Pillar III Report

For the Year Ended 31 December 2017

Advanzia Bank S.A.

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1 General information

These disclosures were validated and approved for publication by the Board of Directors on the 21st of June 2018.

1.1 Introduction

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

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

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

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

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

The Bank has adopted a policy to comply with the disclosure requirements of CRR Part 8 in relation to the appropriateness including their verification and frequency.
The Pillar III report contains the information of Advanzia Bank S.A. as of 31 December 2017 on a standalone basis as the Bank does not have any subsidiaries or branches.

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

Advanzia Bank S.A. publishes the Pillar III disclosure report on an annual basis.
The report will be published on Advanzia's website (https://www.advanzia.com) and will not be subject to external audit, except to the extent that any disclosures are equivalent to those made in the annual accounts.

1.4 Materiality (Art. 432 CRR)

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

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

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

1.5 Proprietary or confidential information (Art. 432 CRR)

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

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

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

2 Governance and risk management framework

2.1 Governance framework (Art. 435 CRR)

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

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

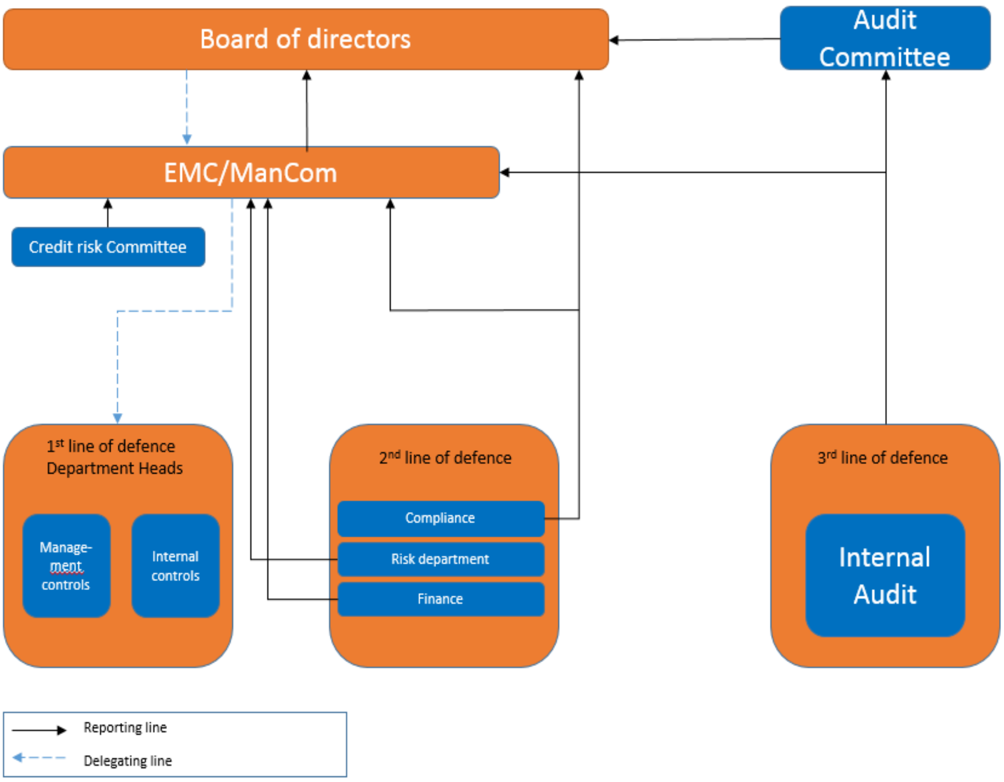

Figure 1: Governance structure

Board of Directors

The Board of Directors of Advanzia is responsible for establishing the main principles for risk taking and management. It also determines the risk appetite in relation to the nature and business of Advanzia, and ensures that strategies and budget are in line with the risk appetite. The Board approves risk levels and risk measures. Detailed information in relation to the composition of the Board of Advanzia can be found on Advanzia's website: https://www.advanzia.com/en-gb/about-us/investor-relations

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

Table 1 : Directorships held by Board members

Board member	Number of directorships held (including intragroup directorships)
Mr. Bengt Arve Rem	20 (incl Advanzia Bank S.A.)
Dr. Thomas Schlieper	1 (incl Advanzia Bank S.A.)
Mr. Tor Erland Fyksen	3 (incl Advanzia Bank S.A.)
Mr. Tom Ruud	3 (incl Advanzia Bank S.A.)
Mr. Nishant Fafalia	6 (incl Advanzia Bank S.A.)

Audit committee

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

Executive Management Committee (EMC)

The EMC approves the risk management process. The EMC also delegates to each department head the task to identify and follow up risks within their area of responsibility.

Department Head (1st line of defence)

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

Risk Management Department (2nd line of defence)

The risk management department (RMD) defines the risk management process. The RMD is responsible for categorizing and validating the risks Advanzia is subject to, together with overseeing, that the department heads have completed the prescribed risk analyses and risk assessments in their respective areas of responsibility. The RMD is also responsible for monitoring and reporting the status on corrective measures in order to ensure that these are implemented and followed up. RMD reports the status and findings to the management of the Bank.

Compliance Department (2nd line of defence)

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

Finance Department (2nd line of defence)

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

Internal Audit Department (3rd line of defence)

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

2.2 Risk management framework (Art. 435 CRR)

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

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

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

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

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

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

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

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

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

Having regard to the current nature, size and complexity of the Bank's activities, the Board considers the current risk management measures to be appropriate and in line with the current risk profile and Risk Strategy of the Bank.
Please note that further information in relation to the risks faced by the Bank can be found under Section 4 Capital requirements (Art. 438 CRR) and the Section Inventory of Risks.

2.3 Risk appetite

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

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

3 Own funds (Art. 437 CRR)

3.1 Equity reconciliation

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

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

(in € thousands)	IFRS	Regulatory adjustments	Own funds
Subscribed capital	17,553		17,553
Issue premiums	9,890		9,890
Other reserves	10,910		10,910
Profit carried forward	58,314		58,314
Deposit guarantee scheme reserve	2,731	-2,731	
Profit eligible	9,400		9,400
Additional Tier 1 capital		8,625	8,625
Deductions from capital (intangible assets)		-5,147	-5,147
Total equity	**108,798**		**109,545**

Figure 2: Reconciliation Equity from IFRS to Regulatory capital

Pursuant to CRR article 36 (1) the Bank has deducted its intangible assets from its own funds as well as the provision for the deposit guarantee scheme reserve (former AGDL) according to article 14 of CSSF Circular 14/599.

Advanzia's own funds consist of Tier 1 and additional Tier 1 capital. Tier 1 capital includes the fully paid in share capital, share premium and retained earnings. The additional Tier 1 capital consists solely of a hybrid Tier 1 perpetual non-cumulative callable bond issued in 2015.

Own funds disclosure template (in € thousands)			Regulation (EU) No 575/2013 Article Reference
Common Equity Tier 1 (CET1) capital: Instruments and reserves			
1	Capital instruments and the related share premium accounts	27,443	26 (1), 27, 28, 29
	of which: Share capital	17,553	EBA list 26 (3)
	of which: Share premium	9,890	EBA list 26 (3)
	of which: Instrument type 3		EBA list 26 (3)
2	Retained earnings	78,624	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)		26 (1)
3a	Funds for general banking risk		26 (1) (f)

4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		486 (2)
5	Minority interests (amount allowed in consolidated CET1)		84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	106,066	Sum of rows 1 to 5a
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)		34, 105
8	Intangible assets (net of related tax liability) (negative amount)	5,147	36 (1) (b), 37
9	Empty set in the EU		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38,
11	Fair value reserves related to gains or losses on cash flow hedges		33(1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts		36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)		32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33(1) (b)
15	Defined-benefit pension fund assets (negative amount)		36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU		
20a	Exposure amount of the following items which qualify for a RW of 1250 %, where the institution opts for the deduction alternative		36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)		36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a)

22	Amount exceeding the 15 % threshold (negative amount)		48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b)
24	Empty set in the EU		
25	of which: deferred tax assets arising from temporary differences		36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)		36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (I)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		36 (1) U)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	5,147	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	**Common Equity Tier 1 (CET1) capital**	100,919	Row 6 minus row 28
Additional Tier 1 (AT1) capital: Instruments			
30	Capital instruments and the related share premium accounts	8,625	51, 52
31	of which: classified as equity under applicable accounting standards		
32	of which: classified as liabilities under applicable accounting standards	8,625	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)
34	Qualifying Tier i capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties		85, 86
35	of which: instruments issued by subsidiaries subject to phase out		486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	8,625	Sum of rows 30, 33 and 34
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		56 (d), 59, 79
41	Empty set in the EU		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	0	Sum of rows 37 to 42
44	**Additional Tier 1 (AT1) capital**	8,625	Row 36 minus row 43

45	**Tier 1 capital (T1 = CET1 + AT1)**	109,545	Sum of row 29 and row 44
Tier 2 (T2) capital: Instruments and provisions			
46	Capital instruments and the related share premium accounts		62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties		87, 88
49	of which: instruments issued by subsidiaries subject to phase out		486 (4)
50	Credit risk adjustments		62 (c) & (d)
51	**Tier 2 (T2) capital before regulatory adjustments**	0	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70, 79
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		66 (d), 69, 79
56	Empty set in the EU		
57	**Total regulatory adjustments to Tier 2 (T2) capital**	0	Sum of rows 52 to 56
58	**Tier 2 (T2) capital**	0	Row 51 minus row 57
59	**Total capital (TC = T1 + T2)**	109,545	Sum of row 45 and row 58
60	**Total risk weighted assets**	960,495	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	10.51%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	11.41%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	11.41%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	24,012	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	24,012	
66	of which: countercyclical buffer requirement		
67	of which: systemic risk buffer requirement		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (0-SII) buffer		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)		CRD 128

69	[non relevant EU regulation]		
70	[non relevant EU regulation]		
71	[non relevant EU regulation]		
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)		36 (1) (h), 46, 45 56 (c), 59, 60 66 (c), 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)		36 (1) (i), 45, 48
74	Empty set in the EU		
75	deferred tax assets arising from temporary differences (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)		36 (1) (c), 38, 48
Applicable caps on the Inclusion of provisions In Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach		62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach		62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements		484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap		484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase out arrangements		484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap		484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase out arrangements		484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap		484 (5), 486 (4) & (5)

Figure 3: Own funds of Advanzia as of 31 December 2017

3.2 Description of equity items

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

The Bank has issued on 16 June 2015 a hybrid Tier 1 perpetual non-cumulative callable bond of NOK 85 million that constitutes additional Tier 1 instrument under article 52 of the CRR and applicable regulation. Final permission was given by the *Commission de Surveillance du Secteur Financier* on 29 August 2016. The note has been issued to a number of institutional investors, with a rate of 3 months NIBOR + 450 bps (see table below).

Advanzia received in 2017 authorisation from the competent authority to include EUR 9.4 million of the 2017 profits as part of its regulatory capital.

	Capital instruments main features template	Tier 1
1	Issuer	Advanzia Bank S.A.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NO0010740228
3	Governing law(s) of the instrument	The Capital Securities are governed by, and construed in accordance with the laws of Norway
	Regulatory treatment	
4	Transitional CRR rules	Tier 1
5	Post-transitional CRR rules	eligible
6	Eligible at solo/ (sub-)consolidated/ solo & (sub-)consolidated	N/A
7	Instrument type (types to be specified by each jurisdiction)	Tier 1as published in Regulation (EU) No 575/2013 article 52
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 8.624.892
9	Nominal amount of instrument	NOK 85.000.000
9a	Issue price	100 per cent of the Aggregate Nominal Amount
9b	Redemption price	Redemption at par
10	Accounting classification	Subordinated liability
11	Original date of issuance	16/06/2015
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates, and redemption amount	earliest 16/06/2020 at par
16	Subsequent call dates, if applicable	each interest date commencing 16/06/2020
	Coupons / dividends	
17	Fixed or floating dividend/coupon	floating
18	Coupon rate and any related index	4,50 per cent per annum + three months NIBOR
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger (s)	BRRD requirements
32	If write-down, full or partial	full

33	If write-down, permanent or temporary	permanent
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Junior to any present or future (i) depositors of the Issuer, (ii) any other unsubordinated creditors of the issuer, and (iii) subordinated creditors of the Issuer other than the present and future claims of creditors that rank or are expressed to rank pari passu with or junior to the Bonds
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Figure 4: Details Additional Tier 1 instrument

4 Capital requirements (Art. 438 CRR)

4.1 Pillar I capital requirements

In conformity with Regulation (EU) 575/2013, the Bank's total own funds must equal at least 8% of the Capital Requirements for Operating Risk, Credit Risk and Market Risk multiplied by 12.5. Based on the CSSF correspondence of 15 September 2015, the CSSF requests to Advanzia a minimum capital ratio of 11% (included additional Tier 1 capital) and a ratio of Capital Equity Tier 1 (CET1) of 9.5%.

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

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

Overview of RWAs (in € thousands)			RWAs		Minimum capital requirements
			Q4 2017	Q4 2016	Q4 2017
	1	Credit risk (excluding CCR)	*922,756*	*870,128*	*73,821*
Article 438(c)(d)	2	Of which the standardised approach	*922,756*	*870,128*	*73,821*
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach			
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach			
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA			
Article 107 Article 438(c)(d)	6	CCR	*0*	*0*	*0*
Article 438(c)(d)	7	Of which mark to market			
Article 438(c)(d)	8	Of which original exposure			
	9	Of which standardised approach			
	10	Of which internal model method (IMM)			
Article 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a CPP			
Article 438(c)(d)	12	Of which CVA			
Article 438(e)	13	Settlement risk			
Article 449(o)(i)	14	Securitisation exposures in the banking book (after the cap)			
	15	Of which IRB approach			
	16	Of which IRB supervisory formula approach (SFA)			
	17	Of which internal assessment approach (IAA)			
	18	Of which standardised approach			
Article 438(e)	19	Market risk	0	0	0
	20	Of which standardised approach			
	21	Of which IMA			
Article 438(e)	22	Large exposures			
Article 438(f)	23	Operational risk	37,739	37,739	3,019
	24	Of which basic indicator approach			
	25	Of which standardised approach	*37,739*	*37,739*	*3,019*
	26	Of which advanced measurement approach			

Article 437(2), Article 48 and Article 60	27	Amount below the thresholds for deduction (subject to 250% risk weight)			
Article 500	28	Floor adjustment			
	29	Total	960,495	907,867	76,840

Figure 5: Breakdown of Pillar I capital requirements

4.2 Pillar II capital requirements

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

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

The ICAAP consists of two major parts:

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

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

Risks assessed in the ICAAP report are identified by the Bank as existing or potential risks that the Bank faces or could be facing. It also needs to reflect the economic and regulatory environment in which Advanzia operates or could operate taking into account possible planned activity expansion. Department heads are responsible for identifying all risk areas in their area of responsibility in cooperation with the CRO.

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

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

4.3 Risk overview

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

Risk inventory	Comments regarding the assessment for ICAAP purposes
Credit risk	Coverage under Pillar I approach is deemed sufficient
Counterparty risk	Considered negligible due to risk mitigation efforts
Concentration risk	Considered negligible due to stability and diversification efforts
Model risk	Considered negligible due to connection with the credit risk item and monitoring efforts
Market risk	Scenario of a drop in interest rates simulated
Operational risk	Coverage under Pillar I approach is deemed sufficient
Outsourcing risk	Considered negligible due to risk mitigation efforts
Systemic risk	Considered negligible due to positive economic outlook and its limited effect on Advanzia
Fraud risk	Expected losses at 95% confidence interval measured
Compliance risk	Considered negligible due to risk mitigation efforts
Liquidity risk	Scenario of a drop in deposit rates simulated
Business risk	Average differences from historical data considered
Reputation risk	Coverage under liquidity risk

Figure 6: ICAAP relevant risks

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

5 Capital buffers (Art. 440 CRR)

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

(in € thousands)	General Credit Exposures		Trading Book Exposure		Securitisa-tion Exposure		Own Funds Requirements				Own funds requirement weights	Counter cyclical capital buffer rate
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book ex-posure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
Breakdown by Country												
Austria	93,289						2,281			2,281	3%	0%
Belgium	3,586						2			2	0%	0%
Germany	3,981,859						63,157			63,157	86%	0%
France	125,789						5,441			5,441	7%	0%
Guernsey	706						1			1	0%	0%
Luxembourg	603,914						2,939			2,939	4%	0%
Total	4,809,143						73,821			73,821	100%	0%

Figure 7: Geographical distribution of credit risk exposures relevant for the calculation of the countercyclical capital buffer

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

	Amount (in € thousands)
Total risk exposure amount	960,495
Institution specific countercyclical buffer rate	0%
Institution specific countercyclical buffer requirement	0

Figure 8: Amount of institution-specific countercyclical capital buffer

6 Inventory of risks

6.1 Credit risk (Art. 442 of CRR)

6.1.1 Credit risk management framework

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

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

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

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

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

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

6.1.2 Capital requirements for credit risk

As at 31 December 2017, Pillar I capital requirements for credit risk amounted to EUR 73,821. Under the standardised approach, the Bank's exposures to credit institutions qualify for a 20% risk weighting, the exposures to credit card clients are subject to a 75% risk weighting, except the net exposures to clients 90 days or more past due, which are subject to a 100% risk weighting. Please refer to section Capital Requirements above for further details.

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

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

6.1.3 Asset portfolio (Art. 438 of CRR)

The total amount of exposures as of 31 December 2017 and the average exposure amount for the period 2017 broken down by exposure classes as well as computing approach are shown in the following table:

(in € millions)	Net exposure at the end of the period	Average net exposure over the period
Central governments or central banks	0	0
Institutions	0	0
Corporates	0	0
Of which: Specialised lending	0	0
Of which: SME	0	0
Retail	0	0
Secured by real estate property	0	0
SME	0	0
Non-SME	0	0
Qualifying revolving	0	0
Other retail	0	0
SME	0	0
Non-SME	0	0
Equity	0	0
Total IRB approach	**0**	**0**
Central governments or central banks	464	324
Regional governments or local authorities	0	0
Public sector entities	0	0
Multilateral Development Banks	0	0
International organisations	0	0
Institutions	59	98
Corporates	27	0
Of which: SME	0	0
Retail	1,107	985

Of which: SME	0	0
Secures by mortgages on immovable property	0	0
Of which: SME	0	0
Exposure at default	63	58
Items associated with particularly high risk	0	0
Covered bonds	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0
Collective investment undertakings (CIU)	0	0
Equity exposures	0	0
Other exposures	4	4
Total SA approach	**1,724**	**1,469**
Total	**1,724**	**1,469**

Figure 9: Advanzia's exposure to credit risk as of 31 December 2017 and Average 2017

The total amount of exposures broken down by their exposure classes and maturity as of 31 December 2017 are shown in the following table:

Maturity of exposures	**Net exposure value**					
(in € millions)	**On demand**	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No stated maturity**	**Total**
Central governments or central banks	0	0	0	0	0	0
Institutions	0	0	0	0	0	0
Corporates	0	0	0	0	0	0
Retail	0	0	0	0	0	0
Equity	0	0	0	0	0	0
Total IRB approach	**0**	**0**	**0**	**0**	**0**	**0**
Central governments or central banks	464	0	0	0	0	464
Regional governments or local authorities	0	0	0	0	0	0
Public sector entities	0	0	0	0	0	0
Multilateral development banks	0	0	0	0	0	0
International organisations	0	0	0	0	0	0
Institutions	22	37	0	0	0	59
Corporates	27	0	0	0	0	27
Retail	0	1,107	0	0	0	1,107
Secured by mortgages on immovable property	0	0	0	0	0	0
Exposures in default	63	0	0	0	0	63
Items associated with particularly high risk	0	0	0	0	0	0
Covered bonds	0	0	0	0	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0

Collective investments undertakings	0	0	0	0	0	0
Equity exposures	0	0	0	0	0	0
Other exposures	4	0	0	0	0	4
Total standardised approach	**580**	**1,144**	**0**	**0**	**0**	**1,724**
Total	**580**	**1,144**	**0**	**0**	**0**	**1,724**

Figure 10: Maturity breakdown of exposures as of 31 December 2017

In addition to the above, the Bank had at balance sheet date through the credit cards issued entered into undrawn commitment of EUR 3,068 Million (2016: EUR 2,658 Million) with its credit card clients being neither past due nor impaired.

The Bank does not hold any collateral for its credit card loans, or other loans. The Bank does not undertake forbearance activities on its credit card portfolio, as cards on accounts being past due are blocked from usage, and that the contract for delinquent (more than 90 days past due) accounts are usually cancelled, become payable in full and sent for recovery to a debt collection agency. An impairment allowance is also applied to all delinquent accounts. In May 2017, the Bank contracted a EUR 100 million senior secured credit facility collateralised by loans and advances to German customers. At the end of 2017, the pledged loans and advances amounted to EUR 170 million.

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

Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. The Bank considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. The allowance for impairment is calculated on the basis of the net present values of the expected remaining cash flows based on the age of the claims. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

The Bank assesses that credit card loans which are more than 60 days past due are to be considered as impaired. Loans 90 days past due are cancelled, and the full outstanding loan balance becomes payable.

Past due but not impaired loans are those for which contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate. These are loans, or groups of loans, for which the Bank does not consider that there exists objective evidence of impairment.

The Bank only makes impairments or provisions for impairments on loans or groups of loans for which there is objective evidence of impairment. For impaired loans, where the Bank has received an executory title and where there is no evidence that the borrower is in a current position to repay parts of the loan, the Bank writes off 85% of the loans as well as the loans' allowances for impairment. The borrower will be monitored for up to the next 30 years based on a legal title in order to see if he will come in a payment position.

For impaired loans that are considered uncollectible, the Bank will fully write off the loan balances and any related allowances for impairment. This determination of un-collectability is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation. Furthermore, loans which are exceeding a certain time of being at collection and where no repayment has been received the last six months, and where the customer will not be monitored for the next 30 years, are written off. In 2017 this time criteria has been replaced from "more than 1,200 days past due" to "more than 36 months at collection". Going forward no material difference in write-offs amounts will result from this change.

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

Credit quality of exposures by exposure classes and instruments	Gross carrying values of		Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated write-offs (e)	Credit risk adjustment charges of the period (f)	Net values
(in € millions)	Defaulted exposures (a)	Non-defaulted exposures (b)					(a+b-c-d-e)
Central governments or central banks	0	0	0	0	0	0	0
Institutions	0	0	0	0	0	0	0
Corporates	0	0	0	0	0	0	0
Of which: Specialised lending	0	0	0	0	0	0	0
Of which: SME	0	0	0	0	0	0	0
Retail	0	0	0	0	0	0	0
Secured by real estate property	0	0	0	0	0	0	0
SME	0	0	0	0	0	0	0
Non-SME	0	0	0	0	0	0	0
Qualifying revolving	0	0	0	0	0	0	0
Other retail	0	0	0	0	0	0	0
SME	0	0	0	0	0	0	0
Non-SME	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	0
Total IRB approach	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Central governments or central banks	0	464	0	0	0	0	464
Regional governments or local authorities	0	0	0	0	0	0	0
Public sector entities	0	0	0	0	0	0	0
Multilateral Development Banks	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0
Institutions	0	77	0	0	0	0	77
Corporates	0	27	0	0	0	0	27
Of which: SME	0	0	0	0	0	0	0
Retail	0	4,172	0	0	0	0	4,172
Of which: SME	0	0	0	0	0	0	0
Secures by mortgages on immovable property	0	0	0	0	0	0	0
Of which: SME	0	0	0	0	0	0	0
Exposure at default	121	0	0	59	0	0	63

Items associated with particularly high risk	0	0	0	0	0	0	0
Covered bonds	0	0	0	0	0	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0
Collective investment undertakings (CIU)	0	0	0	0	0	0	0
Equity exposures	0	0	0	0	0	0	0
Other exposures	0	7	0	3	0	0	4
Total standardised approach	**121**	**4,748**	**0**	**62**	**0**	**0**	**4,807**
Total	**121**	**4,748**	**0**	**62**	**0**	**0**	**4,807**
Of which: Loans	121	1,657	0	59	0	0	1,719
Of which: Debt securities	0	0	0	0	0	0	0
Of which: Off-balance-sheet exposures	0	3,083	0	0	0	0	3,083

Figure 11: Credit quality of exposures by exposure classes and instruments

The following table represents the information provided to the local authorities using FinRep table F12.00 and provides information in relation to the evolution of the value adjustments during the period 2017:

Movements in allowances for credit losses (in € millions)	Opening balance as of 1 January 2017	Increases due to amounts set aside for estimated loan losses during the period	Decreases due to amounts reversed for estimated loan losses during the period	Other adjustments	Closing balance as of 31 December 2017	Recoveries recorded directly to the statement of profit or loss	Value adjustments recorded directly to the statement of profit or loss
Specific allowances for financial assets, collectively estimated	**54**	**5**			**59**		**5**
Debt securities							
Central banks							
General governments							
Credit institutions							
Other financial corporations							
Non-financial corporations							
Loans and advances	54	5			59		5
Central banks							
General governments							
Credit institutions							
Other financial corporations							
Non-financial corporations							
Households	54	5			*59*		*5*
Collective allowances for incurred but not reported losses on financial assets							
Debt securities							
Loans and advances							
Total	**54**	**5**			**59**		**5**

Figure 12: Movements in allowances for credit losses

6.1.5 Credit risk mitigation (Art. 453 CRR)

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

(in € millions)	Amount
Credit risk exposure	1,724
Credit risk mitigation	0
Credit risk exposure after risk mitigation	1,724

Figure 13: Exposure before and after CRM techniques

6.1.6 Use of ECAIs (Art. 444 CRR)

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

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

The Bank uses those ratings to assess its credit risk in relation to its loans to financial institutions. The selection of the financial institutions with whom the Bank establishes business are approved by the Board of Directors. These banks have minimum requirements with respect to ratings, and are usually considered to be "systemic banks". As at 31 December 2017 all banking counterparties are eligible for Credit Quality Step (CQS) 1, hence for a 20% risk-weight. Table below presents a mapping of CQS along with rating of the three used ECAIs under the provisions of Commission Implementing Regulation 2018/634.

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

Short-term issuer credit ratings scale	A-1+	A-1	A-2, A-3	B, C, R, SD/D
Short-term issue credit rating scale	A-1+	A-1	A-2, A-3	B, C, D

Figure 14: Mapping table for the purpose of article 444 (d) of CRR

6.2 Counterparty risk

The Finance Policy of Advanzia stipulates maximum exposures with counterparties, which must be considered at a group level. These exposures are in accordance with the regulatory provisions with regard to counterparty exposures. The Bank makes a distinction between significant counterparties and smaller counterparties. The maximum exposure to the significant counterparties is according to the Large Exposures (LAREX) rules the lesser amount of 100% of own funds and EUR 150 Million, whereas placements with smaller counterparties are not to exceed 25% of own funds, and usually have a maximum duration of up to six months.

No specific capital requirement is calculated in relation to the counterparty risk, as the probability of default is considered very low and the monitoring procedure very strict. Using the normal calculation metrics, the according ICAAP amount becomes negligible and arguably irrelevant in relation to the actual size of the exposure.

In the event of a default of a major counterpart financial institution, the liquidity impact for Advanzia would be manageable, given the liquidity buffer as well as current policies and practices for liquidity risk management in Advanzia. Please refer so section dedicated to liquidity risk for further detail on the Bank's liquidity position and buffer.

6.3 Concentration risk

Concentration risk is not only related to a concentration of exposures to single counterparties or groups of connected counterparties. The CEBS defines concentration risk in its guideline (GL31) as exposures that may arise within or across different risk categories throughout an institution with the potential to produce either losses large enough to threaten the institution's health or ability to maintain its core operations; or as a result in a material change in an institution's risk profile.

The concentration risks identified by Advanzia are related to large exposures to other financial institutions and the credit card business especially to the product itself as well as the concentration on the market.

Credit card loans

Given the geographical distribution of Advanzia's customers to the German population and the ongoing attempts to enter new markets, the Bank does not consider that there is any ICAAP relevant concentration risk within this area.

Placement with other credit institutions

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

This does mitigate concentration sufficiently to the extent that there is no considerable concentration risk.

Country concentration risk

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

Credit quality of exposures by geography	Gross carrying values of		Specific credit risk adjust-ment (c)	General credit risk adjust-ment (d)	Accumu-lated write-offs (e)	Credit risk adjustment charges (f)	Net values
(in € millions)	Defaulted expo-sures (a)	Non-de-faulted ex-posures (b)					(a+b-c-d-e)
Luxembourg	1	606	0	1	0	0	607
Germany	107	3,925	0	56	0	0	3,976
Austria	5	88	0	0	0	0	93
Belgium	0	4	0	0	0	0	4
France	8	124	0	5	0	0	127
Other Europe	0	1	0	0	0	0	1
Total	**121**	**4,748**	**0**	**62**	**0**	**0**	**4,807**

Figure 15: Credit quality of exposures by geography

Supplier concentration risk

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

6.4 Model risk

Model risk in the particular case of Advanzia is strongly connected to the credit risk as the decision making regarding applicant eligibility for a credit card as well as its credit limit both during the application process and throughout the lifecycle of a customer are heavily dependent on credit scoring models. The models are designed to predict the probability of default or, in a more general sense, the probability of a customer developing a delinquency status such that the Bank would have not booked the account initially had it known such development would occur.

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 that cannot be predicted from historic data, or simply the fact that models are never perfect.
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. The AMLF provides Advanzia with the ability to correct model defects or recreate a model from scratch as soon as model deficiencies are observed, provides a solid risk mitigation strategy. Due to the ability to react to changes in the models quickly, Advanzia has been able to obtain stability and prudency in its models, not underestimating the probability of default of its customers. Hence, the model risk as defined by Advanzia has been decreasing in recent years in correlation with the improvements made in its models.

Models are subject to a monthly automatic monitoring, and, as explained, can be adapted or reviewed very quickly if needed. Therefore, Advanzia considers that this risk is sufficiently covered by credit risk (cf. above) and is thus negligible.

6.5 Market risk (Art. 445 CRR)

6.5.1 Market risk management framework

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

Overall authority for market risks is vested in the Risk Department, which is responsible for the development of market risk management policies (subject to review and approval by the Board of Directors) and for the day-to-day review of their implementation. As the Bank has no trading portfolio, there is no market risk associated with this. The Bank has been entitled by the CSSF to calculate a simplified solvency ratio and does not capital for exposure to market risk under Pillar 1 requirements.

6.5.2 Interest rate risk (Art. 448 of CRR)

Interest rate risk is inherent to the banking business. It is a bank's exposure to adverse movements in interest rates. Interest rate risk in the banking book (IRRBB) more specifically refers to the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the institution's banking book positions. When interest rates change, the present value and timing of future cash flows change, which in turn changes the underlying value of a Bank's assets, liabilities and off-balance sheet instruments and hence its economic value. Changes in interest rates also affect a Bank's earnings by altering interest-sensitive income and expenses, affecting its net interest income.

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

Under any circumstance, 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 pre-established levels to stay within (a cumulative duration gap of maximum 20% within 365 days). The Bank also monitors and reports interest rate risk and its impact on both the Net Interest Income[2] (NII) and the Economic Value of the Equity (EVE).

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

[2] The present value of banking positions after interest shock is calculated by applying a risk-free rate.

Interest rate risk in the banking books

As of 31-Dec-2017

In thousands of euro	Carrying amount	Present value of banking positions after interest shock		Impact on equity of the 12-month sensitivity on income	
Interest bearing assets		+200 bp	-200 bp	+200 bp	-200 bp
Central bank - minimum reserve	14.440	14.729	14.383	211	-42
Central bank reserves in excess of the minimum required (deposit facility)	449.354	458.344	449.354	6.556	0
Loans and advances to banks (assimilated to Nostro)	47.463	48.412	47.463	692	0
Term deposits	8.832	9.001	8.748	123	-61
Loans and advances to partner banks (PCS)	2.735	2.790	2.735	40	0
Gross loans and advances to credit card customers FR	94.970	96.617	93.163	1.201	-1.318
Gross loans and advances to credit card customers AT	39.634	40.252	38.883	451	-547
Gross loans and advances to credit card customers DELU	1.093.958	1.114.633	1.073.261	15.076	-15.092
Total interest bearing assets	1.751.387	1.784.778	1.727.990	24.349	-17.060
Interest bearing liabilities		+200 bp	-200 bp	+200 bp	-200 bp
Deposits from banks	0	0	0	0	0
Term loans	100.000	101.747	99.651	1.274	-255
Deposits from customers	1.453.861	1.481.694	1.436.285	20.296	-12.816
Subordinated loans	8.638	8.768	8.558	95	-58
Total interest bearing liabilities	1.562.499	1.592.210	1.544.493	21.665	-13.129
Gap	188.888	192.569	183.497	**2.684**	**-3.931**
Cumul. gap	188.888	192.569	183.497		
Cumul. Gap (%)	**10,8%**	10,8%	10,6%		

Figure 16: Interest rate risk in the banking book as of 31 December 2017

Throughout the months, the 200bp stress test for IRRBB risk fluctuates between EUR three to six million, especially because the interest rates are now so low that the adjustments that would follow a drop of 200bp are not possible (Advanzia does not consider offering negative interest rate for Deposit clients).

6.5.3 Foreign Exchange risk

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

6.6 Operational risk (Art. 446 CRR)

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 operational risks, which for Advanzia would not be among the most significant risks when measured as financial losses, are nevertheless the risks that encompass the largest number of employees and affect most departments and all systems.

The Bank's objective is to manage operational risk in order 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.

The organisation of the operational risk management requires particular attention, to ensure that all risks are covered, reported and dealt with at the appropriate levels.

The Bank has established several internal business continuity plans and disaster recovery plans for its internal organisation, to ensure the on-going operations for the Bank, even if negative events occur that could impact the Bank. These are in accordance with external regulations requirements.

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

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

Management also strives to establish a corporate culture that emphasises professionalism and integrity in the Bank, as well as towards its suppliers. Please note that Advanzia has not recorded any significant negative events that actually have had a negative effect in relation to operational risk.

Advanzia Bank S.A. has received acceptance from the regulator for using the Alternative Standardised Approach (ASA) as described in the Basel 2 framework as well as Regulation (EU) N° 575/2013 for assessing operational risk charge for capital adequacy purposes. The amount assessed for this charge as at balance sheet date was EUR 3,019 Million when using the ASA method. Pillar I capital requirements for operational risk are deemed sufficient and the Bank will not consider further capital under Pillar II assessment.

6.6.1 Disaster recovery plan/business continuity plan

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

The disaster recovery and business continuity plan are continuously updated in response to changes in the business environment. The IT Department reviews the plan at least annually.

6.7 Outsourcing risk

Advanzia purchases 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. In addition, the Bank is only working with high quality services providers.[3]

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, which is done on a regular basis. The Bank has not incurred nor recorded any material operational losses in 2017.

6.8 Systemic risk

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

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

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

6.9 External fraud risk

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

For the capital requirement calculation, the monthly fraud write-offs as of 2012 are used as basis for the total fraud write-offs forecast for the entire year of 2017. The upper limit at 95% confidence interval was compared to the budgeted fraud write-offs for each month of 2017. By deducting the budgeted fraud write-offs from the forecasted fraud write-offs (at 95% prediction interval), monthly sensitivity on cash flows was obtained and recognised as capital requirement for fraud risk in 2017.

Over the years, the Bank has implemented numerous anti-fraud measures, and henceforth limited large individual fraud cases.

[3] For confidentiality reasons, and according to Art. 432 of CRR, the Bank does not disclose its main suppliers.

6.10 Compliance risk

As a credit institution operating in the financial services industry, Advanzia is subject to a considerable amount of external rules and regulations. Adding complexity to this is the fact that Advanzia is operating in several legislations. On the other hand, certain regulations that may be considered of high impact risk (e.g. MiFID regulations) only apply to Advanzia to a limited extent due to its products and characteristics.

The Bank's product complexity is limited, and thereby it is certainly manageable to obtain an overview of applicable rules, and affected policies, routines and procedures. Indeed, once the regulatory and compliance assessments have been completed few changes are needed. The Bank accepts only physical persons as its clients. Credit card clients are restricted to the countries in which Advanzia operates, whereas deposit clients must be residing in an EU/EEA country or in Switzerland. Clients are required to confirm that they only act on behalf of themselves. Cash handling is also not permitted and the Bank does not offer hold-mail services. Advanzia places high emphasis on proper implementation of policies, routines, processes and internal regulations, so that these, by default, are compliant with the applicable regulatory framework.

The Chief Compliance Officer is responsible for the implementation of the Compliance Policy in practice as well as the identification and evaluation of compliance risks. As a part of the compliance function, the Chief Compliance Officer is also responsible for the Bank's Anti-Money Laundering and Terrorist Financing measures and activities. The Anti-Money Laundering (AML) & Know Your Customer (KYC) Policy is continuously reviewed and updated to ensure compliance with current regulations.

Most routines and processes are also either fully automated or highly standardised, and thereby reducing the risk of non-compliance due to human error or intentional misconduct. The Chief Compliance Officer is also performing compliance verifications in the various areas of the Bank and the Bank emphasises compliance training and awareness among its employees.

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

6.11 Liquidity risk

Liquidity risk measures Advanzia's ability to meet its current and future liquidity requirements, both expected and unexpected, whether or not the situation deteriorates. Liquidity risk is one of the main risks faced by Advanzia. The risk arises from negative unforeseen cash flows from Advanzia's operations. Advanzia has the following sources of cash flows:

- Credit card loans
- Operational payments
- Deposit account operations
- Other financial items

The Bank monitors and reports the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) on a continuous basis. These ratios are calculated as defined in the Capital requirements regulation and directive and have been as follows[4]:

LCR (Min. 100%)	2017	2016
At 31 December	156%	388%
Average for the period	260%	289%
Maximum for the period	480%	471%
Minimum for the period	123%	114%
NSFR (Min. 100%)	**2017**	**2016**
At 31 December	133%	129%
Average for the period	129%	121%
Maximum for the period	141%	131%
Minimum for the period	112%	114%

Furthermore, Advanzia is continuously monitoring stress test scenarios. These are based on the largest deviances we have ever experienced historically on the most important cash flows.

The graph below presents such forecast (as of 20 February 2018).

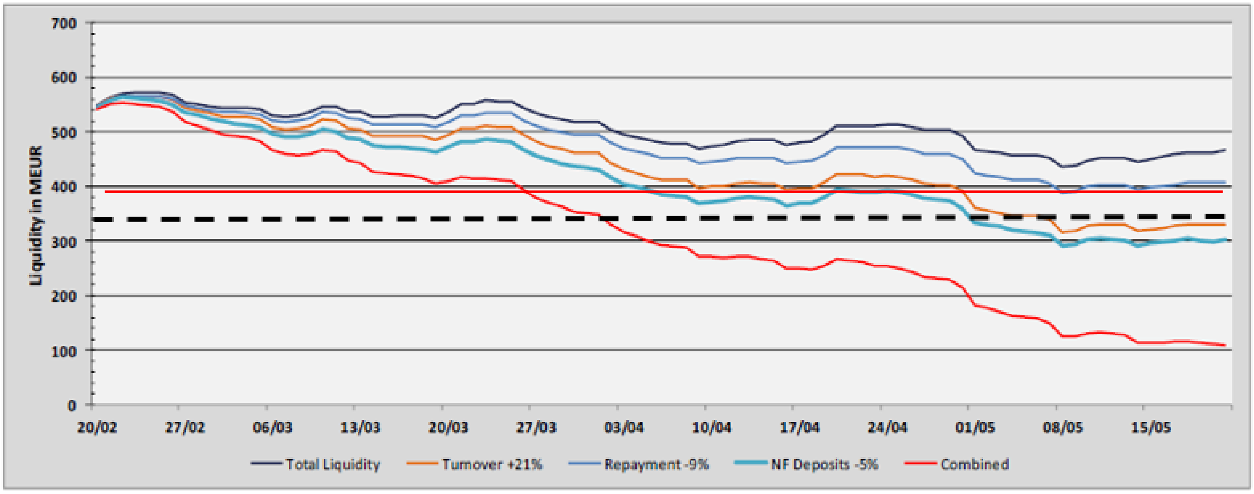

Figure 17. Liquidity stress test forecast as of 20 February 2018

The graph above presents the ensuing liquidity levels in relation to stress testing for the main liquidity drivers, as well as a combination of all negative effects occurring simultaneously. The dashed black line represents the level where Advanzia would reach the LCR of 100% as at 20 February 2018. The likelihood of all events occurring simultaneously and without Advanzia not implementing any counteractions (i.e. increase interest rate on deposit accounts, stop credit limit increases and sales, block open credit cards) is considered highly remote.

For the ICAAP assessment (i.e. what is the cost of capital in the event of a liquidity need), and in order to alleviate the extreme situation, the liquidity risk is modelled as the consequence of increasing the rate on all deposit accounts by 50 bp as liquidity risk is regarded as credit spread risk for Advanzia. This increased rate is maintained for two months, and applied to the entire depositor balance, which amounts to EUR 1 453 million as of December 2017. In

[4] In the absence of definitive regulatory haircuts at European level, Advanzia is using ASF and RSF factors as per BCBS publication 295 “The Net Stable Funding Ratio” for NSFR computation purposes which is in line with bets banking practices.

case that Advanzia needs to raise additional liquidity, the Bank employs introductory campaigns, with attractive rates applicable to the new funds being deposited, which is less costly.

In addition, the Bank could also stop credit limit increases on credit cards, not issue any new cards, not spend money on marketing, and thereby improve the liquidity situation even further. Advanzia's Finance Policy and Recovery Plan 2017 are detailing this further.

6.12 Business risk

There is a risk that Advanzia's income may change over time. There may be several sources for this risk, such as change in client behaviour, increase in funding costs, decrease in interest rates, etc. Advanzia's business model, however, is one of highly stable recurring revenue.

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

The Bank assumes that the scenario of an increase in deposit rates is already covered in the liquidity risk section when we calculate the effect of a 50 bp increase of the deposit rate to our entire deposit balance. However, for larger and longer/permanent increases, the Bank would normally recover this by increasing the rate on the credit card loans accordingly as well as receiving a higher yield on liquidity.

As for the decrease in credit card yield, in practise this scenario is very unlikely to happen, as credit card loan rates are usually "sticky", i.e. they don't change much even if the underlying key rate changes. Additionally, competition is limited in this field, and experience in other countries shows that credit card clients are not very sensitive to the interest rate levels or changes.

Moreover, income of Advanzia has been stably growing and has been highly predictable. The budget regarding income has been tightly following the actual amounts.

6.13 Reputation risk

Reputation risk may arise from the Bank acting incompetently or outright dishonestly towards its clients, that it presents itself in an unprofessional fashion, and possibly also due to founded or unfounded smear campaigns from others. Also, since the 2008 crisis and the rescue of the banking sector in many countries, the perception of the banking sector in general has clearly receded.

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

7 Asset encumbrance (Art. 443 CRR)

Some of the Bank's assets are encumbered. As of 31 December 2017, the carrying amounts for encumbered and unencumbered assets were as follows:

Encumbered assets (in € millions)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	208		1.516	
Equity instruments				
Debt securities				
Other assets	*208*		*1.516*	

Figure 18: Encumbered and Unencumbered assets as of 31 December 2017

8 Leverage ratio (Art. 451 CRR)

The Leverage ratio of Advanzia is part of the Extended Corep and disclosed in report C47.00 that is reported on quarterly basis to the CSSF. As of 31 December 2017, the Leverage ratio was reported as follows.

LRSUM			Amount at Disclosure Date (in € millions)
Summary reconciliation of accounting assets and leverage ratio exposures			Applicable Amounts
	1	Total assets as per published financial statements	*1,729*
	2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	
	3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure according to Article 429(11) of Regulation (EU) NO. 575/2013	
	4	*Adjustments for derivative financial instruments*	
	5	Adjustments for securities financing transactions (SFTs)	
	6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	
	EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013	
	EU-6b	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013	
	7	Other adjustments	*-5*
	8	**Leverage ratio total exposure measure**	*1,724*

Figure 19: Total exposure measure for LR

LRQua	Qualitative disclosures	Text
	Strategies and processes in the management of the liquidity risk	Advanzia Bank S.A. has a liquidity risk management framework that supports a moderate risk profile and safeguards the Bank's reputation from a liquidity perspective. This framework must ensure that the Bank meets its payment obligations at a reasonable cost, even under severely adverse conditions. The Bank maintains a set of liquidity risk indicators to manage the liquidity position within the requirements set internally and by the regulator.
	Structure and organisation of the liquidity risk management function (authority, statute, other arrangements)	Advanzia Bank S.A. uses the three Lines of Defence (3LoD) system of risk governance to ensure there is a clear division of responsibilities and there are no conflicts of interest.
		· The first LoD refers to the Accounting department who executes the daily business activities
		· The second LoD refers to the Risk and Controlling department who monitor and report the risks associated with ALM and Treasury activities.
		· The Third Line refers to Internal Audit who provide assurance regarding the design and effectiveness of the governance structure, systems and processes of ALM, Treasury, Risk and Finance.
	Scope and nature of liquidity risk reporting and measurement systems	Advanzia Bank S.A. uses a comprehensive set of liquidity indicators to monitor and measure liquidity risk, both in business as usual as well as stressed conditions.
	Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	Liquidity risks are mitigated by maintaining a sufficiently large liquidity buffer and sufficient diversification of funding sources to ensure access to liquidity at any point in time.
		A contingency plan is put in place that prepares the Bank for a potential liquidity stress event. The contingency plan provides guidelines to manage a range of stress environments and describes the lines of responsibility, escalation procedures and mitigating actions.

Figure 20: Qualitative disclosures in relation to LR

LRCom			Amount at Disclosure Date (in € millions)
Leverage ratio common disclosure			CRR leverage ratio exposures
On-balance sheet exposure (excluding derivatives and SFTs)			
	1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	*1,729*
	2	Asset amounts deducted in determining Tier 1 capital	*-5*
	3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	*1,724*

Derivative exposures			CRR leverage ratio exposures
	4	Replacement cost associated with derivative transactions	
	5	Add-on amounts for PFE associated with derivative transactions	
	EU-5a	Exposure determined under Original Exposure Method	
	6	*Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework*	
	7	*Deductions of receivables assets for cash variation margin provided in derivatives transactions*	
	8	*Exempted CCP leg of client-trade exposures*	
	9	*Adjusted effective notional amount of written credit derivatives*	
	10	*Adjusted effective notional offsets and add-on deductions for written credit derivatives*	
	11	**Total derivative exposures (sum of lines 4 to 5a)**	*0*

Securities financing transactions exposures			CRR leverage ratio exposures
	12	*Gross SFT assets (with no recognition of netting) after adjusting for sales accounting transactions*	
	13	*Netted amounts of cash payables and cash receivables of gross SFT assets*	
	14	*Counterparty credit risk exposure for SFT assets*	
	EU-14a	*Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013*	
	15	*Agent transaction exposures*	
	EU-15a	*Exempted CCP leg of client-cleared SFT exposure*	
	16	**Total securities financing transaction exposures**	*0*

Off-balance sheet exposures			CRR leverage ratio exposures
	17	Off-balance sheet exposures at gross notional amount	*3,082*
	18	Adjustments for conversion to credit equivalent amounts	*-3,082*
	19	**Total off-balance sheet exposures (sum of lines 17 to 18)**	*0*

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

Capital and Total Exposures			CRR leverage ratio exposures
	20	**Tier 1 capital**	**110**
	EU-21a	Exposures of financial sector entities according to Article 429(4) 2nd subparagraph of Regulation (EU) NO. 575/2013	
	21	**Total Exposures (sum of lines 3, 11, 16, 19 and 21a)**	*1,724*
Leverage Ratios			
	22	**End of quarter leverage ratio**	*6.48%*
Choice on transitional arrangements for the definition of the capital measure			
	EU-23	Choice on transitional arrangements for the definition of the capital measure	*Transitional*
	EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	*0*

Figure 21: Leverage ratio common disclosure

LRSpl			Amount at Disclosure Date (in € millions)
Split-up of on balance sheet exposure (excluding derivatives and SFTs)			CDR leverage ratio exposures
	EU-1	Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	*1,724*
	EU-2	Trading book exposures	*0*
	EU-3	Banking book exposures, of which:	*0*
	EU-4	Covered bonds	*0*
	EU-5	Exposures treated as sovereigns	*464*
	EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	*0*
	EU-7	Institutions	*59*
	EU-8	Secured by mortgages of immovable properties	*0*
	EU-9	Retail exposures	*1,107*

	EU-10	Corporate	*27*
	EU-11	Exposures in default	*63*
	EU-12	Other exposures (e.g. equity, securititsations, and other non-credit obligation assets)	*4*

Figure 22: Split of balance sheet exposures

9 Remuneration policy (Art. 450 CRR)

9.1 Governance

Board of Directors ("BoD")

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

The Board also agrees and approves the fixed remuneration within the individual employment contract of the Chief Executive Officer ("CEO").

Executive Management Committee ("EMC")

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

Management Committee ("ManCom")

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

9.2 Pay and performance

Advanzia uses a set of Key Performance indicators – ("KPIs") to quantify and thereby assess the performance of the Bank (a combination of overall performance, business unit performance, market specific performance) in order to determining the bonuses. In principal the Bank uses a combination of KPIs which are considered being short and long term value creating elements.

The target values of the KPIs may be different for EMC and General Managers compared to those applicable for employees.

According to CRD IV and the Law, only the EMC and General Managers may be considered material risk takers, and thereby could be construed to have an influence on the variable part of their remuneration.

The annual bonus targets under each of the KPIs will be determined by the BoD together with the CEO at the beginning of each bonus year.

The BoD, as part of the annual budget process, determines an overall bonus provision for the year. The allocation of the individual bonuses for the employees is under the responsibility of the CEO. The BoD validates explicitly the individual bonus amounts for EMC and General Managers.

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

For all employees of the Bank, the KPI 's should have a weight of up to 70 % of the maximum bonus amount, and the individual performance should have a weight of up to 30 % of the maximum bonus amount. The BoD can decide a different weighting from year to year.

The ceiling on the total variable remuneration of the EMC is 50%, the ManCom 33% and all other employees (including internal auditor, compliance officer, information security officer) 20% of the total annual remuneration. This is in line with Article 94(1)(g) of Directive 2013/36 (CRD).

For all employees the bonus is determined by the performance of the Bank as measured through the KPIs, and the individual performance. The individual performance takes into account quantitative and qualitative criteria, and is based on the annual performance review conducted at the beginning of the year. To document this process and the individual achievement of the personal objectives, Advanzia uses the standard formats and recommendations from the ABBL. The overall assessment and comments serve as a basis for determining the achievement of the individual performance by the employees' superiors.

The KPIs have a weight of up to 70 % of the maximum bonus amount, and the individual performance has a weight of up to 30 % of the maximum bonus amount.

9.3 Paid remuneration

For management the variable payment is deferred over three years with 60% to be paid out for the current year, and 20% in each of the subsequent two years. The variable remuneration consists only of settlements in cash.

In thousands of EUR

TOTAL REMUNERATION	2017	2016
Fixed remuneration	1.475	1.381
Variable remuneration	1.046	820
Sum	**2.521**	**2.201**
Number of beneficiaries	*7*	*7*

In thousands of EUR

VARIABLE REMUNERATION	2017	2016
Paid out for the current year	647	492
Deferred	399	328
Sum	**1.046**	**820**

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

In thousands of EUR

DEFERRED REMUNERATION	2017	2016
Outstanding at the beginning of the financial year	494	418
Granted during the financial year	399	328
Paid out during the financial year	-307	-252
Reduced during the financial year	-33	0
Outstanding at the end of the financial year	**553**	**494**

The entire outstanding deferred remuneration is earned.

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

In thousands of EUR

BUSINESS AREAS (2017)	Management Committee	Internal Control Functions	Credit Card and Deposit Activities	Others	Total
Fixed	1.475	776	2.195	5.827	**10.273**
Variable	1.046	86	262	565	**1.959**
Sum	2.521	862	2.457	6.392	**12.232**
Number of beneficiaries	*7*	*11*	*43*	*98*	***159***

10 Recruitment and diversity policy (Art. 435(2)(b,c))

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

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