ADVANZIA BANK

FINANCIAL REPORT

Fourth Quarter 2019

Giuseppe Penone, Identity
Photo: Einar Aslaksen
Courtesy of the Kistefos Museum

FINANCIAL REPORT
FOURTH QUARTER 2019

Advanzia Bank S.A.

Advanzia Bank S.A.

9, rue Gabriel Lippmann L-5365 Munsbach Luxembourg Phone: +352 26 38 75 1 Fax: +352 26 38 75 699
RCS Luxembourg: B 109 476 VAT: LU 20992462 info@advanzia.com www.advanzia.com

Highlights for the fourth quarter 2019

- Gross credit card loan balance of MEUR 1 725, growth +2.5% QoQ and +15.6% YoY.
- 1 102 000 performing active clients, growth +1.8% QoQ and +18.5% YoY.
- 1 699 000 cards in force[1], growth +1.6% QoQ and +18.7% YoY.
- Card acquisition cost of MEUR 9.5, down by -3.7% QoQ and +18.5% YoY.
- Loan loss rate (provisions and write offs) of 4.7% (+0.3%-points QoQ and +0.1%-points YoY).
- Net profit of MEUR 26.8, +58.7% QoQ and +28.1% YoY.
- Annualised return on equity of 47.2% in Q4-19 vs. 50.0% in Q4-18.

Advanzia's growth continued throughout 2019 as its credit card portfolio grew by more than 171 000 active performing clients over the year. The gross loan balance increased by 2.5% QoQ and 15.6% YoY reaching MEUR 1 725. Total income of MEUR 73.4 increased by 6.1% QoQ and 25.8% YoY, driven by the increase in interest receivables on credit cards and the increase in commission income, while at the same time the Bank was able to decrease its funding cost. Operating expenses amounted to MEUR 26.1 in Q4, a slight decrease over the quarter and 17.9% higher than the same period last year as a result of increased growth and the acquisition of Capitol. Total loan loss provisions reached MEUR 20.0, the loan loss rate (provisions and write offs) of 4.7% increased 0.1%-points YoY, mainly driven by the recently entered Spanish market. Net profit for Q4-19 ended at MEUR 26.8, an increase of 58.7% QoQ and 28.1% YoY.

In October, the Bank distributed an interim dividend of MEUR 40. In November, the Bank successfully issued a T2 bond of MEUR 25 to strengthen its capital base.

Overall in 2019, the Bank generated a net profit of MEUR 78.1, an increase of 32.2% YoY, despite significant investments into the Spanish market (net profit growth in 2019 excluding the P&L impact of launching Spain would have been 44.1%).

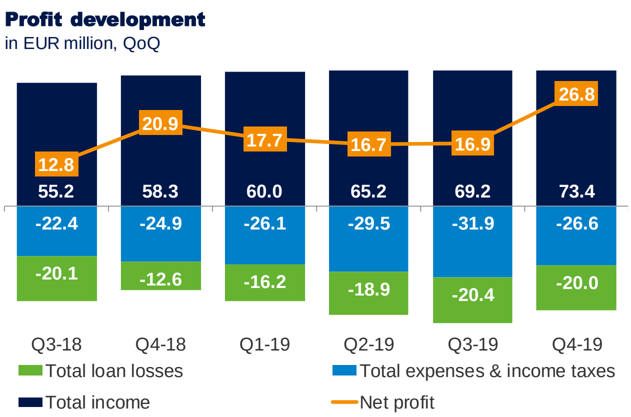


Figure 1: *profit development.*[2]

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

[2] Q4-18 and Q4-19 were positively affected by end of year specific items of MEUR 2.9. and MEUR 5.0 respectively

Growth metrics	Performing active clients	Loans and advances to credit card clients	Net profit
CAGR (2010 - LTM*)	21.3%	24.2%	32.3%
YTD 2019 vs. YTD 2018	18.5%	15.6%	32.2%

* Last twelve months

Table 1: *CAGR and YTD growth.*

Since the end of 2010, Advanzia has delivered a compound annual growth rate (CAGR) of 32.3% in net profit, 24.2% in loan balance and 21.3% in the number of performing active credit card clients.

Loan balance development

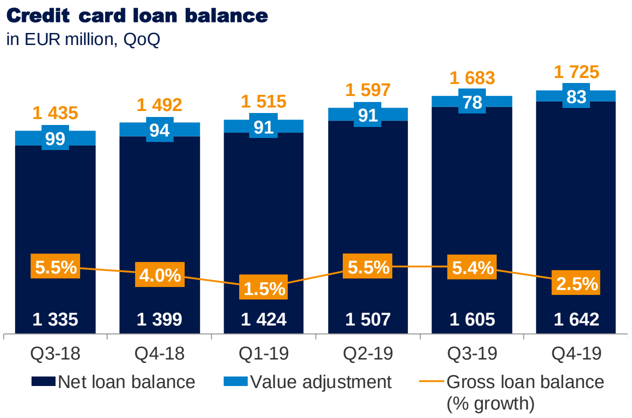


Figure 2*: Loan balance development.*

All markets contributed positively to growth of the loan balance, which increased by 2.5% QoQ. Growth is lower than the previous two quarters due to seasonal effects and a lower intake of active clients during the quarter. The loan balance grew 15.6% YoY despite the sale of the German NPL portfolio during Q3-19 that reduced the gross loan balance by MEUR 27.3. Disregarding the effect of the NPL forward flow and NPL sale, the loan balance growth during 2019 would have been around 20.0%.

Active clients/credit cards

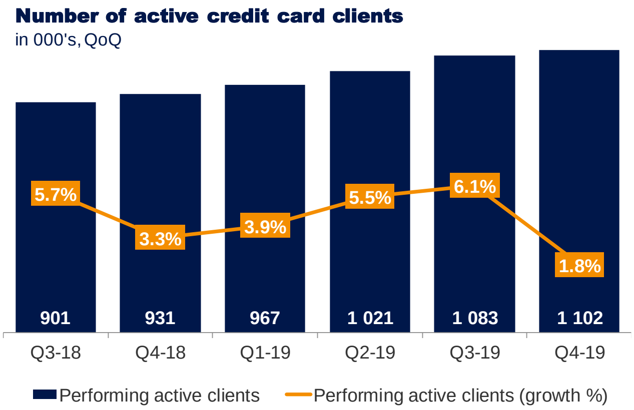


Figure 3: *Credit card clients.*[3]

The number of active good clients reached 1 102 000, representing a growth of 1.8% QoQ and 18.5% YoY.

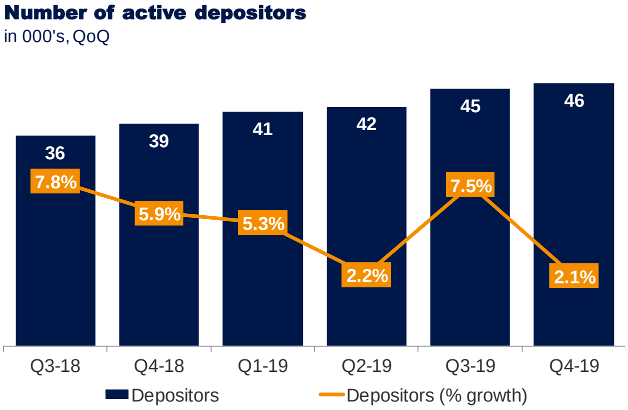
Financial institutions – Professional Card Services (PCS)

Key Figures, PCS clients	Actual Q4-19	Actual Q3-19	QoQ growth	Actual Q4-18	YoY growth	Actual YTD-19	Actual YTD-18	YTD growth
Number of banks	88	88	*0.0%*	23	282.6%	*88*	23	282.6%
Total cards (opened)	16 774	16 733	*0.2%*	1 920	773.6%	*16 774*	1 920	773.6%
Turnover (in EUR million)	135.4	144.0	*-5.9%*	8.6	1470.3%	*421.2*	32.2	1206.5%

The acquisition of the Capitol portfolio from Catella Bank during the second quarter of 2019 significantly improved the Bank's client portfolio in the Professional Card Services business line. In 2020, further development of the new partnerships will strengthen Advanzia's position as a leading provider of credit card solutions for private banks.

[3] Starting from Q1-19, the number of non-delinquent active clients are those that are classified as stage 1 and 2 as per IFRS 9. With less than 1% positive impact, the change in definition has a marginal effect.

Deposit accounts



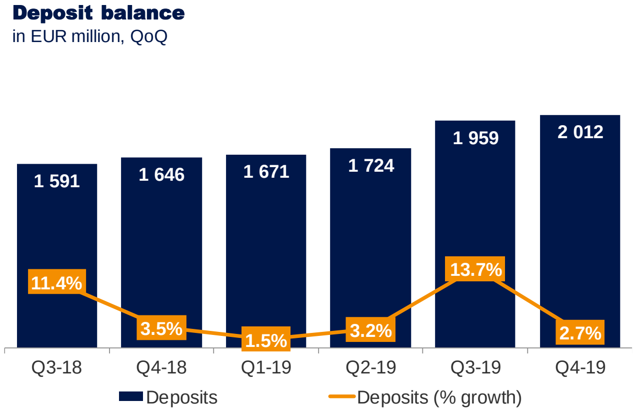


Figure 4: *Deposit statistics.*

During Q4, the Bank offered a standard rate of 0.4% effective p.a. until end of November. In December, the standard rate was reduced to 0.3% effective p.a. All this lead to a slower client intake and deposit balance growth. Nevertheless, the Bank is sufficiently funded.

Board, management and staff

In November, Tom Ruud resigned as a member of the Board of Directors and was succeeded by Erlend Bondø, Chief Financial Officer at Kistefos AS.

As of 31 December 2019, Advanzia Bank employed 182 full-time equivalent equivalents, up from 180 at the end of the previous quarter. In September 2019, Linda Früh was promoted to Chief Digital Officer of the Bank and became a new member of the Management Committee. In December 2019, Romain Fettes joined the Bank as Chief Information Officer, also becoming a member of the Management Committee.

Shareholding

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 2019 are shown below. Advanzia Bank follows IFRS standards and the figures reflect Advanzia's actual business activities and operations.

Assets (EUR million)	Actual Q4-19	Actual Q3-19	QoQ growth	Actual Q4-18	YoY growth	Actual YTD-19	Actual YTD-18	YTD growth
Cash, balances with central banks	711.0	705.3	*0.8%*	493.6	*44.1%*	711.0	493.6	*44.1%*
Loans and advances to credit institutions	111.7	108.5	*3.0%*	61.6	*81.4%*	111.7	61.6	*81.4%*
Net loans and advances to PCS partner banks	45.5	40.9	*11.2%*	2.7	*1573.9%*	45.5	2.7	*1573.9%*
Loans and advances to credit card clients	1 724.6	1 683.3	*2.5%*	1 492.1	*15.6%*	1 724.6	1 492.1	*15.6%*
Value adjustments (losses)	-82.5	-78.4	*5.3%*	-93.5	*-11.7%*	-82.5	-93.5	*-11.7%*
Net loans and advances to credit card clients	1 642.0	1 604.9	*2.3%*	1 398.6	*17.4%*	1 642.0	1 398.6	*17.4%*
Tangible and intangible assets	39.3	27.5	*42.8%*	9.0	*339.0%*	39.3	9.0	*339.0%*
Other assets	9.8	7.0	*40.5%*	4.2	*131.5%*	9.8	4.2	*131.5%*
Total assets	**2 559.4**	**2 494.2**	***2.6%***	**1 969.7**	***29.9%***	**2 559.4**	**1 969.7**	***29.9%***

Liabilities and equity (EUR million)	Actual Q4-19	Actual Q3-19	QoQ growth	Actual Q4-18	YoY growth	Actual YTD-19	Actual YTD-18	YTD growth
Amounts owed to credit institutions	225.4	217.2	*3.8%*	101.1	*122.9%*	225.4	101.1	*122.9%*
Amounts owed to customers	2 012.4	1 959.4	*2.7%*	1 646.5	*22.2%*	2 012.4	1 646.5	*22.2%*
Other liabilities, accruals, provisions	51.7	59.1	*-12.6%*	37.4	*38.5%*	51.7	37.4	*38.5%*
Subordinated loan (AT1,T2)	33.6	8.6	*292.5%*	8.6	*292.5%*	33.6	8.6	*292.5%*
Sum liabilities	**2 323.2**	**2 244.3**	***3.5%***	**1 793.5**	***29.5%***	**2 323.2**	**1 793.5**	***29.5%***
Subscribed capital	27.4	27.4	*0.0%*	27.4	*0.0%*	27.4	27.4	*0.0%*
Other equity instruments	22.5	22.4	*0.4%*	0.0	-	22.5	0.0	-
Reserves	16.8	16.8	*0.0%*	13.9	*20.8%*	16.8	13.9	*20.8%*
Profit (loss) brought forward	131.9	131.9	*0.0%*	75.7	*74.2%*	131.9	75.7	*74.2%*
Profit for the financial year (net of interim distrib.)	37.5	51.3	*-26.9%*	59.1	*-36.5%*	37.5	59.1	*-36.5%*
Sum equity	**236.2**	**249.9**	***-5.5%***	**176.2**	***34.1%***	**236.2**	**176.2**	***34.1%***
Total liabilities and equity	**2 559.4**	**2 494.2**	***2.6%***	**1 969.7**	***29.9%***	**2 559.4**	**1 969.7**	***29.9%***

Income statement (EUR million)	Actual Q4-19	Actual Q3-19	QoQ growth	Actual Q4-18	YoY growth	Actual YTD-19	Actual YTD-18	YTD growth
Interest receivable, credit cards	70.9	68.1	*4.2%*	60.0	*18.1%*	263.3	219.4	*20.0%*
Interest receivable (payable), others	-2.0	-1.7	*17.7%*	-0.9	*111.1%*	-5.3	-3.3	*63.2%*
Interest payable, deposits	-2.6	-2.5	*5.7%*	-2.4	*10.5%*	-9.2	-8.5	*7.9%*
Net interest income	**66.4**	**63.9**	***3.8%***	**56.7**	***16.9%***	**248.8**	**207.7**	***19.8%***
Commission receivable	12.9	11.5	*12.1%*	6.3	*106.5%*	41.2	23.2	*77.6%*
Commission payable	-5.2	-5.3	*-0.5%*	-3.9	*35.8%*	-19.2	-14.8	*30.1%*
Other operating result	-0.7	-1.0	*-33.0%*	-0.8	*-16.9%*	-3.1	-2.3	*37.6%*
Total income	**73.4**	**69.2**	***6.1%***	**58.3**	***25.8%***	**267.7**	**213.8**	***25.2%***
Card acquisition costs	-9.5	-9.8	*-3.7%*	-8.0	*18.5%*	-36.4	-30.0	*21.6%*
Card operating costs	-7.3	-7.3	*0.0%*	-5.0	*46.2%*	-26.6	-18.6	*43.3%*
Staff costs	-4.6	-4.8	*-3.0%*	-4.2	*10.2%*	-17.9	-16.2	*10.1%*
Other administrative expenses	-3.2	-2.8	*14.2%*	-3.5	*-7.6%*	-10.1	-8.2	*22.8%*
Depreciation, tangible + intangible assets	-1.4	-1.5	*-4.1%*	-1.4	*1.2%*	-5.5	-2.9	*87.1%*
Sum operating expenses	**-26.1**	**-26.3**	***-0.6%***	**-22.1**	***17.9%***	**-96.5**	**-76.0**	***27.1%***
Value adjustments	-4.2	12.3	*-134.1%*	4.7	*-188.3%*	11.0	-9.6	*-214.7%*
Write-offs	-15.8	-32.7	*-51.6%*	-17.3	*-8.6%*	-86.6	-53.1	*63.1%*
Total loan losses	**-20.0**	**-20.4**	***-2.1%***	**-12.6**	***59.1%***	**-75.6**	**-62.7**	***20.6%***
Profit (loss) on ordinary activities before taxes	27.3	22.5	*21.3%*	23.6	*15.3%*	95.6	75.2	*27.1%*
Income tax and net worth tax	-0.5	-5.6	*-91.2%*	-2.7	*-82.0%*	-17.5	-16.2	*8.6%*
Profit (loss) for the period	**26.8**	**16.9**	***58.7%***	**20.9**	***28.1%***	**78.1**	**59.1**	***32.2%***

Table 2: *Unaudited accounts as at 31 December 2019 (in EUR million).*

Comments on the accounts

During the fourth quarter, the gross credit card loan balance grew by MEUR 41 or 2.5%, reaching MEUR 1 725. The deposit balance increased moderately in Q4, as the Bank stopped its introductory campaigns and reduced the standard rate. Intangible assets increased as the Bank recognised the second and last tranche payable for the acquisition of the Capitol portfolio. In November, the Bank successfully issued a floating rate Tier 2 callable bond of EUR 25 million with a tenor of 10 years. Equity decreased as the Bank distributed an interim dividend of MEUR 40.

Total income increased by 6.1%, reaching MEUR 73.4 in the fourth quarter, mainly driven by higher interest income and higher commission income in Germany. Operating expenses of MEUR 26.1 decreased by 0.6% QoQ, mainly driven by lower card acquisition costs and staff costs that offset higher administrative expenses (mainly higher IT and consulting costs). Loan loss provisions of MEUR 20.0 decreased by 2.1% QoQ.

Advanzia's net profit of MEUR 26.8 grew by 28.1% compared to the fourth quarter of 2018.

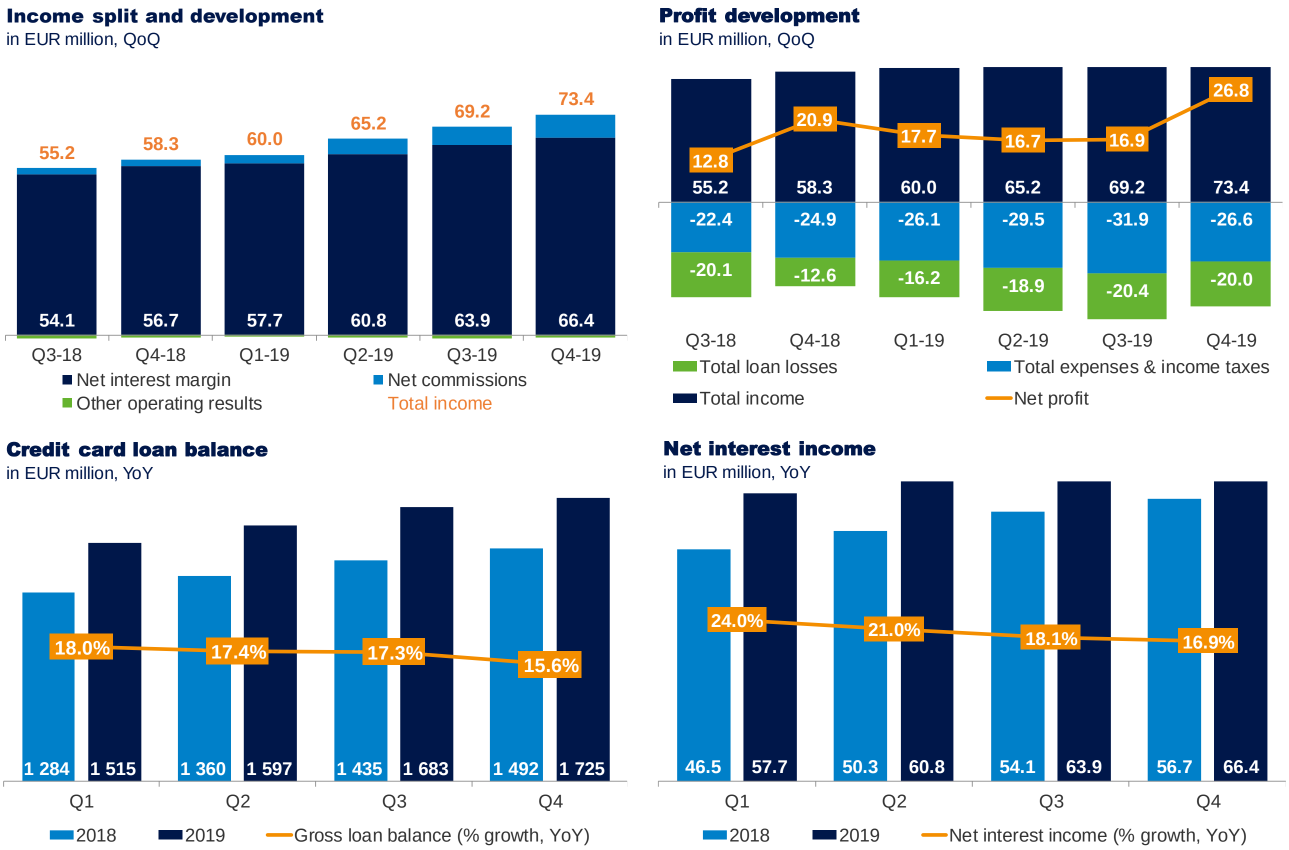


Figure 5: Income, profit, loan balance and net interest margin development.[4]

[4]Q4-18, Q4-19 were positively affected by end of year specific items of MEUR 2.9 and MEUR 5.0 respectively.

Key performance indicators (KPIs)

The net interest margin increased due to the lowered deposit rates in Q4-19 as well as the sale of the NPL portfolio at the end of Q3-19 that carried a significantly lower interest rate. The loan loss rate (provisions and write-offs) increased to 4.7%, mainly driven by the recent entry into the Spanish market. Loan loss rate (provisions and write-offs) would have decreased to 4.3% adjusted for this. The cost/income ratio decreased QoQ to 35.6%, mainly driven by the higher top-line as operating expenses remained stable.

All solvency ratios were impacted by the recognition of the second tranche expected to be payable to Catella. Both CET1 (including interim profit) and CAR (including interim profit) were impacted by the dividend of MEUR 40.0 paid in October. The issuance of the T2 bond of MEUR 25.0 had a positive impact on CAR, including and excluding interim profit.

Funding and liquidity levels of the Bank remained comfortable.

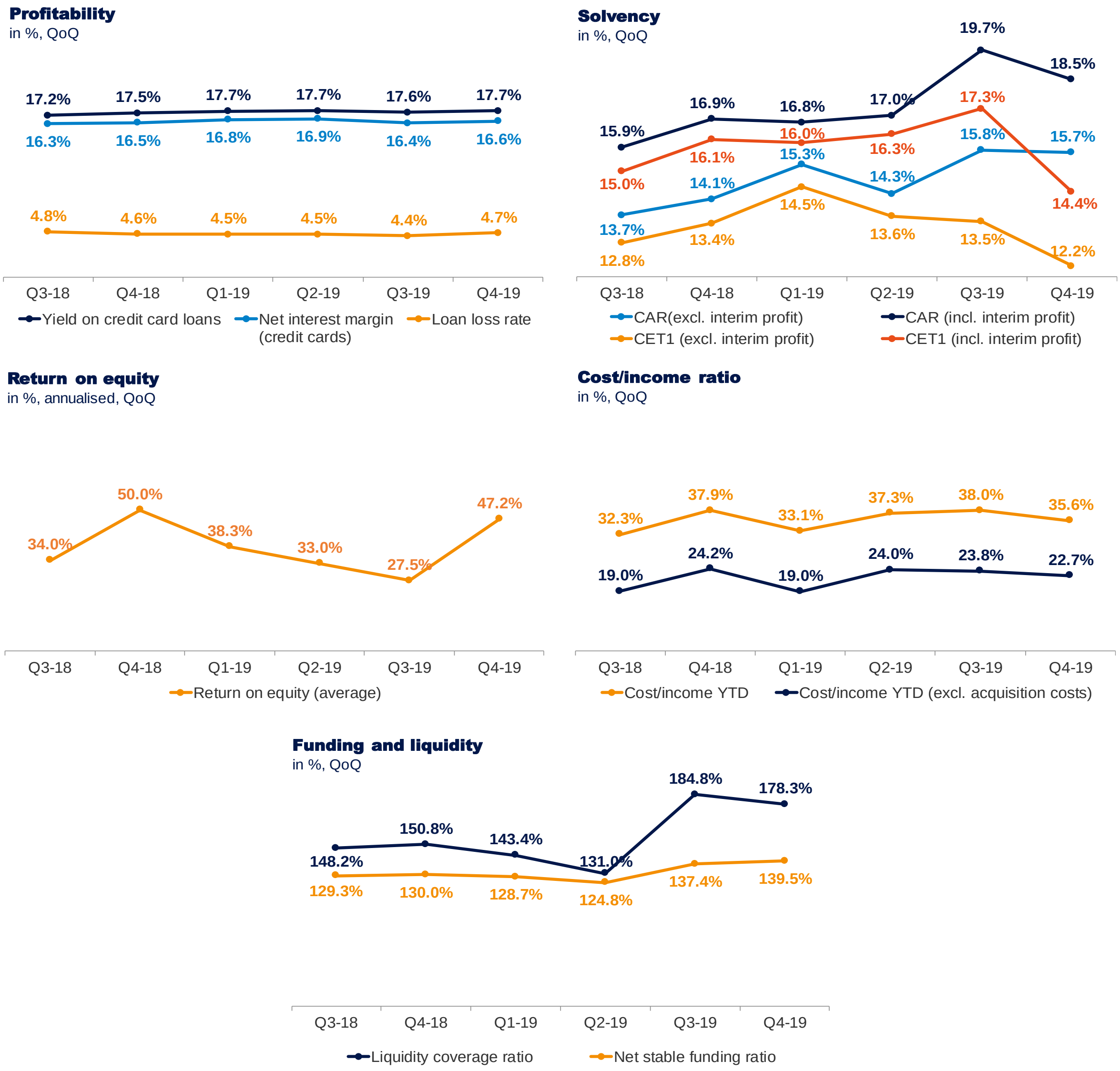


***Figure 6:** Key performance indicators*[5]

[5] CET1 - Common Equity Tier 1, CAR - Capital Adequacy Ratio, consisting of CET1 + additional Tier 1 and Tier 2 capital

Outlook

The German portfolio continues to show strong resilience with a steady improvement in credit risk of new client vintages. The current growth in new customers in Germany, Austria and France is expected to continue in 2020.

After onboarding a significant number of credit card clients in Spain, the Bank is reviewing the characteristics of this initial portfolio in order to optimise the credit scoring models. The Bank plans to increase sales volumes steadily during 2020. The migration of the Capitol portfolio from Catella Bank to Advanzia is on track to be finalised in Q1 2020.

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

Munsbach, Luxembourg

17.02.2020

Patrick Thilges
Chief Financial Officer

Roland Ludwig
Chief Executive Officer

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

ADVANZIA.COM

Advanzia Bank
9, rue Gabriel Lippmann
L-5365 Munsbach
Luxembourg

Tel: +352 26 38 75 1
Fax: +352 26 38 75 699
E-mail: info@advanzia.com

Register of Commerce:
B109476

ADVANZIA.COM