



**ADVANZIA
BANK**

FINANCIAL REPORT
Third Quarter 2020



Tony Cragg, *Castor & Pollux*, 2017

Kistefos Museum, Norway

Courtesy of the Kistefos Museum. Photo: Frédéric Boudin

FINANCIAL REPORT THIRD QUARTER 2020

Avanzia Bank S.A.

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Highlights for the third quarter 2020

- Gross credit card loan balance of MEUR 1 845, growth +5.6% QoQ and +9.6% YoY.
- 1 161 000 performing active clients, growth +4.4% QoQ and +7.2% YoY.
- 1 876 000 cards in force¹, growth +3.3% QoQ and +12.2% YoY.
- Card acquisition cost of MEUR 8.9, growth +2.3% QoQ and -8.9% YoY.
- Loan loss rate (provisions and write-offs) of 4.1% (-0.4%-points QoQ and -0.3%-points YoY).
- Net profit of MEUR 26.6, +2.1% QoQ and +57.4% YoY.
- Annualised return on equity of 39.3% in Q3-20 vs. 27.0% in Q3-19.

During the third quarter of 2020, the Bank continued to prioritise employee health, operational stability and continued service excellence in all markets. During the COVID-19 pandemic, Advanzia's business model has continued to demonstrate strong resilience, with no significant negative developments in credit quality nor capital adequacy ratios to date.

The improvement of the COVID-19 pandemic continued throughout Q3. During the summer season, customers increased spending which resulted in higher transaction volumes. The gross loan balance consequently increased by 5.6% QoQ and the performing active client base by 4.4% QoQ. Compared to Q3 2019, Advanzia's credit card portfolio grew by 9.6% in terms of balances and by 7.2% in terms of active clients. However, at the time of publication of this report, a second wave of COVID-19 cases is now surging across Europe. This has led to continued uncertainty which is further described in the outlook section.

Total income of MEUR 75.6 increased by 7.8% QoQ and 10.3% YoY, mainly driven by higher net interest and commission income due to increased transaction volumes. Operating expenses amounted to MEUR 26.0 in Q3 and remained stable both QoQ and YoY.

Total loan loss provisions of MEUR 14.3 decreased 5.8% QoQ. The loan loss rate decreased by 0.4%-points QoQ and 0.3%-points YoY, and ended at 4.1% in Q3. The decrease QoQ was mainly driven by an extraordinary precautionary provision of MEUR 2.5 in Q2 2020 related to the potential impact of COVID-19 in the upcoming quarters. This extraordinary provision is still fully reflected in the value adjustments as of Q3 2020.

Earnings before tax of MEUR 35.4 increased by 21.6% QoQ and 57.4% compared to Q3 2019, while net profit ended at MEUR 26.6, an increase of 2.1% QoQ and 57.4% compared to Q3 2019. The large difference between the growth in earnings before tax and net profit is due to investment-related transactions that normally take place in the last quarter of each year but partly took place in Q2 this year.

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

Profit development

in EUR million, QoQ

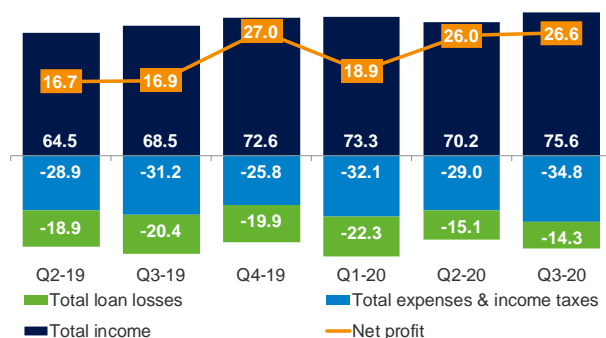


Figure 1: Profit development².

| Growth metrics | Performing active clients | Loans and advances to credit card clients | Net profit |
|-----------------------|---------------------------|-------------------------------------------|------------|
| CAGR (2010 - LTM*) | 20.1% | 23.0% | 32.6% |
| YTD 2020 vs. YTD 2019 | 7.2% | 9.6% | 39.3% |

* Last twelve months

Table 1: CAGR and YTD growth.

Since the end of 2010, Advanzia has delivered a compound annual growth rate (CAGR) of 32.6% in net profit, 23.0% in loan balance and 20.1% in the number of performing active credit card clients.

Loan balance development

Credit card loan balance

in EUR million, QoQ

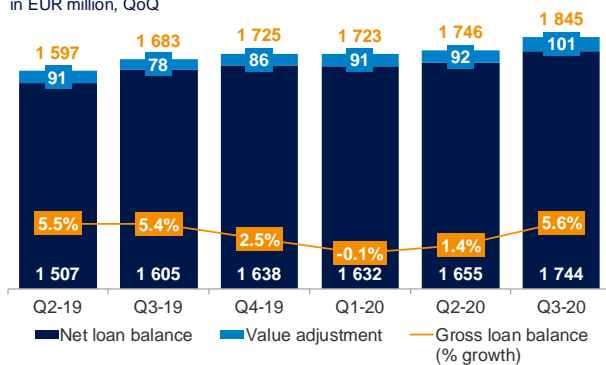


Figure 2: Loan balance development.

In the third quarter of 2020, loan balance grew by 5.6% QoQ due to the improved COVID-19 situation and the ensuing increased card activity during the summer season.

In Q3, the forward flow agreement to sell German non-performing loans ended. This explains the increase in the value adjustment amounts in Q3.

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

Active clients/credit cards

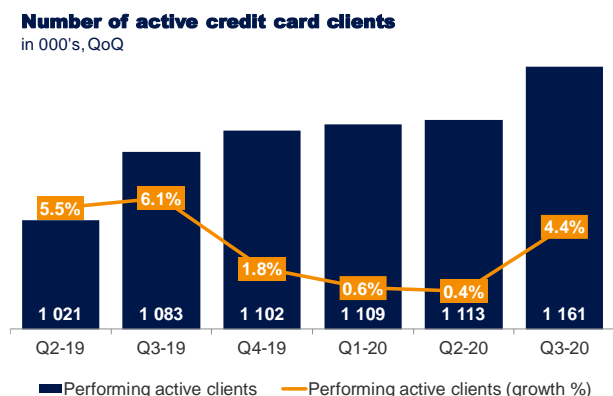


Figure 3: Credit card clients.

In Q3, Advanzia resumed growth in all markets. As of Q3 2020, the Bank had 1 161 000 active clients, which is 4.4 % higher than in the previous quarter. The resumed growth reflects the general improvements in the COVID-19 situation.

Financial institutions – Professional Card Services (PCS)

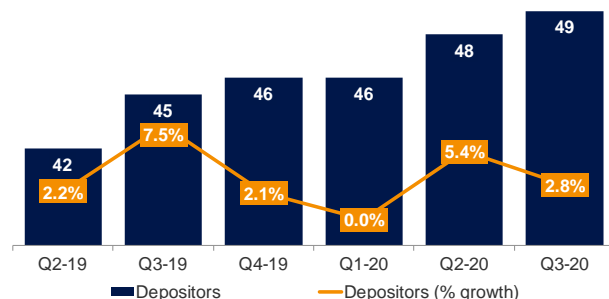
| Key Figures, PCS clients | Actual Q3-20 | Actual Q2-20 | QoQ growth | Actual Q3-19 | YoY growth | Actual YTD-20 | Actual YTD-19 | YTD growth |
|---------------------------|--------------|--------------|------------|--------------|------------|---------------|---------------|------------|
| Number of banks | 89 | 89 | 0.0% | 88 | 1.1% | 89 | 88 | 1.1% |
| Total cards (opened) | 16 691 | 16 696 | 0.0% | 16 733 | -0.3% | 16 691 | 16 733 | -0.3% |
| Turnover (in EUR million) | 95.0 | 55.5 | 71.0% | 144.0 | -34.0% | 258.3 | 285.8 | -9.6% |

In the PCS business segment, card turnover recovered partially, increasing 71.0% QoQ and reaching 75% of the pre-pandemic level in September (when compared to the average observed during January and February).

Deposit account

Number of active depositors

in 000's, QoQ



Deposit balance

in EUR million, QoQ

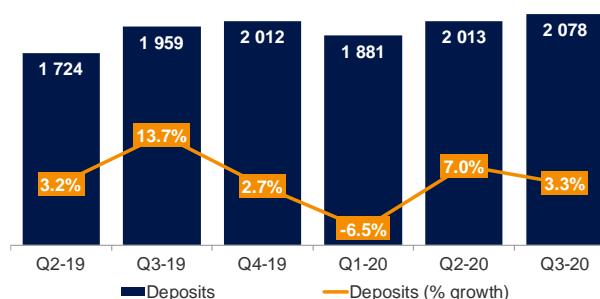


Figure 4: Deposit statistics.

Since the Bank operates in an environment with broadly decreasing interest rates and remains in a strong liquidity position, Advanzia decreased the six-month introductory rate from 0.50% to a three-month introductory rate of 0.40% effective p.a. in September 2020. The standard rate was kept stable at 0.25% effective p.a.

Board, management and staff

As of 30 September 2020, Advanzia Bank employed 195 full-time equivalent employees, up from 191 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 third 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 Q3-20 | Actual Q2-20 | QoQ growth | Actual Q3-19 | YoY growth | Actual YTD-20 | Actual YTD-19 | YTD growth |
|-----------------------------------------------|----------------|----------------|-------------|----------------|-------------|----------------|----------------|-------------|
| Cash, balances with central banks | 709.6 | 710.5 | -0.1% | 705.3 | 0.6% | 709.6 | 705.3 | 0.6% |
| Loans and advances to credit institutions | 103.2 | 105.6 | -2.3% | 108.5 | -4.9% | 103.2 | 108.5 | -4.9% |
| Net loans and advances to PCS partner banks | 43.4 | 31.9 | 36.2% | 40.9 | 6.1% | 43.4 | 40.9 | 6.1% |
| Loans and advances to credit card clients | 1 845.1 | 1 746.5 | 5.6% | 1 683.3 | 9.6% | 1 845.1 | 1 683.3 | 9.6% |
| Value adjustments (losses) | -100.9 | -91.6 | 10.2% | -78.4 | 28.8% | -100.9 | -78.4 | 28.8% |
| Net loans and advances to credit card clients | 1 744.1 | 1 654.9 | 5.4% | 1 604.9 | 8.7% | 1 744.1 | 1 604.9 | 8.7% |
| Tangible and intangible assets | 34.9 | 34.3 | 1.8% | 27.5 | 26.9% | 34.9 | 27.5 | 26.9% |
| Other assets | 8.8 | 9.6 | -8.4% | 7.0 | 25.8% | 8.8 | 7.0 | 25.8% |
| Total assets | 2 644.1 | 2 546.9 | 3.8% | 2 494.2 | 6.0% | 2 644.1 | 2 494.2 | 6.0% |

| Liabilities and equity (EUR million) | Actual Q3-20 | Actual Q2-20 | QoQ growth | Actual Q3-19 | YoY growth | Actual YTD-20 | Actual YTD-19 | YTD growth |
|-----------------------------------------|----------------|----------------|--------------|----------------|--------------|----------------|----------------|--------------|
| Amounts owed to credit institutions | 221.3 | 220.3 | 0.5% | 217.2 | 1.9% | 221.3 | 217.2 | 1.9% |
| Amounts owed to customers | 2 078.5 | 2 012.8 | 3.3% | 1 959.4 | 6.1% | 2 078.5 | 1 959.4 | 6.1% |
| Other liabilities, accruals, provisions | 41.1 | 36.3 | 13.2% | 59.1 | -30.4% | 41.1 | 59.1 | -30.4% |
| Subordinated loan (T2) | 25.0 | 25.0 | 0.0% | 8.6 | 191.9% | 25.0 | 8.6 | 191.9% |
| Sum liabilities | 2 365.9 | 2 294.5 | 3.1% | 2 244.3 | 5.4% | 2 365.9 | 2 244.3 | 5.4% |
| Subscribed capital | 27.4 | 27.4 | 0.0% | 27.4 | 0.0% | 27.4 | 27.4 | 0.0% |
| Other equity instruments | 20.3 | 20.6 | -1.7% | 22.4 | -9.7% | 20.3 | 22.4 | -9.7% |
| 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 | -1.4 | -1.0 | 43.6% | 0.0 | - | -1.4 | 0.0 | - |
| Profit for the financial year | 71.4 | 44.9 | 59.2% | 51.3 | 39.3% | 71.4 | 51.3 | 39.3% |
| Sum equity | 278.2 | 252.4 | 10.2% | 249.9 | 11.3% | 278.2 | 249.9 | 11.3% |
| Total liabilities and equity | 2 644.1 | 2 546.9 | 3.8% | 2 494.2 | 6.0% | 2 644.1 | 2 494.2 | 6.0% |

| Income statement (EUR million) | Actual Q3-20 | Actual Q2-20 | QoQ growth | Actual Q3-19 | YoY growth | Actual YTD-20 | Actual YTD-19 | YTD growth |
|---------------------------------------------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|--------------|
| Interest receivable, credit cards | 73.9 | 70.7 | 4.6% | 68.1 | 8.6% | 216.7 | 192.4 | 12.6% |
| Interest receivable (payable), others | -2.2 | -2.3 | -3.6% | -1.7 | 31.1% | -6.7 | -3.3 | 99.3% |
| Interest payable, deposits | -1.5 | -1.8 | -18.0% | -2.5 | -40.0% | -5.3 | -6.6 | -19.3% |
| Net interest income | 70.2 | 66.6 | 5.4% | 63.9 | 9.9% | 204.7 | 182.5 | 12.2% |
| Commission receivable | 10.0 | 8.9 | 12.6% | 11.5 | -13.5% | 29.5 | 28.3 | 4.1% |
| Commission payable | -3.5 | -3.6 | -0.6% | -5.3 | -32.8% | -12.4 | -14.0 | -11.5% |
| Other operating result | -1.1 | -1.8 | -40.1% | -1.6 | -35.7% | -2.7 | -3.8 | -28.6% |
| Total income | 75.6 | 70.2 | 7.8% | 68.5 | 10.3% | 219.1 | 193.0 | 13.5% |
| Card acquisition costs | -8.9 | -8.7 | 2.3% | -9.8 | -8.9% | -26.7 | -26.9 | -0.8% |
| Card operating costs | -6.3 | -7.6 | -16.9% | -6.7 | -6.1% | -21.3 | -18.0 | 18.5% |
| Staff costs | -5.2 | -4.8 | 7.6% | -4.8 | 8.5% | -14.4 | -13.3 | 8.7% |
| Other administrative expenses | -3.6 | -2.8 | 29.1% | -2.8 | 26.2% | -9.2 | -6.9 | 33.8% |
| Depreciation, tangible + intangible assets | -2.0 | -2.0 | -1.0% | -1.5 | 34.2% | -6.1 | -4.0 | 52.2% |
| Sum operating expenses | -26.0 | -25.9 | 0.3% | -25.6 | 1.5% | -77.8 | -69.1 | 12.6% |
| Value adjustments | -9.3 | -0.8 | 1074.2% | 12.3 | -176.1% | -14.4 | 15.2 | -195.1% |
| Write-offs | -4.9 | -14.3 | -65.6% | -32.7 | -84.9% | -37.3 | -70.7 | -47.3% |
| Total loan losses | -14.3 | -15.1 | -5.8% | -20.4 | -30.2% | -51.7 | -55.6 | -6.9% |
| Profit (loss) on ordinary activities before taxes | 35.4 | 29.1 | 21.6% | 22.5 | 57.4% | 89.6 | 68.3 | 31.1% |
| Income tax and net worth tax | -8.8 | -3.1 | 185.8% | -5.6 | 57.4% | -18.2 | -17.0 | 6.7% |
| Profit (loss) for the period | 26.6 | 26.0 | 2.1% | 16.9 | 57.4% | 71.4 | 51.3 | 39.3% |

Table 2: Unaudited accounts as at 30 September 2020 (in EUR million).

Comments on the accounts

During Q3 2020, the net credit card loan balance increased by MEUR 89.3 (5.4% QoQ) to MEUR 1 744, primarily driven by the increased spending activity of clients in all markets during the summer season. The deposit balance increased by 3.3%.

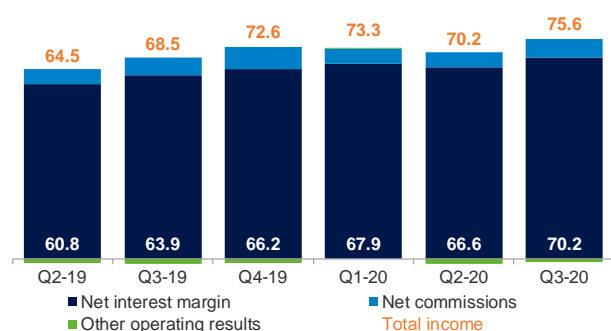
Total income increased by 7.8% QoQ and reached MEUR 75.6. This was mainly due to higher interest income and commission receivable resulting from increased client activity over the quarter. Operating expenses of MEUR 26.0 remained stable QoQ.

Total loan loss provisions of MEUR 14.3 decreased 5.8% QoQ. The decrease was mainly driven by an extraordinary precautionary provision of MEUR 2.5 in Q2 2020 related to the potential impact of COVID-19 in upcoming quarters. This extraordinary provision is still fully reflected in the value adjustments during Q3 2020. The composition of loan losses changed due to the ending of the forward flow agreement of German non-performing loans. Non-performing loans now remain on the balance sheet which leads to an increase in loan loss provisions, whereas previously these loans were written off when sold.

Avanzia's net profit of MEUR 26.6 increased by 57.4% compared to Q3 2019 and 2.1% compared to Q2 2020. Avanzia's earnings before tax of MEUR 35.4 increased by 57.4% compared to Q3 2019 and 21.6% compared to Q2 2020.

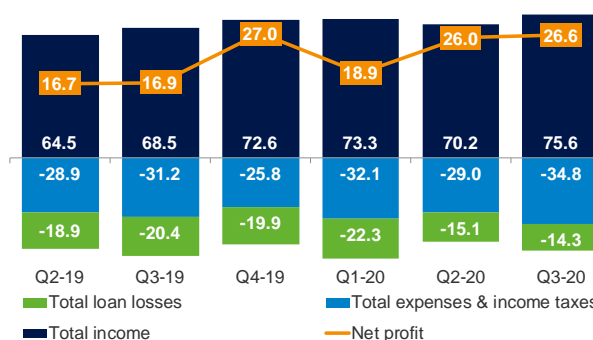
Income split and development

in EUR million, QoQ



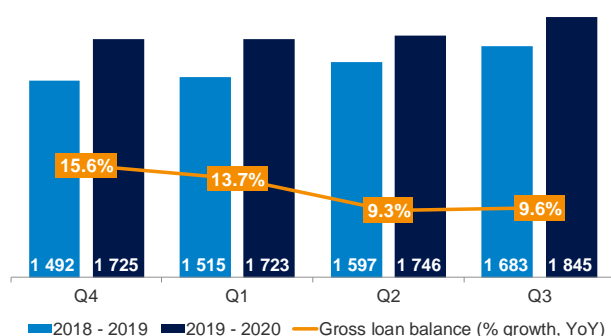
Profit development

in EUR million, QoQ



Credit card loan balance

in EUR million, YoY



Net interest income

in EUR million, YoY

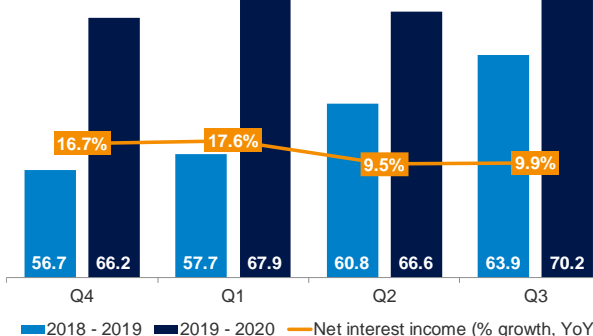


Figure 5: Income, profit, loan balance and net interest margin development³.

³ Q4-19, Q2-20 were positively affected by end of year specific items of MEUR 5.0 and MEUR 4.2 respectively.

Key performance indicators (KPIs)

In Q3 2020, both the yield as well as the net interest margin on credit cards remained stable QoQ at 16.5% and 15.5% respectively. 12-month trailing loan loss rate decreased strongly by 40 bps, driven by a technicality as high Q3 2019 loan losses were excluded from the 12-month trailing period. The cost-income ratio decreased in Q3 thanks to the combination of higher total income and stable costs. Return on equity would have been at 47.1%, if dividends had been paid out in the third quarter.

The Bank maintains high solvency with a capital adequacy ratio (incl. interim profits) of 20.0%, while liquidity levels are comfortable with a LCR of 156.2% due to higher deposit volumes.

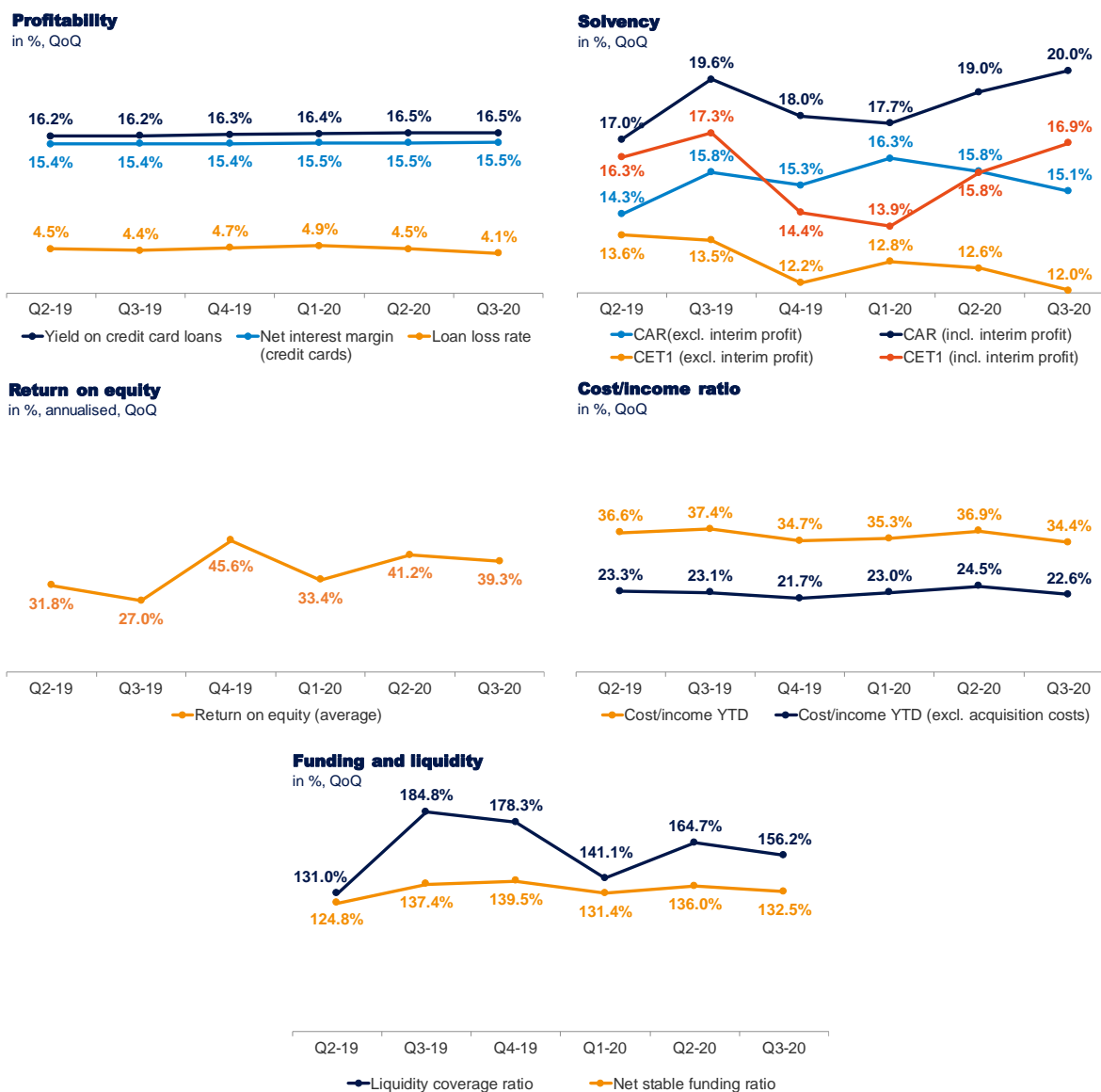


Figure 6: Key performance indicators⁴.

⁴ CET1 - Common Equity Tier 1, CAR - Capital Adequacy Ratio, consisting of CET1 + additional Tier 1 and Tier 2 capital.

Impact of COVID-19

During the COVID-19 crisis, Advanzia's top priorities remain employee health, operational stability and service excellence for its customers in all markets. To adequately manage risk and ensure business continuity, the Bank is closely monitoring the macroeconomic indicators and will further adapt its credit risk strategy and related contingency planning accordingly.

In Q3, the gradual recovery in retail sales and business sentiment in the German economy led to resumed loan balance growth. German consumers showed a change in payment behaviour, increasingly using card payments rather than cash. The Bank is well positioned to grow further following this shift, especially when considering the improved credit quality of the German portfolio, which showed a further reduction in new default volumes. The credit quality of the portfolios in other markets remained stable or improved.

Outlook

With most European countries implementing measures that aim to strike a balance between containing the spread of the virus and limiting the negative effects of such suppression efforts to the economy, the scale of the COVID-19 impact still remains uncertain and difficult to quantify. Currently, the Bank's forecast indicates that defaults remain low compared to previous years, driven by the significant improvement in new default cases observed in Q3 and the shift in payment behaviour.

A second wave of cases now surges across Europe. This has led to continued uncertainty and confinement measures across Europe which increases the macroeconomic uncertainty. Advanzia's management still expects a solid development in the Bank's growth and results, but continues to closely monitor the situation. The Bank remains strongly capitalised, has ample liquidity and continues to generate significant capital each month.

Munsbach, Luxembourg

16.11.2020

Patrick Thilges
Chief Financial Officer

Roland Ludwig
Chief Executive Officer



Ilya Kabakov, *The Ball*, 2017
Kistefos Museum, Norway

Courtesy of the Kistefos Museum. Photo: Frédéric Boudin



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