FERRATUM BANK PLC

Annual Report and Financial Statements
31 December 2021

Company Registration Number: C56251

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2021.

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 2021, the Bank provided its services in Estonia, Latvia, Czech Republic, Germany, Bulgaria, Sweden, Norway, Croatia, Denmark, Finland and Romania. To part finance its lending activities, the Bank offers savings and term deposits for private individuals to its customers in Germany.

Principal risks and uncertainties

The financial risk management note in the financial statements (Note 2) 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.

During 2021 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 the credit management process, the financial performance and the projected level of business and anticipated regulatory position for the next twelve months. On the basis of such assessment, the Board and management have concluded that there exists sufficient evidence to support the going concern assumption in the preparation of these financial statements.

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.

Review of the business

The Bank registered a profit after tax of €10.5 million (2020: €18.9 million) during the financial year under review.

The statement of comprehensive income is set out on page 18. The net interest income earned by the Bank amounted to €133.5 million during FY2021, reflecting an increase of 3% over FY2020. 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 €7.7 million compared to €5.8 million during FY2020. This resulted in an operating income of €125.7 million compared to €123.9 million during FY2020.

The Bank's operating expenditure increased by 11% during the current financial year, and reached a total of €58 million, compared to €52.1 million during FY2020. The increase is mainly attributable to increased marketing and representation costs, particularly online marketing, resulting from the Bank's increased efforts to improve its online social media presents. During 2021, the net impairment losses on the Bank's lending business amounted to €52.2 million. This has remained at the same level as last year.

Directors' report – continued

In view of the above, the Bank reported a profit before tax of €15.5 million compared to €19.3 million during FY2020, which is equivalent to €10.5 million and €18.9 million after tax respectively. During 2021, the total tax expense amounted to €4.9 million compared to €399 thousand FY2020. The increase in the tax expense is a result of the release of a deferred tax asset amounting to €4.2 million. This was originally recognised in view of the expected tax benefit emanating from the additional credit loss provision required upon the initial adoption of IFRS 9.

The statement of financial position reflects an increase in total assets of €159 million, from €441 million as at the end of 2020 to €600 million as at 31 December 2021, an increase of 36%. The main assets of the Bank continue to comprise loans and advances to customers, which increased from €241 million to €324 million. The increase is partly attributable to a significant growth in the Bank's credit limit portfolio, mainly in Sweden, Denmark and Latvia. The increase is also attributable to the Bank's increased focus on the prime lending portfolio, particularly in Sweden, Finland, Latvia and Germany. The Bank's main assets also comprises balances with central banks and other banks amounting to €187 million as at 31 December 2021.

The Bank continued to fund its business through customer deposits, which grew from €340 million as at the end of 2020 to €486 million as at 31 December 2021. 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 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 2031% as at 31 December 2021. 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 of 16.05% as prescribed by banking regulations. The Bank's total capital ratio and CET1 capital ratio as at 31 December 2021 was 18.45%.

Environmental, social and employee matters

The Bank has not yet adopted formal policies in relation to environmental and social matters (ESG). Accordingly, the Bank does not track its progress in these areas by referencing to specific non-financial key performance indicators set in the context of formal policies and procedures. Notwithstanding that the Bank does not have formal policies on ESG, the Bank conducted a number of initiatives in this regard. The Bank will be considering formalising ESG policies as a responsible corporate citizen.

Employee matters
The Bank operates in a technology-led and rapidly evolving sector. It employs skilled individuals to enable innovation and transformation throughout its business and processes. The Bank will continue to invest in human resources and staff development.

The Bank is very proud of its flexible work environment which encompasses various family-friendly measures, and which enables its workforce to ensure a better work-life balance. Diversifying the mix of the Bank's people continues to be a priority within its people strategy. The Bank wants to create an environment where people can feel open about being themselves at work. The Bank firmly believes in equality and respect for human rights. An inclusive culture is fundamental towards ensuring that the Bank's diverse workforce can develop.

The Bank regularly reviews pay and benefits to make sure that remuneration is competitive and fair.

Directors' report – continued

Social support
The Bank supports a number of initiatives which deliver social and environmental benefits. This support is a mixture of monetary, time and in-kind contributions. The Bank takes pride in contributing towards different charities and good causes as suggested by its employees. Several donations have been made to different institutions including animal organisations, children's health organisations, poverty, human & civil rights organisations, health organisations as well as environmental and community development organisations.

Environmental matters
The Bank continues to retain a watchful eye on environmental considerations in all its activities. It is cognisant of its impact on the environment, taking into account the level of energy, water consumption and waste generation.

Dividends

During 2021, the Bank distributed a dividend amounting to €15 million. It received a capital contribution amounting to €18 million from its ultimate parent company, which continued to strengthen the Bank's equity structure.

Directors

The directors of the Bank who held office throughout the year were:

Charles Borg – independent non-executive director and chairman
Jorma Jokela – non-executive director
Lea Liigus – non-executive director
Esa Tapani Teravainen – non-executive and independent director
Erik Ferm – non-executive and independent director
Victor Denaro – non-executive and independent director
Clemens Matthias Fritz Krause – non-executive director
Jussi Matti Eevertti Mekkonen – non-executive and independent director
Klaus O. Schmidt – non-executive and independent director

In accordance with the Bank's articles of association, the directors remain in office until they resign or are otherwise removed.

Directors' report - continued

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Banking Act, 1994 and the Maltese Companies Act, 1995 to prepare financial statements that give a true and fair view of the state of affairs of the Bank as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances; and
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Banking Act, 1994 and the Companies Act, 1995. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Ferratum Bank plc for the year ended 31 December 2021 are included in the Annual Report 2021, which is published in hard-copy printed form and may be made available on the Bank's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

On behalf of the board

Charles Borg
Director

Victor Denaro
Director

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

22 April 2022

pwc

Independent auditor's report

To the Shareholders of Ferratum Bank plc

Report on the audit of the financial statements

Our opinion

In our opinion:

- The financial statements give a true and fair view of the financial position of Ferratum Bank plc (the Bank) as at 31 December 2021, and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386) and the Maltese Banking Act (Cap. 371).

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

Ferratum Bank plc's financial statements, set out on pages 17 to 117, comprise:

- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

pwc

Independent auditor's report - *continued*

To the Shareholders of Ferratum Bank plc

Independence

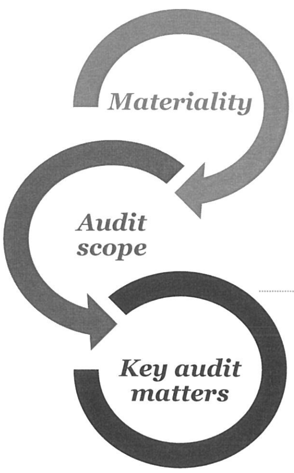
We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Bank are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the Bank, in the period from 1 January 2021 to 31 December 2021, are disclosed in note 25 to the financial statements.

Our audit approach

Overview



Overall materiality: €775,000, which represents 5% of profit before tax.

Credit loss allowances in respect of loans and advances to customers of the bank

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Independent auditor's report - continued

To the Shareholders of Ferratum Bank plc

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	€775,000
How we determined it	5% of profit before tax.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Bank is most commonly measured by users, and is a generally accepted benchmark. We selected 5% based on our professional judgement, noting that it is also within the range of quantitative materiality thresholds that we would consider to be acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €39,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditor's report - continued

To the Shareholders of Ferratum Bank plc

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Credit loss allowances in respect of loans and advances to customers of the bank Credit loss allowances in respect of loans and advances to customers represent management's best estimate of expected credit losses ('ECLs') within the loan portfolios at the reporting date. The development of the models designed to estimate ECLs on loans and advances to customers in accordance with the requirements of IFRS 9 requires a considerable level of judgement since the determination of ECL is subject to a high degree of estimation uncertainty. The outbreak of the Covid-19 pandemic has exacerbated the level of uncertainty around the calculation of ECL, giving rise to heightened subjectivity in the determination of model assumptions used to estimate key model risk parameters and hence necessitating a higher level of expert judgement. In general, the Bank calculates ECLs by using the following key inputs: probability of default (PD), loss given default (LGD) and exposure at default (EAD). The maximum period considered when measuring ECLs is the maximum period over which the Bank is exposed to credit risk. Credit loss allowances relating to all loans and advances to customers in the Bank's consumer lending portfolio (Stages 1-3) are determined on a collective portfolio basis.	During our audit of the financial statements for the year ended 31 December 2021 we continued to focus on the key drivers of the estimation of ECL. Apart from assessing the continued appropriateness of management assumptions, updates to key parameters, new assumptions and enhancements, largely driven by the outbreak of the Covid-19 pandemic, were evaluated and tested. Discussions with the Audit Committee and Management included: • assumptions around inputs and adjustments to ECL, in particular changes to risk factors and other inputs within the Bank's models, in respect of which we provided updates on the results of our testing procedures; • the application of forward economic guidance, including the severity and magnitude of modelled scenarios, particularly in the context of the potential future impacts of the Covid-19 pandemic; • considerations around significant assumptions used by the management in determining LGD parameters, specifically in a number of lending arrangements which exhibit a higher risk of estimation uncertainty. With respect to the ECL models utilised by the Bank, the continued appropriateness of the modelling policies and methodologies used was independently assessed by reference to the requirements of IFRS 9.

Key audit matter	How our audit addressed the Key audit matter
The Bank uses an ECL model that relies on risk parameters, specifically PDs determined at a country/product level to capture similar credit risk characteristics of portfolios. These assumptions are based on internally developed statistical models and historical development data derived from the Bank's own experience as available at the reporting date. The output PD is then adjusted using a linear scalar approach to reflect macroeconomic conditions in the Bank's territories of operation. The LGD used for the Bank's consumer-lending portfolio is driven by estimates of loss rates and loss severities (e.g. the valuation of recoveries from loan portfolio sales), taking into consideration other assumptions, including the impact of discounting of recoveries from the date of realisation back to the date of default. The loss severities for the consumer-lending portfolios also take into account the Bank's recovery history from internal debt collection activities and customer repayments. The LGD modelling methodology utilises historical experience, which might result in limitations in its reliability to appropriately estimate ECLs especially during periods characterised by unprecedented economic conditions such as those currently experienced as a result of the Covid-19 pandemic. Under IFRS 9, the Bank is required to formulate and incorporate multiple forward-looking economic conditions, reflecting management's view of potential future economic developments, into the ECL estimates. A number of macro-economic scenarios based on the selected macro-economic variables are considered to capture non-linearity across the Bank's consumer-lending portfolios. The complexity attributable to this factor requires management to develop multiple macro-economic scenarios involving the use of significant judgements. The Bank utilises a statistical methodology to generate the economic inputs applied within the ECL models.	We understood and critically assessed the models used for ECL estimation in the Bank's consumer lending portfolios. Since modelling assumptions and parameters are based on historic data, we assessed the impact that the unprecedent circumstances brought about by the Covid-19 pandemic have on the adequacy of key model parameters since the latter are based on historical experience that is not necessarily reflective of the current level of credit risk within the portfolios. The appropriateness of management's judgements was also independently considered in respect of calculation methodologies, calibration of PDs and LGDs, segmentation, and selection of macroeconomic variables. Model calculations were also tested independently. Substantive procedures were performed as follows: • Performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the Bank's portfolio, risk profile, credit risk management practices and the macroeconomic environment. • Reviewed and challenged the staging criteria adopted by management (including the definition of default) on the basis of the specific nature and contractual characteristics of the Bank's consumer lending products. • Tested the completeness and accuracy of the critical data, extracted from the underlying systems, utilised within the models for the purpose of the year-end ECL calculation. • Risk based testing of models including independent re-build of certain assumptions, such as, the estimation of PDs for each sub-portfolio (at a territory and product level) and the re-estimation of ageing buckets on the basis of borrower days past due information at the reporting date. • Tested the mathematical accuracy of the model.

Key audit matter	How our audit addressed the Key audit matter
The outbreak of Covid-19 and the government support and relief measures adopted to mitigate it have significantly impacted macro-economic factors such as unemployment, Gross Domestic Product ('GDP') and ('PDI') increasing the uncertainty around judgements made in determining the severity and likelihood of macroeconomic forecasts across the different economic scenarios used in ECL models. Overly sensitive ECL modelled outcomes can be observed when current conditions fall outside the range of historical experience. Data used in the impairment calculation is sourced from a number of systems, including systems that are not necessarily used for the preparation of the accounting records. This increases risk around completeness and accuracy of certain data used to create assumptions and operate the models. In some cases, data is unavailable and reasonable alternatives have been applied to allow calculations to be performed. Since the estimation of ECLs is subjective in nature and inherently judgemental, the Bank's application of the IFRS 9 impairment requirements is deemed to be an area of focus, especially in the context of COVID-19, which has an unprecedented impact on the respective territories' economy and has significantly increased the level of estimation uncertainty around the calculation of credit loss allowances.	• Tested the multiple macro-economic scenarios and variables using our economic experts to assess their reasonableness. We assessed the base case and alternative economic scenarios, including challenging probability weights. We assessed whether the severity of the forecasted macroeconomic variables was appropriate in view of the pandemic and the high level of uncertainty surrounding the economic conditions. We challenged the correlation and impact of the macroeconomic factors on the ECL. • Reviewed and challenged the assumptions adopted by the Bank in respect of loan portfolio sales impacting its LGD calculation, including both under contractual forward-flow agreements and one-off sale transactions. With respect to lending arrangements which during 2021 were not subject to a contractual forward-flow agreement, and accordingly subject to a higher risk of estimation uncertainty, we challenged management's recovery assumptions, developed stress scenarios and considered the sensitivity of the ECL to such assumptions. Based on the evidence obtained, we found the assumptions, calculations and data used within the model to be reasonable.

pwc

Independent auditor's report - *continued*

To the Shareholders of Ferratum Bank plc

Key audit matter	How our audit addressed the Key audit matter
Accordingly, summarising the key areas relevant to the bank's measurement of expected credit losses (ECLs) would include: - allocation of assets to stage 1, 2, or 3 using criteria in accordance with IFRS 9; - accounting interpretations and modelling assumptions used to build the models that calculate the ECL, including the determination of assumed future debt sale recovery prices in the LGD parameter; - completeness and accuracy of data used to calculate the ECL; and - inputs and assumptions used to estimate the impact of multiple macro-economic scenarios. Since the estimation of ECLs is subjective in nature and inherently judgemental, the Bank's application of the IFRS 9 impairment requirements is deemed to be an area of focus. We focused on credit loss allowances due to the subjective nature of specific data inputs into the calculation and the subjective judgements involved in both timing of recognition of impairment and the estimation of the size of any such impairment. Relevant references in the Annual report and Financial statements: - Accounting policy: Note 1.4; - Credit risk management: Note 2.2.2; - Note on Loans and advances to customers: Note 6, and - Critical accounting estimates and judgements in applying accounting policies: Note 3.	In the case of some impairment provisions, we formed a different view from that of management, but in our view the differences were within a reasonable range of outcomes.

Independent auditor's report - *continued*

To the Shareholders of Ferratum Bank plc

Other information

The directors are responsible for the other information. The other information comprises the Directors' report, the Five Year summary, Shareholder register information and the Additional Regulatory Disclosures (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements*.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Bank's assets and liabilities and the disruption to the respective operations and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

-

Independent auditor's report - continued

To the Shareholders of Ferratum Bank plc

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The *Annual Report and Financial Statements 2021* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the *Other information* section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Area of the *Annual Report and Financial Statements 2021* and the related Directors' responsibilities	Our responsibilities	Our reporting
Directors' report (on pages 1 to 4) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the Bank and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.	In our opinion: • the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.

Independent auditor's report - *continued*

To the Shareholders of Ferratum Bank plc

Area of the *Annual Report and Financial Statements 2021* and the related Directors' responsibilities	**Our responsibilities**	**Our reporting**
	Other matters prescribed by the Maltese Banking Act (Cap. 371) In terms of the requirements of the Maltese Banking Act (Cap. 371), we are also required to report whether: • we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit; • proper books of account have been kept by the bank, so far as appears from our examination of those books; • the Bank's financial statements are in agreement with the books of account; • in our opinion, and to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law which may from time to time be in force in the manner so required.	In our opinion: • we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit; • proper books of account have been kept by the Bank, so far as appears from our examination of those books; • the Bank's financial statements are in agreement with the books of account; and • to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law in force in the manner so required.
	Other matters on which we are required to report by exception We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us.	We have nothing to report to you in respect of these responsibilities.

Independent auditor's report - continued
To the Shareholders of Ferratum Bank plc

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the Bank's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, 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 written consent.

Appointment

We were first appointed as auditors of the Bank on 9 May 2012. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 10 years.

PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

Stephen Mamo
Partner

22 April 2022

Statement of financial position

	Notes	As at 31 December 2021 €'000	2020 €'000
ASSETS			
Balances with Central Banks	4	**138,921**	96,334
Loans and advances to banks	5	**48,165**	56,303
Loans and advances to customers	6	**323,932**	241,207
Loans and advances to group companies	7	**15,486**	14,875
Investment in securitisation portfolio	8	**60,685**	7,629
Right of use asset	9	**805**	2,212
Property and equipment	10	**640**	786
Intangible assets	11	**1,256**	1,320
Deferred tax assets	12	**-**	4,168
Other assets	13	**10,029**	16,106
Total assets		**599,919**	440,940
EQUITY AND LIABILITIES			
Equity			
Share capital	14	**10,000**	10,000
Capital contribution reserve	15	**60,500**	42,500
Other reserves	16	**2,592**	2,592
Retained earnings		**28,747**	33,223
Total equity		**101,839**	88,315
Liabilities			
Amounts owed to customers	17	**486,040**	340,427
Derivative financial instruments	18	**297**	-
Lease liability	9	**776**	2,247
Other liabilities	19	**8,757**	8,462
Current tax liabilities		**2,210**	1,489
Total liabilities		**498,080**	352,625
Total equity and liabilities		**599,919**	440,940
MEMORANDUM ITEMS			
Commitments	20	**6,515**	4,530

The notes on pages 21 to 117 are an integral part of these financial statements.

The financial statements on pages 17 to 117 were authorised for issue by the board on 22 April 2022 and were signed on its behalf by:

Charles Borg
Director

Victor Denaro
Director

Statement of comprehensive income

	Notes	Year ended 31 December 2021 €'000	2020 €'000
Interest and similar income	21	**137,702**	134,093
Interest and similar expense	22	**(4,200)**	(4,403)
Net interest income		**133,502**	129,690
Fee and commission income	23	**1,918**	2,027
Fee and commission expense	23	**(9,621)**	(7,790)
Net fee and commission expense		**(7,703)**	(5,763)
Net trading expense	24	**(86)**	-
Total operating income		**125,713**	123,927
Employee compensation and benefits	26/27	**(7,779)**	(7,701)
Other operating costs	25	**(48,867)**	(41,805)
Depreciation and amortisation	25	**(1,349)**	(2,561)
Credit impairment losses	6	**(52,221)**	(52,512)
Profit before tax		**15,497**	19,348
Tax expense	28	**(4,973)**	(399)
Profit for the year – total comprehensive income		**10,524**	18,949

The notes on pages 21 to 117 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital €'000	Capital contribution reserve €'000	Other reserves €'000	Retained earnings €'000	Total equity €'000
At 1 January 2020		10,000	39,500	1,839	15,027	66,366
Comprehensive income						
Profit for the year		-	-	-	18,949	18,949
Total comprehensive income for the year		-	-	-	18,949	18,949
Transfers and other movements	16	-	-	753	(753)	-
Transactions with owners						
Capital contribution from shareholders	15	-	3,000	-	-	3,000
Total transactions with owners		-	3,000	-	-	3,000
Balance at 31 December 2020		10,000	42,500	2,592	33,223	88,315
Balance at 1 January 2021		**10,000**	**42,500**	**2,592**	**33,223**	**88,315**
Comprehensive income						
Profit for the year		-	-	-	10,524	10,524
Total comprehensive income for the year		**-**	**-**	**-**	**10,524**	**10,524**
Transactions with owners						
Capital contribution from shareholders	15	-	18,000	-	-	18,000
Dividends	30	-	-	-	(15,000)	(15,000)
Total transactions with owners		**-**	**18,000**	**-**	**(15,000)**	**3,000**
Balance at 31 December 2021		**10,000**	**60,500**	**2,592**	**28,747**	**101,839**

The Notes on pages 21 to 117 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2021 €'000	2020 €'000
Cash flows from operating activities			
Interest and commission receipts		**139,461**	136,091
Interest and commission payments		**(13,649)**	(10,971)
Net trading expense		**(61)**	-
Income tax paid		**(84)**	(857)
Payments to employees and suppliers		**(50,373)**	(71,578)
Cash flows from operating profit before changes in operating assets and liabilities		**75,294**	52,685
Changes in operating assets and liabilities:			
Loans and advances to group companies		**(611)**	10,270
Loans and advances to customers		**(134,054)**	(94,342)
Amounts owed to customers		**145,441**	98,008
Amounts paid in favour of Depositor Compensation Scheme		**(562)**	(216)
Net cash generated from operating activities		**85,508**	66,405
Cash flows from investing activities			
Purchase of investment in securitisation portfolio	8	**(52,897)**	(7,600)
Purchase of property and equipment	10	**(89)**	(114)
Purchase of intangible assets	11	**(337)**	(702)
Net cash used in investing activities		**(53,323)**	(8,416)
Cash flows from financing activities			
Payment of lease liability	9	**(736)**	(967)
Repayment of debt securities in issue		**-**	(40,000)
Shareholders' contribution	15	**18,000**	3,000
Dividends paid to equity holders of the Bank	30	**(15,000)**	-
Net cash generated from/(used in) financing activities		**2,264**	(37,967)
Net movement in cash and cash equivalents		**34,449**	20,022
Cash and cash equivalents at beginning of year		**152,637**	132,615
Cash and cash equivalents at end of year	29	**187,086**	152,637

The notes on pages 21 to 117 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

1.1 Basis of preparation

The Bank's financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Banking Act, 1994 and the Maltese Companies Act, 1995. These financial statements are prepared under the historical cost convention, as modified by the fair valuation of certain financial assets and financial liabilities measured at fair value.

During 2021 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 2021 financial statements.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the directors to exercise their judgement in the process of applying the Bank's accounting policies (see note 3 – Critical accounting estimates, and judgements in applying accounting policies).

Standards, interpretations and amendments to published standards effective in 2021

In 2021, the Bank adopted new standards, interpretations and amendments to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2021. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

The IASB published 'Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' in August 2020, which became effective from 1 January 2021. These amendments represent the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows, as a result of the reform.

Under these amendments, changes made to a financial instrument that are economically equivalent and required by interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark.

1. **Summary of significant accounting policies** - continued

1.1 Basis of preparation - continued

Standards, interpretations and amendments to published standards effective in 2021 - continued

The Bank has evaluated the extent of the discontinuation of the IBOR rates on the Bank's financial statements. The Bank will not be impacted by the Interest Rate Benchmark Reform, given that the Bank's portfolios, particularly the Loans and Advances to Customers, predominantly carry a Fixed interest rate, except for a minor portion of loans and advances granted to the Bank's customers in Sweden and Poland, which loans have a Floating rate element but are however specifically determined by their respective Central banks, thus the Central Bank of Sweden and Central Bank of Poland.

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.

1.2 Foreign currency transactions and balances

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in euro, which is the Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

1.3 Financial assets

1.3.1 Initial recognition and measurement

The Bank recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the Bank commits to purchase or sell the asset. Accordingly, the Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

At initial recognition, the Bank measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive (FVOCI), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

1. **Summary of significant accounting policies** - continued

1.3 Financial assets – continued

1.3.1 Initial recognition and measurement - continued

When the fair value of financial assets differs from the transaction price on initial recognition, the Bank recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

1.3.2 Classification and subsequent measurement

The Bank applies IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss;
- Fair value through other comprehensive income; or
- Amortised cost.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds, investment in securitisation portfolio and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) the Bank's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

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

- *Amortised cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 1.4. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

- Fair value through other comprehensive income *(FVOCI):* Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

1. **Summary of significant accounting policies** - continued

1.3 Financial assets – continued

1.3.2 Classification and subsequent measurement – continued

Debt instruments

- Fair value through profit or loss *(FVPL)*: Assets that do not meet the criteria for amortised cost or FVOCI, are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship, is recognised in profit or loss and presented in the profit or loss statement within 'Net trading expense' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets - assets that are credit-impaired at initial recognition - the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

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

The Bank's financial assets measured at amortised cost comprise primarily of balances with Central Banks, loans and advances to banks, loans and advances to customers, investment in securitisation portfolio and loans and advances to group companies.

(a) *Business model assessment*

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

1. **Summary of significant accounting policies** - continued

1.3 Financial assets – continued

1.3.2 Classification and subsequent measurement - continued

Debt instruments - continued

(a) *Business model assessment - continued*

The information that will be considered in such assessment includes:

- the objectives for the portfolio including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- the method for the evaluation of the performance of the portfolio and how such performance is reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

The Bank may also irrevocably designate financial assets at FVPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

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

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

1. **Summary of significant accounting policies** - continued

1.3 Financial assets – continued

1.3.2 Classification and subsequent measurement - continued

Debt instruments – continued

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

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

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at FVPL, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal.

Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net trading expense' line in the income statement.

1. **Summary of significant accounting policies** - continued

1.4 Impairment of financial assets

The Bank assesses on a forward-looking basis the expected credit losses ('ECLs') associated with its debt instruments carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECLs reflects:

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

Note 2.2.5 provides more detail of how the expected credit loss allowance is measured.

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Financial instrument with both a drawn and undrawn component, whereby the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components, as a deduction from the gross carrying amount of the drawn component; and
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position against the carrying amount of the asset because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve, i.e. presented within other comprehensive income.

1.5 Modification of financial assets

A Modification occurs when there is a change in the contractual cash flows of a financial asset as a result of a modifications or renegotiations to the terms and conditions of the underlying loan agreement finalised with the borrower. The Bank's terms and conditions of-consumer loans generally include clauses allowing customers to request modifications to the terms and conditions as a value-added product feature. These modifications can take different forms, can happen at different stages during the maturity period of the loan, and are not considered as forbearance as defined by EU Regulation 575/2013 ('CRR2').

The following are the most widely used modification clauses incorporated in terms and conditions by the Bank:

i. Rescheduling

Rescheduling is applied in short-term credit products where the customer requests an extension of the maturity period of up to one month in consideration of a fee payable to the Bank at the time that the rescheduling is accepted. The extension period varies in different markets but is pre-established by the Bank as part of the product feature. The upfront payment of a rescheduling fee is a pre-condition for the modification to be accepted and for the loan term to be extended. The rescheduling is not tied to the lack of repayment capabilities of the customer and indeed, this upfront payment requirement, together with the short-term of the extension period, is considered inconsistent with the profile of a customer who is experiencing financial difficulties.

1. **Summary of significant accounting policies** – continued

1.5 Modification of financial assets - continued

ii. Payment Holidays

Payment holidays are a standard feature of the Bank's credit line facility which allow customers who are repaying on time to request the Bank to reduce the monthly minimum payment to zero on not more than two occasions in any twelve-month period. The customer's request will not be accepted unless the customer has been paying on time.

Additionally, the Bank incorporates the following modification options for its customers under the terms and conditions of its long-term credit products:

iii. Due date change

Generally, the repayment date is assigned by the Bank thirty days after the loan agreement date and recurs monthly thereafter. This product feature allows customers to change the monthly payment due date to one that is more convenient for them. The new payment due date will apply throughout the maturity period of the loan, unless subsequently modified. This modification is not granted due to the customers experiencing financial difficulties; the customers simply continue to pay their monthly instalments on a different day of the month.

iv. Modification to the payment schedule

During the term of the loan, the customer may choose to modify the standard maturity date and payment schedules included in the loan agreement by increasing the number of monthly instalments, and thus extending the maturity period of the loan. This gives customers more flexibility through tailor-made payment schedules.

v. Payment-free month

Long-term credit products allow for the customer to apply for a payment-free month under terms and conditions prescribed by the Bank. The policy under which a payment-free month may be granted includes the conditions that the loan must have been open for a number of months as specified in the policy and that the customer must have been making timely repayments. This modification is not granted to customers who are experiencing financial difficulties, but is meant to make the products better adapted to the customers' needs.

Taking cognisance of the principles highlighted above, given that the terms are not substantially different, the modification is not expected to result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss if material.

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

1. **Summary of significant accounting policies** – continued

1.5 Modification of financial assets – continued

The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The impact of modifications of financial assets on the expected credit loss calculation is discussed in note 2.2.12.

Interest rate benchmark reform

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Bank updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest benchmark reform if the following conditions are met:

- The change is necessary as direct consequence of the reform; and
- The new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Bank first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Bank applies the policies on accounting for modifications set out above to the additional changes.

1.6 Derecognition other than a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

i. Has no obligation to make payments unless it collects equivalent amounts from the assets;
ii. Is prohibited from selling or pledging the assets; and
iii. Has an obligation to remit any cash it collects from the assets without material delay.

1.7 Derivative financial instruments

The Bank deploys no hedging strategies that achieve hedge accounting in terms of IFRS 9.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value. Fair values are obtained from valuation techniques for over-the-counter derivatives, including discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Fair values for currency forwards are determined using forward exchange market rates at the end of the reporting period. Discounting techniques, reflecting the fact that the respective exchange or settlement will not occur until a future date, are used when the time value of money has a significant effect on the fair valuation of these instruments.

1. Summary of significant accounting policies – continued

1.7 Derivative financial instruments - continued

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss. The Bank uses derivatives such as cross currency swaps and forward foreign exchange contracts.

1.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.9 Intangible asset

Intangible assets are recognised when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably.

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives once the software has been put into use. Software has a maximum expected useful life of 7 years.

Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

Trademarks, licences and rights with indefinite useful life are tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and are carried at cost less accumulated impairment losses.

1.10 Property and equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives, as follows:

	%
Furniture and fittings	12.5
Computer hardware	25
Office equipment	25

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

1. **Summary of significant accounting policies** - continued

1.11 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test can also be performed on a single asset when the fair value less costs to sell or the value in use can be determined reliably.

1.12 Other receivables

Other receivables are amounts due to the Bank for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provisions for impairment (note 1.4). The carrying amount of the asset is reduced through the use of an impairment allowance account, and the amount of the impairment loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited in profit or loss.

1.13 Current and deferred tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

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

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

1. **Summary of significant accounting policies** - continued

1.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

1.15 Financial liabilities

1.15.1 Initial recognition and measurement

The Bank recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. Financial liabilities not at FVPL are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability.

1.15.2 Classification and subsequent measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading book) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at FVPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and

- Financial guarantee contracts and loan commitments (see note 1.17).

Financial liabilities measured at amortised cost comprise principally amounts owed to banks, amounts owed to customers, debt securities in issue together with other liabilities.

1.15.3 Derecognition

The Bank derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

1. **Summary of significant accounting policies** - continued

1.16 Other liabilities

Other liabilities comprise obligations to pay for goods or services that have been acquired in the ordinary course of business. Other liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.17 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are issued by the Bank to financial institutions and other entities on behalf of customers to secure micro-loans and other credit related products.

Financial guarantee contracts are initially measured at fair value and subsequently measured at higher of:

- The amount of the loss allowance (calculated as described in note 1.4); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

'Loan commitments' are the Bank's commitments to provide credit under pre-specified terms and conditions and are measured as the amount of the loss allowance (calculated as described in note 1.4).

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

1.18 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The Bank's income streams consist of process fees, rescheduling fees (charged when a customer applies to extend the repayment date), reminder fees (charged when reminder actions are effected with respect to a loan) and other fees and interest charged on revolving and longer term credit products. All these fees are considered to be an integral part of the effective interest rate of the loans and advances taking cognisance of the nature of these fees, the purposes for which these fees are assessed and the substance of the services provided. Accordingly, these fees are amortised to profit or loss using the effective interest method over the expected term of the instruments and presented within 'Interest and similar income'.

1. **Summary of significant accounting policies** - continued

1.18 Interest Income and expense - continued

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets - assets that are credit-impaired at initial recognition - the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset;

- Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

1.19 Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Fee and commission expense, relating mainly to transaction and service fees and sales commissions, which are not considered to be part of the effective interest rate calculation are expensed as the services are rendered.

1.20 Net trading income or expense

The line item includes fair value changes, interest, dividends and foreign exchange differences attributable to financial instruments measured at FVPL. Net income or expense from derivatives (such as cross-currency swaps and forward exchange contracts) is included within this line item.

1.21 Leases

Lease liabilities are initially measured at the present value on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the group under residual value guarantees;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

1. **Summary of significant accounting policies** - continued

1.21 Leases - continued

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right of use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

1.22 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, together with borrowed funds having the same maturity.

1.23 Dividend distribution

Dividend distribution to the Bank's shareholders is recognised as a liability in the Bank's financial statements in the period in which the obligation to pay a dividend is established.

2. Financial risk management

2.1 Introduction

The Bank's activities expose it to a variety of financial risks and these activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the entity's financial performance.

The Board of directors oversees credit, market, funding and liquidity, operational and strategic business risks. The Bank has developed an integrated risk management framework to identify, assess, manage and report risks and risk adjusted returns.

The Bank's risk management policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to date information systems. The Board is responsible for the overall effectiveness of the risk management function, which function is however carried out by the members of the Bank's management team.

Throughout this financial year, the Bank has made certain changes to its strategy, *inter alia* the origination of longer-term credit products and further investment in securitisation portfolio. Whilst actively working to mitigate its respective risks, the Bank has also affected updates to its risk policies accordingly, in order to reflect these changes in its strategy.

The Board may delegate any of its powers to a Committee consisting, in most cases, of one or more Directors. The Board establishes Committees in order to focus on specific risk areas and issues and consider certain issues and functions in greater detail.

These Committees may only act in accordance with the powers and responsibilities delegated to them by the Board, and in this regard, the extent to which a Committee is empowered to make decisions is carefully defined.

The Bank's governance structure comprises three Board Committees, namely the Audit Committee, the Risk Committee and the Remuneration Committee, as well as four Management Committees, namely the Asset Liability Management Committee (ALCO), the Executive Committee (EXCO), the Credit Committee and the Reserving Committee.

The Bank's Executive Committee (EXCO) is responsible to oversee the activities of the Bank and its Management in the implementation of its strategy, and is accountable for the soundness of the Bank's lending portfolio and for the implementation of the Capital Requirements Directive (as transposed into the Maltese regulatory framework) and capital allocation decisions.

The Bank's Asset and Liability Committee (ALCO) is responsible for managing assets, liabilities and the overall financial position and is also responsible for the management of funding and liquidity risks.

The Bank's Risk Committee is responsible for overseeing the policy and framework for all banking and operational risks, for developing and overseeing the risk management framework including the Bank's risk appetite and tolerance levels, for ensuring the ongoing execution of all risk policies, and for ensuring that all risk controls operating throughout the Bank are in accordance with regulatory requirements and best practices.

The Bank's Credit Committee is responsible to ensure the effective management of the Bank's credit portfolio through the implementation of sound and transparent credit scoring and decision-making processes around its various product lines.

2. Financial risk management - continued

2.2 Credit risk

2.2.1 Introduction

The Bank's Reserving Committee is primarily responsible for safeguarding the soundness of the valuation of the Bank's lending portfolio by *inter alia* ensuring that the Bank has appropriate credit risk practices to determine adequate expected credit loss (ECL) allowances in accordance with IFRS 9, as well as, the Bank's stated policies.

The Bank's Audit Committee is responsible for reviewing the adequacy and proper operation of internal controls in individual areas of operation, overseeing the quality and integrity of the Bank's financial reports, monitoring the Bank's compliance with legal, ethical and regulatory requirements, and for recommending areas of improvement across the business.

The Bank's Risk Management function has the overall responsibility for the development of the entity's risk strategy and the implementation of risk principles, framework, policies and related limits.

The Bank's objective is to deploy an integrated risk management approach that ensures an awareness of, and accountability for, the risks taken throughout the Bank and also to develop the tools needed to address those risks. Strong risk management and internal controls are core elements of the Bank's strategy. The Bank has adopted a risk management and internal control structure, referred to as the Three Lines of Defence, to ensure it achieves its strategic objectives while meeting regulatory and legal requirements and fulfilling its responsibilities to shareholders, customers and staff.

In the three lines of defence model, business line management is the first line of defence (including those functions that are responsible for day-to-day operations and the Treasury function), the various risk control and compliance oversight functions established by management represent the second line of defence, and internal audit is the third. Each of these three "lines" play a distinct role within the Bank's wider governance framework. Although the Bank adopts a "three lines of defence" model, it is worth mentioning the additional interaction between the bank and its regulatory bodies adds further "lines of defence", albeit they are not depended upon internally by the Bank to act in such capacities.

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 in which the Bank holds Class A senior notes, which rank before the class B notes in the applicable contractual priority payments. The securitisation vehicle invests in the portfolio of SME loans and is subject to a continuous, and thorough monitoring and oversight process in order to identify any financial instruments which require increased monitoring of performance. The Bank has purchased Class A Notes, which are senior to the Class B Notes in terms of the applicable priority of payments.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.1 Introduction - continued

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.

In response to the COVID-19 pandemic, the Bank has adapted its credit risk management processes for the purposes of identifying deterioration in credit risk within its portfolios and estimating expected credit loss allowances using the best possible judgement.

In this context, key judgements in the context of the COVID-19 pandemic related to the heightened level of macroeconomic uncertainty and the timelines of these effects and the assumptions surrounding recovery profiles.

In this regard, management applied a higher level of expert judgement in order to assess the impact of the pandemic on the Bank's level of defaults, including evaluating the impact of government support schemes in various different territories and regulatory relief measures on both the incidence of default events and the severity of losses.

Judgement was also required in determining whether loans experienced a SICR or a UTP event. In this respect, as part of management's response to the COVID-19 pandemic, the Bank has kept a closer eye on the payment behaviour of customers in order to calibrate as necessary the loan origination policies to limit the impact of the ECL. The Bank has not observed a material change in the payment behaviour of its customer base. The Bank has successfully navigated through the changing market environment in 2020 and 2021 and built an even stronger foundation of profitable growth by transforming its operations for an even stronger foundation of scalability and agility.

2.2.2 Credit risk management

Loans and advances to customers

The Bank's lending activities comprise the granting of short-term micro-loans, other medium-term credit products, other amortising, long-term credit products with instalment repayment features and revolving credit facilities (which are mostly unsecured) to individual customers in specific European jurisdictions. All loans to customers are granted on the basis of the outcome of the scoring model, depending on the loan type, and the rules embedded within the credit policy. Each lending transaction and the related agreement are determined on the strength of an individual credit decision. All credit decisions are handled and processed within the Bank's internal loan handling system through the application of both automated and manual processes.

The creditworthiness of potential customers is assessed by reference to the calculation of a credit score for each loan application received and based on the customer's specific affordability. The relevant credit score is computed through the application scorecard for first time customers and through the behaviour scorecard for repeat customers. Based on the credit score registered, customers are grouped into risk classes. The respective risk class determines the maximum credit amount allowable for each customer. The scoring model and linked scorecards are monitored by the Risk management function of the Bank. These are applied in all jurisdictions in which the Bank operates with specific adaptations at country level taking cognisance of the different characteristics of each market; with the adaptations being centrally approved.

The scorecards are reviewed on an ongoing basis by the management team of the Bank and updated according to market trends, political circumstances in the particular jurisdiction, legislative and socio-economic changes.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.2 Credit risk management - continued

Loans and advances to customers - continued

Prior to generation of internal scores, credit policy checks or underwriting actions are carried out within the loan handling system referring to factors emanating from the Bank's credit policy rules such as applicant's age, number of outstanding loans, existence of duplicate applications, reference to Bank's internal customer blacklist, previous loan repayment behaviour and linkage to external collection company information.

These underwriting actions generate an internal credit score for the customer. Subsequently, specifically designed underwriting actions are carried out to finalise the loan application review and decision making process. These underwriting actions comprise requests for checks in relation to existence of bad debts reported by credit agencies, requests for external credit scoring checks with a view to checking external sources of credit information about the client, and requests for additional checks in respect of certain customer details. The outcome of these underwriting actions is reflected in the loan handling system and updates the scorecard in an automated manner. If the scored or approved amount is higher than or equal to the requested amount, the loan is then approved. Otherwise, the loan is approved up to the scored amount.

Expected credit loss (ECL) allowances are calculated in respect of the Bank's short to medium -term consumer credit loans at a collective portfolio level, as according to loan type, the portfolios consist of a large pool of homogeneous loans which by nature cannot be considered individually significant. The Bank's ECL methodology is set out in extensive detail in note 2.2.5 below.

The Bank has a formal rigorous debt collection process that provides for the way the Bank deals with past due loans and advances. This process is supported by procedures for use within the operations in the respective territories with formal documented adaptations for the respective territories. The procedures highlight the prescribed actions, channels and mechanisms utilised to follow up on outstanding exposures indicating the precise point in time at which the respective actions are taken and allocating roles and responsibilities in this respect.

These procedures also focus on the extent to which collection activities are carried out by the Bank and the stage or phase at which external collection companies are utilised.

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

As a consequence of COVID-19, the Bank had to adapt quickly to fast-moving uncertain times not only from an operational point of view (such as employees working from home for a prolonged period of time) but also from a risk management point of view (particularly credit risk management). The Bank successfully contained the negative impact of COVID-19 as the results for financial year ending 31 December 2021 show mostly due to effective procedures, controls and agility. The robustness of the procedures in credit risk management already in place (such as bi-weekly credit forums, monthly Credit Committee meetings, specialised employees focusing on different countries and the monitoring of key risk indicators) prior to COVID-19 proved to be very effective.

The Bank is very diligent in its scorecard management to prevent certain borrowers from being approved or granted further loans. The payment behaviour indicators are meticulously reviewed to act on any warning signs of deteriorating payment behaviour very early. The Bank has an efficient system in place which allows for the swift calibration of the underwriting scorecards.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.2 Credit risk management - continued

Loans and advances to customers - continued

Banking Rule BR/09: Measures Addressing Credit Risks Arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions Authorised under the Maltese Banking Act, 1994 requires banks to allocate funds to the General Banking Risks reserve for cover against potential risks linked to the Bank's non-performing loans and advances. In line with the requirements under Banking Rule BR/09. At the reporting date, the balance of the reserve in this respect amounted to €1,519,000 (2020: €1,519,000).

The Bank also falls within the scope of paragraphs 45-53 of Banking Rule BR/09 which establishes a framework for the deliberate and sustainable reduction of NPLs in banks' balance sheets in line with the European Central Bank's Guidance to Banks on Non-performing Loans of March 2017. In terms of BR/09, credit institutions with a two-year average NPL ratio exceeding 6% are to submit a multi-year NPL Reduction Plan targeting the decrease in these exposures to the set target, as required by paragraph 46 of BR/09. Ferratum Bank's two-year average NPL ratio as at 31 December 2021 exceeded the 6% threshold. Accordingly, the Bank is preparing and will eventually submit an NPL Reduction Plan in line with the requirements of BR/09 in April 2022. Moreover, the Bank is required to accumulate a Reserve for Excessive NPLs in line with the requirements of Paragraphs 54-60 of BR/09. In this respect, the Bank has allocated a Reserve for Excessive NPLs amounting to €1,073,000 (2020: €1,073,000).

Loans and advances to group companies

The advances to a group undertaking, Ferratum Capital Oy, which were outstanding at 31 December 2021 were primarily secured against the entire consumer lending portfolio of all group companies that operate in the micro finance business. During 2016, the Bank had entered into a Foreign Exchange Risk Agreement with this group company, where the latter provides cover to the Bank over realised and unrealised foreign exchange differences. Any 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. As from 2021, the Bank started to hedge a small portion of its foreign currency open positions with a third party financial institution. The vast majority of the Bank's foreign currency exposure remains to be fully hedged with the Group.

Operating balances with other group companies are monitored on an ongoing basis, taking cognisance of the related party relationship, utilising a limit framework and reporting mechanism. The balances are normally repayable within short periods of time. Repayment behaviour and performance are reviewed in this respect.

Investment in securitisation portfolio

All exposures classified under investment in securitisation portfolio undergo a thorough analysis process, not only from an internal credit perspective but also from a legal and financial perspective. The Bank's Credit Committee, which manages the credit analysis and research process, is composed of highly-trained individuals with specialised skills. The securitisation vehicle invests in the portfolio of SME loans and is subject to a continuous, and thorough monitoring and oversight process in order to identify any financial instruments which require increased monitoring of performance.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.2 Credit risk management - continued

Loans and advances to customers - continued

Other financial assets

The majority of the Bank's cash is held with Central Banks. Other than cash held with Central Banks, the Bank's cash is dispersed amongst a large number of Banks, following limits set in the Bank's treasury management policy (TMP). Other receivables are assessed in line with large exposure limits set in the Capital Requirements Regulation (CRR).

Credit related commitments

The Bank issues financial guarantee contracts to other parties that grant micro-loans and other short-term credit products. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. The Bank's credit risk management framework applied to issuance of micro-loans and related products, described in detail in the preceding sections, is utilised for management of issuance of guarantee contracts. The entire micro-loan underwriting cycle from approval to monitoring is considered appropriate for financial guarantee contracts as in substance the issuance of such guarantees, covering micro-lending, is essentially considered to be micro-lending.

2.2.3 Credit risk measurement

(a) Loans and advances to customers

The Bank uses internal credit risk gradings (Note 2.2.10) to reflect its assessment of the probability of default of individual counterparties. Internal credit risk gradings is based on payment behaviour of the borrower

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

(b) Investment in securitisation portfolio

The securitisation vehicle acquires receivables which are not defaulted, disputed or insolvent. The portfolio is acquires loans consisting of current and 1-30 days past due exposures with an underlying and estimated probability of default which is not in excess of 20%. The Bank is the holder of Class A Notes, which are senior to the Class B Notes in terms of the applicable priority of payments and thus also have a higher credit quality.

The management of 'expected credit losses' considers that an exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The expected credit risk of the underlying portfolio in SME loans which the securitisation vehicle invests in is measured using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is consistent to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. Refer to note 2.2.5 for more details.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.3 Credit risk measurement - continued

(b) Investment in securitisation portfolio - continued

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.

(c) Other financial assets

Other financial assets include Balances with Central Bank of Malta and Central Bank of Lithuania, loans and advances to banks and loans and advances to group companies. The Bank uses external risk grades to reflect its assessment of the probability of default of individual counterparties. These published grades are continuously monitored and updated. The PDs associated with each grade are determined based on realised default rates over the prior 12 months, as published by rating agencies.

In determining the probability of default of individual counterparties, the Bank distinguishes between exposures considered 'investment-grade' defined by recognized external rating agencies as a rating between AAA-BBB- (Standard & Poor's, Fitch) and Aaa-Baa3 (Moody's), and 'non-investment grade' exposures. Credit risk in other financial assets is also mitigated through limits set in the Bank's treasury management policy and in accordance with large exposure limits set in the CRR respectively.

2.2.4 Categorisation of loans and advances to customers for ECL measurement

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.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.5 Expected credit loss measurement

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

i. A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
ii. If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 2.2.5.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.
iii. If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 2.2.5.2 for a description of how the Bank defines credit-impaired and default.
iv. Financial instruments in 'Stage 1' have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in 'Stages 2 or 3' have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 2.2.5.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
v. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information. Note 2.2.5.4 includes an explanation of how the Bank has incorporated this in its ECL models.
vi. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis ('Stage 3').

Further explanation is also provided in respect of how the Bank determines appropriate groupings of loans and advances to customers for ECL measurement (refer to note 2.2.4).

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

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

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.5 Expected credit loss measurement - continued

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

Change in credit quality since initial recognition

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

2.2.5.1 Significant increase in credit risk

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

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

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

As a result, for loans and advances to customers, which are managed on a portfolio basis for credit risk purposes, the Bank measures a significant increase in credit risk based on a quantitative assessment driven by the delinquency status of borrowers (days past due). The Bank presumptively considers that a significant increase in credit risk occurs when an asset is more than 30 days past due, in line with the backstop indicator established under IFRS 9. The Bank determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. For year-ended 31 December 2021, the Bank assessed all the different portfolios of loans and advances to customers by product and by country to determine whether a significant increase in credit risk was observed. When the Bank identifies a significant increase in credit risk in any of the portfolios, it shifts the calculation of ECL from 12-month to lifetime as required by IFRS 9.

In view of the maturity and development of the respective credit portfolios and following the assessment of historical default history, during 2021 the Bank has determined that SICR also occurs in scenarios where, at a particular reporting period, debtors subject to a payment holiday (refer to Note 1.5) eventually enter into a number of days in arrears (which are in the region between 5 and 10 days).

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.5 Expected credit loss measurement - continued

2.2.5.2 Definition of default and credit-impaired assets

The Bank did not experience sustained deterioration in the payment behaviour of the customers during 2021 and therefore no significant increase in credit risk was attributable to COVID-19 directly.

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

IFRS 9 does not specifically define default, but requires it to be applied on a consistent basis with internal credit risk management practice for the relevant instruments and requires consideration of qualitative factors where appropriate. In addition, IFRS 9 also introduces a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging criterion is appropriate.

In this respect, the Bank generally defines a financial instrument as in default (credit impaired and in Stage 3 for impairment purposes), when the borrower is more than 90 days past due on any material credit obligation to the Bank. For certain portfolios, depending on the termination characteristics of the respective product and country, as well as other factors such as contractual forward-flow agreements in order to conduct regular sales of overdue loan facilities, the Bank defines a financial instrument as in default when the borrower is more than 60 days past due on any material credit obligation to the Bank.

The definitions of credit-impaired and default are aligned so that Stage 3 represents all loans which are considered defaulted or credit-impaired. Whenever the Bank enters into a forward sale agreement with a third party, the definition of default is usually aligned with the contractual days past due under such agreement.

The default definition has been applied consistently to model the probability of default (PD), exposure at default (EAD) and loss given default (LGD) throughout the Bank's expected loss calculations.

In addition to the above, the Bank has an Arrears Management Policy to direct its credit portfolio management strategy in certain territories with a view to improve its debt collection capabilities in respect of overdue loan facilities. In achieving this strategy, the Bank prescribes four stages, these being, (i) early collection stage, (ii) late collection stage carried out through third party management and debt collection agencies, (iii) legal collections and (iv) debt sales. The Bank also seeks to extend its debt collection period with customers in order to increase recoveries from loan repayments prior to termination of loan contracts. Additionally, the Bank negotiates forward sale agreements with third parties in order to conduct regular sales of overdue loan facilities subsequent to a greater level of ageing that is sufficient to enable the Bank to perform its internal debt collection procedures for a sufficiently extended period prior to sale. Subsequent to the aforementioned portfolio management strategies being implemented, the Bank assesses the impact, if any, on the definition of default that it uses in estimating IFRS 9 expected credit losses in the respective territories. Significant judgement is required throughout this process, particularly in the event that changes to the impairment methodology are required, such as revisions to the probabilities of default utilised in the expected credit loss calculation.

Loans incepted through third-party fraud are deemed credit impaired.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.5 Expected credit loss measurement - continued

2.2.5.3 Measuring ECL - Explanation of inputs, assumptions and estimation techniques

The Bank considers other financial assets, mainly loans and advances to banks and investments in debt securities and investment in securitisation portfolio respectively, to be in default when a payment due (including a coupon payment) is not affected.

The Bank's credit grading and monitoring systems are also in place to react to any early identification and management of deterioration in loan quality. The Bank monitors the payment behaviour of its clients and other key risk indicators at portfolio level and at cohort level. The latter is regarded as an important metric as it tracks the behaviour of recent loans granted.

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.

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).

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.5 Expected credit loss measurement - continued

2.2.5.3 Measuring ECL - Explanation of inputs, assumptions and estimation techniques - continued

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.

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.

2. Financial risk management – continued

2.2 Credit risk – continued

2.2.5 Expected credit loss measurement – continued

2.2.5.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques - continued

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. In a stressed scenario which considers only collections, from customers and no debt sales, the Bank's ECL would increase by €2.4 million.

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.

Forward-looking economic information is also included in determining the 12-month and lifetime PD and LGD. Refer to note 2.2.5.4 for an explanation of forward-looking information and its inclusion in ECL calculations.

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.

2.2.5.4 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.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.5 Expected credit loss measurement - continued

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

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 has improved the reliability of its macroeconomic modelling approach by incorporating multiple forward-looking economic conditions into its ECL estimates, which is mathematically more enhanced than the previously used linear regression analysis. Other than the enhanced statistical methodology, this updated model uses the country specific macroeconomic variable that is most relevant as opposed to the Eurozone unemployment rates used by the previous linear model.

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 risk management - continued

2.2 Credit risk - continued

2.2.5 Expected credit loss measurement - continued

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

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

As with any macro-economic forecasts, the projections and 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.

The weightings assigned to each economic scenario, which are unchanged from 2020 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.

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 31 December 2021, due to the uncertainty induced by the COVID-19 pandemic and the current supply-chain disruption.

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 31 December 2021, 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 2021 €'000	(Decrease) / Increase in ECL 2020 €'000
100% Base	**(179)**	(284)
100% Downside	**5,936**	4,107
100% Upside	**(5,448)**	(3,255)

On the basis of macroeconomic forecasts and data available at year end, the weightings applied take into account the following:

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.5 Expected credit loss measurement - continued

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

For *baseline scenario*, the global economic outlook had become less positive than previously assumed. As a result, Oxford Economics have revised down the baseline forecast for world GDP for 2022 to 4.5%. World GDP forecast has been downgraded on the basis of Covid-related disruption, supply-chain bottlenecks and the squeeze on real incomes from higher CPI inflation. The ongoing supply-chain crisis is now seen by businesses as an even greater threat to recovery than coronavirus developments. But the global recovery remains volatile due to supply-side problems. Inflation pressures are expected to ease, with world CPI inflation forecasted to fall from a peak of more than 5% in Q4 2021 to 3.0% by end of 2022. This will boost households' spending power and will also ease pressure on central banks to tighten policy aggressively.

For the *downturn scenario*, management has considered the current supply-chain disruption scenario to be more severe in terms of outlook. In this scenario, current supply-chain disruptions prove more persistent than assumed in the baseline forecast. Labour and material shortages persist throughout 2022 and higher commodity and other input prices add to inflationary pressure. Supply proves unable to keep pace with the recovery in demand, higher inflation squeezes real incomes and financial markets weaken. In the near term, global economic recovery is far more muted than in the baseline, with the level of GDP more than 2% below baseline in late 2022. Inflation is higher by as much as 1ppt in the first year of the scenario. Supply-chain disruptions ease significantly from 2023. This supports a robust recovery in supply, fuelled by delayed expenditure and demand.

An *optimistic scenario* was modelled for global economy in which consumers run down a large proportion of the substantial savings accumulated during the pandemic at a faster pace than assumed in the baseline. In this upside scenario, sentiment is boosted for households, businesses, and investors. The result is a more robust, consumer-led global recovery in the near term. In the first year of the scenario, global GDP rebounds to a level higher than that envisaged prior to the coronavirus outbreak, with the level of GDP more than 1% above baseline in late 2022. The strength of recovery ensures that the supply-side impact of the pandemic is minimised. At the end of the scenario, the level of global GDP is comparable to the level anticipated prior to the crisis.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.5 Expected credit loss measurement - continued

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

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

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

Source: Oxford Economics

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.5 Expected credit loss measurement - continued

2.2.5.4 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

Source: Oxford Economics

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.5 Expected credit loss measurement - continued

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

As of 31 December 2021	**2022**	**2023**	**2024**
Romania			
Gross Domestic Product			
Lei Billions: chained 2000 prices			
Baseline	16	16	16
Downside	15	16	16
Upside	16	16	17
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

The chained prices in respect to Gross Domestic Product and Personal Disposable Income outlined above adjust the respective real currency amounts for inflation over time to allow the comparison of figures from different periods.

On the basis of the above, the Bank's model of assessing the macro-economic impact on ECL as at 31 December 2021 continues to provide an adequate determination of the ECL based on the inputs as disclosed above and on the basis of management's judgement and hence no additional credit loss reserve were deemed to be required other than those booked during 2021. Management monitors on an ongoing basis, the economic forecasts releases and adjusts its model inputs and assess the connected outcomes in the light of revised macroeconomic data and other quantitative and qualitative information.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.6 Maximum exposure to credit risk

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

- Financial assets recognised on-balance sheet comprising principally balances with Central Banks, investment in securitisation portfolio and loans and advances to banks, customers and group companies. The maximum exposure to credit risk of these financial assets equals their gross carrying amounts.
- Financial guarantee contracts entered into with related group companies. The latter carry the same credit risk as loans and advances to customers. The maximum exposure to credit risk is the full amount that the Bank would have to pay if the guarantees are called upon.
- Loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities. The maximum exposure to credit risk is the full amount of the committed facilities. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. These exposures are monitored in the same manner in respect of loans and advances and predominantly arise on revolving credit facilities.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.6 Maximum exposure to credit risk - 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:

	2021 Gross carrying amount €'000	**ECL allowance €'000**	2020 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	**138,921**	**-**	96,334	-
Loans and advances to banks	**48,165**	**-**	56,303	-
Loans and advances to customers	**386,507**	**(62,575)**	303,641	(62,434)
Loans and advances to group	**15,486**	**-**	14,875	-
Investment in securitisation portfolio	**60,685**	**-**	7,629	-
Other financial assets	**10,029**	**-**	15,363	-
Credit risk exposure	**659,793**	**(62,575)**	494,145	(62,434)
Credit risk exposures relating to off-balance sheet instruments:				
Financial guarantees	**6,515**	**(1,974)**	4,530	(1,353)
Credit risk exposure	**6,515**	**(1,974)**	4,530	(1,353)

All exposures classified under securitisation portfolio undergo a thorough analysis process, not only from an internal credit perspective but also from a legal and financial perspective. The securitisation vehicle invests in the portfolio of SME loans and is subject to a continuous, and thorough monitoring and oversight process in order to identify any financial instruments which require increased monitoring of performance.

The securitisation vehicle acquires receivables which are not defaulted, disputed or insolvent. The portfolio acquires loans that consists of current and 1-30 days past due exposures with an underlying and estimated probability of default which is not in excess of 20%. The Bank is the holder of Class A Notes, which are senior to the Class B Notes in terms of the applicable priority of payments and thus potential losses incurred by the SPV are first absorbed by Class B Notes holder.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.7 Credit concentration risk

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 suggest any requirement for the accounting of expected credit losses.

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

Credit concentration risk for counterparties

The Bank's loans and advances to customers comprise of retail exposures which are individually insignificant. The Bank's underlying investment in securitisation portfolio comprise of multiple exposures of SME loans which are spread throughout multiple countries.

As at 31 December 2021, no loans and advances to customers or other financial assets were deemed to be in excess of the large exposures, prior to any eligible exemptions, in accordance with the requirements of Part Four: Large Exposures, of the CRR. The Bank's loans and advances comprise a large number of customer accounts with no individual customer or group of dependent customers being considered by management as a significant concentration of credit risk in the context of the CRR. Nonetheless, these exposures are monitored and reported frequently and rigorously.

Credit concentration risk by geographical region

The geographical concentration of the Bank's financial assets as at the end of the reporting period is analysed below. For the purposes of this analysis, the Bank has allocated exposures to regions based on the country of domicile of the respective customers or counterparties. At 31 December 2021, loans and advances to banks were placed with banks domiciled in the following countries:

	2021	2020
	€'000	€'000
Malta	**10,233**	15,025
Czech Republic	**11,189**	16,277
Slovakia	**11**	14
Poland	**7,091**	14,993
France	**5,155**	3,967
Bulgaria	**574**	77
Estonia	**166**	361
Finland	**-**	4
Spain	**4,125**	2,336
Croatia	**4,320**	705
United Kingdom	**2,529**	709
Lithuania	**168**	616
Italy	**865**	1,219
Romania	**1,739**	-
Gross loans and advances to banks	**48,165**	56,303

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.7 Credit concentration risk - continued

Credit concentration risk by geographical region - continued

The Bank's loans and advances to customers as at 31 December 2021 are principally linked to lending and related operations in the following countries:

	2021	2020
	€'000	€'000
Poland	4,295	12,196
Estonia	25,785	19,638
Latvia	79,626	53,534
Czech Republic	19,215	21,266
Germany	32,467	13,937
Bulgaria	7,511	8,160
Sweden	108,843	70,596
Norway	7,377	6,617
Spain	649	17,261
Croatia	5,726	10,436
Denmark	40,478	35,236
Finland	50,143	34,764
Romania	4,392	-
Gross loans and advances to customers	**386,507**	303,641

At 31 December 2021 and 2020, the balances with the Central banks represented a deposit with the Central Bank of Malta and a deposit with the Central Bank of Lithuania.

At 31 December 2021 and 2020, loans and advances to group companies consisted of advances with an undertaking registered in Finland.

2.2.8 Information on credit quality of balances with other banks

In the normal course of business, the Bank places funds and carries out transactions through correspondent accounts with high credit quality local listed banks and international banks having a good credit rating, subject to the operational requirements and the application of a limit framework. Accordingly, such exposures are monitored through the practical use of exposure limits. In certain countries, the Bank had to utilise unrated financial institutions due to operational constraints within such country, in view of the profile of the banking sector in those territories. The Bank would carry out a comprehensive due diligence on such banks, prior to engaging with the banks, and on an event-driven basis throughout the term of the relationship.

At 31 December 2021, loans and advances to banks consisted primarily of immediately withdrawable nostro balances and term placements maturing within one month.

The Bank runs the risk of loss of funds due to the possible political, economic and other events in a particular country where funds have been placed or invested with several counterparties domiciled in the same country or region. Countries are assessed according to their size, economic data and prospects together with credit ratings issued by international rating agencies. Existing country credit risk exposures, based on groupings of individual counterparties, are monitored and reviewed periodically. The Bank's assets are predominantly in Europe.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.8 Information on credit quality of balances with other banks - continued

At the end of the reporting period, none of the financial assets referred to were past due or impaired.

The following tables set out information about the credit quality of specific financial assets measured at amortised cost. The credit quality of the financial assets is determined by credit ratings applicable to issuers or counterparties based on external ratings published by reputable credit rating agencies:

		2021		
	Stage 1 12-month €'000	**Stage 2 Lifetime €'000**	**Stage 3 Lifetime €'000**	**Total €'000**
Balances with Central Banks at amortised cost				
A+ to A-	138,921	-	-	138,921
Gross carrying amount	**138,921**	**-**	**-**	**138,921**
Loss allowance	-	-	-	-
Carrying amount – net of loss allowance	**138,921**	**-**	**-**	**138,921**

In this regard, the credit rating of the Government of Malta and Government of Lithuania as at 31 December 2021 had both a rating of A2, as issued by Moody's on 06 August 2021 and 12 February 2021, respectively. (2020: A2, as issued by Moody's on 11 August 2020 and 12 February 2021, respectively.) As at 31 December 2021, expected credit loss allowances in respect of balances with the Central Banks (which are assumed to have the same credit quality as the Government of Malta and Government of Lithuania respectively) were deemed to be insignificant.

Similarly, the Bank holds immediately withdrawable balances with highly rated and reputable financial institutions. As at 31 December 2021, expected credit loss allowances in respect of such balances were deemed to be insignificant.

		2020		
	Stage 1 12-month €'000	**Stage 2 Lifetime €'000**	**Stage 3 Lifetime €'000**	**Total €'000**
Balances with Central Banks at amortised cost				
A+ to A-	96,334	-	-	96,334
Gross carrying amount	**96,334**	**-**	**-**	**96,334**
Loss allowance	-	-	-	-
Carrying amount – net of loss allowance	**96,334**	**-**	**-**	**96,334**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.8 Information on credit quality of balances with other banks - continued

	2021			
	Stage 1 12-month €'000	Stage 2 Lifetime €'000	Stage 3 Lifetime €'000	Total €'000
Loans and advances to banks at amortised cost				
A+ to A-	14,283	-	-	14,283
BBB+ to BBB-	19,063	-	-	19,063
BB+ to BB-	1,016	-	-	1,016
Unrated	13,803	-	-	13,803
Gross carrying amount	**48,165**	**-**	**-**	**48,165**
Loss allowance	-	-	-	-
Carrying amount - net of loss allowance	**48,165**	**-**	**-**	**48,165**

The Bank's loans and advances to group companies consist of advances with an undertaking registered in Finland and comprise of Stage 1 (12-month ECL) financial assets as at 31 December 2021. The external credit rating of the Multitude Group as at 31 December 2021 was BB-, issued by Creditreform Rating AG on 29 April 2020. (2020: BB-, issued by Creditreform Rating AG on 29 April 2020). On this basis, credit loss allowances in respect of the Bank's loans and advances to Multitude Group as at 31 December 2021 were deemed to be immaterial.

As at 31 December 2021, there were no Purchased Credit-Impaired assets.

After the end of the reporting period there were no significant changes in credit ratings reflected in the tables above which have a material impact on the credit quality of the financial assets.

	2020			
	Stage 1 12-month €'000	Stage 2 Lifetime €'000	Stage 3 Lifetime €'000	Total €'000
Loans and advances to banks at amortised cost				
AAA to AA-	4	-	-	4
A+ to A-	18,179	-	-	18,179
BBB+ to BBB-	30,022	-	-	30,022
BB+ to BB-	1,852	-	-	1,852
Unrated	6,246	-	-	6,246
Gross carrying amount	**56,303**	**-**	**-**	**56,303**
Loss allowance	-	-	-	-
Carrying amount - net of loss allowance	**56,303**	**-**	**-**	**56,303**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.9 Information on credit quality of investment in securitisation portfolio

	2021			
	Stage 1 12-month €'000	Stage 2 Lifetime €'000	Stage 3 Lifetime €'000	Total €'000
Investment in securitisation portfolio at amortised cost				
Unrated	**60,685**	-	-	**60,685**
Gross carrying amount	**60,685**	-	-	**60,685**
Loss allowance	-	-	-	-
Carrying amount	**60,685**	-	-	**60,685**

The Bank's investment in securitisation portfolio consist of notes, which are structured in tranches amounting to €200,000 each, 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. 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 of 31 December 2021, Ferratum Portfolio S.À.R.L, acquired 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. The acquired 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 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.

	2020			
	Stage 1 12-month €'000	Stage 2 Lifetime €'000	Stage 3 Lifetime €'000	Total €'000
Investment in securitisation portfolio at amortised cost				
Unrated	7,629	-	-	7,629
Gross carrying amount	**7,629**	-	-	**7,629**
Loss allowance	-	-	-	-
Carrying amount	**7,629**	-	-	**7,629**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.10 Information on credit quality of loans and advances to customers

The Bank manages the credit quality of its loans and advances to customers by using internal risk grades, which provide a progressively increasing risk profile ranging from 'Regular' (best quality, less risky) to 'Loss'. These risk grades are an essential tool for the Bank to identify both non-performing exposures and better-performing customers. The internal risk grades used by the Bank are as follows:

- Performing: Internal grade 'Regular'
- Under performing: Internal grades 'Watch' and 'Substandard'; and
- Non-performing: Internal grades 'Doubtful' and 'Loss'.

Regular

The Bank's loans and advances to customers which are categorised as 'Regular' are principally debts in respect of which payment is not overdue by 30 days and no recent history of customer default exists. Management does not expect losses from non-performance by these customers, which are considered as fully performing.

Watch

Loans and advances that attract this category principally comprise those where:

(i) payment becomes overdue by 30 days, but does not exceed 60 days where a loan is deemed to be as non-performing when past due for more than 90 days;
(ii) and payment becomes overdue by 30 days but does not exceed 45 days where a loan is deemed to be as non-performing when past due for more than 60 days;
(iii) payment becomes overdue between 5 and 10 days in instances when a loan was granted a payment holiday (refer to Note 1.5).

Substandard

Exposures that are categorised within this category comprise those where:

(i) payment becomes overdue by 61 days but does not exceed 90 days for where a loan is deemed to be as non-performing when past due for more than 90 days;
(ii) and where payment becomes overdue by 46 days, but does not exceed 60 days where a loan is deemed to be as non-performing when past due for more than 60 days;

Doubtful

Loans and advances which attract a 'Doubtful' grading are principally those assets in respect of which:

(i) repayment becomes overdue by 61 days and over but not exceeding 180 days for where a loan is deemed to be as non-performing when past due for more than 60 days;
(ii) and repayment becomes overdue by 91 days and over but not exceeding 180 days for a loan is deemed to be as non-performing when past due for more than 90 days.

Loss

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

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.10 Information on credit quality of loans and advances to customers - continued

The following table sets out information about the credit quality of financial assets measured at amortised cost. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in note 2.2.5.3.

	2021			
	Stage 1 12-month €'000	**Stage 2 Lifetime €'000**	**Stage 3 Lifetime €'000**	**Total €'000**
Loans and advances to customers at amortised cost				
Regular	282,661	-	-	282,661
Watch	-	15,827	-	15,827
Substandard	-	6,037	-	6,037
Doubtful	-	-	20,640	20,640
Loss	-	-	61,342	61,342
Gross carrying amount	**282,661**	**21,864**	**81,982**	**386,507**
Loss allowance	(15,627)	(5,847)	(41,101)	(62,575)
Carrying amount	**267,034**	**16,017**	**40,881**	**323,932**
Off-balance sheet items:				
Financial guarantee contracts				
Gross carrying amount	4,318	650	1,547	6,515
Loss allowance	(623)	(335)	(1,016)	(1,974)
Carrying amount	**3,695**	**315**	**531**	**4,541**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.10 Information on credit quality of loans and advances to customers - continued

	2020			
	Stage 1 12-month €'000	Stage 2 Lifetime €'000	Stage 3 Lifetime €'000	Total €'000
Loans and advances to customers at amortised cost				
Regular	203,200	-	-	203,200
Watch	-	10,481	-	10,481
Substandard	-	4,913	-	4,913
Doubtful	-	-	21,777	21,777
Loss	-	-	63,270	63,270
Gross carrying amount	**203,200**	**15,394**	**85,047**	**303,641**
Loss allowance	(14,337)	(4,296)	(43,801)	(62,434)
Carrying amount	**188,863**	**11,098**	**41,246**	**241,207**
Off-balance sheet items: Financial guarantee contracts				
Gross carrying amount	2,970	332	1,228	4,530
Loss allowance	(389)	(152)	(812)	(1,353)
Carrying amount	**2,581**	**180**	**416**	**3,177**

The Bank also had undrawn commitments to lend which predominantly comprise of undrawn balances on revolving credit facilities. The Bank may be exposed to losses equivalent to the total unused commitments (if drawn down by customers), however, additional drawdowns are contingent on customers maintaining specific credit standards.

Financial guarantee contracts as at 31 December 2021 amounting to €6,515,000 (2020: €4,530,000) are sub-divided between the staging classifications (Stages 1 to 3) as illustrated in the table presented on the previous page. ECL allowances on financial guarantee contracts as at 31 December 2021 amounted to €1,974,000 (2020: €1,353,000).

As at 31 December 2021 and 2020, there are no purchased credit-impaired assets.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.10 Information on credit quality of loans and advances to customers - continued

The following table analyses the impaired loans and advances, gross of impairment allowances, by geographical sector:

	IFRS 9 Stage 3 2021 €'000	IFRS 9 Stage 3 2020 €'000
Poland	**1,649**	3,827
Estonia	**5,528**	2,137
Latvia	**15,509**	8,824
Czech Republic	**5,908**	5,738
Germany	**4,603**	2,206
Bulgaria	**7,249**	7,922
Sweden	**24,727**	12,949
Norway	**2,312**	1,099
Spain	**702**	15,076
Croatia	**741**	6,445
Denmark	**2,149**	14,150
Finland	**10,515**	4,674
Romania	**390**	-
Gross impaired loans and advances to customers	**81,982**	85,047

Past due but not impaired

As at 31 December 2021, loans and advances to customers amounting to €61,649,000 (2020: €51,392,000) were deemed to be past due (and not deemed credit impaired or collectively impaired), taking cognisance of the manner in which, the Bank practically manages its collection activities. A financial asset is past due when a customer has failed to effect payment when contractually due, but normally, given the nature of the Bank's loan portfolio, the impaired status is not formally assigned until the exposure is more than 90 days past due (or 60 days in the case of specific products). An ageing analysis of these past due loans and advances is accordingly presented within the tables on the previous pages.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.11 Modification of financial assets

The Bank sometimes modifies the terms of loans provided to customers, which, as explained in note 1.5, 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).

The Bank held renegotiated or rescheduled loans and advances to customers amounting to €97,631,838 (2020: €77,357,879) as at the end of the reporting period. These are analysed below by ageing as follows:

	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

	2020 €'000	Still outstanding at 28 February 2021 €'000
Stage 1	50,703	49,007
Stage 2	12,784	11,136
Stage 3	13,871	12,122
	77,358	72,265

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.11 Modification of financial assets - continued

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

	2021	2020
	€'000	€'000
Bulgaria	**160**	142
Czech Republic	**10,144**	9,417
Denmark	**14,628**	16,360
Estonia	**10,016**	6,525
France	**15,699**	12,920
Germany	**2,807**	2,624
Latvia	**12,669**	11,275
Norway	**556**	698
Romania	**222**	-
Spain	**573**	3,038
Sweden	**30,158**	14,359
	97,632	77,358

During 2020 and 2021, 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 31 December 2021 amounted to €61,398 (2020: €552,092) or 0.02% (2020: 0.20%) of the gross carrying amount of total consumer loans as of the end of the financial year. 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.

	2021		2020	
	Gross carrying amount €'000	**Expected credit losses €'000**	Gross carrying amount €'000	Expected credit losses €'000
Stage 1	**1**	**-**	269	27
Stage 2	**11**	**5**	115	60
Stage 3	**49**	**31**	168	102
	61	**36**	552	189

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.12 Loss allowances

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 risk management - continued

2.2 Credit risk - continued

2.2.12 Loss allowances - continued

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 annual 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 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 risk management** - continued

2.2 Credit risk - continued

2.2.12 Loss allowances - continued

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 annual 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 2020	**109,943**	-	-	-	-	-	**109,943**	-
Financial assets derecognised during the year	(13,609)	-	-	-	-	-	(13,609)	-
At 31 December 2020	**96,334**	**-**	**-**	**-**	**-**	**-**	**96,334**	**-**
Total net income statement change during the year	**-**	**-**	-	**-**	-	**-**	-	**-**
Investment in securitisation portfolio at amortised cost at 1 January 2020	-	-	-	-	-	-	-	-
Financial assets originated or purchased	7,629	-	-	-	-	-	7,629	-
At 31 December 2020	**7,629**	**-**	**-**	**-**	**-**	**-**	**7,629**	**-**
Total net income statement change during the year	**-**	**-**	-	**-**	-	**-**	-	**-**
Loans and advances to banks at amortised cost at 1 January 2020	22,672	-	-	-	-	-	22,672	-
Financial assets originated or purchased	33,631	-	-	-	-	-	33,631	-
At 31 December 2020	**56,303**	**-**	**-**	**-**	**-**	**-**	**56,303**	**-**
Total net income statement change during the year	**-**	**-**	-	**-**	-	**-**	-	**-**
Loans and advances to group companies at amortised cost at 1 January 2020	25,145	-	-	-	-	-	25,145	-
Financial assets derecognised during the year	(10,270)	-	-	-	-	-	(10,270)	-
At 31 December 2020	**14,875**	**-**	**-**	**-**	**-**	**-**	**14,875**	**-**
Total net income statement change during the year	**-**	**-**	-	**-**	-	**-**	-	**-**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.12 Loss allowances - continued

Changes in the gross carrying amount and loss allowance between the beginning and the end of the annual period: - 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)**

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 €621,000 (2020: €1,000) 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 risk management - continued

2.2 Credit risk - continued

2.2.12 Loss allowances - continued

Changes in the gross carrying amount and loss allowance between the beginning and the end of the annual period: – 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 2020	**178,345**	**(14,465)**	**18,322**	**(4,646)**	**59,309**	**(37,489)**	**255,976**	**(56,600)**
New and further lending	368,990	(27,307)	21,347	(5,662)	52,324	(23,581)	442,661	(56,550)
Repayments and disposals	(298,944)	26,155	(23,553)	6,767	(67,066)	35,411	(389,563)	68,333
Transfers of financial instruments								
Transfer from Stage 1 to Stage 2	(12,969)	939	12,969	(939)	-	-	-	-
Transfer from Stage 1 to Stage 3	(38,983)	4,257	-	-	38,983	(4,257)	-	-
Transfer from Stage 2 to Stage 1	2,289	(455)	(2,289)	455	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	(12,953)	3,205	12,953	(3,205)	-	-
Transfer from Stage 3 to Stage 1	4,974	(4,124)	-	-	(4,974)	4,124	-	-
Transfer from Stage 3 to Stage 2	-	-	1,688	(471)	(1,688)	471	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	561	-	(3,014)	-	(21,163)	-	(23,616)
Write-offs	-	-	-	-	(3,935)	(40,678)	(3,935)	(40,678)
Total net income statement charge during the year		**26**		**341**		**(52,878)**		**(52,511)**
Impact of unwinding ECL provisions	-	-	-	-	-	626	-	626
Write-offs	-	-	-	-	-	45,072	-	45,072
Exchange differences and other movements	(502)	101	(137)	9	(859)	869	(1,498)	979
At 31 December 2020	**203,200**	**(14,338)**	**15,394**	**(4,296)**	**85,047**	**(43,800)**	**303,641**	**(62,434)**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.12 Loss allowances - 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 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)**

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 during 2021 amounting to €1,985,000 (2020: €750,000) mainly related to the net effect of the expiry or enforcement of existing financial guarantees and the issuance of new financial guarantees during 2021.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.12 Loss allowances - 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 2020	**3,517**	**(365)**	**528**	**(201)**	**1,235**	**(786)**	**5,280**	**(1,352)**
New and further lending	10,843	(1,225)	974	(526)	1,577	(1,043)	13,394	(2,794)
Repayments and disposals	(10,539)	1,310	(897)	525	(2,708)	1,909	(14,144)	3,744
Transfers of financial instruments								
Transfer from Stage 1 to Stage 2	(55)	6	55	(6)			-	-
Transfer from Stage 1 to Stage 3	(824)	92			824	(92)	-	-
Transfer from Stage 2 to Stage 1	28	(10)	(28)	10			-	-
Transfer from Stage 2 to Stage 3			(300)	116	300	(116)	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	(197)	-	(70)	-	(684)	-	(951)
Total net income statement charge during the year		**(24)**		**49**		**(26)**		**(1)**
At 31 December 2020	**2,970**	**(389)**	**332**	**(152)**	**1,228**	**(812)**	**4,530**	**(1,353)**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.12 Loss allowances - continued

The following table sets out information about the Bank's ECL charge for the year by territory, as follows:

	2021			
	Increase / (reversal) of ECL allowances on loans and advances €'000	Write-offs €'000	Increase / (reversal) of ECL allowances on off-balance sheet items €'000	Total income statement charge for the year €'000
Poland	(3,245)	3,574	-	329
Slovakia	-	(42)	-	(42)
Estonia	1,851	200	-	2,051
Latvia	4,204	3,042	-	7,246
Czech Republic	330	4,225	-	4,555
Germany	2,226	2,007	-	4,233
Bulgaria	(237)	3,395	621	3,779
Sweden	7,290	5,667	-	12,957
France	-	(52)	-	(52)
Norway	557	953	-	1,510
Spain	(11,949)	14,417	-	2,468
Denmark	(3,842)	12,205	-	8,363
Finland	2,377	600	-	2,977
Romania	874	973	-	1,847
	436	**51,164**	**621**	**52,221**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.12 Loss allowances - continued

	2020			
	Increase / (reversal) of ECL allowances on loans and advances €'000	Write-offs €'000	Increase / (reversal) of ECL allowances on off-balance sheet items €'000	Total income statement charge for the year €'000
Poland	(9,329)	17,658	-	8,329
Slovakia	(8)	(26)	-	(34)
Estonia	1,221	1,142	-	2,363
Latvia	3,187	1,246	-	4,433
Czech Republic	140	3,901	-	4,041
Germany	(1,842)	4,527	-	2,685
Bulgaria	3,114	253	1	3,368
Sweden	5,288	3,913	-	9,201
France	(772)	817	-	45
Norway	(299)	1,413	-	1,114
Spain	(3,295)	9,217	-	5,922
Denmark	5,851	1	-	5,852
Finland	4,183	1,010	-	5,193
	7,439	**45,072**	**1**	**52,512**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.13 Write-off policy

The Bank writes off loans and advances to customers when it determines that these are uncollectible and it has exhausted all practical recovery efforts. This is generally the case when the Bank has applied debt recovery strategies for a significant period of time and has concluded there is no reasonable expectation of recovery, generally those loans aged 1080 days or more.

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

2.2.14 Collateral

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

However, the Bank employs a range of policies and practices to mitigate credit risk, which include collection strategies, contractual arrangement by virtue of which the bank can sell aged portfolios once specific loans reach a predetermined ageing profile and one of debt sales as further explained in note 2.2.5.3. With respect to loans and advances originated in particular countries, which comprise 1.48% (2020: 3.44%) of the Bank's total gross loan portfolio as at 31 December 2021, the Bank is the holder of financial guarantee contracts issued by other parties.

These financial guarantee contracts require the issuer to make specified payments to reimburse the holder (the Bank) for a loss it incurs because a specified debtor fails to make payments when due. Since a financial guarantee contract represents a guarantee on an individual loan entered into with the loan contract and is essentially a pre-condition for granting the respective loan, the guarantee effectively forms part of the terms of the loan. Credit loss allowances are calculated on such loans in accordance with the Bank's accounting policy, where any credit loss allowances are reflected net of the financial guarantee reimbursement.

Collateral held as security for financial assets other than loans and advances to customers depend on the nature of the instrument. For instance, debt securities and other treasury instruments are generally also unsecured.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period.

2. Financial risk management - continued

2.3 Financial risk factors

(a) Market risk

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

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. Foreign exchange risk arises when financial assets or liabilities are denominated in currencies that are different from the Bank's functional currency (euro), principally in Polish Zloty, Czech Koruna, Swedish Krona, Norwegian Krona, Bulgarian Lev, Croatia Kuna, Danish Krone and Romanian Lue. However, the Bank is not in substance exposed to fluctuations in exchange rates with respect to the Bulgarian Lev as this currency is pegged to the euro.

The Bank manages its currency risk on an ongoing basis by ensuring that foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as much as is practicable. In relation to the resultant asset and liability foreign currency position mismatching, the Bank has entered into an agreement with a group company to provide cover to the Bank from realised and unrealised exchange differences.

The Bank's exposures to Polish Zloty, Czech Koruna, Swedish Krona, Norwegian Krona, Croatia Kuna, Danish Krone and Romanian Lue. arise from its lending and credit related activities in Poland, Czech Republic, Sweden, Norway Croatia, Denmark and Romania respectively, as the loans and other credit related instruments are denominated in that currency. The overall objective is to fund the activities in these countries in the same local currency.

As previously explained, the Bank is party to a Foreign Exchange Risk Agreement with a group company, where the latter provides cover to the Bank in respect of realised and unrealised foreign exchange differences in lines with terms of this agreement. Any realised and unrealised gains or losses attributable to foreign exchange fluctuations registered by the Bank covered by this agreement are allotted on to the group entity at the end of each month, in line with the Terms of this agreement.

The Bank also seeks to manage its foreign exchange exposures through derivative instruments such as currency forwards and tracker forwards. In the case of tracker forwards, the Bank agrees to sell a predetermined amount of its foreign currency exposure at a predetermined price .

2. Financial risk management - continued

2.3 Financial risk factors - continued

(a) Market risk - continued

Foreign exchange risk - continued

The Bank's financial assets and liabilities at the end of the reporting periods are analysed into the respective currencies in the following tables.

	Total €'000	EUR €'000	PLN €'000	SEK €'000	CZK €'000	BGN €'000	NOK €'000	DKK €'000	GBP €'000	HRK €'000	RON €'000	Other €'000
As at 31 December 2021												
Financial assets												
Balances with Central Banks	138,921	138,921	-	-	-	-	-	-	-	-	-	-
Loans and advances to banks	48,165	4,949	7,348	9,073	11,327	574	3,078	4,641	651	4,702	1,817	5
Loans and advances to customers	323,932	163,294	2,525	94,123	12,706	1,556	5,709	34,765	-	5,726	3,525	3
Loans and advances to group companies	15,486	15,486	-	-	-	-	-	-	-	-	-	-
Investment in securitisation portfolio	60,685	40,525	-	20,160	-	-	-	-	-	-	-	-
Other assets	10,029	4,441	220	3	1,375	2,360	1,284	211	-	-	135	-
Total financial assets	**597,218**	**367,616**	**10,093**	**123,359**	**25,408**	**4,490**	**10,071**	**39,617**	**651**	**10,428**	**5,477**	**8**
Financial liabilities												
Amounts owed to customers	486,040	486,040	-	-	-	-	-	-	-	-	-	-
Derivative financial instrument	297	297	-	-	-	-	-	-	-	-	-	-
Lease liability	776	776	-	-	-	-	-	-	-	-	-	-
Other liabilities	8,757	4,100	219	324	15	775	362	237	179	1,913	59	574
Total financial liabilities	**495,870**	**491,213**	**219**	**324**	**15**	**775**	**362**	**237**	**179**	**1,913**	**59**	**574**
Net currency exposure in financial assets/(liabilities)	**101,348**	**(123,597)**	**9,874**	**123,035**	**25,393**	**3,715**	**9,709**	**39,380**	**472**	**8,515**	**5,418**	**(566)**
Notional of derivative financial instrument	10,435	-	-	-	10,435	-	-	-	-	-	-	-
Residual exposure	**90,913**	**(123,597)**	**9,874**	**123,035**	**14,958**	**3,715**	**9,709**	**39,380**	**472**	**8,515**	**5,418**	**(566)**
Commitments	**6,515**	**-**	**-**	**-**	**-**	**6,515**	**-**	**-**	**-**	**-**	**-**	**-**

FE-Classification: General\Internal-Only

2. Financial risk management - continued

2.3 Financial risk factors - continued

(a) Market risk - continued

Foreign exchange risk - continued

	Total €'000	EUR €'000	PLN €'000	SEK €'000	CZK €'000	BGN €'000	NOK €'000	DKK €'000	GBP €'000	HRK €'000	Other €'000
As at 31 December 2020											
Financial assets											
Balances with Central Banks	96,334	96,334	-	-	-	-	-	-	-	-	-
Loans and advances to banks	56,303	6,585	15,281	7,884	16,439	77	6,347	2,153	609	937	(9)
Loans and advances to customers	241,207	112,096	7,216	62,586	15,489	1,991	5,539	25,853	-	10,437	-
Loans and advances to group companies	14,875	14,875	-	-	-	-	-	-	-	-	-
Investment in securitisation portfolio	7,629	7,629	-	-	-	-	-	-	-	-	-
Other assets	16,106	10,743	2,004	3	1,536	576	308	280	608	2	46
Total financial assets	**432,454**	**248,262**	**24,501**	**70,473**	**33,464**	**2,644**	**12,194**	**28,286**	**1,217**	**11,376**	**37**
Financial liabilities											
Amounts owed to customers	340,427	340,427	-	-	-	-	-	-	-	-	-
Lease liability	2,247	2,247	-	-	-	-	-	-	-	-	-
Other liabilities	8,462	4,394	1,227	347	373	212	35	25	280	1,232	337
Total financial liabilities	**351,136**	**347,068**	**1,227**	**347**	**373**	**212**	**35**	**25**	**280**	**1,232**	**337**
Net currency exposure in financial assets/(liabilities)	**81,318**	**(98,806)**	**23,274**	**70,126**	**33,091**	**2,432**	**12,159**	**28,261**	**937**	**10,144**	**(300)**
Commitments	**4,530**	**-**	**-**	**-**	**-**	**4,530**	**-**	**-**	**-**	**-**	**-**

2. Financial risk management - continued

2.3 Financial risk factors - continued

(a) Market risk - continued

Foreign exchange risk - continued

Under the scenario that the euro appreciates by 5% (2020: 5%) against all relevant currencies, the effect would be a decrease of €10,978,000 (2020: €9,107,000) in the carrying amount of the net financial assets, including the Bank's derivative instruments, with the adverse impact recognised in profit or loss. Should the euro depreciate against all relevant currencies by 5% (2020: 5%), the effect would be a gain of €10,975,000 (2020: €9,107,000) in the carrying amount of the net financial assets and the favourable impact would be recognised in profit or loss.

The ALCO function actively monitors the Bank's net exposures to foreign currencies by currency, by analysing the information on financial instruments as reflected in the tables above and by performing sensitivity analysis, given the significance of such risk to the financial performance of the Bank.

Under the terms of the Bank's foreign exchange arrangement with the group company, referred to previously, the group company has committed to provide cover under the agreement to the Bank from any realised and unrealised gains or losses arising on foreign currencies as a result of the Bank's lending activities, in certain territories, denominated in specific foreign currencies, During the year, the Bank incurred net foreign exchange gain amounting to €349,000 (2020: foreign exchange gain €418,000), which were borne by the group company.

The Bank also seeks to manage its foreign exchange exposures through derivative instruments such as currency forwards and tracker forwards. With currency forwards, the Bank agrees to sell a predetermined amount of its foreign currency exposure at a predetermined price. In the case of tracker forwards, the Bank agrees to sell a predetermined amount of its foreign currency exposure at a predetermined price and buy its functional currency at the higher of the spot rate and a predetermined effective rate, thereby limiting the Bank's downwards exposure. During the year, the Bank incurred net foreign exchange loss amounting to €86,000.

2. Financial risk management - continued

2.3 Financial risk factors - continued

(a) Market risk - continued

Interest rate risk

Interest rate risk arises in the Bank's operations due to interest rate fluctuations resulting from interest-earning assets and interest-bearing liabilities, which mature or are repriced at different times or in different amounts. Floating rate assets and liabilities are also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. As outlined previously, the Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice within different time periods or on different terms.

The Bank adopts a policy to predominantly match the maturity of transactions through treasury operations, as much as is practicable, to minimise the risk of adverse fluctuations in interest rates affecting financial assets and financial liabilities. The Bank accepts deposits from customers at fixed rates for varying terms. This poses a risk to the Bank, which risk is managed by monitoring on a continuous basis the level of mismatch of interest rate repricing taking cognisance of the terms of the Bank's principal assets, loans and advances to customers, that are repriceable at the Bank's discretion.

The Bank's exposures to interest rate risk as at 31 December are analysed below:

	Floating rates €'000	Fixed rates €'000	Non-interest bearing €'000	Total €'000
At 31 December 2021				
Financial assets:				
Balances with Central Banks	134,589	-	4,332	138,921
Loans and advances to banks	-	11,458	36,707	48,165
Loans and advances to customers	94,249	229,683	-	323,932
Loans and advances to group companies	-	15,486	-	15,486
Investment in securitisation portfolio	-	60,497	188	60,685
	228,838	**317,124**	**41,227**	**587,189**
Financial liabilities:				
Amounts owed to customers	-	(477,969)	(8,071)	(486,040)
Lease liability	-	(776)	-	(776)
	-	**(478,745)**	**(8,071)**	**(486,816)**
Net exposure	**228,838**	**(161,621)**	**33,156**	**100,373**

2. Financial risk management - continued

2.3 Financial risk factors - continued

(a) Market risk - continued

Interest rate risk - continued

	Floating rates €'000	Fixed rates €'000	Non-interest bearing €'000	Total €'000
At 31 December 2020				
Financial assets:				
Balances with Central Banks	93,152	-	3,182	96,334
Loans and advances to banks	-	12,203	44,100	56,303
Loans and advances to customers	62,704	178,503	-	241,207
Loans and advances to group companies	-	14,875	-	14,875
Investment in securitisation portfolio	-	7,600	29	7,629
	155,856	**213,181**	**47,311**	**416,348**
Financial liabilities:				
Amounts owed to customers	(110,539)	(227,107)	(2,781)	(340,427)
Lease liability	-	(2,247)	-	(2,247)
	(110,539)	**(229,354)**	**(2,781)**	**(342,674)**
Net exposure	**45,317**	**(16,173)**	**44,530**	**73,674**

Financial instruments subject to fixed interest rates potentially expose the Bank to fair value interest rate risk. However, the Bank's loans and advances to customers, loans and advances to/from group companies, amounts owed to customers, debt securities in issue and borrowed funds are measured at amortised cost and are therefore not subject to fair value interest rate risk. Also, the Bank's loan portfolio consists of micro-loans, revolving loans and other credit products, and accordingly the short-term nature of these assets mitigates the Bank's exposure to interest rate risk in this respect.

Notwithstanding this, the Bank is cognisant of the strategic changes being made to its business model, whereby the Bank started to grant interest-bearing loans with a longer maturity profile. The Bank's long-term maturity products do not represent the significant portion of the Bank's portfolio. In this respect, the Bank has performed an assessment, which includes both quantitative and qualitative considerations, wherein market interest rate risk has been deemed to be immaterial in relation to the composition of the Bank's lending portfolio and balance sheet composition.

Notwithstanding the above, the Bank will keep monitoring the materiality of interest rate risk on a regular basis and when there are significant changes to the Bank's business model or strategy which might impact the assessment. Management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at reporting dates.

As reflected above, the Bank is exposed to cash flow interest rate risk in respect of certain financial assets and liabilities which are subject to floating interest rates. Taking cognisance of the nature of the Bank's financial assets and liabilities as described above, under the requirements of IFRS 7, a sensitivity analysis in respect of interest rate changes is required in relation to the Bank's net floating rate instruments. These instruments are the net resultant of floating rate assets, which mainly constitute the Bank's surplus liquidity placed with banks, and floating rate liabilities, consisting of funding through customer deposits.

2. **Financial risk management** - continued

2.3 Financial risk factors - continued

(a) Market risk - continued

Interest rate risk - continued

At the end of the reporting periods, if the interest rates on the floating rate instruments had increased/decreased by 100 basis points (assuming a parallel shift of 100 basis points in yields) with all other variables held constant, the pre-tax result for the year would change by the following amounts determined by applying the shift to the net variable interest exposure of the Bank at the end of the reporting periods:

	2021 €'000	2020 €'000
(+) 100 bp	**(2,476)**	(1,791)
(-) 100 bp	**2,476**	1,791

The table below further analyses the Bank's exposures to interest rate risk. It includes the entity's financial instruments at carrying amounts, categorised by re-pricing dates, taking cognisance of the instruments' interest rate or maturity terms. For interest bearing assets and liabilities which are subject to fixed interest rates, the re-pricing periods are equivalent to the remaining period to maturity.

	Within three months €'000	**Between three months and one year €'000**	**More than one year €'000**	**Total €'000**
As at 31 December 2021				
Financial assets				
Balances with Central Banks	134,589	-	4,332	138,921
Loans and advances to banks	48,165	-	-	48,165
Loans and advances to customers	143,321	166,555	14,056	323,932
Loans and advances to group companies	-	15,486	-	15,486
Investment in securitisation portfolio	188	7,600	52,897	60,685
	326,263	**189,641**	**71,285**	**587,189**
Financial liabilities				
Amounts owed to customers	(212,168)	(190,190)	(83,682)	(486,040)
Derivative financial instrument	(168)	(129)	-	(297)
Lease liability	(388)	(388)	-	(776)
	(212,724)	**(190,707)**	**(83,682)**	**(487,113)**
Interest rate gap	**113,539**	**(1,066)**	**(12,397)**	
Cumulative gap	**113,539**	**112,473**	**100,076**	

2. **Financial risk management** - continued

2.3 Financial risk factors - continued

(a) Market risk - continued

Interest rate risk - continued

	Within three months €'000	**Between three months and one year €'000**	**More than one year €'000**	**Total €'000**
As at 31 December 2020				
Financial assets				
Balances with Central Banks	31,133	-	65,201	96,334
Loans and advances to banks	56,303	-	-	56,303
Loans and advances to customers	117,706	113,001	10,500	241,207
Loans and advances to group companies	-	14,875	-	14,875
Investment in securitisation portfolio	-	-	7,629	7,629
	205,142	**127,876**	**83,330**	**416,348**
Financial liabilities				
Amounts owed to customers	(160,766)	(116,462)	(63,199)	(340,427)
Lease liability	(539)	(531)	(1,177)	(2,247)
	(161,305)	**(116,993)**	**(64,376)**	**(342,674)**
Interest rate gap	**43,837**	**10,883**	**18,954**	
Cumulative gap	**43,837**	**54,720**	**73,674**	

(b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay creditors and fulfil commitments.

The Bank manages this risk, by maintaining a strong base of shareholders' capital considering the stage of development of its operations. The Bank manages its asset base with liquidity in mind, and monitors future cash flows and changes in available liquidity on a regular basis. As at 31 December 2021 and 2020, the Bank's pool of liquid assets consists mainly of balances with banks. The Bank's financial liabilities comprise predominantly amounts owed to customers. The Bank's objective is to maintain a comfortable level of liquid assets by reference to outflows expected in relation to amounts owed to customers and other liabilities.

2. **Financial risk management** - continued

2.3 Financial risk factors - continued

(b) Liquidity risk - continued

Liquidity is managed by the Bank's treasury function and the ALCO function. The Bank's liquidity management process includes:

- monitoring of day to day funding, managed by monitoring future cash flows to ensure that requirements attributable to financial liabilities can be met;
- monitoring liquidity ratios and benchmarks against internal and regulatory requirements;
- placing its liquid assets as short-term deposits with other credit and financial institutions taking cognisance of the level of commitments and outflows relating to the Bank's financial liabilities; and
- ensuring that the level of the Bank's liquid financial assets exceeds with a comfortable margin the expected cash outflows from the Bank's financial liabilities over a specified time horizon.

Monitoring takes the form of cash flow projections for the next day, week and month respectively, as these are key periods for liquidity management. Management ensures that it maintains a prudent measure of anticipated total net cash outflows in high quality liquid assets for the purposes of securing a healthy liquidity margin, taking cognisance of the nature of its financial liabilities.

(i) Liquidity Coverage Ratio (LCR)

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile, and became a minimum regulatory standard from 1 October 2015, under European Commission ('EC') Delegated Regulation 2015/61. It aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consist of cash or assets that can be converted into cash at little or no loss of value in markets.

The LCR ratio as at 31 December 2021 was 2031% (2020: 540%). As at 31 December 2021 and 2020, and during the respective financial periods, the LCR ratio was within both the regulatory minimum and the risk appetite set by the Bank.

(ii) Net Stable Funding Ratio (NSFR)

The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The NSFR ratio as at 31 December 2021 was 178% (2020: 141%). As at 31 December 2021 and 2020 and during the respective financial periods, the NSFR was within the regulatory minimum limit prescribed under Regulation (EU) 2019/876 of the European Parliaments and of Council of 20 May 2019.

2. Financial risk management - continued

2.3 Financial risk factors - continued

(b) Liquidity risk - continued

The following table discloses financial assets and liabilities at the end of the reporting period by remaining period to contractual maturity.

As at 31 December 2021	Within three months €'000	Between three months and one year €'000	More than one year €'000	Total €'000
Financial assets				
Balances with Central Banks	134,589	-	4,332	138,921
Loans and advances to banks	48,165	-	-	48,165
Loans and advances to customers	143,321	166,555	14,056	323,932
Loans and advances to group companies	-	15,486	-	15,486
Investment in securitisation portfolio	188	7,600	52,897	60,685
Other assets	10,029	-	-	10,029
	336,292	**189,641**	**71,285**	**597,218**
Financial liabilities				
Amounts owed to customers	(212,168)	(190,190)	(83,682)	(486,040)
Derivative financial instrument instrument	(168)	(129)	-	(297)
Lease liability	(388)	(388)	-	(776)
Other liabilities	(8,757)	-	-	(8,757)
	(221,481)	**(190,707)**	**(83,682)**	**(495,870)**
Maturity gap	**114,811**	**(1,066)**	**(12,397)**	
Cumulative gap	**114,811**	**113,745**	**101,348**	

Amounts owed to customers, reflected in the table above and consisting of customer deposits, are not expected to be withdrawn in accordance with contractual terms, taking cognisance of the nature of these instruments and hence the Bank is in a position to manage liquidity mismatches.

2. **Financial risk management** - continued

2.3 Financial risk factors - continued

(b) Liquidity risk - continued

As at 31 December 2020	Within three months €'000	Between three months and one year €'000	More than one year €'000	No maturity date €'000	Total €'000
Financial assets					
Balances with Central Banks	31,133	-	-	65,201	96,334
Loans and advances to banks	56,303	-	-	-	56,303
Loans and advances to customers	117,706	113,001	10,500	-	241,207
Loans and advances to group companies	-	14,875	-	-	14,875
Investment in securitisation portfolio	-	-	7,629	-	7,629
Other assets	15,363	-	-	-	15,363
	220,505	**127,876**	**18,129**	**65,201**	**431,711**
Financial liabilities					
Amounts owed to customers	(160,766)	(116,462)	(63,199)	-	(340,427)
Lease liability	(539)	(531)	(1,177)	-	(2,247)
Other liabilities	(8,462)	-	-	-	(8,462)
	(169,767)	**(116,993)**	**(64,376)**	**-**	**(351,136)**
Maturity gap	**50,738**	**10,883**	**(46,247)**		
Cumulative gap	**50,738**	**61,621**	**15,374**		

2. Financial risk management - continued

2.3 Financial risk factors - continued

(b) Liquidity risk - continued

The table below analyses the Bank's principal financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	Within three months €'000	Within one year but over three months €'000	More than one year €'000	Total €'000	Carrying amount €'000
As at 31 December 2021					
Amounts owed to customers	212,283	190,900	85,244	488,427	486,040
Derivative financial instrument	168	129	-	297	297
Lease liability	388	405	-	793	776
Other liabilities	8,757	-	-	8,757	8,757
	221,596	**191,434**	**85,244**	**498,274**	**495,870**
As at 31 December 2020					
Amounts owed to customers	160,830	117,023	64,997	342,850	340,427
Lease liability	564	585	1,201	2,350	2,247
Other liabilities	8,462	-	-	8,462	8,462
	169,856	**117,608**	**66,198**	**353,662**	**351,136**

(c) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Bank's Board of directors is primarily responsible for endorsing policies and procedures to ensure that operational risks are managed effectively. The Bank mitigates the possibility of risk events impacting the entity through the implementation of a business continuity plan, which encompasses risk mitigation achieved through back-up information security infrastructures, back-up disaster recovery sites and insurance covers over particular business risks. Such mechanisms enable the Bank to operate on an ongoing basis and limit losses in the event of severe business disruption.

The Bank currently uses the Basic Indicator Approach to assess its operational risk capital requirements and accordingly allocates 15% of average gross income for a three year period in accordance with the requirements of this approach.

2. Financial risk management - continued

2.4 Capital risk management

The Bank's objectives when managing capital, which is a broader concept than 'equity' as presented in the statement of financial position, are:

- to comply with the capital requirements set by the Malta Financial Services Authority (MFSA);
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on an ongoing basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Union Directives and regulations, as implemented by the MFSA for supervisory purposes. The level of Own funds represents the Bank's available capital and reserves for the purposes of assessing capital adequacy from a regulatory perspective. The capital adequacy ratio is a measure of the long-term financial strength of a bank, usually expressed as a ratio of its own funds or capital to the measure of the Bank's assets or exposures.

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 capital ratio above a minimum level as prescribed by banking regulations. The Bank has processes to ensure that the minimum regulatory requirements in relation to own funds are met at all times.

The capital requirements ratio expresses own funds as a proportion of risk weighted assets and off-balance sheet items in relation to credit risk together with notional risk weighted assets in respect of operational risk. The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses. Accordingly, risk-weighted assets are measured using the "Standardised approach" for credit risk with risk weights being assigned to assets and off-balance sheet instruments according to their asset class and credit risk mitigation. For the determination of credit assessments, reference is made to independent rating agencies where applicable.

As at 31 December 2021, no amount was pledged in favour of the Depositor Compensation Scheme in line with the latest Contingency Contributions requirements, which were revised in August 2021 (2020: €65,200,000).

In addition, in accordance with the Depositor Compensation Scheme return that is based on covered deposits as at 31 December 2020, the Bank has elected to affect the Payment Commitment of €2,346,000 (2020: €1,784,000) by transferring this amount to an account held by the Depositor Compensation Scheme at the Central Bank of Malta. With respect to 2021, no further transfers ought to be paid based on covered deposits as at 31 December 2021 (2020: €504,000). This amount is accounted for under 'Other assets' within the financial statements and as a deduction in the Total Own Funds calculation.

2. Financial risk management - continued

2.4 Capital risk management - continued

The following table shows the components of own funds and accordingly the basis of calculation of the Bank's capital adequacy ratio:

	2021 €'000	2020 €'000
Share capital	**10,000**	10,000
Capital contribution reserve	**60,500**	42,500
Other reserves:		
Reserve for General Banking Risks	**1,519**	1,519
Reserve for Excessive NPLs	**1,073**	1,073
Retained earnings	**28,747**	33,223
Less:		
Intangible assets	**(1,256)**	(1,320)
Deferred tax assets	**-**	(4,168)
Depositor Compensation Scheme - Payment commitments	**(2,346)**	(1,784)
IFRS 9 transitional adjustment	**7,236**	7,980
Total own funds	**105,473**	89,023

2.5 Fair value of financial instruments

The Bank's financial instruments as at 31 December 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.

2. Financial risk management - continued

2.5 Fair value of financial instruments - continued

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 31 December 2021				
Financial liabilities				
Derivative financial instrument measured at FVTPL	-	297	-	297
Total financial liabilities	**-**	**297**	**-**	**297**

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.

2. **Financial risk management** - continued

2.5 Fair value of financial instruments - continued

Financial instruments not measured at fair value

At 31 December 2021 and 2020, the carrying amounts of loans and advances to banks, loans and advances to customers, other assets, borrowed funds, amounts owed to customers, investments in securitisation portfolio, 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.

3. **Critical accounting estimates, and judgements in applying accounting policies**

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 as highlighted in following page.

3. Critical accounting estimates, and judgements in applying accounting policies - continued

3.1 Impairment of loans and advances

3.1.1 Measurement of the expected credit losses

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 2.2.5.

A number of significant judgements are required in measurement of expected credit loss, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Determining the value of the recoverable value of loans and advance to customers, including the ability of the Bank to sell credit portfolios as at predetermined price in the future; and
- Establishing the number and relative weightings of forward-looking scenarios and associated ECL.

3.1.2 Assessment of estimates and judgements

The directors would like to draw attention to these accounting judgements that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In this respect, these primarily comprise assumptions and estimates relating to the calculation of impairment allowances in respect of loans and advances to customers (see note 2.2.5).

The COVID-19 pandemic and the economic distress it created has elevated the level of estimation uncertainty and judgement, especially in light of the inability to track observable historical trends which can be reflected in ECL modelling which could accurately represent the financial implications brought about by the pandemic. Hence, the level of subjectivity underlying the ECL model parameters, including how these react to forward-looking economic conditions remains high.

This estimation uncertainty is compounded since different territories have been impacted by COVID-19 differently and the recovery of countries in which the Bank invests in, may not be consistent.

The exercise of judgement in making estimations requires the use of assumptions that are highly subjective and very sensitive to the risk factors detailed in Note 2.2.5.4

A key judgement in the context of the COVID-19 pandemic is whether the heightened level of macroeconomic uncertainty and its effects are more likely to be temporary or prolonged. The shape of recovery is also a significant uncertainty. This in turn increases significantly the level of subjectivity around the estimation of credit loss allowances in respect of loans and advances to customers. Although the effective implementation of vaccination roll-out programmes has amongst other factors, led to an economic recovery during 2021, the level of subjectivity around the estimation of credit loss allowances remains significant, particularly due to successive waves of infections, the potential mutation of Covid-19 variants, the efficacy of such vaccines/boosters upon the emergence of new virus strains, and the unwinding of Government support schemes and regulatory relief measures.

During 2021 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. On the basis of such assessment, the Board and management have concluded that there exists sufficient evidence to support the going concern assumption in the preparation of these financial statements.

3. Critical accounting estimates, and judgements in applying accounting policies - continued

3.1.2 Assessment of estimates and judgements - continued

In this regard, management applied a higher level of expert judgement in order to assess the impact of the pandemic on the Bank's level of defaults, including evaluating the impact of government support schemes in various different territories and regulatory relief measures on both the incidence of default events and the severity of losses as described below.

The identification of customers experiencing significant increase in credit risk or credit impairment in the context of the elevated level of uncertainty is highly judgemental due to limitations in available credit information on customers. Refer to note 2.2.10 for more information on moratorium and other forbearance measures.

Judgement was also required in determining whether corporate loans experienced a SICR or a UTP event. In this respect, as part of management's response to the COVID-19 pandemic, the Bank has kept a closer eye on the payment behaviour of customers in order to tweak the loan origination policies to limit the impact of the ECL. The Bank has not observed a material change in the payment behaviour of its customer base.

Judgement is applied in estimating the expected future cash flows from each borrower and the time to recover these cash flows under the different scenarios as well as to attach probabilities to those scenarios. The assumptions around forecasted recoveries from the sale of portfolios are included in note 2.2.5.3.The assumptions around forecasted recoveries from the sale of portfolios are included in note 2.2.5.3.The Bank had a number of forward flows which were discontinued during 2020 which may not be renewed. In respect of longer term amortizing products where there is no experience of sales the Bank has developed a number of scenarios and in a stressed scenario which depends only on collections the Bank's ECL would increase by €2.4 million.

Significant judgement is required in establishing the number, severity and relative weightings of forward-looking economic scenarios. The level of expert judgement required is compounded by the heightened level of uncertainty around predictions in respect of the potential impact of the pandemic, including the effectiveness of government support schemes and regulatory relief measures, on key macroeconomic variables and, as a result on forward-looking PDs and LGDs. As already explained, there is an absence of an observable historical trend that can accurately represent the severity and speed of the economic impacts brought about by the pandemic. Consequently, in some cases, the Bank's IFRS 9 models generate outputs that appear overly sensitive when compared with other credit risk metrics and as a result, modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions.

These model limitations have been addressed through the enhancements described in Note 2.2.5.4 and recalibration of probability weights as described in further detail in the said Note. In view of the above, management considered the sensitivity of the ECL outcome to the macro-economic forecasts by recalculating the ECL under the different scenarios, applying a 100% weighting to each scenario. The effect of economic uncertainty on the ECL outcome is disclosed in the sensitivity analysis presented in Note 2.2.5.4 within the section entitled 'Forward-looking information incorporated in the ECL model'. The ECL calculated for the upside and downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes as there is a high degree of estimation uncertainty in the numbers representing tail risk scenarios when assigned a 100% weighting.

4. Balances with Central Banks

	2021 €'000	2020 €'000
Balance with the Central Bank of Malta	**98,019**	80,579
Balance with the Central Bank of Lithuania	**40,902**	15,755
	138,921	96,334

The balances with Central Bank of Malta include a reserve deposit amounting to €4,332,000 (2020: €3,182,000) held in terms of Regulation (EC) No. 1745/2003 of the European Central Bank. The average reserve deposit balance held for the relevant maintenance period was €3,829,000 (2020: €3,378,000).

As at 31 December 2021, no amount was pledged in favour of the Depositor Compensation Scheme in line with the latest Contingency Contributions requirements, which were revised in August 2021 (2020: €65,200,000).

5. Loans and advances to banks

	2021 €'000	2020 €'000
Repayable on call and at short notice	**48,165**	56,303

Loans and advances with a contractual maturity of three months or less are included in cash and cash equivalents for the purposes of the statement of cash flows (Note 29).

6. Loans and advances to customers

	2021 €'000	2020 €'000
Term loans and advances to customers	**323,932**	241,207

Loans and advances to customers consist of loans granted to individuals and are principally unsecured. The loans and advances are effectively subject to a fixed or floating interest rate as the Bank's principal revenue streams (process fees, rescheduling fees, reminder fees and other fees attributable to revolving credit facilities) are amortised over the expected term of the loan using the effective interest method. Process, reminder and other revolving credit fees due are reflected as part of the carrying amount of the loans receivable up to the extent of amounts amortised and recognised in profit or loss. The amount of rescheduling fees received but not yet amortised and recognised in profit or loss are deducted from the carrying amount of the loans receivable. The carrying amount of loans and advances to customers is further analysed on the following page.

6. Loans and advances to customers - continued

	2021 €'000	2020 €'000
Face value of loans and advances	**364,432**	277,669
Amortised process and reminder fees	**22,147**	26,016
Unamortised rescheduling fees	**(72)**	(44)
Credit loss allowances	**(62,575)**	(62,434)
Carrying amount	**323,932**	241,207

The table below analyses the movements in credit loss allowances on loans and advances to customers:

	2021 €'000	2020 €'000
At beginning of the year	**62,434**	56,600
Increase in allowances - charge to profit or loss	**51,600**	52,511
Loans and advances to customers written off during the year	**(51,164)**	(45,072)
Impact of unwinding ECL provisions	**(408)**	(626)
Exchange differences	**113**	(979)
At end of the year	**62,575**	62,434

The movements in ECL allowances illustrated above exclude the increase in provisions with respect to financial guarantee contracts amounting to €621,000 (2020: €1,000) (refer to note 2.2.12). The ECL allowance on financial guarantee contracts as at 31 December 2021, amounting to €1,974,000 (2020: €1,353,000) are disclosed under 'Other Liabilities' (Note 19).

As part of the Bank's non-performing loans reduction strategy, during the year ended 31 December 2021, the Bank effected disposals of portfolios of loans analysed with the respective carrying amounts as follows:

Country	2021 €'000	2020 €'000
Latvia	**2,198**	-
Poland	**710**	1,016
Spain	**2,160**	611
Germany	**-**	638
Denmark	**4,103**	-
Bulgaria	**385**	-
Sweden	**4,863**	-
	14,419	2,265

The Bank also has active ongoing debt sale agreements in a number of jurisdictions (refer to note 2.2).

7. Loans and advances to group companies

	2021 €'000	2020 €'000
Net advances to group company	**15,486**	14,875

The movements in the loans and advances are analysed below:

	2021 €'000	2020 €'000
At beginning of the year	**14,875**	25,145
Net advances/(repayments) to group company	**611**	(10,270)
At end of the year	**15,486**	14,875

During the financial years ended 31 December 2021 and 2020, the Bank carried out financing transactions, comprising of 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.

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 (Note 24).

All the terms and conditions of this arrangement are disclosed within note 2.2 (Credit risk - Loans and advances to group companies).

8. Investment in securitisation portfolio

	2021 €'000	2020 €'000
Investment in securitisation portfolio measured at amortised cost	**60,685**	7,629

8. Investment in securitisation portfolio - continued

The movement in securitisation investment portfolio is analysed as follows:

	2021	2020
	€'000	€'000
As at beginning of year		
Cost	**7,600**	-
Accumulated amortisation	**29**	-
Net book amount	**7,629**	-
Year ended 31 December		
Opening net book amount	**7,629**	-
Acquisitions	**52,897**	7,600
Accrued interest	**159**	29
Closing net book amount	**60,685**	7,629
As at end of year		
Cost	**60,497**	7,600
Accumulated accrued interest	**188**	29
Net book amount	**60,685**	7,629

During 2020, the Bank acquired notes, which are structured in tranches amounting to €200,000 each, 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. 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 of 31 December 2021, Ferratum Portfolio S.À.R.L, acquired 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. The acquired 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 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. (Note 2.2.1).

9. Right of use asset

The Bank rents office premises. Rental contracts are made for fixed periods. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

Amounts recognised in statement of financial position

	2021	2020
	€'000	€'000
Right of use asset		
At the beginning of the year	**2,212**	3,262
Derecognition of right of use asset	**(694)**	(23)
Depreciation for the year	**(713)**	(1,027)
Net book amount	**805**	2,212
Lease liabilities		
At the beginning of the year	**2,247**	3,237
Repayment of principal	**(736)**	(967)
Repayment of interest	**(56)**	(129)
Derecognition of lease liability	**(735)**	(23)
Interest accrued	**57**	129
	776	2,247
Current	**776**	1,070
Non-current	**-**	1,177
At end of the year	**776**	2,247

Amounts recognised in statement of comprehensive income

The statement of comprehensive income includes the following amounts relating to leases:

	2021	2020
	€'000	€'000
Interest expense	**56**	129
Depreciation of right of use asset	**(713)**	(1,027)

Amounts recognised in statement of cash flows

The statement of cash flows includes the following amounts relating to leases:

	2021	2020
	€'000	€'000
Interest and commission payments	**56**	129
Payment of lease liability	**736**	967

10. Property and equipment

	Furniture and fittings €'000	Computer hardware €'000	Office equipment €'000	Total €'000
At 1 January 2020				
Cost	910	720	68	1,698
Accumulated depreciation	(261)	(447)	(47)	(755)
Net book amount	649	273	21	943
Year ended 31 December 2020				
Opening net book amount	649	273	21	943
Additions	80	34	-	114
Depreciation charge	(118)	(144)	(9)	(271)
Closing net book amount	611	163	12	786
At 31 December 2020				
Cost	990	754	68	1,812
Accumulated depreciation	(379)	(591)	(56)	(1,026)
Net book amount	**611**	**163**	**12**	**786**
Year ended 31 December 2021				
Opening net book amount	611	163	12	786
Additions	2	87	-	89
Write-off	-	(126)	-	-
Depreciation write-off	-	126	-	(125)
Depreciation charge	(123)	(105)	(7)	(235)
Closing net book amount	**490**	**145**	**5**	**640**
At 31 December 2021				
Cost	992	716	68	1,776
Accumulated depreciation	(502)	(571)	(63)	(1,136)
Net book amount	**490**	**145**	**5**	**640**

11. Intangible assets

Software licenses	**2021**	2020
	€'000	€'000
As at beginning of year		
Cost	**2,263**	2,560
Accumulated amortisation	**(943)**	(679)
Net book amount	**1,320**	1,881
Year ended 31 December		
Opening net book amount	**1,320**	1,881
Additions	**337**	702
Impairment	**-**	(1,000)
Amortisation charge	**(401)**	(263)
Closing net book amount	**1,256**	1,320
As at end of year		
Cost	**2,600**	2,262
Accumulated amortisation	**(1,344)**	(942)
Net book amount	**1,256**	1,320

12. Deferred tax assets

	2021	2020
	€'000	€'000
Year ended 31 December		
At beginning of the year	**4,168**	4,168
Charge to profit and loss (Note 30)	**(4,168)**	
Deferred tax assets	**-**	4,168

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The principal tax rated used is 35% (2020: 35%).

The balance as at 31 December 2021 represents temporary difference attributable to:

	2021	2020
	€'000	€'000
Adjustment to expected credit loss upon application of IFRS 9 on 1 January 2018 reflected directly within retained earnings at that date	**-**	4,168

12. Deferred tax assets - continued

In view of the unsecured nature of the portfolio and the nature of the underlying exposures, in February 2021, the Bank has obtained clearance from the Commissioner for Revenue stating that the expected credit losses on loans and advances to customers can continue to be considered as deductible expenses for tax purposes.

The ruling also confirms that the deferred tax asset originally recognised in respect of the tax benefit emanating from the adjustment to the opening credit loss provisions in connection to the adoption of IFRS 9 can be fully utilised and consequently, the same deferred tax asset can be written off.

13. Other assets

	2021 €'000	2020 €'000
Amount due from immediate parent company	**1,078**	1,078
Amount due from group companies	**3,288**	6,624
Amounts attributable to the Depositor Compensation Scheme	**2,346**	1,784
Other receivables	**3,317**	6,620
	10,029	16,106

Amounts due from immediate parent company and from group companies are repayable on demand, unsecured and bear no interest.

As explained in note 2.4, in accordance with the Depositor Compensation Scheme return based on covered deposits as at 31 December 2020, the Bank had elected to effect the Payment Commitment of €2,346,000 (2020: €1,784,000) by transferring this amount to an account held by the Depositor Compensation Scheme at the Central Bank of Malta. With respect to 2021, no further transfers ought to be paid based on covered deposits as at 31 December 2021. (2020: €504,000).

14. Share capital

	2021 €'000	2020 €'000
Authorised, issued and fully paid		
10,000,000 Ordinary shares of €1 each	**10,000**	10,000

15. Capital contribution reserve

During 2021, by virtue of board resolutions dated 19 June 2019 and 27 April 2021, the Bank accepted further capital contributions from Ferratum (Malta) Holding Limited amounting to €3 million and €15 million respectively.

During 2020, by virtue of board resolution dated 19 June 2019, the Bank accepted a further capital contribution from Ferratum (Malta) Holding Limited amounting to €3 million.

The terms and conditions of the contributions granted, render these instruments equity in nature, in accordance with the requirements of IAS 32: Financial Instruments - Presentation:

- The Bank has no obligation to bear any servicing cost or transfer any economic benefits of any kind to the Contributor or any other person in return; and

- The Bank has no obligation to repay the contributions. The contributions are also eligible as own funds in terms of capital requirements.

16. Other reserves

	2021 €'000	2020 €'000
Reserve for General Banking Risks	**1,519**	1,519
Reserve for Excessive Non-Performing Loans	**1,073**	1,073
	2,592	2,592

The Reserve for General Banking Risks refers to the amount allocated by the Bank from its retained earnings to a non-distributable reserve against potential risks linked to the Bank's non-performing loans and advances (NPL). In line with the requirements under Banking Rule BR/09, during 2021 the Bank did not increase the reserve amount, taking cognisance of the level of non-performing assets within the Bank's loan portfolio as at 31 December 2021 retaining the reserve balance at €1,519,000 (2020: €1,519,000).

Banking Rule BR/09 also requires the recognition of a separate non-distributable reserve for "Excessive Non-Performing Loans" composed of allocations from retained earnings when the Bank deviates from any phase of the non-performing loans reduction plan in order to strengthen its resiliency to the risks associated with high NPL. The reserve balance as at 31 December 2021 amounted to €1,073,000 (2020: €1,073,000).

17. Amounts owed to customers

	2021 €'000	2020 €'000
Term deposits	**394,498**	227,107
Call accounts	**91,542**	113,320
	486,040	340,427

Amounts owed to customers are classified and accounted for as liabilities at amortised cost.

18. Derivative financial instruments

	2021 €'000	2020 €'000
Tracker forward and currency forward contracts	**297**	-

The Bank also seeks to manage its foreign exchange exposures through derivative instruments such as currency forwards and tracker forwards. With currency forwards, the Bank agrees to sell a predetermined amount of its foreign currency exposure at a predetermined price. In the case of tracker forwards, the Bank agrees to sell a predetermined amount of its foreign currency exposure at a predetermined price and buy its functional currency at the higher of the spot rate and a predetermined effective rate, thereby limiting the Bank's downwards exposure.(Note 2.3)

19. Other liabilities

	2021	2020
	€'000	€'000
Amounts due to group companies	**1,702**	3,381
Other payables	**865**	645
Other accruals	**4,216**	3,083
Provisions	**1,974**	1,353
	8,757	8,462

Amounts due to group companies are repayable on demand, unsecured and bear no interest.

The provisions relate to the financial guarantee contracts (Note 20).

20. Commitments

Credit related commitments

	2021	2020
	€'000	€'000
Financial guarantee contracts issued	**6,515**	4,530

Financial guarantee contracts issued, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. The Bank issues financial guarantee contracts in respect of micro-loans and other credit products originated by other parties. At the end of each reporting period, these commitments are measured at the higher of (i) the amount of the loss allowance, and (ii) the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

With respect to revolving credit facilities that are issued to customers, the Bank has undrawn credit lines that are considered revocable. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, commitments to extend credit are in all circumstances contingent upon customers maintaining specific credit standards under the terms of this product.

21. Interest and similar income

	2021	2020
	€'000	€'000
On loans and advances to customers	**134,703**	132,178
On loans and advances to group companies	**1,357**	1,800
On investment in securitisation portfolio	**1,642**	115
	137,702	134,093

22. Interest and similar expense

	2021	2020
	€'000	€'000
On borrowed funds	**544**	793
On loans and advances from group companies	**577**	242
On debt securities in issue	**-**	466
On lease liability	**56**	130
On amounts owed to customers	**3,023**	2,772
	4,200	4,403

23. Fee and commission income and expense

(a) Fee and commission income

	2021	2020
	€'000	€'000
Fee and other related income	**1,918**	2,027

(b) Fee and commission expense

	2021	2020
	€'000	€'000
Sales and commissions and other loan handling fees	**9,175**	7,254
Interbank transaction fees	**53**	220
Other fees	**393**	316
	9,621	7,790

24. Net trading income

The Bank is party to a Foreign Exchange Risk Agreement with a group company, whereby the latter provides cover to the Bank in respect of realised and unrealised foreign exchange differences. Any 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 year, the Bank registered net foreign exchange gains amounting to €349,000 (2020: foreign exchange losses of €418,000) which were allocated to the group company.

The Bank also seeks to manage its foreign exchange exposures through derivative instruments such as currency forwards and tracker forwards. With currency forwards, the Bank agrees to sell a predetermined amount of its foreign currency exposure at a predetermined price. In the case of tracker forwards, the Bank agrees to sell a predetermined amount of its foreign currency exposure at a predetermined price and buy its functional currency at the higher of the spot rate and a predetermined effective rate, thereby limiting the Bank's downwards exposure. During the year, the Bank incurred net foreign exchange loss amounting to €86,000.

25. Expenses by nature

	2021	2020
	€'000	€'000
Employee benefit expense (Notes 26 and 27)	**7,779**	7,701
Depreciation of property and equipment (Note 10)	**235**	271
Depreciation of right of use of assets (Note 9)	**713**	1,027
Amortisation of intangible assets (Note 11)	**401**	263
Impairment of intangible assets	**-**	1,000
Information technology costs	**15,078**	11,177
Legal, consultancy and professional expenses	**1,686**	1,439
Regulatory expenses	**1,650**	1,390
Marketing and representation costs	**13,255**	11,679
Credit management expenses	**8,561**	8,298
Brokerage fees	**737**	674
Foreign exchange risk management fees (Note 24)	**2,931**	2,098
Other administrative expenses	**4,969**	5,050
	57,995	52,067

Other administrative expenses comprise services or expense items which are incurred in the course of the Bank's operations.

Cash contributions required under the Depositor Compensation Scheme which have been accrued for by the Bank amounted to €1,593,000 (2020: €968,000) and are included under Regulatory expenses.

25. Expenses by nature - continued

Auditor's remuneration

Fees charged by the parent company auditor for services rendered during the financial years ended 31 December 2021 and 2020 relate to the following:

	2021	2020
	€'000	€'000
Annual statutory audit	**177**	178
Other assurance services	**6**	-
Other non-audit services	**3**	12
Tax advisory services	**47**	12
	233	202

Other non-audit services comprise regulatory advisory services that have no linkage to the historical audited financial statements.

During the current year fees amounting to €350,000 have been charged to the Bank by connected undertakings of the Bank's auditor, in respect of regulatory advisory services and tax advisory and compliance services.

Other assurance fees payable by group entities to the Bank's auditor amounted to €45,000 (2020: €25,000).

26. Employee compensation and benefits

	2021	2020
	€'000	€'000
Wages and salaries	**7,165**	7,055
Social security costs	**402**	411
	7,567	7,466

The average number of persons employed by the Bank during the period:

	2021	2020
Senior managerial	**15**	14
Operational/administrative	**153**	164
	168	178

27. Directors' emoluments

	2021	2020
	€'000	€'000
Salaries, fees and other emoluments	**212**	235

28. Tax expense

	2021 €'000	2020 €'000
Current tax expense	**805**	399
Deferred tax expense	**4,168**	-
	4,973	399
Profit before tax	**15,497**	19,348
Tax at the applicable rate of 35%	**5,424**	6,772
Tax effect of:		
Non-deductible expenses and other differences	**281**	370
Application of flat rate foreign tax credit	**(2,966)**	(4,747)
Application of notional interest deduction	**(1,934)**	(1,106)
Differences arising on the determination of deductibility of expected credit losses	**4,168**	(890)
Income tax expense	**4,973**	399

29. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with contractual maturity of not more than three months, which form an integral part of the Bank's cash management:

	2021 €'000	2020 €'000
Balances with Central Banks (Note 4)	**138,921**	96,334
Loans and advances to banks (Note 5)	**48,165**	56,303
	187,086	152,637

Borrowed funds, which are repayable on demand or within three months from origination, were treated as cash equivalents as they formed an integral part of the Bank's cash management.

30. Dividends

	2021 €'000	2020 €'000
Dividends declared by the Bank	**15,000**	-
euro cent per share – net	**1.5**	-

30. Dividends - continued

During April 2021, the payment of a final net dividend of 1.5 euro cent per share, amounting to €15,000,000 (a gross dividend of 2.31 euro cent per share, amounting to €23,076,923), was made. This dividend was originally proposed during March 2020 and was conditional to regulatory approval, which was obtained during 2021. During 2020, the Bank did not declare any dividend.

During March 2021 the directors recommended the payment of a final net dividend of 1.8 euro cent per share, amounting to €18,000,000 subject to the Regulator's approval (a gross dividend of 2.77 euro cent per share, amounting to €27,692,307).

31. Related party transactions

Multitude SE is the Bank's ultimate parent company (refer to note 33). 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.

During the financial years ended 31 December 2021 and 2020, 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.

The Bank has entered into a Foreign Exchange Risk Agreement with the same group company, where the latter provides cover to the Bank over realised and unrealised foreign exchange differences. Any realised and unrealised gains or losses attributable 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. During the year, the Bank reported net foreign exchange gain amounting to €349,000 (2020: net foreign exchange gain €418,000), which were allocated by the group company (refer to note 24). Interest income and expense attributable to loans and advances under this arrangement are presented in the following table.

31. Related party transactions - continued

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

	2021 €	2020 €
Interest receivable from group company (Note 21)	**1,357**	1,800
Interest payable to group company (Note 22)	**(577)**	(242)
Fee and other related income from group company	**1,773**	1,849
Recharge of expenses from ultimate parent company: information technology costs, marketing fees and other costs	**(10,608)**	(10,643)
Recharge of information technology costs, marketing, credit management expenses and staff training expenses from other group companies	**(19,554)**	(14,888)
Dividend payable to parent company (Note 30)	**(15,000)**	-
Impairment loss realised on the sale of debt through forward-flow agreement	**-**	(868)
Consideration for loans and advances acquired from group company	**-**	(5,500)
Capital contributions (Note 15)	**18,000**	3,000

Balances with group companies at the reporting date are disclosed in notes 7, 13 and 19.

The Bank's directors are deemed to be its key management personnel taking cognisance of the Bank's activities. Key management personnel compensation, consisting of directors' remuneration, has been disclosed in note 27.

During 2021 the Bank has invested in securitisation vehicle along with another group entity as explained in note 8.

32. Subsequent events

During 2022, the Bank will be issuing a Tier 2 capital unsecured subordinated bond at 6% coupon to be listed on the Malta Stock Exchange amounting to €20 million, with the option to issue a further €20million, for a duration of 10 years. The issue was approved by the MFSA during March 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.

33. Statutory information

Ferratum Bank plc is a limited liability company and is incorporated in Malta.

The immediate parent company of Ferratum Bank plc is Ferratum (Malta) Holding Limited, a company registered in Malta, with its registered address at ST Business Centre, 120, The Strand, Gzira GZR1027, Malta. The immediate parent company is the holder of the entire ordinary share capital of the Bank, with the exception of one ordinary share which is held by Multitude SE.

The ultimate parent company of Ferratum Bank plc is Multitude SE, (previously known as Ferratum OYJ) a company registered in Finland, with its registered address at Ratamestarinkatu 11A, Helsinki, 00520, Finland.

The financial statements of Ferratum Bank plc are included in the consolidated financial statements prepared by Multitude SE, which consolidated financial statements are available from the ultimate parent company's registered address.

Statement of financial position: Five year summary

	As at 31 December				
	2021	2020	2019	2018	2017
	€'000	€'000	€'000	€'000	€'000
ASSETS					
Balances with Central Banks	**138,921**	96,334	109,943	74,465	76,746
Loans and advances to banks	**48,165**	56,303	22,672	19,080	35,235
Loans and advances to customers	**323,932**	241,207	199,376	142,906	122,539
Loans and advances to group companies	**15,486**	14,875	25,145	7,720	4,469
Investment in securitisation portfolio	**60,685**	7,629	-	-	-
Investment securities	**-**	-	-	8,633	8,951
Right of use asset	**805**	2,212	3,262	-	-
Property and equipment	**640**	786	943	1,168	502
Intangible assets	**1,256**	1,320	1,881	518	513
Deferred tax assets	**-**	4,168	4,168	4,168	-
Other assets	**10,029**	16,106	16,813	22,927	12,293
Total assets	**599,919**	440,940	384,203	281,585	261,248
EQUITY AND LIABILITIES					
Equity					
Share capital	**10,000**	10,000	10,000	10,000	10,000
Capital contribution reserve	**60,500**	42,500	39,500	25,500	20,500
Other reserves	**2,592**	2,592	1,839	1,476	821
Retained earnings	**28,747**	33,223	15,027	14,629	10,028
Total equity	**101,839**	88,315	66,366	51,605	41,349
Liabilities					
Borrowed funds	**-**	-	-	-	65
Amounts owed to customers	**486,040**	340,427	241,114	180,976	171,206
Derivative financial instruments	**297**	-	-	-	-
Debt securities in issue	**-**	-	40,083	39,797	39,550
Lease liability	**776**	2,247	3,237	-	-
Other liabilities	**8,757**	8,462	31,456	7,681	8,174
Current tax liabilities	**2,210**	1,489	1,947	1,526	904
Total liabilities	**498,080**	352,625	317,837	229,980	219,899
Total equity and liabilities	**599,919**	440,940	384,203	281,585	261,248
MEMORANDUM ITEMS					
Commitments	**6,515**	4,530	5,280	4,410	3,902

Statement of comprehensive income: Five year summary

	Year ended 31 December				
	2021 €'000	2020 €'000	2019 €'000	2018 €'000	2017 €'000
Interest and similar income	**137,702**	134,093	129,049	110,341	90,654
Interest and similar expense	**(4,200)**	(4,403)	(4,744)	(4,633)	(3,994)
Net interest income	**133,502**	129,690	124,305	105,708	86,660
Fee and commission income	**1,918**	2,027	3,160	2,739	2,717
Fee and commission expense	**(9,621)**	(7,790)	(8,593)	(7,487)	(7,284)
Net fee and commission expense	**(7,703)**	(5,763)	(5,433)	(4,748)	(4,567)
Net trading expense	**(86)**	-	-	-	-
Operating profit	**125,713**	123,927	118,872	100,960	82,093
Employee compensation and benefits	**(7,779)**	(7,701)	(9,052)	(8,690)	(8,555)
Other operating costs	**(48,867)**	(41,805)	(42,075)	(40,780)	(29,172)
Depreciation and amortisation	**(1,349)**	(2,561)	(1,478)	(436)	(339)
Net impairment losses	**(52,221)**	(52,512)	(50,393)	(37,188)	(33,277)
Profit before tax	**15,497**	19,348	15,874	13,866	10,750
Tax expense	**(4,973)**	(399)	(1,113)	(869)	(661)
Profit for the year - total comprehensive income	**10,524**	18,949	14,761	12,997	10,089

Statement of cash flows: Five year summary

	Year ended 31 December				
	2021	2020	2019	2018	2017
	€'000	€'000	€'000	€'000	€'000
Cash flows from operating activities					
Interest and commission receipts	**139,461**	136,091	132,395	113,397	93,788
Interest and commission payments	**(13,649)**	(10,971)	(13,025)	(11,873)	(11,734)
Net trading expense	**(61)**	-	-	-	-
Income tax paid	**(84)**	(857)	(692)	(247)	-
Payments to employees and suppliers	**(50,373)**	(71,578)	(21,849)	(60,866)	(39,751)
Cash flows from operating profit before changes in operating assets & liabilities	**75,294**	52,685	96,829	40,411	42,303
Changes in operating assets and liabilities:					
Loans and advances to/(from) group companies	**(611)**	10,270	(17,424)	(3,251)	(4,118)
Loans and advances to customers	**(134,054)**	(94,342)	(106,417)	(68,560)	(66,682)
Amounts owed to customers	**145,441**	98,008	60,112	9,771	72,721
Amounts paid in favour of Depositor Compensation Scheme	**(562)**	(216)	-	(635)	(933)
Net cash generated from/(used in) operating activities	**85,508**	66,405	33,100	(22,264)	43,291
Cash flows from investing activities					
Purchase / sale of investments	**(52,897)**	(7,600)	8,447	-	-
Purchase of property and equipment	**(89)**	(114)	(52)	(886)	(298)
Purchase of intangible asset	**(337)**	(702)	(545)	(221)	(147)
Payment to acquire rights over credit product	**-**	-	(1,000)	-	-
Proceeds from maturity of held-to-maturity financial assets	**-**	-	-	-	2,202
Net cash (used in)/generated from investing activities	**(53,323)**	(8,416)	6,850	(1,107)	1,757
Cash flows from financing activities					
Repayment/Issue of debt securities	**-**	(40,000)	-	-	15,306
Repayment of debt securities	**-**	-	-	-	(13,500)
Payment of lease liability	**(736)**	(967)	(880)	-	-
Shareholders' contributions	**18,000**	3,000	14,000	5,000	8,500
Dividends paid to equity holders of the Bank	**(15,000)**	-	(14,000)	-	(2,800)
Net cash (used in)/ generated from financing activities	**2,264**	(37,967)	(880)	5,000	7,506
Net increase/(decrease) in cash and cash equivalents	**34,449**	20,022	39,070	(18,371)	52,554
Cash and cash equivalents at beginning of year	**152,637**	132,615	93,545	111,916	59,362
Cash and cash equivalents at end of year	**187,086**	152,637	132,615	93,545	111,916

Analysis of the share capital of Ferratum Bank plc as at 31 December 2021:

Ferratum Bank plc C56251

	Type & Class of Shares	Issued Shares	% Paid Up	Nominal Value Per Share in EUR
Ferratum (Malta) Holding Limited	Ordinary	9,999,999	100	1.000000
Multitude SE	Ordinary	1	100	1.000000

	Number of shares	Number of holders
Ordinary	10,000,000	2

Range	Number of holders
1 - 500	1
501 - 1000	-
1001 - 5000	-
5001 & over	1

The holders of Ordinary shares are entitled to one vote for each share.

Analysis of the share capital of the parent company of Ferratum Bank plc, Ferratum (Malta) Holding Limited, as at 31 December 2021:

Ferratum (Malta) Holding Limited C56250

	Type & Class of Shares	Issued Shares	% Paid Up	Nominal Value Per Share in EUR
Multitude SE	Ordinary	9,999,999	100	1.000000
Ferratum Finland Oy	Ordinary	1	100	1.000000

Company Secretary

Lea Liigus

Registered address:

Ferratum Bank plc
ST Business Centre,
120, The Strand
Gzira GZR 1027
Malta

Telephone:

+356 2092 7700

Additional Regulatory Disclosures
31 December 2021

1. Risk management

1.1 Overview of risk disclosures

Additional Regulatory Disclosures (ARDs) seek to increase public disclosure with respect to a bank's capital structure and adequacy as well as its risk management policies and practices. The Additional Regulatory Disclosures were prepared by the Bank in accordance with the Pillar III quantitative and qualitative disclosure requirements as governed by Banking Rule BR/07: 'Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act 1994', issued by the Malta Financial Services Authority. These disclosures are based on the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive) and EU Regulation No. 575/2013 (Capital Requirements Regulation) of the European Parliament and of the Council of 26 June 2013. These ARDs are published on an annual basis as part of the Annual Report of the Bank.

In line with the banking regulatory requirements, these disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements which are prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU. Through internal verification procedures, the Bank ensures that these ARDs are presented fairly.

1.2 Risk management framework

The Bank generates income and profitability by advancing short-term/longer term loans and providing other credit products to private individuals in a multitude of European countries. An understanding of risk taking and transparency in risk taking are key elements in the Bank's business strategy and thus in its ambition to be a strong financial institution. The Bank's internal risk management function supports this objective. The Bank is committed to creating lasting value for shareholders by focusing on customer-driven business and by employing specialised staff who strive to find solutions. The Bank takes on risk with the aim of generating profits and therefore considers risk management a core competency that helps produce higher returns for its various stakeholders.

In this respect, the Bank's return on assets, calculated as its net profit expressed as a percentage of average total assets, for the reporting period ended 31 December 2021 is 1.9%.

The Bank bases its risk management objectives and policies on international guidelines, such as the Basel III Accord, corresponding Directives and Regulations of the European Union, including technical standards, as well as contemporary international banking practices.

The Board deems the risk management framework adopted by the Bank to be adequate and hence gives assurance to the Bank's stakeholders that the risk management systems are appropriate in relation to the Bank's risk profile and strategy.

The main categories of risk to which the Bank is exposed to are:

- Credit risk: Credit risk stems from the loss of equity and profit as a result of the possible non-prompt repayment or non-payment of existing and contingent obligations by the Bank's customers or counterparties. Therefore this represents the risk that the deterioration in the financial condition of a customer or borrower will cause the asset value to decrease or be extinguished. Country risk and settlement risk are included in this category. Country risk refers to the risk of losses arising from economic or political changes that affect the country in which the asset is originated. Settlement risk refers to the risk of losses through failure of the counterparty to settle outstanding dues on the settlement date owing to bankruptcy or other causes.

1. Risk management - continued

1.2 Risk management framework - continued

- Market risk: Risk of losses arising from unfavourable changes in the level and volatility of interest rates, foreign exchange rates or investment prices.

- Liquidity risk: Liquidity risk may be divided into two sub-categories:

  - Market (product) liquidity risk: risk of losses arising from difficulty in accessing a product or market at the required time, price and volume.

  - Funding liquidity risk: risk of losses arising from a timing mismatch between investing, placements and fund raising activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.

- Operational risk: Risk of damage resulting from the lack of skilful management or good governance within the Bank and the inadequacy of proper control, which might involve internal operations, personnel, system or external occurrences that in turn affect the income and capital funds of financial institutions. The Bank has adopted an operational risk management framework and procedures, which provide for the identification, assessment, management, monitoring and reporting of the Bank's operational risks.

The Bank aims to manage these risks by applying methods that meet best practice and considers it important to have a clear distribution of responsibilities for risk management across the Bank, from the Board of Directors and the Risk Management Committee, to the Audit Committee and senior management and through its Risk Management Unit.

The Board of Directors is ultimately responsible for the establishment and oversight of the Bank's risk management framework through the development of, and monitoring of compliance with, the Bank's risk management policies. The aim of the risk management framework is to support the Bank in achieving its goals and objectives and ensure that the risks are commensurate with the rewards.

The Board establishes the risk appetite of the Bank which is the maximum risk that the Bank is willing to assume to meet business targets. The risk appetite is set in a process based on a thorough analysis of its current risk profile. The Bank identifies a number of key risk components and for each, determines a target that represents the Bank's perception of the component in question. The Bank's risk appetite is a key tool to ensure coherence between the Bank's strategic considerations regarding risk-taking and day-to-day decisions.

The Risk Management Committee performs the risk oversight function within the Bank and the members of the Committee act, on a joint basis, as the risk oversight guardians for the Bank. The Risk Management Committee is appointed to oversee the formulation of the Bank's overall risk management policy, to review risk measurement and monitoring mechanisms within the Bank and to monitor the effectiveness of the Bank's risk management practices.

The Risk Management Committee convened four times during the period ended 31 December 2021.

1. **Risk management** - continued

1.2 Risk management framework - continued

Authority to operate the Bank is delegated to the senior management team within the limits set by the Board. The senior management team, which is made up of the Bank's Chief Executive Officer and the functional heads of the Bank, is therefore responsible for the Bank's day-to-day operations of the Bank and is involved in taking on risks in a targeted manner and managing them professionally. The Bank has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve the Bank's objectives.

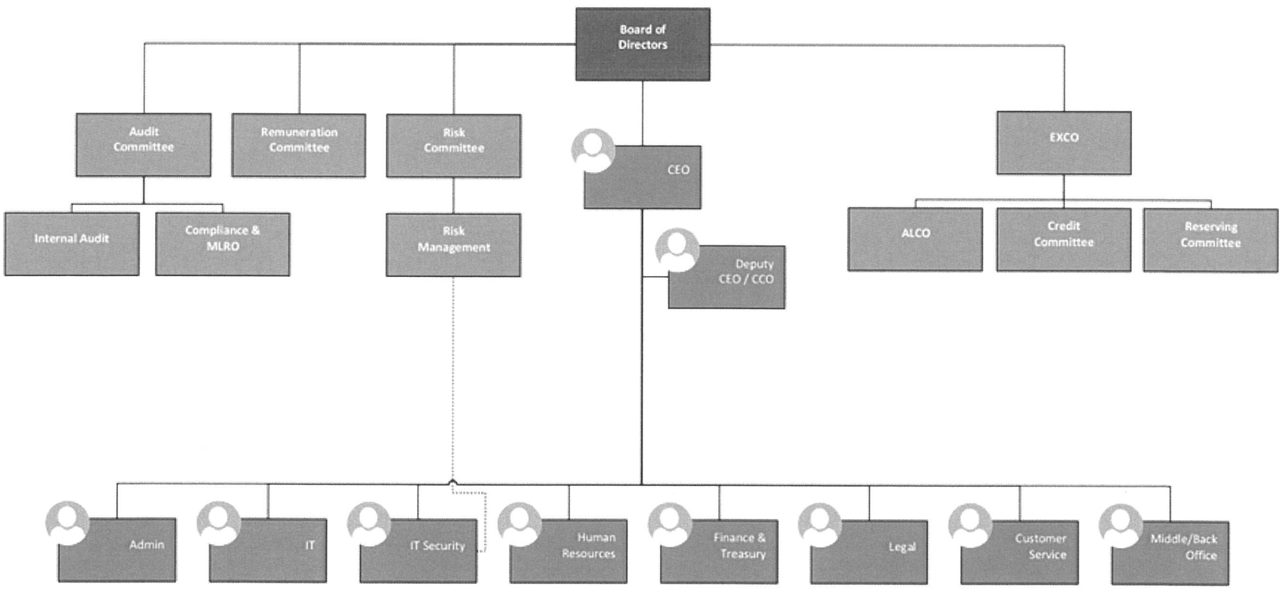
The senior management team aims to manage all major types of risk by applying methods that meet best practice. One of the main tasks of the Bank's senior management team is to set the framework for the area of entity wide risk management. The core functions of the Bank's risk management processes are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations.

The Bank's Audit Committee reviews the adequacy and proper operation of internal controls in individual areas of operation, and performs ad-hoc reviews of risk management controls and procedures.

Additionally, the Bank has a Risk Management Unit that undertakes oversight of the risks undertaken by the Bank and ensures that such risks are within the risk appetite and risk tolerance of the Risk Appetite Statements delineated by the Board. Whilst business acts as a first line of defence in selecting which consumer loans to underwrite, the risk management function acts as a second line of defence ensuring oversight, whilst Internal Audit acts as a third line of defence ensuring adherence to stipulated procedures and policies.

The following chart represents the organisation of the second and third line of defence of the Bank as well as the specific committees entrusted with delegated mandates by the Board:

Ferratum Bank Governance Structure



2. Credit risk

2.1 Introduction to credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit exposures arise principally through the Bank's unsecured 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 similar unsecured loans and other credit products to individuals located in certain European countries. Credit exposures through advances to group undertakings located in Finland also give rise to credit risk.

Credit risk constitutes the Bank's largest risk in view of its lending activities and therefore the Bank is fully aware of the connotations of such risk and places great importance on its effective management. The Bank's portfolio of loans and advances to customers is monitored on an ongoing basis and the relevant management bodies, including the Board of Directors and the Credit Committee, are kept informed on an ongoing basis of developments in the credit portfolio, non-performing loans and other relevant information.

2.2 Credit risk management

2.2.1 Loans and advances to customers

The Bank's lending activities comprise the granting of short-term loans, other medium-term credit products and revolving credit facilities (which are unsecured) to individual customers in specific European jurisdictions. Loans to customers are granted on the basis of the outcome of the scoring model and the rules embedded within the credit policy. Each lending transaction and the related agreement are determined on the strength of an individual credit decision. All credit decisions are handled and processed within the Bank's internal loan handing system through the application of both automated and manual processes. The creditworthiness of potential customers is assessed by reference to the calculation of a credit score for each loan application received. The relevant credit score is computed through the applications scorecard for first time customers and through the behaviour scorecard for repeat customers. Based on the credit score registered, customers are grouped into risk classes. The respective risk class determines the maximum credit amount for each customer. The scoring model and linked scorecards are developed and maintained centrally by the management team of the Bank. These are applied in all jurisdictions in which the Bank operates with specific adaptations at country level taking cognisance of the different characteristics of each market; with the adaptations being centrally overseen.

2. **Credit risk** - continued

2.2 Credit risk management - continued

2.2.1 Loans and advances to customers - continued

Prior to generation of internal scores, automated credit policy checks or underwriting actions are carried out within the loan handling system focusing on the Bank's credit policy rules in relation to such factors as applicant's age, number of outstanding loans, existence of duplicate applications, reference to the Bank's internal customer blacklist, previous loan repayment behaviour and linkage to external collection company information. These automated underwriting actions generate an internal credit score for the customer. Subsequently, specifically designed underwriting actions are carried out to finalise the loan application review and decision making process. These underwriting actions comprise requests for checks in relation to existence of bad debts reported by credit agencies, requests for external credit scoring checks with a view to checking external sources of credit information about the client, and requests for additional checks in respect of certain customer details. The outcome of these underwriting actions is automatically reflected in the loan handling system and updates the scorecard in an automated manner. If the scored or approved amount is higher than or equal to the requested amount, the loan is then automatically approved. Otherwise, the loan is automatically approved up to the scored amount.

In respect of credit risk management, the Bank has set an authority structure and has segregation of duties in place so as to maintain impartiality and independence during the approval process and to control new and existing credit transactions. Credit review procedures are designed to identify at an early stage risk patterns which require more detailed monitoring and review.

Furthermore, the Bank has a formal rigorous debt collection policy outlining the manner in which the Bank deals with past due loans and advances. This policy has been approved by the Bank for use within the operations in the respective territories with formal documented adaptations for the respective territories. The policy highlights the prescribed actions, channels and mechanisms utilised to follow up on outstanding exposures indicating the precise point in time at which the respective actions are taken and allocating roles and responsibilities within the Bank in this respect. The collection policy focuses on the extent to which collection activities are carried out by the Bank and the stage or phase at which external collection companies are utilised.

2. Credit risk - continued

2.2 Credit risk management - continued

2.2.2 Credit related commitments

The Bank issues financial guarantee contracts to other parties that grant micro-loans and other short-term credit products. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. The Bank's credit risk management framework applied to issuance of micro-loans and related products, described in detail in the preceding sections, is utilised for management of issuance of guarantee contracts. The entire credit underwriting cycle from approval to monitoring is considered appropriate for financial guarantee contracts as in substance the issuance of such guarantees, covering micro-lending and other lending activities, is essentially considered to be micro-lending or other credit granting.

2.2.3 Credit exposures analysed by exposure class

The Bank's principal credit risk exposures reflecting the maximum exposure to credit risk in accordance with the regulatory information submitted to the MFSA are as follows:

	2021 Average exposure value €'000	**2021 Year end exposure value €'000**
Central Government or Central Banks	130,025	138,921
Institutions	42,184	39,283
Corporates	10,784	8,882
Retail exposures	336,065	337,699
Other items	43,197	85,283
	562,255	**610,068**

The exposures set out in the preceding table are based on the sum of on-balance sheet exposures and off-balance sheet exposures adjusted for the credit conversion factors stipulated within Article 166(10) of the CRR.

2.2.4 Credit exposures analysed by residual maturity

	2021 Within three months €'000	**2021 Between three months and one €'000**	**2021 More than One year €'000**	**2021 Year end Exposure value €'000**
Central Government or Central Banks	134,589	-	4,332	138,921
Institutions	39,283	-	-	39,283
Corporates	8,882	-	-	8,882
Retail exposures	148,653	167,754	21,292	337,699
Other items	8,495	23,086	53,702	85,283
	339,902	**190,840**	**79,326**	**610,068**

2. Credit risk - continued

2.3 Concentration risk

The Bank's concentration risk arises primarily as a result of the concentration of exposures by geographical location in view of the nature of the loans and advances portfolio of the Bank.

In this respect the Bank runs the risk of loss of funds due to possible political and economic events in the particular countries in which it extends credit or where funds have been placed or invested.

Countries are assessed according to their size, economic data and prospects and their credit ratings from international rating agencies. Existing country credit risk exposures are monitored and reviewed periodically.

The geographical concentration of the Bank's exposure classes as at the end of the reporting period is analysed in the following table. For the purposes of this table, the Bank has allocated exposure classes to geographical locations based on the country of domicile of the counterparties or customers.

As at 31 December 2021	Central Government or Central Banks €'000	Institutions €'000	Corporates €'000	Retail exposures €'000	Other items €'000	Total €'000
Malta	98,019	10,423	-	7,351	19,800	135,593
Sweden	-	-	-	94,124	-	94,124
Finland	-	-	-	43,519	-	43,519
Latvia	-	-	-	69,288	-	69,288
Poland	-	7,091	-	2,525	263	9,879
Denmark	-	-	-	34,798	99	34,897
Czech	-	10,158	1,030	12,706	1,200	25,094
Lithuania	40,902	-	168	-	-	41,070
Croatia	-	4,320	-	5,726	-	10,046
Estonia	-	166	-	21,964	-	22,130
Spain	-	4,125	-	152	-	4,277
Germany	-	(189)	-	28,239	-	28,050
Bulgaria	-	574	-	8,071	1,513	10,158
Norway	-	-	-	5,710	1,246	6,956
France	-	-	5,155	-	66	5,221
United Kingdom	-	-	2,529	-	-	2,529
Italy	-	865	-	-	-	865
Luxembourg	-	-	-	-	60,497	60,497
Slovakia	-	11	-	-	595	606
Romania	-	1,739	-	3,526	4	5,269
Total	**138,921**	**39,283**	**8,882**	**337,699**	**85,283**	**610,068**

2. Credit risk - continued

2.4 Use of External Credit Assessment Institutions

The Bank runs the risk of loss of funds due to the possible delay in the repayment of existing and future obligations by counterparty banks. Within its daily operations the Bank transacts, carrying out transactions through correspondent accounts, with banks and other financial institutions which are pre-approved and subject to a limits framework. In the normal course of business, the Bank mainly places funds with good credit quality banks and financial institutions. By conducting these transactions, the Bank is running the risk of losing funds due to the possible delays in the repayment to the Bank of the existing and future obligations of the counterparty banks. The positions are checked against the limits on a regular basis, comprising real-time and end of day monitoring. Accordingly, such exposures are monitored through the practical use of exposure limits.

The Bank uses an External Credit Assessment Institution ('ECAI') in calculating its risk-weighted exposure amounts for Institutions for which a credit assessment is available. The credit quality of such exposures is determined by reference to credit ratings applicable to issuers published by Fitch Ratings. The Bank maps Fitch's ratings to the credit quality steps prescribed in the CRR as required by CEBS publication *'Standardised approach: Mapping of ECAIs' credit assessments to credit quality steps'*.

The following table represents the exposure values in respect of Institutions:

At 31 December 2021	**Credit quality step**	**Institutions €'000**
AAA+ to AA-	1	-
AA+ - A-	2	14,283
BBB+ to BBB-	3	19,063
BB+ to BB-	4	865
Total		**34,211**

Exposures to institutions for which a credit assessment by a nominated ECAI is not available are assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned.

2.5 Credit quality of the Bank's loans and advances to customers

The Bank reviews and grades advances to customers using the following internal risk grades:

Performing
- Regular
- Watch
- Substandard

Non-performing
- Doubtful
- Loss

2. **Credit risk** - continued

2.5 Credit quality of the Bank's loans and advances to customers

The Bank manages the credit quality of its loans and advances to customers by using internal risk grades, which provide a progressively increasing risk profile ranging from 'Regular' (best quality, less risky) to 'Loss'. These risk grades are an essential tool for the Bank to identify both non-performing exposures and better-performing customers. The internal risk grades used by the Bank are as follows:

- Performing: Internal grade 'Regular'
- Under performing: Internal grades 'Watch' and 'Substandard'; and
- Non-performing: Internal grades 'Doubtful' and 'Loss'.

Regular

The Bank's Loans and advances to customers which are categorised as 'Regular' for financial disclosure purposes are principally debts in respect of which payment is not overdue by 30 days and no recent history of customer default exists. The Bank does not expect any losses from non-performance by these customers, which are considered as fully performing.

Watch

Loans and advances that attract this category principally comprise those where:

(i) payment becomes overdue by 30 days, but does not exceed 60 days where a loan is deemed to be as non-performing when past due for more than 90 days;
(ii) and payment becomes overdue by 30 days but does not exceed 45 days where a loan is deemed to be as non-performing when past due for more than 60 days;
(iii) payment becomes overdue between 5 and 10 days in instances when a loan was granted a payment holiday (refer to Note 1.5).

Substandard

Exposures that are categorised within this category comprise those where:

(i) payment becomes overdue by 61 days but does not exceed 90 days for where a loan is deemed to be as non-performing when past due for more than 90 days;
(ii) and where payment becomes overdue by 46 days, but does not exceed 60 days where a loan is deemed to be as non-performing when past due for more than 60 days;

Doubtful

Loans and advances which attract a 'Doubtful' grading are principally those assets in respect of which:

(i) repayment becomes overdue by 61 days and over but not exceeding 180 days for where a loan is deemed to be as non-performing when past due for more than 60 days;
(ii) and repayment becomes overdue by 91 days and over but not exceeding 180 days for a loan is deemed to be as non-performing when past due for more than 90 days.

Loss

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

2. Credit risk - continued

2.5 Credit quality of the Bank's loans and advances to customers - continued

	2021			
	Stage 1 12-month ECL €'000	**Stage 2 Lifetime ECL €'000**	**Stage 3 Lifetime ECL €'000**	**Total €'000**
Loans and advances to customers at amortised				
Regular	282,661	-	-	282,661
Watch	-	15,827	-	15,827
Substandard	-	6,037	-	6,037
Doubtful	-	-	20,640	20,640
Loss	-	-	61,342	61,342
Gross carrying amount	**282,661**	**21,864**	**81,982**	**386,507**
Loss allowance	(15,627)	(5,847)	(41,101)	(62,575)
Carrying amount	**267,034**	**16,017**	**40,881**	**323,932**
Off-balance sheet items: Financial guarantee				
Gross carrying amount	4,318	650	1,547	6,515
Loss allowance	(623)	(335)	(1,016)	(1,974)
Carrying amount	**3,695**	**315**	**531**	**4,541**

As at 31 December 2021, loans and advances to customers amounting to €61,649,000 were deemed to be past due (and not deemed credit impaired or collectively impaired), taking cognisance of the manner in which the Bank practically manages its collection activities. A financial asset is past due when a customer has failed to effect payment when contractually due, and as detailed under section 2.5. An ageing analysis of these past due loans and advances is accordingly presented within the table above.

2. Credit risk - continued

2.5 Credit quality of the Bank's loans and advances to customers - continued

The amount of past due exposures broken down by geographical location is presented in the table below.

At 31 December 2021	**Past due exposures**
	€'000
Poland	630
Estonia	3,927
Latvia	8,918
Germany	3,437
Czech	3,177
Bulgaria	413
Sweden	25,688
Norway	1,566
Spain	2
Croatia	2,154
Finland	5,722
Denmark	4,559
Romania	1,456
	61,649

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses on its loans and advances portfolio.

Since the Bank's loan portfolio consists of a pool of homogeneous loans which by nature cannot be considered individually significant, loan losses are assessed on a collective basis at portfolio level by geographical location. Note 2.2.5.3 explains the methodology of how impairment losses are calculated for the different types of credit facilities offered by the Bank to its customers.

The collective assessment is carried out at country level taking cognisance of the different characteristics of the respective markets. Since no specific provisions for impairment are recognised, the Bank does not specifically earmark impaired exposures.

2. **Credit risk** - continued

2.5 Credit quality of the Bank's loans and advances to customers - continued

The following table sets out information about the Bank's ECL charge for the year by territory, as follows:

	2021			
	(Reversal) / increase of ECL allowances on loans and advances €'000	**Write-offs €'000**	**(Reversal) / increase of ECL allowances on Off-balance sheet items €'000**	**Total P&L for the year €'000**
Poland	(3,245)	3,574	-	329
Slovakia	-	(42)	-	(42)
Estonia	1,851	200	-	2,051
Latvia	4,204	3,042	-	7,246
Czech	330	4,225	-	4,555
Germany	2,226	2,007	-	4,233
Bulgaria	(237)	3,395	621	3,779
Sweden	7,290	5,667	-	12,957
France	-	(52)	-	(52)
Norway	557	953	-	1,510
Spain	(11,949)	14,417	-	2,468
Denmark	(3,842)	12,205	-	8,363
Finland	2,377	600	-	2,977
Romania	874	973	-	1,847
	436	**51,164**	**621**	**52,221**

2. **Credit risk** - continued

2.5 Credit quality of the Bank's loans and advances to customers - continued

Use of collateral

With respect to loans and advances originating from the Bank's lending activities in a particular country, which loans comprise approximately 3.44% of the Bank's loan portfolio as at 31 December 2021 the Bank is the holder of financial guarantee contracts issued by other parties. These financial guarantee contracts require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Since a financial guarantee contract represents a guarantee on an individual loan entered into with the loan contract and is essentially a pre-condition for granting the respective loan, the guarantee effectively forms part of the terms of the loan. Impairment charges are calculated on such loans in accordance with the Bank's accounting policy, but any impairment charges are reflected net of the financial guarantee reimbursement. This reimbursement gives rise to the recognition of a receivable from the issuer of the financial guarantee contract.

Write-off policy

The Bank writes off loans and advances to customers when it determines that these are uncollectible and it has exhausted all practical recovery efforts. This is generally the case when the Bank has applied debt recovery strategies for a significant period of time and has concluded there is no reasonable expectation of recovery, generally those loans aged 1080 days or more.

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

3. Market risk

Market risk for the Bank consists of the following elements:

- Exchange rate risk, which is the risk of losses on the Bank's positions in foreign currency because of changes in exchange rates; and
- Interest rate risk, which is the risk of losses because of changes in interest rates.

3.1 Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. Foreign exchange risk arises when financial assets or liabilities are denominated in currencies that are different from the Bank's functional currency (euro), principally in Polish Zloty, Czech Koruna, Swedish Krona, Norwegian Krona, Bulgarian Lev, Croatia Kuna,Danish Krone and Romanian Lue. However, the Bank is not in substance exposed to fluctuations in exchange rates with respect to the Bulgarian Lev as this currency is pegged to the euro.

The Bank manages its currency risk on an ongoing basis by ensuring that foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as much as is practicable. In relation to the resultant asset and liability foreign currency position mismatching, the Bank has entered into an agreement with a group company to provide cover to the Bank from realised and unrealised exchange differences.

The Bank's exposures to Polish Zloty, Czech Koruna, Swedish Krona, Norwegian Krona, Croatia Kuna, Danish Krone and Romanian Lue arise from its lending and credit related activities in Poland, Czech Republic, Sweden, Norway, Croatia, Denmark and Romania respectively, as the loans and other credit related instruments are denominated in that currency. The Bank's overall objective is to fund the activities in these countries in the same local currency. The Bank has a funding arrangement with a third party corporate with respect to borrowings in a specific currency to fund the lending activities in a particular country.

As previously explained, the Bank is party to a Foreign Exchange Risk Agreement with a group company, where the latter provides cover to the Bank in respect of realised and unrealised foreign exchange differences. Any realised and unrealised gains or losses attributable to foreign exchange fluctuations registered by the Bank are allotted on to the group entity at the end of each month, in line with the terms of this agreement.

3. **Market risk** - continued

3.1 Currency risk - continued

The Bank's financial assets and liabilities at the end of the reporting period are analysed into the respective currencies in the following table:

	Total €'000	EUR €'000	PLN €'000	SEK €'000	CZK €'000	BGN €'000	NOK €'000	DKK €'000	GBP €'000	HRK €'000	RON €'000	Other €'000
As at 31 December 2021												
Financial assets												
Balances with Central Banks	**138,921**	138,921	-	-	-	-	-	-	-	-	-	-
Loans and advances to banks	**48,165**	4,949	7,348	9,073	11,327	574	3,078	4,641	651	4,702	1,817	5
Loans and advances to customers	**323,932**	163,294	2,525	94,123	12,706	1,556	5,709	34,765	-	5,726	3,525	3
Loans and advances to group companies	**15,486**	15,486	-	-	-	-	-	-	-	-	-	-
Investment in securitisation portfolio	**60,685**	40,525	-	20,160	-	-	-	-	-	-	-	-
Other assets	**10,029**	4,441	220	3	1,375	2,360	1,284	211	-	-	135	-
Total financial assets	**597,218**	**367,616**	**10,093**	**123,359**	**25,408**	**4,490**	**10,071**	**39,617**	**651**	**10,428**	**5,477**	**8**
Financial liabilities												
Amounts owed to customers	**486,040**	486,040	-	-	-	-	-	-	-	-	-	-
Derivative financial instrument	**297**	297	-	-	-	-	-	-	-	-	-	-
Lease liability	**776**	776	-	-	-	-	-	-	-	-	-	-
Other liabilities	**8,757**	4,100	219	324	15	775	362	237	179	1,913	59	574
Total financial liabilities	**495,870**	**491,213**	**219**	**324**	**15**	**775**	**362**	**237**	**179**	**1,913**	**59**	**574**
Net currency exposure in financial assets/(liabilities)	**101,348**	**(123,597)**	**9,874**	**123,035**	**25,393**	**3,715**	**9,709**	**39,380**	**472**	**8,515**	**5,418**	**(566)**
Notional of derivative financial instrument	**10,435**	-	-	-	10,435	-	-	-	-	-	-	-
Residual exposure	**90,913**	**(123,597)**	**9,874**	**123,035**	**14,958**	**3,715**	**9,709**	**39,380**	**472**	**8,515**	**5,418**	**(566)**
Commitments	**6,515**	**-**	**-**	**-**	**-**	**6,515**	**-**	**-**	**-**	**-**	**-**	**-**

3. **Market risk** - continued

3.1 Currency risk - continued

Under the scenario that the euro appreciates by 5% against all relevant currencies, the effect would be a decrease of €11,213,000 in the carrying amount of the net financial assets with the adverse impact recognised in profit or loss. Should the euro depreciate against all relevant currencies by 5%, the effect would be a gain of €11,210,000 in the carrying amount of the net financial assets and the favourable impact would be recognised in profit or loss.

The Bank's Treasury function, under the Finance function, is responsible for the effective day-to-day management of foreign exchange risk, ensuring exposures to foreign currencies are maintained within the limits set by the Bank's Board. The Board sets these limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are actively monitored and reported on a regular basis. The Bank's risk oversight function provides oversight with respect to the foreign exchange risk management process, by ensuring its design is appropriate and functioning properly.

The ALCO function actively monitors the Bank's net exposures to foreign currencies by currency, by analysing the information on financial instruments on the basis of that reflected in the tables above and by performing sensitivity analysis, given the potential significance of such risk to the financial performance of the Bank. Under the terms of the Bank's arrangement with the group company, referred to above, the group company has committed to provide cover to the Bank from any realised and unrealised gains or losses arising on foreign currency fluctuations as a result of the Bank's lending activities, in certain territories, denominated in specific foreign currencies taking cognisance of the funding obtained by the Bank in those currencies. During the year, the Bank incurred net foreign exchange gain amounting to €349,000 which were borne by the group company.

The Bank also seeks to manage its foreign exchange exposures through derivative instruments such as currency forwards and tracker forwards. With currency forwards, the Bank agrees to sell a predetermined amount of its foreign currency exposure at a predetermined price. In the case of tracker forwards, the Bank agrees to sell a predetermined amount of its foreign currency exposure at a predetermined price and buy its functional currency at the higher of the spot rate and a predetermined effective rate, thereby limiting the Bank's downwards exposure. During the year, the Bank incurred net foreign exchange loss amounting to €86,000.

3. Market risk - continued

3.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank's exposures to interest rate risk as at 31 December are analysed below:

	Floating rates €'000	**Fixed rates €'000**	**Non-interest bearing €'000**	**Total €'000**
At 31 December 2021				
Financial assets:				
Balances with Central Banks	134,589	-	4,332	138,921
Loans and advances to banks	-	11,458	36,707	48,165
Loans and advances to customers	94,249	229,683	-	323,932
Loans and advances to group companies	-	15,486	-	15,486
Investment in securitisation portfolio	-	60,497	188	60,685
	228,838	**317,124**	**41,227**	**587,189**
Amounts owed to customers	-	(477,969)	(8,071)	(486,040)
Lease liability	-	(776)	-	(776)
	-	(478,745)	(8,071)	(486,816)
Net exposure	**228,838**	**(161,621)**	**33,156**	**100,373**

The Bank's ALCO function is responsible for the management of interest rate risk and for actively monitoring the interest rate risk measures used by the Bank, by reporting on a regular basis to the Board. Responsibility for day-to-day interest rate risk management is allocated to the Treasury function, under the responsibility of the Finance function. The Bank's risk oversight function provides oversight with respect to the interest rate risk management process, by ensuring its design is appropriate and functioning properly.

3. **Market risk** - continued

3.2 Interest rate risk - continued

Financial instruments subject to fixed interest rates potentially expose the Bank to fair value interest rate risk. However, the Bank's loans and advances to customers, loans and advances to/from group companies, amounts owed to customers, debt securities in issue and borrowed funds are measured at amortised cost and are therefore not subject to fair value interest rate risk. Also, the Bank's loan portfolio consists of micro-loans, revolving loans and other credit products, and accordingly the short-term nature of these assets mitigates the Bank's exposure to interest rate risk in this respect.

Notwithstanding this, the Bank is cognisant of the strategic changes being made to its business model, whereby the Bank started to grant interest-bearing loans with a longer maturity profile. The Bank's long-term maturity products do not represent the significant portion of the Bank's portfolio. In this respect, the Bank has performed an assessment, which includes both quantitative and qualitative considerations, wherein market interest rate risk has been deemed to be immaterial in relation to the composition of the Bank's lending portfolio and balance sheet composition.

Notwithstanding the above, the Bank will keep monitoring the materiality of interest rate risk on a regular basis and when there are significant changes to the Bank's business model or strategy which might impact the assessment. Management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at reporting dates.

As reflected above, the Bank is exposed to cash flow interest rate risk in respect of certain financial assets and liabilities which are subject to floating interest rates. Taking cognisance of the nature of the Bank's financial assets and liabilities as described above, under the requirements of IFRS 7, a sensitivity analysis in respect of interest rate changes is required in relation to the Bank's net floating rate instruments. These instruments are the net resultant of floating rate assets, which mainly constitute the Bank's surplus liquidity placed with banks, and floating rate liabilities, consisting of funding through customer deposits.

At the end of the reporting period, if interest rates had increased/decreased by 100 basis points (assuming a parallel shift of 100 basis points in yields) with all other variables held constant, the pre-tax result for the year would change by the following amounts determined by applying the shift to the net variable interest exposure of the Bank at the end of the reporting period:

	2021 **€'000**
(+) 100 bp	**(2,476)**
(-) 100 bp	**2,476**

The table below further analyses the Bank's exposures to interest rate risk. It includes the financial instruments at carrying amounts, categorised by re-pricing dates, taking cognisance of the instruments' interest rate or maturity terms. For interest bearing assets and liabilities which are subject to fixed interest rates, the re-pricing periods are equivalent to the remaining period to maturity.

3. **Market risk** - continued

3.2 Interest rate risk – continued

	Within three months €'000	Between three months and one year €'000	More than one year €'000	Total €'000
As at 31 December 2021				
Financial assets				
Balances with Central Banks	134,589	-	4,332	138,921
Loans and advances to banks	48,165	-	-	48,165
Loans and advances to customers	143,321	166,555	14,056	323,932
Loans and advances to group companies	-	15,486	-	15,486
Investment in securitisation portfolio	188	7,600	52,897	60,685
	326,263	**189,641**	**71,285**	**587,189**
Financial liabilities				
Amounts owed to customers	(212,168)	(190,190)	(83,682)	(486,040)
Derivative financial instrument	(168)	(129)	-	(297)
Lease Liability	(388)	(388)	-	(776)
	(212,724)	**(190,707)**	**(83,682)**	**(487,113)**
Interest rate gap	**113,539**	**(1,066)**	**(12,397)**	
Cumulative gap	**113,539**	**112,473**	**100,076**	

4. Liquidity risk

Liquidity risk is defined as the risk of losses due to:

- the Bank's funding costs increasing disproportionately;
- lack of funding preventing the Bank from establishing new business; and
- lack of funding that will ultimately prevent the Bank from meeting its obligations.

Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The objective of the Bank's liquidity and funding management is to ensure that all foreseeable funding commitments and funding withdrawals can be met when due.

The Bank manages this risk by maintaining a strong base of shareholders' capital. The Bank manages its asset base with liquidity in mind, and monitors future cash flows and changes in available liquidity on a regular basis.

The Bank's liquidity management process, which is the responsibility of the Treasury function within the Bank's Finance function, includes:

- management of day to day funding through monitoring future cash flows attributable to financial liabilities to ensure that requirements can be met. This includes plans for replenishment of funding upon maturity. The Bank also intends to maintain a presence in money markets to enable this to happen;
- monitoring liquidity ratios against internal and regulatory requirements;
- placing its liquid assets as short-term deposits with other banks and financial institutions taking cognisance of the level outflows emanating from the Bank's financial liabilities; and
- ensuring that the level of the Bank's liquid financial assets exceeds with a comfortable margin the expected cash outflows from the Bank's financial liabilities over a specified time horizon.

Management ensures that it maintains a prudent measure of anticipated total net cash outflows in high quality liquid assets for the purposes of securing a healthy liquidity margin taking cognisance of the nature of its financial liabilities. Moreover, sources of liquidity are regularly reviewed by the Treasury function to maintain diversification. Monitoring takes the form of cash flow projections for the next day, week and month respectively, as these are key periods for liquidity management.

The Bank's ALCO function ensures that reporting to the Board of measures of liquidity risk and the Bank's ratios compared to prescribed internal limits is effected on a regular basis. The Bank's risk oversight function provides oversight with respect to the liquidity risk management process, by ensuring its design is appropriate and functioning properly.

The following table discloses financial assets and liabilities at the end of the reporting period by remaining period to maturity.

4. **Liquidity risk** - continued

As at 31 December 2021	Within three months €'000	Between three months and one year €'000	More than one year €'000	No maturity date €'000	Total €'000
Financial assets					
Balances with Central Banks	134,589	-	4,332	-	138,921
Loans and advances to banks	48,165	-	-	-	48,165
Loans and advances to customers	143,321	166,555	14,056	-	323,932
Loans and advances to group companies	-	15,486	-	-	15,486
Investment in securitisation portfolio	188	7,600	52,897	-	60,685
Other assets	10,029	-	-	-	10,029
	336,292	**189,641**	**71,285**	**-**	**597,218**
Financial liabilities					
Amounts owed to customers	(212,168)	(190,190)	(83,682)	-	(486,040)
Derivative financial instrument	(168)	(129)	-	-	(297)
Lease Liability	(388)	(388)	-	-	(776)
Other liabilities	(8,757)	-	-	-	(8,757)
	(221,481)	**(190,707)**	**(83,682)**	**-**	**(495,870)**
Maturity gap	**114,811**	**(1,066)**	**(12,397)**		
Cumulative gap	**114,811**	**113,745**	**101,348**		

As at 31 December 2021, the Bank's pool of liquid assets consists of balances with banks and amounts due from customers. The Bank's financial liabilities comprise predominantly amounts owed to customers and other funding arrangements. The Bank's objective is to maintain a comfortable level of liquid assets by reference to outflows expected in relation to deposits, debt securities in issue and other liabilities.

Analysis by residual maturity

The table below analyses the Bank's principal financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows which the Bank will monitor through its liquidity management process.

4. Liquidity risk - continued

Analysis by residual maturity - continued

	Within three months €'000	Within one year but over three months €'000	More than one year €'000	Total €'000	Carrying amount €'000
As at 31 December 2021					
Amounts owed to customers	212,283	190,900	85,244	488,427	486,040
Derivative financial instrument	168	129	-	297	297
Lease Liability	388	405	-	793	776
Other liabilities	8,757	-	-	8,757	8,757
	221,596	**191,434**	**85,244**	**498,274**	**495,870**

5. Operational risk

Operational risk is the risk of direct or indirect losses arising from a variety of causes associated with the Bank's processes such as:

- deficient or erroneous internal procedures;
- human or system errors;
- external events, including legal events;
- internal and external fraud;
- employment practices and workplace safety;
- clients, products and business practices;
- damage to physical assets;
- business disruption and system failures; and
- execution, delivery and process management.

Operational risks are non-financial risks and are often associated with specific and one-off events, such as failure to observe business or working procedures, defects or breakdowns of the technical infrastructure, criminal acts, fire and storm damage or litigation. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity while maintaining risk-taking within a tolerable limit.

The Bank's Board of Directors is primarily responsible for the development and implementation of policies and procedures to ensure that operational risks are managed effectively. The Bank's management of operational risk relies on a framework of policies and procedures implemented across the Bank's operational functions through transaction processing and business execution. The implementation of these policies and procedures is overseen by the Bank's risk oversight function. The primary responsibility for the development and implementation of control activities to address operational risk is assigned to senior management. Reporting of operational risk events to the Board of Directors is carried out when required. Operational risks are measured by both quantitative and qualitative methods consisting of both ex-post and ex-ante consideration of events and risks, coupled with an early warning system.

5. Operational risk - continued

The Bank currently uses the Basic Indicator Approach to assess the operational risk capital requirements and accordingly allocates 15% of average gross income for a three year period in accordance with regulatory requirements. The operational risk regulatory capital requirement as at 31 December 2021 amounted to €230,320.

6. 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.

At 31 December	Carrying of encumbered assets €'000	Fair value of encumbered assets €'000	Carrying of assets €'000	Fair value of unencumbered assets €'000
Assets of the institution	**7,206**	**-**	**592,713**	**-**
Loans on demand	7,206	-	179,880	-
Loans and advances	-	-	339,418	-
to customers			60,685	
Other assets	-	-	12,730	-

The Bank does not encumber any of the collateral received, if applicable. Moreover, as at 31 December 2021, 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 requirements.

7. Capital management

As a licensed credit institution the Bank must comply with the capital adequacy requirements under the relevant banking laws and regulations. Local regulatory requirements with respect to capital adequacy are based on the EU capital requirements rules. Accordingly, the Bank's capital management process is based on the regulatory requirements established within the CRR and by local regulatory requirements, which are modelled on the requisites of the CRD.

The prudent and effective management of capital levels remains one of the Bank's key objectives and priorities, particularly by reference to risk appetite as well as business development. The Bank must ensure at all times that it has sufficient capital to comply with the applicable regulatory capital requirements. Capital management is primarily carried out through the Bank's capital planning process which determines the optimal amount and mix of capital that should be maintained by the Bank, subject to regulatory limits.

The Bank's Executive Committee is primarily responsible for the Bank's capital risk management process. Capital adequacy ratios together with the level and quality of own funds are reported on a regular basis to the Board of Directors by the Finance function.

Own funds

The level of Own funds represents the Bank's available capital and reserves for the purposes of assessing capital adequacy from a regulatory perspective. The total capital ratio is a measure of the long-term financial strength of a bank, usually expressed as a ratio of its own funds or capital to the measure of the Bank's risk-weighted assets. The Bank has processes to ensure that the minimum regulatory requirements in relation to own funds are met at all times, through the assessment of its capital resources and requirements. During the financial period ended 31 December 2021, the Bank has complied with all the externally imposed capital requirements to which it was subject.

For regulatory purposes, the Bank's capital base comprises solely Common Equity Tier 1 ('CET1') capital, made up of ordinary share capital, retained earnings, Reserve for General Banking risks and Reserve for Excessive NPLs.

7. **Capital management** - continued

Own funds - continued

(a) Share capital

The Bank's share capital as at 31 December 2021 is as follows:

	2021 Number of shares	2021 €'000
Authorised and Issued share capital		
Ordinary shares of €1 each	10,000,000	10,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regards to the Bank's residual assets.

(b) Retained earnings

The retained earnings represent earnings not paid out as dividends.

Retained earnings form part of Own funds only if those profits have been verified by the Bank's independent external auditor. The Bank has demonstrated to the satisfaction of the competent authority that any foreseeable charge or dividend has been deducted from the amount of those profits.

(c) Reserve for General Banking Risks

The Bank is required to allocate funds to this reserve in accordance with the revised Banking Rule 09: Measures Addressing Credit Risks Arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions authorised under the Maltese Banking Act, 1994.

The Reserve for General Banking Risks refers to the amount allocated by the Bank from its retained earnings to a non-distributable reserve against potential risks linked to the Bank's non-performing loans and advances (NPL). In line with the requirements under Banking Rule BR/09, during 2021 the Bank did not increase the reserve amount, taking cognisance of the level of non-performing assets within the Bank's loan portfolio as at 31 December 2021 retaining the reserve balance at €1,519,000 (2020: €1,519,000).

(d) Excessive Non-Performing Loans- continued

The Bank also falls within the scope of paragraphs 45-53 of Banking Rule BR/09 which establishes a framework for the deliberate and sustainable reduction of NPLs in banks' balance sheets in line with the European Central Bank's Guidance to Banks on Non-performing Loans of March 2017. In terms of BR/09, credit institutions with a two-year average NPL ratio exceeding 6% are to submit a multi-year NPL Reduction Plan targeting the decrease in these exposures to the set target, as required by paragraph 46 of BR/09. Ferratum Bank's two-year average NPL ratio as at 31 December 2021 exceeded the 6% threshold. Accordingly, the Bank is preparing and will eventually submit an NPL Reduction Plan in line with the requirements of BR/09 in April 2022. .. In this respect, the Bank has allocated a Reserve for Excessive NPLs amounting to €1,073,000 (2020: €1,073,000).

7. **Capital management** - continued

Own funds - continued

(d) Excessive Non-Performing Loans- continued

Moreover, the Bank is required to hold a Reserve required to accumulate a Reserve for Excessive NPLs in line with the requirements of Paragraphs 54-60 of BR/09. In this respect, the Bank has allocated a Reserve for Excessive NPLs amounting to €1,073,000 (2020: €1,073,000). Notwithstanding the requirements to accumulate this reserve, the MFSA reserves the right to require the Bank to draw up a new reduction plan.

	As at 31 December 2021 €'000
Common Equity Tier 1 (CET1) capital	
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	10,000
Capital contribution reserve	60,500
Reserve for General Banking Risks	1,519
Reserve for Excessive NPLs	1,073
Retained earnings	28,747
CET1 capital before regulatory adjustments	**101,839**
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets	(1,256)
Deferred tax assets	-
Payment Commitments	(2,346)
IFRS 9 Transitional Adjustments	7,236
Total regulatory adjustments to CET1	3,634
CET1 capital	**105,473**
Total capital	**105,473**
Total risk weighted assets	**571,662**
Capital ratios	
CET1 capital ratio	18.45%
Tier 1 capital ratio	18.45%
Total capital ratio	18.45%
Institution specific CET 1 requirement:	10.65%
of which: capital conservation buffer	2.50%
of which: countercyclical buffer	0.12%
of which: additional own funds requirements to address the risks other than the risk of excessive leverage	3.53%
Common equity tier 1 available to meet buffers	**4.95%**

7. Capital management - continued

Capital requirements

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The allocation of capital between specific operations and activities is to a large extent driven by optimisation of the return achieved on the capital allocated.

The minimum capital requirements are calculated for credit and operational risks. The Bank utilises the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk in order to calculate the Pillar 1 minimum capital requirements. For credit risk, under the standardised approach, risk weights are determined according to credit ratings provided by internationally recognised credit agencies such as Fitch or their equivalents and by using the applicable regulatory risk weights for unrated exposures. The Basic Indicator Approach requires that the Bank allocates capital for operational risk by taking 15% of the average gross income for a three year period.

As required by the CRR, the minimum level of the Capital Requirements Ratio stands at 8%.

The Bank has fully implemented the CRD IV capital requirements with effect from January 2019. In fact, the CRR requires two additional buffers, known as the 'capital conservation buffer' and the 'countercyclical buffer'. With respect to the former, the Bank is required to maintain a capital conservation buffer of 2.5%, made up of CET1 capital, on the risk weighted exposures of the Bank.

Additionally, since the Bank advances loans to borrowers in different geographical regions, it may be required to maintain a 'countercyclical buffer'. This is expected to be set in the range of 0 - 2.5%, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located.

7. Capital management - continued

Capital requirements - continued

The tables below provide the geographical distribution of the Bank's credit exposure relevant to the calculation of the institution-specific countercyclical buffer rate and the amount of institution-specific countercyclical capital buffer.

	General credit exposures	Own funds requirement			
Country	**Exposure value for SA €'000**	**Of which: general credit exposures €'000**	**Total €'000**	**Own funds requirement weights %**	**Countercyclical capital buffer rate %**
Malta	135,593	2,192	2,192	0.08	0.00%
Sweden	94,124	5,647	5,647	0.21	0.00%
Finland	43,519	2,611	2,611	0.10	0.00%
Latvia	69,288	4,157	4,157	0.15	0.00%
Poland	9,879	286	286	0.01	0.00%
Denmark	34,897	2,096	2,096	0.08	0.00%
Czech Republic	25,094	1,103	1,103	0.04	0.50%
Lithuania	41,070	13	13	0.00	0.00%
Croatia	10,046	413	413	0.02	0.00%
Estonia	22,130	1,320	1,320	0.05	0.00%
Spain	4,277	75	75	0.00	0.00%
Germany	28,050	1,691	1,691	0.06	0.00%
Bulgaria	10,158	614	614	0.02	0.50%
Norway	6,956	442	442	0.02	1.00%
France	5,220	418	418	0.02	0.00%
United Kingdom	2,529	208	208	0.01	0.00%
Italy	865	35	35	0.00	0.00%
Luxembourg	60,497	3,700	3,700	0.14	0.50%
Slovakia	607	48	48	0.00	1.00%
Romania	5,269	240	240	0.01	0.00%
Total	**610,068**	**27,309**	**27,309**		

Amount of institution-specific countercyclical capital buffer

	2021
Total risk amount	€571,662
Institution-specific countercyclical buffer rate	0.12%
Institution-specific countercyclical buffer requirement	670

7. Capital management - continued

Capital requirements - continued

The Bank's capital requirements and total capital ratio computation are as follows:

At 31 December 2021	Exposure value €'000	Risk weighted assets €'000	Capital required €'000
Central government or central banks	138,921	-	-
Institutions	39,283	8,115	649
Corporates	8,882	8,959	717
Retail	337,699	253,275	20,262
Other items	85,283	70,993	5,679
Credit risk	610,068	341,342	27,307
Operational risk		230,320	18,426
Total capital required		571,662	45,733
Own funds			
Common Equity Tier 1 capital			**105,473**
Total own funds			**105,473**
Total capital ratio			**18.45%**

7. Capital management - continued

Capital requirements - continued

In line with Section 2 of the EBA "Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", the following table is a comparison of the institutions' own funds, Common Equity Tier 1 capital, Tier 1 capital, risk-weighted assets, Common Equity Tier 1 capital ratio, Tier 1 capital ratio, total capital ratio and leverage ratio with and without the application of transitional arrangements for IFRS 9 or analogous ECLs.

Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs:

Available capital	**2021 €'000**
Common Equity Tier 1 capital	105,473
Common Equity Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	98,237
Tier 1 Capital	105,473
Tier 1 Capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	98,237
Total Capital	105,473
Total Capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	98,237
Risk-weighted assets	
Total risk-weighted assets	571,662
Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	566,235
Capital Ratios	
Common Equity Tier 1 (as a percentage of risk exposure amount)	18.45%
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.22%
Tier 1	18.45%
Tier 1 as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.22%
Total Capital	18.45%
Total Capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.22%
Leverage Ratio	
Leverage Ratio total exposure measure	610,068
Leverage Ratio	17.29%
Leverage Ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.10%

7. **Capital management** - continued

Capital requirements - continued

As laid down in Regulation (EU) 2017/2395, the Bank has opted to apply the transitional arrangements laid down in the same regulation to mitigate the impact of the introduction of IFRS 9 on own funds. Thus, during the transitional period ending 31 December 2022, the Bank will be adding back a proportion of:

- the Day 1 impact as a result of the introduction of IFRS 9, being the difference between IFRS 9 expected credit losses ("ECLs") on 1 January 2018 and IAS 39 provisions determined at 31 December 2017; and

- on difference in the IFRS 9 ECLs determined on 1 January 2020 and the ECLs determined on 'day 1' of the introduction of IFRS 9 (being 1 January 2018 for the Bank) for Stage 1 (12-months ECLs) and Stage 2 (lifetime ECLs) assets.

The factors used to adjust the above ECLs will decline across the transitional period, starting at 95% during the financial year ended 31 December 2018 to 25% in the final transitional financial year ended 31 December 2022.

Furthermore, in line with the amendment of the Regulation (EU) No 575/2013 with regards certain adjustments in response to the COVID-19 pandemic, during the transitional period ending 31 December 2024, the Bank will be adding back a proportion of the difference in the IFRS 9 ECLs determined at reporting date and the ECLs determined on 1 January 2020 for Stage 1 (12-months ECLs) and Stage 2 (lifetime ECLs) assets.

The factors used to adjust the above ECLs will decline across the transitional period, starting at 100% during the financial year ended 31 December 2020 to 25% in the final transitional financial year ended 31 December 2024.

The above treatment is in accordance with the requirements laid down in paragraph 2 and paragraph 4 of Regulation (EU) 2017/2395."

As per table above the impact of the transitional arrangement on the Bank's capital ratio amounted to 123 bps at the reporting period under review. This was a result of an add-back in capital of €7,236,000 and an add back of €5,427,000 in risk-weighted assets. Similarly, the Bank's leverage ratio is 'overstated' by 119 bps in view of the transitional arrangement applied.

Internal Capital Adequacy Assessment Process (ICAAP)

The Bank considers the Internal Capital Adequacy Assessment Process (ICAAP) embedded in Pillar II as a tool that ensures a proper measurement of material risks and capital, and allows better capital management together with an improvement in risk management. Therefore, it facilitates a better alignment between material risks and regulatory capital in order to have better capital deployment and enhancements in the risk management and mitigation techniques adopted by the Bank. The ICAAP as required by the MFSA Banking Rule 12 is performed on an annual basis.

Therefore, ICAAP is a process that the Bank utilises to ensure that:

- there is adequate identification, measurement, aggregation and monitoring of the Bank's risks;
- adequate internal capital is held by the institution in relation to its risk profile; and
- the Bank uses sound risk management systems with the intention to develop them further.

7. Capital management - continued

Internal Capital Adequacy Assessment Process (ICAAP) - continued

The Board of Directors takes overall responsibility for the conceptual design and technical details of the ICAAP document. Apart from the responsibility for the conceptual design, the Board discusses, approves, endorses and delivers the yearly ICAAP submission. The Bank's independent risk oversight function is involved in the ICAAP with a view to ensure that the process reflects and takes cognisance of the Bank's risk management activities and processes.

The ICAAP is a revolving management tool which starts with defining risk strategy, identifying, quantifying and aggregating risks, determining risk-bearing ability, allocating capital, establishing limits and leads to ongoing risk monitoring. The individual elements of the ICAAP tool are performed with varying regularity. All the activities described in the process are examined at least once a year to ensure that they are up to date, adequate and also adjusted to current underlying conditions when necessary.

The process involves a quantitative assessment of individual types of risk and an assessment of the existing methods and systems for monitoring and managing risk (qualitative assessment). The risk assessment concept is used as a scoring procedure, thus providing a comprehensive overview of the risk profile of the Bank.

The Bank's ICAAP contains three year projections as well as the capital plan, and the Board monitors that there are adequate capital resources to support the corporate goals contained within the plan and the associated risks.

The Bank covers the Pillar 2 capital requirements through stress testing processes to forecast the Bank's projected capital requirements and resources in a range of stress scenarios. This enables the Bank to guarantee that it can meet its minimum regulatory capital requirements in a stressed environment.

8. Remuneration policy

Decision making process used for determining the remuneration policy

The Remuneration Committee of the Bank determines the remuneration policy which is applicable to the Bank's employees, as well as that applicable to 'Identified Staff' i.e. staff whose professional activities have a material impact on the Bank's risk profile and which are identified in accordance with Commission Delegated Regulation 604/2014 and in compliance with the Remuneration Policy. On the basis of these criteria the Bank has determined that its Identified Staff comprise the Bank's senior management as well as the members of the Board. Having taken into consideration the size of the Bank, the Board has considered this year that it is necessary to establish a Remuneration Committee. The Remuneration Committee has access to external consultants on remuneration matters and also calls on in-house expertise in compliance, finance, risk and HR.

8. Remuneration policy - continued

Design characteristics of the remuneration system

The key features of the remuneration policy are:

- The Bank's Chairman and non-executive Directors are not eligible to receive a performance incentive;
- Equal compensation opportunity;
- The variable component for Identified Staff will not exceed 40% of fixed compensation;
- It is the Bank's policy not to award Severance pays unless this is required by law;
- Methods used to transfer the downside risks of variable remuneration to another party through hedging or certain types of insurance are disallowed;
- The Bank is allowed to claw back or malus up to 100% of the total variable remuneration paid to an identified staff when any of set criteria met; and
- Ex-post risk adjustments cannot lead to the payment of a higher variable remuneration than previously agreed upon.

Linking Pay to Performance

The Board of Directors considers that the packages offered to senior management ensure that the Bank attracts and retains management staff that is capable of fulfilling its duties and obligations. Furthermore, it is the Bank's policy to engage its senior management staff on the basis of indefinite contracts of employment after a period of probation, rather than on fixed term contracts. Accordingly, the applicable notice periods, after probation, are those provided for in the relevant legislation.

Fixed remuneration is established according to the employee's role, including job complexity, and local market conditions. It is influenced by the level of education, the degree of seniority and organisational responsibility, the level of expertise and skills required, the constraints and job experience and the relevant business sector and region. It may be increased following performance reviews.

The variable component which is awarded in cash, and which does not exceed 40% of fixed remuneration, is structured in a manner that incentivises staff to pursue the goals and interests of the Bank and enable them to share in its success while promoting sound risk management and not inducing excessive risk-taking in line with the Bank's risk profile. It takes into account a multi-year framework and is awarded to employees on the basis of both financial and non-financial performance. Financial performance is assessed by reference to key risk adjusted financial metrics, while non-financial performance is assessed by reference to factors including leadership, team management, team work, creativity, motivation and cooperation.

Profit sharing does not feature in the Bank's remuneration policy and individual contracts of employment of senior management do not contain provisions for termination payments and/or other payments linked to early termination other than as determined by law. Currently no pension benefits are payable by the Bank. During the current year, a restricted number of Bank officials and employees have been awarded a limited number of options to acquire shares in the Bank's ultimate parent. This remuneration element is deemed to be insignificant in view of the infancy of the plan and the extent of its application to the Bank's management.

Total remuneration payable to Identified Staff is as detailed below:

Fixed Remuneration	Variable Remuneration
€ 1,876,515	€ 98,262

No severance payments were effected during the financial year under review.

9. Leverage

The leverage ratio is a regulatory and supervisory tool intended to provide a transparent and non-risk based measurement of an institution to supplement the risk-based capital requirements.

The leverage ratio is calculated on a three-month average of capital as a proportion of total exposures. Capital is defined as Tier 1 capital in line with article 25 of the CRR, whilst total exposure relates to the total on and off-balance sheet exposures, less deductions applied to Tier 1 capital.

The Bank manages the risk of excessive leverage through its approved risk appetite framework which sets the limits and trigger levels used to monitor this metric. The Bank's risk appetite statement is used to formulate the degree and forms of risk that the Board deems acceptable in order to achieve its strategic business objectives. The risk appetite framework is monitored through a regulatory dashboard which is presented to the Bank's risk function. This dashboard discloses the Bank's actual performance, as well as, the limits and trigger levels assigned to each metric as set in the Bank's risk appetite framework. This process ensures that any excessive risk is highlighted and assessed in a timely manner and is mitigated appropriately. Additionally, the Bank's leverage position is monitored throughout the year and actively managed in the Bank's Asset Liability Management Committee.

The following is the Bank's leverage ratio, determined in accordance with the requirements stipulated by the Implementing Regulation EU 2016/200.

	2021 €'000
Tier 1 capital	105,473
Total exposure measure for the purposes of the leverage ratio	610,068
Leverage ratio	**17.29%**

The total exposure measure for the purposes of the leverage ratio has been determined as follows:

	2021 €'000
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives and SFTs)	599,919
Asset amounts deducted in determining Tier 1 capital	3,634
On-balance sheet exposures (excluding derivatives and SFTs)	**603,553**
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	6,515
Adjustments for conversion to credit equivalent amounts	-
Off-balance sheet exposures	**6,515**

9. **Leverage** - continued

The following table provides a reconciliation of accounting assets and leverage ratio exposures.

	2021
	€'000
Total assets as per published financial statements	599,919
Adjustment for off-balance sheet items	6,515
Other adjustments:	
Deduction for intangible assets	(1,256)
Depositor Compensation Scheme - Payment commitments	(2,346)
Transitional impact of IFRS 9	7,236
Deduction for deferred tax assets	-
Leverage ratio exposure	**610,068**

The table below shows the difference on balance sheet exposures in relation to the calculation of the leverage ratio.

	2021
	€'000
Total on-balance sheet exposures, of which:	**603,553**
Exposures treated as sovereigns	138,921
Institutions	39,283
Corporate	8,882
Retail exposures	331,184
Other exposures	85,283

10. Other directorships

According to the 'Guide to banking supervision' issued by the European Central Bank in November 2014, a credit institution will be considered significant if any one of the following conditions is met:

- the total value of its assets exceeds €30 billion or – unless the total value of its assets is below €5 billion – exceeds 20% of national GDP;
- it is one of the three most significant credit institutions established in a Member State;
- it is a recipient of direct assistance from the European Stability Mechanism; or
- the total value of its assets exceeds €5 billion and the ratio of its cross-border assets/liabilities in more than one other participating Member State to its total assets/liabilities is above 20%.

Ferratum Bank plc does not meet any of the above criteria, and therefore is currently not considered significant by banking supervisors. Accordingly, the Bank is exempt from the requirements of article 91 of CRD IV.

The number of other directorships held by the members of the Bank's Board of Directors are listed in the table below:

Director	Position	Number of other directorships held
Jorma Jokela	Non-executive director	5
Lea Liigus	Non-executive director	2
Clemens Matthias Fritz Krause	Non-executive director	1
Jussi Mekkonen	Independent non-executive director	-
Esa Tapani Teravainen	Independent non-executive director	4
Erik Ferm	Independent non-executive director	2
Charles Borg	Independent non-executive director	10
Victor Denaro	Independent non-executive director	1
Klaus O.Schmidt	Independent non-executive director	-

For the purpose of the above disclosure, the number of other directorships held within the same group are counted as a single directorship.

11. Recruitment and diversity policy

The Bank is aware that a vigorous and professional approach to recruitment and selection of prospective members of the Board of Directors and management or other employees within the Bank helps it to attract and appoint those individuals having the necessary skills and attributes compatible with achieving the Bank's overall objectives. Thus, the Bank ensures that appointments made at all levels within the Bank are based on each individual's knowledge, skills, expertise and merit, as required by Maltese legislation and in line with policy.

The Bank undertakes a rigorous selection process for all prospective members of the Board and management together with other employees, bearing in mind the key activities, tasks and skills required for the vacant position. As part of the selection process, multiple interviews are conducted, during which the individual's knowledge, experience, skills and competency are evaluated against those of other individuals.

Bearing its objectives in mind, the Bank endeavours to appoint directors with diverse skills and expertise that allow the Board to create value for shareholders by ensuring that the specific risks pursued by the Bank in unsecured consumer lending as well as risks that are intrinsic to banking business in general are appropriately managed and mitigated within the Board's appetite. The Bank will continue to promote this diversity by recruiting the ideal individual for the vacant position, regardless of the individual's gender, race, family, disability, sexual orientation, identity or preference.