QUARTERLY REPORT
Q2-18
Advanzia Bank S.A.

Quarterly Report
For the Quarter ended 30 June 2018
Advanzia Bank S.A.

Simplicity, Transparency and Trust

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

Highlights: For the Quarter ended 30 June 2018

- **Gross credit card loan balance of MEUR 1 360, growth +6% QoQ and +24% YoY**
- **853 000 performing active clients, growth +6% QoQ and +26% YoY**
- **1 318 000 cards in force[1], growth +3% QoQ and +23% YoY**
- **Card acquisition cost of MEUR 7.1, -4% QoQ and +26% YoY**
- **Loan loss rate of 4.3%, increased by 0.2%-points QoQ and stable YoY**
- **After-tax profit of MEUR 13.2, +8% QoQ and + 18% YoY**
- **Annualized return on equity of 38.5% vs. 38.6 % in Q1-18**
- **Cost/income ratio of 34.7% vs. 37.1 % in Q1-18**

Advanzia continues to grow strongly, especially in the German and Austrian markets. The gross loan balance reached MEUR 1 360, an increase of 6% since last quarter. This, coupled with reduced funding costs, resulted in a net interest income of MEUR 50.3, an 8% increase over the quarter. The loan losses ended at MEUR 16.3 for the quarter, an increase of 0.2%-points since last quarter. The operating costs in Q2 were MEUR 18.1, slightly higher than the previous quarter and mainly driven by ongoing high investments in card acquisition. The positive impact from the increased net interest income more than offsets the increase in operating cost and loan losses. In summary, the Bank ended the second quarter with MEUR 13.2 in profit after tax, 8% better than the previous quarter and 18% higher than the same quarter last year.

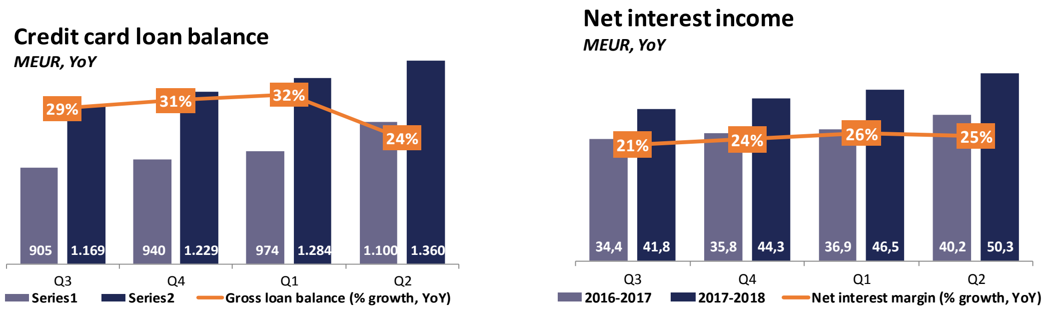


Figure 1: *YoY growth – loan balance and net interest margin.*[2]

Growth metrics	Active credit card clients	Loans and advances to credit card clients	Profit after tax
CAGR (2010 - LTM*)	22%	26%	33%
YTD 2018 vs. YTD 2017	26%	24%	25%

* Last twelve months

Figure 2: *CAGR and YTD growth.*

Since the end of 2010, Advanzia has delivered a CAGR of 33% in net profit, 26% in loan balance and 22% 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

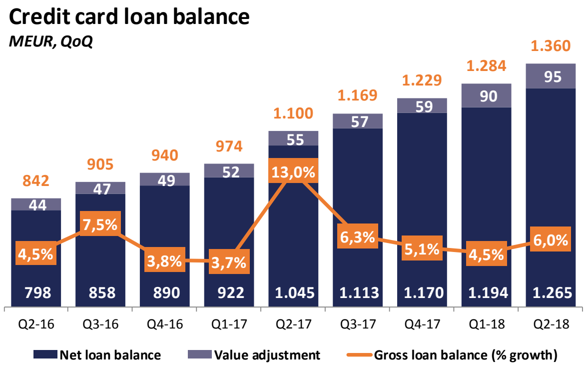


Figure 3: *Loan balance development.*[3]

The gross loan balance growth increased from last quarter (6.0% QoQ vs 4.5% in Q1-18) due to sustained marketing campaigns targeting both new and existing clients. While Q1-18 value adjustments were impacted by the adoption of the new accounting standard IFRS 9, Q2-18 value adjustments reverted to the previous evolution of slower growth than the gross loan balance.

Active clients/credit cards

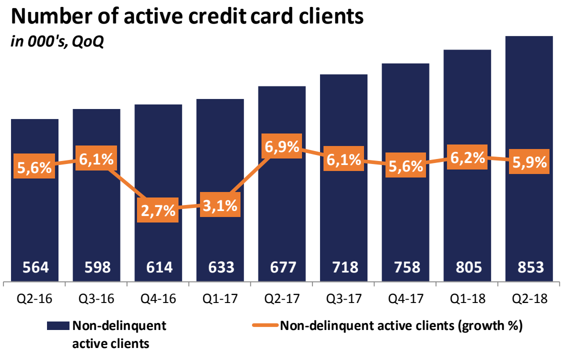


Figure 4: *Credit card clients.*

The number of performing active clients reached 852 700, representing a growth of 5.9% QoQ and 26.0% YoY. All markets are experiencing postive momentum, even if the majority of the growth is driven by Germany. In summary, the high card acquistion costs (marketing) continue to deliver a high amount of new active customers.

Key figures (000's)	Actual Q2-18	Actual Q1-18	QoQ growth	Actual Q2-17	YoY growth	Actual YTD-18	Actual YTD-17	YTD growth
Non delinquent active clients (total, after churn)	852,7	805,2	*6%*	676,9	*26%*	852,7	676,9	*26%*
Germany/Luxembourg	766,3	725,3	*6%*	614,9	*25%*	766,3	614,9	*25%*
France	44,0	42,9	*3%*	38,6	*14%*	44,0	38,6	*14%*
Austria	42,4	37,0	*15%*	23,5	*81%*	42,4	23,5	*81%*

Figure 5*: Client/card statistics.*

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

Professional Card Services (PCS)

Key Figures, PCS clients	Actual Q2-18	Actual Q1-18	QoQ growth	Actual Q2-17	YoY growth	Actual YTD-18	Actual YTD-17	YTD growth
Number of banks	20	20	*0%*	20	*0%*	20	20	*0%*
New active cards	131	91	*44%*	125	*5%*	222	330	*-33%*
Total cards (opened)	1.553	1.485	*5%*	1.375	*13%*	1.553	1.375	*13%*
Turnover (in MEUR)	8,1	7,2	*13%*	6,3	*29%*	15,3	12,1	*27%*

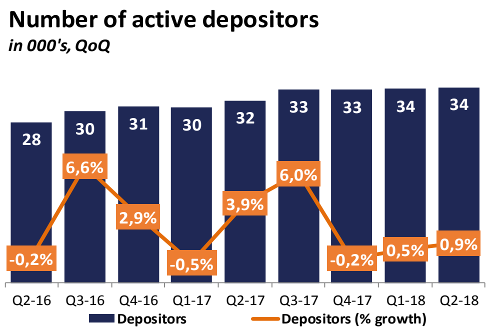
***Figure 6**: Professional Card Services.*

20 partner banks were part of the Professional Card Services (PCS) programme at the end of Q2-18. Advanzia is actively developing its pipeline of potential partner banks and also continues to develop the current offering.

Deposit accounts

During most of the second quarter, the Bank did not offer any introductory rate and the standard interest rate was maintained at a level of 0.5% effective p.a. As a result, both the number of depositors as well as the amounts deposited remained fairly stable.

Nevertheless, at the end of June, Advanzia launched a campaign offering 1.0% effective p.a. to new customers for 3 months to increase deposits further.



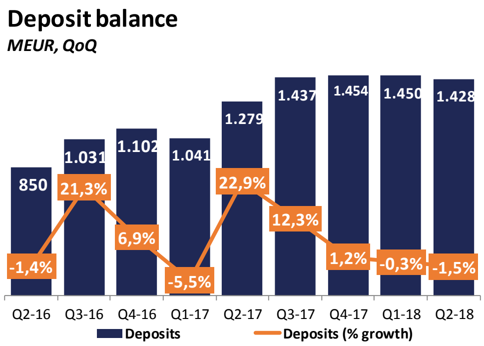


Figure 7: Depositors and deposit balance.

Board, management and staff

As of 30 June 2018, Advanzia employed 157 full-time equivalent employees, up from 152 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

Below are the unaudited accounts for Advanzia as at end of the second quarter of 2018. All amounts are in millions of euro (MEUR). Advanzia follows IFRS accounting principles and the figures are presented so that they reflect Advanzia's actual business activities and operations.

Assets (MEUR)	Actual Q2-18	Actual Q1-18	QoQ growth	Actual Q2-17	YoY growth	Actual YTD-18	Actual YTD-17	YTD growth
Cash, balances with central banks	368,1	448,2	*-18%*	315,2	*17%*	368,1	315,2	*17%*
Loans and advances to credit institutions	60,2	59,4	*1%*	117,0	*-49%*	60,2	117,0	*-49%*
Loans and advances to credit card clients	1.360,4	1.283,9	*6%*	1.100,4	*24%*	1.360,4	1.100,4	*24%*
Value adjustments (losses)	(95,0)	(89,9)	*6%*	(55,3)	*72%*	(95,0)	(55,3)	*72%*
Net loans and advances to credit card clients	1.265,5	1.194,0	*6%*	1.045,1	*21%*	1.265,5	1.045,1	*21%*
Tangible and intangible assets	7,8	7,2	*8%*	5,8	*36%*	7,8	5,8	*36%*
Other assets	10,3	11,7	*-12%*	3,9	*163%*	10,3	3,9	*163%*
Total assets	**1.711,9**	**1.720,5**	***-1%***	**1.487,0**	***15%***	**1.711,9**	**1.487,0**	***15%***

Liabilities and equity (MEUR)	Actual Q2-18	Actual Q1-18	QoQ growth	Actual Q2-17	YoY growth	Actual YTD-18	Actual YTD-17	YTD growth
Amounts owed to credit institutions	100,0	100,0	*0%*	50,1	-	100,0	50,1	-
Amounts owed to customers	1.428,4	1.449,9	*-1%*	1.279,5	*12%*	1.428,4	1.279,5	*12%*
Other liabilities, accruals, provisions	33,0	33,4	*-1%*	28,8	*15%*	33,0	28,8	*15%*
Subordinated loan (AT1)	9,0	8,8	*2%*	8,9	*1%*	9,0	8,9	*1%*
Sum liabilities	1.570,3	1.592,1	*-1%*	1.367,3	*15%*	1.570,3	1.367,3	*15%*
Subscribed capital	27,4	27,4	*0%*	27,4	*0%*	27,4	27,4	*0%*
Reserves	13,9	15,0	*-7%*	13,4	*4%*	13,9	13,4	*4%*
Profit (loss) brought forward	74,8	73,7	*1%*	58,5	*28%*	74,8	58,5	*28%*
Profit for the financial year (net of interim dividend)	25,4	12,2	*108%*	20,3	*25%*	25,4	20,3	*25%*
Sum equity	141,6	128,4	*10%*	119,7	*18%*	141,6	119,7	*18%*
Total liabilities and equity	**1.711,9**	**1.720,5**	***-1%***	**1.487,0**	***15%***	**1.711,9**	**1.487,0**	***15%***

Income statement (MEUR)	Actual Q2-18	Actual Q1-18	QoQ growth	Actual Q2-17	YoY growth	Actual YTD-18	Actual YTD-17	YTD growth
Interest receivable, credit cards	52,8	49,7	*6%*	42,3	*25%*	102,5	81,0	*27%*
Interest receivable (payable), others	(0,7)	(0,9)	*-14%*	(0,4)	*66%*	(1,6)	(0,8)	*99%*
Interest payable, deposits	(1,8)	(2,3)	*-23%*	(1,7)	*8%*	(4,1)	(3,1)	*32%*
Net interest income	50,3	46,5	*8%*	40,2	*25%*	96,8	77,1	*26%*
Commission receivable	5,5	5,2	*6%*	4,2	*31%*	10,8	7,9	*37%*
Commission payable	(3,7)	(3,3)	*12%*	(3,0)	*23%*	(6,9)	(5,2)	*32%*
Other financial items/operating income	0,0	(0,5)	*-109%*	(0,1)	*-131%*	(0,4)	(0,8)	*-46%*
Total income	52,2	48,0	*9%*	41,4	*26%*	100,2	78,9	*27%*
Card acquisition costs	(7,1)	(7,5)	*-4%*	(5,7)	*26%*	(14,6)	(10,9)	*34%*
Card operating costs	(4,4)	(4,6)	*-3%*	(4,1)	*7%*	(9,0)	(7,4)	*22%*
Staff costs	(4,0)	(3,9)	*4%*	(3,5)	*15%*	(7,9)	(7,1)	*13%*
Other administrative expenses	(1,9)	(1,4)	*34%*	(1,6)	*20%*	(3,3)	(3,1)	*6%*
Depreciation, tangible + intangible assets	(0,6)	(0,5)	*36%*	(0,5)	*32%*	(1,1)	(1,0)	*17%*
Sum operating expenses	(18,1)	(17,8)	*2%*	(15,4)	*18%*	(36,0)	(29,3)	*23%*
Value adjustments	(5,1)	(4,8)	*6%*	(2,9)	*74%*	(9,8)	(5,9)	*67%*
Write-offs	(11,2)	(8,9)	*26%*	(7,9)	*43%*	(20,2)	(15,9)	*27%*
Total loan losses	(16,3)	(13,7)	*19%*	(10,8)	*51%*	(30,0)	(21,8)	*38%*
Profit (loss) on ordinary activities before taxes	17,8	16,5	*8%*	15,3	*17%*	34,3	27,8	*23%*
Income tax and net worth tax	(4,6)	(4,3)	*8%*	(4,1)	*12%*	(8,9)	(7,5)	*18%*
Profit (loss) for the period	**13,2**	**12,2**	***8%***	**11,1**	***18%***	**25,4**	**20,3**	***25%***

***Figure 8**: Unaudited accounts as at 30 June 2018.*

Comments to the accounts

In Q2-18, the gross credit card loan balance grew by MEUR 77 reaching MEUR 1 360, which represents a 6% increase compared to Q1-18 and a 24% increase compared to Q2-17.

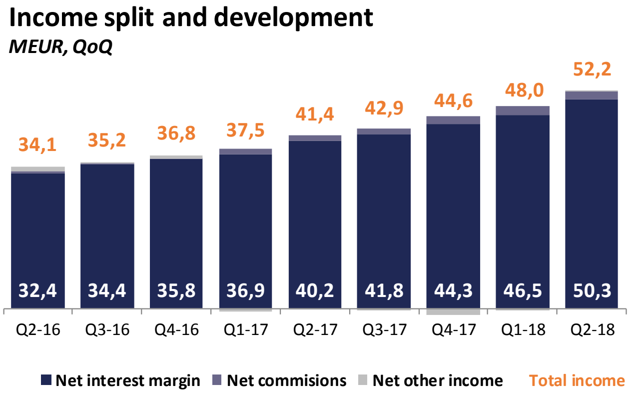
Overall liquidity decreased by MEUR 79 to MEUR 428 mainly due to the strong loan balance growth. To diversify its funding sources, Advanzia has signed an agreement for a committed revolving credit facility of MEUR 50 that can be drawn on demand within 3 banking business days.

Total income in Q2-18 increased by 9% compared to Q1-18, landing at MEUR 52.2. This was mainly driven by higher interest income deriving from the higher credit card loan balance and lower funding costs, as deposit campaigns launched in summer 2017 finally expired in Q1-18.

Operating expenses of MEUR 18.1 increased by 2% compared to the previous quarter. Seizing on the positive momentum in Germany and Austria, the Bank maintained high spending of MEUR 7.1 on card acquisition also during the second quarter.

Loan losses increased by 19% QoQ and 51% YoY. However, the comparison is distorted as value adjustments in 2018 are calculated according to IFRS9, whereas before the computation was done based on IAS39. For comparison purposes, assuming a continued application of IAS 39, loan losses would have decreased by 1% QoQ and increased 21% YoY, less than the growth in the gross loan balance.

Advanzia's profit after tax grew by 8% compared to Q1-18 (25% compared to same quarter last year), ending at MEUR 13.2 for the quarter.



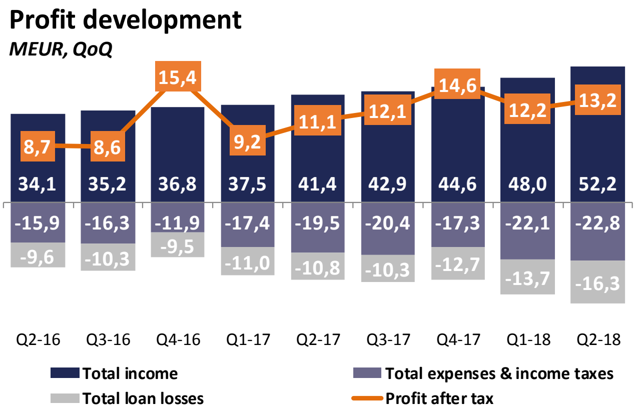


Figure 9: *Income and profit development.*[4]

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

Key performance indicators (KPIs)

The KPIs are in line with expectations and the development of the business. The gross yield has stabilised since the acquisition of the French portfolio in Q2-17. The net interest margin on credit cards improved in 2018 due to reduced funding costs. At 34.7%, the cost-income ratio shows a positive trend over the last three quarters.

Advanzia maintains high solvency, with a capital adequacy ratio (incl. interim profits) of 15.6%. The liquidity coverage ratio decreased to 116%.

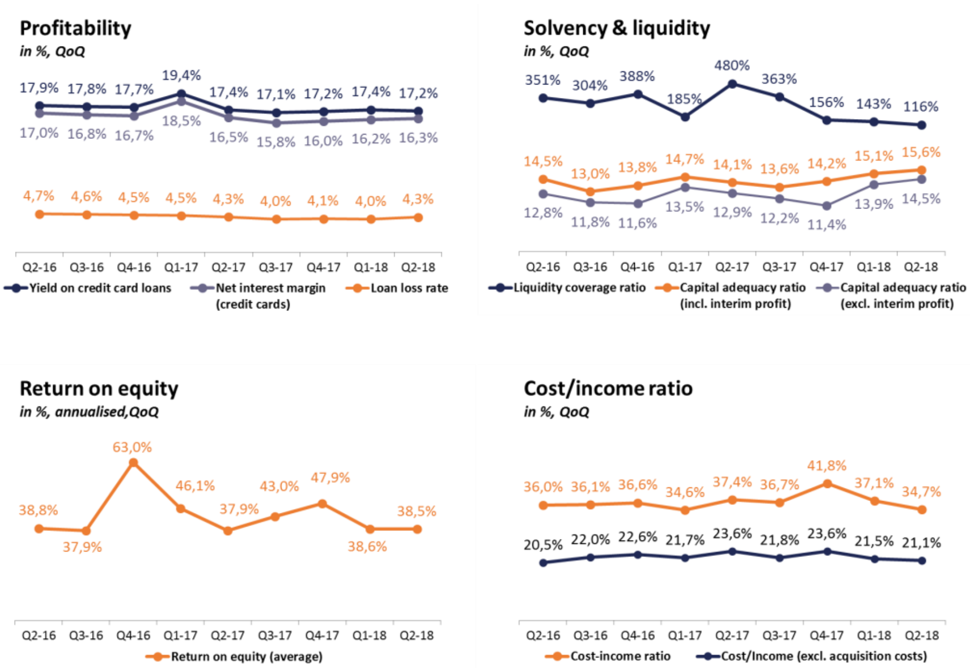


Figure 10: *Key performance indicators.*

Outlook

The current economic environment is stable and the outlook is favourable for all markets. Advanzia continues to invest significantly in marketing in Germany and Austria. The implemented changes in the French market are evolving satisfactorily and are enabling Advanzia to further develop the market in the future. The portfolio acquired in France (in Q2-17) also exhibits a steady positive development.

In addition to the focus on card acquisition, which is expected to continue during the next quarters, Advanzia is investing significantly in IT infrastructure and back-office systems. This will enable Advanzia to further optimize its operational business model in line with future growth ambitions.

The Bank's financial situation is expected to remain solid, with prudently managed operating costs and loan losses, all contributing to continued strong financial performance.

Munsbach, Luxembourg

14.08.2018

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

advanzia

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