



*Simplicity  
Transparency  
Trust*



**QUARTERLY  
REPORT Q2-17**  
Advanzia Bank S.A.



Quarterly Report  
For the Quarter ended 30 June 2017  
Advanzia Bank S.A.

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Simplicity, Transparency and Trust

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

River Man (2016) is both a conceptual, performative and sculptural work. The performative element of the work begins as liquid bronze is poured directly into the water. As the bronze hits the water, it immediately sets, creating unexpected and abstract shapes formed by the conditions of the water. Three pours have been made, at three chosen locations along the river at Kistefos, and among hundreds, only three forms, one from each location, have been chosen and cast in bronze on a monumental scale.

The **Advanzia strategy** is to create long-term value through the development of its card portfolio both in terms of number of customers as well as in terms of loan balance. The plan requires substantial investments in customer acquisition. This will in the short-term yield a lower growth in profits, since it takes 2 to 3 quarters before new clients start to make a positive contribution and up to three years before total investments are recouped.

## Highlights: For the Quarter ended 30 June 2017

- Acquisition of French revolving credit portfolio with 17 200 clients.
- Gross credit card loan balance of MEUR 1 100, growth +13% QoQ and +31% YoY
- 677 000 performing active clients , growth +7% QoQ and +20% YoY
- 1 076 000 cards in force<sup>1</sup>, growth +4% QoQ and +17% YoY
- Customer acquisition cost of MEUR 5.7, +9% QoQ and +7% YoY
- Loan loss rate of 4.3%, decrease by 0.2%-points QoQ and 0.4%-points YoY
- After-tax profit of MEUR 11.1, +21% QoQ and +28% YoY
- Annualized return on equity of 38.9% vs. 35.2 % in Q1-17

As a complement to its organic growth, Advanzia finalized its first acquisition of a revolving credit portfolio with MEUR 62.8 in loan balance. This added 17 200 new activations so that total new active cards amounted to 65 600 during the quarter.

Advanzia ended the quarter with a gross loan balance of MEUR 1 100 and 677 000 performing active cards. The Bank recorded a gross loan balance growth of 13% and 7% growth in active clients compared to Q1-17. The loan loss rate continued to improve and decreased by 0.2%-points to 4.3%. The quarterly net profit rose to MEUR 11.1, a 21% increase compared to the previous quarter.

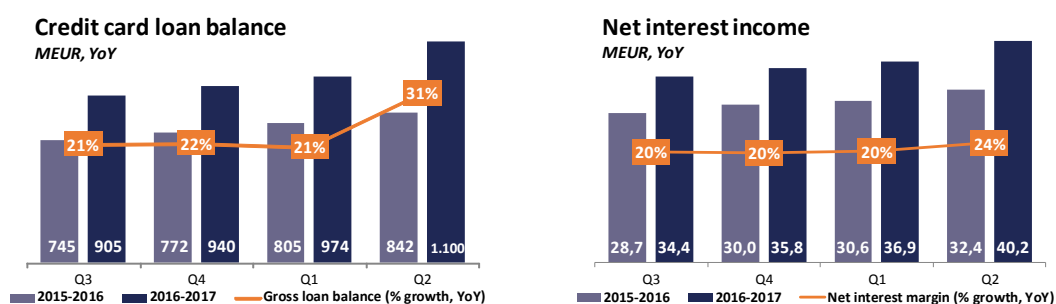


Figure 1: YoY growth – loan balance and net interest margin.<sup>2</sup>

Growth metrics	Active credit card clients	Loans and advances to credit card clients	Profit after tax
CAGR (2010 - LTM*)	22%	26%	35%
YTD 2017 vs. YTD 2016	20%	31%	26%

\* Last twelve months

Figure 2: CAGR and YTD growth.

<sup>1</sup> Cards in force: The number of issued cards including active and inactive cards.

<sup>2</sup> When excluding the effect of the acquired portfolio the YoY growth rate of Q2-17 is 23% and 20%, respectively.

Since the end of 2010, Advanzia has delivered a CAGR of 35% in net profit, 26% in loan balance and 22% in number of active credit card clients.

## Loan balance development

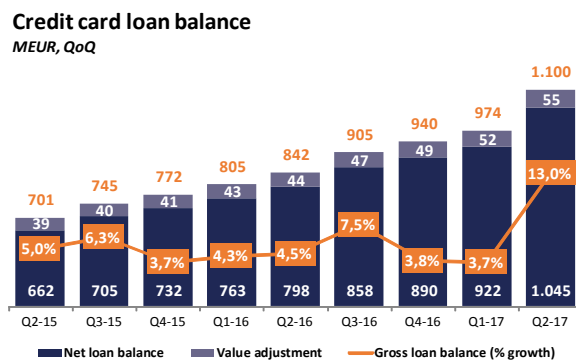


Figure 3: Loan balance development.

With the acquisition of the French portfolio the gross loan balance grew by 13.0% QoQ. The underlying organic growth rate was 6.7% QoQ. This represents a strong performance achieved through campaigns targeting both new and existing clients. Value adjustments grew by 5.6% QoQ, this is less than the gross loan balance growth as the recently acquired portfolio so far exhibits a comparatively low tendency to produce delinquent balances.

## Active clients/credit cards

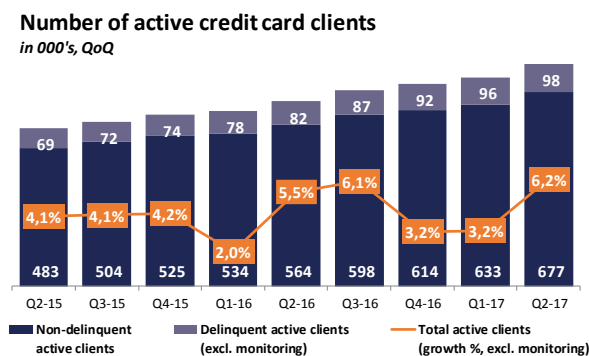


Figure 4: Credit card clients.

The number of performing active clients reached 676 600, a growth of 7% QoQ and 20% YoY. The organic growth of performing active clients was 5% QoQ and 17% YoY.

Key figures (000's)	Actual Q2-17	Actual Q1-17	QoQ growth	Actual Q2-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Non delinquent active clients (total, after churn)	676,6	633,2	7%	563,5	20%	676,6	563,5	20%
Germany/Luxembourg	614,9	591,3	4%	534,9	15%	614,9	534,9	15%
France	38,3	22,7	69%	19,9	92%	38,3	19,9	92%
Austria	23,5	19,1	23%	8,7	169%	23,5	8,7	169%

Figure 5: Client/card statistics.

Total number of performing active clients in Germany shows a continued strong growth of 4% QoQ and 15% YoY.

For both France and Austria, the QoQ growth in active cards of 69% and 23%, has been satisfactory. Additional initiatives will be evaluated to increase growth further, especially in Austria where the development is promising.

## Professional Card Services (PCS)

Key Figures, PCS clients	Actual Q2-17	Actual Q1-17	QoQ growth	Actual Q2-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Number of banks	20	19	5%	14	43%	20	14	43%
New active cards	125	205	-39%	292	-57%	330	361	-9%
Total cards (opened)	1.375	1.303	6%	950	45%	1.375	950	45%
Turnover (in MEUR)	6,3	5,8	8%	3,1	100%	12,1	5,6	115%

Figure 6: Professional Card Services.

The 20<sup>th</sup> partner bank joined the Professional Card Services (PCS) programme during Q2-17. Advanzia is actively developing its pipeline of potential partner banks as well as continuing to develop the offering. Turnover has increased by 8% compared to the previous quarter.

## Deposit accounts

The Bank offered a competitive introductory rate of 1.00% effective p.a. during the entire second quarter to attract new deposits. Total deposits amounted to MEUR 1 279 and the number of active depositors was 31 550 per Q2 2017.

To diversify its funding sources, Advanzia has obtained a senior secured credit facility of MEUR 100. This is further commented in the financial statements section below.

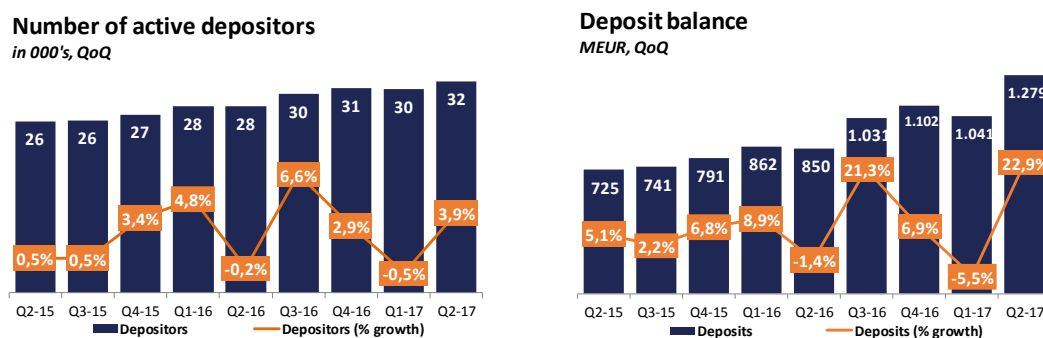


Figure 7: Depositors and deposit balance.

## Board, management and staff

As of 30 June 2017, Advanzia employed 139 full-time equivalent employees, up from 135 at the end of the previous quarter. On 1 July 2017 Roland Ludwig succeeded Marc Hentgen as the Chief Executive Officer. Marc Hentgen will remain a member of the Executive Management Committee until 31 December 2017.

## 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 2017. 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 Q2-17	Actual Q1-17	QoQ growth	Actual Q2-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Cash, balances with central banks	315,2	200,7	57%	83,1	279%	315,2	83,1	279%
Loans and advances to credit institutions	117,0	53,9	117%	86,8	35%	117,0	86,8	35%
Loans and advances to credit card clients	1.100,4	974,2	13%	841,9	31%	1.100,4	841,9	31%
Value adjustments (losses)	(55,3)	(52,3)	6%	(44,0)	26%	(55,3)	(44,0)	26%
Net loans and advances to credit card clients	1.045,1	921,9	13%	797,9	31%	1.045,1	797,9	31%
Investments	-	-	-	0,9	-100%	-	0,9	-100%
Tangible and intangible assets	5,8	5,9	-2%	5,2	12%	5,8	5,2	12%
Other assets	3,9	3,1	25%	2,3	71%	3,9	2,3	71%
<b>Total assets</b>	<b>1.487,0</b>	<b>1.185,5</b>	<b>25%</b>	<b>976,1</b>	<b>52%</b>	<b>1.487,0</b>	<b>976,1</b>	<b>52%</b>
Liabilities and equity (MEUR)	Actual Q2-17	Actual Q1-17	QoQ growth	Actual Q2-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Amounts owed to credit institutions	50,1	0,0	-	0,0	-	50,1	0,0	-
Amounts owed to customers	1.279,5	1.041,0	23%	849,9	51%	1.279,5	849,9	51%
Other liabilities, accruals, provisions	28,8	26,6	8%	23,0	25%	28,8	23,0	25%
Subordinated loan (AT1)	8,9	9,3	-4%	9,2	-3%	8,9	9,2	-3%
Sum liabilities	1.367,3	1.076,9	27%	882,1	55%	1.367,3	882,1	55%
Subscribed capital	27,4	27,4	0%	26,4	4%	27,4	26,4	4%
Reserves	13,4	14,2	-6%	13,1	3%	13,4	13,1	3%
Profit (loss) brought forward	58,5	57,7	1%	38,4	52%	58,5	38,4	52%
Profit for the financial year (net of interim dividend)	20,3	9,2	121%	16,2	26%	20,3	16,2	26%
Sum equity	119,7	108,6	10%	94,0	27%	119,7	94,0	27%
<b>Total liabilities and equity</b>	<b>1.487,0</b>	<b>1.185,5</b>	<b>25%</b>	<b>976,1</b>	<b>52%</b>	<b>1.487,0</b>	<b>976,1</b>	<b>52%</b>
Income statement (MEUR)	Actual Q2-17	Actual Q1-17	QoQ growth	Actual Q2-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Interest receivable, credit cards	42,3	38,7	9%	34,1	24%	81,0	66,8	21%
Interest receivable and similar income, others	(0,2)	(0,2)	12%	(0,0)	1487%	(0,4)	(0,0)	1021%
Interest payable and similar expenses	(1,7)	(1,5)	14%	(1,5)	13%	(3,1)	(3,4)	-8%
Interest payable, other	(0,2)	(0,2)	39%	(0,2)	38%	(0,4)	(0,3)	34%
Net interest income	40,2	36,9	9%	32,4	24%	77,1	63,1	22%
Commission receivable	4,2	3,6	18%	2,7	55%	7,9	5,3	49%
Commission payable	(3,0)	(2,3)	31%	(2,4)	25%	(5,2)	(4,6)	14%
Other financial items/operating income	(0,1)	(0,7)	-80%	1,3	-110%	(0,8)	1,8	-144%
Total income	41,4	37,5	10%	34,1	21%	78,9	65,5	20%
Card acquisition costs	(5,7)	(5,2)	9%	(5,3)	7%	(10,9)	(10,1)	7%
Card operating costs	(4,1)	(3,2)	28%	(3,2)	30%	(7,4)	(5,9)	24%
Staff costs	(3,5)	(3,6)	-2%	(2,7)	28%	(7,1)	(5,3)	32%
Other administrative expenses	(1,6)	(1,5)	3%	(0,7)	140%	(3,1)	(1,5)	109%
Depreciation, tangible + intangible assets	(0,5)	(0,5)	3%	(0,4)	16%	(1,0)	(0,7)	34%
Sum operating expenses	(15,4)	(14,0)	10%	(12,3)	25%	(29,3)	(23,6)	24%
Value adjustments	(2,9)	(3,0)	-2%	(1,5)	97%	(5,9)	(3,4)	73%
Write-offs	(7,9)	(8,0)	-2%	(8,1)	-3%	(15,9)	(15,7)	1%
Total loan losses	(10,8)	(11,0)	-2%	(9,6)	13%	(21,8)	(19,1)	14%
Profit (loss) on ordinary activities before taxes	15,3	12,6	21%	12,3	24%	27,8	22,8	22%
Income tax and net worth tax	(4,1)	(3,4)	21%	(3,6)	15%	(7,5)	(6,7)	13%
<b>Profit (loss) for the period</b>	<b>11,1</b>	<b>9,2</b>	<b>21%</b>	<b>8,7</b>	<b>28%</b>	<b>20,3</b>	<b>16,2</b>	<b>26%</b>

Figure 8: Unaudited accounts as at 30 June 2017.

## Comments to the accounts

In Q2-17, the gross credit card loan balance grew by MEUR 126 reaching MEUR 1 100, which represents a 13% increase compared to Q1-17 and a 31% increase compared to Q2-16. The customer acquisition costs were MEUR 5.7 in Q2-17 compared to MEUR 5.2 in Q1-17, an increase of 9%.

To diversify its funding sources, Advanzia has signed an agreement for a senior secured credit facility of MEUR 100. The first tranche of MEUR 50 was drawn in May. The remaining MEUR 50 is expected to be drawn during Q3-17. Overall liquidity increased to MEUR 432 during the quarter.

Total income in Q2-17 increased to MEUR 41.4, an increase by 10% compared to Q1-17 (21% higher YoY). This was mainly driven by higher interest income due to the increased credit card loan balance.

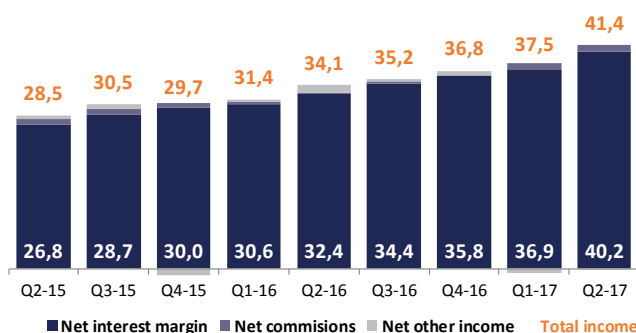
Operating expenses increased by 10% compared to previous quarter, mainly as a result of higher card operating costs which were affected by additional costs from the newly acquired portfolio.

Despite the growth in loan balance, loan losses continue to decrease and ended at MEUR 10.8 for the quarter. This corresponds to a loan loss rate of 4.3%, a decline of 0.2%-points QoQ and 0.4%-points YoY.

Advanzia's profit after tax grew by 21% compared to Q1-17, ending at MEUR 11.1 for the quarter.

### Income split and development

MEUR, QoQ



### Profit development

MEUR, QoQ

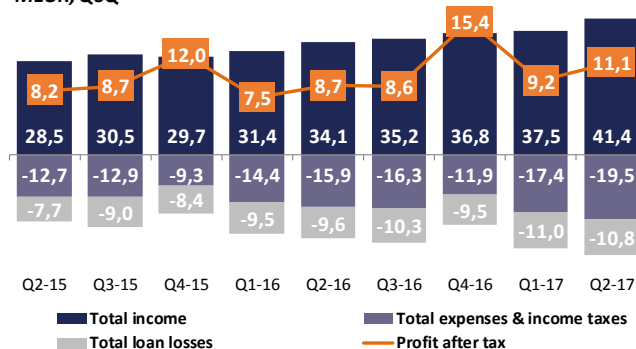


Figure 9: Income and profit development.

Note: Q4-15 and Q4-16 were positively affected by end-of-year specific items of MEUR 4.8 and MEUR 5.4 respectively.



## Key performance indicators (KPIs)

Financial ratios	Actual Q2-17	Actual Q1-17	QoQ growth	Actual Q2-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Yield, credit card loans, weighted (%)	17,4%	17,8%	-0,4%-p	17,9%	-0,5%-p	17,6%	18,0%	-0,5%-p
Net interest margin, int. bearing assets, weighted (%)	12,9%	12,6%	0,3%-p	13,7%	-0,8%-p	12,7%	13,4%	-0,7%-p
Loan loss rate (12 months trailing, credit cards) (%)	4,3%	4,5%	-0,2%-p	4,7%	-0,4%-p	4,3%	4,7%	-0,4%-p
Cost/Income (%)	37,1%	37,2%	-0,1%-p	36,0%	1,1%-p	37,2%	36,1%	1,1%-p
Cost/Income (%) (excl. acquisition costs)	23,4%	23,4%	0,0%-p	20,5%	2,9%-p	23,4%	20,6%	2,8%-p
Return on equity (%), annualised	38,9%	35,2%	3,7%-p	38,8%	0,2%-p	37,1%	36,6%	0,5%-p
Capital adequacy ratio Tier 1 (%) (incl. interim profit)	14,1%	14,7%	-0,6%-p	14,5%	-0,4%-p	14,1%	14,5%	-0,4%-p
Capital adequacy ratio Tier 1 (%) (excl. interim profit)	12,9%	13,5%	-0,7%-p	12,8%	0,1%-p	12,9%	12,8%	0,1%-p
Liquidity coverage ratio (LCR) (min 100%)	479,7%	185,0%	294,7%-p	351,2%	128,5%-p	479,7%	351,2%	128,5%-p
Net stable funding ratio (NSFR) (min 100%)	124,9%	119,7%	5,2%-p	113,5%	11,4%-p	124,9%	113,5%	11,4%-p

Figure 10: Key performance indicators.

The KPIs are in line with expectations and the development of the business. The gross yield on credit cards decreased to 17.4%, mainly because of the lower yield on the newly acquired French portfolio. If the acquired portfolio were disregarded, the figure would have been 17.7%. Advanzia managed to reduce its loan loss rate by 0.4%-points YoY. The cost-income ratio excluding acquisition cost remained stable at 23.4% in Q2-17. Advanzia maintains an ample solvency and liquidity, having a capital adequacy ratio (incl. interim profits) of 14.1% and a liquidity coverage ratio of 480% in Q2-17.

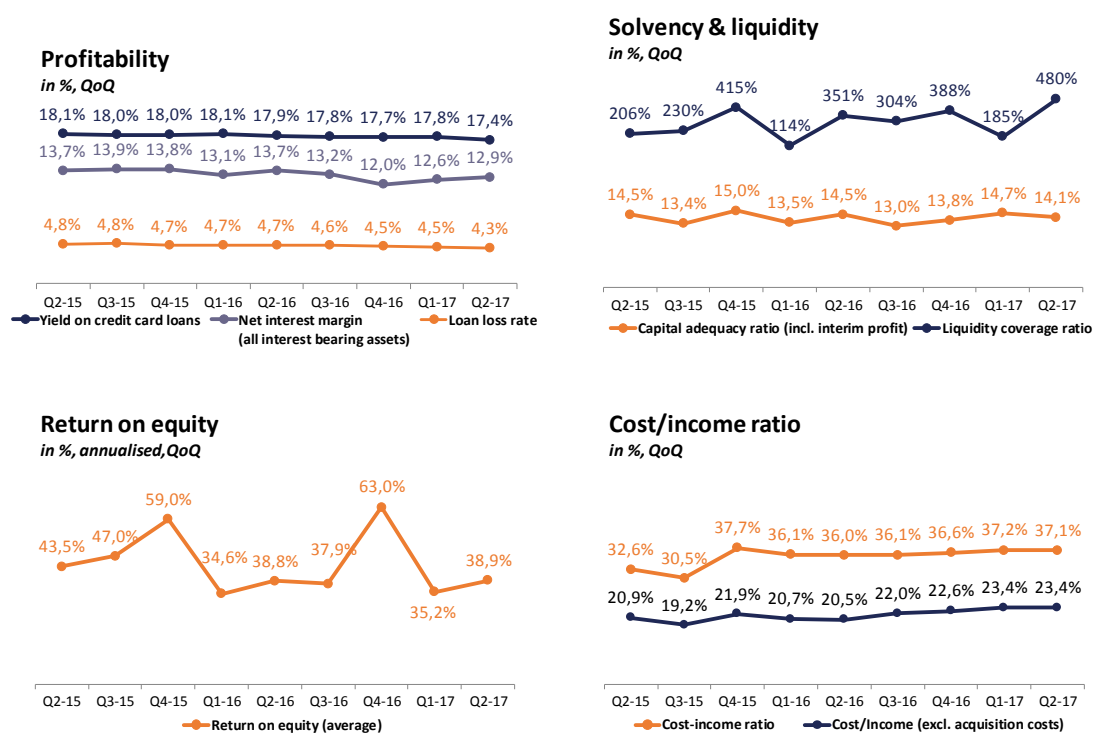


Figure 11: Key performance indicators.

## Selected market performance indicators

Germany/Luxembourg (MEUR)	Actual Q2-17	Actual Q1-17	QoQ growth	Actual Q2-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Gross loan balance	980,9	924,4	6%	811,5	21%	980,9	811,5	21%
Interest receivable, credit cards	39,0	37,0	5%	33,1	18%	75,9	65,0	17%
Loan losses	(9,1)	(9,7)	-6%	(8,4)	8%	(18,7)	(17,0)	10%

France (MEUR)	Actual Q2-17	Actual Q1-17	QoQ growth	Actual Q2-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Gross loan balance	94,2	31,1	203%	25,7	267%	94,2	25,7	267%
Interest receivable, credit cards	2,5	1,1	131%	0,9	195%	3,6	1,6	122%
Loan losses	(1,2)	(0,8)	50%	(1,0)	23%	(2,0)	(1,9)	9%

Austria (MEUR)	Actual Q2-17	Actual Q1-17	QoQ growth	Actual Q2-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Gross loan balance	25,2	18,7	35%	4,7	437%	25,2	4,7	437%
Interest receivable, credit cards	0,9	0,6	35%	0,1	688%	1,5	0,1	921%
Loan losses	(0,5)	(0,5)	-3%	(0,1)	241%	(1,0)	(0,2)	416%

**Figure 12:** Market performance indicators.

Germany/Luxembourg continues to grow satisfactorily.

The aforementioned acquisition tripled the gross credit card loan balance in France. The Bank has conducted several measures in order to fully integrate the acquired portfolio into the standard operations, thus acquired clients are incentivised to migrate to the standard Advanzia credit card.

Austria, launched at the end of 2015, continues to exhibit a very positive development potential – on par with Germany, although at a smaller level reflecting the relative size of each market.

## Outlook

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For all markets the current economic environment is stable and their outlook is favourable. Advanzia will continue to build on its momentum in Germany and Austria, but remains prudent about the development in France.

In line with the strategy, the Bank's gross loan balance is growing quickly, while profit growth is more subdued due to high acquisition investments and other general investments needed to realise the Bank's growth potential.

In April the Bank successfully closed its first acquisition of a loan portfolio. The transaction is not only valuable because of the new active clients, but also due to the experience gained in the process as the Bank will continue be on the lookout for further attractive acquisition opportunities both in existing and potential new markets.

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

31.10.2017

Gregor Sanner  
Chief Operations Officer

Roland Ludwig  
Chief Executive Officer



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

© Courtesy of the Artist. Photo: Frederic Boudin.



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