ADVANZIA BANK

FINANCIAL REPORT

Fourth Quarter 2022

Paulina Olowska – Her Hauntology at Kistefos, The Twist.

FINANCIAL REPORT
FOURTH QUARTER 2022

Advanzia Bank S.A.

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9, rue Gabriel Lippmann L-5365 Munsbach Luxembourg Phone: +352 26 38 75 1 Fax: +352 26 38 75 699
RCS Luxembourg: B 109 476 VAT: LU 20992462 info@advanzia.com www.advanzia.com

Highlights for the fourth quarter 2022

KPI	Q4-22	QoQ %	YoY %
Gross credit card loan balance (MEUR)	2 536	+1.7%	+15.0%
Performing active clients	1 381 000	+1.9%	+12.1%
Cards in force[1]	2 235 000	+0.6%	+8.8%
Card acquisition cost (MEUR)	12.8	4.8%	+62.6%
Loan loss rate (provisions and write offs)	5.1%	+0.2% - points	+1.0% - points
Net profit (MEUR)	27.8	-13.8%	-22.9%
Annualised return on equity	40.3%	48.2% in Q3-22	43.3% in Q4-21

In Q4 2022 the gross loan balance reached a new milestone of more than EUR 2.5 billion and interest receivables surpassed MEUR 100 for the first time (+4.3% QoQ). Advanzia's credit cards remained in demand and the Bank's portfolio of performing active clients continued to grow steadily, 1.9% QoQ and 12.1% YoY. The growth in interest receivables were partially offset by higher funding costs (89.6%/MEUR 2.5 higher compared to Q3 2022) and as a result, total income reached MEUR 105.4, up 1.6% QoQ and 13.9% YoY.

Operating expenses reached MEUR 35.9 in Q4, up 7.2% QoQ, and 35.3% higher YoY, the QoQ increase is mainly driven by a provision related to a long-term incentive plan for key employees of the Bank. Adjusted for the aforementioned provision and the increased card acquisition costs (4.8% QoQ) costs were stable compared to the last quarter. For the year 2022 the cost-income ratio was 32.4% compared to 31.6% in 2021 and if adjusted for card acquisition costs the same ratio was 20.5% in 2022 compared to 21.6% in 2021.

Total loan losses (provisions and write offs) of MEUR 34.1 were higher by 9.7% QoQ and up 33.7% YoY and impacted by several specific factors (adjustments of technical parameters under the IFRS9 framework incl. macro adjustments) which will also impact the loan losses (provisions and write offs) in 2023 and onwards. Without these extraordinary factors impacting the full loan balance, loan losses would have been relatively stable QoQ (cf. comments on the accounts for more details). From a full-year perspective, the loan loss rate (provisions and write offs) increased from 4.1% in 2021 to 5.1%, driven by larger amounts going into default compared to the COVID-19 impacted years. The main reason for the increase is presumably the increased cost of living (incl. groceries and energy) driven by inflation.

Earnings before tax of MEUR 35.3 went down by 9.7% QoQ and 12.6% compared to Q4 2021, while the net profit for Q4 ended at MEUR 27.8, lower by 13.8% QoQ and by 22.9% YoY. Nevertheless, net profit increased by 1.4% in 2022 compared to the previous year.

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

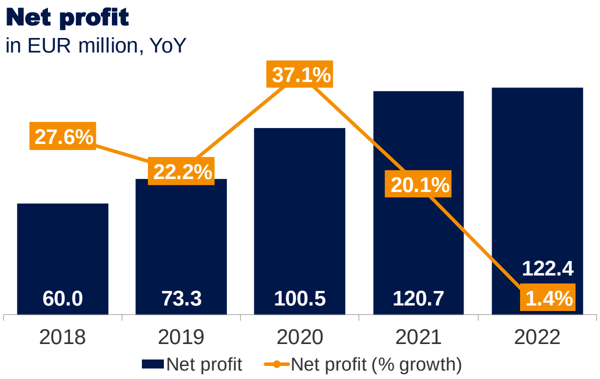

Figure 1: *Net profit development per year.*

Since 2017, Advanzia has delivered a compound annual growth rate (CAGR) of 20.4% in net profit, 18.0% in loan balance and 14.5% in the number of performing active credit card clients.

Loan balance development

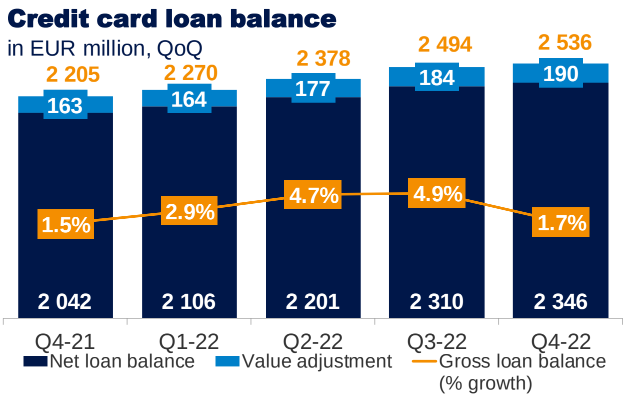

Figure 1*: Loan balance development.*

In the fourth quarter of 2022, the gross loan balance grew by 1.7% QoQ and all markets contributed positively to the growth. Compared to the previous year, the active client base grew by 12.1%, while the gross loan balance increased by 15.0%, which is mainly attributable to increased card activities of the existing client base.

Active clients/credit cards

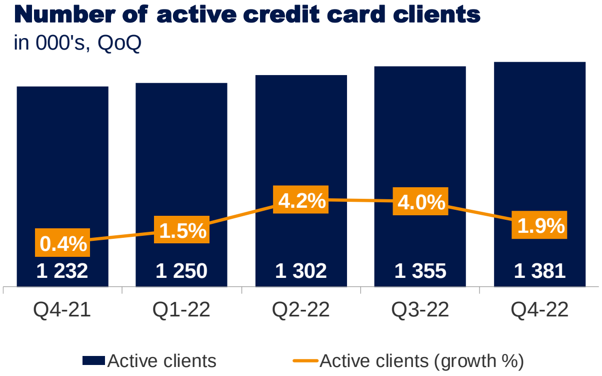

Figure 3*: Credit card clients.*

In Q4, the Bank had 1 381 000 active clients, an increase of 1.9% compared to the previous quarter and 12.1% YoY.

Financial institutions – Professional Card Services (PCS)

Key Figures, PCS clients	Actual Q4-22	Actual Q3-22	Growth QoQ	Actual Q4-21	Growth YoY	Actual 2022	Actual 2021	Growth 2022
Total cards (opened)	18 233	18 177	*0.3%*	17 308	*5.3%*	18 233	17 308	*5.3%*
Turnover (in EUR million)	162.6	165.0	*-1.5%*	136.7	*18.9%*	609.1	449.9	*35.4%*

Table 1: *PCS statistics.*

In the PCS business segment, card turnover was down 1.5% QoQ and up 18.9% YoY. The number of cards increased by 0.3% QoQ and 5.3% YoY.

Deposit account

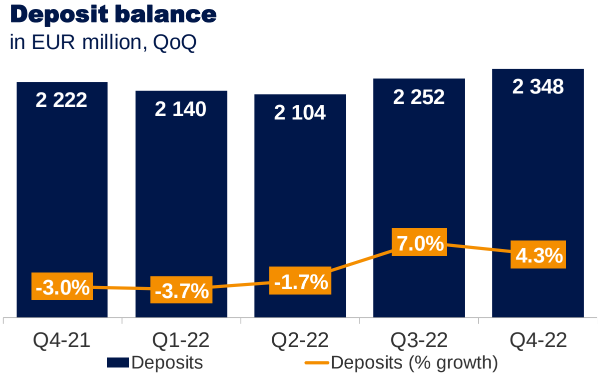

Figure 4: *Deposit statistics.*

During Q4, the Bank increased deposit rates to 0.8% eff. p.a. by the end of 2022 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 inflow of MEUR 96, corresponding to a 4.3% deposit balance increase QoQ. The number of active depositors increased by 7.2% to 52 000 accounts.

Board, management and staff

As of 31 December 2022, Advanzia Bank employed 188 full-time equivalent employees, down from 193 at the end of the previous quarter. On 24 October 2022, Patrick Thilges, Chief Financial Officer, was appointed as authorised manager of the Bank.

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 fourth quarter of 2022 are shown below. Advanzia Bank follows IFRS standards and the figures reflect Advanzia's actual business activities and operations.

Assets (EUR million)	**Actual Q4-22**	**Actual Q3-22**	**Growth QoQ**	**Actual Q4-21**	**Growth YoY**	**Actual 2022**	**Actual 2021**	**Growth 2022**
Cash, balances with central banks	695.2	592.0	*17.4%*	835.3	*-16.8%*	695.2	835.3	*-16.8%*
Loans and advances to credit institutions	85.0	85.3	*-0.3%*	145.3	*-41.5%*	85.0	145.3	*-41.5%*
Net loans and advances to PCS partner banks	76.3	72.5	*5.4%*	60.1	*27.0%*	76.3	60.1	*27.0%*
Loans and advances to credit card clients	2 536.4	2 494.3	*1.7%*	2 205.4	*15.0%*	2 536.4	2 205.4	*15.0%*
Value adjustments (losses)	-189.9	-184.2	*3.1%*	-163.0	*16.5%*	-189.9	-163.0	*16.5%*
Net loans and advances to credit card clients	2 346.5	2 310.1	*1.6%*	2 042.4	*14.9%*	2 346.5	2 042.4	*14.9%*
Tangible and intangible assets	25.4	26.7	*-5.1%*	29.6	*-14.4%*	25.4	29.6	*-14.4%*
Other assets	19.1	25.1	*-23.8%*	12.6	*51.7%*	19.1	12.6	*51.7%*
Total assets	**3 247.5**	**3 111.7**	***4.4%***	**3 125.3**	***3.9%***	**3 247.5**	**3 125.3**	***3.9%***

Liabilities and equity (EUR million)	**Actual Q4-22**	**Actual Q3-22**	**Growth QoQ**	**Actual Q4-21**	**Growth YoY**	**Actual 2022**	**Actual 2021**	**Growth 2022**
Amounts owed to credit institutions	20.7	13.5	*53.5%*	23.2	*-10.9%*	20.7	23.2	*-10.9%*
Amounts owed to customers	2 347.8	2 252.1	*4.3%*	2 221.8	*5.7%*	2 347.8	2 221.8	*5.7%*
Amounts owed to financial corporates	439.4	434.2	*1.2%*	400.4	*9.7%*	439.4	400.4	*9.7%*
Other liabilities, accruals, provisions	40.9	39.9	*2.6%*	42.1	*-2.8%*	40.9	42.1	*-2.8%*
Subordinated loan (T2)	55.0	55.0	*0.0%*	55.0	*0.0%*	55.0	55.0	*0.0%*
Sum liabilities	**2 903.8**	**2 794.7**	***3.9%***	**2 742.5**	***5.9%***	**2 903.8**	**2 742.5**	***5.9%***
Subscribed capital and reserves	63.4	63.4	*0.0%*	57.3	*10.7%*	63.4	57.3	*10.7%*
Other equity instruments (AT1)	58.6	58.2	*0.7%*	61.7	*-5.0%*	58.6	61.7	*-5.0%*
Profit (loss) brought forward	164.8	164.8	*0.0%*	147.1	*12.0%*	164.8	147.1	*12.0%*
Profit FY (net of interim dividend and AT1 distributions)	56.9	30.6	*86.2%*	116.8	*-51.3%*	56.9	116.8	*-51.3%*
Sum equity	**343.7**	**317.0**	***8.4%***	**382.9**	***-10.2%***	**343.7**	**382.9**	***-10.2%***
Total liabilities and equity	**3 247.5**	**3 111.7**	***4.4%***	**3 125.3**	***3.9%***	**3 247.5**	**3 125.3**	***3.9%***

Table 2: *Unaudited statement of financial position as at 31 December 2022 (in EUR million).*

Income statement (EUR million)	**Actual Q4-22**	**Actual Q3-22**	**Growth QoQ**	**Actual Q4-21**	**Growth YoY**	**Actual 2022**	**Actual 2021**	**Growth 2022**
Interest receivable, credit cards	100.7	96.5	*4.3%*	88.3	*14.0%*	375.3	325.0	*15.5%*
Interest receivable (payable), others	-5.8	-3.3	*89.6%*	-3.6	*63.2%*	-13.6	-14.3	*-5.3%*
Net interest income	**94.8**	**93.2**	***1.7%***	**84.7**	***12.0%***	**361.7**	**310.7**	***16.4%***
Commission receivable	15.9	16.1	*-1.0%*	12.9	*23.6%*	59.4	45.1	*31.7%*
Commission payable	-5.7	-5.7	*1.4%*	-4.5	*26.5%*	-21.7	-17.9	*20.9%*
Other operating result	0.3	0.0	*665.1%*	-0.6	*-152.3%*	-0.8	-1.7	*-53.4%*
Total income	**105.4**	**103.7**	***1.6%***	**92.5**	***13.9%***	**398.6**	**336.1**	***18.6%***
Card acquisition costs	-12.8	-12.2	*4.8%*	-7.9	*62.6%*	-47.3	-33.7	*40.3%*
Staff costs	-6.9	-5.8	*20.2%*	-5.4	*29.3%*	-22.6	-21.1	*7.2%*
Other general administrative expenses	-13.7	-13.0	*4.3%*	-10.7	*28.3%*	-49.3	-42.8	*15.1%*
Depreciation, tangible + intangible assets	-2.5	-2.5	*-1.4%*	-2.6	*-5.6%*	-9.8	-8.6	*13.1%*
Total operating expenses	**-35.9**	**-33.5**	***7.2%***	**-26.5**	***35.3%***	**-129.0**	**-106.3**	***21.4%***
Total loan losses	**-34.1**	**-31.1**	***9.7%***	**-25.5**	***33.7%***	**-121.3**	**-84.8**	***43.0%***
Profit (loss) on ordinary activities before taxes	35.3	39.1	*-9.7%*	40.4	*-12.6%*	148.4	145.0	*2.3%*
Income tax and net worth tax	-7.5	-6.9	*9.4%*	-4.3	*73.1%*	-26.0	-24.3	*6.9%*
Profit (loss) for the period	**27.8**	**32.3**	***-13.8%***	**36.1**	***-22.9%***	**122.4**	**120.7**	***1.4%***

Table 3: *Unaudited income statement as at 31 December 2022 (in EUR million).*

Comments on the accounts

During Q4 2022, the gross credit card loan balance increased by MEUR 42 (1.7% QoQ) to MEUR 2 536 in line with the growth of the number of active customers. The Bank attracted MEUR 96 in additional funds from its depositors thanks to a competitive deposit rate, which resulted in a 4.3% QoQ growth of the deposit balance.

Total income increased by 1.6% QoQ and reached MEUR 105.4, mainly driven by the growth in loan balance resulting in higher interest income, which was partially offset by increasing funding costs attributable to increased market rates. Operating expenses of MEUR 35.9 were up 7.2% QoQ mainly due to higher staff costs related to a provision for a long-term incentive plan for key employees (20.2% QoQ) and card acquisition costs.

Total loan losses increased by 9.7% QoQ and increased by 33.7% YoY and were driven by exceptional factors. An additional precautionary provision of MEUR 2.5 was recognised as a macro update during the quarter, bringing the total to MEUR 5.0. In December the Bank performed ECL model revisions (incl. technical parameters under the IFRS 9 framework) for its main markets, taking also into account the latest macroeconomic data and expectations. The loan loss rate (provisions and write offs) increased from 4.1% in 2021 to 5.1%, driven by larger amounts going default compared to the COVID-19 impacted years. The main reason for the increase is presumably the increased cost of living (incl. groceries and energy) driven by inflation.

Advanzia's earnings before tax of MEUR 35.3 decreased by 9.7% compared to Q3 2022 and by 12.6% compared to Q4 2021. Advanzia's net profit of MEUR 27.8 decreased compared to Q3 2022 by 13.8% and by 22.9% compared to Q4 2021.

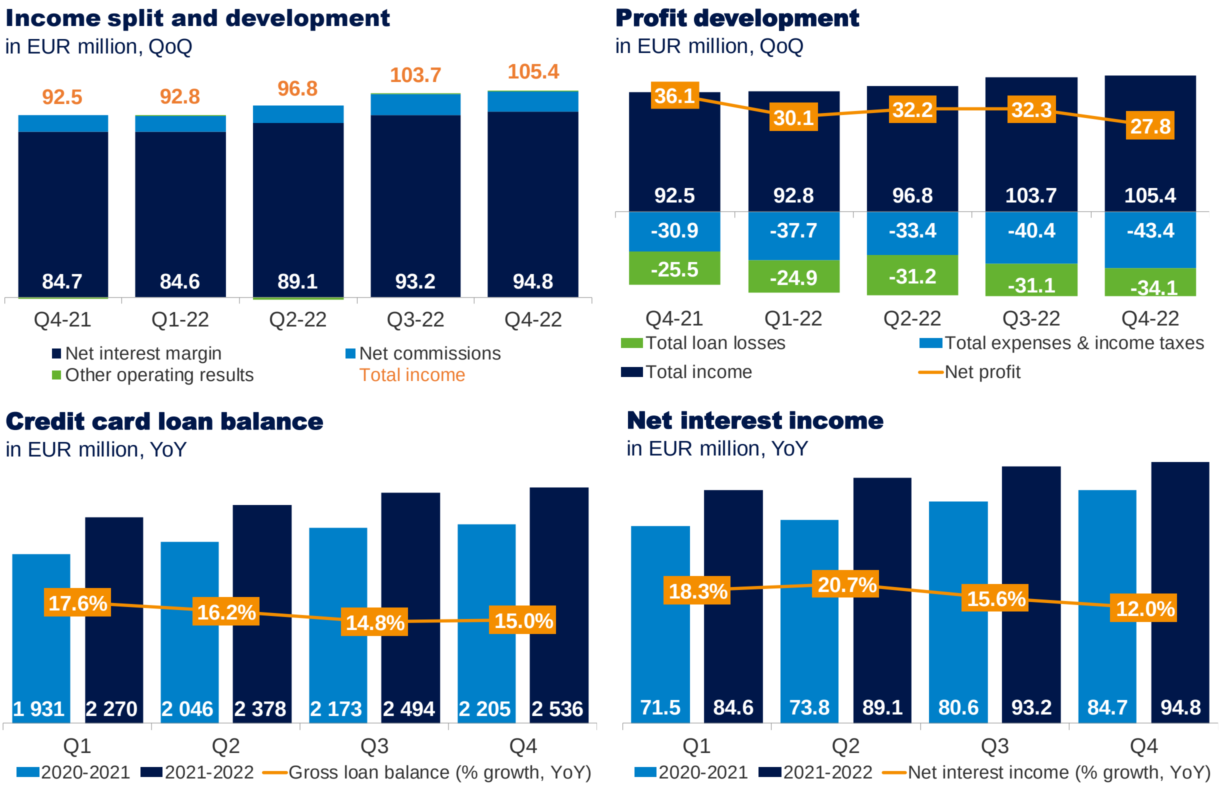

Figure 5: *Income, profit, loan balance and net interest margin development. Quarterly net profit figures are impacted by tax related intra-year differences.*

Key performance indicators (KPIs)

In Q4 2022, yield on credit cards remained in line with the previous quarters, while the net interest margin decreased slightly by 0.1%-points as a consequence of increased funding rates. The 12-month trailing loan loss rate increased by 0.2%-points due to higher loan loss provisions in Q4 2022 compared to Q3 2022 driven by the update under the IFRS9 framework mentioned earlier. The cost/income ratio increased from 32.3% in Q3 2022 to 34.1% in Q4 2022 which is mainly attributable to the higher staff related and acquisition costs in the quarter. The annualised return on equity of 40.3% decreased QoQ due to the lower net profit.

The Bank remains highly solvent with a capital adequacy ratio (incl. interim profits) of 19.4%, 0.8%-points higher compared to the last quarter. Capital adequacy ratios excluding interim profit also increased, as the Bank obtained regulatory approval to include MEUR 17.2 of interim profit into CET 1 capital. Liquidity levels are comfortable with a LCR of 168.4%.

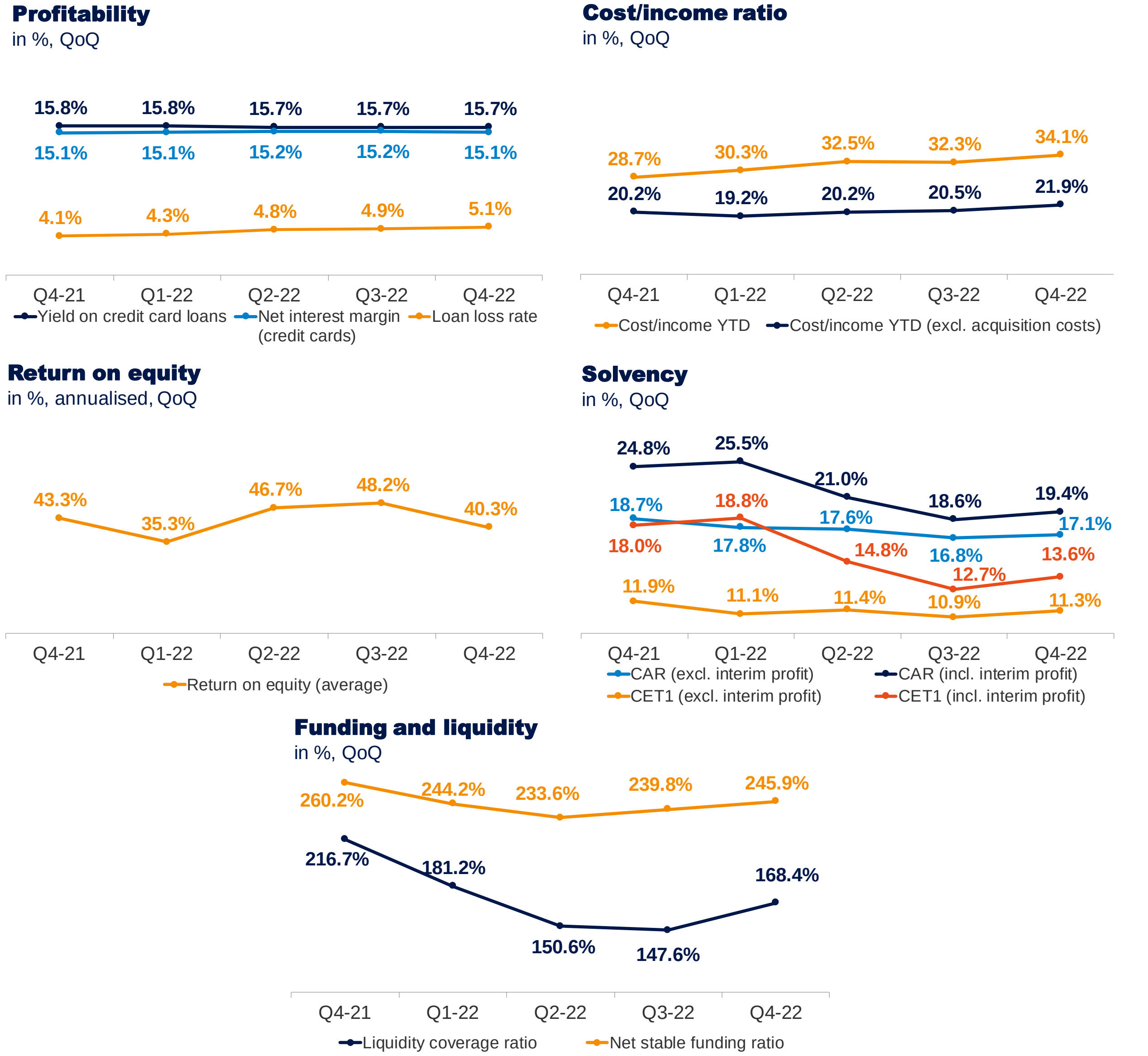

Figure 6: *Key performance indicators[2].*

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

Outlook

The German economy is expected to shrink through the middle of 2023 as businesses and households are facing high inflation and increased borrowing and energy costs. Forecasts by the European Central Bank expect inflation in the Euro zone above its 2% target through 2025 and a shallow recession over the winter months. Despite the macro climate, the Bank's performance across all markets showed resilience to geopolitical conflicts and inflation pressure, achieving growth targets within anticipated risk. Credit risk measured by loan loss provisions increased during 2022, showing the expected trend of returning to pre-pandemic levels. The Bank continues to closely monitor the macroeconomic development and receivables performance, ready to act should unexpected events arise.

Thanks to a strong capital position and 2022 performance, the Bank continues to emphasise digital transformation as an essential factor for achieving its goals for sustainable and profitable growth in the future. Despite the expectation of continued growth in active customers, loan balance and interest receivables, the Bank expects a decline in net profit in 2023 driven by increased funding costs, continued funding diversification, increased loan losses (provisions and write offs) and investments in developing the newly established Italian market.

The successful setup of the omni-channel platform and cloud infrastructure in 2022 will facilitate the migration of remaining legacy frontends to the omni-channel platform in 2023, and it will also enable the harmonisation of the customer enrolment processes. The implementation of a new Data Analytics Workbench providing a Scoring-as-a-Service framework will enable real-time risk scoring, also contributing to the enhanced application process. A new strategic Data Integration initiative was launched to modernise all the Bank's current data platforms in the near future, enabling deep-dive analysis and enhanced data exploration.

Munsbach, Luxembourg

22.02.2023

Patrick Thilges	Roland Ludwig
Chief Financial Officer	Chief Executive Officer

Paulina Olowska – Her Hauntology at Kistefos, The Twist.

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Advanzia Bank
9, rue Gabriel Lippmann
L-5365 Munsbach
Luxembourg

Tel: +352 26 38 75 1
E-Mail: info@advanzia.com

Register of Commerce:
B109476

ADVANZIA.COM