

Avanzia Bank S.A.

Financial Statements For the Year Ended 31 December 2019

Avanzia Bank S.A.
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FINANCIAL STATEMENTS

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1 ABOUT ADVANZIA BANK S.A.

A European digital bank

Advanzia Bank is a European online direct bank specialising in credit cards and card payment solutions for consumers, business partners and financial institutions. Advanzia was granted a banking license by the Luxembourg Ministry of Treasury and Budget in December 2005. With 1.7 million active credit card customers, we are a leading online credit card issuer in Germany, with a strong presence in Luxembourg, Austria, France and Spain.

Transparent and flexible consumer products

Advanzia currently offers two consumer products: a Mastercard Gold credit card and a deposit account. The no-fee Mastercard offers an optional revolving credit facility and is a flexible payment method recognised worldwide with a range of attractive advantages, including 24/7 customer service and various insurance benefits. The Advanzia Deposit Account offers favourable conditions and a competitive interest rate.

Bespoke credit card solutions

Advanzia has business partnerships with over 240 companies, associations and institutions that use our co-branded credit cards to strengthen their customer loyalty strategy and create a competitive advantage. Our Capitol and Omnium product lines offer turnkey Visa and Mastercard credit card solutions for banks and other financial institutions, and delivers the whole card programme, which encompasses scheme licensing, card issuance, processing, settlement and customer service.

Regulatory stability

Advanzia is headquartered in Luxembourg, a socially and politically stable financial hub in the heart of Europe. As such, we are subject to Luxembourg banking laws which are based on EU regulations CRD IV/CRR (Basel 3), and we are regulated by the Commission de Surveillance du Secteur Financier (CSSF), which oversees the activities of banks operating in Luxembourg. Thanks to our European passporting licence, we are able to offer our products and services in the European Union and the European Economic Area.

Solid shareholder structure

Advanzia is an independent bank, with a limited number of private investors. The Kistefos Group, based in Oslo, Norway, has been the controlling shareholder since the company became a bank in 2006, and currently holds 60.3% of the issued shares.

2 DIRECTORS REPORT

2.1 Overall results

2.1.1 Profitable growth

Avanzia Bank S.A. is a digital bank and offers competitive and transparent solutions for private customers, business partners and banks. The Bank promotes its own branded Mastercard Gold credit cards through online marketing channels, and distributes its white label/co-branded credit cards via business partner networks. Avanzia is also a pan-European provider of turnkey credit card programmes for banks and financial institutions.

Avanzia continued to experience considerable growth in 2019, with the Bank's credit card portfolio increasing by 319 000 new active credit card customers¹. At the end of the year, the Bank had 1 698 600 credit cards in force² and a gross loan balance of MEUR 1 725. Profit after taxes was MEUR 78.

In 2019, the total turnover on all cards reached EUR 3.89 billion or EUR 3 500 per active customer³, and the average loan balance per active customer amounted to approximately EUR 1 500. Avanzia's main income driver, the gross loan balance, increased by 15.6% compared to the previous year, to MEUR 1 725. Avanzia employed 189 people in total at the end of the year, compared to 163 at the end of 2018.

2.1.2 Continued market expansion

Avanzia operates throughout Europe, offering its consumer credit cards, white label loyalty cards and turnkey credit card solutions to consumers, business partners and private banks respectively.

In **Germany**, the Bank's largest market, the Gebührenfrei Mastercard Gold ended the year with a gross loan balance of MEUR 1 490. The focus in 2019 was on the continued development of the mobile app and offering secured transactions. The Bank diversified its marketing strategy with new social media marketing channels, and continued to strengthen its cooperation with business partners for the development of tailor-made card loyalty programmes.

The performance in **France** with Carte ZERO continued to be solid, with various process improvements and an enhanced application funnel leading to 18.7% growth, with a gross loan balance of MEUR 114.

In **Austria**, the Free Mastercard Gold experienced stable growth thanks to improvements in the onboarding process and the implementation of new campaigns, ending the year with a gross loan balance of MEUR 99.

The Bank's new product launch in **Spain** at the end of 2018 was a commercial success, with Tarjeta YOU well accepted by Spanish consumers. The large volume of transactions enabled a fast calibration of credit risk models. Continued high-level onboarding in combination with diversified marketing and sales activities resulted in 42 000 new active credit card customers at the end of 2019.

¹ New active customers is the number of customers who have used their cards for the first time.

² Cards in force: The number of issued cards including active and inactive cards.

³ Active customers are customers with at least one movement on their account.

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In addition to its credit card portfolio, Advanzia continues to diversify its product offering with various **insurance products** in order to create added value for customers.

Alongside credit cards, Advanzia also offers an online deposit account, the **Advanziakonto**. By the end of 2019, the deposit balance stood at MEUR 2 012, a 22.2% growth compared to 2018. The German Institute for Service Quality, DISQ, awarded the Advanziakonto “Best Deposit Account in Germany” for its attractive interest rates and competent customer service.

Following the closure of the acquisition of the bank card issuing portfolio of Catella Bank in Luxembourg, Advanzia has confirmed its position as a leading provider of turnkey **credit card solutions for private banks** and financial institutions. At the end of 2019, Advanzia Bank serviced 85 banks in 10 countries. With the integration of the Capitol card portfolio, Advanzia became a principal member of VISA, another key milestone in the Bank’s card portfolio diversification.

2.1.3 Capital base

Advanzia Bank successfully closed its first senior secured syndicated facility. Three new banks participated in the financing of the Bank’s growing activities, marking an important step in the Bank’s funding diversification.

In addition, Advanzia raised two hybrid capital instruments, strengthening its capital base, and providing further proof that the market has confidence in the Advanzia business model.

Advanzia also secured a sale of a portfolio of non-performing loans, freeing up capital for further growth as well as increasing liquidity on the balance sheet. This marks a significant change in the bank’s collection strategy.

2.1.4 Uncertain economic outlook

In 2019, the economy in Germany, Advanzia’s largest market, narrowly avoided a technical recession. However, the downturn in manufacturing was offset by strong private and public consumption. The Bank’s portfolio performance in Germany proved resilient, reporting all time low values on loan defaults.

In Germany, the trend of decreasing cash transactions in favour of higher card usage will continue. Furthermore, the Bank will invest in its marketing capabilities to maintain their effectiveness.

However, the recent developments in relation to the COVID-19 disease could have a significant impact on the Bank’s day-to-day operations. The quantification of the impact cannot be reliably assessed yet.

The Bank is ready to apply its contingency plans, including deployment of business continuity measures, to ensure operational continuity in line with regulatory obligations.

An economic slowdown could have an impact on card transaction volumes as well as repayment behaviour. The Bank continues to monitor the macroeconomic indicators and will take necessary actions such as adjusting its marketing activity and containing credit risk by adjusting relevant levers such as client acceptance criteria.

Any relevant significant information concerning the impacts of COVID-19 on the Bank’s fundamentals, prospects or financial situation will be made available on the Bank’s website: www.advanzia.com.

2.2 Operational highlights

2.2.1 Implementation of core banking system

At the end of 2019, the Bank successfully concluded the implementation of a scalable, state-of-the-art core banking system across various internal functions and departments. In addition to the harmonisation of customer onboarding processes, the integration of collection case management and Advanzia Deposit Account customer data, the core banking system provides the full integration of the bank's general ledger and financial and regulatory reporting at the beginning of 2020.

2.2.2 Operational transformation and digitalisation

2019 was marked with crucial milestones concerning operational transformation, with a completed rollout of a fully integrated workflow system for the customer service centre, further enhancing operational handling across all markets. The Bank continued to pave the way towards further digital transformation, with the implementation of artificial intelligence and machine learning tools leading to enhanced fraud prevention. By the end of the year, the roadmap towards a digital banking platform and optimised IT services was finalised, and the focus on the introduction of a new solution enabling a fully digital omni-channel customer experience was defined as a key priority for 2020 and beyond.

2.3 Corporate Development

2.3.1 Commercial success in Spain

Following the soft launch in this new market at the end of 2018, the Bank reached in 2019 more than 320 000 card applications in Spain. The market launch showed strong consumer acceptance of Advanzia's unique selling proposition: offering a no-fee, simple and straightforward product – a concept that Advanzia has consistently and successfully applied for its organic growth into new markets.

2.3.2 Acquisition of Capitol portfolio for private banks

With the successful deal closure of the Catella Bank card portfolio, Advanzia has again proven its capability for portfolio acquisitions, enabling growth through strategically selected acquisitions. This deal has placed Advanzia firmly on the map as the largest pan-European provider of turnkey credit card solutions for private banks.

3 BOARD AND MANAGEMENT IN 2019

In 2019, the Board of Directors had the following members:

- Mr. Bengt Arve Rem, Chairman of the Board, CEO Kistefos AS
- Dr. Thomas Schlieper, Deputy Chairman of the Board
- Mr. Nishant Fafalia, Kistefos AS
- Mr. Tor Erland Fyksen
- Mr. Tom Ruud, Kistefos AS (until 20 November 2019)
- Mr. Erlend Bondø, Kistefos AS (as of 20 November 2019)

To assist the Board of Directors in the areas of financial information and internal control, the Bank established an Audit Committee, which in 2019 had the following members:

- Mr. Nishant Fafalia (Chairman)
- Mr. Tor Erland Fyksen
- Mr. Tom Ruud, Kistefos AS (until 20 November 2019)
- Mr. Erlend Bondø, Kistefos AS (as of 20 November 2019)

The management of Advanzia is organised as an Executive Management Committee (EMC):

- Mr. Roland Ludwig, Chief Executive Officer
- Mr. Frank Hamen, Chief Risk Officer
- Mr. Gregor Sanner, Chief Technology Officer (until 6 March 2019)

The EMC has delegated the management of some day-to-day business to the Management Committee, which in 2019 had the following members:

- Mr. Roland Ludwig, Chief Executive Officer
- Mr. Frank Hamen, Chief Risk Officer
- Mr. Gregor Sanner, Chief Technology Officer (until 6 March 2019)
- Mr. Romain Fettes, Chief Information Officer (as of 1 December 2019)
- Mrs Linda Frueh, Chief Digital Officer (as of 4 September 2019)
- Mr. Johannes Neander, Chief Commercial Officer
- Mr. Patrick Thilges, Chief Financial Officer
- Mr. Petrus Johannes (Pieter) Verhoeckx, Chief Customer Relations Officer

4 INTERNAL GOVERNANCE

Internal governance is established to ensure a clear organisational structure and well defined processes and responsibilities. The Bank applies the “three-lines-of-defence” model:

- The first-line-of-defence consists of business units that take or acquire risks and carry out controls;
- The second-line-of-defence encompasses support functions such as the financial and accounting functions, as well as the compliance and risk control functions;
- The third-line-of-defence consists of the internal audit function.

In order to ensure an adequate internal control environment the Bank has implemented different levels of control. These include operational controls as well as dedicated internal control functions.

4.1 Operational controls

Operational controls are subdivided into three categories: (1) day-to-day controls performed by operating staff; (2) key structural controls including EMC review, account balance reconciliation, and compliance checks with internal limits; (3) controls performed by the EMC over activities and functions for which it is directly responsible.

4.2 Internal controls

The Bank has implemented three distinct and independent types of internal control encompassing risk control, compliance and the internal audit. The people in charge of the internal control function are reporting to the EMC, the Board of Directors, and the Audit Committee.

Risk control

The purpose of the risk control function is to anticipate, identify, measure, monitor, control and report on the risks to which the Bank is exposed. The Chief Risk Officer heads risk control.

Compliance

The compliance function is responsible for the anticipation, identification and assessment of compliance risks to the Bank and assists the EMC in limiting these risks. The Chief Risk Officer is the authorised member in charge of compliance.

Internal audit

The internal audit function ensures that the system of internal controls is operating effectively by assessing the effectiveness of central administration, internal governance and business and risk management. The function is headed by the Chief Executive Officer, as the authorised management member in charge of internal audit.

5 FINANCIAL STATEMENTS

For arithmetical reasons, the following tables and the respective notes may contain rounding differences.

5.1 Statement of Financial Position as at 31 December 2019

In thousands of EUR

Assets	Note	2019	2018
Cash and cash equivalents	6.7.1	720 464	508 997
Loans and advances		1 785 793	1 447 459
<i>whereof: financial institutions</i>	6.7.2	147 728	48 857
<i>whereof: corporates</i>		38	11
<i>whereof: customers</i>	6.7.3	1 638 027	1 398 591
Tangible assets	6.7.4	5 183	986
Intangible assets	6.7.5	32 561	7 970
Other assets	6.7.6	9 803	4 234
Total assets		2 553 804	1 969 646
Liabilities and equity	Note	2019	2018
Amounts owed to financial institutions		225 368	100 657
Amounts owed to corporates		39	40
Amounts owed to customers	6.7.7	2 012 425	1 646 427
Tax liabilities	6.6.6	10 404	17 508
Other liabilities	6.7.8	35 561	20 315
Subordinated liabilities	6.7.9	33 617	8 544
Total liabilities		2 317 414	1 793 491
Subscribed capital	6.7.10	17 553	17 553
Issue premiums	6.7.10	9 890	9 890
Other equity instruments	6.7.10	22 526	-
Other reserves	6.7.10	16 826	13 416
Deposit guarantee scheme reserve	6.9	-	511
Profit (loss) carried forward		131 885	75 718
Result for the financial year		78 255	59 067
Interim dividends		-40 045	-
Interest paid on AT1		-500	-
Total equity		236 390	176 155
Total liabilities and equity		2 553 804	1 969 646

The notes are an integral part of these financial statements.

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5.2 Statement of Comprehensive Income

<i>In thousands of EUR</i>	Note	2019	2018
Financial and operational income and expenses		265 596	213 814
Interest income	6.6.1.1	263 500	219 484
Interest expenses	6.6.1.2	-14 819	-11 831
Commission income	6.6.2	41 235	23 214
Commission expenses	6.6.2	-19 276	-14 756
Net exchange result		-545	-25
Other operating income	6.6.3	3 191	3 461
Other operating expenses	6.6.3	-7 690	-5 733
Administrative expenses		-89 559	-73 014
Personnel expenses	6.6.4	-17 888	-16 243
General administrative expenses		-71 671	-56 771
Depreciation and amortisation on (in)tangible assets		-4 762	-2 928
Depreciation on tangible assets	6.7.4	-1 763	-1 344
Amortisation of intangible assets	6.7.5	-2 999	-1 584
Impairment on financial assets	6.6.5	-75 423	-62 655
Result on activities before taxes		95 852	75 217
Income taxes	6.6.6	-17 598	-16 150
Result on activities after taxes		78 255	59 067
Result for the year		78 255	59 067
Other comprehensive income for the year		-	-
Total comprehensive income for the year		78 255	59 067

The notes are an integral part of these financial statements.

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5.3 Statement of Changes in Equity For the year ended 31 December 2019

In thousands of EUR

2019	Sub- scribed capital	Issue premiums	Other equity instruments	Reserves	Profit carried forward	Net profit or loss for the financial year	Total Equity
Equity 1 January 2019	17 553	9 890	-	13 927	75 718	59 067	176 155
Allocation to reserves	-	-	-	4 700	-	-4 700	-
Allocation to profit brought forward	-	-	-	-	54 366	-54 366	-
Allocation to reserves	-	-	-	-511	511	-	-
Allocation to free reserve	-	-	-	-1 290	1 290	-	-
Additional Tier 1	-	-	22 525	-	-	-	22 525
Interest paid on Tier 1	-	-	-	-	-	-500	500
Dividends	-	-	-	-	-	-40 045	40 045
Total comprehensive income for the year	-	-	-	-	-	78 255	78 255
Equity 31 December 2019	17 553	9 890	22 525	16 826	131 885	37 711	236 390

For the year ended 31 December 2018

In thousands of EUR

2018	Sub- scribed capital	Issue premiums	Reserves	Profit carried forward	Net profit or loss for the financial year	Total Equity
Equity 1 January 2018	17 553	9 890	13 641	58 314	36 357	135 755
Allocation to reserves	-	-	3 610	-	-3 610	-
Allocation to profit brought forward	-	-	-	32 747	-32 747	-
Allocation to reserves	-	-	-2 220	2 220	-	-
Allocation to free reserve	-	-	-1 104	1 104	-	-
Allocation to value adjustments first time adoption IFRS 9	-	-	-	-18 667	-	-18 667
Total comprehensive income for the year	-	-	-	-	59 067	59 067
Equity 31 December 2018	17 553	9 890	13 927	75 718	59 067	176 155

The notes are an integral part of these financial statements.

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5.4 Statement of Cash Flows

In thousands of EUR

	2019	2018
Operating activities		
Interest, commissions receipts	304 733	242 698
Interest, commissions payments	-34 095	-26 587
Other receipts	3 191	3 461
Operating payments	-114 847	-94 897
(Increase) decrease in money market placements	-98 870	-8 248
(Increase) decrease in loans to customers	-314 886	-291 413
Increase (decrease) in deposits from financial institutions	124 710	213
Increase (decrease) in deposits from customers	365 998	192 566
Increase (decrease) in deposits from corporates	-	40
(Increase) decrease in other assets	-5 569	25 350
Increase (decrease) in tax liabilities	-7 104	-2 855
Increase (decrease) in other liabilities	15 245	10 142
Net cash flow from operating activities	238 506	50 470
Investment activities		
Investments in tangible and intangible assets	-33 550	-4 903
Net cash flow from investment activities	-33 550	-4 903
Financing activities		
Increase (decrease) from dividend payments/ capital distributions	-18 019	-18 667
Increase (decrease) in subordinated loan capital	25 074	-94
Net cash flow from financing activities	7 055	-18 761
Net cash flow	212 011	26 806
Opening balance of cash and cash equivalents	508 997	485 061
Effects of exchange rate changes on cash and cash equivalents	-544	-25
Net cash flow for the period	212 011	26 806
Ending balance of cash and cash equivalents	720 464	511 842

The notes are an integral part of these financial statements.

6 NOTES TO THE FINANCIAL STATEMENTS

6.1 Reporting entity

Avanzia Bank S.A. (“the Bank” or “Avanzia”) is domiciled in the Grand Duchy of Luxembourg and is established for an indefinite duration. The address of the Bank’s registered office is 9, rue Gabriel Lippmann, Parc d’Activité Syrdall 2, L-5365 Munsbach, Luxembourg. Avanzia is fully consolidated into Kistefos AS Group. The consolidated accounts are available at Kistefos’ registered office in Dokkveien 1, N-0250 Oslo, Norway. The financial statements of the Bank as at and for the year ended 31 December 2019 include the entire Bank and were authorised for issue by the Bank’s board of directors on 13 March 2020.

6.2 Basis of preparation and summary of accounting principles

6.2.1 Accounting standards

6.2.1.1 *Applicable accounting standards and changes in accounting policies*

The Bank initially applied the following standards and amendments to standards from 1 January 2019.

- IFRS 16 *Leases*

A. Leases

The Bank applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

i. Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

ii. As a lessee

As a lessee, the Bank leases office premises, vehicles, and IT equipment. The Bank previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

iii. As a lessor

The Bank is not a party to an agreement where the Bank is a lessor.

B. Impact on transition

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The Bank's cost of borrowing was estimated to be 1.85% using the interest rate charged on multiple financing agreements.

The Bank has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019.

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

In applying IFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- Excluding initial direct costs from measuring the right-of-asset at the date of initial application; and,
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

6.2.1.2 New accounting standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Bank.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Bank will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Bank's financial statements.

6.2.2 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS Standards), as adopted by the European Union. This is the first set of the Bank's financial statements in which IFRS 16 leases have been applied. Changes to significant accounting policies are described in Note 6.2.1.1.

Prior year figures in some cases have been reclassified to match current year presentation.

6.2.3 Basis of measurement

The financial statements have been prepared on the historical cost basis.

6.2.4 Functional and presentation currency

These financial statements are presented in Euro, which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

6.2.5 Significant events after balance sheet date

The Bank is not aware of any significant events after balance sheet date which would have a material impact on the 2019 financial statements.

On 29 March 2019, the Bank acquired card servicing operations of Catella Bank. This acquisition had been announced on 18 December 2018 and disclosed in the financial statements of 2018.

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The successful closing of the deal underlines Advanzia's continued ambition to become a leading provider of credit card servicing solutions for banks and financial institutions. Advanzia now services 85 banks in 13 countries. As part of the deal, Advanzia also welcomes fifteen new employees.

6.3 Significant accounting policies

6.3.1 Basis of consolidation

The Bank has no subsidiaries, shareholdings or similar in other entities, and thus there is no consolidation of financial statements.

6.3.2 Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction. A foreign currency transaction is recorded initially at the rate of exchange at the date of the transaction. At each subsequent balance sheet day, the foreign currency monetary amounts are reported by using the closing rate. Exchange differences arising when monetary items are settled or when monetary items are translated at rates different from those at which they were translated when initially recognised or in previous financial statements are reported in profit or loss in the period.

6.3.3 Net interest margin

Interest income and expense are recognised in the Statement of Comprehensive Income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes fees and points paid or received, if any, that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

For impaired assets, the Bank continues to recognise the interest income based on the effective interest rate method.

Interest income and expense presented in the Statement of Comprehensive Income include interest on financial assets and liabilities at amortised cost calculated on an effective interest basis.

The Bank has not held any assets at fair value through other comprehensive income or fair value through profit and loss during the reporting period or at balance sheet date.

6.3.4 Commissions

Commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Commissions received for the provision of banking and similar services (except those arising from the effective interest rate), revenues from agent services fall under the scope of IFRS 15 Revenues from Contracts with Customers. For further details in relation to IFRS 15, please refer to Note 6.2.1.1 (ii).

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Avanzia recognises commission income and expenses in profit and loss as follows:

If an ongoing service is provided to the client, then fees are recognised to match provision of the service. Such commissions include certain transaction fees with clients when services are provided on an ongoing basis e.g. interchange fee and annual membership fee. Commissions received in respect of agent services in relation to cross-selling products are recognised when the service is provided.

In all other cases, commissions are recognised when the service is provided.

6.3.5 Financial assets and financial liabilities

Financial assets are classified at amortised cost, fair value through OCI (FVOCI) or fair value through profit or loss (FVTPL) based on the business model and according the characteristics of the instruments upon initial recognition, see Note 6.2.1.

Financial liabilities are classified at amortised cost or at fair value through profit or loss upon initial recognition.

Financial assets and liabilities are recognised in the balance sheet when Avanzia becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets carried out within a period established by the regulations or an agreement in a particular market are recognised in the balance sheet on the settlement date.

i. Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Financial assets are classified and therefore subsequently measured at amortised cost when they meet the following conditions:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (HTC CF); and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The objective of the Bank's business model is to hold assets only to collect contractual cash flows and not to sell those. The contractual cash flows from each of the assets of the Bank relate solely to payments of principal and interest (SPPI) on the principal amount outstanding.

Consequently, under IFRS 9 Financial Assets are still measured at amortised cost.

ii. Fair value measurement

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction on the measurement date.

Financial assets at fair-value through other comprehensive income (FVOCI)

Financial assets are classified and therefore subsequently measured at fair value through other comprehensive income when they meet the following conditions:

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- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTCS); and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Financial assets at fair-value through profit or loss (FVTPL)

Financial assets are classified and measured at FVTPL because they meet one of the following conditions:

- They are financial assets held for trading;
- They are non-trading financial assets mandatorily at fair value through profit or loss. It includes equities that are not at FVOCI, non-trading financial assets that failed the SPPI test, and non-trading financial assets managed on a fair value basis;
- They are financial assets designated at fair value through profit or loss. Financial assets may be irrevocably designated by the entity at FVTPL at initial recognition in case of accounting mismatch.

iii. Identification and measurement of impairment

In addition to Pillar I models which focus on the unexpected credit loss, IFRS 9 also defines principles to estimate the Expected Credit Loss (ECL). Under IFRS 9, the ECL is a weighted average of credit losses, with the respective risks of a default occurring in a given time period. The Bank has divided its portfolio into different segments that have different sizes and risk profiles and adapts the ECL calculation on each of them.

For the credit card portfolios in Germany, France, and Austria the Bank developed models: rating models, PD, LGD, EAD models. For all other segments, the ECL calculation is based on an intermediate or basic approach, which consists of interpretation of historical data or on the use of external data. Previously, Austria was using the intermediate approach, but was switched to a model approach in 2019-Q4 .

Expected credit loss and its components

The expected credit loss is applicable to all financial instruments and is composed of the three components: the probability of default (PD), exposure at default (EAD) and the loss given default (LGD). ECL is adjusted with a forward-looking macroeconomic component.

Probability of default (PD)

The probability of default represents the likelihood of a loan to default over a particular time horizon. The IFRS 9 Standard requires to take into account the lifetime of the financial instrument. Lifetime is calculated for each relevant subsegment (market / stage) of the portfolio. PD models are calibrated on these calculated lifetimes.

The model used to estimate the PD depends on the type of segment. For the German, French and Austrian credit card segments, the PD is estimated through an advanced approach based on logistic regression methodology. For the Spanish credit card segments, given the smaller exposure that the Bank has towards these markets, a less complex approach based on statistical and historical observations is used to estimate the PD. For the last two segments, namely deposits and credit cards issued to financial institutions, the PD is estimated through a basic approach based on the use of external data.

Loss given default (LGD)

If a credit card loan defaults, the loss given default represents the relative difference between the asset's carrying amount and the estimated cash flows. The Standard requires the time value of money to be

implemented in the calculation of the ECL. This may be incorporated in the computation of the LGD by discounting the expected cash shortfalls to the reporting date. It specifies that the applicable discount factor should be represented by the effective interest rate.

As for the PD estimation, the LGD model depends on the type of segment. The advanced approach, used for calculating the LGD for the German, French and Austrian credit card segment, is estimated through a regression analysis methodology based on historical data. For the Spanish credit card segments, where we lack sufficient data, the intermediate approach consists in using another source for LGD: either another similar market, or figures from the EBA. For the remaining two segments (i.e. financial institution credit cards and deposits) a basic approach that relies on external data (from EBA) is used to estimate the LGD.

Exposure at default (EAD)

Exposure at default represents the exposure that an instrument has at the time of default. The Standard emphasizes that for loan commitments (here credit facility of the credit card) the Bank has to include expectations of draw-downs in their estimation of the ECL.

All markets are aligned with the same approach, which consists in the calculation of EAD rates based on historical observations.

Three-stage deterioration model & allocation

A financial asset is at initial recognition allocated to stage 1. At each reporting date it is newly evaluated whether it can remain in stage 1 or whether transitioning to stage 2 is required because of a significant increase in relative credit risk (SICR) since initial recognition. If the instrument defaults, then it is transitioned to stage 3.

Avanzia has defined its staging criteria as follows:

- Stage 1: Loan is either performing or with less than 30 days past due;
- Stage 2: Loan is with more than 30 days past due but with less than 90 days past due which represents a significant increase in relative credit risk (SICR) since initial recognition.
- Stage 3: Loan is either in default, or in pre-litigation, or underperforming and in forbearance.

Any financial instrument at initial recognition is allocated to stage 1. Since Avanzia does not invest in credit impaired loans, all newly issued credit cards are allocated to stage 1 at initial recognition. As long as the risk of this instrument to default has not increased significantly by the next reporting date, the loan can be considered as performing and it stays in stage 1. For such performing stage 1 assets an expected credit loss (ECL) allowance needs to be recognized. Interest is to be recognized on a gross basis.

In case the credit risk of an instrument has increased significantly (SICR) after initial recognition by the next reporting date, the instrument is transitioned from stage 1 to stage 2. The Bank utilises delinquency status and external ratings as the primary information to identify SICR, e.g. any credit card customer in arrear status is considered to show a SICR, unless he keeps a very low PD. For such underperforming stage 2 assets an ECL allowance needs to be recognized and based on the lifetime PD. This change in the PD results in an increased ECL. Interest is recognized on a gross basis.

In case an instrument defaults, it is transitioned to stage 3. For such non-performing loans, ECL is recognized and based on a PD equal to one. Interest is no longer recognized on a gross, but on a net basis. The majority of the Bank's financial assets will move to stage 3 from stage 2, (e.g. loan first gets into in

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arrears before defaulting). Transition from stage 1 to stage 3 is unlikely, but possible (e.g. insolvency before the loan gets into arrears). The Bank considers a financial asset to be in default (stage 3) when the loan is more than 90 days past due and/or the loan has been credit revoked.

For loans and advances to credit card customers which include both a loan and an undrawn credit commitment component, IFRS 9 stipulates to measure the ECL over the period that the entity is expected to be exposed to credit risk, for which the expected credit loss would not be mitigated by the Bank's normal credit risk management actions. The assessment of the expected lifetime has been conducted based on the historical information and experience of the Bank following the IFRS 9 guidance.

The PD of a loan is derived from a statistical model relying on internally compiled data comprising both quantitative and qualitative factors. Different statistical models have been developed for each homogenous subset of the Bank's credit card portfolio.

Undrawn commitments are reflected in the EAD model. For this purpose, based on historical information, the Bank estimates the share of undrawn credit commitment that will be drawn in case of a default (CCF approach).

Based on historical recovery data of defaulted loans, the Bank models the expected LGD. The recovery rate is calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Under IFRS 9, the Bank incorporates forward-looking information into its ECL measurement. A statistical model depending on external key leading indicators has been deployed to estimate the future development of PD. This model is developed on German market and applied to the whole portfolio.

For loans and advances to financial institutions and central banks external benchmark information is used (e.g. external credit assessment institutions for PD, EBA Risk Dashboard) to supplement the internally available information.

iv. Write-off

As per Bank policy, a credit card loan balance, or parts thereof, shall be written off in the following instances: in case of bankruptcy or death, in case of fraud where the client is not the offender or the offender can not be identified, loans whose amount is too low to be sent to collection agencies. Once transferred to a collection agency, a loan can be written-off when the agency has decided not to start the collection process in view of the customer's situation, or when the agency received a negative court ruling. The bank also writes off cases that have been in collection for more than 36 months and on which no payment were received for the last six months. The bank performs a partial write-off (85%) when the case has been classified by the collection agency as a so-called monitoring case; the remaining 15% are written off if no payment is received for the last 2000 days in that monitoring process. The bank performs a partial write-off in the case of sold NPL (the write off amount being the difference between the selling price and the book value).

v. Derecognition of financial assets or financial liabilities

All or part of a financial asset is derecognised when the contractual rights to the asset's cash flows expire or when the contractual rights to the cash flows from the asset and almost all of the risks and rewards related to the ownership of the asset are transferred. Unless all of these conditions are met, Advanzia retains the asset on its balance sheet and recognises a liability for the obligation created at the time of the asset's transfer.

Advanzia derecognises all or part of a financial liability when all or part of the liability ceases to exist.

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6.3.6 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks, unrestricted balances held with other banks, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

6.3.7 Loans and advances

Loans and advances captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method and loans and advances mandatorily measured at FVTPL or designated as at FVTPL which are measured at fair value with changes recognised immediately in profit or loss.

The Bank issues revolving type credit cards, where the customers are given a credit limit which they can draw on. The customer may use these credit cards at points of sales, for online transactions and in banks for purchases and cash withdrawals. Transactions from card usage will result in the customer building up a loan balance.

In line with the professional card service, the Bank acts as a card issuer for other institutions and companies. The transactions from card usage build up a loan balance that is invoiced to the business partner on monthly basis and is settled in total.

6.3.8 Property and equipment

6.3.8.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised within other income/other expenses in profit or loss.

6.3.8.2 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives for the current and comparative periods are as follows:

- IT equipment 3 years
- Fixtures and fittings 4 - 5 years
- Right-of-use assets 3 - 7 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted if appropriate.

6.3.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Bank can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use
- Its intention to complete and its ability and intention to use the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit as follows:

- Software 3 years
- Core Banking System 7 years
- Portfolio acquisition 7 years

6.3.10 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

6.3.11 Reversal of impairments of non-financial assets

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

6.3.12 Deferred tax

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that is no longer probable that the related tax benefit will be realised.

6.3.13 Deposits, debt securities issued and subordinated liabilities

The Bank's sources of debt funding consist of customer deposits, direct loans from other financial securities and subordinated liabilities.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments, and as defined in IAS 32. Deposits, debt securities issued and subordinated liabilities are initially measured at amortised cost plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

6.3.14 Provisions recognised as liabilities

An accrual is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, but where no invoice or similar has been received, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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6.3.15 Employee benefits

6.3.15.1 *Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

6.3.15.2 *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

6.3.16 Share capital and reserves

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

6.3.17 Income tax

Income tax expense comprises current and deferred tax. It is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity or in other comprehensive income (OCI).

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

6.4 Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised prospectively.

6.4.1 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

Note 6.3.5 i: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are Solely Payments of Principal and Interest (SPPI) on the principal outstanding

Note 6.3.5 ii: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

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6.4.2 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following notes:

Note 6.3.5 iii: impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

Note 7.2.2 and Note 6.3.5 iii: impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

6.4.3 Measurement of provisions

Provisions are estimated taking into account all information available on the date the financial statements are prepared.

6.5 Segment reporting

The Bank only has two main products, credit cards and deposit accounts, which both are in the retail banking business line, and operates in Germany, Luxembourg, France, Austria and Spain. Germany is Advanzia's core market in terms of income and profitability.

6.6 Notes to the statement of comprehensive income

6.6.1 Net interest income

6.6.1.1 Interest income

Interest income is the main revenue stream of the Bank and is earned on bank placements (including money market placements) and customer loans.

In thousands of EUR

	2019	2018
Interest income		
Financial institutions	256	74
Customers	263 244	219 410
Total interest income	263 500	219 484

Interest income is charged on loans to customers based on the effective interest rate method. Out of this interest income, TEUR 3 175 is interest related to stage 3 exposures (2018: TEUR 3 497). This interest income is recognised net of applicable impairments to the loans.

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6.6.1.2 Interest expense

Interest expense is paid on placements with BCL, loans from credit institutions, customer deposits and subordinated liabilities:

In thousands of EUR

	2019	2018
Interest expense		
Financial institutions	-4 887	-2 883
Of which: Negative Interest paid on balances held with the Central Bank of Luxembourg (BCL)	-2 115	-1 578
Customer deposits	-9 170	-8 502
Subordinated liabilities	-676	-446
Interest expense on lease liability	-86	-
Total interest expense	-14 819	-11 831

6.6.2 Net fee and commission income

Commission income contain interchange fees received from Mastercard, fees in relation to insurances where Advanzia acts as an agent and reminder fees charged to credit card customers.

Commission expense includes account handling fees paid to banks as well as miscellaneous fees paid to Mastercard.

In the following table, fee and commission from contracts with customers in the scope of IFRS 15 is disaggregated by major type of product. The net fee and commission income in relation to IFRS 15 amount to TEUR 15 093.

In thousands of EUR

Product type	2019	
	Income	Expenses
Revolving cards	13 666	17 608
PCS	7 129	1 090
Agent service	12 995	-
Total commission from contracts with customers	33 790	18 698

In thousands of EUR

Product type	2018	
	Income	Expenses
Revolving cards	9 358	14 059
PCS	650	88
Agent service	8 352	-
Total commission from contracts with customers	18 360	14 147

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6.6.3 Other operating income/expenses

Other operating income comprises all income not recorded elsewhere. Other operating expenses contain an arrangement fee of TEUR 1 400 in relation to the acquisition of a financial instrument during the year as well as the contribution to the Luxembourgish deposit insurance scheme (FGDL) (please see Note 6.9) for 2019 of TEUR 2 287, and card servicing expenses in relation to the purchase of the Catella portfolio.

6.6.4 Personnel expenses

Personnel expenses include wages and salaries as well as social security and other costs. In addition, some employees participate in a defined pension insurance contribution plan. The Bank's cost for this pension plan including applicable taxes in 2019 was TEUR 353 (2018: TEUR 270). All pension contributions are paid in or provisioned.

6.6.5 Impairment on financial assets

The Bank applies an allowance for impairment on loans that it considers to be impaired. In addition, loans that are deemed uncollectible are written off. The losses from impairment and write-offs of financial assets are composed as follows:

In thousands of EUR

	2019	2018
Impairment		
Net (loss) / gain from impairment	7 052	-9 594
Write-offs	-82 475	-53 061
Total impairments	-75 423	-62 655

The Bank is assessing the total impairment on credit card loans on a group basis. Total impairment includes expected credit losses (ECL) estimated using the Banks ECL methodology (please see 6.3.5 (iii) for the ECL policy), expected recoveries of delinquent loans, and any written exposures during the year.

6.6.6 Income taxes

The Bank is subject to taxation in Luxembourg. The corporate income tax (CIT) rate was 18% in 2018 and became 17% in 2019. The income is further subject to the municipal business tax (6.75%), whereas the corporate income tax amount is subject to the solidarity surtax (7% imposed on the CIT).

In thousands of EUR

	2019
Result on activities before taxes	95 852
Aggregate tax rate	24.94%
Theoretical income tax	23 905
Tax impact of exempt income	-6 485
Regularisation Income taxes 2015-2017	178
Effective income tax	17 598

As at 31 December 2019, tax liabilities amount to EUR 10.4 million. In 2019, the Bank paid income tax for the years 2015 to 2017 of EUR 14.9 million.

As at 31 December 2019, there are no deferred tax liabilities or assets.

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6.7 Notes to the statement of financial position

6.7.1 Cash and cash equivalents

On the basis of IAS 8.42 prior figures were adjusted to reflect correct presentation. In 2018, Nostro account balances with financial institutions were incorrectly classified as Loans and Advances to Financial Institutions. This results in a reclassification on the balance sheet but has no other balance sheet or profit and loss effect.

The reclassification is reflected in the following table.

In thousands of EUR

Cash and cash equivalents	2019	2018
Balances with central banks	710 988	493 552
Nostro account balances with financial institutions	9 476	15 445
Balance at 31 December	720 464	508 997

Balances with central banks represent the placements with the Luxembourg Central Bank, which, inter alia, is also used to meet the Bank's minimum reserve requirements. These funds may be withdrawn at any time, as the minimum reserve requirements have to be respected as an average on a monthly basis. Loans and advances to financial institutions are unrestricted balances with financial institutions available on demand. The Bank holds no notes or coins at hand.

6.7.2 Loans and advances and amounts owed to financial institutions

In thousands of EUR

Loans and advances to financial institutions	2019	2018
Available on demand	45 419	2 695
Money market placements	102 308	46 162
Balance at 31 December	147 727	48 857

Money market placements are term deposits with other financial institutions (banks). On 31 December 2019 there were two placements with an original maturity of three months.

The Bank has pledged term deposits of EUR 31 million and NOK 310 million as collateral for a guarantee in favour of Mastercard.

In 2019, the Bank owed to financial institutions a EUR 206.25 million senior secured credit facility collateralised by loans and advances to German customers.

At balance sheet date, the Bank has a liability of around EUR 19.1 million in relation to overdrafts on current accounts in USD, GBP and CHF.

6.7.3 Loans and advances to customers

This item includes credit card loans to the Bank's retail customers.

In thousands of EUR

	2019	2018
Loans and advances to customers		
Credit card loans to retail customers	1 724 502	1 492 112
Impairment	-61 259	-68 305
Impairment first time adoption IFRS 9	-25 216	-25 216
Balance at 31 December	1 638 027	1 398 591

In thousands of EUR

	2019	2018
Allowances for impairments		
Balance at 1 January as reported	68 305	58 718
Impairment loss for the year		
Charge for the year	75 423	62 655
Write-offs (net of recoveries)	-82 475	-53 068
Balance at 31 December	61 259	68 305

In September, the Bank successfully closed the sale of a German non-performing loan (NPL) portfolio with more than 65 000 cases and an overall outstanding claim of approximately MEUR 145. As the vast majority of the portfolio was already written-down in line with the Bank's write-off procedure, the transaction led to a reduction of the loan balance by MEUR 27.3 of around 24 000 clients. Taking into account the net indemnity paid to the Bank, the additional required write-offs as well as the reversal of the value adjustments, the transaction yielded a positive net result amounting to MEUR 1.83.

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6.7.4 Tangible assets

In thousands of EUR

Cost	Right-of-use assets	IT equipment	Fixtures and fittings	Total
Balance at 1 January 2019	-	3 876	1 393	5 269
Recognition of right-of-use asset on initial application of IFRS 16	6 011	-	-	6 011
Adjusted balance at 1 January 2019	6 011	3 876	1 393	11 280
Acquisitions	-	27	62	89
Acquisitions Disposals	-	-239	-	-239
Balance at 31 December 2019	6 011	3 664	1 455	11 130
Balance at 1 January 2018	-	3 632	1 140	4 772
Acquisitions	-	244	254	498
Balance at 31 December 2018	-	3 876	1 393	5 269
Accumulated depreciation				
Balance at 1 January 2019	-	3 327	956	4 284
Depreciation for the period	1 351	249	163	1 763
Disposals	-	-100	-	-100
Balance at 31 December 2019	1 351	3 476	1 119	5 947
Balance at 1 January 2018	-	2 132	806	2 938
Depreciation for the period	-	1 195	150	1 345
Balance at 31 December 2018	-	3 327	956	4 283
Net tangible assets at 31 December 2019	4 660	188	336	5 183
Net tangible assets at 31 December 2018	-	549	437	986

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6.7.5 Intangible assets

In thousands of EUR

Cost	Purchased software	Portfolio Acquisition	Total
Balance at 1 January 2019	15 676	-	15 676
Acquisitions	3 591	24 000	27 591
Balance at 31 December 2019	19 267	24 000	43 267
Balance at 1 January 2018	11 266	-	11 266
Acquisitions	4 409	-	4 409
Balance at 31 December 2018	15 676	-	15 676
Accumulated amortisation	Purchased software	Portfolio Acquisition	Total
Balance at 1 January 2019	7 706	-	7 706
Amortisation for the period	1 714	1 286	3 000
Balance at 31 December 2019	9 420	1 286	10 706
Balance at 1 January 2018	6 120	-	6 120
Amortisation for the period	1 586	-	1 586
Balance at 31 December 2018	7 706	-	7 706
Carrying amount at 31 December 2019	9 847	22 714	32 561
Carrying amount at 31 December 2018	7 970	-	7 970

6.7.6 Other assets

In thousands of EUR

	2019	2018
Mastercard Receivable	1 600	1 100
Insurance commission receivables	3 735	-
Prepaid administrative expenses	3 042	2 499
VISA Guarantee	750	-
Sundry	676	635
Balance at 31 December	9 803	4 234

6.7.7 Amounts owed to customers

All amounts due to customers are all on demand deposit accounts, repayable on a day-to-day basis, where the Bank may adjust the interest rate at any time. The Bank does offer neither any current accounts nor term deposits to its customers. Customers may deposit funds to and withdraw funds from accounts held in their own name. The Bank only accepts individuals as customers. The funds are available on demand, and the

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Bank may at any time change the interest rate that it pays on these accounts. The Bank may also cancel the accounts at any time.

The liability is recognised at its carrying amount due to the contractual parameters (short term, variable interest rate, cancellable).

6.7.8 Other liabilities

In thousands of EUR

	2019	2018
Short term payables	12 000	988
Preferential creditors	793	1 384
Other accruals	15 929	17 943
Other liabilities	2 254	-
Lease liabilities	4 585	-
Balance at 31 December	35 561	20 315

Short term payables relates to the partial payment of the second tranche of the Catella portfolio.

Preferential creditors include liabilities towards public authorities such as withholding tax, social security contributions, etc.

Other accruals cover mainly expected payments for goods or services delivered by balance sheet date, and which are foreseen to become payable within the next 12 months.

6.7.9 Subordinated liabilities

The subordinated liabilities consist of:

- A NOK 85 million floating rate note with indefinite maturity, qualifying as Alternative Tier 1 capital. The note is listed at Oslo Stock Exchange and has been issued to a number of institutional investors, with a rate of 3 months NIBOR + 450 bps.
- A EUR 25 million floating rate Tier 2 callable bond of EUR 25 million and a tenor of 10 years. The bond carries a coupon of 3 months EURIBOR + 600bps and will have a first call option for Advanzia after 5 years. This bond was issued on 14 November 2019

6.7.10 Equity

The movements in the capital accounts are presented under the Statement of Changes in Equity.

6.7.10.1 Subscribed capital and issue premiums

The subscribed capital, issue premiums, and voting and non-voting shares are as follows:

In thousands of EUR

Date	Subscribed capital	Issue premiums	Issued voting shares	Issued non-voting shares
1 January 2019	17 553	9 890	210 210	-
31 December 2019	17 553	9 890	210 210	-

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As at 31 December 2019, the 210 210 issued shares were distributed among the following share classes:

Share class	Number of shares
Class A	30 383
Class B	21 280
Class C	158 547
Total voting shares	210 210
Total issued shares	210 210

Shares in share classes A-C are ordinary voting shares and have a nominal value of EUR 83.50 each. As at 31 December 2019, management held no shares in Advanzia Bank S.A.

6.7.10.2 Other equity instruments

The Bank issued NOK 225 million 3 months NIBOR + 700bps perpetual Tier 1 bond on 12 July 2019. The bonds are callable by Advanzia with the first call option 5 years after issuance. The Bank paid TEUR 500 to AT1 bondholders during 2019 as distribution. The Bank can cancel distributions at any time.

6.7.10.3 Reserves

In 2019 Advanzia Bank S.A. allocated TEUR 4 700 of the 2018 profits to a reserve according to Luxembourg tax law and relocated TEUR 1 801 to profit carried forward.

6.7.10.4 Dividends

The Bank distributed an interim dividend amounting to TEUR 40 045 to its equity holders during the year ending 31 December 2019.

6.8 Leases

6.8.1 Leases as lessee

The Bank leases a number of properties relating to its office premises located on 9 Rue Gabriel Lippmann L-5365 Munsbach and vehicles provided to employees. Leases relating to office premises contain an option to renew after upon expiration; however, the option was not considered as the Bank is considering relocation. For some lease agreements, lease payments may require adjustments to reflect changes in price indices.

Previously, these leases were classified as operating leases under IAS 17.

6.8.2 Extension options

Some leases of office premises contain extension options exercisable by the Bank before the end of the non-cancellable contract period. The Bank assesses that it is reasonably certain not to exercise the extension option as management is currently considering the need to relocate to larger premises to house the Bank's increasing number of employees. Accordingly, the Bank does not consider extension options for determining the lease term over which the lease liability is calculated.

6.9 Deposit guarantee scheme

The law related to the resolution, reorganisation and winding-up measures of credit institutions and certain investment firms and on deposit guarantee and investor compensation schemes (“the Law”), transposing into Luxembourgish law the directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and the directive 2014/49/EU related to deposit guarantee and investor compensation schemes, was passed on 18 December 2015.

As a result of the above law, the “Fonds de résolution Luxembourg” (FRL) was founded as finance mechanism. The funded amount of the FRL shall reach by the end of 2024 at least 1% of covered deposits, as defined in article 1 number 36 of the Law, of all authorized credit institutions in all participating Member States. This amount will be collected from the credit institutions through annual contributions by the end of the year 2024.

Additionally, the former deposit guarantee and investor compensation scheme in place through the “Association pour la Garantie des Dépôts Luxembourg” (AGDL) was replaced by a new contribution based system of deposit guarantee and investor compensation scheme “Fonds de Garantie des Dépôts Luxembourg” (FGDL). FGDL will cover eligible deposits of each depositor up to an amount of TEUR 100 and investments up to an amount of TEUR 20. The Law also provides that deposits resulting from specific transactions or fulfilling a specific social or other purpose be covered for an amount above TEUR 100 for a period of 12 months.

The target level of funding of the FGDL is set at 0.8% of covered deposits, as defined in article 163 number 8 of the Law, of the relevant credit institutions and were reached by the end of 2018 through annual contributions. Since the level of 0.8% is reached, the Luxembourgish credit institutions are to continue to contribute for 8 additional years in order to constitute an additional safety buffer of 0.8% of covered deposits as defined in article 163 number 8 of the Law.

For 2019 the Bank paid EUR 2.3 million to FGDL. In compliance with CSSF circular 14/599, the Bank released an amount of TEUR 511 of the un-distributable specific reserve in relation to AGDL.

6.10 Auditor’s fees

Accrued expenses and fees billed to the Bank by KPMG Luxembourg during the year were as follows:

In thousands of EUR

	2019	2018
Audit fees	235	195
Audit related fees	6	22
Tax services	69	37
Total fees (excl. VAT)	310	254

6.11 Staff

	2019	2018
Average number		
Management Committee	6	6
Employees (fulltime equivalent)	171	154
Total	177	160

At the end of 2019, the company had 189 employees (including the Management Committee).

6.12 Related parties

6.12.1 Parent and ultimate controlling party

Kistefos AS, Norway retained majority control of the shares during the year ended 31 December 2019.

6.12.2 Transactions with board members and key management personnel

Except as disclosed elsewhere in the Notes to the financial statements, members of the Management Committee have transacted with the Bank during the period as follows:

In thousands of EUR

	2019	2018
Remuneration	2 312	2 326
Pensions	119	119
Loans	15	6
Other commitments	53	68

During the period board members transacted with the Bank as follows:

In thousands of EUR

	2019	2018
Remuneration	104	108
Pensions	-	-
Loans	12	12
Other commitments	46	46

Additionally, during the period, Kistefos AS associates and their immediate relatives have transacted with the Bank with loans amounting to TEUR 15 and other commitments amounting to TEUR 250.

Interest rates charged on balances outstanding from related parties are the same as those that would be charged in an arm's length transaction. Credit card loans are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the period end.

7 RISKS AND RISK MANAGEMENT

The following note provides an overview and analysis of the risks to which Advanzia Bank is subject, and how the Bank manages such risks. Unless otherwise stated, all figures are in euro as at 31 December 2019.

7.1 Risk management: objectives and policies

The Board of Directors has overall responsibility for determining the Bank's risk appetite as well as the establishment and oversight of the Bank's risk management framework.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank has exposure to risks including but not limited to:

- credit risk
- fraud risk
- liquidity risk
- market risks
- operational risks
- outsourcing risk
- model risk
- income risk
- reputation risk
- compliance risk

For managing risks, the following principles are followed:

- The risk and own funds strategy is executed by the Bank's management on behalf of the Board of Directors in accordance to the business strategy as well as the type of risk involved. The Board of Directors is responsible for and monitors the execution of the risk and own funds strategy.
- For all types of risks relevant to the Bank, defined processes and organisational structures exist, and all the different tasks, expertise and responsibilities follow these.
- For the purpose of the identification, measurements, steering as well as supervision of the different types of risk, adequate and compatible processes are determined and implemented. These processes are designed to avoid conflicts of interest.
- For certain types of risks relevant to the Bank, appropriate limits are set and supervised. For other relevant risks, mitigation actions are implemented.
- All relevant risks are reviewed and reassessed at various intervals as a part of the Internal Capital Adequacy Assessment Process (ICAAP).

7.2 Credit risk

Credit risk represents the largest risk within the Bank. Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment debt

securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

7.2.1 Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to the Executive Management Committee, which further has delegated the responsibility to the Credit Risk Committee, being responsible for surveying and assessing credit risk. The Credit Risk Function, reporting to the Credit Risk Committee, is responsible for managing the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. This includes principles for customer acceptance, assignment of initial credit limits on credit cards, and subsequent increases of credit card limits based on exhibited behaviour by the customer and in accordance to estimated risk. Authorisation limits are allocated centrally as part of the automated application process. Larger facilities, or facilities outside the ordinary automated process, require approval by the Credit Risk Officer, Credit Risk Function, Credit Risk Committee, Management Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. The Bank assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties.
- Providing advice, guidance and specialist skills to other units in the Bank to promote best practice throughout the Bank in the management of credit risk.

Regular audits of business units and credit processes are undertaken by internal audit.

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7.2.2 Exposure to credit risk

<i>In thousands of EUR</i>	Loans and advances to customers		Loans and advances to financial institutions	
	2019	2018	2019	2018
Collectively impaired				
Stage 3 (impaired)	116 861	143 392	-	-
Gross amount	116 861	143 392	-	-
Allowance for impairment	-40 636	-54 525	-	-
Carrying amount	76 225	88 867	-	-
Past due but not impaired	2019	2018		
Stage 2	309 054	257 961	-	-
Gross amount	309 054	257 961	-	-
Allowance for impairment	-34 265	-28 883	-	-
Carrying amount	274 789	229 078	-	-
Neither past due nor impaired	2019	2018	2019	2018
Stage 1	1 298 587	1 090 765	147 741	48 871
Gross amount	1 298 587	1 090 765	147 741	48 871
Allowance for impairment	-11 574	-10 119	-13	-14
Carrying amount	1 287 013	1 080 646	147 728	48 857
Carrying amount - amortised cost	1 638 027	1 398 591	147 728	48 857

In addition to the above, the Bank had at balance sheet date through the credit cards issued entered into undrawn commitment of EUR 4 335 million (2018: EUR 3 596 million) with its credit card clients being neither past due nor impaired.

See also Note 6.3.5 regarding definitions and accounting policies for impaired loans, note 6.4 regarding judgements and estimates, as well as note 6.6.6 regarding impairments on financial assets and Note 6.7.3 regarding loans and advances to customers.

Loss allowance

The following table shows the reconciliation from the opening to the closing balance of the loss allowance for Loans and advances to customers at amortised cost.

In thousands of EUR

Amounts arising from ECL	2019		
	Stage 1	Stage 2	Stage 3
Opening ECL	10 119	28 883	54 525
Transfers to Stage 1	1 237	- 9 282	- 517
Transfers to Stage 2	- 1 430	16 334	- 589
Transfers to Stage 3	- 291	- 3 678	22 617
New issued	2 892	6 438	4 907
Write-offs	- 349	- 6 654	- 40 298
No transition	- 604	2 224	6 185
Interest adjustment	-	-	- 6 194
Closing ECL	11 574	34 265	40 636

In thousands of EUR

Amounts arising from ECL	2018		
	Stage 1	Stage 2	Stage 3
Opening ECL	7 272	23 687	52 974
Transfers to Stage 1	930	- 7 288	- 306
Transfers to Stage 2	- 1 209	13 322	- 538
Transfers to Stage 3	- 360	- 6 227	25 778
New issued	2 920	6 412	3 223
Write-offs	- 172	- 1 888	- 23 493
No transition	738	865	1 067
Interest adjustment	-	-	- 4 180
Closing ECL	10 119	28 883	54 525

In addition to the above, the Bank had at balance sheet date through the credit cards issued entered into undrawn commitment of EUR 4 335 million (2018: EUR 3 596 million) with its credit card clients being neither past due nor impaired.

7.2.3 Concentration risk

In general, credit card loans are well diversified and small. The Bank also follows a policy of maximum concentration per individual borrower or group of borrowers. See also Note 7.2.6 below regarding concentration risk with respect to financial institutions.

In addition, the Bank monitors concentrations of credit risk by sector and by geographic location. The concentration by location for loans and advances is measured based on the location of the borrower.

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The exposure by location as of 31 December 2019 is as follows:

<i>In thousands of EUR</i>	Loans and advances to customers		Loans and advances to financial institutions		Loans and advances to Corporates	
	2019	2018	2019	2018	2019	2018
Concentration by sector						
Banks	-	-	147 728	48 857	-	-
Retail	1 638 027	1 398 591	-	-	-	-
Corporates	-	-	-	-	38	11
Total 31 December	1 638 027	1 398 591	147 728	48 857	38	11
Concentration by location						
Germany	1 436 807	1 230 382	-	375	-	-
Luxembourg	6 925	4 938	107 259	48 245	-	-
France	99 353	96 925	-	1	38	11
Austria	85 009	59 034	-	-	-	-
Other EU/EEA countries	9 933	7 312	40 469	235	-	-
Total 31 December	1 638 027	1 398 591	147 728	48 857	38	11

7.2.4 Trading assets

The Bank did not hold any trading assets, including derivative assets held for risk management purposes.

7.2.5 Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. Due to the limited number of operations, the limited size of transactions the Bank considers its settlement risk to be negligible, and considers that proper operational routines are sufficient to mitigate the risk.

7.2.6 Financial institutions

Avanzia only places its spare liquidity with other banks that are all to be individually assessed and for larger exposures, also to be approved by the Board of Directors. These are banks that have minimum requirements with respect to ratings (long-term, senior, unsecured ratings), and are mostly to be considered as systemic banks. The Bank was as at balance sheet date compliant with the requirements of Regulation (EU) N° 575/2013 and (EU) N° 680/2014 as amended regarding large exposures.

7.3 Fraud risk

Credit cards may be subject to fraudulent misuse, which usually can be categorised into application fraud (where the identity of the card holder is incorrect), or usage fraud which often is a result of phishing and several other attacks.

Avanzia has over the past years continuously enhanced the existing measures to identify and mitigate fraud losses. The credit card related fraudulent activity resulted 2019 in a loss of TEUR 2 098 (TEUR 1 578 in

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2018) which corresponds to a fraudulent amount rate measured as ratio of card turnover of 0.05% in 2019 (0.05% in 2018). These losses are in the financial statements included as part of the write-offs of credit card loans.

7.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities.

7.4.1 Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due as well as at all times maintain the statutory minimum liquidity requirement, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank projects cash flow from all its operations and activities on a daily basis for the next three to four months. Cash flow estimates beyond this period are based on the budget and interim forecasts. The Bank then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank places its spare liquidity with other banks on on-demand nostro accounts or as term deposits, which usually have a term of less than six months.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Management Committee and the Board of Directors. Weekly reports cover the liquidity position and main cash flows, and liquidity is covered further in the Bank's monthly report to the Board of Directors.

The Bank relies on deposits from customers as its primary source of funding. The deposits from customers are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends. On an aggregate level, the customer deposits exhibit a high degree of stability. During 2019, customer deposits in savings products increased by 22.4%% (2018: increase of 13.3%).

Since 2017, Advanzia has taken actions to diversify its funding sources. A covered loan of EUR 100 million has been upgraded in 2018 to a covered loan of EUR 150 million (including EUR 50 million as a committed revolving credit facility) which itself has been replaced in 2019 by a syndicated covered loan of EUR 275 million (including EUR 68.8 million as a committed revolving credit facility). An FX overdraft facility has been increased from EUR 0.6 million to EUR 20 million.

7.4.2 Exposure to liquidity risk

The Bank monitors and reports the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) on a continuous basis. These ratios are calculated as defined in the Capital Requirements Regulation and Directive – CRR/CRD IV (Regulation (EU) No 575/2013), and have been as follows:

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LCR (Min. 100%)	2019	2018
At 31 December	179%	151%
Average for the period	162%	134%
Maximum for the period	216%	159%
Minimum for the period	130%	116%

NSFR (Min. 100%)	2019	2018
At 31 December	140%	130%
Average for the period	133%	129%
Maximum for the period	140%	136%
Minimum for the period	125%	124%

7.4.3 Residual contractual maturities of financial liabilities

31 DECEMBER 2019

In thousands of EUR

NON-DERIVATIVE LIABILITIES	Carrying amount	Gross nominal inflow/outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Loans from banks	225 368	-219 265	-1 409	-	-1 286	-216 570	-
Deposits from customers	2 012 425	-2 012 928	-2 012 928	-	-	-	-
Deposits from corporates	39	-40	-	-	-40	0	-
Unrecognised loan commitments	4 335 000	-4 335 000	-4 335 000	-	-	-	-
Total	6 572 832	-6 567 233	-6 349 337	-	-1 326	-216 570	-

31 DECEMBER 2018

In thousands of EUR

NON-DERIVATIVE LIABILITIES	Carrying amount	Gross nominal inflow/outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Loans from banks	100 657	-102 042	-656	-125	-496	-100 764	-
Deposits from customers	1 646 428	-1 647 271	-1 647 271	-	-	-	-
Deposits from corporates	40	-40	-	-	-40	-	-
Unrecognised loan commitments	3 595 729	-3 595 729	-3 595 729	-	-	-	-
Total	5 342 854	-5 345 082	-5 243 656	-125	-536	-100 764	-

The above table shows the undiscounted cash flows on the Bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The hybrid capital has no contractual maturity, and is thus not considered in this context. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, deposits from customers are expected to maintain a stable or increasing balance, and only a very small amount of unrecognised loan commitments (i.e. the unused portion of credit card limits) may be expected to be drawn down immediately.

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The gross nominal inflow or outflow disclosed in the previous table represents the contractual undiscounted cash flows relating to the principal and interest on the financial liability or commitment.

7.5 Market risks

Market risks are the risks that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Avanzia Bank's exposure to interest rate risk is limited compared to credit risk. The Bank's main asset class is net credit card loans and bank deposits with short duration. The card lending rates may be changed within three months for existing clients, and within one month for new clients. The main liabilities are customer deposits, on which the rates may be changed immediately.

Credit card loans and customer deposits are usually not subject to sudden large (but short-lived) aberrations in the underlying money market interest rates, which may occur on rare occasions, and the Bank is thus in practice shielded from such shocks. The Bank also has placements with other banks, either on nostro accounts or as money market placements (term deposits), but the duration of the latter is usually kept at less than three to six months, and are thus considered to be in line with the main other interest bearing asset/liability classes. The Bank monitors and reports interest rate risk (using duration gap analyses), and has also pre-established levels to stay within (a cumulative duration gap of maximum 20% within 365 days).

7.5.1 Management of market risks

Overall authority for market risks is vested in the Risk Department, which is responsible for the development of market risk management policies (subject to review and approval by the Board of Directors) and for the day-to-day review of their implementation. As the Bank has no trading portfolio, there is no market risk associated with this.

Avanzia operates mainly in EUR. One subordinated loan and the AT1 bond are denominated in NOK, and the currency risk related to this position is "hedged" with a NOK deposit of the same amount. In addition, the Bank holds nominal amounts in USD, GBP, CHF, SEK and DKK for the settlement of the Professional Card Services (PCS) card transactions that are at all times in relation with equivalent claims on the PCS client banks. The Bank holds no positions in other currencies, and does apart from the above not need to recognise or manage any other currency risk. A few suppliers may invoice in currencies other than EUR, but these are immediately translated to EUR, and the currency risk as such is negligible.

7.5.2 Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by matching the duration of the assets and liabilities.

A summary of the Bank's interest rate gap position as at balance sheet date is as follows:

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In thousands of EUR

Interest bearing assets	Gross amount	Less than 3 months	3-6 months	6-12 months	1-5 years	more than 5 years
Central bank - minimum reserve	20 203	20 203	-	-	-	-
Central bank reserves in excess of the minimum required (deposit facility)	690 785	690 785	-	-	-	-
Loans and advances to banks (assimilated to Nostro)	9 476	9 476	-	-	-	-
Term deposits	102 308	102 308	-	-	-	-
Loans and advances to partner banks (PCS)	45 419	45 419	-	-	-	-
Gross loans and advances to credit card customers FR	114 306	114 306	-	-	-	-
Gross loans and advances to credit card customers AT	98 725	98 725	-	-	-	-
Gross loans and advances to credit card customers ES	16 357	16 357	-	-	-	-
Gross loans and advances to credit card customers DELU	1 495 119	1 495 119	-	-	-	-
Total interest bearing assets	2 592 698	2 592 698	-	-	-	-
Interest bearing liabilities	Gross Amount	Less than 3 months	3-6 months	6-12 months	1-5 years	more than 5 years
Overdraft Nostro Accounts	17 837	17 837	-	-	-	-
Term loans	207 531	207 531	-	-	-	-
Deposits from customers	2 012 425	2 012 425	-	-	-	-
Subordinated loans	33 617	33 617	-	-	-	-
Total interest bearing liabilities	2 271 410	2 271 410	-	-	-	-
Gap	321 380	321 380				
Cumul. gap	321 380	321 380				
Cumul. gap (%)	12.4%	12.4%				

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31 DECEMBER 2018

In thousands of EUR

Interest bearing assets	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	more than 5 years
Central bank - minimum reserve	16 366	16 366	-	-	-	-
Central bank reserves in excess of the minimum required (deposit facility)	477 185	477 185	-	-	-	-
Loans and advances to banks (assimilated to Nostro)	52 853	52 853	-	-	-	-
Term deposits	8 549	8 549	-	-	-	-
Loans and advances to partner banks (PCS)	2 718	2 718	-	-	-	-
Gross loans and advances to credit card customers FR	101 389	101 389	-	-	-	-
Gross loans and advances to credit card customers AT	72 249	72 249	-	-	-	-
Gross loans and advances to credit card customers DELU	1 318 461	1 318 461	-	-	-	-
Total interest bearing assets	2 049 770	2 049 770	-	-	-	-

Interest bearing liabilities	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	more than 5 years
Deposits from banks	-	-	-	-	-	-
Term loans	100 000	100 000	-	-	-	-
Deposits from customers	1 646 428	1 646 428	-	-	-	-
Subordinated loans	8 544	8 544	-	-	-	-
Total interest bearing liabilities	1 754 972	1 754 972	-	-	-	-

Gap	294 799	294 799
Cumul. gap	294 799	294 799
Cumul. gap (%)	14.4%	14.4%

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (bp) parallel fall or rise in all yield curves worldwide.

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An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant balance sheet position, is at balance sheet date as follows:

31 DECEMBER 2019

<i>In thousands of EUR</i>	Carrying amount	Present value of banking positions after interest shock		Impact on equity of the 12-month sensitivity on income	
		+200 bp	-200 bp	+200 bp	-200 bp
Interest bearing assets		+200 bp	-200 bp	+200 bp	-200 bp
Central bank - minimum reserve	20 203	20 607	20 122	303	-61
Central bank reserves in excess of the minimum required (deposit facility)	690 785	704 606	690 785	10 374	-
Loans and advances to banks (assimilated to Nostro)	9 476	9 666	9 476	142	-
Term deposits	102 308	104 154	100 458	1 386	-1 388
Loans and advances to partner banks (PCS)	45 419	46 328	45 419	682	-
Gross loans and advances to credit card customers FR	114 306	116 094	112 511	1 342	-1 348
Gross loans and advances to credit card customers AT	98 725	100 266	97 177	1 157	-1 162
Gross loans and advances to credit card customers DELU	1 495 119	1 518 411	1 471 725	17 483	-17 560
Gross loans and advances to credit card customers ES	16 357	16 612	16 101	192	-192
Total interest bearing assets	2 592 698	2 636 744	2 563 774	33 061	-21 711
Interest bearing liabilities		+200 bp	-200 bp	+200 bp	-200 bp
Overdraft Nostro Accounts	17 837	18 170	17 770	250	-50
Term loans	207 439	211 312	206 664	2 907	-581
Deposits from customers	2 012 425	2 050 981	2 004 710	28 940	-5 791
Subordinated loans	33 617	34 189	33 115	429	-377
Total interest bearing liabilities	2 271 318	2 314 652	2 262 259	32 526	-6 799
Gap	321 380	322 092	301 515	535	-14 912
Cumul. gap	321 380	322 092	301 515		
Cumul. gap (%)	12,4%	12,2%	11,8%		

FINANCIAL STATEMENTS

31 DECEMBER 2018

<i>In thousands of EUR</i>	Carrying amount	Present value of banking positions after interest shock		Impact on equity of the 12-month sensitivity on income	
		+200 bp	-200 bp	+200 bp	-200 bp
Interest bearing assets		+200 bp	-200 bp	+200 bp	-200 bp
Central bank - minimum reserve	16 366	16 694	16 301	242	-48
Central bank reserves in excess of the minimum required (deposit facility)	477 185	486 732	477 185	7 064	-
Loans and advances to banks (assimilated to Nostro)	52 853	53 910	52 853	782	-
Term deposits	8 549	8 685	8 441	101	-80
Loans and advances to partner banks (PCS)	2 718	2 773	2 718	40	-
Gross loans and advances to credit card customers FR	101 389	102 976	99 795	1 175	-1 180
Gross loans and advances to credit card customers AT	72 249	73 376	71 117	834	-837
Gross loans and advances to credit card customers DELU	1 318 461	1 339 039	1 297 854	15 203	-15 270
Total interest bearing assets	2 049 770	2 084 185	2 026 264	25 441	-17 415
Interest bearing liabilities		+200 bp	-200 bp	+200 bp	-200 bp
Deposits from banks	-	-	-	-	-
Term loans	100 000	101 747	99 651	1 293	-259
Deposits from customers	1 646 428	1 678 009	1 631 147	23 328	-11 345
Subordinated loans	8 544	8 672	8 533	95	-9
Total interest bearing liabilities	1 754 972	1 788 428	1 739 330	24 716	-11 612
Gap	294 799	295 757	286 933	725	-5 804
Cumul. gap	294 799	295 757	286 933		
Cumul. gap (%)	14.4%	14.2%	14.2%		

Please note that the Bank does not have any exposures past 1 year, and thus the sensitivity to changes to interest rates above 1 year is 0.

Interest rate movements affect reported equity due to increases or decreases in net interest income and the fair value changes reported in profit or loss.

7.6 Operational risks and outsourcing risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

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The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial actions
- development of contingency plans and disaster recovery plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Avanzia is purchasing several services from external service providers, and is consequently subject to outsourcing risk. The risks associated with this practice are related to the fact that suppliers may not provide the agreed deliveries, or that the quality may be insufficient. To mitigate these risks, Avanzia has established a set of internal rules when buying services from external suppliers. The outsourcing policy and procedures of Avanzia regulate the conditions and requirements for outsourcing operations of the Bank. Avanzia is not outsourcing parts of the business if this is prohibited by ruling laws, regulations, or conditions put forward by the authorities, or if outsourcing is viewed as not to be permissible given the requirements for safe and sound operations of the Bank.

The Bank is regularly assessing and reporting its operational and outsourcing risk to management as well as to the Board of Directors. The Bank is also regularly assessing its expected losses in relation to these risks on a regular basis. The Bank has not incurred nor recorded any material operational losses in 2019.

Avanzia Bank S.A. has received acceptance from the regulator for using the Alternative Standardised Approach (ASA) as described in the Basel 2 framework as well as Regulation (EU) N° 575/2013 for assessing operational risk charge for capital adequacy purposes. The amount assessed for this charge as at balance sheet date was TEUR 4 186 when using the ASA method.

Compliance with bank standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the senior management of the Bank.

Disaster Recovery/Business Continuity Plan

For the purpose of a disaster recovery and the planning of the business continuity a crisis team and an IT emergency plan are in place. Different crisis invoking events are covered such as the long-term failure of the IT systems or disruption of the communication channels.

The disaster recovery and business continuity plan are updated in response to changes on an on-going basis in the business environment. The IT Department reviews the plan at least annually.

7.7 Concentration risk

Given the limited individual balances and the large diversification of credit card customers, Advanzia does not consider that there is material concentration risk within this product. The same applies to customer deposits, which again are limited in average and maximum amount, and well diversified in number.

The Bank is applying limitations to the aggregate placements with other credit institutions or groups of other credit institutions. As at balance sheet date, the Bank was also in compliance with CSSF Circular 10/475 on large exposures, and had no exposures exceeding 100% of regulatory capital (cf. below).

The Bank is subject to some product concentration risk as Advanzia is deriving most of its income from one product line (credit cards).

7.8 Model risk and income risk

Model risk occurs when the decisions (e.g. in assessments and valuations) made by Advanzia result in financial losses due to model deficiencies. The underlying primary cause of model errors is not necessarily negligence, but knowledge limits, insufficient data or changes which cannot be predicted from historic data, or simply the fact that models are never perfect. As such, it could also be considered to be a subset of operational risk.

It is generally seen as rather difficult to quantify model risks. Practically it is the estimation of both model deficiencies and their financial impacts. Model deficiencies can be isolated with sensitivity analyses and stress tests, yet the conversion of their results into economic loss figures remains a difficult task. Therefore, in the case of this risk, Advanzia's protection is primarily not through capital but rather through risk management.

To mitigate this risk, Advanzia considers that it is of key importance to collect and process all relevant data regarding its clients and client behaviour, as well as other relevant key performance indicators and parameters that are considered vital and/or necessary for understanding, explaining and modelling Advanzia's business. The models employed by Advanzia are based on known principles and models, as well as the staff's experience and knowledge gained through professional activities. A rigorous model management framework, referred to as Analytical Lifecycle Management Framework (ALMF), is set in place to ensure the quality of Advanzia's models as well as their proper validation and thorough monitoring.

Model risk in the particular case of Advanzia is strongly connected to the credit risk as the decision making for credit assignment is heavily based on credit scoring models.

7.9 Reputation risk and compliance risk

Reputation risk may arise from the Bank acting incompetently or outright dishonestly towards its clients, that it presents itself in an unprofessional fashion, and possibly also due to founded or unfounded smear campaigns from others. The consequence of bad reputation could be a loss of confidence in the Bank. This can, in turn, imply that the Bank may lose customers for both product types. For credit cards, it will mean a loss of income over time, whereas for deposits this may imply a liquidity risk, if clients start to withdraw their funds in considerable volumes.

The Bank is trying to maintain its reputation by remaining customer focused, compliant with both internal as well as external regulations and observing fair business practises. In addition, the Bank strives to be sensitive towards the signals it sends to the various market players so that these are not interpreted as unnecessarily negative.

7.10 Capital management

Regulatory capital

The Bank's regulator, the Commission de Surveillance du Secteur Financier (CSSF) sets and monitors capital requirements for the Bank. According to applicable regulations relating to capital adequacy, credit institutions are required to dispose of sufficient capital resources to cover different types of risks.

With effect from 1 January 2008, the Bank is complying with the provisions of the Basel 2 framework in respect of regulatory capital. The Bank is following the standardised approach to credit risk and the Alternative Standardised Approach (ASA) for operational risk, in order to calculate the Basel 2 Pillar 1 minimum requirements. Luxembourg adopted in 2014 the Capital requirements regulation and directive – CRR/CRD IV (Regulation (EU) No 575/2013), and as such Advanzia is subject to the Basel 3 requirements as implemented in the said regulation.

The Bank's regulatory capital consists of Tier 1 and Tier 2 capital, which includes ordinary subscribed capital, issue premiums, legal reserves as well as reserves for reduction of net wealth tax (both included in "Reserves") and retained earnings, after deductions for intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

Banking operations are categorised as banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures as well as a risk-weighted asset requirement in respect of operational risk.

The Bank's policy is to maintain a sufficient capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank appreciates the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's regulatory capital position at 31 December 2019 was as follows:

In thousands of EUR

	Note	2019	2018
Subscribed capital	6.7.10	17 553	17 553
Issue premium	6.7.10	9 890	9 890
Reserves	6.7.10	16 826	13 416
Income carried forward	6.7.10	131 885	75 718
Phasing of IFRS 9 first time adoption impact		23 829	17 733
Interim profits inclusion authorised by CSSF	6.7.10	-	27 500
Less intangible assets	6.7.5	-32 561	-7 970
CET 1		167 422	153 840
Eligible subordinated liabilities as AT1		20 520	8 529
Tier 1 Capital		187 942	162 369
Eligible subordinated liabilities – AT2		27 360	-
Total Capital		215 302	162 369

If considering the remaining interim profits for the year (after dividend distribution), the Tier 1 capital as at 31 December 2019 would amount to EUR 226.3 million (2018: EUR 194.0 million).

7.11 Compliance with respect to capital adequacy (Pillar 1 and Pillar 2)

Pillar 1

Management uses regulatory capital ratios in order to monitor its capital base, and these capital ratios remain the international standards for measuring capital adequacy. The regulator's approach to such measurement based upon Basel 3 is now primarily based on monitoring the relationship of the capital resources requirement (measured as 8% of risk-weighted assets including the operational risk charge) to available capital resources, where the minimum overall requirement is as of 2016 10.5%.

The capital ratio (Pillar 1) as at 31 December 2019 was 15.26% (2018: 14.1%). Profits for the financial year are not included in the regulatory capital. Had the remaining 2019 profits also been included, the Bank's total capital ratio would have been 17.97% (2018: 16.9%).

Pillar 2 (ICAAP)

Avanzia will submit its ICAAP document for 2019 during the year, as per regulatory requirements.

During the ICAAP process in 2019, Avanzia has been following a strategy of assessing all risk aspects available, and considered their relevance. The Bank is to a larger degree also quantifying its assessments based on experience data. The Bank assessed its ICAAP on a monthly basis, which is reported to the Board of Directors.

The Pillar 2 ratio at 31 December 2019 was 18.91% (2018: 13.6%) and within the agreed risk appetite of Avanzia.

Capital allocation

Given the limited operational scope and product lines of the Bank, the Bank does not perform an internal capital allocation procedure. The Bank's policy in respect of capital management and allocation is reviewed and approved by the Board of Directors.

7.12 Remuneration policy and practices

The Board of Directors of the Bank has approved a policy which establishes the principles for the remuneration expenditure for management and employees.

Management of the Bank as well as the Chief Compliance Officer, Chief Internal Audit, and the Head of Human Resources and Legal are considered material risk takers. The remuneration for both management and employees consists of a fixed component and a variable component. The variable component is related to the performance of the Bank as well as the individual performance. The variable component for executive management, management and employees cannot exceed 50%, 33% and 30% respectively of the total annual remuneration. For executive management and management the variable payment is deferred over three years with 60% to be paid out for the current year, and 20% in each of the subsequent two years. The variable remuneration consists only of settlements in cash.

The performance measurement criteria for the Bank are related to its performance such as new clients, loan balance development and profitability. The targets for the criteria are determined and assessed by the Board of Directors for each financial year. The Bank retains the right to withhold payments when performance criteria are not met.

For the Bank's management remuneration please refer to Note 6.11 and 6.12

Munsbach, Luxembourg March 2020



Mr. Bengt Arve Rem
Chairman of the board



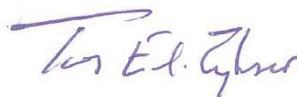
Dr. rer. pol. Thomas Schlieper
Deputy chairman of the board



Mr. Erlend Bondøe



Mr. Nishant Fafalia



Mr. Tor Erland Fyksen



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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Avanzia Bank S.A. ("Avanzia Bank"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Avanzia Bank as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the "Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the financial statements" section of our report. We are also independent of Avanzia Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Estimation uncertainty with respect to impairment losses on loans and advances to customers

Why is it a key audit matter?

Avanzia Bank's portfolio of loans and advances to customers amounts to EUR 1.786 million as at 31 December 2019. These loans and advances to customers are measured at amortised cost. The allowance for impairment on loans amounts to EUR 75 million for the year 2019.

Certain aspects of the accounting for loan losses require significant judgement of management, such as establishing the criteria (e.g. delinquency status of the loans) for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of the expected credit loss ("ECL") and the selection of assumptions and techniques used to estimate the ECL.

Due to the significance of loans and advances to customers and the related estimation uncertainty, we consider the valuation of loans as a key audit matter.

Please refer to the "Significant accounting policies" section in Note 6.3 and related disclosures in the "Risk Management" Note 7 of the financial statements.

How we responded to the risk

We understood, evaluated and tested the operating effectiveness of key controls to identify a significant increase in credit risk.

We have assessed the methodology and framework designed and implemented for the impairment calculation. We challenged together with our internal Financial Risk Management specialists management's inputs, assumptions and techniques (e.g. delinquency status of the loans, Probability of Default (PD), Loss Given Default (LGD)) used in estimating the ECL requirements and performed sensitivity analyses based on the historical parameters.

We have re-performed together with our internal Financial Risk Management specialists the ECL calculation as at 31 December 2019.

We have assessed related disclosures in the financial statements with respect to their appropriateness.

Portfolio acquisition from Catella Bank

Why is it a key audit matter?

Based on the signed agreement in December 2018 with Catella Bank Luxembourg to acquire its credit card servicing operations, Avanzia performed the transaction in March 2019. The acquisition price was agreed as a range based on actual customers transferred within a period ending in March 2020. The Bank recorded an intangible asset amounting to EUR 24 million based on management's estimate.

Since we see this transaction as unusual including management judgement, we consider it as a key audit matter.

Please refer to the Directors' Report of the financial statements.



How we responded to the risk

We inspected the evidence of management control and assumptions over the acquisition and its price. We obtained and inspected the underlying contracts and agreements. We also obtained and inspected internal memos prepared and reviewed by management explaining the various steps and conditions of the acquisition.

We obtained the underlying calculations and assumptions and evaluated them. In addition, we involved our internal valuation specialists to assess the valuation methodology applied. We checked the disclosure of the item and documented subsequently the final price adjustment.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the annual report including the Directors' report but does not include the financial statements and our report of "Réviseur d'Entreprises agréé" thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing Advanzia Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate Advanzia Bank or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the Réviseur d'Entreprises agréé for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists.



Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Advanzia Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Advanzia Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises agréé". However, future events or conditions may cause Advanzia Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.



Report on other legal and regulatory requirements

We have been appointed as "Réviseur d'Entreprises agréé" by the Board of Directors on 17 March 2019 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 15 years.

The management report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014, on the audit profession were not provided and that we remain independent of Advanzia Bank in conducting the audit.

Luxembourg, 17 March 2020

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

A handwritten signature in black ink, appearing to read 'T. Feld', with a stylized flourish at the end.

T. Feld