Public

FINANCIAL STATEMENTS

For the Year Ended 31 December 2018
Advanzia Bank S.A.

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1 ABOUT ADVANZIA BANK S.A.

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

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

Bespoke credit card solutions
Advanzia has business partnerships with over 150 companies, associations and institutions that use our co-branded credit cards to create competitive advantage and enhance customer loyalty. Our Omnium product line specialises in turnkey credit card solutions for banks and other financial institutions, and delivers a whole card programme, which encompasses licensing, issuance, processing, settlement and customer service.

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

2 DIRECTORS REPORT

2.1 Overall results

2.1.1 Growth and profitability

Advanzia Bank S.A. continued its growth trajectory in 2018. The Bank's credit card portfolio experienced a substantial organic growth of 290 000 new active[1] credit card customers. By the end of the year, the bank had 1 430 600 credit cards in force[2] and a gross loan balance of MEUR 1 492. Profit after taxes was MEUR 59, despite the introduction of IFRS 9.

As an online bank, Advanzia focuses on competitive, straightforward and transparent products and solutions for customers, business partners and banks. The Bank promotes its own branded Mastercard gold credit cards via the internet and online distribution channels, and continues to distribute its white label/co-branded credit cards through business partner networks. In addition, Advanzia offers credit card programmes for bank and financial institutions.

In 2018, the total turnover on all cards amounted to EUR 2.93 billion or EUR 3 150 per active customer[3], and the average loan balance per active customer reached approximately EUR 1 450. Advanzia's main income driver, the gross loan balance, increased by 21% compared to the previous year to MEUR 1 492.

Advanzia employed 163 people in total at the end of the year.

2.1.2 Market expansion

Advanzia operates in Germany, Luxembourg, France, Austria and Spain. Germany, with the Gebührenfrei Mastercard Gold product offering, remains the Bank's largest market, with a gross loan balance of MEUR 1 318. The growth in France with Carte ZERO was accelerated by the purchase of the My Money Bank loan portfolio in 2017, with the total gross balance in 2018 reaching MEUR 101. The Bank's presence in Austria with the Free Mastercard Gold also grew strongly in 2018 thanks to new partnerships and marketing campaigns, with a gross loan balance of MEUR 72. In Spain, the bank started offering its new credit card Tarjeta YOU in December 2018.

Advanzia's credit card offering includes various insurance products in order to create added value for the customers and to diversify the product offering. Particularly successful was the high subscription rate for the Personal Protection Insurance in France.

2.1.3 Strategic acquisitions

Whereas 2018 was a year of continued organic growth, the Bank also grew through strategic acquisitions. Advanzia successfully concluded the integration of the My Money Bank consumer loan portfolio in France, with a total loan balance of MEUR 62.8. This acquisition significantly improved the bank's position in the French market. In December 2018, the Bank signed an agreement with Catella Bank in Luxembourg to

[1] New active customers is the number of customers who have used their cards for the first time.
[2] Cards in force: The number of issued cards including active and inactive cards.
[3] Active customers are customers with at least one movement on their account.

acquire its credit card servicing operations. This transaction will result in the potential increase of additional partner banks by more than 60 in 2019 and will strengthen Advanzia's position as a leading provider of credit card solutions for private banks and financial institutions.

2.1.4 Solid financials

Advanzia primarily funds its operations by offering an internet deposit account, the Advanzia Deposit Account, with attractive interest rates. By the end of 2018, the deposit balance stood at MEUR 1 650.

The Bank continues to grow its capital base and has maintained a Tier 1 capital ratio of above 13% at all times, ending the year with a ratio of 14.1%, or 16.9% including interim year profits (net of distributions). Advanzia's return on equity was 41% and its return on assets was 3%.

2.1.5 Positive outlook

The economic outlook for 2019 continues to be favourable for the markets in which Advanzia operates. The Bank expects to continue its growth for all customer segments: consumers, business partners and financial institutions. Recent signals indicate that default rates rather stabilise at the level observed in 2018.

Overall, the Board of Directors is very pleased with Advanzia's performance in 2018, and expects continued strong growth in the loan balance, number of customers as well as profitability in 2019.

2.2 Operational highlights

2.2.1 Forward flow agreement

In August 2018, the Bank entered into a 2-year forward flow agreement with a multinational purchaser of debt portfolios for a significant portion of newly delinquent loans in Germany. The total nominal value of loans sold in 2018 amounted to MEUR 26. The forward flow of these non-performing loans had a marginal impact on the total amount of loan losses. Overall, this agreement freed up capital and improved liquidity on the Bank's balance sheet.

2.2.2 Enhanced risk management

During 2018, the Bank continued to make great progress concerning its risk management strategy with the implementation of an automated scorecard monitoring system that provides enhanced verification of predicted loan losses. In addition, the Bank introduced new scorecards for Germany and Austria, enabling a better differentiation and better predictability. In Germany, the scoring is now enhanced by means of a machine-learning algorithm.

2.2.3 Operational investments

Overall, Advanzia continues to follow its ambitious investment roadmap in IT infrastructure and back office systems with the aim to enhance operational scalability and strengthen the Bank's position for further growth. Following the go-live of a new Core Banking System (T24) at the end of last year, the Bank was able to reap the first concrete benefits throughout 2018, resulting in both internal efficiencies (e.g. system integration and process enhancements) as well as visible benefits for the Bank's customers (e.g. real-time account balancing and customer communication).

Various machine learning and “Artificial Intelligence” initiatives have been implemented for enhanced marketing, customer interaction, fraud prevention and risk management, and the resulting efficiencies will continue to contribute to operational excellence in 2019.

2.3 Business highlights

2.3.1 Launch of mobile app in Germany

Mid 2018, Advanzia launched the mobile app for its German credit card users, effectively enhancing the digital experience and daily relevance of the card by providing real-time information about the customer’s spending and credit balance. Additional functionalities will be implemented in 2019.

2.3.2 Spain market entry

In December 2018, Advanzia successfully launched its newly developed product Tarjeta YOU for the Spanish market. The product has strong Unique Selling Propositions, enabling a differentiation against existing credit card providers in Spain. The initial soft launch is followed by a more extensive marketing campaign and the introduction of additional product enhancements.

2.3.3 New business partnerships

Throughout the year, Advanzia concluded partnerships with 16 new business partners, both for the cobranded cards in Germany and France as well as for credit card programmes for financial institutions. This continued growth demonstrates the trust placed in the Bank and the success of Advanzia’s business-to-business offering.

3 BOARD AND MANAGEMENT IN 2018

In 2018, the Board of Directors had the following members:

- Mr. Bengt Arve Rem, Chairman of the Board, CEO Kistefos AS
- Dr. Thomas Schlieper, Deputy Chairman of the Board
- Mr. Nishant Fafalia, Kistefos AS
- Mr. Tor Erland Fyksen
- Mr. Tom Ruud, Kistefos AS

To assist the Board of Directors in the areas of financial information and internal control, the Bank established an Audit Committee, which in 2018 had the following members:

- Mr. Nishant Fafalia (Chairman)
- Mr. Tom Ruud
- Mr. Tor Erland Fyksen

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

- Mr. Roland Ludwig, Chief Executive Officer
- Mr. Frank Hamen, Chief Risk Officer
- Mr. Gregor Sanner, Chief Technology Officer

The EMC has delegated the management of some day-to-day business to the Management Committee, which in 2018 had the following members:

- Mr. Roland Ludwig, Chief Executive Officer
- Mr. Frank Hamen, Chief Risk Officer
- Mr. Gregor Sanner, Chief Technology Officer
- Mr. Johannes Neander, Chief Commercial Officer
- Mr. Patrick Thilges, Chief Financial Officer
- Mr. Petrus Johannes (Pieter) Verhoeckx, Chief Customer Relations Officer

4 INTERNAL GOVERNANCE

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

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

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

4.1 Operational controls

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

4.2 Internal controls

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

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

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

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

5 FINANCIAL STATEMENTS

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

5.1 Statement of Financial Position as at 31 December 2018

In thousands of EUR

Assets	**Note**	**2018**	**2017**
Cash, balances with central banks	6.7.1	493 552	463 795
Loans and advances		1 462 904	1 228 874
whereof: financial institutions	*6.7.2*	*64 302*	*59 030*
whereof: corporates		*11*	*0*
whereof: customers	*6.7.3*	*1 398 591*	*1 169 844*
Tangible assets	6.7.4	986	1 834
Intangible assets	6.7.5	7 970	5 147
Other assets	6.7.6	4 234	29 584
Total assets		**1 969 646**	**1 729 234**

Liabilities and equity	**Note**	**2018**	**2017**
Amounts owed to financial institutions	6.7.2	100 657	100 444
Amounts owed to corporates		40	0
Amounts owed to customers	6.7.7	1 646 428	1 453 861
Tax liabilities	6.6.7	17 508	20 363
Other liabilities	6.7.8	20 315	10 173
Subordinated liabilities	6.7.9	8 544	8 638
Total liabilities		**1 793 491**	**1 593 479**
Subscribed capital	6.7.10	17 553	17 553
Issue premiums	6.7.10	9 890	9 890
Other reserves	6.7.10	13 416	10 910
Deposit guarantee scheme reserve	6.8	511	2 731
Profit (loss) carried forward		75 718	58 314
Result for the financial year		59 067	47 025
Interim dividends		0	-10 668
Total equity		**176 155**	**135 755**
Total liabilities and equity		**1 969 646**	**1 729 234**

The notes are an integral part of these financial statements.

5.2 Statement of Comprehensive Income

In thousands of EUR	Note	2018	2017
Financial and operational income and expenses		**213 814**	**166 349**
Interest income	6.6.1.1	219 484	174 893
Interest expenses	6.6.1.2	-11 831	-11 752
Commission income	6.6.2	23 214	17 682
Commission expenses	6.6.2	-14 756	-11 647
Net exchange result		-25	22
Other operating income	6.6.3	3 461	1 441
Other operating expenses	6.6.3	-5 733	-4 289
Administrative expenses		**-73 014**	**-62 284**
Personnel expenses	6.6.4	-16 243	-14 658
General administrative expenses	6.6.5	-56 771	-47 626
Depreciation and amortisation on (in)tangible assets		**-2 928**	**-1 933**
Depreciation on tangible assets	6.7.4	-1 344	-679
Amortisation of intangible assets	6.7.5	-1 584	-1 254
Impairment on financial assets	6.6.6	**-62 655**	**-44 786**
Result on activities before taxes		**75 217**	**57 347**
Income taxes	6.6.7	-16 150	-10 322
Result on activities after taxes		59 067	47 025
Result for the year		59 067	47 025
Other comprehensive income for the year		0	0
Total comprehensive income for the year		**59 067**	**47 025**

The notes are an integral part of these financial statements.

5.3 Statement of Changes in Equity

For the year ended 31 December 2018

In thousands of EUR

2018	Sub-scribed capital	Issue premiums	Reserves	Profit carried forward	Net profit or loss for the financial year	Total Equity
Equity 1 January 2018	17 553	9 890	13 641	58 314	36 357	135 755
Allocation to reserves			3 610		-3 610	0
Allocation to profit brought forward				32 747	-32 747	0
Allocation to reserves			-2 220	2 220		0
Allocation to free reserve			-1 104	1 104		0
Allocation to value adjustments first time adoption IFRS 9				-18 667		-18 667
Total comprehensive income for the year					59 067	59 067
Equity 31 December 2018	**17 553**	**9 890**	**13 927**	**75 718**	**59 067**	**176 155**

For the year ended 31 December 2017

In thousands of EUR

2017	Sub-scribed capital	Issue premiums	Reserves	Profit carried forward	Net profit or loss for the financial year	Total Equity
Equity 1 January 2017	17 553	9 890	13 080	38 381	20 494	99 399
Allocation to reserves			319	2 464	-2 783	0
Allocation to profit brought forward				17 683	-17 683	0
Allocation to legal reserve			28		-28	0
Interim dividend distribution					-10 668	-10 668
Allocation to reserves			214	-214		0
Total comprehensive income for the year					47 025	47 025
Equity 31 December 2017	**17 553**	**9 890**	**13 641**	**58 314**	**36 357**	**135 755**

The notes are an integral part of these financial statements.

5.4 Statement of Cash Flows

In thousands of EUR

Operating activities	2018	2017
Interest, commissions receipts	242 698	192 575
Interest, commissions payments	-26 587	-23 399
Other receipts	3 436	1 463
Operating payments	-94 897	-76 895
(Increase) decrease in money market placements	-8 248	162
(Increase) decrease in loans to customers	-291 413	-324 262
(Increase) decrease in participations	0	0
Increase (decrease) in deposits from financial institutions	213	100 309
Increase (decrease) in deposits from customers	192 566	351 757
Increase (decrease) in deposits from corporates	40	0
(Increase) decrease in other assets	25 350	-27 188
Increase (decrease) in tax liabilities	-2 855	3 741
Increase (decrease) in other liabilities	10 142	3 611
Net cash flow from operating activities	**50 445**	**201 873**

Investment activities	2018	2017
Investments in tangible and intangible assets	-4 903	-3 132
Net cash flow from investment activities	**-4 903**	**-3 132**

Financing activities	2018	2017
Increase (decrease) from dividend payments/ capital distributions	-18 667	-10 668
Increase (decrease) in subordinated loan capital	-94	-717
Net cash flow from financing activities	**-18 761**	**-11 385**

Net cash flow	**26 781**	**187 356**
Opening balance of cash and cash equivalents	485 061	297 705
Net cash flow for the period	26 781	187 356
Ending balance of cash and cash equivalents	**511 842**	**485 061**

The notes are an integral part of these financial statements.

6 NOTES TO THE FINANCIAL STATEMENTS

6.1 Reporting entity

Advanzia Bank S.A. (“the Bank” or “Advanzia”) is domiciled in the Grand Duchy of Luxembourg and is established for an indefinite duration. The address of the Bank’s registered office is 9, rue Gabriel Lippmann, Parc d’Activité Syrdall 2, L-5365 Munsbach, Luxembourg. Advanzia is fully consolidated into Kistefos AS Group. The consolidated accounts are available at Kistefos’ registered office in Dokkveien 1, N-0250 Oslo, Norway. The financial statements of the Bank as at and for the year ended 31 December 2018 include the entire Bank.

6.2 Basis of preparation and summary of accounting principles

6.2.1 Accounting standards

6.2.1.1 Applicable accounting standards and changes in accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union in accordance with the Regulation No. 1606/2002 of the European Parliament and of the Council on the application on International Accounting Standards.

The financial statements were authorised for issue by the Board of Directors in March 2019.

The Bank has initially adopted IFRS 9 and IFRS 15 from 1 January 2018. Due to the transition method chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not affect the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying those standards is mainly attributed to the following:

- An increase in impairment losses recognised on financial assets (see Note 6.7.10.4)
- Additional disclosure related to IFRS 9 Note 6.3.5
- Additional disclosure related to IFRS 15 Note 6.3.4

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 6.3 to all periods presented in these financial statements.

i. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Bank´s accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 6.3.5.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation how the Bank classifies financial assets under IFRS 9, see Note 6.3.5.

IFRS largely retains the existing requirements in IAS 39 for the classification of financial liabilities. For an explanation of how the Bank classifies financial liabilities under IFRS 9, see note 6.3.5.

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation how the Bank applies the impairment requirements of IFRS 9, see Note 6.3.5.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparably to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 6.3.5.

ii. IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from Contracts with Customers was adopted by the European Union on 22 September 2016. Revenue from lease contracts, insurance contracts or financial instruments are excluded from the scope of this standard IFRS 15 defines a single five-step model for revenue recognition. In particular, these five steps allow for the identification of the distinct performance obligations included in the contracts and for the allocation of a transaction price to each one. Revenue relating to each performance obligation is recognised when the performance obligation is fulfilled, i.e. when control of an asset has been transferred or a service has been rendered. The adoption of IFRS 15 did not affect the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements. For more information and details on the changes and implications resulting from the adoption of IFRS 15, see Note 6.3.4.

6.2.1.2 New accounting standards published but not yet applicable

i. IFRS 16 Leases

IFRS 16 Leases, issued in January 2016, will supersede IAS 17 Leases and the interpretations relating to the recognition of such contracts. The new definition of leases relies on both the identification of an asset and the control of the right to use the asset by the lessee. From the perspective of the lessor, the expected impact should be limited, as the main requirements remain essentially unchanged versus the current standard, IAS 17. For the lessee, IFRS 16 will require all leases to be recognised on the balance sheet, in the form of a right-of-use on the leased asset presented under fixed assets, along with the recognition of a financial liability for the lease payments and other payments to be made over the leasing period. The right-of-use will be amortised on a straight-line basis and the financial liabilities will be amortised on an actuarial basis over the lease period.
Adopted by the European Union on 31 October 2017, IFRS 16 will enter into force on a mandatory basis for financial years beginning on or after 1 January 2019.

Impact assessment
In 2018, work consisted in identification and analyses of the affected contracts. Application of the standard will lead to an increase in the assets and liabilities in connection with leasing agreements currently recognised as operating leases. This effect will derive mainly from real estate leases, vehicle leases, and leases for IT equipment. According to management’s estimation and analyses of affected contracts, the impact on assets as well as liabilities will amount to EUR 7.5 million. The effect on profit and loss for the contracts identified falling under IFRS 16 will amount to TEUR 158 as of January 2019.

6.2.2 Basis of preparation

These financial statements have been prepared in accordance with IFRS. This is the first set of the Bank´s financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Note 6.2.1.1.

6.2.3 Basis of measurement

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

6.2.4 Functional and presentation currency

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

6.2.5 Significant events after balance sheet date

The Bank is not aware of any significant events after balance sheet date which would have a material impact on the 2018 financial statements.

Besides this, Advanzia signed in December 2018 an agreement with Catella Bank in Luxembourg to acquire its credit card servicing operations. This transaction will have an impact on the financial statements of 2019.

6.3 Significant accounting policies

6.3.1 Basis of consolidation

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

6.3.2 Foreign currency

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

6.3.3 Net interest margin

Interest income and expense are recognised in the Statement of Comprehensive Income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.
The calculation of the effective interest rate includes fees and points paid or received, if any, that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.
For impaired assets, the Bank continues to recognise the interest income based on the effective interest rate method.
Interest income and expense presented in the Statement of Comprehensive Income include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis

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

6.3.4 Commissions

Commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.
Commissions received for the provision of banking and similar services (except those arising from the effective interest rate), revenues from agent services fall under the scope of IFRS 15 Revenues from Contracts with Customers. For further details in relation to IFRS 15, please refer to Note 6.2.1.1 (ii).
Advanzia recognises commission income and expenses in profit and loss as follows:

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

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

6.3.5 Financial assets and financial liabilities

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

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

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

i. Amortised cost measurement

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

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

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

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

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

ii. Fair value measurement

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm’s length transaction on the measurement date. See also note 6.4 regarding the determining of fair value.

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

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

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

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

iii. Identification and measurement of impairment

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

For the credit card portfolio in Germany the bank developed an “IRBA type” model (rating models, PD, LGD, EAD models). For all other segments, the ECL calculation is based on an intermediate or basic approach, which consists of interpretation of historical data or on the use of external data.

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).

Probability of default (PD)
The probability of default represents the likelihood of a loan to default over a particular time horizon. In the IFRS 9 Standard it differentiates between the lifetime ECL and the 12-months ECL for each financial instrument, which differs from each other by a different applicable PD horizon (12 months versus lifetime). The 12-month ECL are a portion of the lifetime ECL and represent the lifetime cash shortfalls that will result if a default occurs (within) the 12 months after the reporting date.

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

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

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

As for the PD estimation, the LGD model depends on the type of segment. The advanced approach, used for calculating the LGD for the German credit cards segment, is estimated through a regression analysis methodology based on historical data. For the Austrian and French credit cards segments, the intermediate approach consists in the calculation of a weighted average of historical LGD. For the remaining two segments (i.e. financial institution credit cards and deposits) a basic approach that relies on external data is used to estimate the LGD.

Exposure at default (EAD)

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

The advanced approach used for calculating the EAD for the German credit cards segment is estimated through a regression analysis based on historical data. For the remaining segments, the intermediate approach consists in the calculation of EAD rates based on historical observations.

Three-stage deterioration model & allocation

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

Advanzia has defined its staging criteria as follows:

- Stage 1: Loan is either performing or with less than 30 days past due;
- Stage 2: Loan is either under forbearance but performing, or not performing, or with more than 30 days past due but with less than 90 days past due which represents a significant increase in relative credit risk (SICR) since initial recognition.
- Stage 3: Loan is either in default, or in pre-litigation, or underperforming and in forbearance.

Any financial instrument at initial recognition is allocated to stage 1. Since 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. For such performing stage 1 assets a 12-months expected credit loss (ECL) allowance needs to be recognized and based on the 12-months PD. Interest is to be recognized on a gross basis.

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

In case an instrument defaults, it is transitioned to stage 3. For such non-performing loans, a lifetime ECL is recognized and based on the lifetime PD, like for stage 2 assets, although interest no longer is recognized 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.

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

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

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

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

Under IFRS 9, the Bank incorporates forward-looking information into its ECL measurement. A statistical model depending on external key leading indicators has been deployed to estimate the future development of PD.

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.

iv. Derecognition of financial assets or financial liabilities

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

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

6.3.6 Cash and cash equivalents

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

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

6.3.7 Loans and advances

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

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

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

6.3.8 Property and equipment

6.3.8.1 Recognition and measurement

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

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

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

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

6.3.8.2 Depreciation

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

- IT equipment 3 years
- Fixtures and fittings 4-5 years

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

6.3.9 Intangible assets

Software acquired by the Bank is measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is three years. The core banking system has an estimated useful life of seven years.

6.3.10 Lease payments

Leases contracted by Advanzia might be either finance or operating leases.

6.3.10.1 Finance lease

In a finance lease, the lessor transfers substantially all of the risks and rewards of ownership of an asset to the lessee. It is treated as a loan made to the lessee in order to finance the purchase of the asset.

6.3.10.2 Operating lease

An operating lease is a lease under which substantially all of the risks and rewards of ownership of an asset are not transferred to the lessee. The asset is not recognised on the lessee´s balance sheet. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

6.3.11 Impairment of non-financial assets

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

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

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

6.3.12 Reversal of impairments of non-financial assets

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

6.3.13 Deferred tax

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

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

6.3.14 Deposits, debt securities issued and subordinated liabilities

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

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

6.3.15 Provisions recognised as liabilities

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

6.3.16 Employee benefits

6.3.16.1 Defined contribution plans

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

6.3.16.2 Short-term benefits

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

6.3.17 Share capital and reserves

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

6.3.18 Income tax

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

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

6.4 Use of judgements and estimates

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

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

6.4.1 Judgements

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

Note 6.2 i: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are Solely Payments of Principal and Interest (SPPI) on the principal outstanding

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

6.4.2 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes:

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

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

6.4.3 Measurement of provisions

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

6.5 Segment reporting

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

6.6 Notes to the statement of comprehensive income

6.6.1 Net interest income

6.6.1.1 Interest income

Interest income is earned on bank placements (including money market placements) and customer loans.

In thousands of EUR

Interest income	2018	2017
Financial institutions	74	54
Customers	219 410	174 839
Total interest income	**219 484**	**174 893**

Interest income is charged on impaired loans to customers based on the effective interest rate method. Out of this interest income, TEUR 3 497 is interest on impaired receivables (2017: TEUR 3 904). This interest income is recognised net of applicable impairments to the loans.

6.6.1.2 Interest expense

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

In thousands of EUR

Interest expense	2018	2017
Financial institutions	-2 883	-1 985
of which: interest paid on assets	-1 578	-1 422
Customers	-8 502	-9 269
Subordinated liabilities	-446	-498
Total interest expense	**-11 831**	**-11 752**

6.6.2 Net fee and commission income

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

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

In the following table, fee and commission from contracts with customers in the scope of IFRS 15 is disaggregated by major type of product. The net fee and commission income in relation to IFRS 15 amount to TEUR 699.

In thousands of EUR	2018	
Product type	**Income**	**Expenses**
Revolving cards	9 358	-17 573
PCS	650	-88
Agent service	8 352	0
Total commission income	**18 360**	**-17 661**

6.6.3 Other operating income/expenses

Other operating income comprises all income not recorded elsewhere and contains TEUR 635 from disposal of IT equipment.

Other operating expenses contain an arrangement fee of TEUR 711 in relation to the acquisition of a financial instrument during the year and the contribution to the Luxembourgish deposit insurance scheme (FGDL) (please see Note 6.8) for 2018 of TEUR 4 492.

6.6.4 Personnel expenses

Personnel expenses include wages and salaries as well as social security and other costs. In addition, some employees participate in a defined pension insurance contribution plan. The Bank's cost for this pension plan including applicable taxes in 2018 was TEUR 270 (2017: TEUR 202). All pension contributions are paid in or provisioned.

6.6.5 General administrative expenses

These expenses consist of expenses related to the administration and operations of the Bank, such as office rent and operations, operational lease payments, outsourced services, etc., as well as customer acquisition costs.

Operational lease payments are as follows:

In thousands of EUR

Operational leases	**2018**	**2017**
Office rental	1 095	964
Other leases	1 508	1 365

The Bank has future payment commitments arising from rental agreements, service agreements, etc., covering multiple years, and which may be summarised as follows:

In thousands of EUR

Commitments	**<1 year**	**1-5 years**	**> 5 years**
As at 31 December 2018	3 415	7 684	0
As at 31 December 2017	2 685	7 986	591

6.6.6 Impairment on financial assets

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

In thousands of EUR

Impairment	**2018**	**2017**
Net (loss) / gain from impairment	-9 576	-9 325
Write-offs	-53 079	-35 461
Total impairments	**-62 655**	**-44 786**

The Bank is assessing the impairment on credit card loans on a group basis and based on expected recoveries of delinquent loans.

6.6.7 Income taxes

The Bank is subject to taxation in Luxembourg. The corporate income tax (CIT) rate was 19% in 2017 and became 18% in 2018. The income is further subject to the municipal business tax (6.75%), whereas the corporate income tax amount is subject to the solidarity surtax (7% imposed on the CIT).

In thousands of EUR

	2018
Result on activities before taxes	75 217
Aggregate tax rate	26.01%
Theoretical income tax	**19 564**
Tax impact of exempt income	-3 415
Effective income tax	**16 150**

As at 31 December 2018, tax liabilities amount to EUR 17.5 million. In 2018, the Bank paid income tax for the years 2013 and 2014 of EUR 5.3 million.

A tax credit of EUR 6.6 million was booked due to the IFRS 9 first time adoption. The tax credit is based on the reallocation of EUR 18.7 million after-tax from the free reserve to the value adjustments.

As at 31 December 2018, there are no deferred tax liabilities or assets.

6.7 Notes to the statement of financial position

6.7.1 Cash and cash equivalents

In thousands of EUR

Cash and cash equivalents	**2018**	**2017**
Balances with central banks	493 552	463 795
Nostro account balances with financial institutions	18 290	21 266
Balance at 31 December	**511 842**	**485 061**

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

6.7.2 Loans and advances and amounts owed to financial institutions

In thousands of EUR

Loans and advances to financial institutions	**2018**	**2017**
Available on demand	18 290	21 266
Money market placements	46 012	37 764
Balance at 31 December	**64 302**	**59 030**

Money market placements are term deposits with other financial institutions (banks). On 31 December 2018 there was one placement with an original maturity of two months.

The Bank has pledged term deposits of EUR 38.8 million and NOK 85.0 million as collateral for a guarantee in favour of Mastercard.

In 2018, the Bank owed to financial institutions a EUR 100 million senior secured credit facility collateralised by loans and advances to German customers.

At balance sheet date, the Bank has a liability of around TEUR 206 in relation to overdrafts on current accounts in USD, GBP and CHF.

6.7.3 Loans and advances to customers

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

In thousands of EUR

Loans and advances to customers	**2018**	**2017**
Credit card loans to retail customers	1 492 112	1 228 562
Impairment	-68 305	-58 718
Impairment first time adoption IFRS 9	-25 216	0
Balance at 31 December	**1 398 591**	**1 169 844**

In thousands of EUR

Allowances for impairments	**2018**	**2017**
Balance at 1 January as reported	58 718	49 393
Impairment loss for the year		
Charge for the year	62 655	44 786
Write-offs (net of recoveries)	-53 068	-35 461
Balance at 31 December	**68 305**	**58 718**

The impact of first time adoption of IFRS 9 amounted to EUR 25.2 million pre-tax that corresponds to an amount of EUR 18.7 million after-tax. Advanzia decided and informed the competent authority (CSSF) to increase the value adjustments by a reallocation of reserves to the value adjustments. The total amount of EUR 18.7 million has been deducted from the reserves (see Statement of Comprehensive Income and Note 7.10) and added to value adjustments, the related tax effect of EUR 6.6 million has been booked against the tax liabilities.

6.7.4 Tangible assets

In thousands of EUR

Cost	IT equipment	Fixtures and fittings	Total
Balance at 1 January 2018	3 632	1 140	4 772
Acquisitions	244	254	498
Balance at 31 December 2018	**3 876**	**1 393**	**5 269**
Balance at 1 January 2017	3 337	1 046	4 383
Acquisitions	295	94	389
Balance at 31 December 2017	**3 632**	**1 140**	**4 772**
Accumulated depreciation			
Balance at 1 January 2018	2 132	806	2 938
Depreciation for the period	1 195	150	1 345
Balance at 31 December 2018	**3 327**	**956**	**4 284**
Balance at 1 January 2017	1 594	665	2 259
Depreciation for the period	538	141	679
Balance at 31 December 2017	**2 132**	**806**	**2 938**
Net tangible assets at 31 December 2018	**549**	**437**	**986**
Net tangible assets at 31 December 2017	**1 500**	**333**	**1 834**

6.7.5 Intangible assets

In thousands of EUR

Cost	Purchased software	Total
Balance at 1 January 2018	11 266	11 266
Acquisitions	4 409	4 409
Balance at 31 December 2018	**15 676**	**15 676**
Balance at 1 January 2017	8 523	8 523
Acquisitions	2 744	2 744
Balance at 31 December 2017	**11 266**	**11 266**

Accumulated amortisation	Purchased software	Total
Balance at 1 January 2018	6 120	6 120
Amortisation for the period	1 586	1 586
Balance at 31 December 2018	**7 706**	**7 706**
Balance at 1 January 2017	4 866	4 866
Amortisation for the period	1 254	1 254
Balance at 31 December 2017	**6 120**	**6 120**
Net intangible assets at 31 December 2018	**7 970**	**7 970**
Net intangible assets as 31 December 2017	**5 147**	**5 147**

6.7.6 Other assets

Other assets are made up of EUR 1,1 million Mastercard receivables, as well as TEUR 2 499 prepaid administrative expenses.

6.7.7 Amounts owed to customers

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

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

6.7.8 Other liabilities

In thousands of EUR

	2018	2017
Short term payables	988	11
Preferential creditors	1 384	997
Other accruals	17 943	9 165
Balance at 31 December	**20 315**	**10 173**

Short term payables consist of obligations to suppliers falling due within 1 month.

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

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

6.7.9 Subordinated liabilities

The subordinated liabilities consist of a NOK 85 million floating rate note with indefinite maturity, qualifying as alternative Tier 1 capital. The note is listed at Oslo Stock Exchange and has been issued to a number of institutional investors, with a rate of 3 months NIBOR + 450 bps.

6.7.10 Equity

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

6.7.10.1 Subscribed capital and issue premiums

The subscribed capital, issue premiums, authorised capital (excluding subscribed share capital) and voting and non-voting shares were as following 2018 (no change):

In thousands of EUR

Date	Subscribed capital	Issue premiums	Authorised capital	Issued voting shares	Issued non-voting shares
1 January 2018	17 553	9 890	3 114	210 210	0
31 December 2018	**17 553**	**9 890**	**3 114**	**210 210**	**0**

The authorised capital excludes the subscribed capital.

As at 31 December 2018, the 210 210 issued shares were distributed among the following share classes:

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

Shares in share classes A-C are ordinary voting shares and have a nominal value of EUR 83.50 each. As at 31 December 2018, management held no shares in Advanzia Bank S.A.

6.7.10.2 Reserves

In 2018 Advanzia Bank S.A. allocated TEUR 3 610 of the 2017 profits to a reserve according to Luxembourg tax law and relocated TEUR 3 324 to profit carried forward.

In relation to the first time adoption of IFRS 9 the bank allocated EUR 18.7 million of the free reserves to value adjustments.

The total of the reserves as at 31 December 2018 amounts to EUR 13.9 million that is not available for distribution.

6.7.10.3 Dividends

In 2018 no dividends were paid.

6.8 Deposit guarantee scheme

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

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

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

The target level of funding of the FGDL is set at 0.8% of covered deposits, as defined in article 163 number 8 of the Law, of the relevant credit institutions and is to be reached by the end of 2018 through annual contributions. The contributions are to be made in the form of annual payments during the years 2016 to 2018. When the level of 0.8% is reached, the Luxembourgish credit institutions are to continue to contribute for 8 additional years in order to constitute an additional safety buffer of 0.8% of covered deposits as defined in article 163 number 8 of the Law.

For 2018 the Bank paid EUR 4.5 million to FGDL. In compliance with CSSF circular 14/599, the Bank released an amount of EUR 2.2 million of the un-distributable specific reserve in relation to AGDL.

6.9 Auditor's fees

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

In thousands of EUR

	2018	2017
Audit fees	195	178
Audit related fees	22	19
Tax services	37	0
Total fees (excl. VAT)	**254**	**197**

6.10 Staff

Average number	2018	2017
Management Committee	6	7
Employees	154	136
Total	**160**	**143**

At the end of 2018, the company had 163 employees (including the Management Committee).

6.11 Related parties

6.11.1 Parent and ultimate controlling party

Kistefos AS, Norway retained majority control of the shares during the year ended 31 December 2018.

6.11.2 Transactions with board members and key management personnel

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

In thousands of EUR

	2018	2017
Remuneration	2 326	2 521
Pensions	119	92
Loans	6	8
Other commitments	68	57

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

In thousands of EUR

	2018	2017
Remuneration	108	114
Pensions	0	0
Loans	12	5
Other commitments	46	45

Additionally, during the period, Kistefos AS associates and their immediate relatives have transacted with the Bank with loans amounting to TEUR 18 and other commitments amounting to TEUR 247.

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

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

7 RISKS AND RISK MANAGEMENT

The following note provides an overview and analysis of the risks to which Advanzia Bank is subject, and how the Bank manages such risks. Unless otherwise stated, all figures are in euro as at 31 December 2018.

7.1 Risk management: objectives and policies

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

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

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

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

For managing risks, the following principles are followed:

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

7.2 Credit risk

Credit risk represents the largest risk within the Bank. Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment debt securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

7.2.1 Management of credit risk

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

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

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

7.2.2 Exposure to credit risk

In thousands of EUR	Loans and advances to customers		Loans and advances to financial institutions	
Collectively impaired	**2018 (IFRS 9)**	**2017 (IAS 39)**	**2018 (IFRS 9)**	**2017 (IAS 39)**
Stage 3 (impaired)	143 392	121 409	0	0
Gross amount	**143 392**	**121 409**	**0**	**0**
Allowance for impairment	-54 525	-58 718	0	0
Carrying amount	**88 867**	**62 690**	**0**	**0**
Past due but not impaired	**2018 (IFRS 9)**	**2017 (IAS 39)**	**2018 (IFRS 9)**	**2017 (IAS 39)**
Stage 2 (impaired in IFRS 9)	257 961	139 301	0	0
Carrying amount	**257 961**	**139 301**	**0**	**0**
Allowance for impairment	-28 883	0	0	0
Carrying amount	**229 078**	**139 301**	**0**	**0**
Neither past due nor impaired	**2018 (IFRS 9)**	**2017 (IAS 39)**	**2018 (IFRS 9)**	**2017 (IAS 39)**
Stage 1 (impaired in IFRS9)	1 090 765	967 852	64 315	59 030
Gross amount	**1 090 765**	**967 852**	**64 315**	**59 030**
Allowance for impairment	-10 119	0	-14	0
Carrying amount	**1 080 646**	**967 852**	**64 121**	**59 030**
Carrying amount - amortised cost	**1 398 591**	**1 169 844**	**64 121**	**59 030**

In addition to the above, the Bank had at balance sheet date through the credit cards issued entered into undrawn commitment of EUR 3 596 million (2017: EUR 3 068 million) with its credit card clients being neither past due nor impaired.

The allowance for impairment is calculated on the basis of the net present values of the expected remaining cash flows based on the age of the claims.

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

Loss allowance

The following table shows the reconciliation from the opening to the closing balance of the loss allowance for Loans and advances to customers at amortised cost. In 2017, the allowance for credit losses was EUR 58.7 million according to IAS 39.

In thousands of EUR

	2018		
Amounts arising from ECL	**Stage 1**	**Stage 2**	**Stage 3**
Balance at 1 January 2018	7 731	24 124	75 238
Transfer to Stage 1	6 123	8 228	360
Transfer to Stage 2	1 064	7 887	482
Transfer to Stage 3	352	5 800	51 324
Write offs	193	2 209	23 072
Loans started in 2018	*2 388*	*4 759*	*4 503*
Balance at 31 December 2018	**10 119**	**28 883**	**79 741**

The Bank does not hold any collateral for its credit card loans, or other loans. 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.

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.

7.2.3 Concentration risk

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

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

The exposure by location as of 31 December 2018 is as follows:

In thousands of EUR	Loans and advances to customers		Loans and advances to financial institutions	
Concentration by sector	**2018**	**2017**	**2018**	**2017**
Banks	0	0	64 315	59 030
Retail	1 398 591	1 169 844	0	0
Corporates	0	0	0	0
Total 31 December	**1 398 591**	**1 169 844**	**64 315**	**59 030**

Concentration by location	**2018**	**2017**	**2018**	**2017**
Germany	1 230 382	1 081 473	494	256
Luxembourg	4 938	3 377	63 511	57 064
France	96 925	39 017	1	1 527
Austria	59 034	40 280	0	0
Other EU/EEA countries	7 312	5 696	309	184
Total 31 December	**1 398 591**	**1 169 843**	**64 315**	**59 030**

7.2.4 Trading assets

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

7.2.5 Settlement risk

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

7.2.6 Financial institutions

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

7.3 Fraud risk

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

Advanzia has over the past years continuously enhanced the existing measures, e.g. changed from static to dynamic data for SecureCode or adding more flexibility to the real time monitoring system by implementing new features. By that, the Bank has been able to reduce fraud losses further.

The credit card related fraudulent activity resulted 2018 in a loss of TEUR 1 578 (TEUR 1 095 in 2017) which corresponds to a fraudulent amount rate measured as ratio of card turnover of 0.05% in 2018 (0.05% in 2017). These losses are in the financial statements included as part of the write-offs of credit card loans.

7.4 Liquidity risk

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

7.4.1 Management of liquidity risk

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

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

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

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

The Bank relies on deposits from customers as its primary source of funding. The deposits from customers are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends. On an aggregate level, the customer deposits exhibit a high degree of stability. During 2018, customer deposits in savings products increased by 13.3% (2017: increase of 31.9%).

In May 2017, the Bank contracted a EUR 100 million senior secured credit facility (please see note 7.2) collateralised by loans and advances to German customers. With the same partner, the Bank negotiated a EUR 50 million revolving credit facility that can be drawn within 5 business days by tranches of EUR 5 million for 3 months renewable. At the end of 2018, the pledged loans and advances amounted to EUR 224 million.

7.4.2 Exposure to liquidity risk

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

LCR (Min. 100%)	2018	2017
At 31 December	151%	156%
Average for the period	134%	260%
Maximum for the period	159%	480%
Minimum for the period	116%	123%

NSFR (Min. 100%)	2018	2017
At 31 December	130%	133%
Average for the period	129%	129%
Maximum for the period	136%	141%
Minimum for the period	124%	112%

7.4.3 Residual contractual maturities of financial liabilities

31 DECEMBER 2018

In thousands of EUR

NON-DERIVATIVE LIABILITIES	Carrying amount	Gross nominal inflow/ outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	100 657	-102 042	-656	-125	-496	-100 764	0
Deposits from customers	1 646 428	-1 647 271	-1 647 271	0	0	0	0
Deposits from corporates	40	-40	0	0	-40	0	0
Unrecognised loan commitments	3 595 729	-3 595 729	-3 595 729	0	0	0	0
Total	**5 342 854**	**-5 345 082**	**-5 243 656**	**-125**	**-536**	**-100 764**	0

31 DECEMBER 2017

In thousands of EUR

NON-DERIVATIVE LIABILITIES	Carrying amount	Gross nominal inflow/ outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	100 444	-102 819	-177	-382	-496	-101 764	0
Deposits from customers	1 453 861	-1 454 762	-1 454 762	0	0	0	0
Deposits from corporates	0	0	0	0	0	0	0
Unrecognised loan commitments	3 068 205	-3 068 205	-3 068 205	0	0	0	0
Total	**4 622 510**	**-4 625 786**	**-4 523 143**	**-382**	**-496**	**-101 764**	**0**

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

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

7.5 Market risks

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

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

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

7.5.1 Management of market risks

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

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

7.5.2 Exposure to interest rate risk

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

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

31 DECEMBER 2018

In thousands of EUR

Interest bearing assets	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	more than 5 years
Central bank - minimum reserve	16 366	16 366	0	0	0	0
Central bank reserves in excess of the minimum required (deposit facility)	477 185	477 185	0	0	0	0
Loans and advances to banks (assimilated to Nostro)	52 853	52 853	0	0	0	0
Term deposits	8 549	8 549	0	0	0	0
Loans and advances to partner banks (PCS)	2 718	2 718	0	0	0	0
Gross loans and advances to credit card customers FR	101 389	101 389	0	0	0	0
Gross loans and advances to credit card customers AT	72 249	72 249	0	0	0	0
Gross loans and advances to credit card customers DELU	1 318 461	1 318 461	0	0	0	0
Total interest bearing assets	**2 049 770**	**2 049 771**	**0**	**0**	**0**	**0**

Interest bearing liabilities	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	more than 5 years
Deposits from banks	0	0	0	0	0	0
Term loans	100 000	100 000	0	0	0	0
Deposits from customers	1 646 428	1 646 428	0	0	0	0
Subordinated loans	8 544	8 544	0	0	0	0
Total interest bearing liabilities	**1 754 972**	**1 754 972**	**0**	**0**	**0**	**0**

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

31 DECEMBER 2017

In thousands of EUR

Interest bearing assets	**Carrying amount**	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**more than 5 years**
Central bank - minimum reserve	14 440	14 440	0	0	0	0
Central bank reserves in excess of the minimum required (deposit facility)	449 354	449 354	0	0	0	0
Loans and advances to banks (assimilated to Nostro)	47 463	47 463	0	0	0	0
Term deposits	8 832	8 832	0	0	0	0
Loans and advances to partner banks (PCS)	2 735	2 735	0	0	0	0
Gross loans and advances to credit card customers FR	94 970	94 970	0	0	0	0
Gross loans and advances to credit card customers AT	39 634	39 634	0	0	0	0
Gross loans and advances to credit card customers DELU	1 093 958	1 093 958	0	0	0	0
Total interest bearing assets	**1 751 387**	**1 751 387**	**0**	**0**	**0**	**0**

Interest bearing liabilities	**Carrying amount**	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**more than 5 years**
Deposits from banks	0	0	0	0	0	0
Term loans	100 000	100 000	0	0	0	0
Deposits from customers	1 453 861	1 453 861	0	0	0	0
Subordinated loans	8 368	8 368	0	0	0	0
Total interest bearing liabilities	**1 562 499**	**1 562 499**	**0**	**0**	**0**	**0**

Gap	188 888	188 888				
Cumul. gap	188 888	188 888				
Cumul. Gap (%)	**10.8%**	**10.8%**				

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

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

31 DECEMBER 2018

In thousands of EUR	**Carrying amount**	**Present value of banking positions after interest shock**		**Impact on equity of the 12-month sensitivity on income**	
Interest bearing assets		**+200 bp**	**-200 bp**	**+200 bp**	**-200 bp**
Central bank - minimum reserve	16 366	16 694	16 301	242	-48
Central bank reserves in excess of the minimum required (deposit facility)	477 185	486 732	477 185	7 064	0
Loans and advances to banks (assimilated to Nostro)	52 853	53 910	52 853	782	0
Term deposits	8 549	8 685	8 441	101	-80
Loans and advances to partner banks (PCS)	2 718	2 773	2 718	40	0
Gross loans and advances to credit card customers FR	101 389	102 976	99 795	1 175	-1 180
Gross loans and advances to credit card customers AT	72 249	73 376	71 117	834	-837
Gross loans and advances to credit card customers DELU	1 318 461	1 339 039	1 297 854	15 203	-15 270
Total interest bearing assets	**2 049 770**	**2 084 185**	**2 026 264**	**25 441**	**-17 415**
Interest bearing liabilities		**+200 bp**	**-200 bp**	**+200 bp**	**-200 bp**
Deposits from banks	0	0	0	0	0
Term loans	100 000	101 747	99 651	1 293	-259
Deposits from customers	1 646 428	1 678 009	1 631 147	23 328	-11 345
Subordinated loans	8 544	8 672	8 533	95	-9
Total interest bearing liabilities	**1 754 972**	**1 788 428**	**1 739 330**	**24 716**	**-11 612**
Gap	294 799	295 757	286 933	**725**	**-5 804**
Cumul. gap	294 799	295 757	286 933		
Cumul. gap (%)	**14.4%**	14.2%	14.2%		

31 DECEMBER 2017

In thousands of EUR	Carrying amount	Present value of banking positions after interest shock		Impact on equity of the 12-month sensitivity on income	
Interest bearing assets		**+200 bp**	**-200 bp**	**+200 bp**	**-200 bp**
Central bank - minimum reserve	14 440	14 729	14 383	211	-42
Central bank reserves in excess of the minimum required (deposit facility)	449 354	458 344	449 354	6 556	0
Loans and advances to banks (assimilated to Nostro)	47 463	48 412	47 463	692	0
Term deposits	8 832	9 001	8 748	123	-61
Loans and advances to partner banks (PCS)	2 735	2 790	2 735	40	0
Gross loans and advances to credit card customers FR	94 970	96 617	93 163	1 201	-1 318
Gross loans and advances to credit card customers AT	39 634	40 252	38 883	451	-547
Gross loans and advances to credit card customers DELU	1 093 958	1 114 633	1 073 261	15 076	-15 092
Total interest bearing assets	**1 751 387**	**1 784 778**	**1 727 990**	**24 349**	**-17 060**
Interest bearing liabilities		**+200 bp**	**-200 bp**	**+200 bp**	**-200 bp**
Deposits from banks	0	0	0	0	0
Term loans	100 000	101 747	99 651	1 274	-255
Deposits from customers	1 453 861	1 481 694	1 436 285	20 296	-12 816
Subordinated loans	8 368	8 768	8 558	95	-58
Total interest bearing liabilities	**1 562 499**	**1 592 210**	**1 544 493**	**21 665**	**-13 129**
Gap	188 888	192 569	183 497	**2 684**	**-3 931**
Cumul. gap	188 888	192 569	183 497		
Cumul. Gap (%)	**10.8%**	10.8%	10.6%		

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

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

7.6 Operational risks and outsourcing risk

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

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

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

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

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

The Bank is regularly assessing and reporting its operational and outsourcing risk to management as well as to the Board of Directors. The Bank is also regularly assessing its expected losses in relation to these risks on a regular basis. The Bank has not incurred nor recorded any material operational losses in 2018.

Advanzia Bank S.A. has received acceptance from the regulator for using the Alternative Standardised Approach (ASA) as described in the Basel 2 framework as well as Regulation (EU) N° 575/2013 for assessing operational risk charge for capital adequacy purposes. The amount assessed for this charge as at balance sheet date was TEUR 3 518 when using the ASA method.

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

Disaster Recovery/Business Continuity Plan

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

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

7.7 Concentration risk

Given the limited individual balances and the large diversification of credit card customers, Advanzia does not consider that there is material concentration risk within this product. The same applies to customer deposits, which again are limited in average and maximum amount, and well diversified in number.
The Bank is applying limitations to the aggregate placements with other credit institutions or groups of other credit institutions. As at balance sheet date, the Bank was also in compliance with CSSF Circular 10/475 on large exposures, and had no exposures exceeding 100% of regulatory capital (cf. below).
The Bank is subject to some product concentration risk as Advanzia is deriving most of its income from one product line (credit cards).

7.8 Model risk and income risk

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

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

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

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

7.9 Reputation risk and compliance risk

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

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

7.10 Capital management

Regulatory capital

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

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

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

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

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

For 2018, the impact of the first time IFRS 9 adoption on regulatory capital is limited to 5% (TEUR 933) of the booked amount.

The Bank's regulatory capital position at 31 December 2018 was as follows:

In thousands of EUR

Tier 1 capital	Note	2018	2017
Subscribed capital	6.7.10	17 553	17 553
Issue premium	6.7.10	9 890	9 890
Reserves (excl. AGDL)	6.7.10	13 416	10 910
Income carried forward		93 451	58 314
Interim profits inclusion authorised by CSSF		27 500	9 400
Subordinated liabilities	6.7.9	8 529	8 625
Less intangible assets	6.7.5	-7 970	-5 147
		162 369	**109 545**

In 2018, Advanzia received authorisation from the competent authority to include EUR 27.5 million of the 2018 profits as part of its regulatory capital. If considering the remaining interim profits for the year, the Tier 1 capital as at 31 December 2018 would amount to EUR 194.0 million (2017: EUR 136.5 million).

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

Pillar 1

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

The capital ratio (Pillar 1) as at 31 December 2018 was 14.1% (2017: 11.4%). Profits for the financial year are not included in the regulatory capital, except for EUR 27.5 million as described under 7.10 above. Had the remaining 2018 profits also been included, the Bank's Tier 1 capital ratio would have been 16.9% (2017: 14.2%).

Pillar 2 (ICAAP)

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

During the ICAAP process in 2018, Advanzia has been following a strategy of assessing all risk aspects available, and considered their relevance. The Bank is to a larger degree also quantifying its assessments based on experience data. The Bank assessed its ICAAP on a monthly basis, which is reported to the Board of Directors.

The Pillar 2 ratio at 31 December 2018 was 13.6% (2017: 13.9%) and within the agreed risk appetite of Advanzia.

Capital allocation

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

7.12 Remuneration policy and practices

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

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

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

For the Bank's management remuneration please refer to Note 6.10 and 6.11.

Munsbach, Luxembourg March 2019

Mr. Bengt Arve Rem
Chairman of the board

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

Mr. Nishant Fafalia

Mr. Tor Erland Fyksen

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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Advanzia Bank S.A. ("Advanzia Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Advanzia Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

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

Key audit matters

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

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

Why is it a key audit matter?

Advanzia Bank`s portfolio of loans and advances to customers amounts to EUR 1.463 million as at 31 December 2018. These loans and advances to customers are measured at amortised cost. The allowance for impairment on loans that the Bank considers to be impaired amounts to EUR 63 million as at 31 December 2018.

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

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

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

How we responded to the risk

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

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

We have re-performed together with our internal Financial Risk Management specialists the ECL calculation as at 31 December 2018.

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

Migration of IT systems

Why is it a key audit matter?

The Bank completed the first two phases of its migration project to the new Core Banking System. The deposit customer base (phase 1) as well as the collection accounts (phase 2) were transferred from their source system to the target system.

Due to the significance of ensuring a complete and accurate transfer of the balances from the source system to the target system, we consider the IT Migration as a key audit matter.

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

How we responded to the risk

We inspected the evidence of managements control over the complete and accurate migration. We inspected working papers prepared and reviewed by management demonstrating that all accounts, and associated balances, were appropriately extracted from the source system and injected into the target system.

We re-performed managements` procedures over the completeness of the migration.

We observed and obtained the data extractions from both source system and target system, and evaluated the scripts used to extract data from both systems. We performed a reconciliation between both data sets and obtained evidence substantiating any differences noted.

We performed sample testing over the accuracy of account balances migrated.

Other information

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

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

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

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

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

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

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

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Advanzia Bank`s internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

— Conclude on the appropriateness of Board of Directors` use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Advanzia Bank`s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises agréé". However, future events or conditions may cause Advanzia Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

We have been appointed as "Réviseur d'Entreprises agréé" by the Board of Directors on 15 February 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 14 years.

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

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

Luxembourg, 18 March 2019

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

T. Feld