ferratum

NINE-MONTH REPORT FOR THE PERIOD 1 JANUARY – 30 SEPTEMBER 2019

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COMPANY OVERVIEW AND BUSINESS MODEL

Ferratum Oyj and its subsidiaries form the Ferratum Group ("Ferratum" or the "Group") which is a pioneering, leading international provider of mobile financial services. We have built our online financial ecosystem for and, through the 14 years of experience, with our customers. It transcends the hassle of physical banking and financial transactions into a paperless and borderless real-time experience. Our data-driven approach to credit-scoring and knowing our customers puts us at the forefront of the financial revolution. Headquartered in Helsinki, Finland, Ferratum was founded in May 2005 and we have since expanded our operations across Europe, South and North America, Africa, Australia and Asia, and we currently operate in 23 countries. With approx. 763,000 active customers over all geographies, we are a leading international provider of mobile loans to consumers and small businesses.

Over the past 14 years we have developed proprietary credit scoring algorithms that can deliver instant credit decisions digitally, allowing us to make fully risk-assessed lending decisions at a pace unmatched by the traditional banking and lending industries. Our technology and services have been built around real customer behaviour and experience, enabling us to offer secure, easy-to-use, real time digital product. We can also diversify the range of products available in our countries of operation, as we quickly understand the credit behaviour of customers in each new market. Using big data technology, and by centralizing IT systems and core functions, such as customer service and collections as the Group has expanded geographically, we have achieved balanced, profitable growth in every year of operation, underpinned by the ability to rapidly launch innovative new products in new countries and markets.

We provide consumer customers with digital borrowing solutions to suit a wide range of financial needs and circumstances. Microloans offer quick and straightforward access to small cash amounts to meet immediate, short term financial needs ranging from EUR 25 to EUR 1,000 with durations between 7 days and 90 days; PlusLoan is a more flexible loan product, ranging between EUR 300 and EUR 5,000 and a duration between 2 months and 3 years, which is repayable in installments to help customers to budget their finances. Credit Limit is a digital revolving credit line offering up to EUR 4,000. Borrowers are granted a maximum credit limit, which can be used or repaid at any time. Borrowers are only charged for the funds they withdraw, helping customers to budget according to their cash flow. Primeloan as our newest product is a longer term consumer lending product ranging from EUR 3,000 to EUR 20,000 with a duration between 1 to 10 years, enabling customers to budget for more significant purchases such as a car or home improvements. In 2015, Ferratum successfully expanded into small business lending, providing loans up to EUR 250,000 with a term of 6 to 24 months.

We continue to evolve and expand in order to fulfill our long-term vision of becoming the most valued financial platform, offering an ever-wider range of financial products. The Ferratum Mobile Bank, launched by Ferratum Bank p.l.c. in 2016, is an innovative mobile-only bank that puts the customer in control of their financial affairs. The Mobile Bank is currently available in four markets (Sweden, Germany, Norway and Spain). Our banking license enables passporting of financial services to all EU countries. Offering real time digital payments and transfers, and available in a range of currencies, the Mobile Bank offers an extensive range of banking services including current accounts, overdrafts, savings, term deposits and a multi-currency contactless debit card, giving customers the freedom to manage their finances, via their mobile, whenever they need to, wherever they go. The new generation of it, the Mobile Wallet, is piloted in Latvia. It is an enhanced and broadened version of the original Mobile Bank, bringing customers even further possibilities and functionalities to improve their financial lives. The purpose built IT platform, FerraOS, supports the scalable expansion of Ferratum on all fronts of our growth and evolution.

9M HIGHLIGHTS

EUR 218.1M	**Group revenue** up 14.7% year-on-year
EUR 33.5M	**Operating profit** (EBIT)
15.4%	**EBIT margin**
EUR 19.7M	**Profit before tax** (EBT)
EUR 0.78	**EPS** (basic)

BOARD OF DIRECTORS REPORT 9M 2019

Financial Overview

Financial highlights, EUR '000	Jan - Sep 2019	Jan - Sep 2018*
REVENUE	218,086	190,194
Operating profit	33,511	25,429
Profit before tax	19,693	13,706
Net cash flows from operating activities before movements in loan portfolio and deposits received	111,741	94,458
Net cash flow from operating activities	10,139	(18,982)
Net cash flow from investing activities	(11,694)	(10,284)
Net cash flow from financing activities	21,545	56,023
Net increase/decrease in cash and cash equivalents	19,990	26,757
Profit before tax %	9.0	7.2

* Q1, Q2 and Q3 interim reports 2018 have been restated in March 2019 due to a change of the implemented risk provisioning model based on IFRS 9

Financial highlights, EUR '000	30 Sep 2019	31 Dec 2018
Loans and advances to customers	365,152	320,538
Deposits from customers	205,364	183,405
Cash and cash equivalents	133,758	115,559
Total assets	570,765	500,192
Non-current liabilities	174,361	138,276
Current liabilities	275,312	254,536
Equity	121,092	107,380
Equity ratio %	21.2	21.5
Net debt to equity ratio	2.61	2.58

Calculation of key financial ratios

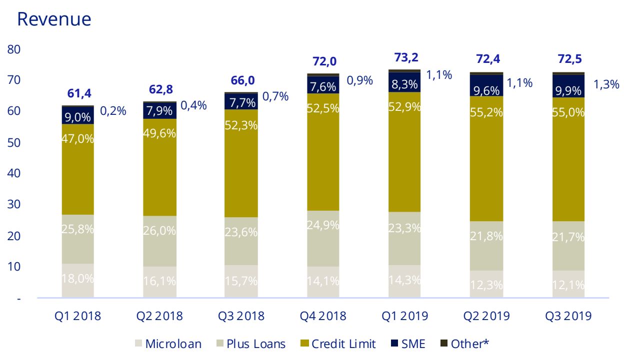
$$\text{Equity ratio (\%)} = 100 \times \frac{\text{Total equity}}{\text{Total assets}}$$

$$\text{Net debt to equity ratio} = \frac{\text{Total liabilities – cash and cash equivalents}}{\text{Total equity}}$$

$$\text{Profit before tax (\%)} = 100 \times \frac{\text{Profit before tax}}{\text{Revenue}}$$

$$\text{Loan coverage ratio (\%)} = 100 \times \frac{\text{Reserves}}{\text{Loans and advances to customers}}$$

Revenue



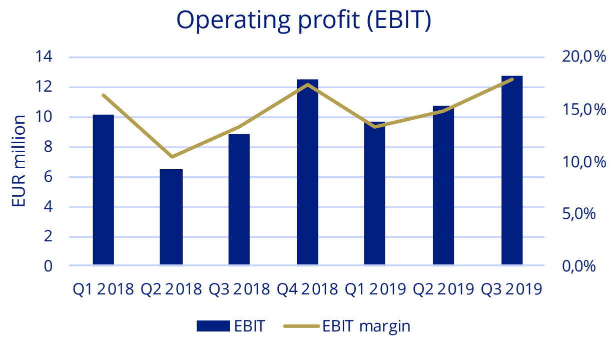
Credit Limit revenue share grew y-o-y by 2.7PP to 55.0% and SME revenue share by 2.2PP to 9.9%

Y-o-y changing revenue mix was driven by strong growth momentum in both products (Credit Limit, SME) as well as decreasing revenue in the non-strategic segment Microloans and flattish development in Plus Loan.

Revenue share and geographies of Microloans further decreased as per strategy

Y-o-y flattish development in Plus Loan (EUR 15.7 million in Q3 2019) related to stricter scoring in selected markets

Operating profit (EBIT)

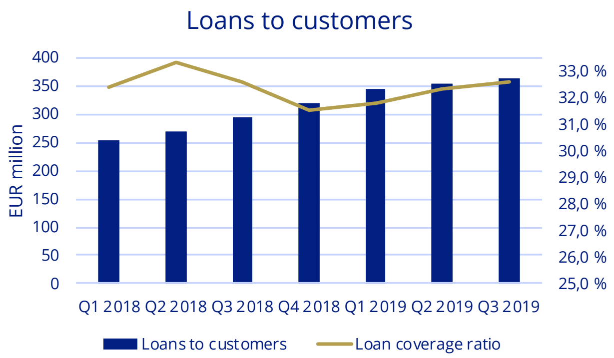


In Q3 2019, record EBIT of EUR 13.0 million achieved

Impairments over revenues have sequentially improved from 39.2% in Q1 2019 to 34.0% in Q3 2019

Y-o-y EBIT growth has been a result of cost discipline, focus on operating leverage and improved marketing efficiency

Loans to customers



Loans to customers grew by 13.9% from EUR 320.5m as of 31 December 2018 to EUR 365.2m as of 30 September 2019

Customer Base

	Jan - Sep 2019	Jan - Sep 2018
Active customers*	763,345	799,111

** Customers with a Mobile Bank account and lending customers who have had an open balance in the last 12 months. If loans are >24m overdue, the customer is not considered active.*

The overall number of active customers decreased, reflecting a shrinking active customer base in Microloan and an increasing active customer numbers in the Credit Limit, Primeloan and Ferratum Business (SME) product segments, consistent with Ferratum's strategy of shifting the customer focus towards lower risk and longer-term products and services.

KEY DEVELOPMENTS & PERFORMANCE

Financial Performance

In the first nine months 2019, Ferratum Group's revenue increased to EUR 218.1 million, an increase of 14.7% compared to the respective period of the previous year (9M 2018*: EUR 190.2 million), and well in line with Ferratum's expectations for the period. The growth was mainly driven by the Credit Limit product with revenues of EUR 118.6 million (+25.5% year-on-year) and Business Lending with revenues of EUR 20.2 million (+29.7% year-on-year) in 9M 2019.

Operating profit (EBIT) for the period increased significantly year-on-year by 31.8% to EUR 33.5 million (EBIT-margin: 15.4%) compared to EUR 25.4 million in 9M 2018. The profit before tax (EBT) in 9M 2019 went up by 43.7% to 19.7 million (9M 2018: EUR 13.7 million). The increased EBIT and EBT performance resulted from actions taken by the management to increase cost discipline, achieve operative leverage, and improve marketing efficiency.

In Q1 2019, the impairments over revenues were higher than average for the Group (39.2%). This was mainly driven by a record level of sales in SME loans in Q1, which has a front loaded effect on impairments, and delayed effects from consumer lending activities in Q4 2018. In the following quarters, the Group has since managed to decrease the impairments over revenues, resulting in 36.2% for the reporting period.

In the first nine months of 2019 the Group equity increased by 12.8% to EUR 121.1 million from EUR 107.4 million as of 31 December 2018.

Deposits from customers grew by 12.0% to EUR 205.4 million compared to EUR 183.4 million at the end of 2018. The Group has issued new loans to customers in Finland under the banking licence since November 2019 and aims to bring Denmark under the bank within the next months to be able to further utilize deposit funding.

The net debt to equity ratio stood at 2.61 at the end of 9M 2019, well within Groups bond covenants of 3.0 and 3.5. Net receivables from customers grew by 13.9 % to EUR 365.2 million in 9M 2019 from EUR 320.5 million in FY 2018, mainly driven by Ferratum's Credit Limit and SME product.

Funding update

In April, Ferratum Capital Germany GmbH, a subsidiary of Ferratum Oyj, successfully issued EUR 80 million of new senior unsecured bonds. The proceeds were used to refinance EUR 25 million of bonds that matured in June. The additional funds shall be used for further business growth. The new senior unsecured bonds have a coupon of 3 months Euribor plus 5.50 per cent p.a. and a tenor of four years. The bonds are listed on Nasdaq Stockholm and Frankfurt Stock Exchange Open Market with ISIN: SE0012453835. Fitch Ratings has assigned the newly issued bond with a Long-Term Rating of 'BB-'.

In September Ferratum Capital Germany GmbH issued a notice for a written procedure with a request to amend the terms and conditions of its unsecured bond loan 2018/2022 with ISIN SE0011167972 of up to EUR 150,000,000. The Proposal contained a request to increase the net debt to equity maintenance test level from 3.0x to 3.5x, thereby aligning the terms of the Issuer's outstanding 2018/2022 bonds and 2019/2023 bonds. The written procedure was successfully completed in October with a vast majority of the bondholders voting in favor of the proposal. The Group paid a consent fee of 0.75% to all holders of the Bonds and the amendments were effective as per 15 October 2019.

*all Q1-Q3 2018 figures refer to restated numbers

Rating update

The Group was assigned a BB- rating by Fitch Ratings in March 2019. The Rating is assigned at holding company level based on Ferratum's consolidated financial statements, which include Ferratum Bank p.l.c.. The 2019/2023 bond (ISIN: SE0012453835) of Ferratum Capital Germany GmbH was also assigned a BB- rating by Fitch Ratings in April. Creditreform AG, assigned the Group a rating of BBB-/stable in April.

Key Business Developments

Ferratum Business, the SME lending business unit of the Group has grown within Ferratum in a start-up manner and can after only four years of operation show a profitable business with EUR 20.2 million in revenues during the first nine months of 2019 (9M 2018: 15.5 million). SME loans are currently being offered by Ferratum in seven countries (Czech Republic, Denmark, Finland, Lithuania, Netherlands, Sweden and the UK) with a maturity of 6-24 months and loan amounts of up to EUR 250,000. Ferratum Business expanded its operations to Poland in January 2019 with a pilot in invoiced based lending. After the conclusion of the pilot, it was decided not to launch the product in Poland. The product is however being considered for future launch in other markets. Lending to SME customers in Australia was also discontinued as the Group saw better opportunities in investing its resources into the other seven existing markets in Europe, that SME lending is offered in.

Since March 2019, Ferratum's risk-based pricing model has been introduced in the Czech Republic for the Credit Limit product, and for Primeloans in Latvia and Finland. The risk-based pricing allows the Group to offer customers an individually risk adjusted offering in terms of loan amount and pricing. The model helps optimize the overall yield and risk exposure, the implementation plays an important role as the Groups product evolution shifts towards longer terms and higher loan amounts (i.e Primeloans).

Ferratum´s Mobile Wallet, the next generation of Ferratum´s Mobile Bank is being piloted in Latvia and is expected to be launched to the public in Latvia after the completion of the ongoing pilot.

The Primeloan product was introduced into two further markets during the first nine months of 2019, Sweden and Latvia, bringing the overall amount of Primeloan countries to four.

The new IT platform, the Ferratum Operating System (FerraOS), has been introduced in Sweden, Latvia and Bangladesh during 2019. The new platform roll-out is part of the ongoing Smart IT program and builds the next generation IT foundation, on which the Group can further expand its business on, including its own and partner´s offering. Currently, the focus is on combining new microservice modules with older stack, such as payment, identity, authentication, and document services, as well as real time data services.

In June, the Group announced a partnership with with Srijony Foundation in Bangladesh to contribute to the country's digitalization, technological transformation and financial inclusion in the lending sector. As at the end of September 2019, Ferratum operates in 23 countries, with lending having been suspended in Russia, France and Slovakia, and Bangladesh being added to the countries of operation.

Personnel

At the end of the third quarter 2019, the Group had 888 employees (9M 2018: 958 employees). Personnel expenses stood at EUR 33.2 million and came down from 17.3% of Revenues in 9M 2018 to 15.2% in 9M 2019.

As of August, Bernd Egger joined Ferratum as Chief Financial Officer, succeeding Dr Clemens Krause. Clemens will now have a key role in managing the Groups credit risk as Chief Risk Officer. Bernd has an extensive background in international banking, finance and corporate development and holds a masters degree in Business Administration as well as a Master of Science in Finance.

Klaus Schmidt joined the Goup in April as interim Chief Marketing Officer, and has as planned, as of October handed over his responsibilities to long time Leadership Team member and Chief Commercial Officer, Saku Timonen.

Risk factors and management

Ferratum Group takes moderate and calculated risks in conducting its business. The prudent management of risks minimizes the probability of unexpected losses and threats to the reputation of the Group. Therefore, it can enhance profitability and shareholder value.

The Board of Directors monitors operations regularly and is ultimately responsible for adequate risk management and ensuring that the company has access to the appropriate software, including instructions on controlling and monitoring risks. The CEO is responsible for the daily operations of the Group. Each member of the Management Team ultimate bears responsibility for identifying and controlling the risks related to their functions in line with instructions from the Board. Ferratum proactively follows all legal changes that might occur in the countries it operates in and adjusts its operations accordingly, while always considering customer and user experience.

The risks of Ferratum's operations can be divided into four main categories: credit risks (loans and advances to customers), market risks (including foreign exchange risks, interest rate risks and other price risks), liquidity risks (cash flow and financing risks, as well as covenant compliance and regulatory requirements and compliance) and operational risks (such as IT risks, legal and regulatory risks and other operational risks).

Exposure to credit risks arises principally from Ferratum's lending activities. The risk is managed by proprietary risk management tools which assist subsidiaries in evaluating the payment behaviour of customers. These tools which are continuously updated and refined, ensure that only solvent customers are accepted, thereby controlling the level of credit losses. The scoring system and the credit policies of the Group's subsidiaries are managed by the central risk department.

The risk department is also responsible for the measurement of the payment behaviour of the credit portfolio on a daily, weekly and monthly basis. Risk provisioning and the calculation of the impairments are independently managed by the central finance department.

Market risks arise from open positions in interest rate and currency products. They are managed by the central treasury department, which is also responsible for Group cash flow planning and ensures the necessary liquidity level for all Group entities. Ferratum uses derivative financial instruments to hedge certain risk exposures.

Ferratum Group has rigorous processes in place to forecast and monitor the Group's liquidity requirements to ensure that it has sufficient cash available at all times to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements, currency restrictions, for example.

Operational risks, IT risks as well as legal and regulatory risks are of high relevance for Ferratum. Regulatory and legal risks are managed centrally by the Group's legal function in close cooperation with the authorities in the respective countries and relevant stakeholders. Potential or foreseeable changes in applicable laws are analyzed on an ongoing basis and any necessary modifications to Ferratum's legal structure are implemented proactively.

The smooth and continuous operation of critical IT systems is effectively guaranteed by various information security solutions. Ferratum has developed its processes and systems in order to offer its customers, stakeholders and partners the most efficient and practical software designed to cater to the demands of the developing mobile consumer lending industry.

Shareholder structure

Jorma Jokela, founder and CEO of the Group holds, directly and indirectly, 11,958,470 shares as at 30 September 2019, which represents 55.05% of the total issued share capital of Ferratum. The free float of Ferratum amounted to 44.28% as of 30 September 2019.

Ferratum received a notification on 4 July 2019 that Universal-Investment-Gesellschaft mbH as of 1 July 2019 holds 1,666,759 shares in Ferratum, representing 7.67% of the total issued share capital of Ferratum.

Annual General Meeting

The General Meeting approved the Board’s proposals for its authorisation to decide on the acquisition of a maximum of 1,086,198 of the Group´s own shares, which corresponds to approx. 5% of all shares in the Group. It also authorized the Board of Directors to issue a maximum of 3,258,594 shares, which corresponds to approx. 15 % of the Company’s total amount of shares. The Board of Directors may issue either new shares or transfer existing shares held by the Company.

It was decided that the Company would distribute a per-share dividend of EUR 0.18 to a total of EUR 3,883,997 after which distributable equity would stand at EUR 42,817,249. The dividends were paid in April and no dividend was paid to the own shares held by the Company.

All resolutions of the Annual General Meeting and the decisions of the Board’s organisational meeting were communicated in more detail in the minutes of the AGM, which can be found on the Groups website.

Subsequent Events

In October the Group successfully completed the written procedure in relation to Ferratum Capital Germany GmbHs outstanding up to EUR 150,000,000 senior unsecured bond loan 2018/2022 with ISIN SE0011167972. The vast majority of bondholders agreed on the benefits of the alignment of the Net Debt to Equity covenant with the issuers other bond (ISIN SE0012453835) with a net-debt to equity ratio of 3.5x. This allows the Group to continue its strategically important transition towards providing its customers with larger, longer-term loans (e.g. Primeloans, Credit Limit and loans to Small and Medium size Enterprises). The transition towards lower risk products opens a vast segment of customers with better payment behavior and a lower credit risk, while also increasing the Group’s readiness to deal with further changes in the interest rate environment. The amendments were effective as per 15 October 2019.

The Group has issued new loans to customers in Finland under the banking licence since November 2019.

Consolidated Income Statement for the Period 1 January to 30 September, 2019

EUR '000	2019	2018 *
	9 months ended 30 September	
REVENUE	218,086	190,194
Other income	19	333
Impairments on loans	(78,945)	(65,400)
Operating expenses:		
Personnel expenses	(33,162)	(32,919)
Selling and marketing expenses	(29,686)	(30,396)
Lending costs	(13,214)	(9,146)
Other administrative expenses	(1,492)	(1,529)
Depreciations and amortization	(7,663)	(3,695)
Other operating expenses	(20,433)	(22,014)
Operating profit	**33,511**	**25,429**
Financial income	189	123
Finance costs	(14,007)	(11,846)
Finance costs – net	(13,818)	(11,723)
Profit before income tax	**19,693**	**13,706**
Income tax expense	(2,953)	(2,055)
Profit for the period	**16,740**	**11,650**
Earnings per share, basic	**0.78**	**0.54**
Earnings per share, diluted	**0.78**	**0.54**
Profit attributable to:		
– owners of the parent company	16,740	11,650
– non-controlling interests (NCI)	0	0

Consolidated Statement of Comprehensive Income for the Period 1 January to 30 September, 2019

EUR '000	2019	2018*
	9 months ended 30 September	
Profit for the period	16,740	11,650
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Translation difference	136	186
Total items that may be subsequently reclassified to profit or loss	136	186
Total comprehensive income	**16,876**	**11,837**
Allocation of total comprehensive income to:		
– owners of the parent company	16,876	11,837
– non-controlling interests (NCI)	0	0

* Q1, Q2 and Q3 interim reports 2018 have been restated in March 2019 due to a change of the implemented risk provisioning model based on IFRS 9

Consolidated Statement of Financial Position

EUR '000	30 Sep 2019	31 Dec 2018
ASSETS		
Non-current assets		
Property, plant and equipment	3,815	4,155
Right-of-use assets	6,748	0
Intangible assets	34,666	30,227
Government bonds	0	8,533
Deferred income tax assets	9,410	10,622
Loans receivable	2,069	178
Total non-current assets	**56,709**	**53,714**
Current assets		
Loans and advances to customers	365,152	320,538
Other receivables	13,575	9,399
Derivative assets	595	21
Income tax assets	975	961
Cash and cash equivalents	133,758	115,559
Total current assets	**514,056**	**446,478**
Total assets	**570,765**	**500,192**
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	40,134	40,134
Treasury shares	(142)	(142)
Reserves	(1,852)	(2,211)
Unrestricted equity reserve	14,708	14,708
Retained earnings	68,244	54,892
Total equity	**121,092**	**107,380**
of which related to non-controlling interests		
LIABILITIES		
Non-current liabilities		
Borrowings	169,489	137,695
Other payables	-	-
Lease liabilities	4,313	-
Deferred income tax liabilities	559	581
Total non-current liabilities	**174,361**	**138,276**
Current liabilities		
Income tax liabilities	3,287	3,372
Deposits from customers	205,364	183,405
Borrowings	39,881	44,882
Derivative liabilities	93	479
Trade payables	12,315	10,522
Lease liabilities	2,186	-
Other current liabilities	12,186	11,877
Total current liabilities	**275,312**	**254,536**
Total liabilities	**449,673**	**392,812**
Total equity and liabilities	**570,765**	**500,192**

Consolidated Statement of Cash flow

EUR '000	2019	2018*
	9 months ended 30 September	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/loss for the period	**16,740**	**11,650**
Adjustments for:		
Depreciation and amortization	7,663	3,695
Finance costs, net	13,818	11,723
Tax on income from operations	2,953	2,055
Transactions without cash flow	2,291	1,336
Impairments on loans	78,945	65,400
Working capital changes:		
Increase (-) / decrease (+) in other current receivables and government bonds	1,890	4,130
Increase (+) / decrease (-) in trade payables and other liabilities	1,063	3,285
Interest paid	(9,726)	(6,334)
Interest received	160	-
Other financing activities	(709)	
Income taxes paid	(3,349)	(2,483)
Net cash from operating activities before movements in loan portfolio and deposits received	**111,741**	**94,458**
Deposits received	21,958	17,990
Movements in the portfolio:		
Movements in gross portfolio	(73,711)	(108,864)
Fully impaired portfolio write-offs	(49,849)	(22,566)
Net cash (used in) / from operating activities	**10,139**	**(18,982)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of tangible and intangible assets	(11,694)	(10,284)
Proceeds from sale of tangible and intangible assets	-	-
Net cash used in investing activities	**(11,694)**	**(10,284)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	199	(24,747)
Repayment of short-term borrowings	(46,245)	(133)
Proceeds from long-term borrowings	71,476	97,881
Repayment of long-term borrowings	-	(13,145)
Dividends paid / distribution of funds	(3,885)	(3,833)
Net cash from financing activities	**21,545**	**56,023**
Net increase/decrease in cash and cash equivalents	**19,990**	**26,757**
Cash and cash equivalents at the beginning of the period	115,559	131,832
Exchange gains/(losses) on cash and cash equivalents	(1,791)	820
Net increase/decrease in cash and cash equivalents	19,990	26,757
Cash and cash equivalents at the end of the period	**133,758**	**159,409**

*Q1, Q2 and Q3 interim reports 2018 have been restated in March 2019 due to a change of the implemented risk provisioning model based on IFRS 9

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of Presentation

Ferratum Group's interim financial statements have been prepared in accordance with the accounting policies set out in the annual report for the year ended 31 December 2018, except for the adoption of IFRS 16 Leases as set out below. Other new standards and interpretations have not had a material impact to the accounting policies. The group has chosen not to apply IAS 34 Interim Financial Reporting in preparing these interim financial statements but applies the recognition and measurement principles of IFRS. The interim report for the third quarter of 2019 are materially prepared using the same accounting principles and calculation methods as described in the Annual Report 2018.

IFRS 16 Leases

On January 1, 2019, Ferratum Group adopted IFRS 16, "Leases." The Group applied the modified retrospective approach and did not restate comparative figures for prior periods. IFRS 16 defines the recognition, measurement, presentation and disclosure requirements on leases. The standard introduces a single lessee accounting model requiring lessees to recognize assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset has a low value.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Ferratum Group has assessed the impact upon adoption of the new standard, which mainly impacts the group's operating leases. These operating leases impacted by the IFRS 16 adoption are mainly related to the Group's office rent agreements. These lease agreements were assessed by management to be in use for longer than stated lease term (12 months or less) and were calculated under the new methodology with an average lease term of 36 months.

Reconciliation of lease liability is as follows:

EUR '000	01 Jan 2019
Operating lease commitments disclosed as at 31 December 2018	3,399
(Less): low-value leases recognised on a straight-line basis as expense	(1)
Add/(less): adjustments as a result of a different treatment of extension and termination options	4,465
Lease liability recognised as at 1 January 2019	**7,863**
Of which are:	
Current lease liabilities	2,010
Non-current lease liabilities	5,853
	7,863

2. SEGMENT INFORMATION

Operating segments are based on the major product types provided by Ferratum: Microloans, PlusLoans, Credit Limit, Ferratum Business (SME) and Mobile bank incl. Primeloan.

Attributable product margin is defined and calculated as a difference between the revenue, other income and directly attributable costs of each product segment. Non-directly attributable costs are allocated according the share in revenue and finance costs are allocated according the portfolio size of related types of products, i.e. their share in loans and advances to customers.

2.1 Business Segments in Q3 2019

EUR '000	Microloan	PlusLoan	Credit Limit	SME	Mobile bank*	Total
REVENUE	28,143	48,593	118,603	20,160	2,586	218,086
Share in Revenue, %	12.9	22.3	54.4	9.2	1.2	100.0
Other income	3	4	11	2	-	19
Directly attributable costs:						
Impairments	(10,585)	(20,534)	(38,902)	(6,112)	(2,812)	(78,945)
Marketing	(1,933)	(5,781)	(16,927)	(4,141)	(905)	(29,686)
Attributable Product Margin	**15,628**	**22,282**	**62,786**	**9,909**	**(1,131)**	**109,474**
Attributable Product Margin, %	55.5	45.9	52.9	49.2		50.2
Non-directly attributable costs:						
Personnel expenses	(4,211)	(7,271)	(17,747)	(3,017)	(915)	(33,162)
Lending costs	(1,726)	(2,980)	(7,272)	(1,236)	-	(13,214)
Other administrative expenses	(115)	(198)	(484)	(82)	(613)	(1,492)
Depreciation and amortization	(903)	(1,559)	(3,805)	(647)	(749)	(7,663)
Other operating income and expenses	(2,549)	(4,401)	(10,742)	(1,826)	(915)	(20,433)
Total Non-directly attributable costs	**(9,504)**	**(16,409)**	**(40,050)**	**(6,808)**	**(3,192)**	**(75,963)**
Operating profit	**6,124**	**5,873**	**22,735**	**3,101**	**(4,323)**	**33,511**
Gross Product Margin, %	21.8	12.1	19.2	15.4		15.4
Unallocated finance income	-	-	-	-	-	189
Finance expenses	(867)	(2,415)	(5,333)	(2,175)	(539)	(11,329)
Unallocated finance expense	-	-	-	-	-	(2,679)
Finance costs, net	(867)	(2,415)	(5,333)	(2,175)	(539)	(13,818)
Profit before income tax	**5,257**	**3,458**	**17,402**	**926**	**(4,862)**	**19,693**
Net Profit Margin, %	18.7	7.1	14.7	4.6		9.0
Loans and advances to customers - net	27,958	77,832	171,888	70,105	17,371	365,152
Unallocated assets						205,612
Unallocated liabilities						449,673

*Includes Mobile Bank and Primeloan

2.2 Business Segments in Q3 2018**

EUR '000	Microloan	PlusLoan	Credit Limit	SME	Mobile bank*	Total
REVENUE	31,538	47,757	94,519	15,540	840	190,194
Share in Revenue, %	16.6	25.1	49.7	8.2	0.4	100.0
Other income	56	84	166	27	-	333
Directly attributable costs:						
Impairments	(14,401)	(16,876)	(28,070)	(4,930)	(1,124)	(65,400)
Marketing	(3,267)	(6,862)	(15,415)	(3,381)	(1,471)	(30,396)
Attributable Product Margin	**13,925**	**24,103**	**51,201**	**7,256**	**(1,754)**	**94,731**
Attributable Product Margin, %	44.2	50.5	54.2	46.7		49.8
Non-directly attributable costs:						
Personnel expenses	(5,246)	(7,944)	(15,722)	(2,585)	(1,422)	(32,919)
Lending costs	(1,523)	(2,307)	(4,566)	(751)	-	(9,146)
Other administrative expenses	(150)	(226)	(448)	(74)	(631)	(1,529)
Depreciation and amortization	(453)	(686)	(1,359)	(223)	(974)	(3,695)
Other operating income and expenses	(3,492)	(5,288)	(10,467)	(1,721)	(1,045)	(22,014)
Total Non-directly attributable costs	**(10,865)**	**(16,452)**	**(32,561)**	**(5,353)**	**(4,071)**	**(69,303)**
Operating profit	**3,060**	**7,652**	**18,639**	**1,903**	**(5,826)**	**25,429**
Gross Product Margin, %	9.7	16.0	19.7	12.2		13.4
Unallocated finance income						123
Finance expenses	(917)	(2,394)	(4,612)	(1,338)	(177)	(9,438)
Unallocated finance expense						(2,408)
Finance costs, net	(917)	(2,394)	(4,612)	(1,338)	(177)	(11,723)
Profit before income tax	**2,143**	**5,258**	**14,027**	**565**	**(6,002)**	**13,706**
Net Profit Margin, %	6.8	11.0	14.8	3.6		7.2
Loans and advances to customers - net	28,601	74,633	143,783	41,704	5,515	294,237
Unallocated assets						215,240
Unallocated liabilities						411,108

*Includes Mobile Bank, Primeloan and Ferratum P2P

** Q1, Q2 and Q3 interim reports 2018 have been restated in March 2019 due to a change of the implemented risk provisioning model based on IFRS 9

2.3 Revenue – Geographic Split

EUR '000	Jan – Sep 2019	Jan – Sep 2018
Revenue, international	182,204	156,481
Revenue, domestic	35,882	33,713
Total revenue	**218,086**	**190,194**

2.4 Revenue of business segments geographically

In addition to presenting the performance of operating segments by product type, Ferratum Group also reports revenue by geographic region. While geographical reporting has previously been based on the coverage of the Group's previous international management structure, in 2018 the Group adopted new geographical splits which organise Ferratum's countries of operation into more conventional geographic regions.

All countries where Ferratum has operating activities are now grouped into the following four regions: Northern Europe, Western Europe, Eastern Europe and Rest of the World. The full list of countries within each region, together with the total revenues generated by each region for the nine months ended 30 September 2019 and nine months ended 30 September 2018 (restated), are presented in the following table.

EUR '000		Jan – Sep 2019	Jan – Sep 2018
Nothern Europe	Finland, Sweden, Denmark, Norway	94,783	81,108
Western Europe	France, Germany, Netherlands, Spain, UK	43,207	41,908
Eastern Europe	Bulgaria, Croatia, Czech, Estonia, Latvia, Lithuania, Poland, Romania, Russia, Slovakia	71,770	59,793
Rest of the World	Australia, Brazil, Canada, Mexico, New Zealand, Nigeria	8,326	7,386
Total revenue		**218,086**	**190,194**

3. PERSONNEL EXPENSES

EUR '000	Jan – Sep 2019	Jan – Sep 2018
Salaries and other employee benefits (incl. bonuses)	(24,453)	(24,588)
Employee pension expenses	(1,187)	(764)
Other personnel expenses	(5,231)	(6,231)
Share-based payments equity settled*)	(2,291)	(1,336)
Total personnel expenses	**(33,162)**	**(32,919)**

*)New employee share performance plan was introduced in April 2019 designed to provide long-term incentive and commitment for key management to deliver long-term performance targets and increase their commitment to Ferratum.

4. FINANCE INCOME

EUR '000	Jan – Sep 2019	Jan – Sep 2018
Interest income from cash and cash equivalents	156	94
Derivatives held for trading – net gain / (loss)	34	29
Foreign exchange gain	-	-
Total finance income	**189**	**123**

5. FINANCE COSTS

EUR '000	Jan – Sep 2019	Jan – Sep 2018
Interest on borrowings	(11,329)	(9,438)
Derivatives held for trading – net gain / (loss)	-	(0)
Interest expenses on leases	(315)	-
Foreign exchange loss on liabilities	(2,364)	(2,408)
Total finance costs	**(14,007)**	**(11,846)**

6. LOANS AND ADVANCES TO CUSTOMERS

Ferratum Group calculates the expected credit losses (ECL) for its loans and advances to customers on a collective basis, given that its portfolio of micro-credit facilities is composed of homogenous groups of loans that are not considered individually significant, using three main components: probability of default (PD), loss given default (LGD) and exposure at default (EAD). These three components are multiplied together effectively calculating the forward-looking ECL, which is then discounted back to the reporting date. The discount rate used in the ECL calculation is the originated effective interest rate or an approximation thereof.

The ECL is measured on either a 12-month 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). Group uses an allowance account to recognize the impairment losses on loans and advances to customers. The following tables shows the reconciliation of movements in the allowance account. For further information about loans and advances to customers and the ECL calculation methodology, please refer to Note 2 and 3 in the group's annual financial statements for the year ended 31 December 2018.

EUR '000	Jan – Sep 2019	Jan – Sep 2018
Loans and advances to customers (gross)	**541,522**	**436,820**
Provision for impairment on January 1	(147,273)	(78,837)
IFRS9 implementation impact	-	(20,912)
Impairments on loans for the period	(78,945)	(65,400)
Other movements	49,849	22,566
Provision for impairment on September 30	**(176,370)**	**(142,583)**
Loans and advances to customers (net)	**365,152**	**294,237**

Ferratum Group manages the credit quality of its loans and advances to customers by using internal riskgrades, which provide a progressively increasing risk profile ranging from 'Regular' (best quality, less risky) to 'Loss'. These risk grades are an essential tool for the Group to identify both non-performing exposures and better performing customers. The internal risk grades used by the Group are as follows:

- Performing: Internal grade 'Regular'
- Under performing: Internal grades 'Watch' and 'Substandard'; and
- Non-performing: Internal grades 'Doubtful' and 'Loss'.

Regular

The Group's loans and advances to customers which are categorised as 'Regular' are principally debts in respect of which payment is not overdue by 30 days and no recent history of customer default exists. Management does not expect any losses from non-performance by these customers, which are considered as fully performing.

Watch

Loans and advances that attract this category principally comprise those where payment becomes overdue by 30 days, but does not exceed 60 days for Microloans, and does not exceed 45 days for PlusLoans, Credit Limit and Primeloans.

Substandard

Exposures that are categorised within this category comprise those where payment becomes overdue by 61 days and over but not exceeding 90 days for Microloans, and where payment becomes overdue by 46 days but does not exceed 60 days for PlusLoan, Credit Limit and Primeloans.

Doubtful

Loans and advances which attract a 'Doubtful' grading are principally those assets in respect of which repayment becomes overdue by 61 days and over but not exceeding 180 days for PlusLoans, Credit Limit and Primeloans, and 91 days and over but not exceeding 180 days for Microloans.

Loss

Loans and advances in respect of which payment becomes overdue by 180 days.

The Group does not have a material amount of individually impaired loan receivables. The ageing analysis of loan receivables which are collectively assessed for impairment is as follows:

EUR '000	30 Sep 2019				31 Dec 2018
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loans and advances to customers					
Regular	298,202	-	-	298,202	262,280
Watch	-	17,616	-	17,616	12,783
Substandard	-	11,395	-	11,395	11,576
Doubtful	-	-	36,713	36,713	35,173
Loss	-	-	177,596	177,596	145,998
Gross carrying amount	**298,202**	**29,011**	**214,309**	**541,522**	**467,811**
Loss allowance	**24,820**	**8,382**	**143,167**	**176,370**	**147,273**
Carrying amount	**273,382**	**20,629**	**71,142**	**365,152**	**320,538**
Impaired Loan Coverage Ratio (ICLR)	**8.3 %**	**28.9 %**	**66.8 %**	**32.6 %**	**31.5 %**

The following tables explain the changes in gross carrying amount between the beginning and the end of the period September 30, 2019:

EUR '000	30 Sep 2019			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loans and advances to customers				
Gross carrying amount as at 1 January 2019	**262,280**	**24,359**	**181,172**	**467,811**
Total changes in gross carrying amounts arising from transfers in stages, originations and derecognitions	37,297	4,786	42,615	84,697
Write-offs	-	-	(8,489)	(8,489)
FX and other movements	(1,375)	(134)	(988)	(2,497)
Total net change during the year	**35,922**	**4,652**	**33,137**	**73,711**
Gross carrying amount as at 30 September 2019	**298,202**	**29,011**	**214,309**	**541,522**

The following tables explain the changes in the loss allowance between the beginning and the end of the period September 30, 2019:

EUR '000	30 Sep 2019			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loans and advances to customers				
Loss allowance as at 1 January 2019	**22,325**	**7,351**	**117,597**	**147,273**
Increases in allowances- charge to profit or loss	2,572	1,063	75,311	78,945
Total net P&L charge during the year	**2,572**	**1,063**	**75,311**	**78,945**
Other movements				
Impact of unwinding ECL provisions	0	0	(432)	(432)
Loans and advances written off during the year	0	0	(48,698)	(48,698)
Exchange differences	(76)	(31)	(611)	(719)
Loss allowance as at 30 September 2019	**24,820**	**8,382**	**143,167**	**176,370**

For further information about gross carrying amount and loss allowances please refer to note 3 in the Group's annual financial statements for the year ended 31 December 2018.

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