Advanzia Bank S.A.

Quarterly report, 2nd quarter 2014

As at 30.06.2014

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Highlights second quarter 2014

- **Overall credit card loan balance of EUR 576 million: +6% QoQ and +26% YoY**
- **Loan loss rate of 5.3%: +0.1% points QoQ and +0.4% points YoY**
- **After tax profits of EUR 5.7 million: +20% QoQ and +44% YoY**
- **Return on equity of 33%: +7% points QoQ and +5% points YoY**
- **New active clients in France of 5 124: +51% QoQ and +206% YoY**
- **Distribution to the shareholders of EUR 12 million**

General economy and market overview

In the second quarter of 2014, the German economy maintained a steady unemployment rate at 6.7%. The German GDP growth rate is expected to have slowed down in Q2 2014 compared to a QoQ GDP growth of 0.8% in Q1 2014, which is mainly due to the political uncertainties surrounding the Ukraine-Russia conflict. Nevertheless, it is expected to remain at a positive level, and the sustained positive performance continues to be driven by indicators such as a high willingness to purchase and improved economical expectations.

The French GDP growth in Q2 2014 is expected to have no change at 0.0%, which is consistent with the QoQ GDP growth in Q1 2014. The unemployment rate decreased from 10.7% in Q1 2014 to 10.1% in Q2 2014, showing signs of improvement. Nevertheless, developments are rather modest, investments remain low and economical expectation indicators are in general weak.

The ECB key rate decreased from 0.25% to 0.15% with effect as from 11th of June 2014.

Credit Cards

Key figures, Germany	Actual Q2-14	Actual Q1-14	QoQ growth	Actual Q2-13	YoY growth	Actual YTD-14	Actual YTD-13	YTD growth
Card applicants	128 098	134 673	*-5%*	141 788	*-10%*	262 771	278 854	*-6%*
Unblocked cards (contract signed)	29 539	30 275	*-2%*	33 521	*-12%*	59 814	66 298	*-10%*
New active cards	25 579	26 645	*-4%*	30 500	*-16%*	52 224	57 682	*-9%*
Non delinquent active clients (total, after churn)	397 342	383 775	*4%*	341 856	*16%*	348 232	341 856	*2%*

Key figures, France	Actual Q2-14	Actual Q1-14	QoQ growth	Actual Q2-13	YoY growth	Actual YTD-14	Actual YTD-13	YTD growth
Card applicants	32 446	29 004	*12%*	12 511	*159%*	61 450	19 646	*213%*
Unblocked cards (contract signed)	5 830	4 250	*37%*	1 954	*198%*	10 080	3 111	*224%*
New active cards	5 124	3 394	*51%*	1 672	*206%*	8 518	2 602	*227%*
Non delinquent active clients (total, after churn)	12 340	8 615	*43%*	2 605	*374%*	12 340	2 605	*374%*

In France, sales and unblocked cards increased by 12% and 37%, respectively. Further improvements in the overall sales funnels performance resulted in an increase of new active cards by 51%.

Credit risk

During the second quarter, the average monthly default rate for the German portfolio marginally increased driven by seasonality.

The expectation for medium term credit loss development continues at a loan loss rate of around 5% on an annual basis (at 5.3% in Q2 2014 vs 5.2% in Q1 2014), assuming no major changes in the client composition or behaviour. Fraud write-offs increased to a total of 0.4 MEUR in Q2 2014 (0.3 MEUR in Q1 2014), driven by a phishing attack at the end of Q1 2014 as well as an increase in counterfeit fraud.

The French portfolio continues maintaining a considerably higher credit risk than Germany, with credit quality still worsening for both 2012 and 2013 vintages during the second quarter, however with the most recent vintage at a slightly better level. The Bank is implementing various new measures to improve performance earlier in the customer life cycle with some additional measures planned for next month. Fraud write-offs in France decreased by 30% in Q2 2014 compared to Q1 2014 affected by the new systems/procedures implemented during Q4 2013.

Deposit accounts

The competitive situation in the German deposit account market remained fairly stable in Q2.

Advanzia decreased its standard rate on Advanziakonto from 1.21% to 1.01% effective p.a. at the end of May. This is approximately 40 BPS lower than the best competitor. Overall in Q2, the net cash outflow on deposits was 20.5 MEUR, which is acceptable as Advanzia is now working on lowering its liquidity buffers, cf. description below.

Other issues

Advanzia has, in Q2 2014, launched its Professional Card Services programme, where the Bank will leverage its capacities and offer card issuing and processing services to other banks serving other market segments than Advanzia. Advanzia has already signed on its two first client banks and the client banks will issue their first credit card for this programme in Q3 2014.

Advanzia has been considering a geographical expansion outside the three markets in which it is currently present. The Bank has now decided to assess and prepare a market launch in Austria. Although this market size is considerably smaller than the German and French markets, it has nevertheless several desirable characteristics. The Bank may also leverage the German operations and adapt the product offering within a reasonable effort. The Bank foresees to be ready to enter the market in Q1 2015.

The new capital ratio requirements (CRD IV/CRR), which is the EU adoption of the Basel 3 capital framework, has been brought forward by the Luxembourg authorities and is being implemented in 2014. So far, Advanzia is complying with the requirements (*inter alia* a minimum capital ratio of 10.5%), but the framework also entails possibilities for optimising the capital structure.

Advanzia has received acceptance for an early adoption of the new liquidity requirement framework, the so-called Liquidity coverage ratio (LCR) and Net Stable Funding ratio (NSFR). This framework replaces the previous Luxembourg requirements (minimum 30% liquidity ratio), and implies in effect a reduction of the overall requirements. As a consequence, the Bank may reduce its overall liquidity buffers, which will reduce funding costs as well as liberate capital (own funds) as the risk weighted balance is then being reduced.

Board, management and staff

In April, the management of Advanzia was further reinforced by retaining David Voss as the Chief Marketing Officer. Prior to joining Advanzia, Mr. Voss, a UK national, has acquired a wide knowledge of marketing in the commercial and consumer cards field with leading credit card providers in Great Britain and Germany.

There have been no other changes to the Board of Directors nor to the management of Advanzia during the quarter. As at 30.06.2014, Advanzia held 80 full-time equivalent employees.

Financial statements

Below are the unaudited accounts for Advanzia for the second quarter 2014 as at 30.06.2014. All amounts are in millions 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 millions)	Actual Q2-14	Actual Q1-14	QoQ growth	Actual Q2-13	YoY growth
Cash, balances with central banks	42.0	45.7	*-8%*	20.8	*39%*
Loans and advances to credit institutions	129.3	179.4	*-28%*	189.5	*-43%*
Loans and advances to credit card clients	576.2	542.8	*6%*	437.3	*26%*
Value adjustment (losses)	*(33.3)*	*(31.3)*	*6%*	*(23.6)*	*32%*
Net loans and advances to credit card clients	542.9	511.5	*6%*	413.6	*25%*
Intangible & tangible assets	1.2	1.2	*1%*	1.3	*2%*
Other assets	0.7	0.6	*12%*	1.3	*-16%*
SUM ASSETS	**716.1**	**738.4**	***-3%***	**693.2**	***3%***

Liabilities and equity (EUR millions)	Actual Q2-14	Actual Q1-14	QoQ growth	Actual Q2-13	YoY growth
Amounts owed to customers	634.7	653.3	*-3%*	557.3	*1%*
Other liabilities, accruals, provisions	10.9	8.3	*32%*	7.8	*11%*
Sum liabilities	645.6	661.6	*-2%*	565.1	*2%*
Subscribed capital	23.9	35.9	*-33%*	42.3	*-32%*
Reserves	5.0	2.7	*85%*	0.9	*85%*
Profit (loss) brought forward	31.0	33.3	*-7%*	13.8	*157%*
Profit (loss) for the financial year	10.5	4.8	*120%*	4.1	*30%*
Sum equity	70.5	76.8	*-8%*	61.3	*22%*
SUM LIABILITIES AND EQUITY	**716.1**	**738.4**	***-3%***	**693.2**	***3%***

Income statement (EUR millions)	Actual Q2-14	Actual Q1-14	QoQ growth	Actual Q2-13	YoY growth	Actual YTD-14	Actual YTD-13	YTD growth
Interest receivable, credit cards	23.4	22.2	*5%*	19.3	*21%*	45.5	37.4	*22%*
Interest receivable and similar income, others	0.1	0.1	*5%*	0.1	*-5%*	0.2	0.2	*-10%*
Interest payable and similar expenses	(1.8)	(2.1)	*-13%*	(2.2)	*-17%*	(4.0)	(4.4)	*-11%*
Net interest margin	**21.6**	**20.2**	***7%***	**17.2**	***26%***	**41.9**	**33.3**	***26%***
Commission receivable	2.9	2.6	*8%*	2.4	*17%*	5.5	4.6	*18%*
Commission payable	(1.7)	(1.6)	*5%*	(1.4)	*19%*	(3.2)	(2.7)	*20%*
Other financial items/operating income	0.5	0.3	*25%*	0.3	*47%*	0.8	0.8	*-1%*
Total income	**23.3**	**21.6**	***8%***	**18.5**	***26%***	**44.9**	**36.1**	***25%***
Card acquisition costs	(2.9)	(2.9)	*2%*	(3.0)	*1%*	(5.9)	(5.4)	*10%*
Card operating costs	(1.9)	(2.0)	*-3%*	(1.7)	*13%*	(3.9)	(3.1)	*30%*
Staff costs	(2.0)	(2.0)	*4%*	(1.8)	*17%*	(4.0)	(3.5)	*17%*
Other administrative expenses	(0.6)	(0.6)	*3%*	(0.6)	*11%*	(1.3)	(1.2)	*9%*
Depreciation, tangible + intangible assets	(0.2)	(0.2)	*-4%*	(0.2)	*-4%*	(0.4)	(0.4)	*-4%*
Sum operating expenses	**(7.9)**	**(7.8)**	***1%***	**(7.3)**	***8%***	**(15.7)**	**(13.6)**	***16%***
Value adjustments	(1.9)	(1.8)	*11%*	(1.5)	*33%*	(3.7)	(2.8)	*35%*
Write-offs	(5.4)	(5.3)	*0%*	(4.2)	*29%*	(10.7)	(8.3)	*29%*
Total loan losses	(7.3)	(7.1)	*3%*	(5.6)	*30%*	(14.4)	(11.0)	*31%*
Profit (loss) on ordinary activities before taxes	8.1	6.7	*20%*	5.6	*44%*	14.9	11.5	*30%*
Taxes	(2.4)	(1.9)	*20%*	(1.6)	*44%*	(4.3)	(3.4)	*30%*
Profit (loss) for the period	**5.7**	**4.8**	***20%***	**3.9**	***44%***	**10.5**	**8.1**	***30%***

Comments to the accounts

In Q2 2014, the gross loan balance on credit cards grew by 33 MEUR which is a 6% increase compared to Q1 2014. Client deposits decreased to 635 MEUR, which is a direct result of the interest rate decrease by Advanzia in May. As a consequence of the growth in credit card loans and reduction in deposits, liquid assets decreased by 54 MEUR to 171 MEUR, which is an intended development arising as a consequence of the new liquidity requirement rules. The net interest income margin increased by 7% compared to the previous quarter as a result of the higher loan balance and lower funding costs. Commission receivable increased by 6% mainly due to an increase in reminder fees and MasterCard interchange, which is mainly the result of the higher turnover in Q2. Total income increased by 8% in Q2 compared to Q1.

Overall, operating expenses increased by 1% compared to Q1. Card acquisition costs of 2.9 MEUR (sales and marketing, credit scoring, as well as the costs associated with issuing and sending out cards) remained stable. Card operating costs of 1.9 MEUR, which are all direct variable costs associated with operating the card and depositor portfolios, decreased by 3% compared to Q1. Staff costs of 2.0 MEUR saw an increase of 4% compared to Q1. Other administrative expenses of 0.6 MEUR increased by 3% compared to Q1.

Total Q2 loan losses of 7.3 MEUR increased by 3% compared to Q1, which is less than the growth in loan balance (6%) and interest income (5%).

In Q2 2014, Advanzia's pre-tax profits increased by 20% from 6.8 MEUR in Q1 to 8.1 MEUR, and the Q2 after tax profit landed at 5.7 MEUR. The equity decreased 6.3 MEUR, which is the net effect of the profits earned during the quarter and the 12.0 MEUR distribution in April.

Key indicators

	Actual Q2-14	Actual Q1-14	QoQ growth	Actual Q2-13	YoY growth	Actual YTD-14	Actual YTD-13	YTD growth
Proportion of non delinquent clients revolving (%)	54.3%	55.1%	*-0.8%-p*	54.3%	*0.1%-p*	54.3%	54.5%	*-0.1%-p*
Interest accrued on credit cards (%)	18.2%	18.3%	*-0.1%-p*	18.5%	*-0.3%-p*	18.3%	18.6%	*-0.4%-p*
Net interest margin (credit cards)	16.9%	17.0%	*0.0%-p*	17.0%	*0.0%-p*	17.0%	17.0%	*0.0%-p*
Net interest margin (all interest bearing assets)	11.8%	11.0%	*0.7%-p*	10.8%	*1.0%-p*	11.5%	10.3%	*1.4%-p*
Loan loss rate (12 months trailing, credit cards)	5.3%	5.2%	*0.1%-p*	4.8%	*0.4%-p*	5.3%	4.9%	*0.4%-p*
Cost/Income (%)	33.8%	36.0%	*-2.2%-p*	39.3%	*-5.4%-p*	34.9%	35.9%	*-2.0%-p*
Return on equity (%)	33.1%	26.1%	*7.0%-p*	26.9%	*6.2%-p*	29.5%	28.0%	*5.1%-p*
Capital adequacy ratio (%) (incl. interim profits)	15.2%	17.1%	*-1.9%-p*	16.4%	*-1.2%-p*	15.2%	16.4%	*-1.2%-p*
Capital adequacy ratio (%) (excl. interim profits)	12.9%	16.0%	*-3.1%-p*	15.3%	*-2.4%-p*	12.9%	15.3%	*-2.4%-p*
Liquidity coverage ratio (LCR) (min 100%)	224.2%	240.0%	*-15.8%-p*	158.0%	*66.2%-p*			
Net stable funding ratio (NSFR) (min 100%)	117.5%	129.9%	*-12.3%-p*	141.0%	*-23.5%-p*			

All key indicators represent the quarterly performance at annualised rates where applicable.

Most indicators remain on track in Q2. The Cost/Income ratio improved by 2% points as total income increased more than costs. Return on equity increased to 33.1% % in Q2 from Q1, due to higher income and lower equity. The Q2 2014 capital ratio, including and excluding interim profits, were 15.2% and 12.9%, respectively, and decreased due to lower equity following the distribution to shareholders in the quarter. Advanzia's regulatory capital consists of solely Tier 1 capital.

Select French key indicators

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

Key Figures, France (EUR millions)	Actual Q2-14	Actual Q1-14	QoQ growth	Actual Q2-13	YoY growth	Actual YTD-14	Actual YTD-13	YTD growth
Gross Loan Balance	8.9	7.2	*23%*	1.7	*409%*	8.9	1.7	*409%*
Interest receivable, credit cards	0.3	0.2	*19%*	0.1	*476%*	0.5	0.1	*712%*
Loan Losses	(0.6)	(0.5)	*19%*	(0.1)	*649%*	(1.0)	(0.1)	*798%*

The performance in France continues to reflect a young and growing portfolio. So far loan losses remain high, and the Bank is actively working on measures that will improve these. The Bank will continue to monitor these results and further try to optimise the French business model. The French volumes currently represent about 1% of Advanzia's overall card loans.

Advanzia going forward

Overall, the current macroeconomic as well as market conditions continue to remain relatively benign given the strong German economy and the Eurozone as a whole showing signs of improvements. The Bank will, throughout 2014, continue its current path of balancing profitability and growth in the German market.

The French market entry still remains in a development phase. Despite some growth, the French economy remains stagnant with high unemployment. This, combined with a challenging operating environment for credit cards, will continue to impede Advanzia's performance in that market. The Bank continues to implement measures that over time will improve performance, and volumes will therefore continue to remain moderate until these measures have proven to be effective.

Overall, management considers Advanzia to be in an overall strong position, enabling it to develop for further growth and value creation. The current sales volumes in Germany will be continued, the Bank will work developing the market entry in Austria as well as work to attract more partner banks for the new Professional Card Services programme. Advanzia is also assessing the possibilities for optimising its capital structure in view of the new CRD IV/CRR regulation and the Bank's strong profit generation capabilities.

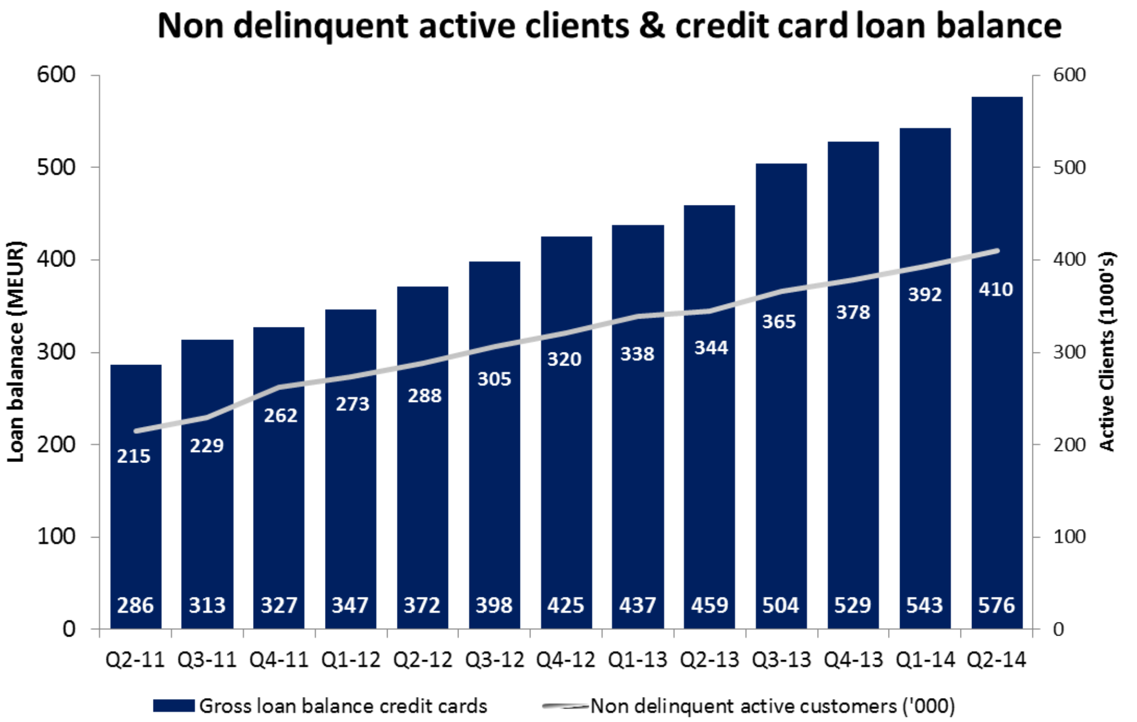
Munsbach, Luxembourg

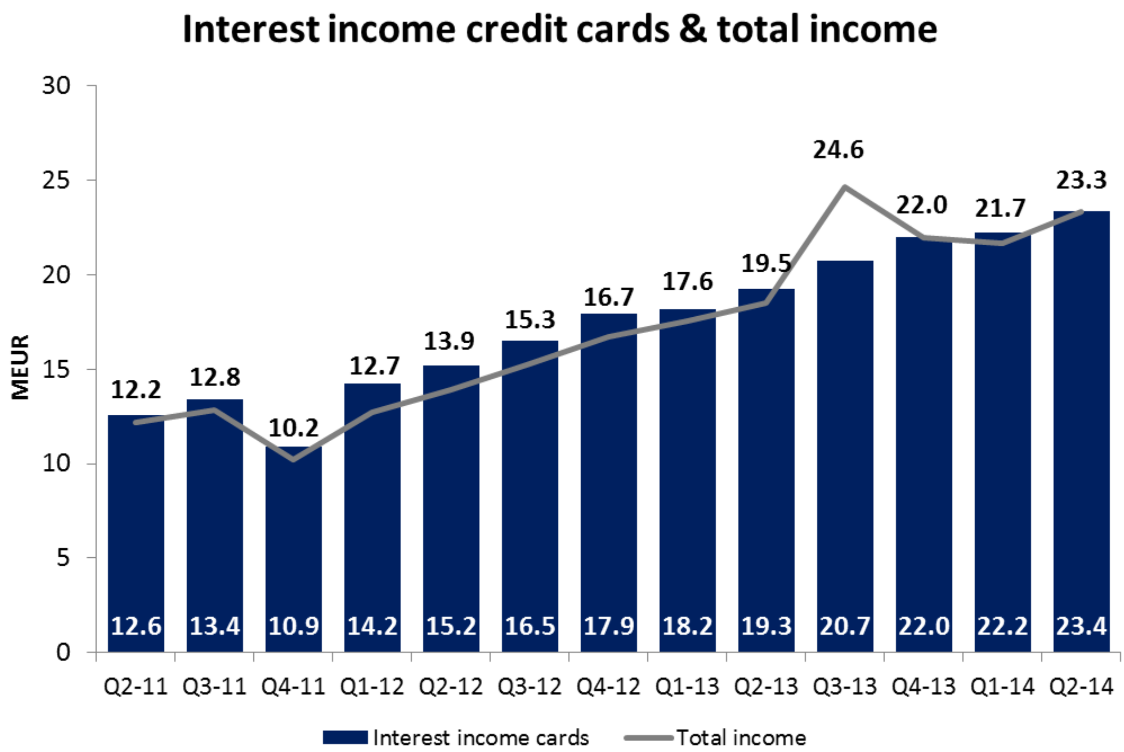
31.07.2014

Eirik Holtedahl
Chief Financial Officer/
Deputy Chief Executive Officer

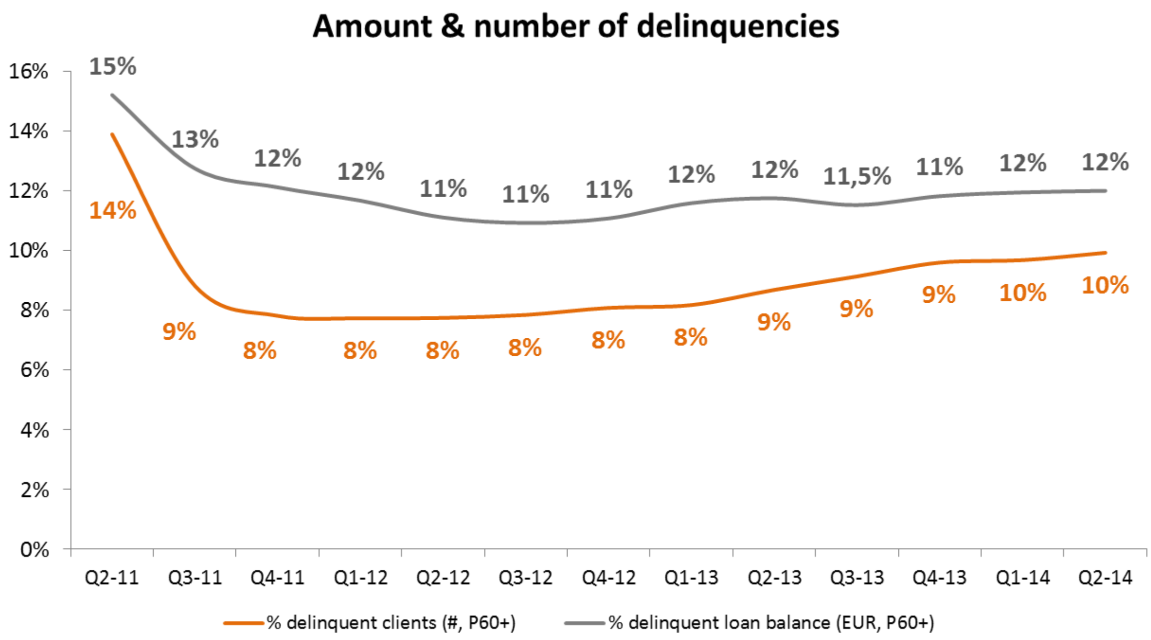
Marc Hentgen
Chief Executive Officer

Appendix: Development of key performance indicators

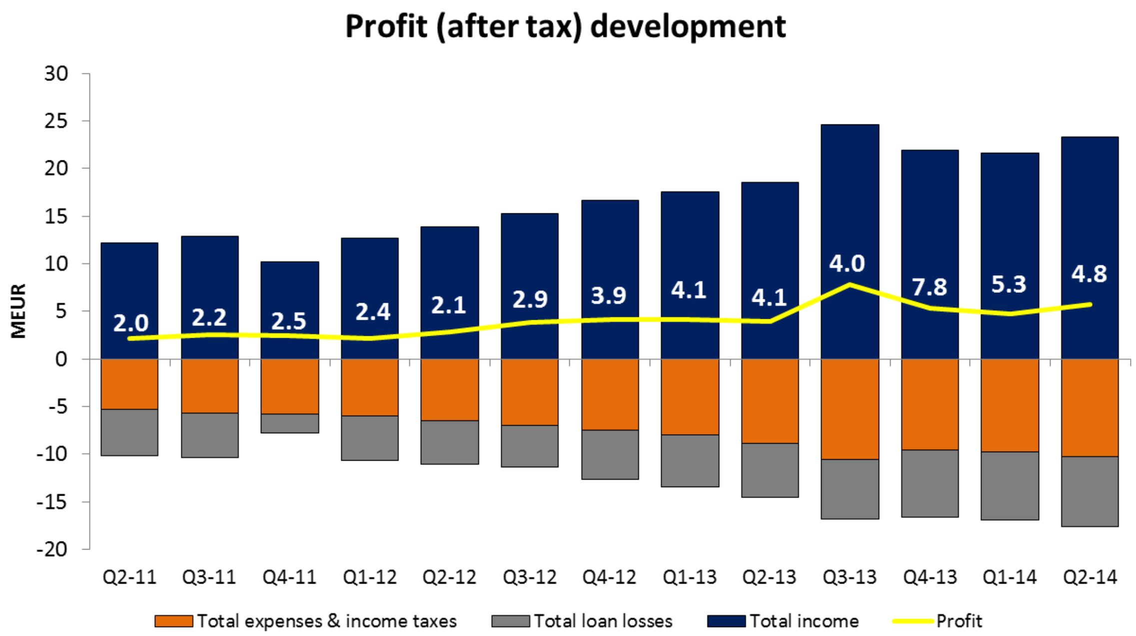




The Q4-2011 figures for interest income and total income are lower as the Bank in that quarter implemented the new method for calculating interest income on delinquent accounts, which applied to the entire year 2011. The Q3-2013 income is influenced by an income shift transaction.



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.



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 income is influenced by an income shift transaction.