



Inbank AS

Interim Report

Q2 2020

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	01.01.2020-30.06.2020

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 Q2 2020 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 Q2 of 2020 consisting of the management report and financial statements as at 30 June 2020 are correct and complete;
- this interim report gives a true and fair view of the financial position of the Inbank AS consolidation group as at 30 June 2020, its financial performance and cash flows for the Q2 of 2020;
- 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 2019.

Inbank AS is a going concern.

Tallinn, 07 August 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 first half of the year has been extraordinary in many ways around the world, and adapting to the new reality is a challenge for many businesses. As a digital bank, Inbank managed to cope well with these changes: we adopted quick decisions, switched completely to working remotely, and adjusted our expenses and investments to suit the situation. Most certainly, the emergency situation in our home markets until mid-May also affected our Q2 2020 financial results, but we had expected such an outcome.

The chain reaction that began with the COVID-19 pandemic is likely to affect the world economy for a long time to come. However, its real impact and scope may not be clear until years later.

Impact assessment of the COVID-19 outbreak

Sales volumes

In March, economic restrictions were imposed on all Inbanks markets to manage the health crisis caused by the coronavirus, which also had a direct impact on our economic activities. In March and April, sales volumes fell sharply in all product types. As governments began easing restrictions in mid-May, sales volumes also recovered.

At the end of the quarter, sales volumes decreased by 19% compared to a year ago. At the same time, the sales finance product line performed well despite the crisis, with sales volumes increasing by 12% compared to the previous year. The largest contribution was provided by the Polish market, which grew by as much as 80% in the sales finance category. The small loan product line suffered the most, with sales falling by 72% compared to the previous year. The main reasons for this decline were the suspension of marketing activities immediately at the beginning of the crisis and a conservative approach to credit underwriting.

Despite the decline in sales volumes during the emergency situation, we are already seeing a rapid recovery in sales and demand today. In conclusion, Inbank's revenue increased by 5% in Q2 compared to a year ago.

Investments and expenses

In the light of the new reality, we reviewed our investment strategy and decided to focus even more on partner-based business, i.e. consumer financing in merchant channels. To support the sales growth of our partners' online channels, we concentrated our resources to the development of the Indiy new generation 'pay later' platform at the very beginning of the crisis.

At the beginning of April, we launched a completely new product category, which provides merchants with the opportunity to offer three different 'pay later' solutions depending on their business goals. Indiy Go will let you pay for the goods next month without any additional charges, Indiy Slice allows you to divide the purchases into three equal parts without any additional charges, and Indiy Plan with a flexible payment schedule will be suitable for covering higher expenses. The Indiy product range provides merchants with the opportunity to increase sales volumes by offering clients the flexibility to choose the most suitable payment method.

In order to save costs, we significantly reduced our direct marketing budget (-75% compared to Q2 of the previous year). At the same time, we continued to invest in product development and technology.

When speaking about our team, we have not laid off employees or reduced wages. Instead, we saw an opportunity to strengthen our technology team during the crisis, and several skilled specialists joined us. Consequently, personnel expenses increased by 20% compared to Q2 of the previous year. It is our long-term strategy to establish an in-house and independent technology unit to reduce our dependence on external partners.

Overall, expenses increased by 5% compared to Q2 of the previous year, and mainly due to higher wage costs. In a company with our profile, people provide the main competitive advantage, therefore, we will continue to strengthen our team to be ready for new growth.

Impact on credit risk

In Q2, we continued to maintain a somewhat conservative approach when making credit decisions. In selected locations, where we offered fully automatic credit decisions before the emergency situation, we have switched to manual control and paid more attention to the applicant's employer profile. As the situation becomes clearer and more positive signals emerge, we intend to reverse these changes step-by-step during Q3.

Despite the extremely difficult macroeconomic situation arising from the emergency situation, Q2 did not indicate a significant change in clients' payment discipline. There may be several reasons for this: Inbank has joined the procedure for granting grace period for its private individual customers announced by the Estonian Banking Association, and the countries in which we operate have taken various measures to mitigate the effects of the crisis on their citizens and businesses. The next quarters will show whether these measures have alleviated the problem or only postponed it. However, compared to several economic forecasts published in Q2, our current portfolio provides somewhat more reason to be optimistic.

Nevertheless, Inbank has significantly increased its loan provisions during Q2 (the coverage of the 0-89-day debt portfolio with provisions has increased to 1.9%; the same figure

was 1.4% as of 31 December 2019). The basic need for provisions has been due to changes in the possibilities of selling debt claims to specialised companies. By increasing provisions, Inbank has adjusted the value of its working loan portfolio to the market situation.

In Q2 of 2020, impairment losses on loans and advances accounted for 4.3% of the loan portfolio (annualised). The indicator for the same period in 2019 was 2.7%. Although the indicator has grown significantly, our operations were profitable both quarterly and semi-annually.

Q2 financial results

However, despite the declining sales volumes during the crisis, we were able to increase our portfolio slightly. Compared to the end of the year, our loan portfolio grew by 3% and reached 349 million euros at the end of the quarter. Thanks to the growth of the portfolio, we were able to increase our revenue despite declining sales. Net interest income increased by 11% compared to the same period last year and total revenue by 5%. At the same time, expenses also increased by 5%. Profit before loan losses for the quarter increased by 10% and amounted to 4.3 million euros. Provisions for loan losses increased by 113% to 3.7 million euros. The net profit for the quarter was 556 thousand euros and the profit for the half-year was 2.7 million euros, which can be considered good, given the situation.

The main factor influencing financial results involves provisions currently made to cover future loan losses, which are entirely relevant, taking into account the reality that has emerged as a result of the coronavirus. The essence of actual loan losses depends significantly on the ability of businesses to maintain jobs, as the unemployment rate and loan losses tend to be in correlation.

On the positive side, banks had an efficient financing market throughout the crisis. We successfully attracted deposits from all markets and we did not notice any major changes in this area. Our deposits increased to 402 million euros. The interest expense increased due to our conservative liquidity planning – the liquidity portfolio increased by 9% compared to the end of the year and reached 113 million euros at the end of the quarter.

Other news

In order to grow internationally, we made a strategic decision in Q2 to make the current country-specific organisation more product-centric and flexible. As of 1 July, the organisation focuses on three cross-border business units: Sales Finance, which is now managed by Benas Pavlauskas, Car Financing, which is led by Margus Kastein, and Consumer Loans and Cards, which is headed by Piret Paulus. As an exception, the Polish business unit remained country-specific, as it is a large market where we are growing rapidly and, therefore, it currently needs more focus.

To support the new business units, we also merged all support units and formed cross-border competence centres, such as product design and development, technology, marketing, business processes, risk, finance, human resources and legal.

Inbank's Q2 was intense and interesting in many ways. It was truly inspiring to see our team's joint efforts to adapt to the new situation. Despite the difficult times, we managed to achieve a lot of things together: we launched the innovative Indiv product range, rearranged the organisational structure, and several new talents joined our team. All these steps will prepare Inbank for the next growth period.

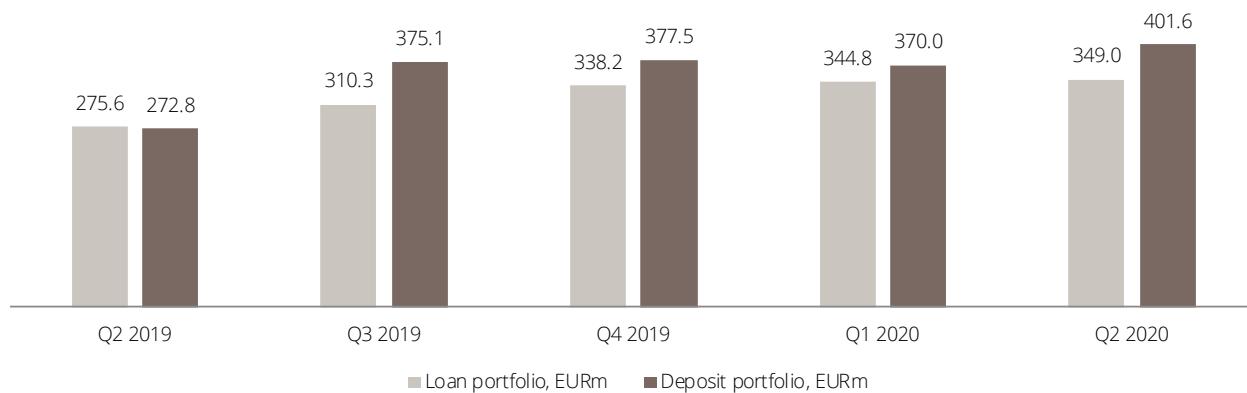
Jan Andresoo
Chairman of the Management Board

Key financial indicators

Key financial indicators and ratios

In millions of euros	30.06.2020	30.06.2019	% change
Total assets	484.8	338.2	43.3%
Equity	50.4	40.7	23.8%
Net profit	2.7	4.3	-37.0%
Loan portfolio	349.0	275.6	26.6%
Deposit portfolio	401.6	272.8	47.2%

Loan and deposit portfolio development



Ratios

	6 months 2020	6 months 2019
Return on equity	11.2%	22.7%
Return on total assets	1.2%	2.7%
Net interest margin	7.8%	9.3%
Impairment losses to loan portfolio	3.6%	2.4%
Cost/income ratio	50.3%	49.9%
Equity to total assets	10.4%	12.0%

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

Condensed consolidated interim financial statements

Condensed consolidated statement of financial position

In thousands of euros	Note	30.06.2020	31.12.2019
Assets			
Due from central banks	8	70,319	83,080
Due from credit institutions	8	22,209	20,655
Investments in debt securities	9	20,043	0
Loans and advances	3; 7; 21	348,977	338,157
Investments in associates	10	3,492	3,276
Tangible assets		879	840
Right of use asset		567	773
Intangible assets	11	14,109	11,721
Other financial assets	12	1,378	1,692
Other assets	12	969	588
Deferred tax asset		1,881	1,985
Total assets	3	484,823	462,767
Liabilities			
Customer deposits	13; 21	401,589	377,518
Other financial liabilities	16; 21	9,133	13,545
Other liabilities	16	2,282	2,837
Debt securities issued	14	4,010	4,010
Subordinated debt securities	15	17,544	17,537
Total liabilities	3	434,558	415,447
Equity			
Share capital	19	909	903
Share premium	19	16,082	15,908
Statutory reserve capital	20	90	88
Other reserves	20	1,478	1,463
Retained earnings		31,706	28,958
Total equity		50,265	47,320
Total liabilities and equity		484,823	462,767

Notes set out on pages 11-24 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	Q2 2020	6 months 2020	Q2 2019	6 months 2019
Interest income	4	10,393	21,280	8,974	17,129
Interest expense	4	-2,005	-3,941	-1,396	-2,786
Net interest income		8,388	17,339	7,578	14,343
Fee income	5	263	557	228	432
Fee expense	5	-512	-1,002	-427	-802
Net fee and commission income		-249	-445	-199	-370
Net gains from financial assets measured at fair value		0	0	266	266
Other operating income		222	362	308	553
Total net interest, fee and other income		8,361	17,256	7,953	14,792
Personnel expenses	6	-2,457	-4,856	-2,041	-3,897
Marketing expenses	6	-193	-700	-778	-1,169
Administrative expenses	6	-1,052	-2,099	-931	-1,730
Depreciations, amortisation	11	-542	-1,021	-302	-579
Total operating expenses		-4,244	-8,676	-4,052	-7,375
Profit before profit from associates and impairment losses on loans		4,117	8,580	3,901	7,417
Share of profit from associates		176	592	0	0
Impairment losses on loans and advances	7	-3,740	-6,159	-1,752	-2,947
Profit before income tax		553	3,013	2,149	4,470
Income tax	3	3	-276	174	-125
Profit for the period		556	2,737	2,323	4,345
incl. shareholders of parent company		556	2,737	2,323	4,345
Other comprehensive income that may be reclassified subsequently to profit or loss					
Currency translation differences		40	-76	-50	-51
Total comprehensive income for the period		596	2,661	2,273	4,294
incl. shareholders of parent company		596	2,661	2,273	4,294

Notes set out on pages 11-24 form an integral part of the consolidated financial statements.

Condensed consolidated statement of cash flows

In thousands of euros	Note	6 months 2020	6 months 2019
Cash flows from operating activities			
Interest received	4	21,613	17,078
Interest paid	4	-2,497	-2,507
Fees received	5	557	432
Fees paid	5	-1,002	-802
Other income received		362	553
Personnel expenses	6	-5,202	-3,770
Administrative and marketing expenses	6	-2,977	-3,085
Corporate income tax paid		-578	-935
Cash flows from operating activities before changes in the operating assets and liabilities		10,276	6,964
Changes in operating assets			
Loans and advances		-16,273	-52,288
Mandatory reserve in central banks		1,315	-731
Other assets		37	-676
Changes of operating liabilities			
Loan from credit institution		0	-10,429
Customer deposits		22,188	31,500
Other liabilities		-4,444	-197
Net cash from operating activities		13,099	-25,857
Cash flows from investing activities			
Investments in debt securities		-20,043	0
Acquisition of tangible and intangible assets	11	-3,156	-1,945
Acquisition of subsidiaries	10	400	-118
Net change of investments at fair value through profit or loss		0	-321
Net cash used in investing activities		-22,799	-2,384
Cash flows from financing activities			
Share capital contribution (including share premium)		180	0
Debt securities issued		0	4,000
Repayments of debt securities		0	-10,000
Net cash used in financing activities		180	-6,000
Effect of exchange rate changes		-370	49
Cash and cash equivalents at the beginning of the reporting period	8	99,168	76,372
Net increase/decrease in cash and cash equivalents		-9,890	-34,192
Cash and cash equivalents at the end of the reporting period	8	89,278	42,180

Notes set out on pages 11-24 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 attributable to owners of the parent	Non-controlling interest	Total equity
Balance, 01.01.2019	874	15,053	79	1,401	19,018	36,425	40	36,465
Paid in share capital	0	0	0	0	0	0	0	0
Share-based payment reserve	0	0	0	22	0	22	0	22
Statutory reserve capital	0	0	9	0	-9	0	0	0
Purchase of non-controlling interest in subsidiaries	0	0	0	0	-78	-78	-40	-118
Total profit for the reporting period	0	0	0	0	4,344	4,344	0	4,344
Other comprehensive income	0	0	0	-50	0	-50	0	-50
Balance, 30.06.2019	874	15,053	88	1,373	23,275	40,663	0	40,663
Balance, 01.01.2020	903	15,908	88	1,463	28,958	47,320	0	47,320
Paid in share capital	6	174	0	0	0	180	0	180
Share-based payment reserve	0	0	0	91	13	104	0	104
Statutory reserve capital	0	0	2	0	-2	0	0	0
Total profit for the reporting period	0	0	0	0	2,737	2,737	0	2,737
Other comprehensive income	0	0	0	-76	0	-76	0	-76
Balance, 30.06.2020	909	16,082	90	1,478	31,706	50,265	0	50,265

Notes set out on pages 11-24 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 2019, which comply with the International Financial Reporting Standards, as adopted by the European Commission (IFRS EU).

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 2019, 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)
SIA Inbank Latvia	21.08.2014	Latvia	Financing	100	519
AS Inbank filialas	15.11.2019	Lithuania	Banking, branch		
AS Inbank Spółka Akcyjna Oddział w Polsce	08.09.2016	Poland	Banking, branch		
Inbank Technologies OÜ	05.06.2015	Estonia	Hardware rental	100	2,915
Maksekeskus Holding OÜ *	05.06.2015	Estonia	Holding company	100	3,276
Inbank Payments OÜ	27.08.2019	Estonia	Holding company	100	3

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

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.

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 and net profit structure

In thousands of euros

	Estonia	Latvia	Lithuania	Poland	Inter-segment eliminations	Total
6 months 2020						
Interest income	11,495	2,525	8,134	1,895	-2,769	21,280
incl. interest income from external customers	8,726	2,525	8,134	1,895	0	21,280
incl. internal interest income	2,769	0	0	0	0	2,769
Fee income	416	127	0	14	0	557
Other operating income	408	37	45	70	-198	362
Total income	12,319	2,689	8,179	1,979	-2,967	22,199
Interest expense	-3,281	-420	-2,361	-648	2,769	-3,941
Fee expense	-203	-79	-491	-229	0	-1,002
Total expenses	-3,484	-499	-2,852	-877	2,769	-4,943
Total net interest, fee and commission income and other income	8,835	2,190	5,327	1,102	-198	17,256
Operating expenses	-4,983	-787	-2,227	-877	198	-8,676
incl. depreciations, amortisation	-627	-74	-267	-53	0	-1,021
Profit before profit from associates and impairment losses on loans	3,852	1,403	3,100	225	0	8,580
Profit of associates	592	0	0	0	0	592
Impairment losses on loans and advances	-3,001	-569	-1,655	-934	0	-6,159
Income tax	-238	0	-134	96	0	-276
Net profit/loss	1,205	834	1,311	-613	0	2,737
Total assets	409,431	28,358	137,411	60,929	-151,306	484,823
Total liabilities	366,781	25,022	122,468	66,848	-146,561	434,558

In thousands of euros

	Estonia	Latvia	Lithuania	Poland	Inter-segment eliminations	Total
Q2 2020						
Interest income	5,626	1,229	3,996	904	-1,362	10,393
incl. interest income from external customers	4,264	1,229	3,996	904	1,407	11,800
incl. internal interest income	1,362	0	0	0	0	1,362
Fee income	191	63	0	9	0	263
Net gains from financial assets measured at fair value	0	0	0	0	0	0
Other operating income	240	13	30	67	-128	222
Total income	6,057	1,305	4,026	980	-1,490	10,878
Interest expense	-1,663	-204	-1,169	-331	1,362	-2,005
Fee expense	-106	-38	-251	-117	0	-512
Total expenses	-1,769	-242	-1,420	-448	1,362	-2,517
Total net interest, fee and commission income and other income	4,288	1,063	2,606	532	-128	8,361
Operating expenses	-2,511	-362	-961	-538	128	-4,244
incl. depreciations, amortisation	-341	-37	-138	-26	0	-542
Profit before profit from associates and impairment losses on loans	1,777	701	1,645	-6	0	4,117
Profit of associates	176	0	0	0	0	176
Impairment losses on loans and advances	-2,068	-435	-871	-366	0	-3,740
Income tax	0	0	-35	38	0	3
Net profit/loss	-115	266	739	-334	0	556

In thousands of euros

	Estonia	Latvia	Lithuania	Poland	Inter-segment eliminations	Total
6 months 2019						
Interest income	9,438	2,241	6,511	994	-2,055	17,129
incl. interest income from external customers	7,383	2,241	6,511	994	0	17,129
incl. internal interest income	2,055	0	0	0	0	2,055
Fee income	330	98	0	4	0	432
Other operating income	512	41	298	50	-82	819
Total income	10,280	2,380	6,809	1,048	-2,137	18,380
Interest expense	-2,413	-349	-1,721	-358	2,055	-2,786
Fee expense	-196	-78	-372	-156	0	-802
Total expenses	-2,609	-427	-2,093	-514	2,055	-3,588
Total net interest, fee and commission income and other income	7,671	1,953	4,716	534	-82	14,792
Operating expenses	-3,670	-843	-2,179	-765	82	-7,375
incl. depreciations, amortisation	-292	-76	-182	-32	3	-579
Profit before profit from associates and impairment losses on loans	4,001	1,110	2,537	-231	0	7,417
Profit of associates	0	0	0	0	0	0
Impairment losses on loans and advances	-1,093	-204	-700	-950	0	-2,947
Income tax	-413	0	-164	452	0	-125
Net profit/loss	2,495	906	1,673	-729	0	4,345
Total assets	301,007	25,368	112,330	40,452	-140,937	338,220
Total liabilities	253,264	23,779	100,169	45,007	-124,662	297,557

In thousands of euros

	Estonia	Latvia	Lithuania	Poland	Inter-segment eliminations	Total
Q2 2019						
Interest income	4,953	1,169	3,409	549	-1,106	8,974
incl. interest income from external customers	3,847	1,169	3,409	549	0	8,974
incl. internal interest income	1,106	0	0	0	0	1,106
Fee income	171	53	0	4	0	228
Net gains from financial assets measured at fair value	0	0	0	0	0	0
Other operating income	383	21	164	50	-44	574
Total income	5,507	1,243	3,573	603	-1,150	9,776
Interest expense	-1,198	-185	-902	-217	1,106	-1,396
Fee expense	-101	-41	-189	-96	0	-427
Total expenses	-1,299	-226	-1,091	-313	1,106	-1,823
Total net interest, fee and commission income and other income	4,208	1,017	2,482	290	-44	7,953
Operating expenses	-2,053	-454	-1,197	-392	44	-4,052
incl. depreciations, amortisation	-162	-38	-91	-14	3	-302
Profit before profit from associates and impairment losses on loans	2,155	563	1,285	-102	0	3,901
Profit of associates	0	0	0	0	0	0
Impairment losses on loans and advances	-510	-108	-577	-557	0	-1,752
Income tax	-232	0	-46	452	0	174
Net profit/loss	1,413	455	662	-207	0	2,323

Equity of major subsidiary

	30.06.2020	31.12.2019
SIA Inbank Latvia	3,336	2,501

Note 4 Net interest income

In thousands of euros	Q2 2020	6 months 2020	Q2 2019	6 months 2019
Interest income				
Loans to households	10,305	21,126	8,882	16,964
Loans to corporates	149	247	96	181
Due from financial and credit institutions	-61	-93	-4	-16
Total interest income	10,393	21,280	8,974	17,129
 Interest expense				
Deposits received	-1,655	-3,248	-1,177	-2,352
Debt securities sold	-344	-681	-215	-429
Lease liability	-6	-12	-4	-5
Total interest expense	-2,005	-3,941	-1,396	-2,786
 Net interest income	8,388	17,339	7,578	14,343
 In thousands of euros	Q2 2020	6 months 2020	Q2 2019	6 months 2019
Interest income by customer location				
Estonia	4,143	8,605	3,847	7,383
Latvia	1,229	2,525	1,729	3,316
Lithuania	3,996	8,134	2,849	5,436
Poland	1,025	2,016	549	994
Total interest income by customer location	10,393	21,280	8,974	17,129

Note 5 Net fee and commission income

In thousands of euros	Q2 2020	6 months 2020	Q2 2019	6 months 2019
Fee income				
Households	262	554	222	426
Corporates	1	3	6	6
Total fee income	263	557	228	432
 Fee expense				
Loan administration expenses	-512	-1,002	-427	-802
Total fee expense	-512	-1,002	-427	-802
 Net fee income	-249	-445	-199	-370
 In thousands of euros	Q2 2020	6 months 2020	Q2 2019	6 months 2019
Fee income by customer location				
Estonia	191	416	172	330
Latvia	63	127	53	98
Lithuania	0	0	0	0
Poland	9	14	3	4
Total fee income by customer location	263	557	228	432

Note 6 Operating expenses

In thousands of euros	Q2 2020	6 months 2020	Q2 2019	6 months 2019
Personnel expenses				
Personnel expense	2,014	3,978	1,699	3,277
Social and other taxes	443	878	342	620
Total personnel expenses	2,457	4,856	2,041	3,897
Marketing expenses				
Advertising and marketing	123	536	700	970
Sales costs	70	164	78	199
Total marketing expenses	193	700	778	1,169
Administrative expenses				
Office maintenance and workplace expenses	129	279	154	302
IT expenses	345	700	248	464
Legal and recovery proceeding expenses	133	231	85	163
Training and business trip expenses	30	112	111	180
Supervision expenses	74	146	44	91
Transportation expenses	34	82	48	94
Other tax expenses	6	159	10	59
Other	301	390	231	377
Total administrative expenses	1,052	2,099	931	1,730

Note 7 Loans and advances

In thousands of euros	30.06.2020	31.12.2019
Distribution of receivables by customer sector		
Households	349,123	333,014
Corporates	11,953	13,438
Loans and advances before impairment allowance	361,076	346,452
Impairment allowance	-12,099	-8,295
Total loans and advances	348,977	338,157

In thousands of euros	6 months 2020	6 months 2019
Impairment losses on loans and advances		
Impairment losses of reporting period	-7,737	-2,070
Recoveries from written off from financial position	1,578	875
Total impairment losses on loans and advances	-6,159	-1,195

In thousands of euros	30.06.2020	31.12.2019
Changes in impairments		
Impairment allowance balance in the beginning of the period	-8,295	-5,604
Impairment provisions set up during reporting period	-7,737	-2,070
Written off from financial position during the period	3,933	-621
Total impairment	-12,099	-8,295

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.

Distribution of receivables from households

In thousands of euros

	Gross receivables	Stage 1	Stage 2	Stage 3	Net receivables	Impairment coverage
30.06.2020						
Distribution of receivables						
0-3 days	307,768	-3,079	-79	-231	304,379	1.1%
4-30 days	23,131	-1,282	-35	-101	21,713	6.1%
31-89 days	9,402	-3	-1,535	-200	7,664	18.5%
90-179 days	3,395	0	-13	-1,682	1,700	49.9%
180+ days	5,427	0	0	-3,822	1,605	70.4%
Total receivables	349,123	-4,364	-1,662	-6,036	337,061	3.5%
31.12.2019						
Distribution of receivables						
0-3 days	294,981	-2,206	-25	-117	292,633	0.8%
4-30 days	23,874	-957	-17	-65	22,835	4.4%
31-89 days	8,781	-5	-1,026	-105	7,645	12.9%
90-179 days	2,018	0	0	-1,079	939	53.5%
180+ days	3,360	0	0	-2,596	764	77.3%
Total receivables	333,014	-3,168	-1,068	-3,962	324,816	2.5%

Distribution of receivables from corporates

In thousands of euros

	Gross receivables	Stage 1	Stage 2	Stage 3	Net receivables	Impairment coverage
30.06.2020						
Distribution of receivables						
0-3 days	9,546	-23	0	0	9,523	0.2%
4-30 days	2,363	-5	0	0	2,358	0.2%
31-89 days	4	0	0	0	4	13.5%
90-179 days	8	0	0	-6	2	77.3%
180+ days	32	0	0	-3	29	10.5%
Total receivables	11,953	-28	0	-9	11,916	0.3%
31.12.2019						
Distribution of receivables						
0-3 days	12,788	-30	0	0	12,758	0.2%
4-30 days	375	-7	0	0	368	1.9%
31-89 days	154	0	-9	-2	143	7.1%
90-179 days	13	0	0	-5	8	38.5%
180+ days	108	0	0	-44	64	40.7%
Total receivables	13,438	-37	-9	-51	13,341	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.

Note 8 Due from central banks and credit institutions

In thousands of euros	30.06.2020	31.12.2019
Due from central banks	67,069	78,515
Mandatory reserve in central banks	3,250	4,565
Due from credit institutions	22,209	20,653
Total due from central banks and credit institutions	92,528	103,733

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 9 Investments in debt securities

In thousands of euros	30.06.2020	31.12.2019
Investments in debt securities	20,000	0
Corrections	43	0
Total investments in debt securities	20,043	0

Note 10 Business combinations

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

Acquisitions and disposals of associates

In thousands of euros	6 months 2020	6 months 2019
Acquisitions		
Equity contribution, financial assets at fair value through profit and loss	0	321
Equity contribution, associates	110	0
Purchase of non-controlling interest in the share capital of subsidiary	0	118
Total acquisitions	110	439

Disposals

Received from disposals of subsidiary	400	0
Claim from disposals of subsidiary	380	0
Total disposals	780	0

Inbank has not received dividends from its associates.

Note 11 Intangible assets

In thousands of euros	Licences	Software	Goodwill	Total
Cost, 01.01.2020	143	6,512	6,157	12,812
Accumulated amortisation	-102	-989	0	-1,091
Opening carrying value	41	5,523	6,157	11,721
Additions	12	2,981	0	2,993
Amortisation charge	-15	-590	0	-605
Closing carrying value	38	7,914	6,157	14,109
Cost, 30.06.2020	155	9,493	6,157	15,805
Accumulated amortisation	-117	-1,579	0	-1,696
Carrying value	38	7,914	6,157	14,109

Management has carried out tests of recoverable amount of goodwill as at 30 June 2020 and 31 December 2019. 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	30.06.2020	31.12.2019
Business segment		
Estonia	238	238
Lithuania	5,919	5,919
Total	6,157	6,157

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 12 Other assets

In thousands of euros	30.06.2020	31.12.2019
Financial assets		
Prepaid guarantee amounts	149	70
Accrued receivables	1,229	1,622
Total financial assets	1,378	1,692
Non-financial assets		
Prepaid expenses	782	527
Prepaid taxes	0	61
Other assets	187	0
Total non-financial assets	969	588

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

Note 13 Customer deposits

In thousands of euros	30.06.2020	31.12.2019
Customer deposits		
Deposits from households	390,409	360,125
Deposits from non-financial corporates	10,748	11,997
Deposits from financial corporates	432	5,396
Total customer deposits	401,589	377,518
In thousands of euros	30.06.2020	31.12.2019
Deposits by clients' residency		
Estonia	67,086	76,624
Germany	243,719	225,229
Poland	57,808	49,537
Austria	10,029	9,033
Netherlands	20,796	16,586
Other residence	2,151	509
Total deposits by clients' residency	401,589	377,518
In thousands of euros	30.06.2020	31.12.2019
Deposits by contractual maturity		
On demand	3,490	4,242
1-90 days	103,067	30,828
91-365 days	109,748	181,093
1-5 years	185,284	161,355
Total deposits by contractual maturity	401,589	377,518

Deposits include accrued interest liabilities in the amount of EUR 5 163 thousand (31.12.2019: EUR 3 719 thousand).

Note 14 Debt securities

In thousands of euros	30.06.2020	31.12.2019
Debt securities issued	4,000	4,000
Corrections	10	10
Total debt securities	4,010	4,010

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

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

Note 15 Subordinated debt securities

In thousands of euros	30.06.2020	31.12.2019
Subordinated debt securities issued	17,653	17,653
Adjustments	-109	-116
Total subordinated debt securities	17,544	17,537

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 16 Other liabilities

In thousands of euros	30.06.2020	31.12.2019
Financial liabilities		
Accounts payable	7,694	11,516
Lease liability	565	757
Client prepayments	874	1,272
Total financial liabilities	9,133	13,545
Other liabilities		
Payables to employees	1,632	1,978
Payroll taxes	507	482
Tax liability	139	277
Other liabilities	4	100
Total other liabilities	2,282	2,837

The accounts payable includes liabilities to customers and partners related loan granting activities and payments for operating expenses. Of the amount, EUR 4 637 thousand is Lithuanian branch liability to partners for loan granting activities (31.12.2019 EUR 6 810 thousand).

Note 17 Contingent liabilities

Inbank had the following loan commitments:

	30.06.2020	31.12.2019
In thousands of euros		
Revocable commitments		
Liability in contractual amount	7,210	9,992
incl. unused credit card limits	6,933	9,975

Note 18 Basic and diluted earnings per share

	Q2 2020	6 months 2020	Q2 2019	6 months 2019
Net profit attributable to owners of the parent (EURt)	556	2,737	2,323	4,345
Weighted average number of shares	90,644	90,644	87,394	87,394
Basic earnings per share (EUR)	6.13	30.20	26.58	49.72
Weighted average number of shares used for calculating the diluted earnings per shares	94,594	94,594	95,194	95,194
Diluted earnings per share (EUR)	5.88	28.93	24.40	45.64

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

Note 19 Share capital

	30.06.2020	31.12.2019
Share capital	909	903
Number of shares issued	90,944	90,344
Nominal share value (EUR)	10	10

In June the options were realised for purchase of 600 shares with the price 300 euros per share. The share capital increased EUR 6 thousand and share premium was EUR 174 thousand.

Note 20 Reserves

	30.06.2020	31.12.2019
In thousands of euros		
Statutory reserve	90	88
Voluntary reserve	1,330	1,330
Share based payments reserve	242	151
Other accumulated comprehensive income	-94	-18
Total reserves	1,568	1,551

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 21 Fair value of financial assets and liabilities

	In thousands of euros	30.06.2020			31.12.2019		
		Fair value	Carrying amount	Level	Fair value	Carrying amount	Level
Assets							
Due from central banks	70,319	70,319		2	83,080	83,080	2
Due from credit institutions	22,209	22,209		2	20,655	20,655	2
Investments in debt securities	20,043	20,043		3	0	0	
Loans and advances	348,977	348,977		3	338,157	338,157	3
Other financial assets	1,378	1,378		3	1,692	1,692	3
Total assets	462,926	462,926			443,584	443,584	
Liabilities							
Customer deposits	401,589	401,589		2	377,518	377,518	2
Debt securities issued	4,010	4,010		3	4,010	4,010	3
Subordinated debt securities	15,098	14,481		2	15,403	14,498	2
Subordinated debt securities (AT1)	3,063	3,063		3	3,039	3,039	3
Other financial liabilities	9,133	9,133		3	13,545	13,545	3
Total liabilities	432,893	432,276			413,515	412,610	

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.

The investments in debt securities are issued on market terms, therefore their fair value does not differ significantly from the book value, classified as level 3 in fair value hierarchy.

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.

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.

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.

Debt securities were issued at market terms. 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.

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 at market terms and considering that the interest rate environment has been relatively stable, consequently the fair value is close to the carrying value, classified as level 3 in fair value hierarchy.

Note 22 Related parties

In thousands of euros	6 months 2020	6 months 2019
Remuneration of the Management Board and Supervisory Board	467	579

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	30.06.2020			31.12.2019		
	Management	Associates	Total	Management	Associates	Total
Balances as of end of reporting period						
Loans and advances	0	0	0	1	0	1
Deposits and subordinated debt securities	1,185	0	1,185	2,595	0	2,595

In thousands of euros	6 months 2020			6 months 2019		
	Management	Associates	Total	Management	Associates	Total
Transactions						
Interest income	0	0	0	12	0	12
Interest expenses	41	0	41	24	0	24
Services purchased	27	0	27	22	0	22

The interest rate of deposits received from related parties matches with the interest rate offered to customers, interest rates are in between 0.6% and 2.25% (2019: 0.5 and 3.25%).



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