ADVANZIA BANK

FINANCIAL REPORT

Third Quarter 2023

Installation view: “Tony Cragg – Material in Mind” at Kistefos Museum, The Twist, 29.04 – 29.10.2023. Photo: Michael Richter

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THIRD QUARTER 2023

Advanzia Bank S.A.

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Highlights for the third quarter 2023

KPI	Actual Q3-23	QoQ %	YoY %
Gross credit card loan balance (MEUR)	2 857	+4.8%	+14.6%
Performing active clients	1 557 000	+4.3%	+14.9%
Cards in force[1]	2 471 000	+3.6%	+11.1%
Card acquisition cost (MEUR)	12.4	-11.3%	+1.7%
Loan loss rate (provisions and write offs)	5.7%	+0.1% - points	+0.8% - points
Net profit (MEUR)	25.5	+7.1%	-21.0%
Annualised return on equity	29.6%	29.4% in Q2-23	48.2% in Q3-22

Advanzia continues to grow steadily, as its portfolio of performing active credit card clients increased 4.3% QoQ and 14.9% YoY. The increased number of customers and transaction volume led to the gross loan balance reaching BEUR 2.9 (+4.8% QoQ and +14.6% YoY). Interest income from credit cards outpaced the loan balance growth and increased by 6.3% QoQ and 15.8% YoY. Total income reached MEUR 105.5, down by 0.3% QoQ and up by 1.7% YoY, impacted by higher funding costs following the increase in ECB key lending rates.

The Bank continues to allocate marketing efforts towards the most profitable geographies. In some markets, sales activity has been temporarily reduced and as a result operating expenses were down 3.2% QoQ leading to a reduction in cost/income ratio to 34.3%.

Total loan loss provisions of MEUR 40.4 were in line with the previous quarter. The quarterly performance is mainly driven by the review of the IFRS9 model for Germany to reflect, firstly, the new legal interest rate for delinquent loans and, secondly, a new forward flow agreement. Both these elements decreased the expected recovery rate on delinquent loans and hence increased the loan loss provisions by MEUR 5.6. Without these factors, the QoQ performance would have been substantially better, primarily due to ongoing efforts to mitigate credit risk and optimize performance in all markets.

Earnings after tax of MEUR 25.5 increased by 7.1% compared to Q2 2023 and decreased by 21.0% compared to Q3 2022. Advanzia's earnings before tax of MEUR 28.9 increased by 2.7% compared to Q2 2023 and decreased by 26.1% compared to Q3 2022.

Compared to 2022, Advanzia has observed a weakening of net profit over the last three quarters driven by increasing funding costs and higher loan loss provisions. The Bank has reduced marketing expenditures and reviewed its acceptance policy in markets that are still unprofitable. Growth in these markets will not be pursued unless the Bank manages to prove profitability The Bank has increased interest rates both for new and existing credit card contracts in most markets. The full impact from these increases is expected to materialise in Q1 2024 and beyond.

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

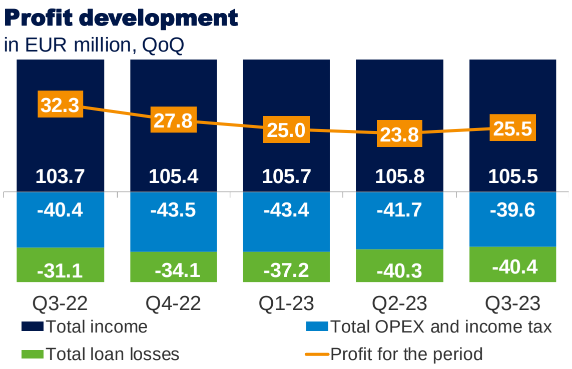

Figure 1: *Profit development.*

Credit cards

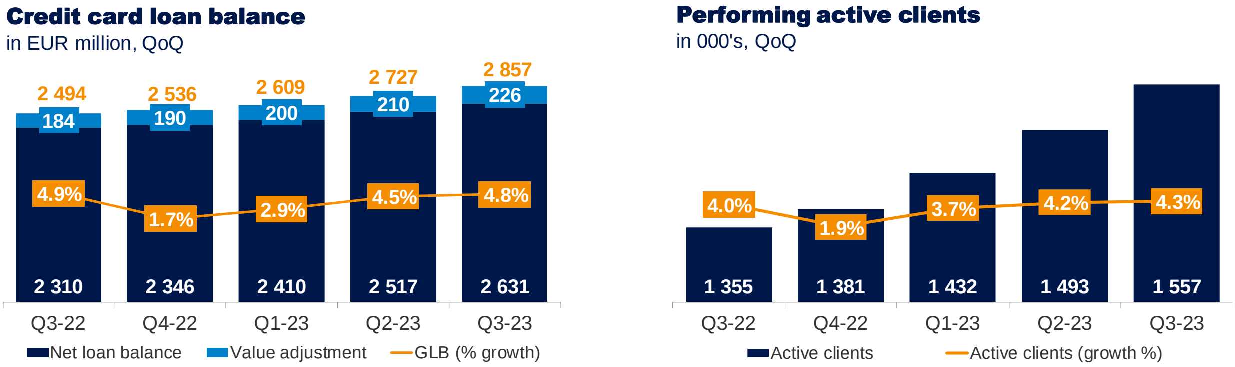

Figure 2*: Credit cards statistics.*

In Q3 2023, the loan balance grew by 4.8% QoQ and active customers grew by 4.3% QoQ, mainly due to Germany, where targeted marketing campaigns resulted in a positive outcome.

Professional Card Services (PCS)

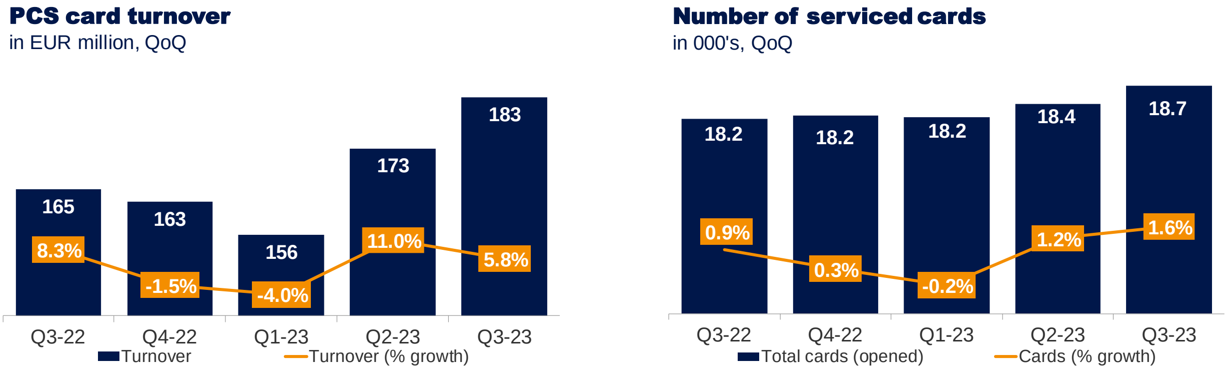

Figure 3: *PCS statistics.*

In the PCS business segment, card turnover was up by 5.8% QoQ and 11.1% YoY due to the onboarding of two new partner banks and seasonal effects (holiday period).

Deposit account

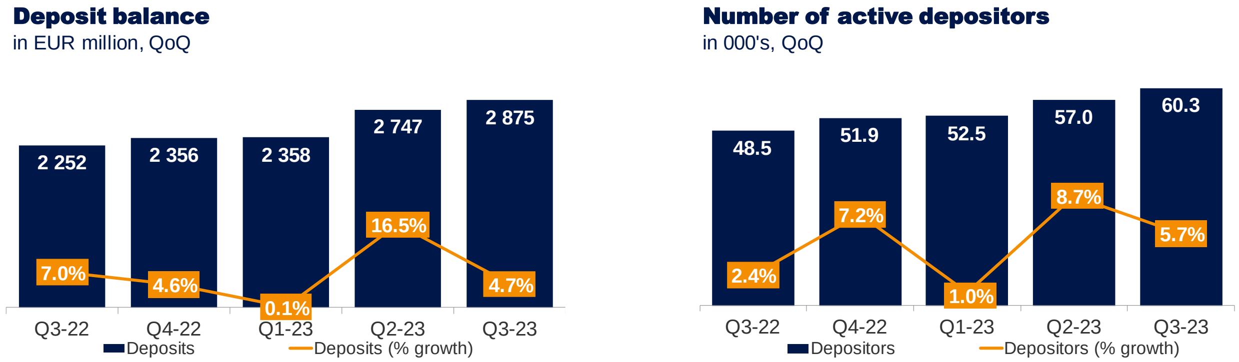

Figure 4: *Deposit statistics.*

During Q3, the Bank increased deposit rates through introductory campaigns for new depositors and loyalty campaigns for existing customers. Thanks to these campaigns, the Bank registered a net inflow of MEUR 128, corresponding to a 4.7% deposit balance increase QoQ. The number of active depositors increased by 5.7% to over 60 000 accounts.

Board, management and staff

As of 30 September 2023, Advanzia Bank employed 195 full-time equivalent employees, up from 190 at the end of the previous quarter. In November 2023, Nishant Fafalia, interim CEO since 7 March 2023, has been appointed as the new permanent CEO 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 of the end of the third 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 Q3-23**	**Actual Q2-23**	**QoQ Growth**	**Actual Q3-22**	**YoY Growth**	**Actual YTD-23**	**Actual YTD-22**	**YoY Growth**
Cash, balances with central banks	1 070.0	1 009.7	*6.0%*	592.0	*80.8%*	1 070.0	592.0	*80.8%*
Loans and advances to credit institutions	45.6	44.8	*1.8%*	85.6	*-46.8%*	45.6	85.6	*-46.8%*
Net loans and advances to PCS partner banks	75.4	79.0	*-4.6%*	72.5	*4.1%*	75.4	72.5	*4.1%*
Loans and advances to credit card clients	2 857.1	2 726.9	*4.8%*	2 494.2	*14.6%*	2 857.1	2 494.2	*14.6%*
Value adjustments (losses)	-225.7	-210.4	*7.3%*	-184.2	*22.5%*	-225.7	-184.2	*22.5%*
Net loans and advances to credit card clients	2 631.4	2 516.5	*4.6%*	2 310.0	*13.9%*	2 631.4	2 310.0	*13.9%*
Tangible and intangible assets	28.5	28.5	*-0.1%*	26.7	*6.4%*	28.5	26.7	*6.4%*
Other assets	16.3	27.0	*-39.6%*	25.4	*-35.9%*	16.3	25.4	*-35.9%*
Total assets	**3 867.2**	**3 705.5**	***4.4%***	**3 112.2**	***24.3%***	**3 867.2**	**3 112.2**	***24.3%***

Liabilities and equity (EUR million)	**Actual Q3-23**	**Actual Q2-23**	**QoQ Growth**	**Actual Q3-22**	**YoY Growth**	**Actual YTD-23**	**Actual YTD-22**	**YoY Growth**
Amounts owed to credit institutions	42.1	39.1	*7.7%*	13.5	*212.7%*	42.1	13.5	*212.7%*
Amounts owed to customers	2 875.2	2 746.8	*4.7%*	2 252.0	*27.7%*	2 875.2	2 252.0	*27.7%*
Amounts owed to financial corporates	450.6	447.0	*0.8%*	434.2	*3.8%*	450.6	434.2	*3.8%*
Other liabilities, accruals, provisions	34.7	34.0	*2.3%*	40.5	*-14.3%*	34.7	40.5	*-14.3%*
Subordinated loan (T2)	55.0	55.0	*0.0%*	55.0	*0.0%*	55.0	55.0	*0.0%*
Sum liabilities	**3 457.6**	**3 321.9**	***4.1%***	**2 795.2**	***23.7%***	**3 457.6**	**2 795.2**	***23.7%***
Subscribed capital and reserves	68.7	68.7	*0.0%*	63.4	*8.3%*	68.7	63.4	*8.3%*
Other equity instruments (AT1)	54.7	52.6	*4.0%*	58.2	*-6.0%*	54.7	58.2	*-6.0%*
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)	69.8	45.9	*52.2%*	30.6	*128.2%*	69.8	30.6	*128.2%*
Sum equity	**409.6**	**383.6**	***6.8%***	**317.0**	***29.2%***	**409.6**	**317.0**	***29.2%***
Total liabilities and equity	**3 867.2**	**3 705.5**	***4.4%***	**3 112.2**	***24.3%***	**3 867.2**	**3 112.2**	***24.3%***

Income statement (EUR million)	**Actual Q3-23**	**Actual Q2-23**	**QoQ Growth**	**Actual Q3-22**	**YoY Growth**	**Actual YTD-23**	**Actual YTD-22**	**YoY Growth**
Interest receivable, credit cards	111.7	105.1	*6.3%*	96.5	*15.8%*	318.2	274.6	*15.8%*
Interest receivable (payable), others	-18.2	-11.3	*61.5%*	-3.3	*455.6%*	-36.8	-7.7	*376.7%*
Net interest income	**93.5**	**93.8**	***-0.3%***	**93.2**	***0.3%***	**281.3**	**266.9**	***5.4%***
Commission receivable	18.2	17.9	*1.4%*	16.1	*12.8%*	52.6	43.4	*21.1%*
Commission payable	-6.8	-6.5	*4.3%*	-5.7	*19.7%*	-19.4	-16.0	*21.9%*
Other operating result	0.6	0.6	*-6.6%*	0.0	*1278.8%*	2.5	-1.1	*-323.8%*
Total income	**105.5**	**105.8**	***-0.3%***	**103.7**	***1.7%***	**317.0**	**293.3**	***8.1%***
Card acquisition costs	-12.4	-14.0	*-11.3%*	-12.2	*1.7%*	-40.7	-34.5	*18.1%*
Staff costs	-6.2	-6.2	*-0.6%*	-5.8	*7.4%*	-17.8	-15.7	*13.5%*
Other general administrative expenses	-15.0	-14.6	*2.7%*	-13.0	*15.6%*	-43.2	-35.6	*21.3%*
Depreciation, tangible + intangible assets	-2.5	-2.5	*1.1%*	-2.5	*0.4%*	-7.5	-7.3	*2.4%*
Total operating expenses	**-36.2**	**-37.4**	***-3.2%***	**-33.5**	***8.0%***	**-109.2**	**-93.1**	***17.3%***
Total loan losses	**-40.4**	**-40.3**	***0.2%***	**-31.1**	***29.9%***	**-118.0**	**-87.2**	***35.3%***
Profit (loss) on ordinary activities before taxes	28.9	28.1	*2.7%*	39.1	*-26.1%*	89.9	113.0	*-20.5%*
Income tax and net worth tax	-3.4	-4.4	*-21.4%*	-6.9	*-50.1%*	-15.6	-18.4	*-15.2%*
Profit (loss) for the period	**25.5**	**23.8**	***7.1%***	**32.3**	***-21.0%***	**74.3**	**94.6**	***-21.5%***

Table 1: *Unaudited accounts as at 30 September 2023 (in EUR million).*

Comments on the accounts

In Q3 2023, the total income of MEUR 105.5 was in line with the previous quarter, mainly driven by higher interest income from credit cards, being offset by higher funding costs. Net commission income was stable.

The Bank continues to allocate marketing efforts towards the most profitable geographies. In some markets, sales activity has been temporarily reduced and as a result operating expenses were down 3.2% QoQ leading to a reduction in cost/income ratio to 34.3%. Total loan loss provisions of MEUR 40.4 were in line with the previous quarter. The quarterly performance is mainly driven by the review of the IFRS9 model for Germany to reflect, firstly, the new legal interest rate for delinquent loans and, secondly, a new forward flow agreement. Both these elements decreased the expected recovery rate on delinquent loans and hence increased the loan loss provisions by MEUR 5.6. Without these factors, the QoQ performance would have been substantially better, primarily due to ongoing efforts to mitigate credit risk and optimize performance in all markets.

As a result, Advanzia's net profit of MEUR 25.5 increased by 7.1% compared to Q2 2023 and decreased by 21.0% compared to Q3 2022. Advanzia's earnings before tax of MEUR 28.9 increased by 2.7% compared to Q2 2023 and decreased by 26.1% compared to Q3 2022.

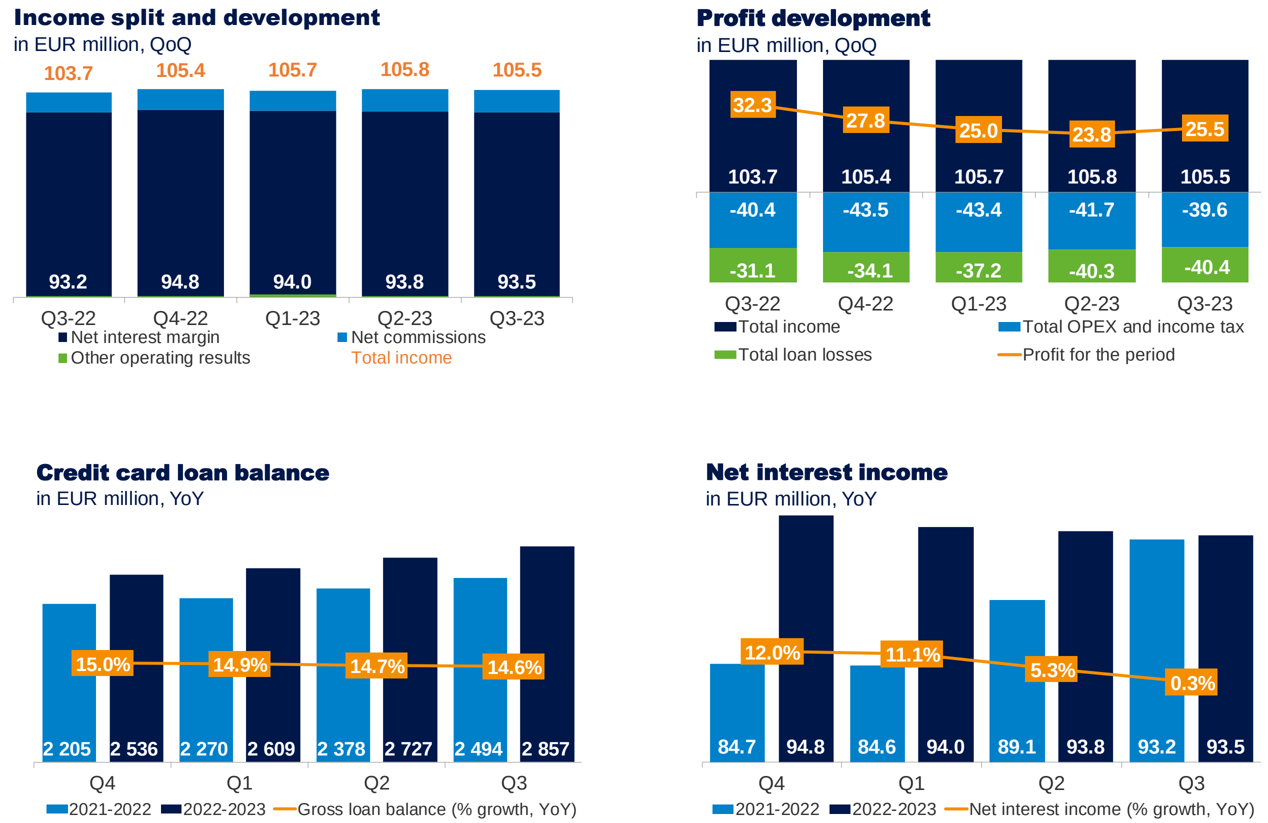

Figure 5: Financials.

Key performance indicators (KPIs)

As the interest rate increase on credit cards have yet to produce a material impact, the yield remains stable. The net interest margin decreased by 0.5%-points in Q3 due to the rise in funding rates. The 12-month trailing loan loss rate increased by 0.1%-points and was impacted by certain effects in Q3-2023 in Germany (cf. above). Nevertheless, the rate of increase has slowed down. The cost/income ratio decreased to 34.3% in Q3 which is attributable to lower operating expenses. The annualised return on equity is stable at a level close to 30%. The Bank maintains high solvency with a capital adequacy ratio (incl. interim profits) of 20.2%, while liquidity levels are comfortable with a LCR of 201.8%.

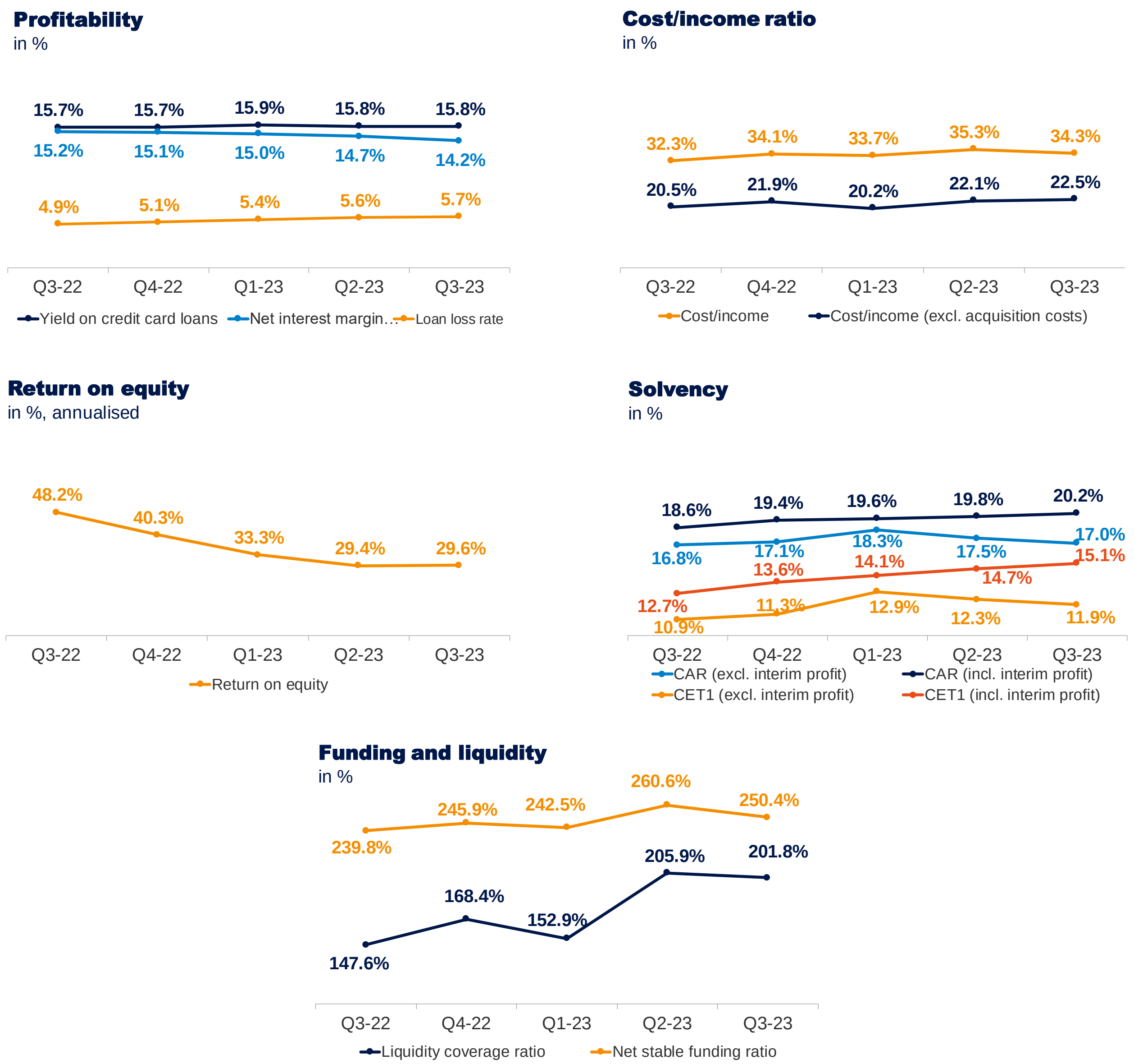

Figure 6: *Key performance indicators*[2].

[2] Yield on credit cards loans: annualised.

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 continues to address the inflation and economic slowdown, although labour markets are still holding up well. The expectation is that ECB will hold interest rates unchanged for the rest of the year, depending on inflation development. Geopolitical uncertainty remains high with the recently erupted crisis in Gaza. In Germany, the expectation is that the economy will shrink by up to 0.6% this year due to weak international trade and private consumption.

Despite these headwinds, Advanzia continues to show steady growth in loan balance and performing clients, driven primarily by the German and Austrian markets. Credit risk is expected to remain stable due to mitigation measures taken in certain markets. The increase in interest rates towards the market is expected to reinforce profitability growth gradually starting from Q4 2023 and full effect from Q1 2024.

On 13 November 2023, Advanzia successfully signed the increase of its existing securitisation transaction from MEUR 475 to MEUR 1 000 in senior funding with two new investors, a major milestone in the Bank’s funding diversification roadmap. The interest rate is 87.5 bps plus EURIBOR 1 Month (floored at 0).

The Bank remains well capitalised with good liquidity levels. The continued digital transformation with the streamlining and harmonisation of the enrolment processes is a key priority to offer seamless and real-time processes to further increase customer experience and satisfaction.

The Bank closely monitors macroeconomic developments, and it is prepared to take further actions in response to unforeseen credit or liquidity pressure.

Munsbach, Luxembourg

14.11.2023

Patrick Thilges
Chief Financial Officer

Nishant Fafalia
Chief Executive Officer

Marianne Heske, "Blue", 2023.
Photo by Vegard Kleven, courtesy the artist and Kistefos Museum.

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