ADVANZIA BANK

FINANCIAL REPORT

Second Quarter 2023

Tone Vigeland, Skulptur I, 2022
Photo: Vegard Kleven
Courtesy of Kistefos Museum & Galleri Riis

FINANCIAL REPORT
SECOND QUARTER 2023

Advanzia Bank S.A.

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Highlights for the second quarter 2023

KPI	Actual Q2-23	QoQ %	YoY %
Gross credit card loan balance (MEUR)	2 727	+4.5%	+14.7%
Performing active clients	1 493 000	+4.2%	+14.7%
Cards in force[1]	2 385 000	+3.4%	+10.7%
Card acquisition cost (MEUR)	14.0	-2.0%	+17.4%
Loan loss rate (provisions and write offs)	5.6%	+0.2% - points	+0.8% - points
Net profit (MEUR)	23.8	-4.9%	-26.2%
Annualised return on equity	29.4%	33.3% in Q1-23	46.7% in Q2-22

Advanzia continues to grow steadily, as its portfolio of performing active credit card clients increased 4.2% QoQ and 14.7% YoY. Increased number of customers and transactions led to the gross loan balance reaching BEUR 2.7 (+4.5% QoQ and +14.7% YoY). Total income reached MEUR 105.8, 0,1% QoQ and 9.3% YoY (in comparison interest income increased 3.7% QoQ and 15.3% YoY) impacted by higher funding costs following the increase in ECB key lending rates as mentioned below.

Operating expenses of MEUR 37.4 were up 4.9% QoQ due to higher card operating costs caused by higher call centre and staff costs.

Total loan loss provisions of MEUR 40.3 were up 8.3% QoQ and up 29.3% YoY. The main reason for the QoQ increase is accelerated loan balance growth in Germany. Other reasons include a combination of weakening client behaviour due to inflationary tendencies causing an increased cost of living as well as technical issues in France and Spain.

Earnings after tax of MEUR 23.8 decreased by 4.9% compared to Q1 2023 and 26.2% compared to Q2 2022. Advanzia's earnings before tax of MEUR 28.1 decreased by 14.3% compared to Q1 2023 and by 17.7% compared to Q2 2022.

Overall, Advanzia expects a continued weakening of its net profit over the next quarters driven by further increased funding costs and higher loan loss provisions. The ECB has during the last 12 months increased the deposit rate from -0.50% to 3.75%. During this time, Advanzia has not increased its interest rate towards existing customers in Germany and Austria. Since March 2023, Advanzia has started to increase the interest rate for new clients in Germany and Austria which is expected to give effect over the long term. In addition, Advanzia has decided to increase the interest rate on existing customers in Germany which will have a limited impact in Q4 2023 and a positive impact from 2024 and beyond.

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

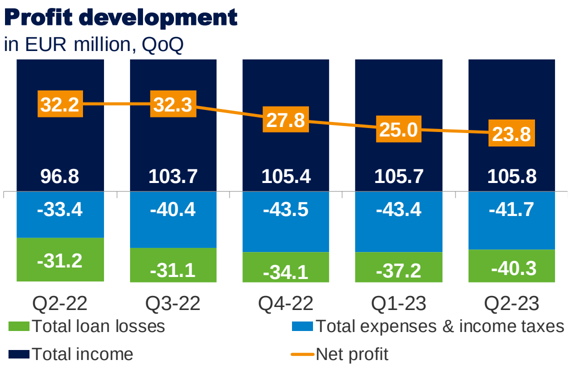


***Figure 1:** Profit development.*

Growth metrics	Performing active clients	Loans and advances to credit card clients	Net profit
CAGR (2017 - LTM*)	14.6%	17.8%	16.6%
YTD 2023 vs. YTD 2022	14.7%	14.7%	-21.7%

* Last twelve months

***Table 1:** Growth metrics.*

Since the end of 2017, Advanzia has delivered a compound annual growth rate (CAGR) of 16.6% in net profit, 17.8% in loan balance and 14.6% in the number of performing active credit card clients.

Credit cards

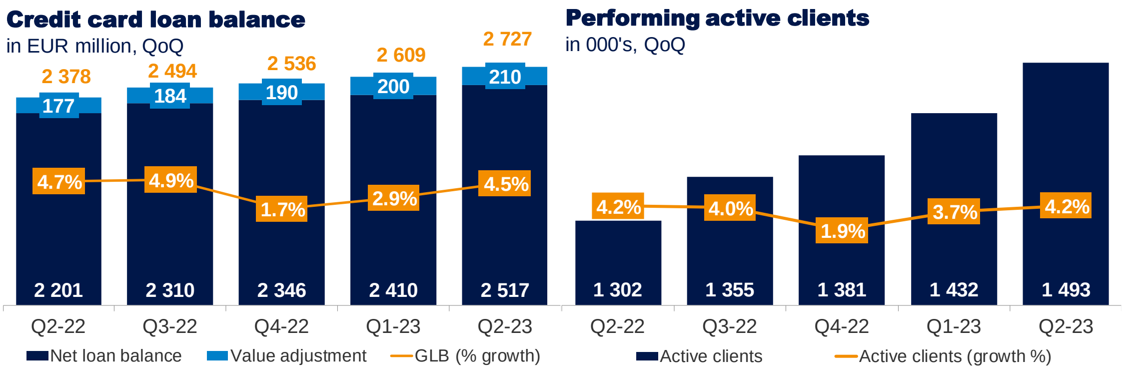


***Figure 2**: Credit cards statistics.*

In Q2 2023 the loan balance grew with 4.5% QoQ and active customers grew with 4.2% QoQ. All markets contributed to the progression both in terms of loan balance and number of clients. Sales volumes are expected to remain strong for Germany and Austria. However, for other markets, sales volumes will be reduced until a higher profitability is secured.

Professional Card Services (PCS)

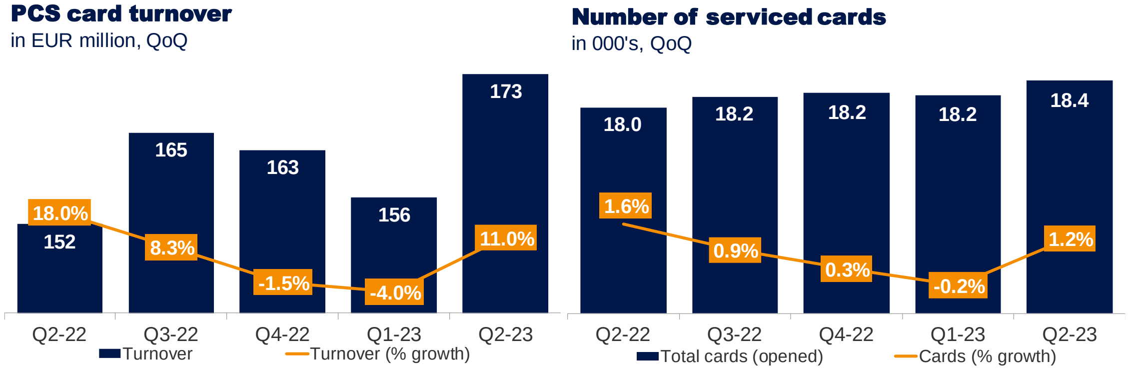


Figure 3: *PCS statistics.*

In the PCS business segment, card turnover was up by 11.0% QoQ mainly due to seasonal effects (beginning of holiday period).

Deposit account

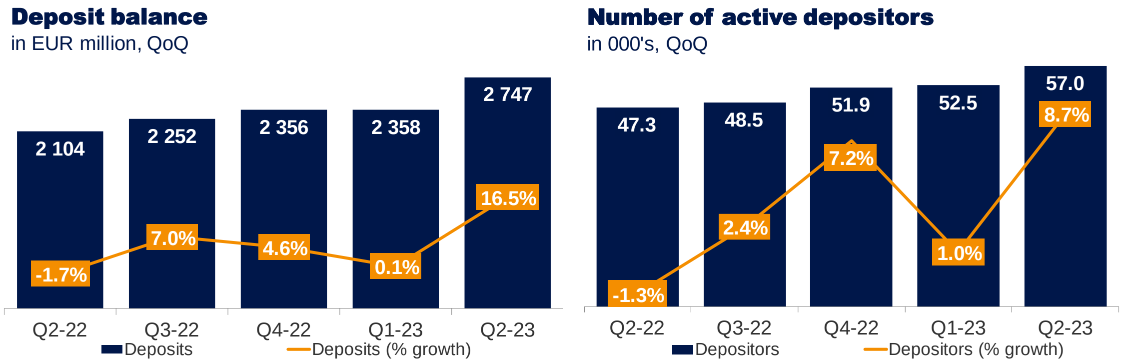


Figure 4: *Deposit statistics.*

During Q2, the Bank increased deposit rates through introductory campaigns for new depositors and special campaigns for existing customers. Thanks to these campaigns, the Bank registered a net inflow of MEUR 389, corresponding to a 16.5% deposit balance increase QoQ. The number of active depositors increased by 8.7% to 57 000 accounts.

Board, management and staff

As of 30 June 2023, Advanzia Bank employed 190 full-time equivalent employees, up from 185 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 second 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 Q2-23**	**Actual Q1-23**	**QoQ Growth**	**Actual Q2-22**	**YoY Growth**	**Actual YTD-23**	**Actual YTD-22**	**YoY Growth**
Cash, balances with central banks	1 009.7	668.9	*51.0%*	576.2	*75.3%*	1 009.7	576.2	*75.3%*
Loans and advances to credit institutions	44.8	80.4	*-44.3%*	85.9	*-47.8%*	44.8	85.9	*-47.8%*
Net loans and advances to PCS partner banks	88.3	68.9	*28.1%*	69.3	*27.4%*	88.3	69.3	*27.4%*
Loans and advances to credit card clients	2 726.9	2 609.2	*4.5%*	2 377.7	*14.7%*	2 726.9	2 377.7	*14.7%*
Value adjustments (losses)	-210.4	-199.6	*5.4%*	-177.1	*18.8%*	-210.4	-177.1	*18.8%*
Net loans and advances to credit card clients	2 516.5	2 409.6	*4.4%*	2 200.7	*14.4%*	2 516.5	2 200.7	*14.4%*
Tangible and intangible assets	28.5	24.6	*16.0%*	28.1	*1.4%*	28.5	28.1	*1.4%*
Other assets	27.0	20.9	*28.8%*	19.5	*38.4%*	27.0	19.5	*38.4%*
Total assets	**3 714.8**	**3 273.4**	***13.5%***	**2 979.5**	***24.7%***	**3 714.8**	**2 979.5**	***24.7%***

Liabilities and equity (EUR million)	**Actual Q2-23**	**Actual Q1-23**	**QoQ Growth**	**Actual Q2-22**	**YoY Growth**	**Actual YTD-23**	**Actual YTD-22**	**YoY Growth**
Amounts owed to credit institutions	48.0	26.0	*86.9%*	14.2	*238.7%*	48.0	14.2	*238.7%*
Amounts owed to customers	2 746.8	2 358.3	*16.5%*	2 104.2	*30.5%*	2 746.8	2 104.2	*30.5%*
Amounts owed to financial corporates	447.0	439.8	*1.6%*	421.9	*6.0%*	447.0	421.9	*6.0%*
Other liabilities, accruals, provisions	34.3	31.6	*7.7%*	36.7	*-6.6%*	34.3	36.7	*-6.6%*
Subordinated loan (T2)	55.0	55.0	*0.0%*	55.0	*0.0%*	55.0	55.0	*0.0%*
Sum liabilities	**3 331.2**	**2 910.6**	***14.4%***	**2 632.1**	***26.6%***	**3 331.2**	**2 632.1**	***26.6%***
Subscribed capital and reserves	68.7	68.7	*0.0%*	63.4	*8.3%*	68.7	63.4	*8.3%*
Other equity instruments (AT1)	52.6	54.1	*-2.6%*	59.5	*-11.6%*	52.6	59.5	*-11.6%*
Profit (loss) brought forward	216.4	216.4	*0.0%*	164.8	*31.3%*	216.4	164.8	*31.3%*
Profit for the financial year (net of interim dividend and AT1 distributions)	45.9	23.6	*94.5%*	59.8	*-23.3%*	45.9	59.8	*-23.3%*
Sum equity	**383.6**	**362.7**	***5.7%***	**347.5**	***10.4%***	**383.6**	**347.5**	***10.4%***
Total liabilities and equity	**3 714.8**	**3 273.4**	***13.5%***	**2 979.5**	***24.7%***	**3 714.8**	**2 979.5**	***24.7%***

Income statement (EUR million)	**Actual Q2-23**	**Actual Q1-23**	**QoQ Growth**	**Actual Q2-22**	**YoY Growth**	**Actual YTD-23**	**Actual YTD-22**	**YoY Growth**
Interest receivable, credit cards	105.1	101.3	*3.7%*	91.1	*15.3%*	206.4	178.1	*15.9%*
Interest receivable (payable), others	-11.3	-7.3	*54.2%*	-2.0	*456.7%*	-18.6	-4.4	*318.5%*
Net interest income	**93.8**	**94.0**	***-0.3%***	**89.1**	***5.3%***	**187.8**	**173.7**	***8.1%***
Commission receivable	17.9	16.5	*8.6%*	14.3	*25.6%*	34.4	27.3	*26.0%*
Commission payable	-6.5	-6.2	*4.8%*	-5.3	*22.6%*	-12.7	-10.3	*23.1%*
Other operating result	0.6	1.3	*-54.8%*	-1.3	*-148.2%*	2.0	-1.2	*-267.3%*
Total income	**105.8**	**105.7**	***0.1%***	**96.8**	***9.3%***	**211.5**	**189.6**	***11.6%***
Card acquisition costs	-14.0	-14.3	*-2.0%*	-11.9	*17.4%*	-28.3	-22.3	*27.1%*
Staff costs	-6.2	-5.3	*16.7%*	-5.3	*17.3%*	-11.6	-9.9	*17.0%*
Other general administrative expenses	-14.6	-13.5	*8.1%*	-11.8	*24.2%*	-28.2	-22.6	*24.5%*
Depreciation, tangible + intangible assets	-2.5	-2.5	*1.3%*	-2.4	*3.7%*	-5.0	-4.8	*3.4%*
Total operating expenses	**-37.4**	**-35.6**	***4.9%***	**-31.4**	***18.9%***	**-73.0**	**-59.6**	***22.5%***
Total loan losses	**-40.3**	**-37.2**	***8.3%***	**-31.2**	***29.3%***	**-77.6**	**-56.1**	***38.3%***
Profit (loss) on ordinary activities before taxes	28.1	32.8	*-14.3%*	34.2	*-17.7%*	61.0	73.9	*-17.5%*
Income tax and net worth tax	-4.4	-7.8	*-44.1%*	-1.9	*124.6%*	-12.2	-11.5	*5.6%*
Profit (loss) for the period	**23.8**	**25.0**	***-4.9%***	**32.2**	***-26.2%***	**48.8**	**62.3**	***-21.7%***

Table 2: *Unaudited accounts as at 30 June 2023 (in EUR million).*

Comments on the accounts

In Q2 2023, the total income of MEUR 105.8 was in line with the previous quarter, mainly driven by higher interest income from credit cards and commission income, being offset by the higher funding costs.

Operating expenses of MEUR 37.4 were up 4.9% QoQ due to higher card operating costs caused by higher call centre and staff costs. These were partially offset by lower card acquisition costs.

Total loan loss provisions of MEUR 40.3 were up 8.3% QoQ. The main reason for the QoQ increase is accelerated loan balance growth in Germany. Other reasons include a combination of weakening client behaviour due to inflationary tendencies causing an increased cost of living as well as technical issues in France and Spain with sending out payment reminders.

As a result, Advanzia's net profit of MEUR 23.8 decreased by 4.9% compared to Q1 2023 and 26.2% compared to Q2 2022. Advanzia's earnings before tax of MEUR 28.1 decreased by 14.3% compared to Q1 2023 and by 17.7% compared to Q2 2022.

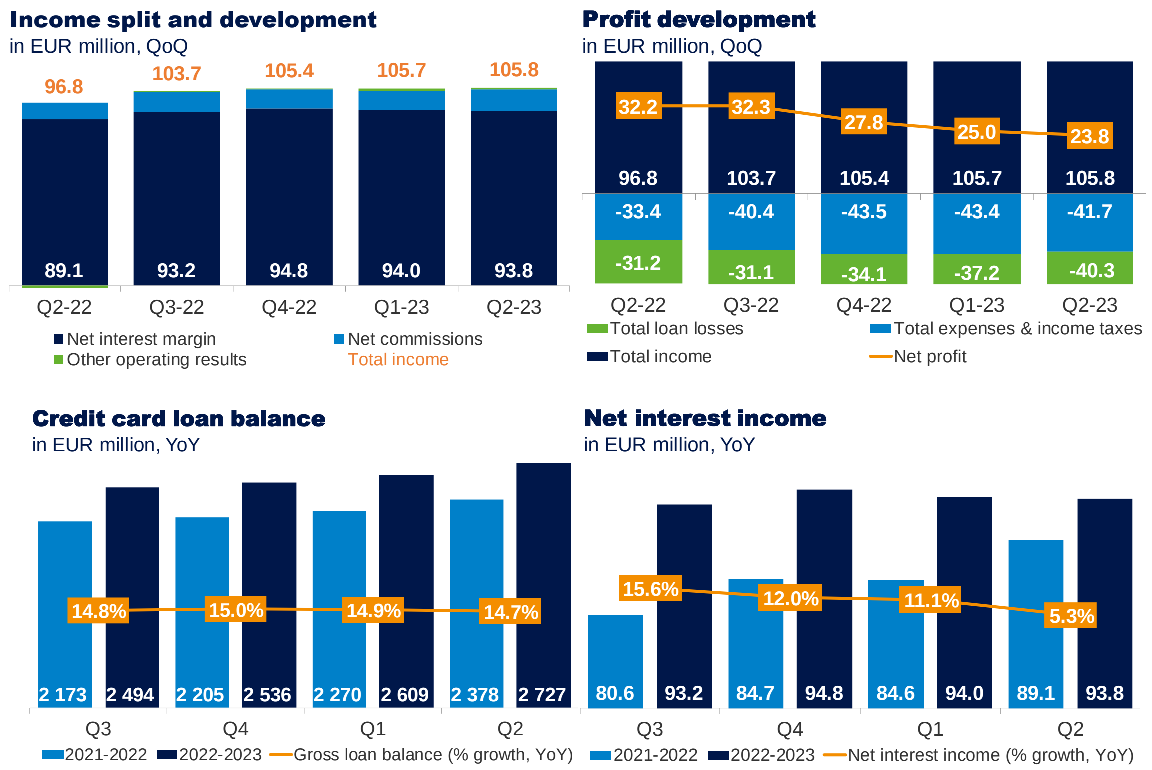


Figure 5: Interest Income, profit, loan balance and net interest margin development.

Key performance indicators (KPIs)

In Q2 2023, the yield decreased by 0.1%-points compared to Q1 2023, while the net interest margin decreased by 0.3%-points over the same period mainly due to the rise in funding rates. The 12-month trailing loan loss rate increased by 0.2%-points due to higher loan loss provisions in the quarter compared to Q1 2022 as explained on the previous page. The cost/income ratio increased from 33.7% in Q1 2023 to 35.3% in Q2 2023 which is attributable to higher card operating, staff and general administration costs.
The annualised return on equity of 29.4% decreased QoQ by 3.8%-points due to the lower net profit. The Bank maintains high solvency with a capital adequacy ratio (incl. interim profits) of 19.8%, while liquidity levels are comfortable with a LCR of 205.9%.

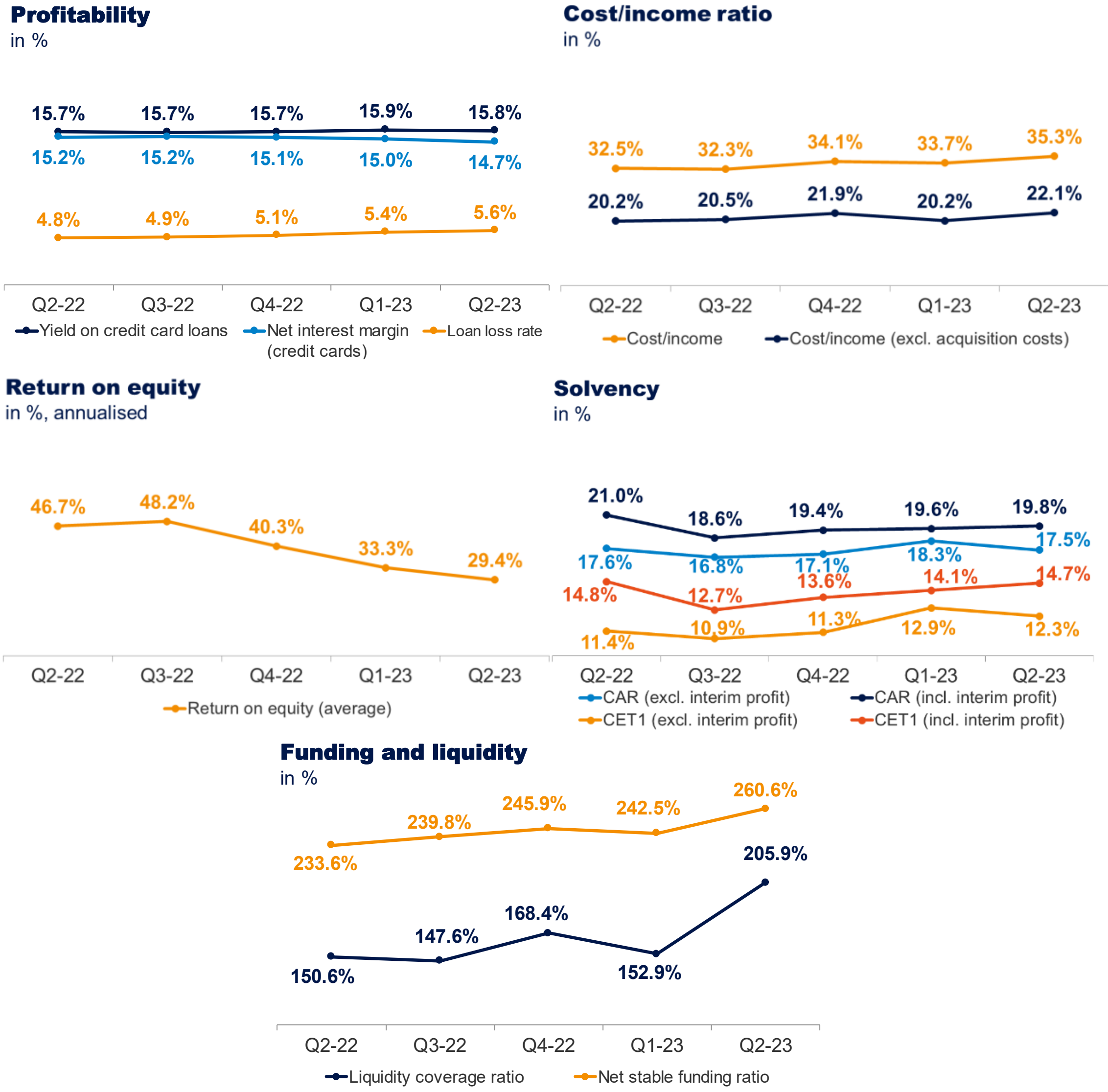


Figure 6: *Key performance indicators[2].*

[2] Yield on credit cards loans: annualized.

Net interest margin and Loan loss rate: computed on a Last 12 Month basis (trailing).

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

Outlook

The EU economy performed better than expected during the first two quarters of 2023 although the German economy is technically in a recession. As the disruptions caused by the war in Ukraine and the energy crisis clouded the outlook of the economy, combined with tightening monetary conditions, a severe winter recession in the EU appeared inevitable last year. However, the latest data indicates a smaller-than-projected contraction. Unemployment is still at very low levels dampening the factors mentioned above. The better starting position lifts the growth outlook for the EU economy for 2023 and marginally for 2024. Still, increased cost of living and general uncertainty might reverse this outlook.

Advanzia has again shown steady growth in loan balance and in the number of performing active clients this quarter and expects it to continue in Germany and Austria. For the other markets, Advanzia decided in June to reduce the growth pace due to unsatisfactory profitability. The Bank is working on multiple initiatives to increase profitability in these markets.

Overall, Advanzia expects a continued weakening of its net profit over the next quarters driven by further increased funding costs and higher loan loss provisions. The ECB has during the last 12 months increased the deposit rate from -0.50% to 3.75%. During this time, Advanzia has not increased its interest rate towards existing customers in Germany and Austria. Since March 2023, Advanzia has started to increase the interest rate for new clients in Germany and Austria which is expected to give effect over the long term. In addition, Advanzia has decided to increase the interest rate on existing customers in Germany which will have a limited impact in Q4 2023 and a positive impact from 2024 and beyond.

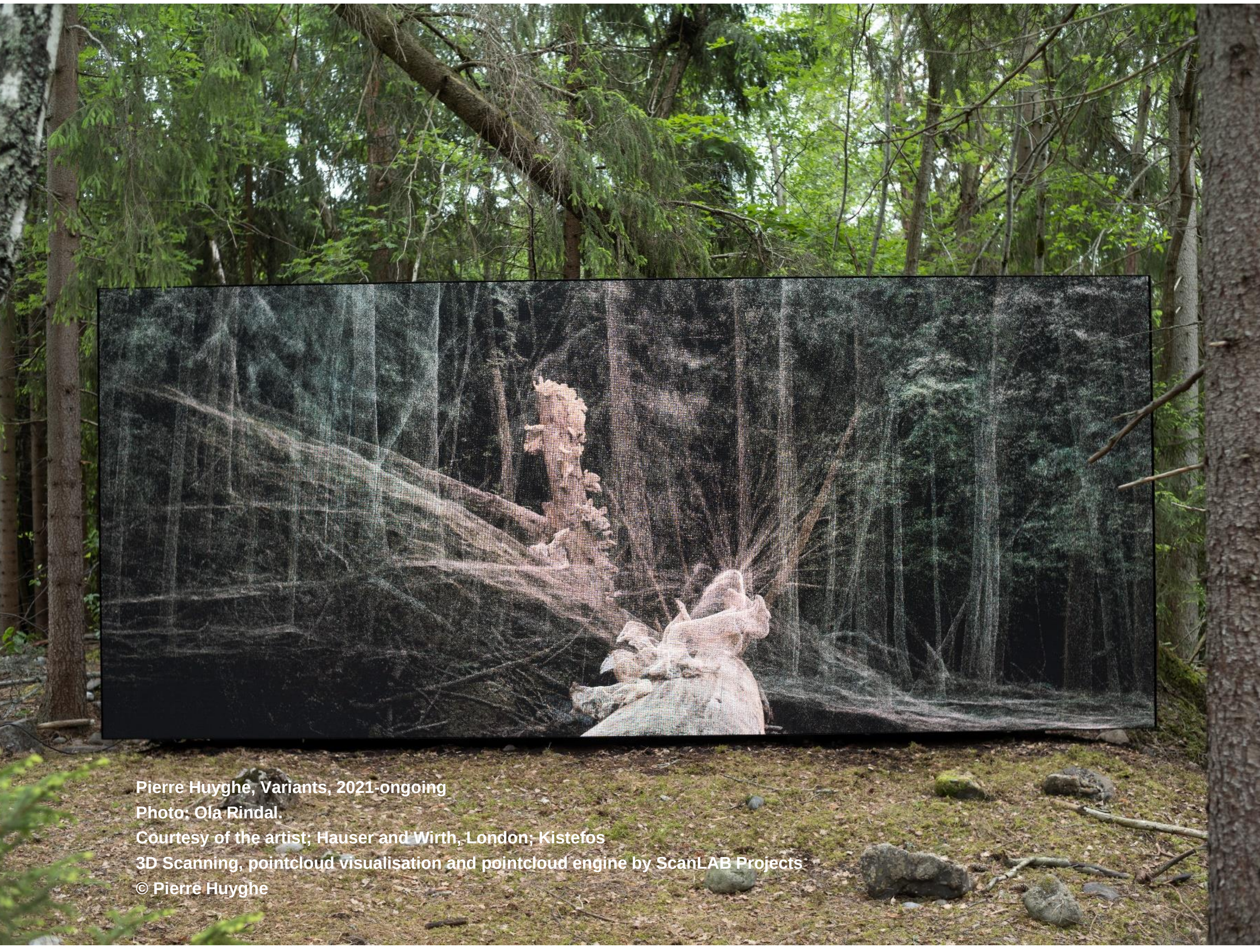
The Bank remains well capitalised and the recent increase in the deposit rate contribute to improved liquidity. Advanzia continues to pursue its key objectives of digital transformation and harmonisation of the enrolment processes, ensuring future competitiveness and consistent delivery of high customer value.

Munsbach, Luxembourg

15.08.2023

Patrick Thilges
Chief Financial Officer

Nishant Fafalia
Interim Chief Executive Officer



Pierre Huyghe, Variants, 2021-ongoing
Photo: Ola Rindal.
Courtesy of the artist; Hauser and Wirth, London; Kistefos
3D Scanning, pointcloud visualisation and pointcloud engine by ScanLAB Projects

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