ADVANZIA
BANK

FINANCIAL REPORT

First Quarter 2020

The old Kistefos pulp mill from 1889 in the background

Yayoi Kusama, Shine of Life
Photo: Einar Aslaksen
Courtesy of Kistefos Museum

FINANCIAL REPORT
FIRST QUARTER 2020

Advanzia Bank S.A.

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Highlights for the first quarter 2020

- Gross credit card loan balance of MEUR 1 723, growth -0.1% QoQ and +13.7% YoY.
- 1 109 000 performing active[1] credit card clients, growth +0.6% QoQ and +14.6% YoY.
- 1 761 000 cards in force[2], growth +3.7% QoQ and +18.0% YoY.
- Card acquisition cost of MEUR 9.0, growth -4.7% QoQ and +6.2% YoY.
- Loan loss rate (provisions and write offs) of 4.9% (+0.2%-points QoQ and +0.4%-points YoY).
- Net profit of MEUR 18.9, -30.0% QoQ and +6.7% YoY.
- Annualised return on equity of 33.4% in Q1-20 vs. 36.5% in Q1-19.

Advanzia's performance remained strong in the first quarter of 2020 despite the COVID-19 pandemic. In light of the pandemic, Advanzia has prioritised employee health, operational stability and continued service excellence for its customers in all markets. The Bank has put in place a remote access solution to enable home offices.

Nevertheless, safety measures implemented by governments to contain the virus limited marketing opportunities and mainly resulted in reduced credit card transactions. As a consequence, the gross loan balance remained stable at MEUR 1 723 (-0,1% QoQ), and the performing active client base increased only slightly by 0.6% QoQ to 1.1 million clients. Still, compared to Q1 2019, Advanzia's credit card portfolio continued to grow both in terms of balance and clients by 13.7% and 14.6% respectively.

Total income of MEUR 73.3 increased by 1.0% QoQ and 22.4% YoY and is driven by continued growth of the revolving credit card balance operated at a lower cost of funding. Operating expenses amounted to MEUR 25.9 in Q1 and increased by 2.6% QoQ and 30.5% YoY, mainly as a result of business growth and because of additional amortisation and operational costs relating to the acquisition and migration of the Capitol portfolio. Total loan loss provisions of MEUR 22.3 increased 12.3% QoQ, driven by expected loan losses in Spain, which are typical for an immature portfolio, as well as increased fraud losses. As a consequence, the loan loss rate increased to 4.9% (+0.4% YoY), but would have been at 4.4%, and thus stable YoY (-0.1%-points), adjusted for the Spanish market entry. So far, the lockdown has had no noticeably impact on IFRS 9 provisions nor write-offs.

[1] Performing active credit card clients: Clients who either have a balance or have used the card during the latest month in the quarter and are not more than 3 payments past due and not in a collection process.
[2] Cards in force: The number of issued cards including active and inactive cards.

Net profit for Q1 2020 ended at MEUR 18.9, an increase of 6.7% YoY. In March 2020, the Bank distributed dividends of MEUR 26 from the 2019 financial results to its shareholders.

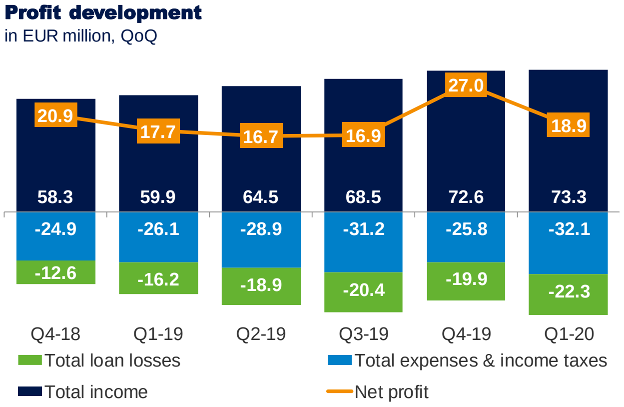

Figure 1: *Profit development[3].*

Growth metrics	**Performing active clients**	**Loans and advances to credit card clients**	**Net profit**
CAGR (2010 - LTM*)	20.7%	23.4%	31.6%
YTD 2020 vs. YTD 2019	14.6%	13.7%	6.7%

* Last twelve months

Table 1: *CAGR and YTD growth.*

Since the end of 2010, Advanzia has delivered a compound annual growth rate (CAGR) of 31.6% in net profit, 23.4% in loan balance and 20.7% in the number of performing active credit card clients.

Loan balance development

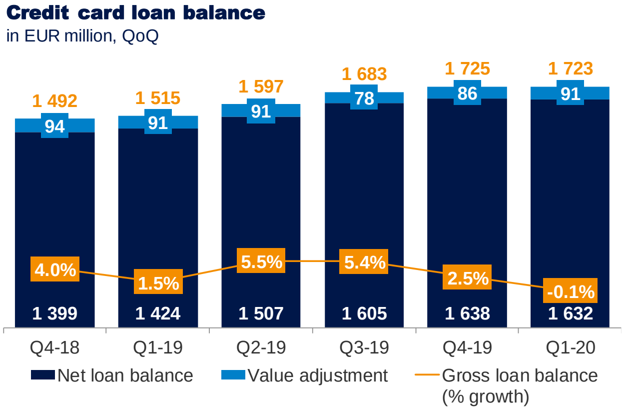

Figure 2*: Loan balance development.*

The first quarter of 2020 had a good start with 1.8% in gross credit card balance growth during the first two months. This growth was reversed during March to an overall slight decrease of -0.1% QoQ as the lockdown measures caused non-revolving clients to significantly reduce their card activities. Nevertheless, as the revolving part of the loan balance remained stable, interest income was not affected.

[3] Q4-18 and Q4-19 were positively affected by end of year specific items of MEUR 2.9. and MEUR 5.0 respectively.

Active clients/credit cards

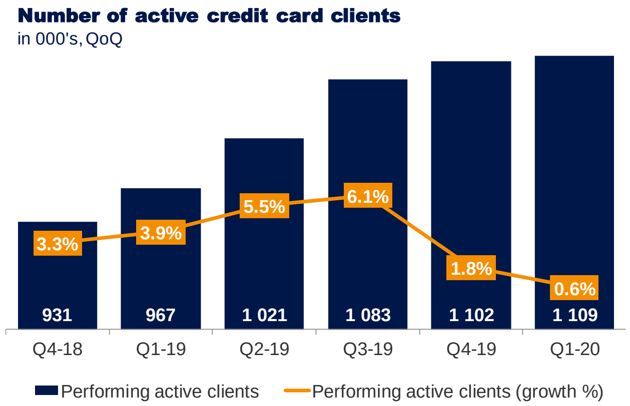

***Figure 3:** Credit card clients.*[4]

1 109 000 performing active clients represent a growth of 0.6% QoQ and 14.6% YoY. This slower growth is a result of the current safety measures imposed by governments, limiting the possibilities to perform transactions and by this causing a marked increase in client inactivity in the portfolio. At the same time, the Bank has not observed any noticeable increase in defaults yet.

Please note that the definition of an active performing client is that the client either has a balance or has used the card during the latest month in the quarter and is not more than 3 payments past due and not in a collection process.

Financial institutions – Professional Card Services (PCS)

Key Figures, PCS clients	Actual Q1-20	Actual Q4-19	QoQ growth	Actual Q1-19	YoY growth	Actual YTD-20	Actual YTD-19	YTD growth
Number of banks	89	88	*1.1%*	23	*287.0%*	89	23	*287.0%*
Total cards (opened)	16 370	16 774	*-2.4%*	2 053	*697.4%*	16 370	2 053	*697.4%*
Turnover (in EUR million)	107.7	135.4	*-20.5%*	10.7	*909.3%*	107.7	10.7	*909.3%*

The migration of the Capitol portfolio acquired in Q1 2019 was completed during Q1 2020. In March, the Bank signed one new partnership, increasing the total number of partner banks to 89.

The card turnover decreased by 20.5% QoQ due to travel restrictions and limited spending opportunities.

[4] Starting from Q1-19, the number of non-delinquent active clients are those that are classified as stage 1 and 2 as per IFRS 9. With less than 1% positive impact, the change in definition has a marginal effect.

Deposit accounts

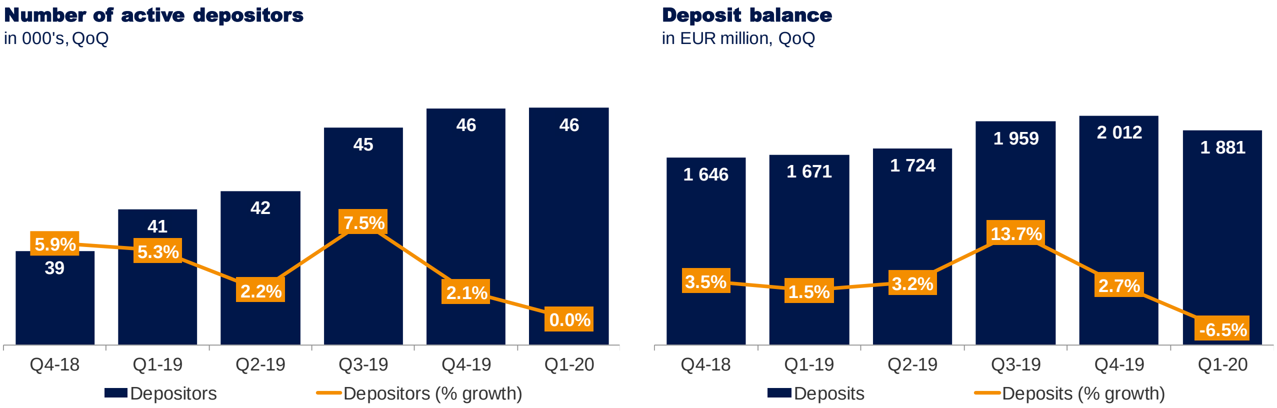

Figure 4: *Deposit statistics.*

Due to an environment of generally decreasing interest rates and the Bank having a strong liquidity position, the Bank decreased its standard rate from 0.4% to 0.3% effective p.a. in December 2019. This rate decrease and the expiration of former introductory campaigns at higher levels led to expected deposit outflows at the beginning of the year. However, additional but timely limited outflows were observed at the onset of the COVID-19 pandemic. Nevertheless, to ensure sufficient liquidity, the Bank started to offer a six-month introductory rate of 0.5% eff. p.a. for new clients from the end of March. Since then, deposit balances have grown steadily.

Board, management and staff

As of 31 March 2020, Advanzia Bank employed 186 full-time equivalent employees, up from 182 at the end of the previous quarter.

Shareholding

Kistefos AS, a Norwegian investment company owned by Christen Sveaas, is the largest shareholder with 60.3%. Other shareholders hold below 10% individually.

Financial statements

The unaudited accounts of Advanzia as at the end of the first quarter of 2020 are shown below. Advanzia Bank follows IFRS standards and the figures reflect Advanzia's actual business activities and operations.

Assets (EUR million)	Actual Q1-20	Actual Q4-19	QoQ growth	Actual Q1-19	YoY growth	Actual YTD-20	Actual YTD-19	YTD growth
Cash, balances with central banks	594.4	720.5	*-17.5%*	482.2	*23.3%*	594.4	482.2	*23.3%*
Loans and advances to credit institutions	98.9	102.3	*-3.3%*	76.7	*29.0%*	98.9	76.7	*29.0%*
Net loans and advances to PCS partner banks	35.3	45.5	*-22.5%*	5.3	*568.0%*	35.3	5.3	*568.0%*
Loans and advances to credit card clients	1 722.6	1 724.5	*-0.1%*	1 514.8	*13.7%*	1 722.6	1 514.8	*13.7%*
Value adjustments (losses)	-90.8	-86.5	*5.0%*	-91.2	*-0.5%*	-90.8	-91.2	*-0.5%*
Net loans and advances to credit card clients	1 631.8	1 638.0	*-0.4%*	1 423.6	*14.6%*	1 631.8	1 423.6	*14.6%*
Tangible and intangible assets	36.8	37.7	*-2.4%*	28.2	*30.7%*	36.8	28.2	*30.7%*
Other assets	11.1	9.8	*13.1%*	2.9	*283.3%*	11.1	2.9	*283.3%*
Total assets	**2 408.3**	**2 553.8**	***-5.7%***	**2 018.8**	***19.3%***	**2 408.3**	**2 018.8**	***19.3%***

Liabilities and equity (EUR million)	Actual Q1-20	Actual Q4-19	QoQ growth	Actual Q1-19	YoY growth	Actual YTD-20	Actual YTD-19	YTD growth
Amounts owed to credit institutions	232.0	225.4	*2.9%*	100.3	*131.2%*	232.0	100.3	*131.2%*
Amounts owed to customers	1 881.2	2 012.4	*-6.5%*	1 670.9	*12.6%*	1 881.2	1 670.9	*12.6%*
Other liabilities, accruals, provisions	36.9	46.0	*-19.6%*	44.9	*-17.8%*	36.9	44.9	*-17.8%*
Subordinated loan (AT1,T2)	32.4	33.6	*-3.6%*	8.8	*267.5%*	32.4	8.8	*267.5%*
Sum liabilities	**2 182.5**	**2 317.4**	***-5.8%***	**1 825.0**	***19.6%***	**2 182.5**	**1 825.0**	***19.6%***
Subscribed capital	27.4	27.4	*0.0%*	27.4	*0.0%*	27.4	27.4	*0.0%*
Other equity instruments	19.5	22.5	*-13.2%*	0.0	-	19.5	0.0	-
Reserves	21.7	16.8	*28.7%*	18.1	*19.6%*	21.7	18.1	*19.6%*
Profit (loss) brought forward	138.8	131.9	*5.2%*	130.6	*6.3%*	138.8	130.6	*6.3%*
AT1 bondholder distributions	-0.5	-0.5	*2.8%*	0.0	-	-0.5	0.0	-
Profit for the financial year (net of interim dividend)	18.9	38.2	*-50.6%*	17.7	*6.7%*	18.9	17.7	*6.7%*
Sum equity	**225.8**	**236.4**	***-4.5%***	**193.8**	***16.5%***	**225.8**	**193.8**	***16.5%***
Total liabilities and equity	**2 408.3**	**2 553.8**	***-5.7%***	**2 018.8**	***19.3%***	**2 408.3**	**2 018.8**	***19.3%***

Income statement (EUR million)	Actual Q1-20	Actual Q4-19	QoQ growth	Actual Q1-19	YoY growth	Actual YTD-20	Actual YTD-19	YTD growth
Interest receivable, credit cards	72.1	70.9	*1.7%*	60.6	*18.9%*	72.1	60.6	*18.9%*
Interest receivable (payable), others	-2.2	-2.0	*6.9%*	-0.9	*152.8%*	-2.2	-0.9	*152.8%*
Interest payable, deposits	-2.0	-2.6	*-23.0%*	-2.1	*-2.7%*	-2.0	-2.1	*-2.7%*
Net interest income	**67.9**	**66.2**	***2.5%***	**57.7**	***17.6%***	**67.9**	**57.7**	***17.6%***
Commission receivable	10.6	12.9	*-17.7%*	6.7	*57.8%*	10.6	6.7	*57.8%*
Commission payable	-5.3	-5.2	*1.0%*	-3.8	*37.3%*	-5.3	-3.8	*37.3%*
Other operating result	0.1	-1.3	*-107.5%*	-0.7	*-114.3%*	0.1	-0.7	*-114.3%*
Total income	**73.3**	**72.6**	***1.0%***	**59.9**	***22.4%***	**73.3**	**59.9**	***22.4%***
Card acquisition costs	-9.0	-9.5	*-4.7%*	-8.5	*6.2%*	-9.0	-8.5	*6.2%*
Card operating costs	-7.5	-6.7	*11.7%*	-5.1	*45.7%*	-7.5	-5.1	*45.7%*
Staff costs	-4.4	-4.6	*-3.8%*	-3.8	*16.6%*	-4.4	-3.8	*16.6%*
Other administrative expenses	-2.9	-3.7	*-23.2%*	-1.4	*109.3%*	-2.9	-1.4	*109.3%*
Depreciation, tangible + intangible assets	-2.1	-0.7	*185.9%*	-1.0	*100.4%*	-2.1	-1.0	*100.4%*
Sum operating expenses	**-25.9**	**-25.2**	***2.6%***	**-19.8**	***30.5%***	**-25.9**	**-19.8**	***30.5%***
Value adjustments	-4.3	-8.1	*-47.0%*	2.3	*-284.8%*	-4.3	2.3	*-284.8%*
Write-offs	-18.0	-11.7	*53.3%*	-18.5	*-2.7%*	-18.0	-18.5	*-2.7%*
Total loan losses	**-22.3**	**-19.9**	***12.3%***	**-16.2**	***37.9%***	**-22.3**	**-16.2**	***37.9%***
			-		-			-
Profit (loss) on ordinary activities before taxes	25.1	27.5	*-8.6%*	23.9	*5.2%*	25.1	23.9	*5.2%*
Income tax and net worth tax	-6.3	-0.6	*1031.1%*	-6.2	*0.8%*	-6.3	-6.2	*0.8%*
Profit (loss) for the period	**18.9**	**27.0**	***-30.0%***	**17.7**	***6.7%***	**18.9**	**17.7**	***6.7%***

Table 2: *Unaudited accounts as at 31 March 2020 (in EUR million).*

Comments on the accounts

During the first quarter of 2020, the net credit card loan balance decreased by MEUR 6.2 or 0.4%, to MEUR 1 632, primarily driven by reduced spending activity of non-revolving clients in Germany. The deposit balance decreased by 6.5% due to the reduction of the standard interest rate, the expiration of previous campaigns as well as some withdrawals linked to the pandemic.

Total income grew by 1.0% QoQ and reached MEUR 73.3. This was mainly due to a 2.5% QoQ increase of the net interest income driven by higher interest income and lower funding cost. Operating expenses of MEUR 25.9 increased by 2.6% QoQ, mainly driven by the additional amortisation cost from the second tranche of the acquisition price paid in March for the Capitol portfolio.

Total loan losses of MEUR 22.3 increased by 12.3% QoQ. The losses were influenced by higher fraud losses (MEUR 1.5) as well as increased loan losses in Spain during the first quarter.

Advanzia's net profit of MEUR 18.9 increased by 6.7% compared to the first quarter of 2019.

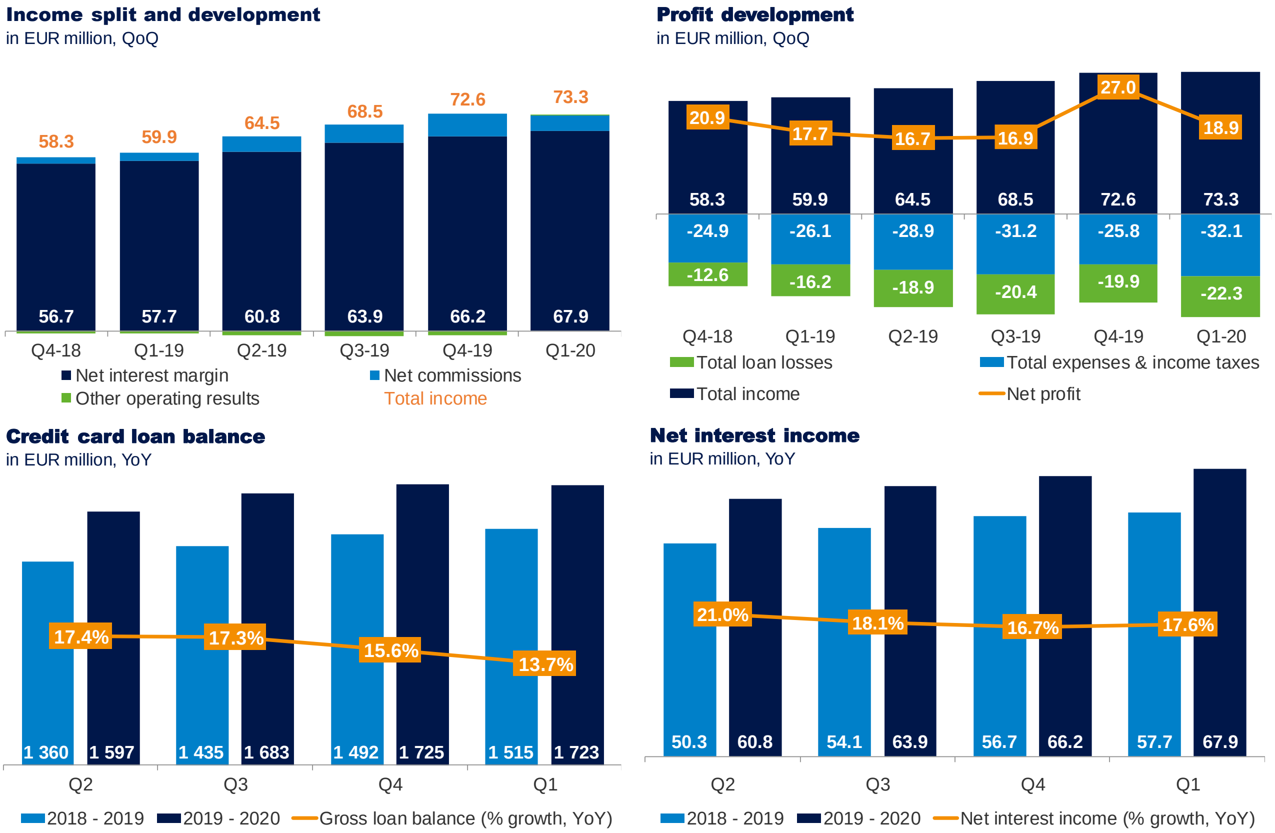

Figure 5: Income, profit, loan balance and net interest margin development[5].

[5]Q4-18, Q4-19 were positively affected by end of year specific items of MEUR 2.9 and MEUR 5.0 respectively.

Key performance indicators (KPIs)

In Q1 2020, yield and net interest margin increased both by 10 bps QoQ as result of growth in interest income, lower funding costs and a decreased non-interest bearing loan balance due to lower card activities from non-revolving clients. The loan loss rate increased by 20 bps, mainly driven by the relatively higher loss provisions in Spain, an immature market, and the increased fraud losses incurred during Q1.

Solvency ratios in Q1 were affected by the yearly adjustment of the capital requirements in terms of operational risk as well as the gradual phase-out of the IFRS 9 transitional arrangements. The Annual General Meeting was held in March impacting the capital ratios including interim profit. Retention of the remaining 2019 profits of MEUR 11.7 improved both ratios excluding interim profit. Due to the lower deposited volumes, the LCR decreased, but at 141% the Bank remains sufficiently funded.

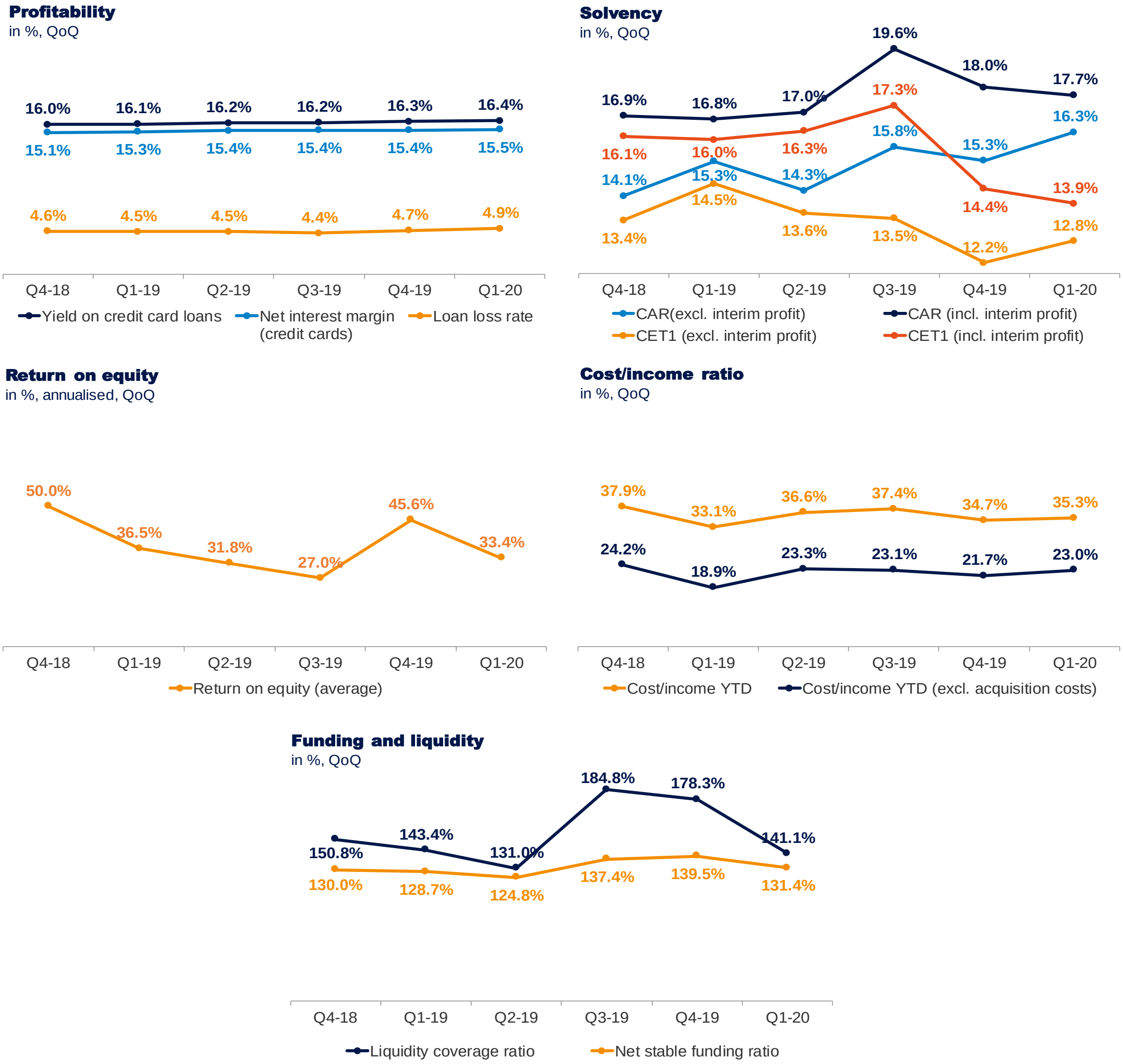

Figure 6: *Key performance indicators[6] – Please note that the net interest margin and the yield calculation methods have been changed from a compound approach to a weighted average approach, based on the components' values on the last 12 months. Historical figures have been adjusted accordingly.*

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[6]CET1 - Common Equity Tier 1, CAR - Capital Adequacy Ratio, consisting of CET1 + additional Tier 1 and Tier 2 capital.

Initial impact of COVID-19

In light of the current coronavirus pandemic, Advanzia has prioritised employee health, operational stability and continued service excellence for its customers in all markets. The Bank has put in place a remote access solution to enable home offices.

The impending economic downturn and especially the lock down of societies will have an impact on card transaction volumes, as well as customer behaviour throughout 2020 and beyond. In order to adequately manage risk and ensure business continuity, the Bank is closely monitoring the macroeconomic indicators and will continue to adapt its marketing strategy and credit risk models.

During Q1 2020, Advanzia has experienced a 0.4% reduction in its net loans and advances to credit card clients. Repayment timeliness on outstanding balances remained consistent with previously observed patterns, thus no change in credit quality has been observed as per today (mid-May 2020).

Outlook

While various European countries have started to ease restrictions, the resulting economic impact will be longer lasting, especially for sectors such as travel and food/hospitality. While the severity and length of such a crisis cannot at present be reliably assessed, the consensus among forecasting institutes in Germany, by far Advanzia’s most important market, indicates an increase in unemployment from around 3.2% before the pandemic to 3.5% - 4.2% thereafter. The increased fraud losses mentioned above have per mid-April been contained.

Despite these uncertainties, Advanzia's roadmap for 2020 strives for a continuation of its digital transformation journey, with a focus on mobile payment solutions and the redesign of the omni-channel customer experience at the forefront of its strategic priorities. In this context, Advanzia launched Google Pay in Germany in April 2020.

The Bank’s financial situation is solid, with carefully managed operating costs and conservative loan loss provisions. Management is closely monitoring the social and economic consequences of COVID-19 and remains prepared to take measures if deemed appropriate.

Munsbach, Luxembourg

15.05.2020

Patrick Thilges Chief Financial Officer	Roland Ludwig Chief Executive Officer

Marc Manders, 15648
Photo: Einar Aslaksen
Courtesy of Kistefos Museum

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