FINANCIAL STATEMENTS

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

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1 ABOUT ADVANZIA BANK S.A.

1.1 A European digital bank

Advanzia Bank is a European digital bank specialising in credit cards and card payment solutions for consumers, business partners and financial institutions. Advanzia was granted a banking license by the Luxembourg Ministry of Treasury and Budget in December 2005. With 1.9 million credit card customers, we are a leading online credit card issuer in Germany, with a strong presence in Luxembourg, Austria, France and Spain.

1.2 Transparent and flexible consumer products

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

1.3 Bespoke credit card solutions

Advanzia has business partnerships with over 240 companies, associations and institutions that use our co-branded credit cards to strengthen their customer loyalty strategy and create a competitive advantage. We offer turnkey Visa and Mastercard credit card solutions for banks and other financial institutions, and deliver the whole card programme, which encompasses 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. As such, we are subject to Luxembourg banking laws which are based on EU regulations CRD/CRR (Basel 3), and we are regulated by the Commission de Surveillance du Secteur Financier (CSSF), which oversees the activities of banks operating in Luxembourg. We are passporting cross-border services in the EU to 13 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 currently holds 60.3% of the issued shares.

2 DIRECTORS REPORT

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

2.1 Overall results

2.1.1 Resilience amid coronavirus pandemic

The outbreak of the COVID-19 pandemic has disrupted the global economy and impacted people and businesses in unprecedented ways, creating an urgent need to change communication processes and expedite digital transformation. Despite these challenges, Advanzia Bank not only sustained its business, but also outperformed the market in all European countries, with all of the bank's markets now showing profitable results[1]. The 2020 results demonstrate the success of the bank's credit risk underwriting and its agility in adequately adapting acceptance policies and marketing strategies to improve portfolio performance and minimise risk.

2.1.2 Digital transformation

The bank reached major milestones in its omni-channel UX programme this year, offering a fully digital customer and payment experience with the launch of three new mobile apps in Austria, France and Spain for its private and business customers. The bank also launched mobile payment solutions in all markets.

2.1.3 Solid financial results

The outbreak of the COVID-19 pandemic in Europe in March 2020 affected the economy and resulted in an overall slowdown of the loan balance growth. After a strong start in January and February, applications, credit card activity and loan balance development developed adversely throughout the end of the second quarter. However, as of the third quarter, transaction levels, loan balance growth and the number of applications recovered to nearly pre-pandemic levels. In the fourth quarter, with the resurgence of the pandemic, performance was more muted again, but nevertheless, the Bank kept its growth path.

The bank's credit card portfolio increased by 251 000 new active credit card customers[2]. At the end of the year, the bank had 1 921 800 credit cards in force[3] and a gross loan balance of MEUR 1 881. Profit after taxes was MEUR 100.

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[1] With the exception of the bank's new market Spain.
[2] New active customers is the number of customers who have used their cards for the first time.
[3] Cards in force: The number of issued cards including active and inactive cards.

In 2020, the total turnover on all cards reached EUR 3.5 billion or EUR 3 000 per active customer[4], and the average loan balance per active customer amounted to approximately EUR 1 500. Advanzia's main income driver, the gross loan balance, increased by 9.1% compared to the previous year, to MEUR 1 881.

Advanzia employed 204 people in total at the end of the year, compared to 189 at the end of 2019.

2.1.4 Product and market development

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

In **Germany**, the bank's largest market, the Gebührenfrei Mastercard Gold ended the year with a gross loan balance of MEUR 1 604. The bank continued to diversify its consumer marketing strategy amid fluctuations in transaction behaviour due to the pandemic, but overall results in the private customer segment remained relatively stable. The launch of the Advanzia Developer Portal and the new Lead API significantly improved customer service and communication with the bank's business partners. However, the development of card loyalty programmes for business partners was negatively impacted due to the overall decline in credit card transactions for travel, events and entertainment.

In **France**, carte ZERO outperformed the market in terms of turnover. The bank showed more resilience than the competition during the lockdown phases. A strong focus on end-to-end securitisation of the customer onboarding process led to an improved and stable customer acquisition performance. The gross loan balance reached MEUR 134, a stable growth compared to 2019.

In **Austria**, the Free Mastercard Gold experienced slower growth, partly due to the limitations of online media bookings, which were somewhat offset by the newly implemented Lead API that contributed to application growth. The bank also launched Payment Protection Insurance (PPI) in Austria, providing additional financial safety for its customers with an optional insurance package. The year ended with a gross loan balance of MEUR 109, and the bank was able to sign its first business partnership agreement with a leading consumer electronics retailer.

The bank's performance in **Spain** was marked by a stronger pandemic impact than in other European markets, with relatively stable applications for Tarjeta YOU, but slower card activation from newly onboarded customers. An adapted marketing plan and prudent risk underwriting resulted in 66 000 credit card customers at the end of 2020. The bank successfully launched its business partnership offer in Spain with the first partnership signed by year-end.

Besides credit cards, Advanzia also offers an online deposit account, the **Advanziakonto**. By the end of 2020, the deposit balance stood at MEUR 2 071, a 2.9% growth compared to 2019.

[4] Active customers are customers with at least one movement on their account.

During 2020, Advanzia has become the leading provider for professional card services for private banks and financial institutions in Europe. With the full migration of the Capitol card portfolio successfully completed, Advanzia serviced 89 banks in 12 countries by the end of the year.

2.2 Corporate development

2.2.1 Digitalised customer experience

In 2020 the bank launched the omni-channel programme with the successful go-live of new mobile apps for Austria, France and Spain in the fourth quarter. By introducing these digital solutions, the bank reached a significant milestone towards its goal of implementing a customer-centric, digital UX platform – covering the complete lifecycle of a cardholder with frictionless integration of all touchpoints, and preparing the bank for future growth.

2.2.2 Mobile payment

The bank completed the rollout of Google Pay, Apple Pay and Garmin Pay in the available markets, offering its customers flexible, convenient and secure contactless payment. Additional features and providers are in development and will be released continuously.

2.2.3 Professional card services

Following the successful acquisition of the bank card servicing operations of Catella Bank in 2019, Advanzia was able to solidify its position as the leading provider of turnkey credit card solutions for private banks and financial institutions this year. With the full migration of the Capitol card portfolio successfully completed, new sales activity continued and major steps were taken towards harmonising processes and developing new service features in order to expand the business model for further growth.

2.2.4 Secure online payments

Advanzia Bank rolled out two forms of Strong Customer Authentication (SCA), providing more secure online payments and better customer protection. Firstly, the bank introduced a new in-app payment authorisation process as part of the mobile app launch in Austria, Spain and France. Secondly, as an alternative to the app, the bank implemented two-factor authentication, requiring online transactions to be authenticated by a four-digit code in addition to the standard SMS code. The implementation of the latter is in line with the requirements of the revised Payment Services Directive (PSD2) and will be completed in January 2021.

2.3 Economic outlook

Germany's GDP fell 5% in 2020, representing the first economic contraction in a decade. Despite the fall in GDP and the scale of the pandemic impact, the Bank experienced a significant reduction in new default cases in all markets. In Q3, the gradual recovery in retail sales and business sentiment in the German economy led to resumed loan balance growth, followed by a more stable development in Q4 despite new confinement measures in Germany.

The German economy is expected to return to growth in 2021, and Advanzia subsequently expects a solid development in the Bank’s growth, especially in the second of half of the year. The Bank remains strongly capitalised and well positioned to weather the pandemic with limited impact on its financial metrics beyond 2020.

With most European countries implementing local or larger scale lockdowns facing a third pandemic wave, macroeconomic uncertainty remains. Alongside updates to the macroeconomic outlook, the Bank is closely monitoring receivables performance and actions taken by servicers to determine if any credit or liquidity pressures require further measures. The provisions not only reflect the improvement in credit losses realised in 2020, but also expected losses for 2021 and beyond.

A sustained solid development in Advanzia's growth and results is expected, but Advanzia continues to closely monitor the macroeconomic development.

2.4 Significant events after balance sheet date

The Bank is not aware of any significant events after balance sheet date which would have a material impact on the 2020 financial statements, apart from the one listed below.

Mr. Erlend Bondø terminated his responsibilities and Mr. Wiljar Nesse was appointed as the member of the Board of Directors in January 2021.

3 LEADERSHIP

3.1 Board of Directors

- **Mr. Bengt Arve Rem**, Chairman of the Board, CEO Kistefos AS
- **Dr. Thomas Schlieper**, Deputy Chairman of the Board, Private investor
- **Mr. Erlend Bondø**, Kistefos AS, CFO Kistefos AS
- **Mr. Nishant Fafalia**, Kistefos AS, Investment Director
- **Mr. Tor Erland Fyksen**, Private investor

To assist the Board of Directors in the areas of financial information and internal control, the Bank established an Audit Committee, which in 2020 had the following members:

- **Mr. Nishant Fafalia** (Chairman), Kistefos AS, Investment Director
- **Mr. Erlend Bondø**, Kistefos AS
- **Mr. Tor Erland Fyksen**, Private investor

3.2 Management Team

Executive Management Committee

- **Mr. Roland Ludwig**, Chief Executive Officer
- **Mr. Frank Hamen**, Chief Risk Officer

Management Committee

- **Mr. Roland Ludwig**, Chief Executive Officer
- **Mr. Frank Hamen**, Chief Risk Officer
- **Mr. Romain Fettes**, Chief Information Officer
- **Ms. Linda Früh**, Chief Digital Officer
- **Mr. Johannes Neander**, Chief Commercial Officer
- **Mr. Patrick Thilges**, Chief Financial Officer
- **Mr. Petrus Johannes (Pieter) Verhoeckx**, Chief Customer Relations Officer

4 INTERNAL GOVERNANCE

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

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

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

4.1 Operational controls

Operational controls are subdivided into three categories: (1) day-to-day controls performed by operating staff; (2) key structural controls including EMC (Executive Management Committee) review, account balance reconciliation, and compliance checks with internal limits; (3) controls performed by the EMC over activities and functions for which it is directly responsible. The COVID-19 impact on specific operational controls is outlined in the respective notes.

4.2 Internal controls

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

Risk control

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

Compliance

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

Internal audit

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

5 FINANCIAL STATEMENTS

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

5.1 Statement of Financial Position as at 31 December 2020

In thousands of EUR

Assets	**Note**	**2020**	**2019 (Restated)**	**1 January 2019 (Restated)**
Cash and cash equivalents	6.7.1	707 502	720 464	508 997
Loans and advances		1 896 606	1 780 392	1 448 685
whereof: financial institutions	*6.7.2*	129 438	147 728	48 857
whereof: corporates		-	38	11
whereof: customers	*6.7.3*	1 767 168	1 632 626	1 399 817
Property, plant and equipment	6.7.4	3 892	5 183	986
Intangible assets	6.7.5	29 800	32 561	7 970
Other assets	6.7.6	12 101	9 803	4 234
Total assets		**2 649 901**	**2 548 403**	**1 970 872**

Liabilities and equity				
Amounts owed to financial institutions		208 807	225 368	100 657
Amounts owed to corporates		-	39	40
Amounts owed to customers	6.7.7	2 070 318	2 012 425	1 646 427
Tax liabilities	6.6.6	20 549	9 057	17 814
Other liabilities	6.7.8	21 491	35 561	20 315
Subordinated liabilities	6.7.9	25 000	33 617	8 544
Total liabilities		**2 346 165**	**2 316 067**	**1 793 797**
Subscribed capital	6.7.10	17 553	17 553	17 553
Issue premiums	6.7.10	9 890	9 890	9 890
Other equity instruments	6.7.10	21 221	22 526	-
Other reserves	6.7.10	21 659	16 826	13 416
Deposit guarantee scheme reserve	6.9	-	-	511
Profit (loss) carried forward		134 706	132 805	75 718
Profit for appropriation				59 987
Result for the financial year		100 480	73 281	-
Interim dividends		-	-40 045	-
Interest paid on AT1		-1 773	-500	-
Total equity		**303 735**	**232 336**	**177 075**
Total liabilities and equity		**2 649 901**	**2 548 403**	**1 970 872**

The notes are an integral part of these financial statements.

5.2 Statement of Profit and Loss and Other Comprehensive Income

In thousands of EUR	**Note**	**2020**	**2019 (Restated)**
Financial and operational income and expenses		**296 770**	**265 517**
Interest income	6.6.1.1	292 524	263 421
Interest expenses	6.6.1.2	-15 831	-14 819
Fee and commission income	6.6.2	40 319	41 235
Fee and commission expenses	6.6.2	-15 915	-19 276
Net exchange result		-376	-545
Other operating income	6.6.3	3 780	3 191
Other operating expenses	6.6.3	-7 731	-7 690
Administrative expenses		**-94 188**	**-86 498**
Personnel expenses	6.6.4	-19 792	-17 888
General administrative expenses		-74 396	-68 610
Depreciation and amortisation		**-8 155**	**-4 762**
Depreciation on property, plant and equipment	6.7.4	-1 914	-1 763
Amortisation of intangible assets	6.7.5	-6 241	-2 999
Other loan losses		**-2 320**	**-3 061**
Impairment on financial assets	6.6.5	**-68 408**	**-81 971**
Result on activities before taxes		**123 699**	**89 225**
Income taxes	6.6.6	-23 219	-15 944
Result on activities after taxes		**100 480**	**73 281**
Result for the year		**100 480**	**73 281**
Other comprehensive income for the year		-	-
Total profit and loss and other comprehensive income for the year		**100 480**	**73 281**

The notes are an integral part of these financial statements.

5.3 Statement of Changes in Equity

For the year ended 31 December 2020

In thousands of EUR

2020	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 2020 (restated)	**17 553**	**9 890**	**22 526**	**16 826**	**132 805**	**32 736**	**232 336**
Allocation to reserves				6 500		-6 500	-
Allocation to profit brought forward					5 207	-5 207	-
Allocation of 2019 profits resulting from restatement					-4 974	4 974	-
Allocation to free reserve				-1 667	1 667		-
Additional Tier 1 (1)			-1 305				-1 305
Interest paid on Tier 1						-1 773	-1 773
Dividends (2)						-26 003	-26 003
Total profit and loss and other comprehensive income for the year						100 480	100 480
Equity 31 December 2020	**17 553**	**9 890**	**21 221**	**21 659**	**134 706**	**98 707**	**303 735**

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

(2) The dividend was distributed out of the accumulated profits before the restriction in response to COVID-19 Pandemic was put in place.

For the year ended 31 December 2019

In thousands of EUR

2019	**Sub-scribed capital**	**Issue premiums**	**Other equity instruments**	**Reserves**	**Profit carried forward**	**Net profit or loss for the financial year**	**Total Equity**
Equity balance at 1 January 2019 (originally presented)	**17 553**	**9 890**	**-**	**13 927**	**75 718**	**59 067**	**176 155**
Change in accounting policy						920	**920**
Total equity as at 1 January 2019 (restated)	**17 553**	**9 890**	**-**	**13 927**	**75 718**	**59 987**	**177 075**
Allocation to reserves	-	-	-	4 700	-	-4 700	-
Allocation to profit brought forward	-	-	-		54 366	-54 366	-
Allocation of 2018 profits resulting from restatement					920	-920	-
Allocation to reserves	-	-	-	-511	511	-	-
Allocation to free reserve	-	-	-	-1 290	1 290	-	-
Additional Tier 1	-	-	22 525	-	-	-	22 525
Interest paid on Tier 1	-	-	-	-	-	-500	500
Dividends	-	-	-	-	-	-40 045	40 045
Total profit and loss and other comprehensive income for the year	-	-	-	-	-	73 281	73 281
Equity 31 December 2019 (restated)	**17 553**	**9 890**	**22 526**	**16 826**	**132 805**	**32 736**	**232 336**

The notes are an integral part of these financial statements.

5.4 Statement of Cash Flows

In thousands of EUR

Operating activities	2020	2019
Interest, fee and commission receipts	332 843	304 733
Interest, fee and commission payments	-31 746	-34 095
Other receipts	3 780	3 191
Operating payments	-125 138	-114 847
(Increase) decrease in money market placements	18 290	-98 870
(Increase) decrease in loans to customers	-205 232	-314 886
Increase (decrease) in deposits from financial institutions	-16 561	124 710
Increase (decrease) in deposits from customers	58 450	365 998
Increase (decrease) in deposits from corporates	-39	-
(Increase) decrease in other assets	-2 298	-5 569
Increase (decrease) in tax liabilities	11 492	-7 104
Increase (decrease) in other liabilities	-14 070	15 245
Net cash flow from operating activities	**29 214**	**238 506**

Investment activities	2020	2019
Investments in property, plant and equipment and intangible assets	-2 585	-32 178
Net cash flow from investment activities	**-2 585**	**-32 178**

Financing activities	2020	2019
Increase (decrease) from dividend payments/ capital distributions	-29 081	-18 019
Increase (decrease) in subordinated loan capital	-8 617	25 074
Principal elements of lease payments	-1 518	-1 372
Net cash flow from financing activities	**-39 216**	**5 683**

Net cash flow	**-12 586**	**212 011**
Opening balance of cash and cash equivalents	720 464	508 997
Effects of exchange rate changes on cash and cash equivalents	-376	-544
Net cash flow for the period	-12 586	212 011
Ending balance of cash and cash equivalents	**707 502**	**720 464**

The notes are an integral part of these financial statements.

6 NOTES TO THE FINANCIAL STATEMENTS

6.1 Reporting entity

Advanzia Bank S.A. ("the Bank" or "Advanzia") is domiciled in the Grand Duchy of Luxembourg and is established for an indefinite duration. The address of the Bank's registered office is 9, rue Gabriel Lippmann, L-5365 Munsbach, Luxembourg. Advanzia is fully consolidated into Kistefos AS Group. The consolidated accounts are available at Kistefos' registered office in Dokkveien 1, N-0250 Oslo, Norway. The financial statements of the Bank as at and for the year ended 31 December 2020 include the entire Bank and were authorised for issue by the Bank's board of directors on 5th March 2021.

6.2 Basis of preparation and summary of accounting principles

6.2.1 Accounting standards

6.2.1.1 Applicable accounting standards and changes in accounting policies

The Bank initially applied the following standards and amendments to standards from 1 January 2020.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments to the definition of material does not have a significant impact on the Bank's financial statements.

Amendments to IFRS 3: Definition of a Business

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

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform

These amendments provide certain reliefs in connection with the interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that the IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given that the Bank does not have hedges involving IBOR-based contracts, these amendments do not affect the Bank.

The Bank changed an accounting policy for the identification and measurement of the Expected Credit Loss (ECL) under IFRS 9. The Bank believes that this results in the financial statements providing more reliable estimate of the ECL being reflected in the entity's financial position and financial performance.

The main changes can be summarised as follows:

- The Bank switched to calculation of the LGD net of collection fees and thus collection cost is reclassified within "Other loan losses" on the face of the Statement of Profit and Loss and Other Comprehensive Income;
- The estimated lifetime is now determined using the time to default for different customer sub-groups and only the customers with default are now considered;
- SICR assessment is now done based on the 2 main triggers:
  - Comparison of the 12-months PD at initial recognition and 12-months PD at reporting date;
  - Delinquency information – 30 days past due (back-stop).

The above changes in accounting policies were applied retrospectively as from 1 January 2018 (the date of the first time adoption of the ÌFRS 9) and the impact on the Bank's Statement of Financial Position and Statement of Profit and Loss and Other Comprehensive Income is detailed below:

In thousands of EUR

Statement of Financial Position (extract)	**Note**	**31/12/2019**	**Increase/ (Decrease)**	**31/12/2019 (Restated)**
Assets				
Loans and advances	6.7.3	1 785 793	-5 401	1 780 392
whereof: customers	6.7.3	1 638 027	-5 401	1 632 626
Total assets		**2 553 804**	**-5 401**	**2 548 403**
Liabilities and equity				
Tax liabilities		10 404	-1 347	9 057
Total liabilities		**2 317 414**	**-1 347**	**2 316 067**
Profit (loss) carried forward		131 885	920	132 805
Result for the financial year		78 255	-4 974	73 281
Total equity		**236 390**	**-4 054**	**232 336**
Total liabilities and equity		**2 553 804**	**-5 401**	**2 548 403**

In thousands of EUR

Statement of Financial Position (extract)	**Note**	**31/12/2018**	**Increase/ (Decrease)**	**01/01/2019 (Restated)**
Assets				
Loans and advances	6.7.3	1 447 459	1 226	1 448 685
whereof: customers	6.7.3	1 398 591	1 226	1 399 817
Total assets		**1 969 646**	**1 226**	**1 970 872**
Liabilities and equity				
Tax liabilities		17 508	306	17 814
Total liabilities		**1 793 491**	**306**	**1 793 797**
Profit for appropriation		59 067	920	59 987
Total equity		**176 155**	**920**	**177 075**
Total liabilities and equity		**1 969 646**	**1 226**	**1 970 872**

In thousands of EUR

Statement of Profit and Loss and Other Comprehensive Income (extract)	**Note**	**2019**	**Profit increase/ (Decrease)**	**2019 (Restated)**
Interest income	6.6.1	263 500	-79	263 421
General administrative expenses		-71 671	3 061	-68 610
Other loan losses		-	-3 061	-3 061
Impairment on financial assets	6.6.5	-75 423	-6 548	-81 971
Result on activities before taxes		95 852	-6 627	89 225
Income taxes		-17 598	1 654	-15 944
Result on activities after taxes		78 255	-4 974	73 281
Result for the year		78 255	-4 974	73 281
Total profit and loss and other comprehensive income for the year		78 255	-4 974	73 281

6.2.1.2 New accounting standards issued but not yet effective

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

Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

This amendment is effective for reporting periods beginning on or after 1 June 2020. The Bank does not expect any significant impact.

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

Initially IFRS 17 would be effective for reporting periods beginning on or after 1 January 2021, with comparative figures required, though in June 2020 amendments were adopted by IASB and the application date was deferred by two years to 1 January 2023. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Bank.

6.2.2 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS Standards), as adopted by the European Union. Changes to significant accounting policies are described in Note 6.2.1.1.

6.2.3 Basis of measurement

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

6.2.4 Functional and presentation currency

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

6.2.5 Significant events after balance sheet date

The Bank is not aware of any significant events after balance sheet date which would have a material impact on the 2020 financial statements, apart from the one listed below.

Mr. Erlend Bondø terminated his responsibilities and Mr. Wiljar Nesse was appointed as the member of the Board of Directors in January 2021.

6.3 Significant accounting policies

6.3.1 Basis of consolidation

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

6.3.2 Foreign currency

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

6.3.3 Net interest margin

Interest income and expense are recognised in the Statement of 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 and points paid or received, if any, that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

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

Interest income and expense presented in the Statement of 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.

6.3.4 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), 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

6.3.5 Financial assets and financial liabilities

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

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

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

i. Amortised cost measurement

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

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

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

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

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

ii. Fair value measurement

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

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

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

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

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

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

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

iii. Identification and measurement of impairment

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

For the credit card portfolios in Germany, France, and Austria the Bank developed models: rating models, PD, LGD, EAD models. For all other segments, the ECL calculation is based on an intermediate or basic approach, which consists of interpretation of historical data or of the use of external data.

Expected credit loss and its components

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

Probability of default (PD)

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

The model used to estimate the PD depends on the type of segment. For the German, French and Austrian credit card segments, the PD is estimated through an advanced approach based on regression analysis methodology. For the Spanish credit card segments, given the smaller exposure that the Bank has towards these markets, a less complex approach based on regression analysis methodology 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 cash flows. The Standard requires the time value of money to be implemented in the calculation of the ECL. This may be incorporated in the computation of the LGD by discounting the expected cash shortfalls to the reporting date. It specifies that the applicable discount factor should be represented by the effective interest rate.

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

Exposure at default (EAD)

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

All markets are aligned with the same approach, which consists in the calculation of EAD rates based on a linear regression model.

Three-stage deterioration model & allocation

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

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-months PD at initial recognition compared to 12-months 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, an expected credit loss (ECL) allowance needs to be recognized. Interest is to be recognized on a gross basis.

In case the credit risk of an instrument has increased significantly (SICR) after initial recognition by the next reporting date, the instrument is transitioned from stage 1 to stage 2. When comparing the 12-months 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 recognized and based on the lifetime PD. This change in the PD results in an increased ECL. Interest is recognized on a gross basis.

In case an instrument defaults, it is transitioned to stage 3. For such non-performing loans, ECL is recognized and based on a PD equal to one. Interest is no longer recognized on a gross, but on a net basis. The majority of the Bank's financial assets will move to stage 3 from stage 2, (e.g. loan first gets into in arrears before defaulting). Transition from stage 1 to stage 3 is unlikely, but possible (e.g. insolvency before the loan gets into in arrears). The Bank considers a financial asset to be in default (stage 3) when the loan is more than 90 days past due and/or the loan has been credit revoked.

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

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

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

iv. Write-off

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

v. Derecognition of financial assets or financial liabilities

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

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

6.3.6 Cash and cash equivalents

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

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

6.3.7 Loans and advances

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

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

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.

6.3.8 Property, plant and equipment

6.3.8.1 Recognition and measurement

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

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

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

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

6.3.8.2 Depreciation

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

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

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

6.3.9 Intangible assets

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

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

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

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

An intangible asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit 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 years
- Core Banking System 7 years
- Portfolio acquisition 7 years

6.3.10 Impairment of non-financial assets

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

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

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

6.3.11 Reversal of impairments of non-financial assets

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

6.3.12 Deferred tax

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

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

6.3.13 Deposits, debt securities issued and subordinated liabilities

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

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

6.3.14 Provisions recognised as liabilities

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

6.3.15 Employee benefits

6.3.15.1 Defined contribution plans

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

6.3.15.2 Short-term benefits

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

6.3.16 Share capital and reserves

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

6.3.17 Income tax

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

6.3.18 Leases

6.3.18.1 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.

6.3.18.2 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, in particular leases of office premises.

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 6.8.2.

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 the lessee’s incremental borrowing rate, being the rate that the individual lessee 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:

a. increasing the carrying amount to reflect interest on the lease liability;

b. reducing the carrying amount to reflect the lease payments made; and

c. 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.

6.3.18.3 As a lessor

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

6.4 Use of judgements and estimates

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

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

6.4.1 Judgements

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

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

6.4.2 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment in the year ended 31 December 2020 is included in the following notes:

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

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

6.5 Segment reporting

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

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

6.6.1 Net interest income

6.6.1.1 Interest income

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

In thousands of EUR

Interest income	2020	2019 Restated
Financial institutions	219	256
Customers *	292 305	263 165
Total interest income	**292 524**	**263 421**

* The balance 2019 was restated following a change in the accounting policy, please refer to the note 6.2.1.1 for more details.

Interest income is charged on loans to customers based on the effective interest rate method. Out of this interest income, TEUR 2 834 is interest related to stage 3 exposures (2019: TEUR 3 175). This interest income is recognised net of applicable impairments to the loans.

6.6.1.2 Interest expense

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

In thousands of EUR

Interest expense	2020	2019
Financial institutions	-7 132	-4 887
Of which: Negative Interest paid on balances held with the Central Bank of Luxembourg (BCL)	-2 626	-2 115
Customer deposits	-6 782	-9 170
Subordinated liabilities	-1 840	-676
Interest expense on lease liability	-77	-86
Total interest expense	**-15 831**	**-14 819**

6.6.2 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	2020	
Product type	**Income**	**Expenses**
Revolving cards	9 365	-13 563
PCS	8 733	-1 734
Agent service	14 854	-618
Other	7 367	-
Total fee and commission income / expense	**40 319**	**-15 915**

In thousands of EUR	2019	
Product type	**Income**	**Expenses**
Revolving cards	13 666	-17 608
PCS	7 129	-1 090
Agent service	12 995	-
Other	7 445	-
Total fee and commission income / expense	**41 235**	**-18 698**

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

Fee and commission expense include account handling fees paid to banks as well as miscellaneous fees paid to Mastercard.

6.6.3 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) (please see Note 6.9) for 2020 of TEUR 4 895.

6.6.4 Personnel expenses

Personnel expenses include wages and salaries as well as social security and other costs. In addition, some employees participate in a defined pension insurance contribution plan. The Bank's cost for this pension plan including applicable taxes in 2020 was TEUR 424 (2019: TEUR 353). All pension contributions are paid in or provisioned.

6.6.5 Impairment on financial assets

The Bank applies an allowance for impairment on loans that it considers to be impaired. In addition, loans that are deemed uncollectible are written off.

The losses from impairment and write-offs of financial assets are composed as follows:

In thousands of EUR

Impairment	**2020**	**2019 Restated**
Net (loss) / gain from impairment *	-22 586	504
Write-offs	-45 822	-82 475
Total impairments	**-68 408**	**-81 971**

* The balance 2019 was restated following a change in the accounting policy, please refer to the note 6.2.1.1 for more details.

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

6.6.6 Income taxes

The Bank is subject to taxation in Luxembourg. The corporate income tax (CIT) rate was 17% in 2020. 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

	2020
Result on activities before taxes	123 699
Aggregate tax rate	24.94%
Theoretical income tax	**30 850**
Tax impact of exempt income	-7 646
Other regularisations	15
Effective income tax	**23 219**

As at 31 December 2020, tax liabilities amount to EUR 20.5 million. This includes negative adjustment of EUR 1.3 million on income tax due to the retrospective adjustment of the IFRS 9 ECL as described in Section 6.2.1.1. During the year 2020, the Bank paid income tax for the year 2018 of EUR 2.5 million.

As at 31 December 2020, there are no deferred tax liabilities or assets.

6.7 Notes to the statement of financial position

6.7.1 Cash and cash equivalents

In thousands of EUR

Cash and cash equivalents	2020	2019
Balances with central banks	689 795	710 988
Nostro account balances with financial institutions	17 707	9 476
Balance at 31 December	**707 502**	**720 464**

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 notes or coins 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.

6.7.2 Loans and advances and amounts owed to financial institutions

In thousands of EUR

Loans and advances to financial institutions	2020	2019
Available on demand	37 350	45 419
Money market placements	92 088	102 308
Balance at 31 December	**129 438**	**147 727**

Money market placements are term deposits with other financial institutions (banks). On 31 December 2020 there were two placements with an original maturity of three months.

The Bank has pledged term deposits of EUR 51 million (2019: EUR 51 million) and NOK 225 million (2019: NOK 225 million) as collateral for a guarantee in favour of Mastercard.

In 2020, the Bank owed to financial institutions EUR 206.25 million (2019: EUR 206.25 million) senior secured credit facility collateralised by loans and advances to German customers.

At balance sheet date, the Bank significantly reduced a liability in relation to overdrafts on current accounts to TEUR 26 compared to EUR 19.1 million as of 31 December 2019.

6.7.3 Loans and advances to customers

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

In thousands of EUR

Loans and advances to customers	**2020**	**2019 Restated ***
Credit card loans to retail customers	1 881 234	1 724 085
Impairment	-88 850	-66 243
Impairment first time adoption IFRS 9	-25 216	-25 216
Balance at 31 December	**1 767 168**	**1 632 626**

In thousands of EUR

Allowances for impairments	**2020**	**2019 Restated ***
Balance at 1 January as reported	66 243	66 740
Charge for the year	68 408	81 971
Write-offs (net of recoveries)	-45 801	-82 468
Balance at 31 December	**88 850**	**66 243**

* The balance 2019 was restated following a change in the accounting policy, please refer to the note 6.2.1.1 for more details.

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.

The Bank used to sell non-performing loans until June 2020. Respective gains and losses from these sales were not significant as the sale price was normally close to the carrying value. This activity was discontinued as from June 2020 upon expiration of the underlying contract.

6.7.4 Property, plant and equipment

In thousands of EUR

Cost	Right-of-use assets	IT equipment	Fixtures and fittings	Total
Balance at 1 January 2020	**6 011**	**3 664**	**1 455**	**11 130**
Acquisitions	345	152	125	622
Disposals	-	-	-	-
Balance at 31 December 2020	**6 356**	**3 816**	**1 580**	**11 752**
balance at 1 January 2019	**6 011**	**3 876**	**1 393**	**11 280**
Acquisitions	-	27	62	89
Disposals	-	-239	-	-239
Balance at 31 December 2019	**6 011**	**3 664**	**1 455**	**11 130**
Accumulated depreciation				
Balance at 1 January 2020	**1 351**	**3 476**	**1 119**	**5 947**
Depreciation for the period	1 568	170	176	1 914
Disposals	-	-	-	-
Balance at 31 December 2020	**2 919**	**3 646**	**1 295**	**7 860**
Balance at 1 January 2019	-	3 327	956	4 284
Depreciation for the period	1 351	249	163	1 763
Disposals	-	-100	-	-100
Balance at 31 December 2019	**1 351**	**3 476**	**1 119**	**5 947**
Carrying amount at 31 December 2020	**3 437**	**170**	**285**	**3 892**
Carrying amount at 31 December 2019	**4 660**	**188**	**336**	**5 183**

6.7.5 Intangible assets

In thousands of EUR

Cost	**Purchased software**	**Portfolio Acquisition (1)**	**Total**
Balance at 1 January 2020	19 267	24 000	43 267
Acquisitions / additions	2 803	677	3 480
Balance at 31 December 2020	**22 070**	**24 677**	**46 747**
Balance at 1 January 2019	15 676	-	15 676
Acquisitions / additions	3 591	24 000	27 591
Balance at 31 December 2019	**19 267**	**24 000**	**43 267**

Accumulated amortisation	**Purchased software**	**Portfolio Acquisition**	**Total**
Balance at 1 January 2020	9 420	1 286	10 706
Amortisation for the period	2 514	3 727	6 241
Balance at 31 December 2020	**11 934**	**5 013**	**16 947**
Balance at 1 January 2019	7 706	-	7 706
Amortisation for the period	1 714	1 286	3 000
Balance at 31 December 2019	**9 420**	**1 286**	**10 706**
Carrying amount at 31 December 2020	**10 136**	**19 664**	**29 800**
Carrying amount at 31 December 2019	**9 847**	**22 714**	**32 561**

(1) On 29 March 2020, the Bank acquired card servicing operations of Catella Bank for consideration of TEUR 24 677. TEUR 24 000 had already been considered as at 1 January 2020 due to the high certainty on the minimum consideration to be paid, while the remaining TEUR 677 were recognised during the year. The remaining amortization period is 6 years.

In accordance with IAS 36, The Bank has tested the acquired card servicing operations for impairment at the end of the reporting period. This test concludes that the expected overall performance of the acquired card servicing operations will exceed initial expectations and this despite the negative impact of COVID-19 Pandemic which resulted in lower customer activity and thus lower commission income during 2020. The test has shown that portfolio performance prior to the outbreak of the pandemic was better than initially projected with higher turnover resulting in higher net commission income. Management expects that card activity levels will strongly rebound and achieve full recovery by the end of 2021.

6.7.6 Other assets

In thousands of EUR

	2020	2019
Mastercard Receivable	1 896	1 600
Insurance commission receivables	3 725	3 735
Prepaid administrative expenses	4 622	3 042
Receivable from suppliers	586	-
VISA Guarantee	745	750
Sundry	527	676
Balance at 31 December	**12 101**	**9 803**

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

6.7.7 Amounts owed to customers

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

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

6.7.8 Other liabilities

In thousands of EUR

	2020	2019
Short term payables	-	12 000
Preferential creditors	1 067	793
Other accruals	15 780	15 929
Other liabilities	1 148	2 254
Lease liabilities	3 496	4 585
Balance at 31 December	**21 491**	**35 561**

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

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

6.7.9 Subordinated liabilities

The subordinated liabilities consist of a floating rate Tier 2 callable bond of EUR 25 million and a tenor of 10 years. The bond carries a coupon of 3 months EURIBOR + 600bps and will have a first call option for Advanzia after 5 years.

A NOK 85 million floating rate bond was repaid during the year 2020.

6.7.10 Equity

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

6.7.10.1 Subscribed capital and issue premiums

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

In thousands of EUR

Date	Subscribed capital	Issue premiums	Issued voting shares	Issued non-voting shares
1 January 2020	17 553	9 890	210 210	-
31 December 2020	17 553	9 890	210 210	-

As at 31 December 2020 and 2019, the 210 210 issued shares were distributed among the following share classes:

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

Shares in share classes A-C are ordinary voting shares and have a nominal value of EUR 83.50 each. As at 31 December 2020, management held no shares in Advanzia Bank S.A as well as the Bank holds no own shares.

6.7.10.2 Other equity instruments

The Bank issued a NOK 225 million 3 months NIBOR + 700bps perpetual Additional Tier 1 bond on 12 July 2019. The bonds are callable by Advanzia with the first call option 5 years after issuance. The Bank paid TEUR 1 773 to AT1 bondholders during 2020 as distribution. The Bank can cancel distributions at any time.

6.7.10.3 Reserves

In 2020 Advanzia Bank S.A. allocated TEUR 6 500 of the 2019 profits to a reserve according to Luxembourg tax law and relocated TEUR 5 207 to profit carried forward.

As of 31 December 2020 the legal reserve was fully formed.

6.7.10.4 Dividends

The Bank distributed no interim dividend to its equity holders during the year ending 31 December 2020 (2019: TEUR 40 045).

6.8 Leases

6.8.1 Leases as lessee

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

6.8.2 Extension options

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

6.8.3 Maturity analysis of lease liabilities

As at 31 December 2020, 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	3-4 years	More than 5 years
Lease liability	3 496	3 545	1 452	1 406	687	-	-
Total	**3 496**	**3 545**	**1 452**	**1 406**	**687**	**-**	**-**

6.9 Deposit guarantee scheme

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

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

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

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

For 2020 the Bank paid EUR 4.9 million to FGDL (2019: EUR 2.3 million).

6.10 Auditor's fees

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

In thousands of EUR

	2020	**2019**
Audit fees	190	235
Audit related fees	6	6
Tax services	58	69
Total fees (excl. VAT)	**254**	**310**

6.11 Staff

Average number	**2020**	**2019**
Management Committee	7	6
Employees (fulltime equivalent)	191	171
Total	**198**	**177**

At the end of 2020, the company had 198 employees (FTE), including the Management Committee.

6.12 Related parties

6.12.1 Parent and ultimate controlling party

Kistefos AS, Norway retained majority control of the shares during the year ended 31 December 2020.

6.12.2 Transactions with board members and key management personnel

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

In thousands of EUR

	2020	2019
Remuneration	2 860	2 312
Pensions	171	119
Loans	4	15
Other commitments	58	53

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

In thousands of EUR

	2020	2019
Remuneration	72	104
Pensions	-	-
Loans	6	12
Other commitments	58	46

Additionally, during the period, Kistefos AS associates and their immediate relatives have transacted with the Bank with loans amounting to TEUR 3 and other commitments amounting to TEUR 350.

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

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

7 RISKS AND RISK MANAGEMENT

The following note provides an overview and analysis of the risks to which Advanzia Bank is subject, and how the Bank manages such risks. Unless otherwise stated, all figures are in euro as at 31 December 2020.

7.1 Risk management: objectives and policies

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

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

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

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

For managing risks, the following principles are followed:

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

7.2 Credit risk

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

7.2.1 Management of credit risk

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

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

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

7.2.2 Exposure to credit risk

In thousands of EUR	Loans and advances to customers		Loans and advances to financial institutions	
Collectively impaired	**2020**	**2019 Restated ***	**2020**	**2019**
Stage 3 (impaired)	181 895	116 444	-	-
Gross amount	**182 053**	**116 444**	**-**	**-**
Allowance for impairment	-70 272	-46 337	-	-
Carrying amount	**111 623**	**70 107**	**-**	**-**

Past due but not impaired	**2020**	**2019 Restated ***	**2020**	**2019**
Stage 2	305 823	309 054	-	-
Gross amount	**305 823**	**309 054**	**-**	**-**
Allowance for impairment	-23 503	-27 706	-	-
Carrying amount	**282 320**	**281 348**	**-**	**-**

Neither past due nor impaired	**2020**	**2019 Restated ***	**2020**	**2019**
Stage 1	1 393 516	1 298 587	129 448	147 741
Gross amount	**1 393 516**	**1 298 587**	**129 448**	**147 741**
Allowance for impairment	-20 291	-17 416	-10	-13
Carrying amount	**1 373 225**	**1 281 171**	**129 438**	**147 728**
Carrying amount - amortised cost	**1 767 168**	**1 632 626**	**129 438**	**147 728**

* The balance 2019 was restated following a change in the accounting policy, please refer to the note 6.2.1.1 for more details.

In addition to the above, the Bank had at balance sheet date through the credit cards issued entered into undrawn commitment of EUR 4 780 million (2019: EUR 4 335 million) with its credit card clients being neither past due nor impaired (Stage 1). 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.

See also Note 6.3.5 regarding definitions and accounting policies for impaired loans, note 6.4 regarding judgements and estimates, as well as note 6.6.5 regarding impairments on financial assets and Note 6.7.3 regarding loans and advances to customers.

Loss allowance

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

In thousands of EUR

		2020	
Amounts arising from ECL	**Stage 1**	**Stage 2**	**Stage 3**
Opening ECL (restated)*	**17 415**	**27 707**	**46 337**
Transfers to Stage 1	3 357	-8 563	-750
Transfers to Stage 2	-1 393	6 782	-628
Transfers to Stage 3	-1 115	-7 099	46 917
New issued	2 877	6 924	6 230
Write-offs	-199	-3 455	-23 399
No transition	-652	1 208	4 096
Interest adjustment	-	-	-8 531
Closing ECL	**20 290**	**23 504**	**70 272**

In thousands of EUR

		2019	
Amounts arising from ECL	**Stage 1**	**Stage 2**	**Stage 3**
Opening ECL as originally presented	**10 119**	**28 883**	**54 525**
Change in ECL due to change in accounting policy *	4 747	-7 181	868
Opening ECL (restated)*	14 866	21 702	55 393
Transfers to Stage 1 (restated)*	2 291	-5 579	-475
Transfers to Stage 2 (restated)*	-1 566	7 738	-601
Transfers to Stage 3 (restated)*	-648	-4 103	26 956
New issued (restated)*	3 237	10 810	6 766
Write-offs (restated)*	-549	-4 467	-38 542
No transition (restated)*	-216	1 606	2 684
Interest adjustment (restated)*	-	-	-5 844
Closing ECL (restated)*	**17 415**	**27 707**	**46 337**

* The balance 2019 was restated following a change in the accounting policy, please refer to the note 6.2.1.1 for more details.

COVID-19 Pandemic in the context of ECL

In response to the COVID-19 Pandemic, the Bank has implemented the following measures:

- The Credit Risk Committee (CRC) decided to tighten the onboarding policy in two markets where risk could potentially have become more important (Austria and France).
- The Bank adopted the legally required moratoria in Germany, Austrian and Spain.
- The Bank decided to increase the level of monitoring in order to be able to quickly react to any new development of the situation.

The monitoring framework of the Bank included the following:

- On a daily basis, the Bank's management received a reporting covering such risk indicators as daily acceptance rate, daily increase of new open cards (in number and euro amount), daily count of new applicants with high risk profile, daily turnover, daily credit transactions (especially re-imbursement of plane tickets and hotels), daily loan balance, daily cash inflows and outflows, daily check of the competitors' rates for overnight deposit.
- On a weekly basis, the Bank's Executive management Committee (EMC) and the CSSF were informed about any operational disruption, credit and liquidity risks thresholds, financial impact (P&L, Solvency and capital ratio), and potential breach in the bank's recovery plan's indicators.
- On a monthly basis, the Bank's Executive management Committee (EMC), the Board of Directors and the CSSF were informed about all fluctuations in the relevant risk KPIs including, but not limited to, risk profile of new and existing customers, delinquency rates, roll rates between delinquency status, payment behaviour, balance, credit limit and usage ratio, count of inactive clients, transactors and revolvers and migration rates between those three states, recovery rates, ECL evolution (staging, balance per stage, impairment ratio, and total ECL), liquidity ratios and their drivers (deposit flows, turnover, repayment), human resources situation (head count, in home office, in special leave, infected, in quarantine), service status of every important supplier, impact on the planning of internal projects, impact on P&L and regulatory ratios, as well as different scenarios and action plans in case any degradation was spotted in the above list of indicators.

Following the analysis of the credit portfolio performance in the course of the year 2020, the Bank noticed that:

- On the one hand, the customer acquisition activity decreased and thus the Bank onboarded less new clients;
- On the other hand, the existing customers improved their card repayments and the revolving balance decreased.

Thus over the course of the year 2020 there was no significant impact on the Bank's business caused by the COVID-19 Pandemic.

The new ECL methodology adopted in 2020 (see Section 6.2.1.1 for more details) and updated models organically captured COVID-19 Pandemic impacts and thus the Bank did not implement any further changes specifically focusing on that:

- All behavioural and other variables that enter the PD and other models included the recent historical data affected by the lockdown circumstances;
- The macroeconomic models were updated with the latest macro-economic indicators, while the weighting of macro scenarios remained unchanged, considering that scenarios themselves were revised to reflect realistic projections.
- As per the new methodology, a forward-looking adjustment is done for all ECL components (PD, EAD and LGD).

7.2.3 Concentration risk

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

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

The 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 2020 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	**2020**	**2019 Restated**	**2020**	**2019**	**2020**	**2019**
Banks		-	129 438	147 728		-
Retail *	1 767 168	1 632 626		-		-
Corporates		-		-		38
Total 31 December	**1 767 168**	**1 632 626**	**129 438**	**147 728**		**38**

Concentration by location	**2020**	**2019 Restated**	**2020**	**2019**	**2020**	**2019**
Germany	1 511 143	1 436 729	-	-	-	-
Luxembourg	15 543	6 925	87 800	107 259	-	-
France	115 019	98 139	718		-	38
Austria	104 247	82 854	-		-	-
Other EU/EEA countries	21 216	7 979	40 920	40 469	-	-
Total 31 December	**1 767 168**	**1 632 626**	**129 438**	**147 728**	**-**	**38**

* The balance 2019 was restated following a change in the accounting policy, please refer to the note 6.2.1.1 for more details.

7.2.4 Trading assets

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

7.2.5 Settlement risk

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

7.2.6 Financial institutions

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

7.3 Fraud risk

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

Advanzia has over the past years continuously enhanced the existing measures to identify and mitigate fraud losses. The credit card related fraudulent activity in 2020 resulted in a loss of TEUR 3 413 (TEUR 2 098 in 2019) which corresponds to a fraudulent amount rate measured as ratio of card turnover of 0.10% in 2020 (0.05% in 2019). These losses are in the financial statements included as part of the write-offs of credit card loans.

7.4 Liquidity risk

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

7.4.1 Management of liquidity risk

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

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

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

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

The Bank relies on deposits from customers as its primary source of funding. The deposits from customers are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends. On an aggregate level, the customer deposits exhibit a high degree of stability. During 2020, customer deposits in savings products increased by 3% (2019: increase of 22.2%).

7.4.2 Exposure to liquidity risk

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

LCR (Min. 100%)	2020	2019
At 31 December	159%	179%

NSFR (Min. 100%)	2020	2019
At 31 December	132%	140%

There were no breaches of the liquidity requirements in 2020.

7.4.3 Residual contractual maturities of financial liabilities

31 DECEMBER 2020

In thousands of EUR

NON-DERIVATIVE LIABILITIES	Carrying amount	Gross nominal inflow/ outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Loans from banks	208 807	-209 133	-207 799	-1 334	-	-	-
Deposits from customers	2 070 318	-2 070 318	-2 070 318	-	-	-	-
Unrecognised loan commitments	4 780 084	-4 780 084	-4 780 084	-	-	-	-
Total	**7 059 209**	**-7 059 535**	**-7 058 201**	**-1 334**	**-**	-	-

31 DECEMBER 2019

In thousands of EUR

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

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

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

7.5 Market risks

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

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

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

7.5.1 Management of market risks

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

Advanzia operates mainly in EUR. The AT1 bond is denominated in NOK, and the currency risk related to this position is "hedged" with a NOK deposit of the same amount. In addition, the Bank normally 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 apart from the above not need to recognise or manage any other currency risk. Due to the change in the correspondent bank, an FX overdraft facility was still in negotiation as at 31 December 2020 and the total EUR equivalent FX exposure was of TEUR 15 305. A few suppliers may invoice in currencies other than EUR, but these are immediately translated to EUR, and the currency risk as such is negligible.

7.5.2 Exposure to interest rate risk

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

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

31 DECEMBER 2020

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	689 795	689 795	-	-	-	-
Central bank reserves in excess of the minimum required (deposit facility)	-	-	-	-	-	-
Loans and advances to banks (assimilated to Nostro)	17 707	17 707	-	-	-	-
Term deposits	92 088	92 088	-	-	-	-
Loans and advances to partner banks (PCS)	6 833	6 833	-	-	-	-
Gross loans and advances to credit card customers FR	133 587	133 587	-	-	-	-
Gross loans and advances to credit card customers AT	109 276	109 276	-	-	-	-
Gross loans and advances to credit card customers ES	29 877	29 877	-	-	-	-
Gross loans and advances to credit card customers DELU	1 608 495	1 608 495	-	-	-	-
Total interest bearing assets	**2 687 658**	**2 687 658**	**-**	**-**	**-**	**-**

Interest bearing liabilities	Gross Amount	Less than 3 months	3-6 months	6-12 months	1-5 years	more than 5 years
Overdraft Nostro Accounts	27	27	-	-	-	-
Term loans	208 780	208 780	-	-	-	-
Deposits from customers	2 070 875	2 070 875	-	-	-	-
Subordinated loans	25 000	25 000	-	-	-	-
Total interest bearing liabilities	**2 304 682**	**2 304 682**	**-**	**-**	**-**	**-**

Gap	382 976	382 976				
Cumul gap	382 976	382 976				
Cumul. gap (%)	14.2%	14.2%				

31 DECEMBER 2019

In thousands of EUR

Interest bearing assets	Gross amount	Less than 3 months	3-6 months	6-12 months	1-5 years	more than 5 years
Central bank - minimum reserve	20 203	20 203	-	-	-	-
Central bank reserves in excess of the minimum required (deposit facility)	690 785	690 785	-	-	-	-
Loans and advances to banks (assimilated to Nostro)	9 476	9 476	-	-	-	-
Term deposits	102 308	102 308	-	-	-	-
Loans and advances to partner banks (PCS)	45 419	45 419	-	-	-	-
Gross loans and advances to credit card customers FR	114 306	114 306	-	-	-	-
Gross loans and advances to credit card customers AT	98 725	98 725	-	-	-	-
Gross loans and advances to credit card customers ES	16 357	16 357	-	-	-	-
Gross loans and advances to credit card customers DELU	1 495 119	1 495 119	-	-	-	-
Total interest bearing assets	**2 592 698**	**2 592 698**	-	-	-	-

Interest bearing liabilities	Gross Amount	Less than 3 months	3-6 months	6-12 months	1-5 years	more than 5 years
Overdraft Nostro Accounts	17 837	17 837	-	-	-	-
Term loans	207 531	207 531	-	-	-	-
Deposits from customers	2 012 425	2 012 425	-	-	-	-
Subordinated loans	33 617	33 617	-	-	-	-
Total interest bearing liabilities	**2 271 410**	**2 271 410**	-	-	-	-

Gap	321 380	321 380				
Cumul. gap	321 380	321 380				
Cumul. gap (%)	**12.4%**	**12.4%**				

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

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

31 DECEMBER 2020

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	20 537	20 947	20 126	308	-308
Central bank reserves in excess of the minimum required (deposit facility)	670 458	683 921	656 995	10 105	-10 105
Loans and advances to banks (assimilated to Nostro)	82 402	84 056	80 747	1 242	-1 242
Term deposits	21 489	21 904	21 074	311	-312
Loans and advances to partner banks (PCS)	6 833	6 941	6 724	81	-82
Gross loans and advances to credit card customers FR	133 634	135 487	131 774	1 391	-1 396
Gross loans and advances to credit card customers AT	110 816	112 314	109 313	1 124	-1 128
Gross loans and advances to credit card customers DELU	1 611 178	1 633 000	1 589 278	16 380	-16 438
Gross loans and advances to credit card customers ES	29 989	30 396	29 580	306	-307
Total interest bearing assets	**2 687 336**	**2 728 966**	**2 645 611**	**31 248**	**-31 318**
Interest bearing liabilities		**+200 bp**	**-200 bp**	**+200 bp**	**-200 bp**
Term loans	206 250	210 099	202 397	2 889	-2 892
Deposits from customers	2 053 660	2 092 919	2 014 368	29 468	-29 492
Subordinated loans	46 489	47 287	45 690	599	-600
Total interest bearing liabilities	**2 306 399**	**2 350 305**	**2 262 455**	**32 956**	**-32 984**
Gap	380 936	378 662	383 157	-1 707	1 667
Cumul gap	380 936	378 662	383 157		
Cumul. gap (%)	**14.18%**	**13.88%**	**14.48%**		

31 DECEMBER 2019

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	20 203	20 607	20 122	303	-61
Central bank reserves in excess of the minimum required (deposit facility)	690 785	704 606	690 785	10 374	-
Loans and advances to banks (assimilated to Nostro)	9 476	9 666	9 476	142	-
Term deposits	102 308	104 154	100 458	1 386	-1 388
Loans and advances to partner banks (PCS)	45 419	46 328	45 419	682	-
Gross loans and advances to credit card customers FR	114 306	116 094	112 511	1 342	-1 348
Gross loans and advances to credit card customers AT	98 725	100 266	97 177	1 157	-1 162
Gross loans and advances to credit card customers DELU	1 495 119	1 518 411	1 471 725	17 483	-17 560
Gross loans and advances to credit card customers ES	16 357	16 612	16 101	192	-192
Total interest bearing assets	**2 592 698**	**2 636 744**	**2 563 774**	**33 061**	**-21 711**
Interest bearing liabilities		**+200 bp**	**-200 bp**	**+200 bp**	**-200 bp**
Overdraft Nostro Accounts	17 837	18 170	17 770	250	-50
Term loans	207 439	211 312	206 664	2 907	-581
Deposits from customers	2 012 425	2 050 981	2 004 710	28 940	-5 791
Subordinated loans	33 617	34 189	33 115	429	-377
Total interest bearing liabilities	**2 271 318**	**2 314 652**	**2 262 259**	**32 526**	**-6 799**
Gap	321 380	322 092	301 515	535	-14 912
Cumul. gap	321 380	322 092	301 515		
Cumul. gap (%)	**12.4%**	**12.2%**	**11.8%**		

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

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

7.6 Operational risks and outsourcing risk

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

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

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

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

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

The Bank is regularly assessing and reporting its operational and outsourcing risk to management as well as to the Board of Directors. The Bank is also regularly assessing its expected losses in relation to these risks on a regular basis. The Bank has not incurred nor recorded any material operational losses in 2020.

Advanzia Bank S.A. has received acceptance from the regulator for using the Alternative Standardised Approach (ASA) as described in the Basel 2 framework as well as Regulation (EU) N° 575/2013 for assessing operational risk charge for capital adequacy purposes. The amount assessed for this charge as at balance sheet date was TEUR 5 244 when using the ASA method.

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

Disaster Recovery/Business Continuity Plan

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

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

7.7 Concentration risk

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

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

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

7.8 Model risk and income risk

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

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

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

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

7.9 Reputation risk and compliance risk

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

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

7.10 Capital management

Regulatory capital

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

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

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

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

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

The Bank's regulatory capital position at 31 December 2020 was as follows:

In thousands of EUR

	Note	2020	2019 Restated
Subscribed capital	6.7.10	17 553	17 553
Issue premium	6.7.10	9 890	9 890
Reserves	6.7.10	21 659	16 826
Income carried forward	6.7.10	132 933	132 805
Phasing of IFRS 9 first time adoption impact		20 052	24 903
Interim profits inclusion authorised by CSSF	6.7.10	-	-
Less intangible assets	6.7.5	-29 800	-32 561
CET 1		**172 287**	**169 416**
Eligible subordinated liabilities as AT1		21 221	**20 520**
Tier 1 Capital		**193 507**	**189 936**
Eligible subordinated liabilities – AT2		25 000	27 360
Total Capital		**218 507**	**217 296**

* The balance 2019 was restated following a change in the accounting policy, please refer to the note 6.2.1.1 for more details.

If considering the remaining interim profits for the year (after dividend distribution), the Tier 1 capital as at 31 December 2020 would amount to EUR 294 million (2019 restated: EUR 290 million).

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

Pillar 1

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

The capital ratio (Pillar 1) as at 31 December 2020 was 14.61% (2019: 15.92%). Profits for the financial year are not included in the regulatory capital. Had the remaining 2020 profits also been included, the Bank's total capital ratio would have been 21.33% (2019: 21.29%).

Pillar 2 (ICAAP)

Advanzia will submit its ICAAP document for 2020 during the year, as per regulatory requirements.

During the ICAAP process in 2020, Advanzia has been following a strategy of assessing all risk aspects available, and considered their relevance. The Bank is to a larger degree also quantifying its assessments based on experience data. The Bank assessed its ICAAP on a monthly basis, which is reported to the Board of Directors.

The Pillar 2 ratio at 31 December 2020 was 15.08% (2019: 18.27%) and within the agreed risk appetite of Advanzia.

Capital allocation

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

7.12 Remuneration policy and practices

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

Management of the Bank as well as the Chief Compliance Officer, Chief Internal Audit, and the Head of Human Resources and Legal are considered material risk takers. The remuneration for both management and employees consists of a fixed component and a variable component. The variable component is related to the performance of the Bank as well as the individual performance. The variable component for executive management, management, identified staff and employees cannot exceed 50%, 33% and 25% respectively of the total annual remuneration. For executive management and management any variable payment exceeding 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 6.11 and 6.12.

Munsbach, Luxembourg March 2021

Mr. Bengt Arve Rem
Chairman of the board

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

Mr. Wiljar Nesse

Mr. Nishant Fafalia

Mr. Tor Erland Fyksen

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To the Board of Directors
Advanzia Bank S.A.
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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Advanzia Bank S.A. ("Advanzia Bank"), which comprise the statement of financial position as at 31 December 2020, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Advanzia Bank as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the "Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the financial statements" section of our report. We are also independent of Advanzia Bank in accordance with the International 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.

T.V.A. LU 27351518
R.C.S. Luxembourg B 149133

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

Why is it a key audit matter?

Advanzia Bank's portfolio of loans and advances to customers amounts to EUR 1.767 million as at 31 December 2020. These loans and advances to customers are measured at amortised cost. The allowance for impairment on loans amounts to EUR 68 million for the year 2020.

Certain aspects of the accounting for loan losses require significant judgement of management, such as the selection and application of models, assumptions and data used to estimate the ECL.

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

Please refer to the "Significant accounting policies" section in Note 6.3.5 and related disclosures in the "Risk Management" Note 7 of the financial statements.

How we responded to the risk

With respect to internal controls, we have tested the design and implementation and the operating effectiveness in the following areas:

- collection monitoring controls,
- controls over write-off handling,
- controls over the reliability of data sources.

In addition, we have performed the following test of details:

We assessed together with our internal Financial Risk Management 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 internal Financial Risk Management specialists the calculation routine used for the ECL calculation as at 31 December 2020.

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

We have been appointed as "Réviseur d'Entreprises agréé" by the Board of Directors on 13 March 2020 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 16 years.

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

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

Luxembourg, 5 March 2021

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

M. Weber