

# Annual Report & Financial Statements 2020



**ferratumbank**

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2020.

## Principal activities

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

## Review of the business

The Bank registered a profit after tax of €18.9 million (2019: €14.8 million) during the financial year under review.

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

## Principal risks and uncertainties

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

The Board has evaluated the effects that the COVID-19 pandemic may have on the business of the Bank. Due to the negative effect that this virus is having on the worldwide economies, the Bank has assessed its business projections, taking into account the expected realities. The Board and its Management concluded that there is sufficient and appropriate evidence that the Bank's going concern assumption in the preparation of the financial statements holds.

## Results and dividends

The statement of comprehensive income is set out on page 4. The net interest income earned by the Bank amounted to €130 million during FY2020, reflecting an increase of 4% over FY2019. This is a reflection of the continued efforts made by the Bank to increase its lending business operations. The net fee and commission expense remained at the same levels of the previous financial year at €6 million. This resulted in an operating income of €124 million compared to €119 million during FY2019.

The Bank's operating expenditure decreased by 1% during the current financial year, and reached a total of €52.1 million, compared to €52.6 million during FY2019. The net impairment losses on the Bank's lending business amounted to €52.5 million, an increase of 4% over the losses reported during the previous year. This is in line with the Bank's increase in lending business activity.

In view of the above, the Bank reported a profit before tax of €19.3 million compared to €15.9 million during FY2019, which is equivalent to €18.9 million and €14.8 million after tax respectively.

The statement of financial position reflects an increase in total assets of €57 million, from €384 million as at the end of 2019 to €441 million as at 31 December 2020, an increase of 15%. The main assets of the Bank continue to comprise loans and advances to customers, which increased from €199 million to €241 million, and balances with central banks and other banks amounting to €153 million as at 31 December 2020.

The Bank continued to fund its business through customer deposits, which grew from €241 million to €340 million. Subsequently, the Bank repaid the €40 million debt securities during March 2020, in accordance to the

due date. During 2020, the Bank did not distribute any dividends. It received a capital contribution amounting to €3 million from its ultimate parent company. This continued to strengthen the Bank's equity structure.

The Bank registered strong regulatory ratios throughout the financial year. The Liquidity Coverage Ratio metric, designed to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA' consisting of cash or assets that can be converted into cash at little or no loss of value in markets) to meet its liquidity needs in a 30-calendar-day liquidity stress scenario was 540% as at 31 December 2020. The Bank is required to maintain a ratio of total regulatory capital to risk-weighted assets ("Capital requirements ratio") as well as a CET 1 (Common Equity Tier 1) capital ratio above a minimum level as prescribed by banking regulations. The Bank's total capital ratio and CET1 capital ratio as at 31 December 2020 was 19.38%.

## Statement of financial position

	As at 31 December	
	2020	2019
	EUR '000	EUR '000
<b>ASSETS</b>		
Balances with Central Banks	96,334	109,943
Loans and advances to banks	56,303	22,672
Loans and advances to customers	241,207	199,376
Loans and advances to group companies	14,875	25,145
Investment securities	7,629	-
Right-of-use asset	2,212	3,262
Property plant and equipment	786	943
Intangible assets	1,320	881
Goodwill	-	1,000
Deferred tax assets	4,168	4,168
Other assets	16,106	16,813
<b>Total assets</b>	<b>440,940</b>	<b>384,203</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	10,000	10,000
Capital contribution reserve	42,500	39,500
Other reserves	2,592	1,839
Retained earnings	33,223	15,027
<b>Total equity</b>	<b>88,315</b>	<b>66,366</b>
<b>Liabilities</b>		
Amounts owed to customers	340,427	241,114
Debt securities in issue	-	40,083
Lease liability	2,247	3,237
Other liabilities	8,462	31,456
Current tax liabilities	1,489	1,947
<b>Total liabilities</b>	<b>352,625</b>	<b>317,837</b>
<b>Total equity and liabilities</b>	<b>440,940</b>	<b>384,203</b>
<b>MEMORANDUM ITEMS</b>		
Commitments	4,530	5,280

## Statement of comprehensive income

	Year ended 31 December	
	2020	2019
	EUR '000	EUR '000
Interest and similar income	134,093	129,049
Interest and similar expense	(4,403)	(4,744)
<b>Net interest income</b>	<b>129,690</b>	124,305
Fee and commission income	2,027	3,160
Fee and commission expense	(7,790)	(8,593)
<b>Net fee and commission expense</b>	<b>(5,763)</b>	(5,433)
<b>Operating income</b>	<b>123,927</b>	118,872
Employee compensation and benefits	(7,701)	(9,052)
Other operating costs	(41,805)	(42,075)
Depreciation and amortisation	(2,561)	(1,478)
Credit impairment losses	(52,512)	(50,393)
<b>Profit before tax</b>	<b>19,348</b>	15,874
Tax expense	(399)	(1,113)
<b>Profit for the year - total comprehensive income</b>	<b>18,949</b>	14,761

## Statement of changes in equity

	Share capital	Capital contribution reserve	Other reserves	Retained earnings	Total equity
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
<b>At 1 January 2019</b>	10,000	25,500	1,476	14,629	51,605
<b>Comprehensive income</b>					
Profit for the year	-	-	-	14,761	14,761
<b>Other comprehensive income</b>					
Transfers and other movements	-	-	363	(363)	-
<b>Total comprehensive income for the year</b>	-	-	363	14,398	14,761
<b>Transactions with owners</b>					
Capital contribution from shareholders	-	14,000	-	-	14,000
Dividends distributed to shareholders	-	-	-	(14,000)	(14,000)
<b>Total transactions with owners</b>	-	14,000	-	(14,000)	-
<b>Balance at 31 December 2019</b>	10,000	39,500	1,839	15,027	66,366
<b>Comprehensive income</b>					
Profit for the year	-	-	-	18,949	18,949
<b>Other comprehensive income</b>					
Transfers and other movements	-	-	753	(753)	-
<b>Total comprehensive income for the year</b>	-	-	753	18,196	18,949
<b>Transactions with owners</b>					
Capital contribution from shareholders	-	3,000	-	-	3,000
<b>Total transactions with owners</b>	-	3,000	-	-	3,000
<b>Balance at 31 December 2020</b>	10,000	42,500	2,592	33,223	88,315

## Statement of cash flows

	Year ended 31 December	
	2020	2019
	EUR '000	EUR '000
<b>Cash flows from operating activities</b>		
Interest and commission receipts	136,091	132,395
Interest and commission payments	(10,971)	(13,025)
Income tax paid	(857)	(692)
Payments to employees and suppliers	(71,578)	(21,849)
<b>Cash flows from operating profit before changes in operating assets and liabilities</b>	<b>52,685</b>	96,829
Changes in operating assets and liabilities:		
Loans and advances to group companies	10,270	(17,424)
Loans and advances to customers	(94,342)	(106,417)
Amounts owed to customers	98,008	60,112
Amounts paid in favour of Depositor Compensation Scheme	(216)	-
Net cash generated from operating activities	<b>66,405</b>	33,100
<b>Cash flows from investing activities</b>		
Purchase/sale of investments	(7,600)	8,447
Purchase of property and equipment	(114)	(52)
Purchase of intangible assets	(702)	(545)
Payment to acquire rights over credit product	-	(1,000)
Net cash (used in)/generated from investing activities	<b>(8,416)</b>	6,850
<b>Cash flows from financing activities</b>		
Payment of lease liability	(967)	(880)
Repayment of debt securities in issue	(40,000)	-
Shareholders' contribution	3,000	14,000
Dividends paid to equity holders of the Bank	-	(14,000)
Net cash used in financing activities	<b>(37,967)</b>	(880)
<b>Net movement in cash and cash equivalents</b>	<b>20,022</b>	39,070
<b>Cash and cash equivalents at beginning of year</b>	<b>132,615</b>	93,545
<b>Cash and cash equivalents at end of year</b>	<b>152,637</b>	132,615

**more than money to everyone**