



## Advanzia Bank S.A.

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*Quarterly report, 4<sup>th</sup> quarter 2013*  
*As at 31.12.2013*

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## Highlights fourth quarter 2013

- Q4 after-tax profit of EUR 5.3M, 13% up from Q3 (adj. for extraordinary transaction).
- 2013 Profit after tax: EUR 21.3 M; 63% up from 2012.
- Return on equity for the year of 34%; vs. 26% in 2012.
- Credit card loan balance at EUR 529 M, 5% growth from Q3.
- Loan loss rate stable at 5.1%.
- 377 700 non-delinquent active card customers, 3% increase from Q3.

## General economy and market overview

In the fourth quarter of 2013, the German economy remained strong with no change in the unemployment rate finishing at a stable 6.9%. The German GDP is expected to show a moderate growth in Q4 compared to a growth of 0.3% in Q3. The continued positive performance is mainly driven by a rebound of external demand by emerging economies, as well as indicators such as higher economic and income expectations, and willingness to buy. This also reflects the stable confidence among German consumers.

The French GDP in Q4 is expected to show a sequential growth of 0.5%, which follows the trend of growth in Q3 of 0.1%. The unemployment rate remained just below 11%, confirming the currently rather bleak sentiment in the French economy.

In early November, the ECB decreased the key rate from 0.50% to 0.25%.

## Credit Cards

Key figures, Germany	Actual 31.12.2013	Actual 30.09.2013	QoQ growth	Actual 31.12.2012	YoY growth	Actual YTD-13	Actual YTD-12	YTD growth
Card applicants	160 364	171 262	-6%	131 978	22%	630 126	480 209	31%
Unblocked cards (contract signed)	33 957	35 481	-4%	26 264	29%	138 847	105 975	31%
New active cards	29 372	32 897	-11%	24 298	21%	122 553	98 715	24%
Non delinquent active clients (total, after ch	377 787	365 234	3%	308 910	22%	377 787	308 910	22%

Key figures, France	Actual 31.12.2013	Actual 30.09.2013	QoQ growth	Actual 31.12.2012	YoY growth	Actual YTD-13	Actual YTD-12	YTD growth
Card applicants	24 393	22 393	9%	3 723	555%	66 432	3 723	1684%
Unblocked cards (contract signed)	2 722	3 532	-23%	461	490%	9 365	461	1931%
New active cards	2 435	3 062	-20%	380	541%	8 099	380	2031%
Non delinquent active clients (total, after ch	6 452	4 994	29%	377	1611%	6 452	377	1611%

In Q4, credit card applications in Germany decreased by 6% compared to the previous quarter as sales waned off during the holiday season, but were 31% higher compared to the same period last year. The number of non-delinquent active clients continued at a stable level.

Sales in France increased by 9% in comparison to the previous quarter, although the conversions rates decreased which resulted in fewer new active customers.

## Credit risk

During the fourth quarter, the average monthly default rate (for the total portfolio) for Germany remained relatively stable.

Fraud write-offs increased by 8% to a total of EUR 407 000 (EUR 376 000 in Q3). The Bank has started with the new real-time transaction monitoring, which is expected to reduce fraud.

The French portfolio still exhibits a considerably higher credit risk than Germany, but credit quality is improving (40% reduction in monthly rates comparing the 2013 vintage vs. the 2012 vintage). This reflects the implementation of various measures such as initial credit assignment and improved acquisition mix.

Measured on total turnover since market entry, the fraud write off ratio of 0.16% remained within budget for 2013 (0.20%).

## Deposit accounts

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The competitive situation in the deposit account market remained stable in Q4, and at the end of the quarter, the best offer was 1.50%.

Avanzia has kept its standard rate on Advanziakonto at 1.33% effective p.a. through Q4. As of mid-September, Avanzia successfully conducted a loyalty campaign targeting existing clients and continued this campaign through the end of Q4. Overall in Q4, the net cash inflow was 7.6 MEUR.

## Board, management and staff

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The Chairman of the Board of Directors, Mr. Henning Jensen, announced in November 2013, that he will resign his position as CEO of Kistefos effective 31 January 2014, and would consequently step down as board member of Avanzia. Kistefos proposes to appoint Mr. Tom Ruud, the new CEO and Board Member of Kistefos, as Mr. Jensen's successor, as soon as this is approved by the CSSF. The expectation is that such change will take place in the first half of Q1 2014.

There have been no other changes to the board of directors or to the management of Avanzia during the quarter. As at 31.12.2013, Avanzia held 74 full-time equivalent employees.

## Financial statements

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Below are the unaudited accounts for Avanzia for the fourth quarter 2013 as at 31.12.2013. All amounts are in thousands of EUR. The Bank follows IFRS accounting principles, and the figures are presented so that they reflect Avanzia's actual business activities and operations.

Assets (EUR '000)	Actual Q4-13	Actual Q3-13	QoQ growth	Actual Q4-12	YoY growth
Cash, balances with central banks	30 884	30 453	1%	30 216	2%
Loans and advances to credit institutions	200 106	210 688	-5%	197 907	1%
Loans and advances to credit card clients	528 568	504 340	5%	425 222	24%
Value adjustment (losses)	(29 605)	(27 215)	9%	(22 390)	32%
Net loans and advances to credit card clients	498 963	477 125	5%	402 832	24%
Intangible & tangible assets	1 319	1 200	10%	1 500	-12%
Other assets (incl. Tax asset)	1 669	721	131%	1 312	27%

<b>SUM ASSETS</b>	<b>732 941</b>	<b>720 187</b>	<b>2%</b>	<b>635 494</b>	<b>15%</b>
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Liabilities and equity (EUR '000)	Actual Q4-13	Actual Q3-13	QoQ growth	Actual Q4-12	YoY growth
Amounts owed to customers	652 827	645 057	1%	570 550	14%
Other liabilities, accruals, provisions	9 138	9 491	-4%	7 740	18%
Sum liabilities	661 965	654 547	1%	578 290	14%
Subscribed capital	34 887	34 887	0%	42 387	-18%
Reserves	2 720	2 720	0%	963	182%
Profit (loss) brought forward	12 096	12 096	0%	795	1421%
Profit (loss) for the financial year	21 273	15 937	33%	13 058	63%
Sum equity	70 976	65 640	8%	57 204	24%

<b>SUM LIABILITIES AND EQUITY</b>	<b>732 941</b>	<b>720 187</b>	<b>2%</b>	<b>635 494</b>	<b>15%</b>
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Income statement (EUR '000)	Actual Q4-13	Actual Q3-13	QoQ growth	Actual Q4-12	YoY growth	Actual YTD-13	Actual YTD-12	YTD growth
Interest receivable, credit cards	22 001	20 744	6%	17 901	23%	80 180	63 788	26%
Interest receivable and similar income, other	106	122	-13%	170	-37%	488	1 522	-68%
Interest payable and similar expenses	(2 238)	(2 117)	6%	(2 751)	-19%	(8 761)	(11 358)	-23%
<b>Net interest margin</b>	<b>19 870</b>	<b>18 748</b>	<b>6%</b>	<b>15 320</b>	<b>30%</b>	<b>71 907</b>	<b>53 951</b>	<b>33%</b>
Commission receivable	2 812	2 719	3%	2 376	18%	10 181	8 414	21%
Commission payable	(1 642)	(1 642)	0%	(1 382)	19%	(5 980)	(5 090)	17%
Other financial items/operating income	913	4 797	-81%	397	130%	6 535	1 314	397%
<b>Total income</b>	<b>21 953</b>	<b>24 623</b>	<b>-11%</b>	<b>16 711</b>	<b>31%</b>	<b>82 644</b>	<b>58 590</b>	<b>41%</b>
Card acquisition costs	(2 895)	(2 822)	3%	(2 029)	43%	(11 127)	(7 842)	42%
Card operating costs	(1 788)	(1 718)	4%	(1 304)	37%	(6 556)	(4 747)	38%
Staff costs	(1 862)	(1 866)	0%	(1 609)	16%	(7 230)	(6 239)	16%
Other administrative expenses	( 624)	( 695)	-10%	( 731)	-15%	(2 481)	(2 206)	12%
Depreciation, tangible + intangible assets	( 220)	( 221)	0%	( 228)	-3%	( 884)	( 877)	1%
VAT reclaimed	-	-	-	64	-100%	-	249	-100%
<b>Sum operating expenses</b>	<b>- 7 389</b>	<b>- 7 321</b>	<b>1%</b>	<b>- 5 836</b>	<b>27%</b>	<b>- 28 278</b>	<b>- 21 662</b>	<b>31%</b>
Value adjustments	(2 390)	(2 070)	15%	(1 177)	103%	(7 215)	(1 108)	551%
Write-offs	(4 667)	(4 183)	12%	(3 971)	18%	(17 127)	(17 642)	-3%
Total loan losses	(7 057)	(6 253)	13%	(5 148)	37%	(24 342)	(18 750)	30%
Deposit guarantee contribution	32	-	-	64	-51%	32	162	-
Profit (loss) on ordinary activities before tax	7 538	11 049	-32%	5 790	30%	30 055	18 340	64%
Income tax and net worth tax	(2 202)	(3 229)	-32%	(1 667)	32%	(8 782)	(5 282)	66%
<b>Profit (loss) for the period</b>	<b>5 336</b>	<b>7 820</b>	<b>-32%</b>	<b>4 122</b>	<b>29%</b>	<b>21 273</b>	<b>13 058</b>	<b>63%</b>

## Comments to the accounts

In Q4 2013, the gross loan balance on credit cards grew by 24.2 MEUR which is a 5% increase compared to Q3 2013. Client deposits increased slightly by 7.8 MEUR to 653 MEUR. As a consequence of the growth in credit card loans amounting to more than the increase in deposits, the liquid assets decreased by 10.2 MEUR to 231 MEUR. The ensuing liquidity ratio landed at 34.9%, which the Bank considers to represent a comfortable level.

The net interest margin increased by 6% compared to the previous quarter as a result of the higher loan balance. Commission receivable increased by 3% mainly due to higher reminder fees, as well as higher card turnover, and thus, higher MasterCard interchange. Total income decreased by 11% compared to Q3, due to a one-time transaction in that quarter. Excluding the effect of this Q3 transaction, the growth would have been 9.1%.

Overall, operating expenses remained stable compared to Q3. Card acquisition costs of 2.9 MEUR (sales and marketing, credit scoring, as well as the costs associated with issuing and sending out cards) were also stable. Card operating costs of 1.8 MEUR, which are all direct variable costs associated with operating the card and depositor portfolios, remained stable compared to the previous quarter. Staff costs of 1.9 MEUR also remained steady. Other administrative expenses of 0.6 MEUR slightly decreased compared to Q3.

Total loan losses of 7.1 MEUR increased by 13% compared to Q3. Measured on a yearly basis, the increase in loan losses is in line with the increase in interest income.

In Q4, Advanzia's pre-tax profits decreased from 7.8 MEUR to 5.3 MEUR, However, when excluding the effect of the one-time Q3 transaction, the Q4 result is 13% above the Q3 2013 result. For the year 2013, the pre-tax profit exceeded 30 MEUR, and the after tax profit landed at 21.3 MEUR.

## Key indicators

	Actual 31.12.2013	Actual 30.09.2013	QoQ growth	Actual 31.12.2012	YoY growth	Actual YTD-13	Actual YTD-12	YTD growth
Proportion of non delinquent clients revolving	55,1%	55,2%	0%	53,0%	4%	54,3%	55,7%	-2%
Interest accrued on credit cards (%)	18,3%	18,3%	0%	18,4%	0%	18,4%	18,4%	0%
Return on equity (%)	31,3%	50,5%	-38%	29,6%	6%	34,3%	26,0%	32%
Capital adequacy ratio (%)	16,1%	11,6%	38%	15,6%	3%	16,1%	15,6%	3%
Liquidity ratio (%)	34,9%	36,7%	-5%	39,5%	-12%	34,9%	39,5%	-12%
Net interest margin (all interest bearing assets)	11,1%	11,0%	1%	9,6%	15%	10,8%	9,6%	12%
Net interest margin (credit cards)	16,9%	17,0%	-1%	16,2%	5%	17,0%	16,2%	5%
Loan loss rate (12 months trailing, credit card)	5,1%	5,0%	3%	5,0%	3%	5,1%	5,0%	3%
Cost/Income (%)	33,7%	29,7%	13%	34,9%	-4%	34,2%	37,0%	-7%

All key indicators are presented as at balance sheet date, and represent the quarterly performance at annualised rates where applicable.

Most indicators remain on track in Q4. Cost/Income ratio increased by 13% due to a decrease in total income. The 38% decrease in return on equity is influenced by the transaction from Q3. Without this transaction, there would be almost no real change compared to Q3 with 31.4%. For the year, return on equity landed at 34.3%. The Q4 2013 capital ratio of 16.1% includes the year-to-date profits. Compared to 2012, the capital ratio increased by 3%. Advanzia's regulatory capital consists of solely Tier 1 capital. The loan loss rate is measured as 12 month trailing and remained stable compared to the previous quarter.

## Select French key indicators

The table below present some selected key performance indicators for France.

Key Figures, France (EUR '000)	Actual	Actual	QoQ	Actual	YoY	Actual	Actual	YTD
	Q4-13	Q3-13	growth	Q4-12	growth	YTD-13	YTD-12	growth
Gross Loan Balance	5 850	3 929	49%			5 850	-	
Interest receivable, credit cards	99	52	91%			167	-	
Loan Losses	( 180)	( 75)	140%			( 295)	-	

The performance in France continues to reflect a young and growing portfolio where further optimisation is required. The Bank will continue to monitor these results and further optimise the French business model. The French volumes represent 1.1% of Advanzia's overall card loans.

## Advanzia going forward

The current macroeconomic as well as market conditions remain stable for Advanzia. The Bank will, for the year 2014, continue its current path of balancing profitability and growth.

The French market entry will still remain in a project phase as the Bank continues to enhance the value chain and risk models. Volumes will therefore continue to remain moderate. The Bank will also consider some other card related activities to further increase and diversify business.

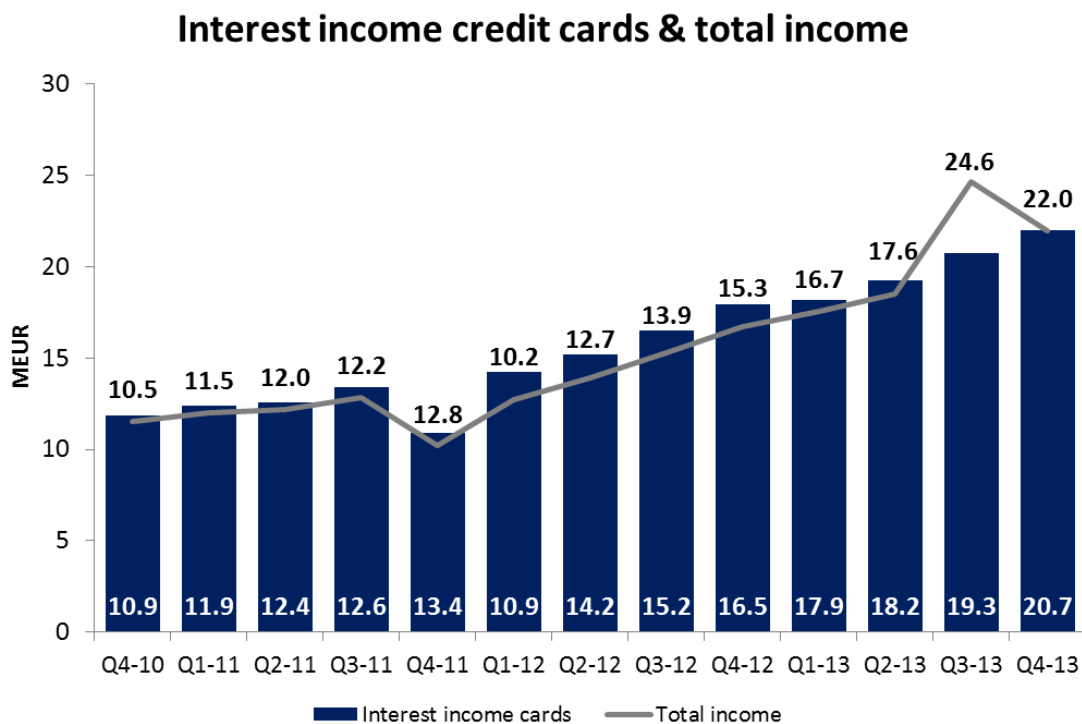
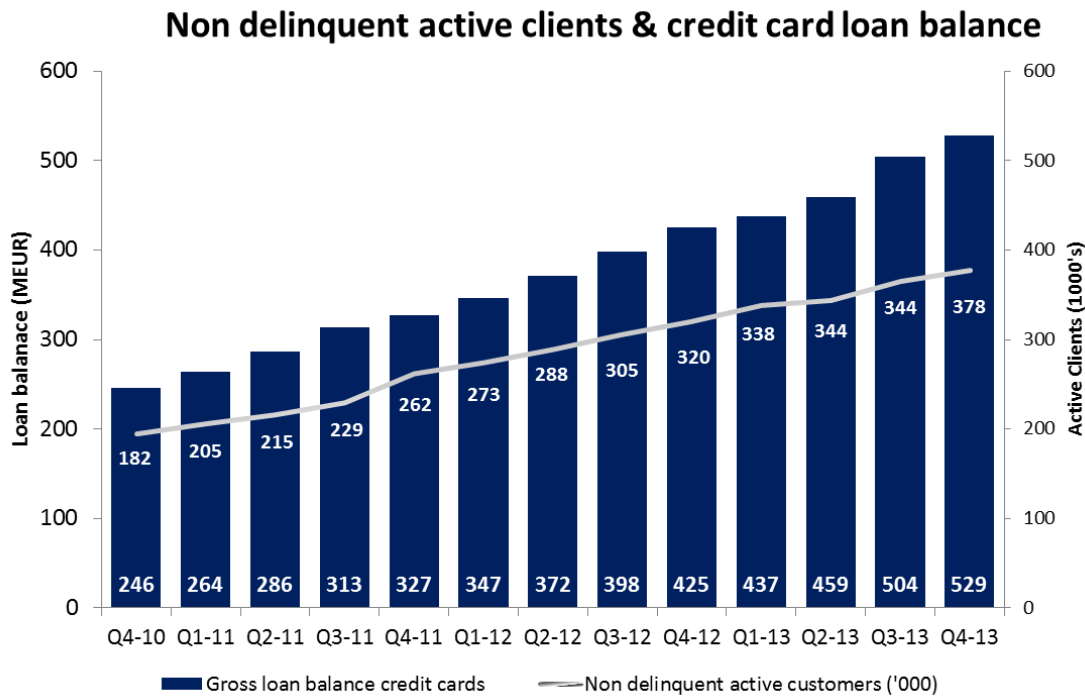
Munsbach, Luxembourg

31.01.2014

Eirik Holtedahl  
Chief Financial Officer/  
Deputy Chief Executive Officer

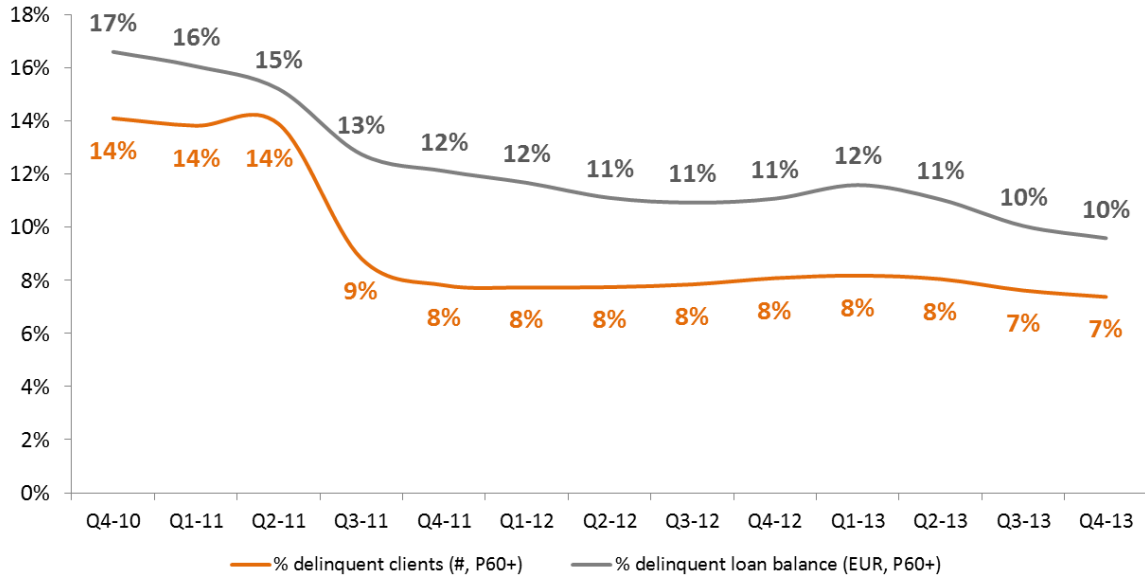
Marc Hentgen  
Chief Executive Officer

## Appendix: Development of key performance indicators



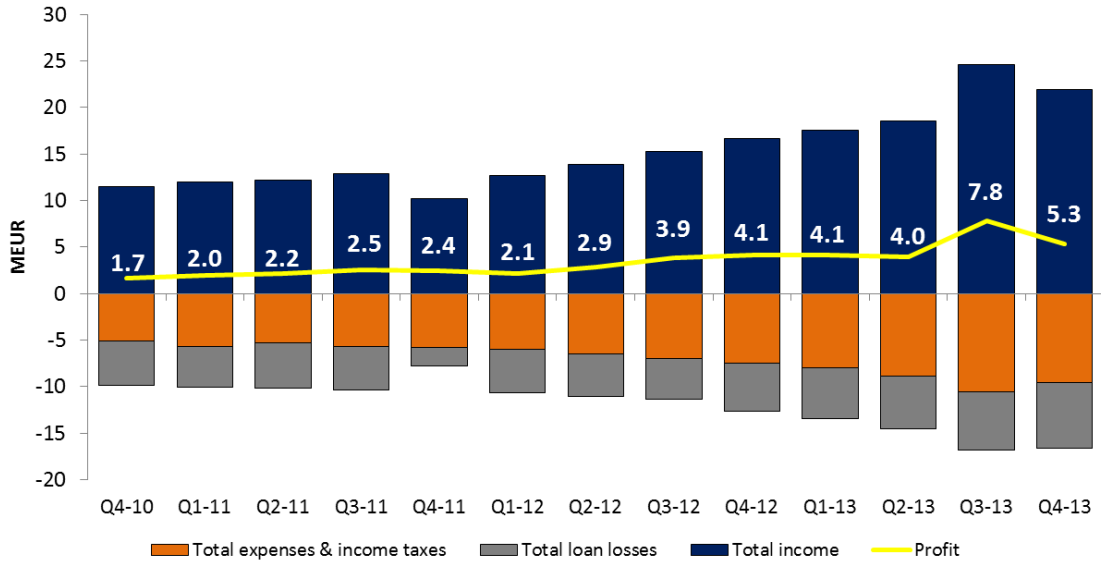
The Q4 2011 figures for interest income and total income are lower as the Bank in that quarter implemented the new method for calculating interest income on delinquent accounts, which applied to the entire year 2011. The Q3-2013 income is influenced by the income shift transaction.

### Amount & number of delinquencies



P60+ above refer to accounts/amounts that are more than 60 days past due. The reduction Q3-2011 of delinquent clients is due to a reclassification of so-called monitoring clients, which have largely been written off, and were then no longer recognised.

### Profit (after tax) development



The lower Q4-2011 income, is due to a change in recognition of interest on delinquent accounts, with an equivalent effect on loan losses, where the full year effect was recorded in the quarter, and no change to overall profit. The Q3-2013 is due to the income shift transaction.