

EURt	Note	9 months 2019	9 months 2018
Cash flows from operating activities			
Interest received	4	26 867	15 509
Interest paid	4	-3 342	-1 884
Fees received	5	687	523
Fees paid	5	-1 261	-720
Other income received		578	452
Personnel expenses	6	-5 427	-4 103
Administrative and marketing expenses	6	-4 179	-2 666
Prepayment of returned corporate income tax		0	285
Corporate income tax paid		-630	-247
Cash flows from operating activities before changes in the operating assets and liabilities		**13 293**	**7 149**
Changes in operating assets:			
Loans and advances		-88 620	-43 436
Mandatory reserve in central banks		-1 599	-1 006
Other assets		-976	164
Changes of operating liabilities:			
Loan from credit institution		-10 429	-39 533
Customer deposits		132 327	91 064
Other liabilities		1 179	1 626
Net cash from operating activities		**45 175**	**16 028**

EURt	Note	9 months 2019	9 months 2018
Cash flows from investing activities			
Acquisition of tangible and intangible assets	10	-3 603	-741
Acquisition of subsidiaries and associates	9	-121	-13 134
Net change of investments at fair value through profit or loss		2 999	0
Proceeds from disposal of associates	9	0	6 269
Net cash used in investing activities		**-725**	**-7 606**
Cash flows from financing activities			
Share capital contribution (including share premium)		884	6 077
Debt securities issued		4 000	10 000
Repayments of debt securities		-10 000	0
Net cash used in financing activities		**-5 116**	**16 077**
Effect of exchange rate changes		-88	-47
Cash and cash equivalents at the beginning of the reporting period		**76 372**	**22 600**
Net increase/decrease in cash and cash equivalents	8	39 246	24 452
Cash and cash equivalents at the end of the reporting period	**8**	**115 618**	**47 052**

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

Condensed consolidated statement of changes in equity

EURt	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings/ accumulated loss	Total attributable to owners of the parent	Non-controlling interest	Total equity
Balance as of 01 January 2018	**782**	**9 068**	**79**	**1 352**	**10 739**	**22 020**	**26**	**22 046**
Changes on initial application of IFRS 9	0	0	0	0	-1 026	-1 026	0	-1 026
Adjusted balance as at 01 January 2018	**782**	**9 068**	**79**	**1 352**	**9 713**	**20 994**	**26**	**21 020**
Paid in share capital	92	5 985	0	0	0	6 077	0	6 077
Share-based payment reserve	0	0	0	15	0	15	0	15
Total profit/-loss and other comprehensive income for the reporting period	0	0	0	52	6 214	6 266	11	6 277
Balance as at 30 September 2018	**874**	**15 053**	**79**	**1 419**	**15 927**	**33 352**	**37**	**33 389**
Balance as at 01 January 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	53	17	70	0	70
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	82	6 566	6 648	0	6 648
Balance as at 30 September 2019	**903**	**15 908**	**88**	**1 536**	**25 514**	**43 949**	**0**	**43 949**

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

Note 1 Accounting policies

The interim financial report has been prepared in accordance with the International Accounting Standard IAS 34 "Interim Financial Reporting", as adopted by the EU, and consists of condensed financial statements and selected explanatory notes. The accounting policies used in the preparation of the interim report are the same as the accounting policies used in the annual report for the year ended 31 December 2018, which comply with the International Financial Reporting Standards, as adopted by the European Commission (IFRS EU), with the exception of accounting principles changed as of 1 January 2019 in related to newly enforced IFRS EU standards. The changes in accounting principles are disclosed in Note 1, subsection "Changes in accounting policies". The interim financial report is not audited, and does not contain the entire range of information required for the preparation of complete financial statements. The interim financial report should be read in conjunction with the Annual Report prepared for the year ended 31 December 2018, which has been prepared in accordance with the International Financial Reporting Standards (IFRS).

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

Company Name	Registry code	Date of purchase/ founded	Address	Activity	Holding (%)	Cost EURt
Maksekeskus Holding OÜ *	12257075	05.06.2015	Niine 11, Tallinn	Investment management	37.48	97
SIA Inbank Latvia	40103821436	21.08.2014	Akmenu iela 14, Riga	Financing	100	519
Inbank Technologies OÜ	12104213	05.06.2015	Niine 11, Tallinn	Hardware rental	100	454
Inbank Liising AS	14028999	08.04.2016	Niine 11, Tallinn	Leasing	100	198
UAB Mokilizingas **	124926897	22.05.2018	Kareiviu 11B, Vilnius	Financing	100	15 068
Inbank Payments OÜ	14790098	27.08.2019	Niine 11, Tallinn	Investment management	100	3
AS Inbank Spółka Akcyjna Oddział w Polsce	0000635086	08.09.2016	Riverside Park, Ul. Fabryczna 5A, Warszawa	Banking		

* Associate, Maksekeskus Holding OÜ has 20.3% shareholding in Maksekeskus AS, making Inbank a 7.4% shareholder in the payment consolidator.
** UAB Mokilizingas has branch in Latvia.

Changes in accounting policies

The Group has adopted IFRS 16, Leases for the first time starting from 01 January 2019. The other new standards that have become effective since 1 January 2019 have had no impact on the 9-month interim financial report of Inbank.

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

Lessees will be required to recognise:
(a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
(b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

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

The Group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard.
On adoption of IFRS 16, the Group recognized fixed assets and lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.
The Group leases various properties. Rental contracts are typically made for fixed periods of up to 3 years but 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.
The Group recognises leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities were recognised in the balance sheet at net present value of lease payments. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis.
Assets and liabilities arising from a lease are initially measured on a present value basis (except for exceptions). Lease liabilities include the net present value of the following lease payments:

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

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

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

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

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

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

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

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

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

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

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

Income of reportable segments

EURt

9 months 2019	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Inbank Payments OÜ (Estonia)*	*Total*
Interest income	14 624	3 497	10 099	219	1 828	0	0	**30 267**
Fee income	518	158	0	6	5	0	0	**687**
Other operating income	846	60	365	0	-84	64	0	**1 251**
Inter-segment eliminations	-3 354	0	0	0	0	-64	0	**-3 418**
Revenue from external customers	**12 634**	**3 715**	**10 464**	**225**	**1 749**	**0**	**0**	**28 787**
Interest expense	-3 714	-559	-2 717	-77	-687	-1	0	**-7 755**
Fee expense	-301	-120	-557	-3	-280	0	0	**-1 261**
Inter-segment eliminations	0	559	2 648	77	0	0	0	**3 284**
Total expenses	**-4 015**	**-120**	**-626**	**-3**	**-967**	**-1**	**0**	**-5 732**
Total net interest, fee and commission income and other income	**8 619**	**3 595**	**9 838**	**222**	**782**	**-1**	**0**	**23 055**

Net profit structure

EURt

9 months 2019	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Inbank Payments OÜ (Estonia)*	*Total*
Profit before profit from associates and impairment losses on loans	**6 496**	**1 768**	**3 854**	**132**	**-331**	**-100**	**0**	**11 819**
Profit of associates	0	0	0	0	0	0	0	**0**
Impairment losses on loans and advances	-1 436	-510	-1 272	-19	-1 608	0	0	**-4 845**
Income tax	-708	0	-259	0	559	0	0	**-408**
Net profit/loss	**4 352**	**1 258**	**2 323**	**113**	**-1 380**	**-100**	**0**	**6 566**

Income of reportable segments

EURt Q3 2019	Inbank AS (Estonia)	SIA Inbank Latvia (Latvia)	UAB Mokilizingas (Lithuania)	Inbank Liising AS (Estonia)	Inbank AS Poland branch	Inbank Technologies OÜ (Estonia)	Inbank Payments OÜ (Estonia)	Total
Interest income	5 329	1 256	3 588	76	834	0	0	**11 083**
Fee income	192	60	0	2	1	0	0	**255**
Other operating income	368	20	67	0	-133	28	0	**350**
Inter-segment eliminations	-1 253	0	0	0	0	-28	0	**-1 281**
Revenue from external customers	**4 636**	**1 336**	**3 655**	**78**	**702**	**0**	**0**	**10 407**
Interest expense	-1 356	-210	-996	-23	-328	-1	0	**-2 914**
Fee expense	-106	-42	-185	-2	-124	0	0	**-459**
Inter-segment eliminations	0	210	996	23	0	0	0	**1 229**
Total expenses	**-1 462**	**-42**	**-185**	**-2**	**-452**	**-1**	**0**	**-2 144**
Total net interest, fee and commission income and other income	**3 174**	**1 294**	**3 470**	**76**	**250**	**-1**	**0**	**8 263**

Net profit structure

EURt Q3 2019	Inbank AS (Estonia)	SIA Inbank Latvia (Latvia)	UAB Mokilizingas (Lithuania)	Inbank Liising AS (Estonia)	Inbank AS Poland branch	Inbank Technologies OÜ (Estonia)	Inbank Payments OÜ (Estonia)	Total
Profit before profit from associates and impairment losses on loans	**2 493**	**658**	**1 317**	**48**	**-100**	**-14**	**0**	**4 402**
Profit of associates	0	0	0	0	0	0	0	**0**
Impairment losses on loans and advances	-376	-306	-572	14	-658	0	0	**-1 898**
Income tax	-295	0	-95	0	107	0	0	**-283**
Net profit/loss	**1 822**	**352**	**650**	**62**	**-651**	**-14**	**0**	**2 221**

Income of reportable segments

EURt

9 months 2018	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Inbank Payments OÜ (Estonia)*	*Total*
Interest income	10 070	2 598	3 491	158	500	7	0	**16 824**
Fee income	380	127	11	4	1	0	0	**523**
Other operating income	1 509	47	170	0	-46	72	0	**1 752**
Inter-segment eliminations	-1 086	0	0	0	0	-49	0	**-1 135**
Revenue from external customers	**10 873**	**2 772**	**3 672**	**162**	**455**	**30**	**0**	**17 964**
Interest expense	-2 027	-400	-875	-76	-194	-15	0	**-3 587**
Fee expense	-281	-100	-208	0	-131	0	0	**-720**
Inter-segment eliminations	0	400	547	76	0	15	0	**1 038**
Total expenses	**-2 308**	**-100**	**-536**	**0**	**-325**	**0**	**0**	**-3 269**
Total net interest, fee and commission income and other income	**8 565**	**2 672**	**3 136**	**162**	**130**	**30**	**0**	**14 695**

Net profit structure

EURt

9 months 2018	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Inbank Payments OÜ (Estonia)*	*Total*
Profit before profit from associates and impairment losses on loans	**5 922**	**1 297**	**1 430**	**75**	**-966**	**-158**	**0**	**7 600**
Profit of associates	1 552	0	0	0	0	434	0	**1 986**
Impairment losses on loans and advances	-1 327	-462	-676	-21	-609	8	0	**-3 087**
Income tax	-328	0	-160	0	214	0	0	**-274**
Net profit/loss	**5 819**	**835**	**594**	**54**	**-1 361**	**284**	**0**	**6 225**

Income of reportable segments

EURt

Q3 2018	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Inbank Payments OÜ (Estonia)*	*Total*
Interest income	3 826	913	2 688	59	206	0	0	**7 692**
Fee income	137	41	8	2	0	0	0	**188**
Other operating income	129	15	100	0	57	8	0	**309**
Inter-segment eliminations	-636	0	0	0	0	-9	0	**-645**
Revenue from external customers	**3 456**	**969**	**2 796**	**61**	**263**	**-1**	**0**	**7 544**
Interest expense	-841	-140	-678	-28	-72	-5	0	**-1 764**
Fee expense	-104	-34	-181	0	-51	0	0	**-370**
Inter-segment eliminations	0	140	440	28	0	5	0	**613**
Total expenses	**-945**	**-34**	**-419**	**0**	**-123**	**0**	**0**	**-1 521**
Total net interest, fee and commission income and other income	**2 511**	**935**	**2 377**	**61**	**140**	**-1**	**0**	**6 023**

Net profit structure

EURt

Q3 2018	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Inbank Payments OÜ (Estonia)*	*Total*
Profit before profit from associates and impairment losses on loans	**1 794**	**479**	**1 086**	**30**	**-229**	**-44**	**0**	**3 116**
Profit of associates	0	0	0	0	0	0	0	**0**
Impairment losses on loans and advances	-418	-53	-550	-5	-222	0	0	**-1 248**
Income tax	-192	0	-130	0	0	0	0	**-322**
Net profit/loss	**1 184**	**426**	**406**	**25**	**-451**	**-44**	**0**	**1 546**

Assets and liabilities of reportable segments

EURt

30.09.2019	*Inbank AS (Estonia)*	*SIA Inbank Latvia (Latvia)*	*UAB Mokilizingas (Lithuania)*	*Inbank Liising AS (Estonia)*	*Inbank AS Poland branch*	*Inbank Technologies OÜ (Estonia)*	*Inbank Payments OÜ (Estonia)*	*Intersegment eliminations*	*Total*
Cash in hand	4	0	0	0	0	0	0	0	**4**
Due from central banks	88 681	0	0	0	1 073	0	0	0	**89 754**
Due from credit institutions	6 914	510	1 521	395	20 002	66	3	0	**29 411**
Financial assets at fair value through profit and loss	2 390	0	0	0	0	0	0	0	**2 390**
Loans and advances	268 052	27 528	119 707	2 371	30 126	0	0	-137 443	**310 341**
Investments in subsidiaries	16 242	0	0	0	0	0	0	-16 242	**0**
Investments in associates	0	0	0	0	0	97	0	0	**97**
Tangible assets	102	103	217	0	26	277	0	0	**725**
Right of use asset	121	108	421	0	83	31	0	0	**764**
Intangible assets	9 684	71	629	0	13	0	0	-32	**10 365**
Other financial assets	10	43	0	0	28	2	0	0	**83**
Other assets	132	12	308	46	47	57	0	-140	**462**
Deferred tax assets	0	0	0	0	1 573	0	0	0	**1 573**
Total assets	**392 332**	**28 375**	**122 803**	**2 812**	**52 971**	**530**	**3**	**-153 857**	**445 969**
Loans received	0	25 612	103 016	2 401	6 414	0	0	-137 443	**0**
Customer deposits	324 968	0	0	0	50 165	0	0	0	**375 133**
Debt securities issued	4 009	0	0	0	0	0	0	0	**4 009**
Subordinated debt securities	9 551	0	0	0	0	0	0	0	**9 551**
Other financial liabilities	2 313	661	6 554	88	1 265	61	0	-141	**10 801**
Other liabilities	1 740	165	421	0	198	2	0	0	**2 526**
Total liabilities	**342 581**	**26 438**	**109 991**	**2 489**	**58 042**	**63**	**0**	**-137 584**	**402 020**

Assets and liabilities of reportable segments

EURt

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

Equity	*30.09.2019*	*31.12.2018*
SIA Inbank Latvia	1 938	683
UAB Mokilizingas *	12 812	10 489

* Inbank acquired UAB Mokilizingas on 22.05.2018.

Note 4 Net interest income

EURt	*Q3 2019*	*9 months 2019*	*Q3 2018*	*9 months 2018*
Interest income				
Loans to households	9 735	26 699	7 080	15 598
Loans to corporates	131	312	17	187
Due from financial and credit institutions	-12	-28	-18	0
Total	**9 854**	**26 983**	**7 079**	**15 785**
Interest expense				
Deposits received	-1 464	-3 816	-1 002	-2 151
Debt securities sold	-216	-645	-149	-398
Lease liability	-5	-10	0	0
Total	**-1 685**	**-4 471**	**-1 151**	**-2 549**
Net interest income	**8 169**	**22 512**	**5 928**	**13 236**
Interest income by customer location				
Estonia	4 175	11 558	3 272	9 196
Latvia	1 874	5 190	1 299	3 084
Lithuania	2 970	8 406	2 303	3 006
Poland	835	1 829	205	499
Total	**9 854**	**26 983**	**7 079**	**15 785**

Interest income from stage 3 loans in Q3 2019 was 245 EURt and 9 months 2019 332 EURt (Q3 2018: 28 EURt and 9 months 2018: 264 EURt).

Note 5 Net fee income

EURt	*Q3 2019*	*9 months 2019*	*Q3 2018*	*9 months 2018*
Fee income				
Households	252	678	177	512
Corporates	3	9	11	11
Total	**255**	**687**	**188**	**523**
Fee expense				
Loan administration expenses	-459	-1 261	-370	-720
Total	**-459**	**-1 261**	**-370**	**-720**
Net fee income	**-204**	**-574**	**-182**	**-197**
Fee income by customer location				
Estonia	194	524	139	384
Latvia	60	158	41	127
Lithuania	0	0	8	11
Poland	1	5	0	1
Total	**255**	**687**	**188**	**523**

Note 6 Operating expenses

EURt	*Q3 2018*	*9 months 2018*	*Q3 2018*	*9 months 2018*
Personnel expenses				
Personnel expense	1 631	4 908	1 230	3 292
Social and other taxes	370	990	279	742
Total personnel expenses	**2 001**	**5 898**	**1 509**	**4 034**
Marketing expenses				
Advertising and marketing	417	1 387	377	705
Sales costs	101	300	97	240
Total marketing expenses	**518**	**1 687**	**474**	**945**
Administrative expenses				
Rental and maintenance expenses	67	210	149	353
IT expenses	295	759	195	417
Legal and recovery proceeding expenses	42	123	44	117
Office expenses	80	239	54	144
Training and business trip expenses	105	285	56	95
Other tax expenses	79	193	62	120
Supervision expenses	105	196	39	100
Consultation expenses	44	136	19	61
Transportation expenses	57	146	35	59
Other bought services	22	80	11	74
Other administrative expenses	113	372	136	292
Total administrative expenses	**1 009**	**2 739**	**800**	**1 832**

Note 7 Loans and advances

EURt

Distribution of receivables as of 30.09.2019	Gross receivables from households	Stage 1 and 2	Stage 3	Net receivables from households	Allowance coverage
Portfolio in overdue 0-3 days	270 076	-2 365	-69	267 642	0.9%
Portfolio in overdue 4-30 days	20 594	-1 053	-71	19 470	5.5%
Portfolio in overdue 31-89 days	7 930	-1 046	-168	6 716	15.3%
Portfolio in overdue 90-179 days	2 000	0	-936	1 064	46.8%
Portfolio in overdue 180+ days	3 110	0	-2 164	946	69.6%
Total receivables	**303 710**	**-4 464**	**-3 408**	**295 838**	**2.6%**

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

Distribution of receivables as of 30.09.2019	Gross receivables from corporates	Stage 1 and 2	Stage 3	Net receivables from corporates	Allowance coverage
Portfolio in overdue 0-3 days	14 025	-34	0	13 991	0.2%
Portfolio in overdue 4-30 days	289	-7	0	282	2.4%
Portfolio in overdue 31-89 days	142	-13	0	129	9.2%
Portfolio in overdue 90-179 days	7	0	-2	5	28.6%
Portfolio in overdue 180+ days	146	0	-50	96	34.2%
Total receivables	**14 609**	**-54**	**-52**	**14 503**	**0.7%**

EURt

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

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

Distribution of receivables by customer sector	*30.09.2019*	*31.12.2018*
Households	303 710	221 591
Non-financial corporates	4 092	3 470
Other financial corporates	4 736	1 709
Other advances	5 781	4 473
Total	**318 319**	**231 243**
Impairment allowance	-7 978	-5 604
Total	**310 341**	**225 639**

Impairment losses on loans and advances	*9 months 2019*	*2018*
Impairment losses of reporting period	-8 320	-5 681
Recoveries from written off from financial position	3 475	2 995
Total	**-4 845**	**-2 686**

Changes in impairments	*30.09.2019*	*2018*
Impairment allowance balance in the beginning of the period	-5 604	-3 173
Impact of IFRS 9	-	-901
Impairment provisions set up during reporting period	-8 320	-5 681
Written off from financial position during the period	5 946	4 151
Total	**-7 978**	**-5 604**

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

Note 8 Income tax

EURt	*Q3 2019*	*9 months 2019*	*Q3 2018*	*9 months 2018*
Income tax recognized in income statement				
Deferred tax assets, Poland	379	1 041	0	214
Income tax, Estonia	-295	-708	-192	-328
Income tax, Lithuania	-95	-259	-105	-140
Income tax, Poland	-272	-482	0	0
Income tax, Latvia (correction)	0	0	-25	-20
Total	**-283**	**-408**	**-322**	**-274**

Note 9 Due from central banks and credit institutions

EURt	*30.09.2019*	*31.12.2018*
Due from central banks	86 449	62 668
Mandatory reserve in central banks	3 551	1 952
Due from credit institutions	29 165	13 700
Total	**119 165**	**78 320**

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

Note 10 Disposal and acquisition of associates and subsidiaries

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

On August 27th, 2019 Inbank established 100% subsidiary Inbank Payments OÜ.

Inbank has gradually sold its stake in Coop Pank.

On March 29th, 2018 Inbank disposed 10% of the shares in Coop Pank AS. 5% of the shares were acquired by shareholders of Coop Pank and 5% of the shares were acquired by TÜ Eesti Ühistukapital. After the transaction Inbank holds 7.94% of the shares in Coop Pank. Remaining investment subsequent to the sale is recognized at fair value.
On June 27th, 2019 Inbank participated in Coop Pank share capital issue maintaining the size of the holding. In September 2019 Inbank sold its 4.45% share in Coop Pank, the remaining share in Coop Pank is 3.49%. Profit from the revaluation of the investment and the sale of the shares in the amount of 539 EURt is recognised in income statement as "Net gains from financial assets measured at fair value" (Q3 2018: 0 EURt and 9 months 2018: 1 204 EURt).

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

On May 22nd, 2018 Inbank AS acquired a consumer finance company UAB Mokilizingas in Lithuania, with a purchase price of EUR 15 million. At acquisition, assets and liabilities were acquired at their fair value. Further information has been disclosed in Note 13 of the Annual report for the year ended 31 December 2018. On May 15th, 2019 AS Inbank and Mokilizingas signed a cross-border merger agreement. All the assets, rights and obligations of Mokilizingas shall be transferred to Inbank on the date of entry of the merger in the Estonian Commercial Register.

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

Inbank has not received dividends from its associates.

Disposal and acquisition of associates

EURt	***9 months 2019***	***2018***
Equity contribution, financial assets at fair value through profit and loss	321	0
Equity contribution, associates	0	96
Proceeds from disposals of associates, and reinvestment	3	13 038
Purchase of non-controlling interest in the share capital of subsidiary	118	0
Total purchases	**442**	**13 134**
Proceeds from disposals in financial investment	3 320	0
Proceeds from disposals of associates	0	476
Proceeds from disposals of partial holdings in associates	0	5 793
Total proceeds	**3 320**	**6 269**

Note 11 Intangible assets

EURt	*Licences*	*Software*	*Goodwill*	*Total*
At the beginning of period (01.01.2019)				
Cost	133	1 846	6 157	8 136
Accumulated amortisation	-83	-356	0	-439
Net book amount	**50**	**1 490**	**6 157**	**7 697**
Opening carrying value	**50**	**1 490**	**6 157**	**7 697**
Additions	0	3 144	0	3 144
Amortisation charge	-26	-450	0	-476
Closing carrying value	**24**	**4 184**	**6 157**	**10 365**
At the end of period (30.09.2019)				
Cost	133	4 990	6 157	11 280
Accumulated amortisation	-109	-806	0	-915
Carrying value	**24**	**4 184**	**6 157**	**10 365**

Management has carried through goodwill impairment tests as at 30.09.2019 and as at 31.12.2018. The cash-generating units of goodwill are segments, which are entities of Inbank group. The break-down of goodwill between segments is as follows:

Business segment	***30.09.2019***	***31.12.2018***
Estonia	238	238
Lithuania	5 919	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. Growth rates used in the forecast are based on management's expectations and past experience in the respective region.

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

Note 12 Other assets

EURt	*30.09.2019*	*31.12.2018*
Financial assets		
Prepaid guarantee amounts	83	64
Total	**83**	**64**
Non-financial assets		
Prepaid expenses	304	444
Prepaid taxes	154	66
Income tax liabilities due to be paid	4	4
Total	**462**	**514**

Prepaid taxes includes prepaid VAT.

Note 13 Loan from credit institution

EURt	*30.09.2019*	*31.12.2018*
Loan received		
Loan from credit institution	0	10 429
Total	**0**	**10 429**

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

Note 14 Customer deposits

EURt	*30.09.2019*	*31.12.2018*
Customer deposits		
Deposits from households	358 368	226 544
Deposits from non-financial corporates	11 870	10 834
Deposits from other financial corporates	4 895	2 797
Total	**375 133**	**240 175**

EURt	*30.09.2019*	*31.12.2018*
Deposits by clients' residency		
Estonia	77 931	73 300
Germany	224 858	145 409
Poland	50 165	17 563
Austria	8 015	3 832
Netherlands	14 020	0
Other residence	144	71
Total	**375 133**	**240 175**

Deposits include accrued interest liabilities in the amount of 2 949 EURt (31.12.2018: 1 821 EURt).

Deposits by contractual maturity

EURt					
30.09.2019	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***Total***
Customer deposits	2 807	51 738	164 555	156 033	**375 133**
31.12.2018	***On demand***	***1-90 days***	***91-365 days***	***1-5 years***	***Total***
Customer deposits	4 452	10 427	110 043	115 253	**240 175**

Note 15 Debt securities

EURt	*30.09.2019*	*31.12.2018*
Debt securities issued	4 000	10 000
Accrued interest	9	17
Total	**4 009**	**10 017**

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

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

Note 16 Subordinated debt securities

EURt	*30.09.2019*	*31.12.2018*
Subordinated debt securities issued	9 653	9 653
Adjustments	-102	-125
Total	**9 551**	**9 528**

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

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

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

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

Note 17 Other liabilities

EURt	*30.09.2019*	*31.12.2018*
Financial liabilities		
Accounts payable	9 560	8 072
Lease liability	336	0
Client prepayments	905	704
Total financial liabilities	**10 801**	**8 776**
Other liabilities		
Payables to employees	1 596	1 124
Payroll taxes	410	443
Other liabilities	520	1 087
Total	**2 526**	**2 654**

The accounts payable includes liabilities to customers and partners for loan granting activities and payments for operating expenses. Of the amount, 4 857 EURt is Mokilizingas liability to partners for loan granting activities (2018: 6 403 EURt).
Other liabilities include income tax liabilities in the amount of 399 EURt (2018: 496 EURt).

Note 18 Contingent liabilities

Inbank had the following loan commitments:

EURt	
Revocable commitments	
Liability in contractual amount as of 30 September 2019	12 417
incl unused credit card limits	12 051
Liability in contractual amount as of 31 December 2018	13 826
incl unused credit card limits	13 326

Note 19 Basic and diluted earnings per share

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

	Q3 2019	***9 months 2019***	***Q3 2018***	***9 months 2018***
Total profit attributable to owners of the parent (EUR thousand)	2 221	6 566	1 541	6 214
Weighted average number of shares	88 869	88 869	87 394	82 805
Basic earnings per share (EUR)	24.99	73.88	17.63	75.04
Weighted average number of shares used for calculating the diluted earnings per shares	93 619	93 619	92 444	87 855
Diluted earnings per share (EUR)	23.72	70.14	16.67	70.73

Note 20 Share capital

EURt	*30.09.2019*	*31.12.2018*
Share capital	903	874
Number of shares issued	90 344	87 394
Nominal share value (EUR)	10	10

In September 2019 the option was realised for the purchase of 2 950 shares.
The share capital was thus increased by 29 500 euros, of the share premium was 855 500 euros.

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

Note 21 Share-based payments

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

	No of shares	Unit subscription price	Option issuing year	The year in which the right to realize the option arises	Number of people to whom the option was issued
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	850	675	2019	2022	6
Management	200	675	2019	2022	1
Total	**4 750**				

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

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

The share-based payment reserve is recorded under other reserves in equity over a period of three years. At the end of each reporting period, the bank will estimate how many shares will be realised at non-market prices and adjust the reserve accordingly. As at 30.09.2019, the reserve amounted to 89 EURt (2018: 37 EURt).

Personnel expenses related to the option agreements in Q3 2019 amounted to a total of 47 EURt, 9 months 2019: 69 EURt (Q3 2018: 5 EURt, 9 months 2018: 15 EURt).

In September 2019 the option was realised for the purchase of 2 950 shares (see Note 20).

Note 22 Reserves

EURt	*30.09.2019*	*31.12.2018*
Statutory reserve	88	79
Voluntary reserve	1 330	1 330
Share based payments reserve	88	37
Other accumulated comprehensive income	118	34
Total	**1 624**	**1 480**

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

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

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

Note 23 Fair value of financial assets and liabilities

EURt	30.09.2019			31.12.2018		
Assets	**Fair value**	**Carrying amount**	**Level**	**Fair value**	**Carrying amount**	**Level**
Cash in hand	4	4	1	4	4	1
Due from central banks	89 754	89 754	2	64 620	64 620	2
Due from credit institutions	29 411	29 411	2	13 700	13 700	2
Financial assets at fair value through profit and loss	2 390	2 390	3	4 600	4 600	3
Loans and advances	310 341	310 341	3	225 639	225 639	3
Other financial assets	83	83	3	64	64	3
Total	**431 983**	**431 983**		**308 627**	**308 627**	

	30.09.2019			31.12.2018		
Liabilities	**Fair value**	**Carrying amount**	**Level**	**Fair value**	**Carrying amount**	**Level**
Loans from credit institutions	0	0	2	10 429	10 429	2
Customer deposits	375 133	375 133	2	240 175	240 175	2
Debt securities issued	4 009	4 009	3	10 017	10 017	3
Subordinated debt securities	6 969	6 506	2	6 954	6 489	2
Subordinated debt securities (AT1)	3 045	3 045	3	3 039	3 039	3
Other financial liabilities	10 801	10 801	3	8 776	8 776	3
Total	**399 957**	**399 494**		**279 390**	**278 925**	

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

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

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

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

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

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

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

Note 24 Related parties

EURt	*9 months 2019*	*9 months 2018*
Remuneration of the Management Board and Supervisory Board	772	487

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	*30.09.2019*	*31.12.2018*
Loans and receivables as of end of reporting period	**476**	**475**
management	476	475
Deposits and subordinated debt securities as of end of reporting period	**718**	**742**
management	718	742

Transactions	*9 months 2019*	*9 months 2018*
Interest income	**12**	**19**
management	12	12
associates	0	7
Interest expenses	**38**	**14**
management	38	14
Services purchased	**33**	**34**
management	33	34
Services sold	**0**	**44**
management	0	0
associates	0	44

The table provides an overview of the significant transactions and balances with related parties. The Group finances the Group's subsidiaries and branches with short- and long-term loans issued under market conditions with interest rates in between 3.34% and 7% (2018: 3.31-7%). Such loans are eliminated from the consolidated financial statements. Loans to management (including hire-purchase) are issued under market conditions with interest rates between 0-5% (2018: 5-14.65%). The interest rate of deposits received from related parties matches with the interest rate offered to the client, interest rates are in between 0.6% and 3.0% (2018: 1.05-3%).

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

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