



## Advanzia Bank S.A.

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*Quarterly report, 2<sup>nd</sup> quarter 2013*

*As at 30.06.2013*

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## Highlights second quarter 2013

- Q2 after-tax profit of EUR 4 million remained stable from Q1.
- Credit card loan balance at EUR 459 million, 5% growth from Q1.
- Loan loss rate remained stable at around 4,8%.
- 154 000 applications in Q2, a 7% increase from Q1.
- 344 000 non-delinquent active card customers, 6% increase from Q1.

## General economy and market overview

In the second quarter of 2013, the German economy remained strong with a stable unemployment rate finishing at 6,8% at the end of Q2. The German GDP showed a growth of 0,75% in Q2, compared to a growth of 0,3% in Q1, and echoes reflects the positive results from indicators such as higher economic and income expectations as well as willingness to buy. This, combined with the ECB lowering the interest rate in order to spur the economy has attributed to the unwavering optimism among German consumers.

The French GDP in Q2 grew rather surprisingly by 0,5%, which bucks the recessionary trend from Q1-13 when the contraction was 0,6%. The unemployment rate remained at 11% throughout the quarter, and other sentiments were negative until the end of Q2 where they then slightly rose.

The ECB key rate remains at 0,50% after a 25BP reduction on 30 April 2013 as a response to the poor economic performance in the eurozone as a whole.

## Credit Cards

Key figures	Actual 30.06.2013	Actual 31.03.2013	QoQ growth	Actual 30.06.2012	YoY growth	Actual YTD-13	Actual YTD-12	YTD growth
Card applicants	154 299	144 201	7%	116 011	33%	298 500	222 868	34%
Unblocked cards (contract signed)	35 475	33 934	5%	27 028	31%	69 409	54 189	28%
New active cards	32 172	28 112	14%	25 049	28%	60 284	49 464	22%
Non delinquent active clients (total, after churn)	344 461	323 461	6%	274 708	25%	344 461	274 708	25%

Key figures, France	Actual 30.06.2013	Actual 31.03.2013	QoQ growth	Actual 30.06.2012	YoY growth	Actual YTD-13	Actual YTD-12	YTD growth
Card applicants	12 511	7 135	75%			19 646	-	
Unblocked cards (contract signed)	1 954	1 157	69%			3 111	-	
New active cards	1 672	930	80%			2 602	-	
Non delinquent active clients (total, after churn)	2 605	1 231	112%			2 605	-	
Gross loan balance	1740 497	716 173	143%			1740 497		

Sales in Q2 were good, and unblocked cards increased by 5% compared to Q1 2013. Compared to the same period one year ago the increase is 31%.

After having tested sales and application strategies during Q1, Advanzia increased sales efforts for the French carte ZERO in Q2 in order to quickly attract the necessary card activations needed to calibrate the credit score cards for France. As a result the number of cards sent out to customers and card activations also saw significant increases. France still remains in a pilot phase, and sales are consequently limited.

## Credit risk

During the last quarter, the default amount rate at total portfolio level rose on average by 0,1%, with the most recent vintages, 2012 and 2013, showing the highest increase of 1,9% and 3,3%, respectively. The latter is due to their maturity and a higher intake of riskier customers. The 2009, 2010 and 2011 vintages exhibited marginal increases in default amount rates, less or equal to 0,6%, with the rest of vintages (2006-2008) showing a decrease. Overall, the expectation for medium term credit loss development continues to be around an annual loan loss rate of 5%.

Compared to Q1 13, the share of application fraud in the total fraud amount decreased in Q2-13 from 28% to 17%, while main transaction fraud types (internet and counterfeit) increased by 13% to a total of 72% of the total fraud amount. Fraud write offs increased by 8 % to a total amount of EUR 402 000.

## Deposit accounts

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The competitive situation in the deposit account market remained stable in Q2, and at the end of the quarter, the best offer decreased to 1,75% (vs. 1,85% at the end of Q1). The spread to the 3 month ECB rate remains nevertheless high.

Avanzia has, in line with the ECB key rate decrease and the general market decrease in Germany, reduced its standard effective rate on Advanziakonto to 1.33% effective p.a. Overall in Q2, the net cash inflow on deposits was strong, due to a successful introductory campaign in May and June 2013.

Key figures	Actual	Actual	QoQ	Actual	YoY
	30.06.2013	31.03.2013	growth	30.06.2012	growth
Deposit Balance (EUR '000)	625 537	557 385	12%	499 037	25%
Active clients (bal. > 100 EUR)	18 436	17 071	8%	-	-

## Board, management and staff

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There have been no changes to the board of directors nor to the management of Avanzia during the quarter. As at 30.06.2013, Avanzia held 70 full-time equivalent employees, which is an increase of 1 from the previous quarter.

## Financial statements

Below are the unaudited accounts for Advanzia for the second quarter 2013 as at 30.06.2013. 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 Q2-13	Actual Q1-13	QoQ growth	Actual Q2-12	YoY growth
Cash, balances with central banks	30 198	20 781	45%	20 324	49%
Loans and advances to credit institutions	227 404	189 482	20%	180 853	26%
Loans and advances to credit card clients	458 748	437 320	5%	371 686	23%
Value adjustment (losses)	(25 145)	(23 670)	6%	(20 850)	21%
Net loans and advances to credit card clients	433 603	413 650	5%	350 836	24%
Loans and advances to others	-	-	-	-	-
Intangible & tangible assets	1 204	1 304	-8%	1 449	-17%
Other assets (incl. Tax asset)	835	1 307	-36%	1 511	-45%
<b>SUM ASSETS</b>	<b>693 244</b>	<b>626 523</b>	<b>11%</b>	<b>554 972</b>	<b>25%</b>

Liabilities and equity (EUR '000)	Actual Q2-13	Actual Q1-13	QoQ growth	Actual Q2-12	YoY growth
Amounts owed to customers	625 537	557 385	12%	499 037	25%
Other liabilities, accruals, provisions	9 788	7 786	26%	6 745	45%
Sum liabilities	635 325	565 171	12%	505 783	26%
Subscribed capital	34 985	42 387	-17%	42 387	-17%
Reserves	2 720	963	182%	963	182%
Profit (loss) brought forward	12 096	13 853	-13%	795	1421%
Profit (loss) for the financial year	8 117	4 148	96%	5 044	61%
Sum equity	57 919	61 352	-6%	49 189	18%
<b>SUM LIABILITIES AND EQUITY</b>	<b>693 244</b>	<b>626 523</b>	<b>11%</b>	<b>554 972</b>	<b>25%</b>

Income statement (EUR '000)	Actual Q2-13	Actual Q1-13	QoQ growth	Actual Q2-12	YoY growth	Actual YTD-13	Actual YTD-12	YTD growth
Interest receivable, credit cards	19 255	18 181	6%	15 170	27%	37 436	29 400	27%
Interest receivable and similar income, others	125	134	-7%	474	-74%	260	1 064	-76%
Interest payable and similar expenses	(2 216)	(2 190)	1%	(2 831)	-22%	(4 406)	(5 887)	-25%
<b>Net interest margin</b>	<b>17 165</b>	<b>16 125</b>	<b>6%</b>	<b>12 813</b>	<b>34%</b>	<b>33 290</b>	<b>24 578</b>	<b>35%</b>
Commission receivable	2 437	2 212	10%	2 026	20%	4 649	3 850	21%
Commission payable	(1 397)	(1 299)	7%	(1 246)	12%	(2 696)	(2 389)	13%
Other financial items/operating income	310	515	-40%	300	3%	825	586	41%
<b>Total income</b>	<b>18 515</b>	<b>17 552</b>	<b>5%</b>	<b>13 893</b>	<b>33%</b>	<b>36 068</b>	<b>26 624</b>	<b>35%</b>
Card acquisition costs	(2 950)	(2 460)	20%	(2 017)	46%	(5 410)	(3 856)	40%
Card operating costs	(1 739)	(1 312)	32%	(1 147)	52%	(3 051)	(2 256)	35%
Staff costs	(1 786)	(1 715)	4%	(1 524)	17%	(3 502)	(3 029)	16%
Other administrative expenses	( 579)	( 584)	-1%	( 482)	20%	(1 163)	( 983)	18%
Depreciation, tangible + intangible assets	( 218)	( 225)	-3%	( 218)	0%	( 443)	( 419)	6%
VAT reclaimed	-	-	-	68	-100%	-	127	-100%
<b>Sum operating expenses</b>	<b>- 7 271</b>	<b>- 6 297</b>	<b>15%</b>	<b>- 5 320</b>	<b>37%</b>	<b>- 13 568</b>	<b>- 10 415</b>	<b>30%</b>
Value adjustments	(1 475)	(1 280)	15%	520	-384%	(2 755)	432	-738%
Write-offs	(4 162)	(4 115)	1%	(5 094)	-18%	(8 277)	(9 655)	-14%
Total loan losses	(5 637)	(5 395)	4%	(4 574)	23%	(11 032)	(9 223)	20%
Deposit guarantee contribution	-	-	-	79	-100%	-	98	-
Profit (loss) on ordinary activities before taxes	5 607	5 861	-4%	4 078	37%	11 468	7 084	62%
Income tax and net worth tax	(1 638)	(1 713)	-4%	(1 175)	39%	(3 351)	(2 040)	64%
<b>Profit (loss) for the period</b>	<b>3 969</b>	<b>4 148</b>	<b>-4%</b>	<b>2 904</b>	<b>37%</b>	<b>8 117</b>	<b>5 044</b>	<b>61%</b>

## Comments to the accounts

In Q2 2013, the gross loan balance on credit cards grew by 21.4 MEUR which is a 5% increase compared to Q1 2013. Client deposits increased by 68 MEUR to 626 MEUR mainly due to an introductory campaign that was started in May. As a consequence of the growth in credit card loans amounting to less than the increase in deposits, the liquid assets increased by 47.3 MEUR to 258 MEUR. This represents a liquidity ratio of 40.6%, which the Bank considers to represent a comfortable level.

The net interest income margin increased by 6% compared to the previous quarter. Commission receivable increased by 10% mainly due to higher card turnover, and thus, higher MasterCard interchange. Total income increased by 5% compared to the previous quarter.

Card acquisition costs of 3 MEUR (sales and marketing, credit scoring, as well as the costs associated with issuing and sending out cards) increased by 20%, due to higher investments (marketing and sales costs) in client acquisition.

Card operating costs of 1.7 MEUR, which are all direct variable costs associated with operating the card and depositor portfolios, increased by 32% compared to the previous quarter. The increase is driven by a combination of higher volumes, and some seasonality. Staff costs of 1.8 MEUR increased by 4%. Other administrative expenses of 0.6 MEUR remained stable compared to Q1. Overall, operating expenses increased by 15%.

In all, total loan losses of 5,6 MEUR increased by 4% compared to Q1.

In Q2, Advanzia's pre-tax profits slightly declined by 4% to 5.6 MEUR compared to Q1 2013. The reduction is a consequence of expenses (including marketing and sales) increasing slightly more than income. The pre-tax-profit is still 62% higher than at the same period last year. The after tax result for the quarter was MEUR 4,0.

As a consequence of the capital distribution in May 2013, the subscribed capital was reduced during the quarter.

## Key indicators

	Actual 30.06.2013	Actual 31.03.2013	QoQ growth	Actual 30.06.2012	YoY growth
Proportion of non delinquent clients revolving (%)	54,3%	52,9%	3%	55,8%	-3%
Interest accrued on credit cards (%)	18,6%	18,6%	0%	18,4%	1%
Return on equity (%)	27,3%	27,7%	-1%	21,5%	27%
Capital adequacy ratio (%)	12,5%	15,3%	-18%	13,7%	-8%
Liquidity ratio (%)	40,6%	37,2%	9%	39,9%	2%
Net interest margin (all interest bearing assets)	10,6%	10,3%	2%	9,0%	17%
Net interest margin (credit cards)	17,0%	17,0%	0%	16,0%	6%
Loan loss rate (12 months trailing, credit cards)	4,8%	4,9%	0%	5,4%	-10%
Cost/Income (%)	39,3%	35,9%	9%	38,3%	3%
Cost/Income (%), excl. acquisition costs	23,3%	21,9%	7%	23,8%	-2%

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

The Q2 2013 capital ratio of 12.5% does, as per regulatory standards, not include the year-to-date profits. Had these profits been included, the capital ratio would have been 14.6%. The

ratio has lowered as a consequence of the capital distribution. Advanzia's regulatory capital consists of all Tier 1 capital. The loan loss rate is measured as 12 month trailing and therefore remained stable compared to the previous quarter.

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

## **Advanzia going forward**

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The current macroeconomic conditions continue to remain benign for Advanzia, although certain risks remain. The Bank will in Q3 therefore continue its current path of balancing profitability and growth. The Bank will also continue to assess the product launch of the French credit card, aiming to optimise various parts of the value chain.

Munsbach, Luxembourg

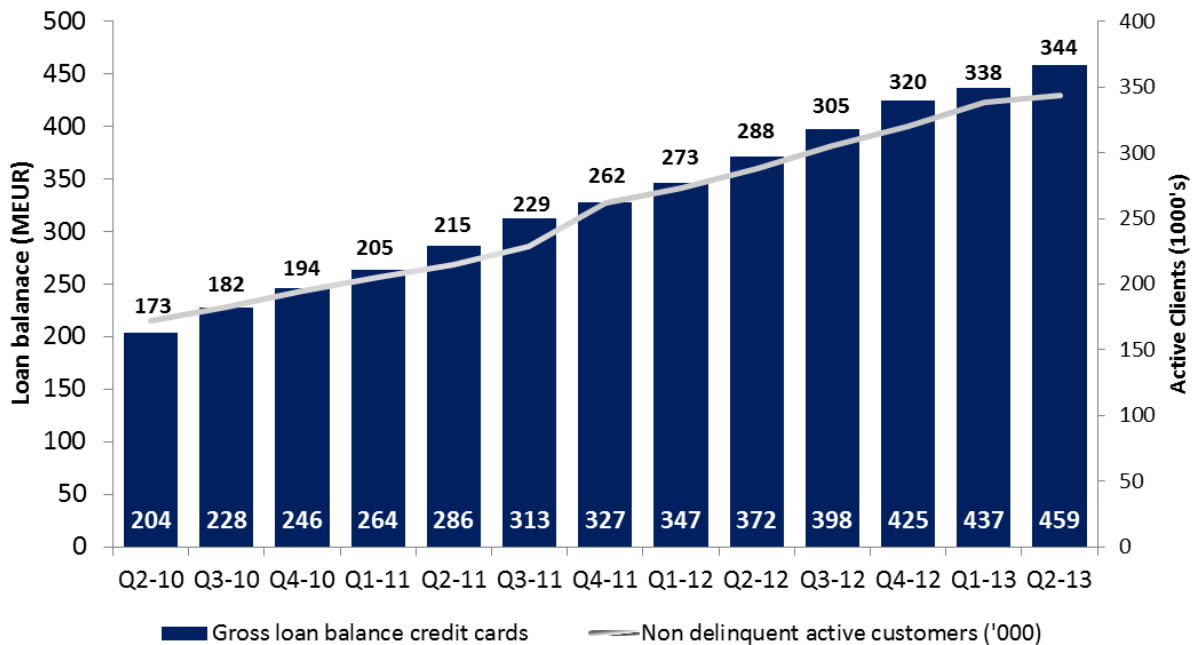
15.08.2013

Marc Hentgen  
Chief Executive Officer

Eirik Holtedahl  
Chief Financial Officer/  
Deputy Chief Executive Officer

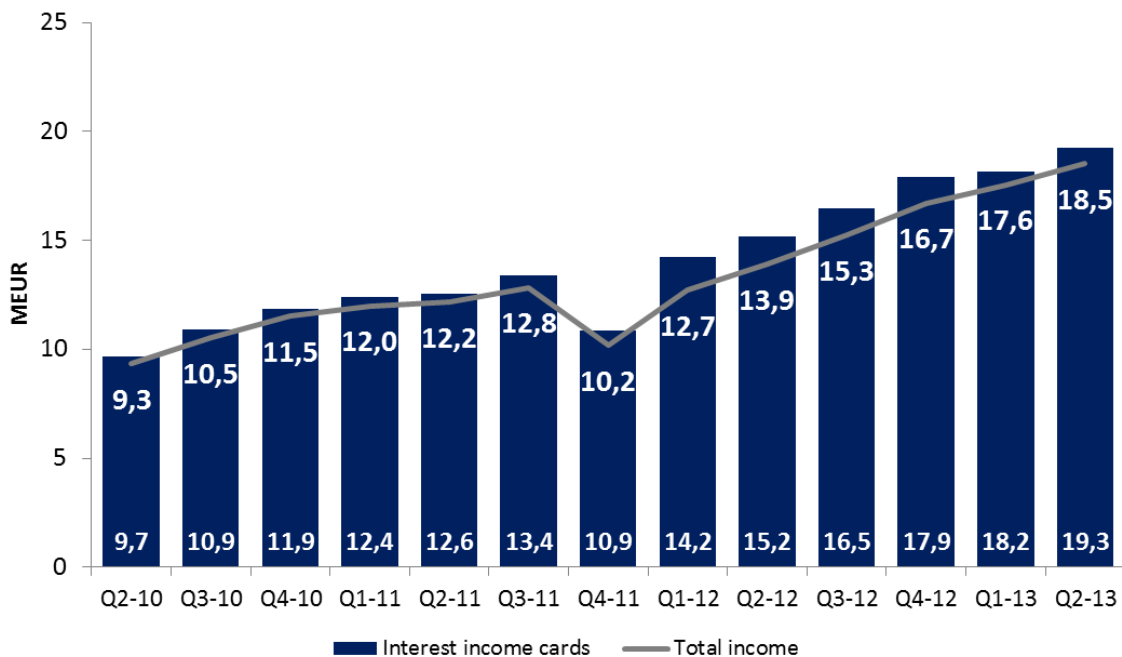
Appendix: Development of key performance indicators

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



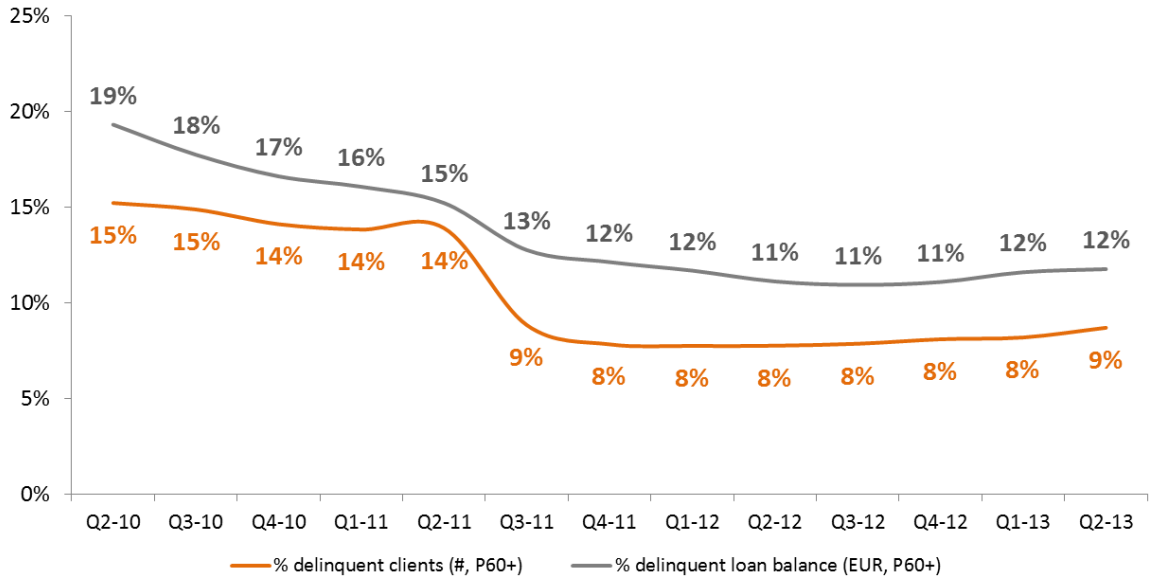
Please note that, due to a technical definition issue, the figure for the number of non-delinquent active customers in Q3-12 and Q4-12 have slightly changed.

### 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

