ADVANZIA BANK

FINANCIAL REPORT
Second Quarter 2019

A. Kassen, River Man, 2016
Photo: Frédéric Boudin
Courtesy of the Kistefos Museum, Norway

FINANCIAL REPORT
SECOND 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 second quarter 2019

- Net profit of MEUR 16.7, -5.5% QoQ and +27.2% YoY.
- Gross credit card loan balance of MEUR 1 597, growth +5.5% QoQ and +17.4% YoY.
- 1 021 000 performing active clients, growth +5.5% QoQ and +19.7% YoY.
- 1 581 000 cards in force[1], growth +5.9% QoQ and +20.0% YoY.
- Card acquisition cost of MEUR 8.6, growth +1.6% QoQ and +20.9% YoY.
- Loan loss rate (provisions and write-offs) of 4.5% (0.0%-points QoQ and +0.2%-points YoY). The YoY increase is affected by the adoption of IFRS 9.
- Annualised return on equity of 33.0% in Q2-19 vs. 38.5% in Q2-18.

Net profit for Q2-19 ended at MEUR 16.7, down 5.5% QoQ but with a strong increase of 27.2% when compared to the same quarter of the previous year. There are two main reasons for the decline QoQ: first, higher loan losses due to the nature of IFRS 9 (increased volatility from one quarter to another) and growth of the Spanish card portfolio; and secondly, higher costs related to the increased growth rates in both loan balance and number of active customers, and the acquisition of Catella Bank's card operations.

In general, all markets continued their growth trajectory. Spain, the Bank's most recent market, generated more than 10 000 new active credit card clients by the end of Q2. The gross loan balance increased by 5.5% QoQ and reached MEUR 1 597. At MEUR 63.7, interest income on credit cards increased accordingly, while funding costs for customer deposits remained stable. Net commission income of MEUR 5.1 increased by 78.8% QoQ, mainly due to the fee based business model of Capitol (Catella Bank's card operations) that was acquired at the end of last quarter and is now visible in the financials (impacted net profit with MEUR 0.1 in Q2-19). As a result, total income of MEUR 65.2 increased by +8.8% QoQ and +24.9% YoY. Operating expenses amounted to MEUR 24.3 in Q2, 22.4% higher than the previous quarter: card operating costs, staff costs and depreciation costs were all impacted by the acquisition of Capitol. Loan loss provisions increased by 17.2 % QoQ to reach MEUR 18.9, mainly driven by the growth of the Spanish card portfolio and the nature of IFRS 9, while the loan loss rate remained stable.

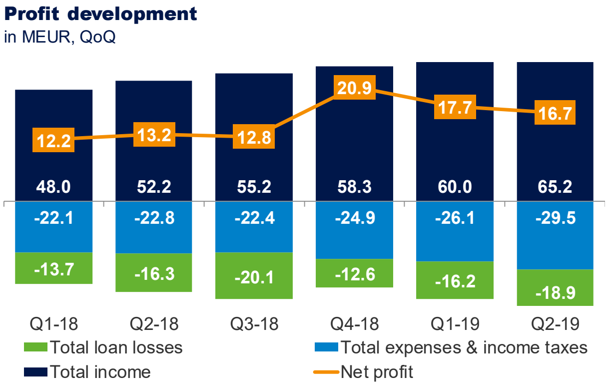

***Figure 1:** profit development.*[2]

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

[2] Q4-18 was positively affected by end of year specific items of MEUR 2.9.

Growth metrics	Performing active clients	Loans and advances to credit card clients	Net profit
CAGR (2010 - LTM*)	21.6%	24.6%	32.4%
YTD 2019 vs. YTD 2018	19.7%	17.4%	35.6%

* Last twelve months

Table 1: *CAGR and YTD growth.*

Since the end of 2010, Advanzia has delivered a compound annual growth rate (CAGR) of 32.4% in net profit, 24.6% in loan balance and 21.6% in the number of performing active credit card clients.

Loan balance development

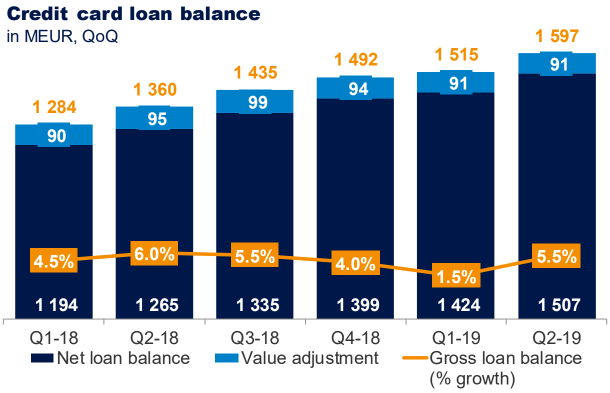

Figure 2*: Loan balance development.*

After a lower growth in Q1, the loan balance grew by 5.5% QoQ, with all markets contributing positively.

Since August 2018, 75% of newly delinquent loans in the German market are sold on a continuous basis (forward flow), which affects the growth rate above negatively.

Active clients/credit cards

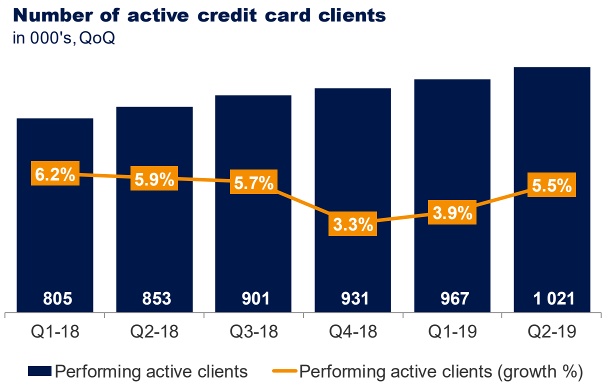

Figure 3: *Credit card clients.*[3]

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

Advanzia continued to achieve high growth rates in all markets. The number of active clients reached 1 021 000, representing a growth of 5.5% QoQ and 19.7% YoY.

Financial institutions – Professional Card Services (PCS)

Key Figures, PCS clients	Actual Q2-19	Actual Q1-19	QoQ growth	Actual Q2-18	YoY growth	Actual YTD-19	Actual YTD-18	YTD growth
Number of banks	88	23	*282.6%*	20	*340.0%*	88	20	*340.0%*
New active cards	15 213	355	*4185.4%*	131	*11513.0%*	15 568	222	*6912.6%*
Total cards (opened)	16 732	2 053	*715.0%*	1 553	*977.4%*	16 732	1 553	*977.4%*
Turnover (in MEUR)	131.1	10.7	*1128.4%*	8.1	*1509.9%*	141.8	15.3	*825.0%*

***Table 2:** Professional Card Services.*

Advanzia's Professional Card Services Programme (PCS) has seen a one-time uplift, through the integration of the Capitol portfolio acquired from Catella Bank, of 65 additional banks, 15 000 active cards as well as approximately MEUR 120 in additional quarterly card turnover.

As previously communicated, the Capitol acquisition significantly expands Advanzia's geographical reach, servicing banks in 13 countries, and positions the bank as a leading provider of credit card solutions for private banks.

Deposit accounts

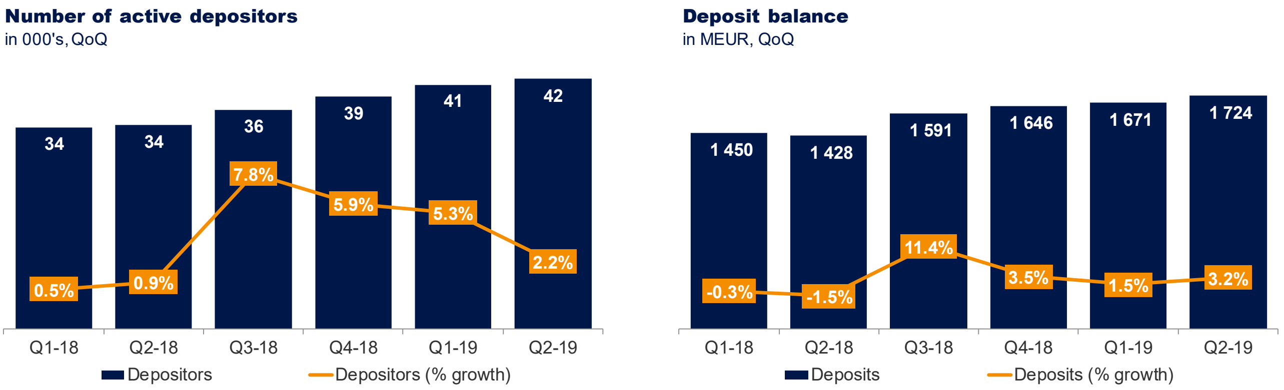

***Figure 4:** Deposit statistics.*

As of the second half of June 2019, the long-running 3-month rolling preferential rate of 1.0% effective p.a. for new depositors was changed to a 6-month offering in order to attract additional deposits. The standard rate of 0.4% effective p.a. remained unchanged during the second quarter.

Board, management and staff

As of 30 June 2019, Advanzia Bank employed 171 full-time equivalent employees, including the transfer of 15 employees from Capitol, up from 155 at the end of the previous quarter.

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

Assets	Actual Q2-19	Actual Q1-19	QoQ growth	Actual Q2-18	YoY growth	Actual YTD-19	Actual YTD-18	YTD growth
Cash, balances with central banks	401.8	482.2	-16.7%	368.1	9.2%	401.8	368.1	9.2%
Loans and advances to credit institutions	155.5	81.6	90.6%	60.3	157.9%	155.5	60.3	157.9%
Loans and advances to credit card clients	1 597.5	1 514.8	5.5%	1 360.4	17.4%	1 597.5	1 360.4	17.4%
Value adjustments (losses)	(90.6)	(91.2)	-0.6%	(95.0)	-4.6%	(90.6)	(95.0)	-4.6%
Net loans and advances to credit card clients	1 506.9	1 423.6	5.8%	1 265.5	19.1%	1 506.9	1 265.5	19.1%
Tangible and intangible assets	27.8	28.2	-1.4%	7.8	254.5%	27.8	7.8	254.5%
Other assets	3.9	2.9	34.4%	10.3	-62.3%	3.9	10.3	-62.3%
Total assets	**2 095.7**	**2 018.5**	**3.8%**	**1 712.0**	**22.4%**	**2 095.7**	**1 712.0**	**22.4%**

Liabilities and equity	Actual Q2-19	Actual Q1-19	QoQ growth	Actual Q2-18	YoY growth	Actual YTD-19	Actual YTD-18	YTD growth
Amounts owed to credit institutions	100.0	100.0	0.0%	100.9	-0.8%	100.0	100.9	-0.8%
Amounts owed to customers	1 723.6	1 670.9	3.2%	1 428.4	20.7%	1 723.6	1 428.4	20.7%
Other liabilities, accruals, provisions	52.7	44.9	17.3%	32.2	63.5%	52.7	32.2	63.5%
Subordinated loan (AT1)	8.8	8.8	-0.6%	9.0	-2.2%	8.8	9.0	-2.2%
Sum liabilities	**1 885.1**	**1 824.6**	**3.3%**	**1 570.4**	**20.0%**	**1 885.1**	**1 570.4**	**20.0%**
Subscribed capital	27.4	27.4	0.0%	27.4	0.0%	27.4	27.4	0.0%
Reserves	16.8	18.1	-7.1%	13.9	20.8%	16.8	13.9	20.8%
Profit (loss) brought forward	131.9	130.6	1.0%	74.8	76.2%	131.9	74.8	76.2%
Profit for the financial year (net of interim dividend)	34.4	17.7	94.5%	25.4	35.6%	34.4	25.4	35.6%
Sum equity	**210.6**	**193.8**	**8.6%**	**141.6**	**48.7%**	**210.6**	**141.6**	**48.7%**
Total liabilities and equity	**2 095.7**	**2 018.5**	**3.8%**	**1 712.0**	**22.4%**	**2 095.7**	**1 712.0**	**22.4%**

Income statement	Actual Q2-19	Actual Q1-19	QoQ growth	Actual Q2-18	YoY growth	Actual YTD-19	Actual YTD-18	YTD growth
Interest receivable, credit cards	63.7	60.6	5.0%	52.8	20.5%	124.3	102.5	21.2%
Interest receivable (payable), others	(0.8)	(0.9)	-7.4%	(0.7)	7.9%	(1.7)	(1.6)	4.0%
Interest payable, deposits	(2.0)	(2.1)	-1.8%	(1.8)	13.1%	(4.1)	(4.1)	-0.7%
Net interest income	**60.8**	**57.7**	**5.4%**	**50.3**	**21.0%**	**118.6**	**96.8**	**22.5%**
Commission receivable	10.0	6.7	49.0%	5.5	81.1%	16.8	10.8	55.6%
Commission payable	(4.9)	(3.8)	26.5%	(3.7)	33.0%	(8.7)	(6.9)	25.8%
Other operating result	(0.8)	(0.6)	26.9%	0.0	-2130.7%	(1.5)	(0.4)	248.1%
Total income	**65.2**	**60.0**	**8.8%**	**52.2**	**24.9%**	**125.2**	**100.2**	**24.8%**
Card acquisition costs	(8.6)	(8.5)	1.6%	(7.1)	20.9%	(17.1)	(14.6)	17.2%
Card operating costs	(6.8)	(5.1)	32.2%	(4.4)	53.7%	(12.0)	(9.0)	32.7%
Staff costs	(4.7)	(3.8)	23.0%	(4.0)	16.0%	(8.5)	(7.9)	7.1%
Other administrative expenses	(2.7)	(1.4)	96.6%	(1.9)	43.0%	(4.0)	(3.3)	23.7%
Depreciation, tangible + intangible assets	(1.5)	(1.0)	43.7%	(0.6)	130.9%	(2.5)	(1.1)	125.6%
Sum operating expenses	**(24.3)**	**(19.9)**	**22.4%**	**(18.1)**	**34.0%**	**(44.2)**	**(36.0)**	**22.8%**
Value adjustments	0.6	2.3	-74.8%	(5.1)	-111.6%	2.9	(9.8)	-129.7%
Write-offs	(19.5)	(18.5)	5.6%	(11.2)	73.8%	(38.0)	(20.2)	88.6%
Total loan losses	**(18.9)**	**(16.2)**	**17.2%**	**(16.3)**	**16.3%**	**(35.1)**	**(30.0)**	**17.1%**
Profit (loss) on ordinary activities before taxes	21.9	23.9	-8.2%	17.8	23.4%	45.9	34.3	33.7%
Income tax and net worth tax	(5.2)	(6.2)	-16.1%	(4.6)	12.8%	(11.4)	(8.9)	28.2%
Profit (loss) for the period	**16.7**	**17.7**	**-5.5%**	**13.2**	**27.2%**	**34.4**	**25.4**	**35.6%**

Table 3: *Unaudited accounts as at 30 June 2019 (in MEUR).*

Comments on the accounts

During the second quarter, the gross credit card loan balance grew by MEUR 82.7 or 5.5%, reaching MEUR 1 597, primarily driven by the growth in German loan balance, although in relative terms, Austria and Spain saw the highest growth rates. Loans and advances to credit institutions increased, mainly due to the recognition of MEUR 35.6 in receivables from former Catella partner banks (Capitol) in Advanzia's books at the beginning of Q2. The deposit balances increased moderately by 3.2%.

Total income increased by 8.8%, reaching MEUR 65.2 in the second quarter, mainly driven by higher interest income and higher commission income. The increase in commission payable and receivable is mainly linked to Capitol, which contributed MEUR 1.9.

Operating expenses of MEUR 24.3 increased by 22.4% QoQ, mainly driven by higher card operating costs, staff costs and depreciation. The increase is mainly driven by the acquisition and inclusion of Capitol and the increased growth rate of the private customers segment.

Loan loss provisions of MEUR 18.9 increased by 17.2% QoQ, mainly due to the rapid growth in the Spanish market.

Advanzia's net profit of MEUR 16.7 grew by 27.2% compared to the second quarter of 2018.

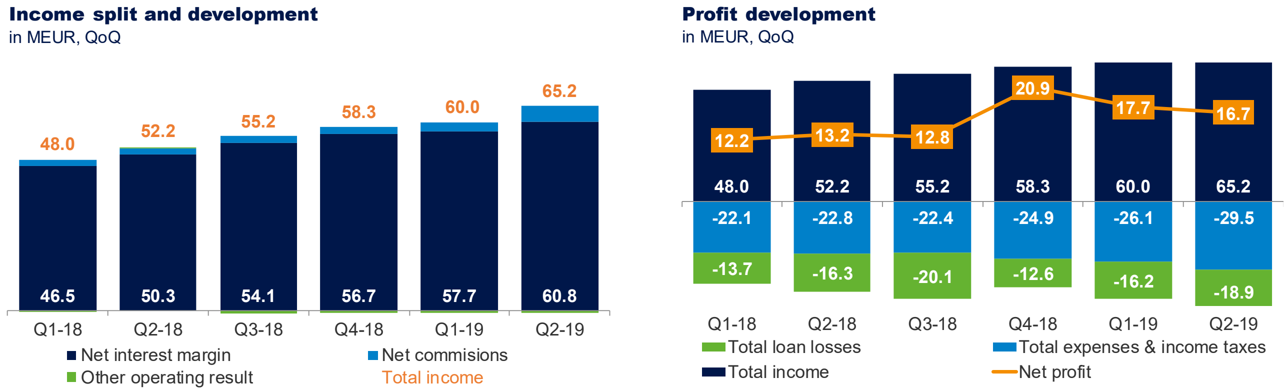

***Figure 5:** Income and profit development.*[4]

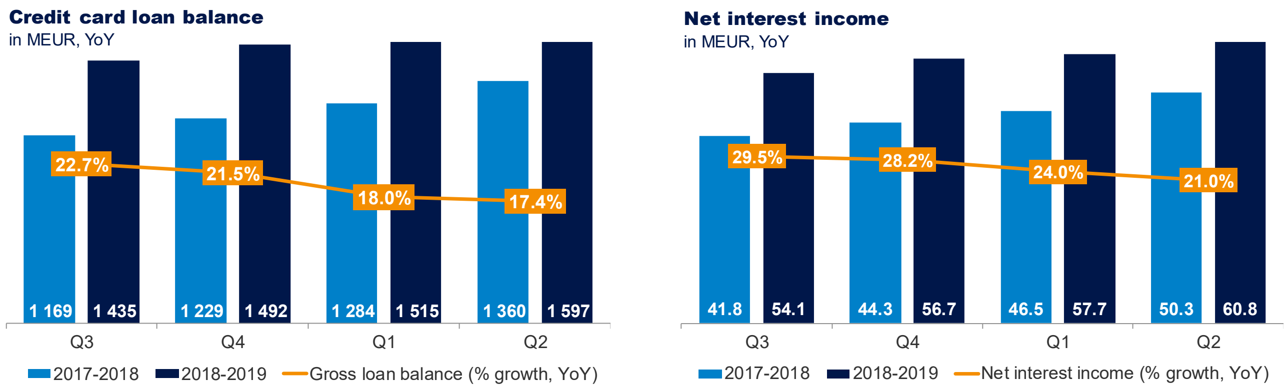

***Figure 6:** YoY growth – loan balance and net interest margin.*

[4] Q4-18 was positively affected by end of year specific items of MEUR 2.9.

Key performance indicators (KPIs)

The profitability indicators remained stable during the second quarter.

The cost/income ratio (YTD) increased to 37.3% while the cost/income excluding card acquisition costs increased to 24.0% as a result of the integration of Capitol.

The Bank maintains high solvency with a capital adequacy ratio (incl. interim profits) of 17.0% while liquidity levels are comfortable at an LCR of 131.0%.

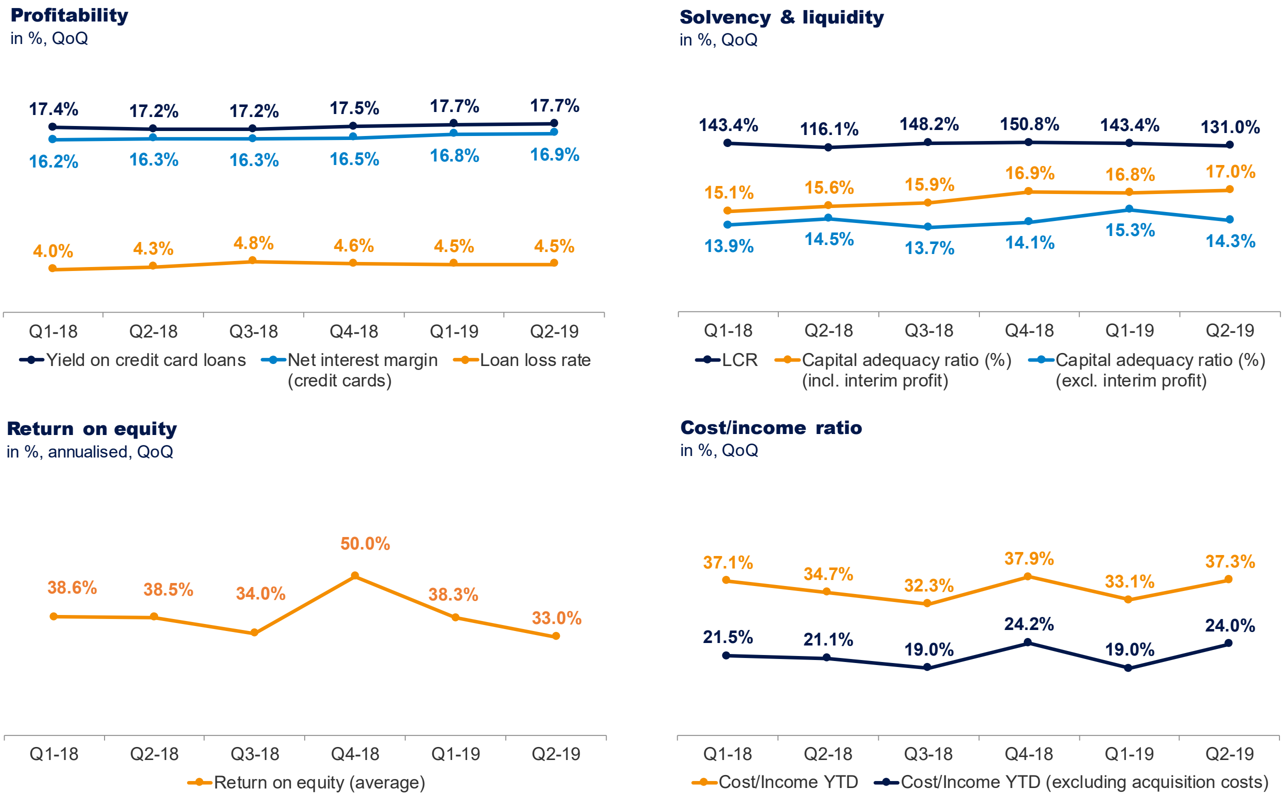

***Figure 7:** Key performance indicators.*

Outlook

The economic outlook is still favourable for the markets in which Advanzia operates. Therefore, the Bank expects to continue its growth in all markets and customer segments.

After having onboarded a significant number of credit card clients in Spain, the Bank will review the characteristics of this initial portfolio and optimise the credit scoring models. The migration of the Capitol portfolio from Catella Bank to Advanzia is ongoing and planned to be finalised in Q1 2020. The current growth in customer acquisition in Germany, Austria and France is expected to continue.

The Bank's financial situation is solid, with carefully managed operating costs and loan losses. Financial performance is therefore expected to remain strong. In July, the issuance of a new AT1 bond of MNOK 225 and the closing of a syndicated covered loan of MEUR 275 will lead to a further strengthening of the capital base and diversification of the funding base.

Munsbach, Luxembourg

13.08.2019

Patrick Thilges
Chief Financial Officer

Roland Ludwig
Chief Executive Officer

Magne Furuholmen, "Hypnosis Descending", 2007, Kistefos Museum, Norway.

ADVANZIA.COM