FINANCIAL REPORT
Third Quarter 2018

Advanzia Bank S.A.

Phillip King, Free to Frolic, 2015

Kistefos Museum, Norway

Courtesy of the Kistefos Museum. Photo: Frédéric Boudin

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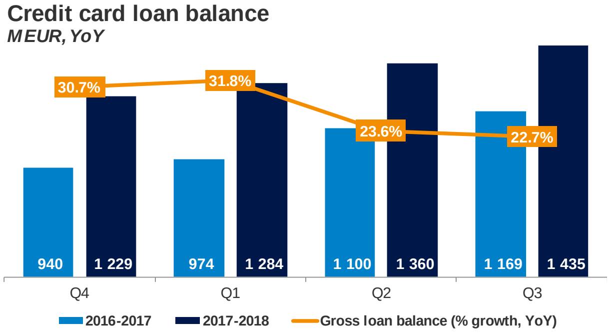
9, rue Gabriel Lippmann L-5365 Munsbach Luxembourg Phone: +352 26 38 75 1 Fax: +352 26 38 75 699
RCS Luxembourg: B 109 476 VAT: LU 20992462 info@advanzia.com www.advanzia.com

Highlights for the third quarter 2018

- Gross credit card loan balance of MEUR 1 435, growth +5.5% QoQ and +22.7% YoY
- 901 000 performing active clients, growth +5.7% QoQ and +25.6% YoY
- 1 381 000 cards in force[1], growth +4.7% QoQ and +21.6% YoY
- Card acquisition cost of MEUR 7.4, +3.0% QoQ and +13.9% YoY
- Mainly due to IFRS 9, loan loss provisions have increased to 4.8% (+0.5%-points QoQ and +0.8%-points YoY). The effect of IFRS 9 on loan loss provisions in this quarter is estimated to MEUR 4.9 and 8.7 YTD.
- After-tax profit of MEUR 12.8, -2.8% QoQ and +5.6% YoY
- Annualised return on equity of 34.0% vs. 38.5 % in Q2-18
- Cost/income ratio of 32.3% vs. 34.7% in Q2-18

Advanzia continues to grow in all markets, most notably in Germany and Austria. Gross loan balance reached MEUR 1 435, which represents 22.7% growth YoY, driven by a strong development in customer onboarding following increased marketing spend. Total Income was at MEUR 55.2, growing 5.8% QoQ and 28.9% YoY. Operating costs amounted to MEUR 17.9 in Q3, 1.5% lower than the previous quarter despite an increase in marketing spend, implying favourable developments in underlying operational expenses. Cost/income continued the downward trend and ended at 32.3% for the quarter and 19.0% excluding marketing costs, highlighting the scalability in the Bank's business model. Loan loss provisions increased to 4.8%, mainly due to the implementation of IFRS9 but also due to the high number of new customers (without IFRS9 total loan losses would have been at 4.1%). During the third quarter, the Bank entered into a forward flow agreement for a significant portion of newly delinquent loans in Germany. In summary, the Bank achieved MEUR 12.8 in profit after tax in Q3, a 5.6% increase YoY.



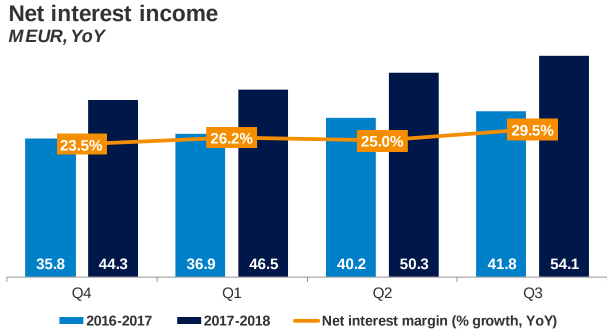


Figure 1: *YoY growth – loan balance and net interest margin.*[2]

Growth metrics	**Active credit card clients**	**Loans and advances to credit card clients**	**Profit after tax**
CAGR (2010 - LTM*)	22.1%	25.6%	31.6%
YTD 2018 vs. YTD 2017	25.6%	22.7%	17.8%

* Last twelve months

Figure 2: *CAGR and YTD growth.*

[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.

Since the end of 2010, Advanzia has delivered a compound annual growth rate (CAGR) of 31.6% in net profit, 25.6% in loan balance and 22.1% in the number of active credit card clients.

Loan balance development

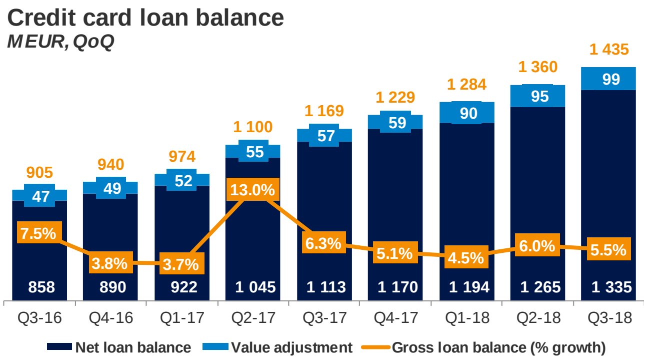


***Figure 3**: Loan balance development.*[3]

The development of the gross loan balance during the third quarter is affected by the forward flow agreement effective from August. In total, non-performing loans in Germany of approximately MEUR 10 were sold during the quarter. Despite these loans leaving the Bank's books, the gross loan balance still grew 5.5% over the quarter due to sustained marketing activities as well as high transaction turnover during the summer months. The growth without the forward flow agreement would have been 6.2%.

Active clients/credit cards

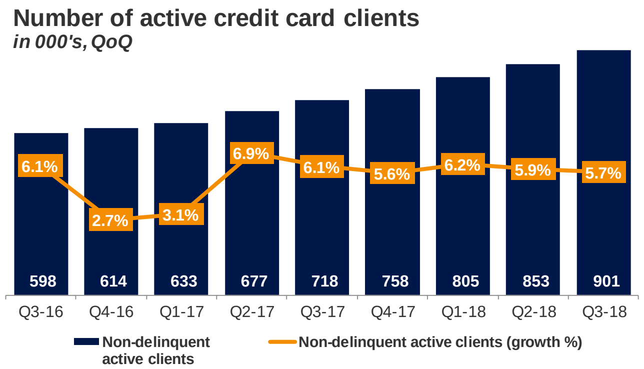


***Figure 4:** Credit card clients.*

The number of performing active clients reached 901 000, representing a growth of 5.7% compared to Q2 and 25.6% year to date. The German and Austrian markets are performing particularly well.

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

Financial institutions – Professional Card Services (PCS)

Key Figures, PCS clients	Actual Q3-18	Actual Q2-18	QoQ growth	Actual Q3-17	YoY growth	Actual YTD-18	Actual YTD-17	YTD growth
Number of banks	21	20	*5.0%*	20	*5.0%*	21	20	*5.0%*
New active cards	84	131	*-35.9%*	80	*5.0%*	306	410	*-25.4%*
Total cards (opened)	1 575	1 553	*1.4%*	1 395	*12.9%*	1 575	1 395	*12.9%*
Turnover (in MEUR)	8.3	8.1	*1.7%*	7.6	*9.7%*	23.6	19.7	*20.1%*

Figure 5: *Professional Card Services.*

21 partner banks participated in the Professional Card Services (PCS) programme at the end of the third quarter. Advanzia is actively developing its pipeline of potential partner banks and its current offering.

Deposit accounts

Since the end of June, the Bank has been offering a 3-month rolling preferential rate of 1.0% effective p.a. to new customers. This led to a growth of 7.8% in the number of depositors and 11.4% in deposit balances compared to Q2. The standard rate remained unchanged at 0.5% effective p.a. during the quarter.

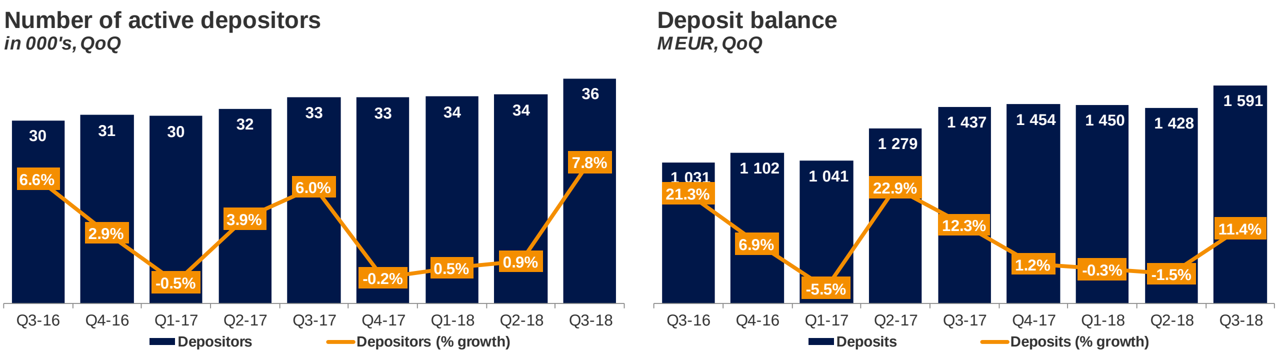


Figure 6: *Client/card statistics.*

Board, management and staff

As of 30 September 2018, Advanzia employed 156 full-time equivalent employees, down from 157 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

The unaudited accounts for Advanzia as at end of the third quarter of 2018 are shown below. Advanzia follows IFRS and the figures reflect Advanzia's actual business activities and operations.

Assets	**Actual Q3-18**	**Actual Q2-18**	**QoQ growth**	**Actual Q3-17**	**YoY growth**	**Actual YTD-18**	**Actual YTD-17**	**YTD growth**
Cash, balances with central banks	468.9	368.1	*27.4%*	499.8	*-6.2%*	468.9	499.8	*-6.2%*
Loans and advances to credit institutions	63.6	60.2	*5.7%*	77.5	*-17.8%*	63.6	77.5	*-17.8%*
Loans and advances to credit card clients	1 434.8	1 360.4	*5.5%*	1 169.5	*22.7%*	1 434.8	1 169.5	*22.7%*
Value adjustments (losses)	(99.4)	(95.0)	*4.7%*	(56.6)	*75.7%*	(99.4)	(56.6)	*75.7%*
Net loans and advances to credit card clients	1 335.4	1 265.5	*5.5%*	1 112.9	*20.0%*	1 335.4	1 112.9	*20.0%*
Tangible and intangible assets	9.0	7.8	*14.7%*	6.2	*44.6%*	9.0	6.2	*44.6%*
Other assets	10.8	10.3	*4.6%*	3.2	*234.5%*	10.8	3.2	*234.5%*
Total assets	**1 887.7**	**1 711.9**	***10.3%***	**1 699.6**	***11.1%***	**1 887.7**	**1 699.6**	***11.1%***

Liabilities and equity	**Actual Q3-18**	**Actual Q2-18**	**QoQ growth**	**Actual Q3-17**	**YoY growth**	**Actual YTD-18**	**Actual YTD-17**	**YTD growth**
Amounts owed to credit institutions	100.0	100.0	*0.0%*	100.1	-	100.0	100.1	*-0.1%*
Amounts owed to customers	1 590.5	1 428.4	*11.4%*	1 436.7	*10.7%*	1 590.5	1 436.7	*10.7%*
Other liabilities, accruals, provisions	33.9	33.0	*2.7%*	32.6	*3.8%*	33.9	32.6	*3.8%*
Subordinated loan (AT1)	9.0	9.0	*0.4%*	9.0	*-0.5%*	9.0	9.0	*-0.5%*
Sum liabilities	**1 733.4**	**1 570.3**	***10.4%***	**1 578.5**	***9.8%***	**1 733.4**	**1 578.5**	***9.8%***
Subscribed capital	27.4	27.4	*0.0%*	27.4	*0.0%*	27.4	27.4	*0.0%*
Reserves	13.9	13.9	*0.0%*	13.4	*3.7%*	13.9	13.4	*3.7%*
Profit (loss) brought forward	74.8	74.8	*0.0%*	58.5	*27.9%*	74.8	58.5	*27.9%*
Profit for the financial year (net of interim dividend)	38.2	25.4	*50.4%*	21.7	*75.6%*	38.2	21.7	*75.6%*
Sum equity	**154.4**	**141.6**	***9.0%***	**121.1**	***27.4%***	**154.4**	**121.1**	***27.4%***
Total liabilities and equity	**1 887.7**	**1 711.9**	***10.3%***	**1 699.6**	***11.1%***	**1 887.7**	**1 699.6**	***11.1%***

Income statement	**Actual Q3-18**	**Actual Q2-18**	**QoQ growth**	**Actual Q3-17**	**YoY growth**	**Actual YTD-18**	**Actual YTD-17**	**YTD growth**
Interest receivable, credit cards	56.8	52.8	*7.6%*	45.5	*24.9%*	159.4	126.5	*25.9%*
Interest receivable (payable), others	(0.7)	(0.7)	*-3.4%*	(0.8)	*-5.0%*	(2.3)	(1.6)	*48.7%*
Interest payable, deposits	(2.0)	(1.8)	*12.5%*	(3.0)	*-32.4%*	(6.1)	(6.1)	*0.6%*
Net interest income	**54.1**	**50.3**	***7.6%***	**41.8**	***29.5%***	**150.9**	**118.9**	***26.9%***
Commission receivable	6.2	5.5	*11.3%*	4.5	*36.2%*	17.0	12.4	*36.9%*
Commission payable	(4.0)	(3.7)	*8.7%*	(3.0)	*31.5%*	(10.9)	(8.3)	*31.9%*
Other financial items/operating income	(1.1)	0.0	*-2693.6%*	(0.4)	*161.4%*	(1.5)	(1.2)	*24.0%*
Total income	**55.2**	**52.2**	***5.8%***	**42.9**	***28.9%***	**155.5**	**121.8**	***27.7%***
Card acquisition costs	(7.4)	(7.1)	*3.0%*	(6.5)	*13.9%*	(22.0)	(17.3)	*26.8%*
Card operating costs	(4.5)	(4.4)	*2.6%*	(4.1)	*10.6%*	(13.6)	(11.5)	*18.2%*
Staff costs	(4.1)	(4.0)	*1.7%*	(3.5)	*16.7%*	(12.0)	(10.6)	*13.9%*
Other administrative expenses	(1.5)	(1.9)	*-21.7%*	(1.3)	*9.2%*	(4.7)	(4.4)	*6.9%*
Depreciation, tangible + intangible assets	(0.4)	(0.6)	*-41.1%*	(0.5)	*-22.0%*	(1.5)	(1.4)	*3.6%*
Sum operating expenses	**(17.9)**	**(18.1)**	***-1.5%***	**(15.9)**	***12.2%***	**(53.8)**	**(45.3)**	***18.9%***
Value adjustments	(4.5)	(5.1)	*-11.2%*	(1.3)	*238.0%*	(14.3)	(7.2)	*98.9%*
Write-offs	(15.6)	(11.2)	*38.9%*	(9.0)	*73.3%*	(35.8)	(24.9)	*43.6%*
Total loan losses	**(20.1)**	**(16.3)**	***23.3%***	**(10.3)**	***94.5%***	**(50.1)**	**(32.1)**	***56.0%***
Profit (loss) on ordinary activities before taxes	17.3	17.8	*-2.8%*	16.6	*4.0%*	51.6	44.4	*16.1%*
Income tax and net worth tax	(4.5)	(4.6)	*-2.8%*	(4.5)	*-0.1%*	(13.4)	(12.0)	*11.5%*
Profit (loss) for the period	**12.8**	**13.2**	***-2.8%***	**12.1**	***5.6%***	**38.2**	**32.4**	***17.8%***

Figure 7: *Unaudited accounts as at 30 September 2018 (in MEUR).*

Comments to the accounts

During the third quarter, gross credit card loan balances grew by MEUR 74, or 5.5%, reaching MEUR 1 435, driven by strong growth of new customers and high transaction turnover during the quarter.

Overall liquidity increased by MEUR 104 to MEUR 533 mainly due to the deposit campaign started during the third quarter.

Total income of MEUR 55.2 increased by 5.8% over the quarter, mainly driven by higher interest income derived from the higher credit card loan balance.

Operating expenses of MEUR 17.9 decreased by 1.5% compared to the previous quarter. Nevertheless, given the good market environment, the Bank maintained high spending of MEUR 7.4 on customer acquisition which implies a favourable development in underlying operational expenses.

In August 2018, the Bank entered into a forward flow agreement with a multinational purchaser of debt portfolios for a significant portion of newly delinquent loans in Germany. Since August, the total nominal value of loans sold amounted to MEUR 10.

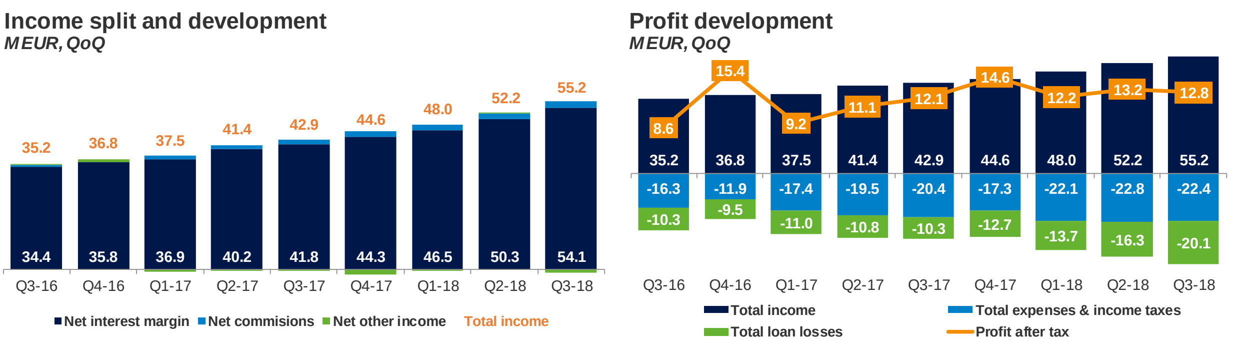


Figure 8: Income and profit development.[4]

Advanzia's profit after tax grew by 5.6% compared to the third quarter 2017, ending at MEUR 12.8. Compared to the previous quarter it decreased by 3% due to the higher loan losses resulting from IFRS9 and the high customer onboarding.

Consequences of IFRS9

Since 2018, loan loss provions have been calculated according to IFRS9 (expected losses), whereas they used to be based on IAS39 (incurred losses). The main consequence of this implementation is that the Bank needs to book loan loss provisions for performing clients as soon as they are onboarded. Besides booking loan loss provisions for fully performing customers, IFRS9 requires additional provisions to be taken if a customer has missed one payment. This does not only result in higher loan loss provisions but also in increased volatility in loan loss provisions QoQ.

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

Mainly due to this, the loan loss rate has increased to 4.8% (0.5%-points QoQ and by 0.8%-points YoY). Without IFRS9 the loan loss rate would have been at 4.1%. The effect of IFRS9 in this quarter is estimated at MEUR 4.9 and MEUR 8.7 YTD.

Another important factor for the increased loan loss provisions is the high number of newly onboarded customers, as customers recently acquired have the highest propensity to become delinquent.

The forward flow of non-performing loans only had a marginal impact on the total amount of loan losses, but the loan loss ratio was affected negatively as the numerator, i.e. loan balances, was lowered. IFRS9 implementation, by nature, results in more volatile losses, but in essence, Advanzia's loan losses have developed according to plan.

Key performance indicators (KPIs)

The KPIs remain in line with expectations. The gross yield has stabilised since the acquisition of the French portfolio in the second quarter of 2017. The net interest margin on credit cards improved in 2018 due to reduced funding costs.

The loan loss rate increased to 4.8%, mainly as a consequence of IFRS9 and the continued high customer growth, as explained above.

At 32.3%, the Cost/income ratio continues the positive trend since the start of the year. Cost/income ratio excluding acquisition cost was 19%. This is the first time the bank shows a cost/income excluding marketing below 20%.

Advanzia maintains a high solvency with a capital adequacy ratio (incl. interim profits) of 15.9%. The liquidity coverage ratio increased to 148.2% as a result of the deposit campaign.

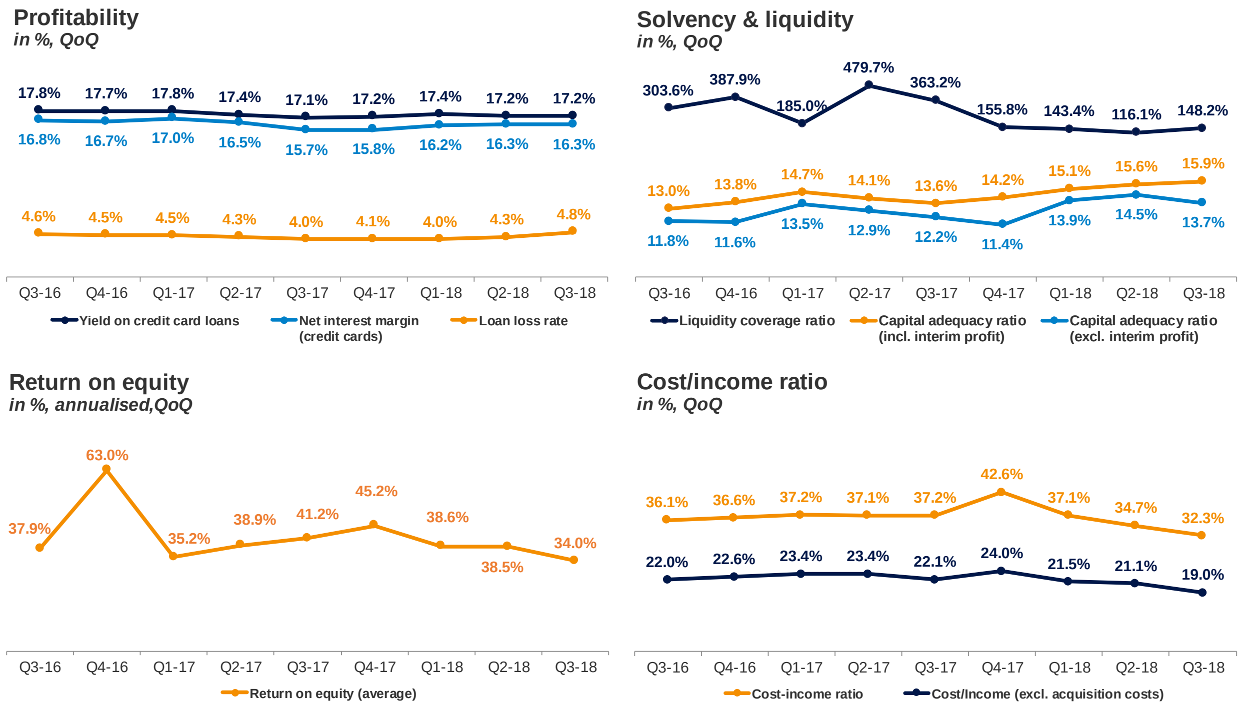


Figure 9: *Key performance indicators.*

Outlook

The current economic environment is good and the outlook is still favourable for the Bank's main markets. Advanzia continues to invest significantly in marketing in Germany and Austria. The French market, including the portfolio acquired in the second quarter of 2017, shows an encouraging trend with the changes implemented last year.

Besides maintaining high levels of customer acquisition, Advanzia is following its ambitious investment roadmap in IT infrastructure and back office systems with the aim to further scale the Bank, lower the Cost/income ratio and position it for further growth and entering new markets.

The market entry in Spain is scheduled in the fourth quarter of 2018 with the newly developed brand "Tarjeta YOU".

The Bank's financial situation is solid, with carefully managed operating costs and loan losses, all contributing to continued strong financial performance. We expect a further positive development in the Q4 net result.

Munsbach, Luxembourg

16.11.2018

Patrick Thilges
Chief Financial Officer

Roland Ludwig
Chief Executive Officer

Lynda Benglis, Face Off, 2018

Kistefos Museum, Norway

Courtesy of the Kistefos Museum. Photo: Frédéric Boudin