FINANCIAL REPORT
Fourth Quarter 2018

Advanzia Bank S.A.

Path of Silence, Jeppe Hein, 2016
Kistefos Museum, Norway
Courtesy of the Kistefos Museum. Photo: Kistefos Museum

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FOURTH QUARTER 2018

Advanzia Bank S.A.

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Highlights for the fourth quarter 2018

- Gross credit card loan balance of MEUR 1 492, growth +4.0% QoQ and +21.5% YoY.
- 931 000 performing active clients, growth +3.3% QoQ and +22.7% YoY.
- 1 431 000 cards in force[1], growth +3.6% QoQ and +19.1% YoY.
- Card acquisition cost of MEUR 8.0, growth +8.5% QoQ and -3.4% YoY.
- Loan loss rate (provions and write offs) of 4.6% (-0.2%-points QoQ and +0.5%-points YoY). The effect of IFRS 9 on loan loss provisions is estimated at MEUR 6 to MEUR 8 for the full year 2018.
- After-tax profit of MEUR 20.9, growth +63.5% QoQ and +42.9% YoY.
- Annualised return on equity of 50.0% in Q4-18 vs. 34.0% in Q3-18.
- Cost/income ratio of 37.9% in Q4-18 vs. 32.3% in Q3-18.

Advanzia Bank's credit card portfolios continued to grow in all markets. The gross loan balance increased by 4.0% QoQ and reached MEUR 1 492 as of year-end 2018 representing a 21.5% growth YoY. The growth of the loan balance and stable funding rates yielded MEUR 58.3 in total income in Q4, +5.6% QoQ and +30.9% YoY. Operating costs amounted to MEUR 22.1 in Q4, 23.8% higher than the previous quarter and 16.6% higher than Q4-17. Considering the YoY growth of the loan balance and total income, operational expenses are well under control. Loan loss provisions dropped by 37.4% QoQ due to two effects. Firstly, delinquency roll-rates recovered from a transitory weak performance at the end of Q3 and secondly, the Bank reviewed its IFRS 9 models.

In December, the Bank started to issue credit cards in Spain branded “Tarjeta YOU” and announced the acquisition of the bank card servicing operations of Catella Bank in Luxembourg.

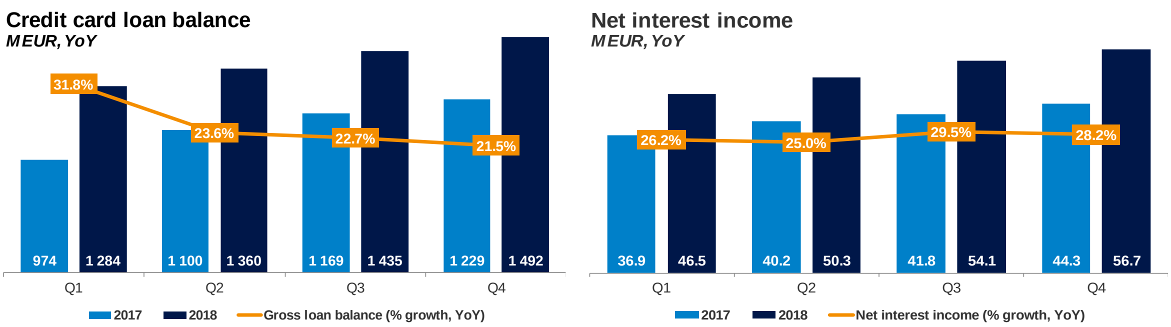


Figure 1: *YoY growth – loan balance and net interest margin.*[2]

Growth metrics	Active credit card clients	Loans and advances to credit card clients	Profit after tax
CAGR (2010 - LTM*)	21.3%	25.3%	32.4%
YTD 2018 vs. YTD 2017	22.7%	21.5%	25.6%

* Last twelve months

Figure 2: *CAGR and YTD growth.*

Since the end of 2010, Advanzia has delivered a compound annual growth rate (CAGR) of 32.4% in net profit, 25.3% in loan balance and 21.3% in the number of active credit card clients.

[1] Cards in force: The number of issued cards including active and inactive cards.

[2] The acquisition of the French revolving credit portfolio (MEUR 62.8) was concluded in Q2-17.

Loan balance development

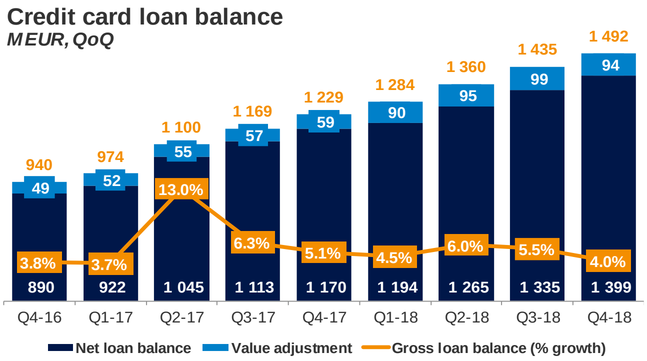


***Figure 3**: Loan balance development.*[3]

The gross loan balance grew 4.0% over the quarter due to sustained high marketing activities throughout the quarter as well as a high transaction turnover during the Christmas period. The forward flow agreement that went into effect in August 2018 affected the development of the gross loan balance. In total, German non-performing loans of approximately MEUR 16 were sold during Q4. Without the forward flow agreement, loan balance growth would have been 5.1%.

Active clients/credit cards

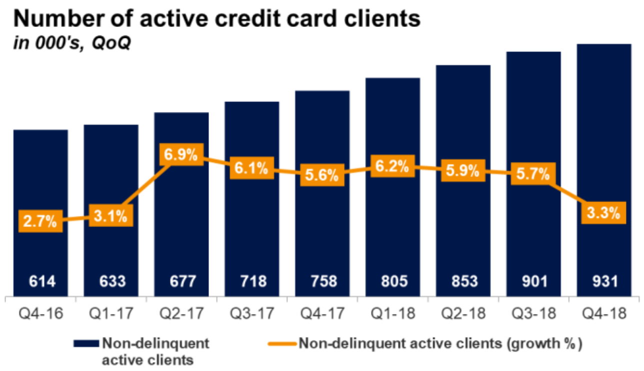


***Figure 4:** Credit card clients.*

The number of performing active clients reached 931 000, representing a growth of 3.3% compared to Q3 and 22.7% YTD.

[3] The growth in Q2-17 includes the acquisition of a revolving credit portfolio in France with a loan balance of MEUR 62.8.

Financial institutions – Professional Card Services (PCS)

Key Figures, PCS clients	Actual Q4-18	Actual Q3-18	QoQ growth	Actual Q4-17	YoY growth	Actual YTD-18	Actual YTD-17	YTD growth
Number of banks	23	21	*9.5%*	20	*15.0%*	23	20	*15.0%*
New active cards	217	84	*158.3%*	90	*141.1%*	523	500	*4.6%*
Total cards (opened)	1 920	1 575	*21.9%*	1 453	*32.1%*	1 920	1 453	*32.1%*
Turnover (in MEUR)	8.6	8.3	*4.1%*	7.6	*13.2%*	32.2	27.3	*18.2%*

Figure 5: *Professional Card Services.*

The Bank onboarded two new partner banks during Q4, which immediately translated into higher sales volume. Moreover, Advanzia announced the acquisition of the bank card servicing operations of Catella Bank in Luxembourg in December. This acquisition adds over 65 partner banks to Advanzia's existing portfolio of banks and financial institutions. Through this acquisition, Advanzia will significantly expand its geographical reach, servicing banks in 12 countries, and will position Advanzia as a leading provider of credit card solutions for private banks.

Deposit accounts

Since the end of June, the Bank has been offering a 3-month rolling preferential rate of 1.0% effective p.a. to new depositors. This led to a growth of 5.9% QoQ in the number of depositors and a 3.5% QoQ increase in deposit balances. The standard rate remained unchanged at 0.5% effective p.a. during the quarter.

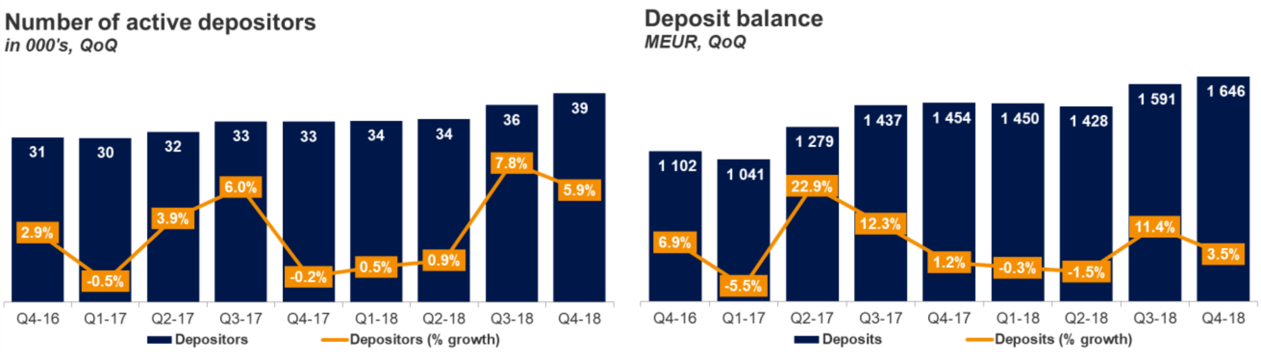


Figure 6: *Client/card statistics.*

Board, management and staff

As of 31 December 2018, Advanzia Bank employed 157 full-time equivalent employees, up from 156 at the end of the previous quarter.

Shareholding

There were no movements or changes in the distribution of shares during the quarter. Kistefos AS is the largest shareholder with 60.3%. Other shareholders hold below 10% individually.

Financial statements

The unaudited accounts of Advanzia as at the end of the fourth quarter of 2018 are shown below. Advanzia Bank follows IFRS standards and the figures reflect Advanzia's actual business activities and operations.

Assets	**Actual Q4-18**	**Actual Q3-18**	**QoQ growth**	**Actual Q4-17**	**YoY growth**	**Actual YTD-18**	**Actual YTD-17**	**YTD growth**
Cash, balances with central banks	493.6	468.9	*5.2%*	463.8	*6.4%*	493.6	463.8	*6.4%*
Loans and advances to credit institutions	64.3	63.7	*1.0%*	59.0	*8.9%*	64.3	59.0	*8.9%*
Loans and advances to credit card clients	1 492.1	1 434.8	*4.0%*	1 228.6	*21.5%*	1 492.1	1 228.6	*21.5%*
Value adjustments (losses)	(93.5)	(99.4)	*-6.0%*	(58.7)	*59.2%*	(93.5)	(58.7)	*59.2%*
Net loans and advances to credit card clients	1 398.6	1 335.4	*4.7%*	1 169.8	*19.6%*	1 398.6	1 169.8	*19.6%*
Tangible and intangible assets	9.0	9.0	*-0.4%*	7.0	*28.3%*	9.0	7.0	*28.3%*
Other assets	4.2	10.8	*-60.8%*	29.6	*-85.7%*	4.2	29.6	*-85.7%*
Total assets	**1 969.7**	**1 887.8**	***4.3%***	**1 729.2**	***13.9%***	**1 969.7**	**1 729.2**	***13.9%***

Liabilities and equity	**Actual Q4-18**	**Actual Q3-18**	**QoQ growth**	**Actual Q4-17**	**YoY growth**	**Actual YTD-18**	**Actual YTD-17**	**YTD growth**
Amounts owed to credit institutions	101.1	100.9	*0.3%*	100.2	-	101.1	100.2	*0.9%*
Amounts owed to customers	1 646.5	1 590.5	*3.5%*	1 453.9	*13.2%*	1 646.5	1 453.9	*13.2%*
Other liabilities, accruals, provisions	37.4	33.1	*12.9%*	30.8	*21.3%*	37.4	30.8	*21.3%*
Subordinated loan (AT1)	8.6	9.0	*-4.8%*	8.7	*-1.1%*	8.6	8.7	*-1.1%*
Sum liabilities	**1 793.5**	**1 733.4**	***3.5%***	**1 593.5**	***12.6%***	**1 793.5**	**1 593.5**	***12.6%***
Subscribed capital	27.4	27.4	*0.0%*	27.4	*0.0%*	27.4	27.4	*0.0%*
Reserves	13.9	13.9	*0.0%*	13.6	*2.1%*	13.9	13.6	*2.1%*
Profit (loss) brought forward	75.7	74.8	*1.2%*	58.3	*29.8%*	75.7	58.3	*29.8%*
Profit for the financial year (net of interim dividend)	59.1	38.2	*54.8%*	36.4	*62.5%*	59.1	36.4	*62.5%*
Sum equity	**176.2**	**154.4**	***14.1%***	**135.8**	***29.8%***	**176.2**	**135.8**	***29.8%***
Total liabilities and equity	**1 969.7**	**1 887.8**	***4.3%***	**1 729.2**	***13.9%***	**1 969.7**	**1 729.2**	***13.9%***

Income statement	**Actual Q4-18**	**Actual Q3-18**	**QoQ growth**	**Actual Q4-17**	**YoY growth**	**Actual YTD-18**	**Actual YTD-17**	**YTD growth**
Interest receivable, credit cards	60.0	56.8	*5.6%*	48.3	*24.3%*	219.4	174.8	*25.5%*
Interest receivable (payable), others	(0.9)	(0.7)	*30.0%*	(0.9)	*7.6%*	(3.3)	(2.4)	*34.0%*
Interest payable, deposits	(2.4)	(2.0)	*17.0%*	(3.2)	*-25.4%*	(8.5)	(9.3)	*-8.3%*
Net interest income	**56.7**	**54.1**	***4.9%***	**44.3**	***28.2%***	**207.7**	**163.1**	***27.3%***
Commission receivable	6.3	6.2	*1.3%*	5.3	*18.1%*	23.2	17.7	*31.3%*
Commission payable	(3.9)	(4.0)	*-3.1%*	(3.4)	*14.0%*	(14.8)	(11.6)	*26.7%*
Other financial items/operating income	(0.8)	(1.1)	*-23.6%*	(1.6)	*-49.7%*	(2.3)	(2.8)	*-18.3%*
Total income	**58.3**	**55.2**	***5.6%***	**44.6**	***30.9%***	**213.8**	**166.4**	***28.5%***
Card acquisition costs	(8.0)	(7.4)	*8.5%*	(8.3)	*-3.4%*	(30.0)	(25.6)	*17.0%*
Card operating costs	(5.0)	(4.5)	*10.2%*	(4.8)	*5.2%*	(18.6)	(16.2)	*14.4%*
Staff costs	(4.2)	(4.1)	*2.1%*	(4.1)	*2.8%*	(16.2)	(14.7)	*10.8%*
Other administrative expenses	(3.5)	(1.5)	*139.0%*	(1.4)	*154.4%*	(8.2)	(5.8)	*41.9%*
Depreciation, tangible + intangible assets	(1.4)	(0.4)	*275.0%*	(0.5)	*194.7%*	(2.9)	(1.9)	*51.5%*
Sum operating expenses	**(22.1)**	**(17.9)**	***23.8%***	**(19.0)**	***16.6%***	**(76.0)**	**(64.3)**	***18.2%***
Value adjustments	4.7	(4.5)	*-205.4%*	(2.1)	*-322.1%*	(9.6)	(9.3)	*2.7%*
Write-offs	(17.3)	(15.6)	*11.0%*	(10.6)	*64.0%*	(53.1)	(35.5)	*49.7%*
Total loan losses	**(12.6)**	**(20.1)**	***-37.4%***	**(12.7)**	***-0.8%***	**(62.7)**	**(44.8)**	***39.9%***
Profit (loss) on ordinary activities before taxes	23.6	17.3	*36.8%*	12.9	*83.0%*	75.2	57.3	*31.2%*
Income tax and net worth tax	(2.7)	(4.5)	*-39.2%*	1.7	*-259.8%*	(16.2)	(10.3)	*56.5%*
Profit (loss) for the period	**20.9**	**12.8**	***63.5%***	**14.6**	***42.9%***	**59.1**	**47.0**	***25.6%***

Figure 7: *Unaudited accounts as at 31 December 2018 (in MEUR).*

Comments to the accounts

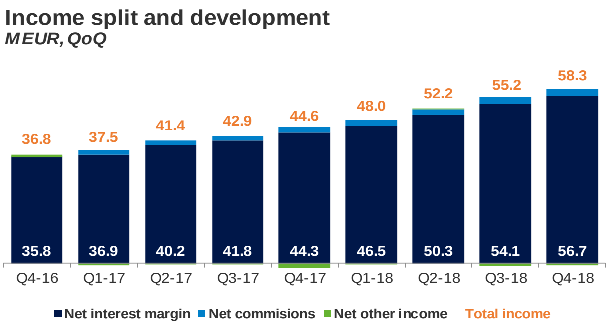
During the fourth quarter, the gross credit card loan balance grew by MEUR 57.3 or 4.0%, reaching MEUR 1 492, driven by growth in new customers and high transaction turnover during the quarter. On the deposit side, QoQ growth slowed down as the Bank already had accumulated sufficient liquidities.

Total income increased by 5.6 % to reach MEUR 58.3 in the quarter, mainly driven by higher interest income. Furthermore, it was positively impacted by a sale and leaseback transaction of IT equipment for approx. MEUR 0.6, which resulted in an equivalent increase in depreciation.

Operating expenses of MEUR 22.1 increased by 23.8% compared to the previous quarter, mainly due to sustained high marketing spending during Q4 and one-off expenses related to the acquisition of Catella Bank’s card servicing portfolio.

Loan loss provisions of MEUR 12.6 dropped during Q4 as a result of the recovery of unfavourable roll rates in Q3 and the revision of the IFRS 9 models. The effect of this revision on the first time adoption amounted to a gain of MEUR 0.9 and is reflected in the profit brought forward.

In August 2018, the Bank entered into a forward flow agreement with a multinational purchaser of debt portfolios, for a significant portion of newly delinquent loans in Germany. Since August, the total nominal value of loans sold amounted to MEUR 26, of which MEUR 16 were sold in the fourth quarter.



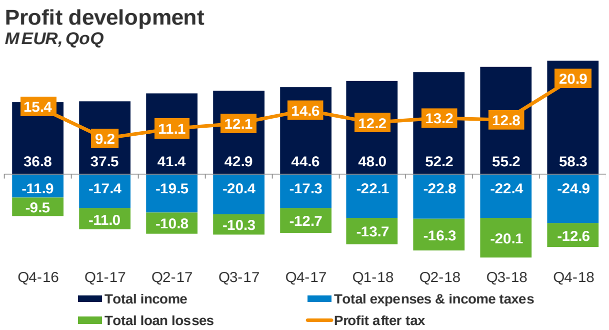


Figure 8: Income and profit development.[4]

Advanzia’s profit after tax grew by 42.9% compared to the fourth quarter of 2017, reaching MEUR 20.9. Compared to 2017, the 2018 profit increased by 25.6%.

<u>Consequences of IFRS 9</u>

Since 2018, loan loss provisions have been calculated according to IFRS 9 (expected losses), whereas they used to be based on IAS39 (incurred losses) until end of 2017. The Bank needs to book loan loss provisions for performing clients as soon as they are onboarded and this effect becomes even more pronounced for a rapidly growing Bank such as Advanzia. IFRS 9 requires additional provisions to be taken if a customer has

[4] Q4-16, Q4-17, Q4-18 were positively affected by end of year specific items of MEUR 5.4, MEUR 4.5 and MEUR 2.9 respectively.

missed one payment, which will increase volatility in loan loss provisions QoQ. This is one of the major reasons for the difference between loan loss provisions in Q3 and Q4 2018.

As a result, the loan loss rate increased over the year to 4.6% in Q4-18 (-0.2%-points QoQ and +0.5%-points YoY). The impact of IFRS 9 on the loan loss provisions is estimated at MEUR 6 to MEUR 8 for the full year 2018. Without IFRS 9, the loan loss rate would have been at 4.1%.

The forward flow of non-performing loans only had a marginal impact on the total amount of loan losses, but the loan loss ratio was affected negatively as the numerator, i.e. loan balance, was lowered. IFRS 9 implementation, by nature, results in more volatile losses, but in essence, Advanzia's loan losses have developed according to plan.

Key performance indicators (KPIs)

The KPIs remain in line with expectations. The gross yield is positively impacted by the forward flow agreement as German non-performing loans, subject to a low legal rate, are shed off the Bank’s books. The same is true for the interest margin, as funding costs have been stable over the last 3 quarters.

The loan loss rate decreased by 0.2%-points to 4.6% as a result of the recovery of unfavourable roll rates in Q3 and the revision of the IFRS 9 models.

The cost/income ratio increased to 37.9% QoQ due to sustained customer acquisition activities as well as high administrative expenses, which include the transaction related expenses in relation to the purchase of the Catella Bank portfolio.

Advanzia Bank maintains a high solvency with a capital adequacy ratio (incl. interim profits) of 16.9%. Liquidity levels are comfortable at an LCR of 151%.

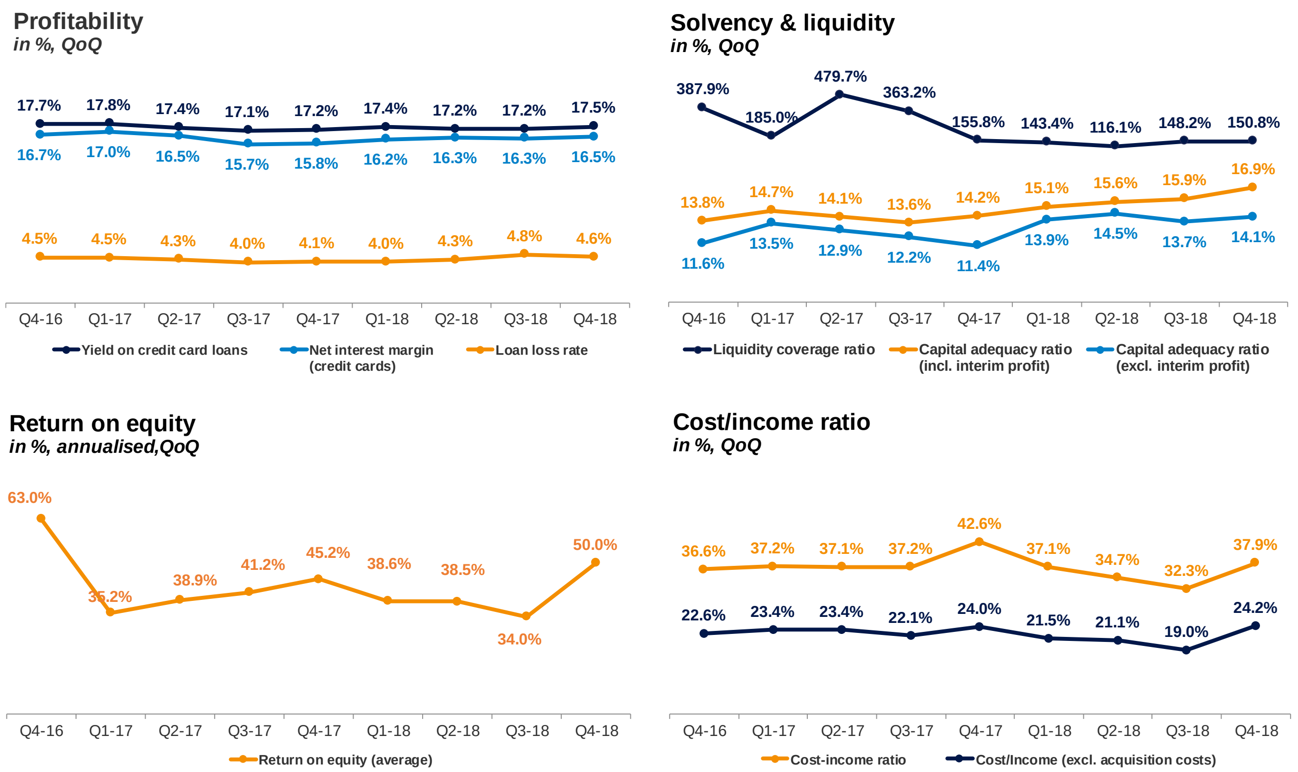


Figure 9: *Key performance indicators.*

Outlook

The economic outlook continues to be favourable for the markets in which Advanzia operates. The Bank expects to continue its growth for all markets and customer segment.

Advanzia continues to invest significantly in marketing in Germany and Austria, while a careful approach is currently maintained for France, despite significant improvements achieved recently. During Q1 2019, Advanzia will gradually ramp up sales volumes in Spain. The acquisition of the bank card servicing operations of Catella Bank is expected to close in due time and a transitional services agreement will be arranged.

The Bank’s financial situation is solid, with carefully managed operating costs and loan losses. Financial performance is therefore expected to remain strong.

Munsbach, Luxembourg

15.03.2019

Patrick Thilges Chief Financial Officer	Roland Ludwig Chief Executive Officer

Ilya Kabakov, *The Ball*, 2017
Kistefos Museum, Norway
Courtesy of the Kistefos Museum. Photo: Kistefos Museum

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