



**ADVANZIA
BANK**

FINANCIAL REPORT
Second Quarter 2020



The Twist at the Kistefos Museum

Photo: H el ene Benet

Courtesy of Kistefos Museum

FINANCIAL REPORT

SECOND QUARTER 2020

Avanzia Bank S.A.



The fabulous new building at the Kistefos Museum – privately owned, initiated and founded by Mr. Christen Sveaas and his companies. Despite or perhaps because of COVID-19 related travel restrictions during the summer, the Kistefos Museum experienced an eight fold increase this year in the number of visitors, surpassing a total of 100 000 visitors in 2020 on the 11th of August.

Avanzia Bank S.A.

Highlights for the second quarter 2020

- Gross credit card loan balance of MEUR 1 746, growth +1.4% QoQ and +9.3% YoY.
- 1 113 000 performing active clients, growth +0.4% QoQ and +9.0% YoY.
- 1 816 000 cards in force¹, growth +3.1% QoQ and +14.9% YoY.
- Card acquisition cost of MEUR 8.7, growth -3.1% QoQ and +1.4% YoY.
- Loan loss provision rate (provisions and write offs) of 4.5% (-0.4%-points QoQ and +0.0%-points YoY).
- Net profit of MEUR 26.0, +37.8% QoQ and +55.5% YoY.
- Annualised return on equity of 41.2% in Q2-20 vs. 31.8% in Q2-19.

During the second quarter of 2020, employee health, operational stability and continued service excellence in all markets remained the most important priorities for the Bank. Advanzia's business model has demonstrated strong resilience during the COVID-19 pandemic and its unprecedented challenges, with no significant negative developments in credit quality nor capital adequacy ratios up to date.

Advanzia understands, respects and appreciates its role and responsibility as a solid provider of liquidity to its more than one million customers in a time when many consumers need it the most, and remains committed to growth and increased lending to creditworthy consumers. Supporting all current customers and applicants remains one of the Bank's top priorities. Advanzia has not made any significant changes to its scoring models but adjusted some acceptance criteria in France and Spain since the pandemic emerged.

The confinement measures implemented by governments between March and April strongly limited customers' spending possibilities and thus had a negative impact on private consumption, credit card transactions and loan balance growth. As of May, the situation started to stabilise in Europe, resulting in governments repealing certain confinement measures and presenting road maps for further relaxations. This had a positive impact on transaction volume, as evidenced by a slight increase in gross loan balance of 1.4% QoQ and a slight increase in the performing active client base of 0.4% QoQ. Compared to Q2 2019, Advanzia's credit card portfolio grew by 9.3% in terms of balances and by 9.0% in terms of active clients.

Total income of MEUR 70.2 decreased by 4.3% QoQ (but still increased 8.7% YoY), mainly driven by lower net interest and commission income due to reduced transaction volume, following the confinement measures noted above. Operating expenses amounted to MEUR 25.9 in Q2 and remained stable QoQ.

Total loan loss provisions of MEUR 15.1 decreased 32.1% QoQ, driven by volatile loan balance levels observed during the second quarter. This amount also includes a precautionary provisioning of MEUR 2.5 to account for a potential impact of the COVID-19 crisis in the coming quarters. The loan loss provision rate decreased to 4.5% from 4.9% in Q1 and is stable when compared to the same period of last year.

In June, the Bank repaid an AT1 instrument issued in 2015 of MNOK 85.

Earnings before tax of MEUR 29.1 increased by 15.7% QoQ and 32.6% compared to Q2 2019, while net profit ended at MEUR 26.0, an increase of 37.8% QoQ and 55.5% compared to Q2 2019.

¹ Cards in force: The number of issued cards including active and inactive cards.

Profit development

in EUR million, QoQ

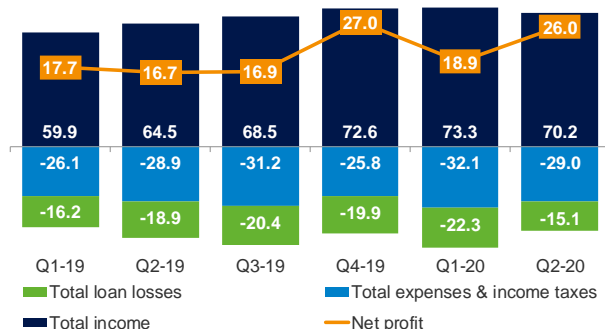


Figure 1: Profit development².

Growth metrics	Performing active clients	Loans and advances to credit card clients	Net profit
CAGR (2010 - LTM*)	20.2%	22.9%	32.2%
YTD 2020 vs. YTD 2019	9.0%	9.3%	30.4%

* Last twelve months

Table 1: CAGR and YTD growth.

Since the end of 2010, Advanzia has delivered a compound annual growth rate (CAGR) of 32.2% in net profit, 22.9% in loan balance and 20.2% in the number of performing active credit card clients.

Loan balance development

Credit card loan balance

in EUR million, QoQ

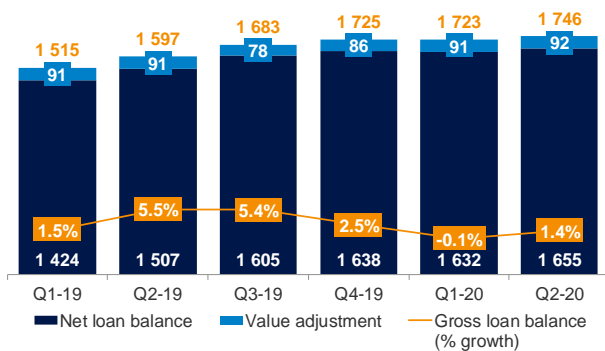


Figure 2: Loan balance development.

The beginning of the second quarter of 2020 was negatively affected by the governmental confinement measures, which forced predominantly non-revolving clients to significantly reduce their card spending. Since the end of May, thanks to the improvement and control of the COVID-19 situation and the ensuing lifting of restrictions, the loan balance resumed its growth and ended with an increase of 1.4% QoQ.

² Q4-19 and Q2-20 were positively affected by investment transactions of MEUR 5.0 and MEUR 4.2 respectively.

Active clients/credit cards

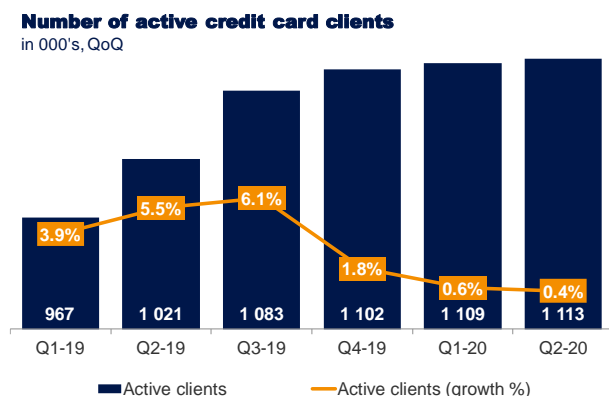


Figure 3: Credit card clients.³

As of Q2, the Bank had 1 113 000 active clients, representing a growth of 0.4% QoQ and 9.0% YoY. Similar to the loan balance development, this slower growth in active clients is a result of the confinement measures imposed by governments, which have limited the possibilities to perform transactions. This mainly reflects the mechanics of Advanzia's strict definition of an active client (see footnote 3). Towards the end of the quarter, the Bank observed a reversal of this trend.

Financial institutions – Professional Card Services (PCS)

Key Figures, PCS clients	Actual Q2-20	Actual Q1-20	QoQ growth	Actual Q2-19	YoY growth	Actual YTD-20	Actual YTD-19	YTD growth
Number of banks	89	89	0.0%	88	1.1%	89	88	1.1%
Total cards (opened)	16 696	16 370	2.0%	16 732	-0.2%	16 696	16 732	-0.2%
Turnover (in EUR million)	55.5	107.7	-48.4%	131.1	-57.6%	163.3	141.8	15.1%

Table 2: PCS key figures.

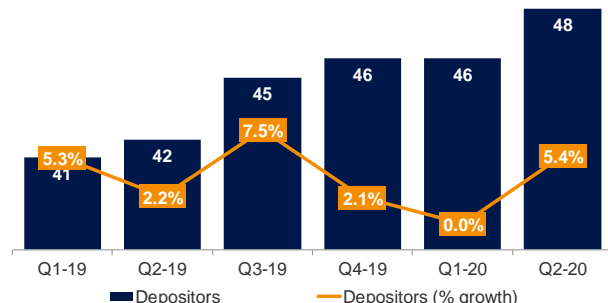
In the PCS business, the Bank experienced a decrease in card turnover of 48.4% QoQ due to confinement measures (incl. travel restrictions, closing of restaurants and bars etc.) that heavily affected card activity in April. Nevertheless, since May, card turnover has started growing again, reaching 61% of the pre-pandemic level in June (when compared to the average observed during January and February).

³ The definition of an active client is a client that 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.

Deposit account

Number of active depositors

in 000's, QoQ



Deposit balance

in EUR million, QoQ

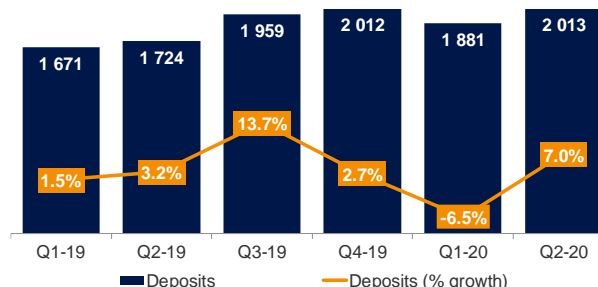


Figure 4: Deposit statistics.

Since the introduction of the six-month introductory rate of 0.5% eff. p.a. for new clients at the end of Q1 2020, deposit balances have grown significantly. Therefore, in an environment with broadly decreasing interest rates, in combination with the Bank's strong liquidity position, Advanzia decreased its standard rate from 0.30% to 0.25% effective p.a. in June 2020.

Board, management and staff

As of 30 June 2020, Advanzia Bank employed 191 full-time equivalent employees, up from 186 at the end of the previous quarter.

Shareholding

Kistefos AS, a Norwegian investment company owned by Mr. 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 second 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 Q2-20	Actual Q1-20	QoQ growth	Actual Q2-19	YoY growth	Actual YTD-20	Actual YTD-19	YTD growth
Cash, balances with central banks	710.5	594.4	19.5%	401.8	76.9%	710.5	401.8	76.9%
Loans and advances to credit institutions	105.6	98.9	6.8%	110.4	-4.4%	105.6	110.4	-4.4%
Net loans and advances to PCS partner banks	31.9	35.3	-9.5%	41.6	-23.3%	31.9	41.6	-23.3%
Loans and advances to credit card clients	1 746.5	1 722.6	1.4%	1 597.5	9.3%	1 746.5	1 597.5	9.3%
Value adjustments (losses)	-91.6	-90.8	0.9%	-90.6	1.1%	-91.6	-90.6	1.1%
Net loans and advances to credit card clients	1 654.9	1 631.8	1.4%	1 506.9	9.8%	1 654.9	1 506.9	9.8%
Tangible and intangible assets	34.3	36.8	-6.8%	27.6	24.3%	34.3	27.6	24.3%
Other assets	9.6	11.1	-13.6%	3.9	146.4%	9.6	3.9	146.4%
Total assets	2 546.9	2 408.3	5.8%	2 092.2	21.7%	2 546.9	2 092.2	21.7%

Liabilities and equity (EUR million)	Actual Q2-20	Actual Q1-20	QoQ growth	Actual Q2-19	YoY growth	Actual YTD-20	Actual YTD-19	YTD growth
Amounts owed to credit institutions	220.3	232.0	-5.0%	96.5	128.3%	220.3	96.5	128.3%
Amounts owed to customers	2 012.8	1 881.2	7.0%	1 723.6	16.8%	2 012.8	1 723.6	16.8%
Other liabilities, accruals, provisions	36.3	36.9	-1.6%	52.7	-31.0%	36.3	52.7	-31.0%
Subordinated loan (AT1,T2)	25.0	32.4	-22.9%	8.8	185.2%	25.0	8.8	185.2%
Sum liabilities	2 294.5	2 182.5	5.1%	1 881.6	21.9%	2 294.5	1 881.6	21.9%
Subscribed capital	27.4	27.4	0.0%	27.4	0.0%	27.4	27.4	0.0%
Other equity instruments	20.6	19.5	5.5%	0.0	-	20.6	0.0	-
Reserves	21.7	21.7	0.0%	16.8	28.7%	21.7	16.8	28.7%
Profit (loss) brought forward	138.8	138.8	0.0%	131.9	5.2%	138.8	131.9	5.2%
AT1 bondholder distributions	-1.0	-0.5	88.4%	0.0	-	-1.0	0.0	-
Profit for the financial year	44.9	18.9	137.8%	34.4	30.4%	44.9	34.4	30.4%
Sum equity	252.4	225.8	11.8%	210.6	19.9%	252.4	210.6	19.9%
Total liabilities and equity	2 546.9	2 408.3	5.8%	2 092.2	21.7%	2 546.9	2 092.2	21.7%

Income statement (EUR million)	Actual Q2-20	Actual Q1-20	QoQ growth	Actual Q2-19	YoY growth	Actual YTD-20	Actual YTD-19	YTD growth
Interest receivable, credit cards	70.7	72.1	-1.9%	63.7	11.0%	142.8	124.3	14.8%
Interest receivable (payable), others	-2.3	-2.2	3.9%	-0.8	183.7%	-4.5	-1.7	167.7%
Interest payable, deposits	-1.8	-2.0	-10.0%	-2.0	-10.9%	-3.8	-4.1	-6.8%
Net interest income	66.6	67.9	-1.9%	60.8	9.5%	134.5	118.6	13.4%
Commission receivable	8.9	10.6	-16.7%	10.0	-11.8%	19.5	16.8	16.2%
Commission payable	-3.6	-5.3	-32.7%	-4.9	-27.0%	-8.8	-8.7	1.4%
Other operating result	-1.8	0.1	-1900.1%	-1.5	18.8%	-1.7	-2.2	-23.2%
Total income	70.2	73.3	-4.3%	64.5	8.7%	143.5	124.5	15.3%
Card acquisition costs	-8.7	-9.0	-3.1%	-8.6	1.4%	-17.7	-17.1	3.8%
Card operating costs	-7.6	-7.5	1.2%	-6.2	22.6%	-15.1	-11.3	33.1%
Staff costs	-4.8	-4.4	8.0%	-4.7	2.4%	-9.2	-8.5	8.8%
Other administrative expenses	-2.8	-2.9	-2.8%	-2.7	3.4%	-5.6	-4.0	39.1%
Depreciation, tangible + intangible assets	-2.0	-2.1	-1.9%	-1.5	36.9%	-4.1	-2.5	63.0%
Sum operating expenses	-25.9	-25.9	0.2%	-23.7	9.6%	-51.8	-43.5	19.1%
Value adjustments	-0.8	-4.3	-81.5%	0.6	-235.6%	-5.1	2.9	-274.9%
Write-offs	-14.3	-18.0	-20.3%	-19.5	-26.5%	-32.4	-38.0	-14.9%
Total loan losses	-15.1	-22.3	-32.1%	-18.9	-20.1%	-37.4	-35.1	6.6%
Profit (loss) on ordinary activities before taxes	29.1	25.1	15.7%	21.9	32.6%	54.2	45.9	18.3%
Income tax and net worth tax	-3.1	-6.3	-50.8%	-5.2	-40.8%	-9.4	-11.4	-18.2%
Profit (loss) for the period	26.0	18.9	37.8%	16.7	55.5%	44.9	34.4	30.4%

Table 3: Unaudited accounts as at 30 June 2020 (in EUR million).

Comments on the accounts

During Q2 2020, the net credit card loan balance increased by MEUR 23.1 (1.4% QoQ) to MEUR 1 655, primarily driven by the resumed spending activity of non-revolving clients in all markets towards the end of the quarter. The deposit balance increased by 7.0% following the introduction of the new six-month introductory rate of 0.5% eff. p.a. for new clients.

Total income decreased by 4.3% QoQ and reached MEUR 70.2. This was mainly due to lower interest income and commission receivable because of lower client activity during the first two months of the quarter. Operating expenses of MEUR 25.9 remained stable QoQ.

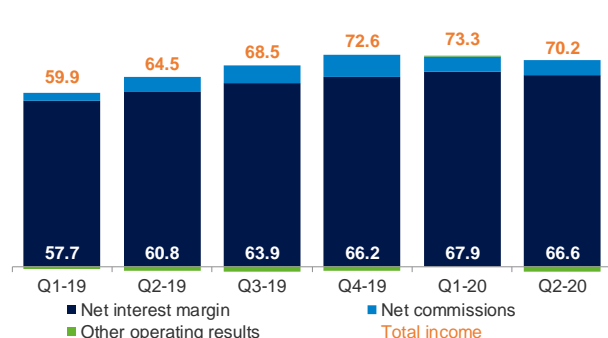
Total loan loss provisions of MEUR 15.1 decreased by 32.1% QoQ and were influenced by the reduced loan balance growth during the second quarter. The loan loss provisions include an extraordinary provision of MEUR 2.5 as a prudent measure to account for any additional potential impacts of the COVID-19 situation in the coming quarters.

Avanzia's net profit of MEUR 26.0 increased by 55.5% compared to Q2 2019 and 37.8% compared to Q1 2020. Avanzia's earnings before tax of MEUR 29.1 increased by 32.6% compared to Q2 2019 and 15.7% compared to Q1 2020. All figures includes the extraordinary prudent provision related to COVID-19 mentioned above.

After a running period of almost two years, the Bank performed its last forward-flow of non-performing loans in the German market in June. The agreement came to an end as the total amount of sold receivables reached the maximum level defined in the contract. This will have limited impact on the Bank's future results.

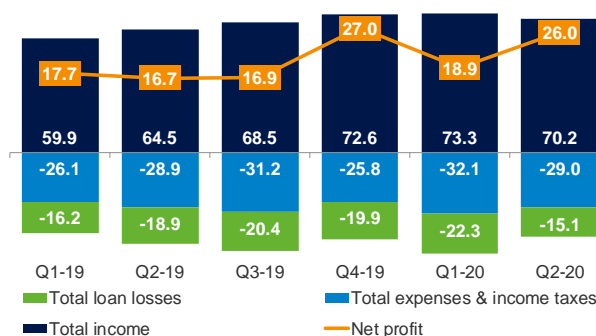
Income split and development

in EUR million, QoQ



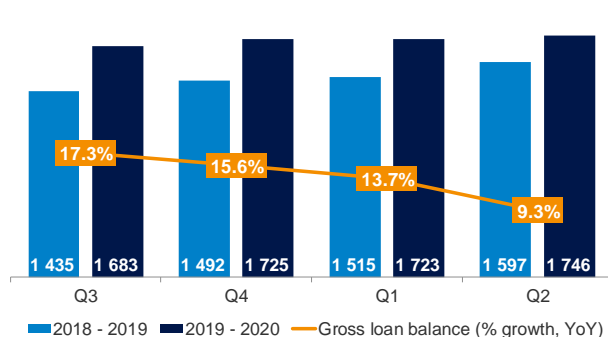
Profit development

in EUR million, QoQ



Credit card loan balance

in EUR million, YoY



Net interest income

in EUR million, YoY

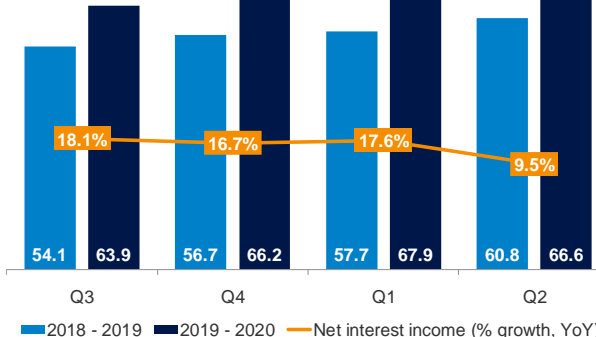


Figure 5: Income, profit, loan balance and net interest margin development⁴.

⁴Q4-19 and Q2-20 were positively affected by year specific items of MEUR 5.0 and MEUR 4.2 respectively.

Key performance indicators (KPIs)

In Q2 2020, the yield increased by 10 bps QoQ but due to higher funding costs resulting from increased deposited volumes, the net interest margin remained stable at 15.5%. The loan loss provision rate decreased strongly by 40 bps. The cost-income ratios increased, due to lower income while costs remained stable compared to the last quarter.

The Bank maintains high solvency with a capital adequacy ratio (incl. interim profits) of 19.0%, while liquidity levels are comfortable with a LCR of 164.7% due to higher deposited volumes. The call of the MNOK 85 AT1 bond had an impact of 21 bps on the capital adequacy ratio.

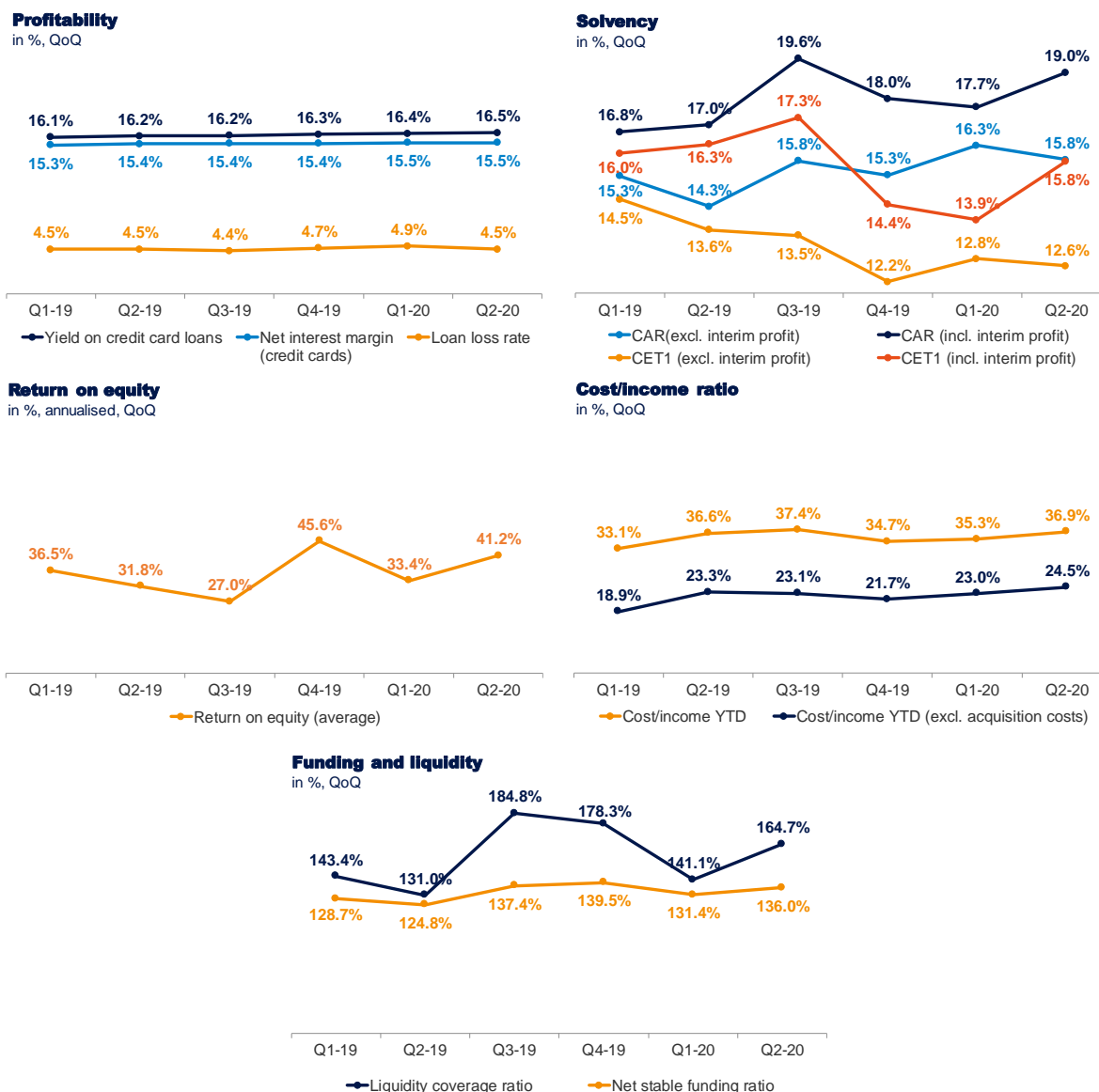


Figure 6: Key performance indicators⁵.

⁵CET1 - Common Equity Tier 1, CAR - Capital Adequacy Ratio, consisting of CET1 + additional Tier 1 and Tier 2 capital.

Impact of COVID-19

Avanzia continues to prioritize employee health, operational stability and service excellence for its customers in all markets. Home office solutions are available for all employees and office presence is reduced. To adequately manage risk and ensure business continuity, the Bank is closely monitoring the macroeconomic indicators and will continue to adapt its credit risk strategy and related contingency planning accordingly.

During Q2 Avanzia experienced the effects of the confinement measures, but has shown resilience with the loan balance returning to growth by the end of June, following the improvement in retail sales and consumer sentiment in Germany. Even during Q2 2020, at the onset of the COVID-19 pandemic, the credit quality of the German portfolio improved with a further reduction in new default volumes. The credit quality of the other portfolios remained stable.

Outlook

While European countries are implementing measures to limit the effect of the confinement on their economies, the scale of the COVID-19 impact remains uncertain and difficult to quantify. Some businesses are facing a challenging reality, defined by shifting consumer preferences and expectations, as well as new public health concerns and approaches. In Germany, Avanzia's most important market, business and consumer sentiment has remained persistent which has driven a strong comeback in retail sales. However there is still uncertainty regarding the medium to long term impact of the pandemic and the related confinement measures. Currently, the Bank's forecast indicates a slight increase in defaults, but with limited magnitude and thus low impact on the business development and retained profitability of the Bank.

Management expect a solid development in the Bank's results, unless a significant unforeseen worsening of the COVID-19 situation and the related confinement measures takes place. The Bank remains solid and well capitalized.

Munsbach, Luxembourg

14.08.2020

Patrick Thilges
Chief Financial Officer

Roland Ludwig
Chief Executive Officer



The Twist at the Kistefos Museum

Photo: H el ene Binet

Courtesy of Kistefos Museum



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