# ANNUAL REPORT 2019

ferratum

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# INTRODUCTION

## The bank of the future

Since our foundation in 2005, Ferratum has become a leading Fintech pioneer in digital banking and mobile lending, working to deliver our vision of a global financial ecosystem and pursuing our path towards becoming "the most valued financial platform".

Our comprehensive software-based, data-driven approach to credit scoring, digital lending and knowing our customers, puts us at the very forefront of the smart, paperless, 'in-real-time' mobile banking revolution.

Our ongoing mission is to provide "more than money to everyone", which means fast, easy and convenient solutions for our customers that best meet their needs, at the time that they need them. Our ambition is clear: we want to offer the best possible customer experience for lending and banking through a transparent, intuitive and reliable service; and a dedicated and always available personal customer service, online and by phone. In short, we are there for our customers, whenever and wherever they need us. We are the future of banking. Today.

## A commitment to responsible lending

Ferratum remains fully committed to ensuring its marketing practices and lending decisions continue to be clear, consistent and transparent. We have put both comprehensive and stringent procedures in place in order to lend only to those customers whom we believe will be able to repay a loan in full and on time. Over our nearly 15 years of operating in the lending business, we have continued to leverage our data analytics to allow us to continuously optimise, developed best-in-class underwriting, and created highly-sophisticated and automated fully-digitalised processes which provide more than 10,000 data points when assessing each customer's ability to repay their loan. We have strict filtering systems in place. Potential customers whom we believe would not be able to pay back their loans are rejected; and during 2019, our rejection rate of 81% meant that our approval rate represented only around 19% of all applications received across the 23 markets in which we globally operate.

Ferratum has several cutting-edge procedures and processes in place which have been carefully designed to significantly reduce the risk of granting loans to individuals or households who may ultimately not be able to repay them in full or on time. These stringent procedures and processes vary from country to country, as do the specific products on offer, but they all include a broad range of controls, such as the utilising of sophisticated policy rules, independent credit-worthiness checks on public and private databases and credit bureaus, and all carried out with the full consent of the customer. Additionally, monthly loan repayments are carefully checked against household or personal income, as well as any other financial commitments or insolvency proceedings impacting the loan applicants.

Throughout our entire ecosystem, Ferratum applies a number of strict rules to its lending activities, which include prohibiting the granting of more than one loan to the same customer at the same time, disclosing to those we lend to the potential implications of short-term borrowing and the long-term use of such borrowing, and a one day 'cooling off' period before the granting of a new loan after a previous loan has been paid in full. These procedures are consistently re-evaluated.

Ferratum also has always evolving marketing guidelines in place which are regularly appraised to ensure that they remain appropriate and optimised for their specific purpose. Though there are a number of country-specific requirements in place, the internal guidelines focus on matters of general principle, such as the obligation not to advertise any of our services in a misleading, false or deceptive manner, and the importance of clearly and transparently detailing all relevant information to consumers, such as interest rates and fee information.

Finally, Ferratum supports a strict zero-tolerance approach with regards to money laundering and terrorist financing, and AML directives are welcomed and incorporated throughout all operational countries.

## Ferratum at a glance

**Consumer loans**

89% of FY 2019 revenues

**Business loans**

10% of FY 2019 revenues

**Mobile bank**

1% of FY 2019 revenues

**15**

Years of profitable growth

**740K**

Active customers

**23**

Countries

**€293m**

FY 2019 revenue

**+12%**

Year-on-year revenue growth

**+21%**

Year-on-year EBIT growth

Founded in Finland in 2005 & headquartered in Helsinki

EU Banking Licence

UTSCHE BÖR

Frankfurt Prime Standard

## Digital Lending

Improving access to finance for people globally, has remained a cornerstone of our business operations since our foundation in 2005. Today, we have a comprehensive range of lending products that we can offer to consumers and SMEs, providing them with a number of finance options to help them successfully pursue their ambitions.

By offering a broad variety of lending products, we give our customers greater freedom to finance their lifestyles or businesses on their own terms, with financing solutions that are appropriate to their individual or professional financial circumstances. Furthermore, all of Ferratum's products are based on the same principles – something that our customers deeply value – and that is the fact that we offer a fully-digitalised OS, high user convenience, intuitive navigation, 'in-real-time' operations, and rapid decision-making, as well as the fact that our services are fully mobile, paperless, encrypted and online.

## Mobile Banking

Globally, smartphones and tablets are increasingly at the core of people's financial lives, and today customers expect to be able to fully manage their entire personal and business finances from their mobile device, and at any time and place of their choosing.

To achieve this 'next normal'; from deposits, payments and money transfers, to managing bank accounts and savings, Ferratum's comprehensive banking services have been developed to fulfill our customer's ever more demanding requirements.

Ferratum currently operates in 23 countries globally, has a full EU-banking license, and complete banking services are operational in 13 European markets. The Ferratum Mobile Bank is presently available in four countries in Europe: Sweden, Spain, Germany and Norway. The next generation 'Mobile Wallet' app will become operational throughout selected countries during 2020.

# OUR MARKETS

# LETTER TO SHAREHOLDERS

**Jorma Jokela**
CEO and Founder, Ferratum Group

## Dear Shareholders,

I am happy to be able to state that after a challenging year 2018, Ferratum had an overall successful year 2019 again. After 14 years of incredible growth and all positives, but also challenges that come with such an evolution, last year we set ourselves ambitious profit targets instead of revenue ones as usual. We set our sail to operational efficiency, and seized opportunities to optimise our cost efficiency, further automate our operations and scalable technology, and enhanced our business ecosystem globally. Throughout 2019, we initiated a few geographical changes to our business, as we ceased operations in Russia, France and Slovakia, but established operations in Bangladesh. At the end of 2019, we are operational in 23 countries, on six continents. The year 2019 was about us building a strong foundation for the future. It was also a year about putting our customer's point of view into ever sharper focus in terms of what we can give them, both now and in the future that will bring them added value.

After four years, it was also time to review our vision and mission. In line with our revised strategy, we updated our vision and now state that we want to become the "Most valued Financial Platform". Our confidence in reaching this vision is rooted in 15 years of experience in a loan process that was and is designed for utmost convenience and great customer experience. It has its main corner stones in data gathering and analysis, real-time credit risk scoring, digital onboarding, automated pay-in and pay-out processes, and digital marketing. In addition, our entrepreneurial spirit, which in a survey was the thing most valued in our company culture by our employees, and the unique regulatory expertise that we have gathered globally, are crucial enablers of our business.

Our mission remained "More than money to everyone.", which describes how we want to offer our customers a service and value beyond just lending them money. This mission will become more and more visible with the roll-out of our new Mobile Wallet, which currently is in pilot phase.

Our existing values were nearly 15 years old and we realised that they needed to be updated, so we worked together with our entire staff to update our company values. We wanted to ensure them encapsulating the true spirit of our company today , how we want to collaborate and what we believe in. Our new five core values are:

- Customer centricity, aiming at delivering the best possible customer experience;
- Entrepreneurial spirit, an ambitious business mindset that has guided us since our establishment in 2005;
- Candor, our determination to communicate directly, transparently and honestly, both with ourselves and with all of our stakeholders;
- Respect, the manner in which we treat our customers, our colleagues, our partners, our investors, as well as all our other stakeholders in our actions and communications and finally;
- Winning teams, our understanding that we can only achieve the highest possible outcomes by collaborating together.

Our customers are one of the most important stakeholders of ours, and we put a lot of effort into ensuring our values are reflected in our collaboration with them. In line with this and our aim to further develop our sustainability and corporate responsibility, we have started to create new, updated guidelines of responsible lending, which we will implement into all of our countries of operation during 2020. In addition, we have established a team that is looking into further possibilities to positively contribute to sustainability and corporate responsibility. On one hand, we want to further decrease our own environmental footprint, and on the other hand support initatives that work on new sustainable solutions for the future. Our business model is and has been fully online and paperless since our foundation, and our employees are digital natives to a large extent. This has given us a head start in more environmental, virtual collaboration with our customers and colleagues and at the same time protecting the planet, and we want to keep it this way.

Reflecting on the work done in 2019, I am proud of our SME lending team and how we continued to grow our SME business. I am not only happy about the economic fruits we reaped from it, but also proud of the fact that we can help small businesses grow, which otherwise would have often been left without funding. These businesses create many jobs and are an extremely important part of our economy. There is an estimated 400 billion funding gap for SME businesses in the EU, and we want to contribute to closing this gap.

Our work around the creation of our new Mobile Wallet, a cutting-edge app that will move to the centre of our lending offering in 2020, is aimed at accelerating both profit and growth, as well as facilitating the integration of comprehensive third-party services into it. Through our ongoing innovation, we ambitiously evolve our Mobile Wallet into a fully-fledged financial platform, with the newly created operating system for it, the FerraOS. It will decrease the time to market and increase scalability, as well as increase commission-based revenue sources.

In 2019 we began a new journey based on our three ‘horizons’, as we call the steps that we see to be taken on our way. These horizons can be seen as our strategic ambitions with regards to 2020 and beyond. Our new strategy enables us to further move away from primarily being a consumer lender and towards becoming a financial platform. We have been working on all of our three horizons and continue to do so simultaneously, but the impact of this work will be seen gradually in stages.

The first horizon sets becoming “most valued lender” as target. It contains us continuing to transform and expand our business from the early beginnings of our story as small consumer to the company we are today, with a much broader financial offering for our customers that is evolving towards higher loan amounts, longer maturities, and lower interest rates. In order to achieve this, we continue to simplify and digitize our business further, increase automation and operational leverage, as well as to execute our growth initiatives of scaling the Mobile Wallet with lending, ensuring PrimeLoans up and running well, accelerating our SME business and creating succesful partnerships.

In our second horizon, we want to become the “most valued Mobile Wallet”. This we will achieve through the introduction of our Mobile Wallet 2.0. It will be at the center of our strategy and offering, fully merged with our lending business to create a superior customer offering and business opportunities through added partnerships and joint ventures. In 2019, we had approx. 24 million visits on our websites. These visitors can be transformed and redirected to wallet customers without us having to substantially increase our marketing spend. As part of this evolution to a platform, we also want to go over to an asset-light model for our business.

The third horizon is our ultimate vision of "Most valued Financial Platform". This means us scaling our Mobile Wallet to a true platform by attracting ecosystem partners and growing through start-ups and ventures.

At the time I am writing this, we are living through times of uncertainty due to the Covid-19 pandemic. Our predictive models are being monitored closer than ever and our scoring will be tightened further. As with any substantial and sudden change in the market environment, it will cause some fluctuation and will unfortunately most likely have some decreasing impact on our EBIT and revenues short-term. The situation with Covid-19 is so new and unpredictable to all of us, that none of us can yet say how big or long this impact will be. The combination of a success hungry and at the same time experienced and engaged team, a unique digital business model, strong liquidity and equity position makes us, however, firmly believe that we can navigate through this this era as we did in 2008 through the last financial crisis. We as a Group, and me as its founder and CEO, have been in this business and building it for the long-term, and we hope our investors to be as well. These times are also already showing great opportunities and proof of the importance of online businesses in the future. Even in times like today, where nothing seems to be as it was yesterday, our customers can continue to engage with us just as they always did. Anyone, anytime, anywhere.

Our efforts from 2019 towards increased operational efficiency and automation, and our organization being used to working remotely support us getting through these times and being able to at the same time leverage this digital shift and aim at building a business that is even stronger than before.

I would like to take this opportunity to say that we are most appreciative that you, as shareholders, are accompanying us on this ongoing journey. And once again, my enormous thanks must also go to our employees; a group of extraordinary individuals who have contributed to taking our vision ever forward, and through their commitment, their ambition and their belief in the considerable potential in our business, have helped us to arrive at this pivotal and exciting junction in our history.

## Financial Highlights

**+11.8%** Record FY 2019 revenue of EUR 293.1 million - up 11.8% year-on-year

**+20.5%** Record FY 2019 operating profit (EBIT) of EUR 45.5 million (margin 20.5%) - up 20.5% year-on-year

**+23.3%** Profit before tax (EBT) of EUR 27.5 million - up +23.3% year-on-year

**€1.10** Basic and diluted EPS increased to EUR €1.10 per share (FY 2018: 0.89 per share)

## Operational Highlights

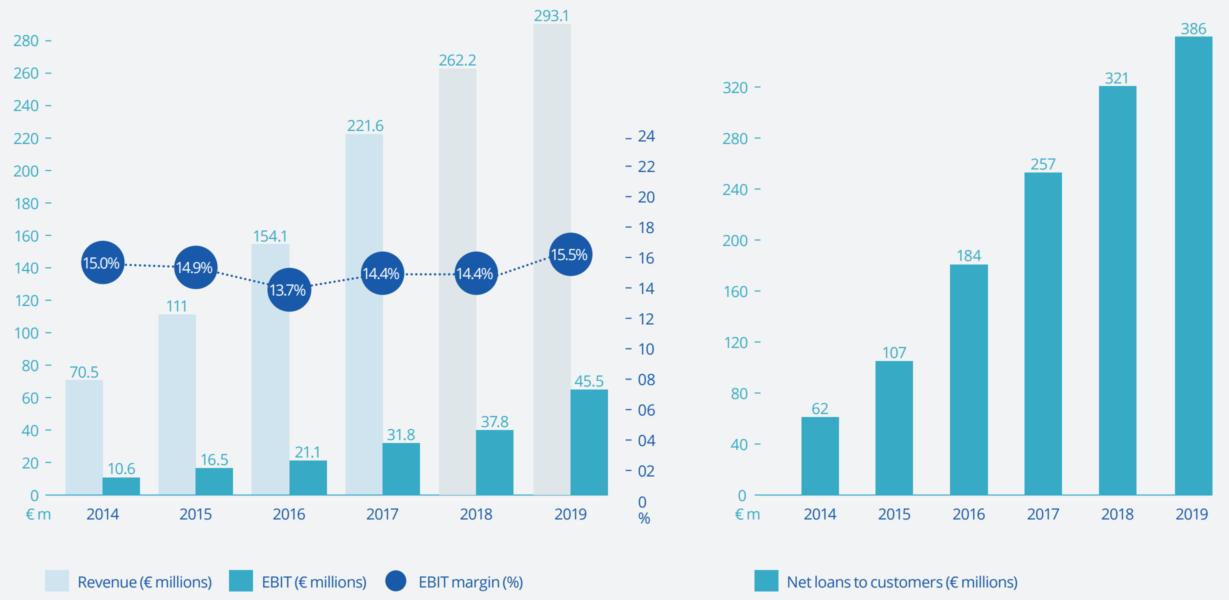
Gross book value of loan portfolio increased 18.8% to 555.9 million (31 December 2018: EUR 467.8 million)

Net book value of loan portfolio up 20.5% to EUR 386.2 million (31 December 2018: EUR 320.5 million)

Impairment-ratio (impairments divided by Group revenue) increased by 2.3% to 36.1%.

Customer deposits increased to EUR 242.2 million (31 December 2018: EUR 183.4 million)

## Growth in revenue and credit volume



# FINANCIAL COMMENTARY

# DIGITAL LENDING


## Consumer

From a consumer digital lending perspective, markets were under constant review in 2019. Consistent with previous years, Ferratum regularly evaluates its product offering, including the optimal loan amounts, pricing, risk assessment and approval processes, to ensure that everything fits smoothly together. These factors combined allow Ferratum to be able to offer a leading customer experience and to attract the right segments with the best products.

In terms of our marketing strategy, our focus throughout 2019 was on enhancing our performance channels on a country by country basis, while focusing on our overall brand awareness and sustainability agenda on a more global level. By delivering this greater focus on performance-based marketing throughout 2019 meant that we were able to decrease our marketing costs by approximately 6%, whilst also increasing our net sales by around 12% in comparison to 2018.

Furthermore, we also dedicated our energies towards the changing of our marketing organisational structure, from a local-central approach to a more clearly defined regional-central approach, to facilitate the increasing of our overall marketing efficiency.

Our Five-Cyclinder model, a management model implemented in 2018, was extended and incorporated into a new and enhanced Domain model in 2019. The Domain management model takes a similar approach to the previous Cylinder model but has now been extended to the rest of Ferratum's organisational units to ensure more optimised cross-functional alignment.

Throughout 2019, we created a more harmonised CRM (customer relationship management) model, based on automation and scalability and implemented it across all of our markets. Further marketing automation was also built based on real-time data and has been designed to test our evaluation infrastructure, supported by CRM Analytics.

Additionally, throughout the year, Ferratum began the preparing and designing of more intuitive, customer-friendly and country-specific websites, together with a new and improved lending application process for all operational countries.

Our marketing efforts in 2019 also led us to implement a global Suburu WRX sponsorship deal, allowing us to contribute to the launch of the world's first electric WRX car, in an effort to drive that area of motorsport in a more sustainable direction in the future.

Finally, 2019 was a year where we were also dedicated to the task of building new and real-world applicable concepts for partnerships to be scaled with our Primeloans in 2020 and beyond.

In terms of our products, in 2019, Ferratum continued to reposition its business model, and one example of this was that the trend away from Microloans on our portfolio continued during the year. As a result, Microlans recorded a 11% net sales reduction from 2018. Due to legislative changes and the tightening of underwriting rules in, for example, Poland and the UK, Plusloans recorded no increase in overall growth in comparison to the previous year. Revenues of Credit Limit as a revolving loan, achieved a solid net sales growth increase of 20% in comparison to our 2018 results.

In 2019, our Primeloans recorded a 141% net sales increase from 2018. Our operational Primeloan countries are now Finland,Sweden and Germany, as well as Latvia; opened in 2019 and the first country in Eastern Europe. Regarding our Primeload product, we also set up bases in terms of product design and conceived of a more centralised structure to cover all functions, including sales, risk, collections and finance, for example, to enable the speeding up of our growth and the scaling up of our consumer lending business in 2020 and beyond.

Additionally, we increased our Primeloan underwriting capabilities with new hires, increased staffing levels and the implementation of new models designed specifically for higher loans, longer tenures and better quality. Finally, we spent 2019 preparing open API (application programming interfaces) channels to allow for the smoother connecting of brokers and partners.

### Reshape Organisation: The 5 Cylinder Model

**Lead generation,** being responsible for getting leads onto our web pages

**Conversion funnel,** being responsible for the leads being converted into applications

**Underwriting & collection,** ensuring that we approve the right customers and these paying us back

**CRM,** focusing on good customer retention

**Products & pricing,** ensuring the right features and terms for all our products to serve our customers and our business in the best possible way

## Business

Ferratum Business offers SMEs fast and convenient working capital loans of up to EUR 250,000 for periods of between 6-24 months. The average loan in 2019 was EUR 14,085 with an average maturity of 454 days. Ferratum Business generated revenues of EUR 27,8 million, representing 10% of total Group revenues for 2019, and growth in lending to SMEs represented an increase of 32,5% year-on-year. Currently (Q1, 2020), Ferratum Business operates in six countries: Finland, Sweden, Denmark, Lithuania, Netherlands and the UK.

Compared with more traditional banks, Ferratum Business loans offer a very attractive alternative in terms of user experience, speed and convenience. The application can be completed online in as little as five minutes and is comprised of basic questions about the person, their business and the intended use of the loan. Based on the information provided, our advanced algorithms, as well as our extensive automated external data checks, can allow us to immediately pre-approve the customer, or directly decline the loan.

Loan decisions are typically based on the cash flow of the company. On average, a loan can cover one month´s cash flow, and a company will need to have been operational for at least 6-12 months as a minimum prerequisite, and be generating annual revenues of at least EUR 50,000.

Additionally, for a loan decision to be agreed, the company management needs to be resident and have a bank account in the country of operation and loan application. A phone conversation with one of our sales agents may also be needed to further understand the business and the need for the loan. The application of highly sophisticated data search technology enables Ferratum to gather enormous volumes of relevant data points from publicly available sources, to help build the most comprehensive database of each applicant's financial circumstances and history.

With the full consent of the entrepreneur, we use this technology to upload and interpret financial data from multiple sources and utilise it for even more precise and informed underwriting and lending decisions. This also helps the entrepreneur verify to us that they have the appropriate financial strength to justify a working capital loan, thus confirming that the approved loan is truly tailored to the applicant's financial needs.

Once the application is submitted and a loan has been approved and accepted, the entrepreneur will usually have the money deposited on their account during the same business day, which is a major competitive advantage over other financing providers, including those termed 'traditional' banks. The loans are unsecured, however, and the entrepreneur has a personal liability on the loan and its repayment.

**Scott Donnelly**
Business Unit Director,
SME Lending

Partnerships continue to be a great opportunity to enhance the scalability potential for lending to SMEs at Ferratum, either via a commercial partner or by partnering with a technology provider, e.g. to further optimise Ferratum's ability to access and analyse a broader set of relevant data which, with the consent of the customer, Ferratum can utilise to create more informed underwriting and therefore risk-based lending to SMEs.

During 2019, we set up partnerships with new financial software suppliers, we implemented more comprehensive SME benchmarks, and we made more concrete steps to increase our revenue share of the group as a whole. Furthermore, on February 3, 2020, Niklas Ceresjo took up his position as Ferratum's Head of Partnerships, an entirely new role at the Group. Niklas was previously in charge of payments at a company that was established in 2015 and was recently sold for EUR 1.5 billion.

Ferratum's SME operations have been one of the largest in the Fintech SME market in recent years, but due to the status as a business unit inside the larger parent company, it has been overshadowed, and is perceived not to have achieved the brand recognition befitting the size of the operations. A possible carve-out and standalone rebranding would allow the SME lending business to engage in more effective PR and brand building that would in turn more effectively drive partnerships and customer acquisitions due to increased recognition as the leading pan-European SME fintech lender.

# BUILDING THE BANK OF THE FUTURE

**Antti Kumpulainen**
Deputy CEO, Ferratum Bank p.l.c.

## Evolution of Ferratum Bank

Ferratum Bank plc ("the Bank"), accepts deposits from retail customers, and is accordingly subject to tighter regulatory requirements that are designed, among other factors, to provide a very high level of protection for depositors.

Ferratum Bank plc is a wholly-owned subsidiary of Ferratum Oyj and a credit institution licensed by the Malta Financial Services Authority (MFSA), allowing Ferratum's products and services to be passported to EEA member states.

In 2019, Ferratum Bank expanded to incorporate Finland and Denmark as part of its operations. Banking operations in Slovakia were discontinued in 2019. Currently, full banking services are operational in 13 European markets. Of further note with regards to Finland and Denmark: as these are now incorporated as part of Ferratum Bank, they will be able to take advantage of both a better funding structure as well as more competitive funding, when implemented through the bank. Additionally, one further big milestone achieved in 2019 was the news that Primeloan lending in Latvia and Sweden was initiated, our third and fourth country along with Finland and Germany to operate in this prime lending field.

Further to the considerable efforts expended throughout 2019, the essence of Ferratum Bank is that it is a mobile bank with a completely redesigned-from-the-ground-up Mobile Wallet app, which utilises entirely new technology built from scratch and in which Ferratum is now building the bank around. To that end, fully digitalised banking services remain at the very core of Ferratum Bank, and this fundamental cornerstone of Ferratum's operations were both enhanced and consolidated throughout the chronological timeframe reflected in this report.

Furthermore, it should also be highlighted that the Bank is moving towards becoming a truly pan-European solution which is dedicated to providing the same banking experience no matter where our customers are. 'Mobile only' in banking literally means that all of our efforts are dedicated to delivering mobile only operations. To that end, Ferratum Bank is designed to be both flexible and fully online. This may be seen as the biggest difference to highlight if we are to consider what makes Ferratum Bank better than more 'traditional' banks. We own no physical 'bank' properties. You can, for example, be our customer while you're simultaneously watching Netflix at home.

Taken as a whole, and due to our energies expended throughout 2019, all European business should be under Ferratum Bank in the next couple of years and this includes not just lending products, but other services too. Our new Mobile Wallet app that we developed and optimised throughout 2019 will be in the centre of it. We will also provide other services through our proprietary Mobile Wallet ecosystem and will authorise access to other providers to offer their service through our Mobile Wallet app, too.


## Evolution of our mobile banking ecosystem

Time to challenge the 'challengers'

At Ferratum, we continue building new services for our customers that help us drive growth and a solid business model. During 2019, not only did we announce our new mid-term strategy, but we were also busy developing a strong foundation to support our mid-term growth, in the form of our new Mobile Wallet. In doing so, we have now begun a journey, both for ourselves and for our customers, to innovate better financial services within the mobile ecosystem that reduce the financial stress of our customers and also do more than just banking.

The year 2019 has been extremely rewarding for us, as we have been rigourously testing our new service and Mobile Wallet app in Latvia and Finland, combined with countless customer surveys and pilot tests, in order to make it the best financial mobile app for our customers yet available. Not only have we integrated the mobile app into our lending business, but we have introduced and will continue to introduce services that will help our customers with their daily banking activities to enable them to do even better with their finances.

As we now stand in Q1, 2020, we are still at the dawn of these new financial services that heavily rely on AI and best financial practices to help our customers to get their best "bang for the buck" and to make wise financial decisions on spending, loans and investments for them. That said, we want to combine our long experience of lending with our comprehensive moves into digital banking to deliver a service where the whole is something far greater than the sum of its parts. To achieve that ambition, we have three very clear pillars that our service is built on:

- Reducing our customer's financial stress. All people have various pain points when it comes to their finances. It could be a temporary need for liquidity, a confusion with regards to how a certain amount of money should be spent, or even just a worry that an amount of money isn't really 'working for you' to a satisfactory degree. Whatever our cutomer's stress factor is, we want to try to solve it for them.

- Involving our customers in our service development. Since we want to help our customers with their real financial issues, it makes logical sense to involve our customers in our efforts. It is our hope that they will not only contribute to the evaluation of existing features, but that our customers will also help us to prioritise our roadmap, and together with us plan our journey towards fulfilling our vision of "more than money to everyone".

- Sustainable practices. We acknowledge that we do not live in a bubble, and it is our genuine intent to make a positive impact in the world. The way we can do this is by adopting sustainable practices, both in our financial services, but also in the way we conduct our business on a larger scale. Moving forwards, we want to give our customer's world-class financial services that also enable and empower them to make a positive impact on the world around them.

In the Mobile Wallet team, we are working towards these three things and we want to welcome our customers on this journey with us. Through the Ferratum Lab, selected customers during Q1, 2020 have already gained access to the beta version of our new app, and we are approaching them regularly via Ferratum Lab for their feedback, as well as engaging in detailed dialogue with them regarding what works, what doesn't, and what is still missing from the app to make sure it becomes our customers primary go-to financial application.

Ari Tiukkanen
Chief Operations Officer

## IT and Operations Update

From an information technology (IT) and Group operations perspective, the strategic focus for Ferratum during 2019 was threefold. Firstly, efforts were made throughout the year to improve the Groups overall infrastructure and system monitoring. To meet these strategic ambitions, the work carried out was designed to improve overall system reliability and to increase the uptime to 99.5%.

Secondly, energy was spent on facilitating a transformation throughout the Group from a project-based approach to IT and Operations, to a more autonomous agile-based approach. The implementation of this transformation across the year was designed to enable faster innovation cycles and the consequent bringing of new products and services to the market more rapidly.

Finally, focus was also given to enhancing Ferratum's process automation, to enable greater cost-efficiency across the Group and a more accelerated time to market for the designated products and services with the embedded process automation capabilities in place.

The net result of the overall IT infrastructure enhancements during 2019 saw a 25% reduction in the number of incidents requiring operational and maintenance tasks to be carried out. With improved monitoring in place, an increase in quality was also noted, due to our more optimised automated testing approach.

The primary advances with regards to Ferratum's IT platform during 2019 focused on continuing to enhance the cloud native infrastructure development. Work carried out throughout the year lead to an overall cost reduction, greater speed throughout the platform and more developed risk management processes. The continuous enhancements also created positive improvements in overall performance, reliability and security. Furthermore, full monitoring of the IT platform was established. For our customers, the primary benefits related to our work done on the IT platform during 2019 include noted improvements to reliability due to the new 24/7 monitoring now in place, as well as greater speed and overall performance improvements due to our new 'Infrastructure as Code' approach.

Concerning Ferratum's proprietary operating system, FerraOS, the focus in terms of overall ecosystem development was most notable in three areas. Firstly, FerraOS ecosystem advances concentrated on the new Mobile Wallet app development, a mobile platform where we are able to combine deposit products, lending products, cards and a payment landscape together 'under one roof'. The Mobile Wallet is currently being piloted in Latvia with further roll-out is expected to begin in Q2 2020.

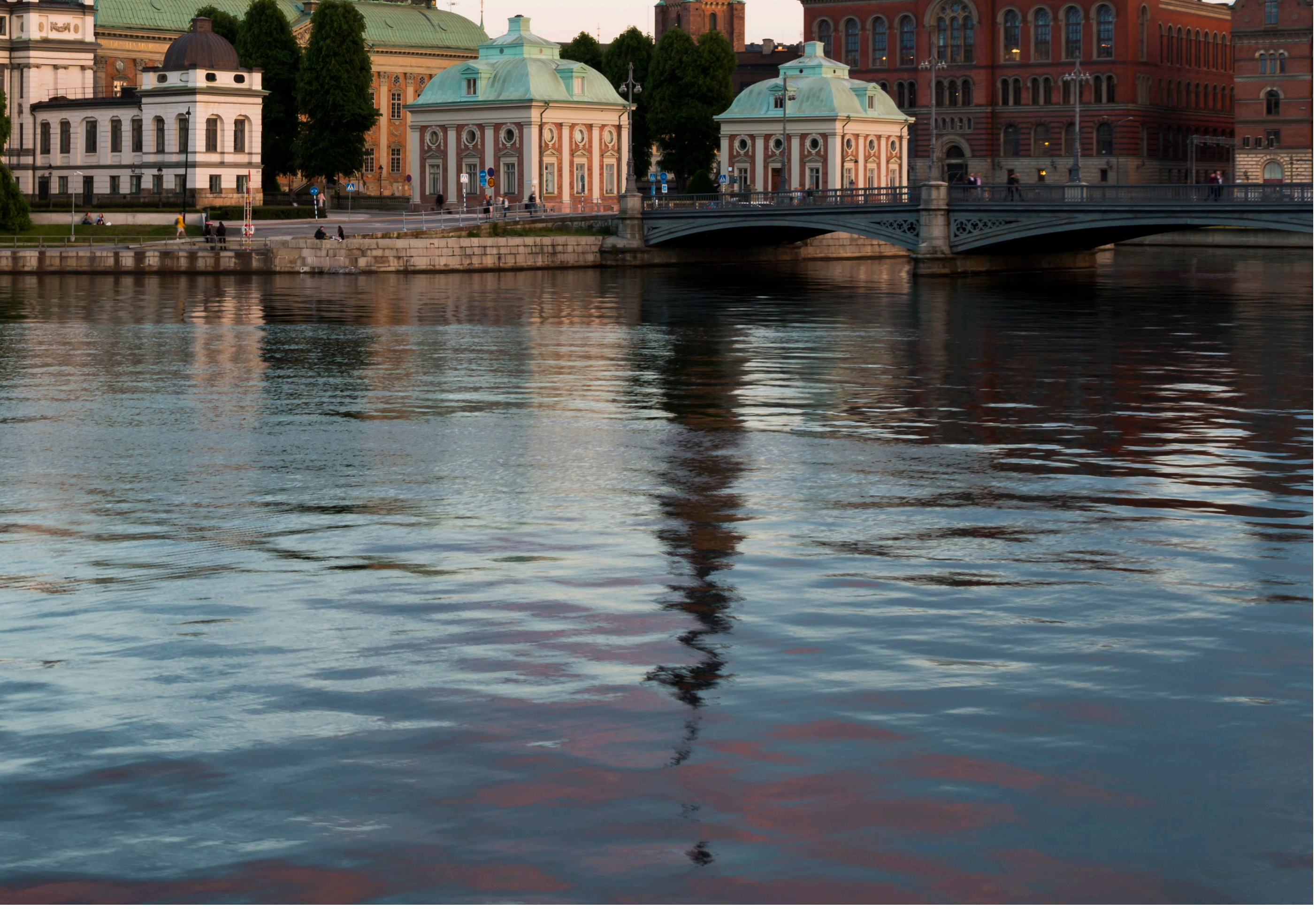
Secondly, our ecosystem development focus throughout 2019 was also dedicated to enhancing open API partner connectivity. Finally, our payment ecosystem was further developed and optimised, with SEPA (Single Euro Payments Area), SEPA Instant, as well as new Payment Service Providers implemented.

Throughout 2019, considerable energies were also dedicated to enhancing Ferratum's approach to customer privacy, as well as Group-wide data security and digital encryption. To that end, six primary objectives can be highlighted;

I. Ferratum's infrastructure is protected by industry-grade firewall services and intrusion detection services to both detect and identify any potential intruders and incoming attack attempts.
II. Our servers are monitored by our internal security team and periodically audited by reputable security providers to ensure that any identified risks are immediately dealt with.
III. External penetration testing on our production infrastructure and systems are carried out by the internal security team and by external accredited independent service providers.
IV. Ferratum has implemented an advanced information classification system to enable information owners to label information and ensure that the right level of controls are implemented to protect the confidentiality and integrity of such information.
V. All of our systems that access client data are also adequately protected using end-point security controls, for example, anti-virus, malware and firewall.
VI. Communication between client devices and Ferratum's services are encrypted using secure SSL/TLS connections. In addition, external access and/or integration to Ferratum infrastructure is carried out via secure channels.

Artificial intelligence (AI) enhancements were also implemented throughout elements of the ecosystem during 2019. The use of AI has been mainly used mainly for score card development. At the end of 2019, we started using chatbot development for customer service platform purposes. The two first chatbot pilot countries, Canada and Bulgaria, will be live by the end of Q1 2020.

Finally, from an IT and operations perspective, four projects worked on in 2019 will be implemented in 2020. These are; the new Partner API (Application Program Information), an information sharing procedure; PSD2, the second EU-wide Payment Services Directive; Ferratum's new Mobile Wallet app and; a new collection tool, with the first pilot taking place in December 2019.



## CREDIT RISK

Credit risk is generally defined as the volatility of a financial loss resulting from a borrower's failure to repay a loan or meet their contractual obligations. Therefore, Ferratum effectively runs the risk of not recovering any contractual amounts due from its customers, including the principal amount and any interest receivable and processing fees therefrom. Defaults by borrowers result in the absorption of such losses by the Bank, thereby eroding its earnings position. Although it's challenging to know exactly which individuals or businesses will default on their obligations, properly assessing and managing credit risk can lessen the severity of a loss. Interest payments from the borrower or issuer of a debt obligation are a lender's or investor's reward for assuming credit risk.

Ferratum considers credit risk to be a critical compenent within its Risk Governance and Risk Management Framework, since it is the biggest driver of risk in its operating structure. The effective management of credit risk is crucial to the long-term success of it's strategies and as a result, Ferratum employs many techniques in order to manage its exposure to credit risk. These techniques are designed to ascertain the inherent credit risk for each customer and are highly influenced by the applicant's personal or business circumstances, and their credit rating. In fact, all loans to customers are granted on the basis of the outcome of the scoring model, depending on the loan type, and the rules embedded within the credit policy. Each lending transaction and the related agreement are determined on the strength of an individual credit score decision.

In 2019, Ferratum recorded an 81% rejection rate (or conversely, recorded a 19% acceptance rate) with regards to the granting of new loans and thus accepting the credit risk derived from this acceptance rate. This 81% rejection rate suggests that our structure is well-designed, and customers have to fulfill very strict criteria to receive a loan; where basically based on the credit score registered, customers are grouped into risk classes where the respective risk class determines the maximum credit amount allowable for each customer. The scoring model and linked scorecards are monitored by the Risk management function. These are applied in all jurisdictions in which the Group operates, with specific adaptations at country level taking cognisance of the different characteristics of each market; with the adaptations being centrally approved. The scorecards are reviewed on an ongoing basis by the management team and updated according to market trends, political circumstances in the particular jurisdiction, as well as legislative and socio-economic changes. This structure proves that throughout Ferratum, 'risk' remains high on the agenda and during 2019, while the money lent out increased considerably, the credit losses across our portfolio remained stable throughout the year.

Strategically, Ferratum is on a transition from very short-term lending towards mid-term consumer lending - i.e. moving away from Microloans to longer-term lending, like with our Primeloan product. This goes hand in hand with decreasing interest rates for longer-term loans and higher loans amounts. This reduces the risk bearing capacity of the new products and thus requires a reduced credit risk appetite. Risk appetite is defined by how much risk Ferratum is willing to accept in order to have a healthy business, and is governed by policies, processes, limits, controls and systems put in place by the Group in order to communicate and monitor how much risk Ferratum is willing to take on. Choosing to have less risk means being more selective in terms of who we provide a loan to, and in doing so, calibrating our scoring and underwriting accordingly.

Furthermore, our scoring mechanisms for Primeloans was changed. For very short-term lending - as with Mircoloans with 30 days average term - other criteria will be more relevant than for Primeloans which have an average term that usually exceeds four years. For Primeloans, the utilisation of external databases like credit bureaus was changed and also the information directly obtained from customers. Based on this, a new generation of score cards have been developed, with other variables considered and recalibrated weightings added for all variables. Applied policy rules have been tightened and affordability rules emphasised. Now, we have the full spectrum of outside databases at our disposal, as well as our own proprietary scoring models for prime lending including emphasised checks on the applicant's affordability, household expenses and income, amongst other variables.

Looking at credit risk in general, what can be said is that there has been a trend across recent years of decreasing interest rates for successful loan applicants.

In terms of internal risk-management operations, in 2019, as part of the Bank's ICAAP, we implemented a number of internal stress scenarios, whereby amongst the numerous stresses carried out, we internally performed credit risk stress scenarios to assess whether our equity was strong enough to absorb these potential stress-related scenarios. Likewise, we also carried out an internal stress test focusing on liquidity as part of the Bank's ILAAP process, where through this assessment the

Bank identifies the right balance between maintaining sufficient liquidity to honour all financial liabilities in a timely manner, including under stress, and ensuring value to shareholders.

Also, our risk provisioning model based on IFRS 9 includes forward looking Macro-economic parameters using three different scenarios and building credit loss provisions as a likelihood weighted average of these three different scenarios. These three possible scenarios are considered to capture non-linearity across credit portfolios. The 'base line' scenario represents the most-likely outcome. It is based on authoritative sources forecasting economic variables referred to above and providing the best estimate view on various economies. Apart from the 'base line' scenario, two other macro-economic scenarios – Upside and Downside scenarios are considered, which respectively represent a more optimistic and a more pessimistic outcome. Such scenarios reflect the current top and emergent risks and opportunities. The more optimistic and more pessimistic scenarios are economically plausible and will not necessarily be as severe as scenarios used in stress testing.

Furthermore, when it comes to credit risk, we also have comprehensive and clearly defined KPIs (Key Performance Indicators) in place that allow us to further understand trends and volatility, as well as provide alerts so we may take risk-reducing actions if required. In addition, we have fraud management reporting measures in place, that allow us to both identify and protect ourselves from potential fraud scenarios. The next step is to now introduce our fraud management tool on our forthcoming Mobile Wallet app platform.

Throughout the entire risk ecosystem, we work closely with country managers in terms of day-to-day business, assessing the introduction of new products and services, as well taking actions in terms of whether we can increase (or decrease) our approval rate. We also strive to take immediate action in order to reduce risk if a specific country is receiving credit losses beyond our acceptable parameters.

Finally, advances in technology continue to reduce the overall risks associated with providing loans to individuals and businesses. As a general rule, now that we have cutting-edge digital software and artifical intelligence systems in place, the decision-making processes at the beginning of the lending process for consumer and business lending are largely automated. During 2019, between 2-5% of the decision-making was done manually (also for learning purposes), and in certain fields, we do manual checks as a matter of course. In business lending, this software / human hybrid model is appreciated. Entrepreneurs generally have different needs and in consumer lending, the more we can automate, the quicker we can make decisions regarding the accepting or rejecting of a loan applicant. Throughout the entire risk ecosystem, as well as throughout our product evolution, stringent rules, comprensive failsafe systems and risk mitigation procedures are built in.

With regards to the collections, Ferratums focus is on amicable collections. Ferratum has a formal debt collection structure outlining the manner in which the Group deals with past due loans and advances. This structure is supported by procedures for use within the operations in the respective territories with formal documented adaptations for the respective territories. The procedures highlight the prescribed actions, channels and mechanisms utilised to follow up on outstanding exposures, indicating the precise point in time at which the respective actions are taken and allocating roles and responsibilities in this respect. These procedures also focus on the extent to which collection activities are carried out by the Group and the stage or phase at which external collection companies are utilised.

Ferratum also enters into sale arrangements with third parties for the transfer of outstanding balances in respect of certain credit products granted in specific territories once such balances reach pre-established trigger points in terms of days past due. Such transfers take place at pre-established levels of consideration. These arrangements constitute an intrinsic part of the Group's management of past due and non-performing assets.

# PARTNERSHIPS

Our passion for lending is where we come from; it is our core competency, it remains one of the fundamental cornerstones of our operations, and it is where we continue to see the greatest long-term growth potential. Over the past 15 years we have become leading experts leveraging two core capabilities: utilising big data analytics to understand risk; and making informed credit decisions, without the need for physical meetings, checks and paperwork. These skillsets help to deliver a sustainable competitive advantage over the 'traditional' banking model, as we can both serve and know our customers remotely, rather than requiring physical engagement and interaction. This is fundamental for realising a truly customer-centric, rather than bank-centric, business model. Our ambition is clear, we want to become the world´s leading mobile service provider in money matters. Our mission is to become the "most valued financial platform".

The scope to grow the size of our addressable markets, and our ability to successfully penetrate those markets, is enhanced and accelerated by collaborating with partners who possess complementary technology, services and can provide immediate access to captive customer audiences that Ferratum otherwise would need time and investments to access alone.

Currently, we have three types of partnerships: Growth, Transformational and Service partnerships. Growth partnerships are operational partnerships with leading companies, allowing Ferratum to accelerate its business while generating new income streams for the partner. Transformational partnerships fundamentally change the way we approach lending, for instance by introducing payroll lending, whereby the consumer asks for a loan and we set it up with the payroll or pension provider. Finally, Service partnerships bring additional offers to our customer base, such as insurance products from leading global insurance providers.

We operate in developing markets outside Europe – markets that have strong growth, large populations and are relatively unbanked. In these developing markets, we identify and partner with companies that have access to such captive audiences.

To that end, throughout 2019, we further implemented the concept of Lending-as-a-Service ("LaaS"), a process whereby we invite global brands and complementary technology partners to join us to pursue commercial opportunities together.

At Ferratum, the first commercial example of LaaS was launched in September 2017, when we partnered with Interswitch Limited to offer our Microloan product in Nigeria. Based in Lagos, Interswitch builds and manages transactional infrastructure and provides secure electronic payment solutions. Partnering with Interswitch has provided us with a platform to offer accessible credit in Nigeria for individuals traditionally underserved by mainstream finance, and we continued to strengthen our development in Nigeria with Interswitch throughout 2019.

Ferratum successfully entered the consumer lending business in Bangladesh in 2019 in partnership with the Srijony Foundation, a leading socio-economic development organisation with a 35-year track record in social and economic development. Towards the end of the year, Srijony and Ferratum joined forces with Grameenphone, a leading local telecom operator, to create a bridge between the world of the digital network and the rural population of the country.

A large portion of the population in Bangladesh, and particularly women, have been deprived of the benefits of being part of the digital world, and the educational, business and financial opportunities that this digital inclusion can foster. Since November 2019, a program has been underway to educate people about the benefits of owning smartphones. Through this program, Srijony and Ferratum offers affordable financing to purchase smartphones, while Grameenphone offers free 20GB Internet access for six months following the subscription of a bundled offer.

The Srijony partnership in Bangladesh has allowed Ferratum to enter the market successfully and get a license that would otherwise have been difficult to obtain. Furthermore, the partnerships have already produced tangible benefits for our customers by providing financing packages that contribute to digital inclusion for the many women throughout the country and by allowing customers to get better deals on data packages. Our technology solutions have additionally streamlined our partner’s lending process by reducing the processing time for new loans from three days to around three hours.

On a larger scale, Ferratum is pleased to observe that our efforts have produced tangible and positive results in terms of economic growth in the rural areas of the country. Instalment loans and the financing of female entrepreneurs in particular has increased, and an increasing number of people have become technologically enabled via the financing and use of next-level smartphones.

The successfully implemention of our partnerships strategy in Bangladesh in 2019 will continue to produce results in 2020, and the partnership model will be used as a blueprint for future market entries into other developing markets, particularly in the Asia region.

**Lea Liigus**
Head of Legal and Compliance

## Legal and Regulatory Environment

Throughout 2019, the Group's Legal and Compliance function was strengthened further in order to ensure that adequate resources were in place to support the Group's business, safeguard its interests and also, from a compliance perspective, continue to assist its management in effectively handling the various entities' compliance risk. This follows closely on, and is a continuation of, the strategy adopted by Ferratum during the preceding years. Further resources were allocated to the compliance team during 2019 in order to make it more robust and effective, and thus place it in a better position to manage any challenges in 2020 and beyond. The transposition of the 5th Anti-Money Laundering Directive in the European Union, for instance, will result in changes to the legal framework in the relevant countries.

This investment in resources was not only driven by increased regulatory and supervisory expectations across the countries in which the Group is active, but also by the Group's own internal drive to strengthen its internal control function and promote a solid compliance culture across the Group and its subsidiaries. During 2020, the Compliance Function is planning to intensify thematic reviews, compliance monitoring, assessment and advice on risk, supplemented by constant training throughout the year.

Among the legal changes that impacted the Group, one notable example includes those triggered by the revised Payment Services Directive (PSD2), which applies to banks and payment service providers within the European Economic Area (EEA). While the PSD2 came into effect on 13 January 2018, additional measures needed to be implemented 18 months after the adoption of the regulatory technical standards developed by the European Banking Authority (EBA) and approved by the European Commission. Ferratum Bank plc, one of the subsidiaries within the Group, successfully managed the implementation of such measures during 2019, with the goal of making payments safer for customers, increasing consumer protection, and fostering innovation and competition through open banking. Ferratum Bank has been granted with the contingency mechanism under PSD2, which recognises its APIs (Application Programming Interface) are in compliance with the RTS (Regulatory Technical Standards) issued by the EBA and the PSD2.

The Group continues to proactively comply with the regulatory changes in the countries in which it provides services without, as much as possible, negatively affecting its customers' expectations and experience. In the course of 2019, Ferratum has actively managed a number of changes in the following countries:

## Adapting and responding to regulatory change

Ferratum proactively complies with legal and regulatory changes in its countries of operation and throughout the years has consistently evolved its activities and services without undermining its customers' experience.

**Ferratum has actively monitored and dedicated resources in anticipation of the following country-specific legal changes:**

### Finland

A number of amendments to the Consumer Protection Act entered into force in September 2019 with regards to the maximum interest rates that may be charged to consumers, as well as caps on costs of the credit. Ferratum Bank, which provides the relevant services in Finland, is fully compliant with legal requirements.

### Latvia

New laws regulating creditworthiness assessments and caps on credits came into force in Latvia in January 2019 and July 2019 respectively. Further restrictions on the marketing of lending products also came into force in 2019. Ferratum Bank, as the Group entity providing services in this jurisdiction, has aligned its products fully with the new requirements.

### Norway

A new law came into force on the 15th May 2019 regarding consumer loans regulating creditworthiness and its assessment. The laws regulate, among other matters, the debt to income ratio, stress tests to be undertaken prior to providing credit, as well as limits on time within which loans must be repaid. Furthermore, since July 2019, lenders have an obligation to report on loans to authorised registers. Ferratum's products are fully aligned with the requirements.

The Group continues to closely monitor other country-specific legal developments which are expected to come into force during 2020, and which include the following:

### New Zealand

Amendments to the consumer credit regulations should come into effect on 1st June 2020 and 1st September 2020 respectively, with their main impact being the imposition of a cap on the applicable interest rate, limitations to default fees and changes to creditworthiness assessment procedures. Ferratum does not foresee a material impact of these legal changes to its business activities and work is underway to ensure compliance with these requirements.

### Netherlands

A new regulation entered into force on 1st January 2020, establishing restrictions to the implementation of the E-commerce Directive in relation to financial services.

Ferratum´s products are fully compliant with the applicable legal requirements.

### Denmark

The Danish Parliament has enacted a law regulating caps on the total costs of unsecured consumer credit, as well as the marketing thereof. The law is projected to be in force by July 2020, and Ferratum Bank is closely monitoring any updates on the publication of the respective Bill.

### Sweden

Ferratum is closely monitoring the developments on the proposal issued by the Consumer Agency regarding the revision to KOVS 2011;11 on general advice relating to rules on good credit practice, which mainly focus on marketing, information to customers, credit checks and credit mediation.

Finally, Ferratum took all necessary steps throughout the course of 2019 to successfully navigate the various challenges brought about by Brexit, as well as the persistent uncertainty created by the political situation in the UK. This was carefully managed in order to reduce the impact on the Group entities, both internal and external to the UK, as well as safeguarding the interests of the Group's consumers.

**Ferratum is planning the implementation of the required changes to its processes in order to meet these new requirements.**

Ferratum Bank p.l.c. ("the Bank"), one of the subsidiaries within the Group, accepts deposits from retail customers, and is accordingly subject to tighter regulatory requirements that are designed, among others, to provide a very high level of protection for depositors.

The EU's General Data Protection Regulation ("GDPR") entered into force in May 2018, providing a modernized, accountability-based compliance framework for data protection in Europe. The Ferratum Group set up a cross-function data governance team long before the date of entry into force of the GDPR in order to facilitate the implementation of the relevant processes and procedures within the organization.

During 2018 the Data Protection Officer's function was also established within Ferratum, and this has facilitated compliance through various means, including internal reviews, compliance monitoring, the provision of information and advice, as well as ongoing training.

In the course of 2019 the resources available to the Legal and Compliance function, particularly within the anti-financial crime team, will be proactively increased further, whilst concurrently it will be streamlining its activities in order to make its work more efficient and cost-effective.

Finally, all required support is being provided to the Group in monitoring developments arising from Brexit so as not to affect our UK business, while preparing for contingency plans that factor in the persistent uncertainty that this situation has created to entities and institutions, both within and outside of the UK. As Ferratum Group holds a lending licence in the UK, we do not foresee any major challenges in case of a hard Brexit.

**The Group will continue to monitor the global regulatory environment, in close co-operation with its local advisors, in every country in which it is active to ensure the Group's ongoing compliance with all applicable laws and regulations.**

# CORPORATE RESPONSIBILITY AT FERRATUM

As a Fintech that operates and develops a big data-based global financial platform for real-time scoring, lending and banking services, Ferratum´s corporate strategy and business model is intended to have a positive impact on people's financial lives, globally. The availability of credit provides customers with more options to realise their economic plans and SMEs with unique opportunities to develop and expand their business. Ferratum's Mobile Bank offers customers the ability to manage their finances easily and swiftly through a comprehensive range of banking services, including facilitating savings. We want to empower people to master their finances and relieve financial stress, particularly through the use of our mobile application.

Notably, the Group's focus has shifted away from microloans that have received some public criticism due to their perceived high-interest rates, towards more high-end prime lending with higher value loans and longer terms. Ferratum welcomed the capping of interest rates in Finland in 2019 and complied with the legislation immediately. The Fintech remains committed to understanding how all our operations, activities and products can make a positive impact on society and the environment and we remain open to adapting our business to respond to increasing stakeholder demands for responsible business conduct.

Ferratum´s corporate responsibility (CR) credentials are defined by five core values, updated in 2019, and material topics. These values and material topics shape the Group´s CR activities across all markets and frame the company's reporting and communications.

## What are Ferratum's Values?

**Customer centricity**
our customers are at the heart of what we do, why we exist, whom we first serve, and serving them is why we have a right to be in the market. In everything we do, we want to create solutions that are made thinking as if we were looking at them through the customers' eyes and are striving to give them the best possible customer experience

**Entrepreneurial Spirit**
we embrace the entrepreneurial spirit that has guided us since the beginning and that our employees cherish so much with us. We are curious to learn new things, innovative in finding solutions, we move fast, stay agile, have low hierarchies, avoid unnecessary bureaucracy and think about spending money as if it was coming out of our pocket

**Candour**
we communicate openly, transparently and honestly with each other and all our stakeholders, and do so with respect. We make no excuses and are straight forward in what we do and say. We are realistic with our planning and speak up when we see issues or risks

**Respect**
it is about how we feel about others and how we treat them. We respect our customers, internal and external ones, our colleagues, our partners, our investors, all our other stakeholders evenly in all our actions and communications. This respect is also shown by taking accountability for our actions in a wider social context, taking care of mother nature's limited resources and set up our business in a sustainable manner

**Winning teams**
we can only achieve the highest outcomes by working together in winning teams. In these teams, we support each other, stand up for each other and can make mistakes without being judged, but we also together learn from them. We have each other's back and like a family across teams we stick together, fight together and when we achieve our goals, we celebrate together

## Stakeholder engagement is at the heart of our value creation

Creating value for our stakeholders has been our guiding principle since Ferratum was founded in 2005, but the value that we create is itself the product of involving a wide range of stakeholders.

While customers, employees and investors are at the core of our day-to-day business, Ferratum´s broader stakeholders include partners, regulatory officials and media commentators, who collectively shape the range, quality, and appeal of solutions for our customers.

A two-way process of engagement reinforces our commitment to transparency and openness in our dealings with all of our stakeholders.

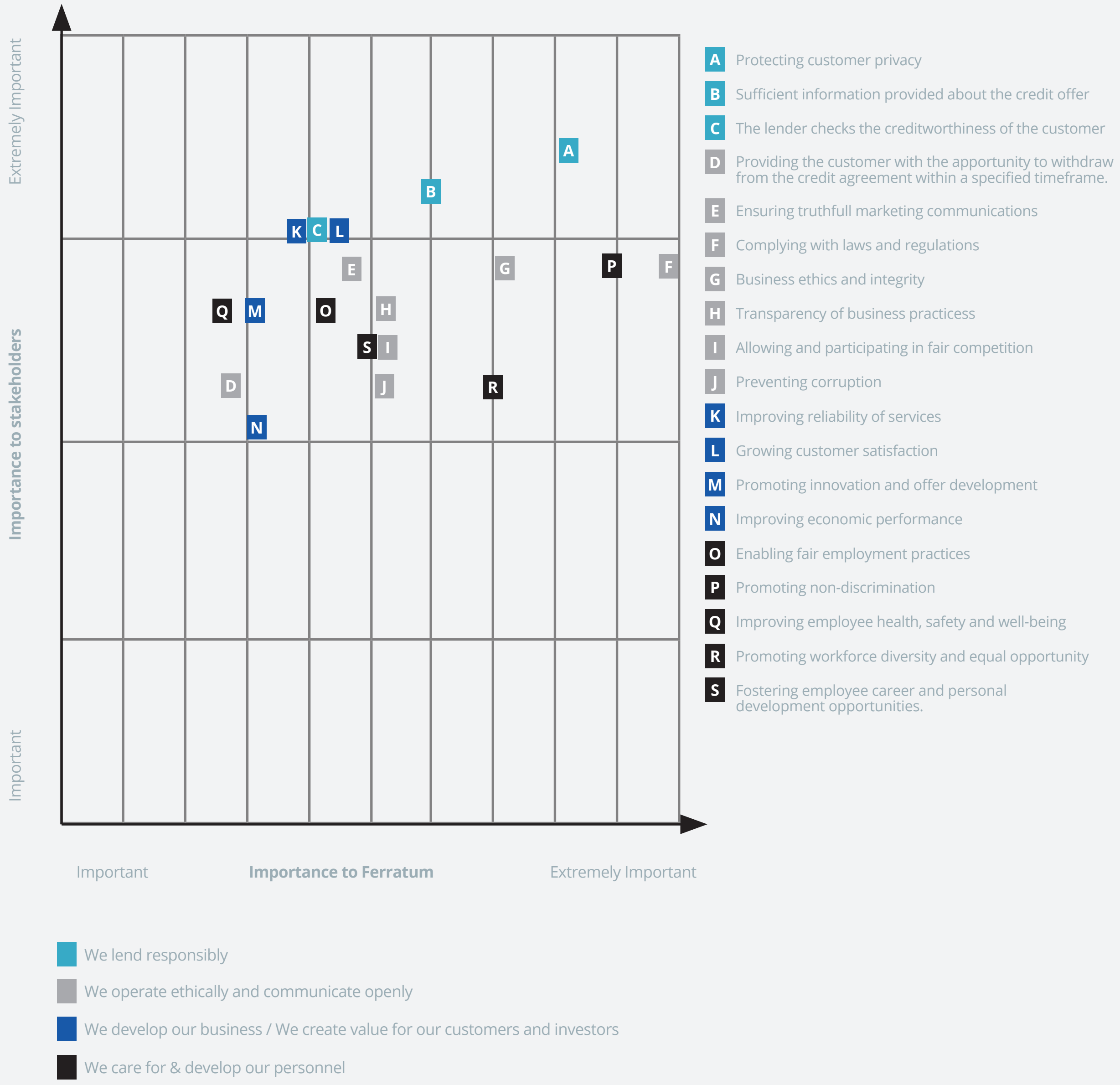
| Stakeholder group | Expectations | How we respond to their expectations | Engagement channels |
|---|---|---|---|
| **Customers** | • Offering trustworthy and transparent lending services<br>• Fast, hassle-free, paperless, real-time lending processes resulting in good customer experience<br>• Fair assessment of ability to repay<br>• Protecting customer privacy<br>• Accessible customer service | • Provide customers with transparent, flexible, automated, secure and trustworthy lending services and systems<br>• Fully online, real time services<br>• Fair assessment of credit worthiness<br>• Complying with all data protection regulations<br>• Professional customer support 24/7 | • Customer support (phone, chat, email)<br>• Websites<br>• Social media<br>• Marketing channels<br>• Newsletters |
| **Employees** | • Trustworthy, secure and transparent working environment<br>• Opportunities for professional development<br>• Dynamic,ambitious and exciting company with appropriate incentivisation<br>• Ensuring employee health, safety and well-being<br>• Equal opportunities | • Open and inclusive communication globally<br>• Formal training and development programmes<br>• Competitive remuneration and incentivisation packages<br>• Flexible working arrangements<br>• Internal opportunities to grow and develop internationally (location agnostic)<br>• Team building culture and activities<br>• Healthy catering<br>• Equal opportunities policies, promoting diversity | • Team meetings, internal communications and quarterly meetings, led by management in-person and online<br>• Internal channels (Internal communications page, newsletters and Yammer)<br>• Informal office gatherings led by Group leaders<br>• Whistleblowing channel |
| **Investors** | • Offering trustworthy, consistent and transparent IR communications<br>• Clear understanding of the investment case<br>• Complying with laws and regulations | • Active and transparent IR communications<br>• Appropriate,informative and insightful reporting and presenting<br>• Easily accessible and responsive IR<br>• Ensuring all regulations and laws related to IR communications are complied with | • Regulatory reporting<br>• Website<br>• Stock Exchange releases<br>• Conferences<br>• Roadshows<br>• 1-to-1 meetings<br>• IR Newsletter |
| **Partners** | • Active collaboration and transparent communication<br>• Reliability of delivery<br>• Commercial opportunities | • Dedicated team to handle partnerships and designated contact people<br>• Value-added, innovative thinking | • Events & conferences<br>• Media<br>• Website<br>• Meetings (in person or virtual)<br>• Email & phone<br>• Secondments |
| **Regulatory officials** | • Complying with laws and regulations | • Complying with laws and regulations | • Regulatory reporting<br>• Stock Exchange releases<br>• Website<br>• Dialogue with regulator and stock exchanges |
| **Media** | • Transparent, professional communications<br>• Good reactiveness and responsiveness<br>• Access to management | • Professional and timely responses to enquiries<br>• Actively informing about relevant developments<br>• Personal interview opportunities and access to management | • Press releases and briefings<br>• Website<br>• Email / Phone<br>• Personal meetings<br>• Regulatory reporting |

## CR priorities based on materiality analysis

Our materiality analysis was carried out in 2017 via an online survey with our internal and external stakeholders to find out what topics we should focus on in terms of Corporate Responsibility. The survey was strengthened with additional interviews conducted with employees, investors, partners and customers.

In 2018, the materiality matrix was updated to better reflect our significant external impacts on the economy, the environment, and society – not only those impacts that have immediate consequences from the business perspective. The responsibility materiality matrix displays the importance of the topics to stakeholders and management respectively.

### Ferratum's responsibility materiality matrix



**Kristjan Kajakas**
Business Unit Director,
Revolving Loans

## Our material topics

The key topics identified from the materiality analysis have been categorized as:

- Responsible lending
- Employee well-being and development
- Ethical business practices and transparent communications
- Value for customers and investors

Together with our four core values, these four topics drive drive our Corporate Responsibility CR activities.

## Responsible lending

At Ferratum, responsible lending is not a principle or a responsibility that is allocated to a specific role or department but is viewed within the organisation as a collective responsibility throughout all levels of the organisation. We are committed to ensuring that our marketing practices and lending decisions are clear, consistent and transparent. Our priority is to protect our customers' data and privacy, ensuring that sufficient and relevant information is provided to them when they access any of our lending products.

We have built our responsible lending on three pillars:

- Transparent offer - Our customers must understand key terms and conditions, our customer communication must be clear and transparent, and our legal documentation should be understandable for our customers to help them make informed decisions
- Ensure affordability - Providing affordable loans to customers that are suitable for the purpose for which the loan is obtained
- Support customers - Sometimes life situations change, and our customers may unexpectedly find themselves having difficulties in paying back a loan according to the original agreement. If this happens, we work actively together with our customers to find a solution that serves all partiest

## Guidelines to ensure reasonable loans

In 2019, responsible lending was a specific area of interest for many regulators and lawmakers. New legislation in Finland that capped the effective interest rate of unsecured loans at 20% came into effect on September 1, 2019.  Since then, we have received an increased volume of applications, as we are now able to provide a more attractive, and more competitive offer to customers. As further guidelines are being created and new legislative precedents are set, we are constantly reviewing and improving our responsible lending measures, including stricter approaches regarding the verification of data and the scoring of customers.

Ferratum has a number of procedures and processes in place which are designed to reduce the risks that ill-suited loans are granted to individuals, households or businesses. The processes and procedures vary from country to country, as well as the specific product on offer, but include a range of controls such as independent credit-worthiness checks on public and private databases and credit-bureaus, monthly loan repayments vs household or personal income, as well as checks on any other financial commitments and insolvency proceedings affecting loan applicants.

Furthermore, we apply a number of rules to our lending activities in different jurisdictions, the adherence to which is monitored on a regular basis, and can include, for example, prohibitions on granting more than one loan to the same customer at the same time, disclosing to borrowers the potential implications of short-term borrowing and the long term use of such borrowing, and a one day 'cooling off' period before granting of a new loan after that a previous loan has been paid in full.

Each year, we make considerable improvements in the area of responsible lending: including implementing new data sources for income and expense verification as well as new repeated lending principles. We continue to improve our sophisticated loan scoring system particularly relevant for prime loans-that accesses internal and publicly available data and combined with our self-learning algorithms, assesses customer affordability and product suitability. This technology is at the heart of our decision-making process and ensures we are providing only the most suitable products to our customers. In 2019, Ferratum only accepted 19% of all new loan applications, a testimony to our strict criteria and efforts to ensure we only provide loans to those who can meet their contractual obligations.

At Ferratum, we support a zero-tolerance approach concerning money laundering and terrorist financing, and Anti Money Laundering laws, regulations and rules are welcomed and incorporated in all operational countries. Also, no fines or sanctions were obtained in 2019 for any non-compliances with laws or regulations in the area of lending.

## Employee development

Ferratum is an international, multicultural, and multilingual organisation, employing 834 people across 26 offices in Europe, North America, South America, Africa and the Asia-Pacific region, with key operational offices in Finland, Malta, Slovakia and Germany and 36 different nationalities. The Group HR team consists of nine employees working in Estonia, Germany, Malta and Slovakia and they are managed by the Head of Human Resources.

The Group believes in inspiring and developing its people and is committed to creating an environment where all colleagues feel respected and have the opportunity to deliver their best. As part of this approach, we would like to establish ourselves as the employer of choice within the industry, and one that can attract and nurture new talent from the banking sector.

Ferratum also actively encourages and promotes people within the organisation to grow and develop into new positions in the Group.

## Guidelines for HR

Ferratum has several people-related policies in place to support the management and development of our people. We have policies, procedures and guidelines on recruitment, changes in the organisation, training and development, security, and a Code of Business Conduct (in Ferratum Bank). Employee handbooks have been developed to guide corporate communication, equality and actions against bullying. All employee policies and guides are introduced via info-letters and are also available at a later date through our internal communications page. The year 2019 was important in that we streamlined several HR processes to make them more straightforward and closer to business. Most importantly – we implemented our learning environment to support the growth of all our people.

Our HR practices are available to everybody, regardless of their location, and we use modern cloud-based HR systems that support access from anywhere, at any time. Also, in 2019, we delivered an equal male / female ratio in terms of our new employment hires.

## Employee engagement

In 2019, Ferratum conducted its second group-wide employee satisfaction survey, resulting in an 88% participation rate. The best overall results were received for the quality of work-life balance, the satisfaction with colleagues and closest managers, and the acknowledging and committing to Group values.

The results will be used in HR´s and our leaders current and future work and as a source of information in day-to-day decision-making.

## Taking care of employees' well-being

At Ferratum, we acknowledge the shift in modern working habits and is committed to helping its people achieve a better work-life balance and a healthier lifestyle. Safety is also a high priority and in 2019, no work-related injuries were recorded. The Group currently runs several initiatives to support the well-being and professional development of its people. These include:

- Offering the option of flexible hours or working remotely
- Supporting physical health and social well-being, offering discounts to gyms and sports clubs and hosting a range of social events
- Providing occupational healthcare, such as private health insurance or subsidizing healthcare expenses
- Occupying modern offices in most locations (and including tea-coffee, snacks and fruits)

Compulsory and voluntary training is also organised across all country offices on health and safety issues.

Ferratum incentivises its employees in all levels of the organization. Different incentive programmes are available throughout the organisation, including stock options and bonus schemes.

## Developing employees and leadership

The continuous professional development of individuals is strongly encouraged, through:

A. Continuously increasing attention to employee development via advanced learning opportunities – a modern learning platform and content available to all employees, including:

I. Formal training and development programmes via seminars, classroom training and online courses

II. On-the-job learning and more informal teaching

III. Offering challenging tasks and projects

IV. Mentoring and line management

B. Providing development opportunities equally to all employees

C. Internal job availabilities introduced and made available to all

D. Onboarding program to new hires irrespective of location

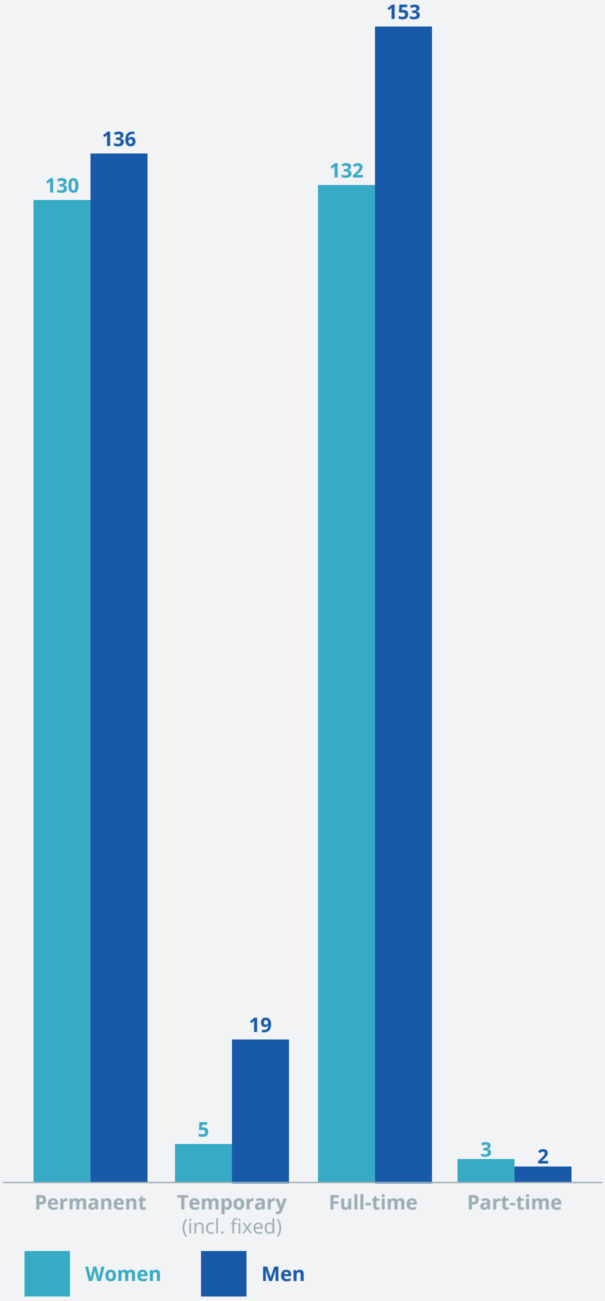
Besides, regular team meetings, internal communications and quarterly meetings in-person, as well as online, were held by the management personnel in 2019 to foster an open and inclusive working culture. Formal professional development reviews of employee performance were conducted for all staff.

In 2019, we continued our leadership training for line managers and team leaders, focusing on improving project and team management skills, data protection and excellence in internal employee-related processes

## Employee well-being and development, graphs

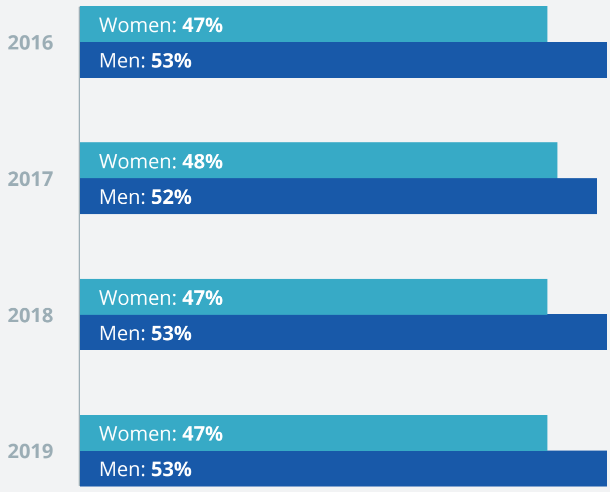
**Graph 1**

New hires in 2019 by employment contract type



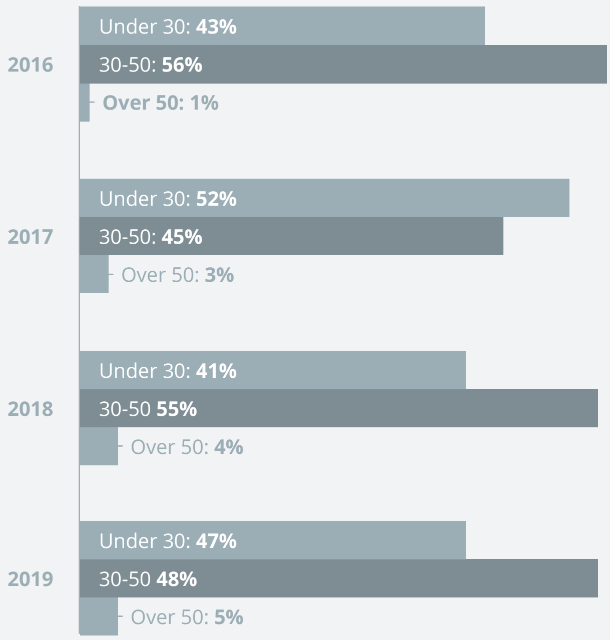

**Graph 2**

New employee hires by gender




**Graph 3**

New employee hires by age-groups



## 2019 development plans

Ferratum is continuing to improve its human resources function, continuously reviewing policies and procedures in place to better reflect the modern working environment. In 2019, the key focus areas will be enhancing the Group-wide recruitment process and enhancing our talent management processes and systems. Actions will also be continued to support employee growth and development.

## Ethical business practices and transparent communications

We believe clear and transparent communication is the foundation of building long-term, trusted relationships with customers, employees and investors. Complying with laws and regulations is the minimum standard for us. Conducting business in a fair and ethical manner, operating with integrity and proactively participating fairly in competitive markets is what we do every day.

In 2019, there were no recorded incidents of non-compliance with regulations and/or voluntary codes concerning product and service information and labelling. However, there were a few non-material incidents of non-complete adherence with guidelines from authorities in e.g. related marketing or display of incorrect annual percentage rate (APR) amount. All of these incidents were rectified immediately.

In November 2019, in the UK, we had a data breach incident involving a very limited number of customers. We acted upon this immediately (within 72 hours after having become aware of it), to mitigate its potential impact and decided to report this incident as a data breach to the Information Commissioner´s Office (ICO, data protection authority in the UK). We were in contact with the ICO and customers and can confirm that there was no actual harm to data subjects. The ICO has given general recommendations on how to prevent similar incidents from happening and confirmed that no further action by them was felt necessary on this occasion. This incident was the first time in the history of Ferratum that a report of a data breach was recorded, and we investigated and assessed this incident thoroughly. Since the incident, we have incorporated the learnings and precautions from this incident to further strengthen our data protection defences.

At Ferratum, we have marketing guidelines in place that are reviewed periodically to ensure that they remain appropriate. Though there are several country-specific requirements, the internal guidelines focus on matters of general application, such as the obligation not to advertise any of our services in a misleading, false or deceptive manner, and the importance of clearly detailing all relevant information to consumers, such as updated interest rate and fee information. Following the more stringent legal requirements regarding responsible lending practices, we updated our marketing guidelines in 2019 with additional requirements, which are part of our processes to support responsible lending.

In 2019, Ferratum established the Ferratum Foundation, to help develop the Group's corporate responsibility (CR) work and to find appropriate ways to give back and support relevant causes. Thus far, this steering committee, comprised of various people representing the different business areas of the Group, has met twice to kick off the work and align on the overall direction of the Foundation.

**Grievances**

At Ferratum, we have in place processes and procedures to handle, within the shortest possible timeframes, complaints or other grievances communicated by our customers. Officers are specially assigned to handle complaints, facilitate a smooth flow of communication with the complainant and, more importantly, ensure that any necessary internal action is taken to address the complaint in a satisfactory and expedient manner. Although the exact processes vary from country to country and depend on the specific services provided, where internal mechanisms for the handling of complaints fail to reach the desired outcome, complainants are either referred to the possibility to pursue their complaint further with the designated authority, or through alternative dispute resolution mechanisms.

We have also developed a formal process for complaints and whistleblowing, to ensure management is made aware quickly and effectively of any relevant issues. No incidents of acting against laws and regulations or company policies were reported through our internal whistleblowing channel in 2019. In addition, there were no cases of corruption or legal actions for anti-competitive behaviour, anti-trust or monopoly practices recorded throughout the Group.

All employees also have the opportunity to submit feedback or ideas through the internal communications page of the Group and can choose to do so anonymously. We are currently building a Group-level Code of Conduct, estimated to be implemented in 2020.

In addition to responsible lending practices, our ethical business practices include considering the environment in our actions. Our banking is largely paperless, and our online banking services have a significantly lower negative impact on the environment than main street banks do. Ferratum takes positive green action such as promoting video and phone conferencing instead of travel, encouraging paperless work and using recyclable office supplies, where possible. Office managers are also encouraged to implement energy-saving measures. The company also invests in a number of initiatives that deliver social and environmental benefits. This investment is a mixture of cash, time volunteered and in-kind contributions.

We are cognisant of the fact that our own direct impact on the environment is quite contained, taking into account the level of energy and water consumption, services offered, and waste generated.  Hence, it is difficult to conceive how our business model impacts environmental matters and therefore to devise specific policies with non-financial key performance indicators to monitor progress in this area.

## Value for customers and investors

Financial responsibility and responsibly conducting our business is the cornerstone and prerequisite for social and environmental responsibility. At Ferratum, we have delivered over 15 years of profitable growth and a variety of operations, offering a diversity of products to customers with different needs across our current 23 countries of operation. We have reached sustainable profit since our formation in 2005, and we remain committed to maintaining our solid performance and returns for investors. Despite the strategically intended decrease in pricing and returns on the portfolio, we have increased profits year-on-year and expect to do so in the future.

Investors and customers alike benefit from our vision to be the most valued financial platform. While we have always strived to offer our customers the fastest, easiest and most convenient loans, now we bring this vision beyond lending into the whole financial field.

## Smooth and safe services for customers

At Ferratum, we have developed a diverse range of products and services to suit the financial needs of consumers and businesses and to solve their daily problems quickly, digitally and at a reasonable price. We make sure that the customers' needs are met through 24/7 customer service and online surveys that are sent after each service contact. In 2019, customer satisfaction levels improved significantly. Special thanks were especially received for reachability and the friendliness of the representatives. However, work still needs to be done on solving the customer's needs in one session.

Effective IT platforms and trustworthy service go hand in hand. We conduct defect surveillance and monitor our servers constantly. In 2019, the customer experience was improved by changing the release process and setting up two new server monitors for real-time monitoring.

With our new Mobile Wallet and aim of solving our customers' real financial issues, we are involving our customers in our efforts, so they contribute to the evaluation of existing features, and also help us prioritise our roadmap and together with us plan our journey towards fulfilling our vision of "More than money to everyone". Select customers have access to the beta version of our new app and are approached regularly via the Ferratum Lab for their feedback to make it the go-to global financial application.

## EUR 11.5 million invested in research and development

According to our values, innovation means encouraging new ideas, supporting trial and error, and focusing on scalable solutions to ensure continued competitiveness.

Innovations are rolled out in each country of operation and business area every year. EUR 11.5 million was invested in research and development work (4.5% of revenues) in 2019. However, new ideas are rolled out with caution and by keeping quality in mind.

Financial value created in 2019

EUR 32 million in salaries and EUR 11.8 million in other benefits, EUR 3.1 million in taxes, EUR 1.3 million in interest paid on customer deposits, EUR 3.9 million paid as dividends to shareholders, EUR 15.6 million in financing costs.

In 2020, we are looking forward to continuing the improvement of speed and reliability of our services by increasing automatization and by taking into use a new IT platform that will have an impact on all of our services. We also looking into payment network consolidation and AI development. Development plans for 2019

In 2019, Ferratum is looking forward to continuing the improvement of speed and reliability of its services by increasing automatisation by taking into use a new IT platform that will affect all Ferratum's services. Ferratum is also looking into payment network consolidation and AI development.

## Next steps for Corporate Responsibility

The newly established Ferratum Foundation plans to step up its work in 2020 and take actions to better understand how Ferratum's customers view sustainability. The Foundation is also considering the possibility to match customers' donations to support various sustainability initiatives.

The upcoming Mobile Wallet app is also being carefully looked at as we consider sustainability in all of our operations and look at ways to reduce our carbon footprint. The Mobile Wallet will, for example, not issue bank cards unless the customer requests this and even then, will only issue biodegradable cards that have half the carbon footprint of regular plastic cards. In addition to continuing the paperless policy of the entire Ferratum Group, innovative ways to include the carbon footprint of purchases made via the mobile app will be studied. Energy-saving measures and recycling will also be stepped up in all Ferratum offices.

There will be more emphasis on the use of big data and open banking possibilities, and the Group will continue strengthening its creditworthiness assessment processes to achieve the most optimal outcome. Ferratum will conduct a compliance overview of marketing activities and add further resources to continue to ensure marketing compliance.

Moving forwards, we want to give our customers world-class financial services that also enable and empower them to make a positive impact in the world around them.

## GRI Index

Ferratum does not yet report in accordance with GRI Core-standard thus please note that the following statements do not cover all GRI requirements.

| GRI Standard | | On page | Additional Information |
|---|---|---|---|
| **Organizational profile** | | | |
| 102-1 | Name of the organization | Cover page | |
| 102-2 | Activities, brands, products, and services | p.6, 18-20, 14-25 | |
| 102-3 | Location of headquarters | p.67 | |
| 102-4 | Location of operations | p.6, 70 | |
| 102-5 | Ownership and legal form | p. 59-61 | |
| 102-6 | Markets served | p.6 | |
| 102-7 | Scale of the organization | p. 5-6, p. 12, 37, 48, 56 | |
| 102-8 | Information on employees and other workers | p. 37-38 | |
| 102-9 | Supply chain | Not reported | Due to the business Ferratum is working in this has not been recocnized as a material issue. |
| 102-10 | Significant changes to the organization and its supply chain | p.19-25 | |
| 102-11 | Precautionary Principle or approach | GRI Index | Due to the business Ferratum is working in, this hasn´t been recocnized as a material |
| 102-12 | External initiatives | p. 27-28 | None. |
| 102-13 | Membership of associations | GRI Index | Ferratum is included in country specific assosications. |
| **Strategy** | | | |
| 102-14 | Statement from senior decision-maker | p. 9-11 | |
| 102-15 | Key impacts, risks, and opportunities | | |
| **Ethics and integrity** | | | |
| 102-16 | Values, principles, standards, and norms of behavior | p. 10 & 33 | |
| 102-17 | Mechanisms for advice and concerns about ethics | | |
| **Governance structure** | | | |
| 102-18 | Governance structure | www.ferratumgroup.com/en/about-us/corporate-governance/corporate-governance-statement | |
| **Stakeholder engagement** | | | |
| 102-40 | List of stakeholder groups | p. 33-34 | |
| 102-42 | Identifying and selecting stakeholders | p. 33-34 | |
| 102-43 | Approach to stakeholder engagement | p. 33-34 | |
| 102-44 | Key topics and concerns raised | p. 33-34 | |

| GRI Standard | | On page | Additional Information |
|---|---|---|---|
| **Reporting practice** | | | |
| 102-47 | List of material topics | p. 35-36 | |
| 102-48 | Restatements of information | p. 9-11, 15-25, 124 | |
| 102-49 | Changes in reporting | p. 35-36, | |
| 102-50 | Reporting period | p. 136 | |
| 102-51 | Date of most recent report | GRI Index | https://www.ferratumgroup.com/investors/results-reports-and-publications/2019 |
| 102-52 | Reporting cycle | p. 136 | |
| 102-53 | Contact point for questions regarding the report | p. 136 | |
| 102-54 | Claims of reporting in accordance with the GRI Standards | GRI Index | This is Ferratum´s second GRI-based report. Ferratum aims to move to reporting according to GRI Standards: Core option in the near future. This report does not currently meet the requirements of GRI's Core option. |
| 102-55 | GRI content Index | p. 44-45 | |
| 102-56 | External assurance | p.120-131 | Audited and unaudited sections marked in the footer of the Financial Review. |
| **GRI 103: Management approach** | | | |
| 103-1 | Explanation of the material topic and its Boundary | p. 35-36 | |
| 103-2 | The management approach and its components | p. 36-42 | |
| **ECONOMIC STANDARDS** | | | |
| **GRI 201: Economic performance** | | | |
| 201-1 | Direct economic value generated and distributed | p. 41 | |
| **GRI 205: Anti-corruption** | | | |
| 205-2 | Communication and training about anti-corruption policies and procedures | p. 134-135 | |
| 205-3 | Confirmed incidents of corruption and actions taken | p. 134 | No incidents of corruption or bribery or other suspected violation of financial markets reported at Ferratum Group in 2019. |
| **ENVIRONMENTAL STANDARDS** | | | |
| **GRI 307: Environmental compliance** | | | |
| 307-1 | Non-compliance with environmental laws and regulations | GRI Index | No fines of sanctions for non-compliance with environmental laws |
| **SOCIAL STANDARDS** | | | |
| **GRI 401: Employment** | | | |
| 401-1 | New employee hires and employee turnover | GRI Index | Employee turnover was 40%. |
| 401-2 | Benefits provided to full-time employees that are not provided to temporary or part-time employees | GRI Index | Employee benefits vary from country to country, depending on national legislation. In the European countries we typically do not provide differentiated benefits to employees on the basis of their contract type. Certain differences in benefits may exist in relation to the length of employment. |

| GRI Standard | | On page | Additional Information |
|---|---|---|---|
| **GRI 404: Training and education** | | | |
| 404-1 | Average hours of training per year per employee | GRI Index | 13h per year |
| 404-3 | Percentage of employees receiving regular performance and career development reviews | GRI Index | Almost 100% |
| **GRI 405: Diversity and equal opportunity** | | | |
| 405-1 | Diversity of governance bodies and employees | p. 38, www.ferratumgroup.com/en/about-us/corporate-governance/corporate-governance-statement | |
| **GRI 406: Non-discrimination** | | | |
| 406-1 | Incidents of discrimination and corrective actions taken | GRI Index | No cases of discrimination reported in 2019. |
| **GRI 417: Marketing and labeling** | | | |
| 417-3 | Incidents of non-compliance concerning marketing communications | GRI Index | In 2019 there were a few non-material incidents of non-complete adherence with guidelines from authorities in e.g. related marketing or display of incorrect annual percentage rate (APR) amount. All of these incidents were rectified immediately. |
| **GRI 418: Customer privacy** | | | |
| 418-1 | Substantiated complaints concerning breaches of customer privacy and losses of customer data | GRI Index | In November 2019, in the UK, we had a data breach incident involving a very limited number of customers. We acted upon this immediately. No complaints in 2017 or 2018. |
| **GRI 419: Socioeconomic compliance** | | | |
| 419-1 | Non-compliance with laws and regulations in the social and economic area | GRI Index | There were no material sanctions for non-compliance with laws and/or regulations in the area of lending in 2019. |

# BOARD OF DIRECTOR'S REPORT 2019 UNAUDITED

## Company structure and business model

Ferratum Oyj and its subsidiaries, form the Ferratum Group ("Ferratum" or the "Group"), which is a leading international provider of mobile and digital financial services for consumers and small businesses. We have built our online financial ecosystem for, and with our customers during our 15 years of operations. Our financial ecosystem is designed to transcend the hassle of physical banking and financial transactions and transform it 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.

Ferratums offerings are distributed online and via its mobile channels and currently have an annual reach in excess of 24 million visits. In addition, Ferratum offers mobile banking solutions to consumers in selected markets, as well as white label and partner solutions to enterprises.

Ferratum, headquartered in Helsinki, Finland, was established in 2005 and serves more than 740,000 active customers (as of 31 December 2019) and has expanded its operations to 23 countries across Europe, North America, South America, Africa and the Asia-Pacific region.

Ferratum Bank p.l.c., is a wholly owned subsidiary of Ferratum Oyj. The bank is licensed by the Malta Financial Services Authority (MFSA) allowing Ferratum to passport financial services and products to all European Economic Area (EEA) member states. At the end of 2019, the license has been passported for consumer lending services to 13 countries.

Over the past 15 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 products. 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 centralising 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.

The Group offers a comprehensive product portfolio to both retail and business customers. The offering includes consumer credits in amounts varying between EUR 25 and EUR 20,000 and instalment loans for small businesses up to EUR 250,000 with a term of 6 to 24 months.

Ferratum's vision is to innovate and to operate a proprietary global digital financial platform, enabling the Group not only to distribute financial services directly to consumers and businesses, but leveraging the technology to partners with "plug-and-play" and "Banking-as-a-Service" concepts.

On the path to becoming the "Most valued Financial Platform", Ferratum has developed its own proprietary core mobile banking platform, the Mobile Wallet. As a first step, the Mobile Wallet will be rolled-out throughout Europe beginning in 2020 and Ferratum will position the Mobile Wallet into the centre of its customer communications.

Ferratum Group is listed on the Prime Standard of Frankfurt Stock Exchange under the symbol 'FRU'.

## Financial highlights

| Financial highlights, EUR '000 | Jan - Dec 2019 | Jan - Dec 2018 |
|---|---|---|
| Revenue | 293,104 | 262,148 |
| Operating profit | 45,532 | 37,799 |
| Profit before tax | 27,543 | 22,333 |
| Net cash flows from operating activities before movements in loan portfolio and deposits received | 132,627 | 122,010 |
| Net cash flow from operating activities | 20,070 | (40,363) |
| Net cash flow from investing activities | (4,852) | (16,802) |
| Net cash flow from financing activities | 27,990 | 44,003 |
| Net increase in cash and cash equivalents | 43,208 | (13,162) |
| Profit before tax % | 9.4 | 8.5 |

| Financial highlights, EUR '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| Loan and advances to customers | 386,167 | 320,538 |
| Deposits from customers | 242,161 | 183,405 |
| Cash and cash equivalents | 155,518 | 115,559 |
| Total assets | 618,827 | 500,192 |
| Non-current liabilities | 174,236 | 138,276 |
| Current liabilities | 315,453 | 254,536 |
| Total equity | 129,138 | 107,380 |
| Equity ratio % | 20.9 | 21.5 |
| Net debt to equity ratio | 2.59 | 2.58 |

**Calculation of key financial ratios**

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

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

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

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

## Group strategy

Ferratum's strategy is built on five main pillars: the Group's core mission statement and principles, operation of a central proprietary software platform (especially for risk management and scoring), a multi-dimension growth strategy, the three-horizon approach and the implementation of an optimised financial structure which should lead to an asset lighter business model.

Since the foundation of Ferratum, the overall mission statement has been to deliver financial services that are fast, easy and fully digital for everyone, and available anytime and everywhere.

Interactions between Ferratum and its customers are fully digital and without disruptions. Customers apply via their mobile device for a loan, Ferratum checks the risk profile in real-time or near real-time, over its proprietary central platform including its data and risk analytical tools and sends the approval or the rejection back to the customer's mobile device.

Ferratum's fast and easy approach enables the customer to apply for a loan without providing the typical set of data required by traditional banks. The loan application can be made by anyone within minutes, the approval is provided within seconds and the money is transferred to the customer within the same day. Based on the digital approach, the customer can apply for the loan from anywhere or at anytime they prefer.

The heart and core of Ferratum's strategy is its platform-similar approach. The group operates a central (algorithm based) software platform to manage loan applications, real-time scoring and risk management, loan approval and payment flow, to name the most important functions. Furthermore, the group makes more than six million credit checks annually. This allows the platform to learn from consumer behaviour and to optimise the procedures.

The growth strategy is based on several dimensions: international expansion, product innovation and new services.

International expansion: the Group has expanded its businesses to 23 countries and intends to enter further markets mid-term.

Product innovation: in consumer lending, Ferratum has developed a series of products for a broad range of financial needs.

New services: Ferratum has started three new services or business lines to empower future growth; business lending, the Mobile Wallet for banking services and so-called 'financial inclusion solutions' in emerging countries.

The mission statement, the central platform concept and the multi-dimension growth strategy, are connected together in Ferratum's three 'Horizon' approach.

**Horizon I:**

Transformation of Ferratum's lending business towards higher loan amounts with lower yields.

Roll-out of the Mobile Wallet and putting the Mobile Wallet into the centre of Ferratum's customer communications over time.

Establishing the Group's business lending start-up as a leading European loan provider for small businesses.

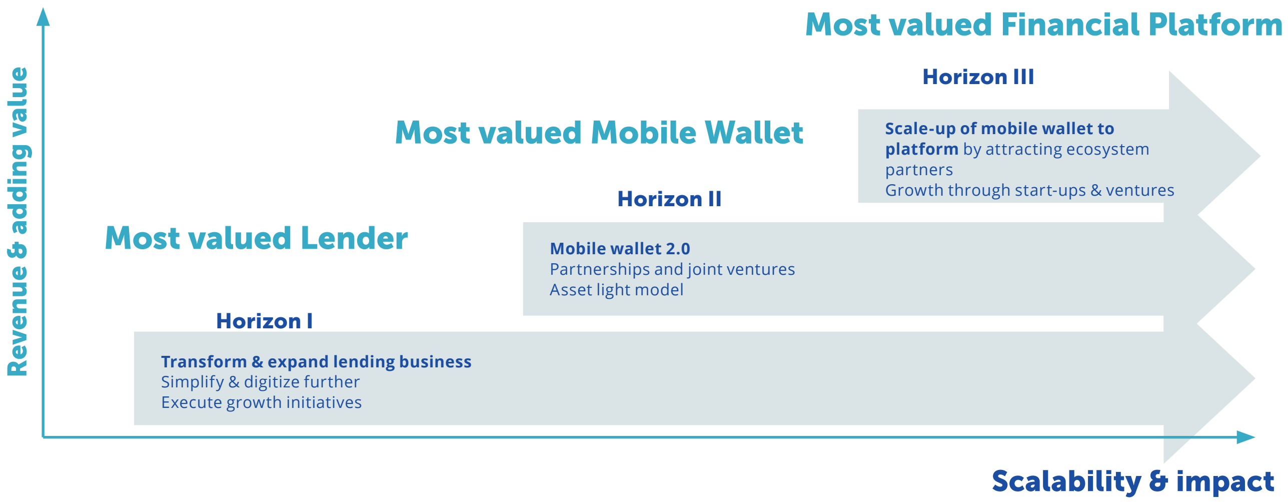
**Horizon II:**

Scaling the Mobile Wallet platform towards white label, partnership, "Banking-as-a-Service" and joint venture solutions.

**Horizon III:**

Transition from a global lender to a global financial platform

## We will achive our strategic ambitions in three stages




Ferratum is currently consolidating its position in Horizon I, and initial processes for Horizon II and III have begun to be been implemented and will be executed over time.

## Products and services

Ferratum provides 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 of 7 to 90 days; PlusLoan is a more flexible loan product, ranging between EUR 300 and EUR 5,000 and a duration between 2 months to 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, 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, and now provides loans of 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 EEA member states. 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, and wherever they go. The new generation of our Mobile Bank, the Mobile Wallet, is currently being piloted in Latvia and Finland. It is an enhanced and broadened version of the original Mobile Bank, bringing customers greater 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.

## Consumer Lending

**Microloan**
Loan amount 25 - 1,000
Duration 7 - 90 days
Bullet loan
Average loan size 223€
Average term 29 days

**PlusLoan**
Loan amount 300 - 5,000
Duration 2 - 36 months
Multipart instalment
Average loan size 828€
Average term 391 days

**PrimeLoan**
Loan amount 3,000 - 20,000
Term 1 - 10 years
Multipart instalment
Average loan size 6642€
Average term: 5.3 years

**CreditLimit**
Loan amount, up to 4,000
Open ended
Digital revolving credit line
Average loan size 1331€
Average term: open ended

**Ferratum business**
SME loans
Loan amount up to 250,000
Duration 6 - 24 months
Multipart instalment
Average loan size 14085€
Average term 454 days

**Ferratum bank**
Deposits
Mobile Bank
Mobile Wallet (to be launched in 2020)

# KEY DEVELOPMENTS AND PROCESS IN 2019

## Continued revenue growth in 2019

Ferratum delivered continued growth in 2019 by expanding its product offering in its existing operational countries. The Group continues to shift its focus away from short-term products to longer-term loans. In 2019, the Group's revenue increased to EUR 293,1 million, an increase of 11.8% compared to the respective period of the previous year (2018: EUR 262,1 million), and was well in line with Ferratum's expectations for the year. The growth was mainly driven by the groups' flagship product Credit Limit and its relatively new strategic core product Business Lending (SME), which contributed to EUR 186,9 million in 2019 in comparison to EUR 153,3 million in 2018, an increase of 21.9% year-on-year.

Operating profit (EBIT) for the period increased significantly year-on-year by 20.5% to EUR 45,5 million (EBIT-margin: 15.5%) compared to EUR 37,8 million in 2018. The profit before tax (EBT) in 2019 increased by 23.3% to EUR 27,5 million (2018: EUR 22,3 million). The increased EBIT and EBT performance resulted from actions taken by the management to enhance cost discipline, achieve operative leverage, and improve marketing efficiency.

As communicated at the beginning of the financial year 2019, Ferratum's management attention has been on cost discipline to improve efficiency and operative margins. Given the management's focus, the Group is pleased to have been able to deliver continued growth for one of the important key performance indicators: gross and net value of loans to customers. The gross value of loans to customers grew by 18.8% to EUR 555,9 million and the net value with +20.5% to EUR 386,2million.

Deposits from customers continued to grow and reached EUR 242,2 million by the year end 2019, an increase of 32.0% compared 2018. The Group has issued new loans to customers in Finland under the banking licence since November 2019 and incorporated Denmark into the bank in December, enabling the group to further utilise deposit funding.

The net debt to equity ratio stood at 2.59 at the end of 2019, well within Groups' bond covenants of 3.5. Net receivables from customers grew by 20.5 % to EUR 386.2

million in 2019 from EUR 320.5 million in 2018, mainly driven by Ferratum's Credit Limit and SME products.

Successful cost discipline and operating leverage

Ferratum's management team successfully executed its focus on cost discipline in 2019. Total operating expenses before risk reserving stood at EUR 131,2 million in 2019 and was stable in comparison to 2018 (EUR 130,9 million). Selling and marketing expenses decreased year-on-year by 6.2% to EUR 38,8 million and represented 13.2% of group revenue (2018: 15.8%). Personnel expenses were stable year-on-year and stood at EUR 43,9 million and reflected 15.0% of Group revenue (2018: 16.7%). Lending expenses increased by 37.6% to EUR 17,8 million. The increase was driven by higher expenses for cash collection, banking and telecommunication expenses.

Impairments increased year-on-year by 19.4% to EUR 105,7 million and the impairment-ratio (impairments divided by Group revenue) increased by 2.3% to 36.1%. In Q1/19 the ratio stood at 39.2%, largely related to a strong loan volume growth in Ferratum's SME business and higher impairments on loans which had been distributed to consumer customers in 2018 in some selected markets during a marketing campaign. Over the course of the year, the quarterly ratios normalised and reduced compared to Q1/19 (Q2 2019: 35.4% Q3 2019: 34.0%, Q4 2019: 35.6%). Furthermore, impairments over net loans to customers have been stable at 27.4% demonstrating Ferratum's scoring discipline.

## EBIT guidance of > EUR 45 million reached

Operating profit (EBIT) for 2019 increased by 20.5% year-on-year to EUR 45,5 million. The EBIT margin stood at 15.5% which reflects an increase of 1.1PP compared to 2018. EBIT growth is related to a mix of the Group's revenue growth and operating leverage based on the strict cost discipline throughout 2019. Profit before income tax increased by +23.3% to EUR 27,5 million, taxes were EUR 3,9 million (tax-rate: 14.1%) and profit for the year grew by +22.7% to EUR 23,6 million, reflecting a profit margin of 8.1% (2018: 7.4%).

## Subsequent events after period end

Fitch Ratings affirmed, in March, the Long-Term Issuer Default Rating (IDR) of both Ferratum Oyj and the senior unsecured callable floating rate bond, issued by Ferratum Capital Germany GmbH (ISIN: SE0012453835), at 'BB-'. The Outlook on the Long-Term IDR is Stable.

Ferratum Bank p.l.c. (a wholly owned subsidiary of the Group and a credit institution licensed by the Malta Financial Services Authority (MFSA)) repaid an EUR 40 million 6.25% p.a. above 3 month EURIBOR (incl. floor at 0%) Senior unsecured bond due March 15 2020 (ISIN: FI4000232830).

## Operational development

Ferratum Business, the SME lending business unit of the Group, continued its rapid growth within Ferratum and is showing solid profitability after its four years of operation. In 2019, gross loans to customers grew year-on-year by 61.9% to EUR 96,1 million and net loans to customers with year-on-year 55.5% to EUR 75,7 million representing already 19.6% of Ferratum Group's total outstanding net loans to customers. In 2019, the business unit's revenue stood at EUR 27,8 million and increased by +32.6% compared to 2018 (EUR 21,0 million). The median SME customer has been in business for five years, generating annual revenues of EUR 190,000 and has three employees. In 2019, the average loan amount was EUR 13,000.

In line with the Group´s strategy of decreasing the revenue share and geographical presence of Microloans, the product was discontinued in Australia and the Czech Republic in 2019. Primeloans were introduced into two additional markets in 2019, Sweden and Latvia, bringing the overall amount of Primeloan countries to four.

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 optimise the overall yield and risk exposure, and the implementation plays an important role as the Groups' product evolution shifts towards longer terms and higher loan amounts (i.e Primeloans).

The new IT platform, the Ferratum Operating System (FerraOS), after a successful launch in New Zealand in October 2018, has been introduced to additioal countries. 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 upon, including its own and its partner´s offering. The Group plans to introduce the new platform to all countries of operation in the mid-term.

In June, the Group announced a partnership with with Srijony Foundation (Srijony) in Bangladesh to contribute to the country's digitalisation, technological transformation and financial inclusion in the lending sector. This partnership is the second of Ferratum's 'Lending Through Partnerships' strategy for growth outside of Europe. By providing the latest technology, an appropriate product and loan funding, we help Srijony to satisfy significant untapped consumer demand for micro loans in urban and rural areas. The partnership is being rolled-out gradually and conservatively, with an emphasis on gathering data and optimising the risk algorithms in the first phase. Srijony is an association with 900,000 active members across 400 branches with approximately 2,500 employees, covering 90% of the country. Ferratum will play a key role in digitalising Srijony's services through digital tools and processes to enable scalability, further growth and accessibility of finance to the people of Bangladesh.

As of the end of December 2019, Ferratum operated in 23 countries, with lending having been suspended in Russia, France and Slovakia, Bangladesh was added to the countries of operation in 2019.

## Treasury update

Ferratum maintained a strong cash position of EUR 155,5 million (31 December 2018: EUR 115,6 million) at the end of 2019. Ferratum continued to strengthen its funding base through the issue of a new bond. 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 2019. The additional funds will 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 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 million. 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 favour 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.

Ferratum now offers deposit products in five European countries: France, Germany, Norway, Spain and Sweden. As of 31 December 2019, total customer deposits had increased by 32% to EUR 242,2 million (31 December 2018: EUR 183,4 million). In addition to the strong cash position, the Group had unused credit lines amounting to EUR 22.5 million as of 31 December 2019.

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. The rating by Fitch was affirmed at BB- outlook stabl in March 2020.

The Board of Directors was authorized at the 2019 Annual General Meeting to issue a maximum of 3,258,194 shares, which corresponds approximately to 15% of the companys total amount of shares. The Board of Directors may issue either new shares or transfer existing shares held by the company. The authorisation also includes the right to issue special rights, in the meaning of Chapter 10 Section 1 of the Finnish Limited Liability Companies Act, which entitles the Company's new shares or the Company's own shares held by the Company against consideration. Shares that may be subscribed for by virtue of the special rights entitling to shares are included in the aforesaid maximum number of shares.

The authorisation entitles the Board to decide on a directed share issue and issue of special rights in deviation from the pre-emptive rights of shareholders subject to the requirements set out in the Finnish Limited Liability Companies Act. The Board can use the authorisation in one or several tranches, and it maybe used to all purposes decided by the Board of Directors, such as developing the Company's capital structure, financing or carrying out acquisitions or other arrangements, or as a part of the Company's incentive schemes. The authorisation is proposed to be in force until the next Annual General Meeting, however, no longer than until 30 June 2020.

## Customer base

| | Jan - Dec 2019 | Jan - Dec 2018 |
|---|---|---|
| Active customers* | 739 828 | 792,080 |

*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.

## Personnel

At year end 2019, Ferratum employed 834 people (800 Full Time Equivalents) compared to 880 people in 2018. The average number of employees in 2019 is equal to 860 (2018: 903). Payroll expenses amounted to EUR 43,9 million (2018: EUR 43,8 million).

As of August 2019, 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 Master of Business Administration, as well as a Master of Science in Finance. Klaus Schmidt joined the Group in April as interim Chief Marketing Officer, and as of October, has as planned handed over his responsibilities to long time Leadership Team member and Chief Commercial Officer, Saku Timonen.

Pieter van Groos, the former Chairman of the Board of the Group, was appointed as Ferratum Bank CEO (subject to MFSA approval) in April 2019. Pieter has stepped down from this position and the related approval process. The daily oversight and lead of operations of Ferratum Bank continue to be with Antti Kumpulainen, Ferratum Bank Deputy CEO, who is supported by the Chairman of the Bank Board, Charles Borg, until a new CEO will be appointed.

Marius Solescu, the former Head of Human Resources took over new responsibilities within the Group in December 2019 and now serves as Director of Partnerships - Financial Institutions. Marius stepped down from the Leadership Team in connection with the change in position.

Emmi Kyykkä, Head of Group Communications and Investor Relations left on maternity leave and stepped at the same time down from the Leadership Team, in February 2020.

## Significant investments

The primary use of funds at Ferratum is for the growth of the lending portfolio, which increased from EUR 320,5 million to EUR 386,2 million, an increase of EUR 65,6 million. Furthermore, Ferratum has continued to invest in its IT platform and infrastructure with intangible assets increasing from EUR 30,2 million in 2018 to EUR 35,3 million in 2019.

## Risk factors and risk management

Ferratum takes moderate and calculated risks in conducting its business. The prudent management of risks minimises 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 Group has access to the appropriate software, including instructions on controlling and monitoring risks. The CEO of Ferratum Group is responsible for the daily operations of the Group. Each member of the Leadership Team ultimately 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 three main categories: credit risks (receivables from customers), market risks (including foreign exchange risks, interest rate risks and other price risks) and operational risks (such as IT risks, legal and regulatory risks and other operational risks).

Exposure to credit risks arises principally from Ferratum's short-term 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.

Market risks arise from open positions in interest rate and currency products. They are managed by the central treasury function, which is also, in close cooperation with FP&A, 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 (see note 3: Financial Risk Management).

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 analysed on an ongoing basis and any necessary modifications to Ferratum's operations are implemented proactively.

## Covid-19 pandemic

In 2020, the Board of Ferratum Oyj expects the Covid-19 pandemic to have a material impact on the Groups performance. Revenue and EBIT are expected to materially decrease compared to 2019.

Taking into consideration the current macro-economic uncertainty, impairment levels are expected to increase during 2020. An expectation of deteriorating economic indicators would increase impairments driven by the implemented statistical risk reserving model. In addition, the Board expects continued high volatility in FX rates as a consequence of the Covid-19 outbreak and the oil market turmoil which might have a negative impact on net profitability in 2020.

As the current global situation has no precedent in the modern era, and the actions of governments in both their restrictions of movement and financial aid on economies are undergoing daily change, it is impossible to accurately estimate the impact that the Covid 19 pandemic will have. However, the Group is confident that it is able to cope while no critical risks are currently estimated to occur on either its operations or liquidity.

Ferratum Group is monitoring its loan portfolios and its clients' payment behaviour on a daily basis and is ready to react to potential negative changes by, for example, restricting the outflow of new loans. However, on the date of publication, there were no clear negative indicators in daily KPI´s with regards to clients' payment behaviour or collections of loans due. There was, in fact, an increase in demand for Ferratum's lending products.

That said, as we have estimated that the restrictions imposed on people by their governments will cause an economic downturn – due to a strong negative impact on most companies performance and the resultant higher unemployment levels – we expect to see increasing credit losses during the year 2020. Furthermore, as our estimated credit loss model is partly based on macro-economic indicators such as unemployment rates, higher levels of unemployment will cause our credit losses to deteriorate.

## Shares of the company

**Largest shareholders** The following table summarizes the largest shareholders excluding nominee registered shareholders not exceeding five percent ownership in Ferratum Oyj on December 31, 2019:

| Largest shareholders | Shares | % of shares | % of voting rights |
|---|---|---|---|
| Jokela, Jorma* | 11,958,470 | 55.05% | 55.42% |
| Universal-Investment-Gesellschaft GmbH** | 1,666,759 | 7,67% | 7,72% |
| Dorval AM** | 1,105,012 | 5.09% | 5.12% |
| Taaleritehdas | 276,082 | 1.27% | 1.28% |
| Ferratum Oyj | 146,200 | 0.67% | 0.00% |
| Timonen, Saku | 85,301 | 0,39% | 0,40% |
| Vanhala, Juhani | 84,458 | 0.39% | 0.39% |
| Jokisaari, Milla | 27,417 | 0.13% | 0.13% |
| Pääkkönen, Roope | 21,645 | 0.10% | 0.10% |
| Sjöman, Caj-Eric | 14,560 | 0.07% | 0.07% |
| Kuikka, Sylvi | 11,645 | 0.05% | 0.05% |
| Gylfe, Ernst | 4,000 | 0.02% | 0.02% |
| **Total** | **15,401,549** | **70.90%** | **70.70%** |

*Jokela, Jorma holds directly 155,500 shares (0.72%), through European Recruitment Company OÜ 5,744,235 shares (26.44%) and through JT Capital Limited 6,058,735 shares (27.89%). In total Jorma Jokela's shareholding is 11,958,470 shares which corresponds to 55.05% of all shares of the company. The shares held by European Recruitment Company OÜ and JT Capital Limited are nominee-registered.

**according to latest notification of major shareholdings

## Holdings of the Board of Directors in Ferratum Oyj on December 31, 2019**

| Name | | Holdings | % of holdings |
|---|---|---|---|
| Jokela, Jorma* | Member | 11,958,470 | 55.05% |
| Liigus, Lea | Member | 170,037 | 0.78% |
| Vanhala, Juhani | Chairman | 86,708 | 0.40% |
| Strange, Frederik | Member | 0 | 0.00% |
| Wang, Christopher | Member | 0 | 0.00% |
| Hagroos, Kati | Member | 0 | 0.00% |
| Challagalla, Goutam | Member | 0 | 0.00% |
| Cusumano, Michael | Member | 0 | 0.00% |
| **Total** | | **12,215,215** | **56.23%** |

*Jokela, Jorma holds directly 155,500 shares (0.72%), through European Recruitment Company OÜ 5,744,235 shares (26.44%) and through JT Capital Limited 6,058,735 shares (27.89%). In total Jorma Jokela's shareholding is 11,958,470 shares which corresponds to 55.05% of all shares of the company. The shares held by European Recruitment Company OÜ and JT Capital Limited are nominee-registered.**includes shares and options.

## Holdings of the Leadership Team in Ferratum Oyj on December 31, 2019**

| Name | | Holdings | % of holdings |
|---|---|---|---|
| Jokela, Jorma* | Chief Executive Officer | 11,958,470 | 55.05% |
| Liigus, Lea | Head of Legal and Compliance | 170,037 | 0.78% |
| Timonen, Saku | Chief Commercial Officer | 147,301 | 0.68% |
| Krause, Clemens | Chief Risk Officer | 104,000 | 0.48% |
| Tiukkanen, Ari | Chief Operations Officer | 70,000 | 0.32% |
| Kalliola, Sami | Head of Strategic Partnerships | 20,950 | 0.10% |
| Hansson-Tönning, Adam | Head of Financial Planning and Analysis | 18,675 | 0.09% |
| Kajakas, Kristjan | Business Unit Director, Revolving Loans | 16,473 | 0.08% |
| Donnelly, Scott | Business Unit Director, SME Lending | 12,925 | 0.06% |
| Kumpulainen, Antti | Deputy CEO, Ferratum Bank p.l.c. | 12,525 | 0.06% |
| Kyykkä, Emmi | Head of Group Communications and Investor Relations | 10,310 | 0.05% |
| Egger, Bernd | Chied Financial Officer | 8,000 | 0,04% |
| **Total** | | **12,549,666** | **57.77%** |

*Jokela, Jorma holds directly 155,500 shares (0.72%), through European Recruitment Company OÜ 5,744,235 shares (26.44%) and through JT Capital Limited 6,058,735 shares (27.89%). In total Jorma Jokela's shareholding is 11,958,470 shares which corresponds to 55.05% of all shares of the company. The shares held by European Recruitment Company OÜ and JT Capital Limited are nominee-registered.**includes shares and options.

## Distribution of holdings by number of shares held on December 31, 2019

| Lower Limit | Number of shareholders | % of shareholders | Total number of shares | % of share capital |
|---|---|---|---|---|
| 1-100 | 13 | 28.26% | 493 | 0.00% |
| 101-500 | 14 | 30.43% | 3,365 | 0.02% |
| 501-1 000 | 2 | 4.35% | 1,332 | 0.01% |
| 1 001-5 000 | 3 | 6.52% | 10,996 | 0.05% |
| 5 001-10 000 | 0 | 0.00% | 0 | 0.00% |
| 10 001-50 000 | 5 | 10.87% | 94,267 | 0.43% |
| 50 001-100 000 | 3 | 6.52% | 240,981 | 1.11% |
| 100 001-500 000 | 5 | 10.87% | 918,348 | 4.23% |
| 500 001 and over | 1 | 2.17% | 20,454,178 | 94.15% |
| **Total** | **46** | **100.00%** | **21,723,960** | **100.00%** |
| Nominee registered | 5 | | 20,953,960 | 96.45% |
| Treasury shares held by Ferratum Oyj | 1 | | 146,200 | 0.67% |

## Distribution of holdings by group on December 31, 2019

| Sector | Total number of shares (book-entries) | | Total number of shares (nominee-registered) | | Total number of shares | % of share capital |
|---|---|---|---|---|---|---|
| Non-financial corporations | 354,643 | 1.63% | 0 | 0.00% | 354,643 | 1.63% |
| Financial and insurance corporations | 3,496 | 0.02% | 427,885 | 1.97% | 431,381 | 1.99% |
| Households | 408,536 | 1.88% | 0 | 0.00% | 408,536 | 1.88% |
| Shares registered in the member states of the Euro area | 0 | 0.00% | 20,525,400 | 94.48% | 20,525,400 | 94.48% |
| Rest of the world | 4,000 | 0.02% | 0 | 0.00% | 4,000 | 0.02% |
| **Total** | **770,675** | **3.55%** | **20,953,285** | **96.45%** | **21,723,960** | **100.00%** |

## Board of Directors' Proposals for Profit Distribution

The profit for the 2019 financial year of Ferratum Oyj amounted to EUR 21,619,607. Distributable equity of the parent company at the end of the financial year stood at EUR 69,321,994.

The Board of Directors proposes to the Annual General Meeting that, for the financial year ended 31 December 2019, no dividends will be distributed and that the profit for 2019 will be carried forward.

## Corporate Governance Statement

Ferratum's Corporate Governance Statement has been prepared in accordance with the reporting requirements set out by the Corporate Governance Code 2015 issued by the Finnish Securities Market Association. The Corporate Governance Statement is published separately from the Board of Directors' report and it is available on Ferratum's website at: www.ferratumgroup.com/en/about-us/corporate-governance/corporate-governance-statement

## Company Management and Auditor

Juhani Vanhala served as Chairman of the Board. Other members of the Board were Jorma Jokela, Lea Liigus, Michael A. Cusumano, Goutam Challagalla, Kati Hagros, Frederik Strange and Christopher Wang. Erik Ferm stepped down from the Board in April 2019 after the 2019 Annual General Meeting.

The Chief Executive Officer is Jorma Jokela. The 2019 Annual General Meeting re-appointed PricewaterhouseCoopers Oy as the company's auditor, with APA Mikko Nieminen as the auditor with principal responsibility.

# FINANCIAL STATEMENTS 2019 AUDITED

# Consolidated income statement for the period 1 January to 31 December, 2019

| EUR ’000 | Note | 2019 | 2018 |
|---|---|---|---|
| | | Year ended 31 December | |
| Revenue | 5 | 293,104 | 262,148 |
| Other income | | 130 | 241 |
| Impairments on loans | 3 | (105,684) | (88,496) |
| Operating expenses: | | | |
| Personnel expenses | 6 | (43,925) | (43,799) |
| Selling and marketing expenses | | (38,828) | (41,388) |
| Lending costs | | (17,849) | (12,971) |
| Other administrative expenses | | (1,678) | (2,350) |
| Depreciations and amortization | 7 | (10,822) | (5,223) |
| Other operating expenses | 8 | (28,916) | (30,363) |
| **Operating profit** | | **45,532** | **37,799** |
| Finance income | 9 | 256 | 124 |
| Finance costs | 10 | (18,244) | (15,590) |
| Finance costs – net | | (17,989) | (15,466) |
| **Profit before income tax** | | **27,543** | **22,333** |
| Income tax expense | 11 | (3,895) | (3,060) |
| **Profit for the period** | | **23,648** | **19,274** |
| **Earnings per share, basic** | 12 | 1.10 | 0.89 |
| **Earnings per share, diluted** | 12 | 1.10 | 0.89 |
| Profit attributable to: | | | |
| – owners of the parent company | | 23,648 | 19,274 |
| – non-controlling interests (NCI) | | 0 | 0 |

# Consolidated statement of comprehensive income for the period 1 January to 31 December, 2019

| EUR ’000 | Note | 2019 | 2018 |
|---|---|---|---|
| | | Year ended 31 December | |
| Profit for the period | | 23,648 | 19,274 |
| Other comprehensive income | | | |
| Items that may be subsequently reclassified to profit or loss | | | |
| Translation difference | | 428 | 149 |
| Total items that may be subsequently reclassified to profit or loss | | 428 | 149 |
| **Total comprehensive income** | | **24,076** | **19,422** |
| Allocation of total comprehensive income to: | | | |
| – owners of the parent company | | **24,076** | 19,422 |
| – non-controlling interests (NCI) | | 0 | 0 |

The notes 1 - 24 are an integral part of these financial statements.

# Consolidated statement of financial position

| EUR '000 | Note | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 3,896 | 4,155 |
| Right-of-use assets | 14 | 6,693 | - |
| Intangible assets | 15 | 35,281 | 30,227 |
| Government bonds | | 0 | 8,533 |
| Deferred tax assets | 16 | 10,813 | 10,622 |
| Other financial assets | 17 | 3,829 | 1,365 |
| **Total non-current assets** | | **60,512** | **54,902** |
| **Current assets** | | | |
| Loans and advances to customers | 3 | 386,167 | 320,538 |
| Other receivables | 18 | 14,448 | 8,211 |
| Derivative assets | | 15 | 21 |
| Current tax assets | | 2,167 | 961 |
| Cash and cash equivalents | 19 | 155,518 | 115,559 |
| **Total current assets** | | **558,315** | **445,290** |
| **Total assets** | | **618,827** | **500,192** |
| EQUITY AND LIABILITIES | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 20 | 40,134 | 40,134 |
| Treasury shares | 20 | (142) | (142) |
| Reserves | 20 | (1,098) | (2,211) |
| Unrestricted equity reserve | 20 | 14,708 | 14,708 |
| Retained earnings | | 75,536 | 54,892 |
| **Total equity** | | **129,138** | **107,380** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 21 | 169,164 | 137,695 |
| Lease liabilities | 21 | 4,400 | - |
| Deferred tax liabilities | 16 | 672 | 581 |
| **Total non-current liabilities** | | **174,236** | **138,276** |
| **Current liabilities** | | | |
| Current tax liabilities | 22 | 4,539 | 3,372 |
| Deposits from customers | 21 | 242,161 | 183,405 |
| Borrowings | 21 | 47,514 | 44,882 |
| Derivative liabilities | 3.6 | 2,215 | 479 |
| Trade payables | 22 | 5,235 | 10,522 |
| Lease liabilities | 21 | 2,398 | - |
| Other current liabilities | 22 | 11,390 | 11,877 |
| **Total current liabilities** | | **315,453** | **254,536** |
| **Total liabilities** | | **489,689** | **392,812** |
| **Total equity and liabilities** | | **618,827** | **500,192** |

# Consolidated statement of cash flow

| EUR '000 | 2019 | 2018 |
|---|---|---|
| | Year ended 31 December | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| **Profit for the period** | **23,648** | **19,274** |
| **Adjustments for:** | | |
| Depreciation and amortization | 10,822 | 5,223 |
| Finance costs, net | 17,989 | 15,466 |
| Tax on income from operations | 3,895 | 3,060 |
| Transactions without cash flow | 1,441 | 2,429 |
| Impairments on loans | 105,684 | 88,496 |
| **Working capital changes:** | | |
| Increase (-) / decrease (+) in other current receivables | (6,444) | 1,608 |
| Increase (+) / decrease (-) in trade payables and other current liabilities (excl. Interest liabilities) | (6,247) | 1,543 |
| Interest paid | (14,464) | (11,176) |
| Interest received | 224 | 82 |
| Income taxes paid | (3,922) | (3,994) |
| **Net cash from operating activities before movements in loan portfolio and deposits** | **132,627** | **122,010** |
| Deposits from customers | 58,756 | 9,104 |
| **Movements in the portfolio:** | | |
| Movements in gross portfolio | (88,102) | (131,568) |
| Fully impaired portfolio write-offs | (83,211) | (39,909) |
| **Net cash (used in) / from operating activities** | **20,070** | **(40,363)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of tangible and intangible assets | (13,385) | (16,085) |
| Purchase of investments and other assets | - | (717) |
| Proceeds from sale of investment | 8,533 | - |
| **Net cash used in investing activities** | **(4,852)** | **(16,802)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from short-term borrowings | 7,832 | 20,000 |
| Repayment of short-term borrowings | (44,882) | (24,983) |
| Proceeds from long-term borrowings | 71,151 | 98,013 |
| Repayment of finance lease liabilities | (2,227) | - |
| Repayment of long term borrowings | - | (45,138) |
| Dividends paid / distribution of funds | (3,884) | (3,890) |
| **Net cash from financing activities** | **27,990** | **44,003** |
| **Net (decrease) / increase in cash and cash equivalents** | **43,208** | **(13,162)** |
| Cash and cash equivalents at the beginning of the period | 115,559 | 131,832 |
| Exchange gains/(losses) on cash and cash equivalents | (3,248) | (3,111) |
| Net increase/decrease in cash and cash equivalents | 43,208 | (13,162) |
| **Cash and cash equivalents at the end of the period** | **155,518** | **115,559** |

## Consolidated statement of changes in equity

| Changes in equity Jan-Dec 2018 (EUR '000) | Share capital | Treasury shares | Unrestricted equity reserve | Other reserves | Translation differences | Retained earnings | Equity holders of parent | NCI | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| Opening balance 1 Jan 2018 | 40,134 | (142) | 14,708 | 717 | (2,957) | 52,783 | 105,243 | (0) | 105,243 |
| Impact of initial application of IFRS 9 | | | | | | (15,163) | (15,163) | 0 | (15,163) |
| Restated balance at Jan 2018 | | | | | | **37,621** | **90,080** | **0** | **90,080** |
| **Comprehensive income** | | | | | | | | | |
| Profit or loss | | | | | | 19,274 | 19,274 | 0 | 19,274 |
| Other comprehensive income | | | | | | | | | |
| Currency translation difference | | | | | (739) | 887 | 149 | 0 | 149 |
| **Total comprehensive income** | | | | | **(739)** | **20,161** | **19,422** | **0** | **19,422** |
| **Transactions with owners** | | | | | | | | | |
| Increase of share capital | | | | | | | | | |
| Distribution of funds | | | | | | (3,890) | (3,890) | 0 | (3,890) |
| Transfers between items | | | | 767 | | (767) | 0 | 0 | 0 |
| Share-based payments (Note 25) | | | | | | 2,429 | 2,429 | 0 | 2,429 |
| Other changes | | | | | | (662) | (662) | 0 | (662) |
| **Total transactions with owners** | | | | **767** | | **(2,890)** | **(2,123)** | **0** | **(2,123)** |
| **Total equity 31 Dec 2018** | **40,134** | **(142)** | **14,708** | **1,485** | **(3,696)** | **54,892** | **107,380** | **0** | **107,380** |

| Changes in equity Jan-Dec 2019 (EUR '000) | Share capital | Treasury shares | Unrestricted equity reserve | Other reserves | Translation differences | Retained earnings | Equity holders of parent | NCI | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| Opening balance 1 Jan 2019 | 40,134 | (142) | 14,708 | 1,485 | (3,696) | 54,892 | 107,380 | 0 | 107,380 |
| **Comprehensive income** | | | | | | | | | |
| Profit or loss | | | | | | 23,648 | 23,648 | 0 | 23,648 |
| Other comprehensive income | | | | | | | | | |
| Currency translation difference | | | | 0 | 1,113 | (685) | 428 | 0 | 428 |
| **Total comprehensive income** | | | | **0** | **1,113** | **22,963** | **24,076** | 0 | **24,076** |
| **Transactions with owners** | | | | | | | | | |
| Increase of share capital | | | | | | | | | |
| Distribution of funds | | | | | | (3,884) | (3,884) | 0 | (3,884) |
| Transfers between items | | | | | | | | | |
| Share-based payments (Note 25) | | | | | | 1,441 | 1,441 | 0 | 1,441 |
| Other changes | | | | 1 | | 125 | 125 | 0 | 125 |
| **Total transactions with owners** | | | | | | **(2,319)** | **(2,319)** | **0** | **(2,319)** |
| **Total equity 31 Dec 2019** | **40,134** | **(142)** | **14,708** | **1,485** | **(2,583)** | **75,536** | **129,138** | **0** | **129,138** |

# 1. GENERAL INFORMATION

Ferratum Group is one of the leading international providers of mobile banking and digital consumer and small business loans, distributed and managed by mobile devices. It is an independent Group and does not belong to any other Group in the financial or commercial sector. Ferratum Group operates under generally accepted ethical principles, is one of the leading players in developing the credibility of mobile consumer lending and common industry processes and has developed its business model and processes to be efficient and customer-oriented. The identification and scoring of customers are key factors in the business globally.

The parent company, Ferratum Oyj (business identity code 1950969-1), is headquartered in Helsinki, Finland. The registered address is Ratamestarinkatu 11 A, FI-00520 Helsinki.

The financial year for all the Group companies is the calendar year ended on December 31, 2019. The Board of Directors of Ferratum Group approved these financial statements for publication on March 25, 2020. According to the Finnish Companies Act, shareholders have the opportunity to approve or reject the financial statements at the General Meeting of Shareholders held after publication. It is also possible to amend the financial statements at the General Meeting of Shareholders.

A copy of the consolidated financial statements can be obtained from the head office of Ferratum Group at Ratamestarinkatu 11 A, FI-00520 Helsinki.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## 2.1 Basis of preparation

Ferratum Group's financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS), as adopted by the European Union, and IFRS Interpretation Committee Interpretations (IFRIC) applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The consolidated financial statements are presented in thousands of euros, except as otherwise indicated.

During the year ended December 31, 2019, there have been some amendments to existing standards. Of the new or revised standards or amendments IFRS 16, 'Leases' had an impact on the reported income statement and the statement of financial position.

The preparation of financial statements in accordance with IFRS requires the management to use certain critical accounting estimates. The application of the company's accounting policies also requires the management to make assumptions and exercise its judgment in the process of applying the Group's accounting policies. Areas that contain such discretionary assessments or a high level of complexity or areas in which assumption and estimates are important to the consolidated financial statements are disclosed in Note 4: Critical accounting estimates and judgments.

# NEW AND AMENDED STANDARDS ADOPTED BY FERRATUM GROUP

**IFRS 16 (effective date for annual periods beginning on January 1, 2019)**

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.

The Group acts as a lessee leasing mainly office premises, IT equipment as well as other machinery and equipment. Ferratum Group recognizes a leased asset (right-of-use asset) and a lease liability for all leases, except for short-term and low value leases (the accounting treatment is described below). The Group assesses whether a contract is or contains a lease at inception of the contract. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

Ferratum Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability
- any lease payments made at or before the commencement date, less any lease incentives (e.g. lease-free months) and any direct costs of the lease
- Estimated restoring costs of leased asset to condition required by the contract at the end of lease period

After the commencement date the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for certain remeasurements of the lease liability. The right-of-use asset is depreciated using the straight-line method, from the commencement date to the earlier of the end of the useful life of the right-of-use asset, or the end of the lease term. Initially the lease term of open-ended lease contracts is estimated being 36 months according to past average lease terms and managements future outlook. Subsequently the lease terms of open-ended contracts are assessed yearly and extended or reduced accordingly. The estimated useful lives applied in office premises and machinery and equipment by Ferratum Group are 3-4 years.

The right-of-use asset is tested for impairment where necessary and any impairment loss identified is recorded in profit or loss. Right-of-use assets are reported in note 14.

Initially the lease liability is measured at the present value of the lease payments that are not paid at the commencement date. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.4%. The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease, its geographic location and type of the asset leased. Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in substance fixed payments
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date of the contract

Subsequently the lease liability is measured at amortized cost using the effective interest method. The interest cost is reported in note 10. It is remeasured when there is a change in future lease payments arising from change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When a lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. Lease liabilities are reported in note 20.

Ferratum Group has elected not to recognize right-of-use assets and lease liability for short-term leases (that have a lease term of 12 months or less). Short-term leases include office premises and items of machinery and equipment. The Group recognizes the lease payments associated with above-mentioned leases as an expense on a straight-line basis over the lease term. These are reported in note 8.

Total cash outflow on leases was EUR 2,890 thousand.

**Reconciliation of lease liability is as follows:**

| EUR '000 | 01 Jan 2019 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 3,399 |
| (Less): Discounting effect on opening lease commitments | (240) |
| (Less): low-value leases recognised on a straight-line basis as expense | (1) |
| Add/(less): adjustments as a result of a different treatment of open ended contracts and extension and termination options | 4,705 |
| Lease liability recognised as at 1 January 2019, of which are: | **7,863** |
| Current lease liabilities | 2,010 |
| Non-current lease liabilities | 5,853 |
| **Total** | **7,863** |

## Standards, interpretations and amendments to published standards which are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorization for issue of these financial statements, but have not yet become effective. Ferratum Group has not early adopted these revisions to the requirements of IFRS as approved by the EU and the Group's directors are of the opinion that, there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

### 2.2 Consolidation

**Subsidiaries**
Subsidiaries are all entities (including structured entities) over which the Group has control. Ferratum Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date control ceases.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with Ferratum Group's accounting policies.

**Business combinations**
The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value as of the acquisition date. Ferratum Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The excess of the consideration transferred over the fair value of the identifiable net assets acquired is recorded as goodwill.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reports provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the senior management team that makes strategic decisions.

### 2.4 Foreign currency translation

**(a) Functional and presentation currency**
The financial statements of the individual entities in the Group are prepared using the currency which is mainly used in the economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in euro (EUR), which is both the functional currency and the presentation currency of the parent company.

**(b) Transactions and balances**
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the transaction date or on the valuation date where the items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized as financial items in the income statement.

**(c) Group companies**
The financial statements of entities whose functional currency is not the euro are translated using the closing rate method. Under this method, all assets and liabilities, both monetary and non-monetary, are translated using the spot exchange rate at the balance sheet date.

- income and expense items are translated at the average rate for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognized in other comprehensive income and accumulated in a separate translation reserve in equity.

## 2.5 Property, plant and equipment

Property, plant and equipment are recognized in the financial statements at their cost of acquisition less depreciation (carrying amount). The cost of acquisition includes costs directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Fixed assets are depreciated according to the straight-line method, so that the asset's original cost is depreciated to the residual value over the estimated useful life, which are:

| | |
|---|---|
| Machinery and Equipment: | 3 – 8 years |
| Other tangible assets: | 3 – 8 years |

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other income/other operating expenses in the income statement.

## 2.6 Intangible assets

Intangible assets of Ferratum Group are mainly immaterial rights (licenses, trademarks, etc.) and capitalized software development costs.

Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses acquired in a business combination are recognized at fair value as of the acquisition date. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives, which are:

| | |
|---|---|
| IT software: | 2 – 10 years |
| Trademarks: | 3 – 5 years |
| Licenses: | 2 – 10 years |
| Development costs: | 2 – 5 years |

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by Ferratum Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognized as an expense incurred. Development costs recognized as assets are amortized over their estimated useful lives.

## 2.7 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

## 2.8 Financial assets

### 2.8.1 Classification

According to IFRS 9 the financial assets are classified in following categories:

- Fair Value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost

**Debt Instrument**

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depend on:

I. the Group's business model for managing the asset; and
II. the cash flow characteristics of the asset.

Based on these factors the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI') and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance recognised and measured as described in Note 2.8.2. Interest income from these financial assets are included in Revenue using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from these financial assets are recognised using the effective interest rate method. The Group does not have any items at FVOCI.
- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss.

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance, except for impaired financial assets in Stage 3 in the impairment model, for which the interest income is recognised from the net amount) or to the amortised cost of a financial liability.

The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amounts of the respective financial assets or financial liabilities are adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

**a) Business model assessment**

Key management personnel determine the Group's business models by considering the way financial instruments are managed in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these are applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Such assessment is performed at a 'portfolio level' as it best reflects the way the business is managed and information is provided to management. The information that will be considered in such assessment includes:

- the objectives for the portfolio including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;

- the method for the evaluation of the performance of the portfolio and how such performance is reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets are achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

**b) Cash flows that represent solely payment of principal and interest (SPPI)**

In respect of assets where the intention of the business model is to hold the financial assets to collect the contractual cash flows or to hold to collect and to sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending agreement. 'Principal' is the fair value of the financial asset at initial recognition. It is not the amount that is due under the contractual terms of an instrument. 'Interest' is the compensation for time value of money and credit risk of a basic lending-type return. A basic lending-type return could also include consideration for other basic lending risks (for example, liquidity risk) and consideration for costs associated with holding the financial asset for a particular period of time (for example, servicing or administrative costs) and/or a profit margin. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Unlike the business model assessment, the SPPI assessment is performed for each individual product or portfolio of products. The following considerations are made when assessing consistency with SPPI:

- contingent events that would change the amount and timing of cash flows such as contractual term resetting interest to a higher amount in the event of a missed payment;
- leverage features, being contractual cash flow characteristics that increase the variability of the contractual cash flows with the result that they do not have economic characteristics of interest;
- contractual terms that allow the issuer to prepay (or the holder to put a debt instrument back to the issuer) before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest, which may include reasonable compensation for early termination of the contract;
- contractual terms that allow the issuer or holder to extend the contractual term and the terms of the extension option result in contractual cash flows during the extension period that are solely payments of principal and interest, which may include reasonable compensation for the extension of the contract; and
- features that modify consideration for the time value of money (for example, periodic reset of interest rates).

## 2.8.2 Recognition, derecognition and measurement of financial assets

Ferratum Group recognizes a financial asset or financial liability in its statement of financial position when it becomes a party to the contractual rights or obligations.

Ferratum Group derecognizes a financial asset or a portion of financial asset when it loses control of the contractual rights that comprise the financial asset or a portion of the financial asset. The evaluation of the transfer of risks and rewards of ownership precedes the evaluation of the transfer of control for derecognition transactions. Ferratum Group derecognizes a financial liability when a liability is extinguished, that is when the obligation specified in the contract is discharged, cancelled or expires.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

## 2.9 Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses ('ECLs') associated with its debt instruments carried at amortised cost. The measurement of ECLs reflects:

I. An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
II. The time value of money; and
III. Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 3.2 provides more detail on how the expected credit loss allowances are measured.

Expected credit loss allowances are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Financial instrument with both a drawn and undrawn component, whereby the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components, as a deduction from the gross carrying amount of the drawn component

## 2.10 Modification of financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

The Group renegotiates loans and advances to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default.

Under its restructuring policy, the Group might consider the application of restructuring of selected loans and advances. The process commences when a customer applies to extend the repayment date. The upfront payment of a restructuring fee is a pre-condition for restructuring to be granted and for the loan term to be extended.

When modification happens, the Group assesses whether or not the new terms are substantially different to the original terms. As a result of restructuring the Group does not revise the key substantive terms and conditions of the respective loan in order to facilitate recoverability after taking into consideration the individual's financial situation, but simply provides the individual customer with a standard extension to the maturity date. The significant terms and conditions of the loan are not altered, for instance, through moratorium on fees or waiver of fees. A significant level of individual customers apply for and request the extension of the loan term and considering that each loan transaction is individually insignificant, the monitoring of each individual customer's financial situation is impracticable. Management considers historical experience and other factors when determining whether rescheduled loans are forborne loans. Such historical experience demonstrates that very high repayment rates are associated with rescheduled loans.

Taking cognisance of the principles highlighted above, rescheduling of loans granted by the Group is not deemed to constitute a forbearance measure in relation to customers experiencing difficulties in repaying the micro-credit. Moreover, given that the terms are not substantially different, the renegotiation or modification is not expected to result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

## 2.11 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

## 2.12 Share capital

Where any Ferratum Group company purchases the company's, equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

## 2.13 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

## 2.14 Borrowings and deposits from customers

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs, after which it is included in the amortized cost of the loan. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Ferratum Group recognises deposits from customers as a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. Deposits to customers are recognised initially at fair value, being the fair value of consideration received, and are subsequently measured at amortised cost. Ferratum Group derecognises deposits from customers from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

## 2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax is recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2.16 Revenue recognition

Ferratum Group's revenue is related to interest income recognized according to the effective interest rate within the scope of IFRS 9 Financial Instrument. Therefore IFRS 15 revenue from contracts with customers does not have impact on Ferratum Group's financial statement.

Ferratum Group generates its revenue from its lending activities by charging one or more of the following fees to the customer: processing fee (representing interest yield on the initial loan period), prolonging fees (representing interest yield for any extension of the repayment date for the original maturity date of the loan), reminder fees and overdue fees. The fees mentioned are an integral part of the creation of the financial asset (loans and advances to customers) and represent interest income by nature. Revenues are recognized when:

a. it is probable that the economic benefits associated with the transaction will flow to the entity; and
b. the amount of the revenue can be measured reliably.

The recognition of revenues are based on the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

After signing the contract with the customer, the Group first assesses the probability that the fees charged can be recovered and that the economic benefits from the fees (i.e. the effective interest income accrued on the basis of the contractual fees) will flow to the Group. This assessment involves uncertainty estimation as it is based on the Group's statistics and historical information on customer behavior. The identification and credit scoring model allows the Group to create a customer default and risk profile for every single customer any time a loan request comes in. This is a critical step in the assessment of whether or not the economic benefits associated with the issuance of the consumer loan will flow to the Group, as the scoring model rejects non- creditworthy loan requests.

After this assessment, when it has been concluded that it is probable that economic benefits will flow to the Group, the Group assesses whether the amount of revenue can be measured reliably. The loan contracts comprise explicit terms for the loans granted i.e. the loan amount, maturity and repayment schedules and the associated fees which are used as a basis for revenue recognition. Given that the cash flows are contractually based, the amount of revenue can be measured reliably.

Revenue recognition using the effective interest rate calculations starts on day zero based on the estimated cash flows and payment dates in accordance with what is agreed in the contract. On the day when the loan is issued, the revenue recognition method accounts for the interest accrual for the first day, and subsequently, on a day to day basis. The effective interest rate is based on the number of days between the day on which the loan is paid out and the day on which the loan is contractually due.

## 2.17 Finance income and costs

Interest income and expense for all interest-bearing financial instruments, except customer loans, are recognized within 'finance income' and 'finance costs' in profit or loss using the effective interest method.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

## 2.18 Other income from operations

Revenues that are not part of actual net sales, such as revenue from the sale of non-current assets, are recorded under other income from operations.

## 2.19 Employee benefits

### 2.19.1 Pension plans

Group has different pension plans that follow local regulations and rules of different countries. All these pension plans are classified as defined contribution plans. Pension plans are funded by employees and relevant group companies as payments to pension insurance companies or other external trustees and their assets are held by these external parties. Pension costs and liabilities are based on calculations of local authorities or independent actuaries. The Group's contributions to defined contribution plans are recognized as an expense in the period to which the charge relates.

### 2.19.2 Share-based payments

Option plans, introduced in 2015, 2016, 2017 and 2018, are designed to provide long-term incentives for key management and employees to deliver long-term shareholder returns and increase their commitment to the company. Under the plans, participants are granted options with a defined fixed exercise price which only vest if the EBITDA in the audited consolidated statements under IFRS of the company has grown by an average of

25% a year during the four financial years prior to the commencement of the exercising period of the options. Options are granted under the plan for no consideration and carry no dividend or voting rights. When exercisable, each option may be converted into one ordinary share.

The fair value of the options are independently determined on the grant date using the Black and Scholes model taking into consideration the terms and conditions of the grant. The material model inputs for options includes the exercise price, the term of the option, the share price on the grant date and the expected price volatility of the underlying shares. The expected dividend yield and the risk-free interest rate for the term of the option did not have a material effect on the option value on the grant date.

New employee share performance plan was introduced in April 2019 designed to provide incentive and commitment for key personnel. The share award was determined by the achievement of the performance criteria set by the Group in relation to targeted EBIT and sales growth. These targets were not reached during the financial year 2019 and no share awards were given.

The share-based payments granted are booked as an employee benefit expense and as an increase in equity.

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the company revises its estimates of the number of options or shares that are expected to vest based on the non-market vesting and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

### 2.20 Derivative instruments

The derivative contracts are initially recognized at fair value on the date they enter into operation. Subsequent measurement is also based on their fair value. Interest rate and foreign exchange swaps and futures contracts are part of the Group's risk management policy, but the Group does not apply hedge accounting to derivative instruments. The derivatives are included in the balance sheet in current receivables and current liabilities. Unrealized and realized gains and losses arising from changes in fair value are recognized in the income statement in financial income and expenses in the period during which they arise. Accumulated interest income or expenses from swaps and futures contracts that have taken place during the financial period are also recognized in the income statement under financial items.

## 3. Financial risk management

### 3.1 Financial risk factors

Ferratum Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Ferratum Group's overall risk management program focuses on financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Ferratum Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (Group treasury). Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board is responsible for the overall effectiveness of the risk management.

### 3.2 Credit risk

### 3.2.1 Credit risk management

Ferratum Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group's business; accordingly, management carefully manages its exposure to this risk. Credit exposures arise principally through the Group's participation in short-term lending. The Group's principal credit risk exposures relating to on-balance sheet financial assets, reflecting the maximum exposure to credit risk without collateral held or other credit enhancements, are as follows:

| EUR '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| Cash and cash equivalents | 155,518 | 115,559 |
| Loans and advances to customers | 386,167 | 320,538 |
| Government bonds | 0 | 8,533 |
| Derivative assets | 15 | 21 |
| Other non-current receivables | 3,112 | 178 |
| Other current receivables | 9,166 | 3,139 |
| Total | 553,978 | 447,967 |

The exposures set out in the table above are based on carrying amounts as reported in the statement of financial position for on-balance sheet financial assets.

Other receivables consist of still outstanding receivables from non performing loans (NPL) sales and rent and other deposits.

Cash and cash equivalents are broadly diversified with over 400 bank accounts in about 25 countries which had the following Fitch ratings:

| EUR '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| AA | 154 | 65 |
| AA- | 18,447 | 9,085 |
| A+ | 94,068 | 76,025 |
| A | 3,871 | 3,231 |
| A- | 2,060 | 2,386 |
| BBB+ | 8,137 | 4,948 |
| BBB | 3,414 | 10,606 |
| BBB- | 623 | 576 |
| BB+ | 1,935 | 0 |
| B | 0 | 26 |
| B- | 93 | 117 |
| No rating available | 22,717 | 8,495 |
| **Total** | **155,518** | **115,559** |

**Loans and advances to customers**

Credit risk is managed centrally. Scoring and credit policies are steered centrally by the risk team. Measuring and monitoring the performance of the countries' credit portfolio's actual risk is done on different aggregation levels on a daily, weekly and monthly rhythm. Credit risk is managed and controlled on the basis of established credit processes, and within a framework of credit policy. Credit grading and monitoring systems are in place to accommodate the early identification and management of deterioration in loan quality. Credit decisions are always based on the ethical principles set by the central risk team and the business credit policy as well as being in accordance with the rules of crediting set in the legislation of each country. Every lending agreement requires an individually shaped decision. To assess the potential customers' creditworthiness, the credit score is calculated for each new application received.

An application scorecard is used for the assessment of new customers and a behavior scorecard is used for the assessment of repetitive customers. Based on the credit score obtained, customers are grouped into risk classes that determine the possible credit decision.

The measurement of credit exposure for risk management purposes depends on the fact that the exposure may vary with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. Ferratum Group measures expected credit losses using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

## 3.2.2 Credit risk measurement

**a) Loans and advances to customers**

The Group uses internal credit risk gradings to reflect its assessment of the probability of default of individual customers. Internal credit risk gradings are based on payment behaviour, loan specific information and expert judgement. Information considered by the Group when determining the internal credit risk grades include the payment behaviour of the customer and other information about customers which impact their creditworthiness, including level of income and/or financial performance.

At onboarding stage, any known information about a borrower which impacts their creditworthiness - such as unemployment and previous delinquency history - are assessed during the initial credit assessment. After the date of initial recognition, for short-term consumer lending facilities, the payment behaviour of borrowers is monitored on an ongoing basis at a collective portfolio level.

**b) Other financial assets**

Other financial assets include cash and cash equivalents, government bonds and loan receivables. The Group uses external risk grades to reflect its assessment of the probability of default of individual counterparties. These published grades are continuously monitored and updated. The PDs associated with each grade are determined based on realised default rates over the prior 12 months, as published by rating agencies.

In determining the probability of default of individual counterparties, the Group distinguishes between exposures considered 'investment-grade' defined by recognized external rating agencies as a rating between AAA-BBB- (Standard & Poor's, F) and Aaa-Baa3 (Moody's), and 'non-investment grade' exposures.

## 3.2.3 Categorisation of loans and advances to customers for ECL measurement

The Group's expected credit loss allowances on loans and advances to customers are modelled on collective basis. As a result, a grouping of exposures are performed on the basis of shared risk characteristics, such that risk exposures within a group of financial assets are homogenous. In performing this grouping, the Group ensures that there is sufficient information for the group of financial assets to be statistically credible. In this respect, the Group considers the following categories for ECL measurement of loans and advances to customers:

I. Micro-credit portfolios which are subject to bullet repayment characteristics; and
II. Micro-credit portfolios with instalment repayment features and revolving micro-credit facilities.

## 3.2.4 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

I. A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1'.
II. If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit - impaired. Please refer to 3.2.5 for a description of how the Group determines when a significant increase in credit risk has occurred.
III. If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to 3.2.6 for a description of how Ferratum Group defines credit-impaired and default.

Financial instruments in 'Stage 1' have their ECL measured at an amount equal to the portion of expected credit losses that result from default events possible within the next 12 months. Instruments in 'Stages 2' or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to 3.2.7 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information. 3.2.8 includes an explanation of how the Group has incorporated this in its ECL models.

Further explanation is also provided in respect of how Ferratum Group determines appropriate groupings of loans and advances to customers for ECL measurement (refer to 3.2.11).

The expected credit loss requirements apply to financial assets measured at amortised cost and FVOCI. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months ("12-month ECL"). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-month ECL is recognised are considered 'stage 1'. Financial assets which are considered to have experienced a significant increase in credit risk would be classified as 'stage 2' and financial assets for which there is objective evidence of impairment, thus considered to be in default or otherwise credit-impaired, would be classified as 'stage 3'.

Ferratum Group recognises loss allowances at an amount equal to 12-month ECL for debt investment securities that are determined to have low credit risk at the reporting date. The Group considers a debt security to have low credit risk when it is considered 'investment-grade', defined by recognised external rating agencies as a rating between AAA to BBB- (Standard & Poor's and Fitch) and Aaa-Baa3 (Moody's).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

**Change in credit quality since initial recognition**

| Stage 1 | Stage 2 | Stage 3 |
|---|---|---|
| (Initial recognition) | (Significant increase in credit risk since initial recognition) | (Credit-impaired financial assets) |
| 12-month expected credit losses | Lifetime expected credit losses | Lifetime expected credit losses |

## 3.2.5 Significant increase in credit risk

To determine whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information. Such analysis is based on the Group's historical experience, credit assessment and forward-looking information.

The Group's short-term consumer lending exposures are not managed on a credit-by-credit basis due to the high volume of relatively low value and homogeneous exposures. As a result, it is not feasible to include qualitative information based on an expert credit assessment performed on an individual credit basis. On this basis, Ferratum Group adopts a retail portfolio methodology which takes into account the nature of the short-term consumer lending exposures and the underlying credit risk management practices of the Group.

The short-term consumer lending portfolio comprises of micro-credit facilities with bullet repayment or instalment loan characteristics, as well as, revolving micro-credit facilities. Given how such retail facilities are originated and managed for internal risk management purposes, short-term consumer loans within a particular portfolio are expected to have similar credit risk characteristics.

As a result, for loans and advances to customers, which are managed on a portfolio basis for credit risk purposes, the Group measures a significant increase in credit risk based on a quantitative assessment driven by the delinquency status of borrowers (days past due). The Group presumptively considers that a significant increase in credit risk occurs when an asset is more than 30 days past due, in line with the backstop indicator established under IFRS 9. The Group determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

In the case of other financial assets (cash and cash equivalents and investments in debt securities), the Group applies the low credit risk simplification to all its exposures considered 'investment-grade', thus they are not subject to the SICR assessment. Moving from 'investment-grade' to 'non-investment grade' does not automatically mean that there has been a SICR.

## 3.2.6 Definition of default and credit-impaired assets

Ferratum Group's assessment to determine the extent of increase in credit risk of a financial asset since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the financial asset.

IFRS9 does not specifically define default, but requires it to be applied on a consistent basis with internal credit risk management practice for the relevant instruments and requires consideration of qualitative factors where appropriate. In addition, IFRS9 also introduces a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless there is reasonable and supportable information to demonstrate that a later default criterion is more appropriate.

In this respect, the Group defines a financial asset as in default, when it meets one or more of the criteria below.

I. with respect to micro-credit facilities with bullet repayment characteristics, exposures are considered defaulted where the borrower is more than 90 days past due on any material credit obligation to the Group, with the exception of those countries where termination occurs earlier and default is considered to be more than 60 days past due on any material credit obligation in such other countries; and

II. with respect to micro-credit facilities with instalment loan characteristics or revolving micro-credit facilities, exposures are considered defaulted once the customer is overdue on minimum monthly payments by more than 60 days or 90 days depending on the country in question.

Therefore, the definitions of credit-impaired and default are aligned so that stage 3 represents all loans which are considered defaulted or credit-impaired.

The Group is in the process of enhancing its credit portfolio management strategy in certain territories with a view to improve its debt collection capabilities in respect of overdue loan facilities. In achieving this strategy, the Group shall seek to extend its debt collection period with customer in order to increase recoveries from loan repayments prior to termination of loan contracts. As a part of its credit management the Group has in several countries entered into forward flow contracts to constantly sell overdue loan facilities to a counterparty against a cash payment. These contracts are adjusted accordingly to enable the Group to perform its internal debt collection procedures for a sufficiently extended period prior to sale. As the portfolio management strategies are being implemented, the Group shall assess the impact, if any, on the definition of default that it uses in estimating expected credit losses in the respective territories. Significant judgement is required throughout this process, particularly in the event that changes to the impairment methodology are required, such as revisions to the probabilities of default utilised in the expected credit loss calculation.

An instrument is considered to no longer be in default (i.e. to have been cured) when it no longer meets any of the default criteria for a consecutive period of three months. This period has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

The Group considers other financial assets, mainly cash and cash equivalents and investments in debt securities respectively, to be in default when a payment due (including a coupon payment) is not affected.

### 3.2.7 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

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 PD, EAD, and LGD.

The ECL is determined by projecting the PD, EAD and LGD at a collective portfolio level as allowable under IFRS 9 in the case of retail portfolios comprising individually insignificant exposures that are homogenous in nature. 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 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated on a similar basis for the residual life of the exposure.

The PD, EAD and LGD parameters are derived from internally developed statistical models and other historical data, adjusted to reflect forward-looking information as described below.

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per “definition of default and credit-impaired” above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. Accordingly, the 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument, respectively. The following table shows the reconciliation of movements in the allowance account:

| EUR '000 | Jan - Dec 2019 | Jan - Dec 2018 |
|---|---|---|
| Loans and advances to customers (gross) | 555,914 | 467,811 |
| Provision for impairment as of January 1 | (147,273) | (78,837) |
| IFRS9 implementation impact | - | (20,912) |
| Impairments on loans for the period | (105,684) | (88,496) |
| Other movements | 83,211 | 40,971 |
| **Provision for impairment as of December 31** | (169,747) | (147,273) |
| **Loans and advances to customers (net)** | **386,167** | **320,538** |

In the case of micro lending facilities with bullet repayment characteristics, the Group utilises roll-rate methodology in order to estimate its unconditional PDs. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as unrecoverable. This methodology is applied at territory or country level with adaptations to reflect the different nature of the respective markets in which the Group operates. Under this methodology, loans are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable (PD).

In the case of micro-credit facilities with characteristics similar to instalment loans or revolving facilities, the Group utilises curve-stitching methodology in order to estimate its unconditional PDs. Under this approach, an analysis of historical default data is carried out in order to estimate cumulative monthly loss rates at various snapshot dates. Subsequently, statistical analysis is employed in order to combine curves with different historical performance windows into a single PD curve over the expected lifetime of the micro-credit exposures. This methodology is also applied at territory or country level in order to incorporate adaptations to reflect the nature of the different markets in which the Group operates. Under this approach, loans are also grouped into ranges according to the number of days past due, with an individual lifetime PD curve being calculated for each range.

The unconditional PD is adjusted to consider forward-looking information through macroeconomic modelling, which then constitutes the conditional PD.

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). EAD represents the expected exposure in the event of a default (including any expected drawdowns of committed facilities).

The 12-month and lifetime EADs are determined based on the total balance of loan receivables at the reporting date, taking into account the total amount receivable from borrowers inclusive of principal and interest. This is deemed an adequate representation of the expected balance at default in the case of the Group's micro-credit facilities given that Ferratum Group models its ECLs on a collective portfolio level with the modelling of the EAD for each future month at an individual loan-by-loan basis not being deemed practical. Additionally, in the case of revolving credit facilities the Group also factors in expected drawdowns of committed facilities.

The Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. Hence, the LGD represents expected credit losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral values (if any) at the time it is expected to be realised and the time value of money. The 12-month and lifetime LGD are determined based on the factors which impact the recoveries made post default.

Given that its short-term micro-credit facilities are unsecured in nature, the Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties which are highly influenced by collective debt recovery strategies. Moreover, the Group's LGD incorporates elements in relation to the Group's ability to dispose of overdue loan facilities to third parties in certain territories at a price that is dependant on the credit quality of the portfolio, current investor appetite in the market and the economic trends in the particular country or territory. Recoveries from loan portfolio sales are calculated on a discounted cash flow basis using the contractual interest rate as the discounting factor.

The ECL is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Group is exposed to credit risk. With respect to non-revolving credit facilities, the contractual life of the facility is considered. In the case of revolving credit facilities, provided that such facilities do not have a fixed term or repayment structure, the Group defines the lifetime of such exposures as 24 months in line with observed borrower behaviour in specific territories. The lifetime of revolving credit facilities is re-assessed by the Group at a territory level based on more recent borrower behaviour patterns on a periodic basis.

Forward-looking economic information is also included in determining the 12-month and lifetime PD and LGD.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

### 3.2.8 Forward-looking information incorporated in the ECL model

The calculation of ECL incorporates forward-looking information. Ferratum Group performs a historical analysis to identify the key economic variables affecting credit risk and expected credit losses for each product portfolio at a territory level. These economic variables and their associated impact on the PD, EAD and LGD may vary by portfolio or territory.

In this respect, the Group has identified key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has analysed relationships between macro-economic variables, credit risk and credit losses. The key driver is predominantly Eurozone unemployment.

The impact of these economic variables on the PD have been determined by performing statistical regression analysis to understand the impact that the changes in these variables have had historically on default rates.

Group is exploring the use of alternative statistical methodologies that are mathematically more enhanced than linear regression analysis in order to find more statistically significant relationships between default and unemployment in each of its territories of operation and hence, improve the reliability of its macroeconomic modelling approach. The revised macroeconomic model is still being developed by the Group and needs to be validated and approved by the management before taking into use.

Three possible scenarios are considered to capture non-linearity across credit portfolios. The 'base line' scenario represents the most-likely outcome. It is based on authoritative sources forecasting these economic variables referred to above and providing the best estimate view of the European economy. Apart from the 'base line' scenario, the Group considers two other macro-economic scenarios – Upside and Downside scenarios – which respectively represent a more optimistic and a more pessimistic outcome. Such scenarios reflect the current top and emergent risks and opportunities. The more optimistic and more pessimistic scenarios are economically plausible and will not necessarily be as severe as scenarios used in stress testing.

Each scenario is weighted by a probability of occurrence, determined by a combination of macroeconomic research and expert credit judgment, taking account the range of possible outcomes each chosen scenario represents. The Group measures ECL as either a probability weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any macro-economic forecasts, the projections and likelihood of occurrence are subject to a high degree of uncertainty and therefore, the actual outcome may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcome.

The most significant period-end assumptions used for the ECL estimate are set out below. The 'base', 'upside' and 'downside' scenarios were used for all portfolios.

- The 'Base' Scenario captures business-as-usual macroeconomic expectations, whereby the current rhythm of economic activity is maintained;
- The 'Downside' Scenario is based on a subdued level of economic activity hypothesized to correspond to an economic recession;
- The 'Upside' Scenario is based on the assumption that it would be possible to marginally improve further over the already benign economic conditions.

The Group has identified key drivers of credit risk and credit losses for each portfolio of financial instruments and using an analysis of historical data, has analysed relationships between macro-economic variables, credit risk and credit losses. This analysis was conducted at a territory and sub-portfolio level in order to take into consideration possible differences in customer behaviour and default experience arising from different product characteristics. The key driver is predominantly Eurozone unemployment in the majority of the Group's territories of operation. In those territories where due to certain risk data limitations, statistical relationships to macro-economic variables were not deemed to be statistically significant (e.g. in those territories where the Group has recently launched new products resulting in limited available historical default experience), the Group has utilised proxy statistical data available in other territories with close geographical and demographic similarities.

| | | | | | As of 31 December 2019 |
|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 |
| **Eurozone-Av. Unemployment** | | | | | |
| Base | 7.3 | 7.2 | 7.2 | 7.1 | 7.0 |
| Upside | 7.0 | 6.6 | 6.5 | 6.4 | 6.3 |
| Downside | 7.7 | 7.8 | 7.8 | 7.7 | 7.5 |

| | | | | | As of 31 December 2018 |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 |
| **Eurozone-Av. Unemployment** | | | | | |
| Base | 7.6 | 7.5 | 7.3 | 7.1 | 6.9 |
| Upside | 7.4 | 7.0 | 6.5 | 6.2 | 6.1 |
| Downside | 7.7 | 7.6 | 7.4 | 7.2 | 7.1 |

*YoY = year on year % change

The weightings assigned to each economic scenario were 60% for the 'Base' scenario, 20% for the 'Downside' scenario and 20% for the 'Upside' scenario. The number of scenarios used is based on the analysis of each major product type to ensure that non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date.

The effect of different scenarios on customer payment behavior for Ferratum group financials would be as follows:

- If the forward looking information was 100% based on the Base Case, the provision for loans to customers as of 31 December 2019 would have no change
- If the forward looking information was 100% based on the Upside Case, the provision for loans to customers as of 31 December 2019 would have decreased by 7%
- If the forward looking information was 100% based on the Downside Case, the provision for loans to customers as of 31 December 2019 would have increased by 7%

Such weightings take into account the the possibility that current European economic momentum persists, despite trade policy uncertainty. The scenarios also contemplate the likelihood that trade policy trade tensions re-escalate dramatically as the US introduces major new tariff measures against China and all other major trading partners. On a more positive scenario, the scenarios contemplate the likelihood that trade policy uncertainties fade against a backdrop of still subdued wage and price pressures and supportive policy. The probability weightings assigned to the respective scenarios reflect an unbiased evaluation of range of possible outcomes

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an ongoing basis.

The most significant assumption affecting the ECL allowance are GDP and Unemployment, given the significant impact they have on the performance of retail consumer borrowers.

### 3.2.9 Maximum exposure to credit

An 'exposure' is defined as the amount at risk arising from the Group's assets and off-balance sheet items. The Group's maximum credit risk with respect to on-and off-balance sheet items can be classified into the following categories:

- Financial assets recognised on-balance sheet comprising principally balances with cash and cash equivalents, loan receivables, receivables from sold portfolios and loans and advances to customers. The maximum exposure to credit risk of these financial assets equals their gross carrying amounts.
- Loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities. The maximum exposure to credit risk is the full amount of the committed facilities. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. These exposures are monitored in the same manner in respect of loans and advances and predominantly arise on revolving micro-credit facilities.

Ferratum Group's credit risk exposures relating to on-balance sheet assets, reflecting the maximum exposure to credit risk excluding collateral held or other credit enhancements are as follows:

| | 31 December 2019 Gross exposure € 000 | ECL allowance € 000 | 1 January 2019 Gross exposure € 000 | ECL allowance € 000 |
|---|---|---|---|---|
| **Credit risk exposures relating to on-balance sheet assets:** | | | | |
| Subject to IFRS 9 impairment allowances | | | | |
| Financial assets measured at amortised cost: | | | | |
| Cash and cash equivalents | 155,518 | 0 | 115,559 | 0 |
| Loans and advances to customers | 555,914 | 169,747 | 467,811 | 147,273 |
| Government bonds | 0 | 0 | 8,533 | 0 |
| Non-current receivables | 3,112 | 0 | 178 | 0 |
| Current receivables | 9,166 | 0 | 3,139 | 0 |
| **Credit risk exposure** | **723,710** | **169,747** | **595,220** | **147,273** |

## 3.2.10 Credit concentration risk

Within the Group, concentration risk of losses results from inadequate diversification of the credit exposures. This risk is managed by actively measuring, reporting and monitoring on a regular and ongoing basis, risk concentration levels against reasonable thresholds for counterparties, products, and territories.

**Credit concentration risk for counterparties**
Ferratum Group's loans and advances to customers comprise of retail exposures which are individually insignificant. The Group's loans and advances comprise a large number of customers accounts. Nonetheless, these exposures are monitored and reported frequently and rigorously.

**Credit concentration risk by geographical region**
The geographical concentration of the Group's financial assets as at the end of the reporting period has been analysed. For the purposes of this analysis, the Group has allocated exposures to regions based on the country of domicile of the respective customers or counterparties. The loans and advances to customers at 31 December 2019 are principally linked to lending and related operation in the following countries: Finland, Sweden and Poland.

## 3.2.11 Information on credit quality loans and advances to customers

Ferratum Group manages the credit quality of its loans and advances to customers by using internal risk grades, 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 to customers that attract this category principally comprise those where
(i) payment becomes overdue by 30 days, but does not exceed 60 days where a loan is deemed to be as non-performing when past due for more than 90 days;
(ii) and payment becomes overdue by 30 days but does not exceed 45 days where a loan is deemed to be as non-performing when past due for more than 60 days.

**Substandard**
Exposures that are categorised within this category comprise those where
(i) payment becomes overdue by 61 days but does not exceed 90 days for where a loan is deemed to be as non-performing when past dues for more than 90 days.
(ii) and where payment becomes overdue by 46 days, but does not exceed 60 days where a loan is deemed to be as non-performing when past due for more than 60 days.

**Doubtful**
Loans and advances which attract a 'Doubtful' grading are principally those assets in respect of which
(i) repayment becomes overdue by 61 days and over but not exceeding 180 days for where a loan is deemed to as non-performing when past due for more than 60 days;
(ii) and repayment becomes overdue by 91 days and over but not exceeding 180 days for a loan is deemed to be as non-performing when past due for more than 90 days.

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

| | 2019 | | | |
|---|---|---|---|---|
| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
| | €'000 | €'000 | €'000 | €'000 |
| Loans and advances to customers | | | | |
| Regular | 321,722 | 0 | 0 | 321,722 |
| Watch | 0 | 21,371 | 0 | 21,371 |
| Substandard | 0 | 11,715 | 0 | 11,715 |
| Doubtful | 0 | 0 | 32,154 | 32,154 |
| Loss | 0 | 0 | 168,952 | 168,952 |
| **Gross carrying amount** | **321,722** | **33,086** | **201,105** | **555,914** |
| Loss allowance | 23,330 | 8,822 | 137,594 | 169,747 |
| **Carrying amount** | **298,392** | **24,263** | **63,511** | **386,167** |
| **Impaired Loan Coverage Ratio (ICLR)** | **7.3%** | **26.7%** | **68.4%** | **30.5%** |

| | 2018 | | | |
|---|---|---|---|---|
| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
| | €'000 | €'000 | €'000 | €'000 |
| Loans and advances to customers | | | | |
| Regular | 262,280 | 0 | 0 | 262,280 |
| Watch | 0 | 12,783 | 0 | 12,783 |
| Substandard | 0 | 11,576 | 0 | 11,576 |
| Doubtful | 0 | 0 | 35,173 | 35,173 |
| Loss | 0 | 0 | 145,998 | 145,998 |
| **Gross carrying amount** | **262,280** | **24,359** | **181,172** | **467,811** |
| Loss allowance | 22,325 | 7,351 | 117,597 | 147,273 |
| **Carrying amount** | **239,955** | **17,008** | **63,575** | **320,538** |
| **Impaired Loan Coverage Ratio (ICLR)** | **8.5 %** | **30.2 %** | **64.9 %** | **31.5 %** |

## 3.2.12 Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers with a view to maximimising recovery. As explained previously, restructuring of loans granted by the Group is not deemed to constitute a forbearance measure in relation to customers experiencing difficulties in repaying the micro-credit.

More specifically, loan rescheduling is a concession which could be granted by the Group, in certain circumstances, in response to a customer's request. Under certain specified conditions, the Group provides loan rescheduling to borrowers by agreeing to modify the contractual payment terms of loans in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default. Rescheduling occurs when a customer applies to extend the loan repayment date, subject to the immediate payment of a rescheduling fee.

Rescheduling is only granted in situations where the customer has showed a willingness to repay the loan and is expected to be able to meet the obligation following the extension of the credit period. The Group's credit policy sets out restrictions on the number of rescheduling measures together with the minimum period of the Group's relationship with the customer before a rescheduling measure can be considered. Rescheduling usually takes place before due date, but the rescheduling option is also available after the due date.

The Group monitors the subsequent performance of modified assets. Given that the Group's rescheduling of facilities is not deemed to constitute a forbearance measure, this is not deemed to represent a qualitative indicator of a significant increase in credit risk.

The risk of default of modified assets is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial it does not result in derecognition of the original asset (refer to Note 2.10).

## 3.2.13 Loss Allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between 'Stage 1' and 'Stages 2' or 3 due to financial instruments experiencing significant increase or decrease in credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised during the period;

- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

*The following tables explain the changes in the loss allowance between the beginning and the end of the annual period:*

| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| **Loans and advances to customers at amortised cost** | | | | |
| **Loss allowance as at 1 January 2019** | **22,325** | **7,351** | **117,597** | **147,273** |
| Transfers of financial instruments | | | | |
| Transfer from Stage 1 to Stage 2 | (1,103) | 3,449 | - | 2,346 |
| Transfer from Stage 1 to Stage 3 | (5,557) | - | 25,381 | 19,823 |
| Transfer from Stage 2 to Stage 1 | 700 | (1,139) | - | (439) |
| Transfer from Stage 2 to Stage 3 | - | (5,031) | 7,973 | 2,941 |
| Transfer from Stage 3 to Stage 1 | 1,396 | - | (3,807) | (2,412) |
| Transfer from Stage 3 to Stage 2 | - | 208 | (218) | (10) |
| Other transfers - Aging change | (3,090) | (35) | 21,011 | 17,886 |
| Total remeasurement of loss allowance arising from transfers in stages | (7,654) | (2,548) | 50,339 | 40,137 |
| New financial assets originated or purchased | 53,705 | 9,292 | 51,789 | 114,785 |
| Changes to risk parameters (model inputs PDs/LGDs/EADs) | (2,212) | (1,415) | (1,415) | (5,041) |
| Financial assets derecognised during the year | (42,838) | (3,907) | (60,357) | (107,102) |
| Write-offs | - | - | (18,474) | (18,474) |
| Unwind of discount | - | - | (2,995) | (2,995) |
| FX and Other movements | 7 | 4 | 66 | 77 |
| Total net P&L charge during the year | 8,662 | 3,975 | (31,387) | (18,751) |
| Other movements | - | - | - | - |
| Write-offs | (2) | 44 | 1,045 | 1,087 |
| Loss allowance as at 31 December 2019 | 23,330 | 8,822 | 137,594 | 169,747 |

| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| **Loans and advances to customers at amortised cost** | | | | |
| **Loss allowance as at 1 January 2018** | **15,521** | **5,821** | **57,495** | **78,837** |
| Transfers of financial instruments | | | | |
| Transfer from Stage 1 to Stage 2 | (510) | 1,771 | - | 1,261 |
| Transfer from Stage 1 to Stage 3 | (4,920) | - | 18,275 | 13,355 |
| Transfer from Stage 2 to Stage 1 | 485 | (761) | - | (276) |
| Transfer from Stage 2 to Stage 3 | - | (5,435) | 6,656 | 1,221 |
| Transfer from Stage 3 to Stage 1 | 857 | - | (2,198) | (1,340) |
| Transfer from Stage 3 to Stage 2 | | 5 | (7) | (2) |
| Other transfers - Aging change | (1,086) | (1) | 6,805 | 5,718 |
| Total remeasurement of loss allowance arising from transfers in stages | (5,173) | (4,421) | 29,531 | 19,936 |
| New financial assets originated or purchased | 54,497 | 9,875 | 57,759 | 122,131 |
| Changes to risk parameters (model inputs PDs/LGDs/EADs) | (2,531) | (148) | 23 | (2,655) |
| Financial assets derecognised during the year | (40,391) | (3,978) | (38,704) | (83,073) |
| Write-offs | - | - | 10,461 | 10,461 |
| Unwind of discount | - | - | (922) | (922) |
| FX and Other movements | 636 | 303 | 3,277 | 4,217 |
| Total net P&L charge during the year | 12,212 | 6 053 | 31,895 | 50,159 |
| Other movements | - | | | |
| Write-offs | (234) | (101) | (1,324) | (1,659) |
| Loss allowance as at 31 December 2018 | 22,325 | 7,351 | 117,597 | 147,273 |

| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| **Loans and advances to customers at amortised cost** | | | | |
| Gross carrying amount as at 1 January 2019 | 262,280 | 24,359 | 181,172 | 467,811 |
| Transfers from stage 1 to stage 2 | (10,620) | 10,620 | - | - |
| Transfers from stage 1 to stage 3 | (50,598) | - | 50,598 | - |
| Transfers from stage 2 to stage 1 | 3,628 | (3,628) | - | - |
| Transfers from stage 2 to stage 3 | - | (14,947) | 14,947 | - |
| Transfers from stage 3 to stage 1 | 6,529 | - | (6,529) | - |
| Transfers from stage 3 to stage 2 | - | 410 | (410) | - |
| Total changes in gross carrying amounts arising from transfers in stages | (51,061) | (7,544) | 58,605 | - |
| New financial assets originated or purchased | 817,787 | 41,417 | 95,060 | 954,263 |
| Financial assets derecognised during the year | (708,386) | (25,215) | (112,758) | (846,360) |
| Write-offs | - | - | (17,387) | (17,387) |
| FX and Other Movements | 1,103 | 69 | (3,586) | (2,414) |
| Total net change during the year | 59,442 | 8,727 | 19,934 | 88,102 |
| Gross carrying amount as at 31 December 2019 | 321,722 | 33,086 | 201,105 | 555,914 |

| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| **Loans and advances to customers at amortised cost** | | | | |
| Gross carrying amount as at 1 January 2018 | 185,581 | 17,821 | 132,841 | 336,243 |
| Transfers from stage 1 to stage 2 | (5,189) | 5,189 | - | - |
| Transfers from stage 1 to stage 3 | (35,095) | - | 35,095 | - |
| Transfers from stage 2 to stage 1 | 2,291 | (2,291) | - | - |
| Transfers from stage 2 to stage 3 | - | (11,621) | 11,621 | - |
| Transfers from stage 3 to stage 1 | 4,639 | - | (4,639) | - |
| Transfers from stage 3 to stage 2 | - | 14 | (14) | - |
| Total changes in gross carrying amounts arising from transfers in stages | (29,199) | (9,934) | 39,133 | - |
| New financial assets originated or purchased | 723,101 | 30,509 | 93,880 | 847,490 |
| Financial assets derecognised during the year | (616,171) | (13,925) | (92,643) | (722,739) |
| Write-offs | - | - | 8,802 | 8,802 |
| FX and Other Movements | (1,031) | (113) | (841) | (1,985) |
| Total net change during the year | 76,699 | 6,538 | 48,331 | 131,568 |
| Gross carrying amount as at 31 December 2018 | 262,280 | 24,359 | 181,172 | 467,811 |

### 3.2.14 Write-off Policy

The Group writes off loans and advances to customers when it determines that these are uncollectible and it has exhausted all practical recovery efforts. This is generally the case when the Group has applied debt recovery strategies for a significant period of time and has concluded there is no reasonable expectation of recovery.

In those cases where it has no reasonable expectation of full or partial recovery from overdue micro-credit facilities, the Group may opt to conduct one-off loan portfolio sales with third parties or group companies. Subsequent to the conduct of such sales, the Group writes-off any unrecovered amounts (after taking into account expected credit losses originally reserved against the portfolio).

### 3.2.15 Collateral

The Group's short-term consumer lending portfolio is generally unsecured, in line with the typical nature and characteristics observed for short-term retail portfolios.

In Business Lending a factoring model has been introduced in one country where collateral is available. The portfolio relatively small though and not considered for the calculation of credit loss provisions.

### 3.3 Market Risk

Ferratum Group takes on exposure to market risks, which are the risks that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates and foreign exchange rates.

***a) Foreign exchange risk*** Ferratum Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Transaction risk arises from future commercial transactions, recognized assets and liabilities. Translation risk arises from net investments in foreign operations.

Ferratum Group treasury's risk management policy is to hedge the main FX exposures in non-euro currencies. Management has set up a policy to require Ferratum Group companies to manage their foreign exchange risk against their functional currency. The Group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. On the reporting date, the Group companies mainly had transactions in their respective functional currencies, and accordingly, the transaction risk in the Group companies was minimal.
The Group has several investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

Intra-group loans between the parent and other Group companies are usually denominated in the Group companies' functional currencies, which creates some transaction risk that is not eliminated in consolidation. Currency exposure arising from the monetary transactions in foreign currencies are managed primarily through foreign exchange swaps and futures contracts.

As a result of intra group borrowings, main foreign exchange risk arises from Polish zloty and Swedish crown. Based on the various scenarios, the Group manages its cash flow foreign exchange risk by using foreign exchange swaps and futures contracts. Part of the foreign exchange risk arising from the net assets denominated in Polish zloty (PLN) and Swedish crown (SEK) was hedged by using a PLN-EUR and SEK-EUR foreign exchange futures contracts.

The table below shows the the nominal value of the future contracts and the covering of the Group's net assets denominated in Polish zloty and Swedish crown.It also presents the effect in after-tax profit if the euro had weakened/strengthened by 10% againts the currencies with all other variables held constant.

| 31 Dec EUR '000 | PLN 2019 | PLN 2018 | SEK 2019 | SEK 2018 |
|---|---|---|---|---|
| Cash in bank | 8,140 | 1,117 | 3,517 | 2,943 |
| Portfolio | 45,940 | 44,037 | 13,852 | 13,578 |
| Intercompany loan | 21,099 | 2,978 | 67,148 | 43,362 |
| **Net position of group companies** | **71,179** | **48,132** | **84,517** | **59,883** |
| EUR/Currency swap | 41,589 | 35,368 | 42,368 | 21,494 |
| Swap covering net currency position % | 58% | 73% | 50% | 36% |

| Changes in after-tax EUR'000 | PLN 2019 | PLN 2018 | SEK 2019 | SEK 2019 |
|---|---|---|---|---|
| Currency up by 10% | 2,367 | 1,021 | 3,372 | 3,071 |
| Currency down by 10% | -2,367 | -1,021 | -3,372 | -3,071 |

**b) Cash flow and fair value interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Ferratum Group's main interest rate risk arises from long-term borrowings which are issued at fixed and variable rates. These expose Ferratum Group to cash flow interest rate risk which is partially offset by having a short-term loan portfolio as a main asset in the Group. Increasing refinancing cost can potentially be covered by corresponding price changes in the new loans granted whereby the spread between lending interest and borrowing interest is comparatively high. During the year ended December 31, 2019, Ferratum Group's borrowings at a variable rate were denominated in EUR.

| EUR '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| Fixed interest rate borrowings | 6,798 | 24,882 |
| Variable interest rate borrowings | 216,677 | 157,695 |
| **Total borrowings** | **223,476** | **182,577** |

Ferratum Group analyzes its interest rate exposures on a continous basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, Ferratum Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest- bearing positions.

## 3.4 Liquidity Risk

Cash flow forecasting is performed in the operating entities of Ferratum Group and aggregated by Ferratum Group finance. Ferratum Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes in to 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 - Surplus cash held by the operating entities over and above the balance required for working capital management are transferred to the Group treasury. Ferratum Group treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. On the reporting date, the Group had unused credit lines amounting to EUR 22.5 million.

The repayment schedule for financial liabilities as of December 31, 2019, including future interest payments, are as follows. Variable interest payments are estimated based on the spot interest rate level on the balance sheet date.

| 31 Dec 2019<br>EUR '000 | Less than 12 months | Between 1-2 years | Between 2-5 years | Over 5 years |
|---|---|---|---|---|
| Bank borrowings | 7,567 | | | |
| Interest | 757 | | | |
| Bonds issued | 40,000 | | 180,000 | |
| Interest | 12,400 | 9,900 | 10,267 | |
| Deposits from customers | 242,161 | | | |
| Interest | 1,734 | | | |
| Trade payables and other current liabilities | 6,685 | | | |
| Lease liabilities | 2,398 | 2,608 | 1,792 | |
| **Total, without derivatives** | **313,701** | **12,508** | **192,059** | **0** |
| Interest rate derivatives | - | | | |
| Gross settled foreign exchange futures contracts | | | | |
| - Inflow(-) | (113,983) | | | |
| - Outflow | 116,213 | | | |

| 31 Dec 2018<br>EUR '000 | Less than 12 months | Between 1-2 years | Between 2-5 years | Over 5 years |
|---|---|---|---|---|
| Bank borrowings | 20,000 | | | |
| Interest | 2,000 | | | |
| Bonds issued | 25,000 | 40,000 | 100,000 | |
| Interest | 8,609 | 6,125 | 7,792 | |
| Deposits from customers | 183,405 | | | |
| Interest | 2,731 | | | |
| Trade payables and other current liabilities | 11,977 | | | |
| **Total, without derivatives** | **253,722** | **46,125** | **107,792** | **0** |
| Interest rate derivatives | (47) | | | |
| Gross settled foreign exchange futures contracts | | | | |
| - Inflow(-) | (66,785) | | | |
| - Outflow | 67,269 | | | |

## 3.5 Capital management

Ferratum Group's objectives when managing capital are to safeguard Ferratum Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for the Group's stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Ferratum Group may adjust the amount of dividends paid to shareholders, issue new bonds or sell assets to reduce debt.

Ferratum Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by equity. Net debt is calculated as total liabilities (including 'current and non-current liabilities' as shown in the consolidated balance sheet) less cash and cash equivalents.

During the year ended December 31, 2019, Ferratum Group's strategy, which was unchanged from 2018, was to maintain the gearing ratio below 3.

| Net debt to equity ratio<br>EUR '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| Cash and cash equivalents | 155,518 | 115,559 |
| Government bonds | 0 | 8,533 |
| Borrowings due within 1 year | (289,675) | (228,287) |
| Borrowings due after 1 year | (169,164) | (137,695) |
| Lease liability due within 1 year | (2,389) | - |
| Lease liability due after 1 year | (4,400) | - |
| **Net debt** | **(310,118)** | **(241,890)** |
| | | |
| Cash and Government bonds | 155,518 | 124,092 |
| Gross debt - fixed interest rates | (248,959) | (208,287) |
| Gross debt - variable interest rates | (216,677) | (157,695) |
| **Net debt** | **(310,118)** | **(241,890)** |

| EUR '000 | Cash and Cash Equivalents | Government Bonds | Borrowings due within 1 year | Borrowings due after 1 year | Total |
|---|---|---|---|---|---|
| Net debt as at 1 January 2018 | **131,832** | **8,851** | **(244,042)** | **(64,049)** | **(167,408)** |
| Cash flow | (13,162) | (317) | 15,755 | (73,646) | (71,371) |
| Foreign exchange adjustments | (3,111) | | | | (3,111) |
| **Net debt as at 31 December 2018** | **115,559** | **8,533** | **(228,287)** | **(137,695)** | **(241,890)** |
| | | | | | |
| Cash flow | 43,208 | (8,533) | (63,786) | (35,869) | (64,980) |
| Foreign exchange adjustments | (3,248) | | | | (3,248) |
| **Net debt as at 31 December 2019** | **155,518** | **0** | **(292,073)** | **(173,564)** | **(310,118)** |

### 3.6 Carrying values and fair values of financial instruments

Financial assets and liabilities measured at fair value, and for which fair value is disclosed in the notes, are classified on three levels, depending on the estimated reliability of the valuation method:

Level 1: A quoted market price for identical instruments in an active market where the Group can access on the measurement date.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table shows the carrying amounts and fair values of the Group's financial instruments and their level of measurement, where the carrying amount is not a reasonable approximation of the fair value due to the short maturity:

| Financial instruments, EUR '000 | 31 Dec 2019 | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2018 | Level of fair value measurement |
|---|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value | |
| **Financial assets** | | | | | |
| Items recognized at amortized cost | | | | | |
| Government bonds | 0 | 0 | 8,533 | 8,551 | Level 1 |
| Items recognized at fair value through profit and loss | | | | | |
| Foreign exchange derivative | 15 | 15 | 21 | 21 | Level 2 |
| **Financial liabilities** | | | | | |
| Items recognized at amortized cost | | | | | |
| Loans from financial institutions | 7,567 | 7,567 | 20,000 | 20,000 | Level 3 |
| Bonds | 209,111 | 212,392 | 162,577 | 161,428 | Level 1 |
| Deposits from customers | 242,161 | 242,161 | 183,405 | 183,405 | Level 3 |
| Items recognized at fair value through profit and loss | | | | | |
| Foreign exchange derivative | 2,215 | 2,215 | 432 | 432 | Level 2 |
| Interest derivative | - | - | 47 | 47 | Level 2 |

The fair value of foreign exchange and interest derivatives are calculated as the present value of the estimated future cash flows based on observable yield curves.

Bonds are measured directly by reference to their market price in an active market.

Loans from financial institutions are fair valued based on the present value of the estimated future cash flows using the approximate interest rate for which Ferratum Group would get the loan on the reporting date. These are categorized within level 3, given that credit spread is a significant unobservable input based on management's estimation.

Carrying values for the Group's loans and receivables and trade and other short-term liabilities are a reasonable approximation of their fair value and accordingly, fair value is not presented.

## 4. Critical accounting estimates and judgements

The amounts recognized in the financial statements are sensitive to the accounting policies, assumptions and estimates that underlies the preparation of financial statements. The judgements made by management in applying the Group's accounting policies that have the most significant effect on the amounts recognized in the financial statements, together with information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are either disclosed below or in the remaining notes to the financial statements.

### 4.1 Impairment losses on loan and advances

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). The estimation of ECL is complex and requires the use of models. The statistical model used to calculate loss allowance are based on macro-economic scenarios. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 3.2.7.

The Group develops three scenarios to derive the unbiased and probability weighted ECL. In the process, management judgement is applied in determination of scenario setting and assignment of probability weighting for each scenario, with quantitative analysis of historical economic performance and qualitative analysis of macroeconomic environment. Explanation of how forward-looking information is incorporated in the ECL model is further detailed in note 3.2.8.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL.

## 5. Segment information

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

| Product | Microloan | PlusLoan | Credit Limit | Business (SMEs) | Mobile bank * |
|---|---|---|---|---|---|
| Loan amount € | 25 - 1,000 | 300 - 5,000 | Up to 4,000 | Up to 250,000 | 3,000 - 20,000 |
| Terms | 7 -90 days | 2 - 36 months | Digital revolvong credit line | 6 -24 months | 1 - 10 years |

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 to the share of revenue. Finance costs are allocated according to the portfolio size of related products types, i.e. their share in total loans and advances to customers

## 5.1 Business segments in 2019

| EUR '000 | Microloans | PlusLoans | Credit Limit | SME | Mobile bank* | Total |
|---|---|---|---|---|---|---|
| Revenue | 36,974 | 65,711 | 159,035 | 27,841 | 3,543 | 293,104 |
| Share in revenue, % | 12.6 | 22.4 | 54.3 | 9.5 | 1.2 | 100.0 |
| Other income | 17 | 29 | 71 | 12 | - | 130 |
| Directly attributable costs: | | | | | | |
| Impairments | (13,916) | (28,371) | (51,106) | (8,725) | (3,567) | (105,684) |
| Marketing | (2,536) | (7,834) | (21,871) | (5,617) | (970) | (38,828) |
| **Attributable profit margin** | **20,539** | **29,535** | **86,130** | **13,512** | **(995)** | **148,722** |
| Attributable profit margin, % | 55.6 | 44.9 | 54.2 | 48.5 | | 50.7 |
| Non-directly attributable costs: | | | | | | |
| Personnel expenses | (5,457) | (9,698) | (23,471) | (4,109) | (1,191) | (43,925) |
| Lending costs | (2,279) | (4,050) | (9,803) | (1,716) | - | (17,849) |
| Other administrative expenses | (112) | (199) | (481) | (84) | (802) | (1,678) |
| Depreciation and amortization | (1,156) | (2,054) | (4,971) | (870) | (1,771) | (10,822) |
| Other operating income and expenses | (3,478) | (6,181) | (14,960) | (2,619) | (1,678) | (28,916) |
| **Total non-directly attributable costs** | **(12,481)** | **(22,182)** | **(53,686)** | **(9,398)** | **(5,442)** | **(103,189)** |
| **Operating profit** | **8,058** | **7,353** | **32,444** | **4,114** | **(6,437)** | **45,532** |
| Gross profit margin, % | 21.8 | 11.2 | 20.4 | 14.8 | | 15.5 |
| Unallocated finance income | | | | | | 256 |
| Finance expenses | (1,035) | (3,323) | (7,603) | (3,086) | (700) | (15,746) |
| Unallocated finance expense | | | | | | (2,498) |
| Finance costs, net | (1,035) | (3,323) | (7,603) | (3,086) | (700) | (17,989) |
| **Profit before income tax** | **7,022** | **4,030** | **24,842** | **1,028** | **(7,136)** | **27,543** |
| Net profit margin, % | 19.0 | 6.1 | 15.6 | 3.7 | | 9.4 |
| Loans and advances to customers | 25,391 | 81,488 | 186,446 | 75,678 | 17,164 | 386,167 |
| Unallocated assets | | | | | | 232,660 |
| Unallocated liabilities | | | | | | 489,689 |

*Includes Mobile Bank and Primeloan

## 5.2 Business segments in 2018

| EUR '000 | Microloans | PlusLoans | Credit Limit | SME | Mobile bank* | Total |
|---|---|---|---|---|---|---|
| Revenue | 41,709 | 65,641 | 132,321 | 21,008 | 1,468 | 262,148 |
| Share in revenue, % | 15.9 | 25.0 | 50.5 | 8.0 | 0.6 | 100.0 |
| Other income | 39 | 61 | 123 | 19 | - | 241 |
| | | | | | | |
| Directly attributable costs: | | | | | | |
| Impairments | (19,692) | (20,477) | (40,720) | (5,739) | (1,868) | (88,496) |
| Marketing | (4,192) | (9,219) | (21,318) | (4,558) | (2,101) | (41,388) |
| **Attributable profit margin** | **17,863** | **36,005** | **70,406** | **10,731** | **(2,501)** | **132,505** |
| Attributable profit margin, % | 42.8 | 54.9 | 53.2 | 51.1 | | 50.5 |
| | | | | | | |
| Non-directly attributable costs: | | | | | | |
| Personnel expenses | (6,726) | (10,586) | (21,339) | (3,388) | (1,759) | (43,799) |
| Lending costs | (2,075) | (3,266) | (6,584) | (1,045) | - | (12,971) |
| Other administrative expenses | (232) | (366) | (737) | (117) | (897) | (2,350) |
| Depreciation and amortization | (627) | (986) | (1,988) | (316) | (1,307) | (5,223) |
| Other operating income and expenses | (4,679) | (7,364) | (14,844) | (2,357) | (1,120) | (30,363) |
| **Total non-directly attributable costs** | **(14,339)** | **(22,567)** | **(45,492)** | **(7,223)** | **(5,084)** | **(94,706)** |
| **Operating profit** | **3,524** | **13,438** | **24,913** | **3,509** | **(7,584)** | **37,799** |
| Gross profit margin, % | 8.4 | 20.5 | 18.8 | 16.7 | | 14.4 |
| | | | | | | |
| Unallocated finance income | | | | | | 124 |
| Finance expenses | (1,031) | (2,861) | (5,410) | (1,713) | (271) | (11,286) |
| Unallocated finance expense | | | | | | (4,304) |
| Finance costs, net | (1,031) | (2,861) | (5,410) | (1,713) | (271) | (15,466) |
| **Profit before income tax** | **2,493** | **10,577** | **19,503** | **1,795** | **(7,856)** | **22,333** |
| Net profit margin, % | 6.0 | 16.1 | 14.7 | 8.5 | | 8.5 |
| | | | | | | |
| Loans and advances to customers | 29,273 | 81,251 | 153,650 | 48,654 | 7,710 | 320,538 |
| Unallocated assets | | | | | | 179,654 |
| Unallocated liabilities | | | | | | 392,812 |

*Includes Mobile Bank, FerBuy, Primeloan and Ferratum P2P

## 5.3 Revenue

| EUR '000 | 2019 | 2018 |
|---|---|---|
| Revenue, international | 246,132 | 216,077 |
| Revenue, domestic | 46,972 | 46,071 |
| **Total revenue** | **293,104** | **262,148** |

### 5.4 Revenue of business segments geographically

In addition to operating segments represented by different types of products the management of Ferratum Group continues analysis of revenue by geographical location. All the countries where the Group has operating activities are combined into four regions. The detailed list of countries within each region together with the total regions' revenues for the year ended 31 December 2019 and the year ended 31 December 2018 are presented in the following table.

| EUR '000 | | 2019 | 2018 |
|---|---|---|---|
| Northern Europe | Finland, Sweden, Denmark, Norway | 127,081 | 111,884 |
| Western Europe | France, Germany, Netherlands, Spain, UK | 57,912 | 56,899 |
| Eastern Europe | Bulgaria, Croatia, Czech, Estonia, Latvia, Lithuania, Poland, Romania, Russia, Slovakia | 97,138 | 83,344 |
| Rest of the World | Australia, Brazil, Canada, Mexico, New Zealand, Nigeria | 10,973 | 10,021 |
| **Total revenue** | | **293,104** | **262,148** |

## 6. Personnel expenses

| EUR '000 | 2019 | 2018 |
|---|---|---|
| Salaries and other employee benefits (incl. bonuses) | (33,303) | (32,031) |
| Statutory pension costs | (1,754) | (1,687) |
| Other personnel expenses | (7,427) | (7,652) |
| Share-based payments equity settled | (1,441) | (2,429) |
| **Total personnel expenses** | **(43,925)** | **(43,799)** |

## 7. Depreciation and amortisation

| EUR '000 | 2019 | 2018 |
|---|---|---|
| **Tangible assets** | | |
| Machinery & Equipment | (527) | (422) |
| Other tangible assets | (198) | (167) |
| Right-of-use assets | (2,503) | |
| **Total tangible assets** | **(3,228)** | **(588)** |
| **Intangible assets** | | |
| Trademarks and licenses | - | (2) |
| Internally generated software development costs | (4,658) | (3,352) |
| IT Software | (2,936) | (1,280) |
| **Total intangible assets** | **(7,594)** | **(4,634)** |
| **Total depreciation and amortization** | **(10,822)** | **(5,223)** |

## 8. Other operating expenses

| EUR '000 | 2019 | 2018 |
|---|---|---|
| Rent | - | (2,690) |
| Other office expenses | (1,848) | (2,139) |
| Expenses relating to short-term leases | (203) | - |
| Travel expenses | (1,805) | (1,665) |
| Professional fees (excl. Audit) | (9,067) | (9,900) |
| Audit fees | (807) | (480) |
| Other expenses | (15,186) | (13,489) |
| **Total other operating expenses** | **(28,916)** | **(30,363)** |

### Audit fees and other services from audit companies

| EUR '000 | 2019 | 2018 |
|---|---|---|
| **PwC** | | |
| Audit fees | 605 | 360 |
| Non-audit fees: | | |
| Audit related services | | 26 |
| Tax advice | 17 | 41 |
| Other services | 652 | 51 |
| **Other audit companies** | | |
| Audit fees | 202 | 120 |
| Non-audit fees: | | |
| Tax advice | 176 | 258 |
| Other services | 39 | 30 |
| **Total audit fees** | **807** | **480** |
| **Total non-audit fees** | **884** | **407** |

PricewaterhouseCoopers Oy has provided non-audit services to entities of Ferratum Group in total 52 thousand euros during the financial year 2019. These services included auditors' statements (0 thousand euros), tax services (0 thousand euros) and other services (52 thousand euros).

## 9. Finance income

| EUR '000 | 2019 | 2018 |
|---|---|---|
| Interest income from cash and cash equivalents | 209 | 86 |
| Derivatives held for trading – net gain | 47 | 38 |
| **Total finance income** | **256** | **124** |

## 10. Finance costs

| EUR '000 | 2019 | 2018 |
|---|---|---|
| Interest on borrowings | (15,746) | (12,803) |
| Interest expenses on leases | (469) | 0 |
| Foreign exchange loss on liabilities | (2,029) | (2,787) |
| **Total finance costs** | **(18,244)** | **(15,590)** |

## 11. Income tax expenses

| EUR '000 | 2019 | 2018 |
|---|---|---|
| **Current tax:** | | |
| Current tax on profits for the year | (3,450) | (4,026) |
| Adjustments in respect of prior years | 149 | 536 |
| Other direct taxes | (578) | (319) |
| **Total current tax** | **(3,879)** | **(3,809)** |
| **Deferred tax:** | | |
| Origination and reversal of temporary differences | (16) | 770 |
| Transfer to distributable funds | 0 | (20) |
| Impact of change on the corporate tax rates | 0 | 0 |
| **Total deferred tax** | **(16)** | **750** |
| **Total income tax expense** | **(3,895)** | **(3,060)** |

**The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:**

| EUR '000 | 2019 | 2018 |
|---|---|---|
| **Profit before tax** | **27,543** | **22,333** |
| Tax calculated at Finnish tax rate | (5,509) | (4,467) |
| Tax effects of: | | |
| – Difference between Finnish tax rate and rates in other countries | 3,198 | 3,260 |
| – Income not subject to tax | 1,540 | 547 |
| – Expenses not deductible for tax purposes | (1,465) | (2,198) |
| – Utilization of previously unrecognized tax losses | 82 | 375 |
| – Tax losses for which no deferred income tax asset was recognized | (1,225) | (782) |
| – Tax assets recognised from previously unrecognised Tax losses | 196 | (3) |
| – Write down of previously recognised tax losses | (275) | (9) |
| Adjustment in respect of prior years | 149 | 536 |
| Other direct taxes | (586) | (319) |
| **Tax charge** | **(3,895)** | **(3,060)** |

After carefully assessing any uncertain tax positions, the company has concluded that all uncertain tax positions if any have been recorded in accounting.

| EUR '000 | 2019 | 2018 |
|---|---|---|
| **Losses on carried forward balance on 31 December** | **19,142** | **15,856** |
| of which | | |
| – expires in one year | 1,279 | 4,596 |
| – expires in two years' time | 296 | 886 |
| – expires in later than two years | 17,567 | 10,375 |

The company has in total EUR 6,266,973 of losses carried forward for which no deferred tax assets has been recognized with maturity of 5 years.

## 12. Earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the company and held as treasury shares.

Diluted earnings per share 2018 is calculated by adjusting the weighted average number of all shares to assume conversion of all options granted to employees. Options are considered to be potential ordinary share since each option may be converted into one ordinary share. In 2019 options were not considered as dillutive because the exercise price is less than average share price of the period. Option plans are described in disclosure 25.

| EUR '000 | 2019 | 2018 |
|---|---|---|
| Profit for the reporting period attributable to owners of the parent | 23,648 | 19,274 |
| Weighted average number of ordinary shares in issue | 21,578 | 21,578 |
| Adjustment for calculation of diluted earnings per share: | | |
| Options | - | 134 |
| Diluted weighted average number of ordinary shares in issue | - | 21,712 |
| **Earnings per share, basic, EUR** | **1.10** | **0.89** |
| **Earnings per share, diluted, EUR** | **1.10** | **0.89** |

## 13. Property, plant and equipment

| EUR '000 | Machinery & Equipment | Other tangible assets | Total |
|---|---|---|---|
| | | | |
| **Cost, opening balance, as of 1 January 2018** | **1,881** | **2,630** | **4,512** |
| Year ended 31 December 2018 | | | |
| Additions of the period | 1,208 | 53 | 1,261 |
| Disposals of the period | (1) | | (1) |
| **Cost, closing balance, as of 31 December 2018** | **3,088** | **2,683** | **5,771** |
| | - | - | - |
| **Cumulative depreciation, opening balance, as of 1 January 2018** | **(863)** | **(166)** | **(1,029)** |
| Year ended 31 December 2018 | | | |
| Depreciation for the period | (422) | (167) | (588) |
| Impairment | 1 | - | 1 |
| **Cumulative depreciation, closing balance, as of 31 December 2018** | **(1,284)** | **(333)** | **(1,616)** |
| **Net book amount, opening balance** | **1,018** | **2,464** | **3,482** |
| **Net book amount, closing balance** | **1,804** | **2,350** | **4,155** |
| **Cost, opening balance, as of 1 January 2019** | **3,088** | **2,683** | **5,771** |
| Year ended 31 December 2019 | | | |
| Additions of the period | 411 | 31 | 442 |
| Disposals of the period | (11) | | (11) |
| Reclassification during the period | (6) | | (6) |
| **Cost, closing balance, as of 31 December 2019** | **3,483** | **2,714** | **6,197** |
| | | | |
| **Cumulative depreciation, opening balance, as of 1 January 2019** | **(1,284)** | **(333)** | **(1,617)** |
| Year ended 31 December 2019 | | | |
| Depreciation for the period | (494) | (200) | (694) |
| Impairment | 9 | | 9 |
| **Cumulative depreciation, closing balance, as of 31 December 2019** | **(1,769)** | **(533)** | **(2,301)** |
| **Net book amount, opening balance** | **1,804** | **2,350** | **4,155** |
| **Net book amount, closing balance** | **1,714** | **2,182** | **3,896** |

## 14. Right-of-use assets

| EUR '000 | Office premises | Machinery and equipment | Total |
|---|---|---|---|
| **Cost, opening balance, as of 1 January 2019** | **8,003** | **23** | **8,025** |
| Year ended 31 December 2019 | | | |
| Additions of the period | 897 | 742 | 1,639 |
| Disposals of the period | (604) | | (604) |
| **Cost, closing balance, as of 31 December 2019** | **8,296** | **765** | **9,060** |
| **Cumulative depreciation, opening balance, as of 1 January 2019** | **-** | **-** | **-** |
| Year ended 31 December 2019 | | | |
| Cumulative depreciation of disposals | 136 | | 136 |
| Depreciation for the period | (2,302) | (201) | (2,503) |
| **Cumulative depreciation, closing balance, as of 31 December 2019** | **(2,166)** | **(201)** | **(2,367)** |
| **Net book amount, opening balance** | **8,003** | **23** | **8,025** |
| **Net book amount, closing balance** | **6,130** | **563** | **6,693** |

## 15. Intangible assets

| NEW TABLE | Immaterial rights | Internally generated software development costs | Computer Software | Total |
|---|---|---|---|---|
| **Cost, opening balance, as of 1 January 2018** | **1,109** | **18,736** | **5,994** | **25,840** |
| Year ended 31 December 2018 | | | | |
| Additions of the period | 0 | 10,488 | 4,289 | 14,777 |
| Disposals of the period | | | | |
| **Cost, closing balance, as of 31 December 2018** | **1,109** | **29,224** | **10,284** | **40,617** |
| **Cumulative depreciation, opening balance, as of 1 January 2018** | **(1,106)** | **(1,241)** | **(3,455)** | **(5,802)** |
| Year ended 31 December 2018 | | | | |
| Cumulative depreciation of disposals | | 47 | | 47 |
| Depreciation for the period | (2) | (3,352) | (1,280) | (4,634) |
| **Cumulative depreciation, closing balance, as of 31 December 2018** | **(1,109)** | **(4,546)** | **(4,735)** | **(10,390)** |
| **Net book amount, opening balance** | **3** | **17,495** | **2,539** | **20,037** |
| **Net book amount, closing balance** | **1** | **24,678** | **5,549** | **30,227** |
| **Cost, opening balance, as of 1 January 2019** | **1,109** | **29,224** | **10,284** | **40,617** |
| Year ended 31 December 2019 | | | | |
| Additions of the period | 0 | 9,492 | 3,154 | 12,646 |
| Disposals of the period | (2) | (359) | | (361) |
| Reclassifications | | (11,118) | 11,124 | 6 |
| **Cost, closing balance, as of 31 December 2019** | **1,107** | **27,239** | **24,561** | **52,907** |
| **Cumulative depreciation, opening balance, as of 1 January 2019** | **(1,109)** | **(4,546)** | **(4,735)** | **(10,390)** |
| Year ended 31 December 2019 | | | | |
| Cumulative depreciation of disposals | 2 | | | 2 |
| Depreciation for the period | 0 | (4,299) | (2,940) | (7,239) |
| Reclassifications | 0 | 655 | (655) | 0 |
| **Cumulative depreciation, closing balance, as of 31 December 2019** | **(1,107)** | **(8,190)** | **(8,330)** | **(17,627)** |
| **Net book amount, opening balance** | **1** | **24,678** | **5,549** | **30,227** |
| **Net book amount, closing balance** | **0** | **19,049** | **16,232** | **35,281** |

Ferratum Group has neither tangible nor intangible assets pledged as securities for any borrowings.

## 16. Deferred tax assets and liabilities

### Changes in deferred taxes during the financial year 2019

| EUR '000 | on 1 Jan 2019 | Recognized in income statement | Recognized in Equity | Translation difference | on 31 Dec 2019 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Tax losses carried forward | 3,286 | 1,204 | | 117 | 4,606 |
| Deferred revenue and credit loss reserve | 7,310 | (1,124) | | (5) | 6,181 |
| Derivative | 26 | | | | 26 |
| **Total** | **10,622** | **80** | | **111** | **10 ,813** |
| **Deferred tax liabilities** | | | | | |
| Discretionary provisions | 581 | 100 | | (8) | 672 |
| **Deferred tax net** | **10,041** | **(20)** | | **120** | **10 141** |

### Changes in deferred taxes during the financial year 2018

| EUR '000 | on 1 Jan 2018 | Recognized in income statement | Recognized in Equity | Translation difference | on 31 Dec 2018 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Tax losses carried forward | 2,301 | 250 | 856 | (121) | 3,286 |
| Deferred revenue and credit loss reserve | 1,431 | 987 | 4,893 | (1) | 7,310 |
| Derivative | 26 | | | | 26 |
| **Total** | **3,757** | **1,237** | **5,749** | **(122)** | **10,622** |
| **Deferred tax liabilities** | | | | | |
| Discretionary provisions | 118 | 466 | 0 | (3) | 581 |
| **Deferred tax net** | **3,639** | **771** | **5,749** | **(118)** | **10,041** |

## 17. Other financial assets

| EUR '000 | 2019 | 2018 |
|---|---|---|
| Investments | 717 | 1,188 |
| Other non-current loan receivables | 3,112 | 178 |
| **Total** | **3,829** | **1,365** |

## 18. Other receivables

| EUR '000 | 2019 | 2018 |
|---|---|---|
| Receivables from sold client portfolios | 7,309 | 2,119 |
| VAT-receivables | 1,048 | 646 |
| Rent and other deposits | 1,857 | 1,019 |
| Other prepayments and accrued income on expenses | 4,234 | 4,427 |
| **Total** | **14,448** | **8,211** |

## 19. Cash and cash equivalents

| EUR '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| Cash at bank and in hand | 155,518 | 115,559 |
| **Cash and cash equivalents** | 155,518 | 115,559 |

## 20. Share capital and other reserves and distributions to equity holders of the parent

| EUR '000 | Number of shares | Share capital | Treasury shares | Unrestricted equity reserve | Other reserves |
|---|---|---|---|---|---|
| **On 1 Jan 2018** | **21,723,960** | **40,134** | **(142)** | **14,708** | **(2,240)** |
| Increase of share capital | | | | | |
| Distribution of funds | | | | | |
| Currency translation differences | | | | | (739) |
| Transfer between items | | | | | 767 |
| **On 31 Dec 2018** | **21,723,960** | **40,134** | **(142)** | **14,708** | **(2,211)** |
| Increase of share capital | | | | | |
| Distribution of funds | | | | | |
| Currency translation differences | | | | | (1,113) |
| Transfers between items | | | | | 1 |
| **On 31 Dec 2019** | **21,723,960** | **40,134** | **(142)** | **14,708** | **(1,098)** |

The par value of each share is 1 EUR. The cumulative translation differences of EUR 1,113,000 in the statement of changes in consolidated shareholders' equity contain the translation differences arising from translating the financial statements of non-euro area business units.

On 31 December 2019, Ferratum Group had 146,200 treasury shares in its possession which represent approximately 0.7% of the share capital. No consideration is paid to the treasury shares in a distribution of equity.

The unrestricted equity reserve contains the amount paid for shares in a share issue and the amount when converting convertible capital notes to shares. Other reserves include legal reserves in Ferratum Group companies.

# 21. Interest bearing liabilities

| EUR '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| **Non-current interest bearing liabilities** | | |
| Bank borrowings | | |
| Bonds issued | 169,164 | 137,695 |
| Lease liabilities | 4,400 | - |
| **Total non-current interest bearing liabilities** | **173,564** | **137,695** |
| **Current interest bearing liabilities** | | |
| Bank borrowings | 7,567 | 20,000 |
| Bonds issued | 39,947 | 24,882 |
| Lease liabilities | 2,398 | - |
| Deposits from customers | 242,161 | 183,405 |
| **Total current interest bearing liabilities** | **292,073** | **228,287** |
| | | |
| **Total interest bearing liabilities** | **465,637** | **365,982** |

2019: In April Ferratum Group has issued EUR 80 million bond with a tap option of EUR 70 million due in April 2023. Interest rate of the bond issued is 5.50% + 3M euribor. In June 2019 Ferratum has repaid EUR 25 million 4.875% bearer bond.

2018: In May 2018 Ferratum Group issued EUR 100 million bond with a tap option of EUR 50 million due in May 2022.

## 22. Current non-interest bearing liabilities

| EUR '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| **Current tax liabilities** | **4,539** | **3,372** |
| **Trade payables** | **5,235** | **10,522** |
| **Other current liabilities** | **11,390** | **11,877** |
| Interest liabilities | 1,450 | 1,455 |
| Accrued employee expenses | 4,153 | 2,551 |
| Other current accrued liabilities on expenses, interest-free | 5,788 | 7,871 |
| **Total current non-interest bearing liabilities** | **21,165** | **25,771** |

## 23. Related party disclosure

Ferratum Group is controlled by Jorma Jokela, who owns 55.05% of the parent company's shares. The company also holds treasury shares.

Related parties of Ferratum Group are members of the board, senior management team, their close family members and the companies in which the member of the board or senior management team and their close family members has significant control or joint control. Also companies where Ferratum's controlling individual has control, joint control or significant influence is considered to be a related party of Ferratum Group.

## Transactions with related parties

| EUR '000 | 2019 | 2018 |
|---|---|---|
| Purchase of services from related parties – Entity controlled by key management personnel | 885 | 1,136 |

The Group has business relationships with related party companies. The acquired services include administrative services, project management, advisory and consulting services and legal counselling. The Group has bought the security and recruiting services (EUR 127 thousand) from the companies which are controlled by the Managing Director and legal and financial consultancy services (EUR 758 thousand) from the companies which are controlled by the Board Members and the senior Management team members. Related party transactions have been carried out on generally accepted market terms and they have been based on the market price of goods and services

## Key management compensation

| EUR '000 | 2019 | 2018 |
|---|---|---|
| **Compensation to key management** (consisting of the Board of Directors and the senior management team) | | |
| Salaries and other short-term employee benefits | 2,282 | 2,618 |
| Statutory pension costs | - | 178 |
| Share-based payments | 187 | 298 |
| **Total** | **2,468** | **3,094** |
| **Compensation for members of the Board of Directors and CEO** | | |
| **Jorma Jokela,** CEO, Member of the Board of Directors | | |
| Salaries and other short-term employee benefits | 216 | 208 |
| **Juhani Vanhala,** Chairman of the Board of Directors | | |
| Salaries and other short-term employee benefits | 26 | 18 |
| Share-based payments | 7 | 5 |
| **Goutam Challagalla,** Member of the Board of Directors | | |
| Salaries and other short-term employee benefits | 17 | |
| **Miachael Cusumano,** Member of the Board of Directors | | |
| Salaries and other short-term employee benefits | 17 | |
| **Christopher Wang,** Member of the Board of Directors | | |
| Salaries and other short-term employee benefits | 23 | 18 |
| **Lea Liigus,** Member of the Board of Directors | | |
| Share-based payments | 180 | 206 |
| **Kati Hagros,** Member of the Board of Directors | | |
| Salaries and other short-term employee benefits | 17 | |
| **Frederik Strange**, Member of the Board of Directors | | |
| Salaries and other short-term employee benefits | 17 | |
| **Total** | **519** | **455** |

The retirement age of CEO is 65 years and he has no pension plan.

## 24. Commitments

| EUR '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| **Credit limit agreement** | | |
| Total amount of limits granted to Ferratum | 30,111 | 35,111 |
| Limit in use | 7,567 | 20,000 |
| **Collateral on own debt** | | |
| Guarantees | 220,000 | 165,000 |
| Corporate pledge | 20,000 | 20,000 |
| Pledged subsidiary shares | 11 | 11 |
| **Operating lease under IAS 17** | | |
| Lease liabilities due within the next 12 months | 0 | 1,728 |
| Lease liabilities due after the next 12 months | 0 | 1,671 |
| **Total operating lease liabilities** | **0** | **3,399** |

## 25. Share-based payments

### Employee option plan 2014

During October 2014, selective key management employees were granted options to purchase a total of 238,000 shares of the company from Jorma Jokela. The exercise period started on 15 January, 2015, and ended on 15 June, 2016, and there are no vesting conditions attached to the options or shares. The exercise period for 170,000 of these options was extended to 31 December 2017, of which 84,500 were further extended to 31 December 2019. The total fair value of the options on the grant date is approximately EUR 977,027 and the valuation of the share options are made using the Black-Scholes model taking into consideration the terms and conditions of the grant and the absence of a liquid market for the company's shares. Given that there are no vesting conditions attached to the shares, the total fair value is recognized as share-based compensation expense in the company's profit or loss with a corresponding entry to equity on day one. This expense has no cash impact on the company. Selective key management personnels exercised options to purchase a total of 34,000 shares in 2016, 59,500 shares in 2015, 60,000 shares in 2017 and 84,500 shares in 2018.

**Employee option plans 2015, 2016, 2017 and 2018**

New employee option plans were introduced in April and August 2015, in April and December 2016 and in January, September and November 2017 and in April 2018 designed to provide long-term incentives for key management and employees to deliver long-term shareholder returns and increase their commitment to the company. Under the plans, participants are granted options with a defined fixed exercise price which only vest if the EBITDA in the audited consolidated statements under IFRS of the company has grown by an average of 25% a year during the four financial years prior to the commencement of the exercising period of the options. Options are granted under the plan for no consideration and carry no dividend or voting rights. When exercisable, each option may be converted into one ordinary share. The share subscription price for each option issued in 2015, 2016 and 2017 shall be EUR 11.90, which constitutes 70% of the initial public offering price of the company's share on Frankfurt Stock Exchange on 6 February, 2015. The share subscription price for each option issued in 2018 shall be 13,50, which constitutes approximately 50% of the price of the Company's share in Frankfurt Stock Exchange on the date of approval of the issued shares. The total fair value of the options issued in 2015 on the grant date is approximately EUR 1,415 thousand (EUR 6.46 per option). The total fair value of the options issued in 2016 on the grant date is approximately EUR 1,251 thousand (EUR 5.78 per option). The total fair value of the options issued in 2017 on the grant date is approximately EUR 2,666 thousand (EUR 8.29 per option). The total fair value of the options issued in 2018 on the grant date is approximately EUR 1.937 thousand (EUR 10.76 per option). The fair value on the grant date is independently determined using the Black-Scholes model taking into consideration the terms and conditions of the grant. The material model inputs for options granted during the year ended 31 December 2015, the year ended 31 December 2016, the year ended 31 December 2017 and the year ended 31 December 2018, includes the exercise price, the term of the option, the share price on the grant date and the expected price volatility of the underlying shares. The expected dividend yield and the risk-free interest rate for the term of the option did not have a material effect on the option value on the grant date.The main parameters used in defining the fair value of the option programs 2018, 2017, 2016, 2015, 2014 are:

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Share price on the date of issue, EUR * | 27.20 | 21.68 | 20.76 | 22.47 | 6.75 |
| Original subscription price, EUR | 13.5 | 11.9 | 11.9 | 11.9 | 2.65 |
| Duration (years) | 1-4 | 1-4 | 4 | 4 | 4 |
| Expected volatility, % | 40 | 40 | 40 | 40 | 40 |
| Fair value of option on the date of issue, EUR | 10.76 | 8.29 | 5.78 | 6.46 | 4.11 |

*2018: weighted average value of 180,000 options with a share price of EUR 27.20 on the date of issue. 2017: weighted average value of 158,500 options with a share price of EUR 17.20 on the date of issue, 113,000 options with a share price of EUR 25.74 on the date of issue and 50,000 options with a share price of EUR 26.72 on the date of issue; 2016: weighted average value of 144,875 options with a share price of EUR 23.62 on the date of issue and 71,500 options with a share price of EUR 14.99 on the date of issue; 2015: weighted average value of 192,100 options with a share price of EUR 22.50 on the date of issue and 26,860 options with a share price of EUR 22.27 on the date of issue; 2014: pre-IPO valuation based on Black-Scholes model assumptions.

## Share options outstanding at the end of the year ended 31 December 2019

| Grant date | Number of options granted | Number of employees | Share price on grant date, EUR | Unexercised options | Exercise price, EUR | Share subscription period |
|---|---|---|---|---|---|---|
| 31 October, 2014 | 238,000 | 3 | 6.75 | 0 | 2.65 | 15 Jan, 2015 – 31 Dec, 2019 |
| 10 April, 2015 | 192,100 | 35 | 22.50 | 106,760 | 11.90 | 1 May, 2019 – 30 Apr, 2021 |
| 1 August, 2015 | 26,860 | 3 | 22.27 | 20,060 | 11.90 | 2 Aug, 2019 – 31 July, 2021 |
| 1 April, 2016 | 144,875 | 85 | 23.62 | 88,250 | 11.90 | 2 Apr, 2020 – 30 Mar, 2022 |
| 1 December, 2016 | 71,500 | 7 | 14.99 | 71,500 | 11.90 | 2 Dec, 2020 – 30 Nov, 2022 |
| 1 January, 2017 | 158,500 | 98 | 17.20 | 122,500 | 11.90 | 2 Jan, 2021 – 31 Dec, 2022 |
| 25 September, 2017 | 113,000 | 7 | 25.74 | 99,000 | 11.90 | 26 Sep, 2018 – 24 Sep, 2023 |
| 1 November, 2017 | 50,000 | 1 | 26.72 | 0 | 11.90 | 2 Nov, 2018 – 31 Oct, 2023 |
| 18 April, 2018 | 180,000 | 86 | 27.20 | 118,400 | 13.50 | April 19, 2019 - April 17, 2024 |
| **Total** | **1,174,835** | | | **626,470** | | |

## Share options outstanding at the end of the year ended 31 December 2019

On 31 December 2019 the vesting period left for the options granted in April 2016 equals 0.3 years, for the options granted in December 2016 and January 2017 equals 1 year. The options granted in September and November 2017 and April 2018 have 4 different vesting periods: 1 year, 2 years, 3 years and 4 years. 2018 A options vesting period ended in 2019. The EBITDA requirements of these options were not achieved and total of 29 600 options were forfeited.

Change in the number of options outstanding during the years ended 31 December 2019 and 2018:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Average exercise price per share option | Number of options | Average exercise price per share option | Number of options |
| Number of options outstanding on January 1 | 12.26 | 715,615 | 10.85 | 742,960 |
| Granted options during the year | - | - | 13.50 | 180,000 |
| Exercised options during the year | - | - | 2.65 | (84,500) |
| Forfeited options during the year | 11.73 | (89,145) | 12.17 | (122,485) |
| **Number of options outstanding on 31 December** | **12.20** | **626,470** | **12.26** | **715,615** |
| Vested and exercisable options on 31 December | 11.90 | 166,420 | 11.90 | 19,800 |

## Performance share plan 2019

In April 2019 the Board of Directors of Ferratum Oyj approved a share based long-term incentive plan for Ferratum Group´s key personnel with Group revenue growth and EBITDA targets. These targets were not reached during the financial year 2019 and no share awards were given.

Total expenses arising from share-based payment transactions recognized during the years ended 31 December 2019, and 2018 as part of employee benefit expense are as follows:

| | 2019 | 2018 |
|---|---|---|
| Employee option plans 2015 | 153,715 | 470,836 |
| Employee option plans 2016 | 389,949 | 535,085 |
| Employee option plans 2017 | 609,552 | 706,034 |
| Employee option plans 2018 | 288,051 | 717,199 |
| **Total expenses of share-based payment transactions** | **1,441,267** | **2,429,154** |

## 26 Subsequent events

The Board of Ferratum Oyj expects the global crisis caused by the Covid-19 pandemic to have a material impact on the Group's earnings. Current customers' payment behavior may deteriorate in the near future, which means increased impairments. Ferratum Group monitors its loan portfolio and the payment behavior of its customers on a daily basis and is prepared to react to any negative changes, for example by limiting the issuance of new loans. Given that there is no precedent for the current situation in recent history and we are hearing daily about new government action to curb the mobility of their citizens and support their economies, it is impossible to accurately assess the impact that the Covid-19 pandemic will have. However, the Group is confident that it will be able to continue as a going concern and that there are no critical risks associated with the organization or liquidity of its operations.

# 27. Group companies

| Ownership in Group companies | Country | Group share of holding | Parent company share of holding |
|---|---|---|---|
| Auxilium Limited | Malta | 100% | 0% |
| Bidellus Bangladesh Ltd | Bangladesh | 100% | 0% |
| Bidellus Nigeria Limited | Nigeria | 100% | 0% |
| Ferratum (Malta) Holding Limited | Malta | 100% | 99.99999% |
| Ferratum Australia Pty Ltd | Australia | 100% | 100% |
| Ferratum Bank p.l.c. | Malta | 100% | 0.00001% |
| Ferratum Brazil Servicos De Correspondente Bancario Ltda | Brazil | 100% | 99% |
| Ferratum Bulgaria EOOD | Bulgaria | 100% | 100% |
| Ferratum Canada Inc | Canada | 100% | 100% |
| Ferratum Capital Germany GmbH | Germany | 100% | 100% |
| Ferratum Capital Oy | Finland | 100% | 100% |
| Ferratum Capital Poland S.A. (in liquidation) | Poland | 100% | 100% |
| Ferratum Chile Ltda | Chile | 100% | 99% |
| Ferratum Czech s.r.o. | Czech Republic | 100% | 100% |
| Ferratum Denmark ApS | Denmark | 100% | 100% |
| Ferratum Finland Oy | Finland | 100% | 100% |
| Ferratum Georgia LLC | Georgia | 100% | 100% |
| Ferratum Germany GmbH | Germany | 100% | 100% |
| Ferratum International Services Oy | Finland | 100% | 100% |
| Ferratum Latvia SIA | Latvia | 100% | 100% |
| Ferratum Mexico S. de R.L. de C.V. | Mexico | 100% | 99.99% |
| Ferratum New Zealand Ltd. | New Zealand | 100% | 100% |
| Ferratum Peru S.A.C. | Peru | 100% | 99% |
| Ferratum Romania I.F.N.S.A. | Romania | 99.93% | 99.93% |
| Ferratum Services Limited | Malta | 100% | 0% |
| Ferratum Spain SL | Spain | 100% | 100% |
| Ferratum Sweden AB | Sweden | 100% | 100% |
| Ferratum UK Ltd | Great Britain | 100% | 100% |
| Ferratum Vakuutus Oy | Finland | 100% | 100% |
| Global Guarantee OÜ | Estonia | 100% | 100% |
| Global IT Services s.r.o. | Slovakia | 100% | 100% |
| Inari Serviços Financeiros Ltda | Brazil | 100% | 99% |
| Microfinance Company Ferratum Russia LLC | Russia | 100% | 100% |
| Numeratum d.o.o. | Croatia | 100% | 100% |
| Pactum Collections GmbH | Germany | 100% | 100% |
| Pactum Poland Sp. z.o.o. | Poland | 100% | 100% |
| Rus-Kredit OOO | Russia | 100% | 100% |
| Swespar AB | Sweden | 100% | 100% |
| UAB "Ferratum Finance" | Lithuania | 100% | 100% |

# Parent company statements 2019

## Ferratum Oyj Income Statement

| EUR '000 | Note | 2019 | 2018 |
|---|---|---|---|
| Other operating income | | 10,787 | 11,064 |
| Material and services | | (19) | (69) |
| Wages and salaries | | (3,769) | (3,690) |
| Pension expenses | | (684) | (611) |
| Other social expenses | | (95) | (84) |
| Personnel expenses total | | (4,548) | (4,385) |
| Depreciation, amortization and impairment | 2 | (2,324) | (1,464) |
| Other operating expenses | 2 | (15,250) | (13,026) |
| Operating profit | | (11,353) | (7,880) |
| Financial income | | | |
| Intra-group dividend income | | 20,467 | - |
| Other interest and financial income Group companies | | 6,062 | 6,952 |
| Other interest and financial income from others | | 84 | 0 |
| Financial income total | | 26,612 | 6,952 |
| Financial expenses | | | |
| Other interest and financial expenses Group companies | | (10,209) | (8,306) |
| Other interest and financial expenses from others | | (326) | (1,706) |
| Financial expenses total | | (10,535) | (10,011) |
| Financial income and expenses | | 16,078 | (3,059) |
| Profit/loss before appropriations and taxes | | 4,724 | (11,788) |
| Appropriations | | | |
| Group Contribution | | 17,890 | 9,500 |
| Income tax | | (994) | 39 |
| **Profit (loss) for the year** | | **21,620** | **(1,401)** |

## Ferratum Oyj Statement of Financial Position

| EUR '000 | Note | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 3 | 12,703 | 14,673 |
| Tangible assets | 3 | 1,386 | 1,447 |
| Investments | 3 | 132,393 | 111,564 |
| Non-current receivables | 3 | 84,762 | 42,653 |
| **Total non-current assets** | | **231,244** | **170,336** |
| **Current assets** | | | |
| Current receivables | 3 | 60,770 | 55,910 |
| Cash and bank | | 399 | 107 |
| **Total current assets** | | **61,169** | **56,017** |
| **Total assets** | | **292,414** | **226,353** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | | 40,134 | 40,134 |
| Treasury shares | | (142) | (142) |
| Other reserves total | | 14,708 | 14,708 |
| Retained earnings | | 33,137 | 38,423 |
| Profit/loss for the period | | 21,620 | (1,401) |
| **Total equity** | **3** | **109,456** | **91,722** |
| **Liabilities** | | | |
| Non-current liabilities, interest-bearing | 3 | 164,097 | 122,337 |
| Current liabilities, interest-free | 3 | 18,861 | 12,294 |
| **Total liabilities** | | **182,958** | **134,631** |
| **Total equity and liabilities** | | **292,414** | **226,353** |

## Ferratum Oyj Cash Flow Statement

| EUR '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit / Loss for the period | 21,620 | (1,401) |
| Adjustments for: | | |
| Depreciation, amortization & impairment loss | 2,324 | 1,464 |
| Financial income and expenses | (16,377) | 3,359 |
| Other adjustments | (17,890) | (9,688) |
| **Operating profit before working capital changes** | **(10,324)** | **(6,266)** |
| Working capital changes: | | |
| Increase (-) /decrease(+) in trade and other receivables | 2 877 | (3,792) |
| Increase (+) / decrease (-) in trade payables | 645 | 3,016 |
| **Cash generated from operations** | **(6,801)** | **(7,042)** |
| Interest paid | (5,072) | (4,249) |
| Dividends received | 14,000 | 1,730 |
| Interest received | 4,280 | 9,424 |
| Other financing items | 3,905 | (3,238) |
| Income taxes paid | 994 | |
| **Net cash from operating activities** | **11,307** | **(3,376)** |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of tangible and intangible assets | (294) | (5,033) |
| Acquisition of subsidiaries | (21,101) | (53 986) |
| Disposal of subsidiaries | - | 2,047 |
| Loans granted (-) / Repayments of loans (+) | (41,666) | 5,757 |
| **Net cash used in investing activities** | **(63,061)** | **(51,214)** |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issue of share capital | | |
| Costs related to issue of share capital | | |
| Proceeds from borrowings (+) / Repayment (-) | 41,760 | 51,326 |
| Dividends paid | (3,884) | (3,890) |
| Group contribution received (+) / paid (-) | 14,170 | 7,118 |
| **Net cash used in financing activities (C)** | **52,046** | **54,554** |
| **Net increase/decrease in cash and cash equivalents** | **292** | **(36)** |
| Cash and cash equivalents at the beginning of the period | 107 | 143 |
| Net increase/decrease in cash and cash equivalents | 292 | (36) |
| Cash and cash equivalents at the end of the period | 399 | 107 |

# 1. Basis of preparation of the parent company

**Parent company information**

Ferratum Oyj, registered in Helsinki, is the parent company of Ferratum Group. Copies of the consolidated financial statements can be obtained from Ferratum Oyj, located in Ratamestarinkatu 11 A, 00520 Helsinki.

**Valuation methods**

Tangible assets have been valued at acquisition cost.

**Allocation principles and methods**

The acquisition cost of tangible assets are depreciated according to plan. The difference between the acquisition cost and residual value of the asset is booked as depreciation over the economic period of the asset.

**Depreciation periods**

Investments for rental premises - 4 years Intangible assets - 3 to 10 years Tangible assets - 25% declining depreciation.

**Comparative data**

The length of the financial year is 12 months (1 Jan 2019 – 31 Dec 2019). The company's financial year is the calendar year. The presentation of the 2019 financial statements has been expanded to improve the quality of the financial statements.

At the same time, the comparative figures for the previous financial year have been presented in accordance with the new accounting principles and in accordance with the principle of consistency. Internal service charges from the years 2017-2018 have been corrected retrospectively during the 2019 financial year. As a result, Ferratum Oyj's internal operating income from 2018 increased by EUR 894,018 and internal financial income increased by EUR 299,834. In addition, a total of EUR 3,693,303 proceeds related to 2017 was corrected to the opening balance of equity. As the adjustments related to prior periods, they were restated from retained earnings.

**Foreign currency valuation**

Foreign currency receivables and payables are valued at the purchase and sales exchange rates quoted by the Finnish National Bank at the end of the financial year.

**Share capital**

The share capital of the company is EUR 40,133,560 and the number of shares are 21,723,960. The shares have no nominal value. All the shares are attached with equal voting rights and equal right when distributing dividend.

# 2. Notes to the income statement of the parent company

| **Average personnel** | **2019** | **2018** |
|---|---|---|
| During financial year | 47 | 43 |

| **Management compensation, EUR '000** | **2019** | **2018** |
|---|---|---|
| Wages and salaries | (346) | (294) |

| **Other operating income, EUR '000** | **2019** | **2018** |
|---|---|---|
| Sales to Group companies | 10,787 | 11,064 |

| **Depreciation and amortization by asset class category, EUR '000** | **2019** | **2018** |
|---|---|---|
| Intangible assets | | |
| Other capitalized expenditure | (2,259) | (1,394) |
| Tangible assets | | |
| Machinery and equipment | (65) | (70) |
| **Total depreciation and amortization** | **(2,324)** | **(1,464)** |

| Other operating expenses, EUR '000 | 2019 | 2018 |
|---|---|---|
| Other expenses for Group companies | (5,810) | (3,432) |
| Other operating cost | (1,783) | (2,317) |
| Professional fees | (3,673) | (3,846) |
| Marketing cost | (2,129) | (2,119) |
| Administration costs | (1,655) | (1,196) |
| Audit fees | (201) | (115) |
| **Total other operating expenses** | **(15,250)** | **(13,026)** |

| Audit fees and other services from audit companies EUR '000 | 2019 | 2018 |
|---|---|---|
| **PwC** | | |
| Audit fees | 201 | 115 |
| Non-audit fees: | | |
| Audit related services | 0 | 20 |
| Tax advice | 0 | 0 |
| Other services | 289 | 6 |
| **Other audit companies** | | |
| Audit fees | 0 | 0 |
| Non-audit fees: | | |
| Tax advice | 113 | 249 |
| Other services | 13 | 0 |
| **Total audit fees** | **201** | **115** |
| **Total non-audit fees** | **416** | **275** |

# 3. Notes to the statement of financial position of the parent company

| Intangible assets, EUR '000 | Other capitalized expenditures |
|---|---|
| Acquisition cost on 1 January 2019 | **18,308** |
| Additions during the year ended 31 December 2019 | 289 |
| **Acquisition cost on 31 December 2019** | **18,597** |
| | |
| Accumulated depreciation on 1 January 2019 | **(3,635)** |
| Depreciation during the year ended 31 December 2019 | (2,259) |
| **Accumulated depreciation on 31 December 2019** | **(5,893)** |
| | |
| **Net Book value on 31 December 2019** | **12,703** |
| **Net Book value on 1 January 2019** | **14,673** |

| Intangible assets, EUR '000 | Other capitalized expenditures |
|---|---|
| Acquisition cost on 1 January 2018 | 13,367 |
| Additions during the year ended 31 December 2018 | 4,941 |
| **Acquisition cost on 31 December 2018** | **18,308** |
| | |
| Accumulated depreciation on 1 January 2018 | (2,240) |
| Depreciation during the year ended 31 December 2018 | (1,394) |
| **Accumulated depreciation on 31 December 2018** | **(3,635)** |
| | |
| **Net Book value on 31 December 2018** | **14,673** |
| **Net Book value on 1 January 2018** | **11,127** |

| Tangible assets, EUR '000 | Real estate | Machinery and equipment | Other tangible assets | Total |
|---|---|---|---|---|
| Acquisition cost on 1 January 2019 | 1,241 | 563 | 1 | 1,805 |
| Additions during the year ended 31 December 2019 | | 5 | | 5 |
| Acquisition cost on 31 December 2019 | 1,241 | 568 | 1 | 1,810 |
| | | | | |
| Accumulated depreciation on 1 January 2019 | | (358) | | (358) |
| Depreciation during the year ended 31 December 2019 | | (65) | | (65) |
| Accumulated depreciation at 31 December 2019 | | (424) | | (424) |
| | | | | |
| **Net Book value on 31 December 2019** | **1,241** | **144** | **1** | **1,386** |
| **Net Book value on 1 January 2019** | **1,241** | **205** | **1** | **1,447** |

| Tangible assets, EUR '000 | Real estate | Machinery and equipment | Other tangible assets | Total |
|---|---|---|---|---|
| Acquisition cost on 1 January 2018 | 1,241 | 471 | 1 | 1,713 |
| Additions during the year ended 31 December 2018 | | 92 | | 92 |
| Acquisition cost on 31 December 2018 | 1,241 | 563 | 1 | 1,805 |
| | | | | |
| Accumulated depreciation on 1 January 2018 | | (289) | | (289) |
| Depreciation during the year ended 31 December 2018 | | (70) | | (70) |
| Accumulated depreciation at 31 December 2018 | | (358) | | (358) |
| | | | | |
| **Net Book value on 31 December 2018** | **1,241** | **205** | **1** | **1,447** |
| **Net Book value on 1 January 2018** | **1,241** | **182** | **1** | **1,424** |

| Investments, EUR '000 | Other shares and equity interests |
|---|---|
| Acquisition cost on 1 January 2019 | 111,564 |
| Additions during the year ended 31 December 2019 | 21,101 |
| Disposals during the year ended 31 December 2019 | (272) |
| Acquisition cost on 31 December 2019 | 132,393 |
| | |
| **Book value on 31 December 2019** | **132,393** |
| **Book value on 1 January 2019** | **111,564** |

| Investments, EUR '000 | Other shares and equity interests |
|---|---|
| Acquisition cost on 1 January 2018 | 59,625 |
| Additions during the year ended 31 December 2018 | 53,986 |
| Disposals during the year ended 31 December 2018 | (2,047) |
| Acquisition cost on 31 December 2018 | 111,564 |
| | |
| **Book value on 31 December 2018** | **111,564** |
| **Book value on 1 January 2018** | **59,625** |

| Non-current receivables, EUR '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| Receivables from intra-group companies | 81,647 | 42,472 |
| Non-current receivables from employees | 3 | 3 |
| Non-current receivables from external parties | 3,112 | 178 |
| **Total Non-current receivables** | **84,762** | **42,635** |

| Current receivables, EUR '000 | 31 Dec 2018 | 31 Dec 2018 |
|---|---|---|
| Other receivables | 689 | 715 |
| Receivables from intra-group companies, accounts receivables | 5,727 | 14,670 |
| Receivables from intra-group companies, other | 48,847 | 36,987 |
| Accruals | 5,508 | 3,538 |
| **Total Current receivables** | **60,770** | **55,910** |

| Change in equity 2019, EUR '000 | Share capital | SVOP reserve | Retained earnings | Equity total |
|---|---|---|---|---|
| **Total Equity on 1 January 2019** | **40,134** | **14,708** | **36,880** | **91,722** |
| Other changes | | | (2) | (2) |
| Dividend distribution | | | (3,884) | (3,884) |
| Profit/loss for the period | | | 21,620 | 21,620 |
| **Total equity on 31 December 2019** | **40,134** | **14,708** | **54,614** | **109,456** |

| Change in equity 2018, EUR '000 | Share capital | SVOP reserve | Retained earnings | Equity total |
|---|---|---|---|---|
| **Total equity on January 1 2018** | **40,134** | **14,708** | **38,431** | **93,273** |
| Other changes to opening balance | | | 3,739 | 3,739 |
| Dividend distribution | | | (3,890) | (3,890) |
| Profit/loss for the period | | | (1,401) | (1,401) |
| **Total equity on 31 December 2018** | **40,134** | **14,708** | **36,880** | **91,722** |

| Non-current liabilities, EUR '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| Non-current intra-group debts | 164,097 | 122,337 |
| **Total non-current liabilities** | **164,097** | **122,337** |

| Current liabilities, EUR '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| Trade payables | 1,609 | 1,883 |
| Other liabilities | 427 | 701 |
| Accruals | 1,785 | 1,067 |
| Intra-group liabilities | 15,041 | 8,643 |
| **Total current liabilities** | **18,861** | **12,294** |

| Accruals (current), EUR '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| Accruals of personnel expenses | 689 | 569 |
| Tax liabilities | 776 | (8) |
| Other accruals | 319 | 505 |
| **Total accruals (current)** | **1,785** | **1,067** |

| Other rental liabilities, EUR '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| Current rental liabilities | 3 | 5 |

| Commitments, EUR '000 | 31 Dec 2018 | 31 Dec 2018 |
|---|---|---|
| Corporate pledge | 20,000 | 20,000 |
| Pledged subsidiary shares, book value | 11 | 11 |
| Commitments for intra-group companies | 220,000 | 165,000 |

Ferratum Oyj is the guarantor of the bonds issued by Ferratum Capital Germany GmbH and Ferratum Bank plc. The funds from the bond issues are in accordance with the intercompany loan agreements being lent to Ferratum Oyj.

## Related party transactions

No loans and or any other commitments were issued to any related parties during 2019.

# APPROVAL OF THE FINANCIAL STATEMENTS AND THE BOARD OF DIRECTORS REPORT

## Helsinki, 25 March, 2020

**Juhani Vanhala**
Chairman of the Board

**Lea Liigus**
Member of the Board

**Jorma Jokela**
CEO, Member of the Board

**Goutam Challagalla**
Member of the Board

**Michael Cusumano**
Member of the Board

**Christopher Wang**
Member of the Board

**Kati Hagros**
Member of the Board

**Frederik Strange**
Member of the Board

## The Auditor's Note
## A report on the audit performed has been issued today

Helsinki, March 25, 2020
PricewaterhouseCoopers Oy
Authorized Public Accountants

Mikko Nieminen,

Authorized Public Accountant

# FERRATUM NON-FINANCIAL INFORMATION STATEMENT

# Business model

Ferratum Oyj and its subsidiaries form Ferratum Group (the “Group”) which is an international provider of mobile banking and digital consumer and small business loans, distributed and managed by mobile devices. Ferratum, headquartered in Helsinki, Finland was founded in May 2005 and has expanded its operations across Europe, North America, South America, Africa and the Asia-Pacific region.

Ferratum currently operates in 23 countries globally, has a full EU-banking license offering a variety of financial services including: digital consumer and business lending; mobile banking services; investments and; white label and partnered mobile bank platforms.

Ferratum Bank p.l.c., a wholly owned subsidiary of Ferratum Oyj, is a credit institution licensed by the Malta Financial Services Authority (MFSA). Ferratum Bank p.l.c. provides Ferratum with a framework through which it can offer banking services to its customers on a cross-border basis within the EEA. This enables Ferratum to offer services that require a licence in many major jurisdictions across the European continent in a manner that would not be otherwise possible. Ferratum Group has more than 740,000 active customers (as of 31 December 2019) positioning it as a market leading provider of consumer and small business loans.

As a pioneer in digital and mobile financial services technology, Ferratum offers a comprehensive loan product portfolio, with retail customers able to apply for consumer credit in amounts varying between EUR 25 and EUR 20,000 and small businesses instalment loans up to EUR 250,000 with a term of six to 24 months.

The Ferratum Mobile Bank, launched in 2016, is an an innovative mobile banking platform offering a range of banking services, including real time digital payments and transfers, within a single application. It is currently available in four European markets and customer deposits had reached EUR 242.2 million (as of 31 December 2019). Ferratum’s Mobile Wallet, the next generation of Ferratum’s Mobile Bank has been piloted in Latvia and is expected to be launched to the public in Q2 2020. Ferratum’s risk management is the duty of the Board of Directors and the risk committee. Ferratum’s risk management is based on prudent operational principles which aim to identify and manage the major risks that Ferratum may face in its business.

## Material topics for corporate social responsibility

Ferratum is required by Finnish law to report on its activities and how we meet the relevant standards of corporate responsibility. In addition to this, the business is committed to establishing a set of responsibility measures that not only represent an internal standard for the business to meet but that also sets an example to others in the industry to aspire to.

Ferratum carried out a focused materiality assessment that consulted with group-level stakeholders in 2018. In 2018, the materiality matrix was updated to better reflect our significant external impacts on the economy, the environment, and society – not only those impacts that have immediate consequences from the business perspective. The key criteria remain as follows:

Responsible lending

- Employee well-being and development
- Ethical business practices and transparent communications
- Value for customers and investors

In 2019 work was continued along these lines. Ferratum is also reporting voluntarily on how its operations and internal controls ensure it is a responsible lender. Read more about Ferratum´s corporate responsibility work in 2019 from the Annual Report.

## Environmental protection

AAlthough Ferratum does not have a formal environmental policy, it is committed to reducing its impact on the environment by taking positive action and raising awareness about environmental issues. Examples of this include promoting video and phone conferencing and encouraging paperless work and using recyclable office supplies, where possible. Office managers are also

encouraged to communicate energy-saving measures, such as turning off lights and managing air-conditioning more effectively.

Ferratum acknowledges that setting up offices always has some environmental impact. Where possible, offices are selected so that they are near public transport, to reduce the use of private cars and transport.

No risks related to environmental matters have been identified in the risk management process.

## Social responsibility and treatment of employees

Ferratum is an international, multicultural, and multilingual organisation, employing 834 people across offices in Europe, North America, South America, Africa and the Asia-Pacific region, with key operational offices in Helsinki, Malta, Slovakia and Germany. The group HR team consists of 9 employees working in Estonia, Germany, Malta and Slovakia managed by the Head of Human Resources.

Ferratum has relevant Human Resources policies in place to support the management and development of its people. There are formal, internal policies, procedures and guidelines on recruitment, change situations, training/development and security. Employee handbooks have been developed to provide guidance on corporate communication, equality and actions against bullying.

Employee related risks have been identified in Ferratum's risk management process as:

- The potential loss of key members of the management team
- The inability to attract and retain talent required to run the business

Ferratum also acknowledges the shift in modern working habits. Ferratum manages these risks by focusing on the employee well-being, developing its remuneration, bonus and benefits system and offering motivating and interesting career opportunities. Ferratum is also committed to helping its people achieve a better work-life balance and healthier lifestyle.

The company currently runs a number of initiatives to support the well-being and professional development of its people. These include:

- Providing the option of flexible hours or working remotely
- Supporting physical health and social well-being, offering discounts to gyms and sports clubs
- Providing occupational healthcare, such as private health insurance or subsidizing healthcare expenses

Ferratum is continuously reviewing the benefits it offers to its employees to ensure they are fit for today's working environment. The continuous professional development of individuals is heavily encouraged, through the provision of:

- Formal training and development programmes via seminars, classroom training and online courses
- On-the-job learning and more informal teaching
- Offering challenging tasks and projects
- Mentoring and line management

In 2019, Ferratum continued its leadership training for line managers and team leaders, focusing on improving project and team management skills, data protection and excellence in internal employee-related processes.

## Anti-corruption and bribery

Anti-corruption and bribery matters are included in the Code of Business Conduct and Ethics of Ferratum Bank and implemented accordingly at different levels of Ferratum Bank's organisation. The Code has been communicated to the members of the board and members of senior management of Ferratum Group and Ferratum Bank as well as to all employees at Ferratum Bank. In addition, Ferratum has established guidelines for preventing the abuse of inside information, and Ferratum's subsidiaries have in place company-specific policies and guidelines for preventing money laundering and terrorist financing. The organisation's anti-corruption policies are published and accessible to all members and jurisdiction where the organisation operates and shared with our business partners as part of the joint venture processes.

Any corruption or bribery concerns or other suspected violation of financial markets regulation can be flagged via the whistleblowing process and would automatically be escalated to the management team. Depending on the nature, scale and complexity of the issue in question, an internal or external audit could be implemented.

No incidents of corruption or bribery or other suspected violation of financial markets regulation or company policies were reported at Ferratum Group through the whistleblowing channel or any other channel in 2019. In addition, no contracts or business relationships have been terminated due to confirmed cases of corruption and there were no public cases relating to corruption where the company was affected.

Risks related to anti-corruption and bribery vary, depending on the business unit and areas of operation of the relevant subsidiary at Ferratum Group. Where risks are deemed to be higher, appropriate controls are put in place, such as internal audit and the application of four eyes principles.

Further resources were allocated to the compliance team during 2019 in order to make it more robust and effective, and thus place it in a better position to manage any challenges in 2020 and beyond. The transposition of the 5th Anti-Money Laundering Directive in the European Union, for instance, will result in changes to the legal framework in the relevant countries.

## Respect for human rights

Ferratum is committed to creating and providing a working environment in which individual differences are recognised and valued; where each employee has equal opportunities in terms of career progression and personal development and that everyone is free from the risk of harassment, discrimination, exploitation or intimidation. Ferratum has implemented a formal equal opportunities policy, that includes a commitment to fair and transparent recruitment and career development, that is based on merit and ability. There are clear policies against discrimination based on age, gender, disability, religion or belief, race, sexual orientation etc. There is also a formal complaints procedure to manage internal complaints about issues such as harassment.

Ferratum operates on a zero-tolerance policy for any form of harassment in the workplace, treating all incidents promptly and confidentially to investigate all allegations of harassment. There is also an internal whistleblowing channel in place, for anonymous reporting of suspicions or instances of possible misconduct against laws or company policies and principles.

In 2019, no cases were reported concerning human rights violations through the internal whistleblowing channel or other channels.

## Approval of the non-financial information statement

**Juhani Vanhala**
Chairman of the Board

**Lea Liigus**
Member of the Board

**Jorma Jokela**
CEO, Member of the Board

**Goutam Challagalla**
Member of the Board

**Michael Cusumano**
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**Christopher Wang**
Member of the Board

**Kati Hagros**
Member of the Board

**Frederik Strange**
Member of the Board

# FURTHER INFORMATION

## Contact

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## Financial Calendar

**28 April 2020**
Ferratum Capital Germany 2019 full year results

**28 April 2020**
Ferratum Bank p.l.c. 2019 full year results

**20 May 2020**
Ferratum Group first quarter results

**16 June 2020**
Ferratum Group Annual General Meeting

**20 August 2020**
Ferratum Group half year results

**28 August 2020**
Ferratum Capital Germany half year results

**28 August 2020**
Bank p.l.c. half year results

**19 November 2020**
Ferratum Group nine month results