



PILLAR III REPORT

For the Year Ended 31 December 2020
Advanzia Bank S.A.

Advanzia Bank S.A.

TABLE OF CONTENTS

I GENERAL INFORMATION.....	3
1.1 Introduction	3
1.2 Scope of application (Art. 431 and 436 CRR)	3
1.3 Frequency and location of disclosure (Art. 432 and 433 CRR)	3
1.4 Materiality (Art. 432 CRR).....	4
1.5 Proprietary or confidential information (Art. 432 CRR)	4
2 GOVERNANCE AND RISK MANAGEMENT FRAMEWORK.....	5
2.1 Governance framework (Art. 435 CRR).....	5
2.2 Risk management framework (Art. 435 CRR)	7
2.3 Risk appetite	8
3 OWN FUNDS (ART. 437 CRR).....	9
3.1 Equity reconciliation	9
3.2 Description of equity items.....	13
3.3 Impact of IFRS9 transitional adjustment.....	16
4 CAPITAL REQUIREMENTS (ART. 438 CRR)	17
4.1 Pillar I capital requirements	17
4.2 Pillar II capital requirements	18
4.3 Risk overview.....	19
5 CAPITAL BUFFERS (ART. 440 CRR)	21
6 INVENTORY OF RISKS.....	22
6.1 Credit risk (Art. 442 of CRR).....	22
6.2 Counterparty risk.....	31
6.3 Concentration risk	32
6.4 Model risk.....	32
6.5 Market risk (Art. 445 CRR)	34
6.6 Operational risk (Art. 446 CRR).....	35
6.7 Outsourcing risk	36
6.8 Systemic risk.....	37
6.9 External fraud risk.....	37
6.10 Compliance risk	38
6.11 Liquidity risk	39
6.12 Income risk.....	40
6.13 Reputation risk.....	41
7 ASSET ENCUMBRANCE (ART. 443 CRR)	42
8 Leverage ratio (Art. 451 CRR).....	42
9 REMUNERATION POLICY (ART. 450 CRR)	46
9.1 Governance	46
9.2 Pay and performance.....	47
9.3 Paid remuneration.....	49
10 RECRUITMENT AND DIVERSITY POLICY (ART. 435(2)(B,C))	50

I GENERAL INFORMATION

These disclosures were validated and approved for publication by the Board of Directors in June 2021.

1.1 Introduction

Avanzia Bank S.A. publishes a Pillar III disclosure report in compliance with Part Eight of the European Directive (EU) 575/2013 on prudential requirements for credit institutions and investment firms also known as Capital Requirements Regulation (CRR). The legislation was published on 27 June 2013 and fully entered into force on 17 July 2013. Avanzia was required to apply the new rules from 1 January 2014. The report is published also in compliance with national transposition regulations, regulation 14-01 and circular 14/583, issued by the national supervisory body CSSF taking into account Guidelines from the European Banking Authority (EBA)¹.

CRR is derived from the Basel III standards issued by the Basel Committee on Banking Supervision (BCBS) and is built on three pillars:

Pillar I:	Minimum capital requirements
Pillar II:	Supervisory review and evaluation process
Pillar III:	Market discipline

Basel III is an internationally agreed set of measures developed by BCBS to strengthen the regulation, supervision and risk management of banks.

1.2 Scope of application (Art. 431 and 436 CRR)

The Bank has adopted a policy to comply with the disclosure requirements of CRR Part 8 in relation to the appropriateness including their verification and frequency.

The Pillar III report contains the information of Avanzia Bank S.A. as of 31 December 2020 on a standalone basis as the Bank does not have any subsidiaries or branches.

1.3 Frequency and location of disclosure (Art. 432 and 433 CRR)

Avanzia Bank S.A. publishes the Pillar III disclosure report on an annual basis.

The report will be published on Avanzia's website (<https://www.avanzia.com>) and will not be subject to external audit, except to the extent that any disclosures are equivalent to those made in the annual accounts.

¹ In particular EBA/GL/2017/01, EBA/GL/2016/11 and EBA/GL/2015/22 respectively adopted by the CSSF in its Circulars 18/676, 17/673 and 17/658.

1.4 Materiality (Art. 432 CRR)

According to CRR Art. 432 (1) institutions may omit one or more of the disclosures if the information provided by such disclosures is not regarded as material, except for the disclosures laid down in Art. 435(2)(c), Art. 437 and Art. 450.

Information is not material if its omission or misstatement could not change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

1.5 Proprietary or confidential information (Art. 432 CRR)

According to CRR Art. 432(2) institutions may omit one or more items of information included in the disclosures listed in Titles II and III if those items include information which is regarded as proprietary or confidential, except for the disclosures laid down in Art. 437 and Art. 450.

Information shall be regarded as proprietary to institutions if disclosing it publicly would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an institution's investments therein less valuable. Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding an institution to confidentiality.

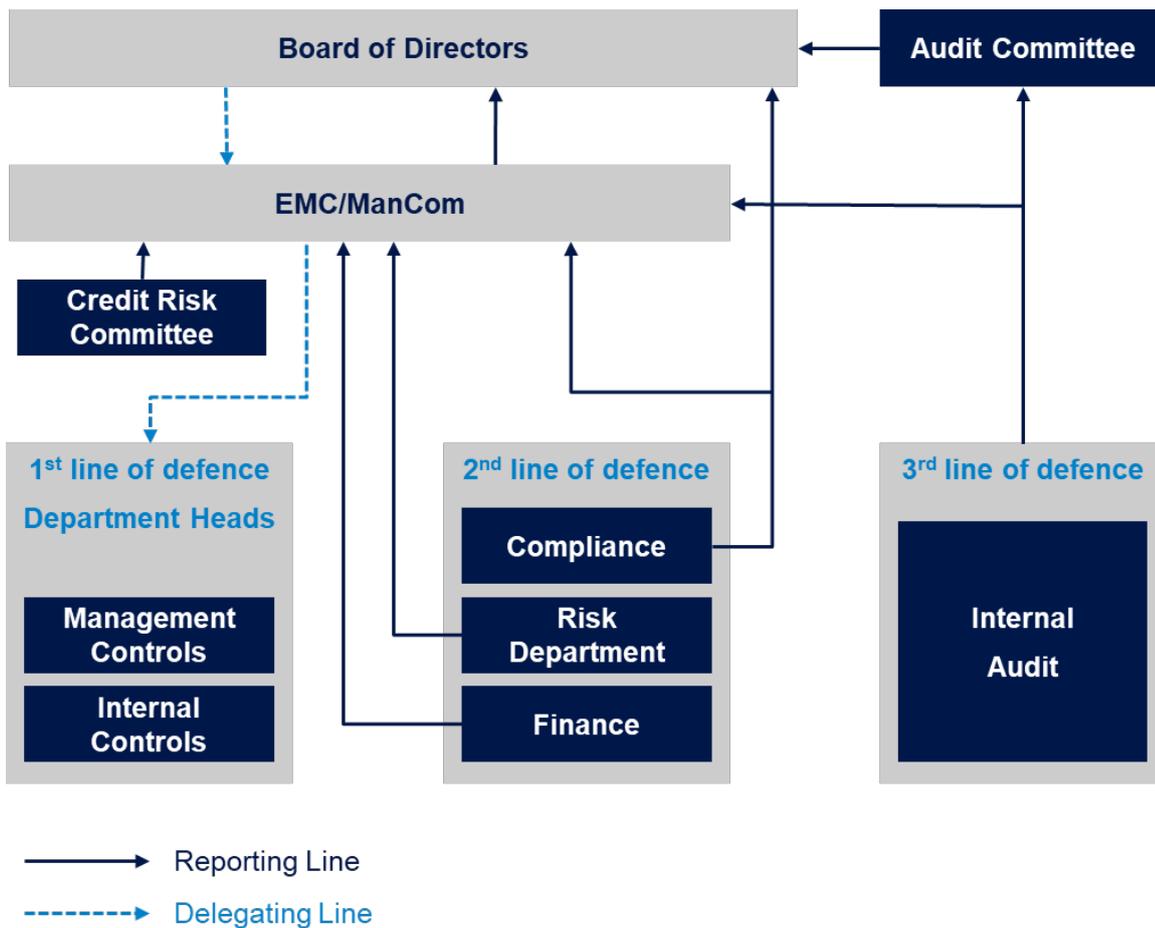
Where information has been omitted from this disclosure in relation to the CRR Art. 432, this has been stated in the relevant sections.

2 GOVERNANCE AND RISK MANAGEMENT FRAMEWORK

2.1 Governance framework (Art. 435 CRR)

To ensure the effectiveness of Advanzia’s risk management framework, the Board of Directors and the Management Committee have established the “Three lines of Defence” model which is in line with the provisions of CSSF Circular 12/552.

- **First line of defence:** Consists of the business units that take or acquire risks under a predefined policy and limits and carry out controls (CSSF 12/552, Section 6.1.1),
- **Second line of defence:** Formed by the support functions, including the financial and accounting function (CSSF 12/552, Section 5.2.2) as well as the IT function (CSSF 12/552, Section 5.2.3), and the compliance and risk control functions (CSSF 12/552, Sub-chapter 6.2 and Sections 6.2.5 and 6.2.6) which contribute to the independent risk control,
- **Third line of defence:** Consists of the internal audit function which, pursuant to CSSF 12/552 Sub-chapter 6.2 and Section 6.2.7, provides an independent, objective and critical review of the first two lines of defence.



Board of Directors

The Board of Directors of Advanzia is responsible for establishing the main principles for risk taking and management. It also determines the risk appetite in relation to the nature and business of Advanzia. The Board approves risk levels and risk measures. Detailed information in relation to the composition of the Board of Advanzia is accessible on Advanzia's website: <https://www.advanzia.com/en-gb/about-us/investor-relations>

The following table summarises the number of directorships held by the members of the management body:

Board member	Number of directorships held (including intragroup directorships)
Mr. Bengt Arve Rem	26 (incl. Advanzia Bank S.A.)
Dr. Thomas Schlieper	1 (incl. Advanzia Bank S.A.)
Mr. Tor Erland Fyksen	3 (incl. Advanzia Bank S.A.)
Mr. Nishant Fafalia	8 (incl. Advanzia Bank S.A.)
Mr. Erlend Bondø	10 (incl. Advanzia Bank S.A.)

Audit committee

The Board has established an audit committee. The audit committee provides a structured, systematic oversight of the Bank's governance, risk management and internal control practices. The committee assists the Board and management by providing advice and guidance on the adequacy of the Bank's initiatives for governance structure, risk management, internal control framework, activities of internal and external auditors and financial statements and public accountability reporting.

Executive Management Committee (EMC)/Management Committee (ManCom)

The Executive Management Committee approves the risk management process. The EMC also delegates to each Department Head the task to identify and follow up on risks within their area of responsibility. The EMC will give its appraisal of relevant risks and report this to the Board.

Department Head (1st line of defence)

Each department head is responsible for identifying all risk areas in his/her range of responsibilities. This work is done in cooperation with the Chief Risk Officer (CRO) The department head is responsible for defining proper routines and procedures for mitigating the risks. This work is done in close cooperation with the individuals actually performing the applicable functions. The department head is also responsible for following up any risk response that has arisen within the CRO's area as a consequence of ICAAP (or other risk assessment procedure).

Chief Risk Officer (2nd line of defence)

The Chief Risk Officer (CRO) defines the risk management process. The CRO is responsible for identifying the ICAAP relevant risks. The CRO is also responsible for categorising and validating the risks to which Advanzia is subject. The CRO is also responsible for overseeing that the Department Heads have completed

the prescribed risk analyses and risk reviews in their respective areas of responsibility, and that the measures are implemented.

Data Protection Officer (DPO) (2nd line of defence)

The Data Protection Officer informs and advises the Bank and the employees who carry out processing of their obligations related to data protection matters; monitors compliance with data protection laws (e.g. GDPR) and with the policies of the Bank related to the protection of personal data, including the assignment of responsibilities, awareness-raising and training of staff involved in processing operations and the related audit. The DPO also provides advice in regard of the data protection impact assessment and monitor its performance; he cooperates with the supervisory authority and acts as the contact point for the supervisory authority on issues relating to processing, including the prior consultation in accordance with GDPR.

Compliance Department (2nd line of defence)

The compliance department ensures compliance with external rules and regulations that are imposed on the Bank as a whole, and the compliance with internal systems of control that are imposed to achieve compliance with the externally imposed rules and regulations.

Finance Department (2nd line of defence)

The finance department ensures monitoring and reporting on financial key performance indicators through its budgeting and controlling activities.

Internal Audit Department (3rd line of defence)

The internal audit department is to provide independent assurance that the Bank's governance, risk management and internal control processes are operating effectively. The internal audit has a functional reporting line to the audit committee, making it independent of the executive.

2.2 Risk management framework (Art. 435 CRR)

According the Circular CSSF 12/552 as amended and the Risk Management Policy of the Bank, the Board of Directors shall decide on acceptable types and associated level of risk appetite in relation to the objectives of the Bank.

As a general guideline, the Board of Directors shall accept risks which are within the decided appetite by type of risk. Risks exceeding the decided level of risk appetite shall not be accepted, or at least the management shall ensure that all relevant corrective measures have been taken in order to bring the risk within the decided threshold.

The management shall present its proposal for concrete targets for the relevant budget period, and the decided targets should be included in the approved budget document for the relevant year.

The Board of Directors can delegate to the management to decide on the acceptable level for other risks i.e. typical items that entail more High Frequent/Low Impact risks such as operational risk.

The risk appetite can be presented both quantitatively and qualitatively, but for credit risk, the proposed risk appetite shall be based on quantified values such as allocated capital to value adjustments, write off, overall loss rate and return on allocated credit.

The Board of Advanzia has confirmed that the overall objective of Advanzia is to maximise the value of the Bank through its vision of “credit to the masses” and capitalise on its card processing capabilities. The main strategy for achieving this objective is to sell credit cards to the public in general and enter into relationships with partners in attractive markets.

By the nature of its business and operations, Advanzia will undertake certain risks. The Bank has identified that credit risk is the single largest risk to which the Bank is subject. Given the nature of Advanzia, proper acceptance and management of credit risk remains the quintessence for the Bank’s long-term profitability and success. Thus, the Board of Directors accepts that Advanzia will take on a certain amount of credit risk in exchange for creating an acceptable level of return. The development of the risk-reward relationship will be monitored and adjusted for optimal performance with the objective of creating long-term value of the Bank.

On the other hand, all other risks not directly associated with obtaining the objectives of the Bank are to be either minimised or avoided, if possible. One of the key success factors for achieving this strategy is to focus on few and simple products and core operations related to these. These should be produced in an organisation with outsourcing the functions as deemed beneficial, while maintaining a focus on control of costs and risks well within the boundaries of the regulatory framework.

Taking into account the limited size and complexity of the Bank’s activities, the Board has not deemed necessary to implement a separate risk committee. The relevant risks and their evolution are reported on monthly basis directly to the Board of the Bank.

Having regard to the current nature, size and complexity of the Bank's activities, the Board considers the current risk management measures to be appropriate and in line with the current risk profile and Risk Strategy of the Bank.

Please note that further information in relation to the risks faced by the Bank can be found under Section 6 - Inventory of Risks.

2.3 Risk appetite

The Board of Directors shall decide on acceptable and not acceptable types of risk. As a general guideline, the Board of Directors shall accept risks which are within the decided appetite by type of risk. Risks exceeding the decided level of risk appetite shall not be accepted.

Advanzia considers its risk appetite as a proprietary information and opts therefore for non-disclosure in accordance with CRR Art. 432(2).

3 OWN FUNDS (ART. 437 CRR)

3.1 Equity reconciliation

The Bank's supervisor, 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.

(in MEUR)	IFRS	Regulatory adjustments	Own funds
Subscribed capital	17.6	0.0	17.6
Issue premiums	9.9	0.0	9.9
Other reserves	16.8	4.8	21.7
Profit carried forward	132.8	1.9	134.7
Interest Paid on Tier 1	0.0	-1.8	-1.8
Additional Tier 1 capital	0.0	21.2	21.2
Other transitional adjustments to CET1 capital	0.0	20.1	20.1
Additional Tier 2 capital	0.0	25.0	25.0
Deductions from capital	0.0	-29.8	-29.8
Total equity	177.1		218.5

Pursuant to CRR article 36 (1) the Bank has deducted its intangible assets from its own funds.

Advanzia's own funds consist 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.

Own funds disclosure template (in MEUR)

**Regulation
(EU) No 575/2013
Article Reference**

Common Equity Tier 1 (CET1) capital: Instruments and reserves		
1	Capital instruments and the related share premium accounts	27.4 26 (1), 27, 28, 29
	of which: Share capital	17.6 EBA list 26 (3)
	of which: Share premium	9.9 EBA list 26 (3)
	of which: Instrument type 3	0.0 EBA list 26 (3)
2	Retained earnings	156.4 26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	26 (1)
3a	Funds for general banking risk	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	26 (2)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	183.8 Sum of rows 1 to 5a
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	20.1 34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-29.8 36 (1) (b), 37
9	Empty set in the EU	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	33(1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	33(1) (b)
15	Defined-benefit pension fund assets (negative amount)	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	36 (1) (g), 44
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU	
20a	Exposure amount of the following items which qualify for a RW of 1250 %, where the institution opts for the deduction alternative	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	36 (1) (k) (i), 89 to 91

20c	of which: securitisation positions (negative amount)		36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15 % threshold (negative amount)		48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b)
24	Empty set in the EU		
25	of which: deferred tax assets arising from temporary differences		36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)		36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		36 (1) (u)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-9.7	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	Common Equity Tier 1 (CET1) capital	174.1	Row 6 minus row 28
Additional Tier 1 (AT1) capital: Instruments			
30	Capital instruments and the related share premium accounts	19.4	51, 52
31	of which: classified as equity under applicable accounting standards		
32	of which: classified as liabilities under applicable accounting standards	19.4	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)
34	Qualifying Tier i capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties		85, 86
35	of which: instruments issued by subsidiaries subject to phase out		486 (3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments	19.4	Sum of rows 30, 33 and 34
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		56 (d), 59, 79
41	Empty set in the EU		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	Sum of rows 37 to 42
44	Additional Tier 1 (AT1) capital	19.4	Row 36 minus row 43

45	Tier 1 capital (T1 = CET1 + AT1)	193.5	Sum of row 29 and row 44
Tier 2 (T2) capital: Instruments and provisions			
46	Capital instruments and the related share premium accounts	25.0	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties		87, 88
49	of which: instruments issued by subsidiaries subject to phase out		486 (4)
50	Credit risk adjustments		62 (c) & (d)
51	Tier 2 (T2) capital before regulatory adjustments	25.0	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70, 79
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		66 (d), 69, 79
56	Empty set in the EU		
57	Total regulatory adjustments to Tier 2 (T2) capital		Sum of rows 52 to 56
58	Tier 2 (T2) capital	25.0	Row 51 minus row 57
59	Total capital (TC = T1 + T2)	218.5	Sum of row 45 and row 58
60	Total risk weighted assets	1 495.5	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	11.64%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	12.94%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	14.61%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	37.4	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	37.4	
66	of which: countercyclical buffer requirement		
67	of which: systemic risk buffer requirement		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)		CRD 128
69	[non relevant EU regulation]		
70	[non relevant EU regulation]		
71	[non relevant EU regulation]		

Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)	36 (1) (h), 46, 45 56 (c), 59, 60 66 (c), 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)	36 (1) (i), 45, 48
74	Empty set in the EU	
75	deferred tax assets arising from temporary differences (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	36 (1) (c), 38, 48
Applicable caps on the Inclusion of provisions In Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	62
80	Current cap on CET1 instruments subject to phase out arrangements	484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap	484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase out arrangements	484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap	484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase out arrangements	484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap	484 (5), 486 (4) & (5)

3.2 Description of equity items

The Bank's regulatory capital consists of Tier 1 and Tier 2 capital, which includes the fully paid in subscribed capital, issue premiums, legal reserves as well as reserves for reduction of net wealth tax (both included in "Reserves") and retained earnings.

Capital instruments main features template	Additional Tier 1
1 Issuer	Avanzia Bank S.A.
2 Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NO0010858970
3 Governing law(s) of the instrument	The Capital Securities are governed by, and construed in accordance with the laws of Norway
Regulatory treatment	
4 Transitional CRR rules	Tier 1
5 Post-transitional CRR rules	eligible
6 Eligible at solo/ (sub-)consolidated/ solo & (sub-)consolidated	N/A

7	Instrument type (types to be specified by each jurisdiction)	Tier 1 as published in Regulation (EU) No 575/2013 article 52
8	Amount recognised in regulatory capital (in EUR million, as of most recent reporting date)	21.2
9	Nominal amount of instrument	225 000 000 NOK
9a	Issue price	100 per cent of the Aggregate Nominal Amount
9b	Redemption price	Redemption at par
10	Accounting classification	Subordinated liability
11	Original date of issuance	12/07/2019
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates, and redemption amount	earliest 12/07/2024 at par
16	Subsequent call dates, if applicable	each distribution date commencing 12/07/2024
	Coupons / dividends	
17	Fixed or floating dividend/coupon	floating
18	Coupon rate and any related index	7 per cent per annum + three months NIBOR
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger (s)	7% of CET1
32	If write-down, full or partial	full
33	If write-down, permanent or temporary	permanent
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	(i) pari passu with the existing AT1 instruments of the issuer, and any other obligations or capital instruments of the issuer that rank or are expressed to rank pari passu with the Bonds on a liquidation or bankruptcy of the issuer and the right to receive repayment of capital on a liquidation or bankruptcy of the issuer, (ii) Senior to holders of the issuer's CET1 instruments and any other obligations or capital instruments of the issuer that rank or are expressed to rank junior to the Bonds on a liquidation or bankruptcy of the issuer and the right to receive repayment of capital on a liquidation or bankruptcy of the issuer, and (iii)

		junior to any present or future depositors of the issuer, any other unsubordinated creditors of the issuer, and subordinated creditors of the issuer including holders of Tier 2 instrument other than the present and future claims of creditors that rank or are expressed to rank pari passu with or junior to the Bonds.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Capital instruments main features template		Tier 2
1	Issuer	Avanzia Bank S.A.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NO0010867849
3	Governing law(s) of the instrument	The Capital Securities are governed by, and construed in accordance with the laws of Norway
Regulatory treatment		
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	eligible
6	Eligible at solo/ (sub-)consolidated/ solo & (sub-)consolidated	N/A
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in EUR million, as of most recent reporting date)	25.0
9	Nominal amount of instrument	EUR 25 000 000
9a	Issue price	100 per cent of the Aggregate Nominal Amount
9b	Redemption price	100 % of Face Value, plus accrued unpaid interest
10	Accounting classification	Subordinated liability
11	Original date of issuance	14/11/2019
12	Perpetual or dated	N/A
13	Original maturity date	14/11/2029
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates, and redemption amount	earliest 14/11/2024 at par
16	Subsequent call dates, if applicable	each distribution date commencing 14/11/2024
Coupons / dividends		
17	Fixed or floating dividend/coupon	floating
18	Coupon rate and any related index	6 per cent per annum + three months EURIBOR
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A

26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger (s)	BRRD requirements
32	If write-down, full or partial	full
33	If write-down, permanent or temporary	permanent
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	(i) pari passu without any preference among themselves; (ii) pari passu with any other obligations or capital instruments of the Issuer that rank or are expressed to rank pari passu with the Bonds on a liquidation or bankruptcy of the Issuer and the right to receive repayment of capital on a liquidation or bankruptcy of the Issuer; (iii) senior to holders of the Issuer's CET1 instruments, Additional Tier 1 Instruments and any other obligations or capital instruments of the Issuer that rank or are expressed to rank junior to the Bonds on a liquidation or bankruptcy of the Issuer and the right to receive repayment of capital on a liquidation or bankruptcy of the Issuer; (iv) junior to any present or future depositors of the Issuer, and any other unsubordinated creditors of the Issuer, other than the present and future claims of creditors that rank or are expressed to rank pari passu with or junior to the Bonds.
36	Non-compliant transitioned features	No
37	If yes, specific non-compliant features	N/A

3.3 Impact of IFRS9 transitional adjustment

In MEUR	With IFRS9 transitional adjustment	Without IFRS9 transitional adjustment
Own funds	218.5	198.5
Common Equity Tier 1	174.1	154.0
Capital and Tier 1 capital	193.5	173.5
Common Equity Tier 1 capital ratio	11.64%	10.19%
Tier 1 capital ratio	12.94%	11.48%
Total capital ratio	14.61%	13.13%
Leverage Ratio - using a fully phased-in definition of Tier 1 capital	5.55%	5.55%
Leverage Ratio - using a transitional definition of Tier 1 capital	6.15%	5.55%

4 CAPITAL REQUIREMENTS (ART. 438 CRR)

4.1 Pillar I capital requirements

In conformity with Regulation (EU) 575/2013, the Bank's total own funds must equal at least 8% of the Capital Requirements for Operating Risk, Credit Risk and Market Risk multiplied by 12.5. The CSSF requests Advanzia to permanently maintain a minimum total capital ratio of 13.0% and a CET 1 ratio of 9.5%.

Advanzia calculates its capital requirements in accordance with chapter 2 of part three, title II by adapting 8% of the risk-weighted exposure amounts for each of the exposure classes specified in article 112.

The minimum capital requirements (8% of risk-weighted assets) disclosed according their computation method are shown in the following table:

Overview of RWAs (in MEUR)		RWAs		Minimum capital requirements	
		Q4-20	Q4-19	Q4-20	
	1	Credit risk (excluding CCR)			
Article 438(c)(d)	2	Of which the standardised approach			
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach			
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach			
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA			
Article 107 Article 438(c)(d)	6	CCR	1 429.9	1 320.0	114.4
Article 438(c)(d)	7	Of which mark to market			
Article 438(c)(d)	8	Of which original exposure			
	9	Of which standardised approach	1 414.6	1 320.0	113.2
	10	Of which internal model method (IMM)			
Article 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a CPP			
Article 438(c)(d)	12	Of which CVA	15.3	-	1.2
Article 438(e)	13	Settlement risk			
Article 449(o)(i)	14	Securitisation exposures in the banking book (after the cap)			
	15	Of which IRB approach			
	16	Of which IRB supervisory formula approach (SFA)			
	17	Of which internal assessment approach (IAA)			
	18	Of which standardised approach			
Article 438(e)	19	Market risk			
	20	Of which standardised approach			
	21	Of which IMA			

Article 438(e)	22	Large exposures			
Article 438(f)	23	Operational risk	65.5	52.3	5.2
	24	Of which basic indicator approach			
	25	Of which standardised approach	65.5	52.3	5.2
	26	Of which advanced measurement approach			
Article 437(2), Article 48 and Article 60	27	Amount below the thresholds for deduction (subject to 250% risk weight)			
Article 500	28	Floor adjustment			
	29	Total	1 495.5	1 372.3	119.6

4.2 Pillar II capital requirements

Avanzia Bank's Internal Capital Adequacy Assessment Process (ICAAP) Charter, approved by the Board of Directors of Avanzia, and the ICAAP Procedure, approved by the Management, govern the ICAAP process for Avanzia Bank. The ICAAP process follows an annual cycle, and consists of the following:

1. Budget process in Avanzia, where strategy, development, risks, profitability and solidity are determined, and the assessment of the ICAAP in relation to this process.
2. Annual ICAAP document, providing an in-depth analysis of the ICAAP in Avanzia Bank S.A., produced by the Management of Avanzia Bank S.A. and presented to the Board of Directors for approval.
3. On-going risk management process and assessment by the Management of Avanzia Bank S.A., which is reported on a monthly basis to the Board of Directors of Avanzia.
4. Quarterly ICAAP assessment and reporting by the Management of Avanzia. The assessment is based on the on-going risk assessment (cf. point 3 above), and includes stress tests, as well as the actual development of Avanzia Bank S.A. (in particular solidity and risk-weighted balance), thereby providing a continuously updated ICAAP assessment.
5. Regular forecasts for the development of Avanzia also include an ICAAP forecast encompassing the expected development of the Bank and associated risks.
6. Supervisory Review and Evaluation Process (SREP) with the CSSF, followed up on the initiative of the regulator by a structured dialogue which may contain prudential measures.

The ICAAP consists of two major parts:

- Identifying, measuring, managing and reporting risks to which Avanzia is exposed. By following these processes, Avanzia is able to control the risks and assess internal capital needs.
- Capital planning and capital management which ensures Bank's adequacy on a continuous basis.

To assess the internal capital adequacy, Avanzia goes through a process of three main stages: risk identification, risk measurement and the assessment of internal capital needs.

Risks assessed in the ICAAP report are identified by the Bank as existing or potential risks that the Bank faces or could be facing. It also needs to reflect the economic and regulatory environment in which Avanzia

operates or could operate taking into account possible planned activity expansion. Department heads are responsible for identifying all risk areas in their area of responsibility in cooperation with the CRO.

Risks described in the ICAAP report are the risks to which Advanzia is currently exposed to or is probable to be exposed in the future. The inventory of risks is reviewed during the yearly ICAAP process in cooperation with all functions within the Bank and could be expanded if new risks are identified. The risks currently identified by Advanzia are reported on a monthly basis.

When assessing the financial impact, Advanzia is measuring the impact in terms of estimated euro risk value, and the time needed (in months) to rectify the situation. The financial impact consists of the actual direct adverse effect of the event, and the possible cost of rectifying the situation (if/when applicable).

4.3 Risk overview

The table below summarises the ICAAP relevant risks and how they are categorised:

Risk type	Methodology
Concentration risks	Internal control measures
Systemic risk	Internal control measures
Credit risk	Covered by Pillar 1 capital requirement Integration in stress scenarios Internal control measures Regular monitoring and reporting
External fraud risk	Internal control measures Regular monitoring and reporting
Counterparty risk - Financial institutions	Internal control measures Regular monitoring and reporting
Country risk (transfer)	Internal control measures
Foreign exchange risk	Not considered significant
IRRBB risk	Underlying with internal own funds in the ICAAP case Integration in stress scenarios Internal control measures Regular monitoring and reporting
Liquidity risk	Underlying with internal own funds in the ICAAP case Integration in stress scenarios Internal control measures Regular monitoring and reporting
Model risk	Internal control measures Regular monitoring and reporting
Income risk	Deductible from internal own funds in the ICAAP case Internal control measures Integration in stress scenarios
Reputation risk	Internal control measures

Pillar III Report

Compliance risk	Internal control measures
Outsourcing risk	Internal control measures
Operational risks	Covered by Pillar 1 capital requirement Internal control measures
IT Risk	Internal control measures

Please note that further information on the identified risks, related capital requirements and risk management techniques are provided in Section 6 “Inventory of risks” below.

5 CAPITAL BUFFERS (ART. 440 CRR)

According to Article 440 (1)(a) and (b) the Bank has to disclose its compliance with the requirement for a countercyclical buffer referred to in Title VII, Chapter 4 of EU 2013/36. The Bank considered the provisions under Commission Delegated Regulation 2015/1555 for disclosures purposes. As shown below the Bank has to apply a countercyclical capital buffer of 0% for each country exposure except Luxembourg.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Breakdown by country (in MEUR)	General Credit Exposures		Trading Book Exposure		Securitisation Exposure		Own Funds Requirements				Own funds requirement weights	Counter cyclical capital buffer rate
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
Austria	123.4						7.6			7.6	7%	0%
Bahamas	0.9						0.0			0.0	0%	0%
Belgium	37.4						0.6			0.6	1%	0%
Germany	1 475.5						90.0			90.0	79%	0%
France	142.9						8.8			8.8	8%	0%
Gibraltar	0.2						0.0			0.0	0%	0%
Guernsey	0.9						0.0			0.0	0%	0%
Great Britain	1.4						0.0			0.0	0%	0%
Liechtenstein	0.1						0.0			0.0	0%	0%
Monaco	14.6						0.2			0.2	0%	0%
Switzerland	3.2						0.1			0.1	0%	0%
Spain	37.3						2.4			2.4	2%	0%
Luxembourg	812.1						3.4			3.4	3%	1%
Total	2 649.9						113.2			113.2	100%	1%

The institution-specific countercyclical buffer for Advanzia is at 0%.

Amount (in MEUR)

Total risk exposure amount	1.495
Institution specific countercyclical buffer rate	0%
Institution specific countercyclical buffer requirement	0%

6 INVENTORY OF RISKS

6.1 Credit risk (Art. 442 of CRR)

6.1.1 Credit risk management framework

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. Given the inherent nature of the Bank's operations that is focused on unsecured consumer lending, credit risk represents the largest single risk factor for the Bank. It arises principally from the Bank's loans and advances to customers and other banks and investment debt securities. Delinquencies and loan losses are on a stable and slowly decreasing trend due to maturing portfolio and ongoing improvements in credit scoring models used by Advanzia. This stability can also be attributed to the extensive efforts of Advanzia to keep credit risk under control. Various policies, procedures and routines have been developed through the years and are under constant scrutiny to be able to predict customer behaviour and react to unexpected changes when it comes to how much credit risk Advanzia is willing to take.

The Bank's risk strategy regarding credit risk is to reach an appropriate balance between risk and reward that maximises long-term value creation. This is achieved by applying several scorecards at application, and later based on behaviour, and using this to determine probability of default and to assign the appropriate credit limit for the individual customer.

The Bank laid down a Credit Policy, approved by the Board of Directors, which is based on actively managing the financial risk exposure by restricting the credit limits to high-risk clients, and assigning relatively small credit lines to a diversified spectrum of customers. The Credit Risk Committee is responsible for establishing the necessary procedures and routines in line with the Credit Policy in order to ensure systematic analysis and monitoring of the Bank's credit risk. The Credit Risk Committee is also responsible for implementing necessary corrective actions if needed, as the Credit Policy is constantly under scrutiny.

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 responsible for surveying and assessing credit risk. A 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.
- Performing regular audits of business units and credit processes are undertaken by internal audit.

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).

6.1.2 Capital requirements for credit risk

As at 31 December 2020, Pillar I capital requirements for credit risk amounted to EUR 183.90 million². Under the standardised approach, the Bank's exposures to credit institutions qualify for a 20% risk weighting, the exposures to credit card clients are subject to a 75% risk weighting, except the net exposures to clients 90 days or more past due, which are subject to a 100% risk weighting. Please refer to section Capital Requirements above for further details.

Credit risk is monitored very closely. Once a month credit risk key performance indicators are reported to the Credit Risk Committee (CRC) and in case there is a slightest deviation (apart from seasonal and expected monthly variations), the root cause is urgently analysed and solved accordingly. In addition, the effect of every decision made by the Bank that has impact on credit risk is also monitored closely and reported to the CRC. Hence, whenever an expected or unexpected change in credit risk KPIs occurs, the Bank can quickly react and adjust respectively.

Therefore, Advanzia considers that the capital required for Pillar I is sufficient and does not consider additional Pillar II capital requirements.

6.1.3 Asset portfolio (Art. 438 of CRR)

(in MEUR)	Net exposure at the end of the period	Average net exposure over the period
Central governments or central banks	-	-
Institutions	-	-
Corporates	-	-
Of which: Specialised lending	-	-
Of which: SME	-	-
Retail	-	-
Secured by real estate property	-	-
SME	-	-

² Basel requirement: EUR 113.17 million

Non-SME	-	-
Qualifying revolving	-	-
Other retail	-	-
SME	-	-
Non-SME	-	-
Equity	-	-
Total IRB approach	-	-
Central governments or central banks	689.8	676.1
Regional governments or local authorities	-	-
Public sector entities	-	-
Multilateral Development Banks	-	-
International organisations	-	-
Institutions	147.1	134.5
Corporates	3.3	1.6
Of which: SME	-	-
Retail	1 689.8	1 634.8
Of which: SME	-	-
Secures by mortgages on immovable property	-	-
Of which: SME	-	-
Exposure at default	104.2	90.8
Items associated with particularly high risk	-	-
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investment undertakings (CIU)	-	-
Equity exposures	-	-
Other exposures	15.7	12.7
Total SA approach	2 649.9	2 550.5
Total	2 649.9	2 550.5

The total amount of exposures broken down by their exposure classes and maturity as of 31 December 2020 are shown in the following table:

(in MEUR)	Maturity of exposures					Net exposure value	
	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total	
Central governments or central banks	-	-	-	-	-	-	
Institutions	-	-	-	-	-	-	
Corporates	-	-	-	-	-	-	
Retail	-	-	-	-	-	-	
Equity	-	-	-	-	-	-	
Total IRB approach	-	-	-	-	-	-	
Central governments or central banks	689.8	-	-	-	-	689.8	
Regional governments or local authorities	-	-	-	-	-	-	
Public sector entities	-	-	-	-	-	-	
Multilateral development banks	-	-	-	-	-	-	
International organisations	-	-	-	-	-	-	
Institutions	54.9	92.2	-	-	-	147.1	
Corporates	-3.3	-	-	-	-	3.3	
Retail	1 689.8	-	-	-	-	1 689.8	
Secured by mortgages on immovable property	-	-	-	-	-	-	
Exposures in default	104.2	-	-	-	-	104.2	
Items associated with particularly high risk	-	-	-	-	-	-	
Covered bonds	-	-	-	-	-	-	
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	
Collective investments undertakings	-	-	-	-	-	-	
Equity exposures	-	-	-	-	-	-	
Other exposures	15.7	-	-	-	-	15.7	
Total standardised approach	2 557.6	92.2	-	-	-	2 649.9	
Total	2 557.6	92.2	-	-	-	2 649.9	

In addition to the above, the Bank had at balance sheet date through the credit cards issued entered into undrawn commitment of EUR 4 780 million (2019: EUR 4 335 million) with its credit card clients being neither past due nor impaired.

The Bank does not undertake forbearance activities on its credit card portfolio, as cards on accounts being past due are blocked from usage, and that the contract for delinquent (more than 90 days past due)

accounts are usually cancelled, become payable in full and sent for recovery or sold to a debt collection agency. An impairment allowance is also applied to all delinquent accounts.

6.1.4 Past due and impaired exposures (Art. 442 of CRR)

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 portfolio the Bank developed specific models (PD, EAD, LGD models). For other segments (PCS and Nostro), 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.

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), all adjusted to take into account macro-economic scenarios. Expected Credit Loss (ECL) is the multiplication of those three components.

Probability of default (PD)

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 homogenous subsets of the Bank's credit card portfolio.

Loss given default (LGD)

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, net from recovery costs, using the effective interest rate as the discounting factor.

Exposure at default (EAD)

Exposure at default represents the exposure that an instrument has at the time of default. Undrawn commitments are reflected in EAD model based on historical information.

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.

Any financial instrument at initial recognition is allocated to stage 1. Since Advanzia 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.

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 default probabilities evolution, delinquency status and external ratings as the primary information to identify SICR.

In case an instrument defaults, it is transitioned to stage 3. For such non-performing loans, interest is no longer recognised on a gross, but 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 arrears before defaulting). Transition from stage 1 to stage 3 is unlikely, but possible (e.g. insolvency before the loan gets into in 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.

Forward-looking information

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, EAD, and LGD.

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

Credit risk adjusted exposure

The following table provides an overview of the Bank's exposures by classes and the related credit risk adjustments.

Credit quality of exposures by exposure classes and instruments (in MEUR)	Gross carrying values of		Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated write-offs (e)	Credit risk adjustment charges of the period (f)	Net values (a+b-c-d-e)
	Defaulted exposures (a)	Non-defaulted exposures (b)					
Central governments or central banks							
Institutions							
Corporates							
Of which: Specialised lending							
Of which: SME							
Retail							
Secured by real estate property							
SME							
Non-SME							
Qualifying revolving							
Other retail							
SME							
Non-SME							
Equity							
Total IRB approach							
Central governments or central banks	0.0	689.8	0.0	0.0	0.0	0.0	689.8
Regional governments or local authorities							
Public sector entities							
Multilateral Development Banks							

International organisations							
Institutions	0.0	474.8	0.0	327.7	0.0	0.0	147.1
Corporates	0.0	3.3	0.0	0.0	0.0	0.0	3.3
Of which: SME	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail	0.0	6 513.6	0.0	4 823.9	0.0	0.0	1 689.8
Of which: SME							
Secures by mortgages on immovable property							
Of which: SME							
Exposure at default	174.5	0.0	0.0	70.3	0.0	0.0	104.2
Items associated with particularly high risk							
Covered bonds							
Claims on institutions and corporates with a short-term credit assessment							
Collective investment undertakings (CIU)							
Equity exposures							
Other exposures	0.0	15.7	0.0	0.0	0.0	0.0	15.7
Total standardised approach	174.5	7 697.2	0.0	5 221.9	0.0	0.0	2 649.9
Total	174.5	7 697.2	0.0	5 221.9	0.0	0.0	2 649.9
Of which: Loans	174.5	2 530.0	0.0	70.3	0.0	0.0	2 634.2
Of which: Debt securities							
Of which: Off-balance-sheet exposures	0.0	5 151.6	0.0	5 151.6	0.0	0.0	0.0

The following table represents the information provided to the local authorities and provides information in relation to the evolution of the value adjustments during the period 2020:

Movements in allowances for credit losses (in MEUR)	Opening balance as of 1 January 2020	Increases due to amounts set aside for estimated loan losses during the period	Decreases due to amounts reversed for estimated loan losses during the period	Other adjustments	Closing balance as of 31 December 2020	Recoveries recorded directly to the statement of profit or loss	Value adjustments recorded directly to the statement of profit or loss
Specific allowances for financial assets, collectively estimated	-91.4	-65.1	46.4	-3.9	-114.0		-22.6
Debt securities							
Central banks							
General governments							
Credit institutions							
Other financial corporations							
Non-financial corporations							
Loans and advances	-91.4	-65.1	46.4	-3.9	-114.0		-22.6
Central banks							
General governments							
Credit institutions	0.0		0.0		0.0		0.0
Other financial corporations	0.0		0.0		0.0		0.0
Non-financial corporations							
Households	-91.4	-65.1	46.4	-3.9	-114.0		-22.6
Collective allowances for incurred but not reported losses on financial assets							
Debt securities							
Loans and advances							
Total	-91.4	-65.1	46.4	-3.9	-114.0		-22.6

6.1.5 Credit risk mitigation (Art. 453 CRR)

Avanzia is not using any credit risk mitigation techniques according to Article 453 CRR.

Credit quality of exposures by geography	Gross carrying values of		Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated write-offs (e)	Credit risk adjustment charges (f)	Net values
	Defaulted exposures (a)	Non-defaulted exposures (b)					(a+b-c-d-e)
(in MEUR)							
Luxembourg	0.0	812.1		0.0			812.1
Germany	111.9	1 436.8		73.2			1 475.5
Austria	19.2	116.6		12.4			123.4
Belgium		37.4		0.0			37.4
France	27.2	135.2		19.3			143.0
Other Europe	16.2	51.4		9.2			58.5
Total	174.5	2 589.5	0.0	114.1	0.0	0.0	2 649.9

6.1.6 Use of ECAIs (Art. 444 CRR)

Avanzia is using ratings of the following external credit assessment institutions certified in accordance with regulation (EC) No 1060/2009:

- Moody's
- Standard & Poor's
- Fitch

The Bank uses those ratings to assess its credit risk in relation to its loans to financial institutions. The selection of the financial institutions with whom the Bank establishes business are approved by the Board of Directors. These banks have minimum requirements with respect to ratings, and are usually considered to be "systemic banks". As at 31 December 2020 all banking counterparties are eligible for Credit Quality Step (CQS) 1, hence for a 20% risk-weight.

Table below presents a mapping of CQS along with rating of the three used ECAIs under the provisions of Commission Implementing Regulation 2018/634:

Credit quality step	1	2	3	4	5	6
Fitch Ratings						
Long-term issuer credit ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, RD, D
Corporate Finance obligations – long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C
Long-term international IFS ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C
Short-term rating scale	F1+	F1	F2, F3	B, C, RD, D		
Short-term IFS ratings scale	F1+	F1	F2, F3	B, C		
Moody's Investors Service						
Global long-term rating scale	Aaa, Aa	A	Baa	Ba	B	Caa, Ca, C
Bond fund rating scale	Aaa-bf, Aa-bf	A-bf	Baa-bf	Ba-bf	B-bf	Caa-bf, Ca-bf, C-bf
Global short-term rating scale	P-1	P-2	P-3	NP		
Standard & Poor's Ratings Services						
Long-term issuer credit ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, R, SD/D
Long-term issue credit ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Insurer financial strength ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, SD/D, R
Fund credit quality ratings scale	AAAf, AAf	Af	BBBf	BBf	Bf	CCCf
Mid Market Evaluation ratings scale		MM1	MM2	MM3, MM4	MM5, MM6	MM7, MM8, MMD
Short-term issuer credit ratings scale	A-1+	A-1	A-2, A-3	B, C, R, SD/D		
Short-term issue credit rating scale	A-1+	A-1	A-2, A-3	B, C, D		

Figure 1: Mapping table for the purpose of article 444 (d) of CRR

6.2 Counterparty risk

The Counterparty Monitoring Procedure of Advanzia stipulates maximum exposures with counterparties, which must be considered at a group level. These exposures are in accordance with the CSSF circulars on counterparty exposures. The Bank makes a distinction between significant counterparties and smaller counterparties. The maximum exposure to the significant counterparties is the lesser amount of 100% of own funds and EUR 150 million, whereas placements with smaller counterparties are not to exceed 25% of own funds, and usually have a maximum duration of up to six months.

All significant counterparties have been individually selected, and approved by the Board of Directors. These banks, located in Western and Northern Europe, have minimum requirements with respect to ratings, and are usually considered to be “systemic banks”. When placing funds with banks, Advanzia also considers the overall financial solidity and capacity of the country in which the banks are located and also assesses concentration risk in that respect.

Management has the competence to choose the smaller counterparties, provided they meet certain minimum criteria with respect to rating and that the term does not exceed three months to six months.

The counterparties are continuously monitored by Advanzia, and the updated exposure is presented on a monthly basis to the Credit Risk Committee and the Board of Directors.

Advanzia considers that no additional ICAAP requirements should be set aside for this risk. The reason is that the probability of default is considered to be very low.

Both significant and smaller counterparties are subject to monthly monitoring as described in the Counterparty Monitoring Procedure. The monitoring covers the ratings of the counterparties, the amounts involved compared to the own funds, the expected credit loss, the exposure, and any other information that the Bank may receive from various sources. The relevant monitoring is sent to the Credit Risk Committee and the Assets & Liabilities Committee. More frequent reporting may be required in the event of distress.

6.3 Concentration risk

Credit card loans

Advanzia's loans are small in size (on average currently approx. EUR 1 500 for active clients in good standing), maximum EUR 10 000, with credit limits above EUR 5 000 issued under strict policy rules and eligibility criteria. The loans are given to a large number of clients (in total 1 600 000 open credit cards of which more than 1 160 000 are active and in good standing). These clients are private individuals residing in Germany, Luxembourg, Austria, France and Spain. For Germany, the geographical representation of the Bank follows closely the overall German population distribution with customers from both genders, covering all age groups, distributed across several socio economic groups.

Placement with other credit institutions

In its Counterparty Monitoring Procedure, Advanzia has established limits on the amounts placed with other credit institutions, which are to be considered on a group level basis. The Bank also considers any country concentration risk in relation to the correspondent bank with which it places its funds.

Country concentration risk

Advanzia may be considered to have some country concentration risk, as virtually its entire exposure is towards Germany. The German economy is however arguably one of the strongest economies in the world, and a large and well diversified country. Advanzia foresees that this risk will be reduced as the Bank is increasing its sales of credit cards in France, Austria and Spain.

Supplier/provider concentration risk

Advanzia is using a set of suppliers/providers to deliver its outsourced services. None of these are interrelated to an extent that Advanzia considers that there is any relevant risk

6.4 Model risk

In Advanzia, decision making regarding applicant eligibility for a credit card as well as its credit limit both during the application process and throughout the lifecycle of a customer are heavily dependent on credit scoring models. The models are designed to predict the probability of default or, in a more general sense, the probability of a customer developing a delinquency status such that the Bank would have not booked the

account initially had it known such development would occur. When acquiring accounts, Advanzia builds its models on a static sample of accounts for which application, demographic and – whenever possible – credit bureau information is available. To support active credit limit management over time, Advanzia combines the static information acquired during the application process with dynamic behavioural data collected after a customer has become active.

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.

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. ALMF establishes that:

- During the development stage of a model, all data undergoes quality testing and any approximations are fully documented. Appropriate testing procedures account for accuracy, robustness and stability of the models.
- All models go through a comprehensive validation process by an expert validator who is independent from the model development. The models have to also be approved by the Risk Underwriting & Analytics Department in a formal Risk Meeting as well as the Credit Risk Committee.
- All models are documented at a level of details for a third party to understand the operation, limitations and key assumptions of the models.
- After approval and implementation, all models are monitored monthly using several statistical metrics to account for model discrimination and stability.

A rigorous process which every model developed by Advanzia goes through and a continuous monitoring with the ability to correct model defects or recreate a model from scratch as soon as model deficiencies are observed, provides a solid risk mitigation strategy. Due to the ability to react to changes in the models quickly, Advanzia has been able to obtain stability and prudence in its models, not underestimating the probability of default of its customers. Hence, the model risk as defined by Advanzia has been decreasing in recent years in correlation with the improvements made in its models. Moreover, Advanzia has implemented automatic credit risk model monitoring which is thoroughly reviewed each month by risk analysts and reported to the Credit Risk Committee.

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.

6.5 Market risk (Art. 445 CRR)

6.5.1 Market risk management framework

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.

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. The Bank has been entitled by the CSSF to calculate a simplified solvency ratio and does not capital for exposure to market risk under Pillar 1 requirements.

6.5.2 Interest rate risk (Art. 448 of CRR)

Under any circumstance, credit card loans and client deposits are usually not subject to sudden large (but short-lived) aberrations which may occur in the underlying money market interest rates, and the Bank is thus in practice shielded from such shocks. The Bank has also placements with other banks, either on nostro accounts or as 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.

In order to monitor interest rate risk, Advanzia has decided to run on a monthly basis the stress test that is required every six months by the CSSF, thus allowing a better reactivity and a better match with the duration of interest bearing assets and liabilities (typically 1 to 6 months for Advanzia).

The Bank monitors and reports interest rate risk and its impact on both the Net Interest Income (NII) and the Economic Value of the Equity (EVE). The Bank also monitors the cost of any variation in interest rates and reports monthly to the ALCO.

Advanzia's exposure to interest rate risk is limited. The Bank minimises this risk by matching the duration (time until the interest rate may be adjusted) of the interest bearing assets with the duration of the interest bearing liabilities. The Bank's main asset classes are net credit card loans and bank deposits with short duration. The main liabilities are client deposits, on which the rates may be changed overnight if needed, thus changes in both the main assets and liabilities may be fairly well matched as needed.

For the ICAAP assessment, interest rate risk is modelled as the cost incurred by Advanzia in case of an increase of market reference rates, based on historical data, not reflected in credit card interest rates. Such an increase would have an immediate impact on deposit rates and would decrease the net interest margin before the credit card rate would adjust.

6.5.3 Foreign exchange risk

The Bank at the outset conducts all of its operations in Euro. This applies to credit card transactions (card transactions in other currencies are converted by Mastercard to Euro before they are presented to the Bank), deposit accounts and operations. There may be some suppliers that may require settlements in other currencies, but these are expected to be marginal.

For Professional Card Services, the Bank may have exposures in other currencies. These are at the outset limited, but should be hedged, once the exposure exceeds the equivalent of EUR 100 000.

The Bank may exceptionally also have assets or liabilities in other currencies if this is necessary or particularly beneficial. Such exposures must be adequately hedged and approved by the Board of Directors. If needed, the Bank may undertake operations or purchase instruments in order to hedge currency risk.

Only a non-significant part of Advanzia's banking book assets and liabilities lie in a foreign currency. The Bank is hedging all relevant foreign currency positions, so that the net foreign currency position and the associated risk is negligible.

6.6 Operational risk (Art. 446 CRR)

The operational risks, which for Advanzia would not be among the most significant risks when measured as financial losses, are nevertheless the risks that encompass the largest number of employees and affect most departments and all systems. The organisation of the operational risk management requires particular attention, to ensure that all risks are covered, reported and dealt with at the appropriate levels.

In order to minimise operational risks, Advanzia focuses on utilising tried and proven technologies and systems supplied from well-experienced suppliers with a strong track record. Most systems are tested separately, and the Bank is conducting integrated system wide tests to make sure that the entire value chain works as intended. Management monitors these tests closely, and deviations are reported and corrected prior to commencing operations.

The Bank has established policies, procedures, routines and guidelines documenting most aspects of the Bank, as well as describing the operating of the Bank. These are constantly being reviewed, and the Management is updating the applicable documents, as this is required due to internal requirements or changes in governing regulations, etc.

The Bank has also established several internal business continuity plans and disaster recovery plans for its internal organisation, to ensure the on-going operations for the Bank, even if negative events occur that could affect the Bank. These are in accordance with external regulations requirements and do, in the Bank's view, mitigate the risks in a satisfactory manner. These plans are also being developed further as Advanzia is growing in size and complexity.

The Bank is focusing on training and developing its human resource capital, so that performance increases, and dependency on key persons is reduced. Clear progress has been made since start-up, and the Bank considers that the key risk is acceptable.

Advanzia may be subject to economic losses as a consequence of internal breach of trust/misconduct by its own employees or employees of suppliers in respect of outsourced operations. The Bank has therefore implemented procedures and routines in order to minimise such risk:

- “Four eyes” principle with respect to cash payments and transfers.
- Establish a set of regulations stipulating competencies and thresholds with respect to authorising payments, acquisitions and making decisions.
- Define clear areas of responsibilities and control.
- Systems minimising the requirements for human interaction/influence.
- Perform internal control, checks and reconcile accounts on a continuous basis.
- Regular assessments of routines, etc.

Management also strives to establish a corporate culture that emphasises professionalism and integrity in the Bank, as well as towards its suppliers.

Operational risks monitoring is being recorded and reported through the operational risk management system (RiskCity). RiskCity is used to document, assess and quantify relevant internal control items vital for the operational risk management. All relevant functions of the Bank are expected to assess their various functions, and assess the loss given that a negative event occurs. The risks are evaluated each through self-assessment by each department; the result of this assessment is a list of potential risks, where for each item an event probability and an expected loss is estimated. The final figure is the sum of all expected losses for all assessed risks. Formal reporting is carried out regularly.

The incident report is mainly focusing on problems, such as errors or bugs, coming mostly from the IT processes in order to detect systemic errors.

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 MEUR 3.52 when using the ASA method. Pillar I capital requirements for operational risk are deemed sufficient and the Bank will not consider further capital under Pillar II assessment.

6.6.1 Disaster recovery plan/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 continuously updated in response to changes in the business environment. The IT Department reviews the plan at least annually.

6.7 Outsourcing risk

Avanzia is purchasing services from external service providers. The risks associated with this practice are related to the fact that suppliers will not provide the agreed deliveries, or that the quality may be insufficient. The consequence is that tasks may not be performed.

To mitigate these risks, Avanzia has established a set of internal rules when buying services from external suppliers. The Procurement Procedure of Avanzia regulate the conditions and requirements for outsourcing operations of the Bank. In no way can outsourcing remove or lessen the responsibility Avanzia holds

towards its customers, authorities or other entities in relation to the fulfilment of governing laws and regulations, such as data protection regulations and/or consumer law.

The executive management in Advanzia is responsible for keeping the Board of Directors duly informed about all important aspects related to the decision of outsourcing, procurement and supply management.

In order to cover all contractual aspects of outsourced services, Advanzia created a new Procurement and Outsourcing function.

6.8 Systemic risk

Systemic risk or macroeconomic risk is defined here as the effect of the probability that the overall economy will develop negatively in the time to come, and the consequences this will have for Advanzia. The main macroeconomic indicators affecting Advanzia's business are the unemployment rate, GDP growth rate, consumer consumption growth as well as the key lending rate by the central bank.

Advanzia is mainly exposed to Germany (84% of the gross card loan balance), whereas the exposure to Luxembourg, France, Austria and Spain remains marginal.

Nevertheless, since Advanzia's main operations are to some extent cyclical, and given that in the longer run, the economic development could eventually start to abate, the Bank must be able to address and mitigate a change in this risk. The Bank is addressing and mitigating this risk in the following ways:

- Adjusting the credit limits of existing clients down (Advanzia has the contractual right to do this).
- Adjusting for growth expectations: Implying that Advanzia can easily reduce its ambitions with respect to growth in terms of client acquisition and credit limit increases. This reduces credit risk, and also allows for decreased operational costs (in particular client acquisition costs).

6.9 External fraud risk

Fraud in the context of credit card operations is defined as the fraud committed by Advanzia's clients or other parties outside the Bank. The distinction between when the Bank is subject to either intentional application fraud or delinquent credit behaviour is not always clear, but Advanzia records a certain set of incident categories as fraud.

The fraud prevention and chargeback actions are covered by the Fraud Prevention and Chargeback Procedure as well as by several routines.

Fraud Prevention function of the Bank has implemented various measures both on the application as well as on the transaction fraud sides.

Fraud Prevention function is constantly reviewing the existing application fraud prevention measures and is continually investigating further potential enhancements towards even more advanced fraud identification techniques.

Transaction fraud losses are internally reported on a monthly basis and a more detailed report is established twice a year. In addition, transaction fraud is reported to the BCL on a bi-yearly basis.

6.10 Compliance risk

Compliance risk for Advanzia includes but is not limited to the risk of breaches of ethical rules, legal and regulatory risk, reputation risk, litigation risk and risk of sanctions.

The Compliance function anticipates, identifies and assesses compliance risks and assists Bank's management in limiting these risks on an ongoing basis. It also monitors the respect of internal rules such as policies and procedures in place. The Compliance function of the Bank is headed by the CRO as a member of the authorised management responsible for Risk and Compliance functions in Advanzia.

The Bank accepts only physical persons as clients. New credit card clients are restricted to the countries in which Advanzia operates, whereas deposit clients must be residing in an EU/EEA country or in Switzerland.

The products and operations of Advanzia are highly standardised and the complexity is limited, so once the regulatory and compliance assessments are completed, few changes are usually needed as time goes by. While the products complexity and the risk profile are limited, the Bank operates in several European jurisdictions and has to comply with all relevant rules and regulations that apply to the provided financial services.

The Bank's compliance risk thereby mainly lies in the potential breaches of external rules and regulations or internal ones.

The Bank continuously surveys the development of legislation and practises in its relevant areas, to ensure continuous compliance.

Compliance communication within the Bank has been improved in order to advise the business about evolutions and collect any potential issues or breaches the business may become aware of. The Bank has set up a compliance communication framework composed of compliance point of contact in each business unit who are responsible to communicate with the compliance function. In addition to day-to-day interaction, quarterly regulatory compliance sessions are organised with all business units, Legal function and Internal Audit function (the Regulatory Compliance Panel). This new process enhances the awareness of the Bank about upcoming changes and allows the Compliance function to collect any potential issues or breaches the business may become aware of.

Any breach that may occur or is anticipated to occur is considered and fixed with no delay by the Bank.

Advanzia places high emphasis on proper implementation of policies, routines, processes and internal regulations, so that these, by default, are compliant with the applicable regulatory framework. Most routines and processes are either fully automated or highly standardised, thereby reducing the risk of non-compliance due to human error or intentional misconduct.

Regarding the AML/CTF compliance, in addition to being restricted to geographical areas, clients are required to confirm that they only act on behalf of themselves. Cash handling is also not permitted and the Bank does not offer hold-mail services. The Compliance function is also performing numerous AML/CTF checks, with the support of dedicated IT solutions. Others verifications in the various areas of the Bank are performed.

The Bank also emphasises compliance training and awareness among its employees.

6.11 Liquidity risk

One of Advanzia's main risks is liquidity risk. The risk arises from negative unforeseen cash flows from Advanzia's operations. Advanzia has the following sources of cash flows:

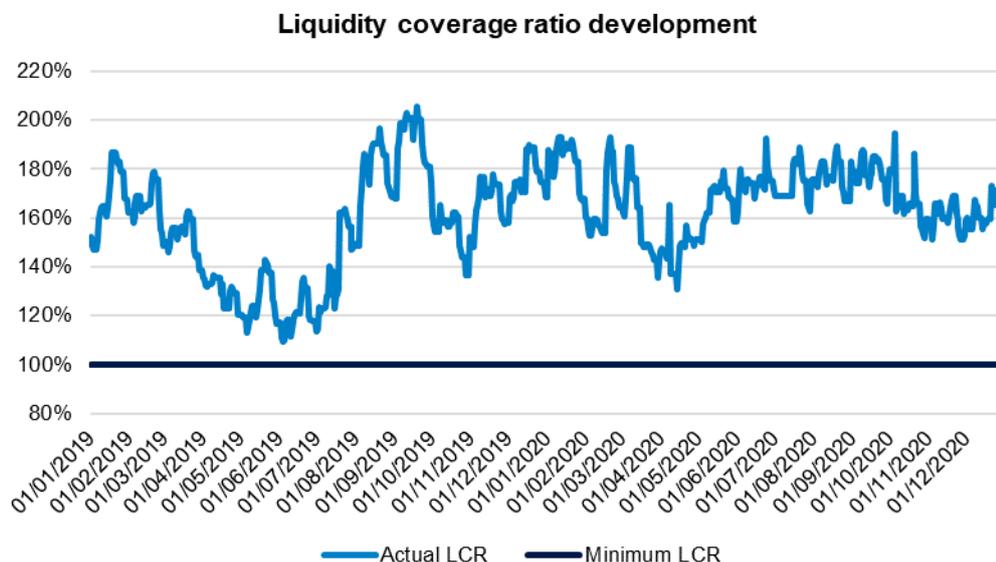
- Credit card loans
- Repayments
- Operational payments
- Deposit accounts operations
- Other financial items

The Bank's risk management objectives and policies may be summarised as follows:

LRQua	Qualitative disclosures	Comment
	Strategies and processes in the management of the liquidity risk	Advanzia Bank S.A. has a liquidity risk management framework that supports a moderate risk profile and safeguards the Bank's reputation from a liquidity perspective. This framework must ensure that the Bank meets its payment obligations at a reasonable cost, even under severely adverse conditions. The Bank maintains a set of liquidity risk indicators to manage the liquidity position within the requirements set internally and by the regulator.
	Structure and organisation of the liquidity risk management function (authority, statute, other arrangements)	- The first LoD refers to the Accounting department which executes the daily business activities.
		- The second LoD refers to the Risk and Controlling department which monitors and reports the risks associated with ALM and Treasury activities.
		- The third LoD refers to Internal Audit which provides assurance regarding the design and effectiveness of the governance structure, systems and processes of ALM, Treasury, Risk and Finance.
	Scope and nature of liquidity risk reporting and measurement systems	Advanzia Bank uses a comprehensive set of liquidity indicators to monitor and measure liquidity risk, both in business as usual (BaU) as well as in stressed conditions.
	Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	Liquidity risks are mitigated by maintaining a sufficiently large liquidity buffer and sufficient diversification of funding sources to ensure access to liquidity at any point in time.
		A contingency plan is put in place that prepares the Bank for a potential liquidity stress event. The contingency plan provides guidelines to manage a range of stress environments and describes the lines of responsibility, escalation procedures and mitigating actions.

The Bank monitors and reports the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) on a continuous basis. Those ratios, along with an analysis of the Bank's liquidity and liquidity stress tests are detailed in the ICAAP and in a Liquidity Report presented to the ALCO. LCR and NSFR are calculated as defined in the Capital requirements regulation and directive.

Avanzia is continuously monitoring stress test scenarios. These are based on the largest deviances we have ever experienced historically on the most important cash flows (Turnover, Repayment, Deposit).



The graph above presents the ensuing amounts of liquid funds in relation to stress testing for the main liquidity drivers, as well as a combination of all negative effects occurring simultaneously. The likelihood of all events occurring simultaneously and without Avanzia not implementing any counteractions (i.e. increase interest rate on deposit accounts, stop credit limit increases and sales, block open credit cards) is considered highly remote.

In addition, the Bank could also stop credit limit increases on credit cards, not issue any new cards, not spend money on marketing, and thereby improve the liquidity situation even further. Avanzia’s Finance Policy and Recovery Plan are detailing this further.

For the ICAAP assessment, liquidity risk is modelled from historical data on deposit outflow. The Bank simulates high outflows over a given time period, and the cost incurred from refinancing from more expensive funding sources.

6.12 Income risk

There is a risk that Avanzia’s income may change over time. There may be several sources for this risk, such as change in client behaviour, increase in funding costs, decrease in interest rates, etc. Avanzia’s business model, however, is one of highly stable recurring revenue. The contribution from each monthly vintage is both stable and predictable over time, and contributes to maintain the income risk at low levels.

Overall, the Bank foresees two potential scenarios that could affect its income to a significant extent: an increase of the funding costs (increase in the deposit rates) or a decrease of the credit card yield.

The Bank assumes that the scenario of an increase in deposit rates is already covered in the liquidity risk section; and the scenario of a decrease in credit card yield is covered under interest rate risk. Both those scenario are covered in the ICAAP assessment. Income risk *per se* is further assessed in ICAAP using historical data on the deviation between budgeted and actual income.

6.13 Reputation 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. Also, since the 2008 crisis and the rescue of the banking sector in many countries, the perception of the banking sector in general has clearly receded.

The Bank is subject to reputation risk, which is also considered for the ICAAP exercise. It is modelled here as an event that may give rise to liquidity risk, as the worst consequence of a negative reputation situation would clearly be large withdrawals of deposit account funds, or business risk as it may imply loss of income on the credit card side. It is therefore included in assessment of the other risks

7 ASSET ENCUMBRANCE (ART. 443 CRR)

Some of the Bank's assets are encumbered. As of 31 December 2020, the carrying amounts for encumbered and unencumbered assets were as follows:

Encumbered assets (in MEUR)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	482.2		2 167.7	
Equity instruments				
Debt securities				
Other assets	482.2		2 167.7	

8 LEVERAGE RATIO (ART. 451 CRR)

The Leverage ratio of Advanzia is part of the Extended Corep and disclosed in report C47.00 that is reported on quarterly basis to the CSSF. As of 31 December 2020, the Leverage ratio was reported as follows.

LRSUM (in MEUR)	Amount at Disclosure Date
Summary reconciliation of accounting assets and leverage ratio exposures	Applicable Amounts
1 Total assets as per published financial statements	2 649.9
2 Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure according to Article 429(11) of Regulation (EU) NO. 575/2013	
4 Adjustments for derivative financial instruments	
5 Adjustments for securities financing transactions (SFTs)	
6 Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	
EU-6a (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013	
EU-6b (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013	
7 Other adjustments	-29.8
8 Leverage ratio total exposure measure	2 620.1

LRCom (in MEUR)	Amount at Disclosure Date
Leverage ratio common disclosure	CRR leverage ratio exposures
On-balance sheet exposure (excluding derivatives and SFTs)	
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2 649.9
2 Asset amounts deducted in determining Tier 1 capital	-29.8
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	2 620.1
Derivative exposures	CRR leverage ratio exposures
4 Replacement cost associated with derivative transactions	
5 Add-on amounts for PFE associated with derivative transactions	
EU-5a Exposure determined under Original Exposure Method	
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
7 Deductions of receivables assets for cash variation margin provided in derivatives transactions	
8 Exempted CCP leg of client-trade exposures	
9 Adjusted effective notional amount of written credit derivatives	
10 Adjusted effective notional offsets and add-on deductions for written credit derivatives	
11 Total derivative exposures (sum of lines 4 to 5a)	0
Securities financing transactions exposures	CRR leverage ratio exposures
12 Gross SFT assets (with no recognition of netting) after adjusting for sales accounting transactions	
13 Netted amounts of cash payables and cash receivables of gross SFT assets	
14 Counterparty credit risk exposure for SFT assets	
EU-14a Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	
15 Agent transaction exposures	
EU-15a Exempted CCP leg of client-cleared SFT exposure	
16 Total securities financing transaction exposures	0

Off-balance sheet exposures		CRR leverage ratio exposures
17	Off-balance sheet exposures at gross notional amount	5 107.8
18	Adjustments for conversion to credit equivalent amounts	-5 108.0
19	Total off-balance sheet exposures (sum of lines 17 to 18)	0

Exempted exposure in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013		CRR leverage ratio exposures
EU-19a	Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)	
EU-19b	Intragroup exposures (solo basis) exempted in accordance with Article 429(14) of Regulation (EU) No 575/2013 (on and off balance sheet)	

Capital and Total Exposures		CRR leverage ratio exposures
20	Tier 1 capital	193.5
EU-21a	Exposures of financial sector entities according to Article 429(4) 2nd subparagraph of Regulation (EU) NO. 575/2013	
21	Total Exposures (sum of lines 3, 11, 16, 19 and 21a)	2 619.9

Leverage Ratios

22	End of quarter leverage ratio	6.15%
----	-------------------------------	-------

Choice on transitional arrangements for the definition of the capital measure

EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	0

LRSpl (in MEUR)		Amount at Disclosure Date
Split-up of on balance sheet exposure (excluding derivatives and SFTs)		CDR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	2 649.9
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	0
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	689.8
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	0
EU-7	Institutions	147.1
EU-8	Secured by mortgages of immovable properties	0
EU-9	Retail exposures	1 689.8
EU-10	Corporate	3.3
EU-11	Exposures in default	104.2
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	15.7

Leverage ratio was 6.15% as of 31 December 2020 (2019: 6.69%). The decrease is driven by the growth of total exposure. Leverage ratio is monitored on a quarterly basis, and the management of the Bank takes relevant actions for this ratio to stay above the 3% requirement.

9 REMUNERATION POLICY (ART. 450 CRR)

9.1 Governance

Board of Directors (BoD)

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

The Board agrees and approves the fixed remuneration within the individual employment contract of the Executive Management Committee (“EMC”). The Board – together with the Nomination and Remuneration Committee (NRC”) – also determines the variable remuneration of the EMC and – together with the CEO – assesses the individual performance of the Management Committee.

Meetings of the BoD are held 5-6 times per year.

Nomination and Remuneration Committee (NRC)

The NRC is composed of three members of the BoD in its supervisory function. The NRC is responsible for:

- the approval of new hires of the category “Identified Staff”;
- the preparation of decisions on remuneration to be approved by the BoD – in particular regarding the remuneration of the members of the EMC, ManCom and Identified Staff;
- providing support and advice to the BoD on the design of Advanzia’s Remuneration Policy;
- supporting the BoD in overseeing the remuneration policies, practices and processes and the compliance with the Remuneration Policy;
- checking whether the existing Remuneration Policy is still up to date and, if necessary, makes proposals for changes;
- reviewing the appointment of external remuneration consultants that the BoD may decide to engage for advice or support;
- ensuring the adequacy of the information provided to shareholders on remuneration policies and practices, in particular on a proposed higher maximum level of the ratio between fixed and variable remuneration;
- assessing the mechanisms and systems adopted to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels and that the overall Remuneration Policy is consistent with and promotes sound and effective risk management and is in line with the business strategy, objectives, corporate culture and values and the long-term interest of the institution;
- assessing the achievement of performance targets and the need for ex post risk adjustment, including the application of malus and clawback arrangements;
- reviewing a number of possible scenarios to test how the remuneration policies and practices react to external and internal events, and back-test the criteria used for determining the award and the ex-ante risk adjustment based on the actual risk outcomes.

Executive Management Committee (EMC)

The EMC agrees and approves the fixed remuneration within the individual employment contracts for the other members of the Management Committee.

Management Committee (ManCom)

The ManCom and EMC agree and approve the fixed remuneration within the individual employment contracts for employees who belong to the higher categories referred to in Art. L. 162-8 of the Luxembourgish Labour Law (cadre).

9.2 Pay and performance

Avanzia uses a set of Key Performance Indicators – (KPIs) to quantify and thereby assess the performance of the Bank (a combination of overall performance, business unit performance, market specific performance) in order to determine the bonus envelope by the BoD. In principle, the Bank uses a combination of KPIs, which are considered being short and long term value creating elements. The annual bonus targets under each of the KPIs will be determined by the BoD, together with the CEO, at the beginning of each bonus year. The target values of the KPIs may be different for EMC and ManCom compared to those applicable for employees.

The Bank also takes into account the current and future risks in the calculation of the variable remuneration. In this regard, in order to ensure that the variable remuneration awarded is fully aligned with the risks taken, the Bank can adjust the variable remuneration depending on the current risks and the risk indicators.

On the basis of the above, the BoD determines an overall bonus provision for the year as part of the annual budget process. The allocation of the individual bonuses for the employees is under the responsibility of the CEO. The individual bonus amounts for EMC, ManCom and other Identified Staff are approved by the BoD upon recommendation of the NRC.

The BoD will at its discretion decide on the voluntary and non-binding bonus programme from year to year. The BoD may also modify and update the programme and its components during the year, such as e.g. the performance criteria for the bonus programme.

When setting the bonus envelope, the ratio between the variable and the fixed remuneration for all categories of Identified Staff is taken into account, as well as the financial situation of the Bank, including its capital base and liquidity situation.

Objective setting process

As part of the objective setting process, the objectives for the whole Bank are defined by the BoD. These are based on the Bank's long-term strategy, usually defined in a five-year planning. In a next step, the objectives are broken down to department level. The Managing Directors (i.e. the members of the ManCom), are assessed on these objectives in addition to individual objectives agreed together with the Bank's CEO.

All employees will receive their individual objectives, which are based on the Bank's objectives – broken down to department/individual level, department objectives as defined by the department head, team objectives, which are defined on team level, and individual objectives. The nature of these objectives is always based on the individual role and responsibility. It includes financial objectives (only where appropriate and applicable) and non-financial objectives.

Performance Evaluation

During the annual performance review process, all employees below ManCom level have a performance review meeting with their line manager, where their individual performance in the preceding year is assessed, based on a rating of general skills and their development and the assessment of their individual objectives.

A final grading will be allocated to each employee, ranging from C (unsatisfactory performance) to AAA (outstanding performance), where an “A” rating reflects a performance which fully meets the requirements.

A range for the individual bonus amount awarded is calculated based on the overall budget available for bonus payments, the hierarchical level of an employee and the individual performance.

The exact bonus amount will be determined by each department head within the range provided as a result of the calculation above.

Identified Staff

For the purposes of identification of the employees whose professional activities have a material impact on the Bank’s risk profile (“Identified Staff”), Advanzia takes into consideration the qualitative and quantitative criteria set out by the Regulation and has identified the following (groups of) employees as Identified Staff:

- Executive Management Committee (“EMC”), as staff members in the management body in its management function;
- Management Committee (“ManCom”), as staff members in the management body in its management function and as staff members heads of material business units;
- Head of Risk Control as staff member responsible and accountable to the management body for the activities of the risk control function;
- Head of Compliance, as staff member responsible and accountable to the management body for the activities of the compliance function;
- Head of Internal Audit, as staff member responsible and accountable to the management body for the activities of the internal audit function;
- Head of Legal & Human Resources, as staff member head of the function responsible for legal affairs and human resources;
- BoD, as members of the management body in its management function.

According to Advanzia’s business model and organisational structure, only the above listed functions may be construed to have an influence on the variable part of their remuneration.

Ceiling on variable remuneration

- The ceiling on the total variable remuneration of the EMC is 50% of the total annual remuneration (equivalent to 100% of the fixed remuneration).
- The ceiling on the total variable remuneration of the ManCom is 33% of the total annual remuneration (equivalent to 50% of the fixed remuneration).
- The ceiling on the total variable remuneration for the Identified Staff is 25% of the total annual remuneration (equivalent to 33% of the fixed remuneration).

The ceiling on the total variable remuneration for the individual employees is 25% of the total annual remuneration (equivalent to 33% of the fixed remuneration).

9.3 Paid remuneration

If the variable payment is deferred, the deferral is over three years. 60% of the bonus is paid out in the year of the award and 20% in each of the subsequent two years. The variable remuneration consists only of settlements in cash.

In thousands of EUR

TOTAL REMUNERATION	2020	2019
Fixed remuneration	1 795	1 416
Variable remuneration	1 065	896
Total	2 860	2 312
<i>Number of beneficiaries</i>	7	7

In thousands of EUR

VARIABLE REMUNERATION	2020	2019
Paid out for the current year	629	557
Deferred	426	338
Sum	1 065	895

The following table presents the development of the deferred remuneration during the year:

In thousands of EUR

DEFERRED REMUNERATION	2020	2019
Outstanding at the beginning of the financial year	511	546
Granted during the financial year	426	3338
Paid out during the financial year	-342	-372
Reduced during the financial year	-	-
Outstanding at the end of the financial year	595	512

The entire outstanding deferred remuneration is earned.

Table below presents the breakdown of total remuneration by business areas.

In thousands of EUR

BUSINESS AREAS 2020	Management Committee	Internal Control Functions	Credit Card and Deposit Activities	Others	Total
Fixed	1 795	909	4 597	6 940	14 241
Variable	1 065	98	565	800	2 528
Sum	2 860	1 007	5 162	7 740	16 769
<i>Number of beneficiaries</i>	7	11	93	110	221

In thousands of EUR

BUSINESS AREAS 2019	Management Committee	Internal Control Functions	Credit Card and Deposit Activities	Others	Total
Fixed	1 416	868	3 954	6 836	13 074
Variable	896	118	388	669	2 071
Sum	2 312	986	4 342	7 505	15 145
<i>Number of beneficiaries</i>	7	12	86	108	213

10 RECRUITMENT AND DIVERSITY POLICY (ART. 435(2)(B,C))

In the selection and appointment of the Management Committee members to fill vacancies, the assessment will consider the candidates' good reputation, the balance of knowledge, skills, diversity, time and availability to perform their duties, and the experience of a candidate. Each member of the Management Committee must have thorough knowledge of the financial sector in general and their business area in particular. Each member must also have thorough knowledge of the Bank's social functions, of the interest of all the Bank's stakeholders and should possess adequate collective knowledge, skills and experience to be able to understand the Bank's activities including the main risks.

When the position of the CEO is to be filled, the selection, assessment and approval is done by the Board of Directors. For any other position within the Management Committee, the selection and assessment is done by the CEO, supported by the internal HR function, and finally approved by the Board of Directors. The following criteria are taken into account for the selection and recommendation of an appropriate candidate: reputation, experience, governance, independence, individual and collective requirements. The suitability of the Management Committee members is assessed according to EBA guidelines of 22 November 2012.