ADVANZIA BANK

FINANCIAL REPORT

Fourth Quarter 2023

Tony Cragg, Sail, 2018. Courtesy the artist and Christen Sveaas' Art Collection. Installation view from "Tony Cragg – Material in Mind" at Kistefos Museum, The Twist, 29.04-15.10.2023. Photo: Michael Richter.

FINANCIAL REPORT
FOURTH QUARTER 2023

Advanzia Bank S.A.

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Highlights for the fourth quarter 2023

KPI	Actual Q4-23	QoQ %	YoY %
Gross credit card loan balance (MEUR)	2 971	+4.0%	+17.2%
Performing active clients	1 596 000	+2.5%	+15.6%
Cards in force[1]	2 558 000	+3.5%	+14.4%
Card acquisition cost (MEUR)	11.4	-7.9%	-10.6%
Loan loss rate (provisions and write offs)	6.0%	+0.2% - points	+0.9% - points
Profit after tax (MEUR)	23.3	-8.7%	-16.4%
Return on shareholders' equity	25.2%	-4.4% - points	-15.1% - points

The steady growth of Advanzia's business continued in Q4 2023, as its portfolio of performing active credit card clients reached 1 596 000, increasing 2.5% QoQ and 15.6% YoY. The growing customer base and increasing transaction volume resulted in the gross loan balance reaching MEUR 2 971 (+4.0% QoQ and +17.2% YoY). Interest income from credit cards of MEUR 125.7 outpaced the loan balance growth and increased by 12.5% QoQ and 24.8% YoY, following the interest rate increase. Total income was negatively impacted by higher funding costs, but still grew to MEUR 115.1, up by 9.1% QoQ and 9.3% YoY.

The Bank continues to focus marketing efforts on the most proven and profitable markets and, as a result, card acquisition costs of MEUR 11.4 declined 7.9% QoQ. Depreciation for the quarter included an extraordinary impairment of MEUR 4.6 related to certain capitalised IT investments.

Total loan loss provisions of MEUR 46.4 were MEUR 6.0 higher than the previous quarter (14.7%), mainly driven by the gross loan balance growth in Germany, extraordinary write-offs of Spanish and Italian NPLs with a low likelihood of recovery and technical issues on outstanding collection payments in France.

Profit after tax for the quarter amounted to MEUR 23.3 decreasing by 8.7% QoQ and 16.4% YoY, respectively. The unfavourable development is mainly explained by increased funding cost and increased loan losses stemming from poorer credit quality of newer markets' portfolios as well as lower recovery performance on German NPLs.

In November, the Bank increased its existing securitisation programme from MEUR 475 to MEUR 1 000 in senior funding by adding two new investors. In December, the Bank successfully issued a MNOK 500 (MEUR 42.6 equivalent) AT1 bond at a fixed margin to 3M NIBOR of 8.5%.

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

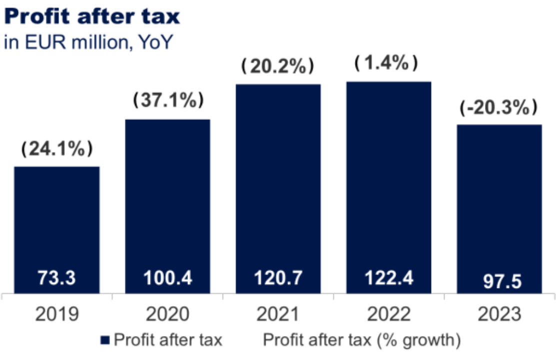
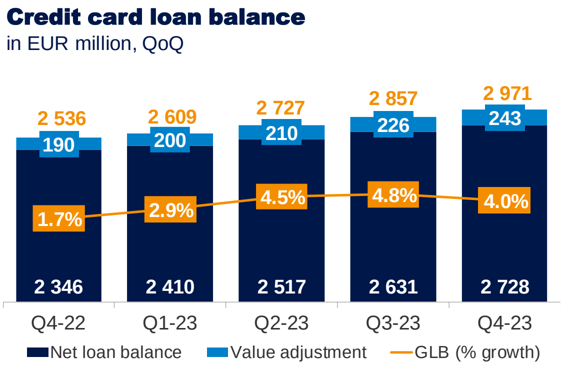


Figure 1: *Profit after tax development.*

Credit cards



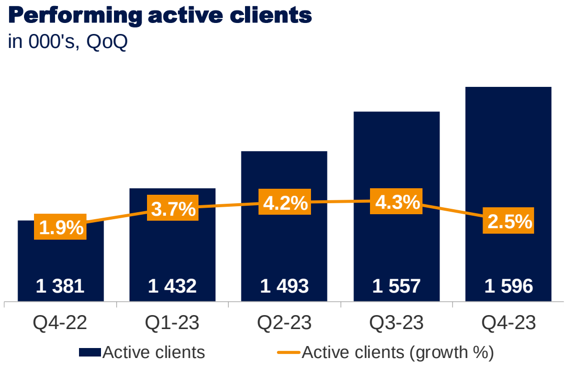
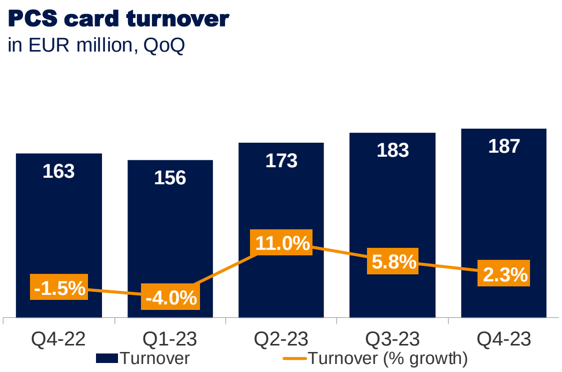


Figure 2*: Credit cards statistics.*

During Q4 2023, the gross loan balance increased by 4.0% QoQ, while active customers increased by 2.5% QoQ, primarily driven by targeted marketing campaigns in Germany.

Professional Card Services (PCS)



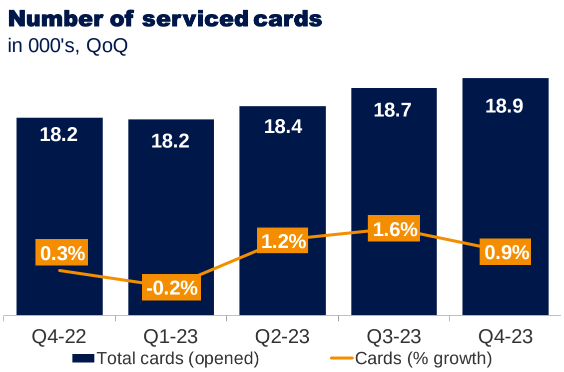
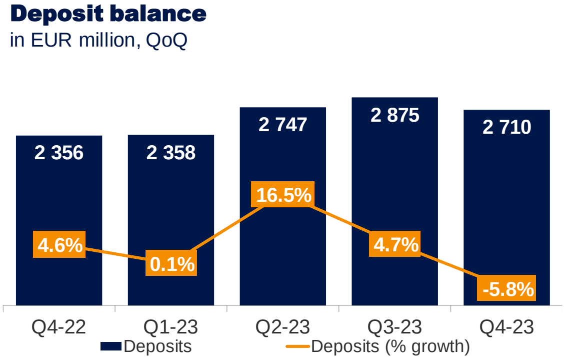


Figure 3: *PCS statistics.*

In the PCS business segment, card turnover was up by 2.3% QoQ and 14.9% YoY.

Deposit account



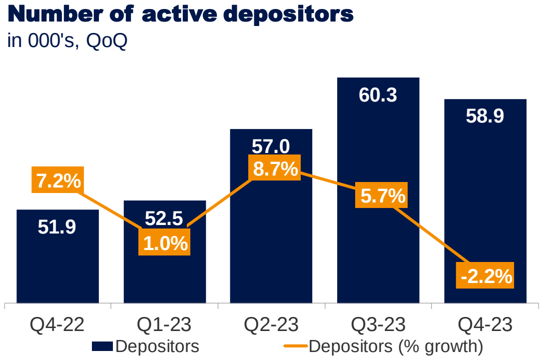


Figure 4: *Deposit statistics.*

During Q4, the Bank registered a net deposit outflow of MEUR 165, corresponding to a 5.8% decrease QoQ. At the same time, the number of active depositors decreased by 2.2% to close to 59 000 accounts. The development is a consequence of the increased securitisation facility which resulted in significant excess liquidity in the Bank, and thus deposit levels could be reduced.

Board, management and staff

As of 31 December 2023, Advanzia Bank employed 200 full-time equivalent employees, up from 195 at the end of the previous quarter. Following regulatory approval, Nishant Fafalia, interim CEO, was appointed as the new permanent 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 of the end of the fourth 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 Q4-23	Actual Q3-23	QoQ Growth	Actual Q4-22	YoY Growth	Actual YTD-23	Actual YTD-22	YoY Growth
Cash, balances with central banks	1 188.3	1 070.0	*11.1%*	695.2	*70.9%*	1 188.3	695.2	*70.9%*
Loans and advances to credit institutions	126.2	45.6	*176.8%*	85.0	*48.4%*	126.2	85.0	*48.4%*
Net loans and advances to PCS partner banks	67.5	75.4	*-10.5%*	76.3	*-11.5%*	67.5	76.3	*-11.5%*
Loans and advances to credit card clients	2 971.3	2 857.1	*4.0%*	2 536.3	*17.2%*	2 971.3	2 536.3	*17.2%*
Value adjustments (losses)	-243.0	-225.7	*7.7%*	-189.9	*28.0%*	-243.0	-189.9	*28.0%*
Net loans and advances to credit card clients	2 728.3	2 631.4	*3.7%*	2 346.4	*16.3%*	2 728.3	2 346.4	*16.3%*
Tangible and intangible assets	24.1	28.5	*-15.3%*	25.4	*-5.0%*	24.1	25.4	*-5.0%*
Investment in subsidiary	0.1	0.0	-	0.0	-	0.1	0.0	-
Other assets	21.5	16.3	*32.0%*	20.2	*6.7%*	21.5	20.2	*6.7%*
Total assets	**4 156.0**	**3 867.2**	***7.5%***	**3 248.4**	***27.9%***	**4 156.0**	**3 248.4**	***27.9%***

Liabilities and equity (EUR million)	Actual Q4-23	Actual Q3-23	QoQ Growth	Actual Q4-22	YoY Growth	Actual YTD-23	Actual YTD-22	YoY Growth
Amounts owed to credit institutions	39.1	42.1	*-7.3%*	20.7	*88.8%*	39.1	20.7	*88.8%*
Amounts owed to customers	2 709.6	2 875.2	*-5.8%*	2 355.7	*15.0%*	2 709.6	2 355.7	*15.0%*
Amounts owed to financial corporates	836.8	450.6	*85.7%*	439.4	*90.4%*	836.8	439.4	*90.4%*
Other liabilities, accruals, provisions	40.4	34.7	*16.4%*	34.0	*18.9%*	40.4	34.0	*18.9%*
Subordinated loan (T2)	55.0	55.0	*0.0%*	55.0	*0.0%*	55.0	55.0	*0.0%*
Sum liabilities	**3 680.8**	**3 457.6**	***6.5%***	**2 904.8**	***26.7%***	**3 680.8**	**2 904.8**	***26.7%***
Subscribed capital and reserves	68.7	68.7	*0.0%*	65.8	*4.4%*	68.7	65.8	*4.4%*
Other equity instruments (AT1)	98.7	54.7	*80.4%*	58.6	*68.5%*	98.7	58.6	*68.5%*
Profit (loss) brought forward	216.4	216.4	*0.0%*	162.4	*33.3%*	216.4	162.4	*33.3%*
Profit for the financial year (net of interim dividend and AT1 distributions)	91.4	69.8	*30.9%*	56.9	*60.5%*	91.4	56.9	*60.5%*
Sum equity	**475.2**	**409.6**	***16.0%***	**343.7**	***38.3%***	**475.2**	**343.7**	***38.3%***
Total liabilities and equity	**4 156.0**	**3 867.2**	***7.5%***	**3 248.4**	***27.9%***	**4 156.0**	**3 248.4**	***27.9%***

Income statement (EUR million)	Actual Q4-23	Actual Q3-23	QoQ Growth	Actual Q4-22	YoY Growth	Actual YTD-23	Actual YTD-22	YoY Growth
Interest receivable, credit cards	125.7	111.7	*12.5%*	100.7	*24.8%*	443.8	375.3	*18.3%*
Interest receivable (payable), others	-22.5	-18.2	*23.3%*	-5.8	*284.2%*	-59.3	-13.6	*336.8%*
Net interest income	**103.2**	**93.5**	***10.4%***	**94.8**	***8.8%***	**384.5**	**361.7**	***6.3%***
Commission receivable	19.7	19.5	*1.1%*	17.1	*15.7%*	76.9	63.4	*21.3%*
Commission payable	-6.5	-6.8	*-4.1%*	-5.7	*13.2%*	-25.9	-21.7	*19.6%*
Other operating result	-1.3	-0.8	*69.3%*	-0.8	*65.8%*	-3.3	-4.8	*-30.1%*
Total income	**115.1**	**105.5**	***9.1%***	**105.4**	***9.3%***	**432.1**	**398.6**	***8.4%***
Card acquisition costs	-11.4	-12.4	*-7.9%*	-12.8	*-10.6%*	-52.2	-47.3	*10.3%*
Staff costs	-6.8	-6.2	*10.0%*	-6.9	*-1.7%*	-24.6	-22.6	*8.8%*
Other general administrative expenses	-15.5	-15.0	*3.2%*	-13.7	*13.2%*	-58.7	-49.3	*19.0%*
Depreciation, tangible + intangible assets	-7.3	-2.5	*187.8%*	-2.5	*193.1%*	-14.7	-9.8	*50.6%*
Total operating expenses	**-41.0**	**-36.2**	***13.4%***	**-35.9**	***14.2%***	**-150.2**	**-129.0**	***16.4%***
Total loan losses	**-46.4**	**-40.4**	***14.7%***	**-34.1**	***35.9%***	**-164.3**	**-121.3**	***35.5%***
Profit (loss) on ordinary activities before taxes	27.7	28.9	*-4.1%*	35.3	*-21.5%*	117.6	148.4	*-20.7%*
Income tax and net worth tax	-4.5	-3.4	*30.3%*	-7.5	*-40.7%*	-20.1	-26.0	*-22.6%*
Profit (loss) for the period	**23.3**	**25.5**	***-8.7%***	**27.8**	***-16.4%***	**97.5**	**122.4**	***-20.3%***

Table 1: *Unaudited accounts as at 31 December 2023 (in EUR million).*

Comments on the accounts

In Q4 2023, the total income of MEUR 115.1 was MEUR 9.6 higher than the previous quarter, mainly due to higher interest income, an effect however partially offset by increasing funding costs. Net commission income was stable.

The Bank continues to focus its marketing efforts in the most proven and profitable markets and, as a result, card acquisition costs were down 7.9% QoQ. Depreciation for the quarter included an extraordinary impairment of MEUR 4.6 related to certain capitalised IT investments. Total loan loss provisions of MEUR 46.4 were MEUR 6.0 higher than the previous quarter (14.7%). This was primarily driven by the growth in gross loan balance in Germany, extraordinary write-offs of NPLs in Spain and Italy with a low likelihood of recovery and technical issues on outstanding collection payments in France.

As a result, Advanzia's profit after tax of MEUR 23.3 decreased by 8.7% compared to Q3 2023 and decreased by 16.4% compared to Q4 2022. Advanzia's profit before tax of MEUR 27.7 decreased by 4.1% and 21.5% compared to Q3 2023 and Q4 2022, respectively.

In November, the Bank increased its existing securitisation programme from MEUR 475 to MEUR 1 000 in senior funding by adding two new investors. In December, the Bank successfully issued a MNOK 500 (MEUR 42.6 equivalent) AT1 bond at fixed margin to 3M NIBOR of 8.5%.

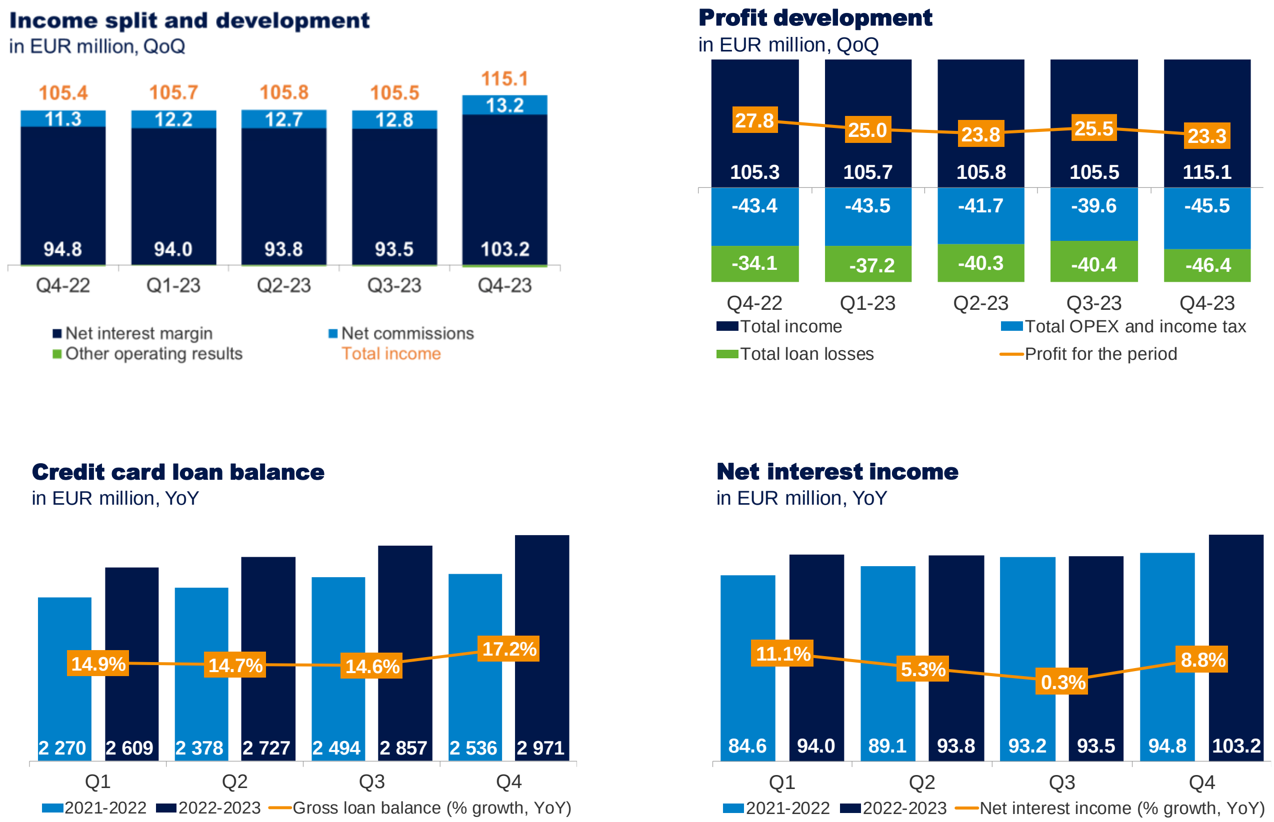


Figure 5: Financials.

Key performance indicators (KPIs)

The interest rate increase towards the customers started generating positive results, showcased by the yield increasing by 0.3%-points, up to 16.1% in the quarter. Further yield improvements are expected in the next quarter. Nevertheless, the net interest margin decreased by 0.2%-points due to increasing funding costs. The 12-month trailing loan loss rate increased by 0.3%-points, impacted by the effects in Germany, Spain and France (cf. above). The cost/income ratio increased to 35.6% in the quarter, attributable to a combination of higher funding costs and operating expenses, with the latter mainly being driven by the extraordinary impairment. The annualised return on shareholders' equity decreased to 25.2% due to lower profit compared to the previous quarter. The Bank maintains high solvency with a capital adequacy ratio (incl. interim profits) of 22.4%, while liquidity levels are comfortable with an LCR of 229.8%. In December, the Bank obtained regulatory approval to include MEUR 23.8 of interim profit into CET1 capital.

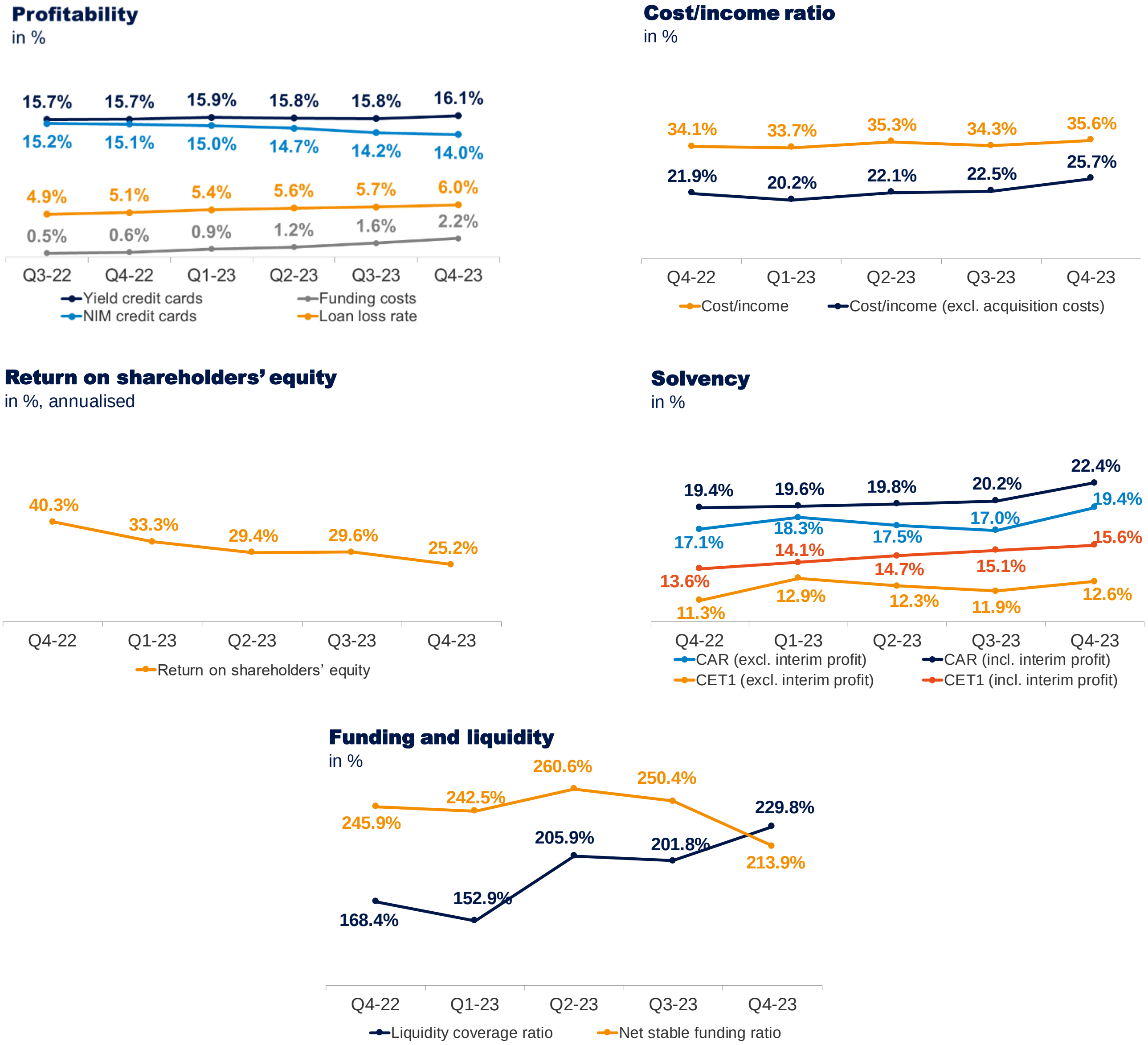


Figure 6: *Key performance indicators[2].*

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[2] Yield on credit cards loans: annualised.

Net interest margin and loan loss rate: computed on a last 12-month basis (trailing).

Outlook

The German economy was the weakest amongst its large euro zone peers in 2023. While inflation has eased since the start of the year, food and energy prices remain high. The decline in German consumer spending is typically considered as a key indicator for the EU region's overall economic health.

Despite these headwinds, the Bank achieved a steady loan balance growth throughout the year. Although loan losses have increased over the year, this was largely concentrated on the non-German speaking markets. For these markets, credit risk mitigation measures initiated in the middle of 2023 started showing positive results, with the full effect expected to be realised during the coming quarters. In Germany, loan loss provisions have increased, but to a lower extent. Nevertheless, acceptance criteria were recently tightened, and Interest rate increases are expected to improve profitability.

The Bank continued its digitalisation programme by successfully rolling out its harmonised application and onboarding process in Austria as part of its omni-channel customer enrolment initiative, boosting customer satisfaction through reduced enrolment times and AI-powered solutions. The pilot in Austria has paved the way for a rollout in Germany, the Bank's largest market, which is planned for 2024.

The Bank continues to closely monitor the macroeconomic development and customer performance. With a resilient capital position, further diversified funding sources and strong profitability, the Bank expects to achieve continued growth in 2024.

Munsbach, Luxembourg

12.02.2024

Patrick Thilges Chief Financial Officer	Nishant Fafalia Chief Executive Officer

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

Tony Cragg, Compound, 2017. Courtesy the artist and Christen Sveaas' Art Foundation. Installation view from "Tony Cragg – Material in Mind" at Kistefos Museum, The Twist, 29.04-15.10.2023. Photo: Michael Richter.

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