



**ADVANZIA
BANK**

FINANCIAL REPORT
Third Quarter 2019



Tony Cragg, *Castor & Pollux*, 2017
Kistefos Museum, Norway
Courtesy of the Kistefos Museum. Photo: Frédéric Boudin

FINANCIAL REPORT THIRD QUARTER 2019

Avanzia Bank S.A.

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Highlights for the third quarter 2019

- Gross credit card loan balance of MEUR 1 683, growth +5.4% QoQ and +17.3% YoY.
- 1 083 000 performing active clients, growth +6.1% QoQ and +20.2% YoY.
- 1 671 000 cards in force¹, growth +5.7% QoQ and +21.0% YoY.
- Card acquisition cost of MEUR 9.8, growth +13.7% QoQ and +33.5% YoY.
- Loan loss rate (provisions and write offs) of 4.4% (-0.1%-points QoQ and -0.4%-points YoY).
- Net profit of MEUR 16.9, +0.9% QoQ and +32.0% YoY.
- Annualised return on equity of 27.5% in Q3-19 vs. 34.0% in Q3-18.

During Q3, Advanzia Bank has achieved several goals of its ambitious growth plan. In July, the Bank successfully closed its debut syndicated facilities of MEUR 275 in order to solidify and diversify its funding base. In the same month, the Bank issued a new AT1 instrument of MNOK 225 to strengthen its capital base. In September, the Bank successfully closed the sale of a German NPL portfolio with an overall claim of approximately MEUR 145. In the same month, Advanzia became a principal member of the Visa network for credit card issuing, which represents an important milestone in diversifying the Bank's product portfolio for private banks (PCS business line)

Advanzia continued its growth in Q3 and achieved a record high of nearly 95 000 card activations, which was mainly driven by the largest market Germany and the new market Spain, generating 68 000 and 15 500 new active clients, respectively. The gross loan balance increased by 5.4% QoQ, despite the sale of the German NPL portfolio (growth would have been 7.1% without the sale), and reached MEUR 1 683. Total income of MEUR 69.2 increased by 6.1% QoQ and 25.2% YoY. The growth was mainly driven by the increasing loan balance as well as the increased PCS (Professional Card Services) activities. Operating expenses amounted to MEUR 26.3 in Q3, 8.0% higher than the previous quarter and 47% higher than the same period last year as a result of the increased growth and the Catella portfolio acquisition. Loan loss provisions reached MEUR 20.4, the loan loss rate (provisions and write-offs) decreased with 0.1%-points QoQ and 0.4%-points YoY despite the very high growth in the recently launched market, Spain. Net profit for Q3-19 ended at MEUR 16.9, up 1% QoQ and with a strong increase of 32% YoY.

Profit development

in EUR million, QoQ

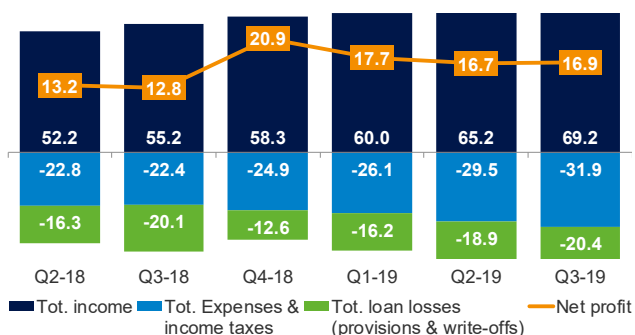


Figure 1: profit development.²

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*)	21.7%	24.6%	32.2%
YTD 2019 vs. YTD 2018	20.2%	17.3%	34.4%

* Last twelve months

Table 1: CAGR and YTD growth.

Since the end of 2010, Advanzia has delivered a compound annual growth rate (CAGR) of 32.2% in net profit, 24.6% in loan balance and 21.7% in the number of performing active credit card clients.

Loan balance development

Credit card loan balance

in EUR million, QoQ

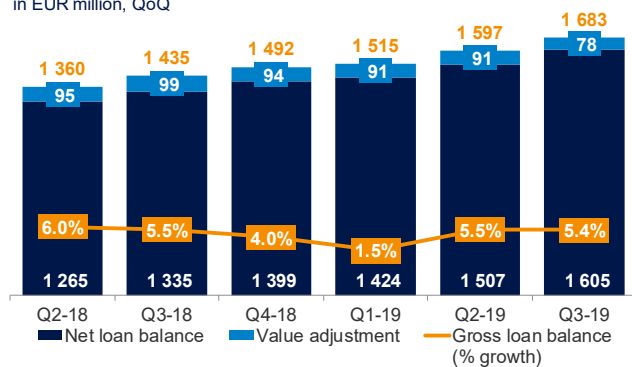


Figure 2: Loan balance development.

All markets contributed positively to the loan balance growth, which remained relatively stable at 5.4% QoQ. The sale of the German NPL portfolio, totalling claims of MEUR 145, reduced the gross loan balance by MEUR 27.3. When excluding this impact, the QoQ growth would have been 7.1%.

Active clients/credit cards

Number of active credit card clients
in 000's, QoQ

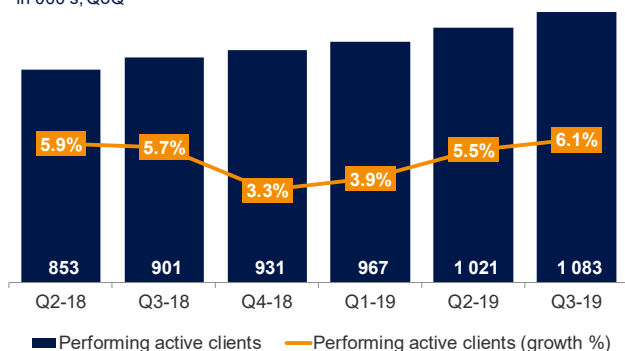


Figure 3: Credit card clients.³

Avanzia continued to accelerate its growth rate with Germany and Spain contributing the most. The number of active clients reached 1 083 000, representing a growth of 6.1% QoQ and 20.2% YoY.

Financial institutions – Professional Card Services (PCS)

Key Figures, PCS clients	Actual Q3-19	Actual Q2-19	QoQ growth	Actual Q3-18	YoY growth	Actual YTD-19	Actual YTD-18	YTD growth
Number of banks	88	88	0.0%	21	319.0%	88	21	319.0%
Total cards (opened)	16 733	16 732	0.0%	1 575	962.4%	16 733	1 575	962.4%
Turnover (in EUR million)	144.0	131.1	9.8%	8.3	1637.7%	285.8	23.6	1110.2%

Table 2: Professional Card Services.

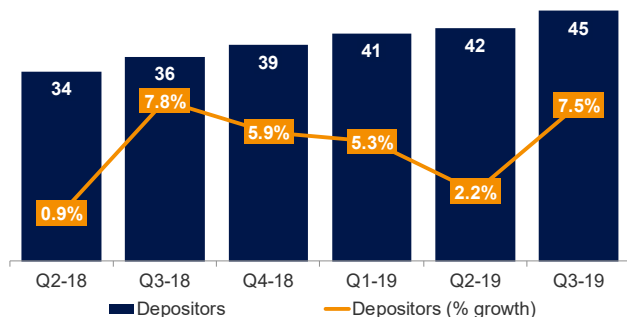
During Q2, the integration of the Capitol portfolio acquired from Catella Bank resulted in an exceptional uplift for Avanzia's PCS business line through the addition of 65 banks, 15 000 active cards and MEUR 2.9 in commission income.

In Q3, the increase in turnover by MEUR 12.9 QoQ was mainly generated by the Capitol portfolio, while the number of open cards remained stable compared to Q2.

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 (less than 1% positive impact).

Deposit accounts

Number of active depositors
in 000's, QoQ



Deposit balance
in EUR million, QoQ

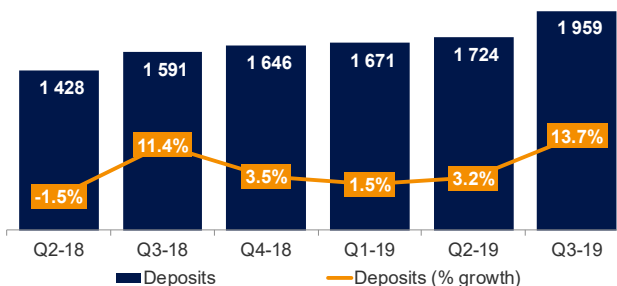


Figure 4: Deposit statistics.

During Q3, the Bank offered a six months preferential rate of 1.0% effective p.a. to new depositors, which resulted in 7.5% QoQ increase of the active depositors and 13.7% QoQ increase of the deposit balance. The standard rate of 0.4% effective p.a. remained unchanged during the third quarter.

Board, management and staff

As of 30 September 2019, Advanzia Bank employed 180 full-time equivalent employees, up from 171 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 third 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 Q3-19	Actual Q2-19	QoQ growth	Actual Q3-18	YoY growth	Actual YTD-19	Actual YTD-18	YTD growth
Cash, balances with central banks	705.3	401.8	75.6%	468.9	50.4%	705.3	468.9	50.4%
Loans and advances to credit institutions	149.4	155.5	-3.9%	63.7	134.6%	149.4	63.7	134.6%
Loans and advances to credit card clients	1 683.3	1 597.5	5.4%	1 434.8	17.3%	1 683.3	1 434.8	17.3%
Value adjustments (losses)	-78.4	-90.6	-13.5%	-99.4	-21.2%	-78.4	-99.4	-21.2%
Net loans and advances to credit card clients	1 604.9	1 506.9	6.5%	1 335.4	20.2%	1 604.9	1 335.4	20.2%
Tangible and intangible assets	27.5	27.8	-1.0%	9.0	206.2%	27.5	9.0	206.2%
Other assets	7.0	3.9	79.6%	10.8	-35.4%	7.0	10.8	-35.4%
Total assets	2 494.2	2 095.7	19.0%	1 887.8	32.1%	2 494.2	1 887.8	32.1%

Liabilities and equity (EUR million)	Actual Q3-19	Actual Q2-19	QoQ growth	Actual Q3-18	YoY growth	Actual YTD-19	Actual YTD-18	YTD growth
Amounts owed to credit institutions	217.2	100.0	117.2%	100.9	115.4%	217.2	100.9	115.4%
Amounts owed to customers	1 959.4	1 723.6	13.7%	1 590.5	23.2%	1 959.4	1 590.5	23.2%
Other liabilities, accruals, provisions	59.1	52.7	12.2%	33.1	78.8%	59.1	33.1	78.8%
Subordinated loan (AT1)	8.6	8.8	-2.3%	9.0	-4.8%	8.6	9.0	-4.8%
Sum liabilities	2 244.3	1 885.1	19.1%	1 733.4	29.5%	2 244.3	1 733.4	29.5%
Subscribed capital	27.4	27.4	0.0%	27.4	0.0%	27.4	27.4	0.0%
Other equity instruments	22.4	0.0	-	0.0	-	22.4	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%	74.8	76.2%	131.9	74.8	76.2%
Profit for the financial year (net of interim dividend)	51.3	34.4	49.0%	38.2	34.4%	51.3	38.2	34.4%
Sum equity	249.9	210.6	18.7%	154.4	61.9%	249.9	154.4	61.9%
Total liabilities and equity	2 494.2	2 095.7	19.0%	1 887.8	32.1%	2 494.2	1 887.8	32.1%

Income statement (EUR million)	Actual Q3-19	Actual Q2-19	QoQ growth	Actual Q3-18	YoY growth	Actual YTD-19	Actual YTD-18	YTD growth
Interest receivable, credit cards	68.1	63.7	6.9%	56.8	19.7%	192.4	159.4	20.7%
Interest receivable (payable), others	-1.7	-0.8	108.7%	-0.7	133.1%	-3.3	-2.3	43.9%
Interest payable, deposits	-2.5	-2.0	21.7%	-2.0	22.3%	-6.6	-6.1	6.9%
Net interest income	63.9	60.8	5.0%	54.1	18.1%	182.5	150.9	20.9%
Commission receivable	11.5	10.0	14.8%	6.2	86.8%	28.3	17.0	67.0%
Commission payable	-5.3	-4.9	8.0%	-4.0	32.2%	-14.0	-10.9	28.1%
Other operating result	-1.0	-0.8	21.0%	-1.1	-5.3%	-2.5	-1.5	67.4%
Total income	69.2	65.2	6.1%	55.2	25.2%	194.3	155.5	25.0%
Card acquisition costs	-9.8	-8.6	13.7%	-7.4	33.5%	-27.0	-22.0	22.7%
Card operating costs	-7.3	-6.8	7.6%	-4.5	61.2%	-19.3	-13.6	42.3%
Staff costs	-4.8	-4.7	1.6%	-4.1	15.9%	-13.3	-12.0	10.1%
Other administrative expenses	-2.8	-2.7	5.8%	-1.5	93.4%	-6.9	-4.7	45.3%
Depreciation, tangible + intangible assets	-1.5	-1.5	0.9%	-0.4	295.7%	-4.0	-1.5	168.7%
Sum operating expenses	-26.3	-24.3	8.0%	-17.9	47.0%	-70.4	-53.8	30.9%
Value adjustments	12.3	0.6	1991.5%	-4.5	-372.7%	15.2	-14.3	-206.0%
Write-offs	-32.7	-19.5	67.4%	-15.6	109.5%	-70.7	-35.8	97.7%
Total loan losses	-20.4	-18.9	7.9%	-20.1	1.7%	-55.6	-50.1	11.0%
Profit (loss) on ordinary activities before taxes	22.5	21.9	2.4%	17.3	30.1%	68.3	51.6	32.5%
Income tax and net worth tax	-5.6	-5.2	7.5%	-4.5	24.7%	-17.0	-13.4	27.0%
Profit (loss) for the period	16.9	16.7	0.9%	12.8	32.0%	51.3	38.2	34.4%

Table 3: Unaudited accounts as at 30 September 2019 (in EUR million).

Comments on the accounts

During the third quarter, the gross credit card loan balance grew by MEUR 85.8 or 5.4% (7.1% if the NPL portfolio sale is excluded), reaching MEUR 1 683, primarily driven by the growth in Germany. The replacement of the bilateral covered loan of MEUR 150 with the syndicated facilities of MEUR 275 resulted in an increase of the loans to credit institutions by MEUR 106. The deposit balance increased by 13.7% thanks to the attractive offer proposed to new deposit clients. Furthermore, in July the Bank completed the issuance of a new AT1 perpetual bond increasing its capital base by MEUR 22.4.

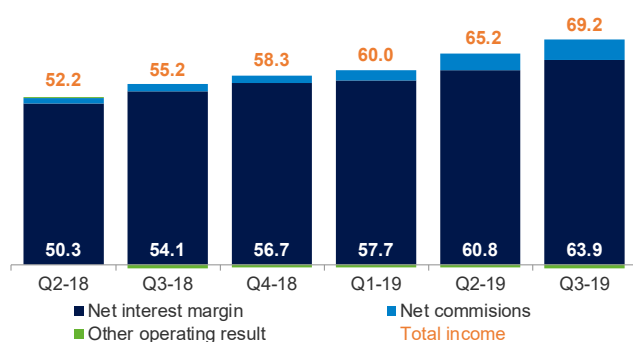
Total income increased by 6.1%, reaching MEUR 69.2 in the third quarter, mainly driven by higher interest income and higher commission income. Operating expenses of MEUR 26.3 increased by 8.0% QoQ, mainly driven by higher card acquisition costs and higher expenses related to the card operations as well as IT infrastructure.

The sale of the NPL portfolio had a net positive effect of MEUR 2.2 on loan loss provisions. Total loan loss provisions of MEUR 20.4 increased by 7.9% QoQ, which was mainly caused by the strong growth in the Spanish and German markets. The loan loss rate (provisions and write-offs) decreased with 0.1%-points QoQ and 0.4%-points YoY

Avanzia's net profit of MEUR 16.9 grew by 32.0% compared to the third quarter of 2018.

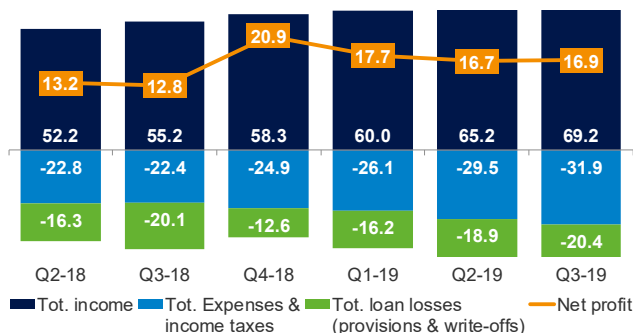
Income split and development

in EUR million, QoQ



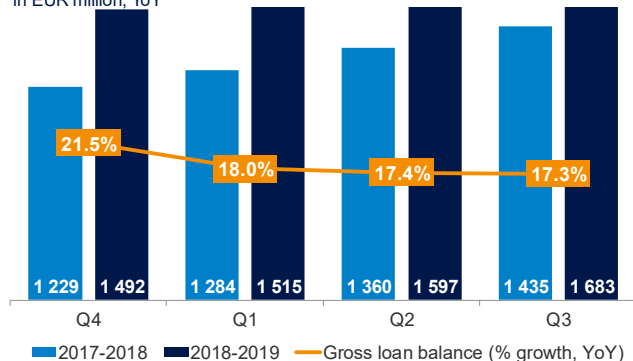
Profit development

in EUR million, QoQ



Credit card loan balance

in EUR million, YoY



Net interest income

in EUR million, YoY

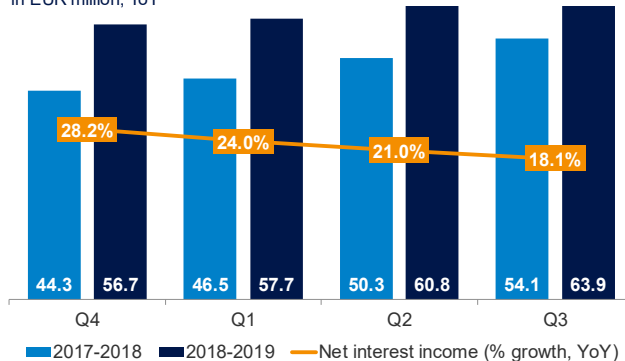


Figure 5: Income, profit, loan balance and net interest margin development.

Key performance indicators (KPIs)

The net interest margin decreased as result of the strong growth in deposit balance at a higher average funding rate and the issuance of the syndicated loan and the AT1 bond. The loan loss rate (provisions and write-offs) remained relatively stable at 4.4%. The cost-income ratio (YTD) increased to 38.0%, which was mainly driven by higher acquisition cost, as the cost-income excluding card acquisition costs improved slightly to 23.8% despite the Capitol acquisition (fee based business model with a high cost/income).

The capital adequacy ratios (incl. and excl. interim profits) increased as a result of the issuance of the new AT1 instrument and the application of paragraph 4 of article 473a of Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9, after approval by the regulator (also referred to as the IFRS 9 dynamic component).

The LCR increased to 184.8% due to the increased funding base of the Bank.

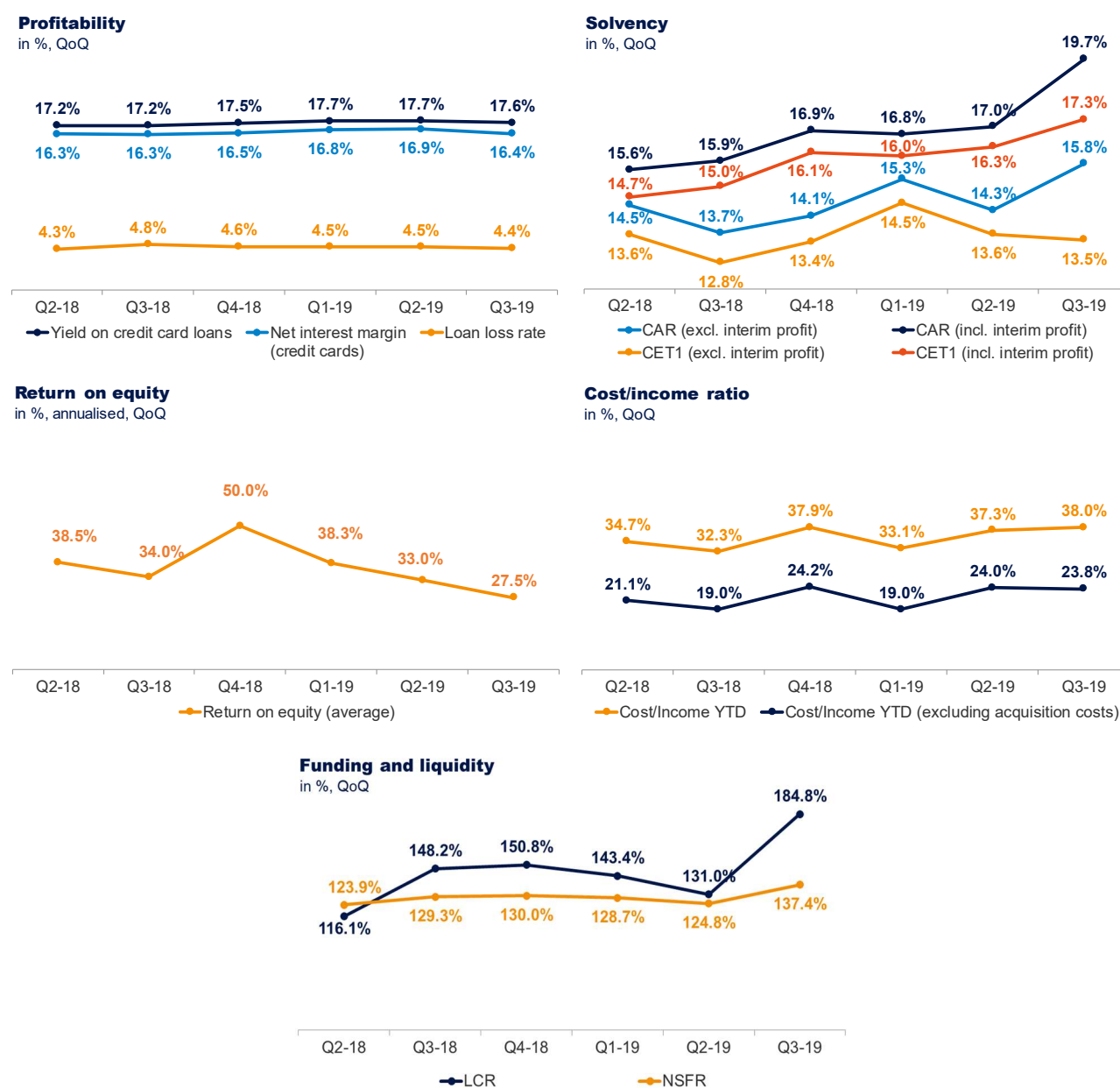


Figure 6: Key performance indicators.

Outlook

The German portfolio shows strong resilience with a steady improvement in credit risk (new defaults) year to date. The current growth in new customers in Germany, Austria and France is expected to continue.

After onboarding a significant number of credit card clients in Spain, the Bank is now reviewing the characteristics of this initial portfolio in order to 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.

In October, the Bank distributed an interim dividend of MEUR 40.0 to its shareholders. In November, the Bank issued a Tier 2 callable bond of MEUR 25 with a tenor of 10 years.

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

15.11.2019

Patrick Thilges
Chief Financial Officer

Roland Ludwig
Chief Executive Officer



Ilya Kabakov, *The Ball*, 2017

Kistefos Museum, Norway

Courtesy of the Kistefos Museum. Photo: Frédéric Boudin



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