

29 April 2020 – Neuss, Germany

Rating Action / Update:

Creditreform Rating has set the solicited SME issuer rating of Ferratum Oyj to **BB / negative**

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Creditreform Rating (CRA) has adjusted the rating of the solicited SME issuer rating of Ferratum Oyj – referred to as “company” or “the company”, from BBB- to BB. Additionally, CRA has assigned the outlook “negative” to the rating object.

The current rating assessment is particularly characterized by the serious global disruption as a consequence of the upcoming global financial and economic crisis. Therefore, we expect a sustained weakening of the economic performance, which in the opinion of the CRA will have an adverse impact on customer’s payment behaviour, which will ultimately lead to a general decline in credit quality. According to Ferratum Oyj’s management, the company is pursuing a strategy mix of increased risk management combined with a massive restriction of new lending operations and other cost-cutting measures, with the aim of reducing fixed costs. In 2019, Ferratum did already initiate a cost reduction program which enabled the company to decrease costs. This program is now extended to 2020 and the company will taken an even more critical look at costs throughout the organization.

Overall, we consider this strategy to be appropriate, especially since the opportunities for long-term refinancing have deteriorated significantly. However, the deposit business should be highlighted as a positive aspect and generally stabilizes Ferratum’s position vis-à-vis other Fintechs. According to Ferratum Oyj’s management, deposit volumes have remained stable throughout the COVID 19 pandemic.

Nevertheless, CRA assumes that the value amendments in the loan portfolio will increase substantially and that overall profitability in 2020 will be severely impaired and a negative result is expected from CRA in 2020.

Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

- Business growth is interrupted and business volume is affected
- Non-performing loans will continue to increase due to the economic consequences of the corona pandemic
- The net interest margin will shrink considerably due to lower lending rates

ESG-criteria:

CRA generally considers ESG factors (environmental, social and governance) within its rating decisions. In the case of Ferratum Oyj, we have not identified an ESG factor with significant influence.

A general description of Creditreform Rating AG, as well as a detailed description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here:

https://www.creditreform-rating.de/pub/media/global/page_document/The_Impact_of_ESG_Factors_on_Credit_Ratings.pdf

Rating result

As part of the follow-up rating, Creditreform Rating has set Ferratum Oyj's SME Issuer Rating at BB and the outlook at "negative". The main reasons for this are the current macroeconomic disruptions, which, according to the CRA, will result increasingly from the COVID 19 pandemic and will affect the Ferratum Group to a significant extent. The CRA assumes lasting negative implications for the business model of the Ferratum Group - and thus for the development of risks, earnings and assets.

Outlook

Best-case scenario	BB+
Worst-case scenario:	B+

The one-year outlook of the rating is negative, reflecting – in our view – that the credit portfolio quality will deteriorate in the next year due to the sustained effects of the economic shutdown.

Best-case scenario

Considering the current situation, we expect a moderate growth of impaired loans in the best-case scenario, combined with constant interest income and a slightly positive annual result. In the best-case scenario, we also expect higher refinancing costs, which should have an overall negative impact on the interest margin. In addition, we also expect significantly increased risks on the asset positions in this scenario. In the medium term, the Ferratum Group could profit from catch-up effects, which could result in a return to sustainable growth.

Worst-case scenario

In the worst-case scenario, we anticipate significantly reduced interest income combined with a significant increase in impairments, which would have a strong negative impact on the operating result and liquidity situation. In the worst-case scenario, refinancing requirements may therefore arise in the short-term, which would result in significantly higher refinancing costs. According to CRA, in the worst-case scenario the development of the Ferratum Group would be significantly burdened over several periods, however, the Group would still be able to manage this scenario.

Business development and outlook

In the business year 2019, Ferratum Oyj was able to continue the revenue growth (+11.8%) and the EBITDA (35.2%) once again. Impairments on loans increased disproportionately to income (+19.4%). In particular, loans and advances in the category "stage 3 - loss" (loans and advances in respect to which payment becomes overdue in 180 days) continued to rise significantly. Despite the increased impairments, EBIT rose to EUR 43.5 million (+24.2%). This is primarily attributable to constant personnel costs and declining marketing costs. Nevertheless, we see further savings potential in personnel costs through an increase in centralisation and automation of the individual work processes. By contrast, refinancing costs increased as a result of higher amount of customer deposits and the new bond issued. The average refinancing interest rate has also deteriorated slightly (in April 2019 Ferratum Group has issued a EUR 80 million bond with a tap option of EUR 70 million due in April 2023, the interest rate of the bond issued is 5.50% + 3M euribor. In June 2019, Ferratum has repaid a EUR 25 million bond with a coupon of 4.875% and in March 2020 a EUR 40 million Bond with a coupon of 6.25% + 3M euribor). There were no significant changes in the income statement 2019 besides that, therefore the profit for the period improved by +22.7%.

The breakdown of the individual business segments shows that the share of the "Credit Limits" product as a percentage of total income is still rising. In 2019, these are responsible for 54.3% of total income (in 2018: 50.5%), while the share of "micro loans" as a percentage of total income continues to decline (2019: 12.6% vs. 2018: 15.9%).

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

The rise in income in 2019 is a result of the expansion in lending. Net loans and advances to customers rose by 20.5% to EUR 386.2 million. As mentioned above, this increase in lending volume was refinanced by the newly issued bond and an increase in customer deposits. The total assets rose by 23.7% to EUR 618.8 million. As forecasted in our last rating report, the equity ratio improved slightly due to the retained net income for the year. However, we still consider this equity ratio to be at the lower end of the range as the whole loan volume is not within the Banking sphere of the Group.

Table 1: Financials of Ferratum Oyj | Source: Ferratum Oyj Annual report 2018/2019, standardized by CRA

Ferratum Oyj Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12.2019 (IAS, Group)	CRA standardized figures¹	
	2018	2019
Sales (million EUR)	262.15	293.1
EBITDA (million EUR)	40.23	54.38
EBIT (million EUR)	35.01	43.5
EAT (million EUR)	19.27	23.65
Total assets (million EUR)	500.19	618.83
Equity ratio (%)	15.63	16.97
Net total debt / EBITDA adj. (factor)	6.97	6.15

However, the main driver for our new rating assessment is the development in 2020 and in the upcoming years. As mentioned in our rating result, we expect the end of the continuous growth in income. In addition, we expected a negative annual result for the year 2020.

Due to the COVID19 pandemic, risk and impairments in the credit portfolio will increase. It will be of essential importance that lending processes take more stringent criteria into account. As a result, the credit volume will likely decline. Therefore, due to lower income, it will be crucial to implement the cost reduction programme. Higher interest rates are also to be expected for re-financing instruments. We expected, that the planned transformation process from global lender to global financial platform will be postponed.

¹ For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally-generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

Appendix

Rating history

The rating history is available under:

<https://www.creditreform-rating.de/de/ratings/published-ratings/>

Table 3: SME Issuer rating of Ferratum Oyj | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Follow-up rating	29.04.2020	05.05.2020	Until withdrawal of the rating	BB / negative
Monitoring	19.03.2020	26.03.2020	Until withdrawal of the rating	BBB- / NEW
Follow-up rating	15 April 2019	18 April 2019	Until withdrawal of the rating	BBB- / stable
Follow-up rating	15 March 2018	16 March 2018	Until withdrawal of the rating	BBB+ / stable
Follow-up rating	31 March 2017	4 April 2017	30 March 2018	BBB+ / stable
Monitoring	1 June 2016	2 June 2016	31 March 2017	BBB+ / stable
Monitoring	29 April 2016	2 May 2016	31 March 2017	BBB / UNW
Initial rating	1 April 2016	4 April 2016	31 March 2017	BBB / stable

Regulatory requirements

The present rating is a solicited rating, in the regulatory sense. Creditreform Rating AG was mandated by Ferratum Oyj to conduct a SME issuer rating² and monitoring of the company.

The rating is based on the analysis of quantitative and qualitative factors as well as the assessment of industry-relevant factors. The quantitative analysis refers to the consolidated financial statements for the years 2016 to 2019.

The rating object participated in the creation of the rating as follows:

Solicited SME Issuer / Issue Rating	
With rated entity or related third party participation	Yes
With access to internal documents	Yes
With access to management	Yes

A management meeting did take place at 20.03.2020 in a telephone call within the framework of the rating process.

In addition to the documents from the previous years and the monitoring during the year, Ferratum Oyj provided the following information as part of the update/rating.

² In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

List of documents

Accounting and controlling

- Annual report 2019

Finance

- Ferratum Bank Treasury_201912
- FX risk per currency
- Year end balances for Creditreform
- FBM Primary Statements 2019

Additional documents

- FE_Covid19_Update_20200325
- Ferratum Bank Key Covenants -201912
- Prospectus Ferratum Capital Germany GmbH 2018-2022
- T&Cs 2018
- Prospectus Ferratum Capital Germany GmbH 2019-2023
- RS presentation 2019
- Registrations and Licenses of Ferratum Group. 04.02.2020
- Management Model Feb 2020
- Ferratum Group Companies(04.02.2020)
- 15. Related party Q4 2019

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date	Website
Corporate Ratings	2.3	29.05.2019	https://www.creditreform-rating.de/pub/media/global/page_document/Rating_Methodology_Corporate_Ratings_2.3.pdf
Rating Criteria and Definitions	1.3	January 2018	https://www.creditreform-rating.de/pub/media/global/page_document/CRAG_Rating_Criteria_and_Definitions_v1_3_01-2018.pdf

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Philipp J. Beckmann	Lead analyst	p.beckmann@creditreform-rating.de
Tobias Stroetges	Analyst	t.stroetges@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Christian Konieczny	PAC	C.Konieczny@creditreform-rating.de

On 29 April 2020, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 29 April 2020. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here:

https://www.creditreform-rating.de/pub/media/global/page_document/The_Impact_of_ESG_Factors_on_Credit_Ratings.pdf

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate/SME issuer rating:

1. Annual report
2. Website
3. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG

explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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