



## Advanzia Bank S.A.

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*Quarterly report, 1<sup>st</sup> quarter 2013*  
*As at 31.03.2013*

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## Highlights first quarter 2013

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- Q1 after-tax profit of EUR 4.1 million, remained stable from Q4.
- Credit card loan balance at EUR 437 million, 3% growth from Q4.
- Loan loss rate remained stable at around 5%.
- 144 000 applications in Q1, a 9% increase from Q4.
- 340 000 non-delinquent active card customers, 6% increase from Q4.

## General economy and market overview

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After ending 2012 with a quarter of contraction, the German economy stabilised in Q1-13. Despite the continued eurozone crisis, Germany remains the backbone with a strong, stable labour market and solid private consumption remaining as key pillars for maintaining development. Income expectations increased in Q1, remaining at a high level. The Ifo reported that the business outlook also remained stable at a high level, increasing at one point to its highest level since July 2010. In Q1-13 German GDP showed a marginal growth of 0.1%, compared to a contraction of 0.6% in Q4-12.

The French economy continues to struggle, as the first quarter also showed a contraction of 0.2%, and France is as such considered to be in a recession. Unemployment increased slightly in Q1, but consumer confidence nevertheless increased in Q1-13, despite negative external factors.

The ECB key rate was 0.75% during the quarter, but the ECB dropped the rate to 0.50% on 30 April 2013.

## Credit Cards

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Key figures	Actual 31.03.2013	Actual 31.12.2012	QoQ growth	Actual 31.03.2012	YoY growth	Actual YTD-13	Actual YTD-12	YTD growth
Card applicants	144 201	131 978	9%	106 857	35%	144 201	106 857	35%
Unblocked cards (contract signed)	33 934	26 264	29%	27 161	25%	33 934	27 161	25%
New active cards	28 112	24 298	16%	24 415	15%	28 112	24 415	15%
Active within 6 months with valid contract	339 133	319 957	6%	273 422	24%	339 133	273 422	24%

In the first quarter of 2013, credit card applications increased by 9% compared to the previous quarter. Furthermore, the acceptance rate as well signature rate increased by approx. 25%, which resulted in an increase of unblocked cards by 29% compared to Q4 2012. The number of new active cards increased by 16%, as there is some lag between issuing a card and it becoming active.

In the B2B channel, the number of active customers increased by 11% in the first quarter and the B2C channel increased by 4%.

The Bank has been testing various sales and application strategies for the French product to improve the processes the operational performance along the sales conversion funnel. The Bank has placed advertisements placed on larger sites in order to reach a broad range of internet users. Volumes have been kept low, and overall, Advanzia received 7,172 applications of which 1,157 were accepted and 930 became active. The comparably low acceptance rate is

due to the fact that French legislation and conditions require Advanzia to collect a certain set of documents, which yields a negative impact on response rate. Further tests are performed to improve and enhance the overall sales process.

Advanzia's portfolio of non-delinquent active clients contains 339,133 customers, where an active client is defined as a client with a transaction the last month. This represents a quarterly growth of more than 19,000 clients, or 6%.

### **Credit risk**

During the quarter, default amount rates rose on average 0.6% over all vintages with the 2012 vintage showing the steepest increase of +2.8% due to its young maturity and a higher intake of riskier customers. The 2009 vintage remained stable, while the 2010 and 2011 vintages exhibited an increase of less than 1%. Overall, the expectation for medium term credit loss development is that it should remain stable around an annual rate around 5%.

Compared to Q4-12, the share of application/ID fraud in the total fraud amount slightly increased in Q1-13 from 25% to 28%, while counterfeit fraud decreased as a percentage of total fraud from 49% to 27%. Other types of fraud, i.e., internet increased from 17% to 32% of total fraud due to a recrudescence of phishing attacks. Total fraud losses were EUR 373 000, up from 281 000 during the previous quarter.

### **Deposit accounts**

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The competitive situation in the deposit account market remained stable in Q1, and at the end of the quarter, the best offer decreased to 1.85% (vs. 2.0% at the end of Q4). The spread to the 3 month ECB rate remains nevertheless high.

Advanzia has, in line with the ECB key rate decrease and the overall market decrease in Germany, reduced its standard effective rate on Advanzialekonto to 1.52% effective p.a. As a consequence, the Bank experienced a small reduction of the deposit volume. The Bank did not run any campaigns to attract new clients, but will do so in Q2.

### **Board, management and staff**

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There have been no changes to the board of directors nor to the management of Advanzia during the quarter. As at 31.03.2013, Advanzia held 69 full-time equivalent employees, which is an increase of 2 from the previous quarter.

## Financial statements

Below are the unaudited accounts for Advanzia for the first quarter 2013 as at 31.03.2013. All amounts are in thousands of EUR. The Bank follows IFRS accounting principles, and the figures are presented so that they reflect Advanzia's actual business activities and operations.

Assets (EUR '000)	Actual Q1-13	Actual Q4-12	QoQ growth	Actual Q1-12	YoY growth
Cash, balances with central banks	20 781	30 216	-31%	14 286	45%
Loans and advances to credit institutions	189 482	197 907	-4%	200 935	-6%
Loans and advances to credit card clients	437 320	425 222	3%	346 583	26%
Value adjustment (losses)	(23 670)	(22 390)	6%	(21 370)	11%
Net loans and advances to credit card clients	413 650	402 832	3%	325 213	27%
Loans and advances to others	-	1 726	-100%	-	-
Intangible & tangible assets	1 304	1 500	-13%	1 432	-9%
Other assets (incl. Tax asset)	1 307	1 312	0%	1 415	-8%
<b>SUM ASSETS</b>	<b>626 523</b>	<b>635 494</b>	<b>-1%</b>	<b>543 281</b>	<b>15%</b>

Liabilities and equity (EUR '000)	Actual Q1-13	Actual Q4-12	QoQ growth	Actual Q1-12	YoY growth
Amounts owed to customers	557 385	570 550	-2%	491 957	13%
Other liabilities, accruals, provisions	7 786	7 740	1%	5 037	55%
Sum liabilities	565 171	578 290	-2%	496 994	14%
Subscribed capital	42 387	42 387	0%	42 387	0%
Reserves	963	963	0%	80	1110%
Profit (loss) brought forward	13 853	795	1642%	1 681	724%
Profit (loss) for the financial year	4 148	13 058	-68%	2 140	94%
Sum equity	61 352	57 204	7%	46 287	33%
<b>SUM LIABILITIES AND EQUITY</b>	<b>626 523</b>	<b>635 494</b>	<b>-1%</b>	<b>543 281</b>	<b>15%</b>

Income statement (EUR '000)	Actual Q1-13	Actual Q4-12	QoQ growth	Actual Q1-12	YoY growth	Actual YTD-13	Actual YTD-12	YTD growth
Interest receivable, credit cards	18 181	17 901	2%	14 230	28%	18 181	14 230	28%
Interest receivable and similar income, others	134	170	-21%	590	-77%	134	590	-77%
Interest payable and similar expenses	(2 190)	(2 751)	-20%	(3 056)	-28%	(2 190)	(3 056)	-28%
<b>Net interest margin</b>	<b>16 125</b>	<b>15 320</b>	<b>5%</b>	<b>11 765</b>	<b>37%</b>	<b>16 125</b>	<b>11 765</b>	<b>37%</b>
Commission receivable	2 212	2 376	-7%	1 824	21%	2 212	1 824	21%
Commission payable	(1 299)	(1 382)	-6%	(1 143)	14%	(1 299)	(1 143)	14%
Other financial items/operating income	515	397	30%	285	81%	515	285	81%
<b>Total income</b>	<b>17 552</b>	<b>16 711</b>	<b>5%</b>	<b>12 731</b>	<b>38%</b>	<b>17 552</b>	<b>12 731</b>	<b>38%</b>
Card acquisition costs	(2 460)	(2 029)	21%	(1 839)	34%	(2 460)	(1 839)	34%
Card operating costs	(1 312)	(1 304)	1%	(1 109)	18%	(1 312)	(1 109)	18%
Staff costs	(1 715)	(1 609)	7%	(1 505)	14%	(1 715)	(1 505)	14%
Other administrative expenses	( 584)	( 731)	-20%	( 501)	17%	( 584)	( 501)	17%
Depreciation, tangible + intangible assets	( 225)	( 228)	-1%	( 200)	12%	( 225)	( 200)	12%
VAT reclaimed	-	64	-100%	59	-100%	-	59	-100%
<b>Sum operating expenses</b>	<b>- 6 297</b>	<b>- 5 836</b>	<b>8%</b>	<b>- 5 096</b>	<b>24%</b>	<b>- 6 297</b>	<b>- 5 096</b>	<b>24%</b>
Value adjustments	(1 280)	(1 177)	9%	( 88)	1355%	(1 280)	( 88)	1355%
Write-offs	(4 115)	(3 971)	4%	(4 280)	-4%	(4 115)	(4 280)	-4%
Total loan losses	(5 395)	(5 148)	5%	(4 368)	23%	(5 395)	(4 368)	23%
Deposit guarantee contribution	-	64	-	19	-100%	-	19	-
Profit (loss) on ordinary activities before taxes	5 861	5 790	1%	3 006	95%	5 861	3 006	95%
Income tax and net worth tax	(1 713)	(1 667)	3%	( 866)	98%	(1 713)	( 866)	98%
<b>Profit (loss) for the period</b>	<b>4 148</b>	<b>4 122</b>	<b>1%</b>	<b>2 140</b>	<b>94%</b>	<b>4 148</b>	<b>2 140</b>	<b>94%</b>

## Comments to the accounts

In Q1 2013, the gross loan balance on credit cards grew by 12.1 MEUR which is a 3% increase compared to Q4 2012. Client deposits decreased by 13.2 MEUR to 557 MEUR. As a consequence of the growth in credit cards loans and the decrease in deposits, the liquid assets decreased by 17.8 MEUR to 210 MEUR. This represents a liquidity ratio of 37.2%, which the Bank considers to represent a comfortable level.

The net interest margin increased by 5% compared to the previous quarter. Interest payable decreased by 20% compared to the previous quarter due to a lower average interest rate and lower deposit volumes. Commission receivable decreased by 7% mainly due to lower card turnover, and thus, lower MasterCard interchange. Total income increased by 5% compared to the previous quarter.

Card acquisition costs of 2.5 MEUR (sales and marketing, credit scoring, as well as the costs associated with issuing and sending out cards) increased by 21%, due to higher marketing and higher sales costs.

Card operating costs of 1.3 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 1.7 MEUR increased by 7%, partly caused by the Bank's French activities. Other administrative expenses of 0.6 MEUR decreased compared to Q4, by 20%. Overall operating expenses increased by 8%.

In all, total loan losses of 5,4 MEUR increased by 5% compared to Q4, which is slightly more than the increase in the loan balance.

In Q1, Advanzia slightly improved its pre-tax profits by 1% to a new record of 5.9 MEUR which is 95% higher than the same period last year.

## Key indicators

	Actual 31.03.2013	Actual 31.12.2012	QoQ growth	Actual 31.03.2012	YoY growth
Proportion of non delinquent clients revolving (%)	52,9%	53,0%	0%	55,1%	-4%
Interest accrued on credit cards (%)	18,6%	18,4%	1%	18,5%	1%
Return on equity (%)	27,7%	26,0%	7%	18,8%	47%
Capital adequacy ratio (%)	15,3%	15,6%	-2%	14,4%	6%
Liquidity ratio (%)	37,2%	39,5%	-6%	43,4%	-14%
Net interest margin (all interest bearing assets)	10,3%	9,6%	8%	8,6%	20%
Net interest margin (credit cards)	17,0%	16,2%	5%	16,0%	6%
Loan loss rate (credit cards)	4,9%	5,0%	-2%	5,6%	-14%
Cost/Income (%)	35,9%	34,9%	3%	40,0%	-10%

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

The Q1 2013 capital ratio of 15.3% does, as per regulatory standards, not include the year-to-date profits. Had these profits been included, the capital ratio would have been 15.6%.

Advanzia's regulatory capital consists all of Tier 1 capital. The loan loss rate is measured as 12 month trailing and therefore improved slightly compared to the previous quarter (although the quarter as such saw a small increase).

In general the financial indicators of the Bank developed satisfactorily during the quarter.

## Avanzia going forward

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Q1-2013 for Avanzia continued on the path of profitability and growth. The Bank continues to assess the product launch of the French credit card from, aiming to optimise various parts of the value chain. As was the situation in 2012, the current uncertain economic conditions imply maintaining caution and to closely monitor the economic development. The Bank will nevertheless, as long as the overall economic development appears to remain benign, continue its current path of growth. The Bank is also making a capital distribution of 7.5 MEUR to its shareholders in Q2-2013.

Munsbach, Luxembourg

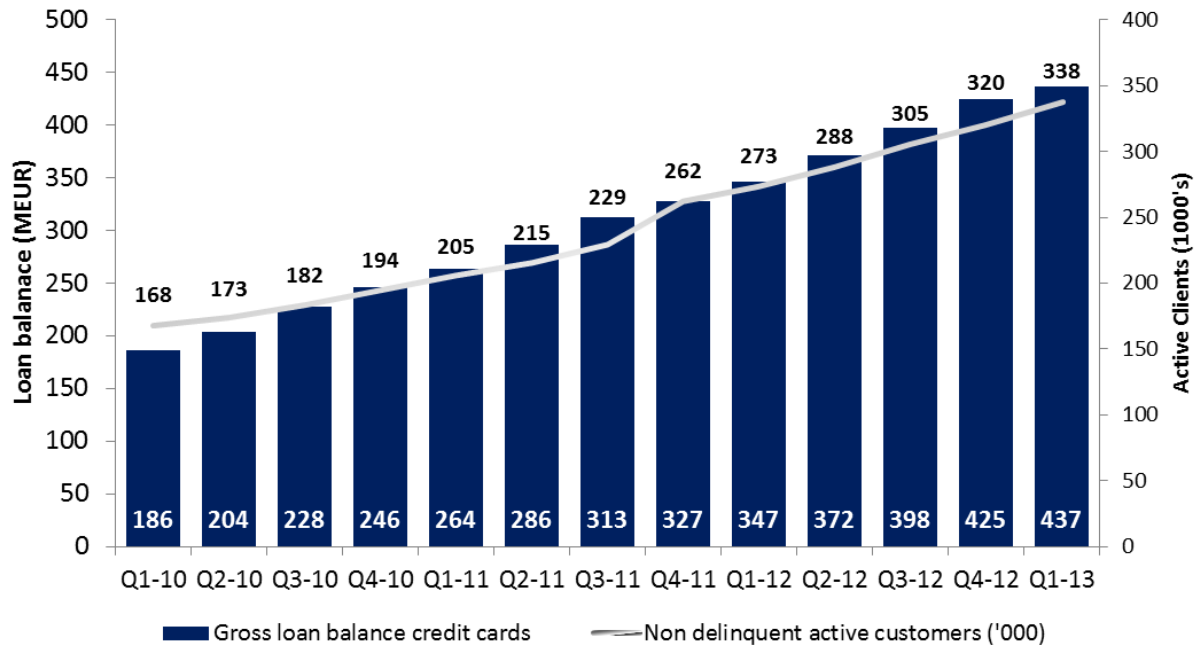
15.05.2013

Marc Hentgen  
Chief Executive Officer

Eirik Holtedahl  
Chief Financial Officer/  
Deputy Chief Executive Officer

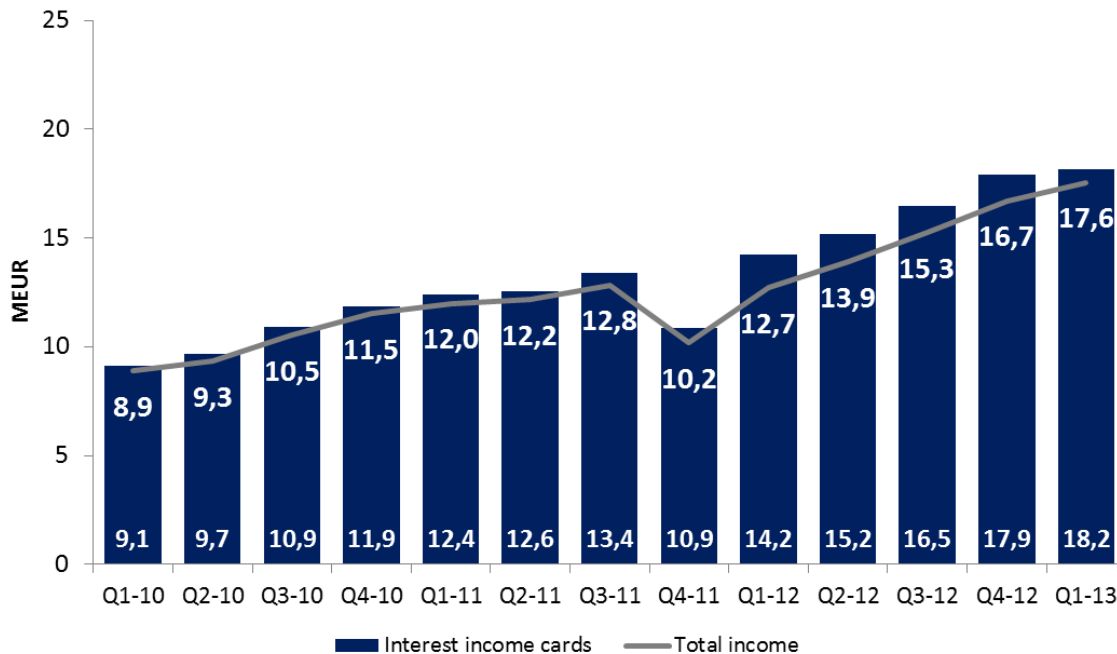
## Appendix 1: Development of key indicators

### Non delinquent active clients & credit card loan balance



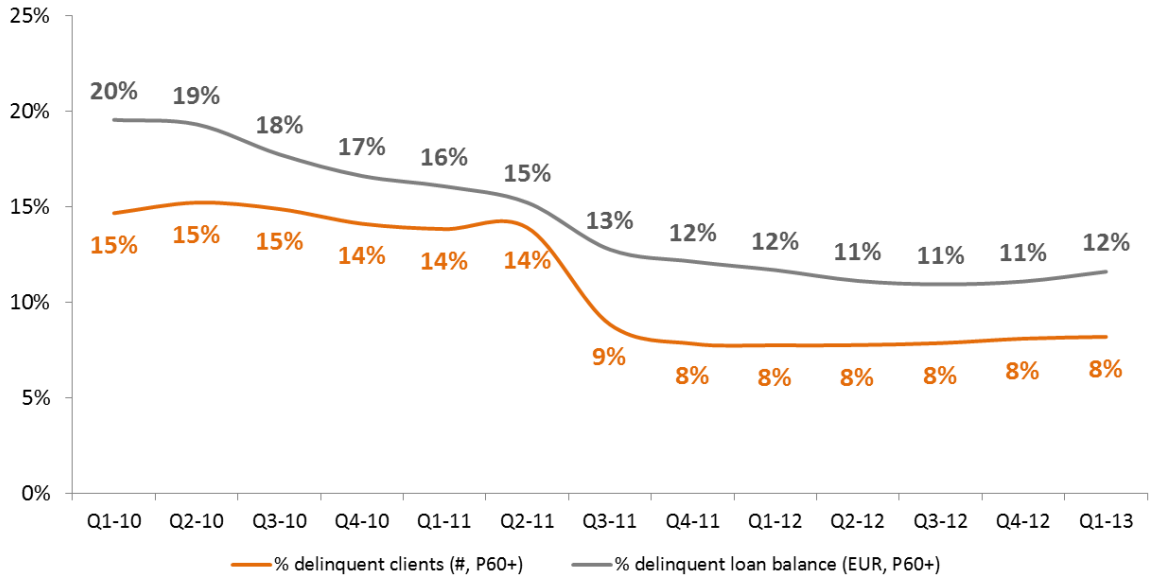
Please note that, due to a technical definition issue, the figure for the number of non-delinquent active customers Q3-12 and Q4-12 have slightly changed.

### Interest income credit cards & total income



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.

### Amount & number of delinquencies



P60+ above refer to accounts/amounts that are more than 60 days past due.

### Profit (after tax) development

