Public

FINANCIAL STATEMENTS

For the Year Ended 31 December 2023
Advanzia Bank S.A.

Advanzia Bank S.A.

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CONTENTS

1 ABOUT ADVANZIA BANK S.A.

1.1 A European digital bank

Advanzia Bank S.A. (hereafter also referred to as “the Bank” or “Advanzia”) is a European digital bank specialising in credit cards and Cards-as-a-Service (CaaS) solutions for consumers, business partners and financial institutions. Advanzia was granted a banking license by the Luxembourg Ministry of Treasury and Budget in December 2005. With 2.6 million credit card customers, Advanzia is a leading digital credit card issuer in Germany, with a strong presence in Luxembourg, Austria, France, Spain and Italy. Advanzia conducts its operations solely from Luxembourg and has no branches.

1.2 Flexible own-branded products

Advanzia offers two consumer products under its own brands: a no-fee Mastercard Gold credit card and a deposit account. The Mastercard Gold credit card is a flexible payment method with an optional revolving credit facility and a range of attractive advantages and insurance benefits. The Advanzia Deposit Account is a sight deposit product that offers favourable conditions and a competitive interest rate.

1.3 Bespoke CaaS solutions

Advanzia currently has business partnerships with over 280 companies, associations and financial institutions for its CaaS offering. Business partners use Advanzia’s co-branded credit cards to strengthen their customer loyalty strategy and generate a competitive advantage. Private banks and other financial institutions implement turnkey Visa and Mastercard credit card solutions delivered by Advanzia, either under their own brand or under the flagship Capitol brand. Advanzia handles the complete card programme, encompassing scheme licensing, card issuance, processing, settlement and customer service.

1.4 Regulatory stability

Advanzia is headquartered in Luxembourg, a socially and politically stable financial hub in the heart of Europe. Advanzia has a banking licence in Luxembourg and is regulated by the Commission de Surveillance du Secteur Financier (CSSF), which oversees the activities of the country’s financial sector. Advanzia passports cross-border services in the EU to 16 countries.

1.5 Solid shareholder structure

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

2 REPORT OF THE BOARD OF DIRECTORS

Advanzia is a digital bank that offers competitive and flexible consumer finance and card servicing solutions for private customers, business partners and banks. The Bank promotes its own branded Mastercard Gold credit cards through different online marketing channels in various European markets. As the leading CaaS provider in Europe, Advanzia also offers white-labelled and co-branded credit card solutions that are distributed via a robust business partner network, and through turnkey credit card programmes for banks and financial institutions.

2.1 Overall results

2.1.1 Resilient financial performance

Despite challenging macro conditions marked by inflation and economic slowdown, Advanzia continued to showcase its financial resilience, delivering steady growth in number of performing clients and loan balance (mainly in Germany and Austria), which enabled solid results based on comfortable credit risk management.

The decline in net profit compared to the previous year can be attributed mainly to increased funding costs, the macroeconomic climate causing credit quality to rebound to pre-pandemic levels, and the Bank's growth in the less mature markets (Italy, France and Spain).

2.1.2 Funding diversification

In Q1 2023, Moody's Investor Service assigned Advanzia its first deposit and issuer ratings of Ba1 (outlook positive), providing a standardised and globally recognised proof-of-business soundness and creditworthiness to external stakeholders. The credit rating is expected to continue to improve Advanzia's access to external funding by broadening its potential investor base.

In Q2 2023, the envisioned issuance of senior unsecured debt, which was expected to apply upward pressure on the Bank's credit ratings, was postponed due to unfavourable market conditions. Following this update, Moody's Investor Service adjusted the Bank's rating outlook from positive to stable during the third quarter, as expected. The Bank continues to explore opportunities to issue senior unsecured debt.

In November 2023, the Bank's existing securitisation framework was increased to EUR 1 billion to support its continued growth, of which MEUR 850 were drawn at the end of December. The increased facility supports continued diversification of Advanzia's funding mix, while also strengthening the financial position by providing up to MEUR 150 of contingent committed funding. This milestone showcases the Bank's ability to obtain efficient asset-backed funding in a scalable manner.

In December 2023, Advanzia successfully issued a NOK 500 million AT1 bond to continue to strengthen its capital base. This reinforced the Bank's position as a frequent issuer of hybrid capital instruments, contributing to building the Bank's brand in the capital markets. Backed by the solid investor interest in its most recent AT1 facility, Advanzia plans to issue a Tier 2 bond in 2024, subject to favourable market conditions.

2.1.3 Continued digital transformation

The Bank continued its digitalisation programme by successfully rolling out its harmonised application and onboarding process in Austria as part of its omni-channel customer enrolment initiative.

This reduced enrolment time from days to minutes, and boosted customer satisfaction through AI-powered solutions, such as automated ID checks, a fully compliant electronic signature and real-time credit scoring. This pilot in Austria has paved the way for a rollout in Germany, the Bank's largest market, which is planned for 2024.

To enhance customer engagement, the Bank continued to roll out new features and self-service options across its mobile apps and web portals, aiming to create a centralised touchpoint for customer interactions. With the ongoing migration of the Capitol and Deposit web portal, coupled with other innovations such as the implementation of direct debit functionalities in Austria and the rollout of a new customer referral programme, Advanzia continues to improve the user experience for its customers.

2.1.4 Steady growth in customer base

Overall, the Bank exhibited strong loan balance growth in 2023, exceeding the levels achieved in 2022. Furthermore, the number of new active customers also rose considerably, while Advanzia's existing client base at the same time was more active, with increasing transaction volumes per card.

Advanzia welcomed 405 000 new active credit card customers[1]. By the end of the year, Advanzia had a total of 2.6 million credit cards in force[2] and a gross loan balance of MEUR 3 039, with profit after taxes of MEUR 98.

During 2023, the total turnover on all cards reached EUR 6.3 billion or EUR 3 900 per performing active customer[3], while the average loan balance per active customer amounted to approximately EUR 1 700. Advanzia's main income driver, the gross loan balance, amounted to MEUR 3 039 at the end of the year, corresponding to a year-on-year increase of 16.3%.

2.1.5 Product and market development

Advanzia operates Europe-wide, offering its own-branded consumer credit cards to consumers, as well as CaaS white-label loyalty cards and turnkey credit card solutions to business partners and private banks.

Own branded products

During Q1 2023, in line with the market, the Bank began raising the interest rate for new customers in Austria and Germany to ensure continued profitability following increased funding costs and higher loan loss provisions. By the end of the year, Advanzia implemented interest rate adjustments for both new and existing customers in most of its markets, with the adjusted APR depending on regulatory and market conditions, as well as strategic growth expectations.

In **Germany** and **Luxembourg**, the "Gebührenfrei Mastercard Gold" had a total gross loan balance of MEUR 2 463[4] by the end of the year. Both card applications and new active clients continued to surge throughout the year, driven by sustained marketing campaigns.

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[1] New active customers are those 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 in the last month.
[4] The loan balance figures in this chapter also include the co-branded cards.

In **Austria**, customer onboarding for the “free Mastercard Gold” was fully overhauled into an accelerated digital enrolment process. This successful implementation supported growth in the market, partially offsetting the negative impact of limited available digital marketing opportunities. The year ended with a total gross loan balance of MEUR 166.

In **France**, “carte ZERO” sales activities were significantly reduced, with overall performance in line with expectations and a gross loan balance of MEUR 186. Similarly, in **Spain,** the year ended with a total gross loan balance of MEUR 122 for “Tarjeta YOU”. **Italy**, the Bank’s most recent market, reached a gross loan balance of MEUR 36. The Bank will continue to work on increasing profitability, and in particular the credit risk scoring models in these markets, before growth might be increased again.

CaaS

The go-live of the Miles & More credit card in Italy was a particular highlight in the **CaaS co-branding** segment. At the same time, Advanzia secured multiple new co-branded partnerships in Austria (in particular within the travel segment), while the Bank reconfirmed the success of white-label co-branding card solutions in Spain, Italy and France.

The provision of turnkey **CaaS solutions for private banks** and financial institutions continues to be of high strategic relevance. Throughout 2023, the Bank refined its pan-European positioning and conducted a detailed analysis of segment and market needs to finetune and grow its offering of bespoke and modular solutions. Improved service flexibility and tailored product enhancements are priorities for 2024.

At the end of the year, Advanzia serviced close to 100 banks in 11 countries and solidified its position as the leading CaaS provider in Europe.

Advanzia Deposit Account

Besides credit cards, Advanzia also offers an online sight deposit account, the **Advanzia Deposit Account**. Thanks to introductory campaigns for new depositors and loyalty campaigns for its existing customers, the Bank registered a net inflow of MEUR 354, representing a 15.1% growth compared to 2022, while active deposit customers increased to a total of 58 900 accounts.

2.2 Strategic roadmap

2.2.1 Market and product priorities

Regarding product and market development, the Bank has a four-pillar strategy for 2024.

Firstly, Advanzia will continue to optimise and improve growth in its current markets and continue expanding its existing customer portfolio. On multiple occasions in 2023, the Bank reduced its growth in France, Spain and Italy while implementing several initiatives to increase the long-run profitability in these markets, while at the same time retaining focus on Germany and Austria as profitable growth markets.

Secondly, Advanzia will concentrate on enhancing existing product characteristics, exploring potential product diversification through complementary products and revenue streams, offering enhanced value-added services, and pushing cross-/up-sell activities.

Thirdly, Advanzia will build on its strong position as the European go-to bank for its CaaS offering. Various service and product enhancements are in the pipeline to strengthen the offer and to build the Bank's competitive advantage as a well-known and trusted partner for bespoke credit card solutions.

Finally, the Bank will over time continue pursuing opportunities to diversifying across products and markets, while remaining focused on its core competencies of offering credit card and payment products.

2.2.2 Customer centricity and innovation

Advanzia Bank is committed to continue elevating customer centricity in all its markets. By increasingly placing the customer at the core of its operations, Advanzia aims to enhance customer experience and to provide tailored and intuitive self-service digital solutions. Integrating AI-powered solutions is expected to not only streamline processes but also increase efficiency and accuracy, drive operational excellence, and reinforce the Bank's position as a forward-thinking digital bank dedicated to meeting the evolving demands of its customers and business partners.

2.2.3 IT transformation and platform enhancements

Advanzia's cloud-based digital banking platform forms a robust foundation for enhanced digitalisation, product development and customer engagement. The Bank plans to continue investing in its core banking system and back-end infrastructure to ensure the provision of business functionalities necessary to support further growth. The legacy payment processing service of the core banking platform will be replaced by a new standalone platform in 2024-2025, providing continued support for upcoming payment regulations and standards. Several core banking enhancements are also expected to be delivered to bolster growth and reduce low-value customisations.

The rollout of the Data Analytics Workbench through 2023 significantly streamlined the delivery of AI risk models. These API-enabled models were key enablers for the new enrolment processes, reducing the time required to score incoming applications to less than one second in the Austrian market. The expanded rollout of these processes will deliver the same benefits to other consumer and institutional markets during 2024.

The implementation of the data exploration platform has improved data management practices and simplified end users' access to data. The project will be formally completed in 2024 and subsequently rolled out to all end users. At the same time, the Bank will explore additional improvements to the data platform, such as data sandboxing and state-of-the-art data processing.

During 2023, a new vulnerability detection and management platform was implemented, providing a strong cybersecurity foundation. This security posture will be further enhanced during 2024 through the new identity governance and administration service, focusing on rapid, transparent and automated access rights management and re-certification.

Advanzia was not involved in any kind of research or development activities during the year.

2.2.4 Human capital development

Advanzia's continued success is driven by its most valuable asset, the people working for the Bank. At the end of the year, the Bank employed a total of 208 individuals, compared to 195 at the end of 2022.

Throughout 2023, multiple initiatives were launched to foster employee satisfaction, enhance wellbeing and develop skills. This includes for example strengthened employee engagement measures to provide valuable insights into priorities and initiatives for the Bank to formalise and implement.

The Bank's increased focus on human capital development is supported by the move to the carbon-neutral new Emerald building in February 2024 (also located in Munsbach). The planned Well certification, a global rating system that evaluates the performance of buildings in view of sustainability, enhanced health and well-being for its occupants, will make Emerald an environment where "Team Advanzia" can thrive.

2.2.5 Focus on environmental, social and governance (ESG) aspects

Advanzia is committed to maintaining a sustainable and responsible business model that creates value for its customers, employees and stakeholders with stable growth, minimised risk and continued profitability. Harnessing ESG aspects to create sustainable business models is becoming a key value driver complementing Advanzia's ambitious growth strategy.

At the end of 2023, the Bank began work on its first Double Materiality Assessment (DMA), forming the basis for its future ESG strategy. An ESG Committee was set up to raise organisational awareness of the Bank's ESG ambitions, facilitate change, and support the leadership team and employees in embedding ESG and sustainability aspects into their daily work. The committee will also define relevant focus points and strategic pillars, including the publication of a first public ESG report in 2024 alongside the inauguration of the carbon-neutral new office, the Emerald building.

As the Bank takes steps to fully comply with the Corporate Sustainability Reporting Directive's (CSRD) disclosure obligations by the start of 2026, it is increasingly aware that a robust ESG strategy and an established ESG reporting framework provides confidence to potential investors and enhances value for all its stakeholders.

2.3 Economic and business outlook for 2024

During 2023, the economy in Germany, Advanzia's largest market, was the weakest of its euro zone peers, driven by high energy costs, frail global orders and high interest rates. Leading economic institutes reduced their growth expectations to 0.9%, below the 1.4% average for advanced economies in 2024. Weak global growth, in particular in China, coupled with high interest rates are expected to cap demand for German exports, while escalating tensions in the Middle East at the same time further cloud the trade outlook.

In November 2023, retail sales exhibited their largest fall since April 2022, driven by declining internet and mail order sales. Despite this, Advanzia demonstrated its resilience by delivering steady loan balance growth in Q4 2023. The expectation is that the steady loan balance growth will continue throughout 2024.

Loan loss provisions followed the expected trend with recent figures being in line with forecasts. As Germany may still be struggling with slowing economic growth and regaining its footing following the pandemic and energy crisis, the Bank continues to closely monitor the macroeconomic development and receivables performance in all its markets.

Looking ahead, the Bank' business outlook is marked by a dedicated commitment to continue innovating to improve customer experience. Advanzia is targeting continued growth in its core markets Germany and Austria, while retaining a prudent approach in remaining markets in light of their profitability.

The Bank projects a notable increase in net profit for 2024, driven by continued market optimisation, provision of value-added services for its customers, enhanced operational excellence through AI-driven solutions, and a clear focus on data and IT transformation. Furthermore, Advanzia will continue to solidify its position as the go-to bank for CaaS in Europe.

Advanzia has a strong capital position, coupled by diversified funding which was further strengthened by the successful securitisation transaction and AT1 issuance in 2023. This supports Advanzia in delivering continued loan balance and client base growth across all markets. Moreover, the Bank will seek to further diversify its funding sources to support its growth ambitions.

As a responsible corporate entity, Advanzia will intensify its focus on human capital development, nurturing a skilled workforce as intangible assets and core contributors to the Bank’s success. Advanzia’s commitment to environmental, social and governance aspects will be further strengthened, aligning its operations with increased regulatory requirements, enabling a sustainable and responsible business model that, alongside continued profitability, generates a positive impact for all stakeholders.

3 LEADERSHIP

Board of Directors

- Mr. Bengt Arve Rem, Chairperson of the Board, CEO of Kistefos AS, Class C Director
- Dr. Thomas Schlieper, Deputy Chairperson of the Board, Private investor, Seed Director (until 13 April 2023)
- Mr. Eirik Holtedahl, Deputy Chairperson of the Board, Private Investor, Seed Director (since 13 April 2023)
- Mr. Nishant Fafalia, interim CEO of Advanzia Bank S.A. as of 4 May 2023, CEO since 1 January 2024, Class C Director (until 3 March 2024)
- Mr. Tor Erland Fyksen, Private investor, Founder Director
- Mr. Wiljar Nesse, Class C Director
- Mr. Kristian Fredrik Huseby, Class C Director (since 4 March 2024)

Audit, Risk and Compliance Committee

- Mr. Nishant Fafalia, Chairperson (until 31 May 2023)
- Mr. Tor Erland Fyksen, Chairperson (since 31 May 2023)
- Mr. Wiljar Nesse, Member
- Mr. Eirik Holtedahl, Member (since 31 May 2023)

Nomination and Remuneration Committee

- Mr. Bengt Arve Rem, Chairperson
- Mr. Wiljar Nesse, Member (since 31 May 2023)
- Mr. Eirik Holtedahl, Member (since 31 May 2023)
- Mr. Nishant Fafalia, Member (until 31 May 2023)
- Dr. Thomas Schlieper, Member (until 13 April 2023)

3.1 Management Team

Executive Management Committee

- Mr. Roland Ludwig, Chief Executive Officer (until 7 March 2023)
- Mr. Nishant Fafalia, Interim Chief Executive Officer (as of 4 May 2023) and Chief Executive Officer (since 1 January 2024)
- Mr. Kaj Larsen, General Counsel
- Mr. Patrick Thilges, Chief Financial Officer

Management Committee

- Mr. Roland Ludwig, CEO (until 7 March 2023)
- Mr. Nishant Fafalia, Interim CEO (as of 4 May 2023) and CEO (since 1 January 2024)
- Mr. Kaj Larsen, General Counsel
- Mr. Patrick Thilges, Chief Financial Officer
- Mr. Romain Fettes, Chief Technology Officer
- Ms. Linda Früh, Chief Commercial & Product Officer

- Ms. Annemarie Jung, Chief Product Officer (until 4 May 2023)
- Mr. Petrus Johannes (Pieter) Verhoeckx, Chief Customer Relations Officer (until 30 June 2023)
- Mr. Paulo Bastos, Chief Customer Service Officer (since 1 July 2023)

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:

1. The first line of defence consists of business units that take or acquire risks (i.e. “risk-taking” departments) and carry out controls to mitigate those risks;
2. The second line of defence encompasses support functions such as the financial and accounting functions, as well as compliance and risk control functions; and
3. The third line of defence consists of the internal audit function.

To ensure an adequate internal control environment, the Bank has implemented different levels, including specialised committees, operational controls (i.e. day-to-day controls) as well as dedicated internal control functions.

4.1 Specialised committees

The Board of Directors (BoD) is assisted by specialised committees, specifically in the fields of audit, risk and compliance as well as remuneration and appointments or internal governance and professional ethics, according to its needs and considering the organisation, nature, scale and complexity of the Bank’s activities.

The BoD has established an Audit, Risk and Compliance Committee (ARC), responsible for assisting the BoD in the assessment of the internal control framework and a Nomination and Remuneration Committee (NRC), responsible for assisting the BoD in the remuneration domain.

4.2 Operational controls

Operational controls are subdivided into three categories:

1. Day-to-day controls performed by operating staff;
2. Key critical controls, including, inter alia, hierarchical control, validation process, reciprocal control, account balance reconciliation, and compliance checks with internal limits; and
3. Controls performed by the Executive Management Committee (EMC) members over activities and functions that fall under their direct responsibility.

4.3 Internal controls

The Bank has implemented three distinct and independent internal control functions encompassing risk control, compliance and internal audit. The staff in charge of the internal control function report to the EMC, the BoD and the ARC.

The risk control function is responsible for anticipating, identifying, measuring, monitoring, managing and duly reporting on the risks to which the Bank is exposed. The Chief Risk Officer (CRO) heads the risk control function.

The compliance function is responsible for the anticipation, identification, assessment and reporting of compliance risks. It assists the EMC in limiting these risks and providing measures to comply with the applicable laws, regulations and standards. The Chief Compliance Officer (CCO) is the authorised member in charge of the compliance function.

The internal audit function ensures that the internal control framework operates effectively by assessing the efficiency of central administration, internal governance, and business and risk management. The function is headed by the Chief Internal Auditor (CIA), who reports directly to the EMC and has an unrestrictive access to the Chairperson of the BoD and the ARC.

5 SIGNIFICANT EVENTS AFTER THE REPORTING DATE

The Bank will move to a new office, the Emerald building, located at 14, rue Gabriel Lippmann in Munsbach, which entails a change of the Bank's registered office in early March 2024.

The Bank issued a Tier 2 bond of EUR 55 million in February 2024 at the margin of 675 bps over EURIBOR 3-months, payable in quarterly coupons.

The new Board of Directors Member Mr. Kristian Fredrik Huseby replaces Mr. Nishant Fafalia following the approval from CSSF with effect from 4 March 2024.

The Bank is not aware of any significant events after the reporting date which would have a material impact on the 2023 financial statements.

6 FINANCIAL STATEMENTS

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

6.1 Statement of Financial Position as at 31 December 2023

In thousands of EUR

Assets	Note	2023	2022
Cash and cash equivalents	7.7.1	1 188 294	695 188
Loans and advances		2 921 652	2 507 724
whereof: financial institutions	*7.7.2*	*193 342*	*161 347*
whereof: corporates		*12*	*12*
whereof: customers	*7.7.3*	*2 728 298*	*2 346 365*
Property, plant and equipment	7.7.4	4 692	775
Intangible assets	7.7.5	19 422	24 606
Investment securities	7.7.6	50	-
Tax assets	7.6.7	5 668	-
Other assets	7.7.7	15 827	20 153
Total assets		**4 155 605**	**3 248 446**

Liabilities and equity	Note	2023	2022
Amounts owed to financial institutions		37 143	20 689
Amounts owed to customers	7.7.8	2 711 097	2 355 662
Structured financing	7.7.9	836 765	439 426
Tax liabilities	7.6.7	4 742	10 181
Other liabilities	7.7.11	35 678	23 802
Subordinated liabilities	7.7.12	55 000	55 000
Total liabilities		**3 680 425**	**2 904 760**
Subscribed capital	7.7.13.1	17 553	17 553
Issue premiums	7.7.13.1	9 890	9 890
Other equity instruments	7.7.13.2	98 724	58 588
Other reserves	7.7.13.3	41 265	38 359
Profit (loss) carried forward		216 390	162 376
Result for the financial year		97 500	122 412
Interim dividends	7.7.13.4	-	-60 120
Interest paid on Tier 1	7.7.13.2	-6 142	-5 372
Total equity		**475 180**	**343 686**
Total liabilities and equity		**4 155 605**	**3 248 446**

The notes are an integral part of these financial statements.

6.2 Statement of Profit and Loss and Other Comprehensive Income

In thousands of EUR	**Note**	**2023**	**2022**
Financial and operational income and expenses		**432 187**	**398 619**
Interest income	7.6.1.1	474 090	378 008
Interest expenses	7.6.1.2	-89 564	-16 269
Fee and commission income	7.6.2	76 881	63 367
Fee and commission expenses	7.6.2	-25 940	-21 697
Net exchange result		-706	-596
Other operating income	7.6.3	1 852	1 689
Other operating expenses	7.6.3	-4 426	-5 883
Administrative expenses		**-135 450**	**-119 163**
Personnel expenses	7.6.4	-24 581	-22 594
General administrative expenses	7.6.5	-110 869	-96 569
Depreciation and amortisation		**-10 104**	**-9 782**
Depreciation on property, plant and equipment	7.7.4	-1 721	-1 684
Amortisation of intangible assets	7.7.5	-8 383	-8 098
Impairment on intangible assets	7.7.5	-4 631	-
Other loan losses		**-3 936**	**-2 887**
Impairment on financial assets	7.6.6	**-160 406**	**-118 411**
Result on activities before taxes		**117 660**	**148 376**
Income taxes	7.6.7	-20 160	-25 964
Result on activities after taxes		97 500	122 412
Result for the year		97 500	122 412
Other comprehensive income for the year		-	-
Total profit and loss and other comprehensive income for the year		**97 500**	**122 412**

The notes are an integral part of these financial statements.

6.3 Statement of Changes in Equity

For the year ended 31 December 2023

In thousands of EUR

2023	Sub-scribed capital	Issue premiums	Other equity instru-ments	Reserves	Profit carried forward	Net profit or loss for the financial year	Total Equity
Equity balance at 1 January 2023	**17 553**	**9 890**	**58 588**	**38 359**	**162 376**	**56 920**	**343 686**
Allocation to reserves	-	-		8 000		-8 000	-
Allocation to profit brought forward	-	-		-5 094	54 014	-48 920	-
Tier 1 (1)	-	-	40 136				40 136
Interest paid on Tier 1	-	-				-6 142	-6 142
Total profit and loss and other comprehensive income for the year	-	-				97 500	97 500
Equity balance at 31 December 2023	**17 553**	**9 890**	**98 724**	**41 265**	**216 390**	**91 358**	**475 180**

(1) The change in the Tier 1 balance relates to the new additional Tier 1 bond issuance of NOK 500 million and the foreign currency exchange revaluation.

The notes are an integral part of these financial statements.

For the year ended 31 December 2022

In thousands of EUR

2022	**Sub-scribed capital**	**Issue premiums**	**Other equity instruments**	**Reserves**	**Profit carried forward**	**Net profit or loss for the financial year**	**Total Equity**
Equity balance at 1 January 2022	**17 553**	**9 890**	**61 668**	**29 859**	**147 120**	**116 773**	**382 863**
Allocation to reserves	-	-	-	8 500		-8 500	-
Allocation to profit brought forward	-	-	-	-	15 256	-15 256	-
Tier 1 (1)	-	-	-3 080				-3 080
Interest paid on Tier 1	-	-	-			-5 372	-5 372
Dividends (2)	-	-	-			-153 137	-153 137
Total profit and loss and other comprehensive income for the year	-	-	-			122 412	122 412
Equity 31 December 2022	**17 553**	**9 890**	**58 588**	**38 359**	**162 376**	**56 920**	**343 686**

(1) The change in the Tier 1 balance relates solely to the foreign currency exchange evaluation.

(2) The amount includes EUR 93.0 million paid to the shareholders out of the 2021 result and EUR 60.1 million interim dividend paid during 2022.

The notes are an integral part of these financial statements.

6.4 Statement of Cash Flows

In thousands of EUR

Operating activities	Note	2023	2022
Interest, fee and commission receipts	7.6.1.1, 7.6.2	550 971	441 375
Interest, fee and commission payments	7.6.1.1, 7.6.2	-115 504	-37 966
Other receipts		1 852	1 689
Operating payments		-160 036	-151 010
(Increase) decrease in money market placements	7.7.2	-31 995	-18 224
(Increase) decrease in loans to customers	7.7.3	-553 838	-428 394
(Increase) decrease in loans to corporates		-	-
Increase (decrease) in deposits from financial institutions		16 454	-2 786
Increase (decrease) in deposits from customers	7.7.8	355 435	134 405
Increase (decrease) in deposits from corporates		-	-
(Increase) decrease in other assets		4 326	-6 752
Increase (decrease) in tax liabilities		-11 107	-10 197
Increase (decrease) in other liabilities		11 876	875
Net cash flow from operating activities		**68 434**	**-76 985**

Investment activities		2023	2022
Acquisition of plant and equipment and intangible assets	7.7.4, 7.7.5	-8 464	-4 003
Acquisition of investment securities		-170 050	-212 000
Proceeds from sales of investment securities		170 000	212 000
Net cash flow from investment activities		**-8 514**	**-4 003**

Financing activities		2023	2022
Dividend paid to shareholders	7.7.13.4	-	-153 137
Proceeds from Tier 1		44 482	-
Interests paid on Tier 1		-6 142	-5 372
Proceeds from subordinated liabilities		-	-
Proceeds from structured financing	7.7.9	483 804	48 764
Payment made for structured financing	7.7.9	-86 465	-9 536
Principal elements of lease payments		-1 787	-1 526
Net cash flow from financing activities		**433 892**	**-120 807**

Net cash flow		**493 812**	**-201 795**
Opening balance of cash and cash equivalents	7.7.1	695 188	897 579
Effects of exchange rate changes on cash and cash equivalents		-706	-596
Net cash flow for the period		493 812	-201 795
Ending balance of cash and cash equivalents	**7.7.1**	**1 188 294**	**695 188**

The notes are an integral part of these financial statements.

7 NOTES TO THE FINANCIAL STATEMENTS

7.1 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, L-5365 Munsbach, Luxembourg. The Bank is included in the consolidated accounts of Kistefos AS Group forming the largest body of undertakings of which the Bank forms part as a subsidiary undertaking. The consolidated accounts are available at Kistefos' registered office in Dokkveien 1, N-0250 Oslo, Norway. The financial statements of the Bank for the year ended 31 December 2023 were authorised for issue by the Bank's board of directors on 13 March 2024.

7.2 Basis of preparation and summary of accounting principles

7.2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS Standards), as adopted by the European Union.

7.2.2 Basis of measurement

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

7.2.3 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.

7.2.4 Accounting standards

7.2.4.1 Applicable accounting standards and changes in accounting policies

The Bank initially applied the following standards and amendments to standards from 1 January 2023.

Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 Presentation of Financial Statements clarify that the amendment requires entities to disclose their material rather than their significant accounting policies. The amendments define what a 'material accounting policy information' is and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The application date is 1 January 2023. The Bank has applied the requirement in these financial statements.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates.

The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

The application date is 1 January 2023. The amendments have no impact on the Bank.

Amendments to IAS 12 Income Taxes

<u>Deferred tax related to assets and liabilities arising from a single transaction</u>

The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities, and
- decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The application date is 1 January 2023. The amendments have no impact on the Bank.

<u>International tax reform – Pillar Two Model Rules</u>

With the introduction of the OECD Global Anti-Base Erosion Model Rules (“Pillar Two”), top-up tax will arise if a group pays insufficient income tax at a jurisdiction level. In response, the IASB has amended IAS to introduce a temporary mandatory relief from accounting for deferred tax related to top-up tax. The relief is effective immediately and applies retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

In addition, the amendments also introduce new disclosures on information that is known or can be reasonably estimated and that helps users to understand the exposure to Pillar Two income taxes from qualitative and quantities perspective, such as how the Bank is affected by Pillar Two taxes and in which jurisdictions the exposure arises, the proportion of profits that may be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits, or how the average effective tax rate would have changed if Pillar Two legislation had been effective.

The disclosure requirement applies for financial statements from 31 December 2023. The Bank has applied the requirement in these financial statements.

IFRS 17 Insurance Contracts

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

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

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

The application date is 1 January 2023. This standard has no impact on the Bank.

7.2.4.2 New accounting standards issued but not yet effective

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

Amendments to IAS 1 Presentation of Financial Statements

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

The application date is 1 January 2024. The Bank does not anticipate any material impact from these amendments.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial instruments: Disclosures

The amendments introduce additional disclosure requirements for a company to provide information about its supplier finance arrangement that would enable investors to assess the effects of these arrangements on the company's liabilities and cash flows, and the company's exposure to liquidity risk. The supplier finance arrangement in scope should meet all of the following characteristics:

- A finance provider pays amounts a buyer owes its suppliers;
- A company agrees to pay under the terms and conditions of arrangements on the same date or at a later date than its suppliers are paid;
- The company is provided with extended payment terms or suppliers benefit from early payment terms, compared with the related invoice payment due date.

The amendments are effective for periods beginning on or after 1 January 2024 and has no impact on the Bank.

Amendments to IFRS 16 Leases

On 22 September 2022, the IASB issued amendments to IFRS 16, leases, which add to requirements explaining how a company accounts for a sale and leaseback after the date of the transaction. The amendments specify how a seller-lessee would apply the subsequent measurement requirements in IFRS 16 to the lease liability that arises in a sale and leaseback transaction.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024. The Bank does not anticipate any impact from those amendments.

Amendments to IAS 21 - The Effects of Changes in Foreign Exchange Rates

Under IAS 21, a company uses a spot exchange rate when translating a foreign currency transaction. However, in rare cases, it is possible that one currency cannot be exchanged into another. In August 2023, the IASB amended IAS 21 to clarify when a currency is exchangeable to another currency and how a company estimates a spot rate when a currency lacks exchangeability.

The amendments apply for annual reporting periods beginning on or after 1 January 2025. The Bank does not anticipate any impact.

7.3 Material accounting policies

7.3.1 Consolidation

Based on the criteria defined by Luxembourg law, the Bank is exempt from the obligation to draw up consolidated financial statements.

7.3.2 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.

7.3.3 Net interest margin

Interest income and expense are recognised in the Statement of Profit and Loss and Other 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 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.

Interest income and expense presented in the Statement of Profit and Loss and Other 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.

7.3.4 Fees and commissions

Fee and 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.

Fees and commissions received for the provision of banking and similar services (except those arising from the effective interest rate) and revenues from agent services fall under the scope of IFRS 15 Revenues from Contracts with Customers, see the table below for more detail:

Type of commission	Nature & timing of satisfaction of performance obligation	Revenue recognition
Revolving cards	**Interchange fees** Fees paid for the payment transactions at the various vendors / Charged per transaction.	Ongoing service, the fees are recognised to match provision of the service
Revolving cards	**ATM fees** Fees for cash withdrawal.	Recognised when the service is provided
PCS	**Membership fees** Fees paid by partner banks for servicing their cards.	Ongoing service, the fees are recognised to match provision of the service
PCS	**Mark-up fees** Charged for foreign currency conversion.	Recognised when the service is provided
Agent service	**Insurance linked fees** Fees in relation to insurances where Advanzia acts as an agent.	Recognised when the service is provided
Other	**Reminder fees** Fees charged by the Bank each time a client is overdue with the minimum payment requirement.	Recognised when the service is provided

7.3.5 Financial assets and financial liabilities

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

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.

7.3.5.1 Amortised cost measurement

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

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

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

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

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

7.3.5.2 Fair value measurement

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

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

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

- 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.

7.3.5.3 Identification and measurement of impairment

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

For the credit card portfolios in Germany, France, and Austria the Bank developed models: rating models, probability of default (PD), loss given default (LGD) and exposure at default (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 of the use of external data.

ECL and its components

The ECL is applicable to all financial instruments and is composed of the three components: PD, EAD, and LGD. ECL is adjusted with a forward-looking macroeconomic component.

Probability of default (PD)

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

The model used to estimate the PD depends on the type of segment. For the German, French, Austrian and Spanish credit card segments, the PD is estimated through an advanced approach based on regression analysis methodology. For the Italian credit card segments, given the smaller exposure and non-existent historical data that the Bank has towards this market, a simple approach based on missed payments 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 loan defaults, the loss given default represents the relative difference between the asset's carrying amount and the estimated recoverable cash flows. The Standard requires the time value of money to be implemented in the calculation of the ECL. This may be incorporated in the computation of the LGD by discounting the expected cash shortfalls to the reporting date. It specifies that the applicable discount factor should be represented by the effective interest rate.

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

Exposure at default (EAD)

Exposure at default represents the exposure that an instrument has at the time of default. The Standard emphasises 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.

As for the PD and LGD estimations, the EAD model depends on the type of segment. For the German, French, Austrian and Spanish credit card segments, the calculation of EAD rates is based on a linear regression model. For the Italian credit card segments, where the Bank lacks sufficient data, EAD is prudentially taken as the full credit limit of each card.

Three-stage deterioration model and allocation

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

Advanzia has defined its staging criteria as follows:

- Stage 1: The loan is either performing or with less than 30 days past due;
- Stage 2: Significant increase in relative credit risk (SICR) since initial recognition is assessed based on the 2 main triggers:
    - Deterioration of the 12-month PD at initial recognition compared to 12-month PD at reporting date exceeding a defined threshold;
    - Delinquency information – more than 30 days past due but with less than 90 days past due (back-stop)
- Stage 3: The 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-month ECL allowance needs to be recognised. Interest is to be recognised 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. When comparing the 12-month PDs, the SICR threshold is a combination of an absolute and relative percentage calculated based on the statistical analysis (the hypothesis testing applied to the compound theoretical distribution of the initial and current PDs). For stage 2 assets an ECL allowance needs to be recognised and based on the lifetime PD. This change in the PD results in an increased ECL. Interest is recognised on a gross basis.

In case an instrument defaults, it is transitioned to stage 3. For such non-performing loans, ECL is recognised and based on a PD equal to one. Interest is no longer recognised on a gross, but on a net basis. The majority of the Bank’s financial assets will move from stage 2 to stage 3 (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 ECL would not be mitigated by the Bank's normal credit risk management actions. The assessment of the expected lifetime has been conducted based on the historical information and experience of the Bank following the IFRS 9 guidance.

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

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

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

Under IFRS 9, the Bank incorporates forward-looking information into its ECL measurement. A statistical model depending on external key leading indicators has been deployed to estimate the future development of PD. This model is developed on the German market (given that only this market covers a full economic cycle at this point) and applied to the whole portfolio.

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

7.3.5.4 Write-off

As per Bank policy, a credit card loan balance, or parts thereof, shall be written off in the following instances: in case of bankruptcy or death, in case of fraud where the client is not the offender or the offender cannot be identified, and loans whose amount are too low to be sent to collection agencies. Once transferred to a collection agency, a loan can be written off when the agency has decided not to start the collection process in view of the customer's situation, or when the agency received a negative court ruling. The bank also writes off cases that have been in collection for more than 36 months and on which no payment was received for the last six months. The Bank performs a partial write-off (85%) when the case has been classified by the collection agency as a so-called monitoring case; the remaining 15% are written off if no payment is received for the last 2 000 days in that monitoring process. The Bank performs a partial write-off in the case of sold NPL (the write-off amount being the difference between the selling price and the book value).

7.3.5.5 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.

7.3.6 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.

7.3.7 Loans and advances

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

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

Within the Professional Card Service business line, 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 a monthly basis and is settled in total.

7.3.8 Property, plant and equipment

7.3.8.1 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.

7.3.8.2 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	5 years
Right-of-use assets	3-7 years, depending on the contract

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

7.3.9 Intangible assets

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

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

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

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

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

Research and development costs

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

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

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

Software	3-5 years
Core Banking System	7 years
Portfolio acquisition	7 years

7.3.10 Impairment of non-financial assets

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

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

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

7.3.11 Reversal of impairments of non-financial assets

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

7.3.12 Deferred tax

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

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

7.3.13 Deposits, debt securities issued, subordinated liabilities and structured funding

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

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 IFRS 9 and IAS 32. Deposits, debt securities issued, subordinated liabilities and structured funding 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. The Bank has decided not to exercise the fair value option.

7.3.14 Provisions recognised as liabilities

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

7.3.15 Employee benefits

7.3.15.1 Defined contribution plans

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

7.3.15.2 Short-term benefits

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

7.3.16 Share capital and reserves

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

7.3.17 Income tax

Income tax expense comprises current and deferred tax. It is recognised in the Statement of Profit and Loss and Other 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.

The Bank is qualified as a Constituent Entity of the Group and is in the scope of the Pillar Two rules. The Bank has determined that the global minimum top-up tax allocated at the level of the Bank is an income tax in the scope of IAS 12. The Bank has applied a temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and will account for it as a current tax when it is incurred.

7.3.18 Leases

7.3.18.1 Definition of a lease

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

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

7.3.18.2 As a lessee

i. At initial recognition

The Bank recognises a right-of-use asset and a lease liability for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The right-of-use asset is measured at its cost which includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date (less any lease incentives received), any initial direct costs incurred by the Bank; and an estimate of costs to be incurred by the lessee in restoring the underlying asset to the condition required by the terms and conditions of the lease.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. Extension and termination options are included in a number of property leases and they are exercisable only by the Bank and not by the respective lessor. For more details, see Note 7.8.

The lease liability is measured at the present value of the lease payments that are not paid at the reporting date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Bank is using its incremental borrowing rate, being the rate that the Bank would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

ii. Subsequent measurement

The lease liability is measured as follows:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Where the Bank is exposed to potential future increases in variable lease payments based on an index or rate, these are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

7.3.18.3 As a lessor

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

7.3.19 Investment securities

The Bank has elected to account for its investments in securities using the equity method in accordance with IAS 27.

On initial recognition, the investment is recognised at cost.

Subsequently, the carrying amount is increased or decreased to recognise the Bank's share of the profit or loss of the subsidiary after the date of acquisition. Distributions received from the subsidiary should be recognised when the right to receive the dividend is established and reduce the carrying amount of the investment. When the subsidiary's other comprehensive income changes, the carrying amount of the investment should also be changed to recognise the Bank's share. Those changes are recognised in the Bank's other comprehensive income. The carrying amount is further reduced by an impairment charge once potential impairment indicators are identified.

7.4 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.

7.4.1 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 0 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.

7.4.2 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 2023 is included in the following notes:

Note 0 Identification and measurement of impairment: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

Note 8.2.2 Exposures to credit risk and Note 0 Identification and measurement of impairment: key assumptions used in estimating recoverable cash flows.

7.5 Segment reporting

Segment reporting is in accordance with IFRS 8 and seeks to provide information on the business segments in accordance with the Bank's business model based on the internal management reporting. These segments are defined as the product lines that match the organisational structures of the Bank. The segment information is presented in IFRS based on internal reporting to the Executive Management Committee in the way it is reported internally on a monthly basis for performance assessment and for decisions on the allocation of resources to the segments.

Revenues such as interest income and commission income are directly allocated to the segments based on the actual activity. Funding costs are allocated to the segments pro-rata to the loan amounts issued, except for funding costs related to hybrid capital which are entirely allocated to Germany/Luxembourg for retail banking.

Net exchange result is entirely allocated to the corporate banking segment based on actual activity. Other operating profit/loss include other operating income and other operating expenses which are entirely allocated to Germany/Luxembourg for retail banking.

Segment expenses include original expenses, allocated based on activities, as well as other expenses, allocated based on keys decided by management. The loan loss provisions are allocated to the segments based on actual costs.

Loans and advances amounts are allocated to different segments based on actual activity.

7.5.1 Retail banking

Retail banking comprises the issuance of credit cards to private individuals either directly (B2C) or via partnerships (B2B) to which an optional revolving credit facility is attached. This segment is mainly driven by interest income and insurance premiums as customers make use of the revolving credit facility and may opt in on insurance products.

7.5.2 Corporate banking

Corporate banking comprises the issuance of turnkey card issuing and servicing solutions to private banks (PCS business line). This segment is mainly commission-driven, as the Bank invoices various fees to the participating partner banks such as membership fees, transaction-related fees, etc.

7.5.3 Segmentation by region

The Bank’s reporting by geographical segment is performed based on various card programmes offered in the different countries for retail banking business. Corporate banking business is considered as Luxembourg.

In thousands of EUR

Segment 2023	**Retail banking**		**Corporate banking**	**Total**
	Germany & Luxembourg	**Others**	**Luxembourg**	
Interest income	404 117	69 231	742	**474 090**
Interest expenses	-74 655	-12 677	-2 232	**-89 564**
Fee and commission income	47 587	11 865	17 429	**76 881**
Fee and commission expenses	-18 921	-3 366	-3 653	**-25 940**
Net exchange result	-	-	-706	**-706**
Other operating profit/loss	-2 339	-	-235	**-2 574**
Administrative expenses	-105 966	-27 451	-2 033	**-135 450**
Depreciation, amortisation and impairment	-10 606	-267	-3 862	**-14 735**
Other loan losses and ECL on financial assets	-110 155	-54 177	-10	**-164 342**
Result on activities before taxes	**129 062**	**-16 842**	**5 440**	**117 660**
Income taxes	-23 003	4 200	-1 357	**-20 160**
Result on activities after taxes	**106 059**	**-12 642**	**4 083**	**97 500**

Loans and advances to partner banks	-	-	67 532	**67 532**
Loans and advances to customers	2 314 597	413 701	-	**2 728 298**

In thousands of EUR

Segment 2022	**Retail banking**		**Corporate banking**	**Total**
	Germany & Luxembourg	**Others**	**Luxembourg**	
Interest income	327 063	50 862	83	**378 008**
Interest expenses	-14 046	-1 841	-382	**-16 269**
Fee and commission income	39 940	7 872	15 555	**63 367**
Fee and commission expenses	-15 675	-2 813	-3 209	**-21 697**
Net exchange result	-	-	-596	**-596**
Other operating profit/loss	-4 179	-	-15	**-4 194**
Administrative expenses	-92 962	-24 276	-1 925	**-119 163**
Depreciation and amortisation	-5 609	-311	-3 862	**-9 782**
Other loan losses and ECL on financial assets	-89 457	-31 820	-21	**-121 298**
Result on activities before taxes	**145 075**	**-2 327**	**5 628**	**148 376**
Income taxes	-25 386	407	-985	**-25 964**
Result on activities after taxes	**119 689**	**-1 920**	**4 643**	**122 412**

Loans and advances to partner banks	-	-	76 343	**76 343**
Loans and advances to customers	1 988 692	357 673	-	**2 346 365**

7.6 Notes to the statement of profit and loss and other comprehensive income

7.6.1 Net interest income

7.6.1.1 Interest income

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

In thousands of EUR

Interest income	2023	2022
Financial institutions	30 278	2 697
Of which: Interest received on balances held with the Central Bank of Luxembourg (BCL)	27 327	1 798
Customers	443 822	375 311
Total interest income	**474 090**	**378 008**

Interest income is charged on loans to customers based on the effective interest rate method. Out of this interest income, TEUR 6 554 is interest related to stage 3 exposures. This interest income is recognised net of applicable impairments to the loans.

7.6.1.2 Interest expenses

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

In thousands of EUR

Interest expenses	2023	2022
Financial institutions	-314	-2 008
Of which: Negative Interest paid on balances held with the Central Bank of Luxembourg (BCL)	-	-1 341
Customer deposits	-61 069	-6 551
Subordinated liabilities	-5 242	-3 349
Structured financing	-22 830	-4 317
Interest expenses on lease liability	-109	-44
Total interest expenses	**-89 564**	**-16 269**

7.6.2 Net fee and commission income

The following table includes the fees and commissions from contracts with customers in the scope of IFRS 15 disaggregated by major type of product as well as the residual category for other fees and commissions.

In thousands of EUR

Product type	2023 Income	2023 Expenses
Revolving cards	18 289	-20 873
PCS	15 388	-3 583
Agent service	25 548	-1 484
Other	17 656	-
Total fee and commission income / expenses	**76 881**	**-25 940**

In thousands of EUR

Product type	2022 Income	2022 Expenses
Revolving cards	15 093	-17 612
PCS	13 761	-3 162
Agent service	22 076	-923
Other	12 437	-
Total fee and commission income / expenses	**63 367**	**-21 697**

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

Fee and commission expenses include account handling fees paid to banks as well as miscellaneous fees paid to the credit card schemes.

7.6.3 Other operating income/expenses

Other operating income comprises all income not recorded elsewhere. Other operating expenses is mainly composed of the contribution to the Luxembourgish deposit insurance scheme (FGDL).

7.6.3.1 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 will reach by the end of 2024 at least 1% of covered deposits, as defined in article 1 number 36 of the Law, of all authorised credit institutions in all participating Member States. This amount will be collected from the credit institutions through annual contributions by the end of the year 2024.

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

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

For 2023 the Bank paid EUR 2.8 million to FGDL (2022: EUR 3.7 million).

7.6.4 Personnel expenses

Personnel expenses include wages and salaries, social security and other expenses. In addition, some employees participate in a defined pension insurance contribution plan. The Bank's cost for this pension plan and the applicable taxes in 2023 was TEUR 461 (2022: TEUR 404), which was included in the wages and salaries. All pension contributions are either paid in or provisioned.

In thousands of EUR

Personnel expenses	**2023**	**2022**
Wages and salaries	19 892	19 446
Social security contributions	2 154	1 952
Other personnel expenses	2 535	1 196
Total personnel expenses	**24 581**	**22 594**

7.6.5 General administrative expenses

General administrative expenses include card acquisition costs (costs to onboard new customers) such as marketing expenses, card operating costs (variable operational expenses to manage the customers) such as card processing expenses, call centre costs, as well as other administrative costs such as IT expenses, consultancy, legal, premise and office expenses.

In thousands of EUR

General administrative expenses	**2023**	**2022**
Card acquisition costs	52 150	47 270
Card operating costs	38 993	33 254
Other administrative expenses	19 726	16 045
Total general administrative expenses	**110 869**	**96 569**

7.6.6 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	**2023**	**2022**
Net (loss)/gain from impairment	-53 091	-26 931
Write-offs	-107 315	-91 480
Total impairments	**-160 406**	**-118 411**

The Bank is assessing the total impairment on credit card loans on an individual customer basis. Total impairment includes ECL estimated using the Bank's ECL methodology (please see 7.3.5.3 for the ECL policy), expected recoveries of delinquent loans, and any written exposures during the year.

7.6.7 Income taxes

The Bank is subject to taxation in Luxembourg. The corporate income tax (CIT) rate was 17% in 2023. 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

Income taxes	**2023**	**2022**
Result on activities before taxes	117 660	148 376
Aggregate tax rate	24.94%	24.94%
Theoretical income tax	**29 344**	**37 005**
Tax impact of exempt income	-7 844	-9 781
Tax impact of Tier 1 interest	-1 532	-1 340
Other regularisations	191	80
Effective income tax	**20 160**	**25 964**
Effective income tax rate	**17%**	**18%**

As at 31 December 2023, the Bank has tax assets of EUR 5.7 million from the overpayment of 2023 income tax and tax liabilities of EUR 4.7 million. During the year 2023, the Bank paid income tax for the year 2021 of EUR 7.6 million and for the year 2022 of EUR 3.4 million. The Bank also received reimbursement of income tax for the year 2019 of EUR 1.4 million.

Exempt income refers to the income received from short-term liquidity investments.

As at 31 December 2023, there are no deferred tax liabilities or assets.

With the new legislation to implement Pillar Two in Luxembourg, the Bank does not expect any negative impact in relation to its operations. Given that the Pillar Two legislation applies for fiscal year starting on or after 31 December 2023, there is no current tax impact for the year ended 31 December 2023.

The Bank has applied a temporary mandatory relief from deferred tax accounting for the impacts on the top-up tax and accounts for it as a current tax when it is incurred. If the top-up tax had applied in 2023, the Bank does not see any change on its effective tax rate.

7.7 Notes to the Statement of Financial Position

7.7.1 Cash and cash equivalents

In thousands of EUR

Cash and cash equivalents	2023	2022
Balances with central banks	1 157 673	634 346
Nostro account balances with financial institutions	30 621	60 842
Balance at 31 December	**1 188 294**	**695 188**

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. Nostro accounts are unrestricted balances with financial institutions available on demand. The Bank holds no cash at hand.

The carrying amount of the cash and cash equivalents is a reasonable approximation of their fair value due to the short-term nature of the balances.

7.7.2 Loans and advances and amounts owed to financial institutions

In thousands of EUR

Loans and advances to financial institutions	2023	2022
Available on demand	67 532	76 338
Money market placements	125 810	85 009
Balance at 31 December	**193 342**	**161 347**

Money market placements are term deposits with other financial institutions (banks).

The Bank has three term deposits of NOK 1 125 million (225 million, 400 million and 500 million respectively) with a revolving maturity of three months (2022: NOK 625 million). Before the end of every three-month period the amount gets revolved with the new conditions agreed upon. The amount equivalent to USD 65.2 million is pledged as collateral for a guarantee in favour of Mastercard.

Since the end of May 2021, Advanzia benefits from an overdraft facility with ING Belgium SA/NV, which provides the Bank access to short term financing in multiple currencies (EUR, USD, GBP, CHF, NOK and SEK) up to an amount equivalent to EUR 25 million. This credit line is secured by a cash deposit of EUR 25 million and mainly used to perform the daily settlements denominated in foreign currency with the credit card schemes (Visa and Mastercard). At balance sheet date, the Bank's liability in relation to overdraft is EUR 16.3 million (2022: EUR 19 million).

7.7.3 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	**2023**	**2022**
Credit card loans to retail customers	2 971 303	2 536 279
ECL	-243 005	-189 914
Balance at 31 December	**2 728 298**	**2 346 365**

In thousands of EUR

Allowances for ECL	**2023**	**2022**
Balance at 1 January as reported	189 914	162 976
Charge for the year	160 406	118 411
Write-offs (net of recoveries)	-107 315	-91 473
Balance at 31 December	**243 005**	**189 914**

The carrying amount of the loans and advances to customers is a reasonable approximation of their fair value due to the short-term nature of the balances.

In the period between August 2018 and June 2020, and from July 2021 to June 2023, Advanzia was selling 75% and 80% respectively, of its monthly non-performing loans in the German market. Following the expiration of the sales contract in June 2023, a new agreement was reached to sell German market non-performing loans equating to 35% of the total monthly volumes for a period of one year from July 2023 to June 2024. Respective gains from these sales are not significant as the sale price is close to the carrying value.

A part of the Bank's loan portfolio is encumbered as further detailed in the Note 7.7.9 (under the securitisation transaction).

7.7.4 Property, plant and equipment

In thousands of EUR

Cost	Right-of-use assets	IT equipment	Fixtures and fittings	Total
Balance at 1 January 2023	**6 527**	**3 977**	**1 589**	**12 093**
Acquisitions	4 933	34	1 247	6 214
Disposals	-6 527	-5	-642	-7 174
Balance at 31 December 2023	**4 933**	**4 006**	**2 194**	**11 133**
Balance at 1 January 2022	**6 356**	**3 951**	**1 587**	**11 894**
Acquisitions	171	26	2	199
Disposals	-	-	-	-
Balance at 31 December 2022	**6 527**	**3 977**	**1 589**	**12 093**

Accumulated depreciation				
Balance at 1 January 2023	**5 922**	**3 867**	**1 529**	**11 318**
Depreciation for the period	1 582	72	67	1 721
Disposals	-6 452	-1	-145	-
Balance at 31 December 2023	**1 052**	**3 938**	**1 451**	**6 441**
Balance at 1 January 2022	**4 438**	**3 763**	**1 433**	**9 634**
Depreciation for the period	1 484	104	96	1 684
Disposals	-	-	-	-
Balance at 31 December 2022	**5 922**	**3 867**	**1 529**	**11 318**
Carrying amount at 31 December 2023	**3 881**	**68**	**743**	**4 692**
Carrying amount at 31 December 2022	**605**	**110**	**60**	**775**

7.7.5 Intangible assets

In thousands of EUR

Cost	Purchased software	Portfolio Acquisition[1]	Total
Balance at 1 January 2023	31 848	24 677	56 525
Acquisitions / additions	7 830	-	7 830
Balance at 31 December 2023	39 678	24 677	64 355
Balance at 1 January 2022	26 518	24 677	51 195
Acquisitions / additions	5 330	-	5 330
Balance at 31 December 2022	31 848	24 677	56 525

Accumulated amortisation	Purchased software	Portfolio Acquisition	Total
Balance at 1 January 2023	19 415	12 504	31 919
Amortisation for the period	4 638	3 745	8 383
Balance at 31 December 2023	24 053	16 249	40 302
Balance at 1 January 2022	15 063	8 758	23 821
Amortisation for the period	4 352	3 746	8 098
Balance at 31 December 2022	19 415	12 504	31 919
Impairment[2]	**4 631**	**-**	**4 631**
Carrying amount at 31 December 2023	**10 994**	**8 428**	**19 422**
Carrying amount at 31 December 2022	**12 433**	**12 173**	**24 606**

(1) On 29 March 2020, the Bank acquired card servicing operations of Catella Bank for consideration of TEUR 24 677. The remaining amortisation period is 3 years (until 31 March 2026).
(2) Given the business decision on developing a new online banking app and portal, the Bank decided to recognise an impairment on its intangible asset relating to its current online banking platform.

In accordance with IAS 36, the Bank performed an annual review of the acquired card servicing operations for impairment at the end of the reporting period. The review concludes that the expected overall performance was better than the initial business case, despite revenues in 2020-2021 having been negatively affected by the COVID-19 pandemic and the funding costs by the sharp rise of the market lending rates since 2023. This is mainly attributable to the better development of the client base than the initial business case as well as the strong rebound of card activities of the individual PCS cardholders. Further, the development benefits from the monetary support from customer agreements with Visa and Mastercard and significantly better fraud loss performance. These positive factors will more than offset revised operating costs and higher expected funding costs going forward.

7.7.6 Investment securities

In 2023, the Bank has subscribed to preferred shares representing a cell ("the Cell") in a Bermuda segregated accounts company, Agent Alliance Reinsurance Company, Ltd. (the "SAC").

Under the Bermuda law, the Cell conducts an independent reinsurance business, has its own segregated accounts within the SAC, and is insulated from the liabilities and debts of each other cell and the SAC's general account. A separated class of shares is established for the cell and represents an interest only in one particular cell of the SAC.

The Cell is principally engaged in the reinsurance business under the licence of the SAC. The Cell's aim is to reinsure the risks assumed by the main insurer for the payment protection insurance products sold to the Bank's credit card customers.

The Bank uses the equity method to account for its investment in the Cell. As at 31 December 2023, the balance represents the original investment cost of the Cell.

7.7.7 Other assets

In thousands of EUR

	2023	**2022**
Mastercard Receivable	4 882	3 493
Insurance commission receivables	6 595	11 473
Prepaid administrative expenses	4 127	3 899
Receivable from suppliers	-	1 042
Sundry	223	246
Balance at 31 December	**15 827**	**20 153**

The carrying amount of the other assets is a reasonable approximation of their fair value due to the short-term nature of the balances.

7.7.8 Amounts owed to customers

All amounts due to customers are 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).

7.7.9 Structured financing

As of 31 December 2023, the balance is composed of the deemed loan towards the Securitisation Special Purpose Vehicle (SSPV), more details about the transaction are provided in the Note 7.7.10. The balance includes the following:

In thousands of EUR

	2023	**2022**
Funding received from SSPV	1 000 011	523 151
Finance charges collections payable	17 276	10 332
less		
Junior notes issued	-150 395	-81 301
Subordinated debt	-13 630	-4 332
Excess spread	-13 397	-6 069
Servicing fees receivable	-1 745	-1 067
Transaction costs	-1 355	-1 288
Balance at 31 December	**836 765**	**439 426**

The deemed loan towards the SSPV comprises:

- Consideration received for the credit card loan receivables originated by the Bank and legally sold to the SSPV and finance charges collections payable to the SSPV less
- Junior notes issued by the SSPV to finance the purchase of the credit card loan receivables subscribed by the Bank;
- Subordinated debt provided by the Bank to the SSPV in order to finance the formation of the cash reserve to be held by the SSPV at all times in order to ensure sound liquidity position and provide additional credit enhancement in case of degraded loan portfolio performance;
- Estimated excess spread to be returned to the Bank representing the “residual” income generated from the credit card loan portfolio after deducting all relevant interest and other charges according to the priority of payments;
- Other components such as servicing fees receivable and transaction costs.

According to IFRS 9, the funding provided to the SSPV and the excess spread do not qualify for recognition as separate assets and they are an integral part of the deemed loan towards the SSPV and the securitised assets remain on the Bank’s balance sheet.

Following the upsize of the securitisation facility to EUR 1 billion in November 2023, the maturity of the deemed loan, initially falling in November 2024, was extended until 15 May 2026. This date corresponds to the end of the revolving period of the securitisation warehouse.

Compliance with loan covenants

The Bank has complied with the covenants attached to the secured funding during 2023, these are also known as early amortisation events, which would trigger the early repayment of the funding raised.

At the end of 2023, the main early amortisation events are as follows:

- securitised credit card loans portfolio balance falls below 10% of the initially transferred amount;
- the delinquency ratio of the securitised credit card loans portfolio exceeds 5%;
- the default ratio of the securitised credit card loans portfolio exceeds 2.5%;
- the yield ratio of the securitised credit card loans portfolio is below the greater of 11%+1-month Euribor and 13%;
- the cash reserve falls below 1.6% of the nominal amount of the senior notes, subject to a EUR 1 million floor;
- the minimum total capital ratio has been breached.

Other necessary requirements relate to the due and proper performance by the Bank, its functions as a servicer and originator of the loan as well as requirements attached to the SSPV itself in relation to the cash reserve.

7.7.10 Securitisation programme

In 2021, the Bank diversified its funding sources via a securitisation programme. This secured financing transaction included the legal true sale of a portfolio of 'Loans and advances to customers' to the Securitisation Special Purpose Vehicle – Advanzia Invest S.à r.l – issuing notes to finance this transaction. The securitisation facility initially provided senior funding for an amount up to EUR 475 million. In 2023, the senior funding was increased to an amount up to EUR 1 000 million.

Advanzia intends to always remain above 80% utilisation ratio but did not fully draw the facility limit at closing so that the senior funding amount can be further increased and the Bank has some contingent funding reserves available in the meantime. The Bank has committed to provide the junior funding to the SSPV at minimum of 15% of the total funding raised by the SSPV as well as to subscribe for seller notes up to EUR 10 million (ranking pari pasu to senior notes as long as no early amortisation events occurred) if senior notes are fully consumed.

This is a revolving securitisation structure, meaning that the Bank may continue to sell new eligible assets originated over an agreed period of time called the revolving period, and obtain funding from the transaction investors. In the event that a contractual commitment is not renewed at the end of the revolving period, all loans securitised at the point of non-renewal remain funded, and the related debt is repaid as the loans liquidate. The revolving period ends on 15 May 2026, unless an early amortisation event occurs, these include, among others, insolvency of the Bank, credit losses or delinquency levels on the pool of securitised assets exceeding specified limits, payment rates or yield on the wholesale assets falling below agreed thresholds, and credit enhancement features not maintained at required levels.

Retained interests

The Bank retained junior and subordinated funding tranches as well as it is entitled to receive an excess spread, which provide credit enhancement to the senior noteholders. Through these exposures, the Bank substantially retains risks attached to the securitised credit card loans portfolio as well as the right to variable returns. As a result, the Bank has entered into a transfer of financial assets (as described in IFRS 9 'Financial

Instruments') that does not qualify for de-recognition of the underlying assets and therefore the Bank continues to recognise the carrying value of all securitised assets within its Statements of Financial Position.

For regulatory reporting, these assets are also reported as encumbered.

Continuing obligations

The Bank has no obligation (but has a right if so wished) to repurchase any securitised asset that subsequently becomes ineligible or otherwise is in default. Securitisation investors have no recourse to the Bank or the Bank's other assets for credit losses on the securitised assets and have no right to require the Bank to repurchase their investments. The Bank has no obligation to provide liquidity or make monetary contributions to the SSPV due to the performance of the securitised assets other than direct credit enhancements contracted via junior notes, cash reserve and the excess spread.

The Bank has an obligation to replace assets assigned to the SSPV further to wrong representations (e.g. eligibility criteria were not fulfilled upon initial designation). Additionally, the Bank continues to service the credit card loan receivables, for which it receives a fee from the SSPV. The Bank has no right to sell or repledge the securitised assets in case it experiences financial difficulties.

The table below provides details of the carrying and fair values of both the transferred assets that are not derecognised and the associated liabilities as of 31 December 2023:

In thousands of EUR

	Carrying value	Fair value
Loans and advances to customers (1)	1 056 766	1 056 766
Structured financing (2)	-836 765	-836 765
Net balance at 31 December 2023	**220 001**	**220 001**
Loans and advances to customers (1)	551 818	551 818
Structured financing (2)	-439 426	-439 426
Net balance at 31 December 2022	**112 392**	**112 392**

(1) The carrying amount of the credit card receivables is a reasonable approximation of their fair value due to the short-term nature of the balances.

(2) The carrying amount of the deemed loan towards the SSPV is a reasonable approximation of their fair value considering that:

- There is a significant yield spread between the return on the securitised assets (>20% p.a.) and the senior notes funding costs (<4% p.a.);
- No breach of any early amortisation triggers is observed, allowing for a significant excess spread receivable each month;
- the structure is revolving, meaning that there is a monthly replenishment of the underlying assets portfolio with new eligible assets.

7.7.11 Other liabilities

In thousands of EUR

	2023	2022
Preferential creditors	847	802
Other accruals	29 987	21 670
Other liabilities	927	663
Lease liabilities	3 917	667
Balance at 31 December	**35 678**	**23 802**

Preferential creditors include liabilities towards public authorities such as salary 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.

7.7.12 Subordinated liabilities

In November 2019, the Bank issued a floating rate Tier 2 callable bond of EUR 25 million and a tenor of 10 years. The bond carries a coupon of 3 months EURIBOR (zero-floored) + 600bps per annum.

In March 2021, the Bank issued a floating rate Tier 2 callable bond of EUR 30 million and a tenor of 10 years. The bond carries a coupon of 3 months EURIBOR (zero-floored) + 525bps per annum.

The Tier 2 bonds are listed on Nordic ABM as well as the Frankfurt Open Market and callable on each payment day (quarterly) starting five years after the disbursement day, subject to prior approval by the competent authority.

7.7.13 Equity

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

7.7.13.1 Subscribed capital and issue premiums

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

In thousands of EUR

Date	Subscribed capital	Issue premiums	Issued voting shares	Issued non-voting shares
1 January 2023	17 553	9 890	210 210	-
31 December 2023	17 553	9 890	210 210	-

As at 31 December 2023 and 2022, 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 2023, the authorised management held no shares in Advanzia Bank S.A as well as the Bank held no own shares.

7.7.13.2 Other equity instruments

In July 2019, the Bank issued a perpetual Tier 1 bond of NOK 225 million. A coupon is paid quarterly with the rate of NIBOR 3M (zero-floored) + 7.0% p.a.

In March 2021, Advanzia issued a further perpetual hybrid Tier 1 bond of NOK 400 million. A coupon is paid quarterly with the rate of NIBOR 3M (zero-floored) + 7.0% p.a.

In December 2023, Advanzia issued a third perpetual hybrid Tier 1 bond of NOK 500 million. A coupon is paid quarterly with the rate of NIBOR 3M (zero-floored) + 8.5% p.a.

The Bank paid TEUR 6 142 to Tier 1 bondholders during 2023 as distribution. The Bank can cancel distributions at any time.

The bonds are listed on Nordic ABM as well as the Frankfurt Open Market and callable by Advanzia with the first call option 5 years after issuance subject to prior approval by the competent authority.

7.7.13.3 Reserves

In 2023 Advanzia Bank S.A. allocated TEUR 8 000 of the 2022 profits to a reserve according to Luxembourg tax law and released TEUR 5 094 from reserves to profit carried forward. The reserves are composed of legal reserves of TEUR 1 755 and the reserve for the reduction of the net wealth tax of TEUR 39 510.

As of 31 December 2023, the legal reserve was fully formed.

7.7.13.4 Dividends

No dividend was distributed during the year ending 31 December 2023.

7.8 Leases

7.8.1 Leases as lessee

The Bank leases a number of properties relating to its office premises located on 9 Rue Gabriel Lippmann L- 5365 Munsbach and vehicles provided to employees. Leases relating to office premises contain an option to renew after upon expiration. The Bank has renewed the contract for another three years till June 2026.

However, as relocation is planned in 2024, the Bank is actively looking for new tenants for the current office premises. For some lease agreements, lease payments may require adjustments to reflect changes in price indices.

7.8.2 Extension options

The Bank has extended the lease for the current office premises for another three years till June 2026. Therefore, the Bank has updated the lease term based on which the lease liability is calculated.

7.8.3 Maturity analysis of lease liabilities

As at 31 December 2023, the undiscounted maturity analysis of lease liabilities is as follows:

In thousands of EUR

	Carrying amount	Minimum lease payments due	Less than 1 year	1-2 years	2-3 years	3-5 years	More than 5 years
Lease liability	**3 917**	**4 102**	1 669	1 619	803	11	-
Total	**3 917**	**4 102**	1 669	1 619	803	11	-

7.9 Auditor's fees

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

In thousands of EUR

	2023	2022
Audit fees	194	223
Audit related fees	76	41
Tax services	82	71
Total fees (excl. VAT)	**352**	**335**

7.10 Staff

Average number	2023	2022
Management Committee	6	7
Employees (fulltime equivalent)	186	181
Total	**192**	**188**

In 2023, the Bank had on average 192 employees (FTE), including the Management Committee.

7.11 Related parties

7.11.1 Parent and ultimate controlling party

Kistefos AS, Norway retained majority control of the shares during the year ended 31 December 2023.

7.11.2 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

	2023	2022
Remuneration	3 401	3 267
Pensions	269	198
Loans	34	24
Other commitments	50	67

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

In thousands of EUR

	2023	2022
Remuneration	119	108
Pensions	-	-
Loans	12	4
Other commitments	30	40

Additionally, during the period, Kistefos AS associates and their immediate relatives have transacted with the Bank with loans amounting to TEUR 11 and other commitments amounting to TEUR 310.

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.

ECL was applied, but no material 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.

7.11.3 Transactions with other related parties

The Bank is executing a control over the SSPV – Advanzia Invest S.à r.l – for the purpose of raising a structured financing. For more details about the transaction and associated balances, please see Notes 7.7.9. and 7.7.10.

The Bank has invested in a cell in Agent Alliance Reinsurance Company, Ltd., who will reinsure the risks for the PPI products sold to the Bank's credit card customers. Please see notes 7.7.6 for details.

7.12 Significant events after the reporting date

The Bank will move to a new office, the Emerald building, located at 14, rue Gabriel Lippmann in Munsbach, which entails a change of the Bank's registered office in early March 2024.

The Bank issued a T2 bond of EUR 55 million in February 2024 at margin of 675bps over EURIBOR 3-months, payable in quarterly coupons.

The new Board of Directors Member Mr. Kristian Fredrik Huseby replaces Mr. Nishant Fafalia following the approval from CSSF with effect from 4 March 2024.

The Bank is not aware of any significant events after the reporting date which would have a material impact on the 2023 financial statements.

8 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 2023 and as of 31 December 2022.

8.1 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
- external fraud risk
- liquidity risk
- market risks
- operational risks
- outsourcing risk
- income risk
- reputation 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) and Internal Liquidity Adequacy Assessment Process (ILAAP).

8.2 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).

8.2.1 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 Risk Modelling 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 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.

8.2.2 Exposure to credit risk

In thousands of EUR	Loans and advances to customers		Loans and advances to financial institutions	
Collectively impaired	**2023**	**2022**	**2023**	**2022**
Stage 3 (impaired)	231 155	186 041	-	-
Gross amount	**231 155**	**186 041**	**-**	**-**
Allowance for impairment	-157 160	-127 518	-	-
Carrying amount	**73 995**	**58 523**	**-**	**-**

Past due but not impaired	2023	2022	2023	2022
Stage 2	593 865	511 874	-	-
Gross amount	**593 865**	**511 874**	**-**	**-**
Allowance for impairment	-59 969	-42 287	-	-
Carrying amount	**533 896**	**469 587**	**-**	**-**

Neither past due nor impaired	2023	2022	2023	2022
Stage 1	2 146 290	1 838 364	193 349	161 354
Gross amount	**2 146 290**	**1 838 364**	**193 349**	**161 354**
Allowance for impairment	-25 883	-20 109	-7	-7
Carrying amount	**2 120 407**	**1 818 255**	**193 342**	**161 347**

Carrying amount - amortised cost	**2 728 298**	**2 346 365**	**193 342**	**161 347**

In addition to the above, on the off-balance sheet the Bank has an amount of EUR 6 513 million as undrawn commitments (2022: EUR 5 813 million), which originates from credit card clients being neither past due nor impaired. The undrawn commitment is no longer available as soon as the customer is classified as Stage 2 or 3.

Also following the set-up of the securitised funding, the Bank has commitment for the following items:

Undrawn junior notes – TEUR 28 139 at the end of 2023 (TEUR 13 940 at the end of 2022);
Undrawn seller notes – TEUR 10 000 at the end of 2023 (TEUR 10 000 at the end of 2022);
Undrawn subordinated debt – TEUR 2 400 at the end of 2023 (TEUR 690 at the end of 2022).

See also Note 0 regarding definitions and accounting policies for impaired loans, Note 7.4 regarding judgements and estimates, as well as note 7.6.6 regarding impairments on financial assets and Note 7.7.3 regarding loans and advances to customers.

Loss allowance

Loss allowance is calculated as a weighted average of three scenarios. In 2022, these scenarios were: one baseline scenario which is forecasted using macro-economic information from statistical databases of the EBA and Eurostat, one negative scenario based on the year with the highest result, and one positive scenario based on the year with the lowest result for the Bank in terms of losses.

In 2023, these scenarios were changed to: a baseline forecasted scenario as per 2022, a negative forecasted scenario based on stressed macro-economic information and in particular stress to inflation, GDP and interest rates, and a positive forecasted scenario, opposite to the negative one, with improved macro-economic information and in particular inflation, GDP and interest rates. These are now weighted respectively 60%, 25% and 15%.

	2023			2022		
On 31st December	**Positive**	**Neutral**	**Negative**	**Positive**	**Neutral**	**Negative**
Scenario probability weighting	15%	60%	25%	5%	90%	5%

Loss allowance sensitivity analysis to macro scenarios

In thousands of EUR

	2023			
On 31st December	**Positive**	**Neutral**	**Negative**	**Weighted**
Stage 1	19 816	24 707	30 258	25 876
Stage 2	44 887	57 174	69 711	59 969
Stage 3	156 558	157 390	158 340	157 590

The change of loss allowance is due to change of credit quality of the existing portfolio, which results in the sum of all transfers to stages and without transition. The change of loss allowance due to new issuing of cards equals to the sum of the “new issued” row. The change of loss allowance due to write-offs of existing NPL equal to the sum of the “write-offs” row.

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

In thousands of EUR

	2023		
Amounts arising from ECL	**Stage 1**	**Stage 2**	**Stage 3**
Opening ECL	20 109	42 287	127 518
Transfers to Stage 1	10 841	-10 589	-252
Transfers to Stage 2	-3 095	3 668	-573
Transfers to Stage 3	-1 258	-9 253	10 511
New issued	5 909	10 210	9 227
Write-offs	-421	-6 221	-68 860
Remeasurement	-6 209	29 867	77 588
Interest adjustment	-	-	2 431
Closing ECL	**25 876**	**59 969**	**157 590**

In thousands of EUR

	2022		
Amounts arising from ECL	**Stage 1**	**Stage 2**	**Stage 3**
Opening ECL	**20 794**	**26 504**	**115 678**
Transfers to Stage 1	6 454	-6 025	-429
Transfers to Stage 2	-2 952	3 403	-451
Transfers to Stage 3	-799	-5 262	6 061
New issued	3 636	8 955	2 947

Write-offs	-760	-4 721	-39 409
Remeasurement	-6 264	19 433	47 965
Interest adjustment	-	-	-4 844
Closing ECL	**20 109**	**42 287**	**127 518**

The inflow into one Stage is amount wise not equal to the transfers from the other stages. This is due to the fact that every stage has a different probability of default and thus a different Expected Credit Loss, so an ECL Transfer from Stage 2 in benefit of Stage 1 will result in a lower Increase of the ECL in Stage 1 because the Expected credit loss for Stage 1 exposures is lower.

COVID-19 Pandemic in the context of ECL

The Removal of restrictions across Europe returned turnover and transaction trends as they were before 2020.

8.2.3 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 8.2.6 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 monitoring is focused on the balance sheet position of the customers, considering that based on the historical conversion rates not all undrawn commitment is utilised on a monthly basis as well as according to the Bank's business model, as soon as the customer is classified as Stage 2 or 3, the unused credit limit is no longer available.

The exposure by location as of 31 December 2023 is as follows:

In thousands of EUR	**Loans and advances to customers**		**Loans and advances to financial institutions**		**Loans and advances to Corporates**	
Concentration by sector	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Banks	-	-	193 342	161 347		-
Retail	2 728 298	2 346 365		-		-
Corporates		-		-	12	12
Total 31 December	**2 728 298**	**2 346 365**	**193 342**	**161 347**	**12**	**12**

Concentration by location	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Germany	2 361 341	1 962 198	34	-		-
Luxembourg	29 223	26 569	122 886	97 013	12	12
France	121 476	144 751	1 189	1 902		-
Austria	123 157	135 296	1	-		-
Spain	74 365	72 873	2	1		-
Other countries	18 736	4 678	69 230	62 431		-
Total 31 December	**2 728 298**	**2 346 365**	**193 342**	**161 347**	**12**	**12**

8.2.4 Trading assets

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

8.2.5 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.

8.2.6 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 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 (as amended) on prudential requirements for credit institutions and Regulation (EU) N°2021/451 on supervisory reporting.

8.3 External fraud risk

Credit cards may be subject to fraudulent misuse, which usually can be categorised into application fraud (where the identity of the cardholder 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 to identify and mitigate fraud losses. The credit card related fraudulent activity in 2023 resulted in a loss of TEUR 1 606 (TEUR 1 614 in 2022) which corresponds to a fraudulent amount rate measured as ratio of card turnover of 0.02% in 2023 (0.03% in 2022). These losses are in the financial statements included as part of the write-offs of credit card loans.

8.4 Liquidity risk

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

8.4.1 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 daily cash flows from all its operations and activities on bi-weekly basis for the next six 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 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 and the central bank on on-demand nostro accounts or on term deposits, which usually have a term of less than three 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 as well as at the monthly Asset & Liability Committee.

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 deposit offering and constant monitoring of market trends. On an aggregate level, the customer deposits exhibit a high degree of stability. During 2023, customer deposits in savings products increased by 15% (2022: increase of 6%).

Since 2021, the Bank also has a securitisation facility providing senior funding for an amount up to EUR 475 million. At the end of 2023, following the upsize of the securitisation facility to EUR 1 billion in November 2023 EUR 150.1 million of committed senior funding are undrawn under the facility (2022: EUR 30.5 million) and can be used as contingent funding reserves. For more details about this transaction refer to Notes 7.7.9 and 7.7.10.

8.4.2 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 (Regulation (EU) No 575/2013) as amended, and have been as follows:

LCR (Min. 100%)	**2023**	**2022**
at 31 December	230%	168%

NSFR (Min. 100%)	**2023**	**2022**
at 31 December	214%	246%

There were no breaches of the liquidity requirements in 2023.

8.4.3 Residual contractual maturities of financial liabilities

31 December 2023

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**
Amounts owed to financial institutions	92 361	-100 616	-36 857	-1 700	-3 646	-58 413	-
Amounts owed to customers	2 711 097	-2 711 097	-2 711 097				-
Structured financing	836 765	-912 571	-3 314	-6 629	-29 830	-872 798	-
Undrawn loan commitments	6 513 485	-6 513 485	-6 513 485				-
Total	**10 153 708**	**-10 237 769**	**-9 264 753**	**-8 329**	**-33 476**	**-931 211**	**-**

31 December 2022
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
Amounts owed to financial institutions	75 689	-86 471	-20 454	-977	-3 118	-61 922	-
Amounts owed to customers	2 355 662	-2 355 662	-2 355 662	-	-	-	-
Structured financing	439 426	-461 041	-903	-1 805	-8 123	-450 210	-
Undrawn loan commitments	5 812 646	-5 812 646	-5 812 646	-	-	-	-
Total	**8 683 423**	**-8 715 820**	**-8 189 665**	**-2 782**	**-11 241**	**-512 132**	**-**

The above table shows the undiscounted cash flows on the Bank's financial liabilities and undrawn loan commitments on the basis of their earliest possible contractual maturity, please see Notes 7.7.8 to 7.7.12. The amounts from the Subordinated Liability are calculated until the date the Bank is entitled to execute the call-option, please see Note 7.7.12. 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 undrawn 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.

8.5 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 Bank's exposure to interest rate risk is limited compared to credit risk. The Bank's main asset class is net credit card loans and bank deposits with short duration.

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 and its impact on both the Net Interest Income (NII) and the Economic Value of the Equity (EVE) on a quarterly basis.

8.5.1 Management of market risks

Overall authority for market risks is vested in the Risk Control function. As the Bank has no trading portfolio, there is no market risk associated with this.

Advanzia operates mainly in EUR. The Tier 1 bonds are denominated in NOK, and the currency risk related to this position is “hedged” with a NOK deposit of the same amount. In addition, the Bank holds nominal amounts in USD, GBP, CHF, SEK and DKK for the settlement of the Professional Card Services (PCS) card transactions that are at all times in relation with equivalent claims on the PCS client banks. The Bank normally holds no positions in other currencies and does not need to recognise or manage any other currency risk apart from the above. 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.

As of 31 December 2023, the total EUR equivalent FX exposure was of TEUR 239.

8.5.2 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 for interest rate increases (asymmetrical to decreases) as at balance sheet date is as follows:

31 December 2023

In thousands of EUR

Interest bearing assets	**Gross amount**	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**more than 5 years**
Central bank - minimum reserve	29 068	29 068	0	0	0	0
Central bank reserves in excess of the minimum required (deposit facility)	1 128 600	1 128 600	0	0	0	0
Loans and advances to banks (assimilated to Nostro)	30 621	30 621	0	0	0	0
Term deposits	100 085	100 085	0	0	0	0
Gross loans and advances to credit card customers FR	185 708	0	0	0	185 708	0
Gross loans and advances to credit card customers AT	165 795	0	0	0	165 795	0
Gross loans and advances to credit card customers DELU	2 462 540	0	0	0	2 462 540	0
Gross loans and advances to credit card customers ES	121 729	0	0	0	121 729	0
Gross loans and advances to credit card customers IT	35 532	0	0	0	35 532	0
Total interest bearing assets	**4 259 678**	**1 288 374**	**0**	**0**	**2 971 304**	**0**

Interest bearing liabilities	**Gross amount**	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**more than 5 years**
SPV deemed loan	836 765	836 765	0	0	0	0
Deposits from customers	2 711 097	2 711 097	0	0	0	0
Subordinated liabilities	153 724	153 724	0	0	0	0
Total interest bearing liabilities	**3 701 586**	**3 701 586**	**0**	**0**	**0**	**0**

Gap	558 092	-2 413 212	0	0	2 971 304	0
Cumul gap	558 092	-2 413 212	-2 413 212	-2 413 212	558 092	558 092
Cumul. gap (%)	13.1%	-56.7%	-56.7%	-56.7%	13.1%	13.1%

31 December 2022

In thousands of EUR

Interest bearing assets	**Gross amount**	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**more than 5 years**
Central bank - minimum reserve	25 224	25 224	-	-	-	-
Central bank reserves in excess of the minimum required (deposit facility)	609 123	609 123	-	-	-	-
Loans and advances to banks (assimilated to Nostro)	60 842	60 842	-	-	-	-
Term deposits	59 446	59 446	-	-	-	-
Gross loans and advances to credit card customers FR	174 181	-	-	-	174 181	-
Gross loans and advances to credit card customers AT	147 652	-	-	-	147 652	-
Gross loans and advances to credit card customers DELU	2 112 418	-	-	-	2 112 418	-
Gross loans and advances to credit card customers ES	94 062	-	-	-	94 062	-
Gross loans and advances to credit card customers IT	7 478	-	-	-	7 478	-
Total interest bearing assets	**3 290 426**	**754 635**	**-**	**-**	**2 535 791**	**-**

Interest bearing liabilities	**Gross amount**	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**more than 5 years**
Overdraft facility	7 626	7 626	-	-	-	-
SPV deemed loan	439 426	439 426	-	-	-	-
Deposits from customers	2 344 212	2 344 212	-	-	-	-
Subordinated liabilities	113 588	113 588	-	-	-	-
Total interest bearing liabilities	**2 904 852**	**2 904 852**	**-**	**-**	**-**	**-**

Gap	385 574	-2 150 217	-	-	2 535 791	-
Cumul gap	385 574	-2 150 217	-2 150 218	-2 150 218	385 574	385 574
Cumul. gap (%)	11.7%	-65.3%	-65.3%	-65.3%	11.7%	11.7%

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.

Maturities of interest-bearing positions are symmetric in a sense that they do not depend on increases or decreases of the rates. The only exception is the credit card portfolio, for which the current IRRBB stress testing methodology assigns maturity of 2.5 months for market interest rate decreases and 51 months for increases. The latter is based on an assumption that the average maturity of the credit card portfolio is approximately the time until at least 50% of legacy customers are replaced by newly onboarded customers (the average time-to-replacement for a customer). This methodology as well as the stress testing approach for non-maturity deposits will be reviewed and adapted in 2024.

31 December 2023

In thousands of EUR	**Carrying amount**	**Present value of banking positions after interest shock**		**Change in the forecasted earnings expected within 12 months under a parallel shock**	
Interest bearing assets		**+200 bp**	**-200 bp**	**+200 bp**	**-200 bp**
Central bank - minimum reserve	29 068	29 650	28 487	436	-436
Central bank reserves in excess of the min. required (deposit facility)	1 128 600	1 150 304	1 106 896	16 291	-16 291
Loans and advances to banks (assimilated to Nostro)	30 621	31 216	30 026	447	-447
Term deposits	100 085	101 657	98 507	1 180	-1 184
Gross loans and advances to credit card customers FR	185 708	185 708	183 223	0	-1 865
Gross loans and advances to credit card customers AT	165 795	165 795	163 527	0	-1 703
Gross loans and advances to credit card customers DELU	2 462 540	2 462 540	2 429 895	0	-24 503
Gross loans and advances to credit card customers ES	121 729	121 729	120 048	0	-1 262
Gross loans and advances to credit card customers IT	35 532	35 532	35 036	0	-372
Total interest bearing assets	**4 259 678**	**4 284 131**	**4 195 645**	**18 354**	**-48 063**
Interest bearing liabilities		**+200 bp**	**-200 bp**	**+200 bp**	**-200 bp**
SPV deemed loan	836 765	851 419	822 088	-10 999	11 017
Deposits from customers	2 711 097	2 761 389	2 660 764	-37 749	37 779
Subordinated liabilities	153 724	155 984	151 458	-1 696	1 701
Total interest bearing liabilities	**3 701 586**	**3 768 792**	**3 634 310**	**-50 444**	**50 497**
Gap	558 092	515 339	561 335	-32 090	2 434
Cumul. Gap	558 092	515 339	561 335		
Cumul. Gap (%)	13.1%	12.0%	13.4%		

31 December 2022

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	25 224	25 716	24 732	369	-369
Central bank reserves in excess of the min. required (deposit facility)	609 123	621 067	597 180	8 965	-8 965
Loans and advances to banks (assimilated to Nostro)	60 842	62 048	59 635	905	-905
Term deposits	59 446	60 406	58 483	721	-723
Gross loans and advances to credit card customers FR	174 181	174 181	171 743	-	-1 830
Gross loans and advances to credit card customers AT	147 652	147 652	145 640	-	-1 510
Gross loans and advances to credit card customers DELU	2 112 418	2 112 418	2 083 784	-	-21 493
Gross loans and advances to credit card customers ES	94 062	94 062	92 762	-	-976
Gross loans and advances to credit card customers IT	7 478	7 478	7 376	-	-76
Total interest bearing assets	**3 290 426**	**3 305 028**	**3 241 335**	**10 960**	**-36 847**
Interest bearing liabilities		**+200 bp**	**-200 bp**	**+200 bp**	**-200 bp**
Overdraft facility	7 626	7 773	7 478	-111	111
SPV deemed loan	439 426	447 290	431 548	-5 903	5 913
Deposits from customers	2 344 212	2 388 756	2 299 631	-33 435	33 462
Subordinated liabilities	113 588	115 315	111 857	-1 296	1 300
Total interest bearing liabilities	**2 904 852**	**2 959 134**	**2 850 514**	**-40 745**	**40 786**
Gap	385 574	345 894	390 821	-29 785	3 939
Cumul. Gap	385 574	345 894	390 821		
Cumul. Gap (%)	11.7%	10.5%	12.1%		

8.6 Operational risks

Operational risk can broadly be defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, systems and people intervention, or from external events. This definition includes legal risk but excludes credit risk, market risk, liquidity risk, strategic risk, compliance risk and external fraud risk. Due to the specific nature of the Bank's business model (credit card operations), external fraud risk has been considered as a separate risk category with adequate assessment and monitoring procedures.

The Bank considers operational risk events resulting in operational risk loss: if it occurs, it causes direct or indirect losses in the form of financial loss or reputational loss respectively.

The Bank's operational risk management focuses on proactive measures in order to ensure business continuity, accuracy of information used internally and reported externally and a competent and well-informed staff. The operational risk management ensures adherence to established rules and procedures as well as on security arrangements to protect the physical and information and communications technology (ICT) infrastructure of the Bank.

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

The Bank is mainly exposed to the following operational risk categories in its daily business activities:

- Internal fraud
- Employment practices and workplace safety
- Damage to physical assets
- Data management
- Information security risk
- Technology or systems failure
- Legal and regulatory
- Process execution and management
- Model risk

The Bank regularly assesses and reports its operational risks to management as well as to the Board of Directors. The Bank also regularly assesses its expected losses in relation to these risks on a regular basis. The Bank has not incurred nor recorded any material operational losses in 2023.

Advanzia Bank S.A. has received acceptance from the regulator for using the Alternative Standardised Approach (ASA) as described in the Regulation (EU) N° 575/2013 as amended for assessing operational risk charge for capital adequacy purposes. The amount assessed for this charge as at balance sheet date was TEUR 11 105.

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 continuity planning, crisis management, and recovery from adverse situations, a crisis management team has been established and a Business Continuity Management Coordinator named – together with applicable framework and plans.

The technical recovery plan and the business continuity plan are updated in response to changes on an ongoing basis in the business environment, and after regular Business Impact Assessments. Plans and key personnel is tested and trained regularly.

8.7 Outsourcing risk

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

To mitigate these risks, Advanzia has established a set of internal rules when buying services from external suppliers. The Procurement and Outsourcing Procedure regulates the conditions and requirements for outsourcing operations of the Bank. In no way can outsourcing remove or lessen the responsibility Advanzia holds towards its customers, authorities or other entities in relation to the fulfilment of governing laws and regulations, such as data protection regulations and/or consumer law.

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

8.8 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.

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

8.9 Income risk

There is a risk that Advanzia's income may change over time. There may be several sources for this risk, such as change in client behaviour, increase in funding costs, decrease in interest rates, etc. Advanzia's business model, however, is one of highly stable recurring revenue. The monthly credit card vintages show a very high degree of stability once they have reached their full potential with respect to key parameters such as overall loan balance and interest income.

Advanzia assesses that its income shows a high degree of stability and predictability over time and that the largest portion of this risk is already covered under other risks (in particular, credit and liquidity risks).

8.10 Reputation risk

Reputation risk may arise from the Bank acting incompetently or engage in dishonest practices towards its clients, presents itself unprofessionally, or possibly become the target of founded or unfounded smear campaigns by external parties. The consequence of tarnished reputation could be a loss of confidence in the Bank which, in turn, may result in the loss of customers for both product types. For credit cards, it translates to an erosion of income over time, while for deposits this may imply a liquidity risk should clients start withdrawing high volumes of funds.

The Bank is committed to maintaining its sound reputation by remaining customer-centric, 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 negative.

To mitigate reputational risk, the Bank has implemented a code of conduct applicable to all personnel. To ensure diligent adherence, new employees are required to confirm their commitment to the principles and

values outlined in this Code. The Compliance function oversees compliance with these requirements and reviews the Code of Conduct annually.
Furthermore, in order to anticipate, identify, assess and prevent operational risk, the Compliance function has incorporated the reputational risk factor in its compliance risk assessment (CRA). This dimension is therefore taken into consideration in the assessment of the Bank's exposure to compliance risks and in the compliance monitoring plan (CMP) deployed to address these risks.

8.11 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.

The Bank complies with the provisions of the Regulation (EU) No 575/2013 as amended in respect of regulatory capital. The Bank is following the standardised approach to credit risk and the Alternative Standardised Approach (ASA) for operational risk to calculate the Pillar 1 minimum requirements. Luxembourg adopted in 2021 the amended capital requirements regulation and directive – CRR II/CRD V (Regulation (EU) No 575/2013 as amended and Directive EU 2013/36 as amended), and as such Advanzia is subject to the Basel 3 requirements as implemented in the said regulation.

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

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

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

The Bank's regulatory capital position on 31 December 2023 was as follows:

In thousands of EUR

	Note	2023	2022
Subscribed capital	7.7.13.1	17 553	17 553
Issue premium	7.7.13.1	9 890	9 890
Reserves	7.7.13.3	41 265	38 359
Income carried forward		216 390	157 004
Phasing of IFRS 9 first time adoption impact		822	8 542
Minimum Loss Coverage*		-4 239	-1 467
Interim profits inclusion authorised by CSSF		23 750	17 200
Less intangible assets	7.7.5	-19 422	-24 606

CET 1	**286 009**	**222 475**
Eligible subordinated liabilities – Tier 1	98 724	58 588
Tier 1 Capital	**384 733**	**281 064**
Eligible subordinated liabilities – Tier 2	55 000	55 000
Total Capital	**439 733**	**336 064**

If considering the remaining profits for the year (after dividend distribution), the Tier 1 capital as of 31 December 2023 would amount to EUR 452 million (2022: EUR 326 million).

*The Minimum Loss Coverage (EU/2019/630) must be applied for the non-performing exposure depending on when they were classified as non-performing.

8.12 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 of 31 December 2023 was 19.39% (2022: 17.09%). Had the remaining 2023 profits also been included; the Bank's total capital ratio would have been 22.37% (2022: 19.38%).

Pillar 2 (ICAAP and ILAAP)
Advanzia will submit its ICAAP and ILAAP documents for 2023 during the year, as per regulatory requirements.

During the ICAAP and ILAAP process in 2023, 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 and ILAAP on a quarterly basis, and reported its findings to the Board of Directors.

The Pillar 2 ratio at 31 December 2023 was 18.2% (2022: 15.4%), 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.

8.13 Remuneration policy and practices

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

Management of the Bank as well as the Head of Risk Control, Head of Compliance, Head of Internal Audit, Head of Legal, Head of Human Resources, Head of Accounting & Regulatory Reporting, Head of Corporate Finance, Head of Analytics and Controlling, Head of IT Service Delivery and Information Security Officer are considered material risk takers. The remuneration for both management and employees consists of a fixed component and a variable component. The variable component is related to the performance of the Bank as well as the individual performance. The variable component for executive management, management, identified staff and employees cannot exceed 50%, 33% and 25% respectively of the total annual remuneration. For executive management and management any variable payment above TEUR 50 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 7.6.4 and 7.11.

Munsbach, Luxembourg, March 2024

Mr. Bengt Arve Rem
Chairperson of the board

Mr. Eirik Holtedahl
Deputy Chairperson of the board

Mr. Kristian Fredrik Huseby

Mr. Tor Erland Fyksen

Mr. Wiljar Nesse

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To the Board of Directors of
Advanzia Bank S.A.
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Luxembourg

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. (the "Bank"), which comprise the statement of financial position as at 31 December 2023, 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 material accounting policy information and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023 and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with 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 Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF 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 the Bank in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for 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 allowance on loans and advances to customers

Why the matter was considered to be one of most significance in our audit of the financial statements for the year ended 31 December 2023

The Bank's portfolio of loans and advances to customers amounts to EUR 2,728 million as at 31 December 2023. These loans and advances to customers are measured at amortised cost and their cumulative impairment allowance as at 31 December 2023 amounts to EUR 243 million, with a net impairment result on financial assets of EUR 160 million for the year 2023.

Certain aspects of the accounting for impairment allowance on loans and advances to customers require significant management judgement, such as the selection and application of models, assumptions and data used to estimate the Expected Credit Losses (ECL). Inappropriate judgments made in relation to the methodology and inputs used or the assumptions taken may have a material impact on the impairment amount recorded.

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

Please refer to Note 7.3.5 "Material accounting policies" in the notes to the financial statements for information on the accounting policies applied and the related disclosures in Note 8 "Risks and Risk Management".

How the matter was addressed in our audit

Our procedures for impairment of loans to customers included, but were not limited to the following:

- With regards to the Bank's related internal control environment, we have tested the design and implementation and the operating effectiveness of key controls in the following areas:
  - collection monitoring,
  - write-off handling,
  - reliability of data sources.
- In addition, we have performed the following test of details:
  - We assessed together with our Risk Advisory and Information Risk Management specialists the selection and application of management's models, assumptions and data used in estimating the ECL requirements and performed a back testing based on the historical parameters.
  - We have assessed together with our Financial Risk Management specialists the calculation routine used for the ECL calculation as at 31 December 2023 and performed a recalculation of ECL on a sample basis.
  - Finally, we have assessed whether the related disclosures in the financial statements are appropriate.

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 management report but does not include the financial statements and our report of the "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 for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards 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 the 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 the 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 the "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 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 Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism 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 the 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 the 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 the 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 the "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 the "réviseur d'entreprises agréé". However, future events or conditions may cause the 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.

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 13 March 2023 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 18 years.

The Report of the Board of Directors 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 N°537/2014 were not provided and that we remained independent of the Bank in conducting the audit.

Luxembourg, 13 March 2024

KPMG Audit S.à r.l.
Cabinet de révision agréé

M. Jahke
Partner