Public

FINANCIAL STATEMENTS

For the Year Ended 31 December 2021
Advanzia Bank S.A.

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 2.1 million credit card customers, we are a leading online credit card issuer in Germany, with a strong presence in Luxembourg, Austria, France and Spain, and since 2021 in Italy.

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 260 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 16 countries.

1.5 Solid shareholder structure

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

2 REPORT OF THE BOARD OF DIRECTORS

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 labelled and co-branded credit cards via business partner networks. Advanzia is furthermore a leading pan-European provider of turnkey credit card programmes for banks and financial institutions.

2.1 Overall results

2.1.1 Strong financial performance in a continued disruptive environment

The COVID-19 pandemic has continued to disrupt the global economy, business activity and social life throughout 2021. Nevertheless, Advanzia has kept its growth path and reached various important milestones related to its ongoing digital transformation. The bank showcased uninterrupted market growth, entered a new consumer market, and has further optimised its funding structure with a landmark securitisation transaction, supporting the ambitious growth plans. The 2021 results continue to demonstrate the success of the bank's credit risk underwriting and its ability to adequately adapt acceptance policies and marketing strategies to improve portfolio performance and minimise risk.

In 2021, the bank paid a dividend of MEUR 78 to its shareholders out of the financial result 2020.

2.1.2 Digital transformation and market growth

The bank continued its digitalisation programme with the setup of a state-of-the art cloud-based platform, new mobile apps rolled out in all markets and mobile payment now on offer in all available markets. The redesign of the Gebührenfrei brand in Germany in conjunction with the launch of the new mobile app and customer portal was a notable product development highlight. The bank entered its sixth consumer market with the launch of Carta YOU for Italian consumers – this was the first product to launch from the new digital banking platform, and the first credit card in the bank's international portfolio to offer a fully digital onboarding process as part of its omni-channel approach.

2.1.3 Loyal and active customer base

Overall, the loan balance grew satisfactorily during 2021, much more pronounced than the previous year. The number of new active customers also grew, and the bank's existing client base was more active during 2021 with increasing transaction volumes per card reaching pre-pandemic levels as of the second half of the year.

The bank's credit card portfolio increased by 216 000 new active credit card customers[1]. At the end of the year, the bank had 2.1 million credit cards in force[2] and a gross loan balance of MEUR 2 205. Profit after taxes was MEUR 121.

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[1] New active customers is the number of customers who have used their cards for the first time.
[2] Cards in force: The number of issued cards including active and inactive cards.

In 2021, the total turnover on all cards reached EUR 4.2 billion or EUR 3 400 per active customer[3], and the average loan balance per active customer amounted to approximately EUR 1 600. Advanzia's main income driver, the gross loan balance, increased by 15.4% compared to the previous year, to MEUR 2 205.

Advanzia employed 193 people in total at the end of the year, compared to 204 at the end of 2020.

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 1 865. The new logo and brand identity were implemented to optimise digital impact, bringing a unified and recognisable brand experience to Gebührenfrei cardholders, with the new app, website and customer portal providing harmonised touchpoints across the customer lifecycle. Overall, card applications rebounded favourably during the second half of the year. In order to increase card activation numbers, the bank conducted new campaigns with attractive customer benefits.

In **France**, carte ZERO sales development was in line with planned volumes, with targeted campaigns maximising growth potential in this market. The gross loan balance reached MEUR 152.

In **Austria**, the Free Mastercard Gold experienced slower growth, partly due to the market saturation and limited online marketing opportunities. Nevertheless, the bank continued to onboard new partnerships on its co-branded programme that was launched in 2020. The year ended with a gross loan balance of MEUR 131.

The bank's performance in **Spain** was characterised by a focused marketing and onboarding strategy. The implementation of the new application solution via API for business partners resulted in an uplift in lead generation and the bank signed a significant number of new partnership agreements for its co-branded programme. The year ended with 79 500 credit card customers and a gross loan balance of MEUR 52.

The bank launched its no-fee Mastercard Gold Carta YOU in **Italy** in November 2021 based on the new digital banking platform.

Besides credit cards, Advanzia also offers an online sight deposit account, the **Advanziakonto**. By the end of 2021, the deposited balance stood at MEUR 2 222, a 7.3% growth compared to 2020.

During 2021, Advanzia solidified its position as the leading provider for **Professional Card Services for private banks** and financial institutions in Europe. Advanzia serviced 91 banks in 11 countries by the end of the year. Processes were harmonised in 2021 and major steps were taken towards developing new service features in order to expand the business model for further growth.

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[3] Active customers are customers with at least one movement on their account in the last month.

2.2 Economic outlook

As the pandemic confinement measures seem to slowly come to an end, the expectation is that GDP and general activity and consumption will increase. The markets served by Advanzia expect a GDP growth of approximately 4%, an improved employment rate and reduced public deficits in 2022. Despite inflationary pressures and probable interest rate increases, the outlook remains positive for all markets that the bank is present in. This, coupled with increased travelling driven by fewer restrictions, will increase credit card activity across our client base in all markets.

The bank's credit risk is stable on a comfortable level with a comparatively low number of new default cases across all markets. Nevertheless, the Bank continues to closely monitor the macroeconomic development and receivables performance and is ready to take actions should unexpected events arise.

Given the favourable economic outlook and the bank's strong capital position, Advanzia anticipates that growth levels will return stepwise to pre-pandemic levels resulting in 2022 and beyond being years of strong growth.

2.3 Corporate development

2.3.1 Digitalised customer experience

All of the bank's markets are now fully digitalised and migrated to the cloud-based digital banking platform, setting the stage for continued growth, speedier market entry and the faster launch of digital solutions, as indicated by the milestones reached in 2021 and the new market launch in Italy. New mobile apps and customer portals are available in all markets, with various mobile payment providers activated in line with market availability.

2.3.2 Securitisation milestone and landmark ABS deal

Following the bank's issuance of hybrid capital in spring 2021, the issuance of Asset Backed Securities in November was a landmark deal and an important step towards a strengthened and diversified balance sheet. The transaction consisted of EUR 475 million in senior funding and was the first ABS programme in continental Europe based on a German credit card portfolio that meets the requirements for simple, transparent and standardised (STS) securitisations and sets the foundation for the future growth ambitions of Advanzia.

2.3.3 Increased automation and first AI implementations

The move towards a cloud-based setup of the bank's IT Infrastructure has brought increased usability and accessibility, as well as enhanced cost-efficiency through better automation. During 2021, the implementation of Infrastructure as Service (IaaS) enabled the bank to upscale and downscale following pandemic-related market fluctuations, and this inherent flexibility will continue to be an advantage for the years to come.

On an operational level, the bank has started the implementation of Robotic Process Automation (RPA) and continues to optimise agent workflow systems as a basis for future enhanced automation and additional implementation of AI in the customer service domain.

3 LEADERSHIP

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, Class C Director until 13 January 2021
- **Mr. Nishant Fafalia**, Kistefos AS, Investment Director
- **Mr. Tor Erland Fyksen**, Private investor
- **Mr. Wiljar Nesse,** CEO DigiPlex, Class C Director as of 14 January 2021

Audit Committee

- **Mr. Nishant Fafalia**, Chairman of the Audit Committee
- **Mr. Wiljar Nesse,** Member of the Audit Committee
- **Mr. Tor Erland Fyksen**, Member of the Audit Committee

Nomination & Remuneration Committee

- **Mr. Bengt Arve Rem, Chairman**
- **Dr. Thomas Schlieper**
- **Mr. Nishant Fafalia**

3.1 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;
- 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 specialised committees, operational controls as well as dedicated internal control functions.

4.1.1 Specialised committees

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

The BoD has established an Audit Committee (AC), responsible for assisting the BoD in the audit domain and a Nomination and Remuneration Committee (NRC), responsible for assisting the BoD in the remuneration domain.

4.1.2 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.

4.1.3 Internal controls

The bank has implemented three distinct and independent types of internal control encompassing risk control, compliance and internal audit. The staff in charge of the internal control function report 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 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 operates 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 SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Following the escalation of the Russia-Ukrainian conflict in February 2022, the Management of the Bank closely monitors the developments and assesses an impact on the Bank's operations. For the time being no material impacts were identified considering that:

- The Bank has no operations and no business presence in Ukraine, nor any neighbouring countries and therefore there is no immediate impact to the Bank's activities and employees;
- The economic sanctions imposed have no impact on the Bank's client, supplier, and investor relationships;
- No impact is expected to the carrying amount of both assets and liabilities, no restrictions on assets have occurred due to sanctions imposed;
- No impact is expected on borrowing covenants, liquidity and solvency;
- No cyber-attacks have occurred so far; the Management stays alert on the increased risk of such attacks.

Therefore, the Management considers the financial statements as at 31 December 2021 do not require any adjustment due to this subsequent event.

The Bank is not aware of any other significant events after reporting date which would have a material impact on the 2021 financial statements.

6 FINANCIAL STATEMENTS

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

6.1 Statement of Financial Position as at 31 December 2021

In thousands of EUR

Assets	Note	2021	2020
Cash and cash equivalents	7.8.1	897 579	707 502
Loans and advances		2 185 484	1 896 606
whereof: financial institutions	*7.8.2*	*143 123*	*129 438*
whereof: corporates		*12*	*-*
whereof: customers	*7.8.3*	*2 042 349*	*1 767 168*
Property, plant and equipment	7.8.4	2 260	3 892
Intangible assets	7.8.5	27 374	29 800
Other assets	7.8.6	13 401	12 101
Total assets		**3 126 098**	**2 649 901**

Liabilities and equity			
Amounts owed to financial institutions		23 475	208 807
Amounts owed to customers	7.8.7	2 221 257	2 070 318
Structured financing	7.8.8	400 198	-
Tax liabilities	7.7.6	20 378	20 549
Other liabilities	7.8.10	22 927	21 491
Subordinated liabilities	7.8.11	55 000	25 000
Total liabilities		**2 743 235**	**2 346 165**
Subscribed capital	7.8.12	17 553	17 553
Issue premiums	7.8.12	9 890	9 890
Other equity instruments	7.8.12	61 668	21 221
Other reserves	7.8.12	29 859	21 659
Deposit guarantee scheme reserve	7.10	-	-
Profit (loss) carried forward		147 120	134 706
Result for the financial year		120 726	100 480
Interim dividends		-	-
Interest paid on AT1	7.8.12	-3 953	-1 773
Total equity		**382 863**	**303 736**
Total liabilities and equity		**3 126 098**	**2 649 901**

The notes are an integral part of these financial statements.

6.2 Statement of Profit and Loss and Other Comprehensive Income

In thousands of EUR	Note	2021	2020 Restated
Financial and operational income and expenses		**336 048**	**297 989**
Interest income [1]	7.7.1.1	325 171	293 744
Interest expenses	7.7.1.2	-14 461	-15 831
Fee and commission income	7.7.2	45 103	40 319
Fee and commission expenses	7.7.2	-17 964	-15 915
Net exchange result		-24	-376
Other operating income	7.7.3	4 820	3 780
Other operating expenses	7.7.3	-6 597	-7 731
Administrative expenses		**-97 542**	**-94 188**
Personnel expenses	7.7.4	-21 075	-19 792
General administrative expenses		-76 467	-74 396
Depreciation and amortisation		**-8 647**	**-8 155**
Depreciation on property, plant and equipment	7.8.4	-1 774	-1 914
Amortisation of intangible assets	7.8.5	-6 874	-6 241
Other loan losses		**-3 854**	**-2 320**
Impairment on financial assets [1]	7.7.5	**-80 992**	**-69 628**
Result on activities before taxes		**145 014**	**123 699**
Income taxes	7.7.6	-24 287	-23 219
Result on activities after taxes		**120 726**	**100 480**
Result for the year		**120 726**	**100 480**
Other comprehensive income for the year		-	-
Total profit and loss and other comprehensive income for the year		**120 726**	**100 480**

(1) For more details about the restatement please refer to Note 7.5.

The notes are an integral part of these financial statements.

6.3 Statement of Changes in Equity

For the year ended 31 December 2021

In thousands of EUR

2021	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 2021	**17 553**	**9 890**	**21 221**	**21 659**	**134 706**	**98 707**	**303 736**
Allocation to reserves	-	-	-	8 200	-	-8 200	-
Allocation to profit brought forward	-	-	-	-	90 507	-90 507	-
Additional Tier 1	-	-	40 447	-	-	-	40 447
Interest paid on Tier 1	-	-	-	-	-	-3 953	-3 953
Dividends (1)	-	-	-	-	-78 093	-	-78 093
Total profit and loss and other comprehensive income for the year	-	-	-	-	-	120 726	120 726
Equity 31 December 2021	**17 553**	**9 890**	**61 668**	**29 859**	**147 120**	**116 773**	**382 863**

(1) The dividend distribution was dully approved by the CSSF.

The notes are an integral part of these financial statements.

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
Total equity as at 1 January 2020	**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**	**303 736**

(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.

The notes are an integral part of these financial statements.

6.4 Statement of Cash Flows

In thousands of EUR

Operating activities	**2021**	**2020**
Interest, fee and commission receipts	370 274	332 843
Interest, fee and commission payments	-32 425	-31 746
Other receipts	4 820	3 780
Operating payments	-128 426	-125 138
(Increase) decrease in money market placements	-13 685	18 290
(Increase) decrease in loans to customers	-360 027	-205 232
(Increase) decrease in loans to corporates	-12	-
Increase (decrease) in deposits from financial institutions	-185 332	-16 561
Increase (decrease) in deposits from customers	150 939	57 893
Increase (decrease) in deposits from corporates	-	-39
(Increase) decrease in other assets	-1 300	-2 298
Increase (decrease) in tax liabilities	-171	11 492
Increase (decrease) in other liabilities	1 436	-14 070
Net cash flow from operating activities	**-193 908**	**29 214**

Investment activities	**2021**	**2020**
Investments in property, plant and equipment and intangible assets	-3 023	-2 585
Net cash flow from investment activities	**-3 023**	**-2 585**

Financing activities	**2021**	**2020**
Increase (decrease) from dividend payments/ capital distributions	-41 599	-29 081
Increase (decrease) in subordinated loan capital	30 000	-8 617
Increase (decrease) in structured financing	400 198	-
Principal elements of lease payments	-1 567	-1 518
Net cash flow from financing activities	**387 032**	**-39 216**

Net cash flow	**190 101**	**-12 586**
Opening balance of cash and cash equivalents	707 502	720 464
Effects of exchange rate changes on cash and cash equivalents	-24	-376
Net cash flow for the period	190 101	-12 586
Ending balance of cash and cash equivalents	**897 579**	**707 502**

The notes are an integral part of these financial statements.

7 NOTES TO THE FINANCIAL STATEMENTS

7.1 Reporting entity

Advanzia Bank S.A. ("the Bank" or "Advanzia") is domiciled in the Grand Duchy of Luxembourg and is established for an indefinite duration. The address of the Bank's registered office is 9, rue Gabriel Lippmann, L-5365 Munsbach, Luxembourg. 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 2021 include the entire Bank and were authorised for issue by the Bank's board of directors on 14th March 2022.

7.2 Basis of preparation and summary of accounting principles

7.2.1 Accounting standards

7.2.1.1 Applicable accounting standards and changes in accounting policies

The Bank initially applied the following standards and amendments to standards from 1 January 2021.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform Phase 2

In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one.
The Phase 2 amendments provide the following reliefs:

- When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes, that are necessary as a direct consequence of IBOR reform and which are considered economically equivalent, will not result in an immediate gain or loss in the income statement.
- The hedge accounting reliefs will allow most IAS 39 or IFRS 9 hedge relationships that are directly affected by the IBOR reform to continue. However, additional ineffectiveness might need to be recorded.

These amendments do not have a material impact on the Bank's financial statements.

7.2.1.2 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 standard is effective for annual periods beginning on or after 1 April 2021. This standard is not applicable to the Bank.

Amendments to IAS 16 Property, Plant and Equipment

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

The application date is 1 January 2022. The Bank does not anticipate an impact from these amendments.

Amendments to IFRS 3 Business Combinations

Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRIC 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

The application date is 1 January 2022. The Bank does not anticipate an impact from these amendments.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

The application date is 1 January 2022. The Bank does not anticipate an impact from these amendments.

Annual Improvements to IFRS Standards 2018–2020

The following improvements were finalised in May 2020:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

- IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The application date is 1 January 2022. The Bank does not anticipate a material impact from these amendments.

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

The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

The application date is 1 January 2023. The Bank does not anticipate an impact from these amendments.

Amendments to IAS 12 Income Taxes

The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.
The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

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

The application date is 1 January 2023. The Bank does not anticipate an impact from these amendments.

IFRS 17 Insurance Contracts

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

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

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

The application date is 1 January 2023. This standard is not applicable to the Bank.

Amendments to IAS 1 Presentation of Financial Statements

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

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

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

7.2.2 Basis of preparation

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

7.2.3 Basis of measurement

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

7.2.4 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.

7.2.5 Significant events after the reporting date

Following the escalation of the Russia-Ukrainian conflict in February 2022, the Management of the Bank closely monitors the developments and assesses an impact on the Bank's operations. For the time being no material impacts were identified considering that:

- The Bank has no operations and no business presence in Ukraine, nor any neighbouring countries and therefore there is no immediate impact to the Bank's activities and employees;
- The economic sanctions imposed have no impact on the Bank's client, supplier, and investor relationships;
- No impact is expected to the carrying amount of both assets and liabilities, no restrictions on assets have occurred due to sanctions imposed;
- No impact is expected on borrowing covenants, liquidity and solvency;
- No cyber-attacks have occurred so far; the Management stays alert on the increased risk of such attacks.

Therefore, the Management considers the financial statements as at 31 December 2021 do not require any adjustment due to this subsequent event.

The Bank is not aware of any other significant events after reporting date which would have a material impact on the 2021 financial statements.

7.3 Significant accounting policies

7.3.1 Basis of consolidation

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

7.3.2 Foreign currency

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

7.3.3 Net interest margin

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

The calculation of the effective interest rate includes fees 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.

7.3.4 Fees and commissions

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

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

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

7.3.5 Financial assets and financial liabilities

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

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

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

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. IFRS 9 requires taking into account the lifetime of the financial instrument. Lifetime is calculated for each relevant subsegment (market / stage) of the portfolio. PD models are calibrated on these calculated lifetimes.

The model used to estimate the PD depends on the type of segment. For the German, French, Austrian and Spanish credit card segments, the PD is estimated through an advanced approach based on regression analysis methodology. For the Italian credit card segments, given the smaller exposure and non-existent historical data that the Bank has towards this market, a simple approach based on missed payments is used to estimate the PD. For the last two segments, namely deposits and credit cards issued to financial institutions, the PD is estimated through a basic approach based on the use of external data.

Loss given default (LGD)

If a loan defaults, the loss given default represents the relative difference between the asset's carrying amount and the estimated cash flows. The Standard requires the time value of money to be implemented in the calculation of the ECL. This may be incorporated in the computation of the LGD by discounting the expected cash shortfalls to the reporting date. It specifies that the applicable discount factor should be represented by the effective interest rate.

As for the PD estimation, the LGD model depends on the type of segment. The advanced approach, used for calculating the LGD for the German, French and Austrian credit card segment, is estimated through a regression analysis methodology based on historical data. For the Spanish and Italian credit card segments, where 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.

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

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:
    - i. Deterioration of the 12-months PD at initial recognition compared to 12-months PD at reporting date exceeding a defined threshold;
    - ii. 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 from stage 2 to stage 3 (e.g. loan first gets into in arrears before defaulting). Transition from stage 1 to stage 3 is unlikely, but possible (e.g. insolvency before the loan gets into in arrears). The Bank considers a financial asset to be in default (stage 3) when the loan is more than 90 days past due and/or the loan has been credit revoked.

For loans and advances to credit card customers which include both a loan and an undrawn credit commitment component, IFRS 9 stipulates to measure the ECL over the period that the entity is expected to be exposed to credit risk, for which the 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 the German market (given that only this market covers a full economic cycle at this point) and applied to the whole portfolio.

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

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

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.

7.3.6 Cash and cash equivalents

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

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

7.3.7 Loans and advances

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

The Bank issues revolving type credit cards, where the customers are given a credit limit which they can draw on. The customer may use these credit cards at points of sales, for online transactions and 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.

7.3.8 Property, plant and equipment

7.3.8.1 Recognition and measurement

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

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

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

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

7.3.8.2 Depreciation

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

- IT equipment 3 years
- Fixtures and fittings 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.

7.3.9 Intangible assets

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

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

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

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

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

<u>Research and development costs</u>

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

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

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

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

7.3.10 Impairment of non-financial assets

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

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

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

7.3.11 Reversal of impairments of non-financial assets

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

7.3.12 Deferred tax

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

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

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

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

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments, and as defined in IFRS 9. Deposits, debt securities issued, subordinated liabilities and structured funding are initially measured at amortised cost plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

7.3.14 Provisions recognised as liabilities

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

7.3.15 Employee benefits

7.3.15.1 Defined contribution plans

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

7.3.15.2 Short-term benefits

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

7.3.16 Share capital and reserves

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

7.3.17 Income tax

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

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

7.3.18 Leases

7.3.18.1 Definition of a lease

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

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

7.3.18.2 As a lessee

i. At initial recognition

The Bank recognises a right-of-use asset and a lease liability for all leases with a term of more than 12 months, unless the underlying asset is of low value, 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 7.9.2.

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:

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

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

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

7.3.18.3 As a lessor

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

7.4 Use of judgements and estimates

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

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

7.4.1 Judgements

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

Note 7.3.5 iii: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

7.4.2 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment in the year ended 31 December 2021 is included in the following notes:

Note 7.3.5 iii Identification and measurement of impairment: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

Note 8.2.2 Exposures to credit risk and Note 7.3.5 iii Identification and measurement of impairment: key assumptions used in estimating recoverable cash flows.

7.5 Correction of prior year errors

Following the IFRS 9 implementation, the Bank is required to recognise interest income of non-performing loans (NPLs) at the net carrying amount whereas the Bank's card processing system is calculating interest at the gross carrying amount. Thus, the Bank implemented a process to manually adjust the monthly interest income generated by NPLs, which also requires adjustments of the gross loan balance and the ECL. This results in a shift between various accounts as firstly, lower interest income is offset by lower value adjustments and secondly, lower gross loan balance is offset by less value adjustments. However, the design of that initial process was not able to account for specific scenarios, e.g. collection of adjusted interests, curing, write-offs, which would require a release of the adjustments. Consequently, over the years the balance of this adjustment was accumulating and was not properly linked to the evolution of the underlying credit card loans.

As of 31 December 2021, the Bank implemented the new approach to the interest adjustment calculation, which provides more accurate amounts to be booked as an adjustment and overcomes weaknesses of the previously used method as described above. As a result, an overstated balance of the interest adjustment was released against gross loan balance and accumulated impairment, which are offset on the face of the Statement of Financial Position due to net presentation, as well as the respective portion of the impact was corrected via interest income and impairment accounts (including write-off accounts) in the Statement of Profit and Loss and Other Comprehensive Income.

In order to ensure comparability of the information, the affected balances as of 31 December 2020 were restated:

1) Statement of Profit and Loss and Other Comprehensive Income

In thousands of EUR

Statement of Profit and Loss and Other Comprehensive Income (extract)	Note	2020 As previously reported	Profit increase/ (Decrease)	2020 Restated
Interest income	7.7.1	292 524	1 220	293 744
Impairment on financial assets	7.7.5	-68 408	-1 220	-69 628
Result on activities before taxes		123 699	-	123 699
Income taxes		-23 219	-	-23 219
Result on activities after taxes		100 480	-	100 480
Result for the year		100 480	-	100 480
Total comprehensive income for the year		100 480	-	100 480

This correction of error does not have an impact on other primary financial statements:

- Statement of Financial Position
- Statement of Changes in Equity
- Statement of Cash Flows

2) Notes to the Statement of Profit and Loss and Other Comprehensive Income

In thousands of EUR

Impairment on financial assets	Note	31/12/2020 As previously reported	Increase/ (Decrease)	31/12/2020 Restated
Net (loss) / gain from impairment	7.7.5	-22 586	-3 312	-25 898
Write-offs	7.7.5	-45 822	2 092	-43 730
Total impairments		-68 408	-1 220	-69 628

3) Notes to the Statement of Financial Position

In thousands of EUR

Loans and advances to customers	Note	31/12/2020 As previously reported	Increase/ (Decrease)	31/12/2020 Restated
Credit card loans to retail customers	7.8.3	1 881 234	29 311	1 910 545
Impairment	7.8.3	-88 850	-29 311	-118 161
Impairment first time adoption IFRS 9	7.8.3	-25 216	-	-25 216
Balance at 31 December		1 767 168	-	1 767 168

In thousands of EUR

Allowances for impairments	Note	31/12/2020 As previously reported	Increase/ (Decrease)	31/12/2020 Restated
Balance at 1 January as reported	7.8.3	66 243	25 999	92 242
Charge for the year	7.8.3	68 408	1 220	69 628
Write-offs (net of recoveries)	7.8.3	-45 801	2 092	-43 709
Balance at 31 December		88 850	29 311	118 161

7.6 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, Spain and the Bank is entering a new market – Italy (launched in November 2021). Germany is Advanzia's core market in terms of income and profitability.

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

7.7.1 Net interest income

7.7.1.1 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	**2021**	**2020 (1) Restated**
Financial institutions	132	219
Customers	325 039	293 525
Total interest income	325 171	**293 744**

(1) For more details about the restatement please refer to Note 7.5.

Interest income is charged on loans to customers based on the effective interest rate method. Out of this interest income, TEUR 5 862 is interest related to stage 3 exposures (2020 Restated: TEUR 4 054). This interest income is recognised net of applicable impairments to the loans.

7.7.1.2 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	**2021**	**2020**
Financial institutions	-7 292	-7 132
Of which: Negative Interest paid on balances held with the Central Bank of Luxembourg (BCL)	-3 291	-2 626
Customer deposits	-3 716	-6 782
Subordinated liabilities	-2 900	-1 840
Structured financing	-494	-
Interest expense on lease liability	-59	-77
Total interest expense	**-14 461**	**-15 831**

7.7.2 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	2021	
Product type	**Income**	**Expenses**
Revolving cards	10 888	-14 478
PCS	10 525	-2 428
Agent service	17 081	-1 058
Other	6 609	-
Total fee and commission income / expense	**45 103**	**-17 964**

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**

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

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

7.7.3 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 7.10) for 2021 of TEUR 3 277.

7.7.4 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 2021 was TEUR 452 (2020: TEUR 424). All pension contributions are paid in or provisioned.

7.7.5 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	2021	2020 (1) Restated
Net (loss) / gain from impairment *	-19 546	-25 898
Write-offs	-61 446	-43 730
Total impairments	**-80 992**	**-69 628**

(1) For more details about the restatement please refer to Note 7.5

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 7.3.5 (iii) for the ECL policy), expected recoveries of delinquent loans, and any written exposures during the year.

7.7.6 Income taxes

The Bank is subject to taxation in Luxembourg. The corporate income tax (CIT) rate was 17% in 2021. 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

	2021
Result on activities before taxes	145 014
Aggregate tax rate	24,94%
Theoretical income tax	**36 166**
Tax impact of exempt income	-10 336
Tax impact of AT1 interest	-1 428
Other regularisations	-115
Effective income tax	**24 287**

As at 31 December 2021, tax liabilities amount to EUR 20.4 million. During the year 2021, the Bank paid income tax for the year 2019 of EUR 6.7 million.

As at 31 December 2021, there are no deferred tax liabilities or assets.

7.8 Notes to the statement of financial position

7.8.1 Cash and cash equivalents

In thousands of EUR

Cash and cash equivalents	2021	2020
Balances with central banks	835 264	689 795
Nostro account balances with financial institutions	62 315	17 707
Balance at 31 December	**897 579**	**707 502**

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.

7.8.2 Loans and advances and amounts owed to financial institutions

In thousands of EUR

Loans and advances to financial institutions	2021	2020
Available on demand	60 114	37 350
Money market placements	83 009	92 088
Balance at 31 December	**143 123**	**129 438**

Money market placements are term deposits with other financial institutions (banks). On 31 December 2021 there were two placements with an original maturity of three months.

The Bank has pledged term deposits of EUR 51 million (2020: EUR 51 million) and NOK 625 million (2020: NOK 225 million) as collateral for a guarantee in favour of Mastercard.

In 2021, the Bank owed to financial institutions EUR 206.25 million (2020: EUR 206.25 million) as a senior secured credit facility collateralised by loans and advances to German customers. While the loan was planned to mature in July 2022, Advanzia fully repaid the loan facility shortly after the closing of the securitisation transaction (see Note 7.8.9).

Since the end of May 2021, Advanzia benefits from an overdraft facility with ING Belgium SA/NV, which provides the Bank access to short term financing in multiple currencies (EUR, USD, GBP, CHF, NOK and SEK) up to an amount equivalent to EUR 20 million. This credit line is secured by a cash deposit of EUR 20 million and mainly used to perform the daily settlements denominated in foreign currency with the credit card schemes (Visa and Mastercard). At balance sheet date, the Bank's liability in relation to overdraft is EUR 20 million (2020: TEUR 26).

7.8.3 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	2021	2020 (1) Restated
Credit card loans to retail customers	2 205 325	1.910.545
Impairment	-137 760	-118.161
Impairment first time adoption IFRS 9	-25 216	-25 216
Balance at 31 December	**2 042 349**	**1 767 168**

(1) For more details about the restatement please refer to Note 7.5

In thousands of EUR

Allowances for impairments	2021	2020 (1) Restated
Balance at 1 January as reported	118 161	92 242
Charge for the year	80 992	69 628
Write-offs (net of recoveries)	-61 393	-43 709
Balance at 31 December	**137 760**	**118 161**

(1) For more details about the restatement please refer to Note 7.5.

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 75% of non-performing loans in the German market until June 2020. Respective gains and losses from these sales were not significant as the sale price was close to the carrying value. This activity was discontinued as from June 2020 upon expiration of the underlying contract. A sale of 80% of new defaults has restarted in July 2021. Respective gains from these sales are not significant as the sale price is close to the carrying value.

A part of the Bank's loan portfolio is encumbered as further detailed in the Note 7.8.8 (under the securitisation transaction).

7.8.4 Property, plant and equipment

In thousands of EUR

Cost	Right-of-use assets	IT equipment	Fixtures and fittings	Total
Balance at 1 January 2021	**6 356**	**3 816**	**1 580**	**11 752**
Acquisitions	-	135	7	142
Disposals	-	-	-	-
Balance at 31 December 2021	**6 356**	**3 951**	**1 587**	**11 894**
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**

Accumulated depreciation				
Balance at 1 January 2021	**2 919**	**3 646**	**1 295**	**7 860**
Depreciation for the period	1 519	117	138	1 774
Disposals	-	-	-	-
Balance at 31 December 2021	**4.438**	**3.763**	**1.433**	**9.634**
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**
Carrying amount at 31 December 2021	**1 918**	**188**	**154**	**2.260**
Carrying amount at 31 December 2020	**3 437**	**170**	**285**	**3 892**

7.8.5 Intangible assets

In thousands of EUR

Cost	Purchased software	Portfolio Acquisition (1)	Total
Balance at 1 January 2021	22 070	24 677	46 747
Acquisitions / additions	4 448	-	4 448
Balance at 31 December 2021	26 518	24 677	51 195
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**

Accumulated amortisation	Purchased software	Portfolio Acquisition	Total
Balance at 1 January 2021	11 934	5 013	16 947
Amortisation for the period	3 129	3 745	6 874
Balance at 31 December 2021	15 063	8 758	23 821
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**
Carrying amount at 31 December 2021	**11 455**	**15 919**	**27 374**
Carrying amount at 31 December 2020	**10 136**	**19 664**	**29 800**

(1) On 29 March 2020, the Bank acquired card servicing operations of Catella Bank for consideration of TEUR 24 677. The remaining amortization period is 5 years.

In accordance with IAS 36, The Bank has tested the acquired card servicing operations for impairment at the end of the reporting period. The review concludes that the expected overall performance of the updated business case will perform better than the initial business case, despite revenues in 2020-2021 were negatively affected by the COVID-19 pandemic. The main drivers of a better performance are expected higher client base and turnover, lower funding cost and significantly lower fraud losses.

7.8.6 Other assets

In thousands of EUR

	2021	2020
Mastercard Receivable	2 814	1 896
Insurance commission receivables	4 891	3 725
Prepaid administrative expenses	3 992	4 622
Receivable from suppliers	932	586
VISA Guarantee	740	745
Sundry	32	527
Balance at 31 December	**13 401**	**12 101**

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

7.8.7 Amounts owed to customers

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

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

7.8.8 Structured financing

As of 31 December 2021, the balance is composed of the deemed loan towards the Securitsation Special Purpose Vehicle (SSPV), more details about the transaction is detailed in the Note 7.8.9. The balance includes the following:

In thousands of EUR

	2021
Funding received from SSPV	477 650
Finance charges collections payable	7 069
less	
Junior notes issued	-71 809
Subordinated debt	-4 068
Excess spread	-5 808
Servicing fees receivable	-951
Transaction costs	-1 885
Balance at 31 December	**400 198**

The deemed loan towards the SSPV comprises:

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

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

The maturity of the deemed loan is falling within 36 months after the issue date, which was on 15 November 2021, and unless being extended upon lenders' resolution.

Compliance with loan covenants

The Bank has complied with the covenants attached to the secured funding during 2021, these are also known as early amortisation events, which would trigger the early repayment of the funding raised.

The main early amortisation events are as follows:

- securitised credit card loans portfolio balance falls below 10% of the initially transferred amount;
- the delinquency ratio of the securitised credit card loans portfolio exceeds 5%;
- the default ratio of the securitised credit card loans portfolio exceeds 2.5%;
- the yield ratio of the securitised credit card loans portfolio is below 13%;
- the minimum total capital ratio has been breached.

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

7.8.9 Securitisation programme

In 2021, the Bank diversified its funding sources via a securitisation programme. This secured financing transaction included the legal true sale of a portfolio of 'Loans and advances to customers' to the Securitisation Special Purpose Vehicle – Advanzia Invest S.à r.l – issuing notes to finance this transaction.

The securitisation facility provides senior funding for an amount up to EUR 475 million. Advanzia intends to always remain above 85% utilisation ratio but did not fully draw the facility limit at closing so that the senior funding amount can be further increased and the Bank has some contingent funding reserves available in the meantime. The Bank has committed to provide the junior funding to the SSPV at minimum of 15% of the total funding raised by the SSPV as well as to subscribe for seller notes up to EUR 10 million (ranking pari pasu to senior tranches) if senior notes are fully consumed.

This is a revolving securitisation structure, meaning that the Bank may continue to sell new eligible assets originated over an agreed period of time called the revolving period, and obtain funding from the transaction investors. In the event that a contractual commitment is not renewed at the end of the revolving period, all loans securitised at the point of non-renewal remain funded, and the related debt is repaid as the loans liquidate. The revolving period matures 36 months after the issue date, which was on 15 November 2021, unless an early amortisation event occurs, these include, among others, insolvency of the Bank, credit losses or delinquency levels on the pool of securitised assets exceeding specified limits, payment rates or yield on the wholesale assets falling below agreed thresholds, and credit enhancement features not maintained at required levels.

Retained interests

The Bank retained junior and subordinated funding tranches as well as it is entitled to receive an excess spread, which provide credit enhancement to the senior noteholders. Through these exposures, the Bank substantially retains risks attached to the securitised credit card loans portfolio as well as the right to variable returns. As a result, the Bank has entered into a transfer of financial assets (as described in IFRS 9 'Financial Instruments') that does not qualify for de-recognition of the underlying assets and therefore the Bank continues to recognise the carrying value of all securitised assets within its statements of financial position.

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

Continuing obligations

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

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

The table below provides details of the carrying and fair values of both the transferred assets that are not derecognised and the associated liabilities as of 31 December 2021:

In thousands of EUR

	Carrying value 2021	**Fair value 2021**
Loans and advances to customers (1)	494 189	494 189
Structured financing (2)	-400 198	-400 198
Net balance at 31 December	**93 991**	**93 991**

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

(2) The carrying amount of the deemed loan towards the SSPV is a reasonable approximation of their fair value considering that:
- There is a significant yield spread between the return on the securitised assets (>20% p.a.) and the senior notes funding costs (<0.5% p.a.);
- No breach of any early amortisation triggers is observed, allowing for a significant excess spread receivable each month;
- the structure is revolving, meaning that there is a monthly replenishment of the underlying assets portfolio with new eligible assets.

7.8.10 Other liabilities

In thousands of EUR

	2021	2020
Preferential creditors	1 085	1 067
Other accruals	18 565	15 780
Other liabilities	1 291	1 148
Lease liabilities	1 986	3 496
Balance at 31 December	**22 927**	**21 491**

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.

7.8.11 Subordinated liabilities

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

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

The Tier 2 bonds are callable on each payment day (quarterly) starting five years after the disbursement day, subject to prior approval by the competent authority.

7.8.12 Equity

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

7.8.12.1 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 2021	17 553	9 890	210 210	-
31 December 2021	17 553	9 890	210 210	-

As at 31 December 2021 and 2020, 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 2021, management held no shares in Advanzia Bank S.A as well as the Bank holds no own shares.

7.8.12.2 Other equity instruments

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

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

The Bank paid TEUR 3 953 to AT1 bondholders during 2021 as distribution. The Bank can cancel distributions at any time.

The bonds are callable by Advanzia with the first call option 5 years after issuance subject to prior approval by the competent authority.

7.8.12.3 Reserves

In 2021 Advanzia Bank S.A. allocated TEUR 8 200 of the 2020 profits to a reserve according to Luxembourg tax law and relocated TEUR 8 315 to profit carried forward and TEUR 82 192 were kept as conditional dividend to be paid only upon the satisfaction of certain conditions.

As of 31 December 2021 the legal reserve was fully formed.

7.8.12.4 Dividends

During the year ending 31 December 2021 Advanzia Bank S.A. distributed TEUR 78 093 out of the 2020 results (2020: nil) upon receiving the approval of the CSSF.

7.9 Leases

7.9.1 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.

7.9.2 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.

7.9.3 Maturity analysis of lease liabilities

As at 31 December 2021, the undiscounted maturity analysis of lease liabilities is as follows:

In thousands of EUR

	Carrying amount	Minimum lease payments due	Less than 1 year	1-2 years	2-3 years	3-5 years	More than 5 years
Lease liability	**1 987**	**2 378**	1 526	797	53	2	-
Total	**1 987**	**2 378**	1 526	797	53	2	-

7.10 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 2021 the Bank paid EUR 3.3 million to FGDL (2020: EUR 4.9 million).

7.11 Auditor’s fees

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

In thousands of EUR

	2021	**2020**
Audit fees	195	190
Audit related fees	23	6
Tax services	88	58
Total fees (excl. VAT)	**306**	**254**

7.12 Staff

Average number	**2021**	**2020**
Management Committee	7	7
Employees (fulltime equivalent)	180	191
Total	**187**	**198**

At the end of 2021, the company had 187 employees (FTE), including the Management Committee.

7.13 Related parties

7.13.1 Parent and ultimate controlling party

Kistefos AS, Norway retained majority control of the shares during the year ended 31 December 2021.

7.13.2 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

	2021	2020
Remuneration	3 166	2 860
Pensions	181	171
Loans	31	4
Other commitments	68	58

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

In thousands of EUR

	2021	2020
Remuneration	108	72
Pensions	-	-
Loans	7	6
Other commitments	50	58

Additionally, during the period, Kistefos AS associates and their immediate relatives have transacted with the Bank with loans amounting to TEUR 104 and other commitments amounting to TEUR 310.

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

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.

7.13.3 Transactions with other related parties

The Bank is executing a control over the SSPV – Advanzia Invest S.à r.l – for the purpose of raising a structured financing. For more details about the transaction and associated balances, please see Notes 7.8.8. and 7.8.9.

8 RISKS AND RISK MANAGEMENT

The following note provides an overview and analysis of the risks to which Advanzia Bank is subject, and how the Bank manages such risks. Unless otherwise stated, all figures are in euro as at 31 December 2021.

8.1 Risk management: objectives and policies

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

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

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

- credit risk
- 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).

8.2 Credit risk

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

8.2.1 Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to the Executive Management Committee, which further has delegated the responsibility to the Credit Risk Committee, being responsible for surveying and assessing credit risk. The 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 Committee, Management Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. The Bank assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties.
- Providing advice, guidance and specialist skills to other units in the Bank to promote best practice throughout the Bank in the management of credit risk.

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

8.2.2 Exposure to credit risk

In thousands of EUR	Loans and advances to customers		Loans and advances to financial institutions	
Collectively impaired	**2021**	**2020 (1) Restated**	**2021**	**2020**
Stage 3 (impaired)	208 143	211 206	-	-
Gross amount	**208 143**	**211 206**	**-**	**-**
Allowance for impairment	-115 678	-99 583	-	-
Carrying amount	**92 465**	**111 623**	**-**	**-**

(1) For more details about the restatement please refer to Note 7.5.

Past due but not impaired	**2021**	**2020**	**2021**	**2020**
Stage 2	350 023	305 823	-	-
Gross amount	**350 023**	**305 823**	**-**	**-**
Allowance for impairment	-26 504	-23 503	-	-
Carrying amount	**323 519**	**282 320**	**-**	**-**

Neither past due nor impaired	**2021**	**2020**	**2021**	**2020**
Stage 1	1 647 159	1 393 516	143 133	129 448
Gross amount	**1 647 159**	**1 393 516**	**143 133**	**129 448**
Allowance for impairment	-20 794	-20 291	-10	-10
Carrying amount	**1 626 365**	**1 373 225**	**143 123**	**129 438**
Carrying amount - amortised cost	**2 042 349**	**1 767 168**	**143 123**	**129 438**

In addition to the above, the Bank had at balance sheet date through the credit cards issued entered into undrawn commitments of EUR 5 383 million (2020: EUR 4 780 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.

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

- Undrawn junior notes – TEUR 13 940;
- Undrawn seller notes – TEUR 10 000;
- Undrawn subordinated debt – TEUR 690.

See also Note 7.3.5 regarding definitions and accounting policies for impaired loans, Note 7.4 regarding judgements and estimates, as well as note 7.7.5 regarding impairments on financial assets and Note 7.8.3 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

		2021	
Amounts arising from ECL	**Stage 1**	**Stage 2**	**Stage 3**
Opening ECL (restated) *	**20.290**	**23.504**	**99.583**
Transfers to Stage 1	2 751	-6 603	-562
Transfers to Stage 2	-1 962	9 157	-571
Transfers to Stage 3	-1 018	-6 453	41 463
New issued	2 227	6 641	3 000
Write-offs	-388	-1 438	-33 238
No transition	-1 106	1 696	10 030
Interest adjustment	-	-	-4 027
Closing ECL	**20 794**	**26 504**	**115 678**

In thousands of EUR

		2020	
Amounts arising from ECL	**Stage 1**	**Stage 2**	**Stage 3**
Opening ECL (restated)*	**17 415**	**27 707**	**72 336**
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	-651	1 207	4 096
Interest adjustment *	-	-	-5 219
Closing ECL (restated) *	**20 291**	**23 503**	**99 583**

* For more details about the restatement please refer to Note 7.5.

COVID-19 Pandemic in the context of ECL

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

- 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 reimbursement of plane tickets and hotels), daily loan balance, daily cash inflows and outflows, daily check of the competitors' rates for overnight deposit.
- On a quarterly basis, the Bank's Executive management Committee (EMC) and the Board of Directors 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 2021, the Bank noticed that:

- The customer acquisition increased again, though not homogeneously across channels;
- Turnover and balance also returned to an increasing trend across all markets for both revolvers and transactors;
- Defaulting behaviour has shown first signs of increase after a year and a half of improvement.

Thus, over the course of the year 2021, there was no significant impact on the Bank's business caused by the COVID-19 Pandemic.

8.2.3 Concentration risk

In general, credit card loans are well diversified and small. The Bank also follows a policy of maximum concentration per individual borrower or group of borrowers. See also Note 8.2.6 below regarding concentration risk with respect to financial institutions.

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

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

The exposure by location as of 31 December 2021 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	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Banks	-	-	143 123	129 438	-	-
Retail	2 042 349	1 767 168	-	-	-	-
Corporates	-	-	-	-	12	-
Total 31 December	**2 042 349**	**1 767 168**	**143 123**	**129 438**	**12**	**-**
Concentration by location	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Germany	1.739.392	1 511 143	-	-	-	-
Luxembourg	22.143	15 543	87.798	87 800	12	-
France	125.101	115 019	1.124	718	-	-
Austria	116.543	104 247	-	-	-	-
Other EU/EEA countries	39.170	21 216	54.201	40 920	-	-
Total 31 December	**2.042.349**	**1 767 168**	**143.123**	**129 438**	**12**	**-**

8.2.4 Trading assets

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

8.2.5 Settlement risk

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

8.2.6 Financial institutions

Advanzia only places its spare liquidity with other banks that are all to be individually assessed and for larger exposures, also to be approved by the Board of Directors. These are banks that have minimum requirements with respect to ratings (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 (as amended) on prudential requirements for credit institutions and Regulation (EU) N 2021/451 on supervisory reporting.

8.3 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 2021 resulted in a loss of TEUR 3 039 (TEUR 3 413 in 2020) which corresponds to a fraudulent amount rate measured as ratio of card turnover of 0.07% in 2021 (0.10% in 2020). These losses are in the financial statements included as part of the write-offs of credit card loans.

8.4 Liquidity risk

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

8.4.1 Management of liquidity risk

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

The Bank projects 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 2021, customer deposits in savings products increased by 7% (2020: increase of 3%).

Also in 2021, the Bank diversified its funding sources via a securitisation programme. This secured financing transaction included the legal sale of a portfolio of 'Loans and advances to customers' to the Securitisation Special Purpose Vehicle – Advanzia Invest S.à r.l – issuing notes to finance this transaction. The securitisation facility provides senior funding for an amount up to EUR 475 million. Advanzia intends to always remain above 85% utilisation ratio but does not intend to fully draw the facility limit at closing so that the senior funding amount can be further increased and the Bank has some contingent funding reserves available in the meantime. For more details about this transaction refer to Notes 7.8.8 and 7.8.9.

8.4.2 Exposure to liquidity risk

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

LCR (Min. 100%)	2021	2020
At 31 December	217%	159%

NSFR (Min. 100%)	2021	2020
At 31 December	260%	132%

There were no breaches of the liquidity requirements in 2021.

8.4.3 Residual contractual maturities of financial liabilities

31 December 2021

In thousands of EUR

NON-DERIVATIVE LIABILITIES	Carrying amount	Gross nominal inflow/ outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Amounts owed to financial institutions	23 475	-24 018	-23 240	-778	-	-	-
Amounts owed to customers	2 221 257	-2 221 257	-2 221 257	-	-	-	-
Structured financing	400 198	-404 724	-151	-165	-578	-403 830	-
Undrawn loan commitments	5 326 141	-5 326 141	-5 326 141	-	-	-	-
Total	**7 971 071**	**-7 976 140**	**-7 570 789**	**-943**	**-578**	**-403 830**	**-**

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
Amounts owed to financial institutions	208 807	-209 133	-207 799	-1 334	-	-	-
Amounts owed to customers	2 070 318	-2 070 318	-2 070 318	-	-	-	-
Undrawn loan commitments	4 780 084	-4 780 084	-4 780 084	-	-	-	-
Total	**7 059 209**	**-7 059 535**	**-7 058 201**	**-1 334**	**-**	-	-

The above table shows the undiscounted cash flows on the Bank's financial liabilities and undrawn loan commitments on the basis of their earliest possible contractual maturity. 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 undrawn loan commitments (i.e. the unused portion of credit card limits) may be expected to be drawn down immediately.

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

8.5 Market risks

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

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

8.5.1 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. A few suppliers may invoice in currencies other than EUR, but these are immediately translated to EUR, and the currency risk as such is negligible.

As of 31 December 2021 the total EUR equivalent FX exposure was of TEUR 140.

8.5.2 Exposure to interest rate risk

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

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

31 DECEMBER 2021

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	22.151	22.151	-	-	-	-
Central bank reserves in excess of the minimum required (deposit facility)	813.113	813.113	-	-	-	-
Loans and advances to banks (assimilated to Nostro)	62.315	62.315	-	-	-	-
Term deposits	83.009	83.009	-	-	-	-
Loans and advances to partner banks (PCS)	8.456	8.456	-	-	-	-
Gross loans and advances to credit card customers FR	152.456	152.456	-	-	-	-
Gross loans and advances to credit card customers AT	130.798	130.798	-	-	-	-
Gross loans and advances to credit card customers DELU	1.869.655	1.869.655				
Gross loans and advances to credit card customers ES	52.384	52.384	-	-	-	-
Gross loans and advances to credit card customers IT	32	32	-	-	-	-
Total interest bearing assets	**3.194.369**	**3.194.369**	**-**	**-**	**-**	**-**

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			-	-	-	-
Structured financing	400.198	400.198	-	-	-	-
Deposits from customers	2.221.257	2.221.257	-	-	-	-
Subordinated loans	55.000	55.000	-	-	-	-
Total interest bearing liabilities	**2.676.455**	**2.676.455**	**-**	**-**	**-**	**-**

Gap	517.914	517.914				
Cumul gap	517.914	517.914				
Cumul. gap (%)	**16,2%**	**16,2%**				

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	22 151	22 151	-	-	-	-
Central bank reserves in excess of the minimum required (deposit facility)	667 644	667 644	-	-	-	-
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%				

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 2021

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	22 151	22 594	21 708	333	-333
Central bank reserves in excess of the minimum required (deposit facility)	818 202	834 648	801 755	12 345	-12 345
Loans and advances to banks (assimilated to Nostro)	61 919	63 166	60 673	936	-936
Term deposits	62 570	63 618	61 519	786	-789
Loans and advances to partner banks (PCS)	8 460	8 594	8 325	101	-101
Gross loans and advances to credit card customers FR	155 222	155 222	153 002	-	-1 667
Gross loans and advances to credit card customers AT	135 301	135 301	133 415	-	-1 415
Gross loans and advances to credit card customers DELU	1 360 400	1 360 400	1 341 980	-	-13 826
Gross loans and advances to credit card customers ES	57 703	57 703	56 879	-	-619
Gross loans and advances to credit card customers IT	32	32	31	-	-
Total interest bearing assets	**2 681 960**	**2 701 278**	**2 639 287**	**14 501**	**-32 031**
Interest bearing liabilities					
Structured funding	405 990	413 425	398 543	-5 581	5 590
Deposits from customers	2 215 130	2 257 571	2 172 654	-31 856	31 882
Subordinated loans	117 570	119 398	115 737	-1 372	1 376
Total interest bearing liabilities	**2 738 690**	**2 790 394**	**2 686 934**	**-38 809**	**38 848**
Gap	-56.731	-89.117	-47.646	53.309	-70.878
Cumul gap	-56.731	-89.117	-47.646		
Cumul. gap (%)	**-2.1%**	**-3.3%**	**-1.8%**		

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%**		

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 nil.

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.

8.6 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 2021.

Advanzia Bank S.A. has received acceptance from the regulator for using the Alternative Standardised Approach (ASA) as described in the Regulation (EU) N° 575/2013 as amended for assessing operational risk charge for capital adequacy purposes. The amount assessed for this charge as at balance sheet date was TEUR 8 185 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.

8.7 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).

8.8 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.

8.9 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.

8.10 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.

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

The Bank's regulatory capital consists of Tier 1 and Tier 2 capital, which includes ordinary subscribed capital, issue premiums, legal reserves 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 2021 was as follows:

In thousands of EUR

	Note	2021	2020
Subscribed capital	7.8.12	17 553	17 553
Issue premium	7.8.12	9 890	9 890
Reserves	7.8.12	29 859	21 659
Income carried forward	7.8.12	143 168	132 933
Phasing of IFRS 9 first time adoption impact		16 262	20 052
Interim profits inclusion authorised by CSSF		15 470	-
Less intangible assets	7.8.5	-27 374	-29 800
CET 1		**204 828**	**172 287**
Eligible subordinated liabilities – AT1		61 668	21 221
Tier 1 Capital		**266 495**	**193 507**
Eligible subordinated liabilities – AT2		55 000	25 000
Total Capital		**321 495**	**218 507**

If considering the remaining profits for the year (after dividend distribution), the Tier 1 capital as at 31 December 2021 would amount to EUR 372 million (2020: EUR 294 million).

8.11 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 2021 was 18.67% (2020: 14.61%). Had the remaining 2021 profits also been included, the Bank's total capital ratio would have been 24.78% (2020: 21.33%).

Pillar 2 (ICAAP)

Advanzia will submit its ICAAP document for 2021 during the year, as per regulatory requirements.

During the ICAAP process in 2021, 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 2021 was 22.30% (2020: 15.08%) and within the agreed risk appetite of Advanzia.

Capital allocation

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

8.12 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 Head of Compliance, Head of Internal Audit, Head of Legal & Human Resources and Information Security Officer are considered material risk takers. The remuneration for both management and employees consists of a fixed component and a variable component. The variable component is related to the performance of the Bank as well as the individual performance. The variable component for executive management, management, identified staff and employees cannot exceed 50%, 33% and 25% respectively of the total annual remuneration. For executive management and management any variable payment 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 7.12 and 7.13.

Munsbach, Luxembourg, March 2022

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 of
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 2021, 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 2021, 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.

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 2,042 million as at 31 December 2021. These loans and advances to customers are measured at amortised cost. The allowance for impairment on loans amounts to EUR 81 million for the year 2021.

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 7.3.5 and related disclosures in the "Risk Management" Note 8 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 2021.

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 Report of the Board of Directors, 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.

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 3 March 2021 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 17 years.

The Report of the Board of Directors 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, 15 March 2022

KPMG Luxembourg
Société anonyme
Cabinet de révision agréé

M. Weber