
INTERIM REPORT OF INBANK AS

3 months 2017



INBANK AS

GENERAL INFORMATION

Business name	Inbank AS
Address	Niine 11, 10414 Tallinn
Registration date	5 October 2010
Registry code	12001988 (Commercial Register of the Republic of Estonia)
Legal entity identifier	2138005M92IEIQVEL297 (LEI code)
VAT number	EE101400240
Telephone	+372 640 8080
E-mail	info@inbank.ee
Website	www.inbank.ee
Balance sheet date of report	31 March 2017
Reporting period	From 1 January 2017 to 31 March 2017

Members of the Supervisory Board

Priit Põldoja, Chairman of the Supervisory Board
Roberto De Silvestri
Triinu Reinold
Raino Paron
Rain Rannu

Members of the Management Board

Jan Andresoo, Chairman of the Management Board
Liina Sadrak
Marko Varik

The reporting currency is the euro (EUR), with units presented in thousands.
Inbank AS' interim report for three months 2017 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 three months of 2017, consisting of the management report and financial statements as at 31 March 2017, are correct and complete;
- this interim report gives a true and fair view of the financial position of the Inbank AS consolidation group as at 31 March 2017, its financial performance and cash flows for the three months of 2017;
- the accounting policies and procedures used in preparing the interim report comply with IAS 34;
- the interim report has been prepared using, in all material respects, the policies and procedures of the financial statements for the year ended 31 December 2016.

Inbank AS is a going concern.

Tallinn, 12 May 2017

Jan Andresoo CEO
Liina Sadrak Member of the Management Board
Marko Varik Member of the Management Board

MANAGEMENT REPORT

2017 began actively for Inbank both at home and abroad. We commenced operations in Poland, acquired a holding in Eesti Krediidipank and established cooperation ties with several new partners.



Significant events

On 15 March 2017, Inbank commenced economic activities in the Polish market. In the first stage, we started offering Polish customers deposit and loan products, contracts for which can be concluded via internet bank. At the beginning, our focus was on deposits, which we succeeded in gathering in a total amount of over 1 million euros in the first two weeks of operation. This result gave us a positive signal that the newcomer to the market has been well received and that the Polish people find us reliable. Future objectives for the Polish venture are related to issuing loans and launching partner-based cooperation.

Another significant event in the first quarter was a transaction concluded on 30 January, in the course of which Inbank and Coop Eesti acquired a majority shareholding in Eesti Krediidipank. The

transaction will also have a second stage in the course of which Krediidipank will acquire Inbank's affiliated companies Coop Finants AS and Krediidipank Finants AS and Inbank will invest the received revenue back into Krediidipank.

The third significant event took place on 9 February – Inbank increased its share capital, raising another 2.8 million euros from the existing shareholders to support further growth.

In the first quarter of 2017, the bank prepared annual conclusions of the internal capital adequacy assessment process (ICAAP), in the course of which the bank's risk management, risk profile and the corresponding capital needs were assessed. The conclusions were submitted to the Financial Supervision Authority.

Business volumes

With regard to business results, we were particularly pleased with the sales results of the Estonian unit in the areas of hire purchase and loans. The sales figures of the Latvian company were somewhat more modest, as we altered our sales strategy in the third quarter of the previous year, discontinuing the provision of financing through brokers.

In a year-on-year comparison, hire purchase sales grew by 12% in Estonia, amounting to 4.7 million euros. Sales of loans in Estonia grew by 75% in a year, amounting to 7.7 million euros. In total, Inbank's sales volume in Estonia and Latvia amounted to 14.1 million euros in the first quarter. The results exceeded expectations in Estonia and met expectations in Latvia.

The first quarter included several other important events. We launched our cooperation with Klick

Eesti AS, which will contribute to Inbank's hire purchase sales in the future. We are also glad about the successful launch of Inbank's small loan product in the previous year, the results of which are manifesting now. In addition, we opened our Internet bank in Latvia, offering loans to customers without credit intermediaries. This allows us to plan a moderate sales growth in Latvia and forms a basis for the new sales strategy.

In the first quarter of 2017, we gathered 8.2 million euros worth of deposits – a result equivalent to the same time in 2016. The deposit volumes meet our expectations and allow us to issue loans in the planned volume.

After the commencement of activities in the Polish market, Inbank now gathers deposits from four markets: Estonia, Germany, Austria

and Poland. The expansion of the scope of gathering deposits allows us to improve the management of

the bank's financing needs. Developing the deposit gathering capability has been a purposeful activity over

the past six months and allows us to ensure sufficient financing also in the case of increased loan sales.



Inbank's Chairman of the Supervisory Board Priit Põldoja, Coop Eesti Keskühistu's CEO Jaanus Vihand and Coop Pank's Chairman of the Management Board Margus Rink at a press conference, explaining the new bank's strategy of offering services to people living outside larger cities.

We succeeded in gathering over 1 million euros worth of deposits in Poland in the first two weeks of operation. This result gave us a positive signal that the newcomer to the market has been well received and that Polish people find us reliable.

Profit

The bank's net revenue in the first quarter amounted to 2.65 million euros, which is 49% more than in the same period of 2016. Total expenses in the first quarter amounted to 1.4 million euros, which means that the Q1 income and cost ratio was 52.6%. The bank's risk expense amounted to 926 thousand euros and the total profit for the first quarter was 640 thousand euros, which was 10.4% smaller than in the same period last year. It is important to note that as of the disclosure of the transaction made with Krediidipank, Inbank no longer consolidates the results of its affiliated companies. These are classified as assets held for sale and therefore the non-consolidation of the relevant results influences the comparisons.

Affiliated companies

Coop Finants AS (Inbank AS holds 49%)

Coop Finants AS is mainly engaged in offering financial products to the regular customers of Coop Eesti. The main products include payment and credit card Säästukaart Pluss and the unsecured consumption loan to private persons. The number of the company's active customers was nearly 110 thousand. The loan portfolio amounted to 20.1 million euros (YTD growth +3.3%), and three months' profit to 474 thousand euros.

Krediidipank Finants AS (Inbank AS holds 49%)

Krediidipank Finants AS is mainly engaged in offering unsecured consumer loans to private persons (www.sihtlaen.ee). The number of the company's active customers reached 9,500. The loan portfolio amounted to 13.9 million euros (YTD growth +4.4%). The company's three months' profit was 3 thousand euros.

Conclusion

The most important events in the first quarter of 2017 were the launch of business activities in Poland and the purchase of the shares of Krediidipank in Estonia. In addition, we carried out various preparatory activities in the area of sales, creating a good foundation for future growth. In conclusion, we can say that the first quarter of this year was successful.

Jan Andresoo
CEO

Key financial indicators and ratios

EURt

Key financial indicators	31.03.2017	31.03.2016
Balance sheet total	93 864	50 779
Equity to parent company shareholders	15 250	8 962
Net profit for the parent company	652	712
Loan portfolio	69 424	43 428
Deposit portfolio	69 871	37 473

84.8%

70.2%

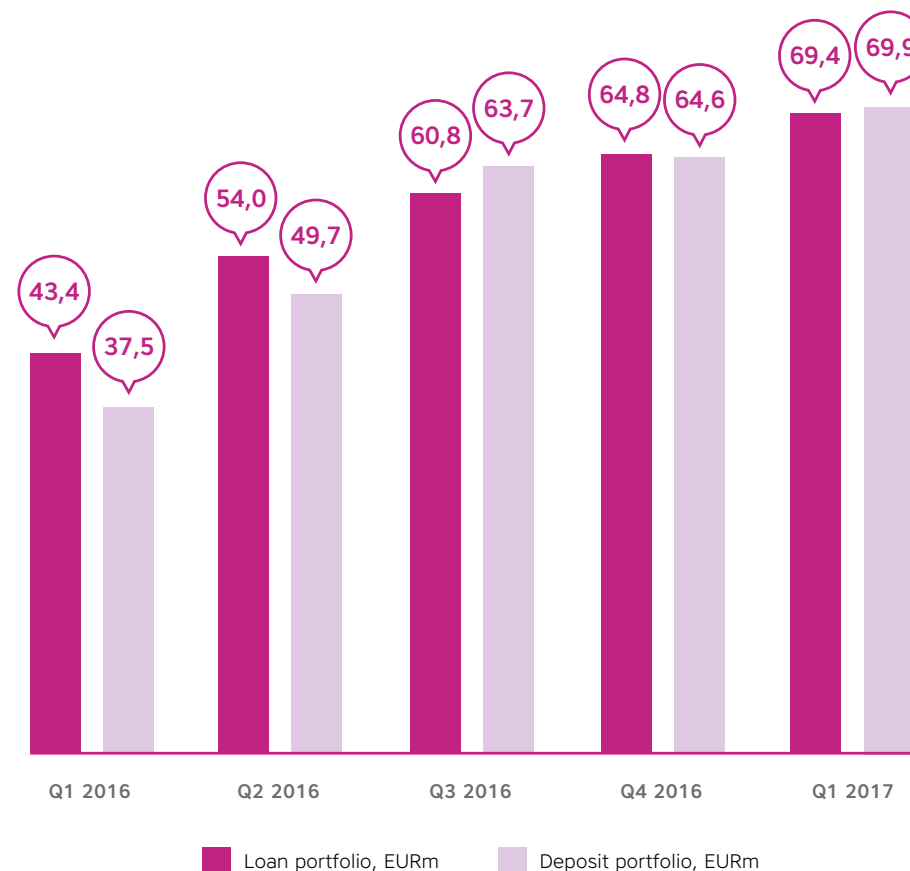
-8.4%

59.9%

86.5%

Ratios	31.03.2017	31.03.2016
Net return on equity	19.6%	33.6%
Net return on total assets	3.0%	6.1%
Net interest margin	11.8%	14.1%
Loan losses to loan portfolio	5.6%	4.7%
Cost/income ratio	52.6%	44.1%
Equity to balance sheet amount	16.2%	17.6%

Volume of loan portfolio and deposit portfolio



Net return on equity: profit attributable to the parent company / equity held by shareholders of the parent company (average over the period) annualised

Net return on total assets: profit attributable to the parent company / balance sheet total (average over the period) annualised

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

Rate of loan losses to loan portfolio: loan losses / loan portfolio (average over the period) annualised

Cost-income ratio: total cost / total income

Ratio of equity in balance sheet total: equity held by shareholders of the parent company / balance sheet total

Consolidated statement of financial position

EURt	Note	31.03.2017	31.12.2016
Assets			
Cash in hand		4	4
Due from central banks, reserve requirement		13 966	14 680
Due from credit institutions		3 272	1 956
Loans and receivables	4	69 424	64 839
Investments in affiliates	8	2 948	1
Tangible assets		203	183
Intangible assets		944	902
Other assets		881	706
Assets held for sale	8;14	2 222	1 672
Total assets		93 864	84 943

EURt	Note	31.03.2017	31.12.2016
Liabilities			
Deposits	9	69 871	64 587
Other liabilities		2 274	2 077
Subordinated debt securities	10	6 475	6 475
Total liabilities		78 620	73 139
Equity			
Share capital		782	689
Share premium		9 068	6 361
Retained earnings/accumulated loss		3 330	681
Reserves		1 387	1 387
Other reserves		31	31
Total comprehensive income for reporting period		652	2 649
Total equity attributable to the shareholders of parent company		15 250	11 798
Non-controlling interest		-6	6
Total equity		15 244	11 804
Total liabilities and equity		93 864	84 943

Consolidated statement of comprehensive income

EURt	Note	Q1 2017	3 months 2017	Q1 2016	3 months 2016
Continuing operations					
Interest income	5	2 935	2935	1 816	1 816
Interest expenses	5	-484	-484	-258	-258
Net interest income		2 451	2451	1 558	1 558
Fee and commission income	6	192	192	120	120
Fee and commission expense	6	-140	-140	-72	-72
Net fee and commission income		52	52	48	48
Other income related to operations		149	149	171	171
Total income		2 652	2 652	1 777	1 777
Personnel costs		-885	-885	-500	-500
Marketing expenses		-108	-108	-88	-88
Administrative expenses		-354	-354	-151	-151
Depreciations, amortisation		-49	-49	-44	-44
Total operating expenses		-1 396	-1 396	-783	-783
Operating profit		1 256	1 256	994	994
Profit from affiliates	8	268	268	177	177
Profit before loan losses		1 524	1 524	1 171	1 171
Credit losses	4	-926	-926	-459	-459
Profit before income tax		598	598	712	712
Deferred income tax		58	58	2	2
Net income		656	656	714	714
Unrealised foreign exchange gains/losses		-16	-16	0	0
Total comprehensive income		640	640	714	714
Profit (loss) attributable to the parent company		652	652	712	712
Profit (loss) attributable to non-controlling interest		-12	-12	2	2
Total comprehensive income		640	640	714	714

Consolidated cash flow statement

EURt	Note	3 months 2017	3 months 2016
Cash flows from operating activities			
Operating profit		1 256	994
Interest income	5	-2 935	-1 816
Interest expense	5	484	258
Credit losses	4	-926	-459
Depreciation, amortisation		49	44
Cash flows from operating activities before change in operating assets and liabilities		-2 072	-979
Net increase/decrease in operating assets			
Loans to customers		-4 579	-8 922
Required reserve in central banks		-67	-45
Other assets		-175	-291
Net increase/decrease in operating liabilities			
Customer deposits		4 989	7 762
Other liabilities		197	839
Cash flows from operating activities		-1 707	-1 636
Adjustments to current assets and liabilities			
Interest received		2 929	1 816
Interest paid		-189	-258
Other adjustments		325	0
Net adjustments to current assets and current liabilities		3 065	1 558
Net cash flow from operating activities		1 358	-78

EURt	Note	3 months 2017	3 months 2016
Cash flows from investing activities			
Acquisition of non-current assets		-125	-104
Investment in affiliates		-3 497	-177
Net cash flow from investing activities		-3 622	-281
Cash flows from financing activities			
Debt securities sold		0	-141
Loans received and repayments		0	2
Proceeds from issue of share capital		93	0
Proceeds from share premium		2 707	0
Net cash flow from financing activities		2 800	-139
Impact of exchange rate changes		-1	0
Change in cash and cash equivalents	7	535	-498
Cash and cash equivalents at the beginning of the year		16 167	5 384
Cash and cash equivalents at the end of the year	7	16 702	4 886

Consolidated statement of changes in equity

EURt	Share capital	Share premium	Statutory reserve	Other reserves	Retained earnings/ accumulated loss	Total equity attributable to shareholders of parent company	Non-controlling interest	Total equity
Balance as at 01.01.2016	569	5 393	30	1 330	708	8 030	-22	8 008
Comprehensive income for the period	0	0	0	0	712	712	2	714
Balance as at 31.03.2016	569	5 393	30	1 330	1 420	8 742	2	8 744
Balance as at 01.01.2017	689	6 361	57	1 361	3 330	11 798	6	11 804
Contributions to share capital	93	2 707	0	0	0	2 800	0	2 800
Comprehensive income for the period	0	0	0	0	652	652	-12	640
Balance as at 31.03.2017	782	9 068	57	1 361	3 982	15 250	-6	15 244

NOTE 1 Accounting policies and procedures

The interim financial report has been prepared in accordance with the International Accounting Standard IAS 34 "Interim Financial Reporting", and consists of condensed financial statements and selected explanatory notes. In all material respects, the accounting policies and procedures used in the preparation of the interim report are the same as the accounting policies and procedures used in the annual report for the year ended 31 December 2016, which comply with the International Financial Reporting Standards (IFRS), as adopted by the European Commission. The interim financial statements have not been audited and do not contain the entire range of information required for the preparation of complete financial statements. In addition to Inbank AS, the Inbank AS consolidation group also includes the subsidiary Inbank Lizings SIA (holding 90%), which was established in Latvia and provides financial services, the subsidiary Inbank Technologies OÜ (holding 100%, acquired), which develops software, and its subsidiary Veriff OÜ (holding 60%). Established in April, Inbank Liising AS (holding 80%) launched the provision of full service leasing

to business customers in Q3.

In Q1 2017, Inbank's Poland branch launched activities on the Polish deposit and consumer financing market. The financial results of the branch are presented in Inbank's statement of financial position; the branch also submits regulatory reports to the Polish financial supervision authority (Komisja Nadzoru Finansowego).

Inbank has investments in affiliates Coop Finants AS (holding 49%) and Krediidipank Finants AS (holding 49%). The bank is planning to dispose of the affiliates Coop Finants AS and Krediidipank Finants AS in the first half of 2017, for which reason the investments have been recognised as affiliates held for sale. On 30 January, Inbank acquired 9.9995% of the shares of Eesti Krediidipank, which is an affiliated company. Investments in affiliates are recognised based on the equity method.

NOTE 2 Important accounting estimates and forecasts

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 statement as at 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 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 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 inter-segment transactions. Business segments form a part of Inbank but have separate financial data and the financial performance of the segments is being regularly reviewed by Inbank's Management Board.

Income of the reported segments include such inter-segment transactions as loans given by Inbank AS to its group companies and IT services provided by Inbank Technologies to group companies. None of Inbank AS sole counterparty have income over 10% of its respective income of the consolidation group.

Inbank AS' (Estonia) "other income" mainly includes consultancy services offered to the bank's affiliates. Intersegment transactions constitute mainly of loan interests on loans given to subsidiaries. All named intercompany transactions are accounted for at market prices, including IT services.

EURt	3 months 2017							3 months 2016						
	Income of reportable segments	Interest income	Fee and commission income	Interest expenses	Fee and commission expense	Other income	Inter-segment income	Income from external customers	Interest income	Fee and commission income	Interest expenses	Fee and commission expense	Other income	Inter-segment eliminations
Inbank AS (Estonia)	2 198	119	-483	-69	84	-265	1 584	1 348	89	-255	-58	71	-157	1 038
Inbank Lizings SIA (Latvia)	978	72	-250	-29	0	250	1 021	624	31	-158	-147	1	156	640
Inbank Liising AS (Estonia)	25	1	-11	0	0	11	26	0	0	0	0	0	6	15
Inbank AS Poland branch	0	0	-1	-44	26	0	-19	0	0	0	0	0	0	0
Inbank Technologies OÜ (Estonia)	1	0	-5	0	67	-23	40	1	0	-2	0	122	-22	99
Total	3 202	192	-750	-142	177	-27	2 652	1 973	120	-415	-72	195	-23	1 777

EURt						3 months 2017					3 months 2016				
Operating and net profit development	Operating profit	Credit losses	Profit from investments	Deferred income tax	Net profit/loss	Operating profit	Credit losses	Profit from investments	Deferred income tax	Net profit/loss	Operating profit	Credit losses	Profit from investments	Deferred income tax	Net profit/loss
Inbank AS (Estonia)	998	-318	268	0	948	669	-203	177	0	643	669	-203	177	0	643
Inbank Lizings SIA (Latvia)	554	-604	0	9	-41	308	-254	0	2	56	308	-254	0	2	56
Inbank Liising AS (Estonia)	13	-4	0	0	9	0	0	0	0	0	0	0	0	0	0
Inbank AS Poland branch	-257	0	0	49	-208	0	0	0	0	0	0	0	0	0	0
Inbank Technologies OÜ (Estonia)	-52	0	0	0	-52	15	0	0	0	15	15	0	0	0	15
Total	1 256	-926	268	58	656	992	-457	177	2	714	992	-457	177	2	714

EURt								
31.03.2017	Inbank AS (Estonia)	Inbank Lizings SIA (Latvia)	Inbank Liising (Estonia)	Inbank AS Poland branch	Inbank Technologies OÜ (Estonia)	Intersegment eliminations	TOTAL	
Cash in hand	4	0	0	0	0	0	4	
Due from central banks, incl reserve required	13 966	0	0	0	0	0	13 966	
Due from credit institutions	839	804	91	1 472	66	0	3 272	
Loans and receivables	71 874	15 380	807	4	127	-18 768	69 424	
Investments in subsidiaries	1 033	0	0	0	0	-1 033	0	
Investments in affiliates	2 947	0	0	0	1	0	2 948	
Tangible assets	89	18	0	45	51	0	203	
Intangible assets	417	116	0	4	457	-50	944	
Income tax assets	0	493	0	112	0	0	605	
Other assets	79	12	130	47	8	0	276	
Assets held for sale	2 222	0	0	0	0	0	2 222	
Total assets	93 470	16 823	1 028	1 684	710	-19 851	93 864	
Loans raised	0	16 253	912	1 137	466	-18 768	0	
Deposits	68 835	0	0	1 036	0	0	69 871	
Subordinated debt securities	6 475	0	0	0	0	0	6 475	
Other liabilities	1 592	535	12	37	98	0	2 274	
Total liabilities	76 902	16 788	924	2 210	564	-18 768	78 620	

EURt

31.03.2016	Inbank AS (Estonia)	Inbank Lizings SIA (Latvia)	Inbank Liising (Estonia)	Inbank AS Poland branch	Inbank Technologies OÜ (Estonia)	Intersegment eliminations	TOTAL
Cash in hand	0	0	0	0	3	0	3
Due from central banks, incl reserve required	1 749	0	0	0	0	0	1 749
Due from credit institutions	2 649	660	0	0	49	0	3 358
Loans and receivables	43 868	12 924	0	0	68	-13 432	43 428
Investments in subsidiaries	953	0	0	0	0	-953	0
Investments in affiliates	1 044	0	0	0	1	0	1 045
Tangible assets	65	13	0	0	30	0	108
Intangible assets	452	94	0	0	261	0	807
Income tax assets	0	47	0	0	0	0	47
Other assets	162	37	0	0	50	-15	234
Total assets	50 942	13 775	0	0	462	-14 400	50 779
Loans raised	0	13 419	0	0	125	-13 432	112
Deposits	37 473	0	0	0	0	0	37 473
Debt securities issued	2 973	0	0	0	0	0	2 973
Other liabilities	1 120	110	0	0	53	-15	1 268
Total liabilities	41 566	13 529	0	0	178	-13 447	41 826

NOTE 4 Distribution of portfolio by overdue days

EURt

Distribution of receivables as at 31.03.2017	Due from households - gross basis	Portfolio provision	Special provision	Due from households - net basis	Coverage ratio
Overdue 0-89 days	65 031	-1 197	-46	63 788	1.9%
Overdue 90-179 days	1 506	0	-965	541	64.1%
Overdue more than 180 days	3 804	0	-3 118	686	82.0%
Total receivables	70 341	-1 197	-4 129	65 015	7.6%

Distribution of receivables as at 31.12.2016	Due from households - gross basis	Portfolio provision	Special provision	Due from households - net basis	Coverage ratio
Overdue 0-89 days	60 944	-1 176	-20	59 748	2.0%
Overdue 90-179 days	1 591	0	-1 012	579	63.6%
Overdue more than 180 days	2 608	0	-2 083	525	79.9%
Total receivables	65 143	-1 176	-3 115	60 852	6.6%

Distribution of receivables as at 31.03.2017	Due from businesses - gross basis	Portfolio provision	Special provision	Due from businesses - net basis	Coverage ratio
Overdue 0-89 days	4 423	-14	0	4 409	0.3%
Overdue 90-179 days	0	0	0	0	0.0%
Overdue more than 180 days	94	0	-94	0	100.0%
Total receivables	4 517	-14	-94	4 409	2.4%

Distribution of receivables as at 31.12.2016	Due from businesses - gross basis	Portfolio provision	Special provision	Due from businesses - net basis	Coverage ratio
Overdue 0-89 days	3 998	-11	0	3 987	0.3%
Overdue 90-179 days	0	0	0	0	0.0%
Overdue more than 180 days	94	0	-94	0	100.0%
Total receivables	4 092	-11	-94	3 987	2.6%

The credit products offered by the bank are largely very young, as sales of the products started in 2015 or 2016. The only exception is the hire-purchase product offered in Estonia, which became available in 2011. Because of this, the information describing the payment behaviour of portfolios is partially incomplete. The statistical basis for recalculation of agreement provisioning rates will improve via recalculations in the subsequent periods. Market information, management estimates and information from similar products of the products offered by the bank have been used in places where information about payment behaviour is incomplete as at 31 March 2017.

Change in credit impairment	2017	2016
As at January 1	-4 396	-1 156
Recognised write-downs during the period	-1 038	-3 400
Written off from financial position during the period	0	21
Recoveries	0	181
As at 31.12.2016	-5 434	-4 396

NOTE 5 Net interest income

EURt

Interest income	Q1 2017	3 months 2017	Q1 2016	3 months 2016
Loans to households	2 823	2 823	1 764	1 764
Loans to businesses	79	79	4	4
Due from financial and credit institutions	33	33	48	48
Total	2 935	2 935	1 816	1 816
Interest expense				
Deposits received	-367	-367	-204	-204
Debt securities sold	-117	-117	-53	-53
Loans received	0	0	-1	-1
Total	-484	-484	-258	-258
Net interest income	2 451	2 451	1 558	1 558
Interest income by customer location				
Estonia	1 957	1 957	1 192	1 192
Latvia	978	978	624	624
Total	2 935	2 935	1 816	1 816

NOTE 6

Net fee and commission income

EURt

Fee and commission income	Q1 2017	3 months 2017	Q1 2016	3 months 2016
Loans to households	191	191	119	119
Loans to businesses	1	1	1	1
Total	192	192	120	120
Fee and commission expense				
Loan administration costs	-140	-140	-61	-61
Security brokerage	0	0	-11	-11
Total	-140	-140	-72	-72
Net fee and commission income	52	52	48	48
Fee and commission income by customer location				
Estonia	120	120	89	89
Latvia	72	72	31	31
Total	192	192	120	120

NOTE 7 Cash and cash equivalents

EURt	31.03.2017	31.12.2016
Cash in hand	4	4
Demand deposits	3 272	1 956
Demand deposits in central banks	13 426	14 207
Total	16 702	16 167

Cash and cash equivalents include cash in hand, receivables from central banks (excluding the reserve requirement) and accounts in other credit institutions

NOTE 8 Shares of affiliates

Shares of affiliates, general information					Ownership interest %	
Commercial register number	Company name	Date of acquisition	Domicile	Main activity	31.03.2017	31.12.2016
12257075	Maksekeskus Holding OÜ	28.02.2012	Estonia	Investment management	40	40
12087992	Coop Finants AS	30.04.2011	Estonia	Finance activities in Estonia	49	44
12546980	Krediidipank Finants AS	24.09.2013	Estonia	Finance activities in Estonia	49	49
10237832	AS Eesti Krediidipank	30.01.2017	Estonia	Finance activities in Estonia	9.9995	0

Balance sheet value of affiliates

EURt			
Name of affiliate	31.03.2017	31.12.2016	
Maksekeskus Holding OÜ	1	1	
AS Eesti Krediidipank	2 947	0	
Coop Finants AS	1 937	1 387	
Krediidipank Finants AS	285	285	
Total	5 170	1 673	

Affiliates have been accounted for using the equity method of accounting. In January 2017, Inbank AS increased its participation in Coop Finants AS by 5%, with the bank now holding 49%. The bank is planning to dispose of the affiliates Coop Finants AS and Krediidipank Finants AS in the first half of 2017.

As at 31 December 2016, the investments have been recognised as non-current assets held for sale. On 30 January, Inbank AS acquired 9.9995% of the shares of Eesti Krediidipank, the company constitutes an affiliate.

NOTE 9 Deposits

EURt

Deposits	31.03.2017	31.12.2016
Deposits from households	57 151	51 572
Deposits from non-financial corporations	8 743	8 054
Deposits from other financial corporations	3 977	4 961
Total	69 871	64 587

Deposits	31.03.2017	31.12.2016
Estonia	68 835	64 587
Poland	1 036	0
Total	69 871	64 587

Deposits include accrued interest liabilities in the amount of 1238 EURt.
(31.12.2016: 985 EURt.).

NOTE 10

Debt securities

Debt securities	Nominal price	Amount	Interest rate	Maturity
Inbank subordinated bond INBB070026A	1000 EUR	6 503	7%	28.09.2026

On 28 September 2016, Inbank AS issued subordinated bonds, listed on the Nasdaq Tallinn Stock Exchange as of 3 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).

The debt securities are recorded in the balance sheet at amortised cost, by using the effective interest rate.

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.

No restrictions have been established for the bonds.

NOTE 11
Contingent liabilities and loan commitments

The group has entered into a contract with a member of the Management Board, stipulating a severance pay upon termination of the contract equalling six times the monthly remuneration. The contracts entered into with the remaining members of the Management Board do not stipulate a severance pay upon termination of the contract. The parties have agreed to proceed from the legislation effective in the Republic of Estonia in the event of disputes concerning areas that have not been regulated in the contract. The Management Board is of the opinion that the occurrence of such a situation is highly unlikely.

The group has no contingent loan commitments as at 31 March 2017.

NOTE 12 Capital adequacy

EURt		
Capital base	31.03.2017	31.12.2016
Paid-in share capital	782	689
Share premium	9 068	6 361
Statutory and other reserves	1 418	1 418
Retained earnings/accumulated losses	3 330	681
Intangible assets (subtracted)	-944	-902
Profit for financial year*	668	2 647
Other comprehensive income	-16	0
Shares in affiliates**	-5 170	-1 673
Total Tier 1 capital	9 136	9 221
Subordinated debt at nominal value	6 503	6 503
Total Tier 2 capital	6 503	6 503
Net own funds for capital adequacy calculation	15 639	15 724
Risk-weighted assets		
Credit institutions, standardised approach	1 096	391
Non-financial customers, standardised approach	3 971	3 037
Retail claims, standardised approach***	47 842	44 818
Claims past due, standardised approach***	1 225	1 095
Other assets, standardised approach	1 991	1 562
Total credit risk and counterparty credit risk	56 125	50 903
Operational risk, basic indicator approach	9 765	4 701
Total risk-weighted assets	65 890	55 604
Capital adequacy (%)	23,74%	28,28%
Regulative capital adequacy (%)**	22,81%	26,69%
Tier 1 capital ratio (%)	13,87%	16,58%
Regulative Tier 1 capital ratio (%)	13,08%	15,15%

*In accordance with EU regulation, audited profit for the period may be included in retained earnings upon prior approval by competent authority. The profit for 1st quarter 2017 in the amount of 668 EURt (2016: 4th quarter 936 EURt) was unaudited in the calculations made in accordance with EU regulation upon prior approval by competent authorities, including the profit from affiliates using the equity method of accounting in the amount of 268 EURt (2016: 4th quarter 261 EURt), and such profit was not included in the capital base.

**According to the reports submitted to the regulator, the capital adequacy ratio is 22.81% (31.12.2016: 26.69%) and the subtracted balance sheet value of "Shares in affiliates" is 4 902 EURt (31.12.2016: 1 411 EURt). The value of the "Shares in affiliates", as submitted to the regulator, has been determined on the basis of the audited profit of the affiliates.

***In the reports submitted to the regulator as at 31.03.2017, the risk exposures take account of the credit portfolio write-downs made in the reporting period in the amount of 921 EURt and yet to be confirmed by the external auditor.

The directly applicable regulation obliges all credit institutions (and their 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 and systemic risk buffers for credit institutions at the respective level of 2.5% (established by the Financial Supervision Authority) and 1.0% (established by the Bank of Estonia). Since these buffers shall be added to both Tier 1 and total capital requirement, the minimum Tier 1 requirement in Estonia is 9.5% and the total capital requirement 11.5%. The credit-institution-specific Pillar 2 requirement shall be added. Inbank AS adheres to these requirements both as at the balance sheet date and as at the publication of the interim report.

An overview of the fulfilment of the capital requirements is provided in the table below:

	Common equity Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Basic requirement	4.50%	6.00%	8.00%
Capital preservation buffer	2.50%	2.50%	2.50%
Systemic risk buffer	1.00%	1.00%	1.00%
Minimum regulative capital requirement	8.00%	9.50%	11.50%

NOTE 13 Fair value of financial and non-financial instruments

EURt		31.03.2017			31.12.2016		
Assets	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference	
Cash in hand	4	4	0	4	4	0	
Due from central banks, reserve requirement	13 966	13 966	0	14 680	14 680	0	
Due from credit institutions	3 272	3 272	0	1 956	1 956	0	
Loans and receivables	69 424	69 424	0	64 839	64 839	0	
Investments in affiliates	2 948	2 948	0	1	1	0	
Assets held for sale		2 222			1 672		
Total	89 614	91 836	0	81 480	83 152	0	
Non-financial instruments	2 028	2 028	0	1 791	1 791	0	
Total	91 642	93 864	0	83 271	84 943	0	

		31.03.2017			31.12.2016		
Liabilities	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference	
Deposits and loans raised	69 871	69 871	0	64 587	64 587	0	
Debt securities	7 085	6 475	610	6 503	6 475	28	
Other financial liabilities	1 187	1 187	0	1 341	1 341	0	
Total	78 143	77 533	610	72 431	72 403	28	
Non-financial instruments	1 087	1 087	0	736	736	0	
Total	79 230	78 620	610	73 167	73 139	28	

The fair value measurement of financial instruments

Various methods are employed for the fair value measurement of financial instruments, with the fair value hierarchy divided into three levels. Level 1 includes financial instruments where fair value can be determined on the basis of prices quoted on an active market. At Inbank, financial instruments on this level are deposits with other credit institutions and customer deposits. Level 2 is made up of such financial instruments where valuation models based upon observable market inputs are used for the determination of fair value. Observable market inputs are market prices for financial instruments as similar as possible in actually executed transactions. Such financial instruments are Inbank debt securities issued. Level 3 is comprised of financial instruments where fair value is determined through the use of valuation models based on market inputs that are supplemented by the company's own estimates. Such financial instruments are loans and securities issued.

Bonds issued were listed on the Nasdaq Baltic Stock Exchange on 3 October 2016, and their fair value can be determined based on the transaction history.

Loans and receivables are measured at cost based on the effective interest rate method, by reducing the amortised cost in the amount of write-downs made on the basis of the management's estimation of the fair value of the financial assets.

Corporate loans are sufficiently short-term for the management to believe that their fair value does not materially differ from their carrying amount.

Small loan and hire-purchase products offered to customers have a relatively short term and have been issued on market conditions, meaning that the fair market interest and the fair value of the loan will not change significantly over the loan period. The effective interest rate of the issued consumer loans is at the same tier as the interest rate offered to similar loan products on the market. As a result, the book value of the loans does not differ significantly from their fair value.

Fixed-interest customer deposits and loans usually have a short term, with the deposit pricing depending on the market conditions. The pricing of the deposit products offered has not changed significantly during the period of operation. Interest rates differ for campaign periods and non-campaign periods. The interest rates offered for campaign periods have remained on the same level during the period of operation. The same applies to the interest rates offered during non-campaign periods. The fair value of the deposit portfolio, determined by discounting future cash flows, does not thus significantly differ from the carrying amount.

EURt

Fair value	31.03.2017				31.12.2016			
	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
Assets								
Cash in hand	4	4	0	0	4	4	0	0
Due from central banks, reserve requirement	13 966	13 966	0	0	14 680	14 680	0	0
Due from credit institutions	3 272	3 272	0	0	1 956	1 956	0	0
Loans and receivables	69 424	0	0	69 424	64 839	0	0	64 839
Investments in affiliates	2 948	0	0	2 948	1	0	0	1
Assets held for sale								
Total	89 614	17 242	0	72 372	81 480	16 640	0	64 840

EURt

Fair value	31.03.2017				31.12.2016			
	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
Liabilities								
Deposits and loans raised	69 871	69 871	0	0	64 587	64 587	0	0
Debt securities	7 085	0	7 085	0	6 503	0	0	6 503
Other financial liabilities	1 187	0	0	1 187	1 341	0	0	1 341
Total	78 143	69 871	7 085	1 187	72 431	64 587	0	7 844

Up to now, bonds issued by Inbank were classified at fair value Level 3, considering that the transaction history was short and insufficient to be used for determining fair value. As of 31 March 2017, the weighted average price of purchase and sale transactions has been used for measuring fair value and debt securities are categorized at Level 2 in the hierarchy of fair value.

*The fair value of affiliates held for sale is confidential.

NOTE 14
Events after the balance sheet date

The bank is planning to dispose of the affiliates Coop Finants AS and Krediidipank Finants AS in the first half of 2017.

The investments have been recognised as affiliates held for sale.

Inbank AS

Niine 11, 10414 Tallinn

info@inbank.ee

+372 640 8080

www.inbank.ee

