

ANNUAL REPORT & FINANCIAL STATEMENTS – 2019

ferratumbank

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2019.

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.

Review of the business

The Bank registered a profit after tax of €14.8 million (2018: €13.0 million) during the financial year under review.

The Bank's principal activity comprises of consumer, short-term, unsecured lending and other financial products, distributed through a mobile phone platform and through the internet. The Bank provides services in Poland, Estonia, Latvia, the Czech Republic, Germany, Bulgaria, Sweden, Norway, Spain, Croatia, Denmark and Finland. To support its lending activities, the Bank offers savings and term deposits to its customers in Germany, Sweden, Norway, France and Spain.

Principal risks and uncertainties

The financial risk management note in the financial statements describes the process of how the Bank identifies and manages its risks and uncertainties. The main categories described in this note are credit risk, market risk, liquidity risk and operational risk. The same note includes extensive detail of the processes undertaken by the Bank to manage these risks.

Results and dividends

The statement of comprehensive income is set out on page 5. The net interest income earned by the Bank amounted to €124 million during FY2019, reflecting an increase of 18% over FY2018. This is a reflection of the continued efforts made by the Bank to increase its lending business operations. The net fee and commission expense remained at the same levels of the previous financial year at €5 million. This resulted in an operating income of €119 million compared to €101 million during FY2018.

The Bank's operating expenditure increased by 5% during the current financial year, and reached a total of €52.6 million, compared to €49.9 million during FY2018. The net impairment losses on the Bank's lending business amounted to €50.4 million, an increase of 35% over the losses reported during the previous year. This is in line with the Bank's increase in lending business activity.

In view of the above, the Bank reported a profit before tax of €15.9 million compared to €13.9 million during FY2018, which is equivalent to €14.8 million and €13 million after tax respectively.

The statement of financial position reflects an increase in total assets of €102 million, from €282 million as at the end of 2018 to €384 million as at 31 December 2019, an increase of 36%. The main assets of the Bank continue to comprise loans and advances to customers, which increased from €143 million to €199 million, and balances with central banks and other banks amounting to €133 million as at 31 December 2019.

The Bank continued to fund its business through customer deposits, which grew from €181 million to €241 million, and debt securities which amounted to €40 million. Subsequently, the Bank repaid the debt securities during March 2020, in accordance to the due date. During 2019 the Bank paid out dividends amounting to €14 million and received a capital contribution amounting to €14 million from its ultimate parent company. This continued to strengthen the Bank's equity structure.

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 751% as at 31 December 2019. The Bank is required to maintain a ratio of total regulatory capital to risk-weighted assets ("Capital requirements ratio") as well as a CET 1 (Common Equity Tier 1) capital ratio above a minimum level as prescribed by banking regulations. The Bank's total capital ratio and CET1 capital ratio as at 31 December 2019 was 16.29%.

Events occurring after the reporting period

As at the time of preparing these financial statements, the Board has evaluated the effects that the COVID-19 may have on the business of the Bank during 2020. The Board and its Management were planning a budget based on sustainable growth. However, because of the negative effect that this virus is having on the worldwide economies, the Bank has re-assessed its business projections, taking into account the expected realities. The Board and its Management concluded that there is sufficient and appropriate evidence that the Bank's going concern assumption in the preparation of the financial statements holds.

Statement of financial position

As at 31 December

	2019 €'000	2018 €'000
ASSETS		
Balances with Central Banks	109,943	74,465
Loans and advances to banks	22,672	19,080
Loans and advances to customers	199,376	142,906
Loans and advances to group companies	25,145	7,720
Investment securities	-	8,633
Right-of-use asset	3,262	-
Property plant and equipment	943	1,168
Intangible assets	881	518
Goodwill	1,000	-
Deferred tax assets	4,168	4,168
Other assets	16,813	22,927
Total assets	384,203	281,585
EQUITY AND LIABILITIES		
Equity		
Share capital	10,000	10,000
Capital contribution reserve	39,500	25,500
Other reserves	1,839	1,476
Retained earnings	15,027	14,629
Total equity	66,366	51,605
Liabilities		
Amounts owed to customers	241,114	180,976
Debt securities in issue	40,083	39,797
Lease liability	3,237	-
Other liabilities	31,456	7,681
Current tax liabilities	1,947	1,526
Total liabilities	317,837	229,980
Total equity and liabilities	384,203	281,585
MEMORANDUM ITEMS		
Commitments	5,280	4,410

Statement of comprehensive income

Year ended 31 December

	2019 €'000	2018 €'000
Interest and similar income	129,049	110,341
Interest and similar expense	(4,744)	(4,633)
Net interest income	124,305	105,708
Fee and commission income	3,160	2,739
Fee and commission expense	(8,593)	(7,487)
Net fee and commission expense	(5,433)	(4,748)
Operating income	118,872	100,960
Employee compensation and benefits	(9,052)	(8,690)
Other operating costs	(42,075)	(40,780)
Depreciation and amortisation	(1,478)	(436)
Credit impairment losses	(50,393)	(37,188)
Profit before tax	15,874	13,866
Tax expense	(1,113)	(869)
Profit for the year – total comprehensive income	14,761	12,997

Statement of changes in equity

	Share capital	Capital contribution reserve	Other reserves	Retained earnings	Total equity
	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2018	10,000	20,500	821	2,287	33,608
Comprehensive income					
Profit for the year	-	-	-	12,997	12,997
Other comprehensive income					
Transfers and other movements	-	-	655	(655)	-
Total comprehensive income for the year	-	-	655	12,342	12,997
Transactions with owners					
Capital contribution from shareholders	-	5,000	-	-	5,000
Total transactions with owners	-	5,000	-	-	5,000
Balance at 31 December 2018	10,000	25,500	1,476	14,629	51,605
Comprehensive income					
Profit for the year	-	-	-	14,761	14,761
Other comprehensive income					
Transfers and other movements	-	-	363	(363)	-
Total comprehensive income for the year	-	-	363	14,398	14,761
Transactions with owners					
Capital contribution from shareholders	-	14,000	-	-	14,000
Dividends distributed to shareholders	-	-	-	(14,000)	(14,000)
Total transactions with owners	-	14,000	-	(14,000)	-
Balance at 31 December 2019	10,000	39,500	1,839	15,027	66,366

Statement of cash flows

Year ended 31 December

	2019 €'000	2018 €'000
Cash flows from operating activities		
Interest and commission receipts	132,395	113,397
Interest and commission payments	(13,025)	(11,873)
Income tax paid	(692)	(247)
Payments to employees and suppliers	(21,849)	(60,866)
Cash flows from operating profit before changes in operating assets and liabilities	96,829	40,411
Changes in operating assets and liabilities:		
Loans and advances to group companies	(17,424)	(3,251)
Loans and advances to customers	(106,417)	(68,560)
Amounts owed to customers	60,112	9,771
Amounts paid in favour of Depositor Compensation Scheme	-	(635)
Net cash generated/(used in) from operating activities	33,100	(22,264)
Cash flows from investing activities		
Purchase/sale of investments	8,447	-
Purchase of property and equipment	(52)	(886)
Purchase of intangible assets	(545)	(221)
Payment to acquire rights over credit product	(1,000)	-
Net cash generated /(used in) from investing activities	6,850	(1,107)
Cash flows from financing activities		
Payment of lease liability	(880)	-
Shareholders' contribution	14,000	5,000
Dividends paid to equity holders of the Bank	(14,000)	-
Net cash (used in)/generated from financing activities	(880)	5,000
Net movement in cash and cash equivalents	39,070	(18,371)
Cash and cash equivalents at beginning of year	93,545	111,916
Cash and cash equivalents at end of year	132,615	93,545

**MORE THAN
MONEY TO
EVERYONE**