ADVANZIA BANK

FINANCIAL REPORT

First Quarter 2023

Tone Vigeland, Skulptur I, 2022
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FINANCIAL REPORT
FIRST QUARTER 2023

Advanzia Bank S.A.

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Highlights for the first quarter 2023

KPI	Q1-23	QoQ %	YoY %
Gross credit card loan balance (MEUR)	2 609	+2.9%	+14.9%
Performing active clients	1 432 000	+3.7%	+14.5%
Cards in force[1]	2 306 000	+3.2%	+10.0%
Card acquisition cost (MEUR)	14.3	11.7%	+38.2%
Loan loss rate (provisions and write offs)	5.4%	+0.3% - points	+1.1% - points
Net profit (MEUR)	25.0	-10.1%	-16.9%
Annualised return on equity	33.3%	40.3% in Q4-22	35.3% in Q1-22

Demand for Advanzia's credit cards continued to grow steadily, the Bank's portfolio of performing active clients increased 3.7% QoQ and 14.5% YoY. Consequently, the gross loan balance reached EUR 2.6 billion (+2.9% QoQ and +14.9% YoY). Total income reached MEUR 105.7, up 0.3% QoQ and 13.9% YoY impacted by higher funding costs (25.1% QoQ and 202.6% YoY) following the increase in the ECB's key lending rates. The increased funding costs, which is negatively impacting profitability, will to some extent be mitigated in the future as the Bank will increase interest rates towards credit card customers.

Operating expenses reached MEUR 35.6 in Q1, down 0.8% QoQ, and 26.6% higher YoY. The QoQ performance is mainly due to the lower staff-related costs (-23.0%), which more than offset the higher acquisition costs resulting from increased sales activities (+11.7% QoQ). Lower staff costs mainly result from an extraordinary provision for a long-term incentive plan for key employees in the prior quarter.

Total loan loss provisions of MEUR 37.2 were up 9.2% QoQ and up 49.5% YoY. The main driver of the QoQ performance was a higher proportion of customers showing increased credit risk in Germany, France and Spain following IFRS 9 model updates, highlighted in the previous financial report. The increase YoY is mainly driven by the low loan loss provisions during the pandemic due to high liquidity in households across Advanzia's markets. Provisions are closer to pre pandemic levels when adjusting for entry into new markets where initial losses are high while developing credit models and experience.

Earnings before tax of MEUR 32.8 went down by 7.2% QoQ and 17.3% compared to Q1 2022, while the net profit for Q1 ended at MEUR 25.0, lower by 10.1% QoQ and by 16.9% YoY.

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

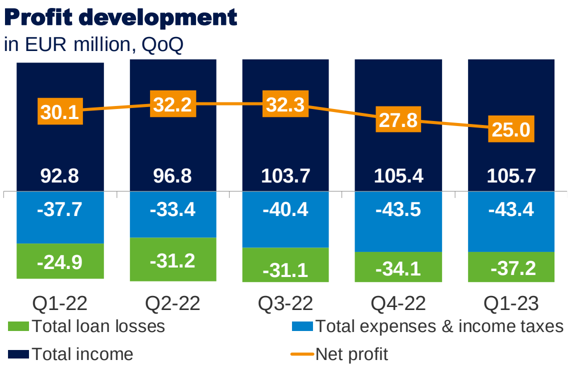


Figure 1: *Profit development.*

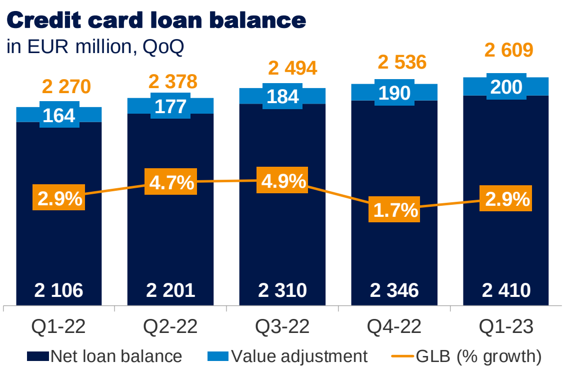
Growth metrics	**Performing active clients**	**Loans and advances to credit card clients**	**Net profit**
CAGR (2017 - LTM*)	14.5%	17.7%	18.7%
YTD 2023 vs. YTD 2022	14.5%	14.9%	-16.9%

* Last twelve months

Table 1: *CAGR and YTD growth.*

Since the end of 2017, Advanzia has delivered a compound annual growth rate (CAGR) of 18.7% in net profit, 17.7% in loan balance and 14.5% in the number of performing active credit card clients.

Credit cards



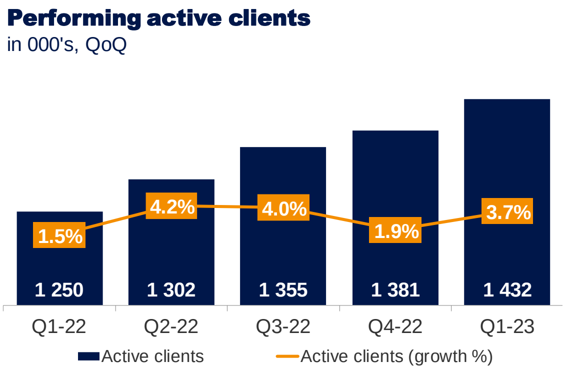
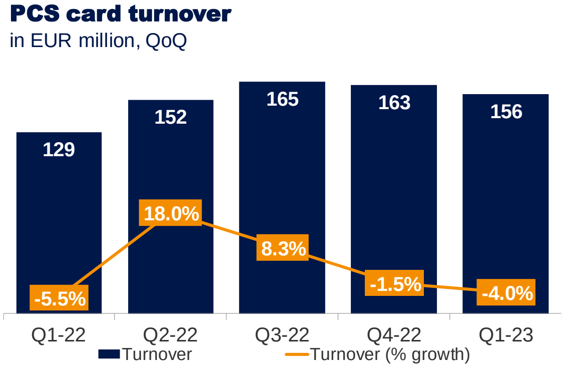


Figure 2*: Credit cards statistics*

In Q1 2023 loan balance growth picked up to 2.9% QoQ. All markets contributed to the progression, both in terms of number of clients and loan balance. Spain and Italy showed the fastest growth rates, while Germany’s contribution was largest in absolute terms, thanks to successful marketing campaigns.

Professional Card Services (PCS)



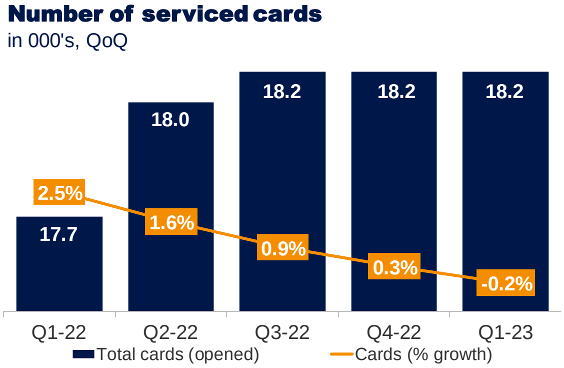
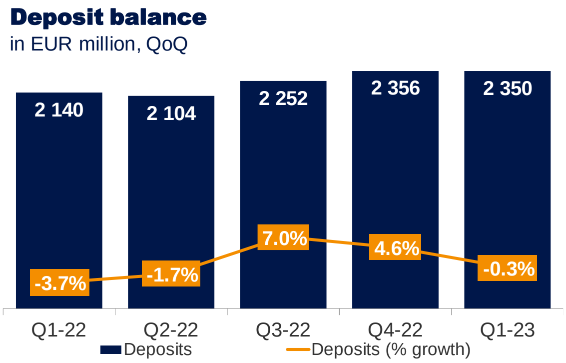


Figure 3: *PCS statistics*

In the PCS business segment, card turnover was down by 4.0% QoQ mainly due to seasonal effects (end of the holiday period). The number of open cards was stable.

Deposit account



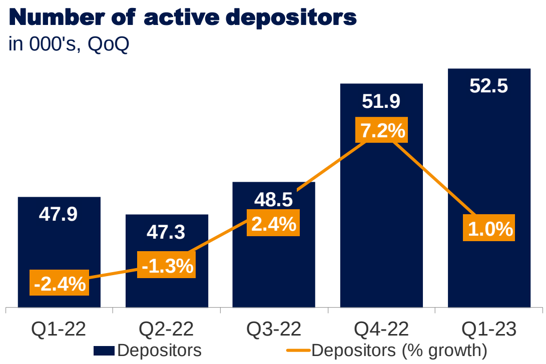


Figure 3: *Deposit statistics.*

During Q1, the Bank increased deposit rates to 1.1% eff. p.a. and complemented its sales activities by introducing special campaigns for new depositors, following the rate increases by the ECB and its impact on the competitive environment. Over the quarter, the Bank registered a net outflow of MEUR 6, corresponding to a -0.3% deposit balance decrease QoQ. The number of active depositors increased by 1.0% to 52 500 accounts.

Board, management and staff

As of 31 March 2023, Advanzia Bank employed 185 full-time equivalent employees, down from 188 at the end of the previous quarter. On 7 March 2023, Nishant Fafalia was appointed as interim CEO.

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 first quarter of 2023 are shown below. Advanzia Bank follows IFRS standards and the figures reflect Advanzia's actual business activities and operations.

Assets (EUR million)	**Actual Q1-23**	**Actual Q4-22**	**QoQ Growth**	**Actual Q1-22**	**YoY Growth**	**Actual YTD-23**	**Actual YTD-22**	**YoY Growth**
Cash, balances with central banks	668.9	695.2	*-3.8%*	791.2	*-15.5%*	668.9	791.2	*-15.5%*
Loans and advances to credit institutions	80.4	85.0	*-5.4%*	84.8	*-5.2%*	80.4	84.8	*-5.2%*
Net loans and advances to PCS partner banks	68.9	76.3	*-9.7%*	54.2	*27.3%*	68.9	54.2	*27.3%*
Loans and advances to credit card clients	2 609.2	2 536.3	*2.9%*	2 270.2	*14.9%*	2 609.2	2 270.2	*14.9%*
Value adjustments (losses)	-199.6	-189.9	*5.1%*	-164.2	*21.6%*	-199.6	-164.2	*21.6%*
Net loans and advances to credit card clients	2 409.6	2 346.4	*2.7%*	2 106.0	*14.4%*	2 409.6	2 106.0	*14.4%*
Tangible and intangible assets	24.6	25.4	*-3.2%*	28.9	*-15.1%*	24.6	28.9	*-15.1%*
Other assets	19.9	20.2	*-1.3%*	19.0	*4.4%*	19.9	19.0	*4.4%*
Total assets	**3 272.3**	**3 248.4**	***0.7%***	**3 084.2**	***6.1%***	**3 272.3**	**3 084.2**	***6.1%***

Liabilities and equity (EUR million)	**Actual Q1-23**	**Actual Q4-22**	**QoQ Growth**	**Actual Q1-22**	**YoY Growth**	**Actual YTD-23**	**Actual YTD-22**	**YoY Growth**
Amounts owed to credit institutions	25.7	20.7	*24.2%*	24.3	*5.5%*	25.7	24.3	*5.5%*
Amounts owed to customers	2 349.6	2 355.7	*-0.3%*	2 139.6	*9.8%*	2 349.6	2 139.6	*9.8%*
Amounts owed to financial corporates	439.8	439.4	*0.1%*	400.2	*9.9%*	439.8	400.2	*9.9%*
Other liabilities, accruals, provisions	39.5	34.0	*16.4%*	51.6	*-23.4%*	39.5	51.6	*-23.4%*
Subordinated loan (T2)	55.0	55.0	*0.0%*	55.0	*0.0%*	55.0	55.0	*0.0%*
Sum liabilities	**2 909.6**	**2 904.8**	***0.2%***	**2 670.7**	***8.9%***	**2 909.6**	**2 670.7**	***8.9%***
Subscribed capital and reserves	68.7	65.8	*4.4%*	57.3	*19.9%*	68.7	57.3	*19.9%*
Other equity instruments (AT1)	54.1	58.6	*-7.7%*	63.4	*-14.8%*	54.1	63.4	*-14.8%*
Profit (loss) brought forward	216.4	162.4	*33.3%*	147.1	*47.1%*	216.4	147.1	*47.1%*
Profit for appropriation	0.0	0.0	-	116.8	*-100.0%*	0.0	116.8	*-100.0%*
Profit for the financial year (net of interim dividend and AT1 distributions)	23.6	56.9	*-58.6%*	28.9	*-18.3%*	23.6	28.9	*-18.3%*
Sum equity	**362.7**	**343.7**	***5.5%***	**413.5**	***-12.3%***	**362.7**	**413.5**	***-12.3%***
Total liabilities and equity	**3 272.3**	**3 248.4**	***0.7%***	**3 084.2**	***6.1%***	**3 272.3**	**3 084.2**	***6.1%***

Income statement (EUR million)	**Actual Q1-23**	**Actual Q4-22**	**QoQ Growth**	**Actual Q1-22**	**YoY Growth**	**Actual YTD-23**	**Actual YTD-22**	**YoY Growth**
Interest receivable, credit cards	101.3	100.7	*0.7%*	87.0	*16.5%*	101.3	87.0	*16.5%*
Interest receivable (payable), others	-7.3	-5.8	*25.1%*	-2.4	*202.6%*	-7.3	-2.4	*202.6%*
Net interest income	**94.0**	**94.8**	***-0.8%***	**84.6**	***11.1%***	**94.0**	**84.6**	***11.1%***
Commission receivable	16.5	15.9	*3.5%*	13.1	*26.4%*	16.5	13.1	*26.4%*
Commission payable	-6.2	-5.7	*7.9%*	-5.0	*23.5%*	-6.2	-5.0	*23.5%*
Other operating result	1.3	0.3	*294.6%*	0.1	*1310.7%*	1.3	0.1	*1310.7%*
Total income	**105.7**	**105.4**	***0.3%***	**92.8**	***13.9%***	**105.7**	**92.8**	***13.9%***
Card acquisition costs	-14.3	-12.8	*11.7%*	-10.3	*38.2%*	-14.3	-10.3	*38.2%*
Staff costs	-5.3	-6.9	*-23.0%*	-4.6	*16.6%*	-5.3	-4.6	*16.6%*
Other general administrative expenses	-13.5	-13.7	*-1.2%*	-10.8	*24.8%*	-13.5	-10.8	*24.8%*
Depreciation, tangible + intangible assets	-2.5	-2.5	*-0.5%*	-2.4	*3.1%*	-2.5	-2.4	*3.1%*
Total operating expenses	**-35.6**	**-35.9**	***-0.8%***	**-28.1**	***26.6%***	**-35.6**	**-28.1**	***26.6%***
Total loan losses	**-37.2**	**-34.1**	***9.2%***	**-24.9**	***49.5%***	**-37.2**	**-24.9**	***49.5%***
Profit (loss) on ordinary activities before taxes	32.8	35.4	*-7.2%*	39.7	*-17.3%*	32.8	39.7	*-17.3%*
Income tax and net worth tax	-7.8	-7.5	*3.5%*	-9.6	*-18.5%*	-7.8	-9.6	*-18.5%*
Profit (loss) for the period	**25.0**	**27.8**	***-10.1%***	**30.1**	***-16.9%***	**25.0**	**30.1**	***-16.9%***

***Table 2:** Unaudited accounts as at 31 March 2023 (in EUR million).*

Comments on the accounts

During Q1 2023, total income was MEUR 0.3 higher than the previous quarter (+0.3%), mainly driven by higher interest income from credit cards and other operating results, which offset the higher deposit expenses due to the increased deposit rates. The increased funding costs, which is negatively impacting profitability, will to some extent be mitigated in the future as the Bank will increase interest rates towards credit card customers.

Operating expenses of MEUR 35.6 were down 0.8% QoQ due to lower staff and project related costs. On the other hand, card acquisition costs were 11.7% higher QoQ due to the higher incoming volume of new customers in Germany, attributable to successful marketing campaigns during the quarter.

Total loan loss provisions of MEUR 37.2 were up 9.2% QoQ and up 49.5% YoY. The main driver of the QoQ performance was a higher proportion of customers showing increased credit risk in Germany, France and Spain following IFRS 9 model updates, highlighted in the previous financial report. The increase YoY is mainly driven by the low loan loss provisions during the pandemic due to high liquidity in households across Advanzia's markets. Provisions are closer to pre pandemic levels when adjusting for entry into new markets where initial losses are high while developing credit models and experience. During the quarter, the Bank also implemented a more sophisticated loan loss model (IFRS 9) in Italy built upon proprietary data resulting in a decrease in loan loss provisions.

As a result, Advanzia's net profit of MEUR 25.0 decreased by 10.1% compared to Q4 2022 and 16.9% compared to Q1 2022. Advanzia's earnings before tax of MEUR 32.8 decreased by 7.2% compared to Q4 2022 and by 17.3% compared to Q1 2022.

Advanzia's AGM took place on 28 March 2023 and decided to allocate MEUR 56.9 of the profit of the financial year 2022 to profit carried forward and reserves.

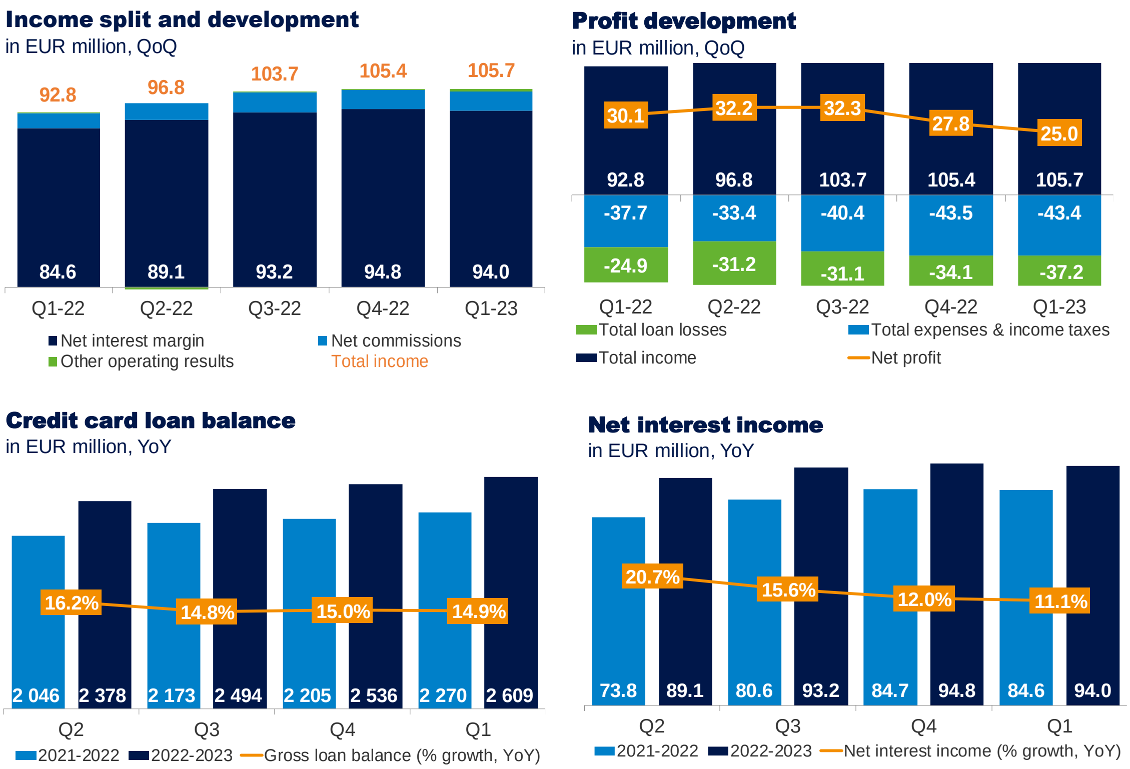


Figure 4: Interest Income, profit, loan balance and net interest margin development.

Key performance indicators (KPIs)

In Q1 2023, the yield increased by 0.2%-points compared to Q4 2022, while the net interest margin decreased by 0.1%-points over the same period mainly due to the rise in funding rates. The 12-month trailing loan loss rate increased by 0.3%-points due to higher loan loss provisions in the quarter compared to Q4 2022 driven by the model updates in Germany, France and Spain mentioned above. The cost-income ratio decreased from 34.1% in Q4 2022 to 33.7% in Q1 2023 which is mainly attributable to lower staff costs. The annualised return on equity of 33.3% decreased QoQ due to the lower net profit in combination with the increase in equity due to the allocation of MEUR 56.9 from the net profits of the financial year 2022 to profit carried forward and reserves. The Bank maintains high solvency with a capital adequacy ratio (incl. interim profits) of 19.6%, while liquidity levels are comfortable with a LCR of 152.6% with stable deposit volumes.

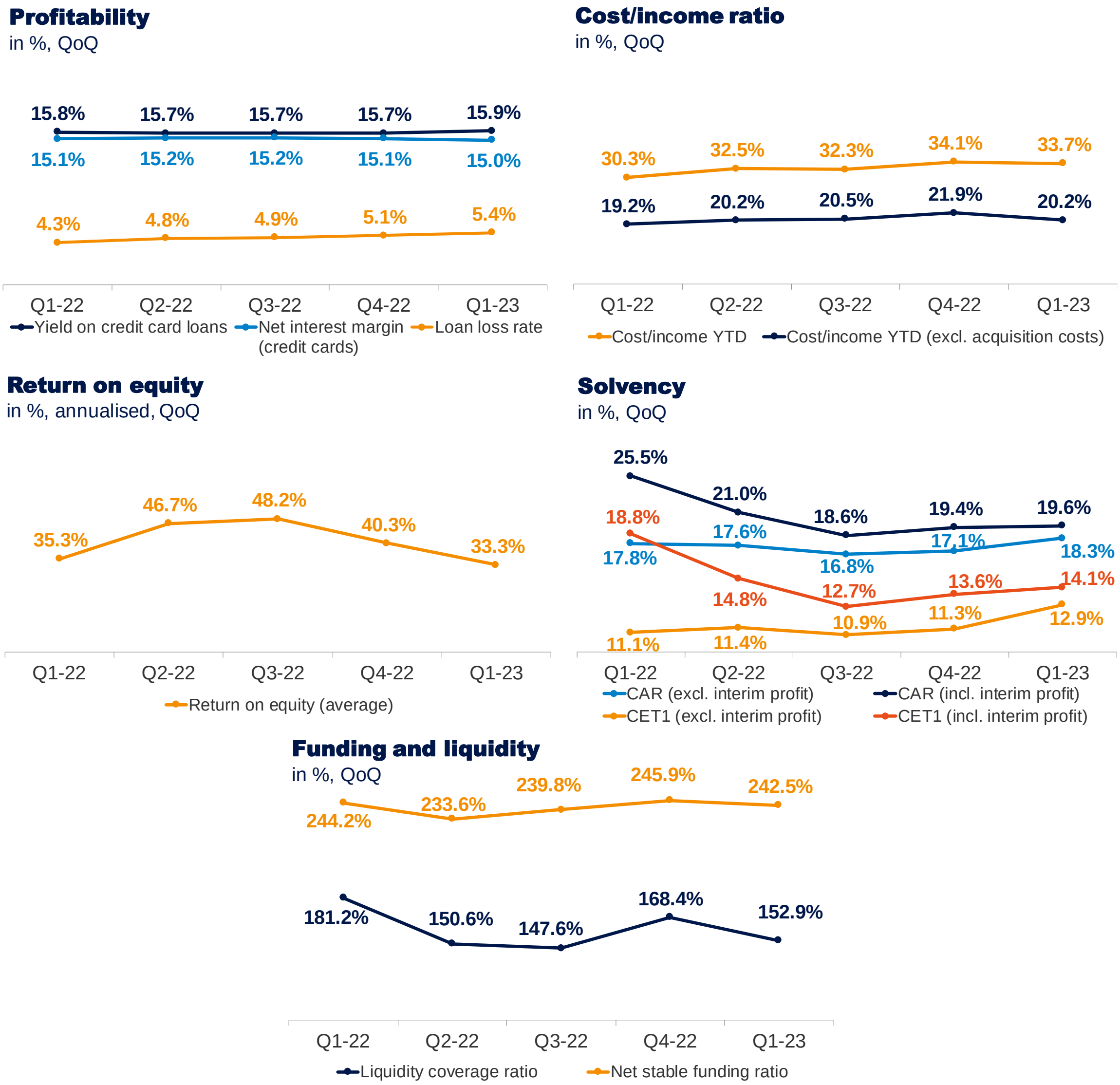


Figure 5: *Key performance indicators[2].*

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

Outlook

The continued inflationary and increased cost-of-living pressure is expected to erode purchasing power and positively impact consumer demand for Advanzia's loan product. Although some economic indicators have improved in recent months, inflation is still above the ECB policy target. As a result, key central bank lending rates will remain elevated for longer and thus impact funding cost and potentially competition for deposits. The increased funding costs, which is negatively impacting profitability, will to some extent be mitigated in the future as the Bank will increase interest rates towards credit card customers. The Bank's performance across its markets continues to show resilience to these factors delivering high profitability in a competitive market. Loan balance, active clients and interest receivables continued to increase in the first quarter of 2023, despite the economic context and is expected to continue this positive development.

Well capitalised, the Bank continues to pursue its digital transformation, developing further the omni-channel platform and targeting harmonisation of the enrolment processes which will ensure the competitiveness of the Bank into the future and deliver higher customer value. In March, Moody's Investor Service published its first deposit and issuer ratings for the Bank (Ba1 with a positive outlook), an important milestone in the Bank's funding diversification roadmap.

Munsbach, Luxembourg

15.05.2023

Patrick Thilges Chief Financial Officer	Nishant Fafalia Interim Chief Executive Officer

Pierre Huyghe
Photo: Einar Aslaksen
Courtesy of Kistefos Museum

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BANK

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