



**ADVANZIA
BANK**

FINANCIAL REPORT
Second Quarter 2022



Pierre Huyghe

Variants, 2021 – ongoing

Scanned forest, real-time simulation, generative mutations and sounds, intelligent camera, environmental sensors, animals, plants, micro-organisms and materialised mutations: synthetic and biological material aggregate.

Courtesy of the artist; Kistefos Museum; Hauser and Wirth, London. Photo: Ola Rindal. © Pierre Huyghe

FINANCIAL REPORT

SECOND QUARTER 2022

Advanzia Bank S.A.

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Highlights for the second quarter 2022

KPI	Actual	QoQ %	YoY %
Gross credit card loan balance (MEUR)	2 378	+4.7%	+16.2%
Performing active clients	1 302 000	+4.2%	+9.8%
Cards in force ¹	2 154 000	+2.7%	+7.6%
Card acquisition cost (MEUR)	11.9	+15.4%	+47.1%
Loan loss rate (provisions and write offs)	4.8%	+0.4% - points	+1.2% - points
Net profit (MEUR)	32.2	+7.1%	-0.2%
Annualised return on equity	46.7%	35.3% in Q1-22	39.7% in Q2-21

As pandemic restrictions have been lifted across EU for the summer, Advanzia's clients reverted in many aspects to pre-pandemic habits and thus also increased card usage: total turnover increased by 20.2% QoQ, from MEUR 1 105 to a record high MEUR 1 327.

The increased card activity combined with an increase in performing active clients of 4.2% QoQ led to a 4.7% growth of the gross loan balance. Compared to Q2 2021, Advanzia's credit card portfolio grew by 16.2% in terms of loan balance and by 9.8% in terms of active clients.

Total income of MEUR 96.8 was up 4.4% QoQ and 22.7% YoY, mainly driven by higher credit card balance generating more interest income coupled with lower interest expenses. Operating expenses reached MEUR 31.4 in Q2, up 11.7% QoQ, and 18.8% higher YoY mainly driven by increased marketing spending and card activities. Operating expenses excluding acquisition costs increased 9.5% QoQ and 4.4% YoY driven by Advanzia's scalable digital business model.

Total loan loss provisions of MEUR 31.2 were up 25.2% QoQ and up 77.4% YoY. The increase in provisions is due to the combination of a faster loan balance growth than in the previous quarter, a higher default rate (which nevertheless remains lower than in the pre-pandemic period) and the update of the macroeconomic indicators in the forward-looking adjustment in IFRS 9.

Earnings before tax of MEUR 34.2 were down 13.9% QoQ and 1.9% compared to Q2 2021, while the net profit for Q2 ended at MEUR 32.2 (+7.1% QoQ and -0.2% YoY).

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

Profit development

in EUR million, QoQ

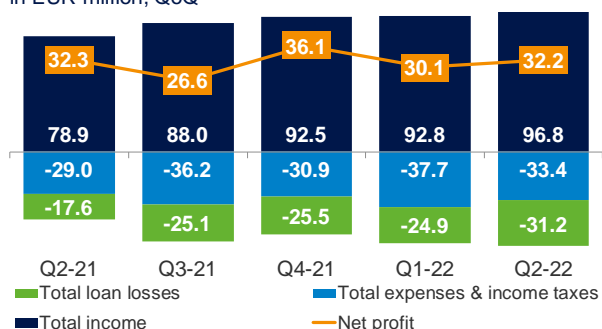


Figure 1: Profit development.

Growth metrics	Performing active clients	Loans and advances to credit card clients	Net profit
CAGR (2017 - LTM*)	14.6%	18.4%	22.9%
YTD 2022 vs. YTD 2021	9.8%	16.2%	7.5%

* Last twelve months

Table 1: CAGR and YTD growth.

Since 2017, Advanzia has delivered a compound annual growth rate (CAGR) of 22.9% in net profit, 18.4% in loan balance and 14.6% in the number of performing active credit card clients.

Loan balance development

Credit card loan balance

in EUR million, QoQ

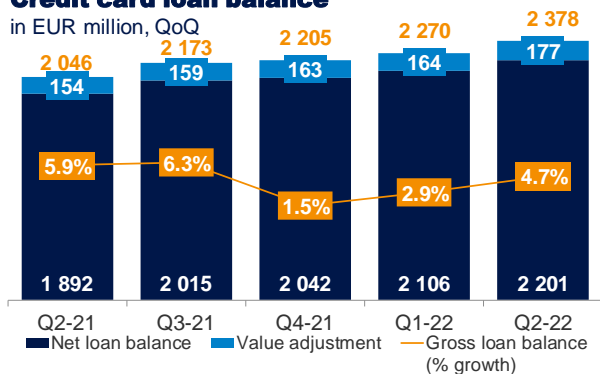


Figure 2: Loan balance development.

In the second quarter of 2022, the gross loan balance grew by 4.7% QoQ. All markets contributed positively to the growth.

Active clients/credit cards

Number of active credit card clients

in 000's, QoQ

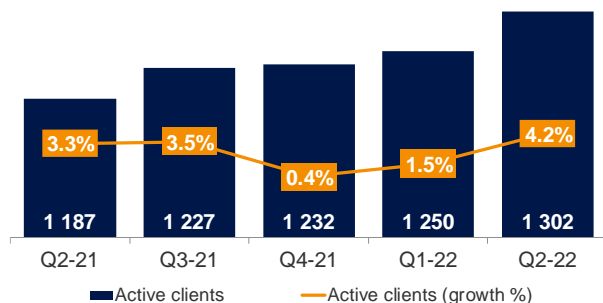


Figure 3: Credit card clients.

In Q2, the Bank had 1 302 000 active clients, an increase of 4.2% compared to the previous quarter and 9.8% YoY.

Financial institutions – Professional Card Services (PCS)

Key Figures, PCS clients	Actual Q2-22	Actual Q1-22	QoQ growth	Actual Q2-21	YoY growth	Actual YTD-22	Actual YTD-21	YTD growth
Total cards (opened)	18 021	17 732	1.6%	16 917	6.5%	18 021	16 917	6.5%
Turnover (in EUR million)	152.3	129.1	18.0%	103.3	47.5%	281.4	183.8	53.1%

Table 2: PCS statistics

In the PCS business segment, card turnover was up 18.0% QoQ and 47.5% YoY due to the relaxation of pandemic-related restrictions. The number of cards increased by 1.6% QoQ and 6.5% YoY.

Deposit account

Deposit balance

in EUR million, QoQ

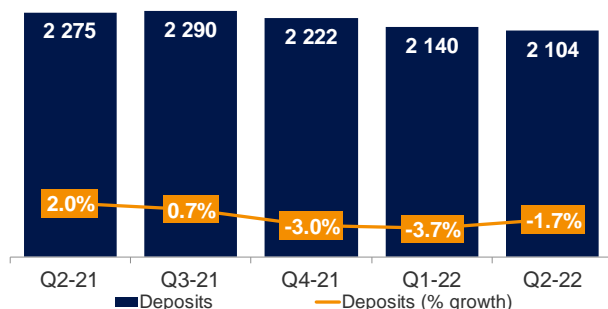


Figure 4: Deposit statistics.

The Bank maintained its deposit rate at 0.05% eff. p.a. and registered a net outflow of MEUR 35 corresponding to a 1.7% deposit balance decrease compared to the previous quarter.

Board, management and staff

As of 30 of June, Advanzia Bank employed 189 full-time equivalent employees, up from 183 at the end of the previous quarter. On 15th of June, Kaj Larsen joined the Bank as General Counsel. In his role, he has been appointed as authorized 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 second 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 Q2-22	Actual Q1-22	QoQ growth	Actual Q2-21	YoY growth	Actual YTD-22	Actual YTD-21	YTD growth
Cash, balances with central banks	576.2	791.2	-27.2%	882.6	-34.7%	576.2	882.6	-34.7%
Loans and advances to credit institutions	85.9	84.8	1.2%	133.3	-35.6%	85.9	133.3	-35.6%
Loans and advances to PCS partner banks	69.3	54.2	27.9%	49.1	41.1%	69.3	49.1	41.1%
Loans and advances to credit card clients	2 377.7	2 270.2	4.7%	2 045.5	16.2%	2 377.7	2 045.5	16.2%
Value adjustments	-177.1	-164.2	7.9%	-153.7	15.2%	-177.1	-153.7	15.2%
Net loans and advances to credit card clients	2 200.7	2 106.0	4.5%	1 891.8	16.3%	2 200.7	1 891.8	16.3%
Tangible and intangible assets	28.1	28.9	-3.0%	31.3	-10.4%	28.1	31.3	-10.4%
Other assets	18.3	17.7	3.4%	19.4	-5.9%	18.3	19.4	-5.9%
Total assets	2 978.3	3 082.8	-3.4%	3 007.5	-1.0%	2 978.3	3 007.5	-1.0%
Liabilities and equity (EUR million)	Actual Q2-22	Actual Q1-22	QoQ growth	Actual Q2-21	YoY growth	Actual YTD-22	Actual YTD-21	YTD growth
Amounts owed to credit institutions	14.2	24.3	-41.8%	237.1	-94.0%	14.2	237.1	-94.0%
Amounts owed to customers	2 104.2	2 139.6	-1.7%	2 274.7	-7.5%	2 104.2	2 274.7	-7.5%
Amounts owed to financial corporates	421.9	400.2	5.4%	0.0	-	421.9	0.0	-
Other liabilities, accruals, provisions	35.5	50.2	-29.2%	41.2	-13.8%	35.5	41.2	-13.8%
Subordinated loan (T2)	55.0	55.0	0.0%	55.0	0.0%	55.0	55.0	0.0%
Sum liabilities	2 630.8	2 669.3	-1.4%	2 608.0	0.9%	2 630.8	2 608.0	0.9%
Subscribed capital	27.4	27.4	0.0%	27.4	0.0%	27.4	27.4	0.0%
Other equity instruments	59.5	63.4	-6.2%	60.6	-1.8%	59.5	60.6	-1.8%
Reserves	36.0	29.9	20.5%	29.9	20.5%	36.0	29.9	20.5%
Profit (loss) brought forward	164.8	147.1	12.0%	225.2	-26.8%	164.8	225.2	-26.8%
Profit for appropriation	0.0	120.7	-100.0%	0.0	-	0.0	0.0	-
AT1 bondholder distributions	-2.6	-5.2	-50.7%	-1.6	61.3%	-2.6	-1.6	61.3%
Profit for the financial year	62.3	30.1	107.1%	58.0	7.5%	62.3	58.0	7.5%
Sum equity	347.5	413.5	-16.0%	399.5	-13.0%	347.5	399.5	-13.0%
Total liabilities and equity	2 978.3	3 082.8	-3.4%	3 007.5	-1.0%	2 978.3	3 007.5	-1.0%

Table 3: Unaudited statement of financial position as at 30 June 2022 (in EUR million)

Income statement (EUR million)	Actual Q2-22	Actual Q1-22	QoQ growth	Actual Q2-21	YoY growth	Actual YTD-22	Actual YTD-21	YTD growth
Interest receivable, credit cards	91.1	87.0	4.7%	77.6	17.4%	178.1	152.7	16.7%
Interest receivable (payable), others	-1.8	-2.1	-17.9%	-2.7	-33.9%	-3.9	-4.8	-18.0%
Interest payable, deposits	-0.3	-0.3	-2.9%	-1.1	-75.7%	-0.6	-2.5	-77.5%
Net interest income	89.1	84.6	5.3%	73.8	20.7%	173.7	145.5	19.4%
Commission receivable	14.3	13.1	9.3%	10.9	30.7%	27.3	20.7	32.3%
Commission payable	-5.3	-5.0	5.6%	-4.3	22.7%	-10.3	-8.4	22.1%
Other operating result	-1.3	0.1	-142.4%	-1.5	-18.4%	-1.2	-2.0	-42.8%
Total income	96.8	92.8	4.4%	78.9	22.7%	189.6	155.6	21.8%
Card acquisition costs	-11.9	-10.3	15.4%	-8.1	47.1%	-22.3	-16.6	34.0%
Card operating costs	-7.9	-7.4	7.1%	-6.6	20.4%	-15.3	-13.1	16.5%
Staff costs	-5.3	-4.6	16.0%	-5.4	-1.4%	-9.9	-10.3	-4.1%
Other administrative expenses	-3.9	-3.4	12.3%	-4.4	-12.3%	-7.3	-8.3	-11.9%
Depreciation, tangible + intangible assets	-2.4	-2.4	0.7%	-2.0	21.7%	-4.8	-4.0	20.6%
Sum operating expenses	-31.4	-28.1	11.7%	-26.5	18.8%	-59.6	-52.4	13.8%
Value adjustments	-12.9	-1.2	986.2%	-2.1	523.2%	-14.1	-10.4	35.9%
Write-offs	-18.3	-23.7	-22.9%	-15.5	17.9%	-42.0	-23.8	76.2%
Total loan losses (provisions & write offs)	-31.2	-24.9	25.2%	-17.6	77.4%	-56.1	-34.2	64.0%
Profit (loss) on ordinary activities before taxes	34.2	39.7	-13.9%	34.8	-1.9%	73.9	69.1	7.0%
Income tax and net worth tax	-1.9	-9.6	-79.7%	-2.5	-23.6%	-11.5	-11.1	4.0%
Profit (loss) for the period	32.2	30.1	7.1%	32.3	-0.2%	62.3	58.0	7.5%

Table 4: Unaudited income statement as at 30 June 2022 (in EUR million).

Comments on the accounts

During Q2 2022, the gross credit card loan balance increased by MEUR 107.5 (4.7% QoQ) to MEUR 2 378 due to increased customer activity. Deposits decreased by 1.7% as the Bank kept its deposit rate constant due to it holding excess liquidity.

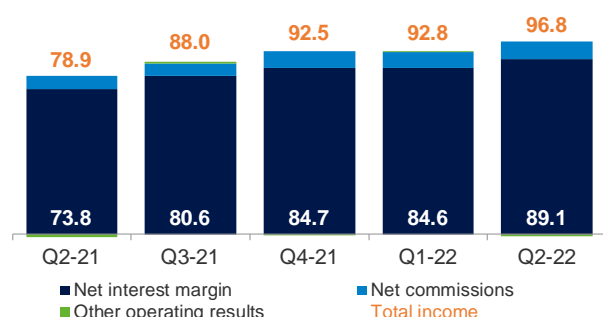
Total income increased by 4.4% QoQ and reached MEUR 96.8. The growth in total income is driven by the growth in loan balance and higher commission income. Operating expenses of MEUR 31.4 were up 11.7% QoQ mainly due to higher card acquisition costs. Card acquisition costs increased by 15.4% QoQ due to higher marketing activities.

Total loan losses increased by 25.2% QoQ and 77.4% YoY mainly due higher loan balance growth, higher default rates (which nevertheless remains lower than in the pre-pandemic period) and reflection of worsened macroeconomic indicators in the forward-looking adjustment in IFRS 9.

Avanzia's earnings before tax of MEUR 34.2 decreased by 13.9% compared to Q1 2022 and by 1.9% compared to Q2 2021. Avanzia's net profit of MEUR 32.2 increased by 7.1% compared to Q1 2022 and decreased by 0.2% compared to Q2 2021.

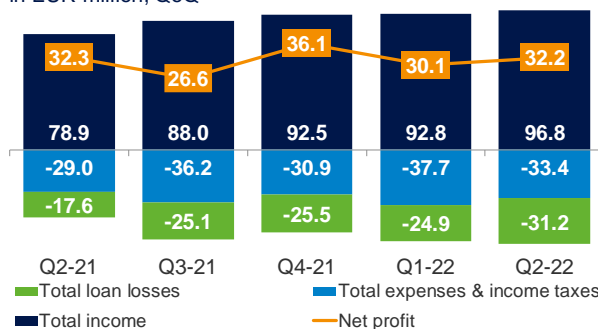
Income split and development

in EUR million, QoQ



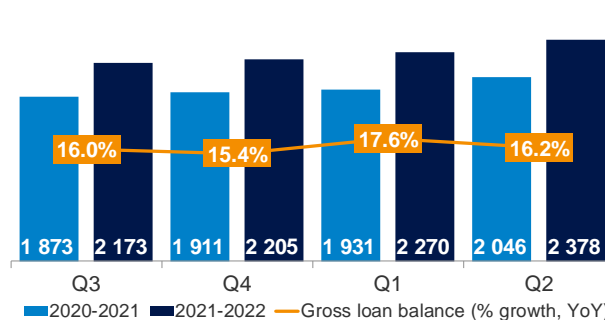
Profit development

in EUR million, QoQ



Credit card loan balance

in EUR million, YoY



Net interest income

in EUR million, YoY

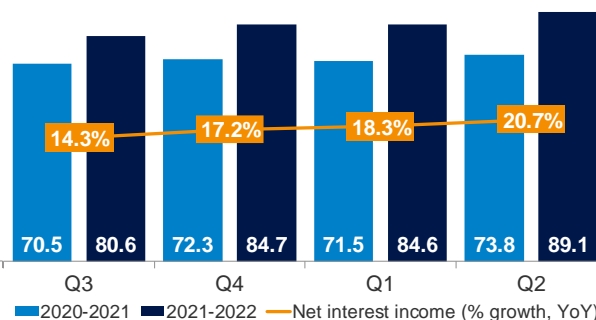


Figure 5: Income, profit, loan balance and net interest margin development. Quarterly net profit figures are impacted by tax related intra-year differences.

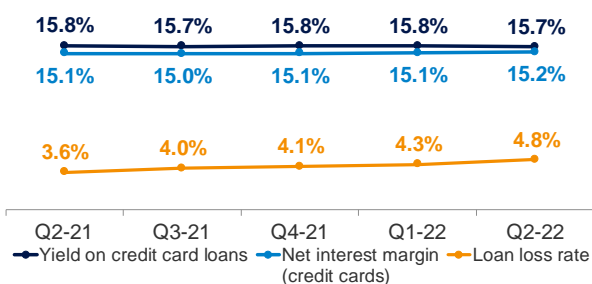
Key performance indicators (KPIs)

In Q2 2022, both the yield and net interest margin on credit cards remained in line with previous quarters. The 12-month trailing loan loss rate increased by 0.4%-points due to higher loan loss provisions compared to Q2 2021 as explained above. The cost-income ratio increased from 30.3% in Q1 2022 to 32.5% in Q2 2022 which is mainly attributable to higher marketing expenses during the quarter. The annualised return on equity of 46.7% increased QoQ due to the payment of a dividend of MEUR 93.

The Bank remains highly solvent with a capital adequacy ratio (incl. interim profits) of 21.0%, 4.5% lower compared to the last quarter mainly due to the dividend payment mentioned above. Liquidity levels are comfortable with a LCR of 150.6%.

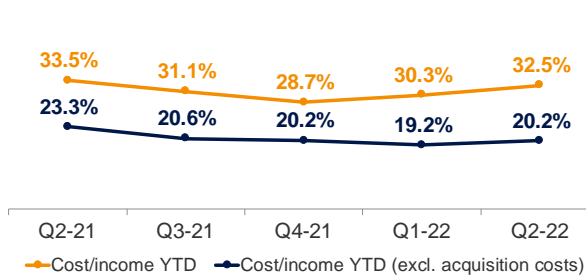
Profitability

in %, QoQ



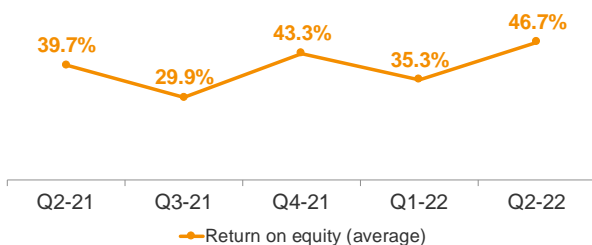
Cost/income ratio

in %, QoQ



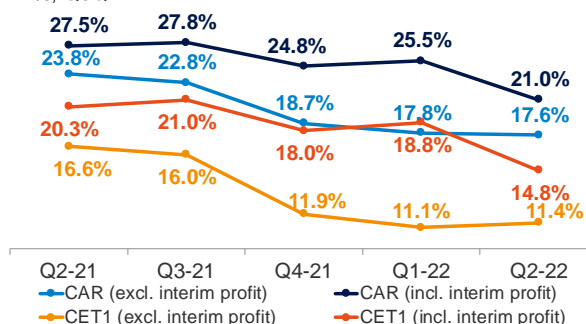
Return on equity

in %, annualised, QoQ



Solvency

in %, QoQ



Funding and liquidity

in %, QoQ

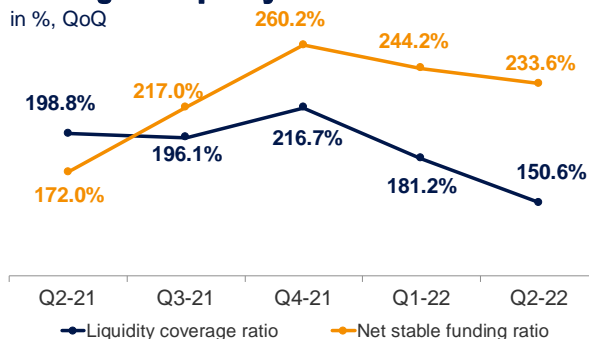


Figure 6: Key performance indicators².

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

Outlook

The relief of pandemic-related restrictions has led to a strong increase in travel and entertainment related spending. During Q3 Advanzia expects the record high card turnover of Q2 2022 to be sustained or even surpassed.

This positive perspective contrasts the negative factors such as the ongoing Ukraine war and sharply higher inflation that represent concrete risks for the EU economy. In this environment, the Bank's credit risk has remained within anticipated levels and the number of new default cases shows a gradual increase across markets – back to levels seen before the COVID-19 pandemic.

In Italy, the Bank's most recent market, marketing and onboarding activities with Carta YOU have increased steadily, driven by a continuously positive development since market entry in Q4 2021. In all the markets, Advanzia's products attract strong consumer demand for seamless card payments and a flexible credit facility. The Bank expects a continued growth in all business segments: the own-branded credit cards, the co-branded cards for partners as well as the "cards-as-a-service" solution for Financial Institutions (PCS).

The Bank will roll out additional services to customers throughout the year. Furthermore, the investments in a cloud-based infrastructure, the transformation of the Bank's IT architecture to a fully digital customer platform and the diversification of Advanzia's funding have continued to develop according to plan.

Munsbach, Luxembourg

15.08.2022

Patrick Thilges
Chief Financial Officer

Roland Ludwig
Chief Executive Officer



Pierre Huyghe

Variants, 2021 – ongoing

Scanned forest, real-time simulation, generative mutations and sounds, intelligent camera, environmental sensors, animals, plants, micro-organisms and materialised mutations: synthetic and biological material aggregate.

Courtesy of the artist; Kistefos Museum; Hauser and Wirth, London. Photo: Ola Rindal. © Pierre Huyghe



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