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# Ferratum Capital Germany GmbH – Investor Presentation

## Contemplated Senior Unsecured Bond Issue

March 2019

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(a) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this document or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact other bonds will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;

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The Issuer and any other member of the Group may, subject to applicable laws, purchase Bonds. It should be noted that the Group may have interests that conflict with other bondholders particularly if the Group encounters difficulties or is unable to pay its debts as they fall due.

### Target market

Solely for the purposes of the manufacturer's (as used herein, "**Manufacturer**" refers to the Sole Bookrunner) product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties, professional clients and retail clients, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Bonds to eligible counterparties, professional clients and retail clients are appropriate.

Any person subsequently offering, selling or recommending the Bonds (a "**Distributor**") should take into consideration the Manufacturer's target market assessment; however, a Distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the Manufacturer's target market assessment) and determining appropriate distribution channels.

### PRIIPs regulation

As the Bonds are not deemed to fall within the scope of Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**"), no PRIIPs key information document (KID) has been prepared. For the avoidance of doubt, the target market assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Bonds.

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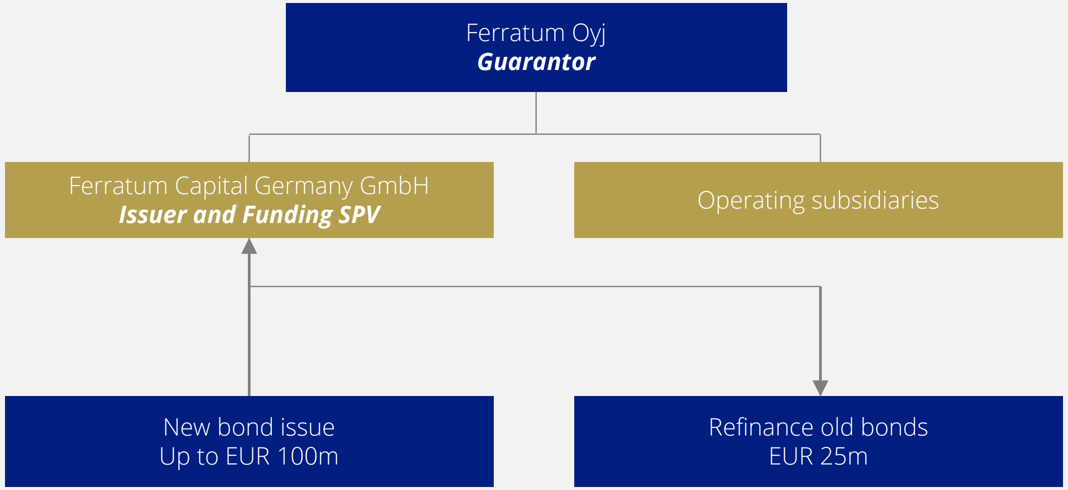
# Transaction Structure and Use of Proceeds

## Introduction

- Ferratum Capital Germany GmbH ("**Ferratum Capital**", the "**Issuer**" or the "**Funding SPV**") is a subsidiary of Ferratum Oyj (the "**Guarantor**" and together with all its subsidiaries "**Ferratum Group**", "Ferratum" or the "**Group**")
- The Issuer functions as a funding SPV for the Group as a whole and currently has two bonds outstanding of a total of EUR 125 million
- The Issuer intends to issue new senior unsecured bonds in an initial amount of up to EUR 100 million under a total frame of EUR 150 million
- The net proceeds from the Bond Issue will be used to:
  - repay existing bonds outstanding of the Issuer of EUR 25 million; and
  - finance general corporate purposes of the Group. The Funding SPV can finance operations both under banking license and entities operating without banking license by intra-group loans
- The bonds will be guaranteed by the Guarantor
  - Listed on Prime Standard of the Frankfurt Stock Exchange with a market cap of EUR 260.7 million[1]
- The Guarantor was founded in 2005 by the current CEO and largest shareholder (~55%), Mr. Jorma Jokela
  - Remaining ~45% is free float[2]
- Summary of main terms available on next slide

## Simplified Transaction Structure




## Sources and uses (EURm)

| Sources | |
|---|---|
| Senior Unsecured bond issue | 100.0 |
| | |
| **Total** | **100.0** |

| Uses | |
|---|---|
| Ferratum Capital Germany 4.875% 16/19 Bond | 25.0 |
| General corporate purposes[3] | 75.0 |
| **Total** | **100.0** |

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Note: 1) As of close 18 March 2019 2) Including shares owned by Dorval and HSBC of 5.09% and 5.37%, respectively, and treasury shares of 0.67% 3) May include partial repayment of other credit lines as liquidity management

# Summary of Main Terms

| | |
|---|---|
| Issuer | Ferratum Capital Germany GmbH |
| Status | Senior unsecured |
| Tenor | 4 years |
| Initial issue volume | Up to EUR 100 million |
| Subsequent issue volume | EUR 50 million, increasing the outstanding amount to maximum EUR 150 million |
| Credit rating | ▪ Guarantor: BB- (stable), Fitch Ratings<br>▪ Bond: BB- (expected), Fitch Ratings |
| Coupon / Pricing | 3 month Euribor + [•]% p.a., quarterly interest payments. Euribor floor at 0% |
| Use of proceeds | Repay existing bonds of EUR 25m and general corporate purposes |
| Guarantor | Ferratum Oyj |
| Call structure (American) | Callable @ 101.00% after 36-42 months and @ 100.50% after 42-48 months |
| Undertakings | Maintenance covenants:<br>▪ Net debt / equity ≤ 3.50 (for Group)<br>Negative Pledge<br>Cross default<br>Dividend restriction:<br>▪ 25% of previous year's net profit of the Group |
| Change of control / De-listing (Guarantor) | Put at 101% of par |
| Listing | ▪ Frankfurt Stock Exchange Open Market, on or about issue date<br>▪ Nasdaq Stockholm, within 30-60 days after issue date<br>▪ Frankfurt Stock Exchange Prime Standard (provided volume requirement is met, best efforts basis) |
| Jurisdiction and agent | Swedish law and Nordic Trustee and Agency |
| Sole Bookrunner | Pareto Securities |

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Note: Please see Term Sheet for details

# Investment Highlights

| | |
|---|---|
| Proven business model with banking license | ▪ Nearly 14 years of experience offering credit and payment products for consumers and small business, currently active in 25 countries primarily in Europe<br>▪ Specialist in online processes with a centralized technology infrastructure and sales experts<br>▪ Self-learning Big Data Scoring System: State-of-the-art security for credit approvals and automatic processes<br>▪ EU banking license – enables passporting of license to other EU countries |
| Profitable growth | ▪ Profitable growth since establishment in 2005 – revenue and EBIT CAGR of 38.9% and 37.4% between 2014 and 2018<br>▪ During FY 2018 the Group increased revenues with 18.3% while EBIT reached 14.4% of revenues<br>▪ Future growth via mobile bank application (start up investments during 2016) and access to deposit funding<br>▪ Net receivables have grown with a CAGR of 51.1% 2014-2018 |
| Solid financial position and asset quality | ▪ Group equity ratio of 21.5% and net equity ratio of 27.9% as of December 2018<br>▪ Conservative net debt to equity ratio of 2.58x and strong liquidity position of EUR 116 million as of December 2018<br>▪ Limited historical distributions, capped at maximum 25% of net profit going forward<br>▪ Strong asset quality with gross impairments of 4.9% of gross receivables and improving due to rigorous credit scoring<br>▪ Conservative impairment policy with reserves of 31.5% of gross receivables, December 2018 |
| Strong corporate governance and experienced team | ▪ EU banking license granted by Malta Financial Services Authority<br>▪ Prime standard listing on Frankfurt Stock Exchange with a market cap of EUR 260.7 million[1]<br>▪ Board of directors and management team with extensive experience within consumer finance, banking, legal and other businesses |

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Note: 1) As of close at 18 March 2019

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# Ferratum Group in Brief

## Introduction

- Ferratum Group is an international provider of unsecured digital consumer loans and small business loans headquartered in Helsinki, Finland
- Offer customers fast and easy to use mobile lending and banking services
  - Currently active in 25 countries
- The Group was founded in 2005 by the current CEO and largest shareholder (~55%), Mr. Jorma Jokela
  - Listed on Prime Standard of the Frankfurt Stock Exchange since February 2015
- Business was initially focused on Finland, Sweden, and the Baltic countries
  - In 2007 and 2008 the Group expanded into Central and Eastern Europe as well as certain Western countries and the international expansion is continuing
- Ferratum Group has enjoyed more than 13 years of profitable growth
  - CAGR of 38.9% and 37.4%, respectively, for revenues and EBIT since 2014
  - The Nordics contribute with the highest share of revenues – 42.7%

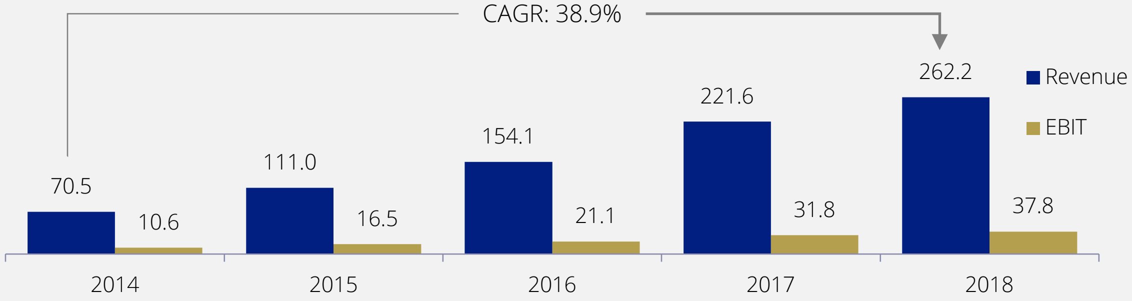
## What we are…

Mobile lender and bank with deposit business

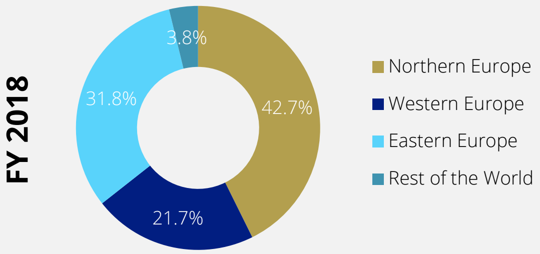
Expert for Big Data scoring, mobile account opening, mobile contract conclusion

Mobile Bank with EU wide license

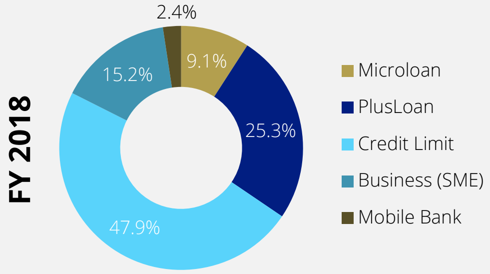
## Historical Financial Development (EURm)[1]




## Revenue by Geography[2]




## Loan Portfolio by Product




## What we are not…

Payday lender

Credit card company

Traditional retail bank

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Source: Company filings. Note: 1) 2012 and onwards reported under IFRS and prior reported in accordance with FAS. 2) Northern Europe = Finland, Sweden, Denmark, Norway; Western Europe = France, Germany, Netherlands, Spain, UK; Eastern Europe = Bulgaria, Croatia, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Russia, Slovakia; Rest of the World = Australia, Brazil, Canada, Mexico, New Zealand, Nigeria

# A Compelling Investment Case

## Our business

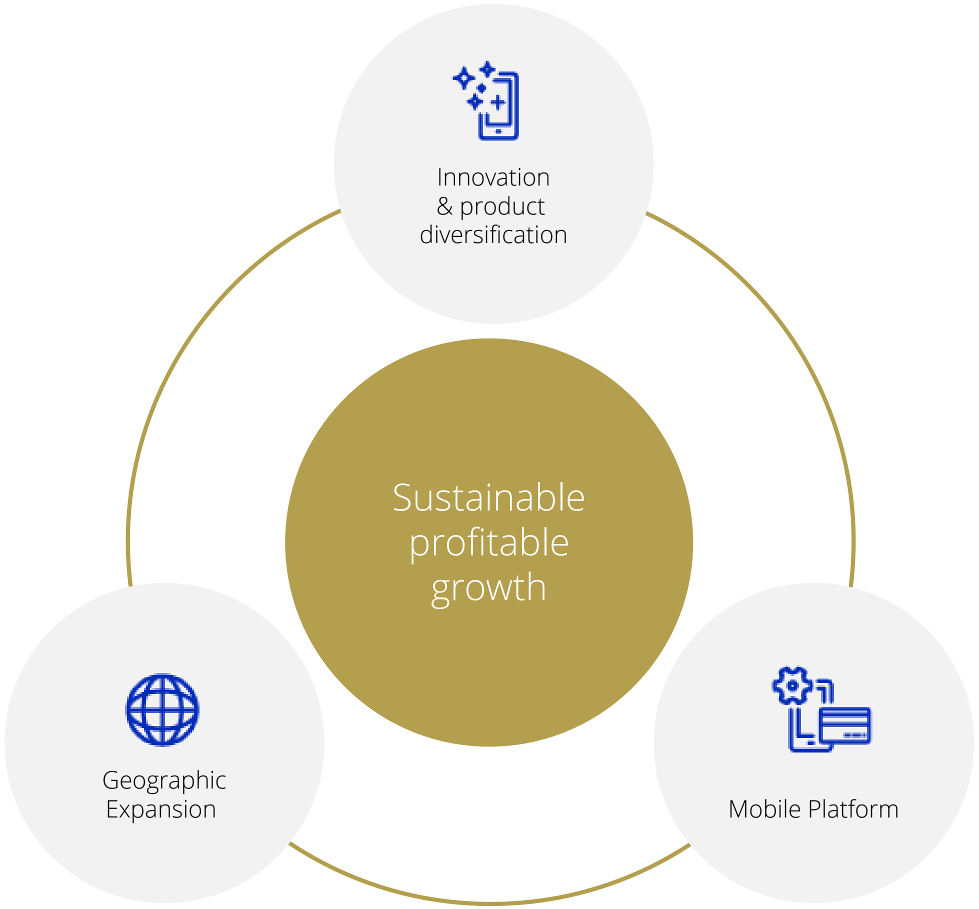
We provide financial services that enable and empower our customers

## Our corporate strategy

Our Mobile Financial Platform Model that allows us and our partners to scale services globally

## Our growth strategy

Innovation, geographic expansion and global partnerships will generate sustainable, profitable growth

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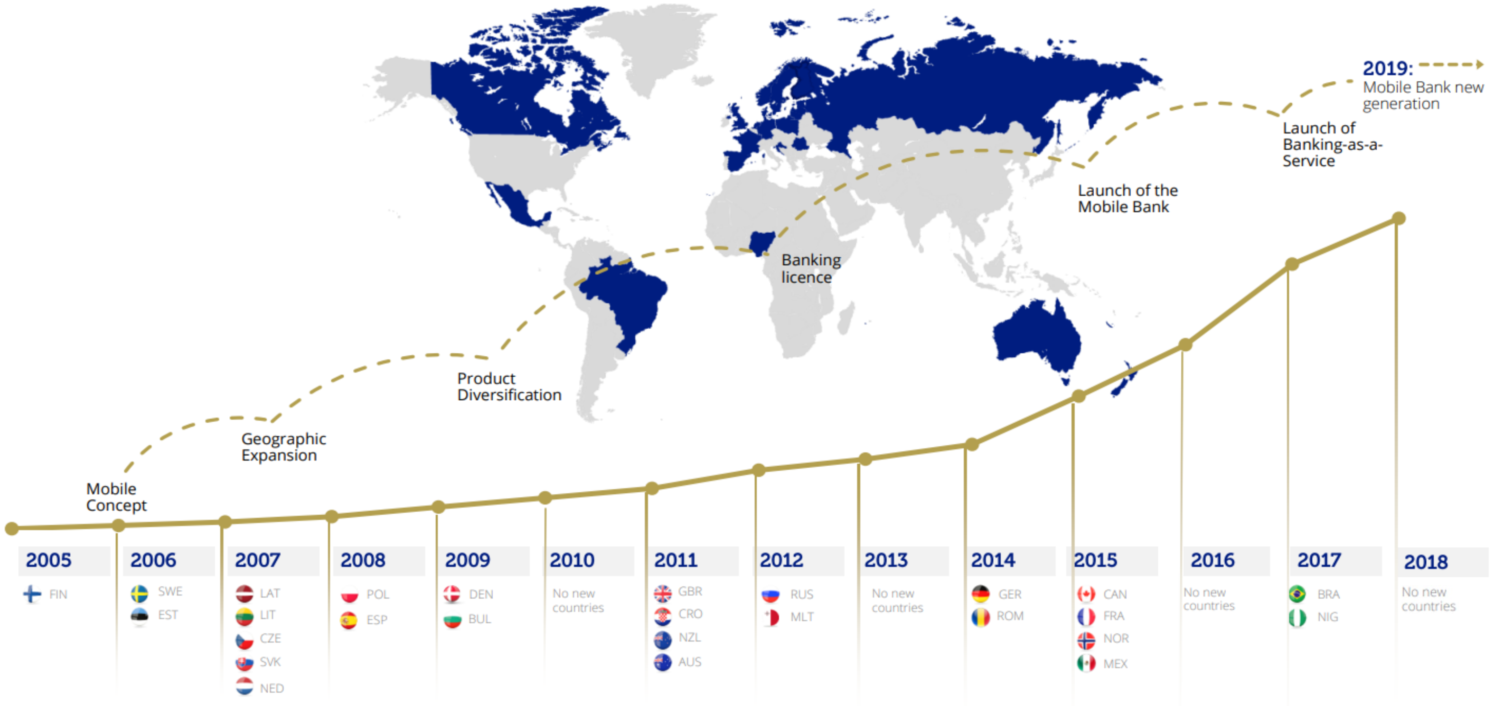
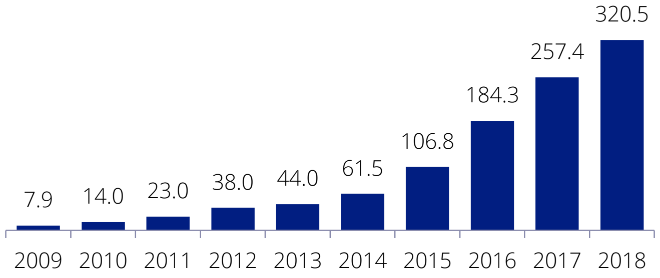
# More than 13 Years of Profitable Growth

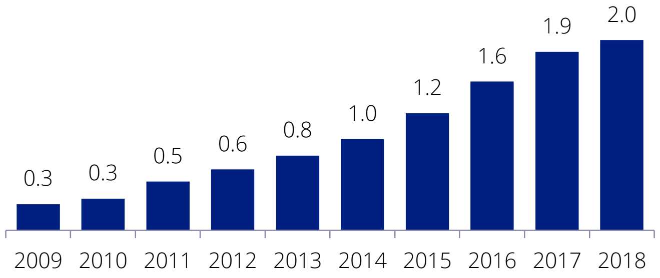
- Initial focus on Finland, Sweden, and the Baltic countries
- In 2007 and 2008 the Group expanded into Central and Eastern Europe as well as certain Western countries
- In 2011 and 2012, the Group decided to expand internationally and enter the markets in New Zealand and Australia as well as Russia
- With banking license obtained in 2012 and start of banking operations in 2013, the Group could further expand within EU through passporting of bank license
- Banking license also provides valuable deposit funding
- In 2015, the Group launched its mobile banking platform enabling an efficient roll-out of services across its active markets
- As of December 2018, the Group had a total loan portfolio of EUR 321 million with 2.0 million total customers[1] and 792 thousand active customers[2]




## Net Receivables (EURm)




## Number of total customers (millions)[1]

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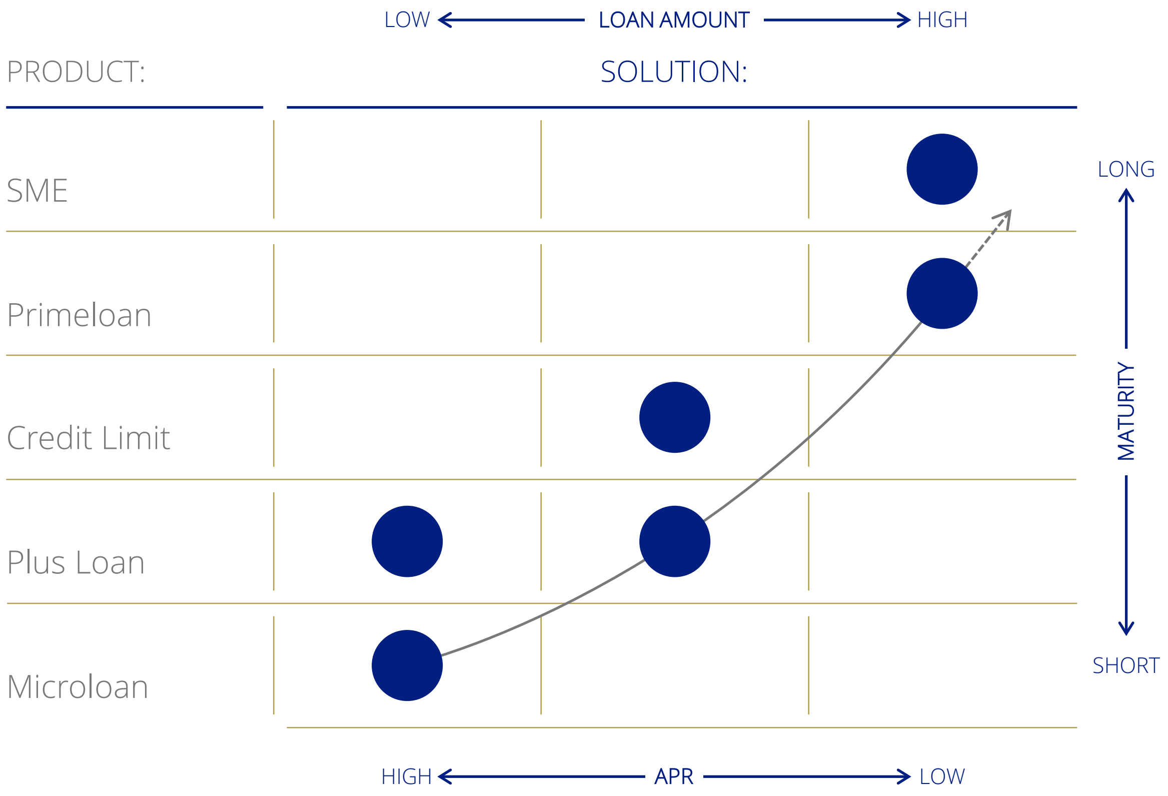
Source: Company Filings.
Note: Malta has no local operations. 1) Active and former customers who have been granted one or several loans in the past or has an open mobile account. Implementation of GDPR led to deletions of 149,000 former customer records in 2018. 2) Customers with a Mobile Bank account 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

# SME and PrimeLoan expands the offering to longer-term solutions & higher customer lifetime value

## Digital lending – product category evolution




All products are based on the same principles: Full digital setup and high user convenience, real-time, paperless

SME – Business loan offering for small and medium size companies

PrimeLoan introduced in two countries, supports entering bigger mass markets with lower pricing

Credit Limit and Plus Loan continue to be main growth drivers short term

MicroLoan strategically utilized primarily as a product to enter new markets

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# Fast, Efficient and Easy Application Process – 100% Online

**Ferratum USPs**

1
### Loan application

2
### Check
Customers credit and ID by Ferratum and via external databases

3
### Decision
Instant loan decision[1] (online, mobile)

4
### Approval
Loan approval by customer (online, mobile) Contract is set

5
### Payment
Loan payout by Ferratum Invoice via mail

6
### Repayment
Invoice via post, loan and handling fee payment by customer on due date

**Customer Actions**

Target: 15 minutes[2]

Tenor varies across products

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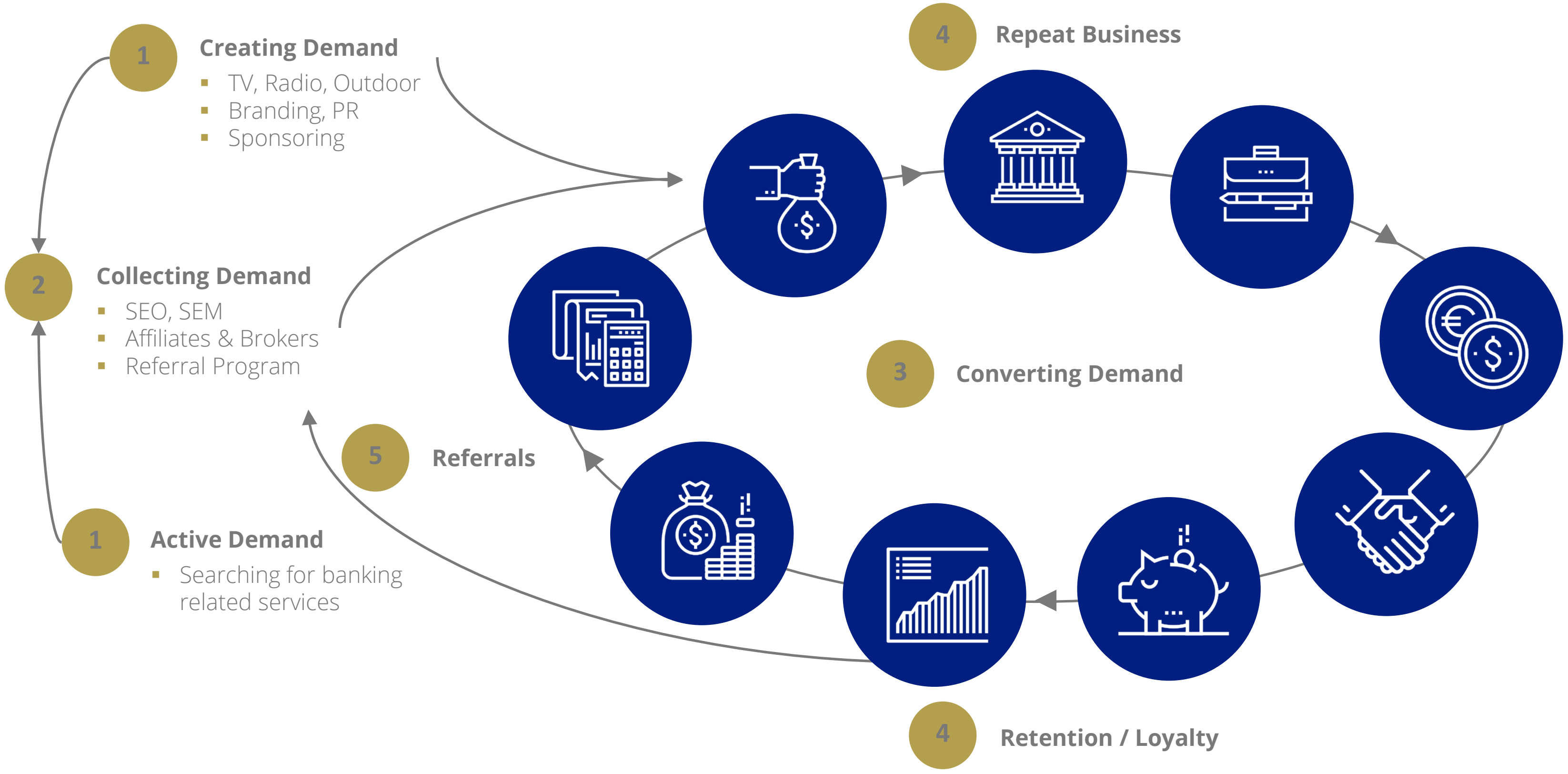
Note: 1) A large number of loans are not approved and the process is stopped after such credit decision, 2) Subject to local characteristics

# Acquisition Strategy

## Strong Networking of Customer and Platform

- To attract new customers, the Group primarily employs online marketing such as:
  - Search engine marketing (SEM)
  - Search engine optimization (SEO)
  - Affiliate online partners marketing
  - Loan brokers
  - Social media
- To a lesser extent, the Group also engages in offline marketing through television, radio and newspaper advertisements
- Websites constructed and optimized to convert maximum of demand into loan applications
- Customer satisfaction creates repeat business and referrals
  - Easy and simple to use services in combination with focus on customer service functions
- Customer are generated through online and offline marketing as well as repeat business

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# Credit Scoring, Acceptance levels and Collection of Loans

- Primarily digital identification via mobile and online bank with no physical meetings required[1]
- Scoring and credit policies are centrally steered by the risk team
  - An application scorecard is used to assess new customers and a behaviour scorecard is used to assess repeated customers
  - Based on credit score, customers are grouped into risk classes that ultimately affect the credit decision
- In its credit scoring the risk team assess internal big data technology (see next slide), public databases, national credit losses registers, statistics databases, and public tax databases if available
  - The scoring model is based on FICO analytics and further developed by the risk team
- Monitoring systems are in place to accommodate the early identification and management of deterioration in loan quality (daily, weekly, and monthly checks)

  - The Group's stringent credit scoring and identification system resulted in an average approval rate of consumer loan applications of 13% during 2018
- Approved loans are paid out via bank account money transfer within minutes from application
- The credit scoring and loan acceptance process is highly effective
  - From Q1-2015 to Q4-2018, the Group has increased its customer base by an average of 70 thousand customers per quarter
- Primarily internal collection employing a series of text messages, letters, and phone calls to encourage customer payment
  - Collection processes are initiated in-house immediately when a payment is overdue and most often outsourced to a third party collection company when the payment becomes more than 30 days delayed
  - Impaired loans may also be sold to third parties

Source: Company Filings
Note: 1) In some instances, face-to-face identification is required due to lack of technology in some markets

## Identification and Credit Scoring

**1**

**Digital identification based on hard facts as name and date of birth. Handled via:**
- Mobile technology
- Online banking,
- Face-to-face ID verification

**2**

**Effective check of the customer by means of:**
- External data bases with information on credit-worthiness
- Tested and dedicated internal scoring
- FICO-tools
- Self-learning software: Increasing approvals while decreasing charge-offs

**3**

**Credit decision within seconds:**
- Less than 0.1% fraud cases
- Professional frauds even 0.0%

## Consumer loan approval rate

2016
**14%**

2017
**15%**

2018
**13%**

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# Big Data Optimizes Credit Scoring

- To support the credit scoring system, the Group founded a dedicated technology company, Personal Big Data Oy, for the purposes of further researching and developing the credit scoring technology
- Credit assessment based on up to 10,000 data points
- Proprietary and self-learning algorithms based on 10 years of experience
- Fast and reliable risk assessment through the use of Big Data technology

**Browser type**


**Browsing behaviour**

**Social Networks**

**Geographic Data**

**Financial Data**

Incl. account data via balancion

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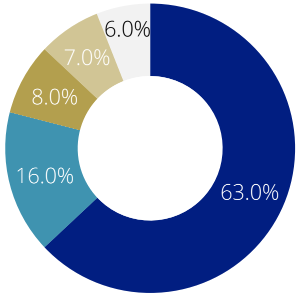
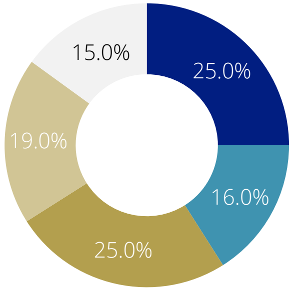
# Ferratum Group's Typical Customer

- As at December 2018, the Group had a total customer base of 2.0 million customers[1]
- Among the Group's customers, a majority of the customers are below 40 years and are predominantly full-time employed
- 93% of the Group's customers are employed
- Loan proceeds are primarily used to pay invoices and consumption
- Customer acquisition is mainly conducted by modern online marketing, selectively supported by traditional PR
- The Group uses 4 main methods of online marketing namely SEO[2], SEM[3], affiliate marketing and cooperation
- Ferratum operates an in house team focusing on increasing the customer base and acquires ~70 thousand new customers per quarter

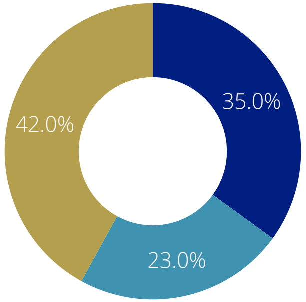
## Employment



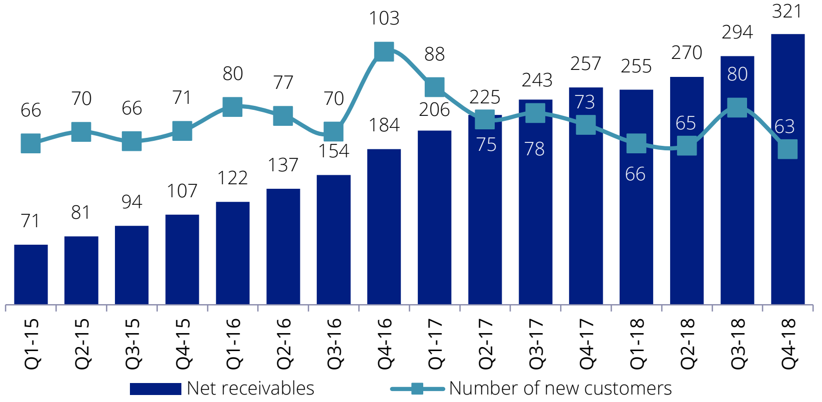

## Age




## Marital Status




## Net receivables vs. number of new customers

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Source: 2014 customer survey. No material change in customer composition according to management. Interim financials for FY 2018 restated.
Note: 1) Active and former customers who have been granted one or several loans in the past or has an open mobile account, 2) Search Engine Optimization, 3) Search Engine Marketing

# Growth driven via the Platform Model

## Global scalability beyond Ferratum's balance sheet: multiple sources of revenue

### Mobile Financial Platform Model

A channel agnostic, flexible customer interface and back-end data engine, supported by a decision making centre and an API integration channel to process third party data:

- ✓ Fees
- ✓ Cheap funding sources
- ✓ Interest on lending products

### White Label Partners

Ferratum's technology and licence platform enables consumer-facing brands to offer financial services:

- ✓ Fees and/or profit sharing
- ✓ Cheap funding sources
- ✓ Increased customer base

White Label Partners

**Mobile Financial Platform**
Ferratum Operating System 1.0

- ✓ Current accounts
- ✓ Deposits
- ✓ Loans
- ✓ Debit Card
- ✓ Payments

Innovation and Widget Partners

International Bank Partners

### Innovation and Widget Partners

An ecosystem of services through the integration of third party products and services:

- ✓ Fees and/or profit sharing
- ✓ More attractive products
- ✓ Increased customer loyalty

### International Financial Partners

A franchise model that combines Ferratum's plug and play Mobile Financial Platform and our partners' balance sheets

- ✓ Fees and/or profit sharing
- ✓ Access to more markets and customers

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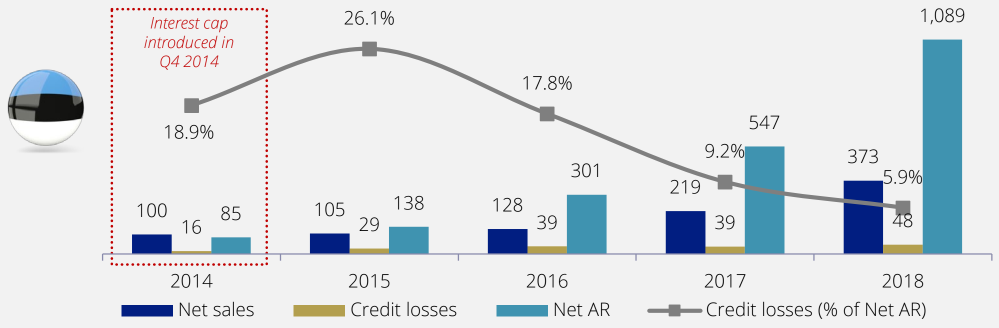
# Navigating through regulatory changes

## Successful track record of adapting to interest cap regulation

- In late 2014, Estonia introduced regulation for an upper limit to the cost of consumer loans
  - While this led to the average yield decreasing, Ferratum started targeting customers with lower credit risk, which in turn had a very positive impact on credit losses
  - Since introduction of the cap in 2014, Ferratum has seen strong profitable growth in its loan book in Estonia
- In September 2018, the Swedish government introduced an interest/cost cap on consumer loans
  - The initial development seen in Q4 2018 shows that the adoption of the interest rate cap in Sweden had little impact on the Group's performance
  - Credit losses are decreasing, new customers are being acquired and both revenues and the loan book is still increasing in Sweden
- In essence, interest rate caps result in Ferratum tightening its scoring, which leads to better payment behaviour
  - While the revenues per granted loan decrease on average, the impact on profitability is mitigated through the de-risked profile of the customers, resulting in lower credit losses
- As evident from 14 years of previous experience and a strong track record, Ferratum is well equipped to handle regulatory changes
  - While the operational parameters of a market may change, the Group has proven it is highly flexible and prepared to adapt to a new environment while retaining its growth track and profitability

## Case study: Introduction of interest rate cap in Estonia

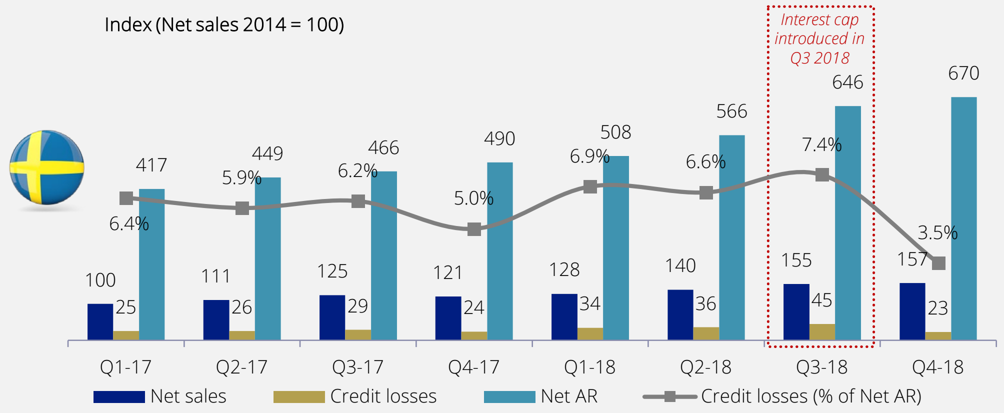
Index (Net sales 2014 = 100)




***Estonia shows successful conversion to new interest rate level***

## Case study: Introduction of interest rate cap in Sweden

Index (Net sales 2014 = 100)




***Sweden Q4-18 results indicate successful conversion as well***

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# Anticipated changes in legal environment

## Active monitoring and dedicated resources to adapt and respond to regulatory change

SWEDEN

- A new law came into force in Sweden on 1 September 2018 capping effective interest rates for high cost loans at 40%. In line with its overall business strategy, Ferratum has stopped selling microloans in Sweden and switched to products with higher loan principals, which can be offered at lower rates of interest in line with the new capping

LATVIA

- A number of legislative changes were enacted in October 2018, which included rules on creditworthiness assessments. Ferratum offers loans in compliance with these rules, whilst it is also planning further changes in order to comply with additional changes – which will come into force on 1 July 2019 – capping the daily total costs of loans and others which purport to limit certain advertising of loans

NORWAY

- A new law was passed in February 2019 (coming into force in May 2019), the main focus of which are creditworthiness assessments of consumers. Ferratum is working on implementing changes to its processes in order to meet these new requirements

FINLAND

- A number of amendments to the Consumer Protection Act with regards to the maximum interest rates that may be charged to consumers, as well as a cap on overall costs, have been approved and will enter into force in September 2019

ROMANIA

- The National Bank of Romania has adopted adjustments to the relevant debt to income ratio, which were applicable from 1 January 2019. Ferratum has adapted its processes in order to adhere to these legislative changes. In March 2019, Romania's Constitutional Court invalidated a law capping interest rates on retail loans which was to be introduced; Ferratum continues to monitor the situation

POLAND

- Ferratum is closely monitoring news that new laws will be enacted in Poland in 2019 aimed at regulating consumer lending, primarily in order to ensure Ferratum is ready to implement any changes necessary to continue adhering to the regulatory requirements

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 with the aim to ensure the Group's ongoing compliance with all applicable laws and regulations

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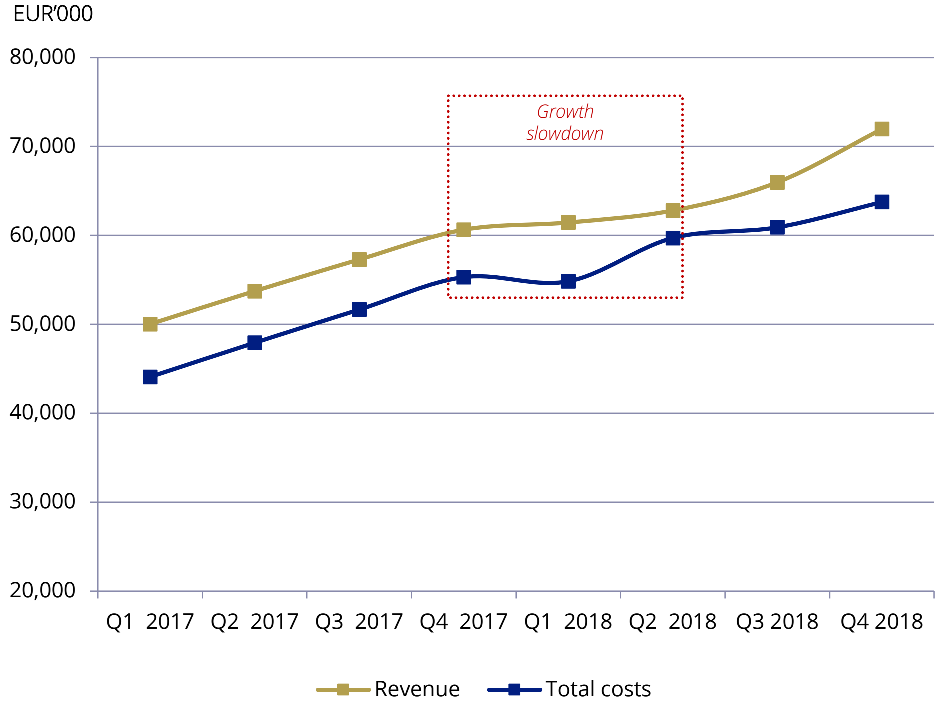
# Leverage opportunities and priorities

## Operating costs have stabilized while revenue growth is recovering




## Management progress to improve performance

**Accelerate growth of lending by improving risk & increase customer intake**

- Improve conversion rate, scoring & underwriting ✓
- Processes for increasing customer intake and efficiency ✓

**Reshape organisation**

- Staff streamlining ✓
- Strengthen top management ✓
- Create five cylinders and responsibilities common to every product ✓
- Lead generation, conversion funnel, underwriting & collections, CRM, product & pricing ✓

**Rebalance resources**

- Focus on lending in existing markets ✓
- More resources allocated to risk management and automation ✓

**Review geographies for profitability**

- Considering withdrawal from 1-2 non-performing countries ongoing ✓

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# Risk modelling review programme

## Programme is substantially completed

**2018** | **2019**

### Scoring

- New heads of data science and credit management appointed
- All credit decisions under central monitoring
- Score cards for new and existing customers reviewed
- 1,000 credit policy rules reviewed (mostly completed)
- Mid term optimization plan defined in order to even exceed current status

### Risk & IT

- New scorecard implementation tool implemented (Score Mada)
- New scorecard implementation process defined
- Documentation of risk relevant features in IT systems completed
- Strong score card quality monitoring established
- New Collection tool selected (Fico)

### Risk & Marketing

- 5 cylinder model established – improving handshaking between risk and other functions, especially marketing and sales

### Intended benefits in 2019:

- Increase number of new customers
- Increase active customer base
- Optimize cost benefit of customer acquisition
- Increase the quality of the credit portfolio

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# Overview of Product Portfolio

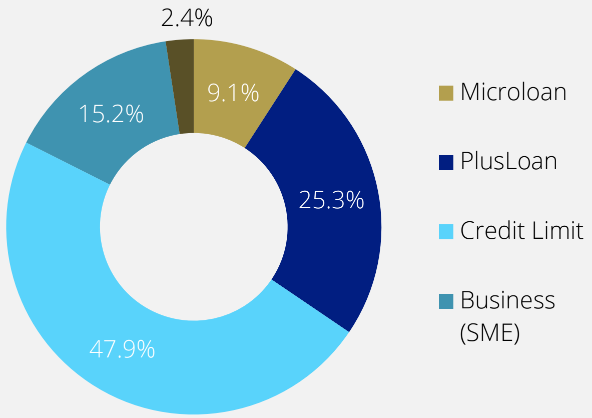
## Revenue Split and Structure

- Microloans have historically been the core product since start of operations in 2005 however, with banking license in place since 2012, there has been more focus on traditional consumer loans
  - Currently the Issuer takes deposits in Sweden, Germany, Norway, France and Spain. Average interest is 0.6%
- Credit limit represents 47.9% of the loan portfolio and 50.5% of revenues
- In 2016, the Group launched its Mobile Bank platform offering interesting growth opportunities, currently active in 5 markets

| Products | Revenue Share | | Revenues by Product (€,000) | | Active Markets |
|---|---|---|---|---|---|
| **Primeloan (incl. Mobile Bank)[2]** | 0.6% | 2017<br>2018 | 529<br>1,468 | +178% y-o-y | 2 (5) |
| **Business (SME)** | 8.0% | 2017<br>2018 | 13,135<br>21,008 | +60% y-o-y | 9 |
| **Credit Limit** | 50.5% | 2017<br>2018 | 103,774<br>132,321 | +28% y-o-y | 10 |
| **PlusLoan** | 25.0% | 2017<br>2018 | 60,315<br>65,641 | +9% y-o-y | 9 |
| **Microloan** | 15.9% | 2017<br>2018 | 43,886<br>41,709 | -5% y-o-y | 13 |

Source: Company filings. Note: 1) Information as of December 31, 2018, 2) Mobile Bank, FerBuy, Primeloan and Ferratum P2P

## Loan Portfolio Breakdown by Product, Dec-18




## Average Amount and Duration of Different Loan Products[1]

| | Average amount | Average loan term |
|---|---|---|
| PrimeLoan | EUR 6,004 | 4.9 years |
| Business (SME) | EUR 13,503 | 420 days |
| Credit Limit | EUR 1,269 | n/a |
| PlusLoan | EUR 753 | 355 days |
| Microloan | EUR 210 | 29 days |

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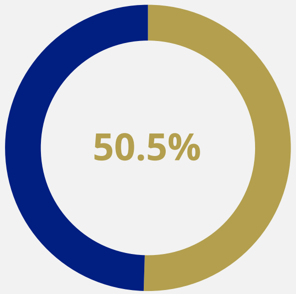
# Product Area –
# Credit Limit

## Service Offering

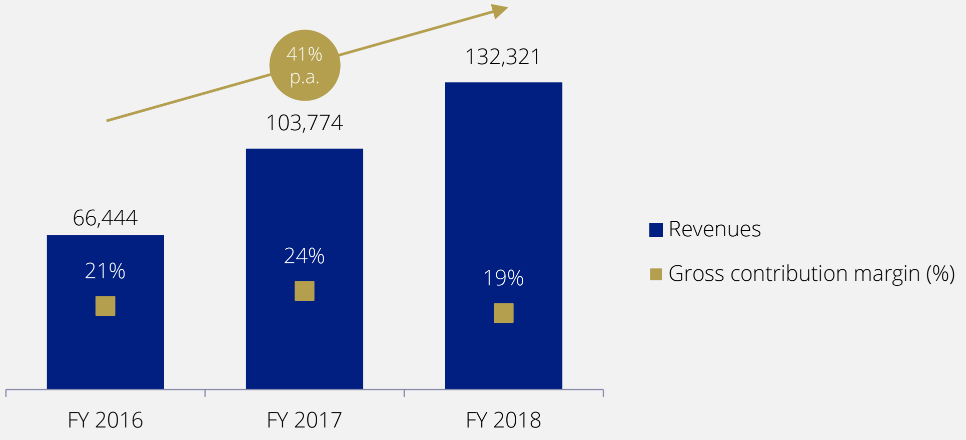
- The Credit Limit product was launched in Finland in June 2013 and is currently offered in 10 of Ferratum Group's markets, including in the Nordics, Estonia, Latvia, Spain, Czech Republic, the UK and in Brazil
- Credit limits offered by Ferratum are up to EUR 3,000 and the product offering is similar to a flexible revolving overdraft facility
  - Customers can withdraw money within a certain limit over a month's period and choose which amount to pay back at the end of each month. Monthly minimum instalments covers interest and some amortization is required
  - Hence, the product offers a very flexible solution from a customer point of view, enabling customers to withdraw and repay in accordance with their cash flow situation
  - Draw downs and repayments are allowed at any number of times until the expiration of the arrangement
  - As at Dec-18, the average amount loan amount was EUR 1,269
- The product segment has seen a rapid growth from initiation
  - Credit Limit comprised nearly 48% of the total loan portfolio as at Dec-18 and generated half of the Group's revenues for FY 2018
- The Group is planning on expanding the product offering to more of its markets

Source: Company filings

## Credit Limit - Share of Revenue




## Credit Limit – Revenue and Contribution (EUR thousands)

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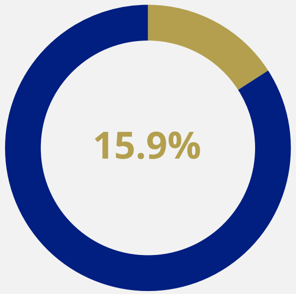
# Product Area – Microloans

## Service Offering

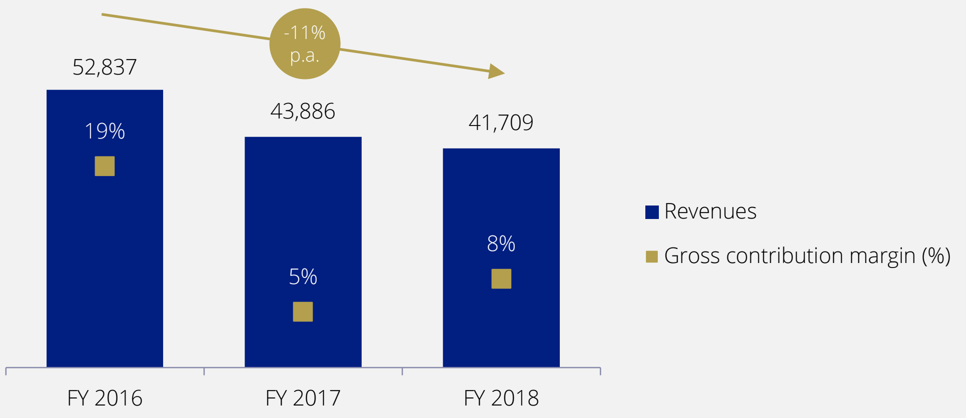
- Short-term microloans with a nominal value below EUR 1,000 have historically been the Group's core product since it started its operations in 2005
  - However, the Group has decreased its focus on microloans over the last couple of years with the product type comprising 9.1% of the total loan portfolio as at Dec-18 while representing 15.9% of revenues for FY 2018
  - This can be compared to 2016, when Microloans accounted for 34% of revenues
  - Microloans are currently offered in 13 countries
- Microloans typically range between EUR 25-1,000 with durations of 7-90 days, depending on the loan amount and regulatory framework of the customer's country
  - Average loan amount totalled EUR 210 with an average duration of 29 days as at Dec-18
- Microloans are facilitated through the Group's mobile phone application and customers are in most cases able to obtain loans instantly
- Given the varied regulatory requirements, payment cultures and overall credit risks within different markets, the Group applies customized interest rates, fee structures and terms and conditions depending on market
  - Therefore, specific provisions for customer default, loan modification, technical repayment processes and additional customer obligations differ from country to country
  - In 2018, Microloans were discontinued in Canada and Sweden following the Group's strategy, as higher customer lifetime value can be to achieved with other products

Source: Company filings

## Microloans - Share of Revenue




## Microloans – Revenue and Contribution (EUR thousands)

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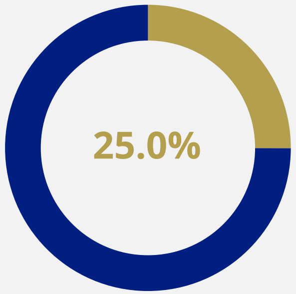
# Product Area – PlusLoan

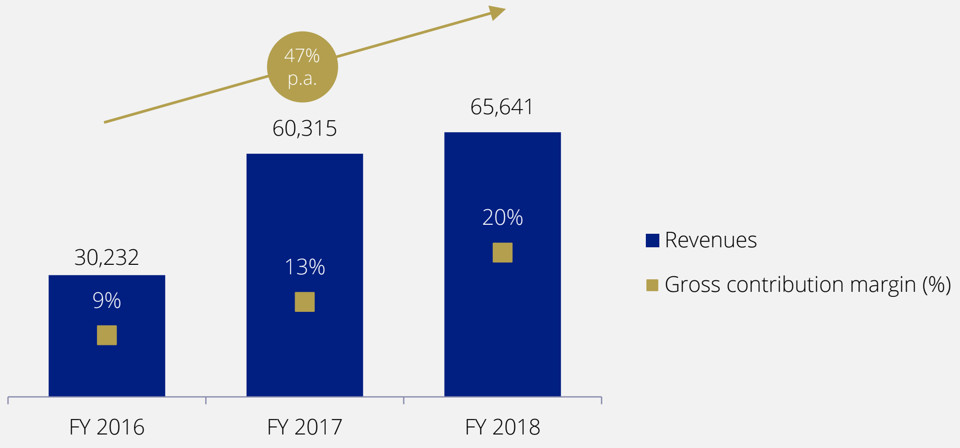
## Service Offering

- PlusLoan was included into the product offering in 2013 and serve to complement the Microloan business
- The product is offered to selected customer groups only and application is done separately through an online application
  - PlusLoans are primarily targeted to existing customers with a strong track record of repayment ability
- PlusLoan is a more flexible loan product outside the typical range of Microloans
  - As of FY 2018, PlusLoan constituted 25.3% of the Group's total loan portfolio and contributed 25.0% of revenues
- PlusLoans are offered in larger amounts, typically between EUR 300-5,000 with maturities of 2-36 months
  - In FY 2018, the average loan amount and tenor amounted to EUR 753 and 355 days, respectively
  - PlusLoans are practically regular instalment loans, further distinguishing them from the Group's Microloans
  - As the product segment is rapidly growing, the margins are diluted by frontloaded credit losses and marketing expenses
- PlusLoans are currently offered in 9 markets

### PlusLoan - Share of Revenue




### PlusLoan – Revenue and Contribution (EUR thousands)

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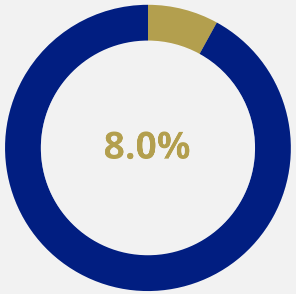
Source: Company filings

# Product Area – Business (SME)

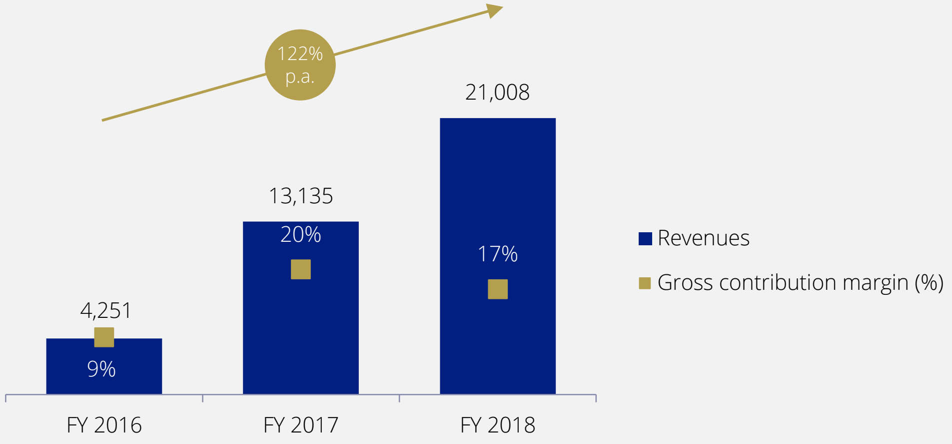
## Service Offering

- In 2015, business lending to Small and Medium-sized Enterprises (SMEs) were introduced in Finland and Sweden
  - Currently, Ferratum Group offers its business lending services in 9 countries, including Sweden, Finland, Lithuania, Denmark, the UK, the Netherlands, Czech Republic, Poland and Australia
- The business offering offers established small businesses, with a strong track record of at least two years, loans with a term of six to 18 months
- Loans can be up to EUR 250,000 and can be applied through an online application process
  - Average loan amount and tenor amount to EUR 13,503 and 420 days, respectively
- Loan proceeds are often used to finance working capital and bridge financing

### Business (SME) - Share of Revenue




### Business (SME) – Revenue and Contribution (EUR thousands)

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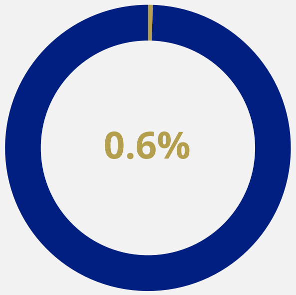
Source: Company filings. Only for Ferratum Group. Not part of Ferratum Bank's product offering

# Product Area – Mobile Bank[1]

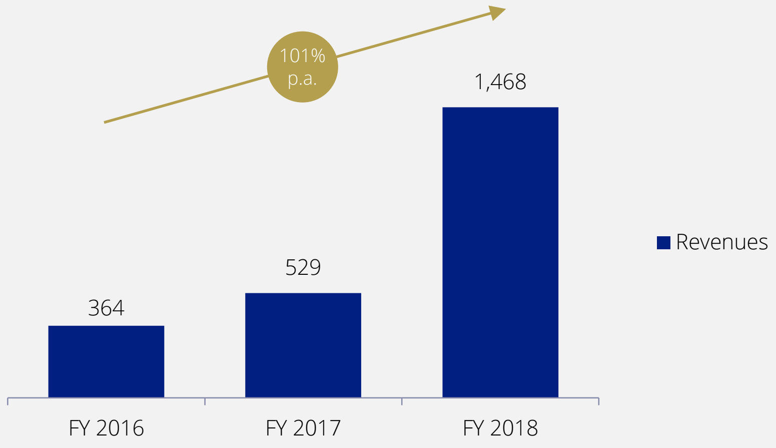
## Service Offering

- Mobile Bank includes the Group's Mobile Banking operations (launched in 2016), FerBuy (to be discontinued), Primeloan (started in 2017) and Ferratum P2P
- The Group's mobile banking offering is currently available in five countries in Europe, aiming to offer customers a simple, real-time, global and mobile banking solution allowing customers to have current accounts, savings accounts and term deposits with Ferratum
  - Customers receive a free contactless debit card, allowing customers to withdraw cash across Europe in any currency
  - In addition, a current account with Ferratum supports multi currencies, allowing customers to move money between countries in real-time at attractive FX-rates and enabling cross-boarder transactions
  - Ferratum's mobile offering will be renewed during 2019, with new services to be introduced through a new enhanced Mobile Bank app. Customers will eventually have intelligent financial services (loans, credit, savings, investments and payments) available to address all financial matters, with the services provided by Ferratum and Ferratum's partners
- Ferratum P2P lending and investment platform will be restructured during 2019
  - The platform will be closed to new retail customers, with existing principals and accrued interest bought back, and relaunched to serve institutional investors in the first half of 2019
- In 2017, Ferratum launched Primeloans to Finnish private customers, with a subsequent successful rollout in Germany in October 2018. This adds to the company's growing suite of consumer lending products
  - Under this product category, Ferratum competes with larger banks to offer loans in the range of EUR 3,000-20,000 with maturities ranging from 1-10 years

### Mobile Bank - Share of Revenue




### Mobile Bank – Revenue and Contribution (EUR thousands)

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Source: Company filings Note: 1) Includes Mobile Bank, Ferratum P2P, Prime Loan and FerBuy (FerBuy is to be discontinued). Only for Ferratum Group. Not part of Ferratum Bank's product offering

# Product Offering per Market

| | Product area | Microloan | PlusLoan | Credit Limit | SME | Mobile Bank | Primeloan | P2P |
|---|---|---|---|---|---|---|---|---|
| Northern Europe | Finland | | | ✓ | ✓ | | ✓ | |
| | Sweden | | | ✓ | ✓ | ✓ | | |
| | Denmark | | | ✓ | ✓ | | | |
| | Norway | | | ✓ | | ✓ | | |
| Western Europe | France | | | | | ✓ | | |
| | Germany | ✓ | | | | ✓ | ✓ | |
| | Netherlands | ✓ | ✓ | | ✓ | | | |
| | Spain | | | ✓ | | ✓ | | |
| | UK | ✓ | ✓ | ✓ | ✓ | | | |
| Eastern Europe | Bulgaria | ✓ | ✓ | | | | | |
| | Croatia | ✓ | ✓ | | | | | |
| | Czech Republic | ✓ | ✓ | ✓ | ✓ | | | |
| | Estonia | | | ✓ | | | | |
| | Latvia | | | ✓ | | | | |
| | Lithuania | | | | ✓ | | | |
| | Poland | ✓ | ✓ | | ✓ | | | |
| | Romania | ✓ | ✓ | | | | | |
| | Russia | ✓ | | | | | | |
| Rest of the World | Slovakia | | | | | | | |
| | Australia | ✓ | ✓ | | ✓ | | | |
| | Brazil | | | ✓ | | | | |
| | Canada | | ✓ | | | | | |
| | Mexico | ✓ | | | | | | |
| | New Zealand | ✓ | | | | | | |
| | Nigeria | ✓ | | | | | | |
| | Live markets | 13 | 9 | 10 | 9 | 5 | 2 | 0 |

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Notes: P2P offering discontinued in 2018 – to be restructured and relaunched in 2019

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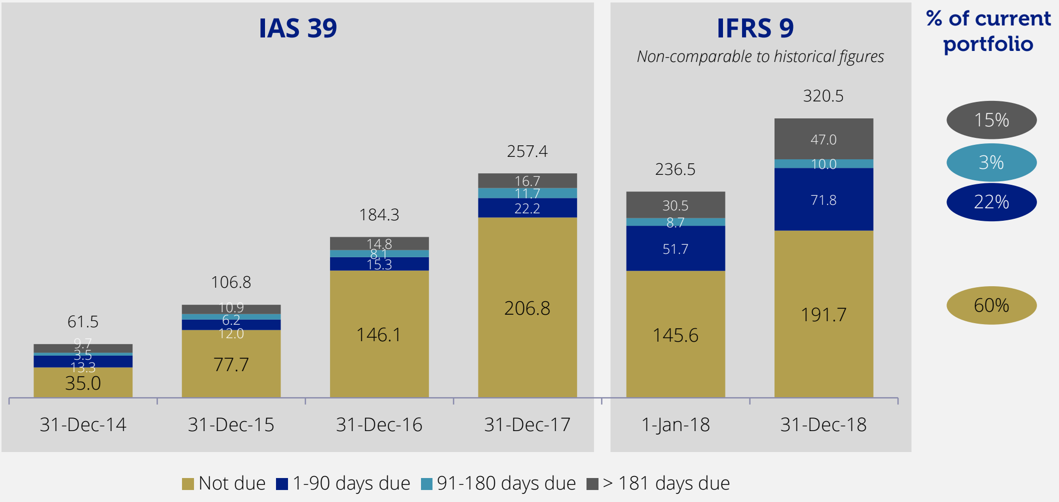
# Asset Quality –
# Breakdown of Receivables

## Comments

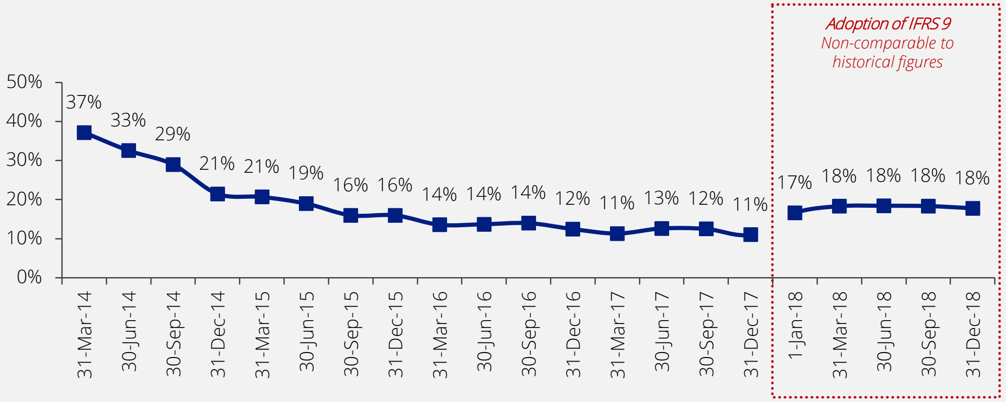
- Due to the stringent loan application procedure and credit scoring applied by the Group, Ferratum ensures high quality customers from the outset
- Also, the Group constantly reviews its receivables portfolio and receivables that are overdue are impaired in accordance to a statistical model, described on the following slide
  - As of December 2018, gross receivables amounted to EUR 468 million while the net amount on balance sheet amounted to EUR 321 million
- Non-performing-loans (NPLs), defined as receivables that are more than 90 days past due, amount to 17.8% of net receivables
  - Ferratum has been able to improve its asset quality due to improved and rigorous credit scoring over the years, however the adoption of IFRS 9 from 2018 had an impact on the Group's impairment and credit loss models, making the NPL evolution of FY 2018 incomparable to earlier years (see slides 54-56 in appendix for further information)
  - Adoption of IFRS 9 led to an instant additional EUR 21 million provision, as net receivables decreased from IAS 39 compliant EUR 259 million to IFRS 9 compliant EUR 236 million
  - The NPL ratio would be significantly lower if taking into account that due to focus on short term lending the yearly lending volume is much higher than the portfolio on balance at year end
  - Due to small average amounts, loans that are overdue by 180 days still have relatively high market values and Ferratum seeks to sell older NPL portfolios and thus limit the volume in this overdue bucket
- Collection processes are initiated immediately when a payment is overdue
  - In the first 60-90 days primarily internal soft collection employing a series of text messages, letters, and phone calls to encourage customer payment
  - After the first 60-90 days, external debt collection partners take over collections
  - Impaired loans may also be sold to third parties through forward flow in Finland, Sweden, Estonia and Latvia or through auction processes

Source: Company filings. Interim financials for FY 2018 restated. Note: Adoption of IFRS 9 makes historical figures non-comparable to FY 2018 figures due to varying credit loss provisioning models

## Portfolio Ageing Profile (net carrying value) (EURm)




## NPL Evolution (% of NPLs of Net Receivables)



# Asset Quality –
# Impairment Policy and Credit Losses

## Comments

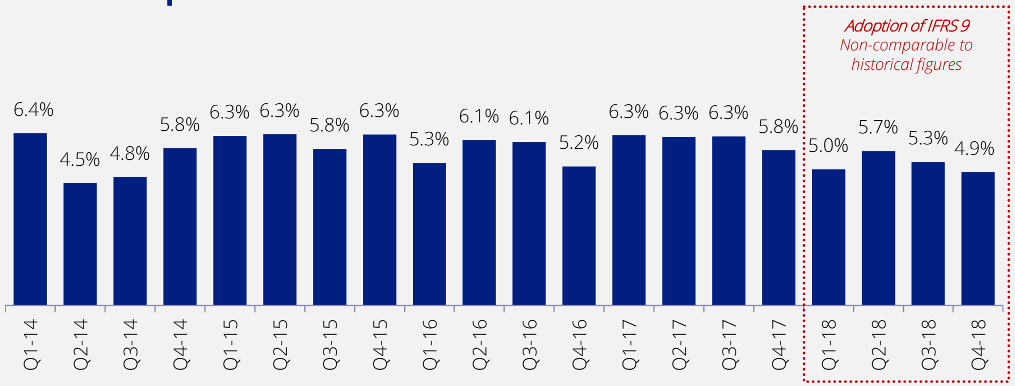
- Overdue receivables are impaired in accordance to a mathematical model (Markov Chains) based on actual performance of the loan portfolio
  - All statistically expected credit losses based on this model (expected loss) are booked when paying out a loan (group average 6.8%) (IFRS 9 compliant)
  - Based on this risk provisioning model, credit losses come when paying out a loan and income on the longer term periods only over the term of the products
- In total, the Group has 31.5% in reserves of gross receivables as of December 2018
  - Breakdown over impairments per basket of receivables is expressed in the table on the right
  - The reserving ratio (impairments compared to gross receivables) increases as the likelihood of recovery decreases when the receivables are more overdue
- When a receivable is impaired, the receivable's carrying amount is reduced to the receivable's recoverable amount
  - The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows
  - The amount of the loss is recognized in profit or loss as an impairment
  - If the amount of the impairment loss decreases, the previously recognized provision for impairment is reversed by adjusting the allowance account through profit and loss for the year
- Quarterly gross impairments as percentage of gross receivables per corresponding point in time have been fairly stable throughout the last few years, but has shown a slightly decreasing trend in 2018, ending at 4.9% for Q4 2019
  - Quarterly impairments for FY 2018 are not fully comparable to earlier years due to adoption of IFRS 9

Source: Company filings. Interim financials for FY 2018 restated. Note: 1) Impairments / GBV (gross book value). 2) Adoption of IFRS 9 makes historical figures non-comparable to FY 2018 figures due to varying credit loss provisioning models

## Impairment per Basket of Receivables, December 2018

| In EUR '000 | GBV | Provision for Impairments | NBV | Coverage ratio (%)[1] |
|---|---|---|---|---|
| Not overdue | 205,616 | (13,898) | 191,718 | 6.8 |
| 1-90 days due | 92,961 | (21,127) | 71,835 | 22.7 |
| 91-180 days due | 23,234 | (13,252) | 9,982 | 57.0 |
| >181 days due | 145,998 | (98,996) | 47,002 | 67.8 |
| **Total** | **467,811** | **(147,273)** | **320,538** | **31.5** |

## Gross Impairments as % of Gross Receivables[2]

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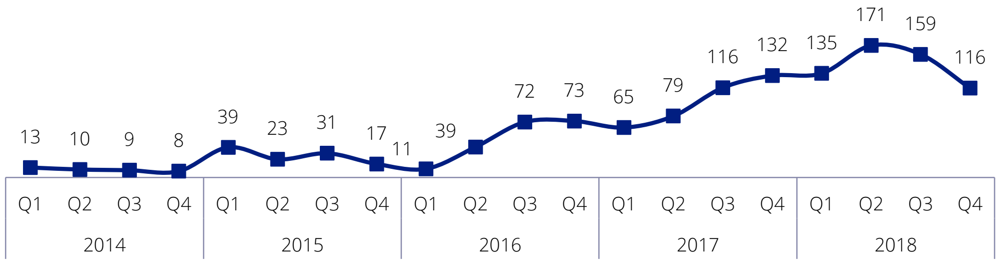
# Capital Ratio & Liquidity

## Comments

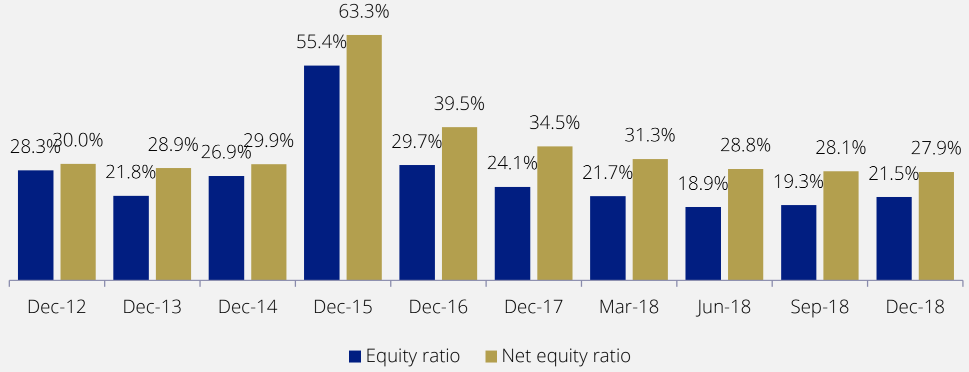
- Ferratum Group monitors its capital on the basis of its gearing ratio, calculated as net debt to equity
  - As the deposit taking business has expanded, the borrowing base has increased rapidly hence affecting total equity in relation to net debt
  - In 2015, the Group went public resulting in net proceeds of EUR 46.2 million
- The adoption of IFRS 9 had a direct impact on the Group's equity, as the required changes to the credit loss provision model led to an additional provision of EUR 20.9 million, of which the impact on equity was a negative EUR 15.1 million
  - No transition rule applicable as for traditional banks; the entire adjustment was taken at cost immediately
- The increase in cash over the past years is stemming primarily from the increase in deposits, with EUR 183 million held in customer deposits as of December 2018
  - Cash position was also strengthened as Ferratum issued a EUR 100 million senior unsecured bond in May 2018, which led to a surge in liquidity in Q2-2018
- Hence, Ferratum Group has ample available liquidity to support the business of EUR 116 million as of December 2018

## Liquidity Evolution (EURm)

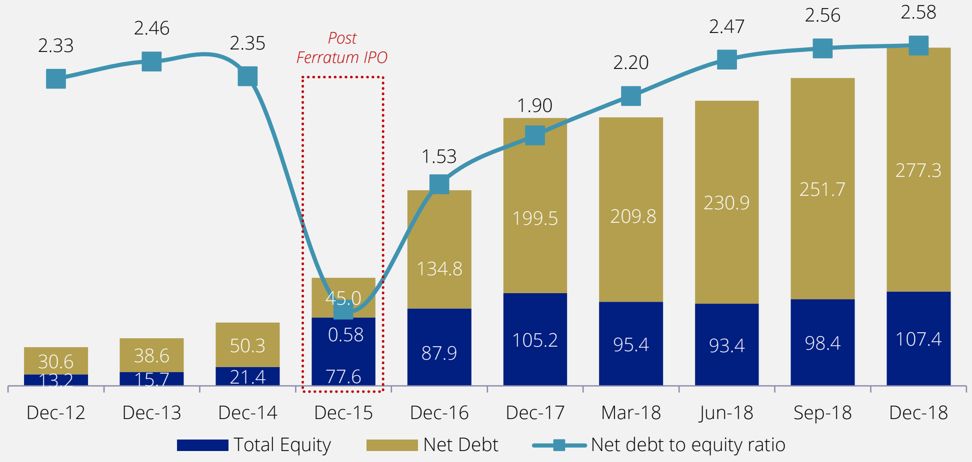



Source: Company filings. Interim financials for FY 2018 restated.

## Equity Ratio Ferratum Group




## Total Equity in Relation to Net Debt (EURm)

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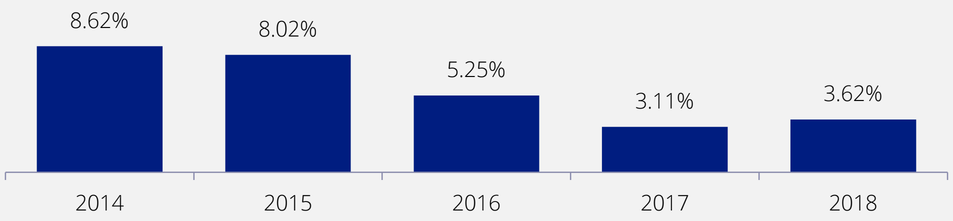
# Overview of Funding

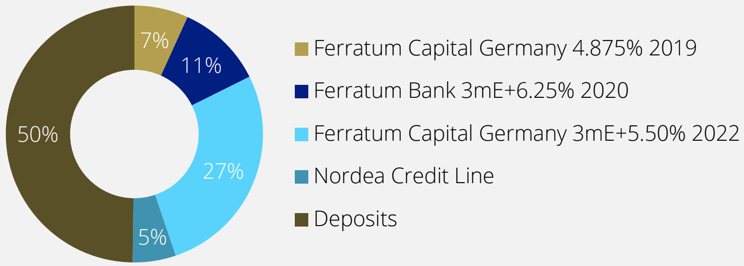
## Comments

- The Group's current funding consists of customer deposits and bonds
  - As the refinancing is completed, the Group will obtain a simpler and more streamlined capital structure
  - In addition to bonds and customer deposits, Ferratum Group also has a EUR 35 million credit line with Nordea to support expansion of which EUR 20 million was drawn as at December 2018
- The Group started offering deposits for its customers in Sweden in January 2016 and has now rolled out the offering in Germany, Norway, France and Spain
  - Customer deposit will provide the principle source of financing for the operations going forward
- Historically Ferratum Bank sought a diversified funding mix of deposits and institutional bonds by issuing bonds itself. However, going forward the intention is that all capital market indebtedness of Ferratum Group is raised by the Issuer and transferred within the Group as intra-group loans
- The Group has been successful in decreasing its cost of capital in recent years primarily due to offering deposits, however the average interest slightly increased in 2018 to 3.62% due to the EUR 100 million bond issued in May 2018
  - Interest and tenor on the Group's customer deposits varies but averages around 0.6% with an average tenor of a few months

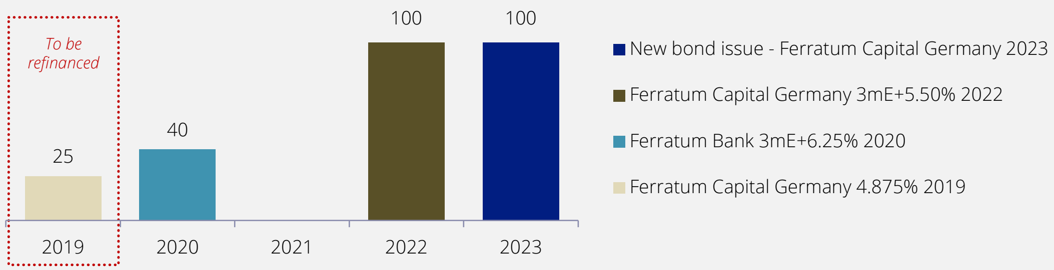
## Weighted average cost of funding




## Overview of current funding structure




## Debt Maturity Schedule



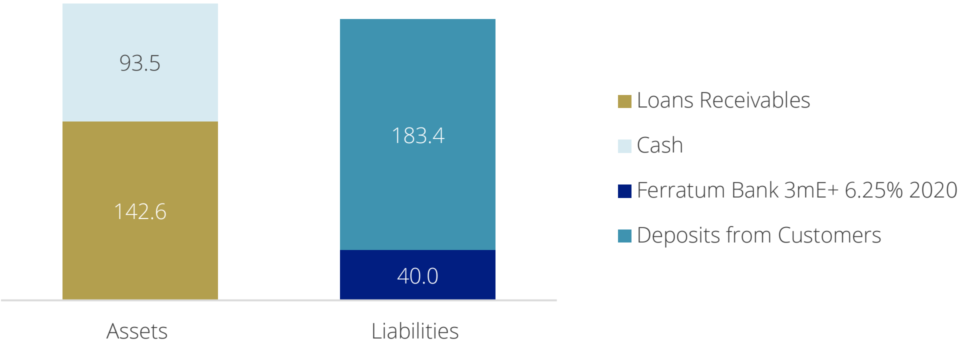
# Scope to further improve cost of capital over time…

## *…by migrating more countries under Sphere I operations*

### SPHERE I OPERATIONS

Countries covered by
Ferratum Bank p.l.c.'s EU banking licence

### FINANCING SPLIT 2018 (EUR million)




### SPHERE II OPERATIONS

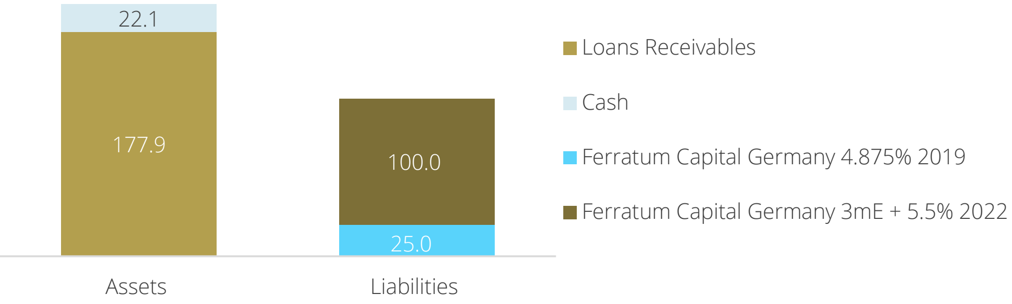
Countries / operations *not* currently utilising
Ferratum Bank p.l.c.'s EU banking licence

ferratum business

Potential Sphere I Operations

*Migration targeted in 2019*

### FINANCING SPLIT 2018 (EUR million)

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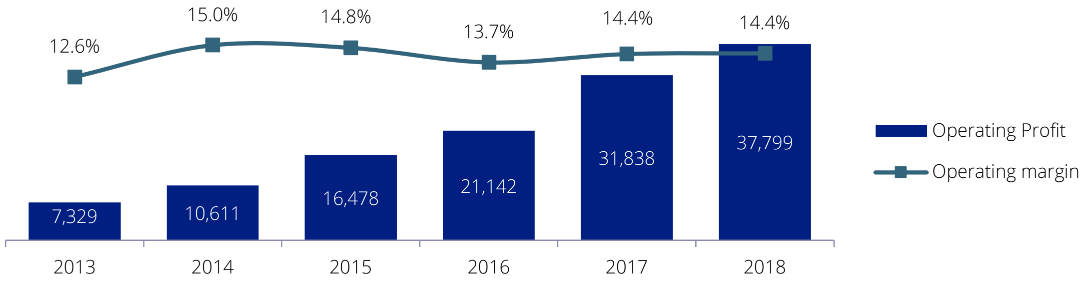
# Ferratum Group Income Statement

## Comments

- Revenue increased by 18% to EUR 262 million in FY 2018 from FY 2017
  - Operating profit was recorded at EUR 37.8 million
- Impairments on loans for FY 2018 amounted to EUR 88 million, increasing from EUR 76 million in 2017 both due to an increased receivables base as well as adoption of IFRS 9, resulting in changes to the provisioning models
- Despite the stringent changes in the credit loss provisioning models, operating margin stayed flat in 2018, standing at 14.4% of revenues
  - Following an initial slowdown of growth in H1 2018, the Group initiated a series of management actions to improve performance, including the strengthening of top management, staff streamlining, rebalancing of resources to prioritise enhanced risk management and the automation of lending processes in existing markets
- As Ferratum Group has expanded, the major cost items have increased in line with revenue
  - Impairments, personnel, and selling & marketing amount to 34%, 17% and 16% of revenues, respectively and together constitute 77% of operating costs

## Operating profit and margin (EUR thousands)




Source: Company filings.

## Income Statement

| EUR '000 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Revenue | 262,148 | 221,638 | 154,128 | 111,008 | 70,508 |
| Other Income | 241 | 534 | 64 | 47 | 157 |
| Impairments on loans | -88,496 | -75,629 | -47,964 | -34,687 | -20,372 |
| Operating expenses | | | | | |
| Personnel expenses | -43,799 | -35,375 | -24,761 | -17,010 | -11,768 |
| Selling and marketing expenses | -41,388 | -37,184 | -29,918 | -16,200 | -9,608 |
| Lending costs | -12,971 | -10,145 | -8,001 | -7,116 | -4,569 |
| Other administrative expenses | -2,350 | -2,205 | -2,204 | -5,097 | -3,033 |
| Depreciations and amortisation | -5,223 | -2,811 | -1,547 | -1,309 | -628 |
| Other operating expenses | -30,363 | -26,986 | -18,655 | -13,158 | -10,076 |
| Operating profit | 37,799 | 31,837 | 21,142 | 16,478 | 10,611 |
| Financial Income | 124 | 97 | 161 | 95 | 99 |
| Foreign exchange effects | -2,787 | 384 | -875 | -97 | 27 |
| Finance costs | -12,803 | -9,075 | -5,700 | -4,057 | -4,207 |
| Net finance costs | -15,466 | -8,594 | -6,414 | -4,059 | -4,081 |
| Profit before Income Tax | 22,333 | 23,244 | 14,728 | 12,419 | 6,531 |
| Income tax expense | -3,060 | -3,185 | -1,768 | -1,491 | -911 |
| Profit for the period | 19,274 | 20,059 | 12,960 | 10,928 | 5,619 |
| | | | | | |
| Return on equity | 18% | 21% | 16% | 22% | 30% |
| Interest coverage ratio | 2.8x | 4.0x | 3.5x | 4.4x | 2.7x |

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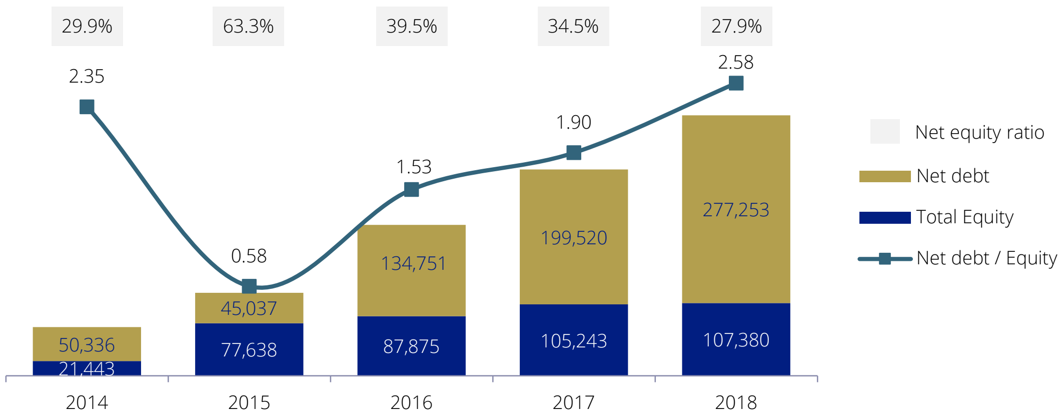
# Ferratum Group Balance Sheet

## Comments

- In February 2015, the Group received net proceeds from its IPO of EUR 46.2 million, which is the primary driver of the increase in equity
  - The IPO is considered to be a very significant milestone for Ferratum Group and is certain to strongly support Ferratum Group's further development
- Net equity ratio and net debt to equity amount to 27.9% and 2.58, respectively as at 31 December 2018
- The vast majority of Ferratum's assets are built up of loan receivables from customers, with net receivables amounting to EUR 321 million in December 2018
- The increase in liabilities between 2018 and 2017 is primarily driven by the EUR 100 million bond issue by Ferratum Capital Germany in May 2018

## Total equity and liabilities (EUR thousands)




## Balance Sheet

| EUR '000 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 4,155 | 3,482 | 2,761 | 560 | 294 |
| Intangible assets | 30,227 | 20,037 | 12,736 | 8,232 | 4,383 |
| Government stocks | 8,533 | 8,851 | 11,450 | - | - |
| Deferred income tax assets | 10,622 | 3,757 | 3,480 | 2,692 | 2,711 |
| Loan receivables | 178 | - | - | - | - |
| Total non-current assets | 53,714 | 36,127 | 30,427 | 11,484 | 7,388 |
| Current assets | | | | | |
| Accounts receivable - lending business | 320,538 | 257,406 | 184,346 | 106,758 | 61,529 |
| Other receivables | 9,399 | 10,554 | 7,298 | 4,309 | 2,194 |
| Derivative assets | 21 | 156 | - | - | - |
| Current tax assets | 961 | 519 | 555 | 124 | 668 |
| Cash and cash equivalents | 115,559 | 131,832 | 73,059 | 17,452 | 8,026 |
| Total current assets | 446,478 | 400,468 | 265,258 | 128,643 | 72,417 |
| Total assets | 500,192 | 436,595 | 295,685 | 140,127 | 79,805 |
| Equity and liabilities | | | | | |
| Equity attributable of the parent | | | | | |
| Share capital | 40,134 | 40,134 | 40,134 | 10,134 | 7 |
| Treasury shares | -142 | -142 | -142 | -142 | -142 |
| Reserves | -2,211 | -2,240 | -1,202 | -638 | -392 |
| Unrestricted equity reserve | 14,708 | 14,708 | 14,708 | 44,708 | 2,373 |
| Retained earnings | 54,892 | 52,783 | 34,377 | 23,577 | 12,305 |
| Total equity | 107,380 | 105,243 | 87,875 | 77,638 | 21,443 |
| Liabilities | | | | | |
| Non-current liabilities | | | | | |
| Borrowings | 137,695 | 64,049 | 72,246 | 48,739 | 28,719 |
| Other Payables | 0 | 0 | 0 | 4 | 11 |
| Defrred income tax liabilities | 581 | 118 | 0 | 184 | 155 |
| Total non-current liabilities | 138,276 | 64,167 | 72,246 | 48,927 | 28,885 |
| Current liabilities | | | | | |
| Current tax liabilities | 3,372 | 1,867 | 1,143 | 1,002 | 1,634 |
| Deposit from customers | 183,405 | 174,301 | 101,436 | | |
| Borrowings | 44,882 | 69,741 | 18,469 | 3,543 | 20,233 |
| Derivative liabilities | 479 | 790 | 182 | | |
| Trade payables | 10,522 | 9,838 | 4,958 | 2,727 | 4,401 |
| Other current liabilities | 11,877 | 10,648 | 9,376 | 6,290 | 3,209 |
| Total current liabilities | 254,536 | 267,185 | 135,564 | 13,562 | 29,477 |
| Total liabilities | 392,812 | 331,352 | 207,810 | 62,489 | 58,362 |
| Total equity and liabilities | 500,192 | 436,595 | 295,685 | 140,127 | 79,805 |

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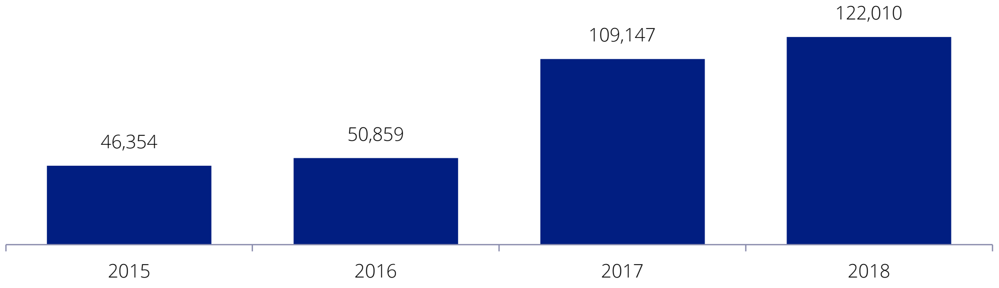
Source: Company filings. Note: 1) In previously published reports "Deposits from customers" were included in borrowings

# Ferratum Group Cash Flow Statement

## Comments

- As of the end of FY 2018, the Group's cash position stood at EUR 115.6 million, with the decrease from 2017 stemming primarily from strongly increased lending
  - Net cash from operating activities[1] has grown from EUR 46 million in 2015 to EUR 122 million in 2018
- Impairments on loans is a non-cash item as according the Group's credit policies, expected credit losses are recognized in the income statement when paying out a loan
- As the Group's receivables portfolio has increased, actual loan write-offs have also increased from EUR 30 million in 2015 to EUR 40 million in 2018
- Net investments have been steadily growing in the last couple of years, however still constituting a low percentage of sales
  - Investments in 2018 were primarily related to purchase of tangible and intangible assets with the Group's IT platform and infrastructure of key focus

## Net cash from operating activities[1] (EUR thousands)




## Cash flow statement

| EUR '000 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Cash flows from operating activities | | | | |
| Profit/loss for the period | 19,274 | 20,058 | 12,961 | 10,928 |
| Adjustments for: | | | | |
| Depreciation and amortisation | 5,223 | 2,811 | 1,547 | 1,309 |
| Finance costs, net | 15,466 | 8,594 | 6,414 | 4,059 |
| Tax on income from operations | 3,060 | 3,185 | 1,768 | 1,491 |
| Transactions without cash flow | 2,429 | 1,263 | 399 | -324 |
| Impairments on loans | 88,496 | 75,629 | 47,964 | 34,687 |
| Working capital changes: | | | | |
| Other current receivables and government stocks | 1,608 | -813 | -16,848 | -2,115 |
| Trade payables and other current liabilities | 1,543 | 6,991 | 4,404 | 939 |
| Interest paid | -11,176 | -6,892 | -4,434 | -3,313 |
| Interest received | 82 | 41 | 163 | 20 |
| Other financing items | - | - | -385 | -121 |
| Income taxes paid | -3,994 | -1,720 | -3,094 | -1,206 |
| Net cash from operating activities before movements in loan portfolio and deposits received | 122,010 | 109,147 | 50,859 | 46,354 |
| Deposits received | 9,104 | 72,865 | 98,426 | 873 |
| Movements in gross portfolio | -131,568 | -89,233 | -91,120 | -50,179 |
| Fully impaired portfolio write-offs | -39,909 | -59,456 | -34,431 | -29,737 |
| Net cash from operating activities | -40,363 | 33,323 | 23,734 | -32,689 |
| | | | | |
| Net cash from investing activities | -16,802 | -11,329 | -8,266 | -5,450 |
| | | | | |
| Cash flow from financing activities | | | | |
| Proceeds from share issue | - | - | - | 48,171 |
| Expenses related to share issue | - | - | - | -1,923 |
| Proceeds from short-term borrowings | 20,000 | 24,817 | - | - |
| Repayment of short-term borrowings | -24,983 | -100 | -198 | -17,563 |
| Proceeds from long-term borrowings | 98,013 | 35,000 | 49,338 | 20,020 |
| Repayment of long-term borrowings | -45,138 | -18,133 | -6,125 | - |
| Dividends paid / distribution of funds | -3,890 | -2,594 | -2,158 | -1,079 |
| Net cash from financing activities | 44,003 | 38,990 | 40,857 | 47,626 |
| Net increase in cash and cash equivalents | -13,162 | 60,984 | 56,325 | 9,487 |
| Cash and cash equivalents at the beginning of the period | 131,832 | 73,059 | 17,452 | 8,026 |
| Exchange gains / (losses) on cash and cash equivalents | -3,111 | -2,212 | -717 | -59 |
| Net increase / decrease in cash and cash equivalents | -13,162 | 60,984 | 56,325 | 9,485 |
| Cash and cash equivalents at the end of the period | 115,559 | 131,831 | 73,060 | 17,452 |

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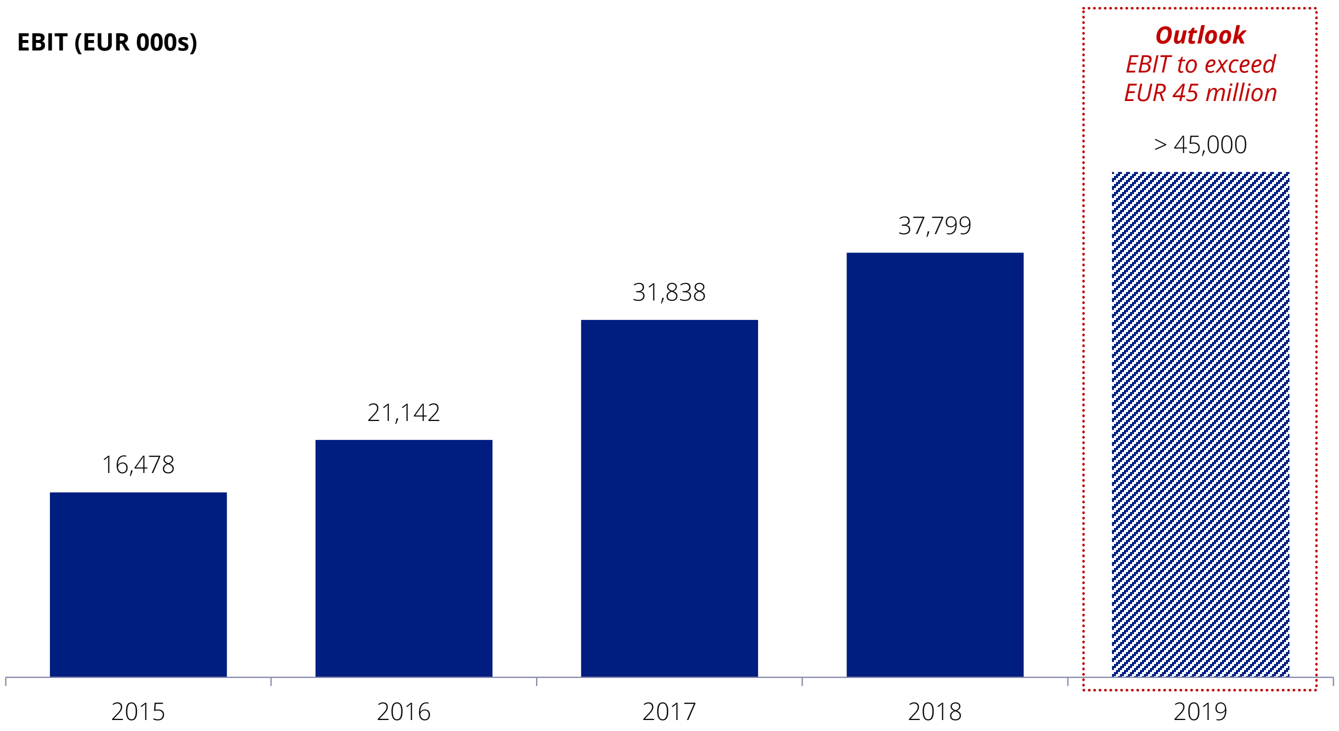
Source: Company filings. Note: 1) Before movements in loan portfolio and deposits received

# Summary and Outlook

- Ferratum has experienced strong revenue and profitability growth over the last few years
- Through its increasing base of customer deposits, the Group has a well funded balance sheet with a decreasing cost of capital
- Risk procedures have been improved and overall cost base has been decreased
- Future focus is on EBIT development and profitability
- For FY 2019, Ferratum expects EBIT to exceed EUR 45 million

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# Competitive Landscape

- The EU consumer credit market is highly fragmented with many new suppliers entering the small consumer loan market
- Mobile consumer loans is the newest consumer credit market segment. Mobile lending is a modern way of granting small loans by utilizing mobile telecommunications and online technology to enable fast, easy, and confidential loan services
  - Competition in the mobile consumer loan market has increased steadily as mobile loan products have become established as a reliable source of consumer financing
- Ferratum's primary focus is the mobile banking market where key competitors are often small local microloan companies with a limited customer database and limited international activities. In addition, the Group also faces competition from larger consumer credit companies which offer consumer lending and deposit at higher rates than traditional retail banks
  - There are a wide range of smaller competitors which operate locally in Europe and Asia Pacific
  - Some markets such as the UK have dozens of small competitors while countries such as Germany, which have higher regulatory requirements and require a banking license for a consumer loan business, have much fewer direct competitors which operate locally

| Segment | Comments | Example of key players |
|---|---|---|
| **Small Business/ Consumer Loan Market** | ▪ Companies principally compete with traditional banks which provide liquidity and working capital facilities for small companies as well as with certain consumer finance companies which are also starting to approach this market<br>▪ Competitors operating in the consumer credit market and small business loan market have created a variety of products in response to market demand that reflect the financial solvency, needs, and creditworthiness of customers | Ferratum, vivus.fi, DFC Global Corp, Kreditech, marginalen bank |
| **Mobile Banking Market** | ▪ Traditionally, customers could access their bank account via their bank's web page through a web browser on a mobile device or via text message<br>▪ As a result of the fast growth of mobile applications, traditional banks have also developed mobile applications that can be downloaded to a mobile device and used to access account information and functionality<br>▪ The development of mobile devices in general is an indicator for the mobile banking market potential | Ferratum, enova, Klarna, adyen |
| **Broad Product Portfolio** | ▪ Companies often offer a broad product portfolio, such as payday loans as well as pawn broking<br>▪ The upper segment of the market is controlled by the consumer finance divisions of global banks, which offer loans in excess of EUR 2,000 or often EUR 5,000 (Ferratum's Prime Loan product is within this range) | Santander, citibank, Swedbank, Ferratum |

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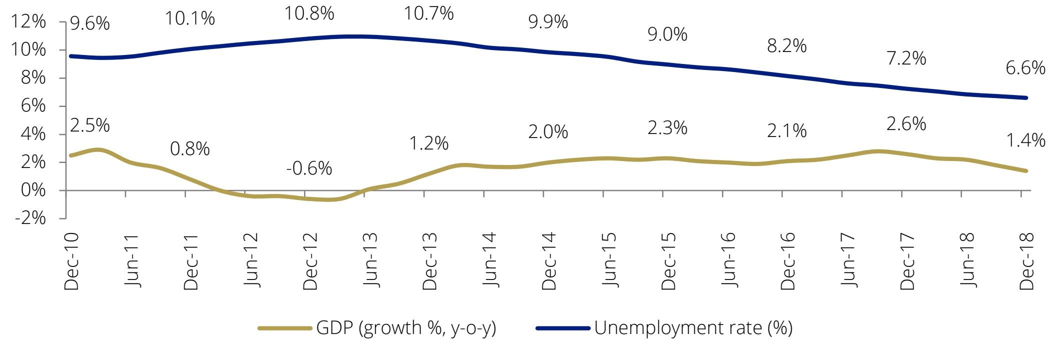
Source: European Central Bank, Oliver Wyman

# Macroeconomic Key Figures and Forecasts

## Macroeconomic Developments in Europe

- EU GDP growth weakened in late 2018 partly due to regulatory bottlenecks experienced by car manufacturers, leading to a sharp reduction of production. ECB expects the weakening to be largely temporary and projects that growth will subsequently recover
  - Over medium term, the fundamentals related to the accommodative monetary policy, improving labour conditions and stronger balance sheets support continued expansion
- Unemployment is projected to continue to decrease over the projection horizon, although at a slightly lower rate than previously expected, mainly reflecting the more subdued economic recovery
  - Wage moderation and past labor market reforms are seen as supporting employment growth
  - The labour force is expected to expand, reflecting the continued influx of refugees and the fading of discouragement effects

## EU28 GDP growth and Unemployment Rate

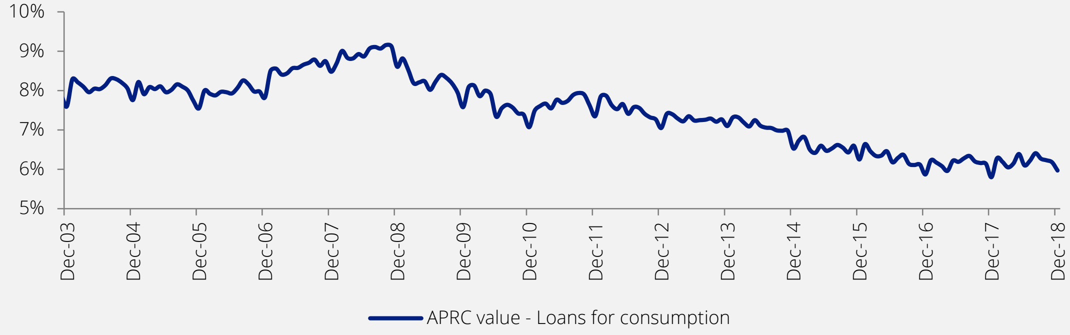



Source: European Central Bank, Eurostat

## Decreased Consumer Credit Borrowing Rates

- Since the financial crisis, interest rates have decreased significantly creeping down close to zero and negative in some instances
  - Interest rates in the Euro zone are expected to remain low ("lower for longer") going forward
- The low interest rate environment has had a negative effect on traditional banks' earnings, leading to cost cuts including laying of personnel and closing down branches
- The annual percentage rate of charge (APRC) for consumption loans in the Euro zone has moved in correlation with the Euro area's rate applied to Main Refinancing Operations (MRO)
  - In addition, the emergence of alternative providers following the recent Fintech boom, has enabled consumer to borrow on more favourable terms

## APRC value in the Euro area – Loans for consumption

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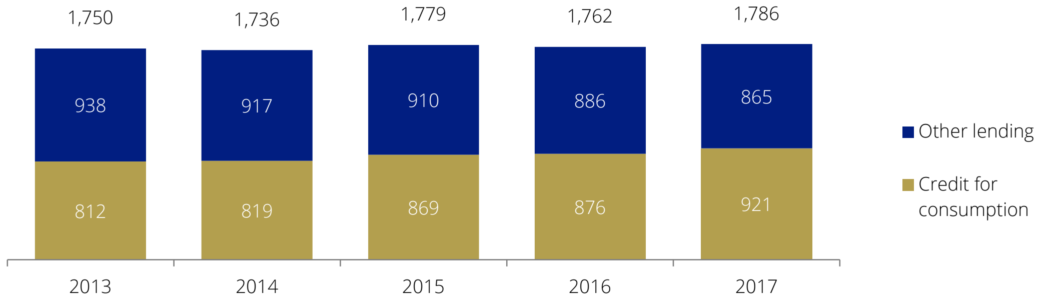
# Consumer Loan Stock

## Stable European Consumer Loan Stock

- The consumer credit stock in the EU has been relatively stable for the past five years, although credit for consumption has steadily been increasing at a 3.2% CAGR since 2013
- Many authorities in respective European countries are reporting that demand for consumer credit has been increasing both in terms of volume and value of loans.
- This is suggested to be an effect of decreasing interest rates and sustained growth of private consumption, but also stricter amortising requirements on mortgages, which has created additional pressure on consumers' disposable income
- The European consumer credit market is expected to continue to increase due to:
  - Overall economic improvement and rise in domestic consumption
  - Banking groups' refocusing on the consumer credit market

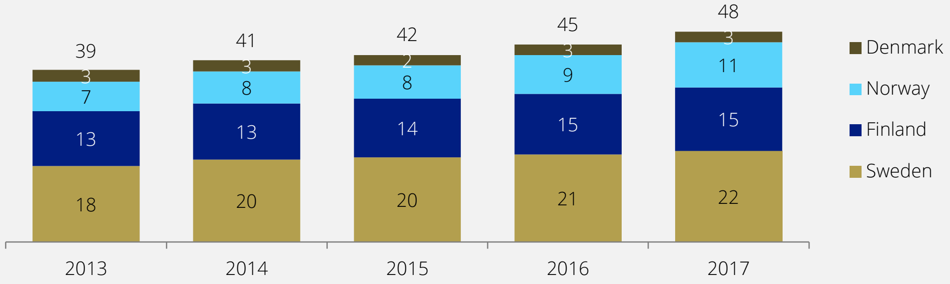
## Outstanding consumer credit in the EU28, 2013-2017 (EUR bn)[1]




## Strong activity in the Nordics

- Ferratum's core market, the Nordics, has experienced favourable growth in consumer lending in the last couple of years
- Overall, activity in the Nordics stayed strong in 2017, except for Denmark, where activity has been slow due to a government initiated debt-reduction strategy in 2009
- With the exception of Sweden, where the savings rate is historically high, the Scandinavian countries had higher per capita outstandings than average for Europe
- The outstandings/consumption ratio also reflects contrasting realities: while outstandings made up nearly 20% of end consumption in Norwegian households, this ratio fell to 10% for Sweden

## Outstanding consumer loans in the Nordics, 2013-2017 (EUR bn)[2]

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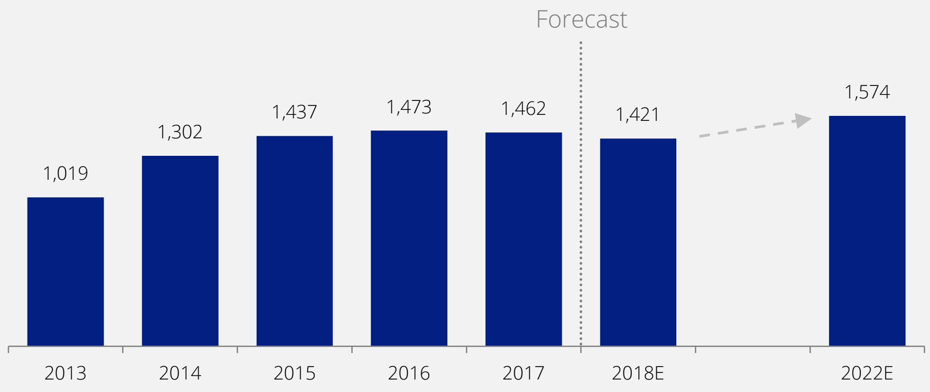
Source: European Banking Authority, Norwegian Financial Supervisory Authority, Swedish Financial Supervisory Authority, Finlands Bank, Statistics Denmark Note: 1) Other lending refers to consumer loans for e.g. business or education. 2) Variations exists in the definition of consumer credit in the Nordics (e.g. statistics for Denmark only include consumer credit provided by non-banks)

# Smartphone penetration and mobile banking usage

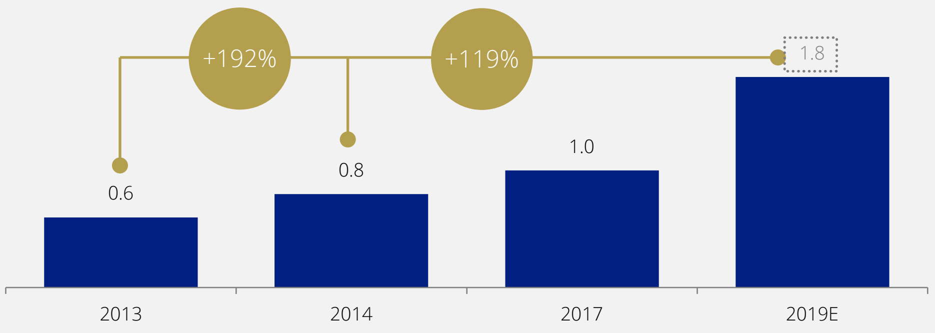
- Smartphone usage has grown substantially in the last couple of years, with global shipments expected to reach 1.4 billion units in 2018
  - Growth in annual shipments has been stagnating since 2016, but the growth track is expected to recover in the coming years
- Recent forecasts assume that total connections will grow to 6 billion over the next 6 years, equalling two thirds of all mobile connections in 2020
  - By 2020, smartphones are assumed to be the primary internet connection tool as well
- In addition, the usage of smartphones is expanding to all social classes and smartphone usage is expected to increase significantly in lower income segments and emerging markets
  - Many smartphone users from lower income segments are currently underbanked and only use bank services for example to receive their salaries
- As a result of the technological development in recent years, mobile banking has grown rapidly
- Traditional banks have developed applications for smartphones and tablets to offer customers easy access to manage their accounts and payments via mobile
- Number of mobile banking users globally reached 1 billion in 2017 and is expected to almost double until 2019
- The usage of mobile banking applications is mostly widespread within the younger population with most frequent users being aged between 25-34
  - 42% of all banking customers within this age bracket are expected to use mobile banking applications in 5 years time compared to 21% per 2017

Source: McKinsey, KPMG, Statista

## Global smartphone shipments (million units)




## Global mobile banking users (billion people)

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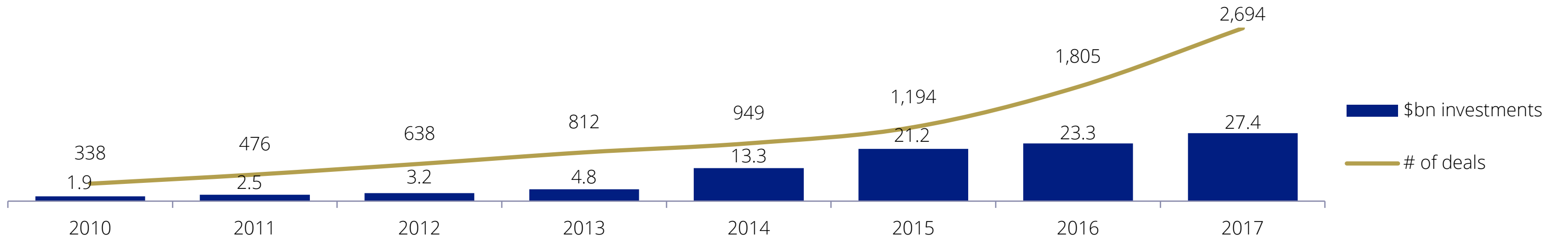
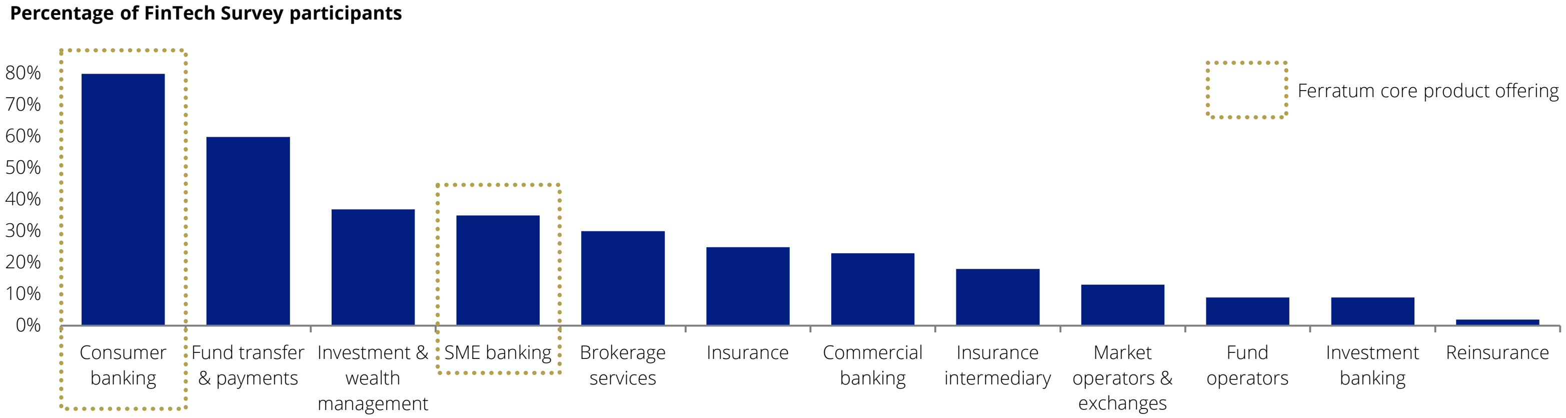
# Fintech Market Overview

- The Fintech industry is currently experiencing very beneficial market dynamics, with several new technologies disrupting traditional financial market services
  - Fintechs are expected to have an aggregate market share of up to 5% by 2020 of the total financial sector
- There have been substantial investments in Financial Technology in the last couple of years, with ~$27bn equivalent invested in 2017 globally
  - The geographic areas that are exhibiting the largest growth is the US coupled with Europe
- Smart phone penetration has fuelled the emergence of Fintechs as smart phones have become an integral part of peoples life and people (millennials in particular) are more open to new technologies
- The areas that are expected to be most disrupted by Fintechs are Consumer banking, Fund transfer and Payments, Wealth Management and SME banking

## Global Investments and no. of deals in Financial Technology ($bn)




## Areas of Disruption

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Source: McKinsey, PwC

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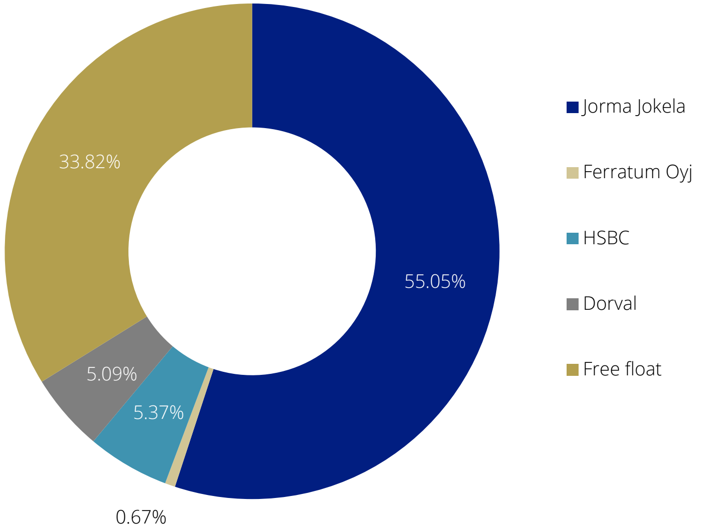
# Ownership and Share Price Development

## Shareholder overview as at 28 February 2019




- Founder and CEO, Jorma Jokela, is the largest shareholder, owning 55% of the shares outstanding
- Total free float was 45% as of February 2018, including shares owned by HSBC and Dorval, as well as treasury shares and shares held by employees and management
- Current market cap of EUR 260.7 million[1]

## Share price and traded volume | Feb 2015 to Mar 2019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Source: Company filings, Factset Note: 1) As of close at 18 March 2019

# Leadership Team & Board of Directors

## Leadership Team

**Jorma Jokela**
CEO

**Lea Liigus**
Head of Legal and Compliance

**Saku Timonen**
CCO

**Ari Tiukkanen**
COO

**Clemens Krause**
CFO and CRO

**Kristjan Kajakas**
Business Unit Director Revolving Loans

**Adam Tönning**
Head of FP&A

**Scott Donnelly**
Business Unit Director SME Lending

**Marius Solescu**
Head of HR

**Emmi Kyykkä**
Head of Group Communications and IR

**Antti Kumpulainen**
Business Unit Director Instalment Loans

**Sami Kalliola**
Head of Strategic Partnerships

## Board of Directors

**Pieter van Groos** Chairman

Pieter van Groos has been a member of the Board of Directors since 2015. Pieter has a strong international business leadership track record in industry, management consulting and financial services with Exxon-Mobil (1986-1994), McKinsey & Company (1994-1998), General Electric (1998-2008), private equity and ventures

**Erik Ferm** Board Member

Erik was a manager at PwC (1991-1993), a partner at Maizels, Westerberg & Co in London (1993-2000), an investment director at UBS Capital in London, a partner at Palamon Capital Partners in London until 2012 and since 2012 has been working as a director and a board member of GP Chambers. He joined the board of the Group in 2012

**Juhani Vanhala** Board Member

Juhani Vanhala has been a member of the Board of Directors since 2005. His management experience includes serving as CEO of VIA Group Oy, as CEO of Respace Oy between (2003-2006) and as Chief Development Officer at Empower Group Oy (2006-2012). Currently, he works at Empower Oy as Business line director for centralized and professional services

**Christopher Wang** Board Member

Christopher Wang joined the BoD in May 2017. Christopher is a Managing Partner at J&W Partners Co. Ltd., a PE firm based in Seoul, South Korea which he co-founded in 2014. He has more than 15 years' experience as a transactional lawyer and investor operating in the Asian market, gained in roles at leading firms including Shearman & Sterling, DLA Piper and Jones Day

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# Ferratum Group Structure

- Part of Ferratum's operations are conducted under a banking license while the remainder of the operations do not require a banking license
  - Credit institution license (i.e. a banking license) was granted by the Malta Financial Services Authority in September 2012
- The banking license can be passported within the European Union
  - Ferratum Bank provides consumer loans in a number of European countries as indicated in the table
  - Remaining Ferratum Group subsidiaries provide consumer loans and financial services in other countries

Jorma Jokela — 55.05%

Free Float — 44.95%[1]

Ferratum Oyj (Guarantor)

Subsidiaries

| EU banking license operations | | Non-banking license operations | | | | |
|---|---|---|---|---|---|---|
| Ferratum Bank Plc | | Western Europe | Eastern Europe | Outside EU | SME Lending | |
| Sweden | Spain | Finland | Romania | New Zealand | Finland | Czech R |
| Poland | Bulgaria | Denmark | Lithuania | Australia | Sweden | Poland |
| Germany | Norway | United Kingdom | | Russia | Netherlands | United Kingdom |
| Czech R | France | Netherlands | | Canada | Denmark | Australia |
| Estonia | Slovakia | | | Nigeria | Lithuania | |
| Latvia | Croatia | | | Brazil | | |
| | | | | Mexico | | |

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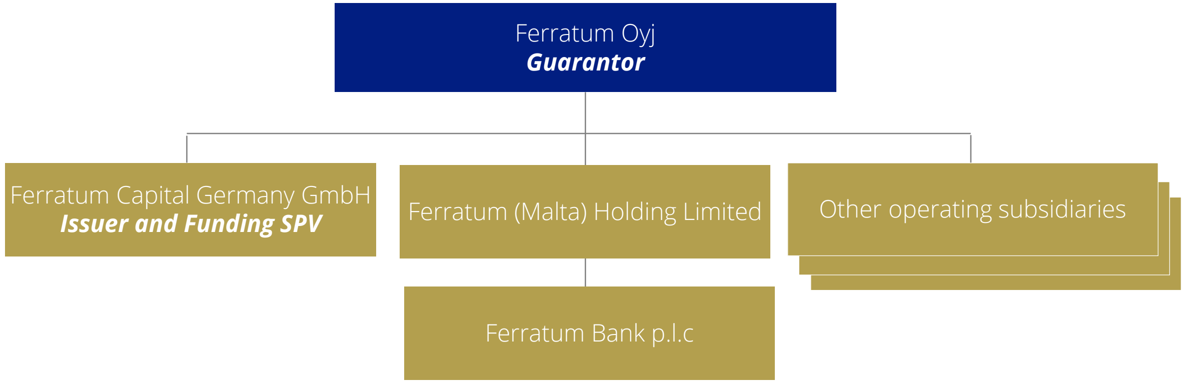
Note: 1) Including shares owned by Dorval and HSBC of 5.09% and 5.37%, respectively, and treasury shares of 0.67%

# Legal structure

## Overview of legal structure




## Detailed list of group companies

| Name | Country | Group share of holding | Parent company share of holding |
|---|---|---|---|
| Ferratum Finland Oy | Finland | 100% | 100% |
| Baltic Skyways OÜ | Estonia | 100% | 0% |
| Ferratum Sweden AB | Sweden | 100% | 100% |
| Ferratum Latvia SIA | Latvia | 100% | 100% |
| Ferratum Czech s.r.o. | Czech Republic | 100% | 100% |
| Global IT Services s.r.o. | Slovakia | 100% | 100% |
| Pactum Poland Sp. z o.o. | Poland | 100% | 100% |
| Ferratum Spain S.L. | Spain | 100% | 100% |
| Ferratum Bulgaria E00D | Bulgaria | 100% | 100% |
| Ferratum Denmark ApS | Denrnark | 100% | 100% |
| Ferratum Capital Oy | Finland | 100% | 100% |
| Global Guarantee OÜ | Estonia | 100% | 100% |
| Ferratum UK Ltd | Great Britain | 100% | 100% |
| Ferratum New Zealand Ltd | New Zealand | 100% | 100% |
| Ferratum Capital Poland S.A. (in liquidation) | Poland | 100% | 100% |
| Ferratum Australia Pty Ltd | Australia | 100% | 100% |
| Ferratum d.o.o. u likvidaciji | Croatia | 100% | 100% |
| Microfinance Company Ferratum Russia LLC | Russia | 100% | 100% |
| Numeratum d.o.o. | Croatia | 100% | 100% |
| Ferratum Bank p.l.c. | Malta | 100% | 0% |
| Ferratum (Malta) Holding Limited | Malta | 100% | 100% |
| Swespar AB | Sweden | 100% | 100% |
| Ferratum Romania I.F.N. S.A. | Romania | 99.93% | 99.93% |
| Ferratum Capital Germany GmbH | Germany | 100% | 100% |
| Rus-Kredit OOO | Russia | 100% | 100% |
| Ferratum International Services Oy | Finland | 100% | 100% |
| Ferratum International Services Oy, Helsinki, Zug Branch | Head Office Ferratum International Services Oy | | |
| Ferratum Germany GmbH | Germany | 100% | 100% |
| Ferratum Canada Inc | Canada | 100% | 100% |
| Ferratum Georgia LLC | Georgia | 100% | 100% |
| Ferratum Mexico S. de R.L. de C.V. | Mexico | 100% | 100% |
| UAB "Ferratum Finance" | Lithuania | 100% | 100% |
| Ferratum Chile Ltda | Chile | 100% | 99% |
| Pactum Collections GmBH | Germany | 100% | 100% |
| Ferratum Peru S.A.C. | Peru | 100% | 99% |
| FERRATUM BRASIL SERVICOS DE CORRESPONDENTE BANCARIO LTDA | Brazil | 100% | 99% |
| Auxilium Limited | Malta | 100% | 0% |
| Inari Servicos Financeiros Ltda | Brazil | 100% | 99% |
| Bidellus Nigeria Limited | Nigeria | 100% | 0% |
| Ferratum Services Limited | Malta | 100% | 0% |
| Ferratum Vakuutus Oy | Finland | 100% | 100% |
| Bidcllus Bangladesh Ltd | Bangladesh | 100% | 0% |
| Ferratum International Services Oy Norway Branch | Head Office Ferratum International Services Oy | | |
| Ferratum International Services Oy, France Branch | Head Office Ferratum International Services Oy | | |
| Ferratum International Services Oy, Spanish Branch | Head Office Ferratum International Services Oy | | |

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# IFRS 9 diligent review and modifications

## Ferratum Group applied IFRS 9 as of 1 January 2018. IFRS 9 requires the recognition of loans at fair value, therefore any expected losses must be accounted for at the disbursement date

- Based on the initial assessments undertaken in Q1 2018, the total adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of Ferratum Group's equity at 1 January 2018 was approximately EUR 7.6 million, representing:
  - a reduction of approximately EUR 9.3 million related to higher credit loss provisions
  - an increase of approximately EUR 1.7 million related to deferred tax impacts
- During annual closing the used IFRS 9 modelling went through a diligent review and was modified in two elements:
  - The default definition for PlusLoans, Prime Loans and SME lending was changed from 90+ days past due to 60+ days past due
  - The statistical modelling for the probability of default for Credit Limit, Plusloans Prime loans and SME lending has been improved
- These changes of the credit loss provision model have to be applied consistently for the whole financial year 2018. This requires a change of the total adjustment (net of tax) on the opening balance of Ferratum Group's equity at 1 January 2018 from initially EUR 7.6 to finally EUR 15.1 million, representing:
  - a reduction of approximately EUR 20.9 million related to higher credit loss provisions
  - an increase of approximately EUR 5.8 million related to deferred tax impacts

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# Credit portfolio before and after IFRS 9 model change

| | 1 January 2018 | | | | IFRS 9 (1 January 2018 restated) | | | | IFRS 9 (31 December 2018) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EUR '000 | Gross AR | Reserves | Net AR | % | Gross AR | Reserves | Net AR | % | Gross AR | Reserves | Net AR | % |
| Not overdue | 158,368 | (4,695) | 153,673 | 3.0% | 158,368 | (12,810) | 145,558 | 8.1% | 205,616 | (13,898) | 191,718 | 6.8 |
| 1-90 days due | 72,398 | (17,649) | 54,749 | 24.4% | 72,398 | (20,720) | 51,678 | 28.6% | 92,961 | (21,127) | 71,835 | 22.7 |
| 91-180 days due | 21,474 | (12,768) | 8,706 | 59.5% | 21,474 | (12,734) | 8,740 | 59.3% | 23,234 | (13,252) | 9,982 | 57.0 |
| >181 days due | 84,004 | (52,988) | 31,016 | 63.1% | 84,004 | (53,485) | 30,519 | 63.7% | 145,998 | (98,996) | 47,002 | 67.8 |
| Total | 336,243 | (88,100) | 248,143 | 26.2% | 336,243 | (99,749) | 236,495 | 29.3% | **467,811** | **(147,273)** | **320,538** | **31.5** |

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# Interim results after IFRS 9 model changes

Based on the modifications during year end closing to the IFRS 9 based credit loss provisioning model, the subsequent credit loss calculations of the interim reports for 2018 had to be adjusted accordingly

| **Consolidated Income Statement for the Period** | **1/1/2018-31/3/2018 Restated** | **1/1/2018-30/6/2018 Restated** | **1/1/2018-30/9/2018 Restated** |
|---|---|---|---|
| **REVENUE** | **61,442** | **124,232** | **190,194** |
| Impairments on loans Restated | -18,986 | -42,162 | -65,400 |
| Impairments on loans Reported | -18,866 | -40,609 | -63,996 |
| Difference | -120 | -1,553 | -1,404 |
| **Operating profit** | **10,048** | **16,591** | **25,429** |
| **Profit before income tax** | **6,506** | **8,175** | **13,706** |
| Income tax expense | -976 | -1,227 | -2,055 |
| **Profit for the period** | **5,530** | **6,948** | **11,650** |
| | | | |
| Earnings per share, basic | 0.26 | 0.32 | 0.54 |
| Earnings per share, diluted | 0.25 | 0.32 | 0.54 |

| **Consolidated Statement of Financial Position** | **31/3/2018 Restated** | **30/6/2018 Restated** | **30/9/2018 Restated** |
|---|---|---|---|
| ***ASSETS*** | | | |
| Deferred income tax assets | 8,187 | 10,123 | 10,029 |
| **Total non-current assets** | **41,441** | **46,641** | **48,701** |
| Accounts receivable - loans to customers | 254,597 | 269,989 | 294,237 |
| **Total current assets** | **398,472** | **448,486** | **460,776** |
| **Total assets** | **439,913** | **495,127** | **509,476** |
| ***EQUITY AND LIABILITIES*** | | | |
| **Total equity** | **95,417** | **93,374** | **98,369** |
| **Total equity and liabilities** | **439,913** | **495,127** | **509,476** |
| | | | |
| Equity ratio % | *21.7* | *18.9* | *19.3* |
| Net debt to equity ratio | *2.20* | *2.47* | *2.56* |

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Note: All details available on www.ferratumgroup.com

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# **Mobile Bank:** The bank in your hand

**Easy**

**Multi-national**

**Mobile**

**Real-time**

## Advantages for Ferratum

Deposits for more favourable refinancing of loan business

Open platform for new and third-party products (commission)

Mobile features improve customer loyalty

Multi account access improves Big Data scoring

**State-of-the-art Mobile Bank**
based on

- Mobile account opening
- Real-time loans
- Deposits
- Transactions
- Currencies
- Third-party products in future

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# Key Regulatory Requirements on Ferratum Bank

As of December 2018

## Depositor Compensation Scheme (DCS)

- 15% of covered deposits through a pledge of eligible assets
  - At the end of each calendar quarter, the Bank needs to pledge 15% of covered deposits through a pledge of eligible assets in favor of the depositor compensation scheme
  - Covered deposits include deposit accounts in all currencies up to a EUR 100,000 (or equivalent) for each customer. The excess of deposits held by a customer in aggregate of this threshold or in any other currency, do not need to be pledged

## Liquidity Coverage Ratio (LCR)

- Highly liquid assets equal to or greater than 30 Days Net-Outflow
- The LCR ratio is calculated with the following ratio: $\frac{\text{Liquid Assets}}{\text{Liquidity Outflows} - \text{Liquidity Inflows}} \geq 1$

## Net Stable Funding Ratio (NSFR)

- The NSFR complements the LCR where it establishes a minimum acceptable amount of stable funding based on the Bank's liquidity characteristics and activities over a one year horizon
- The NSFR ratio is calculated with the following ratio: $\frac{\text{Available Amount of Stable Funding}}{\text{Required Amount of Stable Funding}} \geq 1$

## Capital Requirements

- Minimum CET1 ratio of 10%
  - MFSA license condition 1 requires the Bank to hold a minimum CET1 (i.e. Core Equity Tier 1 capital as defined in article 50 of the EU Capital Requirements Regulation 575/2013) ratio of 10% to cover the basic requirements (i.e. credit, operational and market risk)

## Leverage Ratio

- Bank's leverage ratio must be greater than the minimum 3% Tier 1 leverage ratio
- Leverage ratio risk is the risk that the Bank is not able to absorb losses on its assets due to having a high level of assets financed by debt

## Maximum Allowed Deposits

- MFSA license condition 3 requires that funding from professional investors and total capital levels must be equal to or in excess of 35% of covered deposits

Source: Company filings

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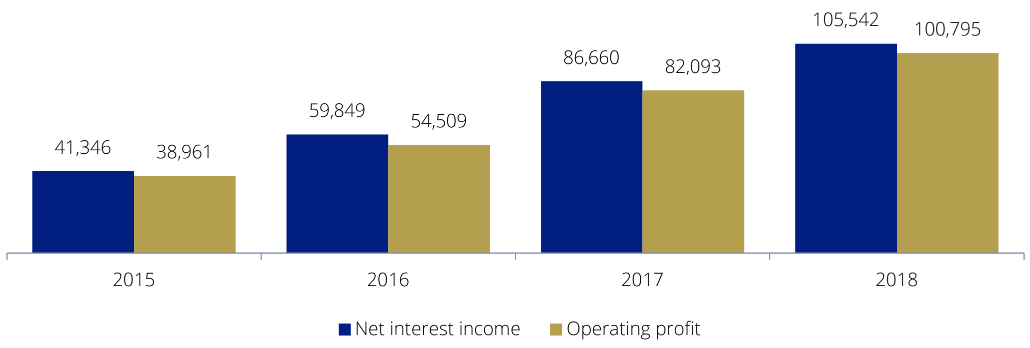
# Ferratum Bank Income Statement

## Comments

- As the Group has rolled out its bank offering across core markets, the Group's interest income has increased steadily with EUR 110 million in revenues recorded for 2018
- Interest and similar income is impacted by loans and advances to customers which consist of loans granted to individuals and are principally unsecured
- The loans and advances are effectively subject to a fixed interest rate as all the Bank's revenue streams are amortised over the expected term of consumer loans using the effective interest method

## Net interest income and Operating profit (EUR thousands)




## Income Statement

| EUR '000 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Interest and similar income | 110,176 | 90,654 | 62,822 | 42,788 | 18,349 |
| Interest and similar expense | -4,633 | -3,994 | -2,973 | -1,442 | -255 |
| Net interest income | 105,542 | 86,660 | 59,849 | 41,346 | 18,094 |
| Fee and commission income | 2,739 | 2,717 | 803 | 344 | 208 |
| Fee and commission expense | -7,487 | -7,284 | -6,143 | -2,729 | -702 |
| Net fee and commission and expense | -4,748 | -4,567 | -5,340 | -2,385 | -494 |
| Net trading gains | – | – | – | – | – |
| Operating profit | 100,795 | 82,093 | 54,509 | 38,961 | 17,600 |
| Employee compensation and benefits | -8,690 | -8,555 | -7,621 | -4,535 | -2,422 |
| Other operating costs | -40,780 | -29,172 | -20,225 | -13,170 | -6,134 |
| Depreciation and amortisation | -436 | -339 | -136 | -34 | -21 |
| Net impairment losses | -37,188 | -33,277 | -23,262 | -13,835 | -5,281 |
| Profit before tax | 13,701 | 10,750 | 3,266 | 7,387 | 3,743 |
| Tax expense | -1,096 | -661 | -240 | -2,586 | -1,310 |
| Profit for the period total comprehensive income | 12,605 | 10,088 | 3,025 | 4,802 | 2,433 |

Note: Preliminary financial results for Ferratum Bank 2018.

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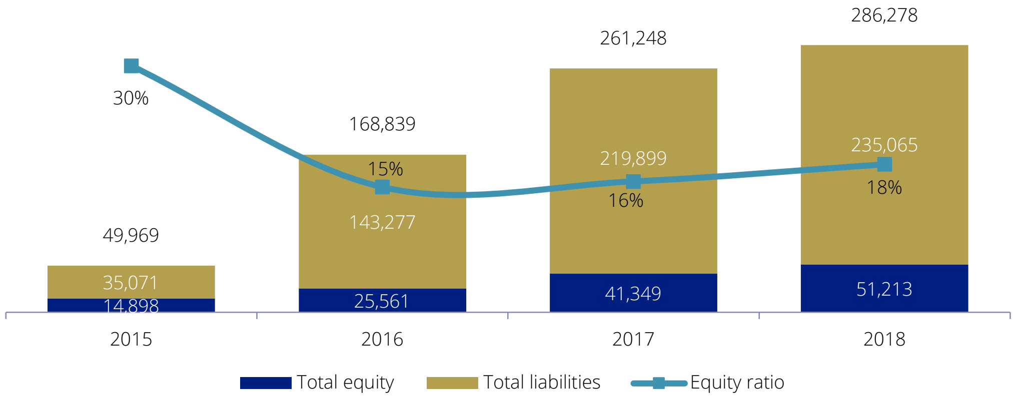
# Ferratum Bank Balance Sheet

## Comments

- Loans and advances to customers consist of loans granted to individuals and are principally unsecured
  - The gross book value of loans in Ferratum Bank increased from EUR 16,370 thousand (FY 2014) to EUR 142,610 thousand (FY 2018)
- The Bank is funded in part by equity, customer deposits, loans from Group companies and bonds issued in Ferratum Bank (EUR 40 million outstanding)

## Total equity and liabilities for Bank Plc (EUR thousands)




## Balance Sheet

| EUR '000 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Balances with Central Bank of Malta | 74,465 | 76,746 | 21,288 | - | - |
| Loans and advances to banks | 19,080 | 35,235 | 38,228 | 3,705 | 3,043 |
| Loans and advances to customers | 142,610 | 122,539 | 89,134 | 43,203 | 16,370 |
| Loans and advances to group companies | 10,578 | 4,469 | 352 | - | 1,361 |
| Investment securities | 8,633 | 8,951 | 11,571 | - | - |
| Property, plant and equipment | 1,168 | 502 | 333 | 165 | 101 |
| Intangible assets | 518 | 513 | 576 | 360 | - |
| Other assets | 29,226 | 12,293 | 7,357 | 2,536 | 328 |
| Total assets | 286,278 | 261,248 | 168,839 | 49,969 | 21,203 |
| Equity | | | | | |
| Share capital | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Capital contribution reserve | 25,500 | 20,500 | 12,000 | - | - |
| Other reserves | 1,476 | 821 | 709 | 536 | 97 |
| Retained earnings | 14,236 | 10,028 | 2,852 | 4,363 | 2,345 |
| Total equity | 51,213 | 41,349 | 25,561 | 14,898 | 12,442 |
| Liabilities | | | | | |
| Borrowed funds | - | 65 | 154 | 345 | 4,219 |
| Amounts owwed to customers | 180,976 | 171,206 | 98,485 | 3 | - |
| Debt securities in issue | 39,797 | 39,550 | 38,201 | 20,143 | - |
| Loans and advances from group companies | 2,858 | - | - | 3,557 | - |
| Other liabilities | 9,682 | 8,174 | 6,196 | 7,132 | 3,230 |
| Current tax liabilities | 1,753 | 904 | 242 | 3,891 | 1,312 |
| Total liabilities | 235,065 | 219,899 | 143,277 | 35,071 | 8,761 |
| Total equity and liabilities | 286,278 | 261,248 | 168,839 | 49,969 | 21,203 |

Note: Preliminary financial results for Ferratum Bank 2018.

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# Risk Factors

***The Issuer is a subsidiary of the Guarantor and its operations are focused on raising financing for the Group. As such and because the Bonds are guaranteed by the Guarantor, the risks described below for the Group are equally relevant for the Guarantor and the Issuer. Potential investors should consider carefully the information contained in this section and make an independent evaluation before making an investment in the Bonds.***

## RISKS RELATED TO THE GROUP'S OPERATIONS AND INDUSTRY

**An economic slowdown could adversely affect the demand for the Group's consumer loans, increase its credit losses and decrease its growth.**

Because the Group's business is dependent on consumer spending trends in the countries it operates in, any period of economic slowdown or recession in these countries could make it more difficult for the Group to retain or expand its customer base. For example, high levels of unemployment in the markets in which the Group operates will likely reduce the number of customers who qualify for the Group consumer loan products, which in turn may reduce its revenues. Similarly, reduced consumer confidence and spending may decrease the demand for its products. In addition, during periods of economic slowdown or recession, the Group could experience an increase in defaults, credit extension requests as well as a higher frequency and severity of credit losses even if the Group adjusts its credit scoring models to adjust to such new economic conditions. As a result, adverse changes in economic conditions in countries in which the Group's customers are located could materially adversely affect the business prospects, results of operations and financial condition of the Group.

**The Group may not be able to successfully evaluate the creditworthiness of its customers, may not price its consumer loan products correctly and may not be able to adequately diversify its consumer loan portfolio.**

The Group is exposed to the creditworthiness of its customers. The Group's customers generally have a higher frequency of delinquencies, higher risk of non-payment and, ultimately higher credit losses than consumers who are served by more traditional providers of consumer credit. The Group's customer base includes consumers who do not qualify for general purpose credit cards and consumers who are expanding their existing credits. The Group prices its consumer loan products taking into account the estimated risk level of its customers. If its estimates are incorrect, customer default rates could be higher, which would result in an increase in the Group's operating expenses relating to loan impairments, and in turn the Group could experience reduced levels of net income.

The Group operates according to its established credit risk policies, uses computer-aided loan approval algorithms and follows a set of self-imposed ethical and responsible lending principles which were put in place by the Group and are regularly reviewed. The Group performs due diligence of its customers based on information provided by individual customers, reviews provided by external consumer credit scoring agencies and various other available information on the consumer. In addition, the Group uses its own software-based scoring procedure to rate the creditworthiness of new and existing customers. The software-based scoring procedure combines the Group's historical data from all markets it operates in with current information regarding the specific market and the customer. The Group's credit policies and software-based scoring procedure are refined and updated on an on-going basis. There is a risk that the aforementioned actions may prove insufficient. This may be caused by an internal failure of the Group's risk management procedures or an external change of conditions beyond the Group's control. Credit loss risks may further increase if the Group's consumer loan portfolio is not adequately diversified (country and social status diversification). In such a situation, a deterioration of economic conditions or an economic slowdown may additionally exacerbate the credit risk associated with insufficient diversification. An increase in the ratio of impairments on losses to revenues could significantly adversely affect the Group's financial, economic and liquidity condition.

**If the Group's risk provisions in relation to credit losses are not sufficient, the Group's results of operations and financial condition may be adversely affected.**

The Group needs to maintain risk provisions for anticipated credit losses. Since the provisions necessary to cover credit losses can only be estimated, there is a risk that actual credit losses are materially greater than the provisions accounted for to cover such losses. This could have a material adverse effect on the Group's business prospects, financial condition, or results of operations.

**Dependency on other companies within the Group.**

All of the Group's assets and revenues relate to companies within the Group other than the Issuer. The Issuer is thus dependent upon receipt of sufficient income and cash flow related to the operations of the other Group companies. Consequently, the Issuer is dependent on such companies' availability of cash and their legal ability to make necessary transfers which may from time to time be restricted by corporate restrictions and law. Should the Issuer not receive sufficient income from other Group companies, the investor's ability to receive payment under the Terms and Conditions may be adversely affected.

**If the Group incurs a large amount of fraud-related losses, the Group's results of operations and financial condition may be adversely** affected.

The Group is exposed to the fraud risk associated with information provided by its (potential) customers. The most common fraud risk is identity theft. There is a risk that the Group could suffer losses due to the criminal behaviour of its customers. This could have a material adverse effect on the Group's business prospects, financial condition or results of operations.

**If the Group does not generate a sufficient amount of cash to satisfy its liquidity needs, it may not be able to grow its business as a result of cash shortages.**

The Group's growth depends on cash flow efficiency and cash collection. Considering the Group's business model and the contemplated expansion in new markets, the Group is exposed to liquidity risk. There is a risk that the Group will not be able to satisfy its liquidity needs in the future. Lack of liquidity may occur in numerous scenarios. The Group, for instance, may experience a lack of liquidity due to an unexpected increase in rates of delinquencies or defaults on provided consumer loans. If the Group is unable to meet such cash requirements, its growth in new markets may be adversely affected. As a result, decreasing cash inflows from existing operations and/or increasing cash outflows associated with new operations may result in a material adverse effect on the Group's business prospects, financial condition or results of operations.

**If the Group does not have access to financing under affordable terms, it may not be able to expand its business and refinance its existing or future indebtedness.**

In order to support its growth and geographical expansion, the Group depends on external funds from credit and capital markets. If such external funds are not available under affordable terms, the Group may be required to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding necessary to cover the Group's business needs becomes available under affordable terms. Such measures could include deferring capital expenditures, including acquisitions, and reducing or eliminating use of cash for financing of further growth of the Group's business. Therefore, a limited availability of funds on the market combined with rising lending costs, especially when larger refinancing is required, may adversely affect the Group's growth in existing and new markets. If the Group could not refinance itself for a prolonged period of time or if the Group, due to adverse business developments, were to breach financial covenants in its financing instruments, the Group may be unable to service its debt with the liquidity provided from operating cash flows. This could have a material adverse effect on the Group's business, financial condition, or results of operations.

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# Risk Factors (cont'd)

**The Group is subject to floating rate interest rate risks.**

The Group is subject to cash flow interest rate risk which is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk entails the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. For instance, the Group's main interest rate risk arises from long-term borrowings that are issued with floating rate interest, amongst others, a EUR 25 million bond issued by the Group's Maltese banking subsidiary in 2016, with an additional EUR 15 million issued in connection with a tap issue in 2017, at a floating interest of EURIBOR plus a margin of 6.25% and a EUR 100 million bond issued by the Issuer in 2018 at a floating interest of 3 month EURIBOR plus a margin of 5.5%. These borrowings expose the Group to a cash flow interest rate risk.

Should the risks relating to cash flow interest rate risk materialise in the future, this could have a material adverse effect on the Group's business, financial condition, or results of operations.

**The Group's business and results of operations may be adversely affected if the Group is unable to manage its growth effectively.**

The Group's expansion strategy contemplates the fast growth in mobile consumer loan volumes in current markets and the establishment of operations in new markets such as Brazil and Nigeria in 2017, Norway, France, Mexico and Canada in which the Group entered in 2015 or Germany and Romania which the Group entered in 2014. The Group's continued growth in this manner is dependent upon a number of factors, including the ability to develop efficient internal monitoring and control systems, the ability to implement high-quality business and management processes and standards, the ability to develop and implement "best practices" in response to day-to-day business challenges, the ability to secure adequate financing to successfully establish operations in new markets, the ability to turn new operations profitable within the expected time after the market entry, the ability to correctly assess legal requirements in targeted markets and monitor on-going changes in existing markets, the ability to obtain any government permits and licences that may be required, the ability to develop adequate and secured IT-platforms, the ability to successfully integrate any operations which may be acquired in the future, the ability to identify and overcome cultural and linguistic differences which may impact market practices within a given geographic region, and other factors, some of which are beyond the Group's control. Therefore, there is a risk that the Group will not be able to effectively manage the expansion of its operations or that the Group's current personnel, systems, procedures, and controls will be adequate to support the Group's operations. Any failure of management to effectively manage the Group's growth and development could have a material adverse effect on the Group's business, financial condition, or results of operations.

In some countries, certain consumer loan products of the Group may not be offered in the same manner as in other countries due to more restrictive bank and consumer regulation. For instance, there are countries in which consumers cannot instantly access the Group's mobile consumer loan products. Under these circumstances, the business success of the Group depends on its ability to offer consumers alternative and equally attractive products. Failure to offer such alternative products may result in lower revenues of the Group in the respective markets.

Since the establishment, the Group has expanded its product portfolio, which now consists of Microloans, instalment loans (so called Plus Loans), a Credit line product, Prime Loan as well as small business loans (Ferratum Business) and invested in further development of scoring capabilities by founding a dedicated company (Ferratum International Services Oy) and acquiring software that enables the analysis of a broad set of customer data. Product variations provide the Group with a diversified product portfolio. Nonetheless, the launch of new products – even when based on the same processes, systems, and scoring as the existing products – involves additional investments and carries the risk of product failure or implementation delays. Intensified investment costs and product introduction failure or delays may have a material adverse effect on the Group's business, financial condition, or results of operations.

In addition, in 2015 the Group started its drive to become a mobile bank. In this regard, the Group has already and is further making significant investments into its internal operational structure and product offerings, including a mobile banking platform, its deposit taking operations, as well as investments, enhancements and modifications to its anti-money laundering risk, foreign exchange risk, liquidity risk, operational risk and fraud risk systems and processes. Should the Group be unsuccessful to establish itself as a mobile bank or if this strategy is delayed or more costly than expected, this could jeopardize return on investments, reduce profitability, lead to lost investments and thus could have a material adverse effect on the Group's business, financial condition, or results of operations.

Organic growth, product variations, and geographical expansion are core components of the Group's growth strategy. However, growth through acquisitions (through the acquisition of a competing business or a loan portfolio or customer database) may also comprise part of the Group's strategy. Such acquisitions are accompanied by respective transactional risks. Any future acquisition may require significant financial resources (including cash). If the Group experiences any difficulties in integrating acquired operations into its business, the Group may incur higher than expected costs and may not realize all the benefits of such acquisitions. This could lead to adverse accounting and financial consequences, such as the need to write down acquired assets, which will have a material adverse effect on the Group's business prospects, financial condition or results of operations.

**Any disruption in the Group's information systems or external telecommunication infrastructure worldwide could adversely affect the Group's operations.**

IT systems are an essential component of the Group's business due to the diverse use of automated processes and controls. The Group improves its current systems continuously and has developed new systems, and introduced comprehensive maintenance schemes for its existing software. The Group utilizes a proprietary in-house loan handling system, which provides control and automation of day-to-day business. However, due to the open nature of the internet and the increasing sophistication of online criminality, all web-based services are inherently subject to risks such as online theft through fraudulent transactions and inappropriate use of access codes, user IDs, usernames, PINs, and passwords. In addition, despite the comprehensive maintenance efforts and careful development of the IT systems, they might fail and significantly impact the Group's operations. Damage to the Group's IT systems and software or failure to protect its data against a cyber-attack will have a material adverse effect on the Group's business, financial condition, or results of operations.

The Group relies on telecommunications, the internet, as well as mobile and online banking services worldwide in order to conduct its operations and offer its services to customers. To access the Group's online consumer loan portals, the Group's customers need to have an internet access or a mobile data connection. Disruption of such or similar telecommunications and internet services in the respective countries of operation due to equipment or infrastructure failures, strikes, piracy, terrorism, weather-related problems, or other events, could temporarily impair the Group's ability to supply its product portfolio to its customers, which in turn could have a material adverse effect on the Group's business, financial condition, or results of operations.

**If the Group fails to geographically diversify and expand its operations and customer base, its business may be harmed.**

Several countries that the Group operates in such as Latvia, Estonia, Norway, Spain, the Netherlands, the United Kingdom, Australia, Poland, the Czech Republic, Denmark, Finland and Sweden generate a significant share of the Group's revenues. As a result, the Group is exposed to country-specific risks with respect to such national markets. In such markets, a dissatisfaction with the Group's products, a decrease in customer demand, the failure of the Group to successfully market new and existing products, or the failure to further expand its customer base and retain its existing customer base in these mature markets will have a material adverse effect on the Group's business prospects, financial condition or results of operations.

**If the Group will not be able to continue providing Group wide services through specific service companies, the Group's business may be harmed.**

Within the Group, there are several entities providing services to the operating companies. Should the Group not be able to continue the business operations of these service companies in the future, there is a risk for a material adverse effect on the Group's business, financial condition or results of operations.

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# Risk Factors (cont'd)

**Negative public perception and press coverage of short-term unsecured consumer loans could negatively affect the Group's revenues and results of operations.**

Consumer protection bodies, consumer advocacy groups, certain media reports, and a number of regulators and elected officials in national markets in which the Group conducts business have from time to time advocated government action to prohibit or severely restrict certain types of short-term consumer lending. These efforts have often focused on lenders that target customers who have short term liquidity needs while having low levels of personal savings and in many cases low incomes and that charge consumers imputed interest rates and fees that, on an annualised basis, are higher than those charged by credit cards issuers or banks to more creditworthy consumers.

Due to its engagement in the market for small consumer loans, the Group is exposed to the risk of unfavourable media coverage or measures taken by consumer protection bodies. As a result, the Group's operations and products may become subject of an advanced public scrutiny and tightening regulatory and transparency requirements. In addition, the Group may experience a decrease in demand for its products if consumers accept the characterization of such products as unreasonably expensive or abusive toward customers. Furthermore, media coverage and public statements that allege some form of corporate wrongdoing may make it more difficult for the Group to attract and retain qualified employees and management, as well as divert management attention and increase hiring expenses. A negative perception of the behaviour of individual employees, the Group itself or the entire industry may severely damage the Group's reputation and thus will have a material adverse effect on the Group's business prospects, financial condition or results of operations.

**Competition in the short-term lending industry could cause the Group to lose its market share and revenues.**

The Group faces competition in all the countries in which it operates. In some countries, such as the UK, there are particularly many competitors. There is a wide range of companies targeting the market for small consumer loans, including various smaller locally operating consumer loan companies as well as larger companies operating in several markets and traditional consumer banks. While the Group's key consumer loan segment relates to loans of EUR 5,000 and below with the average loan amounts being between EUR 200 and EUR 1300 per loan at the moment, most of the Group's competitors do not restrict the size of loans available through their companies and thus the Group is competing with a variety of local and international companies. In addition, the Group also competes with traditional banks with small business loans providing working capital loans.

The highest risk of competition is experienced particularly in mature markets with high saturation, such as Western and Northern Europe. In the past, intensive competition has pushed prices downward in some markets, which, if competition further intensifies, could erode profit margins and the Group's net income. The Group believes that the consumer loan market may become even more competitive as the industry consolidates. Some of the Group's competitors may have larger and more established customer base and substantially greater financial, marketing and other resources than the Group has. As a result, the Group could lose market share and its revenues could decline, thereby affecting the Group's ability to generate sufficient cash flow to fund expansion of its operations and to service its indebtedness. This could have a material adverse effect on the Group's business prospects, financial condition or results of operations.

**A reduction in demand for the Group's products, and failure by the Group to develop innovative and attractive products, could adversely affect the Group's business and results of operations.**

The demand for a particular product the Group offers may be reduced due to a variety of factors, such as regulatory restrictions that decrease customer access to particular products, the availability of competing products, changes in customers' preferences or financial conditions. Furthermore, any changes in economic factors that adversely affect consumer purchase behaviour and employment could reduce the demand for the volume or type of loan products the Group provides and have an adverse effect on the Group's revenues and result of operations. Should the Group fail to adapt to significant changes in consumers' demand for, or access to, the microloan products, the Group's revenues could decrease significantly and operations could be harmed. Each modification, new products and alternative method of conducting business is subject to risk and uncertainty and requires significant investment in time and capital, including additional marketing expenses, legal costs and other incremental start-up costs. Even if the Group does make changes to existing products or introduce new products to meet customer demand, customers may resist or may reject such products.

A significant part of the Group's revenues stems from new customers as well as from new products introduced in recent years to complement the Group's core Plus Loans and Credit Line products, such as Prime Loans and SME Loans. Additionally, the Group's strategy is to continue to evolve its product offerings to other bank products and to further establish itself as a mobile bank. If the Group is not able to further diversify and expand its product portfolio or if it fails to establish itself as a mobile bank, expand its customer base or reach enough deposits volume from customers and operate its planned common mobile bank application, this could have a material adverse effect on the Group's business, financial condition, or results of operations.

The Group's future growth may depend on its ability to foresee the direction of the commercial and technological development of production processes and technologies in all of its key markets. Future growth and the Group's ability to reach its innovation targets will also depend upon the Group's ability to successfully develop new and improved consumer loan products and services, using its existing or new technological and servicing capabilities, and to successfully market the products in changing economic environments.

There is a risk that the Group may not be successful in continuing to meet its customers' needs through innovation or in developing new products and/or technologies, or that, if developed, any such new products will not be accepted by the Group's customers. The Group may not be able to recover investments that it has made in order to develop these new products or processes, and may not have sufficient resources to keep pace with technological developments. The failure of the Group to keep pace with the evolving technological innovations in its markets and adequately predict customer preferences could have a material adverse effect on the Group's business, product portfolio, financial condition, or results of operations.

**The Group's operations are subject to exchange rate risk.**

The Group operates internationally and is therefore subject to unexpected changes in foreign currency exchange rates among various currencies. Foreign exchange risk arises in connection with current and future commercial transactions, recognized assets and liabilities, and net investments in foreign operations. Adverse foreign exchange fluctuations against the Euro (the Group's reporting currency), especially in the Swedish, Polish, British, Australian, Danish and Czech currencies could have a material adverse effect on the Group's business, financial condition, or results of operations.

**The Group is subject to accounting and management risk.**

Preparation of the Group's financial statements requires the Group's management to make estimates, assumptions and forecasts regarding the future. These estimates, assumptions and forecasts may be inaccurate and are inherently subject to uncertainties. Future developments may deviate significantly from the assumptions made if changes occur in the business environment and/or business operations. Furthermore, the Group's management is required to use its judgement in the application of the accounting principles in the preparation of the financial statements. Group companies and subsidiaries vary by their size and they are located in different parts of the world. The nature of the Group's global operations involves arrangements that often require the judgement of the Group's management in the application of accounting policies. Inadvertent errors in accounting and/or management decisions could have a material adverse effect on the Group's business, financial condition, or results of operations.

Due to the size of the Group and its global presence in 25 countries, IFRS accounting may put significant further strain on the Group's internal resources in order to ensure compliance with the accounting principles, especially due to the Group's further international expansion in order to ensure compliant accounting for all of the entities within the Group. There is a risk that changes in the IFRS standards and policies may lead to significant resources needing to be allocated to ensure such compliance, which will have a negative effect on the Group's business, prospects for growth, financial condition and results of operations.

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# Risk Factors (cont'd)

**Certain tax positions taken by the Group require the judgment of management and could turn to be inefficient or challenged by tax authorities.**

The Group's main tax risks are related to changes to or possible erroneous interpretations of tax legislation. Such changes or erroneous interpretations could lead to tax increases or other financial losses. Realization of such risks might have a material adverse effect on the Group's business, financial condition, or results of operations.

It is possible that the Group has made interpretations of the tax provisions that differ from those of the tax authorities in the various countries in which the Group operates, and that as a result, the tax authorities will impose taxes, tax rate increases, administrative penalties, or other consequences on the Group's companies. This could have a material adverse effect on the Group's business, financial condition, or results of operations.

**If the Group loses its current CEO or key management or is unable to attract and retain the talent required for its business, the Group's operating results may suffer.**

The Group's success depends on its employees, which as of 31 December 2018 totaled 857 persons (full-time equivalent). Familiarity with internal processes and operational expertise of the Group's employees are critical factors in the efficiency of the Group's business operations. There is a risk that the Group will not be able to retain its key employees, which will have a significant impact on the Group's business operations.

The Group is especially dependent on the expert knowledge of its CEO and majority shareholder Jorma Jokela as well as key management members in IT, legal, operational, financial as well as risk and analysis positions. If any of the key managers or other critical employees were to leave the Group or join a competitor, the Group may be unable to attract and retain suitable replacements. As a result, the Group may be unable to pursue its business operations as planned and this will have a material adverse effect on the Group's business, financial condition, or result of operations.

**Laws and regulations may restrict the Group's possibility to conduct its business and its profitability.**

The Group operates in a business that is heavily regulated. Present and potential future applicable laws and regulations may restrict the way the Group may conduct its business and may reduce its profitability. Legal requirements in respect of, for instance, interest rate caps may limit the Group's pricing of its products which would have a negative impact on the Group's earnings and result of operations.

EU regulations in respect of e.g. capital requirements may also restrict the Group's possibility to conduct its business should the Group not have sufficient access to equity capital in order to fulfill applicable laws. This will have a negative impact on the Group's business, financial condition and result of operations.

In addition to the aforementioned, the extensive laws and regulations in the business the Group operates in require the Group to spend both financial and human resources in order to ensure compliance with all applicable laws. There is a risk that an increase in regulations may necessitate the Group to spend even more financial and human resources in order to ensure legal compliance and to continue its business, which will have a material adverse effect on its business and financial condition.

**The Group may incur property, casualty or other losses not covered by insurance.**

There is a risk that the Group could sustain damages or incur liability claims that are not covered by the Group's insurance coverage in whole or in part. Further, there is a risk that insurance policies will not continue to be available, or that they will not be available at economically feasible premiums.

The actual losses suffered by the Group may exceed the Group's insurance coverage and would be subject to limitations and excesses, which could be material. The realization of one or more damaging event for which the Group has no or insufficient insurance coverage will have a material adverse effect on the Group's business, financial condition, or results of operations.

Moreover, any claims the Group makes under its insurance policies or the occurrence of an event or events resulting in a significant number of claims being made may also affect the availability of insurances and increase the premiums the Group pays for its insurance coverage. Hence, if the Group is unable to maintain its insurance cover on terms acceptable to it or if future business requirements exceed or fall outside the Group's insurance coverage or if the Group's provisions for uninsured costs are insufficient to cover the final costs, there is a risk that it will adversely impact the Group's operations, earnings and financial position.

## REGULATORY AND LEGAL RISKS

**The Group is subject to various consumer protection laws, other local legal and regulatory requirements and European law, changes of which or interpretations of which by authorities could significantly impact the Group's business.**

Changes to local legislation require the Group's respective local subsidiaries to adapt operations to ensure compliance with such changes. Failure to timely implement procedures that comply with new rules will have a material adverse effect on the Group's business, financial condition, or results of operations. There is a risk that local courts, regulatory agencies and financial supervisory authorities, issue new regulations or interpretations or find the Group's services to be in violation of local or EU-wide legal requirements such as license requirements, maximum interest rate provisions, transparency requirements or other regulatory requirements. For instance, there is a risk that the Finnish financial supervisory authority in the future would be of the view that, or issue an interpretation to the effect that, the Group's operations would be considered to require an authorisation or licence in Finland, since the parent company of the Group is Finnish, which the Group does not currently hold. In such case, the Guarantor or another entity within the Group would need either to apply for such authorisation or licence or to restructure the business in such manner that it is in compliance with the new requirements. Adverse judgments based on such findings or new regulations or interpretations could result in legal claims, administrative sanctions and reputational damage against the Group, need for restructuring or new licensing of the Group or alterations to the business carried out by the Group. Further, existing loan agreements might be held null and void by local courts. As a consequence, the Group may be restricted in successfully offering its services in certain jurisdictions or may be forced to terminate its business in certain jurisdictions. This could have material adverse impacts on the financial and market position of the Group.

In the past, the Group has had to allocate resources in order to adapt its business model and product offerings in several countries as a result of regulatory changes. There is a risk that future regulatory changes may be too burdensome to comply with or may result in its business model in a particular jurisdiction becoming unprofitable. Such developments could have a material adverse impact on the financial and market position of the Group.

**The Group may fail to successfully manage the diverse sets of regulatory requirements the Group currently is subject to and may face regulatory problems entering into new markets.**

Business operations in a wide set of different jurisdictions with diverse statutory requirements necessitates careful management of the legal and regulatory challenges of many fields, including but not limited to: (i) licence requirements, (ii) maximum interest rate regulations, (iii) distance contracts regulations, and (iv) consumer protection legislation. These diverse legal frameworks implicate various legal and regulatory risks, including but not limited to the risks of market entry in new jurisdictions.

The legal requirements for launching the Group's business in new jurisdictions vary significantly with some jurisdictions having no registration/licence requirements, while some jurisdictions requiring licences, e.g., a banking licence. Entering new jurisdictions implicates challenging legal requirements on a local level. Failure to comply with local legal requirements will have a material adverse effect on the Group's business, reputational standing, financial condition, or results of operations. In addition, the diversification of the group also increases its legal costs and continued compliance costs with local laws and regulations.

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# Risk Factors (cont'd)

**The Group's business may be challenged by consumers, consumer protection organizations, courts, or regulatory agencies in connection with compliance with the EU Consumer Credit Directive and the national laws implementing the Directive as well as other mandatory consumer protection legislation.**

The EU Consumer Credit Directive (2008/48/EC) was adopted in April 2008 and entered into force in May 2008. The Member States were obliged to harmonize their legislation by May 12, 2010. Most EU Member States have implemented the directive. To serve the purposes of consumer protection and credit transparency, the EU Consumer Credit Directive mandates disclosure of a standardized annual percentage rate (APR) figure for all consumer credit products. Due to the nature of the Group's business model, whereby in most countries where the Group operates, small loan amounts are offered for very short periods of time, the extrapolated APRs may appear to be far higher than standard market APRs offered by other consumer credit companies and may therefore create an incorrect impression of the actual business relationship between the Group and its customers. The disclosure of high APRs may thus mislead consumers, consumer protection organizations, courts, or regulatory agencies in the belief that the Group is in violation of EU or local consumer protection and consumer credit regulations, specifically regarding interest rate caps. It is thus possible that legal or regulatory challenges may be brought against the Group regarding noncompliance with existing, amended, or new consumer protection or consumer credit laws. Adverse judgments based on such findings could result in legal claims and reputational damage against the Group. In addition, regulatory authorities have in recent times increased their inquiries as to compliance with European and local consumer protection laws, which, if this intensifies, could further increase the burden on the Group's compliance, legal and business departments managing communication with authorities.

There is a risk that new or amended statutory requirements, for instance regarding the EU Consumer Credit Directive and the national laws implementing the Directive as well as other mandatory consumer protection laws and regulations, would require the Group to further adapt its practices and procedures. Such statutory changes and/or additions may negatively impact the Group's financial position and may require changes to the Group's business model. It is additionally possible that consumers, consumer protection organizations, courts, regulatory agencies, financial or consumer ombudsman, challenge the Group's compliance with existing, amended, or new consumer protection laws or initiate related investigative or judicial proceedings. Adverse judgments based on such findings could result in legal claims and reputational damage against the Group.

**Risks in relation to the Group's reputation.**

There is a risk that consumers, consumer protection organizations, or journalists misunderstand the nature or scope of the Group's products, which may result in reviews, articles, or complaints regarding the Group, the Group's products, or the industry. Such legal claims and negative publicity will have a material adverse effect on the Group's business, reputational standing, financial condition, or results of operation.

**The Group may lose required licences to operate the Group's consumer loan business or face challenges to renew such licences.**

The local financial authorities of some jurisdictions additionally require licences to operate a consumer loan business. There is a risk that, where a licence is required, the Group will not be able to maintain its licences on commercially favourable terms or at all. Accordingly, there is a risk of delay in obtaining the required licences, which may lead to operational delays. The loss of a licence or such operational delays may in turn have a material adverse effect on the Group's business, financial condition, or results of operations.

**The Group may be subject to sanctions and other penalties from local authorities.**

The Group operates in a business that is heavily regulated. Given the extensive regulatory requirements in respect of the Group, there is a risk that the Group will be in breach of such regulatory requirements which may lead to various sanctions and other penalties being imposed. The Group has previously been subject to audits where the authorities have found the business not to be compliant with applicable laws, which resulted in sanctions being imposed. There is a risk that the Group may be in breach of applicable laws in the future. Should such risks materialise, it will have a material adverse effect on the Group's business, financial conditions and results of operations.

**European Central Bank's Single Supervisory Mechanism.**

The European Central Bank has implemented the Single Supervisory Mechanism. Ferratum Bank p.l.c., the entity holding the banking licence under which the Group operates, is currently categorised as a less significant institution. However, Ferratum Bank p.l.c. may in the future be deemed to be a significant institution and, hence, being subject to a higher degree of regulatory requirements. Furthermore, there is a risk that institutions categorised as less significant institutions in the future will be subject to a higher degree of oversight and compliance related provisions. If any of these risks materialise, it will have a material adverse effect on the Group's business, financial standing and results of operations.

**The Group's Maltese banking subsidiary may fail to comply with regulations it is subject to and such failures could materially impact its operations and strategy.**

The Group operates in several markets making use of Ferratum Bank p.l.c.'s EU credit institution licence issued in September 2012 by the Malta Financial Services Authority, namely Poland, Estonia, Latvia, Germany, Bulgaria, the Czech Republic, Norway, France, Sweden, Spain and Croatia. This EU banking licence is required or may be required to conduct business in a number of existing and potential future markets. Ferratum Bank p.l.c.'s banking licence also provides the Group with the benefits of increased levels of trustworthiness vis-à-vis its customers, access to pertinent databases to further enhance scoring models, and funding options linked to accepting deposits to support profit growth. However, under Maltese law, the credit institution licence may be revoked or restricted by the MFSA for a variety of reasons including, but not limited to, the Group's non-compliance with existing or new regulatory requirements. Such a restriction or revocation of the credit institution licence would require the Group to comply with the existing or new regulatory requirements of the MFSA or obtain a banking licence from the relevant regulatory authority of another EU Member State.

The MFSA will have to be informed in case a new shareholder accumulates a shareholding of 5% or more; whilst a new shareholder attaining a shareholding level of 10% or more will have to be approved by the MFSA so that the Group's Maltese banking subsidiary remains in compliance with Maltese laws and regulations.

These factors could impair the Group's swift entry into new European markets and/or result in operational delays that could have a material adverse effect on the Group's business, financial condition, or results of operations.

**The Group is subject to a diverse set of tax regimes in the jurisdictions it operates in and changes in such tax regimes could materially impact its business, financial condition, or results of operations.**

The Group operates in different countries with diverse sets of tax regimes and operates its banking subsidiary in Malta subject to Maltese tax law. Corporate income tax, value added tax or sales taxes and other taxes levied upon on the Group's business are subject to change and can be increased, changed or completely restructured at any time. While the Group monitors tax changes consistently and is from time to time subject to tax audits, the Group has not faced any significant tax challenges or tax disputes with tax authorities in the past three years. Changes to local tax regimes or challenges to the current tax structures of the Group's business could have a material adverse effect on the Group's business, financial condition, or results of operations.

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# Risk Factors (cont'd)

**Failure to comply with data protection and privacy law could negatively affect the Group's reputation business and financial position.**

The Group registers, processes, stores and uses personal data in the course of its business, and it is of high importance that the Group takes such actions in accordance with applicable personal data legislation and requirements. The Group's operations are subject to a number of laws relating to data privacy, including Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (GDPR) and Directive 2002/58/EC of the European Parliament and of the Council of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector (Directive on privacy and electronic communications) (the latter as implemented in different jurisdictions in which it operates) as well as relevant data protection and privacy laws. The GDPR includes higher sanctions for breaches than previous data protection legislation and there is a risk that the fines could amount to the higher of EUR 20 million or four per cent. of the global turnover. The requirements of these laws may affect the Group's ability to collect and use personal data in a way that is of commercial use to the Group. Breach of data privacy legislation could result in the Group being subject to claims from its customers that it has infringed their privacy rights, and it could face administrative proceedings (including criminal proceedings) initiated against it by the data protection regulators. In addition, any inquiries made, or proceedings initiated by, the regulator could lead to negative publicity in addition to potential liability for the Group, which could materially adversely affect its reputation and business. Hence, if the Group is in breach of personal data legislation this could have a material adverse effect on the Group's business, earnings or financial position.

There is a risk that future changes of data protection and privacy laws may lead to the Group not being able to continue its operations in the same course of action as currently. There is also a risk that changes in these regulations may increase costs to ensure compliance with such laws, having a material adverse effect on the Group's operations, earnings and financial position.

**Legal disputes and litigations could have a negative effect on the Group's business, financial position and results of operation.**

The Group is not currently involved in any material legal disputes or litigations. There is however a risk that the Group could become involved in legal disputes or subject to other litigation in the future. Disputes of different kinds can be time consuming, disrupt normal operations, involve large amounts and result in considerable costs and reputational risks, which would have a negative effect on the Group's business, financial position and results of operation.

## RISKS RELATING TO THE BONDS

**The EU Bank Recovery and Resolution Directive could have a negative effect on the bondholders' investment.**

The EU Bank Recovery and Resolution Directive (the "BRRD" or the "Directive"), which sets common rules across the EU for dealing with failing banks and large investment firms, came into force on 1 January 2015. The BRRD lays out a comprehensive set of measures that ensure that both banks and authorities make adequate preparation for crises, by empowering national authorities to intervene in troubled institutions at a sufficiently early stage to address developing problems, and to take rapid and effective action when bank failure cannot be avoided.

The Directive has also established a bail-in system. In Malta, bail-in was immediately applicable to junior debt holders as from 1 January 2015 and applicable to senior debt holders from 1 January 2016. The purpose of the bail-in system is to stabilise a failing bank so that its essential services can continue, without the need for bail-out by public funds. The tool enables authorities to recapitalise a failing bank through the write-down of liabilities and/or their conversion to equity so that the bank can continue as a going concern, giving authorities time to reorganise the bank or wind down parts of its business in an orderly manner. In the process, directors and senior management may be removed or replaced if those persons are found unfit to perform their duties.

The application of the bail-in system requires the prior evaluation as to whether certain conditions are met. In particular, the following pre-requisites would need to be satisfied:

a) a determination by the competent authority or Resolution Authority that a bank is failing or is likely to fail;

b) no reasonable prospect that any alternative private sector measures or supervisory action would prevent the failure of the bank within a reasonable timeframe; and

c) a bail-in is necessary in the public interest.

Bail-in would apply to any liabilities of the Group not backed by assets or collateral. It would not apply to deposits protected by a deposit guarantee scheme, short-term inter-bank lending or claims of clearing houses and payment and settlement systems with a remaining maturity of seven days, client assets, or liabilities such as salaries, pensions, or taxes.

After shares and other similar instruments, bail-in will first, if necessary, impose losses evenly on holders of subordinated debt and then evenly on senior debt-holders. Deposits from SMEs and natural persons, including those in excess of EUR 100,000, will be preferred to senior creditors.

The tool applies as of 1 January 2015 to all outstanding and newly issued debt. Accordingly, in the event that Ferratum Bank meets the trigger conditions for entry into resolution, any portion of the Bonds, including both principal and accrued interest, that will not be backed by collateral could become subject to a write down or otherwise converted to equity as determined by the Resolution Authority. The write¬down of liabilities and/or their conversion to equity will be beyond the Issuer's control. The write-down or conversion would follow the ordinary allocation of losses and ranking in insolvency. Equity has to absorb losses in full before any debt claim is subject to write-down or conversion. The determination by the Resolution Authority shall not constitute an event of default and bondholders will not have any further claims in respect of any amount so written off, converted to equity or otherwise applied to absorb losses. As a result, bondholders may lose all or part of their investment.

The term 'Resolution Authority', as utilised in this section, refers to the public administrative authority appointed within the jurisdiction of Malta and empowered to apply the resolution tools and exercise the resolution powers described in the BRRD. The resolution authority in Malta is the Malta Financial Services Authority.

**Credit risks.**

Investors in the Bonds carry a credit risk relating to the Group. The investors' ability to receive payment under the Terms and Conditions is dependent on the Issuer's ability to meet its payment obligations, which in turn is largely dependent upon the performance of the Group's operations and its financial position. The Group's financial position is affected by several factors of which some will be mentioned on the proceeding pages. An increased credit risk may cause the market to charge the Bonds a higher risk premium, which would affect the Bonds' value negatively. Another aspect of the credit risk is that a deteriorating financial position of the Group may reduce the Group's possibility to receive debt financing at the time of the maturity of the Bonds.

**Refinancing risk.**

The Group may eventually be required to refinance certain or all of its outstanding debt, including the Bonds. The Group's ability to successfully refinance its debt is dependent on the conditions of the capital markets and its financial condition at such time. The Group's access to financing sources may not be available on favourable terms, or at all.

The Group's inability to refinance its debt obligations on favourable terms, or at all, could have a material adverse effect on the Group's business, financial condition and results of operations and on the bondholders' recovery under the Bonds.

**Liquidity risk.**

The Issuer intends to list the Bonds on the corporate bond list of Nasdaq Stockholm and initially in the Open Market and later on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange (provided that the volume requirement is met). Even if the Bonds are admitted to trading on the aforementioned markets, active trading in the Bonds does not always occur and a liquid market for trading in the Bonds might not occur even if the Bonds are listed. This may result in the bondholders not being able to sell their Bonds when desired or at a price level which allows for a profit comparable to similar investments with an active and functioning secondary market. Lack of liquidity in the market will have a negative impact on the market value of the Bonds. Furthermore, the nominal value of the Bonds may not be indicative compared to the market price of the Bonds if the Bonds are admitted to trading. It should also be noted that during a given time period it may be difficult or impossible to sell the Bonds (at all or at reasonable terms) due to, for example, severe price fluctuations, close down of the relevant market or trade restrictions imposed on the market.

# Risk Factors (cont'd)

**Risk of early redemption and put option.**

Under the Terms and Conditions, and as described in the term sheet for the Bonds, the Issuer will reserve the possibility to redeem all outstanding Bonds before the final redemption date. If the Bonds are redeemed before the final redemption date, the holders of the Bonds have the right to receive an early redemption amount which exceeds the nominal amount in accordance with the Terms and Conditions. However, there is a risk that the market value of the Bonds is higher than the early redemption amount and that it may not be possible for bondholders to reinvest such proceeds at an effective interest rate as high as the interest rate on the Bonds and may only be able to do so at a significantly lower rate.

The Bonds will be subject to prepayment at the option of each bondholder (put options) if an event or series of event occurs whereby Jorma Jokela ceases to own and control more than 50 per cent. of the share capital and votes in the Guarantor or, in case of a new share issue following the First Issue Date, Jorma Jokela ceases to own and control more than 35 per cent. of the share capital and votes in the Guarantor and one or more persons acting together acquire control over the Guarantor. The Bonds will also be subject to prepayment at the option of each bondholder if the shares of the Guarantor cease to be admitted to trading on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange or a regulated market of another stock exchange. There is, however, a risk that the Issuer will not have sufficient funds at the time of such prepayment to make the required prepayment of the Bonds which could adversely affect the Issuer, e.g. by causing insolvency or an event of default under the Terms and Conditions, and thus adversely affect all bondholders and not only those that choose to exercise the option.

**Market price risk.**

The development of market prices of the Bonds depends on various factors, such as changes of market interest rate levels, the policies of central banks, overall economic developments, inflation rates or the lack of or excess demand for the Bond. The bondholders are therefore exposed to the risk of an unfavourable development of market prices of their Bonds which materialise if the bondholders sell the Bonds prior to the final maturity. If a Bondholder decides to hold the Bonds until final maturity, the Bonds will be redeemed at the principal amount of the Bonds.

**Creditworthiness of the Guarantor.**

If, e.g., because of the materialisation of any of the risks regarding the Guarantor, the likelihood that the Guarantor will be in a position to fully perform all obligations under the Bonds when they fall due decreases, the market value of the Bonds will suffer. In addition, even if the likelihood that the Guarantor will be in a position to fully perform all obligations under the Bonds when they fall due actually has not decreased, market participants could nevertheless have a different perception. In addition, the market participants' estimation of the creditworthiness of corporate debtors in general or debtors operating in the same business as the Group could adversely change.

Further, a downgrade of the Guarantor's rating may – irrespective of the actual creditworthiness of the Guarantor – lead to a decrease of the exchange price of the Bonds.

If any of these risks occurs, third parties would only be willing to purchase Bonds for a lower price than before the materialisation of said risk. Under these circumstances, the market value of the Bonds will decrease.

**Risks relating to the Bonds being unsecured.**

The Bonds constitute unsecured debt obligations of the Issuer. If the Issuer and/or the Guarantor is subject to any foreclosure, dissolution, winding-up, liquidation, recapitalisation, administrative or other bankruptcy or insolvency proceedings, all of the Issuer's and the Guarantor's secured obligations must first be satisfied, potentially leaving little or no remaining assets in the Issuer or the Guarantor for the bondholders. As a result, the bondholders may not recover any or the full value of their investment. The bondholders will only have an unsecured claim against the assets (if any) in the Issuer and the Guarantor for the amounts under or in respect of the Bonds, which means that the bondholders normally would receive payment (pro rata with other unsecured non-priority creditors) after any priority creditors have been paid in full. Each investor should be aware that by investing in the Bonds, they risk losing the entire, or part of, the investment in the event of the Issuer's or the Guarantor's liquidation, bankruptcy or group re-organisation.

**Currency risk.**

The Bonds are denominated in Euro. If such currency represents a foreign currency to a bondholder, such bondholder is particularly exposed to the risk of changes in currency exchange rates which may affect the yield of such Bonds in the currency of the bondholder. Changes in currency exchange rates result from various factors such as macro-economic factors, speculative transactions and interventions by central banks and governments.

In addition, government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable currency exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal at all.

**Interest rate risk.**

The Bonds' value depends on several factors, one of the most significant over time being the level of market interest. Investments in the Bonds involve a risk that the market value of the Bonds may be adversely affected by changes in market interest rates.

**Resolutions of bondholders.**

Since the Bonds provide for meetings of bondholders or the taking of votes without a meeting, a bondholder is subject to the risk of being outvoted by a majority resolution of the bondholders. As such majority resolution is binding on all bondholders, certain rights of such bondholder against the Issuer under the Terms and Conditions may be amended or reduced or even cancelled.

**Bondholders' representative.**

Since the Bonds provide for the appointment of a bondholders' representative, it is possible that a bondholder may be deprived of its individual right to pursue and enforce its rights under the Terms and Conditions against the Issuer, such right passing to the bondholders' representative who is then exclusively responsible to claim and enforce the rights of all the bondholders. Consequently, individual bondholders do not have the right to take legal actions to declare any default by claiming any payment from or enforcing any security granted by the Issuer and may therefore lack effective remedies unless and until a requisite majority of the bondholders agree to take such action. However, there is a risk that an individual bondholder, in certain situations, could bring its own action against the Issuer (in breach of the Terms and Conditions) which could negatively impact an acceleration of the Bonds or other action against the Issuer. To enable the Agent to represent bondholders in court, the bondholders and/or their nominees may have to submit a written power of attorney for legal proceedings. The failure of all bondholders to submit such a power of attorney could negatively affect the legal proceedings. Under the Terms and Conditions, the Agent will in some cases have the right to make decisions and take measures that bind all bondholders. Consequently, the actions of the Agent in such matters could impact a bondholder's rights under the Terms and Conditions in a manner that would be undesirable for some of the bondholders.

**No restriction on the amount of debt which the Issuer may incur in the future.**

There is no restriction on the amount of debt which the Issuer may issue which ranks equal to the Bonds. Such issuance of further debt may reduce the amount recoverable by the Bondholders upon winding-up or insolvency of the Issuer or may increase the likelihood that the Issuer may or shall defer payments of interest under the Bonds.

# Risk Factors (cont'd)

**Benchmark Regulation.**

The process for determining EURIBOR and other interest-rate benchmarks is subject to a number of legislative acts and other regulations. Some of these acts and regulations have already been implemented whilst some are set to be implemented in the near future. The most extensive initiative in this respect is Regulation (EU) 2016/1011 of the European parliament and of the council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (the ("**Benchmark Regulation**"). The Benchmark Regulation came into force on the 1 January 2018. The Benchmark Regulation addresses the provision of benchmarks, the contribution of input data to benchmarks and the use of benchmarks within the European Union. The effect of the Benchmark Regulation cannot yet be fully determined due, among other things, to the limited time period that the regulation has been applicable. However, there is a risk that the Benchmark Regulation will affect how certain benchmarks are determined and how they develop in the future. This could, for example, lead to increased volatility regarding some benchmarks. Another risk is that increased administrative requirements, and resulting regulatory risk, may discourage stakeholders from participating in the production of benchmarks, or that some benchmarks cease to be provided. If this would happen in respect of a benchmark that is used for the Bonds, it would have negative effects for the bondholders.

**Liquidity Risk.**

In January 2018, the Markets in Financial Instruments Directive 2014/65/EU (MiFID II) and Markets in Financial Instruments Regulation 600/2014 (MiFIR) entered into force. Pursuant to the new rules, the reporting and transparency requirements have increased on the fixed income market. As a consequence, this may cause the financial institutions which are acting as intermediaries in the trade of financial instruments to be less willing to purchase financial instruments on their own books. Should this risk materialise, it could have a negative impact on the liquidity of the Bonds which could have a negative impact on the market value of the Bonds.

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