



## ***Auditor's Report (Translation of the Finnish Original)***

To the Annual General Meeting of Ferratum Oyj

### ***Report on the Audit of the Financial Statements***

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#### ***Opinion***

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

#### **What we have audited**

We have audited the financial statements of Ferratum Oyj (business identity code 1950969-1) for the year ended 31 December 2019. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

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#### ***Basis for Opinion***

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

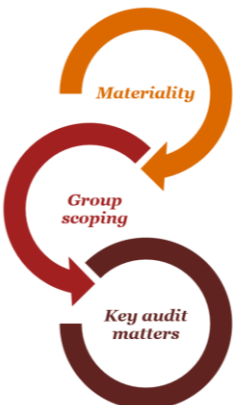
#### **Independence**

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 8 to the Financial Statements.

## Our Audit Approach

### Overview

	<ul style="list-style-type: none"> <li>Overall group materiality: € 3,0 million, which represents 1 % of the group's net sales</li> </ul>
	<ul style="list-style-type: none"> <li>The group audit scope includes all significant companies in Finland, Sweden, Estonia and Malta, covering the vast majority of revenues, assets and liabilities.</li> </ul>
	<ul style="list-style-type: none"> <li>Revenue recognition</li> <li>Provision for impairment losses against loan and account receivables</li> </ul>

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

<b>Overall group materiality</b>	€ 3,0 million
<b>How we determined it</b>	Net sales
<b>Rationale for the materiality benchmark applied</b>	We chose net sales as the benchmark because, in our view, it best reflects the extent of the business operations and the growth rate of the group and it is a generally accepted benchmark.



## How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the Ferratum group, the size, complexity and risks of individual subsidiaries, group's processes and controls related to financial reporting, and the industry in which the group operates. Using these criteria we selected companies and accounts into our group audit scope and at the same time ensured that we get sufficient coverage to our audit, in order to issue an audit opinion for the Group.

We determined the type of work that needed to be performed at group companies by us, as the group engagement team, or by auditors from other PwC network firms operating under our instruction. Audits were performed in group companies which are considered significant either because of their individual financial significance or due to their specific nature, covering the vast majority of revenue, assets and liabilities of the Group. Selected specified procedures as well as analytical procedures were performed to cover the remaining companies.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
<p><i>Revenue recognition</i></p> <p><i>Refer to Note 5 in the consolidated financial statements</i></p> <p>Ferratum Group generates its revenue from its lending activities by charging fees to the customer. Management maintains a number of Effective Interest Rate ('EIR') models to determine revenue recognition in accordance with the requirements of IFRS 9 <i>Financial Instruments</i>. The EIR method spreads directly attributable revenues over the maturity of the loan. Interest revenue recognised in the year amounted to € 293,1 million.</p> <p>The EIR models are complex and heavily reliant on the quality of the underlying data flowing into the models. We have identified revenue recognition as a key audit matter as there is a risk of inaccurately recognised revenue due to integrity errors in the underlying data. The amount of revenue recognised in any period is dependent on the occurrence of the underlying loan transaction, accuracy of the loan</p>	<p>Our testing of revenue recognition included both tests of controls, as well as substantive procedures.</p> <p>Our tests of controls focused on the controls around contract and cash management and recording of revenue. We also tested the key controls relating to the flow of data from source systems into the EIR models. This procedure included an assessment by our IT specialists of automated controls to determine whether the input data within the EIR models were complete and accurate. We also tested the adequacy of the change management controls over the EIR models.</p> <p>Our substantive testing of the revenue transactions included, among other things, the following:</p> <ul style="list-style-type: none"><li>• We tested the arithmetical accuracy of the EIR models to assess whether they were working as intended and in compliance with the requirements of IFRS 9.</li><li>• We tested a sample of sales transactions to validate whether a loan transaction beneath had occurred</li></ul>

portfolio and the appropriateness of the significant assumptions applied to the EIR models in relation to the expected maturity of each loan and the timing of expected future cash flows.

This matter is a significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014.

by matching outgoing cash to recorded loan receivable.

- We performed analytical audit procedures to assess whether the recognized revenue was in line with the expected level.

We challenged the assumptions used in the recognition of revenue, including the impact of early redemptions by assessing whether the revenue recognition policies adopted were in compliance with IFRS 9. We considered the assumptions applied to determine the future expected cash flows by reference to the group's historical experience.

### *Provision for impairment losses against loan and account receivables*

*Refer to Notes 3.2 in the consolidated financial statements*

As at 31 December 2019 the group's loan and account receivables gross balance amounted to € 555,9 million. Loan and account receivables are measured at amortized cost using the effective interest method. A credit loss provision is recorded to adjust the balance to the present value of estimated future cash flows. The provision for impairment of loan and account receivables amounted to € 169,7 million as at 31 December 2019.

The credit loss provision in respect of loan and account receivables represent management's best estimate of the impairment losses using the expected loss model at the balance sheet date. The group's loan portfolio consists of short-term micro-loans, other medium-term credit products, revolving micro-credit facilities and the related fee receivables. The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or on a lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD).

A credit loss provision is calculated for homogeneous group of loans with similar credit risk characteristics by collective assessment of impairment using statistical methods and historical collection trends incorporating also forward-looking information. The calculation of the collective credit loss provision is

Our audit focused on assessing the appropriateness of management's judgment and estimates used in the impairment analysis through the following procedures:

- We tested the operating effectiveness of key controls relating to calculation of impairment provisions. This included testing of the data flows from source systems to spreadsheet-based models to test their completeness and accuracy.
- We tested the methodology applied in the credit loss provision calculation by comparing it to the requirements of IFRS 9, *Financial instruments*, and we tested the mathematical accuracy of management's model used to calculate impairment provision.
- We assessed the appropriateness of the staging criteria adopted by management (including the definition of default) on the basis of the specific nature and contractual characteristics of the group's short-term consumer lending products.
- We tested the key underlying assumptions by evaluating the process by which these were drawn up.
- We tested the multiple macro-economic scenarios and variables using our economic experts to assess their reasonableness.
- We understood and critically assessed the models used for the credit loss provisioning. Since modelling assumptions and parameter are based on historic data, we assessed whether historic experience was representative of current circumstances and of the recent impairment



<p>inherently judgmental.</p> <p>We have identified provisioning for impairment loss as a key audit matter as the calculation of credit loss provision is a complex area and requires management to make significant assumptions on customer payment behavior and other relevant risk characteristics when assessing the group's statistics of historical information and estimating the level and timing of expected future cash flows.</p> <p>This matter is a significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014.</p>	<p>losses incurred within the portfolios.</p> <ul style="list-style-type: none"><li>• We compared on a sample basis the estimated future cash flows of loans and receivables against sale of impaired loan portfolios to corroborate the reliability of management's estimates.</li></ul>
<p>We have no key audit matters to report with respect to our audit of the parent company financial statements.</p>	

### *Responsibilities of the Board of Directors and the Managing Director for the Financial Statements*

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material



misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



## *Other Reporting Requirements*

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### *Appointment*

We were first appointed as auditors by the annual general meeting on 17.11.2009. Our appointment represents a total period of uninterrupted engagement of 10 years. Ferratum Oyj became a public interest entity on 6 February 2015 as a result of the initial public offering.

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### *Other Information*

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 25 March 2020

**PricewaterhouseCoopers Oy**  
Authorised Public Accountants

A handwritten signature in blue ink, appearing to read 'Mikko Nieminen'.

Mikko Nieminen  
Authorised Public Accountant (KHT)