COMPANY ANNOUNCEMENT

Ferratum Bank p.l.c.

Condensed Interim Financial Statements for the six-month period ended 30 June 2022

Date of Announcement 30 August 2022

The following is a Company Announcement issued by Ferratum Bank p.l.c. ("the Bank") pursuant to the Malta Financial Services Authority's ("the MFSA") Capital Markets Rules.

QUOTE

The Board of Directors of Ferratum Bank plc met on 30th August 2022 in order to approve the Condensed Interim Financial Statements for the six-month period ended 30 June 2022.

The Half-Yearly Report, drawn up in terms of the Capital Markets Rules, is attached to this Company Announcement. The Interim Financial Statements are unaudited but independently reviewed by PWC, the Bank's registered auditors.

In accordance with the requirements of the Capital Markets Rules, the Half-Yearly Report is being made publicly available for viewing on the Bank's website at www.ferratumbank.com

UNQUOTE

Kenneth Zammit
Chief Financial Officer

FERRATUM BANK PLC

Condensed Interim Financial Statements
30 June 2022

Company Registration Number: C56251

Directors' report

The directors present their condensed interim financial statements for the six-month period ended 30 June 2022.

Principal activities

The Bank's principal activity is the operation of a credit institution under the Banking Act, Cap 371 of the Laws of Malta, in accordance with the credit institution licence granted by the Malta Financial Services Authority.

The Bank's principal activity comprises the origination of unsecured lending and credit products which are distributed through an online platform. During 2022, the Bank provided its services in Estonia, Latvia, Czech Republic, Germany, Bulgaria, Sweden, Norway, Croatia, Denmark, Finland, Romania and Slovenia. To part finance its lending activities, the Bank offers savings and term deposits for private individuals to its customers in Germany.

Business development

The Bank continued to offer unsecured lending and credit products to its customers and during June 2022, the Bank started to offer its products in Slovenia.

The Bank's investments are made up of investment in securitisation portfolio which amounted to €69 million and investment securities which amounted to €10 million.

The investment in securitisation portfolio is made up of notes in Ferratum Portfolio S.À.R.L, a private limited liability company incorporated under the laws of Luxembourg as an unregulated securitisation company. As of June 2022, Ferratum Portfolio S.À.R.L, acquired a portfolio of SME loans in Netherlands, Sweden, Finland and Lithuania. Ferratum Bank PLC is the holder of Class A notes, which are senior notes, have a higher credit quality and the highest payment ranking amongst the other creditors.

The investment securities reflect the Bank's acquisition of 100 Series C secured bonds with a nominal value of €100,000 each issued by Cream Finance Holding Ltd, a company registered in Cyprus. The bonds have a four-year maturity period with the possibility to extend the term by mutual agreement and an early redemption option.

The Bank also raised funding through debt securities which stood at €5 million as at 30 June 2022. The issue of the debt securities took place on 27 April 2022 and are part of a Bond Issuance Programme amounting to €40,000,000 for a duration of 10 years. As at 30 June 2022, the Bank has issued 5,052 bonds with a nominal value of €1,000 per bond, which are listed on the Malta Stock Exchange. The bonds are subject to fixed interest of 6% per annum payable annually.

Financial performance

The Bank registered a profit before tax of €10.4 million during the period ended 30 June 2022, compared with €11.2 million for the same period last year.

The statement of comprehensive income is set out on page 4. The net interest income earned by the Bank amounted to €70.8 million during the period ended 30 June 2022, reflecting an increase of 14% over the same period last year. This is a reflection of the continued efforts made by the Bank to increase its lending business operations. The net fee and commission expense amounts to €2.7 million compared to €3.7 million during the same period last year. This resulted in an operating income of €67.7 million compared to €58.6 million during the same period last year.

Directors' report - continued

Financial performance - continued

The Bank's operating expenditure increased by 11% during the current financial year, and reached a total of €29.7 million, compared to €26.7 million during the same period last year. The increase is mainly attributable to information technology costs, direct costs, marketing and representation costs as well as, credit management expenses. During the period ended 30 June 2022, the net impairment losses on the Bank's lending business amounted to €27.6 million.

In view of the above, the Bank reported a profit before tax of €10.4 million during the period ended June 2022, which is equivalent to €10.1 million after tax.

Financial position

The statement of financial position reflects total assets of €552 million, which decreased from €600 million as at December 2021. The decrease is mainly attributable to a reduction in the customer deposits balance which resulted a decrease in balances with central banks and other banks from €187 million at the end of 2021 to €73 million as at June 2022.

The Bank continued to fund its business through customer deposits, which decreased from €486 million as at the end of 2021 to €426 million as at 30 June 2022. The Bank offers savings and term deposit products with different maturities ranging from 3 months to 36 months, predominately sourced from the German market.

The loans and advances to customers continued to increase further from €324 million at the end of 2021 to €357 million as at June 2022.

The Bank registered strong regulatory ratios throughout the financial year. The Liquidity Coverage Ratio metric, designed to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA' consisting of cash or assets that can be converted into cash at little or no loss of value in markets) to meet its liquidity needs in a 30-calendar-day liquidity stress scenario was 676.55% as at 30 June 2022. The Bank is required to maintain a ratio of total regulatory capital to risk-weighted assets ("Capital requirements ratio") above a minimum level of 16.2%, as well as a CET 1 (Common Equity Tier 1) capital ratio above a minimum level of 13.08% as prescribed by banking regulations. The Bank's total capital ratio and CET1 capital ratio as at 30 June 2022 was at 17.25% and 16.49% respectively.

During the first half of 2022, the Bank paid out dividends amounting to €18 million and received a capital contribution amounting to €18 million from its ultimate parent company. This continued to strengthen the Bank's equity structure. Retained earnings as at 30 June 2022 amounted to €21 million.

Subsequent events

The Financial Intelligence and Analysis Unit ("FIAU") informed Ferratum Bank p.l.c. ("the Bank") in August 2022 that it imposed an administrative penalty of €653,637 for a number of findings that were considered as breaches of some provisions of the financial crime prevention framework. The FIAU's decision followed a compliance examination that was carried out on the Bank between December 2018 and May 2019. The Bank respectfully disagrees with the FIAU's decision and has submitted an appeal against this decision in front of the Court of Appeal. The Bank takes its responsibility towards its regulatory and supervisory authorities seriously. Considering the lapse of time and enhancements made to the Bank's processes and controls since the conclusion of the compliance examination in 2019, the FIAU's decision was unexpected. Taking into account a whole range of considerations, including the substantial investment made during the past years in its internal control processes, the lapse of more than 3 years since the on-site visit was carried out, the non-complex nature of its services and activities, the fact that it disagrees with the FIAU's decision, as well as the increase in the number of human resources dedicated to this area, the Bank considers the FIAU's decision to be disproportionate.

Directors' report - continued

The Bank collaborated with the FIAU and Malta Financial Services Authority in a full and transparent manner throughout this process. Furthermore, the Bank will continue to cooperate with the FIAU with regards to the follow-up directive served on the Bank together with the afore-mentioned decision. The Bank has been offering its services from Malta for almost 10 years and this is the first time that it received an administrative penalty from the FIAU for breaches of this nature.

Approved by the Board of Directors and signed on its behalf on 30 August 2022 by:

Charles Borg
Director

Victor Denaro
Director

Registered Office:
ST Business Centre,
120, The Strand,
Gzira, GZR1027
Malta

30 August 2022

Condensed statement of financial position

	Notes	As at 30 June 2022 €'000 (unaudited)	As at 31 December 2021 €'000 (audited)
ASSETS			
Balances with Central Banks		**38,654**	138,921
Loans and advances to banks		**33,933**	48,165
Loans and advances to customers	2	**356,975**	323,932
Loans and advances to group companies		**22,283**	15,486
Derivative financial instruments		**321**	-
Investments	8	**78,913**	60,685
Right of use asset		**484**	805
Property and equipment		**584**	640
Intangible assets		**1,176**	1,256
Other assets		**18,573**	10,029
Total assets		**551,896**	599,919
EQUITY AND LIABILITIES			
Equity			
Share capital		**10,000**	10,000
Capital contribution reserve		**78,500**	60,500
Other reserves		**2,592**	2,592
Retained earnings		**20,853**	28,747
Total equity		**111,945**	101,839
Liabilities			
Amounts owed to customers		**425,664**	486,040
Derivative financial instruments		**-**	297
Debt securities in issue	9	**4,817**	-
Lease liability		**420**	776
Other liabilities		**7,824**	8,757
Current tax liabilities		**1,226**	2,210
Total liabilities		**439,951**	498,080
Total equity and liabilities		**551,896**	599,919
MEMORANDUM ITEMS			
Commitments		**7,138**	6,515

These condensed interim financial statements were approved by the Board of Directors on 30 August 2022 and were signed on its behalf by:

Charles Borg
Director

Victor Denaro
Director

Condensed statement of comprehensive income

	Notes	For the six-month period ended 30 June 2022 €'000 (unaudited)	2021 €'000 (unaudited)
Interest and similar income	5	**72,567**	64,425
Interest and similar expense	6	**(1,795)**	(2,129)
Net interest income		**70,772**	62,296
Fee and commission income	7	**852**	926
Fee and commission expense	7	**(3,601)**	(4,669)
Net fee and commission expense		**(2,749)**	(3,743)
Net trading expense		**(277)**	-
Total operating income		**67,746**	58,553
Employee compensation and benefits		**(4,081)**	(3,795)
Other operating costs		**(25,013)**	(22,236)
Depreciation and amortisation		**(607)**	(696)
Credit impairment losses		**(27,644)**	(20,657)
Profit before tax		**10,401**	11,169
Tax expense		**(295)**	(4,748)
Profit for the period - total comprehensive income		**10,106**	6,421

Condensed statement of changes in equity

	Share capital €'000	Capital contribution reserve €'000	Other reserves €'000	Retained earnings €'000	Total equity €'000
At 1 January 2021	10,000	42,500	2,592	33,223	88,315
Comprehensive income					
Profit for the period	-	-	-	6,421	6,421
Total comprehensive income for the period	-	-	-	6,421	6,421
Transactions with owners					
Dividends	-	-	-	(15,000)	(15,000)
Capital contribution from shareholders	-	15,000	-	-	15,000
Total transactions with owners	-	15,000	-	(15,000)	-
Balance at 30 June 2021	10,000	57,500	2,592	24,644	94,736
Balance at 1 January 2022	10,000	60,500	2,592	28,747	101,839
Comprehensive income					
Profit for the period	-	-	-	10,106	10,106
Total comprehensive income for the period	-	-	-	10,106	10,106
Transactions with owners					
Dividends	-	-	-	(18,000)	(18,000)
Capital contribution from shareholders	-	18,000	-	-	18,000
Total transactions with owners	-	18,000	-	(18,000)	-
Balance at 30 June 2022	10,000	78,500	2,592	20,853	111,945

Condensed statement of cash flows

	For the six-month period ended 30 June	
	2022	2021
	€'000	€'000
Cash flows from operating activities		
Interest and commission receipts	**73,356**	65,223
Interest and commission payments	**(5,683)**	(7,240)
Proceeds from realisation of derivative financial instruments	**35**	-
Income tax paid	**(1,279)**	(83)
Payments to employees and suppliers	**(39,391)**	(30,942)
Cash flows from operating profit before changes in operating assets and liabilities	**27,038**	26,958
Changes in operating assets and liabilities:		
Loans and advances to group companies	**(6,797)**	642
Loans and advances to customers	**(60,728)**	(74,339)
Amounts owed to customers	**(60,377)**	90,587
Amounts paid in favour of Depositor Compensation Scheme	**-**	(353)
Net cash generated (used in)/from operating activities	**(100,864)**	43,495
Cash flows from investing activities		
Purchase of investment in securitisation portfolio	**(8,165)**	(44,402)
Purchase of debt securities	**(10,000)**	-
Purchase of property and equipment	**(55)**	(6)
Purchase of intangible assets	**(56)**	(83)
Net cash used in investing activities	**(18,276)**	(44,491)
Cash flows from financing activities		
Proceeds from issuing of debt securities	**5,052**	-
Payment of lease liability	**(411)**	(375)
Shareholders' contribution	**18,000**	15,000
Dividends paid to equity holders of the Bank	**(18,000)**	(15,000)
Net cash generated from/(used in) financing activities	**4,641**	(375)
Net movement in cash and cash equivalents	**(114,499)**	(1,371)
Cash and cash equivalents at beginning of the year	**187,086**	152,637
Cash and cash equivalents at end of period	**72,587**	151,266

Notes to the condensed financial statements

1. Basis of preparation and significant accounting policies

1.1 Basis of preparation

The condensed interim financial statements for the six-month period ended 30 June 2022 have been prepared in accordance with IAS 34 'Interim Financial Reporting' issued by the International Accounting Standards Board (IASB) and as endorsed by the EU. The condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's Annual Report and Financial Statements 2021. Therefore, they include an explanation of events and transactions that are significant for understanding the changes on the Bank's financial position and performance since the end of 2021.

1.2 Significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards set out below.

Standards, interpretations and amendments to published standards adopted by the Bank

The Bank adopted amendments and interpretations existing standards, including the amendments to existing standards relating to IAS 16 'Property, Plant and Equipment', IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', and Annual Improvements to IFRS Standards 2018-2020 which amends IFRS 9 'Financial Instruments' and IFRS 16 'Leases', that are mandatory for the Bank's accounting period beginning on 1 January 2022. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Bank's accounting policies.

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

Certain new standards, interpretations and amendments to existing standards which are mandatory for accounting periods beginning after 1 January 2022 have been published by the date of authorisation for issue of this financial information. The Bank has not early adopted these requirements of IFRSs as adopted by the EU and the Bank's directors are of the opinion that, there are no requirements that will have a possible significant impact on the Bank's financial statements in the period of initial application.

1.3 Accounting estimates and judgements

The preparation of the financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1, other than those related to calculating loan impairment allowances on collectively assessed loans and advances. The directors believe there are no areas involving a higher degree of judgement that have the most significant effect on the amounts recognised in the financial statements; and there are no key assumptions and other key sources of estimation uncertainty relating to estimates that require directors' most difficult, subjective or complex judgements, other than the measurement of expected credit losses for financial assets measured at amortised cost. The critical accounting estimates and judgements are set out in Note 3 of the Annual Report and Financial Statements 2021 and were applied to the current period under review.

1. Basis of preparation and significant accounting policies - continued

1.4 Going concern

During 2022 the Board continued to evaluate the effects that the COVID-19 pandemic had on the business of the Bank. Due to the negative effect that the pandemic is having on the worldwide economies, the Bank continued to assess credit management process, the financial performance and the projected level of business and anticipated regulatory position for the next twelve months.

Based on the outcome of the cash flow projections, the Directors and senior management consider the going concern assumption in the preparation of the Bank's financial statements as appropriate as at the date of authorisation for issue of the Condensed Interim Financial Statements for the six-month period ended 30 June 2022.

The geopolitical situation in Eastern Europe has intensified since the end of February 2022, with Russia's invasion of Ukraine. The Bank has no exposures to either Russia or Ukraine. The Bank is actively monitoring the situation and considering its circumstances and risk exposures when analysing how the accounting impacts arising from the war may affect its financial reporting.

1.5 Accounting policies

The accounting policies that were applied in these condensed interim financial statements are consistent with those described in Note 1 of the Bank's Annual Report and Financial Statements 2021, as are the methods of computation.

2. Financial instruments

2.1 Summary of financial instruments to which the IFRS 9 requirements are applied

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation.

Credit risk is the most important risk for the Bank's business; accordingly management carefully manages its exposure to this risk. Credit exposures arise principally through the Bank's lending activities in various European countries, together with the placement of liquidity with banks domiciled in Malta and other European countries.

The Bank is also exposed to credit risk arising from the issuance of financial guarantee contracts to entities granting micro-loans and other related credit products to individuals located in certain European countries.

The Bank is also exposed to credit risk arising on its exposure to the investment in securitisation portfolio and its exposure to the investment securities.

Credit exposures through advances to group undertakings located in Finland and operating balances with other group undertakings located in European countries also give rise to credit risk.

2. Financial instruments - continued

2.1 Summary of financial instruments to which the IFRS 9 requirement are applied - continued

The Bank's credit risk exposures relating to on-balance sheet assets and off-balance sheet instruments, reflecting the maximum exposure to credit risk before collateral held or other credit enhancements include the following:

	At 30 June 2022		At 31 December 2021	
	Gross carrying amount €'000	**ECL allowance €'000**	Gross carrying amount €'000	ECL allowance €'000
Credit risk exposures relating to on-balance sheet assets:				
Subject to IFRS 9 impairment requirements				
Financial assets measured at amortised cost:				
Balances with Central Banks	**38,654**	**-**	138,921	-
Loans and advances to banks	**33,933**	**-**	48,165	-
Loans and advances to customers	**423,608**	**(66,633)**	386,507	(62,575)
Loans and advances to group companies	**22,283**	**-**	15,486	-
Investments	**78,913**	**-**	60,685	-
Other financial assets	**18,005**	**-**	12,333	-
Subject to credit risk but not subject to IFRS 9 impairment requirements				
Financial assets measured at FVTPL:				
Derivative financial instruments	**321**	**-**	-	-
Credit risk exposure	**615,717**	**(66,633)**	662,097	(62,575)
Credit risk exposures relating to off-balance sheet instruments:				
Financial guarantees	**7,138**	**(2,793)**	6,515	(1,974)
Credit risk exposure	**7,138**	**(2,793)**	6,515	(1,974)

2. Financial instruments - continued

2.2 Expected credit loss measurement

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or on a lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The ECL is determined by projecting the PD, EAD and LGD at a collective portfolio level as allowable under IFRS 9 in the case of retail portfolios comprising individually insignificant exposures that are homogenous in nature. These three components are multiplied together effectively calculating the forward-looking ECL, which is then discounted back to the reporting date. The discount rate used in the ECL calculation is the actual effective interest rate or an approximation thereof.

The 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated on a similar basis for the residual life of the exposure.

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

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. Accordingly, the 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument, respectively.

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

i. Micro-credit portfolios which are subject to bullet repayment characteristics; and
ii. Credit portfolios with instalment repayment features and revolving credit facilities,
iii. Other amortising, long-term credit products with instalment repayment features.

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

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

2. Financial instruments - continued

2.2 Expected credit loss measurement - continued

The conditional PD is adjusted to consider forward-looking information through macroeconomic modelling.

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

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

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

Given that its credit facilities are generally unsecured in nature, the Bank estimates LGD parameters based on the history of recovery rates in respect of claims against defaulted customers, which rates are highly impacted by collective debt recovery strategies. Moreover, the Bank's LGDs comprise the effects of the Bank's ability to dispose of overdue loans originated in specific territories to other parties at pre-established prices, that are dependent on the credit quality or ageing of the loans, emanating from existing contractual arrangements. Estimated LGDs are also impacted by historical one-off portfolio sales and the expected future uncontracted portfolio sales activity. Recoveries from loan portfolio sales are calculated on a discounted cash flow basis using the contractual default interest rate as the discounting factor.

The Bank has a number of forward flow agreements in place with third parties whereby loans and advances which are more than certain days past due will be sold to the third party in batch at an agreed price. The Bank is also capable of selling loans and advances on the market which it cannot collect or recover internally in the form of debt sales. In respect of longer-term amortising products where there is no experience of sales, the Bank has developed a number of scenarios

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

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

No major changes were made to this methodology during the first half of 2022.

2. **Financial instruments** - continued

2.3 Forward-looking information incorporated in the ECL model

IFRS 9 requires issuers to estimate the ECL by taking into account "reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions".

The Bank has identified key drivers of credit risk and credit losses for each portfolio of financial instruments, and using an analysis of historical data, has analysed relationships between macroeconomic variables, credit risk and credit losses. This analysis was conducted at a territory and sub portfolio level in order to take into consideration possible differences in customer behaviour and default experience arising from different product characteristics.

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

In those territories where due to certain risk data limitations, statistical relationships to macroeconomic variables were not deemed to be statistically significant (e.g. in those territories where the Bank has recently launched new products resulting in limited available historical default experience), the Bank has utilised proxy statistical data available in other territories with close geographical and demographic similarities.

The Bank incorporates multiple forward-looking economic conditions into its ECL estimates to utilise the country specific macroeconomic variable that is most relevant.

To be able to determine the way in which these economic conditions will be impacting the ECL estimates, the Bank first performs an assessment to select the macroeconomic variable ('MEV') which has the highest correlation to credit risk factors for a certain country and product. The Bank does this through the implementation of a one-step Error Correction Model ('ECM'). The ECM is a multiple regression model that automatically corrects short-term deviations from the long-term equilibrium relationship such that the defaulted loan amount is restored back to its long-term equilibrium at a specific speed of adjustment.

Through the utilisation of this model the Bank has determined a set of three MEVs to which the Bank's portfolios are the most sensitive, namely Gross Domestic Product ('GDP'), Personal Disposable Income ('PDI) and Unemployment Rate ('UR'). The choice of macroeconomic variable to be used for a particular country and product is determined through an optimised approach in which the ECM is run separately for each of these variables. The variable that is ultimately applied for the country / product is the one that produces the most statistically significant result.

In order to capture a range of possible future outcomes, three possible scenarios are considered in the determination of the Bank's ECL. The 'base line' scenario represents the most-likely outcome. It is based on forecasted economic variables, provided by Oxford Economics, referred to above and providing the best estimate view of each respective country within the Bank's consumer lending portfolio. Apart from the 'base line' scenario, the Bank considers two other macro-economic scenarios – 'Upside' and 'Downside' scenarios – which respectively represent a more optimistic and a more pessimistic outcome. Such scenarios reflect the current top and emergent risks and opportunities. The more optimistic and more pessimistic scenarios are economically plausible and will not necessarily be as severe as scenarios used in stress testing.

2. **Financial instruments** - continued

2.3 Forward-looking information incorporated in the ECL model

The weightings assigned to each economic scenario, which are unchanged from 2021 were 60%, for the 'Base' scenario, 20% for the 'Downside' scenario and 20% for the 'Upside' scenario. The number of scenarios used is based on the analysis of each major product type to ensure that non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. The probability weightings assigned to the respective scenarios reflect an unbiased evaluation of range of possible outcomes.

On the basis of macroeconomic forecasts and data available as at 30 June 2022, the weightings applied take into account the following:

For *baseline scenario*, the global economic outlook has continued to deteriorate amid considerably high uncertainty. As a result, Oxford Economics have revised down the baseline forecast for world GDP to 3.1% in 2022 and 3.0% in 2023. World GDP forecast has been downgraded on the basis of escalation of sanctions against Russia and upside inflation surprises. Ongoing lockdowns and restrictions have also prompted a more pessimistic outlook about the easing of global supply chain bottlenecks. The impact of higher inflation on monetary policy and financial markets is also a prominent risk. Albeit, while the global economic outlook has continued to deteriorate amid considerably high uncertainty, the baseline forecast sees relatively weak growth in 2022 rather than a lurch towards recession. This scenario expects the global economy to regain some momentum in the second half of the year.

For the *downside scenario*, management has considered the severe war disruption scenario to be more severe in terms of outlook. In this scenario, the Russia-Ukraine war proves more protracted and energy market disruption more severe than assumed in the baseline forecast. With the Russian energy supplies to Europe severely curtailed, oil and gas prices soar, leading to inflation expectations to rise and confidence to worsen. Tighter monetary policy also weighs on the markets, with the level of global GDP growth slowing to 1.5% in 2023, 1.5ppts below baseline.

For the *upside scenario*, an optimistic scenario was modelled for a post-war rebound, characterised by an early end to the Russia-Ukraine war, diminishing energy market disruption, and fading coronavirus concerns. With confidence improving, the result is a sharp consumer-led global economic recovery, supported by the run-down of a large proportion of the substantial savings accumulated at the height of the crisis. In this scenario, policy tightening remains measured amid falling inflation, with improved market sentiment being reflected in buoyant equity prices and gains for currencies that had weakened since the war began. Overall, the level of global GDP expands by 4.3% in 2023, 1.3ppts above baseline.

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

2. Financial instruments - continued

2.3 Forward-looking information incorporated in the ECL model

The respective macro-economic variables used in the multiple regression were obtained from Oxford Economics and were as follows:

As of 30 June 2022	30 June 2023	30 June 2024	30 June 2025
Bulgaria			
Gross Domestic Product			
Lev Millions: chained 2015 prices			
Baseline	8,798	9,152	9,324
Downside	8,556	8,830	9,003
Upside	8,992	9,328	9,429
Czech Republic			
Unemployment Rate			
%			
Baseline	3.50	3.50	3.48
Downside	4.51	5.06	4.68
Upside	2.74	2.79	3.15
Denmark			
Personal Disposable Income			
Kroner Billions: 2010 prices			
Baseline	93	97	99
Downside	89	93	97
Upside	93	97	99
Estonia			
Gross Domestic Product			
Euro Millions: chained 2015 prices			
Baseline	2,266	2,340	2,407
Downside	2,224	2,284	2,355
Upside	2,289	2,374	2,445
Finland			
Personal Disposable Income			
Euro Billions: 2015 prices			
Baseline	10	10	11
Downside	10	10	10
Upside	10	11	11

2. **Financial instruments** - continued

2.3 Forward-looking information incorporated in the ECL model - continued

As of 30 June 2022	**30 June 2023**	**30 June 2024**	**30 June 2025**
Germany			
Gross Domestic Product			
Euro Billions: chained 2015 prices			
Baseline	277	284	287
Downside	267	270	278
Upside	284	289	290
Latvia			
Personal Disposable Income			
Euro Millions: chained 2015 prices			
Baseline	1,064	1,079	1,092
Downside	1,052	1,061	1,072
Upside	1,071	1,092	1,109
Norway			
Gross Domestic Product			
Kroner Billions: chained 2019 prices			
Baseline	320	327	332
Downside	314	323	331
Upside	326	332	336
Poland			
Unemployment Rate			
%			
Baseline	5.08	4.85	4.84
Downside	6.11	6.50	6.29
Upside	4.36	4.21	4.50
Romania			
Personal Disposable Income			
Lei Billions: 2000 prices			
Baseline	17	17	17
Downside	15	16	17
Upside	17	17	17

2. Financial instruments - continued

2.3 Forward-looking information incorporated in the ECL model - continued

As of 30 June 2022	30 June 2023	30 June 2024	30 June 2025
Sweden			
Personal Disposable Income			
Kronor Millions: chained 2020 prices			
Baseline	216,217	219,429	223,086
Downside	210,720	213,487	217,760
Upside	217,678	221,226	224,788

Source: Oxford Economics

As of 31 December 2021	2022	2023	2024
Bulgaria			
Unemployment Rate			
Annualised %			
Baseline	5.06	4.66	4.62
Downside	5.97	4.60	4.35
Upside	4.78	4.31	4.29
Czech Republic			
Gross Domestic Product			
Koruna Billions: chained 2015 prices			
Baseline	454	470	483
Downside	438	474	489
Upside	462	477	488
Denmark			
Unemployment Rate			
Annualised %			
Baseline	3.41	3.57	3.73
Downside	4.26	3.47	3.32
Upside	3.06	3.24	3.48
Estonia			
Gross Domestic Product			
Euro Millions: chained 2015 prices			
Baseline	2,336	2,417	2,487
Downside	2,312	2,413	2,497
Upside	2,350	2,439	2,508

2. Financial instruments - continued

2.3 Forward-looking information incorporated in the ECL model - continued

As of 31 December 2021	2022	2023	2024
Finland			
Unemployment Rate			
Annualised %			
Baseline	7.00	6.94	6.73
Downside	7.39	6.86	6.61
Upside	6.65	6.70	6.54
Germany			
Personal Disposable Income			
Euro Billions: chained 2015 prices			
Baseline	166	169	171
Downside	163	170	173
Upside	166	169	171
Latvia			
Gross Domestic Product			
Euro Millions: chained 2015 prices			
Baseline	2,483	2,573	2,633
Downside	2,459	2,569	2,641
Upside	2,499	2,594	2,651
Norway			
Unemployment Rate			
Annualised %			
Baseline	3.35	3.40	3.38
Downside	3.83	3.29	3.19
Upside	2.93	3.10	3.16
Poland			
Gross Domestic Product			
Zloty Millions: chained 2015 prices			
Baseline	195,295	202,148	207,792
Downside	190,217	203,495	209,292
Upside	197,043	203,965	209,490
Romania			
Gross Domestic Product			
Lei Billions: chained 2000 prices			
Baseline	16	16	16
Downside	15	16	16
Upside	16	16	17

2. Financial instruments - continued

2.3 Forward-looking information incorporated in the ECL model - continued

As of 31 December 2021	2022	2023	2024
Spain			
Gross Domestic Product			
Euro Billions: chained 2015 prices			
Baseline	100	104	106
Downside	97	105	107
Upside	103	105	107
Sweden			
Personal Disposable Income			
Kronor Millions: chained 2020 prices			
Baseline	213,523	215,759	219,337
Downside	211,722	215,380	219,464
Upside	213,895	216,309	219,883

Source: Oxford Economics

2.4 ECL sensitivity analysis in respect of macroeconomic scenarios

Notwithstanding the significant number of assumptions and different aspects forming part of the Bank's methodology for modelling expected credit loss allowances in respect of exposures classified within the Bank's portfolios of financial instruments, the ECL measurement is deemed to be mostly sensitive to the estimations made in respect of the modelling of the macroeconomic scenarios described above, particularly as at 30 June 2022, due to the uncertainty induced by the COVID-19 pandemic, the current supply-chain disruption, coupled with inflationary pressures and uncertainty caused by the Russia-Ukraine war.

In view of the above, the Bank assessed and is hereby presenting the sensitivity analysis in respect of credit loss allowances for loans and advances to customers as at 30 June 2022, estimated by determining the range of credit loss allowances which would have been measured by assigning a 100% weighting to each of the three macroeconomic scenarios developed as presented in the table below.

	(Decrease) / Increase in ECL At 30 June 2022 €'000	(Decrease) / Increase in ECL At 31 December 2021 €'000
100% Base	**(109)**	(179)
100% Downside	**5,440**	5,936
100% Upside	**(4,745)**	(5,448)

2. Financial instruments - continued

2.5 Modification of financial assets

The Bank sometimes modifies the terms of loans provided to customers, which, as explained in note 1.5 of the Bank's Annual Report and Financial Statements 31 December 2021, is not deemed to constitute a forbearance measure.

The Bank monitors the subsequent performance of modified assets, including instances where payment holiday is granted, to assess for indicators of a significant increase in credit risk. When the modification is not substantial, it does not result in derecognition of the original asset (refer to note 1.5 of the Bank's Annual Report and Financial Statements 31 December 2021).

The Bank held renegotiated or rescheduled loans and advances to customers amounting to €90,948,240 as at June 2022 (2021: €97,631,838). These are analysed below by ageing as follows:

	For the six month period ended June 2022 €'000	Still outstanding at 31 July 2022 €'000
Stage 1	**69,456**	63,722
Stage 2	**7,762**	9,282
Stage 3	**13,730**	14,697
	90,948	87,701

	For the year ended December 2021 €'000	Still outstanding at 28 February 2022 €'000
Stage 1	63,870	61,926
Stage 2	15,807	12,222
Stage 3	17,955	16,078
	97,632	90,226

2. Financial instruments - continued

2.5 Modification of financial assets - *continued*

The Bank's rescheduled loans are analysed by geographical location as follows:

	For the six month ended June 2022 €'000	For the year ended December 2021 €'000
Bulgaria	**76**	160
Czech Republic	**8,218**	10,144
Denmark	**15,860**	14,628
Estonia	**8,648**	10,016
Finland	**12,204**	15,699
Germany	**2,778**	2,807
Latvia	**10,591**	12,669
Norway	**-**	556
Romania	**22**	222
Spain	**-**	573
Sweden	**32,551**	30,158
	90,948	97,632

During 2021 and 2022, a number of loan moratoria were granted by the Bank to certain COVID-impacted customers, as was mandated by the European Banking Authority in the light of the COVID-19 crisis. The total loan moratoria and rescheduled loans extended by the Bank to COVID impacted customers as of 30 June 2022 amounted to €61,760 (2021: €61,398) or 0.01% (2021: 0.02%) of the gross carrying amount of total consumer loans as of the end of the period. The Bank assessed the impact that such measures (and any potential cliff effect when these measures expire) have on its results, and the potential impact in ECL was deemed to be insignificant. In view of the underlying nature of the loan portfolio which is managed collectively and the non-significance of the total COVID-19 related rescheduled loans in the context of the aggregate value of amounts owed to customers, such moratoria and rescheduled loans were not deemed to impact the overall Bank's credit risk management's process which is described in Note 2.2.5.1 of the Bank's Annual Report and Financial Statements 31 December 2021.

	For the six-month ended June 2022		For the year ended December 2021	
	Gross carrying amount €'000	**Expected credit losses €'000**	Gross carrying amount €'000	Expected credit losses €'000
Stage 1	**2**	**1**	1	-
Stage 2	**5**	**3**	11	5
Stage 3	**55**	**37**	49	31
	62	**41**	61	36

2. Financial instruments - continued

2.6 Reconciliation of 12-month and lifetime ECL provision

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

- Transfers between 'Stage 1' and 'Stages 2 or 3' due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

The significant change in the gross carrying amount of financial assets that contributed to changes in loss allowances was mainly due to growth in the loan book, which was aligned with the Bank's growth objectives.

The following table explains changes in the gross carrying amount of the financial assets to help explain their significance to the changes in the loss allowance for the same portfolios as discussed above:

2. Financial instruments - continued

2.6 Reconciliation of 12-month and lifetime ECL provision - continued

The following tables explain the changes in the gross carrying amount and loss allowance between the beginning and the end of the period:

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount €'000	Expected credit losses €'000	Gross carrying amount €'000	Expected credit losses €'000	Gross carrying amount €'000	Expected credit losses €'000	Gross carrying amount €'000	Expected credit losses €'000
Balances with Central Banks at amortised cost at 1 January 2022	138,921	-	-	-	-	-	138,921	-
Financial assets originated or purchased during the period	(100,267)	-	-	-	-	-	(100,267)	-
At 30 June 2022	38,654	-	-	-	-	-	38,654	-
Total net income statement change during the period		-		-		-		-
Investments at amortised cost at 1 January 2022	60,685	-	-	-	-	-	60,685	-
Financial assets originated or purchased during the period	18,228	-	-	-	-	-	18,228	-
At 30 June 2022	78,913	-	-	-	-	-	78,913	-
Total net income statement change during the period		-		-		-		-
Loans and advances to banks at amortised cost at 1 January 2022	48,165	-	-	-	-	-	48,165	-
Financial assets originated or purchased during the period	(14,232)	-	-	-	-	-	(14,232)	-
At 30 June 2022	33,933	-	-	-	-	-	33,933	-
Total net income statement change during the period		-		-		-		-
Loans and advances with group companies at amortised cost at 1 January 2022	15,486	-	-	-	-	-	15,486	-
Financial assets derecognised during the period	6,797	-	-	-	-	-	6,797	-
At 30 June 2022	22,283	-	-	-	-	-	22,283	-
Total net income statement change during the period		-		-		-		-

2. Financial instruments - continued

2.6 Reconciliation of 12-month and lifetime ECL provision - continued

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount €'000	Expected credit losses €'000	Gross carrying amount €'000	Expected credit losses €'000	Gross carrying amount €'000	Expected credit losses €'000	Gross carrying amount €'000	Expected credit losses €'000
Balances with Central Banks at amortised cost at 1 January 2021	**96,334**	**-**	**-**	**-**	**-**	**-**	**96,334**	**-**
Financial assets originated or purchased during the year	42,587	-	-	-	-	-	42,587	-
At 31 December 2021	**138,921**	**-**	**-**	**-**	**-**	**-**	**138,921**	**-**
Total net income statement change during the year	-	-	-	-	-	-	-	-
Investment in securitisation portfolio at amortised cost at 1 January 2021	**7,629**	**-**	**-**	**-**	**-**	**-**	**7,629**	**-**
Financial assets originated or purchased during the year	53,056	-	-	-	-	-	53,056	-
At 31 December 2021	**60,685**	**-**	**-**	**-**	**-**	**-**	**60,685**	**-**
Total net income statement change during the year	-	-	-	-	-	-	-	-
Loans and advances to banks at amortised cost at 1 January 2021	**56,303**	**-**	**-**	**-**	**-**	**-**	**56,303**	**-**
Financial assets derecognised during the year	(8,138)	-	-	-	-	-	(8,138)	-
At 31 December 2021	**48,165**	**-**	**-**	**-**	**-**	**-**	**48,165**	**-**
Total net income statement change during the year	-	-	-	-	-	-	-	-
Loans and advances to group companies at amortised cost at 1 January 2021	**14,875**	**-**	**-**	**-**	**-**	**-**	**14,875**	**-**
Financial assets originated or purchased during the year	611	-	-	-	-	-	611	-
At 31 December 2021	**15,486**	**-**	**-**	**-**	**-**	**-**	**15,486**	**-**
Total net income statement change during the year	-	-	-	-	-	-	-	-

2. Financial instruments - continued

2.6 Reconciliation of 12-month and lifetime ECL provision - continued

	Stage1		Stage2		Stage 3		Total	
	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans and advances to customers at amortised cost at 1 January 2022	**282,661**	**(15,627)**	**21,864**	**(5,847)**	**81,982**	**(41,101)**	**386,507**	**(62,575)**
New and further lending	259,366	(14,078)	14,969	(4,398)	12,136	(4,109)	286,471	(22,585)
Repayments and disposals	(190,454)	9,496	(11,992)	3,004	(38,609)	12,569	(241,055)	25,069
Transfers of financial instruments								
Transfer from Stage 1 to Stage 2	(16,184)	1,107	16,184	(1,107)	-	-	-	-
Transfer from Stage 1 to Stage 3	(18,225)	1,428	-	-	18,225	(1,428)	-	-
Transfer from Stage 2 to Stage 1	3,547	(885)	(3,547)	885	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	(10,926)	2,884	10,926	(2,884)	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	1,704	-	(2,892)	-	(9,359)	-	(10,547)
Write-offs	379	-	41	-	(3,148)	(18,762)	(2,728)	(18,762)
Total net income statement charge during the period		**(1,228)**		**(1,624)**		**(23,973)**		**(26,825)**
Impact of unwinding ECL provisions		-		-		-		-
Write-offs		-		-		21,889		21,889
Exchange differences and other movements	(3,958)	238	(391)	102	(1,238)	538	(5,587)	878
At 30 June 2022	**317,132**	**(16,617)**	**26,202**	**(7,369)**	**80,274**	**(42,647)**	**423,608**	**(66,633)**

ECL allowances on undrawn commitments to lend are incorporated within ECL allowances on loans and advances to customers so as not to distort the ECL-related disclosures.

The movement in ECL allowances illustrated above excludes the movement in ECL allowances amounting to €819,000 as at 30 June 2022 (31 December 2021: €621,000) in respect of off-balance sheet financial guarantee contracts which are separately disclosed in the table on the following pages.

The unwind of discount on Stage 3 financial assets is reported within 'Interest Income' so that interest income is recognised on the amortised cost (after deducting the ECL allowance).

2. Financial instruments - continued

2.6 Reconciliation of 12-month and lifetime ECL provision – continued

	Stage1		Stage2		Stage 3		Total	
	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans and advances to customers at amortised cost at 1 January 2021	**203,200**	**(14,338)**	**15,394**	**(4,296)**	**85,047**	**(43,800)**	**303,641**	**(62,434)**
New and further lending	462,719	(27,987)	21,240	(6,262)	45,007	(18,651)	528,966	(52,900)
Repayments and disposals	(345,181)	21,734	(14,855)	4,716	(78,630)	37,937	(438,666)	64,387
Transfers of financial instruments								
Transfer from Stage 1 to Stage 2	(13,076)	1,307	13,076	(1,307)	-	-	-	-
Transfer from Stage 1 to Stage 3	(28,194)	2,287	-	-	28,194	(2,287)	-	-
Transfer from Stage 2 to Stage 1	3,722	(922)	(3,722)	922	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	(9,263)	2,785	9,263	(2,785)	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	2,292	-	(2,376)	-	(17,709)	-	(17,793)
Write-offs	-	-	-	-	(6,886)	(45,294)	(6,886)	(45,294)
Total net income statement charge during the year		**(1,289)**		**(1,522)**		**(48,789)**		**(51,600)**
Impact of unwinding ECL provisions		-		-		408	-	408
Write-offs		-		-		51,164	-	51,164
Exchange differences and other movements	(529)	-	(6)	(29)	(13)	(84)	(548)	(113)
At 31 December 2021	**282,661**	**(15,627)**	**21,864**	**(5,847)**	**81,982**	**(41,101)**	**386,507**	**(62,575)**

2. **Financial instruments** - continued

2.6 Reconciliation of 12-month and lifetime ECL provision - continued

Changes in the gross carrying amount and loss allowance between the beginning and the end of the annual period in respect of financial guarantee contracts:

	Stage1		Stage2		Stage 3		Total	
	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Financial guarantee contracts at amortised cost at 1 January 2022	**4,318**	**(623)**	**650**	**(335)**	**1,547**	**(1,016)**	**6,515**	**(1,974)**
New and further lending	7,974	(1,097)	946	(480)	619	(407)	9,539	(1,984)
Repayments and disposals	(7,504)	1,015	(482)	242	(930)	655	(8,916)	1,912
Transfers of financial instruments								
Transfer from Stage 1 to Stage 2	(396)	59	396	(59)	-	-	-	-
Transfer from Stage 1 to Stage 3	(723)	125	-	-	723	(125)	-	-
Transfer from Stage 2 to Stage 1	47	(23)	(47)	23	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	(550)	285	550	(285)	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	(60)	-	(150)	-	(537)	-	(747)
Total net income statement charge during the period		**19**		**(139)**		**(699)**		**(819)**
At 30 June 2022	**3,716**	**(604)**	**913**	**(474)**	**2,509**	**(1,715)**	**7,138**	**(2,793)**

Remeasurement of loss allowance arising from foreign-exchange and other movements was not considered significant.

Net changes in gross carrying amount in respect of financial guarantee contracts as at 30 June 2022 amounting to €623,000 (31 December 2021: €1,985,000) mainly relates to the net effect of the expiry or enforcement of existing financial guarantees and the issuance of new financial guarantees.

2. Financial instruments - continued

2.6 Reconciliation of 12-month and lifetime ECL provision - continued

Changes in the gross carrying amount and loss allowance between the beginning and the end of the annual period in respect of financial guarantee contracts: - continued

	Stage1		Stage2		Stage 3		Total	
	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Financial guarantee contracts at amortised cost at 1 January 2021	**2,970**	**(389)**	**332**	**(152)**	**1,228**	**(812)**	**4,530**	**(1,353)**
New and further lending	16,399	(1,920)	1,415	(700)	1,891	(1,240)	19,705	(3,860)
Repayments and disposals	(14,536)	1,672	(904)	444	(2,280)	1,664	(17,720)	3,780
Transfers of financial instruments								
Transfer from Stage 1 to Stage 2	(40)	5	40	(5)	-	-	-	-
Transfer from Stage 1 to Stage 3	(510)	74	-	-	510	(74)	-	-
Transfer from Stage 2 to Stage 1	36	(15)	(36)	15	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	(197)	91	197	(91)	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	(50)	-	(30)	-	(461)	-	(541)
Total net income statement charge during the year		**(234)**		**(185)**		**(202)**		**(621)**
At 31 December 2021	**4,319**	**(623)**	**650**	**(337)**	**1,546**	**(1,014)**	**6,515**	**(1,974)**

3. Fair value measurement of financial instruments

The Bank's financial instruments for the period ended 30 June 2022 and the financial year ended 31 December 2021, which are carried at fair value include the Bank's Derivative financial instrument measured at fair value through profit and loss (FVPL). The Bank is required to disclose fair value measurements by level of the following fair value measurement hierarchy for financial instruments that are measured in the Statement of Financial Position at fair value:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset either directly i.e. as prices, or indirectly i.e. derived from prices (Level 2).
- Inputs for the asset that are not based on observable market data i.e. unobservable inputs (Level 3).

The IFRS 13 hierarchy of valuation techniques is based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

The following tables reflect an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
At 30 June 2022				
Financial assets				
Derivative financial instrument measured at FVTPL	-	321	-	321
Total financial assets	**-**	**321**	**-**	**321**
At 31 December 2021				
Financial liabilities				
Derivative financial instrument measured at FVTPL	-	297	-	297
Total financial liabilities	**-**	**297**	**-**	**297**

3. Fair value measurement of financial instruments - continued

There were no transfers between levels 1, 2 and 3 during the year.

Financial instruments in Level 1

The fair value of instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial instruments held by the Bank is the current bid price at 31 December of the respective year. No instruments are included in Level 1.

Financial instruments in Level 2

Fair values for the Bank's derivative contracts are generally determined utilising valuation techniques, involving primarily the use of discounted cash flow techniques and Black-Scholes option pricing model. The fair values referred to are determined by reference to market prices or rates (forward foreign exchange rates) quoted at the end of the reporting period. The valuation techniques used are supported by observable market prices or rates since their variables include only data from observable markets. The Bank's derivative financial instruments are accordingly typically categorised as Level 2 instruments.

Financial instruments in Level 3

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Financial instruments not measured at fair value

For the six-month period ended 30 June 2022 and for the year ended 2021, the carrying amounts of loans and advances to banks, loans and advances to customers, other assets, borrowed funds, amounts owed to customers, investments, loans and advances with group companies and other liabilities reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments and the short period of time between the origination of the instruments and their expected realisation or liquidation.

The fair value of the non-current financial assets comprising investments in securitisation portfolio and debt securities for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Bank for similar financial instruments. The estimated fair value of these non-current financial assets as at the end of the reporting period are not materially different from the carrying amounts. The current market interest rates utilised for discounting purposes, which were most equivalent to the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as Level 2. With regards to the debt securities in issue as disclosed in Note 9, the fair value of these liabilities as at 30 June 2022 was €5.05 million and have been categorised as Level 1 fair value estimates.

4. Segmental reporting

The Chief Executive Officer, supported by the Board of Directors, is considered to be the Chief Operating Decision Maker ('CODM') for the purposes of identifying the Bank's reportable segments.

Through its consumer unsecured loans, the Bank serves customers in two main geographic areas being Northern and Western Europe, and Eastern Europe. These two geographic areas are identified as operating segments and reported separately as they are operating segments exceeding the quantitative thresholds in IFRS 8.

The Northern and Western Europe reportable segment comprises the Nordic and Western countries, mainly Sweden, Norway, Finland, Denmark and Germany, while the remaining Eastern Europe reportable segment comprises Latvia, Czech Republic, Estonia, Romania, Bulgaria, Croatia and Slovenia.

Since the Bank's activities and operations are closely interlinked, the below data includes internal allocations of support services of income and expense. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity.

In terms of segmental reporting of the Statement of Financial Position, the CODM reviews "Loans and advances to customers" and "Amounts owed to customers" as measures of the reportable segments' total assets and liabilities. These line items are consequently separately reported.

Segmental Reporting - Statement of Comprehensive Income

	For the six-month period ended 30 June 2022		
	Northern and Western Europe €'000	**Eastern Europe €'000**	**Total €'000**
Operating profit	37,318	30,428	67,746
Operating expenses	(17,121)	(12,580)	(29,701)
Net impairment losses	(17,883)	(9,761)	(27,644)
Profit before tax	**2,314**	**8,087**	**10,401**

	For the six-month period ended 30 June 2021		
	Northern and Western Europe €'000	**Eastern Europe €'000**	**Total €'000**
Operating profit	30,497	28,056	58,553
Operating expenses	(14,873)	(11,854)	(26,727)
Net impairment losses	(12,183)	(8,474)	(20,657)
Profit before tax	**3,441**	**7,728**	**11,169**

4. **Segmental reporting** - continued

Segmental Reporting - Statement of Financial Position

	For the six-month period ended 30 June 2022		
	Northern and Western Europe €'000	**Eastern Europe €'000**	**Total €'000**
Loans and advances to customers	231,852	125,123	356,975
Amounts owed to customers	423,134	2,530	425,664

	For the year ended 31 December 2021		
	Northern and Western Europe €'000	**Eastern Europe €'000**	**Total €'000**
Loans and advances to customers	206,603	117,329	323,932
Amounts owed to customers	485,826	214	486,040

5. **Interest and similar income**

	For the six-month period ended 30 June	
	2022 €'000	2021 €'000
On loans and advances to customers	**70,649**	63,165
On loans and advances to group companies	**674**	673
On investments	**1,244**	587
	72,567	64,425

6. Interest and similar expense

	For the six-month period ended 30 June	
	2022	2021
	€'000	€'000
On borrowed funds	**113**	277
On loans and advances from group companies	**217**	282
On debt securities in issue	**69**	-
On lease liability	**13**	34
On amounts owed to customers	**1,383**	1,536
	1,795	2,129

7. Fee and commission income and expense

(a) Fee and commission income

	For the six-month period ended 30 June	
	2022	**2021**
	€'000	**€'000**
Fee and other related income	**852**	926

(b) Fee and commission expense

	For the six-month period ended 30 June	
	2022	**2021**
	€'000	€'000
Sales and commissions and other loan handling fees	**3,448**	4,450
Interbank transaction fees	**16**	39
Other fees	**137**	180
	3,601	4,669

8. Investments

	As at 30 June 2022 €'000	As at 31 December 2021 €'000
Investment in securitisation portfolio	**68,869**	60,685
Debt securities	**10,044**	-
	78,913	60,685

The movement in investments is analysed as follows:

	Investments in securitisation portfolio €'000	Debt securities €'000	Total €'000
As 1 January 2021			
Cost	7,600	-	7,600
Accumulated accrued interest	29	-	29
Net book amount	7,629	-	7,629
Year ended 31 December 2021			-
Opening net book amount	7,629	-	7,629
Acquisitions	52,897	-	52,868
Accrued interest	159	-	159
Closing net book amount	60,685	-	60,656
At 1 January 2022			
Cost	60,497	-	60,497
Accumulated accrued interest	188	-	188
Net book amount	**60,685**	**-**	**60,685**
Period ended 30 June 2022			
Opening net book amount	60,685	-	60,685
Acquisitions	8,165	10,000	18,165
Accrued interest	19	44	63
Closing net book amount	**68,869**	**10,044**	**78,913**
At 30 June 2022			
Cost	68,662	10,000	78,662
Accumulated accrued interest	207	44	251
Net book amount	**68,869**	**10,044**	**78,913**

8. **Investments** - continued

The investment in securitisation portfolio is made up of notes in Ferratum Portfolio S.À.R.L a private limited liability company incorporated under the laws of Luxembourg as an unregulated securitisation company, which was set up during 2020. During 2020, the Bank acquired notes, which are structured in tranches amounting to €200,000 each, in the company. The principal activity of this company consists of the purchase and acquisition of receivables to entities which fall part of the Small and Medium entities (SME) industry classification. As at the period ended 30 June 2022, Ferratum Portfolio S.À.R.L, held a portfolio of SME loans in Netherlands, Sweden, Finland and Lithuania.

According to the note purchase agreement dated 21 August 2020 Ferratum Portfolio S.À.R.L acquires receivables which are not defaulted, disputed or insolvent. On acquisition date, the portfolio consists of current and 1-30 days past due exposures with an underlying estimated probability of default which is not in excess of 20%.

Ferratum Bank PLC is the holder of Class A notes, which are senior notes and have a higher credit quality and also the highest priority of payment amongst the other creditors.

In this respect, the Bank actively assesses the securitisation portfolio for indications of impairment. The Bank conducts periodical sensitivity analysis in relation to the respective portfolio, taking into consideration plausible worst-case scenarios, in order to assess whether the Bank should provide for expected credit losses. The outcome of such sensitivity analysis, coupled with the fact that a substantial amount of potential losses would first be absorbed by Class B Notes holder, does not reflect any need for the Bank to provide for expected credit losses.

The investment securities reflect the Bank's acquisition of 100 Series C secured bonds with a nominal value of €100,000 each issued by Cream Finance Holding Ltd, a company registered in Cyprus. The bonds have a four-year maturity period with the possibility to extend the term by mutual agreement and an early redemption option. The investment that the Bank has undertaken entails a portfolio pledged in favour of the Bank in excess of the amount invested, encompassing a pre-established ratio of exposures by ageing. Moreover, the Bank also has an additional collateral in the form of cash deposited in its accounts in respect of this investment.

The Bank conducts periodical assessments in relation to the respective portfolio, in order to assess whether the Bank should provide for expected credit losses. The outcome of such assessments, coupled with the several clauses contained within the agreement, does not reflect any need for the Bank to provide for expected credit losses in relation to this investment as at period ended 30 June 2022.

9. Debt securities in issue

	As at June 2022 €'000	As at December 2021 €'000
Original face value of bonds issued	**5,052**	-
Accrued interest expense on securities	**52**	-
	5,104	-
Gross amount of bond issue costs	**(290)**	-
Amortisation of gross amount of bond issue costs:		
Accumulated amortisation at beginning of year	**-**	-
Amortisation charge for the current year	**3**	-
Accumulated amortisation at end of year	**3**	-
Amortised cost and closing carrying amount of bonds	**4,817**	-

By virtue of the Base Prospectus dated 3 March 2022 and the Supplement dated 24 March 2022 relating to the Bank's Bond Issuance Program of up to €40,000,000, the Bank issued the 5,052 unsecured bonds with a nominal value of €1,000 each, representing the first tranche ('Tranche 1') of its bond offering. The bonds have a fixed coupon interest of 6% which is payable annually in arrears on the 27 of April of each year. The bonds are redeemable at par and are due for redemption on 27 April 2032. The bonds were admitted on the Official List of the Malta Stock Exchange on 27 April 2022. The quoted market price as at 30 June 2022 for the bonds was €100.00 each, which in the opinion of the directors fairly represents the fair value of these financial liabilities. As at 30 June 2022, €2 million worth of bonds were held by the Bank's ultimate parent company while the remaining amount were held by third parties.

10. Related party transactions

Multitude SE is the Bank's ultimate parent company. All entities, which are ultimately controlled by Multitude SE are considered by the directors to be related parties. The ultimate controlling party of Ferratum Bank plc is Mr Jorma Jokela, who holds a majority stake in the share capital of Multitude SE.

As at 30 June 2022, other assets include amounts due from immediate parent company, amounting to € 1,078,000 (December 2021: €1,078,000). Amounts due from immediate parent company and from group companies are repayable on demand, unsecured and bear no interest.

As at 30 June 2022, other liabilities include amounts to group company, amounting to € 153,000 (December 2021: €1,702,000). Amounts due to group companies are repayable on demand, unsecured and bear no interest.

10. Related party transactions - continued

The following principal transactions were carried out with related parties, comprising mainly group companies:

	For the six-month period ended 30 June	
	2022	2021
	€'000	€'000
Interest receivable from group company	**674**	673
Interest payable to group company	**(238)**	(282)
Fee and other related income from group company	**779**	855
Recharge of expenses from ultimate parent company: information technology costs, marketing fees and other costs	**(3,481)**	(5,347)
Recharge of information technology costs, marketing, credit management expenses and staff training expenses from other group companies	**(13,626)**	(8,400)
Dividend payable to parent company	**(18,000)**	(15,000)
Capital contributions	**18,000**	15,000

Loans and advances to group companies

	As at 30 June 2022 €'000	As at 31 December 2021 €'000
Net advances to group company	**22,283**	15,486

The movements in the loans and advances are analysed below:

	As at 30 June 2022 €'000	As at 31 December 2021 €'000
At beginning of the year	**15,486**	25,145
Net advances/(repayments) to group company	**6,797**	(9,659)
At end of the year	**22,283**	15,486

During the period ended 30 June 2022 and the financial year ended 31 December 2021, the Bank effected financing transactions, comprising advances and repayments thereof, with a group company, Ferratum Capital Oy, in terms of a funding arrangement entered into with this entity. Advances were primarily secured against the entire consumer lending portfolio of all group entities that operate in the micro finance and other credit business. This security was held by the Bank as a continuing security for the payment of all sums of money which became due and payable by Ferratum Capital Oy.

10. Related party transactions - continued

The Bank is party to a Foreign Exchange Risk Agreement with this group company, where the latter provides cover to the Bank over realised and unrealised foreign exchange differences. Realised and unrealised gains or losses attributable to foreign exchange rate movements registered by the Bank are allocated to the group company at the end of each month, in line with the terms of this agreement. The terms of this agreement stipulate fees payable by the Bank to the group company.

During the period ended 30 June 2022, the Bank registered net foreign exchange gains amounting to €5.6 million (period ended 30 June 2021: foreign exchange losses of €1.8 million) which were allocated to the group company.

During 2022 the Bank has continued to invest in securitisation vehicle along with another group entity as explained in note 8. Furthermore, During the period ended 30 June 2022, €2 million worth of bonds issued by the Bank were held by the Bank's ultimate parent company, as explained in note 9.

11. Subsequent events

The Financial Intelligence and Analysis Unit ("FIAU") informed Ferratum Bank p.l.c. ("the Bank") in August 2022 that it imposed an administrative penalty of €653,637 for a number of findings that were considered as breaches of some provisions of the financial crime prevention framework. The FIAU's decision followed a compliance examination that was carried out on the Bank between December 2018 and May 2019. The Bank respectfully disagrees with the FIAU's decision and has submitted an appeal against this decision in front of the Court of Appeal. The Bank takes its responsibility towards its regulatory and supervisory authorities seriously. Considering the lapse of time and enhancements made to the Bank's processes and controls since the conclusion of the compliance examination in 2019, the FIAU's decision was unexpected. Taking into account a whole range of considerations, including the substantial investment made during the past years in its internal control processes, the lapse of more than 3 years since the on-site visit was carried out, the non-complex nature of its services and activities, the fact that it disagrees with the FIAU's decision, as well as the increase in the number of human resources dedicated to this area, the Bank considers the FIAU's decision to be disproportionate. The Bank collaborated with the FIAU and Malta Financial Services Authority in a full and transparent manner throughout this process. Furthermore, the Bank will continue to cooperate with the FIAU with regards to the follow-up directive served on the Bank together with the afore-mentioned decision. The Bank has been offering its services from Malta for almost 10 years and this is the first time that it received an administrative penalty from the FIAU for breaches of this nature.

Additional Regulatory Disclosures
30 June 2022

1. Asset encumbrance

The disclosure on asset encumbrance is a requirement introduced in Banking Rule 07 transposing the provisions of the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets (EBA/GL/2014/03).

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the Bank to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

In accordance with the EBA 'Guidelines on disclosure of encumbered and unencumbered assets', the amounts disclosed in the table below represent median values, being the rolling quarterly amounts over the previous 12 months.

As at 30 June 2022	**Carrying of encumbered assets €'000**	**Fair value of encumbered assets €'000**	**Carrying of unencumbered assets €'000**	**Fair value of unencumbered assets €'000**
Assets of the reporting institution	**4,257**	**-**	**547,639**	**-**
Balances with Central Banks	4,257	-	38,654	-
Loans and advances to Banks	-	-	29,676	-
Loans and advances to customers	-	-	379,258	-
Investments			78,913	
Other assets	-	-	21,138	-

The Bank does not encumber any of the collateral received, if applicable. Moreover, as at 30 June 2022, the Bank did not have any outstanding liabilities associated with encumbered assets and collateral received.

The Bank only undertakes encumbrance by pledging an amount of its Balances with the Central Bank of Malta in favour of the Depositor Compensation Scheme in line with the Contingency Contributions require pwc

Independent auditor's review report

To the Shareholders of Ferratum Bank plc

Report on review of interim financial information

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Ferratum Bank plc as of 30 June 2022, the related condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes ("the condensed interim financial information"). The directors are responsible for the preparation and fair presentation of this condensed interim financial information in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU applicable to interim financial reporting (International Accounting Standard 34 "Interim Financial Reporting"). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Independent auditor's review report - *continued*

To the Shareholders of Ferratum Bank plc

Other matters

The comparative information for the statement of financial position is based on the audited financial statements as at 31 December 2021. The comparative information for the statements of comprehensive income, changes in equity and cash flows, and related explanatory notes, for the period ended 30 June 2021 has not been audited or reviewed.

This report, including the conclusion, has been prepared for and only for the company and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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Stephen Mamo
Partner

30 August 2022