QUARTERLY REPORT Q3-17

Advanzia Bank S.A.

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

Simplicity, Transparency and Trust

Advanzia Bank S.A.
9, rue Gabriel Lippmann
Parc d'Activité Syrdall 2
L-5365 Munsbach (Luxembourg)

Registre de Commerce et des Sociétés Luxembourg:
B109476

Tel.: +352 263 875 1
Fax: +352 263 875 699
E-mail: advanzia@advanzia.com
BIC (SWIFT): ADVZLULL

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

*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 two to three 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 September 2017

- **Gross credit card loan balance of MEUR 1 169, growth +6% QoQ and +29% YoY**
- **718 000 active clients, growth +6% QoQ and +20% YoY**
- **1 135 000 cards in force[1], growth +6% QoQ and +18% YoY**
- **Customer acquisition cost of MEUR 6.5, +14% QoQ and +30% YoY**
- **Loan loss rate of 4.0%, decrease by 0.3%-points QoQ and 0.6%-points YoY**
- **After-tax profit of MEUR 12.1, +9% QoQ and +40% YoY**
- **Annualised return on equity of 41.2% vs. 38.9 % in Q2-17**
- **Interim dividend of MEUR 10.7 paid in July**

Advanzia continued to grow in the third quarter of 2017. The quarter ended with a gross loan balance of MEUR 1 169 (+29% YoY) and 718 000 (+20% YoY) active customers. In Germany, the gross loan balance surpassed the milestone of MEUR 1 000 (+6% QoQ) while in Austria the gross loan continued to increase rapidly with a 25% QoQ growth (MEUR 32). Net profit increased to MEUR 12.1 in the quarter – this is a growth of 40% compared to the same quarter last year. In parallel, loan losses continued to decrease and reached 4% in the quarter. Based on the continued strong development of the bank, an interim dividend of MEUR 10.7 was paid to the shareholders.

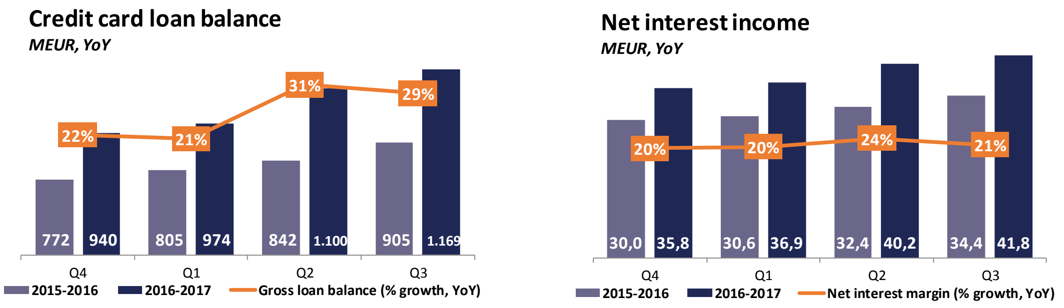


Figure 1: *YoY growth – loan balance and net interest margin.[2]*

Growth metrics	Active credit card clients	Loans and advances to credit card clients	Profit after tax
CAGR (2010 - LTM*)	22%	26%	35%
YTD 2017 vs. YTD 2016	20%	29%	31%

* Last twelve months

Figure 2: *CAGR and YTD growth.*

Since the end of 2010, Advanzia has delivered a CAGR of 35% 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] Q2-17 and Q3-17 include the acquisition of the French revolving credit portfolio.

Loan balance development

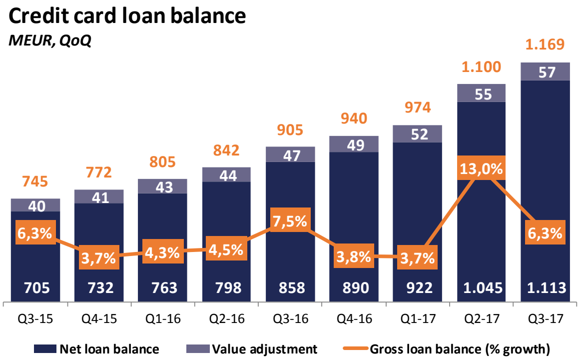


Figure 3: *Loan balance development.*

The gross loan balance continued to grow at a strong pace, 6.3% QoQ and 29.2% YoY, thanks to sustained campaigns targeted at both new and existing clients. The growth in Q2-17 benefited from the acquisition of a revolving credit portfolio in France with MEUR 63 in loan balance, the Q2-17 growth adjusted for this acquisition was 6.7%. Value adjustments grew by 2.4% QoQ, less than the loan balance which is an indication of effective risk management.

Active clients/credit cards

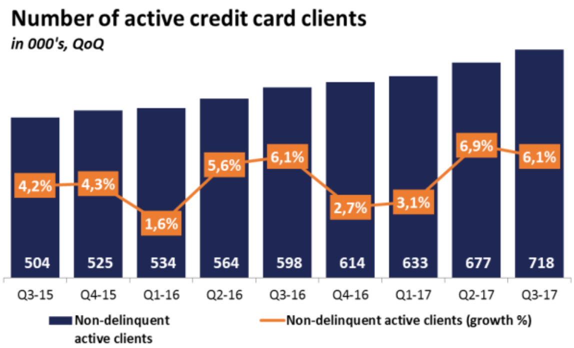


Figure 4: *Credit card clients.*

The number of active clients reached 717 800, a growth of 6% QoQ (in comparison, Q2-17 QoQ growth adjusted for the acquired portfolio was 5%) and 20% YoY. While all markets contribute to that growth, the Bank continues to be cautious in France but is rather optimistic in Austria.

Key figures (000's)	Actual Q3-17	Actual Q2-17	QoQ growth	Actual Q3-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Non delinquent active clients (total, after churn)	717,8	676,6	*6%*	598,0	*20%*	717,8	598,0	*20%*
Germany/Luxembourg	650,4	614,9	*6%*	565,8	*15%*	650,4	565,8	*15%*
France	39,6	38,3	*3%*	20,8	*90%*	39,6	20,8	*90%*
Austria	27,9	23,5	*19%*	11,4	*145%*	27,9	11,4	*145%*

Figure 5*: Client/card statistics.*

Professional Card Services (PCS)

Key Figures, PCS clients	Actual Q3-17	Actual Q2-17	QoQ growth	Actual Q3-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Number of banks	20	20	*0%*	15	*33%*	20	15	*33%*
New active cards	80	125	*-36%*	88	*-9%*	410	449	*-9%*
Total cards (opened)	1.395	1.375	*1%*	1.019	*37%*	1.395	1.019	*37%*
Turnover (in MEUR)	7,6	6,3	*21%*	4,3	*77%*	19,7	9,9	*99%*

Figure 6*: Professional Card Services.*

20 partner banks were a part of the Professional Card Services (PCS) programme during Q3-17, 33% more than a year ago. Advanzia is actively developing its pipeline of potential partner banks and turnover has increased by 21% compared to the previous quarter.

Deposit accounts

The Bank offered an introductory rate of 1.00% effective p.a. during major part of the third quarter, a very competitive offer in order to attract new deposits. As a result, total deposits increased to MEUR 1 437 and the number of active depositors to 33 350 per Q3 2017.

To diversify its funding sources, Advanzia obtained a senior secured credit facility of MEUR 100 in Q2-17.

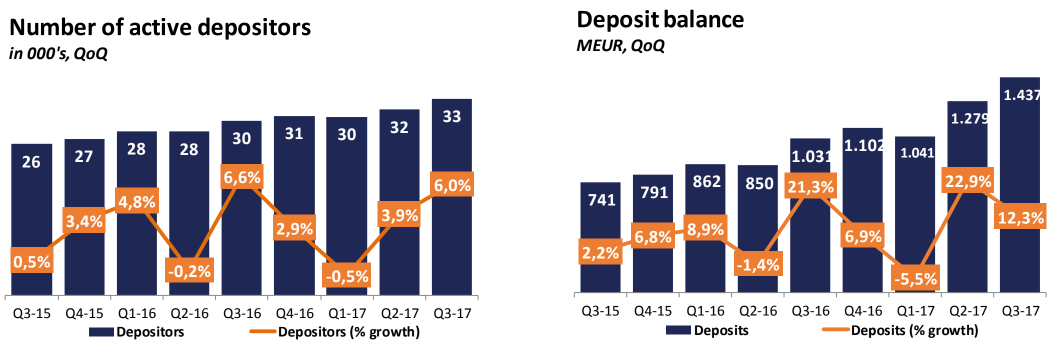


Figure 7: Depositors and deposit balance.

Board, management and staff

As of 30 September 2017, Advanzia employed 138 full-time equivalent employees, down from 139 at the end of the previous quarter. On 1 September 2017 Frank Hamen assumed the role of Chief Risk Officer.

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 third 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 Q3-17	Actual Q2-17	QoQ growth	Actual Q3-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Cash, balances with central banks	499,8	315,2	*59%*	108,0	*363%*	499,8	108,0	*363%*
Loans and advances to credit institutions	77,5	117,0	*-34%*	185,7	*-58%*	77,5	185,7	*-58%*
Loans and advances to credit card clients	1.169,5	1.100,4	*6%*	905,3	*29%*	1.169,5	905,3	*29%*
Value adjustments (losses)	(56,6)	(55,3)	*2%*	(46,9)	*21%*	(56,6)	(46,9)	*21%*
Net loans and advances to credit card clients	1.112,9	1.045,1	*6%*	858,4	*30%*	1.112,9	858,4	*30%*
Investments	-	-	-	0,9	*-100%*	-	0,9	*-100%*
Tangible and intangible assets	6,2	5,8	*8%*	5,8	*7%*	6,2	5,8	*7%*
Other assets	3,2	3,9	*-18%*	1,7	*95%*	3,2	1,7	*95%*
Total assets	**1.699,6**	**1.487,0**	***14%***	**1.160,4**	***46%***	**1.699,6**	**1.160,4**	***46%***

Liabilities and equity (MEUR)	Actual Q3-17	Actual Q2-17	QoQ growth	Actual Q3-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Amounts owed to credit institutions	100,1	50,1	*100%*	0,1	-	100,1	0,1	-
Amounts owed to customers	1.436,7	1.279,5	*12%*	1.030,6	*39%*	1.436,7	1.030,6	*39%*
Other liabilities, accruals, provisions	32,6	28,8	*13%*	27,1	*21%*	32,6	27,1	*21%*
Subordinated loan (AT1)	9,0	8,9	*2%*	9,5	*-5%*	9,0	9,5	*-5%*
Sum liabilities	1.578,5	1.367,3	*15%*	1.067,2	*48%*	1.578,5	1.067,2	*48%*
Subscribed capital	27,4	27,4	*0%*	27,4	*0%*	27,4	27,4	*0%*
Reserves	13,4	13,4	*0%*	13,1	*3%*	13,4	13,1	*3%*
Profit (loss) brought forward	58,5	58,5	*0%*	38,4	*52%*	58,5	38,4	*52%*
Profit for the financial year (net of interim dividend)	21,7	20,3	*7%*	14,3	*52%*	21,7	14,3	*52%*
Sum equity	121,1	119,7	*1%*	93,2	*30%*	121,1	93,2	*30%*
Total liabilities and equity	**1.699,6**	**1.487,0**	***14%***	**1.160,4**	***46%***	**1.699,6**	**1.160,4**	***46%***

Income statement (MEUR)	Actual Q3-17	Actual Q2-17	QoQ growth	Actual Q3-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Interest receivable, credit cards	45,5	42,3	*7%*	36,4	*25%*	126,5	103,2	*23%*
Interest receivable and similar income, others	(0,4)	(0,2)	*65%*	(0,1)	*363%*	(0,8)	(0,1)	*574%*
Interest payable and similar expenses	(3,0)	(1,7)	*80%*	(1,7)	*73%*	(6,1)	(5,1)	*19%*
Interest payable, other	(0,4)	(0,2)	*73%*	(0,1)	*178%*	(0,8)	(0,4)	*81%*
Net interest income	41,8	40,2	*4%*	34,4	*21%*	118,9	97,5	*22%*
Commission receivable	4,5	4,2	*7%*	3,0	*49%*	12,4	8,3	*49%*
Commission payable	(3,0)	(3,0)	*2%*	(2,6)	*18%*	(8,3)	(7,1)	*16%*
Other financial items/operating income	(0,4)	(0,1)	*212%*	0,2	*-270%*	(1,2)	2,0	*-159%*
Total income	42,9	41,4	*4%*	35,2	*22%*	121,8	100,7	*21%*
Card acquisition costs	(6,5)	(5,7)	*14%*	(5,0)	*30%*	(17,3)	(15,1)	*15%*
Card operating costs	(4,1)	(4,1)	*-1%*	(3,2)	*28%*	(11,5)	(9,2)	*25%*
Staff costs	(3,5)	(3,5)	*1%*	(2,8)	*24%*	(10,6)	(8,2)	*29%*
Other administrative expenses	(1,3)	(1,6)	*-14%*	(1,2)	*10%*	(4,4)	(2,7)	*64%*
Depreciation, tangible + intangible assets	(0,5)	(0,5)	*0%*	(0,4)	*10%*	(1,4)	(1,2)	*25%*
Sum operating expenses	(15,9)	(15,4)	*4%*	(12,7)	*26%*	(45,3)	(36,3)	*25%*
Value adjustments	(1,3)	(2,9)	*-54%*	(2,9)	*-55%*	(7,2)	(6,3)	*14%*
Write-offs	(9,0)	(7,9)	*15%*	(7,3)	*23%*	(24,9)	(23,0)	*8%*
Total loan losses	(10,3)	(10,8)	*-4%*	(10,3)	*1%*	(32,1)	(29,3)	*9%*
Profit (loss) on ordinary activities before taxes	16,6	15,3	*9%*	12,2	*36%*	44,4	35,0	*27%*
Income tax and net worth tax	(4,5)	(4,1)	*9%*	(3,6)	*26%*	(12,0)	(10,2)	*18%*
Profit (loss) for the period	**12,1**	**11,1**	***9%***	**8,6**	***40%***	**32,4**	**24,8**	***31%***

Figure 8*: Unaudited accounts as at 30 September 2017.*

Comments to the accounts

In Q3-17, the gross credit card loan balance grew by MEUR 69 reaching MEUR 1 169, which represents a 6% increase compared to Q2-17 and a 29% increase compared to Q3-16. The customer acquisition costs were MEUR 6.5 in Q3-17 compared to MEUR 5.7 in Q2-17, an increase of 14%.

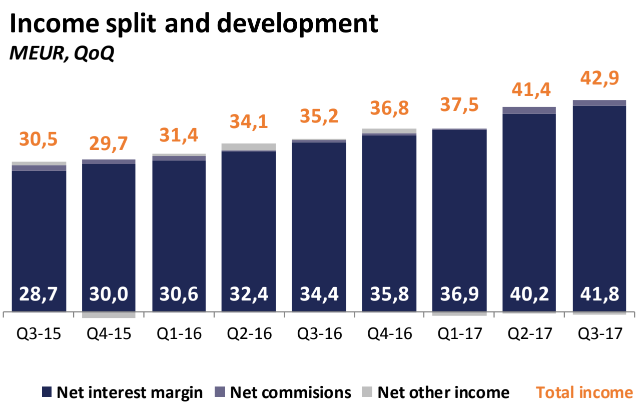
The remaining MEUR 50 from a senior secured credit facility obtained in Q2-17 were utilised during Q3-17. The first MEUR 50 had been already drawn in Q2-17. Overall liquidity increased to MEUR 577 during the quarter as a result of the deposit campaign and draw down on the credit facility.

Total income in Q3-17 increased by 4% compared to Q2-17, landing at MEUR 42.9 (22% higher YoY). This was mainly driven by higher interest income due to the larger credit card loan balance.

Operating expenses increased by 4% compared to previous quarter, mainly as a result of the higher card acquisition costs.

Despite the growing loan balance, loan losses further decreased by 4% QoQ to MEUR 10.3. This corresponds to a loan loss rate of 4.0%, a decline of 0.3%-points QoQ and 0.6%-points YoY.

Advanzia's profit after tax grew by 9% QoQ and 40% YoY, ending at MEUR 12.1 for the quarter.



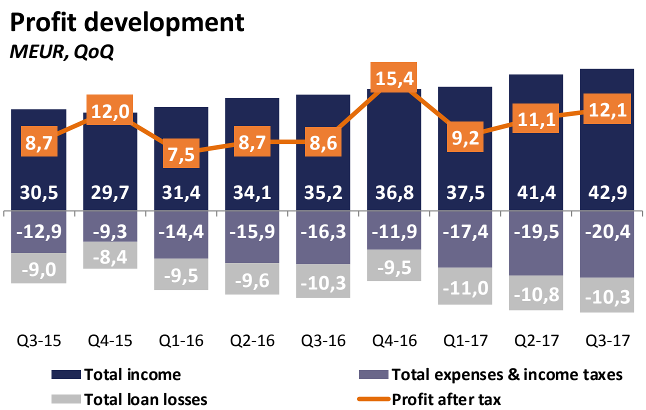


Figure 9: *Income and profit development.*[3]

[3] 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 Q3-17	Actual Q2-17	QoQ growth	Actual Q3-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Yield, credit card loans, weighted (%)	17,1%	17,4%	*-0,3%-p*	17,8%	*-0,7%-p*	17,4%	17,9%	*-0,6%-p*
Net interest margin (credit cards)	15,7%	16,5%	*-0,8%-p*	16,8%	*-1,1%-p*	16,4%	16,9%	*-0,5%-p*
Loan loss rate (12 months trailing, credit cards) (%)	4,0%	4,3%	*-0,3%-p*	4,6%	*-0,6%-p*	4,0%	4,6%	*-0,6%-p*
Cost/Income (%)	37,2%	37,1%	*0,0%-p*	36,1%	*1,1%-p*	37,2%	36,1%	*1,1%-p*
Cost/Income (%) (excl. acquisition costs)	22,1%	23,4%	*-1,3%-p*	22,0%	*0,1%-p*	22,9%	21,1%	*1,9%-p*
Return on equity (%), annualised	41,2%	38,9%	*2,3%-p*	37,9%	*3,4%-p*	38,7%	37,2%	*1,5%-p*
Capital adequacy ratio Tier 1 (%) (incl. interim profit)	13,6%	14,1%	*-0,6%-p*	13,0%	*0,5%-p*	13,6%	13,0%	*0,5%-p*
Capital adequacy ratio Tier 1 (%) (excl. interim profit)	12,2%	12,9%	*-0,7%-p*	11,8%	*0,5%-p*	12,2%	11,8%	*0,5%-p*
Liquidity coverage ratio (LCR) (min 100%)	363,2%	479,7%	*-116,5%-p*	303,6%	*59,5%-p*	363,2%	303,6%	*59,5%-p*
Net stable funding ratio (NSFR) (min 100%)	140,6%	124,9%	*15,7%-p*	125,2%	*15,4%-p*	140,6%	125,2%	*15,4%-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 17.1%, mainly because of the lower yield of the French portfolio acquired in April. The net interest margin on credit cards decreased as a consequence of the increased deposit balance which the bank has recently obtained.

Advanzia managed to reduce its loan loss rate by 0.6%-points YoY. The cost-income ratio excluding acquisition cost improved by 1.3%-p compared to the previous quarter. Advanzia maintains ample solvency and liquidity, having a capital adequacy ratio (incl. interim profits) of 13.6% and a liquidity coverage ratio of 363% in Q3-17.

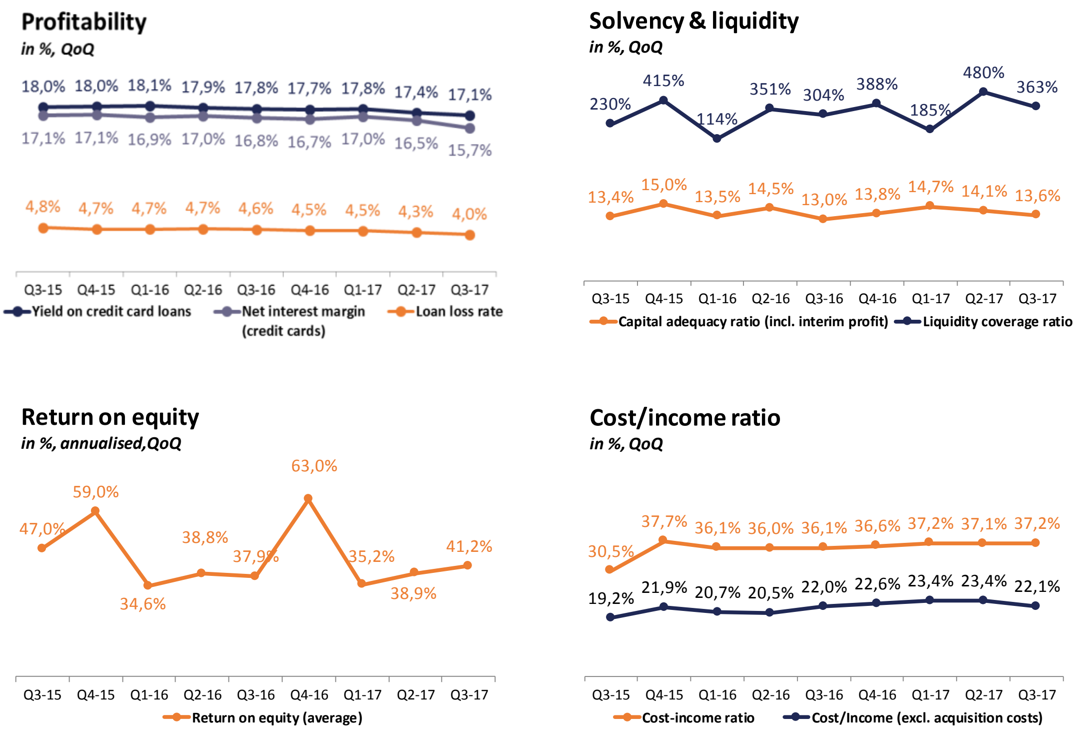


Figure 11: *Key performance indicators.*

Selected market performance indicators

Germany/Luxembourg (MEUR)	Actual Q3-17	Actual Q2-17	QoQ growth	Actual Q3-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Gross loan balance	1.044,2	980,9	*6%*	867,0	*20%*	1.044,2	867,0	*20%*
Interest receivable, credit cards	42,0	39,0	*8%*	35,2	*19%*	117,9	100,2	*18%*
Loan losses	(8,9)	(9,1)	*-2%*	(9,0)	*-2%*	(27,6)	(26,0)	*6%*

France (MEUR)	Actual Q3-17	Actual Q2-17	QoQ growth	Actual Q3-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Gross loan balance	93,8	94,2	*-1%*	29,0	*223%*	93,8	29,0	*223%*
Interest receivable, credit cards	2,4	2,5	*-5%*	1,0	*153%*	6,0	2,6	*133%*
Loan losses	(0,8)	(1,2)	*-33%*	(1,1)	*-26%*	(2,8)	(3,0)	*-4%*

Austria (MEUR)	Actual Q3-17	Actual Q2-17	QoQ growth	Actual Q3-16	YoY growth	Actual YTD-17	Actual YTD-16	YTD growth
Gross loan balance	31,6	25,2	*25%*	9,3	*239%*	31,6	9,3	*239%*
Interest receivable, credit cards	1,1	0,9	*30%*	0,2	*348%*	2,6	0,4	*560%*
Loan losses	(0,6)	(0,5)	*29%*	(0,1)	*342%*	(1,6)	(0,3)	*384%*

Figure 12: *Market performance indicators.*

Germany/Luxembourg continues to grow satisfactorily.

The aforementioned acquisition, concluded in Q2-17, initially tripled the loan balance in France. However, the loan balance in France decreased QoQ primarily due to customer churn within the acquired portfolio. The Bank is putting in all efforts to incentivise the acquired clients to migrate to the standard Advanzia credit card.

Austria, launched at the end of 2015, continues to show very positive development potential, comparable to Germany, although at a smaller level reflecting the relative size of each market.

Outlook

The current economic environment is stable and the outlook is favourable for all markets. 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.

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

Munsbach, Luxembourg

26.10.2017

Gregor Sanner
Chief Operations Officer

Roland Ludwig
Chief Executive Officer

Ilya Kabakov, *The Ball*, 2017
Kistefos Museum, Norway
Courtesy of the Kistefos Museum. Photo: Frédéric Boudin

Advanzia Bank S.A.
9, rue Gabriel Lippmann
Parc d'Activité Syrdall 2
L-5365 MUNSBACH
LUXEMBOURG